News from:

COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE FRIDAY, JUNE 1, 2018

Contact: Tara Downes
631-834-5234
Tara.Downes@ct.gov

COMPTROLLER LEMBO SAYS BI-PARTISAN BUDGET PUTS CT ON PATH TO $721-MILLION DEFICIT AND CONTINUES RELIANCE ON THE RAINY DAY FUND

Comptroller Kevin Lembo today released his latest monthly financial projection, reporting that Connecticut is on track to end the current fiscal year with a $721-million deficit that reflects the results of the recent bi-partisan budget agreement.

In a letter to Gov. Dannel P. Malloy, Lembo said that Public Act 18-81, *An Act Concerning Revisions to the State Budget for Fiscal Year 2019 and Deficiency Appropriations for Fiscal Year 2018* – signed into law on May 15 – has increased the budget deficit projection this year by $334.3 million over the prior month.

The increased projection has little to do with changes to revenue trends. Lembo said it's largely due to adjustments made through the bipartisan budget law that shifts certain funding from Fiscal Year 2018 to Fiscal Year 2019 to address future shortfalls. These "carry-forwards" include $299.2 million in payments to hospitals, $21 million for Medicaid and $21.5 million for retiree health insurance.

Meanwhile, just as Connecticut's newly effective revenue volatility law was about to send more than $1.29 billion to the Budget Reserve Fund (also known as the "rainy day fund"), most of that income will instead be diverted at the end of the fiscal year to close this year's deficit. Lembo projects that approximately $552.9 million will be left to transfer to the Budget Reserve Fund at the end of the fiscal year.

"This projection reflects the bi-partisan budget agreement approved last month – an escalated deficit and Connecticut's continued reliance on its reserves to cover its shortfalls," Lembo said. "While many important state and municipal programs were preserved through the use of this funding, a large portion of it represents revenue that is one-time in nature. My office has traditionally recommended the Budget Reserve Fund reach a level of 15 percent of General Fund expenditures to protect against a future downturn."

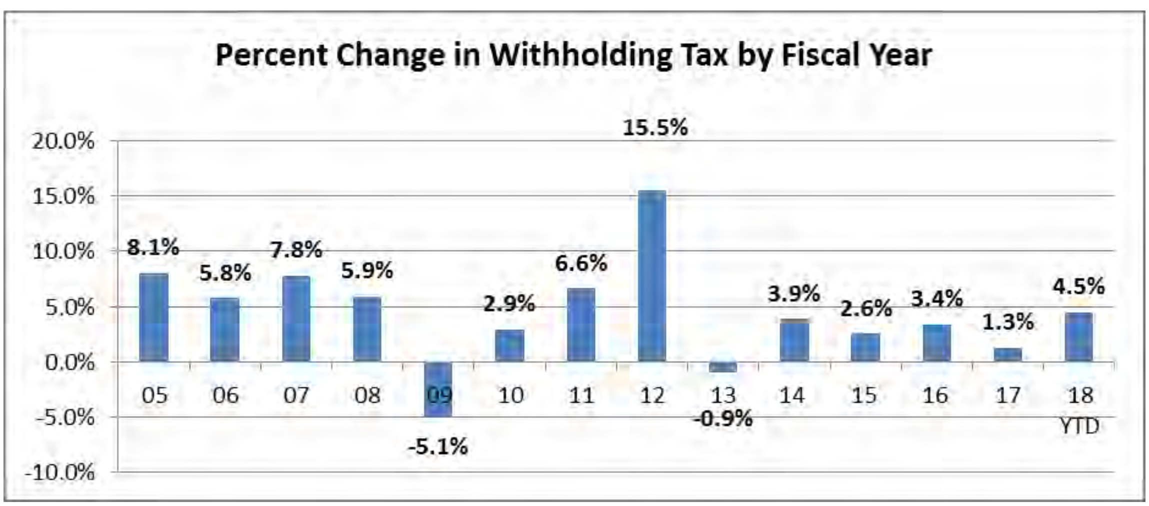
After the anticipated transfer from the rainy day fund, Lembo said he expects the Budget Reserve Fund balance to go from the current $212.9 million to $765.8 million, which represents about four percent of the Fiscal Year 2019 General Fund budget.

"Connecticut's overall budget results are ultimately dependent upon the performance of the national and state economies," Lembo said. "Recent indicators show that the State of Connecticut continues to lag behind the nation's economic recovery in key areas."

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

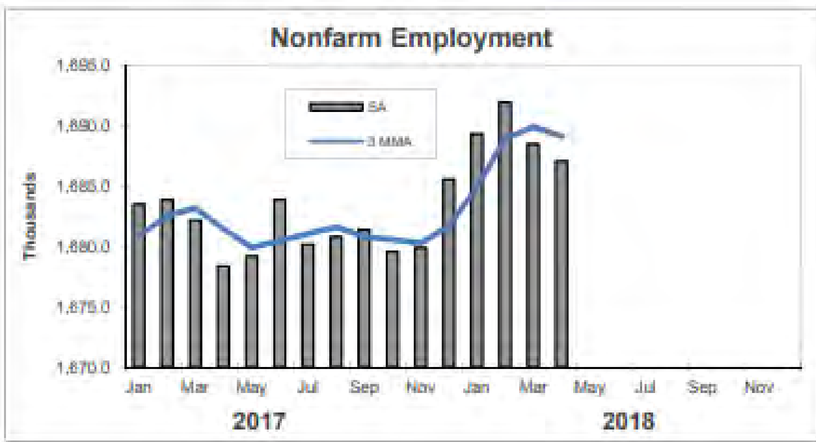
Employment

- Through the first 10 months of FY 2018, withholding receipts were up a nominal 5.7 percent compared with last fiscal year. However, this growth is somewhat overstated due to revenue accruals related to FY 2017 year-end. Accounting for this activity, the FY 2018 year-to-date growth in withholding collections is closer to 4.5 percent, which likely reflects a strong bonus season for the financial industry and some modest job growth over the course of the fiscal year.

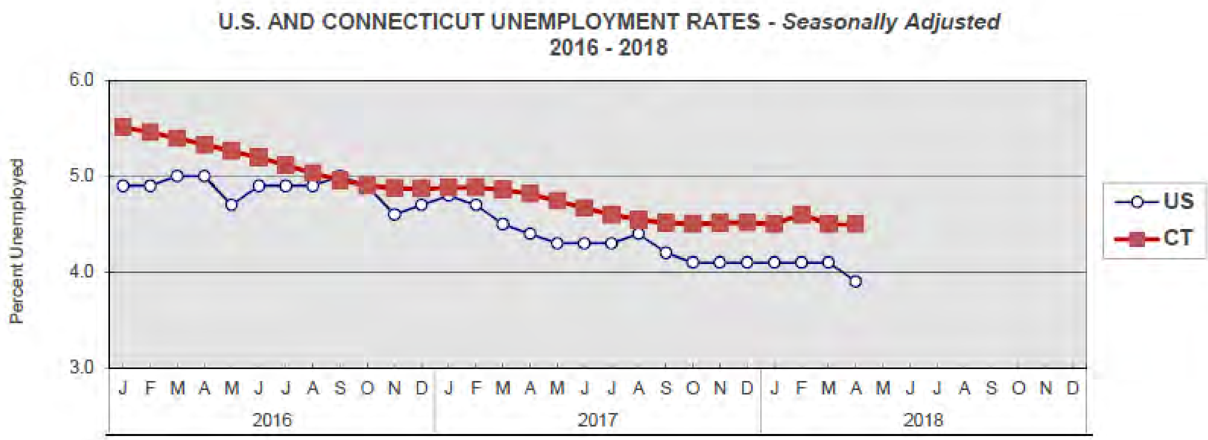


- On May 17, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for April 2018 from the business payroll survey administered by the US Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 1,400 net jobs (0.1 percent) in April, to a level of 1,687,100, seasonally adjusted. March's originally-released job loss of 2,000 was revised down to a loss of 3,500 over the month. April's decline was the second consecutive month of job losses, following four months of gains from November through February.

- The largest declines in April were in trade, transportation and utilities (-1,400) and the financial activities sector (-900). On the positive side, leisure & hospitality added 800 net new jobs, along with education and health services, which added 500 net new jobs. Manufacturing gained 300 jobs in April and DOL reports manufacturing employment is now up 2.8 percent for the year.
- Over the year, DOL reported that nonagricultural employment in the state grew by 8,700 jobs on a seasonally-adjusted basis.



- Connecticut has now recovered 78.0% (92,900 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 98th month and the state needs an additional 26,200 jobs to reach an overall employment expansion. DOL notes that private-sector job growth has outpaced that of the government sector. Connecticut's private sector has recovered 98.9 % (110,500) of private-sector jobs lost in the same downturn.
- Connecticut's unemployment rate is estimated at 4.5 percent in April, unchanged from March 2018 and down three-tenths of a point from a year ago when it was 4.8 percent. Nationally, the unemployment rate was 3.9 percent in April 2018, down two-tenths of a point from March. The chart below shows a comparison of the Connecticut and U.S. unemployment rates for the past three calendar years.



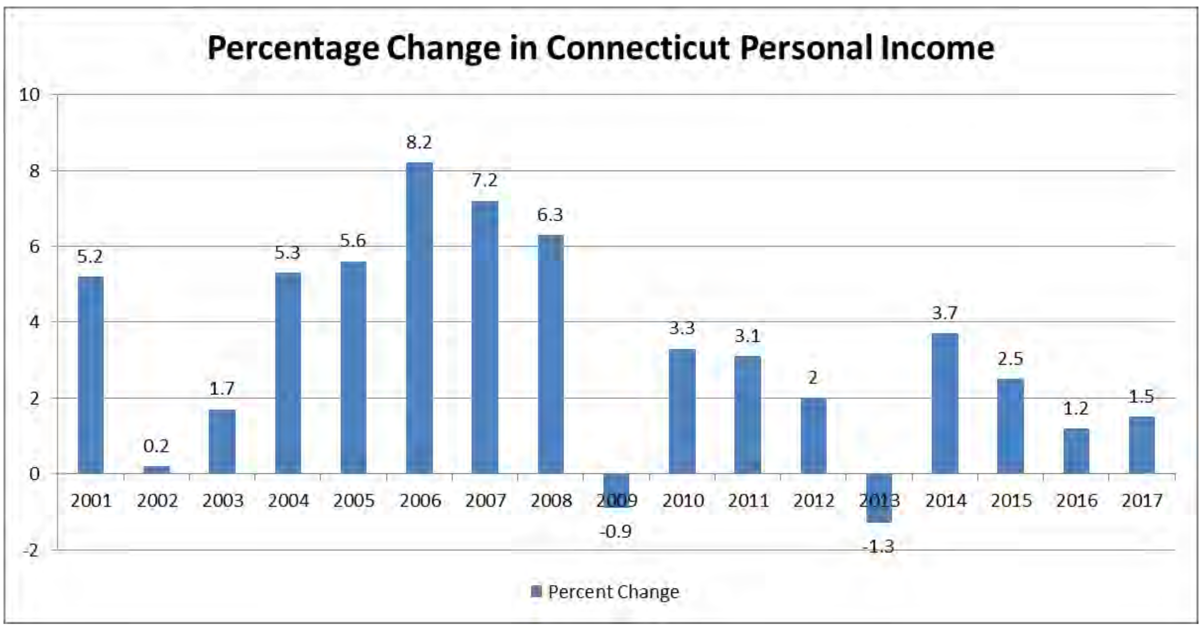
- DOL reports that April 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut fell by 599 claimants (-14.7%) to 3,481 from March 2018 and were lower by 255 claims (-6.8 percent) from the April 2017 level of 3,736.
- Among the major job sectors listed below, five experienced gains and five experienced losses in April 2018 versus April 2017 levels.

Payroll Employment Trend				
Jobs in thousands				
Sector	**4/18 (P)**	**4/17**	**Gain/Loss**	**% Change**
Construction	59.2	58.0	1.2	2.1%
Manufacturing	162.9	158.4	4.5	2.8%
Transp. & Public Utilities	297.3	297.0	0.3	0.1%
Information	30.6	31.8	-1.2	-3.8%
Financial	127.5	128.0	-0.5	-0.4%
Prof. & Business Svc.	221.0	218.0	3.0	1.4%
Education & Health Svc.	339.0	333.5	5.5	1.6%
Leisure & Hospitality	154.6	155.9	-1.3	-0.8%
Other Services	64.4	64.9	-0.5	-0.8%
Government	230.1	232.4	-2.3	-1.0%

Wage and $alary income

- April 2018 average hourly earnings at $31.75, not seasonally adjusted, were up $0.12, or 0.4 percent, from the April 2017 estimate. The resultant average private sector weekly pay amounted to $1,085.85, up $19.92 or 1.9 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 April 2018 was 2.5 percent.
- On March 22, the Bureau of Economic Analysis reported that Connecticut's personal income grew by 1.5 percent between 2016 and 2017. This ranked Connecticut 44th nationally in 2017 income growth. However, BEA also showed the pace of Connecticut personal income growth accelerated at a rate of 1.1 percent between the third and fourth quarters of 2017. Based on these results, Connecticut ranked 26th nationally in personal income growth, equal to the national average for the quarter.
- BEA will release State Quarterly Personal Income for the 1st Quarter of 2018 on June 21.



- On a positive note, Connecticut remains a wealthy state overall. Preliminary BEA estimates for 2017 rank Connecticut first in the nation in annual per capita personal income at $70,121, which represents 139 percent of the national average.

Housing

- In its May 7 release, Berkshire Hathaway HomeServices reported results for the Connecticut housing market for April 2018 compared with April 2017. Sales of single family homes rose 3.89 percent and the median sale price rose 7.23 percent. New listings increased slightly by 0.75 percent in Connecticut and the median list price rose 6.00 percent to $264,900. Average days on the market increased 15.48 percent in April 2018 compared to the same month in the previous year (97 days on average, up from 84 days). Finally, the list to sell price rose slightly to 97.2 percent, compared with 96.9 percent a year ago. The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

APRIL 2018 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	April 2018	April 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	6149	6103	0.75% ▲	18986	19763	-3.93% ▼
Sold Listings	2668	2568	3.89% ▲	8986	9226	-2.6% ▼
Median Listing Price	$264,900	$249,900	6% ▲	$254,900	$239,900	6.25% ▲
Median Selling Price	$257,350	$240,000	7.23% ▲	$250,000	$232,100	7.71% ▲
Median Days on Market	66	48	37.5% ▲	74	58	27.59% ▲
Average Listing Price	$390,867	$375,987	3.96% ▲	$385,898	$377,670	2.18% ▲
Average Selling Price	$377,868	$361,255	4.6% ▲	$370,386	$360,356	2.78% ▲
Average Days on Market	97	84	15.48% ▲	101	89	13.48% ▲
List/Sell Price Ratio	97.2%	96.9%	0.3% ▲	97%	96.6%	0.44% ▲

- The following chart from Berkshire Hathaway HomeServices shows the total number of Connecticut single family homes for sale in February 2018 distributed by list price:

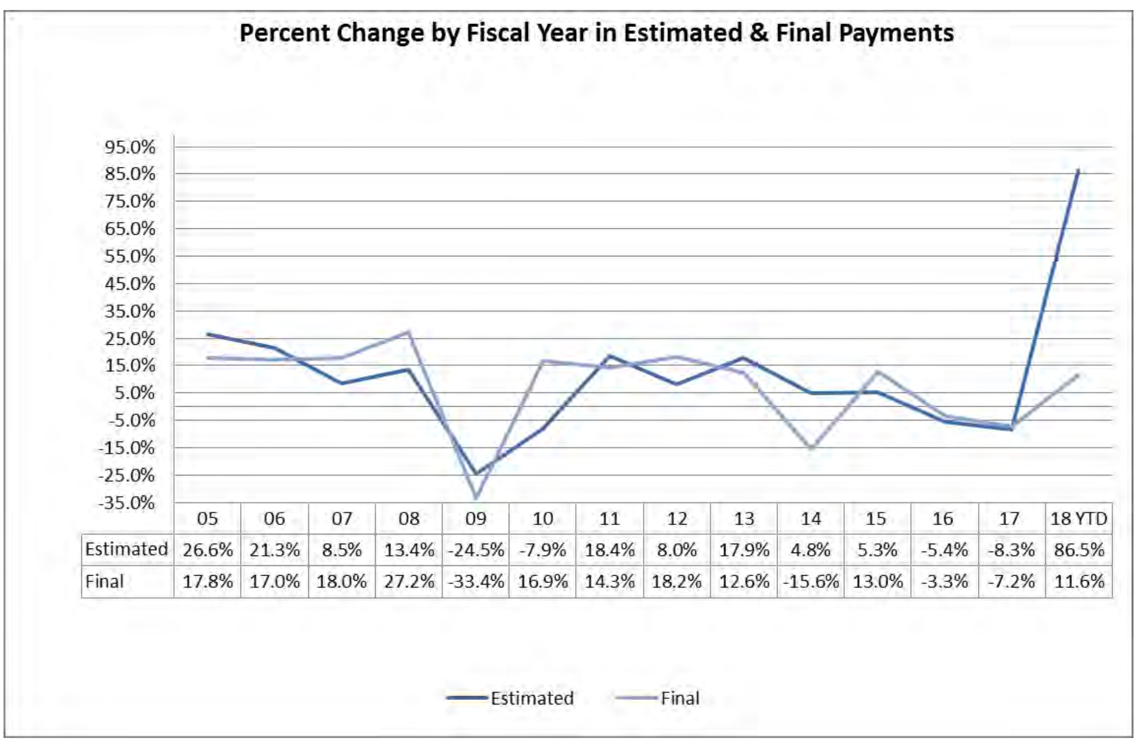
Stock Market

- After a steady rise and strong gains throughout calendar 2017, the stock market indices reached their peak in late January 2018. Since then, there has been significant turbulence in the markets through May 2018. Initially investors were nervous about inflation and the Federal Reserve raising interest rates more aggressively than anticipated.
- More recently, worries focused on the possibility of an escalating trade war as the United States announced tariffs on products like steel and aluminum and threats to impose trade sanctions on China. In addition, bond yields have been rising, causing some apprehension on Wall Street. Bond yield is the amount of return an investor realizes on a bond. As bond yields rise, lower-risk bonds become more attractive to investors compared with higher-volatility stocks. Just this week a new concern arose over the possibility of Italy leaving the Eurozone, causing stocks to tumble on Tuesday. Markets recovered as fears about that specific issue eased mid-week.
- Recent swings in the stock market are illustrated on the two charts that follow:

DOW

NASDAQ

- The performance of the stock market has a significant impact on State of Connecticut 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. Both estimated and final payments had negative growth rates in Fiscal Years 2016 and 2017.
- However, due to a combination of one-time events related to federal tax changes, estimated payment collections increased substantially in December and January. Through April 2018, estimated payments grew by 86.5 % fiscal year-to-date compared with the prior year, representing an increase of $1.1 billion. Year-to-date final payments through April grew by $167 million or 11.6 percent over the same period a year ago.



	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%	86.5%
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%	11.6%

- Initially, the revenue volatility adjustment contained in Section 704 of Public Act 17-2, June Special Session, required that any estimated and final payment collections amount above $3.15 billion would be transferred to the Budget Reserve Fund (BRF). Current projections have estimated and final income tax collections totaling $4.44 billion for FY 2018, or $1.29 billion over the volatility threshold.
- However, based on the recently enacted state budget for FY 2019 (Public Act 18-81), a portion of this revenue windfall will now be used to close the General Fund deficit for FY 2018 and provide additional resources for FY 2019. After accounting for the projected FY 2018 deficit and various carry-forwards into FY 2019, approximately $552.9 million will be deposited into the BRF, bringing the total to $765.8 million, about four percent of the revised budget for FY 2019. The state comptroller recommends the BRF reach a level of 15 percent of General Fund expenditures to protect against a future downturn.

Report on the Economic Well-Being of U.S. Households in 2017

In May 2018, the Board of Governors of the Federal Reserve System issued its annual Report on the Economic Well-being of U.S. Households. The latest findings for 2017 underscore the overall economic recovery and expansion over the last five years of the survey. However, alongside the improvements in the years following the Great Recession, several areas of concern remain. Disparities in economic well-being and outcomes are common among minorities, those with less education, and those living in lower-income neighborhoods. Small emergency expenses would still challenge a troubling number of households, and the opioid crisis appears to have touched many families. Individuals also point to financial struggles across a lifetime—from repaying college loans to managing retirement savings.

Highlights from the report include:

Economic Well-Being - A large majority of individuals (74%) report that financially they are doing "okay" or living comfortably, and overall economic well-being has improved over the past five years. Even so, notable differences remain across various subpopulations, including those of race, ethnicity, and educational attainment.

Income - Changes in family income from month to month remain a source of financial strain for some individuals. Financial support from family or friends is also common, particularly among young adults.

- Three in 10 adults have family income that varies from month to month, and 1 in 10 adults experienced hardship because of monthly changes in income.

- Nearly 25 percent of young adults under age 30, and 10 percent of all adults, receive some form of financial support from someone living outside their home.

Employment - Most workers are satisfied with the wages and benefits from their current job and are optimistic about their future job opportunities. Even so, challenges, such as irregular job scheduling, remain for some. Three in 10 adults work in the "gig economy," though generally as a supplemental source of income.

- One-sixth of workers have irregular work schedules imposed by their employer, and one-tenth of workers receive their work schedule less than a week in advance. For many, stability of income is valued highly. Three-fifths of workers would prefer a hypothetical job with stable pay over one with varying but somewhat higher pay.

- Three in 10 adults participated in the gig economy in 2017. This is up slightly from 2016 due to an increase in gig activities that are not computer or internet-based, such as child care or house cleaning.

Dealing with Unexpected Expenses - Self-reported financial preparedness has improved substantially over the past five years. However, a sizeable share of adults says that they would struggle with a modest unexpected expense.

- Four in 10 adults, if faced with an unexpected expense of $400, would either not be able to cover it or would cover it by selling something or borrowing money.

- Over one-fifth of adults are not able to pay all of their current month's bills in full. In addition, over one-fourth of adults skipped necessary medical care in 2017 due to being unable to afford the cost.

Student Loans – Over half of college attendees under age 30 took on some debt to pay for their education. Most borrowers are current on their payments or have successfully paid off their loans, although those who failed to complete a degree and those who attended for-profit institutions are more likely to have fallen behind on their payments.

- Among those making payments on their student loans, the typical monthly payment is between $200 and $300 per month.

- Nearly one-fourth of borrowers who went to for-profit schools are behind on their loan payments, versus less than one-tenth of borrowers who went to public or private not-for-profit institutions.

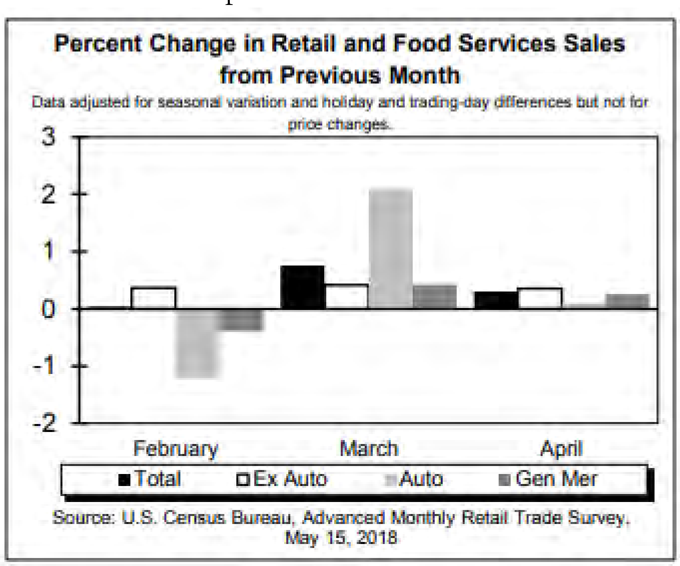
Retirement - Many adults feel behind in their savings for retirement. Even among those who have some savings, people commonly lack financial knowledge and are uncomfortable making investment decisions.

- Less than two-fifths of non-retired adults think that their retirement savings are on track, and one-fourth have no retirement savings or pension whatsoever.

- Three-fifths of non-retirees with self-directed retirement savings accounts, such as a 401(k) or IRA, report having little or no comfort in managing their investments.

Consumer Spending

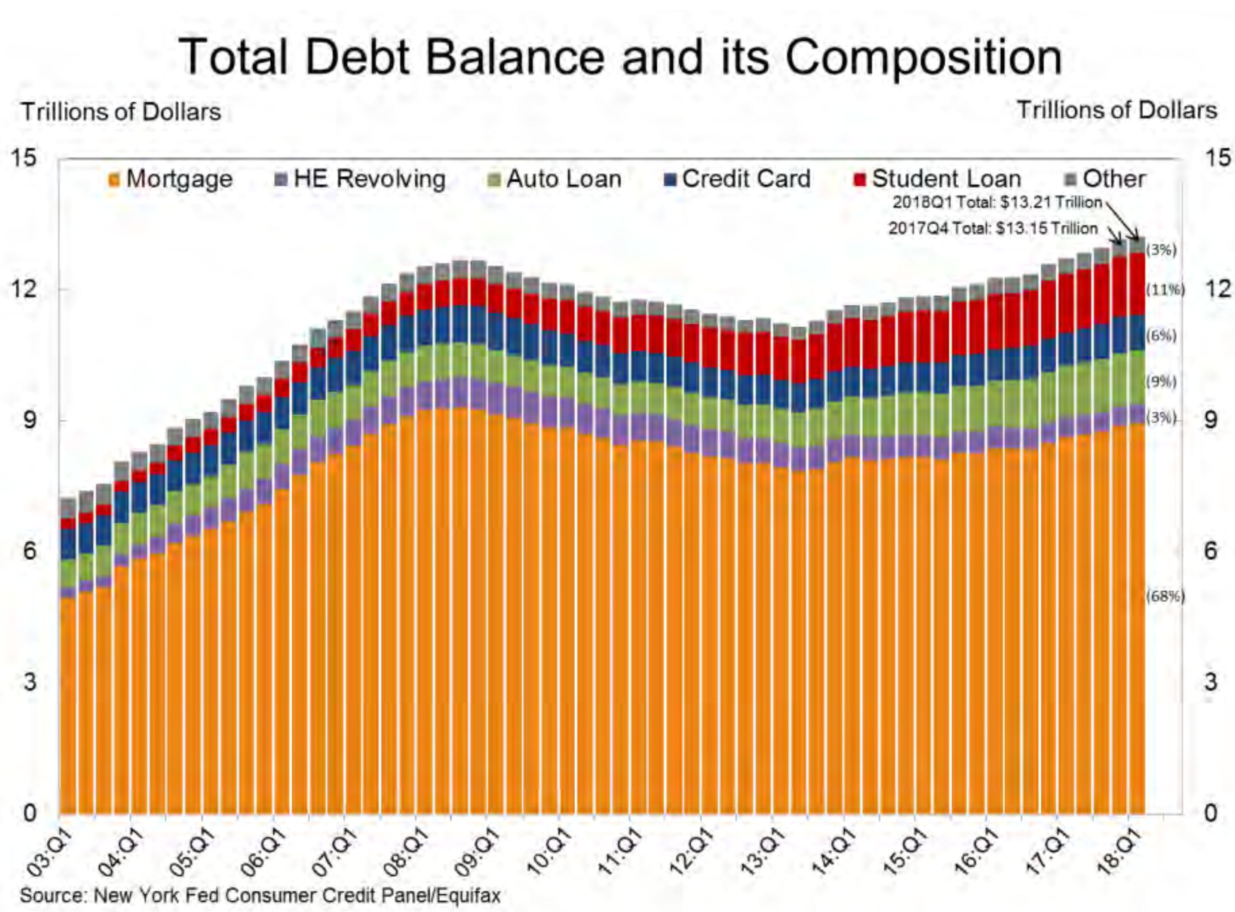
- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- U.S. retail sales increased modestly in April 2018, after surging 0.8 percent in March. The Commerce Department reported that advance retail sales grew 0.3 percent last month, to $497.6 billion. Retail sales had slipped in the first two months of 2018 as consumers pulled back after heavy spending during the winter holiday season.
- Analysts noted that rising gasoline prices cut into discretionary spending by consumers in April. Sales at gas stations jumped 0.8 percent, as fuel prices approached or exceeded $3.00 a gallon. Auto sales only grew by 0.1 percent in April, following very strong March growth of 2.1 percent. Discretionary spending that declined in April included sales at restaurants and bars (-0.3%), receipts at sporting goods and hobby stores (-0.1%) and sales at health and personal care stores (-0.4%).
- On the upside, sales at furniture stores rose 0.8 percent after growing 1.4 percent in March. Receipts at building material stores rose 0.4 percent in April. Sales at clothing stores jumped 1.4 percent, the biggest increase since March 2017, while sales at online retailers increased 0.6 percent.



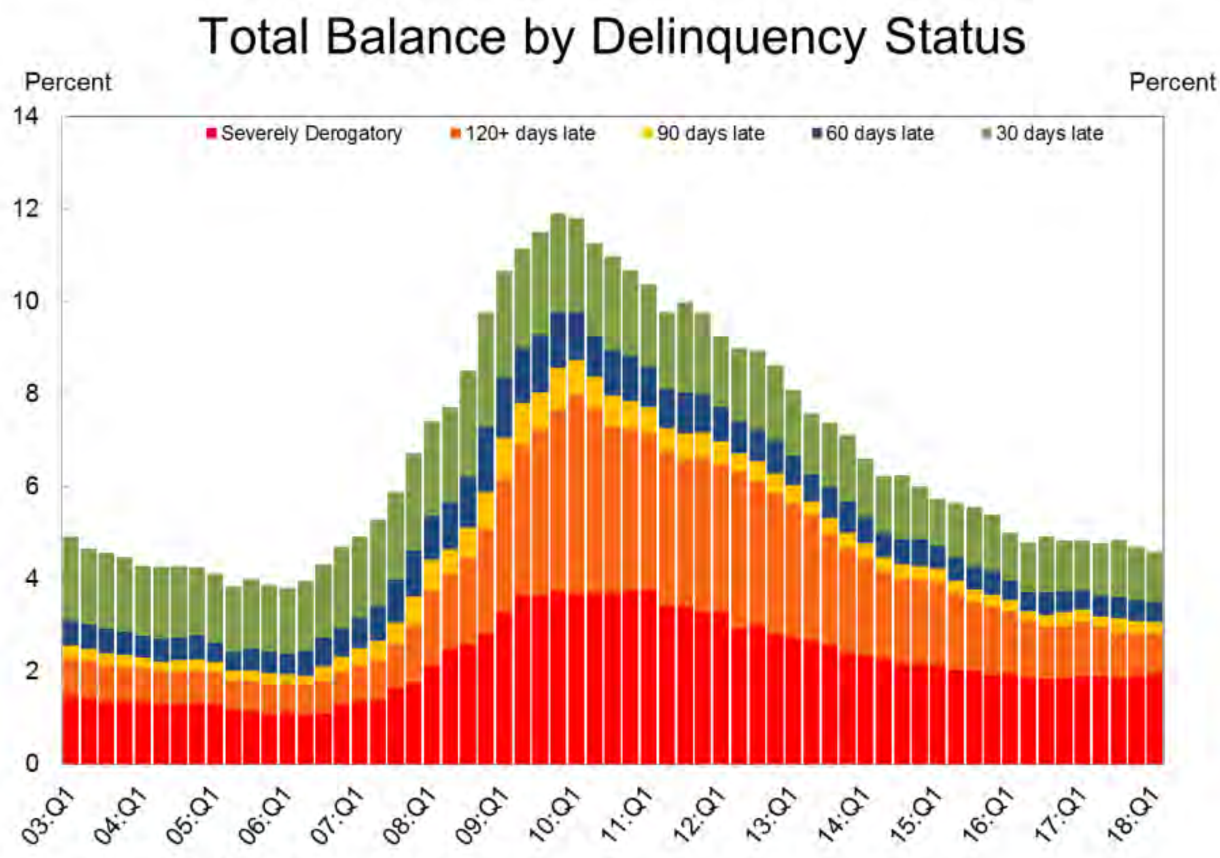
- In comparison to a year ago, the Commerce Department reported that retail sales were 4.7 percent above April 2017 levels. In addition, gas station sales were up 11.7 percent from April 2017, while non-store retailers were up 9.6 percent from last year.

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 first quarter of 2018. Household debt has now grown in 15 consecutive quarters. As of March 31, 2018, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record $13.21 trillion. This represented a $63-billion (0.5 percent) increase from the fourth quarter of 2017.
- The report noted balances climbed 0.6 percent on mortgages, 0.7 percent on auto loans, and 2.1 percent on student loans this past quarter, while they declined by 2.3 percent on credit cards. Although household debt has been growing for five years, its growth has been slow relative to earlier periods (see chart below), as mortgage debt has continued to be relatively flat.



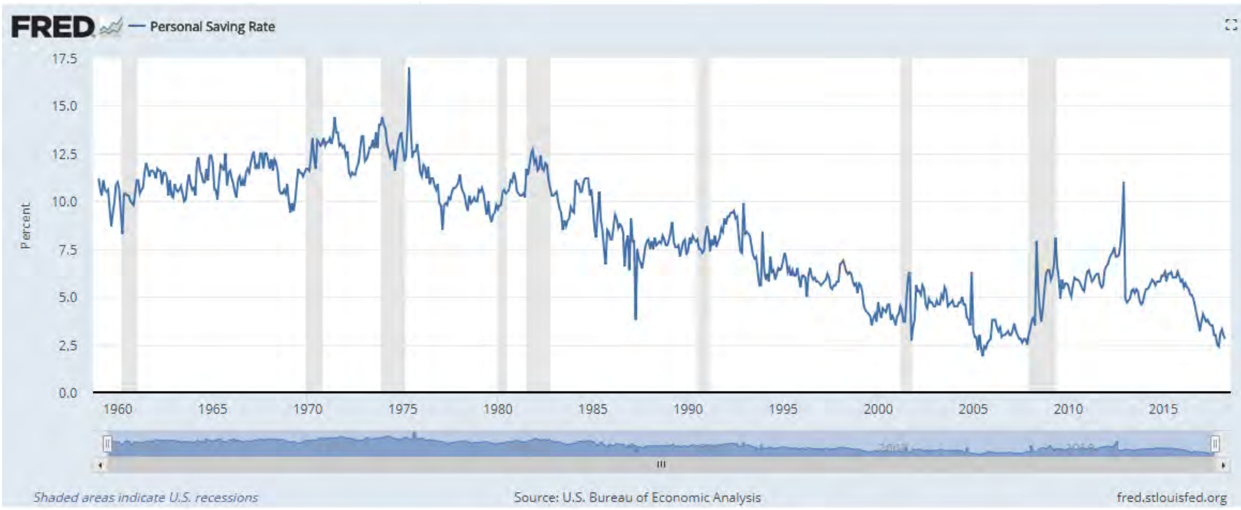
- In the first quarter, aggregate delinquency rates improved, as rates on mortgage and HELOC (home equity lines of credit) debt declined further, while delinquency on auto and credit card debt increased.



Source: New York Fed Consumer Credit Panel/Equifax

- In its May 31 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 2.8 percent in April, down from 3.0 percent in March and the third consecutive monthly decline. This savings level is less than half of the recent peak of 6.3 percent in October 2015 and remains close to prerecession lows.
- 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. One explanation for this trend is the so-called wealth effect. Consumers may feel richer because the stock market is rising and home values have increased in recent years.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through April 2018. 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.



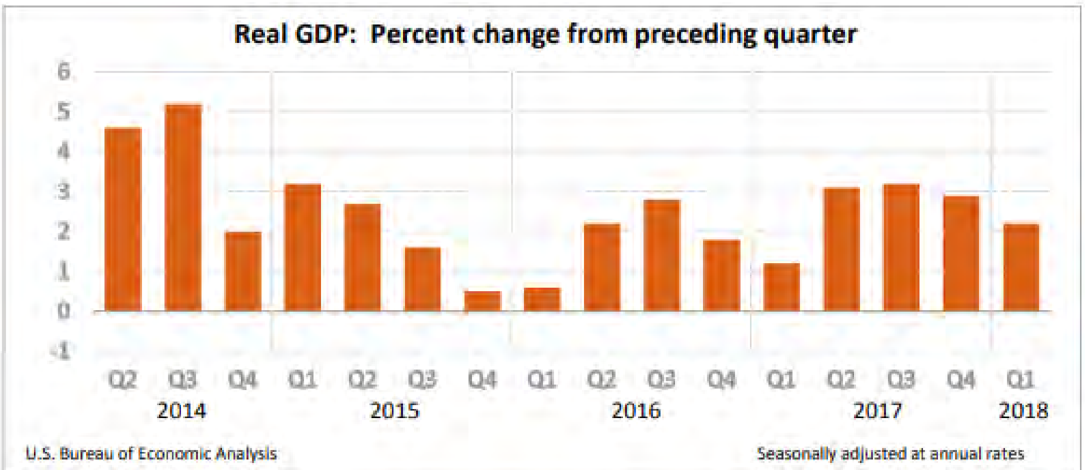
- Despite the overall improvement in the nation's economy, income inequality continues to widen as wage growth remains modest. A number of economists see the dramatic decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error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

<u>Consumer Confidence</u>

- 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 the Consumer Confidence Index increased in May, following a modest decline in April (after a downward revision). The Index now stands at 128.0, up from 125.6 in April.
- The May 29 report noted that consumers' assessment of current conditions increased to a 17-year high. In addition, their short-term expectations improved modestly, suggesting that the pace of growth over the coming months is not likely to gain any significant momentum. Overall, confidence levels remain at historically strong levels and should continue to support solid consumer spending in the near-term.

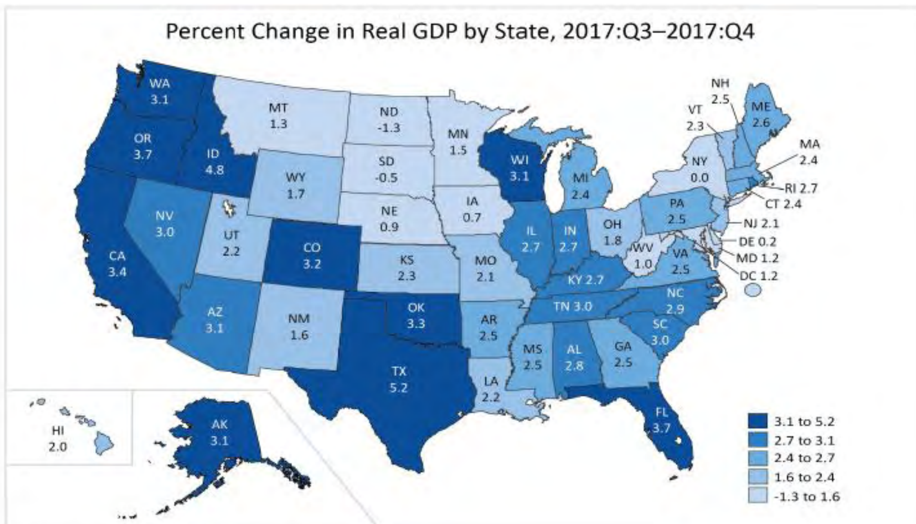
Business and Economic Growth

- According to a May 30 release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product grew at an annual rate of 2.2 percent in the first quarter of 2018. In the fourth quarter of 2017, real GDP increased 2.9 percent. For the year, the economy grew at 2.3 percent in 2017, up from the 1.5-percent growth rate experienced in 2016.

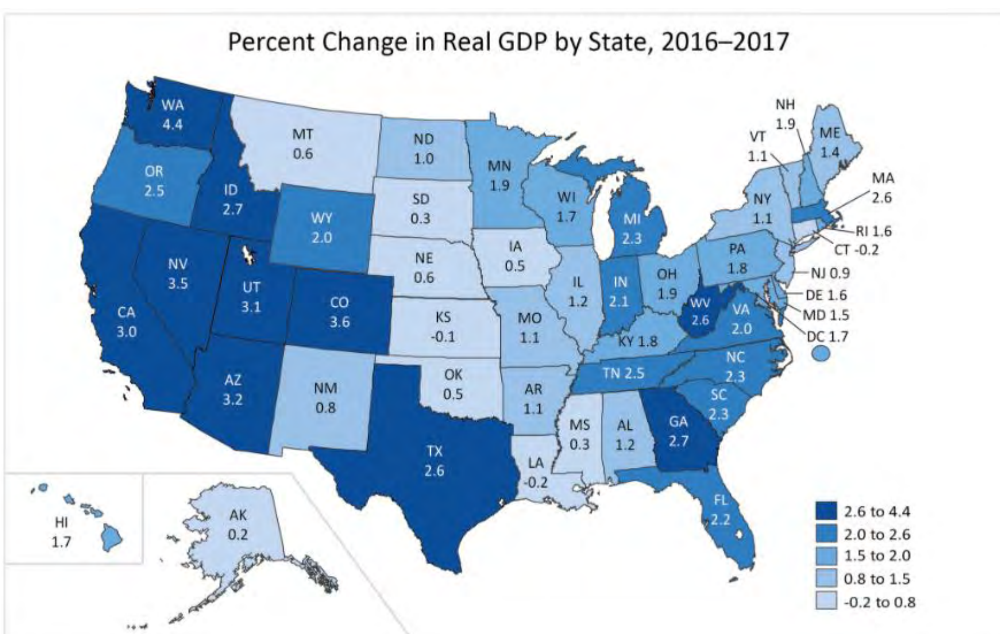


- The increase in real GDP in the first quarter reflected positive contributions from nonresidential fixed investment, personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.
- BEA also reported that after-tax corporate profits grew at a 5.9-percent rate last quarter after increasing at a 1.7-percent pace in the fourth quarter. Analysts noted this was the fastest pace of growth in profits since the first quarter of 2016 and reflected a boost from the reduction in the corporate tax rate to 21% from 35 %.

- In a May 4 report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by state for both the fourth quarter of 2017 and preliminary annual GDP results for 2017. For the 4th quarter of 2017, Connecticut experienced a seasonally adjusted annual growth rate of 2.4 percent, which ranked 30th in the nation overall. This growth rate was slower than the national average of 2.7 percent and ahead of only Vermont for the New England states for the period. It also represented a deceleration of growth from the 3rd quarter, when Connecticut's GDP grew by a seasonally adjusted annual growth rate of 4.6 percent.

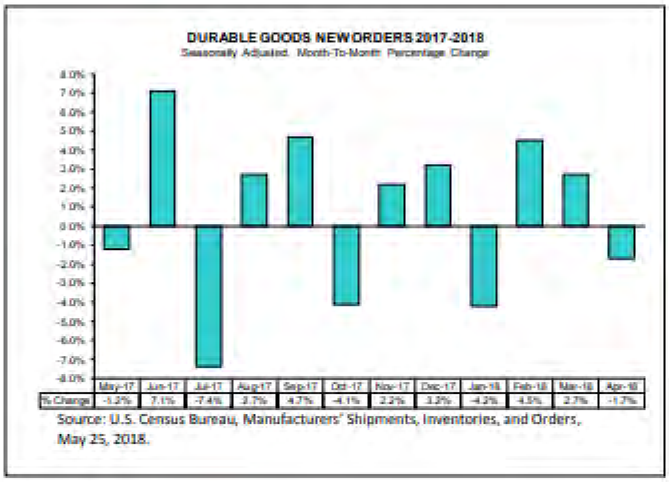


U.S. Bureau of Economic Analysis

- The state's annual GDP results for 2017 were less encouraging. Connecticut ranked 49th in the nation, with Real GDP change of -0.2 percent. The main cause was a very weak first quarter of 2017 (-5.5 percent seasonally adjusted annual rate). Despite growth for the rest of 2017, this represented the third time in four years that Connecticut experienced negative annual GDP growth.
- 

U.S. Bureau of Economic Analysis

- According to a May 25 report by the U.S. Department of Commerce, new orders for durable goods decreased $4.2 billion in April, or 1.7 percent, to $248.5 billion. This decrease, down after two consecutive monthly increases, followed a 2.7 percent increase in March.



- The decline was primarily due to a decrease in transportation equipment, specifically orders for commercial airplanes, which fell 29 % in April. Excluding transportation, new orders increased 0.9 percent in April.
- On a positive note, the Commerce Department also reported orders for "core capital goods," increased by one percent in April. Core capital goods include non-defense capital goods excluding aircraft, which is a closely watched proxy for business spending.

*****END*****