Economic Outlook

The U.S. economy continues to hum along, with real gross domestic product (GDP) growing 2.8 percent in the third quarter on a seasonally adjusted annual basis according to the preliminary estimate. September payroll job growth far exceeded expectations (+254,000 jobs) and the unemployment rate ticked down to 4.1 percent.

U.S. consumers continue to spend, with retail sales increasing 0.4 percent in September. New research from the Federal Reserve attempts to answer the question of which consumers have been sustaining the higher levels of retail sales seen since the pandemic. It shows that high income, more educated, and Millennial households account for the largest increases in spending compared to 2018 levels, however, inflation-adjusted spending has increased for all groups. After-tax, inflation-adjusted personal income per capita is 2.6 percent higher than a year ago as of August, helping to fuel continued growth in consumer spending. The short dockworkers strike had little impact.

Inflation continued to decline in September, with consumer prices rising 2.4 percent year-over-year, compared to 2.5 percent in August, thanks in part to falling gasoline and fuel costs. New England inflation continues to run hotter, at 3.4 percent year-over-year, though higher shelter inflation is trending down.

Connecticut's labor market is favorable for workers but may present challenges for companies looking to hire. Connecticut's unemployment rate fell to 3.2 percent in September, its lowest level in more than 20 years. Average hourly wages grew 6.1 percent year-over-year and average weekly earnings grew 8.0 percent thanks to longer average hours. Payroll employment declined slightly for the month in September (-300 jobs). Employment is up 4,000 positions since May, however, the size of the Connecticut labor force declined by 14,000 workers over that time. This may be partially due to the outsized Baby Boomer generation reaching retirement age. Companies appear to be dialing back new hiring. The number of Connecticut job openings (77,000) and people seeking jobs (65,500) are falling in tandem.

The Federal Reserve began lowering interest rates in September for the first time in four years with a large 50 basis point cut, putting the federal funds rate at 4.75-5.00 percent. The rate cut should translate to lower borrowing costs for business and consumer loans but has not yet translated into sufficiently lower mortgage costs to get the frozen housing market really moving again. Fixed rate mortgages are more closely tied to the price of 10-year U.S. Treasury bonds than the short-term federal funds rate.

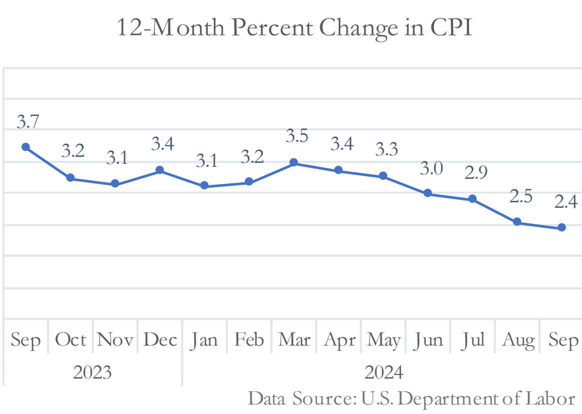
The surprisingly strong employment and retail sales growth figures in September have financial markets recalibrating their expectations for how fast and how much the Federal Reserve will cut interest rates in the next few years. This is driving up yields on long-term government debt and, correspondingly, interest rates on mortgages. Freddie Mac reported a 30-year fixed rate mortgage average rate of 6.54 percent for the week of October 24th. That rate is down more than 120 basis points from last year but up 46 basis points from the mid-September low when labor market concerns were heightened.

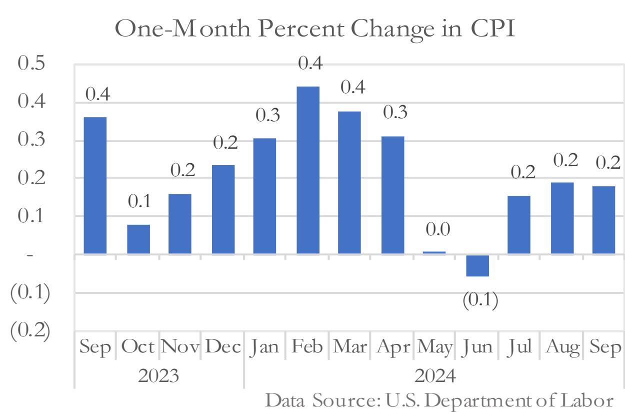
Connecticut existing home sales fell in September according to Redfin, though inventory for sale increased slightly. Connecticut's housing market remains tight, with homes selling at 102.5 percent of list price on average and median sales price growth of 11.3 percent for the year in September. Mortgage rates are still expected to fall over the coming year, which should gradually improve the supply of existing homes for sale, as the large differential (sometimes referred to as "golden handcuffs") shrinks between current rates and the ultra-low rates many homeowners locked in during the pandemic.

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. Connecticut permits to build new housing jumped 39.7 percent in September.

<u>Inflation</u>

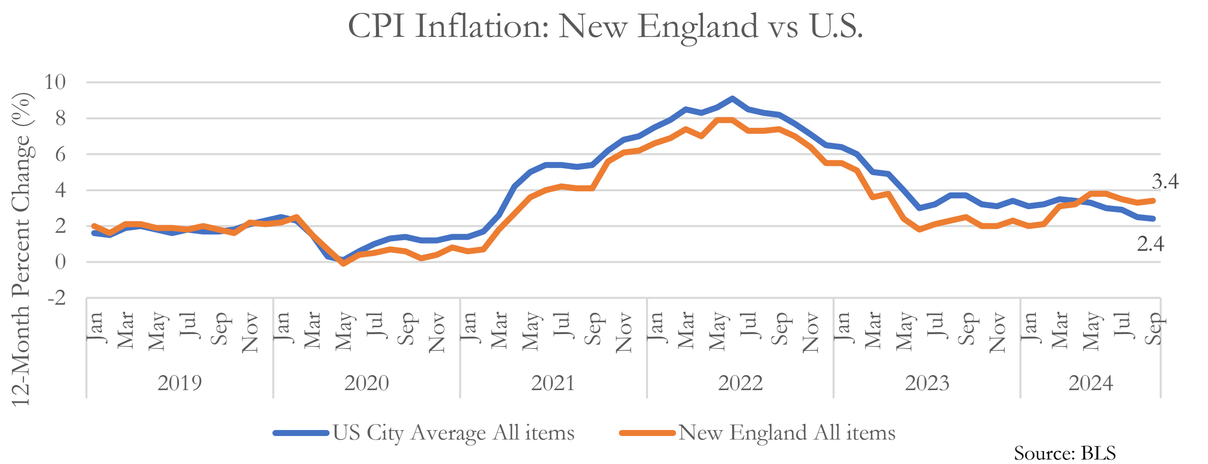
Overall U.S. inflation continues to decline, with the September Consumer Price Index (CPI) up 2.4 percent year-over-year, the smallest 12-month increase since February 2021. Prices rose 0.2 percent for the month, continuing the pace seen in July and August. Core CPI, which excludes volatile food and energy prices, rose 3.3 percent for the year in September, up from 3.2 percent last month. Price declines for gasoline and fuel oil, down 15.3 percent and 22.4 percent respectively on a 12-month basis, are helping to slow overall price growth. Grocery prices ticked up in September, with the food at home index seeing the largest monthly percent change (0.4 percent) since January 2023.





From 2020 through April of 2024, overall CPI inflation for the New England region lagged or matched the country as a whole, as shown in the graph below. Since May, New England inflation is running hotter than the U.S. city average, with the September New England CPI up 3.4 percent for the year versus 2.4 percent nationally.

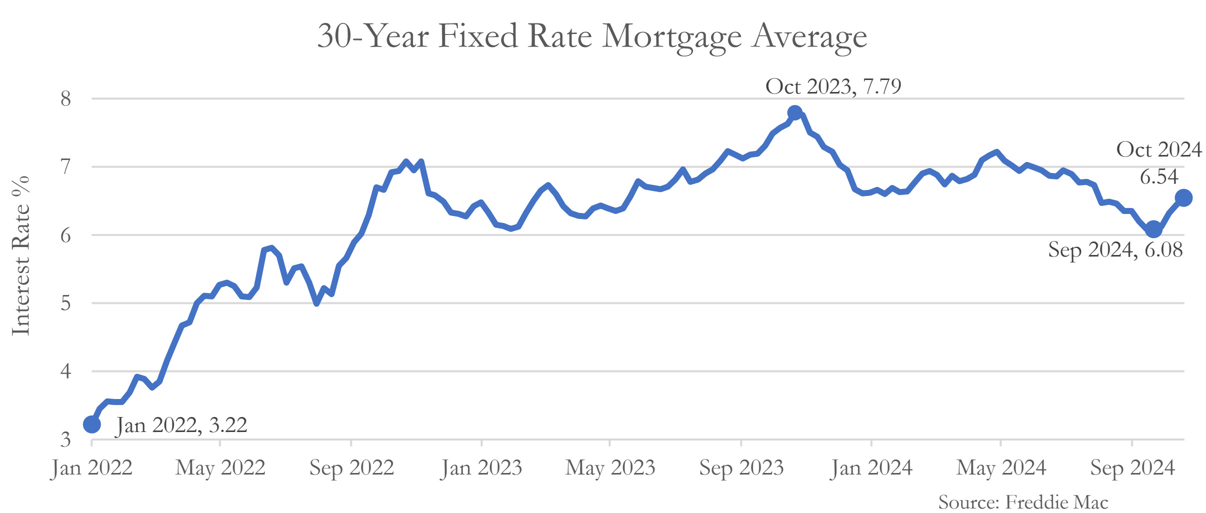
New England Core CPI appears to be trending in the wrong direction, increasing 4.7 percent for the year ending in September, up from 4.2 percent last month. Compared to August, New England price growth in September accelerated for electricity and utility (piped) gas service, while shelter inflation slowed down (from 7.1 percent in August to 6.5 percent in September). Shelter inflation remains higher in New England, with both rent and owner's equivalent rent costs growing faster than the national average, as shelter inflation peaked later in New England.



National and Connecticut Housing Market

After falling to a two year low in late September in anticipation of the Federal Reserve cutting interest rates, average mortgage rates disappointed many by rising in October. Freddie Mac reported a 30-year fixed rate mortgage average rate of 6.54 percent for the week of October 24th, down more than 120 basis points from last year but up 46 basis points from the recent low.

The increase is likely due to an improved outlook for the U.S. economy in the next several years, since fixed mortgage rates tend to move with the price of 10-year Treasury bonds. The surprisingly strong September job growth and retail sales figures have financial markets recalibrating their expectations for how fast and how much the Federal Reserve will cut interest rates in the next few years, which has driven 10-year Treasury bond yields—and mortgages—up.

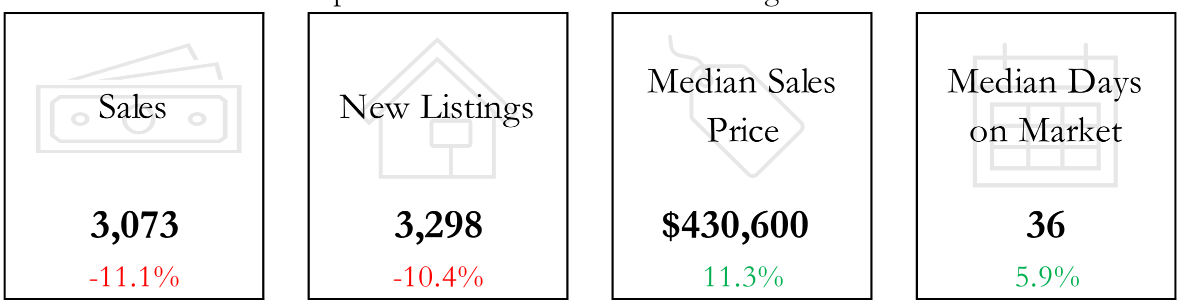


With housing affordability continuing to be a major issue, U.S. existing home sales as reported by the National Association of Realtors fell 1.0 percent in September to an annual rate of 3.84 million. Sales are down 3.5 percent year-over-year. The median sales price rose a moderate 3.0 percent year-over-year to $404,500. Inventories are up significantly, which is helping to moderate price growth; however strong demand is expected to continue pushing up home prices.

The Census Bureau reported that sales of new construction single-family homes rose 4.1 percent in September compared to August, to an annual rate of 738,000 new homes, with new house prices flat year-over-year. Sales growth was especially strong in the Northeast, where existing home prices have been rising faster. At currents sales rates, there is 7.6 months' supply of new homes and 4.3 months' supply of existing homes currently for sale.

New U.S. home construction activity fell in September, with permits and starts down 5.7 percent and 0.7 percent, respectively, year-over-year. Connecticut housing permits jumped 39.7 percent in September from August. Connecticut single-family permits are up 9.4 percent year-to-date, while multi-family are down 20.3 percent.

September 2024 Connecticut Housing Market



Data Source: Redfin

Connecticut's housing market remains tight, with 68.0 percent of homes selling above the list price in August, versus 33.0 percent nationally according to Zillow. However, the market may be nearing a turning point. Inventory (the homes available for purchase) increased slightly in September, and the median days homes are on the market ticked up. The average sale to list price ratio in September was 102.5 percent, down from 103.2 percent in August according to Redfin. Still, a fundamental imbalance between supply and demand is pushing up prices, as Millennials and the oldest members of Gen Z reach peak homebuying years and underbuilding since the Great Recession has left the state with too few homes affordable to new buyers. The median sales price rose 11.3 percent for the year in September (versus 4.0 percent nationally in Redfin's data).

The share of sales to first-time home buyers in Connecticut increased significantly and more than the national average between 2019 and fiscal year 2024, according to research from Freddie Mac. This may be due to existing homeowners being increasingly "locked in" to their current homes with lower mortgage rates. Potential buyers looking for starter homes face a particularly tough market across the country, as entry-level homes have seen significantly higher price appreciation than expensive homes.

National and Connecticut Rental Market

Nationally, rent growth has stalled according to Apartment List, with median new lease rents decreasing 0.7 percent year-over-year in September. An increase in multifamily construction coming online in 2023 and 2024 is reducing price pressures, especially in the South and West regions. The Northeast and Midwest regions are seeing more rent growth. Apartment List estimates the median rent for new leases in Connecticut is 4.8 percent higher than last year, as of September 2024.

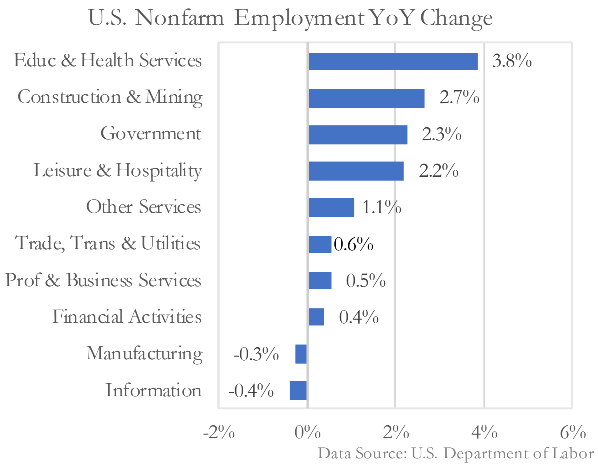
The average asking rent in Connecticut for the third quarter of 2024 is $1,886, according to CoStar Group data provided by the Connecticut Housing Finance Authority. The Norwich metro area continues to see the fastest rent growth of the major metro areas in Connecticut.

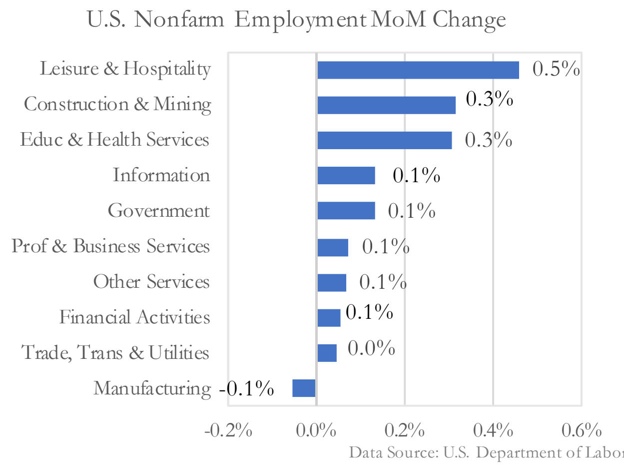
Labor Market Statistical Summary

United States	Sep-24	Aug-24	Sep-23
Unemployment Rate	4.1%	4.2%	3.8%
Total Unemployed	6,834,000	7,115,000	6,347,000
Total Nonfarm Employment	159,105,000	158,851,000	156,667,000
Job Growth	254,000	159,000	246,000
Job Openings to Unemployed Ratio	1.1	1.1	1.5
Quit Rate	1.9	2.0	2.3
Average Monthly Initial Unemployment Claims	224,250	231,000	218,800
Labor Force Participation Rate	62.7%	62.7%	62.8%
Average Hourly Wage	$35.51	$35.02	$33.96
Connecticut	Sep-24	Aug-24	Sep-23
Unemployment Rate	3.2%	3.4%	4.0%
Total Unemployed	61,400	65,500	76,100
Total Nonfarm Employment	1,710,300	1,710,600	1,698,500
Job Growth	-300	-2,200	+700
Job Openings to Unemployed Ratio	-	1.2	1.2
Quit Rate	-	1.7	1.9
Average Monthly Initial Unemployment Claims	2,361	3,100	2,659
Labor Force Participation Rate	64.1%	64.2%	64.3%
Average Hourly Wage	$38.21	$37.76	$36.00

National Job Growth

The U.S. labor market showed surprising strength in September, with the nation adding 254,000 jobs. September's pace of job gains was above the average monthly gain of 202,500 over the prior 12 months, and recent months were revised up by 72,000 jobs. Restaurants and bars saw big gains for the month, with food services and drinking places adding 69,000 positions. Employment continued to grow in health care, government, social assistance, and construction. Average hourly wage growth ticked up to 4.0 percent year-over-year, far exceeding consumer price inflation, though the average workweek fell by 0.1 hour to 34.2 hours. The graphs below display percent changes over the month and year in nonfarm employment by sector. Appendix 1 shows detailed data by sector.

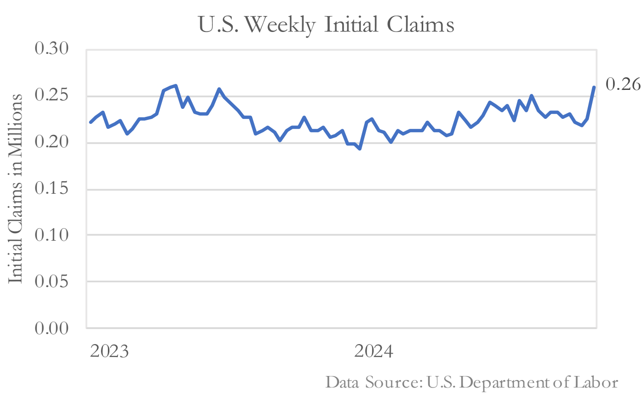


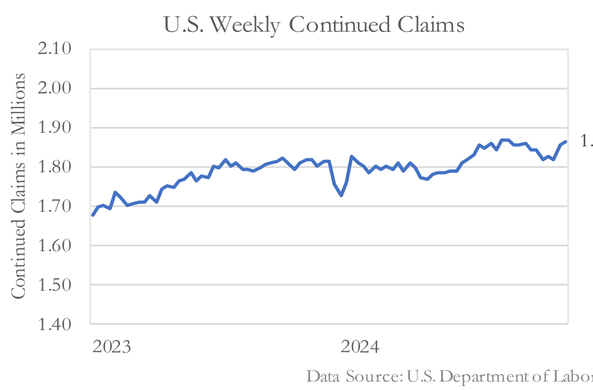


National Unemployment

The U.S. unemployment rate ticked down again to 4.1 percent for the month in September from 4.2 percent in August, part of the unexpectedly strong jobs report. The unemployment rate for adult men fell to 3.7 percent from 4.0 percent in August. Job openings rose 4.3 percent in August from July, and the total number of unemployed people fell by 3.9 percent in September to 6.8 million people.

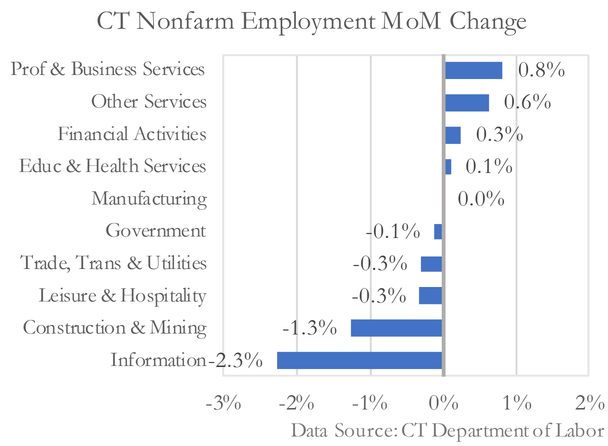
Major hurricanes and a strike at Boeing are impacting unemployment claims data. For the week ending October 5, seasonally adjusted initial claims totaled 260,000 and seasonally adjusted continued claims totaled 1,867,000.

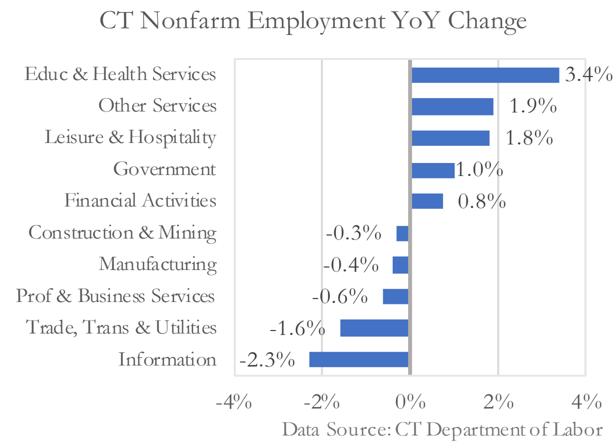




Connecticut Job Growth

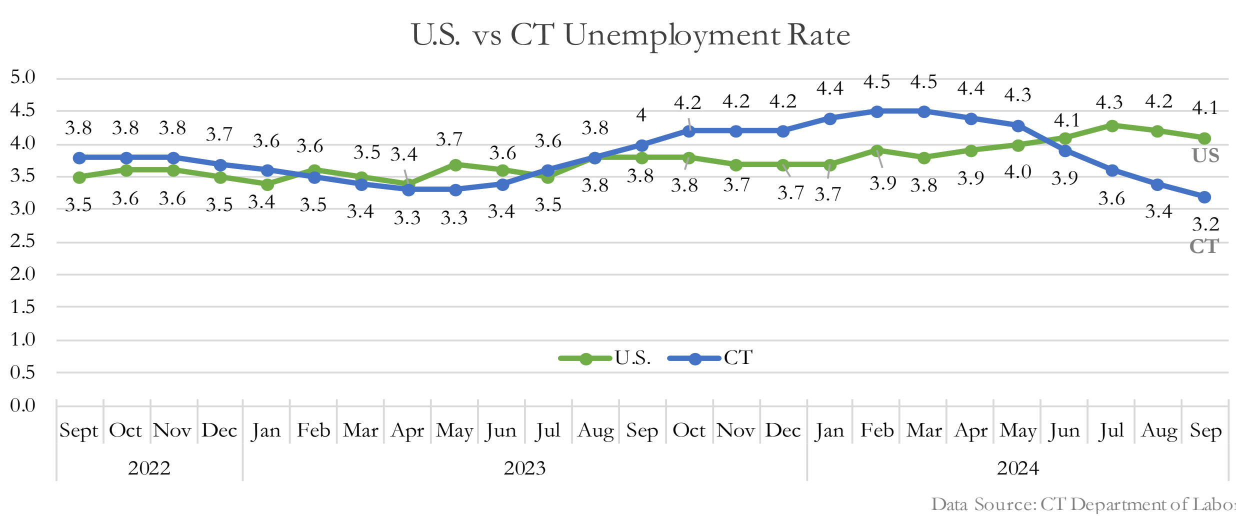
Connecticut payroll employment fell slightly (-300 jobs) in September, continuing the post-pandemic trend of strong job growth in the first half of the year, followed by weakness in the second half. Private employment was flat. Connecticut payroll employment is 11,800 positions, or 0.7 percent higher than a year ago. In September, the Professional and Business Services sector saw the largest increase (+1,800 jobs), while Information (-700), Construction & Mining (-800), and the Transportation, Warehousing, and Utilities subsector (-900) saw the largest declines. The graphs show month-over-month and year-over-year net change in nonfarm employment by sector. See Appendix 2 for more details.



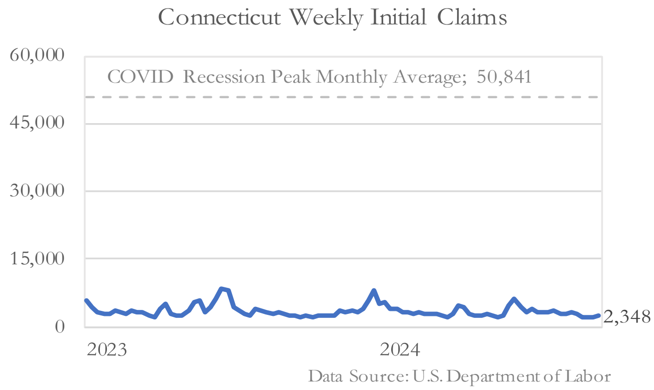


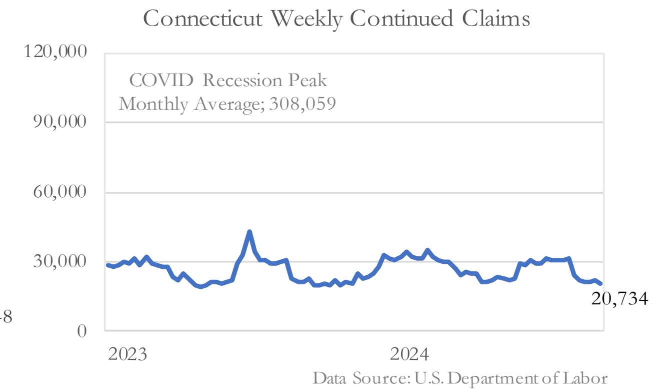
Connecticut Unemployment

The Connecticut unemployment rate dropped for the sixth month in a row in September to 3.2 percent, from 3.4 percent in August. This is the lowest unemployment rate in Connecticut since September 2001. The rate is now 0.9 percentage points below the current U.S. rate and 0.8 percentage points below the September 2023 rate. The average hourly wage increased 6.1 percent year-over-year (vs. 4.6 percent nationally), not seasonally adjusted. Driving the decrease in the unemployment rate, the total number of unemployed people decreased for the month by 4,100 on a seasonally adjusted basis, while the size of the state's labor force decreased by 2,000. In the latest data, there were 77,000 job openings and 61,400 people unemployed and looking for work.



For the week ending October 5, Connecticut initial claims totaled 2,348 and continued claims totaled 20,734 (on a not seasonally adjusted basis). Continued and initial claims remain low.





Consumer Confidence and Sentiment

Consumer optimism increased in October. The Conference Board reported that the U.S. Consumer Confidence Index (1985=100) rose to 108.7 in October, up notably from 99.2 in September. Perspectives on current and future business conditions, the labor market, and stock market growth all improved. According to chief economist at The Conference Board, Dana Peterson, "The proportion of consumers anticipating a recession over the next 12 months dropped to its lowest level since the question was first asked in July 2022, as did the percentage of consumers believing the economy was already in recession."

The University of Michigan reported that consumer sentiment, according to its survey, ticked up slightly in October to its highest reading since April of this year, largely due to better perceived buying conditions for durable goods. That survey has reported stark differences in consumer sentiment based on political affiliation. According to Surveys of Consumers Director, Joanne Hsu, "Sentiment of Republicans, who believe that a Trump presidency would be better for the economy, rose 8 percent [this month] on growing confidence that their preferred candidate would be the next president. In contrast, sentiment declined 1 percent for Democrats."

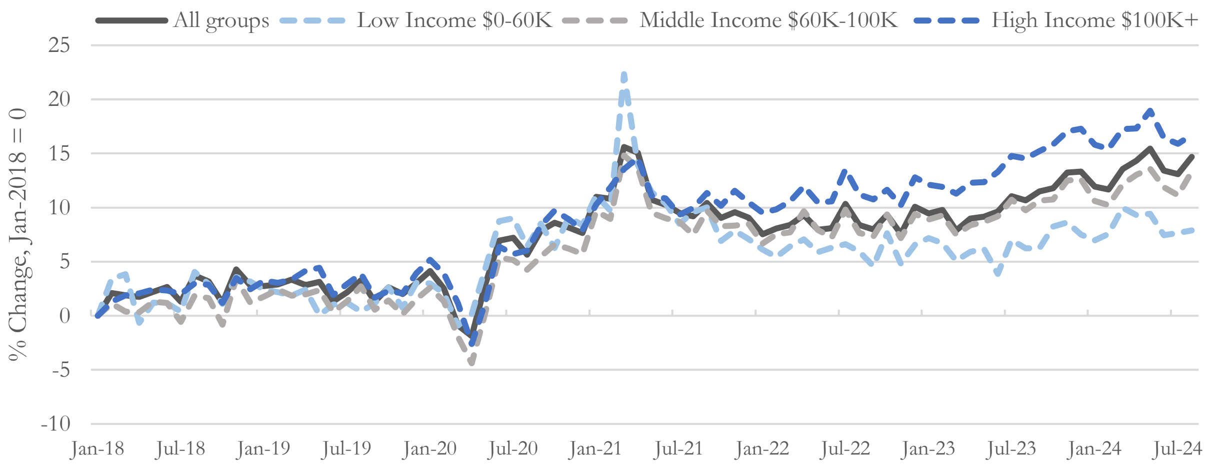
Consumer Spending, Saving & Debt

Monthly U.S. retail and food services sales again grew more than expected in September, growing 0.4 percent from August and 1.7 percent year-over-year not accounting for inflation. Stripping out motor vehicle sales (which were flat) and gas stations (which saw declines from falling gas prices), sales were up a strong 0.7 percent for the month. Consumers spent more on going out, new clothes, groceries and health and personal care products, while electronics and appliance stores saw a 3.3 percent monthly decline.

New research from economists at the Federal Reserve finds that higher income households have primarily been driving the resilient growth in retail spending in recent years, possibly as a result of wealth effects from higher asset values and higher interest rates. In the two years before the pandemic, growth in average retail spending (excluding vehicle sales) was about the same across income groups. Low-income households increased their spending the most during 2020 and early 2021 in tandem with federal pandemic stimulus programs, but cut back between mid-2021 and mid-2023, when inflation took off. Higher income households kept their spending levels high and growing.

The authors find that households with annual incomes over $100,000 were spending 16.7 percent more in August of 2024 than they were in 2018, on average, after accounting for inflation. Middle-income households are spending 13.3 percent more, while low-income households are spending 7.9 percent more. Growth in real disposable incomes has supported much of the spending, as the country has seen sustained real wage growth and increases in productivity.

Growth of U.S. Average Real Retail Spending since 2018 by Household Income



Note: Seasonally-adjusted and inflation-adjusted indexed to 2018
Source: Hoke, Sinem Hacioglu, Leo Feler, and Jack Chylak (2024). "A Better Way of Understanding the US Consumer: Decomposing Retail Sales by Household Income," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, October 11, 2024

The Federal Reserve's September Survey of Consumer Expectations found that "the average perceived probability of missing a minimum debt payment over the next three months increased for the fourth consecutive month to 14.2 percent from 13.6 percent in August," the highest that perceived probability has been since April 2020. Respondents between ages 40 and 60 as well as those with annual household incomes above $100,000 saw the largest increases.

The personal savings rate declined again in September to 4.6 percent, from 4.8 percent in August. Revolving consumer debt (mostly on credit cards) fell in August at an annual rate of 1.2 percent after rising in July. Nonrevolving credit increased at a 3.3 percent annual rate in August. Nonrevolving credit includes student loans, auto loans, and mortgages.

Stock Market and State Revenue

As of October 30th, the Dow Jones Industrial Average was down 0.4 percent for the month, while the NASDAQ Composite Index and S&P 500 were up by 2.7 percent and 1.3 percent, respectively. Year-to-date the Dow Jones Industrial Average, NASDAQ, and S&P 500 were up 11.8 percent, 24.0 percent, and 21.9 percent, respectively.

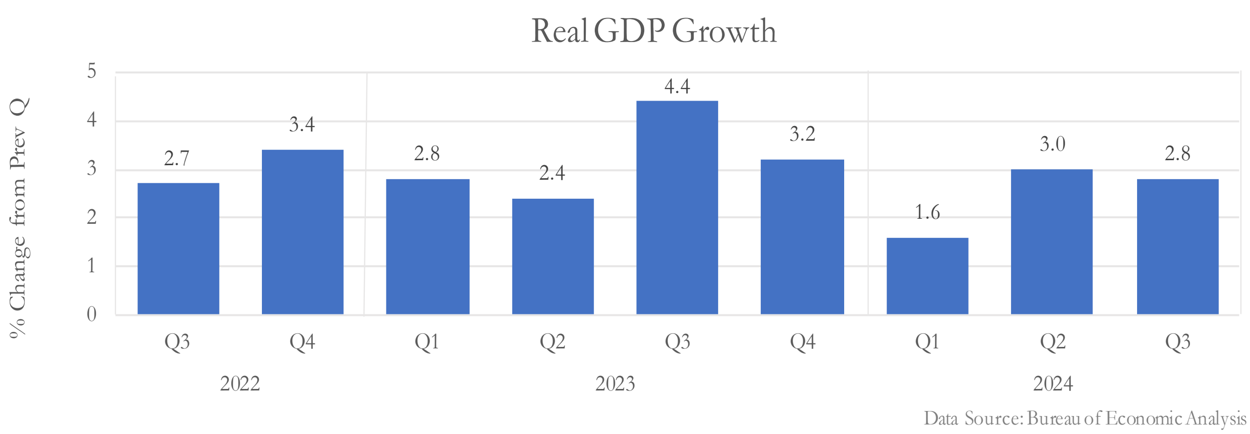
The performance of the stock market and overall economy has a significant impact on Connecticut tax revenue. In a typical year, estimated and final income tax payments account for approximately 25-30 percent of total state income tax receipts, but can be an extremely volatile revenue source. FY 2025 projections of estimated and final payments indicate that they will be down 0.4 percent compared to FY 2024.

National and State Gross Domestic Product (GDP)

According to the first estimate from the Bureau of Economic Analysis, real GDP increased at a 2.8 percent annual rate in the third quarter of 2024, following a 3.0 percent increase in the second quarter. The Q3 increase was primarily driven by growth in consumer spending, exports, and federal government spending. Personal consumption expenditures (PCE) increased in the quarter for both goods and services, growing at a robust 3.7 percent annual rate—faster than the 2.8 percent growth rate in Q2.

The slight slowdown in GDP growth compared to Q2 reflects a downturn in business inventories and a greater contraction in residential fixed investment (i.e., housing). On the other hand, consumer spending, exports, federal government spending, and imports all grew faster in the third quarter. Business inventories may fall further in Q4, lowering Q4 growth, to the extent businesses stocked up in previous quarters to mitigate the impact of the dockworkers' strike.

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. The third quarter growth estimate will be released in December.



Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	September 2024	August 2024	September 2023	MoM Change	MoM Rate	YoY Change	YoY Rate
Manufacturing	12,917,000	12,924,000	12,954,000	-7,000	-0.1%	-37,000	-0.3%
Trade, Trans & Utilities	29,044,000	29,031,000	28,882,000	13,000	0.0%	162,000	0.6%
Financial Activities	9,259,000	9,254,000	9,223,000	5,000	0.1%	36,000	0.4%
Other Services	5,918,000	5,914,000	5,855,000	4,000	0.1%	63,000	1.1%
Prof & Business Services	22,989,000	22,972,000	22,864,000	17,000	0.1%	125,000	0.5%
Government	23,421,000	23,390,000	22,903,000	31,000	0.1%	518,000	2.3%
Information	2,996,000	2,992,000	3,008,000	4,000	0.1%	-12,000	-0.4%
Educ & Health Services	26,544,000	26,463,000	25,560,000	81,000	0.3%	984,000	3.8%
Construction & Mining	8,942,000	8,914,000	8,710,000	28,000	0.3%	232,000	2.7%
Leisure & Hospitality	17,075,000	16,997,000	16,708,000	78,000	0.5%	367,000	2.2%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	September 2024	August 2024	September 2023	MoM Change	MoM Rate	YoY Change	YoY Rate
Information	30,000	30,700	30,700	-700	-2.3%	-700	-2.3%
Trade, Trans & Utilities	296,300	297,200	301,100	-900	-0.3%	-4,800	-1.6%
Government	235,300	235,600	232,900	-300	-0.1%	2,400	1.0%
Financial Activities	119,400	119,100	118,500	300	0.3%	900	0.8%
Prof & Business Services	220,100	218,300	221,500	1,800	0.8%	-1,400	-0.6%
Manufacturing	157,800	157,800	158,400	0	0.0%	-600	-0.4%
Other Services	63,700	63,300	62,500	400	0.6%	1,200	1.9%
Construction & Mining	62,400	63,200	62,600	-800	-1.3%	-200	-0.3%
Leisure & Hospitality	155,900	156,400	153,100	-500	-0.3%	2,800	1.8%
Educ & Health Services	369,400	369,000	357,200	400	0.1%	12,200	3.4%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	September-24	September-23	% Change	YTD 2024	YTD 2023	% Change
New Listings	3,298	3,681	-10.4%	31,896	32,987	-3.3%
Sold Listings	3,073	3,455	-11.1%	27,132	28,392	-4.4%
Median Sale Price	$430,600	$386,800	11.3%	$423,922	$385,011	10.1%
Averge Sale-to-List-Price Ratio	102.5%	103.2%	-0.7%	103.0%	102.5%	0.4%
Median Days on Market	36	34	5.9%	35	38	-6.5%
Hartford Metro Sale Price	$374,000	$330,000	13.3%	$354,156	316,778	11.8%
Bridgeport Metro Sale Price	$605,500	$569,000	6.4%	$621,117	$576,000	7.8%
Months Supply of Inventory	2.1	2.0	8.0%	2.1	2.1	2.3%

Data Source: Redfin, OSC Calculations