OFFICE of the STATE COMPTROLLER
CONNECTICUT ECONOMIC UPDATE

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State Comptroller
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In this month's edition

Outlook: The outlook is mixed as solid spending by affluent consumers continues to support the U.S. economy even as the labor market weakens. A boost from higher tax refunds and continued AI investment could support growth in early 2026, but further deterioration in the "low hire, low fire" job market, real wage stagnation, or a major pullback in the stock market would be causes for concern. The Consumer Confidence Index (1985=100) fell 3.8 points to 89.1 in December, with consumers more alarmed about current business and labor market conditions.

Connecticut's labor market was cooling in the fall, with employment declining by 5,700 jobs in September (the most recent month of data), seasonally adjusted. Job growth has been slower this year (0.3%) after several years of pandemic recovery with higher gains. The labor force has been shrinking since the summer, likely impacted by the pace of retirements and less immigration. The U.S. unemployment rate rose to 4.6% in November (the highest since 2021), with few jobs added in recent months once the anticipated revision of about -60,000 jobs per month is factored in. Federal government jobs declined from 3.0 million in January to 2.7 million in November (-271,000 positions, -9.0%), seasonally adjusted, including those who took deferred resignation offers.

On a preliminary basis in the third quarter of 2025, the U.S. economy grew 4.3% adjusted for inflation, at a seasonally adjusted annual rate (SAAR), faster than the median 3.2% pace economists polled by the WSJ were forecasting. Corporate profits rose 4.2% and real final sales to private domestic purchasers (a measure of domestic demand preferred by economists) rose 3.0% after rising 2.9% in Q2.

Highlights from 2025 and What to Watch in 2026. In the past year, the Economic Update has spotlighted economic challenges (like healthcare, childcare, and property insurance cost trends) and celebrated industry strengths. We covered state education funding, some of the challenges facing higher education, retail trends, potential economic effects of artificial intelligence and why Connecticut's electric rates are so high. This month we recap 7 things we highlighted in 2025, and 3 things we're watching in 2026.

"Tariffs" was the economic word of the year. Changes to U.S. trade policy raised costs and uncertainty for many Connecticut businesses in 2025. Looking ahead, tariff-related inflation could complicate the Federal Reserve's path to additional interest rate cuts in 2026.

Military Funding and Procurement Wins for Connecticut. Recent Congressional action will ensure Connecticut's defense contractors can continue to deliver.

Connecticut's labor market was cooling through September. While the unemployment rate remained low at 3.8%, month-over-month declines in jobs, the labor force, the pace of hiring and wage growth all point to weakening. New claims for unemployment remain low as of Dec. 20th.

Hot housing markets. Realtor.com ranks the Hartford metro area first for projected 2026 sales and price growth among the 100 largest U.S. metros. Median rent for new leases rose 1.0% year-over-year in November, according to Apartment List.

KEY DATES THIS MONTH

- 1/6 – Oct./Nov. CT jobs report
- 1/9 – December U.S. jobs report
- 1/13 – December CPI inflation report
- 1/26 – December CT jobs report
- 1/27-1/28 Federal Reserve FOMC Rate Setting Meeting
- 1/23 – 2025 Q3 CT GDP and Personal Income

Did you know?

On December 18th, Governor Lamont submitted a plan to legislative leaders that details spending of $167.9 million from a $500 million emergency fund the legislature created to backfill federal funding cuts in the state. It includes state funding for food banks, health insurance subsidies, housing, 2-1-1, Planned Parenthood, federally qualified health centers, community action agencies, and the Department of Social Services to help Medicaid and SNAP clients meet new eligibility requirements.

About OSC

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SEVEN THINGS WE LEARNED IN 2025 AND THREE TO WATCH IN 2026

This month we're looking back at some key information and trends we spotlighted in the Economic Update in 2025 followed by some key factors we'll be watching in 2026. To start, here's a high-level refresher on seven things we analyzed, with some updates on State actions.

1. Higher Education is under Pressure

In August we considered the many challenges facing Connecticut's colleges and universities, including that would-be students are increasingly questioning if the high costs associated with a four-year degree are worth it.

51% of Gen Z graduates view their degree as a waste of money (compared to 41% of Millennials and 20% of Baby Boomers). 45% of Gen Z say that artificial intelligence (AI) has made their college education irrelevant (versus 30% overall). Higher unemployment for recent college graduates (5.8% as of September, versus 4.1% overall, as calculated by the New York Federal Reserve Bank) is eroding confidence that the investment of time and money will pay off as the labor market faces disruption from generative AI in the years ahead.

In addition to this existential threat, Connecticut's colleges and universities—which contributed an estimated $6.4 billion or more to the state's gross regional product and employed more than 3% of the state's workforce in 2024—are under pressure on many other fronts.

Enrollment. Connecticut's state universities (excluding UConn) and the State's community colleges have seen double-digit enrollment declines over the decade from 2015 to 2024, despite major initiatives like state-funded debt-free

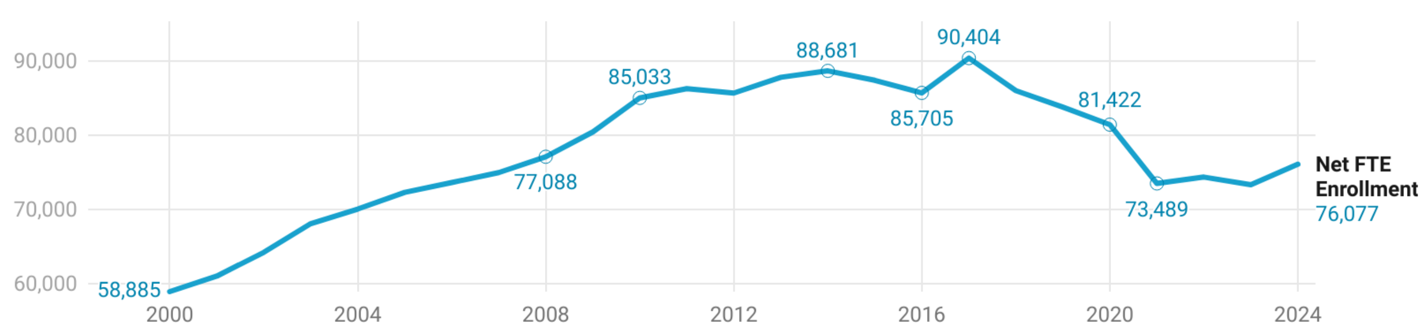
community college. Conversely, private schools and UConn experienced enrollment gains over the decade, which helped university finances, though UConn's growth was supported by more out-of-state and international students.

But more trouble is coming. The industry is bracing for an **enrollment cliff**, caused by lower birth rates following the 2008 financial crisis, which will lead to a smaller pool of students to enter college after 2025. Adding to AI concerns, Connecticut is projected to see a 4% drop in high school graduates as soon as 2028, while the Northeast overall will see 17% fewer graduates by 2041.

Federal Policy Changes. The Trump Administration's stricter immigration policies and actions (such as visa cancellations) have made the United States a less attractive destination for international students, threatening a key revenue source for schools. Foreign students typically pay full sticker prices,

Connecticut Public Institutions: Full-time Equivalent Enrollment

A measure of enrollment equal to one student enrolled full time for one academic year



Includes undergraduate, graduate, resident, and non-resident students but excludes medical school and non-credit enrollments

Source: 2024 SHEF Report, State Higher Education Executive Officers Association • Created with Datawrapper subsidizing net tuition costs for domestic students. In 2024, international students accounted for 13.4% of Trinity College undergrads, 11.1% for Yale, and 6.7% for UConn, with graduate and professional-degree seekers at even higher amounts.

Additionally, federal cuts to research funding, new caps on federal borrowing for students, new accountability measures, and a higher endowment tax on certain universities will be pressuring higher education institution finances in the years ahead.

State Funding. Connecticut's public colleges benefitted from extra pandemic-era aid, but that was temporary. State funding for UConn will account for only 12% of its budget this year, way down from 25% in the 2018-2019 fiscal year. The Connecticut State College and University (CSCU) system benefitted from $170 million in one-time funds from the State last fiscal year but will need to draw down on its reserves by nearly as much this year. Less public funding amidst rising costs is forcing hard choices about staffing, programming, and future tuition.

One of Connecticut's chief differentiators is a highly educated workforce, and the vitality of the higher education industry here is essential for that to continue. With AI set to change the game, institutions will need to work together with industry to ensure students are graduating with the right skills, and the State is actively working to support that effort.

See the August issue for information on college tuition cost trends and statistics on individual Connecticut institutions.

2. The Challenge of Unaffordable Healthcare

In February we looked at health insurance affordability, both for employer-sponsored coverage and those directly purchasing their own.

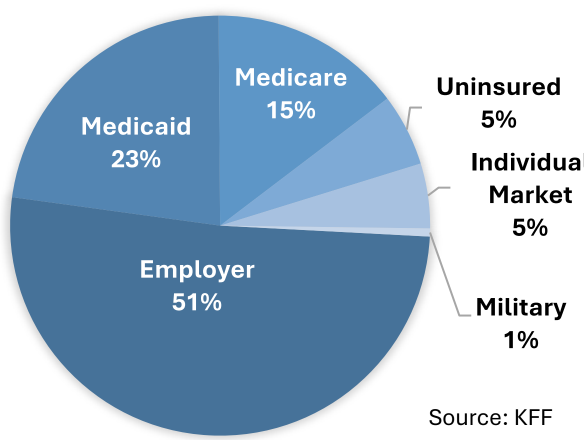
Employer-Sponsored Health Insurance. Offering health benefits is a key way businesses attract and retain talent, yet the cost of providing it has been growing at an unsustainable rate. From 2014 to 2023, Connecticut experienced a 41% increase in average total premiums for employer-sponsored coverage,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

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.

Making health benefits more affordable for Connecticut businesses and their employees is crucial to Connecticut's economic future. While much of the employer-sponsored insurance market falls outside state jurisdiction, Connecticut is working to contain healthcare cost growth through benchmarking and transparency efforts. In 2025, Access Health CT, the ACA marketplace for Connecticut, rolled out a new program through which employers can fund employees' health benefits in individual plans with pretax dollars. Yet, more work is needed to make healthcare truly affordable.

ACA Individual Market Insurance. Back in February we also highlighted the extreme premium increases families purchasing health insurance directly through Access Health CT would face in 2026 if Congress did not act, due to enhanced federal subsidies expiring. As of January 1, Congress has allowed the enhanced subsidies (available since 2021) to expire, reducing federal advanced premium tax credits for 2026 and sending healthcare costs soaring.

CONNECTICUT'S HEALTH INSURANCE COVERAGE IN 2023



Source: KFF

In addition to the loss of federal assistance covering monthly premiums, families in Connecticut are also facing an average premium increase of 16.8% for 2026 individual plans, which is larger than past years because insurers expect that enrollees keeping coverage in the face of skyrocketing costs will be sicker on average, raising insurers' average claim costs per enrollee.

In December, Governor Lamont announced that Connecticut will use $50.76 million in state funds set aside to backfill federal funding cuts to replace 100% of the loss of enhanced health care subsidies for individuals between 100% and 200% of the federal poverty level (FPL), and 50% of the lost subsidies for individuals between 400% and 500% FPL in 2026. Those over 400% FPL lose eligibility for all federal subsidies in 2026, so the state aid should have a significant impact on affordability for those families.

One possibility to improve affordability. Small businesses, non-profits, and many individuals that do not qualify for Covered Connecticut or Medicaid face an immense burden to pay for health insurance. One potential option for slowing the growth in premium costs and making healthcare more affordable for these groups is a market-based solution modeled after a program that Colorado has successfully implemented. Premiums are largely driven by the costs of delivering care, especially the reimbursement rates that insurers agree to pay providers for the cost of care.

Connecticut would design a healthcare plan with cost containment in mind, using mechanisms like capping reimbursement rates, calibrating insurers' medical loss ratio, and directing patients to high-quality, value-based services. A quasi-public board of healthcare experts, public officials, and other stakeholders would design the plan and require that all insurers that currently offer health insurance in the individual and small group markets must offer the plan.

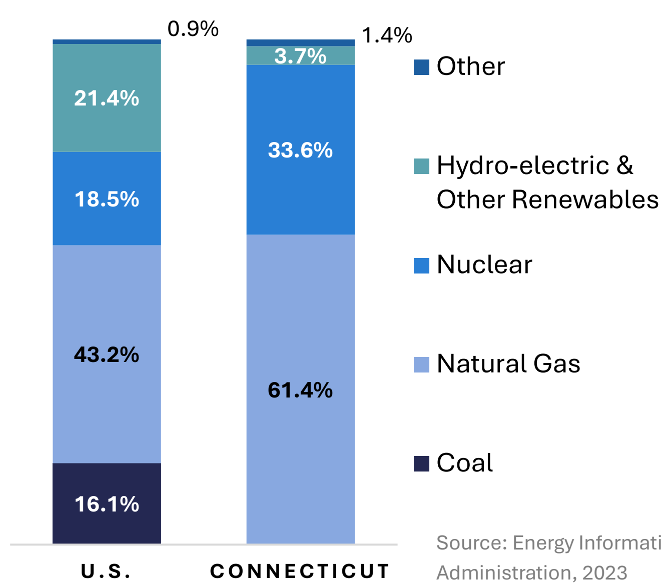
This plan could provide significant premium savings to enrollees on and off the exchange, with targeted savings starting at 10% the first year, and then eventually being capped at Connecticut's Healthcare Cost Growth Benchmark for each year after. The Comptroller's Office has begun briefing policymakers and stakeholders on how this plan could be implemented in Connecticut.

3. Structural Factors are Behind High Electricity Costs

Ever wondered why Connecticut has some of the highest electricity prices in the country? In March we dove into a few of the reasons, including:

- Natural gas power plants supply 60% of electricity generation, but limited pipeline capacity and no in-state storage facilities mean prices spike in winter when heating demand competes with power generation.
- Connecticut is densely populated, with aging infrastructure, lots of trees near powerlines, and extreme weather events that drive storm damage and recovery costs. These factors drive up costs associated with delivering electricity that are passed on to ratepayers.
- The State's transition to clean energy is requiring upfront investment. Starting in 2019, the State began a 10-year power purchase agreement to buy zero-emission power from the **Millstone** nuclear power station at a fixed price that has turned out to be expensive most years. From 2019 to 2023, it drove up electric utilities' costs by $131.4 million.
- The State has funded a variety of programs (e.g., energy efficiency, hardship assistance, etc.) through the Public Benefits Charge component of customer bills.

NET ELECTRICITY GENERATION BY SOURCE



Source: Energy Information Administration, 2023

In the 2025 legislative session, policymakers voted to authorize the use of up to $300 million in state bonding over two years to pay for some programs previously funded through customers' bills. In July the Governor announced $155 million would be borrowed to start—which should have begun translating into modest electricity bill relief this past fall. While policymakers are focused on high electricity costs, given the importance for economic competitiveness and residents' cost of living, most of the structural factors causing high electricity prices have no quick and easy fix.

In December we highlighted how the data center build-out for the artificial intelligence boom is shaking up electricity prices elsewhere in the country. While none have been built to date, the potential construction of hyperscale data centers in New England could have an impact on Connecticut electricity costs in the years ahead.

4. Auto and Homeowners' Insurance Costs Surged in Recent Years

In June, we dug into the factors driving double-digit rate increases for personal auto and homeowners' insurance in recent years in Connecticut and around the country. They are driving overall premium costs higher, on top of personal factors that also influence rates.

Auto Insurance. The average amount spent on car insurance in 2022 in Connecticut was $1,282, according to the National Association of Insurance Commissioners (NAIC). In 2023 and 2024, Connecticut regulators approved average personal auto insurance premium increases of 11.2% and 8.9%, respectively. While those changes reflected real cost increases for insurers, they sent customer premiums soaring.

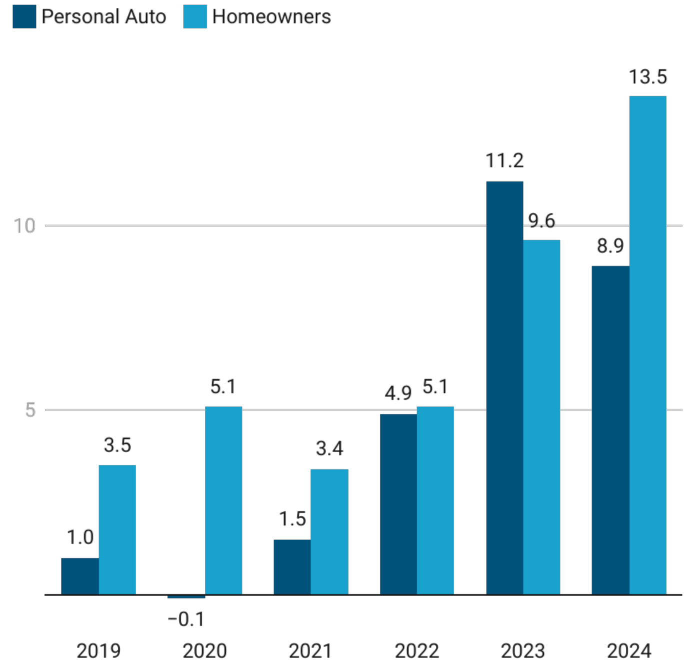
Many factors converged to produce those big increases, including:

- **Inflation:** the price of new and used vehicles has surged, as have repair costs for parts and labor
- **More Dangerous Driving:** new driving patterns emerged in 2020 resulting in more serious accidents
- **More technologically advanced vehicles:** advanced driver assistance systems & sensors mean costly repairs
- **More litigation:** more bodily injury claims with large settlement payouts have increased insurers' costs
- **More frequent and intense weather:** the changing climate has increased comprehensive coverage costs

Homeowners' Insurance. The Connecticut Insurance Department allowed overall homeowners' insurance rate increases averaging 9.6% in 2023 and 13.5% in 2024. The large increases reflect the state's growing exposure to severe weather events, higher reinsurance expenses for the industry, and rising rebuilding costs.

Connecticut Rate Level Changes (%)

Average Insurance Premium Increases Allowed by the Connecticut Insurance Department



Source: Connecticut Insurance Department, Property & Casualty Insurance Rate Reviews • Created with Datawrapper

Wind, which frequently damages roofs, and resulting water damage, are the main loss drivers in Connecticut. Fire is a secondary, but still significant driver of home insurance losses in the state.

Insurers around the country are responding to the rising climate threat by increasing premiums, requiring higher levels of coverage or dropping policyholders all together who live in areas deemed too high risk, or whose homes are in disrepair.

While Connecticut's overall homeowners' insurance market is healthy, the coastal areas of the state are considered a "hard market," according to Insurance Department staff. That's where coverage can be more difficult to obtain. Insurers dropped coverage for roughly 14,400 Connecticut homeowners in 2023, up 45% from 2022.

In September, Governor Lamont announced the launch of a free online risk mapping tool that allows owners of residential or business properties to assess their risk and better understand their insurance needs. We recommend taking a look.

What can you do? Given the trends and new tariffs, prices are expected to continue rising, but it's worth it to shop around for the best rates. Prices can vary dramatically between carriers, though switching insurers every year is not recommended if you don't want to risk being dropped after a big claim. Bundling auto and home insurance can also provide a discount.

5. Connecticut is a Powerhouse in Advanced Manufacturing

In October we explored some of what makes Connecticut's advanced manufacturing sector exceptional and an engine for economic growth. According to AdvanceCT's latest sector snapshot, Connecticut has 1,100 advanced manufacturing establishments, employing 76,400 workers in the state. That puts Connecticut first for the most advanced manufacturing jobs per capita among states. Together those businesses contribute approximately $20 billion to the Connecticut economy annually.

The ecosystem consists of major Original Equipment Manufacturers (OEMs) in aerospace and defense—like General Dynamics (Electric Boat), RTX (Sikorsky), and Lockheed Martin (Pratt & Whitney)—as well as in AI-enabling semiconductors—like ASML. There are also more than 1,000 smaller manufacturing establishments that supply the OEMs or specialize in other complex products and processes.

While manufacturing employment has decreased nearly 50% since 1990, shrinking from 18.4% to 9.0% of overall payroll employment, **Connecticut's manufacturing industry now needs more skilled workers to fill high-tech factories.** Despite the pervasive narrative that manufacturing jobs are being eliminated by automation, Connecticut firms say they are turning to automation to do the jobs that can't be filled.

To address this, state government is working closely with industry to ensure schools and technical programs are graduating workers with in-demand skills, as well as providing financial support and retraining opportunities to smaller manufacturers looking to modernize or expand. Since **69% of the state's manufacturers have fewer than 20 employees**, public support can go a long way to boost jobs and global competitiveness.

Over the past ten years, **Connecticut's manufacturing sector has become more concentrated in transportation equipment manufacturing**, which includes helicopters, airplane parts, and submarines. Supported by strong growth in military contracts, that subsector now accounts for 30.4% of Connecticut's manufacturing employment and 45.9% of the manufacturing industry's output, as of 2024. Recent multibillion dollar 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 those firms and the hundreds of smaller businesses that supply them.

> *"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*

A year of change. 2025 was a year of change for manufacturers, as the president's rapidly changing tariffs increased input costs for many businesses, even as the "reshoring supply chains" trend and favorable provisions in the One Big Beautiful Bill Act (OBBBA) supported manufacturers. According to CBIA's June 2025 survey, 66% of Connecticut manufacturers that responded said the Administration's tariff policies were having a negative impact on their operations.

Read more about how technological advancements, state partnership, and current events are impacting the industry in our October issue.

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.

6. The Education Cost Sharing Formula Determines Much of State Education funding for Towns

Since 56.7% of Connecticut K-12 school district funding comes from local governments, on average as of 2023, per student spending can vary widely based on town wealth and district size. State funding for education is meant to reduce inequality between students by providing funding based on student need and local resources. In September we discussed how the State funds education and how increases in State support in recent years have been partially eroded by inflation.

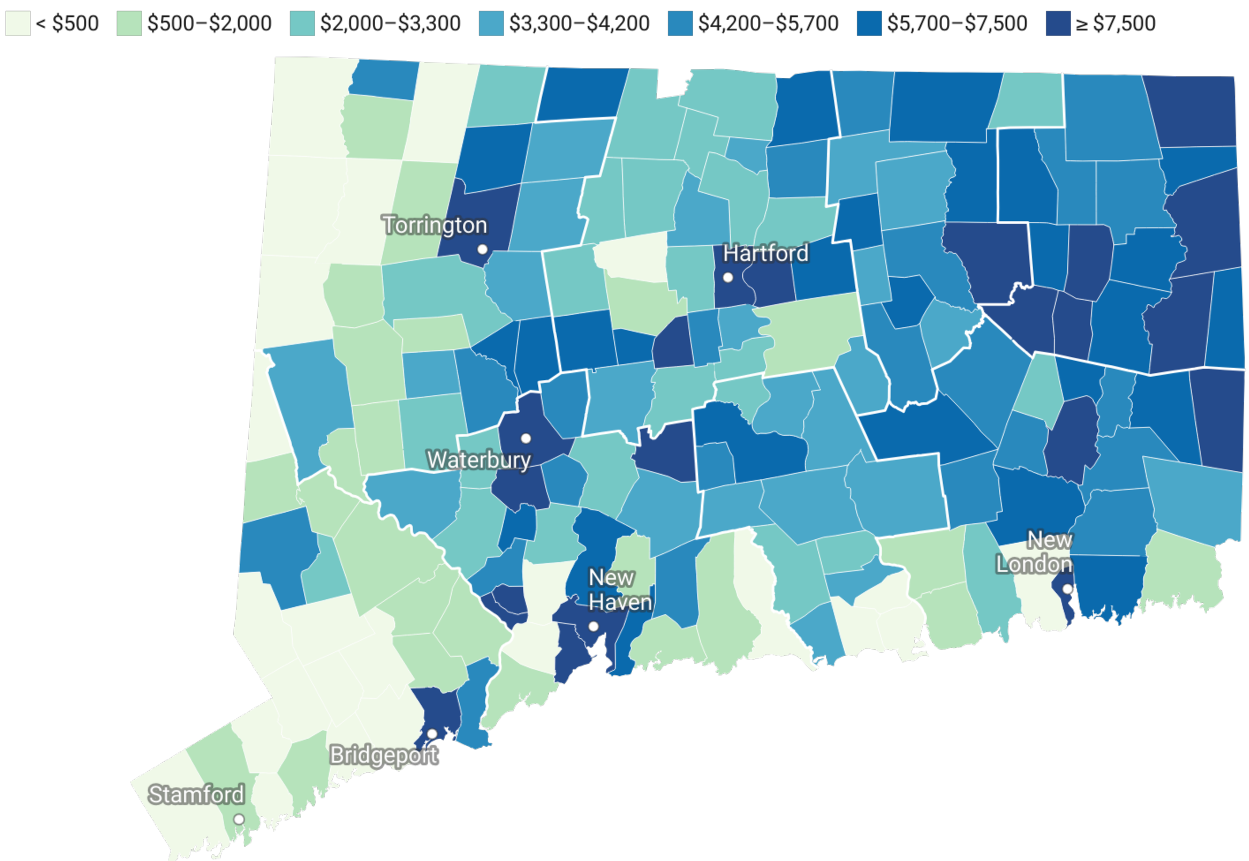
Connecticut state government provided 35.0% of the $13.7 billion in public K-12 education funding in the 2022-2023 fiscal year, according to the U.S. Census Bureau's public education finance statistics. The State provides the bulk of state education funding for current operations through formula grants known as Education Cost Sharing (ECS) grants (worth $2.46 billion this fiscal year). The state also partially funds school construction projects and fully funds teacher pensions for public school teachers through the Teachers' Retirement System (TRS).

Since towns often respond to school budget needs with higher property taxes and because school districts employ over 53,000 full-time equivalent staff, education funding impacts the wider Connecticut economy as well.

The ECS formula **multiplies** three main parts:

1. **The foundation grant amount**, which has been set in state law at $11,525 since FY 2014
2. **The weighed student count**, which is school enrollment with weighted counts of high need students. (The formula provides additional funding for multi-lingual learners, low-income students, and concentrated poverty).
3. **The state aid percentage,** which is a measure of a town's theoretical ability to fund its own education costs based on town wealth. It determines how much of the formula's cost to educate the district's

FY 2026 Average Education Cost Sharing Entitlement per Resident Student



ECS entitlement is the grant amount for the State's largest education grant program for local towns. The ECS formula takes student need into account, while this map shows current year grant funding divided by an un-weighted count of resident students.

Source: Office of Fiscal Analysis, OSC calculations • Created with Datawrapper students will be paid by the state. Poorer towns have higher percentages, resulting in more state funding for a given level of student need. *See our [September](#) issue for more details on the formula.*

Given declining overall enrollment, a surge of inflation in recent years, and increased assessments on residential properties driving higher property taxes in many places, towns are facing difficult choices as they work to ensure students receive a quality education.

The current state budget "holds harmless" towns that should have received decreased ECS grants this year, with those decreases now delayed until the 2027-2028 fiscal year. The budget also provided some increases to special education funding for towns, as Special Education costs have surged.

7. Connecticut Could See Many Jobs Impacted by Artificial Intelligence (AI)

With much of the state's employment concentrated in sectors like finance, insurance, healthcare, research and education that can more easily leverage new AI technology, the state has both much to gain (from increased productivity in those industries) and much to lose (if high-AI exposure results in less hiring or layoffs in those sectors) from the technological transition now underway.

In a 2024 working paper, two Treasury Department economists ranked Connecticut 9th among states in terms of the share of a state's employment that is highly exposed to AI. Most economists stress that jobs will evolve in the near term, with AI mostly replacing or enhancing specific tasks.

The job losses that are possible with this latest wave of automation are expected to affect white-collar, higher-income workers more than in the past. Research from Stanford's Digital Economy Lab suggests that entry-level workers in highly exposed jobs, like software developers and customer service associates, are already seeing reduced hiring since OpenAI's ChatGPT launched in late 2022.

In December, we shared some examples of professions that could evolve as more companies adopt AI for core production activities. According to the Census Bureau's Business Trends and Outlook Survey (BTOS), about 9.4% of U.S. businesses reported using AI to produce goods or services in late summer of 2025, with 13.6% planning to start in the next six months.

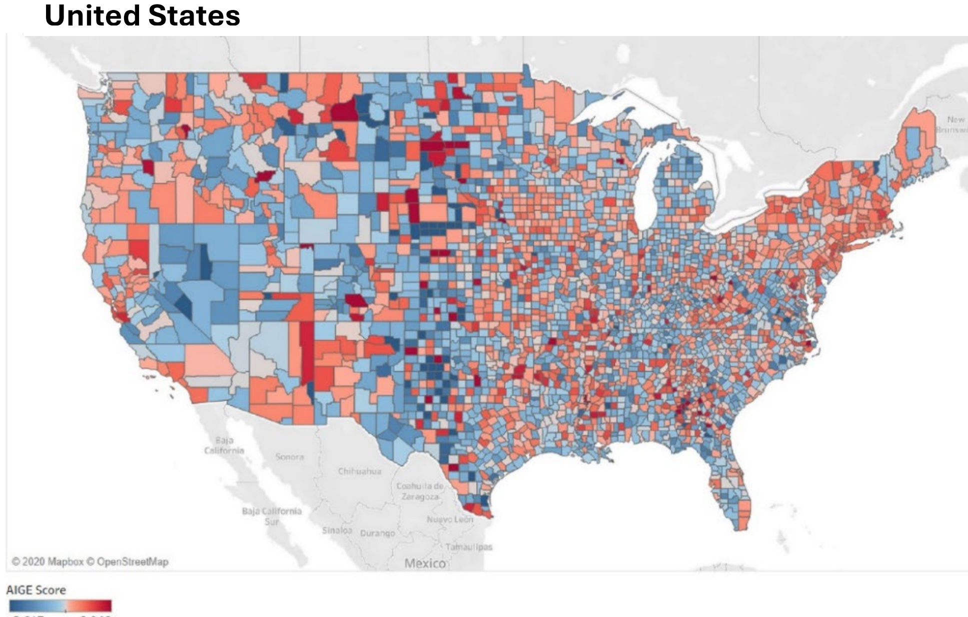
Technological change and automation have been reshaping work for centuries, and generative AI is just the latest chapter in that story. But just as when steam power, electricity, and personal computers reshaped economies in the past, productivity gains from AI could take longer to materialize than the AI stock market boom is currently betting.

One thing is clear, **the way AI will shape the economy in the next few decades is highly uncertain.** Widespread AI adoption could increase inequality if big profits accrue to powerful companies and workers' real wages stagnate. AI could help states like Connecticut, which face labor shortages in key sectors like healthcare and manufacturing. AI could also speed up the pace of scientific discovery and economic growth.

At the same time, these systems present real dangers that policymakers are grappling with, despite a recent executive order from President Trump to restrict state AI laws. Rising unemployment for workers whose expertise becomes obsolete could become a challenge, though economists stress that new jobs will eventually be created as a result of this new technology as well.

Connecticut is already taking steps to train workers in AI, and this will be an area of continued focus in the years to come.

AIGE, a measure of geographic AI exposure, for the Continental United States

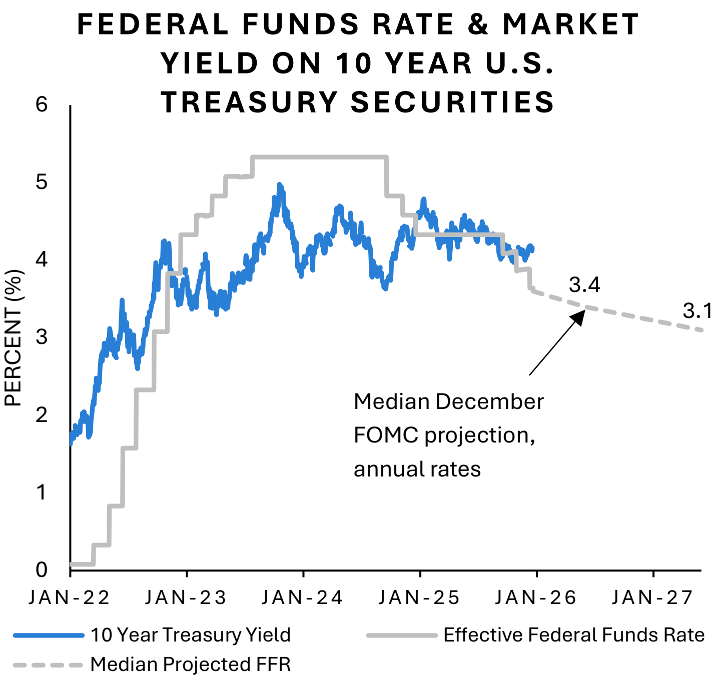


Note: The charted color represents the county-level AIGE measure winsorized at the 1st and 99th percentile.
Source: Felten, Raj, and Seamans (2021) Occupational, industry, and geographic exposure to artificial intelligence: A novel dataset and its potential uses; red reflects higher estimated exposure to AI

THREE THINGS WE'LL BE WATCHING IN 2026

1. Will interest rates decline?

The FOMC cut rates by 0.75 percentage points in late 2025, putting the federal funds target range at 3.5%-3.75% to end the year. Median projections from December signaled one more 25 basis point cut in 2026—however the committee was divided on how much more rates should decline with inflation still elevated. We'll be watching closely to see how interest rates change this year.



Source: Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System via FRED

President Trump wants interest rates to go much lower and will have the opportunity to nominate a new Fed Chair in May. There are concerns the new Fed Chair may be less independent, and actions to cut rates more than the economic data warrant could hurt the central bank's inflation-fighting credibility, sending market-determined interest rates (like mortgages) higher. Faster economic growth tends to push rates up, as could growing concern with the unsustainable national debt. The yield on 10 Year U.S. Treasury securities was 4.14 as of December 30th.

On the other hand, interest rates could continue to decline in 2026, especially if the labor market continues to cool. Falling rates would be great news for the housing and commercial real estate sectors that have been hampered by higher interest rates since 2022. Small and medium-sized businesses across sectors would benefit from cheaper debt, supporting job growth. Productivity gains from AI could also be used to justify more interest rate cuts in the new year.

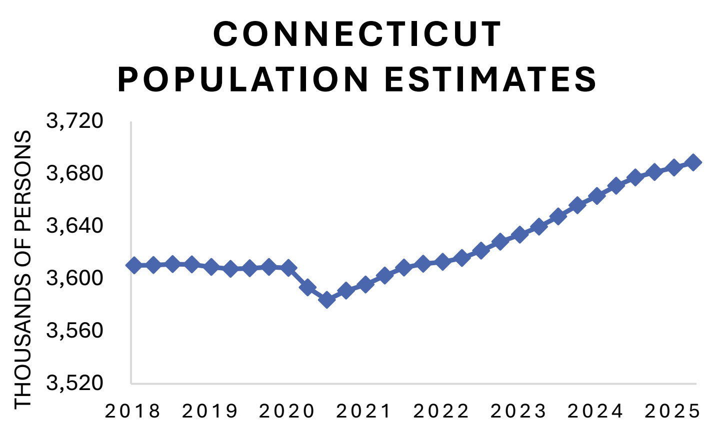
What's the big deal about interest rates?

Borrowing costs are a powerful determinant of success for much of the economy, and **lower interest rates typically support more investment and economic growth**. Businesses may decide to build a new factory; consumers can afford to buy a bigger house or car. Conversely, higher rates usually act as a brake, reducing economic activity and therefore the risk of runaway inflation from an overheated economy.

The Federal Open Market Committee (FOMC) of the Federal Reserve controls the federal funds rate—the short-term interest rate at which banks and the Fed lend funds to each other overnight. That rate then impacts a variety of other interest rates throughout the economy, with other market factors driving those rates as well. For example, home mortgage rates typically move with the yield of 10 Year U.S. Treasury Bonds.

2. How will slower immigration and aging demographics impact employment?

Connecticut population growth picked up during the pandemic, after years of flat or even declining population. Now restrictive immigration policies under the Trump Administration are likely reducing the flow of international migrants, a previous source of growth. With most population growth expected to occur in the retirement-age cohorts, less immigration could hamper job growth in 2026 by further restricting the pool of available workers.



Source: Bureau of Economic Analysis, unpublished U.S. Census Bureau Estimates

3. Will resilient consumer spending continue?

Finally, consumer spending was strong in the July to September period of 2025, according to current Bureau of Economic Analysis estimates on U.S. gross domestic product (GDP). At an annual rate adjusted for seasonality and inflation, **personal consumption expenditures increased 3.5% in Q3**, after rising 0.6% in Q1 and 2.5% in Q2. Spending increased most in Q3 on short-lived consumables and services, including healthcare.

Analysis earlier this year by Moody's Analytics has shown that high income consumers are increasingly driving spending growth while lower-income families are just getting by—the **K-shaped economy**. The latest BEA release shows that U.S. disposable (i.e., after-tax) incomes were flat in Q3 after adjusting for inflation. As inflation picked up in the late summer and early fall, households were spending out of savings or on credit. It's not clear how long that can continue with a weakening labor market if higher inflation persists.

One positive for Connecticut businesses that rely on consumer spending is that many households will see **higher tax refunds in 2026**, which could support the economy early in the year. Tax changes in the One Big Beautiful Bill Act of 2025 should result in larger returns for a variety of groups (e.g., seniors, families with kids, those with tips or overtime income). High income filers taking advantage of the quadrupled State and Local Taxes (SALT) deduction threshold (raised from $10,000 to $40,000 for those who itemize), could see especially large savings. Because federal income tax withholding tables were not updated midyear, most taxpayers will experience those cuts as larger refund checks. Connecticut also increased the earned income tax credit (EITC) by $250 for recipients with children in 2025.

CONNECTICUT'S MINIMUM WAGE RISES TO $16.94 PER HOUR

Connecticut's minimum wage workers are receiving a 3.6% raise. Starting January 1, the state's minimum wage rose from $16.35 to $16.94 per hour. Public Act 19-4 raised the hourly minimum wage in October 2019 and established the manner by which it is now adjusted annually according to the increase in the national Employment Cost Index.

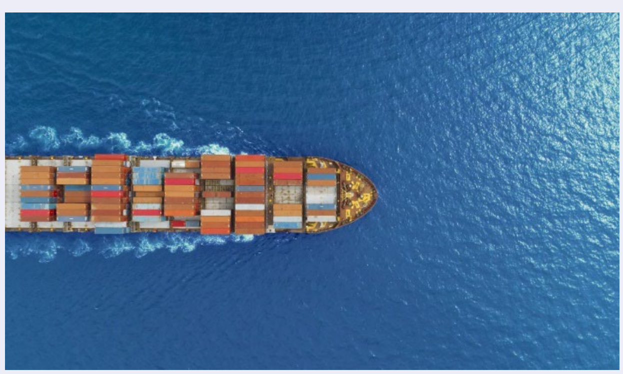
Employers of customarily tipped workers can pay them much less ($6.38 per hour for hotel and restaurant staff, $8.23 per hour for bartenders), since those employers can count workers' tips towards the minimum rate. However, if a worker's tips do not close the gap between the subminimum wage and the overall rate, then the employer must make up the difference.

The Economic Word of the Year was "Tariffs"

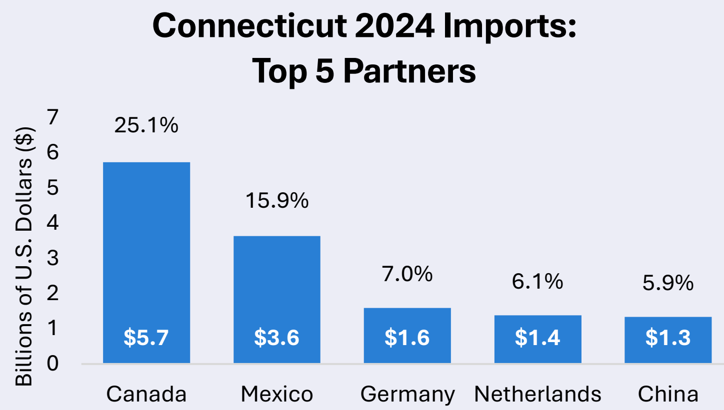
The past year will likely be remembered for its rollercoaster ride in trade policy. In January, we highlighted Connecticut's involvement in international trade: imports totaled $22.8 billion in 2024, or about 6.4% of the state's gross domestic product (GDP), led by transportation equipment and primary metal manufactures used by local manufacturers.

At the start of his second term, President Trump imposed 25% tariffs on Canada and Mexico (effective March 4th) and 10% tariffs on Chinese goods (effective February 4th, later raised to 20%). Tariffs are taxes paid by U.S. firms and individuals on imported goods. Later in March, the U.S. exempted imports compliant with the US-Mexico Canada Agreement, eliminating tariffs on a variety of imports from our neighbors. This was important for Connecticut businesses, as Canada and Mexico rank first and second among import sources and together accounted for 41.1% of the state's import value in 2024.

On "Liberation Day" (April 2nd), the President announced "reciprocal tariffs" ranging from 10% to 50% on the rest of the world, which surprised financial markets and sent stock and bond prices falling simultaneously. While the highest tariffs were paused temporarily, the baseline 10% tariff took effect. China retaliated with its own tariffs, leading to further escalation (with tariffs on Chinese goods briefly reaching 145%), crippling small businesses that rely on Chinese goods. Following de-escalation, the baseline new tariff on Chinese goods was 20% in early December 2025, according to supply chain company, C.H.Robinson. A myriad of much higher product-specific tariffs remain. Trade negotiations resulted in some "deals" being announced, including with the United Kingdom, Japan, and the European Union; however, tariff rates on those partners remain elevated save for specifically exempted goods.



Across the year, the administration also imposed high new tariffs on specific goods such as steel, aluminum, copper, auto parts, and softwood lumber. These tariffs "stack" on top of other tariffs, apply to all countries, and raise costs for businesses. Several tariffs are increasing the cost of building new homes. The elimination of the "de minimis" rule in late August subjected many previously untaxed shipments to duties. As of November, the Yale Budget Lab (YBL) estimated the average effective U.S. tariff rate at 16.8%, the highest since 1935.



Source: U.S. International Trade Administration

Economists warned that tariffs would slow economic growth and raise prices; however, economists' worst fears for 2025 do not appear to have played out. Erratic implementation—sometimes changing while goods were already at ports—seems to have led many businesses to squeeze their own profit margins rather than pass extra costs on to price conscious customers right away. Companies had also prepared by stockpiling goods before tariffs went into effect. On the other hand, the uncertainty caused many companies to delay investment decisions, likely slowing employment and economic growth this year and next. YBL estimates that tariffs will make the U.S. economy 0.3% smaller into perpetuity.

In December, Federal Reserve Chair Jerome Powell said tariffs are fueling rising inflation for goods, even as inflation for services, like housing, has been falling. That makes it riskier for the central bank to lower interest rates to stimulate the economy. Powell estimated that the tariff impact on inflation would peak in the first quarter of 2026, as long as no new tariffs were announced, though that forecast is highly uncertain.

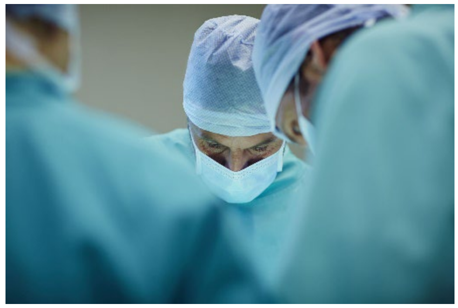
The Supreme Court is expected to rule in January on whether the President's baseline and country-specific tariffs are legal or not, after several courts have already ruled against them this year. That leaves firms continuing to face uncertainty, while consumers pay higher prices.

RISKS AND EVENTS WE'RE WATCHING

The **stop-gap federal government funding bill** passed to reopen the government in November will expire on January 30th. Congress will need to act by then to avert another federal government shutdown.

In January the Supreme Court is expected to announce a **ruling on the legality of President Trump's "Liberation Day" and fentanyl-related tariffs.** If the court rules against the administration, that tariff revenue is expected to be refunded, a boost for impacted businesses but worsening the already poor U.S. fiscal outlook.

Connecticut's hospital industry is undergoing major changes. In December, the State approved a $86.1 million deal for **Hartford Healthcare to purchase Manchester Memorial and Rockville General Hospitals** from bankrupt hospital operator, Prospect Medical Holdings. UConn Health has applied for state approval to acquire Prospect's third, Waterbury Hospital, following passage of a new law that also opens the door for UConn Health to acquire Bristol and Day Kimball hospitals.



Stock market performance is a major determinant for certain Connecticut tax revenues. With stock valuations elevated by historical standards and **growing concerns about an AI-bubble**, Connecticut's economy is more vulnerable than most states to a major market downswing. Fortunately, recent stress testing suggests the State budget could withstand a minor recession with its full "Rainy Day Fund."

The federal government shut down has delayed implementation of Connecticut's **farm relief program** for farmers whose crops were damaged by weather in 2023 and 2024. Congress approved the funding in a block grant a year ago. Connecticut is expected to receive about $53 million, which will be administered through a state-run program by the Connecticut Department of Agriculture.

The Trump Administration moved to **reschedule cannabis** from a Schedule I to a Schedule III drug, which could eventually provide significant tax relief to Connecticut's cannabis industry and opens the door to more research. The move does not legalize marijuana at the federal level but may allow cannabis businesses to deduct their ordinary business expenses (like payroll, rent, and marketing) on their taxes like other businesses, which Schedule I classification currently precludes.

The Connecticut Department of Social Services has requested roughly $938 million over five years from the **Rural Health Transformation Program** for the state to improve the health of rural residents. The federal program was created by the One Big Beautiful Bill Act as lawmakers recognized that cuts to Medicaid spending would especially impact rural regions. In late December CMS announced that Connecticut will receive a first year award of $154.2 million for fiscal year 2026.

Connecticut Wins in the 2026 National Defense Authorization Act (NDAA)

After prior U.S. defense funding bills this year shorted several key Connecticut-based defense programs for submarines, the Fiscal Year 2026 NDAA enacted on December 18th filled previous gaps and authorized continued funding for and/or procurement related to Columbia-class and Virginia-class submarines, Blackhawk and CH-53K helicopters, and 34F-35A aircraft. The legislation ensures continued demand for Connecticut's worldclass submarine and aircraft industries, for both the major defense contractors (e.g., General Dynamic's Electric Boat, RTX's Sikorsky) and the hundreds of small and medium-sized businesses across the state that supply them.

The bill also authorizes a 3.8% pay raise for all military personnel, infrastructure improvements for the New London submarine base, and the Coast Guard to use existing funds for final completion of the National Coast Guard Museum.

Connecticut Housing Market Trends
November 2025

+5.2%
Active Listings YoY
Realtor.com

+8.7%
$460,000
Median Sales Price YoY
Redfin

-10.8%
Home Sales YoY
Redfin

-1 day
45
Median Days on Market YoY
Realtor.com

-0.51 %pts
6.21%
Freddie Mac 30-Year Fixed Rate Mortgage Average for the week ending 12/18

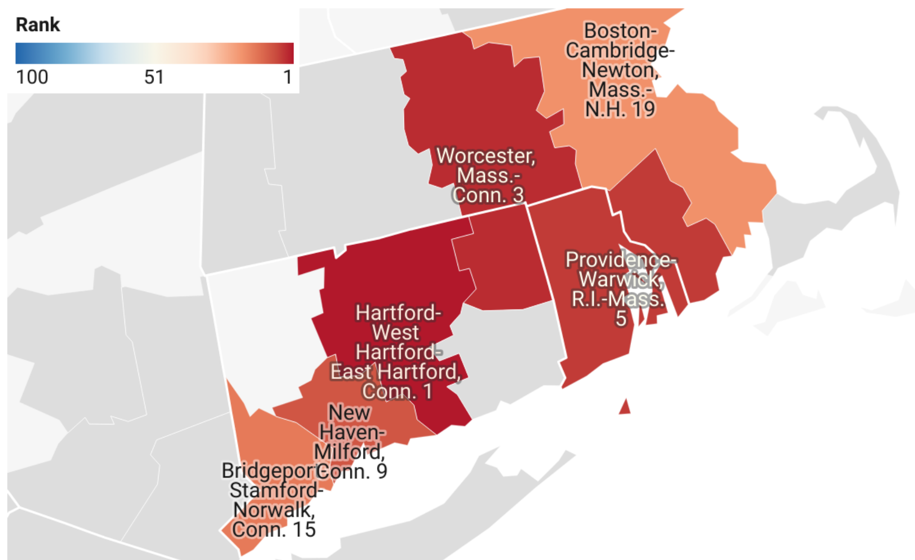
+1.0%
$1,694
Statewide Median New Lease Rent, YoY
Apartment List

CONNECTICUT HOUSING MARKET

Connecticut home sales declined 10.8% year-over-year in November according to Redfin. Median sale prices rose by 8.8% year-over-year. Mortgage rates are lower than last year, as of mid-December, but remain above 6%, keeping many homeowners “locked in” to their properties with lower mortgage rates secured before 2022. The median home is spending 45 days on the market from list to close, per Realtor.com, and 59% of Connecticut homes sold above list price in October according to Zillow. *See the appendix for more.*

For town-specific information, check out the Connecticut Housing Finance Authority’s Regional & Municipal Housing Market Tracker dashboard.

Top Housing Markets of 2026



Map: OSC • Source: Realtor.com, Note that white and grey areas have no data • Created with Datawrapper

Connecticut Metros Rank 1st and 9th in List of Top Housing Markets for 2026

According to real estate information provider, Realtor.com, the Hartford-West Hartford-East Hartford, Connecticut metro area is projected to see the highest combined existing home sales growth and median price growth year-over-year in 2026 of all 100 of the largest metros in the nation (projected 7.6% sales growth and 9.5% median sale price growth). The second and third ranked metros are Rochester, New York and Worcester, Massachusetts-Connecticut, respectively, with the latter containing towns in the northeast corner of Connecticut. The New Haven-Milford, Connecticut metro ranked 9th. Though trending cooler, most Connecticut housing markets continue to favor sellers, even as the United States overall housing market has shifted to neutral according to Zillow’s Market Heat Index.

According to Realtor.com, the top ten 2026 metros are notable for having chronically tight inventory, more affordable list prices than pricier areas nearby, less new construction (as a share of listings) that is projected to keep prices climbing, and older median resident age and housing stock than the nation overall. While buyers could see mortgage rates decline modestly in 2026, rising prices could offset affordability gains.

CONNECTICUT LABOR MARKET

Connecticut lost 5,700 payroll jobs in September, data that was significantly delayed by the federal government shutdown in October and November. The state added 4,500 net jobs (0.3%) through the 12 months ending September. Connecticut's unemployment rate held steady at 3.8% in September. November and partial October estimates will be released on January 6th, 2026.

In October, **federal workers** who accepted deferred resignation offers earlier in the year came off federal payrolls, leading U.S. federal government employment to fall in October by 162,000 jobs. From January through November, federal government jobs are down by 271,000 according to the Bureau of Labor Statistics. Connecticut likely lost federal jobs in October as well, however, federal workers (excluding Postal Service) made up only 0.6% of Connecticut jobs versus 1.5% in the U.S. overall (as of January).

Recent U.S. job growth has been muted, with an average job gain of only 22,300 per month over the last three months (Sept-Nov, seasonally adjusted), much lower than the average 181,700 gain in the same months of 2024. Actual payrolls may be declining, as Federal Reserve Chair Powell said normal revisions are expected to reduce reported monthly job gains by about 60,000 per month on average. Companies are hiring less, and the U.S. unemployment rate rose to 4.6% in November.

One concerning trend for the Connecticut economy is a falling labor force participation rate (64.3% in September, down from 65.0% in May) and a shrinking labor force (down 8,300 YoY). This means a smaller pool of potential workers for businesses, which will likely be a drag on future employment growth. Two demographic trends may be contributing:

- Less international migration
- Many Baby Boomers retiring

Looking at specific industries, **Connecticut sectors that have gained jobs** over the 12 months ending in September include:

- Health Care & Social Assistance (+3,100, 1.1%)
- Professional, Scientific, and Technical Services (+2,800, 2.8%)
- Accommodation & Food Services (+1,600, 1.3%)
- Other Services (+1,500, 2.4%)

Conversely, **the sectors that have lost the most positions** over the year ending in September include:

- Retail (-2,400, -1.5%)
- Durable Goods Manufacturing (-1,300, -1.1%)
- Nondurable Goods Manufacturing (-1,100, -3.3%)
- Construction (-700, -1.1%)

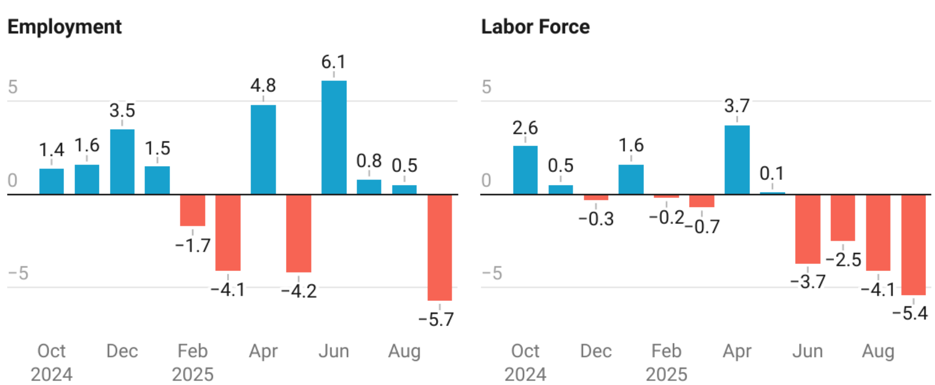
While the number of people continuing on unemployment insurance in Connecticut rose this fall (on a year-over-year basis), low levels of new claims for unemployment insurance and fewer continuing claims in December (26,100 the week ending Dec. 20th) suggest **layoffs remain limited**. It's still a "low hire, low fire" economy, meaning it's okay for those with jobs but quite difficult for those currently looking.

The Job Openings and Labor Turnover Survey (JOLTS) shows softening conditions going into the fall. Layoffs jumped in August and September but returned to low levels in October. There were 73,000 job openings in October after the hiring rate fell to its lowest level since 2020 in August.

Consistent with cooling conditions, **average hourly wage growth has slowed.** Connecticut average private sector hourly pay was $39.24 in September, not seasonally adjusted. That's up 2.5% from last year. Wages aren't necessarily keeping up with inflation for many workers, given the Consumer Price Index grew 3.0% year-over-year through September.

Monthly Change in Connecticut Jobs and Workers

Thousands of persons, Seasonally Adjusted



Connecticut nonfarm payroll employment and civilian labor force (people working or looking for work)
Source: Bureau of Labor Statistics via FRED • Created with Datawrapper

APPENDIX

*Not updated yet due to federal government shutdown

Connecticut Housing Market	Nov-25	Nov-24	% Change or Change
Home Sales (Redfin)	2,857	3,204	-10.8%
Median Sales Price (Redfin)	$460,000	$423,000	8.8%
Active Listing Count (Realtor.com)	4,849	4,610	5.2%
New Listing Count (Realtor.com)	2,644	2,496	5.9%
Freddie Mac U.S. 30-Year Fixed Rate Mortgage Average (%) (Week ending 12/18/25 and 12/19/24)	6.21	6.72	-0.51
Median Days on Market (from listing to close, Realtor.com)	45	46	-1.0
Average Sale-to-List Price Ratio (Redfin)	101.2%	101.9%	-0.7%
Median Rent for New Leases (Apartment List)	$1,694	$1,678	1.0%
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%

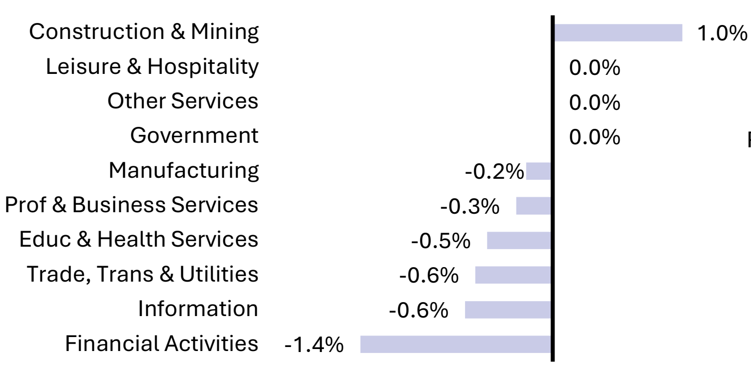
Some Data Retrieved from FRED, Federal Reserve Bank of St. Louis

Connecticut Labor Market	Sep-25	Aug-25	Sep-24
Unemployment Rate	3.8%	3.8%	3.2%
Total Unemployed	74,000	73,300	62,000
Total Nonfarm Employment	1,714,100	1,719,800	1,709,600
Job Growth	-5,700	500	2,100
Job Openings to Unemployed Ratio	1.0	0.9	1.3
Quit Rate	1.5	1.5	1.9
Average Monthly Initial Unemployment Claims	3,617	3,944	2,361
Labor Force Participation Rate	64.3%	64.6%	65.0%
Average Hourly Wage	$39.24	$38.98	$38.27

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

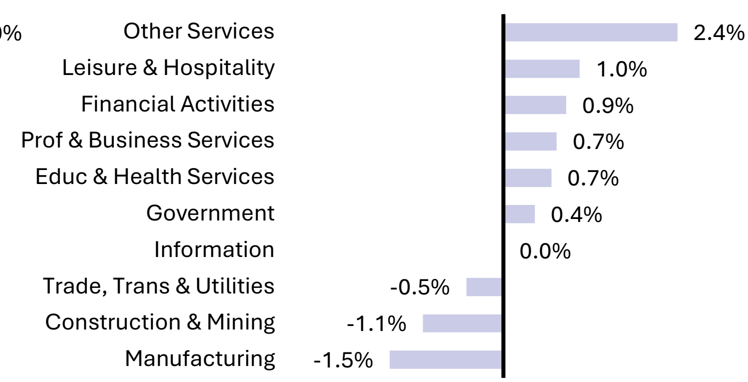
Connecticut Industry Sector Nonfarm Payroll Employment – September 2025

Month-over-Month Percent Change



Source: CT Department of Labor

Year-over-Year Percent Change



Source: CT Department of Labor