Economic Outlook

The Federal Reserve began lowering interest rates for the first time in four years with a bold move at their September meeting, cutting the federal funds rate by 0.5 percentage points to a 4.75-5 percent range. With the Fed chair expressing confidence that the U.S. economy is "in good shape," the Fed projects moderate GDP growth of about 2 percent annually and expects unemployment at 4.4 percent in the next few years. Policymakers' median expectation is for the federal funds rate at 4.4 percent at the end of 2024 and 3.4 percent at the end of 2025. This should gradually ease borrowing costs for consumers and businesses.

Economic indicators remain largely positive, with consumer spending still growing, inflation down to 2.5 percent year-over-year, unemployment claims still low, and better-than-expected industrial production and manufacturing surveys this month. The New York and Atlanta Fed forecast models project third quarter real GDP growth around 3 percent. While a "soft landing" seems likely, risks persist, including declining consumer confidence, potential supply chain disruptions from eastern U.S. dockworkers on strike, and political uncertainty surrounding the upcoming presidential election. Increasing tensions between Isreal and Hezbollah could result in higher energy prices as well.

To date the economy has benefited from a strong labor market supporting consumer spending, immigration to address serious worker shortages earlier in the pandemic-recovery, and a drawdown of excess savings built up during the pandemic to cope with inflation. Now hiring has slowed. A pullback in consumer spending and business investment could trigger layoffs that would be self-reinforcing.

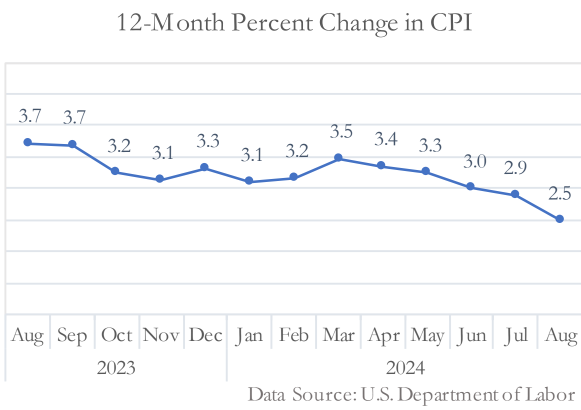
That said, labor markets in both the U.S. and Connecticut remain healthy by historical standards. The national unemployment rate stood at 4.2 percent in August, with job growth slowing but still positive (+142,000 jobs). Connecticut's unemployment rate dropped again to 3.4 percent, significantly below the national average and showing more tightness here. However, the state experienced a loss of 2,200 jobs in August, continuing the post-pandemic trend of job losses in the second half of the year. Connecticut's total employment is up by 12,800 jobs compared to August 2023. Average private sector weekly wages are also running higher year-over-year in Connecticut (+6.5 percent) than the nation (+3.5 percent) in August on a non-seasonally adjusted basis.

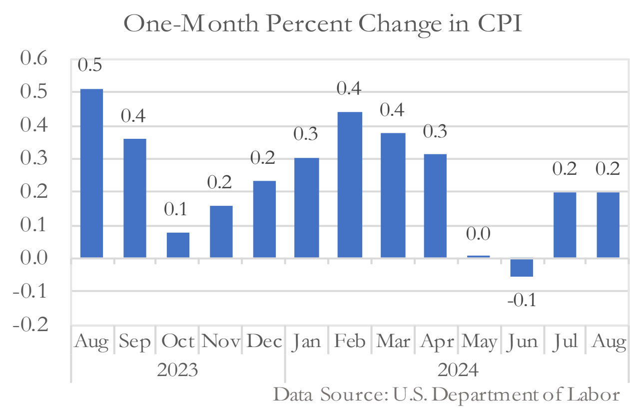
The Fed rate cut is good news for the sluggish housing market, though a serious undersupply of housing is expected to keep home prices rising. Mortgage rates have dropped to new lows for the year, but home sales declined in August as buyers waited for the Federal Reserve to act. The median sales price for existing homes rose 3.1 percent year-over-year. New home construction has seen a slight uptick, though it remains at relatively low levels. The rental market has shown signs of stabilization, with national rent growth stalling and even decreasing slightly year-over-year according to Apartment List.

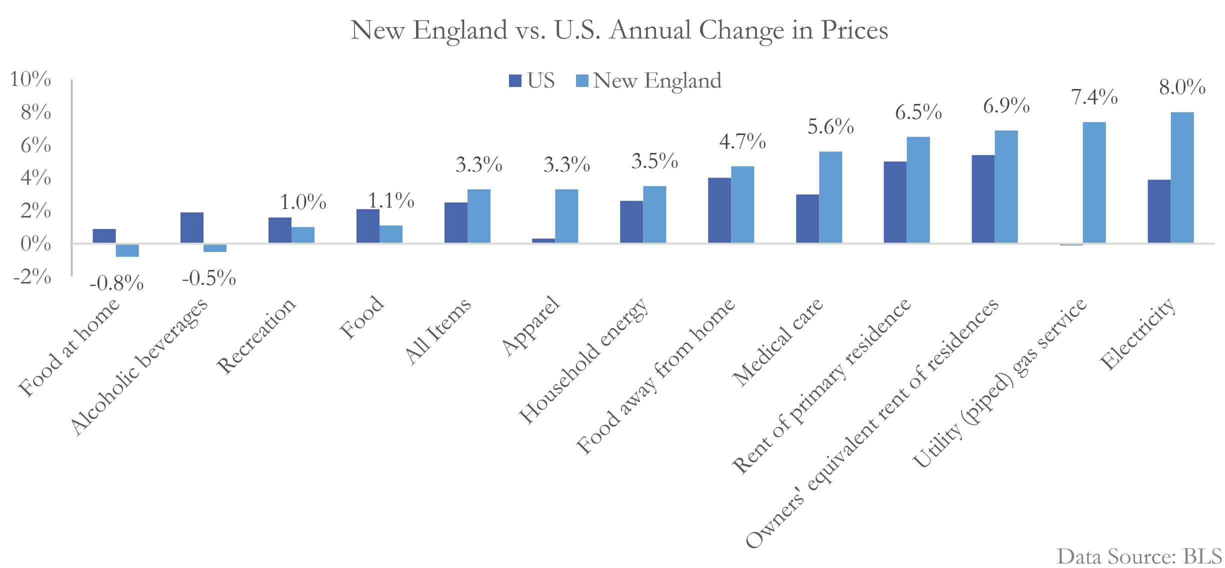
Connecticut home sales increased by 2.3 percent in August compared to July according to Redfin, though sales and new listings fell year-over-year. Connecticut's housing market remains tight, with inventory levels significantly below the national average and median sales price growth of 8.4 percent for the year in August. Lower interest rates are expected to boost new home construction, which should help improve housing affordability in the long-term by increasing the supply of homes. Falling mortgage rates should also gradually increase the inventory of existing homes to buy, as the differential shrinks between current rates and the ultra-low rates many homeowners locked in during the pandemic.

Inflation

Overall inflation, based on the Consumer Price Index (CPI), is decidedly down, with August figures showing U.S. consumer prices rose 2.5 percent year-over-year, the smallest 12-month increase since February 2021. The comparable figure was 2.9 percent in July. The CPI increased 0.2 percent for the month, as economists had expected. Core CPI, which excludes volatile food and energy prices, rose 3.2 percent for the year in August, the same as in July. Falling energy prices are helping to bring overall inflation down, while rising shelter costs continue to be a drag.







Annualized inflation for the New England region continued to be higher overall at 3.3 percent, down from 3.5 percent in July. Prices are rising faster here for electricity, housing, medical care and apparel, while New England inflation is lower for food, recreation, and alcoholic beverages.

Grocery prices have fallen over the year here, while food at home prices grew about 1 percent nationally.

<u>National and Connecticut Housing Market</u>

Mortgage rates continued dropping in September to new lows for the year. Freddie Mac reported a 6.09 percent U.S. average for a 30-year fixed rate mortgage for the week of September 19th. That is down 1.13 percentage points from the May high of 7.22 percent. Nevertheless, U.S. existing home sales as reported by the National Association of Realtors dropped by 2.5 percent for the month and 4.2 percent year-over-year. Transactions typically take several weeks. The lackluster sales may indicate that homebuyers and sellers were waiting for Federal Reserve action, in which case, sales should improve in the next several months. Despite increasing inventory in many markets, the median sales price rose 3.1 percent year-over-year in August, to $416,700.

Starts of new home construction and new housing permits both ticked up in August, though they remain low. Homebuilder sentiment improved slightly in September but remains negative. The Housing Market Index (HMI) survey of U.S. single-family home builders found for September that 32 percent were cutting prices, the average price reduction was 5 percent, and 61 percent were using sales incentives to sell newly constructed homes. The share for each of the measures fell slightly in September, suggesting improving demand. The Census Bureau reported that sales of new single-family homes fell in August compared to July but were 9.8 percent higher than in August 2023.

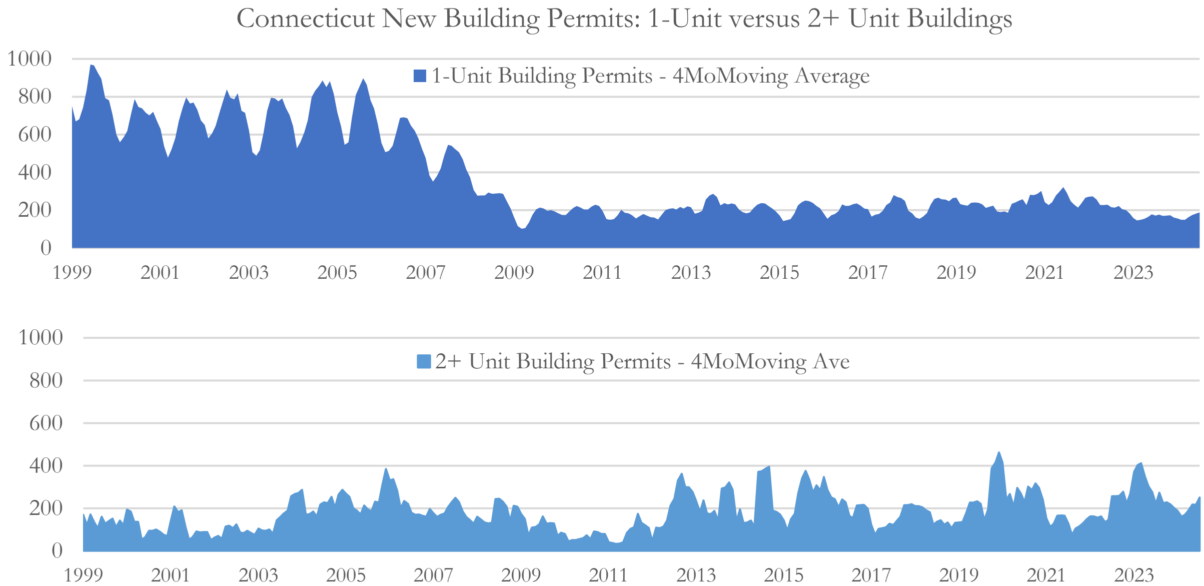
August 2024 Connecticut Housing Market

Sales	New Listings	Median Sales Price	Median Days on Market
3,852	**3,072**	**$461,400**	**33**
-1.3%	-19.9%	8.4%	-2.9%

Data Source: Redfin

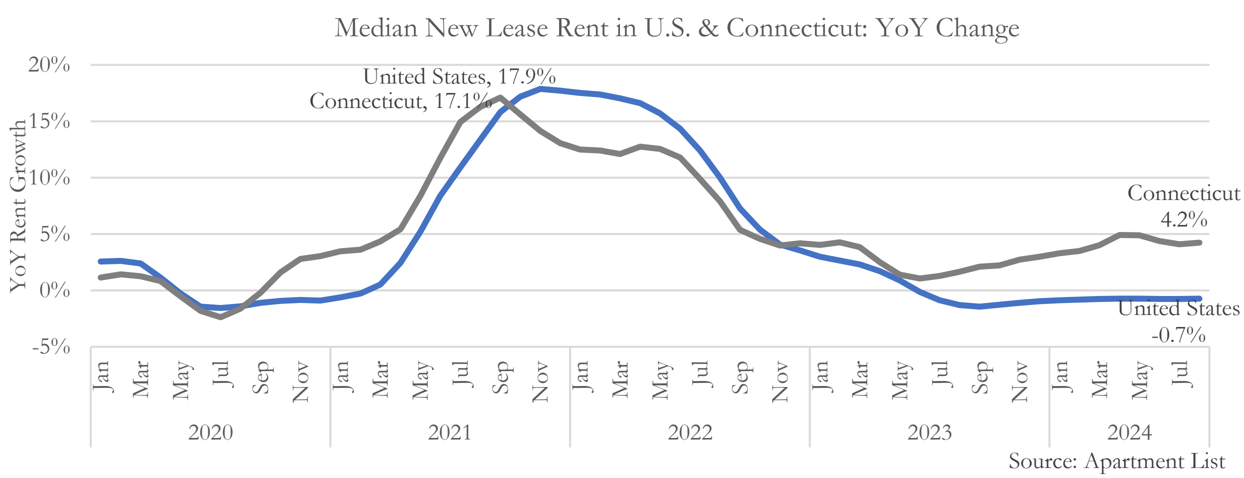
According to real estate brokerage firm Redfin, Connecticut home sales increased by 2.3 percent in August compared to July, though sales and new listings fell year-over-year. Connecticut's housing market remains tight, with only about 1.5 months' supply of homes for sale and the median sales price rising 8.4 percent in August for the year. The market is expected to remain competitive until the supply of homes is better balanced with demand, which could take years of increased homebuilding under healthy economic conditions. Housing affordability remains a key challenge in Connecticut and the nation.

In Connecticut in the first seven months of 2024, new housing permits for single family homes increased by 7.1 percent compared to the same period in 2023, while new permits for multifamily housing fell by 34 percent. The graphs below show how permits for single-family homes dropped in 2008-2009 and never recovered, and how multifamily housing units have come to account for a larger share of the units being authorized in the state.



National and Connecticut Rental Market

Nationally, rent growth has stalled according to Apartment List, with median new lease rent decreasing 0.7 percent year-over-year. An increase in multifamily construction coming online in 2023 and 2024 is reducing price pressures, especially in the South and West regions. Connecticut is seeing median rent grow 4.2 percent year-over-year according to Apartment List. Rent growth spiked nationally in 2021 and 2022 as vacancy rates fell and renters competed for limited inventory.



Connecticut's rental vacancy rate rose to 5.4 percent in August, according to Apartment List, up from 4.7 percent a year earlier. However, most of that change reflects an increased vacancy rate in New Haven County, which has also seen lower rent growth than other areas of the state. The median rent for all bedroom and all property types in Connecticut is $2,000, according to Zillow Rental Data, 5 percent lower than the national median, and unchanged since June.

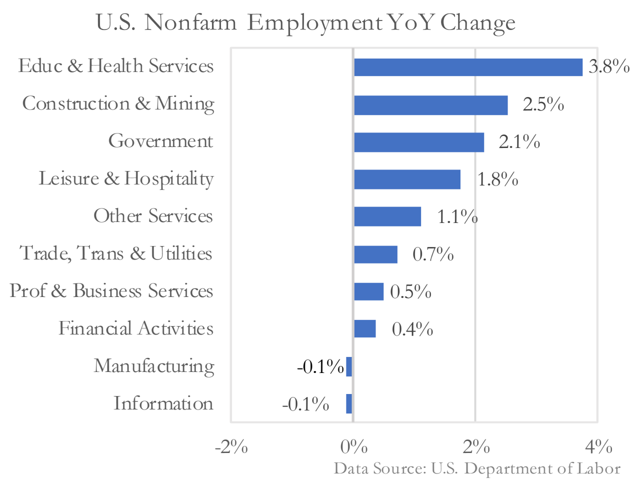
Labor Market Statistical Summary

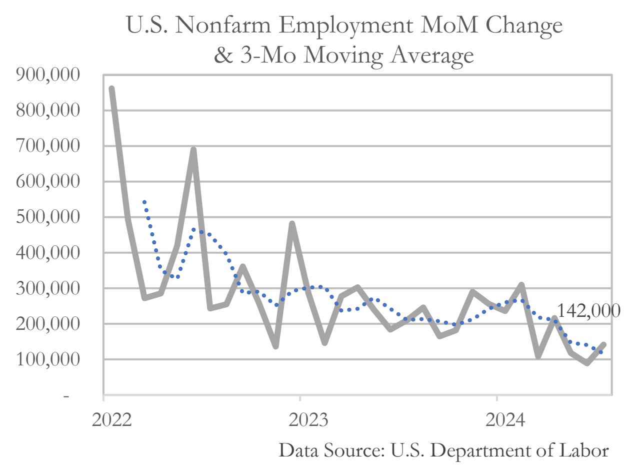
United States	Aug-24	Jul-24	Aug-23
Unemployment Rate	4.2%	4.3%	3.8%
Total Unemployed	7,115,000	7,163,000	6,340,000
Total Nonfarm Employment	158,637,000	158,548,000	156,211,000
Job Growth	+142,000	+89,000	+210,000
Job Openings to Unemployed Ratio	-	1.1	1.5
Quit Rate	-	2.1	2.3
Average Monthly Initial Unemployment Claims	231,000	236,400	245,250
Labor Force Participation Rate	62.7%	62.7%	62.8%
Average Hourly Wage	$35.21	$35.07	$33.91

Connecticut	Aug-24	Jul-24	Aug-23
Unemployment Rate	3.4%	3.6%	3.8%
Total Unemployed	65,500	69,300	67,300
Total Nonfarm Employment	1,710,600	1,712,800	1,697,800
Job Growth	-2,200	-900	+1,100
Job Openings to Unemployed Ratio	-	1.2	1.3
Quit Rate	-	1.7	1.4
Average Monthly Initial Unemployment Claims	3,100	3,364	3,350
Labor Force Participation Rate	64.2%	64.4%	64.3%
Average Hourly Wage	$37.66	$37.29	$35.68

National Job Growth

The nation added 142,000 jobs in August, showing the U.S. labor market continues to cool. While the U.S. is still adding jobs, August's pace was below the average monthly gain of 202,000 over the prior 12 months, and recent months' job gains were revised down by 86,000 jobs. August job gains were greatest in Healthcare, Construction, and Leisure and Hospitality, while the Durable Goods Manufacturing sector lost about 25,000 jobs for the month. Average hourly wages have increased by 3.8 percent over the past year. Appendix 1 shows detailed data by sector.

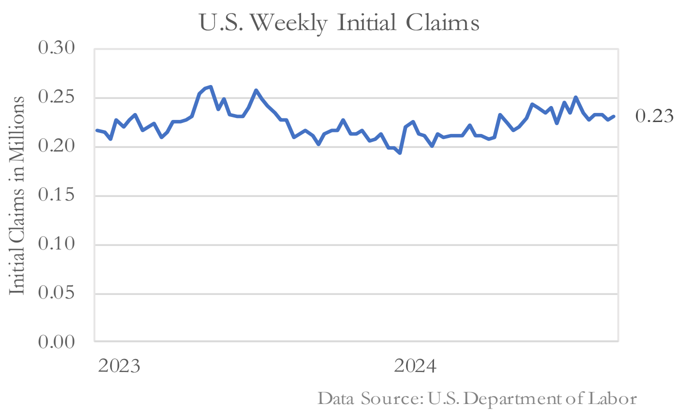


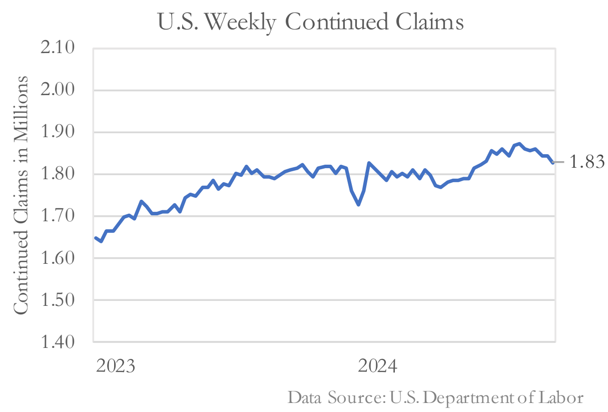


National Unemployment

The U.S. unemployment rate ticked down slightly to 4.2 percent for the month in August from 4.3 percent in July. The data is consistent with a labor market that has normalized following the pandemic shock. Those looking for a job are likely to notice that hiring has slowed down compared to the past few years, yet so far companies have been reluctant to let existing workers go. The total number of unemployed people fell by 0.7 percent in August to about 7.1 million people. There were roughly the same number of job openings. The Federal Reserve's median forecast at the September meeting predicts that unemployment will rise to 4.4 percent in the fourth quarter of 2024 and remain there throughout the following year.

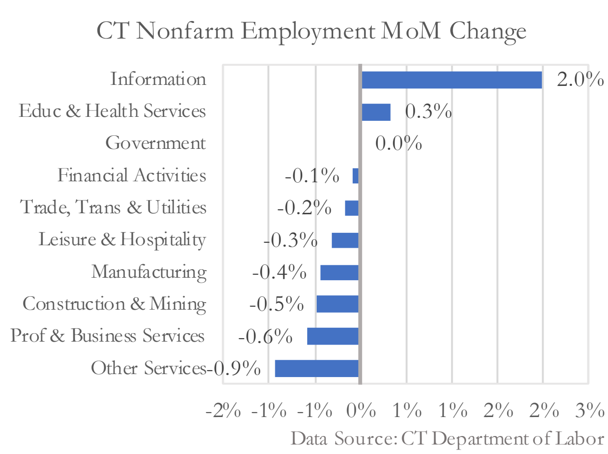
Continued claims for unemployment have trended down since the end of July. For the week ending September 7, seasonally adjusted initial claims totaled 231,000 and seasonally adjusted continued claims totaled 1,829,000.

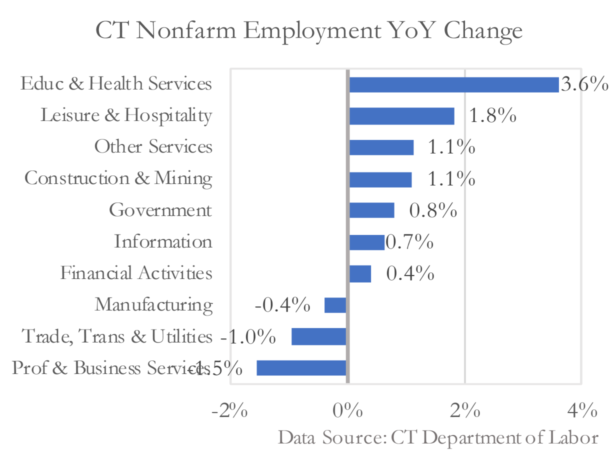




Connecticut Job Growth

Connecticut payroll employment fell by 2,200 jobs in August, and July's net gain of 700 jobs was revised down to a net loss of 900.

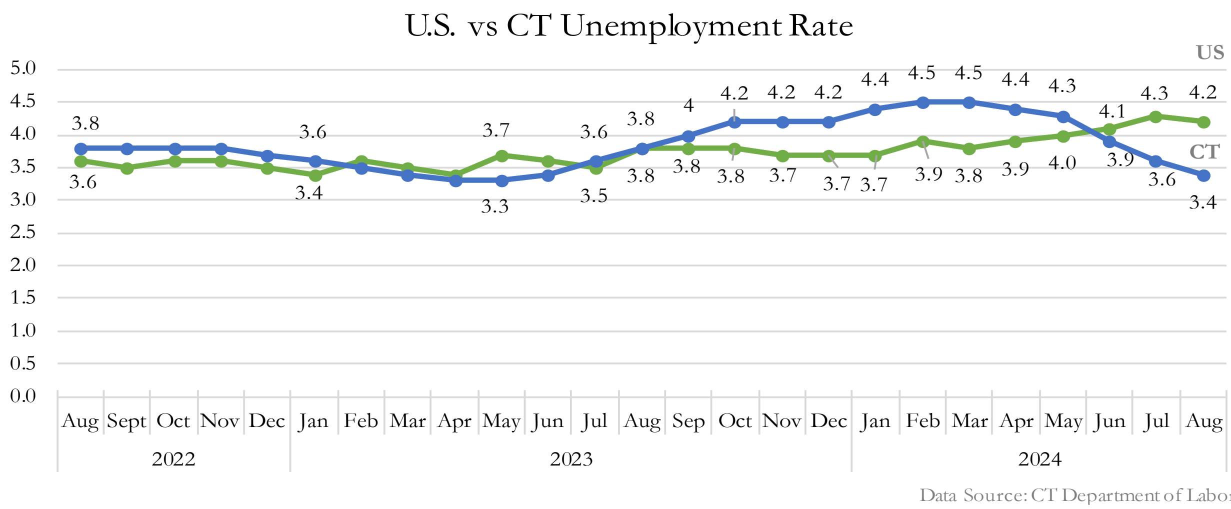




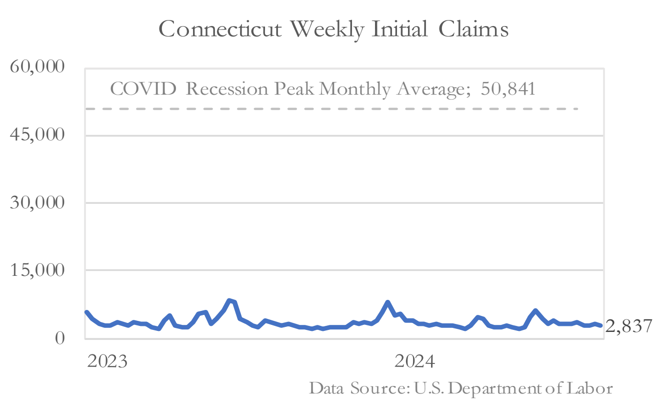
According to the Connecticut Department of Labor, the 2024 labor market so far has been following the post-2020 trend of strong growth early in the year and job losses in the second half. Total employment stands at 1,710,600, up 12,800 jobs from August 2023. The Education and Health Services sector (+1,200) and the small but high-wage Information sector (+600) added jobs, while seven sectors had losses. The graphs above display the month-over-month and year-over-year net change in nonfarm employment by sector. See Appendix 2 for more details.

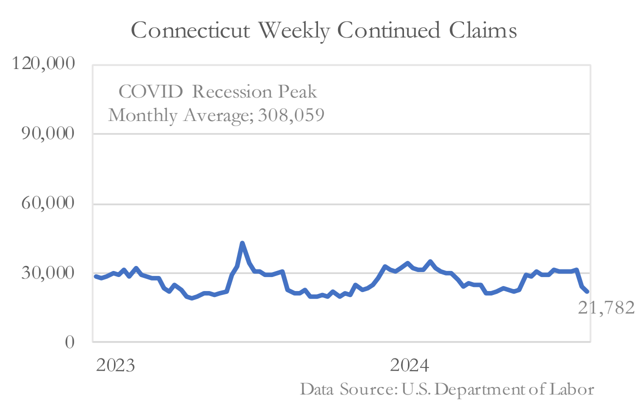
Connecticut Unemployment

The Connecticut unemployment rate dropped significantly again in August to 3.4 percent, from 3.6 percent in June, trending down for the fifth straight month. The rate is now 0.8 percentage points below the U.S. rate and the same it was in June 2023, when many employers were struggling to find workers. The average hourly wage increased 5.5 percent year-over-year (vs. 3.8 percent nationally). The total number of unemployed people in August decreased by 3,800, while the size of the labor force fell by 5,300. In July there were 84,000 job openings and 69,300 people unemployed and looking for work.



For the week ending September 7, Connecticut initial claims totaled 2,837 and continued claims totaled 21,782 (on a not seasonally adjusted basis) about the same as this time last year.





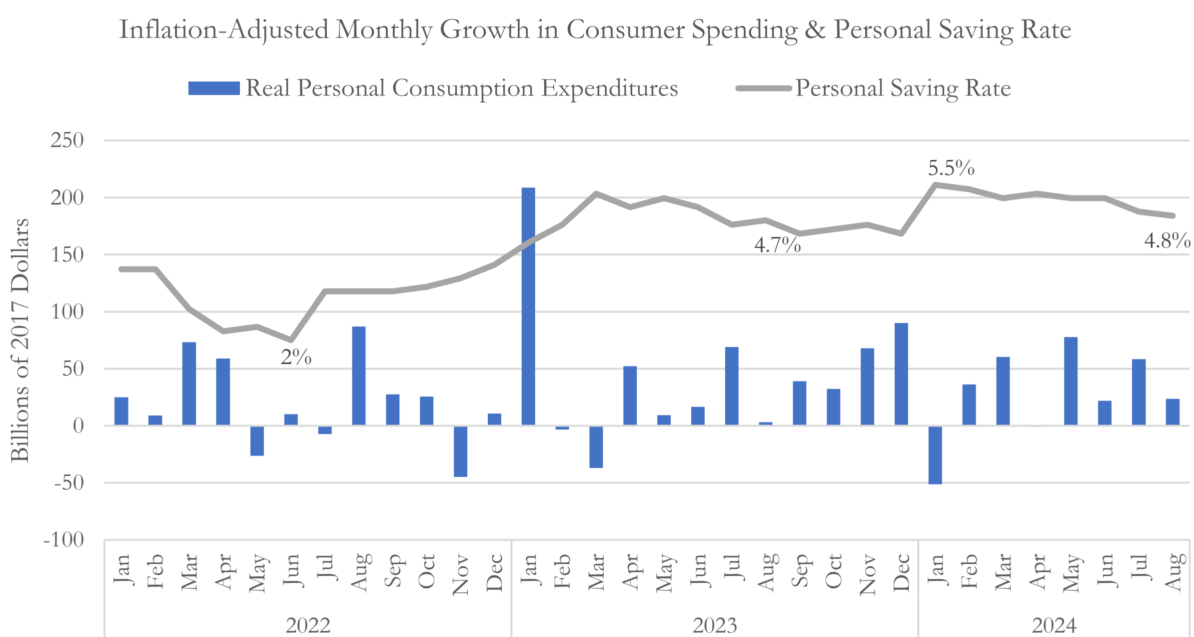
Consumer Confidence and Sentiment

The Conference Board reported that the U.S. Consumer Confidence Index dropped in September by the largest amount since August 2021, falling to 98.7 (1985=100) from an upwardly revised 105.6 in August. According to chief economist at The Conference Board, Dana Peterson, "consumers' assessments of current business conditions turned negative while views of the current labor market situation softened further. Consumers were also more pessimistic about future labor market conditions and less positive about future business conditions and future income." Confidence dropped the most for consumers aged 35 to 54.

Consumer Spending, Saving & Debt

Monthly U.S. retail and food services sales held up better than expected in August, growing 0.1 percent from July and 2.1 percent year-over-year. Restaurant and bar sales are up 5.3 percent year-to-date in 2024, not adjusted for inflation.

While consumers are increasingly looking for discounts to offset high prices, consumer spending has been resilient. The graph below shows the monthly change in U.S. real personal consumption expenditures (PCE) since 2022. After adjusting for inflation, consumer spending has grown in 15 of the last 17 months and slowing inflation has allowed households to save a greater share of their after-tax incomes. Spending in recent months, however, has outpaced growth in after-tax disposable income, leading the personal savings rate to fall.



Debt levels have been rising but the data does not show evidence of serious deterioration as of the second quarter. The New York Federal Reserve reported that total household debt rose by $109 billion (0.6 percent) in Q2 2024 to reach $17.8 trillion. Credit card and auto loan balances increased, with delinquency rates for those types of debt also increasing slightly compared to the first quarter. Rate cuts from the Federal Reserve will take time to filter through the economy, but borrowers can expect to see interest rates on credit card balances and car loans gradually decline as the central bank continues to reduce rates.

Stock Market and State Revenue

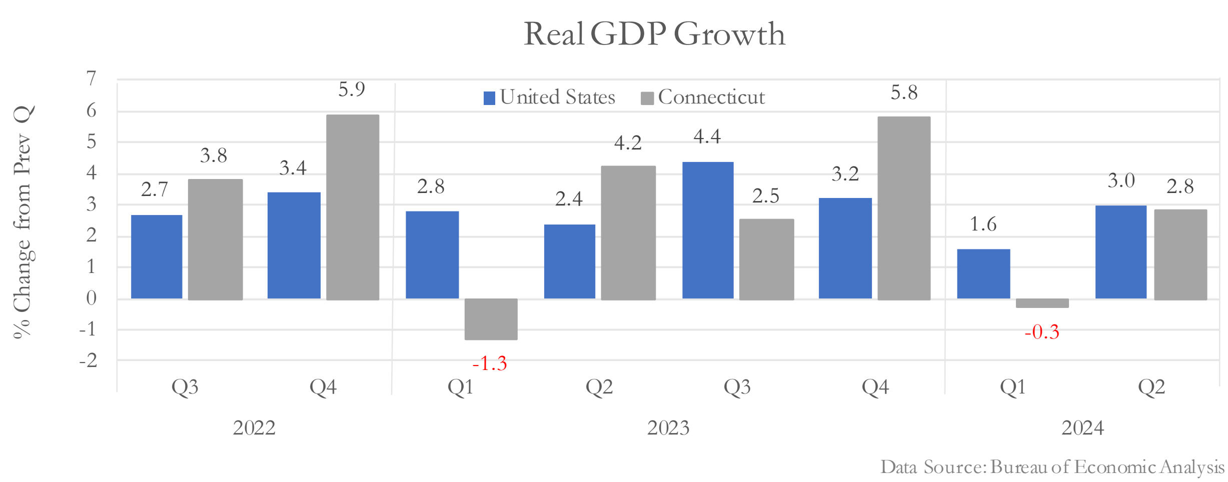
As of September 27th, the Dow Jones Industrial Average, NASDAQ Composite Index and S&P 500 were up for the month by 3.0 percent, 3.2 percent and 2.6 percent, respectively. Year-to-date the Dow Jones Industrial Average, NASDAQ, and S&P 500 were up 12.7 percent, 20.7 percent, and 20.3 percent, respectively.

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 percent of total state income tax receipts, but can be an extremely volatile revenue source. FY 2025 projections of estimated and final payments indicate that they will be up a combined 1 percent compared to FY 2024.

National and State Gross Domestic Product (GDP)

The Bureau of Economic Analysis reported their third estimate of U.S. real GDP growth for the second quarter of 2024, which remained unchanged at 3.0 percent. Annual benchmark revisions led to an increased estimate of first quarter growth, from 1.4 to 1.6 percent, as well as higher estimates of Gross Domestic Income for 2023 than initially reported.

Connecticut's economy expanded at a 2.8 percent annualized rate in the second quarter, just slightly below the nation's 3.0 percent rate. Revisions to Connecticut's GDP estimates reduced the first quarter growth rate from +0.7 percent to -0.3 percent, following very strong growth in the fourth quarter of 2023.



Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	August 2024	July 2024	August 2023	MoM Change	MoM Rate	YoY Change	YoY Rate
Information	2,993,000	3,000,000	2,997,000	-7,000	-0.2%	-4,000	-0.1%
Manufacturing	12,927,000	12,951,000	12,941,000	-24,000	-0.2%	-14,000	-0.1%
Prof & Business Services	22,975,000	22,967,000	22,865,000	8,000	0.0%	110,000	0.5%
Financial Activities	9,258,000	9,247,000	9,223,000	11,000	0.1%	35,000	0.4%
Trade, Trans & Utilities	29,047,000	29,045,000	28,840,000	2,000	0.0%	207,000	0.7%
Other Services	5,911,000	5,910,000	5,846,000	1,000	0.0%	65,000	1.1%
Leisure & Hospitality	16,976,000	16,930,000	16,681,000	46,000	0.3%	295,000	1.8%
Construction & Mining	8,915,000	8,881,000	8,696,000	34,000	0.4%	219,000	2.5%
Government	23,339,000	23,315,000	22,853,000	24,000	0.1%	486,000	2.1%
Educ & Health Services	26,438,000	26,391,000	25,479,000	47,000	0.2%	959,000	3.8%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	August 2024	July 2024	August 2023	MoM Change	MoM Rate	YoY Change	YoY Rate
Information	30,800	30,200	30,600	600	2.0%	200	0.7%
Trade, Trans & Utilities	297,400	297,900	300,300	-500	-0.2%	-2,900	-1.0%
Government	235,900	235,900	234,000	0	0.0%	1,900	0.8%
Financial Activities	119,100	119,200	118,600	-100	-0.1%	500	0.4%
Prof & Business Services	217,800	219,100	221,200	-1,300	-0.6%	-3,400	-1.5%
Manufacturing	157,800	158,500	158,400	-700	-0.4%	-600	-0.4%
Other Services	63,100	63,700	62,400	-600	-0.9%	700	1.1%
Construction & Mining	63,300	63,600	62,600	-300	-0.5%	700	1.1%
Leisure & Hospitality	156,500	157,000	153,700	-500	-0.3%	2,800	1.8%
Educ & Health Services	368,900	367,700	356,000	1,200	0.3%	12,900	3.6%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	August-24	August-23	% Change	YTD 2024	YTD 2023	% Change
New Listings	3,072	3,834	-19.9%	27,540	29,306	-6.0%
Sold Listings	3,852	3,902	-1.3%	23,833	24,937	-4.4%
Median Sale Price	$461,400	$425,700	8.4%	$423,938	$384,788	10.2%
Averge Sale-to-List-Price Ratio	103.2%	103.9%	-0.6%	103.0%	102.4%	0.6%
Median Days on Market	33	34	-2.9%	35	38	-7.8%
Hartford Metro Sale Price	$375,000	$333,750	12.4%	$346,481	310,857	11.5%
Bridgeport Metro Sale Price	$696,000	$663,000	5.0%	$605,938	$563,571	7.5%
Months Supply of Inventory	1.5	1.7	-10.0%	2.0	2.1	-2.4%

Data Source: Redfin, OSC Calculations