



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 Continues Its Sluggish Growth in July

The Federal Reserve, citing evidence that the economy is emerging from its recent softness, raised its target Federal funds rate by another 25 basis points to 1.75 percent at its FOMC meeting on September 21. Although this was widely anticipated, some economists have nevertheless questioned the timing of this rate hike. They cite a recent report of a drop in the Producer Price Index and the slower growth in the U.S. economy as evidence against a rate hike. My feeling is that just as long as the rate hike was widely anticipated, its impact on the economy would be negligible. On the other hand, the latest rate hike would signal to the rest of the economy

that the Federal Reserve believes that the U.S. economy has resumed its robust growth.

This month, the two employment indices provide us with mixed signals. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.05 in July 2003 to 107.82 in July 2004. 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 employment. Lower total non-farm employment is the sole exception. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index fell slightly from 107.86 in June 2004 to 107.82 in July 2004, making

this the second consecutive month when this index has fallen. A lower insured unemployment rate and higher total employment are the two positive contributors to the index, while lower total non-farm employment contributed negatively to the index. The total unemployment rate remained stable at 4.6% for the fourth month in a row.

The revised CCEA-ECRI Connecticut leading employment index also provided us with mixed news. It rose from 113.87 in July 2003 to 116.94 in July 2004. Four components of this index are positive contributors, with 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. A lower Hartford help-wanted advertising index is the only negative contributor, while the Moody's Baa corporate bond yield is at the same level a year earlier. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 117.36 in June 2004 to 116.94 in July 2004. A lower Moody's Baa corporate bond yield, and lower initial claims for unemployment insurance contributed positively to the index. However, lower total housing permits, a higher short duration (less than 15 weeks) unemployment

rate, a lower help wanted index, and lower average weekly hours worked in manufacturing and construction are the four negative contributors to this index.

Total non-farm employment fell by about 4,000 jobs in July after falling by the same amount in June, wiping out the gain that we experienced since March, and putting us slightly below the level in January. We have a very slight gain in total employment in Connecticut of 700 persons in July, and a modest gain of 1,600 persons for the year thus far. The total unemployment rate, however, remained constant at 4.6% for April through July, while the insured unemployment rate fell in each of the last four months. Taken together, these indicators paint a very sluggish job growth picture for Connecticut. We, unfortunately, have yet to benefit from the more robust job growth at the national level.

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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.