

COMPTROLLER LEMBO REPORTS EARLY INDICATIONS THAT STATE COULD END FISCAL YEAR 2019 IN SURPLUS

Comptroller Kevin Lembo today said that there are reasons for cautious optimism that the state could end Fiscal Year 2019 with a modest surplus of approximately \$164.2 million if some early positive indicators continue throughout the year.

In a letter to Gov. Dannel P. Malloy, Lembo said his projection is slightly lower than that of the state Office of Policy and Management's (OPM) most recent projection due to his belief that the cost of legal settlements through the adjudicated claims account could exceed projections.

“It is still very early in the fiscal year and so the state should only rely cautiously on these positive early indicators, but there are a number of revenue categories performing above expectations, including the estimated and final payment portion of the income tax (by \$289.4 million), as well as the sales and use and corporations taxes,” Lembo said. “My office will continue to closely monitor these economic and revenue trends in the interest of fiscal responsibility.”

In last month's projection, Lembo said the budget was on track to end in balance and declined to project a surplus at that early point in the interest of caution. As each month progresses, these revenue and economic indicators are becoming more reliable, but must be monitored.

Lembo added another note of caution that, while the corporate tax is over performing, the Fiscal Year 2019 budget established a new pass-through entity tax on certain types of business that will be categorized as corporate tax.

“While the corporate tax is currently ahead of target, the unpredictable nature of the business cycle and the lack of trend data from past years demands close scrutiny as the year progresses,” Lembo said.

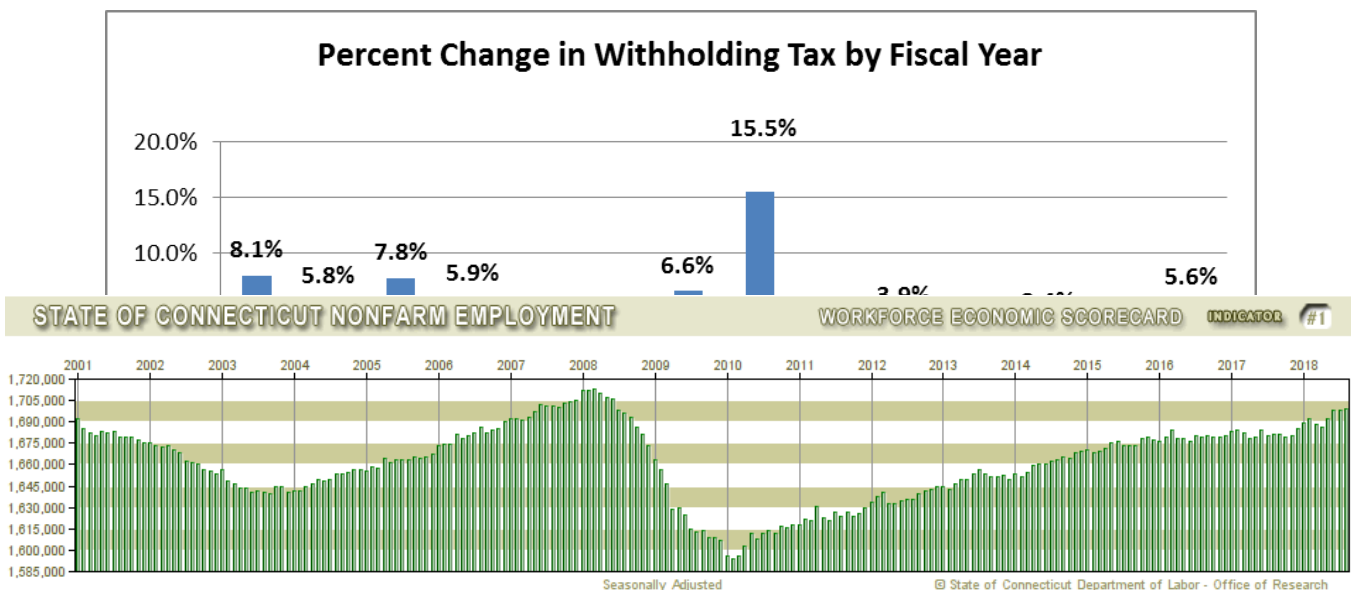
Should certain components of the income and corporations taxes continue to realize gains above projections, Lembo said it would not affect the General Fund surplus estimate because, due to a recently enacted volatility cap, those additional gains would be transferred to the Budget Reserve Fund. Lembo, who authored legislation to establish the cap to assure long-term fiscal responsibility, said the state should target a Budget Reserve Fund amount that is 15 percent of General Fund spending. If current trends continue, Lembo said it could result in another transfer at the end of the year of approximately \$684 million to the Budget Reserve Fund, which would bring the year-end balance to just over \$2 billion or about 10.7 percent of General Fund expenditures.

“Connecticut’s overall budget results are ultimately dependent upon the performance of the national and state economies,” Lembo said. “Recent trends provide signs for cautious optimism that Connecticut’s economy is gaining strength through the first quarter of Fiscal Year 2019.”

Lembo said the latest economic indicators from federal and state Departments of Labor (DOL) and other sources show:

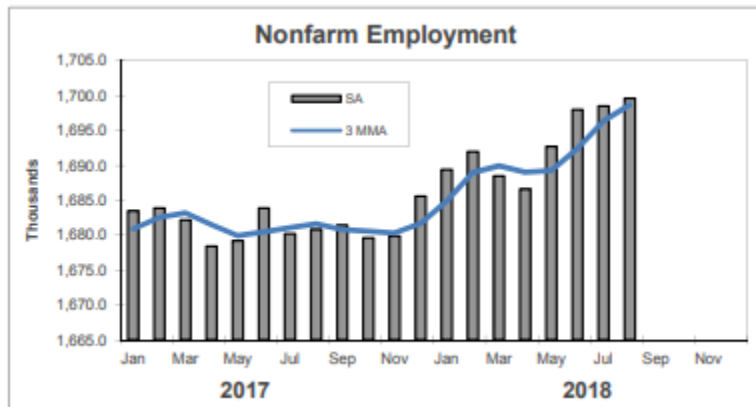
Employment

- Preliminary unaudited results for FY 2018 show withholding receipts were up 5.6 percent compared with the prior fiscal year. This positive development likely reflected a strong bonus season for the financial industry and more robust job growth toward the end of FY 2018. In the early months of FY 2019, withholding collections have remained similarly strong through August 2018.

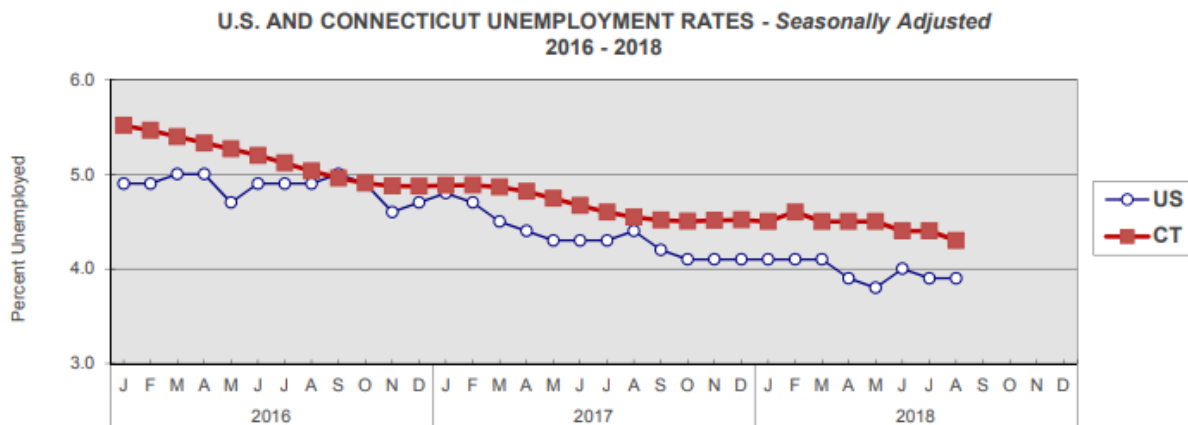


- On Sept. 20, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for August 2018 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL’s Labor Situation report showed the state gained 1,100 net jobs (0.1%) in August, to a level of 1,699,600, seasonally adjusted. In addition, July’s originally-released job loss of 1,200 was revised up to a gain of 500 jobs over the month. With the July upward revision, the state has now experienced four consecutive months of employment gains.
- The sectors that gained the most jobs in the month of August were education & health services (+1,000), leisure & hospitality (+700), professional & business services (+500), and construction (+500). The largest monthly job losses in August were in the trade, transportation & utilities (-900) and the government sector (-800).

- Over the year, DOL reported that nonagricultural employment in the state grew by 18,800 jobs on a seasonally-adjusted basis.



- Connecticut has now recovered 88.5% (105,400 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). The job recovery is into its 102nd month and the state needs an additional 13,700 jobs to reach an overall employment expansion.
- Connecticut's unemployment rate stood at 4.3 percent in August, down one-tenth of a point from July 2018 and down two-tenths of point from a year ago when it was 4.5 percent. Nationally, the unemployment rate was 3.9% in August 2018, unchanged from July. The chart below shows a comparison of the Connecticut and U.S. unemployment rates over the past three calendar years.



- DOL reports that August 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut fell by 339 claimants (-9.8%) to 3,106 from July 2018 and were lower by 505 claims (-14.0%) from the August 2017 level of 3,611.

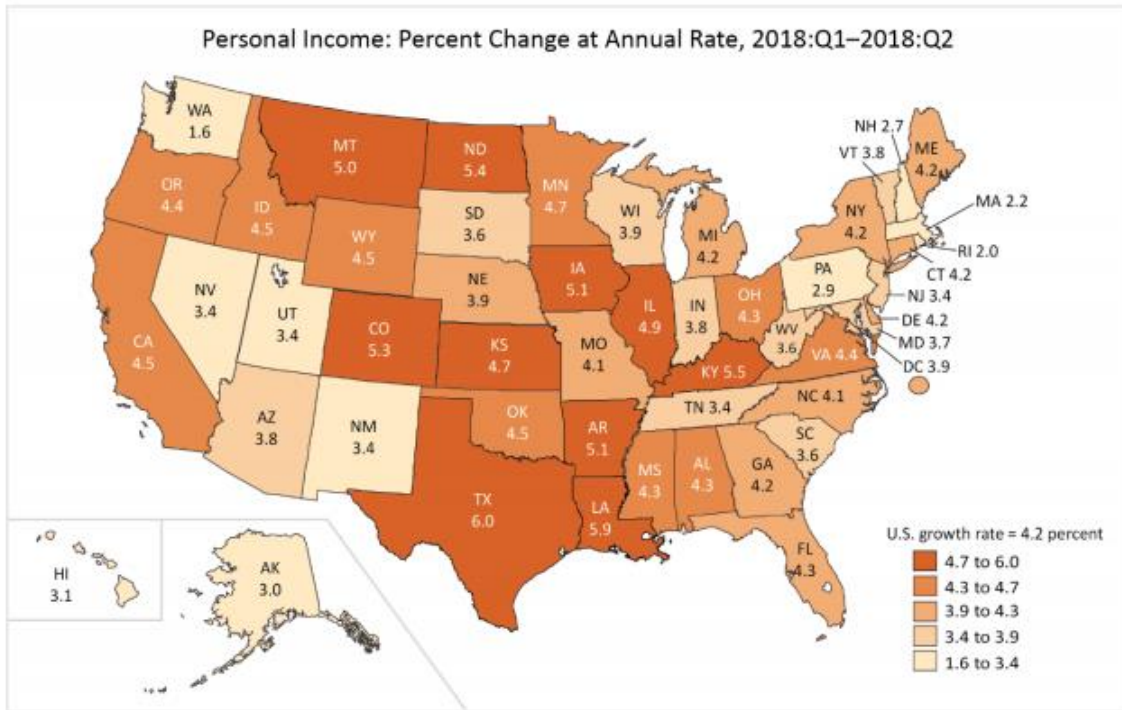
- Among the major job sectors listed below, five experienced gains, four experienced losses and one was unchanged in August 2018 versus August 2017 levels. Construction and leisure & hospitality were the fastest growing sectors in the state's labor market on a percentage basis, followed by education & health services and manufacturing. The government and information sectors experienced the largest losses.

| Payroll Employment Trend | | | | |
|---------------------------------|-----------------|-------------|------------------------------|-----------------|
| <i>Jobs in thousands</i> | | | | |
| Sector | 8/18 (P) | 8/17 | Gain/Loss (000's) | % Change |
| Construction | 62.0 | 58.3 | 3.7 | 6.3% |
| Manufacturing | 163.5 | 159.3 | 4.2 | 2.6% |
| Transp. & Public Utilities | 297.2 | 298.1 | -0.9 | -0.3% |
| Information | 30.7 | 31.2 | -0.5 | -1.6% |
| Financial | 127.3 | 127.8 | -0.5 | -0.4% |
| Prof. & Business Svc. | 222.8 | 217.9 | 4.9 | 2.2% |
| Education & Health Svc. | 342.4 | 333.8 | 8.6 | 2.6% |
| Leisure & Hospitality | 161.3 | 156.9 | 4.4 | 2.8% |
| Other Services | 65.1 | 65.1 | 0.0 | 0.0% |
| Government | 226.7 | 231.8 | -5.1 | -2.2% |

*Wage and **\$**Salary income*

- August 2018 average hourly earnings at \$31.53, not seasonally adjusted, were up \$0.71, or 2.3%, from the August 2017 estimate. The resultant average private sector weekly pay amounted to \$1,075.17, up \$33.45 or 3.2% higher than a year ago.
- The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in August 2018 was 2.7%.

- On September 25th, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 4.2 percent annual rate between the first and second quarters of 2018. Based on this result, Connecticut ranked 22nd in the nation for second quarter income growth. This growth rate was equal to the national average, but represented the strongest performance in the New England region for the period. The percent change in personal income across all states ranged from 6.0 percent in Texas to 1.6 percent in Washington.



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Housing

- An Aug. 23 release by the Federal Housing Finance Agency (FHFA) reported housing price appreciation statistics by state for the period ending June 30, 2018. FHFA's Housing Price Index (HPI) tracks changes in home values for individual properties owned or guaranteed by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Over the past year, Connecticut home prices continued to grow more slowly than most of the nation. Connecticut homes appreciated only 2.38 percent for the year, which ranked 48th in the nation overall. The U.S. average appreciation for the period was 6.49 percent. A comparison of five-year housing prices

showed similar results: Single family houses in Connecticut appreciated 6.69 percent for the period versus a 33.09 percent increase for the nation as a whole.

- A separate measure of by Berkshire Hathaway HomeServices reported results for the Connecticut housing market for the Connecticut housing market for August 2018 compared with August 2017. Sales of single family homes fell 6.13 percent, while the median sale price rose 3.70 percent. New listings increased by 1.38 percent in Connecticut and the median list price increased by 2.87 percent to \$287,000 from a year ago. Average days on the market grew 18.31 percent in August 2018 compared to the same month in the previous year (84 days on average, up from 71 days). Finally, the list to sell price rose to 98.3 percent, compared with 97.2 percent a year ago. The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

AUGUST 2018 | SINGLE FAMILY HOMES

| Market Summary | Month to Date | | | Year to Date | | |
|------------------------|---------------|-------------|----------------|-------------------|-------------------|----------------|
| | August 2018 | August 2017 | Percent Change | Year-To-Date 2018 | Year-To-Date 2017 | Percent Change |
| New Listings | 4549 | 4487 | 1.38% ▲ | 40926 | 42124 | -2.84% ▼ |
| Sold Listings | 3673 | 3913 | -6.13% ▼ | 24124 | 24569 | -1.81% ▼ |
| Median Listing Price | \$287,000 | \$279,000 | 2.87% ▲ | \$274,900 | \$260,000 | 5.73% ▲ |
| Median Selling Price | \$280,000 | \$270,000 | 3.7% ▲ | \$267,000 | \$255,000 | 4.71% ▲ |
| Median Days on Market | 64 | 49 | 30.61% ▲ | 65 | 48 | 35.42% ▲ |
| Average Listing Price | \$426,636 | \$416,312 | 2.48% ▲ | \$407,290 | \$398,101 | 2.31% ▲ |
| Average Selling Price | \$411,145 | \$400,305 | 2.71% ▲ | \$392,246 | \$382,656 | 2.51% ▲ |
| Average Days on Market | 84 | 71 | 18.31% ▲ | 90 | 77 | 16.88% ▲ |
| List/Sell Price Ratio | 98.3% | 97.2% | 1.08% ▲ | 97.6% | 97.1% | 0.48% ▲ |

Stock Market

- After a steady rise and strong gains throughout calendar 2017, the Dow Jones Industrial Average (DOW) reached its earlier year peak in late January 2018. For several intervening months, there was significant turbulence and uncertainty in the stock market.
- A number of issues caused concerns for investors, including worries about inflation and rising interest rates; fears about an escalating trade war as the United States announced tariffs on products like steel and aluminum and threatened to impose trade sanctions on China and other countries; apprehensions about rising bond yields that may cause investors to move from stocks to lower risk bonds; and general concerns that stocks may be over-valued and due for a correction.
- More recently, investors have shaken off their concerns and stocks have generally been moving higher. As September 2018 draws to a close, the three major stock indices

continued their climb above their January 2018 peaks and are trading at or near historical highs as of this writing. Stock market activity for the past year is illustrated on the three charts that follow:

DOW



NASDAQ

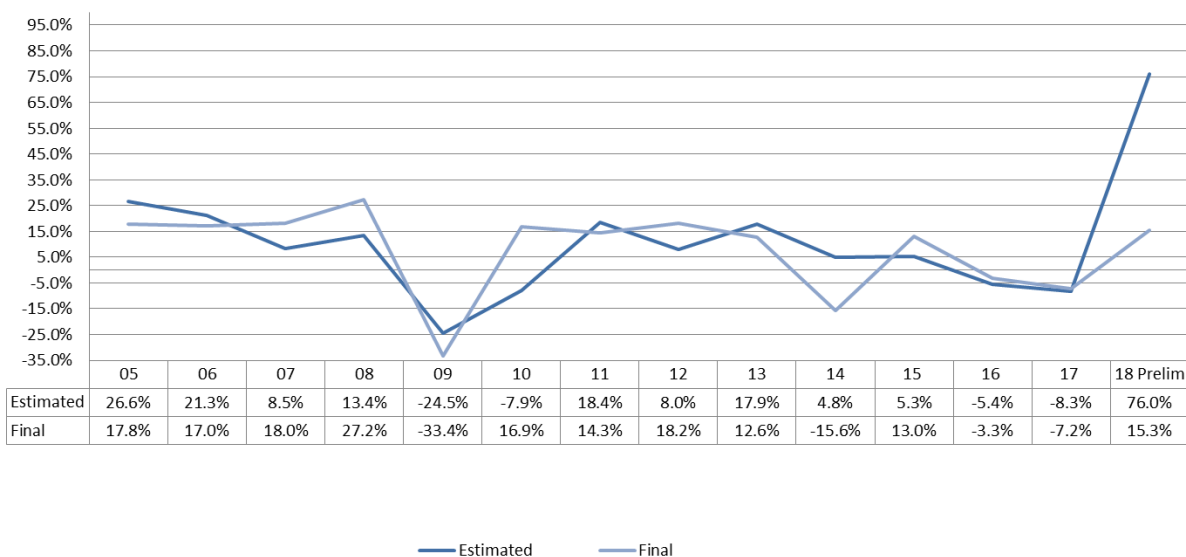


S&P 500 INDEX




- Top of Form
- Bottom of Form
- The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 35 to 40% of total state income tax receipts, but can be an extremely volatile revenue source. For example, both estimated and final payments had negative growth rates in Fiscal Years 2016 and 2017. In contrast, both categories experienced strong positive growth in FY 2018, partly due to changes in federal tax provisions.
- Unaudited FY 2018 year-end results show estimated payments growing by 76 percent fiscal year-to-date compared with the prior year, representing an increase of over \$1.2 billion. Final payments grew by \$239 million or 15.3 percent over the same period a year ago.
- Preliminary indications for the first quarter of FY 2019 show that estimated payments are running ahead of budget targets. Full first quarter results will be available next month.

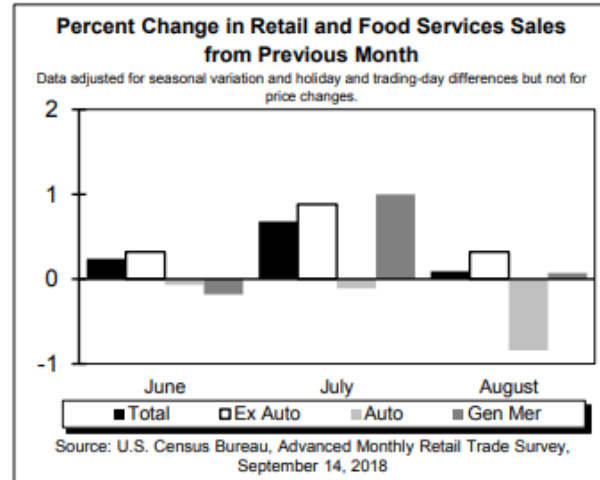
Percent Change by Fiscal Year in Estimated & Final Payments



Consumer Spending

- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- The Commerce Department reported that U.S. advance retail sales edged up only 0.1 percent last month, to \$509.0 billion. This represented the smallest gain in six months. Analysts noted rising gasoline prices may be hurting spending in other consumer categories. Data for July was revised upward to show sales rising 0.7 percent instead of the previously reported gain of 0.5 percent.
- In August, receipts at service stations surged 1.7 percent, mostly reflecting higher gasoline prices while auto sales declined 0.8 percent. Reversing a trend from the previous month, sales at clothing stores fell 1.7 percent, representing the largest decrease since February 2017. Receipts at furniture stores dropped 0.3 percent and sales at online retailers grew 0.7 percent.

|  ADVANCE MONTHLY SALES | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|--------------|
| August 2018 | \$509.0 billion | 0.1%* |
| July 2018 (revised) | \$508.6 billion | 0.7% |
| Next release: October 15, 2018 | | |
| <small>* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero. Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, September 14, 2018.</small> | | |

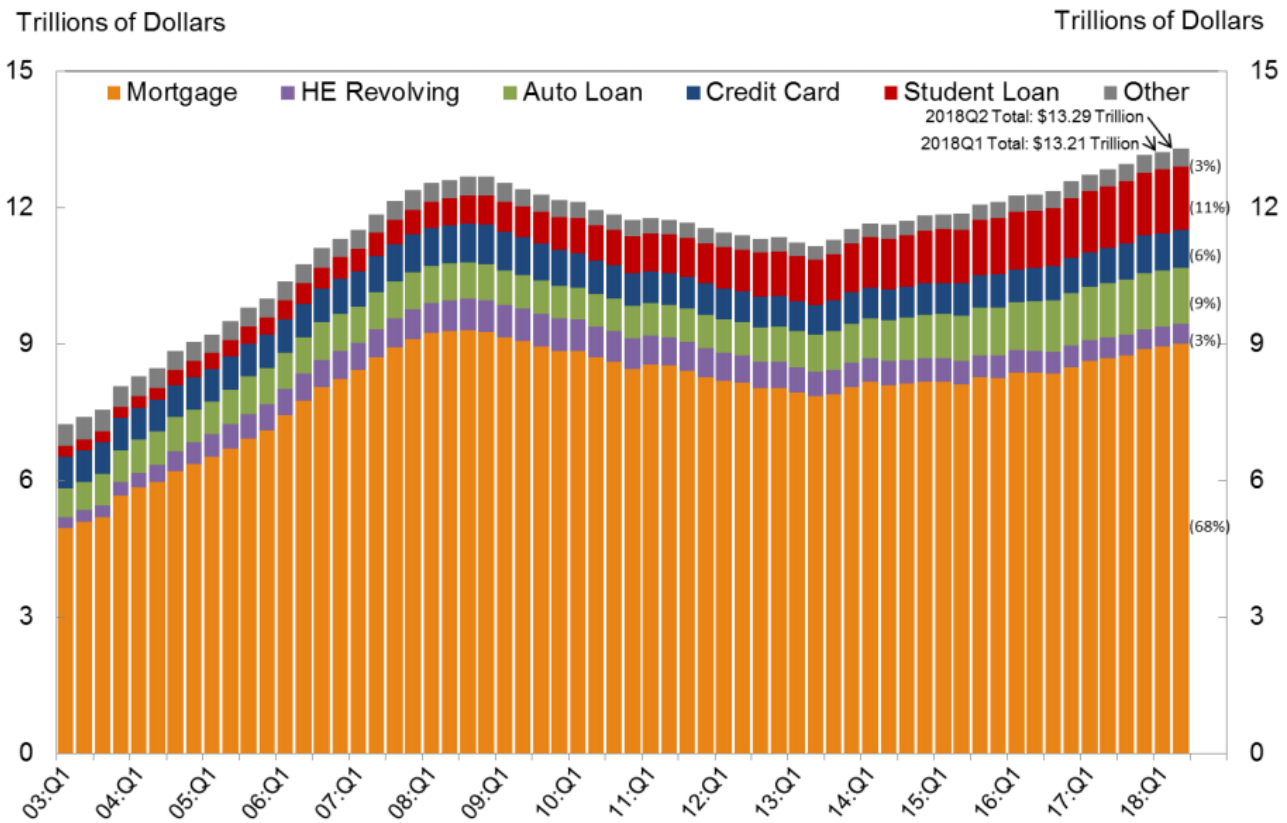


- In comparison to a year ago, the Commerce Department reported that retail sales were 6.5 percent above August 2017 levels. In addition, gas station sales were up 20.3 percent from a year ago, while non-store retailers grew 10.4 percent.

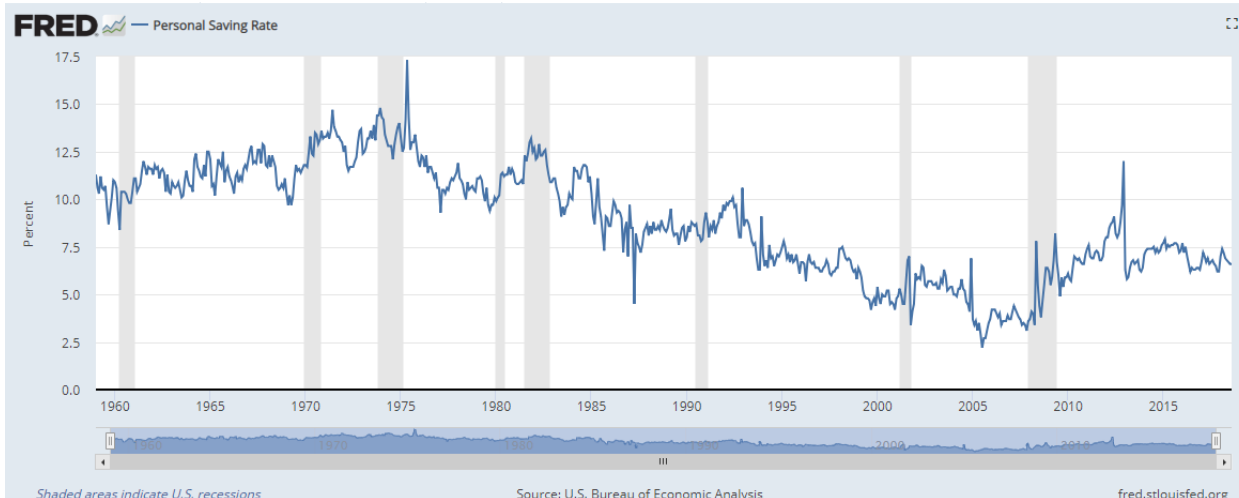
Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the second quarter of 2018. Household debt has now grown in 16 consecutive quarters. As of June 30, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record \$13.29 trillion. This represented an \$82 billion (0.6%) increase from the first quarter of 2018. In addition, overall household debt is now 19.2% above the post-financial-crisis trough (low point) reached during the second quarter of 2013.
- The report noted mortgage balances – the largest component of household debt – rose by \$60 billion during the second quarter, to \$9.00 trillion. Balances on home equity lines of credit (HELOC) continued their downward trend, declining by \$4 billion, to \$432 billion. Outstanding student loan debt was mostly unchanged in the second quarter and stood at \$1.41 trillion as of June 30. Auto loan balances continued their six-year upward trend, increasing by \$9 billion in the quarter, to \$1.24 trillion and credit card balances rose by \$14 billion, or 1.7%, after a seasonal decline in the first quarter.

Total Debt Balance and its Composition



- In the second quarter, mortgage delinquencies continued to improve, with 1.1% of mortgage balances 90 or more days delinquent in the second quarter, versus 1.2% in the first quarter. The report also noted transition rates into delinquency have fallen noticeably for student debt over the past year, partly due to an improved labor market.
- In its September 28th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.6 percent in August, unchanged from July's revised rate. The personal savings rate is defined as personal saving as a percentage of disposable personal income.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through August 2018. As can be seen, there is a general downward trend over the period. It should be noted that the U.S. Personal Saving Rate does not include capital gains from the sale of land or financial assets in its estimate of personal income. This effectively excludes capital gains – an important source of income for some.



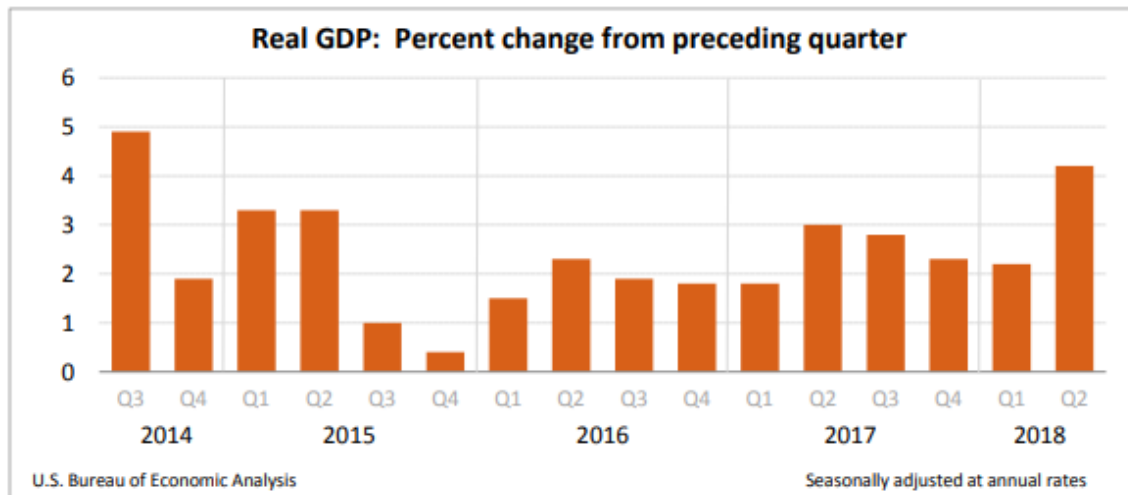
- Despite the overall improvement in the nation's economy, income inequality continues to widen as wage growth remains modest. A number of economists see the decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

Consumer Confidence

- The U.S. consumer confidence index (CCI) is published by the Conference Board. It is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.
- The Conference Board reported that the Consumer Confidence Index increased significantly in September 2018, following a large improvement the previous month. The Index now stands at 138.4, up from 134.7 in August. The September consumer confidence level is the highest recorded in nearly 18 years and is close to the all-time high of 144.7 reached in 2000. The Conference Board noted these historically high confidence levels should continue to support healthy consumer spending in 2018, a hopeful sign for retailers as they begin gearing up for the holiday season.

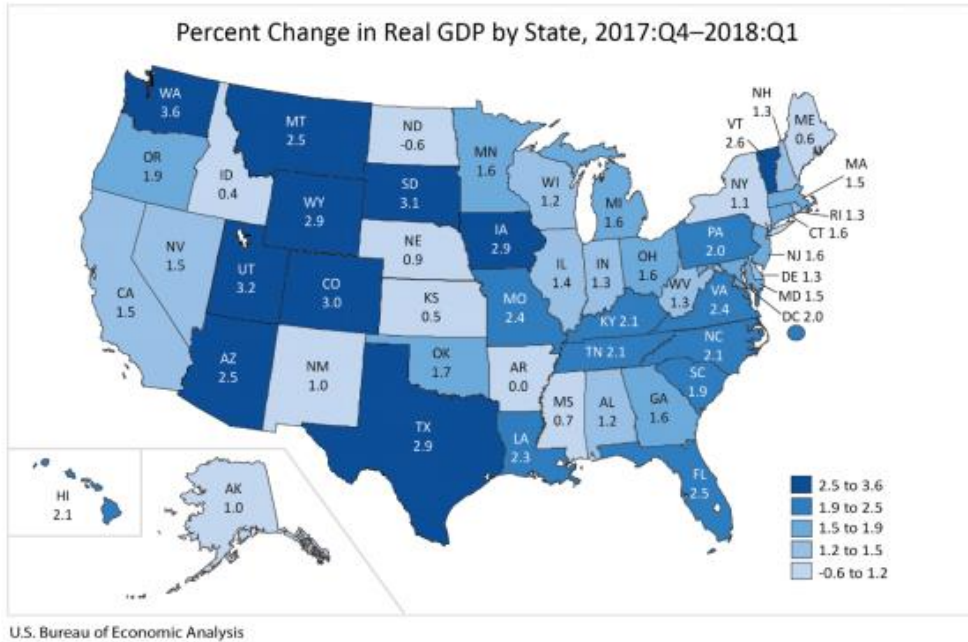
Business and Economic Growth

- According to a Sept. 27 report from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product grew at an annual rate of 4.2 percent in the second quarter of 2018, the strongest quarterly growth since 2014. This represented the third estimate for the quarter, unchanged from the second estimate issued in August. First-quarter GDP growth was 2.2 percent. BEA is scheduled to report on third quarter GDP results in its next release on October 26, 2018.



- BEA reported the increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.
- Economists noted that some of the GDP growth was due to one-time factors and would likely decelerate in the second half of the year. For example, exports surged in the second quarter in part due to mounting trade tensions as foreign buyers stocked up on American products like soybeans before tariffs were imposed. Consumer spending increased, partly aided by tax cuts, but could be hampered later by limited growth in wages. Government spending also helped drive the second quarter increase due to the budget deal that Congress passed earlier this year.
- In the same Sept. 27 release, BEA reported U.S. pretax corporate profits increased 3.0 percent in the second quarter of 2018 after increasing 1.2 percent in the first quarter. On a year-over-year basis, corporate profits rose 7.3 percent in the second quarter of 2018 compared with same quarter a year ago.
- In a July 24 report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by state for the first quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 1.6 percent, which ranked 23rd in the nation overall. This growth rate was somewhat slower than the national average of 1.8 percent. However, Connecticut was second only to Vermont in growth among the New England states for the period. Among all states, Washington's GDP grew fastest at 3.6 percent for the quarter while North Dakota grew least at -0.6 percent

- BEA data indicated the sectors that contributed most to Connecticut's growth in the first quarter of 2018 were real estate and rental & leasing (+0.43%), finance & insurance (+0.42%), and information (+0.27%). The next report, covering state-level GDP for the second quarter, is scheduled for release on November 14, 2018.



- Despite the strong headline number for durable goods, there was an unexpected drop in orders for so called “core capital goods” in August. This category includes non-defense capital goods excluding aircraft, which is a closely watched proxy for business spending plans. Core capital goods orders dropped 0.5 percent in August, hurt in part by a decrease in demand for computers and electronic products.
- In recent months, business spending on equipment has been supported by the \$1.5 trillion income tax cut package, which came into effect in January 2018. However, a number of analysts warn that escalating tensions between the United States and its major trade partners, including China, Mexico, Canada and the European Union, could offset the fiscal stimulus, disrupt supply chains and undercut economic growth later in the year.

*****END*****