



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.

Encouraging News This Month May Not Add Up to Much For the Year

As expected, at its last meeting on December 14, 2004, the FOMC raised the Federal Funds rate by another 25 basis point to 2.25 percent. The major news in the last month has been the U.S. fiscal and current account deficits and the sliding value of the U.S. dollar against major foreign currencies. As is frequently the case in economics, there are at least two sides to a story and unfortunately, there is not enough space here for me to present a balanced discussion of these important and interesting issues. Suffice it to say here that the fiscal and current account deficits, as a fraction of real gross domestic product, are not out-of-line with historical norm. Thus, at least for the immediate future, these deficits are not likely to

present a major difficulty for the U.S. economy, but the current account deficit is likely to slow the growth of the U.S. economy slightly as we substitute foreign for domestically produced goods. Also so far, the depreciating U.S. dollar in the currency market appears to be a self-correcting mechanism to the imbalance in the U.S. current account and does not signal a loss of confidence in the U.S. economy by foreigners.

The two employment indices provide us with some encouraging signs in October. The revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 106.22 in October 2003 to 107.84 in October 2004. All four components of this index are

positive contributors, with a lower insured unemployment rate, a lower total unemployment rate, higher total non-farm employment, and higher total employment. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut coincident employment index rose slightly from 107.82 in September 2004 to 107.84 in October 2004, driven solely by a fall in total unemployment rate from 4.7% to 4.6% in October. The three negative contributors are a slightly higher insured unemployment rate, a small decrease in total non-farm employment, and lower total employment.

The revised CCEA-ECRI Connecticut leading employment index also provided us with encouraging news. It rose from 115.07 in October 2003 to 116.81 in October 2004. Five components of this index are positive contributors, with a lower Moody's Baa corporate bond yield, 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. A drop in the number of total housing permits is the only negative contributor. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index rose from 116.45 in September to 116.81 in October 2004. A lower

Moody's Baa corporate bond yield, lower initial claims for unemployment insurance, a higher Hartford help-wanted advertising index and higher average weekly hours worked in manufacturing and construction are the four positive contributors. Lower total housing permits, and a higher short duration (less than 15 weeks) unemployment rate are the two negative contributors to this index.

With two more months to go before the end of the reporting year, the Connecticut economy is showing no definite pattern. For most of this year thus far, the Connecticut economy has taken a series of side-way steps. The gain in employment in one month is lost in subsequent months. As growth in Connecticut is very much dependent on the growth in the national economy, and the economic recovery of the U.S. is entering a mature stage, the prospect for the Connecticut economy for the coming year is not looking particularly bright at the moment. I want to end on a happy note, however, by wishing all my readers a happy, safe, and restful holiday.

Francis W. Ahking, Department of Economics, University of Connecticut, Storrs, CT 06269. Phone: (860) 486-3026. Stan McMillen [(860) 486-04852, Storrs Campus], Connecticut Center for Economic Analysis, University of Connecticut, provided research support. Professors Pami Dua and Stephen M. Miller developed the leading and coincident employment indexes, 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.