*2021 Economic Indexes Rebounded in All States*

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

Economic indexes bounced back last year in all states after having fallen in 2020. Forty-nine states (including Connecticut) had faster growth in 2021 than in 2019 – the last pre-pandemic year while one state matched the 2019 pace.

**SEI: Methodology**

Applying the same components and methodology of the Connecticut Town Economic Indexes (See October 2022 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 of 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 2010-2021 period.

These indexes provide a measure of the overall economic strength of each state. 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: 2020 to 2021**

Reflecting a recovery from the COVID pandemic, the business and labor conditions of all 50 states and DC turned around from 2020 to 2021, after having decreased SEI from 2019 to 2020. The fastest increases in the index occurred in Indiana and Alabama. Connecticut rose 8.0% over the year (See table on page 2). New Mexico and Maryland had the slowest increases.

**SEI: 2010 to 2021**

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 23.7% since 2010, when the economy began to recover, while the nation’s index grew 38.2%. Among the Northeast states, Connecticut grew faster than New York and Pennsylvania (Chart 1). Rhode Island’s economy improved the most in the long run. 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. All states rose from 2020. Connecticut’s establishment growth rate (4.9%) was the fastest pace for any year for which we have data with an increase of more than 6,000 establishments. Increases in all previous years were less than 2,500. Over the last eleven years, Utah and Idaho 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 increased 3.4%, while Connecticut gained 3.0% of its jobs in 2021. Nevada and Idaho posted the fastest job growth. Only the District of Columbia lost jobs over the year.

Note employment (as with all statistics in the SEI) are annual averages so the 2020 average includes some pre-pandemic months while the 2021 average includes months early in the year when the effects of the pandemic were still severe. Only six states had average annual employment in 2021 above their 2019 average. Connecticut 2021 employment was more than 95% of the 2019 average, just slightly below the 97% for the nation as a whole.

**Real Wages**

Forty-one states posted inflation-adjusted wage gains in 2021. New Hampshire and Florida had the fastest annual pay increase, while Alaska and North Dakota’s wages dropped the biggest over the year. Connecticut wages declined slightly in 2021 (-0.3%) after a large 2020 increase. Average wages were boosted in 2020 by the pandemic-caused closure of lower wage establishments such as restaurants. The return of these jobs in 2021 lowered average wages. Once again, the highest annual average pay was earned in DC at $106,879 in 2021 (in 2010 dollars). Connecticut’s wage was sixth highest ($74,183), following New York ($83,899), Massachusetts ($83,630), California ($81,713), and Washington ($78,602). Only 11 states and DC posted wages higher than the nation’s average of $64,434 last year. The two states with the lowest average pay in 2021 were Mississippi and West Virginia.

Since 2010, all 50 states and DC experienced income gains, with Washington and California continuing to have the fastest increase. Connecticut average wage has increased by nearly $15,000 (inflation-adjusted) in that time period.

**Unemployment Rate**

Nebraska (2.5%) and Utah (2.7%) posted the lowest unemployment rates in 2021. Conversely, California (7.3%) and Nevada (7.2%) had the highest unemployment rates last year. Connecticut had 6.3% while U.S. had 5.3% jobless rate. All 50 states and DC bounced back from the effect of the pandemic. The fastest recovery occurred in Hawaii and Indiana over the year.

Between 2010 and 2021, all but North Dakota (unchanged) unemployment rates went down. Alabama and Utah had the biggest percentage unemployment rate drop. Since 2010, Connecticut’s jobless rate dropped from 9.6% to 6.3%, while it was from 9.6% to 5.3% nationally. (Again the 2021 average includes months in early 2021 when the effects of the pandemic were still severe. Connecticut’s unemployment rate has fallen more than 3 percentage points from early 2021 through September 2022.)

**SEI Diffusion Index: 2011-2021**

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. Then last year, as a sign of recovery, all the states made a complete turnaround (Chart 2). n