*All State Economic Indexes Fell in 2020 Due to the COVID Pandemic*

*By Jungmin Charles Joo and Dana Placzek, Department of Labor*

Because of the COVID-19 pandemic, all state economic indexes fell over the year. After annual revisions, Connecticut ranked 35th out of the 50 states and the District of Columbia (DC) in the State Economic Indexes (SEI) in 2020, down from the 25th position in 2019.

Utah came in first in the nation with the highest index of 143.1 last year, while Hawaii placed last (103.3). Our state’s index of 114.2 was below the nationwide value of 119.8 (see table on page 2).

**SEI: Methodology**

Applying the same components and methodology of the Connecticut Town Economic Indexes (See September 2021 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 reestimated for the 2010-2020 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’s base year is 2010, which equals 100. The wage component is adjusted to 2010 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: 2019 to 2020**

Reflecting the unprecedented impact from the COVID pandemic, the business and labor conditions of all 50 states and DC deteriorated from 2019 to 2020, compared to six with decreased SEI from 2018 to 2019. The fastest decrease in the index occurred in Nevada and Hawaii. Connecticut fell 23.5% from 2019 to 2020, just a bit more than the national average

(-21.9%). This placed Connecticut 36th among the states, down from 17th place in 2019.

**SEI: 2010 to 2020**

Looking longer term, all 50 states and DC continued to show positive SEI growth. Utah and South Carolina topped the list, when new business formations, jobs, real wages, and unemployment rates are all factored in. The Connecticut index increased 14.2% since 2010, when the economy began to recover, while the nation’s index grew 19.8%. Among the nine Northeast states, Connecticut again ranked 4th, above Vermont and New Hampshire (Chart 1). Maine’s economy improved the most in the long run. All in all, only 21 out of the 50 states and DC grew faster than the national average from 2010 to 2020. 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, Idaho and Georgia experienced the fastest growth over the year. Nebraska and Maryland were the only states with declines from 2019. Connecticut’s establishment growth rate ranked 34th among the states.

Over the last ten years, Utah and South Carolina had the fastest business formations. On the other hand, the number of establishments grew the slowest in Illinois and Kansas since 2010.

**Employment**

Last year’s average nationwide employment decreased 6.1%, while Connecticut lost 7.5% of its jobs in 2020. Idaho and Utah posted the slowest job loss, while Connecticut ranked 41st in 2020. Hawaii and Nevada experienced the fastest job loss over the year.

During the 2010-2020 period, 42 out of 51 states added jobs. Utah and Idaho experienced the fastest employment gains during the current recovery, while West Virginia and Alaska had the fastest job loss. Connecticut also lost jobs from 2010 to 2020 and ranked 46th.

**Real Wages**

All states posted inflation-adjusted wage gains in 2020. California and Massachusetts had the fastest annual pay increase, while Wyoming and North Dakota’s grew the slowest over the year. Connecticut ranked 19th in terms of wage growth.

Once again, the highest annual average pay was earned in DC at $105,715 in 2020 (in 2010 dollars). Connecticut’s wage was sixth highest ($74,465), following Massachusetts ($82,643), New York ($82,092), California ($78,514), and Washington ($75,824). Only 12 states and DC posted wages higher than the nation’s average of $63,223 last year. The two states with the lowest average pay in 2020 were Mississippi and Idaho.

Since 2010, all 50 states and DC experienced income gains, with Washington and California having the fastest increase. Connecticut’s wage growth came in 48th place among the states in the last ten years.

**Unemployment Rate**

Nebraska (4.2%) and South Dakota (4.6%) posted the lowest unemployment rates in 2020. Conversely, Nevada (12.8%) and Hawaii (11.6%) had the highest unemployment rates last year. Connecticut had 7.9% while U.S. had 8.1% jobless rate. All 50 states and DC experienced significant increases in the rate due to the pandemic. The biggest percentage increase occurred in Hawaii and Nevada over the year.

Between 2010 and 2020, unemployment rate in nine out of 51 states and DC rose, including Hawaii and North Dakota. South Carolina and Alabama had the biggest percentage unemployment rate drop. Connecticut’s jobless rate dropped from 9.6% to 7.9%, while it was from 9.6% to 8.1% nationally.

**SEI Diffusion Index: 2011-2020**

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, and two stayed the same in 2011. 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.

After experiencing strong growth rate in 2017 and 2018 (SEI of 92), then slowing to 76 in 2019, the pandemic caused all the states’ economy to contract in 2020 with an index of -100 (Chart 2).

**Conclusion**

Not surprisingly, 2020’s national economy was the worst in the last ten years. Connecticut’s SEI fared slightly worse than the national average over the year. However, businesses have reopened, and jobs are returning, and as the pandemic comes to an end, 2021’s economic conditions should be much better for both nation and Connecticut. n