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In November...

Nonfarm Employment
Connecticut..................... 1,679,900
Change over month .... +0.13%
Change over year .... +0.1%

United States 145,128,000
Change over month .... +0.12%
Change over year .... +1.6%

Unemployment Rate
Connecticut............................ 4.7%
United States 4.6%

Consumer Price Index
United States 241.353
Change over year .... +1.7%

The 2017 Economic Outlook

By Mark R. Prisloe, Associate Economist, (Mark.Prisloe@ct.gov), DECD

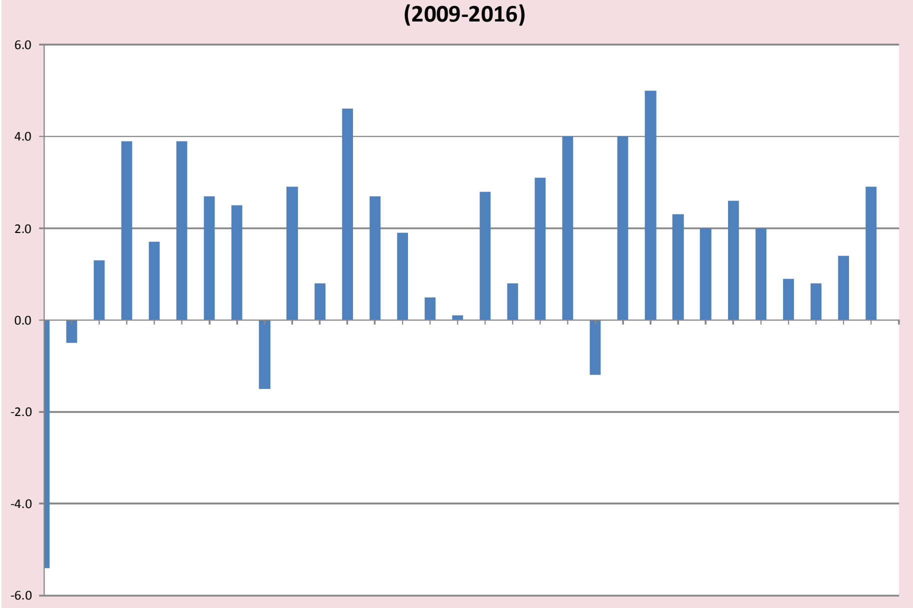
An analysis of recent data and trends indicates positive – albeit modest – growth in 2017 for the U.S. and Connecticut economies.

The Nation

The outlook for the U.S. economy in 2017 remains relatively optimistic based on technical data. The U.S. Gross Domestic Product (GDP), except for Q1-2011 and Q1-2014 (when it slipped 1.5% and 0.9%, respectively), has now grown for seven years since the "Great Recession" ended in Q2-2009. Real Gross Domestic Product (RGDP), or the constant dollar value of all goods and services produced by labor and capital located in the U.S., since Q2-2009 has averaged a 2.1% annual increase from the preceding quarter (Figure 1). After growing 2.5% in 2010, 1.6% in 2011, 2.2% in 2012, 1.7% in 2013, 2.4% in 2014, 2.6% in 2015, and an estimated 3.2% in Q3-2016, RGDP growth near 2.5% is likely in 2017.[1] Major economic forecasters, including HIS Global Insight, The Conference Board, and the OECD, forecast that U.S. Real GDP will grow between 2 to 2 1/2% in 2017.[2] Their outlook for 2016 was 3.4%, a little less than the previous year's forecast of 3.7%. The National Association of Business Economists (NABE) median 2017 outlook calls for 2.3% average annual growth.[3]

Total seasonally-adjusted nonfarm payroll employment since the end of the recession has increased by 13.9 million jobs (1.8 million through October 2016 alone), after averaging losses of 208,000 jobs a month in Q3-Q4

Figure 1: Quarterly Changes in U.S. Real GDP from Preceding Period (2009-2016)



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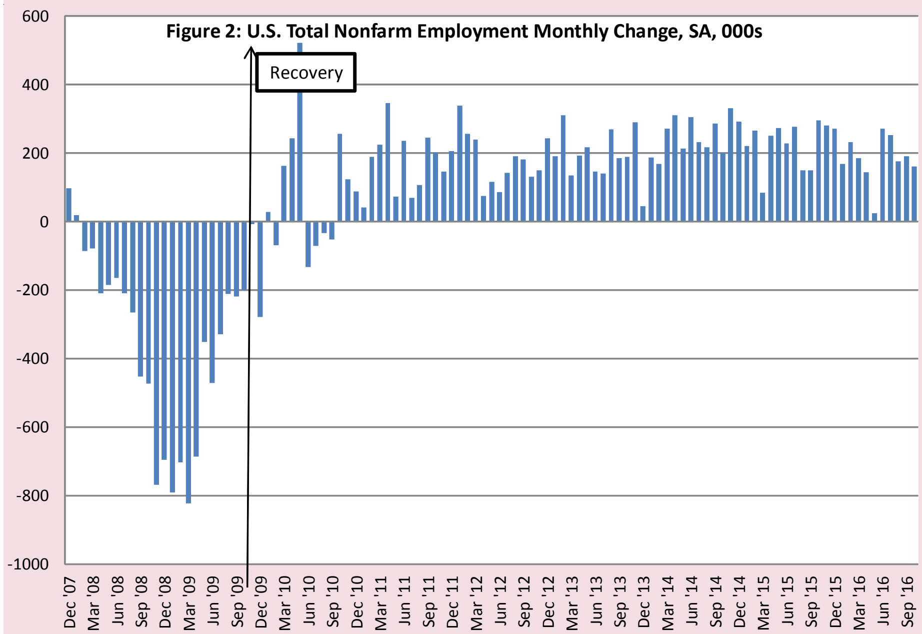


2009. Gains averaging 158,000 jobs a month have occurred since the recovery began through September 2016 (Figure 2). This improved job growth trend should continue in 2017. In 2016, the U.S. unemployment rate fell to 4.6% last November from 5.0% in November 2015— its lowest level in nine years. Further declines in the unemployment rate are likely in 2017. Disposable personal income in the United States reached an all-time high in September 2016.

The Conference Board Leading Economic Index™ (LEI) for the U.S. in 2016 posted mostly gains. Ataman Ozyildirim, Director at The Conference Board, said in November "Although its six-month growth rate has moderated, the index still suggests that the economy will continue expanding into early 2017."[5] The Conference Board said in November "The global economy has now entered its sixth year of stagnation, and the growth outlook for 2017 shows a continuation of this trend. A projected stabilization in energy and commodity prices may provide a small tailwind for resource rich economies in 2017. Modest positive signals emerge from the base scenario showing some strengthening in qualitative growth factors, such as more advanced technology, improved labor force skills, and greater productivity."[6]

Monetary Policy

The Federal Reserve Bank's Open Market Committee (FOMC), as in 2015, was expected to hike interest rates in 2016 to meet its dual mandate to promote: 1) maximum employment, and 2) price stability. Consequently, post-election, at its December meeting, the FOMC decided, after the December 2015 increase, to again raise the Federal Funds rate between ½ to ¾ percent. In its December statement the FOMC said, "The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a return to 2 percent inflation," adding, "The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate … likely to remain, for some time, below levels that are expected to prevail in the longer run."

U.S. Growth Prospects

U.S. growth prospects remain positive for several technical reasons: The Manufacturing ISM Report on Business® reported the 89th consecutive monthly expansion of the overall economy into November 2016, noting "Comments from the panel are largely positive citing a favorable economy and steady sales, with some exceptions."[7] October's PMI [Purchasing Managers Index] registered 51.9%, "an increase of 0.4 percentage point from the September reading of 51.5%."[8] A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting.

Consumer spending also saw gains with average monthly increases of .4% in 2016 through September, up from 0.3% from the same month in 2015.[9] The Thomson Reuters/University of Michigan Preliminary Index of Consumer Sentiment advanced to 91.6 in November 2016, its highest level since mid 2016 and "slightly above the 2016 average of 91.1."[10] The Conference Board Consumer Confidence Index® also achieved back-to-back nine-month gains to 103.5 in September 2016, but slipped to 98.6 in October. The Board's release noted "Overall, sentiment is that the economy will continue to expand in the near-term, but at a moderate pace." In November the Index stood at 107.1 (1985=100), up significantly from 100.8 in October.[11]

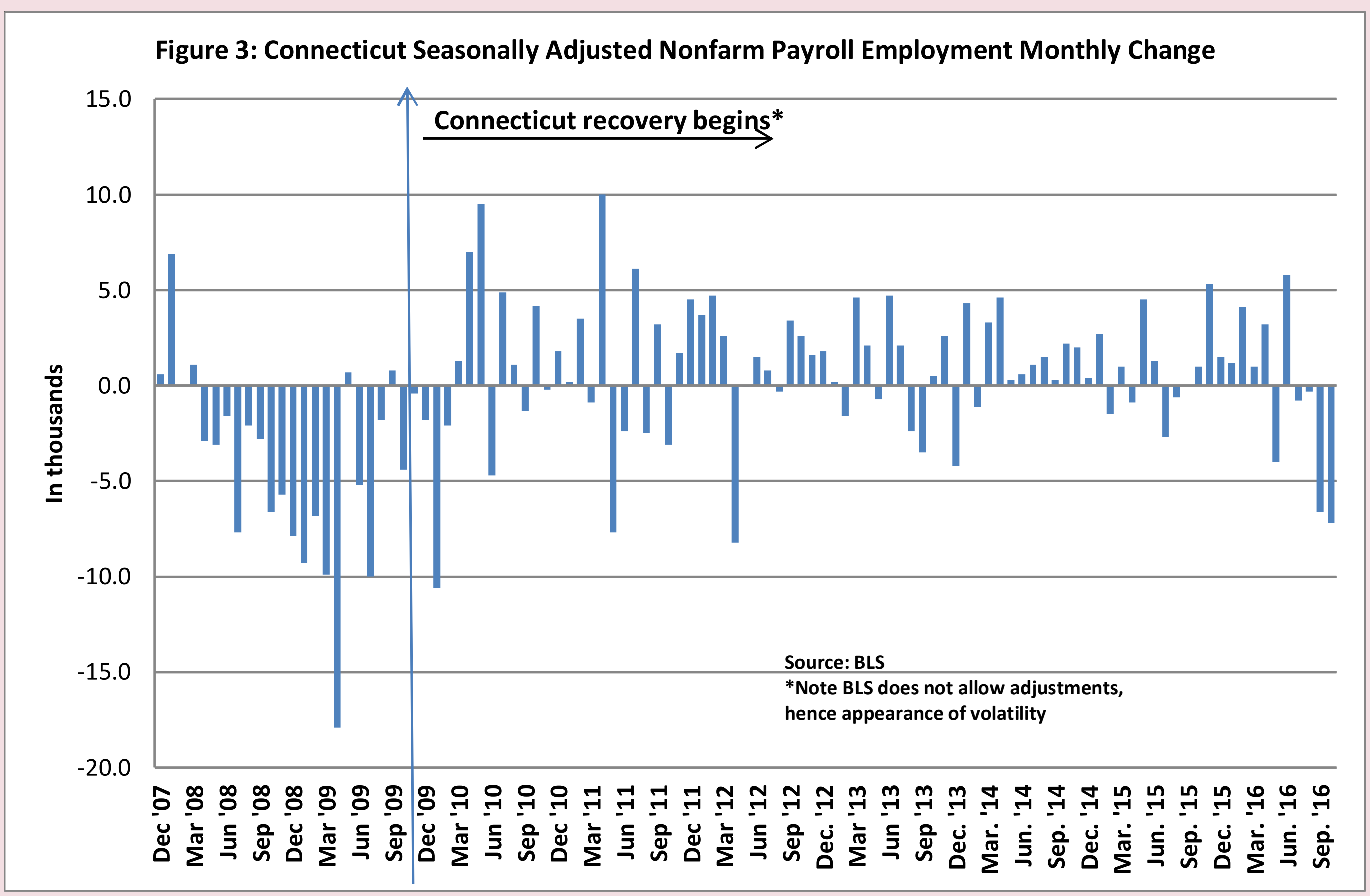
Real exports of U.S. goods and services decreased in Q1, Q2, and Q3-2016 by 5.8% and 4.6%, and 0.1%, respectively, from the previous year quarters, but the U.S. international trade deficit fell sharply year-to-date. Likewise, real nonresidential fixed investment (purchases of plant and equipment) gained 1.0% in Q2-2016 and 1.2% in Q3-2016, compared with a year ago.

New U.S. home sales surged 17.8% in October from 2015 and new housing units authorized by building permits were up 1.4% in October from 2015; meanwhile, U.S. median home sale prices rose 4.6% in the 12 months up to October. Likewise, construction spending during the first 9 months of 2016 amounted to $863.2 billion, 4.4% above the $826.8 billion for the same period in 2015, according to the U.S. Commerce Department.

U.S. retail sales in October were up 4.3% from the same month in 2015. There is also continued momentum in car sales, up 5.8% in October 2016 over 2015.[12] Moreover, September and October gains alone were the strongest two-month stretch for retail sales in two years. Meanwhile, U.S. inflation remains tame; however, Social Security recipients will receive a 0.3% increase in the Cost of Living Adjustment (COLA) in 2017.

Connecticut

Connecticut's economy should continue to experience modest growth in 2017. Connecticut's real state gross domestic product (SGDP), the broadest measure of the state's economic health, increased 0.6% in 2015[13] (the latest year available). This growth followed a 0.2% gain in 2012, a 0.4% decline in 2013, and a 1.2% gain in 2014. While we are still awaiting data for



all of 2016 we expect to see positive growth into 2017 based on the trend and 0.9% growth in Q1-2016. Connecticut personal income grew 1.6% in Q2-2015, seasonally adjusted at quarterly rates, increased by 0.9% in Q3-2015 and again in Q4-2015, but decreased 0.3% in Q1-2016, and gained again 1.1% in Q2-2016, all relative to the preceding quarters. The latter gain ranked Connecticut 20th for personal income growth among the states.[14] As forecasted by the Connecticut Department of Labor, personal income for Q1-2017 will increase by 3.6% from Q1-2016.[15] Increases in disposable personal income indicate stronger growth in consumer spending which can lead to additional gains throughout the economy.

The Connecticut recession from March 2008 through February 2010 saw the loss of 119,000 seasonally-adjusted nonfarm jobs (Figure 3). By late November 2016, jobs regained numbered 82,200 (69.0%), or 1,028 jobs per month since February 2010 when the recovery began. The private sector has recovered somewhat faster and has regained 94,200 (84.3%, 1,178 per month) of the 111,700 private jobs that were lost during the same period. The state's unemployment rate, after peaking at 9.2% in October 2010 declined to 5.1% in October 2016, an eight-year low. Seasonally adjusted average weekly initial claims for unemployment insurance peaked at 7,215 in March 2009, but declined to 3,126 (-42.8%) by September 2016. Connecticut's total nonfarm employment was up every month over the same month a year ago for the last six years.

The state's fiscal outlook was jeopardized, as evidenced by a FY '16 deficit of $170.4 million in late September 2016, addressed by a second consecutive year's reduction to the reserve ("rainy day" fund), leaving it at $235.6 million. During a May 2016 Special Session, a number of measures were passed that cut the then-estimated shortfall and introduced new reporting requirements. A newly revised budget for the fiscal year ending in 2017 was enacted. As noted in the "Connecticut State Budget: FY 17 Revisions" the Governor subsequently exercised his ability to veto certain line items within the budget. These actions increased the adopted balance from $0.2 million to $22.7 million. However, as was widely reported in November, rising fixed costs (debt payments, pensions, and health care) were behind an estimated $1.45 billion shortfall that the legislature will have to address for FY 2017-2018.

In November 2016, the state comptroller wrote that "his analysis of recent spending data indicates that the state is currently on track to end the [2017 Fiscal] year with a $42-million deficit." He added: "I am in general agreement with the [Office of Policy and Management] OPM revenue projections. However, it should be noted that estimated income tax payments are volatile and must be closely monitored for additional deterioration in the state's revenue outlook."[16] "Consensus Revenues" for FY 2017 were estimated to be $17,840.8 million.[17] The Connecticut legislature's Office of Fiscal Analysis (OFA) projects a $77.5 million deficit for FY 2017.[18]

The state's housing market recovery that began in 2012, slowed in 2014, but improved in 2015 and 2016. The U.S. Census-based residential permit data for the adjusted count of 104 towns reported monthly by the Department of Economic and Community Development (DECD) through October 2016 showed year-to-date gains of 3,696, not quite matching the 2015 gain for the same period of 4,388. However, the Census Bureau's estimate of permits year-to-date through September 2016 with values imputed for all 169 towns indicated a strong gain of 7.8 percent from 4,031 to 4,346 for the same period. Moreover, the 2016 housing review in the *Digest* indicated that after the housing market's best year in nearly a decade in 2015 "growth is likely to continue" in the years ahead.[19]

Initiatives

The Connecticut economy continued to benefit from an aggressive campaign to strengthen small businesses in recent years. The Small Business Express Program (EXP) provides loans and grants to Connecticut's small businesses to spur job creation and growth and now exceeds 1,600 clients. As of mid-November 2016, the state has assisted 1,640 companies with more than $260 million in loans and grants. With this much-needed capital, up to 6,616 jobs are expected to be created and 18,202 retained. Likewise, companies participating in the state's "First Five Plus" program have promised substantial growth in employment and capital investment in Connecticut. Through November 2016, fifteen business deals had been announced as part of the ongoing expansion program, which is expected to leverage nearly $1.3 billion in private investment. Among the fifteen companies — Cigna, ESPN, NBC, Alexion Pharmaceuticals, CareCentrix, Sustainable Building Systems LLC, Deloitte, Bridgewater Associates, Charter Communications, Navigators Group, Inc., Pitney Bowes, EDAC, Synchrony Bank, AQR Capital Management, and Henkel of America — up to 5,530 jobs were expected to be created and 14,204 retained. The Connecticut Manufacturing Innovation Fund (MIF) was infused with $60 million to support the growth, innovation and progress of Connecticut's advanced manufacturing sector statewide by encouraging collaboration in research and development efforts, providing vouchers to assist with business development and technical needs, and funding job training and educational programs that strengthen workforce skills. To date, approximately $25 million has been allocated and matched by $26 million of private investment in the areas of: Workforce and Training, Supplier Networks, Research and Innovation, Infrastructure/Site Development, Trade and International Development, Operational Improvement, and Capital Access. The Fund is administered by the DECD with the advice and counsel of an 11-member advisory board.

Conclusion

While there is reason for optimism in 2017, the U.S. economy –and indirectly Connecticut's-could be impacted by future Fed interest rate hikes, immigration reform, Eurozone debt, and China's growth prospects, as well as geopolitical risks to the global economy in the Middle East, Europe, and Japan. Britain's 2016 vote to exit the European Union is merely one example of such geopolitical risk. And while the presidential election has also cast perhaps more uncertainty into the outlook than usual this year, the technical fundamentals are reason for optimism. While long-term budgetary concerns remain, continued growth in total output as measured by the state's GSP, coupled with an ever-strengthening housing market in Connecticut should result in a positive economic outlook in 2017. ■

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[6] The Conference Board, "Bucking the Trend—Overcoming Uncertainty, Shocks, and Disruption with Qualitative Growth," November 2016. https://www.conference-board.org/data/globaloutlook/.

[7] October 2016 Manufacturing ISM® Report on Business ®, November 1, 2016. https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1.

[8] Note 7.

[9] BEA, "News Release: Personal Income and Outlays: September 2016," October 31, 2016.

[10] University of Michigan, "Surveys of Consumers: Preliminary Results for November 2016," http://www.sca.isr.umich.edu/.

[11] The Conference Board, Consumer Confidence Survey, "The Conference Board Consumer Confidence Index Rebounds Strongly in November," November 29, 2016. https://www.conference-board.org/data/consumerconfidence.cfm.

[12] Census Bureau, "Advance Monthly Sales for Retail and Food Services October 2015," Nov. 15, 2016 –CB16-187. http://www.census.gov/retail/marts/www/marts_current.pdf.

[13] BEA 16-28, News Release: GDP by State, "Information Industry Group Led Growth Across States in the Fourth Quarter." http://www.bea.gov/newsreleases/regional/gdp_state/2016/qgsp0616.htm, June 14, 2016.

[14] BEA, "News Release: State Personal Income: Second Quarter 2016." http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm. September 28, 2016.

[15] *The Connecticut Economic Digest*, Vol. 21, No. 11, November 2016, p. 6.

[16] Connecticut Office of the State Comptroller), Letter of Kevin Lembo to Governor Dannel P. Malloy, November 1, 2016. http://www.osc.ct.gov/public/news/releases/20161101.html.

[17] OPM, Letter of Benjamin Barnes and Neil Ayers, "State of Connecticut Consensus Revenue" Pursuant to Section 2-36c of the C.G.S for current FY 15-17 biennium and next three ensuing fiscal years, November 10, 2016.

[18] Connecticut General Assembly Office of Fiscal Analysis, "Fiscal Accountability Report FY 17 – FY 20," November 15, 2016, p. 1.

[19] Kolie Sun, "2015 State Housing Market: Permits Up, Prices fall," *The Connecticut Economic Digest*, Vol. 21, No. 7, July 2016, p. 5.

GENERAL ECONOMIC INDICATORS

(Seasonally adjusted)	3Q 2016	3Q 2015	CHANGE NO.	%	2Q 2016
General Drift Indicator (1996=100)*					
Leading	118.7	111.9	6.8	6.1	116.3
Coincident	118.0	116.5	1.5	1.3	117.7
Farmington Bank Business Barometer (1992=100)**	136.7	134.1	2.6	1.9	136.2
Philadelphia Fed's Coincident Index (July 1992=100)*** *(Seasonally adjusted)*	**Nov 2016**	**Nov 2015**			**Oct 2016**
Connecticut	170.13	164.50	5.63	3.4	169.37
United States	179.83	174.77	5.06	2.9	179.43

*Sources: *Dr. Steven P. Lanza, University of Connecticut **Farmington Bank ***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 1996 = 100.

The **Farmington Bank Business Barometer** is a measure of overall economic growth in the state of Connecticut that is derived from non-manufacturing employment, real disposable personal income, and manufacturing production.

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).