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COMPTROLLER LEMBO PROJECTS $934 MILLION DEFICIT AMID COVID-19 CRISIS

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a Fiscal Year 2020 deficit of $934 million, while noting that the speed and breadth of the ongoing COVID-19 pandemic has wounded the state's economy and made budgetary projections more volatile.

"The continuing public health crisis brought on by COVID-19 has upended Connecticut's economy and put tremendous strain on our communities," said Comptroller Lembo. "As new data flows in, it is clear the pandemic is creating lasting economic damage for our residents, municipalities and virtually all sectors of our economy. As we work collaboratively to get people back to work, our primary concern remains keeping Connecticut residents safe and healthy."

In a letter to Gov. Ned Lamont, Lembo noted that the monthly economic data largely looks back to past periods and captures only a portion of the effects of the COVID-19 pandemic on Connecticut's economy. The full scope of its impact will play out in the coming months.

Lembo cited the rapidly growing number of unemployment claims, and the deterioration of state and municipal revenues, as signs that federal intervention to stem the economic damage of the pandemic is necessary.

"We are all in this together," said Lembo. "This virus does not know political parties. It doesn't recognize state borders. It is indiscriminate in who it reaches, and the federal response should be as well. Connecticut taxpayers have long contributed more into federal coffers than we receive back in federal aid. We have dutifully done our share to fund national efforts and support other states in need. Now we need help and I urge the federal government to do the right thing and not treat this pandemic as just another partisan exercise."

Lembo noted that Connecticut is in a stronger financial position than some other hard-hit states due to recent contributions to the Budget Reserve Fund ("Rainy Day Fund"), which currently holds a balance of over $2.5 billion. However, Lembo and state economists forecast that the Budget Reserve Fund alone will not be enough to supplant revenue losses in the coming fiscal years.

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:

- New consensus revenue projections showing state General Fund revenues for FY 20 down $975.1 million from the budget plan.
- Over 400,000 Connecticut workers applying for unemployment insurance benefits since March 13. Nationally, over 30.3 million Americans have filed claims in the last six weeks.
- New real estate listings in Connecticut decreasing 16.32 percent this month compared to March 2019 despite strong overall sales numbers.
- Projections from the Congressional Budget Office that anticipate inflation adjusted gross domestic product (GDP) to decline nearly 12 percent between the first and second quarters, and the national unemployment rate to rise to 12 percent in the second quarter.

"While this pandemic has been devastating and disruptive, I'm incredibly proud of how the people of Connecticut have responded," said Lembo. "The contributions of essential workers, and the compliance of the overwhelming majority of residents to social distancing guidelines, have been inspirational and have saved lives."

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

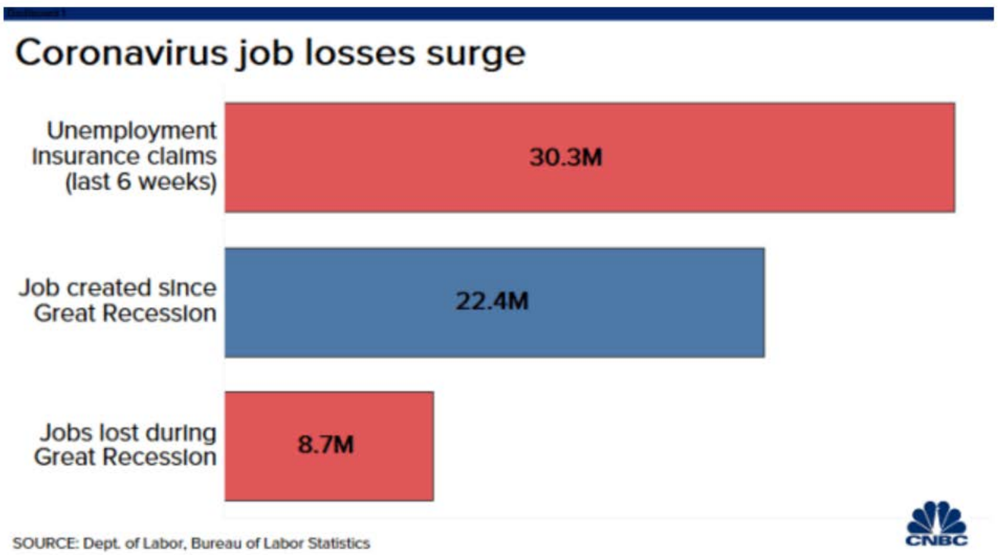
Employment

The withholding portion of the income tax is the largest single General Fund revenue source. Through March 2020, withholding receipts were trending 1.7 percent above FY 2019 levels, but below the 4.1 percent growth rate built into the FY 2020 budget plan. Preliminary April results showed withholding receipts holding steady at this lower level of growth.

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 in FY 2020. 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 April, the nation continued seeing historically high levels of initial unemployment insurance claims. For the week ending April 25th, the U.S. Bureau of Labor Statistics (BLS) reported that seasonally adjusted initial claims totaled 3.84 million, bringing the six-week total to 30.3 million. As the CNBC graphic below illustrates, these employment losses were more than three times the size experienced during the Great Recession and enough to wipe out all the job gains since the recovery began 11 years ago.

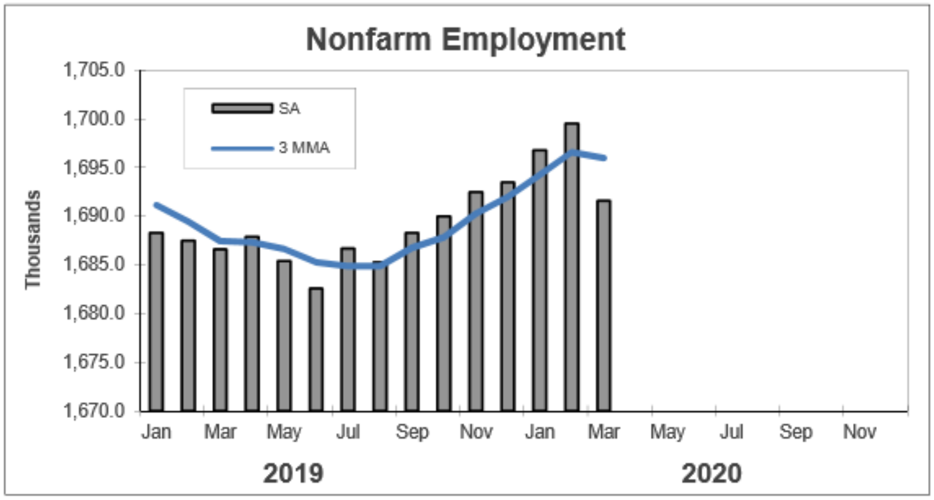


Connecticut has also experienced a sharp increase in job losses. Since March 13th, more than 400,000 workers applied for unemployment insurance benefits, according to the state Department of Labor. This is over three times the number of jobs lost during the Great Recession.

March Unemployment Report

The official national and state employment statistics look back to past periods, so the full impact of the COVID-19 pandemic is not yet reflected in the most recent numbers, which cover the month of March 2020. DOL reported the March payroll surveys use data from the week that contains the 12th of the month. While there was some COVID-19 related impact on jobs that week, there was not a significant rise in layoffs and unemployment insurance claims until the following week, which will be reported in next month's report.

Prior to the COVID-19 layoffs, the state was experiencing modest, but steady job growth. On April 16th, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for March 2020 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the lost 7,600 net jobs in March to a level of 1,691,900 seasonally adjusted. The February 2020 originally released job gain of 4,000 was revised down to a gain of 2,700. Again, DOL cautioned that these numbers did not contain activity from the second half of March.



Over the year, DOL reported that nonagricultural employment in the state grew by 5,300 (0.3%) seasonally adjusted. Connecticut's unemployment rate stood at 3.7 percent in March (pre COVID), down one-tenth of a percent from the revised February level and unchanged from a year ago. The US jobless rate in March 2020 was 4.4 percent, up nine-tenths from March 2019. As indicated earlier, however, the household employment survey did not capture the coronavirus's impact on labor markets. Next month's report should offer a more accurate picture of Connecticut's employment situation.

Among the major job sectors listed below, five experienced gains and five had losses in March 2020 versus March 2019 levels. For the period, professional & business services, construction and education & health services were the fastest growing sectors in the state's labor market on a percentage basis. The leisure & hospitality, other services and sectors experienced job losses.

Payroll Employment Trend				
March 2020 Versus March 2019				
Sector	**March 2020 (P)**	**March 2020**	**Gain/Loss**	**% Change**
Construction and Mining	61,800	60,800	1,000	1.6%
Manufacturing	163,000	162,000	1,000	0.6%
Trade, Transportation & Utilities	292,500	292,100	400	0.1%
Information	31,400	31,500	-100	-0.3%
Financial Activities	123,400	123,800	-400	-0.3%
Professional & Business Services	225,200	217,900	7,300	3.4%
Education & Health Services	341,600	338,400	3,200	0.9%
Leisure & Hospitality	152,300	158,300	-6,000	-3.8%
Other Services	64,500	65,500	-1,000	-1.5%
Government	236,200	236,300	-100	0.0%
Total Connecticut Non-Farm Employment	**1,691,900**	**1,686,600**	**5,300**	**0.3%**

From unemployment insurance claims data, DOL is expecting severe job losses in the leisure & hospitality, healthcare and retail sectors in next month's report covering April 2020.

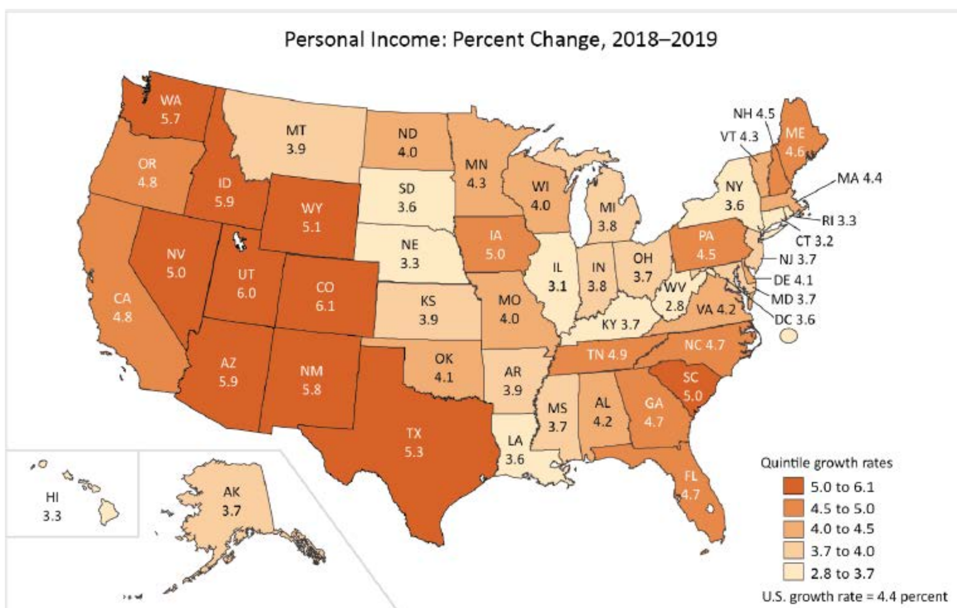
Wage and $alary income

March 2020 average hourly earnings at $33.64, not seasonally adjusted, were up $0.66 or 2.0%, from the March 2019 estimate. The resultant average private sector weekly pay amounted to $1,137.03, up $28.90 or 2.6 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 March was a very modest 1.5 percent.

On March 24th, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 1.8 percent annual rate between the third and fourth quarters of 2019. Based on this result, Connecticut ranked 46th in the nation for fourth quarter income growth. This growth rate was below the national average of 3.0 percent and the New England region's average growth rate of 2.8 percent.

In the same release, BEA reported preliminary income growth for the full 2019 calendar year. In total, U.S. personal income increased 4.4 percent in 2019, after increasing 5.6 percent in 2018. In 2019, increases in earnings, property income (dividends, interest, and rent), and transfer receipts contributed to personal income growth in all states and the District of Columbia. The percent change in personal income across all states ranged from 6.1 percent in Colorado to 2.8 percent in West Virginia.

For Connecticut, personal income rose 3.2 percent in 2019, which ranked 48th in the nation overall. Despite the slower level of growth, Connecticut still ranked first in the nation for per capita personal income at $79,087. This represented 140 percent of the national average of $56,663.



U.S. Bureau of Economic Analysis

BEA's next report, covering state personal income for the first quarter of 2020, will be released June 23, 2020.

Housing

Prior to the full impact of COVID-related closures, Berkshire Hathaway HomeServices reported results for the Connecticut housing market for March 2020 compared with March 2019. Sales of single-family homes grew by 7.39 percent, with the median sale price increasing by 8.89 percent. Perhaps reflecting social distancing efforts, new listings were down 16.32 percent in Connecticut. However, the median list price rose 11.64 percent to $279,000. Average days on the market decreased 10.53 in March 2020 compared to the same month in the previous year (85 days on average compared with 95 in March 2019).

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

MARKET SUMMARY

MARCH 2020 | SINGLE FAMILY HOMES

Market	Month to Date			Year to Date		
Summary	March 2020	March 2019	Percent Change	Year-To-Date 2020	Year-To-Date 2019	Percent Change
New Listings	4429	5293	-16.32% ▼	12057	12690	-4.99% ▼
Sold Listings	2513	2340	7.39% ▲	6688	6239	7.2% ▲
Median Listing Price	$279,000	$249,900	11.64% ▲	$267,950	$244,900	9.41% ▲
Median Selling Price	$270,000	$247,950	8.89% ▲	$260,000	$239,000	8.79% ▲
Median Days on Market	58	69	-15.94% ▼	67	68	-1.47% ▼
Average Listing Price	$385,264	$358,776	7.38% ▲	$385,378	$352,043	9.47% ▲
Average Selling Price	$371,559	$344,586	7.83% ▲	$369,704	$337,353	9.59% ▲
Average Days on Market	85	95	-10.53% ▼	89	91	-2.2% ▼
List/Sell Price Ratio	97.6%	97.4%	0.24% ▲	97.3%	97.1%	0.2% ▲

For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales fell in March 2020, following significant gains in February. March sales dropped 8.5 percent from February to a seasonally adjusted annual rate of 5.27 million. All four major regions reported a decrease in sales, with the West suffering the largest decline.

NAR reported that with current quarantine recommendations in place, fewer sellers listed their homes on the market. In addition, NAR's most recent Flash Survey showed that 93 percent of sellers changed behavior to help the homebuying transaction move forward with social distancing and other necessary precautions.

While sales have declined, home prices were still strong. According to NAR, the median existing-home price for all housing types in March was $280,600, up 8.0 percent from March 2019

($259,700), as prices increased in every region. March's national price increase marks 97 straight months of year-over-year gains.

CBO Preliminary Economic Projections – COVID-19's Impact

On April 24th, the Congressional Budget Office (CBO) released preliminary projections of key economic variables based on information currently available and recent federal legislation addressing the COVID-19 pandemic. CBO concluded the U.S. economy will experience a sharp contraction in the second quarter of 2020, including a dramatic decrease in GDP and an increase in unemployment:

- Inflation adjusted gross domestic product (GDP) is expected to decline nearly 12 percent during between the first and second quarters, the equivalent of an annual rate decrease of 40 percent for the quarter.
- The nation's unemployment rate is expected to average close to 14 percent during the second quarter, up from 3.8 percent in the first quarter.

In addition, CBO's preliminary fiscal outlook indicates the following:

- The federal budget deficit is projected to be $3.7 trillion for fiscal year 2020.
- Federal debt held by the public is projected to be 101 percent of GDP by the end of the fiscal year.

CBO is expecting economic activity to increase in the third quarter of 2020 as state and local governments ease stay at home orders and businesses begin to reopen:

- After severe levels of contraction in the second quarter, economic growth is expected to average about 17 percent at an annual rate for the second half of calendar year 2020.
- Increases in consumer spending are expected to more than offset further declines in business investment for the period.
- However, even with improvements in the second half of 2020, GDP for the full year is projected to be -5.6 percent.
- Unemployment is expected to rise to 16 percent in the third quarter, before dropping down below 12 percent in the fourth quarter.

CBO warns these projections are subject to enormous uncertainty and incorporate an expectation that social distancing measures will continue through June on average, with some region variation. The projections also include the possibility of a reemergence of the pandemic. To account for this possibility, CBO projects social distancing will continue, although to a lesser degree, through the first half of next year.

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.

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

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 above, 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.

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 – 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. Despite strong April results, all three remain in negative territory year-to-date. In addition, volatility continues as the markets experience large swings, both positive and negative, due to uncertainty about the ongoing economic impact of the COVID-19 pandemic.

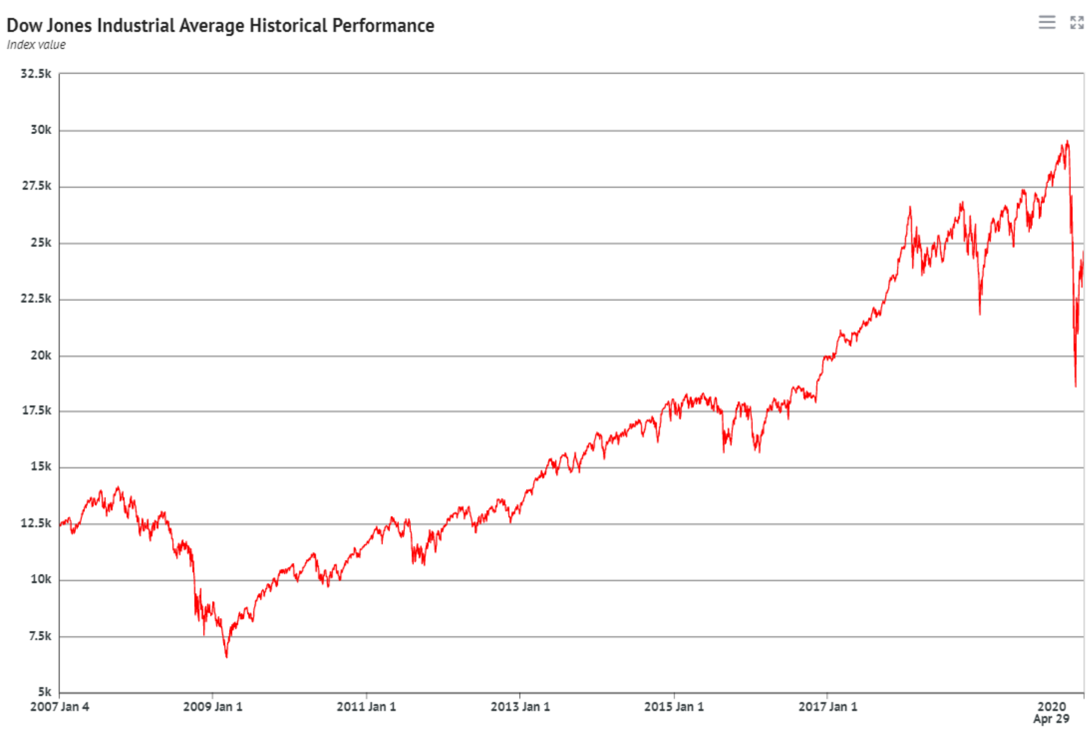
One-year changes for the three major stock indices follow.

DOW

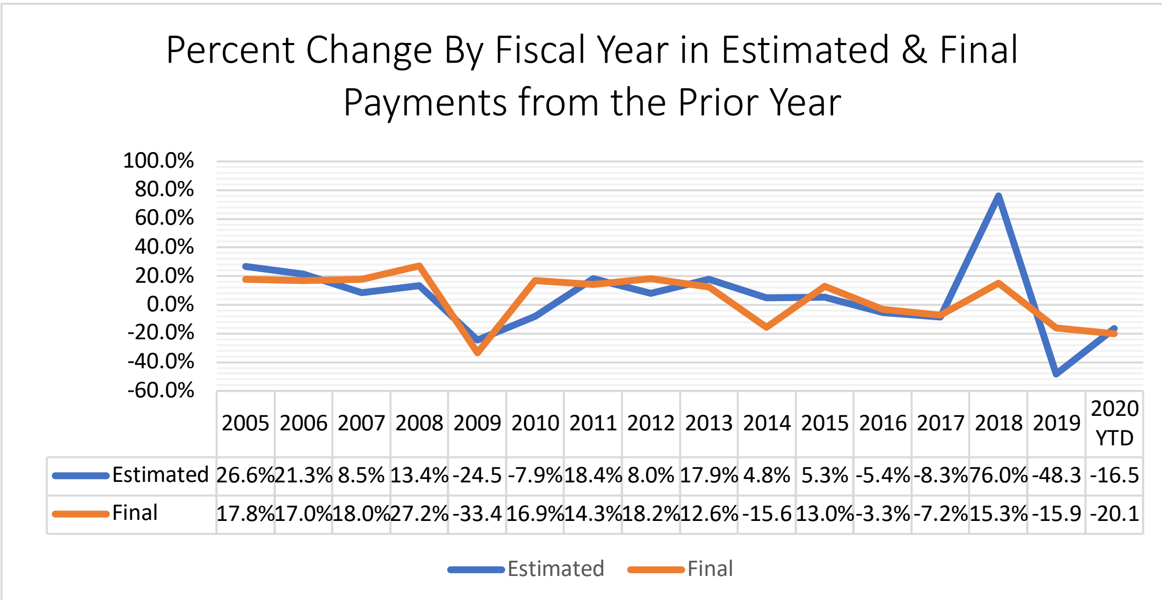
NASDAQ

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.

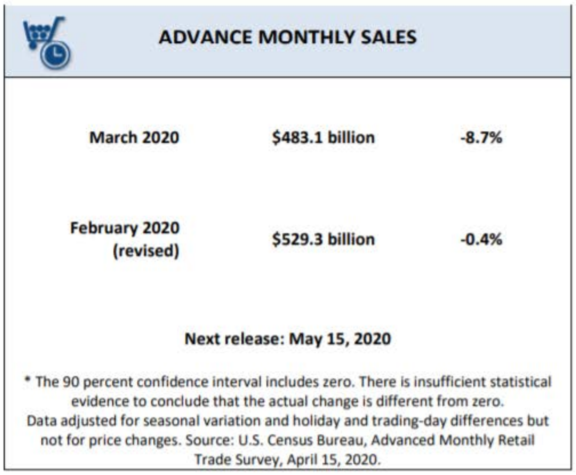


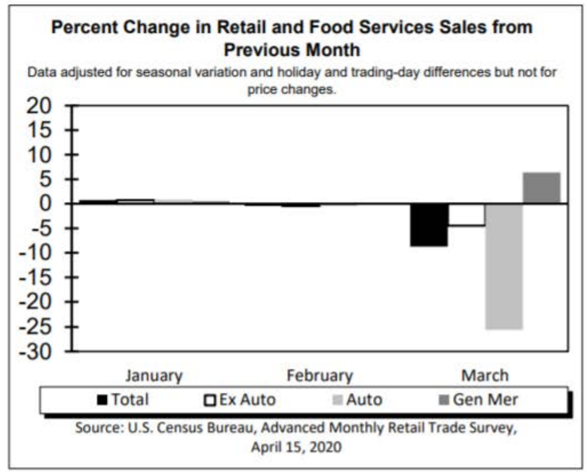
Year-to-date through March 2020, estimated and final payments are down a combined 17.4 percent compared with the same period a year ago. However, some collections from this category are now flowing though the new Pass-Through Entity (PET) tax on partnerships and S Corporations. In light of dramatic recent losses in the stock market, estimated and final payments will likely decline further. However, filing and payment deadlines have been pushed back 90 days (from April 15 to July 15) 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 for several months.

Consumer Spending

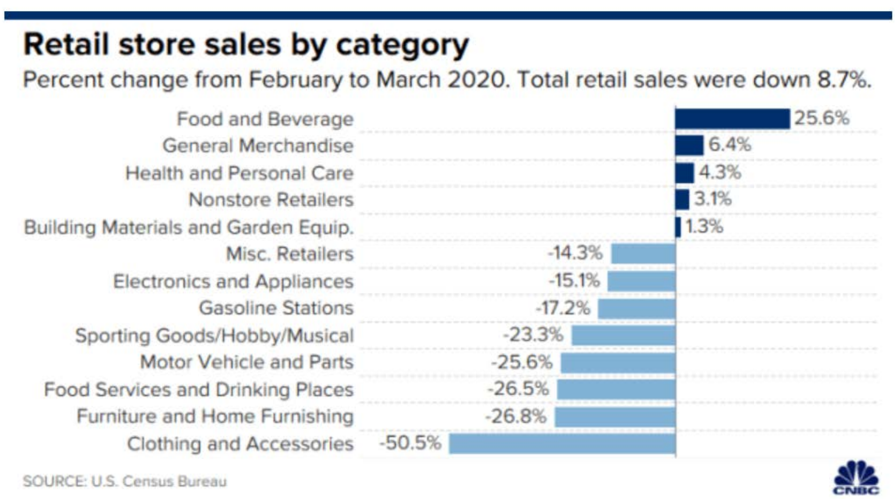
Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.

On April 15th, the Commerce Department reported that U.S. advance retail sales plummeted by 8.7 percent in March 2020 as governments began closing non-essential businesses and issuing stay at home orders for residents. March's decline was the largest on record since the federal government began tracking advance retail sales in 1992.





Weakness in retail sales was widespread in March as many sectors of the economy suffered significant declines. CNBC reported there was a surge in receipts at online retailers like Amazon, grocery stores and pharmacies as consumers stocked up on essential items such as food, cleaning supplies and medication. However, this was not enough to offset the wider decline as businesses closed their doors and millions of Americans lost their jobs. Many economists believe the nation is already in recession.

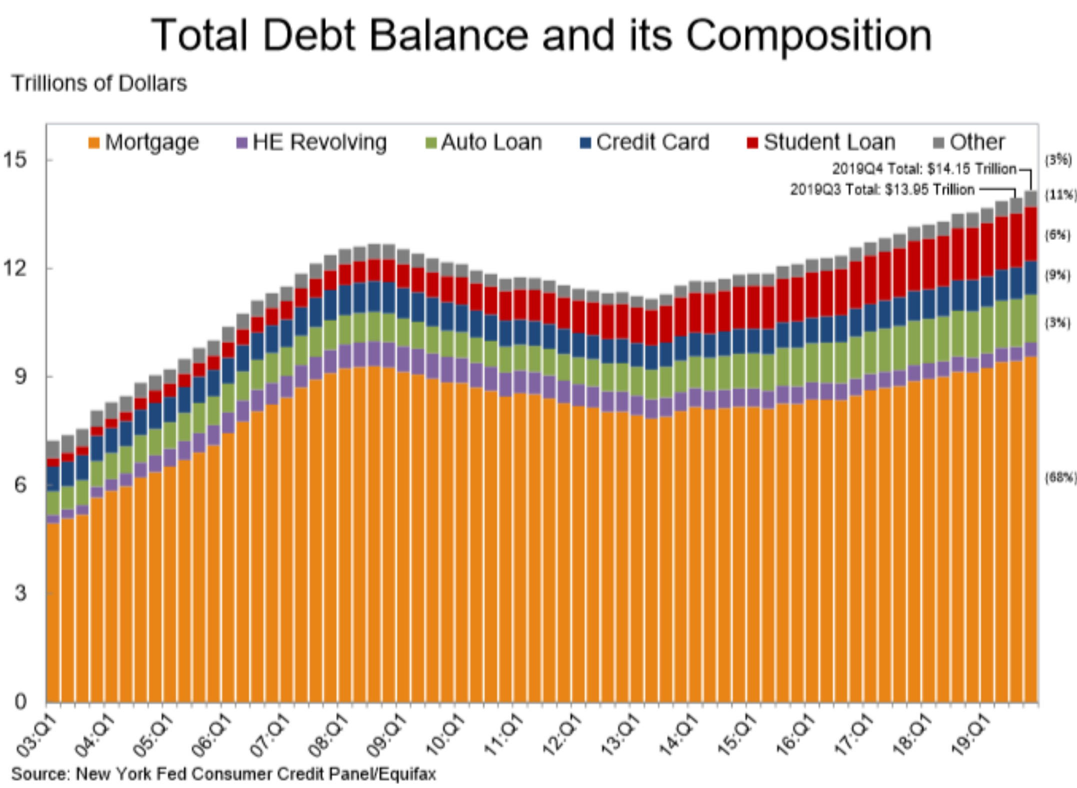


Consumer Debt and Savings Rates

According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the fourth quarter of 2019. Household debt has now grown steadily for 5+ years (22 consecutive quarters). As of December 31, 2019, overall debt –

including mortgages, auto loans, student loans and credit card debt – hit a record of $14.15 trillion. This represented an increase of $193 billion (1.4%) from the third quarter of 2019. In addition, overall household debt is now 26.8% 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 $9.56 trillion during the fourth quarter, a $120 billion increase from the third quarter of 2019. At $1.51 trillion, student loans were the second largest category of household debt. Student loan balances increased by $10 billion in the fourth quarter of 2019. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $6 billion to $390 billion. Auto loans grew by $16 billion in the fourth quarter to $1.33 trillion in total. Credit card balances increased by $46 billion to $927 billion, which represented growth of 5.2 percent between the third and fourth quarters, the largest increase on a percentage basis.



The Federal Reserve reported aggregate delinquency rates were mostly unchanged in the fourth quarter of 2019. As of December 31, 4.7 percent of outstanding debt was in some stage of delinquency, a 0.1 percentage point decrease from the third quarter due to a decrease in the 30 to 59 days late category. Of the $669 billion of debt that is delinquent, $444 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).

It should be noted these delinquency rates predate the economic upheaval related to the coronavirus. The Federal Reserve will report on household debt through the first quarter of 2020 on May 27, 2020.

Personal Savings Rate

In its April 30th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 13.1 percent in March, an improvement from February's revised rate of 8.0 percent. 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.

That was the case in March 2020: Disposable personal income decreased by $334.6 billion or 2.0 percent, but personal consumption expenditures fell further, by $1,127.3 billion or 7.5 percent, leading to an increase in the personal savings rate.

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 coronavirus 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 – Sharp Decline in March

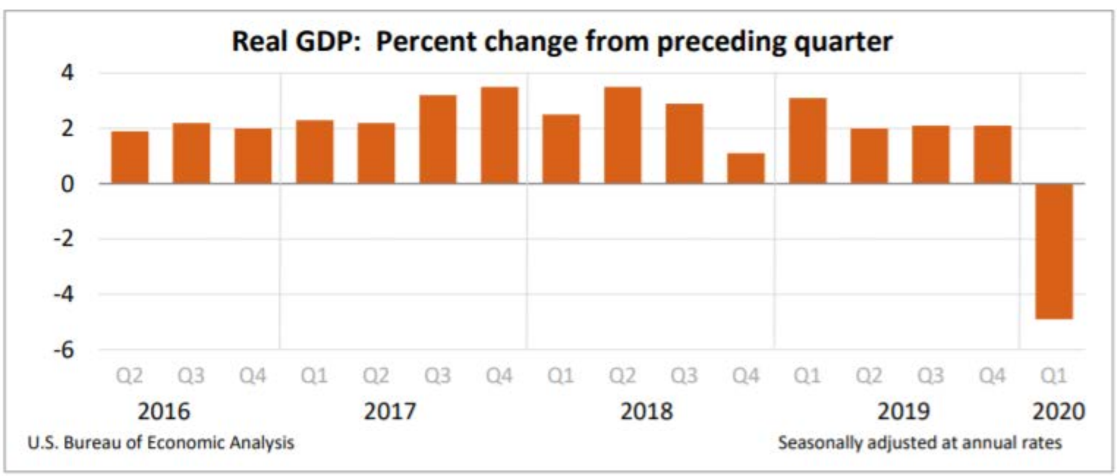
The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.

The Conference Board reported that the Consumer Confidence Index deteriorated further in April, following a sharp decline in March. The Index now stands at 86.9, down from 118.8 in March and represents the lowest level in nearly six years. The present conditions portion of the index dropped 90 points from 166.7 to 76.4, the largest decline on record. The Conference Board reported that this reflects the sharp contraction in economic activity and surge in unemployment claims brought about by the COVID-19 crisis.

Business and Economic Growth

According to an April 29th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) decreased at an annual rate of 4.8 percent in the first quarter of 2020, according to BEA's advance 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.

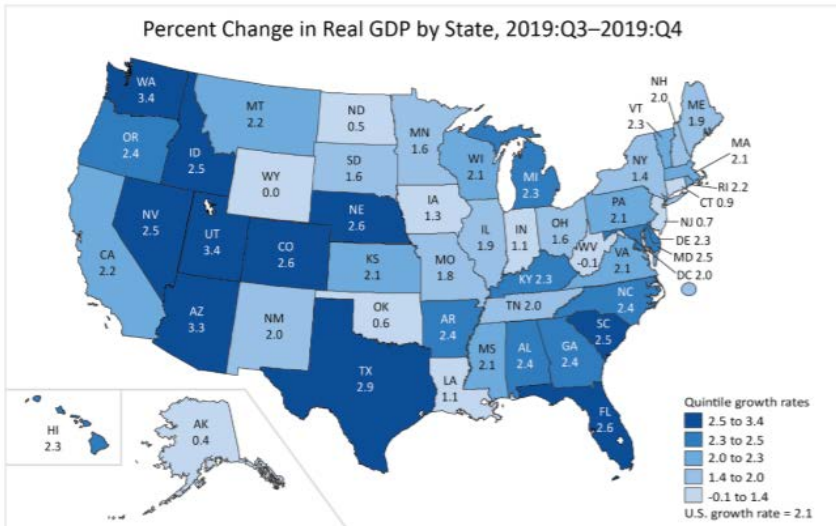


The decrease in real GDP in the first quarter reflected declines in consumer spending, business investment, exports, and private inventory investment. These decreases were partly offset by positive contributions from residential fixed investment (i.e., spending on private residential structures and equipment) 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.

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.



U.S. Bureau of Economic Analysis

Durable Goods

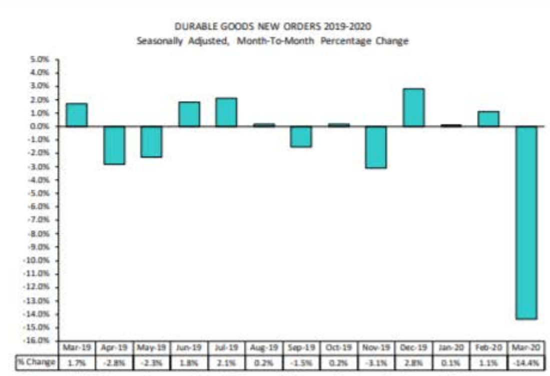
According to an April 24th report by the U.S. Department of Commerce, new orders of manufactured durable goods decreased $36.0 billion to $213.2 billion in March, a drop of 14.4 percent. March's decline comes after three consecutive months of growth. Transportation equipment led the decrease and was down $35.6 billion or 41.0 percent to $51.2 billion.

DURABLE GOODS – NEW ORDERS

MARCH 2020	**$213.2 billion**	**-14.4%°**
FEBRUARY 2020 (revised)	**$249.2 billion**	**+1.1%°**

Next release: May 28, 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, April 24, 2020.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, April 24, 2020.

Somewhat surprisingly, orders for so called core capital goods rose slightly, by 0.1 percent in March. Core capital goods are defined as non-defense capital goods excluding aircraft, which is considered a proxy for business spending. Economists polled by Reuters had forecast core capital goods orders dropping by 6.0 percent in March. At the same time, economists warned this report did not capture the full effects of the COVID-19 crisis and results are expected to worsen in future months.

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 April 23rd release, IHS Markit reported U.S. private business activity contracted at fastest pace in survey history in April amid the COVID-19 pandemic. The decline in output largely stemmed from a slump in both domestic and foreign client demand.
Temporary company closures, travel restrictions and other emergency public health measures across the globe weighed on total new orders. Services companies registered the steepest rate of decline in the survey's history, while manufacturers recorded the sharpest fall in sales since the depths of the financial crisis in early-2009.

Below are the key findings from the most recent survey, conducted April 7-22. Any index reading below 50 represents a contraction:

Key findings:

- Flash U.S. Composite Output Index at 27.4 (40.9 in March). New series low.
- Flash U.S. Services Business Activity Index at 27.0 (39.8 in March). New series low.
- Flash U.S. Manufacturing PMI at 36.9 (48.5 in March). 133-month low.
- Flash U.S. Manufacturing Output Index at 29.4 (46.5 in March). New series low.

Data collected April 7-22

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