News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $452.6-MILLION SURPLUS FOR FISCAL YEAR 2019

Comptroller Kevin Lembo said the latest projection is an increase over last month's outlook, largely due to an improved revenue forecast across several categories, including the withholding portion of the income tax, sales and use tax and gaming revenue.

In a letter to Gov. Ned Lamont, Lembo said that his surplus projection is 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.

Lembo said he also 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).

"Due to timing, my office has been able to analyze two additional weeks of receipts in this category (estimated payments) after OPM issued its most recent letter," Lembo said. "Based on this information, I'm reducing my projection for estimated payments by $100 million due to lower-than-expected collections in the December and January timeframe. My office will continue to assess new information as it becomes available and revise this projection as needed in future months."

The state's latest consensus forecast, reached Jan. 15 by OPM and the state Office of Fiscal Analysis (OFA), revised revenues upward by a net $197.1 million over the previous month's estimate. The largest change is a $79.3-million improvement in the sales and use tax, which has been running ahead of budget target in part due to collections related to online sales. Lembo said OPM attributes this increase to the U.S. Supreme Court's decision in Wayfair, Inc. v. South Dakota, which held that states may charge sales tax on purchases made from out-of-state retailers, even if the seller does not have a physical presence in the taxing state.

The consensus forecast also increased the projection for the withholding portion of the income tax by $75 million, which is consistent with job gains, lower unemployment and signs of accelerated wage growth, Lembo said. Lembo said gaming payment revenue was also revised upward by $25 million, reflecting an assessment that competition from the new casino in Springfield, Mass. is having less of an impact than anticipated in the budget.

Lembo said the estimate for the inheritance and estate tax was also revised upward by $20 million, although tax refunds are running ahead of the budget plan, which lowers revenue by about $20 million.

Regarding the lower outlook for estimated and final collections, Lembo said he had anticipated a drop-off in December receipts due to the new $10,000 federal limitation for the State and Local Tax (SALT) deductions because that change reduced the incentive for taxpayers to make payments before calendar year-end.

"My office would have expected somewhat higher collections though throughout January if the December results just reflected a change in the timing of payments," Lembo said. "Instead, January collections were more in line with typical results from earlier years. Going forward, the impact of federal tax changes and the stock market's negative performance in 2018 may have substantial impact on estimated and final payment collections for the balance of Fiscal Year 2019.

"As a result, the April tax collection period will take on added significance for this year's budget results," Lembo said.

Lembo reported the latest status involving the Budget Reserve Fund (BRF), following the state's new statutory revenue volatility cap that requires revenues above a certain threshold to be transferred into the fund:

For FY 2019, the cap is $3.19 billion for estimated and final income tax payments and revenue from the newly enacted Pass-through Entity tax.
If Lembo's projections hold, a $548-million volatility transfer would be made to the BRF at the end of the year.
The current balance of the BRF is $1.18 billion. Adding Lembo's estimated $548-million volatility transfer and the projected FY 2019 surplus of $452.6 million, would bring the year-

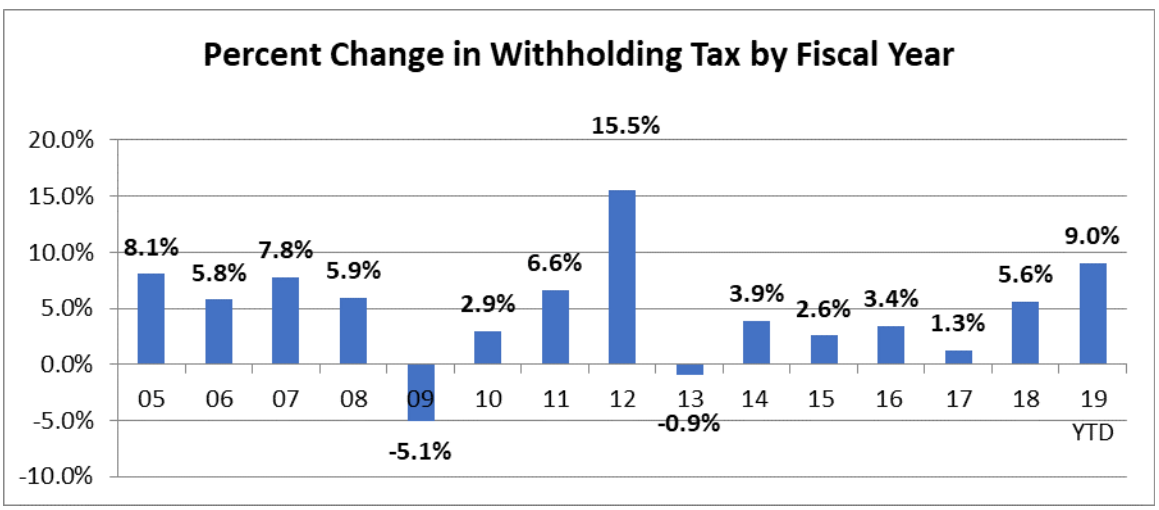
end balance of the BRF to just under $2.2 billion, or approximately 11.5 percent of General Fund expenditures.

"This result, if achieved would represent a significant improvement over the recent past and move the BRF closer to the statutory target of 15 percent," Lembo said.

"A number of forecasts for the coming year are predicting slower growth for the United States and other major economies. Therefore, it is essential that Connecticut continue to build a strong balance in the BRF to protect against any future downturn.

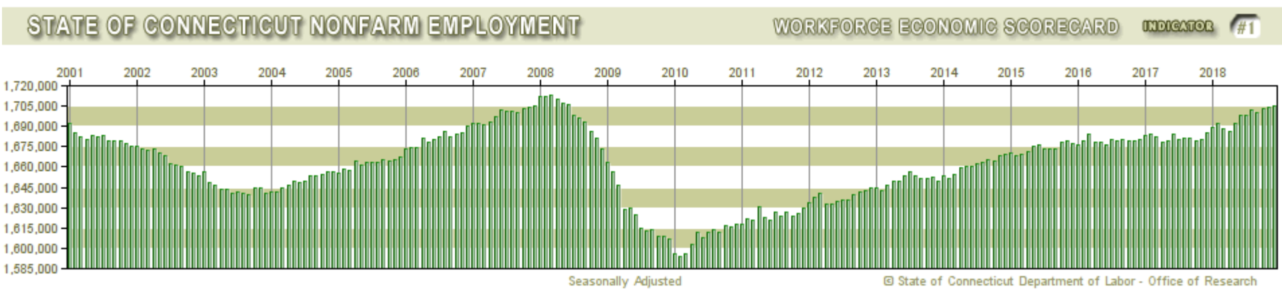
"Connecticut's overall budget results are ultimately dependent upon the performance of the national and state economies. I should note that the recently-ended federal government shut-down has delayed certain economic updates for this month's report. However, the available economic indicators, especially around the job and housing markets, include the following trends:

- After a strong performance in FY 2018, preliminary results for FY 2019 through December 2018 show withholding receipts grew by 9.0 percent compared with the corresponding period in the prior fiscal year. This positive development likely reflects more robust job gains in recent months combined with some preliminary indications of accelerating wage growth.

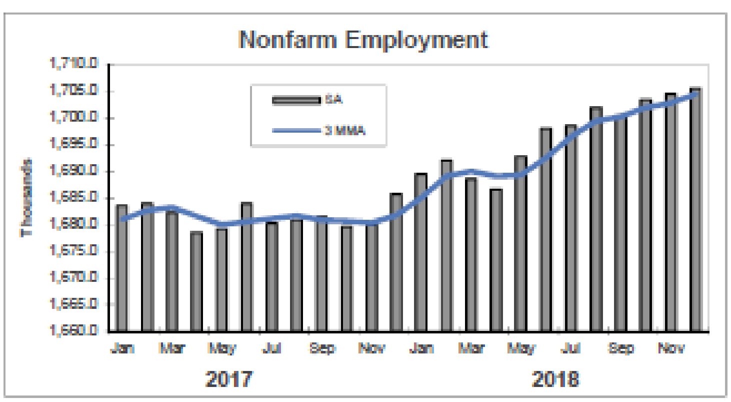


- For comparison purposes, the Jan. 15 consensus revenue forecast from the Office of Policy and Management (OPM) and Office of Fiscal Analysis (OFA) is based on withholding receipts growing by approximately 5.4 percent over FY 2018 realized amounts. Withholding receipts to date, therefore, are coming in ahead of the budget targets for FY 2019. However, with five months to go in the fiscal year, the Office of the State Comptroller agrees a conservative approach is warranted for this forecast.

- On Jan. 17, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for December 2018 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 1,100 net jobs in December, to a level of 1,705,500, seasonally adjusted. In addition, November's originally-released job loss of 500 was revised up by 1,500 to a gain of 1,000 jobs over the month.

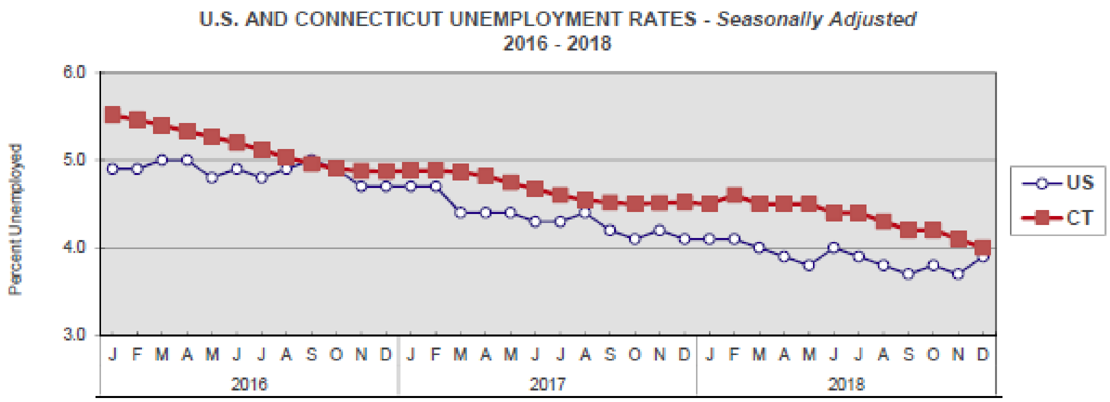


- The sectors that gained the most jobs in the month of December 2018 were construction (+2,100), education & health services (+1,100) and leisure & hospitality (+500). Sectors that lost employment in December included professional & business services (-1,800 jobs) and other services (-700 jobs).
- Over the year, DOL reported that nonagricultural employment in the state grew by 19,900 jobs on a seasonally-adjusted basis. Connecticut has now recovered 93.5 percent (111,300 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 106th month and the state needs an additional 7,800 jobs to reach an overall employment expansion.



- Connecticut's unemployment rate stood at 4.0 percent in December, down one-tenth of a point from November 2018 and down five-tenths of a point from a year ago when it was 4.5 percent. Nationally, the unemployment rate was 3.9 percent in

December 2018, up two-tenths of a point from November. The chart below shows a comparison of the Connecticut and U.S. unemployment rates over the past three calendar years.

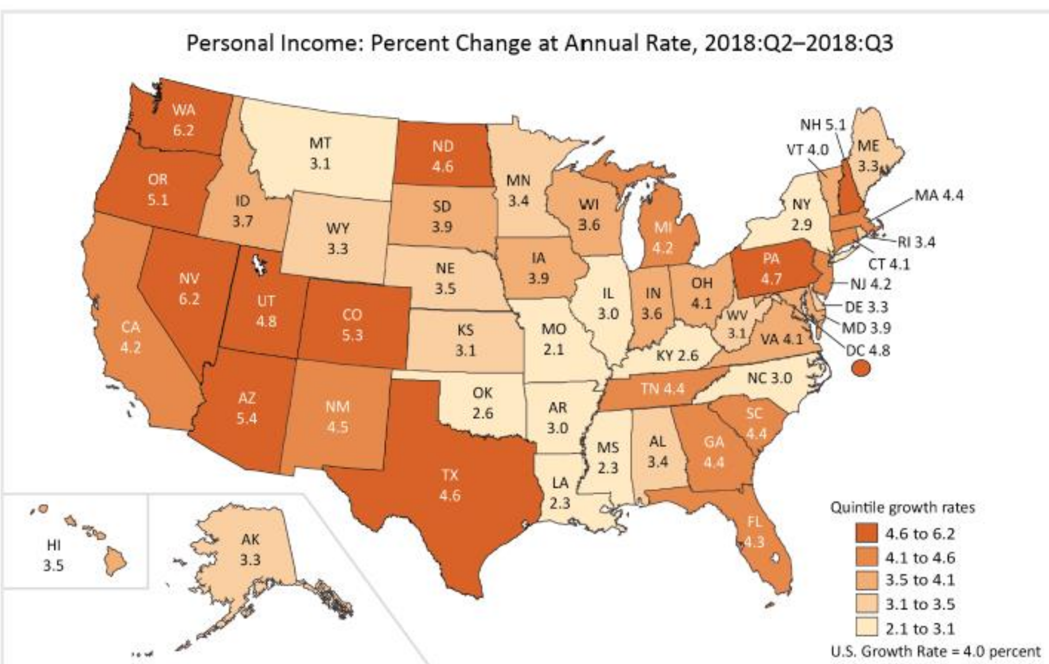


- DOL reports that December 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut grew by 844 claimants (23.7%) to 4,399 from November 2018 and were higher by 986 claims (28.9%) from the December 2017 level of 3,413.
- Among the major job sectors listed below, eight experienced gains and two experienced losses in December 2018 versus December 2017 levels. Construction, leisure & hospitality and education & health services were the fastest growing sectors in the state's labor market on a percentage basis. The government and transportation & public utilities sectors experienced job losses.

Payroll Employment Trend				
Jobs in thousands				
Sector	**12/18 (P)**	**12/17**	**Gain/Loss (000's)**	**% Change**
Construction	67.0	57.3	9.7	16.9%
Manufacturing	164.1	163.8	0.3	0.2%
Transp. & Public Utilities	295.0	299.6	-4.6	-1.5%
Information	31.3	30.7	0.6	2.0%
Financial	130.4	127.8	2.6	2.0%
Prof. & Business Svc.	220.8	219.3	1.5	0.7%
Education & Health Svc.	343.1	336.1	7.0	2.1%
Leisure & Hospitality	160.5	154.6	5.9	3.8%
Other Services	65.3	64.8	0.5	0.8%
Government	227.5	231.1	-3.6	-1.6%
Total Connecticut Non-Farm Employment	**1,705.5**	**1,685.6**	**19.9**	**1.2%**

Wage and Salary income

- December 2018 average hourly earnings at $33.48, not seasonally adjusted, were up $2.30 or 7.4%, from the December 2017 estimate. The resultant average private sector weekly pay amounted to $1,141.67, up $81.55 or 7.7 percent 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 December 2018 was 2.2 percent.
- On Dec. 20th, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 4.1 percent annual rate between the second and third quarters of 2018. Based on this result, Connecticut ranked 20th in the nation for third quarter income growth. This growth rate was just above the national average, but slightly slower than the New England region's average rate of 4.2 percent. Personal income growth across all states ranged from 6.2 percent in Nevada and Washington State to 2.1 percent in Missouri. State personal income results for fourth quarter of 2018 is scheduled for release on March 26, 2019.



U.S. Bureau of Economic Analysis

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for December 2018 compared with December 2017. Sales of single-family homes fell 7.33 percent, while the median sale price rose 3.87 percent. New listings fell by 7.77 percent in Connecticut and the median list price increased by 4.89 percent to $264,900 from a year ago. Average days on the market decreased 15.46 percent in December 2018 compared to the same month in the previous year (82 days on average, down from 97 days). Finally, the list to sell price rose slightly to 96.8 percent, compared with 96.6 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

DECEMBER 2018 | SINGLE FAMILY HOMES

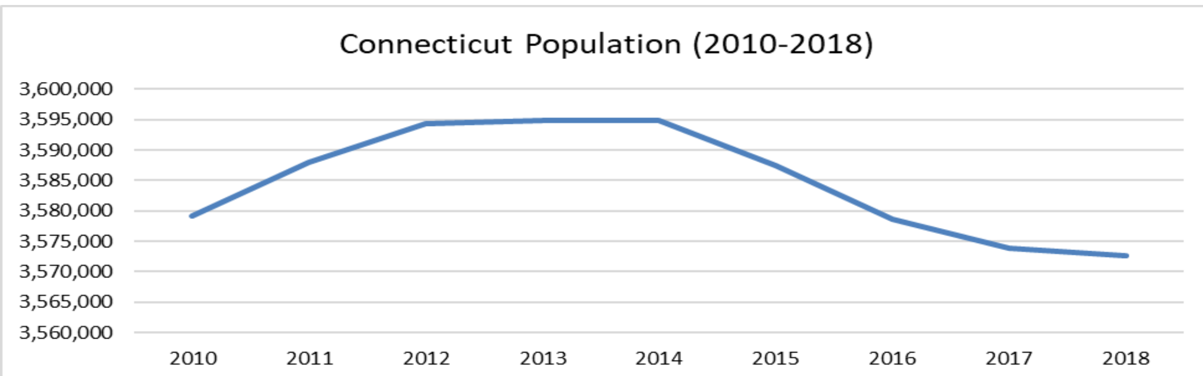
Market Summary	Month to Date			Year to Date		
	December 2018	December 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	1935	2098	-7.77%	54740	56360	-2.87%
Sold Listings	2517	2716	-7.33%	35504	36181	-1.87%
Median Listing Price	$264,900	$252,550	4.89%	$269,900	$259,900	3.85%
Median Selling Price	$257,000	$247,425	3.87%	$264,500	$253,000	4.55%
Median Days on Market	59	71	-16.9%	63	54	16.67%
Average Listing Price	$414,307	$400,886	3.35%	$398,878	$396,496	0.6%
Average Selling Price	$393,347	$382,734	2.77%	$383,683	$380,300	0.89%
Average Days on Market	82	97	-15.46%	86	81	6.17%
List/Sell Price Ratio	96.8%	96.6%	0.3%	97.4%	97%	0.4%

- For the U.S. housing market, after two consecutive months of increases, the National Association of Realtors (NAR) reported existing-home sales declined in December 2018. None of the four major U.S. regions saw a gain in sales activity for the month. Total existing-home sales (defined as completed transactions that include single-family homes, townhomes, condominiums and co-ops) decreased 6.4 percent from November to a seasonally adjusted rate of 4.99 million in December. Moreover, sales are now down 10.3 percent from a year ago (5.56 million in December 2017).
- According to NAR, the median existing-home price for all housing types in December was $253,600, up 2.9 percent from December 2017 ($246,500). December's price increase marks the 82nd straight month of year-over-year gains. In addition, total housing inventory at the end of December decreased to 1.55 million, down from 1.74 million existing homes available for sale in November. However, this represents an increase from 1.46 million a year ago. Unsold inventory is at a 3.7-month supply at the current sales pace, down from 3.9 last month and up from 3.2

months a year ago. NAR continues to report that inventory is plentiful on the upper-end of the scale, but a mismatch exists between supply and demand at more affordable prices.

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 lack of population growth remains a constraint to the State's potential for economic expansion.



United Van Lines National Movers Study

- On Jan. 2, United Van Lines released its annual 42nd National Movers Study, which tracks customers' state-to-state migration patterns over the past year. The results reflected a continuation of a longer-term trend of U.S. residents moving from northeastern and mid-western states to southern and western states. According to the study, the primary factors driving the migration include job growth, lower costs of living, state budgetary challenges and more temperate climates.
- The northeast continued to experience a moving deficit with three of the top four states on the list for outmigration. New Jersey was first in the nation with 66.8 percent of moves out of state, with only 33.2 percent moving in. Connecticut was third in outmigration at 62.0 percent, followed by New York at 61.5 percent. Vermont was an exception in the northeast; it led the nation in inbound migration with 72.6 percent, with only 27.4 percent of moves representing outbound migration.
- The Connecticut sample included 2,367 total moves with 1,467 outbound and 900 inbound. The following charts summarize the Connecticut specific data from the study.

- ***Reasons for moving***: Job-related concerns were the top reason for both inbound (49.47%) and outbound moves (34.87%). Retirement was the second most common reason cited for residents moving out of state.

<u>Moving In</u>

The top inbound states of 2018 were:

1. Vermont
2. Oregon
3. Idaho
4. Nevada
5. Arizona
6. South Carolina
7. Washington
8. North Carolina
9. South Dakota
10. District of Columbia

<u>Moving Out</u>

The top outbound states for 2018 were:

1. New Jersey
2. Illinois
3. Connecticut
4. New York
5. Kansas
6. Ohio
7. Massachusetts
8. Iowa
9. Montana
10. Michigan

Connecticut

Total Inbound: 38%
Total Outbound: 62%

Primary Reason for Moving

INBOUND		OUTBOUND
12.63%	retirement	30.77%
5.26%	health	2.56%
27.37%	family	17.44%
10.53%	lifestyle	20.51%
49.47%	job	34.87%

Age Distribution: The 65 and over population was the largest demographic group for inbound moves (28.74%), followed by under 18 to 34 years (22.99%). For outbound moves, ages 55 to 64 were the largest group (30.86%), closely followed by 65 and older (30.29%).

Age Ranges		
INBOUND		OUTBOUND
22.99%	<18 to 34	12.00%
17.24%	35 to 44	9.14%
16.09%	45 to 54	17.71%
14.94%	55 to 64	30.86%
28.74%	65 or older	30.29%

Income Distribution: Residents with incomes of $150,000 and above represented the largest demographic for migration, both to (42.42%) and from Connecticut (51.26%).

Income		
INBOUND		OUTBOUND
6.06%	$0 to $49,999	6.72%
16.67%	$50,000 to $74,999	8.40%
13.64%	$75,000 to $99,999	10.08%
21.21%	$100,000 to $149,999	23.53%
42.42%	$150,000 or more	51.26%

<u>Stock Market</u>

- The stock market experienced significant volatility in 2018, especially in the last three months of the year. 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.

- Political uncertainty in the U.S. added to investor's worries in December 2018, including the possibility of a prolonged Federal government shut-down (which ended up lasting 35 days until a temporary agreement was reached on January 25th). With the S&P 500 down 9 percent and the Dow down 8.7 percent, this was the worst December performance since 1931. Furthermore, all three major stock indices were down for the full year for the first time since the 2008 financial crisis. Stocks have been staging a recovery in January and, as of this writing, all three indices were in positive territory for 2019.

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

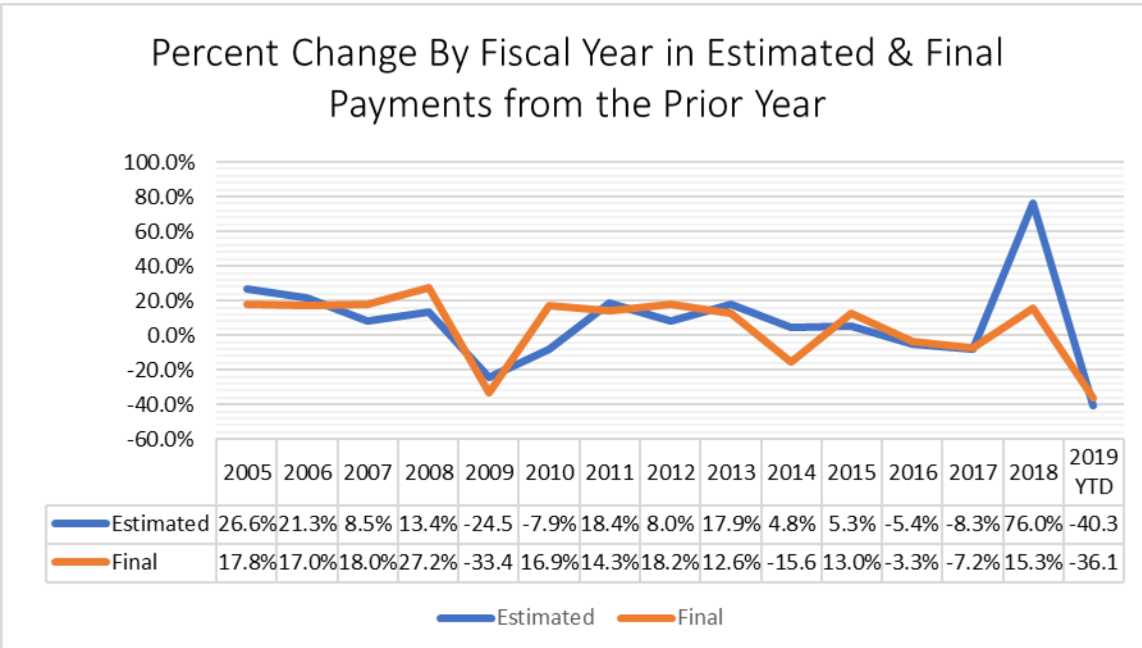
DOW

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 state residents begin filing their 2018 federal tax returns in the next few months. It is likely many Connecticut taxpayers will 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 December 2018, combined collections of estimated and final payments were 39.3 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. Policy makers should therefore maintain budget discipline awaiting more information on April's receipts, which will have a significant impact on the year-end results.



	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%	-40.3
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%	-36.1

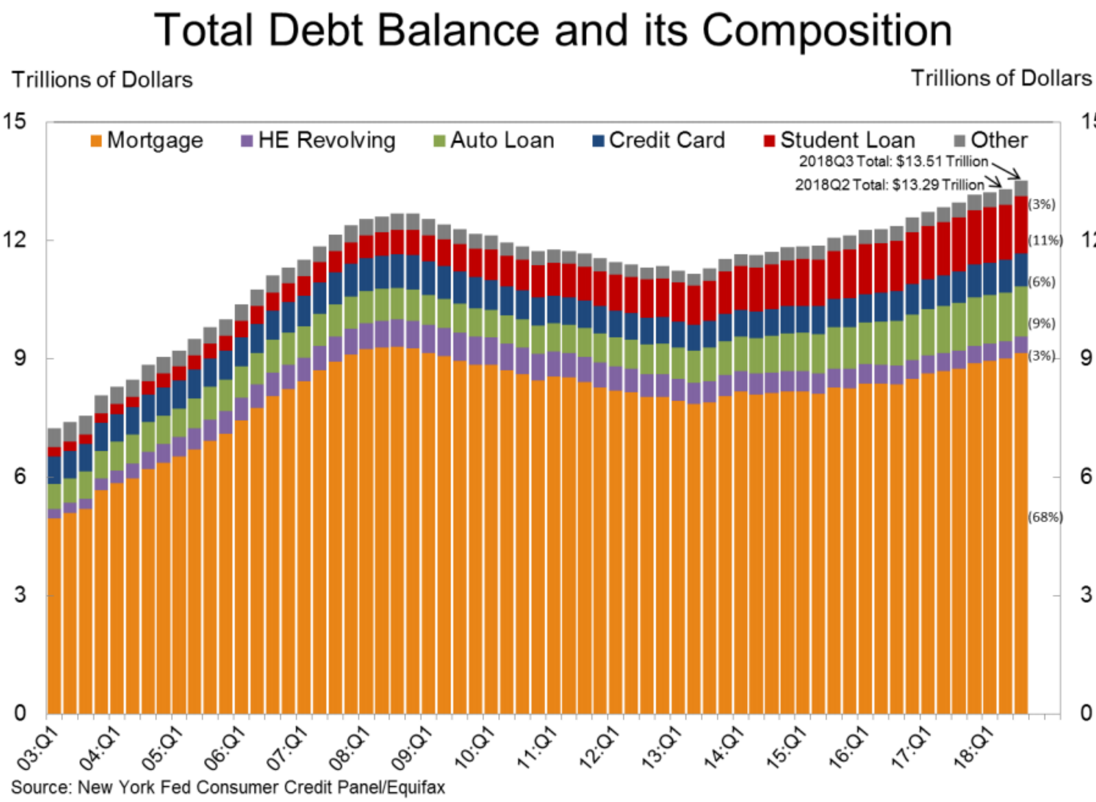
<u>Consumer Spending</u> *(Last updated December 14, 2018)*

- 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 grew in November 2018, increasing 0.2 percent to $513.5 billion. In addition, the growth in retail sales between September and October 2018 was revised upward to 1.1 percent (from the previously reported 0.8 percent).

<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 2018. Household debt has now grown in 17 consecutive quarters. As of September 30, 2018, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.51 trillion. This represented an increase of $219 billion (1.6%) from the second quarter of 2018. In addition, overall household debt is now 21.2% 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 – rose by $141 billion during the third quarter, to $9.1 trillion. Balances on home equity lines of credit (HELOC), continuing their downward trend, declined by $10 billion to $422 billion, the lowest level seen in 14 years. In addition, auto loans increased by $27 billion, credit card balances grew by $15 billion and student loan balances rose by $37 billion in the



third quarter.

- The Federal Reserve reported that aggregate delinquency rates worsened in the third quarter of 2018. As of September 30th, 4.7 percent of outstanding debt was in some stage of delinquency. This represented an increase from 4.5 percent in the second quarter, the largest jump in 7 years. Of the $638 billion of debt that is delinquent, $415 billion is considered seriously delinquent (at least 90 days late). This increase was primarily due to growth in student loan balances falling into delinquency. In the third quarter of 2018, 11.5 percent of aggregate student debt was 90+ days delinquent or in default, a substantial increase from the prior quarter. The flow into 90+ day delinquency for credit card balances has been rising for the last year while the flow into 90+ day delinquency for auto loan balances has been slowly trending upward since 2012.

- Updated information as of the fourth quarter of 2018 should be available in February 2019.

Personal Savings Rate *(Last updated December 21, 2018 – Next scheduled release March 1, 2019).*

- In its Dec. 21 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.0 percent in November, down from October's revised rate of 6.2 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income.
- 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.

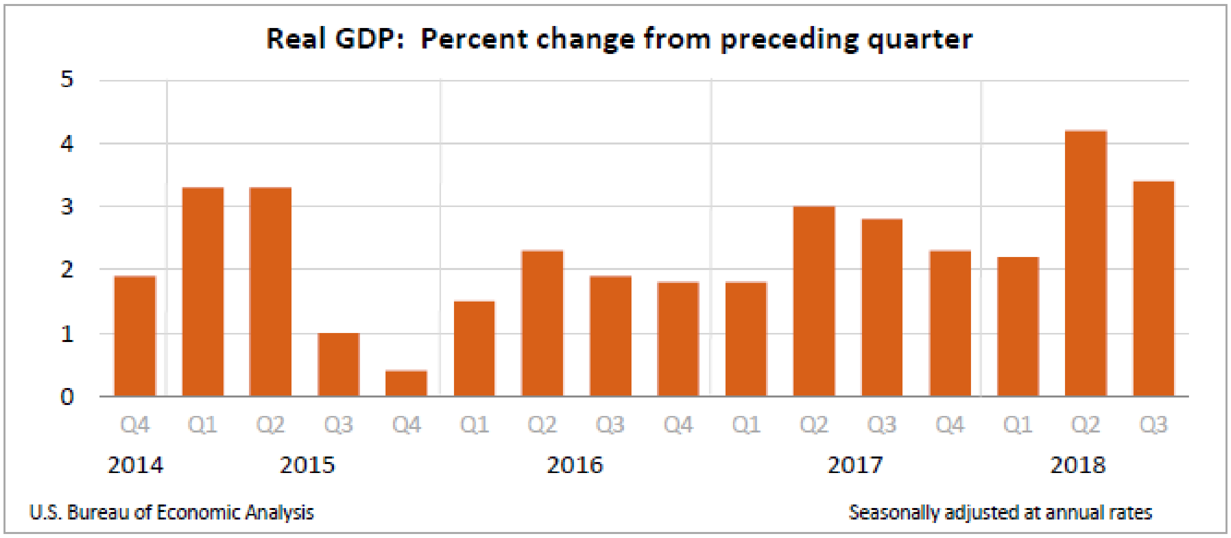
Consumer Confidence

- 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 January 2019. The Index now stands at 120.2, down from 126.6 in December. This decrease in consumer confidence follows a decline in December and represents the lowest level since July 2017.
- The main factors cited for the significant decrease in consumer confidence are the recent volatility in the financial markets and the partial Federal government shutdown that began in December and continued into January. The Conference Board's January 29th release described the shut-down as a "shock event," which tend to have sharp but temporary impacts on consumer confidence. As a result, the Conference Board concluded that January's decline was not likely to be a precursor to a more significant slowdown in the coming months.

Business and Economic Growth

- According to a Dec. 21 report from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product grew at an annual rate of 3.4 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 third estimate for the quarter and it was revised down from 3.5 percent based on more complete source data. 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 increases in consumer spending, inventory investment, government spending, and business investment. Notable offsets were decreases in exports and housing investment. Imports, which are treated as a subtraction in the calculation of GDP, increased during the quarter.



<u>Durable Goods</u> *(Last updated December 21, 2018)*

- According to a Dec. 21 report by the U.S. Department of Commerce, new orders for durable goods increased a modest $1.9 billion or 0.8 percent to $250.8 billion in November 2018. This increase followed a significant 4.3 percent decrease in October.
- Transportation equipment, specifically orders for military aircraft, drove the increase in November. Transportation equipment was up $2.5 billion or 2.9 percent to $87.0 billion from the previous month. Excluding transportation equipment, orders fell 0.3 percent.

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