STATE COMPTROLLER

SEAN SCANLON

FOR IMMEDIATE RELEASE

March 1, 2023

COMPTROLLER SEAN SCANLON PROJECTS $1.35 BILLION SURPLUS AS BUDGET APPROACHES FIFTH CONSECUTIVE ANNUAL SURPLUS

General Fund surplus remains constant among changes in economic indicators

(HARTFORD, CT) – Comptroller Sean Scanlon today, in his monthly financial and economic update and outlook, projected a Fiscal Year 2023 General Fund surplus of $1.35 billion and Special Transportation Fund surplus of $234 million. The state is on track to deposit $3.2 billion at the end of this fiscal year into the pension funds.

The General Fund surplus projection has increased $10.5 million from January. The increase would have been $22.5 million, but this estimate accounts for the passage of H.B. 6671, which increased General Fund spending by $12.0 million, primarily to fund free school meals for Connecticut public school students through the end of the school year.

"The economic indicators show both pros and cons this month," **said Comptroller Sean Scanlon.** "We continue to see positive job growth and record-low unemployment at the national level but inflation, while gradually easing, is still having an impact on people and families in Connecticut. Fortunately, thanks to our Rainy Day Fund's historic balance and the 2017 fiscal guardrails recently extended by the legislature, our state is prepared if and when a downturn occurs as a result of the Federal Reserve increasing interest rates to combat inflation."

Budget Reserve Fund	
Current Balance	3,313,380,000
Projected volatility transfer from GF	1,847,500,000
Projected surplus transfer from GF	1,353,168,188
Projected ending balance	6,514,048,188
Projected ending balance as percent of FY23 GF appropriations	29.5%
Excess to pay down debt (amount above 15% BRF cap)	3,200,668,188
Projected Deposit to SERS	2,344,114,288
Projected Deposit to TRS	856,553,900

The Comptroller's monthly letter to Governor Ned Lamont notes that, nationally, 63% of private-sector job gains over the past six months have been seen in the healthcare, education, leisure and hospitality, and other service industries. This hints that the workforces of these industries, many of which struggled to hire employees throughout COVID-19, are growing.

Personal Consumption Expenditures increased 1.8%, with leading increases in the purchases of motor vehicles, food services, and pharmaceuticals. While stimulating to local and large economies, this increase in spending on pharmaceuticals highlights the need for reform and limits on prescription drug prices, which were notably outlined in [Governor Lamont's recent proposals to reduce healthcare costs].

"Access to affordable and quality health care is one of most important issues facing Connecticut families and businesses at a time when costs are rising and insurance covers less than it used to," **Comptroller Scanlon said.** "Passage of this proposal will allow my office to enter into a multi-state contract that will offer discount cards to all Connecticut residents, which will enable them to save significant money at their local pharmacy counter in the future."

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Scanlon 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

Initial optimism that the U.S. economy could achieve a soft landing (a cyclical downturn that avoids recession) by the Federal Reserve Board was quickly dashed with the January hot jobs report. Chair Jerome Powell acknowledged after the stronger-than-expected jobs report that the process of bringing inflation down would probably be "bumpy." Markets expect the Federal Reserve to raise rates again on March 22.

The most important U.S. economic data point for January was jobs report, with the economy adding more than half a million jobs in January, nearly triple what economists had estimated. Driving the jobs boom are large but often overlooked sectors of the economy. Restaurants, hospitals, nursing homes and child-care centers are finally staffing up as they enter the last stage of the pandemic recovery. Employers in healthcare, education, leisure and hospitality and other services account for about 36% of all private-sector payrolls. Together, those service industries added 1.19 million jobs over the past six months, accounting for 63% of all private-sector job gains during that time. By comparison, the tech-heavy information sector, which shed jobs for two straight months, makes up 2% of all private-sector jobs.

Unemployment is at 3.4%, the lowest in more than 53 years. United States unemployment claims as of latest Unemployment Insurance Weekly Claims Report were 192,000, the sixth consecutive week of weekly unemployment claims under 200,000 (the long-term average is closer to 350,000). January job openings were 11 million with unemployment at 5.7 million, or nearly 2 job openings for each available worker. The labor force participation rate (number of individuals which are actively seeking out work or who are already employed) edged up to 62.4% in January 2023 but remains approximately 1.0 percentage points below its value in February 2020, prior to the pandemic.

The Bureau of Labor Statistics reported the Consumer Price Index (CPI) rose 0.5% in January on a seasonally adjusted basis. Over the last 12 months, the all items increased 6.4% before seasonal adjustments. The index for shelter was by far the largest contributor to the monthly all items increase, accounting for nearly half of the monthly increase, with the indexes for food, gasoline, and natural gas also contributing.

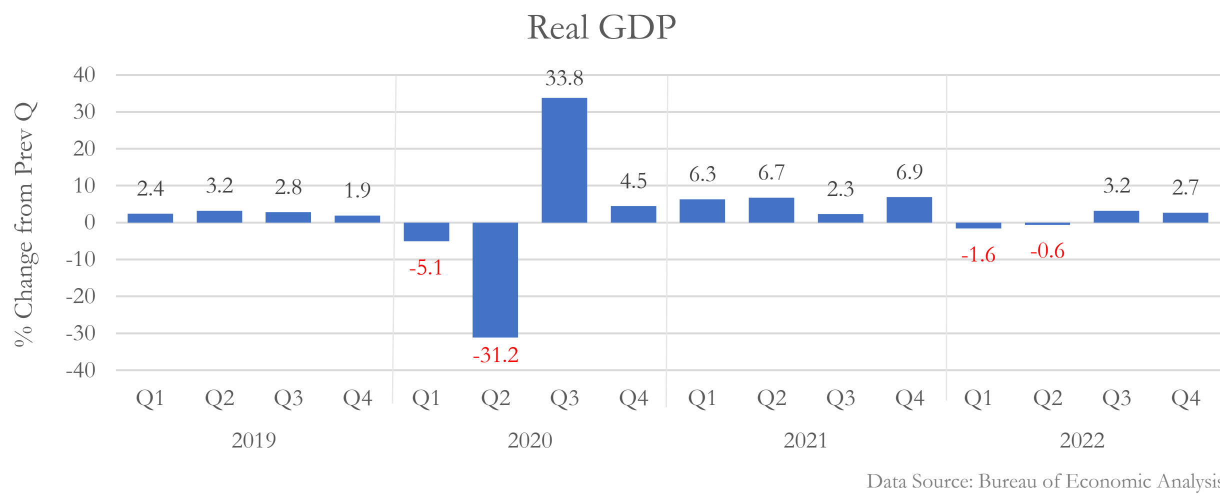
Personal Consumption Expenditures (PCE) increased $312.5 billion (1.8%), reflecting increases in both goods and services. The goods increase was widespread and led by motor vehicles and parts as well as "other" nondurable goods (led by pharmaceuticals). Within services, the largest contributor to the increase was spending for food services.

Existing-home sales decreased for the twelfth straight month in a row, down 0.7% from last month and 36.9% from last year. However, there are some signs that homes sales are bottoming out, as the inventory of unsold existing homes grew from the prior month to 980,000 at the end of January, or the equivalent of 2.9 months' supply at the current monthly sales price. National median rent declined for the fifth month in a row according to Apartment List. January's decline was sharper than the usual seasonal trend, signaling a continuation of a broader cooldown in market conditions.

GDP

The Bureau of Economic Analysis released the second estimate of U.S. real Gross Domestic Product (GDP), which increased at an annual rate of 2.7% in the fourth quarter of 2022. The first estimate was 2.9%, and updated estimates primarily reflect a downward revision of consumer spending and an upward revision to nonresidential fixed investment. Imports were also revised up.

GDP is calculated by adding public consumption, private investment, government spending, and the difference between exports and imports. Consumer spending is approximately 70% of GDP. The increase in real GDP reflected increases in private inventory investment, consumer spending, nonresidential fixed investment, and federal government spending, state and local government spending that were partly offset by decreases in residential fixed investment and exports. Imports, which are a subtraction in the calculate in GDP, decreased.



The increase in private inventory investment was led by manufacturing as well as mining, utilities, and construction industries. The increase in consumer spending reflected an increase in services that was partly offset by a decrease in goods. Within services, the increase was led by health care as well as housing and utilities. Within goods, the leading contributor to the decrease was "other" durable goods (mainly jewelry). Within nonresidential fixed investment, increases in intellectual property products (mainly software) and structures were partly offset by a decrease in equipment. Within federal government spending, the increase was led by nondefense spending. The increase in state and local government spending primarily reflected an increase in compensation of state and local government employees.

Within residential fixed investment, the leading contributors to the decrease were new single-family construction as well as brokers' commissions. Within exports, a decrease in goods was partly offset by an increase in services. Within imports, a decrease in goods was partly offset by an increase in services.

Compared to the third quarter, the deceleration in real GDP in the fourth quarter primarily reflected a downturn in exports and decelerations in consumer spending, nonresidential fixed investment, and state and local government spending. These movements were partly offset by an upturn in private inventory investment, an acceleration in federal government spending, and a smaller decrease in residential fixed investment. Imports decreased less in the fourth quarter than in the third quarter.

Stock Market and State Revenue

After narrowly avoiding a bear market (which typically describes a condition in which securities prices fall 20% or more), the S&P 500 Index ended at 4,012.32 on February 24, an increase of 4.5% for the year, The NASDAQ and Dow declined 33.10% and 8.78% respectively in 2022. The NASDAQ is up 10.74% as February 24 to 11,590.40, while the Dow is essentially flat to-date for 2023.

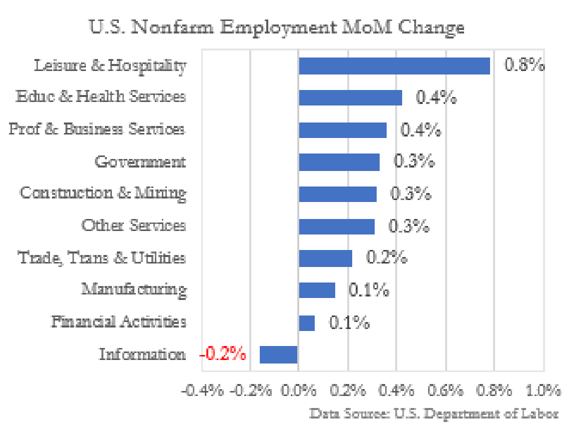
The performance of the stock market and overall economy has a significant impact on Connecticut tax revenue. In a typical year, estimated and final income tax payments account for approximately 25-30% of total state income tax receipts, but can be an extremely volatile revenue source. FY 2023 results show estimated and final payments are down a combined 9.0% compared with the same period from FY 2022. Collections, for both estimates and finals under the Income Tax and Pass-through Entity Tax fell in the months of December and January compared to last year, though they are still within conservative revenue estimates for the fiscal year to date.

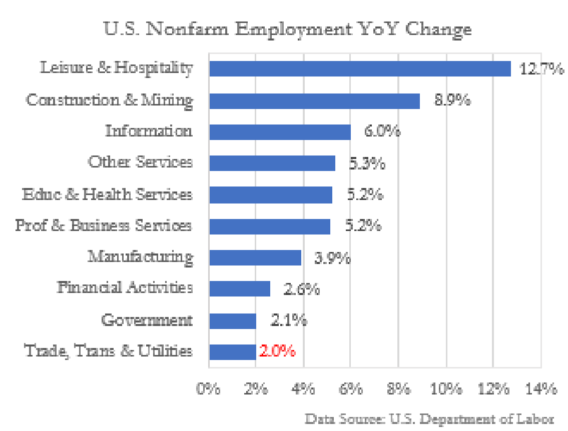
Labor Market Statistical Summary

United States	January 2023	December 2022	January 2022
Unemployment Rate	3.4%	3.5%	4.0%
Total Unemployed	5,694,000	5,722,000	6,511,000
Total Nonfarm Employment	160,138,000	159,244,000	157,122,000
Job Growth	+517,000	+260,000	+364,000
Covid Job Recovery	100.0%	100.0%	86.4%
Average Monthly Initial Unemployment Claims	191,250	214,250	203,000
Labor Force Participation Rate	62.4%	62.3%	62.2%
Average Hourly Wage	$33.03	$32.93	$31.63

National Job Growth

The Bureau of Labor Statistics reported the U.S. added 517,000 jobs in January after adding 260,000 in December. This growth marks 25 straight months of job gains. Year-over-year, all sectors saw improvement with the exception of trade, transportation, and utilities. Month-over-month, the largest job gains occurred in leisure and hospitality (+128,000), education and health services (+105,000), and professional & business services (+82,000). The information sector lost 5,000 jobs. 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.





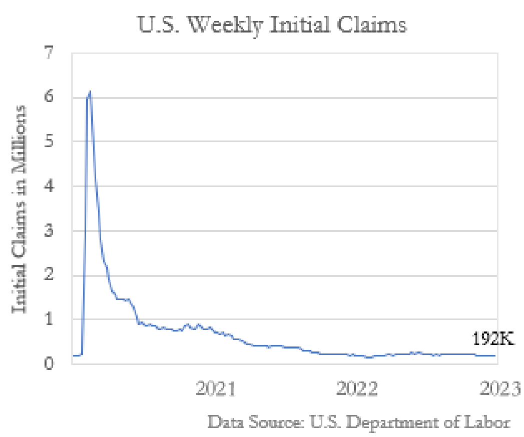
The U.S. has recovered 100% of the 21,991,000 jobs lost in March and April 2020 due to the COVID-19 lockdown, and certain industry sectors have gained jobs above their pre-pandemic levels.

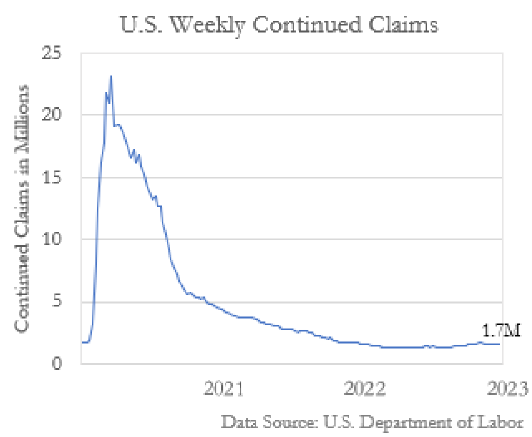
There were about 11 million job openings in December, which equates nearly 2 jobs for every unemployed person.

National Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate at 3.4%, a 0.1% decrease from last month at 3.5%. The total number of unemployed people in December was 5.7 million, a decrease of 28,000 from last month.

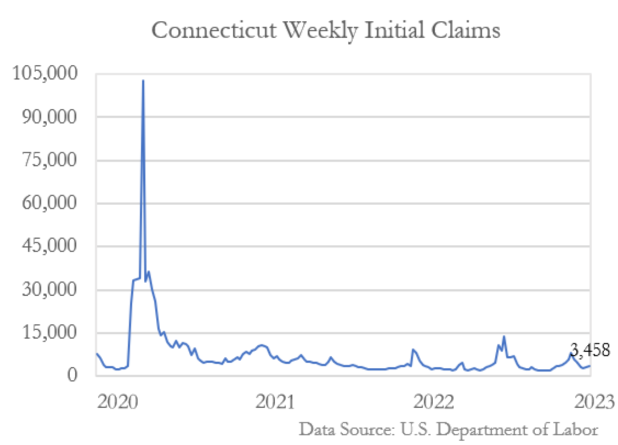
For the week ending February 18, seasonally adjusted initial claims totaled 192,000, while average weekly initial claims were 191,250. This is the sixth consecutive week of weekly unemployment claims under 200,000 (long-term average is closer to 350,000). In April 2020 at the height of the COVID-19 pandemic, jobless claims topped 6.1 million. The level of jobless claims has flattened. For the week ending February 11, seasonally adjusted continued claims totaled 1,654,000, while average weekly continued claims were 1,668,750.

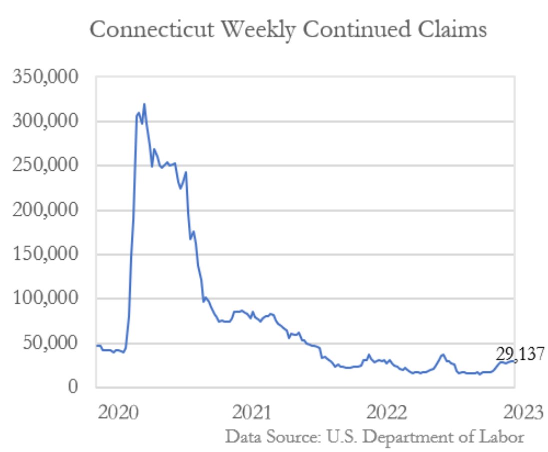




Connecticut Unemployment

For the week ending February 11, seasonally adjusted initial claims totaled 3,458. For the weekly ending February 4, seasonally adjusted continued claims totaled 29,137.



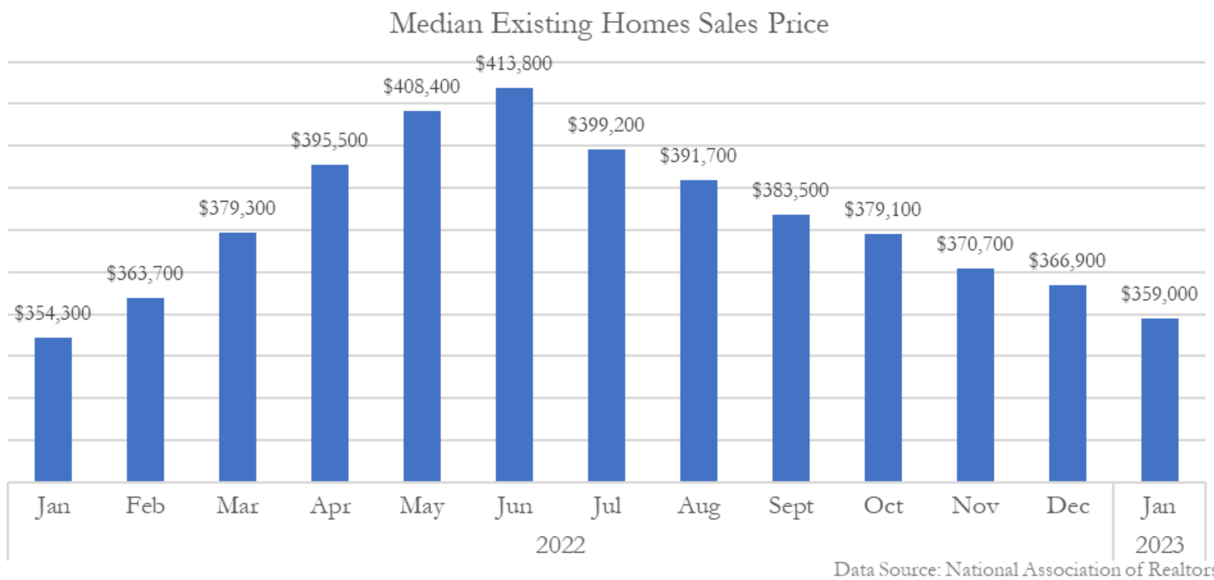


National Housing Market

The National Association of Realtors (NAR) reported existing-home sales decreased for the twelfth straight month in a row, down 0.7% from last month and 36.9% from last year. However, there are some signs that homes sales are bottoming out, as the inventory of unsold existing homes grew from the prior month to 980,000 at the end of January, or the equivalent of 2.9 months' supply at the current monthly sales price.

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.32% as of February 16, which is up 3.92% from one year ago. The Federal Reserve last raised interest rates by 25 basis points on February 1, bringing the target range to 4.50%-4.75% (a level last reached in 2007). Markets expect the Federal Reserve to raise rates again on March 22. The increase is expected to be 25 basis points, with a slim change of a 50 basis point hike.

The median existing-home sales price was $359,000 in January, down for the seventh month in a row after June's all-time high. However, January's median price is still 1.3% higher than last year.



First-time buyers were responsible for 31% of sales in January, identical to December but up from 27% in January 2022. All-cash sales accounted for 29% of transactions in January, up from 28% in December and 22% in January 2022. Individual investors or second-home buyers, who make up many cash sales, purchased 16% of homes in January, unchanged from December but down from 22% in January 2022.

Connecticut Housing & Rental Market

Berkshire Hathaway HomeServices reported year-over-year sales of single-family homes decreased 33.4% and new listings were down 11.51% in January. Median selling price increased by 2.58% and median listing price increased by 6.63%. Average days on the market decreased to 42 days from 48 a year ago. On average, sales prices came in at 100% of list prices. Inventory continues to sit below the 5-months standard, as it has since March of 2020. See Appendix 2 for detailed Connecticut Housing Market data.

January 2023 Connecticut Housing Market

Sales	New Listings	Median Sales Price	Avg Days on Market
2,202	**2,645**	**$318,000**	**42**
-33.4%	-11.51%	+2.58%	-12.50%

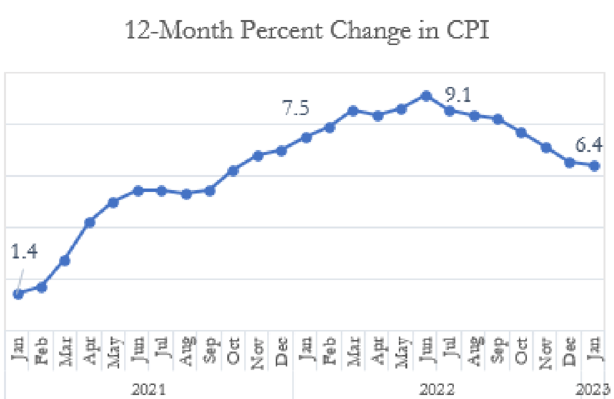
Data Source: Berkshire Hathaway HomeServices

National median rent declined for the fifth month in a row according to Apartment List. January's decline was sharper than the usual seasonal trend, signaling a continuation of a broader cooldown in market conditions. Year-over-year rent growth is continuing to decelerate, and now stands at 3.3%, its lowest level since April 2021. Year-over-year growth is now pacing just slightly ahead of the average rate from 2018 to 2019 (2.8%) and is likely to decline further in the months ahead. The vacancy index now stands at 6.1 percent, surpassing 6 percent for the first time since spring of 2021.

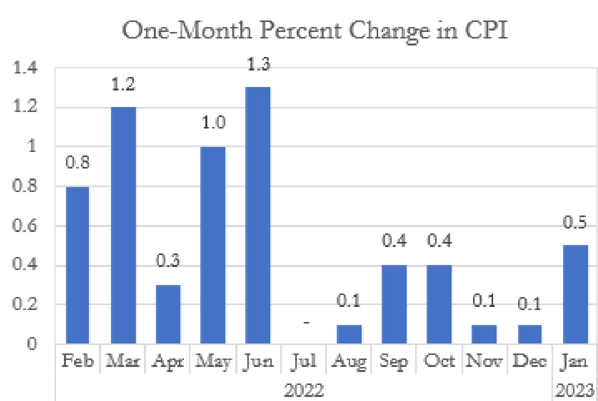
<u>Inflation</u>

The Bureau of Labor Statistics reported the Consumer Price Index (CPI) rose 0.5% in January on a seasonally adjusted basis, after increasing 0.1% in December. The index for shelter was by far the largest contributor to the monthly all items increase, accounting for nearly half of the monthly all items increase, with the indexes for food, gasoline, and natural gas also contributing.

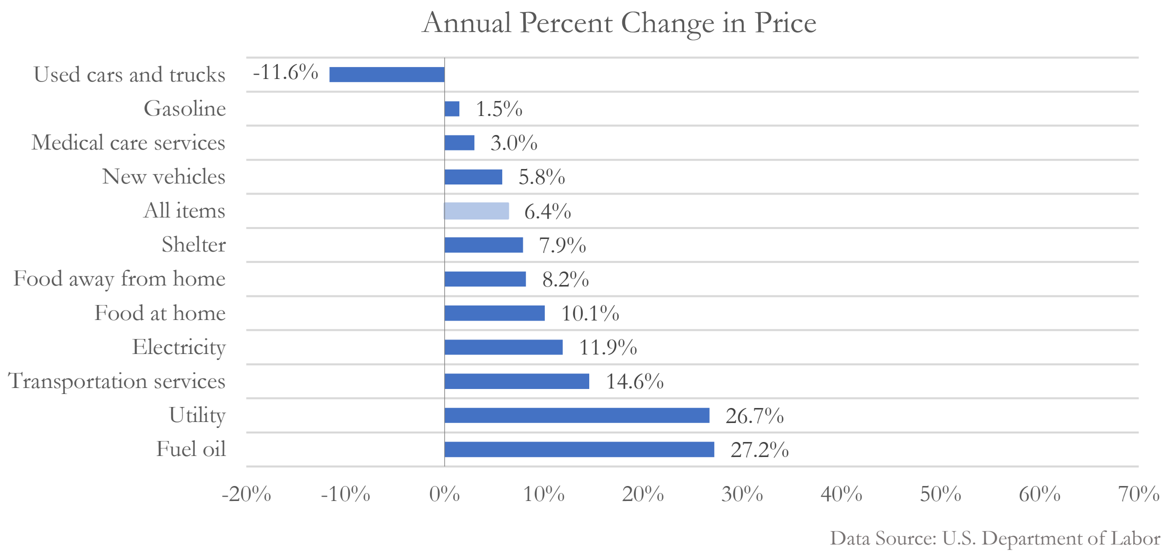
Over the last 12 months, the all items increased 6.4% before seasonal adjustments; this is the smallest 12-month increase since the period ending October 2021. The all items less food and energy index rose 5.6% over the last 12 months, its smallest 12-month increase since December 2021. The energy index increased 8.7% for the 12 months ending January, and the food index increased 10.1% over the last year.



Data Source: U.S. Department of Labor



Data Source: U.S. Department of Labor



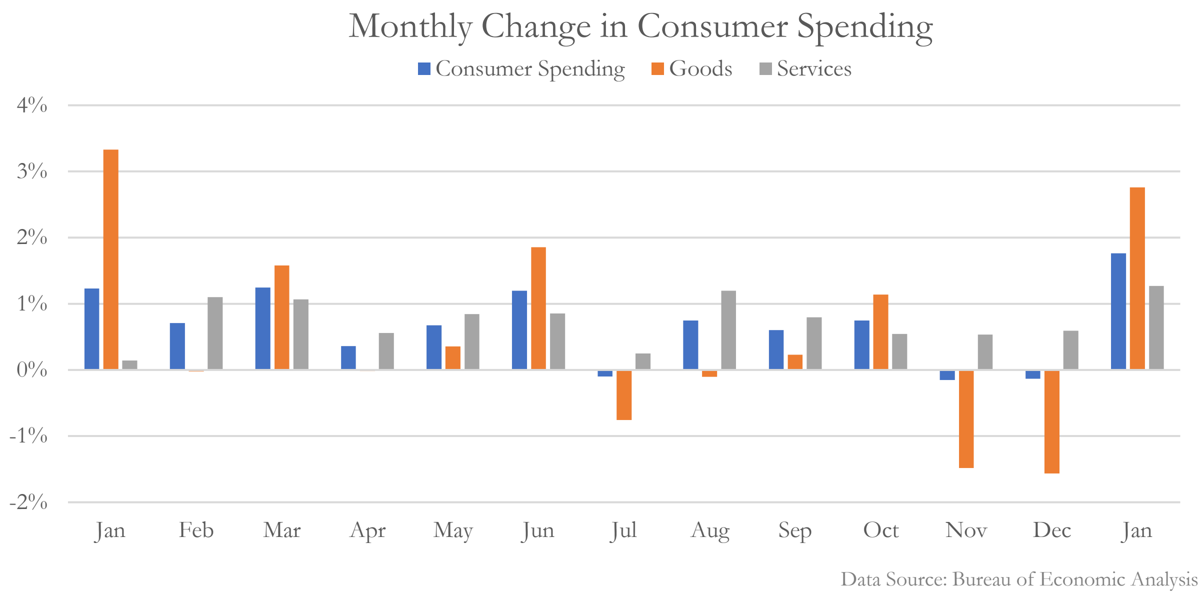
The Bureau of Economic Analysis reported the Personal Consumption Expenditure (PCE) price index excluding food and energy, the Federal Reserve's preferred inflationary index, increased 0.6 percent from last month and now stands at an annual rate of 4.7%.

Consumer Spending, Saving & Debt

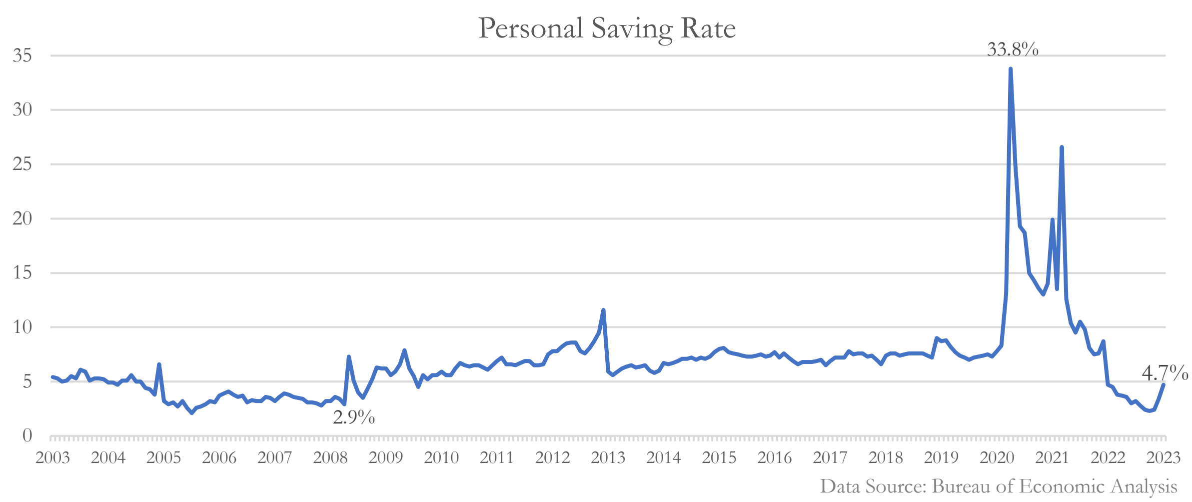
The Bureau of Economic Analysis reported Personal Income increased $131.1 billion (0.6%) in January, led by an increase in compensation. Government social security benefits decreased in January, reflecting a decrease in "other" benefits primarily from the expiration of the extended child tax credit and one-time refundable tax credits issued by states, partially offset by an increase in social security (reflecting an 8.7% cost-of-living adjustment).

Personal Consumption Expenditures (PCE) increased $312.5 billion (1.8%), reflecting increases in both goods and services. The goods increase was widespread and led by motor vehicles and parts as well as "other" nondurable goods (led by pharmaceuticals). Within services, the largest contributor to the increase was spending for food services.

The following graph displays the monthly change in consumer spending.



The personal-saving rate was 4.7% in January, up from 3.4%.



Consumer Confidence

The Conference Board reported the U.S. consumer confidence index decreased in January following an upwardly revised increase in December 2022. The Index now stands at 107.1, down from 109.0 in December. In the January survey, the Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, improved from 147.2 to 150.2. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, fell to 77.8 from 83.4 partially reversing its December gain. The Expectations Index is below 80, which often signals a recession within the year. Both present situation and expectations indexes were revised up slightly in December.

Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	January 2023 (P)	December 2022 (P)	January 2022	MoM Change	MoM Rate	YoY Change	YoY Rate
Trade, Trans & Utilities	28,819,000	28,756,000	28,241,000	63,000	0.2%	578,000	2.0%
Prof & Business Services	22,912,000	22,830,000	21,786,000	82,000	0.4%	1,126,000	5.2%
Manufacturing	12,999,000	12,980,000	12,513,000	19,000	0.1%	486,000	3.9%
Financial Activities	9,114,000	9,108,000	8,883,000	6,000	0.1%	231,000	2.6%
Government	22,389,000	22,315,000	21,939,000	74,000	0.3%	450,000	2.1%
Construction & Mining	8,515,000	8,488,000	7,817,000	27,000	0.3%	698,000	8.9%
Educ & Health Services	24,937,000	24,832,000	23,694,000	105,000	0.4%	1,243,000	5.2%
Other Services	5,819,000	5,801,000	5,524,000	18,000	0.3%	295,000	5.3%
Leisure & Hospitality	16,450,000	16,322,000	14,592,000	128,000	0.8%	1,858,000	12.7%
Information	3,119,000	3,124,000	2,943,000	-5,000	-0.2%	176,000	6.0%

Data Source: US Department of Labor

Appendix 2: Connecticut Housing Market Statistics

Connecticut Market Summary

	Jan-23	Jan-22	% Change	YTD 2023	YTD 2022	% Change
New Listings	2,645	2,989	-11.5%	2,645	2,989	-11.5%
Sold Listings	2,202	3,307	-33.4%	2,202	3,307	-33.4%
Median List Price	$319,900	$300,000	6.6%	$319,900	$300,000	6.6%
Median Selling Price	$318,000	$310,000	2.6%	$318,000	$310,000	2.6%
Median Days on the Market	27	31	-12.9%	27	31	-12.9%
Average Listing Price	$488,757	$465,728	4.9%	$488,757	$465,728	4.9%
Average Selling Price	$484,660	$465,304	4.2%	$484,660	$465,304	4.2%
Average Days on the Market	42	48	-12.5%	42	48	-12.5%
List/Sell Price Ratio	100.0%	100.7%	-0.7%	100.0%	100.7%	-0.7%

Data Source: Berkshire Hathaway HomeServices