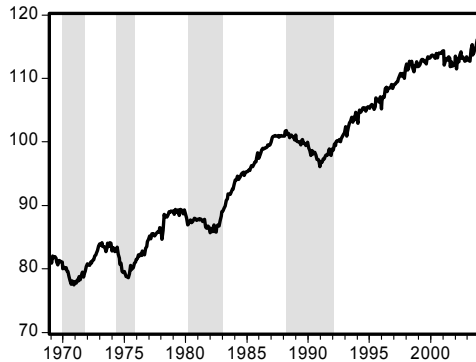
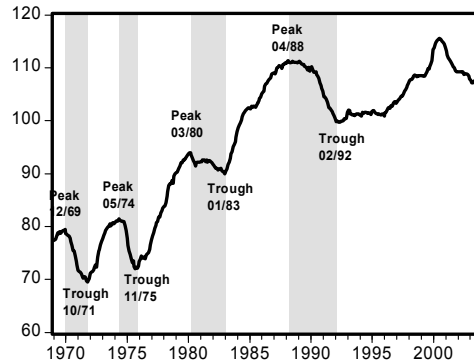


LEADING INDEX



COINCIDENT INDEX



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.

Something to Cheer About For 2003

With the publication of this month's Connecticut Coincident and Leading Employment Indices, we now have information for the entire year 2003. I begin with a discussion of December's indices, and conclude with a preliminary analysis of Connecticut's economy in 2003.

For the month of December, our indicators provided us with some mixed signals for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index fell on a year-to-year basis from 108.4 in December 2002 to 107.5 in December 2003. Three of the four components are negative contributors to the index, with a higher total unemployment rate, lower total

non-farm employment, and lower total employment. The sole positive contributor is a lower insured unemployment rate. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index was unchanged at 107.5. Two components are negative contributors, with lower total non-farm employment and lower total employment. Insured unemployment rate was the only positive contributor while total unemployment rate remained stable.

The revised CCEA-ECRI Connecticut leading employment index provided us with some good news. It rose from 112.8 in December 2002 to 116.0 in December 2003. All six 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, a higher Hartford help-wanted advertising index, and higher average weekly hours worked in manufacturing and construction. On a sequential month-to-month basis, the CCEA-ECRI Connecticut leading employment index was almost unchanged, falling slightly from 116.1 in November to 116.0 in December. There are five positive contributors, with a lower Moody's Baa corporate bond yield, higher total housing permits, a lower short duration (less than 15 weeks) unemployment rate, a higher help wanted index, and higher average weekly hours worked in manufacturing and construction. The sole negative contributor is higher initial claims for unemployment insurance.

Looking at both employment indices for the year, they suggest that the Connecticut economy reached a trough around the middle of the year. The recovery since then has been modest, however. For 2003, the total unemployment rate was up slightly from 4.9 percent in January to 5 percent in December. The peak total unemployment rate was 5.3 percent, which occurred in April. Also for the year, there was a net

gain of about three thousands in total employment from January to December. There was also a net gain for the year in average weekly hours worked in manufacturing and construction from 41.2 in January to 42.0 hours in December, with a steady gain since reaching a low of 40.64 hours in July. A steady gain in average weekly hours worked in manufacturing and construction is typical in the early phase of a recovery, as employers try to assess the strength of the recovery. An increase in employment typically follows. The interval between increases in average weekly hours worked to increases in employment is uncertain, unfortunately. There is an encouraging sign, however, from the help wanted index, which has increased quite strongly in the last two months. Looking ahead to 2004, the pace of Connecticut's recovery depends very much on the national economy. The two biggest uncertainties are the Presidential election and the Fed's monetary policy in the coming year. Because we in Connecticut have no control over these two factors, we can only wait and see. However, I am optimistic that 2004 will be a modestly better year than 2003 for Connecticut.

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**Leading and coincident employment indexes
were developed by Professors Pami Dua and
Stephen M. Miller, in cooperation with Anirvan
Banerji at the Economic Cycle Research
Institute.**

******* 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.