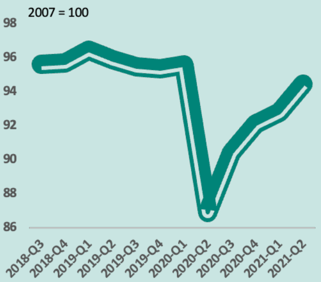
From the Desk of Dr. Steven P. Lanza

THE Green Sheet CONNECTICUT

SUMMER 2021

Coincident Indicator Accelerates Upward

Moving Closer to Pre-Pandemic Levels



Connecticut's recovery from the COVID-19 recession got back on track in the second quarter of the year, following a lackluster first quarter performance according to the General Drift Indicator (GDI), a composite measure of current economic activity.

The GDI advanced 1.8% in 2021-Q2 after a slim 0.8% gain in 2021-Q1. The GDI had plunged more than 9% during the COVID shutdown in 2020-Q2 before rebounding by 4% in 2020-Q3 as the economy began to reopen, and then by 1.9% in 2020-Q4.

Once again, the GDI owes the lion's share of its progress to the Connecticut Manufacturing Production Index (CMPI) which surged 6.2% in the quarter.

Non-farm jobs grew by 0.8% in 2021-Q2 and real personal income less transfer payments is projected to match that pace. As measured by the GDI, current economic activity has recovered to within 1.2% of its pre-pandemic level.

Separately, several indicators of future economic activity suggest that the recovery is poised to continue. Initial unemployment claims dropped to pre-pandemic levels while employers added nearly one-quarter of an hour to the manufacturing workweek, both good omens for the future health of state labor markets.

Meanwhile, new housing permits climbed 34%, reflecting the housing boomlet the state is currently enjoying.

Jobs Set to Surge Again, Then Post More Moderate Gains

Based on expectations for future U.S. economic growth and the internal dynamics of Connecticut's labor market, the state could gain nearly 25,000 jobs in 2021-Q3.

The state added 12,300 jobs in 2021-Q2, just shy of the *Green Sheet* forecast of 13,000 jobs for the quarter. Job growth had slowed to a crawl in 2021-Q1 as Connecticut battled through the third wave of the coronavirus.

The current forecast anticipates a brief return to a rate of job growth that the state last saw in 2020-Q4 when Connecticut recovered nearly 27,000 of the 248,000 jobs lost during the pandemic shutdown.

For the balance of the forecast period, which extends to 2022-Q2, the state will likely return to a more modest pace of increase of about 13,000 per quarter.

The economy's rebound in 2021-Q2 traces to the widespread distribution of COVID vaccines, the reopening of brick and mortar businesses, and the continued flow of federal relief dollars.

But the risks to the forecast are substantial. A significant minority of the population remains hostile to vaccines, keeping the goal of "herd immunity" out of reach. The now-dominant delta variant of the virus poses a renewed threat, even to those inoculated against the virus. And the feds are tightening the spigot on pandemic support.