NATALIE BRASWELL

Connecticut State Comptroller

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COMPTROLLER BRASWELL PROJECTS $1.76B SURPLUS, OFFERS GUIDANCE TO POLICYMAKERS

Comptroller Natalie Braswell today, in her monthly financial and economic update, projected a General Fund surplus of $1.76 billion for Fiscal Year 2022 while offering guidance to policymakers during ongoing budget negotiations.

The surplus projection increased $245 million since last month. The improvement is attributable to a combination of revenue growth in certain tax categories and lower-than-anticipated spending. Braswell's projection is slightly lower than the one issued by the Office of Policy and Management earlier this month because of legislation that will offer temporary tax relief and free bus service to Connecticut residents.

"I commend Governor Lamont and the legislature for their collaborative actions to help working families," said Braswell. "As our state's economy continues to improve, we must balance our long-term objectives with the immediate needs of Connecticut residents. These measures, while temporary, will assist in combatting the effects of inflation and the economic ramifications of war overseas."

Braswell condemned the Russian invasion of Ukraine, which is creating a humanitarian crisis abroad and contributing to economic volatility for American families. Prices for food and energy are particularly unstable, representing key exports for each nation. That volatility also extends to the stock market, which is a key driver of Connecticut's budgetary position.

Connecticut added an estimated 6,300 jobs last month and has now recovered over 80% of the jobs lost during the onset of the pandemic. The state's Gross Domestic Product (GDP) grew by 7.7% in the fourth quarter of 2021, the 12th highest in the nation and exceeding both the regional and national averages.

"Connecticut's positive economic position presents a great opportunity for everyone in our state to share in the benefits of this recovery," said Braswell. "We have a rare chance to correct some of the long-standing inequities in our economy and bring lasting, transformative relief to working people.

By making key investments in our residents and our infrastructure, we can grow the middle class and carry this momentum long into the future. But I also want to caution policymakers to not jeopardize the progress we've made by undoing the sound fiscal policies that have filled the Rainy Day Fund and allowed us to finally reckon with the albatross of pension debt."

In a letter to Governor Ned Lamont, Braswell noted that, in addition to the substantial surplus, she is also projecting another large transfer into the state's Budget Reserve Fund ("Rainy Day Fund") due to excess revenue in certain volatile categories. Because the fund has reached its statutory cap, an estimated $2.6 billion will be available to pay down debt, including the state's pension liabilities.

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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.

Economic Summary

The U.S. started to feel effects from the Russian invasion of Ukraine this month, seeing higher commodity prices and a volatile stock market. Economists expect the price of food and energy to be impacted further by the conflict due to trade interruptions. The Federal Reserve raised interest rates by a quarter percentage point and penciled in six more rate increases this year. This move follows inflation coming in at an annual rate of 7.9% in February—the highest in 40 years. The U.S. added 678,000 jobs in February and the unemployment rate decreased to 3.8%. Connecticut added 6,300 jobs in February as the state unemployment rate dropped to 4.9%. Job growth in Connecticut in 2021 was larger than originally estimated, indicating a stronger statewide economy. Connecticut's 2021 Q4 GDP growth rate of 7.7% ranked 12th in the nation, coming in above national growth and the New England regional average of 7.6%. Consumer confidence increased this month with consumers remaining relatively confident about current business and labor market conditions but growing more pessimistic about the future.

Economic Impact of the Russian Invasion of Ukraine

The Office of the State Comptroller strongly condemns the actions of Russia and support the people of Ukraine in their fight to maintain independence.

Russia's invasion of Ukraine is starting to impact both the global and U.S. economy. Economists expect volatile markets, higher commodity prices, and slowed economic growth. "The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity" said Jerome Powell, Federal Reserve Chair. Russia's largest exports include crude oil, petroleum, metals, and wheat.

Ukraine's largest exports include steel, coal, petroleum, and wheat. Prices of these commodities are expected to increase, intensifying inflationary pressures.

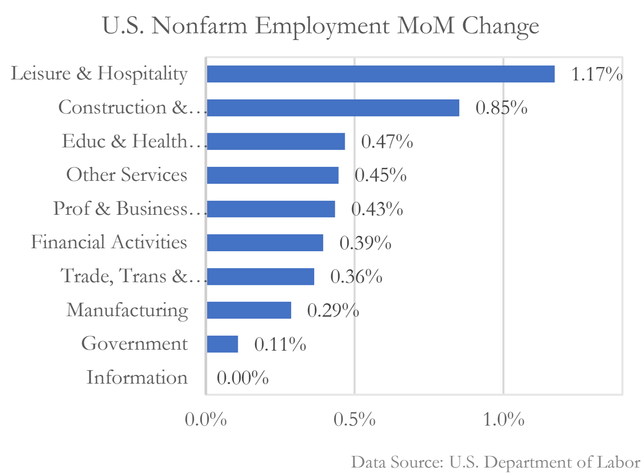
Labor Market Statistical Summary

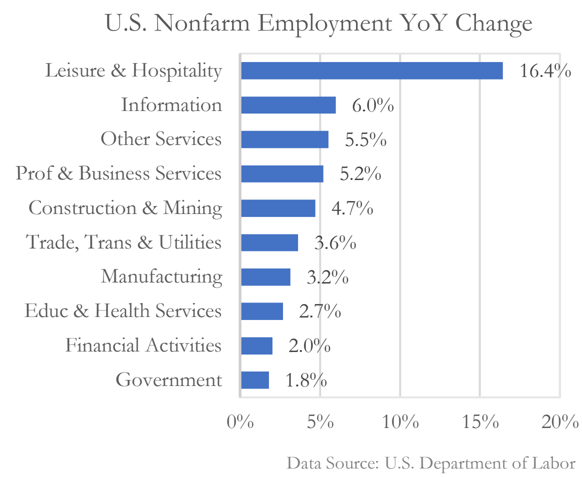
United States	February 2022	January 2022	February 2021
Unemployment Rate	3.8%	4.0%	6.2%
Total Unemployed	6,270,000	6,513,000	9,992,000
Total Nonfarm Employment	150,399,000	149,721,000	143,727,000
Job Growth	+678,000	+481,000	+710,000
Covid Job Recovery	90.4%	87.3%	60.0%
Job Openings to Unemployed Ratio	1.8	1.73	0.79
Quit Rate	2.9%	2.8%	2.4%
Average Monthly Initial Unemployment Claims	230,750	245,600	804,500
Labor Force Participation Rate	62.3%	62.2%	61.5%
Average Hourly Wage	$31.58	$31.57	$30.04

Connecticut	February 2022	January 2022	February 2021
Unemployment Rate	4.9%	5.3%	7.2%
Total Unemployed	91,200	98,800	132,100
Total Nonfarm Employment	1,642,700	1,636,400	1,590,000
Job Growth	+6,300	+600	+5,900
Covid Job Recovery	80.5%	78.4%	62.3%
Job Openings to Unemployed Ratio	-	1.18	0.52
Quit Rate	-	2.2%	1.7%
Average Monthly Initial Unemployment Claims	2,837	3,585	7,431
Labor Force Participation Rate	63.6%	63.6%	63.2%
Average Hourly Wage	$34.33	$34.71	$33.75

National Job Growth

The Bureau of Labor Statistics reported the U.S. added 678,000 jobs in February after adding 481,000 in January and 588,000 in December. This growth marks fourteen straight months of job gains. Total nonfarm payroll was 150,399,000 in February, which is up by 19.9 million since April 2020, but is down by 2.1 million, or 1.4%, from its pre-pandemic level in February 2020. Job gains occurred in leisure and hospitality (+179,000), education and health services (+112,000), and trade, transportation, and utilities (+103,000). The following graphs display the month over month and year over year net change in nonfarm employment by sector. See Appendix 1 for detailed industry sector data.





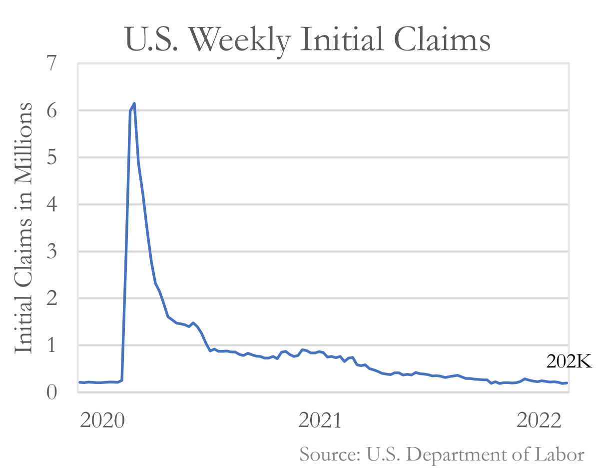
The U.S. has recovered 90.4% of the 21,991,000 jobs lost in March and April 2020 due to the COVID-19 lockdown, and eleven states have recovered 100% of the jobs lost.

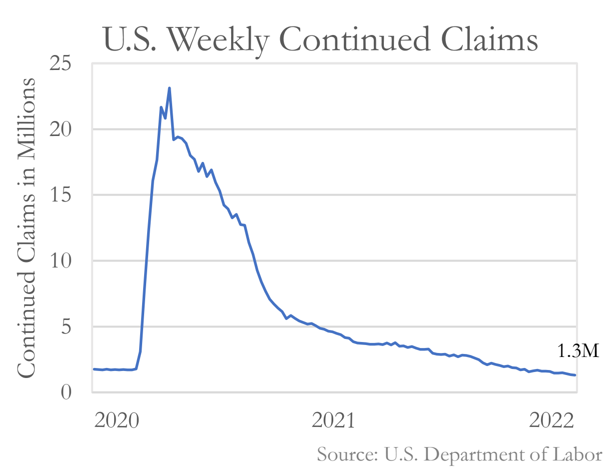
National Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate was 3.8% in February, a decrease from 4% in January. This is 0.3 percentage points higher than pre-pandemic levels (3.5%) and 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 total number of unemployed people was 6.27 million, edging closer to pre-pandemic levels (5.7 million). The number of long-term unemployed people, those jobless for 27 weeks or more, remained unchanged at 1.7 million, and account for 26.7% of the total unemployed in February.

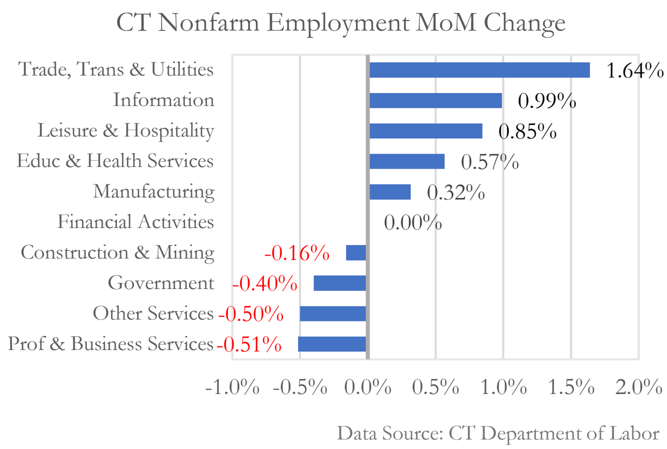
For the week ending March 26th, seasonally adjusted initial claims totaled 202,000, while average weekly initial claims were 210,000. For the week ending March 19th, seasonally adjusted continued claims totaled 1,307,000, while average weekly continued claims were 1,384,500.

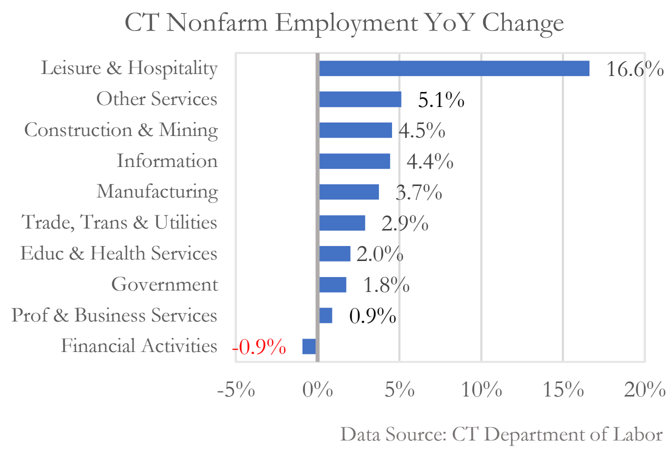




Connecticut Job Growth

The Connecticut Department of Labor reported the state added 6,300 jobs in February after adding 600 in January and losing 500 in December. Total nonfarm payroll was 1,642,700 in February, which is up 233,100 since April 2020, but is down by 56,300, or 3.3%, from its pre-pandemic level in February 2020. Job gains occurred in trade, transportation, and utilities (+4,800), education and health services (+1,900), and leisure and hospitality (1,200). Job declines occurred in professional and business services (-1,100), Government (-900), other services (-300), and construction and mining (-100). The following graphs display the month over month and year over year net change in nonfarm employment by sector.

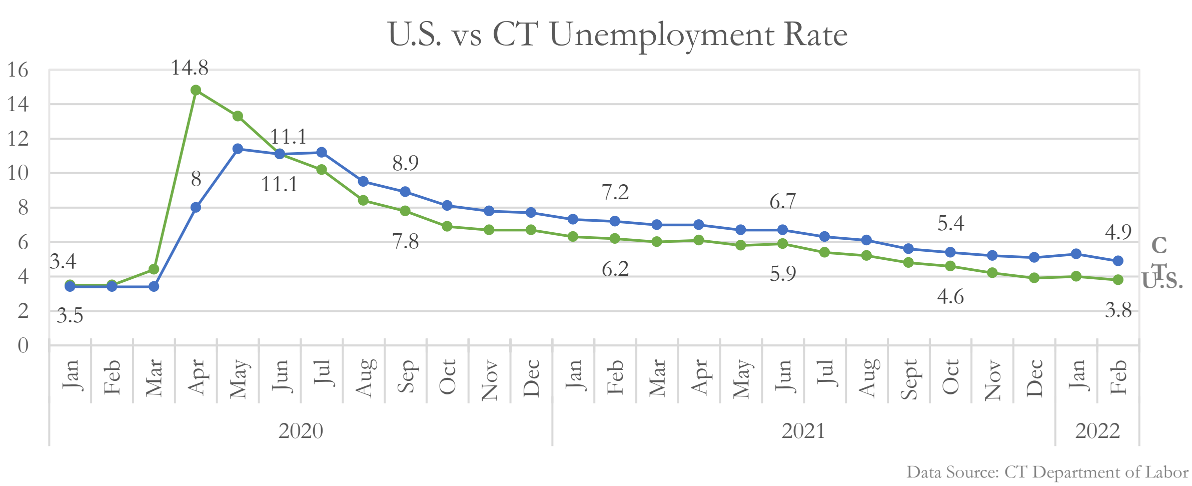




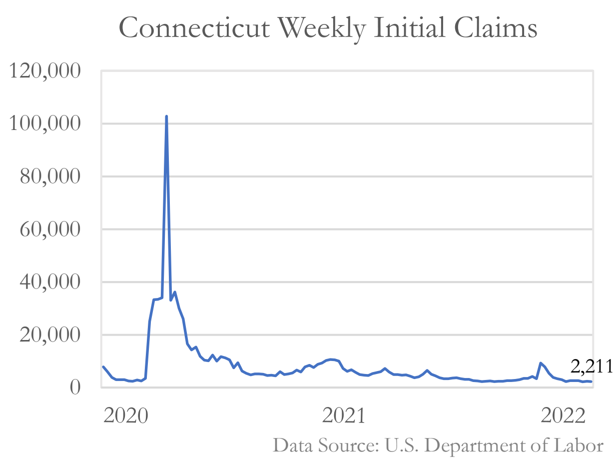
Connecticut has recovered 80.5% of the 289,400 jobs lost in March and April 2020 due to the COVID-19 lockdown. See Appendix 2 for detailed industry sector data.

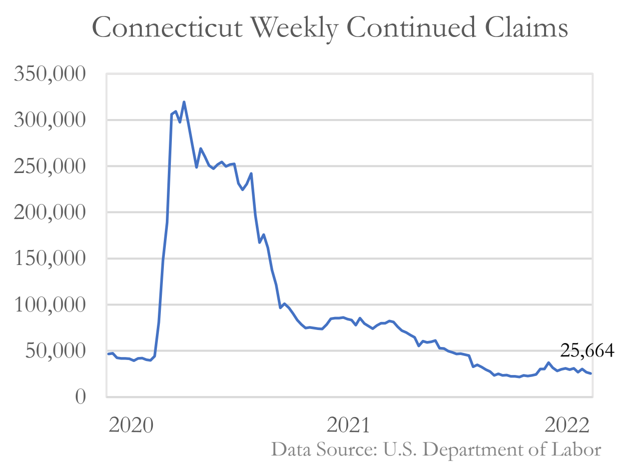
Connecticut Unemployment

The Connecticut Department of Labor reported the state unemployment rate was 4.9% in February, a decrease from 5.3% in January. This is still slightly higher than pre-pandemic levels (3.4%) but demonstrates how fast unemployment has recovered compared to previous recessions. The total number of unemployed people was 91,200 in February, edging closer to pre-pandemic levels (71,800).



Unemployment claims for first-time filers were an average of 2,837 per week in February, down 20.9% from last month and lower by 4,594 claims from the average weekly count of 7,431 in February 2021. This level of average weekly initial claims is below the February 2020 (2,937) average weekly claims tally, just before the COVID lockdown.





<u>Connecticut Housing & Rental Market</u>

Berkshire Hathaway HomeServices reported year over year sales of single-family homes decreased 20.56% and new listings were down 10.24% in February. Median sales price increased by 4.21% and median list price increased by 1.98%. Average days on the market decreased to 53 days from 65 a year ago. On average, sales prices came in above list prices, with a list/sell price ratio of 100.8%. Inventory sits at a 1.8-month supply at the current sales pace, up slightly from last month but down from last year. See Appendix 3 for detailed Connecticut Housing Market data.

February 2022 Connecticut Housing Market

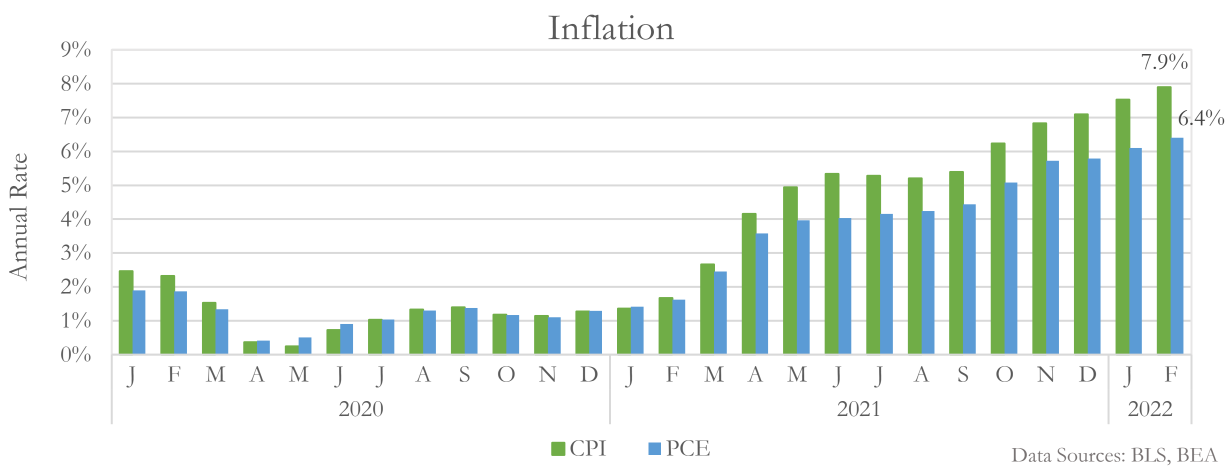
Sales	New Listings	Median Sales Price	Avg Days on Market
1,916	**2,647**	**$340,000**	**53**
-20.56%	-10.24%	+4.21%	-18.46%

Data Source: Berkshire Hathaway HomeServices

Apartment List reported national average rent was $1,321 in February, up 0.6% from last month and up 17.6% from last year. Every state saw rent prices increase year over year. In Connecticut, average rent increased 12% year over year, from $1,356 to $1,515. 35% of households in Connecticut rent their homes, and approximately 52% of Connecticut renters are cost burdened, meaning they spend more than 30% of household income on housing costs.

Inflation

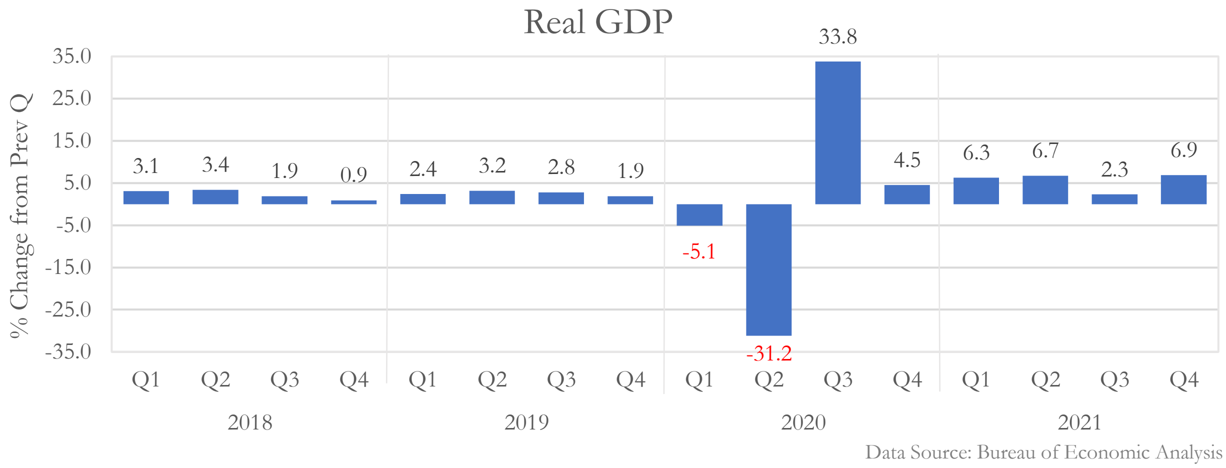
The Bureau of Labor Statistics reported the Consumer Price Index (CPI) increased 0.8% in February for an annual rate of 7.9% which is the largest 12-month increase since January 1982. Price increases were broad-based and included shelter, food, gas, medical care, and new cars. Core CPI, which excludes food and energy, rose 0.5% in February for an annual rate of 6.4% which is the largest 12-month change since the period ending August 1982. The Bureau of Economic Analysis reported the Personal Consumption Expenditure (PCE) price index increased 0.6% from last month and now stands at an annual rate of 6.4%. This is the highest annual rate in thirty years.



Factors driving inflation include the recent Russian invasion of Ukraine, global supply-chain disruptions, raw material shortages, labor shortages and strong consumer demand. In response, the Federal Reserve began its tightening cycle this month, announcing an increase in the Federal Funds Rate by 0.25% for a target range between 0.25% and 0.5%. Median projections show Fed officials expect the Federal Funds Rate to hit 1.9% by the end of 2022 after six more rate hikes. The goal is to better align supply and demand to slow down inflation. In new economic projections, officials see inflation significantly higher than previously forecast, 4.3% in 2022, but reducing to 2.7% in 2023.

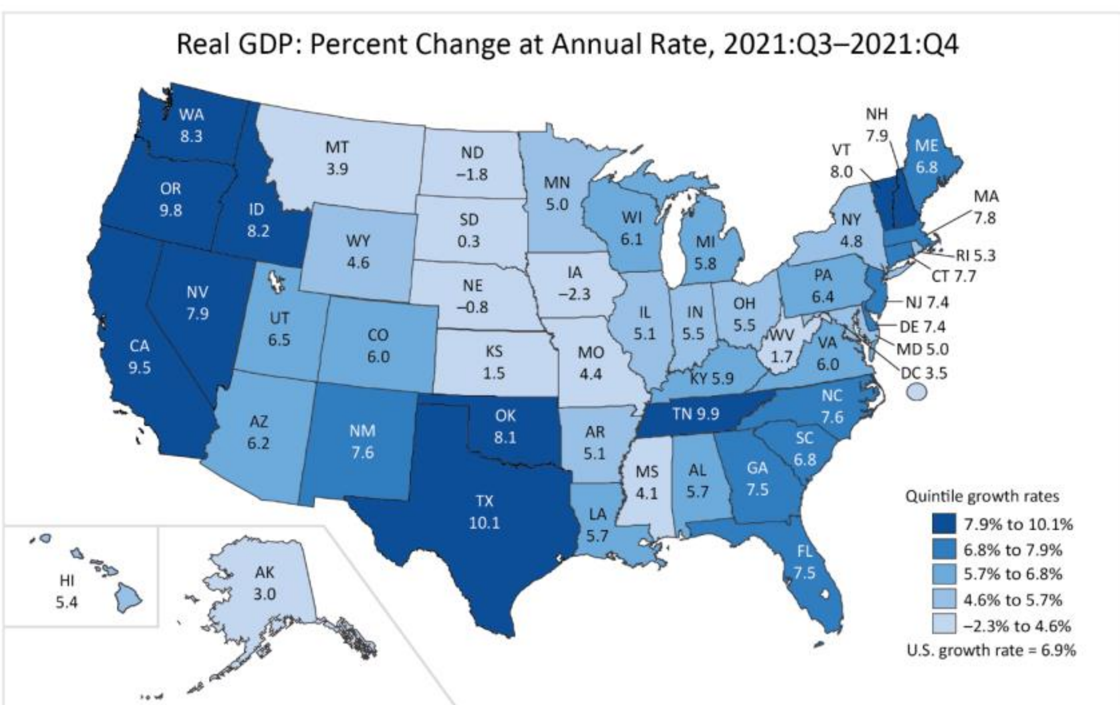
GDP

The Bureau of Economic Analysis reported U.S. real gross domestic product (GDP) increased at an annual rate of 6.9% in the fourth quarter of 2021. This follows a 2.3% real GDP increase in the third quarter. The third estimate primarily reflected downward revisions to personal consumption expenditures and exports that were partly offset by an upward revision to private inventory investment. Real GDP increased 5.7% in 2021, following a decrease of 3.4% in 2020.



The Bureau of Economic Analysis also reported real gross domestic product increased in 47 states and the District of Columbia in the fourth quarter of 2021. The percent change in real GDP in the fourth quarter ranged from 10.1% in Texas to -2.3 % in Iowa. Information services increased 20.1% nationally and contributed increases in all 50 states and the District of Columbia.

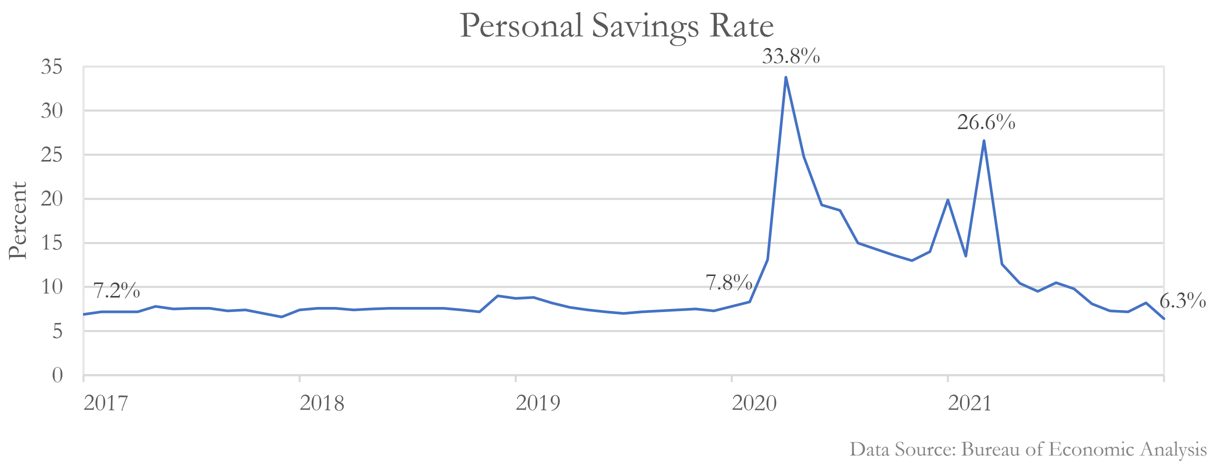
Connecticut's GDP growth rate of 7.7% ranked 12th in the nation, coming in above national growth and the New England regional average of 7.6%. Connecticut industries experiencing the largest gains on a percentage basis were accommodation and food services (+1.24%), information services (+1.13%), and professional, scientific, and technical services (+0.91%). Connecticut's annualized GDP came in at $308.7 billion for the fourth quarter. The map below depicts the annual growth rate in GDP by state.



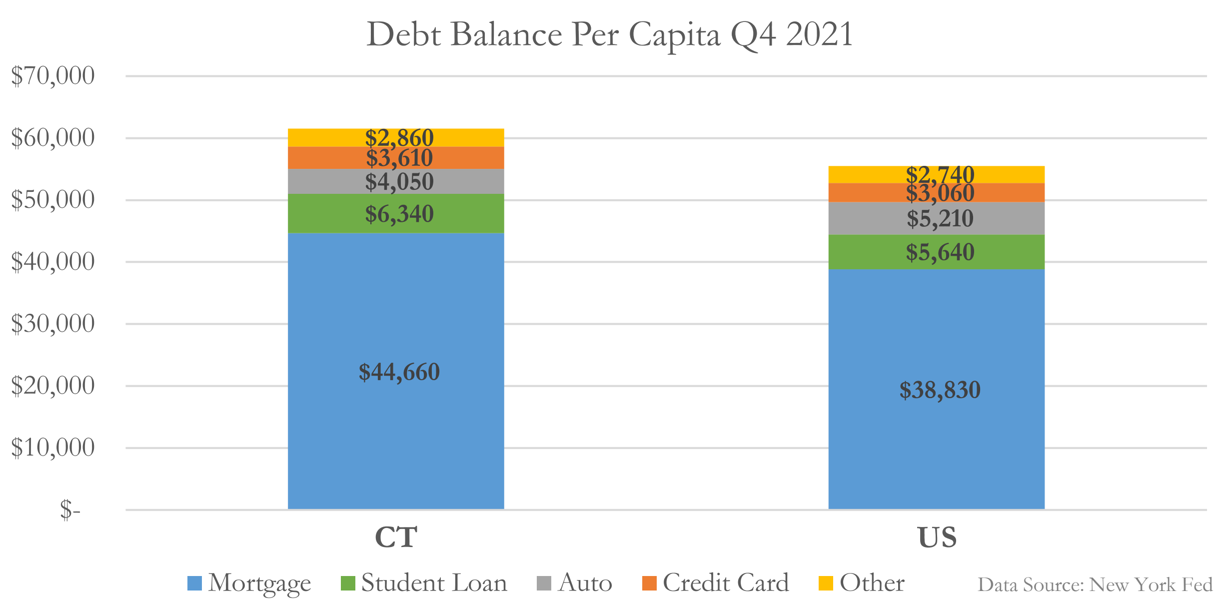
U.S. Bureau of Economic Analysis

<u>Consumer Spending, Saving and Debt</u>

The Bureau of Economic Analysis reported consumer spending increased $34.9 billion (0.2%) in February. Spending on goods decreased with the largest decrease in motor vehicles and parts while spending on services increased. The largest increase in services was on food services and accommodations. The personal-saving rate was 6.3% in February, up from 6.1% in January. Personal income increased $101.5 billion (0.5%) in February due to an increase in both private and public compensation that was partly offset by a decrease in government social benefits.



The Federal Reserve Bank of New York reported total household debt increased by $333 billion in the fourth quarter of 2021, a 2.2% rise from the previous quarter, and the largest increase since 2007. Balances now stand at $15.58 trillion, reflecting an increase of $1 trillion during 2021, and are $1.4 trillion higher than at the end of 2019. The large increase can partly be attributed to higher prices. Consumers had to borrow more in 2021 to secure a new home or car. Delinquency rates remain at record lows due to forbearance programs and higher savings throughout the pandemic.

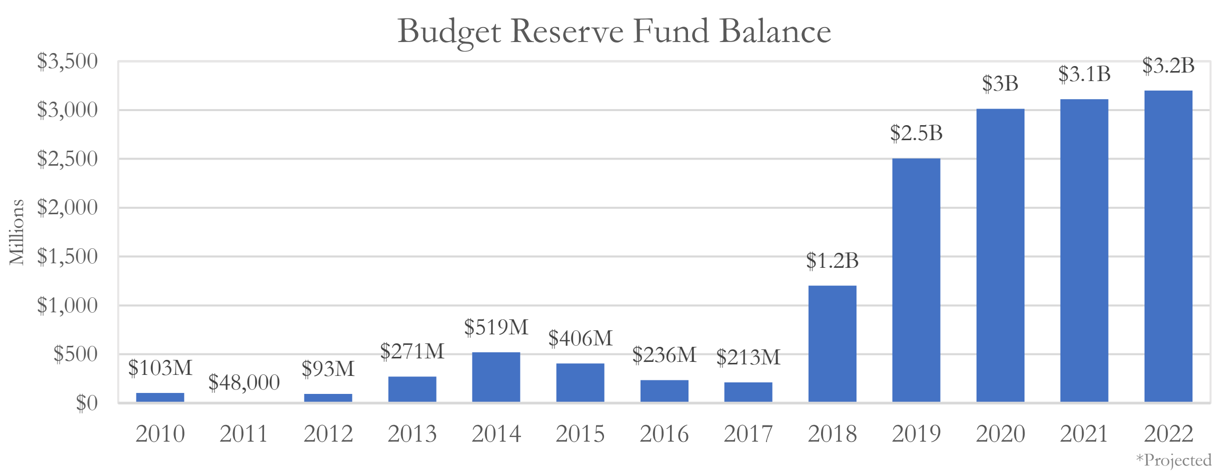


Stock Market and State Revenue

March proved to be another incredibly volatile month for investors as the stock market posted large daily changes. Geopolitical pressure, persistent high inflation, and the Fed's shifting monetary policy all contributed to high uncertainty this month. As of March 31st, over the month, the Dow Jones Industrial Average gained 786 points or 2.32%. The S&P 500 gained 156 points or 3.58% and the NASDAQ gained 469 points or 3.41%.

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% of total state income tax receipts, but can be an extremely volatile revenue source. Both categories of tax receipts grew by a combined 21.2% over year-to-date results in the previous fiscal year.

The revenue volatility cap, introduced by former Comptroller Kevin Lembo and passed by the legislature, automatically captures excess revenue in volatile revenue categories and deposits them in the state's Budget Reserve Fund. As a result of that policy, and continued bipartisan support for maintaining it, the state's reserves have reached their statutory cap. The following graph displays the Budget Reserve Fund balance at the end of each fiscal year.



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% 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% 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 eight months of FY 2022, income tax withholding continues to perform well. The budget plan called for growth in withholding receipts of 1.8% over FY 2021 realized amounts. To date through February 28th, collections are coming in 8.8% above the same period in FY 2021.

Consumer Confidence

The Conference Board reported the U.S. consumer confidence index increased to 107.2 from February's revised reading of 105.7. In the March survey, the Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, increased from 143 to 153. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, decreased from 80.8 to 76.6. Consumers expressed concerns over higher prices, specifically gas prices, and the war in Ukraine. Consumers remain relatively confident about current business and labor market conditions but grow pessimistic about the future.

Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	February 2022 (P)	January 2022 (R)	February 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Information	2,923,000	2,923,000	2,758,000	0	0.0%	165,000	6.0%
Government	22,198,000	22,174,000	21,805,000	24,000	0.1%	393,000	1.8%
Manufacturing	12,607,000	12,571,000	12,222,000	36,000	0.3%	385,000	3.2%
Trade, Trans & Utilities	28,399,000	28,296,000	27,403,000	103,000	0.4%	996,000	3.6%
Financial Activities	8,901,000	8,866,000	8,724,000	35,000	0.4%	177,000	2.0%
Prof & Business Services	21,989,000	21,894,000	20,902,000	95,000	0.4%	1,087,000	5.2%
Other Services	5,634,000	5,609,000	5,339,000	25,000	0.4%	295,000	5.5%
Educ & Health Services	24,084,000	23,972,000	23,454,000	112,000	0.5%	630,000	2.7%
Construction & Mining	8,168,800	8,099,800	7,802,100	69,000	0.9%	366,700	4.7%
Leisure & Hospitality	15,451,000	15,272,000	13,270,000	179,000	1.2%	2,181,000	16.4%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	February 2022 (P)	January 2022 (P)	February 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Prof & Business Services	212,600	213,700	210,700	-1,100	-0.5%	1,900	0.9%
Other Services	59,600	59,900	56,700	-300	-0.5%	2,900	5.1%
Government	225,300	226,200	221,400	-900	-0.4%	3,900	1.8%
Construction & Mining	62,100	62,200	59,400	-100	-0.2%	2,700	4.5%
Financial Activities	117,600	117,600	118,700	0	0.0%	-1,100	-0.9%
Manufacturing	157,900	157,400	152,200	500	0.3%	5,700	3.7%
Educ & Health Services	336,200	334,300	329,600	1,900	0.6%	6,600	2.0%
Leisure & Hospitality	143,100	141,900	122,700	1,200	0.8%	20,400	16.6%
Information	30,600	30,300	29,300	300	1.0%	1,300	4.4%
Trade, Trans & Utilities	297,700	292,900	289,300	4,800	1.6%	8,400	2.9%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	Feb 2022	Feb 2021	% Change	YTD 2022	YTD 2021	% Change
New Listings	2,647	2,949	-10.24%	4,893	5,775	-15.27%
Sold Listings	1,916	2,412	-20.56%	4,479	5,388	-16.87%
Median List Price	$334,450	$327,950	1.98%	$335,000	$329,000	1.82%
Median Selling Price	$340,000	$326,250	4.21%	$340,000	$327,000	3.98%
Median Days on the Market	32	46	-30%	32	43	-25.58%
Average Listing Price	$545,884	$552,892	-1.27%	$530,340	$545,994	-2.87%
Average Selling Price	$543,446	$541,492	0.36%	$528,927	$534,751	-1.09%
Average Days on the Market	53	65	-18.46%	50	62	-19.35%
List/Sell Price Ratio	100.8%	99.4%	1.48%	100.9%	99.4%	1.49%

Data Source: Berkshire Hathaway HomeServices

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