

Economic Outlook

While August brought turmoil in financial markets and increased recession concerns, economists generally expect the US economy to grow modestly through the end of the fiscal year. Consumer spending, which accounts for roughly two-thirds of economic activity in the US, continues to support growth – though consumers have become more discerning and value-conscious.

Support for the gradually slowing economy appears to be on its way. Weakening labor market conditions and decreased inflation have set up the Federal Reserve to begin reducing the federal funds rate in September. The Consumer Price Index, a key measure of inflation, has moderated to 2.9 percent as of last month, showing a significant decline from its peak of 9.1 percent in the summer of 2022. The central bank steeply hiked interest rates that year to quell inflation that followed major supply chain disruptions and energy price shocks during the pandemic. Now Fed Chair Jerome Powell has indicated that “the time has come for policy to adjust,” as the Fed pivots to support the labor market by taking its foot off the brakes.

Mortgage rates have already begun dropping in anticipation, though housing remains unaffordable for many first-time homebuyers amid a national housing shortage. Sales of new and existing homes increased in July after a disappointing June.

Low inventory remains a critical issue in Connecticut’s housing market, with just 1.7 months’ supply of existing homes available for purchase at the current pace of sales. Lower mortgage rates helped Connecticut home sales jump 8.6 percent year-over-year in July, though sales are still down 5.1 percent year to date. The median Connecticut sales price was \$467,000, up 8.5 percent year-over-year, according to Redfin, with the median home on the market 31 days.

The U.S. labor market is clearly weakening, with the unemployment rate hitting 4.3 percent in July. Employers have slowed their hiring in recent months, making it harder for the unemployed to find jobs.

In contrast, Connecticut’s unemployment rate fell to 3.6 percent in July from 3.9 percent in June. Private sector employment hit a new all-time high. New positions in the Other Services sector, which includes auto repair shops, drycleaners, hair salons, religious and advocacy organizations, and various others, saw the largest monthly gain of 1,300 new jobs in July. The Philadelphia Federal Reserve’s Coincident Index for Connecticut shows the state has seen a notable improvement in economic conditions over the past five months.

While the U.S. economy is still adding jobs, the risk of further labor market deterioration snowballing into a recession is a downside risk to the economy. Consumers were more optimistic in August, though also more concerned about jobs and future income. For now, average hourly wage growth (at 3.6 percent) continues to exceed inflation, which should help support continued economic growth.

Consumer Spending, Saving & Debt

Monthly U.S. retail and food services sales were up a strong 1.0 percent year-over-year in July, led by solid motor vehicle sales bouncing back following a cyberattack disruption in June. Retail

sales, excluding gas and vehicles, saw a better-than-expected 0.4 percent monthly increase overall in July. Spending grew for the month at bars and restaurants (+0.3 percent), electronics and appliances stores (+1.6 percent), grocery stores (+1.0 percent), home furnishing stores (+0.5 percent), and building material and garden suppliers (+0.9 percent).

Shoppers are looking for value and some businesses, like Target and Walmart, are well-placed in the market to take advantage of consumers’ high-prices fatigue. Walmart reported that same store earnings grew 4.2 percent in the second quarter compared to last year, with online orders growing a robust 22 percent. On the higher end, Macy’s didn’t fare as well.

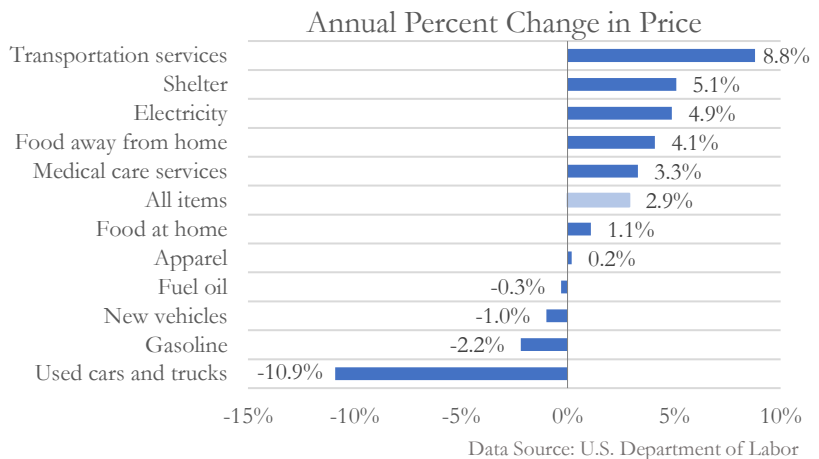
Debt levels have been rising but the data does not show evidence of serious deterioration as of the second quarter. The New York Federal Reserve reported that total household debt rose by \$109 billion (0.6 percent) in Q2 2024 to reach \$17.8 trillion. Credit card and auto loan balances increased, with delinquency rates for those types of debt also increasing slightly compared to the first quarter. Homeowners with good credit are increasingly turning to home equity lines of credit to extract the equity from their homes.

The personal-saving rate was 2.9 percent in July, down from 3.1 percent in June and 4.4 percent a year ago. The falling savings rate suggests that consumers are increasingly fueling their spending at the expense of saving, making families more vulnerable to future economic shocks.

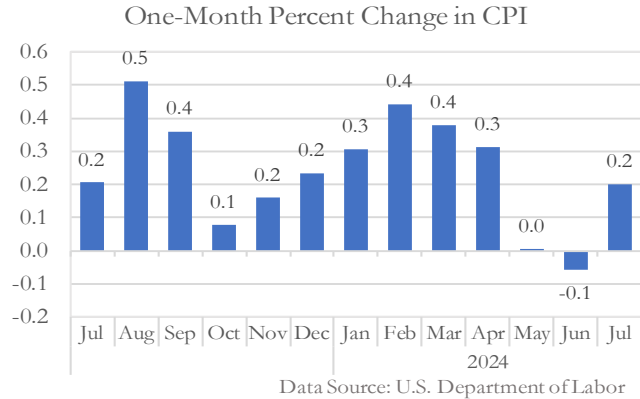
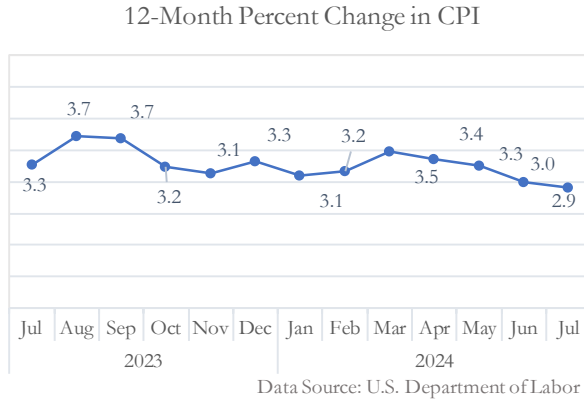
Inflation

According to the Consumer Price Index (CPI), prices rose 2.9 percent year-over-year in July, the smallest 12-month increase since April 2021, compared to 3.0 percent in June. Core CPI, which excludes volatile food and energy prices, rose 3.2 percent in July, down from 3.3 percent in June. Rent and home price spikes from the last few years continue to filter into the index with a lag, and account for over 70 percent of the core inflation in the past twelve months.

Some categories have seen large changes in prices. Egg prices are almost 20 percent higher than in July last year, while the cost for motor vehicle insurance is up 18.6 percent. Used cars and trucks prices fell 2.3 percent in July and are down 10.9 percent for the year. Food at home and energy inflation have moderated, each growing just 1.1 percent year-over-year.



Annualized inflation for the New England region continued to be higher at 3.5 percent, down from 3.8 percent in June, thanks largely to continued higher local inflation in housing costs.

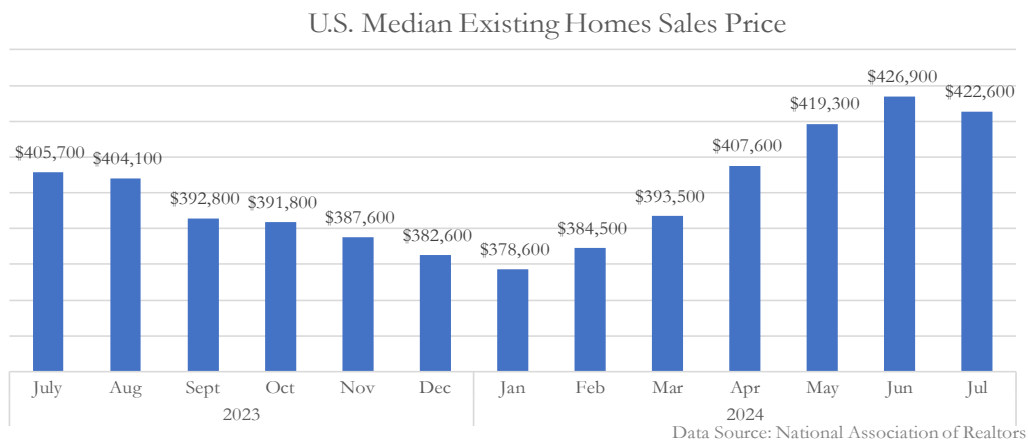


The Federal Reserve is widely expected to cut interest rates at their September meeting for the first time in over a year, as inflation data has continued to show consistent movement towards their two percent target. Fed Chair Jerome Powell has made it clear that the central bank is focused on not unduly harming the labor market by keeping interest rates high for too long.

National and Connecticut Housing Market

High interest rates continue to impact the housing market, with U.S. existing home sales down 2.5 percent for the year in July, though sales improved compared to June. Mortgage rates dropped to the lowest levels this year in August (about 6.5 percent for a 30-year fixed rate), but applications activity suggests many prospective buyers may be waiting for rates to fall lower.

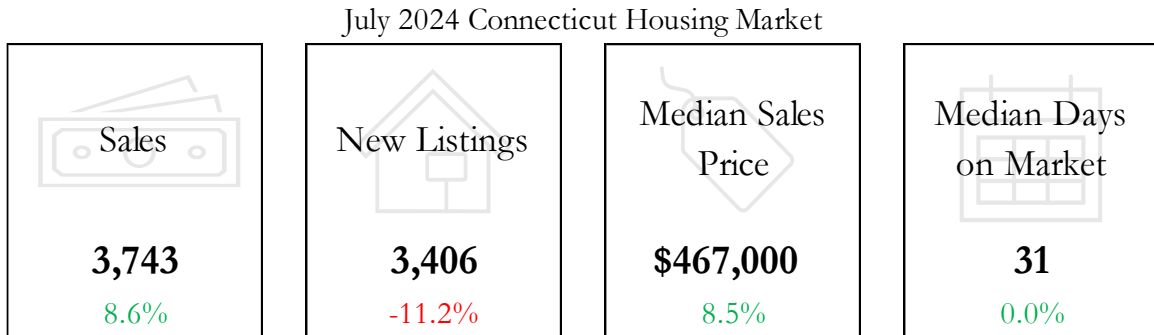
While market conditions vary significantly by location, trends suggest the housing market is gradually shifting from a seller’s market towards a more balanced one. Nationally, inventories of unsold new and existing homes are rising. July had 4 months’ supply for existing homes and 7.5 months’ supply for new homes at the current pace of sales (compared to pandemic lows of 1.6 months and 3.3 months, respectively).



Nationally, homebuilder sentiment is low. Discounts for new homes and mortgage-rate buydowns are increasingly common. Sales of new single-family homes jumped 10.6 percent for the month in July, as mortgage rates fell from their recent highs. While housing completions were also up 13.8 percent for the year in July, starts of new home construction fell to the lowest

monthly level since May 2020. The Northeast saw multifamily permitting increase, which suggests an increase in multifamily construction here will follow.

Freddie Mac economists expect home prices to increase by 2.1 percent in 2024 and 0.6 percent in 2025. If the Federal Reserve begins cutting rates as anticipated, additional demand from first-time homebuyers is expected to put some upward pressure on prices. As such, potential improvements to housing affordability beyond lower interest rates will likely come from buyers' wage growth more than home price declines. The U.S. median existing-home sales price was \$422,600 in June, up 4.2 percent from a year ago.



Data Source: Redfin

Connecticut home sales jumped 8.6 percent in July compared to a year earlier, though sales are still down 5.1 percent year-to-date. Inventory remains much lower than the national average, with about 1.7 months' supply, and homes are selling at 104.2 percent of their list price on average. 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.

National and Connecticut Rental Market

Nationally, rent growth has stalled according to Apartment List, with the median new lease rent decreasing 0.8 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 still seeing average rents growing 4.0 percent year-over-year, though that rate ticked down from 4.3 percent in June. Rent growth spiked nationally in 2021 and 2022 as vacancy rates fell and renters competed for limited inventory.

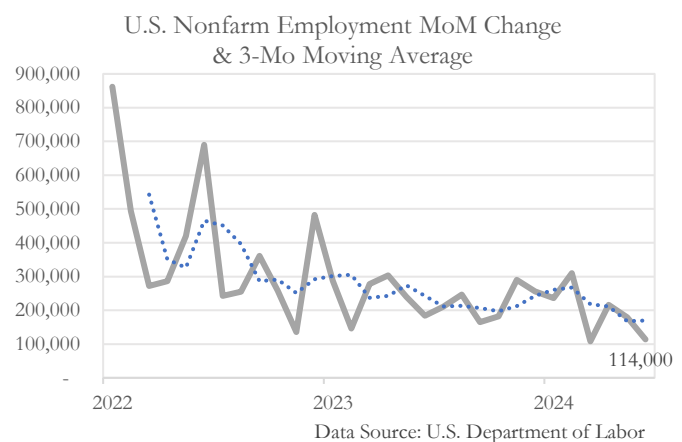
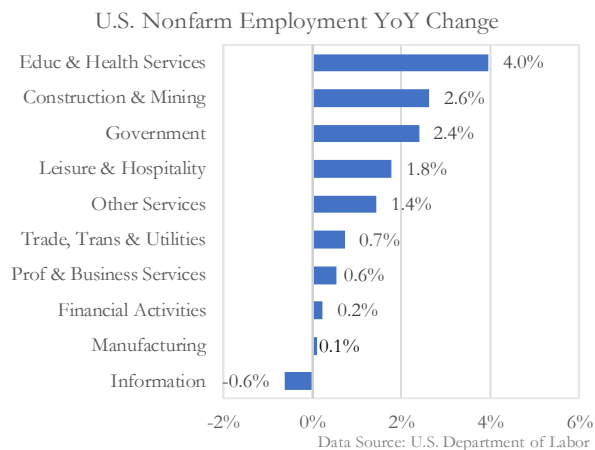
Connecticut's rental vacancy rate rose to 5.3 percent in July according to Apartment List, up from 4.6 percent a year earlier. However, most of that change reflects an increased vacancy rate in New Haven County. As would be expected given the additional supply of units, rent costs in New Haven are rising slower than the state average, at just 0.7 percent year-over-year growth in July. 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 from July.

Labor Market Statistical Summary

United States	Jul-24	Jun-24	Jul-23
Unemployment Rate	4.3%	4.1%	3.5%
Total Unemployed	7,163,000	6,811,000	5,904,000
Total Nonfarm Employment	158,609,000	158,430,000	156,027,000
Job Growth	+114,000	+179,000	+184,000
Job Openings to Unemployed Ratio	-	1.2	1.5
Quit Rate	-	2.1	2.3
Average Monthly Initial Unemployment Claims	238,250	236,800	236,400
Labor Force Participation Rate	62.7%	62.6%	62.6%
Average Hourly Wage	\$35.07	\$34.99	\$33.84
Connecticut	Jul-24	Jun-24	Jul-23
Unemployment Rate	3.6%	3.9%	3.6%
Total Unemployed	69,300	74,600	68,900
Total Nonfarm Employment	1,714,400	1,713,700	1,696,700
Job Growth	+700	+3,300	-5,000
Job Openings to Unemployed Ratio	-	1.2	1.3
Quit Rate	-	1.9	2.1
Average Monthly Initial Unemployment Claims	3,364	3,972	4,250
Labor Force Participation Rate	64.4%	64.6%	64.2%
Average Hourly Wage	\$37.34	\$37.83	\$35.72

National Job Growth

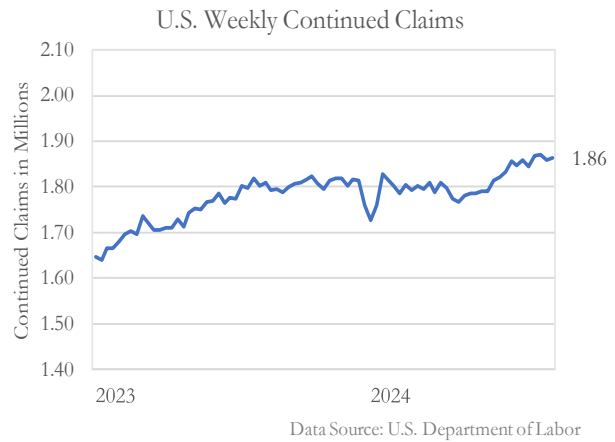
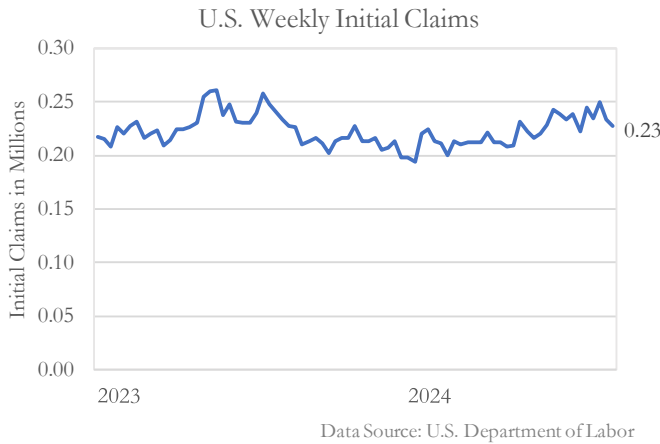
The Bureau of Labor Statistics reported the U.S. added 114,000 jobs in July, considerably below the 215,167 average over the prior 12 months. While the U.S. is still adding jobs, the pace of hiring has slowed significantly, and data revisions indicate there were fewer jobs added in the 12 months ending in March 2024 than previously reported. The Information sector lost 20,000 jobs (0.7 percent) in July, while the Construction sector saw the largest percentage gain (0.3 percent, +25,000 jobs). The following graphs display the year-over-year net change in nonfarm employment by sector and monthly U.S. job growth. Appendix 1 shows detailed data by sector.



National Unemployment

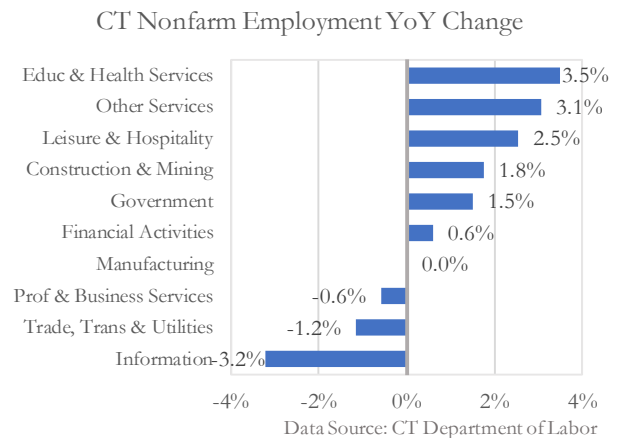
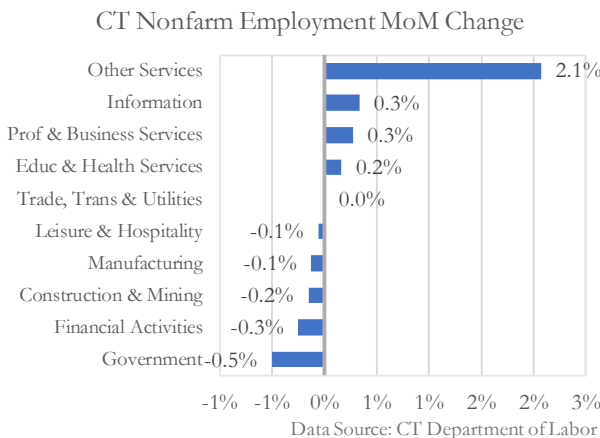
The U.S. unemployment rate rose for the fourth straight month to 4.3 percent in July, up from 4.1 percent in June. While the increase in the unemployment rate is largely a reflection of more job seekers rather than an uptick in layoffs, the significant increase in the unemployment rate over the past several months is causing concern that the labor market has weakened too much. The Sahm Rule, named after economist Claudia Sahm, shows that this amount of quick deterioration has indicated the beginning of every past recession in the modern era. However, given the structural changes since the pandemic, there is reason to expect this cycle to be different. The total number of unemployed people rose 5.2 percent in July to about 7.2 million people.

Continued claims for unemployment have been trending up this year, though there was little monthly change. For the week ending August 10, seasonally adjusted initial claims totaled 228,000 and seasonally adjusted continued claims totaled 1,863,000.



Connecticut Job Growth

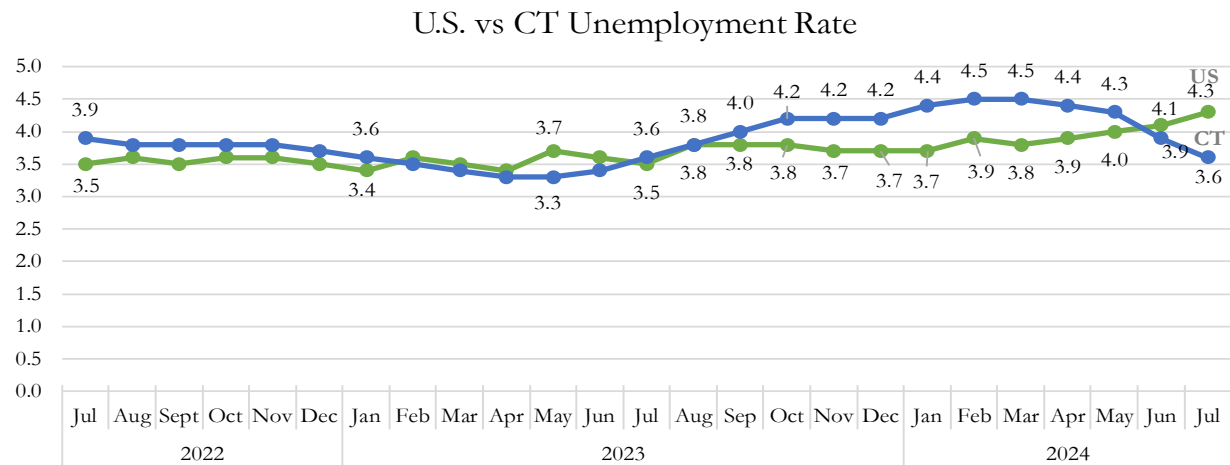
Connecticut continued adding new jobs in July, with the private sector gaining 1,900 new positions to hit a new all-time high. Payroll jobs increased by 700 overall, bringing the total to 1,714,400 positions.



Government payroll employment declined by 1,200 jobs after increasing 2,300 in June. Seasonal adjustment exaggerated the volatility in state government employment, according to the CT Department of Labor. Government positions are up 1.5 percent for the year. The Other Services sector, which includes businesses like auto repair shops, drycleaners, hair salons, and religious and advocacy organizations, saw the largest monthly gain (+1,300) in July. The above graphs display the month-over-month and year-over-year net change in nonfarm employment by sector. See Appendix 2 for detailed industry sector data.

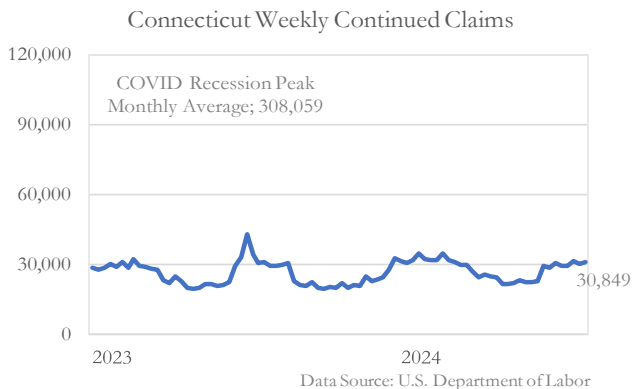
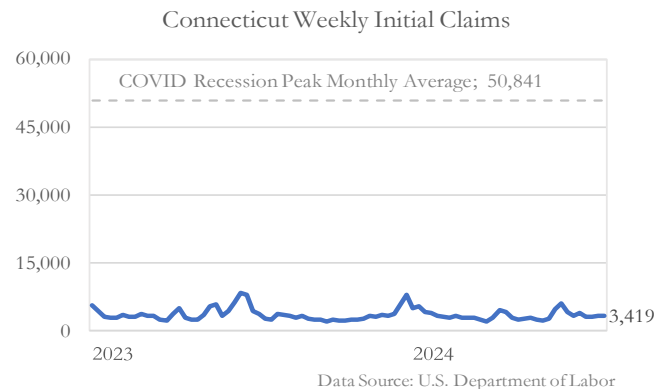
Connecticut Unemployment

The Connecticut unemployment rate dropped significantly in July to 3.6 percent, from 3.9 percent in June, trending down for the fourth straight month. The rate is the same as in July 2023. The total number of unemployed people in July decreased by 5,300—about the same amount as the net drop in the labor force for the same period. In June there were 1.2 job openings for every unemployed person.



Data Source: CT Department of Labor

For the week ending August 10, Connecticut initial claims totaled 3,419 and continued claims totaled 30,849 (on a not seasonally adjusted basis) - basically unchanged from July.



Consumer Confidence

The Conference Board reported the U.S. Consumer Confidence Index increased again in August, rising to 103.3 from an upwardly revised 101.9 in July (1985=100). Consumers' views of present and future business conditions improved. While still positive, views about labor market conditions worsened. The forward-looking Expectations Index was above the recession-signaling threshold of 80 for the second consecutive month, after revisions to July data.

Stock Market and State Revenue

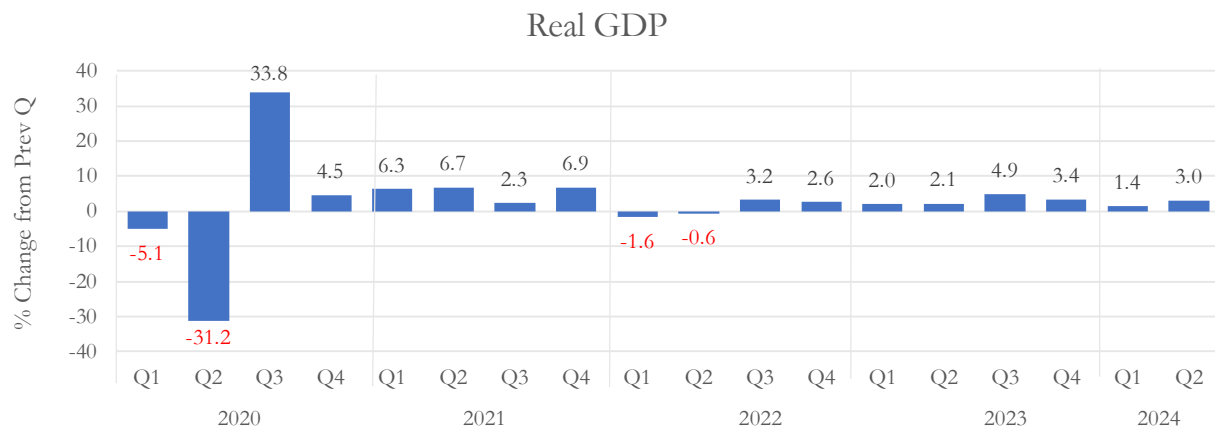
As of August 28, the Dow Jones Industrial Average, NASDAQ Composite Index and S&P 500 were about flat for the month after stocks tumbled and then recovered, changing 0.6 percent, -0.2 percent and 1.3 percent, respectively. Year-to-date the Dow Jones Industrial Average, NASDAQ, and S&P 500 were up 9 percent, 18.9 percent, and 17.9 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)

Revised Real Gross Domestic Product (GDP) data indicates that the U.S. economy grew at a slightly stronger pace—a 3 percent annualized rate—than initially reported for the second quarter of 2024 (a 2.8 percent rate). The 0.2 percent increase primarily reflects an upward revision to consumer spending that was partly offset by downward revisions to nonresidential fixed investment, exports, and private inventory investment, according to the Bureau of Economic Analysis.

The acceleration in the second quarter from the 1.4 percent annualized rate of growth in the first quarter primarily reflects increases in consumer spending, private inventory investment, and business investment, partially offset by an increase in imports. Imports are a subtraction in the calculation of GDP.



Data Source: Bureau of Economic Analysis

Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector							
Sector	July	June	July	MoM		YoY	
	2024	2024	2023	Change	Rate	Change	Rate
Information	2,996,000	3,016,000	3,015,000	-20,000	-0.7%	-19,000	-0.6%
Manufacturing	12,953,000	12,952,000	12,939,000	1,000	0.0%	14,000	0.1%
Prof & Business Services	22,992,000	22,993,000	22,866,000	-1,000	0.0%	126,000	0.6%
Financial Activities	9,241,000	9,245,000	9,219,000	-4,000	0.0%	22,000	0.2%
Trade, Trans & Utilities	29,079,000	29,057,000	28,869,000	22,000	0.1%	210,000	0.7%
Other Services	5,914,000	5,919,000	5,830,000	-5,000	-0.1%	84,000	1.4%
Leisure & Hospitality	16,926,000	16,903,000	16,629,000	23,000	0.1%	297,000	1.8%
Construction & Mining	8,893,000	8,869,000	8,665,000	24,000	0.3%	228,000	2.6%
Government	23,339,000	23,322,000	22,793,000	17,000	0.1%	546,000	2.4%
Educ & Health Services	26,390,000	26,333,000	25,386,000	57,000	0.2%	1,004,000	4.0%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector							
Sector	July	June	July	MoM		YoY	
	2024	2024	2023	Change	Rate	Change	Rate
Information	30,100	30,000	31,100	100	0.3%	-1,000	-3.2%
Trade, Trans & Utilities	298,000	298,000	301,500	0	0.0%	-3,500	-1.2%
Government	236,600	237,800	233,100	-1,200	-0.5%	3,500	1.5%
Financial Activities	119,000	119,300	118,300	-300	-0.3%	700	0.6%
Prof & Business Services	219,900	219,300	221,200	600	0.3%	-1,300	-0.6%
Manufacturing	158,400	158,600	158,400	-200	-0.1%	0	0.0%
Other Services	64,000	62,700	62,100	1,300	2.1%	1,900	3.1%
Construction & Mining	63,700	63,800	62,600	-100	-0.2%	1,100	1.8%
Leisure & Hospitality	157,100	157,200	153,200	-100	-0.1%	3,900	2.5%
Educ & Health Services	367,600	367,000	355,200	600	0.2%	12,400	3.5%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary						
	July-24	July-23	% Change	YTD 2024	YTD 2023	% Change
New Listings	3,406	3,837	-11.2%	24,071	25,526	-5.7%
Sold Listings	3,743	3,447	8.6%	19,991	21,061	-5.1%
Median Sale Price	\$467,000	\$430,300	8.5%	\$418,971	\$378,786	10.6%
Average Sale-to-List-Price Ratio	104.2%	104.4%	-0.2%	103.0%	102.2%	0.8%
Median Days on Market	31	31	0.0%	36	39	-8.4%
Hartford Metro Sale Price	\$385,000	\$333,750	15.4%	\$348,643	311,607	11.9%
Bridgeport Metro Sale Price	\$745,000	\$660,000	12.9%	\$615,150	\$563,143	9.2%
Months Supply of Inventory	1.7	2.0	-16.0%	2.1	2.1	-1.5%

Data Source: Redfin, OSC Calculations