News from
COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE MONDAY AUGUST 3, 2020

Contact: Tyler Van Buren
(860) 702-3325
tyler.vanburen@ct.gov

COMPTROLLER LEMBO PROJECTS $128.1 MILLION DEFICIT, CALLS FOR EXPANDING FEDERAL ASSISTANCE

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a Fiscal Year 2020 deficit of $128.1 million, and declared Connecticut's economy at a turning point.

"It's decision time," said Comptroller Lembo. "Our state economy is showing signs of recovery from the devastating effects of the COVID-19 pandemic, but without a significant investment from the federal government, those gains may slip away, and Connecticut families and businesses will suffer."

Connecticut has recovered over 100,000 jobs lost at the beginning of the pandemic, but unemployment levels are still near record-highs and employment is still down 172,700 jobs from a year ago. Lower-wage workers continue to face the largest burden as the Federal Reserve reports 40 percent of households earning less than $40,000 a year had already lost at least one job by May.

Data shows that prior federal aid has helped people stay in their homes and, unlike in the prior recession, led to a decrease in personal bankruptcy filings. In a recent analysis, Moody's Analytics cited Connecticut as one of few states with the necessary reserves to withstand a modest recession but noted that significant federal intervention is required to guard against the most severe scenarios.

"I am urging Congress to consider the human cost of delaying further financial assistance," said Lembo. "Without sufficient support, Connecticut and nearly every state across the country, will see spikes in evictions, foreclosures and bankruptcies, and the jobs we've yet to recover may be lost permanently. State and local governments will be forced into impossible budgetary choices."

Lembo is calling on Congress to extend the $600 weekly unemployment benefits that lapsed on July 31, provide financial assistance to low-wage workers who have been harmed by contractions in the service industry, and supplant revenues lost by states and municipalities to avoid catastrophic cuts to social service programs as the pandemic still rages across the country.

"The sluggish recovery from the Great Recession shows that reacting to crisis by going too small, or moving too slowly, is insufficient to combat its effects. This is the biggest economic disaster in generations and the response must match that scale. Without it, Americans will suffer and every dollar we've spent so far will go to waste."

In a letter to Gov. Ned Lamont, Lembo detailed the state's current financial standing, noting a recent net improvement in tax receipts as more filing data becomes available. Lembo said the state's Budget Reserve Fund ("Rainy Day Fund") continues to grow and is now projected to close the Fiscal Year with a balance of over $2.8 billion, providing an important defense against future economic challenges.

Preliminary reporting of unaudited operating results for Fiscal Year 2020 will be presented in Lembo's September 30th letter to the governor.

Lembo pointed to recent economic indicators and trends from national and state sources that show:

NOTE: *Economic indicators largely look back to past periods. Therefore, some of the information presented this month may appear inconsistent with more recent developments in the rapidly changing response to the COVID-19 pandemic.*

Employment

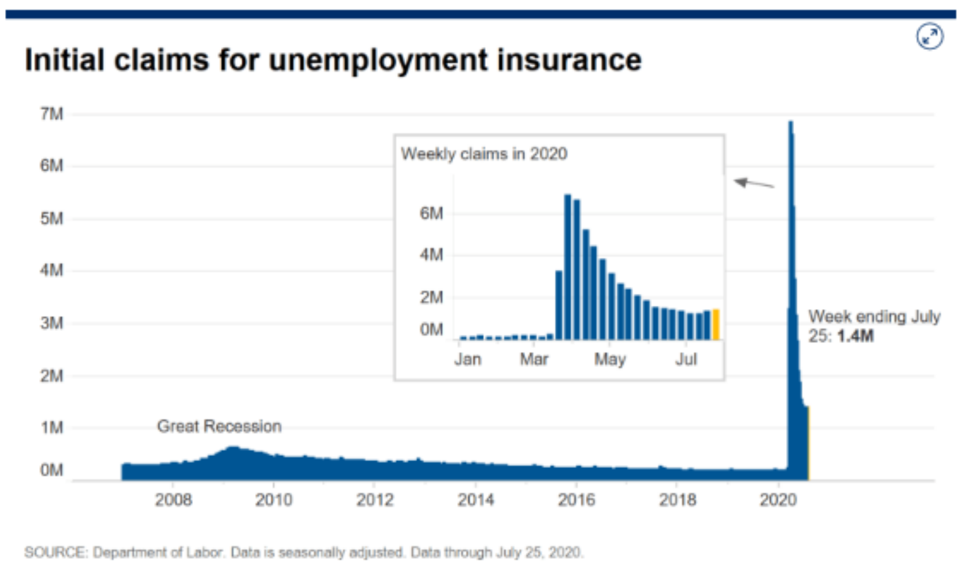
The withholding portion of the income tax is the largest single General Fund revenue source. Through June 2020, withholding receipts were trending about 1.7 percent above FY 2019 levels, but below the 4.1 percent growth rate built into the FY 2020 budget plan. By statute, certain taxes collected through the first five business days of August, including for the income tax, are accrued back to the previous fiscal year. June collections showed growth in withholding receipts holding steady compared with FY 2019, and still in line with the current year projection of $6.72 billion. A preliminary look at July collections indicated stronger than expected receipts during the statutory accrual period.

COVID-19 Related Job Losses

Throughout June and into July, the nation continued seeing historically high levels of initial unemployment insurance (UI) claims. For the week ending July 25th, the U.S. Bureau of Labor Statistics (BLS) reported that seasonally adjusted initial claims totaled 1.434 million, the 19th week in a row these claims have totaled over one million. Before the pandemic, initial UI claims averaged closer to 210,000 per week

The economic pain and fallout of the COVID-19 pandemic remains widespread as federal policy makers debate whether to extend unemployment benefits, including an additional $600 per week, that is scheduled to expire on or before July 31 as part of the CARES Act.

Analysts are concerned the unemployment figures may be a sign that the labor-market recovery is stalling as coronavirus cases surge and re-openings pause or reverse in parts of the country. According to Bloomberg, 22 states have either reversed or paused plans for reopening, with California recently shutting indoor dining statewide along with other actions.



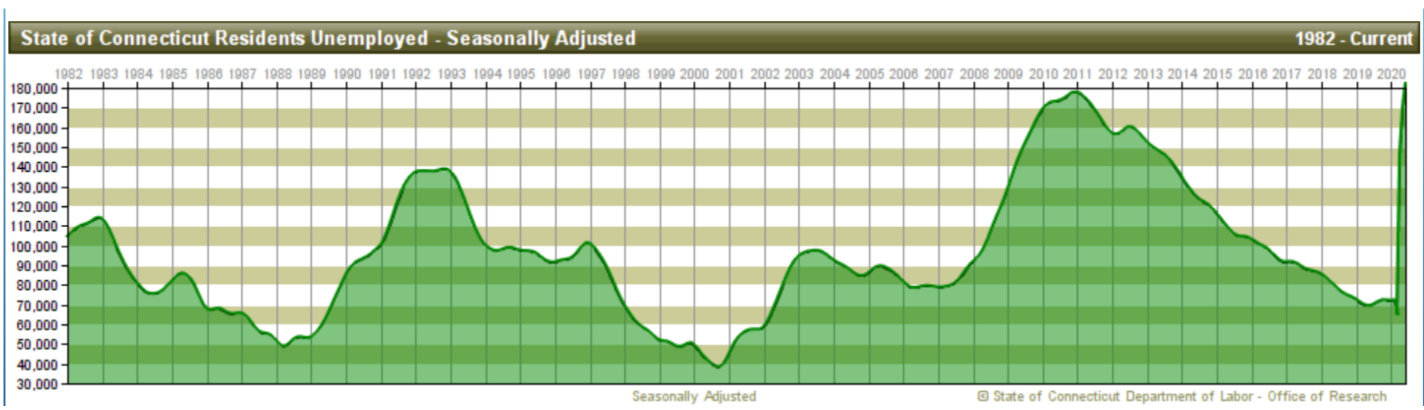
Continuing UI claims, for those who have been collecting for at least two weeks, rose by 867,000 to 17.018 million for the week ending July 18. This measure gives a clearer picture of how many workers are still unemployed. As expanded unemployment benefits run out July 31st, the number of continuing UI claims remains persistently high.

Connecticut – Job Growth in June, Unemployment Still High

Connecticut has also experienced historic levels of job losses this spring, although has recently reversed that trend and began recovering some back.

On July 16th, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for June 2020 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 73,300 net jobs (5.1%) to a level of 1,509,900 seasonally adjusted. At the same time, the May 2020 job gain of 25,800 was revised upward by an additional 2,600 jobs.

DOL reported Connecticut saw the largest single month of job gains on record in June but cautioned that these gains should be viewed from the perspective of the unprecedented job losses caused by the COVID-19 pandemic. In fact, the largest employment growth in June was seen in industries most affected by pandemic closures, including leisure & hospitality, trade, and education & healthcare.



Over the year, nonagricultural employment in the state fell by 172,700 (-10.3%) seasonally adjusted. Connecticut's official unemployment rate stood at 9.8 percent in June, but DOL cautioned that figure continues to be significantly understated:

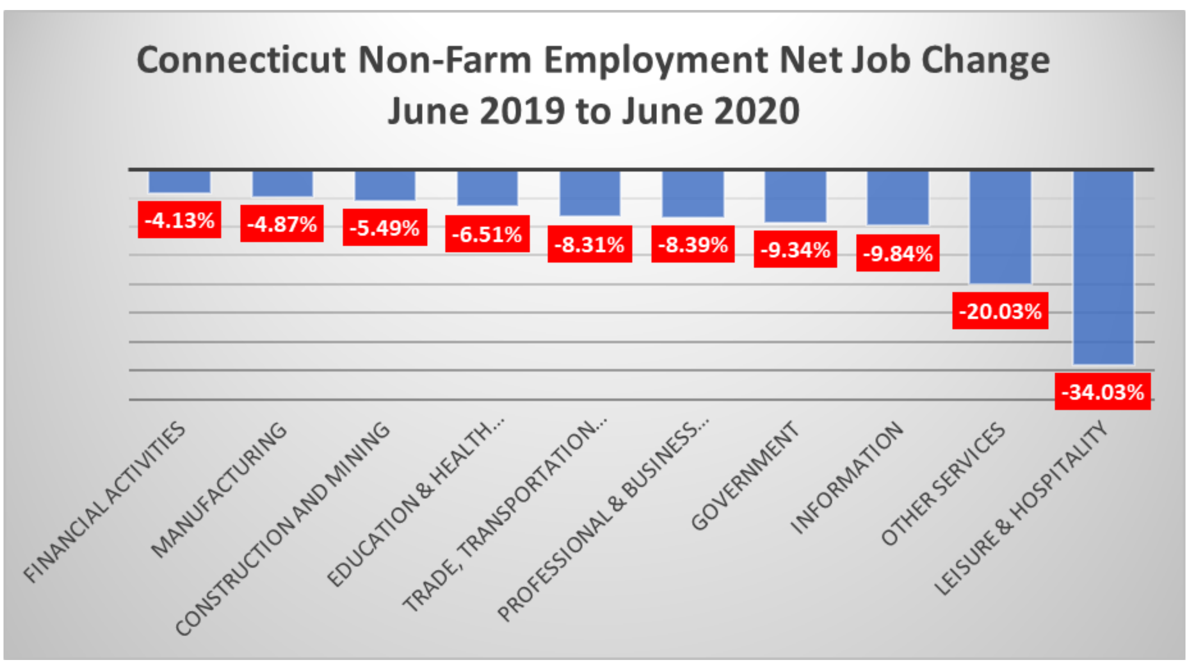
> *"The Connecticut unemployment rate continues to be underestimated due to challenges encountered in the collection of data for the June Current Population Survey (CPS) which is the foundation of the statistical model used to determine all states' unemployment rates. In addition to a poor response rate in an already small sample size in Connecticut, key questions continue to be misinterpreted and misclassified. Specifically, a significant number of respondents who should have been classified as temporarily out of work and therefore unemployed were instead classified as employed, but away from work (e.g. sick)."*

DOL's Office of Research estimates Connecticut's unemployment rate to be much higher, in the range of 16-17 percent for the mid-May to Mid-June period. DOL notes this higher estimate was made using Connecticut residential unemployment insurance claims and adding a similar factor for the unemployed self-employed population. By comparison, the official

US jobless rate in June 2020 was 11.1 percent, although analysts noted that rate was likely understated due to the data collection issues noted above. One estimate by the Peterson Institute of International Economics put the US's "realistic unemployment rate" at 13.0 percent for June.

Among the major job sectors listed below, all ten experienced significant losses in June 2020 versus June 2019 levels. The leisure & hospitality sector was particularly hard hit, losing more than a third of its jobs for the period, followed by the other services and the information sectors.

Payroll Employment Trend				
June 2020 Versus June 2019				
Sector	**June 2020 (P)**	**June 2019**	**Gain/Loss**	**% Change**
Construction and Mining	56,800	60,100	-3,300	-5.5%
Manufacturing	154,300	162,200	-7,900	-4.9%
Trade, Transportation & Utilities	265,900	290,000	-24,100	-8.3%
Information	28,400	31,500	-3,100	-9.8%
Financial Activities	118,300	123,400	-5,100	-4.1%
Professional & Business Services	200,900	219,300	-18,400	-8.4%
Education & Health Services	316,000	338,000	-22,000	-6.5%
Leisure & Hospitality	104,300	158,100	-53,800	-34.0%
Other Services	52,300	65,400	-13,100	-20.0%
Government	212,700	234,600	-21,900	-9.3%
Total Connecticut Non-Farm Employment	**1,509,900**	**1,682,600**	**-172,700**	**-10.3%**

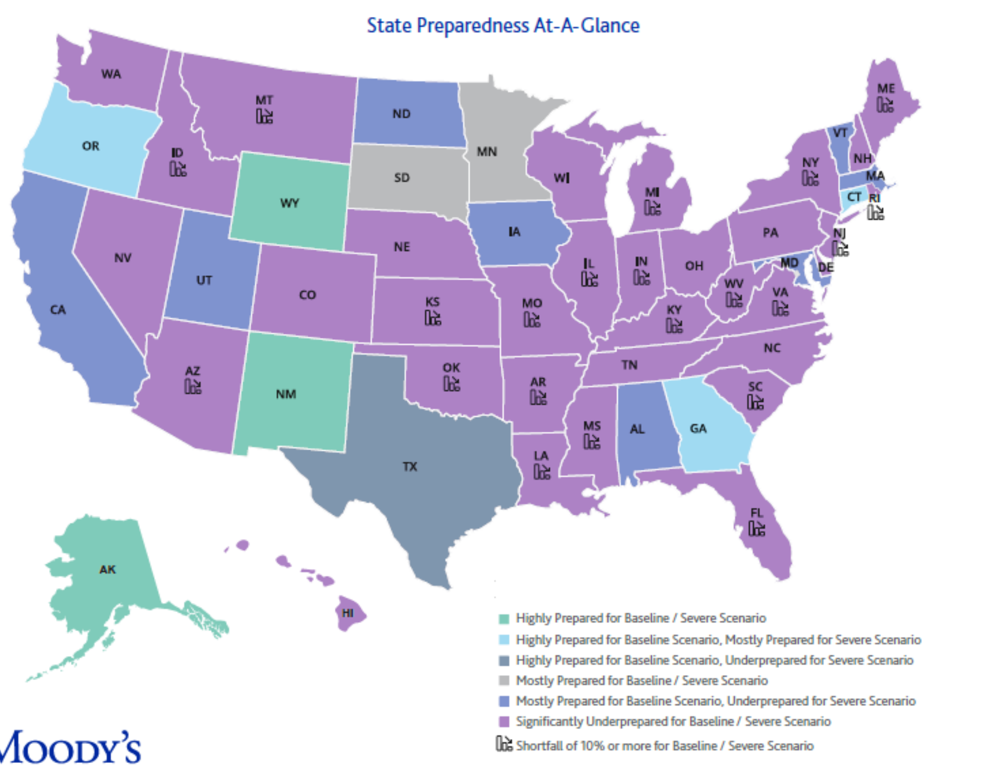


Moody's Analytics - Stress-Testing States: COVID-19

A recent report by Moody's Analytics conducted stress-testing of state governments to evaluate how well equipped they are to confront the fiscal challenges presented by the economic fallout of the COVID-19 pandemic. The Moody's analysis focused on two recessionary scenarios, a baseline and a more severe scenario covering a longer and deeper recession. The budgetary impacts included both projected revenue losses and increased Medicaid spending. Due to Connecticut's healthy Budget Reserve Fund balance, the state ranked near the top in terms of preparedness for even the most severe recession scenario. However, the report noted the fiscal shocks of the pandemic will be enough to overwhelm even the most prepared states. In its conclusions, Moody's found that an additional $500 billion in Federal aid to state and local governments will be needed over the next two years to avoid major damage to the economy. In addition, action is needed quickly to avoid the types of spending cuts and tax increases that would cost jobs and further delay the recovery.

U.S. State Preparedness for a Pandemic-Induced Recession

Moody's Analytics performs stress tests on state government budgets - estimating the amount of fiscal stress likely to be applied to state budgets under different recession scenarios and comparing that to what states have in reserve. The overall results of the COVID-19 exercise are unmistakably negative during this unprecedented time.

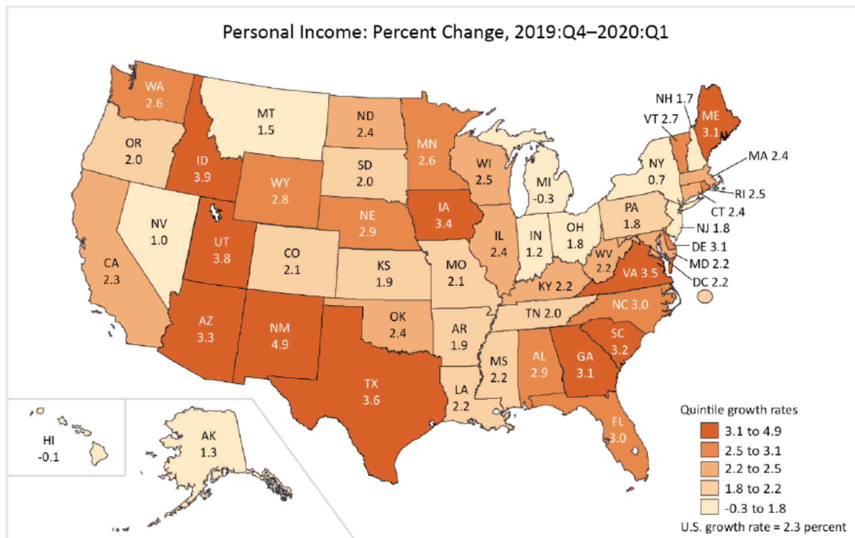


Moody's Analytics

Income and Salary

June 2020 average hourly earnings at $33.72, not seasonally adjusted, were up $0.93 (2.8%) from the June 2019 estimate ($32.79). The resultant average private sector weekly pay amounted to $1,166.71, up $55.13 from a year ago (5.0%). However, DOL warns that due to fluctuating sample responses, private sector earnings and hours estimates can be volatile from month-to-month.

The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in June was a modest 0.6 percent.
On June 23rd, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 2.4 percent annual rate between the fourth quarter of 2019 and the first quarter of 2020. Based on this result, Connecticut ranked 26th in the nation for first quarter income growth. Connecticut's growth rate was equal to the New England region's and slightly above the national average rate of 2.3 percent. The percent change in personal income across all states ranged from 4.9 percent in New Mexico to -0.3 percent in Michigan.



U.S. Bureau of Economic Analysis

Housing

Berkshire Hathaway HomeServices reported results for the Connecticut housing market for June 2020 compared with June 2019. Sales of single-family homes dropped by 14.83 percent, with the median sale price increasing by 5.08 percent. Reversing a trend from recent months, new listings were up 10.18 percent in Connecticut. The median list price rose 6.37 percent to $299,900. Average days on the market increased 14.93 percent in June 2020 compared to the same month in the previous year (77 days on average compared with 67 in June 2019).

The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

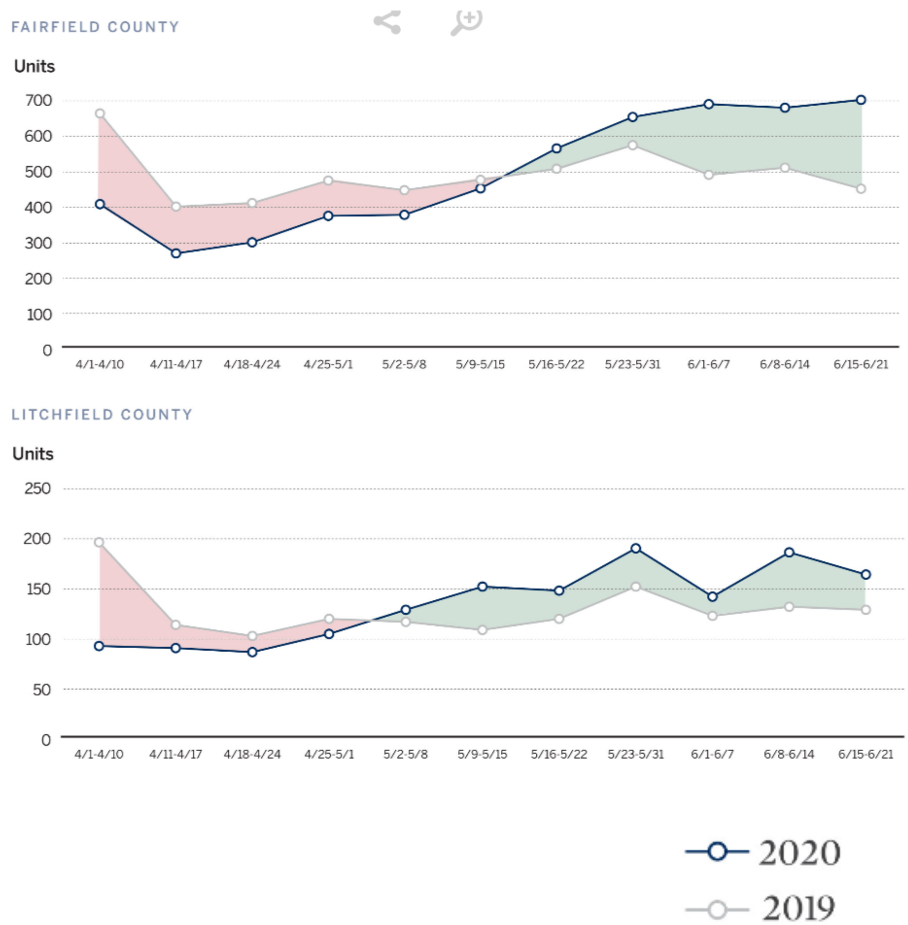
JUNE 2020 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	June 2020	June 2019	Percent Change	Year-To-Date 2020	Year-To-Date 2019	Percent Change
New Listings	6214	5640	10.18% ▲	26587	32228	-17.5% ▼
Sold Listings	3406	3999	-14.83% ▼	16035	16767	-4.37% ▼
Median Listing Price	$319,000	$299,900	6.37% ▲	$289,000	$269,900	7.08% ▲
Median Selling Price	$310,000	$295,000	5.08% ▲	$282,500	$265,000	6.6% ▲
Median Days on Market	48	43	11.63% ▲	55	57	-3.51% ▼
Average Listing Price	$526,639	$448,768	17.35% ▲	$442,810	$407,649	8.63% ▲
Average Selling Price	$504,995	$433,748	16.43% ▲	$424,932	$391,343	8.58% ▲
Average Days on Market	77	67	14.93% ▲	82	84	-2.38% ▼
List/Sell Price Ratio	97.9%	97.9%	0.01% ▲	97.6%	97.4%	0.15% ▲

Relocating From New York City to the Suburbs

Some high-end realtors, such as William Pitt and Julia B. Fee Sotheby's International Realty, are reporting a changing real estate market due to pandemic-related moves from New York City. Buyers are relocating from the city to the suburbs, including to Connecticut and Westchester County. In an era of social distancing, the firm points to the density of New York City as motivation to seek out less populated areas.

Based on recent demographic data, the firm reports the portion of purchasers from New York City is well above historic highs and represents 33 percent of all buyers in Fairfield County, 31 percent in Litchfield County and 9 percent for the Connecticut shoreline. In addition, beginning in May 2020, there has been an increase in units under contract for both Fairfield and Litchfield counties compared with the same period in 2019:



For the U.S. housing market, the National Association of Realtors (NAR) reported existing home rebounded at a record pace in June 2020, ending a three-month drop in sales brought on by the coronavirus pandemic. Each of the four major regions witnessed increases in month-over-month sales, with the West experiencing the greatest growth.

Total existing-home sales, (completed transactions that include single-family homes, townhomes, condominiums and co-ops) grew 20.7 percent from May to a seasonally adjusted annual rate of 4.72 million in June. However, overall sales decreased year-over-year, dropping 11.3 percent from a year ago (5.32 million in June 2019).

Nationally, home prices have remained strong during the pandemic. NAR noted the median existing home price for all housing types in June was $295,300, up 3.5 percent from June 2019 ($285,400), as prices rose in every region. June's national price increase marks 100 straight months of year-over-year gains.

Stock Market – Indices Recover at Different Rates:

In the third week of March, the stock market reached its low point in 2020 as the impact of the coronavirus became more widespread. Since that time, the major indices have recovered at different rates. As of this writing, the DOW is down about 7.7 percent year-to-date and off about 1.8 percent from a year ago. The NASDAQ, heavily composed of tech stocks, has been the strongest performer and is up almost 20 percent year-to-date and over 31 percent from a year ago. The S&P 500 is slightly in positive territory year-to-date but has risen almost 10 percent from a year ago.

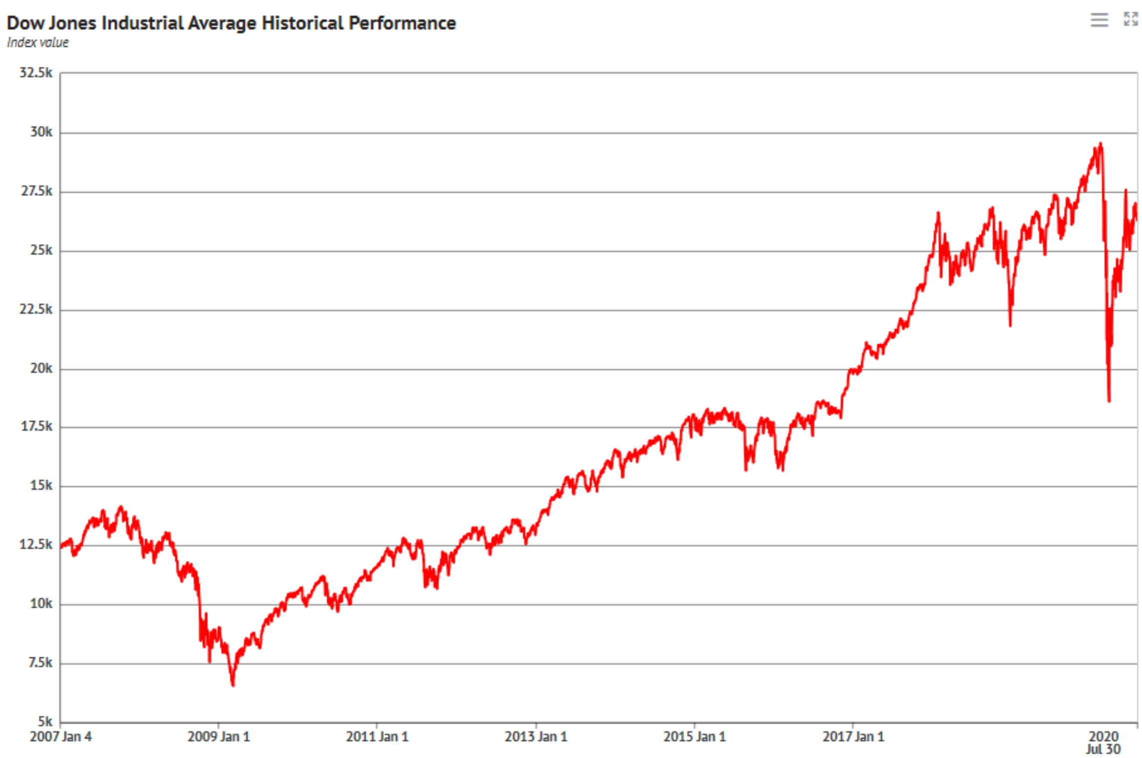
Charts for the three major stock indices follow.

DOW

NASDAQ

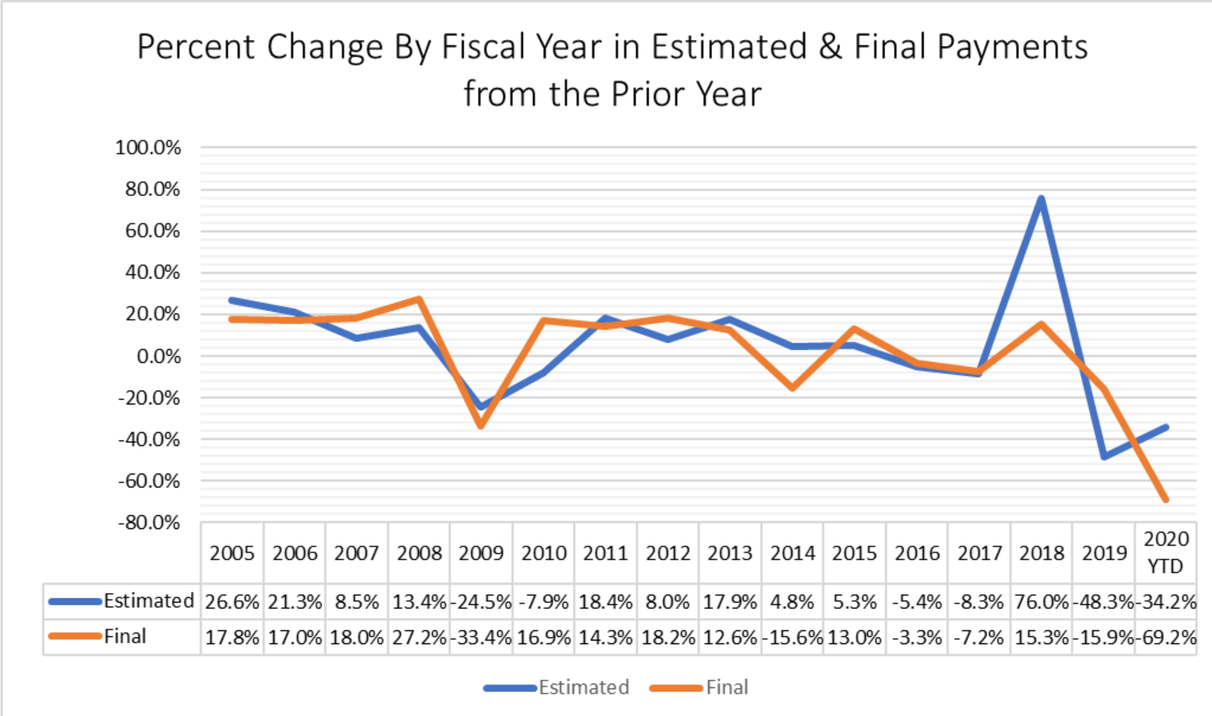
S&P 500 INDEX

To give more perspective on the performance of the stock market over the longer term, the chart below shows the level of the DOW from 2007 to the present:



The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 35 percent of total state income tax receipts, but can be an extremely volatile revenue source.

Year-to-date through June 2020, estimated and final payments are down a combined 52.0 percent compared with the same period a year ago. The largest factor is the Final Payment category of the income tax, which was down over $1 billion from FY 2019. However, a large portion of that total is related to a 90-day extension in the filing and payment deadline from April 15 to July 15, 2020 to provide some relief to taxpayers due to COVID-19 outbreak. As a result, the full impact on FY 2020 revenues will not be known until the statutory accruals are completed in late August or early September.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	76.0%	-48.3%	-34.2%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%	-3.3%	-7.2%	15.3%	-15.9%	-69.2%

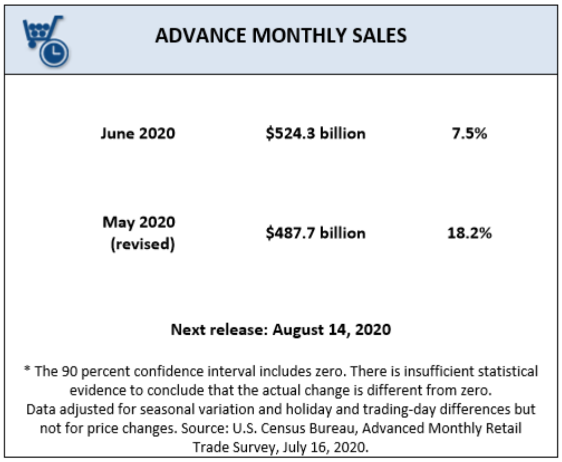
Consumer Spending

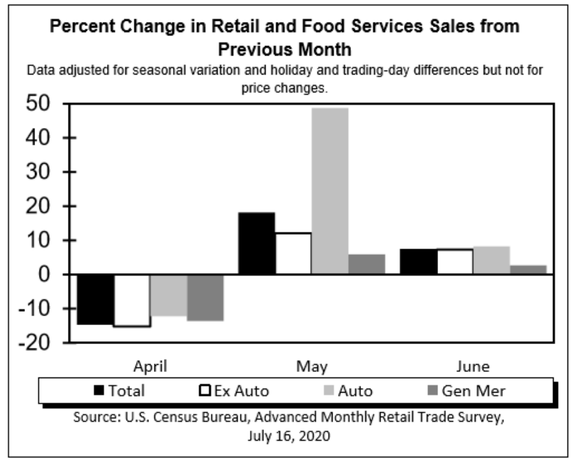
Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.

On July 16th, the Commerce Department reported that U.S. advance retail sales rose by 7.5 percent in June, after rising a record 18.2 percent in May. The increase in June retail sales was better than analysts predicted; economists surveyed by Reuters had anticipated a 5.2 percent growth. At the same time, total sales for the April 2020 through June 2020 period were down 8.1 percent from the same period a year ago, reflecting the impact of the pandemic for the quarter.

Growth in retail sales was widespread in June, as businesses resumed operations after being shut down in mid-March in an effort to slow the spread of the coronavirus. Clothing and accessories stores reported the biggest increase at 105 percent while electronics and appliances stores rose 37.4 percent. Furniture stores (+32.5%), sporting goods and hobby shops (26.5%) and restaurants & bars (+20.0%) all posted big gains.

However, analysts noted the emerging economic recovery is being threatened by a resurgence in new Covid-19 infections in the southern and western United States and continued high levels unemployment nationwide. Authorities throughout the country have begun to close businesses again or pause planned re-openings to slow the spread of the virus.



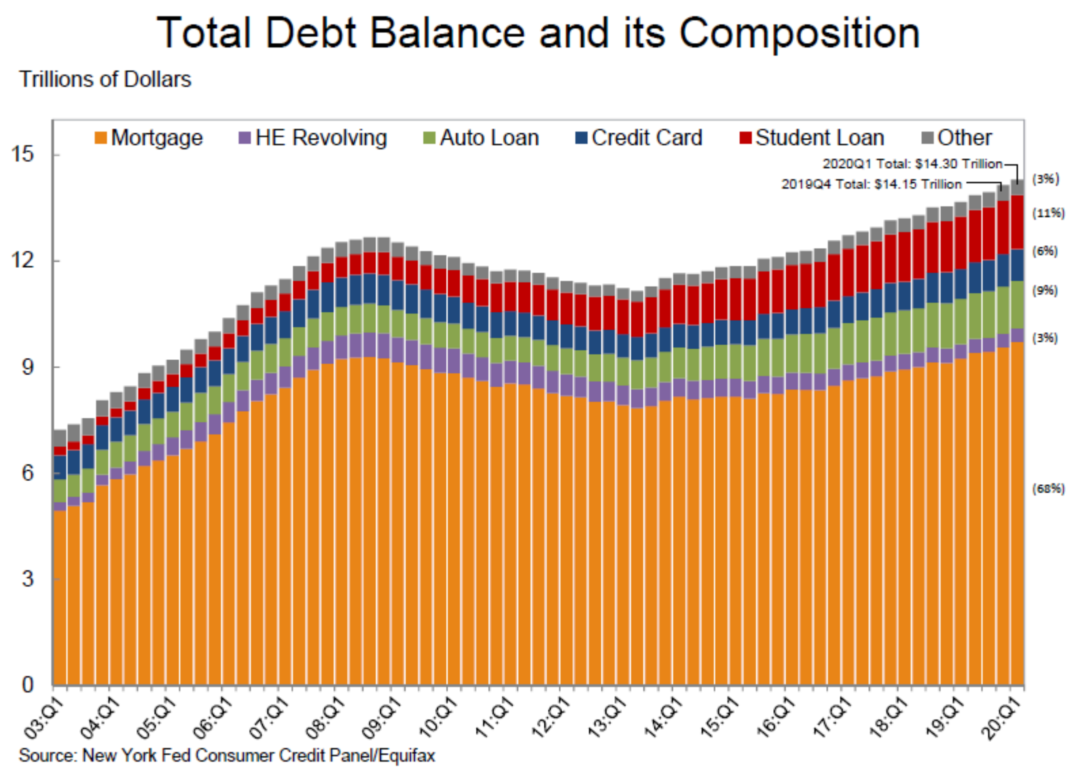


Consumer Debt and Savings Rates

According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the first quarter of 2020. However, the report captures consumer credit data as of March 31, 2020. As a result, the report states the data do not fully reflect the potential effects of COVID-19 that materialized in the second half of March 2020.

In the first quarter of 2020, total household debt increased by $155 billion (1.1 percent) to $14.30 trillion. The total balance is now $1.6 trillion higher, in nominal terms, than the previous peak of $12.68 trillion in the third quarter of 2008.

The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.71 trillion during the first quarter of 2020, a $156 billion increase from the fourth quarter of 2019. At $1.54 trillion, student loans were the second largest category of household debt. Student loan balances increased by $27 billion in the first quarter of 2020. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $4 billion to $386 billion. Auto loans grew by $15 billion in the fourth quarter to $1.35 trillion in total. Credit card balances decreased by $34 billion to $893 billion, which partly reflects a seasonal decline. However, the report also noted the decrease in credit card balance was notably larger than the same period last year, which may reflect the early signs of lower levels of consumer spending due to COVID-19.



The Federal Reserve reported aggregate delinquency rates were mostly unchanged in the first quarter of 2020. As of March 31, 4.6 percent of outstanding debt was in some stage of delinquency, a 0.1 percentage point decrease from the fourth quarter of 2019. Of the $652 billion of debt that is delinquent, $449 billion is seriously delinquent (at least 90 days late or "severely derogatory", which includes some debts that have been removed from lenders books but upon which they continue to attempt collection).

The Federal Reserve Bank of New York is scheduled to release its next report on household debt covering the second quarter of 2020 in mid-August.

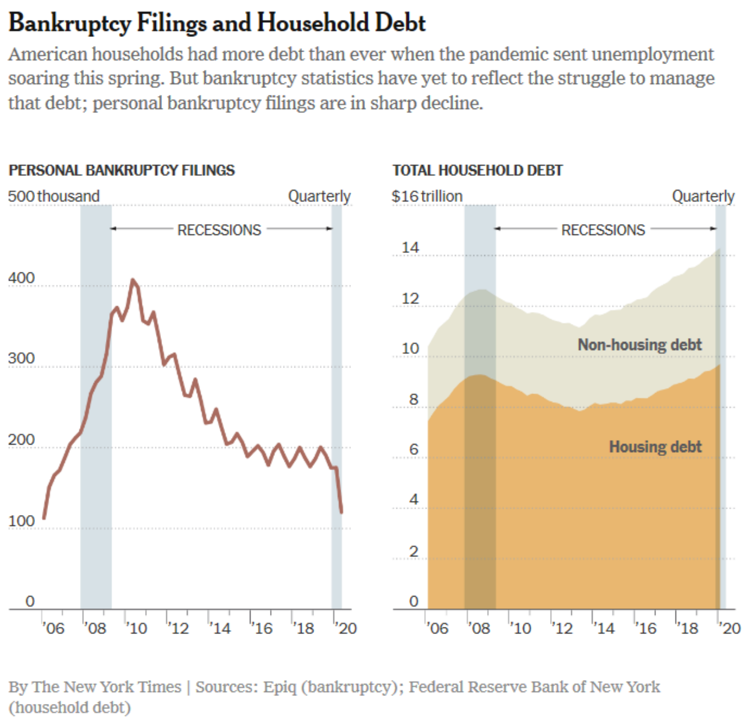
New York Times Article – Federal Aid Averted Bankruptcies, But Trouble Looms

A recent article in the New York Times July 17th edition noted a sharp decline in bankruptcies from April through June this year, despite high levels of unemployment and record levels of household debt. This is the reverse of the typical pattern during a recession when bankruptcy filings normally rise. One of the main reasons cited was the Federal government's pandemic-related relief package that included stimulus payments to households and enhanced unemployment benefits for those out of work. These efforts not only allowed the unemployed to put food on the table and continue paying rent, but also pay down existing debt or increase savings, at least temporarily.

The hardest hit households during the pandemic have been those on the lower end of the income scale. Citing Federal Reserve data, the article notes nearly 40 percent of households earning less than $40,000 a year had already lost at least one job by May. By comparison, the same was true for just 19 percent of households earning $40,000 to $100,000 and 13 percent of households earning more than $100,000 a year.

With the enhanced benefits scheduled to expire at the end of July, however, the New York Times notes "a far more dire portrait of the financial pain of millions of Americans is set to emerge in the coming months."

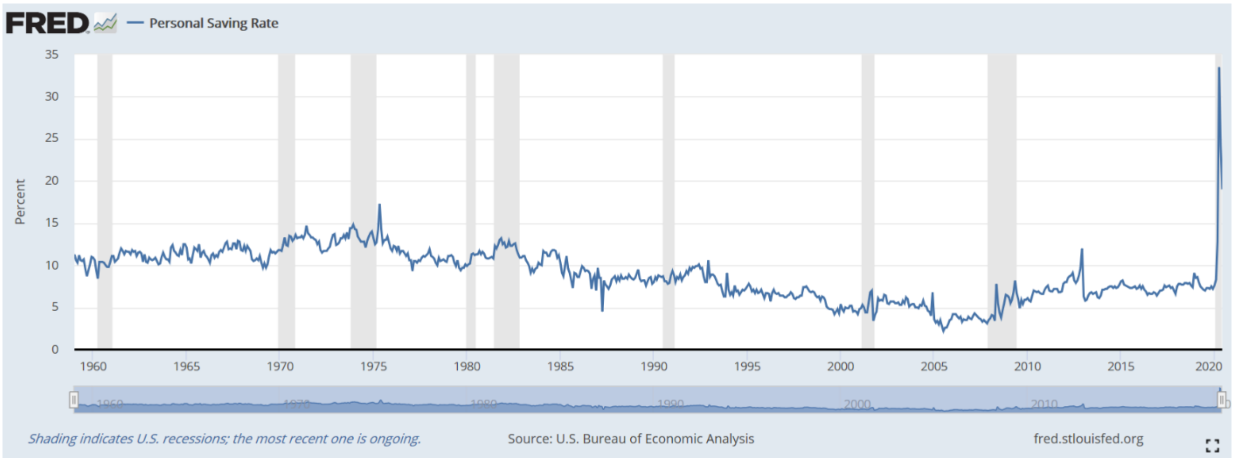
The full article can be found here:
https://www.nytimes.com/2020/07/17/business/personal-bankruptcies-coronavirus.html



Personal Savings Rate

In its July 31st release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 19.0 percent in June, a high number by historical standards, but lower than the record 24.2 percent revised rate recorded in May. The personal savings rate is defined as personal saving as a percentage of disposable personal income. As seen in the chart below, the savings rate tends to increase during recessionary periods as consumers cut back on discretionary spending.

In June, personal income decreased 1.1 percent and disposable personal income dropped by 1.4 percent as personal consumption expenditures grew 5.6 percent. BEA noted that the decline in personal income in June mostly reflected a decrease in federal government social benefits to persons as payments made in response to the COVID-19 pandemic continued, but at a lower level than May.



In past reports, the Office of the State Comptroller has warned that the personal savings rate has remained low by historical standards, despite a decade of economic growth since the end of the Great Recession. Even before the current corona virus crisis hit, studies showed four in ten U.S. adults would have difficulty covering an emergency $400 expense due to lack of savings. In relatively good economic times, many working families lived paycheck to paycheck. Now with large scale job losses, a lack of savings will make the present downturn much more difficult to navigate.

Consumer Confidence – Lower in July as COVID-19 Cases Rise

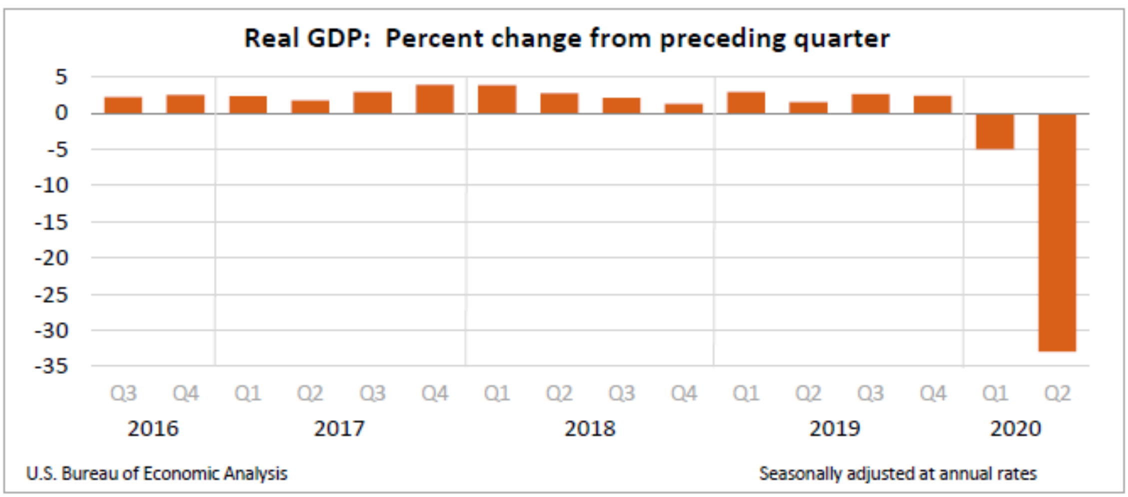
The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.

The Conference Board reported that the Consumer Confidence Index decreased in July after a significant increase in June. The Index now stands at 92.6, down from 98.3. The drop was attributed to a resurgence of COVID-19 infections, which threatens to slow economic activity as states in the South and Western U.S. close businesses or reassess plans for reopening. The Conference Board reported consumers continue to have concerns about future financial prospects: "Looking ahead, consumers have grown less optimistic about the short-term outlook for the economy and labor market and remain subdued about their financial prospects. Such uncertainty about the short-term future does not bode well for the recovery, nor for consumer spending."

Business and Economic Growth - Historic Drop in Quarterly GDP

According to a July 30th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) decreased at an annual rate of 32.9 percent in the second quarter of 2020, according to BEA's advance estimate. This represents the steepest quarterly decline on record, reflecting the significant economic fallout of the coronavirus pandemic. By comparison, the worst quarter during the Great Recession was an 8.4 percent drop in GDP in the fourth quarter of 2008. In the first quarter of 2020, real GDP decreased 5.0 percent.

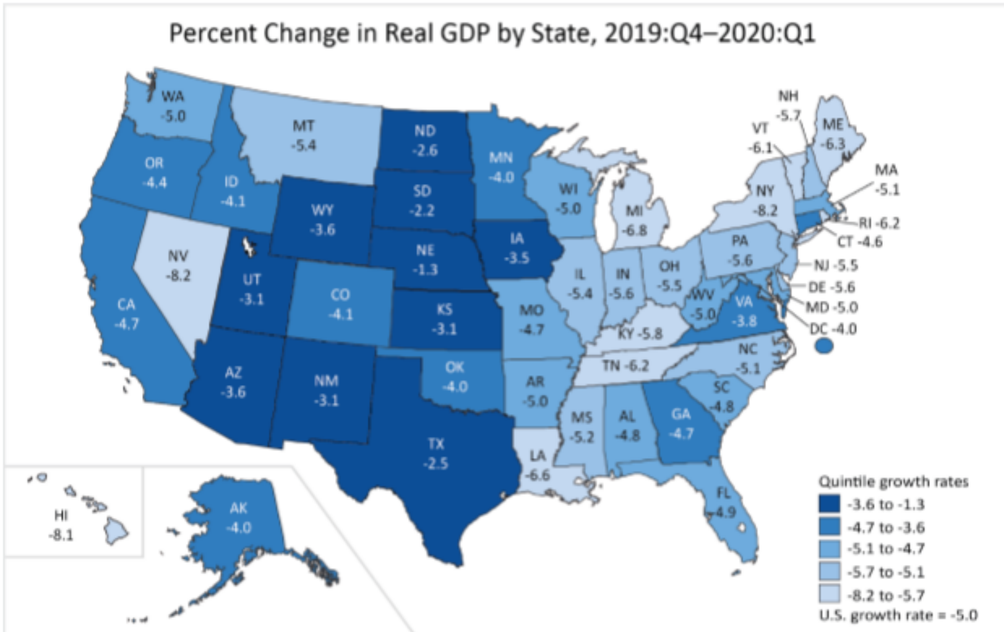
BEA reported the sharp decline in real GDP reflected decreases in personal consumption expenditures (PCE), exports, private inventory investment, nonresidential fixed investment, residential fixed investment, and state and local government spending that were partly offset by an increase in federal government spending. Imports, which are a subtraction in the calculation of GDP, decreased.



BEA noted the drop in PCE reflected lower spending on services (led by health care) and goods (led by clothing and footwear). The decline in exports primarily reflected a decrease in capital goods. The falloff in private inventory investment was largely due to a decrease in retail (led by motor vehicle dealers). The decrease in business investment primarily reflected a decrease in equipment purchases (led by transportation equipment), while the decrease in residential investment primarily was largely due to a decrease in new single-family housing.

In a July 7th report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the first quarter of 2020. With the onset of the coronavirus pandemic, GDP decreased in all 50 states. The percent change in real GDP in the first quarter ranged from –1.3 percent in Nebraska to –8.2 percent in New York and Nevada.

Connecticut experienced a seasonally adjusted change in GDP of -4.6 percent, which ranked 18th in the nation overall. Both the U.S and the New England region experienced larger decreases in GDP than Connecticut in the first quarter of 2020.



U.S. Bureau of Economic Analysis

Durable Goods

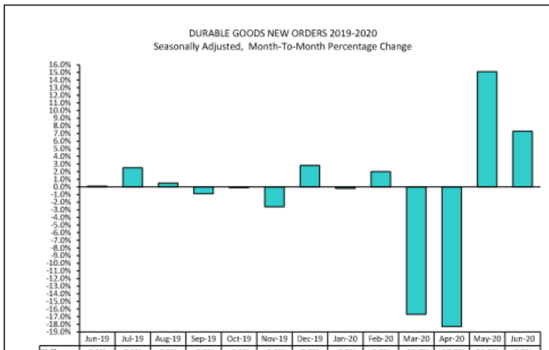
According to a July 27th report by the U.S. Department of Commerce, new orders for manufactured durable goods increased $14.0 billion in June or 7.3 percent to $206.9 billion. This increase, up now for two consecutive months, followed a 15.1 percent increase in May.

DURABLE GOODS – NEW ORDERS

JUNE 2020	**$206.9 billion**	**+7.3%°**
MAY 2020 (revised)	**$192.9 billion**	**+15.1%°**

Next release: August 26, 2020

Data adjusted for seasonal variation but not for price changes.
°Statistical significance is not measurable for this survey. The Manufacturers' Shipments, Inventories, and Orders estimates are not based on a probability sample, so the sampling error of these estimates cannot be measured nor can the confidence intervals be computed.
Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories and Orders, July 27, 2020.

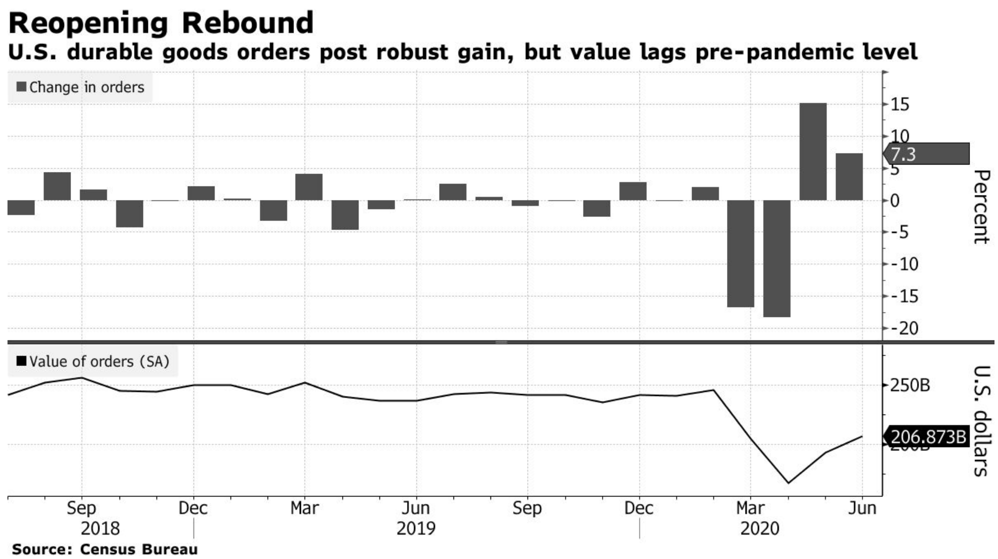


Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, July 27, 2020.

Transportation equipment led the increase growing $9.2 billion or 20.0 percent to $55.3 billion. New orders of automobiles and parts jumped 85.7 percent.

Orders for so called core capital goods rose 3.4 percent in June. Core capital goods are defined as non-defense capital goods excluding aircraft, which is considered a proxy for business spending.

Bloomberg's analysis of the June durable goods numbers "suggest manufacturing is stabilizing, though a full recovery from the pandemic-induced supply chain disruptions, lockdowns and diminished demand will take time."   Durable goods orders are still significantly below pre-pandemic levels. However, spending on goods has experienced more of a V-shaped recovery, as shown on the graph below, unlike the service sector.



END