News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO UPDATES FISCAL YEAR 2019 SURPLUS PROJECTION: $485.5 MILLION

Comptroller Kevin Lembo today, in his updated monthly projection, said the state is on track to end Fiscal Year 2019 with a surplus of $485.5 million, pending greater clarity in the coming final weeks of an uncertain tax cycle.

In a letter to Gov. Ned Lamont, Lembo said that his surplus projection is slightly lower than last month's projection, and slightly lower than the state Office of Policy and Management's (OPM) recent projection due to his belief that expenditures in the Adjudicated Claims account (the account used to pay SEBAC v. Rowland claims and other negotiated settlements) will be higher than OPM's projection.

For the third month in a row, Lembo again said he believes that the estimated payments portion of the income tax will be lower than projected by the state's consensus forecast, although that difference will have no impact on the surplus (it would, however, affect the amount transferred to the state's Budget Reserve Fund at the end of the year).

"I would caution that April remains the most important month for revenue collections, especially for the final payments portion of the income tax," Lembo said. "Due to significant federal tax changes, and state-level changes in response, this year's cycle is more difficult to predict than usual. The withholding portion of the income tax continues to exceed budget targets, as do refunds. The newly enacted Pass-through Entity tax on partnerships and S corporations is performing well and may help offset some of the shortfall to date in income tax estimated and final payments. As a result, current projections could change dramatically when the next consensus revenue forecast is released on April 30."

Lembo said that, while economic uncertainty persists across several key indicators, Connecticut is on the verge of reaching a key milestone toward fiscal stability.

"Volatile financial markets, federal trade policy and global uncertainty are beyond our control – but Connecticut *can* control for its own preparedness for these realities," Lembo said. "Our state had a savings rate close to zero only a few short years ago, leaving us vulnerable to devastating program cuts and tax increases at the worst possible time. When the next recession comes, and it will, Connecticut will be better prepared as the state continues to move along the path to its goal of a Budget Reserve Fund that is 15 percent of General Fund expenditures. Connecticut must keep to this promise of financial discipline."

A state revenue volatility cap, adopted only a few years ago, requires that revenues above a certain threshold be transferred to the state's Budget Reserve Fund (BRF). Lembo, who advocated for this measure and continues to push for a fully funded BRF, provided the following update:

- For Fiscal Year 2019, the volatility cap is $3.19 billion (meaning any estimated and final income tax payments and revenue from the Pass-through Entity tax above that amount must be transferred to the BRF).
- If Lembo's current projections are realized, a $548-million transfer would be made to the BRF at the end of the fiscal year.
- The current balance of the BRF is $1.18 billion.
- Adding Lembo's estimated volatility transfer of $548 million, plus the projected surplus of $485.5 million, would bring the year-end BRF balance to just over $2.2 billion (or approximately 11.7 percent of General Fund expenditures.

"This result, if achieved, would represent a significant improvement over the recent past and move the state's savings rate (BRF balance) closer to the statutory target of 15 percent," Lembo said. "At the same time, a number of forecasts are predicting slower growth for the United States and other major economies."

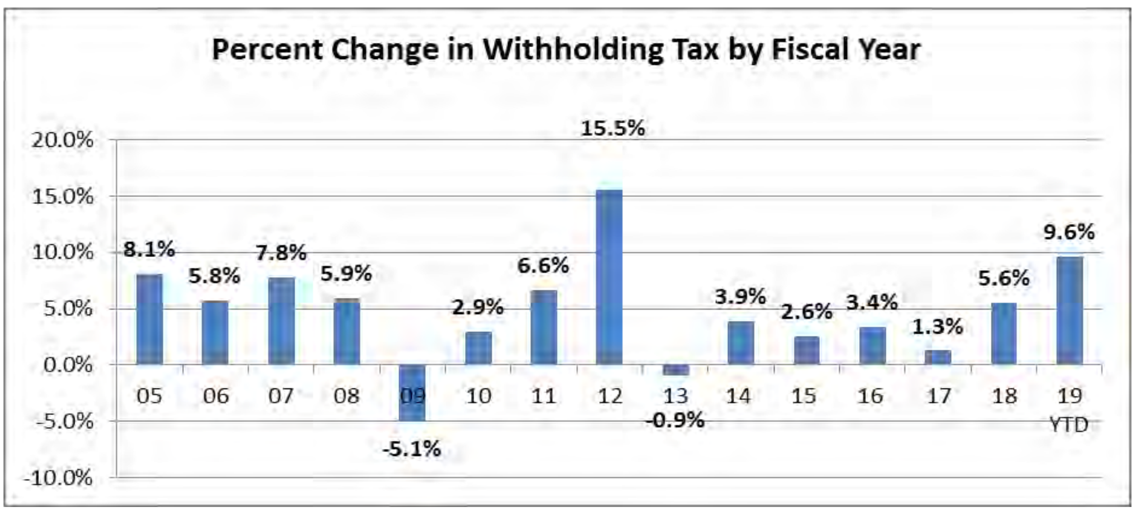
Lembo pointed to testimony before Congress by Federal Reserve Chairman Jerome Powell who recently warned of growing risks to the economy, including a global slowdown, volatile financial markets and uncertainty about Brexit and U.S. trade policy.

"All of these risk factors are beyond the control of state policy makers in Connecticut – however, policy makers can help ensure that Connecticut continues to build a strong balance in the Budget Reserve Fund to protect against any future downturn that might result," Lembo said.

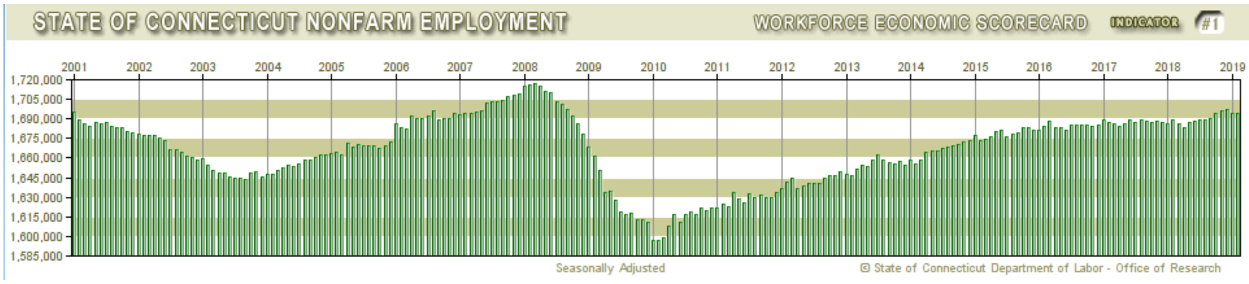
Lembo pointed to various economic indicators and trends from national and state sources that show:

Employment

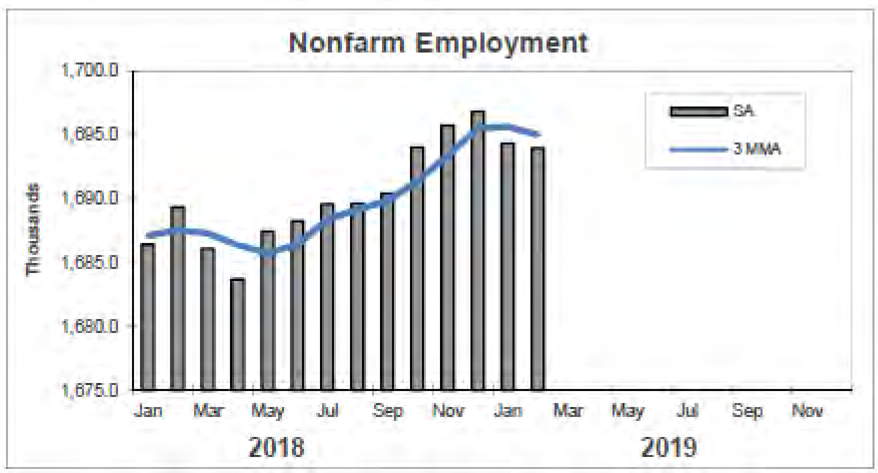
- After a solid performance in FY 2018, preliminary results for FY 2019 through February 2019 show withholding receipts grew by 9.6 percent compared with the corresponding period in the prior fiscal year. The strong growth in withholding is somewhat at odds with recent revisions in Connecticut's job data, which show modest year-over-year gains.



- Current estimates based on the consensus revenue forecast have the withholding portion of the income tax growing by approximately 5.4 percent over FY 2018 realized amounts. Withholding collections to date, therefore, are coming in well ahead of the budget targets for FY 2019. However, the Office of the State Comptroller agrees with the more conservative projection for withholding at this point in time. The consensus forecast also showed that tax refunds are running ahead of expectations. Therefore, until April results are known, a cautious approach is warranted for this forecast.



- On March 21, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for February 2019 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 400 net jobs in February, to a level of 1,693,900, seasonally adjusted. In addition, January's originally-released job gain of 1,000 was revised sharply downward to a loss of 2,500 jobs over the month. DOL noted part of the reduction was related to the normal benchmark revision process as more data became available. The other factor was a correction to estimates for the construction sector.



- Over the year, DOL reported that nonagricultural employment in the state grew by 4,600 jobs on a seasonally-adjusted basis. Connecticut has now recovered 80.7 percent (97,100 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of February, the job recovery was into its 109th month and the state needed an additional 23,200 new net jobs to reach an overall employment expansion.

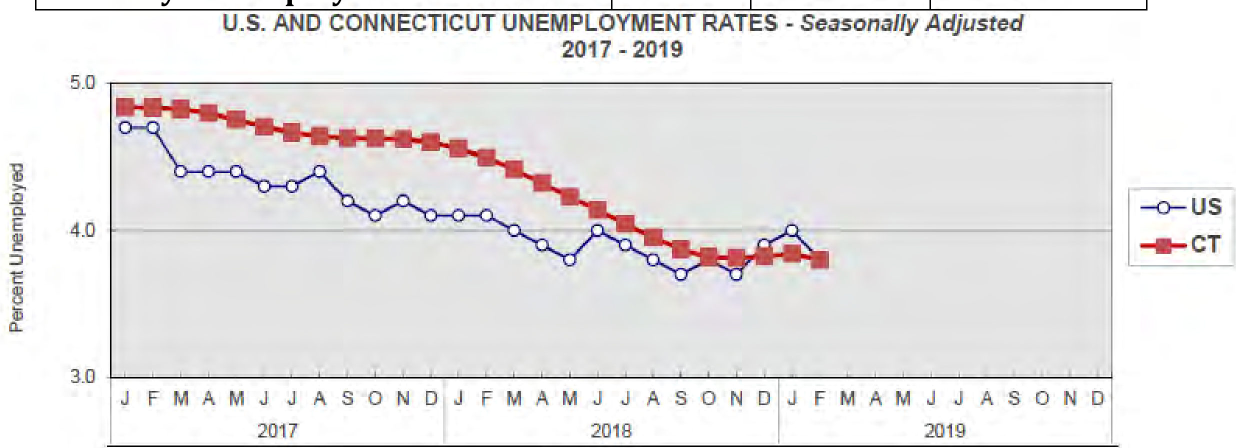
Connecticut's Recessionary Job Loss and Recovery March 2008 - February 2019

	March 2008	January 2010	February 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,693.9	-120.3	97.1	80.7%
Total Private Sector	1,457.4	1,345.4	1,456.9	-112.0	111.5	99.6%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated: March 21, 2019

- Connecticut's unemployment rate stood at 3.8 percent in February, unchanged from the revised January figure and down seven-tenths of a point from a year ago when it was 4.5 percent. Nationally, the unemployment rate was 3.8 percent in February 2019, down two-tenths of a point from January's revised estimate. The chart below shows a comparison of the Connecticut and U.S. unemployment rates over the past three calendar years.
- Among the major job sectors listed below, seven experienced gains and three experienced losses in February 2019 versus February 2018 levels. Construction, information and leisure & hospitality were the fastest growing sectors in the state's labor market on a percentage basis. The professional & business services, transportation & public utilities and other services sectors experienced job losses.

Payroll Employment Trend



Jobs in thousands				
Sector	**2/19 (P)**	**2/18**	**Gain/Loss (000's)**	**% Change**
Construction	62.0	58.5	3.5	6.0%
Manufacturing	161.4	160.0	1.4	0.9%
Transp. & Public Utilities	294.1	298.0	-3.9	-1.3%
Information	33.1	32.0	1.1	3.4%
Financial	126.5	126.4	0.1	0.1%
Prof. & Business Svc.	217.6	220.8	-3.2	-1.4%
Education & Health Svc.	336.2	334.1	2.1	0.6%
Leisure & Hospitality	161.0	157.1	3.9	2.5%
Other Services	64.5	65.0	-0.5	-0.8%
Government	237.0	236.8	0.2	0.1%
Total Connecticut Non-Farm Employment	**1,693.9**	**1,689.3**	**4.6**	**0.3%**

Wage and $alary income

- February 2019 average hourly earnings at $32.68, not seasonally adjusted, were up $1.10 or 3.5%, from the February 2018 estimate. The resultant average private sector weekly pay amounted to $1,081.71, up $17.46 or 1.6% higher than a year ago. However, 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 February was a modest 1.5%.
- On March 26, the Bureau of Economic Analysis (BEA) reported that Connecticut's personal income grew by a 3.4 percent annual rate for 2018. Based on this result, Connecticut ranked 42nd in the nation for 2018 income growth. This growth rate was below both the national average of 4.5 percent and the New England region's average rate of 3.9 percent. The percent change in personal income across all states ranged from 6.8 percent in Washington to 2.9 percent in Hawaii.

U.S. Bureau of Economic Analysis

- In the same report, BEA issued preliminary results for personal income growth between the third and fourth quarters of 2018. On this separate measure, Connecticut fared better growing at a seasonally adjusted 5.2-percent rate in the fourth quarter of 2018. Based on this level of growth, Connecticut ranked 22nd in the nation, equal to the U.S. average. It also represented the strongest growth rate in the New England region for the period.

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for February 2019 compared with February 2018. Sales of single-family homes fell 2.20 percent, while the median sale price declined 2.08 percent. New listings dropped by 11.91 percent in Connecticut and the median list price fell by 4.00 percent to $239,900 from a year ago. Average days on the market decreased 11.43 percent in February 2019 compared to the same month in the previous year (93 days on average, down from 105 days). Finally, the list to sell price increased slightly to 96.8 percent, compared with 96.5 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

FEBRUARY 2019 | SINGLE FAMILY HOMES

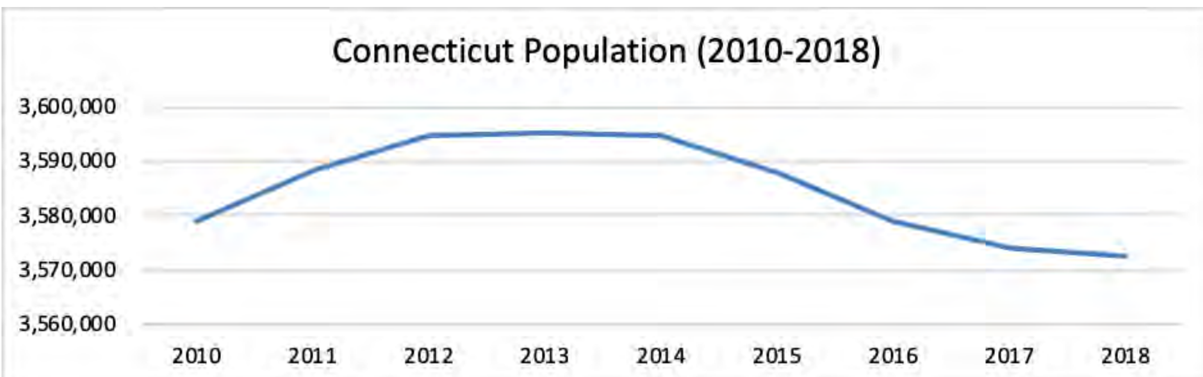
Market	Month to Date			Year to Date		
Summary	February 2019	February 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	3756	4264	-11.91%	7360	7634	-3.59%
Sold Listings	1780	1820	-2.2%	3799	3970	-4.31%
Median Listing Price	$239,900	$249,900	-4%	$239,900	$249,900	-4%
Median Selling Price	$235,000	$240,000	-2.08%	$235,000	$244,950	-4.06%
Median Days on Market	70	81	-13.58%	67	80	-16.25%
Average Listing Price	$344,744	$380,343	-9.36%	$349,976	$386,993	-9.57%
Average Selling Price	$328,839	$362,840	-9.37%	$334,871	$369,137	-9.28%
Average Days on Market	93	105	-11.43%	89	103	-13.59%
List/Sell Price Ratio	96.8%	96.5%	0.29%	96.8%	96.7%	0.13%

- For the U.S. housing market, existing-home sales experienced a strong rebound for the month in February, according to the National Association of Realtors (NAR). February sales were up 11.8 percent from January to a seasonally adjusted annual rate of 5.51 million. Three of the four major U.S. regions saw sales gains, while the Northeast remained unchanged from last month. Compared with a year ago, however, U.S. sales were down 1.8 percent (5.61 million in February 2018).
- According to NAR, the median existing-home price for all housing types in February was $249,500, up 3.6 percent from February 2018. February's price increase marks the 84th straight month of year-over-year gains. Total housing inventory at the end

of February increased to 1.63 million, up from 1.59 million existing homes available for sale in January, a 3.2 percent increase. Unsold inventory is at a 3.5-month supply at the current sales pace, down from 3.9 months in January, but up from 3.4 months in February 2018. Properties remained on the market for an average of 44 days in February, down from 49 days in January but up from 37 days a year ago. NAR also reported that forty-one percent of homes sold in February were on the market for less than a month.

Population

- On Dec. 19, the U.S. Bureau of the Census released its population estimates for July 1, 2018. Connecticut's population declined slightly between 2017 and 2018 and now stands at 3,572,665. This represents a decrease of 0.03% from the prior year's estimate. Over the longer term, Connecticut was one of only three states to lose population since the 2010 Census as shown on the chart below.



- Connecticut's demographic trends can have an impact on the state's economy. As the baby boom generation continues to retire and leave the workforce, both economic demand and output could be further reduced. In short, Connecticut's lack of population growth remains a constraint to the State's potential for economic expansion.

Stock Market

- After significant declines in December and a volatile close to calendar year 2018, the major stock market indices have generally been recovering ground in the early months of 2019. As of this writing the DOW, NASDAQ and S&P 500 were all up 10 percent or more year-to-date. Stock market activity for the past year is illustrated on the three charts that follow:

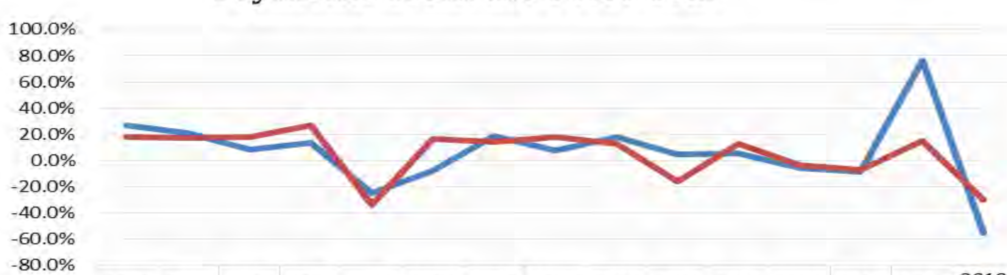
DOW

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 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 most state residents file their 2018 federal tax returns over the next month. Many Connecticut taxpayers will likely face a higher federal tax burden.
- State estimated payment collections were down significantly in December 2018 compared with recent years. This is likely due to the change in incentives related to the limits to the SALT deduction for Federal tax purposes. Due to the strict Federal limits, high income taxpayers have little incentive to make payments before year-end.
- Through February 2019, combined collections of estimated and final payments were 51.2 percent lower than the same period a year ago. It should be noted that the rapid growth in estimated payments during FY 2018 began in December and January time period last year, largely due to one-time events. Therefore, it is not surprising to see FY 2019 year-to-date collections falling behind FY 2018's torrid pace. Looking forward, the most significant month for tax collection continues to be April, especially for final income tax payments. Despite the current year surplus, policy makers should therefore maintain budget discipline awaiting more information on April's receipts, which will have a significant impact on final year-end results.

Percent Change By Fiscal Year in Estimated & Final Payments from the Prior Year

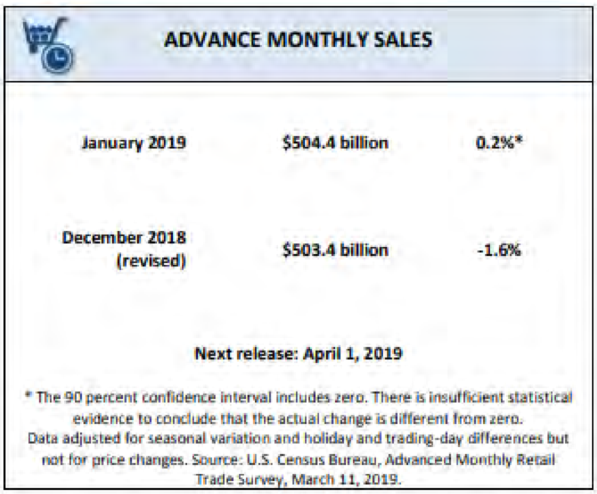


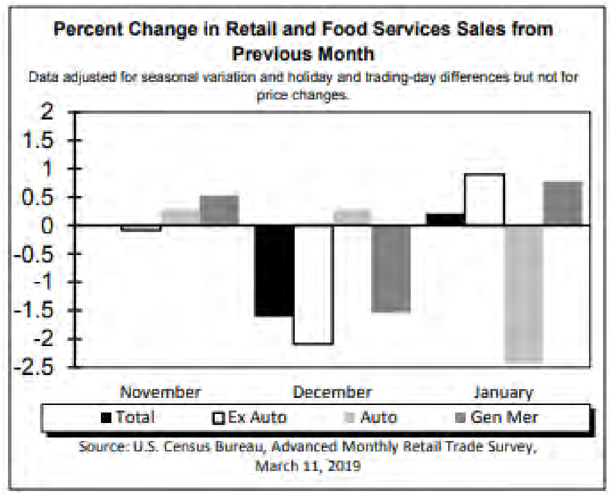
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	76.0%	-55.0
Final	17.8%	17.0%	18.0%	27.2%	-33.4	16.9%	14.3%	18.2%	12.6%	-15.6	13.0%	-3.3%	-7.2%	15.3%	-30.2

Estimated Final

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 increased 0.2 percent in January 2019, a small reversal compared with the significant drop-off in the previous month. Data for December was revised down to show an even sharper retail sales decline of 1.6 percent instead of 1.2 percent as previously reported.



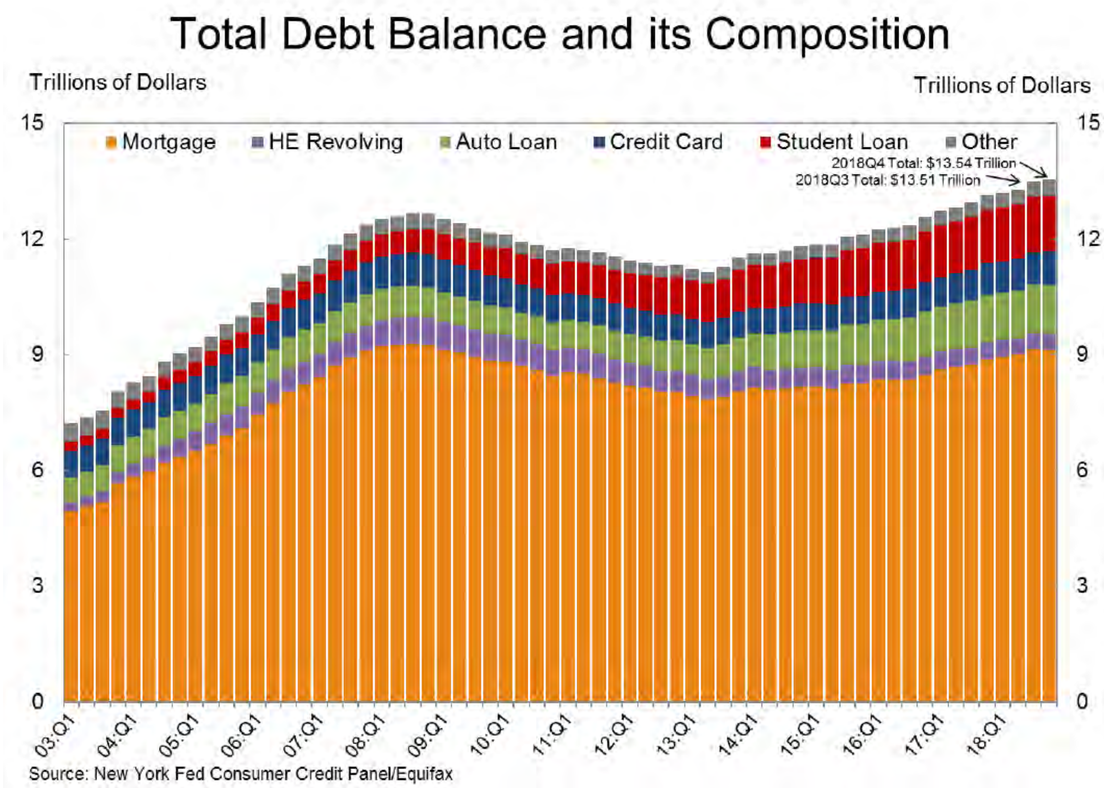


- Categories that led the way for gains in January retail sales included building material & garden supply dealers, sporting goods & hobby stores and non-store retailers. Auto dealers, gasoline stations, furniture and clothing stores all experienced declines in receipts for the month.
- Tepid retail sales data combined with disappointing U.S. job gains in February may indicate signs of slowing growth for the economy in the first quarter of 2019.

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 fourth quarter of 2018. Household debt has now grown in 18 consecutive quarters. As of December 30, 2018, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.54 trillion. This represented an increase of $32 billion (0.2%) from the third quarter of 2018. In addition, overall household debt is now 21.4% 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 – stood at $9.1 trillion during the fourth quarter, essentially unchanged from the third quarter of 2018. At $1.46 trillion, student loans were the second largest category of household debt. Student loan balances grew by $15 billion in the fourth quarter. Balances on home equity lines of credit (HELOC), continuing their downward trend, declined by $10 billion to $412 billion, the lowest level seen in 14 years. Auto loans grew by $9 billion, while credit card balances increased by $26 billion.



- The report noted that the increase in credit card balances is consistent with seasonal patterns but marks the first time credit card debt re-touched the 2008 peak. Credit card balances now stand at $870 billion.
- The Federal Reserve reported that aggregate delinquency rates remained steady in the fourth quarter of 2018. As of December 31, 4.7 percent of outstanding debt was in some stage of delinquency, unchanged from the third quarter. Of the $630 billion of debt that is delinquent, $416 billion is seriously delinquent (at least 90 days late). The flow into 90+ day delinquency for credit card balances has been rising since 2017, while the flow into 90+ day delinquency for auto loan balances has been slowly trending upward since 2012.

Personal Savings Rate

- In its March 29 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 7.5 percent in January 2019. This is a small step back from December's 7.7 percent revised rate. However, it still represents a significant increase from November's rate of 6.2 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income.

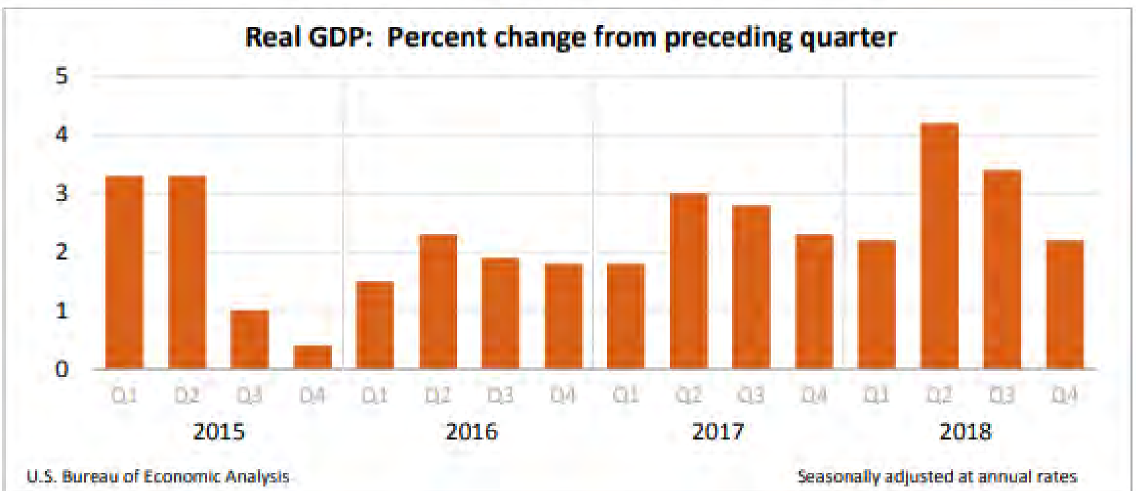
- Notwithstanding improvement in recent months, the personal savings rate remains low by historical standards. A number of economists see the general decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error in case of a downturn, 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. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.
- The Conference Board reported that the Consumer Confidence Index declined in March, after increasing in February. The Index now stands at 124.1 down from 131.4 in February.
- The Conference Board noted that confidence has been somewhat volatile over the past few months, as consumers have dealt with volatility in the financial markets, a partial government shutdown and a very weak February jobs report. The overall trend in confidence has been softening since last summer, pointing to a moderation in economic growth.

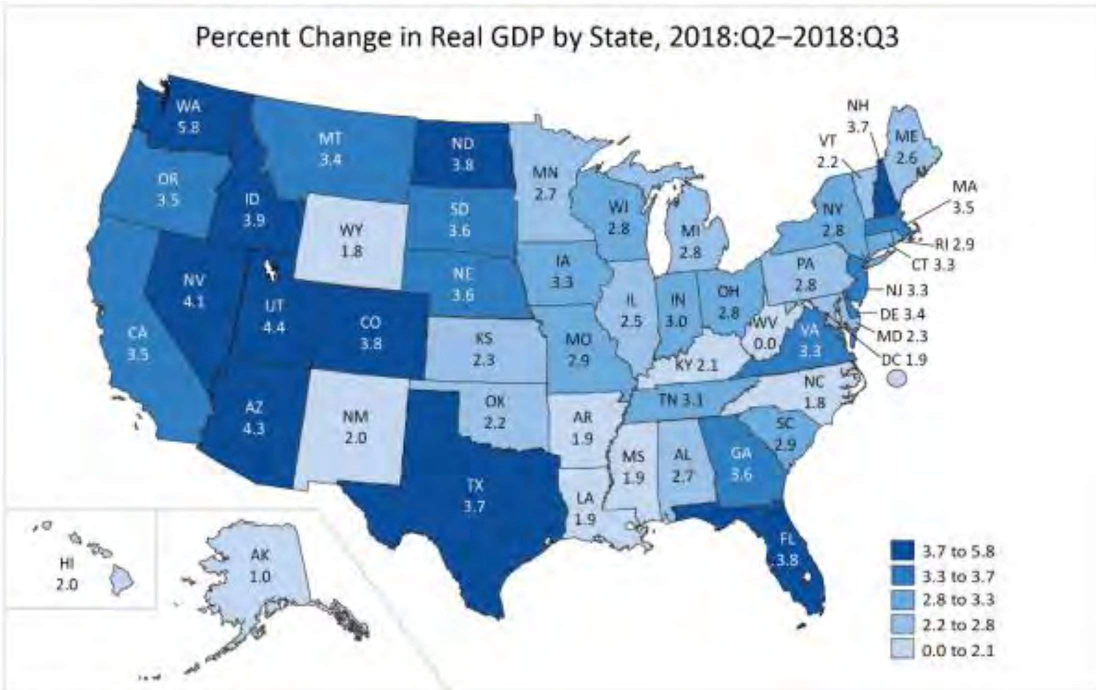
Business and Economic Growth

- According to a March 28 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 2.2 percent in the fourth quarter of 2018. This is an updated estimate for the quarter based on more complete data and it was revised downward from the previously released initial estimate of 2.6 percent. This represents a deceleration from the stronger growth of 3.4 percent in the third quarter and 4.2 percent in the second quarter. At the same time, the fourth quarter results were better than some analysts expected. The downward revision for the fourth quarter was in line with the expectations of economists polled by Dow Jones.



- According to BEA the increase in real GDP in the fourth quarter reflected positive contributions from consumer spending, business spending on equipment, exports, private inventory investment, and federal government spending. Those were partly offset by negative contributions from residential construction, and state and local government spending. Imports, which are treated as a subtraction in the calculation of GDP, increased during the quarter.
- For the 2018 calendar year the U.S. economy grew at a pace of 2.9 percent, up from 2.2 percent growth in 2017. Slowing GDP growth in the fourth quarter was in part attributed to the fading fiscal stimulus of the Federal tax cuts, trade tensions with China and a weakening housing market.

- In a Feb. 26 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the third quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 3.3 percent, which ranked 21st in the nation overall. This growth rate was slightly below the national average of 3.4 percent and equal to the New England regional average. The percent change in real GDP in the third quarter ranged from 5.8 percent in Washington to 0.0 percent in West Virginia.

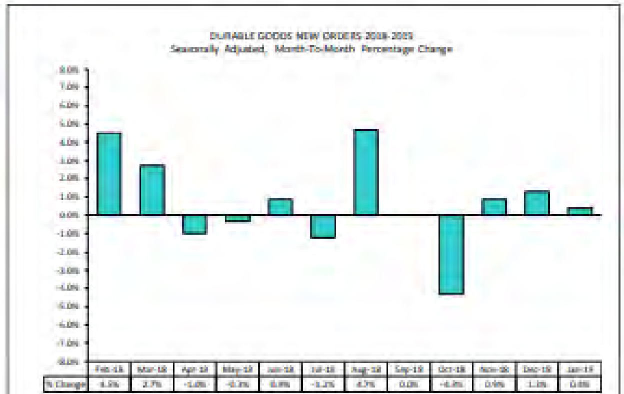


U.S. Bureau of Economic Analysis

- BEA data indicated the sectors that contributed most to Connecticut's growth in the third quarter of 2018 were finance & insurance (+0.64%), nondurable goods manufacturing (+0.46%), information (+0.38%) and wholesale trade (+0.37). Fourth quarter state-level GDP data will be released by BEA on May 1, 2019.

Durable Goods

- According to a March 13 report by the U.S. Department of Commerce, new orders for manufactured durable goods rose $0.9 billion in January or 0.4 percent to $255.3 billion. This growth followed a 1.3 percent increase in December. Durable goods orders have now risen for three consecutive months.
- Transportation equipment, up five of the last six months, drove the increase, $1.0 billion or 1.2 percent to $90.9 billion. Orders for commercial planes jumped 15.9 percent in December.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, March 13, 2019.

- After two months of declines, so-called core capital goods orders increased 0.8 percent in January. This category includes non-defense capital goods excluding aircraft and is widely viewed as a proxy for business investment. General weakness in this category has been surprising for economists who expected more businesses to take advantage of new federal tax incentives for capital equipment purchases.

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