News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $31.6-MILLION DEFICIT FOR FISCAL YEAR 2020 FOLLOWING CONSENSUS REVENUE UPDATE

Comptroller Kevin Lembo today projected a Fiscal Year 2020 budget deficit of $31.6 million to reflect November's updated revenue consensus forecast and revised expenditure outlook.

In a letter to Gov. Ned Lamont, Lembo said the update reflects a consensus revenue forecast reduction of $84.5 million by the state Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA), as well as a $24-million net deficit projected in the fringe benefit accounts, primarily due to fewer than anticipated retirements.

Lembo said additional forecast adjustments, as reported in OPM and OFA's updated consensus forecast, include a $100-million increase in tax refunds, mostly due to larger than expected refunds for the income tax and Pass-Through Entity Tax, as well as a $20.7-million reduction in revenue related to the new plastic bag surcharge.

"In contrast, the sales and use tax has performed above expectations and projections were increased by $39.8 million," Lembo said. "Receipts for the personal income tax, corporations tax and pass-through entity tax all remained in line with budget targets and, therefore, no changes were made in the consensus forecast."

The statutory revenue volatility cap, which requires revenue above a certain threshold to be transferred to the Budget Reserve Fund (BRF) – often referred to as the "rainy day fund" – is $3.3 billion for estimated and final income tax payments and revenue from the pass-through entity tax for Fiscal Year 2020.

The update for the BRF outlook is:

- If current projections are realized, a $318.3-million volatility transfer would be made to the BRF at the close of the fiscal year;
- The balance of the BRF currently stands at $2.5 billion;
- Adding the estimated $318.3-million volatility transfer, less the projected FY 2020 deficit of $31.6 million, would bring the year-end BRF balance to approximately $2.79 billion;
- This balance, if achieved, would represent approximately 14 percent of net General Fund appropriations for FY 2021.

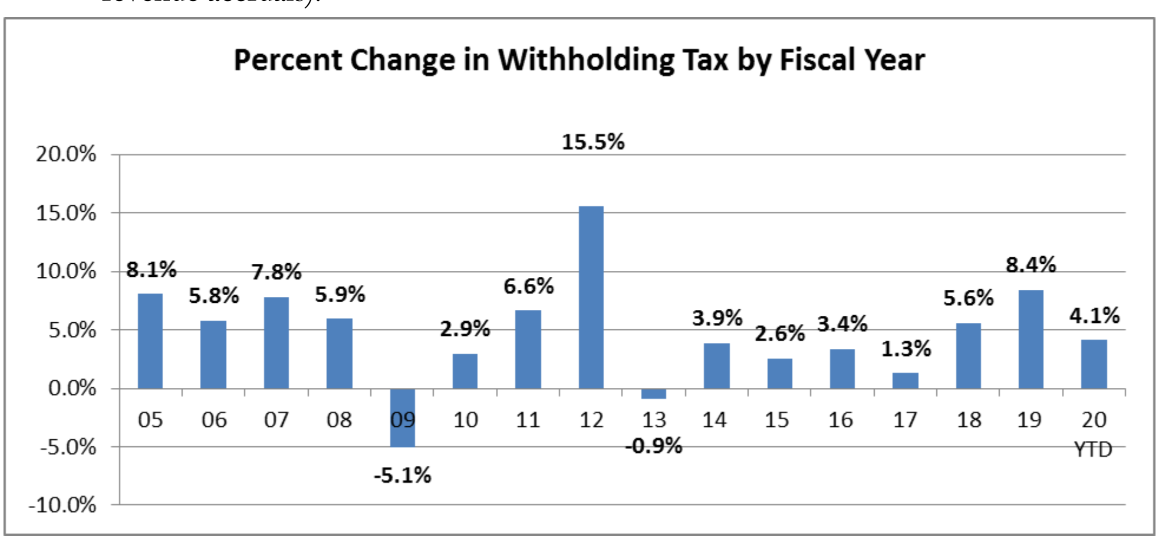
“In order to help protect against future economic downturns, Connecticut must maintain financial discipline and continue building the BRF balance to the statutory target of 15 percent,” Lembo said.

“Connecticut’s budget results are ultimately dependent upon the performance of the national and state economies.”

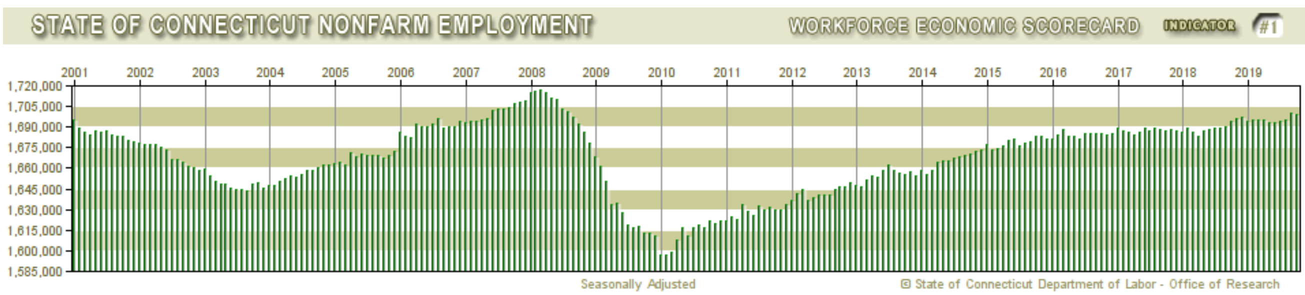
Lembo pointed to recent economic indicators and trends from national and state sources that show:

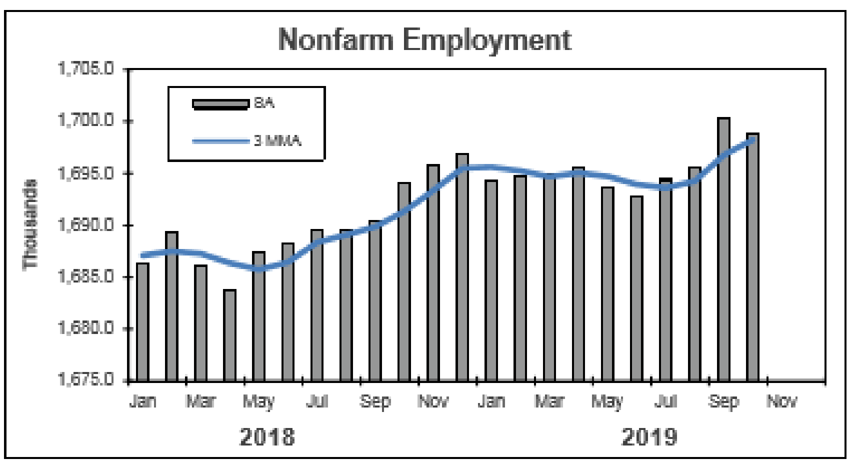
Employment

- Final results for FY 2019 showed withholding receipts grew by a strong 8.4 percent compared with the prior fiscal year. This is especially significant because the withholding portion of the income tax is the largest single General Fund revenue source.
- Through October 2019, withholding receipts are in generally line with the budget plan, which calls for growth of 4.1 percent over FY 2019 levels. This growth rate to date reflects the underlying trend for receipts (factoring out the year-end statutory revenue accruals).



- On Nov. 18, Connecticut DOL (Department of Labor) reported the preliminary Connecticut nonfarm job estimates for October 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 1,500 net jobs in October, to a level of 1,698,000, seasonally adjusted. DOL noted a significant portion of the decline came from the trade sector. October's job losses were the first seen since June 2019. At the same time, September's originally-released job gain of 3,600 was revised upward by 1,100 to a gain of 4,700 jobs over the month.





- Over the year, DOL reported that nonagricultural employment in the state grew by 4,800 jobs on a seasonally-adjusted basis. Connecticut has now recovered 84.8 percent (102,000 payroll job additions) of the 120,300 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of October, the job recovery was into its 116th month and the state needed an additional 18,300 new net jobs to reach an overall employment expansion.

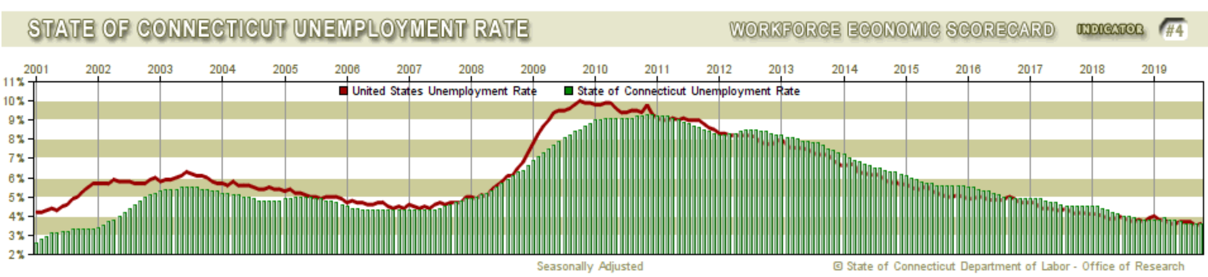
- Within the job recovery numbers, DOL points out a significant distinction. The private sector has recovered more than the total jobs lost in the recession (105.5 percent), which means the remaining employment losses are from the government sector. This sector includes all federal, state and local government employment, including public education, and Native American tribal government.

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

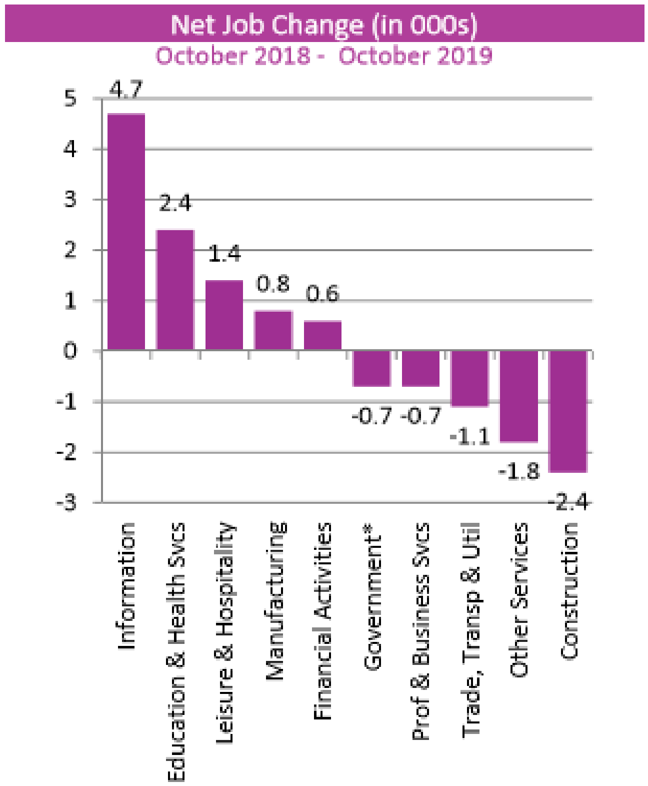
	March 2008	January 2010	October 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,698.8	-120.3	102.0	84.8%
Total Private Sector	1,457.4	1,345.4	1,463.6	-112.0	118.2	105.5%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated: November 18, 2019

- Connecticut's unemployment rate stood at 3.6 percent in October, unchanged from the revised September figure and down two-tenths of a point from a year ago when it was 3.8 percent. Nationally, the unemployment rate was 3.6 percent in October 2019, up one-tenth of a point from September's revised estimate of 3.5 percent. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 2001.



- Among the job major sectors listed below, five experienced gains and five had losses in October 2019 versus October 2018 levels. Information, education & health services and financial activities were the fastest growing sectors in the state's labor market on a percentage basis. The construction, other services, and professional & business services sectors experienced the largest job losses.



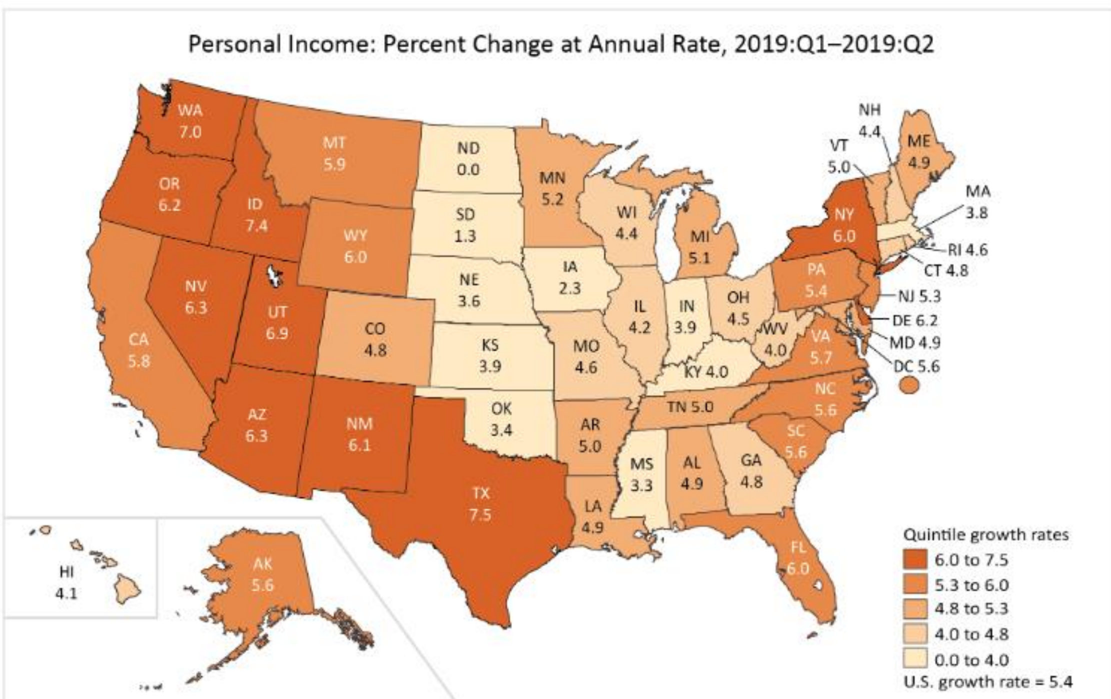
Payroll Employment Trend				
October 2019 Versus October 2018				
Sector	**Oct. 2019 (P)**	**Oct. 2018**	**Gain/Loss**	**% Change**
Construction and Mining	58,200	59,600	-1,400	-2.3%
Manufacturing	161,800	160,500	1,300	0.8%
Trade, Transportation & Utilities	292,900	296,300	-3,400	-1.1%
Information	33,500	32,000	1,500	4.7%
Financial Activities	127,300	126,500	800	0.6%
Professional & Business Services	219,700	221,300	-1,600	-0.7%
Education & Health Services	344,700	336,500	8,200	2.4%
Leisure & Hospitality	161,500	159,200	2,300	1.4%
Other Services	64,000	65,200	-1,200	-1.8%
Government	235,200	236,900	-1,700	-0.7%
Total Connecticut Non-Farm Employment	**1,698,800**	**1,694,000**	**4,800**	**0.3%**

Wage and Salary income

- October 2019 average hourly earnings at $33.08, not seasonally adjusted, were up $0.74 or 2.3%, from the October 2018 estimate. The resultant average private sector weekly pay amounted to $1,121.41, up $25.08 or 2.3% 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 October was a modest 1.8%.
- On Sept. 24, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 4.8 percent annual rate between the first and second quarters of 2019. Based on this result, Connecticut ranked 31st in the nation for second quarter income growth. This growth rate was below the national average of 5.4 percent. However, it represented a stronger performance than the New England region's average growth rate of 4.3 percent. The percent change in personal income across all states ranged from 7.5 percent in Texas to unchanged (0.0 percent) in North Dakota.
- State personal income for the third quarter 2019 will be released December 18, 2019.



U.S. Bureau of Economic Analysis

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for October 2019 compared with October 2018. Sales of single-family homes declined 2.99 percent, with the median sale price increasing by 3.79 percent. New listings were down 2.85 percent in Connecticut, while the median list price rose 4.21 percent to $269,900. Average days on the market increased slightly in October 2019 compared to the same month in the previous year (75 days on average, up from 74 days).

- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

OCTOBER 2019 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	October 2019	October 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	4162	4284	-2.85% ▼	49240	49869	-1.26% ▼
Sold Listings	2925	3015	-2.99% ▼	30067	30218	-0.5% ▼
Median Listing Price	$269,900	$259,000	4.21% ▲	$274,900	$269,900	1.85% ▲
Median Selling Price	$260,000	$250,500	3.79% ▲	$268,000	$265,000	1.13% ▲
Median Days on Market	54	52	3.85% ▲	53	63	-15.87% ▼
Average Listing Price	$366,337	$360,883	1.51% ▲	$394,749	$399,835	-1.27% ▼
Average Selling Price	$352,244	$347,418	1.39% ▲	$379,800	$385,064	-1.37% ▼
Average Days on Market	75	74	1.35% ▲	77	86	-10.47% ▼
List/Sell Price Ratio	97.1%	97.2%	-0.06% ▼	97.5%	97.5%	-0.03% ▼

- For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales rose in October, recovering slightly from the declines seen in September. October sales increased 1.9 percent from September to a seasonally adjusted annual rate of 5.46 million. On the regional level there were mixed results with sales growth in the Midwest and South and declines in the Northeast and West.
- According to NAR, the median existing-home price for all housing types was $270,900, up 6.2% from October 2018 ($255,100). October's price increase marks 92 straight months of year-over-year gains.

- Total housing inventory at the end of October 2019 was 1.77 million, down 2.7% from September and 4.3 percent from a year ago. Unsold inventory is at a 3.9-month supply at the current sales pace, down from 4.1 months in September and the 4.3-month figure recorded in October 2018.

Population

- 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's population is smaller than it was eight years ago. While the decline is small (approximately 6,500), Connecticut is one of only three states to lose population since the 2010 Census. New state-level population estimates as of July 1, 2019 will be released in December 2019.
- 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 – Climbing Higher in November:

- After a significant dip in the first half of October, stocks have continued to climb higher through November. All-three indices were up over 20 percent year-to-date, with the S&P 500 up over 30 percent as of this writing. The one-year changes ranged from approximately 14 percent for the DOW up to 22 percent for the NASDAQ.

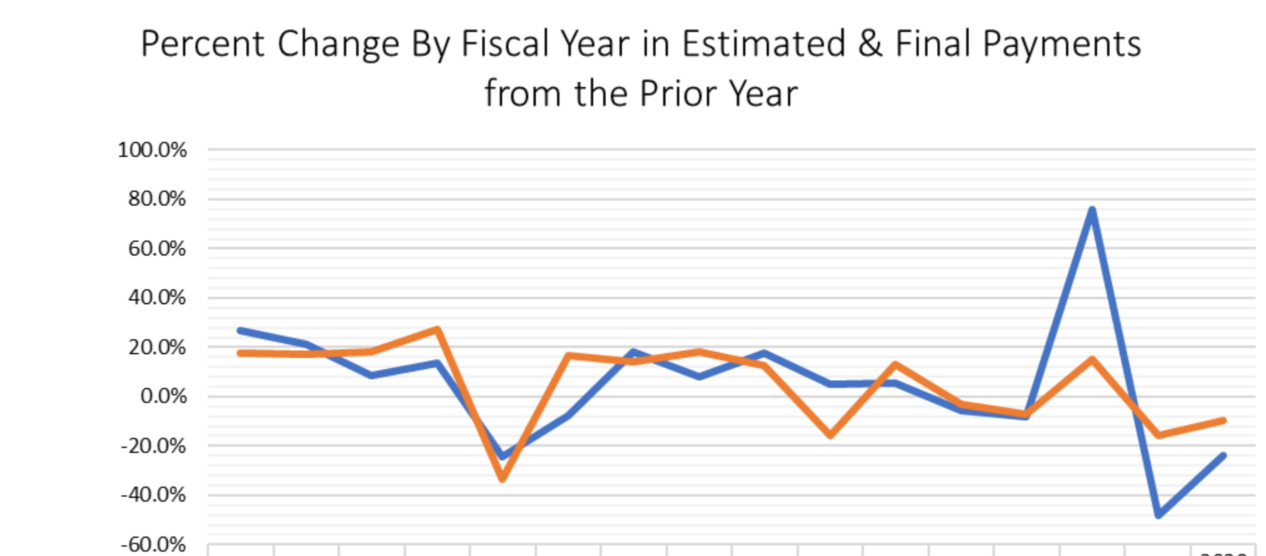
DOW

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 percent of total state income tax receipts, but can be an extremely volatile revenue source.
- 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.

- Final FY 2019 results show combined collections of estimated and final payments totaled $2.974 billion, slightly better than anticipated by the budget plan. However, due to the extraordinary one-time results achieved in FY 2018, final and estimated payments came in 35.6 percent lower than the same period a year earlier.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 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%	-48.3%	-23.9%
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%	-15.9%	-9.6%

Estimated Final

- Year-to-date through October 2019, estimated and final payments are down a combined 20.6 percent compared with the same period a year ago. However, some collections from this category are now flowing though the new Pass-Through Entity (PET) tax on partnerships and S Corporations.

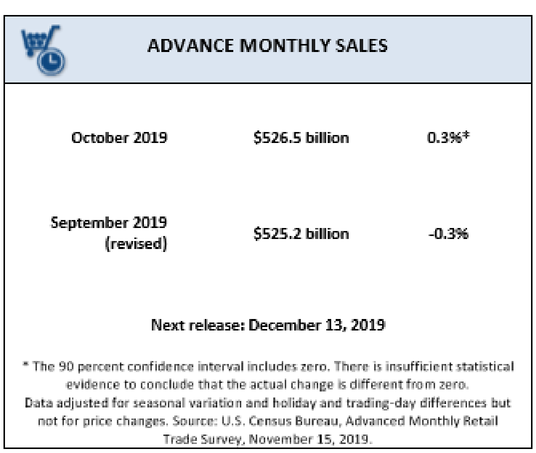
The TED Spread – Holding Steady in November

- The TED Spread is considered an early indicator of perceived monetary liquidity and credit risk of the global financial banking system. It has been described as the "Paul Revere" of financial markets, warning investors of potential market downturns and volatility.
- Technically, the TED spread is defined as the difference between the three-month Treasury bill and the three-month London Inter Bank Offered Rate (LIBOR) based in US dollars. More simply, the TED spread is the difference between the interest rate on short-term US government debt and the interest rate on interbank loans.

- United States Treasury Bill rates are considered essentially risk free because they are considered the safest credit in the world. By comparing the risk-free rate to any other interest rate, an analyst can determine the perceived difference in risk. A rising or high TED spread will often precede a downturn in the stock market because it indicates increasing risk of bank defaults and economic instability. A falling or low TED spread would indicate low risk of bank defaults and economic stability.
- As the following chart indicates, the TED spread was at a historic low in early July 2019, registering at 0.13. Since then the TED Spread has been moving in a generally upward direction, registering at 0.22 by mid-September and 0.36 by November 15th. This is considered a mid-range reading for recent years. For comparison purposes, the October 1987 stock market crash raised TED spreads close to 300 basis points (3.00), and the financial crisis of 2008 raised them to 450 basis points (4.50).

Consumer Spending

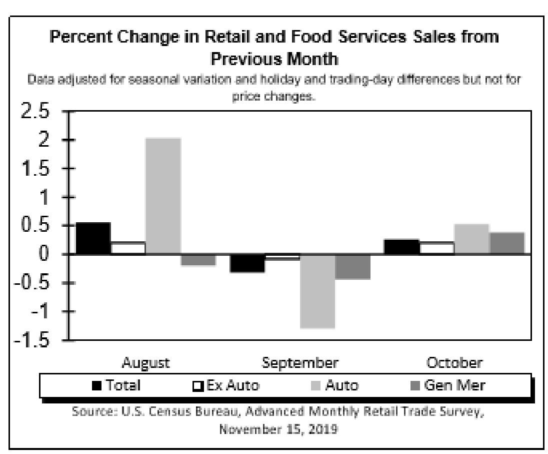
- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- The Commerce Department reported that U.S. advance retail sales rebounded in October 2019, increasing 0.3 percent. In September retail sales decreased 0.3 percent, which represented the first decline in seven months.


ADVANCE MONTHLY SALES

October 2019	$526.5 billion	0.3%*
September 2019 (revised)	$525.2 billion	-0.3%

Next release: December 13, 2019

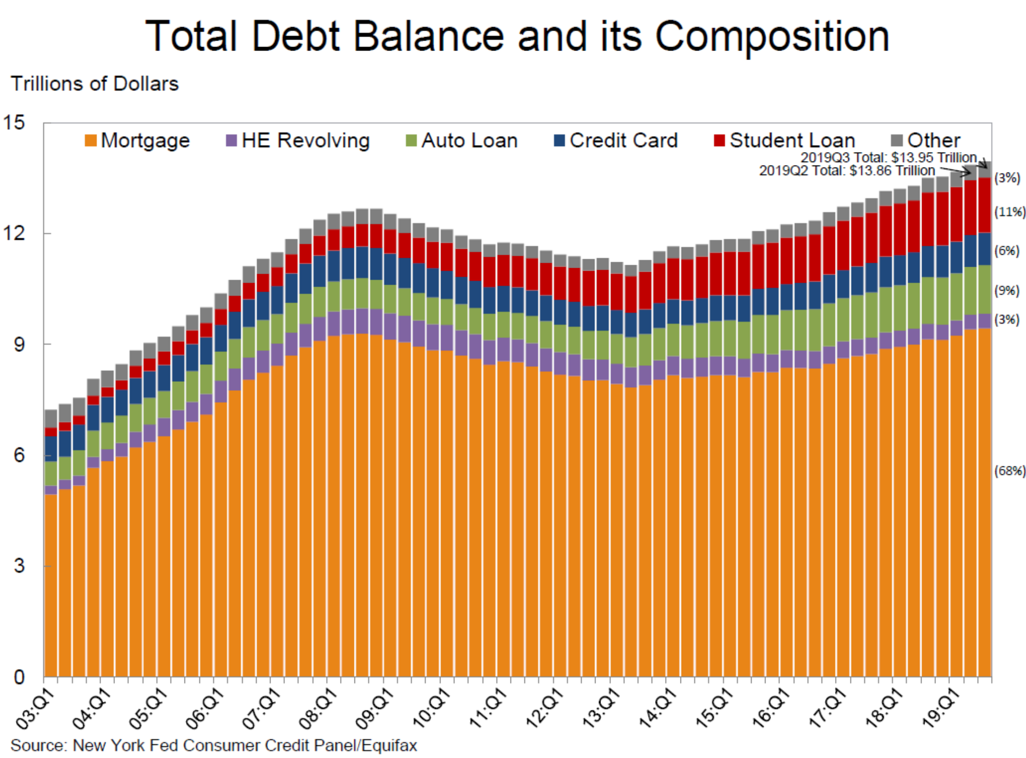
* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, November 15, 2019.



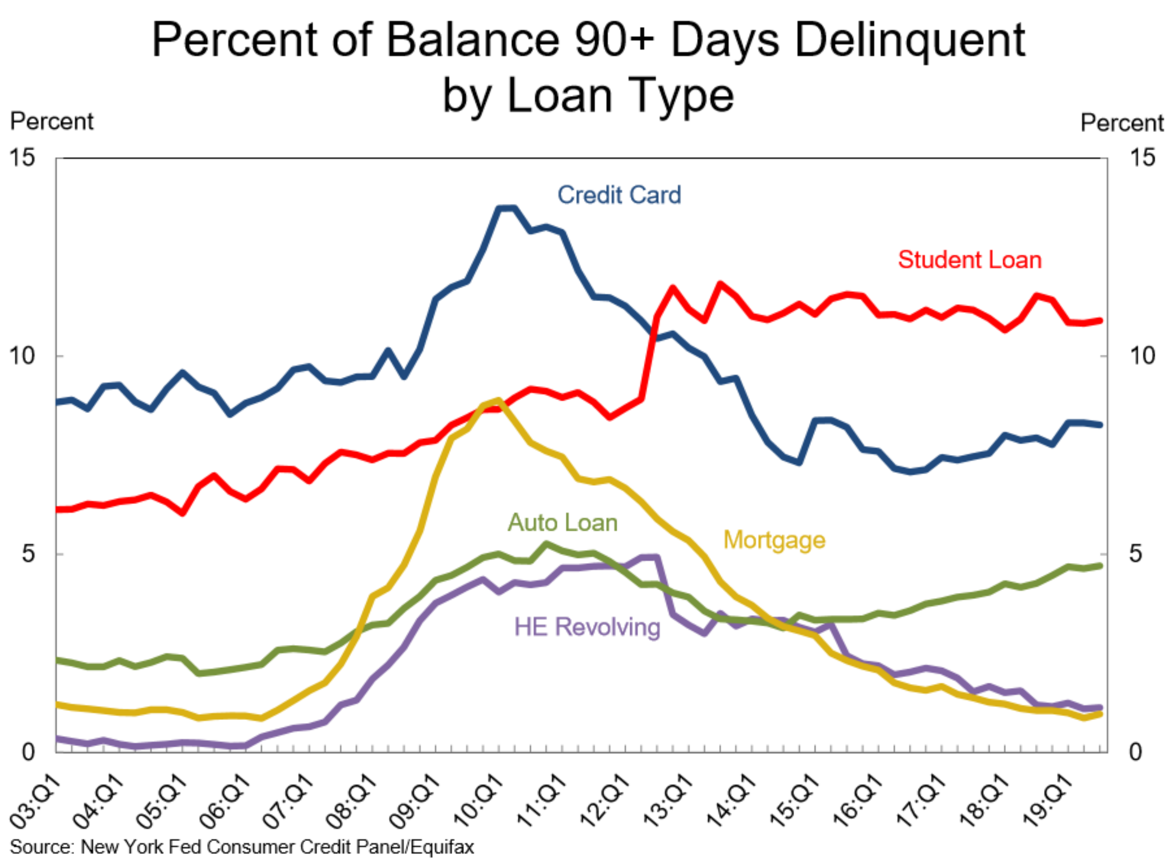
- October's growth in retail sales was largely due to robust auto sales and an increase in gasoline prices. Non-store retailers (online and mail order) also saw a healthy upturn in October.
- These gains in retail sales were somewhat offset by decreases in other areas of consumer spending including furniture, clothing, electronics, building materials, sporting goods and hobby stores, which were all down in October compared with September. Some analysts were concerned that consumer cut backs in larger household items and clothing could lower expectations for a strong holiday shopping season.
- So called "core retail sales" increased in October by 0.3 percent after being largely unchanged in September. This category excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of gross domestic product.

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

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the third quarter of 2019. Household debt has now grown steadily for 5 years (or 21 consecutive quarters). As of September 30, 2019, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.95 trillion. This represented an increase of $92 billion (0.7%) from the second quarter of 2019. In addition, overall household debt is now 25.1% above the post-financial-crisis trough (low point) reached during the second quarter of 2013.

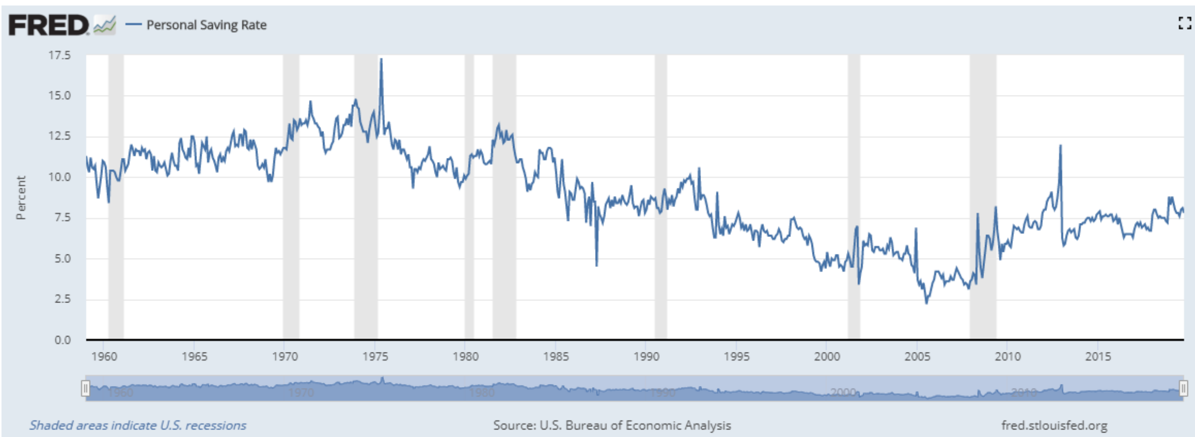


- The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.44 trillion during the second quarter, a $31 billion increase from the second quarter of 2019. At $1.50 trillion, student loans were the second largest category of household debt. Student loan balances increased by $20 billion in the third quarter of 2019. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $3 billion to $396 billion. Auto loans grew by $18 billion in the third quarter to $1.32 trillion in total, while credit card balances increased by $13 billion to 881 billion.
- The Federal Reserve reported aggregate delinquency rates worsened in the third quarter of 2019. As of September 30, 4.8% of outstanding debt was in some stage of delinquency, a 0.4 percentage point increase from the second quarter due primarily to increases in early stages of delinquency. Of the $667 billion of debt that is delinquent, $424 billion is seriously delinquent (at least 90 days late or "severely derogatory", which includes some debts that have previously been charged off that the lenders continue to attempt collection).
- About 186,000 consumers had a bankruptcy notation added to their credit reports in the third quarter of 2019, an improvement from the 215,000 in the third quarter of 2018.



Personal Savings Rate

- In its November 27th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 7.8 percent in October 2019, down from September's revised rate of 8.1 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income.

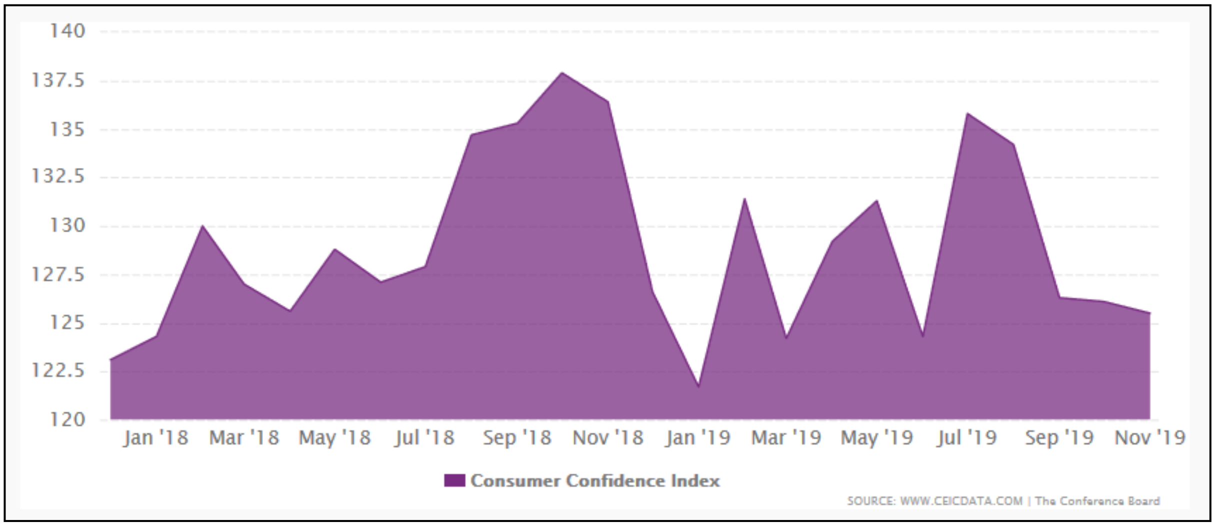


- The personal savings rate remains low by historical standards. A number of economists see the general decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. In recent years, wage gains have been concentrated on the upper end of the income scale. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

Consumer Confidence

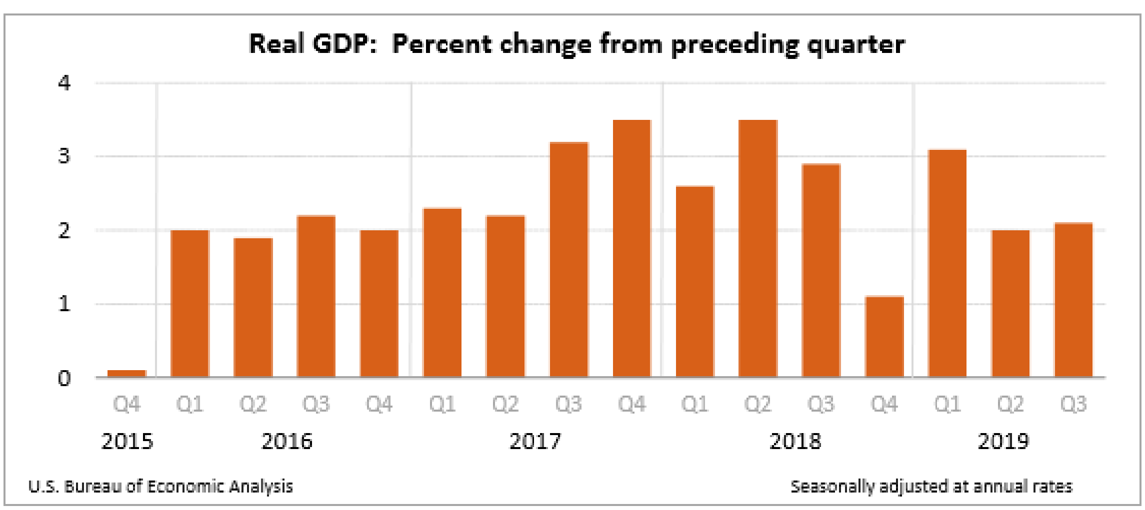
- The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.
- The Conference Board reported that the Consumer Confidence Index decreased in November, following a slight decline in October. The Index now stands at 125.5, down from 126.1 in October. This represents the fourth consecutive month that consumer confidence fell. The Conference Board noted November's drop was driven by a softening in consumers' assessment of current business and employment conditions.

- Economists surveyed by Dow Jones had expected an increase in confidence and projected a reading of 126.6. At the same time, confidence levels still remain high by historical standards and the Conference Board predicts solid consumer spending this holiday season.

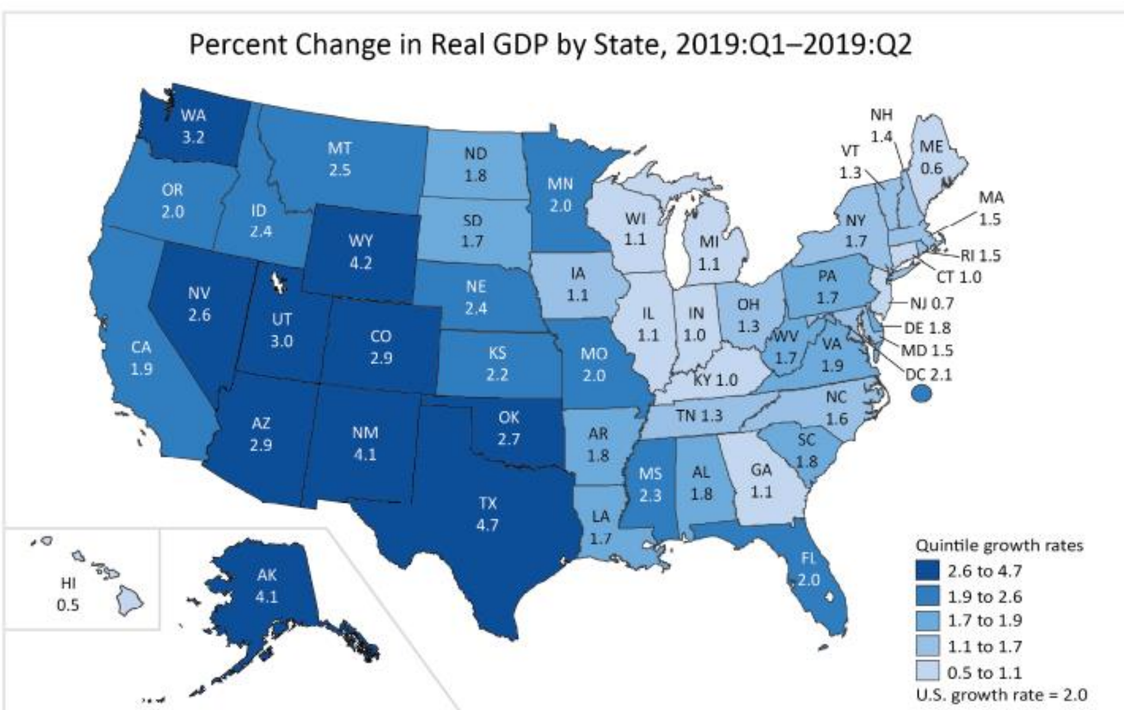


Business and Economic Growth

- According to a Nov. 27 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 2.1 percent in the third quarter of 2019, based on BEA's second estimate. This represents an improvement from the 1.9 percent third quarter GDP growth recorded in the initial estimate. In the second quarter, real GDP increased 2.0 percent.
- The updated GDP estimate is based on more complete data. BEA made upward revisions to private inventory investment, nonresidential fixed investment, and personal consumption expenditures (PCE). These were partially offset by a downward revision to state and local government spending.



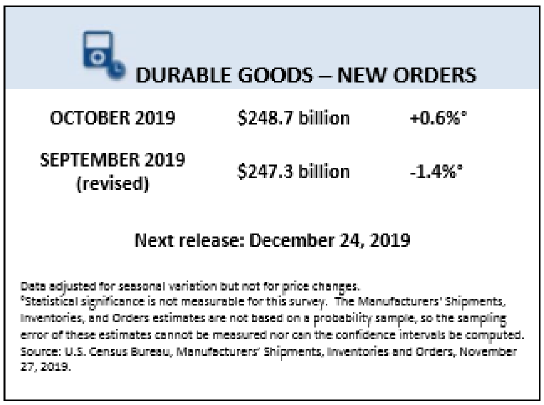
- The preliminary third quarter GDP growth was largely the result of spending by consumers as well as by federal, state and local government. On the downside, business investment declined in the third quarter as ongoing trade disputes added to uncertainty and continued to dampen growth.
- In a Nov. 7 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the second quarter of 2019. Connecticut experienced a seasonally adjusted annual growth rate of 1.0 percent, which ranked 47th in the nation overall. This growth rate was below both the national average of 2.0 percent and the New England regional average of 1.3 percent. The percent change in real GDP in the second quarter ranged from 4.7 percent in Texas to 0.5 percent in Hawaii.
- The sectors that contributed most to Connecticut's GDP growth in the second quarter of 2019 were finance & insurance (+0.38%), professional, scientific & technical services (+0.37%), and information (+0.32%). The sectors that contracted the most included wholesale trade (-0.29%), construction (-0.27) and nondurable goods manufacturing (-0.18).
- In the same release, BEA provided revised growth rates for states for the first quarter of 2019. Initially, Connecticut's GDP growth for the first quarter was reported as 2.2 percent. Connecticut's revised first quarter GDP growth rate was 4.3 percent, which ranked 13th in the nation.

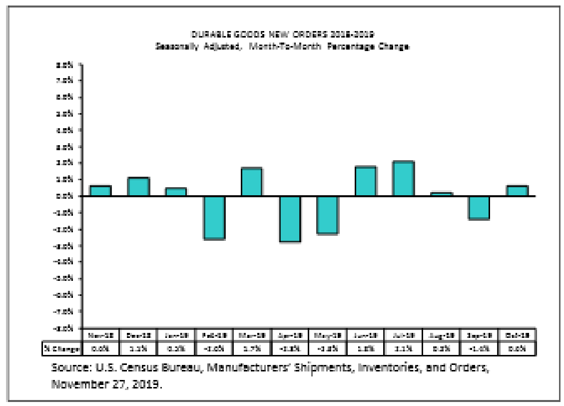


U.S. Bureau of Economic Analysis

Durable Goods

- According to a Nov. 27 report by the U.S. Department of Commerce, new orders of manufactured durable goods increased $1.5 billion in October, up 0.6 percent to $248.7 billion. The rebound comes after dropping 1.4 percent in September. Much of the October growth was due to an increase in orders for military aircraft, which jumped 18.1 percent. Nondefense aircraft orders also increased by 10.7 percent.





- Analysts noted that October's durable goods numbers reflected a strike at General Motors that did not end until late October. Orders for cars and auto parts fell 1.9 percent in October after declining 2.9 percent in September
- So-called core capital goods rose 1.2 percent in October following a decrease in September. Core capital goods include non-defense capital goods excluding aircraft and the measure is widely viewed as a proxy for business investment.

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