



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.

## A So-So Start to 2004 for Connecticut's Economy

**A**s we have done in the past, for the publication of January 2004's Connecticut Coincident and Leading Employment Indices, we have re-calibrated and re-benchmarked both indices. I will start with a discussion of January's indices, and conclude with another look at Connecticut's economy in 2003, based on the revisions.

We start the New Year with some mixed signals for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index fell on a year-to-year basis from 107.39 in January 2003 to 107.33 in January 2004. Two of the four components are negative contributors to the index, namely lower total non-farm

employment and lower total employment. The two positive contributors are a lower insured unemployment rate and a lower total unemployment rate. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose from 106.26 in December 2003 to 107.33 in January 2004. A slightly higher insured unemployment rate and lower total non-farm employment are negative contributors, and a lower total unemployment rate and higher total employment are the two positive contributors to the index. It is noteworthy that there was a rather large drop in the total unemployment rate, from 5.5 percent in December 2003 to 4.7 percent in January 2004. Before we

start to celebrate, however, let me caution our readers that a change of this magnitude in the unemployment rate in such a short span of time is rather unusual. I will, accordingly, reserve my judgment and wait until I can get a clearer picture with readings from the next several months.

The revised CCEA-ECRI Connecticut leading employment index also provided us with mixed news. It rose from 113.33 in January 2003 to 115.92 in January 2004. Five components of this index contribute positively; 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, and higher average weekly hours worked in manufacturing and construction. The sole negative contributor is a lower Hartford help-wanted advertising index. On a sequential month-to-month basis, the CCEA-ECRI Connecticut leading employment index fell from 116.15 in December 2003 to 115.92 in January 2004. There are only two positive contributors: a lower Moody's Baa corporate bond yield, and a rather large decrease in initial claims for unemployment insurance. Lower total housing permits, a higher short-duration unemployment rate, a lower help-wanted index, and lower average weekly hours worked in manufacturing and

construction all contribute negatively to this index. The close to 25 percent decrease from December 2003 to January 2004 in initial claims for unemployment insurance is also rather unusual in its magnitude. I will also exercise caution in interpreting this indicator.

The two re-benchmarked employment indices now paint a slightly different, and unfortunately a less positive, picture for the Connecticut economy in 2003 than what I reported last month. For the year, the total unemployment rate was up from 5.2 percent in January to 5.5 percent in December. The peak total unemployment rate was 5.7 percent, which occurred in March and again in July. There was a modest net gain for the year in average weekly hours worked in manufacturing and construction, from 41.1 hours in January to 41.62 hours in December, with a steady gain since reaching a low of 40.74 hours in July. The re-benchmarked employment indices now show a net loss of about thirteen thousand in total employment, quite a change from the net gain of about three thousand that I reported last month.

The recent cancellation of the Comanche helicopter program by the Pentagon and the run up in gasoline prices are not welcome news in Connecticut. The increase in gasoline prices may

put pressure on the Federal Reserve to raise short-term interest rates to head off inflationary pressure. If and when this happens, it would certainly affect the national economy, and slow down the progress that we had made in Connecticut in the past year. The happy news, of course, is that both the UConn men's and women's basketball teams are doing well in the NCAA tournament. Enjoy the ride!

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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.