



OFFICE of the STATE COMPTROLLER

CONNECTICUT ECONOMIC UPDATE

Sean Scanlon
State Comptroller

October 1, 2026

In this month's edition

Outlook: Despite headwinds, Connecticut's economy continues to grow at a steady pace. Industries driving output growth most in Q2 2026 were the advanced manufacturing and defense sector, financial services, and the tech/media sector. The state's real gross domestic product (GDP) grew the 7th fastest among states in Q2 2026 at a 3.0% pace, while U.S. quarterly real GDP growth was revised up to 2.2% for the same period due to stronger growth in consumer spending, investment, and exports than previously estimated. The U.S. unemployment rate as of August remains low at 4.1% and Connecticut's unemployment rate ticked down to 5.1% after reaching 5.2% in June and July. Inflation according to the Personal Consumption Expenditures (PCE) Price Index, the Fed's preferred measure, remains elevated at 3.4% for August, with the core reading (excluding energy and food) rising 3.0% over the past year. Consumers continued to spend more in August. U.S. payroll growth was unexpectedly high in August at 162,000 jobs, contrasting with a trend of very low growth the prior few months.

With inflation remaining above the Federal Reserve's target for five years now and stability in the labor market, **the Federal Open Market Committee (FOMC) voted to increase the Federal Funds rate target range by a quarter percentage point for the first time in three years** (setting it at 3.75-4.00%). Together with rising yields on U.S. Treasury bonds, this move and subsequent hikes which seem likely could temper the pace of economic growth in the coming quarters as households and businesses respond to higher borrowing costs on credit cards, mortgages and other debt. The housing market especially tends to be sensitive to higher rates. Average 30-year mortgage rates rose above 7% for the first time since early 2025, making purchasing a home more expensive. Households continue to struggle with affordability, as inflation offset August's gains in U.S. disposable income.

As interest rates on U.S. federal debt have been rising in recent months, we dive into the repercussions at the state and local government level in our spotlight this month. When interest rates go up, financing new capital projects like schools and roads gets more expensive for governments, but higher returns on reserves can be a silver lining. In the end, the impact of higher interest rates on the wider economy can be even more important, to the extent they slow revenue growth.

A new state-level weekly economic conditions index published by the Federal Reserve Bank of Boston now provides a nearly real-time estimate of Connecticut economic growth. The model points to moderate growth through September 19th.

In August, Connecticut employers shed 300 jobs though the job gain for July was revised up to 3,100. In the past year, outpatient healthcare establishments have added the most jobs, while insurance carriers have cut the most.

Connecticut home sales cooled in August, down 6.4% from a year earlier and 2.5% year-to-date in 2026. A look at **Connecticut's 2021 accessory dwelling unit (ADU) law** shows it has produced limited new housing so far, as financing, local zoning rules, and high construction costs remain barriers.

The lodging industry in Connecticut has had a good start to 2026, thanks to rising room rates and occupancy levels. Year-to-date through August, revenue from room nights is up an estimated 10.8% from 2025, led by particularly strong growth in the eastern part of the state.

KEY DATES THIS MONTH

10/2 – September U.S. jobs report
10/14 – September CPI inflation report
10/19 – September CT jobs report
10/27-10/28 – Federal Reserve FOMC meeting
10/29 – Q3 2026 U.S. GDP 1st estimate, Personal Income & Outlays

Did you know?

A new [state tax credit](#) to help small businesses provide health insurance for their employees is now available in Connecticut. Eligible employers who contribute to an ICHRA can receive up to \$1,000 in tax credits per covered employee per year for two years. Those employees then use their employer's contributions toward individual-market coverage on the state's health insurance marketplace. Interested employers should reach out to [Access Health CT](#) because credits are capped at \$5 million and must be [reserved](#) in advance.

About OSC

Sean Scanlon, State Comptroller
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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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WHAT HIGHER BOND YIELDS MEAN FOR STATES, LOCAL GOVERNMENTS AND THEIR TAXPAYERS

If you follow business news, you've likely heard a lot of references to the bond market in recent months. Rising bond yields (essentially the interest rates paid to bond investors) matter for the economy in many ways. One way is by changing the cost of borrowing for governments.

At the end of the day, it can be the difference between your town being able to afford that new school gymnasium or flood mitigation infrastructure. Higher costs for debt service mean fewer dollars in the operating budget for other priorities, like new teacher or police officer salaries.

In the United States and around the world, **the cost of government borrowing has risen notably since the start of the U.S. war in Iran.** The yield on the 10-year U.S. Treasury bond, a key benchmark for the global financial system, rose from 3.97% in late-February to above 5.2% in September, as investors demanded more of a return on their investment to hold U.S. government debt.

Expectations that the oil price shock will raise inflation and necessitate a higher interest rate path from the Federal Reserve, increasing competition for investors' money from major AI companies issuing more corporate bonds, and rising concern around the U.S. fiscal outlook as the nation's debt surpassed \$40 trillion

Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity (%)



Source: [Board of Governors of the Federal Reserve System \(DGS10\)](#)

this summer are some explanations for what's driving the recent run up.

While the bond market is not well understood by most Americans, it matters. The price that investors are willing to pay for U.S. government debt is the foundation on which much of our economy depends, since **it determines the price of borrowed money.** About \$1 trillion worth of U.S. Treasuries—considered the world's most risk-free, liquid assets—change hands every day from investors all over the world. The rates set in that market then flow through to the rest of the economy, for example through mortgages, credit cards, business

loans, interest paid on savings, and government debt service.

This month, we dig into **how higher interest rates for government debt can impact state and local government finances**, and what today's rates may mean for Connecticut taxpayers as a result.

What is a bond?

When households need to borrow money for a big purchase, they often get a loan from a bank, such as a mortgage. Governments and corporations can often borrow more advantageously by issuing bonds.



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Municipal bonds (those issued by states, local governments and other quasi-public entities) let governments **pay for long-term investments over the life of the asset**, rather than asking current taxpayers to absorb the full cost upfront. That helps align who pays with who benefits.

A bond is essentially an IOU. The bond issuer receives cash up front and promises to repay the face value of the bond (its par value) along with regular interest payments to the bondholder according to a set schedule.

Unlike a stock that usually needs to be sold at a higher price to realize a gain, **a bond investor knows exactly how many dollars they will receive over the life of the bond** when they are purchasing it (hence why bonds are often referred to as “fixed-income investments”), unless the issuer defaults. Investors demand a higher return for entities seen as more likely to default.

Why Is inflation the “nemesis” of bond traders?

Inflation reduces the value of bond interest and repayment dollars over time. That’s why the interest rate (called the “yield”) needed to tempt investors to buy bonds tends to rise with inflation expectations. Inflation has been called the “nemesis” of bond traders, since it can make existing bonds less valuable when it goes up.

The inflation-adjusted interest rate is called the “real yield,” and that is what determines the purchasing power of the stream of payments an investor receives over time in a world with inflation. Because what you can buy with a dollar today is different from the value of that same dollar in the future.

Investors often hold a share of their investments in safe bonds to earn a steady rate of return. **The interest earned on certain government bonds is exempt from state and federal income taxes**, allowing public issuers to obtain lower borrowing costs due to this advantage. Governments also benefit from a highly predictable repayment structure. General Obligation (GO) bonds are backed by the full faith and credit of the

government, which can tax residents to repay the debt. Other types of municipal bonds can be supported by designated revenue sources, like tolls that pay for construction of a bridge.

Investors and institutions that purchase bonds from the State of Connecticut often hold them to maturity, receiving the payments as stipulated in the bond contracts. However, bondholders can also choose to trade them in the secondary market, as they often do with Treasuries and corporate bonds.

The price bond traders are willing to pay to assume that stream of future payments tends to fall as inflation expectations go up or other investments offer a more promising return, resulting in the holder having to sell it at a discount if they want to trade it. In the bond market, prices and yields are inversely related, so a bond selloff means falling prices and rising yields.

Municipal bond yields have generally moved higher since 2020, following movements in the U.S. Treasuries market (for federal government debt), though not exactly. The extremely low



Connecticut Department of Transportation work on highways is partially funded by Special Tax Obligation (STO) bonds that are repaid from pledged transportation-related revenues.



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rates in 2020 and at other times in the 2010s may feel normal to us now, but they are the outliers in historical context.

Higher Rates mean Higher Debt Service Costs Locked in on New Bonds

The regular payments the government makes to bondholders to repay the “loans” with interest are called debt service.

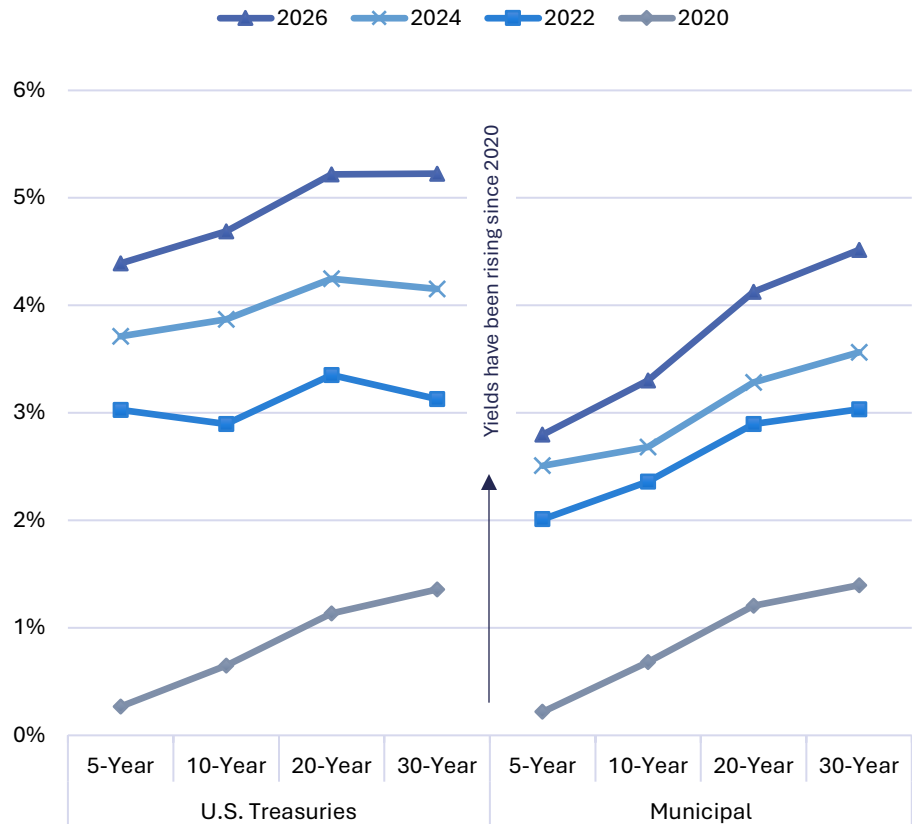
The State of Connecticut is budgeted to spend \$3.6 billion on debt service in the current fiscal year, accounting for 12.5% of State budget appropriations according to the [Office of Fiscal Analysis](#). Debt service payments depend on the terms agreed to—including yields—across each of the government’s many bond contracts. The State’s long-term bonded debt outstanding was \$25.4 billion as of June 30, 2025.

If annual debt service payments spike due to the need to finance more capital projects or pay much higher yields, that **extra debt service spending can “crowd out” other priorities in government operating budgets** that also depend on each year’s tax revenues.

If debt service for a new project would be too high, it may lead a town to opt for a scaled back version or structure the debt over a longer time-horizon with a higher total interest expense instead of raising local property taxes.

States and local governments are already facing much higher project costs than a few years ago due to the rapid increase in construction costs.

AVERAGE AUGUST YIELD CURVES: U.S. TREASURY AND MUNICIPAL BENCHMARK G.O. BOND YIELDS BY DURATION OF MATURITY



Note: the Muni Benchmark is the Municipal Market Data (MMD) index yield on AAA-rated bonds with 5% coupons; all yields are monthly averages for August

Source: Office of the State Treasurer

Higher tariffs on building materials, higher wages for construction workers and engineers, and other factors have driven up costs. These higher costs along with a widespread need to update public infrastructure across the country have sent **municipal bond issuance to record highs in the past few years.**

So how much does it matter for debt service if yields are one percentage point higher?

Say a town needs to build a new police station and will finance it with \$20

million in new general obligation bonds that repay \$1 million of the principal each year. In a simplified example in which borrowing costs are 5% instead of 4%, that **one percentage point increase would add roughly \$2.1 million in interest over the 20-year life of the bonds.**

That leaves the town paying \$30.5 million in total debt service, compared to \$28.4 million under the 4% scenario. As a result, the project costs 7.4% more and average annual debt service is higher by \$105,000. That puts more pressure on the town’s operating



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budget, and potentially its taxpayers if town revenue isn't growing more to offset the higher cost of debt.

While that is real money, especially when borrowing large sums—the State issued about \$3.9 billion in new bonds in fiscal year 2025—it's important to remember that **today's higher rates only determine the debt service on new bonds**, while existing long-term debt will continue to pay out at the agreed upon terms. So higher rates matter when the State or a municipality has **something new to finance**, with that higher yield set to impact borrowing costs for the next ten, twenty or thirty years.

For the State, which issues new bonds regularly a few times per year, it will matter what rates are in early October at the time of the next major GO bond offering.

On a simplified \$100 million, offered as 20-year bonds with equal principal repayments each year, a one-percentage-point-increase in effective yields would translate to roughly \$10.5 million in additional debt service over the life of the bonds (or 10.5% more in nominal dollars). First year debt service would be approximately \$1 million higher, with the extra amount decreasing to around \$50,000 extra in the final year (since there is less debt service per year as the amount of outstanding principal decreases).

Higher rates can also **reduce the opportunities to lower future debt service by refunding existing bonds**, which is like refinancing your mortgage when rates are lower. State Treasurer Erik Russell reported \$78 million in estimated eventual savings based on

STATE OF CONNECTICUT GO BONDS

The State of Connecticut commonly sells GO bonds with a set coupon rate like 5%, different from the market yield, because that's what investors prefer. For example, a \$1,000 bond with a 5% coupon pays \$50 of interest per year, usually in two semiannual payments. When effective yields are lower than the coupon rate (as they have been), investors are typically paying a premium above the face value of the bond to lock in regular payments at the coupon rate.

When effective yields rise, technically that means investors will likely pay less premium, which in turn can increase the amount of bonds the State must issue to fund a given set of projects. This also increases debt service but in a slightly different way than the simplified examples discussed above.

The Office of the State Treasurer has some levers they can adjust in the State's bond offerings to produce the lowest possible debt service for the State, but in general, higher effective yields mean more debt service for the State budget.

GO bond refunding activity in fiscal year 2024-2025. For the recently closed fiscal year, the estimated savings total \$70 million.

In Fiscal Year 2024-2025, the State of Connecticut issued \$1.9 billion in general obligation (GO) bonds, \$1.0 billion in special tax obligation (STO) bonds, \$950 million in GO refunding bonds, and \$375 million in STO refunding bonds.

Towns are also exposed to higher borrowing costs through Bond Anticipation Notes (BAN). Towns often use BAN for short-term borrowing during the design and construction phase of major capital projects, before issuing long-term debt once the full project costs are clearer. BANs are more exposed to interest rate risk because they are short term. If they

need to be refinanced when rates are higher, the town budget will usually be forced to accept that higher cost.

Benchmark Rates are Rising but Spreads Matter Too

While Connecticut can't control what's happening in the market for U.S. Treasuries, **the State has made great strides to get its fiscal house in order, which is now paying off through lower bond spreads**. A bond spread is the extra yield investors demand to hold a particular bond compared with a benchmark of similar maturity. You can think of it as capturing the extra risk to bondholders of not getting all of their interest and principal payments on time associated with lending to that specific entity.

In general, **municipal bond yields are priced as the sum of a benchmark rate plus the entity-specific spread**. For example, for the State of Connecticut for a given bond maturity and coupon rate, the equation is roughly:

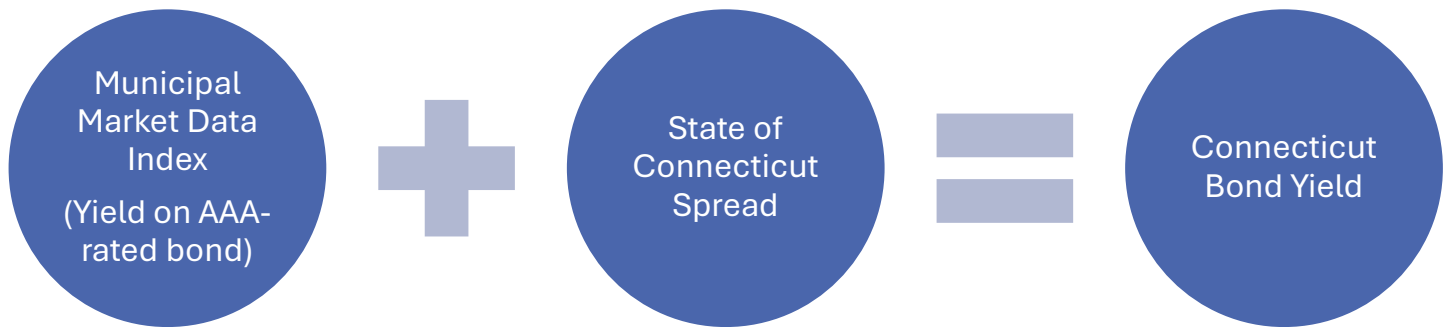


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As you can see in that formula, to a large degree **municipal bond issuers are price takers**. If the Municipal Market Data (MMD) Index benchmark moves up by 30 basis points, that pushes the State of Connecticut's bond yield up by 30 basis points too, unless there is a change to Connecticut's spread.

There have, however, been **significant changes to Connecticut's spread in recent years**. The State has improved its credit worthiness by rapidly paying down legacy pension debt and

improving fiscal discipline, as manifest in eight straight years of budget surpluses and a full, \$4.48 billion Rainy Day Fund. As a result, the State has received eight credit-rating upgrades since 2018, helping to lower its spread.

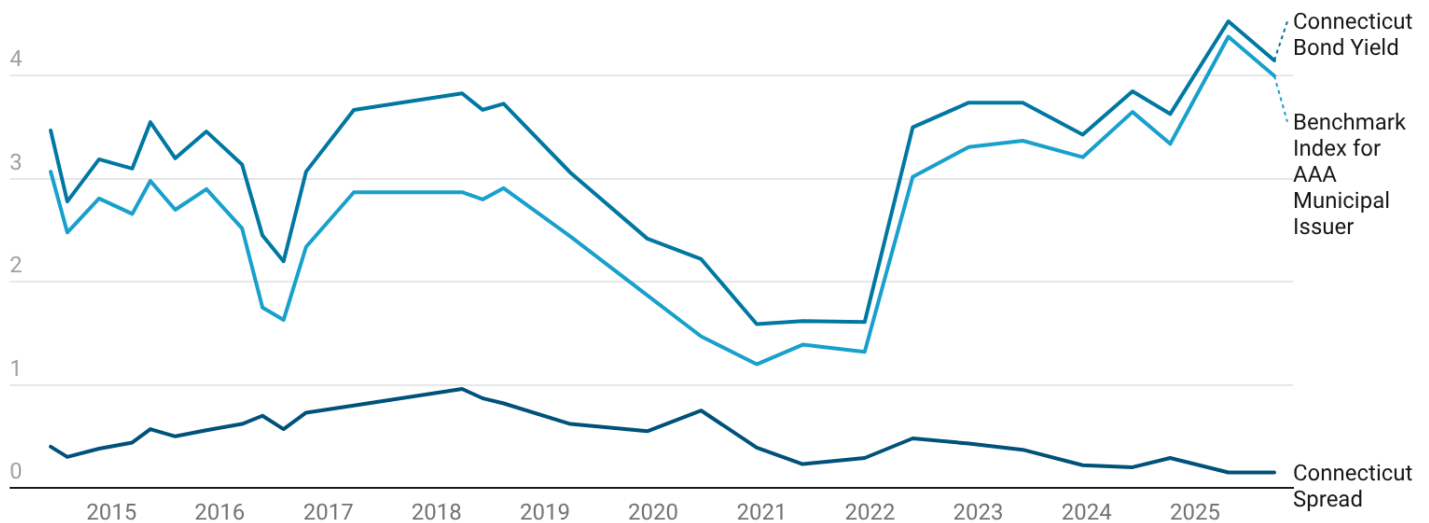
Just last month, one of the rating agencies, S&P Global, announced that they have revised their outlook from stable to positive for Connecticut's GO bonds, assigning a 'AA-' rating with a positive outlook for the State's upcoming October sale. Their announcement reflected their view "of

Connecticut's commitment to reducing its high unfunded pension liabilities while sustaining budgetary balance and healthy reserves," as well as an expectation that the fiscal guardrails that have helped the State achieve this progress would not be significantly altered, according to the [announcement](#).

The State's spread on a 5% coupon with 20-year bond maturity has fallen from a recent peak of 96 basis points (0.96 percentage points) in 2018 to **just 15 basis points as of the April 2026**

State of Connecticut GO Bond Yields vs. MMD Benchmark

Bond yields and Connecticut's spread on the longest 5% coupon bonds relative to the benchmark Municipal Market Data (MMD) index yield on AAA-rated bonds of comparable maturity, through September 2025



The benchmark reflects the MMD index as of close of business the day prior to GO bond pricing. Typically reflects 20-year maturities; Does not include refunding bonds or any bond issues that did not have a 5% coupon available in bond years 16 – 20.

Source: Office of the State Treasurer • Created with Datawrapper



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bond sale, according to data from the State Treasurer's Office.

That means in 2018, the State was paying nearly a full percentage point higher yield than a AAA-rated municipal issuer of comparable bonds. Now it's only 15 basis points (0.15 percentage points) more.

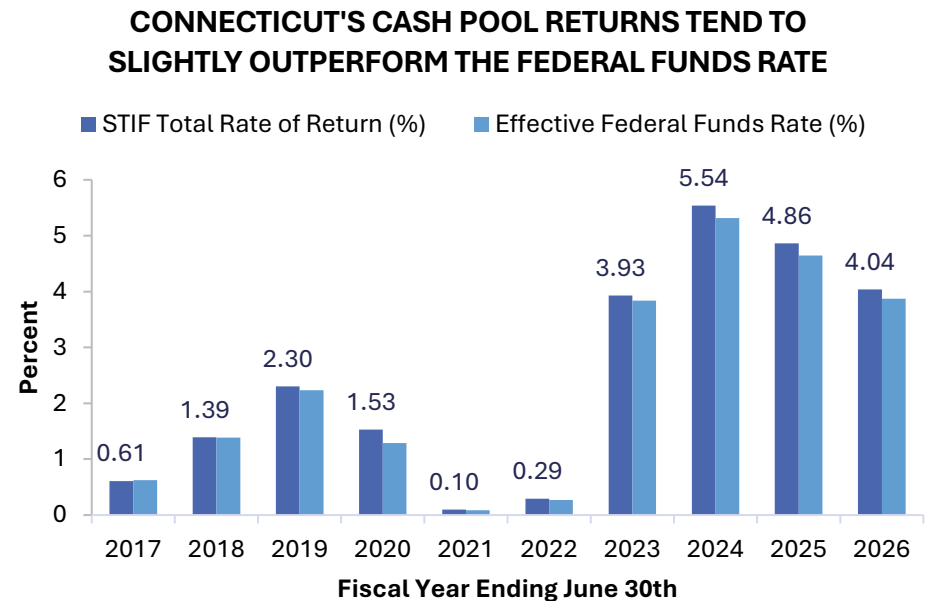
While the benchmark yield has risen approximately 170 basis points (1.7 percentage points) as of late September 2026 from its level at that 2018 bond sale—making today's borrowing significantly more costly—the State of Connecticut has decreased its spread by about 80 basis points. That means Connecticut's yields are now **about 90 basis points higher than in 2018 due to the higher interest rate climate** but would be much higher if Connecticut hadn't reduced its spread.

The extremely low interest rates in 2020 are unlikely to be repeated in the near term as long as the U.S. economy keeps growing and bond issuance continues to grow. That's a reset that makes spreads more important. The cost of money is likely to remain high as the U.S. fiscal situation comes under increasing [pressure](#).

The Upside: Higher Interest Income on Reserves

While higher rates increase the cost to borrow, an environment with generally higher interest rates can have an upside for state and local governments too, at least those with significant reserves.

When short-term interest rates rise, **governments can earn a higher rate of return on their cash**. If reserves are



Source: Office of the State Treasurer, FRED, OSC calculations

large enough, that can translate into a significant bump in revenue, possibly helping to offset higher debt service in the operating budget if both short and long-term interest rates rise in tandem.

That is likely to happen to some extent in the near term, since the Federal Reserve's Federal Open Market Committee (FOMC) that sets the Fed's policy rate already hiked by 25 basis points in September and is expected to hike again this year. That reverses a policy of declining Federal Funds rates since fiscal year 2024.

The Office of the State Treasurer manages the **Short-Term Investment Fund (STIF), the State's cash pool**. Created in 1972, it serves as an investment vehicle for the [operating cash](#) of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State. The goal is to safely generate income while preserving the principal and providing high liquidity.

As of June 30, 2025, the Office administered 393 STIF accounts for state agencies and authorities and 650 accounts for municipalities and local entities. The resources of the State's **\$4.48 billion Budget Reserve Fund**, known as the "Rainy Day Fund," are managed together with other state and municipal reserves and cash accounts.

The total rate of return on that cash depends both on strategic management and market-set short-term interest rates, which are **heavily influenced by the Federal Funds rate**. That's the policy rate set by the FOMC on banks' overnight lending to each other. The U.S. central bank uses it to stimulate job growth (by lowering the rate) or tamp down inflation (by raising the rate).

In the 12-months ending June 30, 2025, when the effective Federal Funds rate averaged 4.65%, STIF earned a 4.86% total return, generating \$865.1 million in net income. That year had an average



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of \$18.3 billion in the STIF portfolio over the fiscal year. In the prior fiscal year (2023-2024) when the average effective Federal Funds rate was higher at 5.32%, the STIF returned 5.54%, or \$985.2 million in income for the account holders.

Some of those returns flow to the State's General Fund, which finances general government operating expenses. In recent years, **investment income** earned on the State's reserves and other cash has generated over \$200 million per year in General Fund revenue, or around 1% of General Fund revenue. Conversely in fiscal year 2021, when rates were close to zero, investment income totaled less than \$3 million to the General Fund.

So how much can an increase of one percentage point in short-term interest rates contribute to operating revenues?

In a simplified example for a town with \$20 million consistently in STIF or similarly invested reserves, a rise in the rate of return from 4% to 5% is associated with investment income rising by \$200,000 for that year.

For the State's Budget Reserve Fund, **a one-percentage point increase generates an extra \$44.8 million per year at the fund's current level.** For governments with significant reserves, that extra investment income can provide more room in the annual operating budget to meet the many fast rising costs confronting governments today, including higher borrowing costs for capital projects.

When comparing this upside with the downside of higher borrowing costs, there are **a few important things to remember.**

First, interest rates on cash change daily so **higher rates only generate**

extra income as long as they are in place. If the Fed lowers rates to deal with a faltering job market at some point, that extra investment income stops. That's different from higher bond yields for debt issuance, which lock in higher borrowing costs for years, though only on new debt.

Second, the benchmark interest rates that help determine municipal rates on long-duration debt (e.g., 5, 10, and 20-year U.S. Treasuries) are not the same rates that drive higher returns for STIF. They usually move broadly together over time, but often with considerable lags.

Other Impacts of Higher Rates Can Dwarf Borrowing Cost and Investment Income Changes

Higher rates can have other important effects on government finances too, **by impacting economic activity, incomes and asset values** that in turn determine tax revenues, pension fund dynamics and additional borrowing needs. The direct effects of higher interest rates on government borrowing costs and investment income are important, but they can be small compared with these broader economic effects.

As of August 2026, inflation has remained above the Federal Reserve's 2% target for five years, with the latest pressure coming from the oil price shock and Iran War. Financial markets are [anticipating](#) further tightening, possibly returning the current 3.75-4.0% Federal Funds target range to 4.25-4.5% (up 50 basis points) as early as the December 2026 Fed meeting.

HIGHER RATES & PENSION FUNDS

The impact on pension funds is more complicated than "higher rates are good" or "higher rates are bad." The State of Connecticut's pension portfolio is highly diversified and currently uses a **6.9% assumed long-term rate of return.**

The "why" rates are high tends to matter for pension funds. If rates are high because economic and productivity growth are strong, higher yields can improve returns on fixed-income investments without necessarily hurting equities and other assets. But if rates are high because of persistent inflation or an energy shock, the same conditions can depress stocks and other investments while potentially increasing inflation-linked benefit costs. In a prolonged stagflation scenario, weaker investment returns could ultimately require governments to devote more of their operating budgets to pension contributions.

For fiscal year 2026, Treasurer Erick Russell recently announced that the Connecticut Retirement Plans and Trust Funds (CRPTF) reported **returns of 15.1%, outpacing the assumed long-term return of 6.9% for the fourth year in a row.**



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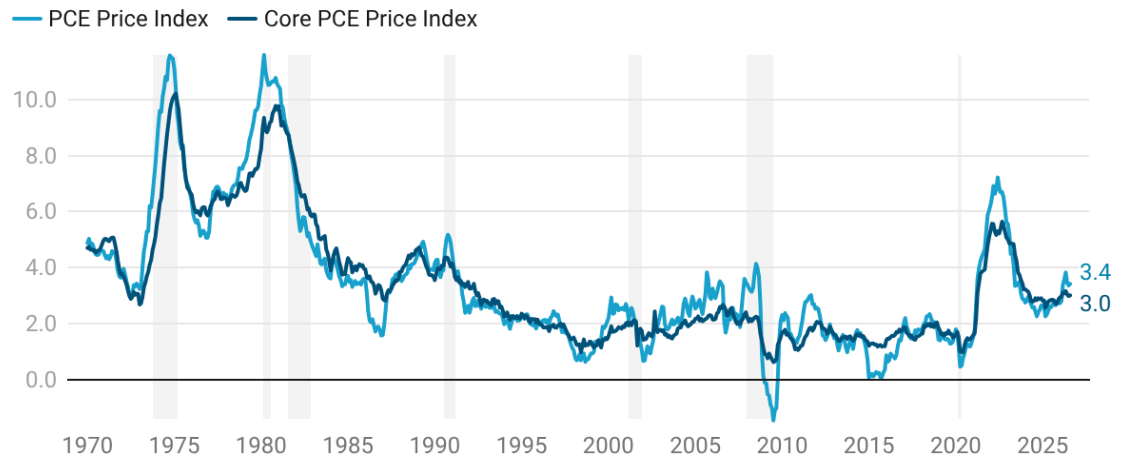
Higher rates are intended to cool demand: as borrowing becomes more expensive, households and businesses borrow less, and some investments that made sense at lower financing costs are postponed or abandoned. One concern is that sectors of the economy driving inflation right now—energy and the AI buildout—are less likely to respond to slightly higher rates than other parts of the economy.

The biggest effects of **higher rates tend to show up where purchases depend heavily on financing.** In housing and commercial real estate, higher mortgage and loan rates can make projects harder to pencil out and reduce transaction volume, construction activity, and related employment. Households carrying variable-rate debt or relying on credit cards also face higher monthly costs, which can leave less room for discretionary spending that weighs on state sales and use tax collections and hiring.

Lower employment or slower wage growth in a less dynamic economy can translate to **less income tax for the State.** The withholding portion of the state income tax generated \$9.5 billion in the fiscal year ending June 30, 2026. If that tax base were to grow at a one-percentage point slower rate this year, that would mean about \$95 million less in General Fund revenue this year.

Annual Rate of Inflation Since 1970

Monthly Data from the Personal Consumption Expenditures (PCE) Price Index and Personal Consumption Expenditures (Excluding Food & Energy) Price Index through August 2026



Annual rates reflect the 12-month percentage change (%) in each index; Shading reflects U.S. recessions.

Source: Bureau of Economic Analysis • Created with Datawrapper

At the same time, higher rates create some winners too. Savers earn more on deposits and new fixed-income investments which can create “wealth effects” that stimulate some spending. The banking industry can benefit from a higher rate environment, potentially growing employment and compensation there, though the benefit can be offset if higher rates weaken loan demand too much or increase credit losses.

If higher rates slow the economy too much, the fiscal consequences can be much greater. For the State, recession-level declines in employment and consumer spending would weaken tax revenues just as the demand for safety-net services tends to rise. Connecticut saw General Fund revenue growth based on the economy [plummet](#) -11.1% in fiscal year 2009 during the Great Recession, and -2.0% in fiscal year 2020, which included the short pandemic recession. The governor’s budget office projects a

moderate recession could lead to a 10.1% cumulative two-year decline in General Fund revenue (without any policy changes), that would exceed the reserves currently in the Budget Reserve Fund.

In fiscal year 2009, the State had to issue \$915.8 million in General Obligation Economic Recovery Notes—more bonded debt—to fund much of the General Fund deficit that year. The slow economic recovery in the following decade forced many hard choices, including three income-tax hikes and a significant reduction in the state employee workforce.

Connecticut’s fiscal position today is much stronger, especially because the fiscal guardrails implemented as part of the 2017 bipartisan budget do not allow the State to budget spending equivalent to all its expected revenues, leaving a built-in cushion.

Regardless, if higher interest rates were to cause or accompany a recession,



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the economic effects on revenues and expenditures would likely dwarf the change in interest income or higher borrowing costs on regular bond issuance.

Finally, inflation and fast economic growth can reduce the burden of existing debt service, to the degree they cause government revenues to naturally rise in nominal dollars, making repaying that debt easier.

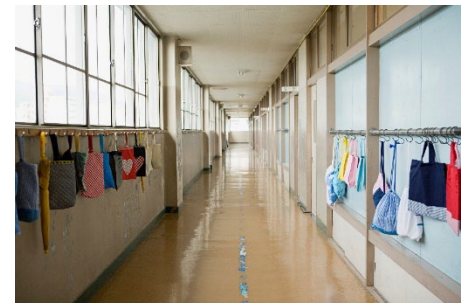
The Impact of Higher Rates will Vary Across State and Local Governments

The magnitude of the impact of higher interest rates on the State and local governments is likely to vary extensively. Connecticut towns have a

wide variety of [credit ratings](#), levels of indebtedness, local wealth, infrastructure needs, and budget flexibility that will factor into how higher rates impact that town.

Towns with significant reserves and little need to issue new debt this year could see the upside of higher rates, while municipalities about to undertake major construction projects with less exposure to higher investment returns **may be forced to raise taxes to pay for the higher debt service on that debt.**

For the State, higher rates increase investment income and generally raise the cost to issue new borrowing; however, the effect of higher rates



slowing the economy can be more impactful for the budget overall.

Whatever the outlook, **governments in a strong fiscal position have more flexibility to adapt to changing conditions.** Connecticut's improved fiscal position in recent years is putting the state in a much better position to deal with a higher rate environment, though it's not without serious risks.

Strong 2026 so far for Connecticut's Lodging Industry

Statistics from the [Connecticut State Office of Tourism](#) show 2026 has been a **solid growth year** for Connecticut's hotels, motels, inns and bed and breakfasts. Lodging establishments have seen **occupancy levels rise 3.6%** in 2026 year-to-date through August, with the **eastern part of the state** including the Mystic area seeing the most improvement in occupancy rates and room revenues this year.

While the number of rooms available has changed little since 2025, statewide **room revenue surged an estimated 10.8% year-to-date**, considerably more than in other regions nearby. The higher revenue reflects 6.6% growth in the average daily rate (a measure of typical room prices) year-to-date in 2026, as Connecticut accommodations have been able to charge higher prices for the available rooms.

"Connecticut's lodging industry has rebounded significantly since the pandemic, with **leisure travel remaining strong and business and group travel continuing to recover.** That growth is creating a need for more lodging capacity across the state, which can help support and drive broader economic growth," according to Suzanne Cahill, executive director of the Connecticut Lodging Association. She argues for additional lodging options and greater investment in tourism marketing to attract more visitors through conventions, high-profile sporting and leisure events, and corporate travel and relocation. "A strong and growing lodging industry not only supports tourism but also helps bring new spending and economic opportunity to communities across Connecticut," she said.



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NEW INDEX OF ECONOMIC ACTIVITY POINTS TO POSITIVE BUT SLOWING GROWTH

Most economic data is published with a lag, especially for state-level statistics, so it's hard to know if available data still reflects the situation on the ground.

A new set of state-level indices being published by economists at the Federal Reserve Bank of Boston seeks to remedy that. It combines up to 24 different weekly, monthly and quarterly indicators to provide **the timeliest gauge of state-level economic conditions currently available to the public.**

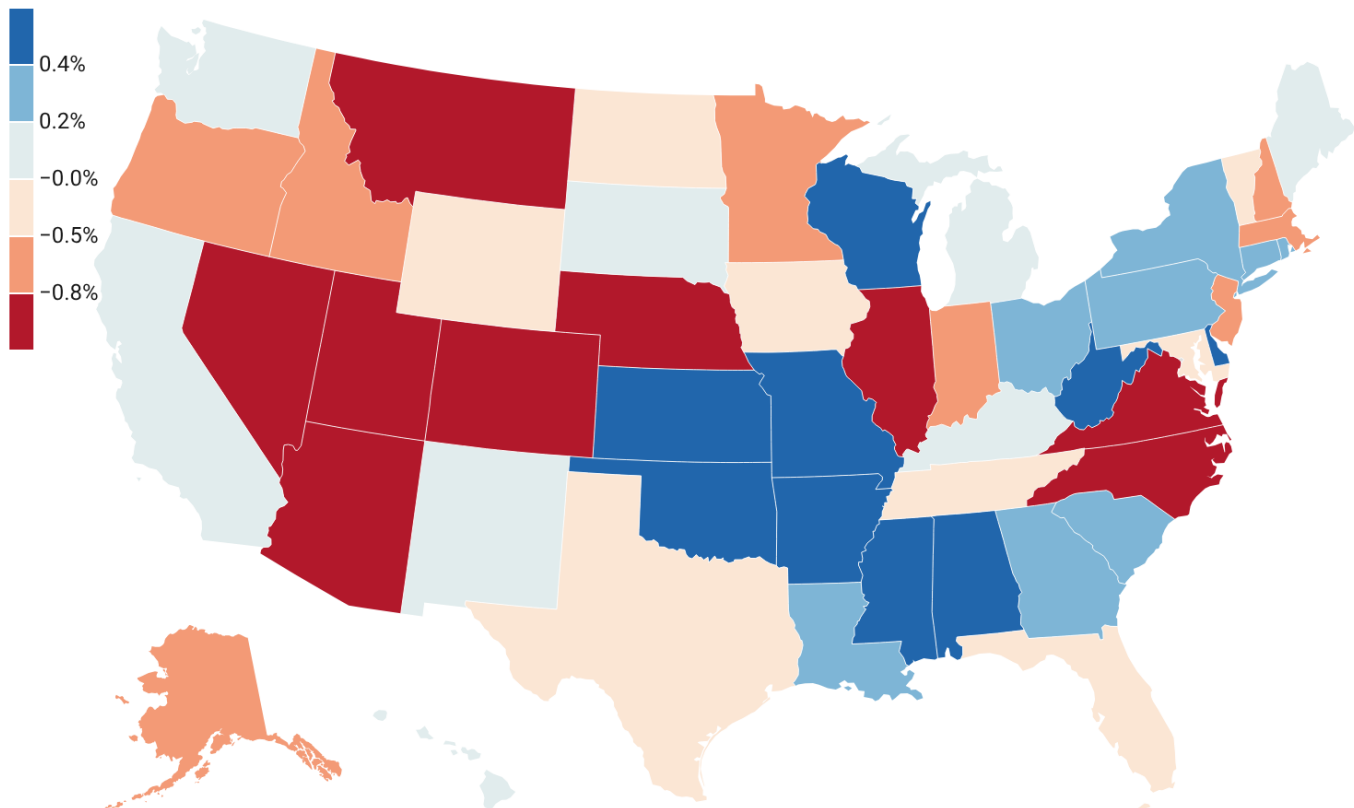
It includes conventional indicators like unemployment claims, as well as less conventional ones like mobility data based on cellphone movements and credit and debit card spending. The estimates are updated weekly as new data becomes available.

The data is normalized so that an [Economic Conditions Index \(ECI\)](#) value of zero means the state's economic growth in that week is estimated to be the same as the United States' long-run, inflation-adjusted growth in gross domestic product (GDP), measured on a 4-quarter basis, which is around 2%. In this way, the index provides an estimate of the real GDP growth rate for that week but isn't perfect. It should be used as a timely proxy until official statistics become available.

The ECI for Connecticut in the week-ending September 19th was 0.28 (using data retrieved on 9/21), indicating an annual pace of real GDP growth that is roughly 0.28 percentage points above the U.S. long-run average. It suggests that **growth is healthy (15th highest among states) but also decelerating over recent weeks.**

New Boston Fed State-Level Weekly Economic Conditions Index

Percentage points above (or below) long-run national real GDP growth, week ending September 19, 2026



The map shows values of the new state-level economic conditions indices for the week ending 9/19/2026. The indices are computed with mixed-frequency dynamic factor models with weekly, monthly, and quarterly variables that cover multiple dimensions of state economies. They are scaled to 4-quarter growth rates of the U.S. real GDP and normalized such that a value of zero indicates national long-run growth.

Source: Federal Reserve Bank of Boston (Non-official estimates) • Created with Datawrapper



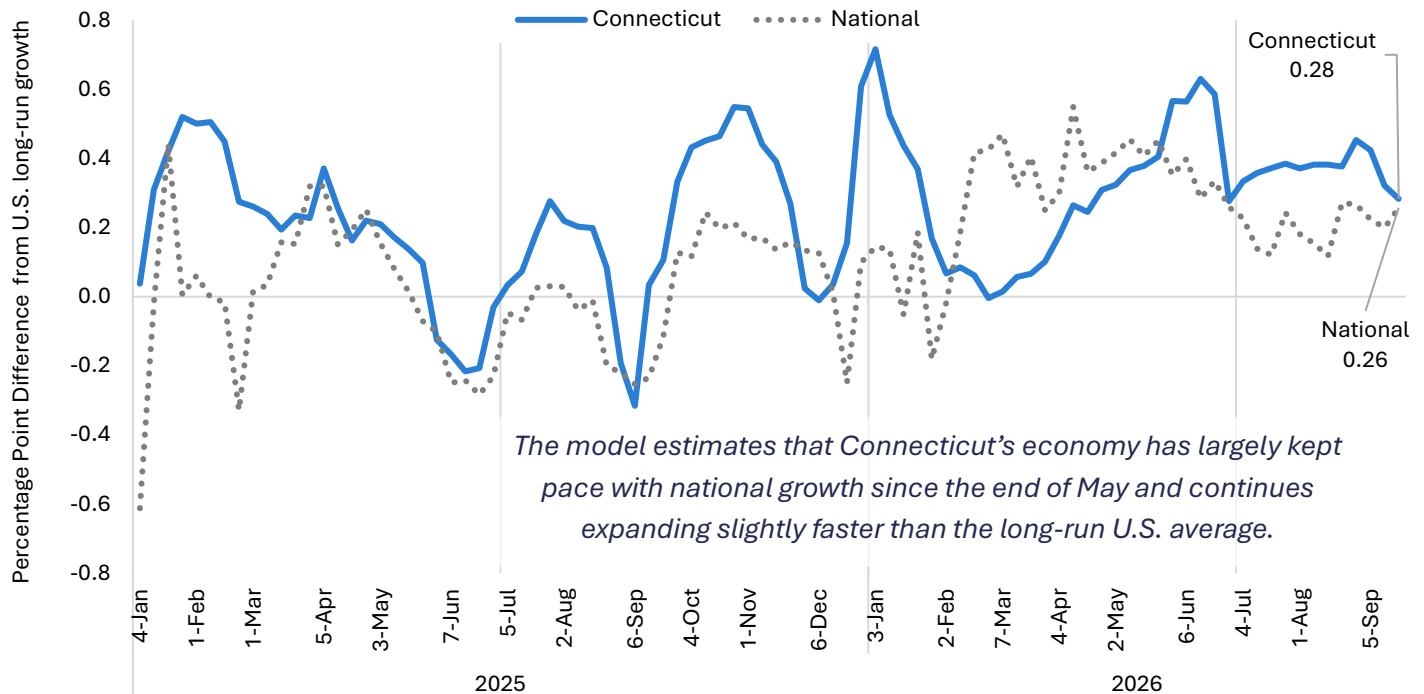
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CONNECTICUT ECONOMIC UPDATE

Sean Scanlon
State Comptroller

October 1, 2026

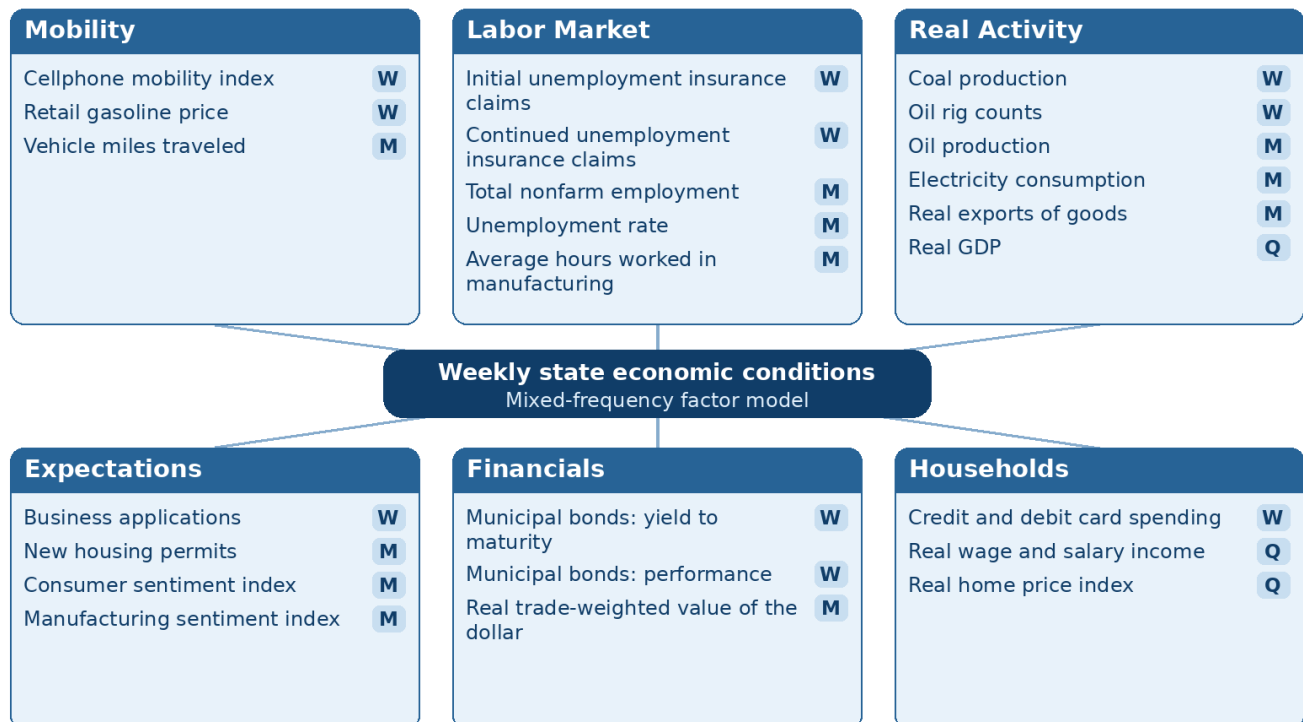
Connecticut and National Economic Conditions Indices: January 2025 through the Week Ending September 19, 2026



Source: Federal Reserve Bank of Boston (Non-official estimates), retrieved September 21, 2026. The economic conditions indices (ECI) are computed with mixed-frequency dynamic factor models with weekly, monthly, and quarterly variables that cover multiple dimensions of state economies (see [Baumeister, Leiva-León and Sims, Review of Economics and Statistics](#), March 2024). The indices are scaled to 4-quarter growth rates of U.S. real GDP and normalized such that a value of zero indicates national long-run growth.

State-Level Weekly Economic Conditions Index: What's in it?

W = Weekly M = Monthly Q = Quarterly



Inputs vary by state and availability. Source: Baumeister, Leiva-León and Sims, "Tracking Weekly State-Level Economic Conditions."



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STATE LABOR MARKET UPDATE

The latest Connecticut labor market data shows the number of non-farm **payroll jobs remaining essentially flat** (-300, 0.0%) in August, and July's net 2,800 job gain was revised up to 3,100 positions. The rate of job growth continues to **outpace the nation**, despite the labor force shrinking by another 4,000 people in August. Over the month, the small Information sector lost a notable share of positions (-1.6%).

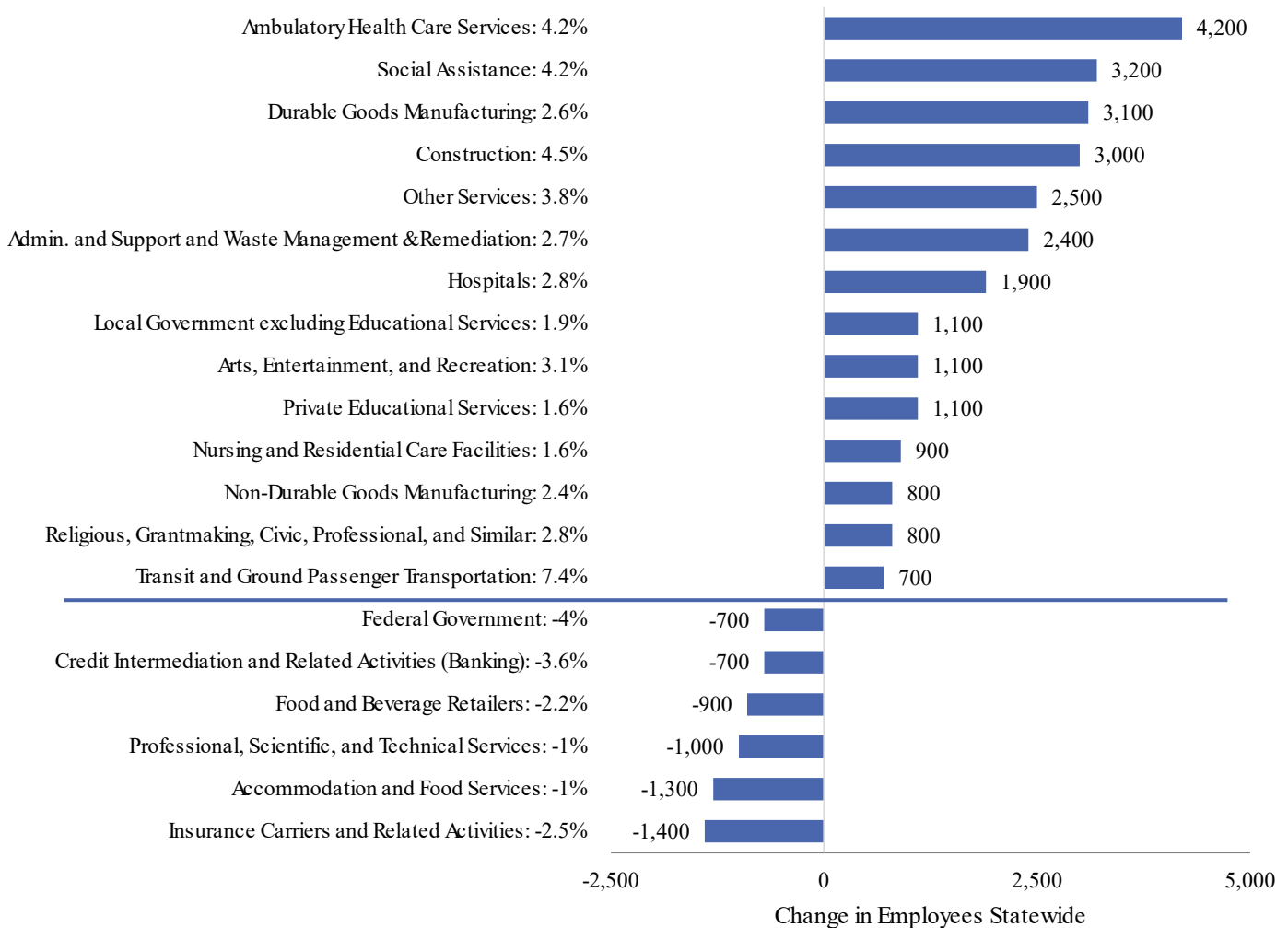
The unemployment rate—**5.1% in August**—remains one full percentage point higher than the national rate of 4.1% but showed improvement this month by declining from the recent high of 5.2% in June and July.

The graph below shows Connecticut industries that either lost or gained at least 700 non-farm payroll jobs in the past year, based on preliminary BLS data for August (not seasonally adjusted). In this data, jobs are classified based on the primary industry of the establishment (i.e., job site) where the employee works.

Ambulatory healthcare tops the list for job gains, which includes most **outpatient health care** (e.g., doctor's offices). For job losses over the past year, **insurance carriers** have cut the most jobs, an estimated 1,400, or 2.5% of their total employment in the state.

INDUSTRIES WITH LARGEST CONNECTICUT JOB GROWTH OR LOSSES

Year-over-Year, August 2025 to August 2026 (Preliminary)



Values reflect the difference in August nonfarm payroll employment (Current Employment Statistics) between 2025 and 2026 (Preliminary), using non-seasonally adjusted data as of September 28, 2026. Percentages reflect the percentage change.

Source: Bureau of Labor Statistics



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Connecticut Housing Market Trends August 2026

-6.4%

3,317

Home Sales YoY
SmartMLS

+7.9%

\$480,000

Median Sales Price YoY
SmartMLS

-1 days

42

Median Days on Market YoY
Realtor.com

+0.73

7.03%

Freddie Mac 30-Year Fixed Rate
Mortgage Average for the week
ending 9/24

+0.8%

1,731

Median New Lease Rent YoY
Apartment List

-17.7%

3,799

Connecticut Building Permits,
Units of Housing YTD, YoY
U.S. Census Bureau

*SmartMLS is the primary multiple listing service for Connecticut but does not include all listings in Greenwich, CT. YoY means "year-over-year."

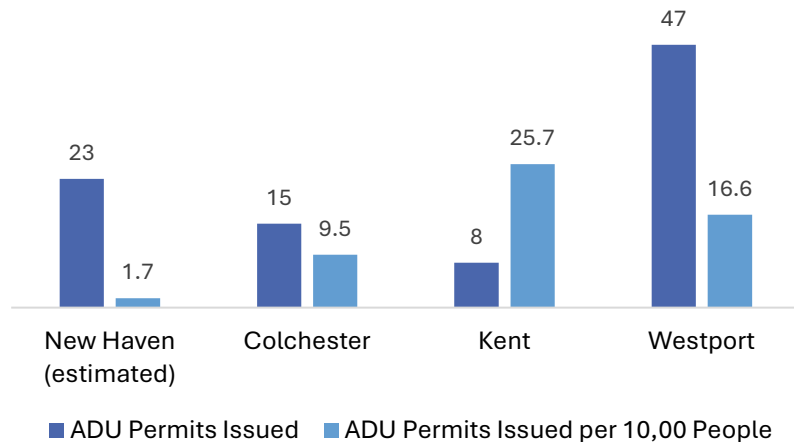
CONNECTICUT HOUSING MARKET

Home sales in Connecticut cooled in August with sales down 6.4% from the same month last year to 3,317, ending two months of year-over-year growth. Year-to-date sales are now down 2.5% for 2026. Pending sales are also down 1.9%, which could lead to muted closings in the coming months. Home prices continued to rise with the statewide median home price rising 7.9% to \$480,000, higher than the national median of \$431,400. Connecticut remains a tight seller's market compared to the nation overall. The state has just 2.7 months of supply, compared to 4.6 months nationally, with sellers receiving 102.8% of the list price on average.

Mortgage rates rose in September to their highest in over a year—7.03% for the average 30-year fixed rate mortgage according to Freddie Mac—on the heels of the Federal Reserve raising interest rates for the first time in three years. On September 16, the Fed raised its policy rate to a range of 3.75% to 4%, and a strong majority of Fed policymakers indicated that another hike is possible later this year.

Has Connecticut's ADU Law Delivered More Housing?

ADU Permits Issued Since 2021



Source: Building /Planning & Zoning Departments of New Haven, Colchester, Kent, and Westport. Westport Build Permit Database, OSC calculations using U.S. Census 2025 data.

With the passage of Public Act 21-29 in 2021, Connecticut sought to address the housing shortage within the state by **standardizing zoning rules and legalizing accessory dwelling units (ADUs) on a statewide level**. ADU is an umbrella term referring to any other dwelling that is either attached to or sharing property with another single-family home. The law made constructing an ADU possible "as-of-right" for homeowners, meaning without any special permits or meetings. However, the law allowed municipalities to opt-out of the ADU provisions and draft their own regulations, which nearly two-thirds of Connecticut municipalities chose to do. Fifty-four towns allowed the full law to take effect, including Colchester.

Although ADUs are widely promoted as a simple way to expand housing, with one report estimating that Fairfield County could add [40,000 units](#), **actual construction has been limited** according to one [February 2026 report](#) from Pro-Homes CT, a housing non-profit that advocates for ADU-driven affordable housing solutions. That report included case studies on four towns



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and found that most ADUs have been built for family members or caretakers, not for the general rental market. Westport saw the most activity with 47 ADUs, which local officials attributed to the presence of more structures like barns and detached garages available for conversion as well as higher incomes in the community.

Part of the challenge is that **adopting regulations that allow ADUs is only the first step**. Homeowners also run into issues related to financing, construction costs, size restrictions, parking requirements, and owner occupancy requirements. Financing can be especially difficult because ADUs usually cannot be financed independently from the main home, which limits access to traditional construction loans.



Example of a garage conversion. Source: buildinganadu.com

Reaching the full potential of ADUs will most likely require a combination of financial support and further policy reform.

To help everyday homeowners afford steep construction costs, advocates recommend specialized funding mechanisms like dedicated loans from the Connecticut Housing Finance Authority, municipal tax abatements, and state subsidies for affordable rentals. To address other persistent roadblocks, policymakers could choose to repeal the municipal opt out clause in Public Act 21-29.

RISKS AND EVENTS WE'RE WATCHING

The conflict in the Middle East continued this month, with new fighting between the Houthis in Yemen and Saudi Arabia threatening oil exports beyond the Strait of Hormuz. Shipments of crude oil through the straight reportedly rose in September but remain below pre-war levels. These events, and constraints on refinery capacity to produce diesel and home heating oil fuel, are driving up costs for Connecticut households.

As of Sept. 29, Connecticut prices of regular gasoline averaged \$4.49 per gallon, up 43% year-over-year (YoY), while **diesel fuel averaged \$6.49 per gallon, up 71.7% YoY**. Entering the winter months, the average price for Connecticut [home heating oil](#) has risen approximately 83% since mid-September 2025. Higher diesel prices also drive up the cost for most things that are transported.

Consumer confidence according to the **Conference Board's Consumer Confidence Index dropped by 6.7 points to 81.9** (1985=100) in September. That represents the lowest reading since 2014, more than twelve years ago. For the first time since 2022, more consumers said their family's current financial situation is "bad" than "good", and consumers views about both current and future business and labor market conditions deteriorated over the month.

While sentiment data has become less predictive of actual spending since the pandemic, the low readings are likely tied to higher inflation that is making it much harder for families to get ahead.

Many new state laws take effect on October 1st, including many provisions in the State's new AI law, [Public Act 26-15](#). You can read about some of the

provisions in that act in our [June 2026 issue](#), or read the legislative summary [here](#).

Connecticut's cannabis tax overhaul also takes effect on October 1st. The potency-based tax system is being replaced with a flat 10.75% tax on the retail sale price.

Shore Line East, the rail service that connects southeastern shoreline towns to New Haven and other rail lines, will see [increased service](#) starting October 5th. More frequent trains should make the transit option more attractive and helpful for commuters and other riders.

Small businesses and real estate-related businesses are more vulnerable to rising interest rates. **The prime loan rate rose to 7% following the Fed rate hike in September.**



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APPENDIX

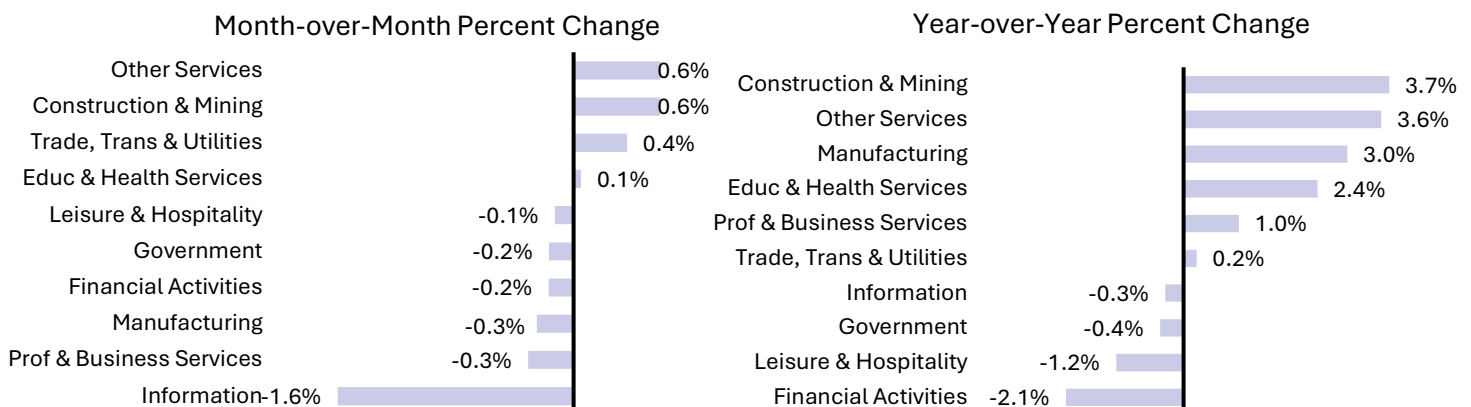
Connecticut Housing Market	Aug-26	Aug-25	% Change or Change
Home Sales (SmartMLS)	3,317	3,544	-6.4%
Median Sales Price (SmartMLS)	\$480,000	\$445,000	7.9%
Inventory of Homes for Sale (SmartMLS)	7,501	7,245	3.5%
New Listings (SmartMLS)	3,763	3,730	0.9%
Freddie Mac U.S. 30-Year Fixed Rate Mortgage Average (%) (Week ending 9/24/26 and 9/25/25)	7.03	6.30	0.73
Median Active Days on Market (Realtor.com)	42	43	-1.0
Percent of List Price Received (SmartMLS)	102.8%	102.6%	0.2%
Median Rent for New Leases (Apartment List)	\$1,731	\$1,718	0.8%
Single-family Housing Permits YTD (U.S. Census Bureau)	1,423	1,416	0.5%
2+ Unit Structures Housing Permits YTD (U.S. Census Bureau)	2,376	3,201	-25.8%

Realtor.com & Freddie Mac data Retrieved from FRED; Data derived from SmartMLS for the period of Aug 1–Aug 31, 2026. Information is deemed reliable but not guaranteed. Statistics are provided for informational purposes only, may not reflect all real estate activity, and are subject to change.

Connecticut Labor Market	Aug-26	Aug-25	Jul-26
Unemployment Rate	5.1%	4.1%	5.2%
Total Unemployed	96,369	78,400	98,400
Total Nonfarm Employment	1,730,500	1,730,800	1,714,800
Job Growth	-300	-1,900	3,100
Average Monthly Initial Unemployment Claims	2,996	3,944	3,292
Labor Force Participation Rate	62.0%	64.0%	62.2%
Average Hourly Wage (Total Private Employees)	\$39.75	\$38.98	\$39.57
Average Hourly Wage, 3-month average, Year-over-Year Percent Change	2.0%	3.4%	2.2%

Note that BLS is no longer publishing monthly state-level JOLTs data; Source: Bureau of Labor Statistics & CT Department of Labor

Connecticut Industry Sector Nonfarm Payroll Employment – August 2026



Source: CT Department of Labor

Source: CT Department of Labor