News from:

COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE FRIDAY, NOVEMBER 1, 2019

Contact: Tara Downes
631-834-5234
Tara.Downes@ct.gov

COMPTROLLER LEMBO PROJECTS $79.1-MILLION SURPLUS FOR FISCAL YEAR 2020

Comptroller Kevin Lembo today, again noting that it remains very early in the fiscal year and that significant updates will be made in the coming months, reported that the state is on track to end Fiscal Year 2020 with a surplus of $79.1 million.

Lembo also highlighted key trends in his monthly economic report, including that construction jobs have suffered the greatest loss compared to other sectors of the economy on a percentage basis when you compare September 2019 to September 2018.

"Trends like this should be closely monitored because when government strategically invests in its infrastructure – including roads and bridges – then it has an opportunity to directly energize job and economic growth," Lembo said.

In a letter to Gov. Ned Lamont, Lembo said he is in agreement with the state Office of Policy and Management's (OPM) most recent projection, which is a decrease of approximately $5.2 million from the prior month, largely attributable to the costs of state settlement claims from the unappropriated adjudicated claims account.

"These results only reflect the first quarter of the fiscal year and my projections will be updated as more information becomes available in the coming months," Lembo said. "This experience through the first quarter reinforces the wisdom of building an additional safety margin into the budget plan."

Based on Fiscal Year 2019 results, the Budget Reserve Fund balance will be just over $2.5 billion, or approximately 13 percent of Fiscal Year 2020 net General Fund appropriations.

The state's revenue volatility cap that Lembo advocated requires that revenues above a certain threshold be transferred to the Budget Reserve Fund. The latest report on the Budget Reserve Fund status is:

- The Fiscal Year 2020 cap is $3.3 billion for estimated and final income tax payments and revenue from the Pass-Through Entity tax.
- If current projections are realized, a $318.3-million volatility transfer would be made to the Budget Reserve Fund.
- Adding the estimated $318.3-million volatility transfer and the projected Fiscal year 2020 surplus of $79.1 million to the current Budget Reserve Fund balance (pending audit), would bring the year-end balance of the fund to approximately $2.9 billion (approximately 14.5 percent of net General Fund appropriations for Fiscal year 2021).

"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.

Ultimately, Lembo said, Connecticut's budget results are dependent upon the performance of the national and state economies. Lembo said trends are more fully explained in the economic summary below, including details on construction job losses but he said some other trends that deserved highlighting include an Oct. 17 report by the Connecticut Department of Labor (DOL) that showed the state gained 3,600 net jobs in September – almost all of which came from an unusually high increase in the education sector.

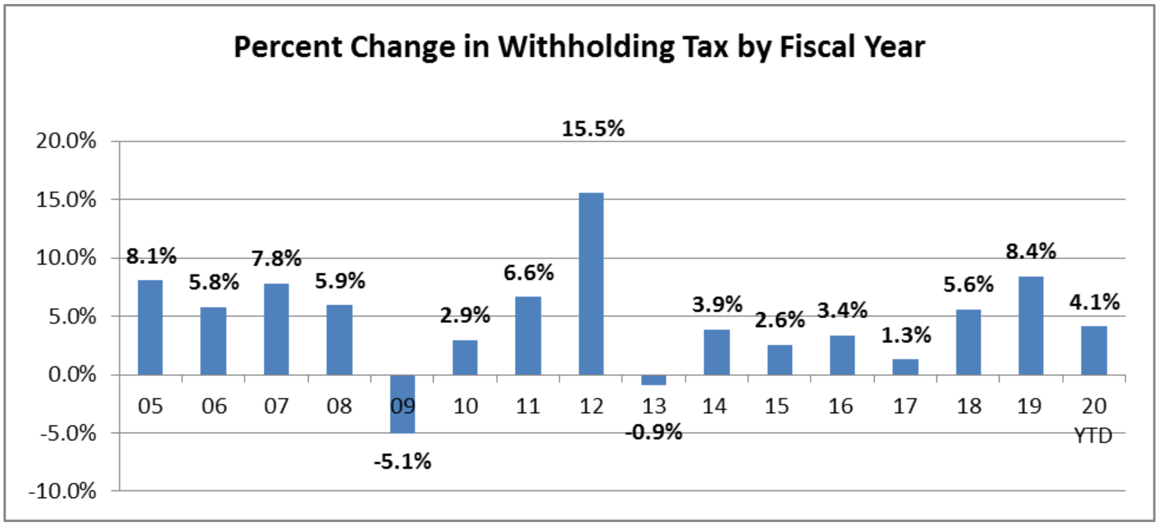
Lembo said that the state has recovered 85.1 percent of the jobs lost in the Great Recession – however, a distinction must be made clear that the private sector has actually recovered 105.6 percent of jobs lost, while the remaining employment losses are due to the government sector shrinking.

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

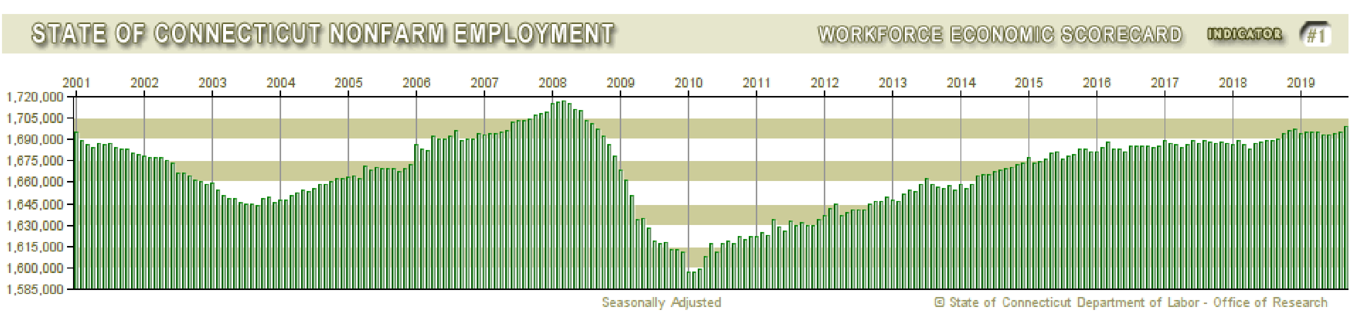
Employment

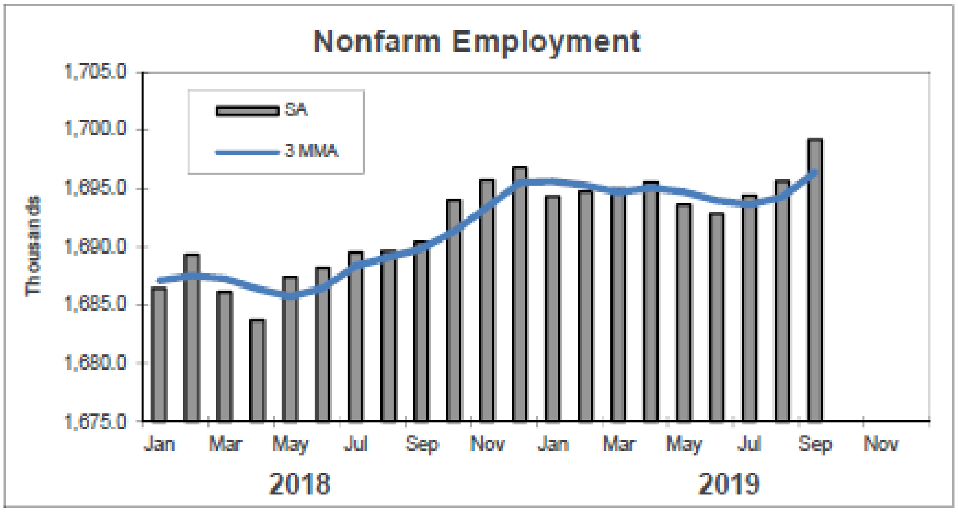
- Final results for FY 2019 showed withholding receipts grew by a strong 8.4 percent compared with the prior fiscal year. This is especially significant because the withholding portion of the income tax is the largest single General Fund revenue source.

- For first quarter of FY 2020, withholding receipts are in generally line with the budget plan, which calls for growth of 4.1 percent over FY 2019 levels. This growth rate to date reflects the underlying trend for receipts (factoring out the year-end statutory revenue accruals).



- On Oct. 17, Connecticut DOL (Department of Labor) reported the preliminary Connecticut nonfarm job estimates for September 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 3,600 net jobs in September, to a level of 1,699,200, seasonally adjusted. DOL noted almost all the growth came from an unusually high increase in the education sector. At the same time, August's originally-released job gain of 2,800 was revised downward by 1,600 to a gain of 1,200 jobs over the month. September represents the third consecutive month of job growth for Connecticut.





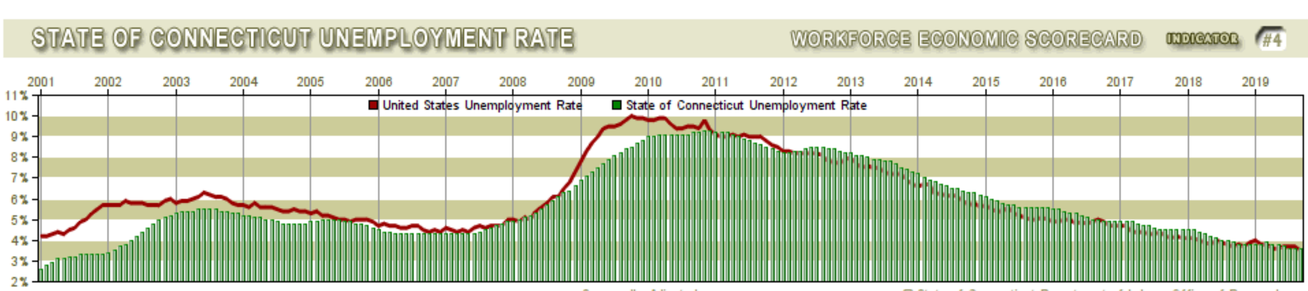
- Over the year, DOL reported that nonagricultural employment in the state grew by 8,800 jobs on a seasonally-adjusted basis. Connecticut has now recovered 85.1 percent (102,400 payroll job additions) of the 120,300 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of September, the job recovery was into its 115th month and the state needed an additional 17,900 new net jobs to reach an overall employment expansion.
- Within the job recovery numbers, DOL points out a significant distinction. The private sector has recovered more than the total jobs lost in the recession (105.6 percent), which means the remaining employment losses are from the government sector. This sector includes all federal, state and local government employment, including public education, and Native American tribal government.

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

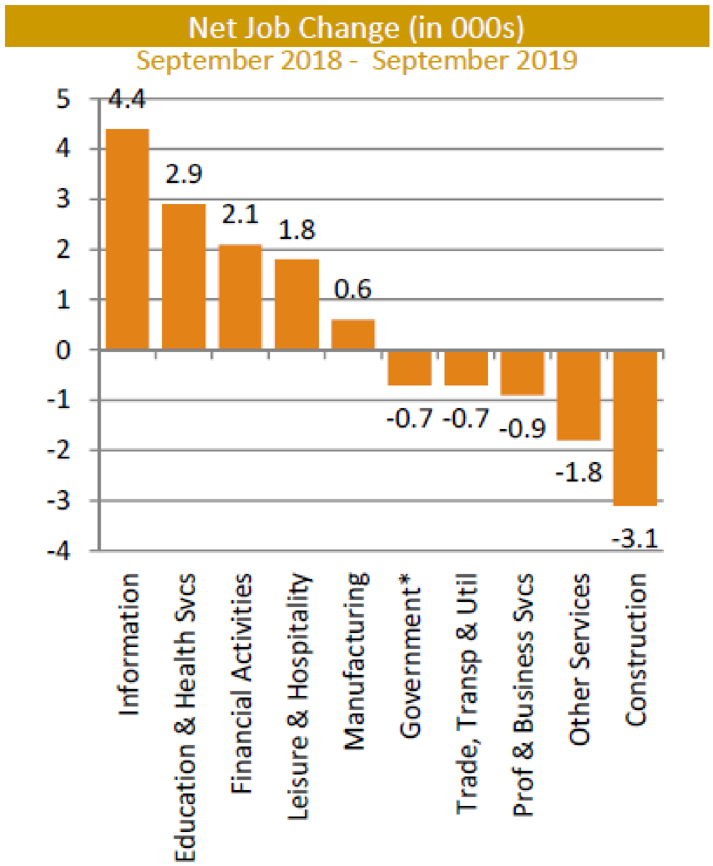
	March 2008	January 2010	September 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,699.2	-120.3	102.4	85.1%
Total Private Sector	1,457.4	1,345.4	1,463.7	-112.0	118.3	105.6%

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

- Connecticut's unemployment rate stood at 3.6 percent in September, unchanged from the revised August figure and down three-tenths of a point from a year ago when it was 3.9 percent. Nationally, the unemployment rate was 3.5 percent in September 2019, down two-tenths of a point from August's revised estimate of 3.7 percent. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 2001.



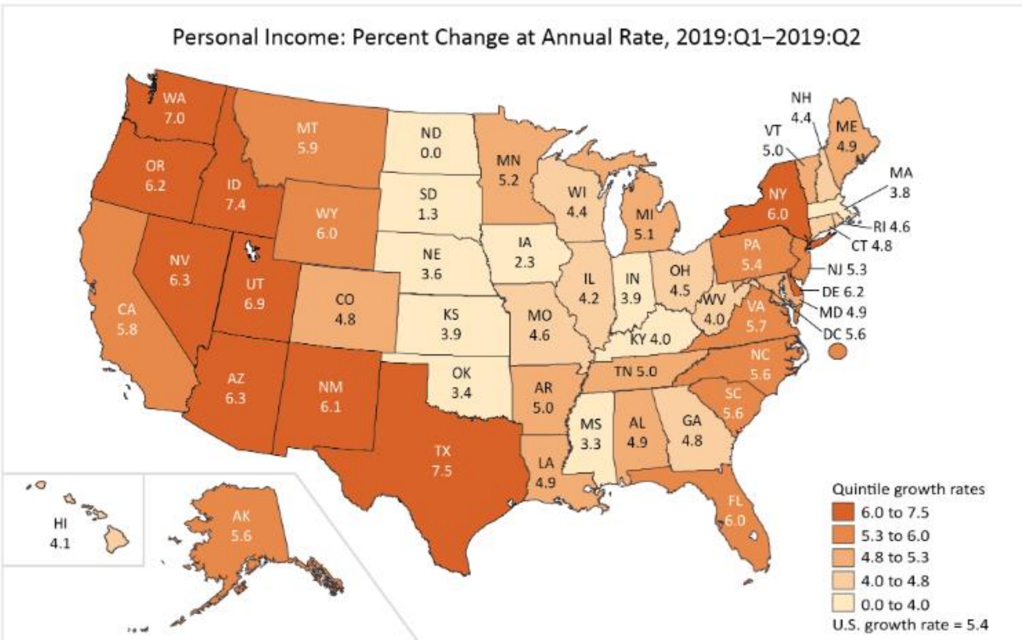
- Among the job major sectors listed below, five experienced gains and five had losses in September 2019 versus September 2018 levels. Information, education & health services and financial activities were the fastest growing sectors in the state's labor market on a percentage basis. The construction, other services, and professional & business services sectors experienced the largest job losses.



Wage and $alary income

- September 2019 average hourly earnings at $33.43, not seasonally adjusted, were up $0.78 or 2.4%, from the September 2018 estimate. The resultant average private sector weekly pay amounted to $1,146.65, up $30.02 or 2.7% 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 September was a modest 1.7%.

- On Sept. 24, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 4.8 percent annual rate between the first and second quarters of 2019. Based on this result, Connecticut ranked 31st in the nation for second quarter income growth. This growth rate was below the national average of 5.4 percent. However, it represented a stronger performance than the New England region's average growth rate of 4.3 percent. The percent change in personal income across all states ranged from 7.5 percent in Texas to unchanged (0.0 percent) in North Dakota.



U.S. Bureau of Economic Analysis

Payroll Employment Trend				
September 2019 Versus September 2018				
Sector	**Sept. 2019 (P)**	**Sept. 2018**	**Gain/Loss**	**% Change**
Construction and Mining	57,400	59,300	-1,900	-3.2%
Manufacturing	161,600	160,600	1,000	0.6%
Trade, Transportation & Utilities	294,100	296,200	-2,100	-0.7%
Information	33,100	31,700	1,400	4.4%
Financial Activities	127,900	125,300	2,600	2.1%
Professional & Business Services	219,500	221,500	-2,000	-0.9%
Education & Health Services	344,700	334,900	9,800	2.9%
Leisure & Hospitality	161,000	158,100	2,900	1.8%
Other Services	64,400	65,600	-1,200	-1.8%
Government	235,500	237,200	-1,700	-0.7%
Total Connecticut Non-Farm Employment	**1,699,200**	**1,690,400**	**8,800**	**0.5%**

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for September 2019 compared with September 2018. Sales of single-family homes rose 7.44 percent, with the median sale price increasing slightly by 0.38 percent. New listings were up 4.08 percent in Connecticut, while the median list price remained basically flat at $269,900. Average days on the market decreased 4.05 percent in September 2019 compared to the same month in the previous year (71 days on average, down from 74 days).

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

MARKET SUMMARY

SEPTEMBER 2019 | SINGLE FAMILY HOMES

Market	Month to Date			Year to Date		
Summary	September 2019	September 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	4771	4584	4.08% ▲	45066	45583	-1.13% ▼
Sold Listings	2947	2743	7.44% ▲	27050	27203	-0.56% ▼
Median Listing Price	$269,900	$269,500	0.15% ▲	$274,900	$270,000	1.81% ▲
Median Selling Price	$263,000	$262,000	0.38% ▲	$269,900	$265,000	1.85% ▲
Median Days on Market	51	56	-8.93% ▼	53	64	-17.19% ▼
Average Listing Price	$396,772	$389,870	1.77% ▲	$398,334	$404,152	-1.44% ▼
Average Selling Price	$378,621	$375,329	0.88% ▲	$383,260	$389,236	-1.54% ▼
Average Days on Market	71	74	-4.05% ▼	77	88	-12.5% ▼
List/Sell Price Ratio	97.2%	97.4%	-0.2% ▼	97.5%	97.6%	-0.03% ▼

- For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales experienced a decrease in September, following two consecutive months of growth. September sales fell 2.2 percent from August to a seasonally adjusted annual rate of 5.38 million. All four major regions experienced sales declines compared with August, with the largest drop coming in the Midwest.
- According to NAR, the median existing-home price for all housing types was $272,100, up 5.9% from September 2018 ($256,900). September's price increase marks 91 straight months of year-over-year gains. However, despite historically low mortgage rates, sales have not increased proportionately, in part due to a low level of new housing inventory.
- Total housing inventory at the end of September was 1.83 million, approximately equal to the amount of existing-homes available for sale in August, but down 2.7% from a year ago. Unsold inventory is at a 4.1-month supply at the current sales pace,

up from 4.0 months in August and down from the 4.4-month figure recorded in September 2018.

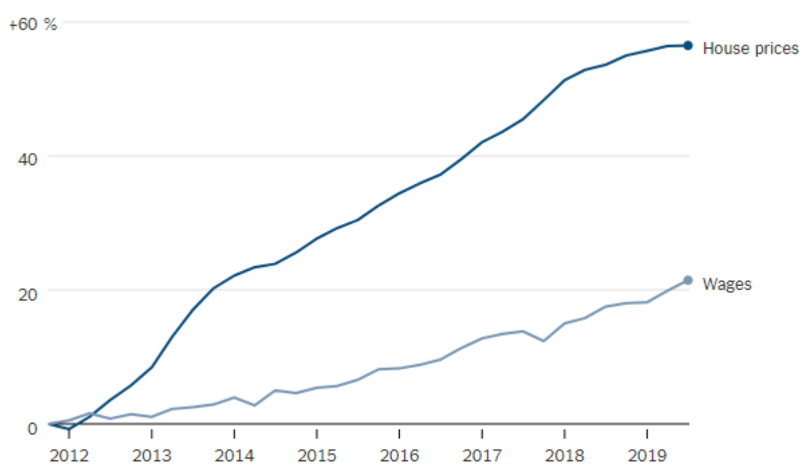
<u>Housing Prices are Rising Faster than Wages</u>

- The New York Times published an article in its October 31, 2019 edition on housing prices, which echoed concerns raised by NAR and other entities in recent months. Housing prices are rising faster than wages in many markets, which makes owning a home unaffordable despite low interest rates. This is especially true for entry level homes and creates challenges for potential buyers, particularly those looking to purchase a home for the first time.
- The graph below shows changes in housing prices compared with wages.

It's hard to find a house to buy (at least one you can afford).

Since the housing market bottomed out in 2012, home prices have far outstripped wage gains for the typical American worker.

Change since fourth quarter 2011



Note: House prices are the S&P Case-Shiller 20-city index. Wages are median weekly wages for full-time workers. | Sources: S&P and the Bureau of Labor Statistics, via the Federal Reserve Bank of St. Louis

The full article is available at the flowing link:

https://www.nytimes.com/2019/10/31/business/economy/fed-mortgage-rates.html?action=click&module=Well&pgtype=Homepage&section=Business

<u>Population</u>

- 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'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. New state-level population estimates as of July 1, 2019 will be released in December 2019.
- 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 – Volatility Followed By Recovering Ground in Late October:

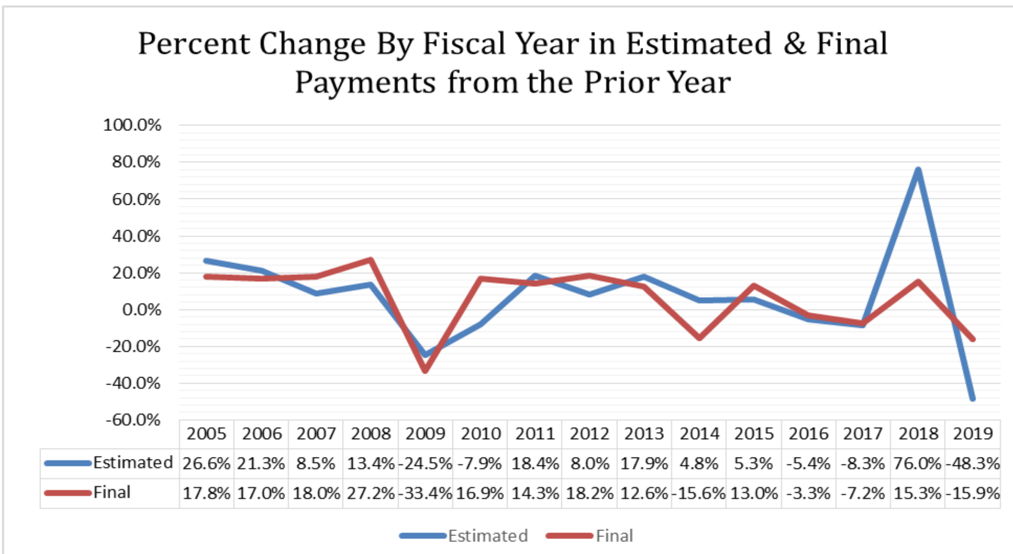
- After significant declines in December and a volatile close to calendar year 2018, the major stock market indices had generally been climbing steadily through April 2019. In mid-May, however, the markets turned downward and volatility returned as trade tensions escalated between the United States and China.
- In June and July, the markets showed resilience and trended back upward with all three major indices touching historic highs. Volatility returned in August, as a number of issues weighed on investors. The trade war with China remained unresolved with tensions escalating as both countries threaten additional tariffs. Fears of recession increased as a number of national economies showed signs of slowing and the so-called yield curve inverted. In September, the markets generally recovered the ground lost in late August.
- In early October, the DOW lost 838 points over two sessions as investors once again worried about recession after reports of slowdowns in manufacturing and the pace of hiring. By late October, the markets have recovered and the S&P touched an all-time high. All-three indices were up over 15 percent year-to-date, with the S&P 500 up nearly 25 percent as of this writing. The one year changes ranged from approximately 7 percent for the DOW up to 13 percent for the NASDAQ.

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 percent of total state income tax receipts, but can be an extremely volatile revenue source.
- 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.
- Final FY 2019 results show combined collections of estimated and final payments totaled $2.974 billion, slightly better than anticipated by the budget plan. However, due to the extraordinary one-time results achieved in FY 2018, final and estimated payments came in 35.6 percent lower than the same period a year ago.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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%	-48.3%
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%	-15.9%

- At the same time, other tax categories such as the new Pass-Through Entity (PET) tax on partnerships and S Corporations outperformed its target for FY 2019. PET receipts totaled $1.17 billion in FY 2019, nearly twice as much as budgeted.

<u>The TED Spread – Modest Uptick in October</u>

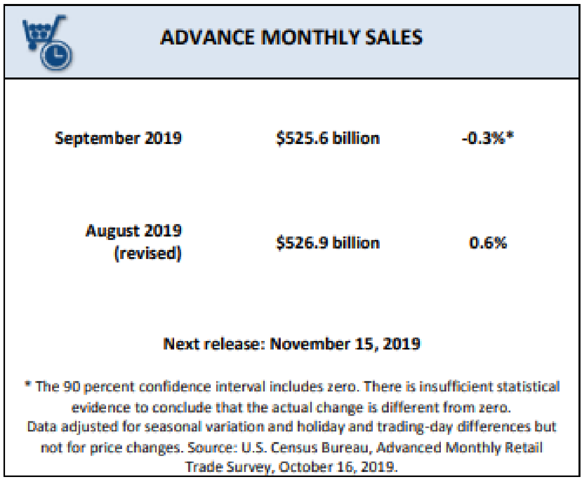
- The TED Spread is considered an early indicator of perceived monetary liquidity and credit risk of the global financial banking system. It has been described as the "Paul Revere" of financial markets, warning investors of potential market downturns and volatility.
- Technically, the TED spread is defined as the difference between the three-month Treasury bill and the three-month London Inter Bank Offered Rate (LIBOR) based

in US dollars. More simply, the TED spread is the difference between the interest rate on short-term US government debt and the interest rate on interbank loans.

- United States Treasury Bill rates are considered essentially risk free because they are considered the safest credit in the world. By comparing the risk free rate to any other interest rate, an analyst can determine the perceived difference in risk. A rising or high TED spread will often precede a downturn in the stock market because it indicates increasing risk of bank defaults and economic instability. A falling or low TED spread would indicate low risk of bank defaults and economic stability.
- As the following chart indicates, the TED spread was at a historic low in early July 2019, registering at 0.13. Since then the TED Spread has been moving in a generally upward direction, registering at 0.22 by mid-September and 0.32 by October 18th. This is considered a mid-range reading for recent years. For comparison purposes, the October 1987 stock market crash raised TED spreads close to 300 basis points (3.00), and the financial crisis of 2008 raised them to 450 basis points (4.50).

Consumer Spending

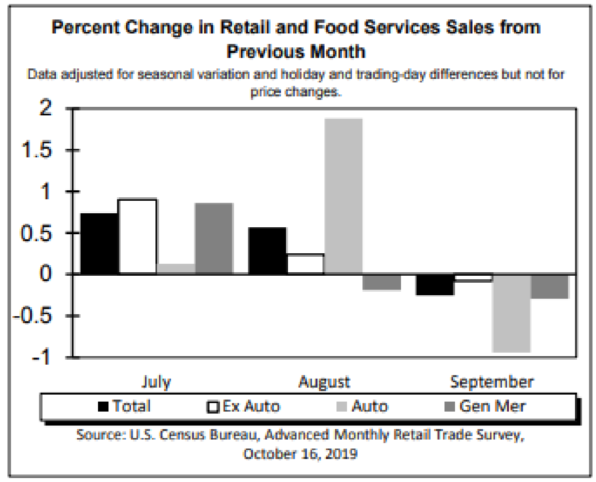
- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- The Commerce Department reported that U.S. advance retail sales decreased 0.3 percent in September 2019, while August's results were revised upward, increasing 0.6 percent instead of the initially reported 0.4 percent. September's decline represented the first time retail sales have fallen in seven months.


ADVANCE MONTHLY SALES

September 2019	$525.6 billion	-0.3%*
August 2019 (revised)	$526.9 billion	0.6%

Next release: November 15, 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, October 16, 2019.

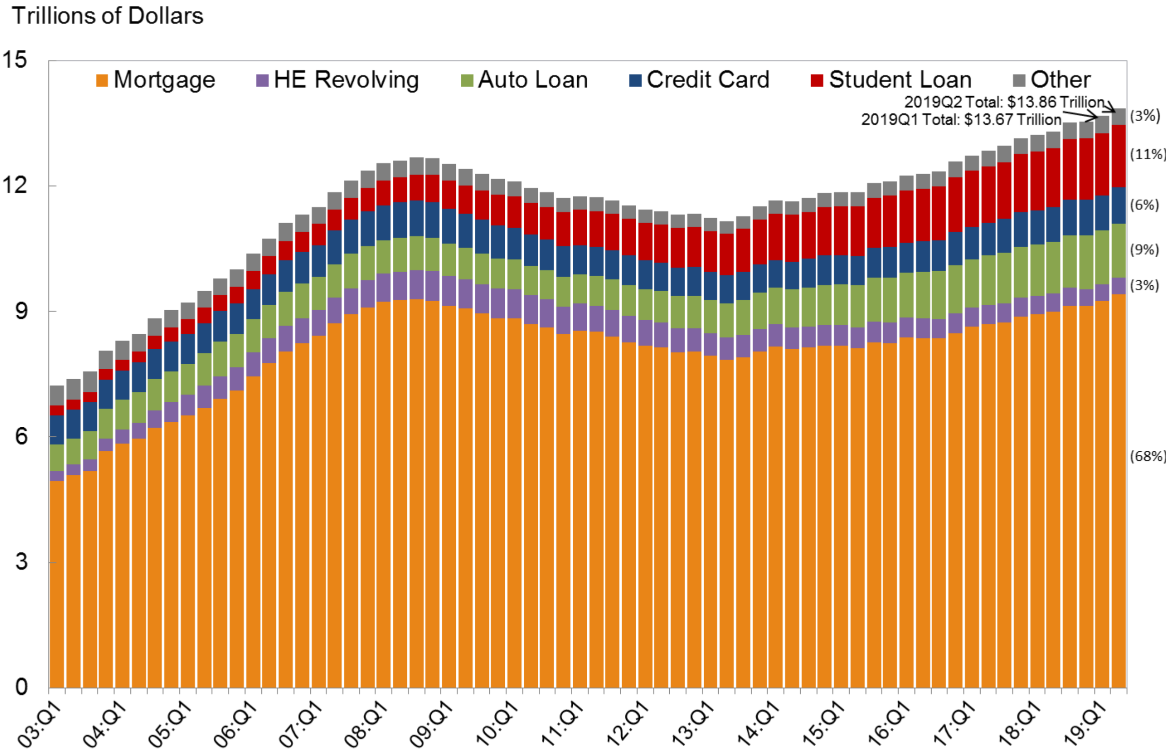


- The 0.3 percent decrease was unexpected after consecutive months of gains dating back to February. Economists polled by Reuters had forecast retail sales would climb 0.3% in September. Some analysts expressed fear that the manufacturing slow-down was starting to bleed over to the consumer side of the economy.
- Auto sales fell 0.9% in September, while receipts at service stations fell 0.7%, most likely due to lower gasoline prices. Sales also declined for building materials, general merchandise retailers, such as department stores, and for online purchases.
- On the positive side, receipts at clothing stores rose by 1.3% and furniture sales grew by 0.6%. Sales at restaurants and bars increased 0.2%.
- So called "core retail sales" were essentially unchanged in September after increasing by 0.3% in August. 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 second quarter of 2019. Household debt has now grown steadily for 5 years (or 20 consecutive quarters). As of June 30, 2019, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.86 trillion. This represented an increase of 192 billion (1.4%) from the first quarter of 2019. In addition, overall household debt is now 24.3%

Total Debt Balance and its Composition



Source: New York Fed Consumer Credit Panel/Equifax

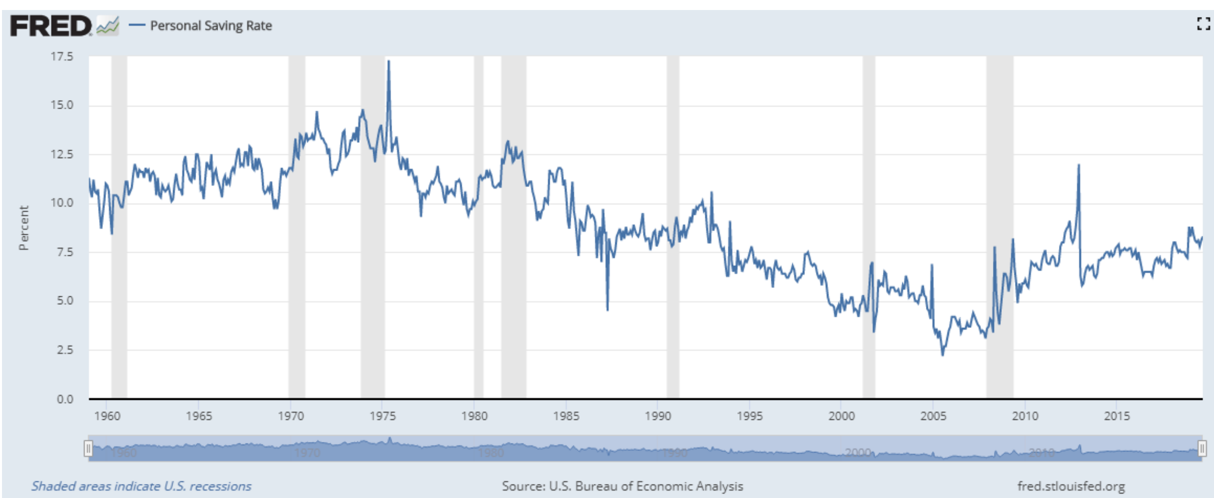
above the post-financial-crisis trough (low point) reached during the second quarter of 2013.

- The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.4 trillion during the second quarter, a $162 billion increase from the first quarter of 2019. At $1.48 trillion, student loans were the second largest category of household debt. Student loan balances declined by $8 billion in the second quarter of 2019. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $7 billion to $399 billion. Auto loans grew by $17 billion in the second quarter to $1.3 trillion in total, while credit card balances increased by $22 billion to 868 billion.

- The Federal Reserve reported aggregate delinquency rates improved in the second quarter of 2019. As of June 30, 4.4 percent of outstanding debt was in some stage of delinquency. Of the $604 billion of debt that is delinquent, $405 billion is seriously delinquent (at least 90 days late). The share of credit card balances transitioning into 90+ day delinquency has been rising since 2017, and continued to do so in the second quarter of 2019. At the same time the flow into 90+ day delinquency for auto loan balances has risen more than 70 basis points since 2012 and experienced a slight seasonal decline in the second quarter. Student loan delinquency transition rates remain at high levels relative to other types of debt, and increased this quarter; 10.8 percent of student loan balances became seriously delinquent in the second quarter (at an annual rate). The Federal Reserve report notes that since a portion of student loans are in deferment or in grace periods, the delinquency rate reported is likely understated. A third quarter household debt update will be released in mid-November 2019.

<u>Personal Savings Rate</u>

- In its Oct. 31 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 8.3 percent in September 2019, up from August's revised rate of 8.1 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income.



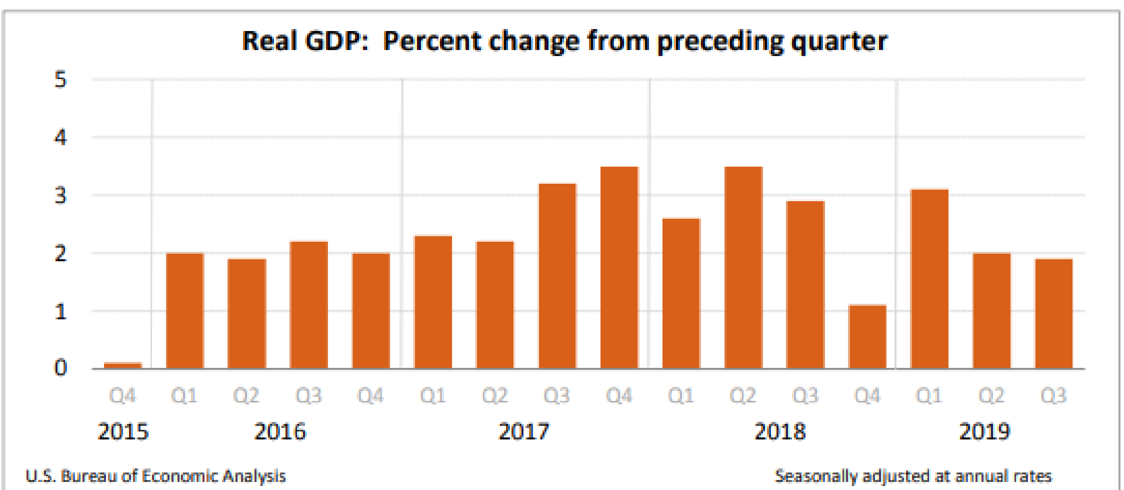
- Despite the rise in September, the personal savings rate remains low by historical standards. A number of economists see the general decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. In recent years, wage gains have been concentrated on the upper end of the income scale. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

Consumer Confidence

- The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.
- The Conference Board reported that the Consumer Confidence Index decreased marinally in October, following a decline in September. The Index now stands at 125.9, down from 126.3 in September. The Conference Board cited worries over business conditions and employment prospects for the drop. Economists surveyed by Dow Jones had expected an increase in confidence and projected a reading of 128. At the same time, confidence levels remain high by historical standards and the Conference Board reported there are no indications that consumers will curtail their holiday spending based on these results.

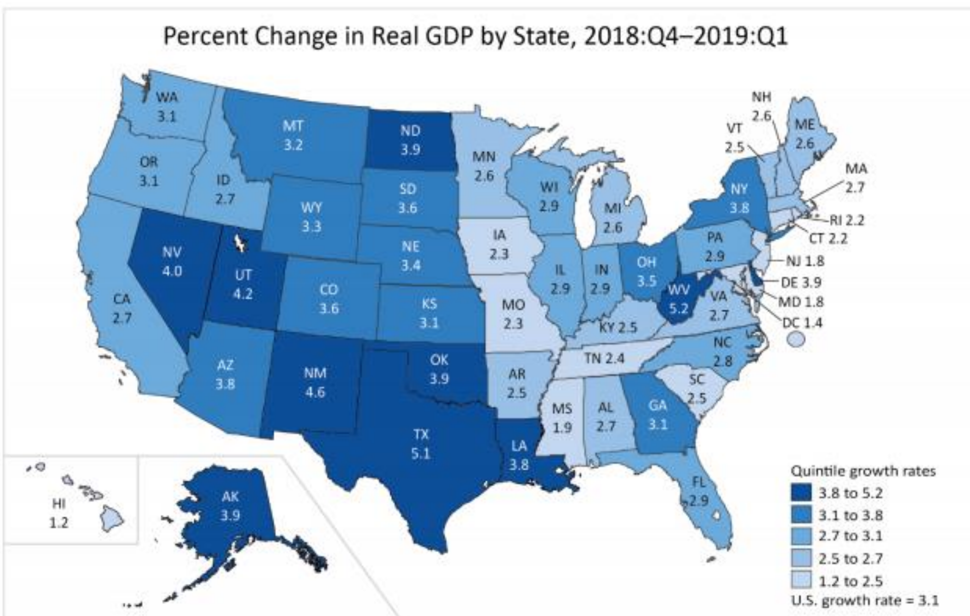
Business and Economic Growth

- According to an Oct. 30 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 1.9 percent in the third quarter of 2019, based on BEA's advance estimate. This represents a slight slowdown from the 2 percent GDP growth recorded in the second quarter. At the same time, the results were better than expected. Economists polled by Dow Jones had expected the economy to grow at a 1.6 percent rate.



- The third quarter GDP growth was largely the result of spending by consumers as well as by federal, state and local government. On the downside, business investment declined in the third quarter as ongoing trade disputes added to uncertainty and continued to dampen growth.

- In a July 25 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the first quarter of 2019. Connecticut experienced a seasonally adjusted annual growth rate of 2.2 percent, which ranked 45th in the nation overall. This growth rate was below both the national average of 3.1 percent and the New England regional average of 2.5 percent. The percent change in real GDP in the first quarter ranged from 5.2 percent in West Virginia to 1.2 percent in Hawaii.
- The sectors that contributed most to Connecticut's GDP growth in the first quarter of 2019 were finance & insurance, health care & social assistance and retail trade. Second quarter state-level GDP data will be available on Nov. 7.



U.S. Bureau of Economic Analysis

Durable Goods

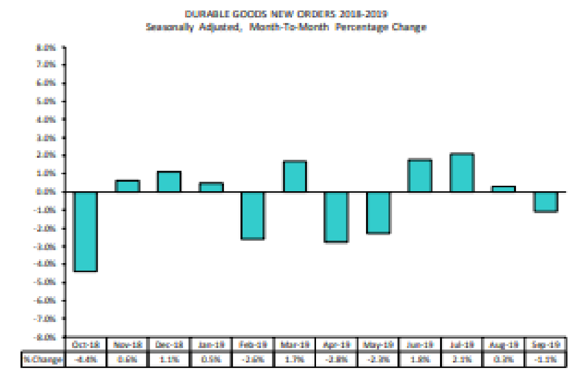
- According to an Oct. 24 report by the U.S. Department of Commerce, new orders of manufactured durable goods decreased \$2.8 billion, down 1.1 percent to \$248.2 billion. The decline comes after three consecutive months of growth, including a 0.3 percent increase in August.

DURABLE GOODS – NEW ORDERS

SEPTEMBER 2019	$248.2 billion	-1.1%°
AUGUST 2019 (revised)	$251.0 billion	+0.3%°

Next release: November 27, 2019

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, October 24, 2019.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, October 24, 2019.

- Transportation equipment, also down following three consecutive monthly increases, led the decrease, falling $2.3 billion or 2.7 percent to $84.5 billion. New orders of non-defense aircraft declined 11.8 percent, while motor vehicles dropped 1.6 percent. At the same time, orders for defense aircraft increased 6.3 percent.
- Analysts were concerned with a second consecutive decline in so-called core capital goods. Orders in this category of spending decreased 0.5 percent in September following a revised 0.6% decline in August. September's drop was also larger than expected. Economists polled by Reuters forecasted core capital goods orders would decrease by 0.2 percent. Core capital goods include non-defense capital goods excluding aircraft and the measure is widely viewed as a proxy for business investment.

IHS Markit Flash Purchasing Manager's Index

- The IHS Markit Flash Purchasing Manager's Index (PMI) is a composite index based on a weighted combination of the following five survey variables: new orders, output, employment, suppliers' delivery times, and stocks of materials purchased. Investors track PMI readings to get early indicators as to where the economy may be heading.
- The most recent report showed that private sector output increased in October for both manufacturing and the service sector, though rates of expansion in both sectors remained subdued. Adjusted for seasonal influences, the IHS Markit Flash U.S. Composite PMI Output Index reached 51.2 in October, up from 51.0 during September. The latest reading pointed to another gradual recovery in output growth from the three and-a-half year low seen in August.

IHS Markit Composite PMI and U.S. GDP

Sources: IHS Markit, U.S. Bureau of Economic Analysis.

*****END*****