



In this month's edition

Outlook: The national economy (real GDP) grew 2.8% in 2024, thanks to resilient consumer spending supported by a solid job market. Despite strong fundamentals, the Trump Administration's early immigration and tariff actions present shocks to the economy that are likely to increase prices and could reduce economic growth. Connecticut is well positioned to continue growing in 2025, though likely at a slower pace than the nation and the state in 2024, but federal policy changes to immigration, trade and federal spending could impact the State's performance as well.

Paying for Health Insurance: In this month's feature, we discuss the coverage landscape in Connecticut and premium cost growth in the employer-sponsored market. In the individual market, the sunset of key federal subsidies may dramatically reduce affordability and increase costs for the state's Covered CT program.

Inflation has remained stubbornly above the Federal Reserve's 2% target, with CPI inflation at 2.9% in December, though core CPI inflation (which excludes volatile food and energy prices) showed some welcome slowing in December (from 3.3% to 3.2% annual rate). The Federal Reserve voted to keep interest rates steady at their January meeting, as the strong labor market gives them room to move cautiously.

Thawing in the frozen housing market? Connecticut's housing market has started coming back to life, relative to a very slow 2023, as inventory levels (+4.1%) and sales (+6.0%) have risen slightly. But affordability remains a challenge thanks to rising prices, high mortgage rates, and rising rents. Building permit growth is a positive sign for improving long-term affordability.

Minimum wage rises to \$16.35 per hour: The new level took effect on January 1, as required under a 2019 state law that connects the state's minimum wage to the percentage change in the federal Employment Cost Index. Approximately 166,000 individuals or roughly 10% of Connecticut workers have hourly wages at or below minimum wage, with the wage increase set to impact workers across a variety of occupations.

December was a good month for job growth, with a surprisingly high +256,000 gain for the U.S. and +5,100 gain for Connecticut to finish the year strong. Unemployment remains low at 4.1% nationally and 3.0% in Connecticut. Private sector jobs in the state are up 1.4% on the year, reaching a new all-time high.

The impact of proposed tariffs on Canadian, Mexican, and Chinese goods will be felt in Connecticut.

KEY DATES THIS MONTH

- 2/5 – Governor's budget released
- 2/7 – January U.S. jobs report
- 2/12 – January CPI inflation report
- 2/27 – U.S. 2024Q4 GDP second estimate

Did you know?

The Office of the State Comptroller (OSC) recently published the [Comptroller's Healthcare Cabinet 2025 Report](#). Key policymakers, stakeholders, practitioners, and advocates came together to detail the systemic healthcare challenges facing people throughout Connecticut. Through this report they provide policy and funding recommendations to address these challenges, including the recommendation to increase state Medicaid reimbursement rates and make investments to attract and retain healthcare workers amidst critical workforce shortages.

About OSC

Sean Scanlon, State Comptroller
Tara Downes, Deputy State Comptroller

The mission of OSC is to provide accounting and financial services, to administer employee and retiree benefits, to develop accounting policy and exercise accounting oversight, and to prepare financial reports for state, federal and municipal governments and the public.

Questions about this report?

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Interest Rates & Inflationary Pressures

The Federal Reserve voted to keep short-term interest rates steady in January, with a target range of 4.25-4.5%.

After cutting short-term rates 1 percentage point in 2024, markets expect two further rate cuts in 2025 to go from today's range to around 4% by year-end.

This outlook aligns with Fed policymakers' December 2024 forecasts of continued economic growth around 2.1%, unemployment slightly above 4%, and inflation according to the Personal Consumption Expenditure (PCE) Price Index near 2.5% by year-end 2025. Economic performance differing from these expectations could alter their rate trajectory.

PCE inflation rose at a 2.6% annual rate in December, with Core PCE (excluding volatile food and energy prices) rising 2.8%. In the CPI, gas prices jumped 4.4% from November to December but housing inflation marked its slowest rate since January 2022.

The slowing but resilient labor market is giving the central bank the opportunity proceed cautiously with further cuts, given inflation is still above target and the Trump Administration's policy priorities, such as tariffs and tax cuts, may increase inflationary pressures.

HEALTHCARE AFFORDABILITY IN THE SPOTLIGHT

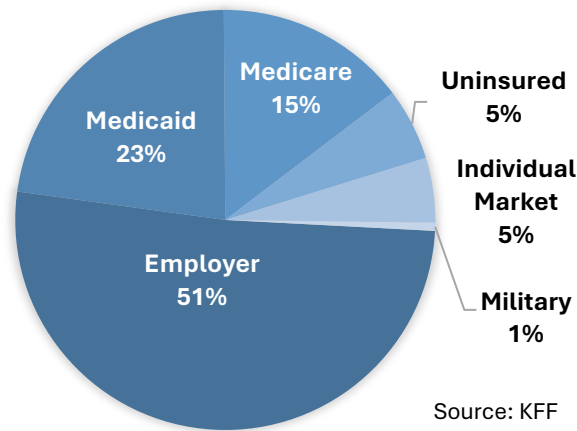
In an era of escalating expenses, health insurance costs have emerged as a critical concern for Connecticut residents and businesses alike. Costs for employer-sponsored coverage have outpace inflation and the end of enhanced premium subsidies for Obamacare enrollees spells trouble for those families and the state budget.

CT Coverage Landscape

The state's health coverage landscape represents a complex interplay of private and public sources, with approximately half of residents obtaining coverage through employer-sponsored plans, where premium costs are

shared between employers and employees. Another 23% of residents are covered by Medicaid, 15% by Medicare, 5% purchase individual policies directly from insurers, and another 5% remain uninsured.

CONNECTICUT'S HEALTH INSURANCE COVERAGE IN 2023



In the individual market, most get coverage through the Obamacare exchange, Access Health CT, with more than 138,000 people enrolled in 2024 and over 146,000 so far for 2025. Notably, more than 88% of these enrollees receive federal subsidies to make coverage affordable, including over 40,100 benefitting from CoveredCT, a state program providing no-cost health insurance for residents earning up to 175% of the Federal Poverty Li. In 2025, a family of four earning up to \$54,600 in household income could qualify for one of these free plans. Thanks to enhanced federal subsidies and CoveredCT, coverage on Access Health CT is generally more affordable now than it was in 2019. But that is set to change for many.

Escalating Costs in the Employer-Sponsored Market

Offering health benefits is a keyway businesses attract and retain talent, yet the cost of providing it has been growing at an unsustainable rate. From 2014 to 2023, Connecticut experienced a 41% increase in average total premiums for employer-sponsored coverage, significantly outpacing the 28% growth in average hourly earnings and 29% rise in consumer prices.



OFFICE of the STATE COMPTROLLER CONNECTICUT ECONOMIC UPDATE

Sean Scanlon
State Comptroller

FEBRUARY 2025

HEALTHCARE AFFORDABILITY, CONTINUED

Nationally, health insurance costs account for 7.1% of total employee compensation. In 2023, the average Connecticut employer contribution for premiums was \$6,700 for single coverage and \$17,876 for family coverage. The smallest employers face even higher per employee costs, and only 16% of establishments with less than 10 employees offer health insurance in Connecticut.

As costs have climbed, the burden of these increases has gradually shifted to employees, with their share of family coverage premiums rising from 22% in 2014 to 30% in 2023.

Families have seen the average employee cost for family coverage rise 90% over these years. Deductibles have risen as well.

Making health benefits more affordable for

Connecticut businesses and their employees is crucial to Connecticut's economic future. While much of the employer-sponsored market falls under federal jurisdiction, Connecticut is working to contain the healthcare cost growth itself through transparency. The state's Healthcare Cost Growth Benchmark is an annual rate-of-growth target for per person healthcare spending. It is set at 2.9% for 2025. Growth in 2022 was 3.4%.

In the employer-sponsored market, small businesses especially are confronting tough choices with ever-increasing healthcare benefit costs. More are switching to self-funded plans, which drives up premiums for employers that remain. Access Health CT will be rolling out one new option later this year, ICHRA, through which employers can help fund employees' health benefits on the state's exchange with pretax dollars.

Access Health CT enrollees could see their premium costs rise by hundreds or thousands of dollars per month if Congress allows the enhanced federal subsidies to expire.

Individual Market: Dramatic Changes Ahead

The individual market faces potentially dramatic cost increases in 2026. The enhanced federal subsidies that Congress included in pandemic-response legislation and continued in the Inflation Reduction Act through 2025 are set to expire. The [Connecticut Healthcare Affordability Index](#) provides stark evidence of these subsidies' impact: in 2019, 68% of individual marketplace households couldn't afford healthcare, a figure that dramatically dropped to 20% in 2022 after the introduction of enhanced subsidies.

Exchange enrollees' premiums are projected to rise over 75% on average without Congressional action, according to [KFF](#). For example, a Connecticut couple in their early 50s earning just above 400% of the Federal Poverty Level could see staggering monthly premium increases of \$1,100. A small family in Fairfield earning \$70,000 might have to pay \$178 more per month. Since this segment of the insurance market is particularly cost-sensitive, healthier enrollees might drop coverage, driving costs up even more for the people that remain.

The State is also likely to pay more if the enhanced subsidies expire. Since CoveredCT pays the differential between federal subsidies and the total insurance costs for each participant, when the federal subsidies go down, the state costs go up. A Medicaid 1115 Waiver currently enables the state to share the program's costs with the federal government, dampening the effect somewhat. Still, costs would rise significantly.

Policymakers are facing competing demands for resources as the next state budget is crafted this spring. Addressing a surge in costs for exchange enrollees may be crucial for continuing access to coverage and avoiding a spike in the uninsured.



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Connecticut Housing Market Trends December 2024

+6.0%

Homes Sold YoY
Redfin

+4.1%

Active Listings YoY
Realtor.com

+4

Days on Market YoY
Realtor.com

\$434,700

Median Sales Price
Redfin

6.96%

Freddie Mac 30-Year Fixed Rate
Mortgage Average
for the week ending 1/23

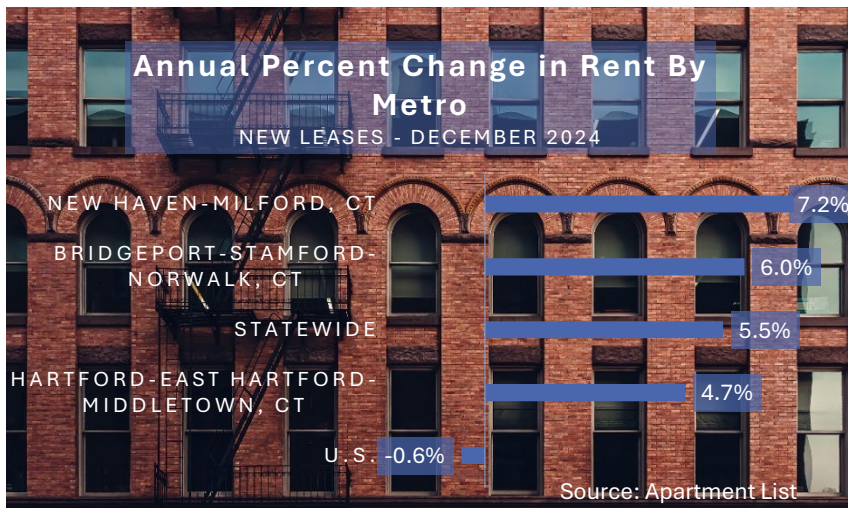
CONNECTICUT HOUSING MARKET

Housing affordability is top of mind for both families and businesses. A recent survey by the local nonprofit, DataHaven, found that 12% of Connecticut adults could not afford to pay for housing at some point in the past year, double the share reported in 2015. The need for more affordable housing has also increasingly become a business issue, as companies struggle to recruit and hire workers due to a lack of convenient and affordable homes for them. Connecticut is not alone in facing this critical shortage. Federal Reserve Bank of New York President John Williams recently remarked that housing is the number one issue facing the region.

December home sales increased 6.0% on a year-over-year basis according to Redfin, as Connecticut is now seeing inventory levels rise slightly and homebuyers are beginning to accept that higher rates are here to stay. Homes are spending a few more days on the market than this time last year and still selling above their list price on average, though less so. Strong demand for housing continues to push up prices in Connecticut and across the U.S.

After falling to just over 6% in September, the average 30-year fixed rate mortgage rate climbed back up to nearly 7% in January. While the Federal Reserve has been cutting short-term interest rates, those hoping that action would translate to lower financing costs to purchase a home have seen the opposite. That's because fixed mortgage rates tend to move with the price of 10-year Treasury bonds, which are more influenced by the strength of the economy and expectations for future inflation. Mortgage rates are slightly higher than they were this time last year, and probably will not decline much in the near term.

Connecticut continues to see some of the highest year-over-year rent growth in the nation among large metros, according to Apartment List. Nationally, rent prices have fallen slightly compared to one year ago, driven by a surge of new multifamily housing units coming online in other regions.



State investments are increasing the housing supply to improve affordability in the long term. The Build for CT program has supported the creation of 1,900+ new rental units since late 2023 according to the Connecticut Housing Finance Authority that administers it. 532 of the units are set aside for middle-income households, helping workers afford to live near their jobs.

Connecticut building permits are up YTD through November in 2024: 7.3% for single-family and 4.9% for multifamily units, with activity much higher in recent months. More units should lower housing inflation as they are completed.



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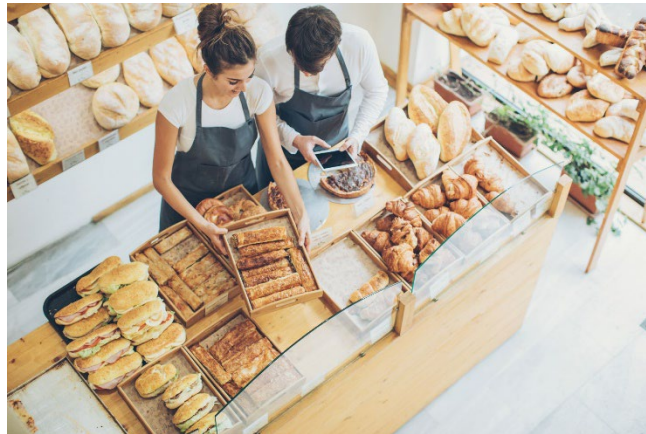
Sean Scanlon
State Comptroller
FEBRUARY 2025

WHO EARNS THE \$16.35 PER HOUR MINIMUM WAGE IN CONNECTICUT?

A broad spectrum of Connecticut workers saw their paychecks increase in January as the state's minimum wage climbed to \$16.35, up from \$15.69. An estimated 166,000 workers - roughly 10% of the state's workforce, earn the minimum wage or less based on recent occupational wage statistics from the Department of Labor. Workers earning minimum wage are younger on average and more likely to be women, according to federal minimum wage statistics.

Beyond cashiers, fast food workers, and dishwashers, the Connecticut minimum wage affects workers in positions that many might not expect.

Home health aides and social services providers, who provide crucial care for vulnerable Connecticut residents, often start at minimum wage. The same holds true for childcare workers who educate and supervise young children. Entry-level positions for receptionists, substitute teachers, and even light truck drivers frequently pay at the minimum wage level.



The wage increase represents the state's latest step in gradually raising compensation for its lowest-paid workers.

The 2019 law first phased in a \$15 per hour minimum wage and then set it to increase annually based on changes in the federal employment cost index.

SMALL BUSINESSES CAUTIOUSLY OPTIMISTIC

The Small Business Optimism Index, based on surveys of U.S. small business owners, rose above its 50-year average again in December and reached its highest level since October 2018. Fewer reported raising compensation (net 23%) but inflation was still the most frequently cited top concern (20% of owners).

For business owners, finding the right workers is a top challenge, especially in Connecticut where many retiring workers must be replaced before adding new roles. While anticipation for tax cuts and deregulation was fueling business optimism in December, small businesses are now evaluating the impact of new tariffs.

RISKS AND EVENTS WE'RE WATCHING

The Trump administration is making dramatic changes to policy, such as pausing refugee resettlement. Connecticut contractors that work with refugees have already seen the loss of federal funding.

Federal funding the state receives for Medicaid, education, and many other programs may be targeted for cuts by Congress and the new administration.

Changes to federal immigration policy are having a chilling effect in immigrant communities that could reduce economic

activity. Industries with high proportions of foreign-born workers, such as Construction and Leisure and Hospitality, are more likely to be impacted.

Destructive wildfires in California will cause major losses for the Property and Casualty Insurance industry, including Connecticut-based insurers.

A cease-fire in Gaza lowered the temperature slightly in the Middle East.

Retail Sales Rise

U.S. retail and restaurant sales in December were strong, up 0.4% from November and 3.9% from last year. Restaurants and bars' sales grew 4.6% for the year in 2024, not adjusted for inflation. Non-store retailers', like Amazon, saw sales grow 8.2% for the year.



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CONNECTICUT LABOR MARKET SUMMARY

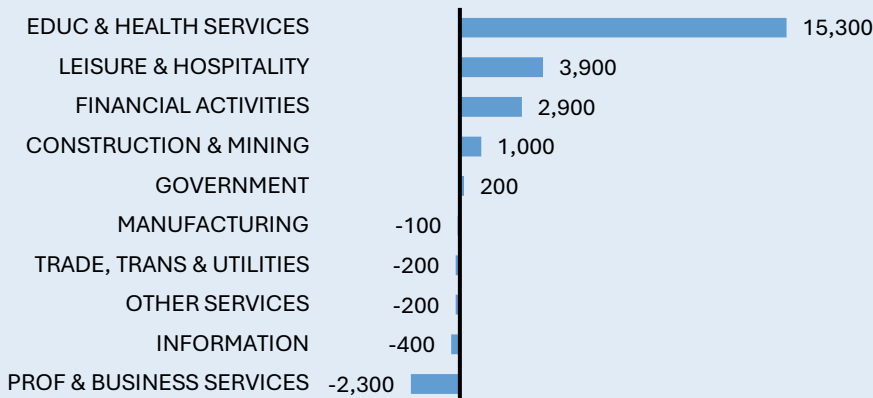
According to the Federal Reserve Chair, Jerome Powell, at his January 29th press conference, **the national labor market is stable and broadly in balance.** In balance means that there is neither a shortage of jobs nor a shortage of workers to fill them.

Connecticut's unemployment rate remained very low in December at 3.0%, stable for the past three months and significantly lower than the 4.1% U.S. unemployment rate. That suggests tighter conditions here, which may favor jobseekers.



December was a good month for job growth, with a surprisingly high +256,000 job gain for the U.S. and +5,100 position gain for Connecticut. Private sector jobs in the state are up 19,900 (1.4%) on the year, reaching a new all-time high. November's job gain was also revised from +300 to +1,800.

CONNECTICUT JOB GROWTH IN 2024 DECEMBER YEAR-OVER-YEAR CHANGE IN EMPLOYMENT



Data Source: CT Department of Labor

Much of the job growth in 2024 was in the Healthcare and Social Assistance (+12,500) and Leisure and Hospitality sectors (+3,900). The retail sector, a subsector of the Trade, Transportation & Utilities industry, added 1,600 jobs (1.0%) in December, but is on a long-term decline, dropping 700 jobs (0.4%) for the year. The high-paying Financial Activities industry gained a solid 2,900 jobs (2.5%) for the year and Construction also added 1,000 (1.6%).

Overall Connecticut payroll jobs are up 20,100 (1.2%) year-over-year on a preliminary basis. If that figure holds after normal revisions, 2024's gain would be higher than the 18,400 job gain last year,

and among the top five highest job growth years since 2000, measured December to December.

Connecticut employers had approximately 75,000 job openings in November. With Baby Boomers retiring at a particularly high rate, a growing population of workers (i.e., labor force) is important for expanding jobs in the state. Take for example the Manufacturing industry, which is down 100 jobs in 2024 despite aggressive hiring. Preliminary data indicates that 9,000 additional Connecticut residents joined the labor force in December alone, with the labor force participation rate jumping from 64.1% to 64.4%. Whether that was a temporary bump or will persist remains to be seen.

Average private-sector weekly earnings rose 6.5% year-over-year in December in Connecticut, versus 5.6% nationally, not seasonally adjusted. In Connecticut, working hours and hourly wages both increased.



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CONNECTICUT BRACES FOR IMPACT OF POTENTIAL NEW TARIFF REGIME

If allowed to go into effect, Connecticut consumers and businesses are set to feel the ripple effects of the Trump Administration's aggressive new tariff policy, which imposes substantial levies on imports from Canada, Mexico, and China.

Canada has already announced retaliatory tariffs that will hurt U.S. exporters. These actions are likely just the beginning of new tariffs, with European nations possible future targets.

The 25% tariffs on goods from Canada and Mexico, and additional 10% tariffs on Chinese imports, are expected to drive up prices across multiple sectors of the economy. One estimate puts the likely impact for consumers at roughly \$1,300 per household, with various goods and services' prices rising once and staying higher to account for the higher cost to bring those goods into the country.

Fresh fruits and vegetables, meat, cars, and electronics like cell phones are likely to be impacted. Small businesses and manufacturers in the state will face increased production costs as imported raw materials become more expensive. If implemented, it's not clear if the tariffs will be permanent, since Trump has tied them to drug-related enforcement.

Energy costs could rise. With approximately 60% of U.S. oil imports from Canada, even the lower 10% tariff rate on Canadian oil and gas could translate directly into higher gas prices for Connecticut drivers.

Tariffs are a tax paid by the importers of foreign goods into the U.S. In the end consumers often bear the brunt of higher tariffs, with businesses passing on higher

costs in the form of higher consumer prices. Some retailers may be able to raise prices even above their new costs, if consumers are expecting price increases.

In Connecticut, home to precision manufacturers and defense contractors, manufacturers may experience supply chain disruptions as companies seek alternative sourcing strategies to mitigate tariff impacts.

Canada and Mexico were the top two sources of Connecticut's imports in 2023, accounting for 42.7% of the state's total \$22.0 billion in imported goods. Transportation equipment and primary metal manufactures were the highest value categories of imported goods.

With Canada being the main supplier of U.S. lumber and gypsum for drywall, these tariffs are expected to increase the cost for new home construction, at a time when more building is desperately needed in the state.

Conversely, industries that directly compete with products from Canada, Mexico, and China do stand to benefit from their competitors' goods becoming more expensive.

Connecticut exporters of agricultural products and various manufactured goods to Canada are likely to see lower sales from Canada's tariffs. The continued strengthening of the U.S. dollar also hurts exporters.

Big picture, a spike in inflation from the trade war could prevent the Federal Reserve from further reducing interest rates this year, reducing growth. Generally, lower interest rates encourage faster economic growth, as businesses can afford to borrow more and invest in expanding their operations. Instead, uncertainty is high.

Once implemented, shoppers may see price increases within a few weeks for groceries. Avocados, tomatoes, and strawberries from Mexico have a short shelf life, meaning that new inventory will soon be subject to the new tariffs. Americans rely on beef, French fries and maple syrup from Canada as well.





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APPENDIX

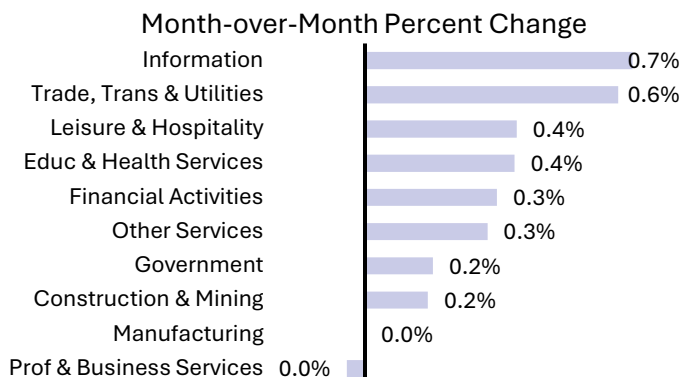
Connecticut Housing Market	Dec-24	Dec-23	% Change or Change
Home Sales (Redfin)	3,242	3,058	6.0%
Median Sales Price (Redfin)	434,700	380,300	14.3%
Active Listing Count (Realtor.com)	3,676	3,530	4.1%
New Listing Count (Realtor.com)	1,556	1,732	-10.2%
Freddie Mac U.S. 30-Year Fixed Rate Mortgage Average (%) (Week ending 1/23/25 and 1/25/24)	6.96	6.69	0.27
Median Days on Market (from listing to close, Realtor.com)	58	54	4
Average Sale-to-List Price Ratio (Redfin)	101.4%	101.9%	-0.4%
Median Rent for New Leases (Apartment List)	1,667	1,579	5.5%
Single-family Housing Permits YTD (U.S. Census Bureau)	1,954	1,821	7.3%
2+ Unit Structures Housing Permits YTD (U.S. Census Bureau)	3,171	3,022	4.9%

Some Data Retrieved from FRED, Federal Reserve Bank of St. Louis

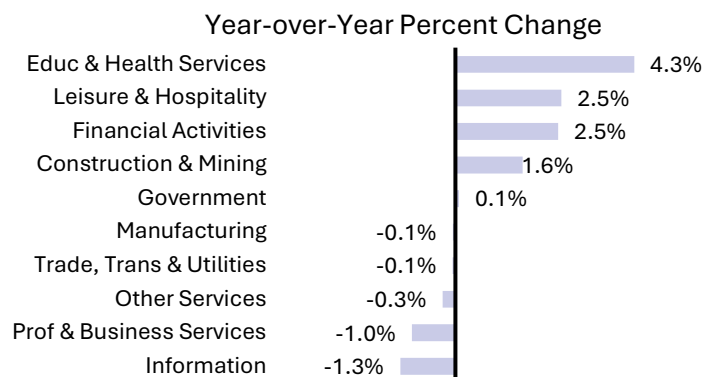
Connecticut Labor Market	Dec-24	Nov-24	Dec-23
Unemployment Rate	3.0%	3.0%	4.2%
Total Unemployed	57,400	56,900	79,900
Total Nonfarm Employment	1,715,900	1,710,800	1,695,800
Job Growth	5,100	1,800	-3,900
Job Openings to Unemployed Ratio	-	1.3	1.1
Quit Rate	-	1.6	2.1
Average Monthly Initial Unemployment Claims	5,603	2,837	4,933
Labor Force Participation Rate	64.4%	64.1%	64.3%
Average Hourly Wage	\$38.98	\$38.30	\$36.93

Data Source: Bureau of Labor Statistics & CT Department of Labor

Connecticut Industry Sector Nonfarm Payroll Employment



Data Source: CT Department of Labor



Data Source: CT Department of Labor