News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $245.7-MILLION SURPLUS FOR FISCAL YEAR 2019

Comptroller Kevin Lembo announced today that, following an increased consensus revenue forecast, he is projecting a larger surplus for Fiscal Year 2019 of approximately $245.7 million.

In a letter to Gov. Dannel P. Malloy, Lembo said that his office is projecting a slightly smaller surplus than what the state Office of Policy and Management (OPM) is projecting due to Lembo's higher estimate for spending on legal claims.

The latest consensus forecast by OPM and the state legislature's nonpartisan Office of Fiscal Analysis increased anticipated state revenue by $85 million over what was projected in October. OPM also reported a small net expenditure increase of approximately $2 million. Lembo said the most significant revenue changes included an increase in the withholding portion of the personal income tax of approximately $90.8 million, and an increase in casino gaming payments of $20 million due to better-than-expected results in light of new interstate competition. Changes in estimated refunds of taxes and the earned income tax credit also resulted in a net decrease of $18.1 million.

"The withholding portion of the income tax continues to perform well year-to-date, in line with job gains in recent months," Lembo said. "The stock market, after a tumultuous October, continued to experience volatility through November. Estimated and final income tax payments are, so far, still ahead of last year's pace and collections are exceeding Fiscal Year 2019 budget targets. My office will be monitoring receipts closely through December and January, the next critical time period for those quarterly payments."

The state's new statutory revenue volatility cap, which Lembo advocated for, now requires that revenues above a certain threshold be transferred to the Budget Reserve Fund (BRF). Here are the latest projections related to the BRF:

- The current balance of the BRF is $1.18 billion.
- For Fiscal Year 2019, the cap is $3.196 billion for estimated and final income tax payments and revenue from the newly enacted Pass-Through Entity Tax.
- If current projections are realized, a $648 million volatility transfer would be made to the BRF.
- Adding the estimated transfer to the BRF, as well as the anticipated surplus of $245.7 million, would bring the year-end balance of the BRF to just under $2.1 billion (about 10.9 percent of the General Fund expenditures).

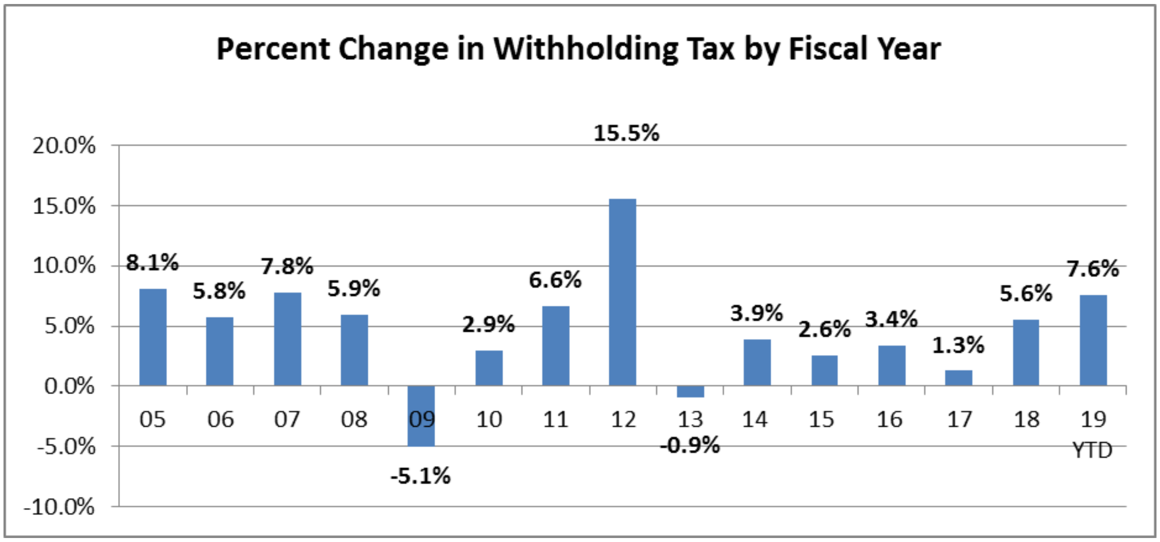
"This would certainly be a significant improvement from the recent past," Lembo said. "However, the economic recovery is currently in its ninth year, as OFA noted in its recent Fiscal Accountability Report, a long period of time by historical standards. In a recent survey of economists by Reuters, the respondents' median probability of recession over the next two years edged up to 35 percent from 30 percent, as the economy begins facing stronger headwinds on a number of fronts.

"While predicting the timing of recessions can be notoriously difficult, the lesson for Connecticut policy makers should be clear: State government should maintain spending discipline and continue building the balance in the Budget Reserve Fund to protect against the inevitable downturn whenever it comes. For this reason, my office has traditionally recommended the BRF reach a level of 15 percent of General Fund spending.

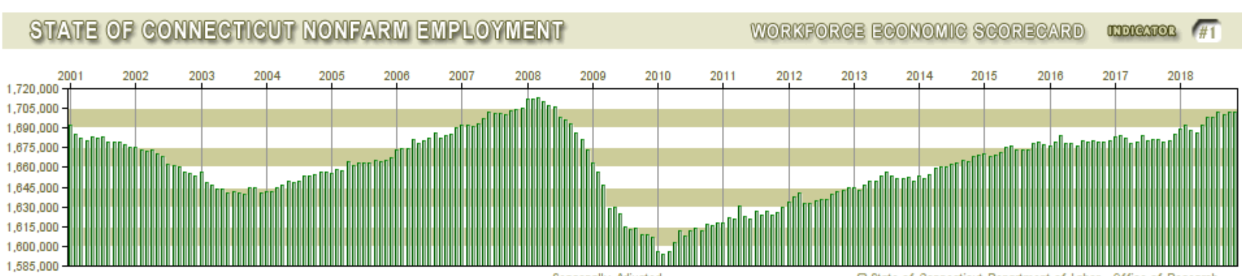
"Connecticut's overall budget results are ultimately dependent upon the performance of the national and state economies," Lembo said, pointing to the latest economic indicators from federal and state Departments of Labor (DOL) and other sources that show:

Employment

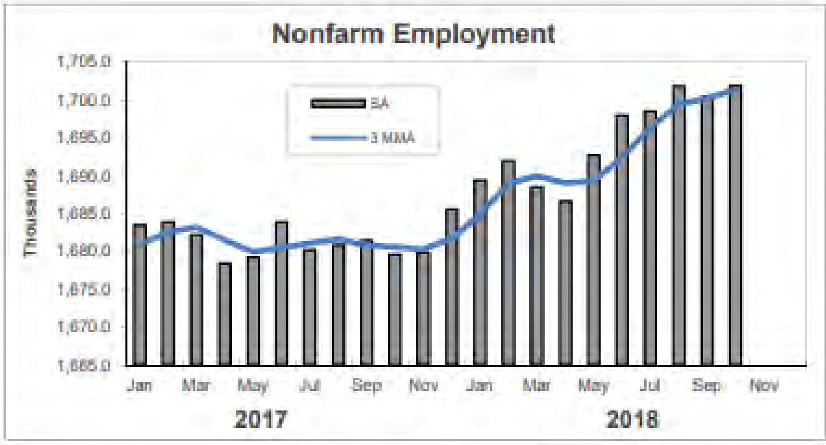
- After a strong performance in FY 2018, preliminary results for FY 2019 through October 2018 show withholding receipts grew by a nominal 10.6 percent compared with the corresponding period in the prior fiscal year. This growth is somewhat overstated due to an extra calendar day of deposit activity in Fiscal Year 2019. Adjusting for this difference and screening out revenue accrual activity reduces the FY 2019 year-to-date growth to closer to 7.6 percent. This positive development likely reflects more robust job gains in recent months combined with some preliminary indications of accelerating wage growth.



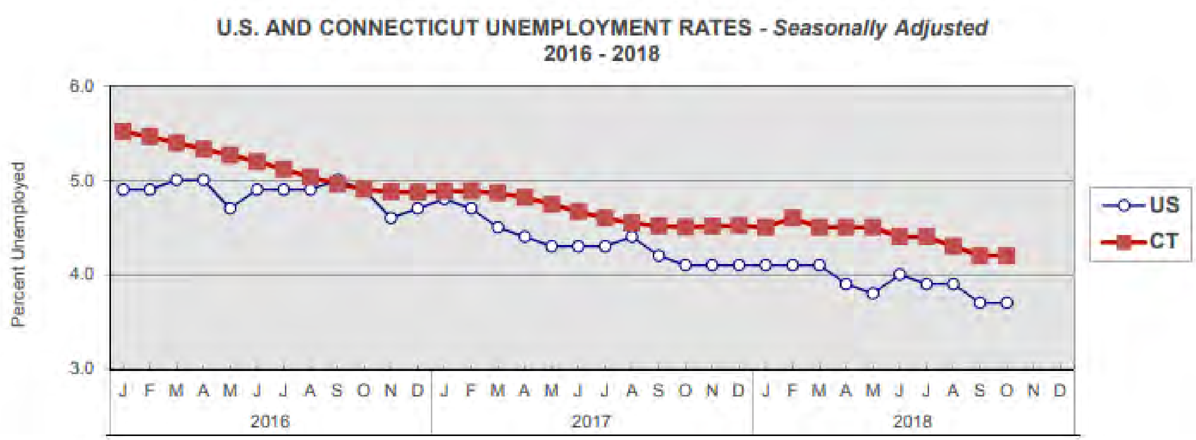
- For comparison purposes, the recently released November consensus revenue forecast from the OPM and OFA is based on withholding receipts growing by approximately 4.1 percent over FY 2018 realized amounts. This early in the fiscal year, the Office of the State Comptroller agrees a conservative approach is warranted for this forecast.
- On Nov. 15, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for October 2018 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 1,500 net jobs in October, to a level of 1,701,900, seasonally adjusted. However, September's originally-released job loss of 500 was revised down by 900 to a loss of 1,400 jobs over the month. Therefore, October's job gains offset the losses experienced in September, with a net gain of only 100 for the two month period.



- The sectors that gained the most jobs in the month of October 2018 were financial activities (+900) and professional & business services (+700). The largest monthly job losses in October were in the trade, transportation & utilities sector (-400).
- Over the year, DOL reported that nonagricultural employment in the state grew by 22,300 jobs on a seasonally-adjusted basis.



- Connecticut has now recovered 90.4% (107,700 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 104th month and the state needs an additional 11,400 jobs to reach an overall employment expansion.
- Connecticut's unemployment rate stood at 4.2 percent in October, unchanged from September 2018 and down three-tenths of point from a year ago when it was 4.5 percent. Nationally, the unemployment rate was 3.7 percent in October 2018, unchanged from September. The chart below shows a comparison of the Connecticut and U.S. unemployment rates over the past three calendar years.



- DOL reports that October 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut grew by 50 claimants (1.7%) to 3,064 from September 2018 and were lower by 459 claims (-13.0%) from the October 2017 level of 3,523.

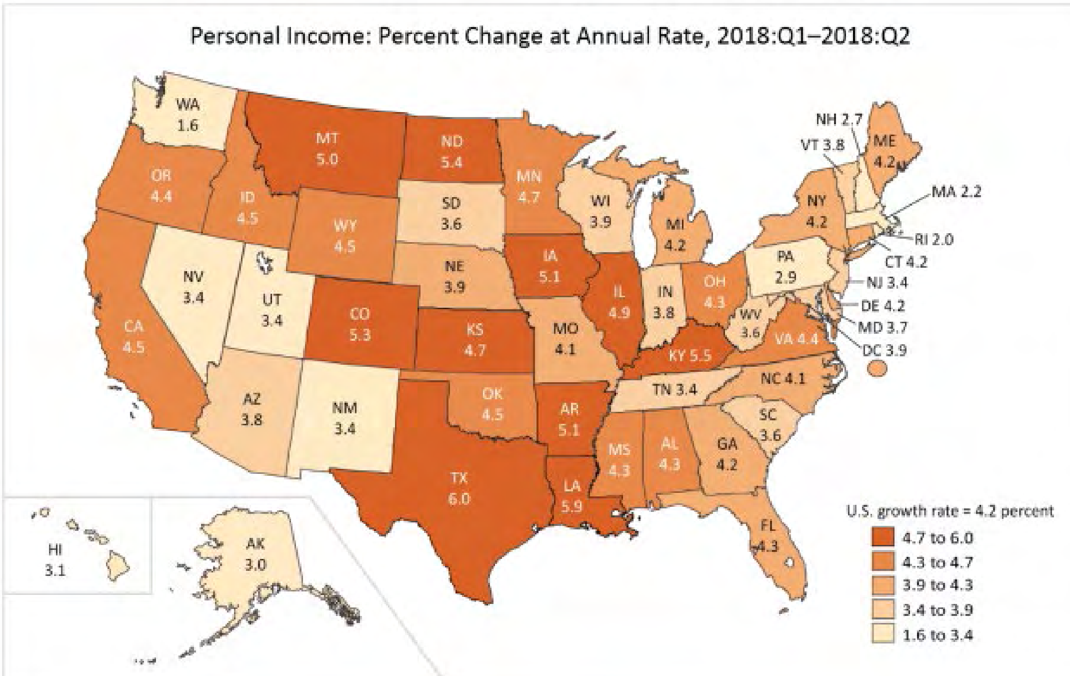
- Among the major job sectors listed below, seven experienced gains, and three experienced losses in October 2018 versus October 2017 levels. Construction, leisure & hospitality and manufacturing were the fastest growing sectors in the state's labor market on a percentage basis. The information and government sectors experienced the largest losses.

Payroll Employment Trend				
Jobs in thousands				
Sector	**10/18 (P)**	**10/17**	**Gain/Loss (000's)**	**% Change**
Construction	62.9	59.0	3.9	6.6%
Manufacturing	164.7	160.4	4.3	2.7%
Transp. & Public Utilities	295.8	297.4	-1.6	-0.5%
Information	30.5	31.1	-0.6	-1.9%
Financial	129.7	127.6	2.1	1.6%
Prof. & Business Svc.	223.0	217.7	5.3	2.4%
Education & Health Svc.	341.9	335.4	6.5	1.9%
Leisure & Hospitality	159.5	154.9	4.6	3.0%
Other Services	65.5	64.3	1.2	1.9%
Government	227.8	231.2	-3.4	-1.5%
Total Connecticut Non-Farm Employment	**1,701.9**	**1,679.6**	**22.3**	**1.3%**

Wage and $alary income

- October 2018 average hourly earnings at $32.34, not seasonally adjusted, were up $0.87 or 2.8 percent, from the October 2017 estimate. The resultant average private sector weekly pay amounted to $1,109.26, up $36.13 or 3.4 percent higher than a year ago. 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 October 2018 was 2.5 percent.
- On Sept. 25, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 4.2 percent annual rate between the first and second quarters of 2018. Based on this result, Connecticut ranked 22nd in the nation for second-quarter income growth. This growth rate was equal to the national average, but represented the strongest performance in the New England region for the period.

- The percent change in personal income across all states ranged from 6.0 percent in Texas to 1.6 percent in Washington. State personal income for the third quarter 2018 is scheduled to be released Dec. 20.



Housing

- A Nov. 27 release by the Federal Housing Finance Agency (FHFA) reported housing price appreciation statistics by state for the period ending September 30, 2018. FHFA's Housing Price Index (HPI) tracks changes in home values for individual properties owned or guaranteed by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Over the past year, Connecticut home prices continued to grow more slowly than most of the nation. Connecticut homes appreciated only 2.20 percent for the year, which ranked 47th in the nation overall. The U.S. average appreciation for the period was 6.34 percent and the New England region's average was 4.88 percent. A comparison of five-year housing prices showed similar results: Single family houses in Connecticut appreciated 7.12 percent for the period versus a 32.69 percent increase for the nation as a whole and an increase of 22.19 percent for the New England Region.

- A separate measure by Berkshire Hathaway HomeServices reported results for the Connecticut housing market for October 2018 compared with October 2017. Sales of single family homes fell 2.37 percent, while the median sale price rose 2.0 percent. New listings increased by 0.42 percent in Connecticut and the median list price increased by 0.43 percent to $259,900 from a year ago. Average days on the market decreased 16.85 percent in October 2018 compared to the same month in the previous year (74 days on average, down from 89 days). Finally, the list to sell price rose slightly to 97.1 percent, compared with 97.0 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

OCTOBER 2018 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	October 2018	October 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	4259	4241	0.42% ▲	49835	51193	-2.65% ▼
Sold Listings	2879	2949	-2.37% ▼	30011	30654	-2.1% ▼
Median Listing Price	$259,900	$258,800	0.43% ▲	$269,900	$259,900	3.85% ▲
Median Selling Price	$255,000	$250,000	2% ▲	$265,000	$255,000	3.92% ▲
Median Days on Market	52	65	-20% ▼	63	51	23.53% ▲
Average Listing Price	$363,419	$386,447	-5.96% ▼	$400,601	$395,790	1.22% ▲
Average Selling Price	$349,768	$369,298	-5.29% ▼	$385,796	$380,193	1.47% ▲
Average Days on Market	74	89	-16.85% ▼	87	79	10.13% ▲
List/Sell Price Ratio	97.1%	97%	0.13% ▲	97.5%	97.1%	0.44% ▲

- For the U.S. overall, the National Association of Realtors (NAR) reported existing-home sales increased in October after six straight months of decreases. Three of four major U.S. regions saw gains in sales activity in October. Total existing-home sales (defined as completed transactions that include single-family homes, townhomes, condominiums and co-ops) increased 1.4 percent from September to a seasonally adjusted rate of 5.22 million in October. Sales are down 5.1 percent from a year ago (5.5 million in October 2017).
- According to NAR, the median existing-home price for all housing types in October was $255,400, up 3.8 percent from October 2017 ($246,000). October's price increase marks the 80th straight month of year-over-year gains. In addition, total housing inventory at the end of October decreased from 1.88 million in September to 1.85 million existing homes available for sale. However that represents an increase from 1.80 million a year ago. Unsold inventory is at a 4.3-month supply at the current sales pace, down from 4.4 last month and up from 3.9 months a year ago.
- Recent news articles have pointed to U.S. housing prices growing faster than wages, combined with rising interest rates and lower levels of housing inventory. Another factor affecting the market is a phenomenon known as "rate lock." As interest rates

rise, home owners with lower mortgage rates may choose to stay in their current homes instead of looking to sell.

Stock Market

- After a steady rise and strong gains throughout calendar 2017, the Dow Jones Industrial Average (DOW) reached its earlier year peak in late January 2018. For several intervening months, there was significant turbulence and uncertainty in the stock market.
- A number of issues caused concerns for investors, including worries about inflation and rising interest rates; fears about an escalating trade war as the United States announced tariffs on products like steel and aluminum and threated to impose trade sanctions on China and other countries; apprehensions about rising bond yields that may cause investors to move from stocks to lower risk bonds; and general concerns that stocks may be over-valued and due for a correction.
- By early October 2018, investors appeared to have shaken off their concerns and the DOW had climbed back and reached a new high, closing at 26,828.39 on Oct. 3.
- Since then volatility has returned in force and continued through November 2018. Investors have experienced renewed fears of inflation, rising interest rates and slowing economic growth. In addition, ongoing concerns about rising trade tensions with China have increased uncertainty for the market. Finally, worries about future growth prospects for the technology sector and the effects of declining oil prices on energy sector have taken their toll in recent weeks.
- By the Friday after Thanksgiving, the NASDAQ composite index had given back nearly all the gains made in calendar 2018 while both the DOW and S&P 500 index fell back into negative territory for the year. The following week stocks rallied after the Federal Reserve Chairman Jerome Powell signaled the Fed might raise rates more modestly in 2019 than investors had feared. Stock market activity for the past year is illustrated on the three charts that follow:

DOW


1 year
Daily market report
Add ticker
Chart
26,500
26,000
25,500
25,000
24,500
24,000
1 YEAR CHANGE 4.49%
Nov
+3.25%
Jan 2018
-2.25%
May 2018
+7.46%
Sep 2018
-2.33%

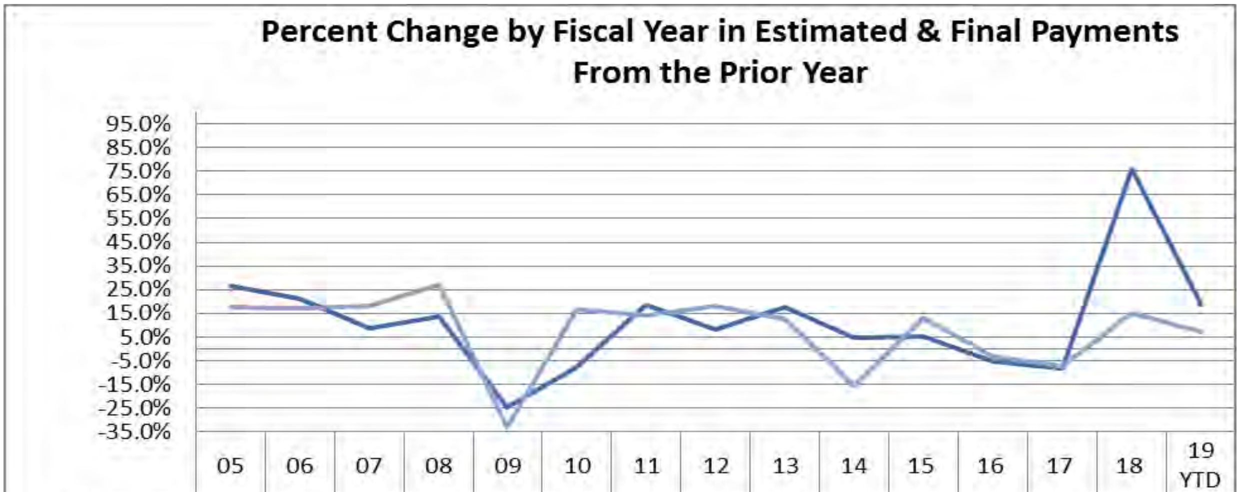
NASDAQ


1 year
Daily market report
Add ticker
Chart
8,000
7,750
7,500
7,250
7,000
6,750
1 YEAR CHANGE 6.25%
Nov
+1.16%
Jan 2018
+2.36%
May 2018
+14.76%
Sep 2018
-9.94%

S&P 500 INDEX

- 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 to 40 percent of total state income tax receipts, but can be an extremely volatile revenue source. For example, both estimated and final payments had negative growth rates in Fiscal Years 2016 and 2017.
- In contrast, both categories experienced strong positive growth in FY 2018, partly due to changes in federal tax provisions. FY 2018 year-end results showed estimated payments growing by 76 percent fiscal year-to-date compared with the prior year, representing an increase of over $1.2 billion. Final payments grew by $239 million or 15.3 percent over the same period a year ago.
- The full impact of a separate Federal tax change, specifically related to limits on State and Local Tax (SALT) deductions, has not yet been fully felt by Connecticut residents. The implications of the $10,000 limit on SALT deductions will become more apparent when state residents begin filing their 2018 federal tax returns early next year. It is likely many Connecticut taxpayers will face a higher federal tax burden.

- Preliminary indications for the first four months of FY 2019 show that estimated payments are running ahead of budget targets. Through October 2018, combined collections of estimated and final payments were 15.8 percent higher than the same period a year ago. However, due to the reemergence of volatility and recent drops in the stock market, these revenue categories will need to be monitored closely in the coming months.



	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19 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%	18.5%
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%	7.2%

Consumer Spending

- 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 U.S. advance retail sales rebounded sharply in October 2018, increasing 0.8 percent to $511.5 billion. Analysts believe the growth was partly due to rebuilding and recovery efforts in the wake of Hurricane Florence. For example, auto sales jumped 1.1 percent in October as residents in affected areas replaced cars. In addition, sales at building supply stores increased 1.0 percent over the previous month.
- Sales at clothing stores gained 0.5 percent after rising 0.8 percent in September. Online and mail-order sales rose 0.4 percent in October after growing 1.3 percent in the prior month. Service station sales rose 3.5 percent, likely reflecting higher gasoline prices, while furniture store receipts fell 0.3 percent.
- Core retail sales rose 0.3 percent in October. This category excludes sales of automobiles, gasoline, building materials and food services. Analysts believe core

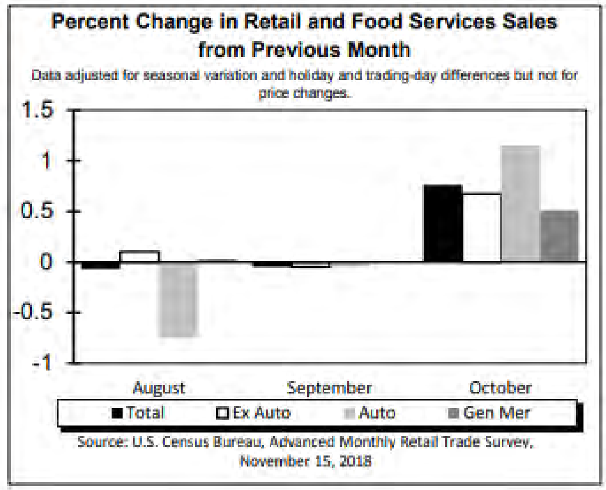
retail sales correspond most closely with the consumer spending component of gross domestic product.

ADVANCE MONTHLY SALES

October 2018	$511.5 billion	0.8%
September 2018 (revised)	$507.6 billion	-0.1%*

Next release: December 14, 2018

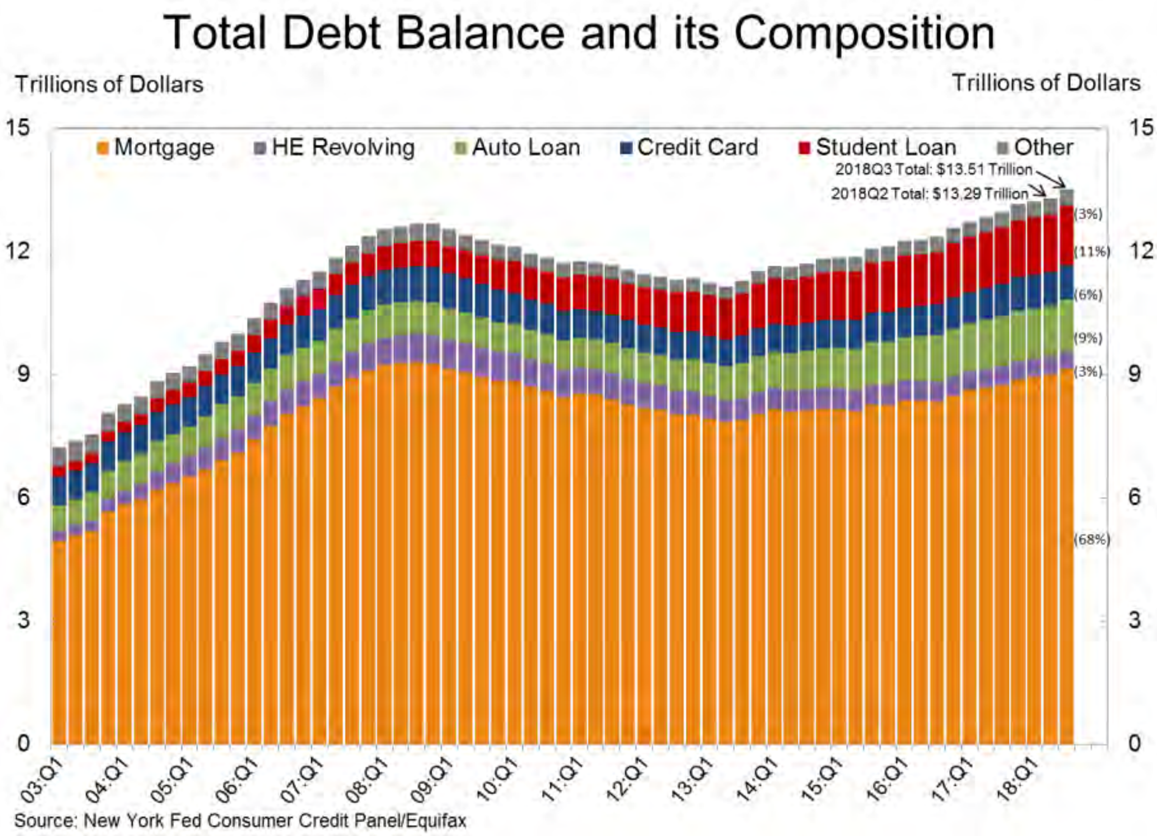
* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, November 15, 2018.



- In comparison to a year ago, the Commerce Department reported that retail sales were 4.3 percent above October 2017 levels. In addition, gas station receipts were up 16.2 percent and non-store retail sales were up 12.1 percent from a year ago.

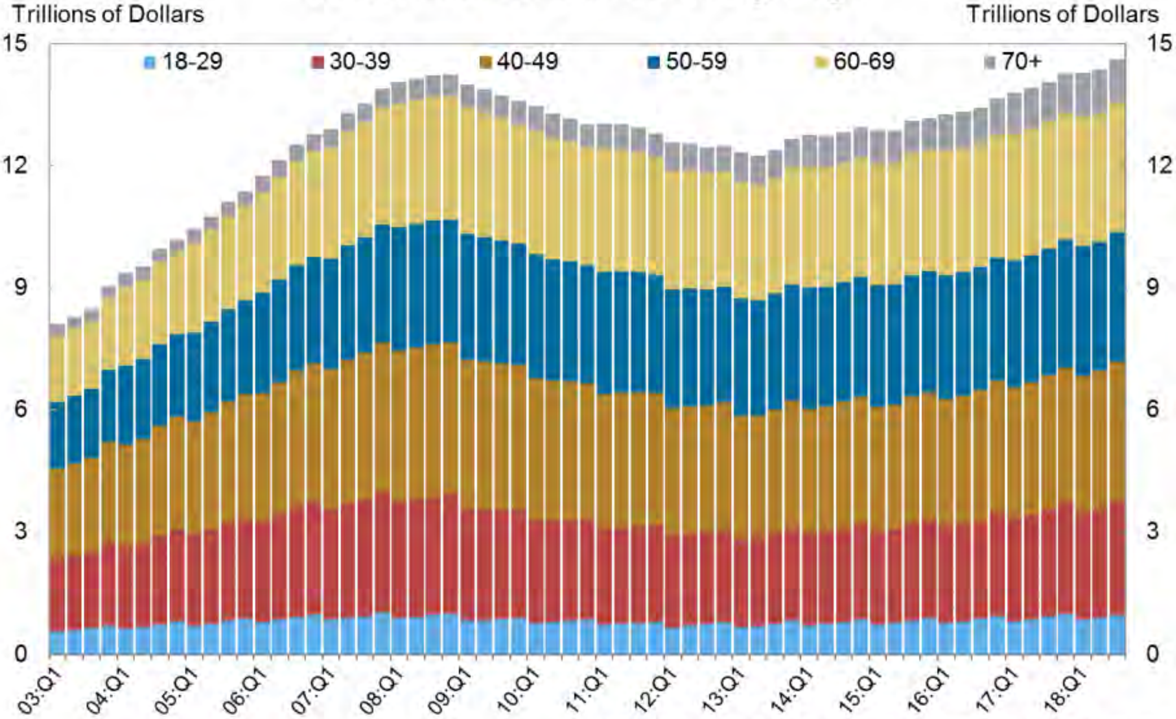
<u>Consumer Debt and Savings Rates</u>

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the third quarter of 2018. Household debt has now grown in 17 consecutive quarters. As of September 30, 2018, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.51 trillion. This represented an increase of $219 billion (1.6%) from the second quarter of 2018. In addition, overall household debt is now 21.2% above the post-financial-crisis trough (low point) reached during the second quarter of 2013.
- The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – rose by $141 billion during the third quarter, to $9.1 trillion. Balances on home equity lines of credit (HELOC), continuing their downward trend, declined by $10 billion to $422 billion, the lowest level seen in 14 years. In addition, auto loans increased by $27 billion, credit card balances grew by $15 billion and student loan balances rose by $37 billion in the third quarter.



- The Federal Reserve reported that aggregate delinquency rates worsened in the third quarter of 2018. As of Sept. 30, 4.7 percent of outstanding debt was in some stage of delinquency. This represented an increase from 4.5 percent in the second quarter, the largest jump in 7 years. Of the $638 billion of debt that is delinquent, $415 billion is considered seriously delinquent (at least 90 days late). This increase was primarily due to growth in student loan balances falling into delinquency. In the third quarter of 2018, 11.5 percent of aggregate student debt was 90+ days delinquent or in default, a substantial increase from the prior quarter. The flow into 90+ day delinquency for credit card balances has been rising for the last year while the flow into 90+ day delinquency for auto loan balances has been slowly trending upward since 2012.
- In its most recent household debt report, the Federal Reserve of New York also began including a new series of charts showing debt and repayment levels by the age of the borrower. The report noted older borrowers now hold a larger share of total outstanding debt balances, while the shares held by younger borrowers have contracted and shifted toward auto loans and student loans.

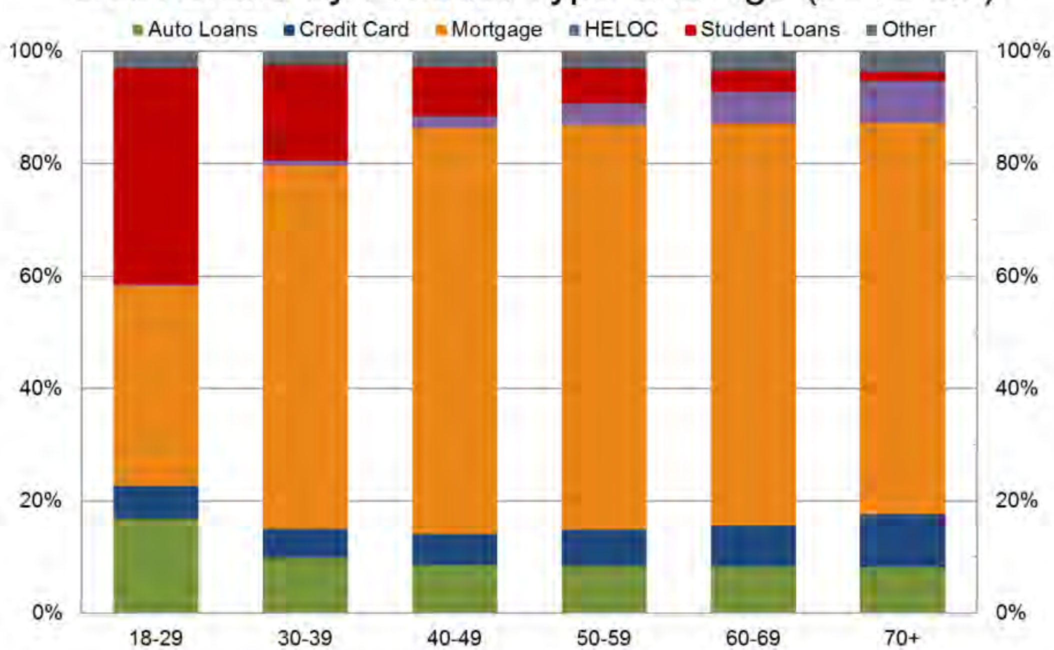
Total Debt Balance by Age



Source: New York Fed Consumer Credit Panel/Equifax

Note: Age is defined as the current year minus the birthyear of the borrower. Age groups are re-defined each year. Balances may not add up to totals due to a small number of individuals with unknown birthyears.

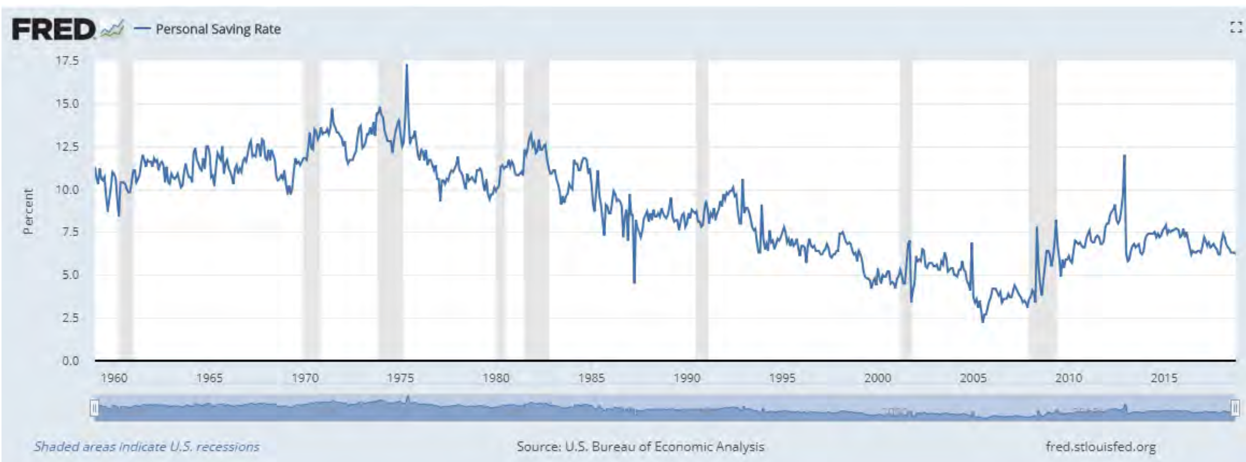
Debt Share by Product Type and Age (2018 Q3)



Source: New York Fed Consumer Credit Panel/Equifax

Note: Age is defined as the current year minus the birthyear of the borrower. Age groups are re-defined each year

- In its Nov. 29 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.2 percent in October, down slightly from September's revised rate of 6.3 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through October 2018. As can be seen, there is a general 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.



- Despite the overall improvement in the nation's economy, income inequality continues to widen as wage growth remains modest. A number of economists see the decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

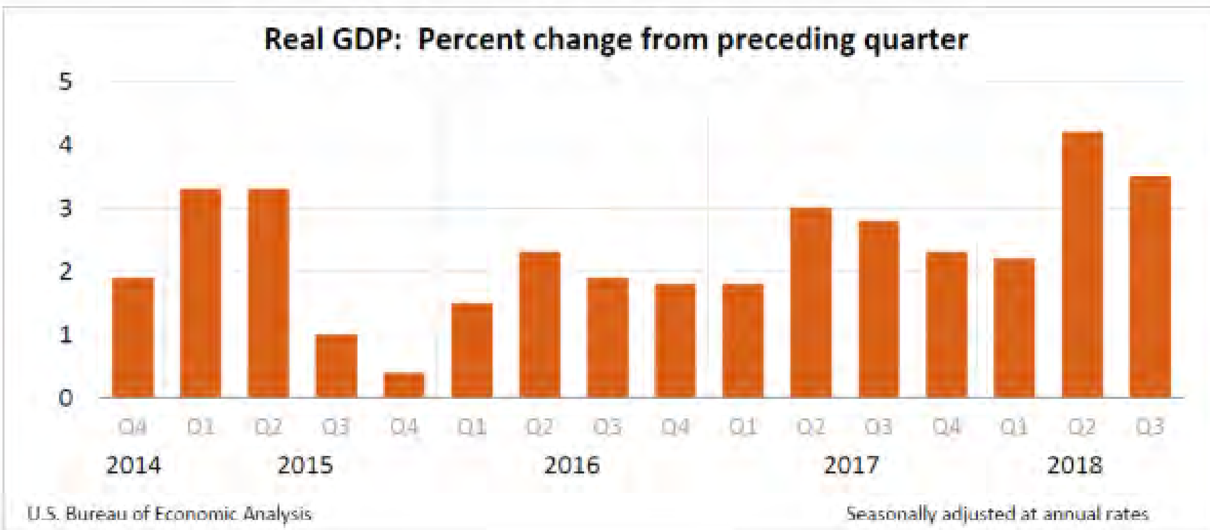
Consumer Confidence

- The U.S. consumer confidence index (CCI) is published by the Conference Board. It is an indicator designed to measure consumer confidence, which 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 the Consumer Confidence Index declined in November 2018. The Index now stands at 135.7, down from 137.9 in October. This was the first decrease in consumer confidence in five months. The Conference Board noted that confidence levels are still near historic highs, reflecting a strong job market and low levels of unemployment. Overall, consumers are still confident that economic growth will continue at a solid pace into early 2019. However, if

expectations soften further, the pace of growth could begin moderate in the months ahead.

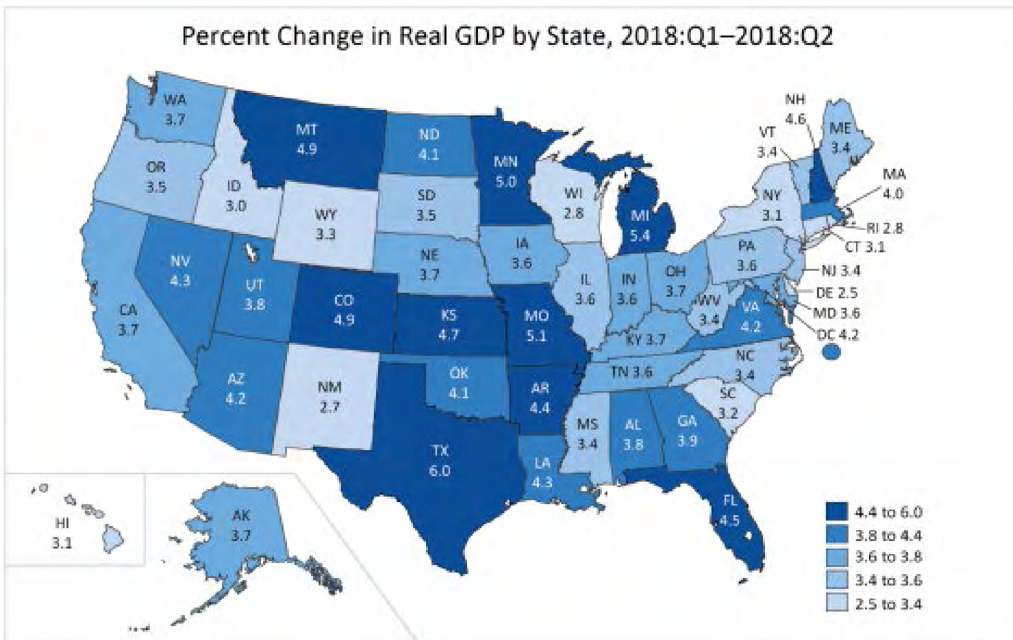
<u>Business and Economic Growth</u>

- According to a Nov. 28 report from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product grew at an annual rate of 3.5 percent in the third quarter of 2018, which represented a deceleration from the strong 4.2 percent growth in the second quarter. This was the second estimate for the quarter and it will be subject to revision as more data becomes available. First-quarter GDP growth was 2.2 percent.



- Strong consumer and government spending helped drive third quarter GDP results. BEA reported the increase in real GDP in the third quarter reflected increases in consumer spending, inventory investment, government spending, and business investment. Notable offsets were decreases in exports and housing investment. Imports, which are treated as a subtraction in the calculation of GDP, increased during the quarter.
- The decline in residential investment may be related to rising interest rates, which has hurt the housing sector. In addition, some economists warned that the significant increase in inventory in the third quarter may be partly due to companies stocking up on goods and parts from China before prices rise in January when additional tariffs are scheduled to go into effect.
- In the same release, BEA reported U.S. corporate profits increased 3.4 percent in the third quarter of 2018 after increasing 3.0 percent in the second quarter. On a year-over-year basis, corporate profits grew 10.3 percent from the third quarter of 2017, the fastest increase since 2012.

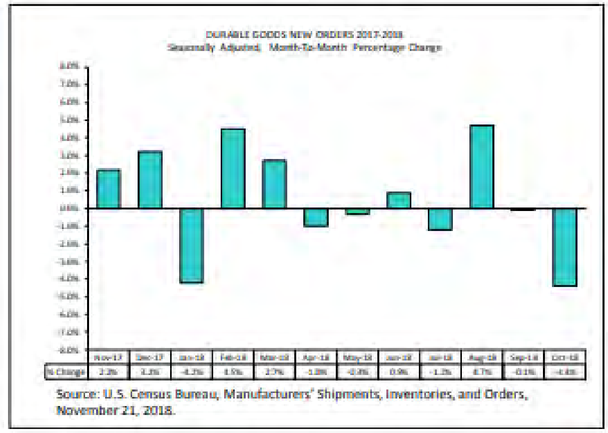
- In a November 14th report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the second quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 3.1 percent, which ranked 43rd in the nation overall. This growth rate was slower than both the national average of 4.2 percent and the New England regional average of 3.7 percent.
- BEA data indicated the sectors that contributed most to Connecticut's growth in the second quarter of 2018 were real estate and rental & leasing (+0.74%), information (0.70%) professional, technical & scientific services (+0.66%), and durable goods manufacturing (+0.41%).



U.S. Bureau of Economic Analysis

Durable Goods

- According to a November 21st report by the U.S. Department of Commerce, new orders for durable goods decreased $11.5 billion or 4.4 percent to $248.5 billion. This represented the third decrease in four months, following September's revision to a decline of 0.1 percent. Transportation equipment drove the decrease for October, falling by $11.7 billion or 12.2 percent to $84.7 billion. This was primarily due to a significant decline in orders in commercial and military aircraft, which can be volatile from month to month.



- Orders for core capital goods, a category that serves as a proxy for business investment, were flat in October after declines in both August and September. This category includes non-defense capital goods excluding aircraft. The recent weakness in investment orders has raised concerns among economists. Some analysts note that the possibility of a widening trade war between the United States and China may be causing U.S. companies to grow more cautious about committing resources to expand and modernize operations.

*****END*****