CONNECTICUT ECONOMIC UPDATE

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State Comptroller
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In this month's edition

Outlook: The envy of other major economies, the U.S. economy is expected to continue growing at a moderate pace, and Connecticut's along with it. The U.S. economy has grown faster than expected this year, thanks in part to higher productivity. Conversely, China is still grappling with the fallout of a domestic real estate crisis and growth is slower in Europe.

Major changes ahead in trade policy: The incoming Trump administration has threatened broad 25% tariffs on our neighbors and the European Union and 10% additional tariffs on all Chinese imports, which could result in higher costs for businesses and consumers. Tariffs can harm the state's exporters as well, thanks to exchange rate fluctuation and retaliation. The threats may just be a negotiating tactic, but Trump started a trade war with China in his first term.

Interest rates expected to gradually decline: The Federal Reserve cut interest rates by another 25 basis points in December, with gradual further cutting (about 50 bps) anticipated in 2025. Central bankers now anticipate inflation lingering above their 2% target for longer (until 2026) amid faster economic growth. Consumer prices grew 2.7% year-over-year in November.

New England consumer prices are rising faster (3.1% y/y) than the U.S. average, though the gap has decreased from last month. New England consumer prices are up a cumulative 19.2% since 2019.

Connecticut home prices and rents continue to rise: Connecticut saw a 5.3% y/y increase in median rent for new leases in November according to Apartment List. The median sale price rose 7.0% y/y in November according to Redfin. Affordability challenges are expected to continue in 2025.

The holiday shopping season is expected to be solid for retailers, supported by growing average incomes. U.S. disposable personal incomes grew 2.6% year-over-year in November while personal consumption expenditures grew 2.9%, with both measures adjusted for inflation.

Connecticut's GDP grew 3.0% in 2024Q3 (seasonally adjusted annual rate), just below U.S. growth of 3.1% in the July-September period. The Retail Trade industry accounted for the most growth – about one-third of the total, with the Information and Manufacturing sectors also performing well.

Labor markets have cooled but remain healthy: The national labor market added a solid 227,000 new jobs in November after a below-trend 36,000 job gain in October. Connecticut gained 300 net jobs for the month and kept its unemployment rate at 3.0%. The strong jobs market is supporting above-budget Personal Income Tax revenue growth.

KEY DATES THIS MONTH

1/10 – December U.S. jobs report
1/15 – December CPI inflation report
1/15 – January CT Consensus Revenues
1/27 – December CT jobs report
1/28-1/29 – Federal Reserve FOMC interest rate-setting meeting
1/30 – U.S. 2024Q4 GDP first estimate

Did you know?

The Office of the State Comptroller (OSC) publishes detailed, up-to-date information on state expenditures and revenue collections in our transparency tool, Open Connecticut. You can drill down to see payments to specific vendors. It also includes employee-level payroll and pension information on the state workforce.

About OSC

Sean Scanlon, State Comptroller
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The mission of OSC is to provide accounting and financial services, to administer employee and retiree benefits, to develop accounting policy and exercise accounting oversight, and to prepare financial reports for state, federal and municipal governments and the public.

Questions about this report?

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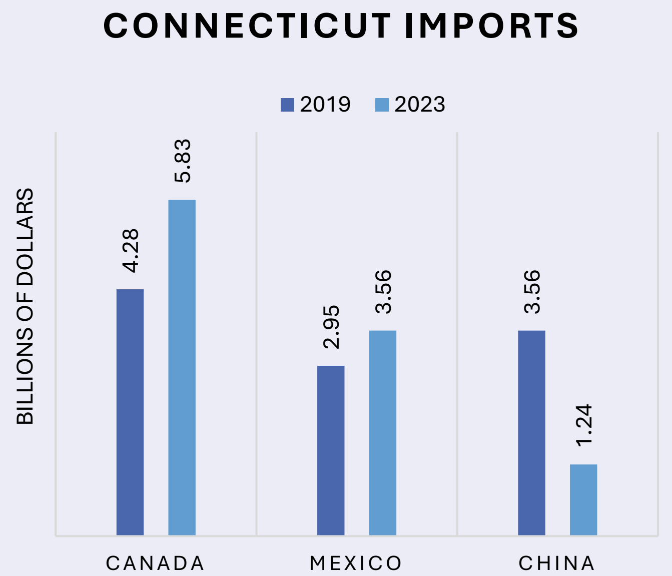
WHAT'S UP WITH TARIFFS?

This month we dive deeper into Connecticut's involvement in international trade, as we anticipate possible impacts from the incoming Trump Administration's trade policies. Broad tariffs are likely to impact both importers and exporters. According to the Office of the United States Trade Representative, a total of 5,360 companies exported from Connecticut locations in 2022 (the latest data available). Of those, 4,680 (87%) were small and medium sized businesses with fewer than 500 employees (accounting for 47.8% of goods exports). Connecticut imported $22.0 billion in goods from the world in 2023, with 42.7% of that coming from Canada and Mexico, our top import markets. President-elect Donald Trump has threatened to impose 25% tariffs on those country's imports, which if enacted, would likely scramble supply chains and drive-up costs for many businesses and consumers. Higher tariffs on Chinese goods, and maybe European, are expected too.

Tariffs are a tax on imports from other countries, which make those goods more expensive. Imports can be final goods, like an avocado or washing machine, or intermediate goods that Connecticut businesses use in their production, like metal parts for a jet engine, farming machinery, or Canadian lumber for building homes. The higher cost for inputs can lead to lower profit margins for U.S. businesses, be passed on as higher costs for consumers (contributing to inflation), or force the foreign exporters to lower their wholesale prices. Tariffs will be welcomed by some Connecticut companies as a way to make their domestically made products more competitive with cheaper foreign goods. The value of the



U.S. dollar against other currencies is likely to change in the face of broad tariffs, and we have already seen the dollar strengthening on expectations for these policies. A stronger dollar and tariff protection from competition may lessen the pain for importers that sell to U.S. customers, but a stronger dollar will hurt exporters by making their products more expensive overseas. Exporters may also face retaliatory tariffs on their sales to foreign markets.

Transportation equipment and primary metal manufactures are the largest categories of goods imports for Connecticut. Connecticut reduced its imports from China by 37.1% from 2019 to 2023, as businesses sought to reduce reliance on Chinese goods in their supply chains following the trade war with China in Trump's first term and the COVID-19 pandemic.

RISKS AND EVENTS WE'RE WATCHING

Sweeping policy changes in Washington are possible given Republican control of the next Congress and the White House after January 20. Possible changes include deregulation, corporate tax relief, broad tariffs on major trading partners, and mass deportations of illegal immigrants. If enacted, such policies are likely to have a major impact on Connecticut businesses, especially in trade-related industries such as manufacturing or foreign-labor intensive industries such as construction and hospitality.

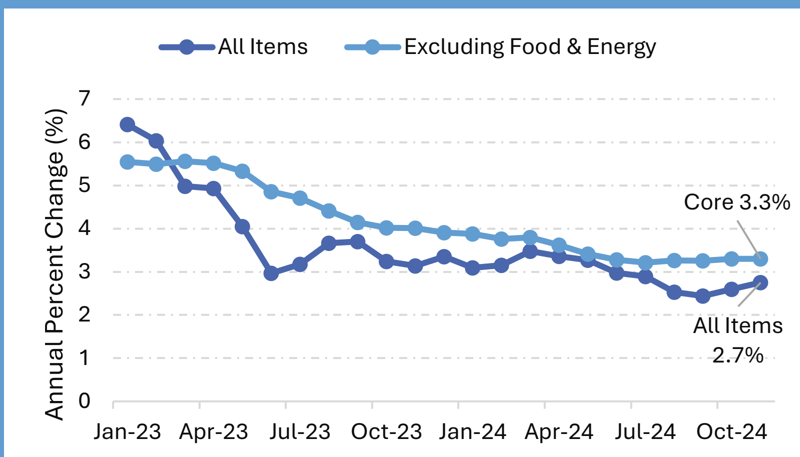
Fighting in Ukraine and the Middle East remains a risk, should fighting escalate or impact the oil supply and thus oil prices. The rapid overthrow of President Bashar al-Assad in Syria last month introduces new uncertainty.

There is elevated uncertainty on **future federal government funding** for various programs that directly impact Connecticut residents and the state budget.

INTEREST RATES AND INFLATION

The Federal Reserve's Federal Open Market Committee (FOMC) voted to reduce the federal funds rate by 25 basis points at their December meeting, bringing the target range to 4.25-4.50%. That range is down 100 basis points (one full percentage point) since this summer. The FOMC first cut its key interest rate by 50 basis points in September, followed by another 25 basis points in November. The Federal Reserve raised rates aggressively in 2022-2023 to combat the highest inflation in forty years and has now begun to loosen monetary policy to prevent unemployment. The resilient U.S. economy is giving policymakers an opportunity to proceed cautiously, with on average two small cuts projected during 2025. The labor market continues to cool down from its post-pandemic fever pitch but appears healthy overall.

U.S. Consumer Price Index: Annual Percent Change (%)



Source: U.S. Bureau of Labor Statistics

The Consumer Price Index (CPI) rose 0.3% in November, putting annual inflation at 2.7%. The last two months have seen slight increases in the annual rate, in line with economists' expectations. Core CPI, which excludes volatile food and energy prices, rose 3.3% for the year in November and has been flat at that rate for months, thanks largely to stubborn housing and services inflation.

One bright spot in the CPI report was that the New England CPI fell from 3.3% to 3.1% in November, year-over-year. That rate is still higher than the U.S. city average, but the gap has been closing since September. New Englanders have seen less inflation in grocery prices in the past twelve months than the U.S. as a whole. On the other hand, New Englanders continue to experience faster price increases for housing, medical care, and education and communication services.

The speed of price growth has slowed dramatically since peaking at 7.9% for the New England region in June 2022, but that is small comfort for everyone experiencing the accumulated price increases of the past five years. Thanks to faster inflation in 2021 and 2022, average hourly wage growth failed to keep up with price growth in those years, causing significant strain. While average hourly wages have been growing faster than inflation the past two years, average hourly wages have grown less than prices over the past five years as a whole. Average hourly wages for private sector employees in Connecticut rose 14.6% from November 2019 to November 2024, while New England consumer prices rose 19.2% over that time. That means that if people are working the same number of hours, the average hourly wage earner can afford less food, housing, insurance, and other essentials now than they could in 2019, unless they have other forms of income with faster growth to make up the difference.

Year	New England CPI Inflation Annual % Change	Average Hourly Earnings Private Sector Employees in CT Annual % Change	Difference: Avg. Hourly Earnings Growth and Inflation Rate
2019	1.9	3.0	1.1
2020	0.9	3.1	2.2
2021	3.6	(0.6)	(4.2)
2022	7.1	2.5	(4.6)
2023	2.9	3.8	0.9
2024 (Jan-Nov)	3.1	5.2	2.0

Source: Bureau of Labor Statistics

CONNECTICUT COMMERCIAL CONSTRUCTION

While high interest rates have dampened some residential construction activity, a higher value of non-residential and heavy engineering construction projects have started in Connecticut this year. ConstructConnect reports that the value of year-to-date project starts through November is up 10.8%. Connecticut growth is faster than New England (10.5%) and overall U.S. starts growth (0.1%).

COMMERCIAL REAL ESTATE With the Federal Reserve now projecting 0.5 percentage points of rate cuts in 2025, lower-quality office buildings with high vacancy rates are vulnerable to foreclosure. Demand has shifted towards smaller, high-end spaces, lowering the value of less desirable space. Continued high interest rates spell trouble for underperforming commercial properties that need to be refinanced in the next few years.

Connecticut Housing Market Trends November 2024

+5.1%
Homes Sold YoY
Redfin

+8.9%
Active Listings YoY
Realtor.com

+1
Days on Market YoY
Realtor.com

$423,000
Median Sales Price
Redfin

6.72%
Freddie Mac 30-Year Fixed Rate Mortgage Average
for the week ending 12/19

+5.3%
Statewide Median Rent YoY
Apartment List

CONNECTICUT HOUSING MARKET

November home sales increased on a year-over-year basis, likely in response to mortgage rates dipping below 6.1% in September and slightly more inventory on the market. Connecticut's pick up was in line with national trends, as the National Association of Realtors reported that U.S. November existing home sales increased 4.8% from October and 6.1% from last year.

More generally, home sales activity remains below 2019 levels and median prices are up by around 60%. The mortgage rate "lock in" effect is keeping homeowners with very low interest rates from listing their homes, which has pushed up prices for homes that are available to buy. For those who already own, higher home values make people feel wealthier, which fuels consumer spending and economic growth.

For those looking to buy for the first time, starter homes are increasingly unaffordable as prices have risen far faster than wage growth and interest rates are high (though down from their recent peaks). One positive is that recent data suggests Connecticut's supply-constrained housing market may finally have seen inventory levels bottom out.

The average 30-year fixed rate mortgage rate was 6.72% in mid-December. Due to inflation and federal deficit expectations under the next administration, mortgage rates are not expected to fall significantly in 2025, keeping homes expensive to finance. Not enough homes to meet demand is expected to continue pushing up home prices in the state. The median sales price increased 9.3% year-to-date in 2024 according to Redfin.

The state taxes conveyances of real estate, including homes, so fewer sales typically translate to lower collections for the General Fund. The surge of home sales at higher prices more than doubled collections of conveyance tax in FY 2021 to $385.0 million. Collections in 2025 are projected to reach $277.6 million due to lower sales activity, despite rising prices.

Connecticut continues to see some of the highest year-over-year rent growth in the nation, with the Hartford metro area ranked second nationally among large metros by Apartment List, with growth of 4.6%. The average asking rent in Connecticut for the third quarter of 2024 was $1,886, according to CoStar Group data provided by the Connecticut Housing Finance Authority.

CONSUMER SPENDING

Consumer spending accounts for about two-thirds of the economy, so the health of the American Consumer says a lot. Incomes are rising and early reports for the 2024 holiday shopping season suggest that consumers are still spending, albeit in a more value-conscious way. According to the Bureau of Economic Analysis (BEA), U.S. disposable personal incomes grew 2.6% year-over-year in November while personal consumption expenditures grew 2.9%, with both measures adjusted for inflation. Spending was especially strong on durable goods (think cars and washing machines), which have seen prices come down in the past year. The period between Thanksgiving and Christmas is shorter this year, which could lead to lower holiday spending.

Several trends suggest retail sales in Connecticut will be solid this season. Average weekly earnings for Connecticut private sector employees have grown 5.0% this year. Strong stock market gains and rising home values are making some Connecticut residents feel wealthier and more willing to spend. However, lower-income households are likely to be limited in their spending given the accumulated cost increases for housing and other essentials, as well as still-high interest rates for financing purchases.

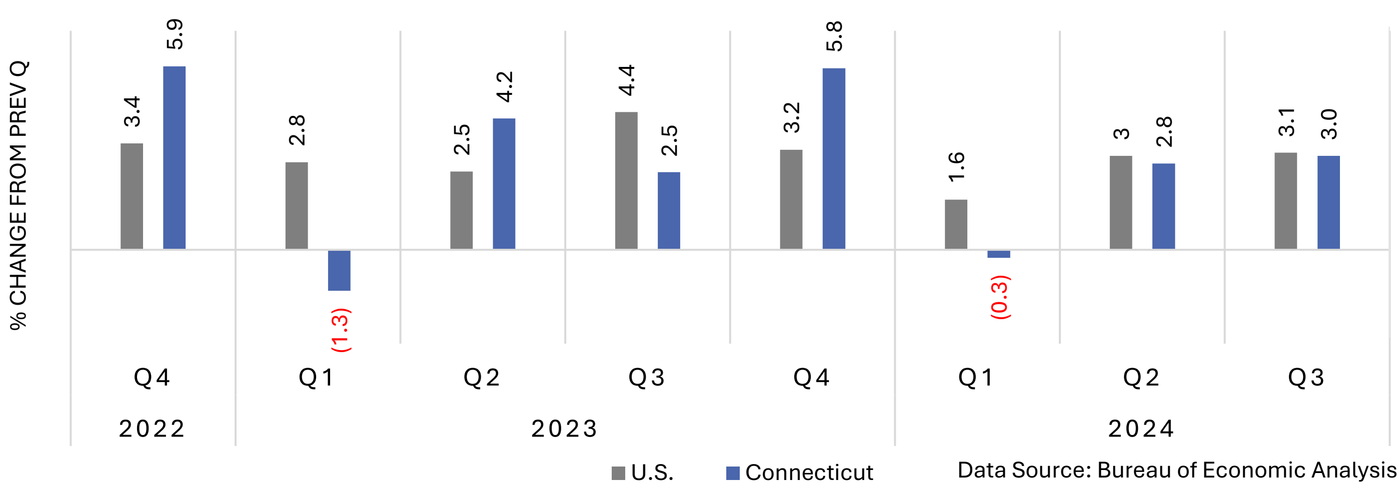
ECONOMIC GROWTH

Connecticut's economy grew at nearly the same pace as the nation's in 2024Q3 (July to September): 3.0% for Connecticut versus 3.1% nationally, at seasonally adjusted annual rates. Current U.S. forecasts for Q4 suggest that the strong growth has likely continued.

The Retail Trade industry accounted for the most growth – about one-third of the total, in both Connecticut and the U.S in Q3. The Information and Manufacturing sectors contributed the next highest amounts to growth.

In Connecticut, the private sector grew at a 3.14% annual rate in Q3, while the state and local governments' contribution to the economy actually shrank, lowering total growth. Labor market data also indicate that the private sector is growing here, while the public sector has shed some workers in recent months.

Real Gross Domestic Product (GDP) Growth by Quarter: **US** & **CT**



CONNECTICUT LABOR MARKET SUMMARY

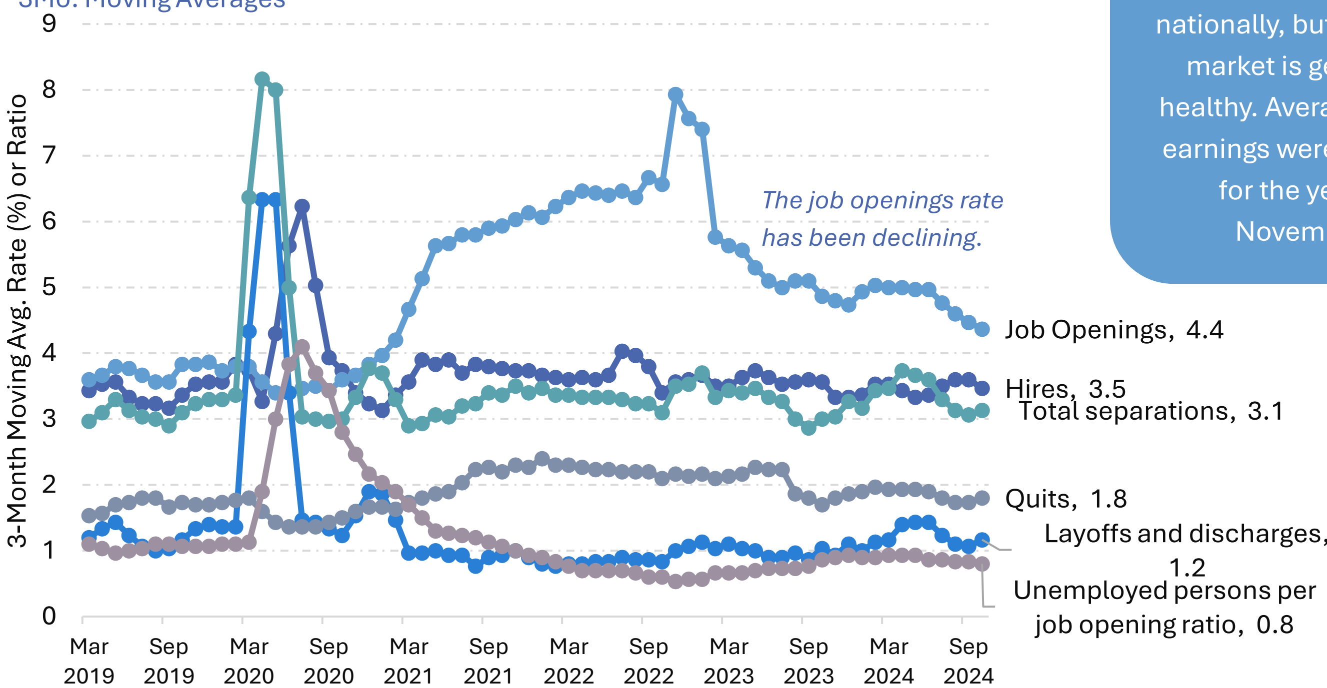
Unemployment remains extremely low at 3.0% in November—below the U.S. average of 4.2%**.** Connecticut's labor force is up by 3,500 workers (0.2%) compared to last November, which is good news for companies looking for workers to fill some 73,000 open jobs. The state added a small number of positions (+300) in November, with gains in finance and insurance as well as healthcare offsetting losses in professional and business services and retail this month, on a seasonally adjusted basis. The private sector gained 1,900 jobs (0.1%) over the past two months while fewer state education jobs are driving public-sector employment declines.

The Connecticut job opening rate has been trending downwards, as it has nationally.[1] Companies aren't looking to hire as many new workers as in 2021-2023. Openings remain above pre-pandemic levels while the number of unemployed persons per job opening (0.8) remains slightly lower than in 2019. The difference between new hires and job openings suggests that around 20,000 job openings have gone unfilled in recent months. Despite an increase earlier this year, the rate of layoffs and discharges remains relatively low.

In October, there were 57,700 unemployed people and 73,000 job openings in the state.

See the appendix for more detailed industry information.

Connecticut Job Openings and Labor Turnover (JOLT) Rates through October:
3Mo. Moving Averages



Job growth is slower in Connecticut than nationally, but the labor market is generally healthy. Average hourly earnings were up 4.6% for the year in November.

[1] The job opening rate is equal to the number of job openings on the last business day of the month as a percent of total employment plus job openings.

APPENDIX

Connecticut Housing Market	Nov-24	Nov-23	% Change or Change
Home Sales (Redfin)	3,191	3,036	5.1%
Median Sales Price (Redfin)	422,500	395,000	7.0%
Active Listing Count (Realtor.com)	4,610	4,234	8.9%
New Listing Count (Realtor.com)	2,496	2,726	-8.4%
Freddie Mac U.S. 30-Year Fixed Rate Mortgage Average (Week ending 12/19/24 and 12/21/23)	6.72	6.67	0.7%
Median Days on Market (from listing to close, Realtor.com)	46	45	1
Average Sale-to-List Price Ratio (Redfin)	101.9%	102.6%	-0.7%
Median Rent for New Leases (Apartment List)	1,674	1,590	5.3%
Single-family Housing Permits Year-to-date (U.S. Census Bureau)	1,954	1,821	7.3%
2+ Unit Structures Housing Permits Year-to-date (U.S. Census Bureau)	2,904	3,022	-3.9%

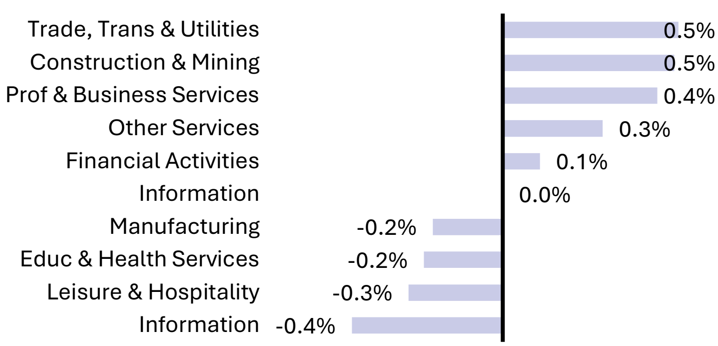
Some Data Retrieved from FRED, Federal Reserve Bank of St. Louis

Connecticut Labor Market	Nov-24	Oct-24	Nov-23
Unemployment Rate	3.0%	3.0%	4.2%
Total Unemployed	56,900	57,700	80,300
Total Nonfarm Employment	1,709,300	1,709,000	1,699,700
Job Growth	+300	-300	-1,000
Job Openings to Unemployed Ratio	-	1.3	1.1
Quit Rate	-	1.8	1.7
Average Monthly Initial Unemployment Claims	2,837	2,269	2,354
Labor Force Participation Rate	64.1%	64.1%	64.3%
Average Hourly Wage	$38.32	$38.44	$36.62

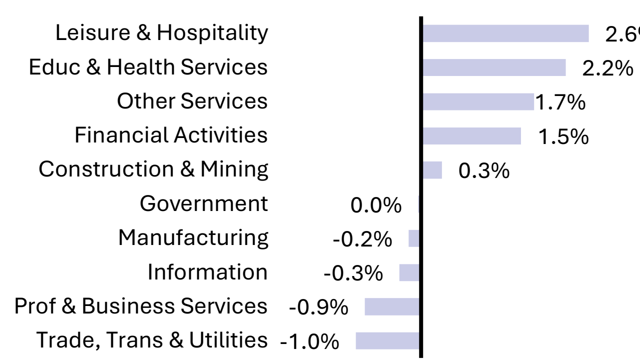
Data Source: Bureau of Labor Statistics & CT Department of Labor

Connecticut Industry Sector Nonfarm Payroll Employment

Month-over-Month Percent Change



Year-over-Year Percent Change



Data Source: CT Department of Labor