



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.

## Like Spring in New England, Connecticut's Economy is Warming Up

As is frequently the case with economic news, it can be interpreted as either good news or bad news. First, the good news is that all indications suggest that the U.S. economy grew at a healthy pace in the first quarter of this year. More importantly, there are also indications that finally, new jobs are being created at a much more rapid pace than 2003. The bad news is that, given the robust growth in the U.S. economy, Alan Greenspan, chairman of the Federal Reserve, in his address to the Joint Economic Committee of Congress, hinted that the Fed would have to raise short-term interest rate eventually to head off potential inflationary pressure. I personally do not view the Fed's raising of short-term interest rate as

necessarily bad news. What the Fed wants to do is to use the short-term interest rate as an instrument to achieve price stability on the one hand, and sustainable economic growth on the other. The difficulty, of course, is in the implementation. In order to achieve its objective, the timing and the magnitude of the Fed's policy changes have to be just right. This, I can assure you, is the bad news really, because this kind of fine-tuning of the economy by the Fed is difficult to accomplish without a big dose of good fortune.

This month, the two employment indices provide us with very positive signals for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index rose on a

year-to-year basis from 106.90 in February 2003 to 107.40 in February 2004. Three components of this index are positive contributors, with a lower insured unemployment rate, a lower total unemployment rate, and higher total employment. The sole negative contributor is lower total non-farm employment. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index also rose from 107.34 in January 2004 to 107.40 in February 2004. A lower insured unemployment rate and higher total employment contributed positively to the index, while total unemployment rate and total non-farm employment remained stable.

The revised CCEA-ECRI Connecticut leading employment index also provided us with good news. It rose from 112.86 in February 2003 to 116.17 in February 2004. 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 lower 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 rose from 115.86 in January

2004 to 116.17 in February 2004. Four components contributed positively to this index, with a lower Moody's Baa corporate bond yield, a very slight decrease in the short duration (less than 15 weeks) unemployment rate, a higher help wanted index, and higher average weekly hours worked in manufacturing and construction. Lower total housing permits and higher initial claims for unemployment insurance are the two negative contributors to this index.

Last month, I reported an unusually large drop in the total unemployment rate in Connecticut from 5.5 percent in December 2003 to 4.7 percent in January 2004. In February, the total unemployment rate remained at 4.7 percent. I also reported an unusually large drop of about 25 percent in initial claims for unemployment insurance from December 2003 to January 2004. At the same time, total employment in Connecticut went up by eleven thousand from December 2003 to January 2004, another unusually large change. While the direction of change of these indicators is consistent with each other, I continue to be puzzled by the magnitude of these changes. While I do not doubt that the employment picture is improving for Connecticut, I am skeptical of the magnitude of these changes. I suspect that part of the changes may be due to technical factors because both

employment indices were re-benchmarked and re-calibrated starting with the January 2004 values.

Finally, congratulations are in order to both UConn's men and women basketball teams for winning their national championships, thus making UConn the basketball capitol of the U.S.

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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.