News from
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $444.7 MILLION DEFICIT, CITES CAUSES FOR CONCERN & OPTIMISM

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a Fiscal Year 2020 deficit of $444.7 million, citing reasons for caution and optimism in Connecticut's economy.

"The COVID-19 pandemic is still wreaking havoc on our state economy," said Comptroller Lembo. "The loss of life and the human cost of unprecedented unemployment are catastrophic. However, as many states across the country are still grappling with skyrocketing infection rates and shutdowns, Connecticut's cautious and deliberate reopening strategy, strong budgetary reserves and innovative workforce have us well-positioned as we begin to recover."

Various metrics show Connecticut as a national leader in slowing the spread of the virus. Infection rates have continued to decline even as the state has reopened portions of its economy. The state's Budget Reserve Fund currently holds over $2.5 billion, which will be used to cover this year's deficit and guard against ongoing fiscal uncertainty. A recent analysis by Bloomberg credited Connecticut's economy as the fourth-most innovative in the nation.

In a letter to Gov. Ned Lamont, Lembo attributed the improvement in the deficit forecast to fortunately timed Medicaid reimbursements and a decline in state spending. Lembo cautioned that delayed tax filing deadlines and unreliable unemployment numbers make predictions more volatile.

"As we continue the diligent public health work to keep residents safe, our economic focus needs to be on those who are struggling the most." said Lembo. "Federal intervention has been successful at keeping people in their homes and providing emergency financial assistance but has not proportionally met the devastation of the pandemic. I continue to urge Congress to provide more direct assistance to the people of Connecticut and state and local governments that are trying to avoid tax increases and cuts to critical services."

Economic indicators included in Lembo's monthly report show the COVID-19 pandemic is affecting virtually all aspects of the state and national economies, including:

- National housing sales falling in May for the third consecutive month.
- Over one million new unemployment claims nationally for the 14th consecutive week.
- Every sector of Connecticut's economy experiencing job losses in May 2020 versus May 2019, with leisure and hospitality workers hit the hardest.
- Continued uncertainty as states experience surges in COVID-19 cases.

"Connecticut has been navigating this pandemic with smart leadership and a compassionate citizenry," said Lembo. "Diligently following public health measures, such as mask-wearing and social distancing, will allow our economy to recover faster and ensure the job losses and business closures in our state are temporary, not permanent."

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

NOTE: *Economic indicators largely look back to past periods. Therefore, some of the information presented this month may appear inconsistent with more recent developments in the rapidly changing response to the COVID-19 pandemic.*

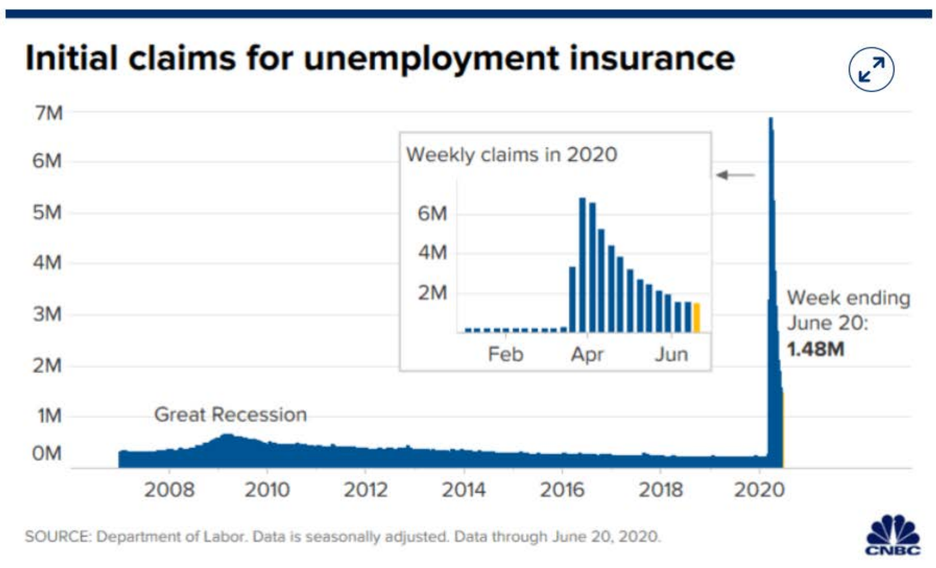
Employment

The withholding portion of the income tax is the largest single General Fund revenue source. Through May 2020, withholding receipts were trending about 1.1 percent above FY 2019 levels, but below the 4.1 percent growth rate built into the FY 2020 budget plan. Preliminary June results show withholding receipt growth holding steady at just over one percent compared with FY 2019, and still in line with the current year projection of $6.72 billion.

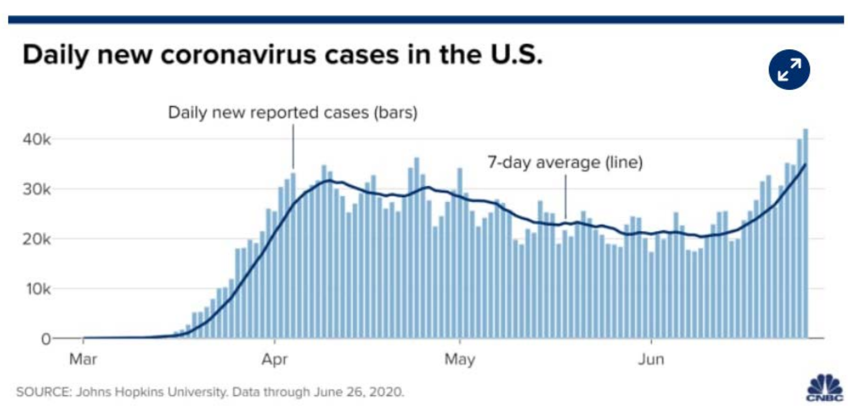
However, due to the ongoing job losses, business closures and other economic disruptions related to the COVID-19 pandemic, the Office of the State Comptroller (OSC) expects there may be a further deterioration in withholding and other tax receipts toward the end of FY 2020 and into FY 2021. The full extent of the declines may not be known for some time. Therefore, OSC will continue to monitor the situation closely and update these projections in future reports.

COVID-19 Related Job Losses Continue

Throughout May and into June, the nation continued seeing historically high levels of initial unemployment insurance (UI) claims. For the week ending June 20th, the U.S. Bureau of Labor Statistics (BLS) reported that seasonally adjusted initial claims totaled 1.48 million, the 14th week in a row these claims have totaled over one million. According to CNBC, economists surveyed by Dow Jones had been expecting 1.35 million claims. The economic fallout of the COVID-19 pandemic continues as federal policy makers debate whether to extend unemployment benefits, including an additional $600 per week, that is scheduled to expire on or before July 31 as part of the CARES Act.



Continuing UI claims, for those who have been collecting for at least two weeks, totaled 19.52 million for the week ending June 13th. This measure gives a clearer picture of how many workers are still unemployed. The number of continuing UI claims remains persistently high, despite dropping 667,000 from the previous week. All 50 US states are in some stage of reopening. However, a record number of new coronavirus cases in several states are causing their governors to reevaluate some reopening decisions.

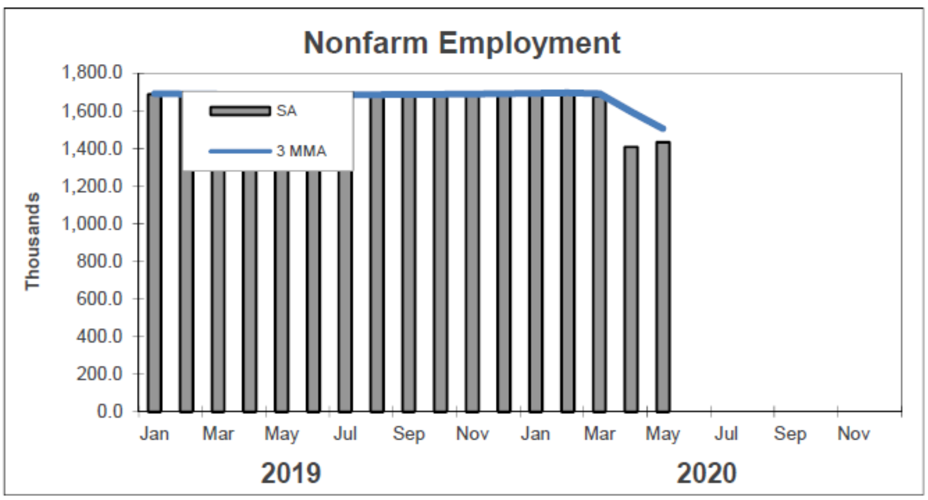


In a June 16th policy report to Congress, Federal Reserve Chairman Jerome Powell warned that additional Federal relief will likely be required due to continued high levels of unemployment and the severe decline in GDP. In addition, he noted “the burden of the downturn has not fallen equally on all Americans. Instead, those least able to withstand the downturn have been affected most." Chairman Powell also warned policymakers the longer the downturn lasts, the greater the potential for longer-term damage from permanent job loss and business closures.

Connecticut May Unemployment Report

Connecticut has also experienced historic levels of job losses in recent months, although the extent is not be fully reflected in the most recent unemployment rate for May.

Prior to the COVID-19 layoffs in March and April, the state was experiencing modest, but steady job growth. On June 18th, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for May 2020 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 25,800 net jobs (1.8%) to a level of 1,434,000 seasonally adjusted. However, the April 2020 originally released job loss of 266,300 was revised down to a loss of 269,200 jobs.



Over the year, nonagricultural employment in the state fell by 251,400 (-14.9%) seasonally adjusted. Connecticut's official unemployment rate stood at 9.4 percent in May, but DOL cautioned that figure is significantly understated:

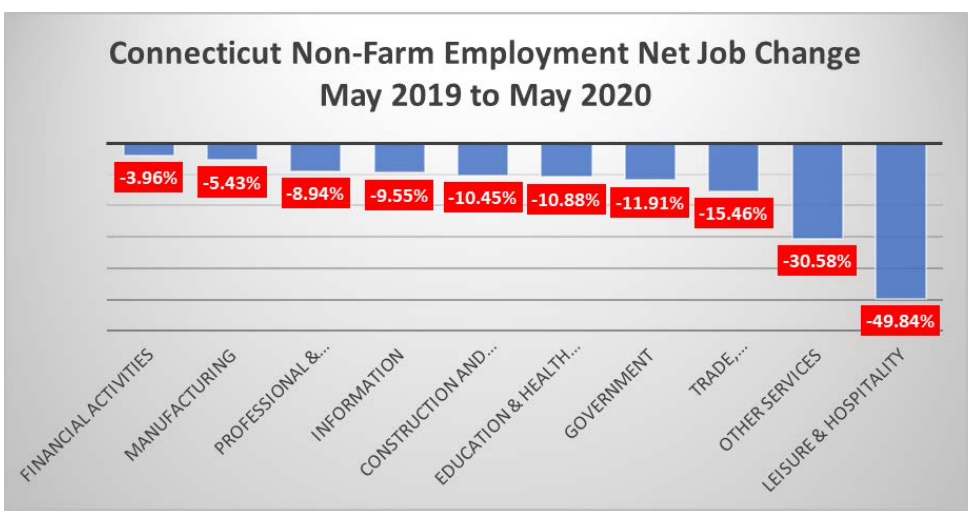
> "The Connecticut unemployment rate appears severely underestimated due to challenges encountered in the collection of data for the May Current Population Survey (CPS) which is the foundation of the statistical model used to determine all states' unemployment rates. In addition to a poor response rate in an already small sample size in Connecticut, key questions continue to be misinterpreted and misclassified. Specifically, a significant number of respondents who should have been classified as temporarily out of work and therefore unemployed were, instead classified as employed, but away from work (e.g. sick)."

DOL's Office of Research estimates Connecticut's unemployment rate to be much higher, in the range of 19 percent for the mid-April to Mid-May period. DOL notes this higher estimate was made using Connecticut residential unemployment insurance claims and adding a similar factor for the unemployed self-employed population. By comparison, the official US jobless rate in May 2020 was 13.3 percent, although analysts noted that rate was likely understated due to the data collection issues noted above. One estimate by the Peterson Institute of International Economics put the US's "realistic unemployment rate" at 17.1 percent for May.

The overriding question remains: how many of these job losses are temporary and will return as businesses start to reopen and how many will be lost permanently?

Among the major job sectors listed below, all ten experienced significant losses in May 2020 versus May 2019 levels. The leisure & hospitality sector was particularly hard hit, losing approximately half its jobs for the period, followed by the other services and the trade, transportation & utilities sectors.

Payroll Employment Trend				
May 2020 Versus May 2019				
Sector	**May 2020 (P)**	**May 2019**	**Gain/Loss**	**% Change**
Construction and Mining	54,000	60,300	-6,300	-10.4%
Manufacturing	153,400	162,200	-8,800	-5.4%
Trade, Transportation & Utilities	246,000	291,000	-45,000	-15.5%
Information	28,400	31,400	-3,000	-9.6%
Financial Activities	118,700	123,600	-4,900	-4.0%
Professional & Business Services	199,600	219,200	-19,600	-8.9%
Education & Health Services	301,300	338,100	-36,800	-10.9%
Leisure & Hospitality	79,400	158,300	-78,900	-49.8%
Other Services	45,400	65,400	-20,000	-30.6%
Government	207,800	235,900	-28,100	-11.9%
Total Connecticut Non-Farm Employment	**1,434,000**	**1,685,400**	**-251,400**	**-14.9%**

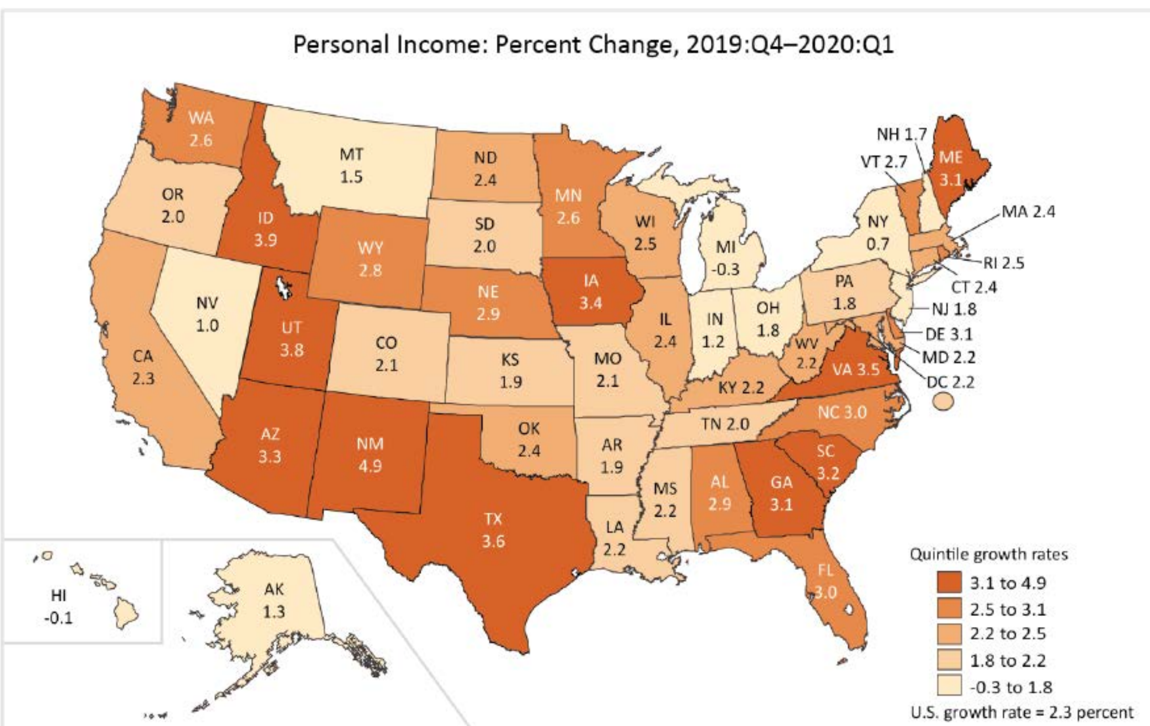


Wage and $alary income

May 2020 average hourly earnings at $34.26, not seasonally adjusted, were up $1.69 (5.2%) from the May 2019 estimate ($32.57). The resultant average private sector weekly pay amounted to $1,192.25, up $91.38 from a year ago (8.3%). 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 May was a very modest 0.1 percent.

On June 23rd, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 2.4 percent annual rate between the fourth quarter of 2019 and the first quarter of 2020. Based on this result, Connecticut ranked 26th in the nation for first quarter income growth. Connecticut's growth rate was equal to the New England region's and slightly above the national average rate of 2.3 percent. The percent change in personal income across all states ranged from 4.9 percent in New Mexico to -0.3 percent in Michigan.



U.S. Bureau of Economic Analysis

Housing

Berkshire Hathaway HomeServices reported results for the Connecticut housing market for May 2020 compared with May 2019. Sales of single-family homes dropped by 19.87 percent, with the median sale price increasing by 5.36 percent. Reflecting the continuing impact of COVID-19 and social distancing efforts, new listings were down 28.11 percent in Connecticut. However, the median list price rose 3.49 percent to $299,000. Average days on the market decreased 7.59 percent in May 2020 compared to the same month in the previous year (73 days on average compared with 79 in May 2019).

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

MARKET SUMMARY

MAY 2020 | SINGLE FAMILY HOMES

Market	Month to Date			Year to Date		
Summary	May 2020	May 2019	Percent Change	Year-To-Date 2020	Year-To-Date 2019	Percent Change
New Listings	5005	6962	-28.11% ▼	20345	26589	-23.48% ▼
Sold Listings	2860	3569	-19.87% ▼	12528	12768	-1.88% ▼
Median Listing Price	$299,900	$289,800	3.49% ▲	$279,900	$261,000	7.24% ▲
Median Selling Price	$295,000	$280,000	5.36% ▲	$275,000	$256,920	7.04% ▲
Median Days on Market	44	48	-8.33% ▼	57	62	-8.06% ▼
Average Listing Price	$460,125	$421,972	9.04% ▲	$420,728	$394,770	6.58% ▲
Average Selling Price	$442,006	$404,251	9.34% ▲	$403,839	$378,061	6.82% ▲
Average Days on Market	73	79	-7.59% ▼	84	89	-5.62% ▼
List/Sell Price Ratio	97.6%	97.6%	0.04% ▲	97.5%	97.3%	0.21% ▲

For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales fell in May 2020, continuing a three-month drop in sales brought on by the coronavirus pandemic. Each of the four major regions witnessed declines in month-over-month and year-over-year sales, with the Northeast experiencing the greatest month-over-month drop.

Total existing-home sales (completed transactions that include single-family homes, townhomes, condominiums and co-ops) decreased 9.7 percent from April to a seasonally adjusted annual rate of 3.91 million in May. Overall, sales fell year-over-year, down 26.6% from a year ago (5.33 million in May 2019).

NAR noted that sales completed in May reflected contract signings in March and April, during the strictest period of the pandemic lockdown. Therefore, NAR believes May could represent the cyclical low point for home sales.

While sales have declined, home prices remain strong. According to NAR, the median existing-home price for all housing types in May was $284,600, up 2.3 percent from May 2019 ($278,200), as prices increased in every region. May's national price increase marks 99 straight months of year-over-year gains.

Stock Market – Uncertainty Drives Volatility:

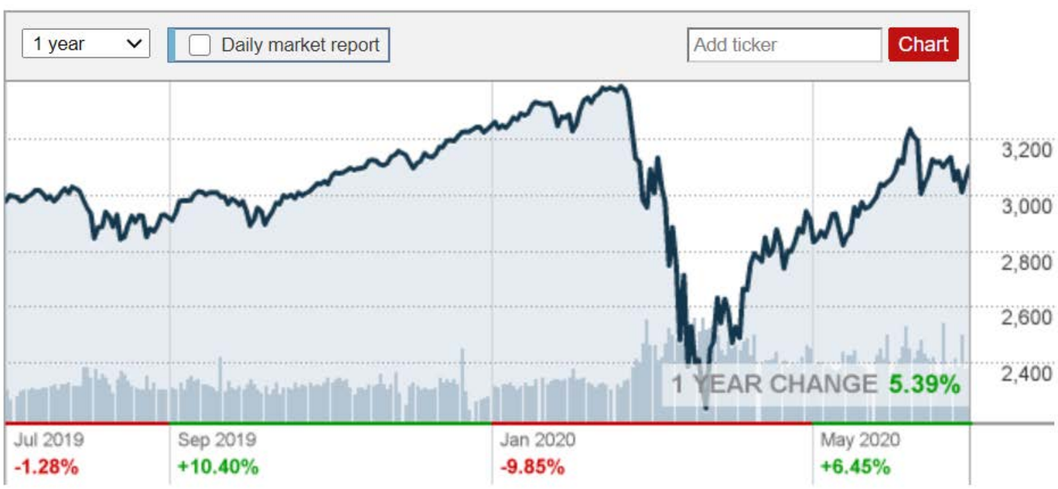
In the third week of March, the stock market reached its low point (to date) in 2020 as the impact of the coronavirus became more widespread. Since that time, the major indices have recovered some of their losses, especially in the second half of May into mid-June. Investors appeared to gain confidence from states beginning to reopen their economies. However, in late June volatility returned as coronavirus cases grew significantly in southern and western U.S. states. Governors began pulling back on earlier reopening decisions, causing anxiety for investors. The strongest performing index is the NASDAQ, which as of this writing was up over 12 percent year-to-date, while the DOW and S&P are in negative territory for the calendar year.

One-year changes for the three major stock indices follow.

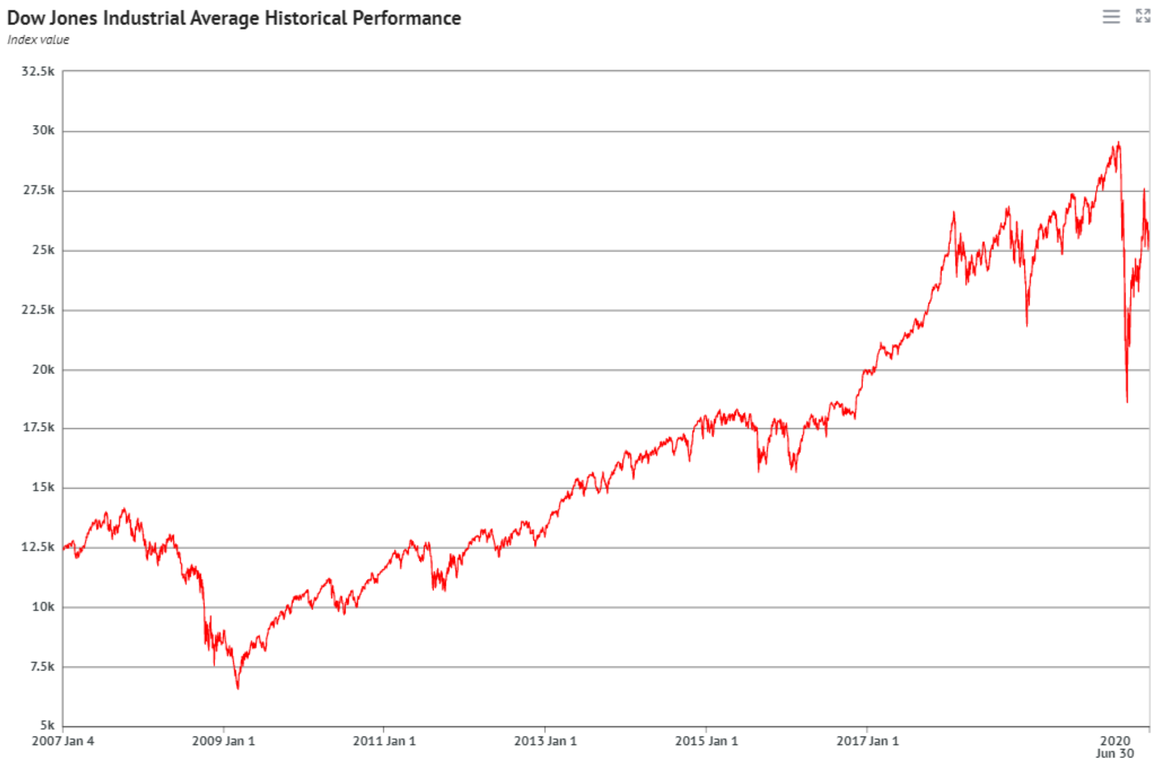
DOW

NASDAQ

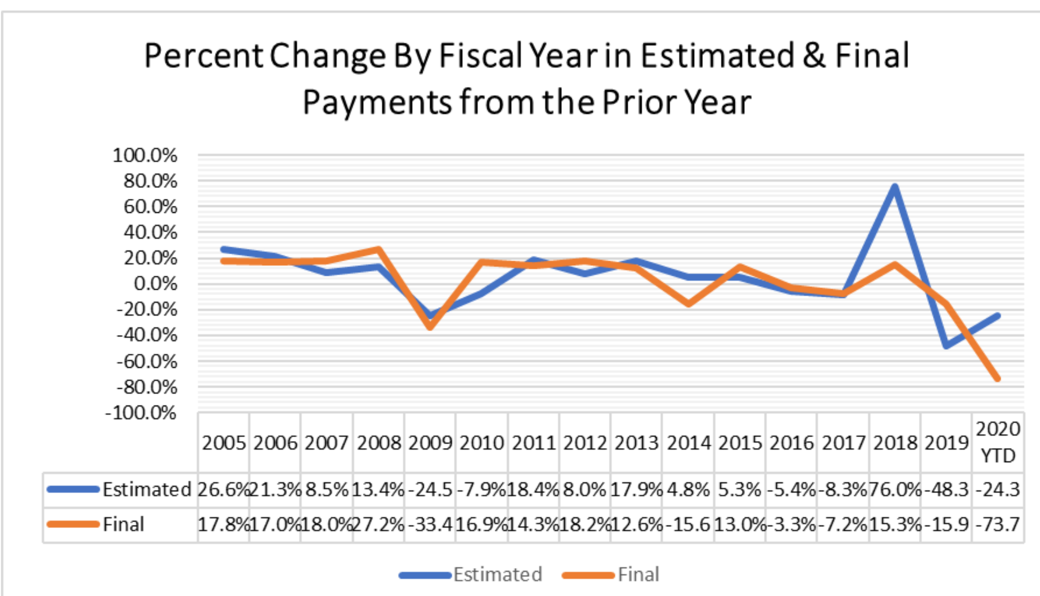
S&P 500 INDEX



To give more perspective on the performance of the stock market over the longer term, the chart below shows the level of the DOW from 2007 to the present:



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.



	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	-24.3
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	-73.7

Year-to-date through May 2020, estimated and final payments are down a combined 51.9 percent compared with the same period a year ago. The largest factor is the Final Payment category of the income tax, which was down over $1 billion from FY 2019. However, a large portion of that total is related to a 90-day extension in the filing and payment deadline from April 15 to July 15, 2020 to provide some relief to taxpayers due to COVID-19 outbreak. As a result, the full impact on FY 2020 revenues will not be known until the statutory accruals are completed in late August or early September.

Consumer Spending

Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.

On June 16th, the Commerce Department reported that U.S. advance retail sales rose by a record 17.7 percent in May as business began to reopen after coronavirus closures. The growth in retail sales was better than analysts predicted. Economists surveyed by Dow Jones had anticipated 8 percent growth. At the same time, retail sales were down 6.1 percent from May 2019 levels.

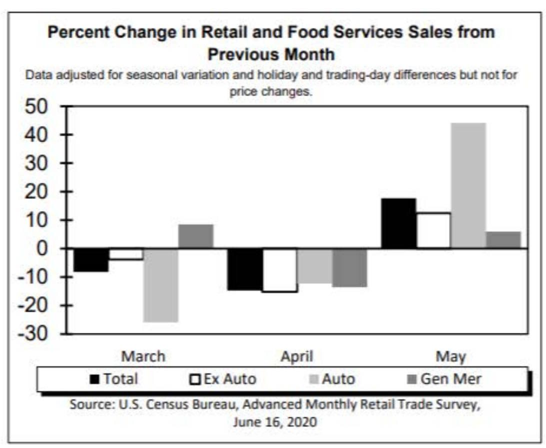
Growth in retail sales was widespread in May. Clothing and accessories stores reported the biggest increase at 188 percent while sporting goods, hobby, musical instruments and bookstores rose 88.2 percent. Furniture stores (+89.7%), electronics (50.5%) and motor vehicles all posted big gains (44.1%). Restaurants and bars also saw a 29.1 percent growth in May as some states began allowing outdoor dining after being limited to curbside pickup and delivery.

ADVANCE MONTHLY SALES

May 2020	**$485.5 billion**	**17.7%**
April 2020 (revised)	**$412.6 billion**	**-14.7%**

Next release: July 16, 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, June 16, 2020.

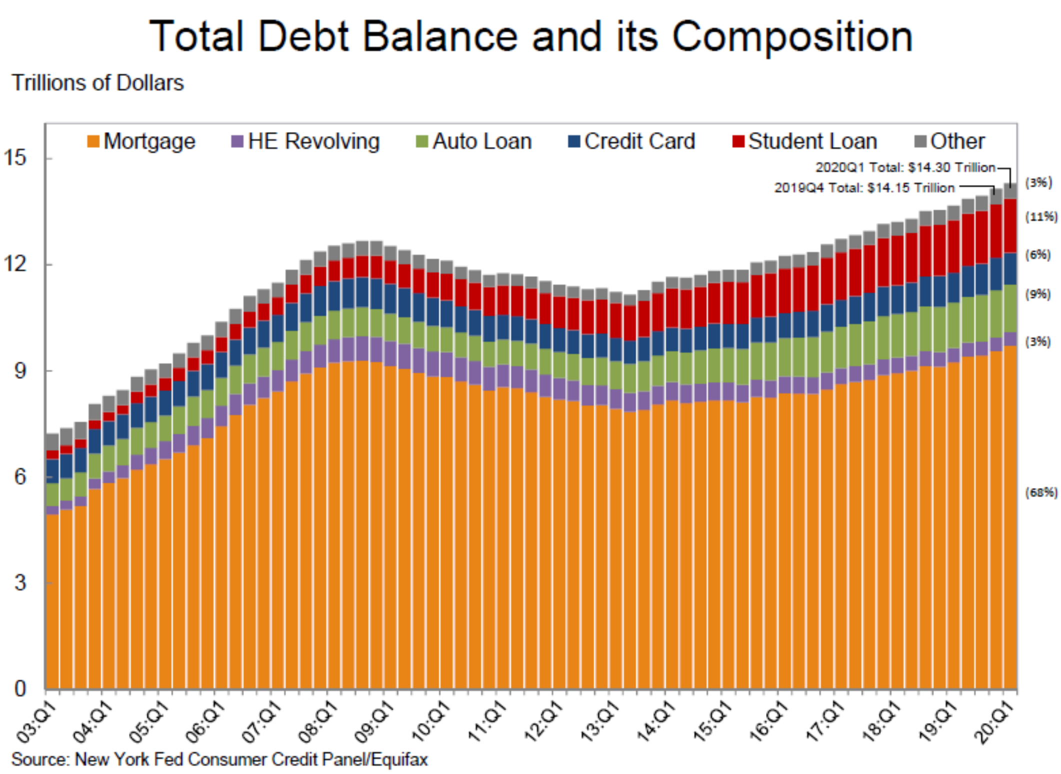


Consumer Debt and Savings Rates

According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the first quarter of 2020. However, the report captures consumer credit data as of March 31, 2020. As a result, the report states the data do not fully reflect the potential effects of COVID-19 that materialized in the second half of March 2020.

In the first quarter of 2020, total household debt increased by $155 billion (1.1 percent) to $14.30 trillion. The total balance is now $1.6 trillion higher, in nominal terms, than the previous peak of $12.68 trillion in the third quarter of 2008.

The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.71 trillion during the first quarter of 2020, a $156 billion increase from the fourth quarter of 2019. At $1.54 trillion, student loans were the second largest category of household debt. Student loan balances increased by $27 billion in the first quarter of 2020. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $4 billion to $386 billion. Auto loans grew by $15 billion in the fourth quarter to $1.35 trillion in total. Credit card balances decreased by $34 billion to $893 billion, which partly reflects a seasonal decline. However, the report also noted the decrease in credit card balance was notably larger than the same period last year, which may reflect the early signs of lower levels of consumer spending due to COVID-19.



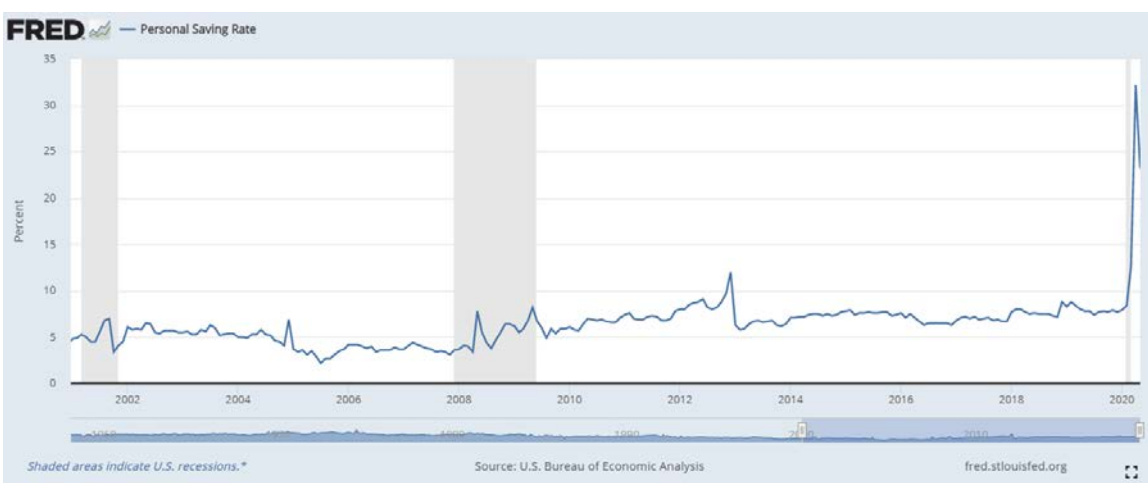
The Federal Reserve reported aggregate delinquency rates were mostly unchanged in the first quarter of 2020. As of March 31, 4.6 percent of outstanding debt was in some stage of delinquency, a 0.1 percentage point decrease from the fourth quarter of 2019. Of the $652 billion of debt that is delinquent, $449 billion is seriously delinquent (at least 90 days late or "severely derogatory", which includes some debts that have been removed from lenders books but upon which they continue to attempt collection).

Personal Savings Rate

In its June 26th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 23.2 percent in May, a high number by historical standards, but lower than the record 32.2 percent revised rate recorded in April. The personal savings rate is defined as personal saving as a percentage of disposable personal income. As seen in the chart below, the savings rate tends to increase during recessionary periods as consumers cut back on discretionary spending.

April's savings rate was the highest since the federal government began tracking this measure dating back to the 1960's. BEA reported the growth in personal income in April primarily reflected an increase in government social benefits to persons as payments were made to individuals from federal economic recovery programs in response to the COVID-19 pandemic.

In May, personal income decreased 4.2 percent and disposable personal income dropped by 4.9 percent as personal consumption expenditures grew 8.2 percent. BEA noted that the decline in personal income in May mostly reflected a decrease in federal government social benefits to persons as payments made in response to the COVID-19 pandemic continued, but at a lower level than April.



In past reports, the Office of the State Comptroller has warned that the personal savings rate has remained low by historical standards, despite a decade of economic growth since the end of the Great Recession. Even before the current corona virus crisis hit, studies showed four in ten U.S. adults would have difficulty covering an emergency $400 expense due to lack of savings. In relatively good economic times, many working families lived paycheck to paycheck. Now with large scale job losses, a lack of savings will make the present downturn much more difficult to navigate.

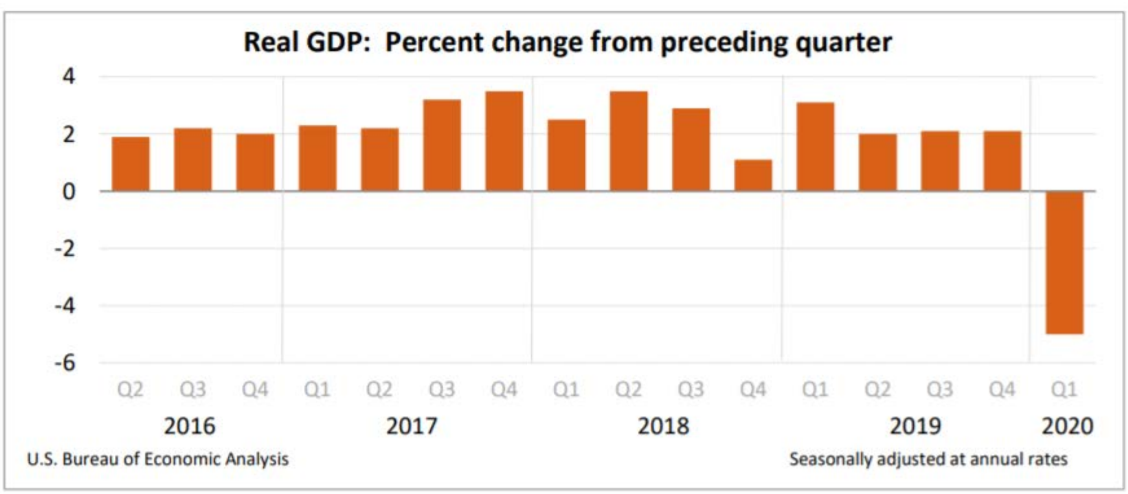
Consumer Confidence – Higher Than Expected in June

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 June after recording virtually no change in May. The Index now stands at 98.1, up from 85.9. The result was better than anticipated. Economists polled by Dow Jones had expected a consumer confidence level of 91.0 in June. The release noted the partial rebound in June was well below pre-pandemic levels but reflected less pessimism among consumers due to the re-opening of the economy and relative improvement in unemployment claims.

The Conference Board reported consumers continue to have concerns about future financial prospects: "Faced with an uncertain and uneven path to recovery, and a potential COVID-19 resurgence, it's too soon to say that consumers have turned the corner and are ready to begin spending at pre-pandemic levels."

Business and Economic Growth

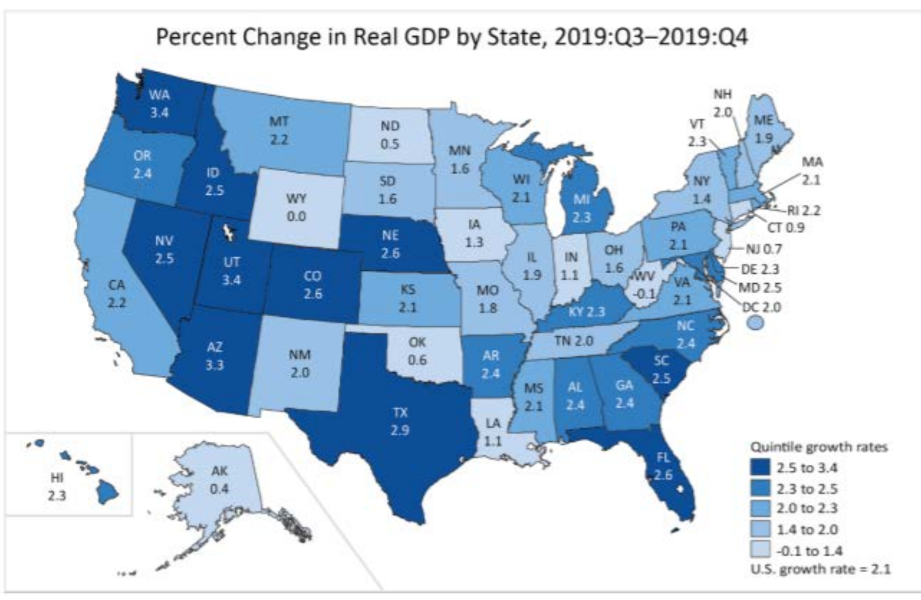


According to a June 25th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) decreased at an annual rate of 5.0 percent in the first quarter of 2020, according to BEA's third estimate. This represents the steepest decline since the Great Recession. In the fourth quarter, real GDP increased 2.1 percent. BEA reported the decline in first quarter GDP was, in part, due to the response to the spread of COVID-19, as governments issued stay-at-home orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending. However, since the COVID-related slowdown did not begin until mid-March, many analysts believe the drop in second quarter GDP will be far worse.

The decrease in real GDP in the first quarter reflected declines in consumer spending, business investment, exports, and private inventory investment. These decreases were partly offset by positive contributions from residential fixed investment (i.e., spending on private residential structures and equipment) as well as federal, state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

In an April 7th report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the fourth quarter of 2019. Connecticut experienced a seasonally adjusted annual growth rate of just 0.9 percent, which ranked 44th in the nation overall. This growth rate was well below both the national average of 2.1 percent and only half of the New England regional average of 1.8 percent. The percent change in real GDP in the fourth quarter ranged from 3.4 percent in Washington and Utah to –0.1 percent in West Virginia.

The next report covering state-level GDP results for the first quarter of 2020 is scheduled to be released July 7, 2020.



U.S. Bureau of Economic Analysis

In the same release, BEA also reported GDP growth for the full 2019 calendar year. On this measure Connecticut fared slightly better, with real GDP growing at 1.6 percent for the year, which ranked 33rd in the nation overall. However, Connecticut's growth rate was still below the national and New England regional average of 2.3 percent.

Durable Goods

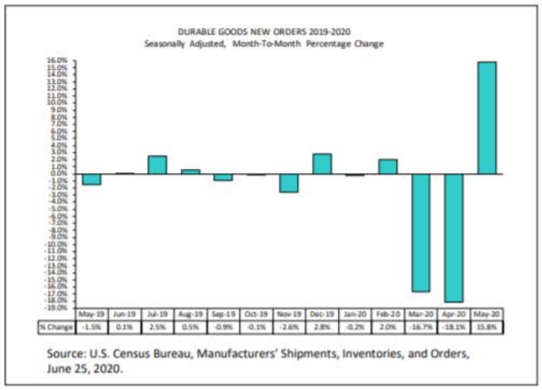
According to a June 25th report by the U.S. Department of Commerce, new orders of manufactured durable goods increased $26.6 billion in May to $194.4 billion representing growth of 15.8 percent. May's increase comes after two consecutive months of declines, including a drop of 18.8 percent in April. Transportation equipment led the increase growing by $20.9 billion or 80.7 percent to $46.9 billion. New orders of automobiles jumped 27.5 percent and defense aircraft rose 6 percent.

DURABLE GOODS – NEW ORDERS

MAY 2020	$194.4 billion	+15.8%°
APRIL 2020 (revised)	$167.8 billion	-18.1%°

Next release: July 27, 2020

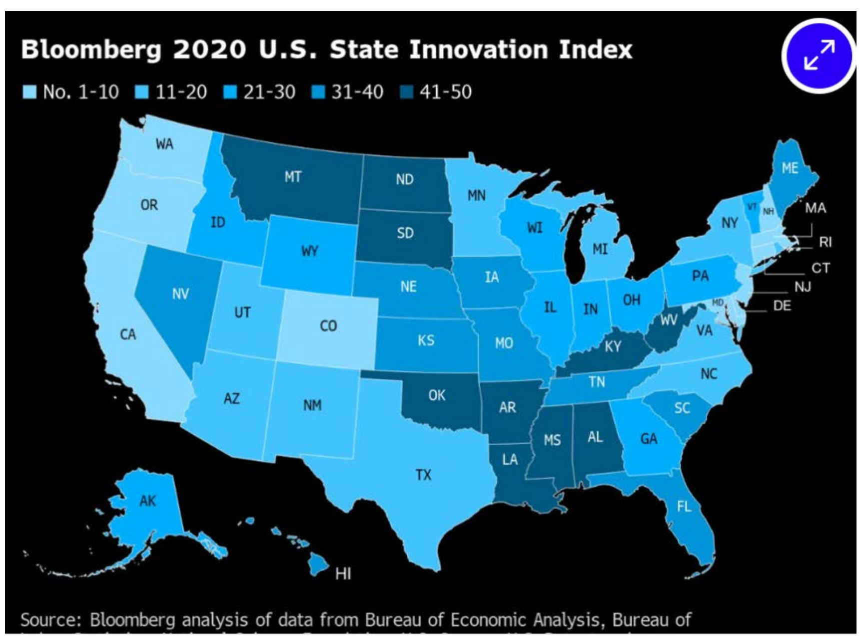
Data adjusted for seasonal variation but not for price changes.
°Statistical significance is not measurable for this survey. The Manufacturers' Shipments, Inventories, and Orders estimates are not based on a probability sample, so the sampling error of these estimates cannot be measured nor can the confidence intervals be computed.
Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories and Orders, June 25, 2020.



Orders for so called core capital goods edged up 2.3 percent in May. Core capital goods are defined as non-defense capital goods excluding aircraft, which is considered a proxy for business spending.

Bloomberg's U.S. Innovation Index – Connecticut Ranked 4th

On June 23rd Bloomberg published its 2020 U.S. State Innovation Index. Connecticut was ranked the fourth most innovative state economy in the nation for the second year in a row. The innovation index is based on six equally weighted metrics: research and development intensity; productivity; clusters of companies in technology; jobs in science, technology, engineering and mathematics



(STEM); proportion of the population with degrees in science and engineering; and patent activity.

Connecticut's overall score was 82.18, behind only California, Massachusetts and Washington. On the innovation index measures, Connecticut showed strength across all six categories. Connecticut ranked second in patent activity and was ranked eighth in the nation in research and development (R&D) intensity and productivity. On the remaining measures Connecticut ranked 11th in technology company density and 12th for both science and engineering degree holders and the concentration of STEM professionals in the workforce.

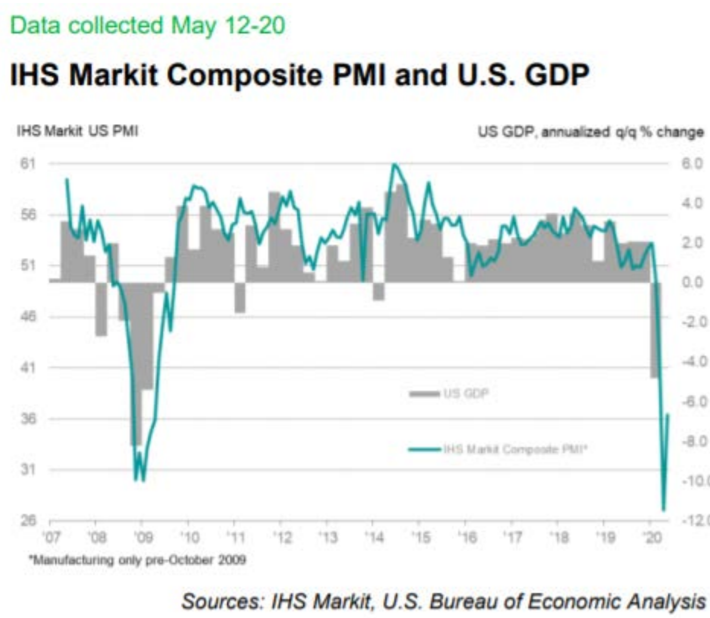
The full article can be found: https://www.bloombergquint.com/global-economics/california-massachusetts-rank-as-most-innovative-u-s-states

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.

In its June 23rd release, IHS Markit noted that U.S. private sector firms signaled a notable slowdown in the rate of output contraction in June, as businesses began to reopen on a larger scale. Manufacturers and service providers both registered much smaller declines in output compared to May.

Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 46.8 in June, up from 37.0 in May, indicating that the rate of contraction slowed further from April's record low. The decrease was the softest since February, before the pandemic escalated. Note any index reading below 50 indicates a decline in output.



In comments, IHS Markit's Chief Business Economist expressed hope that the economy would return to growth in the third quarter, but warned the recovery would be difficult and could be derailed by a second wave of the coronavirus:

> "Although brief, the downturn has been fiercer than anything seen previously, leaving a deep scar which will take a long time to heal. We anticipate that the US

economy will contract by just over 8% in 2020…Any return to growth will be prone to losing momentum due to persistent weak demand for many goods and services, linked in turn to ongoing social distancing, high unemployment and uncertainty about the outlook, curbing spending by businesses and households. The recovery could also be derailed by new waves of virus infections."

*****END*****