News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $207.8-MILLION DEFICIT; TRIGGERS MANDATORY DEFICIT MITIGATION PLAN

Comptroller Kevin Lembo today projected that the state is headed for a $207.8-million deficit for Fiscal Year 2018 – an amount that triggers a state requirement that the governor submit a deficit mitigation plan to the legislature because it exceeds one percent of the state's total net General Fund appropriations.

In a letter to Gov. Dannel P. Malloy, Lembo reported a deficit that is close, but slightly higher, than a deficit reported last month by the Office of Policy and Management (OPM) because Lembo said he expects a larger $20-million deficiency in the state's adjudicated claims account that is used to pay claims and attorney fees in the SEBAC v. Rowland settlement.

Lembo also pointed to great uncertainty related to the future of federal tax reform.

"Congress is considering significant modifications to federal tax law that could have profound implications for Connecticut, depending on what specific provisions, if any, are enacted," Lembo said. Future revenue forecasts will need to evaluate the consequences of any tax changes on the federal level."

Lembo said that his office agrees with the November consensus revenue forecast reached between OPM and the legislature's Office of Fiscal Analysis, and has reported in past months on the underperformance of the sales and use tax to date in the FY 2018 and lower than expected receipts in the estimated payment portion of the personal income tax.

On the spending side, Lembo said, with seven months still to go in the fiscal year, there have already been $12.5 million spent from the adjudicated claims account in the SEBAC v. Rowland settlement and other issues, and the account has averaged $2.5 million per month in costs. In light of this, Lembo said he is projecting a $20-million deficiency in adjudicated claims that could go higher due to the unpredictable nature of the settlements involved.

"Another area of concern that will require close scrutiny is the aggressive level of savings included in the adopted budget," Lembo said. "Achieving these lapse – or savings – targets will be a significant budgetary challenge, especially in light of the high levels of fixed costs for FY 2018, such as debt service payments, pension contributions and other costs."

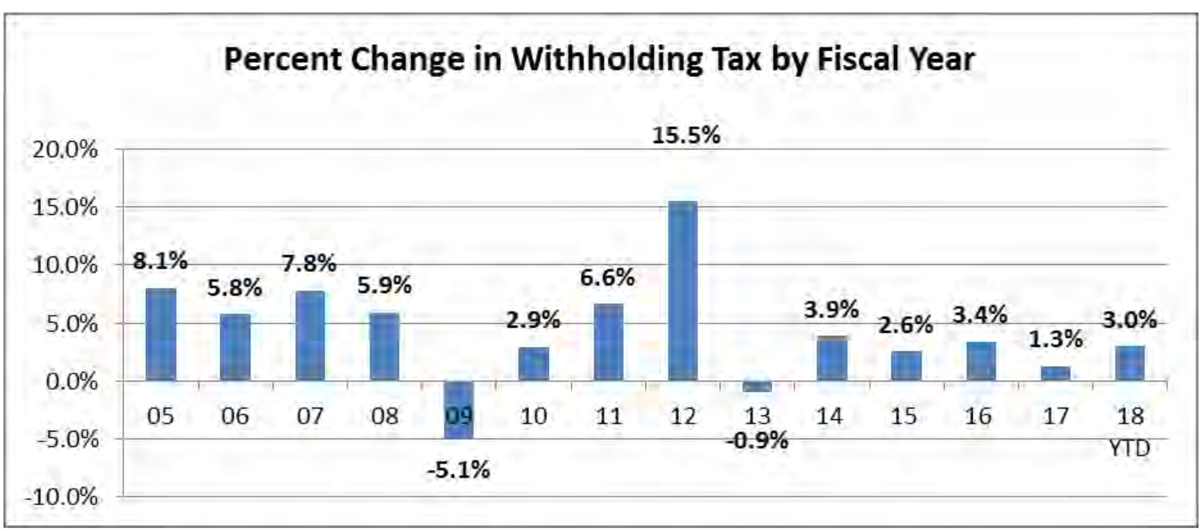
Lembo said Connecticut must also catch up to the national economy in economic growth.

"In recent years, Connecticut has not fully participated in the nation's economic recovery," Lembo said. "The national economy continues to exhibit growing signs of strength and resilience. However, Connecticut's economy has experienced much more mixed results across a variety of key economic indicators."

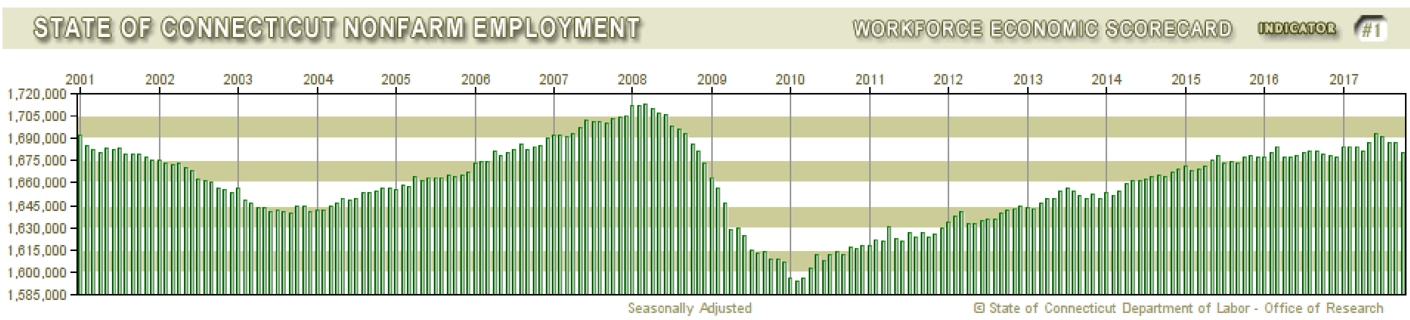
Lembo pointed to the latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

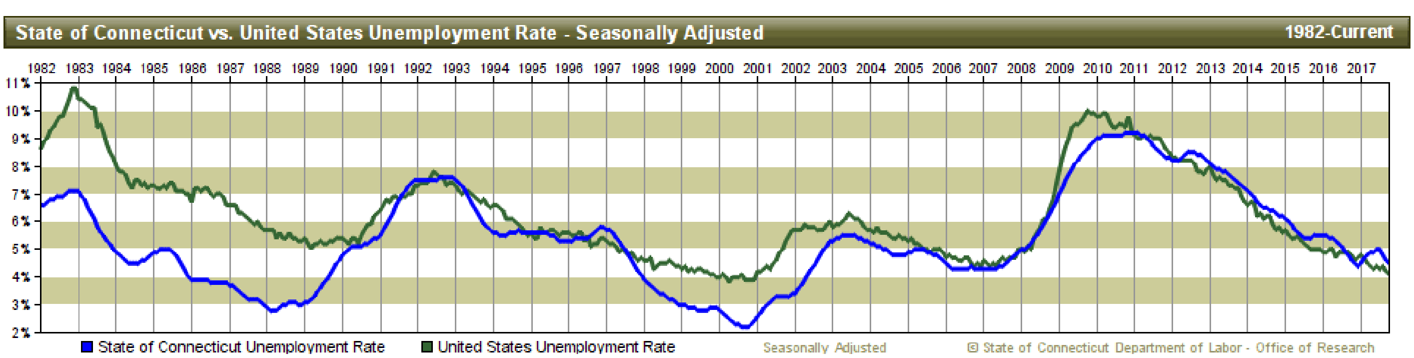
- Based on FY 2017 final results, the withholding portion of the income tax increased only 1.3 percent compared with the prior fiscal year.
- In the first four months of the new fiscal year, withholding receipts were up 6.8 percent from last year. However, this growth is somewhat overstated due to revenue accruals related to FY 2017 year-end. Adjusting for this accrual activity, the FY 2018 year-to-date growth in withholding collections is closer to 3 percent.



- A state Department of Labor (DOL) report dated Nov. 16 shows that the state lost 6,600 net jobs (-0.4 percent) in October 2017, to a level of 1,680,600, seasonally adjusted. The data is from the business payroll survey administered by the US Bureau of Labor Statistics (BLS). Connecticut DOL noted nearly half the decline was from the seasonal leisure and hospitality sector. September's originally-released job loss of 2,000 was revised upward by the BLS to a gain of 300 for the month.
- Over the year, nonagricultural employment in the state grew by only 1,400 jobs (0.1 percent).
- During the last period of economic recovery, employment growth averaged over 16,000 annually.



- Connecticut has now recovered 72.5 percent (86,400 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). The job recovery is into its 92nd month and the state needs an additional 32,700 jobs to reach an overall employment expansion.
- Connecticut's unemployment rate for October fell by one-tenth of a point from last month and now stands at 4.5 percent. The decrease in the unemployment rate was in part due to a decline in the size of the state's labor force. Nationally, the unemployment rate was 4.1 percent in October.



- DOL reports that September 2017 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut decreased by 591 claimants (-14.9 percent) to 3,365 from September 2017, and were lower by 487 claims (-12.6%) from the October 2016 level of 3,852.
- Among the major job sectors listed below, six experienced gains and four experienced losses in October 2017 versus October 2016 levels.

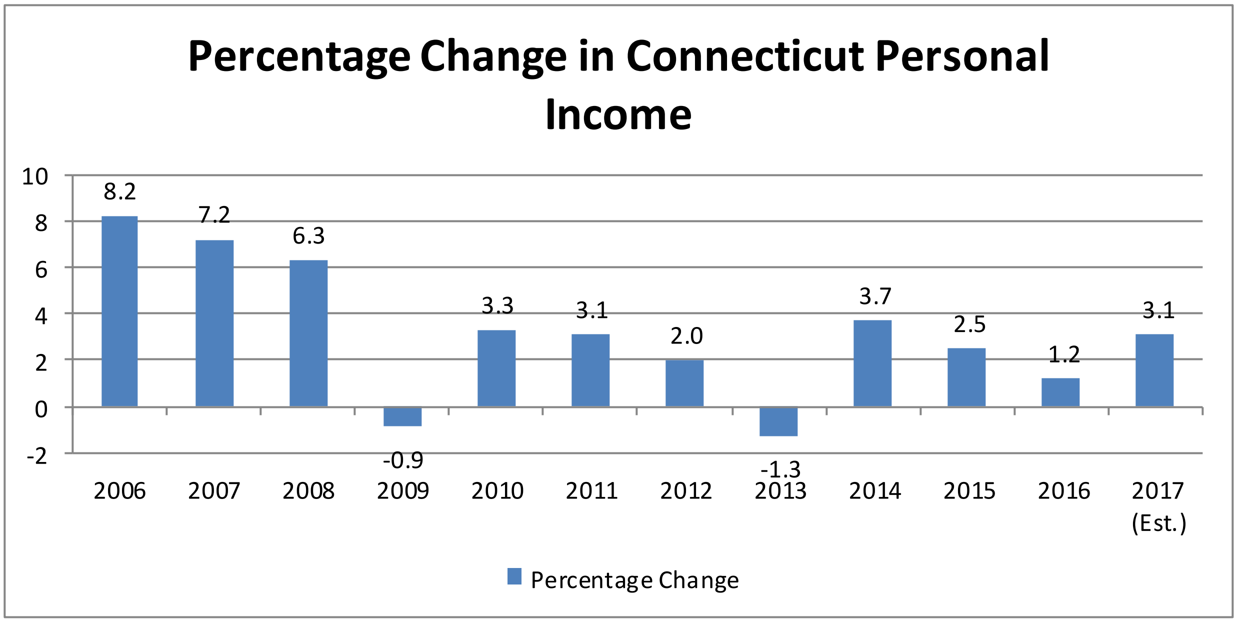
Payroll Employment Trend				
Jobs in thousands				
Sector	**10/17 (P)**	**10/16**	**Gain/Loss**	**% Change**
Construction	58.7	58.6	0.1	0.2%
Manufacturing	156.8	156.6	0.2	0.1%
Transp. & Public Utilities	297.7	298.1	-0.4	-0.1%
Information	31.6	32.2	-0.6	-1.9%
Financial	132.4	130.4	2.0	1.5%
Prof . & Business Svc.	217.8	216.6	1.2	0.6%
Education & Health Svc.	333.7	330.7	3.0	0.9%
Leisure & Hospitality	154.0	155.3	-1.3	-0.8%
Other Services	66.4	66.2	0.2	0.3%
Government	230.9	233.9	-3.0	-1.3%

- The Census Bureau is scheduled to release updated state population results for July 1, 2017 on December 20, 2017. Connecticut's employment and revenue numbers must be viewed in the light of its declining population in recent years. The U.S. Census reported that Connecticut saw a decline in population of 8,278 residents between July 1, 2015 and July 1, 2016. Connecticut was one of only eight states to experience a decline in population during this period. Connecticut has now posted three consecutive years of population decline.

Wage and $alary income

- October 2017 average hourly earnings at $31.52, not seasonally adjusted, were up $0.57, or 1.8 percent, from the October 2016 estimate. The resultant average Private Sector weekly pay amounted to $1,071.68, up $13.19, or 1.2 percent higher than a year ago.
- The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in October 2017 was 2 percent.

- The Bureau of Economic Analysis reported that Connecticut's personal income grew by 3 percent between 2015 and 2016. This ranked Connecticut 33rd nationally in 2016 income growth.
- A September 26th report from the Bureau showed Connecticut personal income increasing at a quarterly rate of 0.8 percent between the first and the second quarter of 2017. On an annualized basis this growth would be 3.1 percent. This ranked Connecticut 22nd nationally in personal income growth and slightly above the national average. BEA will release data on State Personal Income for Third Quarter 2017 on December 20, 2017.



Housing

- In its Nov. 28 release Berkshire Hathaway Home Services reported mixed results in the Connecticut housing market for October 2017 compared with October 2016. Sales of single family homes declined 1.88 percent. However, the median sale price rose 2.09 percent. New listings in Connecticut increased by 3.13 percent and the median list price grew by 3.84 percent. Average days on the market increased nearly 9.8 percent in October 2017 compared to the same month in the previous year. The summary below contains more detailed data for the Connecticut market.

MARKET SUMMARY

OCTOBER 2017 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	October 2017	October 2016	Percent Change	Year-To-Date 2017	Year-To-Date 2016	Percent Change
New Listings	4252	4123	3.13% ▲	51312	53501	-4.09% ▼
Sold Listings	2825	2879	-1.88% ▼	30525	29508	3.45% ▲
Median Listing Price	$259,500	$249,900	3.84% ▲	$259,900	$259,000	0.35% ▲
Median Selling Price	$250,121	$245,000	2.09% ▲	$255,000	$250,000	2% ▲
Median Days on Market	66	57	15.79% ▲	51	55	-7.27% ▼
Average Listing Price	$390,055	$361,464	7.91% ▲	$397,155	$384,912	3.18% ▲
Average Selling Price	$372,489	$344,987	7.97% ▲	$381,309	$368,596	3.45% ▲
Average Days on Market	90	82	9.76% ▲	79	85	-7.06% ▼
List/Sell Price Ratio	96.9%	96.1%	0.84% ▲	97.1%	96.5%	0.6% ▲

- The following chart from Berkshire Hathaway Home Services shows the total number of Connecticut single family homes for sale in October 2017 distributed by list price:

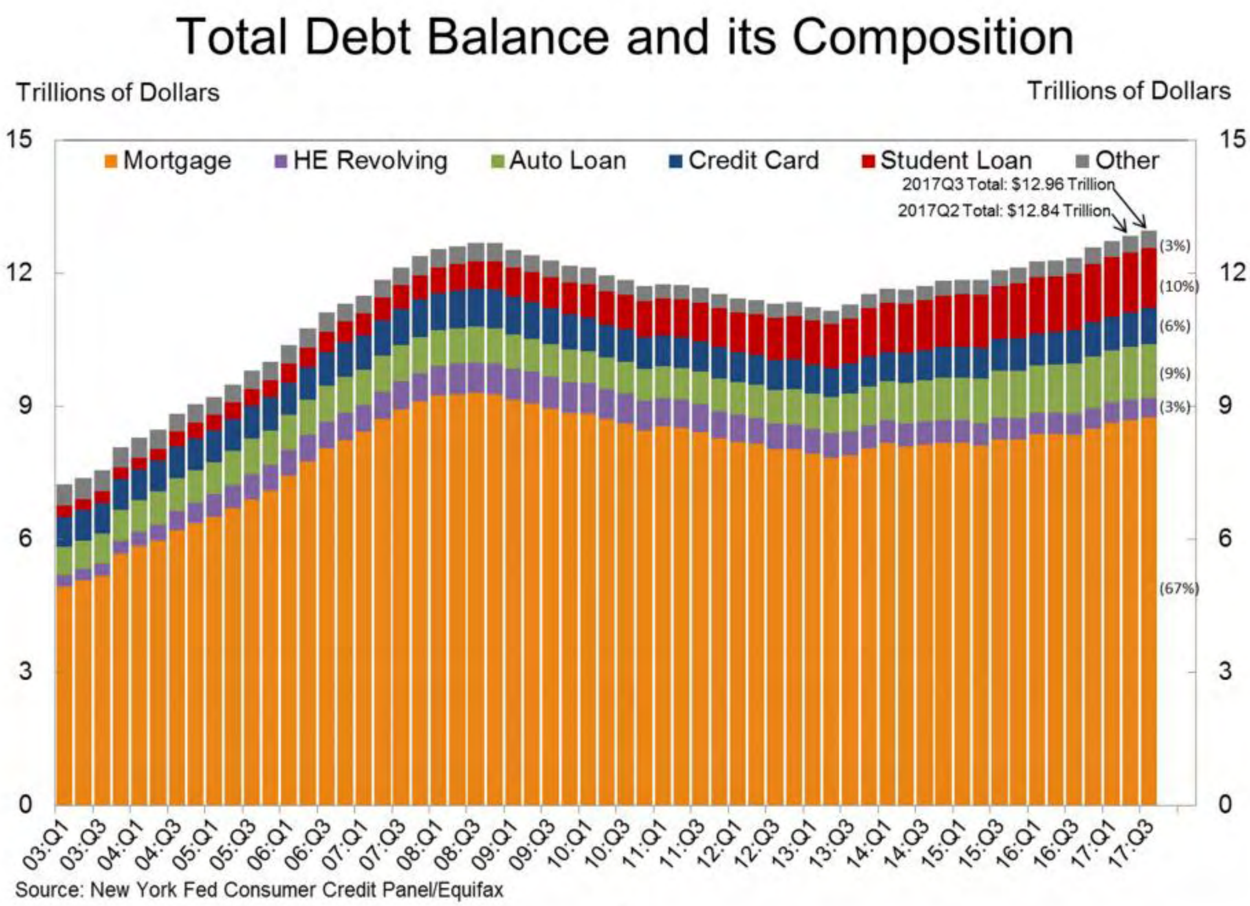
Consumers

- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output. The Commerce Department reported that advance retail sales increased a modest 0.2 percent in October 2017 from the previous month. On an annual basis, retail sales grew by 4.6 percent compared with October 2016.

- Gains were broad-based with month over month growth in a number of major categories, including increased sales at automobile dealers, clothing stores, furniture stores, electronics and appliance stores, restaurants and sporting goods stores.
- In contrast, receipts at gasoline stations fell 1.2 percent after growing 6.4 percent in September. Declines were also observed in purchases of building materials and for online retailers.

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 third quarter of 2017. As of September 30, 2017, overall debt – including mortgages, auto loans and student loans – hit a record $12.96 trillion. This increase put overall household debt $280 billion above its peak in the third quarter of 2008, and 16.2 percent above its trough in the second quarter of 2013. Aggregate household debt balances have now increased in 13 consecutive quarters.
- The New York Federal Reserve also noted that mortgage balances, the largest component of household debt, increased again during the third quarter. Mortgage balances shown on consumer credit reports on September 30 stood at $8.74 trillion, an increase of $52 billion from the second quarter of 2017. Balances on home equity lines of credit (HELOC) have been slowly declining, dropping $4 billion from the second quarter and now stand at $448 billion. Non-housing balances, which have been increasing steadily for nearly six years, were up again in the third quarter, rising $68 billion. Auto loans grew by $23 billion and credit card balances increased by $24 billion, while student loan balances saw a $13 billion increase.
- The Federal Reserve Bank of New York also reported that aggregate delinquency rates increased slightly in the third quarter of 2017. As of September 30, 4.9 percent of outstanding debt was in some stage of delinquency. Of the $630 billion of debt that is delinquent, $408 billion is seriously delinquent (at least 90 days late or "severely derogatory"). Flows into delinquency deteriorated for some types of debt. The flow into 90+ delinquent for credit card balances has been increasing notably for one year, and that measure for auto loans has increased, and the flow into 90+ delinquency for auto loan balances has been slowly increasing since 2012.
- About 208,000 consumers had a bankruptcy notation added to their credit reports in 2017Q3, a slight improvement over the same quarter last year.

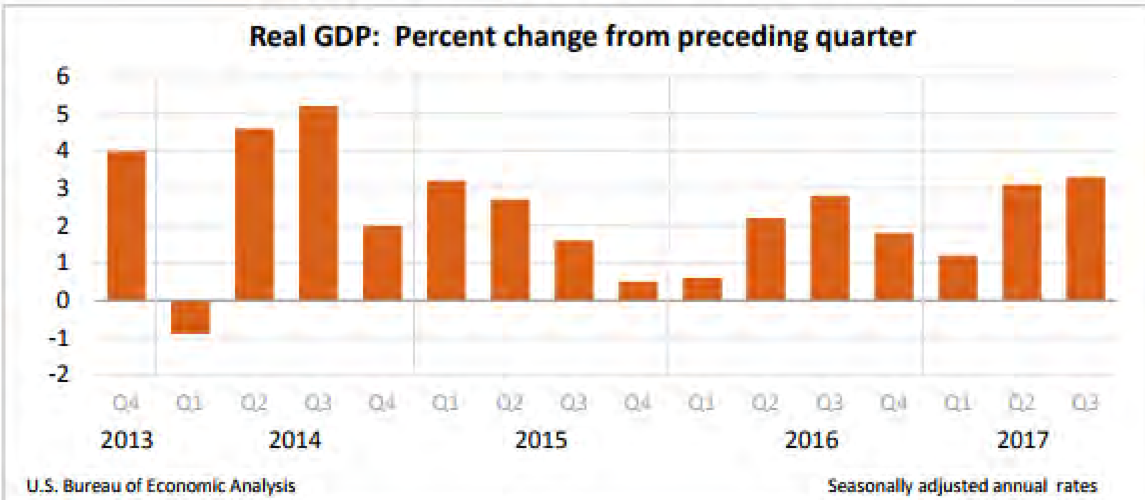


- Americans have also dramatically reduced their savings in recent years. According to the Bureau of Economic Analysis (BEA) the personal-saving rate increased modestly to 3.2 percent in October from 3 percent in the previous month. However, this is down from a recent peak of 6.3 percent in October 2015 and not far off from prerecession lows.
- The higher debt levels and lower savings point to U.S. wage gains that are not keeping up with consumers' needs and desires to spend. This also signals a more uncertain outlook for future consumer spending gains.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through September 2017. As can be seen there is a pronounced downward trend over the period. It should be noted that the U.S. Personal Saving Rate does not include capital gains from the sale of land or financial assets in its estimate of personal income. This effectively excludes capital gains – an important source of income for some.

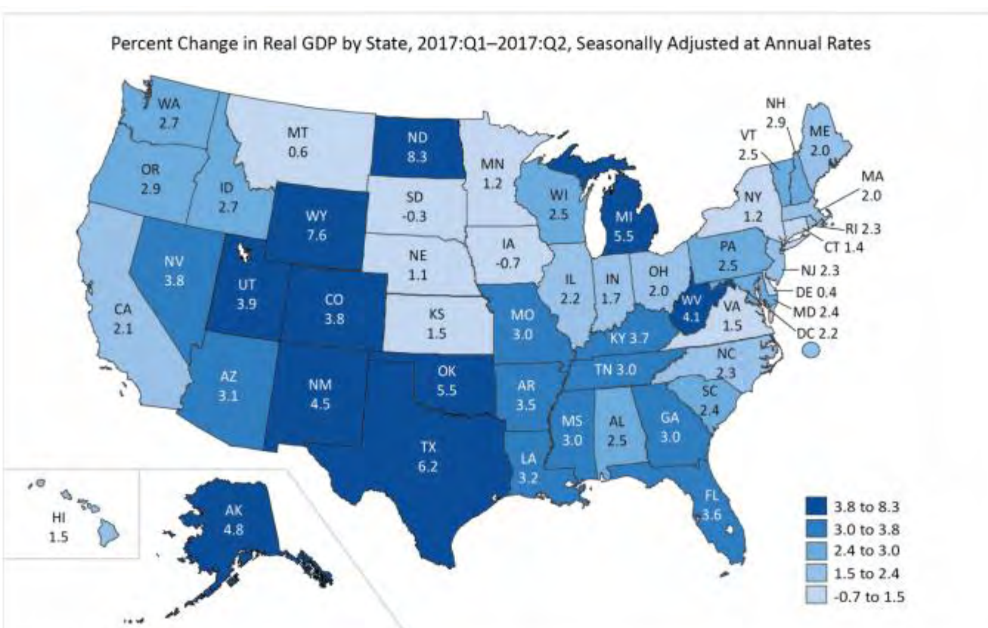
- The U.S. consumer confidence index (CCI), published by the Conference Board, is an indicator designed to measure consumer confidence. This is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.
- The Conference Board reported that consumers' assessment of current economic conditions improved again in November 2017. The Index now stands at 129.5, up from 126.2 in October. Consumer confidence increased for a fifth consecutive month and remains at a 17-year high, which the Conference Board attributed to optimism about further improvements in the national labor market.

Business and Economic Growth

- According to a Nov. 29 release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product increased at an annual rate of 3.3 percent in the third quarter of 2017 based on BEA's second estimate. The economy continued to show resilience despite concerns that the major hurricanes in August and September would dampen economic output. In the second quarter, real GDP increased 3.1 percent.

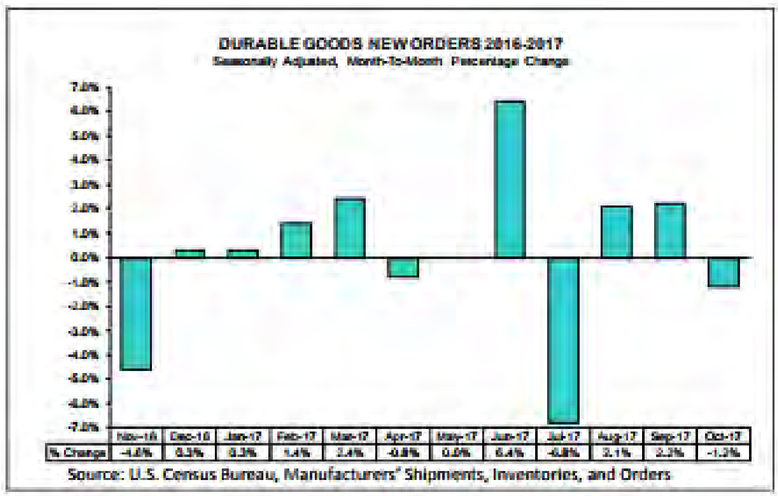


- BEA reported that the increase in real GDP in the third quarter reflected positive contributions from person consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, and exports. These increases were partially offset by negative contributions from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased in the third quarter.
- Corporate profits rose 4.3 percent between the second and third quarter and grew 5.4 percent in the third quarter compared to the same period a year ago.
- In a November 21st report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by State for the second quarter of 2017. Connecticut experienced a seasonally adjusted annual growth rate of 1.4 percent, which ranked 43rd in the nation overall. Connecticut's growth rate was the lowest in the New England region, which had an average Real GDP annualized growth rate of 1.9 percent.



U.S. Bureau of Economic Analysis

- According to a Nov. 22 report by the U.S. Department of Commerce, new orders for manufactured durable goods in October decreased \$2.8 billion or 1.2 percent to \$236.0 billion. The decrease follows two consecutive monthly increases, including a 2.2 percent growth in September. The overall decline was large driven by transportation equipment, especially decreased orders for new commercial airliners, which can be a volatile category from month to month. Excluding transportation, new orders increased 0.4 percent.



- The Nov. 24 Markit Flash Purchasing Manager's Index (PMI) reported that November data pointed to another solid increase in U.S. private sector output, supported by sustained growth in both manufacturing and services activity. Note any index rating above 50 signals growth. However, Markit noted that November's expansion was slower than the growth recorded in October.

Key findings:

- Flash U.S. Composite Output Index at 54.6 (55.2 in October). 4-month low.
- Flash U.S. Services Business Activity Index at 54.7 (55.3 in October). 4-month low.
- Flash U.S. Manufacturing PMI at 53.8 (54.6 in October). 2-month low.
- Flash U.S. Manufacturing Output Index at 54.3 (54.6 in October). 2-month low.

Data collected November 13-22

CBIA: 2017 Third Quarter Economic and Credit Availability Survey.

On Nov. 20, the Connecticut Business and Industry Association (CBIA) released its 2017 Third Quarter Economic and Credit Availability Survey. CBIA noted that Connecticut businesses reported a mixed outlook for their firms.

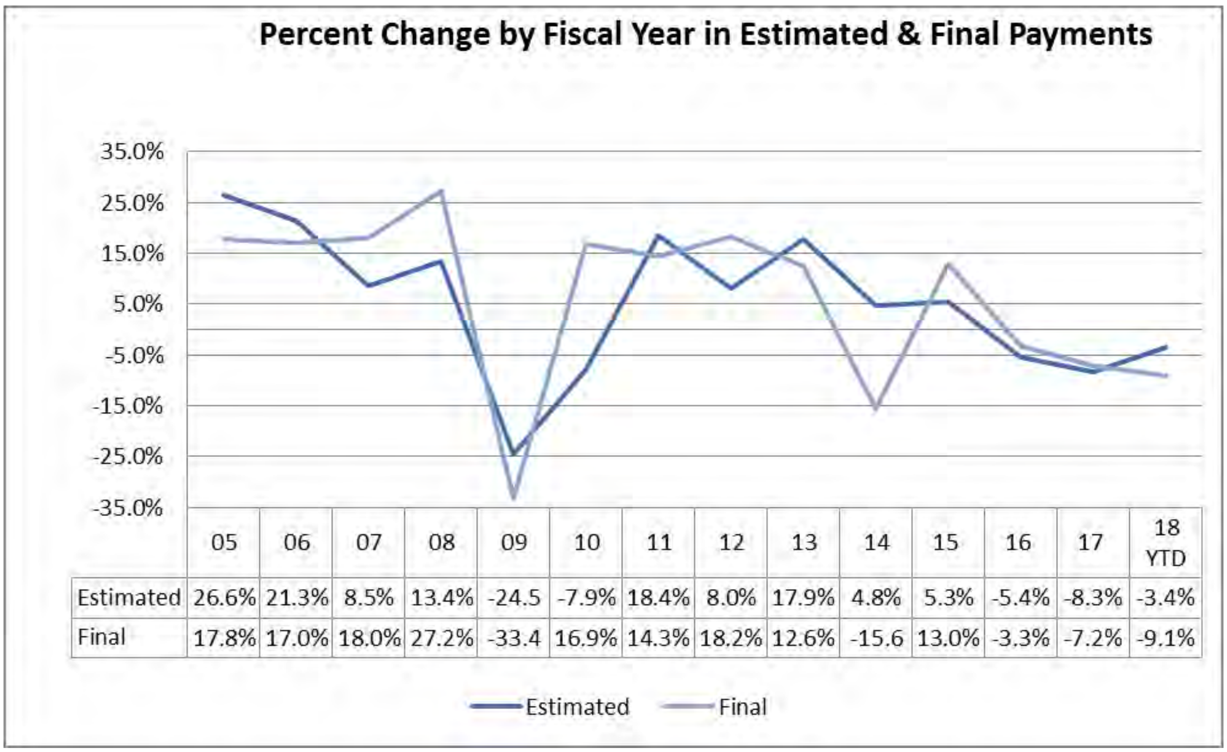
Key results include:

- A total of 37 percent of respondents anticipate improved conditions for their firm, up from 29 percent in the second quarter.
- Twenty-four percent predicted worsening conditions, an increase of 10 percent from the last quarterly survey.
- Forty percent of businesses surveyed forecasted stable conditions, down from 57 percent.
- Manufacturing firms had a positive point of view, with 43 percent reporting a positive outlook, compared with 20 percent who were pessimistic.
- In terms of hiring, 21 percent of businesses expected growth in their workforces, down from 23 percent in the previous quarter. The percentage of firms expecting to shrink their workforces increased five points to 17 percent. Sixty-three percent anticipated no change, down 3 points.
- Credit availability remained excellent, with 88 percent of firms reporting access to credit was not a problem.

Both the percentage of business expecting improved conditions and those with a negative outlook rose in the third quarter.

Stock Market

- Estimated and final income tax payments account for approximately 35 to 40 percent of total state income tax receipts. Both the estimated and final payments had a negative rate of growth in both Fiscal Years 2016 and 2017.
- The bulk of the estimated and final payment receipts for Fiscal Year 2018 will be collected between September and the end of the Fiscal Year. Therefore, September 2017 represented the first significant collection period for quarterly estimated tax filings and the initial results were not encouraging. Compared with the prior fiscal year, estimated and final payment receipts came in a combined 4.9 percent lower for the first four months of FY 2018. The year-to-date changes for the two separate components are presented in the graph below. Through October of 2016, estimated and final payments totaled $532.8 million versus $506.9 million through October 2017.



	05	06	07	08	09	10	11	12	13	14	15	16	17	18 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%	-3.4%
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%	-9.1%

- Shifts in equity portfolio allocations following the presidential election and a run-up in equity values have not resulted in capital gains related revenue increases for the state.
- The potential for lower federal capital gains tax rates has remained unclear since the presidential election and investors may have been unwilling to take large gains in this

environment of uncertainty. In addition, investors are increasingly using tax efficient vehicles such as Exchange Traded Funds (ETFs) that don't generate as a large a number of taxable gains transactions. Assets in these investments rose from $450 billion in 2008 to almost $2.8 trillion today.

- Both the Dow Jones Industrial Average and the Nasdaq Composite Index are showing significant year-to-date gains in calendar 2017.

DOW

NASDAQ

END