THE CONNECTICUT
ECONOMIC DIGEST

Vol.29 No.1 A joint publication of Connecticut Department of Labor & Connecticut Department of Economic and Community Development

JANUARY 2024

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In November...

Nonfarm Employment

Connecticut 1,698,900
Change over month .... +0.03%
Change over year .... +1.45%

United States 157,087,000
Change over month .... +0.13%
Change over year .... +1.81%

Unemployment Rate

Connecticut 3.6%
United States 3.7%

Consumer Price Index

United States 307.051
Change over year .... +3.1%

2024 Economic Outlook: An Uncommonly Ordinary Year?

By Steven P. Lanza
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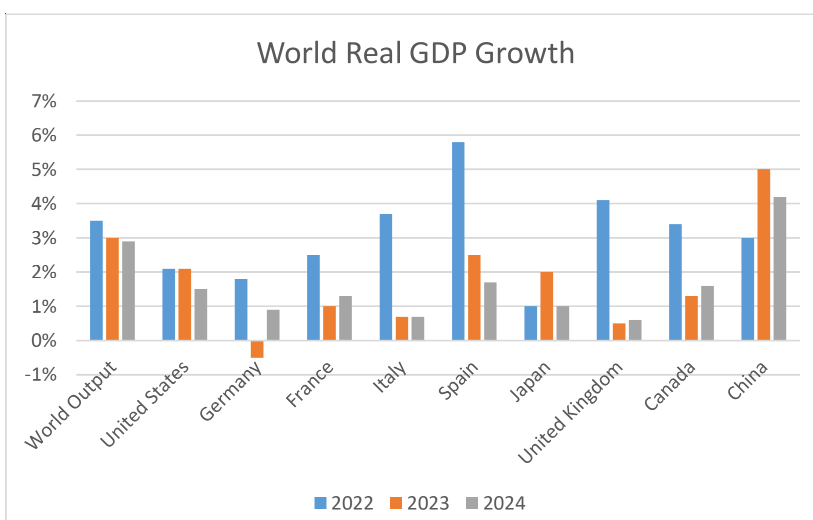
The past several years have witnessed some extraordinary economic events. In 2020, a once-in-a-century virus triggered a near-collapse of the world economy. In 2021 real output grew at a breakneck pace as populations gained immunity against Covid and went back to work. In 2022 living costs jumped higher than at any time in more than a generation. Then in 2023, against all odds, price pressures were brought to heel without the feared sacrifice of high unemployment and reduced output. Now, with inflation nearly tamed, monetary authorities set to reverse rate hikes, and output and job growth on course to track closer to historical trends, 2024 is shaping up to be an uncommonly ordinary year.

The Global Economy

Following a 3.5% rise in world output in 2022, the International Monetary Fund (IMF) projects that global growth will slow to 3.0% 2023, and to 2.9% in 2024, below the 20-year annual average of 3.8%. The IMF outlook hinges on the assumptions that fuel and nonfuel commodity prices will ease in response to the slowdown in world economic activity, interest rates will peak and begin to inch downward in 2024 as major central banks begin to reduce rates, and 2024 will be a year of “fiscal consolidation” in developed and emerging economies alike, with fiscal tightening expected to be greatest among those countries that saw the largest increases in government debt in response to the pandemic. The IMF characterizes its overall outlook as consistent with a much-desired “soft landing” wherein price levels continue to ease while a major economic downturn is averted.

Beneath these topline projections, however, lies a divergence between the emerging and developed worlds. For the advanced economies, including the United States and Western Europe,



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The Connecticut Economic Digest is published monthly by the Connecticut Department of Labor, Office of Research, and the Connecticut Department of Economic and Community Development. Its purpose is to regularly provide users with a comprehensive source for the most current, up-to-date data available on the workforce and economy of the state, within perspectives of the region and nation.

The annual subscription is $50. Send subscription requests to: ***The Connecticut Economic Digest***, Connecticut Department of Labor, Office of Research, 200 Folly Brook Boulevard, Wethersfield, CT 06109-1114. Make checks payable to the Connecticut Department of Labor. Back issues are $4 per copy. The Digest can be accessed free of charge from the DOL Web site. Articles from ***The Connecticut Economic Digest*** may be reprinted if the source is credited. Please send copies of the reprinted material to the Managing Editor. The views expressed by the authors are theirs alone and may not reflect those of the DOL or DECD.

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We would like to acknowledge the contributions of many DOL Research and DECD staff and Rob Damroth to the publication of the Digest.

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output is expected to slow from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024 (well below the 20-year annual average of more than 2%). In emerging markets and developing economies, growth is expected to largely hold steady, from 4.1% in 2022 to 4.0% in both 2023 and 2024. Even so, those rates of growth remain below the 20-year trend of over 5% annually.

Several developments are driving the anticipated slowdown in global activity. The sharp rebound from the Covid pandemic, where world output climbed by 6.3% in 2021, has moderated significantly. In advanced economies, especially in the U.S., households are exhausting the stockpile of savings they had accumulated during the pandemic, at a time when inflation has driven up the cost of living and central bank efforts to fend off higher prices through tighter monetary policy has reduced access to credit. The initial burst of post-pandemic globetrotting that buoyed tourist-dependent economies is also fading as travel activity returns to normal. And the shift toward more typical patterns of spending also means that factory activity has slowed as consumers spend less on tangible goods and more on intangible services and experiences.

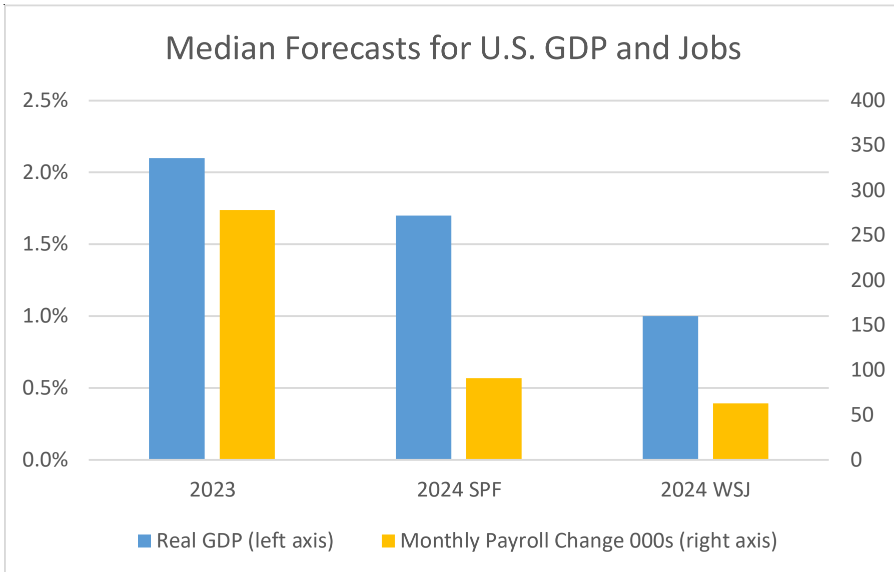
On a positive note, global headline inflation—far more of a problem on the world stage than in the U.S.—has been slashed in half from a peak of 11.6% in 2022-Q2 to 5.3% in 2023-Q2. The restoration of global supply chains is a big part of that story: shipping times and delivery costs have returned to their pre-pandemic norms. So too is the fall in global energy and food prices. The economic slowdown has quelled demand for energy while production cuts among OPEC and non-member oil-producing countries has been offset, in part at least, by a surprising surge in U.S. oil output. Higher borrowing costs have also slowed or even reversed the advance in home prices in major economies across the globe. Although wage-price spirals have not taken root, tight labor markets do continue to be a source of upward pressure on costs. A silver lining is that wage increases have been concentrated among low-income workers, producing an equitably desirable compression in wage levels.

Among advanced economies, the U.S. is projected to maintain its lead with 1.5% real growth in 2024, down from a projected 2.1% in 2023 (a number which does not factor in the surprising 5.2% GDP jump in 2023-Q3). In the Euro area, less insulated from the economic disruptions stemming from war in Ukraine, real growth is only anticipated to reach 1.2% in 2024, but that is up from a likely 0.7% increase in 2023. Germany is expected to reverse its 0.5% slump in 2023 and grow by 0.9%. France is predicted advance by 1.3% in 2024, a modest improvement over its projected 1.0% increase in 2023. For other major economies the outlook is not so bright: the UK's expected 0.6% growth in 2024 won't represent much improvement over 2023's 0.5%. And in Japan IMF projections call for a 2.0% increase in 2023, followed by just a 1.0% gain in 2024.

Among emerging markets and developing economies of note, China is still struggling under the weight of a real estate crisis that is choking off investment. And as foreign demand ebbs, China's industrial production and exports are flagging, youth unemployment has soared to over 20%, and consumer confidence has collapsed. Real growth in 2024 is expected to only reach 4.2%, not even half its average annual growth rate in the 15 years prior to Covid. In Russia, which has become increasingly dependent on China for trade in the face of international sanctions, growth appears to have rebounded from a 2.1% slump in 2022, the year it invaded Ukraine, to a 2.2% increase in 2023. But growth is expected to slow to just 1.0% as Russia depletes civilian resources to prosecute its continued aggression in the region. Meanwhile in Ukraine, where the Russian attack slashed output by nearly a third in 2022, GDP growth is expected to quicken from 2.0% in 2023 to 3.2% in 2024 as the economy adjusts to its wartime footing.

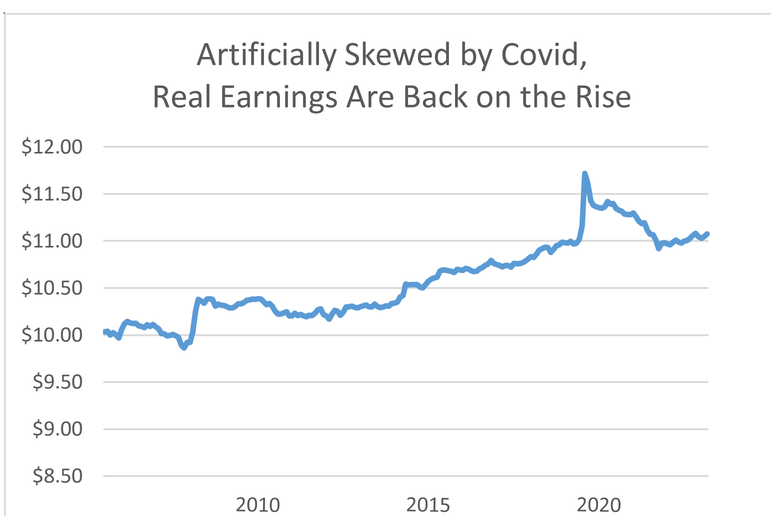
The U.S. Economy

The IMF's expectation of weakening real GDP growth—from a



projected 2.1% in 2023 to 1.5% in 2024—is fairly representative of professional assessments of the U.S. economy. S&P Global (formerly IHS-Markit) and Deloitte Insights share that same outlook, as their baseline scenarios call for 1.5% and 1.4% real GDP growth in 2024, respectively. But both bracket their forecasts with optimistic and pessimistic scenarios in which growth could rise as high as 2.0% (S&P) or fall as low as -1.0% (Deloitte). The Federal Reserve Bank of Philadelphia's latest Survey of Professional Forecasters (SPF) hews toward the optimistic view of U.S. prospects, projecting output growth of 1.7% in 2024, while the Wall Street Journal's (WSJ) survey of professional economists tacks pessimistic, as it expects real US GDP growth to barely reach 1.0%. And the Conference Board concurs, as it projects real year-over-year output growth in the U.S. to average just 0.9% in 2024.

The anticipated slowdown in economic activity in 2024 follows on the heels of the U.S. economy's surprisingly robust performance in 2023. After the Federal Reserve's aggressive assault on the fastest pace of inflation in nearly half a century, analysts expected any decline in inflation to be accompanied by a slump in output and jump in unemployment. And though the Fed raised the upper limit on the target Federal funds rate from 0.25% to 5.5% in nearly a dozen separate hikes between March of 2022 and August of 2023 the result was unexpectedly benign. Inflation, as hoped, has been largely tamed and remarkably quickly, dropping from its high of 8.9% in June 2022 to just 3.2% in November 2023, which was a common rate of price change as recently as the administration George W. Bush, though still above the Fed's 2.0% target. And while output did drop slightly in the first half of 2022, it has since grown at an annual rate of more than 2.0%, and in the latest third-quarter report for 2023 climbed by 5.2%. Meanwhile, the unemployment rate hasn't budged: it was 3.6% when the Fed began tightening its grip and was 3.7% in the latest data for November 2023.

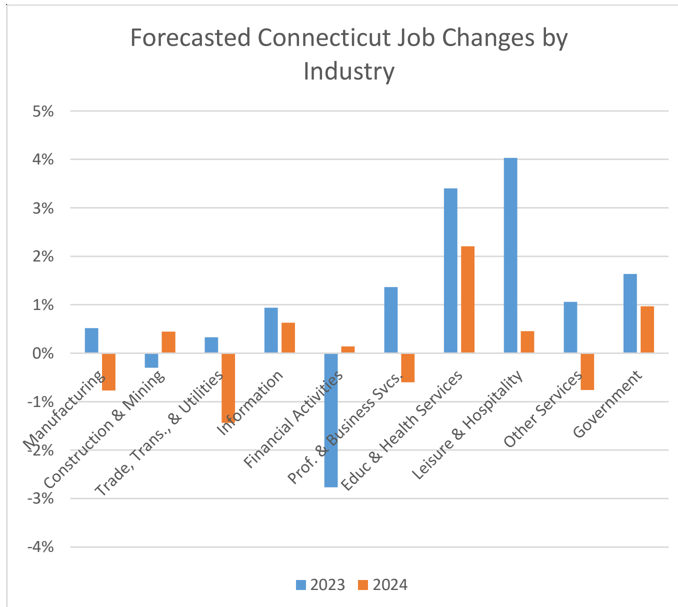


Despite the unexpectedly positive economic news, consumers are notably glum and paradoxically so according to some analysts. Take the OECD's composite indicator of consumer confidence for the U.S., for example. The monthly index which extends back to 1960 and is indexed to a normal value of 100, currently reads 97.5, up from its all-time low of 96.2 in June of 2022, but still at levels more commonly associated with major recessions. Yet hourly earnings have more than kept pace with inflation in 2023, and households spent at a record $15.5 billion real (2017 dollars) annual rate in October 2023, an increase of over 2% from a year ago.

So why the disconnect? Real hourly pay may be rising but it remains nearly 6% below its peak at the height of the pandemic. Still, average wage data was artificially inflated during the pandemic as low-wage workers were more likely to lose their jobs and bias the average pay number upward. What's more, pandemic disinflation allowed dollars to stretch farther than planned, at least in markets where goods could be found. Still, there is no doubt that the initial surge of inflation in 2022 took a real toll on household purchasing power as price increases outpaced earnings. More recently, it is spending growth that has outpaced earnings, and shoppers have drawn down their savings: household savings and time deposits are down nearly 12% from their peak in 2022-Q1. Plus, they have piled up credit card debt: consumer loans were up over 13% in 2023. So, from the perspective of American households, the economy looks like more of a mixed bag.

Since private consumption accounts for over two-thirds of gross domestic product, the outlook for U.S. households is a big driver of the overall macroeconomic forecast. The Fed has signaled that its cycle of tightening has ended, and that rate cuts are in the offing in 2024. Even so, rates will remain relatively high, and inflation may not be fully restrained before the end of the year. High borrowing costs, and for many student borrowers the resumption of loan payments, will continue to slow the growth of real consumption spending, which S&P Global predicts will shrink from 2.3% in 2023 to 1.9% in 2024. The highest mortgage rates in two decades will further sap the housing market, where new housing starts are expected to descend again from their recent high of 1.6 million in 2021 to 1.4 million in 2023 and to 1.3 million in 2024.

In light of the slowing growth in output, nonfarm payroll gains are expected to slacken considerably, from an average monthly increase of 278,000 in 2023 to as little as 63,000 (WSJ) or as much as 91,000 (Philly Fed) in 2024, with most of the new opportunities concentrated in health care and in government. The number of new jobs won't be sufficient to keep pace with expected labor force growth, which S&P Global projects to rise by 113,000 per month, so the jobless rate will likely inch up to as high as 4.3% from its average of 3.6% in 2023. But even at 4.3%, the unemployment rate would be comparable to the low levels reached in robust expansions of the 1990s and 2000s so labor markets will remain tight throughout 2024.



The Connecticut Economy

As the U.S. defied gravity in 2023, with above-average output growth and below-average unemployment despite an extraordinary 5-point surge in interest rates to combat inflation, the nation added lift to Connecticut's economy. Instead of losing jobs as feared, Connecticut grew its nonfarm payrolls at double the number typical in recent years of recovery or expansion.

Connecticut added over 20,000 jobs during 2023—half the blistering 40,000-job pace the state set in 2022, but still twice the 10,000-job gain it has seen in average growth years. Nonfarm jobs have returned to pre-pandemic levels and private sector employment in the state is at an all-time high. And according to the latest data, real state GDP in 2023 was running 1.8% above 2022 levels. That also represents a deceleration from 2022's 2.9% growth but stands well above the 0.5% average annual of the last ten years, and even a bit faster than the 1.4% average of the last thirty. The state added more jobs in health care and social assistance, over 8,000, than in any other major economic sector. Several other sectors essentially tied for second with more than 3,000 new jobs each, including: education; arts, entertainment, and recreation; and professional, scientific, and technical services.

Real wage growth has (mostly) accompanied the growth of jobs in the sectors that are hiring. S&P estimates that in 2023 real wages were up 3.6% in health care, 4.9% in education, and a whopping 20.8% in arts, entertainment, and recreation. Despite the uptick in new jobs, real wages in professional, scientific, and technical services slipped 1.4%. The labor market remains exceptionally tight with unemployment plummeting to a near-record low 3.5%. Following its post-Covid rebound, the state's labor force participation rate has sunk to its otherwise lowest level in nearly 50 years. With three openings for every two jobless workers, employers are finding it frustratingly difficult to fill vacant positions.

So, what's in store for 2024? There's barely a whisper of recession, though plenty of chatter that the Fed's past tightening will eventually bring the U.S. economy back down to Earth. Given the influence that national conditions have on state outcomes, that could translate into job losses for Connecticut, but the state's ongoing momentum and tight labor markets suggest instead that job growth will continue.

Expect the state to add around 10,000 jobs in the new year, a number more in line with long-run growth trends. The real challenge may be finding willing workers at a time when the state's labor force participation rate struggles to return to its pre-Covid norm. Connecticut real GDP growth will likely slow to between 1.0% under optimistic scenarios for the U.S. (discussed above), to no growth if a more pessimistic picture develops. S&P Global projects a smaller job gain for Connecticut in 2024, just 4,000, despite also forecasting a modest increase in the size of the labor force that would be able to fill those jobs and more. But its forecast for real state GDP growth, 0.5%, lies within a realistic range of possibilities.

Health-related industries will continue to lead the state's growth sectors and not just because the state's older demographic requires more medical services; Connecticut is also a leader in the booming health technology field. S&P projects 7,000 new jobs in this sector, a very modest slowdown from the estimated 8,000 gain in

2023. No other sector is projected to add jobs in such numbers. State and local government (which includes public education) is expected to post 2,000 new jobs in 2024 and arts, entertainment, and recreation just 1,000. The related accommodation and food services sector is predicted to lose over 300 jobs.

These latter numbers are particularly puzzling given S&P's projections for consumer spending. S&P forecasts a 1.1% overall increase in real expenditures in 2024 but faster spending increases on leisure and hospitality. Real recreation spending is forecasted to increase by 1.3% and food services and accommodation by 4.4%. If job growth in these sectors just matched the pace of real spending, that would add over 5,000 additional jobs to the base forecast, bringing the total up to about 10,000. Unfortunately, there's little sign of a reversal in the secular decline of the state's flagship financial services industry. The sector lost about 3,000 jobs in 2023 and real output dropped by a projected 4.1%. The new year may bring a pause in the industry's retreat as S&P projects that both jobs and output will hold steady in 2024. A similar erosion in manufacturing jobs has recently abated thanks to a resurgence in factory work and, importantly for Connecticut, federal defense contract dollars. Those dollars largely fund work in the transportation equipment subsector of manufacturing, the only such subsector that S&P anticipates will add jobs in 2024, though by only 400 or so, while the overall manufacturing sector sheds 1,000 positions. Once again, the absence of job growth may reflect more the shortage of qualified workers rather than the lack of available positions. Even amid job losses, productivity gains will allow forecasted real manufacturing output to essentially hold steady.

Conclusion

An outlook that calls for a return to "business as usual" for Connecticut, the country, and the globe, may not match the drama of the last several years, but as air travelers everywhere know, a "soft landing" is nothing to sneeze at. By definition, forecasts cannot predict the unpredictable and it is often the unforeseen event—a financial crisis, a technological breakthrough—that drives the actual state of economic affairs. There are indeed both downside and upside risks to the forecast, but as it stands now, the emerging trends suggest that the economy of 2024 will look less like the recent past and more like the slower, if not steadier, days of old.■

GENERAL ECONOMIC INDICATORS

(Seasonally adjusted)	3Q 2023	3Q 2022	YoY CHG NO.	YoY CHG %	2Q 2023	QoQ CHG NO.	QoQ CHG %
General Drift Indicator (2007=100)*							
Leading	111.9	111.8	0.2	0.2	111.4	0.5	0.48
Coincident	96.3	95.8	0.5	0.5	95.8	0.5	0.51
Real Gross Domestic Product**	**3Q**	**3Q**	**YoY CHG**		**2Q**	**QoQ CHG**	
(Millions of chained 2017 dollars)	**2023**	**2022**	**NO.**	**%**	**2023**	**NO.**	**%**
Connecticut	283,694	276,425	7,269	2.6	280,440	3,255	1.2
United States	22,490,692	21,851,134	639,558	2.9	22,225,350	265,342	1.2
New England	1,166,374	1,135,942	30,432	2.7	1,153,162	13,211	1.1
Per Capita Personal Income**	**3Q**	**3Q**	**YoY CHG**		**2Q**	**QoQ CHG**	
(Current $, SAAR)	**2023**	**2022**	**NO.**	**%**	**2023**	**NO.**	**%**
Connecticut	87,372	83,537	3,835	4.6	86,606	766	0.9
United States	68,717	65,944	2,773	4.2	68,233	484	0.7
New England	82,387	78,772	3,615	4.6	81,711	676	0.8
Philadelphia Fed's Coincident Index (2007=100)***	**Nov**	**Nov**	**YoY CHG**		**Oct**	**MoM CHG**	
	2023	**2022**	**NO.**	**%**	**2023**	**NO.**	**%**
Connecticut	125.61	121.82	3.79	3.1	125.66	-0.05	0.0
United States	139.81	135.78	4.03	3.0	139.38	0.44	0.3

*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).