News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $224-MILLION DEFICIT; WARNS OF FEDERAL TAX CHANGE CONSEQUENCES FOR CT

Comptroller Kevin Lembo announced today that the state is on track to end Fiscal Year 2018 with a $224-million deficit, and he warned about long-term ramifications of a new federal tax law that will disproportionately shift an even greater share of the federal tax burden on high-income states like Connecticut.

In a letter to Gov. Dannel P. Malloy, Lembo explained that his deficit projection is slightly higher than the most recent projection by the state Office of Policy and Management (OPM) due to a recently approved $1.5 million settlement between the state and the Town of Cheshire. Lembo also acknowledged factors that could change this projection, including an updated consensus revenue report due later this month and anticipated legislative action on the governor's proposed deficit mitigation plan.

In the short term, Lembo said that the December 2017 estimated and final payment component of the income tax has significantly outpaced the prior year's December receipts – however, tax professionals suspect that this is only a short-term increase as residents seek to pre-pay taxes before new limits on the State and Local Tax (SALT) deductions take effect in the 2018 tax year. Lembo said the long-term consequences may be problematic for states like Connecticut.

"Federal tax changes – particularly the federal SALT deduction – will likely have long-term consequences for Connecticut," Lembo said. "Even as Connecticut lags the nation in pace of economic growth, its already disproportionate federal tax burden will grow, forcing Connecticut to fund growth in other states at the expense of our own residents.

"Connecticut pays more federal taxes per capita than any state in the nation – making it a so-called 'donor state,' according to a recent report by Federal Funds Information for States (FFIS). While places like Mississippi, Alabama, West Virginia, New Mexico and the District of Columbia receive far more federal dollars than they pay, Connecticut receives only 87 cents back for every tax dollar sent to Washington, D.C. (ranking Connecticut 46th in what it receives in per-capita federal spending).

"New federal tax changes will now worsen this disparity and likely have long-term consequences for states like Connecticut, impairing the ability of Connecticut state and local governments to afford essential investments in infrastructure, education and workforce training that are necessary to drive economic growth.

"These federal tax changes raise basic questions of fairness for high-income states like Connecticut and fly in the face of the tax bill's stated goals."

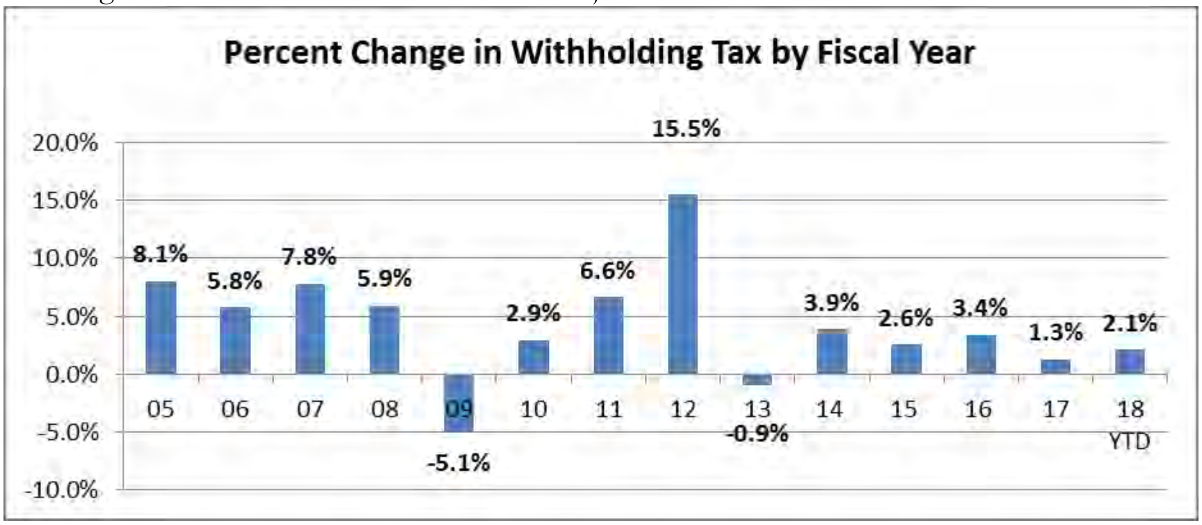
Connecticut continues to struggle through job loss and only modest earnings growth – however, Lembo said that some of the latest positive economic indicators deserve watch. Lembo noted modest growth in financial sector jobs, some relief after persistent population loss (Connecticut's population remained essentially the same between 2016 and 2017), and a new report that found Connecticut ranked 10th in the nation in a 2017 State New Economy Index by the Information Technology and Innovation Foundation (ITIF) that measures how closely the 50 state economies match the ideal structure of the innovation-driven new economy.

Lembo pointed to the latest economic indicators from federal and state Departments of Labor and other sources that show:

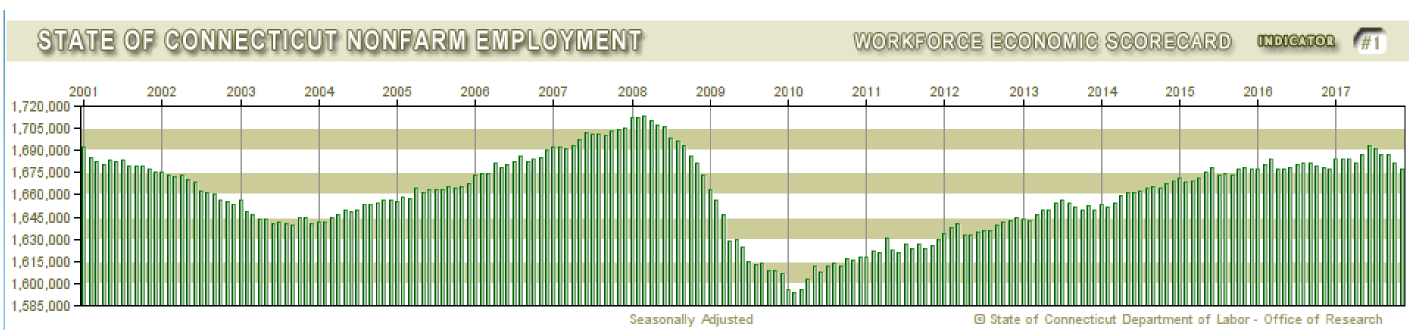
Employment

- Based on FY 2017 final results, the withholding portion of the income tax increased only 1.3 percent compared with the prior fiscal year.

- Through the first five months of FY 2018, withholding receipts were nominally up 7.2 percent from last year. However, this growth is overstated due to revenue accruals related to FY 2017 year-end adjustments and an extra collection day in November of this year. Accounting for this activity, the FY 2018 year-to-date growth in withholding collections is to closer to 2.1 percent. This more modest growth rate is more consistent with the job data that follows.



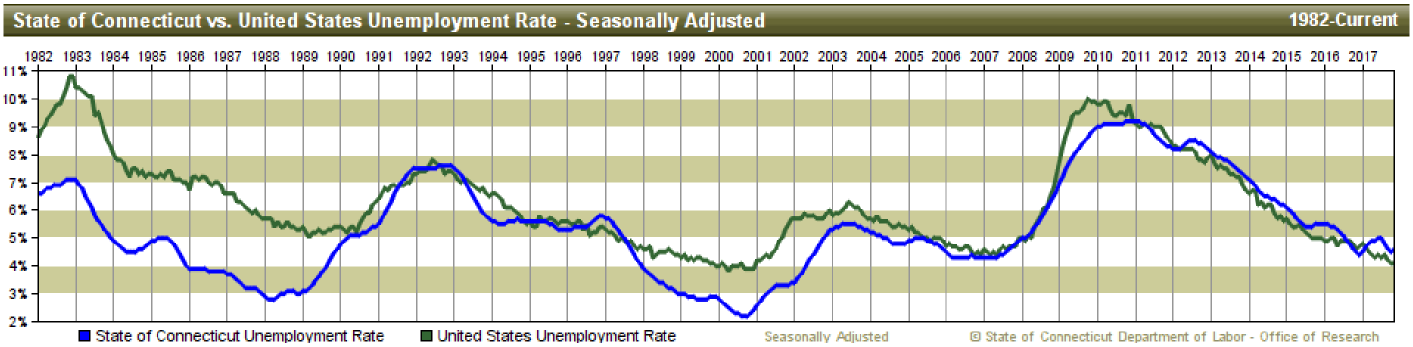
- In its monthly Labor Situation publication, the Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for November from the business payroll survey administered by the US Bureau of Labor Statistics (BLS). The report showed the state lost 3,500 net jobs (-0.2 percent) in November 2017, to a level of 1,677,500, seasonally adjusted. In addition, October's originally-released job loss of 6,600 was revised upward to a loss of 6,200 for the month.



- Since June, Connecticut has lost a total of 13,600 jobs.
- On a year-over-year basis, nonagricultural employment in the state has now fallen by 700 jobs (0.04 percent). During the last period of economic recovery, employment growth averaged over 16,000 annually.
- Connecticut has now recovered 69.9 percent (83,300 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 93rd month and the state needs an additional 35,800 jobs to reach an overall employment expansion.

- Connecticut's unemployment rate for November rose by one-tenth of a point from last month and now stands at 4.6 percent. Nationally, the unemployment rate was 4.1percent in October.



- DOL reports that November 2017 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut increased by 566 claimants (16.8 percent) to 3,931 from October 2017, and were lower by 87 claims (2.3 percent) from the November 2016 level of 3,844.
- Among the major job sectors listed below, five experienced gains and five experienced losses in November 2017 versus November 2016 levels. One bright spot included the financial sector, which added 3,100 jobs year-over-year. Sectors with the largest job losses included Leisure & Hospitality and Government.

Payroll Employment Trend				
Jobs in thousands				
Sector	**11/17 (P)**	**11/16**	**Gain/Loss**	**% Change**
Construction	57.1	58.1	-1.0	-1.7%
Manufacturing	157.2	156.0	1.2	0.8%
Transp. & Public Utilities	297.3	298.5	-1.2	-0.4%
Information	31.5	32.1	-0.6	-1.9%
Financial	133.3	130.2	3.1	2.4%
Prof. & Business Svc.	216.7	215.8	0.9	0.4%
Education & Health Svc.	333.6	331.2	2.4	0.7%
Leisure & Hospitality	151.7	155.3	-3.6	-2.3%
Other Services	67.7	66.1	1.6	2.4%
Government	230.8	234.3	-3.5	-1.5%

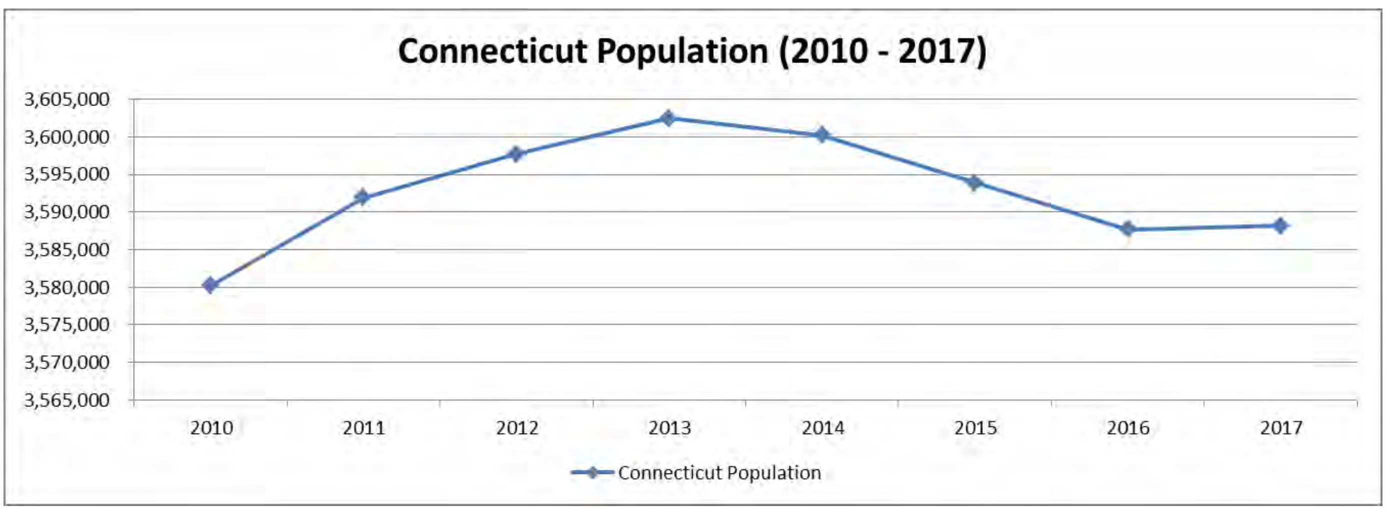
The 2017 State New Economy Index

- Connecticut was recently ranked 10th in the nation in the 2017 State New Economy Index by the Information Technology and Innovation Foundation (ITIF). This index measures how closely the 50 state economies match the ideal structure of the innovation-driven new economy. According to ITIF, the new economy is characterized by strength in knowledge jobs, participation in globalization and the digital economy, economic dynamism, and innovation capacity. Connecticut was included in the top ten for exceling in traded services, employing a highly educated workforce, receiving high amounts of foreign direct investment, and for the level of research and development activity.

The full report is available at: http://www2.itif.org/2017-state-new-economy-index.pdf?_ga=2.130950031.1266481895.1513262063-1141285842.1513262063

Population

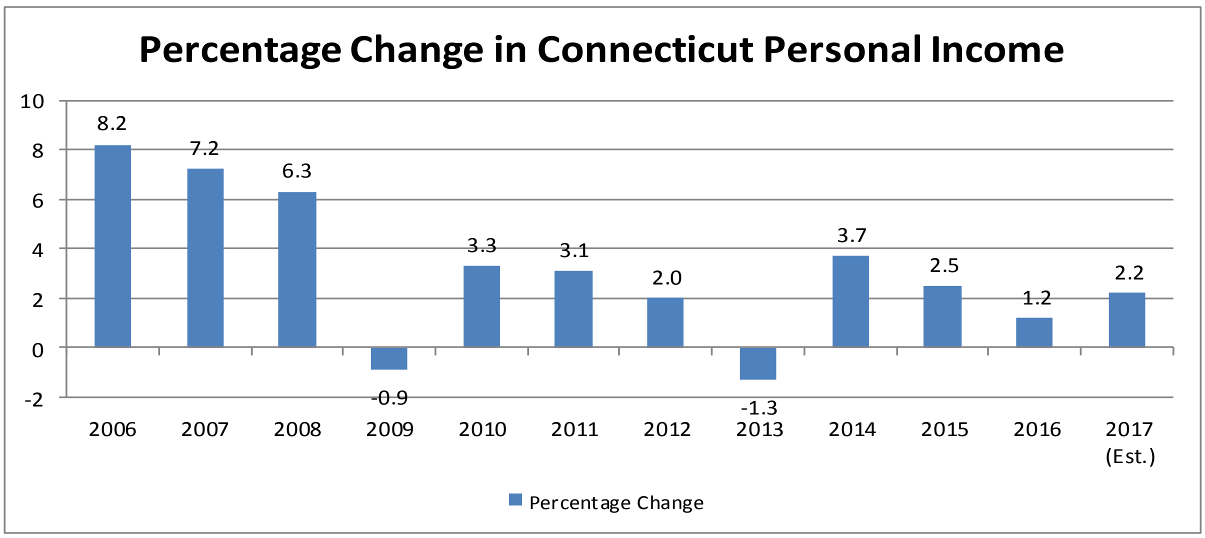
- On Dec. 20, the U.S. Bureau of the Census released its population estimates for July 1, 2017. After three years of declines, there was essentially no change in Connecticut's population between 2016 and 2017. The state's population now stands at 3,588,184, which represented growth of 0.01 percent from the prior year's estimate. The Census Bureau reports Connecticut ranks 29th in the nation in terms of population. However since 2010, Connecticut's population grew only 0.4 percent, which ranked 48th for the period among U.S. states.



Wage and Salary income

- November 2017 average hourly earnings at $31.01, not seasonally adjusted, were up $0.44, or 1.4 percent, from the November 2016 estimate. The resultant average private sector weekly pay amounted to $1,054.34, up $24.13, or 2.3 percent 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 November 2017 was 2.2 percent.
- The Bureau of Economic Analysis reported that Connecticut's personal income grew by 3 percent between 2015 and 2016. This ranked Connecticut 33rd nationally in 2016 income growth. Preliminary 2017 annual state personal income growth rates are scheduled to be released on March 22, 2018.
- A Dec. 20 report from the Bureau showed Connecticut personal income increasing at a quarterly rate of 0.6 percent between the second and third quarters of 2017. Based on these results, Connecticut ranked 36th nationally in personal income growth, and below the national average of 0.7 percent for the quarter. On an annualized basis, Connecticut's income growth would be 2.2 percent, which is just keeping up with the rate of inflation.



Housing

- In its Dec. 7 release, Berkshire Hathaway HomeServices reported results for the Connecticut housing market for November 2017 compared with November 2016. Sales of single family homes declined 2.81 percent. However, the median sale price rose 1.43 percent. New listings in Connecticut decreased by 2.61 percent and the median list price remained unchanged at $250,000. Average days on the market increased nearly 10.88 percent in November 2017 compared to the same month in the previous year. The table below contains more detailed data for the Connecticut market.

MARKET SUMMARY

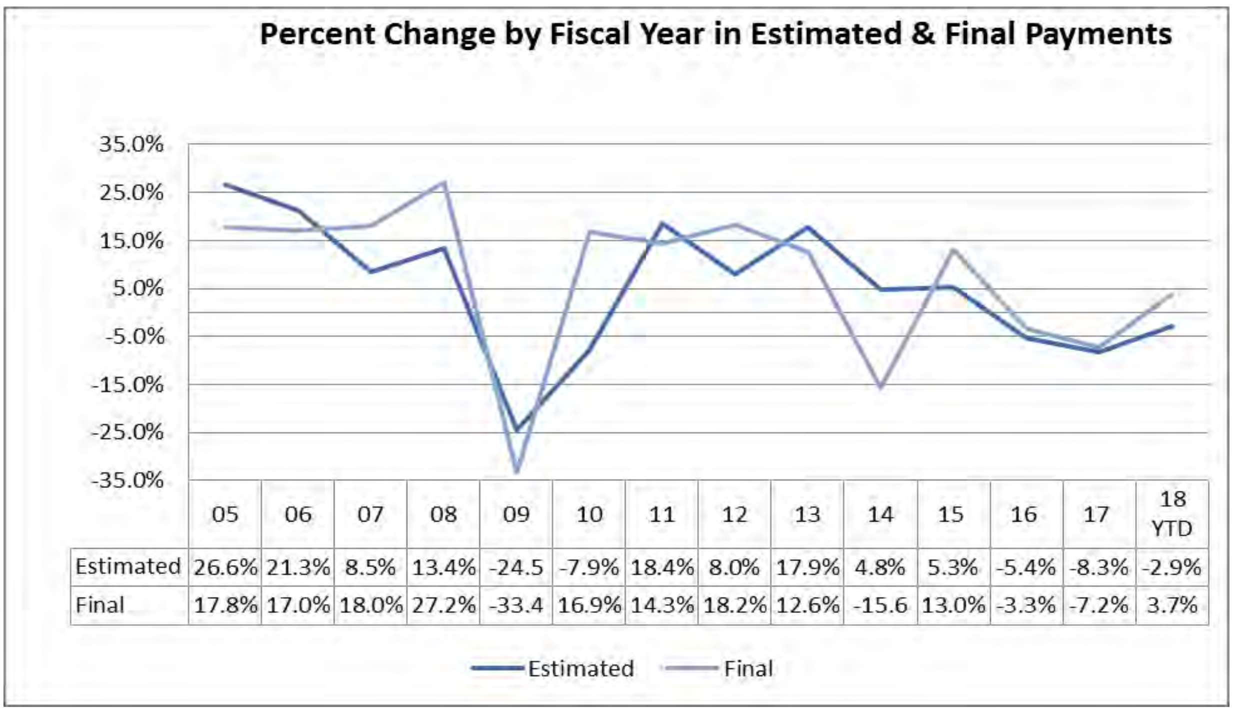
NOVEMBER 2017 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	November 2017	November 2016	Percent Change	Year-To-Date 2017	Year-To-Date 2016	Percent Change
New Listings	3065	3147	-2.61% ▼	54348	56644	-4.05% ▼
Sold Listings	2666	2743	-2.81% ▼	33315	32252	3.3% ▲
Median Listing Price	$250,000	$250,000	0%	$259,900	$259,000	0.35% ▲
Median Selling Price	$248,500	$245,000	1.43% ▲	$254,900	$250,000	1.96% ▲
Median Days on Market	67	59	13.56% ▲	53	56	-5.36% ▼
Average Listing Price	$402,746	$359,789	11.94% ▲	$397,375	$382,775	3.81% ▲
Average Selling Price	$381,437	$343,999	10.88% ▲	$381,111	$366,505	3.99% ▲
Average Days on Market	92	84	9.52% ▲	80	85	-5.88% ▼
List/Sell Price Ratio	96.6%	96.3%	0.32% ▲	97%	96.5%	0.58% ▲

- The following chart from Berkshire Hathaway HomeServices shows the total number of Connecticut single family homes for sale in November 2017 distributed by list price:

Stock Market

- Estimated and final income tax payments account for approximately 35 to 40 percent of total state income tax receipts. Both the estimated and final payments had a negative rate of growth in both Fiscal Years 2016 and 2017.
- The bulk of the estimated and final payment receipts for Fiscal Year 2018 will be collected now and the end of April 2018. Compared with the prior fiscal year, estimated and final payment receipts are coming in a combined 1.2 percent lower for the first five months of FY 2018, factoring out year-end accrual activity. The year-to-date changes for the two separate components are presented in the graph below. Through November of 2016, estimated and final payments totaled $557.8 million versus $551.2 million through November 2017.



	05	06	07	08	09	10	11	12	13	14	15	16	17	18 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	-2.9%
Final	17.8%	17.0%	18.0%	27.2%	-33.4	16.9%	14.3%	18.2%	12.6%	-15.6	13.0%	-3.3%	-7.2%	3.7%

- To date, shifts in equity portfolio allocations following the presidential election and a run-up in equity values have not resulted in the expected level of capital gains related revenue increases for the state.
- In addition, there is presently a significant amount of uncertainty regarding the impact the recently enacted federal tax changes will have on Connecticut. Tax professionals are anticipating a short-term increase in estimated payments at the end of calendar 2017 as residents seek to pre-pay taxes before the limits on the State and Local Tax (SALT) deductions go into effect for 2018. As of this writing, December 2017 estimated and final payment collections have outpaced the prior year's December receipts on a year-over-year basis. As the year progresses, state policy makers should be aware of the likely one-time nature of this revenue.

- As the year comes to a close, both the Dow Jones Industrial Average and the Nasdaq Composite Index continue to show significant year-to-date gains for calendar 2017.

DOW

NASDAQ

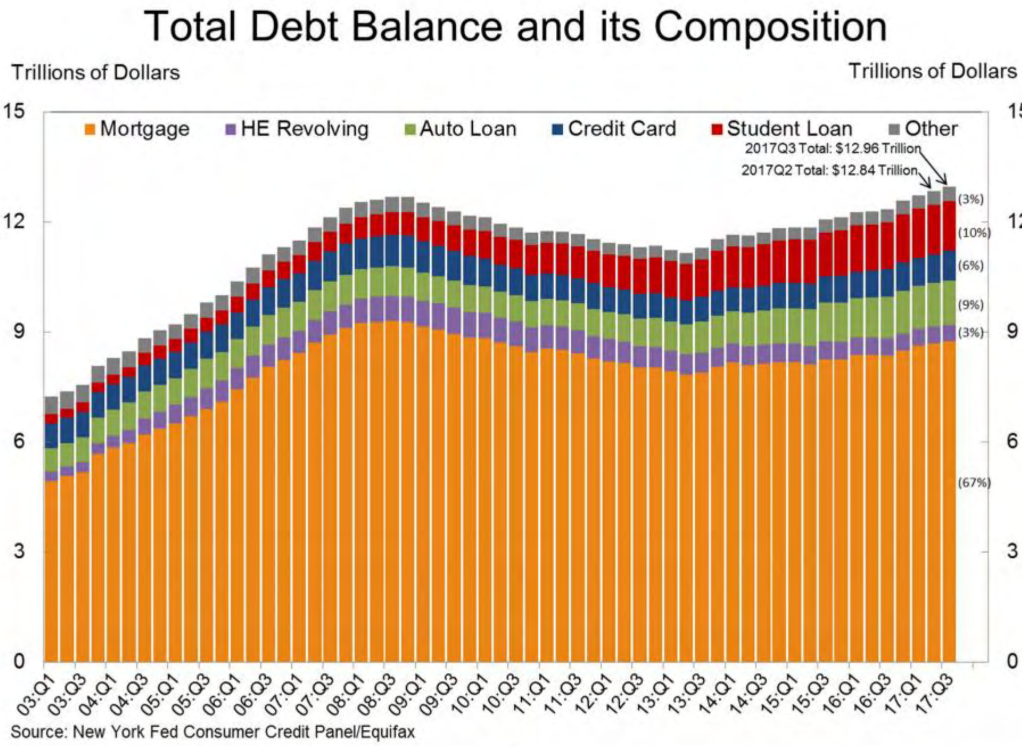
<u>Consumer Spending</u>

- 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 advance retail sales increased a robust 0.8 percent in November 2017 from the previous month. On an annual basis, retail sales grew by 5.8 percent compared with November 2016.

- Sales rose in a broad array of categories, including non-store retailers (mostly online shopping), which grew 2.5 percent. Sales increased 2.1 percent at electronics stores and 1.2 percent at furniture stores.
- Retail sales figures were boosted by a large increase in spending at gas stations, which mostly reflected price increases. However, sales also rose at clothing stores, sporting goods retailers, and home and garden stores.

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 third quarter of 2017. As of Sept. 30, 2017, overall debt – including mortgages, auto loans and student loans – hit a record $12.96 trillion. This increase put overall household debt $280 billion above its peak in the third quarter of 2008, and 16.2 percent above its trough in the second quarter of 2013. Aggregate household debt balances have now increased in 13 consecutive quarters.
- The New York Federal Reserve also noted that mortgage balances, the largest component of household debt, increased again during the third quarter. Mortgage balances shown on consumer credit reports on Sept. 30 stood at $8.74 trillion, an increase of $52 billion from the second quarter of 2017. Balances on home equity lines of credit (HELOC) have been slowly declining, dropping $4 billion from the second quarter and now stand at $448 billion. Non-housing balances, which have been increasing steadily for nearly six years, were up again in the third quarter, rising $68 billion. Auto loans grew by $23 billion and credit card balances increased by $24 billion, while student loan balances saw a $13 billion increase.
- The Federal Reserve Bank of New York also reported that aggregate delinquency rates increased slightly in the third quarter of 2017. As of September 30, 4.9% of outstanding debt was in some stage of delinquency. Of the $630 billion of debt that is delinquent, $408 billion is seriously delinquent (at least 90 days late or "severely derogatory"). Flows into delinquency deteriorated for some types of debt. The flow into 90+ delinquent for credit card balances has been increasing notably for one year, and that measure for auto loans has increased, and the flow into 90+ delinquency for auto loan balances has been slowly increasing since 2012.
- About 208,000 consumers had a bankruptcy notation added to their credit reports in 2017Q3, a slight improvement over the same quarter last year.

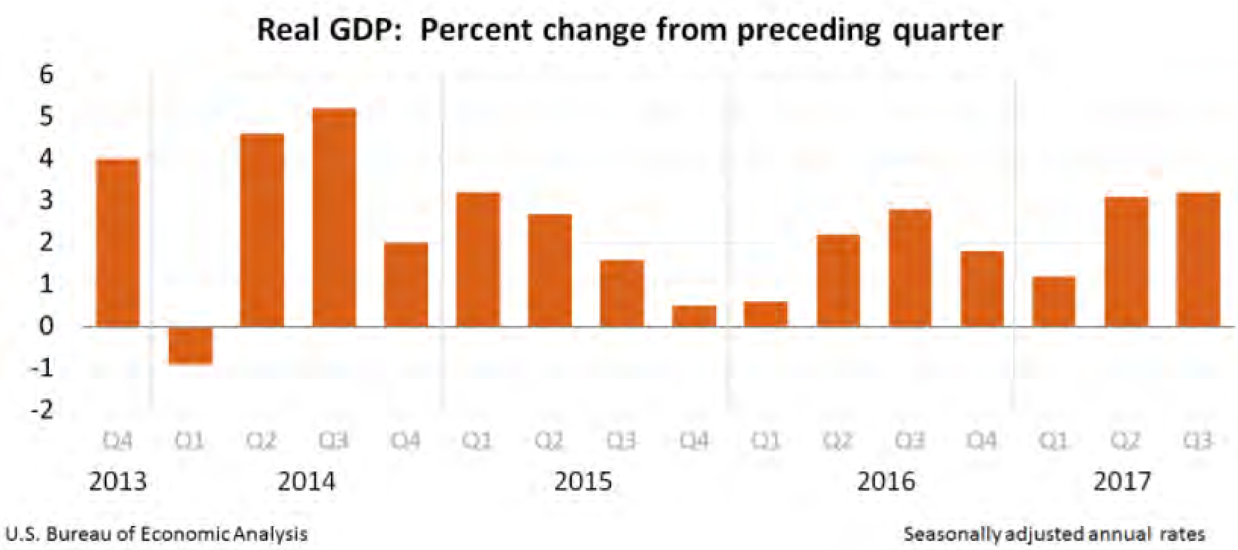


- Americans have also dramatically reduced their savings in recent years. According to the Bureau of Economic Analysis (BEA) the personal-saving rate decreased to 2.9 percent in November from 3.2 percent the previous month. This level is down from a recent peak of 6.3 percent in October 2015 and not far off from prerecession lows.
- The higher debt levels and lower savings point to U.S. wage gains that are not keeping up with consumers' needs and desires to spend. This also signals a more uncertain outlook for future consumer spending gains.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through November 2017. As can be seen there is a pronounced 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.

- The U.S. consumer confidence index (CCI), published by the Conference Board, is an indicator designed to measure consumer confidence. This 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 consumers' assessment of current economic conditions decreased in December 2017. The Index now stands at 122.1, down from 128.6 in November. The decline in confidence was caused by a somewhat less optimistic outlook for business and job prospects in the coming months.

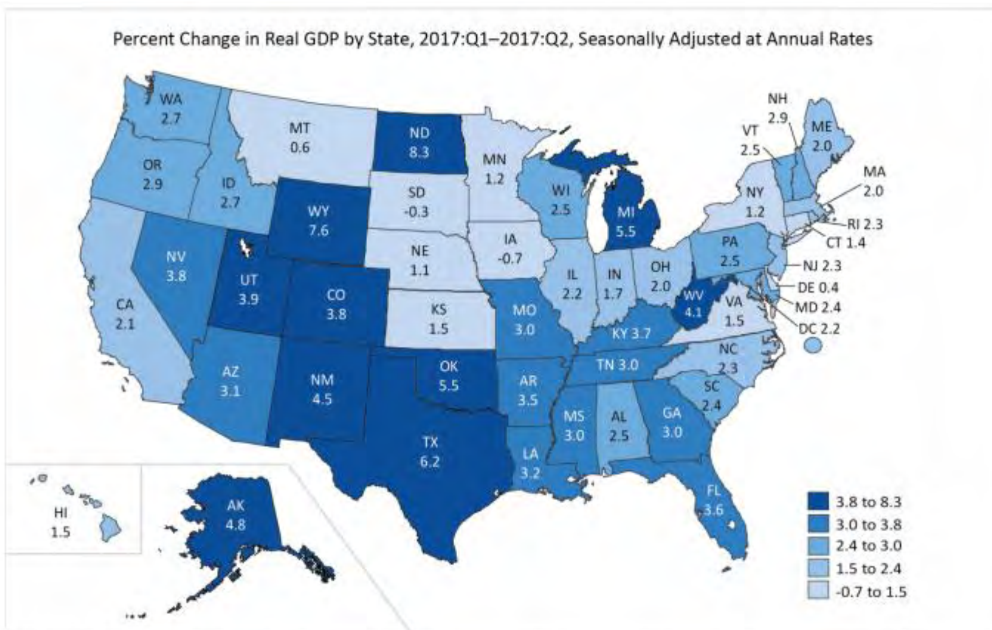
Business and Economic Growth

- According to a December 21st release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product increased at an annual rate of 3.2 percent in the third quarter of 2017 based on BEA's third estimate. The economy continued to show resilience despite concerns that the major hurricanes in August and September would dampen economic output. In the second quarter, real GDP increased 3.1 percent.



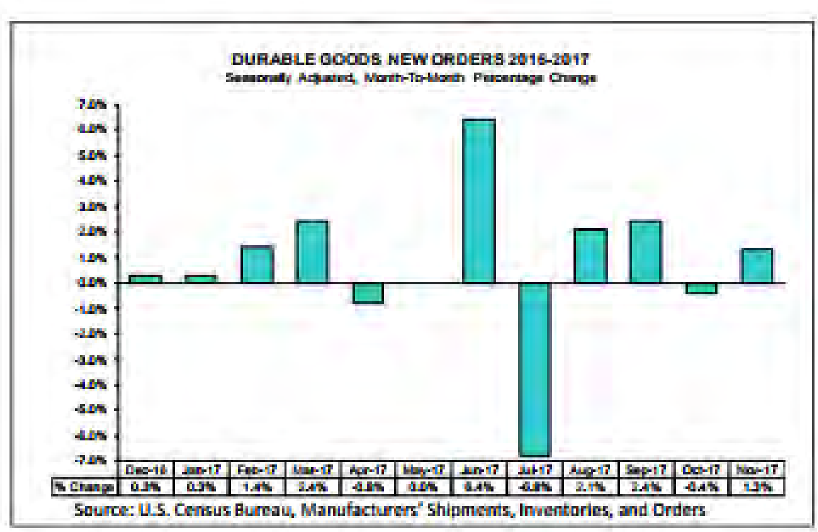
- BEA reported that the increase in real GDP in the third quarter reflected positive contributions from person consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, and exports. These increases were partially offset by negative contributions from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased in the third quarter.
- Corporate profits rose 4.3 percent between the second and third quarter and grew 5.3 percent in the third quarter compared to the same period a year ago.

- In a Nov. 21 report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by State for the second quarter of 2017. Connecticut experienced a seasonally adjusted annual growth rate of 1.4 percent, which ranked 43rd in the nation overall. Connecticut's growth rate was the lowest in the New England region, which had an average Real GDP annualized growth rate of 1.9 percent. State third quarter GDP results will be released by BEA on Jan. 24, 2018.



U.S. Bureau of Economic Analysis

- According to a Dec. 22 report by the U.S. Department of Commerce, new orders for durable goods in November increased $3.1 billion or 1.3 percent to $241.4 billion. This increase, up three of the last four months, followed a 0.4-percent October decrease.
- Excluding transportation, new orders decreased 0.1 percent. Excluding defense, new orders increased 1.0 percent. Transportation equipment, also up three of the last four months, helped drive the increase.



- The Dec. 14 Markit Flash Purchasing Manager's Index (PMI) reported that December data pointed to divergent trends across the U.S. private sector economy, with a slowdown in services growth more than offsetting a robust and accelerated upturn in manufacturing output. As a result, the seasonally adjusted IHS Markit Flash U.S. Composite PMI Output Index dropped to 53.0 in December, from 54.5 in November.
- The latest reading signaled the weakest expansion of private sector business activity since March. Manufacturing production expanded at the fastest pace since January, while service sector output growth eased to a 15-month low.

Key findings:

- Flash U.S. Composite Output Index at 53.0 (54.5 in November). 9-month low.
- Flash U.S. Services Business Activity Index at 52.4 (54.5 in November). 15-month low.
- Flash U.S. Manufacturing PMI at 55.0 (53.9 in November). 11-month high.
- Flash U.S. Manufacturing Output Index at 55.7 (54.5 in November). 11-month high.

Data collected December 5-13

END