News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $386.7-MILLION DEFICIT ALONGSIDE GROWING BUDGET RESERVE FUND

Comptroller Kevin Lembo today, following an updated consensus revenue forecast, projected that Connecticut is on track to end the current fiscal year with a $386.7-million deficit even as the state's Budget Reserve Fund (BRF), essentially the state's savings account, grows.

In a letter to Gov. Dannel P. Malloy, Lembo said that a substantial portion of the projected deficit is related to delays in the receipt of federal reimbursements related to hospital supplemental payments and other Medicaid-related claims.

The remainder of the deficit is attributable to the revised consensus revenue estimates announced this week. Despite significant improvements in the state's income tax revenue, a new state revenue volatility law requires that most of that new revenue be captured and transferred to the BRF if the legislature chooses not to use it for deficit mitigation.

"The bad news is that the state continues to face a growing deficit," Lembo said. "The good news is that state income tax revenue, as well as the state's rainy day fund, is growing even larger.

"The most notable positive news is that, following April tax collections, estimated and final payments under the income tax have increased by $240 million over earlier expectations. The state's new revenue volatility law now requires that any collections of this income above $3.15 billion be transferred to the Budget Reserve Fund, even in the face of a General Fund deficit."

Lembo said that estimated and final income tax collections are expected to reach $4.44 billion, which would result in a transfer of $1.29 billion to the BRF, unless the legislature acts to use some of it to mitigate the deficit.

Under current circumstances, such a transfer to the BRF would bring the BRF balance to just over $1.5 billion, or approximately eight percent of General Fund expenditures.

"While this would represent a vast improvement over the current level ($212.9 million), I have long recommended that the Budget Reserve Fund reach a level of 15 percent of General Fund expenditures to protect Connecticut against future economic downturns."

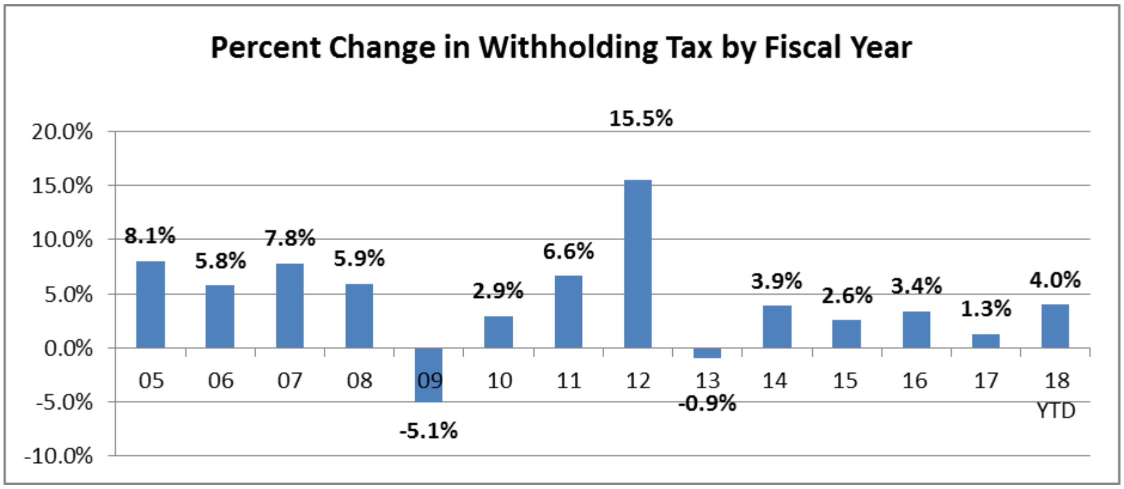
On the negative side, Lembo said the consensus forecast confirmed that some revenue categories are underperforming, including federal grant revenue, the sales and use tax and the corporation tax.

"Connecticut's overall budget results are ultimately dependent upon the performance of the national and state economies," Lembo said.

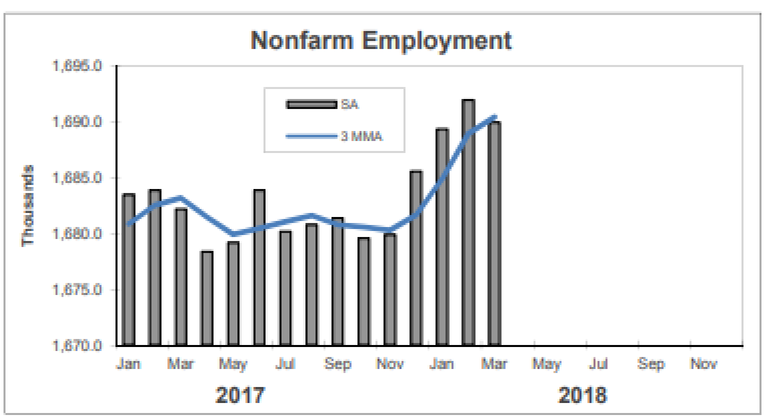
Lembo pointed to the latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

- Through the first nine months of FY 2018, withholding receipts were up a nominal 5.4 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 4.0 percent, which likely reflects modest job growth for the year and a strong bonus season for the financial industry.

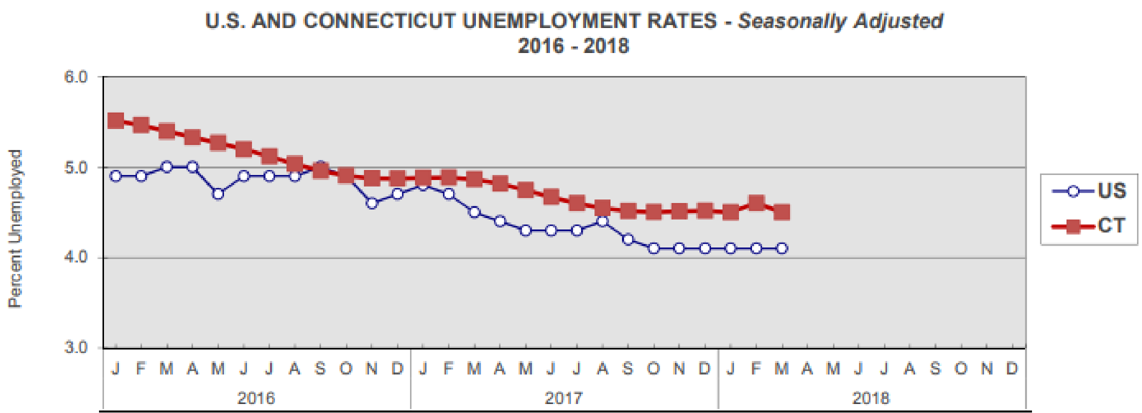


- On April 19, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for March 2018 from the business payroll survey administered by the US Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 2,000 net jobs (0.1 percent) in March, to a level of 1,690,000, seasonally adjusted. February's originally-released job gain of 2,600 was unchanged after revision. March's loss of 2,000 jobs was the first decline since October, following four consecutive months of job growth.
- The largest declines in March were in retail trade and accommodations and food services, which DOL attributed to the adverse effect of several nor'easter storms during the month.
- Over the year, DOL reported that nonagricultural employment in the state grew by 7,800 jobs on a seasonally-adjusted basis.



- Connecticut has now recovered 80.4% (95,800 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 97th month and the state needs an additional 23,300 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 regained 101.3 percent (113,100) of private sector jobs lost in the same downturn.

- Connecticut's unemployment rate is estimated at 4.5 percent in March, down one-tenth of a percentage point from February 2018 and down four-tenths of point from a year ago when it was 4.9 percent. Nationally, the unemployment rate was 4.1 percent in March 2018, unchanged from February. The chart below shows a comparison of the Connecticut and U.S. unemployment rates for the past three calendar years.



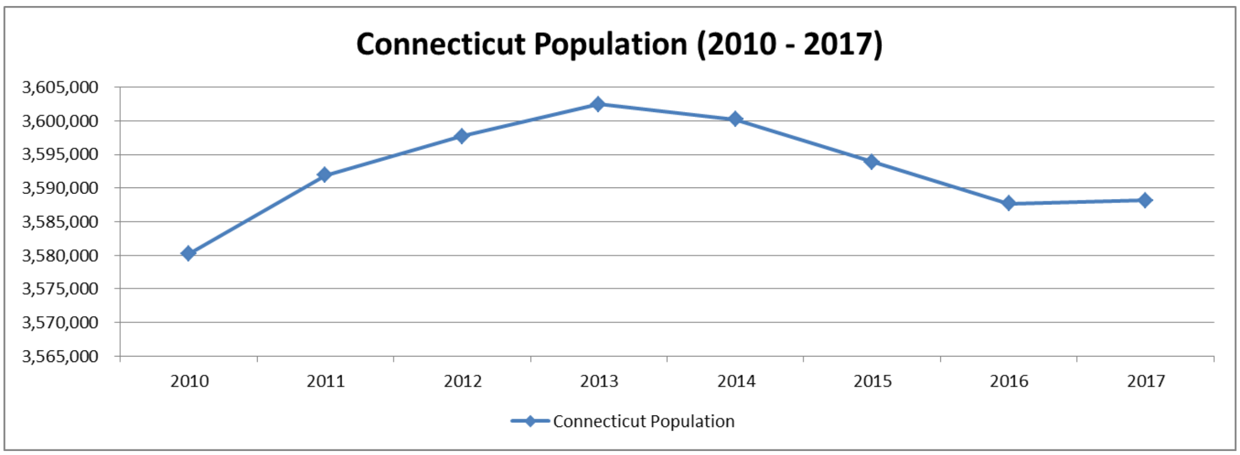
- DOL reports that March 2018 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut grew by 351 claimants (+9.4%) to 4,080 from March 2018, and were lower by 186 claims (-4.4%) from the March 2017 level of 4,266.
- Among the major job sectors listed below, six experienced gains and four experienced losses in March 2018 versus March 2017 levels.

Payroll Employment Trend				
Jobs in thousands				
Sector	**3/18 (P)**	**3/17**	**Gain/Loss**	**% Change**
Construction	59.4	58.4	1.0	1.7%
Manufacturing	162.6	158.1	4.5	2.8%
Transp. & Public Utilities	298.7	297.4	1.3	0.4%
Information	30.8	31.9	-1.1	-3.4%
Financial	128.9	128.1	0.8	0.6%
Prof. & Business Svc.	221.2	218.8	2.4	1.1%
Education & Health Svc.	339.0	333.5	5.5	1.6%
Leisure & Hospitality	153.9	155.8	-1.9	-1.2%
Other Services	64.5	64.8	-0.3	-0.5%

Government	230.4	234.8	-4.4	-1.9%

Population

- On December 20th, 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% 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%, which ranked 48th for the period among U.S. states.

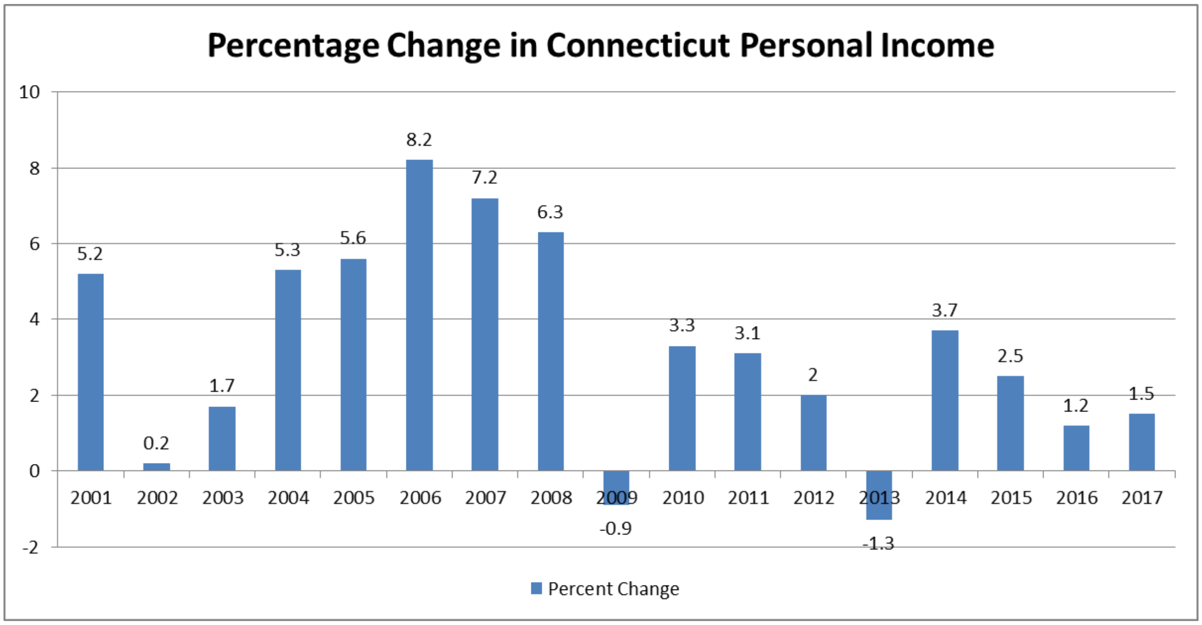


Wage and Salary income

- March 2018 average hourly earnings at $31.76, not seasonally adjusted, were up $0.37, or 1.2%, from the March 2017 estimate. The resultant average private sector weekly pay amounted to $1,057.61, up $24.88, or 2.4% 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 March 2018 was 2.4%.
- On March 22nd, the Bureau of Economic Analysis reported that Connecticut's personal income grew by 1.5% 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% 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, 2018.



- 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 April 11 release, Berkshire Hathaway HomeServices reported mixed results for the Connecticut housing market for March 2018 compared with March 2017. Sales of single family homes declined 14.48 percent. However, the median sale price rose 10.0 percent. New listings declined by 10.1 percent in Connecticut and the median list price rose 7.96 percent to $259,000. Average days on the market increased 12.09 percent in March 2018 compared to the same month in the previous year (102 days on average, up from 91 days). Finally, the list to sell price rose slightly to 97.1 percent, compared with 96.9 percent a year ago. The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

MARCH 2018 | SINGLE FAMILY HOMES

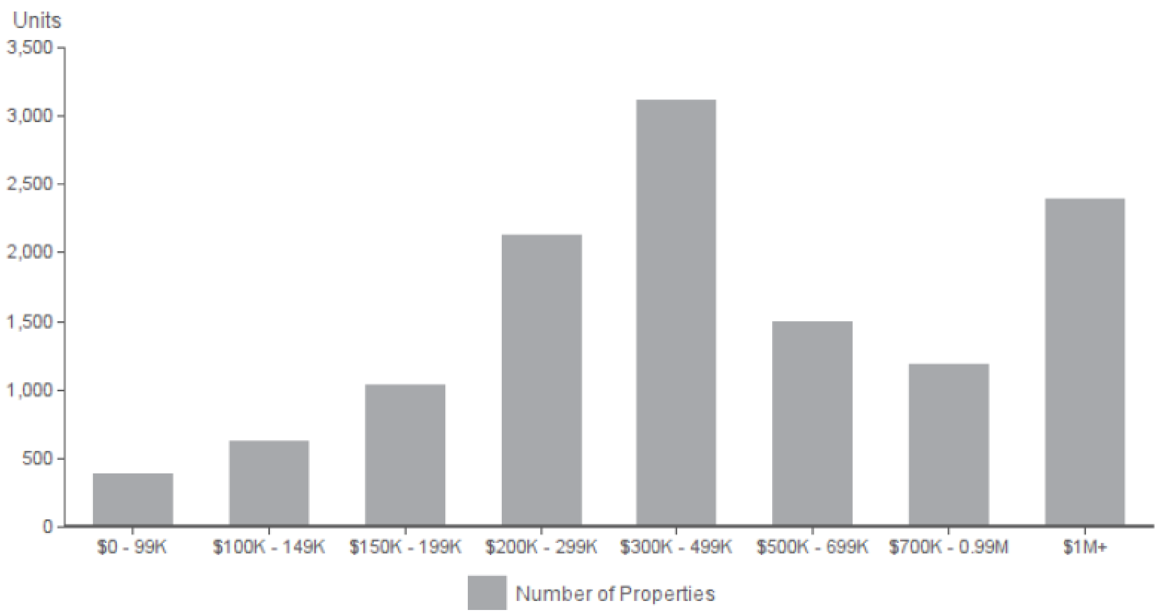
Market Summary	Month to Date			Year to Date		
	March 2018	March 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	5110	5684	-10.1% ▼	12739	13659	-6.74% ▼
Sold Listings	2149	2513	-14.48% ▼	6107	6658	-8.28% ▼
Median Listing Price	$259,000	$239,900	7.96% ▲	$250,000	$239,000	4.6% ▲
Median Selling Price	$253,000	$230,000	10% ▲	$247,423	$229,390	7.86% ▲
Median Days on Market	75	59	27.12% ▲	79	63	25.4% ▲
Average Listing Price	$387,095	$378,718	2.21% ▲	$386,978	$378,319	2.29% ▲
Average Selling Price	$373,221	$361,592	3.22% ▲	$370,402	$360,009	2.89% ▲
Average Days on Market	102	91	12.09% ▲	104	92	13.04% ▲
List/Sell Price Ratio	97.1%	96.9%	0.2% ▲	96.8%	96.4%	0.43% ▲

- 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:

PROPERTIES FOR SALE

MARCH 2018 | SINGLE FAMILY HOMES

Number of properties currently listed for sale by price range



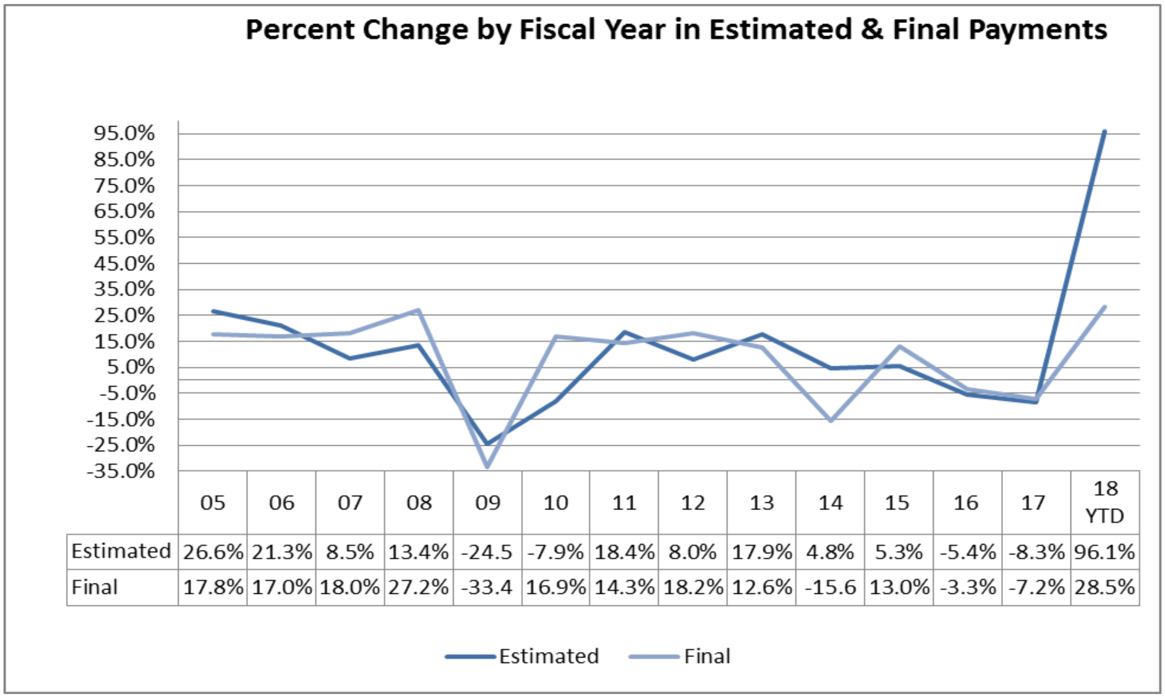
Stock Market

- 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 throughout February, March and continuing into April 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 threated 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.
- 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. Estimated and final income tax payments typically 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, estimated payment collections increased substantially in December and January, nearly doubling the year-to-date total from the prior year. For example, through March 2018 estimated payments totaled just under $2.2 billion versus $1.1 billion through March 2017. Year-to-date final payments through March grew by $121.5 million or 28.5 percent over the same period a year ago.



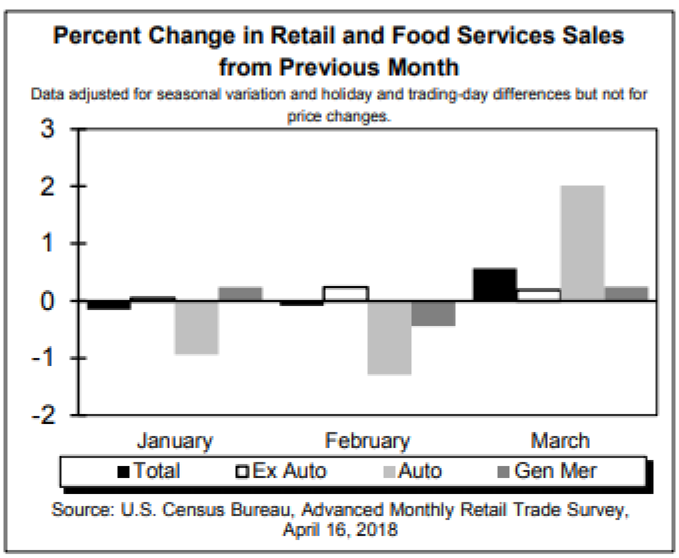
	05	06	07	08	09	10	11	12	13	14	15	16	17	18 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	96.1%
Final	17.8%	17.0%	18.0%	27.2%	-33.4	16.9%	14.3%	18.2%	12.6%	-15.6	13.0%	-3.3%	-7.2%	28.5%

- Two primary factors contributed to the significant increase in estimated payments year-to-date in FY 2018. The first is related to the recent federal tax change that placed limits on the amount of state and local taxes (SALT) that can be deducted for Federal tax purposes. Based on this new provision, many Connecticut taxpayers made payments prior to the end of calendar 2017 to ensure these estimated income tax payments would be deductible for their Federal 2017 returns.
- The second factor was related to an October 2008 federal law that eliminated a common mechanism used by hedge fund managers that enabled them to defer receipt of incentive or management fees earned by charging them to an offshore fund. Under the new rules (Internal Revenue Code Section 475A), hedge fund managers had to recognize these profits, earned prior to January 1, 2009, as income before December 31, 2017. Therefore, a significant amount of the estimated payments collected were related to hedge fund managers bringing these profits back to the United States from overseas. As such, they should be considered to be a one-time revenue source.
- State budget analysts anticipated that a large portion of these estimated payments represented a timing shift from April 2018 back into calendar 2017. However, April collections were stronger than expected. This positive development has been incorporated in the April 30 consensus revenue forecast for FY 2018 just released by OPM and the Office of Fiscal Analysis. While projections of total collections have improved, the increases of estimated and final payments are still likely to be one-time in nature and this trend is not expected to continue into FY 2019.

- Due to the new revenue volatility adjustment contained in the Section 704 of Public Act 17-2, June Special Session, any estimated and final payment collections amount above $3.15 billion will be transferred to the Budget Reserve Fund (BRF). Based on this new statutory provision, if current revenue forecast totals are realized, $1,290.0 million would be deposited in the BRF, bringing the balance to $1.5 billion, or approximately 8 percent of General Fund expenditures. While this would represent a vast improvement over the current level of $212.9 million (1.1 percent), the Office of the State Comptroller has long recommended that the Budget Reserve Fund reach a level of 15 percent of General Fund expenditures to protect against future downturns.

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 rebounded in March 2018, after three straight months of declines. The Commerce Department reported that advance retail sales grew 0.6 percent last month, the largest increase since November 2017. Retail sales had slipped in the first two months of 2018 as consumers pulled back after heavy spending during the winter holiday season.

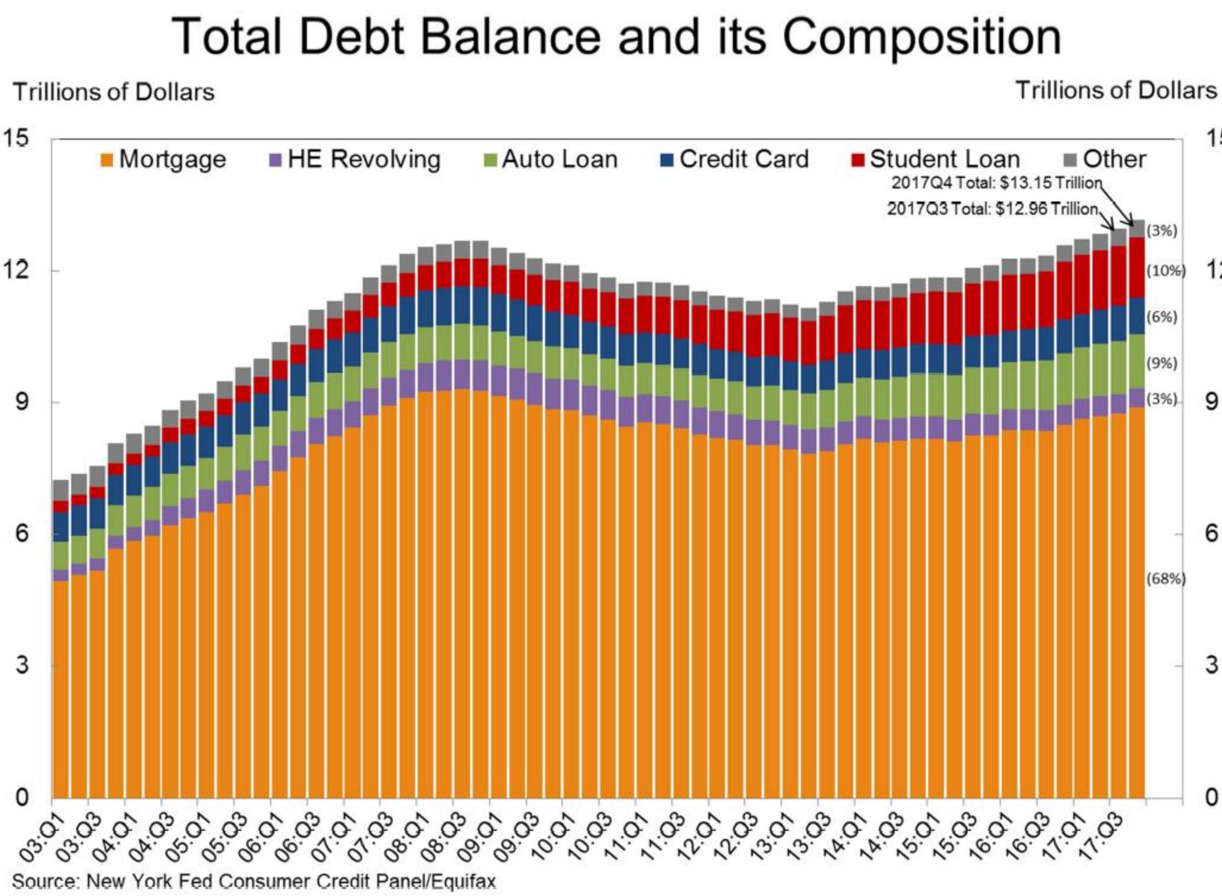


- A 2-percent increase in motor vehicle and parts dealers led the way in March, but sales were also up for furniture (0.7%), electronics and appliances (0.5%), health and personal care (1.4%), and non-store retailers (0.8%). On the negative side, sales were down at building material and garden dealers (-0.6%), clothing and accessories stores (-0.8%) and sporting goods and hobby shops (-1.8%). Analysts noted that online retailers have been gaining significant ground on the last two categories of retail stores.

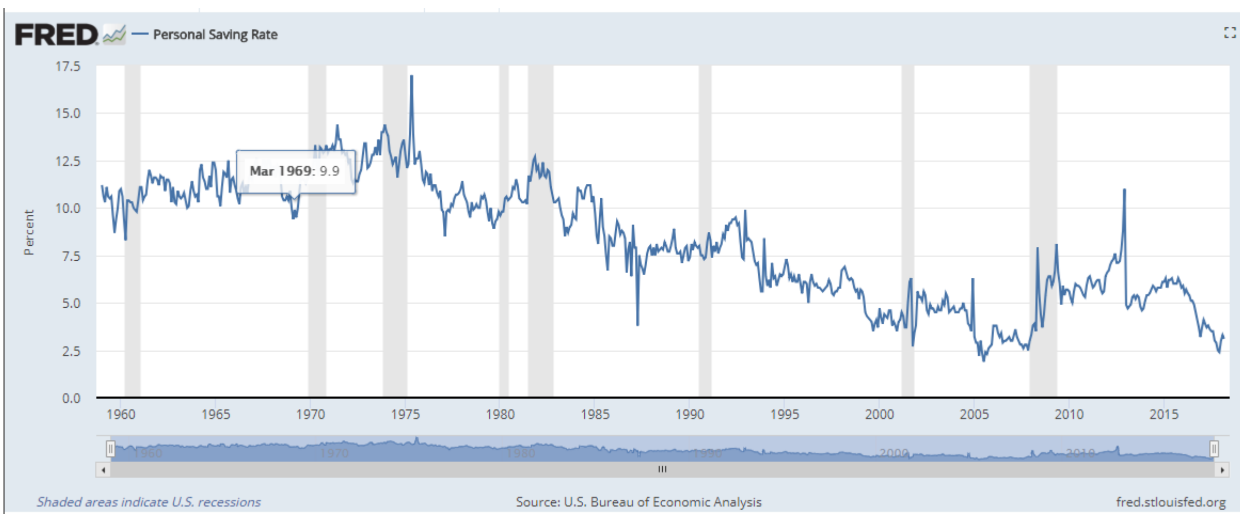
- In comparison to a year ago, the Commerce Department reported that retail sales were 4.5 percent above March 2017 levels.

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 fourth quarter of 2017. Household debt has now grown in 14 consecutive quarters. As of December 31, 2017, overall debt – including mortgages, auto loans and student loans – hit a record $13.15 trillion. This represented a $193 billion (1.5%) increase from the third quarter of 2017.
- This report marks the fifth consecutive year of positive annual household debt growth. There were increases in mortgage (+1.6%), student (+1.5%), auto (+0.7%), and credit card debt (+3.2%) and another modest decline in home equity line of credit (HELOC) balances (decreasing by 0.9%).



- The next Quarterly Report on House hold Debt and Credit is scheduled for release on May 17.
- In its April 30th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 3.1 percent in March, down from 3.3 percent in February. This savings level is about half of the recent peak of 6.3% 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 March 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.

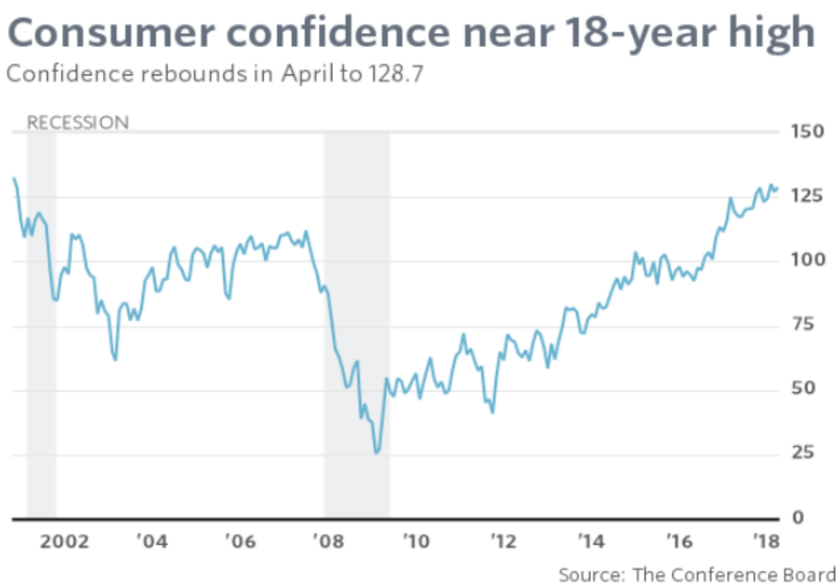


- Despite the overall improvement in the nation's economy, income inequality continues to widen as wage growth remains modest. A number of economists see the dramatic decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error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

Consumer Confidence

- 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.

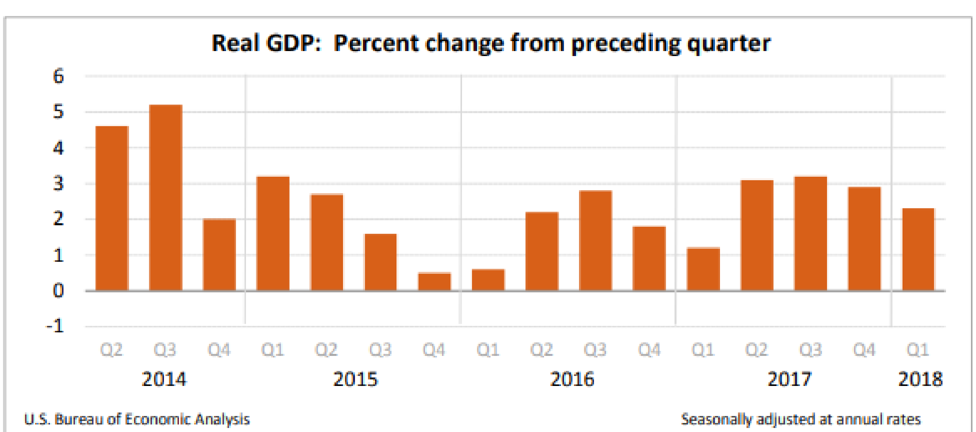
- The Conference Board reported that consumers' assessment of current economic conditions rebounded moderately in April, after stepping back the month before. The Consumer Confidence Index now stands at 128.7, up from 127 in March. The April 2018 rating is near an 18-year high, as shown on the following graph provided by MarketWatch:



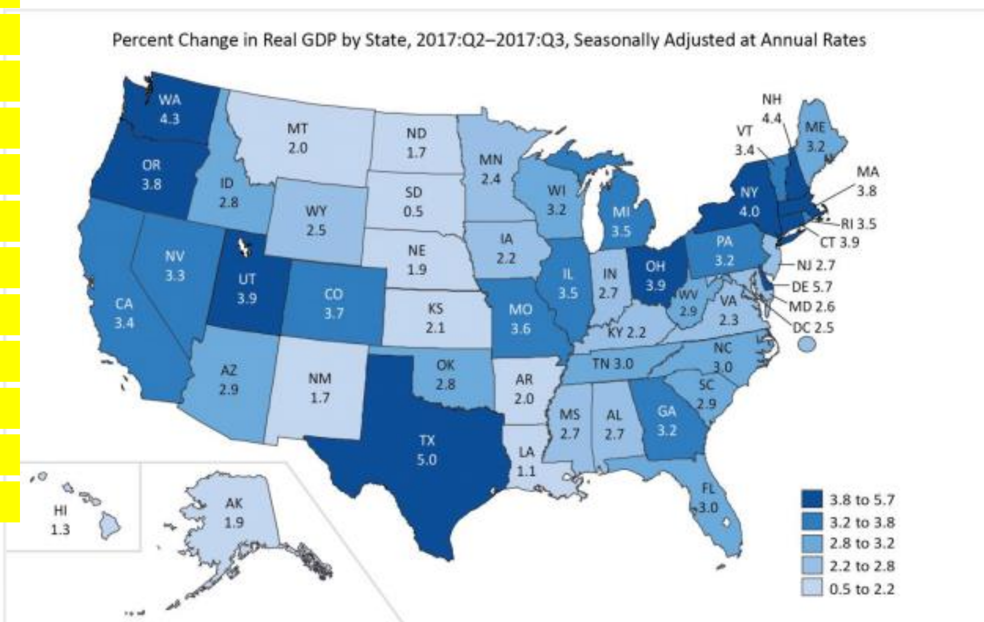
- The Conference Board reported that overall consumer confidence levels remain strong and suggest that the U.S. economy will continue expanding at a solid pace in the months ahead.

<u>Business and Economic Growth</u>

- According to an April 27 release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product (GDP) grew at an annual rate of 2.3 percent in the first quarter of 2018. In the fourth quarter, 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.

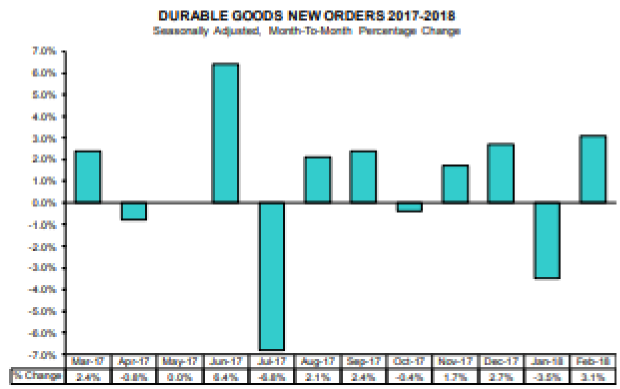


- The increase in real GDP in the first quarter reflected positive contributions from nonresidential fixed investment, personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.
- Analysts noted that in the first quarter GDP grew at the slowest pace in a year largely due to pullback in consumer spending, especially in January and February. However, the economy held its own because business investment remained solid and there was a smaller trade deficit in the first quarter.
- In a Jan. 24 report, the Bureau of Economic Analysis released Real GDP results by state for the third quarter of 2017. Connecticut experienced a seasonally adjusted annual growth rate of 3.9 percent, which ranked 8th in the nation overall. This was a significant improvement from the second quarter of 2017, when Connecticut ranked 44th in the nation with annualized growth of 1.9 percent. The sectors that contributed most to Connecticut's strong third-quarter performance were finance and insurance, durable goods manufacturing, and information services.



U.S. Bureau of Economic Analysis

- Updated data for GDP by state is scheduled to be issued on May 4. That release will cover fourth-quarter GDP and preliminary annual results for 2017.
- According to an April 26 report by the U.S. Department of Commerce, new orders for durable goods increased $6.4 billion in March 2018 or 2.6 percent to $254.9 billion. This increase, up four of the last five months, followed a 3.5-percent February increase.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, March 23, 2018.

- As was the case last month, transportation equipment drove the increase, growing $6.4 billion or 7.6 percent to $91.4 billion. Excluding transportation, new orders were virtually unchanged from the previous month. On the down side, the Commerce Department reported orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending, slipped 0.1 percent last month. Data for February was revised to show these so-called "core capital goods" increasing 0.9 percent instead of the previously reported 1.4-percent growth.
- The April 23 Markit Flash Purchasing Manager's Index (PMI) reported that survey data signaled a further strong increase in private-sector output across the U.S, alongside steep growth in new orders and intensifying price pressures.
- The April index was 54.8, up from 54.2 in March, indicated a faster upturn in business activity, driven by accelerated growth at both manufacturing and service sector firms. While manufacturing recorded the steeper rate of expansion, both sectors enjoyed solid rates of growth.

Key findings:

- Flash U.S. Composite Output Index at 54.8 (54.2 in March). 2-month high.
- Flash U.S. Services Business Activity Index at 54.4 (54.0 in March). 2-month high.
- Flash U.S. Manufacturing PMI at 56.5 (55.6 in March). 43-month high.
- Flash U.S. Manufacturing Output Index at 56.4 (55.2 in March). 15-month high.

Data collected April 12-20

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