*Connecticut's Economy in 2023 Shows Growth over 2022*

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Connecticut employment continued to grow for the third year in a row, nearly completely recovering to the pre-pandemic levels in 2023. (The January 2024 jobs numbers, released in March, show jobs have more than fully recovered from pandemic losses.) The revised annual average total nonfarm employment rose 1.6% to a level of 1,694,200 in 2023. Correspondingly, last year’s annual average unemployment rate dropped further to 3.8% from 4.1% in 2022. Overall, the 2023 economy continued to recover moderately as per the annual diffusion index.

**Nonfarm Employment**

 After the latest annual revision (based on annual average, not seasonally adjusted data), in 2023 Connecticut regained 26,100 jobs (1.6%), fewer than the gain of 51,800 jobs (3.2%) in 2022. In the nation employment rose 2.3% in 2023, after having increased 4.3% in 2022.

 As shown in Chart 1, most of Connecticut’s industry sectors continued to add jobs last year. Eight of eleven major industry sectors have gained employment over the year, while three shed jobs. The biggest job growth occurred in education and health services (13,200, +3.9%), and leisure and hospitality (4,200, +2.8%). However, information (-300, -1.0%), professional and business services (-900, -0.4%), and financial activities (-200, -0.2%) posted slight declines in employment in 2023.

**Unemployment**

 As the economy continues to recover from the impact of the pandemic, unemployment indicators also pointed to a better labor market situation in 2023. The annual average unemployment rate fell further from 4.1% to 3.8% over the year. It was the lowest level since the pre-pandemic rate of 3.6% in 2019. By comparison, the nation’s rate decreased from 3.7% in 2022 to 3.6% in 2023. Any unemployment rate around 4% would be considered low by historic standards.

 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 further from 7.8% in 2022 to 7.1% in 2023 for Connecticut, the lowest rate over the last ten years. The number of average weekly initial claims for unemployment rose a bit in 2023 (4,009) from 2022 (3,894). The insured unemployment rate also increased slightly from 1.40% to 1.58% over the year.

**Employment by LMA**

 For the third straight year, all nine labor market areas (LMAs) in Connecticut continued to add jobs. The biggest job gains occurred in the Danbury and Norwich-New London-Westerly regions. The charts on page 4 also show long-term seasonally adjusted and not seasonally adjusted total nonfarm employment trends of Connecticut and all its nine LMAs from 2010 to January 2024.

**Other Economic Indicators**

 In addition to employment and unemployment data, most other economic indicators reflected the continuation of improvement 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 in 2023. Both new housing permits and construction contracts soared for two consecutive years. New auto registration bounced back over the year. Exports and occupancy rate rose for three years in a row. Both S & P 500 and gaming payments turned around last year.

 On the other hand, newly updated Connecticut Manufacturing Production Index declined over the year. Both real total private sector and manufacturing average weekly earnings fell for the third year. Gaming slots dropped slightly over the year as well.

**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, 40 (76%) went up and 12 (23%) went down, and one was unchanged in 2015. The ADI is then calculated by subtracting 23 from 76, resulting in an indicator of 53. 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 another year of continuing recovery with an index number of +40 in 2023.

**Looking Ahead**

 This year is off to a robust start with a 7,400 gain in jobs and still a historically low unemployment rate in January (4.4%), as the economic recovery from pandemic losses is for all intents and purposes complete. All nine labor market areas added jobs for the third year, and employment in most of the industry sectors in Connecticut continued to rise last year. The diffusion index confirms that most indicators were positive in 2023. The major downside risks to Connecticut remain the national and international situations. The national economy is currently strong, but inflation is still higher than the Fed would like, and interest rates remain higher than pre-pandemic levels. There are multiple uncertainties in the international situation. On the other hand, there are upside risks as well. The latest data show more people moved to Connecticut from other states than left Connecticut for other states in part due to the many advantages of living in our state in an era of increased telework. Connecticut could be well positioned to take advantage of new technologies and new ways of working as the economy transitions to a "new normal" after the enormous changes of the past few years. n