



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.

### Connecticut Economy is in a Soft Patch since the Beginning of the Year

The U.S. economy, as measured by its real gross domestic product, had a good year in 2004. It grew by 4.4%. Economists estimate that it will grow 3% to 4% in 2005. The Federal Reserve continued its “measured” increase in the Federal funds rate, raising it by another 25 basis point to 2.75% at its March 22 meeting. High energy costs, large federal budget deficits, and trade deficits, however, continue to cast a long shadow over the economy. As a result, the stock market turned sharply lower in the first quarter of 2005.

Meanwhile, the Connecticut economy turned in a mixed performance for February 2005. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.41 in February 2004 to 107.21 in

February 2005. Three of the four components of this index are positive contributors, with a lower insured unemployment rate, a lower total unemployment rate, and higher total non-farm employment. Lower total employment is the sole negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index fell from 107.48 in January 2005 to 107.21 in February 2005. Three components contributed negatively to this index, with a higher insured unemployment rate, higher total unemployment rate, and lower total employment. An increase in total non-farm employment is the sole positive contributor.

The revised CCEA-ECRI Connecticut leading employment index provided encouraging news. It rose from 115.87 in February 2004 to 118.39 in February 2005. Five components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, a higher number of total housing permits, lower initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, and a higher average weekly hours worked in manufacturing and construction. A lower Hartford help-wanted advertising index is the sole negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 117.35 in January to 118.39 in February 2005. Four of the six components are positive contributors, with a decline of the Moody's Baa corporate bond yield, an increase in total housing permits, a decrease in initial claims for unemployment insurance, and an increase in average weekly hours worked in manufacturing and construction. A higher short duration (less than 15 weeks) unemployment rate is

the only negative contributor, while the Hartford help-wanted advertising index remained constant between January and February 2005.

With revised figures for 2004, the employment picture for Connecticut changed slightly: total employment rose by about 4,000 from January to December 2004 instead of the 9,800 originally reported, while total non-farm employment rose by 22,500 instead of 8,400 for the year. The revised total unemployment rate fell from 5.2% in January to 4.5% in December.

The statistics for the first two months of 2005 are not particularly encouraging for Connecticut. The revised CCEA-ECRI coincident employment index rose steadily throughout 2004. It has, however, fallen two months in a row since the beginning of the year. We have, apparently, hit a soft patch. The revised CCEA-ECRI leading employment index, on the other hand, is sending rather mixed signals. As we are still early in the year, I hope that this will not become a trend. Enjoy the spring weather! ■

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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.