



The distance from peak to trough (shaded areas) measures the duration of an employment cycle recession. The vertical scale in each chart is an index with 1992=100.

Signs of Economic Strength Are Difficult to Spot in Connecticut

Although Alan Greenspan, Chairman of the Federal Reserve, continues to suggest that the U.S. economy is regaining its traction after a brief period of softness, recent economic indicators point to continuing weakness in the national economy, however. For example, the Conference Board's September index of leading indicators fell for the fourth straight month, while the U.S. Labor Department reported weaker than expected job growth in September. In addition, energy prices are reaching record levels, adding to inflationary fears. It is now almost certain that rising energy costs would reduce this year's growth in real gross domestic product by between one-quarter to one-

half percent. The current economic situation should present an interesting policy challenge when the FOMC next meet on November 10.

This month, as in the previous month, the two employment indices provide us with mixed signals. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.20 in August 2003 to 107.80 in August 2004. All four components of this index are positive contributors, with a lower insured unemployment rate, a lower total unemployment rate, higher total non-farm employment, and higher total employment. However, on a sequential month-to-month basis, the revised CCEA-ECRI

Connecticut coincident employment index fell slightly from 107.85 in July 2004 to 107.80 in August 2004, making this the third consecutive month this index has fallen. A lower insured unemployment rate, and higher total non-farm employment are the two positive contributors to the index. Lower total employment contributed negatively to the index, while the total unemployment rate remained stable at 4.6% for the fifth straight month.

The revised CCEA-ECRI Connecticut leading employment index also provided us with mixed news. It rose from 114.11 in August 2003 to 116.52 in August 2004. Five components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, higher total housing permits, lower initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, and higher average weekly hours worked in manufacturing and construction. A lower Hartford help-wanted advertising index is the only negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 116.99 in July 2004 to 116.52 in August 2004. A lower Moody's Baa corporate bond yield, and higher total housing permits are the two positive contributors. A

slightly higher initial claims for unemployment insurance, a higher short duration (less than 15 weeks) unemployment rate, a lower help wanted index, and lower average weekly hours worked in manufacturing and construction are the four negative contributors to this index.

Total non-farm employment increased by about 4,600 jobs in August, reversing the decline of the previous two months and putting us slightly above the level in January. Unfortunately, we have a loss in total employment in Connecticut of about 6,000 persons in August, giving us a loss of about 4,400 for the year thus far. Total unemployment rate, however, remained constant at 4.6 percent for April – August, while insured unemployment rate has fallen every month since the beginning of the year. While I still believe that we will end on a positive note on the employment front for the year, without a significant pick-up at the national level, whatever gain that Connecticut may have by the end of this year may not be something to cheer about.

**Francis W. Ahking, Department of Economics,
University of Connecticut, Storrs, CT 06269.
Phone: (860) 486-3026. Stan McMillen [(860)
486-0485, Storrs Campus], Connecticut Center
for Economic Analysis, University of**

Connecticut, provided research support.

Professors Pami Dua and Stephen M. Miller, in

cooperation with Anirvan Banerji at the

Economic Cycle Research Institute developed

the leading and coincident employment indexes.

******* Components of Indexes *******

The coincident employment index is a composite indicator of four individual employment-related series -- the total unemployment rate, non-farm employment (employer survey), total employment (household survey), and the insured unemployment rate. The leading employment index is a composite of six individual largely employment-related series -- the average workweek of manufacturing production and construction workers, the Hartford help-wanted advertising index, short-duration (less than 15 weeks) unemployment rate, initial claims for unemployment insurance, total housing permits, and Moody's BAA corporate bond yield. While not employment-sector variables, housing permits are closely related to construction employment and the corporate bond yield adds important information about the movement in interest rates. All data are seasonally adjusted and come from the Connecticut Labor Department, the Federal Reserve Bank of Boston, and the Board of Governors of the Federal Reserve System.