



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.

### Slow But Steady Progress in August 2005

The long anticipated pickup in inflation appeared in the latest report on both the Consumer Price Index (CPI) and the Producer Price Index (PPI). The CPI jumped by 1.2% in September, the largest monthly change in twenty-five years, while the PPI surged by 1.9% in September, the largest monthly increase in fifteen years. The core inflation rate (CPI excluding the food and energy components), rose only 0.1% in September, however. On the other hand, initial reports indicate that the damage done by Hurricane Katrina was less than expected. It is too early to tell whether the recent inflation picture represents the beginning of a trend as energy prices have been

moderating recently. But, it is an almost forgone conclusion that the FOMC will raise the Federal Funds rate by another 25 basis points at its next meeting on November 1. President Bush today nominated Ben Bernanke to replace Alan Greenspan, whose term will end January 31, 2006, as the next Chairman of the Federal Reserve System. Ben Bernanke, an economics professor at Princeton University, is currently the Chairman of the president's Council of Economic Advisers and is widely considered to be an inflation hawk. While I expect Ben Bernanke to win confirmation, it will be interesting to hear him present his view on the economy and monetary policy during his

confirmation hearing. I will have more to say about the many challenges that a new chairman of the Federal Reserve will face in the coming months.

Turning now to closer to home, in August, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 107.49 in August 2004 to 107.93 in August 2005. Three components of this index are positive contributors, with a lower insured unemployment rate, higher total non-farm employment, and higher total employment. A higher total unemployment rate is the sole negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose from 107.87 in July 2005 to 107.93 in August 2005. The same three components that contributed positively to this index on a year-to-year basis also contributed positively on a month-to-month basis. Total unemployment rate is again the sole negative contributor. I do not like what I am seeing in the total unemployment rate. It jumped from 5.1% in July to 5.4% in August. Moreover, it has been trending up consistently since December 2004. The Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also shows an increase from 147.61 in August 2004 to 152.72 in August 2005, and an increase from 152.39 in July to 152.72 in August.

The revised CCEA-ECRI Connecticut leading employment index provided us with mixed news. It rose from 116.52 in August 2004 to 118.38 in August 2005. A lower Moody's Baa corporate bond yield, a lower short duration (less than 15 weeks) unemployment rate, and higher average weekly hours worked in manufacturing and construction are positive contributors to this index. A decrease in total housing permits, higher initial claims for unemployment insurance, and a lower Hartford help-wanted advertising index are the three negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 118.82 in July to 118.38 in August 2005. An increase in total housing permits is the only positive contributor, while the remaining five components are negative contributors.

I am glad to see that the anemic job growth in Connecticut is beginning to receive attention both in the popular press and in the Governor's office. I hope that the timing of this has nothing to do with the political election next year, but has everything to do with a renewed focus on job growth in Connecticut. ■

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**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.