



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.

## 2004 Was a Ho-Hum Year for Connecticut

With the release of the December 2004 Leading and Coincident employment indices for Connecticut, we now have a complete reading for 2004. Accordingly, I will start by examining the December indices, and finish with a preliminary look at the performance of the Connecticut economy for 2004.

The two employment indices finished the year with an up note, with both indices providing us with encouraging signs. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.26 in December 2003 to 108.74 in December 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. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose from 107.98 in November 2004 to 108.74 in December 2004. Three components contributed positively to this index, with a decline in the total unemployment rate from 4.7% to 4.3% in December, and an increase in both total non-farm employment and total employment. The insured unemployment rate remained at its November level of 2.67%.

The revised CCEA-ECRI Connecticut leading employment index also provided encouraging news. It rose from 116.15 in

December 2003 to 118.54 in December 2004. Four components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, an increase in the number of total housing permits, lower initial claims for unemployment insurance, and a lower short duration (less than 15 weeks) unemployment rate. A lower Hartford help-wanted advertising index is the sole negative contributor, while average weekly hours worked in manufacturing and construction remained at its level a year ago. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 116.86 in November to 118.54 in December 2004. Five of the six components are positive contributors, with a decline of the Moody's Baa corporate bond yield, a decrease in initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, a higher Hartford help-wanted advertising index, and an increase in average weekly hours worked in manufacturing and construction. A fairly large decline (48%) in total housing permits from November to December is the sole negative contributor.

2004 was a ho-hum year for Connecticut. We did make progress, but it was modest. Total employment in Connecticut rose by 9,800 in 2004 to 1,719,600 in December, about 39,500 less than

the peak in July 2000. The same is true for total non-farm employment; it rose by 8,400 for the year to 1,647,700 thousands in December 2004, about 53,000 less than its peak in July 2000. The total unemployment rate fell from 4.7% in January to 4.3% in December 2004, but that is very different from the 2.1% rate it reached in July and August 2000.

We did not have a promising start to 2005. First, we learned in early February that Connecticut-based Sikorsky Aircraft lost the \$6.1 billion contract bid to build the next presidential helicopter fleet to Maryland-based Lockheed Martin. This was hardly offset by the Defense Department's supplemental request for the Iraq war that included \$50.8 million for five additional Black Hawk helicopters to be built by Sikorsky Aircraft, and \$55.3 million for Colt Defense for automatic rifles. Second, MetLife acquired Hartford-based Travelers Life and Annuity from Citigroup, which will likely result in job losses in Connecticut. Third, the Governor's proposed budget contains the usual expenditure reductions and tax increases to close the projected budget shortfall. Unfortunately, I don't see any new initiatives in the budget that address the most pressing issue in Connecticut - that of job creation.

I want very much to be positive and optimistic for the new year. So far, I am not seeing any encouraging signs.

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\*\*\*\*\* 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.