THE CONNECTICUT
ECONOMIC DIGEST

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JANUARY 2022

IN THIS ISSUE...

In November...

Nonfarm Employment
Connecticut 1,624,000
Change over month .... +0.35%
Change over year .... +3.10%

United States 148,611,000
Change over month .... +0.14%
Change over year .... +4.06%

Unemployment Rate
Connecticut 6.0%
United States 4.2%

Consumer Price Index
United States 277.948
Change over year .... +6.8%

2022 Economic Outlook: The Recovery Work Goes On

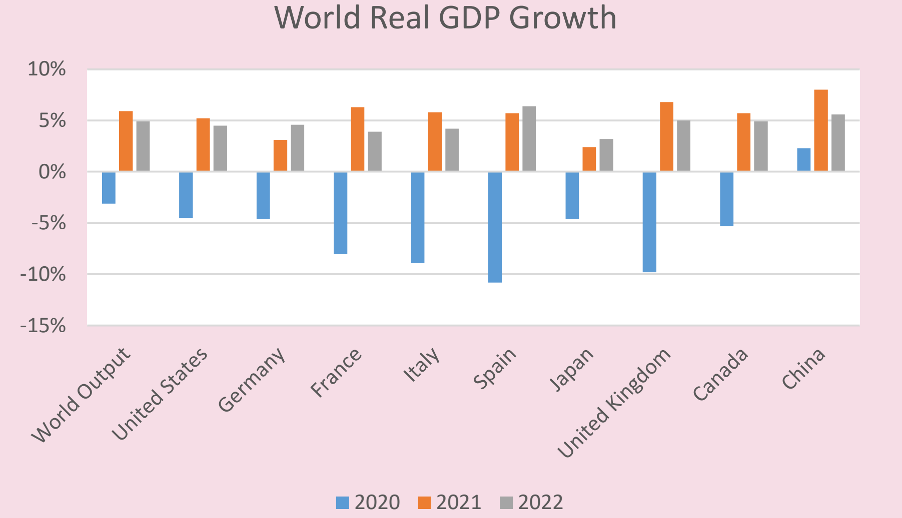
By Steven P. Lanza, Associate Professor-in-Residence, UConn Department of Economics

In 2021, the world, the country and the state of Connecticut continued to dig out from under the economic wreckage left by the Alpha wave of the Covid-19, even as they fended off emerging mutations of the virus. While production has largely returned to pre-pandemic levels, jobs have been slower to come back. The recovery efforts will carry on in 2022, despite the rise of new variants, the growing threat of inflation, and the hesitancy of would-be workers to fill job openings.

The Global Economy

Following a 3.1% drop in world output in 2020, the International Monetary Fund (IMF) projects that the ongoing recovery from the global coronavirus epidemic will have added 5.9% to the value of world output in 2021, boosting production above pre-pandemic levels. Assuming vaccines become widely available in emerging markets and fiscal and monetary policy support continues in the developed economies, output should expand by another 4.9% in 2022.

These topline projections mask a wide gulf between the emerging and developed worlds. For the advanced economies, including the United States and Western Europe, where GDP plunged by 4.5% during the pandemic, output is expected to grow by 4.9% in 2022—two and one-half times faster than the rate of trend output growth over the past 20 years. In emerging markets, however, where the toll of the pandemic was less severe (output fell just 2.1% in 2020)



Source: World Economic Outlook, International Monetary Fund, October 2021

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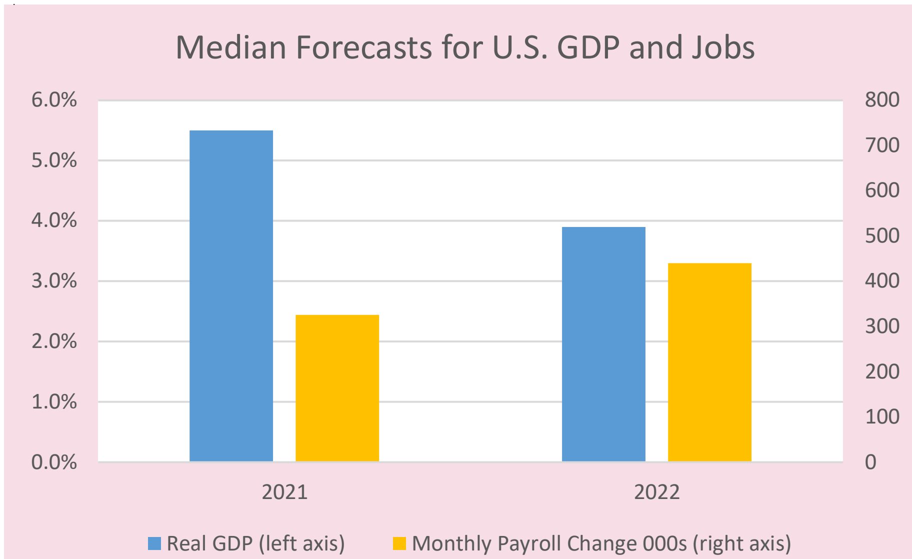
growth rates in 2022 are expected to reach 5.1%, but that is below the 5.4% 20-year average for this group of economies.

These diverging fortunes trace, in large part, to differences in vaccine access around the globe. According to the IMF, nearly 60% of the population in advanced economies is fully vaccinated (held back by vaccine hesitancy rather than supply problems) compared with about one-third in emerging markets and less than 5% in low-income countries, where vaccines are hard to find. Until vaccines are more widely distributed among the world's population, inequality in health and economic welfare won't improve. What's more, global healthcare inequality also threatens the economic prospects of the developed world as countries with low immunization levels will remain hotbeds of new coronavirus variants.

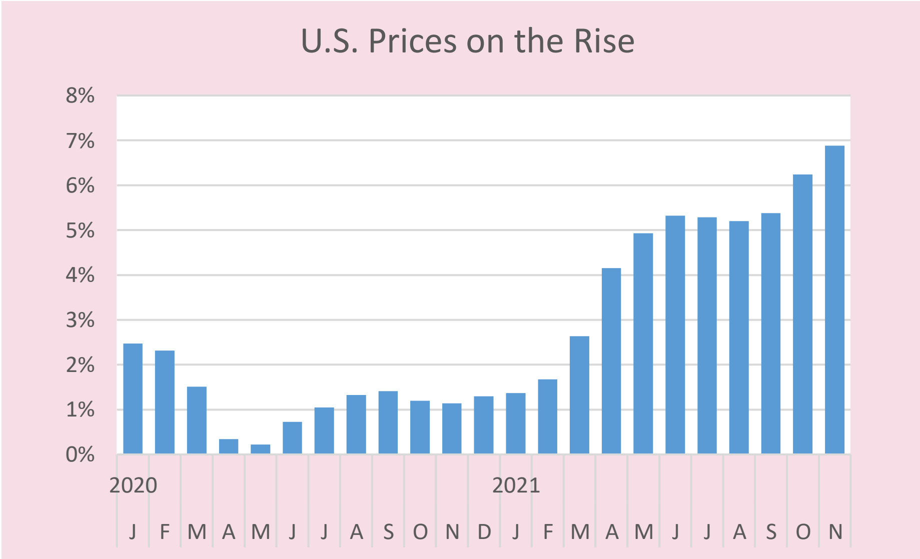
The IMF expects employment growth to lag output growth in 2022 for a host of now-familiar reasons. Where output is below potential, cyclical unemployment will persist; the ongoing shift to automation (which was only accelerated by the pandemic) is contributing to elevated structural unemployment levels; and the increased need to match jobless workers to new employers has raised frictional unemployment. Continuing health fears in occupations with high personal contact rates and reduced childcare resources may also be weighing on labor markets.

Employment and labor force participation remain below pre-pandemic levels everywhere, but that is especially true in emerging-market and developing economies. Those most affected have been young (aged 15 to 24), low-skilled, and (except in advanced economies) female workers. One silver lining: structural shifts and supply-demand mismatches are contributing to rising wages in some industries, particularly leisure and hospitality, transportation, and retailing where pay is traditionally sub-par.

But every silver lining has its dark cloud and, in this case, rising wages add to price pressures in an already inflationary environment. The recent jump in prices had its roots in supply disruptions early in the pandemic when businesses slashed orders and then suddenly redoubled them as the economy recovered. For a supply chain unaccustomed to such gyrations, the resulting kinks in the movement of inputs and final products to market have resulted in



Source: Research Department, Federal Reserve Bank of Philadelphia. Survey of Professional Forecasters,4Q 2021



widespread shortages, delays, and rising prices.

The U.S. Economy

The Federal Reserve Bank of Philadelphia's latest Survey of Professional Forecasters projects that the that U.S. economic output will have expanded by 5.5% in 2021 and will grow by an additional 3.9% in 2022. Both numbers are a bit less optimistic than those issued by the IMF which pegs the 2021 uptick in U.S. output at 6.0% and the 2022 advance at 5.2%. In both cases, however, U.S. GDP is expected to remain above its trend rate of growth. U.S. output has recovered to pre-pandemic levels although production does remain below potential.

As the U.S. economy recovered in 2021, inflation climbed to 4.2%, more than triple the 1.3% rate in 2020. The Philadelphia Fed's professional forecasters anticipate that inflation will moderate to 2.7% in 2022, presumably because they expect supply shortages to resolve themselves. That's slower than the IMF's forecast of a 4.3% rise in U.S. prices but it reflects a shared belief by both forecast groups that the recent bout of rising prices is only temporary and that it will not give way to unmoored price expectations going forward.

That line of thinking is drawing increased skepticism. The year-over-year advance in prices has accelerated each month in 2021 (see chart). And where price pressures were at first confined to sectors of the economy directly sidelined by the pandemic, such as new and used vehicles, now, inflation is heating up across the board, encompassing broad categories of consumer spending from energy to food and shelter. Federal Reserve Chair Jerome Powell is "retiring" references to transitory price increases at the same time that the Fed is set to rein in the extraordinary bond purchases that helped support the economy during the pandemic. So, while the outlook may see price pressures easing in 2022, the risks remain to the upside.

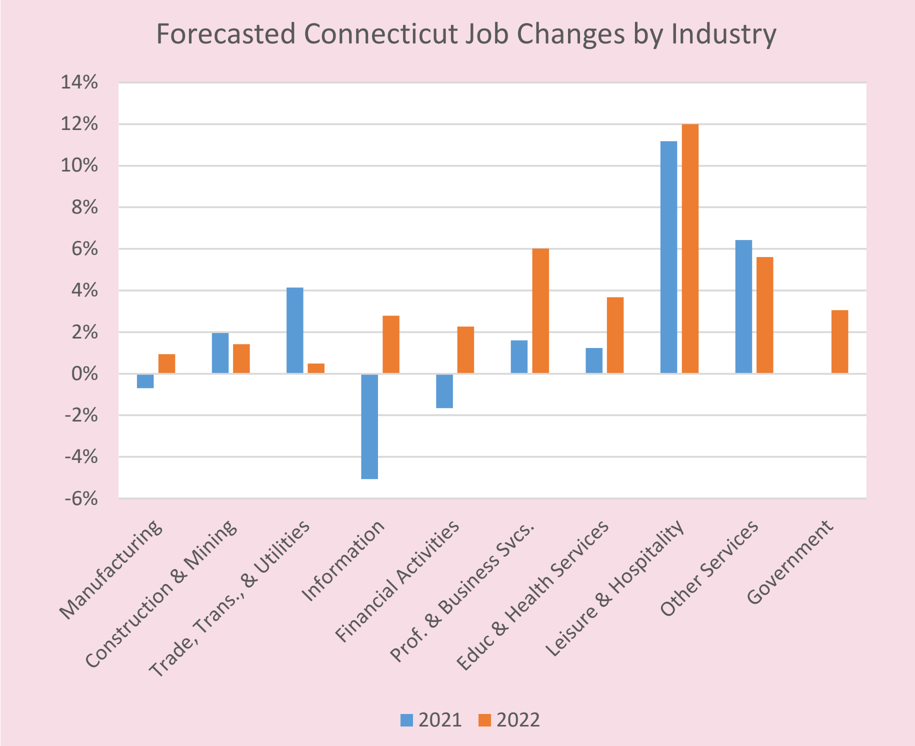
As for jobs, the consensus among U.S. forecasters in the Philly Fed survey is that payrolls will average 5.3 million higher in 2022 compared with a projected 3.9 million-job gain in 2021. IHS Markit (formerly Global Insight, a private economic forecasting group) also sees U.S. job gains accelerating in 2022, in their view by as many as 5.8 million posts. Gains of those magnitudes would return the U.S. economy to its pre-pandemic levels if not beyond in 2022.

Businesses expected to record the biggest surge in new jobs include those that have already led the way in renewed hiring. Expect bars, restaurants, and hotels to continue beefing up their staffs at near double-digit rates. Ballparks, theatres, museums, fitness centers and other recreational facilities should rebound even faster now that boosters are available and children are eligible for shots. The jobs recovery should spread to more prosaic corners of the economy, like professional and business services, as the country returns to business-as-usual. And the recent spike in energy prices should add fuel to the natural resources and mining sector that was hard-hit early in the pandemic when travel ground to a standstill.

Regionally, the best prospects for a return to pre-pandemic hiring levels lie in the South, where most states should recover their lost jobs in 2022. There, rising energy prices will help boost the economies of Texas, Oklahoma, and Louisiana while longstanding migration patterns from the snowbelt to the sunbelt will provide a continued backstop for growth in the region overall.

The Midwest and Northeast are more of a mixed bag. Great Lakes states have a high manufacturing footprint and are thus vulnerable to the kind of supply chain disruptions that will take time to resolve, so the return of jobs will likely extend into 2023. The Plains states' heavy reliance on agriculture and forestry, sectors that were largely shielded from the pandemic, should allow most to regain their lost jobs in 2022. The Northeast bore the brunt of the first wave of the pandemic and suffered some of the greatest losses in jobs and GDP. Accordingly, a full recovery will stretch into 2025 and beyond.

Like the Northeast, the West Coast is burdened by a high cost of living and, in California at least, an outmigration pattern that has been feeding population growth into the Pacific Northwest and Mountain states. Whereas California isn't expected to regain its lost jobs until 2023,



Arizona, Idaho and Utah already have, and population gains and a booming tech industry will return jobs to other Mountain states in the new year.

An added risk to the jobs recovery is the reluctance of workers to return to the workplace. Low wages, long hours, virus fears, and lack of childcare have many recalibrating their work-life balances with some opting out of the workforce altogether. While an aging workforce and the tendency for young workers to stay in school longer have contributed to a long, secular decline in labor force participation, that trend was accelerated by the pandemic. IHS Market projections foresee a return to pre-pandemic participation rates by 2024, but in the meantime, employers may routinely be managing short-staffed workforces.

Overall, the U.S. outlook remains bright. Although the Fed may begin to pull in the reins faster than earlier planned because of the specter of rising inflation, strong job demand should help to underpin consumer spending, assuming workers are willing to fill the openings. What's more, federal money from President Biden's infrastructure package should start to flow into the economy, giving it an added boost.

The Connecticut Economy

Connecticut's economy stumbled out of the gate in 2021 as the state battled a deadly winter wave of the coronavirus. Employers added fewer than 1,000 jobs in the first quarter, real GDP advanced just 1.8% on an annualized basis, and unemployment remained stuck above 8%. But as vaccines became widely available in the spring and COVID cases plummeted, the economy really hit its stride. Payrolls grew by over 11,000 in quarter two, nearly 19,000 in quarter three and could increase another 15,000 or more in quarter four if current trends continue. State GDP surged at an annualized 5.9% in the spring and the unemployment rate dropped to 6% by November (both numbers are the latest data available). Connecticut marked this progress even as it fought off the Delta variant of the virus in the fall—a testament to the efficacy of the vaccines and the state's public health efforts and a harbinger of continued improvement in 2022, particularly now that children have access to vaccines and adults are rolling up their sleeves for boosters.

IHS Market's economic projections allow for a sector-by-sector peek ahead at the prospects for Connecticut jobs in 2022 but their numbers are based on annual averages. On that basis Connecticut's payrolls are expected to have expanded by 32,000 jobs in 2021 and to surge upward by nearly 60,000 jobs in 2022.

Three-quarters of Connecticut's 2021 job gain was concentrated in leisure and hospitality (up 13,000, thanks primarily to reopened bars, restaurants, and hotels) and in transportation, retail trade and warehousing (up 12,700). IHS anticipates that leisure and hospitality will see similar growth in 2022 as Nutmeggers steadily return to their pre-pandemic habits. But the gains in transportation and warehousing will slow to a crawl and retail jobs could even head into reverse as brick-and-mortar stores are hobbled by a secular shift to online shopping that has only accelerated during the COVID era.

Instead, the locus of employment growth will shift to business services and to health care as the state's jobs recovery really picks up speed. Professional and business services (think law and accounting firms, holding companies, temporary help agencies and the like) which added barely 3,000 jobs in 2021 could expand by another 12,000 in 2022. Education and health service jobs grew by 4,000 in 2021 but that was mostly in the education field as face-to-face instruction resumed. The sector is expected to grow by 12,000 in 2022 but this time almost entirely due to openings in health care and social assistance.

But filling those openings, many of which require long hours at low wages, may not be easy. Connecticut saw an outsized drop in labor force participation as many workers quit their jobs during the pandemic's so-called Great Resignation. Coaxing them back may hinge on whether these were mostly Millennials and Gen Z workers unhappy with their jobs but who need the income or, in an older-population state like Connecticut, Baby Boomers with life savings who could afford to retire early. IHS Market optimistically projects a return to a pre-pandemic-sized workforce by 2023.

Maintaining the state's comparative advantage in financial activities and durable goods manufacturing (e.g., aerospace, shipbuilding) will also pose a challenge. Finance, in particular, accounts for just 7% of the state's jobs but 29% of its GDP. The two sectors continued to shed jobs in 2021 and while IHS anticipates a modest bounceback for both in 2022, the forecast group does not see much progress after that.

On a positive note, IHS does see brighter days ahead for state GDP. Connecticut GDP has been in a holding pattern since the 2008 recession, even as the economies of other states scaled new heights. Then in 2020 the pandemic sliced 6.2% from the real value of goods and services produced in Connecticut. With an estimated GDP growth rate of 4.3%, Connecticut made up much of that lost ground in 2021 and should recover the balance and then some in 2022 if real GDP expands at its expected 3.8%. With 2% annual growth in the years after that, the state would be on a path to renewed economic health with output in the information and professional and business service sectors leading the way.

Besides the state's aging workforce and struggle to maintain a critical mass in its high-wage, flagship manufacturing and financial services sectors, Connecticut will, like other states, face continued headwinds in 2022 from coronavirus variants and supply chain shortages. But as John Adams famously said, every problem is an opportunity in disguise so if supply bottlenecks trigger a nationwide movement toward more local sourcing, Connecticut businesses might just be the beneficiaries. ■

GENERAL ECONOMIC INDICATORS

	3Q	3Q	YoY CHG		2Q	QoQ CHG	
(Seasonally adjusted)	**2021**	**2020**	**NO.**	**%**	**2021**	**NO.**	**%**
General Drift Indicator (2007=100)*							
Leading	107.6	108.7	-1.1	-1.0	108.3	-0.7	-0.6
Coincident	92.3	90.0	2.3	2.6	92.7	-0.4	-0.4
Real Gross Domestic Product**	**1Q**	**1Q**	**YoY CHG**		**4Q**	**QoQ CHG**	
(2012 Chained $, SAAR)	**2021**	**2020**	**NO.**	**%**	**2020**	**NO.**	**%**
Connecticut ($ in millions)	250,538.8	248,334.4	2,204.4	0.9	246,890.2	3,648.6	1.5
United States ($ in millions)	19,086,375	19,010,848	75,527	0.4	18,794,426	291,949	1.6
New England ($ in millions)	986,394.8	982,275.4	4,119.4	0.4	970,578.9	15,815.9	1.6
Per Capita Personal Income**	**2Q**	**2Q**	**YoY CHG**		**1Q**	**QoQ CHG**	
(Current $, SAAR)	**2021**	**2020**	**NO.**	**%**	**2021**	**NO.**	**%**
Connecticut	81,848	80,134	1,714	2.1	85,474	-3,626	-4.2
United States	62,215	61,712	503	0.8	66,191	-3,976	-6.0
New England	75,916	76,112	-196	-0.3	79,736	-3,820	-4.8
Philadelphia Fed's Coincident Index (2007=100)***	**Nov**	**Nov**	**YoY CHG**		**Oct**	**MoM CHG**	
	2021	**2020**	**NO.**	**%**	**2021**	**NO.**	**%**
Connecticut	116.51	109.37	7.1	6.5	115.29	1.2	1.1
United States	131.39	124.27	7.1	5.7	130.83	0.6	0.4

*Sources: *Dr. Steven P. Lanza, University of Connecticut, https://steven-lanza.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).