

# ECONOMIC DIGEST

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### In September...

#### Nonfarm Employment

Connecticut ..... 1,693,500  
 Change over month ..... -0.45%  
 Change over year ..... +1.6%

United States ..... 142,371,000  
 Change over month ..... +0.10%  
 Change over year ..... +2.0%

#### Unemployment Rate

Connecticut ..... 5.2%  
 United States ..... 5.1%

#### Consumer Price Index

United States ..... 237.945  
 Change over year ..... -0.0%

## Connecticut's so-called Misery Index falling as of late

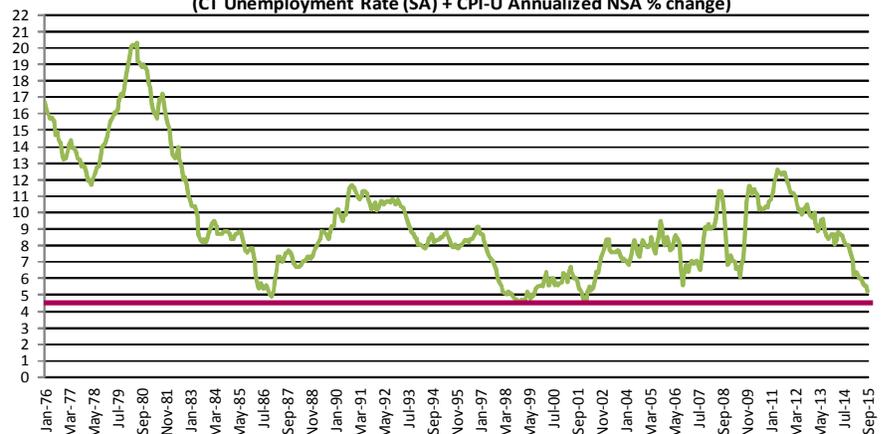
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**A** straightforward Misery Index was developed in the 1960's by Yale economist Arthur Okun,<sup>1</sup> who is primarily known for formulating Okun's Law – a perceived inverse relationship between a country's unemployment rate and its national output – gross domestic product (GDP). As a nation's unemployment rate declined, Okun's Law inferred that a country's gross product/output increased with some degree of regularity, and/or vice versa. This fundamental supposition of Okun's Law has held up pretty well over time. Okun's Misery Index, aptly an economic indicator that similarly is utilizing the unemployment rate (seasonally adjusted), is essentially the unemployment rate added to the annualized inflation rate (UR+CPI U annualized). These are two

statistics our federal/state cooperating partner, the US Bureau of Labor Statistics, produces on a monthly basis. The Office of Research shares in the development of the state's unemployment rate (Chart 1).

The basic premise of the Misery Index is that a declining unemployment rate, coupled with a slowly rising inflation rate (based on annualized percentage change of the consumer price inflation) or even falling prices - deflation, are two monthly measurable aspects of consumer distress that when put together can provide some sort of measure of changing consumer confidence or can be an indication of lessening of stress on the individual in the economy. In a macro, larger, sense, "it is assumed that both a higher rate of unemployment and a worsening of inflation create economic and social

Chart 1. Connecticut's Misery Index 1976 - Present  
 (CT Unemployment Rate (SA) + CPI-U Annualized NSA % change)



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costs for a country. A combination of rising inflation and more people out of work implies a deterioration in economic performance and a rise in the misery index.”<sup>2</sup>

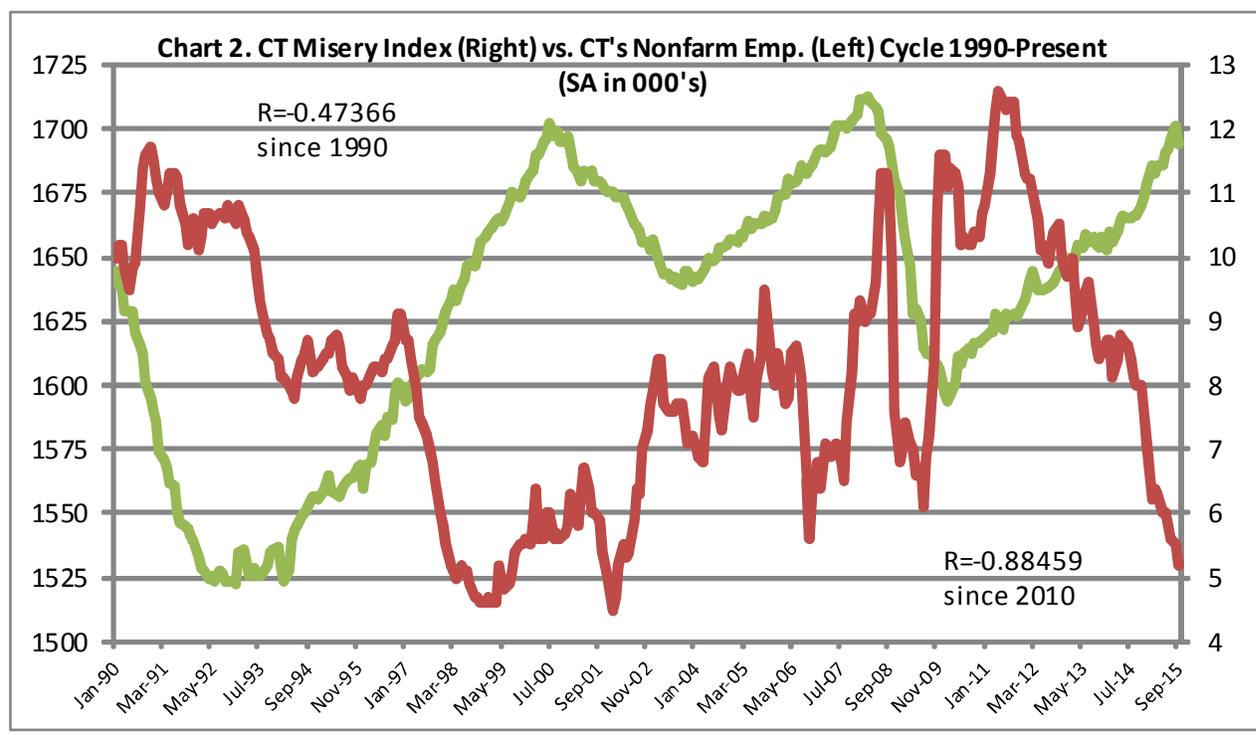
A Misery Index seems to be an appealing combination because it almost fully embodies the US Federal Reserve’s “dual mandate”, which is to maximize employment growth (the inverse of unemployment) within a context of stabilized prices to increase output over the long run. Often in the past, there were thought to be “trade-offs” concerning the unemployment rate and the inflation rate known by economists as the Philips Curve.<sup>3</sup> If the unemployment rate was decreasing, it was assumed that labor resources and other complementary inputs were being consumed at an increasing frequency, causing depletion of available labor and physical supply, which in turn caused competition for these resources, which then led to increasing prices (inflation) as these inputs got bid higher for immediate use. The two statistics were most often divergent, not corresponding.

However, recently in the on-going employment recovery from the Great Recession, *both* the unemployment rate and annualized growth of consumer prices (inflation) have been dropping steadily and significantly. Consumer inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, 12-month percentage change, not seasonally adjusted) has as recently as April 2015 even been negative (-0.2%, deflating), and now measures 0.0%, unchanged for September 2015. Since April 2015 in Connecticut, the unemployment rate has declined substantially from 6.2% to 5.2% for September 2015 (September 2015 is latest available for both as this went to publication). There seems to be no trade off yet this year as both statistics have been flat or declining since spring.

For an annualized inflation rate specific for Connecticut, we chose to use the most commonly used

monthly U.S. Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, 12-month percentage change, not seasonally adjusted). We also tried to incorporate the monthly NYC CPI-U annualized regional data into our charts for comparison as well for more of a regional feel that reflects more on Connecticut’s already higher levels of prices more than the nation as a whole. But this contributed no real percentage difference. Originally, we wanted to use both Boston and New York monthly CPI-U indexes (not seasonally adjusted 12-month percent change) by combining them and taking a monthly average for the annualized change best reflecting Connecticut inflation levels, but found the Boston CPI-U index is only available every other month. We also could have used the “core” inflation rate, which excludes food and energy components in the inflation measurement. But it is certain lower food and energy prices are important to consumer confidence and immediate well-being and should be included as they have been dropping substantially over the last year.

Some think the Misery Index was “designed to help determine how the average citizen is doing economically,”<sup>4</sup> because the everyday working person is heavily influenced by unemployment and the cost of living. Others have gone further and equated the inverse of this index to some form of a happiness measure which is undoubtedly limited, however. Another study found a strong correlation to the crime rate in which the Misery Index leads the crime rate by about a year.<sup>5</sup> One financial economics blogger, Dr. Ed Yardeni, has suggested a relation to bull and bear stock markets. He claims the Misery Index “tends to fall during bull markets and rise during bear markets.”<sup>6</sup> We find a more moderate simple inverse correlation (not causation) to the monthly close of the S&P 500 (R=-0.31931) than with Connecticut’s monthly nonfarm



employment/business cycle ( $R=-0.47366$ ) to Connecticut's Misery Index since 1990. Nevertheless, since January 2010, about when the Connecticut employment recovery started (2/2010), we find a pretty strong simple inverse correlation between the CT Misery Index and Connecticut's nonfarm employment ( $R=-.88459$ , seasonally adjusted) mainly because of the dropping unemployment rate (Chart 2).

**Deficits, deflation, demographics, globalization, and inequality - Misery loves company**

The recent swift drop in the Misery Index may still not be very soothing as of yet in this on-going employment recovery for Connecticut consumers and jobseekers. But at least in 2015, energy-related prices, which feed into many different aspects of domestic consumption, have really come down and should stay pretty low this winter. This has raised real wages. And the state's unemployment rate has come down fast as well from a late winter high of 6.4% in March 2015 to 5.2% for September 2015.

Despite all that, confidence, while improving, is very fragile especially as government tax collections are constrained from falling prices of revenue sources (deflation), which adds to the pressure for tax increases and a further weakening of confidence. Global oversupply issues, especially in petroleum; demographic shifts resulting in lower demand as people age, emerging countries exporting deflation in the face of a strong dollar, and the unequal distribution of income and capital gains are all contributing to the recognized unshakable gloom.

The falling and current low measures of the state's Misery Index are approaching previous levels where major economic reversals have happened in the past (below 5 on the Misery Index, it is 5.2 for September 2015). The all-time low on this CT Misery Index was 4.5 in January 2002, and the all-time high was June 1980 at 20.3. This implies, historically, a low and dropping unemployment rate has meant competition for available resources and qualified applicants, which in turn has resulted in cost pressures from both wages and consumer

goods, which has caused CPI inflation to rise. However with intensified globalization revealing massive oversupply and the very unconventional monetary policy from the US Federal Reserve (zero interest rate policy and quantitative easing) in this employment cycle, there does seem to be more room for the state's unemployment rate to fall further as aggregate cost pressures continue to be somewhat benign. After almost seven years, very low inflation has now left the Federal Reserve on hold, instead of raising interest rates in September. But for how long? ■

<sup>1</sup> Arthur M. Okun: The Concise Encyclopedia of Economics (<http://www.econlib.org/>)  
<sup>2</sup> Misery index (economics) – Wikipedia, the free encyclopedia (<http://wikipedia.org/>)  
<sup>3</sup> The Misery Index Economics Help (<http://www.economicshelp.org/>)  
<sup>4</sup> Misery Index InflationData.com (<http://inflationdata.com/>)  
<sup>5</sup> Misery index (economics) – Wikipedia, the free encyclopedia (<http://wikipedia.org/>)  
<sup>6</sup> Dr. Ed's Blog, Confidence Belies Middle class Distress Legend (excerpt) (<http://blog.yardeni.com/>)