News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS MORE MODEST SURPLUS FOR FISCAL YEAR 2019

Comptroller Kevin Lembo, after reviewing the latest revenue and spending trends, issued his monthly updated projection today for Fiscal Year 2019, saying the state is on track to end with a smaller surplus of $157.8 million.

In a letter to Gov. Dannel P. Malloy, Lembo said his projection is slightly lower than that of the state Office of Policy and Management's (OPM) most recent projection due to his belief that the cost of disbursements from the adjudicated claims account could exceed what was budgeted.

"Both the withholding and estimated payment portions of the income tax continue to perform well year-to-date, in line with job growth in recent months and the overall performance of the stock market," Lembo said. "However, after a tumultuous October and the return of volatility on Wall Street, the estimated and final income tax components will bear careful watching in the months ahead."

Lembo's latest projection slightly reduces the surplus outlook from last month, despite several adjustments to anticipated revenue and spending categories, including a $67.7-million increase in the withholding portion of the personal income tax due to higher-than-anticipated collections and accelerating wage growth. That increase was offset by a projected $30-million increase in tax refunds, a $4.5-million decrease in sales of commodities and a $30-million reduction for licenses, permits and fees following a recent federal court decision regarding the planned casino in East Windsor that adds uncertainty to the project's viability.

OPM and the legislature's nonpartisan Office of Fiscal Analysis are expected to update their consensus revenue forecast on Nov. 13, which could have significant implications on the state's projected outlook, Lembo said.

Lembo has long advocated that the state establish a strong revenue volatility cap to stabilize Connecticut's budgets and establish a strong financial reserve. As a result of that, the new revenue volatility cap law was enacted in Fiscal Year 2018, requiring that revenues above a certain threshold be transferred to the state's Budget Reserve Fund (BRF), also known as the "rainy day fund." Lembo provided the following status update on the state's BRF:

- For Fiscal Year 2019, the state's revenue is capped at $3,196.8 million for estimated and final income tax payments and revenue from the newly enacted pass-through entity tax before any amount above that is directed to the BRF.

- If current projections are realized, a $648-million volatility transfer would be made to the BRF.

- Fiscal Year 2018 is now closed and all required transfers have been completed. The current BRF balance is now $1,185,259,428.

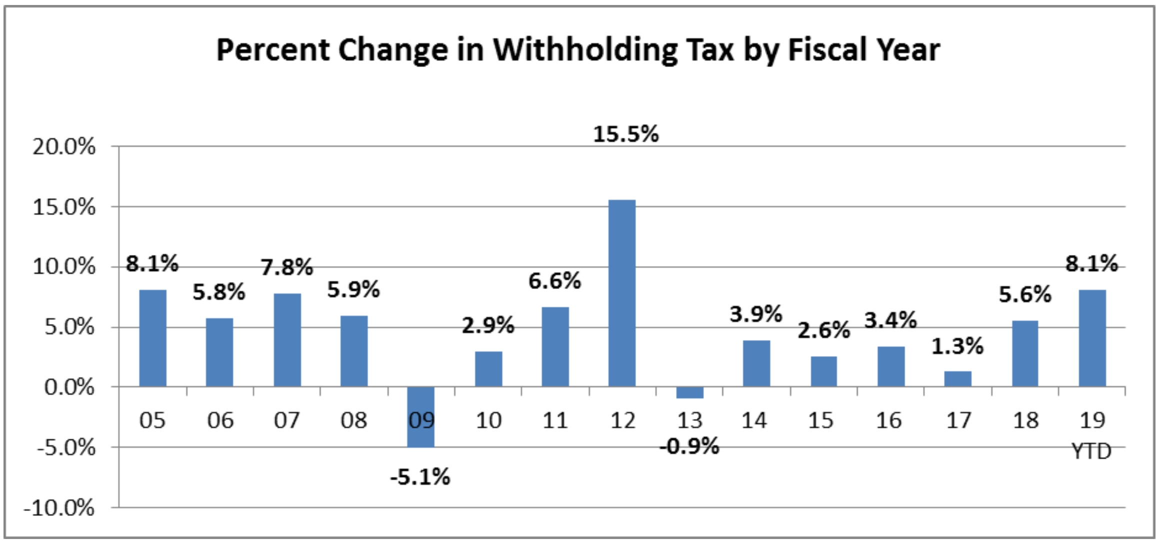
- Adding the estimated $648 million, plus Lembo's projected surplus of $157.8 million, would bring the year-end balance of the BRF to just under $2 billion, representing about 10.5 percent of General Fund expenditures (Lembo has recommended the BRF reach a level of 15 percent of General Fund spending to protect against a future downturn).

"Connecticut's overall budget results are ultimately dependent upon the performance of the national and state economies," Lembo said.

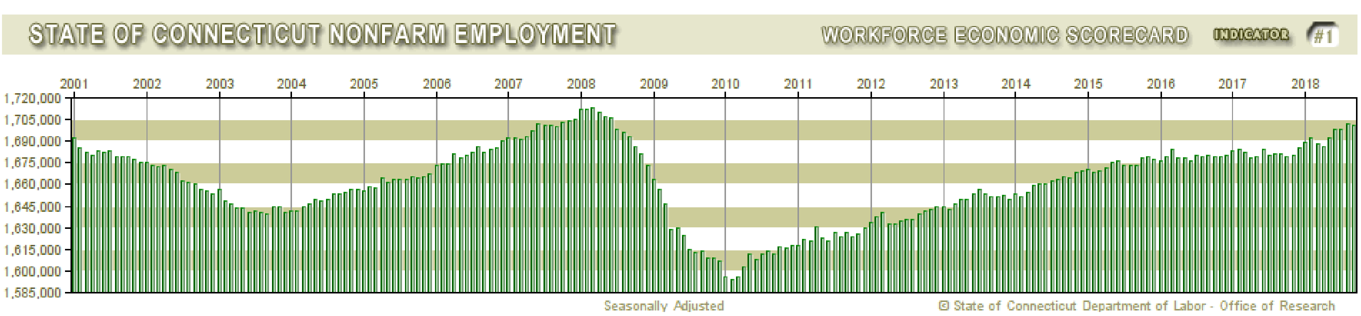
Lembo said the latest economic indicators from federal and state Departments of Labor (DOL) and other sources show:

Employment

- After a strong performance in FY 2018, preliminary first quarter results for FY 2019 show withholding receipts grew by 8.1 percent compared with the corresponding period in prior fiscal year. This positive development likely reflects more robust job growth in recent months combined with some preliminary indications of accelerating wage growth.

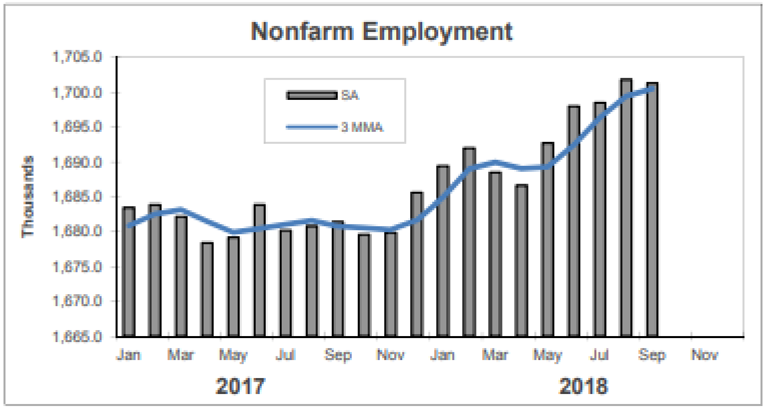


- On Oct. 18, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for September 2018 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 500 net jobs in September, to a level of 1,701,300, seasonally adjusted. However, August's originally-released job gain of 1,100 was revised upward by 2,200 to a gain of 3,300 jobs over the month. Connecticut has experienced employment gains in four of the last five months.

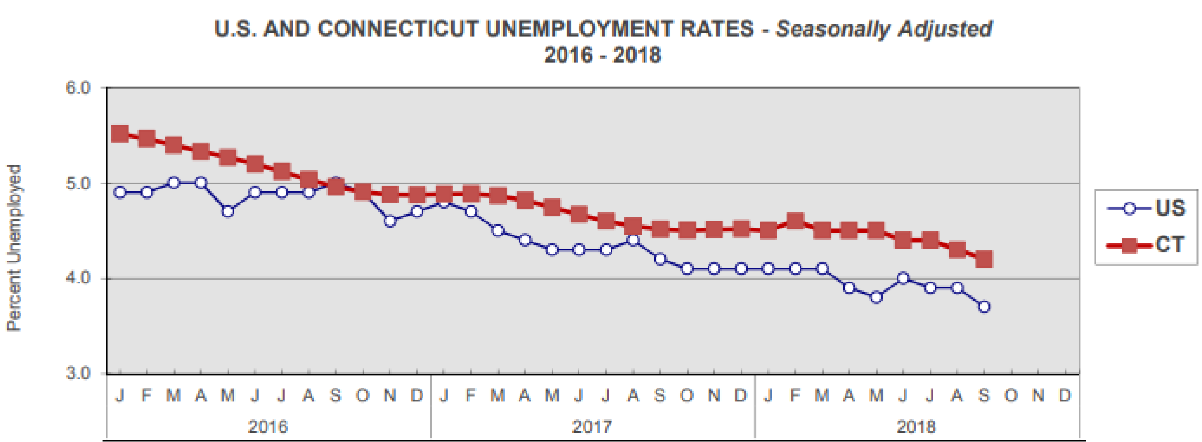


- The sectors that gained the most jobs in the month of September 2018 were construction (+1,000), financial activities (+1,000), and manufacturing (+800). The largest monthly job losses in September were in the trade, transportation & utilities (-2,300) and leisure & hospitality (-1,100).

- Over the year, DOL reported that nonagricultural employment in the state grew by 19,900 jobs on a seasonally-adjusted basis.



- Connecticut has now recovered 89.9% (107,100 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 103rd month and the state needs an additional 12,000 jobs to reach an overall employment expansion.
- Connecticut's unemployment rate stood at 4.2 percent in September, down one-tenth of a point from August 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 September 2018, down two-tenths of a point from August. The chart below shows a comparison of the Connecticut and U.S. unemployment rates over the past three calendar years.



- DOL reports that September 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut fell by 92 claimants (-3.0%)

to 3,014 from August 2018 and were lower by 798 claims (-20.9%) from the September 2017 level of 3,812.

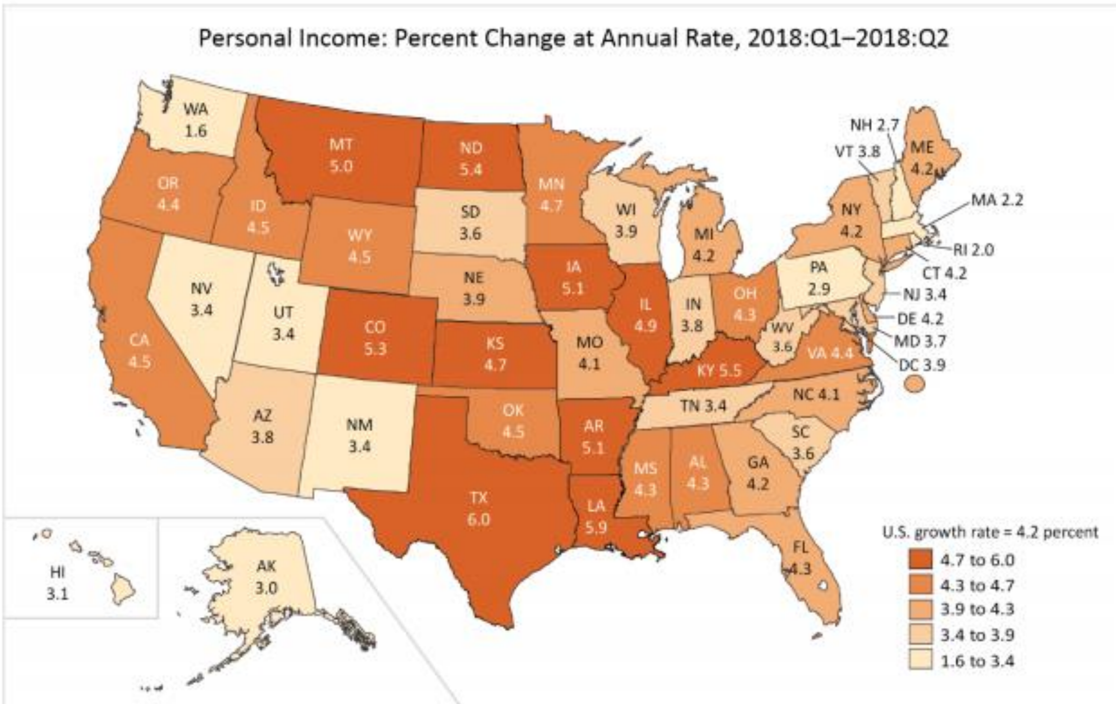
- Among the major job sectors listed below, seven experienced gains, and three experienced losses in September 2018 versus September 2017 levels. Construction and manufacturing were the fastest growing sectors in the state's labor market on a percentage basis, followed by education & health services.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

Payroll Employment Trend				
Jobs in thousands				
Sector	**9/18 (P)**	**9/17**	**Gain/Loss (000's)**	**% Change**
Construction	63.4	58.4	5.0	8.6%
Manufacturing	164.8	159.2	5.6	3.5%
Transp. & Public Utilities	294.8	298.9	-4.1	-1.4%
Information	30.3	31.3	-1.0	-3.2%
Financial	128.7	127.6	1.1	0.9%
Prof. & Business Svc.	222.6	218.2	4.4	2.0%
Education & Health Svc.	342.5	334.0	8.5	2.5%
Leisure & Hospitality	160.0	156.7	3.3	2.1%
Other Services	66.0	65.4	0.6	0.9%
Government	227.6	231.1	-3.5	-1.5%
Total Connecticut Non-Farm Employment	**1,701.3**	**1,681.4**	**19.9**	**1.2%**

Wage and $alary income

- September 2018 average hourly earnings at $32.56, not seasonally adjusted, were up $1.56 or 5.0 percent, from the September 2017 estimate. The resultant average private-sector weekly pay amounted to $1,110.30, up $59.40 or 5.7 percent higher than a year ago. DOL warns that due to fluctuating sample responses, private-sector earnings and hours estimates can be volatile.
- The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in September 2018 was 2.3%.
- 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 December 20, 2018.



Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for September 2018 compared with September 2017. Sales of single family homes fell 16.33 percent, while the median sale price rose 7.07 percent. New listings declined by 5.53 percent in Connecticut and the median list price increased by 5.84 percent to $269,900 from a year ago. Average days on the market decreased 10.84 percent in September 2018 compared to the same month in the previous year (74 days on average, down from 83 days). Finally, the list-to-sell price rose to 97.8 percent, compared with 97.0 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

SEPTEMBER 2018 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	September 2018	September 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	4561	4828	-5.53% ▼	45548	46954	-2.99% ▼
Sold Listings	2614	3124	-16.33% ▼	27002	27705	-2.54% ▼
Median Listing Price	$269,900	$255,000	5.84% ▲	$270,000	$259,900	3.89% ▲
Median Selling Price	$265,000	$247,500	7.07% ▲	$265,500	$255,000	4.12% ▲
Median Days on Market	56	59	-5.08% ▼	64	49	30.61% ▲
Average Listing Price	$394,632	$387,096	1.95% ▲	$404,870	$396,785	2.04% ▲
Average Selling Price	$380,831	$371,680	2.46% ▲	$390,010	$381,353	2.27% ▲
Average Days on Market	74	83	-10.84% ▼	88	78	12.82% ▲
List/Sell Price Ratio	97.8%	97%	0.77% ▲	97.6%	97.1%	0.5% ▲

- The National Association of Realtors (NAR) also reported declining sales at the national level: U.S. existing-home sales declined in September after a month of stagnation in August. NAR noted all four major regions of the country saw no gain in sales activity last month. Total existing-home sales (defined as completed transactions that include single-family homes, townhomes, condominiums and co-ops) fell 3.4 percent from August to a seasonally adjusted rate of 5.15 million in September. Sales are now down 4.1 percent from a year ago (5.37 million in September 2017).
- According to NAR, the median existing-home price for all housing types in September was $258,100, up 4.2 percent from September 2017 ($247,600). September's price increase marked the 79th straight month of year-over-year gains. In addition, total housing inventory at the end of September decreased from 1.91 million in August to 1.88 million existing homes available for sale. Unsold inventory is at a 4.4-month supply at the current sales pace, up from 4.3 last month and 4.2 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.

<u>Stock Market</u>

- 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. The following week, however, renewed fears of inflation and rising interest rates caused the DOW to lose four percent of its value. Later in the month disappointing earnings reports caused further fallout for the major exchanges as volatility returned in force and the exchanges approached or reached correction territory. A correction is defined as a 10 percent decline from a peak.
- CNBC reported the October 2018 results (prior to the final close) for the major stock indices:

    - The Dow is down 4.3 percent and is on pace to post its biggest monthly fall since January 2016, when it dropped 5.5 percent.

    - The S&P 500 has lost 6.2 percent in October, tracking for its worst one-month performance since October 2015, when it plunged 6.3 percent.

    - The Nasdaq is down 8.5 percent, heading for its largest monthly pullback since November 2008.

Stock market activity for the past year is illustrated on the three charts that follow:

DOW

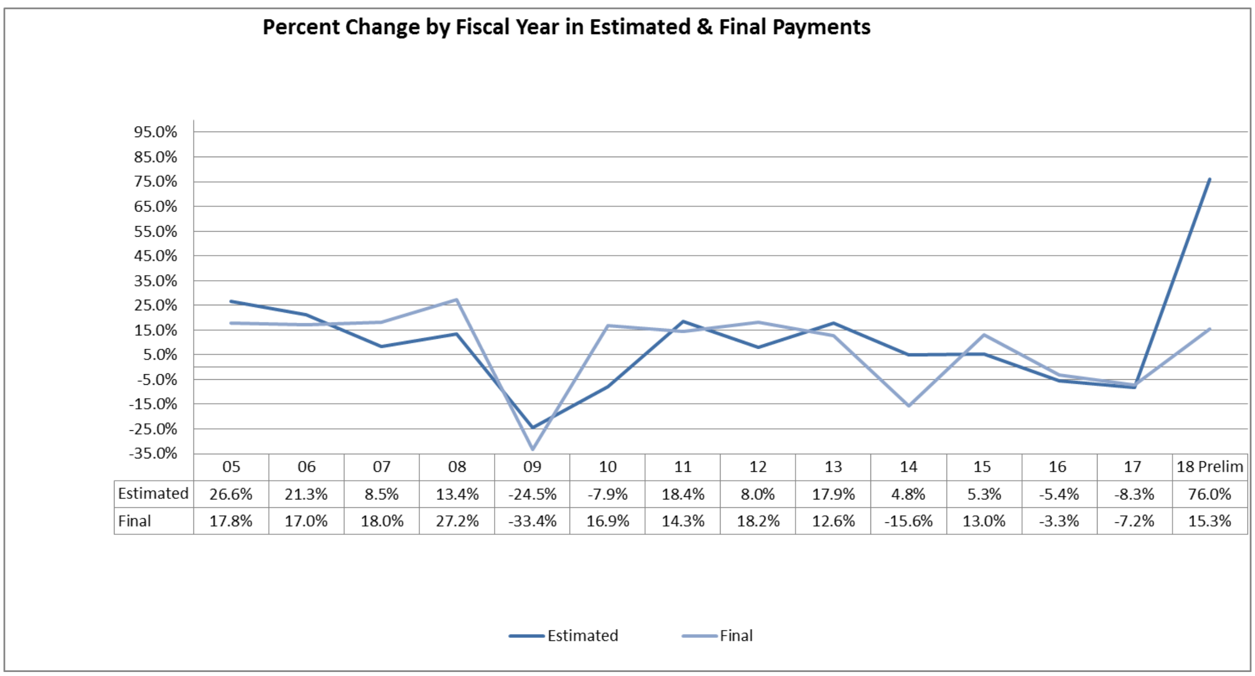
NASDAQ

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% 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.

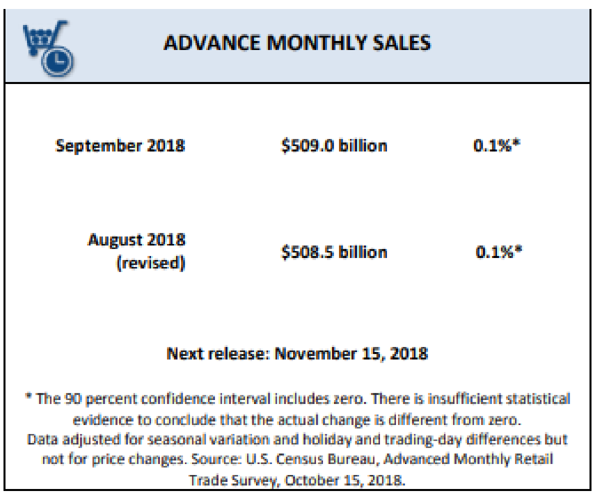
- The full impact of a separate Federal tax change, specifically related to limits on State and Local Tax (SALT) deductions, has not yet been fully felt by Connecticut residents. The implications of the $10,000 limit on SALT deductions will become more apparent when state residents begin filing their 2018 federal tax returns early next year. Many Connecticut taxpayers will face a higher federal tax burden.
- The Connecticut Office of Legislative Research (OLR) reported 41.3 percent of federal tax returns filed in Connecticut claimed the SALT deduction in 2015. The average amount of the SALT deduction was $19,665 per return. According to the Governor's Office, the cap will cause Connecticut taxpayers to lose an estimated $10.3 billion in SALT deductions in 2018, and will increase Connecticut taxpayers' federal income tax liability by approximately $2.8 billion.
- Preliminary indications for the first quarter of FY 2019 show that estimated payments are running ahead of budget targets. Through September 2018, combined collections of estimated and final payments were 14.8 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.

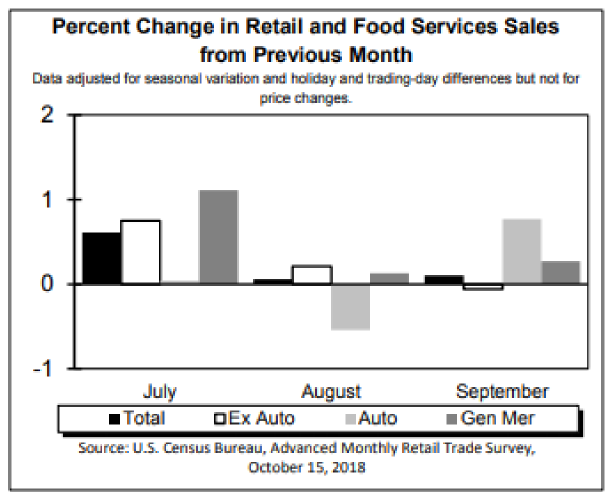


	05	06	07	08	09	10	11	12	13	14	15	16	17	18 Prelim
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	76.0%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%	-3.3%	-7.2%	15.3%

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 edged up only 0.1 percent in September 2018, to $509.0 billion. This increase was smaller than economists had expected and similar to August's results. Automobile sales rebounded in September, growing a healthy 0.8 percent after falling 0.5 percent the previous month. Auto sales growth was offset by a 1.8 percent decrease in sales at restaurant and bars, the biggest decline in almost two years. Analysts speculated this may be partly due the impact of Hurricane Florence.
- In a reversal of a recent trend, sales at gasoline stations were down 0.8 percent in September, likely reflecting moderating fuel prices. On the positive side, sales at furniture stores (+1.1%), online retailers (+1.1%) and clothing stores (0.5%) all increased in September.





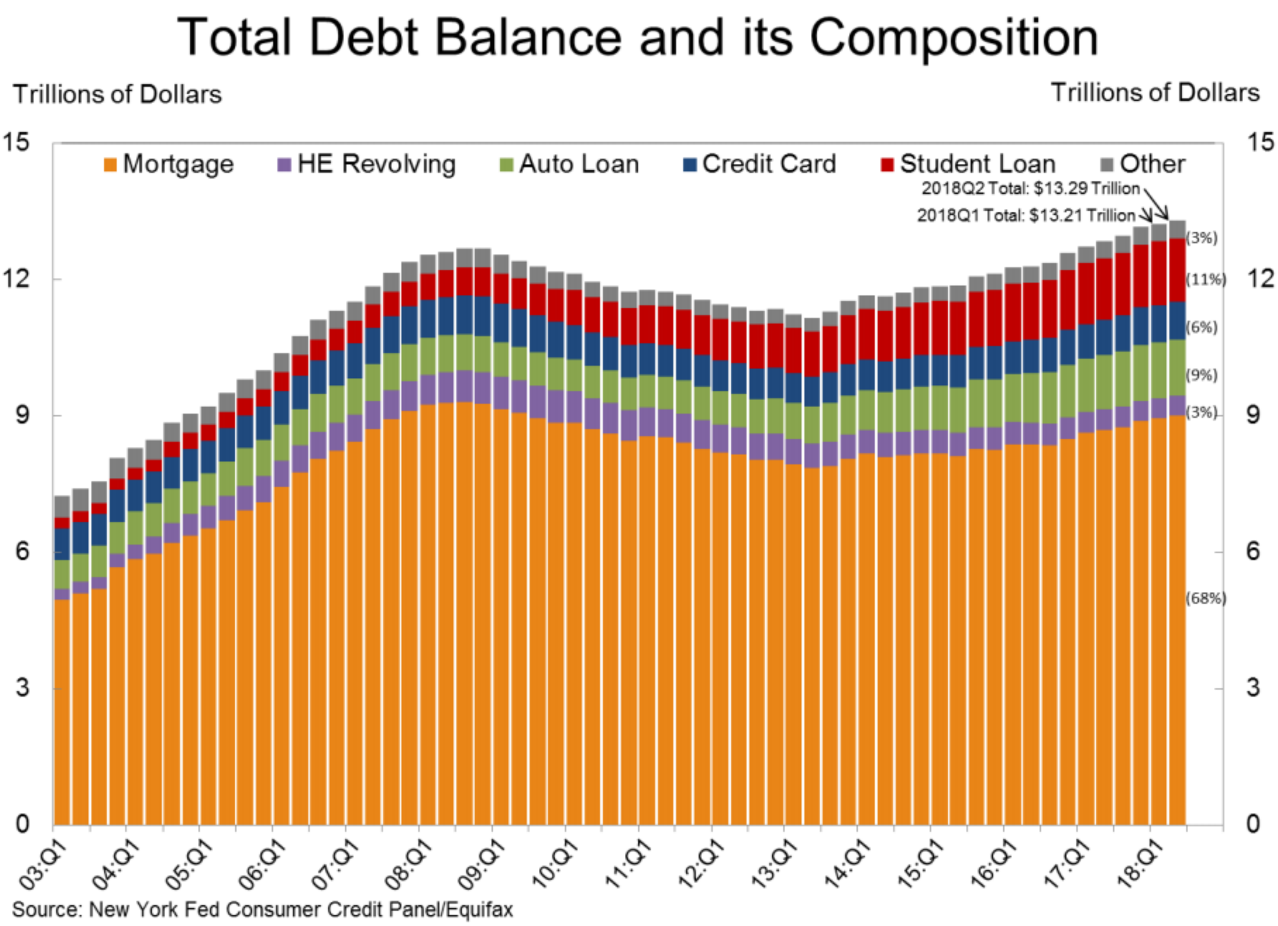
- In comparison to a year ago, the Commerce Department reported that retail sales were 4.7 percent above September 2017 levels. In addition, gas station receipts and non-store retail sales were both up 11.4 percent from a year ago.

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 second quarter of 2018. Household debt has now grown in 16 consecutive quarters. As of June 30, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record $13.29

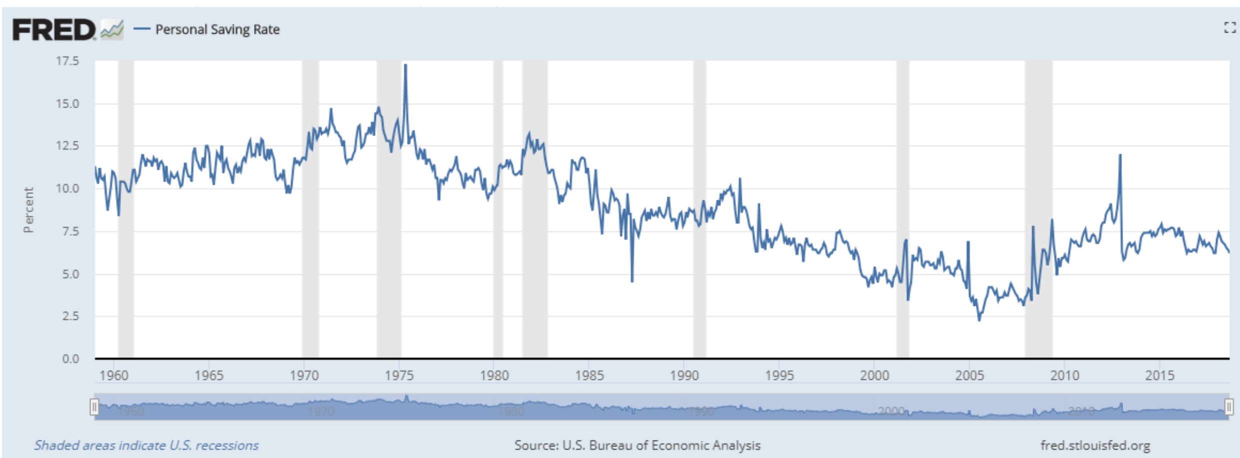
trillion. This represented an $82 billion (0.6%) increase from the first quarter of 2018. In addition, overall household debt is now 19.2% above the post-financial-crisis trough (low point) reached during the second quarter of 2013.

- The report noted mortgage balances – the largest component of household debt – rose by $60 billion during the second quarter, to $9.00 trillion. Balances on home equity lines of credit (HELOC) continued their downward trend, declining by $4 billion, to $432 billion. Outstanding student loan debt was mostly unchanged in the second quarter and stood at $1.41 trillion as of June 30. Auto loan balances continued their six-year upward trend, increasing by $9 billion in the quarter, to $1.24 trillion and credit card balances rose by $14 billion, or 1.7%, after a seasonal decline in the first quarter.



- In the second quarter, mortgage delinquencies continued to improve, with 1.1% of mortgage balances 90 or more days delinquent in the second quarter, versus 1.2% in the first quarter. The report also noted transition rates into delinquency have fallen noticeably for student debt over the past year, partly due to an improved labor market. The Federal Reserve Bank of New York will release 3rd quarter 2018 results in November 2018.

- In its Oct. 28 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.2 percent in September, down from August's revised rate of 6.4 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 September 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.

<u>Consumer Confidence</u>

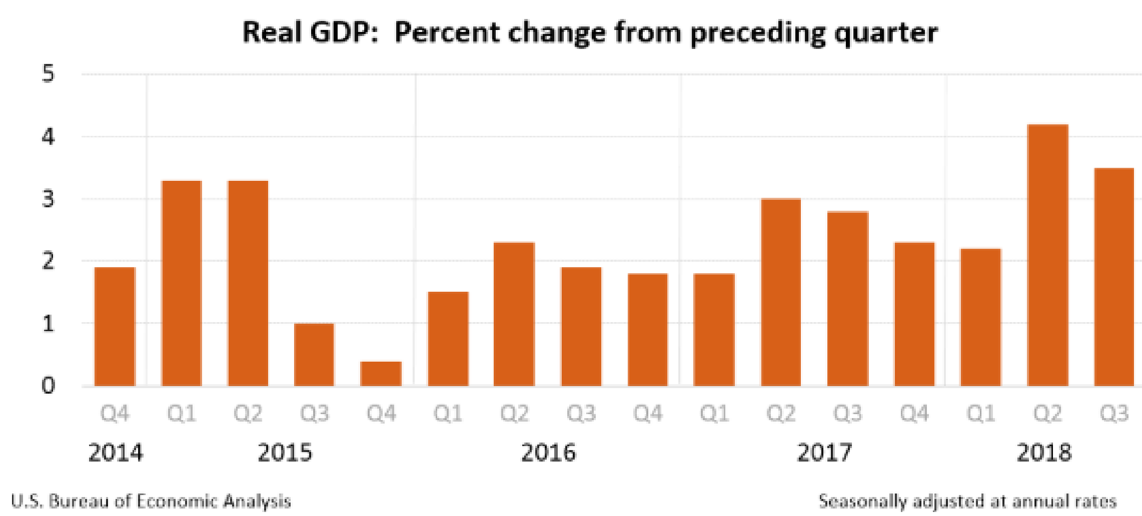
- The U.S. consumer confidence index (CCI) is published by the Conference Board. It is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.
- The Conference Board reported that the Consumer Confidence Index increased again in October, following a modest gain in September 2018. The Index now stands at 137.9, up from 135.3 in September. The October consumer confidence level is

the highest recorded in 18 years, when it was 142.5 in September of 2000. The Conference Board noted that consumers' assessment of present-day conditions remains quite positive, primarily due to strong employment growth. Survey results indicated that consumers do not foresee the economy losing steam anytime soon and they expect growth to carry over into early 2019.

- The cutoff date for the preliminary consumer confidence results was October 18. It will be informative to see if the ongoing stock market volatility in late October has any impact on next month's results.

Business and Economic Growth

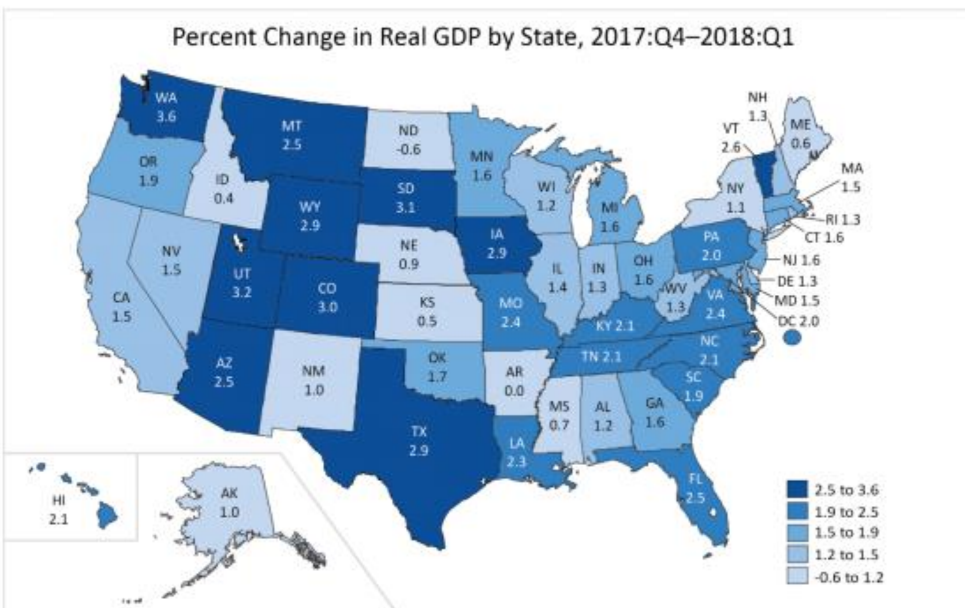
- According to an Oct. 26 report from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product grew at an annual rate of 3.5 percent in the third quarter of 2018, which represented a deceleration from the strong 4.2 percent growth in the second quarter. This was the advanced estimate for the 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 positive contributions from personal consumption expenditures (PCE), private inventory investment, state and local government spending, federal government spending, and nonresidential fixed investment. These growth areas were partly offset by negative contributions from exports and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.
- 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 a Sept. 27 release, BEA reported U.S. pretax corporate profits increased 3.0 percent in the second quarter of 2018 after increasing 1.2 percent in the first quarter. On a year-over-year basis, corporate profits rose 7.3 percent in the second quarter of 2018 compared with same quarter a year ago.
- In a July 24 report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by state for the first quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 1.6 percent, which ranked 23rd in the nation overall. This growth rate was somewhat slower than the national average of 1.8 percent. However, Connecticut was second only to Vermont in growth among the New England states for the period. Among all states, Washington's GDP grew fastest at 3.6 percent for the quarter while North Dakota grew least at -0.6 percent
- BEA data indicated the sectors that contributed most to Connecticut's growth in the first quarter of 2018 were real estate and rental & leasing (+0.43%), finance & insurance (+0.42%), and information (+0.27%). The next report, covering state-level GDP for the second quarter, is scheduled for release on Nov. 14.



U.S. Bureau of Economic Analysis

Durable Goods

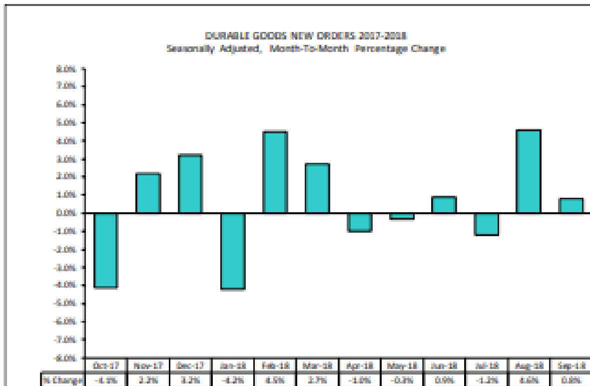
- According to an Oct. 25 report by the U.S. Department of Commerce, new orders for durable goods increased $2.0 billion or 0.8 percent to $262.1 billion. This was the third gain in four months. However, September's more modest growth represented a sharp slowdown from August, which grew at a robust 4.6 percent. The shift from the prior month was partly due to the volatile nondefense aircraft category, which fell 17.5 percent in September after surging 63.7 percent August.

DURABLE GOODS – NEW ORDERS

SEPTEMBER 2018	$262.1 billion	+0.8%°
AUGUST 2018 (revised)	$260.1 billion	+4.6%°

Next release: November 21, 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, October 25, 2018.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, October 25, 2018.

- Core capital goods, a category that serves as a proxy for business investment, declined 0.1 percent in September following a 0.2 percent fall in August. This category includes non-defense capital goods excluding aircraft. The recent weakness in investment orders has raised concerns among economists. Some fear a growing trade war with China and recent stock market volatility may be making businesses more cautious about making large capital equipment investments.

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