News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO, IN EARLY REPORT ON FISCAL YEAR 2020 BUDGET, PROJECTS $126.1-MILLION SURPLUS

Comptroller Kevin Lembo today, while cautioning that it is premature in the fiscal year, issued his first monthly projection of the year on Fiscal Year 2020, reporting that the state is on track for a $126.1-million surplus.

Fiscal Year 2019 year-end adjustments are still being processed and could have a significant impact on the final operating results for that year. Lembo said he expects to issue his preliminary reporting of unaudited operating results for Fiscal Year 2019 on Sept. 30.

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 outlook report, which is a $15 million decrease from the initial budget plan due to a deficiency in the non-appropriated adjudicated claims account.

"Our early surplus projection for Fiscal Year 2020 should be treated with cautious optimism, because while there are positive early trends, they are just that – early," Lembo said. "It should also be noted that Connecticut's budget results are ultimately dependent upon the performance of the national and state economies. For now, economic indicators for the national and state economies are sending mixed messages, with some positive movement on income tax revenue and home price appreciation among lower-price tiers – but also some trends in the bond market that could be recession indicators.

"Connecticut may be unable to control for volatility in the global financial markets or the U.S. trade war with China, but it can act to prepare financially for what may come," Lembo said. "The state is closer and closer to achieving a financial milestone in building an adequate Budget Reserve Fund, and must continue to exercise financial discipline in this area."

Lembo advocated for legislation that now requires the state to be more disciplined in setting aside unanticipated revenue windfalls to protect the state against future recessions so that tax increases and program cuts can be minimized or avoided during economic recessions.

The Budget Reserve Fund (BRF) legislation that Lembo advocated for, also referred to as the revenue volatility cap, requires that revenues above a certain threshold be transferred to the Budget Reserve Fund. The status of that policy is:

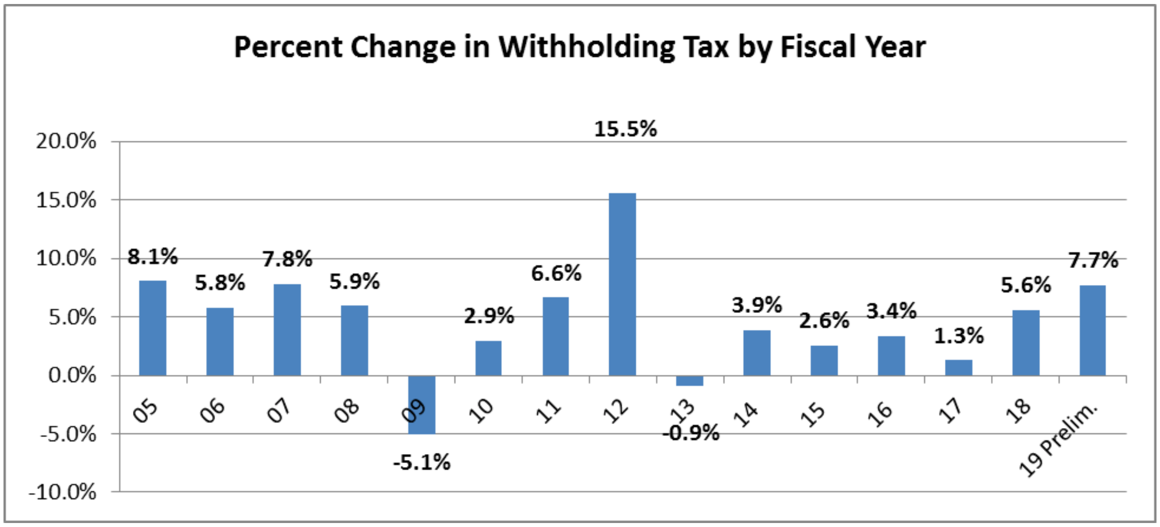
- For Fiscal Year 2019, the cap was $3.2 billion that the state could receive in estimated and final income tax payments and revenue from the pass-through entity tax before transferring any additional revenue above that to the BRF.
- If current projections are realized, a $949.7-million volatility transfer would be made to the BRF.
- The current balance of the BRF is $1.18 billion.
- Adding the estimated $949.7 million volatility transfer and the projected Fiscal Year 2019 surplus of $195.9 million would bring the year-end balance of the BRF to approximately $2.45 billion.
- This would represent approximately 12.1 percent of net General Fund appropriations for Fiscal Year 2020.

"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.

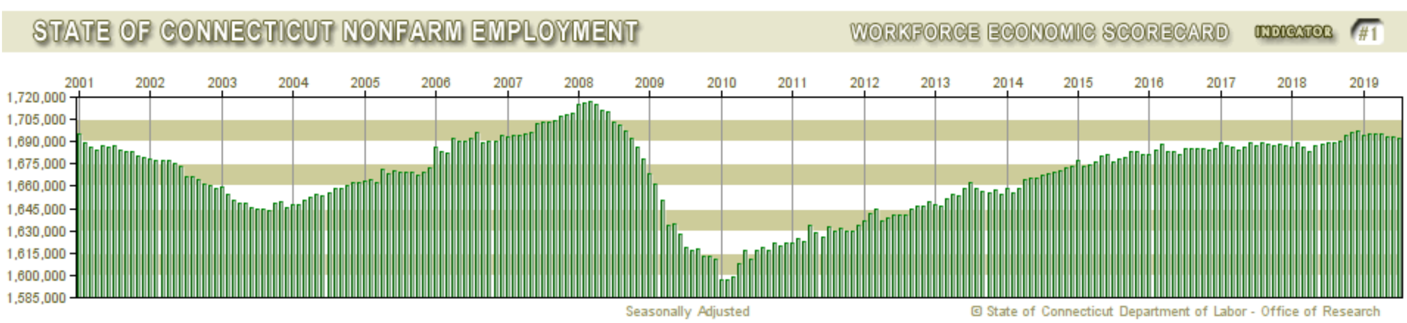
Lembo pointed to recent economic indicators and trends from national and state sources that show:

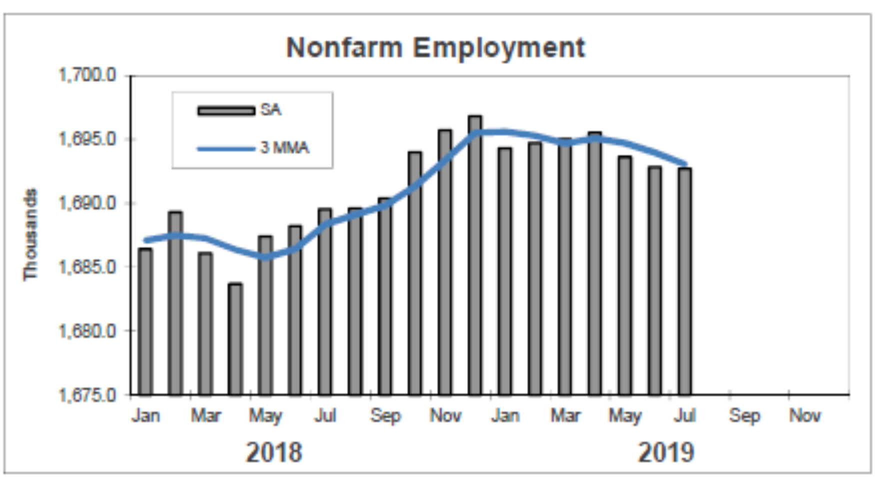
Employment

- After a solid performance in FY 2018, preliminary results for FY 2019 through June 2019 show withholding receipts grew by a strong 8.4 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. Unaudited final results for FY 2019 will be available September 30th.
- Early indications for FY 2020 show a similar trend as the FY 2019 preliminary results, with withholding collections in July 2019 growing at a similar rate over July 2018.



- On Aug. 15, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for July 2019 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 100 net jobs in July, to a level of 1,692,700, seasonally adjusted. In addition, June's originally-released job loss of 1,400 was revised upward by 600 to a loss of 800 jobs over the month. While the employment changes between June and July were not statistically significant, job growth continues to be in negative territory for calendar 2019.





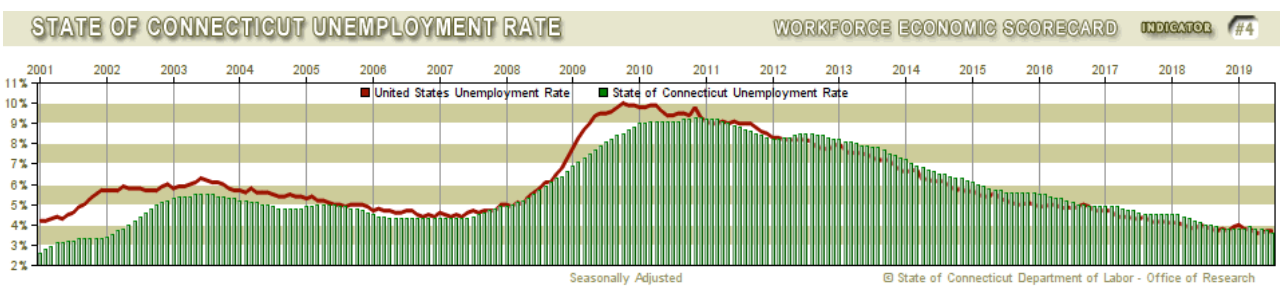
- Over the year, DOL reported that nonagricultural employment in the state grew by 3,200 jobs on a seasonally-adjusted basis. Connecticut has now recovered 79.7 percent (95,900 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of July, the job recovery was into its 113th month and the state needed an additional 24,400 new net jobs to reach an overall employment expansion.

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

	March 2008	January 2010	July 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,692.7	-120.3	95.9	79.7%
Total Private Sector	1,457.4	1,345.4	1,457.8	-112.0	112.4	100.4%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated: August 15, 2019

- Connecticut's unemployment rate stood at 3.6 percent in July, down one-tenth of a point from the revised June 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 July 2019, unchanged from June's revised estimate. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 2001.



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

Payroll Employment Trend				
July 2019 Versus July 2018				
Sector	**July 2019 (P)**	**July 2018**	**Gain/Loss**	**% Change**
Construction and Mining	57,500	59,100	-1,600	-2.7%
Manufacturing	160,600	160,900	-300	-0.2%
Trade, Transportation & Utilities	293,400	296,900	-3,500	-1.2%
Information	33,400	31,600	1,800	5.7%
Financial Activities	128,000	125,500	2,500	2.0%
Professional & Business Services	219,600	220,700	-1,100	-0.5%
Education & Health Services	340,800	334,000	6,800	2.0%
Leisure & Hospitality	160,700	157,800	2,900	1.8%
Other Services	63,800	65,700	-1,900	-2.9%
Government	234,900	237,300	-2,400	-1.0%
Total Connecticut Non-Farm Employment	**1,692,700**	**1,689,500**	**3,200**	**0.2%**

Wage and $alary income

- July 2019 average hourly earnings at $32.33, not seasonally adjusted, were up $0.47 or 1.5 percent, from the June 2018 estimate. The resultant average private sector weekly pay amounted to $1,092.75, up $3.14 or 0.3 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 July was a modest 1.8 percent.

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for July 2019 compared with July 2018. Sales of single-family homes fell 2.19 percent and the median sale price increased by 1.95 percent. New listings were down 1.91 percent in Connecticut, while the median list price remained essentially flat at $289,949. Average days on the market decreased 17.72 percent in July 2019 compared to the same month in the previous year (65 days on average, down from 79 days). Finally, the list to sell price remained steady at 98 percent, the same as a year ago.

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

MARKET SUMMARY

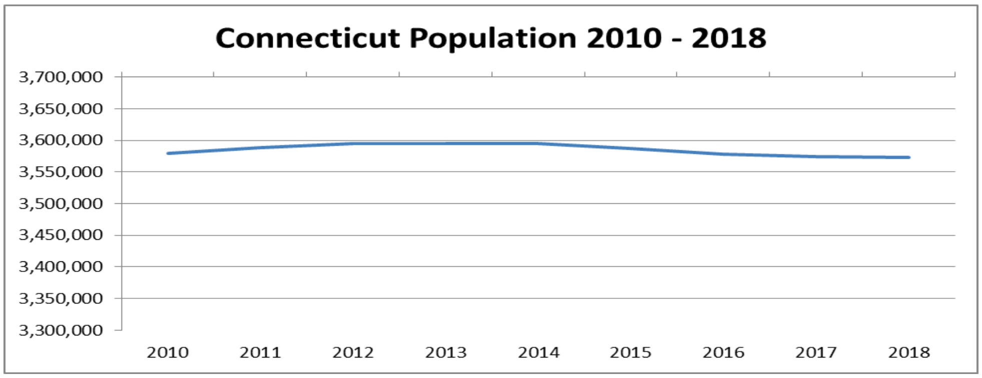
JULY 2019 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	July 2019	July 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	4833	4927	-1.91% ▼	36062	36404	-0.94% ▼
Sold Listings	3758	3842	-2.19% ▼	20072	20488	-2.03% ▼
Median Listing Price	$289,949	$289,500	0.16% ▲	$270,000	$269,900	0.04% ▲
Median Selling Price	$288,000	$282,500	1.95% ▲	$267,000	$265,000	0.75% ▲
Median Days on Market	44	60	-26.67% ▼	54	64	-15.63% ▼
Average Listing Price	$427,918	$428,892	-0.23% ▼	$395,121	$403,803	-2.15% ▼
Average Selling Price	$414,797	$413,988	0.2% ▲	$380,555	$388,849	-2.13% ▼
Average Days on Market	65	79	-17.72% ▼	79	91	-13.19% ▼
List/Sell Price Ratio	98%	98%	0.02% ▲	97.6%	97.5%	0.13% ▲

- For the U.S. housing market, existing-home sales strengthened in July, a positive reversal after total sales declined in the previous month, according to the National Association of Realtors (NAR). July sales increased 2.5 percent from June to a seasonally adjusted annual rate of 5.42 million. Although transactions declined in the Northeast, the other three major U.S. regions experienced sales increases, including significant growth in the West last month.
- According to NAR, the median existing-home price for all housing types in July was $280,800, up 4.3 percent from July 2018 ($269,300). July's price increase marks the 89th straight month of year-over-year gains. At the same time, home price appreciation has been much stronger in the lower-price tier compared to higher-priced homes. NAR noted lower mortgage rates are bringing buyers in the market. However, a shortage of lower-priced homes has pushed home prices up in many areas.
- Total housing inventory at the end of July decreased to 1.89 million, down from 1.92 million existing-homes available for sale in June, and a 1.6% decrease from 1.92 million one year ago. Unsold inventory is at a 4.2-month supply at the current sales pace, down from the 4.4 month-supply recorded in June and down from the 4.3-month supply recorded in July of 2018.
- Properties typically remained on the market for 29 days in July, up from 27 days in June and up from 27 days in July of 2018. Fifty-one percent of homes sold in July 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 – Touching Historic Highs in July:

- After significant declines in December and a volatile close to calendar year 2018, the major stock market indices had generally been recovering ground steadily through April 2019. In mid-May, however, the markets turned downward and volatility returned as trade tensions escalated between the United States and China.
- In June and July, the markets showed resilience and trended back upward with all three major indices touching historic highs. Volatility has returned in August, as a number of issues weighed on investors. The trade war with China remains 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 bond markets, normally longer term interest rates are higher than shorter term interest rates. However, on Aug. 14 the yield curve inverted with the yield on the 10-year Treasury note falling below the yield on the 2-year note. This rattled the stock market because an inverted yield curve has been seen as an indicator that a recession is more likely. On Aug. 27, the yield curve inverted further, again causing a drop in

the markets. The reason for concern is that an inverted yield curve can be a sign that investors are more pessimistic about the economy's long-term prospects. On the other hand, the job market remains strong and consumer spending rebounded in the second quarter of 2019. Therefore, it is possible the yield curve inversion is just an anomaly and not a sign of a coming recession.

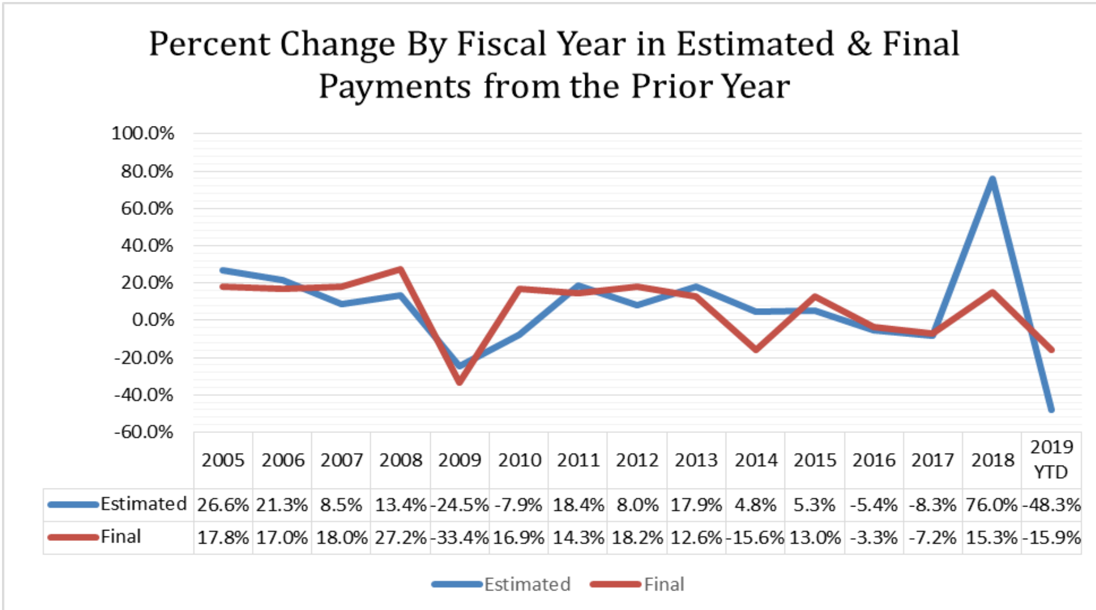
- While all three indices still show double digit year-to-date returns for calendar 2019, the full one-year results are negative as of this writing. Stock market activity for the past year is illustrated on the three charts that follow:

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 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.



	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%	-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%

- Preliminary FY 2019 results show combined collections of estimated and final payments were 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 targets for FY 2019 budget plan

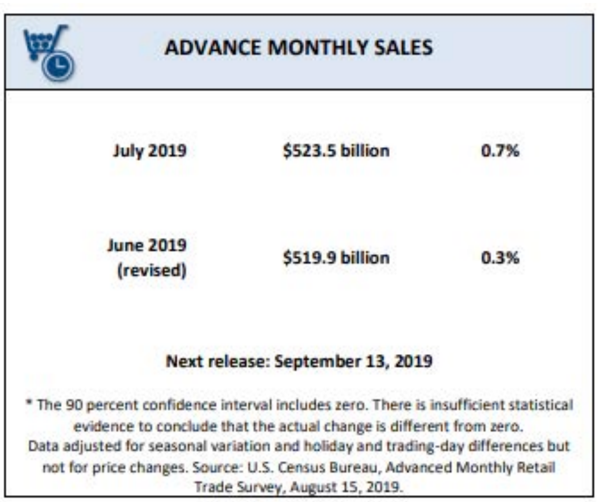
The TED Spread – Historic Low in July

- 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 20th, the TED spread had risen to 0.25, mid-

range for recent years. A few days later, as of August 22nd, the TED Spread was down to 0.17, back to the lower end of the scale. 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 0.7 percent in July 2019, while May's results were revised slightly downward, rising 0.3 percent instead of the initial 0.4 percent. It appears the global economic concerns that have shaken the financial markets have not yet dampened consumer spending – at least through July.

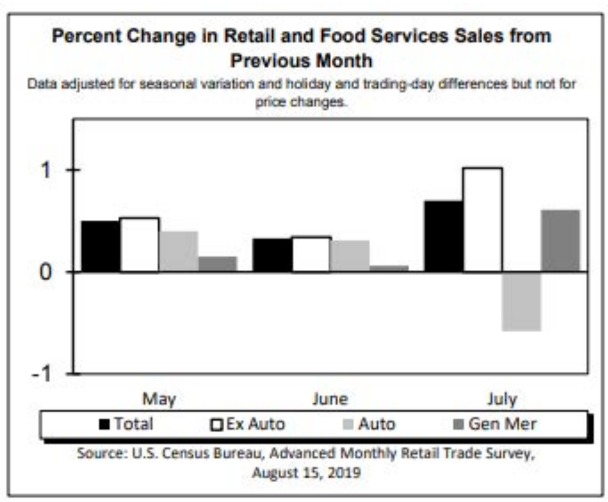


ADVANCE MONTHLY SALES

July 2019	$523.5 billion	0.7%
June 2019 (revised)	$519.9 billion	0.3%

Next release: September 13, 2019

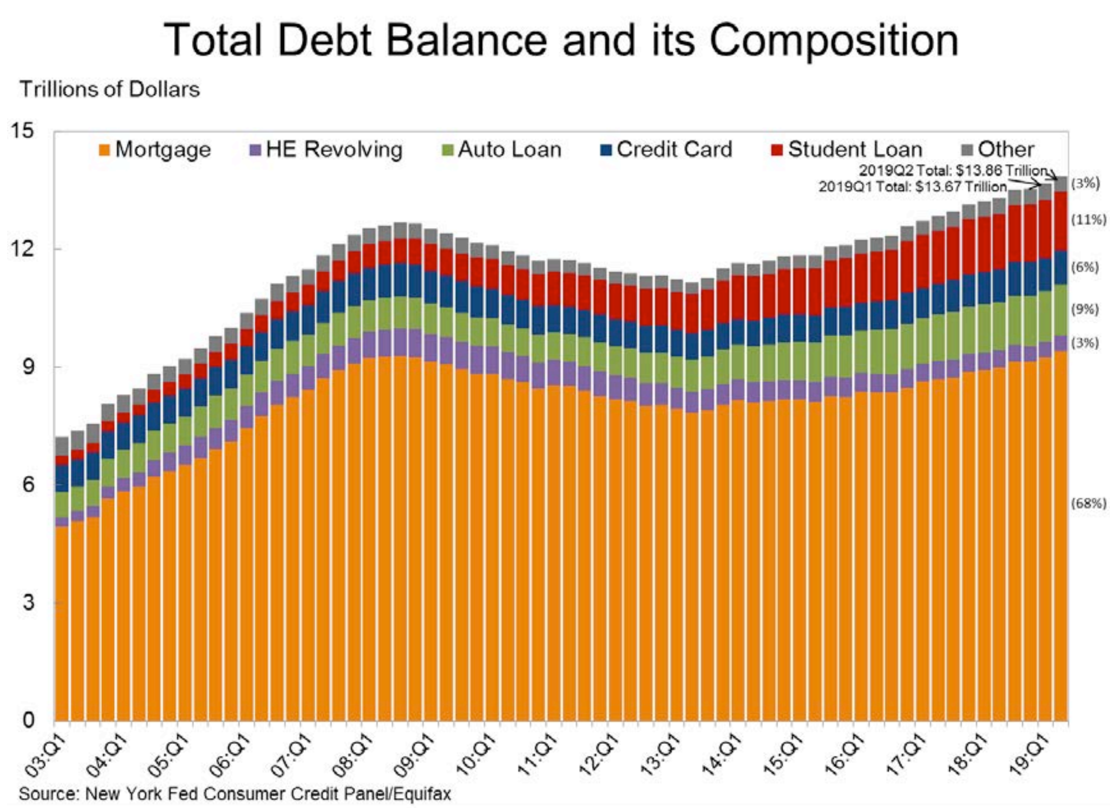
* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero. Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, August 15, 2019.



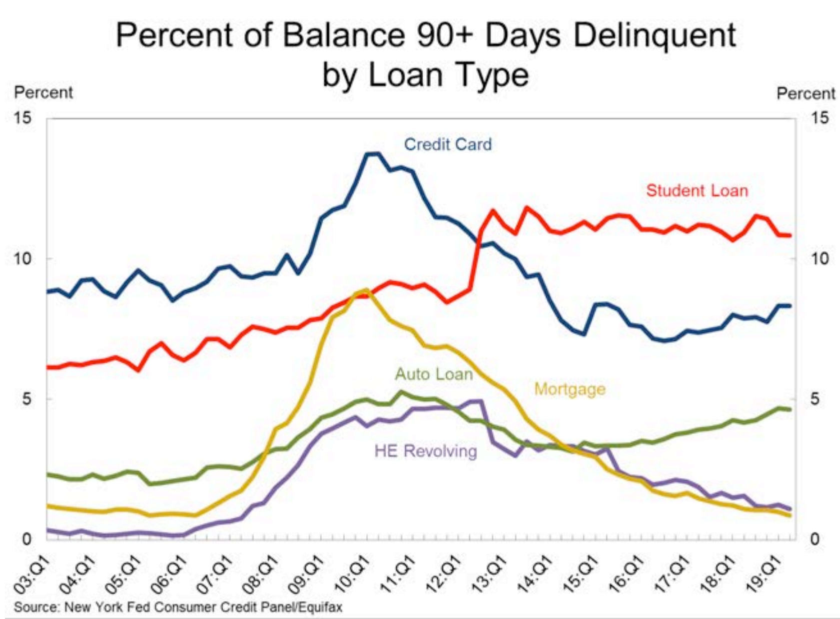
- Increases in retail sales were broad-based in July. Online retailers, grocery stores, clothing outlets and electronics and appliance stores all reported strong gains. In addition, receipts at gasoline stations jumped 1.8 percent. On the down side, auto sales took a step back in July, decreasing 0.6 percent, and spending at hobby, musical instrument and book stores declined 1.1 percent.
- So called "core retail sales" rose 1.0 percent in July, after growing 0.7 percent in June. This category excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of gross domestic product.
- Strong consumer spending in the second quarter appears to be continuing into the third and may help to blunt some of the economic impact from weak business investment in recent months.

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, 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.

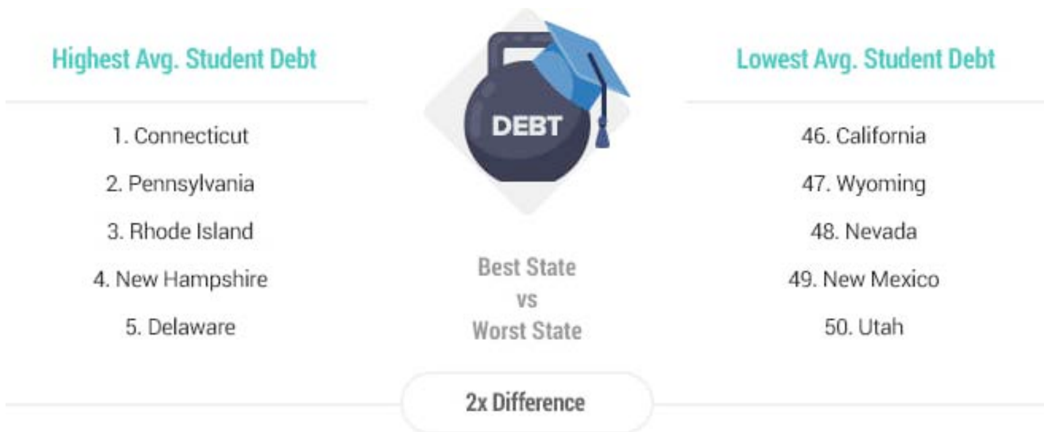


- The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.4 trillion during the second quarter, a $162 billion increase from the first quarter of 2019. At $1.48 trillion, student loans were the second largest category 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.
- The following graph shows the percent of loan balances that are more than 90 days delinquent by loan type. Student loans and credit card balances have the highest levels of delinquency on a percentage basis. Auto loans are next, with rising delinquency levels in recent years. As the economy has improved and banks have tightened their lending standards, mortgage and home equity loan delinquencies have continued to decline over time.



WalletHub - Student Debt Levels by State

- In July, the personal finance website, WalletHub, released an analysis of student debt levels by state. The study compared the 50 states and the District of Columbia based on 12 key measures of indebtedness and earning opportunities.
- In terms of average student debt, one of the 12 measures, Connecticut had the highest in the nation at $38,510. However, Connecticut ranked 15th overall for student debt burden once the other categories were factored in.



The WalletHub study used six student-loan indebtedness categories that together accounted for 85 percent of the ranking on a point scale, including:

- Average Student Debt;
- Share of Students with Debt;
- Student Debt as Share of Income;
- Share of Student Loans in Past-Due or Default Status;
- Share of Federal Student Loan Borrowers Enrolled in an Income-Driven Repayment Plan; and
- Share of Student-Loan Borrowers Aged 50 Years & Older.

The other 15 percent of the ranking was based on grants and student work opportunities:

- Unemployment Rate among Population Aged 25 to 34 Years;
- Underemployment Rate;
- Availability of Student Jobs;
- Availability of Paid Internships;
- Grant Growth; and
- Presence of "Student Loan Ombudsmen" Law.

The full WalletHub report can be found at the following link:
https://wallethub.com/edu/d/best-and-worst-states-for-student-debt/7520/#methodology

Personal Savings Rate

- The personal-savings rate was 7.7 percent in July 2019, down from June's revised rate of 8.0 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.

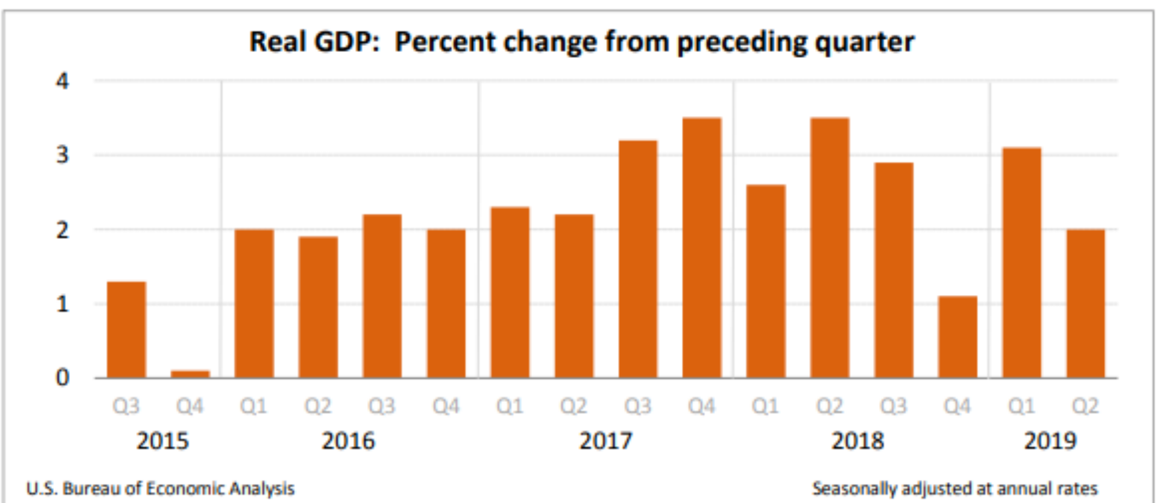
Consumer Confidence

- 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 declined marginally in August, following July's rebound. The Index now stands at 135.1, down from 135.8 in July.
- According to the Conference Board, expectations cooled moderately in August, but overall remain strong. While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. However, this upbeat

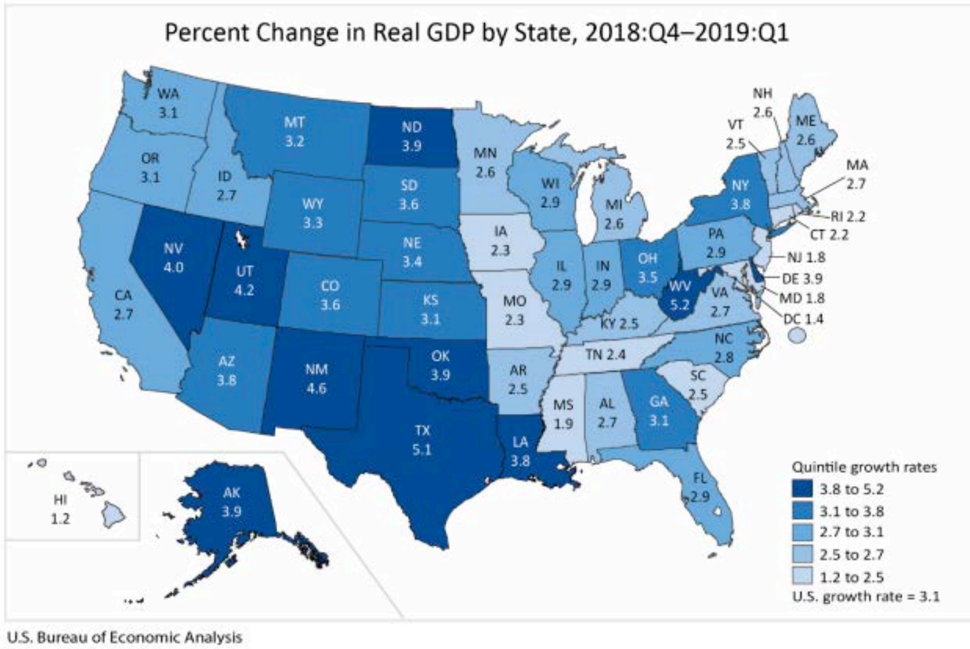
assessment was paired with a warning: If the recent escalation in trade and tariff tensions persists, it could potentially dampen consumers' optimism regarding the short-term economic outlook.

Business and Economic Growth

- According to an Aug. 29 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 second estimate. This is a small downward revision from the 2.1 percent GDP growth rate issued in BEA's preliminary "advance" estimate released in July.
- This 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

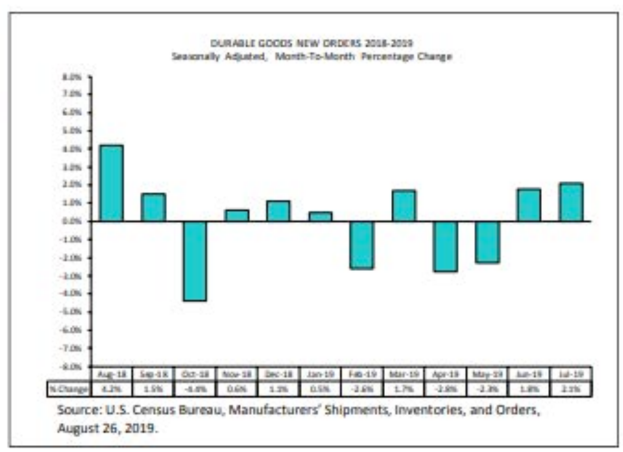


3.1 percent and the New England regional average of 2.5 percent. The percent change in real GDP in the first quarter ranged from 5.2 percent in West Virginia to 1.2 percent in Hawaii.
- The sectors that contributed most to Connecticut's GDP growth in the first quarter of 2019 were finance & insurance, health care & social assistance and retail trade.



Durable Goods

- According to an Aug. 26 report by the U.S. Department of Commerce, new orders for manufactured durable goods increased $5.0 billion in July, up 2.1 percent to $250.4 billion. This increase, up two consecutive months, followed a 1.8 percent June increase.



- While the headline number was stronger than economists expected, the details of the report reveal some weakness in business investment as the third quarter of 2019 begins.
- For the second month in a row, the increase was largely driven by the volatile transportation equipment category. Aircraft orders led the way, with new orders of

non-defense aircraft jumping 47.8 percent and defense aircraft rising 34.4 percent in July. Excluding transportation, new orders of durable goods *decreased* 0.4 percent.

- Orders for so-called core capital goods increased 0.4 percent last month driven by strong demand for communications equipment as well as electrical equipment, appliances and components. Core capital goods include non-defense capital goods excluding aircraft and is widely viewed as a proxy for business investment.
- Shipments of manufactured durable goods decreased $2.9 billion or 1.1 percent in July, the most in three years. Analysts suggested this indicated business investment remained soft and could weaken further amid an escalation in U.S.-China trade tensions.

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 notable finding was that the U.S. manufacturing PMI fell to 49.9 in August, down from 50.4 in July. Any reading below 50 indicates a contraction. This is the first time the manufacturing PMI fell below this threshold since September 2009.
- IHS Markit noted that manufacturing companies continue to feel the impact of slowing global economic conditions, with new export sales falling at the fastest pace since August 2009. A number of analysts also cited the U.S. - China trade war as a contributing factor.
- Other results from the August 22, 2019 report include the following:
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Key findings:

- Flash U.S. Composite Output Index at 50.9 (52.6 in July). 3-month low.
- Flash U.S. Services Business Activity Index at 50.9 (53.0 in July). 3-month low.
- Flash U.S. Manufacturing PMI at 49.9 (50.4 in July). 119-month low.
- Flash U.S. Manufacturing Output Index at 50.6 (50.5 in July). 2-month high.

Data collected August 12-21

*****END*****