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

COMPTROLLER LEMBO PROJECTS $58.8-MILLION DEFICIT FOR FISCAL YEAR 2020

Comptroller Kevin Lembo today, in his monthly updated financial and economic outlook, projected that the state is currently on track to end Fiscal Year 2020 with a $58.8-million budget deficit.

In a letter to Gov. Ned Lamont, Lembo said his office's projection is in agreement with the most recent projection by the state Office of Policy and Management (OPM), a $35.8-million increase since last month's projection and following an updated consensus revenue forecast reached by OPM and the Office of Fiscal Analysis (OFA).

Lembo reported that the primary reason for the increase in the General Fund deficit was a net $32 million decrease in revenues. A $300-million reduction in the Estimated and Final Payments portion of the income tax was offset by a $300-million increase in the Pass-Through Entity Tax, consistent with what Lembo's office had been tracking in recent months. Tax refunds also increased by $65 million, the Inheritance Tax by $15 million and casino gaming payments by $10 million (the latter because competition from Massachusetts casinos had less of an impact than initially forecast).

"Connecticut's need to maintain financial discipline more than ever to protect against revenue volatility – and the inevitability of the next recession," Lembo said. "While we may be unable to control international trade policy or the financial markets, Connecticut can prepare for what happens to them by continuing to build the Budget Reserve Fund until it meets the state's 15-percent threshold."

The statutory revenue volatility cap, which requires revenue above a certain threshold to be transferred to the Budget Reserve Fund (BRF) – often referred to as the “rainy day fund” – is $3.3 billion for estimated and final income tax payments and revenue from the pass-through entity tax for Fiscal Year 2020.

The update for the BRF outlook is:

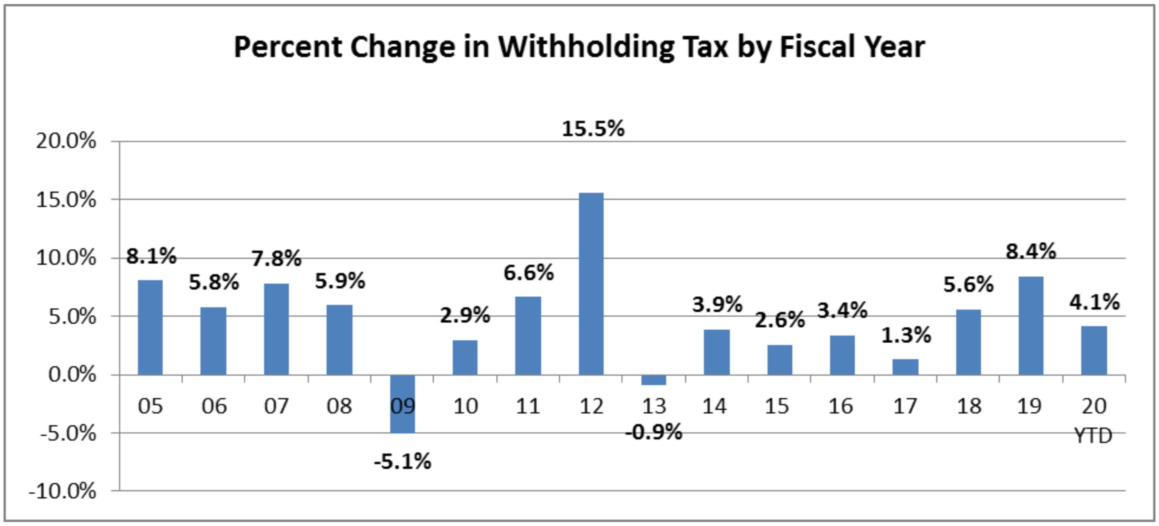
- If current projections are realized, a $318.3-million volatility transfer would be made to the BRF at the close of the fiscal year;
- The balance of the BRF currently stands at $2.5 billion;
- Adding the estimated $318.3-million volatility transfer, less the projected FY 2020 deficit of $58.8 million, would bring the year-end BRF balance to approximately $2.8 billion;
- This balance, if achieved, would represent approximately 13.8 percent of net General Fund appropriations for FY 2021.

“Connecticut’s budget results are ultimately dependent upon the performance of the national and state economies,” Lembo said.

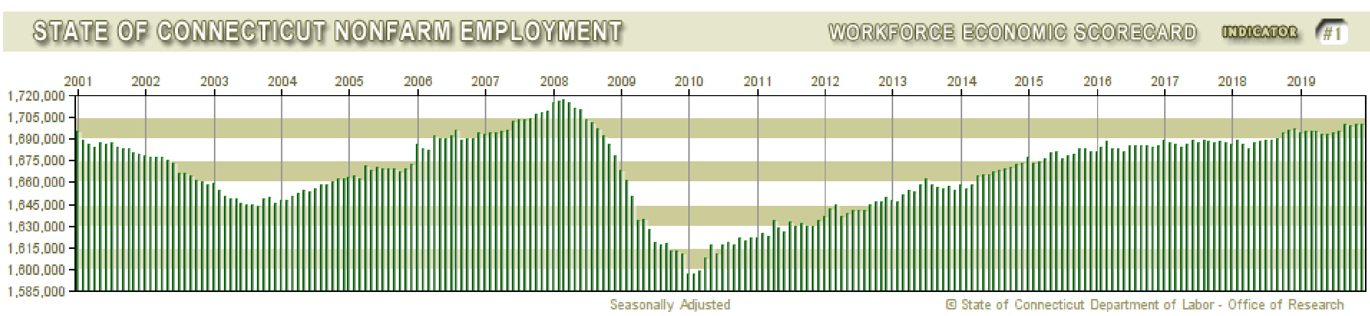
Lembo pointed to recent economic indicators and trends from national and state sources that show:

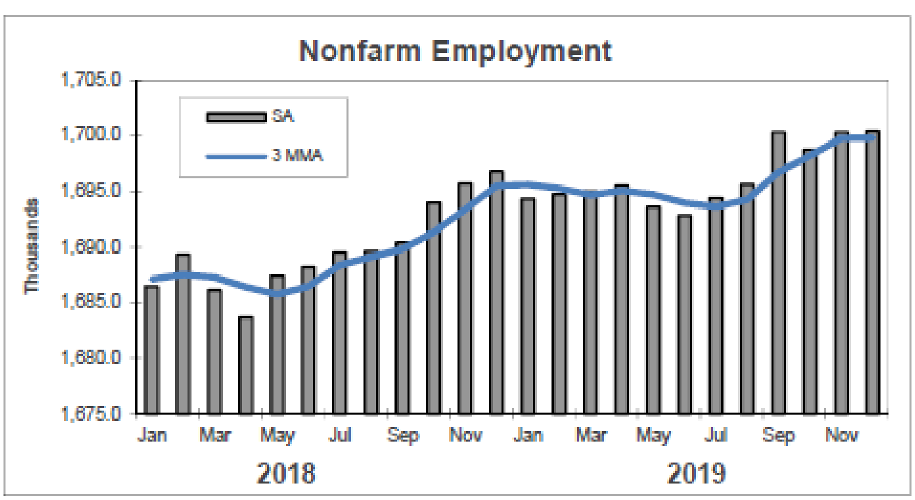
Employment

- 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.
- Through December 2019, withholding receipts are generally in 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). In the recent Jan. 15 consensus revenue forecast, the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA) left the initial FY 2020 budget projection for withholding receipts unchanged at $6.91 billion.



- On Jan. 23, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for December 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 100 net jobs in December, to a level of 1,700,400, seasonally adjusted. November's originally released job gain of 900 was revised upward by 700 to a gain of 1,600 jobs over the month. Despite gains in recent months, the job growth for the year has been quite modest. Connecticut's employment growth rate for the year was 0.2 percent, second slowest in New England behind Vermont. On average the New England region grew by 0.9 percent in 2019.





- Over the year, DOL reported that nonagricultural employment in the state grew by 3,600 jobs on a seasonally adjusted basis. Connecticut has now recovered 86.1 percent (103,600 payroll job additions) of the 120,300 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of December, the job recovery was into its 118th month and the state needed an additional 16,700 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 (107.1 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.

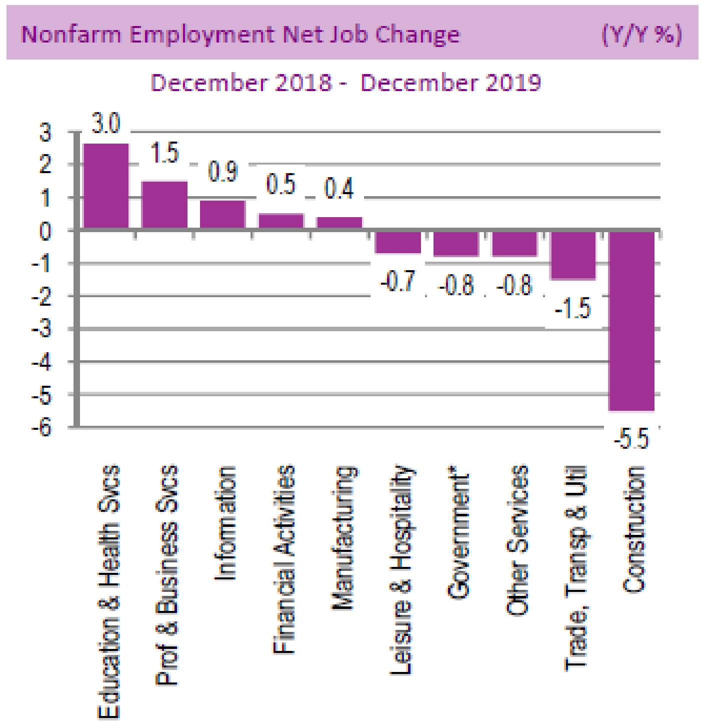
Connecticut's Recessionary Job Loss and Recovery March 2008 - December 2019

	March 2008	January 2010	December 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,700.4	-120.3	103.6	86.1%
Total Private Sector	1,457.4	1,345.4	1,465.3	-112.0	119.9	107.1%

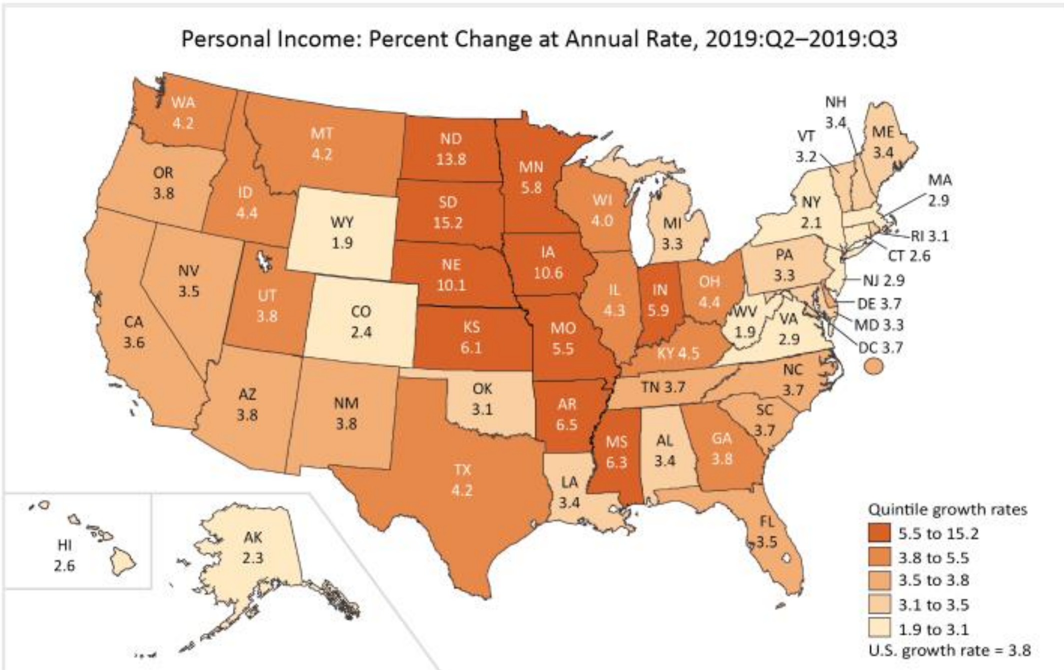
* March 2008 was employment peak. January 2010 was employment trough. Last Updated: January 23, 2020

- Connecticut's unemployment rate stood at 3.7 percent in December, unchanged from the revised November figure and down one-tenth of a point from a year ago when it was 3.8 percent. Nationally, the unemployment rate was 3.5 percent in December 2019, unchanged from November and down four-tenths of a point from a year ago. 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 December 2019 versus December 2018 levels. Education & health services, professional & business services and information were the fastest growing sectors in the state's labor market on a percentage basis. The construction, trade, transportation & utilities and other services sectors experienced the largest job losses.



Payroll Employment Trend				
December 2019 Versus December 2018				
Sector	**Dec. 2019 (P)**	**Dec. 2018**	**Gain/Loss**	**% Change**
Construction and Mining	58,500	61,900	-3,400	-5.5%
Manufacturing	161,100	160,400	700	0.4%
Trade, Transportation & Utilities	291,600	296,100	-4,500	-1.5%
Information	33,000	32,700	300	0.9%
Financial Activities	127,600	127,000	600	0.5%
Professional & Business Services	222,800	219,500	3,300	1.5%
Education & Health Services	347,000	336,900	10,100	3.0%
Leisure & Hospitality	159,400	160,500	-1,100	-0.7%
Other Services	64,300	64,800	-500	-0.8%
Government	235,100	237,000	-1,900	-0.8%
Total Connecticut Non-Farm Employment	**1,700,400**	**1,696,800**	**3,600**	**0.2%**



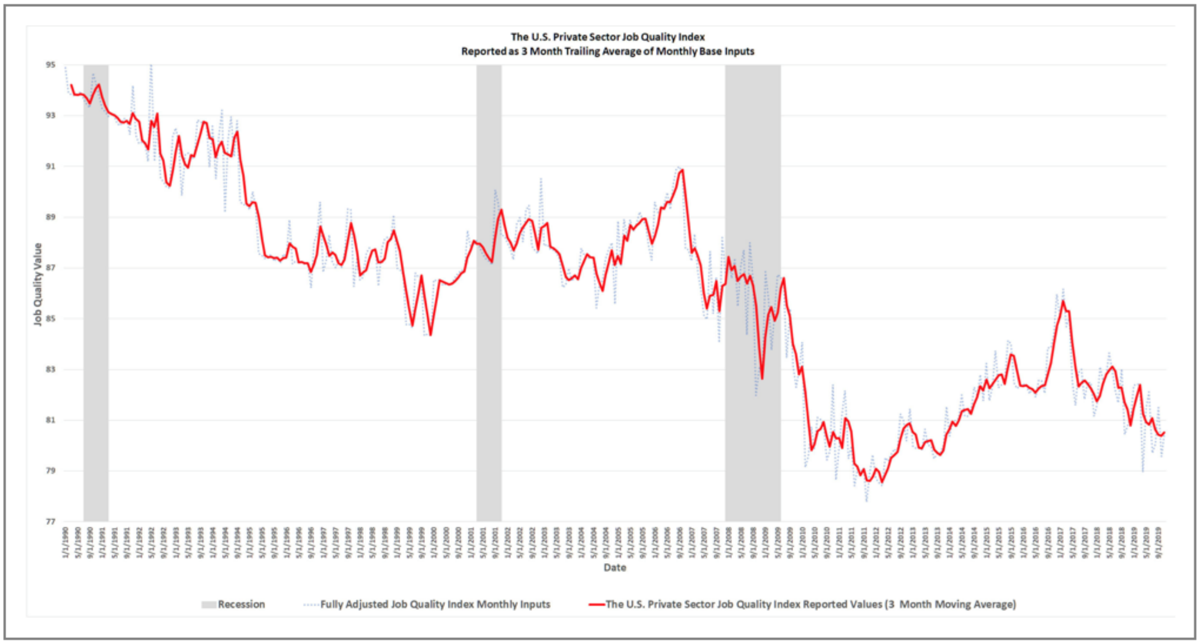
Wage and $alary income

- December 2019 average hourly earnings at $33.65, not seasonally adjusted, were up $0.17 or 0.5%, from the December 2018 estimate. Due to a fractional reduction in weekly hours, the resultant average private sector weekly pay amounted to $1,144.10, down $0.92 or -0.1 percent from 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 was a modest 2.3%.
- On Dec. 18, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 2.6 percent annual rate between the second and third quarters of 2019. Based on this result, Connecticut ranked 44th in the nation for third quarter income growth. This growth rate was below the national average of 3.8 percent and the New England region's average growth rate of 2.9 percent. The percent change in personal income across all states ranged from 15.2 percent in South Dakota to 1.9 percent in West Virginia and Wyoming. Fourth quarter and preliminary full year 2019 personal income data by state will be released on March 24th.

<u>The U.S. Private Sector Job Quality Index</u>

- Despite low unemployment and sustained job creation, the U.S. has continued to experience sluggish hourly wage growth in the aftermath of the Great Recession. Traditional employment data, while useful, is not revealing the full story. To get a better sense of the reasons behind this trend, a cooperative venture among several organizations developed a new index that measures the quality of jobs available in the United States.
- The JQI focuses on Production and Non-supervisory (P&NS) jobs, which make up 82.3 percent of all U.S. private sector jobs. Jobs are classified as High Wage/High Hour Jobs (high quality) or Low Wage/Low Hour Jobs (low quality) compared with the weekly wage mean.
- The initial white paper found the JQI has declined significantly in the period from 1990 through the Great Recession and has largely plateaued since then. This is partially, though not entirely, due to a persistent increase in service jobs compared with goods-producing jobs. In the 1960's service sector employment represented about 58 percent of private sector employment compared with about 83 percent in the period during and after the Great Recession. The decline in the goods producing side of the economy has forced an abundance of workers into the services sectors, which has resulted in the loss of pricing power among this labor group.
- On a month-to-month basis the JQI uses U.S. Bureau of Labor Statistics (BLS) data to chart rises and falls in the quality of private sector jobs – again in terms of mean weekly income. The total number of high-quality jobs is divided by the total number of low-quality jobs for that given month. This ratio represents the preliminary JQI value. A JQI reading of 100 would indicate an even distribution between higher quality and lower quality jobs. For December 2019, the JQI rose by a slight 0.14 percent to a level of 80.53. However, this still indicates a greater concentration of lower quality positions.

Current Level is 80.53
Change From Last Month is 0.14%



Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for December 2019 compared with December 2018. Sales of single-family homes grew by 7.74 percent, with the median sale price increasing by 4.23 percent. New listings were down 10.91 percent in Connecticut, while the median list price rose 5.00 percent to $272,900. Average days on the market were down slightly in December 2019 compared to the same month in the previous year (81 days on average compared with 82 days).
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

DECEMBER 2019 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	December 2019	December 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	1740	1953	-10.91% ▼	53745	54773	-1.88% ▼
Sold Listings	2825	2622	7.74% ▲	35735	35683	0.15% ▲
Median Listing Price	$272,900	$259,900	5% ▲	$274,500	$269,900	1.7% ▲
Median Selling Price	$265,000	$254,250	4.23% ▲	$267,500	$263,750	1.42% ▲
Median Days on Market	59	59	0%	54	62	-12.9% ▼
Average Listing Price	$389,805	$408,420	-4.56% ▼	$393,279	$398,261	-1.25% ▼
Average Selling Price	$371,792	$387,973	-4.17% ▼	$377,988	$383,096	-1.33% ▼
Average Days on Market	81	82	-1.22% ▼	77	85	-9.41% ▼
List/Sell Price Ratio	97%	97%	-0.01% ▼	97.4%	97.4%	-0.02% ▼

- For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales rebounded in December, after taking a small step back in November. December sales increased 3.6 percent over November to a seasonally adjusted annual rate of 5.54 million. On the regional level, only the Midwest saw a sales decline, with the other three major regions reporting meaningful growth.
- According to NAR, the median existing-home price for all housing types was $274,500, up 7.8 percent from December 2018 ($254,700) as prices rose in all regions. December's price increase marks 94 straight months of year-over-year gains. In 2019 housing costs grew faster than income in many parts of the U.S.

- Total housing inventory at the end of December equaled 1.40 million units, down 14.6% from November and 8.5% from one year ago (1.53 million). Unsold inventory sits at a 3.0-month supply at the current sales pace, down from the 3.7-month figure recorded in both November and December 2018. Unsold inventory totals have dropped for seven consecutive months from year-ago levels, taking a toll on home sales.

<u>Population</u>

- According the U.S. Census Bureau, Connecticut's population declined by 6,623 between 2018 and 2019 and now stands at 3,565,287. This represents a small decrease of 0.17% compared with the prior year's estimate.

- Over the longer term, Connecticut's population is smaller than it was nine years ago. While the decline is relatively small (8,860), Connecticut is one of only four states to lose population since 2010, along with Illinois, Vermont and West Virginia. As shown on the chart below, the components of the change followed a similar pattern in the long and the short-term: A higher number of births than deaths and gains from international migration into Connecticut helping to offset larger domestic migration out to other states.

Components of Connecticut Population Change

July 1, 2018 to July 1, 2019			Vital Events		Net Migration		
	Total Population Change	Natural Increase	Births	Deaths	Total	International	Domestic
Connecticut	-6,233	3,418	34,567	31,149	-9,736	12,323	-22,059

April 1, 2010 to July 1, 2019			Vital Events		Net Migration		
	Total Population Change	Natural Increase	Births	Deaths	Total	International	Domestic
Connecticut	-8,860	54,839	333,491	278,652	-63,899	136,392	-200,291

Source: U.S. Census Bureau

- 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.

United Van Lines National Movers Study

- On Jan. 2, United Van Lines released its annual 43rd National Movers Study, which tracks customers' state-to-state migration patterns over the past year. The results reflected a continuation of a longer-term trend of U.S. residents moving from northeastern and mid-western states to southern and western states. According to the study, key factors driving moving patterns in 2019 included the baby boomer generation re-locating upon reaching retirement age as well as states' economic performances and housing costs.

- The northeast continued to experience a moving deficit with three of the top four states on the list for outmigration. New Jersey was first in the nation with 68.5 percent of moves out of state, with only 31.5 percent moving in. Connecticut was fourth in outmigration at 63.0 percent, coming in behind Illinois at 66.5 percent and New York at 63.1 percent. Kansas rounded out the top five with outmigration representing 58.5 percent of moves.

Moving In

The top inbound states (with 250 moves or more) of 2019 were:

1. Idaho
2. Oregon
3. Arizona
4. South Carolina
5. Washington
6. District of Columbia
7. Florida
8. South Dakota
9. North Carolina
10. New Mexico

Moving Out

The top outbound states for 2019 were:

1. New Jersey
2. Illinois
3. New York
4. Connecticut
5. Kansas
6. Ohio
7. California
8. Michigan
9. North Dakota
10. Iowa

- The Connecticut sample included 1,971 total moves with 1,241 outbound and 730 inbound. The following charts summarize the Connecticut specific data from the study.

Reasons for moving: Job-related concerns were the top reason for both inbound (58.90%) and outbound moves (37.31%). Retirement was the second most common reason cited for residents moving out of state.

Connecticut

Total Inbound: 37%
Total Outbound: 63%

Primary Reason for Moving

INBOUND		OUTBOUND
6.85%	retirement	34.83%
4.11%	health	2.99%
24.66%	family	23.88%
9.59%	lifestyle	18.41%
58.90%	job	37.31%

Age Distribution: The 45 to 54 population was the largest demographic group for inbound moves (21.74%). For outbound moves, ages 55 to 64 were the largest group (33.68%), followed by 65 and older (30.53%).

Age Ranges		
INBOUND		OUTBOUND
18.84%	<18 to 34	12.11%
18.84%	35 to 44	8.42%
21.74%	45 to 54	15.26%
20.29%	55 to 64	33.68%
20.29%	65 or older	30.53%

Income Distribution: Residents with incomes of $150,000 and above represented the largest demographic for migration, both to (42.00%) and from Connecticut (53.79%).

Income		
INBOUND		OUTBOUND
6.00%	$0 to $49,999	4.55%
6.00%	$50,000 to $74,999	8.33%
12.00%	$75,000 to $99,999	12.12%
34.00%	$100,000 to $149,999	21.21%
42.00%	$150,000 or more	53.79%

<u>**Stock Market – Volatility in the Last Week of January:**</u>

- At the close of 2019, stocks were near historic highs. All-three indices were up over 20 percent for the year, with the NASDAQ up over 30 percent. For the first three weeks of January, stocks continued a generally upward trend. However, in the last week of the month, markets became more volatile and gave back gains due to concerns about the spread of coronavirus and possible disruptions to international commerce.

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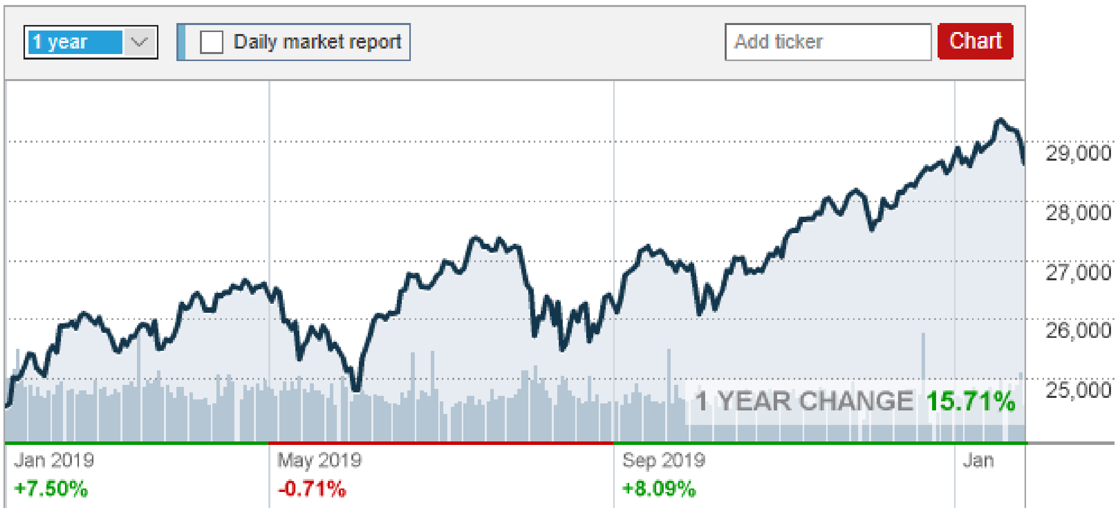
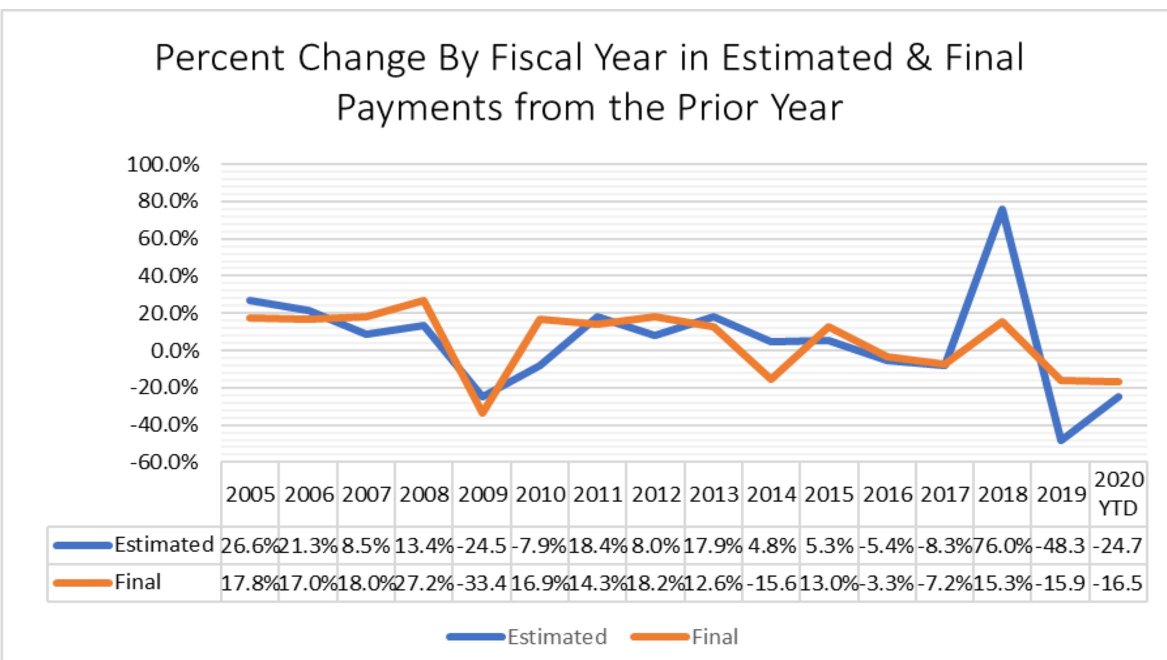


NASDAQ

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.
- Final FY 2019 results showed 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 earlier.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 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	-24.7
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	-16.5

- Year-to-date through December 2019, estimated and final payments are down a combined 22.6 percent compared with the same period a year ago. However, some collections from this category are now flowing though the new Pass-Through Entity (PET) tax on partnerships and S Corporations. In fact, in the Jan. 15 consensus revenue forecast, OPM and OFA reduced estimated and final income tax payments by $300 million but raised PET taxes by a corresponding $300 million to reflect this trend.

Consumer Spending

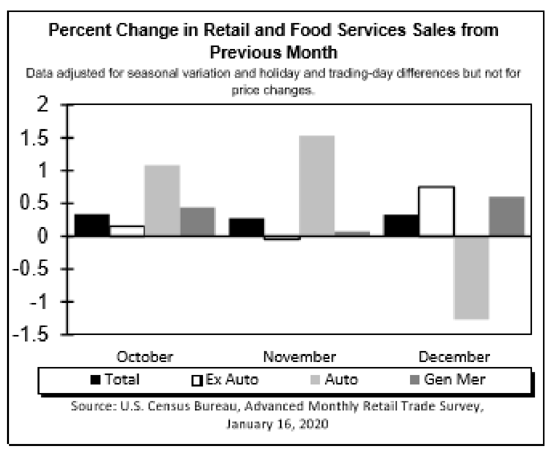
- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- The Commerce Department reported that U.S. advance retail sales grew in December 2019, increasing 0.3 percent. This result was in line with economists' projections. December represented the third straight month of growth for retail sales. Gains were fairly widespread with increases in sales of electronics, appliances, building materials, hobby items, books and clothing. Higher gas prices led to increased sales at service stations. In addition, receipts at bars and restaurants also increased in December.
- One area of weakness was in auto sales where sales decreased 1.3 percent.

ADVANCE MONTHLY SALES

December 2019	$529.6 billion	0.3%*
November 2019 (revised)	$527.8 billion	0.3%*

Next release: February 14, 2020

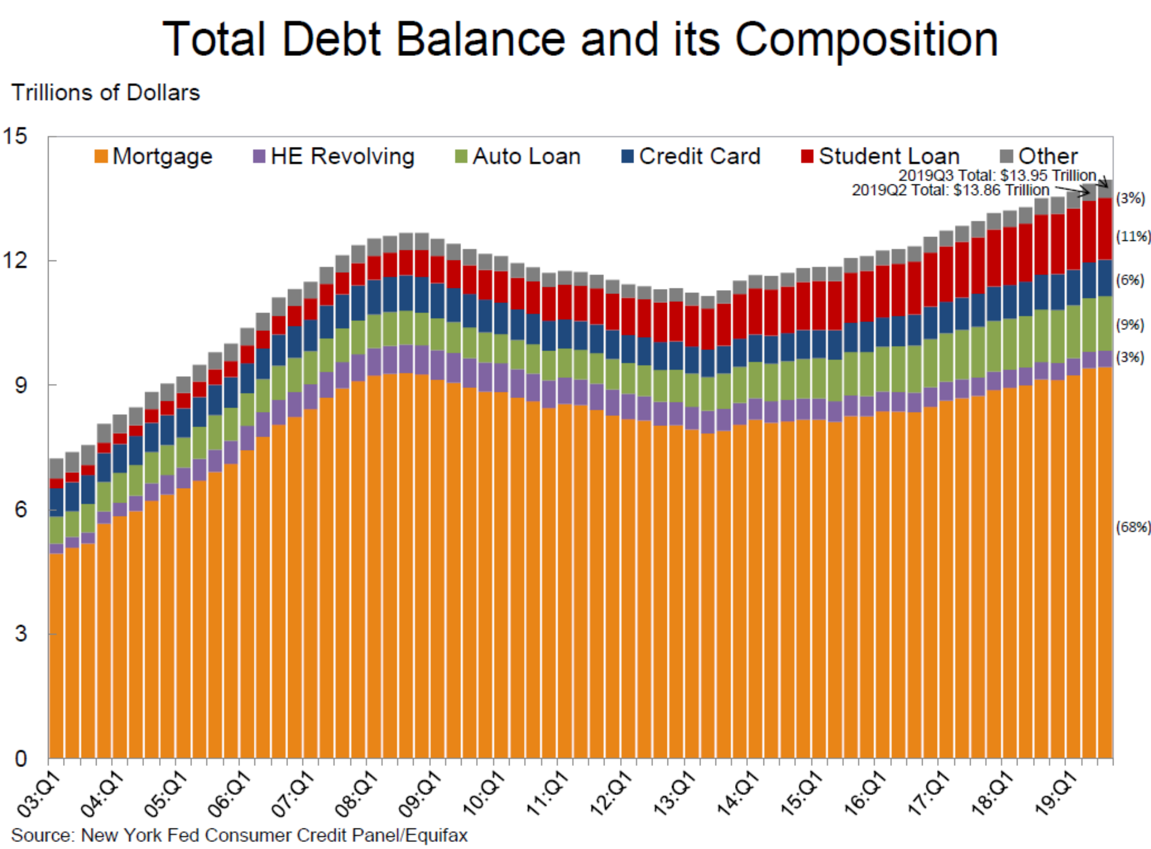
* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, January 16, 2020.



- So called "core retail sales" increased by 0.5 percent in December after growing only 0.1 percent in November. This category excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of gross domestic product.

<u>Consumer Debt and Savings Rates</u>

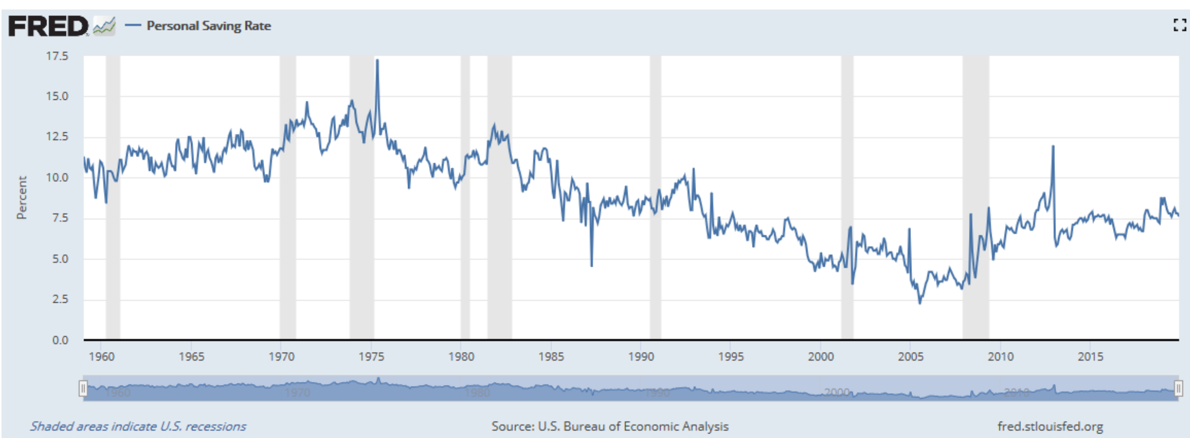
- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the third quarter of 2019. Household debt has now grown steadily for 5 years (or 21 consecutive quarters). As of September 30, 2019, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.95 trillion. This represented an increase of $92 billion (0.7%) from the second quarter of 2019. In addition, overall household debt is now 25.1% 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 $9.44 trillion during the second quarter, a $31 billion increase from the second quarter of 2019. At $1.50 trillion, student loans were the second largest category of household debt. Student loan balances increased by $20 billion in the third quarter of 2019. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $3 billion to $396 billion. Auto loans grew by $18 billion in the third quarter to $1.32 trillion in total, while credit card balances increased by $13 billion to 881 billion.



- The Federal Reserve reported aggregate delinquency rates worsened in the third quarter of 2019. As of September 30, 4.8% of outstanding debt was in some stage of delinquency, a 0.4 percentage point increase from the second quarter due primarily to increases in early stages of delinquency. Of the $667 billion of debt that is delinquent, $424 billion is seriously delinquent (at least 90 days late or "severely derogatory", which includes some debts that have previously been charged off that the lenders continue to attempt collection).
- About 186,000 consumers had a bankruptcy notation added to their credit reports in the third quarter of 2019, an improvement from the 215,000 in the third quarter of 2018.

<u>Personal Savings Rate</u>

- In its Jan. 31 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 7.6 percent in December 2019, down from November's revised rate of 7.8 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income.



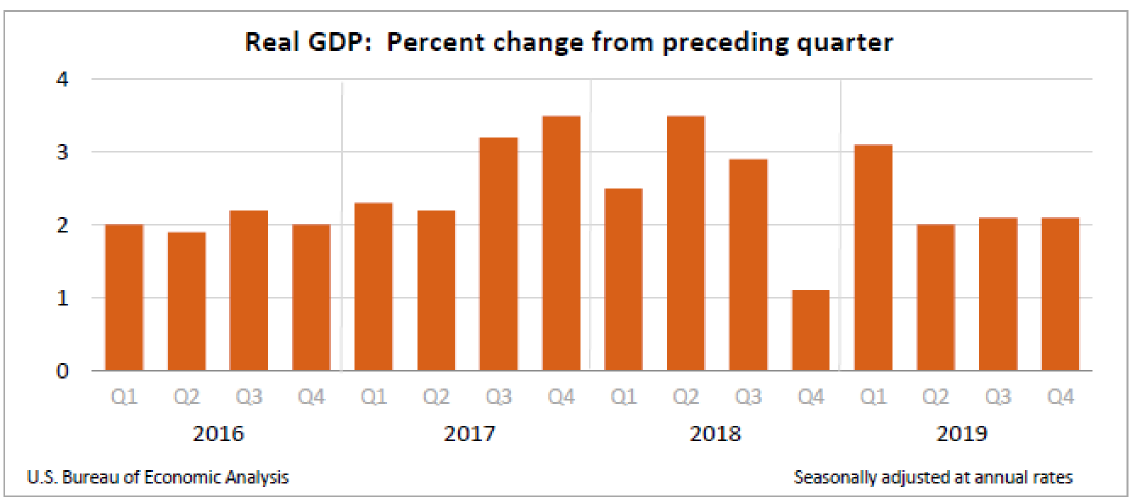
- The personal savings rate remains low by historical standards. A number of economists see the general decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. In recent years, wage gains have been concentrated on the upper end of the income scale. This will leave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

<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 increased in January, following a moderate increase in December. The Index now stands at 131.6, up from a revised 128.2 in December. January's growth in consumer confidence was attributed to a more positive assessment of the current job market and increased optimism about future job prospects.

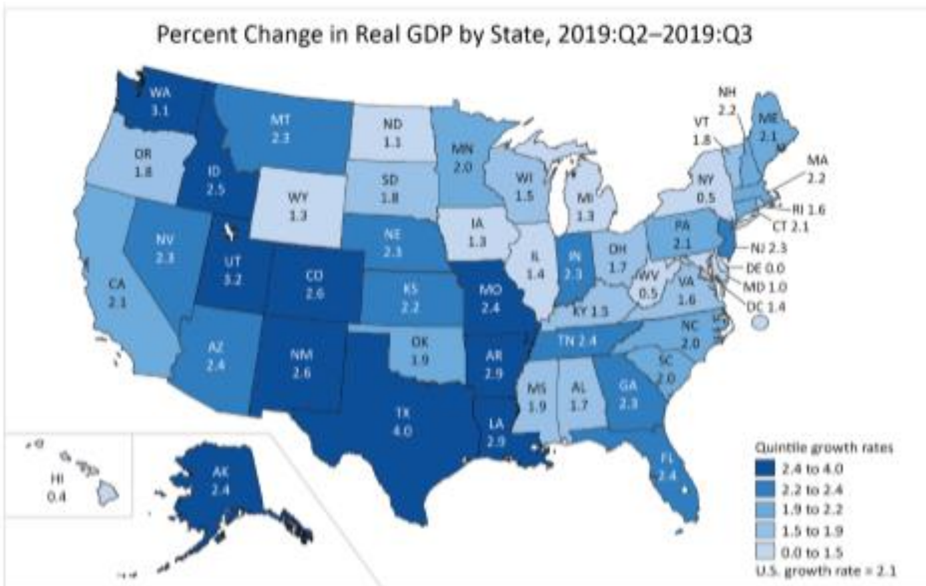
Business and Economic Growth

- According to a Jan. 30 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 2.1 percent in the fourth quarter of 2019, based on BEA's advance estimate. In the third quarter, real GDP also increased 2.1 percent.
- Fourth quarter GDP growth was largely the result of spending by consumers as well as by federal, state and local government. Residential fixed investment (i.e., spending on private residential structures and equipment) also made a positive contribution. On the downside, business investment in plant and equipment declined in the fourth quarter as ongoing trade disputes continued to dampen growth despite the recent first-phase trade agreement with China.



- For the full year, U.S. GDP increased by 2.3 percent in 2019, the slowest growth in three years. In 2017, for example, the U.S. economy grew 2.4 percent, followed by a 2.9 percent increase in 2018.
- In a Jan. 10 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the third quarter of 2019. Connecticut

experienced a seasonally adjusted annual growth rate of 2.1 percent, which ranked 25th in the nation overall. This growth rate was equal to both the national average and the New England regional average. The percent change in real GDP in the third quarter ranged from 4.0 percent in Texas to 0.0 percent in Delaware.



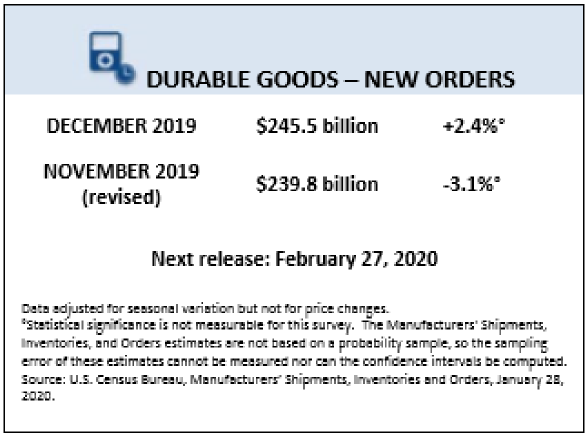
U.S. Bureau of Economic Analysis

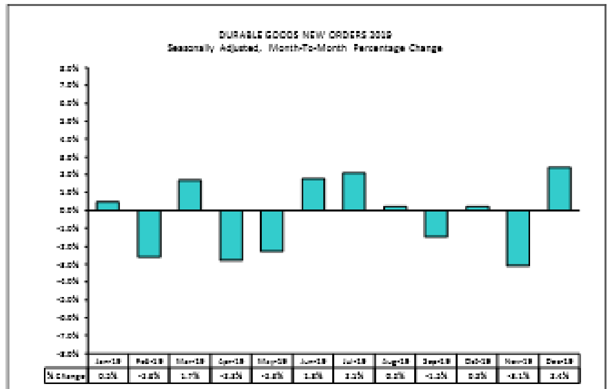
- Connecticut's performance in the third quarter was a vast improvement over the second quarter, where Connecticut's GDP grew at an annual growth rate of 1.0 percent, which ranked 47th in the nation overall.
- The sectors that contributed most to Connecticut's GDP growth in the third quarter of 2019 were nondurable goods manufacturing (0.71%), retail trade (0.39%), professional, scientific & technical services (+0.37%), and information (+0.36%). The sectors that contracted the most included finance and insurance (-0.55%), utilities (-0.24%) and construction (-0.15%).

<u>Durable Goods</u>

- According to a Jan. 28 report by the U.S. Department of Commerce, new orders of manufactured durable goods grew by $5.7 billion in December, up 2.4 percent to $245.5 billion. This increase, the second in three months, comes after a sharp 3.1 percent increase in November. Transportation equipment led the increase in December, rebounding after three months of declines, growing $5.9 billion or 7.6 percent to $82.9 billion.
- Despite the positive headline number, new orders of so called "core capital goods" dropped by 0.9 percent in December, the largest decrease since April. Core capital

goods include non-defense capital goods excluding aircraft and the measure is widely viewed as a proxy for business investment.





Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, January 28, 2020.

- Business investment has declined in two straight quarters, partly weighed down by trade tensions with China.

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