



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 Much to be Thankful for in November

A host of discouraging economic data as the year began greeted those of us who expect much stronger growth for the U.S. economy in 2003. The U.S. index of industrial production fell unexpectedly in December of 2002. The U.S. trade deficit for November of 2002 was larger than expected, while the University of Michigan's consumer sentiment index fell unexpectedly in January 2003. The good news is that the U.S. inflation rate remained tame and is expected to remain subdued for the coming year. We should remember, however, that these economic data simply confirmed what we already know or have suspected – that 2002 was not a stellar year for the U.S. economy. We actually have reasons to be

optimistic for 2003. First, the many rounds of interest rate cuts by the Fed in 2002 may begin to stimulate business spending. Second, President Bush has offered a fiscal package that may stimulate the economy. The clouds on the horizon are the political tension with North Korea and the possible military conflict with Iraq.

Closer to home, the news is mixed on the Connecticut front for November 2002. The CCEA-ECRI coincident employment index fell on a year-to-year basis from 107.69 in November 2001 to 107.45 in November 2002. Two of the four components are negative contributors to the index, with a higher total unemployment rate, and lower total non-farm employment. Total employment is

the only positive contributor to this index, while the insured unemployment rate remained the same. On a sequential month-to-month basis, the CCEA-ECRI Connecticut coincident employment index declined very slightly from 107.53 in October to 107.45 in November. The insured unemployment rate and total employment are the two positive contributors, while the total unemployment rate and total non-farm employment are the two negative contributors. Year-to-date in 2002, the revised CCEA-ECRI Connecticut coincident employment index rose three times – in January, May, and October, and fell seven times in February, March, April, June, August, September, and November, and has remained stable in July.

The CCEA-ECRI Connecticut leading employment index rose from 111.3 in November 2001 to 112.39 in November 2002. Three components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, lower initial claims for unemployment insurance, and higher average weekly hours worked in manufacturing and construction. The three negative contributors are lower total housing permits, a higher short duration (less than 15

weeks) unemployment rate, and a lower Hartford help-wanted advertising index. On a sequential month-to-month basis, the leading employment index fell from 112.85 in October to 112.39 in November. Three components are positive contributors, with a lower Moody's Baa corporate bond yield, lower initial claims for unemployment insurance, and a lower short duration (less than 15 weeks) unemployment rate. Two components are negative contributors, with lower total housing permits, and lower weekly hours worked in manufacturing and construction. The Hartford help-wanted index remained stable. Year-to-date in 2002, the revised CCEA-ECRI Connecticut leading employment index has risen five months out of eleven, in January, February, April, June, and July.

Governor Rowland and the coalition of state employee unions have yet to come to an agreement over the concession package. Regardless of the outcome, the pro-cyclical state fiscal budget will certainly put a damper on the Connecticut economy. Our hope for a better 2003 for the Connecticut economy very much hinges on how well the national economy performs in 2003.

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University of Connecticut, provided research support. Leading and coincident employment indexes were developed by Professors Pami Dua and Stephen M. Miller, in cooperation with Anirvan 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.