



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.

## The Connecticut Economy Continues to Tread Water in February

With the war in Iraq winding down, one uncertainty has been lifted from the U.S. economy. The domestic economy will now become the focus of President Bush's domestic agenda. Already, President Bush is moving on his tax-cut proposals. Whether or not his tax-cut proposals will stimulate the economy remains a subject of debate among economists and politicians alike.

In Connecticut, for the month of February 2003, we have good news and not so good news. The CCEA-ECRI coincident employment index fell on a year-to-year basis from 109.3 in February 2002 to 107.86 in February 2003. Three of the four components are negative contributors to the index, with a higher insured unemployment rate, a higher

total unemployment rate, and lower total non-farm employment. Total employment is the sole positive contributor to this index. On a sequential month-to-month basis, the CCEA-ECRI Connecticut coincident employment index fell slightly from 107.9 in January 2003 to 107.86 in February 2003. Three components are negative contributors, with a higher total employment being the sole positive contributor.

The CCEA-ECRI Connecticut leading employment index provided some good news in February, rising from 113.5 in February 2002 to 114.44 in February 2003. However, only two components of this index are positive contributors, with a lower Moody's Baa corporate bond yield,

and higher total housing permits. The remaining four components are negative contributors, with higher initial claims for unemployment insurance, a higher short duration (less than 15 weeks) unemployment rate, a lower Hartford help-wanted advertising index, and lower average weekly hours worked in manufacturing and construction. On a sequential month-to-month basis, the CCEA-ECRI Connecticut leading employment index also rose from 114.27 in January 2003 to 114.44 in February 2003. Once again, a lower Moody's Baa corporate bond yield, and higher total housing permits are the two positive contributors, while the remaining four components are negative contributors.

My concern, which I have expressed before, is that the improvement in the leading employment index is driven entirely by the fall in the Moody's Baa corporate bond yield and the increase in total housing permits. That is, I don't see a general broad-based improvement in the Connecticut economy. I am concerned that when interest rates stop falling, the improvement in the leading employment index could come to a halt. On the other hand, I cannot see a significant

improvement in the Connecticut economy without a significant improvement in the national economy.

The preliminary first quarter 2003 GDP for the U.S. economy suggests an anemic 1.6 percent annual growth rate. Unless the GDP growth rate picks up significantly in the coming quarters, we can expect a slow recovery in Connecticut for the rest of 2003.

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**Leading and coincident employment indexes  
were developed by Professors Pami Dua and  
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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.