



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.

### Little Progress Made in the First Half of 2004

Although growth in the U.S. economy appears to have moderated in recent months, nevertheless, the Federal Reserve raised its target Federal funds rate by 25 basis points at its FOMC meeting August 10 to 1½ percent. This is widely interpreted to be a reflection of the Federal Reserve’s belief that the recent softness in the economy is only temporary. Moreover, the continued increase in energy costs may potentially pose an inflationary threat for the near future. With the presidential election two months away, and the polls are not showing a clear front runner, employers may adopt a wait-and-see attitude. Thus, the recent softness in the U.S. economy,

especially in the job market may continue into the next few months.

This month, the two employment indices provide moderately good news. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.32 in June 2003 to 107.86 in June 2004. All four components of this index are positive contributors, with a lower insured unemployment rate, a lower total unemployment rate, higher total non-farm employment, and higher total employment. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index fell from 108.05 in May 2004 to 107.86 in June 2004. A lower insured unemployment rate is

the sole positive contributor to the index, while both lower total non-farm employment and lower total employment contributed negatively to the index. The total unemployment rate remained stable at 4.6%, however.

The revised CCEA-ECRI Connecticut leading employment index provided welcome news. It rose from 113.87 in June 2003 to 117.16 in June 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 higher Moody's Baa corporate bond yield, and a lower Hartford help-wanted advertising index are the two negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 116.49 in May 2004 to 117.16 in June 2004. Higher total housing permits, a lower short duration (less than 15 weeks) unemployment rate, and a higher help wanted index are positive contributors. On the other hand, a higher Moody's Baa corporate bond yield, higher initial claims for unemployment insurance, and lower average weekly hours worked in manufacturing and

construction are the three negative contributors to this index.

After increasing for the past two months, total employment in Connecticut fell by 3,500 persons employed in June 2004. Total non-farm employment fell by 2,000 jobs in June 2004 after increasing by about 4,000 jobs in each of the previous two months. The total unemployment rate, however, remained constant at 4.6 percent for April through June 2004, while the insured unemployment rate fell in each of the last three months. These indicators present mixed signals, and thus perhaps it is best not to read too much into month-to-month fluctuations. Taking a longer-term view, both the insured unemployment rate and the total unemployment rate fell for the first half of 2004, from 3.20 percent to 2.81, and from 4.7 percent to 4.6 percent, respectively. Both total non-farm employment and total employment rose modestly for the same period, by about 3,000 jobs and 1,000 persons employed, respectively. Thus, we have made modest progress in the first half of 2004. As the leading employment index continues to improve, I am optimistic that we will continue to make progress for the second half of 2004.

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**Leading and coincident employment indexes were developed by Professors Pami Dua and**

**\*\*\*\*\* 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.