



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.

A Glow of Light in An Otherwise Cold Connecticut Winter

As I sat down in my kitchen one recent Sunday to start writing this piece, my television was tuned to one of the Sunday morning talk shows. A presidential candidate was on the show talking about the economy. After listening for about ten minutes, I got a sense that the economy is in its worst shape since the great depression! Of course, this is not true. Nevertheless, interestingly, everything spoken on the show was true. And this brings me to my point. Not that we need any reminding, but this is a presidential election year. Economic news will be subject to scrutiny, and to different interpretations. One political party will see the glass as half empty; the other party will see it as half full. We will be

bombarded with all sorts of interpretations of the economy, and it can become overwhelming to the point that we lose sight of the true state of the economy. This should be an interesting year. That said, I expect the U.S. economy to continue its growth in 2004. The question that is really on everybody's mind is how rapid can we expect job growth to be. While I cannot give a quantitative answer, I do expect the unemployment rate to continue to decline, however, and employment to expand. Our blistering rate of labor productivity growth cannot continue indefinitely. Sooner or later, employers must hire more workers in order to keep up with increasing output.

In Connecticut, we have some encouraging signs from our indicators for November 2003. The revised CCEA-ECRI Connecticut coincident employment index fell on a year-to-year basis from 108.7 in November 2002 to 107.5 in November 2003. All four components are negative contributors to the index, with a higher insured unemployment rate, a higher total unemployment rate, lower total non-farm employment, and lower total employment. On a sequential month-to-month basis, the CCEA-ECRI Connecticut coincident employment index rose slightly from 107.4 in October 2003 to 107.5 in November 2003. Only one component is a negative contributor, with a higher total unemployment rate, while the remaining three components are positive contributors to the index.

The revised CCEA-ECRI Connecticut leading employment index rose from 112.6 in November 2002 to 116.4 in November 2003. 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 higher 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 115.0 in October to 116.4 in November. Five components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, a lower initial claims for unemployment insurance, a lower short duration (less than 15 weeks) unemployment rate, a higher help wanted index, and higher average weekly hours worked in manufacturing and construction. The sole negative contributor is lower total housing permits, which fell rather dramatically to half the level of the month before.

We have our own political crisis in Connecticut. Other than creating some uncertainties, I don't expect the crisis with the Governor to have a major impact on Connecticut's economy. I hope all my readers have had a happy and restful New Year; I look forward to reporting to you more and more encouraging news about the Connecticut economy in the coming months.

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Leading and coincident employment indexes were developed by Professors Pami Dua and Stephen M. Miller, in cooperation with Anirvan

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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.