*Connecticut's Economy Shrinks Due to the Pandemic in 2020*

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Employment fell sharply in Connecticut for the first time since 2010 and the overall economy shrank in 2020. After having increased for eight straight years, the revised annual average total nonfarm employment fell slightly in 2019, and drastically last year, due to the impact from the pandemic. Correspondingly, last year’s unemployment rate rose significantly, while after having increased in the last six years, real personal income fell markedly. Not surprisingly the value of annual diffusion index of 58 state economic indicators dropped dramatically as well in 2020.

 As in past years, this article focuses on the annual average. However, 2020 was unusual for many reasons. There were sharp job declines concentrated in a few months in the first half of the year followed by several months of strong growth - although not strong enough to fully overcome the large job losses caused by the pandemic.

**Nonfarm Employment**

 After our latest annual revision (based on annual average, not seasonally adjusted data), in 2020 Connecticut lost 131,400 jobs, or -7.8%. In 2019, 3,400 jobs were lost (-0.2%). Meanwhile, national employment fell 5.8% in 2020 after rising 1.3% in 2019.

 As shown in the chart 1, Connecticut has lost many jobs in 2020 from the severe impact of the COVID-19 pandemic. All of the ten major industry sectors shed jobs over the year. Especially hit hard were leisure and hospitality (-25.8%) and other services (-14.1%) with the biggest percentage employment loss. The largest job losses occurred in leisure and hospitality (-40,600), educational and health services (-22,300), and trade, transportation, and utilities

(-15,700). The only exception was the increase in jobs in transportation, warehousing, and utilities subsector (+3,800).

**Unemployment**

 Accordingly, unemployment indicators point to a deteriorated labor market situation. Local Area Unemployment Statistics (LAUS) were again revised back to 2010, due to changes in one of the input components, nonfarm employment. The annual average unemployment rate has trended downward over the past nine years, then sharply rose last year, from 3.6% in 2019 to 7.9% in 2020. Meanwhile, the nation’s rate increased from 3.7% in 2019 to 8.1% in 2020.

 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, shot up from 7.9% in 2019 to 14.1% in 2020 for Connecticut, the highest rate since 2012’s 14.7%. Moreover, the number of average weekly initial claims for unemployment soared sharply in 2020 (12,728) from 2019 (3,443), the highest level in historical data back to 1980. Also, the insured unemployment rate rose from 2.02% in 2019 to 9.06% in 2020, the highest rate since the data going back to 1982.

**Employment by LMA**

 In 2020, all of the nine labor market areas (LMAs) in Connecticut lost employment. The biggest job decline occurred in the Norwich-New London-Westerly region (-12.6%). The charts on page 4 also show long-term seasonally adjusted total nonfarm employment trends of Connecticut and all its nine LMAs from 2007 to January 2021.

**Other Economic Indicators**

 In addition to employment and unemployment data, most other economic indicators showed pandemic-related downturn last year. As the table on page 3 shows, inflation-adjusted total personal income and real Unemployment Insurance covered wages of state residents (3-quarter average) fell significantly over the year. Average weekly hours in the manufacturing sector and the Connecticut Manufacturing Production Index declined. New housing permits, new auto registrations, exports, total taxes collected, occupancy rate, and gaming slots all fell over the year. Real total private sector average weekly earnings, construction contracts, and the stock market, however, did manage to stay positive last year.

**Annual Diffusion Index**

 An Annual Diffusion Index (ADI) is one way to measure overall economic activity by summarizing all 58 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 58 indicators, 33 (57%) went up and 22 (38%) went down, and three were unchanged in 2012. The ADI is then calculated by subtracting 38 from 57, resulting in an indicator of 19. 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 weakened significantly in 2019 (+9), and then precipitously dropped to a contraction territory in 2020

(-60), as evidenced by the negative impact of the COVID pandemic.

**Looking Ahead**

 Last year was undoubtedly an unprecedented year for both Connecticut and the nation. However, as the pandemic draws to an end, jobs in many sectors, especially leisure and hospitality and retail trade, should return and overall economy should rebound. It was also announced in the media that General Dynamics Electric Boat of Groton will be hiring thousands of employees over the next ten years, due to the unprecedented buildup in submarine production. Though the employment recovery in Connecticut and the country may not come back to the pre-pandemic level for a while, there is finally light at the end of the tunnel and better days are ahead. n