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COMPTROLLER LEMBO PROJECTS $127.6 MILLION SURPLUS, CITES LONG-TERM CHALLENGES AMIDST MODEST RECOVERY

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a General Fund surplus of $127.6 million, noting persistent challenges for many working families as an uneven recovery continues.

Connecticut's economy has evaded the worst-case scenario forecast at the start of the pandemic, though many residents continue to struggle. Lembo highlighted Connecticut's booming housing market and the strong performance of the stock market as positive signs of recovery. Better-than-expected revenue collections, lower levels of state spending and temporary changes to Medicaid reimbursements have resulted in the projection of a small surplus.

"We are seeing a continuation of the 'K-shaped recovery' that has been occurring for the past few months," Lembo said. "Many high-income workers have actually gained during the pandemic, seeing their housing values and stock portfolios grow while being largely spared from job losses. Those who have lost their jobs, health insurance or access to food or shelter are the ones who continue to be disproportionally affected."

The nation's initial weekly unemployment claims are still four times higher than prior to the pandemic, with over 18 million people across the U.S. still receiving some form of unemployment benefits. Connecticut's unemployment rate currently stands at 8 percent, more than twice as high as this time last year. The leisure and hospitality sector has been hit the hardest, losing over 30,000 jobs since December 2019.

While Connecticut's residential real estate market has continued to excel, with the number of sales and median sale price of single-family homes increasing, the national delinquency rates for mortgages backed by commercial and multifamily properties increased for the second month in a row according to the Mortgage Brokers Association's monthly commercial real estate loan performance survey.

Lembo noted that federal stimulus measures have helped states, including Connecticut, navigate the pandemic but cited the continued high number of unemployment claims, uncertain revenue streams for municipalities and an anticipated increase in Medicaid spending as areas that Congress should target for future relief.

"It's undoubtedly good news to be able to project a surplus after enduring so much economic volatility in recent months," said Lembo. "However, this only underscores the continued uncertainty we'll grapple with as vaccinations continue and the economy evolves into its post-pandemic form."

In a letter to Gov. Ned Lamont, Lembo noted that April income tax receipts will be a key indicator in Connecticut's continued recovery and will add more clarity to the state's revenue picture.

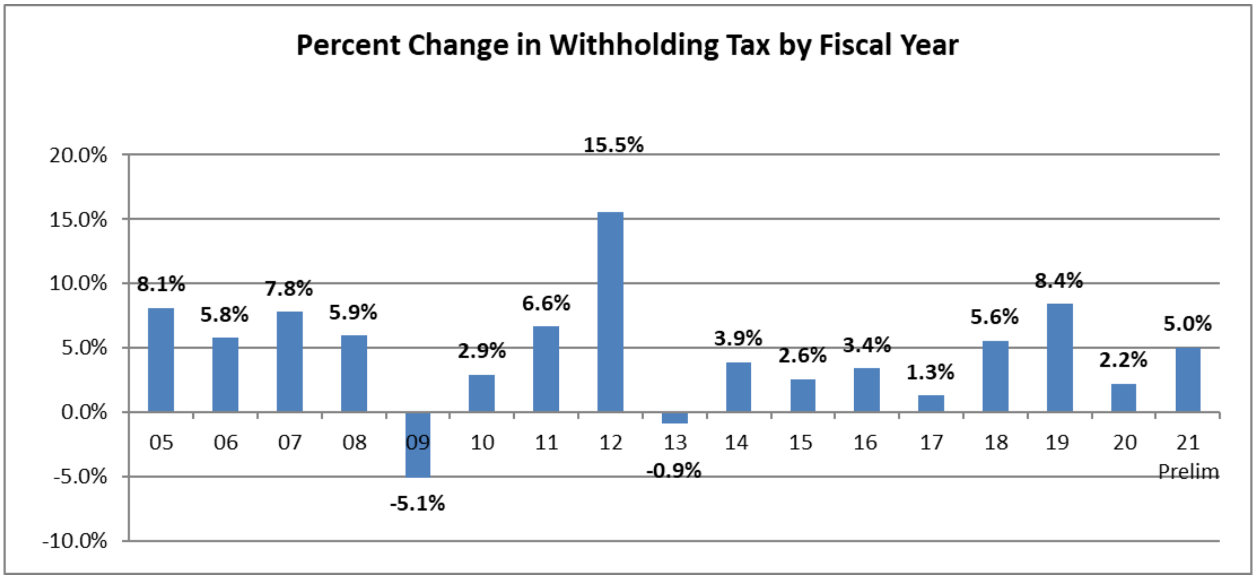
Lembo pointed to recent economic indicators and trends from national and state sources that show:

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

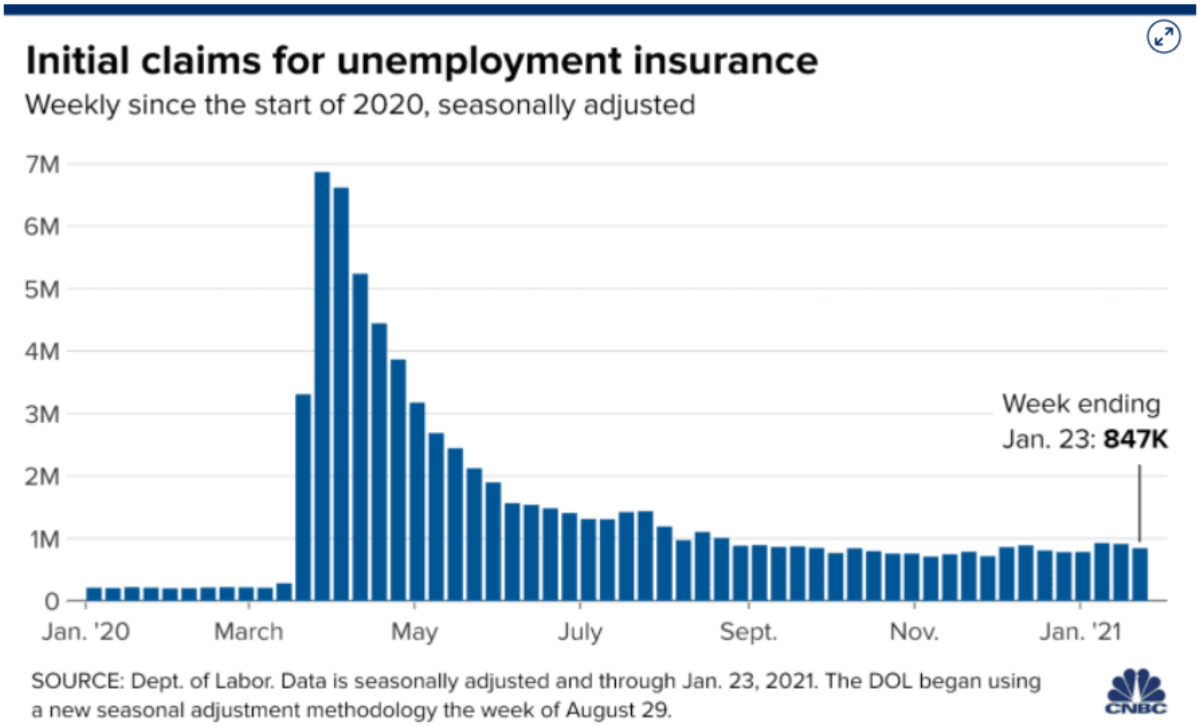
The withholding portion of the income tax is the largest single General Fund revenue source. Final results for FY 2020 showed withholding receipts came in 2.2 percent above FY 2019 levels, but somewhat below the growth rate built into the FY 2020 budget plan. Current collection trends for FY 2021 show withholding receipts growing by 5.0 percent above FY 2020 levels through December. These results are surprising based on the remaining number of jobs the state has yet to recover on a year-over-year basis. However, one possible explanation is that many of the employment losses were in concentrated in the service sector, such as leisure and hospitality, which tends to have lower wages. In addition, the $600 weekly supplemental unemployment insurance payments from the CARES Act were subject to the income tax. Therefore, a portion of the UI recipient population may have chosen to have withholding taken, which would show up in these collection totals.

The recent January 15 consensus revenue forecast reached by the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA) raised estimates for withholding by $235 million from the previous month. However, even with this improvement, the current target for withholding is still below the initial budget plan by $252.9 million or 3.5 percent.



COVID-19 Related Job Losses

Throughout December and January, the nation continued seeing high levels of initial unemployment insurance (UI) claims. For the week ending January 23rd, the U.S. Bureau of Labor Statistics (BLS) reported that seasonally adjusted initial claims totaled 847,000. This represents a decrease of 67,000 from the previous week's revised level and was somewhat lower than economists predicted. Still the jobs picture looking forward remains uncertain based on the number of coronavirus cases nationwide and ongoing restrictions imposed by states to combat the pandemic. The current level of initial UI claims is four times higher than totals seen before the coronavirus hit. Prior to the pandemic, initial UI claims averaged closer to 210,000 per week.



In the same release, BLS reported the number of individuals receiving unemployment benefits (all programs) was approximately 18.3 million for the week ending January 9th, up from 16.0 million the previous week. The increase is primarily related to the resumption of extended benefits included in the recent Federal relief bill. The corresponding figure for the prior year was 2.2 million.

CONTINUED WEEKS CLAIMED FILED FOR UI BENEFITS IN ALL PROGRAMS (UNADJUSTED)

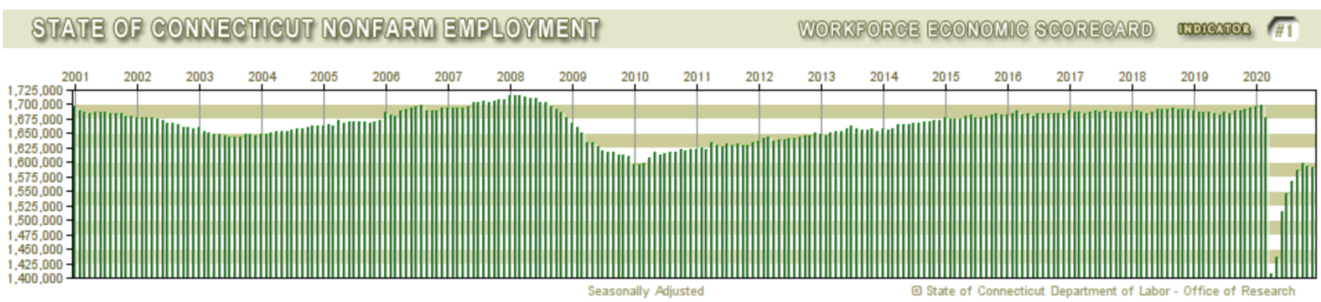
WEEK ENDING	**January 9**	**January 2**	**Change**	**Prior Year[1]**
Regular State	5,446,086	5,727,359	-281,273	2,137,945
Federal Employees	18,066	18,624	-558	11,103
Newly Discharged Veterans	9,543	9,701	-158	5,713
Pandemic Unemployment Assistance[3]	7,334,193	5,707,397	+1,626,796	NA
Pandemic Emergency UC[4]	3,863,548	3,026,952	+836,596	NA
Extended Benefits[5]	1,505,566	1,409,525	+96,041	0
State Additional Benefits[6]	2,517	2,539	-22	5,302
STC / Workshare [7]	102,571	86,498	+16,073	11,764
TOTAL[8]	18,282,090	15,988,595	+2,293,495	2,171,827

Congress recently enacted legislation that that contained nearly $900 billion in additional COVID-19 relief provisions, including approximately $120 billion for extensions to unemployment insurance programs and $300 per week in supplemental unemployment benefits through March 14, 2021.

Connecticut Jobs Picture – Two Months of Declines After Six Months of

After Connecticut experienced historic levels of employment losses this March and April, the state began regaining jobs over the following six months. Unfortunately, over the last two months, this the employment recovery appears to have has stalled.

On January 25th, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for December 2020 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 3,400 net jobs (0.2%) to a level of 1,590,800 jobs seasonally adjusted. At the same time, the preliminary November 2020 job loss of 1,600 was revised downward by an additional 1,800 jobs. As part of its analysis, DOL pointed out a noteworthy distinction in the December job numbers: The goods producing sector made up of manufacturing and construction gained 3,000 jobs while the service producing sector lost 6,400 jobs. The largest losses in December were in accommodation & food service and the government sector.

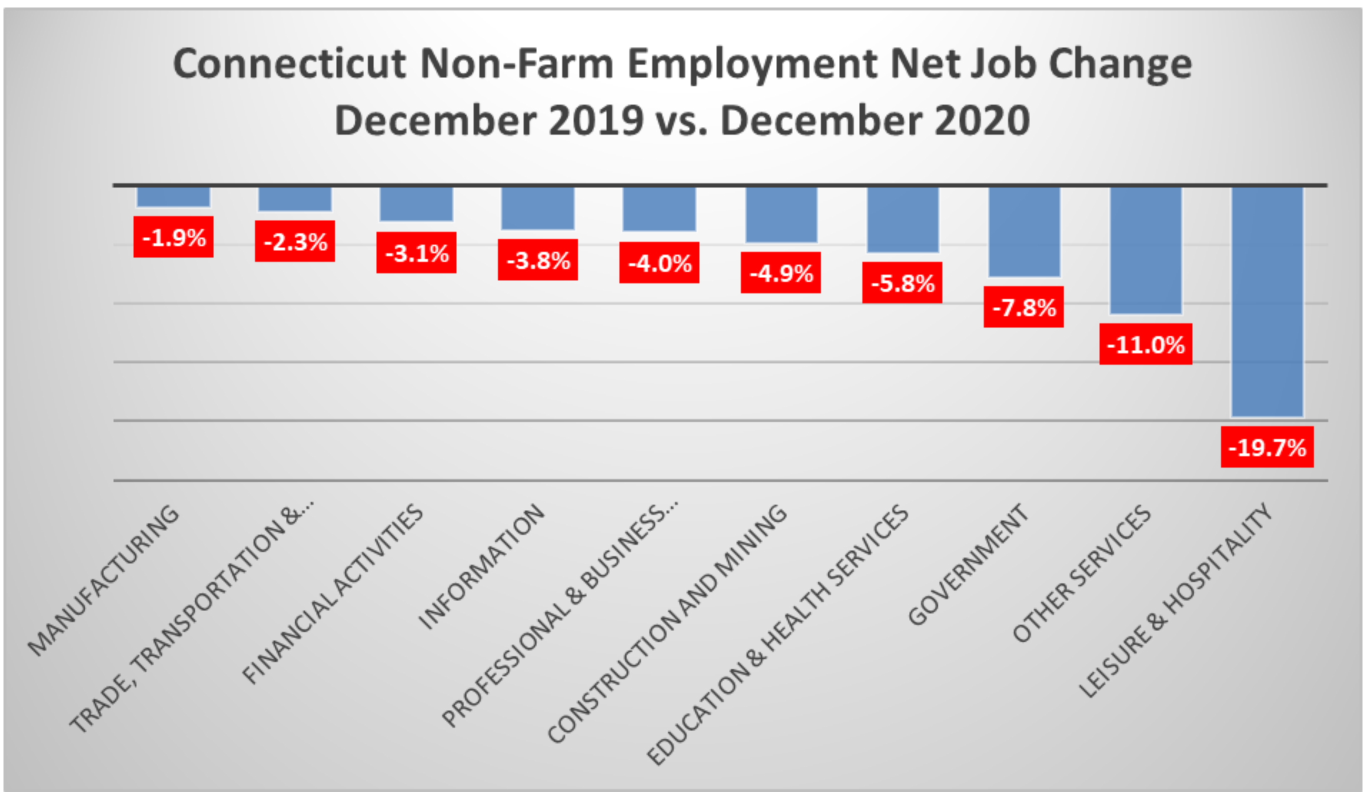


Despite overall gains since March and April, Connecticut's employment level is still significantly down on a year-over-year basis. Compared with December 2019, nonagricultural jobs in the state fell by a net 102,700 positions (-6.1 percent) below one year ago seasonally adjusted. Connecticut's official unemployment rate stood at 8.0 percent in December 2020, down from 8.2 percent a month ago, but significantly higher than the 3.8 percent rate a year ago.

The U.S. jobless rate in December 2020 was 6.7 percent, unchanged from the previous month, but up from the unemployment rate of 3.6 percent in December 2019.

Among the major job sectors listed below, all ten experienced significant losses in December 2020 versus December 2019 levels. The leisure & hospitality sector remains particularly hard hit, losing nearly one-fifth of its jobs for the period, followed by the other services and the government sectors.

Payroll Employment Trend				
December 2020 Versus December 2019				
Sector	December 2020 (P)	December 2019 (R)	Gain/Loss	% Change
Construction and Mining	58,000	61,000	-3,000	-4.9%
Manufacturing	158,200	161,200	-3,000	-1.9%
Trade, Transportation & Utilities	286,300	292,900	-6,600	-2.3%
Information	30,400	31,600	-1,200	-3.8%
Financial Activities	120,300	124,200	-3,900	-3.1%
Professional & Business Services	214,200	223,100	-8,900	-4.0%
Education & Health Services	322,800	342,600	-19,800	-5.8%
Leisure & Hospitality	125,200	155,900	-30,700	-19.7%
Other Services	57,500	64,600	-7,100	-11.0%
Government	217,900	236,400	-18,500	-7.8%
Total Connecticut Non-Farm Employment	**1,590,800**	**1,693,500**	**-102,700**	**-6.1%**
Source: Connecticut Department of Labor				



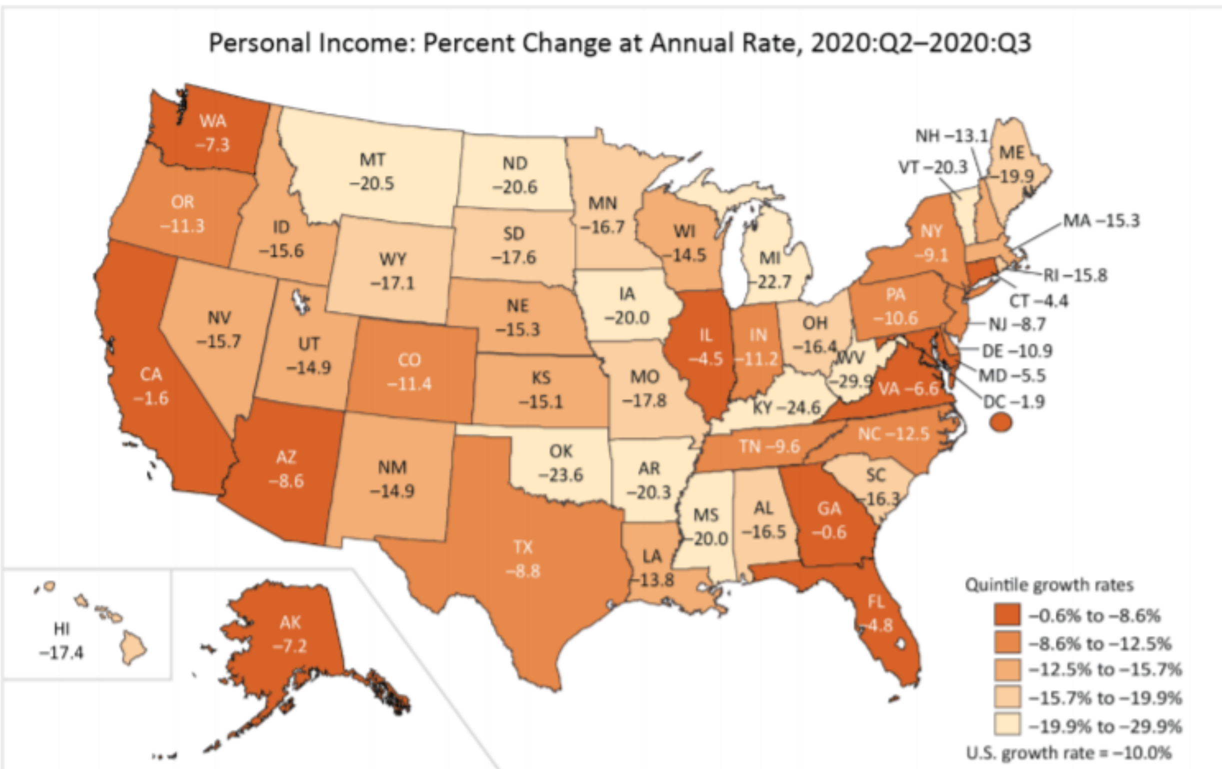
Income and Salary

December 2020 average hourly earnings at $34.39, not seasonally adjusted, were up $0.57 (1.7%) from the December 2019 estimate ($33.82). The resultant average private sector weekly pay came in at $1,176.14, up $22.88 from a year ago (2.0 percent). However, DOL warns that due to fluctuating sample responses, private sector earnings and hours estimates can be volatile from month-to-month.

In addition, the data may reflect that Connecticut's pandemic-related job losses are concentrated in the lower paying service sector, thus raising average earnings.
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 1.4 percent.

On December 17th, the Bureau of Economic Analysis reported that U.S. state personal income decreased at an annual rate of 10.0 percent in the third quarter of 2020, after increasing 35.8 percent in the second quarter. Personal income decreased in every state and the District of Columbia, ranging from –29.9 percent in West Virginia to –0.6 percent in Georgia.

Between the second and third quarters of 2020, Connecticut's personal income decreased by a 4.4 percent annual rate. Based on this result, Connecticut ranked 3rd in the nation for third quarter income growth, ahead of both the national average (-10.0%) and New England regional average



U.S. Bureau of Economic Analysis

Housing

Continuing a trend from recent months, Berkshire Hathaway HomeServices reported another month of very strong results for the Connecticut housing market in December 2020 compared with December 2019. Sales of single-family homes increased by 39.83 percent, with the median sale price increasing by 23.22 percent. In addition, year-to-date sales through December 2020 were up 20.09

percent compared with 2019 results. New listings were up 22.08 percent this December versus last year, with the median list price up 18.61 percent. At the same time, average days on the market decreased 35.37 percent in December 2020 compared to the same month in the previous year (53 days on average compared with 82 in December 2019). Finally, on average sales prices continue to approach the asking price for single family homes with the sales to list price ratio of 99.6 percent.

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

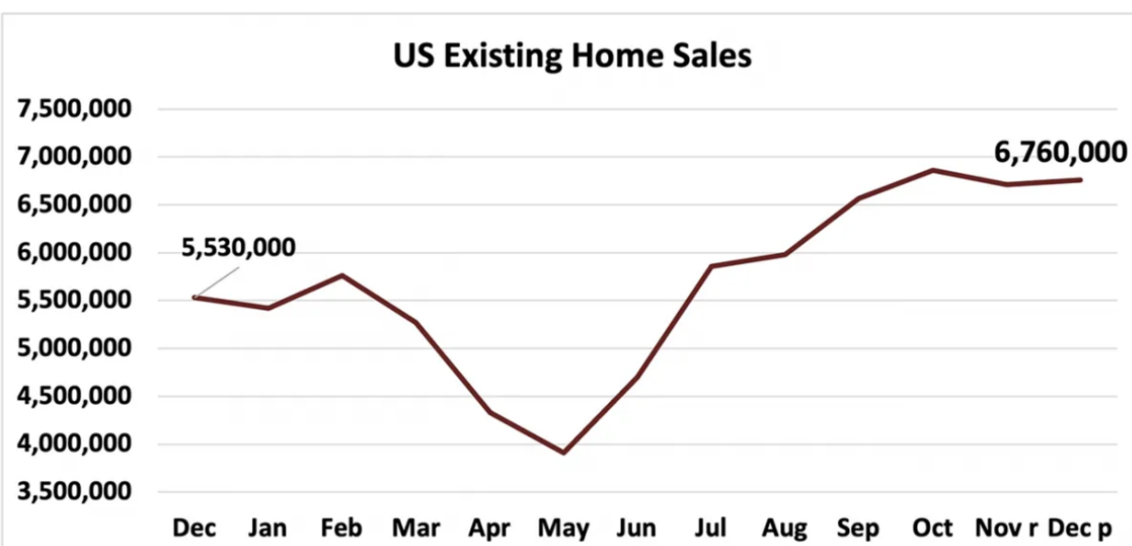
MARKET SUMMARY

DECEMBER 2020 | SINGLE FAMILY HOMES

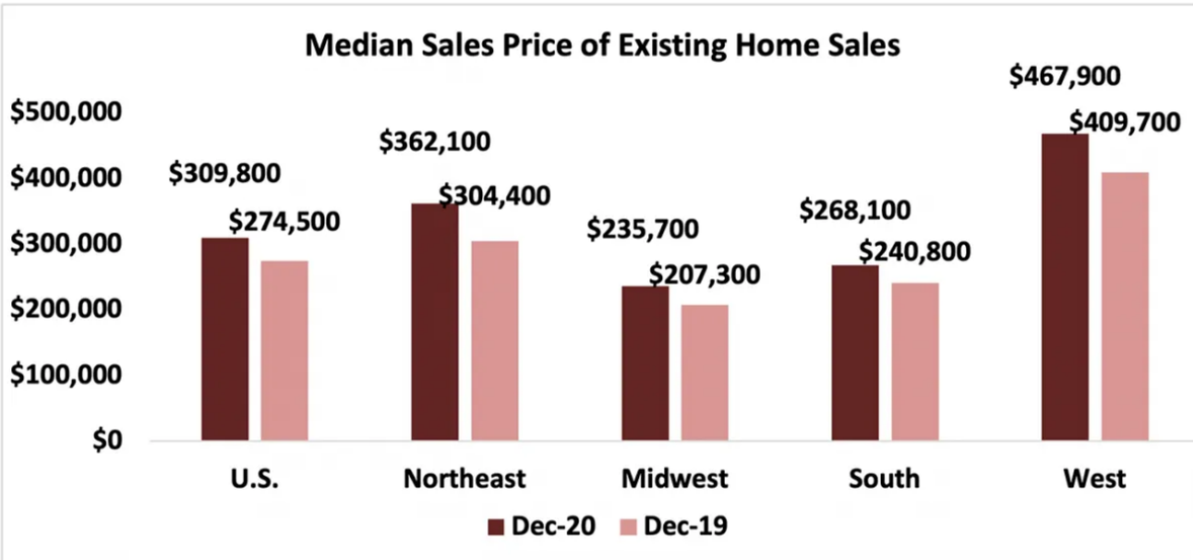
Market	Month to Date			Year to Date		
Summary	December 2020	December 2019	Percent Change	Year-To-Date 2020	Year-To-Date 2019	Percent Change
New Listings	2167	1775	22.08% ▲	53861	55502	-2.96% ▼
Sold Listings	4230	3025	39.83% ▲	44250	36846	20.09% ▲
Median Listing Price	$326,050	$274,900	18.61% ▲	$318,000	$275,000	15.64% ▲
Median Selling Price	$329,000	$267,000	23.22% ▲	$315,000	$270,000	16.67% ▲
Median Days on Market	33	59	-44.07% ▼	41	54	-24.07% ▼
Average Listing Price	$543,260	$410,355	32.39% ▲	$506,869	$414,104	22.4% ▲
Average Selling Price	$532,475	$390,505	36.36% ▲	$493,790	$397,307	24.28% ▲
Average Days on Market	53	82	-35.37% ▼	69	78	-11.54% ▼
List/Sell Price Ratio	99.6%	96.9%	2.79% ▲	98.8%	97.4%	1.49% ▲

For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales rose in December 2020, reaching their highest level since 2006 before the Great Recession. The four major U.S. regions had mixed results in terms of month-over-month sales, but each region experienced significant year-over-year growth.

Total existing-home sales, (completed transactions that include single-family homes, townhomes, condominiums and co-ops) increased 0.7 percent from November to a seasonally adjusted annual rate of 6.76 million in December. Sales in total rose year-over-year, up 22.2 percent from a year ago (5.53 million in December 2019).



Nationally, home prices have remained strong during the pandemic. NAR reported the median existing-home price for all housing types in December was $309,800, up 12.9 percent from December 2019 ($274,500), as prices increased in every region of the country. December's national price increase marks 106 straight months of year-over-year gains.



One factor driving housing prices is a historically low level of housing inventory. NAR notes total housing inventory at the end of December totaled 1.07 million units, down 16.4 percent from November and down 23 percent from one year ago (1.39 million). Unsold inventory sits at an all-time low 1.9-month supply at the current sales pace, down from 2.3 months in November and down from the 3.0-month figure recorded in December 2019.

Commercial Real Estate – Rising Delinquency Rates in December

While many analysts focus on the residential housing market, it is also worthwhile to monitor trends in the commercial real estate market, especially for the impact of COVID-19 on the health of the sector. One source that conducts a monthly commercial real estate loan performance survey is the Mortgage Brokers Association (MBA).

MBA's January 8th report found delinquency rates for mortgages backed by commercial and multifamily properties increased for the second month in a row in December 2020. This was seen as a symptom of the economic slowdown stemming from the recent surge in COVID-19 cases. MBA noted there was an initial surge in delinquencies in April and May, driven by the impact the pandemic had on lodging and retail properties. This was followed by declines for several months as the economy stabilized over the summer. More recently, with the resurgence of the virus, delinquency rates are rising again, disrupting property income for owners.

MBA reports loans backed by lodging and retail properties continue to see the greatest stress. The overall share of lodging, office and industrial loan balances that are delinquent increased in December. Other key findings include:

- 22.5% of the balance of lodging loans were not current in December, up from 22.1% in November.

- 11.9% of the balance of retail loan balances were delinquent in December, down from 12.9% in November.

- 4.2% of the balances of industrial property loans were non-current, up from 2.5% in November.

- 2.7% of the balances of office property loans were non-current, up from 2.4%.

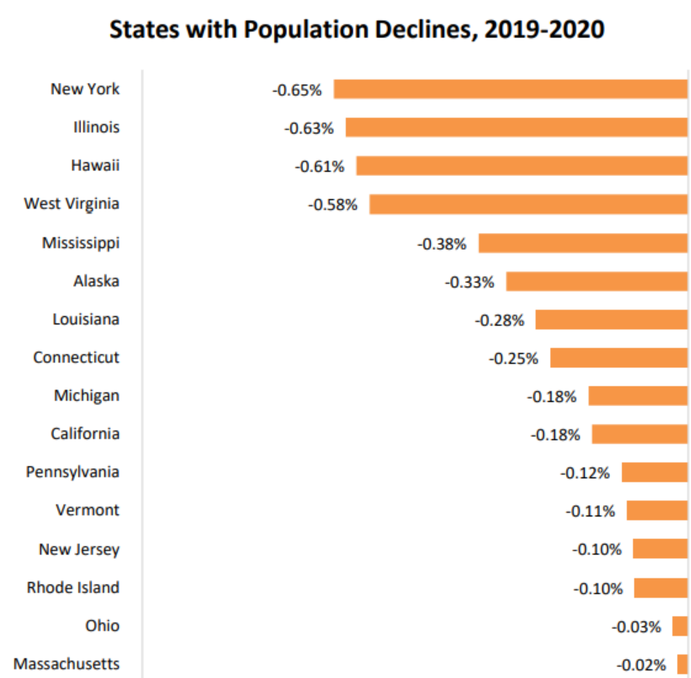
1.7% of multifamily balances were non-current, up from 1.6% a month earlier.

Connecticut Population Estimates

Based on U.S. Census Bureau estimates as of July 1, 2020, Connecticut's population was 3,557,006 last year. This represented a small decline of 9,016 or 0.25 percent from the previous year's estimate. A Federal Funds Information Service (FFIS) analysis of the data showed that Connecticut was one of sixteen states that lost population in 2020.

Looking at longer term trends, Connecticut was one of six states that lost population over the past decade. The chart below shows the states and changes since 2010:

State	Change from 2010	Percent Change
West Virginia	-69,478	-3.75%
Illinois	-253,015	-1.97%
Connecticut	-22,167	-0.62%
Vermont	-2,539	-0.41%
New York	-63,180	-0.33%
Mississippi	-3,829	-0.13%



Stock Market – Strong Results for 2020 After Low Point in March

As calendar 2020 came to end, the overall economy has not recovered to its pre-pandemic levels, but the stock market ended the year at or near record highs. The DOW gained 7.25 percent and ended the year at an all-time high. The NASDAQ, heavily composed of tech stocks, continued to be the strongest performer and was up 43.64 percent. The S&P 500 rose to record levels as 2020 ended, rising 16.26 percent for the year.

January 2021 was a volatile month for stocks and the last week of the month ended on a down note. Year-to-date, the DOW has lost 2 percent and the S&P is off 1.1 percent. The NASDAQ remained in positive territory, up 1.4 percent for January.

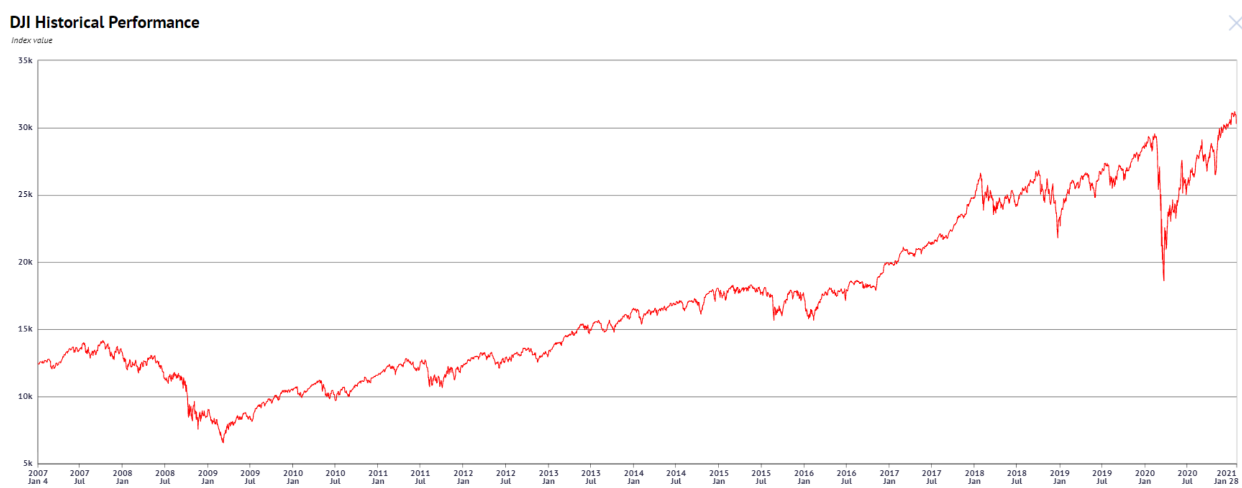
Charts with one-year results follow:

DOW

NASDAQ

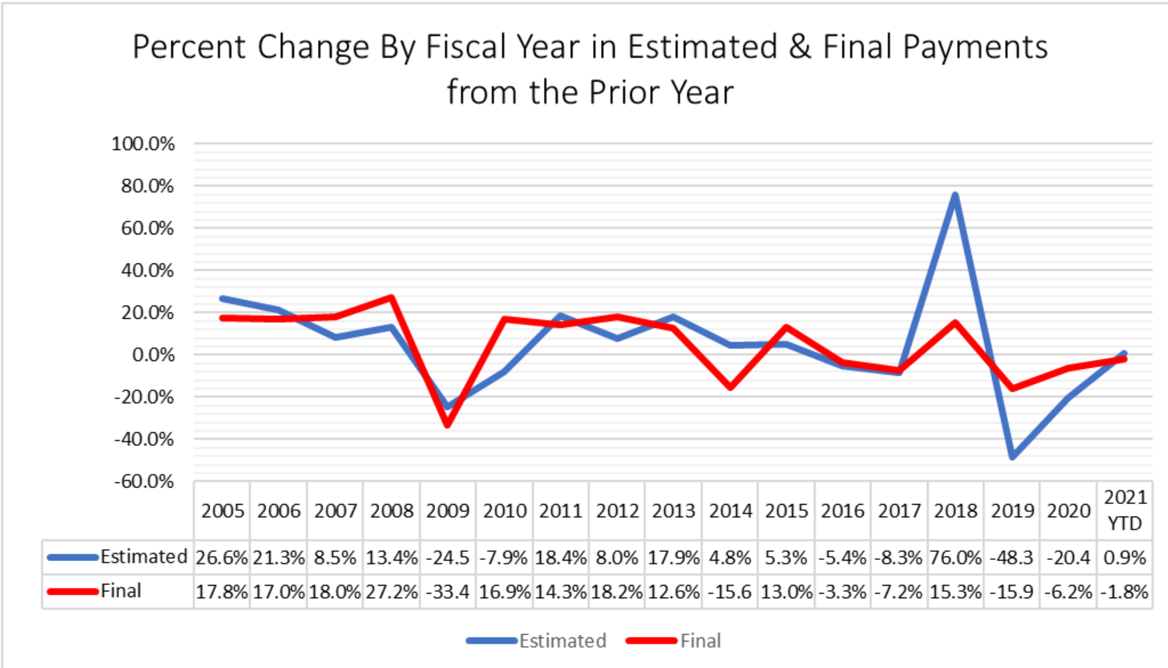
S&P 500 INDEX

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 25-30 percent of total state income tax receipts, but can be an extremely volatile revenue source.

FY 2020 results showed estimated and final payments were down a combined 13.2 percent compared with the previous year. Preliminary estimates for the first six months of FY 2021 indicate better than expected results for estimated payments through December 2020. Reflecting this trend, the January 15th consensus revenue forecast reached by the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA) increased the projection for estimated and final income taxes by $294.4 million compared with the prior month. However, this category is still running behind the original targets in the FY 2021 budget plan by $298.2 million.



Consumer Spending

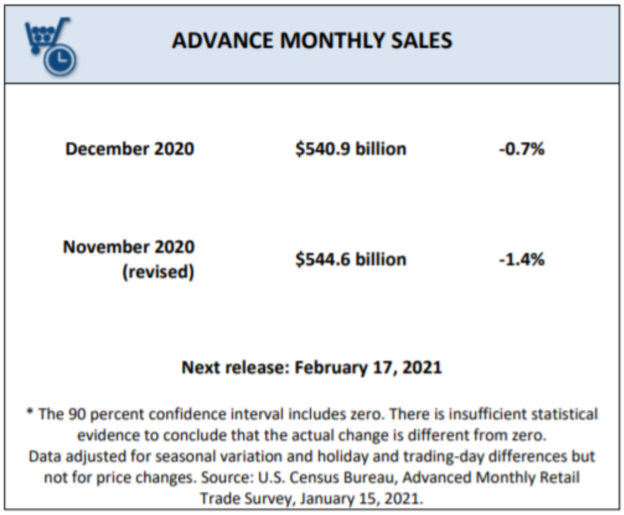
Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.

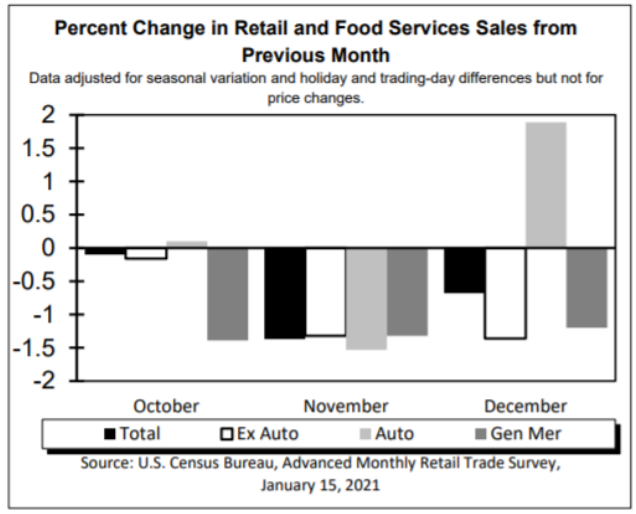
On January 15th, the Commerce Department reported that U.S. advance retail sales were $540.9 billion in December, a decrease of 0.7 percent from the previous month. This represents the third straight monthly decline, creating new fears among analysts for a slowing recovery. November's decline was revised downward to a decrease of 1.4 percent. Analysts noted the slowdown in consumer spending was due to new measures to reduce the spread of coronavirus cases, which lowered spending at restaurants and shopping malls.

Receipts were down in several sectors in December including electronics & appliance stores (-4.9%), general merchandise stores (-1.2%), and food services & drinking establishments (-4.5%). In addition, sales at non-store retailers (on-line merchants) dropped 5.8 percent.

On the upside, motor vehicle & parts dealers had a strong month, increasing 1.9 percent. Clothing retailers (+2.4%), health & personal care stores (+1.1%) and building materials & garden supply stores (+0.9) all saw growth in December. Sales at gasoline stations grew by 6.6 percent, in part due to rising fuel prices.

So-called core retail sales dropped 1.9 percent in December, after declining a revised 1.1 percent in November. This category excludes automobiles, gasoline, building materials and food services.

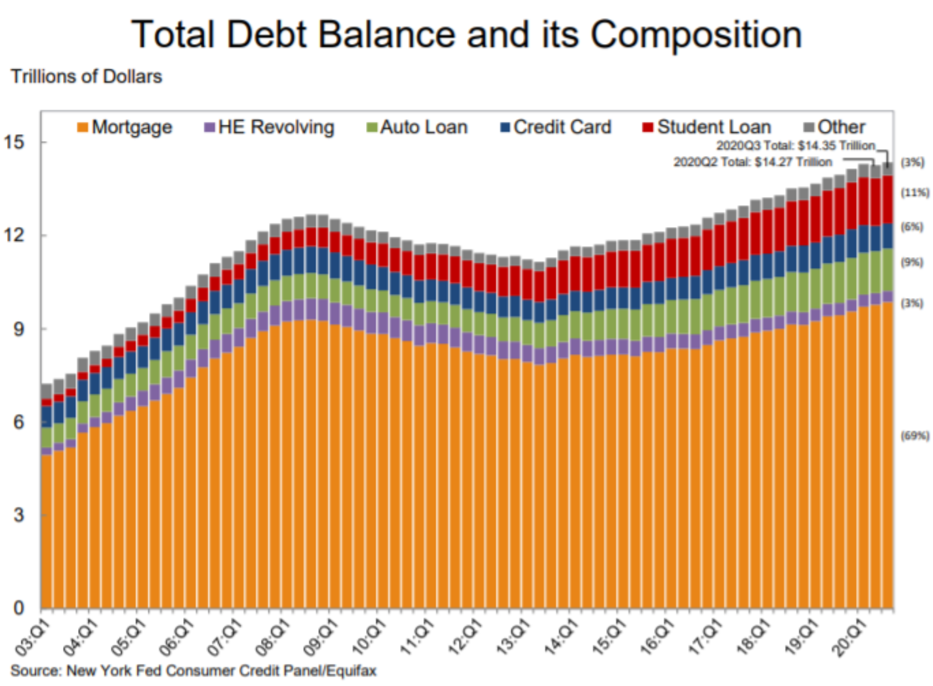




Consumer Debt and Savings Rates

According to the Federal Reserve Bank of New York, aggregate household debt balances increased in the third quarter of 2020 after stepping back in the second quarter. Total household debt increased by $87 billion (0.6 percent) to $14.35 trillion in the quarter ending September 30, 2020. The increase more than offset the decline seen in the second quarter of 2020 as total household debt has now surpassed its first quarter 2020 level.

The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances—the largest component of household debt—rose by $85 billion in the third quarter and stood at $9.86 trillion on September 30th. Outstanding student loans, the second largest category of household debt, totaled $1.55 trillion in the third quarter, a $9 billion increase from the second quarter. Auto loan balances increased by $17 billion in the third quarter, reaching $1.36 trillion.

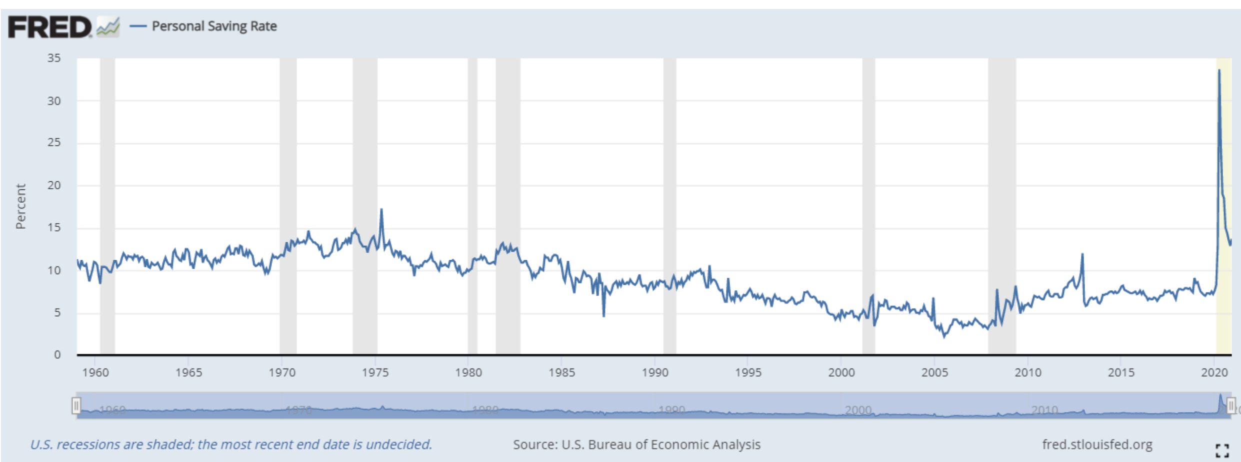


The Federal Reserve reported credit card balances fell slightly in the third quarter by $10 billion and total 807 million as of September 30th. This drop follows the $76 billion decrease in second quarter of 2020, the steepest decline in card balances in the history of the data (since 1999). The report noted the decline in card balances reflects continued weak consumer spending amidst the COVID-19 pandemic, as well as households paying down existing credit card debt. Balances on home equity lines of credit saw a $13 billion decline, their 15th consecutive decrease since 2016Q4, bringing the outstanding balance to $362 billion.

The Federal Reserve Bank of New York will release results for the fourth quarter of 2020 in mid-February 2021.

Personal Savings Rate

In its January 29th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 13.7 percent in December 2020, up from a revised 12.9 percent in November. This remains a relatively high savings rate by historical standards, although it is lower than the record 33.7 percent revised rate recorded in April 2020. 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.



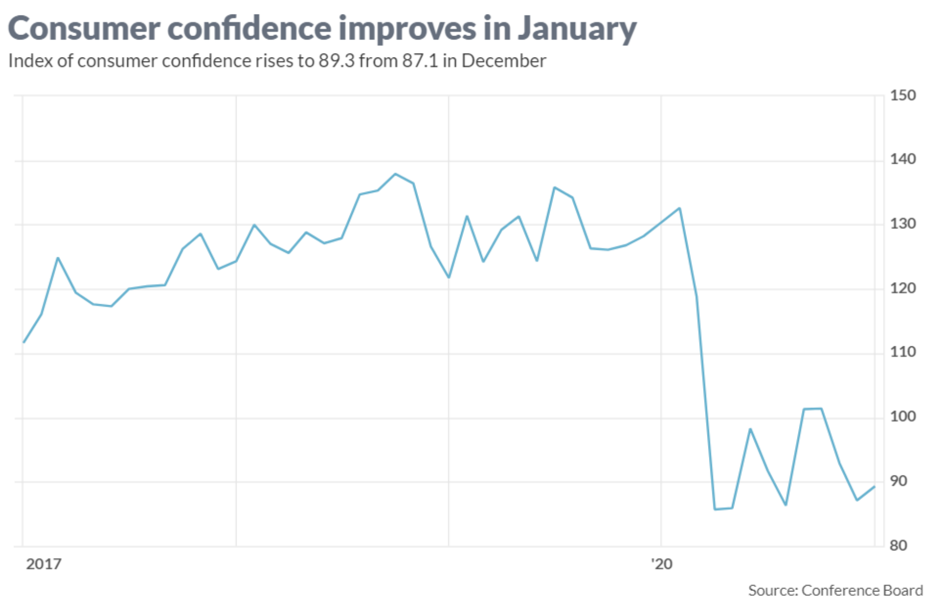
BEA reported that personal income increased $116.6 billion (0.6 percent) in December and disposable personal income (DPI) increased $111.6 billion (0.6 percent). Personal consumption expenditures (PCE) decreased $27.9 billion (0.2 percent) as relief provisions of the CARES Act continued to wind down and new restrictions and closures took effects throughout the country.

It is important to note aggregate statistics and averages can be deceiving. While the personal savings rate may be high by historical standards, some households fare better than others. Even before the current coronavirus pandemic hit, studies showed nearly four in ten U.S. adults would have difficulty covering an emergency $400 expense due to lack of savings. Even in relatively good economic times, many working families live paycheck to paycheck. Now with large scale job losses in the lower wage service sector, a lack of savings will make the present downturn much more difficult to navigate.

Consumer Confidence – Improvement in Short-Term Outlook in January

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 rose somewhat in January after a significant decline in December. The Index now stands at 89.3, up from 87.1 in December, which represented a four-month low. Despite the improvement, consumer confidence remains still well below its pre-pandemic level.



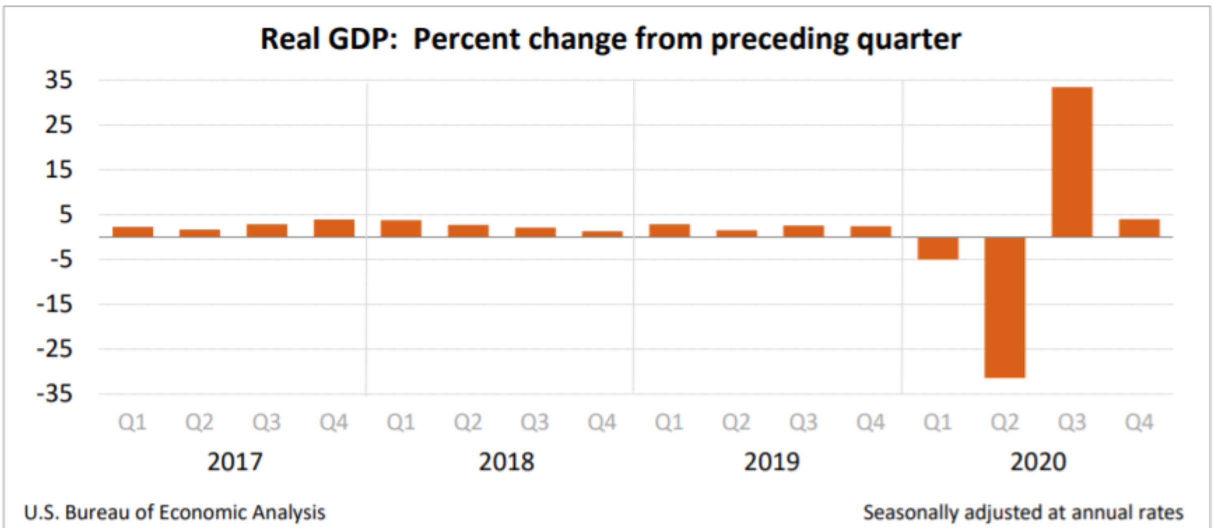
The Consumer Confidence Index is made up of two parts, including the Present Situation Index, which looks at current conditions and the Expectation Index, which measures consumers' views of anticipated conditions for the next six months.

The Present Situation Index decreased from 87.2 to 84.4 in January, which was attributed to the impact of COVID-19 on the current economy and the jobs picture. However, the Conference Board reported consumers were more optimistic about the short-term outlook for business and labor market conditions. This measure rose from 87.0 in December to 92.5, which some analysts attributed to the greater availability of vaccines that could lead to a broader economic recovery.

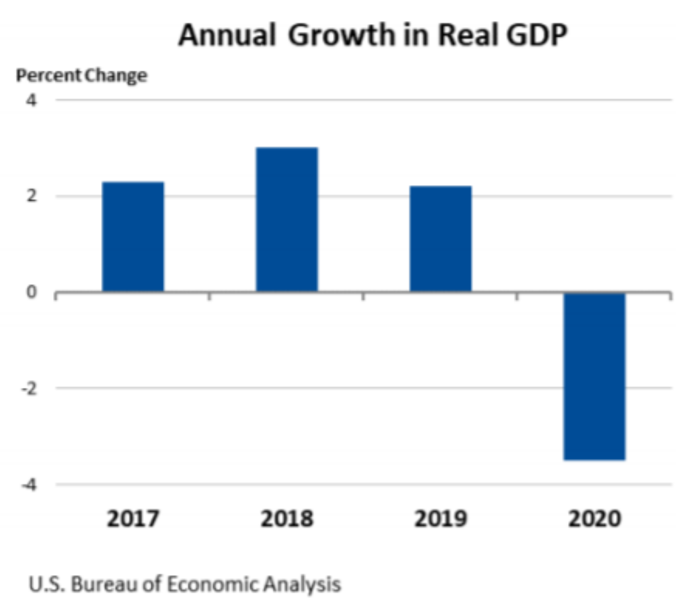
Business and Economic Growth – 4th Quarter GDP

According to a January 28th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 4.0 percent in the fourth quarter of 2020, according to BEA's advance estimate. This level of growth was slightly lower than anticipated. Economists surveyed by Bloomberg expected growth to come in at 4.2 percent.

BEA reported the fourth-quarter growth in real GDP reflected increases in exports, business investment, consumer spending, housing investment, and inventory investment. These categories were partially offset by a decrease in government spending, primarily related to state and local governments. Imports, a subtraction in the calculation of GDP, increased.

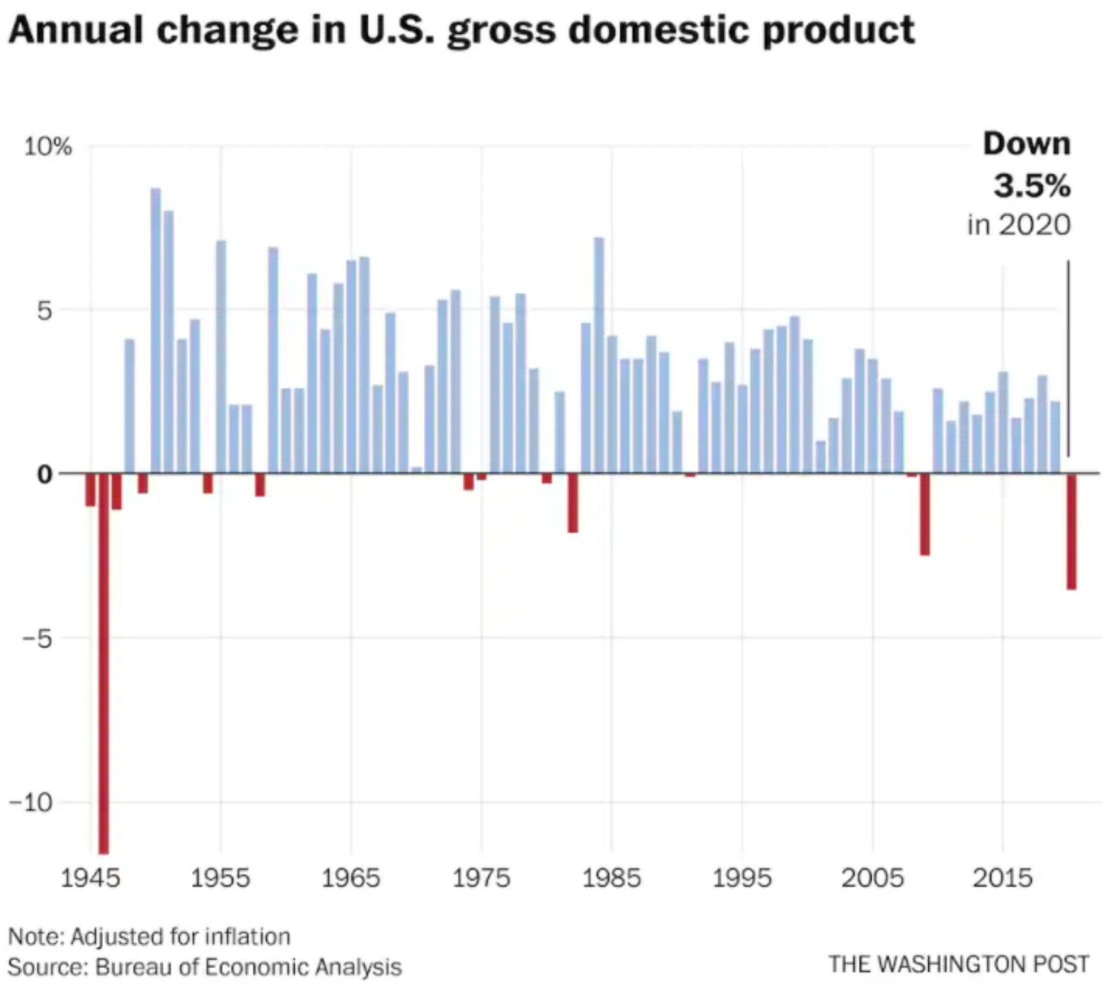


For the full 2020 calendar year, BEA reported real GDP decreased 3.5 percent (from the 2019 annual level to the 2020 annual level). This compared with an increase of 2.2 percent in 2019. The drop in GDP primarily reflected decreases in consumer spending, exports, inventory investment, and business investment that were partially offset by increases in housing investment and government spending. Imports, a subtraction in the calculation of GDP, decreased.



The decrease in consumer spending for 2020 was concentrated in the service sector, reflecting the nation's response to the coronavirus pandemic and was led by declines in food services and accommodations, health care, and recreation services.

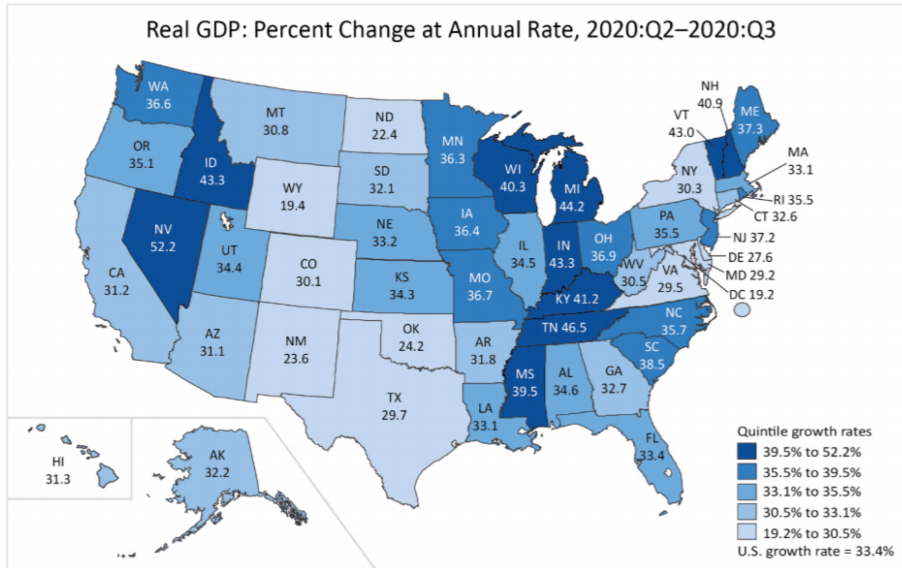
An analysis by the Washington Post showed that calendar 2020 was the worst year for economic growth since 1946, as the nation demobilized from World War II.



State Level GDP Results – Third Quarter 2020

On December 23rd, BEA reported updated state level GDP data. Real gross domestic product (GDP) increased in all 50 states and the District of Columbia in the third quarter of 2020, as real GDP for the nation increased at an annual rate of 33.4 percent. The percent change in real GDP in the third quarter ranged from 52.2 percent in Nevada to 19.2 percent in the District of Columbia.

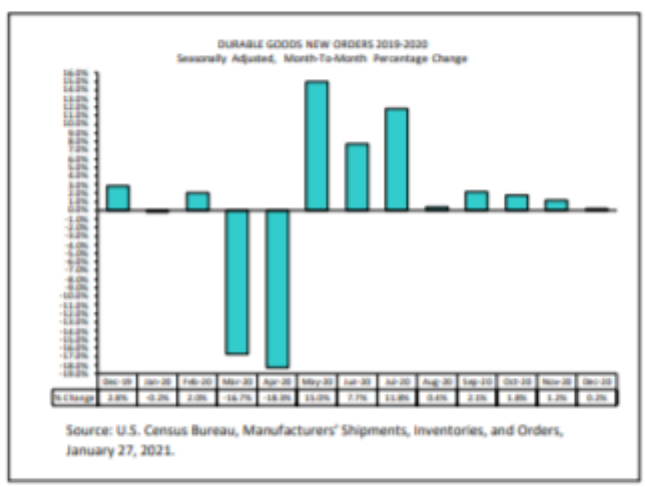
Connecticut fared slightly worse than the nation and the New England region, with its GDP growing 32.6 percent, which ranked 32nd overall. The Connecticut industries experiencing the largest gains on a percentage basis were health care and social assistance (+5.41%), durable goods manufacturing (+5.21%) and accommodation and food services (+4.26%).



U.S. Bureau of Economic Analysis

Durable Goods

According to a January 27th report by the U.S. Department of Commerce, new orders for manufactured durable goods edged up $ $0.4 billion or 0.2 percent in December to $245.3 billion. This increase was below the level forecasted by economists, but still represented the eighth consecutive month of growth. November's increase in durable goods orders was revised upward to 1.2 percent.



December's orders were lifted by machinery, also up eight consecutive months, which increased $0.8 billion or 2.4 percent to $33.2 billion. Overall new orders for transportation equipment were down

1.0 percent. Within this category, both defense aircraft (-51.8%) and non-defense aircraft (-5.0%) declined, mitigated by new orders of motor vehicles, which rose 1.4 percent.

Orders for so called core capital goods increased 0.6 percent in December, after a one percent rise in the previous month. Core capital goods are defined as non-defense capital goods excluding aircraft, which is considered a proxy for business spending.

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