



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.

We Are Moving At a Snail's Pace in July 2005

The FOMC raised the target Federal Funds rate by another 25 basis points to 3.75 percent at its meeting on September 20, 2005. Currently, the target Federal Funds rate stands at a four-year high. Although this move was widely anticipated, some economists are beginning to wonder whether the current cycle of rate hikes should end sooner rather than later. High on everyone's mind is the devastation to the Gulf coast states wrought by Hurricane Katrina, which is expected to shave up to one percent off the growth rate of the U.S. economy for the rest of the year. The statement released by the FOMC after the meeting argues that the effect of Hurricane Katrina on the economy is expected to be temporary, but there is uncertainty surrounding inflation. I believe

that Hurricane Katrina's effect on the economy will be temporary, and that our high energy prices will be reflected in the Consumer Price Index (CPI). But, the most closely watch inflation barometer by the FOMC is the core inflation rate, which is CPI less the food and energy components. The core inflation rate has been rather stable; leading me to believe that there is a little inconsistency on the part of the FOMC. Their next meeting on November 1 should be interesting and bears watching closely.

In July, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 107.40 in July 2004 to 107.89 in July 2005. Two components of this index are positive contributors, with a lower insured unemployment rate, and higher total non-farm

employment. A higher total unemployment rate and lower total employment are the two negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose slightly from 107.845 in June 2005 to 107.894 in July 2005. Two components contributed positively to this index, with higher total non-farm employment, and higher total employment. Insured unemployment rate rose very slightly, while total unemployment rate remained stable at 5.1 percent.

The revised CCEA-ECRI Connecticut leading employment index provided us with mixed news. It rose from 117.04 in July 2004 to 117.80 in July 2005. A lower Moody's Baa corporate bond yield, a lower short duration (less than 15 weeks) unemployment rate, and higher average weekly hours worked in manufacturing and construction are positive contributors to this index. A decrease in total housing permits, higher initial claims for unemployment insurance, and a lower Hartford help-wanted advertising index are the three negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 118.74 in June to 117.80 in July 2005. All six components are negative contributors. While it is too early to say

what this implies, I find this to be rather disturbing, however.

I recently became aware that the Federal Reserve Bank of Philadelphia publishes a monthly coincident index for all fifty states. I intend to provide a comparison of the FRB-Philadelphia coincident index with the CCEA-ECRI coincident employment index in the near future. Meanwhile, in order to provide more information to my readers, I report here the year-to-year and month-to-month change in the FRB-Philadelphia coincident index for July. The FRB-Philadelphia coincident index rose from 147.04 in July 2004 to 152.67 in July 2005, while it rose from 152.22 in June 2005 to 152.67 in July 2005. Thus, the FRB-Philadelphia coincident index shows a more robust growth for the Connecticut economy on a year-to-year basis, and is about the same order of magnitude for the month-to-month change, when compared to the CCEA-ECRI coincident employment index.

Finally, Connecticut received a bit of good news at the end of August when the Groton submarine base was taken off the Base Realignment and Closure Commission (BRAC) list. ■

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**Economic Cycle Research Institute developed
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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.