News from
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $482.3M SURPLUS, EXPRESSES CAUTIOUS OPTIMISM IN CONNECTICUT'S RECOVERY

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a General Fund surplus of $482.3 million for Fiscal Year 2022 citing signs of economic growth and budgetary stability.

The national economy continues to experience unprecedented uncertainty as the country recovers from the pandemic while still actively combatting the virus. Comparatively, Connecticut's economy is showing steady job growth, with anticipated budgetary stability owed largely to previous federal action and the state's robust reserves.

"We don't know what the national economy will look like when the nation, as a whole, finally emerges on the other side of the pandemic," said Lembo. "But I'm growing more optimistic each month about the trajectory of Connecticut's recovery and the relative stability of our state budget. As always, there remain areas of concern — particularly in long-term workforce participation, housing costs and the pace of job recovery — but Connecticut is on the right track to experience continued growth and avoid the large budgetary deficits that have plagued the state for much of the past decade."

Connecticut experienced its ninth consecutive month of job growth in September and has now recovered 70.4 percent of jobs lost during the initial COVID-19 shutdown. While the national quit rate spiked — dubbed by some as "The Great Resignation" — Connecticut had among the lowest quit rates in the country. The relative stability of Connecticut's infection rate and large-scale adherence to public safety measures, paired with a comparatively high minimum wage, are seen as contributing factors.

"What we're seeing in our state's economy is the direct result of our residents' compassion and commitment to each other," said Lembo. "I'm incredibly proud to live in a state where the vast majority of people have joined together in service of the common good to get us through this unprecedented crisis. While we'll be dealing with the health and economic aftershocks of COVID for years to come, Connecticut taxpayers should feel confident in our ability to meet future challenges together."

A continued area of concern for Lembo is the increasing cost of housing. Connecticut's housing market is cooling off after an impressive summer. Prices for single-family homes remain high but total sales numbers have declined as inventory has decreased. While the robust housing market has had a net positive impact on the state's economy, it has also contributed to rising housing costs, including a 14.5% year-over-year increase in rental costs and a declining rate of first-time homeownership.

Lembo noted the success of eviction avoidance programs, and corresponding federal aid, in combatting housing insecurity. He encouraged lawmakers to be cognizant of expiring federal mortgage forbearance programs and to be proactive in helping residents stay in their homes.

In a letter to Governor Ned Lamont, Lembo noted that the November consensus revenue report could alter the state's budget picture and pointed positively to favorable sales tax receipts and volatile revenue estimates.

A policy originally written by Lembo in 2015 automatically directs excess revenue in certain volatile tax categories into the state's Budget Reserve Fund ("Rainy Day Fund"). In Fiscal Year 2021, the fund exceeded its statutory cap, and the automatic contributions were instead used to pay down pension liabilities. Lembo is forecasting a similar outcome in the current fiscal year, projecting an additional payment of over $1 billion towards pension debt if current estimates hold.

Although there are many signs for cautious optimism in the economic data, Lembo warned that it is still early in the fiscal year.

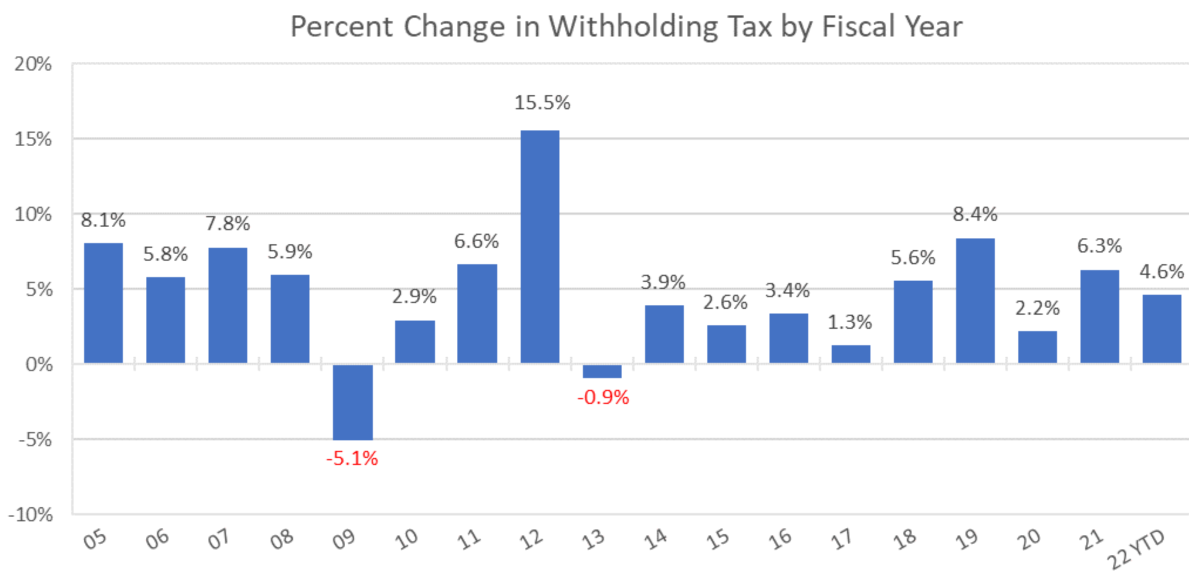
Lembo pointed to recent economic indicators and trends from national and state sources that show:

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 and Withholding Receipts

The withholding portion of the income tax is the largest single General Fund revenue source. Despite historic levels of job losses at the start of the pandemic, income tax withholding still finished FY 2021 $75.3 million or 1.0 percent above its budget target. Compared with prior year realized amounts, FY 2021 withholding receipts performed even better, growing by $428.6 million or 6.3 percent over FY 2020 levels. Growth in withholding receipts reflected several factors, including the concentration of employment losses in the lower wage service sector, the ongoing recovery of jobs throughout the year, and having income tax withheld on enhanced unemployment benefits, including the additional $600 per week that was part of the Federal pandemic relief efforts.

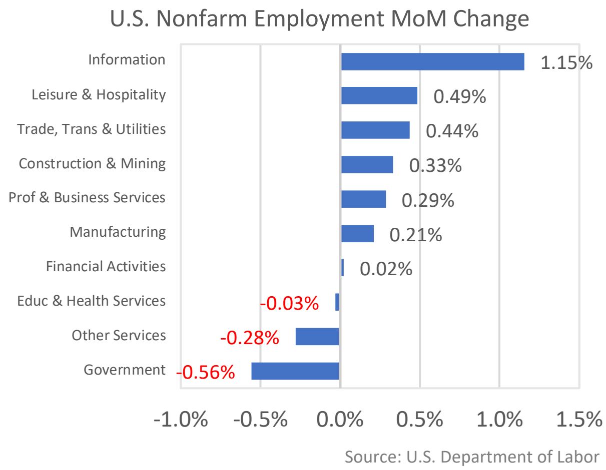
Through the first quarter of FY 2022 income tax withholding continues to perform well. To date through September 30th, collections are coming in 4.6 percent above the same period in FY 2021.

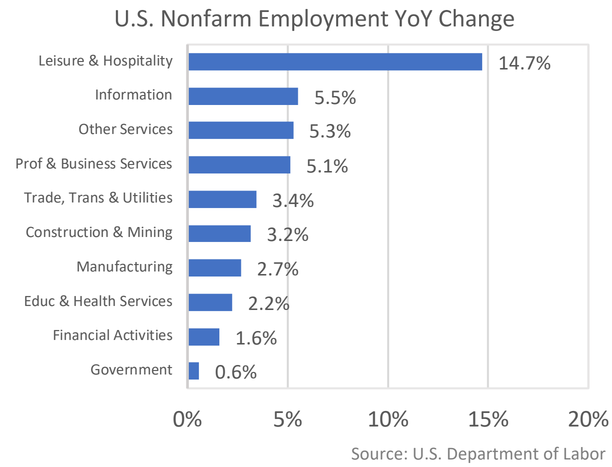


National Jobs & Unemployment Picture – Job Gains Disappoint in September

National job growth disappointed in September after a summer of large gains. The Bureau of Labor Statistics (BLS) reported the U.S. added 194,000 jobs in September after adding 366,000 jobs in August and over 1 million in July. This marks nine straight months of gains, but recent growth is much lower than expected. Job gains occurred in leisure and hospitality (+74,000), professional and business services (+60,000), retail trade (+56,000), and information (+32,000). Sectors that shrunk include government (-123,000), other services (-16,000), and education and health services (-7,000).

Nonfarm payroll employment is up by 17.4 million since April 2020 but is down by 5 million, or 3.3 percent, from its pre-pandemic level in February 2020. The graphs below display the month over month and year over year net change in employment by sector. Month over month, seven sectors experienced gains while three declined. Year over year, all industry sectors experienced growth.



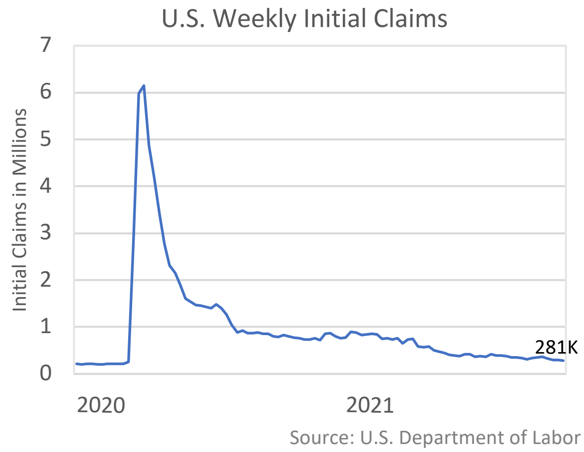


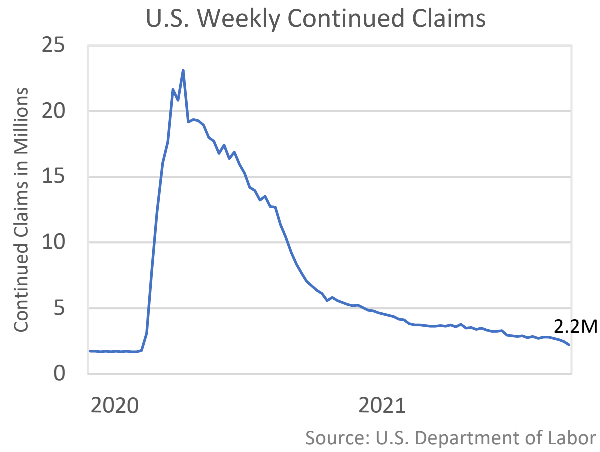
In August, the national quit rate was 2.9 percent, with 4.3 million people leaving their jobs. This is a record high, substantiating the "Great Resignation." Industries with the highest quit rates included leisure and hospitality, specifically accommodation and food services, and trade, transportation, and utilities, specifically retail trade.

In September, the national unemployment rate declined by 0.4 percentage points to 4.8 percent. This is still higher than pre-pandemic levels (3.5%) but demonstrates how fast unemployment has recovered compared to previous recessions. The COVID-19 virus created the highest national unemployment rate (14.8%) since the Great Depression (25.6%) yet rebounded to under 5% in less than a year and a half.

The number of unemployed people decreased to 7.7 million, inching closer to pre-pandemic levels (5.7 million). The number of long-term unemployed people, those jobless for 27 weeks or more, decreased by 496,000 to 2.7 million, and account for 34.5 percent of the total unemployed in September. The labor force participation rate stands at 61.6 percent, remaining little changed since 2020. This is concerning to economists because it's an indication that people who left the workforce due to COVID-19 may have left long-term. Early data suggests that the expiration of expanded federal unemployment benefits did not bring back workers as quickly as anticipated.

For the week ending October 23rd, BLS reported that seasonally adjusted initial claims totaled 281,000 which is a decrease of 10,000 from the previous week's level of 291,000. For the week ending October 16th, BLS reported seasonally adjusted continued claims totaled 2,243,000, a decrease of 237,000 from the previous week's revised level of 2,480,000.





BLS reported the total receiving unemployment benefits was approximately 2.8 million for the week ending October 9th, down from 3.3 million the previous week and down from 23.5 million the previous year. This large decrease is due to the expiration of the federal Pandemic Unemployment Assistance (PUA) program and the Pandemic Emergency Unemployment Compensation (PEUC) program. The totals reported in the chart below do not represent unique individuals, rather the number collecting from all programs.

Continued Weeks Claimed Filed for UI Benefits in All Programs (Unadjusted)

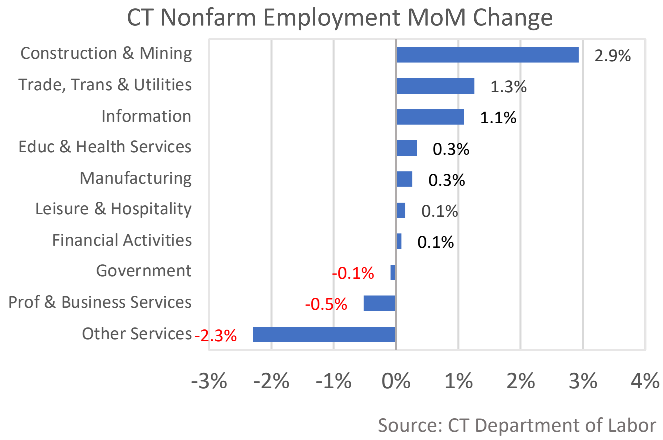
Week Ending	**October 9**	**October 2**	**Change**	**Prior Year**
Regular State	2,161,080	2,255,919	-94,839	8,025,806
Federal Employees	7,712	7,682	+30	11,752
Newly Discharged Veterans	5,203	5,453	-250	13,066
Pandemic Unemployment Assistance	270,013	517,949	-247,936	10,781,090
Pandemic Emergency UC	244,379	331,567	-87,188	4,052,669
Extended Benefits	117,559	134,379	-16,820	406,127
State Additional Benefits	2,445	2,909	-464	2,395
STC/Workshare	22,270	23,189	-919	187,008
TOTAL	2,830,661	3,279,047	-448,386	23,479,913

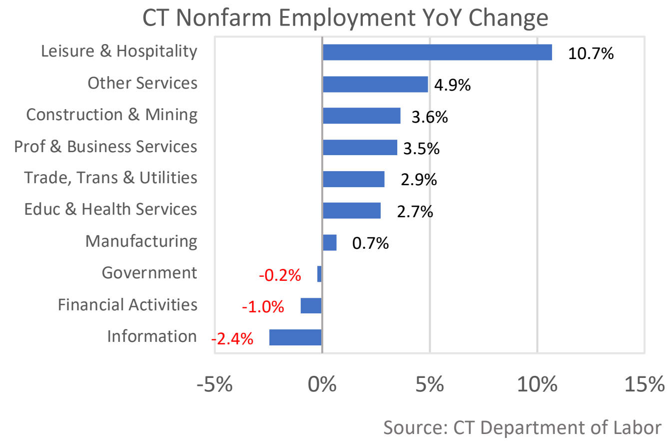
Source: U.S. Department of Labor

<u>Connecticut Jobs Picture – Continued Gains in September</u>

After Connecticut experienced historic levels of employment losses in March and April of 2020, the state began regaining jobs over the following six months. Later in the year, the employment recovery stalled as coronavirus infection rates rose. More recently, new information released by the Connecticut Department of Labor (DOL) indicates Connecticut's labor market is gradually improving through 2021.

DOL's Labor Situation report showed the state gained 4,700 net jobs (0.3%) in September to a level of 1,609,700 jobs seasonally adjusted. This follows job growth of 3,000 positions in August and represents nine consecutive months of employment gains. The graphs below display the month over month and year over year net change in employment by sector followed by a chart with the numeric gains and losses.





Nonfarm Employment by Sector

Sector	September 2021 (P)	August 2021 (R)	September 2020 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Information	27,900	27,600	28,600	300	1.1%	-700	-2.4%
Financial Activities	117,900	117,800	119,100	100	0.1%	-1,200	-1.0%
Government	224,400	224,600	224,900	-200	-0.1%	-500	-0.2%
Manufacturing	153,000	152,600	152,000	400	0.3%	1,000	0.7%
Education & Health Services	332,200	331,100	323,400	1,100	0.3%	8,800	2.7%
Trade, Transportation & Utilities	291,000	287,400	282,800	3,600	1.3%	8,200	2.9%
Professional & Business Services	210,300	211,400	203,200	-1,100	-0.5%	7,100	3.5%
Construction & Mining	59,800	58,100	57,700	1,700	2.9%	2,100	3.6%
Other Services	59,600	61,000	56,800	-1,400	-2.3%	2,800	4.9%
Leisure & Hospitality	133,600	133,400	120,700	200	0.1%	12,900	10.7%

Source: CT Department of Labor

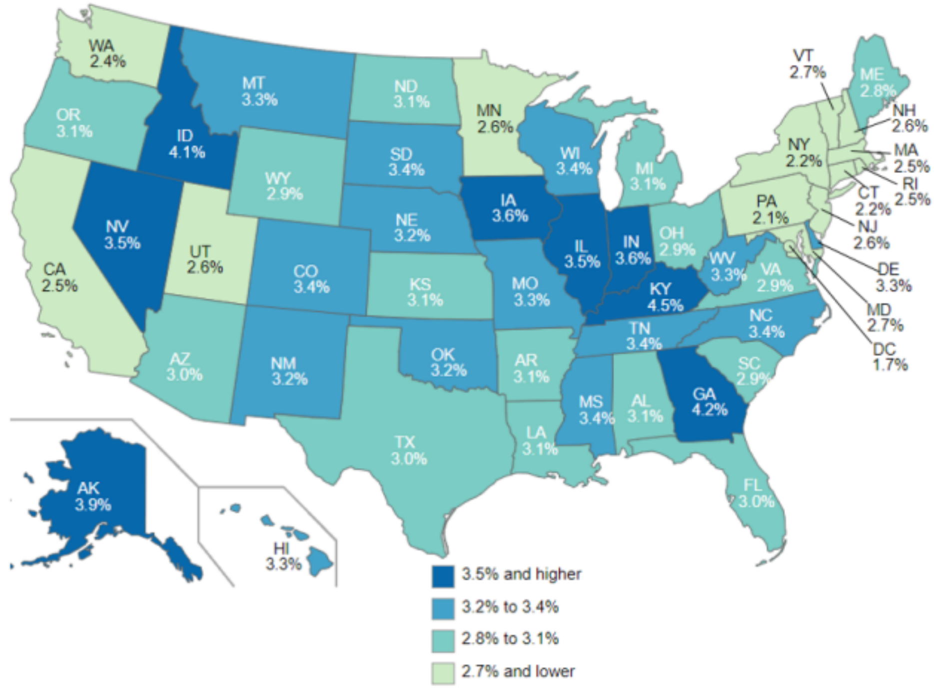
On a month-to-month basis, DOL noted that seven of the ten major industry sectors experienced improvement while three declined. Trade, transportation, and utilities lead the way (+3,600 jobs), followed by construction and mining (+1,700), and education and health services (+1,100). The sectors that lost jobs include other services (-1,400), professional and business services (-1,100), and government (-200) which includes all federal, state, and local employment, including public education and Native American casino employment located on tribal reservation land.

On a year-over-year basis, seven sectors experienced gains and three experienced losses. The leisure & hospitality sector, hardest hit during the pandemic, experienced the largest gains (+12,900), growing 10.7 percent from a year ago. Information, financial activities, and government lost jobs over the same period.

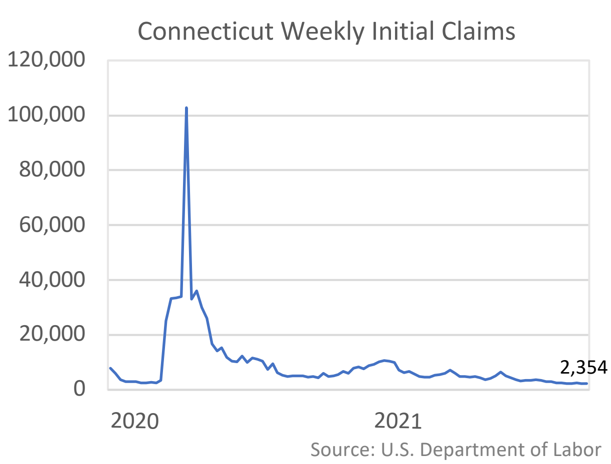
According to BLS, in August, Connecticut's quit rate was 2.2 percent, with 35,000 people leaving their job in one month. This is one of the lowest quit rates across the country and within the Northeast. The graphic below from BLS depicts the quit rate by state.

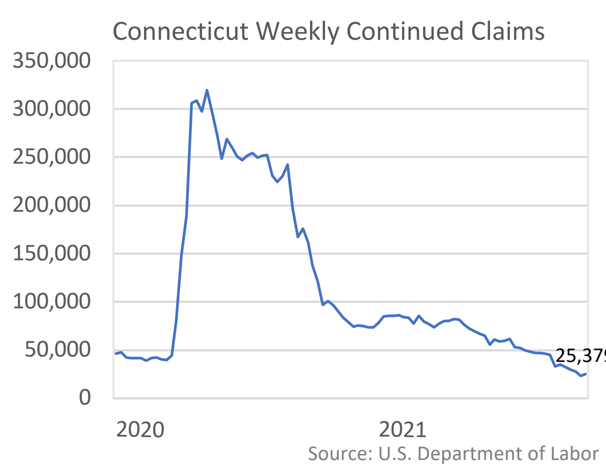
Map 4. Quits rates by state, seasonally adjusted, August 2021

Total U.S quits rate = 2.9%



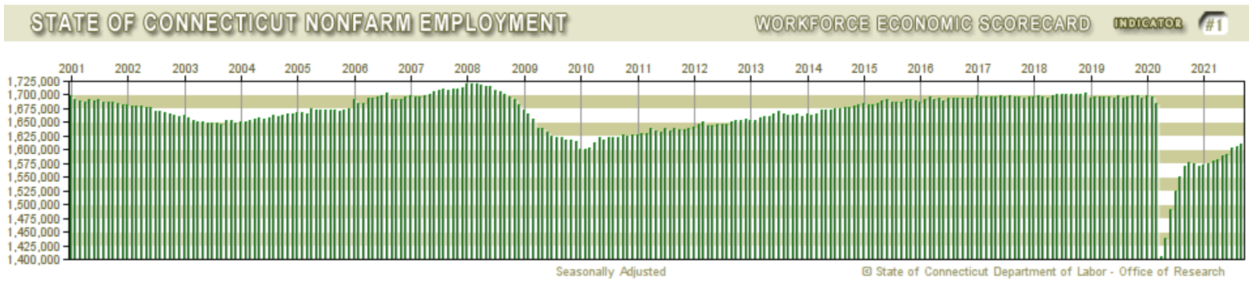
According to the Department of Labor, for the week ending October 23rd, initial claims totaled 2,354. Unemployment claims for first-time filers were an average of 3,730 per week, down 969 from last month, and down 3,678 claims from last year. This level of monthly average weekly initial claims is the lowest in the state since February 2020 (3,243), just before the COVID-19 lockdown. For the week ending October 16th, continued claims totaled 23,379 which has returned to pre-pandemic levels.



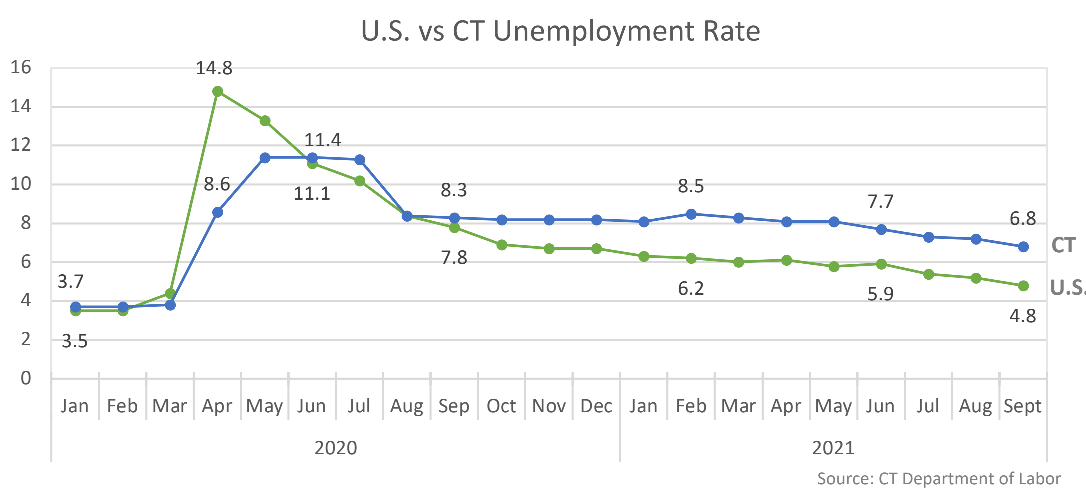


Connecticut reached its pandemic-related employment low in April of 2020. The state's total payroll employment is now 40,500 positions higher than September 2020, representing an increase of 2.6 percent.

Connecticut has now recovered 70.4 percent of the 292,400 jobs lost in March and April 2020 due to the COVID-19 lockdown. The DOL graph below illustrates the longer-term trend.



Connecticut's official unemployment rate stood at 6.8 percent in September, down from 7.2 percent a month earlier and 8.3 percent from a year ago. Connecticut's unemployment rate remains one of the highest across the country but continues to improve gradually each month. Danté Bartolomeo, Commissioner of CT DOL said, "While there is more work to do, both unemployment and job growth rates continue to be positive news for the state's economy and our workforce. There are thousands of good paying jobs with benefits out there and employers are hiring quickly—in some cases on site at job fairs and other events. It's a great time for workers to strengthen their skills, get into the market, and even start a whole new career."



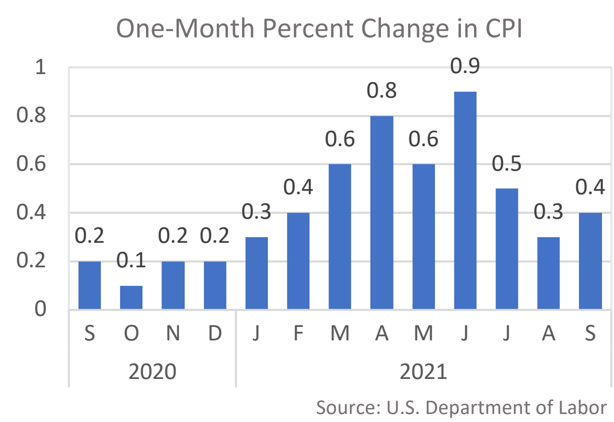
Income and Salary

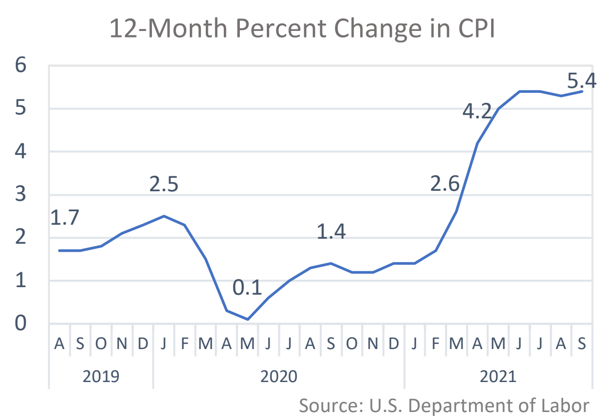
According to the U.S. Department of Labor, in September, national average hourly earnings for all employees on private nonfarm payrolls increased by 19 cents to $30.85, following increases in the prior 5 months. The data for recent months suggest that the rising demand for labor associated with the recovery from the pandemic may have put upward pressure on wages. However, because average hourly earnings vary widely across industries, the large employment fluctuations since February 2020 complicate the analysis of recent trends in average hourly earnings.

In Connecticut, September average hourly earnings at $33.93, not seasonally adjusted, were higher by $0.18 (0.05%) from the September 2020 estimate ($33.75). The resultant average private sector weekly pay came in at $1,157.01, up $6.13 or 0.05 percent from a year ago. This could reflect the recent addition of lower paying jobs in the service sector as it continues to recover from pandemic-related employment losses. Due to fluctuating sample responses, DOL warns that private sector earnings and hours estimates can be volatile from month-to-month.

Inflation Running High into Fourth Quarter

Inflation came in at an annual rate of 5.4 percent for the 12 months ending in September, a 0.4 percent increase month over month, according to the U.S. Department of Labor. Prices of food, energy (gasoline), and rent rose, while prices of airfare and hotels decreased as the summer ended. Core CPI, which excludes food and energy, came in at an annual rate of 4 percent for the 12 months ending in September, remaining the same month over month. Factors driving inflation include global supply-chain disruptions, raw material shortages, and labor shortages, each exacerbated by pent up demand. The following graphs display one-month and 12-month percent changes in CPI.





The Personal Consumption Expenditures (PCE) index is the Federal Reserve's preferred measure of inflation because it includes a wider range of goods, accounts for substitution between goods, and is based on surveys of what businesses are selling rather than what households are buying. According to the Bureau of Economic Analysis, the PCE price index excluding food and energy increased 0.2 percent from last month and now stands at an annual rate of 3.6%. This annual rate of 3.6% remains unchanged since June but is still the highest rate in thirty years.

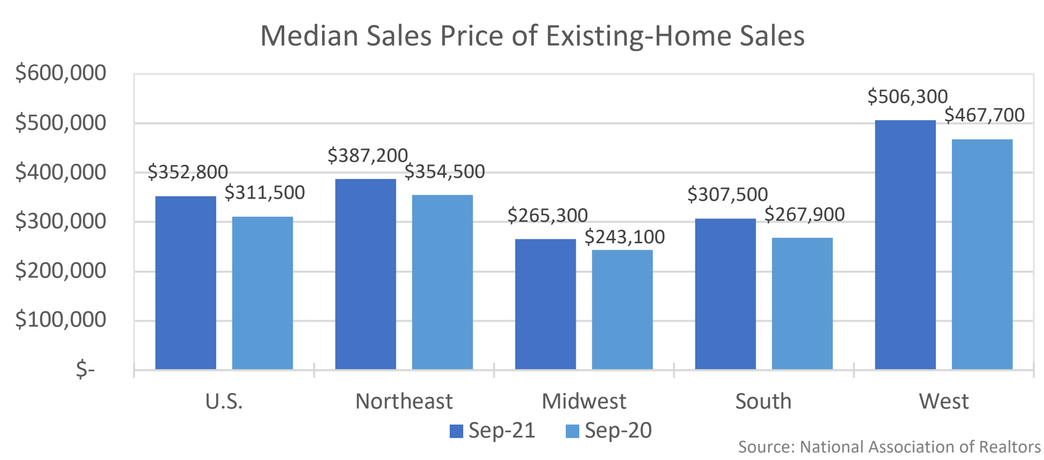
At the European Central Bank policy panel, Federal Reserve Chairman Jerome Powell said, "The current inflation spike is really a consequence of supply constraints meeting very strong demand, and that is all associated with the reopening of the economy, which is a process that will have a beginning, a middle and an end. We see those things resolving, but's very difficult to say how big those effects will be in the meantime or how long they will last. If we were to see sustained higher inflation, the FOMC would certainly respond by using our tools to make sure inflation is consistent with our [2%] goal."

National Housing Market – Existing Home Sales Bounce Back in September

The National Association of Realtors (NAR) reported existing-home sales increased 7 percent to a seasonally adjusted annual rate of 6.29 million in September. Four of the four major U.S. regions had month-over-month sales inclines. Year-over-year sales dropped 2.3 percent from September 2020 (6.4 million).

NAR reported the median existing-home price for all housing types was $352,800, up 13.3 percent from last year as prices increased in every region. This price growth marks 115 straight months of year-over-year gains dating back to March 2012. All regions of the country experienced price growth from a year ago. The largest regional gains on a percentage basis were in the South (+14.8%), followed by the Northeast (+9.2%), the Midwest (+9.1%), and the West (+8.3%).

September's inventory totaled 1.27 million units, down 0.8 percent from August and down 13 percent from one year ago. Unsold inventory sits at a 2.4-month supply at the current sales pace, below the desired pace of six months. "Some improvement in supply during prior months helped nudge up sales in September. Housing demand remains strong as buyers likely want to secure a home before mortgage rates increase even further next year" said Lawrence Yun, NAR's chief economist.



Connecticut Housing Market Slows Down in September

Connecticut's housing market appeared to slow down in September as sales decreased, prices abated, and inventory lagged. Berkshire Hathaway HomeServices reported year over year sales of single-family homes decreased 20.5 percent and new listings were down 24.16 percent. Median sales price increased by 4.48 percent and median list price increased by 1.48 percent. However, average sales price decreased 1.54 percent and average list price decreased 3.55 percent. Average days on the market decreased to 38 days from 61 a year ago. On average, sales prices came in above list prices, with a list/sell price ratio of 101.4 percent. Inventory sits at a 1.8-month supply at the current sales pace, down from last month and last year. The table below contains more detailed data for the Connecticut housing market.

Connecticut Market Summary

	Sept 2021	Sept 2020	% Change	YTD 2021	YTD 2020	% Change
New Listings	4,088	5,390	-24.16%	40,048	41,891	-4.40%
Sold Listings	3,664	4,609	-20.50%	32,027	30,118	6.34%
Median List Price	$339,950	$335,000	1.48%	$345,000	$300,000	15.00%
Median Selling Price	$350,000	$335,000	4.48%	$350,000	$300,000	16.67%
Median Days on the Market	22	33	-33.33%	22	44	-50%
Average Listing Price	$519,397	$538,535	-3.55%	$550,549	$466,609	17.99%
Average Selling Price	$520,164	$528,318	-1.54%	$551,751	$453,517	21.66%
Average Days on the Market	38	61	-37.70%	44	73	-40%
List/Sell Price Ratio	101.4%	99.9%	1.49%	101.7%	98.5%	3.29%

Source: Berkshire Hathaway HomeServices

In March of 2020, the federal government enacted mortgage forbearance programs to help keep people in their homes. Borrowers with federally backed mortgages could suspend their monthly mortgage payments with 18 months of forbearance. The deadline for requesting assistance was September 30, 2021. As forbearances come to an end, many Connecticut homeowners owe large mortgage payments. The CT Fair Housing Center warns, "the concern for Connecticut is greater than elsewhere because, for years leading up to the pandemic, the state's 90-day delinquency rate, the percent of consumers in Connecticut with mortgages 90 days or more past due, was the second-worst in the country and roughly double the national average, according to an analysis of data from the Federal Reserve Bank of New York."

Commercial Real Estate – Delinquency Rates Mixed in September

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. The Mortgage Bankers Association's (MBA) CREF Loan Performance Survey found delinquency rates for mortgages backed by commercial and multifamily properties continued to decline. In all, 96.7 percent of outstanding loan balances were current, up from 96.6 percent in August. Loans backed by lodging properties, a sector directly affected by the pandemic, saw delinquency rates increase 0.6% from last month while delinquent retail loans decreased. The overall share of industry, office, and multifamily property loan balances that are delinquent had mixed results in September. The percent changes in delinquency rates from last month are shown in the table below.

Percent of Balance Not Current			
	September 2021	August 2021	Percent Change
Lodging Loans	14.0%	13.4%	0.6%
Retail Loans	8.2%	8.5%	-0.3%
Industry Property Loans	1.8%	1.5%	0.3%
Office Property Loans	1.8%	2.0%	-0.2%
Multifamily Property Loans	1.3%	1.2%	0.1%

Source: Mortgage Bankers Association

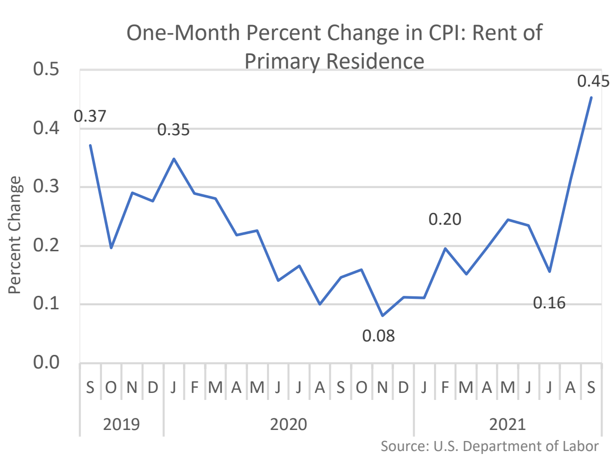
Regarding the survey results, Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research noted, "commercial and multifamily mortgage performance has improved considerably since the worst of the downturn. The stress that entered, and remains, in the market is largely concentrated in lodging and retail properties, but with fewer new loans becoming delinquent, and shrinking balances of overall delinquency as lenders and servicers work out the longer-term troubled loans."

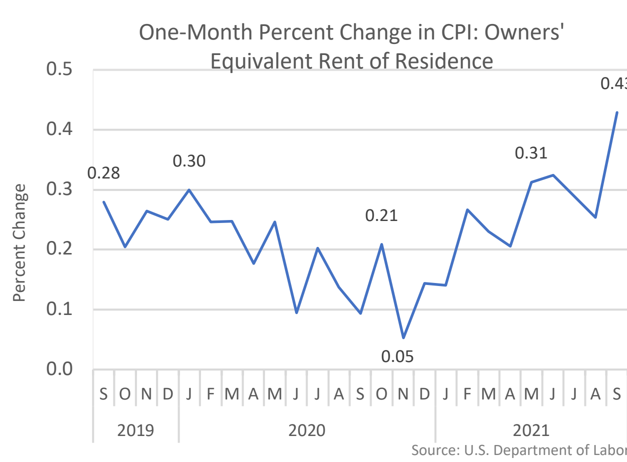
Rental Market

According to Apartment Guide's September 2021 Rent Report, the national average rent price for a one-bedroom apartment was $1,663, up 2.4 percent from last month and up 10.8 percent from last year. In Connecticut, average rent increased 14.58 percent year over year, from $1,627 to $1,760.

Thirty five percent of households rent their homes in Connecticut, and approximately 52 percent of Connecticut renters are cost burdened, meaning they spend more than 30 percent of household income on housing costs. According to the most recent U.S. Census Bureau Household Pulse Survey, 50,591 Connecticut tenants reported they were not caught up on rent and 114,275 Connecticut tenants reported low confidence in their ability to make next month's rent payment.

According to the U.S. Department of Labor, the price index for rent rose 0.45 percent in September while owner's equivalent rent rose 0.43 percent. Owner's equivalent rent is what an owner would be paying for housing had they not bought a home. The Federal Open Market Committee (FOMC) is carefully monitoring the owners' equivalent rent component of price indexes because rising home prices lead to upward pressure on rent.





"Rent prices continue to rise even faster, putting upward pressure on inflation. While rents are surging for a number of reasons, record high home prices hurts affordability, delaying the transition to homeownership for many renters. When rates fell in 2020 during the pandemic, approximately 3.7 million additional households could purchase a home compared to 2019. Today, however, due to high home prices, 4.8 million fewer households can buy a residence versus two years ago, even though mortgage rates are lower than in 2019. As a result, the share of first-time homebuyers has dropped to a near two-year low of 29%" says Nadia Evangelou, Senior Economist and Director of Forecasting for the National Association of Realtors.

Eviction in Connecticut

The National CDC and statewide ban on evictions have both ended. State protections including mandatory rental assistance applications, 30-day notice, and required information sharing are extended until February 15th, 2022. According to Eviction Lab, there has been no major national or state spike in evictions after the moratoriums ended, with evictions filings remaining below historical averages. According to the Connecticut Fair Housing Center, since January of 2021, landlords have filed 6,894 eviction cases and courts have carried out 2,744 eviction orders so far.

Working to prevent an eviction crisis, Connecticut established the UniteCT Program to provide landlords and tenants with rental and utility assistance. As of October 28th, 24,541 cases had been approved and $127 million dollars had been allocated out of $371 million budgeted.

Experts are concerned a wave of evictions could generate far reaching social and economic issues. Evictions taint a tenant's record and can reduce credit ratings. This further deters the ability to secure safe, affordable housing which affects employment, educational opportunities, health outcomes, and much more. Evictions can force people to stay in crowded shelters, move in with family or friends, or become homeless which decreases the ability to social distance or quarantine properly. With Delta variant cases increasing across the country, officials are concerned a wave of evictions could create long-lasting economic and health problems.

Stock Market – Strong Gains in October

October proved to be a strong month for investors despite a weak September and looming supply-chain inflation issues. Over the month, the Dow Jones Industrial Average rose 1,976 points or 5.84%. The S&P 500 rose 298 points or 6.91% and the NASDAQ rose 1,050 points or 7.27%. All three indices closed at all-time highs during the month of October.

A year and a half ago, in late March 2020, the stock market was in free fall as pandemic-related shutdowns were taking place. As the charts below illustrate, all three indices have made significant gains since then. To give a broader perspective, three-year results are shown below:

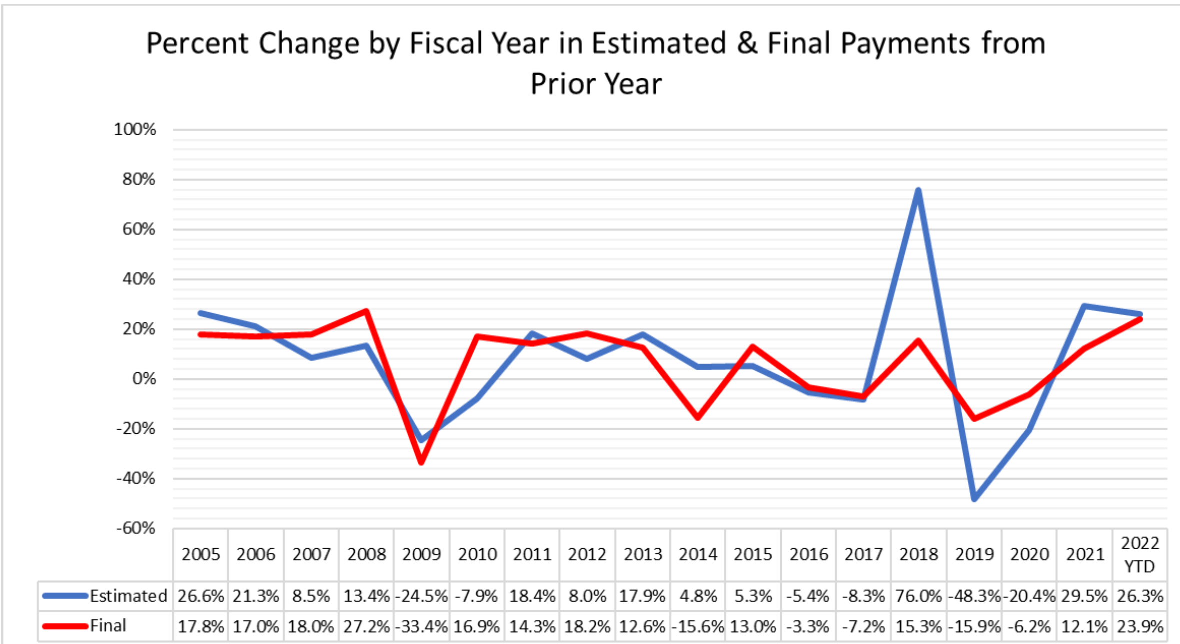
DOW Jones Industrial Average Index:

S&P 500 Index:

NASDAQ Composite Index:

The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 30 percent of total state income tax receipts, but can be an extremely volatile revenue source.

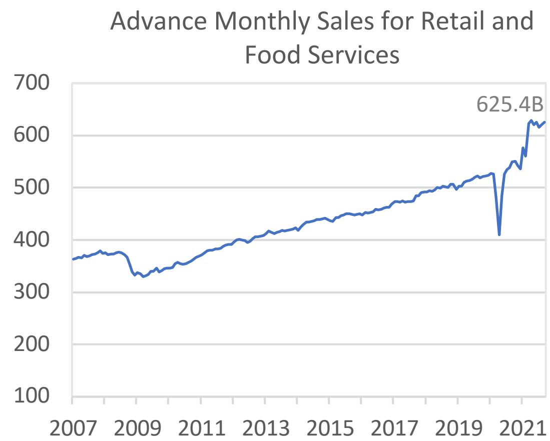
According to unaudited FY 2021 results, combined estimated and final payments are 19.9 percent above FY 2020's level, with estimates up 29.9 percent and final payments up 12.1 percent. This reflects the strong performance of the stock market. This collection trend has continued into FY 2022, with both categories of tax receipts growing by a combined 26 percent over year-to-date results in the previous fiscal year.

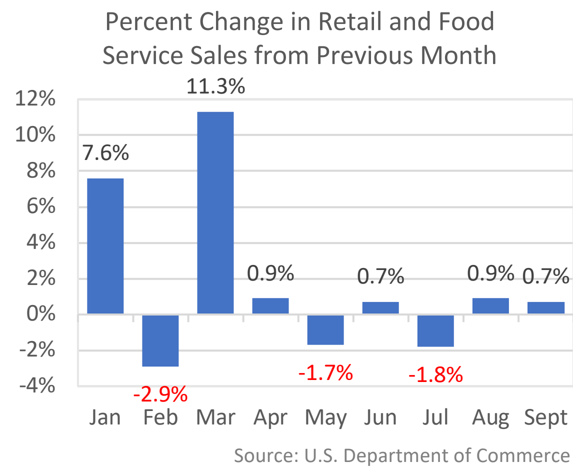


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	76.0%	-48.3%	-20.4%	29.5%	26.3%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%	-3.3%	-7.2%	15.3%	-15.9%	-6.2%	12.1%	23.9%

Consumer Spending Increases in September

Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output. According to the U.S. Department of Commerce, advance retail sales were $625.4 billion in September, up 0.7 percent from August. Sectors with the biggest gains include sporting goods, hobby, musical and bookstores (+3.7%), general merchandise stores (+2.0%), miscellaneous store retailers (+1.8%), and gasoline stations (+1.8%). Sectors that experienced a step back include health and personal care stores (-1.4%) and electronics and appliance stores (-0.9%). Core retail sales increased 0.8 percent in September which excludes automobiles, gasoline, building materials and food services.

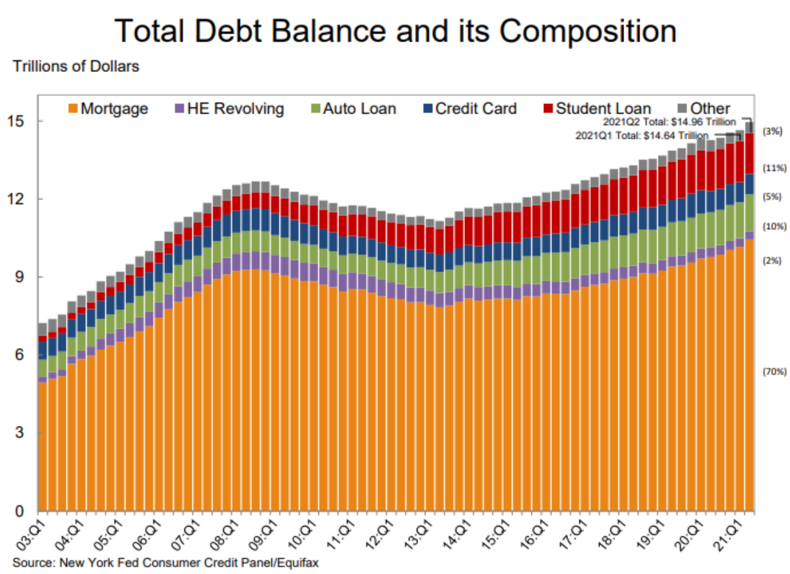




Consumer Debt

According to the Federal Reserve Bank of New York, total household debt increased by $313 billion in the second quarter of 2021 to $14.96 trillion, a 2.1 percent rise from the first quarter. Balances are $812 billion higher than at the end of 2019 and $691 billion higher than quarter 2 of 2020. The 2.1 percent increase in aggregate balances was the largest since 2013 and marked the largest nominal increase in debt balances since 2007.

Mortgage balances – the largest component of household debt – increased by $282 billion to $10.44 trillion at the end of June. Outstanding student loans, the second largest category of household debt, totaled $1.57 trillion, a $14 billion decrease from last quarter. Auto loan balances increased by $33 billion, reaching $1.4 trillion. Balances on home equity lines of credit decreased by $13 billion, the 18th consecutive decrease since the fourth quarter of 2016, bringing the outstanding balance to $322 billion. Credit card balances increased by $17 billion but remain $140 billion lower than they had been at the end of 2019.

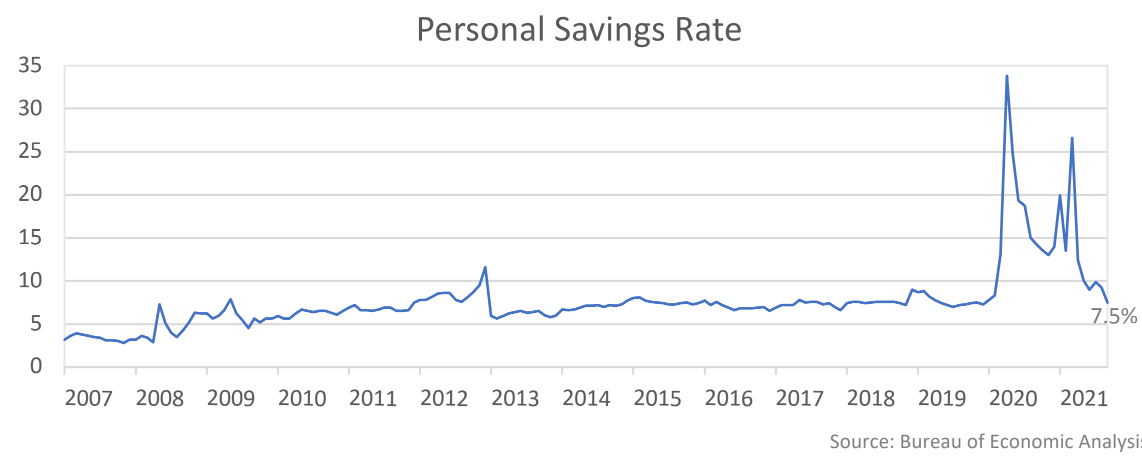


Delinquency rates have remained low since the beginning of the pandemic, reflecting forbearances provided by the CARES Act and lenders, which protect borrowers' credit records from the reporting of skipped or deferred payments. As of June, 2.7% of outstanding debt was in some stage of delinquency, a two-percentage point decrease from the fourth quarter of 2019, just before the pandemic. Of the $405 billion of debt that is delinquent, $316 billion is seriously delinquent (at least 90 days late).

Third quarter household debt results will be released by the Federal Reserve Bank of New York in early November.

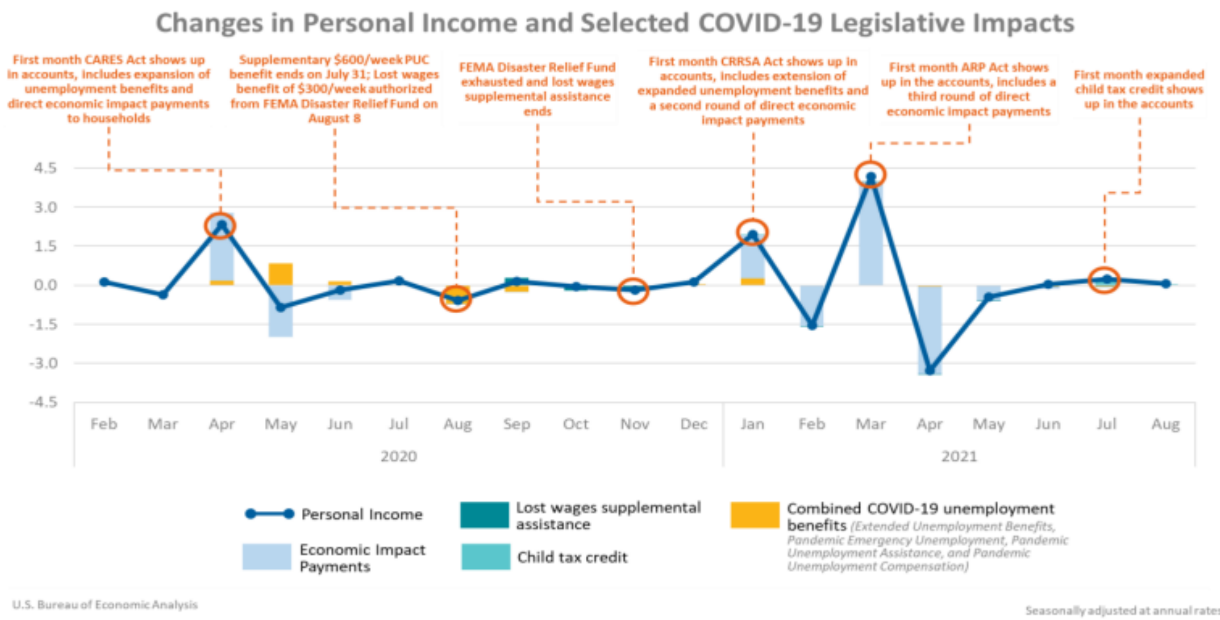
Personal Saving Rate continued to Decline in September

The Bureau of Economic Analysis (BEA) reported the personal-saving rate was 7.5 percent in September, a decrease from 9.2 percent in August. The personal saving 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.



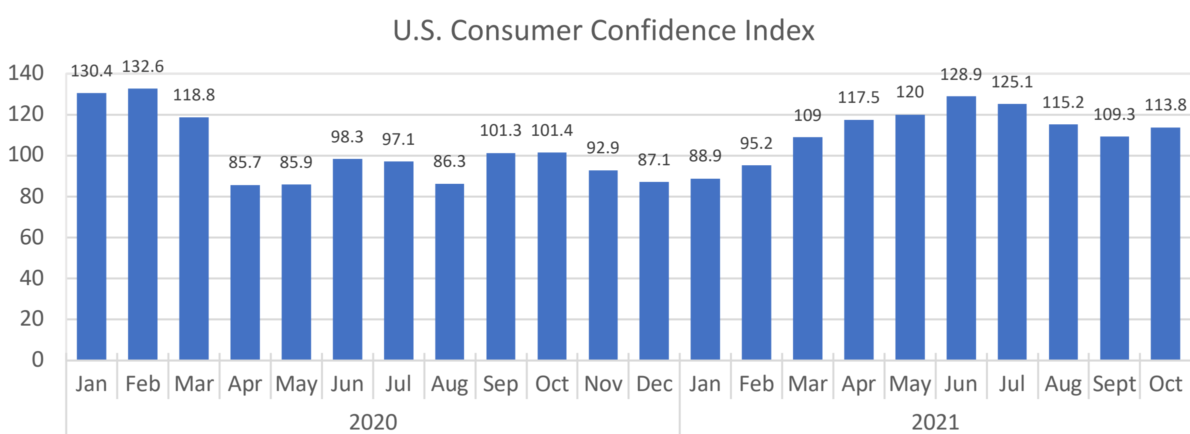
In September, personal income decreased $216.2 billion (1.0 percent) while personal consumption expenditures (PCE) increased $93.4 billion (0.6 percent). As a result, disposable personal income (DPI) decreased $236.9 billion (1.3 percent). In September, several pandemic-related assistance programs ended, including expanded unemployment benefits which resulted in a decrease in personal income. Decreases in government social benefits included the Pandemic Unemployment Compensation program, the Pandemic Emergency Unemployment Compensation program, the Pandemic Unemployment Assistance program, the Provider Relief Fund, economic impact payments, and Paycheck Protection Program loans to nonprofit institutions.

As can be seen from the chart above, the personal savings rate has been volatile since the pandemic began – with large swings in both directions. BEA noted that over the past 17 months, changes in personal income have primarily reflected changes in governmental social benefit payments, which were based on the enactment and expiration of various legislative acts and related programs in response to COVID-19. Examples include direct economic impact payments to households and supplemental weekly unemployment benefits. The BEA graphic below illustrates these legislative changes and their impact on personal income during the pandemic.



Consumer Confidence Increases in October

The U.S. consumer confidence index (CCI) is published by the Conference Board and 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 CCI now stands at 113.8, up from September's revised reading of 109.8. This marks the first increase after three months of decline.



Source: The Conference Board Consumer Confidence Survey

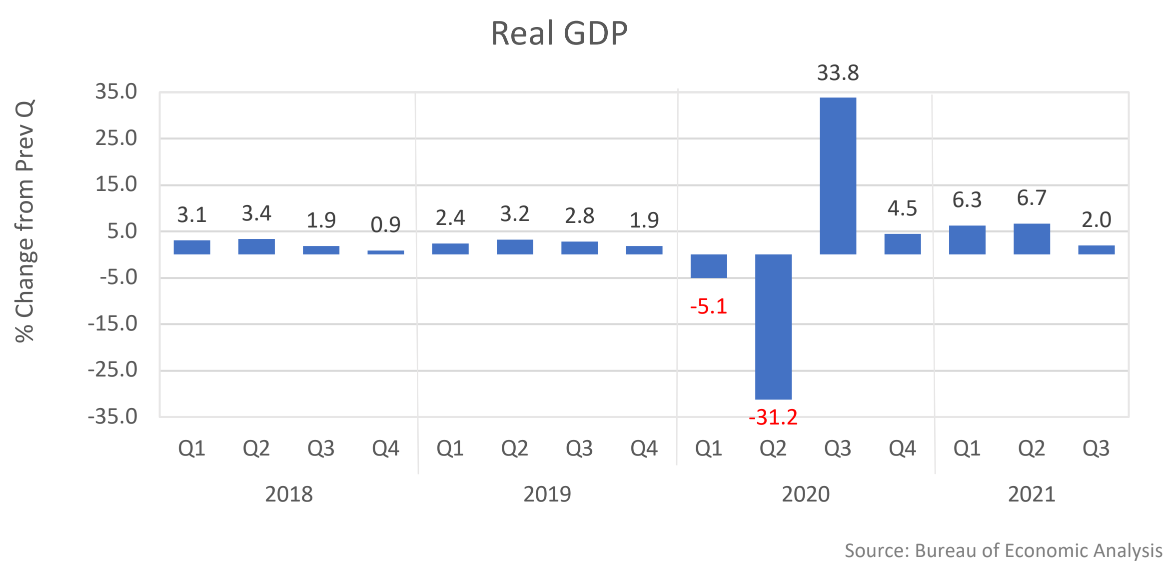
The Consumer Confidence Index is made up of two parts, including the Present Situation Index, which looks at current conditions and the Expectation Index, which measures consumers' views of anticipated conditions for the next six months. In the October survey, the Present Situation Index increased from 144.3 to 147.4. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, increased from 86.7 to 91.3.

Lynn Franco, Senior Director of Economic Indicators at The Conference Board noted, "consumer confidence improved in October, reversing a three-month downward trend as concerns about the spread of the Delta variant eased. While short-term inflation concerns rose to a 13-year high, the impact on confidence was muted. Likewise, nearly half of respondents (47.6%) said they intend to take a vacation within the next six months—the highest level since February 2020, a reflection of the ongoing resurgence in consumers' willingness to travel and spend on in-person services."

Business and Economic Growth – GDP Third Quarter

According to the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 2.0 percent in the third quarter of 2021. This follows a 6.7 percent real GDP increase in the second quarter.

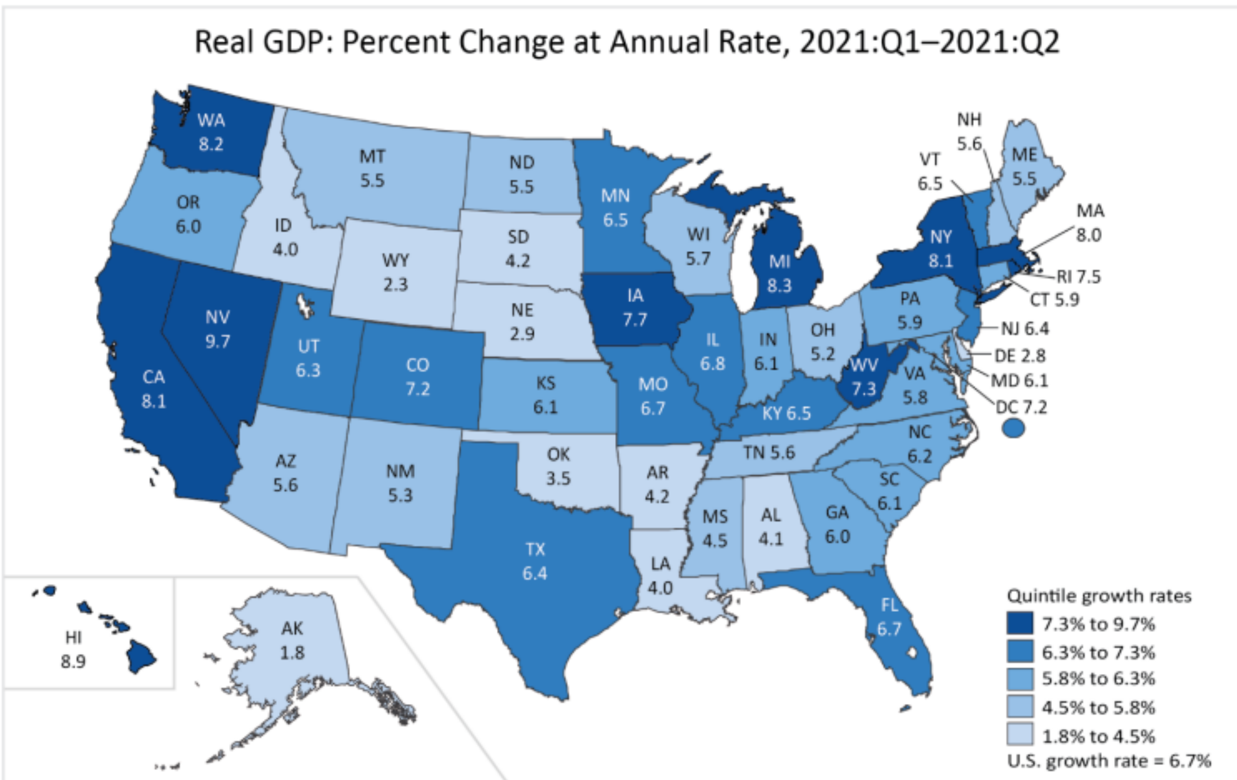
BEA noted the third quarter results reflected the continued economic impact of the COVID-19 pandemic. A resurgence of COVID-19 cases resulted in new restrictions and delays in the reopening of establishments in some parts of the country. Government assistance payments in the form of forgivable loans to businesses, grants to state and local governments, and social benefits to households all decreased.



According to BEA, the increase in real GDP in the third quarter reflected increases in private inventory investment, personal consumption expenditures (PCE), state and local government spending, and nonresidential fixed investment that were partly offset by decreases in residential fixed investment, federal government spending, and exports. Imports, which are a subtraction in the calculation of GDP, increased.

State Level GDP – 2nd Quarter 2021

On October 1st, BEA reported state level GDP data for the second quarter of 2021. Real gross domestic product (GDP) increased in all 50 states and the District of Columbia in the second quarter of 2021, as real GDP for the nation increased at an annual rate of 6.7 percent. The percent change in real GDP in the first quarter ranged from 9.7 percent in Nevada to 1.8 percent in the Alaska.

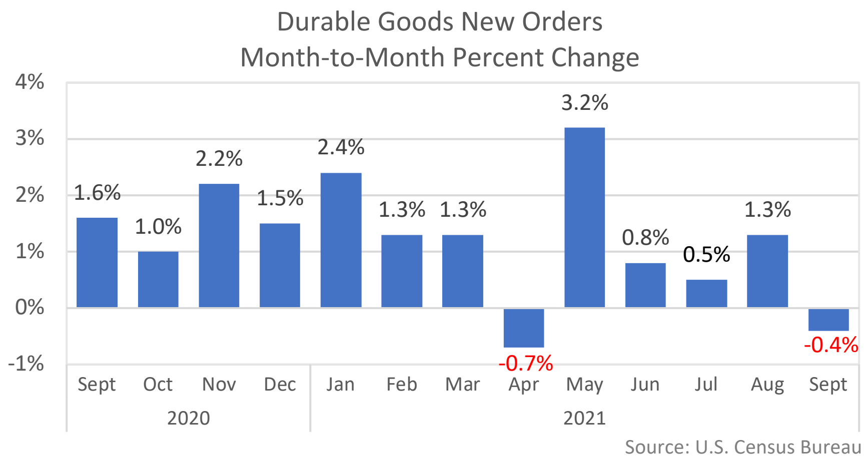


U.S. Bureau of Economic Analysis

Connecticut's GDP growth rate of 5.9 percent ranked 29th in the nation and came in below the New England regional average of 7.1 percent. The Connecticut industries experiencing the largest gains on a percentage basis were accommodation and food services (+1.36%), information (+1.26%), and professional, scientific, and technical services (+0.98%).

Durable Goods

According to the U.S. Department of Commerce, new orders for manufactured durable goods decreased $1.0 billion or 0.4 percent in September to $261.3 billion. The decrease follows a 1.3 percent increase in August.



September's decrease was driven by transportation equipment, down $1.8 billion or 2.3 percent. Excluding transportation, new orders increased 0.4 percent. The largest increases for new orders included machinery (+1.1%), fabricated metal products (+0.7%), and primary metals (+0.6%). Orders for core capital goods, considered a proxy for business spending, increased by 0.8 percent, and exclude all defense and aircraft goods.

***** END *****