News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS GROWING FISCAL-YEAR 2019 SURPLUS WITH A CAUTIOUS EYE ON APRIL AND WARNINGS ABOUT RECORD HOUSEHOLD DEBT RATES

Comptroller Kevin Lembo said that his projected surplus for Fiscal Year 2019 has grown to $506.8 million, another improvement over the prior month, though he warned about the potential consequences of record-high household debt that deserves monitoring, and the implications of a volatile stock market on April's tax season.

This month's increased surplus projection, an improvement of approximately $54.2 million, is due to a mix of reduced projected spending. 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.

For the second month in a row, Lembo again said he 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).

"The impact of federal tax changes and the stock market's negative performance in 2018 may have a substantial impact on estimated and final payment collections for the balance of Fiscal Year 2019," Lembo said. "As a result, the April tax collection period will take on added significance for this year's final budget results. My office will continue to assess new information as it becomes available and revise this projection as needed in future months."

The growing surplus is good news in the immediate term, but Lembo highlighted some economic indicators that deserve watching, particularly the latest report by the Federal Reserve Bank of New York that shows household debt has now grown 18 consecutive months. As of Dec. 30, 2018, according to the latest report, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.54 trillion.

"This information is particularly concerning because, while the report notes that it is consistent with seasonal patterns, it also marks the first time that credit card debt has re-touched the 2008 peak," Lembo said. "We know what followed, and we know that we want to be careful about the ability of Connecticut households being capable of surviving another recession."

Lembo's lower projected estimated payments portion of the income tax would have no consequences on the projected surplus because any income above a newly established threshold from that revenue source goes directly to the state's Budget Reserve Fund (BRF).

Lembo reported the latest status of the BRF, following the state's new statutory revenue volatility cap:

- The current balance of the BRF is $1.18 billion.
- Adding Lembo's estimated volatility transfer of $548 million, plus the projected Fiscal Year 2019 surplus of $506.8 million, would bring the year-end balance of the BRF to approximately $2.24 billion, or approximately 11.8 percent of General Fund expenditures.

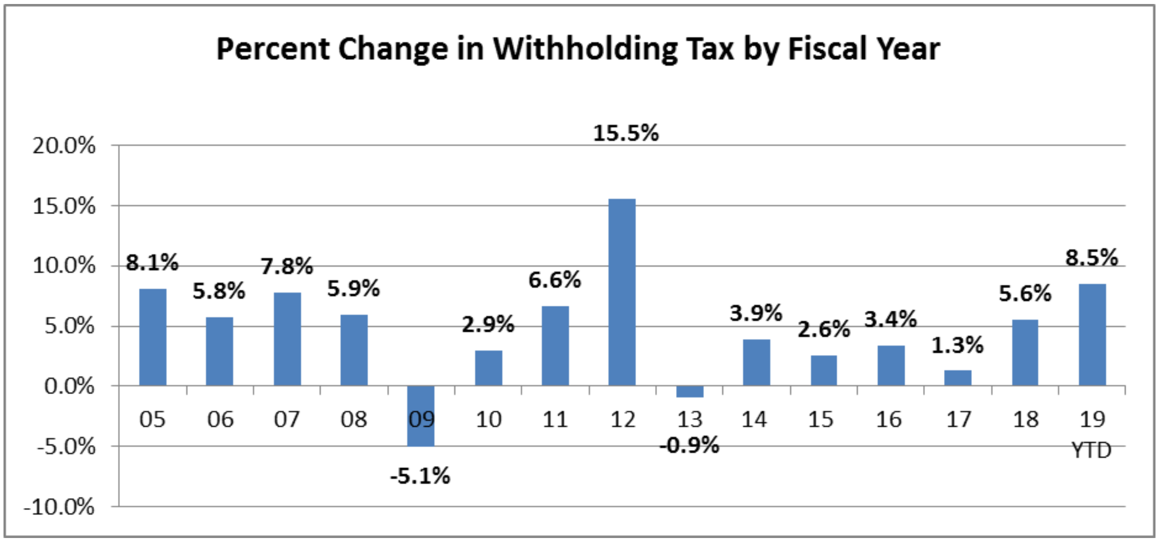
"This result, if achieved, would represent a significant improvement over the recent past and move the BRF closer to the statutory target of 15 percent," Lembo said. "A number of forecasts for the coming year are predicting slower growth for the United States and other major economies. Therefore, it 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," Lembo said.

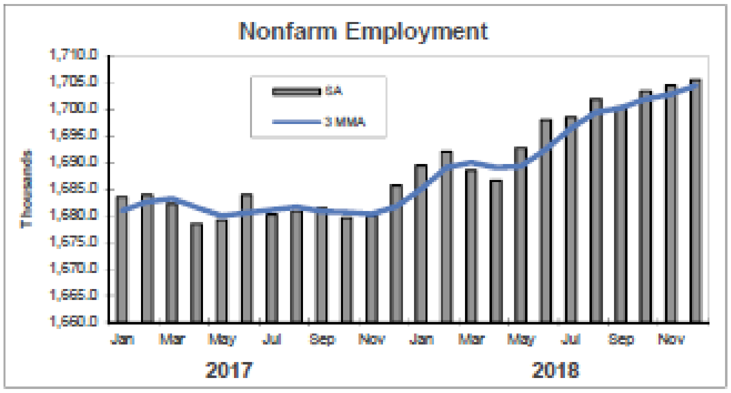
Lembo pointed to various economic indicators and trends from national and state sources that show:

Employment

- After a strong performance in FY 2018, preliminary results for FY 2019 through January 2019 show withholding receipts grew by 8.5 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. Lembo agrees with the more conservative projection for withholding. The consensus forecast also showed that tax refunds are running ahead of expectations. Therefore, until April results are known, a cautious approach is warranted for this forecast.
- On Jan. 17, Connecticut Department of Labor (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.
- Updated job data from the U.S. Bureau of Labor Statistics and the DOL is scheduled to be issued on March 8. This upcoming release will include both results for January 2019 and new benchmarked job data for the 2018 calendar year.



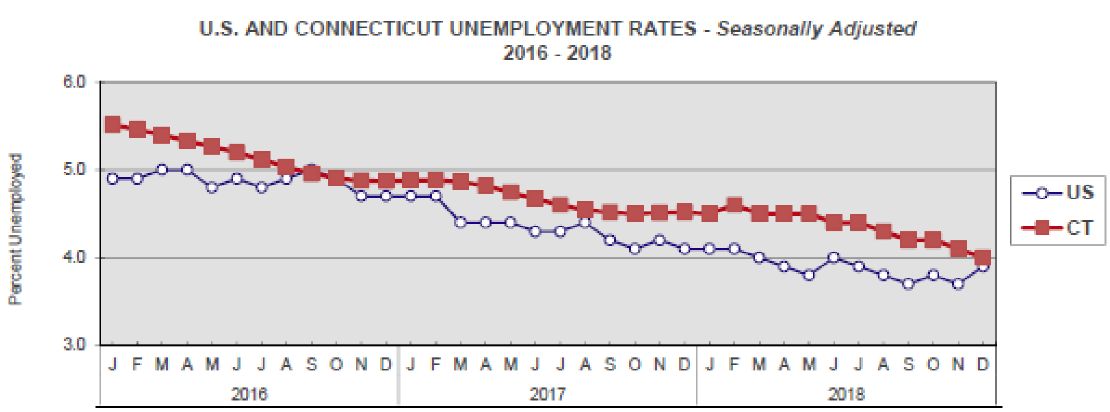
- Over the year, DOL reported that nonagricultural employment in the state grew by 19,900 jobs on a seasonally-adjusted basis. Connecticut has now recovered 93.5 percent (111,300 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of December, the job recovery was into its 106th month and the state needed an additional 7,800 jobs to reach an overall employment expansion.

Connecticut's Recessionary Job Loss and Recovery March 2008 - December 2018

	March 2008	February 2010	December 2018	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,713.3	1,594.2	1,705.5	-119.1	111.3	93.5%
Total Private Sector	1,458.2	1,346.5	1,478.0	-111.7	131.5	117.7%

* March 2008 was employment peak. February 2010 was employment trough. Last Updated: January 17, 2019

- 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 4.0 percent in January 2019, up one-tenth of a point from December. The chart below shows a comparison of the Connecticut and U.S. unemployment rates over the past three calendar years.



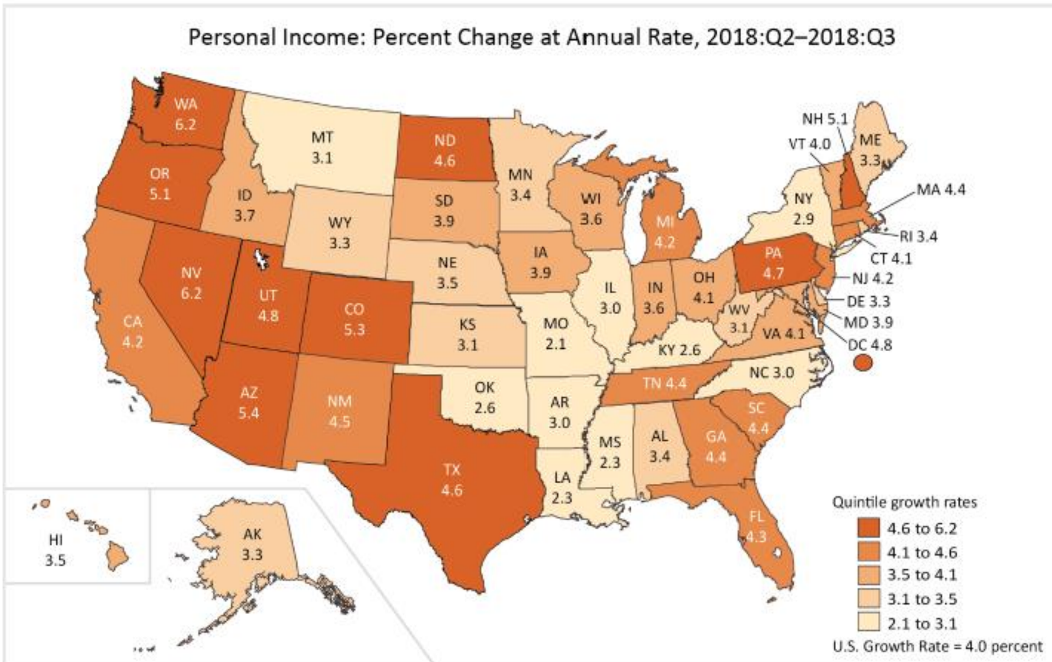
- Among the major job sectors listed below, eight experienced gains and two experienced losses in December 2018 versus December 2017 levels. Construction, leisure & hospitality and education & health services were the fastest growing sectors in the state's labor market on a percentage basis. The government 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 $alary income

- December 2018 average hourly earnings at $33.48, not seasonally adjusted, were up $2.30 or 7.4 percent, 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. 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. 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 January 2019 compared with January 2018. Sales of single-family homes fell 9.91 percent, while the median sale price declined 4.80 percent. New listings grew by 6.23 percent in Connecticut, but the median list price dropped by 5.10 percent to $241,900 from a year ago. Average days on the market decreased 16.67 percent in January 2019 compared to the same month in the previous year (85 days on average, down from 102 days). Finally, the list to sell price fell slightly to 96.8 percent, compared with 96.9 percent a year ago.

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

MARKET SUMMARY

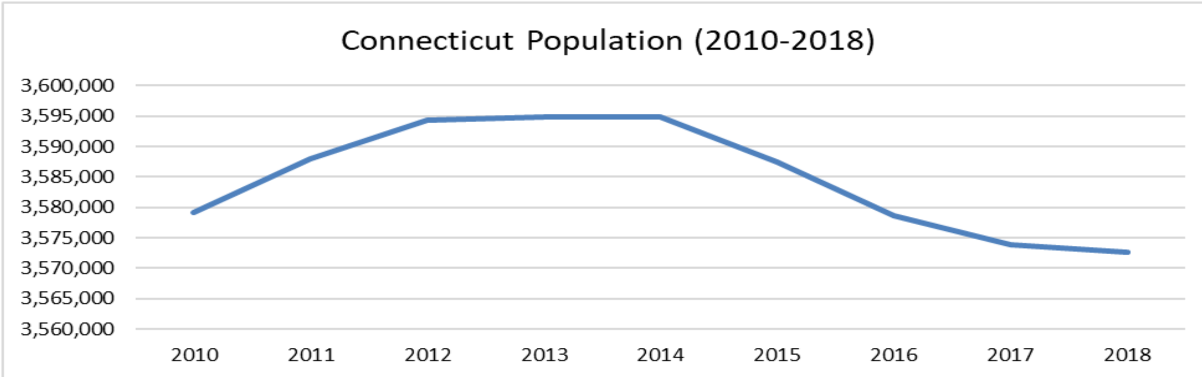
JANUARY 2019 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	January 2019	January 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	3580	3370	6.23% ▲	3580	3370	6.23% ▲
Sold Listings	1937	2150	-9.91% ▼	1937	2150	-9.91% ▼
Median Listing Price	$241,900	$254,900	-5.1% ▼	$241,900	$254,900	-5.1% ▼
Median Selling Price	$238,000	$250,000	-4.8% ▼	$238,000	$250,000	-4.8% ▼
Median Days on Market	65	79	-17.72% ▼	65	79	-17.72% ▼
Average Listing Price	$359,518	$392,622	-8.43% ▼	$359,518	$392,622	-8.43% ▼
Average Selling Price	$344,603	$374,468	-7.98% ▼	$344,603	$374,468	-7.98% ▼
Average Days on Market	85	102	-16.67% ▼	85	102	-16.67% ▼
List/Sell Price Ratio	96.8%	96.9%	-0.09% ▼	96.8%	96.9%	-0.09% ▼

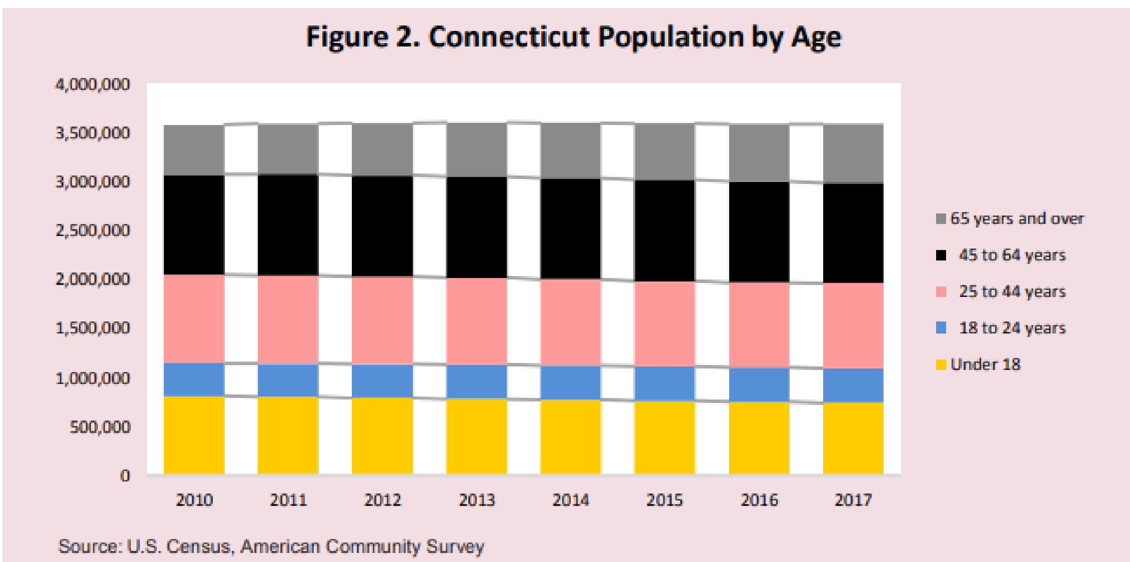
- For the U.S. housing market, existing-home sales experienced a small decline for the third consecutive month in January, according to the National Association of Realtors. Of the four major U.S. regions, only the Northeast saw an increase in sales activity in January 2019. Total existing-home sales (defined as completed transactions that include single-family homes, townhomes, condominiums and co-ops) decreased 1.2 percent from December to a seasonally adjusted annual rate of 4.94 million in January. Sales are now down 8.5 percent from a year ago.
- According to NAR, the median existing-home price for all housing types in January was $247,500, up 2.8 percent from January 2018 ($240,800). January's price increase marks the 83rd straight month of year-over-year gains. In addition, total housing inventory at the end of January increased to 1.59 million, up from 1.53 million existing homes available for sale in December, and represents an increase from 1.52 million a year ago. Unsold inventory is at a 3.9-month supply at the current sales pace, up from 3.7 months in December and from 3.4 months in January 2018. Properties remained on the market for an average of 49 days in January, up from 46 days in December and 42 days a year ago. While total inventory grew on a year-over-year basis for the sixth straight month, NAR reports the market is still suffering from an inventory shortage, especially at the more affordable end of the market.

Population

- On Dec. 19, 2019 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 was one of only three states to lose population since the 2010 Census as shown on the chart below.



- A recent article in the January 2019 edition of The Connecticut Economic Digest by Alissa K. DeJonge made the connection between the state's recent population trends and its potential for economic growth. From 2010 through 2017, Connecticut saw an increase in its retirement age population. At the same time, the school age population (those below 25) and working age population (25-64) each experienced a small but steady decrease. There has also been a corresponding decline in the student age population attending public schools in Connecticut.



- Overall these demographic trends can affect consumer demand and Connecticut's economic potential. 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 have been recovering ground in the early months of 2019. As of this writing the DOW, NASDAQ and S&P 500 were all up over 10 percent year-to-date. Stock market activity for the past year is illustrated on the three charts that follow:

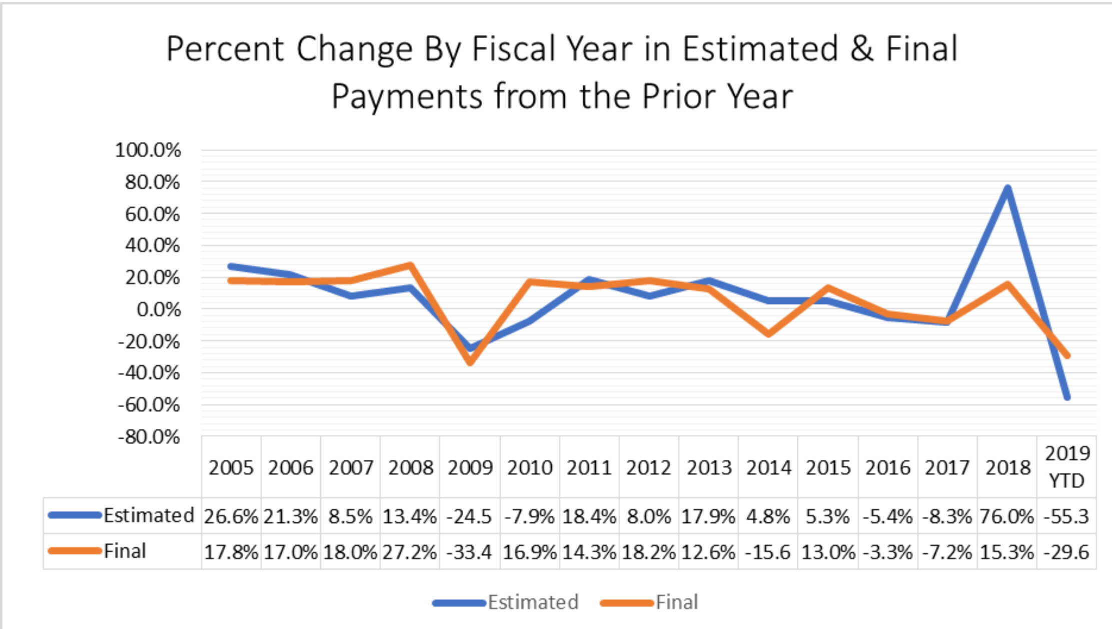
DOW

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 over the next two 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 January 2019, combined collections of estimated and final payments were 51.8 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. Despite the current year surplus, policy makers should therefore maintain budget discipline awaiting more information on April's receipts, which will have a significant impact on final 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%	-55.3
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%	-29.6

Consumer Spending

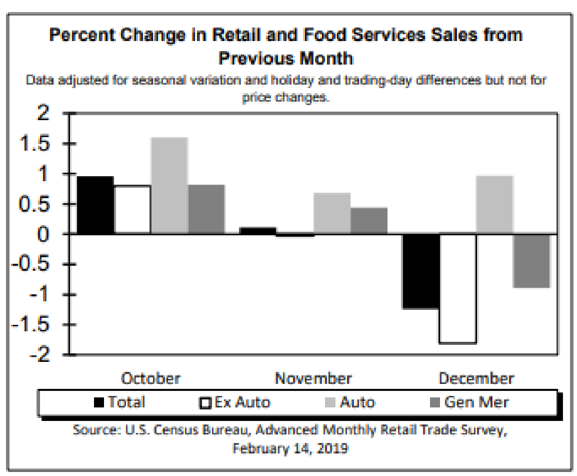
- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- The Commerce Department reported that U.S. advance retail sales decreased 1.2 percent in December 2018. This represented the largest decline since September 2009 when the economy was emerging from recession. Data for November was revised down slightly to show retail sales growing 0.1 percent instead of 0.2 percent as previously reported

ADVANCE MONTHLY SALES

December 2018	$505.8 billion	-1.2%
November 2018 (revised)	$512.2 billion	0.1%*

Next release: TBD

* 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, February 14, 2019.



- Economists polled by Reuters had forecast a modest increase in retail sales. Instead, the sharp drop in December sales indicates consumer spending moderated in the fourth quarter and suggests a slowdown in economic activity at the end of 2018.
- The Commerce Department report showed that retail sales dropped across a wide variety of sectors in December. Online and mail-order retail sales declined 3.9 percent, the largest drop since November 2008. Receipts at service stations decreased 5.1 percent, largely reflecting lower gasoline prices. There were also declines in retail sales at clothing and furniture stores. Receipts at restaurants and bars fell 0.7 percent and spending at hobby, musical instrument and book stores dropped 4.9 percent, the biggest decrease since September 2008.
- On the positive side, sales at auto dealerships rose 1.0 percent in December after advancing 0.7 percent in the prior month and sales at building material and garden supply stores increased 0.3 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 fourth quarter of 2018. Household debt has now grown in 18 consecutive quarters.
- As of December 30, 2018, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.54 trillion. This represented an increase of $32 billion (0.2%) from the third quarter of 2018.
- In addition, overall household debt is now 21.4% 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 $9.1 trillion during the fourth quarter, essentially unchanged from the third quarter of 2018. At $1.46 trillion, student loans were the second largest category of household debt.
- Student loan balances grew by $15 billion in the fourth quarter.
- Balances on home equity lines of credit (HELOC), continuing their downward trend, declined by $10 billion to $412 billion, the lowest level seen in 14 years. Auto loans grew by $9 billion, while credit card balances increased by $26 billion.
- The report noted that the increase in credit card balances is consistent with seasonal patterns but marks the first time credit card debt re-touched the 2008 peak. Credit card balances now stand at $870 billion.
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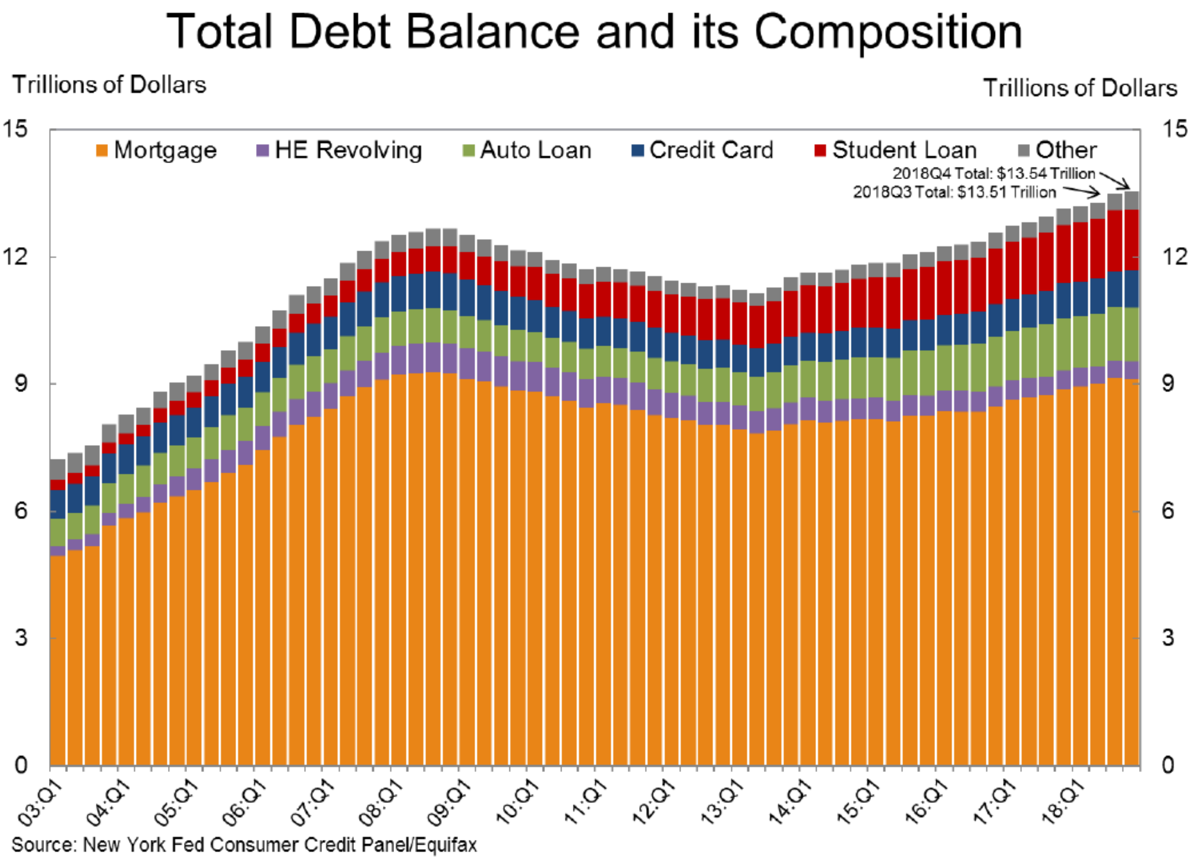


- The Federal Reserve reported that aggregate delinquency rates remained steady in the fourth quarter of 2018. As of December 31, 4.7 percent of outstanding debt was in some stage of delinquency, unchanged from the third quarter. Of the $630 billion of debt that is delinquent, $416 billion is seriously 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.

- The full report is available at the following link: https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2018Q4.pdf

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

- 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.

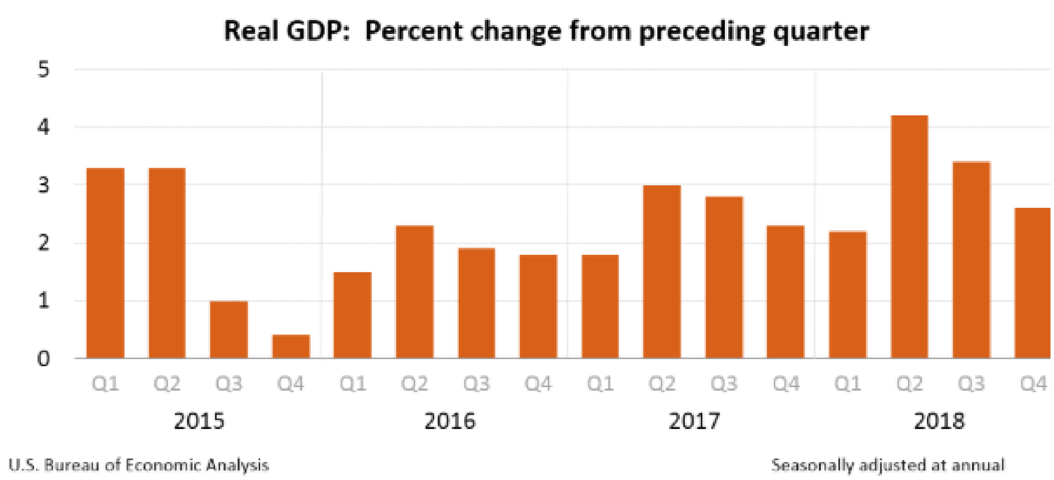
- Despite the overall improvement in the nation's economy, income inequality continues to widen as wage growth remains modest. A number of economists see the decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error in case of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

<u>Consumer Confidence</u>

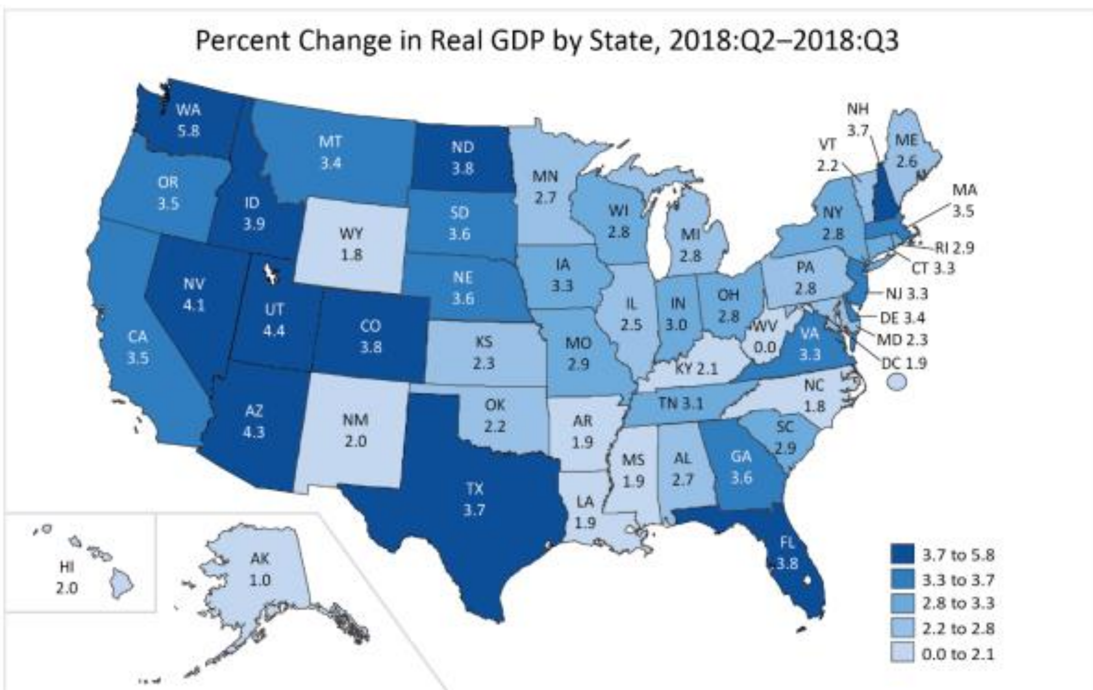
- The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.
- The Conference Board reported that the Consumer Confidence Index rebounded in February 2019, after three consecutive months of declines. The Index now stands at 131.4 up from 121.7 in January. The main factors cited for the significant increase in consumer confidence included lower levels of stack market volatility and an end to the Federal government shut-down.

<u>Business and Economic Growth</u>

- According to a Feb. 28 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 2.6 percent in the fourth quarter of 2018. This represents a deceleration from the stronger growth of 3.4 percent in the third quarter and 4.2 percent in the second quarter. At the same time, the fourth quarter results were better than some analysts expected. Economists polled by Reuters had forecast GDP rising at a 2.3 percent rate in the fourth quarter.



- According to BEA the increase in real GDP in the fourth quarter reflected positive contributions from consumer spending, business spending on equipment, exports, private inventory investment, and federal government spending. Those were partly offset by negative contributions from residential construction, and state and local government spending. Imports, which are treated as a subtraction in the calculation of GDP, increased during the quarter.
- For the 2018 calendar year the U.S. economy grew at a pace of 2.9 percent, up from 2.2 percent growth in 2017. Slowing GDP growth in the fourth quarter was in part attributed to the fading fiscal stimulus of the Federal tax cuts, trade tensions with China and a weakening housing market.
- In a February 26th report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the third quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 3.3 percent, which ranked 21st in the nation overall. This growth rate was slightly below the national average of 3.4 percent and equal to the New England regional average. The percent change in real GDP in the third quarter ranged from 5.8 percent in Washington to 0.0 percent in West Virginia.



U.S. Bureau of Economic Analysis

- BEA data indicated the sectors that contributed most to Connecticut's growth in the third quarter of 2018 were finance & insurance (+0.64%), nondurable goods manufacturing (+0.46%), information (+0.38%) and wholesale trade (+0.37).

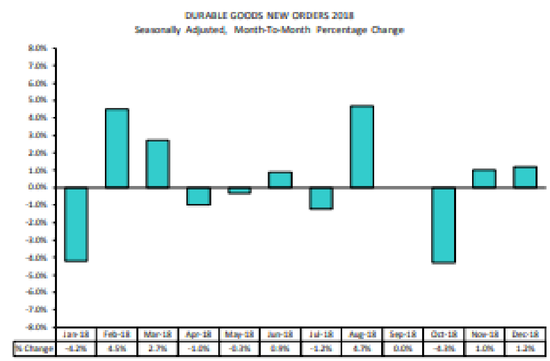
Durable Goods

- According to a Feb. 21 report by the U.S. Department of Commerce, new orders for durable goods increased a modest $3.0 billion or 1.2 percent to $254.4 billion. This growth followed a 1.0 percent increase in November.
- Transportation equipment, up four of the last five months, led the growth and increased by $2.8 billion or 3.3 percent to $90.2 billion in December. Orders for commercial planes surged 28 percent in December. This was offset somewhat by a decline for military aircraft. Orders for motor vehicles and parts rose 2.1 percent in December.

DURABLE GOODS – NEW ORDERS

DECEMBER 2018	$254.4 billion	+1.2%°
NOVEMBER 2018 (revised)	$251.5 billion	+1.0%°

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, February 21, 2019.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, February 21, 2019.

- Despite growth in the headline durable goods number, analysts were disappointed with the results for so-called core capital goods. This category includes non-defense capital goods excluding aircraft and is widely viewed as a proxy for business investment. Orders for core capital goods unexpectedly dropped 0.7 percent in December. Economists polled by Reuters had forecast core capital goods orders rising 0.2 percent. In addition, data for November was revised down to show these orders falling 1.0 percent instead of declining 0.6 percent as previously reported.
- Financial analysts attributed the slowdown in business investment to a number of factors, including an uncertain economic outlook, slowing global growth, trade tensions, fading fiscal stimulus and the government shutdown.

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