



OFFICE of the STATE COMPTROLLER

CONNECTICUT ECONOMIC UPDATE

Sean Scanlon
State Comptroller
FEBRUARY 2026

In this month's edition

Outlook: Recession concerns abated somewhat in January, as recent data has indicated solid economic growth in 2025 (U.S. real GDP growth revised up to 4.4% in 2025 Q3) and economists expect a bump to consumer spending in 2026 from higher tax returns. However, job growth stalled in late 2025, and Connecticut's unemployment rate rose from 4.0% in November to 4.2% in December. That's still low by historical standards (and lower than the 4.4% U.S. rate). The potential for escalating layoffs as companies try to do more with less (with help from AI) in an uncertain policy environment is a significant downside risk. Connecticut's economy also remains vulnerable to a correction in the stock market if the AI-fueled boom in equities falters.

In December, Connecticut average hourly wages rose 3.0% year-over-year, while the U.S. Consumer Price Index (CPI) rose 2.7%. As widely anticipated, the Federal Reserve voted to hold the federal funds rate steady at 3.5-3.75% at its late January meeting. [Markets](#) considered two quarter point cuts in 2026 most likely as of January 30th. President Trump named Kevin Warsh as his nominee for the next Fed Chair. Consumer confidence plunged in January to its lowest level since 2014, but falling sentiment has not been closely linked to spending patterns since 2022.

New figures from the U.S. Census Bureau indicate that [Connecticut's population](#) rose by approximately 14,000 people (0.4%) to 3,688,496 as of July 1, 2025, from the prior year. That pace of population growth reflected a slowdown from 0.9% growth in 2024 and ranked 30th among states.

From interest rates to tax cuts to equities, this month we dive into some of the major factors and trends expected to impact Connecticut's economy in 2026. We touch on the slowdown in hiring, high valuations in the stock market, federal reserve independence, stimulative fiscal policy, the bifurcation of consumer spending, and cuts to safety net programs (including changes to [SNAP](#) and [Medicaid](#) so far).

Lower global oil prices are providing some relief at the pump and for residents that heat with oil this winter, but frigid temperatures are driving utility bills higher. Regular unleaded gasoline averaged \$2.85 per gallon in Connecticut the week of 1/23/26, down from \$3.09 the same week in 2025.

Tourism Industry Growth. The lodgings industry finished 2025 with room-related revenues up 5.6% over 2024 levels. In 2024, 70 million people visited Connecticut and directly spent \$11.6 billion, according to DECD's latest tourism report.

Connecticut's economy grew 5.6% (SAAR) in Q3 2025, adjusting for inflation. Strong growth in durable goods manufacturing and key white-collar industries, as well as improvement in the retail sector, drove faster growth for the quarter.

2025 was another sluggish year for home sales. Falling mortgage rates could support more inventory and sales in 2026. Multifamily housing is likely to dominate new home construction based on building permit activity.

Employers added just 900 jobs in Q4, and payrolls shrank by 2,200 positions year-over-year through December. There were 74,000 open positions as of November.

KEY DATES THIS MONTH

- 2/4 – Governor releases proposed state budget revisions for next year
- 2/4 – Start of CT legislative session
- 2/6 – January U.S. jobs report
- 2/11 – January CPI inflation report
- 2/20 – U.S. GDP Q4 2025 first estimate
- TBD – January CT jobs report

Did you know?

Looking to make a change or know a young person considering their options after graduation? Connecticut's Department of Labor recently published their latest [Connecticut Career Paths Resource Guide](#), which provides information for students and job seekers making plans for their future career. Learn about hundreds of occupations, tips for your job search, and local resources available to help.

About OSC

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

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SIX FOR 2026: ISSUES EXPECTED TO DEFINE THE ECONOMY THIS YEAR

What will 2026 hold for Connecticut's economy? It's hard to say at this point, given important risks and forces moving in opposite directions. Much will depend on six factors, which we are calling the "6 for 2026." This month we go deeper on what's happening in the economy now, and what's likely to determine Connecticut's economic health this year.

1. Labor market weakening – A jobless expansion?
2. Stock Market Performance – Will the AI boom last?
3. Federal Reserve Independence and Inflation – Will interest rates fall?
4. Federal Cuts to Taxes and Spending – Winners and losers
5. Consumer Spending Bifurcation – A K-shaped economy
6. Connecticut's State Budget – What this all means for what the State can do for you.

2026

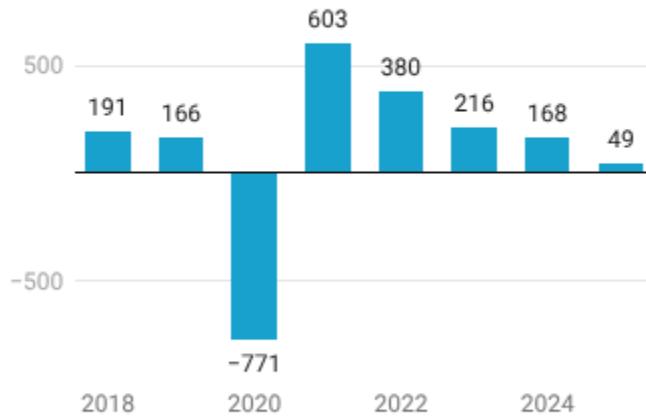
1. A Labor Market Losing Steam

The labor market has been gradually cooling but further deterioration would mean trouble. Average wage growth has moderated; the unemployment rate has crept up to 4.2% in Connecticut and 4.4% in the U.S. and the rate of people quitting their jobs—often seen as a gauge of how confident people feel about finding a new job—dipped in Q3 below pre-pandemic levels. Monthly job gains slowed to a crawl at the end of 2025.

That's a change from immediately following the COVID-19 pandemic, when the U.S. labor market was red hot. Businesses faced worker shortages, job switchers saw big wage gains, and "quiet quitting" was all the rage due to conditions that favored workers over employers. In 2022 to 2024, average U.S. job gains exceeded 160,000 per month, reflecting both the rapid recovery of jobs lost during the pandemic and additional job growth supported by a surge in internation migration.

U.S. Job Growth

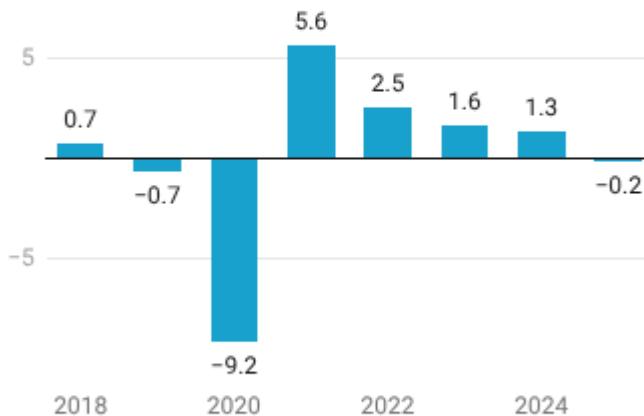
Average monthly change in U.S. payroll jobs, thousands, seasonally adjusted



December 2025 data included in 2025 figures is preliminary
Source: Bureau of Labor Statistics • Created with Datawrapper

Connecticut Job Growth

Average monthly change in Connecticut payroll jobs, thousands, seasonally adjusted



December 2025 data included in 2025 figures is preliminary
Source: Bureau of Labor Statistics • Created with Datawrapper

Hiring slowed markedly in 2025. Preliminary Connecticut data indicate a net total loss of 2,200 jobs (-0.1%) for the year in 2025, resulting in a trivial (-180) average job change per month. For the U.S., 2025 was the slowest year of U.S. job growth outside of a recession since 2003, with average monthly net job creation of about 49,000 positions. Benchmark revisions released in March could show average monthly gains were even lower. Average monthly U.S. job growth in the fourth quarter turned negative (-22,300) due to a large decline in federal payrolls and modest private hiring.



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Between December 2024 and December 2025, the labor force (i.e., people working or looking for work) in Connecticut shrank by 19,900 people (-1.0%), according to current BLS estimates. The Connecticut labor force participation rate (the share of the population that is either working or actively looking for work) fell from 65.0% to 64.0% over the year but remains above the U.S. rate of 62.4%.

Several factors could shape employment in 2026:

- The demographic trends of an aging population and less immigration are constraining labor supply, especially in certain industries like construction (high share of foreign-born) and manufacturing (high rate of retirements).
- Businesses are scaling up new artificial intelligence (AI) systems that could reduce their future demand for workers (though the transition is expected to create new jobs as well). This could be especially true in several key Connecticut industries such as insurance, finance, and professional and business services.
- Businesses large and small are starting 2026 looking for ways to cut costs (potentially through layoffs) as economic uncertainty lingers and certain industries face challenges.
- Conversely, the 2025 federal tax and spending bill (OBBA), could spur investment or boost consumer spending that supports new job creation.

Despite softening in the labor market, real GDP (gross domestic product) growth in 2025 held up. On a preliminary inflation- and seasonally-adjusted basis, U.S. GDP grew at annualized rates of -0.6% in Q1, 3.8% in Q2, and 4.4% in Q3. The Federal Bank of Atlanta GDPNow model is predicting Q4 growth of 4.2% as of January 30th.

Connecticut grew 4.6% in Q2 and 5.6% in Q3 on the same basis. With productivity growing, some economists say we could see a “**jobless expansion**” in 2026, under which GDP growth remains solid, perhaps supported by AI, but job growth is slow.

While the prospect of a **jobless expansion** is not ideal, with some businesses still struggling to hire qualified workers and job seekers facing limited opportunities—positive economic growth should mean the average standard of living is rising. However, that prosperity may not be broadly shared.

The K-shaped economy (with conditions improving for the affluent but worsening for other groups) is likely to continue in 2026 if the labor market remains weak while growth remains stable.

A more menacing possibility in 2026 that policy makers are trying to guard against is deterioration in the labor market that snowballs into a recession. So far, that’s not what we see.

Based on current headwinds, sectors at higher risk for layoffs in Connecticut include higher education, retail, manufacturing, and transportation and warehousing.

Average Connecticut weekly initial unemployment claims in December were 5,694—up by 199 claims (3.5%) from December 2024 according to the Connecticut Department of Labor. The December unemployment rate rose to 4.2% from 3.2% a year earlier but remains below Connecticut’s long-term average unemployment rate of 5.3% (measured from 1990 through 2025).

2. A Stock Market Boom or Bust

Major U.S. equity indices have seen three straight years of solid gains, with the S&P 500 gaining 24.2% in 2023, 23.3% in 2024, and 16.4% in 2025. While the stock market is not the economy, the “wealth effect” of rising valuations can affect the real economy through spending.

With **62% of American households invested in stocks**, either directly or indirectly (e.g., through mutual funds or retirement accounts) according to Gallup, rising stock values have encouraged households with the means to spend more freely in recent years. Will that continue?



Connecticut’s economy is more intimately tied to Wall Street’s performance than most states, given both the large financial services sector and the sizeable number of Connecticut residents that work there. About 54,000 people (3.2% of the state’s resident workforce) commuted from Connecticut into New York City in 2022, according to Census data cited by *CT Insider*, though some likely work outside the finance industry.

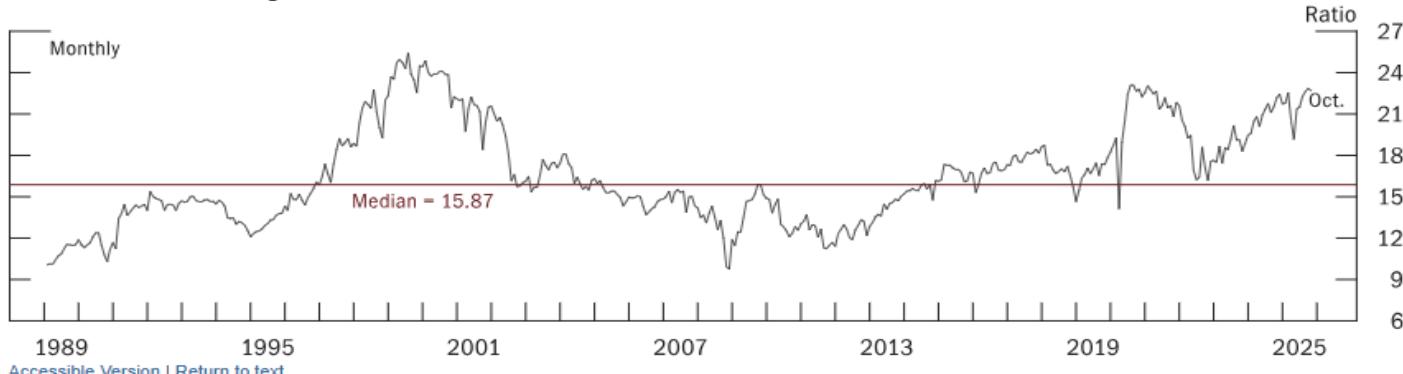


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Federal Reserve: “The price-to-earnings ratio of S&P 500 firms was once again close to the upper end of its historical range”



Note: The figure shows the aggregate forward price-to-earnings ratio of Standard & Poor's (S&P) 500 firms, based on expected earnings for 12 months ahead. Values are reported as of month-end, except for the value of the last month of the series, which is reported as of the data close date.

Source: LSEG, Institutional Brokers' Estimate System, North American Summary & Detail Estimates, Level 2, Current & History Data, Adjusted and Unadjusted, <https://www.lseg.com/en/data-analytics/financial-data/company-data/ibes-estimates>.

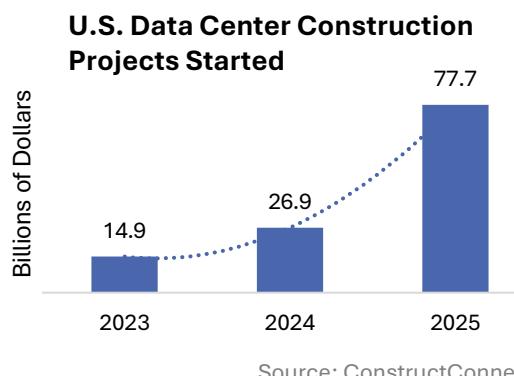
Markets have been driven higher in recent years by optimism in new artificial intelligence technology, like ChatGPT from Open AI and future iterations that may achieve “artificial general intelligence”. Some expect these innovations to totally reshape work and productivity in the years to come, driving much higher economic growth and fat returns for critical companies. Stock market valuations reflect this exuberance. However, [measures](#) like the forward price-to-earnings ratio (the ratio of equity prices to expected 12-month earnings) have been signaling that U.S. stocks are overvalued compared to historical averages.

Will the AI boom continue to push stocks higher in 2026 or will the bubble burst? That's a key question for Connecticut. A major drop in U.S. equity values could reverberate throughout the economy through the “wealth effect” if households pull back on spending when their investments decline. Alternatively, it could tamp down business investment, which has been a key source of growth for the U.S. economy over the past year. In Connecticut, it could directly impact jobs and earnings for those in the financial sector, with impacts on local businesses (especially in Fairfield County) and revenue implications for the State.

Some expect 2026 to be the year where firms adopting AI see more tangible efficiency gains that improve their bottom lines. That could happen for some companies but it's uncertain if that will show up in official measures of productivity for the economy quite yet. Past “general purpose technologies,” like electricity, the personal computer and the internet, took much longer to produce noticeable productivity gains economy wide.

Many firms are still figuring out how to adopt AI. [Census data](#) shows that overall, 17.7% of U.S. non-farm businesses were using AI “in any business functions” as of late December 2025.

Economic history suggests that the biggest productivity gains will come from businesses that design or redesign their operations and business models to maximize the benefits of the new technology, while other established firms who treat it as an “add-on” to existing processes could see less of a payoff.



U.S. data center construction has skyrocketed (though not yet in New England, thanks to higher electricity costs here).

According to construction industry data provider, [ConstructConnect](#), new data center projects worth \$77.7 billion broke ground in the U.S. in 2025. That's up 188.8% from 2024, which had grown 80.5% from 2023.



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3. A New Fed Chair and Inflation Expectations

In 2026, President Trump will put his pick in charge at the nation's central bank. He said he will nominate Kevin Warsh, who previously served as a Fed Governor from 2006-2011 and has called for lowering interest rates. The Supreme Court is also set to decide if Trump can fire Lisa Cook, one of the Fed Governors appointed by President Biden, which would give him a greater ability to influence monetary policy by replacing current policymakers with loyalists. Since the cost of borrowing has huge implications for the economy, the drama unfolding at the Fed is a matter of wide importance.

The Federal Reserve's mandate from Congress is to balance the goals of full employment and stable prices (i.e., low inflation). With the labor market cooling and inflation still above the Fed's 2% target, those two goals are in tension. So far, the Fed has proceeded cautiously, slowly lowering its key interest rate by 175 basis points (1.75 percentage points) since September 2024.

Central bank independence has long been a cornerstone of U.S. monetary policy, but that separation has come under increasing pressure. In January, the Department of Justice opened a criminal investigation into Chair Jerome Powell related to testimony he gave to Congress about building renovations. Chair Powell [responded](#) that the allegation was a pretext, and experts

described the episode as an unprecedented attack on Federal Reserve independence. Many viewed it as part of President Trump's broader effort to pressure the Fed to cut interest rates to stimulate the economy. Such cuts risk high inflation later on.

Fed Refresher

The Federal Open Market Committee (FOMC) sets the Fed's main lever of monetary policy, the federal funds rate. It consists of 12 voting members including the seven members of the Board of Governors of the Federal Reserve System (of which the chair is one) and five regional Fed presidents.

While the Fed Chair is important, they typically guide policy by building consensus. He or she only gets one vote out of 12 on the FOMC. This fact could limit the damage from a less independent Fed chair.

According to the FOMC, the **federal funds rate** is the interest rate at which banks lend balances at the Federal Reserve to other banks overnight. Changes to that rate typically set off a chain reaction of changes to other interest rates in the economy, though it's generally not 1-to-1.

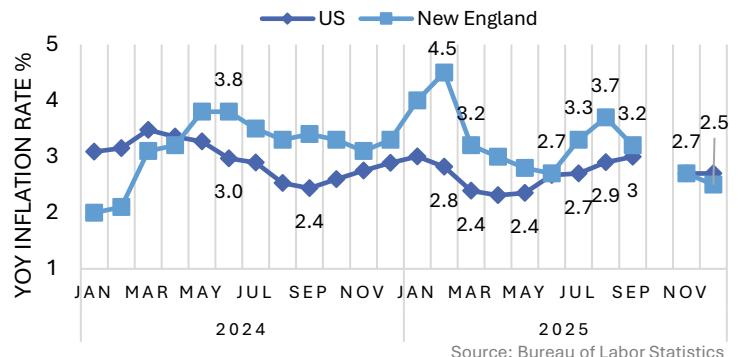


Market expectations for future inflation help determine the interest rates consumers and businesses pay, so the President's continued attacks on the Fed could ultimately have the opposite of the intended effect. While the Federal Reserve is generally expected to continue lowering the federal funds rate in 2026, with rates for mortgages, credit cards, auto loans and borrowing by small businesses also expected to decline modestly, that scenario is not guaranteed. Long-term interest rates could remain flat or rise if investors begin to expect higher inflation, question the Fed's commitment to price stability under the next Trump-appointed chair, or investors become less interested in buying the U.S. government's debt.

As of the end of January, the federal funds target range stands at 3.5% to 3.75%, following the widely anticipated decision to hold that rate steady at the Federal Open Market Committee's (FOMC) January meeting. Generally, between one and three quarter point cuts are expected in 2026. [Markets](#) are predicting a 13.4% chance of a rate cut at the Fed's next meeting in March as of January 30th.

According to the Consumer Price Index (CPI), inflation was 2.7% for the 12-months ending in December, though economists

CPI INFLATION RATE





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viewed the report as still potentially under-reporting inflation due to distortions caused by the federal government shutdown in the fall. Food prices have risen by 3.1% year-over-year, while gas prices fell 3.4%. The New England CPI rose just 2.5% from last December, according to the latest data, with food prices up 3.3% year-over-year.

Measures of long-run inflation expectations from the [Federal Reserve Bank of Cleveland](#) indicate that inflation was expected to average 2.33% over the next 5 years, and 2.45% over the next 30 years, according to their model as of January 13th. Those readings indicate that long-run inflation expectations remain “well anchored” for now, though we’ll see what happens in 2026.

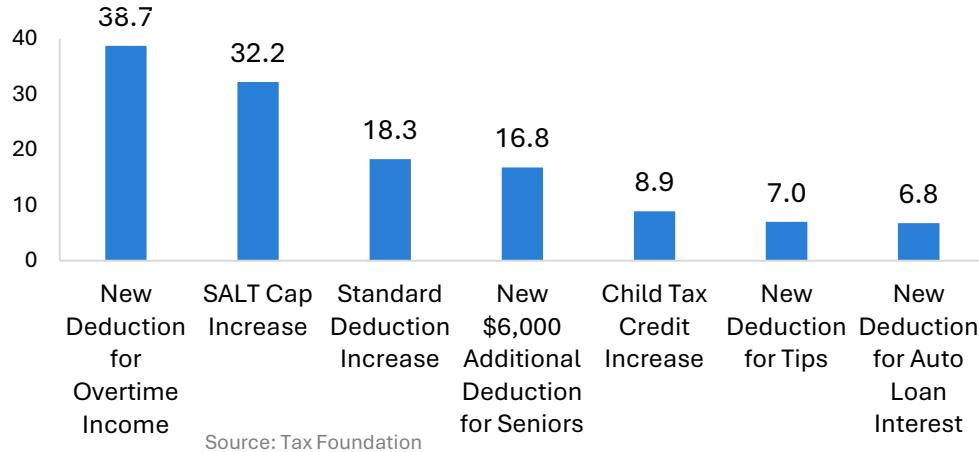
4. Federal Policy Changes that Erode the Social Safety Net but could Boost Other Spending in 2026

The major tax and spending law passed by Congress last summer, known as the One Big Beautiful Bill Act (“OBBA”), is expected to stimulate economic activity in 2026, while also reducing safety net benefits for low-income residents and hurting specific industries, like solar energy, electric vehicles, and higher education. The benefits and costs are unevenly distributed, with higher-income households expected to have more after-tax income to spend, while low-income households reckon with less government support.

Let’s start with the positive: fiscal stimulus. The new tax cuts within the law are [expected](#) to support the U.S. economy in 2026 by boosting demand and spending by both individuals and businesses. Estimates of the impact to real GDP in 2026 vary, with the [Tax Foundation](#) estimating a 1.2% overall 2026 boost, [Goldman Sachs Research](#) projecting a peak 0.7% point boost to growth in the second quarter of 2026, and Yale Budget Lab estimating an average 0.2% point bump to growth per year for 2025-2027. Note that Trump’s tariffs are expected to be a fiscal drag, reversing some of that gain. Also, the law’s long-term impacts are less positive, given cuts to benefit spending and increases to federal deficits that will likely increase long-term borrowing costs.



Tax Foundation Estimates of the U.S. Government’s Revenue Loss from Major Individual Income Tax Changes for 2025, Billions of Dollars



The [Tax Foundation](#) estimates OBBBA will reduce individual income taxes by \$129 billion for 2025 nationally. For a sense of scale on how that could boost disposable incomes in Connecticut, that works out to \$1.5 billion in income tax savings in the Constitution State based solely on Connecticut’s share of U.S. taxpayers in 2023. However, given the state’s characteristics, that amount likely understates the personal tax savings here.

Big Refund Checks

Because withholding tables were not updated when the law was passed mid-year, most households with incomes high enough to benefit from the targeted cuts will experience them in the form of higher federal tax return checks early in 2026.

Some estimates suggest average returns could be as much as \$1,000 higher per filer than last year, pumping up to \$100 billion out to U.S. taxpayers through refund checks in early 2026.

Note that refund amounts will vary dramatically between households based on their characteristics and incomes. To the extent that extra income is spent or invested in productive ways, the economy should grow.



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Senior Deduction. Because Connecticut has an older population on average, more residents are likely to qualify for the temporary \$6,000-per-senior bonus deduction, though there are income restrictions. In 2024, Connecticut had approximately 714,000 residents aged 65 and over, accounting for 19.4% of the [state population](#). This provision should boost after-tax incomes for many seniors, supporting spending in areas such as leisure and hospitality as well as healthcare. Seniors on fixed incomes have been especially strained by rising prices in recent years.

An analysis by [smartasset™](#) estimated that Connecticut would have an average **single-year tax benefit per household of \$2,125** from 8 individual tax changes in the bill, 4th highest among states.

According to the [Tax Policy Center](#), the **OBBA should lower tax bills and the cost of investing in the U.S. for most companies**. It restores immediate expensing for domestic research and development, reinstates 100% bonus depreciation for equipment purchases, allows temporarily for expensing of new U.S. factories, loosens limits on interest deductions, and makes permanent the 20% qualified business income (QBI) deduction used by many Connecticut businesses. Due to Connecticut's conformity with certain IRS rules, **corporations will save an estimated \$136.9 million on state corporation taxes as well** for the state's fiscal year ending June 30, 2026, due mostly to firms being able to expense U.S. R&D costs right away (versus over five years).

These changes are intended to spur business investment, especially in the near term, which should boost the size of the economy over time. However, there are some complicated trade-offs among incentives for large companies, given other existing tax laws, that could partially offset some of the intended growth effects. Additionally, the law is expected to add \$3.4 trillion to the national debt over ten years, which could raise firms' borrowing costs over time.

The huge downside: benefit cuts for the vulnerable. Republicans used federal spending cuts of \$1.1 trillion over 10 years mainly to federal food and healthcare assistance to offset some of the \$4.5 trillion in tax cuts and other revenue reductions [provided by the law](#) in the same period. Some cuts are already increasing economic hardship for the state's vulnerable residents, with knock on effects to the grocery stores and hospitals where those dollars are ultimately spent.

However, many of the most significant impacts to the **Supplemental Nutrition Assistance Program (SNAP)** and **Medicaid** (the joint federal-state program that provides health care to very low-income residents) have not yet come into effect. While the tax cuts in OBBBA were front loaded to start in 2025, the benefit cuts are expected to ramp up in 2027 and beyond.



SALT Cap Threshold. Connecticut is one of the states [expected to benefit](#) most from the law's increase in the State and Local Tax (SALT) deduction cap from \$10,000 to \$40,000 (for those who itemize on their tax returns). That provision could lower the tax bills of well-off households with high property taxes by thousands of dollars. An analysis by [smartasset™](#) estimated Connecticut itemizers would save an average of \$5,495 per return.

A [2025 analysis](#) by Realtor.com found that 19.4% of Connecticut homeowners had property taxes that exceeded the former amount that could be deducted (\$10,000). Now under the new \$40,000 cap, only 1.3% of homes have property taxes that exceed that limit, allowing itemizing owners to subject significantly less of their income to federal income taxes. The extra cap space phases out for taxpayers making more than \$500,000.

SNAP. As of [December 2025](#), there were approximately 336,200 people (9.1% of the population) receiving SNAP benefits in Connecticut, which are accessed through Electronic Benefits Transfer (EBT) cards and were previously known as food stamps. That's down from 355,800 in September. Based on Department of Social Services (DSS) [data](#), the number of SNAP beneficiaries had already been declining since September 2024, when there were approximately 392,400 recipients. [USDA data](#) from September 2025 suggests the average benefit was about \$6.45 per person, per day, which can be used at participating retailers and farmers markets.



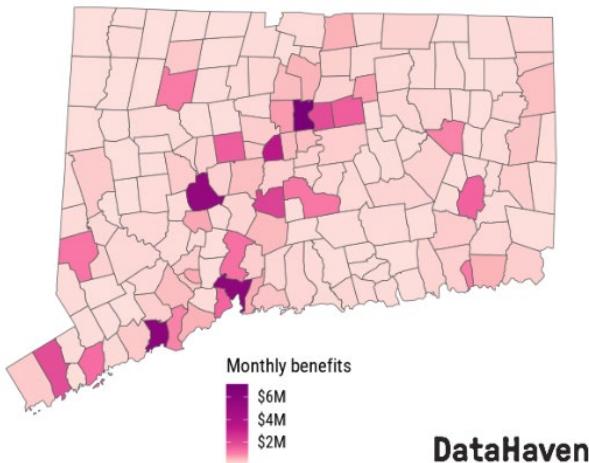
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People Across Connecticut Rely on SNAP Benefits

Total monthly SNAP benefits received by town



DataHaven

HUSKY. According to DSS's online dashboard, Connecticut's Medicaid program served over 1 million people in 2025. It's the state's [largest health insurer](#). HUSKY A, which covers low-income families and pregnant people, served nearly 570,000 of those, while Husky D (for adults without minor children) served nearly 370,000 people. Husky B (for children) and Husky C (for seniors and the disabled), covered the rest.

What's changed already for SNAP?

- The State has recently begun enforcing the new federal requirements on who must document 80 hours per month of work, training or volunteering, or lose benefits. (Initial estimate: 42,000 residents potentially impacted)
- The State also began eliminating SNAP benefits for certain legal immigrants, including refugees, asylees and humanitarian parolees by November 1, 2025, as those benefits are reviewed. (Initial estimate: 3,000 people lose all assistance)
- Another provision limiting the applicability of the "Heat and Eat" linkage, means fewer Connecticut SNAP households are getting extra assistance this winter due to participation in the Connecticut Energy Assistance Program (LIHEAP).

The loss of food assistance for these very-low-income residents, many of whom are likely to be elderly or have limited English skills, will increase food insecurity at a time when demand at food pantries is already high. Governor Lamont has announced additional state funding for them in response. The lost sales generated by those individuals at the roughly [2,500](#) Connecticut retailers accepting EBT payments could be meaningful for some retailers as well.

SNAP has been [shown](#) to have a high "fiscal multiplier"—it is government spending that stimulates the wider economy because it's quickly spent at stores, whose owners pay suppliers, cashiers and stock clerks, and the impact ripples on throughout local economies from there. The loss of those benefits will have the opposite effect.

What's changed for healthcare?

- OBBBA cancelled Biden-era rules to make certain enrollment processes easier (such as not requiring in-person eligibility interviews for seniors and people with disabilities).
- Starting January 1, 2026, OBBBA also barred legal permanent residents (green card holders) with incomes below 100% of the Federal Poverty Limit (FPL) from signing up for or renewing health insurance coverage on the state's ACA exchange, Access Health CT, (roughly 4,850 such people were enrolled in 2025).

Those individuals would be eligible for Connecticut's Medicaid program except for the 5-year waiting period before they are eligible for those benefits under federal law. Now, despite being legal permanent residents, they are prevented from getting any federal help with healthcare costs.

- Most families that purchase health insurance on the state's ACA exchange get help from the federal government—help that was expanded in 2021 but put back to original levels for 2026. That means **many middle-income families are no longer eligible for federal help** and others will get less.
- Combined with average premium increases of 16.8% for Connecticut individual health insurance plans due to expected deterioration of the risk pool, residents losing access to federal help are facing skyrocketing costs to maintain coverage.

One silver lining of the average premium hikes for enrollees that still qualify for help is that the silver plan prices that determine the remaining federal subsidies also jumped. That shielded some low-income families from much higher costs. Governor Ned Lamont has announced full and partial subsidy replacement with state dollars for 2026 for select income groups. However, for some Connecticut families, the extra costs for health insurance in 2026 will more than offset any increased tax refunds, lowering their spending in other areas.



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What's ahead?

The major changes to Medicaid are still to come, with certain legal immigrants excluded from HUSKY beginning October 1st this year. This includes refugees, asylees, human trafficking victims, and humanitarian parolees.

In 2027, once the mid-term elections are over, most non-disabled, working age recipients without children under age 14 will be subject to **new work requirements** (like those in place for SNAP), and single adults (HUSKY D) will have to fill out paperwork to **renew their coverage every 6 months** instead of every year. Unlike SNAP, healthcare benefits for low-income Americans have never been tied to employment in the past, though a few states have tried it.

Much of the federal savings the Congressional Budget Office assumed from the legislation are due to people losing coverage because they fell through the cracks of all the new paperwork.

Beginning in January 2027, the law **also shortens how much retroactive coverage** of new enrollees' medical bills the state can provide. Additionally, certain **legal immigrants will be kicked off Medicare** (the federally funded health insurance program for the elderly and disabled) starting in July 2027, despite having paid into the program for at least a decade. Certain groups will be subject to **new Medicaid cost-sharing** for some services starting in October 2028.

More Uninsured. These changes to coverage are likely to result in more uninsured Connecticut residents over the next few years. When the uninsured get sick or in an accident, they still require healthcare—resulting in financial strain for

patients and hospitals alike. The state's hospitals and other health care providers expect to see a rise in uncompensated care, hurting the industry that employs the largest number of Connecticut workers and likely increasing health care costs for everyone else.

Benefits and harms focused on different groups

As this section describes, federal policy changes are set to put more money in some American's pockets through bigger tax refunds this year, while cuts to food and healthcare assistance are driving up others' costs.

While some middle-income families will benefit from the higher standard deduction, higher child tax credit, and targeted relief for seniors, tips, and overtime pay—many of the state's lowest-income residents pay too little in taxes to see a benefit. The refundable state earned

income tax credit increase for 2026 is an exception. Yet these groups are more likely to lose food assistance through SNAP or lose health care coverage in the years to come.

Other Cuts and Changes. Federal changes to green energy credits (such as the elimination of the \$7,500 electric vehicle tax credit and 30% consumer tax credit for installing solar panels) and higher education (such as restricting federal lending for student loans, less generous loan repayment plans, and a much higher endowment tax for Yale and similar institutions) are also likely to weaken those sectors of the economy in 2026. Changes to the percentage of losses gamblers can deduct against winnings (down from 100% to 90%) on their taxes could also hurt business at the state's tribal casinos.



5. A Tale of Two Consumers

There were two main drivers of U.S. economic growth in 2025: AI-related investment by companies and growing expenditures from affluent consumers. Other business investment and spending by lower-income consumers grew much less.

Since consumer spending accounts for over two-thirds of GDP, the health of the economy in 2026 will depend to a large degree on whether high-income households continue to increase spending this year and if low- and middle-income households can maintain their spending despite sticky inflation and a weaker labor market.

Retail Sales Up in November

[U.S. advance retail and food services sales](#) grew a strong 0.6% for the month. Retail sales in November were up 3.1% year-over-year, not adjusted for inflation. Bar and restaurant sales were up 4.9% year-over-year.



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The Top of the K-shaped Economy

Analyses from [Moody's Analytics](#) and researchers at the Federal Reserve Banks of [Dallas](#) and [Boston](#) have documented the rising share of expenditures attributable to high-income households. Per Moody's, spending by the top 10% of households, those making about \$250,000 per year or more, accounted for nearly 50% of all consumer spending in the U.S. in Q2 2025, the highest share ever since that data has been collected.

This bifurcation of spending can be seen in the airline industry. [Delta](#) recently reported that the company's growth is coming increasingly from premium seats and international routes (flown more by affluent consumers), and they are reconfiguring new aircraft with more premium seating as result.

As reported in the Federal Reserve's most recent edition of the [Beige Book](#), which included the end of the holiday shopping season,

"Spending was stronger among higher-income consumers with increased spending on luxury goods, travel, tourism, and experiential activities. Meanwhile, low to moderate income consumers were seen to be increasingly price sensitive and hesitant to spend on nonessential goods and services."

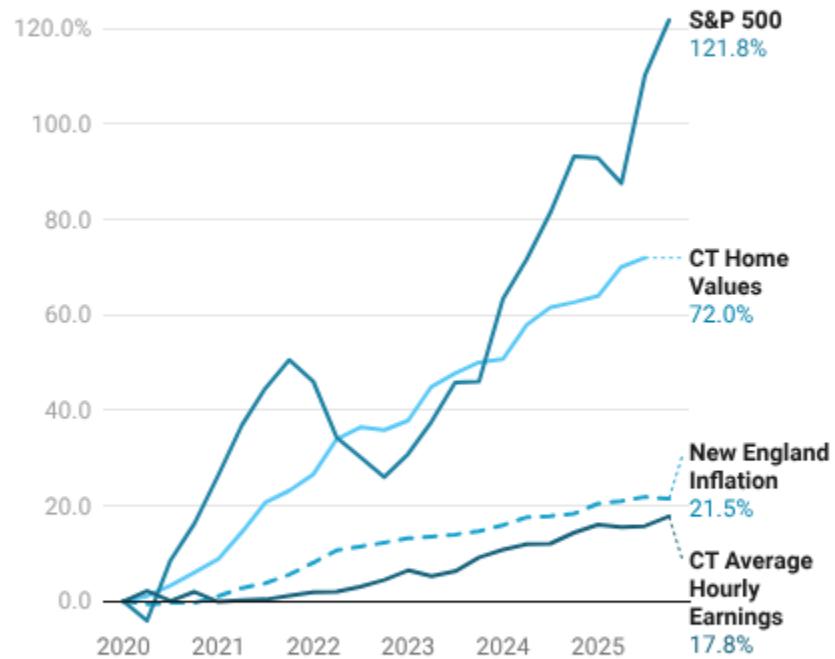
Sales and Use Tax Revenue Revised Up. That segment's strong spending appears to be supporting higher spending overall in Connecticut, as evidenced by recent upward revisions to expected Connecticut sales tax revenue this fiscal year. Those collections are now expected to be \$158.7 million (3.1%) higher than last fiscal year, though with inflation running around 2.7% in December (U.S. CPI), consumers aren't necessarily getting much more for their dollars.

Well-off households are more likely to be benefitting from the strong stock market, with the "**wealth effect**" making them more willing to spend. These consumers are also more likely to be homeowners that locked in low interest rates during the pandemic and have benefited from a 72% surge in home values since 2020.

Supported by higher tax refunds (e.g., SALT change), this group could continue to power spending growth in 2026. A serious downturn in stock values that reduces some of the wealth effect is a key risk for the economy. Wealthy

Since 2020, average wages haven't kept up with inflation, but asset values have soared

Cumulative Percentage Change from Q1 2020



Based on average quarterly values. Home values from Connecticut FHFA All-Transactions Home Price Index through 2025 Q3, CT average hourly earnings for all private sector employees (NSA), Inflation is New England Consumer Price Index (NSA)

Source: BLS and S&P Dow Jones Indices LLC via FRED, OSC Calculations • Created with Datawrapper

consumers could also slow spending if white-collar layoffs start to snowball, lowering their confidence and willingness to spend.

The Bottom of the K

For Americans who don't have income being generated by rising asset values, the last few years have been a race to stay ahead of rising prices. With new jobs harder to get these days, things feel more precarious.

Real wage growth falters. In early 2020, Connecticut's private sector average hourly wage rate was \$33.69 per hour. The graph above shows how that measure rose 17.8% between Q1 2020 and Q4 2025, while inflation according to the New England Consumer Price Index rose 21.5% over the same period. Adjusted for inflation, average hourly wages actually fell 3.1% over 2020 to 2025.



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Additionally, the table shows Connecticut average weekly earnings (which also reflect changes in hours) grew just 0.6% in 2025, when adjusted for changes in New England consumer prices. Real wage growth was stronger in 2024 (2.4%). If wage growth continues to slow in 2026 while tariffs keep inflation elevated, people dependent on wage income will continue to struggle to stay ahead.

Squeezed workers and those on fixed incomes may reduce savings or increase debt when their income growth doesn't keep up with the price of essentials. The U.S. personal savings rate dropped to 3.5% in November, its lowest since October 2022 and down from 5.5% in April 2025, as consumers spent more of their after-tax incomes. Credit card balances in Q3 2025 rose 5.75% from the year before.

The average perceived likelihood of missing a minimum debt payment in the next 3 months rose to 15.3%, according to the New York Federal Reserve's [Survey of Consumer Expectations](#) for December. That's the highest since April 2020. The increase was more pronounced for those with household incomes below \$50,000.

6. The State's Fiscal Outlook and What That Means for You

Connecticut's legislative session gets underway on February 4th, and policymakers will have the opportunity to make budget adjustments and strategic investments in the State's future. There is already a \$28.6 billion budget in place for the July 1, 2026 to June 30, 2027 fiscal year ("Fiscal Year 2027"), since Connecticut adopts two-year budgets every other year; however, lawmakers are expected to make some changes.

Thanks to fiscal discipline and solid revenue growth in recent years, Connecticut's fiscal position is strong. The State's General Fund has finished in the black every year since 2019. We've paid down an extra \$10.1 billion in long-term pension debt over the past six years, which will reduce our pension expenses next year by \$863 million – freeing up that money for other necessary investments like education.

The health of the economy and changes from Washington directly impact the State budget, which in turn determines what state government can do for you and how much you pay in state taxes.

Robust stock market performance and the strong labor market in recent years boosted state income tax receipts. General Fund revenue is forecast to grow next year by 6.4%. A downturn would reduce revenues, though our full Rainy Day Fund puts the State in a good position to weather a minor recession without big cuts or new taxes.

Year	Connecticut Average Weekly Earnings Growth (%)	New England CPI Growth (%)	Inflation-Adjusted, CT Average Weekly Earnings Growth (%)
2021	-0.5	3.6	-4.0
2022	1.5	7.1	-5.2
2023	2.3	2.9	-0.6
2024	5.7	3.2	2.4
2025	3.7	3.2	0.6

Source: Bureau of Labor Statistics, OSC calculations



The One Big Beautiful Bill Act (OBBA) and President Trump's other federal spending cuts have put the state budget under pressure and weakened the social safety net on which people in our state depend. Changes to corporate taxes decreased state revenues this year, with smaller reductions expected in future years. Starting in October 2026, state government will begin paying 75% of the costs to administer SNAP (about an extra \$40 million annually), instead of the 50% it's been for decades.

Starting in October 2027, Connecticut could be on the hook for \$44 to \$133 million annually to cover a share of SNAP food assistance payments. Crucial federal funding for responding to homelessness has been cut. The amount of Medicaid funding states can receive through provider tax arrangements will shrink, limiting Connecticut resources to address various challenges in that program. These are just a few of the budget challenges state lawmakers are confronting.

One key priority is **making healthcare more affordable and accessible** for everyone. That includes options to lower premiums on the ACA exchange, creating more competition among provider networks with UConn Health's recent hospital acquisitions, and protecting those impacted by the Trump administration's policies.



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WINTER FUEL COSTS

When it's comes to household spending on **energy**, the biggest driver is how much you consume. For home heating in the winter, the temperature outside often dictates how much oil, natural gas, or electricity you use. **Particularly cold temperatures so far this year are driving heating bills higher.**

The price per unit also matters. Brent crude oil was [trading](#) around \$65 per barrel in January, down from about \$79 per barrel in January 2025, contributing to lower average oil and gasoline prices for Connecticut residents. Home heating oil prices (excluding taxes) were down 9.9% year-over-year for the week of January 19th, according to EIA.

Average regular unleaded gasoline prices were down 8.6% compared to last year for the week of January 23rd, according to AAA Fuel Prices. Diesel prices were down less, just -1.6%.

While lower oil prices have been providing some residents with price relief, natural gas customers are less likely to be seeing declines. While only making up a small portion of natural gas rates, fuel supply charges—the pass-through cost of the actual gas supplied—at Eversource Energy, one of the state's 3 utilities, were up significantly in January [2026](#) versus January [2025](#).

In 2024, 36% of Connecticut homes relied on utility gas, while 35% used oil, and 20.2% used electricity for home heating.

Connecticut Prices for Gas, Oil & Residential Natural Gas

January 2026 vs. 2025

Reference Week/ Month	Category	Current Price	\$ Change from Last Year	% Change from Last Year
1/23/2026	Regular Retail Gasoline, \$ per gallon	2.850	-0.24	-8.6%
1/23/2026	Diesel Gasoline, \$ per gallon	3.776	-0.06	-1.6%
1/19/2026	Residential Heating Oil (excluding taxes) Weekly Average Price, \$ per gallon	3.543	-0.35	-9.9%
January 2026	*Natural Gas, Fuel Supply Charge only (Eversource Residential Heat), price per 100 cubic feet	0.762	0.16	20.8%

*Note that the fuel supply charge rate shown is only one component of residential natural gas rates, which also include customer charges, delivery rates, etc. It reflects the pass-through cost of the gas itself. Prices quoted are for Eversource Energy single-family Residential heating customers only. Eversource is 1 of 3 residential suppliers in the state. Gasoline prices from AAA Fuel Prices, Residential Heating Oil from US Energy Information Administration, Natural Gas Fuel Supply Charge from Eversource posted rates.

Source: AAA Fuel Prices, Energy Information Administration, Eversource • Created with Datawrapper

RISKS AND EVENTS WE'RE WATCHING

The Supreme Court did not rule on the legality of certain **Trump tariffs** in January as expected. A ruling could come in February. If ruled illegal, the U.S. may need to refund billions in tariff revenue and the Administration is expected to enact other tariffs under different authority. In January the President also threatened additional tariffs on major trading partners.

Connecticut **electricity** rate payers could see lower prices than otherwise due to the newly activated [New England Clean Energy Connect](#) transmission line, which has begun

delivering electricity to Massachusetts from hydropower dams in Quebec. With the amount of baseload transmission capacity from the line nearing 20% of that state's energy needs, Connecticut customers could benefit from less competition for other power on the New England regional grid.

The Open Enrollment period for health insurance on the State's ACA marketplace, **Access Health CT**, was extended through January 31st to give consumers more time following the announcement of new state subsidies.

Through January 13th, total enrollment actually increased slightly to about 150,000 for 2026, though the number of enrollees not eligible for federal subsidies doubled compared to last year. Some of them will likely qualify for temporary state subsidies [announced](#) by the Governor. While Congress allowed the enhanced subsidies to expire, decreasing the share of premium support most families receive, a large increase in Connecticut premiums for silver-tier plans offset some of that lost assistance because of the way federal



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premium tax credits are based on silver plan costs, according to comments at the Access Health CT [Board of Directors meeting](#) in January.

Retailers and even towns are facing an **acute penny shortage** according to the [Hartford Courant](#). The U.S. mint stopped producing new pennies in 2025 because the cost to produce them exceeds their face value. The Connecticut Department of Consumer Protection recently issued an [advisory](#) for Connecticut businesses to round down to the nearest nickel if they can't

make exact change, since state law prohibits charging more to a customer for paying cash. That could be a significant issue for low margin businesses like grocery stores.

Confidence way down. In January, the Conference Board's [Consumer Confidence Index](#) fell to its lowest level since May 2014 (84.5, 1985=100), even lower than during the pandemic. A cooling labor market, high food and energy bills, and inaction by Congress on healthcare could be contributing.

Non-Residential Construction

Connecticut **construction starts** for non-residential construction grew to \$6.18 trillion in 2025, up 15.1% from 2024 according to ConstructConnect's *Construction Industry Snapshot* (January 2026). Construction starts reflect the total value of projects in the month they begin.

Connecticut Tourism Update

Lodging Industry 2025 Recap

Connecticut's hotel industry saw notable growth on key indicators in 2025, outpacing that of the U.S. and other New England states, who may have been more impacted by a drop in Canadian visitors. For the 12 months of 2025 compared to 2024, Connecticut's lodging industry saw increases of:

- 1.1% in monthly occupancy rate
- 3.2% in room nights sold
- 5.6% in room revenue (not adjusted for inflation)

The eastern part of the state, which includes Mystic, saw the most growth last year. The number of rooms sold rose by 4.2% and room revenue rose by 8.2%, despite only a 0.7% increase in rooms available. The New Haven and Litchfield areas also saw growth in room revenue that outpaced inflation—Litchfield due to an increase in available rooms and New Haven thanks to a 2.2% rise in average occupancy rate.

Source: Connecticut Office of Statewide Marketing & Tourism

Tourism Industry Economic Impact

Looking further back, 2024 was another growth year for Connecticut's tourism industry according to the latest Department of Economic and Community Development (DECD) tourism report. That year saw 70.0 million visitors travel to Connecticut, up 3.1% from 2023. International visitors accounted for a small (0.6%) but growing share of visitors and tended to spend more. Total visitor spending reached \$11.6 billion in 2024 (up from \$11.0 billion in 2023) and visitor activity directly supported approximately 84,600 jobs (up 1.2% from 2023).

According to the report, 10.9% of visitor spending was for business travel in 2024, less than the 13.1% share back in 2017.

Source: [2024 Economic Impact of Visitors to Connecticut](#)



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CONNECTICUT GDP GROWTH RANKS 4th FOR Q3 2025

Connecticut grew faster than the nation overall for the first three quarters of 2025, according to data released by the Bureau of Economic Analysis in late January. Real gross domestic product (GDP) grew 5.6% in Connecticut in Q3 2025 at a seasonally adjusted annualized rate (SAAR), ranking 4th highest among states. The U.S. pace was 4.4%. GDP is a measure of the value-added by the economy. “Real” GDP strips out increases in the measure due solely to rising prices. Connecticut’s GDP was \$356.8 billion in 2024.



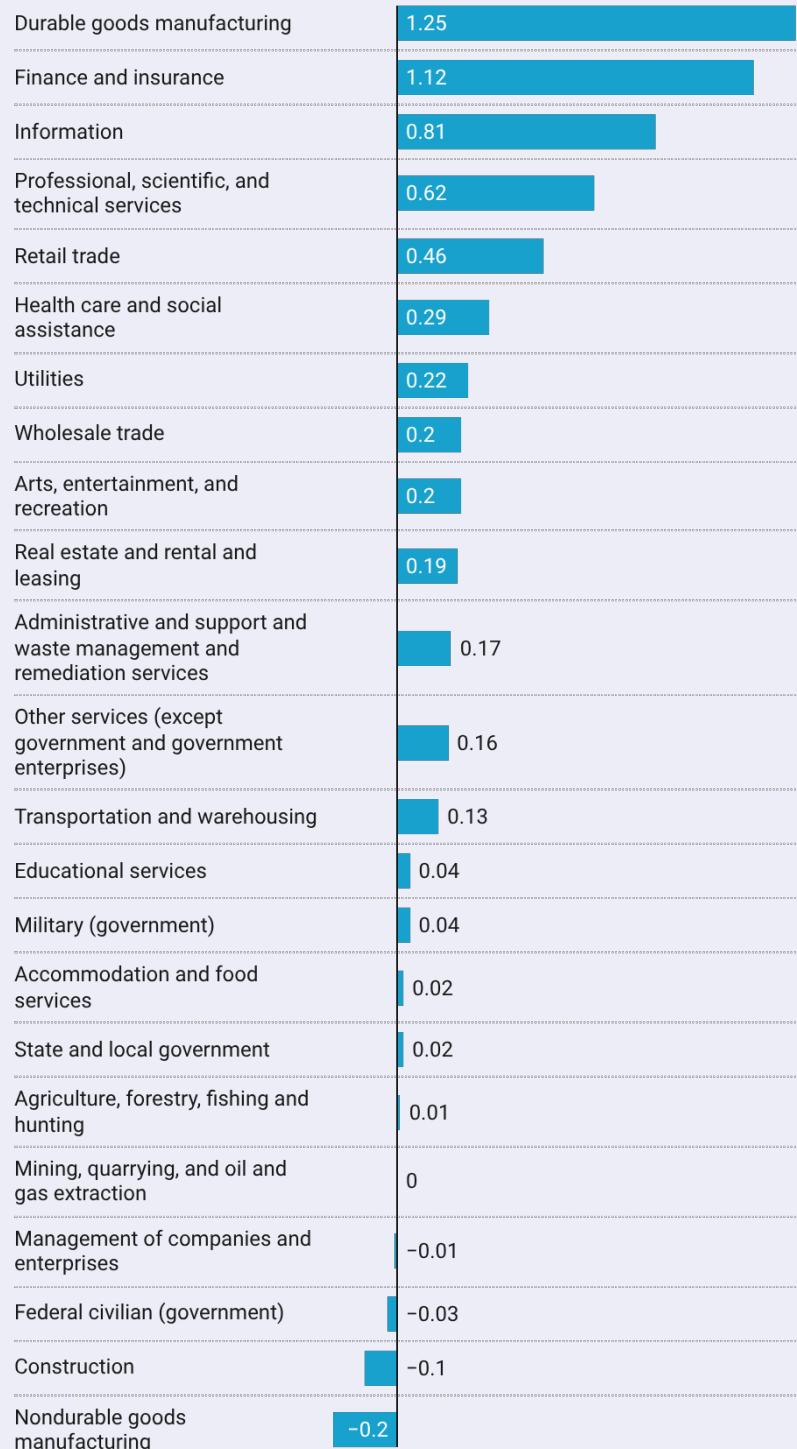
In Q3 (July through September) 2025, Connecticut durable goods manufacturing real GDP grew at a fast 15% SAAR. This sector includes aerospace and defense manufacturing, as well as machinery. Alone, it accounted for 22% of the state’s quarterly real GDP growth in Q3, while other manufacturing contracted for the second quarter this year.

A selection of white-collar industries including finance and insurance, information (e.g., telecoms, publishing) and professional, scientific, and technical services (e.g., lawyers, consultants) contributed another 46% of the overall increase. These industries are among the heaviest users of new AI technologies. Economists are watching to see if AI investments allow companies to produce more goods and services with fewer workers (i.e., rising labor productivity).

Connecticut’s Q2 2025 GDP growth ranked 9th among states.

Durable Goods Manufacturing & High Wage Industries Drove Growth in Q3 2025

Connecticut Industry Contributions to Connecticut’s Real Gross Domestic Product (GDP) Growth of 5.6%



Industry values sum to 5.6, Connecticut's real GDP growth in Q3 2025 at a seasonally adjusted annual rate.

Source: Bureau of Economic Analysis • Created with Datawrapper



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Connecticut Housing Market Trends December 2025

+6.8%

Active Listings YoY
Realtor.com

+1.8%

\$443,000
Median Sales Price YoY
Redfin

0.8%

Home Sales YoY
Redfin

-1 day

57

Median Days on Market YoY
Realtor.com

-0.87 %pts
6.09%

Freddie Mac 30-Year Fixed Rate
Mortgage Average for the week
ending 1/22

18.1%

Connecticut New Housing
Permits Jan.-Oct. 2025, YoY
U.S. Census Bureau

+1.0%

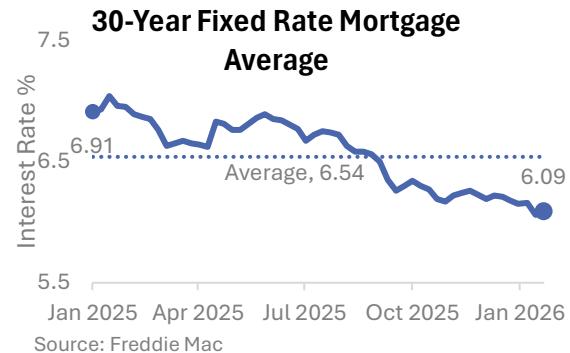
\$1,685

Statewide Median
New Lease Rent, YoY
Apartment List

CONNECTICUT HOUSING MARKET

December capped off the 2nd slowest year for Connecticut existing home sales since 2012, according to data from the Warren Group provided by CHFA, with total 1-4 unit sales of approximately 39,400 (up 0.7% from 2024). Connecticut is not unique for sluggish sales. Nationally, 2024 and 2025 were the lowest sales years since 1995, according to Calculated Risk Real Estate News. However, Connecticut is seeing higher price growth, with the median sale price for 2025 (\$400,000) up 8.1%, per the Warren Group. That's boosted collections of the State's real estate conveyance tax.

December monthly sales were essentially flat compared to last year according to Redfin data. Mortgage rates declined in December. The average 30-year fixed rate mortgage was 6.09% for the week ending January 22nd versus 6.96% a year ago. Falling mortgage rates could support more inventory and sales growth in 2026 but lower rates are not guaranteed. The National Association of Realtors projected an average mortgage rate of 6% to prevail for 2026 in their [December outlook](#).



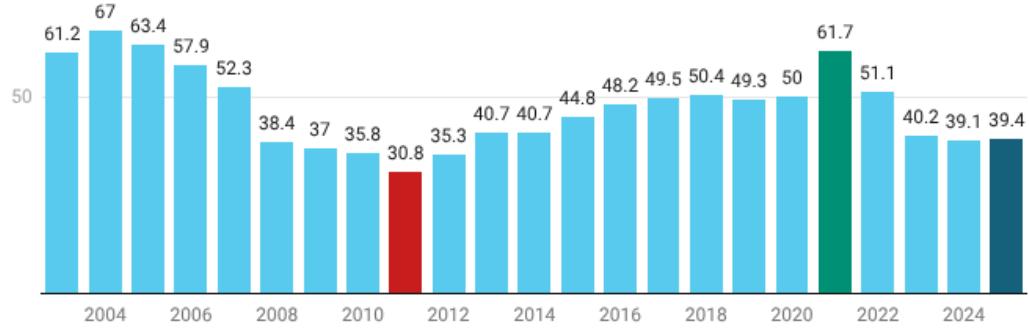
Multifamily Permits Growth Continues, Rent Growth has Slowed

Homebuilders took out permits between January and October 2025 for 5,944 units of new housing in Connecticut, according to delayed data from the U.S. Census Bureau. Nearly 70% are for units of multi-family housing. Permits in that category are up 28.2% in 2025 versus 2024, while the number of permits for single-family homes has not grown. The median price for new Connecticut rental unit leases rose just 1.0% year-over-year in December according to Apartment List. That rate was 5.6% in December 2024.

2025: 2nd slowest year for Connecticut home sales since 2012

Connecticut Home Sales (1-4 Units) by Year in Thousands

2011 2021 2025



Source: Warren Group via CHFA Housing Dashboard • Created with Datawrapper



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CONNECTICUT LABOR MARKET

Payroll Growth and Hiring

Like the nation, Connecticut saw little job growth at the end of 2025, with total payrolls rising by 900 (0.1%) in Q4, seasonally adjusted. The Bureau of Labor Statistics reported that total monthly payroll employment fell by 700 positions in October, increased by 2,100 in November and fell by 500 in December. See the next page and appendix for industry detail.

Compared to December 2024, the private sector lost 5,400 positions (-0.4%). Solid state and local government job gains offset federal job losses to put overall government employment up 3,500 jobs (1.5%) year-over-year.



Looking at the five metropolitan statistical areas (MSAs) in the state, the Hartford area gained 1,100 jobs (0.2%) year-over-year, while others lost: Waterbury-Shelton (-1,700, -1.0%), New Haven (-800, -0.3%), Norwich-New London (-300, -0.2%), and Bridgeport-Stamford-Danbury (-200, 0.0%).

According to the Job Openings and Labor Turnover (JOLTS) survey, the number of Connecticut job openings and quits have risen compared to the summer (seasonally adjusted), suggesting slightly more opportunities are available for qualified job seekers. However, rising unemployment means there is more competition for available jobs. There were 74,000 job openings in October and November 2025.

Unemployment

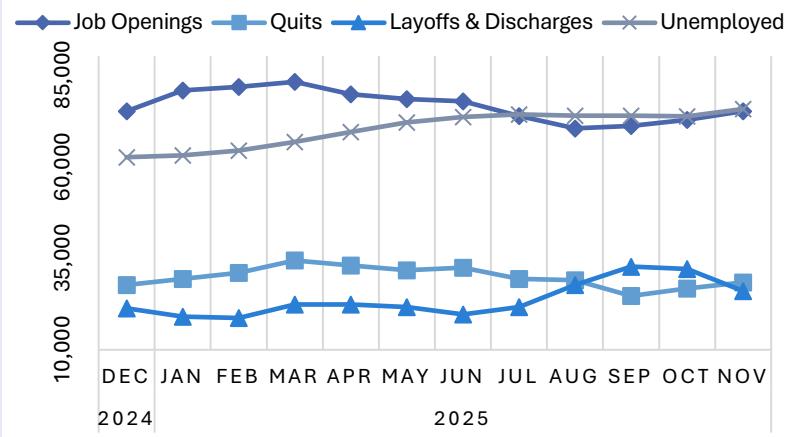
The unemployment rate ticked up from 4.0% (Nov) to 4.2% in December. The number of unemployed people rose to 80,400 (Dec.) from 77,200 in November. That's up 28.6%, from particularly low levels last December and is the highest level since May 2022.

MONTHLY TOTAL JOB GAINS



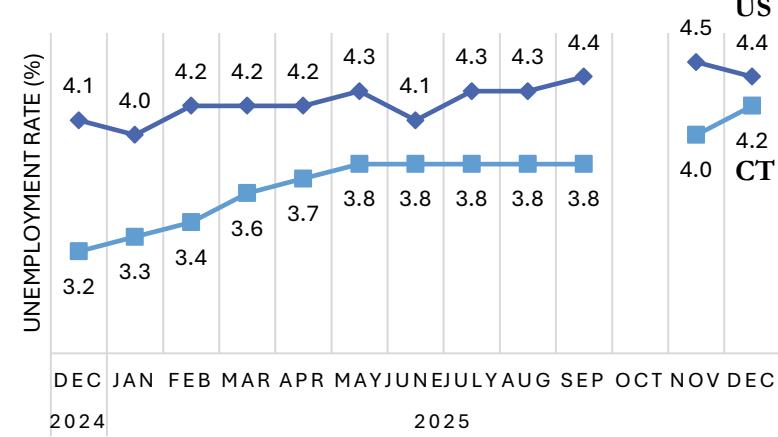
Source: Bureau of Labor Statistics via FRED

OPENINGS, QUITTS, LAYOFFS & UNEMPLOYED, 3 MONTH MOVING AVG.



Source: Bureau of Labor Statistics

UNEMPLOYMENT RATE



Source: CT Department of Labor



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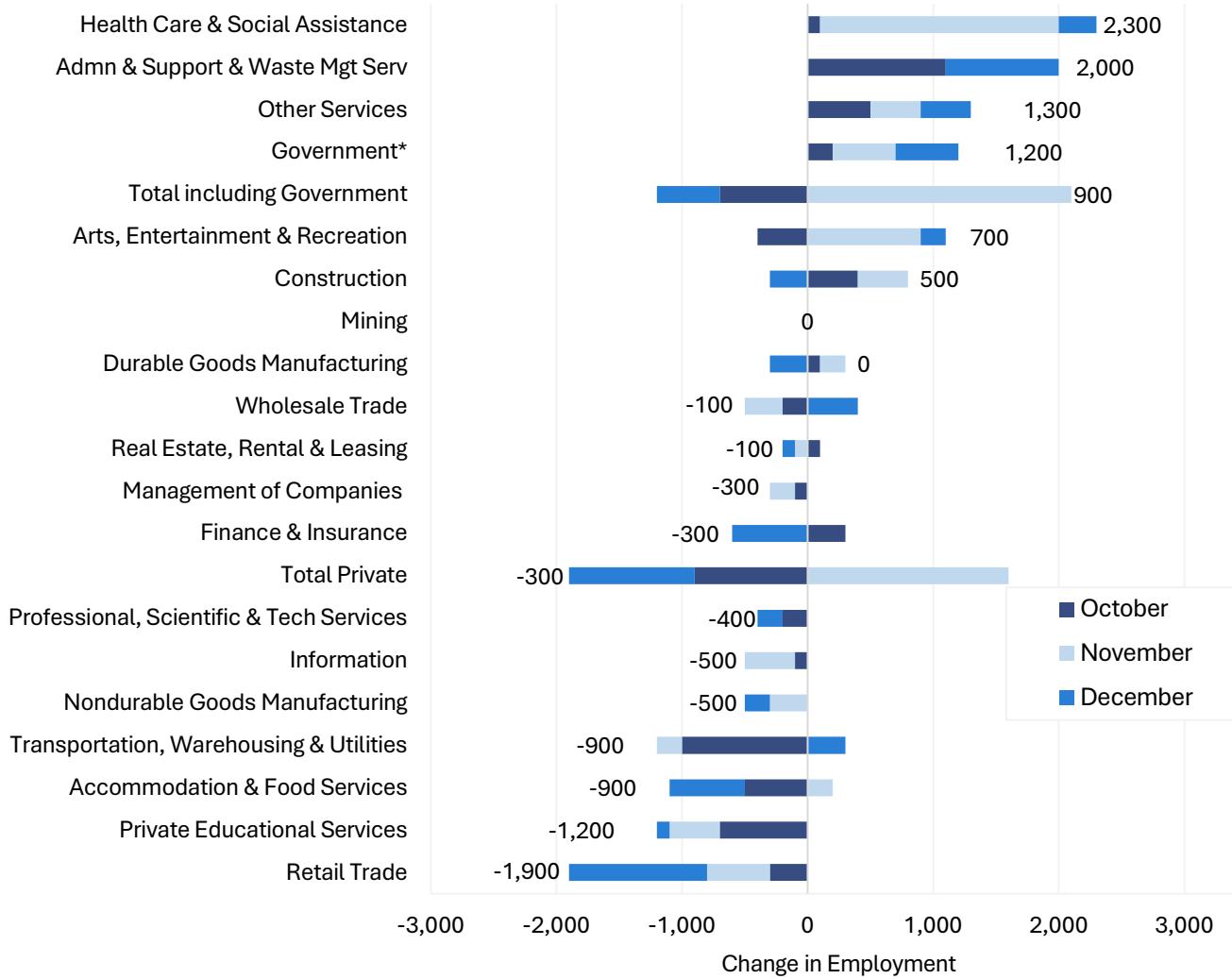
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CONNECTICUT LABOR MARKET – INDUSTRY FOCUS

Connecticut added just 900 jobs (0.1%) in the fourth quarter of 2025, based on data that is adjusted for seasonal employment patterns with December figures still preliminary. However, private payrolls were essentially flat. The data suggests that healthcare facilities were adding more jobs than was typical for that time of year in 2025 while stores, private colleges, restaurants, and logistics establishments were cutting back.

Connecticut September to December Employment Change

Values reflect cumulative net jobs change to seasonally adjusted employment between September and December 2025



Source: Connecticut Department of Labor, OSC calculations * Includes Native American tribal government employment

Sectors facing challenges in 2025

Looking at December 2025 payrolls, year-over-year, **private education** jobs in Connecticut are down 2,800 (-3.7%), as cuts to federal research funding, a higher endowment tax for Yale, and fewer international students pressure the industry. Declines to **retail** jobs are broad, with changes of -2.3% to auto & parts dealerships, -1.2% to food & beverage stores, and -4.2% at general merchandise stores like Target or Macy's. **Manufacturing** establishments continued to shed jobs in 2025 (-2,600 jobs, -1.7%) though losses were more severe for producers of goods typically consumed within 3 years (non-durable goods, -4.5%). Federal government positions in Connecticut fell by 1,300 jobs (-7.0%) year-over year to 17,200.



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APPENDIX

*October data due to delays from the federal government shutdown

Connecticut Labor Market	Dec-25	Nov-25	Dec-24
Unemployment Rate	4.2%	4.0%	3.2%
Total Unemployed	80,400	77,200	62,500
Total Nonfarm Employment	1,713,900	1,714,400	1,716,100
Job Growth	-500	2,100	3,500
Job Openings to Unemployed Ratio	-	1.0	1.2
Quit Rate	-	1.7	1.6
Average Monthly Initial Unemployment Claims	5,545	2,800	5,603
Labor Force Participation Rate	64.0%	64.0%	65.0%
Average Hourly Wage	\$39.97	\$39.72	\$38.81

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

Connecticut Housing Market	Dec-25	Dec-24	% Change or Change
Home Sales (Redfin)	3,282	3,256	0.8%
Median Sales Price (Redfin)	\$443,000	\$435,000	1.8%
Active Listing Count (Realtor.com)	3,928	3,677	6.8%
New Listing Count (Realtor.com)	1,638	1,556	5.3%
Freddie Mac U.S. 30-Year Fixed Rate Mortgage Average (%) (Week ending 1/22/26 and 1/23/26)	6.09	6.96	-0.87
Median Days on Market (from listing to close, Realtor.com)	57	58	-1.0
Average Sale-to-List Price Ratio (Redfin)	101.1%	101.4%	-0.3%
Median Rent for New Leases (Apartment List)	\$1,685	\$1,668	1.0%
Single-family Housing Permits Jan.- Oct. 2025 (U.S. Census Bureau)*	1,802	1,803	-0.1%
2+ Unit Structures Housing Permits Jan.- Oct. 2025 (U.S. Census Bureau)*	4,142	3,231	28.2%

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

Connecticut Industry Sector Nonfarm Payroll Employment – December 2025

