Connecticut's Economy Recovers to its Pre-Pandemic Level in 2022

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Connecticut employment continued to improve for the second year in a row, nearly completely recovering to the pre-pandemic levels. The revised annual average total nonfarm employment rose 3.1% to a level of 1,665,600 in 2022. Correspondingly, last year’s annual average unemployment rate dropped significantly to 4.2% from 6.3% in 2021. In fact, 2022 economy recovered the strongest over the last nine years as per annual diffusion index.

**Nonfarm Employment**

 After the latest annual revision (based on annual average, not seasonally adjusted data), in 2022 Connecticut regained 49,300 jobs (3.1%), more than the gain of 45,600 jobs (2.9%) in 2021. In the nation employment rose faster at 4.3% in 2022, after having increased 2.9% in 2021.

 As shown in Chart 1, all but one of Connecticut’s industry sectors bounced back last year. Ten of eleven major industry sectors have added jobs back over the year, while mining was unchanged. The biggest recovery occurred in leisure and hospitality (10.9%), other services (4.8%), and information (3.7%). Leisure and hospitality was also the biggest job gainer (14,700), followed by education and health services (8,300). Financial activities (0.2%) and government (1.3%) posted the slowest job growth in 2022.

**Unemployment**

 As the economy continues to recover from the impact of the pandemic, unemployment indicators also pointed to a better labor market situation in 2022. The annual average unemployment rate fell further from 6.3% to 4.2% 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 5.4% in 2021 to 3.7% in 2022. Any unemployment rate below 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 from 10.7% in 2021 to 7.8% in 2022 for Connecticut, even lower than 2019’s rate of 7.9%. Moreover, the number of average weekly initial claims for unemployment fell even further in 2022 (3,894) from 2021 (5,267). The insured unemployment rate also declined from 3.33% to 1.40% over the year, the lowest rate seen in the last ten years.

**Employment by LMA**

 For the second year, all nine labor market areas (LMAs) in Connecticut continued to add jobs. The biggest job gains occurred in the Norwich-New London-Westerly (4.24%) and Torrington-Northwest (3.80%) 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 2009 to January 2023.

**Other Economic Indicators**

 In addition to employment and unemployment data, most other economic indicators reflected the faster return to a pre-pandemic level in Connecticut’s economy. As the table on page 3 shows, newly updated Connecticut Manufacturing Production Index increased for the second year. New housing permits turned the corner after two years of decline. Construction contracts also increased over the year. Exports rose for the two years in a row. Occupancy rate continued to increase last year.

 However, both inflation-adjusted total personal income and real Unemployment Insurance covered wages of state residents (3-quarter averages), as well as real total private sector average weekly earnings fell over the year. Also new auto registrations, S & P 500, and gaming payments all 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, 34 (64%) went up and 16 (30%) went down, and three were unchanged in 2014. The ADI is then calculated by subtracting 30 from 64, resulting in an indicator of 34. 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 +60 in 2022, the highest index value during the 2014-2022 period.

**Looking Ahead**

 This year is off to a robust start with an 8,700 gain in jobs and a lower unemployment rate in January as the economic recovery from pandemic losses is nearing its completion. All nine labor market areas added jobs over the year, and employment in most of the industry sectors in Connecticut continued to rise in January. While national issues such as the persistent inflation and the invasion of Ukraine are creating some uncertainties, they are temporary. Potential recession notwithstanding, our economy now is poised to enter its expansionary territory by the end of this year. n