*Connecticut State Economic Index Outpaces Nation in 2023*

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After two years of all state indexes increasing, 2023 saw 10 out of 50 states and the District of Columbia experiencing a drop over the year. However, all state indexes but two are above their 2019 levels (year before the pandemic shutdown). Connecticut had the twelfth-highest 2023 growth in the nation at 3.7%, exceeding the nation’s 1.2% increase.

**SEI: Methodology**

 Applying the same components and methodology of the Connecticut Town Economic Indexes (See September 2024 issue), the Connecticut Department of Labor’s Office of Research also developed the State Economic Indexes for all 50 states and DC. With recently available annual average data from the Quarterly Census Employment and Wages (QCEW) program, along with the revised annual average unemployment rate from Local Area Unemployment Statistics (LAUS), annual SEI is re-estimated for the 2010-2023 period.

 These indexes provide a measure of the overall economic strength of each state that can be compared and ranked. Four annual average state economic indicators were used as components: 1. the number of the total covered business establishments, 2. total covered employment, 3. real covered wages, and 4. the unemployment rate.

 Business establishments are the physical work units located in the state. Employment is the number of payroll employees in the establishments that are located in the state who are covered under the unemployment insurance law (nearly the universe count of all the payroll employees in each state). Average annual pay is the aggregate wages earned divided by the total average employment.

 Establishments, employment, and wages are proxies for each state’s business activities and its overall economic strength, while the unemployment rate measures the overall economic health of each state’s working residents.

 Each of the four components of the SEI is given a 25 percent weight. SEI is rebased from 2010 to 2019, which equals 100. The wage component is also readjusted to 2019 dollars, and the unemployment rate change is inversed to reflect the right economic direction. By combining these four major economic indicators, the index gives a broad measure of business and resident economic conditions of each state that can then be compared and analyzed.

**SEI: 2022 to 2023**

 Coming out of the pandemic, every state experienced growth in 2021 and 2022. In 2023, business and labor conditions in some of the states had declines. Maryland, Mississippi, Wyoming, and Pennsylvania grew the most in 2023. Missouri, California, New Jersey, and Nebraska were among the largest declines in indexes in 2023 after even larger increases in 2022 as the nation returns to a more normal pace of growth after the big drop in 2020 and the strong recovery after.

**SEI: 2019 to 2023**

 Looking longer term, most states and DC showed positive SEI growth compared to the last pre-pandemic year. Mississippi and Maryland topped the list, when new business formations, jobs, real wages, and unemployment rates are all factored in. The Connecticut index increased 4.0% since 2019, the year before the pandemic downturn, while the nation’s index was a bit higher at 6.3%. Among the nine Northeast states, Connecticut ranked 6th, above Massachusetts, New York, and New Jersey

(Chart 1). New Hampshire’s economy improved the most in the last four years. All in all, 35 out of the 50 states and DC grew faster than the national average from 2019 to 2023. The map on page 4 shows the different ranges of economic recovery rate of each state.

**Components of SEI:**

**Establishments**

 In terms of the number of establishments, Oregon and Montana experienced the fastest growth from 2022 to 2023. All but four states grew last year. Connecticut’s establishment growth rate (+6.4%) ranked 40th among the states.

 Over the last four years, Idaho and Arizona had the fastest business formations. On the other hand, the number of establishments grew the slowest in Iowa and New Mexico, while it shrank in Washington. Connecticut had 25,000 more establishments in 2023 than it had in 2019, a more than 20% increase.

**Employment**

 Last year’s average nationwide employment increased 2.0%, while Connecticut gained 1.6% jobs in 2023. Nevada and Texas again posted the fastest job growth. All states and DC continued to gain jobs over the year, but every state but two added fewer jobs in 2023 than they added in 2022.

 Average annual employment in 2023 was above 2019 levels in most states. Idaho and Utah had the largest gains since 2019, while Hawaii and DC were the farthest behind. Average annual employment in Connecticut was slightly below 2019 in 2023, although we know from the monthly payroll jobs numbers that Connecticut’s 2024 employment is now above pre-pandemic levels.

**Real Wages**

 Nationally, average wages in 2023 were 3.4% above 2022, but the inflation rate as measured by the Consumer Price Index (CPI) was 4.1% (year over year) so real wages fell 0.7%. (“Real” means adjusted for inflation.) As a result, all but 17 states posted slight inflation-adjusted wage decreases in 2023. Massachusetts and New York had the largest real wage declines over the year. In Connecticut, average wages increased by over $2,500, a 3.1% increase. After adjusting for inflation this became a 0.9% drop.

Jobs in DC continued to command the highest annual average pay at $98,935 in 2023 (in 2019 dollars). Connecticut’s wage was sixth highest ($70,297), following Massachusetts ($76,776), New York ($76,648), Washington ($74,240), and California ($73,442). Only 11 states and DC posted wages higher than the national average of $60,710 last year. The two states with the lowest average pay in 2023 were Mississippi ($41,222) and Arkansas ($46,732). Since 2019, 47 out of 50 states and DC experienced real wage gains, with Florida (+7.7%) and Maine (+7.4%) having the largest increases. Connecticut’s 2023 average real wage was 0.8% above the 2019 (pre-pandemic) level. So far in 2024 wage growth has exceeded inflation according to the Current Employment Statistics, so Connecticut will likely show solid real wage growth when the final 2024 statistics are tabulated next year.

**Unemployment Rate**

 Both North Dakota (1.9%) and South Dakota (2.0%) posted the lowest unemployment rates in 2023. Conversely, Nevada (5.1%) and DC (4.9%) had the highest unemployment rates last year. Connecticut had 3.8% while the U.S. had a 3.6% jobless rate. Unlike in the prior year when all states and DC experienced an unemployment rate decline, over half of states reported increases in 2023. The largest rate rises occurred in Missouri and New Jersey over the year.

 In 2023, unemployment rates in 18 states were higher than in 2019 with New Jersey and Nevada having the highest unemployment rate increases. In 2019, Connecticut’s jobless rate was 3.6%, slightly lower than 2023’s 3.8% while the national rate was 3.7%. While this report looks at annual data through 2023, we know the Connecticut unemployment rate continued to drop in 2024 and was below the national average in June, July, and August 2024.

**SEI Diffusion Index: 2011-2023**

 One way to measure aggregate performance of SEI of all 50 states and DC is to use a diffusion index. For each state, the index is up, down, or unchanged over the year. The SEI Diffusion Index is calculated by subtracting the share of states that experienced decreases in their indexes from the share that had increases over the year.

 For example, index values in 49 states rose (96%), two (4%) fell in 2015. The diffusion index is then calculated by subtracting 4 from 96, equaling 92. Thus, if all 51 state indexes increase from a prior year, then the diffusion index becomes 100, and if all decline, then -100. If the SEI Diffusion Index is positive, then that is interpreted as an economic recovery or expansion, while negative figures would mean an economic recession or contraction in more than half the states.

 The diffusion index slipped from 92 in 2017 and 2018 to 80 in 2019, the pandemic caused all the states’ economy to contract in 2020 with an index of -100.

 Then, as a sign of continued recovery, diffusion index bounced back with +100 for both 2021 and 2022. In 2023, the overall economic growth in the nation slowed to a more usual pace and the diffusion index was +61 in 2023 (Chart 2). The national economy is growing at a healthy pace so far in 2024 with inflation at a much lower rate. Lower inflation has allowed the Federal Reserve to cut interest rates in order to sustain continued economic growth.n