News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $594.5-MILLION DEFICIT; SAYS WAGES CONTINUE TO LAG BEHIND JOB GROWTH

Comptroller Kevin Lembo today projected a Fiscal Year 2018 deficit of $594.5 million, which is lower than earlier recent projections due to a combination of lower agency spending and a net improvement in revenues.

In his economic summary, Lembo said that while the private sector has fully recovered the number of jobs lost to the recession (unlike the public sector), wage growth has failed to keep pace. Several concerning factors have coincided with shrinking wages, as recently reported by *The New York Times*, including less competition across markets, a dramatic decline in unionization (particularly in the private sector), and other long-term implications.

In a letter to Gov. Dannel P. Malloy, Lembo said this latest monthly projection is only slightly lower than the state Office of Policy and Management's (OPM) due to a recent state settlement delay.

A likely one-time windfall in estimated and final income tax collections, totaling $4.54 billion, means that approximately $1.39 billion of income tax revenue exceeds the state's new volatility threshold. Lembo – a longtime proponent of the volatility measure – said that approximately $779.4 million will likely be transferred to the state's Budget Reserve Fund (BRF), which would bring the BRF to a total of approximately $992.3 million (about 5.25 percent of the state's General Fund budget). Lembo has long recommended that the BRF reach 15 percent to protect against a future downturn.

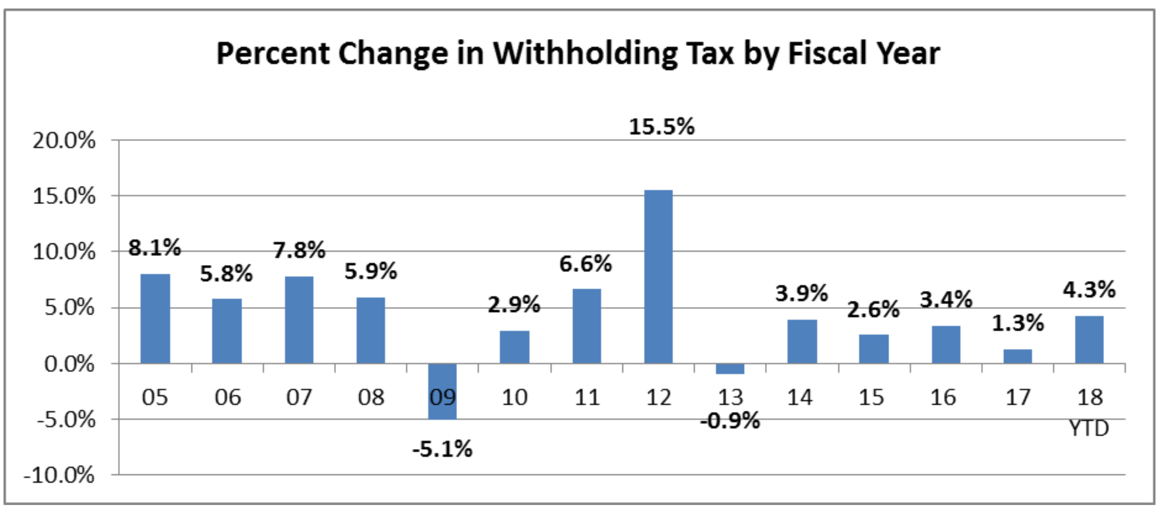
"Connecticut's budget results are ultimately dependent upon the performance of the national and state economies," Lembo said. "Recent indicators show that the State of Connecticut continues to lag behind the nation's economic recovery in key areas."

The private sector has now exceeded its pre-recessionary employment levels by 102.3 percent – however, mostly due to significant loss in government jobs, Connecticut has only recovered about 81 percent of its overall jobs lost to the recession. And while the private sector has recovered more than the number of jobs lost, Lembo said the wages attached to those jobs are weaker.

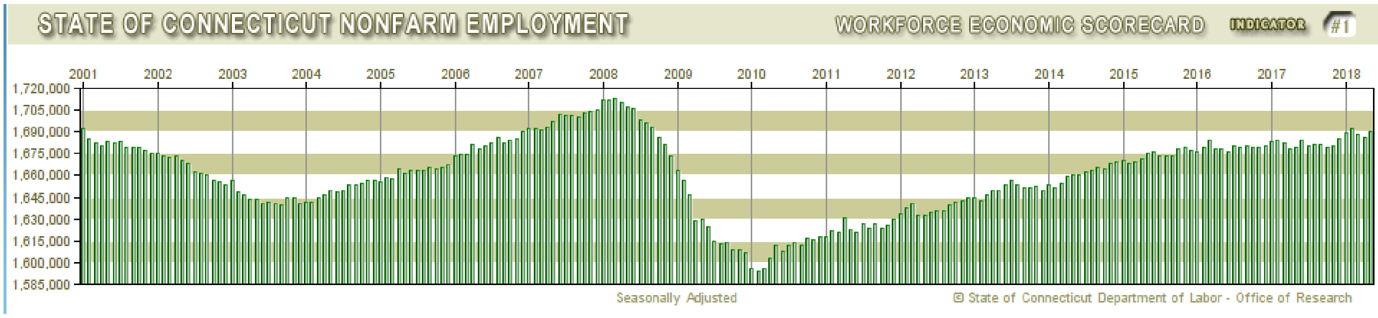
Lembo – pointing to an analysis by *The New York Times* – urged policymakers to focus on factors that have compromised wage growth and, consequentially, the state budget. He said the latest economic indicators from federal and state Departments of Labor (DOL) and other sources show:

Employment

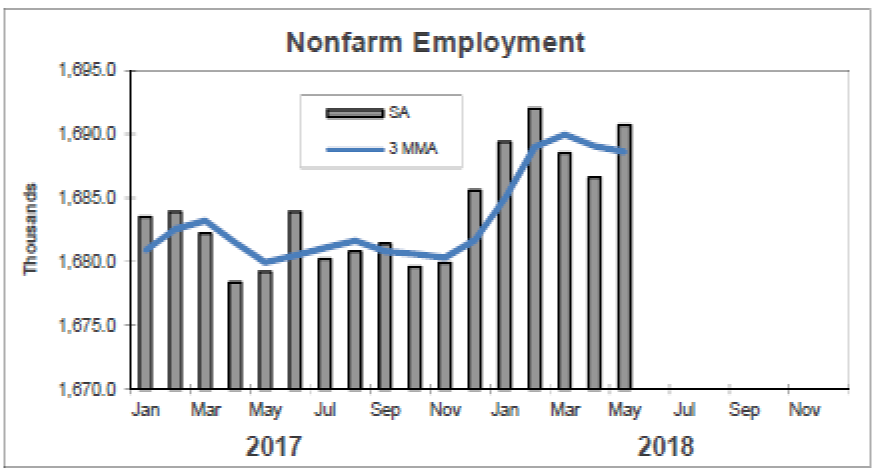
- Through the first eleven months of FY 2018, withholding receipts were up a nominal 6.4% compared with last fiscal year. However, this growth is somewhat overstated due to revenue accruals related to FY 2017 year-end. Accounting for this activity, the FY 2018 year-to-date growth in withholding collections is closer to 4.3%, which likely reflects a strong bonus season for the financial industry and modest job growth over the course of fiscal year.



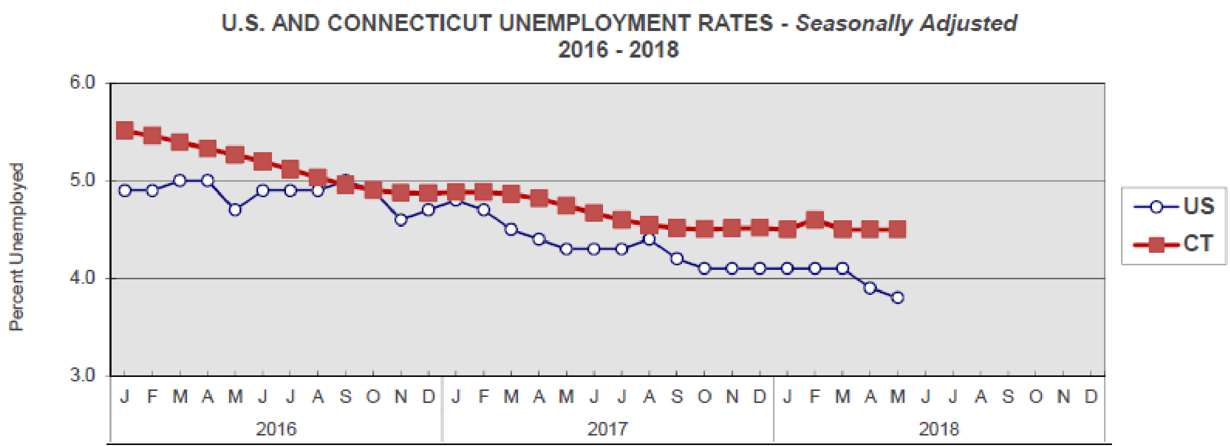
- On June 14, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for May 2018 from the business payroll survey administered by the US Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 4,100 net jobs (0.2%) in May, to a level of 1,690,700, seasonally adjusted. April's originally-released job loss of 1,400 was revised down by 500 to a loss of 1,900 over the month. May's increase followed two consecutive months of job losses.



- The largest monthly job gains in May were in retail trade (+1,900) and the financial activities sector (+400). DOL reported that both categories are now ahead of last year's pace in terms of job growth.
- Over the year, DOL reported that nonagricultural employment in the state grew by 11,500 jobs on a seasonally-adjusted basis.



- Connecticut has now recovered 81.0% (96,500 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 99th month and the state needs an additional 22,600 jobs to reach an overall employment expansion. DOL notes that private sector job growth has outpaced that of the government sector. Connecticut's private sector has recovered 102.3 percent (114,300) of private sector jobs lost in the same downturn.
- Connecticut's unemployment rate is estimated at 4.5 percent in May, unchanged from April 2018 and down two-tenths of point from a year ago when it was 4.7 percent. Nationally, the unemployment rate was 3.8% in May 2018, down one-tenth of a point from April. The chart below shows a comparison of the Connecticut and U.S. unemployment rates for the past three calendar years.



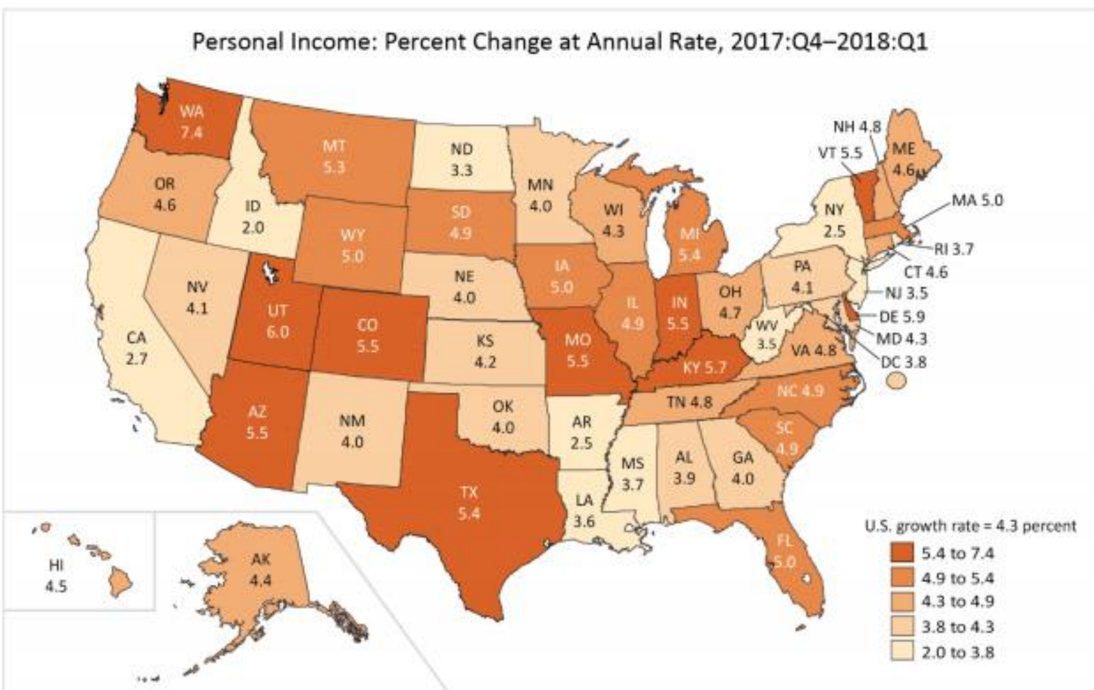
- DOL reports that May 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut fell by 339 claimants (-9.7%) to 3,142 from April 2018 and were lower by 787 claims (-20.0%) from the May 2017 level of 3,929.
- Among the major job sectors listed below, seven experienced gains and three experienced losses in May 2018 versus May 2017 levels.

Payroll Employment Trend				
Jobs in thousands				
Sector	**5/18 (P)**	**5/17**	**Gain/Loss**	**% Change**
Construction	58.8	58.4	0.4	0.7%
Manufacturing	162.8	158.7	4.1	2.6%
Transp. & Public Utilities	300.2	297.5	2.7	0.9%
Information	30.4	31.7	-1.3	-4.1%
Financial	128.0	127.9	0.1	0.1%
Prof. & Business Svc.	220.3	217.7	2.6	1.2%
Education & Health Svc.	339.3	333.9	5.4	1.6%
Leisure & Hospitality	155.0	155.7	-0.7	-0.4%
Other Services	65.4	64.9	0.5	0.8%
Government	229.9	232.2	-2.3	-1.0%

Wage and $alary income

- May 2018 average hourly earnings at $31.51, not seasonally adjusted, were up $0.48, or 1.5%, from the May 2017 estimate. The resultant average private sector weekly pay amounted to $1,077.64, up $35.03 or 3.4% 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 May 2018 was 2.8%.
- On June 21st, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 4.6% annual rate between the fourth quarter of 2017 and the first quarter of 2018. This ranked Connecticut 27th nationally in first quarter income growth, somewhat higher than the national average of 4.3 percent. The change in personal income across all states ranged from 7.4 percent in Washington to 2.0 percent in Idaho.
- This represents an improvement from the annual results for 2017. BEA reported that Connecticut's personal income grew by only 1.5 percent between 2016 and 2017, which ranked 44th nationally.
- The Bureau of Economic Analysis will release State Quarterly Personal Income for the 2nd Quarter of 2018 on September 25, 2018.



U.S. Bureau of Economic Analysis

Housing

- In its June 7 release, Berkshire Hathaway HomeServices reported results for the Connecticut housing market for May 2018 compared with May 2017. Sales of single family homes fell 9.99 percent, while the median sale price rose 0.88 percent. New listings decreased by 5.41 percent in Connecticut and the median list price increased modestly by 1.55 percent to $269,000. Average days on the market grew 15.38 percent in May 2018 compared to the same month in the previous year (90 days on average, up from 78 days). Finally, the list to sell price rose slightly to 97.6 percent, compared with 97.4 percent a year ago. The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

MAY 2018 | SINGLE FAMILY HOMES

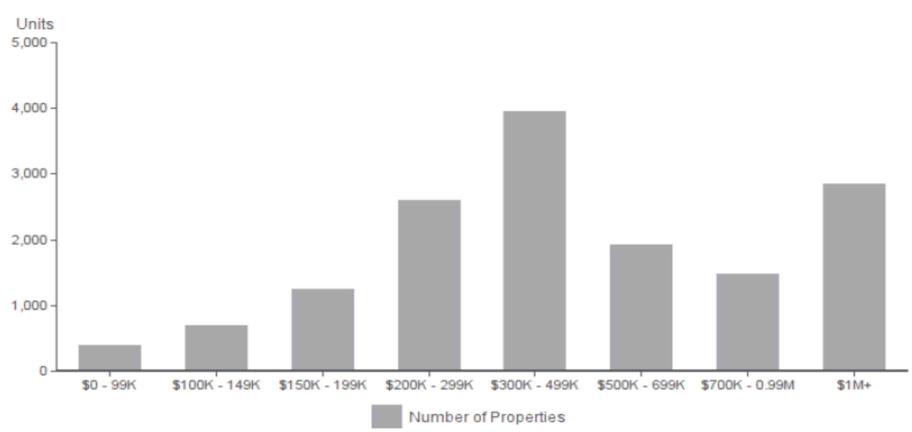
Market	Month to Date			Year to Date		
Summary	May 2018	May 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	6609	6987	-5.41% ▼	25690	26750	-3.96% ▼
Sold Listings	3091	3434	-9.99% ▼	12209	12661	-3.57% ▼
Median Listing Price	$269,000	$264,900	1.55% ▲	$259,900	$249,000	4.38% ▲
Median Selling Price	$262,000	$259,900	0.81% ▲	$251,000	$240,000	4.58% ▲
Median Days on Market	61	45	35.56% ▲	70	54	29.63% ▲
Average Listing Price	$403,976	$401,977	0.5% ▲	$389,572	$384,256	1.38% ▲
Average Selling Price	$387,859	$386,229	0.42% ▲	$373,978	$367,369	1.8% ▲
Average Days on Market	90	78	15.38% ▲	98	86	13.95% ▲
List/Sell Price Ratio	97.6%	97.4%	0.23% ▲	97.1%	96.8%	0.37% ▲

- The following chart from Berkshire Hathaway HomeServices shows the total number of Connecticut single family homes for sale in February 2018 distributed by list price:

PROPERTIES FOR SALE

MAY 2018 | SINGLE FAMILY HOMES

Number of properties currently listed for sale by price range



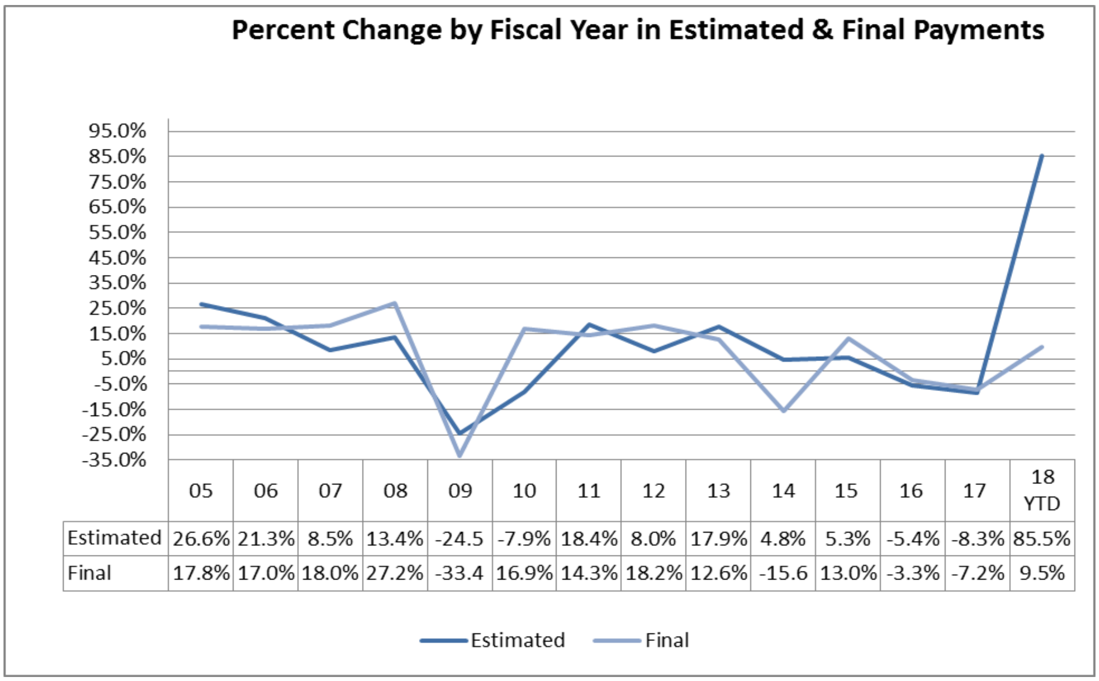
Stock Market

- After a steady rise and strong gains throughout calendar 2017, the stock market indices reached their peak in late January 2018. Since then, there has been significant turbulence and uncertainty in the markets through June 2018.
- A number of issues have 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.
- Recent swings in the stock market are illustrated on the two charts that follow:

DOW

NASDAQ

- 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% of total state income tax receipts, but can be an extremely volatile revenue source. Both estimated and final payments had negative growth rates in Fiscal Years 2016 and 2017.
- However, due to a combination of one-time events related to Federal tax changes, estimated payment collections increased substantially in December and January. Through May 2018, estimated payments grew by 85.5 percent fiscal year-to-date compared with the prior year, representing an increase of $1.1 billion. Year-to-date final payments through May grew by $142.5 million or 9.5 percent over the same period a year ago.



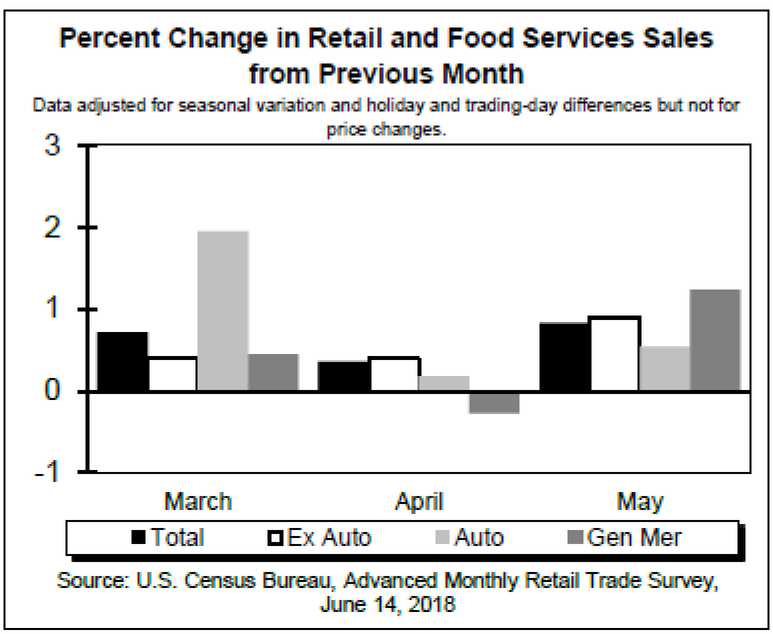
	05	06	07	08	09	10	11	12	13	14	15	16	17	18 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	85.5%
Final	17.8%	17.0%	18.0%	27.2%	-33.4	16.9%	14.3%	18.2%	12.6%	-15.6	13.0%	-3.3%	-7.2%	9.5%

- Initially, the revenue volatility adjustment contained in Section 704 of Public Act 17-2, June Special Session, required that any estimated and final payment collections amount above $3.15 billion would be transferred to the Budget Reserve Fund (BRF). Current projections by the State Comptroller's Office have estimated and final income tax collections totaling $4.54 billion for FY 2018, or $1.39 billion over the volatility threshold.
- However, based on the recently enacted state budget for FY 2019 (Public Act 18-81), a portion of this revenue windfall will now be used to close the General Fund deficit for FY 2018 and provide additional resources for FY 2019. After accounting for the projected FY 2018 deficit and various carry-forwards into FY 2019, approximately $779.4 million will be deposited into the BRF, bringing the total to $992.3 million,

about 5.25 percent of the revised budget for FY 2019. The State Comptroller recommends the BRF reach a level of 15 percent of General Fund expenditures to protect against a future downturn.

Consumer Spending

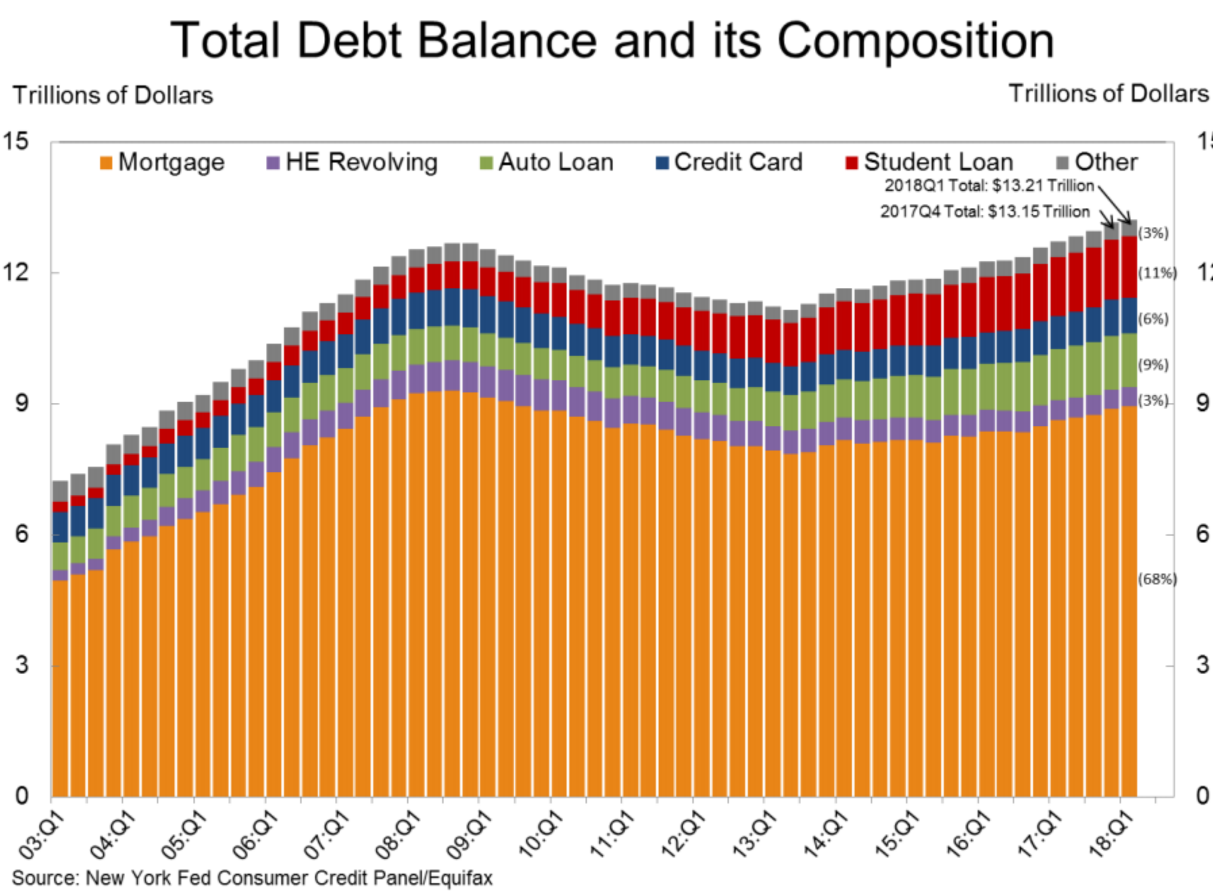
- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- U.S. retail sales experienced a healthy increase in May 2018, the largest advance since November 2017, led by auto sales and gas station receipts. The Commerce Department reported that advance retail sales grew 0.8 percent last month, to $502.0 billion. In addition, data for April was revised up to show sales rising 0.4 percent instead of the previously reported gain of 0.2 percent.
- Auto sales rose 0.5 percent and receipts at service stations jumped 2.0 percent, reflecting higher gasoline prices. Analysts warned that rising gas prices, if they continue, could begin pulling consumer spending from other categories. In May sales at building material stores rebounded 2.4 percent, after declining 0.8 in April. Receipts at clothing stores grew 1.3 percent, as did sales at restaurants and bars. On the down side, sales at furniture stores fell 2.4 percent, the largest drop since December 2013.



- In comparison to a year ago, the Commerce Department reported that retail sales were 6.0 percent above May 2017 levels. In addition, gas station sales were up 17.7 percent from May 2017, while non-store retailers were up 9.1 percent from last year.

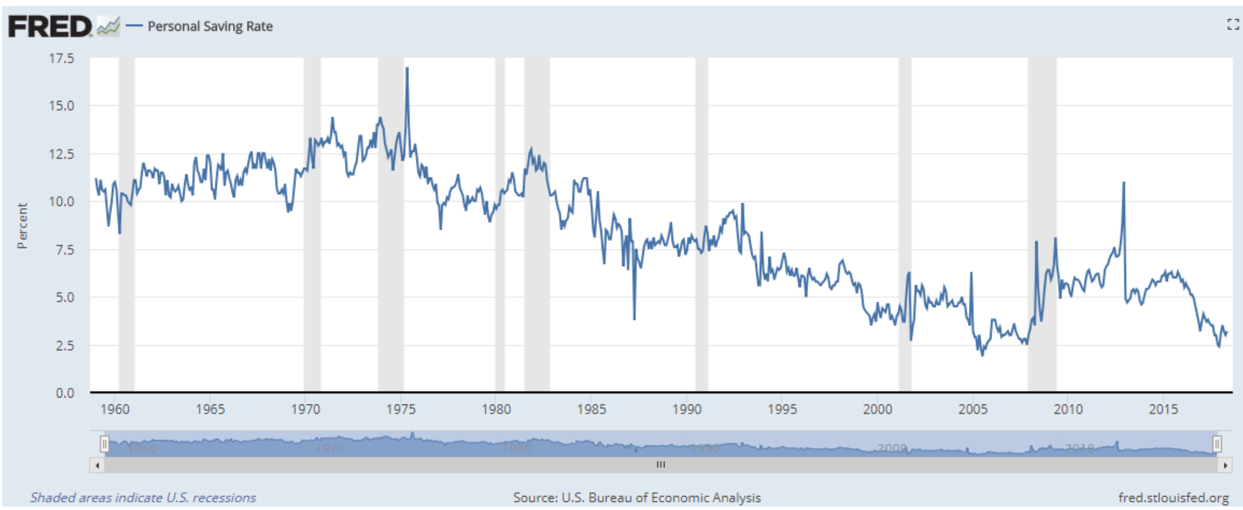
Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the first quarter of 2018. Household debt has now grown in 15 consecutive quarters. As of March 31, 2018, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record $13.21 trillion. This represented a $63 billion (0.5%) increase from the fourth quarter of 2017.
- The report noted balances climbed 0.6 percent on mortgages, 0.7 percent on auto loans, and 2.1 percent on student loans this past quarter, while they declined by 2.3 percent on credit cards. Although household debt has been growing for five years, its growth has been slow relative to earlier periods (see chart below), as mortgage debt has continued to be relatively flat.



- In the first quarter, aggregate delinquency rates improved, as rates on mortgage and Home Equity Lines of Credit (HELOC) debt declined further, while delinquency on auto and credit card debt increased.

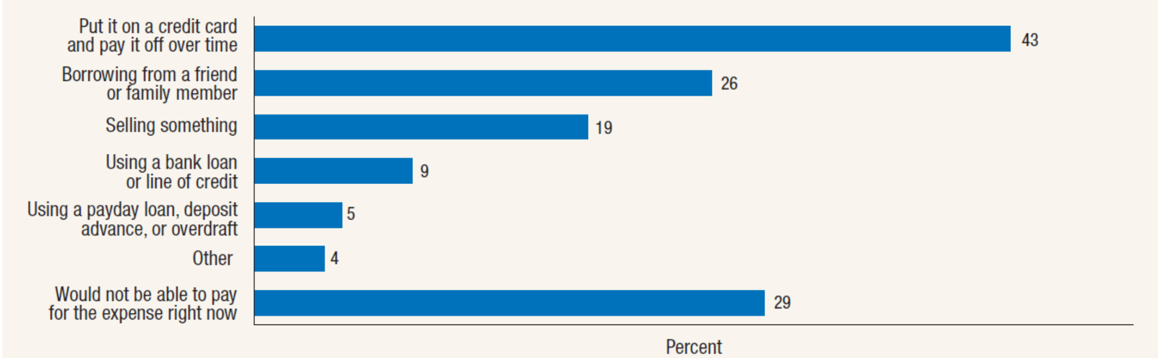
- In its June 29th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 3.2 percent in May, up from 3.0 percent in April. This savings level is roughly half of the recent peak of 6.3% in October 2015 and remains close to prerecession lows.
- Higher debt levels and lower 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. One explanation for this trend is the so-called wealth effect. Consumers may feel richer because the stock market is rising and home values have increased in recent years.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through May 2018. 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.



- 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 dramatic 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.
- A recent Report on the Economic Well-being of U.S. Households in 2017 illustrates this point. The report notes that relatively small, unexpected expenses, such as a car repair or replacing a broken appliance, can be a hardship for many families without savings. When faced with a hypothetical expense of only $400, 59 percent of adults in 2017 say they could easily cover it, using entirely cash, savings, or a credit card paid off at the next statement.

- The remaining 4 in 10 adults would have more difficulty covering such an unexpected expense. When surveyed, the most common approaches for this group included carrying a balance on credit cards and borrowing from friends or family.

Figure 12. Other ways that individuals would cover a $400 emergency expense



Note: Among those who would not pay the expense in full using cash or its equivalent. Respondents can select multiple answers.

<u>Possible Reasons for Wages Lagging Behind Job Growth</u>

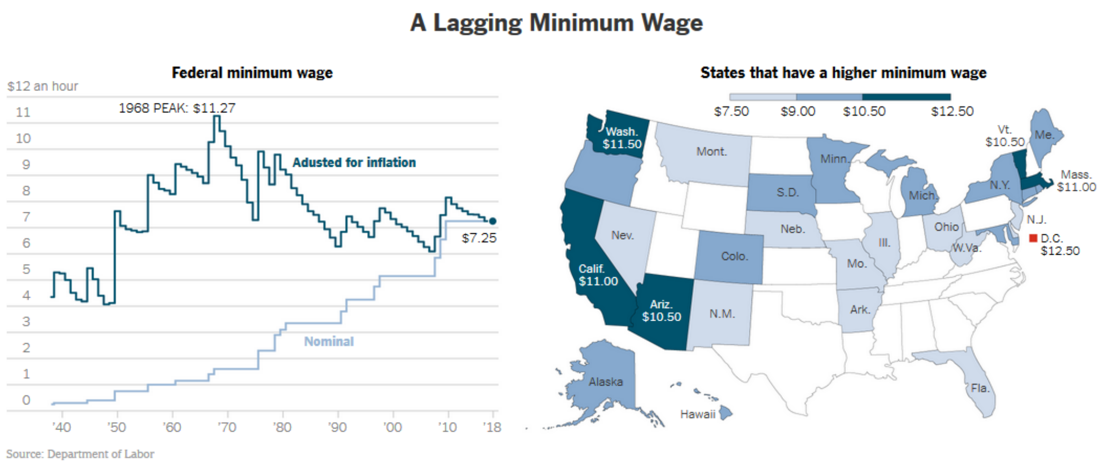
The economic recovery in its ninth year and the national unemployment rate is at its lowest level in almost two decades. Economic theory would predict as the job market tightens, wages would rise as employers increase salaries in order to attract and retain employees. However, wage growth has continued to lag well behind job growth despite all the positive news on the economic front. Earlier this year, a New York Times article explored six possible reason for this discrepancy:

Declining Unionization – Union membership has been declining for decades, especially in the private sector. For example, in 1983, 16.8 percent of private sector employees were represented by unions compared to just 6.5 percent in 2017 according to the Bureau of Labor Statistics. Average pay for workers represented by unions tends to be higher than for those who are not, even after controlling for education and other characteristics.

Restraints on Competition – Contract restrictions, such as noncompete clauses and no-poaching agreements, that prevent workers from quitting their jobs for better ones have grown across the work force. Once reserved for highly paid professionals, these contracts have filtered down to nurses, laborers and even retail clerks. Virtually every study on the subject shows that these agreements reduce wages in an area, since many people get their largest raises when they leave their company or threaten to do so.

A Lagging Minimum Wage - The federal minimum wage, currently $7.25 an hour, has not increased since 2009, and its purchasing power has never returned on a sustained basis to what it delivered in the 1960s and 1970s.

In response, some state and local governments have passed laws raising minimum wages to as high as $15 an hour, arguing it is the best way to ensure that low-wage workers who otherwise have little leverage are able to earn a living wage and share in the country's economic growth. Connecticut's minimum wage is currently $10.10 an hour, which translates into $21,008 a year for a full-time employee who works 40 hour a week.



Globalization and Automation – Technology and globalization have both made it easier for businesses to find cheaper alternatives to paying their workers more money. American manufacturing jobs, once a mainstay of well-paying blue-collar work, started rapidly declining after 2000, as China rose as an exporting power.

The same dynamic occurs when businesses see they can save money by replacing workers with technology that reduces costs in the long run. Manufacturers that kept operations in the United States or built new ones have increasingly relied more on automation and advanced technology than on people.

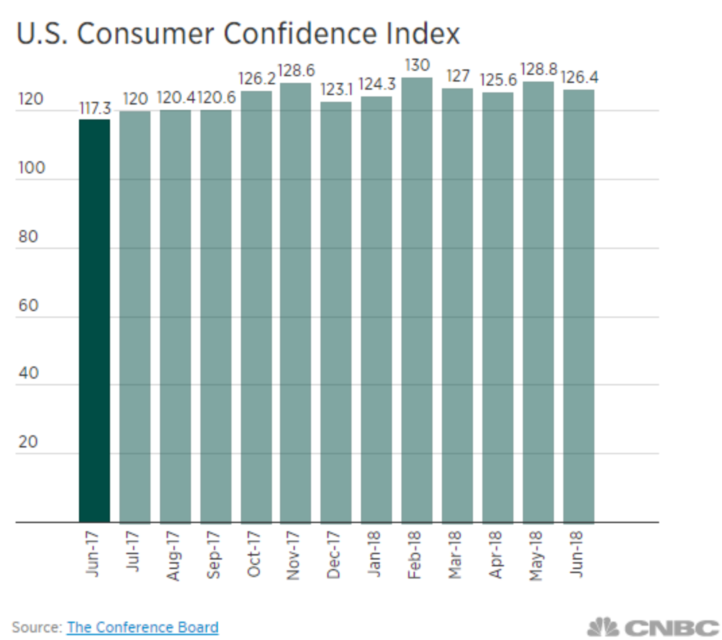
Sluggish Productivity - Another possible explanation for slow wage growth is that productivity growth has been anemic. Economic theory holds that over the long run, pay and productivity should rise together. As workers produce more per hour, companies can afford to pay them more. Productivity in its simplest form is how much value the average employee creates in an hour of work. Productivity rose about 2 percent per year from the 1970s through the first decade of this century. However, it has risen less than 1 percent per year since then.

Outsourcing - Companies have increasingly outsourced work once handled by their employees. Wages for work performed by contractors tend to be lower, because they do not benefit as much from companies' internal pay scales and their norms relating to fairness. Profitable businesses with generous pay scales tend to give low-skilled employees above-market wages. However, once those jobs are pushed out of the company, wages fall to the market rate.

The full article from the New York Times can be viewed at:
https://www.nytimes.com/interactive/2018/02/01/business/economy/wages-salaries-job-market.html

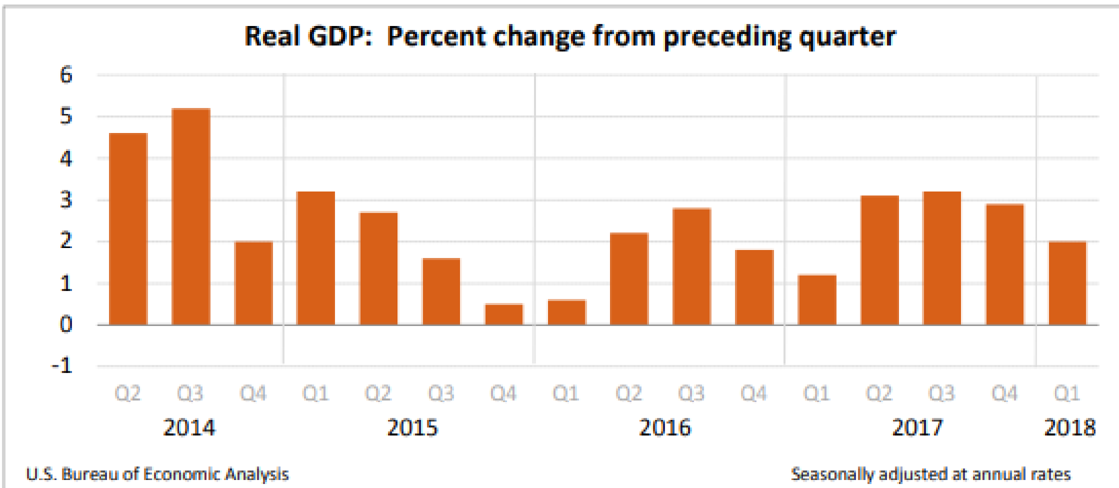
Consumer Confidence

- 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 June, following an increase in May. The Index now stands at 126.4, down from 128.8 in May.
- The June 26th report noted that consumers' assessment present-day conditions was relatively unchanged, suggesting that the level of economic growth remains strong. While expectations remain high by historical standards, the modest curtailment in optimism suggests that consumers do not foresee the economy gaining much momentum in the months ahead.

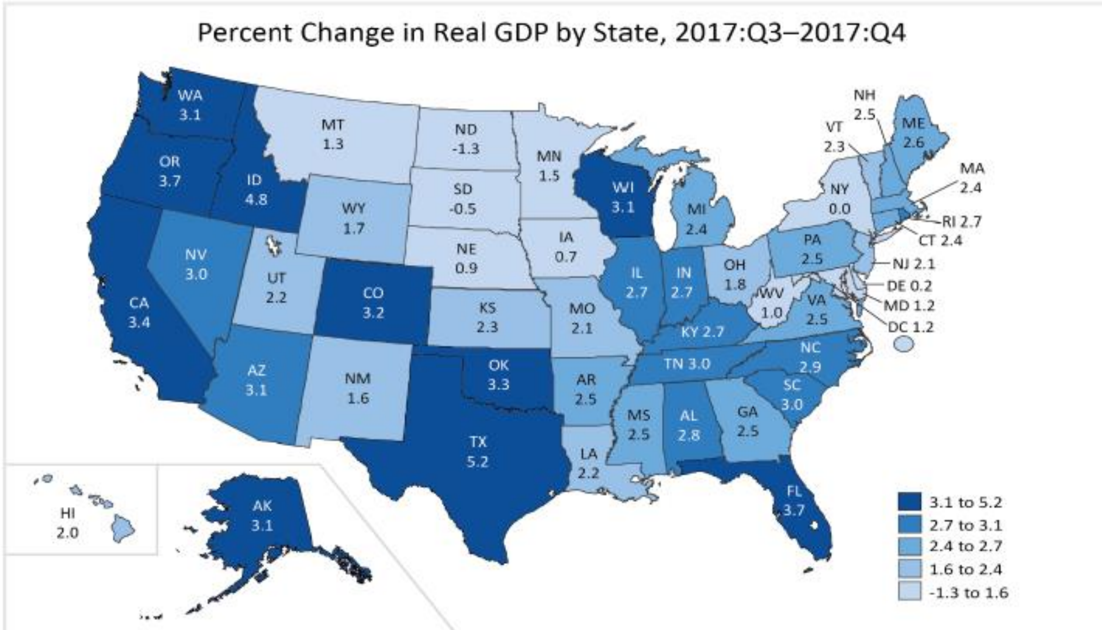


Business and Economic Growth

- According to a June 28 release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product grew at an annual rate of 2.0 percent in the first quarter of 2018. In the fourth quarter of 2017, real GDP increased 2.9 percent. For the year, the economy grew at 2.3 percent in 2017, up from the 1.5 percent growth rate experienced in 2016.



- The 2 percent annual GDP growth for the first quarter represents third estimate by BEA, which was revised down from an earlier 2.2 percent. The downgrade in first-quarter growth reflected weaker consumer spending and a smaller inventory accumulation than the government had estimated last month.
- According to a CNBC analysis of the GDP report, income growth was boosted by after-tax corporate profits, which surged at an 8.7 percent rate last quarter rather than the 5.9 percent pace originally reported in May. The Federal government cut the corporate tax rate to 21 percent from 35 percent effective in January. After-tax profits rose at a 1.7 percent pace in the fourth quarter.
- Economists are predicting stronger GDP growth in the second quarter due to the recent tax cut package. However, there are also warnings that escalating trade tensions and the fall-out of tariffs could offset some portion of this economic growth.
- In a May 4th report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by state for both the fourth quarter of 2017 and preliminary annual GDP results for 2017. For the 4th quarter of 2017, Connecticut experienced a seasonally adjusted annual growth rate of 2.4 percent, which ranked 30th in the nation overall. This growth rate was slower than the national average of 2.7 percent and ahead of only Vermont for the New England states for the period. It also represented a deceleration of growth from the 3rd quarter, when Connecticut's GDP grew by a seasonally adjusted annual growth rate of 4.6 percent.
- First quarter 2018 state-level GDP results will be released on July 24, 2018.



U.S. Bureau of Economic Analysis

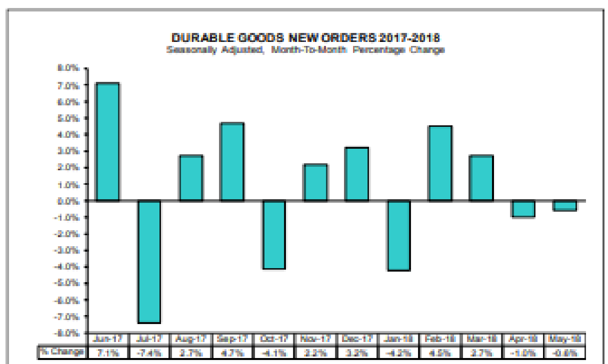
- The state's annual GDP results for 2017 were less encouraging. Connecticut ranked 49th in the nation, with Real GDP change of -0.2 percent. The main cause was a very weak first quarter of 2017 (-5.5% seasonally adjusted annual rate). Despite growth for the rest of 2017, this represented the third time in four years the Connecticut experienced negative annual GDP growth.
- According to a June 27th report by the U.S. Department of Commerce, new orders for durable goods decreased $1.4 billion in May or 0.6 percent to $248.8 billion. This decrease, down two consecutive months, followed a 1.0 percent decline in April.

DURABLE GOODS – NEW ORDERS

MAY 2018	**$248.8 billion**	**-0.6%°**
APRIL 2018 (revised)	**$250.2 billion**	**-1.0%°**

Next release: July 26, 2018

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, June 27, 2018.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, June 27, 2018.

- Transportation equipment, also down two consecutive months, led the decrease, falling $0.9 billion or 1.0 percent to $86.1 billion. New orders, excluding transportation, decreased 0.3 percent.

- The Commerce Department reported orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, slipped 0.2 percent last month.
- A number of analysts fear that escalating tensions between the United States and its major trade partners, including China, Mexico, Canada and the European Union, could hurt business sentiment, disrupt supply chains and undercut economic growth.

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