Connecticut's Economy Rebounds in 2021

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Though not completely recovered, Connecticut employment turned around last year following the severely COVID-19 pandemic-impacted 2020. The revised annual average total nonfarm employment rose 2.7% to a level of 1,613,000. Correspondingly, last year’s unemployment rate dropped to 6.3% from 7.8% in 2020. Overall, 2021 economy recovered to a similar strength of 2018, as per annual diffusion index.

**Nonfarm Employment**

After the latest annual revision (based on annual average, not seasonally adjusted data), in 2021 Connecticut regained 42,300 jobs (2.7%), after having lost 125,400 jobs, or -7.4% in 2020. Meanwhile in the nation employment rose 2.8% in 2021, after having shed 5.8% in 2020.

As shown in Chart 1, most of Connecticut’s industry sectors partially bounced back last year. In fact, seven of eleven major industry sectors have added jobs back over the year. The biggest recovery occurred in leisure and hospitality (14.1%), construction (4.6%), and trade, transportation and utilities (4.4%). Leisure and hospitality was also the biggest job gainer (16,500), followed by trade, transportation, and utilities (12,100). On the other hand, manufacturing (-0.3%) and government (-0.3%) lost jobs over the year. The biggest job loss was in financial activities (-2,500, -2.1%).

**Unemployment**

As the economy gradually recovered from the impact of the pandemic, unemployment indicators also pointed to an ameliorated labor market situation. The annual average unemployment rate fell from 7.8% to 6.3% over the year. By comparison, the nation’s rate decreased from 8.1% in 2020 to 5.4% in 2021.

In addition, the U-6 rate, a broader measure of labor underutilization which also includes those who are marginally attached workers and part-timers that want full-time work, dipped from 14.1% in 2020 to 10.7% in 2021 for Connecticut. Correspondingly, the number of average weekly initial claims for unemployment fell sharply in 2021 (5,267) from 2020 (12,728). The insured unemployment rate also declined from 9.06% to 3.33% over the year.

**Employment by LMA**

In 2021, nine labor market areas (LMAs) in Connecticut all added jobs, a complete reversal from 2020. The biggest job gains occurred in the Bridgeport-Stamford (3.6%) and Danbury (3.2%) regions. Even the Norwich-New London-Westerly LMA finally turned the corner last year (3.2%), after having experienced three consecutive years of employment decline. The charts on page 4 also show long-term seasonally adjusted total nonfarm employment trends of Connecticut and all its nine LMAs from 2008 to January 2022.

**Other Economic Indicators**

In addition to employment and unemployment data, most other economic indicators reflected the gradual return to a pre-pandemic level in Connecticut’s economy. As the table on page 3 shows, both inflation-adjusted total personal income and real Unemployment Insurance covered wages of state residents (3-quarter averages) rose over the year. Newly updated and rebased Connecticut Manufacturing Production Index (2012=100) also increased from 2020. New auto registrations, exports, S & P 500, gaming payments, occupancy rate, and gaming slots all rose over the year. Real total private sector average weekly earnings, new housing permits, and construction contracts, however, fell last year.

**Annual Diffusion Index**

An Annual Diffusion Index (ADI) is one way to measure overall economic activity by summarizing all 53 economic indicators on page 3. For each economic indicator, the movement is up, down, or unchanged over the year. Results are reported as a diffusion index that is calculated by subtracting the share of indicators with negative economic movement from the share that moved in a positive economic direction.

For example, out of 53 indicators, 33 (62%) went up and 19 (36%) went down, and one were unchanged in 2013. The ADI is then calculated by subtracting 36 from 62, resulting in an indicator of 26. If an ADI is positive, then that is generally interpreted as an expansion in economic activity (because more indicators are improving), while negative values are interpreted as a contraction (because more indicators are deteriorating) for that year. As Chart 2 shows, the revised ADI showed a recovery with an index number of +45 in 2021, after having dropped precipitously to -64 in 2020 when the impact of the COVID pandemic was most pronounced.

**Looking Ahead**

This year is off to a slow start with a slight decline in jobs and a higher unemployment rate in January as the Omicron variant spread. However, as the pandemic comes to an end, most of the jobs lost in 2020 have already been recovered across the industry sectors. The 2021 annual average for manufacturing, for example, was below 2020. However, manufacturing ended 2021 with four consecutive months of job growth and it continued to grow in January 2022. While the current inflation, gas prices, and the war in Ukraine is creating a lot of uncertainties, it is hoped that they are temporary, and that our economy will be back to its pre-pandemic level by the end of this year. n