News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $571.8-MILLION SURPLUS; URGES CONTINUED DISCIPLINE AND WARNS ABOUT PERSISTENT DISPARITIES DESPITE ECONOMIC GROWTH

Comptroller Kevin Lembo today announced that the state is on track to end the 2019 fiscal year with a $571.8-million surplus, though he warned that economic uncertainties demand that Connecticut maintain its commitment to fiscal discipline.

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, which is a slight decrease by $9.1 million from last month's projection due to increased spending.

Lembo also highlighted this year's annual report by the Board of Governors of the Federal Reserve System that shows the national economy experienced substantial economic gains in 2018, though these gains failed to narrow persistent economic disparities by race, education and geography.

The state's surplus, growing Budget Reserve Fund and expanding national economy are good news, though Lembo said it is critical – for true economic growth - for policymakers to be aware of a persistent unchanging underlying disparity.

These disparities mean that many Americans have been forced to take on "gig" activities (supplemental work in addition to regular full-time jobs), faced monthly unpredictable changes to income or were forced to skip necessary medical care because they could not afford the cost, Lembo said.

"This report tells us that we are experiencing bird-eye view economic growth, but not true economic growth – which requires at least one measure of change to our persistent economic disparities," Lembo said.

"Despite low unemployment and a growing national economy, a recent study shows too many families are still being left behind financially. The report found that four in 10 adults are financially vulnerable and would have difficulty handling an emergency expense as small as $400. Unpredictable work schedules and not enough work hours contribute to financial stress. One-fifth of adults surveyed had major, unexpected medical bills to pay in the prior year and one-fourth skipped necessary medical care in 2018 because they were unable to afford the cost.

"The report concluded that many families have experienced substantial gains in the past five years; nevertheless, another year of economic expansion did little to narrow the persistent economic disparities categorized by race, education and geography."

While Connecticut may be unable to alter national or global uncertainty in the financial markets, Lembo said the state can account for how it prepares for these uncertainties.

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 threshold (or "volatility cap) where any additional revenue from the estimated and final income tax payments and the pass-through entity tax must be transferred to the BRF is $3.2 billion.
- If current projections are realized, an $885.5-million transfer would be made to the BRF.
- The current BRF balance is $1.2 billion.
- Adding the estimated $885.5 million transfer, plus the projected Fiscal Year 2019 surplus of $571.8 million, would bring the year-end balance of the BRF to $2.64 billion, or approximately 13.9 percent of Fiscal Year 2019 General Fund expenditures. This is notwithstanding any action by the legislature between now and the close of the legislative session later this week that would alter this status.

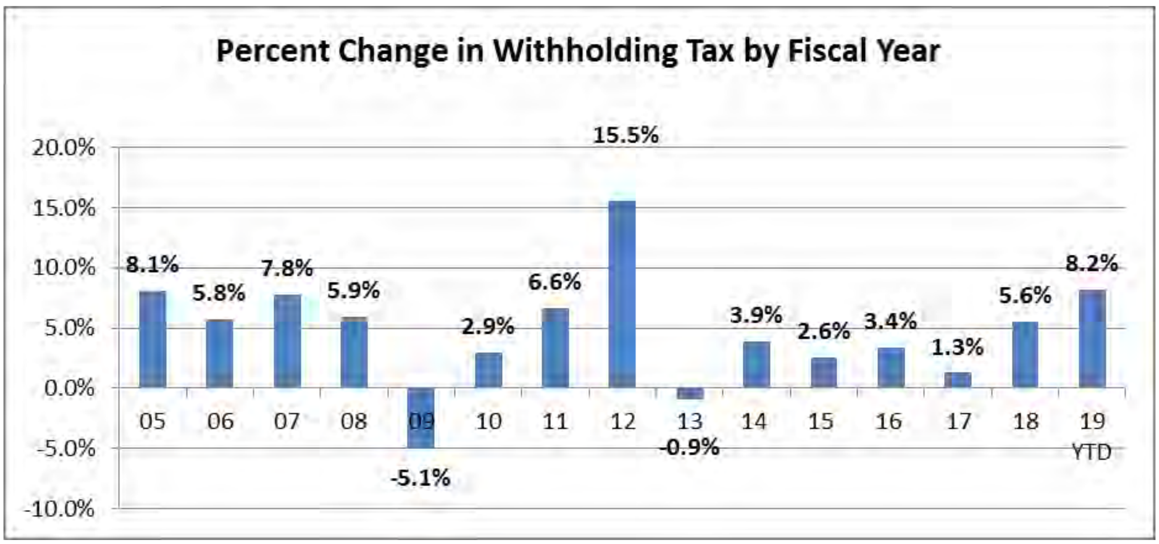
"This result, if achieved, would represent a significant improvement over the recent past and move the Budget Reserve Fund closer to the statutory target of 15 percent," Lembo said. "A strong Budget Reserve Fund is an essential financial management tool for Connecticut.

"In the past, when economic downturns struck, state government was unprepared and had to make difficult policy choices in the midst of a crisis. The state was forced to raise taxes and cut spending at the worst possible time – just when the need for essential state services was growing. Maintaining financial discipline and a strong Budget Reserve Fund balance will help protect against future economic downturns."

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

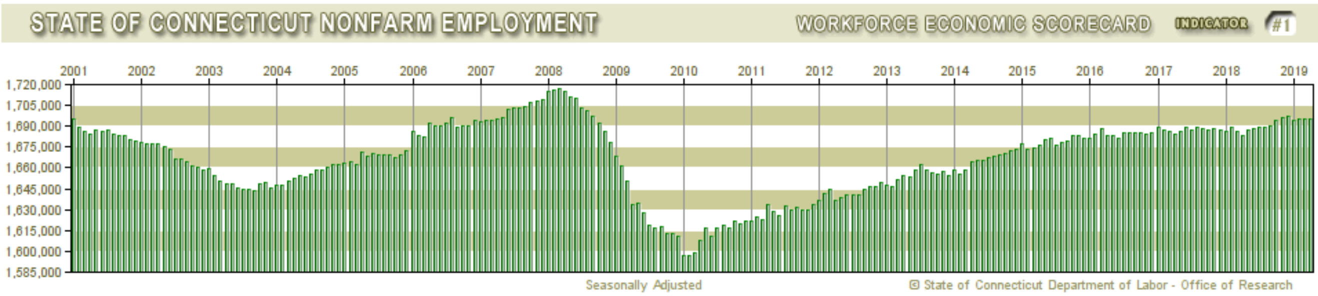
Employment

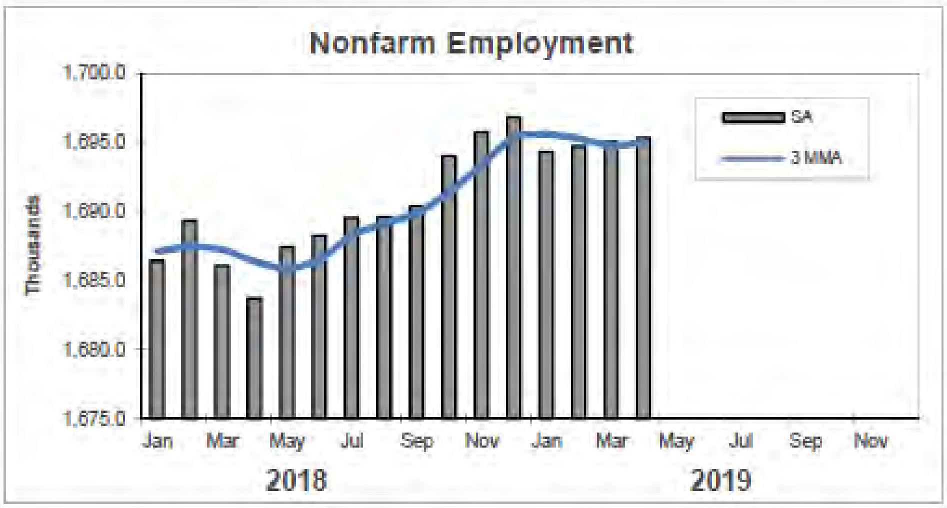
- After a solid performance in FY 2018, preliminary results for FY 2019 through April 2019 show withholding receipts grew by a strong 8.2 percent compared with the corresponding period in the prior fiscal year. This is especially significant because the withholding portion of the income tax is the largest 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 early months of 2019.
- On May 16, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for April 2019 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 300 net jobs in April, to a level of 1,695,300, seasonally adjusted. In addition, March's originally-released job loss of 1,300 was revised upward by 1,600 to a gain of 300 jobs over the month. DOL noted that the

small April gains and the March jobs revision have driven the calendar 2019 employment growth into positive territory.





- Over the year, DOL reported that nonagricultural employment in the state grew by 11,600 jobs on a seasonally-adjusted basis. Connecticut has now recovered 81.9 percent (98,500 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of April, the job recovery was into its 111th month and the state needed an additional 21,800 new net jobs to reach an overall employment expansion.

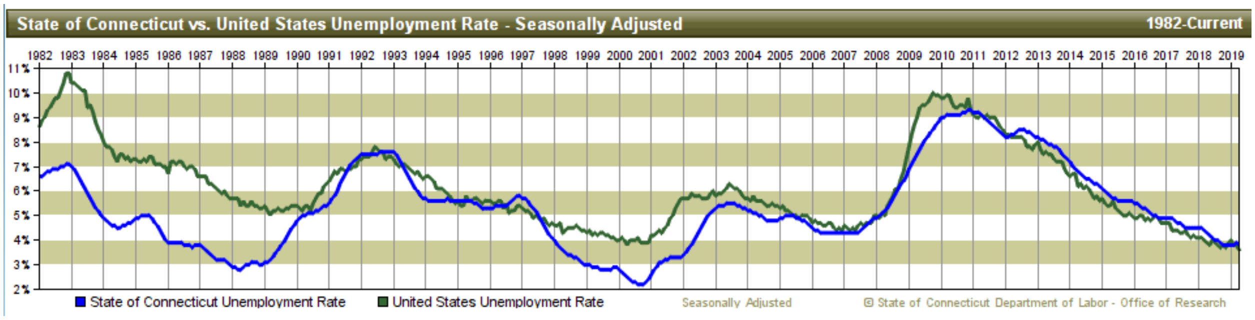
Connecticut's Recessionary Job Loss and Recovery March 2008 - April 2019

CONNECTICUT DEPARTMENT OF LABOR	March 2008	January 2010	April 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,695.3	-120.3	98.5	81.9%
Total Private Sector	1,457.4	1,345.4	1,458.7	-112.0	113.3	101.2%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated: May 16, 2019

- Connecticut's unemployment rate stood at 3.8 percent in April, down one-tenth of a point from the revised March figure and down five-tenths of a point from a year ago when it was 4.3 percent. Nationally, the unemployment rate was 3.6 percent in April

2019, down two-tenths of a point from March's revised estimate. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 1982.



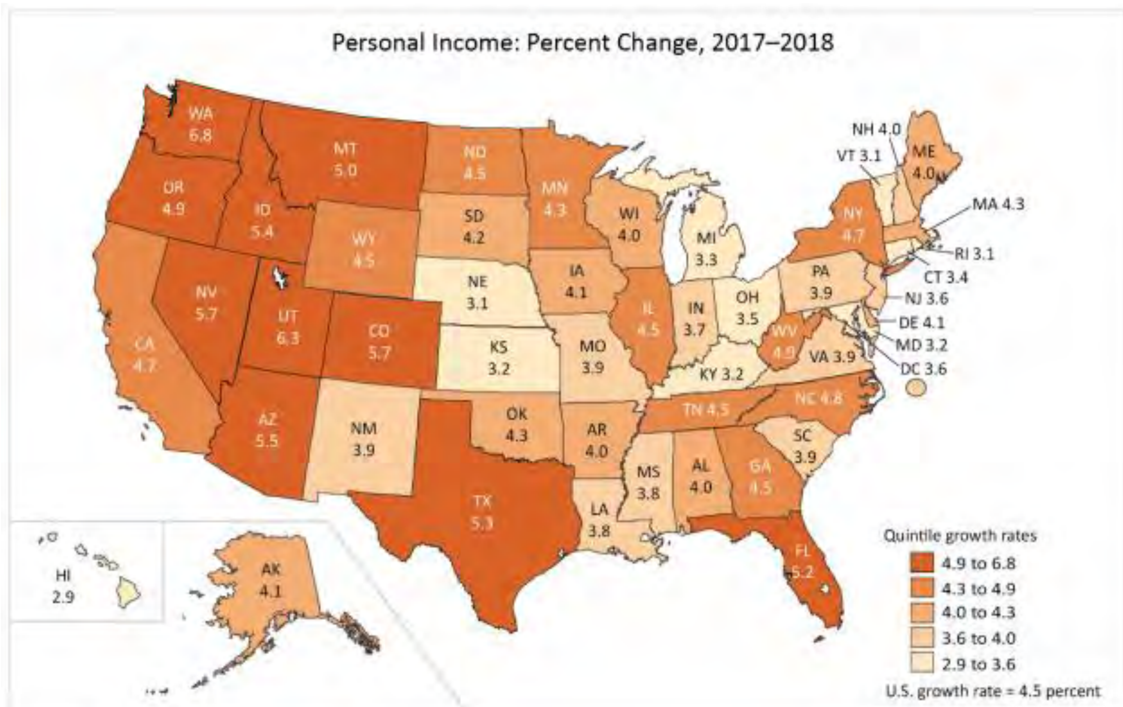
- Among the job sectors listed below, eight experienced gains and two had losses in April 2019 versus April 2018 levels. Construction, information and leisure & hospitality were the fastest growing sectors in the state's labor market on a percentage basis. The other services and professional & business services sectors experienced job losses.

Payroll Employment Trend				
April 2019 Versus April 2018				
Sector	**April 2019 (P)**	**April 2018**	**Gain/Loss**	**% Change**
Construction and Mining	60,500	58,600	1,900	3.2%
Manufacturing	160,800	160,100	700	0.4%
Transp. & Public Utilities	295,600	294,900	700	0.2%
Information	32,800	31,800	1,000	3.1%
Financial Activities	127,000	125,800	1,200	1.0%
Prof. & Business Services	218,700	219,700	-1,000	-0.5%
Education & Health Services	338,200	334,600	3,600	1.1%
Leisure & Hospitality	160,700	156,500	4,200	2.7%
Other Services	64,400	65,900	-1,500	-2.3%
Government	236,600	235,800	800	0.3%
Total Connecticut Non-Farm Employment	**1,695,300**	**1,683,700**	**11,600**	**0.7%**

Wage and $alary income

- April 2019 average hourly earnings at $32.76, not seasonally adjusted, were up $0.70 or 2.2 percent, from the April 2018 estimate. The resultant average private sector weekly pay amounted to $1,113.84, up $20.59 or 1.9 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 April was a modest 2.0 percent.
- On March 26, the Bureau of Economic Analysis (BEA) reported that Connecticut's personal income grew by a 3.4 percent annual rate for 2018. Based on this result, Connecticut ranked 42nd in the nation for 2018 income growth. This growth rate was below both the national average of 4.5 percent and the New England region's average rate of 3.9 percent. The percent change in personal income across all states ranged from 6.8 percent in Washington to 2.9 percent in Hawaii.



U.S. Bureau of Economic Analysis

- In the same report, BEA issued preliminary results for personal income growth between the third and fourth quarters of 2018. On this separate measure, Connecticut fared better growing at a seasonally adjusted 5.2 percent rate in the fourth quarter of 2018. Based on this level of growth, Connecticut ranked 22nd in the nation, equal to the U.S. average. It also represented the strongest growth rate in the New England region for the period.
- BEA is scheduled to release state-level personal income results for the first quarter of 2019 on June 25, 2019.

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for April 2019 compared with April 2018. Sales of single-family homes fell 4.85 percent, while the median sale price was largely flat, rising by just 0.39 percent. New listings declined by 1.97 percent in Connecticut and the median list price remained unchanged at $259,900 from a year ago. Average days on the market decreased 6.19 percent in April 2019 compared to the same month in the previous year (91 days on average, down from 97 days). Finally, the list to sell price remained steady, rising slightly to 97.5 percent, compared with 97.3 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

APRIL 2019 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	April 2019	April 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	6115	6238	-1.97%	18800	19089	-1.51%
Sold Listings	2668	2804	-4.85%	8887	9141	-2.78%
Median Listing Price	$259,900	$259,900	0%	$249,900	$254,900	-1.96%
Median Selling Price	$256,000	$255,000	0.39%	$243,000	$249,000	-2.41%
Median Days on Market	62	66	-6.06%	66	74	-10.81%
Average Listing Price	$402,052	$386,291	4.08%	$367,134	$384,676	-4.56%
Average Selling Price	$386,032	$373,513	3.35%	$352,035	$369,327	-4.68%
Average Days on Market	91	97	-6.19%	91	100	-9%
List/Sell Price Ratio	97.5%	97.3%	0.29%	97.2%	97%	0.22%

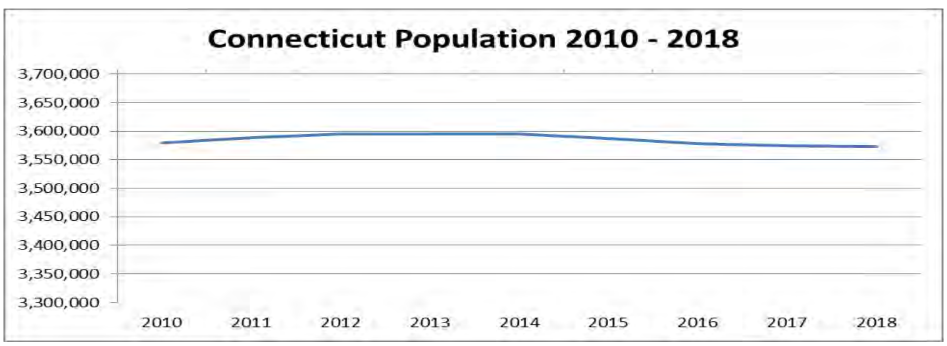
- For the U.S. housing market, there was a minor decline in existing-home sales in April, following a drop in March, according to the National Association of Realtors (NAR). April sales were down 0.4 percent from March to a seasonally adjusted annual rate of 5.19 million. Two of the four major U.S. regions had a slight decrease in sales, while the West saw growth and the Midwest essentially experienced no change. Compared with a year ago, U.S. sales were down 4.4 percent from a year ago (5.43 million in April 2018). One factor, according to NAR, is that high levels of student debt continue to hinder millennial homebuyers.
- According to NAR, the median existing-home price for all housing types in April was $267,300, up 3.6% from April 2018 ($257,900). April's price increase marks the 86th straight month of year-over-year gains. Total housing inventory at the end of April increased to 1.83 million, up from 1.67 million existing homes available for sale

in March and a 1.7 percent increase from 1.80 million a year ago. Unsold inventory is at a 4.2-month supply at the current sales pace, up from 3.8 months in March and up from 4.0 months in April 2018.

- Properties remained on the market for an average of 24 days in April, down from 36 days in March and down from 26 days a year ago. Fifty-three percent of homes sold in April were on the market for less than a month.

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 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. As of this writing, threats of new tariffs on Mexican imports were rattling investors.

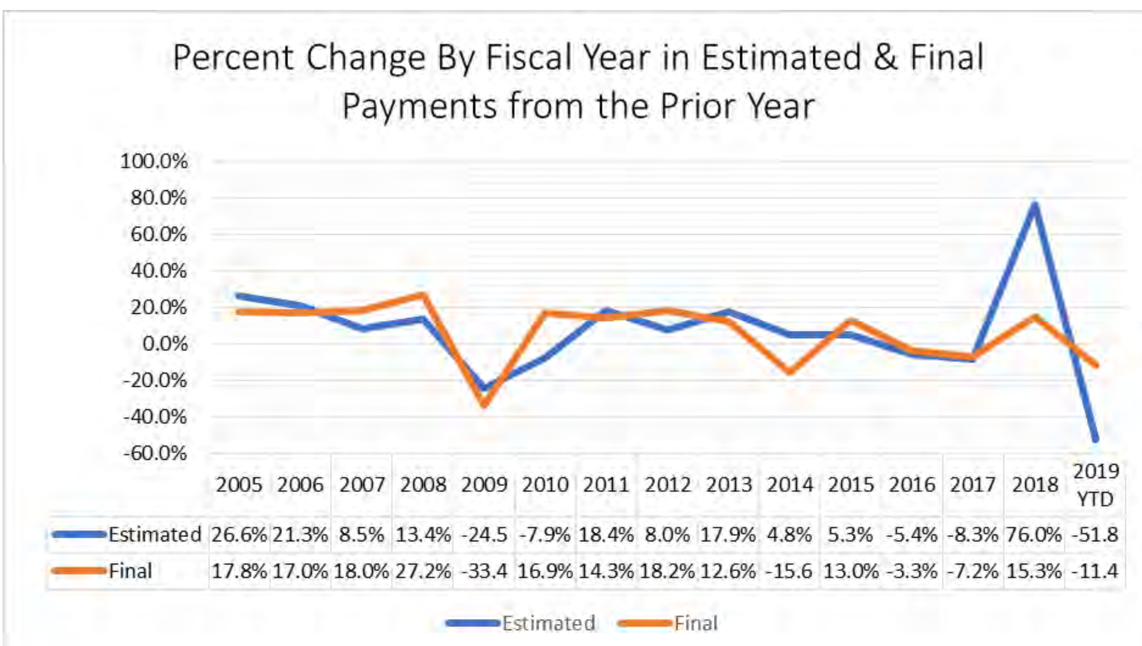
- Stock market activity for the past year is illustrated on the three charts that follow:

DOW

NASDAQ

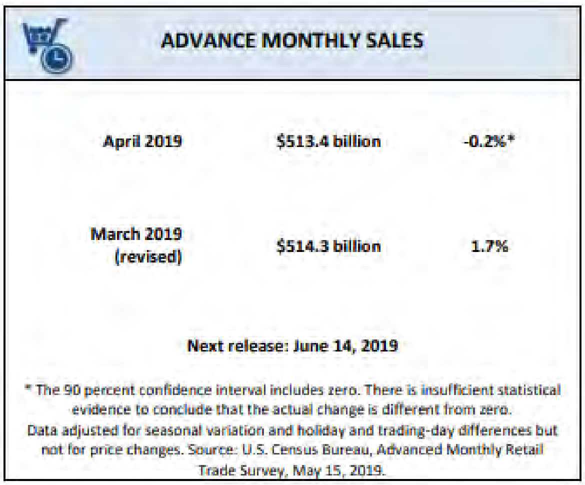
S&P 500 INDEX

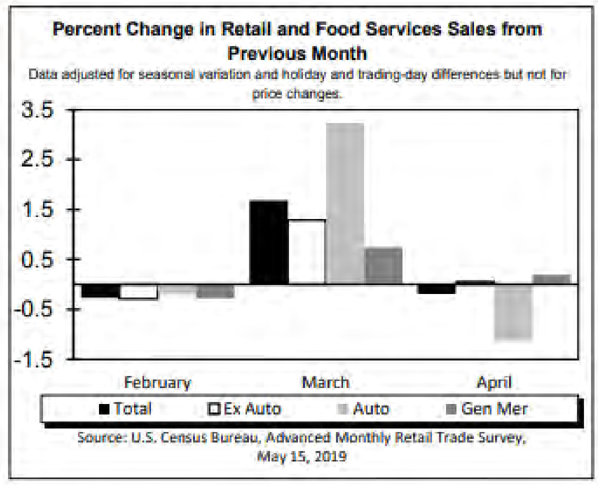
- The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 35 to 40 percent of total state income tax receipts, but can be an extremely volatile revenue source. For example, 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 April, combined collections of estimated and final payments were 35.5 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. At the same time, taxes in other categories, specifically the new Pass-Through Entity tax on partnerships and S Corporations, is outperforming the budget plan by $400 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 decreased 0.2 percent in April 2019, stepping back after a strong 1.7 percent rebound in March. Retail sales have been following an uneven pattern in 2019, making it difficult to gauge consumer sentiment. Healthy gains in January were followed by disappointing results in February; strong March growth was followed by April's decrease.



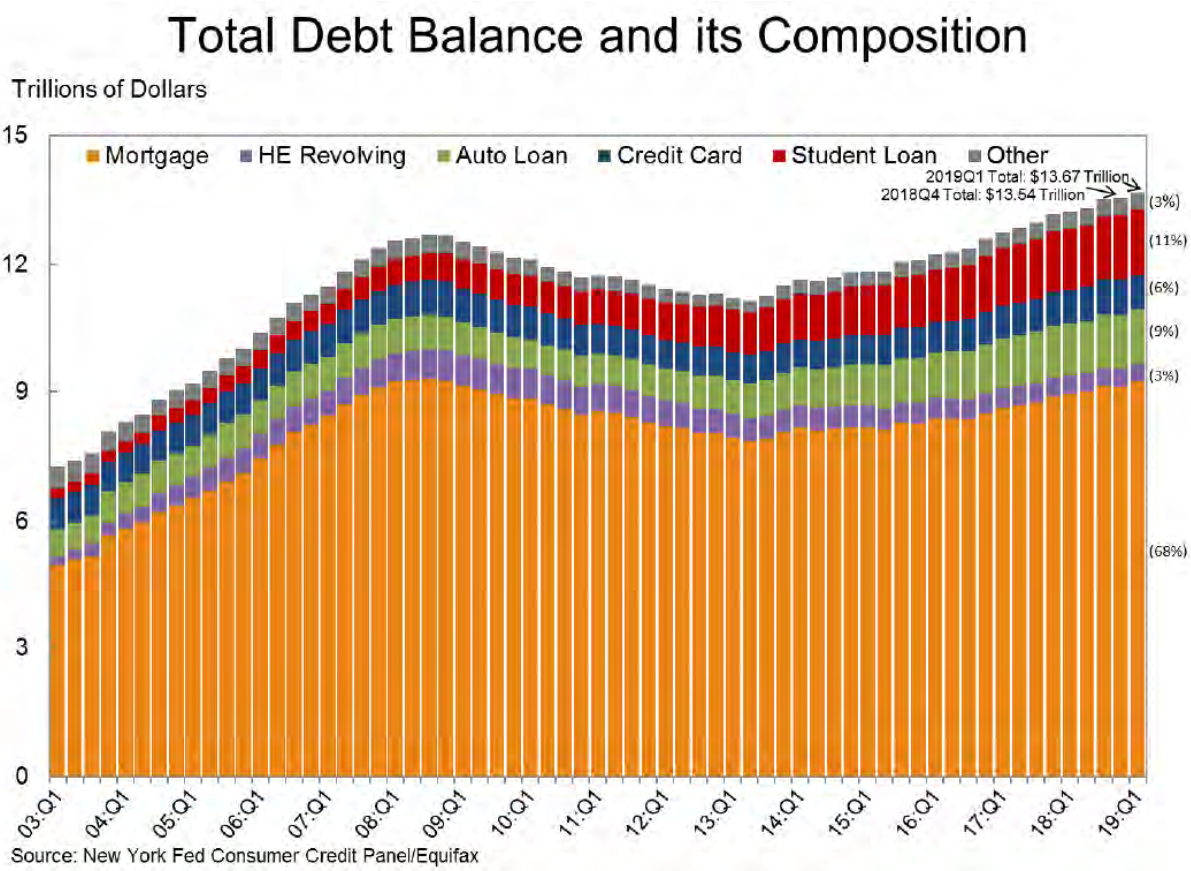


- Weakness in retail sales was widespread in April. Categories experiencing decreases included auto sales (-1.1%), electronics & appliance stores (-1.3%), building material & garden supply stores (-1.9%) and non-store retailers (-0.2%). The most notable increase in retail sales was for gas stations, which rose 1.8 percent in part due to rising prices.

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. Household debt has now grown in 19 consecutive quarters. As of March 31, 2019, 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%) from the fourth quarter of 2018. In addition, overall household debt is now 22.5% 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

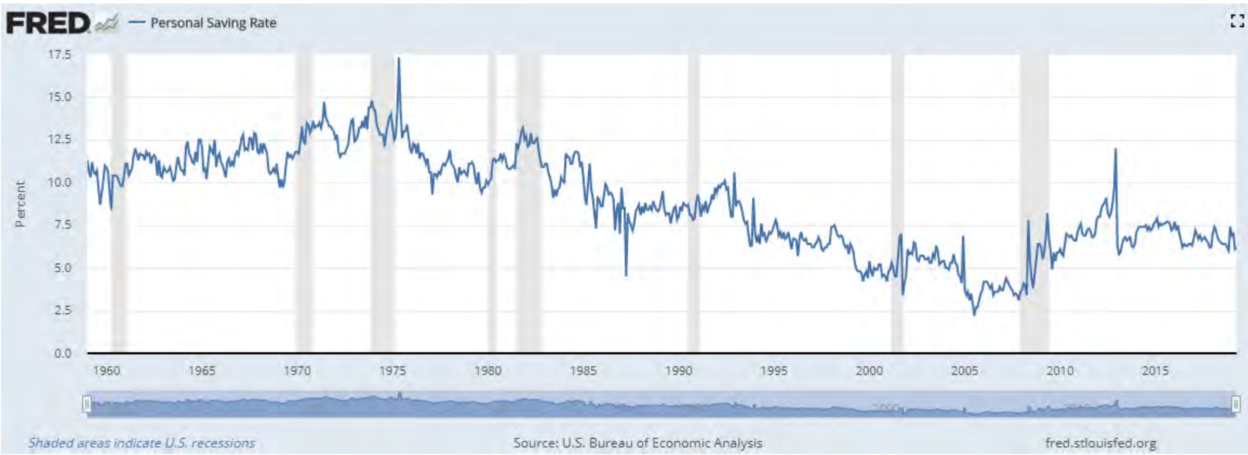
loan balances grew by $29 billion in the first quarter of 2019. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $6 billion to $406 billion. Auto loans grew by $6 billion in the first quarter, while credit card balances decreased by $22 billion.



- 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.
- The full report is available at: https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2019Q1.pdf

Personal Savings Rate

- In its May 31 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.2 percent in April 2019. This represents a slight increase from March's 6.1 percent rate, but a step back from February's rate of 7.0 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.

Report on the Economic Well-Being of U.S. Households in 2018

In May 2019, the Board of Governors of the Federal Reserve System issued its annual Report on the Economic Well-being of U.S. Households. The report noted that most measures of economic well-being and financial resilience in 2018 are similar to or slightly better than in 2017. Many families have experienced substantial gains since the survey began in 2013, in line with the nation's ongoing economic expansion during that period. However, another year of economic expansion and the low national unemployment rates did little to narrow the persistent economic disparities by race, education, and geography.

Highlights from the report include:

Economic Well-Being - A large majority of individuals report that, financially, they are doing okay or living comfortably, and overall economic well-being has improved substantially since the survey began in 2013. Even so, notable differences remain by race and ethnicity, educational attainment, and geography.

Income - Changes in family income from month to month remain a source of financial strain for some individuals. Financial support from family or friends to make ends meet is also common, particularly among young adults.

- Three in 10 adults have family income that varies from month to month, and 1 in 10 adults experienced hardship because of monthly changes in income.

- Over 25 percent of young adults under age 30, and 10 percent of all adults, receive some form of financial support from someone living outside their home.

Employment - Most adults are working as much as they want to, an indicator of full employment; however, some remain unemployed or underemployed. Economic well-being is lower for those wanting to work more, those with unpredictable work schedules, and those who rely on gig activities as a main source of income.

- One in 10 adults are not working and want to work, though many are not actively looking for work.

- Unpredictable work schedules are associated with financial stress for some. One-quarter of employees have a varying work schedule, including 17 percent whose schedule varies based on their employer's needs. One-third of workers who do not control their schedule are not doing okay financially, versus one-fifth of workers who set their schedule or have stable hours.

- Three in 10 adults engaged in at least one gig activity in the prior month, with a median time spent on gig work of five hours.

Dealing with Unexpected Expenses - While self-reported ability to handle unexpected expenses has improved substantially since the survey began in 2013, a sizeable share of adults say that they would have some difficulty with a modest unexpected expense.

- Four in 10 adults, if faced with an unexpected expense of $400, would either not be able to cover it or would cover it by selling something or borrowing money.

- Seventeen percent of adults are not able to pay all of their current month's bills in full. Another 12 percent of adults would be unable to pay their current month's bills if they also had an unexpected $400 expense that they had to pay.

- One-fifth of adults had major, unexpected medical bills to pay in the prior year. One-fourth of adults skipped necessary medical care in 2018 because they were unable to afford the cost.

Student Loans – Over half of young adults who attended college took on some debt to pay for their education. Most borrowers are current on their payments or have successfully paid off their loans. However, those who failed to complete a degree, and those who attended for-profit institutions, are more likely to have fallen behind on their payments.

- Among those making payments on their student loans, the typical monthly payment is between $200 and $299 per month.

- Over one-fifth of borrowers who attended private for-profit institutions are behind on student loan payments, versus 8 percent who attended public institutions and 5 percent who attended private not-for-profit institutions.

Retirement - Many adults are struggling to save for retirement. Even among those who have some savings, people commonly lack financial knowledge and are uncomfortable making investment decisions.

- Thirty-six percent of non-retired adults think that their retirement saving is on track, but one-quarter have no retirement savings or pension whatsoever. Among non-retired adults over the age of 60, 45 percent believe that their retirement saving is on track.

- Six in 10 non-retirees who hold self-directed retirement savings accounts, such as a 401(k) or IRA, have little or no comfort in managing their investments.

The full report is available at the following link:
https://www.federalreserve.gov/consumerscommunities/files/2018-report-economic-well-being-us-households-201905.pdf

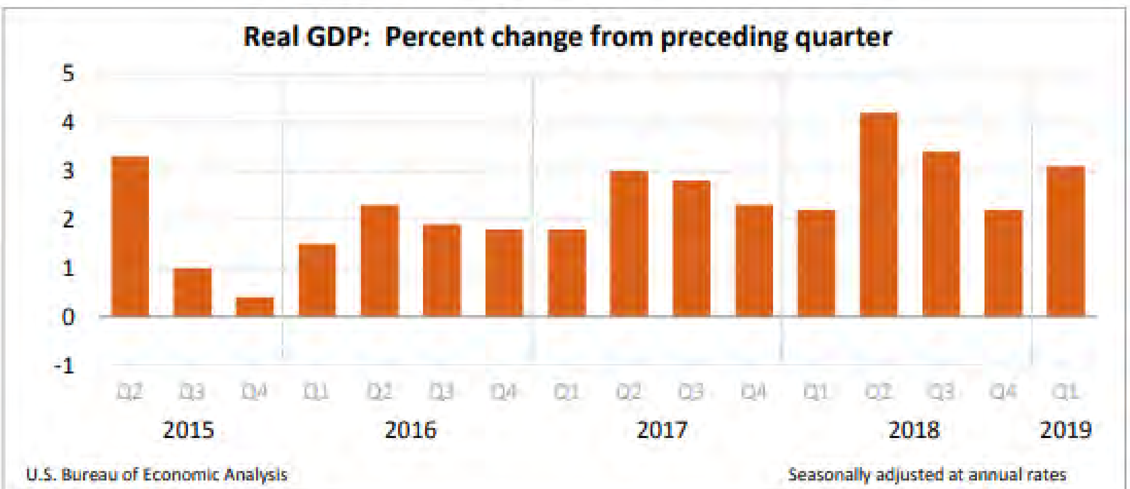
Consumer Confidence

- 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 improved in May, following an increase April. The Index now stands at 134.1 up from 129.2 in April. These confidence readings are nearing levels seen last fall, when they approached 18 year highs. The results exceeded the expectations of economists

polled by Reuters. A strong national labor market and historically low levels of unemployment helped explain the improvement. Some economists noted, based on the timing of the survey, the recent escalation in trade tensions with China may not have been fully captured in the results.

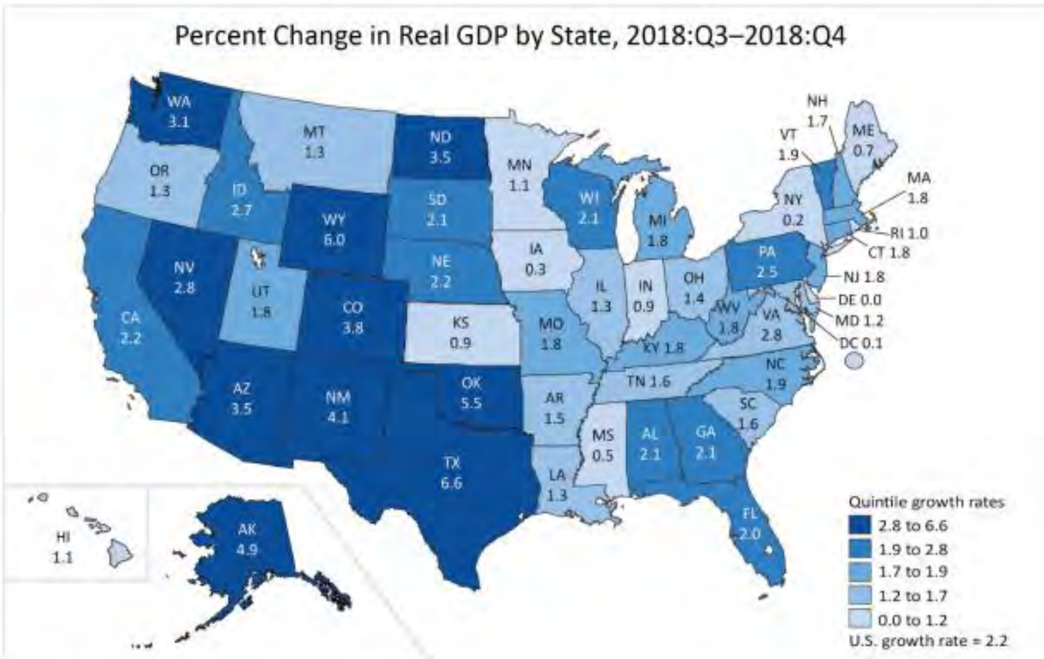
Business and Economic Growth

- According to a May 30 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 second estimate for the quarter, down from the advance estimate of 3.2 percent. The revision is based on more complete information.



- 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.
- In the same release, BEA reported the personal saving rate – personal saving as a percentage of disposable personal income – was 6.7 percent in the first quarter of 2019, up from 6.5 percent in the fourth quarter of 2018.

- 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.

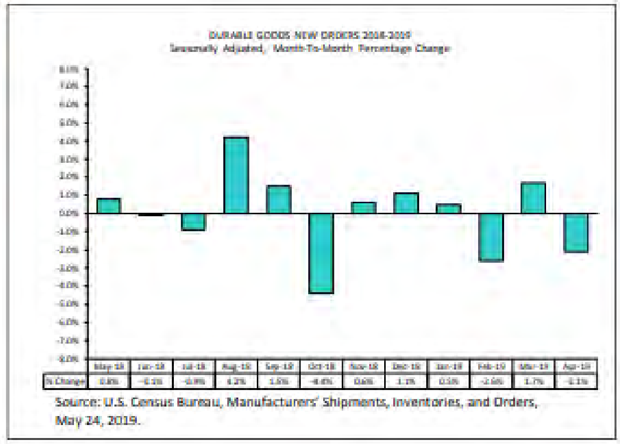


U.S. Bureau of Economic Analysis

- 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.

<u>Durable Goods</u>

- According to a May 24 report by the U.S. Department of Commerce, new orders for manufactured durable goods decreased $5.4 billion in April or 2.1 percent to $248.4 billion. This decline was the second in three months and followed a 1.7 percent increase in March.



- The volatile transportation equipment category, also down two of the last three months, drove the decrease, $5.4 billion or 5.9 percent to $85.4 billion. Orders for motor vehicles and parts declined 3.4 percent in April, the most since May 2018. In addition, orders for non-defense aircraft plunged 25.1 percent after rising 7.8 percent in March. CNBC noted that Boeing reported on its website that it had only four aircraft orders in April, down from 44 in March. Boeing's 737 Max jetliner was grounded in March after two fatal plane crashes.
- So-called core capital goods orders decreased 0.9 percent in April, bigger than some economists expected. This category includes non-defense capital goods excluding aircraft and is widely viewed as a proxy for business investment. Data for March was revised down to show core capital goods orders rising only 0.3% instead of increasing 1.0 percent as previously reported.
- Analysts noted that manufacturing and export activity are being weighed down by a renewed escalation in the trade war between the United States and China.

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