



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 Connecticut Economy Continues to Struggle in October

2002 started with great anticipation that the struggling national economic recovery would pick up steam this year. Soon, however, this anticipation was replaced by talk of a double-dip recession. As 2002 draws to a close, the strong pick-up predicted for the second half of the year did not materialize, and we once again look to 2003 to be a better year than 2002. The uncertainty about military conflict with Iraq, however, will continue to weigh heavily on the economy. In Connecticut, we have hoped and predicted that year 2002 would be a year of recovery as the national economy recovered. While I believe that the recession is over for Connecticut, instead of talk of better times to come as the Connecticut economy continues to improve, the talk in Connecticut is about layoffs as

the state struggles to close an ever-widening budget gap. So much for the season of “peace on earth and goodwill to men.”

The news is mixed on the Connecticut front for the month of October. The CCEA-ECRI coincident employment index fell on a year-to-year basis from 108.09 in October 2001 to 107.53 in October 2002. Three of the four components are negative contributors to the index, with a higher insured unemployment rate, a higher total unemployment rate, and lower total non-farm employment. Total employment is the only positive contributor to this index. On a sequential month-to-month basis, the CCEA-ECRI Connecticut coincident employment index rose very slightly from 107.52 in September to 107.53 in

October. 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 has risen three times – in January, May, and October, has fallen six times in February, March, April, June, August, and September, and remained stable in July.

The CCEA-ECRI Connecticut leading employment index, rose from 111.9 in October 2001 to 112.85 in October 2002. Four 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, and higher average weekly hours worked in manufacturing and construction. The two negative contributors are 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 113.1 in September to 112.85 in October. Two components are positive contributors, with higher total housing permits, and higher weekly hours worked in manufacturing and construction. The four negative contributors are a higher

Moody's Baa corporate bond yield, higher initial claims for unemployment insurance, a higher short duration (less than 15 weeks) unemployment rate, and a lower Hartford help-wanted index. Year-to-date in 2002, the revised CCEA-ECRI Connecticut leading employment index has risen five months out of ten, in January, February, April, June and July.

As I struggle to bring my readers more optimistic news at this time of the year, I am afraid that the best I could offer is to wish each of you happy holidays. While I cannot predict how the state budget picture will play out, I can only hope that it will work out to the benefit of all. ■

Francis W. Ahking, Department of Economics, University of Connecticut, Storrs, CT 06269. Phone: (860) 486-3026. Stan McMillen [(860) 486-0485, Storrs Campus], Connecticut Center for Economic Analysis, 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.