



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.

## The Employment Picture Continues to Improve in May

As expected, the Federal Reserve raised the Federal funds rate by 25 basis points at the FOMC meeting at the end of June. This is expected to be the first of a series of interest rate increases to temper inflationary expectations. Recent economic indicators suggest that the growth rate of the U.S. economy might have slowed a bit. The slowdown in the growth rate is expected to be temporary, and robust economic growth is expected to continue for the remainder of this year. Nevertheless, this allows the Federal Reserve to continue a policy of gradual increases in the Federal funds rate. However, as Alan Greenspan has made clear recently at the Senate Banking Committee hearings, the Federal Reserve stands ready to move

aggressively should the inflation picture changes unexpectedly.

This month, the two employment indices provide us with decidedly welcome news. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.51 in May 2003 to 108.06 in May 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 also rose from 107.36 in April 2004 to 108.06 in May 2004. The total

unemployment rate remained stable at 4.6%, while the remaining three components all contributed positively to the index.

The revised CCEA-ECRI Connecticut leading employment index also provided us with welcome news. It rose from 114.54 in May 2003 to 116.72 in May 2004. Four components of this index are positive contributors, with lower initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, a higher Hartford help-wanted advertising index, and higher average weekly hours worked in manufacturing and construction. A higher Moody's Baa corporate bond yield, and lower total housing permits are the two negative contributors. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index also rose from 115.59 in April 2004 to 116.72 in May 2004. Lower initial claims for unemployment insurance, a higher help wanted index, and higher average weekly hours worked in manufacturing and construction are the three positive contributors. In addition to a higher Moody's Baa corporate bond yield, and lower total housing permits, a very slightly higher short duration (less than 15 weeks) unemployment rate contributed negatively to this index.

The employment picture is looking brighter for Connecticut. The rise in interest rates in recent months, including mortgage interest rates, and the expected drop in total housing permits, has yet to have a negative impact on employment in Connecticut thus far. Total non-farm employment rose by four thousand from April 2004 to May 2004, after increasing by about the same amount from March to April this year. Total employment rose strongly from April 2004 to May 2004 by about fourteen thousand jobs. The total unemployment rate remained unchanged at 4.6% from April 2004 to May 2004, however, indicating that new workers were attracted into the labor force, perhaps by the improving employment picture. Thus, after suffering a loss of employment in the first quarter of this year, the second quarter has gotten off to a very promising start.

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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.