



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 Needs to Pay Attention to its Labor Productivity Growth

After the U.S. equity market ended 2005 about where it began, the broad market advanced strongly in the first two weeks of 2006. Part of the optimism came from a belief that the current cycle of rate hikes by the Federal Reserve may end in the early part of 2006. There is also widespread belief that the U.S. economy will grow at about 3% to 3.5% this year. Unfortunately, tension with Iran, and the prospect of Iran cutting off its oil supply to the West, caused a broad retreat in the equity market, wiping out most the gain made this year. It is worth keeping an eye on the situation in Iran. Political instability in that region could have dire consequences for the U.S. and the West in general because it is a major oil exporting

region to the U.S. and the West. Energy prices in the U.S. are on the rise again. If the tension in that region escalates, energy prices could continue to rise. If and when this happens, the Federal Reserve may have no choice but to keep raising short-term interest rates to prevent inflation from escalating. This in turn would have an adverse impact on U.S. economic growth, and likely would impact Connecticut's economy as well.

In November 2005, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 108.06 in November 2004 to 108.81 in November 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 sole negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose from 108.38 in October 2005 to 108.81 in November 2005. A marginally higher insured unemployment rate is the sole negative contributor to this index, while a lower total unemployment rate, higher total non-farm and total employment are the three positive contributors to this index. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also increased from 149.39 in November 2004 to 154.21 in November 2005, and increased from 153.86 in October 2005 to 154.21 in November 2005.

The revised CCEA-ECRI Connecticut leading employment index rose from 116.86 in November 2004 to 119.24 in November 2005. A higher Moody's Baa corporate bond yield and a decrease in total housing permits contributed negatively to this index. 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 contributed positively to this index.

On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 117.92 in October 2005 to 119.24 in November 2005. An increase in 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 larger average weekly hours worked in manufacturing and construction are the five positive contributors. A marginally higher Moody's Baa corporate bond yield is the sole negative contributor.

I have been emphasizing the importance of job and employment growth for most of 2005 and bringing to your attention our rather dismal record in that area. I want to go back to what I reported last month. As you may recall, I reported a study by two economists at the Federal Reserve Bank of Cleveland on labor productivity growth across states. That study reported that from 1977 to 2000, Connecticut led the nation in labor productivity growth, averaging 2.8% per year. This is the reason why we have the highest per capita income in the nation even though our job and employment growth lags the rest of the nation. The same study shows that since the end of the national recession in 2000, Connecticut's average labor productivity growth rate for 2001 and 2002 (the last

year for which we have data) is in the bottom 25% among the states, at 1.47% per year compared with the national average of 2.84% per year for the same period. It is clear that job and employment growth alone will not be sufficient for Connecticut to grow at a healthy pace. We must also pay attention to our labor productivity growth rate! Otherwise, we will suffer the dire consequences of both a low job and employment growth rate and low labor productivity growth rate. ■

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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.