



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 Lags the Nation in Labor Productivity Growth Since 2000

Let me start by wishing my readers a happy and healthy 2006. I want to begin this month's report with the two Connecticut employment indexes then discuss labor productivity growth.

In October, the revised CCEA-ECRI Connecticut coincident employment index rose on a year-to-year basis from 107.89 in October 2004 to 108.39 in October 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 marginally from 108.30 in

September 2005 to 108.39 in October 2005. Higher total non-farm employment is the sole positive contributor to this index, while a marginally higher insured unemployment rate, and lower total employment contributed negatively to this index. The total unemployment rate remained constant at 5.3 percent. The revised Connecticut Coincident Index published by the Philadelphia Federal Reserve Bank also increased from 148.85 in October 2004 to 153.84 in October 2005, and increased from 153.52 in September 2005 to 153.84 in October 2005.

The revised CCEA-ECRI Connecticut leading employment index rose from 116.96 in October 2004 to 117.92 in October 2005. A lower short duration (less than 15 weeks) unemployment

rate is the only positive contributor to this index. A higher Moody's Baa corporate bond yield, a decrease in total housing permits, higher initial claims for unemployment insurance, and lower average weekly hours worked in manufacturing and construction are negative contributors to this index, while the Hartford help-wanted advertising index remained constant at its level of a year ago. On a sequential month-to-month basis, the revised CCEA-ECRI Connecticut leading employment index fell from 118.77 in August to 117.92 in October 2005. A higher Hartford help-wanted advertising index is the only positive contributor to this index. A higher Moody's Baa corporate bond yield, a large drop in total housing permits, higher initial claims for unemployment insurance, a higher short duration (less than 15 weeks) unemployment rate, and lower average weekly hours worked in manufacturing and construction are the five negative contributors.

As Connecticut enters 2006, it faces many challenges. We escaped the submarine base closing in Groton only to have Electric Boat announced that it plans to reduce its employment by between 2,000 to 2,400 jobs in 2006. Although Foxwoods Casino announced a major expansion, the new jobs created will probably not match the lost jobs at Electric Boat in terms of pay and other

benefits. In May 2005, I reported here a study by the Federal Depository Insurance Corp. (FDIC) that documented the poor employment growth rate in Connecticut for the past fifteen years. I recently came across a study by Paul Bauer and Yoonsoo Lee, both of the Federal Reserve Bank of Cleveland, titled "Labor Productivity Growth across States," published in Economic Commentary by the Cleveland Federal Reserve Bank in June 2005. Because of a lack of state level data, they measure labor productivity as output per worker rather than the more conventional output per hour measure. Nevertheless, several disturbing facts for Connecticut emerged from this study. From 1977 to 2000, Connecticut led the nation in labor productivity growth, averaging 2.8 percent per year. 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 1.47 percent, which lags the national average of 2.84 percent for the same period, putting Connecticut in the bottom 25 percent among the states. Why should we care about labor productivity? First, labor productivity growth is closely related to wage growth and hence the living standard. Second, a state with more productive labor is more competitive than states with lower labor productivity, all else equal.

As we enter 2006, the need for more rapid job growth is getting much attention in Connecticut. However, I have yet to hear anyone sounding a warning about labor productivity growth. Let me be the first to do so and let me emphasize the need to heed Connecticut's lagging labor productivity growth; otherwise, Connecticut's competitive edge will erode further.

Economic Cycle Research Institute, developed the leading and coincident employment indexes.

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. Professors Pami Dua and Stephen M. Miller, in cooperation with Anirvan Banerji at the

***** 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.