News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $242.4-MILLION SURPLUS; SAYS MARKET VOLATILITY AND FEDERAL UNCERTAINTY DEMAND CONTINUED BUDGET RESERVE DISCIPLINE

Comptroller Kevin Lembo, while reporting a projected $242.4-million surplus for Fiscal Year 2019, urged sustained financial discipline in building the state's Budget Reserve Fund to account for the possibility of slowing economic growth, uncertainty at the federal level and volatility in the financial markets.

In a letter to Gov. Dannel P. Malloy, Lembo said he is in general agreement with the state Office of Policy and Management's (OPM) latest budget outlook, which accounts for higher-than-anticipated spending in the state's adjudicated claims account, which is used to pay negotiated settlements, including SEBAC v. Rowland claims.

Lembo said that job gains and wage growth are good signs for Connecticut's economic outlook, but he also urged caution due to factors beyond the state's control.

"Connecticut cannot control financial markets or federal shutdowns – but it can control its future by building its budget reserves and staying financially disciplined," Lembo said. "Growing stock market turbulence and political uncertainty on the federal level may have an impact on consumer confidence as the government shutdown enters its second week with no end in sight. Therefore, it is imperative that Connecticut continue to build a strong balance in the Budget Reserve Fund to protect against any future downturn."

Through November 2018, combined collections of estimated and final income tax payments were 13.9 percent higher than the same period a year ago. However, due to recent steep drops in the stock market, these revenue categories will need to be monitored carefully in the coming months, Lembo said.

The state's new statutory revenue volatility cap, which Lembo advocated for, now requires that revenues above a certain threshold be transferred to the Budget Reserve Fund (BRF). Here are the latest projections related to the BRF:

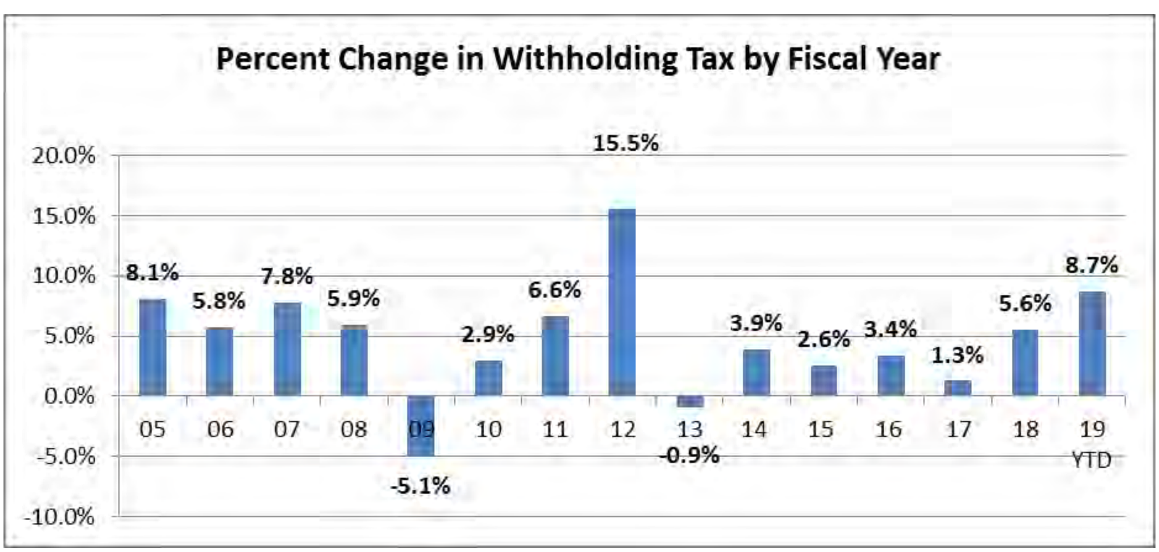
- For FY 2019, the cap is $3.19 billion for estimated and final income tax payments and revenue from the newly enacted Pass—Through Entity tax.
- If current projections are realized, a $648-million volatility transfer would be made to the BRF.
- The present balance of the BRF is $1.18 billion.
- Adding the estimated $648-million volatility transfer and my office's projection surplus of $242.4-million surplus would bring the BRF to just under $2.1 billion, or about 10.9 percent of General Fund expenditures.

"This would certainly represent a significant improvement over the recent past," Lembo said, noting again that 15 percent would be an ideal target. "Connecticut's overall budget results are ultimately dependent upon the performance of the national and state economies," Lembo said.

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

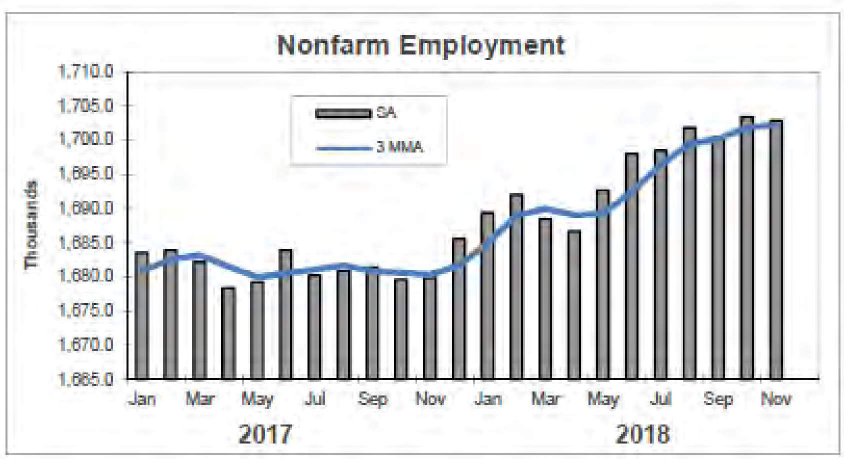
Employment

- After a strong performance in FY 2018, preliminary results for FY 2019 through November 2018 show withholding receipts grew by 8.7 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.



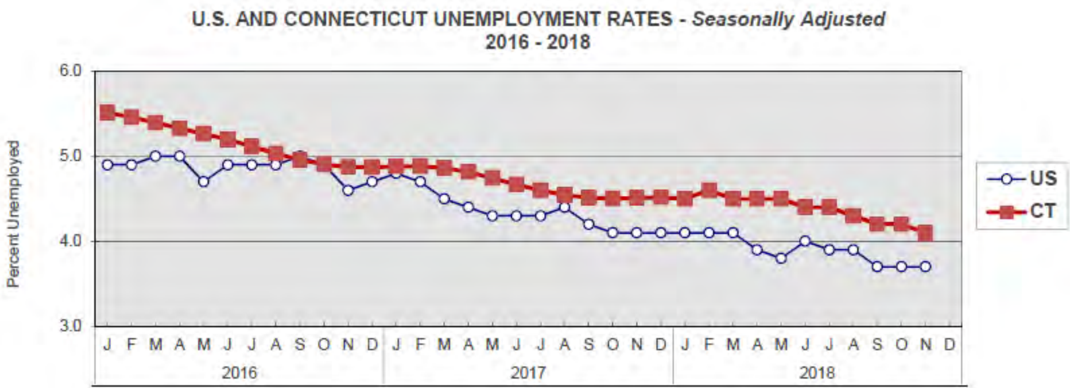
- For comparison purposes, the November consensus revenue forecast from the Office of Policy and Management (OPM) and Office of Fiscal Analysis (OFA) is based on withholding receipts growing by approximately 4.1 percent over FY 2018 realized amounts. Withholding receipts to date, therefore, are coming in ahead of the budget targets for FY 2019. However, this early in the fiscal year, the Office of the State Comptroller agrees a conservative approach is warranted for this forecast.
- On Dec. 20, 2018 Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for November 2018 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 500 net jobs in November, to a level of 1,702,900, seasonally adjusted. However, October's originally-released job growth of 1,500 was revised up by 1,500 to a gain of 3,000 jobs over the month.

- The sectors that lost the most jobs in the month of November 2018 were education & health services (-600) and professional & business services (-500), while manufacturing and trade, transportation & utilities lost 400 jobs each. Sectors that gained employment in November included construction (+700 jobs), other services (+400) and financial activities (+300).



- Over the year, DOL reported that nonagricultural employment in the state grew by 23,000 jobs on a seasonally-adjusted basis. Connecticut has now recovered 91.3 percent (108,700 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 105th month and the state needs an additional 10,400 jobs to reach an overall employment expansion.

- Connecticut's unemployment rate stood at 4.1 percent in November, down one-tenth of a point from October 2018 and down four-tenths of point from a year ago when it was 4.5 percent. Nationally, the unemployment rate was 3.7 percent in November 2018, unchanged from October. The chart below shows a comparison of the Connecticut and U.S. unemployment rates over the past three calendar years



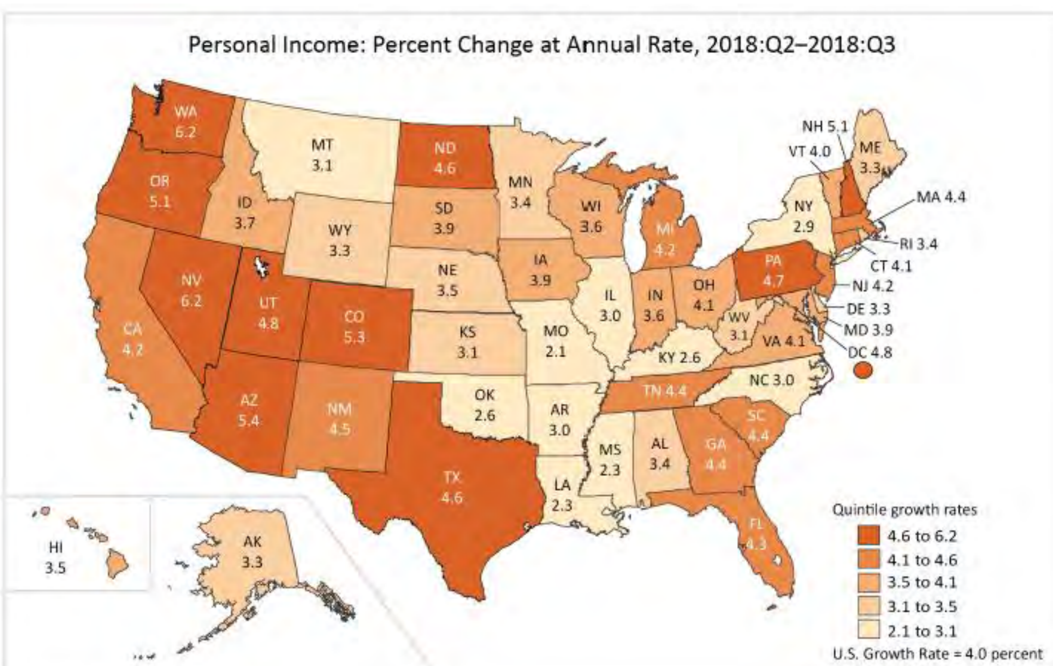
- DOL reports that November 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut grew by 491 claimants (16.0%) to 3,555 from October 2018 and were lower by 113 claims (-3.1%) from the November 2017 level of 3,668.
- Among the major job sectors listed below, seven experienced gains, and three experienced losses in November 2018 versus November 2017 levels. Construction, leisure & hospitality and professional & business services were the fastest growing sectors in the state's labor market on a percentage basis. The government and transportation & public utilities sectors experienced the largest losses.

Payroll Employment Trend				
Jobs in thousands				
Sector	**11/18 (P)**	**11/17**	**Gain/Loss (000's)**	**% Change**
Construction	64.4	58.0	6.4	11.0%
Manufacturing	164.3	161.9	2.4	1.5%
Transp. & Public Utilities	295.0	297.6	-2.6	-0.9%
Information	31.0	31.1	-0.1	-0.3%
Financial	130.2	128.0	2.2	1.7%
Prof. & Business Svc.	222.8	216.9	5.9	2.7%
Education & Health Svc.	341.5	335.8	5.7	1.7%
Leisure & Hospitality	159.3	153.5	5.8	3.8%
Other Services	66.0	65.3	0.7	1.1%

Government	227.9	231.2	-3.3	-1.4%
Total Connecticut Non-Farm Employment	**1,702.9**	**1,679.9**	**23.0**	**1.4%**

Wage and $alary income

- November 2018 average hourly earnings at $32.26, not seasonally adjusted, were up $1.31 or 4.2%, from the November 2017 estimate. The resultant average private sector weekly pay amounted to $1,087.16, up $34.86 or 3.3% higher than a year ago. 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 November 2018 was 2.2%.
- On Dec. 20, 2018 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.



U.S. Bureau of Economic Analysis

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for November 2018 compared with November 2017. Sales of single family homes fell 7.30 percent, while the median sale price rose 7.82 percent. New listings fell by 4.72 percent in Connecticut and the median list price increased by 8.00 percent to $264,150 from a year ago. Average days on the market decreased 15.22 percent in November 2018 compared to the same month in the previous year (78 days on average, down from 92 days). Finally, the list to sell price rose slightly to 97.0 percent, compared with 96.8 percent a year ago.

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

MARKET SUMMARY

NOVEMBER 2018 | SINGLE FAMILY HOMES

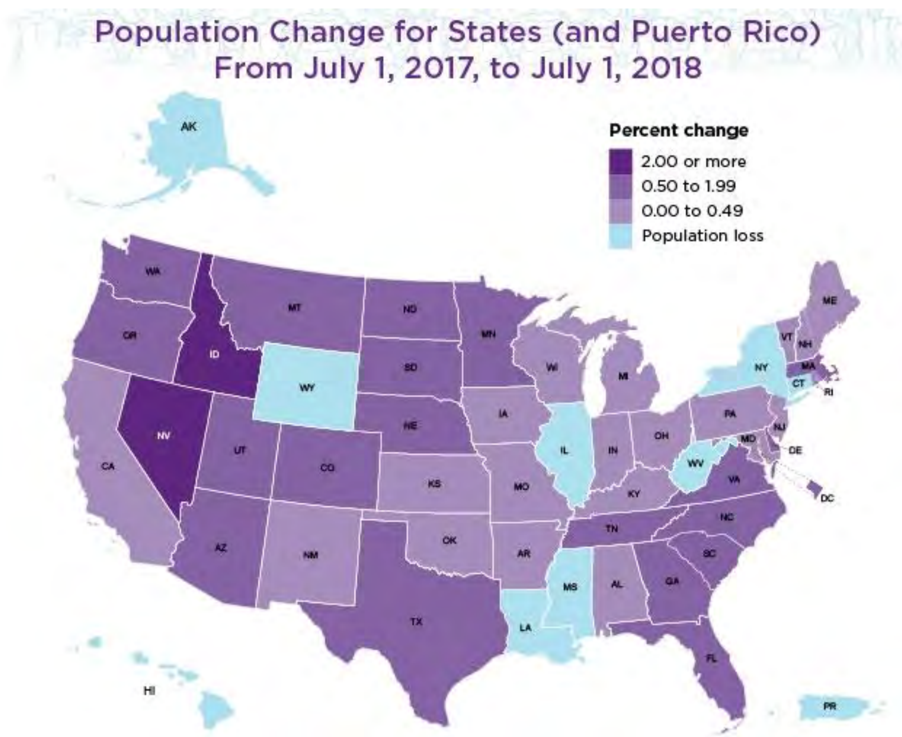
Market Summary	Month to Date			Year to Date		
	November 2018	November 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	2924	3069	-4.72% ▼	52777	54262	-2.74% ▼
Sold Listings	2605	2810	-7.3% ▼	32745	33464	-2.15% ▼
Median Listing Price	$269,900	$249,900	8% ▲	$269,900	$259,900	3.85% ▲
Median Selling Price	$264,150	$245,000	7.82% ▲	$265,000	$254,000	4.33% ▲
Median Days on Market	58	66	-12.12% ▼	63	52	21.15% ▲
Average Listing Price	$382,332	$400,075	-4.43% ▼	$398,693	$396,150	0.64% ▲
Average Selling Price	$367,048	$379,195	-3.2% ▼	$383,873	$380,109	0.99% ▲
Average Days on Market	78	92	-15.22% ▼	86	80	7.5% ▲
List/Sell Price Ratio	97%	96.8%	0.13% ▲	97.5%	97.1%	0.41% ▲

- For the U.S. overall, the National Association of Realtors (NAR) reported mixed market conditions for November 2018. Existing-home sales increased in November for the second consecutive month and three of four major U.S. regions saw gains in sales activity. Total existing-home sales (defined as completed transactions that include single-family homes, townhomes, condominiums and co-ops) increased 1.9 percent from October to a seasonally adjusted rate of 5.32 million in November. However, sales are down 7.0 percent from a year ago (5.72 million in November 2017).
- According to NAR, the median existing-home price for all housing types in November was $257,700, up 4.2 percent from November 2017 ($247,200). November's price increase marks the 81st straight month of year-over-year gains. In addition, total housing inventory at the end of November decreased to 1.74 million, down from 1.85 million existing homes available for sale in October. However, this represents an increase from 1.67 million a year ago. Unsold inventory is at a 3.9-

month supply at the current sales pace, down from 4.3 last month and up from 3.5 months a year ago. NAR noted 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, 2018 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. Connecticut's lack of population growth remains a constraint to the state's potential for economic expansion.



Stock Market

- The stock market has 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 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.

- By early October 2018, investors appeared to have shaken off their concerns and the DOW had climbed back and reached a new high, closing at 26,828.39 on Oct. 3, 2018.
- Since then volatility has returned in force and continued through December 2018. Investors have experienced renewed fears of inflation, rising interest rates and slowing economic growth. In addition, ongoing concerns about rising trade tensions with China have increased uncertainty for the market.
- Political uncertainty in the U.S. is adding to investor's worries in December. Two examples include the possibility of a prolonged federal government shut down and administration criticism of Federal Reserve monetary policy after a recent rate hike. As of this writing, all major stock indices are well into negative territory for the year and they are experiencing one of the worst monthly performances since the Great Depression. This is the first time that all three major indices are down for the full year since the 2008 financial crisis.
- Stock market activity for the past year is illustrated on the three charts that follow:

DOW

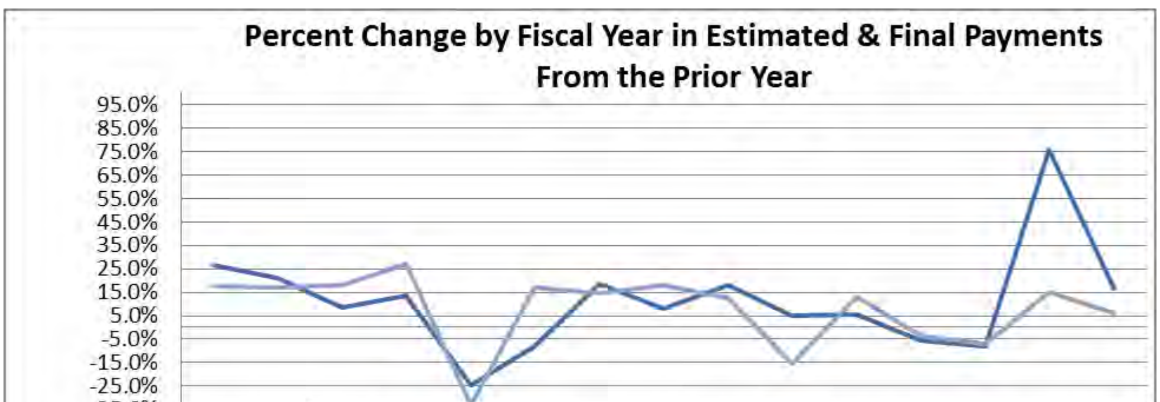
NASDAQ

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.
- Preliminary indications for the first five months of FY 2019 show that estimated payments are running ahead of budget targets. Through November 2018, combined collections of estimated and final payments were 13.9 percent higher than the same period a year ago. However, due to the reemergence of volatility and recent drops in the stock market, these revenue categories will need to be monitored closely in the coming months. It should also be noted that the rapid growth in estimated payments during FY 2018 began in December and January, largely due to one-time events. Next month's results will likely show FY 2019 year-to-date collections falling behind FY 2018's pace.



	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19 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%	16.8%
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%	6.2%

Consumer Spending

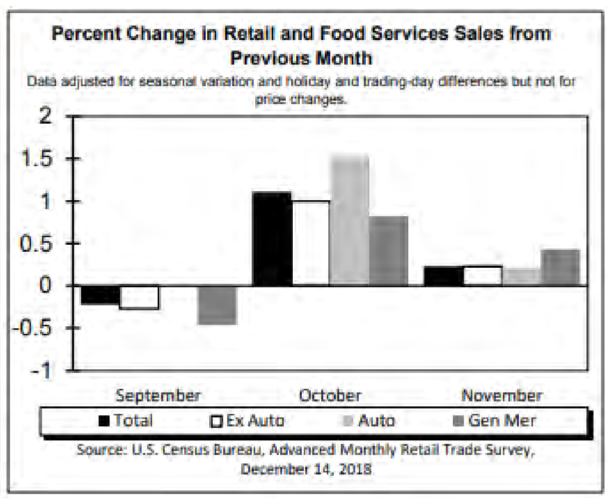
- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- The Commerce Department reported that U.S. advance retail sales grew in November 2018, increasing 0.2 percent to $513.5 billion. In addition, the growth in retail sales between September and October 2018 was revised upward to 1.1 percent (from the previously reported 0.8 percent).
- In November 2018, receipts at furniture stores grew by 1.2 percent over October 2018 levels, while sales at electronics and appliance stores increased 1.4 percent. Online and mail-order retail sales surged 2.3 percent, the largest gain in a year. Auto sales gained a modest 0.2 percent in November 2018 after advancing 1.5 percent the month before.
- Sales at gasoline stations dropped by 2.3 percent in November 2018, largely due to falling oil process. Consumers also spent less at restaurants and bars (-0.5 percent), building supply stores (-0.3 percent) and clothing stores (-0.2 percent).
- Core retail sales rose 0.9 percent in November 2018 after increasing 0.7 percent in October. This category excludes sales of automobiles, gasoline, building materials and food services. Analysts believe core retail sales correspond most closely with the consumer spending component of gross domestic product.
- In comparison to a year ago, the Commerce Department reported that retail sales were 4.0 percent above November 2017 levels. In addition, gas station receipts were up 8.2 percent and non-store retail sales were up 10.8 percent from a year ago.

ADVANCE MONTHLY SALES

November 2018	$513.5 billion	0.2%*
October 2018 (revised)	$512.4 billion	1.1%

Next release: January 16, 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, December 14, 2018.



Preliminary Results for the Holiday Shopping Season

Preliminary results for the holiday shopping season look promising based on a Dec. 26, 2018 release from Mastercard SpendingPulse. The report noted retail sales in the U.S. from Nov. 1, 2018 through Christmas Eve were up 5.1 percent to more than $850 billion, the strongest growth in six years.

Mastercard SpendingPulse provides analysis on overall retail spending trends across all payment types, including cash and check. Key findings from the report indicate that despite weather challenges, this was a positive holiday season for retail overall. However, the results were different among the various retail categories:

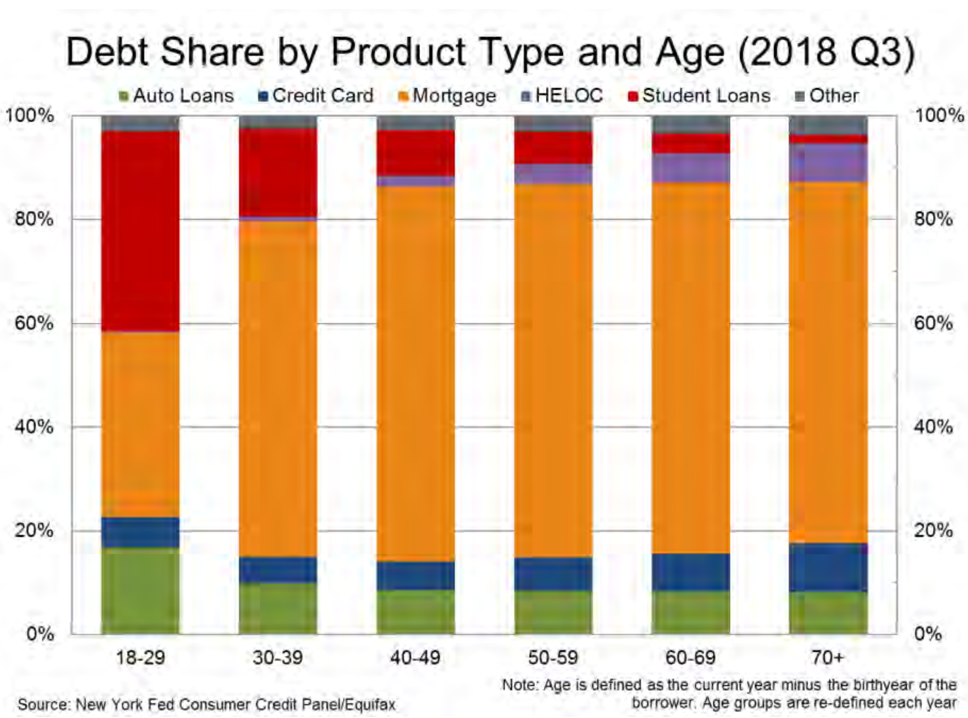
- Online shopping saw gains of 19.1 percent compared to 2017.
- Total apparel had a strong season with growth of 7.9 percent compared to 2017, recording the best growth rate since 2010.
- Home improvement spending continued to surge across the U.S. with spending during the holiday season up 9.0 percent.
- Department stores finished the season with a 1.3 percent decline from 2017. This follows two years with growth below 2 percent, some of which can be attributed to store closings. However, the online sales growth for department stores indicated a more positive story, with growth of 10.2 percent.
- Electronics and appliances were down 0.7 percent, while the home furniture and furnishings category grew 2.3 percent.

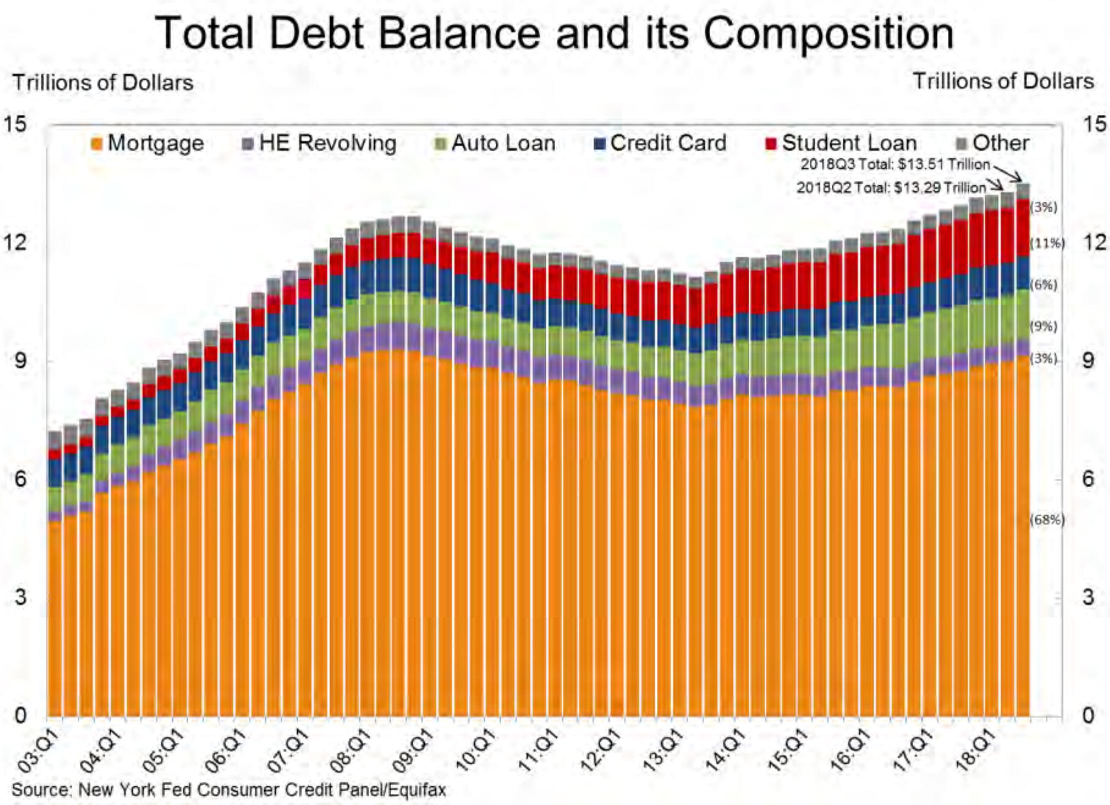
Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the third quarter of 2018. Household debt has now grown in 17 consecutive quarters. As of Sept. 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.
- In its most recent household debt report, the Federal Reserve of New York also began including a new series of charts showing debt and repayment levels by the age of the borrower. The report noted older borrowers now hold a larger share of total outstanding debt balances, while the shares held by younger borrowers have contracted and shifted toward auto loans and student loans.





- In its Dec. 21, 2018 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.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through November 2018. As can be seen, there is a general downward trend over the period. It should be noted that the U.S. Personal Saving Rate does not include capital gains from the sale of land or financial assets in its estimate of personal income. This effectively excludes capital gains – an important source of income for some.

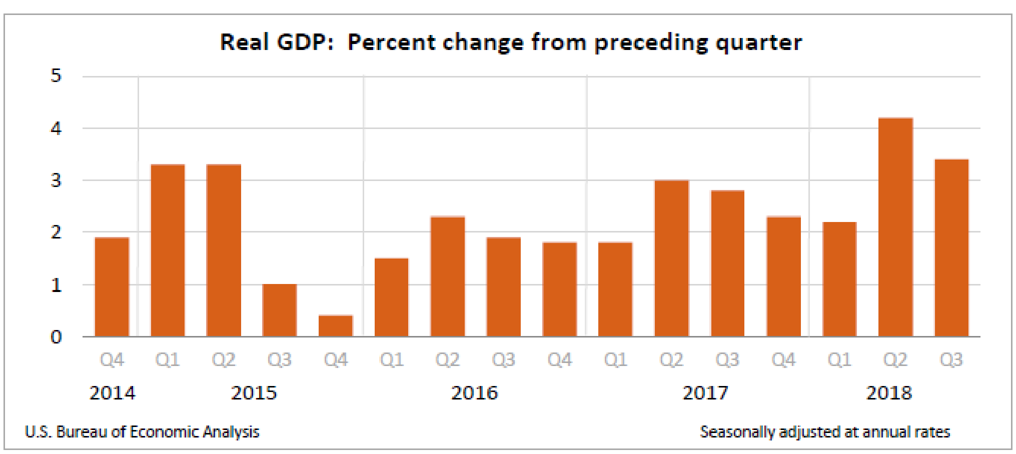
- Despite the overall improvement in the nation's economy, income inequality continues to widen as wage growth remains modest. A number of economists see the decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

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 December 2018. The Index now stands at 128.1, down from 136.4 in November 2018. This decrease in consumer confidence follows a modest decline in November and represents the lowest level since July 2018.
- The Conference Board's Dec. 27, 2018 release noted consumer expectations regarding job prospects and business conditions weakened in December, but suggest that the economy will continue expanding at a solid pace in the short-term. However, back-to-back declines in consumer expectations reflect an increasing concern that the pace of economic growth will begin moderating in the first half of 2019.

Business and Economic Growth

- According to a Dec. 21, 2018 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.

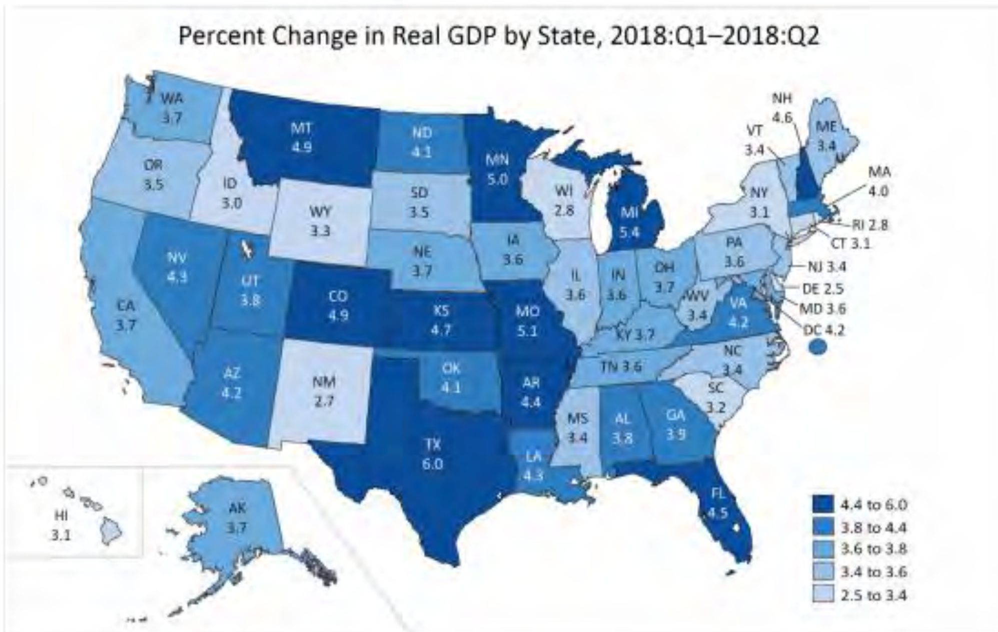


- Strong consumer and government spending helped drive third quarter GDP results. BEA reported the increase in real GDP in the third quarter reflected increases in consumer spending, inventory investment, government spending, and business investment. Notable offsets were decreases in exports and housing investment. Imports, which are treated as a subtraction in the calculation of GDP, increased during the quarter.
- The decline in residential investment may be related to rising interest rates, which has hurt the housing sector. In addition, some economists warned that the significant increase in inventory in the third quarter may be partly due to companies stocking up on goods and parts from China before prices rise in January when additional tariffs are scheduled to go into effect.
- In the same release, BEA reported U.S. corporate profits grew by 3.5 percent in the third quarter of 2018 after increasing 3.0 percent in the second. On a year-over-year basis, corporate profits grew 10.3 percent from the third quarter of 2017, the fastest increase since 2012.

Corporate profits growth is measured as the percent change from the previous quarter.

- In a Nov. 14, 2018 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the second quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 3.1 percent, which ranked 43rd in the nation overall. This growth rate was slower than both the national average of 4.2 percent and the New England regional average of 3.7 percent.

- BEA data indicated the sectors that contributed most to Connecticut's growth in the second quarter of 2018 were real estate and rental & leasing (+0.74%), information (0.70%) professional, technical & scientific services (+0.66%), and durable goods manufacturing (+0.41%). Third quarter GDP results by state for the third quarter of 2018 will be released on Jan. 29, 2019.



U.S. Bureau of Economic Analysis

Durable Goods

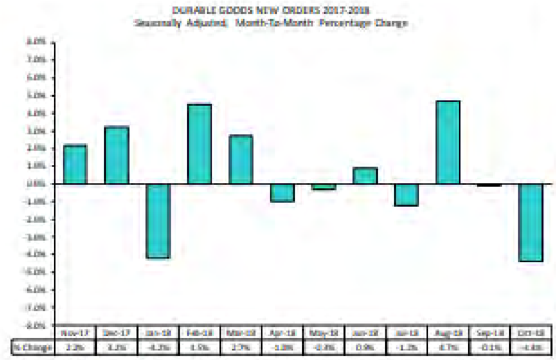
- According to a Dec. 21, 2018 report by the U.S. Department of Commerce, new orders for durable goods increased a modest $1.9 billion or 0.8 percent to $250.8 billion in November 2018. This increase followed a significant 4.3 percent decrease in October.
- Transportation equipment, specifically orders 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.

DURABLE GOODS – NEW ORDERS

OCTOBER 2018	$248.5 billion	-4.4%°
SEPTEMBER 2018 (revised)	$260.0 billion	-0.1%°

Next release: December 21, 2018

Data adjusted for seasonal variation but not for price changes.
°Statistical significance is not measurable for this survey. The Manufacturers' Shipments, Inventories, and Orders estimates are not based on a probability sample, so the sampling error of these estimates cannot be measured nor can the confidence intervals be computed.
Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories and Orders, November 21, 2018.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, November 21, 2018.

- Orders for core capital goods, a category that serves as a proxy for business investment, were down 0.6 percent in November. This category includes non-defense capital goods excluding aircraft and the decline was the third in four months.
- The recent weakness in business investment has raised concerns among analysts that this trend could weigh on growth in the fourth quarter. In addition, as CNBC noted, last year's corporate tax cuts were supposed to result in a surge in business spending on equipment. The first half of the year showed promise on this front. However, the drop in business investment since the summer suggests this may not have been a longer-term trend.

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