News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $28-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 budget deficit of $28 million.

Lembo also noted that key economic indicators included in this month's outlook report include a new index measure of job quality in the United States. This measure, the U.S. Private Sector Job Quality Index (JQI), attempts to provide better information on the overall health of the U.S. jobs market. Traditional economic statistics have focused on quantitative measures like job counts and unemployment rates, but these sometimes miss the larger story, Lembo said. He said the JQI adds an additional dimension by classifying jobs as high wage/high hour jobs (high quality) or low wage/low hour Jobs (low quality) and measuring changes over time.

The JQI reveals that job quality nationwide declined significantly between 1990 through the Great Recession – and has plateaued since then. This trend is partially due to a persistent increase in lower paying service jobs and loss of higher paying goods-producing jobs, Lembo said.

"Connecticut's budget projections are a direct reflection of the performance of the national and state economies," Lembo said. "In order to provide accurate forecasting and exercise the necessary fiscal discipline, our state must rely on the most valid and precise data possible with regard to employment levels and quality. We must also stay the course in maintaining our approach to building the state's Budget Reserve Fund (BRF) as a safety net against a future economic downturn until it reaches its statutory target of 15 percent of the state's

General Fund."

In a letter to Gov. Ned Lamont, Lembo said the update outlook largely reflects a $24-million net deficit projected in the fringe benefit accounts, primarily due to fewer than anticipated retirements.

The statutory revenue volatility cap, which requires revenue above a certain threshold to be transferred to the 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.

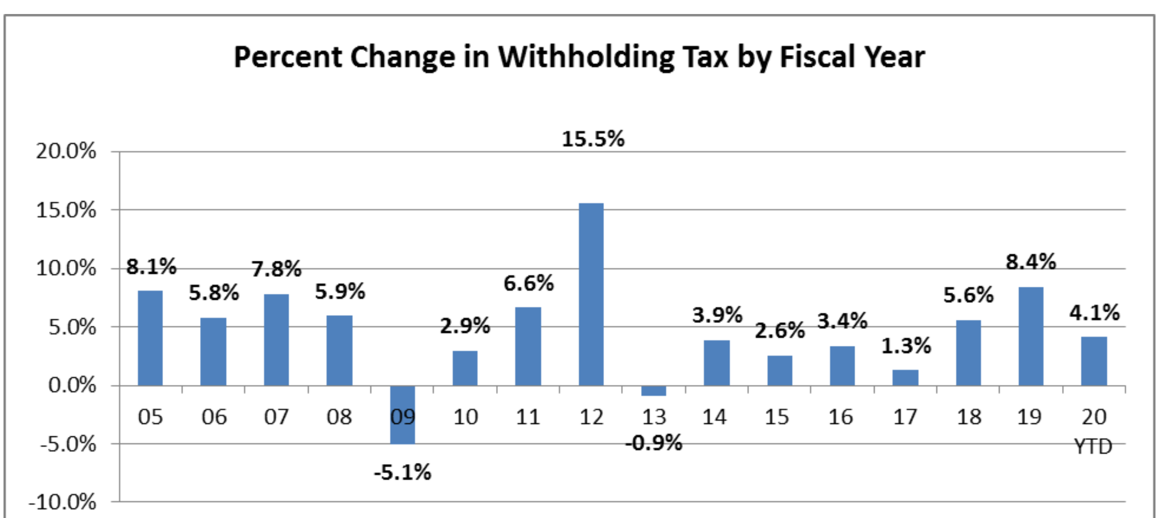
The update for the BRF outlook is:

- 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 $28 million, would bring the year-end BRF balance to approximately $2.8 billion;
- This balance, if achieved, would represent approximately 13.9 percent of net General Fund appropriations for FY 2021.

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

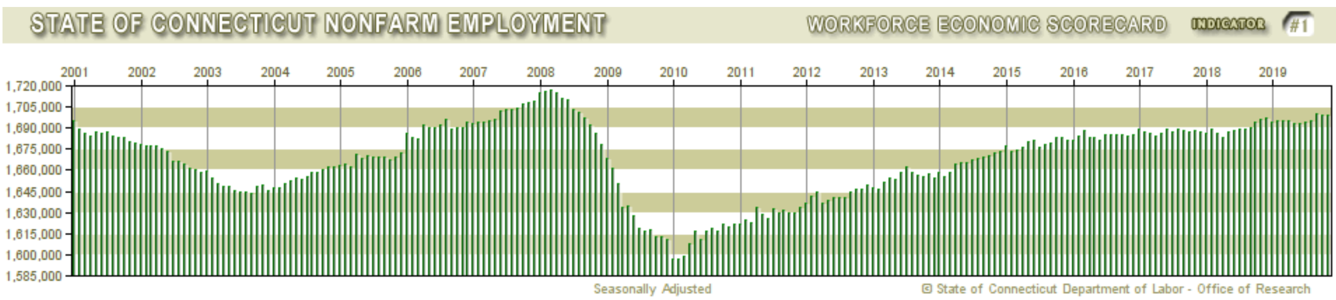
Employment

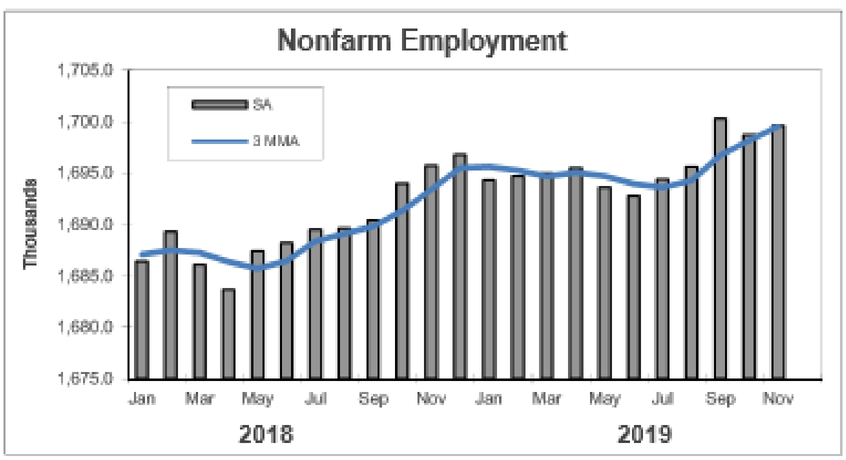
- Final results for FY 2019 showed withholding receipts grew by a strong 8.4 percent compared with the prior fiscal year. This is especially significant because the withholding portion of the income tax is the largest single General Fund revenue source.
- Through November 2019, withholding receipts are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

- On Dec. 19, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for November 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 900 net jobs in November, to a level of 1,699,600, seasonally adjusted. October's originally released job loss of 1,500 was revised upward by 100 to a loss of 1,400 jobs over the month. DOL notes that the three-month moving average job growth remains positive since July, but the annual growth rate of jobs remains modest.





- Over the year, DOL reported that nonagricultural employment in the state grew by 3,900 jobs on a seasonally-adjusted basis. Connecticut has now recovered 85.5 percent (102,800 payroll job additions) of the 120,300 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of November, the job recovery was into its 117th month and the state needed an additional 17,500 new net jobs to reach an overall employment expansion.

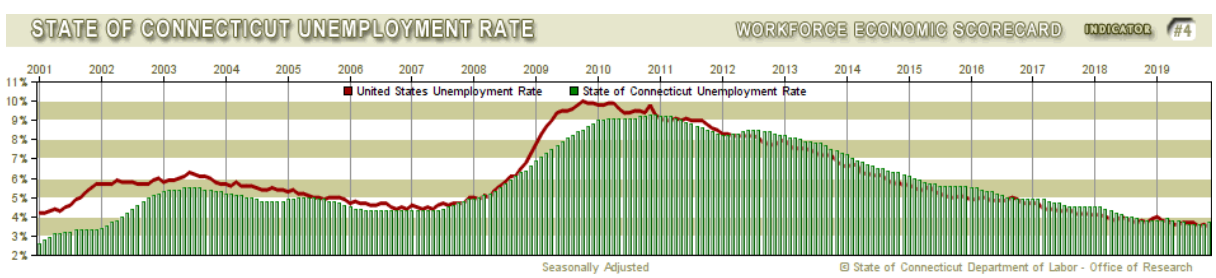
- Within the job recovery numbers, DOL points out a significant distinction. The private sector has recovered more than the total jobs lost in the recession (106.2 percent), which means the remaining employment losses are from the government sector. This sector includes all federal, state and local government employment, including public education, and Native American tribal government.

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

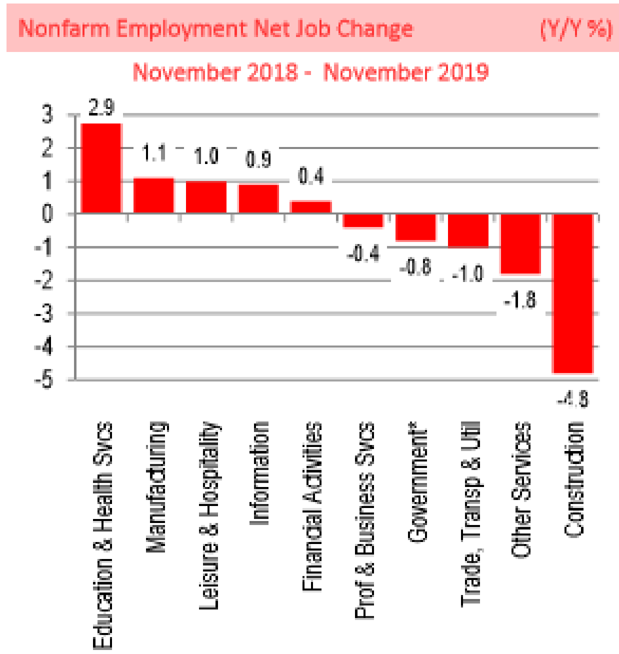
	March 2008	January 2010	November 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,699.6	-120.3	102.8	85.5%
Total Private Sector	1,457.4	1,345.4	1,464.3	-112.0	118.9	106.2%

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

- Connecticut's unemployment rate stood at 3.7 percent in November, up one-tenth of a point from the revised October 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 November 2019, down one-tenth of a point from October's revised estimate of 3.6 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 November 2019 versus November 2018 levels. Education & health services, manufacturing and leisure & hospitality 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.



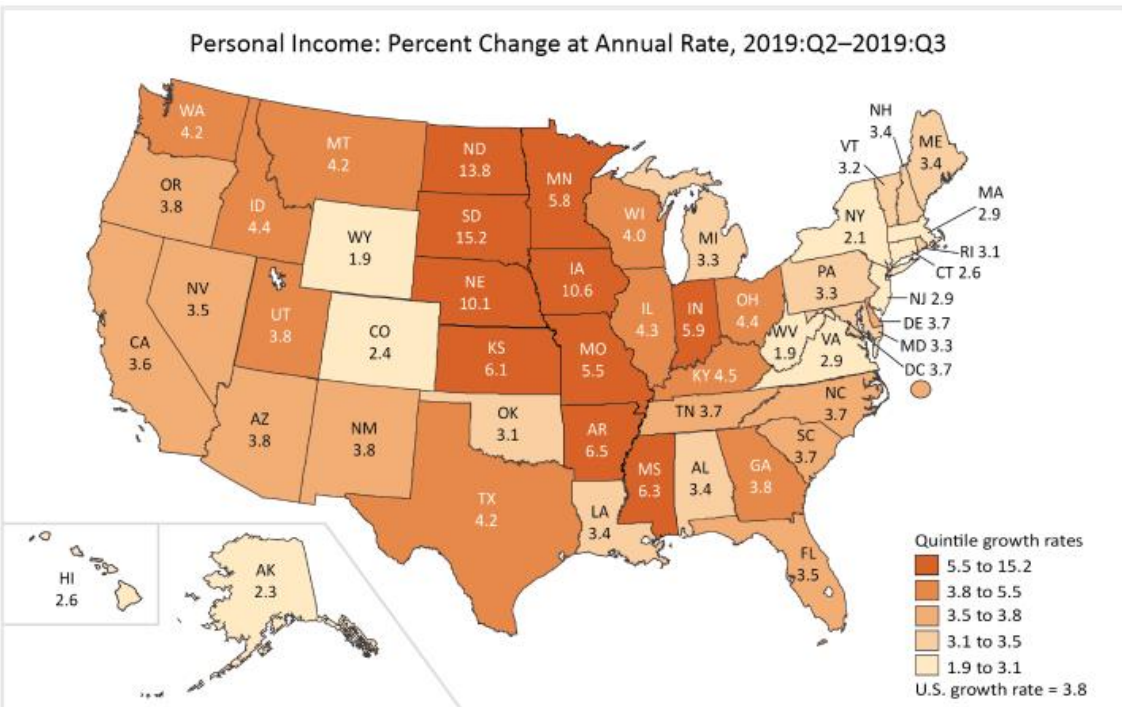
Payroll Employment Trend				
November 2019 Versus November 2018				
Sector	**Nov. 2019 (P)**	**Nov. 2018**	**Gain/Loss**	**% Change**
Construction and Mining	57,900	60,800	-2,900	-4.8%
Manufacturing	162,100	160,400	1,700	1.1%
Trade, Transportation & Utilities	292,700	295,600	-2,900	-1.0%
Information	32,800	32,500	300	0.9%
Financial Activities	127,200	126,700	500	0.4%
Professional & Business Services	220,300	221,200	-900	-0.4%
Education & Health Services	345,700	336,100	9,600	2.9%
Leisure & Hospitality	161,300	159,700	1,600	1.0%
Other Services	64,300	65,500	-1,200	-1.8%
Government	235,300	237,200	-1,900	-0.8%
Total Connecticut Non-Farm Employment	**1,699,600**	**1,695,700**	**3,900**	**0.2%**

Wage and Salary income

- November 2019 average hourly earnings at \$33.43, not seasonally adjusted, were up \$1.04 or 3.2 percent, from the November 2018 estimate. The resultant average private sector weekly pay amounted to \$1,129.93, up \$38.39 or 3.5% 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 November was a modest 2.1%.

- 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.



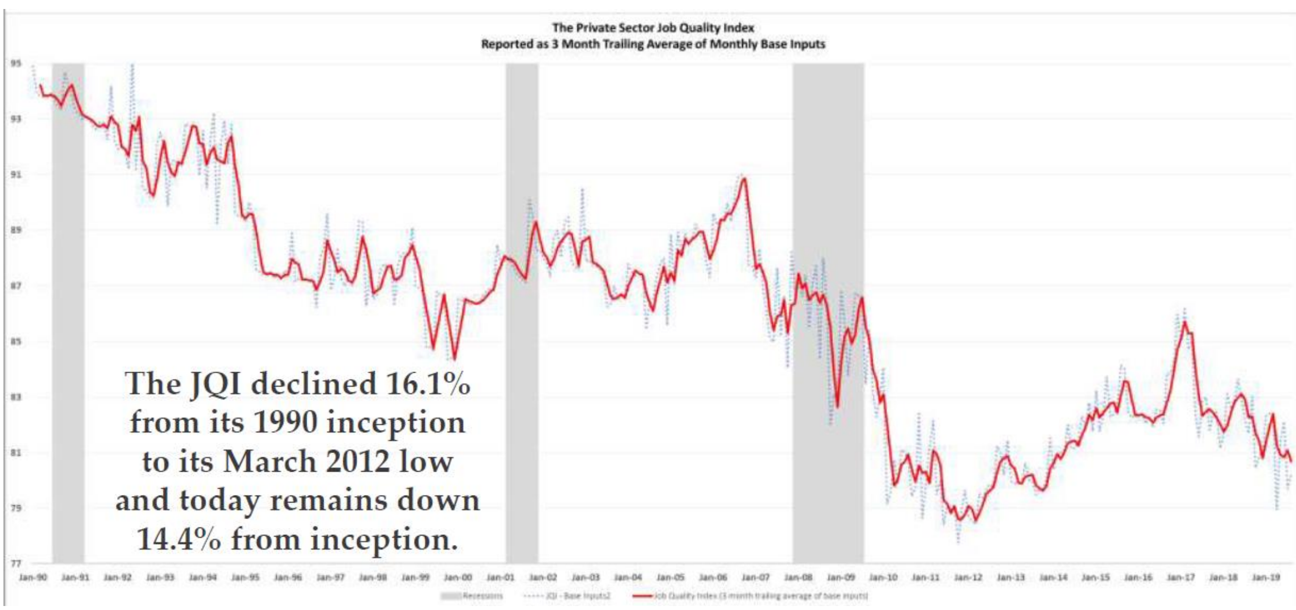
The U.S. Private Sector Job Quality Index

- 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 organizations that created the Job Quality Index (JQI) include:

- ➢ The Coalition for a Prosperous America Education Fund
- ➢ The Jack G. Clarke Institute of Cornell University Law School
- ➢ The University of Missouri Kansas City – Department of Economics
- ➢ The Global Institute for Sustainable Prosperity

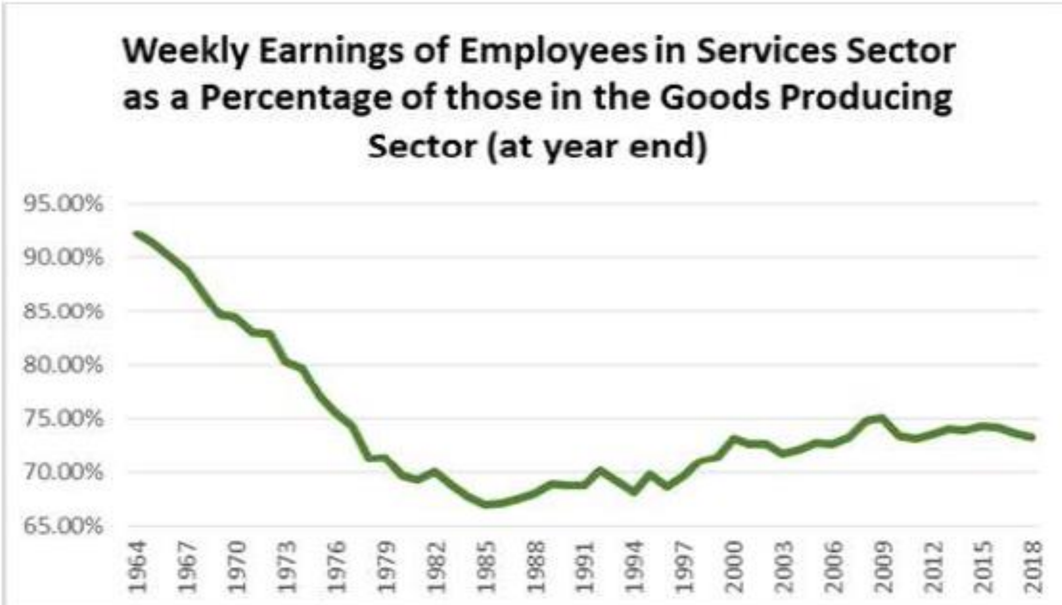
- The JQI focuses on Production and Non-supervisory (P&NS) jobs, which make up 82.3 percent of all U.S. private sector jobs. Jobs are classified as High Wage/High Hour Jobs (high quality) or Low Wage/Low Hour Jobs (low quality) compared with the weekly wage mean.

- The report 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.

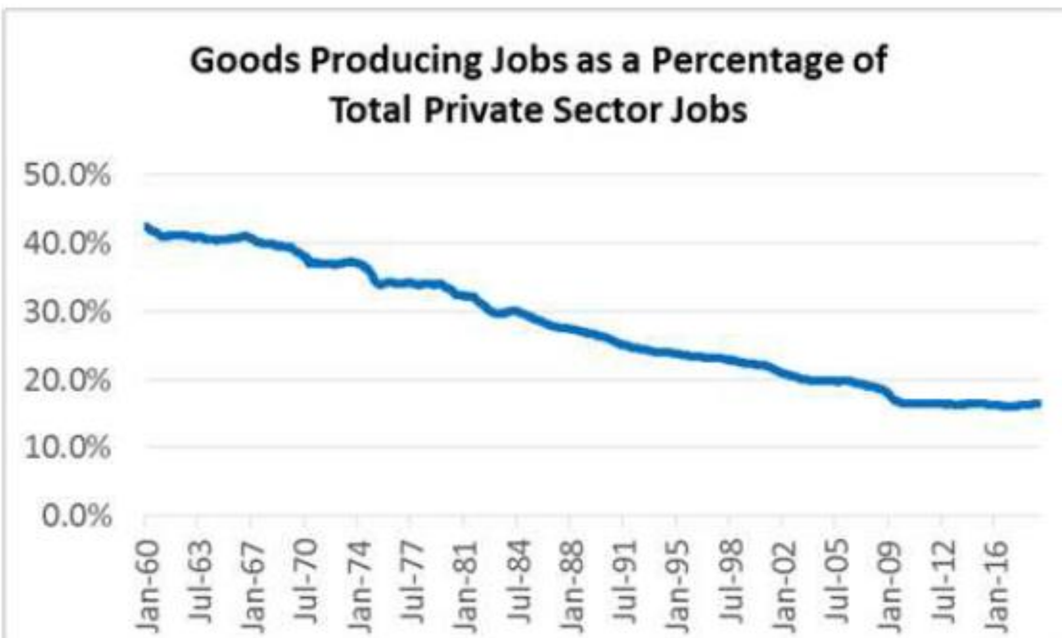


- The decline in the goods producing side of the economy has forced an abundance of workers into the services sectors, which has resulted in the loss of pricing power among this labor group.

- As an illustration of changes over the past three decades, jobs in just four lower wage/lower hour sectors have essentially replaced all U.S. jobs lost in the private goods producing sectors since 1990. These service sectors include, Retail, Administration, Healthcare & Social Assistance, and Leisure & Hospitality. While the data presented is national in scope, this trend will look familiar to Connecticut policy makers.



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

The JQI full report can be found at: https://www.jobqualityindex.com/

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for November 2019 compared with November 2018. Sales of single-family homes declined 7.18 percent, with the median sale price increasing by 1.96 percent. New listings were down 7.15 percent in Connecticut, while the median list price rose 1.93 percent to $270,000. Average days on the market were unchanged in November compared to the same month in the previous year (75 days on average).

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

MARKET SUMMARY
NOVEMBER 2019 | SINGLE FAMILY HOMES

Market	Month to Date			Year to Date		
Summary	November 2019	November 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	2741	2952	-7.15% ▼	51998	52821	-1.56% ▼
Sold Listings	2639	2843	-7.18% ▼	32810	33061	-0.76% ▼
Median Listing Price	$270,000	$264,900	1.93% ▲	$274,900	$269,900	1.85% ▲
Median Selling Price	$265,000	$259,900	1.96% ▲	$268,000	$264,900	1.17% ▲
Median Days on Market	56	58	-3.45% ▼	53	63	-15.87% ▼
Average Listing Price	$388,361	$372,423	4.28% ▲	$394,011	$397,455	-0.87% ▼
Average Selling Price	$371,409	$357,976	3.75% ▲	$378,925	$382,709	-0.99% ▼
Average Days on Market	78	78	0%	77	86	-10.47% ▼
List/Sell Price Ratio	97.1%	97%	0.05% ▲	97.5%	97.5%	-0.02% ▼

- For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales fell in November, taking a step back after October's gains. November sales decreased 1.7 percent from October to a seasonally adjusted annual rate of 5.35 million. On the regional level there were mixed results with sales growth in the Northeast and Midwest and declines in the South and West.
- According to NAR, the median existing-home price for all housing types was $271,300, up 5.4 percent from November 2018 ($257,400) as prices rose in all regions. November's price increase marks 93 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 November totaled 1.64 million units, down approximately 7.3 percent from October and 5.7 percent from one year ago (1.74 million). Unsold inventory sits at a 3.7-month supply at the current sales pace, down from 3.9 months in October and from the 4.0-month figure recorded in November 2018. NAR reports that unsold inventory totals have declined for five consecutive months, constraining home sales.

Population

- 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. Within this total, there are components that explain the change in population, including "natural increase" due to vital events, such as births and deaths, and "net migration" in and out of the state.
- As shown on the table below, Connecticut had a natural population increase of 3,418 between 2018 and 2019 because births outnumbered deaths. However, the state lost 9,736 residents due to net migration. Within the net migration category, Connecticut had positive growth of 12,323 residents from international migration into the state. In contrast, Connecticut lost population of 22,059 from domestic migration to other U.S. states.
- 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. The components of the change followed a similar pattern, with 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.

Stock Market – Closing the Year Near Historic Highs:

- After a significant dip in the first half of October, stocks have continued to climb higher and, as of this writing, are approaching the end of 2019 near historic highs. All-three indices are up over 20 percent for the year, with the NASDAQ up over 30 percent.

DOW

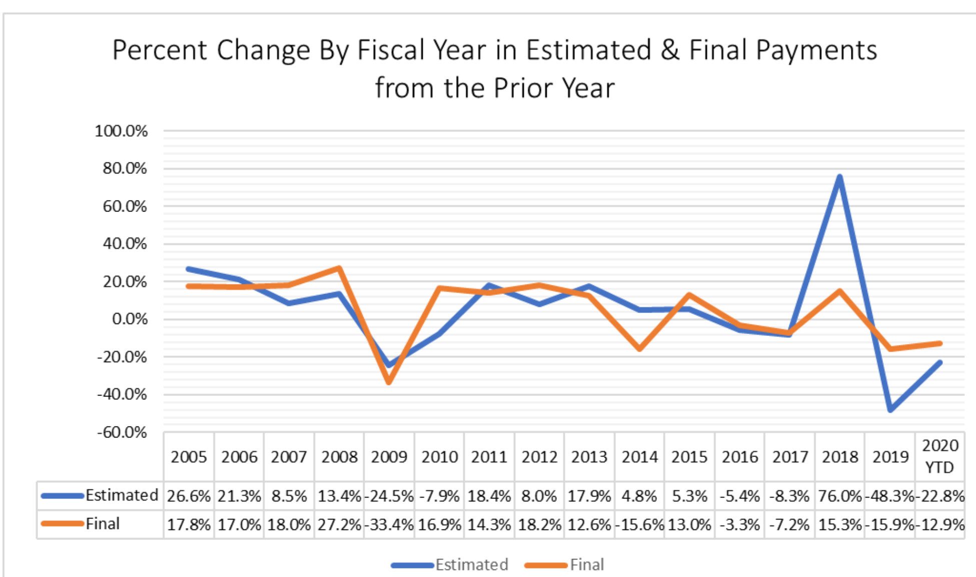
NASDAQ

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 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%	-22.8%
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%	-12.9%

- Year-to-date through November 2019, estimated and final payments are down a combined 20.3 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.

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 November 2019, increasing 0.2 percent. This growth was less than economists expected, as consumers cut back on discretionary spending. Economists polled by Reuters had forecast retail sales would increase 0.5 percent in November. In October retail sales increased a revised 0.4 percent.

- November's growth in retail sales was in part due to auto sales (+0.5%) and an increase in gasoline prices (+0.7%). Non-store retailers (online and mail order) also saw healthy growth in November, increasing 0.8 percent.
- These gains in retail sales were somewhat offset by decreases in other areas of consumer spending including clothing, sporting goods & hobby stores, health & personal care and restaurants & bars. Each of these categories was down in November compared with October.

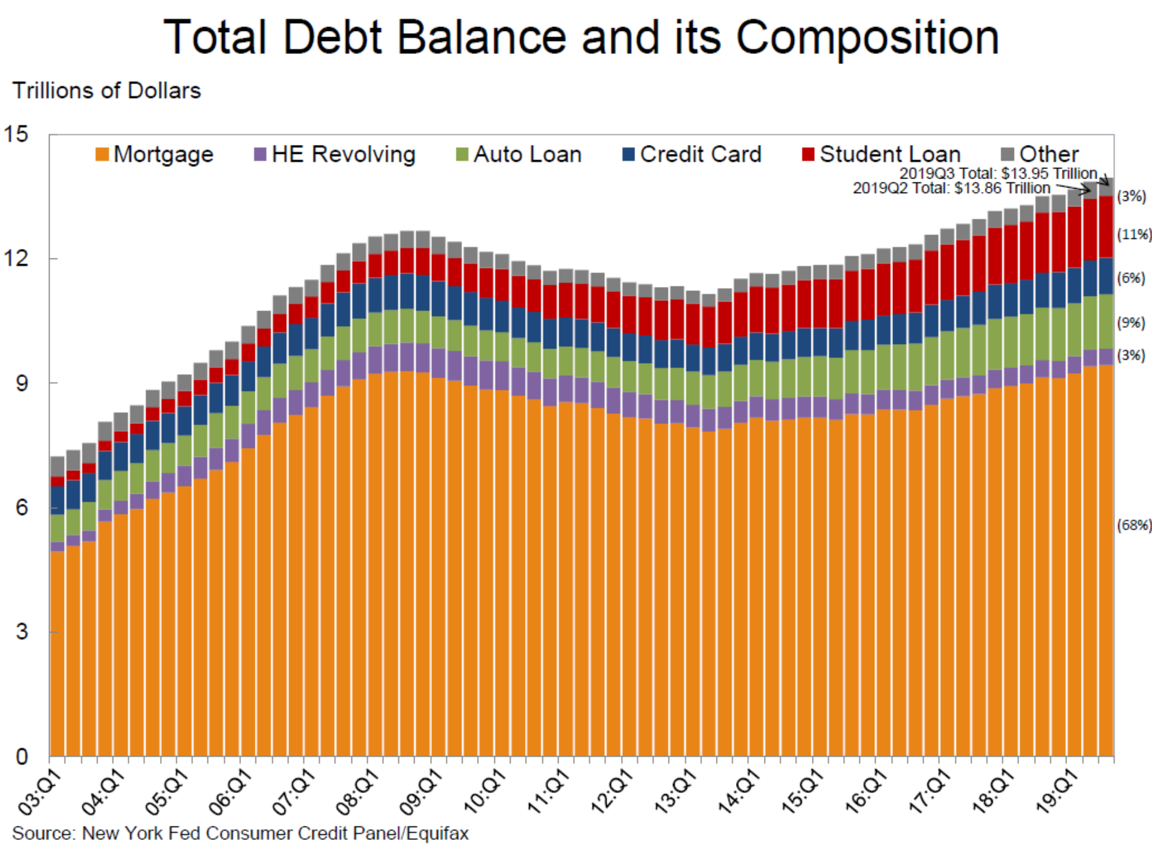
- So called "core retail sales" increased by just 0.1 percent in November after growing 0.3 percent in October. This category excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of gross domestic product.

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 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.

Personal Savings Rate

- In its Dec. 20 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 7.9 percent in November 2019, up from October'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.

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.

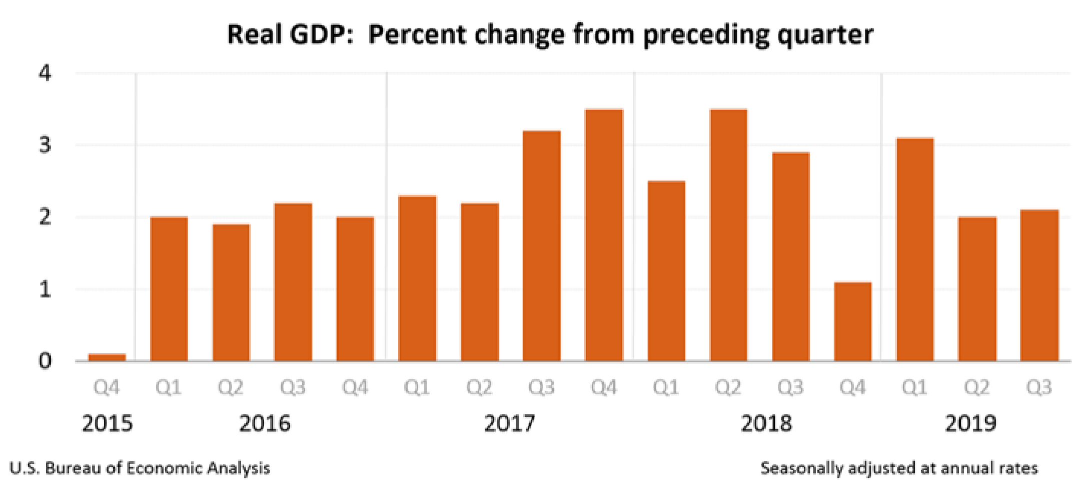
- The Conference Board reported that the Consumer Confidence Index decreased marginally in December, following a slight increase in November. The Index now stands at 126.5, down from 126.8 in November. The results came in below expectations; economists polled by Reuters had projected a reading of 128.2 for December.

- The December report indicated a softening in consumers' short-term outlook regarding jobs and financial prospects. While the economy has not shown further signs of weakening, the Conference Board concluded "there is little to suggest that growth, and in particular consumer spending, will gain momentum in early 2020."

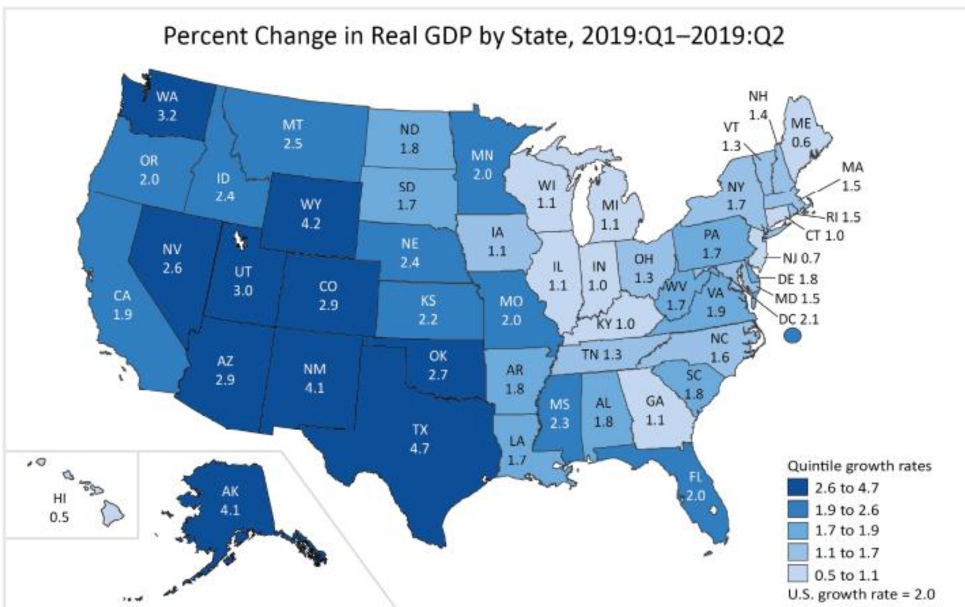
Business and Economic Growth

- According to a Dec. 20 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 third quarter of 2019, based on BEA's third estimate. This represents an improvement from the 1.9 percent third quarter GDP growth recorded in the initial estimate. In the second quarter, real GDP increased 2.0 percent.

- The updated GDP estimate is based on more complete data. BEA made upward revisions to personal consumption expenditures (PCE) and nonresidential fixed investment. These were offset by a downward revision to private inventory investment.
- The preliminary 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 Nov. 7 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the second quarter of 2019. Connecticut experienced a seasonally adjusted annual growth rate of 1.0 percent, which ranked 47th in the nation overall. This growth rate was below both the national average of 2.0 percent and the New England regional average of 1.3 percent. The percent change in real GDP in the second quarter ranged from 4.7 percent in Texas to 0.5 percent in Hawaii.
- The sectors that contributed most to Connecticut's GDP growth in the second quarter of 2019 were finance & insurance (+0.38%), professional, scientific & technical services (+0.37%), and information (+0.32%). The sectors that contracted the most included wholesale trade (-0.29%), construction (-0.27) and nondurable goods manufacturing (-0.18).



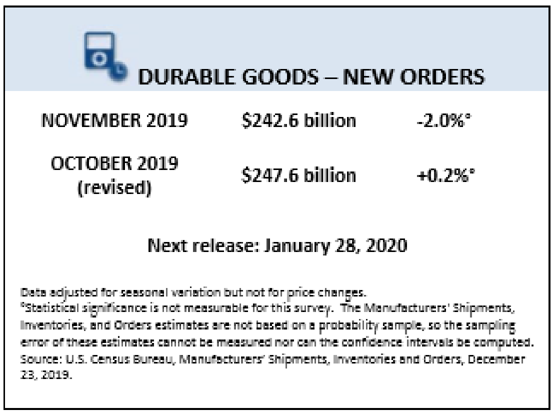
U.S. Bureau of Economic Analysis

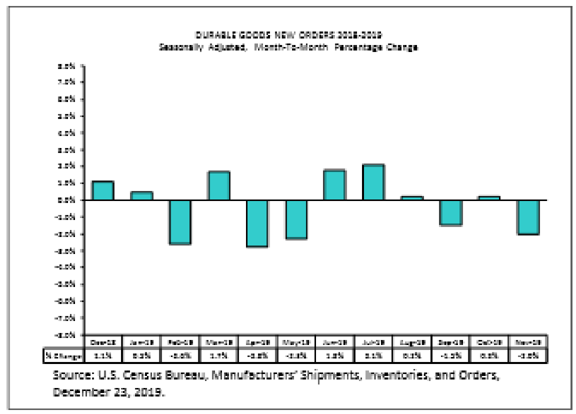
- In the same release, BEA provided revised growth rates for states for the first quarter of 2019. Initially, Connecticut's GDP growth for the first quarter was reported as 2.2 percent. Connecticut's revised first quarter GDP growth rate was 4.3 percent, which ranked 13th in the nation.
- State-level GDP data for the third quarter of 2019 will be released on January 10, 2020.

Durable Goods

- According to a Dec. 23 report by the U.S. Department of Commerce, new orders of manufactured durable goods decreased $5 billion in November, down 2.0 percent to $242.6 billion. This drop, the second in three months and the biggest since May, comes after a modest 0.2 percent increase in October. Transportation equipment led the decrease in November, declining $4.9 billion or 5.9 percent to $79.2 billion.

- Economists had expected a strong rebound in November due to the end of the General Motors strike. Instead a sharp drop in orders for military aircraft (-72.7 percent) dragged the results down for the month.





- So-called core capital goods rose 0.1 percent in November, after rising in October. Core capital goods include non-defense capital goods excluding aircraft and the measure is widely viewed as a proxy for business investment.

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