News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $84.3-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 $84.3 million.

Lembo's latest projection follows his final unaudited report on the close of Fiscal Year 2019 issued Monday (the final audited report will be issued in December), which confirmed significant progress toward building the state's Budget Reserve Fund.

In a letter to Gov. Ned Lamont, Lembo said he is in agreement with the state Office of Policy and Management's (OPM), which recently reported that the General Fund is currently exceeding budgeted spending by approximately $56.8 million, while revenue is performing consistent with budget targets.

"As more data becomes available for first-quarter fiscal year receipts, these projections will be revised as necessary," Lembo said. "A number of economists are predicting slower growth for the United States and other major economies in the coming year. The ongoing trade dispute with China continues to create uncertainty for businesses and could have a negative influence on consumer confidence. My office will continue to monitor these trends and any potential impact they have on the state budget as the fiscal year progresses.

"While Connecticut cannot prevent global uncertainties – it can prepare for them," Lembo said, urging continued financial discipline with regard to reaching Budget Reserve Fund targets.

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:

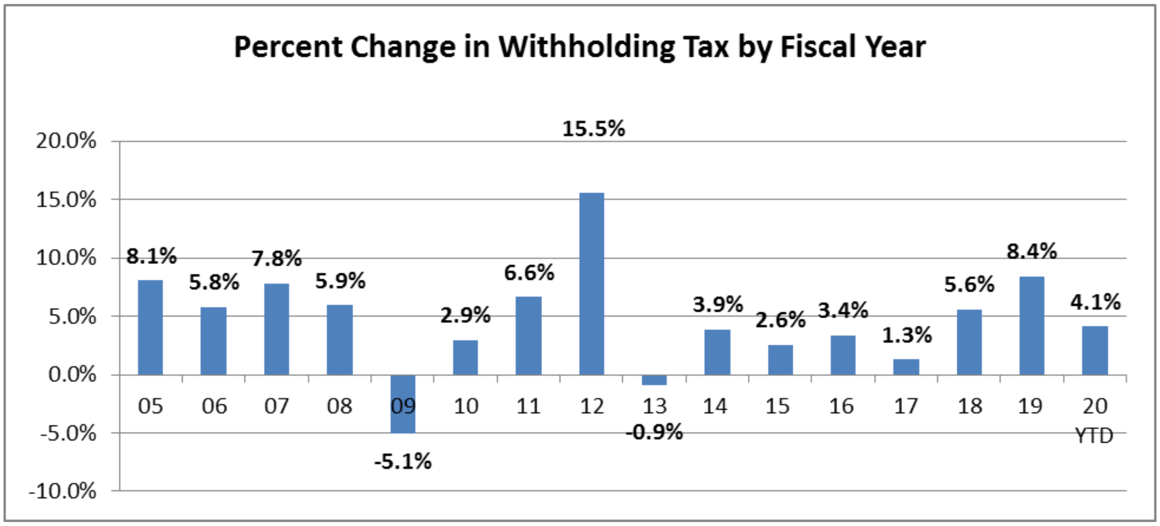
- The Fiscal Year 2020 cap is $3.3 billion for estimated and final income tax payments and revenue from the Pass-Through Entity tax.
- If current projections are realized, a $318.3-million volatility transfer would be made to the Budget Reserve Fund.
- Adding the estimated $318.3-million volatility transfer and the projected Fiscal year 202 surplus of $84.3 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 14.6 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.

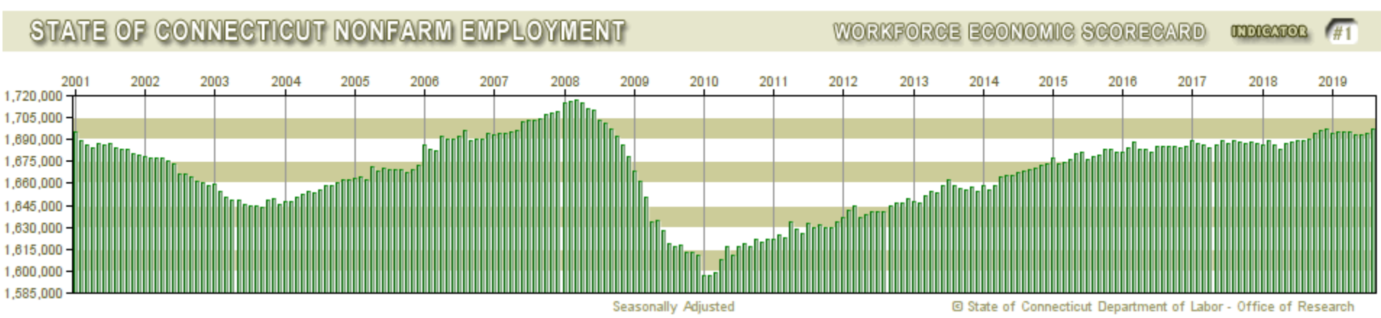
Ultimately, Lembo said that Connecticut's budget results are dependent upon the performance of the national and state economies. Lembo pointed to recent economic indicators and trends from national and state sources that show:

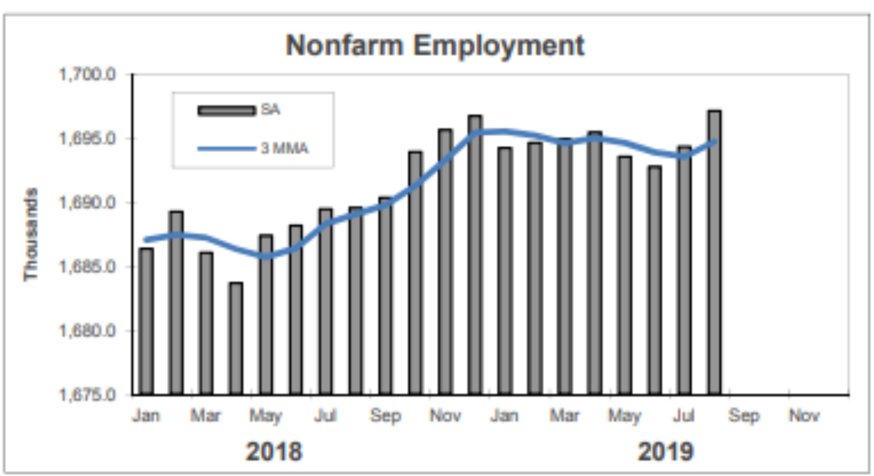
Employment

- After a solid performance in FY 2018, unaudited results for FY 2019 show 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.
- Early indications for FY 2020 show withholding receipts are in line with the budget plan, growing by approximately 4.1 percent over FY 2019 levels through August. This growth rate reflects the underlying trend for receipts (factoring out the year-end statutory revenue accruals).



- On Sept. 19, Connecticut DOL (Department of Labor) reported the preliminary Connecticut nonfarm job estimates for August 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 2,800 net jobs in August, to a level of 1,697,200, seasonally adjusted. In addition, July's originally-released job loss of 100 was revised upward by 1,700 to a gain of 1,600 jobs over the month. The results for the last two months have pushed job growth into positive territory for calendar 2019.





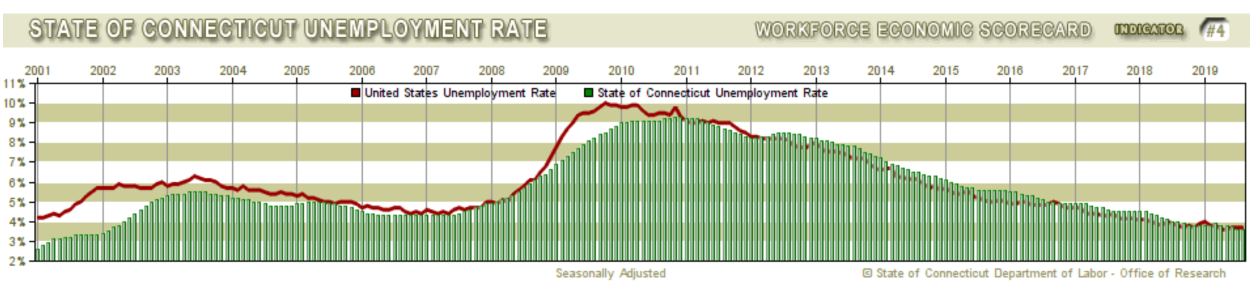
- Over the year, DOL reported that nonagricultural employment in the state grew by 7,600 jobs on a seasonally-adjusted basis. Connecticut has now recovered 83.5 percent (100,400 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of August, the job recovery was into its 114th month and the state needed an additional 19,900 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 (103.4 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 - August 2019

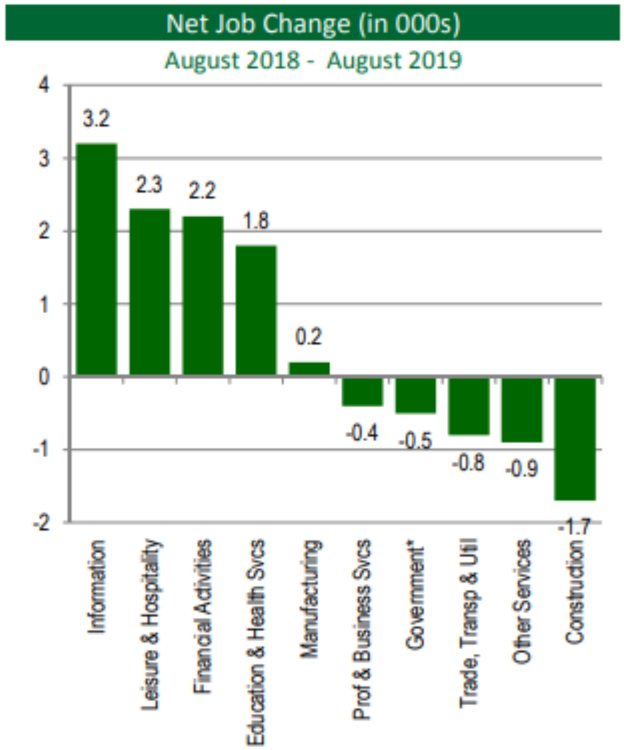
	March 2008	January 2010	August 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,697.2	-120.3	100.4	83.5%
Total Private Sector	1,457.4	1,345.4	1,461.2	-112.0	115.8	103.4%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated: September 19, 2019

- Connecticut's unemployment rate stood at 3.6 percent in August, unchanged from the revised July figure and down four-tenths of a point from a year ago when it was 4.0 percent. Nationally, the unemployment rate was 3.7 percent in August 2019, unchanged from July's revised estimate. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 2001.



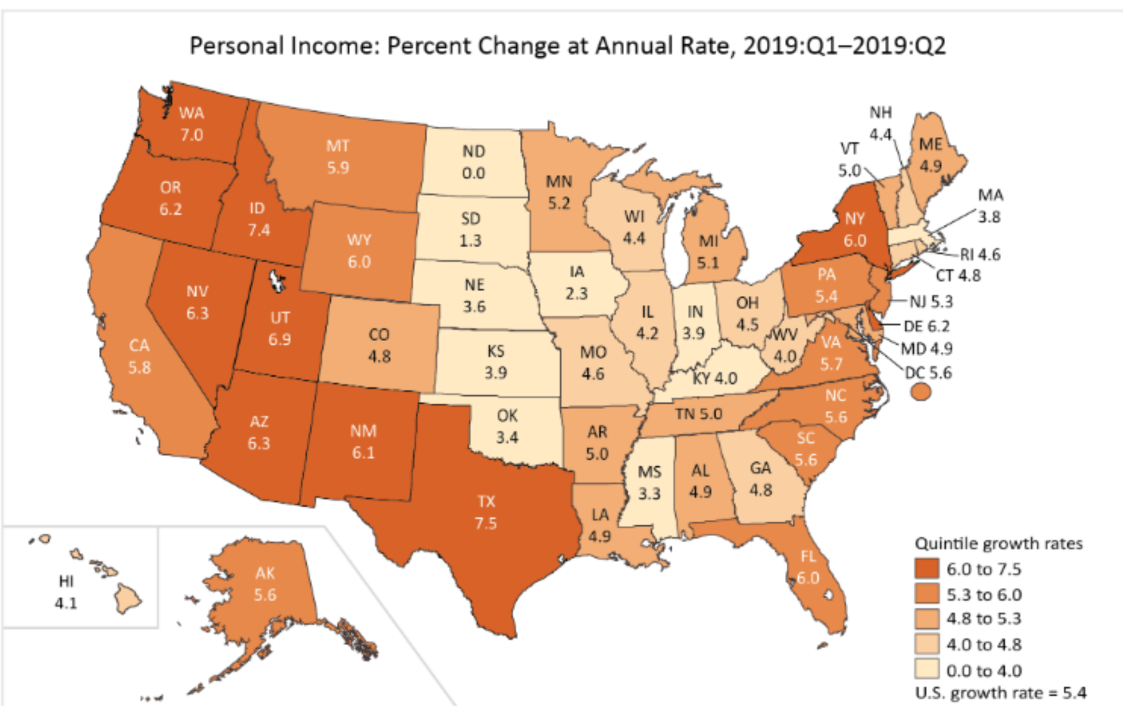
- Among the major job sectors listed below, five experienced gains and five had losses in August 2019 versus August 2018 levels. Information, leisure & hospitality and financial activities were the fastest growing sectors in the state's labor market on a percentage basis. The construction, other services,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



Payroll Employment Trend				
August 2019 Versus August 2018				
Sector	**August 2019 (P)**	**August 2018**	**Gain/Loss**	**% Change**
Construction and Mining	58,100	59,200	-1,100	-1.9%
Manufacturing	160,900	160,500	400	0.2%
Trade, Transportation & Utilities	294,400	296,800	-2,400	-0.8%
Information	32,600	31,600	1,000	3.2%
Financial Activities	127,900	125,200	2,700	2.2%
Professional & Business Services	220,400	221,200	-800	-0.4%
Education & Health Services	340,400	334,400	6,000	1.8%
Leisure & Hospitality	161,400	157,800	3,600	2.3%
Other Services	65,100	65,700	-600	-0.9%
Government	236,000	237,200	-1,200	-0.5%
Total Connecticut Non-Farm Employment	**1,697,200**	**1,689,600**	**7,600**	**0.4%**

Wage and $alary income

- August 2019 average hourly earnings at $32.56, not seasonally adjusted, were up $0.78 or 2.5 percent, from the August 2018 estimate. The resultant average private sector weekly pay amounted to $1,103.78, up $29.62 or 2.8% 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 July 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

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for August 2019 compared with August 2018. Sales of single-family homes fell 6.28 percent and the median sale price increased by 3.64 percent. New listings were down 7.20 percent in Connecticut, while the median list price rose 3.54 percent at $289,900. Average days on the market decreased 15.66 percent in August 2019 compared to the same month in the previous year (70 days on average, down from 83 days). Finally, the list to sell price was down slightly to 97.49 percent from 98.2 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

AUGUST 2019 | SINGLE FAMILY HOMES

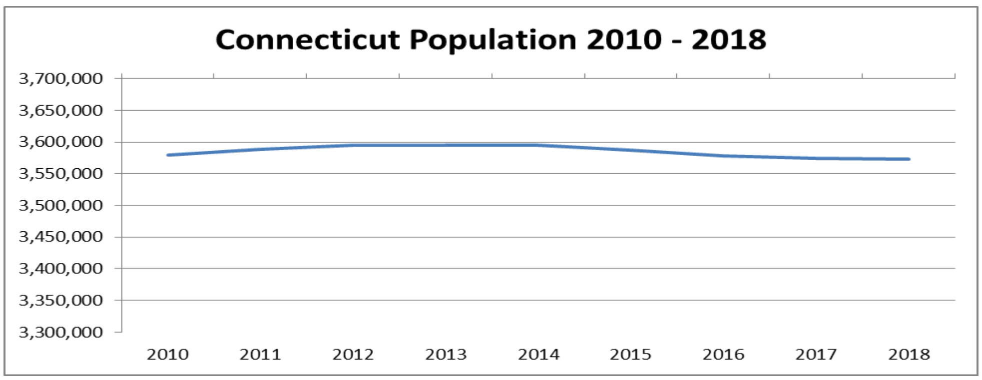
Market	Month to Date			Year to Date		
Summary	August 2019	August 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	4280	4612	-7.2%	40247	40999	-1.83%
Sold Listings	3703	3951	-6.28%	23917	24458	-2.21%
Median Listing Price	$289,900	$280,000	3.54%	$274,999	$270,000	1.85%
Median Selling Price	$285,000	$275,000	3.64%	$270,000	$265,100	1.85%
Median Days on Market	50	64	-21.88%	53	64	-17.19%
Average Listing Price	$418,851	$416,709	0.51%	$398,222	$405,760	-1.86%
Average Selling Price	$403,590	$401,729	0.46%	$383,626	$390,801	-1.84%
Average Days on Market	70	83	-15.66%	78	89	-12.36%
List/Sell Price Ratio	97.4%	98.2%	-0.81%	97.6%	97.6%	-0.01%

- For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales experienced a small increase in August, marking the second consecutive month of growth. August sales rose 1.3 percent from July to a seasonally adjusted annual rate of 5.49 million. Three of the four major regions reported sales growth, while the West recorded a decline last month.
- According to NAR, the median existing-home price for all housing types in August was $278,200, up 4.7 percent from August 2018 ($265,600). August's price increase marks the 90th straight month of year-over-year gains. Historically low interest rates are bringing buyers into the market, which combined with lower levels of inventory, has led to higher real estate prices across the country.
- Total housing inventory at the end of August decreased to 1.86 million, down from 1.90 million existing-homes available for sale in July, representing a 2.6 percent decrease from 1.91 million one year ago. Unsold inventory is at a 4.1-month supply

at the current sales pace, down from 4.2 months in July and from the 4.3-month figure recorded in August 2018.

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'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 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.

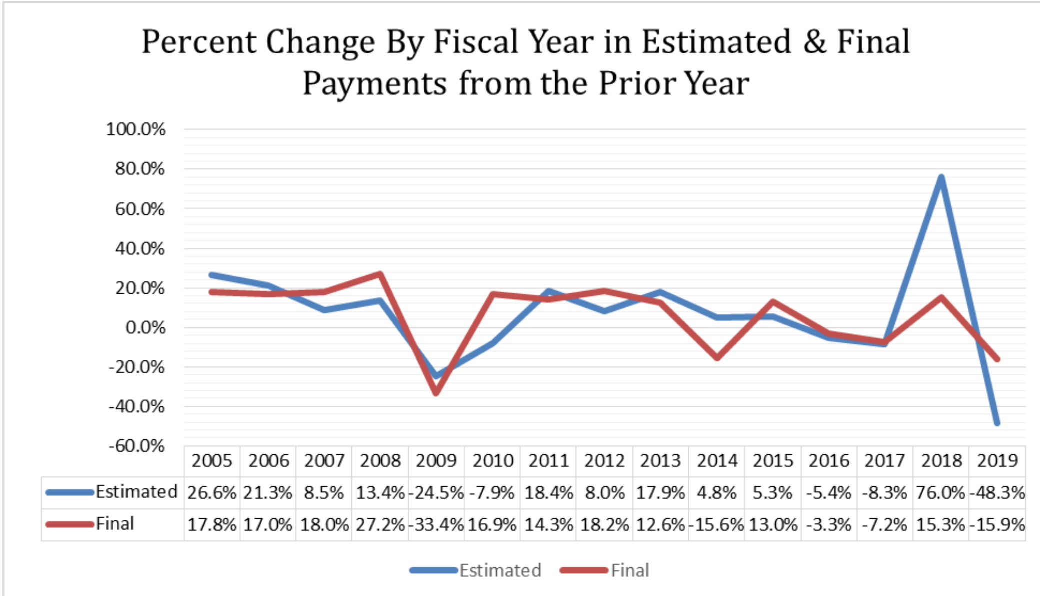
- In September, the markets have generally recovered the ground lost in late August. All three indices have returns of 15 percent or more year-to-date for calendar 2019. However, the full one-year results are barely positive for the DOW and S&P and negative for the NASDAQ as of this writing. Stock market 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 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.
- Unaudited 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.



- 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.

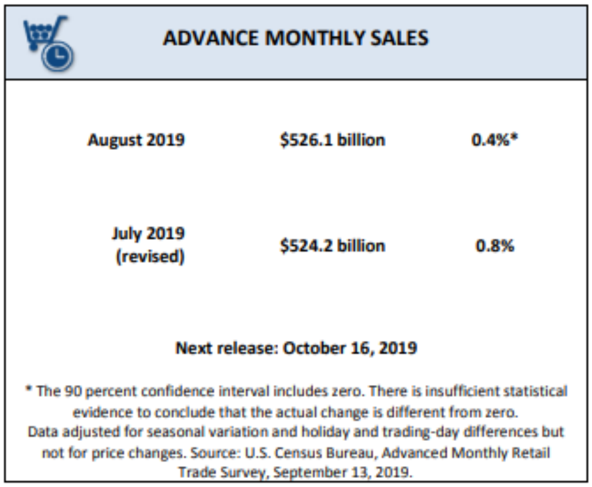
The TED Spread

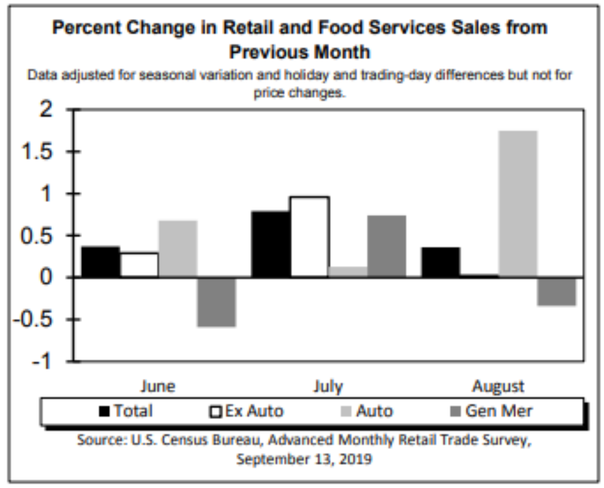
- The TED Spread is considered an early indicator of perceived monetary liquidity and credit risk of the global financial banking system. It has been described by analyst Wade Hansen as the "Paul Revere" of financial markets, warning investors of potential market downturns and volatility.
- Technically, 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. As of August 16th, the TED spread had risen to 0.31, mid-range for recent years, before decreasing in late August. As of September 13th, the TED spread was registering at 0.22. 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 increased 0.4 percent in August 2019, while July's results were revised up slightly, rising 0.8 percent instead of the initially reported 0.7 percent. It appears the global economic concerns that have shaken the financial markets have not yet dampened consumer spending – at least through August.
- The 0.4 percent rise was better than expected. Economists polled by Reuters had forecast retail sales would gain 0.2% in August. Retail sales have increased for six straight months, the longest stretch since June 2017. However, some analysts expressed concerns that additional increases in tariffs could present a downside risk for household spending.
- Increases in retail sales were led by spending on motor vehicles (+1.9%), building materials (+1.4%), and sporting goods & hobbies (0.9%). Sales at non-store retailers grew a robust 1.6 percent in August.
- Receipts at service stations fell 0.9%, reflecting lower gas prices. In addition, spending at restaurants and bars declined 1.2%, while sales at clothing stores fell 0.9%.

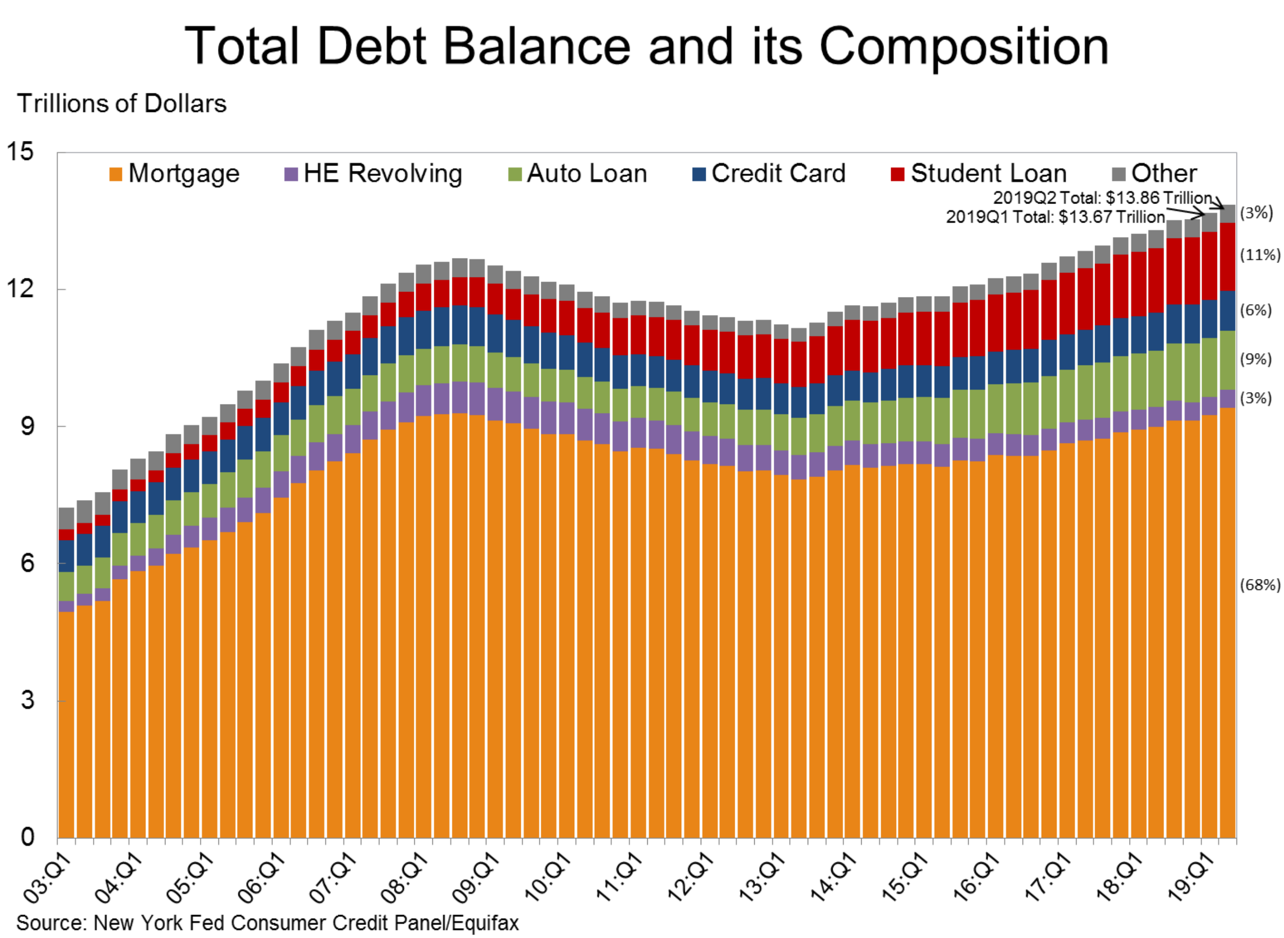




- So called "core retail sales" climbed 0.3% in August after increasing by a revised 0.9% in July. This category excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of gross domestic product.

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

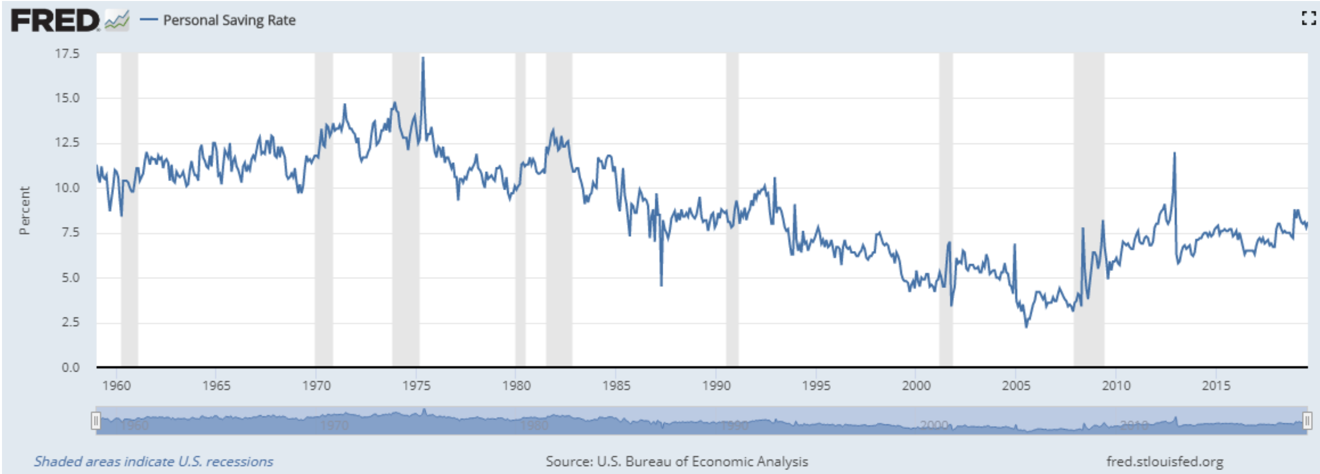


has now grown steadily for 5 years (or 20 consecutive quarters). As of June 30, 2019, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.86 trillion. This represented an increase of 192 billion (1.4%) from the first quarter of 2019. In addition, overall household debt is now 24.3% 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.

Personal Savings Rate

- In its Sept. 27 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 8.1 percent in August 2019, up from July's revised rate of 7.8 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income.



- Despite the rise in August, 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.

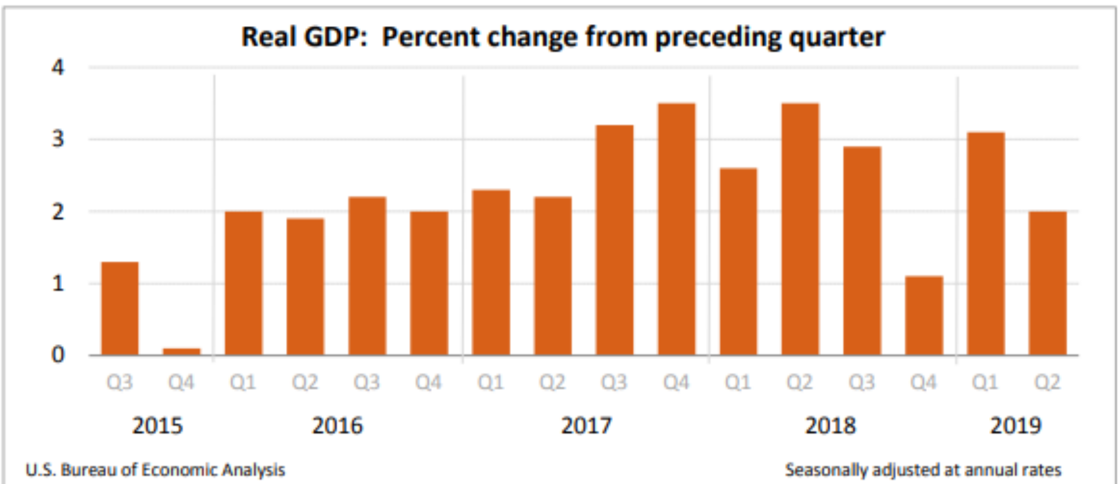
Consumer Confidence

- 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 in September, following a slight decline in August. The Index now stands at 125.1, down from 134.2 in August.
- According to the Conference Board, consumers were less positive in their assessment of current conditions and their expectations regarding the short-term outlook also weakened. The main reason appears to be the escalation in trade and tariff tensions that occurred in late August. Continued uncertainty could begin to diminish consumers' confidence in the expansion and further dampen optimism regarding the short-term economic outlook.

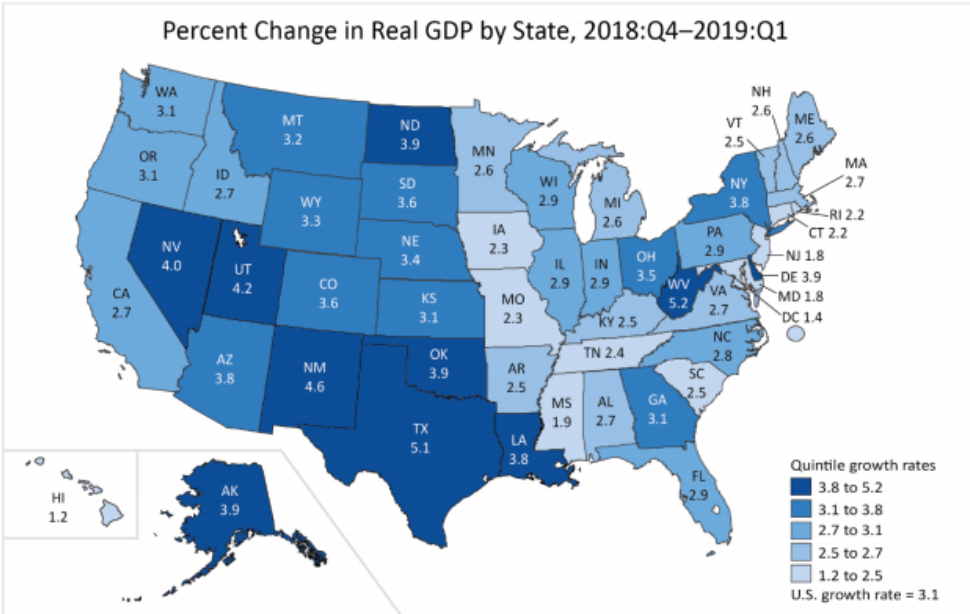
Business and Economic Growth

- According to a September 26th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 2.0 percent in the second quarter of 2019, based on BEA's third estimate. BEA made downward revisions to personal consumption expenditures (PCE) and nonresidential fixed investment, but these were primarily offset by upward revisions to state and local government spending and exports. Imports, which are a subtraction in the calculation of GDP, were revised down as well.

- The second quarter GDP results represented a slow-down in growth from the first quarter of 2019, when real GDP increased 3.1 percent. Gross domestic product represents the value of all goods and services produced in the U.S. for the period.
- Consumer and government spending drove the increase in GDP, while a decrease in business investment and a weak housing market slowed down growth for the quarter. Exports also declined as trade disputes between the U.S. and China remain unresolved.



- 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.



U.S. Bureau of Economic Analysis

Durable Goods

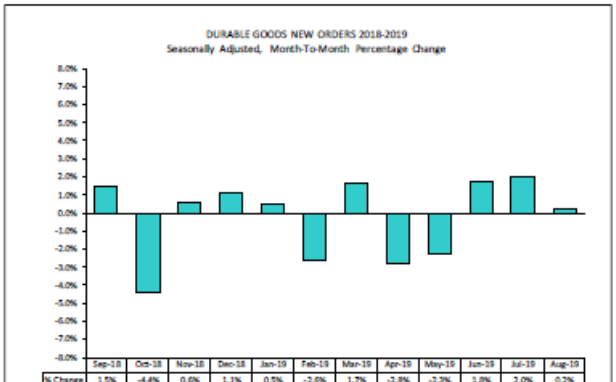
- According to a Sept. 27 report by the U.S. Department of Commerce, new orders for manufactured durable goods increased $0.5 billion, up a slight 0.2 percent to $250.7 billion. This increase, up three consecutive months, followed a 2.0 percent jump in July.

DURABLE GOODS – NEW ORDERS

AUGUST 2019	$250.7 billion	+0.2%°
JULY 2019 (revised)	$250.2 billion	+2.0%°

Next release: October 24, 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, September 27, 2019.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, September 27, 2019.

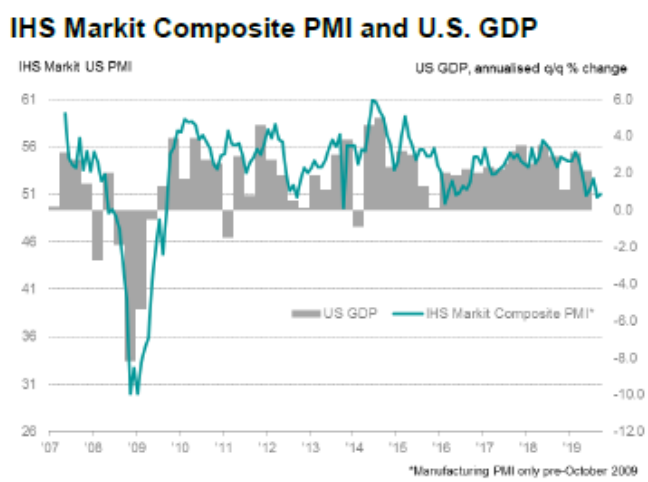
- The August increase was largely due to military-related capital spending, which rose 15.4 percent. Excluding defense spending, new orders of capital goods decreased 0.6 percent.
- Analysts were also concerned with a decline in so-called core capital goods, which dropped by 0.2 percent in August. Core capital goods include non-defense capital

goods excluding aircraft and the measure is widely viewed as a proxy for business investment.

- A MarketWatch analysis of the report noted that many firms have put off investment or slowed hiring until they get a better sense of when the trade standoff with China will end. The dispute has disrupted global supply chains, raised the cost of materials and has hampered U.S. economic growth.
- Transportation-related orders declined by 0.4 percent in August. This was largely driven by non-defense aircraft, which dropped 17.1 percent. In addition, new orders for automobiles and supplies decreased 0.8 percent.

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 September, but the growth was muted. The rate of expansion was slightly faster than the three-and-a-half year low seen during August. The latest survey revealed modest rises in both service sector activity and manufacturing production.
- IHS Markit's chief economist noted that businesses continue to struggle against the headwinds of trade worries and elevated uncertainty about the current economic outlook. The overall rate of growth in September remained among the weakest since 2016, commensurate with GDP rising in the third quarter at a subdued annualized rate of approximately 1.5 percent.



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

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