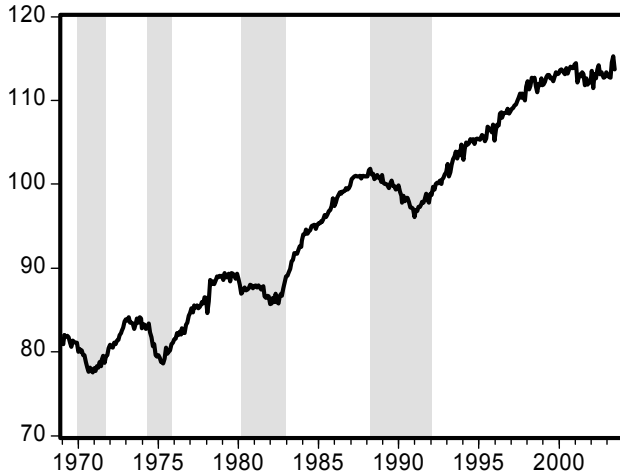
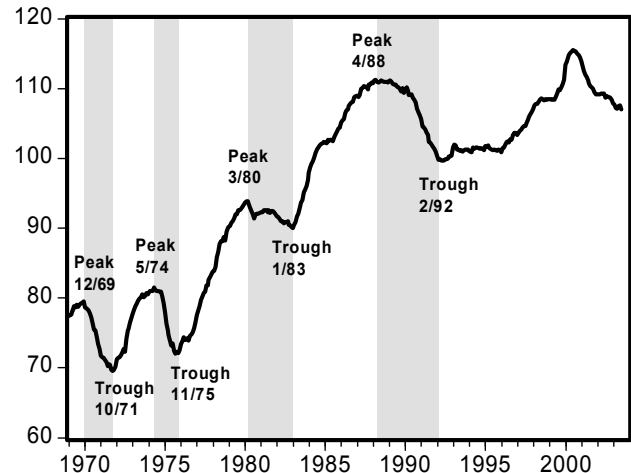


LEADING INDEX



COINCIDENT INDEX



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 Took a Detour in July

At its last meeting, the FOMC decided to keep the Federal funds interest rate constant at 1 percent. This signals us that the Federal Reserve sees the recovery in the U.S. economy continues to be on course. The big concern, however, continues to be the very slow recovery in the labor market. The overall unemployment rate continues to be high and the current recovery does not appear to be an engine of job creation. But, we should not lose sight of the fact that the labor market is typically the last to recover in a cyclical upturn. It may be unfair or premature to label the current recovery as a ‘jobless’ recovery. In fact, one reason why

employers are not currently hiring in greater number is because labor productivity has been very high in the current recovery. This really is good news and not bad news for the labor market.

For the month of July, our indicators did not show very encouraging signs for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index fell on a year-to-year basis from 108.7 in July 2002 to 107.02 in July 2003. All four components are negative contributors to the index, with a higher insured unemployment rate, a higher total unemployment rate, lower total non-farm

employment, and lower total employment. On a sequential month-to-month basis, the CCEA-ECRI Connecticut coincident employment index also fell from 107.63 in June 2003 to 107.02 in July 2003. A lower insured unemployment rate is the only positive contributor. The total unemployment rate and total non-farm employment are the two negative contributors, while total employment remained stable. The month-to-month index provides quite a mixed picture. There was a surprisingly large jump in the total unemployment rate from 4.9 percent in June to 5.2 percent in July, but the insured unemployment rate fell slightly and total employment remained stable in those two months. Thus, after two consecutive months of an increase in the coincident employment index, the momentum was not sustained for a third month.

The revised CCEA-ECRI Connecticut leading employment index fell from 113.9 in July 2002 to 113.68 in July 2003. Three components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, lower initial claims for unemployment insurance, and a lower short duration (less than 15 weeks) unemployment rate. The three negative contributors are lower total housing permits, 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 fell from 114.95 in June to 113.68 in July. Five components of this index are negative contributors, with a higher Moody's Baa corporate bond yield, lower total housing permits, higher initial claims for unemployment insurance, and a lower help wanted index. The sole positive contributor is a lower short duration (less than 15 weeks) unemployment rate.

As I mentioned last month, I continue to be optimistic about a more robust recovery for Connecticut in the second half of this year.

Although the two indexes came in a little worse than expected this month, I am hoping that this is only a temporary detour and we will soon see a resumption of steady improvement in Connecticut. At the moment, I cannot see anything looming over the horizon that would derail a continuing recovery.

**Francis W. Ahking, Department of Economics,
University of Connecticut, Storrs, CT 06269.
Phone: (860) 486-3026. Stan McMillen [(860)
486-0485, Storrs Campus], Connecticut Center
for Economic Analysis, University of
Connecticut, provided research support.
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.