CONNECTICUT ECONOMIC UPDATE

Sean Scanlon
State Comptroller
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In this month's edition

Outlook: Economic indicators continue to be mixed, with the national labor market weakening but revised Q2 GDP growth, solid retail sales figures, and a boom in artificial intelligence technology pointing to continued growth. **Connecticut's real GDP grew 4.6% in Q2,** one of the top 10 fastest-growing states. That was above the U.S. rate of 3.8%, which was revised up from 3.3% previously reported. U.S. growth in Q2 reflects lower imports (following a surge in Q1 imports), as well as 2.4% growth in consumer spending (higher than previously estimated). As of mid-September, the Federal Reserve projected U.S. real GDP growth to slow from 2.4% in 2024 to 1.6% in 2025 and 1.8% in 2026, but the revised GDP figures could raise those projections.

U.S. job growth slowed to a crawl (+22,000) and unemployment rose to 4.3% in August, amidst the federal immigration crackdown that appears to be reducing labor force growth. The Federal Reserve **cut interest rates** by 0.25 percentage points in September—**the first cut in nine months**—to hedge against layoffs and job losses. Further cuts in October and December are possible but not certain, as inflation is expected to rise further and the economy outside the labor market is holding up. U.S. stock markets rose to fresh record highs in September and long-term interest rates (based on yields of longer-term U.S. Treasury bonds) have come down since August. That should filter through to **lower borrowing costs**.

Connecticut's unemployment rate held steady at 3.8% in August for the fourth consecutive month, and the state added 900 jobs. Despite record-high private employment, the labor force shrank by 10,300 from May to August.

Fueled by defense contracts and innovation, Connecticut is a leader in advanced manufacturing. This month we take a look at the industry, and discuss the impact of skilled labor shortages, new technology and recent events.

How are consumers doing? High-income consumers are increasingly driving spending. Inflation according to the Consumer Price Index (CPI) ticked up to 2.9% in August, while the New England CPI rose to 3.7%. Meanwhile Connecticut's average weekly earnings grew about 3.3%.

While rents are still rising in Connecticut, new lease rent growth has slowed to 1.3% year-over-year as of August, down from 5.9% in January**.** Home sales declined slightly in August, but 11.5% growth in new listings is shifting power slightly more towards buyers.

The Connecticut hotel industry is seeing growth overall in 2025—more so than many states in the region. The average occupancy rate at Connecticut hotels is up 1.3% year-to-date through August, with revenue per available room rising 3.2% over the same period.

Health insurance premiums for individuals are set to rise 16.8% on average next year on Connecticut's Obamacare exchange. Unfortunately, that's only part of the increase many families will see in their health insurance costs next year as premium-reducing federal subsidies are set to shrink. Health insurance premiums for small employers will rise 11% on average.

KEY DATES THIS MONTH

10/3 – September U.S. jobs report
10/15 – September CPI inflation report
10/20 – September CT jobs report
10/28-10/29 Federal Reserve FOMC Rate Setting Meeting
10/30 – U.S. 2025 Q3 GDP 1st estimate
*Note: the federal government shutdown could delay economic data releases.

Did you know?

The U.S. Department of the Treasury and the Internal Revenue Service released proposed regulations on the **"no tax on tips"** provision of the One Big Beautiful Bill. They include the proposed list of 68 occupations eligible for the tax break (deducting up to $25,000 of tip income). The diverse jobs range from delivery drivers to home plumbers, to event planners. See page 13 for the full list.

About OSC

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ON THE CUTTING EDGE: SPOTLIGHT ON CONNECTICUT'S ADVANCED MANUFACTURING SECTOR

Connecticut has long been a hub of precision, innovation, and industrial excellence—and today, its advanced manufacturing sector continues to evolve at the forefront of global competitiveness. This month we explore some of what makes Connecticut's advanced manufacturing sector exceptional and an engine for economic growth. We discuss the manufacturing industry's need for a constant **pipeline of skilled workers** and **how the state is helping to meet that need**. Next, we talk about **Industry 4.0**, also called the fourth industrial revolution, which is a shift in technology and industrial processes that can provide huge productivity gains for the manufacturers that make the switch. Finally, we discuss how recent events, from **tariffs** to **tax reform**, are impacting the sector. We close with a look at which manufacturing subsectors have been growing or shrinking.

Many of the graphs and statistics in this month's spotlight come from [AdvanceCT](), a nonprofit economic development organization focused on business growth in Connecticut, and their 2025 Advanced Manufacturing Industry Snapshot. **That is the source for graphics unless otherwise stated.** You can see the whole thing at their website [here]().

Who are Connecticut's Advanced Manufacturers?

According to AdvanceCT, Connecticut has 1,100 advanced manufacturing establishments, employing 76,400 workers in the state. Together they contribute approximately $20 billion to the Connecticut economy annually. On a per capita basis, that's the second highest in the country.

The ecosystem consists of major Original Equipment Manufacturers (OEMs) in the aerospace, defense, and semiconductor industries like General Dynamics (Electric Boat), RTX (Sikorsky), Lockheed Martin (Pratt & Whitney), and ASML, as well as many smaller manufacturers that supply them or specialize in other complex products and processes.

Connecticut is known for **advanced technologies** for **extreme precision**, **multiple generations** of **skill** and **know-how,** and a **workforce dedicated to quality and productivity.**

SOURCE: LIGHTCAST, 2024 – Q3 2025 RELEASE.

According to the Bureau of Economic Analysis (BEA), the wider state manufacturing sector accounts for 11.7% of the state's gross domestic product (GDP) as of 2024. That's larger than 9.8% for the U.S. It employs about 153,600 workers (seasonally adjusted) and accounts for 8.9% of Connecticut payroll employment as of August 2025. Importantly, **69% of Connecticut manufacturing companies have fewer than 20 employees**, and 94% have less than 500, according to the Census Bureau.

What Sets Connecticut Apart?

Connecticut's manufacturing sector is generally "high value, low volume" since low-skill wages, electricity, and some other costs of doing business can be higher here, as well as elsewhere in the Northeast. What Connecticut brings is a highly skilled and innovative workforce and a wealth of local suppliers in key industries. Firms excel at product design and development, process development, and precision manufacturing with extremely low tolerances. They compete by working smarter, faster, and more efficiently. As a result, the annual output per advanced manufacturing worker is $266,400, according to AdvanceCT, fifth highest among states.

> *"Connecticut is home to a concentrated ecosystem of* ***globally renowned companies,*** *supported by a highly educated workforce with extraordinary engineering talent. The state produces* ***some of the most technologically advanced products in the world*** *and specializes in* ***high value-added production****."*
> *-AdvanceCT 2025 Industry Snapshot*

This **high-value manufacturing** means average annual wages in Connecticut's manufacturing sector are high: $100,716 in 2024, according to the Connecticut Department of Labor. That's 15% above the state average and underscores how the sector provides many well-paying jobs for Connecticut workers.

A skilled, innovative workforce. Workforce is a key need and something the State of Connecticut is actively working to support and grow. The state is attractive to companies thanks to its high concentration of specialized manufacturing talent and research scientists, with top-tier universities and local programs providing a pipeline of new workers. Connecticut has 39% more engineers than the national average, according to AdvanceCT, and Connecticut is the 5th ranked state for patent creation rate and private sector R&D investment per capita.

Defense Industry Powerhouse. Much of Connecticut's manufacturing industry is oriented towards national defense, be it engines for fighter jets, military helicopters, or top-of-class nuclear submarines. The presence of OEMs like General Dynamic (Electric Boat), Lockheed Martin (Sikorsky), and RTX (Pratt & Whitney) and their extensive network of local suppliers led the Department of Defense to designate Connecticut as one of six Defense Manufacturing Communities in the country in 2020.

- **21% of all U.S. aircraft engine and engine parts are produced in CT (by GDP)**
- **Norwich, CT Metro is #2 in the country for jobs and productivity in shipbuilding & repair**

SOURCE: [1]U.S DEPARTMENT OF WAR, FY 2023 – OCT 2024 RELEASE; U.S. CENSUS BUREAU, PEP, 2023; ADVANCECT CALCULATIONS. [2]U.S. DEPARTMENT OF COMMERCE, INTERNATIONAL TRADE ADMINISTRATION, 2024.

State Government Support. Connecticut state government has been particularly focused on the manufacturing sector's success. In 2012, the General Assembly created a bipartisan manufacturing caucus, one of the first and only states to do so. In 2014, the state created the Manufacturing Innovation Fund, which allows state government to provide targeted and tangible support to address industry needs, such as workforce development. The latest state budget funded it at $45 million over the next two years.

In 2019, Connecticut created a **Chief Manufacturing Officer** role within state government, which is unique to Connecticut. Governor Lamont recently named Kirti Patel for the role, succeeding Paul Lavoie. The Chief Manufacturing Officer is responsible for coordinating state and private-sector efforts to support industry innovation and growth. A cabinet-level point person has facilitated Connecticut's influence on federal policy matters and ensures state policy is aligned with industry needs.

Well-organized advocacy and industry support. A well-established network of organizations amplifies the voices of both small and large manufacturers. The state's MEP, CONNSTEP, partners with smaller firms for everything from increasing productivity to maintaining cyber security certifications for federal contractors. The East Hartford-based Connecticut Center for Advanced Technology (CCAT) helps manufacturers apply cutting-edge technologies in practice.

Statewide Support for Manufacturing

Organizations across the state work together to promote manufacturing in Connecticut.

connecticut innovations	Venture Capital
MANUFACTURE	Collaboration of CT Manufacturers
CONNSTEP a CBIA affiliate	Business Growth Consulting
UCONN, Yale	World-Renowned Talent and R&D
ADVANCECT CONNECTICUT	Business Attraction, Expansion & Retention
Connecticut Center for Advanced Technology	Technological Advancement
CONNECTICUT	State Support
cbia	Business Advocacy

The Workforce Challenge

When it comes to future growth and expansion of the advanced manufacturing sector in Connecticut, one issue rises to the top: **workforce**. Connecticut's highly skilled and innovative workforce is a key factor in the state's past success, but a continuous pipeline of skilled workers is needed. As companies adopt the latest technologies, existing employees also need to be retrained to use them.

Despite the pervasive narrative that manufacturing jobs are being eliminated by automation, Connecticut firms are turning to automation to do the jobs that can't be filled. Attrition has been a major headwind to employment growth even as the sector has about

HISTORY OF INNOVATION

THEN:	NOW:
Yale student David Bushnell invented the prototype of all **modern submarines** in 1775. Named the Turtle, the submarine's first torpedo attack upon an enemy warship was in September 1776.[1]	**Electric Boat** now makes **the world's most advanced nuclear submarine** in Groton, Connecticut and earned the largest shipbuilding contract in Navy history of $22 billion in 2019.[2]
Danbury company Unimation invented the **first industrial robot**, the Unimate, in 1962. Patent-owner George Devol and the "father of robotics" Joseph Engelberger developed the robot that would be **used by large car makers across the globe**.[3,4]	**The Connecticut Center for Advanced Technology (CCAT)** supports the next generation of **robotics** by partnering with companies to develop, test, and integrate robotic systems across industries statewide.[5]
Wilton was home to the **first optical lithography machine** invented by Perkin-Elmer in 1972. The **Micralign** used mirrors instead of lenses to create the Offner relay system that would drastically increase the number of working chips on a wafer.[6]	**ASML** is now the only manufacturer of **EUV machines** used to create **the world's most advanced microchips** in Wilton, Connecticut, with customers that include Nvidia, Intel, and TSMC to name a few.[7]

SOURCE: [1]U.S. NAVAL INSTITUTE, ACCESSED AUG 2025. [2]USASPENDING, ACCESSED SEPT 2024. [3]KAWASAKI ROBOTICS, ACCESSED AUG 2025. [4]ASSOCIATION FOR ADVANCING AUTOMATION ROBOTICS, ACCESSED AUG 2025. [5]CONNECTICUT CENTER FOR ADVANCED TECHNOLOGY, INC., ACCESSED JULY 2025. [6,7]ASML, ACCESSED AUG 2025.

Manufacturing Employment 1990 to 2025

Year	United States		Connecticut	
	Thousands	Share of Total (%)	Thousands	Share of Total (%)
1990	17,695	16.2%	299.4	18.4%
1995	17,245	14.7%	247.4	15.8%
2000	17,265	13.1%	234.2	13.8%
2005	14,224	10.6%	192.8	11.5%
2010	11,514	8.8%	162.8	10.1%
2015	12,308	8.7%	156.9	9.3%
2020	12,125	8.5%	153.9	9.8%
2025*	12,756	8.0%	153.8	9.0%
% Change				
1990 to 2025	-27.9%	-50.4%	-48.7%	-51.3%
2015 to 2025	3.6%		-2.0%	

Source: Bureau of Labor Statistics, OSC calculations *2025 is Q1 & Q2

Both the U.S. and Connecticut saw a rapid decline in the share of their workforces engaged in manufacturing between 1990 and 2010, as production of various goods moved to lower-cost locations overseas and technological improvements meant firms could do more with fewer workers. For the past ten years, overall employment levels have been more stable.

As of the first half of 2025, **employment in the Connecticut manufacturing industry accounts for 9.0% of the state's total payroll employment**—about half as much as in 1990 but down only slightly from 9.3% in 2015. Advanced manufacturers account for a subset of those workers—76,400 at last count according to AdvanceCT.

5,900 jobs posted to be filled. This issue is not unique to Connecticut, as manufacturing workers skew older across the country (a U.S. median age of 44.3 versus 42.2 overall), and over-represented Baby Boomers are now retiring in droves.

Finding and retaining the right skilled workers is a difficulty for 82% of businesses surveyed in CBIA's 2025 Survey of Connecticut Manufacturers.

At present, there are different factors driving worker shortages for entry-level roles. According to the Business-Higher Education Forum (BHEF), for most bachelor's degree-requiring roles, there's a need to attract skilled graduates (for example, computer scientists) already being produced by the higher education system into manufacturing jobs. For "on the floor" type roles, it's a matter of **too few high school students taking the career path** to meet current demand, especially as demographic change means there will be fewer K-12 students in the years ahead.

Fortunately, developing and reskilling the manufacturing workforce is one area where public support responding to industry needs has already made a difference. At the state level, the Office of

What workers are needed?

For entry-level roles, Connecticut manufacturers are looking for "on the floor" positions like quality inspectors, machine operators, and production workers, most of which do not require a bachelor's degree. Office-based roles are also in high demand, such as engineers, computer scientists, and client service associates, according to a 2024 BHEF analysis.

Workforce Strategy (OWS) coordinates a system of **five manufacturing Regional Sector Partnerships**. Each industry-led group brings together local manufacturers of all sizes to express their workforce needs and coordinate with schools, workforce boards, the State, and community organizations like ReadyCT to meet them.

One major area of focus for OWS and the Manufacturing Innovation Fund has been **fostering interest in manufacturing careers** among Connecticut's youth (as well as their parents and mentors). The state is also supporting short-term credential programs for manufacturing skills, as an alternative to college, and kids can get early hands-on experience at one of the State's technical high schools.

The Office of Manufacturing put out *I Got it Made*, a lookbook for high schoolers to get to know manufacturing careers. The Manufacturing Innovation Fund supports diverse initiatives like FIRST Robotics, a robot-building competition for youth, and a Faculty Fellowship Program. The latter gives hands-on experience in Industry 4.0 technologies to nine Connecticut college progressors, which they can then accurately teach to their college students, multiplying the impact. The Registered Apprenticeship, CareerConnect, and Good Jobs Challenge programs are other examples helping to address skilled talent needs.

Just as crucial for economic growth, the State also supports **incumbent worker training**. Provided through CCAT, it enables small manufacturers to upskill their existing workers as the needs of the company evolve. As 69% of the state's manufacturers have fewer than 20 employees, this is an especially necessary component for firms to embrace Industry 4.0 technologies that enable future growth. The CCAT program assisted 66 companies in fiscal year 2024, training 1,908 individuals.

Industry 4.0 – Opportunities and Challenges

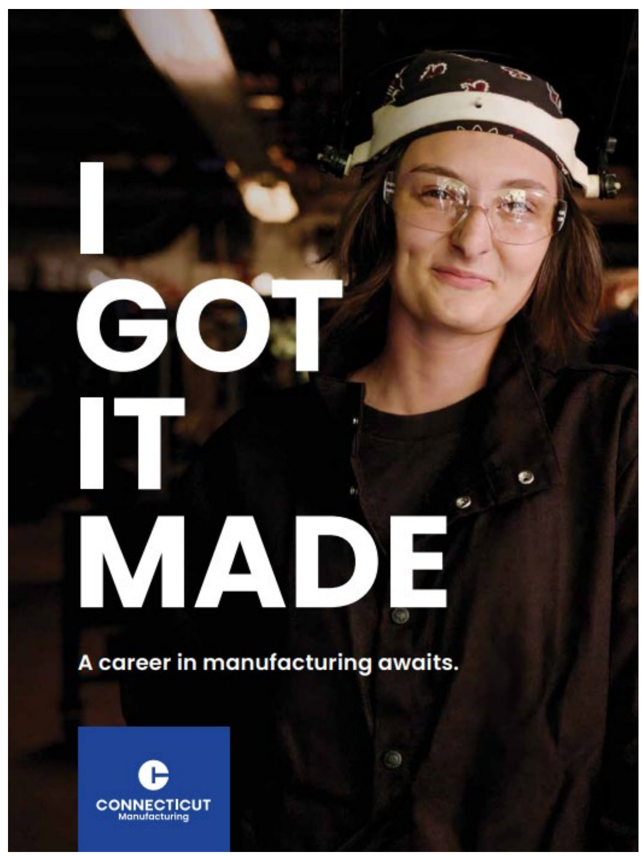
So, what are these new technologies that earned the designation "the fourth industrial revolution" or **Industry 4.0** for manufacturing? Smart manufacturing takes advantage of many of the following:

- **Model-Based Definition** allows manufacturers to improve efficiency and reduce errors by transitioning from traditional 2D drawings to fully digital 3D models.
- The **Industrial Internet of Things** uses interconnected sensors and instruments that allow for real-time monitoring and optimizing throughout the whole process.
- **Adaptive automation** describes smart manufacturing systems that shift tasks between machines and humans based on various conditions.

Industry-led Initiatives

One success has been the Eastern CT Manufacturing Pipeline Initiative. An initiative of Electric Boat (EB) and the Regional Sector Partnership in eastern Connecticut, the program provides no-cost training (with stipends available) for unemployed and underemployed trainees to meet the hiring needs of Electric Boat and other manufacturers in the region. As of 2024, it has placed more than 4,000 participants into jobs with 550 employers, with a 93% job placement rate for completers, according to the Governor's Workforce Strategic Plan. The training is designed to specifically meet the skilled labor needs of local employers.

Another example, the Northwest CT Manufacturing Regional Partnership is creating a first-of-its-kind program to provide specialized training in the metal finishing industry. The State funded essential training equipment.



- **Additive manufacturing (e.g., 3-D printing)** can save manufacturers time (e.g., rapid prototyping) and allow the creation of new products by building objects up, one layer at a time, based on digital models.
- **Artificial intelligence**, **advanced robotics**, and **cloud computing** are also part of the revolution.

Barriers & Support. For traditional manufacturers that want to benefit from these technologies, there are various barriers to adoption that public support tries to help overcome. First, there is the large up-front investment needed in new systems, machines and factories. State financial assistance programs like the **Manufacturing Innovation Fund Voucher Program**, which provides up to $100,000 towards a productivity-improving project, are designed to help with that. This year the State also launched a $25 million "Strategic Supply Chain Initiative," which provides grants of $500,000 to $5 million for projects that increase production capacity in Connecticut.

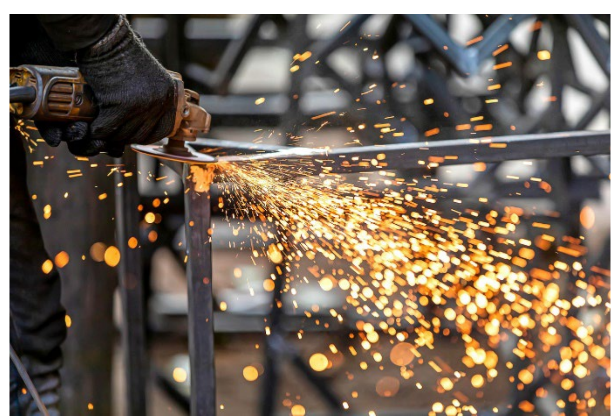
Second, Industry 4.0 likely requires existing staff to be retrained in new methods. It can also require the hiring of new staff in roles focused on digital technology, which can be in short supply. Finally, digital transformation brings some new problems, like the need for **enhanced cybersecurity**. CONNSTEP, CCAT, and other organizations serve to help the state's small and medium-size operations overcome these obstacles.

A Changing World: Tariffs, Geopolitical Events and Tax Reform

Stepping back, the industry is also being shaped by changing federal economic policy and a desire to make supply chains more resilient in the face of crises, wars, and changing geopolitical alliances.

Tariffs. President Trump has rolled out the highest tariffs in nearly 100 years, upending the global trading order in the process. Significant tariffs are currently in place on specific products (like steel, aluminum, copper, and auto parts) and so called "reciprocal" tariffs apply to most products imported from specific countries (though those levies are being contested in court).

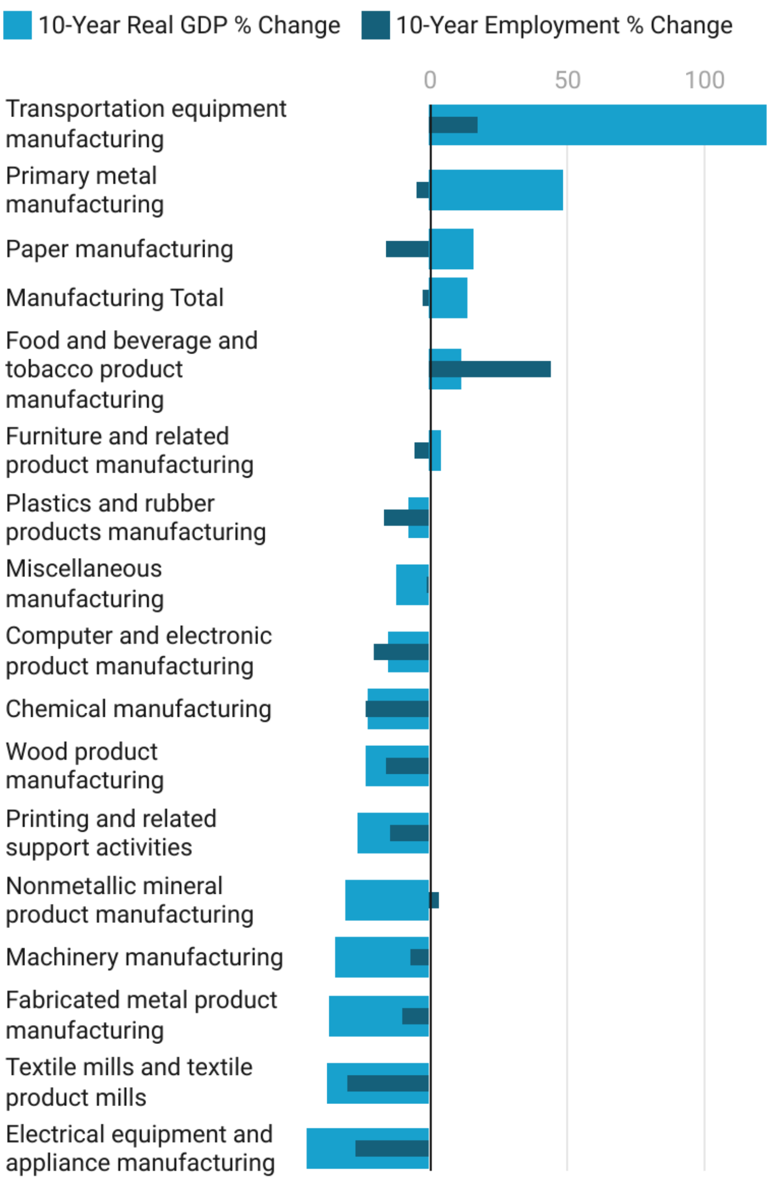
For Connecticut manufacturers, tariffs can both help and hurt, depending on how much their **input costs rise** and how much they can **raise their selling prices or increase sales**. Tariffs drive up the cost of imported inputs to production (like metals or chemicals used in manufacturing) because importing companies must pay the import tax (e.g. 25% of its value) on top of the imported goods' regular price. Tariffs can also increase the cost of domestic goods that compete with foreign ones. Conversely, tariffs protect local firms from global competition within the U.S., allowing them to charge higher prices, or sell more to the domestic market, potentially increasing profitability.



- According to CBIA's June 2025 survey, **66% of Connecticut manufacturers that responded said the Administration's tariff policies are having a negative impact on their operations.**
- President Trump announced new tariffs to start October 1st on pharmaceuticals (100%), kitchen & bathroom cabinets (50%), upholstered furniture (30%) and heavy trucks (25%).

Supply Chain Resilience. Likely hastened by Present Trump's tariff policies, there is also a trend towards **increased onshoring (or reshoring) of supply chains** that stands to benefit Connecticut. The COVID-19 pandemic, Russia's invasion of Ukraine, and President Trump's trade wars have demonstrated how fragile supply chains stretched across continents can be. Some Connecticut manufacturers have already seen an influx of demand for more production to be done locally. The CONNEX database is one tool that is facilitating these new links. It helps manufactures find and connect with suppliers in Connecticut and across the United States. The State has provided free access for Connecticut manufacturers.

Subsector Real GDP and Employment Growth 2014 to 2024



QCEW Annual Average Employment, Real Gross Domestic Product by State, Annual Data (2017 Constant Dollars). Note: Apparel, Petroleum and coal, and Leather and allied product manufacturing are not listed separately due to data suppression.

Source: OSC calculations of CT Department of Labor and Bureau of Economic Analysis data for Connecticut • Created with Datawrapper

Tax Reform. The One Big Beautiful Bill Act (OBBBA) made changes to tax policy that could help many manufacturers. The bill restores and makes permanent **100% bonus depreciation**, expands **Section 179 expensing** for small businesses, creates a **new deduction for factories**, and restores **immediate expensing for domestic R&D** expenditures. These policies lower the after-tax cost of investment in factories, machinery and R&D, encouraging investment and innovation. OBBBA also **improves the deductibility of interest income**, which is important for medium and smaller firms that rely on debt financing, and **continues the 20% qualified business income (pass-through) deduction**, which helps businesses structured as pass-throughs.

However, to the extent the bill's hefty price tag keeps interest rates higher than they otherwise would be, **the tax cuts could raise borrowing costs for manufacturers over the long-term**. The bill also cuts incentives for clean energy technologies, which has been a growth area in Connecticut. Cuts to federal healthcare spending could also indirectly drive up healthcare costs.

Changes to Connecticut's Manufacturing Landscape

Over the past ten years, Connecticut's manufacturing sector has grown and shifted. Real GDP rose 13.5%. Expressed another way, manufacturing output adjusted for inflation grew at a compound annual growth rate of 1.3% over that period, outpacing Connecticut's private sector growth of 0.9%, based on the latest real GDP figures from BEA. However, the sector also became more dependent on aerospace and defense.

Transportation equipment manufacturing, which includes aircraft and ships, accounted for 25.2% of average annual manufacturing employment in 2014 vs. 30.4% in 2024. It accounted for 25.3% of manufacturing state GDP in 2014 but 45.9% in 2024, with output growing at an average inflation-adjusted pace of 8.3% per year (from $7.7 billion to $17.2 billion, in 2017 dollars). On the flip side, big sectors like Chemicals and Fabricated Metal Product Manufacturing have seen employment and inflation-adjusted output decline.

One other industry that stands out from the pack is the **Food and Beverage and Tobacco Product Manufacturing sector** (including craft breweries that really took off after 2012). It accounted for $1.9 billion in GDP in 2024, 4.7% of the manufacturing total. Industry subsector saw employment expand by about 3,700 workers (44.2%) over ten years, though real GDP only expanded at a compound annual growth rate of 1.1% (11.9% total real GDP growth).

Looking Ahead

Despite some difficult years of constant adapting and ongoing challenges from tariffs, Connecticut's advanced manufacturing sector is poised to benefit from trends like onshoring, beneficial tax changes, and sustained public investment. State support will remain critical for helping small and medium manufacturers fully adopt Industry 4.0 technologies and for ensuring the pipeline of skilled workers keeps flowing.

While President Trump has emphasized reshoring U.S. manufacturing, some federal policies are creating headwinds.

- **Tariffs** on inputs are increasing production costs and inflation, potentially keeping interest rates high.
- Proposed **elimination of funding for MEPs** like CONNSTEP threatens critical support for small manufacturers.
- The Administration's **cuts to scientific research** and **$100,000 fee for H-1B visas** could slow the pace of American innovation in advanced manufacturing.
- **Immigration raids** (e.g., at Georgia Hyundai plant) could deter foreign investment.
- **A slowdown in foreign migration** to Connecticut could reverse recent population growth, making it harder for firms to meet skilled labor needs.

On a more positive note, recent multibillion dollar federal military contracts awarded to Pratt & Whitney, for more F-35 fighter jet engines, and Sikorsky, for additional CH-53K heavy lift military helicopters, as well as contracts for submarines from Electric Boat, ensure **continued demand for workers at the state's defense contractors and the hundreds of smaller firms that supply them**. For the CH-53K, Sikorsky and its suppliers are building it entirely from a digital model, an Industry 4.0 advance and Sikorsky's first major platform to be built that way, according to the Hartford Business Journal. From lithography machines essential for Nvidia's advanced micro-chips to major investments by Yale and UConn in quantum computing, **Connecticut is helping define the future of advanced manufacturing**.

RISKS AND EVENTS WE'RE WATCHING

A federal appeals court has ruled that the Trump administration's country-specific tariffs announced on April 2nd are illegal but left them in place while the administration appeals to the Supreme Court. The court will hear arguments on November 5th.

Moody's and Fitch announced in September that they are **upgrading Connecticut's bond ratings**. The higher credit ratings are expected to increase demand for Connecticut's bonds, resulting in immediate and long-term state savings.

The federal **government shut down**, as of October 1, as Congress failed to pass a funding bill. Administration officials have warned of mass layoffs of federal workers. Residents and local governments could see delays for federal government services and economic impacts if it drags on.

INFLATION REMAINS ELEVATED: HOW ARE CONSUMERS KEEPING UP?

Prices for Halloween costumes are likely scarier this year, as President Trump's high tariffs kicked in around the time many retailers were making fall orders. But recent economic data suggests **consumers will keep spending** anyway, fueled increasingly by well-off households. The National Retail Federation projects Halloween-related purchases will top $13.1 billion in 2025, beating the 2023 record of $12.2 billion.

Inflation according to the Consumer Price Index (CPI) rose to a 2.9% annual rate in August. Excluding volatile food and energy prices, core CPI held steady at 3.1%. Inflation is running hotter in New England, where the **New England CPI rose to a 3.7%** annual rate, with core CPI rising from 4.0% to 4.2% in August. President Trump's tariffs are starting to filter through into higher prices for Americans. Yet tariff impacts on consumer prices have been smaller and slower to date than many initial fears. That's likely because importing firms have borne most of the tax cost themselves while they wait to see how lasting the tariffs will be or taken steps to avoid the duties.

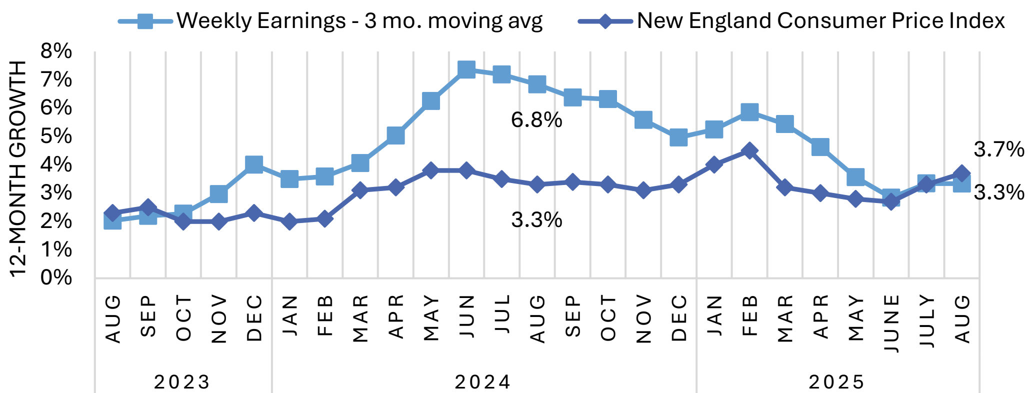
Consumers are continuing to spend at a healthy pace. Advance estimates of U.S. retail and food services sales rose a robust 0.6% in August and 5.0% year over year. Non-store retailers like Amazon have seen sales rise 10.1% over last year, and discretionary restaurant and bar spending has been resilient. Revised U.S. GDP estimates indicate that consumer spending grew 2.5% in Q2 (SAAR), much higher than the 1.4% initially reported. That's good news for the economy, which depends on consumer spending for growth, but recent analysis by Moody's Analytics shows that spending is increasingly being driven by households with high incomes (above $175,000 per year). If they pulled back, that could tip the economy towards recession.

According to Moody's chief economist, t**he top 10% of Americans by income accounted for about 50% of total spending in the second quarter.** That's the highest share since at least 1989 and up slightly from Q1. Some of the Connecticut families in that group can expect a break on their taxes this year, thanks to the increase in the State and Local Tax (SALT) deduction in the One Big Beautiful Bill Act. The S&P 500 is up 13.7% YTD on Oct. 1, and home values rising gives them further reason to spend.

Other groups may be relying more on credit to get by. For most of the past two years, average weekly wage growth on an annual basis has been outpacing inflation (even the higher levels in New England), supporting continued spending at higher prices. But recently that dynamic has been shifting. Connecticut wage growth has slowed while regional price growth remains high. The result is more families struggling to cover their bills for rent, groceries, and everything else.

According to the Federal Reserve, U.S. credit card and other revolving credit jumped 9.7% in July, the fastest growth since December 2024, as families face rising costs. The delinquency rate on credit card debt remains stable around 3% for now but could worsen if unemployment rises.

CONNECTICUT AVERAGE ANNUAL WAGE AND PRICE GROWTH



Connecticut average weekly earnings, total private employees, not seasonally adjusted

Sources: Bureau of Labor Statistics, OSC calcualtions

Connecticut Housing Market Trends
August 2025

+11.4%
Active Listings YoY
Realtor.com

+4.6%
$479,900
Median Sales Price YoY
Redfin

-2.9%
Home Sales YoY
Redfin

+4 days
43
Median Days on Market YoY
Realtor.com

6.26%
Freddie Mac 30-Year Fixed Rate Mortgage Average for the week ending 9/18

+27.7%
4,629
Connecticut Housing Permits*
YTD through August, YoY
U.S. Census Bureau

+1.3%
$1,722
Statewide Median New Lease Rent, YoY
Apartment List

CONNECTICUT HOUSING MARKET

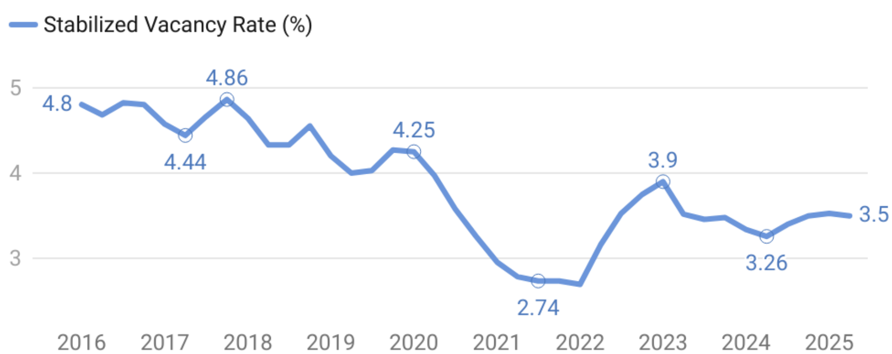
Connecticut home sales declined 2.9% year-over-year in August according to Redfin, while national sales of previously owned homes rose 1.8% year-over-year according to the National Association of Realtors. The Census Bureau reported sales of newly built single-family homes are running 22% lower year-to-date in the Northeast compared to 2024, though sales picked up in August. Mortgage rates declined in September ahead of the anticipated rate cut by the Federal Reserve. **The average 30-year fixed rate mortgage fell 37 basis points from early August to 6.26 in the week ending September 18th**, according to Freddie Mac. That's the lowest since October 2024. Aside from a flurry of refinancing activity, the lower rates could boost home sales in September and October, since sale closings occur with a lag and new listings were up 11.5% year-over-year in August. *See the appendix for more.*

Slower Rent Growth, Increase in Multi-family Housing Permits Continues

Connecticut's rental market is seeing some cooling, as the pace of annual rent growth has slowed to 1.3% for new leases (down from 5.9% in January), according to Apartment List. Despite a rise in the rental vacancy rate that is likely contributing to slower rent growth, the stabilized vacancy rate remains below pre-pandemic levels as of Q2 2025.

Perhaps because of this, the state continues to see more housing permits being authorized for units in multi-family structures, **up 47.3% year-to-date*.** Favorable financing offered by the State through the Build4CT workforce housing program is helping spur some of the activity. Through September, that program has supported the creation of 2,726 units with $89.3 million of its $200 million in authorized state bonding committed since 2023.

Connecticut Multifamily Rental Vacancy Rate



The stabilized vacancy rate is the vacancy rate for multi-family communities that have reached 90% occupancy following delivery or are older than 18 months from initial delivery of the property.

Source: CoStar Group via CHFA • Created with Datawrapper

*Note: Previous editions of the Economic Update calculated CT housing permits authorized year-to-date (YTD) using each month's initial release figures from the Census Bureau. Starting this month, we publish the Census Bureau's YTD figure that includes revisions to previous months' data not otherwise released.

CONNECTICUT LABOR MARKET

Connecticut added 900 jobs in August, with the private sector adding 1,200 positions, both seasonally adjusted. **The unemployment rate remained steady at 3.8% despite the U.S. rate rising to 4.3%**.

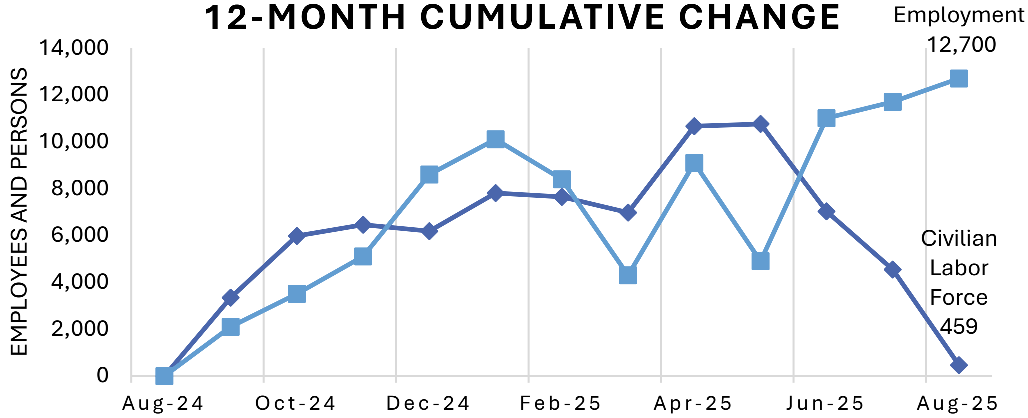
- The **Health Care and Social Assistance** industry added the most jobs (+1,700) over the month, more than reversing last month's loss.
- **Construction** declined by 600 jobs (-1.0%). It's now down 1,400 positions (-2.2%) year-over-year, the largest percentage decline among major industries.
- **Manufacturing** gained 700 net jobs but remains down 1,800 (-1.2%) year-over-year.
- The **Financial Services** sector has seen the highest percentage gain in the past 12 months (+2.1%); it gained 200 in August.

Over the past twelve months, Connecticut payrolls have added **12,700 positions (0.7%)**, putting employment at the highest level since March 2008. Meanwhile the labor force, defined as those working or looking for work, expanded by about 10,700 people between last August and May, fueling much of that growth. However, the past three months have seen the labor force fall by approximately 10,300 people (-0.5%), eroding nearly all the labor force growth this year.

Given that data comes from a survey with a relatively small sample each month, it is too soon to say if the drop is indicative of a new trend or just statistical noise. **The labor force participation rate has declined** in tandem, from 65.0% in May to 64.6% in August. Economists largely expect the immigration crackdown to impact the available workforce.

The number of Connecticut **job openings has been trending down**, consistent with a cooling labor market. There were 71,000 in July, according to the Bureau of Labor Statistics. That puts job openings just below the number of people looking for work (roughly 74,200 in July), for the first time since October 2021, with both series seasonally adjusted.

CT LABOR FORCE & EMPLOYMENT: 12-MONTH CUMULATIVE CHANGE



Source: Bureau of Labor Statistics via FRED

Connecticut Lodgings Industry Update

The average occupancy rate at Connecticut hotels is up 1.3% year-to-date through August, with revenue per available room rising 3.2% over the same period. Hotels in eastern Connecticut saw strong year-over-year improvement in occupancy and revenue in August, while Fairfield County saw lower demand than last year in July and August.

Overall Connecticut is seeing growth in 2025—more so than many states in the region.

Source: Connecticut Office of Statewide Marketing & Tourism

GUIDANCE RELEASED FOR "NO TAX ON TIPS"

Federal agencies released proposed regulations on the new "qualified tips" federal income tax deduction for workers in occupations that customarily received tips as of December 31, 2024. That federal income tax provision will be in effect for tax years 2025 through 2028 and was introduced in the major federal tax and spending bill signed on July 4, 2025.

The tip income will still be subject to Connecticut income taxes, so there is no revenue loss for the State.

People with voluntarily given cash tips earned through eligible occupations (both as an employee and independent contractor) can deduct up to $25,000 in qualified tips per tax year from federal income taxes. The deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers), and filers must include a social security number for eligibility.

Businesses with tipped employees and contractors that receive eligible tips will need to pay attention to specific reporting requirements when filing taxes and generating employee tax documents this year.

The provision is anticipated to result in a windfall for residents who receive a significant portion of their income through tips, possibly boosting their spending. Businesses with employees that qualify may find it easier to attract talent or pay lower wages.

Here's the proposed list of eligible occupations according to the Federal Register:

Beverage & Food Service
- Bartenders
- Wait Staff
- Food Servers, Non-restaurant
- Dining Room and Cafeteria Attendants and Bartender Helpers
- Chefs and Cooks
- Food Preparation Workers
- Fast Food and Counter Workers
- Dishwashers
- Host Staff, Restaurant, Lounge, and Coffee Shop
- Bakers

Entertainment & Events
- Gambling Dealers
- Gambling Change Persons and Booth Cashiers
- Gambling Cage Workers
- Gambling and Sports Book Writers and Runners
- Dancers
- Musicians and Singers
- Disc Jockeys, Except Radio
- Entertainers and Performers
- Digital Content Creators
- Ushers, Lobby Attendants, and Ticket Takers
- Locker Room, Coatroom, and Dressing Room Attendants

Hospitality & Guest Services
- Baggage Porters and Bellhops
- Concierges
- Hotel, Motel, and Resort Desk Clerks
- Maids and Housekeeping Cleaners

Home Services
- Home Maintenance and Repair Workers
- Home Landscaping and Groundskeeping Workers
- Home Electricians
- Home Plumbers
- Home Heating and Air Conditioning Mechanics and Installers
- Home Appliance Installers and Repairers
- Home Cleaning Service Workers
- Locksmiths
- Roadside Assistance Workers

Personal Services
- Personal Care and Service Workers
- Private Event Planners
- Private Event and Portrait Photographers
- Private Event Videographers
- Event Officiants
- Pet Caretakers
- Tutors
- Nannies and Babysitters

Personal Appearance & Wellness
- Skincare Specialists
- Massage Therapists
- Barbers, Hairdressers, Hairstylists, and Cosmetologists
- Shampooers
- Manicurists and Pedicurists
- Makeup Artists
- Exercise Trainers and Group Fitness Instructors
- Tattoo Artists and Piercers
- Tailors
- Shoe and Leather Workers and Repairers
- Eyebrow Threading and Waxing Technicians

Recreation & Instruction
- Golf Caddies
- Self-Enrichment Teachers
- Sports and Recreation Instructors
- Tour Guides
- Travel Guides
- Recreational and Tour Pilots

Transportation & Delivery
- Parking and Valet Attendants
- Taxi and Rideshare Drivers and Chauffeurs
- Shuttle Drivers
- Goods Delivery People
- Personal Vehicle and Equipment Cleaners
- Private and Charter Bus Drivers
- Water Taxi Operators and Charter Boat Workers
- Rickshaw, Pedicab, and Carriage Drivers
- Home Movers

OBAMACARE HEALTH INSURANCE PREMIUMS SET TO SPIKE FOR 2026

Connecticut families buying health insurance through the state's exchange, Access Health CT, will see a significant jump in premium prices this year. In September, the [Connecticut Insurance Department]approved an average premium increase of 16.8% for 2026 individual plans, over 2025 premium prices. Other federal changes will further increase costs. Prices for small business plans are set to rise 11% on average.

Insurers had requested an average increase of 23.3% (and 13.1% for small group). Together the plans currently cover about 224,000 people (about 6% of the state population).

The increases approved by the Insurance Department reflect changes to insurers' anticipated claims costs based on higher utilization trends, rising medical and pharmaceutical prices, and a deteriorating risk pool.

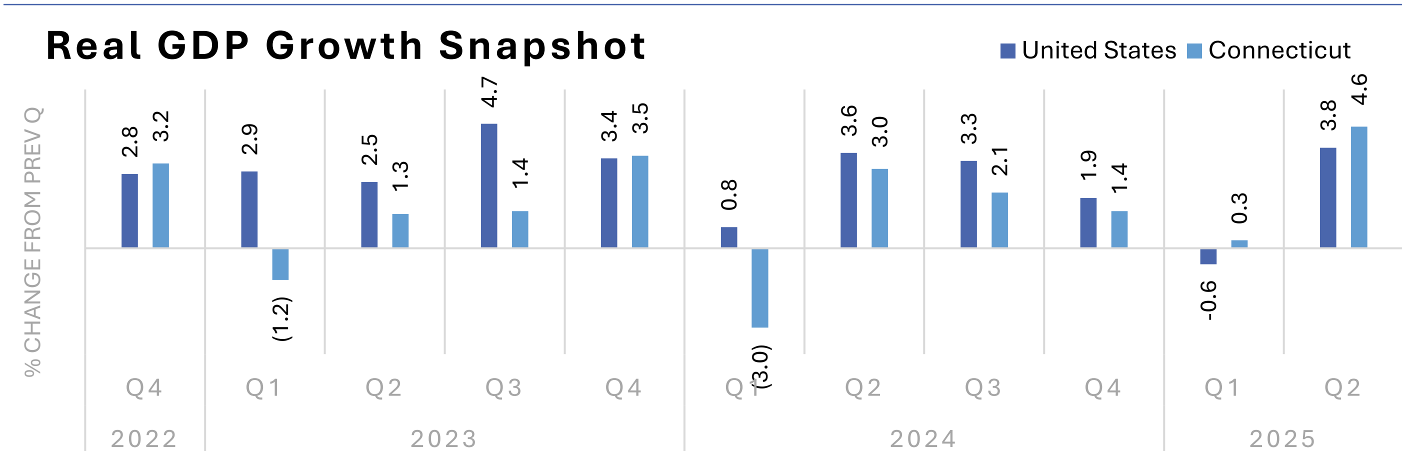
That final piece is expected if Congress allows enhanced federal subsidies to expire, since thousands of enrollees are expected to drop coverage in the face of skyrocketing costs as federal subsidies are reduced. Those who stay are likely to be sicker and more expensive to insure.

Since enacted in 2021, the enhanced premium tax credits have lowered the share of household income that individual plan enrollees are expected to contribute towards benchmark plan premiums. If the enhanced subsidies expire, most families will get significantly less assistance and those with incomes above 400% of the federal poverty line ($62,000 for an individual) will lose all help.

Those not receiving subsidies in 2026 will be the most impacted by the approved premium rate increase. Many in that group are aged 55-64 and pay the highest premiums already.

The approved rate increases this year are much higher than in 2024, when premiums were allowed to increase by 5.9% (individual) and 7.8% (small group) on average.

Small businesses with 50 or fewer employees face a difficult market for health insurance, with only Anthem and United Healthcare offering fully insured plans after many carrier exits in recent years. More employers have shifted to self-insured or level-funded plans. One new option for businesses is [Access Health CT BusinessPlus].



Source: Bureau of Economic Analysis

APPENDIX

Connecticut Housing Market	Aug-25	Aug-24	% Change or Change
Home Sales (Redfin)	3,844	3,957	-2.9%
Median Sales Price (Redfin)	479,900	458,600	4.6%
Active Listing Count (Realtor.com)	5,109	4,585	11.4%
New Listing Count (Realtor.com)	3,492	3,132	11.5%
Freddie Mac U.S. 30-Year Fixed Rate Mortgage Average (%) (Week ending 9/18/25 and 9/19/24)	6.26	6.09	0.17
Median Days on Market (from listing to close, Realtor.com)	43	39	4.0
Average Sale-to-List Price Ratio (Redfin)	102.5%	103.2%	-0.7%
Median Rent for New Leases (Apartment List)	1,722	1,700	1.3%
Single-family Housing Permits YTD-Aug (U.S. Census Bureau)	1,416	1,442	-1.8%
2+ Unit Structures Housing Permits YTD-Aug (U.S. Census Bureau)	3,201	2,173	47.3%

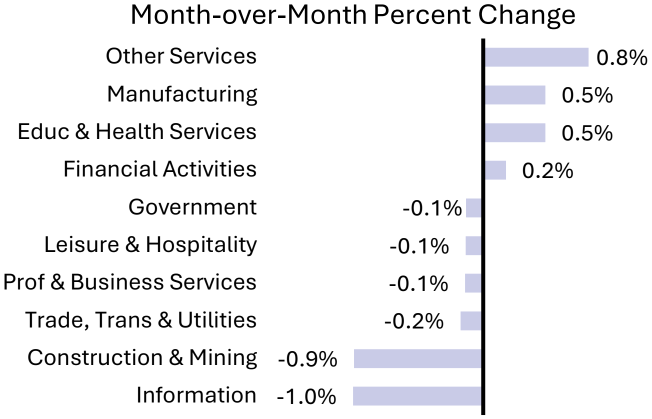
Some Data Retrieved from FRED, Federal Reserve Bank of St. Louis

Connecticut Labor Market	Aug-25	Jul-25	Aug-24
Unemployment Rate	3.8%	3.8%	3.2%
Total Unemployed	73,300	74,200	61,500
Total Nonfarm Employment	1,720,200	1,719,300	1,707,500
Job Growth	900	700	-1,100
Job Openings to Unemployed Ratio	-	1.0	1.3
Quit Rate	-	1.3	1.7
Average Monthly Initial Unemployment Claims	3,944	3,213	3,100
Labor Force Participation Rate	64.6%	64.7%	64.9%
Average Hourly Wage	$38.97	$38.85	$37.76

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

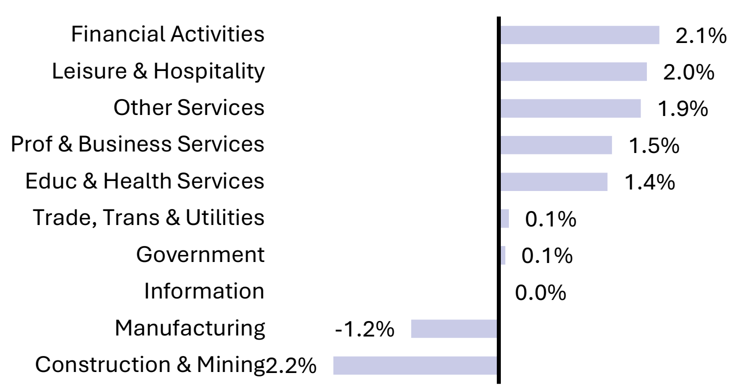
Connecticut Industry Sector Nonfarm Payroll Employment – August 2025

Month-over-Month Percent Change



Source: CT Department of Labor

Year-over-Year Percent Change



Source: CT Department of Labor