News from:
COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE MONDAY, JULY 1, 2019

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COMPTROLLER LEMBO PROJECTS $700.9-MILLION SURPLUS FOLLOWING REVENUE IMPROVEMENTS

Comptroller Kevin Lembo today announced that the state is on track to end the 2019 fiscal year with a $700.9-million surplus, though he noted that amount will be reduced by $540.9 million pursuant to Public Act 19-117 for appropriations to cover funding for a new special capital reserve fund for the Teachers' Retirement System and a settlement with hospitals.

In a letter to Gov. Ned Lamont, Lembo said that his latest projection aligns with the state Office of Policy and Management (OPM)'s projection, an increase from last month's projection due to several revenue categories over-performing.

Revenue categories over-performing above what was projected in the April consensus forecast by OPM and the legislature's non-partisan Office of Fiscal Analysis (OFA) include the Sales and Use Tax (+$39.9 million), the Corporate Tax (+$25 million), the Inheritance & Estate Tax (+$16.5 million) and the Public Service Corporations Tax (+$17.5 million).

The Pass-Through Entity Tax also improved by $110 million, although it was offset by a $100-million reduction in the estimated and final payments portion of the income tax.

"These over-performing revenue categories are positive signs – however, in order to help protect against future economic downturns, Connecticut must maintain financial discipline and continue building the Budget Reserve Fund balance to the statutory target of 15 percent," Lembo said.

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:

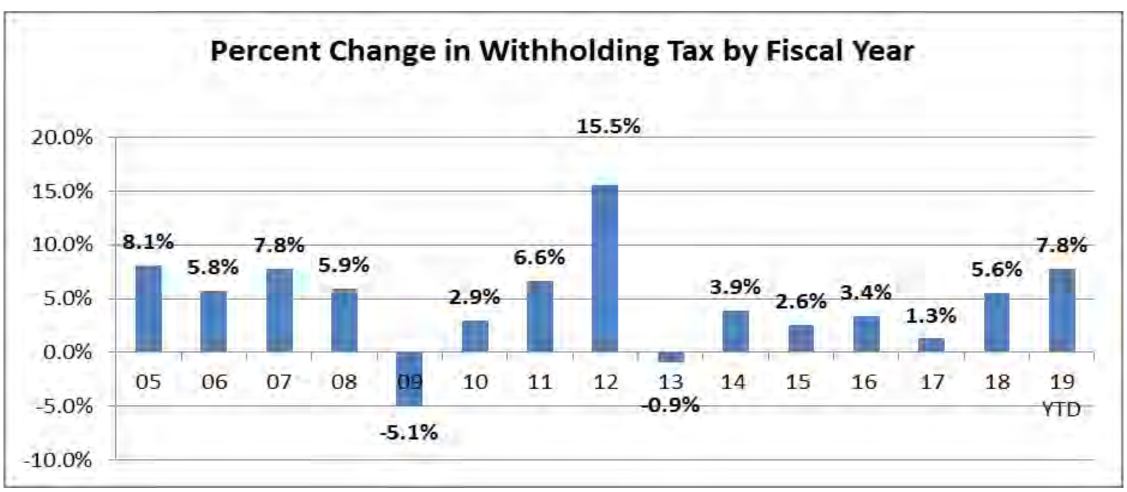
- For Fiscal Year 2019, the volatility cap is $3.2 billion for estimated and final income tax payments and revenue from the Pass-Through Entity Tax.
- If current projections are realized, an $895.5 million volatility transfer will be made to the Budget Reserve Fund.
- The current balance in the Budget Reserve Fund is $1.2 billion.
- Adding the estimated $895.5 million volatility transfer and the remaining projected year-end surplus of $160 million would bring the year-end balance of the Budget Reserve Fund to $2.24 billion.
- This projected year-end balance, if realized, would represent approximately 11.6 percent of net General Fund appropriations for Fiscal Year 2020.
- Reaching 15 percent of net General Fund appropriations is the target, Lembo said.

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

Recent economic indicators and trends from national and state sources show:

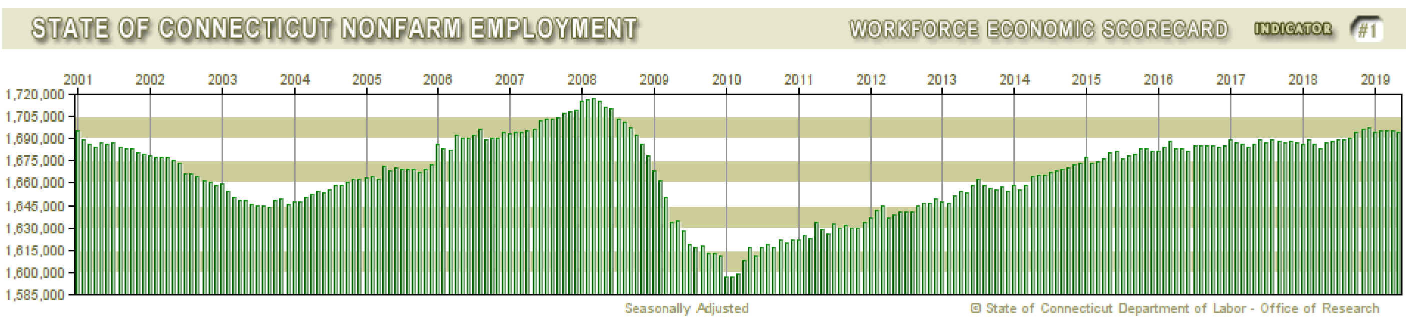
Employment

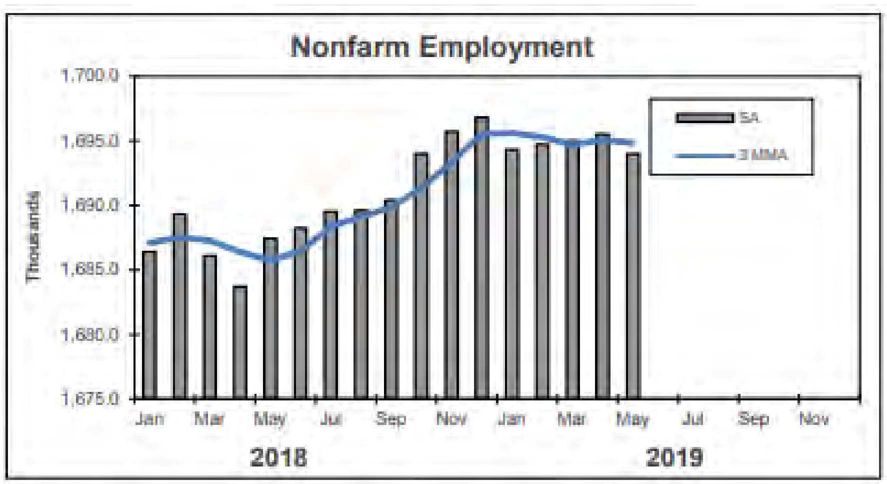
- After a solid performance in FY 2018, preliminary results for FY 2019 through May 2019 show withholding receipts grew by a strong 7.8 percent compared with the corresponding period in the prior fiscal year. This is especially significant because the withholding portion of the income tax is the largest single General Fund revenue source.



- Current estimates based on the April consensus revenue forecast have the withholding portion of the income tax growing by approximately 7.0 percent over FY 2018 realized amounts. Withholding collections to date, therefore, are coming slightly above these projections. However, this conservative approach is warranted in light of the mixed job results reported in the first five months of 2019.

- On June 20, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for May 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 May, to a level of 1,694,000, seasonally adjusted. In addition, April's originally released job gain of 300 was revised upward by 200 to a gain of 500 jobs over the month. With the May job losses, calendar 2019 employment growth has slipped back into negative territory.



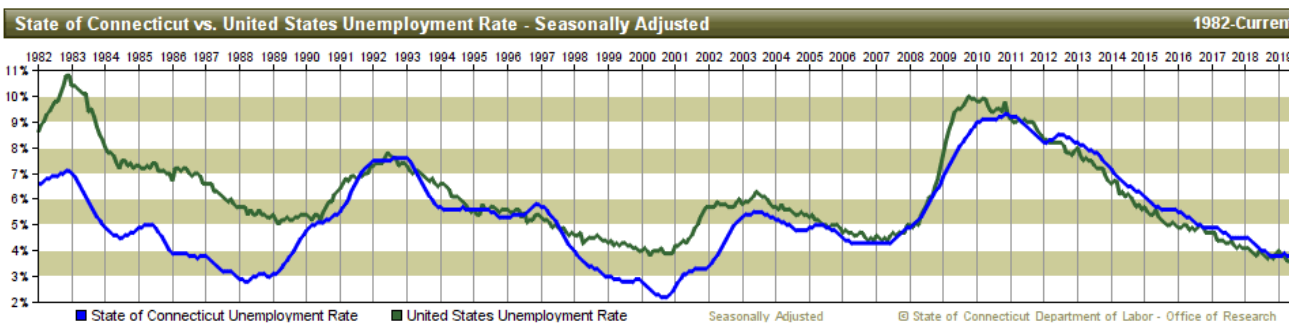


- Over the year, DOL reported that nonagricultural employment in the state grew by 6,600 jobs on a seasonally-adjusted basis. Connecticut has now recovered 80.8 percent (97,200 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of May, the job recovery was into its 111th month and the state needed an additional 23,100 new net jobs to reach an overall employment expansion.

Connecticut's Recessionary Job Loss and Recovery March 2008 - May 2019						
	March 2008	January 2010	May 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,694.0	-120.3	97.2	80.8%
Total Private Sector	1,457.4	1,345.4	1,457.4	-112.0	112.0	100.0%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated:June 20, 2019

- Connecticut's unemployment rate stood at 3.8 percent in May, unchanged from the revised April figure and down four-tenths of a point from a year ago when it was 4.2 percent. Nationally, the unemployment rate was 3.6 percent in May 2019, also unchanged from April's revised estimate. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 1982.



- Among the job major sectors listed below, seven experienced gains and three had losses in May 2019 versus May 2018 levels. Information, leisure & hospitality, financial activities and construction were the fastest growing sectors in the state's labor market on a percentage basis. The other services, trade, transportation & utilities, and professional & business services sectors experienced job losses.

Payroll Employment Trend				
May 2019 Versus May 2018				
Sector	**May 2019 (P)**	**May 2018**	**Gain/Loss**	**% Change**
Construction and Mining	59,600	58,800	800	1.4%
Manufacturing	160,700	160,500	200	0.1%
Trade, Transportation & Utilities	294,100	296,900	-2,800	-0.9%
Information	32,800	31,600	1,200	3.8%
Financial Activities	127,300	125,500	1,800	1.4%
Professional & Business Services	219,100	220,800	-1,700	-0.8%
Education & Health Services	338,500	334,300	4,200	1.3%
Leisure & Hospitality	161,300	157,100	4,200	2.7%
Other Services	64,000	65,600	-1,600	-2.4%
Government	236,600	236,300	300	0.1%
Total Connecticut Non-Farm Employment	**1,694,000**	**1,687,400**	**6,600**	**0.4%**

Wage and $alary income

- May 2019 average hourly earnings at $32.59, not seasonally adjusted, were up $1.19 or 3.8 percent from the May 2018 estimate. The resultant average private sector weekly pay amounted to $1,104.80, up $43.48 or 4.1 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 May was a modest 1.8 percent.
- On June 25, the Bureau of Economic Analysis (BEA) reported that Connecticut's personal income grew by a 1.5 percent annual rate for the first quarter of 2019. Based on this result, Connecticut ranked 48th in the nation. This growth rate was below both the national average of 3.4 percent and the New England region's average rate of 2.6 percent. The percent change in personal income across all states ranged from 5.6 percent in West Virginia to -0.6 percent in South Dakota.

Housing

- Berkshire Hathaway HomeServices reported largely positive results for the Connecticut housing market for May 2019 compared with May 2018. Sales of single-family homes grew 2.27 percent and the median sale price increased a robust 7.69 percent. New listings were essentially flat, declining only 0.12 percent in Connecticut. However, the median list price was up 9.06 percent to $289,000 compared with $265,000 a year ago. Average days on the market decreased 13.33 percent in May 2019 compared to the same month in the previous year (78 days on average, down from 90 days). Finally, the list-to-sell price remained steady, declining slightly to 97.5 percent from 97.6 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

MAY 2019 | SINGLE FAMILY HOMES

Market	Month to Date			Year to Date		
Summary	May 2019	May 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	6677	6685	-0.12% ▼	25533	25774	-0.94% ▼
Sold Listings	3327	3253	2.27% ▲	12281	12394	-0.91% ▼
Median Listing Price	$289,000	$265,000	9.06% ▲	$259,900	$259,825	0.03% ▲
Median Selling Price	$280,000	$260,000	7.69% ▲	$254,000	$250,000	1.6% ▲
Median Days on Market	47	61	-22.95% ▼	62	69	-10.14% ▼
Average Listing Price	$408,374	$399,844	2.13% ▲	$377,939	$388,657	-2.76% ▼
Average Selling Price	$391,492	$384,248	1.89% ▲	$362,385	$373,243	-2.91% ▼
Average Days on Market	78	90	-13.33% ▼	87	98	-11.22% ▼
List/Sell Price Ratio	97.5%	97.6%	-0.12% ▼	97.3%	97.2%	0.14% ▲

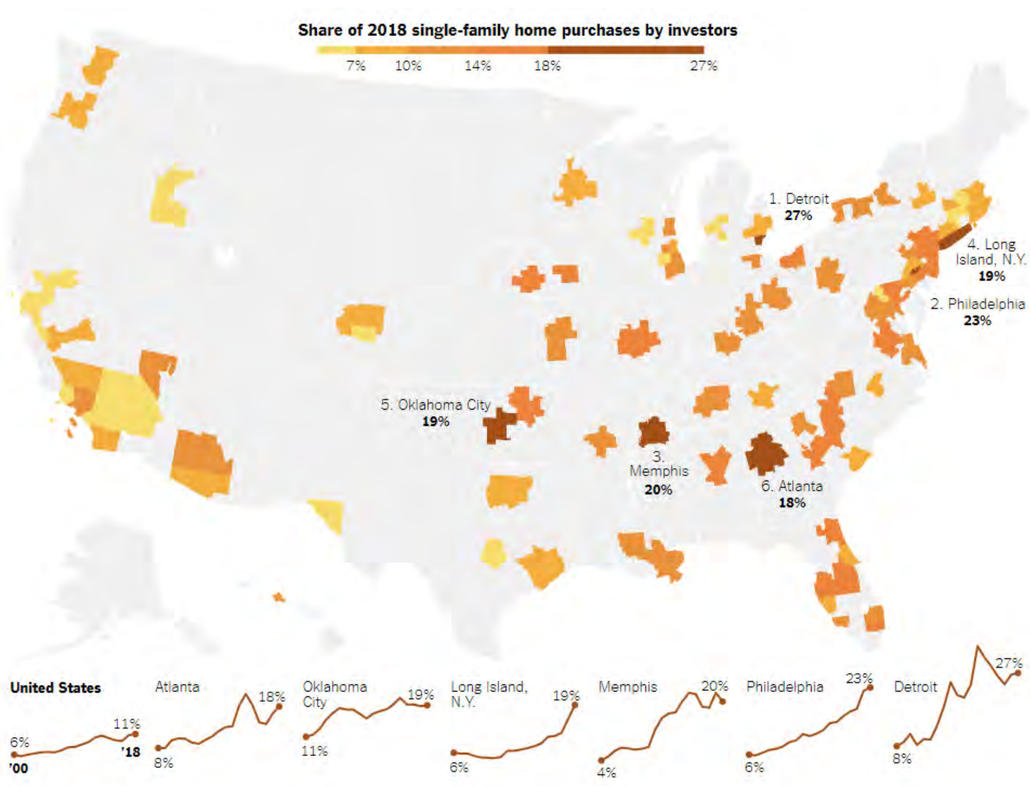
- For the U.S. housing market, existing-home sales rebounded in May, the first increase in two months, according to the National Association of Realtors (NAR). May sales were up 2.5 percent from April to a seasonally adjusted annual rate of 5.34 million. All four major U.S. regions saw growth in sales, with the Northeast experiencing the biggest increase. NAR reported that buyers are responding to favorable market conditions, including lower mortgage rates. However, compared with a year ago, total U.S. sales were down 1.1 percent (versus 5.40 million in May 2018).
- According to NAR, the median existing-home price for all housing types in May was $277,000, up 4.8 percent from May 2018 ($265,100). May's price increase marks the 87th straight month of year-over-year gains. Total housing inventory at the end of May increased to 1.92 million, up from 1.83 million existing homes available for sale

in April and a 2.7 percent increase from 1.87 million a year ago. Unsold inventory is at a 4.3-month supply at the current sales pace, up from both the 4.2 month supply in April and from 4.2 months in May 2018.

- Properties remained on the market for an average of 26 days in May, up from 24 days in April and equal to 26 days a year ago. A total of 53 percent of homes sold in May were on the market for less than a month.

Competing with Investors for Starter Homes

- For several months, NAR has been reporting that affordable homes have been in short supply. This trend dovetails with a recent report by *The New York Times* article that first-time home buyers are competing with investors for starter homes throughout the country. This competition is pricing younger home buyers out of the market in many areas.



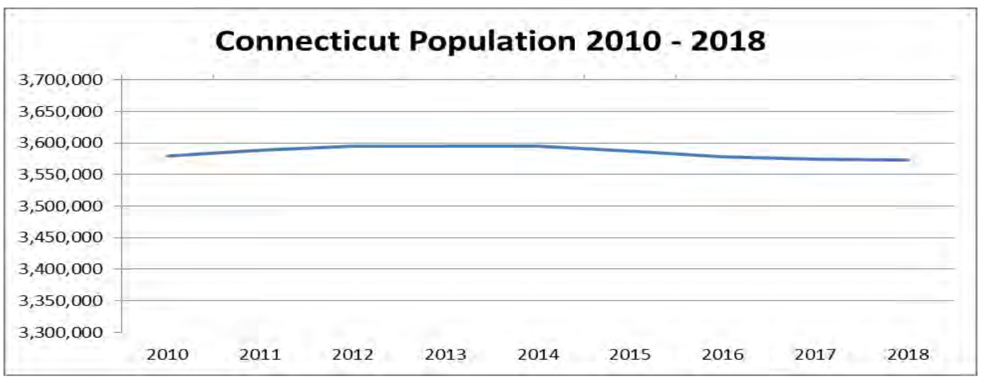
Source: CoreLogic

- Last year, according to *The New York Times*, investors bought about one in five starter homes in the United States. That percentage was even higher than in the early years after the Great Recession and about double the level of two decades ago. The investors come in many forms, ranging from individuals seeking to renovate and resell at a profit, to those looking to rent out the properties, to institutional investors backed by Wall Street.

- The full article can be found at: https://www.nytimes.com/interactive/2019/06/20/business/economy/starter-homes-investors.html?action=click&module=Top%20Stories&pgtype=Homepage

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 percent 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.



- 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 had generally been recovering ground steadily through April 2019. In mid-May, however, the markets turned downward and volatility returned as trade tensions escalated between the United States and China.

- In June, as of this writing, the markets have shown resilience and trended back upward with the DOW and S&P 500 touching historic highs. Investors are hoping the Fed will cut interest rates in the near future as a means of sustaining economic momentum. To date, threats of military confrontation in the Middle East have not had a significant impact on the markets.
- Stock market activity for the past year is illustrated on the three charts that follow:

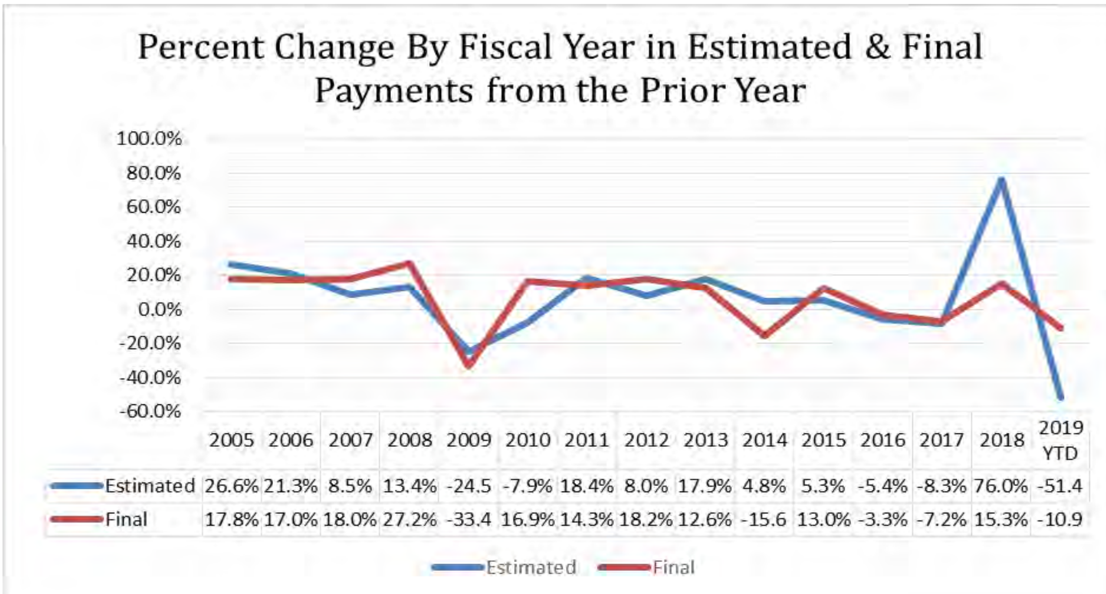
DOW

NASDAQ

S&P 500 INDEX

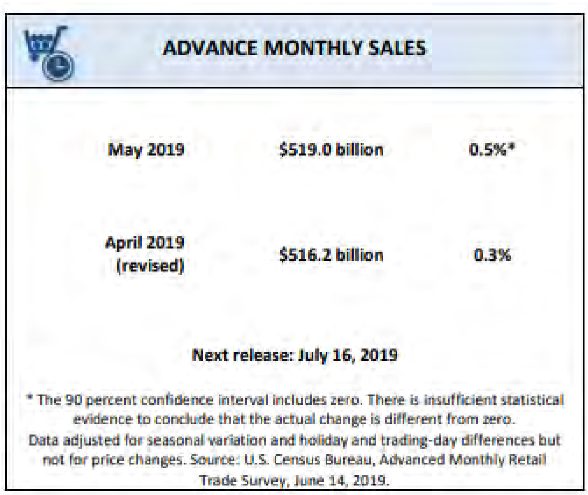
- The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 35 to 40 percent of total state income tax receipts, but can be an extremely volatile revenue source. For example, 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.
- 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 May, combined collections of estimated and final payments were 34.9 percent lower than the same period a year ago. As a result, the April consensus revenue forecast lowered targets for estimated and final income tax payments by $200 million. The Office of Policy and Management (OPM) further reduced its estimate this month by another $100 million as collections for estimated and final payments continue to underperform budget targets. At the same time, taxes in other

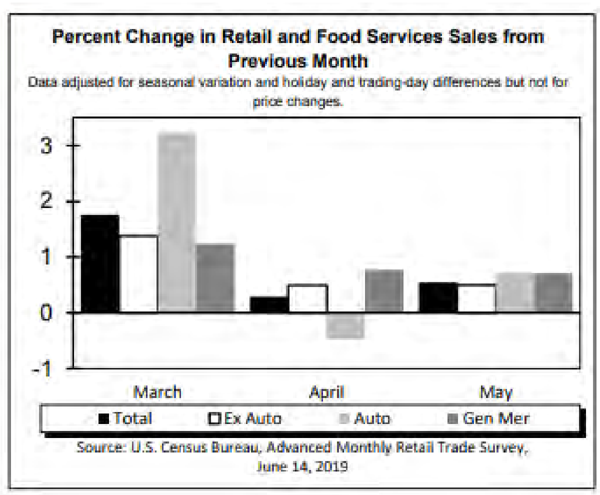
categories, specifically the new Pass-Through Entity (PET) tax on partnerships and S Corporations, is outperforming the budget plan. The April consensus forecast raised revenue projections for this category by $400 million. In addition, OPM increased its current projection for PET by another $110 million.



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 0.5 percent in May 2019, while April's results were revised upward from a decline of 0.2 percent to growth of 0.3 percent. After an uneven start to the year, retail sales have grown for three consecutive months, easing analysts' fears of a sharp slow-down in the second quarter.

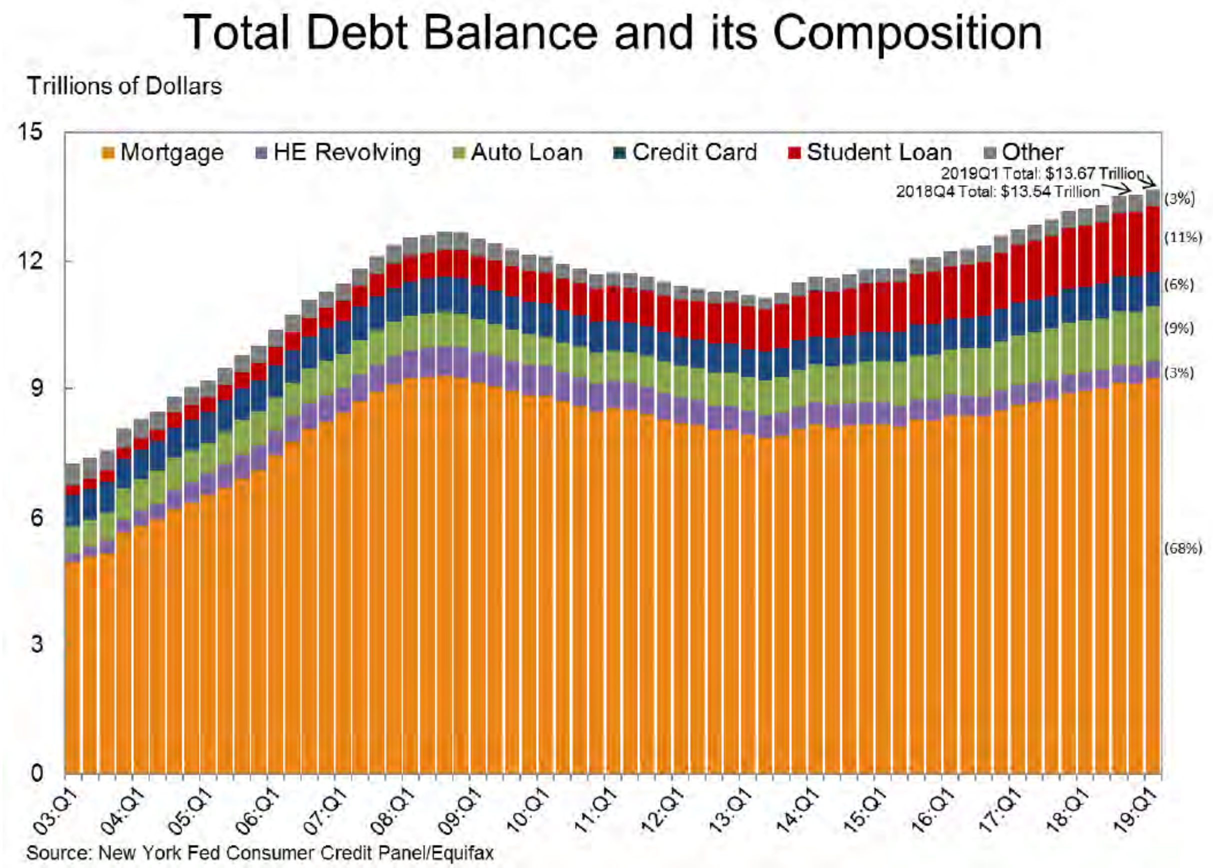




- Increases in retail sales were broad-based in May. Receipts at electronics and sporting goods stores both jumped 1.1 percent. Auto sales grew a solid 0.7 percent and health & personal care stores saw a 0.6 percent increase. Receipts at non-store retailers rose 1.4 percent, while bars and restaurants experienced growth of 0.7 percent.
- So called "core retail sales" rose 0.5 percent in May, after growing a revised 0.4 percent in April. This category excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of gross domestic product.

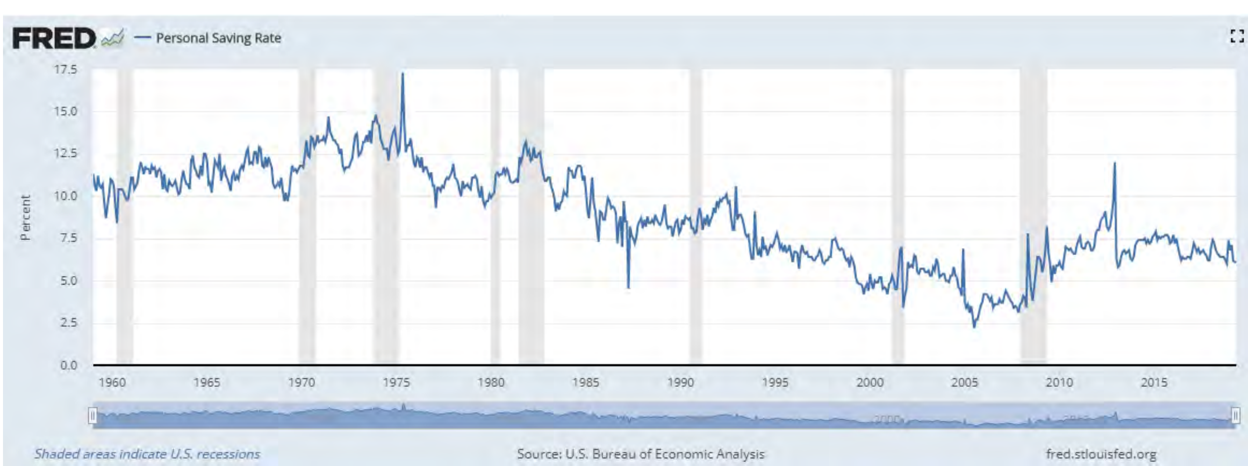
Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the first quarter of 2019 (see illustration on next page). Household debt has now grown in 19 consecutive quarters. As of March 31, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.67 trillion. This represented an increase of $124 billion (0.9 percent) from the fourth quarter of 2018. In addition, overall household debt is now 22.5 percent 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 $9.2 trillion during the fourth quarter, a $120 billion increase from the fourth quarter of 2018. At $1.49 trillion, student loans were the second largest category of household debt. Student loan balances grew by $29 billion in the first quarter of 2019. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $6 billion to $406 billion. Auto loans grew by $6 billion in the first quarter, while credit card balances decreased by $22 billion.
- The Federal Reserve reported that aggregate delinquency rates remained steady in the first quarter of 2019. As of March 31, 4.6 percent of outstanding debt was in some stage of delinquency, a slight reduction from the fourth quarter of 2018. Of the $623 billion of debt that is delinquent, $417 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. A total of 10.9 percent of aggregate student debt was 90+ days delinquent, which the Federal Reserve noted was a high level compared with other types of household debt.



<u>Personal Savings Rate</u>

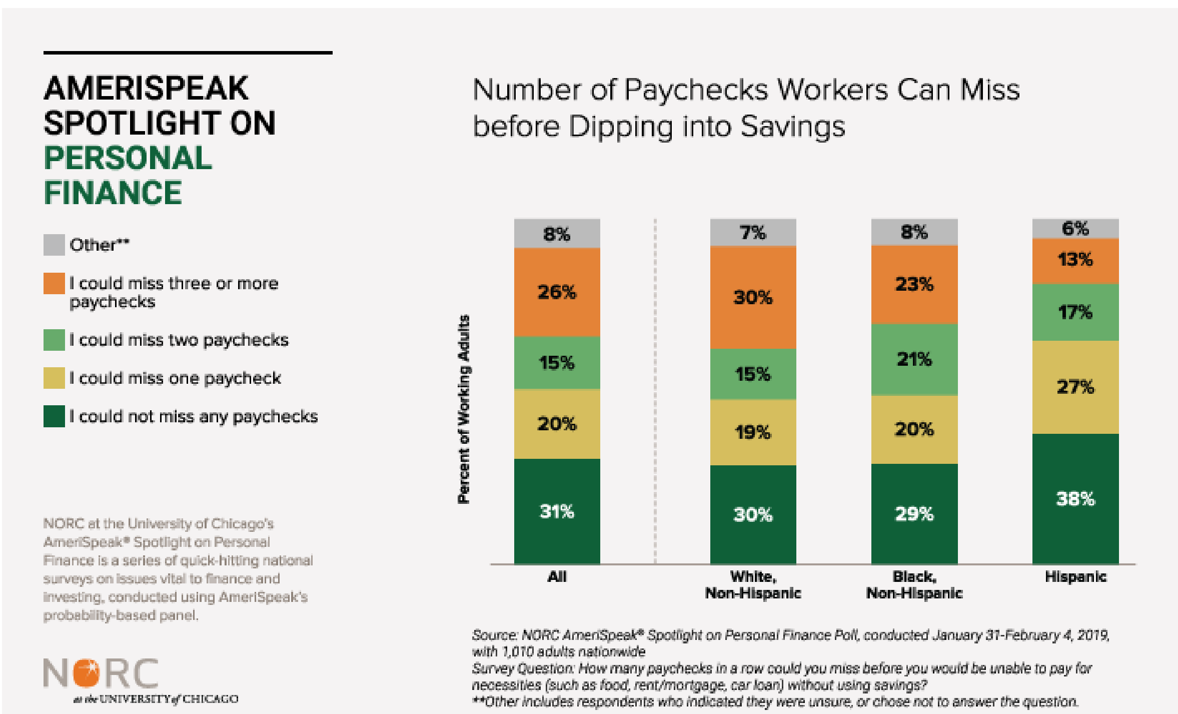
- In its June 28 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.1 percent in May 2019, unchanged from April's revised rate. However, this represents a step back from 7.1 percent as recently as February. The personal savings rate is defined as personal savings as 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.

NORC Survey: The Impact of Missing One or More Paychecks

- The National Opinion Research Center (NORC) at the University of Chicago recently released survey results of how missing one or more paychecks would impact working families. NORC reported even short disruptions in pay can cause significant hardship.
- NORC found that 51 percent of working adults indicated that missing more than one paycheck would mean they could not cover necessities without accessing savings. An additional 15 percent would experience hardship after missing two paychecks. NORC noted the issue is especially significant for low income households (earning less than $30,000 per year) and Hispanic families.



- Another major finding was that some methods families would use to manage income disruptions could have serious long-term ramifications for their finances.

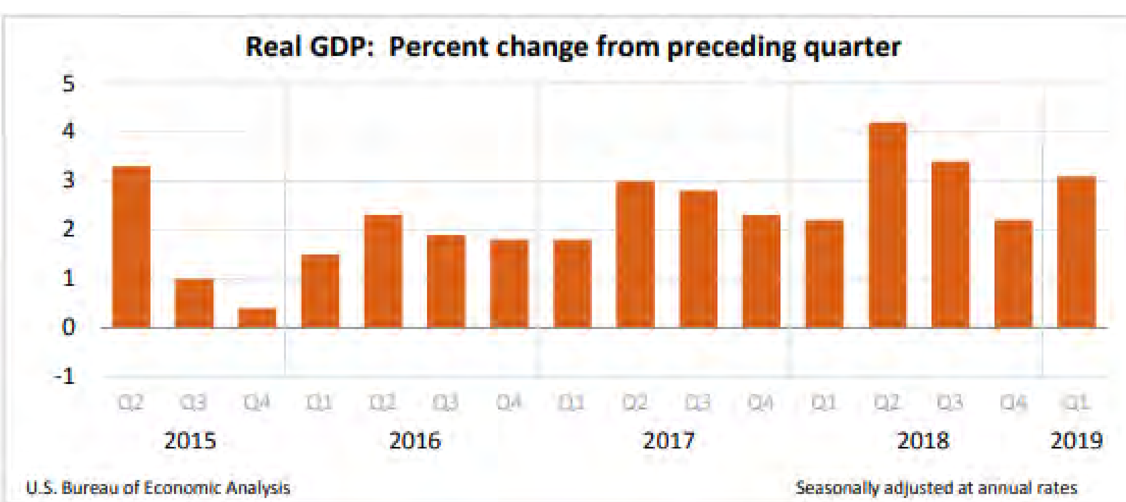
- Not surprisingly, most (73 percent) would decrease spending on non-essential items and 40 percent would withdraw funds from savings. In addition, 43 percent said they would stop putting money away in their savings accounts, and 28 percent would stop making retirement contributions. Some families would skip the purchase of essential items (31 percent of all households and 46 percent of low income families).
- When asked how they would get money for essentials if they did not have additional savings, almost half (47 percent) of households indicated they would turn to credit cards. However, another 17 percent would take a paycheck, auto, or other type of short-term loan. Since these alternative loan sources come with exorbinant interest rates, NORC noted these quick fix solutions can have damaging long term consequences for working families.

Consumer Confidence

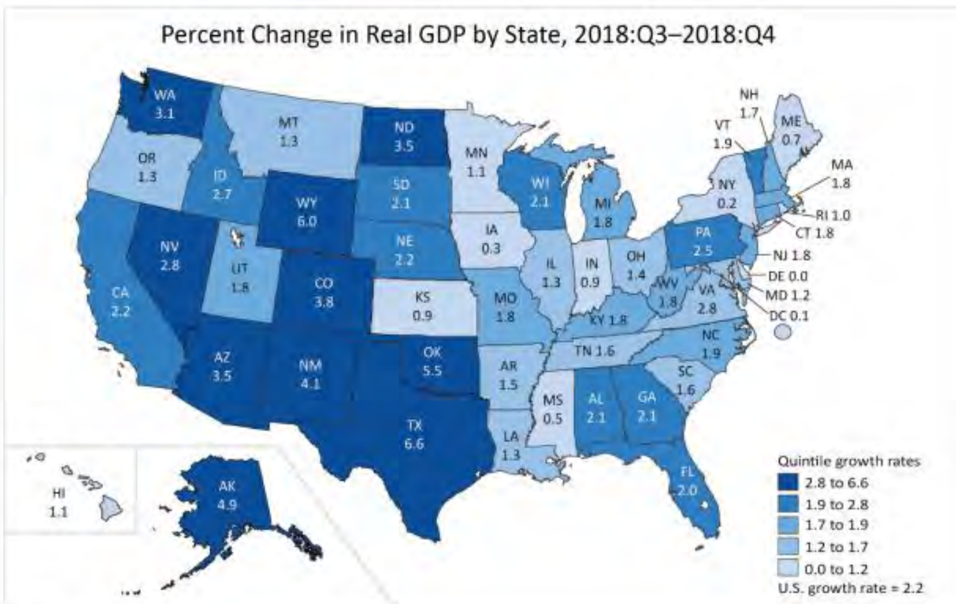
- The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts for nearly 70 percent of U.S. economic activity.
- The Conference Board reported that the Consumer Confidence Index declined in June, following an increase in May. The Index now stands at 121.5, down from 131.3 in May.
- According to the Conference Board, the drop in consumer confidence appears related to the escalation in trade tensions earlier in the month and continued uncertainty could result in further volatility in the CCI.

Business and Economic Growth

- According to a June 27 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 3.1 percent in the first quarter of 2019. This is third estimate for the quarter, unchanged from the second estimate. In the fourth quarter of 2018, real GDP increased 2.2 percent.



- BEA reported that the increase in real GDP in the first quarter reflected positive contributions from consumer spending, private inventory investment, exports, state and local government spending, and nonresidential (i.e., business) fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased in the quarter. These contributions were partly offset by a decrease in residential investment.
- A number of economists are predicting slower growth for the U.S. in the second quarter of 2019, citing slower global growth and rising trade tensions with China and Mexico that has created uncertainty for businesses and dampened consumer confidence.

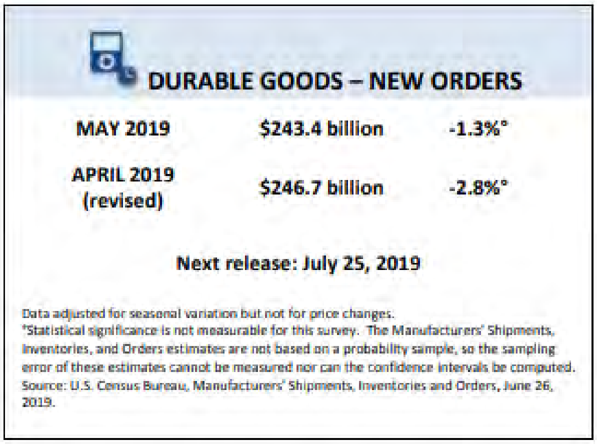


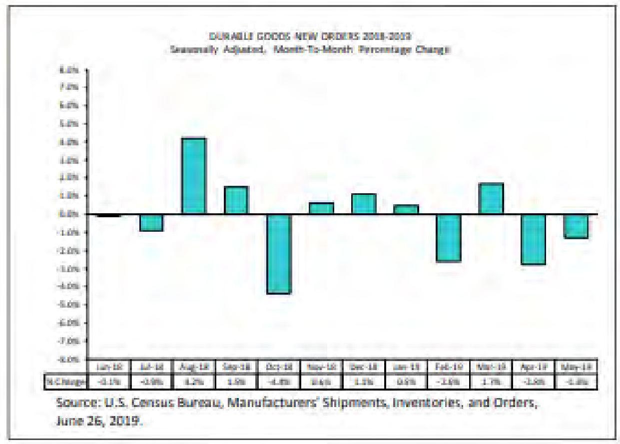
U.S. Bureau of Economic Analysis

- In a May 1 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the fourth quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 1.8 percent, which ranked 27th in the nation overall. This growth rate was below the national average of 2.2 percent, but slightly above to the New England regional average of 1.7 percent. The percent change in real GDP in the fourth quarter ranged from 6.6 percent in Texas to 0.0 percent in Delaware.
- In the same report, BEA provided the full annual GDP results by state for 2018. On this measure, Connecticut fared worse, lagging both the national and New England regional average levels of growth. Connecticut's Real GDP grew by 1.0 percent in 2018, which ranked 44th in the nation.

Durable Goods

- According to a June 26 report by the U.S. Department of Commerce, new orders for manufactured durable goods decreased $3.3 billion or 1.3 percent to $243.4 billion. This decline was the third in four months and followed a 2.8 percent decrease in April.





- The volatile transportation equipment category, also down three of the last four months, drove the decrease, $3.9 billion or 4.6 percent to $80.0 billion. Orders for motor vehicles and parts rebounded 0.6 percent, but orders for non-defense aircraft plunged 28.2 percent.
- CNBC noted that Boeing reported on its website that it had received no aircraft orders in May after getting orders for four planes in April. Boeing's MAX 737 jetliner was grounded in March following two fatal plane crashes in five months. It has cut back production and suspended deliveries of the aircraft.
- On a positive note, orders for so-called core capital goods increased 0.4 percent last month due to increases in demand for machinery, computers and electronic products. This category includes non-defense capital goods excluding aircraft and is widely viewed as a proxy for business investment. Data for April had core capital goods orders decreasing by one percent.

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