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### In December...

#### Nonfarm Employment

Connecticut ..... 1,713,900  
 Change over month ..... -0.03%  
 Change over year ..... -0.13%

United States ..... 159,526,000  
 Change over month ..... +0.03%  
 Change over year ..... +0.37%

#### Unemployment Rate

Connecticut ..... 4.2%  
 United States ..... 4.4%

#### Consumer Price Index

United States ..... 324.054  
 Change over year ..... +2.7%

## 2026 Economic Outlook: Resilience in the Face of Adversity

By Steven P. Lanza

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**G**lobal economic developments in 2025—and the outlook for 2026—have been shaped by rising trade restrictions, policy uncertainty, volatile energy markets and a cooling labor market, particularly in the United States. Yet despite these headwinds, the global economy has shown notable resilience. Growth has slowed but remains positive, inflation has moderated from its recent peaks, and no major forecasting group anticipates a broad-based recession in 2026. What follows is a survey of the global, national, and Connecticut economies as they navigate this period of adjustment.

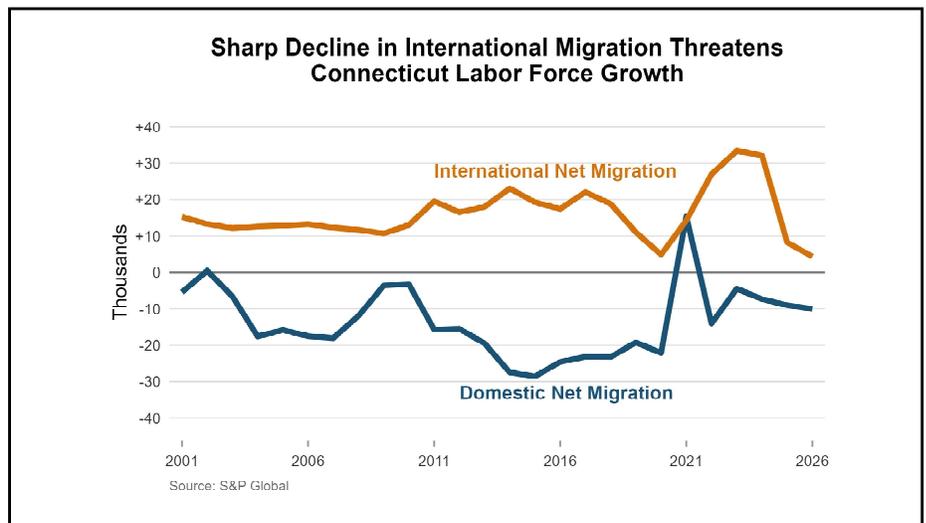
#### The Global Economy

Global economic developments in 2025—and the

outlook for 2026—have been dominated by increased trade restrictions originating in the United States. Despite the adversity, the consensus outlook calls for stable global economic growth in 2026 in the range of 2.9% to 3.3%. This pace is below the long-term average of roughly 3.5% to 4.0%, but it remains strong enough to avoid a global recession.

The International Monetary Fund (IMF) projects global growth of 3.3% in 2026, while the Organization for Economic Cooperation and Development (OECD) offers a slightly less optimistic forecast of 2.9%.

Both organizations note the surprising resilience of the global economy in 2025 despite substantial headwinds. Trade tensions intensified over the course of the year, exacerbated



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by the U.S. abandonment of decades-long trade agreements and the imposition of elevated tariff rates. Adding to policy uncertainty were new immigration restrictions, led by the U.S. crackdown at its southern border and in major cities and mirrored by tighter migration rules across the European Union. The attack on Iran by the U.S. and Israel added to the uncertainty in early 2026.

In response to U.S. tariffs, many businesses front-loaded import orders ahead of tariff deadlines, cushioning the near-term economic impact. Firms also sought to preserve market share by absorbing some tariff costs through narrower profit margins. In advanced economies, investment in new technologies—particularly artificial intelligence (AI)—provided additional support, offsetting some of the drag from restrictive trade policies.

The outlook, however, points to slower growth as these temporary adjustments give way to more durable responses. As inventories are drawn down and firms find it increasingly difficult to absorb higher input costs, price increases are expected to feed through to the broader economy, weighing on both consumption and output.

In the United States—the primary source of the new tariffs—growth slowed from 2.8% in 2024 to 2.2% in 2025 and could decelerate further to as little as 1.7% in 2026. The rest of the world will feel the drag as well. Lower exports are projected to slow growth in the euro area from roughly 1.3–1.4% in 2025 to 1.2–1.3% in 2026. In China, which benefited from a surge in front-loaded trade volumes in early 2025, growth is expected to decline from 5.0% in 2025 to about 4.5% in 2026.

The inflation outlook is more mixed. In the United States, higher import prices and potentially energy costs are

expected to add to inflation through cost-push supply effects. For tariff-affected trading partners, by contrast, weaker export demand is likely to restrain price pressures through reduced aggregate expenditure.

Both the IMF and OECD assess global risks as tilted to the downside. Additional trade restrictions could further disrupt supply chains, reduce global output, and exacerbate policy uncertainty. Moreover, optimism surrounding AI could fade, potentially weighing on elevated equity valuations.

At the same time, there are upside risks. Frustration with the current chaotic trade environment could prompt landmark agreements that restore greater predictability to the global trading system. AI-driven productivity gains could ultimately prove large enough to more than offset any associated employment losses, although this could take longer than one year.

### **The U.S. Economy**

The U.S. economy slowed in 2025 from its 2.8% real rate of growth in 2024 to 2.2%, according to the latest Commerce Department figures. The consensus among analysts calls for continued growth, if a somewhat less resilient performance in 2026.

The OECD and IMF assessments for U.S. GDP growth in 2026—1.7% and 2.4%, respectively—essentially bracket the range of domestic forecasts. S&P Global and the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters (SPF) align more closely with the OECD's lower-end view, anticipating 1.5% and 1.8% growth, respectively. Meanwhile, the Conference Board and Deloitte Economic Research project 2.0% real GDP growth in 2026.

The Federal Reserve's own outlook leans somewhat more optimistic. FOMC participants, who had expected 2025 growth to reach only 1.7% (compared with the actual 2.2%), project a 2.3% increase in real GDP in 2026—essentially a continuation of 2025's performance, though still below the long-term U.S. trend. The Wall Street Journal (WSJ) Economic Forecasting Survey is the most optimistic of the group, anticipating a rebound to 2.5% growth.

Although forecasts cluster in the slow-to-moderate range, none anticipates an outright contraction in real U.S. output. WSJ survey participants peg the probability of a recession over the next year at 27%, while the Philly Fed's SPF places the odds at less than 25%. Nevertheless, the United States remains ground zero for the latest wave of protectionist policies, which are roiling global markets and reverberating domestically.

Household consumption, which accounts for roughly 70% of GDP, slowed noticeably in 2025 and is likely to fade further in 2026. Real consumer spending rose 2.9% in 2024 and 2.6% in 2025 but is expected to increase just 1.7% in 2026. Slower wage growth, diminishing job prospects, and stubbornly elevated prices have weighed heavily on consumer sentiment.

The University of Michigan's consumer sentiment index, which fell sharply during Covid and again during the post-pandemic inflation surge, has deteriorated once more amid heightened policy uncertainty. Business investment, which accounts for roughly 15% of GDP (excluding housing), tends to be strongly procyclical. Despite weak consumer sentiment, nonresidential fixed investment rose 4.2% in 2025, buoyed by the ongoing AI investment surge. While nonresidential structures remain soft, equipment spending accelerated early in 2025,

reflecting both tariff front-loading and the expansion of AI data centers. Outlays for intellectual property products—including software and other intangible assets—also remained strong.

Federal tax changes reinstating bonus depreciation for qualifying property should provide additional support. However, the extent to which these forces sustain investment growth in 2026 remains uncertain. S&P anticipates flat real investment, the SPF projects 2.4% growth, and Deloitte forecasts gains of up to 4%.

Residential investment continues to lag. Despite a persistent housing shortage, real residential investment has declined in two of the past three years and slipped another 2.2% in 2025. Forecasts for 2026 range from a 0.7% decline (S&P) to a 0.7% increase (Deloitte).

International trade remains a major source of uncertainty. The Supreme Court of the United States ruled in February that the administration's use of emergency economic powers to impose routine tariffs was unconstitutional. While the ruling constrains one policy avenue, the administration has indicated it will pursue alternative mechanisms. As a result, trade policy uncertainty persists.

Trade volume—exports plus imports of goods and services—accounts for approximately 25% of GDP. Although lower than in many advanced economies, this openness ratio underscores the importance of trade to U.S. growth. Real export growth slowed from 3.6% in 2024 to 1.7% in 2025, while import growth decelerated from 5.8% to 2.7%. Total trade volume growth fell to just over 2% in 2025 and is expected to stagnate in 2026, with export growth forecast between 0.5% and 2.2% and imports roughly flat.

The Federal Reserve's task became more complicated in

2025 as it confronted both rising prices—aggravated by the new tariff regime—and a slowing labor market. Aggressive easing risked reigniting inflation in an effort to support job growth, while aggressive tightening risked further weakening employment in order to contain price pressures.

The Fed ultimately chose a middle path, implementing three 0.25-percentage-point rate cuts late in 2025. Those moves reduced the target federal funds rate to 3.5%–3.75%.

Uncertainty persists. Many Fed watchers anticipated additional cuts in 2026, but that has been thrown in doubt by the war in the Middle East.

Fiscal policy is also poised to provide additional stimulus in 2026. The “one big beautiful bill” (OBBBA), enacted in 2025, restores bonus depreciation, raises the standard deduction, provides a temporary deduction for eligible seniors, and introduces new exemptions for tips and overtime income.

Labor market conditions have cooled steadily. Nonfarm job growth slowed from 2.2% in 2023 to 1.3% in 2024 and to 0.9% in 2025. The unemployment rate rose from roughly 3.5% at the start of 2023 to about 4.5% by the end of 2025. Job openings have declined markedly; whereas there were roughly two openings per unemployed worker in early 2022, by late 2025 there were slightly more unemployed workers than available positions.

Nominal wage growth eased from 4.0% in 2024 to 3.8% in 2025, while inflation slowed from 3.0% to 2.7%, allowing real wages to continue advancing modestly. Forecasts for 2026 suggest little improvement in employment growth, with projections ranging from zero to 0.4%, and the unemployment rate holding near 4.5%, partly reflecting constrained labor force growth amid tighter immigration enforcement.

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## The Connecticut Economy

Connecticut's economy has shown renewed vitality in the post-pandemic period. After stagnating between the 2007–08 financial crisis and the Covid downturn, real state GDP has grown at an average annual rate of 2.3% since 2021. In 2025, output again rose 2.3%, driven largely by productivity rather than employment gains.

With job growth of just 0.4% in 2025, most of the year's GDP increase reflected a 1.9% gain in productivity. The information sector—including telecommunications, data processing, and motion picture production—contributed 0.6 percentage points to overall growth. Financial activities and professional and business services each added roughly half a percentage point. Manufacturing contributed 0.2 points despite shedding 2,500 jobs, as output per worker rose 3.4%.

Employment growth slowed from about 14,000 jobs in 2024 to roughly 7,000 (year over year) in 2025. Even so, this pace remains close to the state's typical expansion-year average. Connecticut nearly surpassed its 2008 employment peak before experiencing a temporary setback in September; by the fourth quarter, payrolls were essentially flat compared with a year earlier.

Education and health services again led job growth, adding about 5,000 positions—almost entirely in health care—though well below the previous year's gain. Financial activities and professional and business services reversed prior losses, while leisure and hospitality added 1,100 jobs. Retail trade declined by 1,800 jobs amid continued e-commerce expansion.

The unemployment rate rose from just above 3.0% in mid-2024 to 4.2% at the end of 2025. The labor force participation rate, long in gradual decline due to aging demographics, fell more sharply

during 2025. Connecticut ranks 11th nationally in the share of foreign-born workers, leaving it particularly exposed to changes in immigration policy.

Wage growth remained solid. Nominal wages rose 4.6% in 2025 against 3.3% inflation, yielding a 1.3% real gain. Real wage growth was strongest in arts and entertainment, information, construction, and durable manufacturing, while nondurable manufacturing and accommodation and food services experienced declines.

So, what are the prospects for Connecticut output, jobs, and wages in 2026?

Against a backdrop of steady—though slowing—U.S. GDP growth and softer national employment gains, a deceleration in Connecticut's real GDP growth from 2.3% in 2025 to roughly 1.1% in 2026, accompanied by a reversal of recent job gains, would not be implausible. Such an outcome would be consistent with weakening national labor demand and ongoing uncertainty surrounding trade and immigration policy.

S&P Global, however, presents a more optimistic baseline. The firm projects real state GDP growth of 1.8% in 2026 and the addition of approximately 2,000 jobs. It also anticipates that inflation will ease from 3.3% in 2025 to 2.6% in 2026. Under that scenario, a forecasted 4.3% average nominal wage increase would translate into real wage growth of 1.7%—an improvement over the 1.3% gain recorded in 2025.

S&P expects health care—part of the broader educational and health services supersector—to once again lead employment gains. Health care payrolls are projected to rise by another 4,500 positions in 2026, following a 5,500-job increase in 2025. Given Connecticut's relatively old population and sustained

demand for medical services, continued expansion in this sector is consistent with long-term demographic trends.

Educational services, by contrast, faces renewed contraction. Employment is projected to decline by at least 1,500 jobs amid falling enrollments, tighter public budgets, and the expiration of federal Covid-era relief funds.

The largest projected losses are expected in the trade, transportation, and utilities (TTU) supersector, where employment could decline by roughly 4,000 positions. Continued erosion of brick-and-mortar retail due to e-commerce remains a structural headwind. In addition, weakened demand and overcapacity stemming from the pandemic-era logistics buildup are expected to constrain hiring in transportation and warehousing.

With one of the nation's oldest workforces and the 11th highest share of foreign-born workers, Connecticut is particularly vulnerable to restrictive immigration policies pursued by the Trump administration.

Births barely exceed deaths in the state, and Connecticut has long experienced net domestic out-migration (Graph on page 1). As a result, any meaningful population growth has depended heavily on international migration. Net international migration exceeded 30,000 in both 2023 and 2024 but dropped sharply to an estimated 8,000 in 2025 and is expected to decline further to roughly 4,000 in 2026.

Accordingly, the state's labor force is projected to contract by approximately 14,000 workers in 2026—just two years after finally regaining the workforce lost during the Covid recession. Despite slow to negligible job growth, this constrained labor supply is likely to keep the unemployment rate near its current 4% level, as reduced

labor availability offsets weaker hiring demand.

The limited availability of workers, combined with continued productivity improvements, helps explain why S&P expects real wage growth to accelerate from 1.3% in 2025 to 1.7% in 2026. Real wages are projected to increase across nearly all supersectors and major subsectors, except for agriculture.

For some industries—such as information (+4.6%) and professional and business services (+2.1%)—projected real wage gains represent a continuation of strong performance in 2025. For others—including accommodation and food services (+3.4%), real estate (+3.2%), and nondurable manufacturing

(+2.9%)—the anticipated gains mark a reversal of prior-year declines.

Productivity growth remains central to the outlook. Even with modest job creation, rising output per worker should allow real state GDP to outpace employment growth and remain positive. S&P's projected deceleration in output growth—from 2.3% in 2025 to 1.8% in 2026—would place Connecticut slightly below its post-Cold War average but well above the 0.3% annual growth rate the state has averaged over the past two decades.

Financial activities, manufacturing, and information together are expected to account for roughly two-thirds of Connecticut's GDP growth in 2026, underscoring the

continued importance of high-value, productivity-driven sectors to the state's economic trajectory.

### Conclusion

Across the global, national, and state economies, the theme for 2026 is not rapid expansion but continued resilience. Growth is slowing, trade policy remains unsettled, and labor markets are cooling. Yet output continues to rise, inflation has eased from recent highs, and forecasters do not anticipate a recession. Much will depend on whether policy uncertainty diminishes and whether productivity gains—especially those tied to artificial intelligence—prove durable. For now, the outlook is one of slower but steady progress in the face of adversity. ■

## GENERAL ECONOMIC INDICATORS

<i>(Seasonally adjusted)</i>	3Q	3Q	YoY CHG		2Q	QoQ CHG	
	2025	2024	NO.	%	2025	NO.	%
<b>General Drift Indicator (2007=100)*</b>							
<b>Leading</b>	117.3	115.9	1.5	1.3	116.7	0.7	0.56
<b>Coincident</b>	100.8	98.8	2.0	2.0	100.2	0.6	0.61
<b>Real Gross Domestic Product**</b>							
<i>(Millions of chained 2017 dollars)</i>							
<b>Connecticut</b>	295,735	287,156	8,579	3.0	291,703	4,032	1.4
<b>United States</b>	24,026,834	23,478,570	548,264	2.3	23,770,976	255,858	1.1
<b>New England</b>	1,221,714	1,193,184	28,530	2.4	1,209,246	12,468	1.0
<b>Per Capita Personal Income**</b>							
<i>(Current \$, SAAR)</i>							
<b>Connecticut</b>	98,962	95,454	3,508	3.7	98,490	472	0.5
<b>United States</b>	76,513	73,488	3,025	4.1	76,018	495	0.7
<b>New England</b>	91,714	88,486	3,228	3.6	91,359	355	0.4
<b>Philadelphia Fed's Coincident Index (2007=100)***</b>							
	<b>Dec</b>	<b>Dec</b>	<b>YoY CHG</b>		<b>Nov</b>	<b>MoM CHG</b>	
	<b>2025</b>	<b>2024</b>	<b>NO.</b>	<b>%</b>	<b>2025</b>	<b>NO.</b>	<b>%</b>
<b>Connecticut</b>	135.52	134.87	0.64	0.5	135.84	-0.32	-0.2
<b>United States</b>	148.73	146.04	2.68	1.8	148.41	0.32	0.2

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