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In November...

Nonfarm Employment

Connecticut	1,709,300
Change over month	+0.02%
Change over year	+0.56%

United States	159,288,000
Change over month	+0.14%
Change over year	+1.45%

Unemployment Rate

Connecticut	3.0%
United States	4.2%

Consumer Price Index

United States	315.493
Change over year	+2.7%

2025 Economic Outlook: Less of the Same

By Steven P. Lanza

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The Covid pandemic took the world, the country and the state on an economic rollercoaster ride: a precipitous decline in output and jobs veered into an equally stunning recovery of production and employment. While progress has decelerated since the years immediately following the pandemic, some growth is expected to continue in 2025 even as central banks keep a watchful eye on inflation.

The Global Economy

The International Monetary Fund (IMF) projects that global growth will hold steady at 3.2% in 2025 but that falls short of its 3.4% two-decade average. The IMF outlook hinges on several assumptions, including falling commodity prices and easier money. Oil prices are expected to drop from over \$80 per barrel in 2024 to about \$73 in 2025 thanks to strong non-OPEC supply growth, and food prices are expected to fall nearly 5% following an anticipated record-high global grain harvest. Except for Japan, where monetary policy remains exceptionally accommodative, the IMF also expects major central banks to continue to ease interest rates in 2025, although rates in the U.S. are anticipated to remain higher than in the Euro zone. Major economies are largely expected to exercise fiscal restraint in the new year.

As usual, however, the topline projection for global growth conceals a divergence between the emerging and developed worlds. The slower-growing advanced

economies, including the United States and Western Europe, are expected to average 1.8% GDP growth in 2025, a repeat of 2024's growth rate and essentially matching the 20-year average. In the faster-growing emerging markets and developing economies, growth is expected to ease slightly, from 4.4% in 2023 to 4.2% in both 2024 and 2025. These economies typically see growth rates closer to 5% annually.

Though the overall average growth rate in advanced economies is projected to hold steady, growth rates in individual countries are expected to show more convergence toward the mean. Canada and the U.S. are expected to lead the way with 2.4% and 2.2% real growth in 2025, respectively. For Canada, that is an improvement over the projected 1.3% increase in 2024 as lower interest rates boost interest-sensitive household consumption and residential investment alike. In the U.S., growth is down from a projected 2.7% in 2024 as a slowing jobs market keeps household consumption in check. Real growth in the Euro area is expected to rise to 1.2% in 2025, up from 0.8% in 2024 and 0.4% in 2023 thanks to improved export performance, rising wages that will fuel domestic consumption, and falling interest rates that should spur business investment.

While growth among emerging markets and developing economies will ease slightly in 2025, it will still outpace that of the advanced economies. Faster growth in Latin America, the Middle East, Central

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Asia, and Africa is expected to counterbalance a modest slowdown in emerging and developing Asia and Europe. Despite surprisingly strong exports in China, the ongoing slump in that country's real estate sector is expected to reduce growth from 4.8% in 2024 to 4.5% in 2025. And in India, where the post-pandemic surge in consumer spending is expected to have run its course, growth will edge down from 7.0% to 6.5%.

The U.S. Economy Outperforms Expectations

The U.S. economy, which likely grew at a 2.7% annual rate in 2024, significantly outperformed expectations as the consensus heading into the year was that real output would rise by only about 1.5%. Analysts are again predicting a slowdown in U.S. economic performance but are a bit more bullish than at the same time last year. The IMF's prediction of 2.2% real GDP growth for the U.S. in 2025 is not far off the mark of other forecasters. Analysts participating in the Federal Reserve Bank of Philadelphia's latest Survey of Professional Forecasters (SPF) concur with the IMF and expect U.S. growth to clock in at 2.2%. Goldman-Sachs has one of the more upbeat outlooks for the U.S., predicting 2.5% growth, but others are a bit less sanguine. Forecasters surveyed by the Wall Street Journal expect 1.9% growth in 2025 while the Conference Board anticipates growth of just 1.7%. Similarly, S&P Global (formerly IHS-Markit) calls for 2.0% growth in its baseline outlook while the Deloitte Global Economics Research Center sets its baseline at just 1.5%. Both forecasting groups bracket their outlooks with an optimistic and a pessimistic scenario. For S&P the range covers a fairly broad band of 2.9% to 0.4% growth. For Deloitte, the range is a quite narrow one of between 1.9% and 1.0%. Note, however, even the pessimistic scenarios keep growth in positive territory.

Household consumption accounts for 70% of U.S. GDP, and consumer spending which was surprisingly brisk in 2024 will

remain strong in 2025. Real consumer spending on goods and services rose by a projected 2.7% in 2024 and should, according to the S&P forecast, advance another 2.6% in 2025. Households have essentially exhausted the nearly \$2 trillion in extra savings they accumulated during the pandemic, so increased spending will require more borrowing, more income, or more of both. Continued easing by the Fed will lower interest rates and improve credit conditions allowing households to take on more debt. Meanwhile, income growth will support more out-of-pocket spending. Hourly compensation is expected to rise by 4.7% in 2025, compared with 4.0% in 2024, while CPI inflation is projected to fall from 2.9% in 2024 to 2.1% in 2025. And consumer sentiment is increasingly upbeat. After dropping by half during Covid and the immediate post-pandemic period, the University of Michigan's consumer sentiment index has been clawing its way back up, rising by 11% in both 2023 and 2024, a pace it is expected to maintain in 2025.

Business investment (net of housing) represents another 15% of U.S. GDP but it is a more volatile component of domestic output. Investment growth is expected to slow from 3.7% in 2024 to 2.1% in 2025 as spending on nonresidential structures flattens out. This investment sub-sector has been hobbled by high office vacancy rates in the post-Covid period, which have put a damper on commercial real estate construction. But nonresidential construction got a big boost in 2022 from the Inflation Reduction and CHIPS and Science Acts which created generous incentives to invest in electric vehicles, renewable energy, semiconductors and other cutting-edge technologies. The incentives led to an 11% jump in nonresidential structure investment in 2023 as businesses built new production facilities, but growth slowed to just 3.4% in 2024 and is projected to remain flat in 2025 as the initial surge from the legislation runs its course. New facilities require new equipment,

however, so investment in business equipment which increased by 3.7% in 2024 is expected rise by another 3.6% in 2025. Investment in intellectual property products—including entertainment, software, and research and development—is expected to slow a bit but remain positive. Covid placed a premium on the development of technologies to support remote work, and the advent of artificial intelligence will continue to support intellectual property investments.

New homes, perhaps the largest single purchase that households will make, are technically classified under investment spending. As a particularly interest-sensitive sector of the economy, the housing market has been chilled by high mortgage rates under the current tight-money environment. While falling rates will herald a thaw in the industry, real improvement may have to wait until after 2025 because lower interest rates take time to have their full effect, and aggressive rate cuts won't come until inflation subsides further. Housing starts have declined over the last several years and were down 5.0% in 2024 after dropping 8.4% in 2023. Starts may decline further in 2025, but according to S&P, only on the order of 1.0%. Meanwhile, the tight supply is contributing to rising home prices. In 2024 the average price of new homes rose 0.2% and existing home prices advanced 3.9%. The S&P forecast calls for price increases of 0.4% for new homes and 2.6% for existing homes in 2025.

The long-running U.S. trade deficit, currently less than 3% of GDP, belies the importance of trade to the nation's economy as the sum of U.S. exports and imports of goods and services represents nearly 25% of total output. Though the U.S. routinely runs a deficit in goods trade, it runs a surplus on the services side of the ledger. Exports of goods and services grew by 2.8% in 2023 and 3.5% in 2024. Meanwhile, imports dropped 1.2% in 2023 but then advanced 5.8% in 2024. Exports are expected to grow again in 2025, by 4.0%, while

imports are expected to rise by 5.3%. Net exports (exports less imports) added about a half point to U.S. GDP growth in 2023 but trimmed a similar amount off growth in 2024. Net exports are again expected to reduce GDP growth in 2025 by a half point or more. The real wild card is the effect of possible new tariffs on trade. Nominally, tariffs would reduce imports and improve the balance of trade. But if new tariffs lead to retaliatory measures by U.S. trading partners, our exports would suffer as would the trade balance. What's more, tariffs would increase the price of imported consumer goods and raise the cost of production for firms that rely on inputs from abroad.

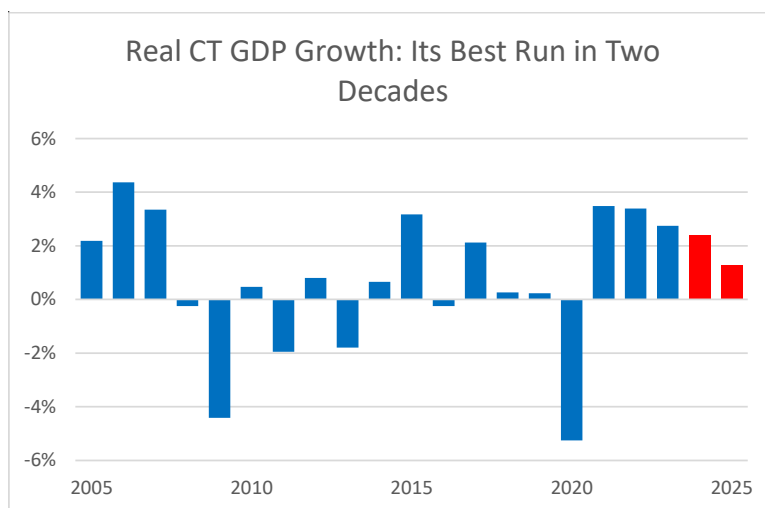
The Federal Reserve's two-year assault on rising prices has had its intended effect as the topline inflation number dropped while the labor market cooled considerably. Inflation hit a decades-high 9% in mid-2022, prompting the Fed to raise interest rates from nearly zero to between 5.25% and 5.50% over the course of 2022 and 2023. With annual price increases contained to between 2% and 3%, the Fed started lowering rates in September 2024. Though the prospect of higher tariffs has muddied the water, most forecasts anticipate that inflation will reach the Fed's 2% target in 2025. Until it does, the central bank is committed to pursuing a very measured pace of further rate reductions.

The cooling labor market has made the Fed's job a bit easier. Nonfarm job growth slowed from a

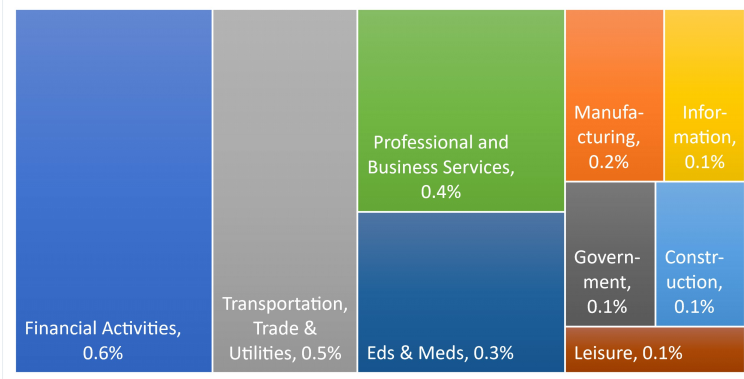
4.3% annual rate in 2022 to 2.3% in 2023 and 1.6% in 2024. The unemployment rate inched up too, from about 3.5% at the beginning of 2023 to over 4.0% at the end of 2024. And the ratio of job openings to unemployed workers fell from a high of 2:1 in early 2022 to about 1:1 in mid- to late-2024. These moderating labor market conditions have eased upward pressure on wages. The annual growth in average hourly earnings slowed from a high of nearly 6% in 2022 to about 4% in late 2024. And with annual worker productivity growth at 2% or more, wage costs are now rising at a rate consistent with the Fed's inflation target. The 2025 outlook calls for the cooldown to continue. IHS forecasts a further reduction in the rate of job growth, to 0.8%, and an increase in the unemployment rate to about 4.5%.

The Connecticut Economy

In Connecticut, state GDP has been markedly strong (chart below). The state's output of real goods and services, which has only grown at an average annual rate of 0.3% over the last 20 years, increased at a brisk 2.4% pace in 2024 according to S&P Global projections. And that follows 2.7% real growth in 2023, and 3.4% growth in 2022. Growing productivity is the driving force behind the output gain, as the 2.4% increase in real GDP reflects a 0.8% increase in employment and a 1.5% increase in output per worker. On a sectoral basis, financial activities made the greatest contribution to output growth,



Industry Contributions to 2024 Real CT GDP Growth



accounting for 0.6 points of the 2.4-point gain (chart above). The trade, transportation and utilities sector was close behind, adding another 0.5 points to output growth despite a 0.6% decrease in jobs, thanks entirely to a 4.0% increase in productivity.

For Connecticut, the more restrained national labor market has produced a similar slackening in state job gains. Annual job growth slowed from about 26,000 in 2023 to about 14,000 in 2024, or from a 1.6% rate of increase to 0.8%. Despite the slowdown, 2024 was a better-than-average year for job growth in Connecticut as the state typically adds about 10,000 positions annually (+0.6%) when it is on an upswing. The state even flirted briefly with crossing its 2008 pre-Great Recession high water mark before job growth sputtered later in the year, although analysts at the state Department of Labor suspect that post-Covid changes in the seasonal pattern of job gains may explain strong job growth in the first half of the year followed by a weaker second half. Nevertheless, the payroll count remains above its 2020 pre-pandemic peak.

As in 2023, the state added more jobs in education and health care on an annual average basis during 2024, about 11,000, than in any other major economic sector. The lion's share of those jobs, 8,500, were added in health care, the remaining 2,500 in education. Also in the mix: leisure and hospitality which gained about 2,700 jobs in 2024, mostly in accommodation and food services. Jobs in professional and business

services slipped by about 1,700 owing to cuts in administrative and support and waste management services. But jobs in professional, scientific and technical services and in the management of companies were up by a combined total of nearly 700. Financial activities also gained about 600 jobs. The big job loser was the state's retail trade sector, down about 3,000. Manufacturing lost barely 100 jobs as gains in durable goods production nearly offset losses in the nondurable goods subsector.

Even as job gains slowed, the unemployment rate hit a 23-year low of 3.0% late in 2024 signaling that workers remain in short supply. While there have been some fluctuations, the state's labor force participation rate has been in secular decline as the population ages. The labor force participation rate is the labor force as a percent of the population aged 16 and over with no upward cap. As more people have been living into their 80s, 90s, and beyond, the labor force participation rate has declined because those age groups are less likely to participate in the labor market. The number of job openings, though drifting lower, is again climbing relative to the number of jobless workers. Late in 2023 Connecticut employers were offering only as many jobs as there were people unemployed but in late 2024 openings once again outnumbered job seekers by a ratio of 5 to 4.

To attract and retain workers, employers have offered wage

increases that exceed the rate of inflation. On average, real wages increased by a projected 2.4% in 2024. With only isolated exceptions, real wages are up across all industries led by arts, entertainment and recreation which posted an 11.1% increase. Other top gainers included management of companies and enterprises (+7.1%), information (+4.2%), finance (+4.0%), construction (+3.8%), and manufacturing (+3.7%). Only in real estate, transportation and warehousing, and educational services did nominal wage increases fail to outpace the rate of inflation.

So, will Connecticut's jobs, wages and output continue to rise in 2025? The Fed has indicated it will keep a tighter rein on monetary policy than was expected just a few short months ago so the national slowdown will almost certainly extend into the new year. Given that Connecticut payrolls were flat in late 2024, the state would do well to add 5,000 jobs over the course of 2025—about half the number seen in a typical growth year. S&P Global concurs and is forecasting just 4,600 new jobs for the state. S&P also anticipates that inflation will cool to 2.3% in 2025, so its forecasted 3.9% average nominal wage increase for Connecticut workers would translate into a 1.6% real gain, down from 2.4% in 2024. S&P also projects a similar-sized deceleration in real state GDP from 2.4% in 2024 to 1.3% in 2025 which is still notably faster than the average growth rate over the past 20 years.

Expect health care to again be the big job gainer and retail trade the big job loser. S&P anticipates that Connecticut will see nearly 6,000 new health care jobs in 2025 but 3,000 fewer retail trade positions. (Yale Health's plan to convert the old Macy's store at the Meriden Mall into an outpatient center is a clear sign of the times.) Leisure and hospitality is positioned to add nearly 2,000 jobs in 2025, almost all of them in accommodation and food services. Financial activities will continue building back, too, but the anticipated 1000-job increase will be neutralized by a similar-sized

decrease in professional and business services jobs.

The labor force participation rate is expected to continue its descent, and the actual size of the labor pool is expected to shrink as older workers age out of the labor force. The limited availability of workers together with continued increases in productivity will provide the impetus behind additional wage increases in 2025. S&P forecasts a slight decline in real wage growth, from 2.4% in 2024 to 1.6% in 2025 with pay in key industries including information, financial activities, and professional and business services slated to rise by about that average rate. By contrast, wages in leisure and hospitality will barely keep pace with inflation, while manufacturing, which won't see much if any job growth, will nevertheless post an above-average

2.3% increase in real wages. Hiring in manufacturing has been offset by retirements leading to little top-line job growth even as an average of 3,000 Connecticut workers start a new manufacturing job each month. Productivity gains will enable real state GDP growth to outpace job growth and remain in positive territory. S&P's projection of a deceleration in output growth from 2.4% in 2024 to 1.3% in 2025 would place the state slightly below its average for the post-Cold War period, but considerably above the 0.3% annual pace it has managed over the last two decades. Together, information and financial activities are projected to account for more than half the state's GDP growth in 2025 while manufacturing along with transportation, trade and utilities, will make up nearly another third of the total.

Conclusion

Fortunately, the devastation left by Covid—both human and economic—is in the past, but so too is the heady rebound that marked the return to pre-pandemic levels of economic activity. The path ahead appears relatively unobstructed though the going may be a bit slower. For the world that means steady, albeit slightly below average output growth. For the U.S., too, output growth will be average to below average, but job growth will almost certainly fall short of the longer-term trend. For Connecticut, 2025 may bring slower job and GDP growth than we saw over the past few years. But for the Nutmeg State, nearly any measure of real GDP growth is positive news. ■

GENERAL ECONOMIC INDICATORS

<i>(Seasonally adjusted)</i>	3Q 2024	3Q 2023	YoY CHG NO. %		2Q 2024	QoQ CHG NO. %	
General Drift Indicator (2007=100)*							
Leading	113.9	111.2	2.7	2.5	111.9	2.0	1.76
Coincident	98.4	97.1	1.3	1.3	98.0	0.3	0.35
Real Gross Domestic Product** (Millions of chained 2017 dollars)	3Q 2024	3Q 2023	YoY CHG NO. %		2Q 2024	QoQ CHG NO. %	
Connecticut	295,295	287,214	8,081	2.8	293,087	2,209	0.8
United States	23,400,294	22,780,933	619,361	2.7	23,223,906	176,388	0.8
New England	1,207,363	1,172,217	35,147	3.0	1,198,786	8,577	0.7
Per Capita Personal Income** (Current \$, SAAR)	3Q 2024	3Q 2023	YoY CHG NO. %		2Q 2024	QoQ CHG NO. %	
Connecticut	94,754	90,298	4,456	4.9	94,159	595	0.6
United States	73,426	70,140	3,286	4.7	72,964	462	0.6
New England	88,924	84,651	4,273	5.0	88,446	478	0.5
Philadelphia Fed's Coincident Index (2007=100)***	Nov 2024	Nov 2023	YoY CHG NO. %		Oct 2024	MoM CHG NO. %	
Connecticut	132.82	126.97	5.85	4.6	132.64	0.17	0.1
United States	145.87	142.12	3.75	2.6	145.62	0.25	0.2

Sources: *Dr. Steven P. Lanza, University of Connecticut, <https://steven-landa.uconn.edu/the-connecticut-green-sheet/>
 U.S. Bureau of Economic Analysis *Federal Reserve Bank of Philadelphia

General Drift Indicators are composite measures of the four-quarter change in three coincident (Connecticut Manufacturing Production Index, nonfarm employment, and real personal income) and three leading (housing permits, manufacturing average weekly hours, and initial unemployment claims) economic variables, and are indexed so 2007 = 100.

The **Philadelphia Fed's Coincident Index** summarizes current economic condition by using four coincident variables: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).