



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.

## Not a Kind First Quarter For Connecticut, But Better Days May Be Ahead

**A**s the U.S. economy continues to show signs of healthy and robust growth, events in the Middle East, especially Iraq, and rising food and gasoline costs negatively impacted the financial markets. On top of this, the Federal Reserve has hinted strongly that the low interest rate policy may be a thing of the past. Average market interest rates have been rising in the last several weeks, mainly in reaction to rising food and gasoline costs. Thus, if and when the Federal Reserve decides to raise the Federal Funds rate, it may not have a major impact on the financial markets, because it would have been expected. Rather, it would signal a change in policy. I expect that there is sufficient momentum

in the economy such that the change in the Federal Reserve's policy would not have a major impact, especially if the policy change is measured both in timing and magnitude. The greater uncertainty right now is the Presidential election in November and the prospect of terrorist attacks in the U.S.

This month, the two employment indices provide us with signs of modest progress for the Connecticut economy. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.38 in March 2003 to 106.82 in March 2004. Two components of this index are positive contributors, with a lower insured unemployment rate, and a lower total

unemployment rate. Lower total non-farm employment and lower total employment are the two negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index fell from 107.35 in February 2004 to 106.82 in March 2004. A lower insured unemployment rate is the only positive contributor to the index.

The revised CCEA-ECRI Connecticut leading employment index provided us with more positive news. It rose from 112.72 in March 2003 to 116.25 in March 2004. All six components of this index are positive contributors, with 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, a lower Hartford help-wanted advertising index, and higher average weekly hours worked in manufacturing and construction. On a sequential month-to-month basis, the CCEA-ECRI Connecticut leading employment index also rose from 115.84 in February 2004 to 116.25 in March 2004. Five components contributed positively to this index, with a lower Moody's Baa corporate bond yield, higher total housing permits, a decrease in the short duration (less than 15 weeks) unemployment rate, and slightly higher average weekly hours worked in

manufacturing and construction. A lower help wanted index is the only negative contributor to this index.

The first quarter of 2004 has not been kind to Connecticut. The total unemployment rate has risen from 4.7 percent in January to 4.9 percent in March. There is a net decrease of 10,700 in total employment. The healthy job creation at the national level has yet to trickle down to Connecticut. Fortunately, the leading employment index continues to signal better days ahead. I continue to be optimistic that the rest of the year would turn out to be a good one for Connecticut.

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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.