



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 Leads the Nation in Per Capita Income but Last in Employment Growth

In his semi-annual testimony to the House Banking Committee, Alan Greenspan, Chairman of the Federal Reserve Board painted an overall positive picture for the U.S. economy for the near term. The U.S. economy is expected to continue to grow in a low inflation environment. He also warned, however, that there are risks and uncertainties facing the economy. One risk is that high energy prices could pose an inflation threat to the economy and slow economy growth. Another risk is the bursting of the housing bubble in certain local housing markets should long-term interest rates start to rise. Against these assessments, Mr. Greenspan hinted strongly that the current policy of

“measured” increases in the Federal Funds rate will continue.

As I have come to expect, the Connecticut economy turned in a mixed performance for May. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.59 in May 2004 to 107.88 in May 2005. Three components of this index are positive contributors, with a lower insured unemployment rate, higher total non-farm employment, and higher total employment. A higher total unemployment rate is the only negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index fell from 108.31 in April 2005 to 107.88 in

May 2005. Two components contributed positively to this index, with a lower insured unemployment rate, and higher total non-farm employment. The two negative contributors are an unexpectedly large increase in the total unemployment rate from 4.9 percent in April to 5.3 percent in May, and lower total employment.

The revised CCEA-ECRI Connecticut leading employment index, on the other hand, provided us with good news. It rose from 116.73 in May 2004 to 119.12 in May 2005. Five components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, a large increase in 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. The Hartford help-wanted advertising index remained at its level of a year earlier. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 117.69 in April to 119.12 in May 2005. Four of the six components are positive contributors, with a lower Moody's Baa corporate bond yield, an increase in the number of total housing permits, a decrease in initial claims for unemployment insurance, and a higher Hartford help-wanted advertising index. A higher short

duration (less than 15 weeks) unemployment rate, and lower average weekly hours worked in manufacturing and construction are the two negative contributors to this index.

A recent state profile for Connecticut, published by the Federal Deposit Insurance Corporation (FDIC), provided a sobering reminder that both job and employment growth in Connecticut have been sub-par in this current economic recovery and expansion. While we continue to lead the nation in per capita income, our employment level through the first quarter of 2005 is only slightly higher than at the beginning of the 1990s. In fact, Connecticut's employment growth for the first quarter of 2005 is the slowest in the nation. Our manufacturing employment, both absolute and relative to total employment, has been declining along with the rest of the nation. Unfortunately, our employment growth in the service sector has been rather anemic, only 15 percent since 1990, and last among the New England states, according to the FDIC report. This is especially disconcerting since the national economic expansion is entering a phase of slower growth. It is clear that we face significant challenges, not the least of which is the potential loss of the submarine base in Groton. The problem that we face is not new; manufacturing employment

has been declining in Connecticut for the last decade and a half. Yet, we seem to have done a poor job in replacing lost employment. Let the FDIC report be a wake-up call to our policy makers. To my readers, I enjoyed talking to some of you who called me this past month. To all of you, enjoy the rest of the summer.

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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 closely relate to construction employment and the corporate bond yield adds important information about interest rate movements. 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.