News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO, IN EARLY LOOK AT FISCAL YEAR 2019, SAYS STATE BUDGET OUTLOOK APPROXIMATELY IN BALANCE

Comptroller Kevin Lembo today, in his first report on the outlook for Fiscal Year 2019, said that the state budget is on track to end the year approximately in balance.

In a letter to Gov. Dannel P. Malloy, Lembo said that, while there are positive early revenue indications (the state Office of Policy and Management (OPM) recently reported a $137.9-million surplus), it remains early in the fiscal year to count on these positive indications as sustainable trends.

"Strong revenue collections may be promising signs for Fiscal Year 2019 – but fiscal responsibility demands that we monitor these indicators longer before accepting them as sustainable trends," Lembo said. "My office is currently projecting that the General Fund remains approximately in balance at this early stage of the fiscal year."

Strong revenue collections in Fiscal Year 2018 formed the basis of OPM's most recent revenue forecast for the current fiscal year, with net revenue improvements of $162.9 million (revenue that is offset by $35.5 million in additional expenditure requirements), Lembo said.

"My office would need to see a continuation of strong collection trends before making specific changes to our revenue forecast," Lembo said. "For example, mid-September is the first significant collection period for estimated payments for both the income tax and for the corporations tax.

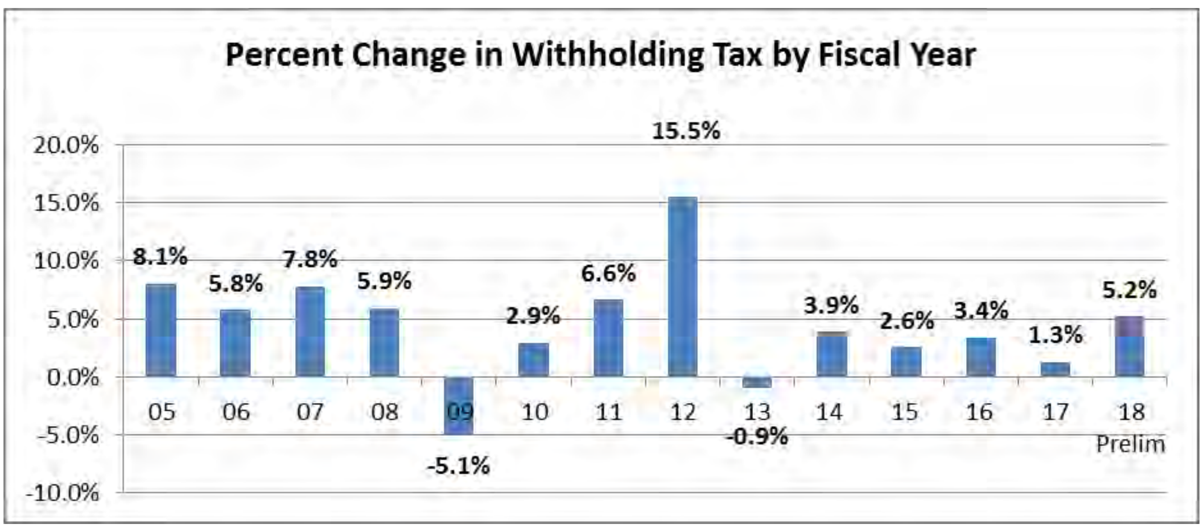
"Job and wage growth will continue to have a substantial impact on withholding receipts as the fiscal year progresses. Therefore, more meaningful data will be available in the weeks and months ahead to inform changes to the revenue schedule.

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

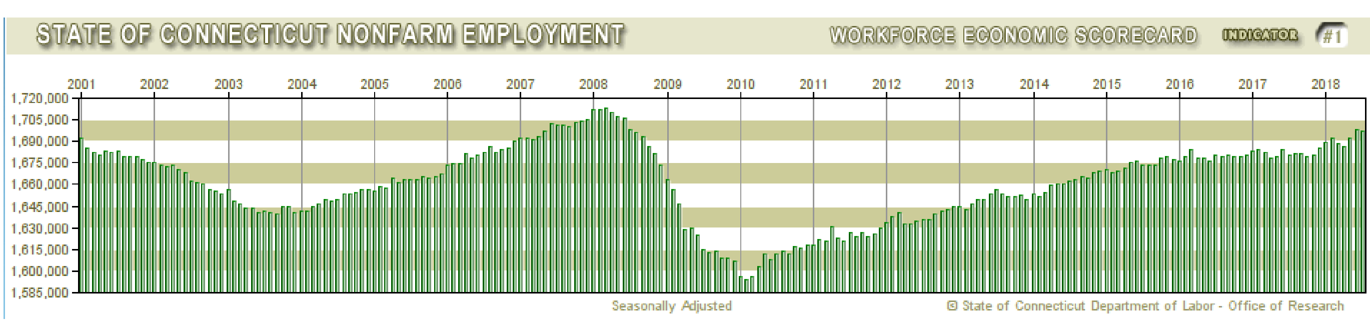
Lembo said the latest economic indicators from federal and state Departments of Labor (DOL) and other sources show:

Employment

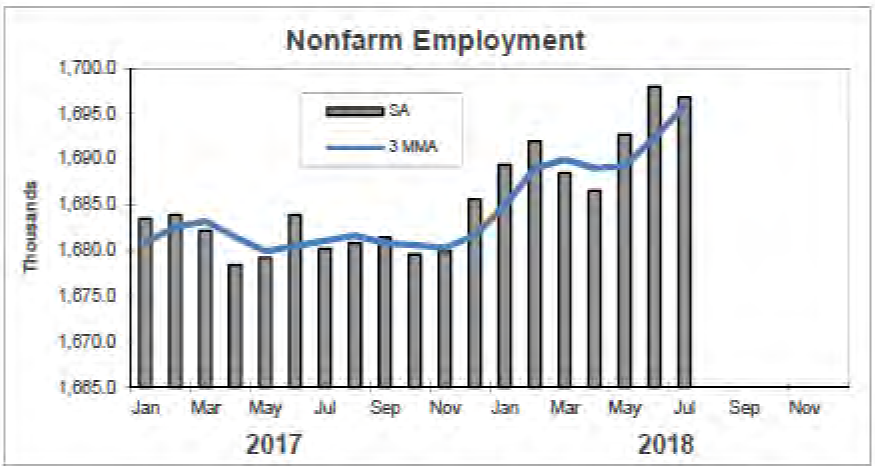
- Preliminary results for FY 2018 show withholding receipts were up 5.2 percent compared with the prior fiscal year. This positive development likely reflects a strong bonus season for the financial industry and more robust job growth toward the end of FY 2018. Please note - the state budget process includes statutory revenue accrual adjustment, which will have an impact on the final figures to be published at the end of September. As the state enters FY 2019, withholding collections remained strong through July 2018.



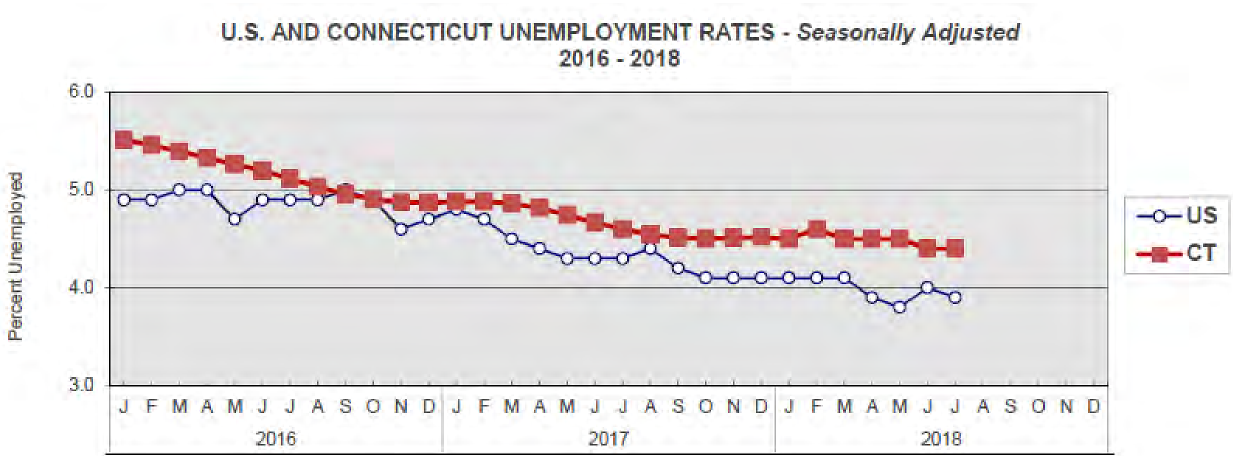
- On Aug. 16, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for July 2018 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 1,200 net jobs (0.1 percent) in July, to a level of 1,696,800, seasonally adjusted. June's originally released job gain of 6,100 was revised down by 800 to a gain of 5,300 over the month. July's job loses followed two consecutive months of job gains.



- The largest monthly job losses in July were in trade, transportation & utilities (-1,300), professional & business services (-900), other services (-600) and financial activities (-400). The sectors that gained the most jobs in July were leisure & hospitality (+1,600), followed by education & health services (+400) and construction (+400).
- Over the year, DOL reported that nonagricultural employment in the state grew by 16,600 jobs on a seasonally adjusted basis.



- Connecticut has now recovered 86.1% (102,600 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 101st month and the state needs an additional 16,500 jobs to reach an overall employment expansion.
- A March 2018 analysis by CareerBuilder listed Connecticut as one of seven states that still have not fully recovered the jobs lost during the Great Recession. The analysis looked at the number of jobs states had in 2017 versus 2007.
- Connecticut's unemployment rate is estimated at 4.4 percent in July, unchanged from June 2018 and down two-tenths of point from a year ago when it was 4.6 percent. Nationally, the unemployment rate was 3.9 percent in July 2018, down one-tenth of a point from June. The chart below shows a comparison of the Connecticut and U.S. unemployment rates for the past three calendar years.



- DOL reports that July 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut grew by 234 claimants (+7.3 percent) to 3,445 from June 2018 and were lower by 413 claims (-10.7%) from the July 2017 level of 3,858.
- Among the major job sectors listed below, six experienced gains and four experienced losses in July 2018 versus July 2017 levels. DOL once again noted construction and manufacturing are the fastest growing sectors in the state's labor market on a percentage basis.

Payroll Employment Trend				
Jobs in thousands				
Sector	**6/18 (P)**	**6/17**	**Gain/Loss (000's)**	**% Change**
Construction	61.4	58.2	3.2	5.5%
Manufacturing	163.4	159.2	4.2	2.6%
Transp. & Public Utilities	298.0	297.4	0.6	0.2%
Information	31.0	31.4	-0.4	-1.3%
Financial	127.0	128.0	-1.0	-0.8%
Prof. & Business Svc.	221.8	218.1	3.7	1.7%
Education & Health Svc.	341.2	333.5	7.7	2.3%
Leisure & Hospitality	159.9	157.0	2.9	1.8%
Other Services	64.7	65.2	-0.5	-0.8%
Government	227.8	231.6	-3.8	-1.6%

Wage and $alary income

- July 2018 average hourly earnings at $31.87, not seasonally adjusted, were up $0.79, or 2.5 percent, from the July 2017 estimate. The resultant average private sector weekly pay amounted to $1,089.95, up $36.34 or 3.5 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 July 2018 was 2.9 percent.
- On June 21, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 4.6 percent 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 second quarter of 2018 on Sept. 25.

U.S. Bureau of Economic Analysis

Housing

- In its Aug. 7 release, Berkshire Hathaway HomeServices reported results for the Connecticut housing market for July 2018 compared with July 2017. Sales of single-family homes grew 2.16 percent, while the median sale price rose 5.59 percent. New listings decreased slightly by 0.65 percent in Connecticut and the median list price increased by 5.42 percent to $289,900 from a year ago. Average days on the market grew 29.51 percent in July 2018 compared to the same month in the previous year (79 days on average, up from 61 days). Finally, the list to sell price rose slightly to

97.9 percent, compared with 97.6 percent a year ago. The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

JULY 2018 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	July 2018	July 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	4879	4911	-0.65% ▼	36330	37637	-3.47% ▼
Sold Listings	3695	3617	2.16% ▲	20312	20657	-1.67% ▼
Median Listing Price	$289,900	$275,000	5.42% ▲	$269,900	$259,900	3.85% ▲
Median Selling Price	$285,000	$269,900	5.59% ▲	$265,000	$252,962	4.76% ▲
Median Days on Market	60	37	62.16% ▲	65	48	35.42% ▲
Average Listing Price	$432,885	$393,309	10.06% ▲	$404,427	$394,704	2.46% ▲
Average Selling Price	$417,707	$380,789	9.7% ▲	$389,390	$379,350	2.65% ▲
Average Days on Market	79	61	29.51% ▲	91	78	16.67% ▲
List/Sell Price Ratio	97.9%	97.6%	0.36% ▲	97.4%	97.1%	0.36% ▲

<u>Stock Market</u>

- After a steady rise and strong gains throughout calendar 2017, the Dow Jones Industrial Average (DOW) reached its peak in late January 2018. Since then, there has been significant turbulence and uncertainty in the stock market.
- 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 threatened 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. On the upside, recent corporate earnings results have been generally positive and, earlier this week, markets reacted favorably to a potential trade agreement between the United States and Mexico.
- As August 2018 draws to a close, the technology-heavy NASDAQ and the Standard & Poor's 500 indices have continued their climb above their January 2018 peaks, trading at or near historical highs as of this writing. Recent swings in the stock market are illustrated on the two charts that follow:

DOW

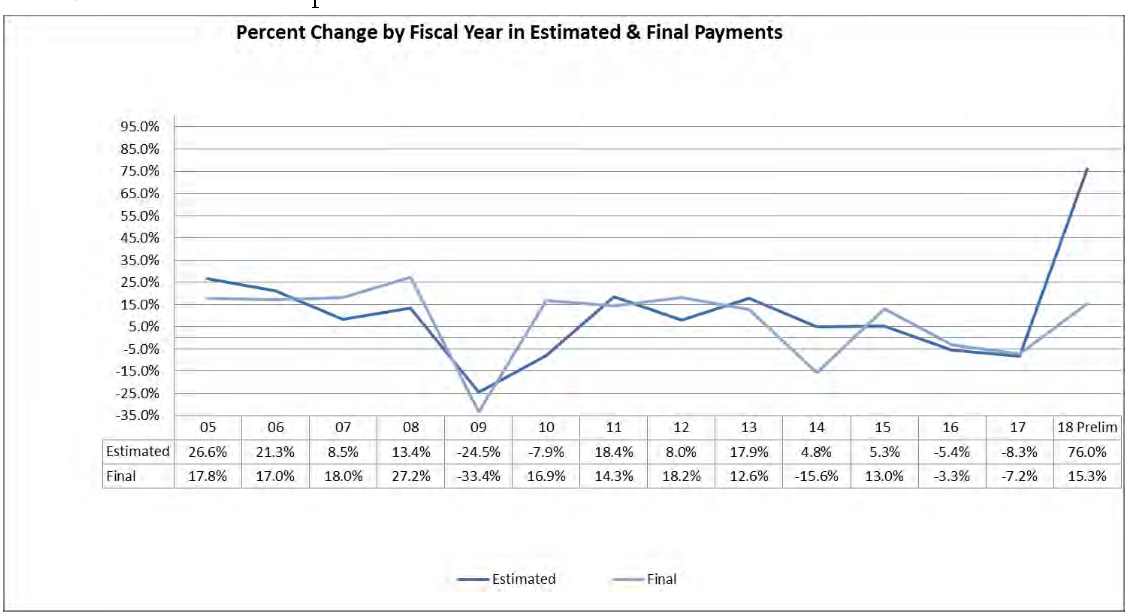
1 year
Daily market report
Add ticker
Chart
26,000
25,000
24,000
23,000
22,000
1 YEAR CHANGE 18.89%
Sep 2017
+12.63%
Jan 2018
-2.25%
May 2018
+7.72%

NASDAQ

1 year
Daily market report
Add ticker
Chart
8,000
7,500
7,000
6,500
1 YEAR CHANGE 27.41%
Sep 2017
+7.38%
Jan 2018
+2.36%
May 2018
+14.82%

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. 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. June collections also outperformed budget targets. Preliminary results through June 2018 show estimated payments growing by 76 percent fiscal year-to-date compared with the prior year, representing an increase of over $1.2 billion. Year-to-date final payments through June grew by $239 million or 15.3 percent over the same period a year ago. Preliminary figures for FY 2018, including year-end tax accruals, will be available at the end of September.

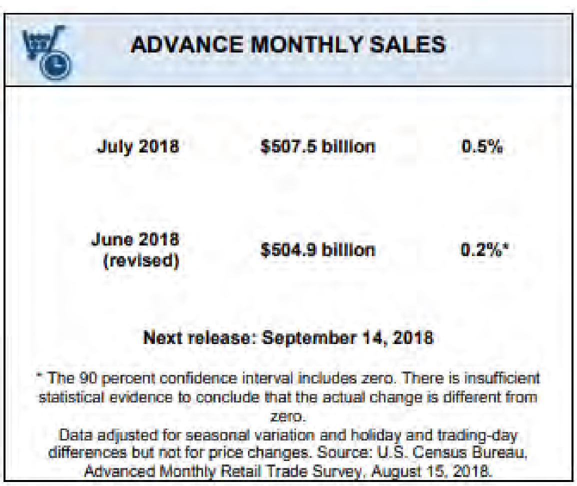


	05	06	07	08	09	10	11	12	13	14	15	16	17	18 Prelim
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	76.0%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%	-3.3%	-7.2%	15.3%

- 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 Office of the State Comptroller have estimated and final income tax collections totaling $4.61 billion for FY 2018, or $1.47 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, an estimated $940 million will be deposited into the BRF, bringing the total to $1.15 billion, or about 6.1 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 strong growth in July 2018, led by sales at gas stations, clothing stores and auto dealerships. The Commerce Department reported that advance retail sales grew 0.5 percent last month, to $507.5 billion. However, data for June was revised downward to show sales rising 0.2 percent instead of the previously reported gain of 0.5 percent.
- In July, receipts at service stations grew 0.8 percent, reflecting higher gasoline prices, while auto sales grew 0.2 percent. Sales at clothing stores rose 1.3 percent, after declining 1.6 percent in June and receipts at restaurants and bars increased 1.3 percent. On the down side, spending at hobby, musical instrument and book stores decreased 1.7 percent in July and sales furniture and home furnishing stores declined 0.5 percent.

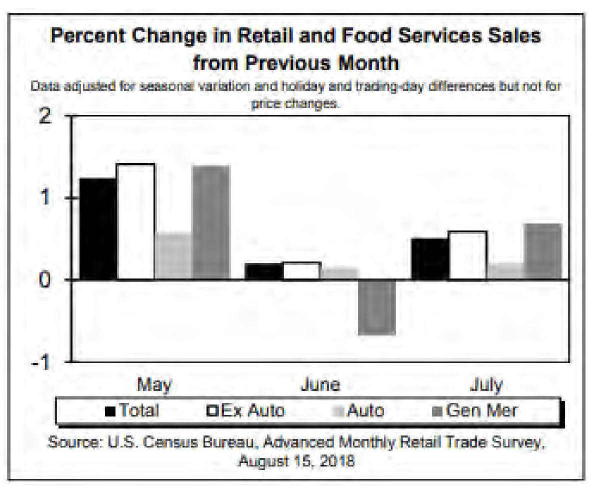


ADVANCE MONTHLY SALES

July 2018	$507.5 billion	0.5%
June 2018 (revised)	$504.9 billion	0.2%*

Next release: September 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, August 15, 2018.

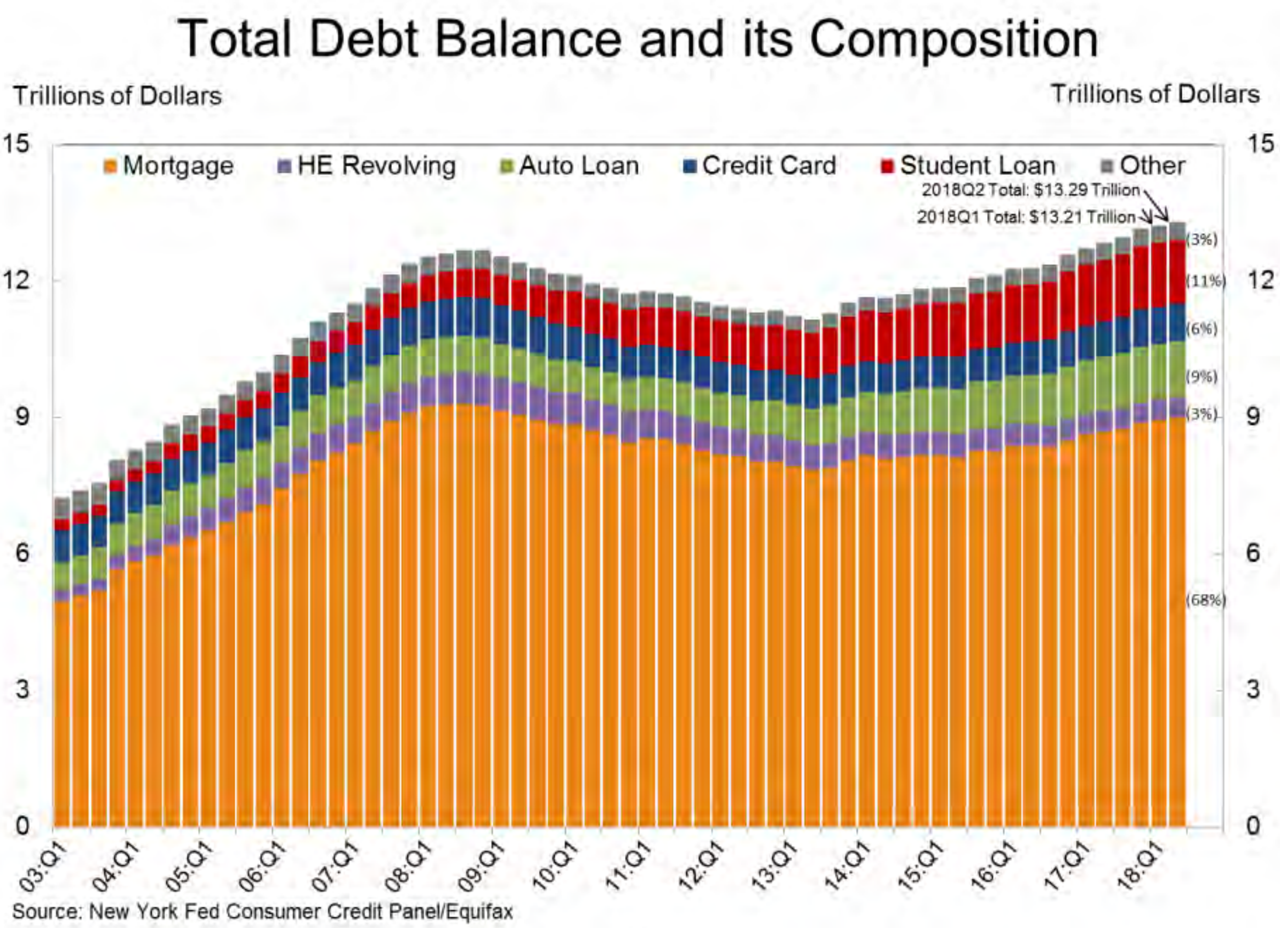


- In comparison to a year ago, the Commerce Department reported that retail sales were 6.0 percent above July 2017 levels. In addition, gas station sales were up 22.2 percent from July 2017, while non-store retailers grew 8.7 percent from last year.

<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 second quarter of 2018. Household debt has now grown in 16 consecutive quarters. As of June 30, 2018, 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.

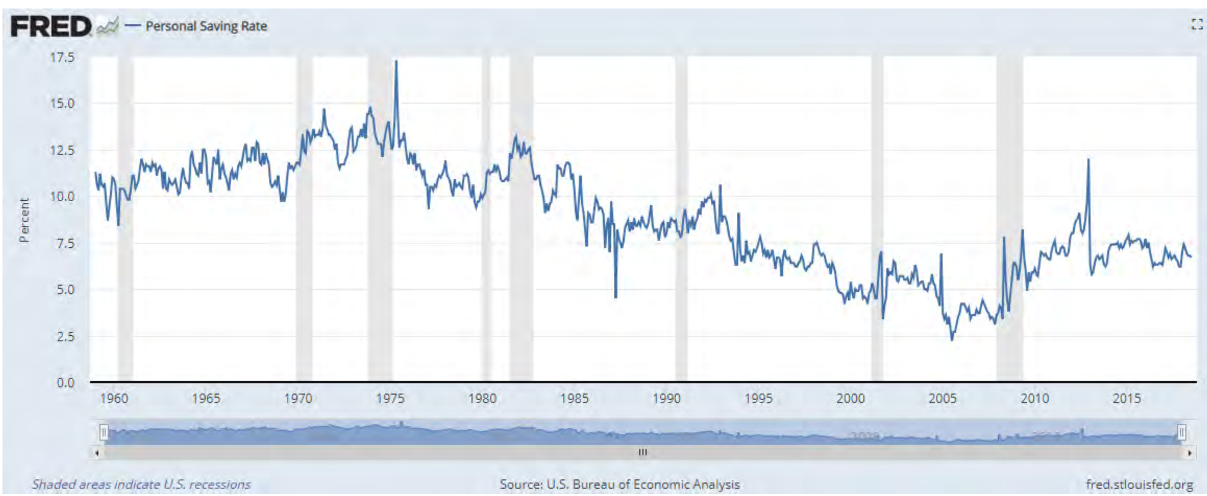


In the second quarter, mortgage delinquencies continued to improve, with 1.1 percent of mortgage balances 90 or more days delinquent in the second quarter, versus 1.2 percent in the first quarter. The report also noted transition rates into delinquency have fallen noticeably for student debt over the past year, partly due to an improved labor market.

Personal Savings Rate

In its Aug. 30 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.7 percent in July, down slightly from June's 6.8 percent rate.

The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through July 2018. The personal savings rate is defined as personal saving as a percentage of disposable personal income. 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.

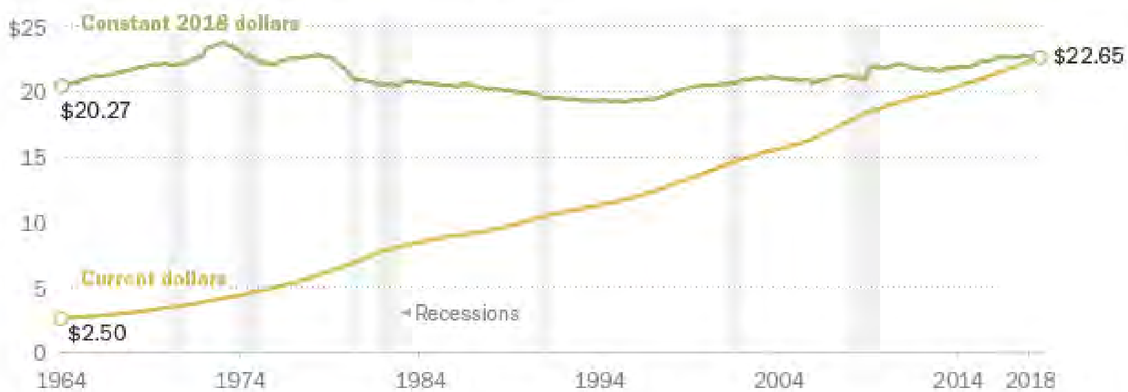
Real Wage Growth: Rising Inflation Limits Purchasing Power

As reported by a number of sources, despite a historically strong labor market, wage gains have lagged behind job growth.

An Aug. 7 report by Pew Research Center analyzed "real wage growth" for U.S. workers using data from the Bureau of Labor Statistics (BLS). Real wage growth is defined as wages adjusted for inflation over time. Pew found that paychecks are nominally bigger than they were decades ago, but due to inflation workers' purchasing power has stagnated and remains virtually unchanged from the late 1970's.

Americans' paychecks are bigger than 40 years ago, but their purchasing power has hardly budged

Average hourly wages in the U.S., seasonally adjusted



Note: Data for wages of production and non-supervisory employees on private non-farm payrolls. "Constant 2018 dollars" describes wages adjusted for inflation. "Current dollars" describes wages reported in the value of the currency when received. "Purchasing power" refers to the amount of goods or services that can be bought per unit of currency.
Source: U.S. Bureau of Labor Statistics.

PEW RESEARCH CENTER

Pew also reported that wage gains have largely gone to the highest earners over the past two decades. Since 2000, weekly wages have risen 3 percent (in real terms) among workers in the lowest tenth of the earnings distribution and 4.3 percent among the lowest quarter. However, among people in the top tenth of the distribution, real wages have risen a cumulative 15.7 percent, nearly five times the usual weekly earnings of the bottom tenth.

Along with other commonly cited reasons for slow wage growth (the decline of labor unions, employer non-compete clauses and lagging educational attainment relative to other countries) Pew points to the rising costs of benefits, including employer-provided health insurance. By one BLS compensation cost index, total benefit costs for all civilian workers have risen an inflation-adjusted 22.5 percent since 2001 compared with 5.3 percent for salary and wage costs.

The full article is available at the following link: http://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/

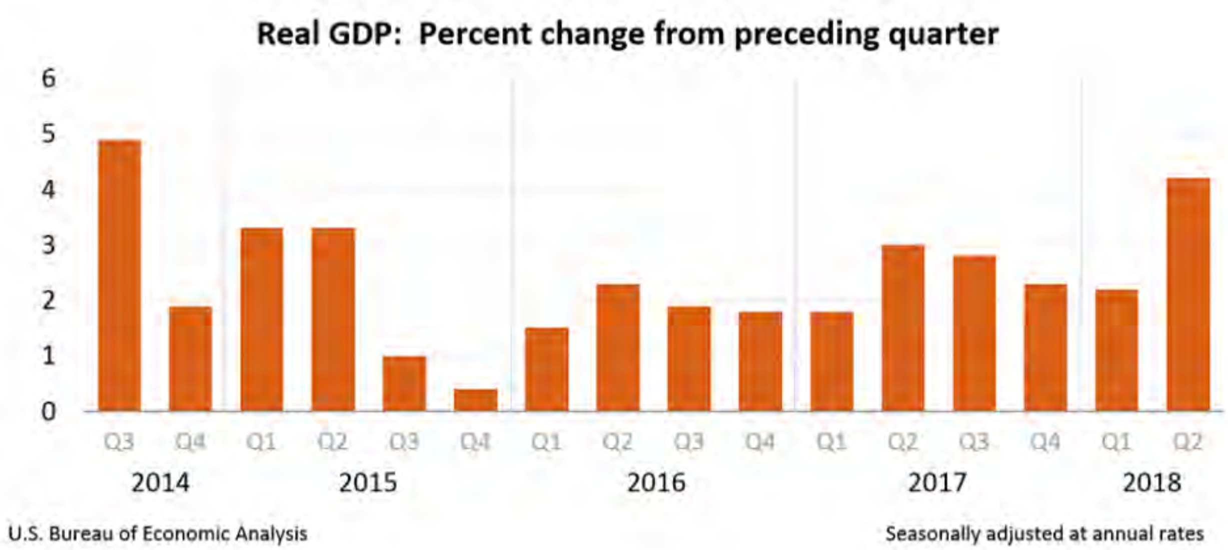
Consumer Confidence

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 increased significantly in August 2018. The Index now stands at 133.4, up from 127.4 in July. The August consumer confidence level was the highest reported since October 2000. The Conference Board noted these historically high confidence levels should continue to support healthy consumer spending in the near-term and suggest solid economic growth for the remainder of 2018.

Business and Economic Growth

According to an Aug. 29 report from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product grew at an annual rate of 4.2 percent in the second quarter of 2018, the strongest quarterly growth since 2014. This represented the second estimate for the quarter, which was revised up from the 4.1 percent advance second quarter estimate. First-quarter GDP growth was 2.2 percent.

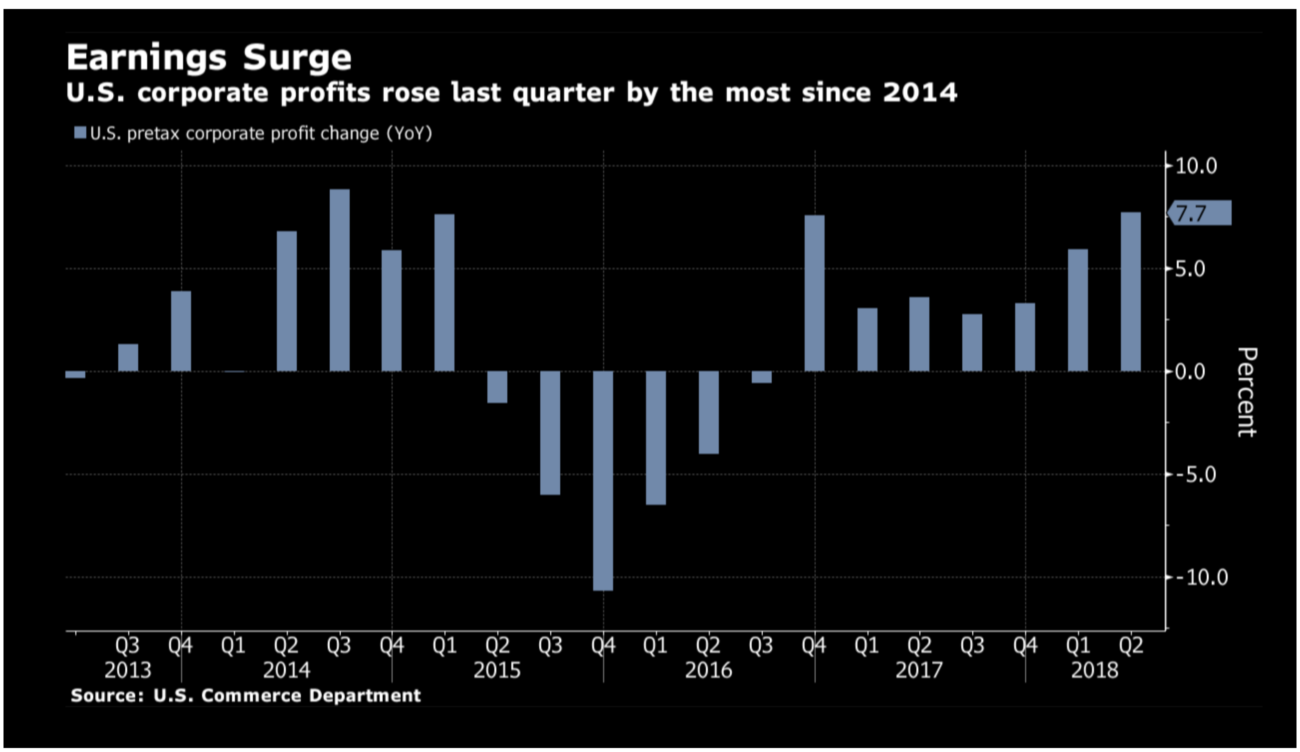


BEA reported the increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

Economists noted that some of the GDP growth was due to one-time factors and would likely decelerate in the second half of the year. For example, exports surged in the second quarter in part due to mounting trade tensions as foreign buyers stocked up on American products like soybeans before tariffs were imposed. Consumer spending increased, partly aided by tax cuts, but could be hampered later by limited growth in wages. Government spending also helped drive the second quarter increase due to the budget deal that Congress passed earlier this year.

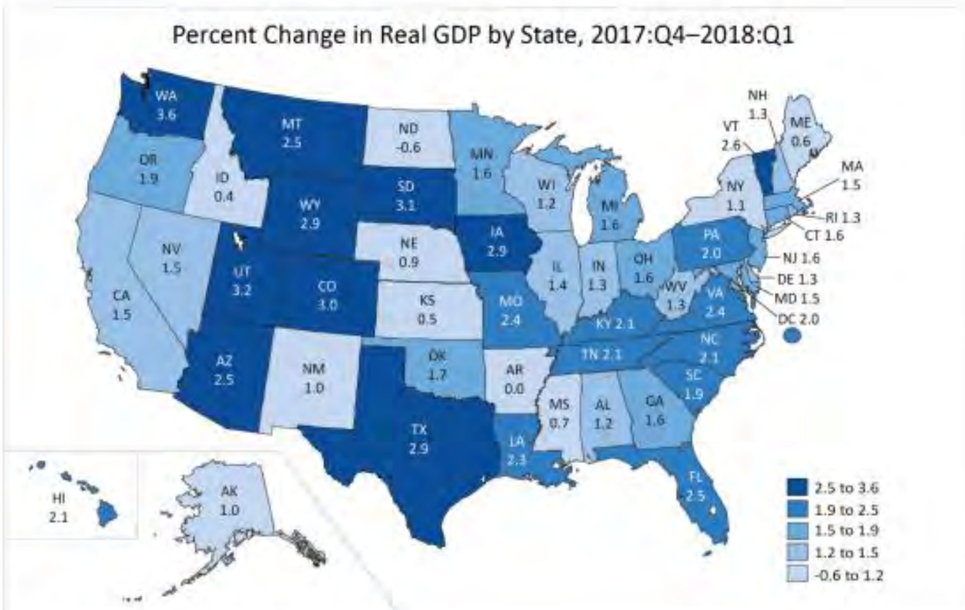
Corporate Profits

In the same Aug. 24 release, BEA reported U.S. pretax corporate profits increased 3.3 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 7.7 percent in the second quarter of 2018 compared with same quarter a year ago. (The source of the chart below is Bloomberg.)



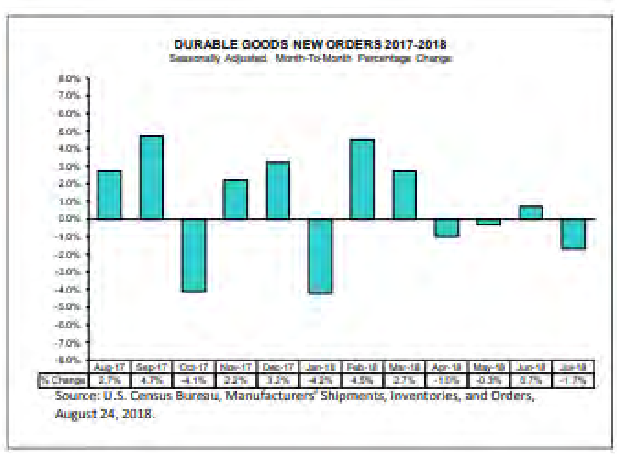
In a July 24 report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by state for the first quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 1.6 percent, which ranked 23rd in the nation overall. This growth rate was somewhat slower 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 November 14, 2018.



U.S. Bureau of Economic Analysis

According to an Aug. 24 report by the U.S. Department of Commerce, new orders for durable goods decreased $4.3 billion in July or 1.7 percent to $246.9 billion. This decline represented the third decrease in four months and followed a 0.7 percent increase in June. Much of the decline in durable goods came from a steep 35.4 percent drop in orders for nondefense aircraft, which can be a volatile category from month to month.



On the upside, orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, rose 1.4 percent last month. Data for June was revised higher to show these so-called "core capital goods" orders increasing 0.9 percent instead of the previously reported 0.6 percent gain.

Business spending on equipment is being supported by the $1.5 trillion income tax cut package, which came into effect in January. However, a number of analysts warn that escalating tensions between the United States and its major trade partners, including China, Mexico, Canada and the European Union, could offset the fiscal stimulus, disrupt supply chains and undercut economic growth later in the year.

*****END*****