NATALIE BRASWELL
Connecticut State Comptroller

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COMPTROLLER BRASWELL PROJECTS $1 BILLION SURPLUS, WARNS OF HOUSING AFFORDABILITY CHALLENGES

Comptroller Natalie Braswell today, in her monthly financial and economic update, projected a Fiscal Year 2023 General Fund surplus of $1 billion following this week's special session and the most recent consensus revenue forecast.

"State revenues continue to perform well thanks to the overall strength of the labor market and robust consumer spending," said Braswell. "While it's still early in the fiscal year, we are on track to record another significant surplus and make another sizable contribution to pay down pension debt."

In a letter to Gov. Ned Lamont, Braswell noted the consensus revenue estimate, produced by the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA), increased revenue projections in several categories including the sales tax and investment income resulting in a forecasted increase in the surplus despite some additional spending during this week's special legislative session.

A law originally proposed by former Comptroller Kevin Lembo in 2015 requires the final surplus amount, plus excess revenue in certain volatile categories, be deposited into the state's Budget Reserve Fund (commonly known as the "Rainy Day Fund"). Because that fund has already reached its statutory cap, a projected $2.8 billion will be available to pay down debt in the pension systems for retired state workers and teachers. If that projection holds, it will mark the sixth consecutive year of progress in growing the state's reserves and reducing pension debt.

Nationally, job growth has begun to moderate, with the unemployment rate ticking up. However, there are still almost two open jobs for each unemployed person. Connecticut added 500 jobs in October, the state's tenth consecutive month of job growth.

Inflation continues to punish American families, with costs of essentials like housing, food, gasoline, and utilities remaining high. While there are signs that recent interest rate increases will be successful in lowering costs over the long-term, the short-term effects are increasing household debt (particularly in credit cards) and growing mortgage payments.

Rising mortgage rates, now topping 7%, high home prices, and a consistent lack of inventory, have cooled the national housing market. The median existing home sales price dropped for the fourth month in a row but remains much higher than before the pandemic. However, the National Association of Realtors reports that the annual rate of first-time homeownership has now reached its lowest point in history. The average age of first-time homebuyers is the highest it's ever been at 36 years old.

"Housing affordability is a critical component to economic growth, and a key tool in combating chronic racial, ethnic, and geographical inequities," said Braswell. "While many national conditions are outside of our control, policymakers in Connecticut should prioritize increasing housing inventory and look for ways to help young people purchase their first home."

Braswell pointed to economic indicators in Connecticut and across the nation:

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

Areas of the U.S. economy have started to show signs of slowing down. Job growth is moderating, the unemployment rate is rising, and the housing market is cooling off. The U.S. added 261,000 jobs in October and the unemployment rate rose to 3.7%. The number of unemployed people grew by 306,000 and jobless claims ticked up. Connecticut added 500 jobs in October and the state unemployment rate rose to 4.3%. Inflation remains elevated but may have started to moderate as the CPI came in at an annual rate of 7.7% in October. The Federal Reserve raised interest rates once again by 75 basis points to cool demand and bring prices down. U.S. household debt is up as inflation and increasing interest rates make it more expensive to borrow. The housing market is shifting as mortgage rates topped 7% in November and home prices started to moderate on a monthly basis. The U.S. labor and housing markets may be slowing down, but GDP and consumer spending remain resilient. U.S. GDP grew 2.9% in the third quarter and consumer spending increased 0.8% from last month. Consumer confidence declined in November mostly due to high gas and food prices and many remain concerned about a possible recession.

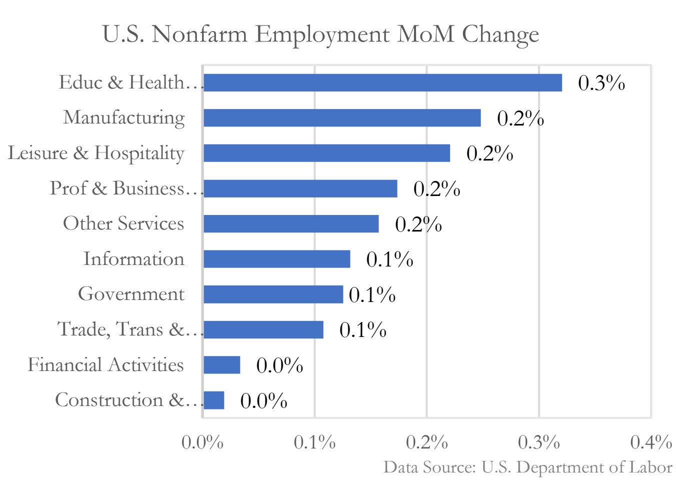
Labor Market Statistical Summary

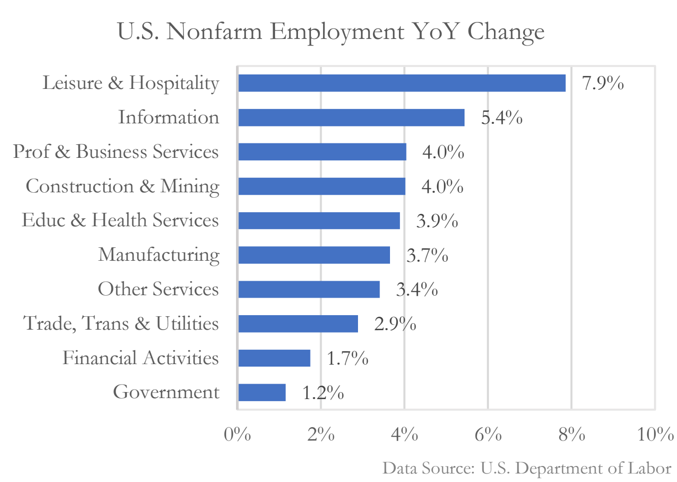
United States	October 2022	September 2022	October 2021
Unemployment Rate	3.7%	3.5%	4.6%
Total Unemployed	6,059,000	5,753,000	7,375,000
Total Nonfarm Employment	153,308,000	153,047,000	148,005,000
Job Growth	+261,000	+315,000	+677,000
Covid Job Recovery	100.0%	100.0%	79.5%
Job Openings to Unemployed Ratio	-	1.86	1.5
Quit Rate	-	2.7%	2.8%
Average Monthly Initial Unemployment Claims	219,000	206,250	308,200
Labor Force Participation Rate	62.2%	62.3%	61.7%
Average Hourly Wage	$32.58	$32.46	$31.11

Connecticut	October 2022	September 2022	October 2021
Unemployment Rate	4.3%	4.0%	5.4%
Total Unemployed	81,400	76,900	100,900
Total Nonfarm Employment	1,668,200	1,667,700	1,631,600
Job Growth	+500	+4,300	+8,700
Covid Job Recovery	89.4%	89.2%	76.7%
Job Openings to Unemployed Ratio	-	1.48	0.95
Quit Rate	-	2.3%	2.0%
Average Monthly Initial Unemployment Claims	2,277	2,583	2,363
Labor Force Participation Rate	64.5%	64.6%	63.5%
Average Hourly Wage	$35.36	$35.07	$34.18

National Job Growth

The Bureau of Labor Statistics reported the U.S. added 261,000 jobs in October after adding 315,000 in September and 292,000 in August. This growth marks twenty-two straight months of job gains. Month over month and year over year, all sectors saw improvement. Month over month, the largest job gains occurred in education and health services (+79,000), professional and business services (+39,000), and leisure and hospitality (+35,000). 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.





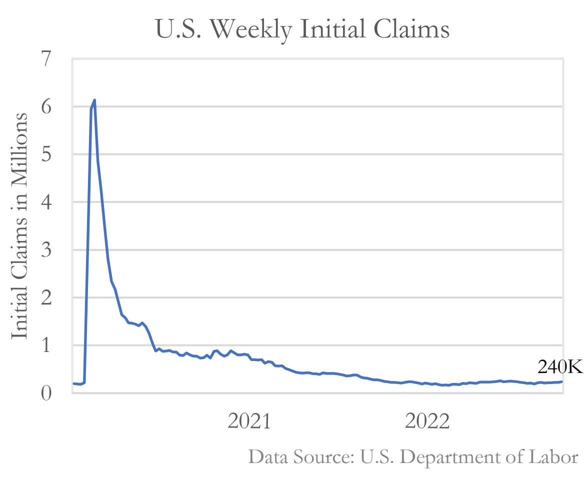
Seven industry sectors have gained jobs above their pre-pandemic levels: construction, trade transportation and utilities, professional and business services, information, financial activities, manufacturing, and education and health services. The U.S. has recovered 100% of the 21,991,000 jobs lost in March and April 2020 due to the COVID-19 lockdown, and 27 states have recovered 100% of the jobs lost.

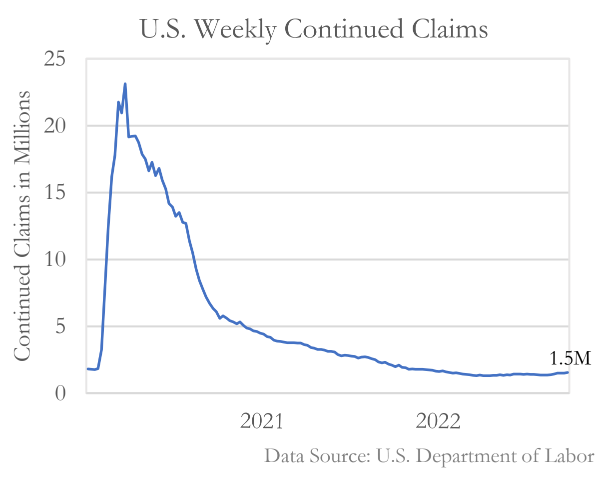
Several firms have announced layoff plans due to recession fears. Layoffs have mostly been concentrated in the big tech sector including Amazon, Twitter, Meta, and Hewlett-Packard. Despite these layoffs, the tech sector is relatively small so impacts on overall employment figures would be insignificant. There are still a record number of job openings across industries so employees should still be able to find new jobs relatively quickly. There were 10.7 million job openings in September which means 1.86 jobs for every unemployed person.

National Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate was 3.7% in October, up by 0.2 percentage points from September's level (3.5%). The total number of unemployed people in October was 6.1 million, an increase of 306,000 from last month.

For the week ending November 19, seasonally adjusted initial claims totaled 240,000, while average weekly initial claims were 226,750. The level of jobless claims has increased slowly from the lows in March and are the highest since August. For the week ending November 12, seasonally adjusted continued claims totaled 1,551,000, while average weekly continued claims were 1,509,750.

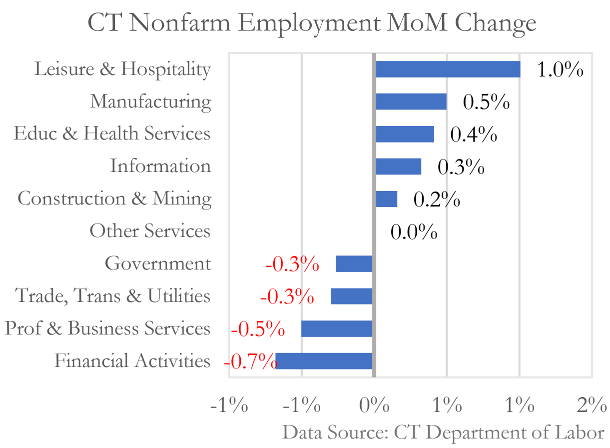


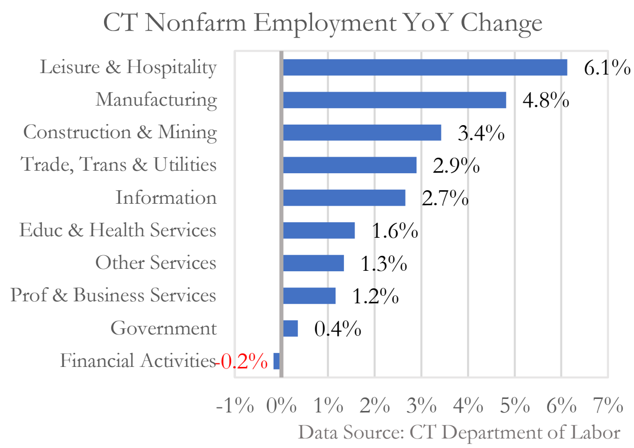


Connecticut Job Growth

The Connecticut Department of Labor reported the state added 500 jobs in October after adding 4,300 in September and 2,400 in August. This marks 10 straight months of job gains. Total nonfarm payroll was 1,668,200, which is up 258,600 since April 2020 but is down by 30,800 from its pre-pandemic level in February 2020.

Five industry sectors increased month over month, while four declined and other services remained unchanged. The largest job gains occurred in leisure and hospitality (+1,500), education and health services (+1,400), and manufacturing (+800). Job declines occurred in professional and business services (-1,100), trade, transportation, and utilities (-900), financial activities (-800), and government (-600). The following graphs display the month over month and year over year net change in nonfarm employment by sector.



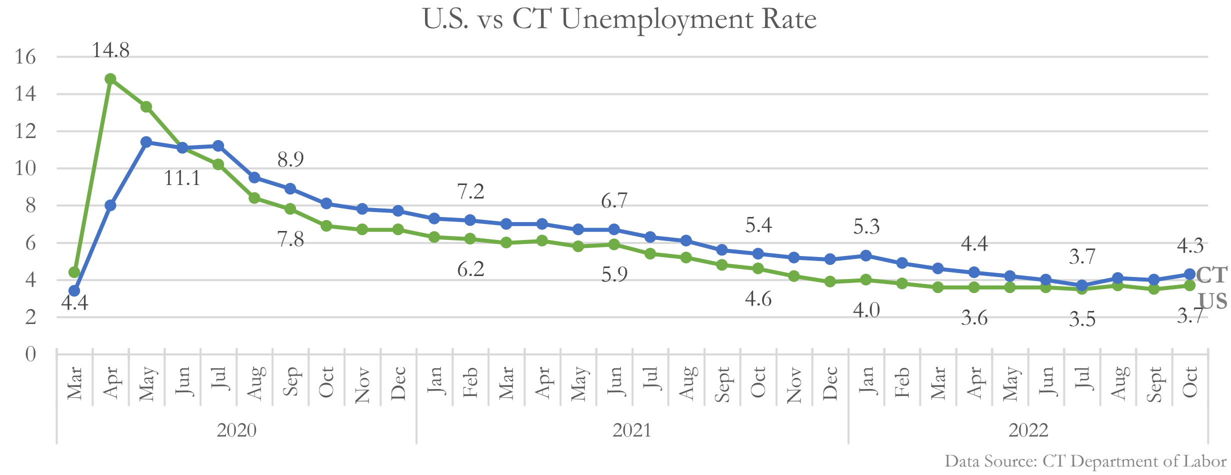


Overall, Connecticut has recovered 89.4% of the 289,400 nonfarm jobs lost in March and April 2020 due to the COVID-19 lockdown. The private sector has recovered 92.4% of jobs lost while the public sector has only recovered 55.5%. Three industry sectors have gained jobs above their pre-pandemic levels: construction, professional and business services, and trade, transportation, and utilities. See Appendix 2 for detailed industry sector data.

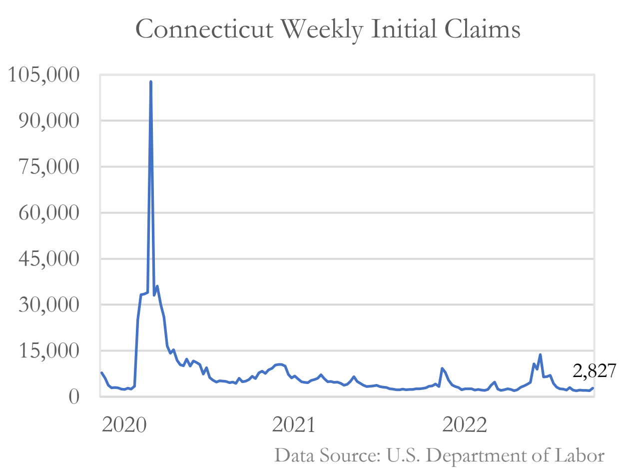
In Connecticut there were 114,000 job openings in September and 76,900 people actively looking for work. If every unemployed person got a job, there would still be 37,100 open jobs. This trend is not unique to Connecticut but represents the strong national demand for labor, especially low-wage service sector and healthcare jobs.

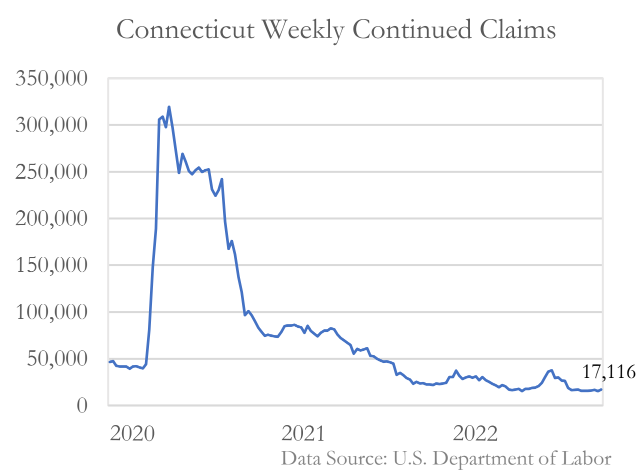
Connecticut Unemployment

The Connecticut Department of Labor reported the state unemployment rate was 4.3% in October, up from 4% in September. The total number of unemployed people was 81,400 in October, an increase of 4,500 from last month. Connecticut's unemployment rate ranks 43 in the nation and is just 2.2 percentage points higher than Minnesota's (#1 rank) 2.1% unemployment rate and is 0.3 percentage points lower than Nevada's 4.6% (#49 rank).



Unemployment claims for first-time filers were an average of 3,459 per week in October, down by 711 claims from last month. This level of average weekly initial claims has reached pre-pandemic levels but is expected to rise as the econonmy cools down.





<u>National Housing Market</u>

The National Association of Realtors (NAR) reported existing-home sales decreased for the ninth month in a row, down 5.9% from last month and 29.4% from last year. This is due to a lack of inventory, elevated home prices, and rising mortgage rates reducing affordability.

The median existing-home sales price was $379,100 in October, down for the fourth month in a row after June's all-time high. However, October's median price is still $23,400 or 6.6% higher than last year. Price growth is slowing but still remains much greater than pre-pandemic levels.

Median Existing Homes Sales Price

Data Source: National Association of Realtors

Housing affordability declined month over month and year over year. Year over year, monthly mortgage payments increased 57.8% from $1,212 to $1,912 while median family income rose by 3.9%. Mortgage rates in November were the highest in twenty years, reaching over 7% compared to under 3% last year. First-time buyers were responsible for 28% of sales in October, declining by one percentage point from last month and year. NAR found that the annual share of first-time homebuyers is the lowest it's ever been, while the average age of first-time homebuyers is the highest it's ever been at 36. For the third month in a row housing inventory decreased, reaching 1.22 million, well below necessary levels.

Connecticut Housing & Rental Market

Berkshire Hathaway HomeServices reported year over year sales of single-family homes decreased 29% and new listings were down 20% in October. Median sales price increased by 9% and median list price increased by 9%. Average days on the market decreased to 36 days from 40 a year ago. On average, sales prices came in above list prices, with a list/sell price ratio of 101%. Inventory sits at a 1.9-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.

October 2022 Connecticut Housing Market

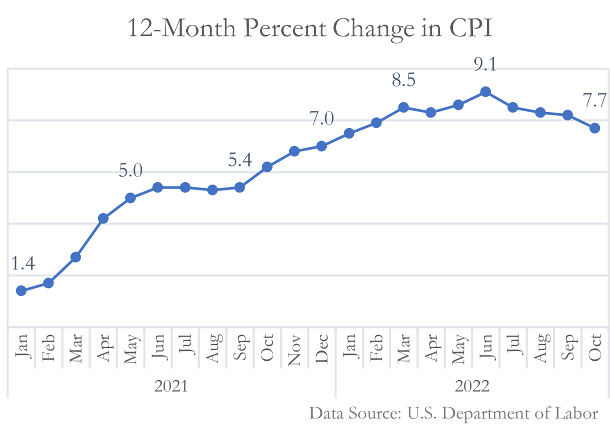
Sales	New Listings	Median Sales Price	Avg Days on Market
2,632	**2,954**	**$372,000**	**36**
-29%	-20%	+9%	-13%

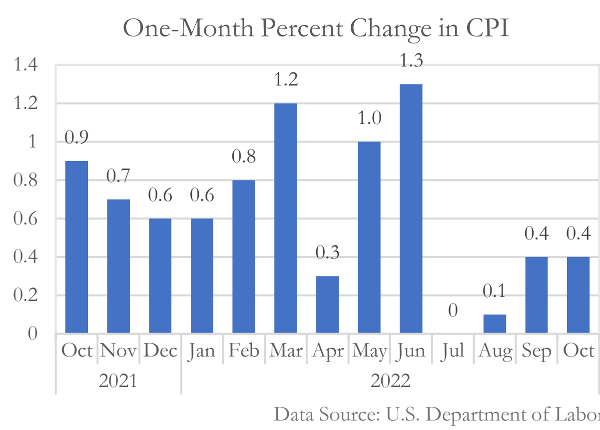
Data Source: Berkshire Hathaway HomeServices

National median rent declined for the third month in a row according to Apartment List and is in line with pre-pandemic seasonal trends. National average rent was $1,356 in November, down 1% from last month and up 4.4% from last year. Every state except for Rhode Island, Arizona, Maine, Nevada, and Hawaii, saw rent prices increase year over year. Rent growth is slowing down, but prices are still much greater than before the pandemic. In Connecticut, average rent increased 3.8% year over year, from $1,488 to $1,547 but dipped slightly from last month. 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.

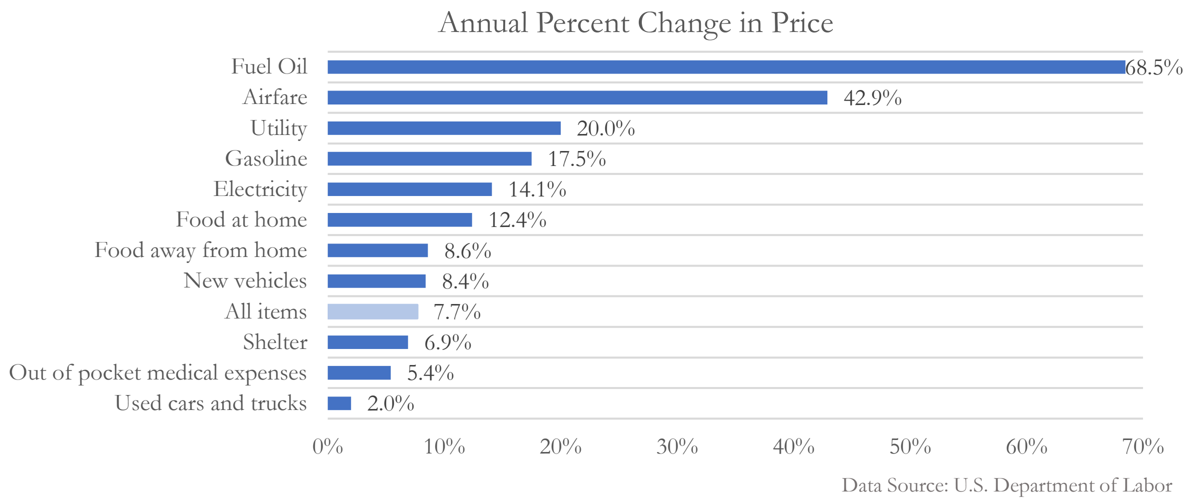
Inflation

The Bureau of Labor Statistics reported the Consumer Price Index (CPI) rose 0.4% in October for an annual rate of 7.7%—a hopeful sign inflation may be slowing down. However, prices for shelter, groceries, and gas remain elevated with the 0.8% monthly increase in shelter contributing to over half of this month's increase and is also the largest monthly increase in the shelter index since August of 1990. Core CPI, which excludes food and energy, rose 0.3% for an annual rate of 6.3%.





Over a dozen categories saw declines in the rate of increases compared to last month. However, the energy index increased this month, after declining for three consecutive months and rose 17.6% over the past 12 months. Fuel Oil increased 68.5% over the last 12 months.



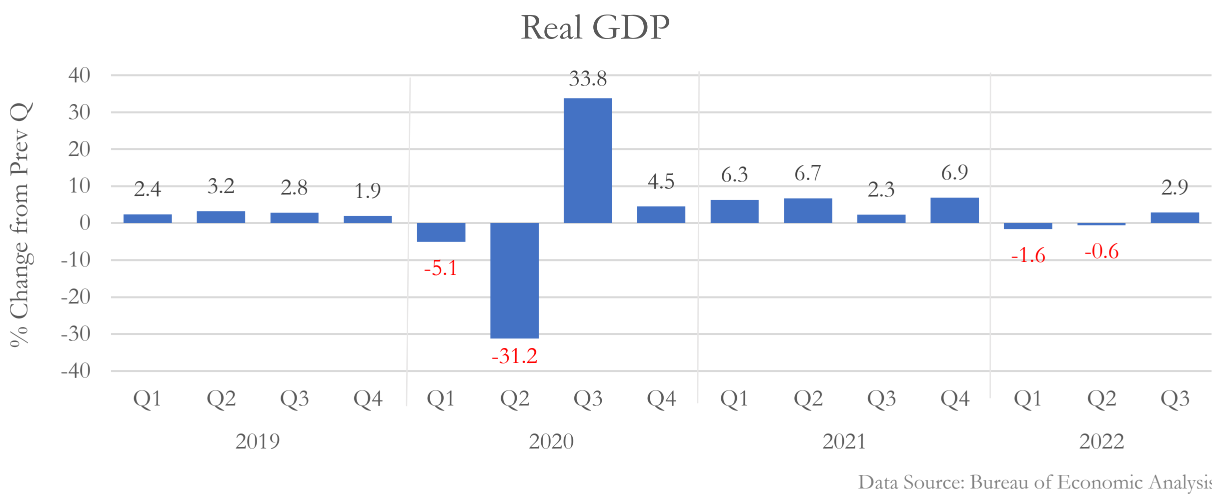
The Bureau of Economic Analysis reported the Personal Consumption Expenditure (PCE) price index excluding food and energy, the Federal Reserve's preferred inflationary index, increased 0.2 percent from last month and now stands at an annual rate of 5%. This is a slowdown from previous moths and is an indication underlying inflation is starting to come down.

It is too early to declare a win on the inflation front because prices still remain at 30 year highs. It will take some time before households feel any substantial relief. This month's reports indicate we are starting to move in the right direction, but there is still a long way to go before prices ease. The Federal Reserve raised interest rates by 75 basis points in November bringing the target range to 3.75%-4.0%. This is the sixth rate increase this year, but analysts are hopeful the huge 75 point hikes are behind us as the Federal Reserve slows down the economy. The Federal Reserve is projecting rates will reach above 4.5% next year and may need to be higher than previously expected in order to bring inflation closer to 2%.

The widespread, persistent inflation we are experiencing today disproportionately affects low-income households according to Fed Vice Chair Lael Brainard. Low-income households spend a greater share of income on necessities, have less financial cushion, and lower ability to switch to lower priced items. On average, low-income households spend approximately 75% of income on basic necessities such as groceries, gasoline, utilities, rent, and transportation—compared to only about 30% for high-income households. Additionally, households of different income levels have different abilities to change behavior such as switching to generic, buying in bulk, or foregoing goods altogether. On top of this, lower-income households have smaller financial cushions if catastrophic events occur such as job loss, health crises, or costly damage to a home or vehicle.

<u>GDP</u>

The Bureau of Economic Analysis reported the second estimate of U.S. real gross domestic product (GDP) increased at an annual rate of 2.9% in the third quarter of 2022, an increase of 0.3 percentage points from the preliminary estimate. This follows a 0.6% real GDP decrease in the second quarter of 2022.

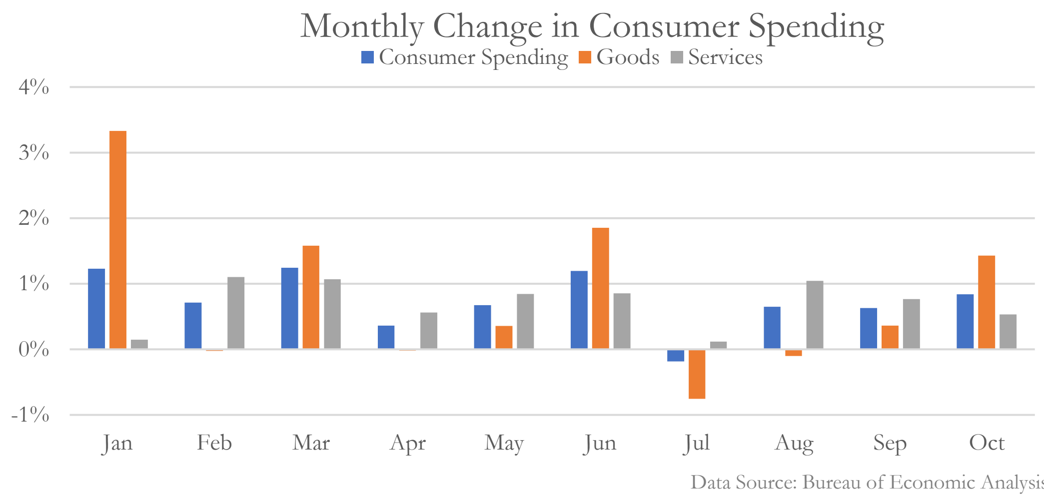


GDP is calculated by adding public consumption, private investment, government spending, and the difference between exports and imports. The second estimate primarily reflected upward revisions to consumer spending and nonresidential fixed investment offset by downward revisions to private inventory investment. Imports, which are a subtraction in the calculation of GDP, were also revised downward due to the improvement in the trade deficit.

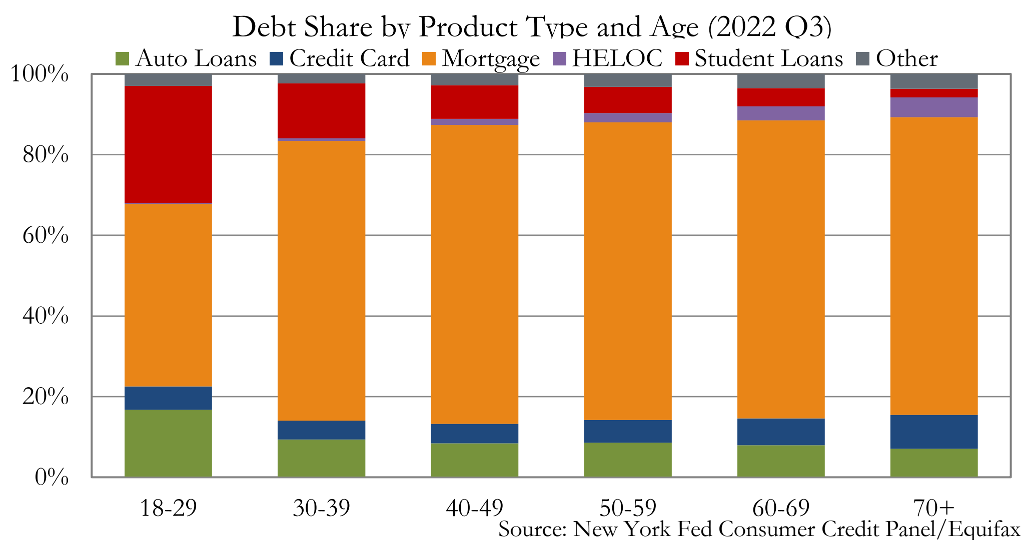
The increase in exports reflected increases in both goods and services. Public consumption, or consumer spending, increased due to spending on services rather than goods. Within private inventory investment, the decrease was led by retail trade (mainly clothing and accessory stores as well as "other" retailers). The increase in state and local government spending was led by increases in compensation of state and local government employees and investment in structures. The increase in federal government spending was led by defense spending.

Consumer Spending, Saving & Debt

The Bureau of Economic Analysis reported consumer spending increased $147.9 billion (0.8%) in October. Spending on services increased by $61.9 billion driven by food services and accommodation. Spending on goods increased by $85.9 billion, driven by new cars, gasoline, and other energy goods. Personal income increased $155.3 billion (0.7%) primarily due to an increase in private wages and salaries. The personal-saving rate was 2.3% in October, down from 2.4% last month and the lowest level since 2005. The following graph displays the monthly change in consumer spending.



The Federal Reserve Bank of New York reported total household debt increased by $351 billion in the third quarter of 2022, a 2.2% rise from the previous quarter, and the largest nominal quarterly increase since 2007. The increase was driven by a $282 billion increase in mortgage balances which comprise 71% of household debt, and credit card debt, up by $38 billion from last quarter which had the largest year over year increase in over 20 years. Record inflation coupled with strong consumer demand and rising interest rates are large contributors to increased debt. Delinquency rates are rising, however remain historically low due to pandemic stimulus and forbearance programs. The chart below displays debt share by type and age.



<u>Stock Market and State Revenue</u>

The first half of calendar year 2022 marked a steady decline in the stock market which continued into a volatile third quarter. Negative GDP, high inflation, shifting monetary policy, and geopolitical issues created persistent volatility. Investors were, and continue to be, increasingly pessimistic about the economic future as recession concerns arise. However, the fourth quarter tends to perform well, and the market rallied in November as the holiday season approaches and Federal Reserve Chair Jerome Powell indicated large rate hikes may be coming to an end. As of November 30, over the month, the

Dow Jones Industrial Average rose 1,857 points or 5.7%, the S&P 500 rose 208 points or 5.4%, and the NASDAQ rose 480 points or 4.4%.

The performance of the stock market and overall economy has a significant impact on Connecticut tax revenue. In a typical year, estimated and final income tax payments account for approximately 25-30% of total state income tax receipts, but can be an extremely volatile revenue source. FY 2023 results show estimated and final payments are up a combined 11.1% compared with the same period from FY 2022.

The withholding portion of the income tax is the largest single General Fund revenue source. In FY 2022, income tax withholding performed very well. The budget plan called for growth in withholding receipts of 1.8% over FY 2021 realized amounts. FY 2022 results show collections came in 8.9% above the same period in FY 2021. In FY 2023, the budget plan calls for growth in withholding receipts of 3.8% over FY 2022 realized amounts. Through the first four months of FY 2023, collections are 11.7% above the same period in FY 2022.

Consumer Confidence

The Conference Board reported the U.S. consumer confidence index decreased for the second month in a row in November from 102.2 to 100.2. In the November survey, the Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, declined from 138.7 to 137.4. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, declined from 77.9 to 75.4—indicating concerns about a recession remain strong. The decline in this month's survey was mostly due to higher gas and food prices with inflation expectations increasing. However, an overall reading between 90-100 still indicates a healthy outlook on the economy. Robust employment is allowing consumer spending to remain strong amid high inflation, which is one of the reasons the U.S. economy hasn't entered a recession yet.

Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	October 2022 (P)	September 2022 (R)	October 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Construction & Mining	8,309,800	8,308,200	7,988,500	1,600	0.0%	321,300	4.0%
Financial Activities	8,971,000	8,968,000	8,817,000	3,000	0.0%	154,000	1.7%
Trade, Trans & Utilities	28,823,000	28,792,000	28,013,000	31,000	0.1%	810,000	2.9%
Government	22,350,000	22,322,000	22,094,000	28,000	0.1%	256,000	1.2%
Information	3,043,000	3,039,000	2,886,000	4,000	0.1%	157,000	5.4%
Other Services	5,733,000	5,724,000	5,544,000	9,000	0.2%	189,000	3.4%
Prof & Business Services	22,493,000	22,454,000	21,619,000	39,000	0.2%	874,000	4.0%
Leisure & Hospitality	15,886,000	15,851,000	14,728,000	35,000	0.2%	1,158,000	7.9%
Manufacturing	12,922,000	12,890,000	12,466,000	32,000	0.2%	456,000	3.7%
Educ & Health Services	24,732,000	24,653,000	23,805,000	79,000	0.3%	927,000	3.9%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	October 2022 (P)	September 2022 (R)	October 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Financial Activities	116,900	117,700	117,100	-800	-0.7%	-200	-0.2%
Prof & Business Services	218,300	219,400	215,800	-1,100	-0.5%	2,500	1.2%
Trade, Trans & Utilities	298,700	299,600	290,300	-900	-0.3%	8,400	2.9%
Government	226,200	226,800	225,400	-600	-0.3%	800	0.4%
Other Services	60,600	60,600	59,800	0	0.0%	800	1.3%
Construction & Mining	63,400	63,300	61,300	100	0.2%	2,100	3.4%
Information	30,900	30,800	30,100	100	0.3%	800	2.7%
Educ & Health Services	341,500	340,100	336,200	1,400	0.4%	5,300	1.6%
Manufacturing	161,100	160,300	153,700	800	0.5%	7,400	4.8%
Leisure & Hospitality	150,600	149,100	141,900	1,500	1.0%	8,700	6.1%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	Oct 2022	Oct 2021	% Change	YTD 2022	YTD 2021	% Change
New Listings	2,954	3,708	-20.3%	37,475	45,222	-17.1%
Sold Listings	2,632	3,688	-28.6%	30,209	36,855	-18.0%
Median List Price	$369,900	$339,000	9.1%	$369,900	$349,900	5.7%
Median Selling Price	$372,000	$341,500	8.9%	$380,000	$355,000	7.0%
Median Days on the Market	21	25	-16.0%	17	23	-26.1%
Average Listing Price	$544,601	$505,732	7.7%	$580,389	$576,741	0.6%
Average Selling Price	$544,883	$505,108	7.9%	$591,891	$577,537	2.5%
Average Days on the Market	36	40	-10.0%	36	44	-18.2%
List/Sell Price Ratio	101.0%	100.8%	0.2%	102.8%	101.6%	1.2%

Data Source: Berkshire Hathaway HomeServices

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