Economic Outlook

The envy of other major economies, the U.S. economy in late 2024 is expected to continue growing at a moderate pace, with lots of uncertainty ahead. The incoming Trump administration, along with Republican control of Congress, is expected to bring significant policy changes, likely including deregulation, higher tariffs, higher federal budget deficits, immigration restrictions and potential mass deportations, and a more unilateral foreign policy. While inflation has been receding in recent months, there is a risk that implementing such policies could cause inflation to rise again in 2025.

The Federal Reserve has begun a gradual easing cycle, cutting interest rates by 50 basis points in September, 25 basis points in November, with another 25 basis points possible in December. Given that economic data since September has largely been positive and the uncertainty ahead, the Fed is expected to slow the rate-cutting process in 2025, as it tries to determine how far to cut rates to reach a neutral level that will neither overheat nor overly impede economic activity.

Stock markets have responded positively to the election, with expectations of continued rally driven by strong corporate earnings, solid consumer spending, cooling inflation, and an ongoing rate-cutting cycle. However, markets remain volatile as they anticipate the potential impact of the new administration's policies.

Following the election, Americans are feeling more optimistic, with fewer people worried about an impending recession. Retail sales continue to show momentum, growing 0.4 percent month-over-month in October after 0.8 percent growth in September. While the holiday shopping season is expected to be a good one for most retailers, consumer and business spending has become more cautious due to persistent high costs and interest rates. Consumer spending is becoming increasingly stratified, with affluent households continuing to drive growth while lower-income families are more impacted by higher costs and debt burdens at high interest rates.

The housing market remains a significant economic challenge. Nationally and in Connecticut, home prices have risen dramatically since 2019, with Connecticut experiencing a more than 60 percent increase. Mortgage rates, while down from their October 2023 peak of 7.79 percent, remain high at around 6.84 percent. This has substantially increased housing costs, with the typical U.S. household needing to spend approximately 36 percent of their monthly income on mortgage payments to buy the median home with a 5 percent downpayment, compared to 26 percent in 2019.

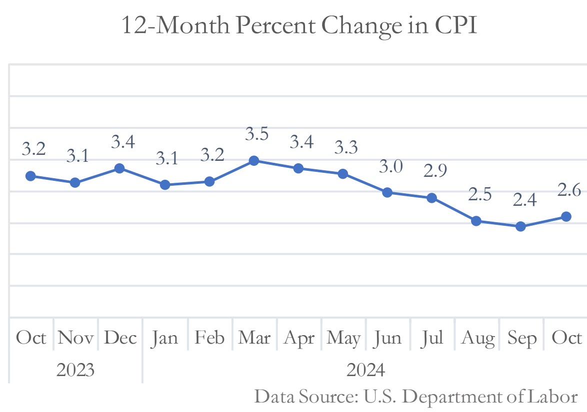
The rental market is similarly tough. While national median rents have slightly decreased thanks to lots of new units being completed this year, Connecticut has seen a 5.2 percent year-over-year increase in median rent for new leases according to Apartment List. The state's rental vacancy rate of 3.2 percent is significantly lower than the national rate of 6.9 percent, putting additional pressure on renters, particularly those with lower incomes.

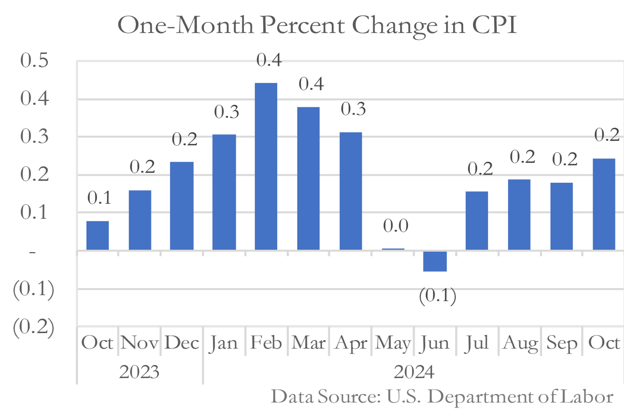
The national labor market shows signs of softening, with only 12,000 new jobs reported in October due to hurricanes and a manufacturing strike, though the unemployment rate remains low at 4.1 percent. Connecticut's labor market is notably tighter than the national average, though the state has not added additional payroll jobs since June. Connecticut's unemployment rate dropped to 3.0 percent in October—the lowest since August 2001—signaling a continued demand for those looking for work here as Baby Boomers retire. Consistent with a tighter labor market, wages in Connecticut have grown 4.4 percent year-over-year, outpacing the national average of 3.3 percent.

The 2024 U.S. election was heavily influenced by economic concerns, with exit polls showing 75 percent of voters experiencing "moderate to severe hardship" from inflation. Despite these concerns, the underlying U.S. economy remains robust, with 2.8 percent annualized GDP growth in the third quarter and a 2.6 percent annual inflation rate in October. While prices are no longer increasing at their former pace, Americans are understandably weary from dealing with five years of accumulated price hikes that are unlikely to be reversed. It remains to be seen if wage growth can continue to outpace inflation, eventually providing some relief.

Inflation

The Consumer Price Index (CPI) rose 2.6 percent year-over-year in October. The small increase compared to September's 2.4 percent annual rate met economists' expectations. Prices rose 0.2 percent for the month, continuing at approximately the same pace seen since July. Core CPI, which excludes volatile food and energy prices, rose 3.3 percent for the year in October, the same as September's reading. Nationally, shelter prices have increased 4.9 percent over the last year, accounting for about two-thirds of the increase in Core CPI. Motor vehicle insurance (+14.0 percent), medical care (+3.3 percent), and day care/preschool (+6.0 percent) price indices have increased in the past 12 months, while gasoline (-12.2 percent), household furnishings and supplies (-2.2 percent), and new and used motor vehicles (-1.8 percent) have seen prices fall.





Since May, New England inflation is running hotter than the U.S. city average, with the October New England CPI up 3.3 percent for the year versus 2.6 percent nationally. However, while the annual rate ticked up nationally, it fell slightly in October in New England. It was 3.4 percent in September.

National and Connecticut Housing Market

Housing affordability continues to be a major issue facing many Connecticut residents. While consumer prices have risen more than 20 percent since mid-2019, Connecticut home prices have risen more than 60 percent over the same period, based on the FHFA House Price Index. The interest rate for a 30-year fixed rate mortgage has also risen from an average of 3.0 percent in 2020 and 2021 to an average of 6.7 percent in 2024.

Together both trends have increased the monthly payment for a typical home by hundreds of dollars. According to an analysis by the Consumer Financial Protection Bureau, a typical U.S. household earning $69,000 a year in 2019 could buy the median home on the market and expect to pay 26 percent of their monthly income on the principal and interest payments for their mortgage. Thanks to higher interest rates and rising home prices, the typical U.S. household in September 2024 would have to spend approximately 36 percent of their monthly income to afford the monthly mortgage payment for the median home. The authors note that, "if they decided instead to stick to a budget of 25 percent, they would need to increase their income by 59 percent to $119,000, or interest rates would need to fall to 2.5 percent, or home prices would need to fall by 37 percent."

While mortgage rates have fallen from their October 2023 high of 7.79 percent, Freddie Mac reported a 30-year average fixed rate mortgage rate of 6.84 percent for the week of November 21st. Around the time the Federal Reserve began cutting interest rates in September, rates briefly fell to 6.08 percent but have since risen with stronger expectations for U.S. economic growth.

U.S. existing-home sales increased in October to a seasonally adjusted annual rate of 3.96 million, up 2.9 percent from last October. This marks the first year-over-year increase in sales since July 2021, as housing market transactions have been depressed over the past few years due to fewer homes on the market and rising rates. Now national inventory is up 19.1 percent from last year, with U.S. median home price growth of 4.0 percent. While the market is cooling a bit nationally, the northeast is seeing more price growth and generally tighter conditions.

New U.S. home construction activity fell again in October, with permits and starts down 7.7 percent and 4.0 percent, respectively, year-over-year. Sales of newly constructed homes rose in the Northeast but fell nationally thanks to fewer sales in the South.

October 2024 Connecticut Housing Market

Sales	New Listings	Median Sales Price	Median Days on Market
3,277	**3,293**	**$418,100**	**39**
0.6%	-7.9%	5.3%	11.4%

Data Source: Redfin

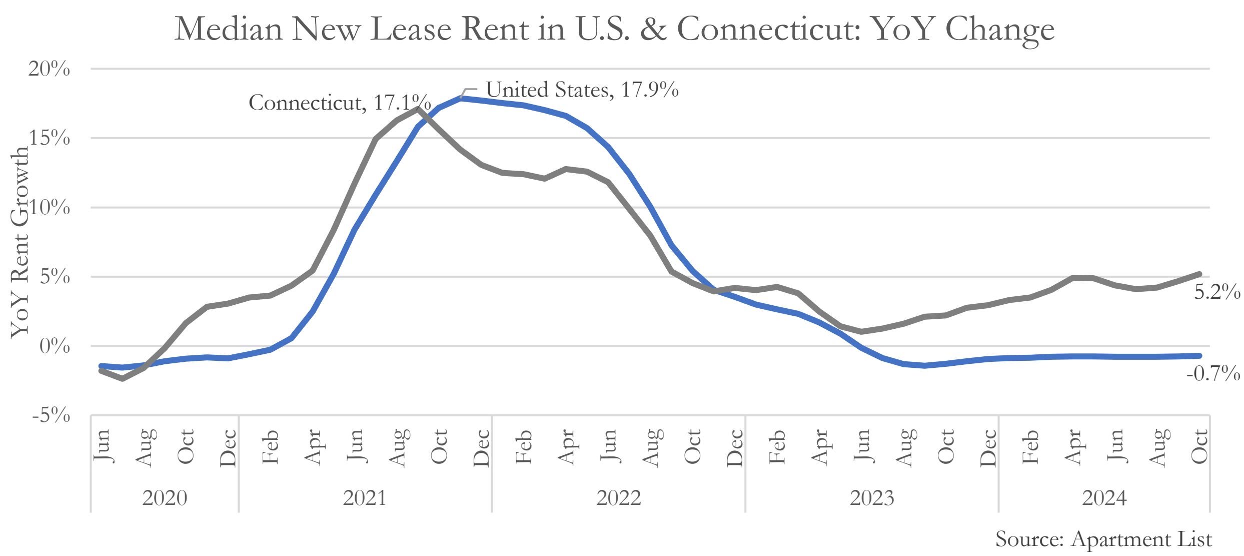
While some data sources indicate that the number of existing homes on the market in Connecticut is finally increasing after five years of declines, Connecticut's housing market remains tighter than the national average. According to Redfin, homes in Connecticut sold for 101.8 percent of their list price in October, down from 103.1 percent a year earlier, but significantly higher than the 98.9 percent national average this month.

The number of households in Connecticut has increased in recent years, while reduced home construction since the Great Recession has worsened the imbalance of supply and demand. These forces are expected to continue pushing up home prices in Connecticut, increasing the wealth of existing homeowners but also making homeownership harder to achieve for renters looking to buy.

National and Connecticut Rental Market

While a surge of newly built apartments coming online is driving down rents nationally, Connecticut has had less construction and saw 5.2 percent growth year-over-year in the median rent for new leases, according to Apartment List's October data. According to Apartment List, the national median rent is now $10 per month cheaper than at this time last year.

Following a swell of new units in 2023, U.S. 2024 multifamily unit completions have already surpassed 2023 levels, with 180,000 new units hitting the market in the third quarter of 2024, the highest quarterly amount since 1974. Much of that new building is in the South and Western regions. Connecticut's rental vacancy rate of 3.2 percent for the third quarter of 2024 is significantly lower than both the 6.9 percent national rate and Connecticut's average rate of between 5 and 6 percent in the five years leading up to 2020. Lower supply is driving up the cost for new leases in Connecticut and renters are facing significant rent growth as renewals continue to catch up with the surge in new lease prices since 2021.



According to the National Low Income Housing Coalition, 31 percent of Connecticut renter households are extremely low-income (with an average income below $35,160 per year for a family of four) and there is a shortage of 98,144 rental units available and affordable for those renters. Families need to earn about $72,000 per year to afford a two-bedroom rental in Connecticut. As a result, 71 percent of very low-income renters here spend over half of their household income on rent and utilities.

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 has seen the highest year-over-year rent growth in 2024, as Electric Boat, one of the region's largest employers, has been hiring many new workers to meet large military contracts.

Consumer Spending, Saving & Debt

Monthly U.S. retail and food services sales again grew more than expected in October, growing 0.4 percent from September and 2.8 percent year-over-year not accounting for inflation. September's monthly growth was revised upwards, from 0.4 percent to 0.8 percent. Consumer spending on vehicles and electronics accelerated this month. Year-over year, online retailer sales were up 7.0 percent and food services and drinking places receipts were up 4.3 percent. The fact that consumers continue to spend more on eating out suggests that household finances are holding up, at least for the proportion of the population that can afford it.

In October, the Federal Reserve's Survey of Consumer Expectations found that the average perceived probability of missing a minimum debt payment over the next three months decreased for the first time since May, and inflation expectations also fell. The perceived probability of finding a new job in the event of a job loss improved significantly, to the highest level in a year.

The personal savings rate declined again in October to 4.4 percent, from 4.6 percent in September. Revolving consumer debt (mostly on credit cards) rose slightly in September at an annual rate of 0.9 percent after falling in August. Nonrevolving credit increased at a 1.6 percent annual rate in September. Nonrevolving credit includes student loans, auto loans, and mortgages.

Consumer Confidence and Sentiment

The University of Michigan reported that consumer sentiment, according to its survey, ticked up 1.8 percent in November from October, increasing for the fourth month in a row. According to Surveys of Consumers Director, Joanne Hsu, "the stability of national sentiment this month obscures discordant partisan patterns. In a mirror image of November 2020, the expectations index surged for Republicans and fell for Democrats this month, a reflection of the two groups' incongruous views of how Trump's policies will influence the economy."

Stock Market and State Revenue

As of November 26th, the Dow Jones Industrial Average, NASDAQ Composite Index and S&P 500 were up for the month by 6.5 percent, 3.5 percent and 3.7 percent, respectively. Year-to-date the Dow Jones Industrial Average, NASDAQ, and S&P 500 were up 18.9 percent, 29.9 percent, and 27.0 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. Current FY 2025 projections of estimated and final payments indicate that they will be up 4.4 percent compared to FY 2024.

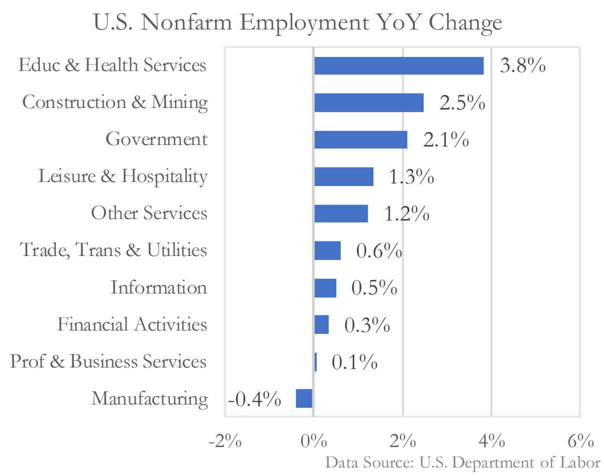
Labor Market Statistical Summary

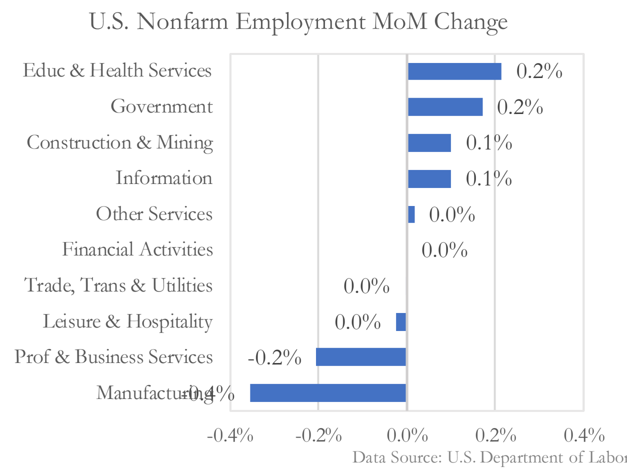
United States	Oct-24	Sep-24	Oct-23
Unemployment Rate	4.1%	4.1%	3.8%
Total Unemployed	6,984,000	6,834,000	6,443,000
Total Nonfarm Employment	159,005,000	158,993,000	156,832,000
Job Growth	12,000	223,000	165,000
Job Openings to Unemployed Ratio	-	1.1	1.3
Quit Rate	-	1.9	2.3
Average Monthly Initial Unemployment Claims	237,000	224,250	210,500
Labor Force Participation Rate	62.6%	62.7%	62.7%
Average Hourly Wage	$35.40	$35.46	$34.27
Connecticut	**Oct-24**	**Sep-24**	**Oct-23**
Unemployment Rate	3.0%	3.2%	4.2%
Total Unemployed	57,700	61,400	79,600
Total Nonfarm Employment	1,709,000	1,709,300	1,700,700
Job Growth	-300	-1,300	+2,200
Job Openings to Unemployed Ratio	-	1.3	1.0
Quit Rate	-	1.9	1.8
Average Monthly Initial Unemployment Claims	2,269	2,361	2,354
Labor Force Participation Rate	64.1%	64.1%	64.3%
Average Hourly Wage	$38.41	$38.27	$36.79

National Job Growth

The October jobs report showed a gain of only 12,000 jobs nationally for the month, a steep decline from the prior 12-month average of 193,833 jobs added. Because data collection occurred during the immediate recovery from Hurricanes Helene and Milton, and during the Boeing workers' strike, there is reason not to focus too closely on this single month and to expect potentially larger revisions to this month's figures than usual in the months ahead.

Manufacturing employment decreased by 46,000 jobs, with much of that related to the strike. Employment at temp agencies (within Professional and Business Services) declined by 49,000 jobs, continuing the trend. That subsector is down 577,000 jobs from its peak in March 2022. Employment continued to grow in health care and government. Overall payroll employment is up by 2.17 million jobs (1.4 percent) year-over-year. The graphs below display percent changes over the month and year in nonfarm employment by sector. Appendix 1 shows detailed data by sector.

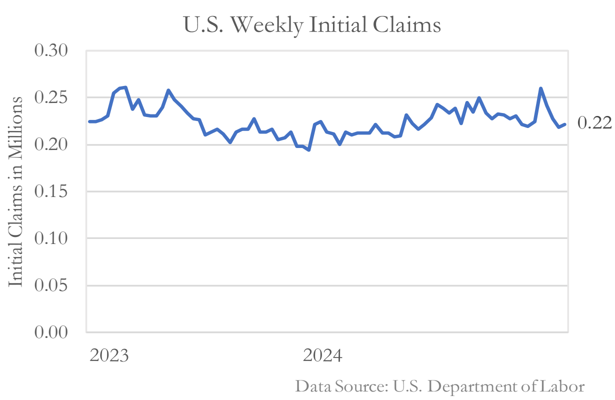


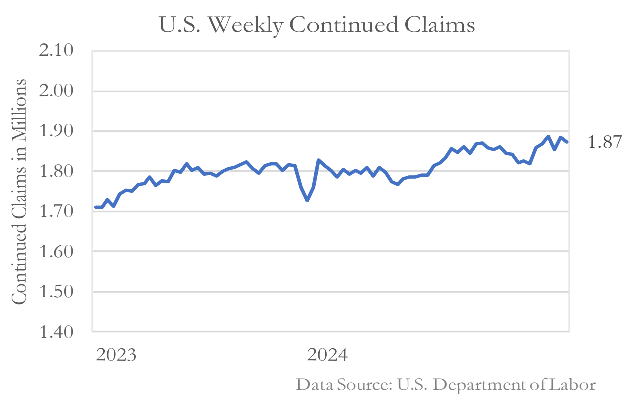


National Unemployment

The U.S. unemployment rate held steady at 4.1 percent in October, continuing to be low by historical standards, though up from the 3.6 average rate over 2022 and 2023. The unemployment rate has not risen as much as was feared a few months ago, when the unemployment rate was showing a steady deterioration from March through July of this year. The national labor market has largely normalized, following the series of dramatic changes associated with the pandemic. Job openings fell 5.3 percent in September from August, and the total number of unemployed people rose 2.2 percent in October to 7.0 million people. The quits rate has been steadily declining for over a year. In September it was 1.9 percent, noticeably lower than the annual average for 2019 of 2.3 percent.

For the week ending November 2, seasonally adjusted initial claims totaled 221,000 and seasonally adjusted continued claims totaled 1,873,000.

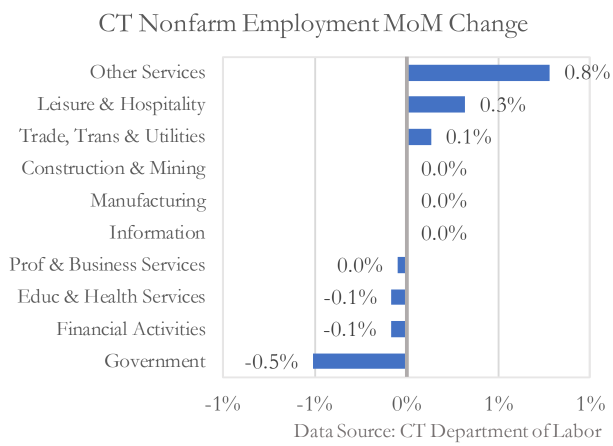


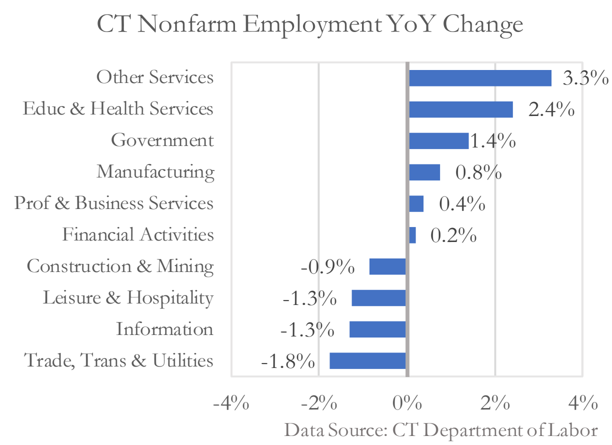


Connecticut Job Growth

Connecticut private sector payrolls have reached new highs this year and grew by 900 jobs (0.1 percent) in October, to 1,475,300. Overall Connecticut payroll employment fell by 300 jobs in October due to fewer jobs (-1,200) in the Government sector, which includes public education and Native American casino jobs on tribal reservations. Total Connecticut payroll employment is

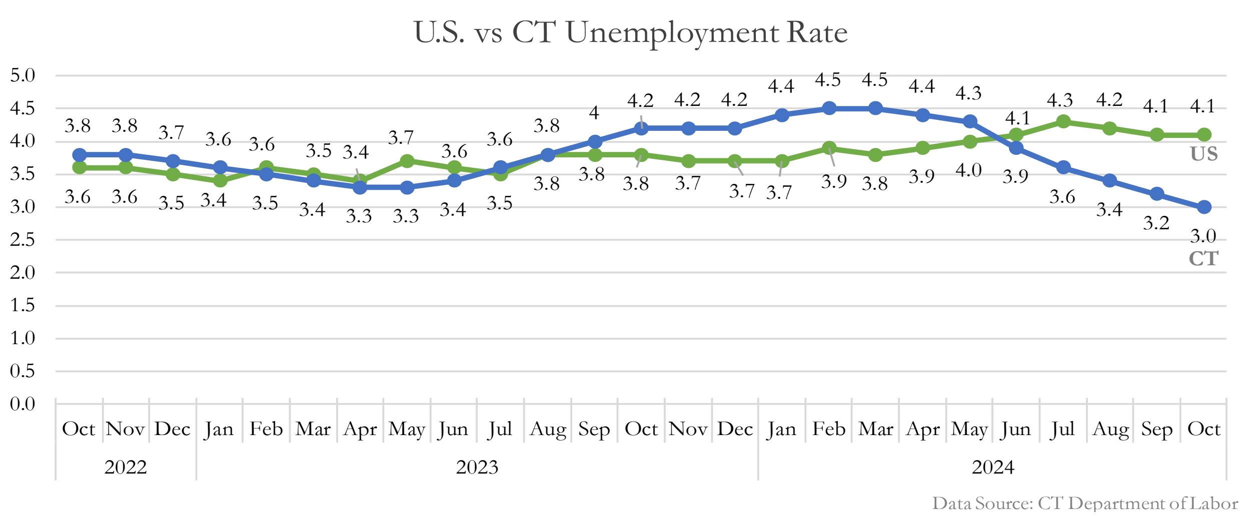
8,300 positions, or 0.5 percent higher than a year ago. The Leisure and Hospitality (+500), Other Services (+500) and Trade, Transportation, and Utilities (+400) sectors gained jobs, while four sectors lost and three had no net change. The graphs show month-over-month and year-over-year net change in nonfarm employment by sector. See Appendix 2 for more details.





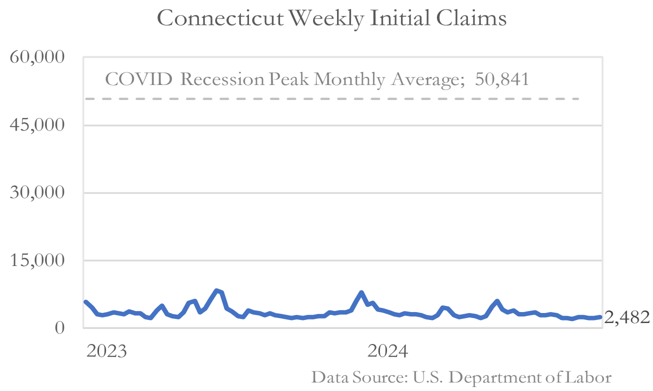
Connecticut Unemployment

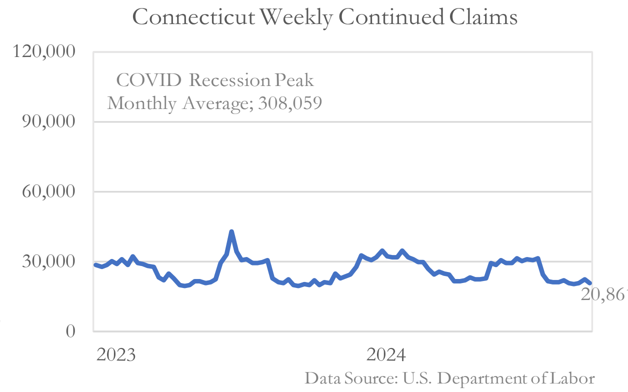
Connecticut's labor market is tighter than the national average, meaning that it should be easier to find a job for those looking, and a bit harder for businesses here to hire. The Connecticut unemployment rate continued to drop in October, for the seventh month in a row, to 3.0 percent, from 3.2 percent in September. This is the lowest unemployment rate in Connecticut since August 2001. The rate is now 1.1 percentage points below the current U.S. rate and 1.2 percentage points below the October 2023 Connecticut rate.



Consistent with those tighter conditions, the average hourly wage increased 4.4 percent year-over-year (vs. 3.3 percent nationally), not seasonally adjusted. Participation in the labor force held steady at 64.1 percent, meaning that the drop in unemployment this month reflects fewer unemployed workers but about the same size labor pool overall. In the latest data, there were 80,000 job openings and 57,700 people unemployed and looking for work.

For the week ending November 2, Connecticut initial claims totaled 2,482 and continued claims totaled 20,861 (on a not seasonally adjusted basis). Continued and initial claims remain low.



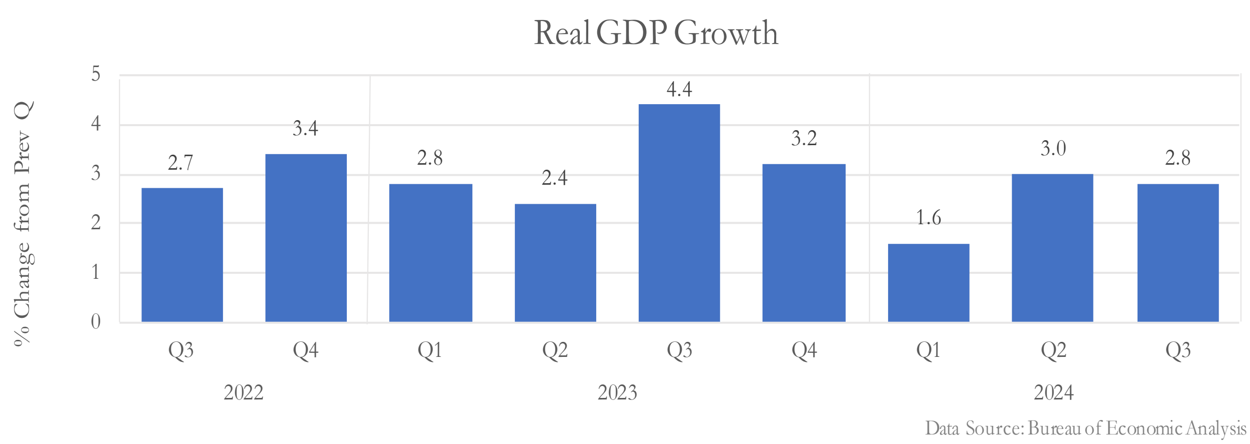


National and State Gross Domestic Product (GDP)

According to the second 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, federal government spending and nonresidential fixed investment. Personal consumption expenditures (PCE) increased in the quarter for both goods and services, growing at a solid 3.5 percent annual rate—faster than the 2.8 percent growth rate in Q2.

The update to the preliminary Q3 estimate primarily reflected upward revisions to private inventory investment and nonresidential fixed investment as well as downward revisions to exports and consumer spending. Imports, which are a subtraction in the calculation of GDP, were revised down.

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	October 2024	September 2024	October 2023	MoM Change	MoM Rate	YoY Change	YoY Rate
Manufacturing	12,873,000	12,919,000	12,923,000	-46,000	-0.4%	-50,000	-0.4%
Trade, Trans & Utilities	29,065,000	29,066,000	28,888,000	-1,000	0.0%	177,000	0.6%
Financial Activities	9,255,000	9,255,000	9,223,000	0	0.0%	32,000	0.3%
Other Services	5,926,000	5,925,000	5,854,000	1,000	0.0%	72,000	1.2%
Prof & Business Services	22,873,000	22,920,000	22,859,000	-47,000	-0.2%	14,000	0.1%
Government	23,457,000	23,417,000	22,970,000	40,000	0.2%	487,000	2.1%
Information	2,997,000	2,994,000	2,982,000	3,000	0.1%	15,000	0.5%
Educ & Health Services	26,622,000	26,565,000	25,637,000	57,000	0.2%	985,000	3.8%
Construction & Mining	8,948,000	8,939,000	8,731,000	9,000	0.1%	217,000	2.5%
Leisure & Hospitality	16,989,000	16,993,000	16,765,000	-4,000	0.0%	224,000	1.3%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	October 2024	September 2024	October 2023	MoM Change	MoM Rate	YoY Change	YoY Rate
Information	30,000	30,000	30,400	0	0.0%	-400	-1.3%
Trade, Trans & Utilities	296,100	295,700	301,400	400	0.1%	-5,300	-1.8%
Government	233,700	234,900	232,800	-1,200	-0.5%	900	0.4%
Financial Activities	119,200	119,300	118,300	-100	-0.1%	900	0.8%
Prof & Business Services	220,000	220,100	221,900	-100	0.0%	-1,900	-0.9%
Manufacturing	158,000	158,000	157,700	0	0.0%	300	0.2%
Other Services	64,600	64,100	63,700	500	0.8%	900	1.4%
Construction & Mining	62,500	62,500	63,300	0	0.0%	-800	-1.3%
Leisure & Hospitality	156,700	156,200	151,700	500	0.3%	5,000	3.3%
Educ & Health Services	368,200	368,500	359,500	-300	-0.1%	8,700	2.4%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	October-24	October-23	% Change	YTD 2024	YTD 2023	% Change
New Listings	3,293	3,575	-7.9%	32,329	33,077	-2.3%
Sold Listings	3,277	3,259	0.6%	27,165	28,424	-4.4%
Median Sale Price	$418,100	$397,100	5.3%	$423,320	$386,150	9.6%
Averge Sale-to-List-Price Ratio	101.8%	103.1%	-1.3%	102.8%	102.6%	0.3%
Median Days on Market	39	35	11.4%	36	38	-4.5%
Hartford Metro Sale Price	$374,000	$330,000	13.3%	$354,740	319,100	11.2%
Bridgeport Metro Sale Price	$605,500	$569,000	6.4%	$618,005	$575,900	7.3%
Months Supply of Inventory	2.0	2.1	-3.5%	2.1	2.1	2.3%

Data Source: Redfin, OSC Calculations