From the Desk of Dr. Steven P. Lanza

THE Green Sheet CONNECTICUT

FALL 2021

Coincident Indicator Loses Ground, And Will Struggle to Regain Its Footing

The General Drift Indicator (GDI) posted a shallow retreat in 2021-Q3, as a resurgent summer virus variant together with kinks in the supply chain erased a bit of the recent progress that this composite measure of economic activity has made.

The GDI dipped 0.4% in 2021-Q3 following a revised 0.9% increase in 2021-Q2. The GDI has been climbing back from an 8.9% fall in the first half of 2020 as the pandemic forced the shutdown of huge swaths of the economy. Currently, the GDI stands 2.4% below its pre-Covid index level.

Quarter three's drop in the GDI traces to the Connecticut Manufacturing Production Index (CMPI), which had roared back to life in 2021-Q2. But as producers strained to find supplies and workers in 2021-Q3, the CMPI plunged 5.5%.

The two other index components fared much better. Nonfarm jobs jumped 1.2% for the biggest increase of the year, while real personal income (net of transfer payments) is projected to have edged up 0.4%. Even before the pandemic, the growth in income had jockeyed to outpace the rise in prices.

Two other forward-looking indicators of economic activity are raising red flags. Following the drop in manufacturing output, average weekly factory hours dipped 0.6%. And despite the state's tight housing market, permits for new homes dropped 40.7%, perhaps reflecting an ongoing dearth of building material and construction workers.

Jobs Surge Despite Headwinds, More Growth is in the Cards

Connecticut employers may be prepared to add another 12,000 jobs to their payrolls in 2021-Q4, based on the current U.S. economic outlook and recent trends in the state's labor market. Such a performance would extend a string of remarkable post-pandemic job gains in a state that typically adds jobs at less than half that rate.

Despite supply chain logjams and the surge of the Covid Delta variant, Connecticut posted an 18,400-job gain in 2021-Q3. Absent those headwinds, the state would likely have met the *Green Sheet* forecast of 25,000 new jobs for the quarter.

The latest forecast calls for a fairly steady 12,000-job increase over each of the next several quarters before growth cools to a more traditional 5,000-job pace by 2022-Q3.

Going forward, the virus should pose less of a challenge to the economy as the Delta wave recedes and consumers resume their more characteristic patronage of bars, restaurants, and hotels.

But supply-chain problems are more likely to linger into quarter four and the year beyond. Shoppers may be eager to ramp up spending over the holidays, but continuing shortages will leave them facing empty shelves, fewer choices, and higher prices. And when the supply issues are eventually resolved, the burden of luring workers back to the labor force will remain.