News from
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $619.9 MILLION DEFICIT AMID UNPRECEDENTED JOB LOSSES

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a Fiscal Year 2020 deficit of $619.9 million, while noting that extensive job losses and economic damage from the ongoing COVID-19 pandemic have made forecasting more volatile.

"Many people in Connecticut are hurting as the pandemic continues to impact every sector of the economy," said Comptroller Lembo. "It will take a tremendous amount of work to make sure the job losses we're experiencing are temporary while continuing broad measures to protect public health."

In a letter to Gov. Ned Lamont, Lembo noted that the improvement in the deficit projection from last month is owed to a timing change of Medicaid reimbursements and cautioned that the economic effects from the pandemic are still developing.

Lembo noted the effectiveness of the CARES Act in protecting Connecticut homeowners and renters and called for more robust federal economic intervention.

"This is a national emergency and we need a national response," said Lembo. "Additional federal resources are necessary to offset state and municipal revenue losses and to lend support to the thousands of Connecticut residents who are out of a job through no fault of their own. We are one nation facing one crisis together. We need our federal government to step up."

Connecticut's Budget Reserve Fund ("Rainy Day Fund") currently holds a balance of over $2.5 billion, which will aid in closing budget deficits related to COVID-19. However, Lembo and state economists forecast that the Budget Reserve Fund alone will not be enough to supplant revenue losses in the coming fiscal years.

Economic indicators included in Lembo's monthly report show the COVID-19 pandemic is affecting virtually all aspects of Connecticut's economy, including:

- Job losses disproportionately affecting the service industry, including the loss of over 50 percent of jobs in the leisure and hospitality sector.
- Uncertain revenue projections due to economic volatility and the delayed filing date for income taxes.
- A 56.5 percent drop in new home listings.
- Continued uncertainty for homeowners and renters.

"My gratitude remains with the people of our state who are stepping up, and making sacrifices, for the health and wellbeing of our friends and neighbors," said Lembo. "We are facing unprecedented challenges, but we will get through them together."

Lembo pointed to recent economic indicators and trends from national and state sources that show:

NOTE: *Economic indicators largely look back to past periods. Therefore, some of the information presented this month may appear inconsistent with more recent developments in the rapidly changing response to the COVID-19 pandemic.*

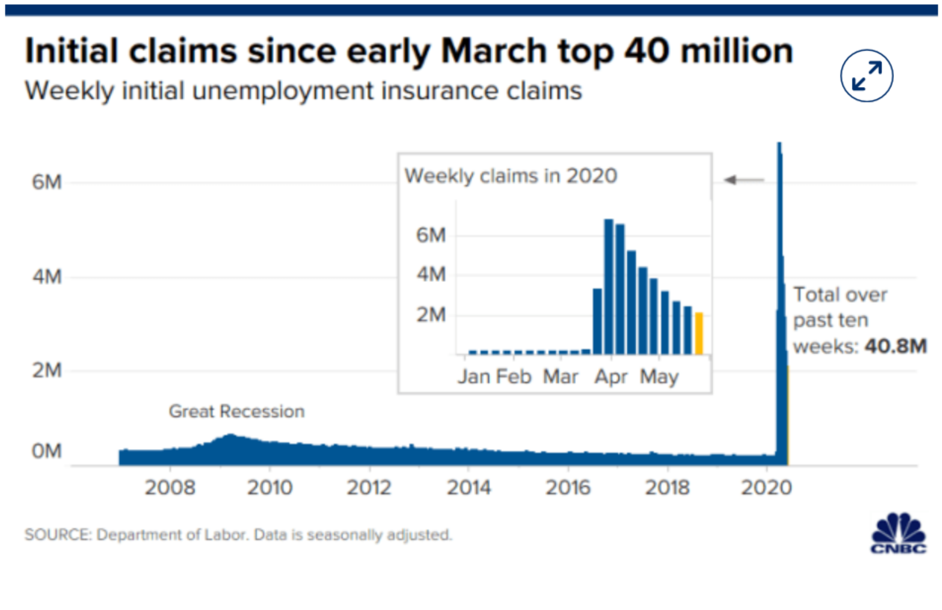
Employment

The withholding portion of the income tax is the largest single General Fund revenue source. Through April 2020, withholding receipts were trending about 2.0 percent above FY 2019 levels, but below the 4.1 percent growth rate built into the FY 2020 budget plan. Preliminary May results showed withholding receipts holding steady at this lower level of growth.

However, due to the ongoing job losses, business closures and other economic disruptions related to the COVID-19 pandemic, the Office of the State Comptroller (OSC) expects there may be a further deterioration in withholding and other tax receipts toward the end of FY 2020 and into FY 2021. The full extent of the declines may not be known for some time. Therefore, OSC will continue to monitor the situation closely and update these projections in future reports.

COVID-19 Related Job Losses Continue

Throughout April and May, the nation continued seeing historically high levels of initial unemployment insurance (UI) claims. For the week ending May 23rd, the U.S. Bureau of Labor Statistics (BLS) reported that seasonally adjusted initial claims totaled 2.12 million, bringing the nine-week total to 40.8 million. These employment losses were over four times the level experienced during the Great Recession and more than enough to wipe out all the job gains since the recovery began 11 years ago.

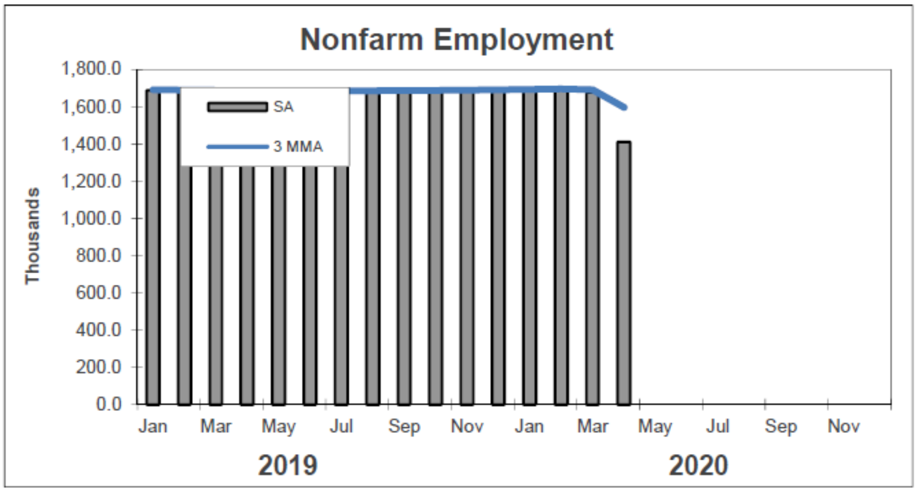


Continuing UI claims, for those who have been collecting for at least two weeks, totaled 21.05 million. This measure gives a clearer picture of how many workers are still unemployed. That number dropped significantly from the prior week, falling by 3.86 million.

Connecticut April Unemployment Report

Connecticut has also experienced a sharp increase in job losses, although the extent is not be fully reflected in the most recent unemployment rate for April.

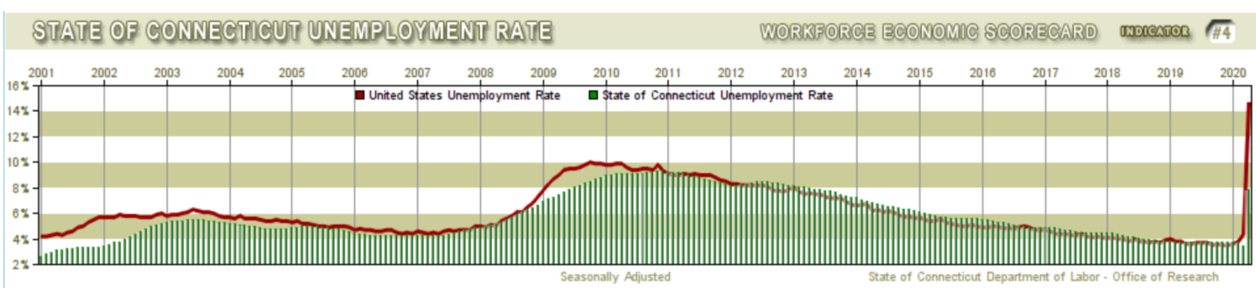
Prior to the COVID-19 layoffs in March and April, the state was experiencing modest, but steady job growth. On May 21st, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for April 2020 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost a historic 266,300 net jobs to a level of 1,411,100 seasonally adjusted. The March 2020 originally released job loss of 7,600 was revised down sharply to a loss of 22,100 jobs.



Over the year, nonagricultural employment in the state fell by 276,800 (-16.4%) seasonally adjusted. Connecticut's official unemployment rate stood at 7.9 percent in April, but DOL cautioned that figure is inaccurate and significantly understated: "Data collection and misclassification issues in the Current Population Survey, the foundation of the state's residential labor force statistics, caused residential unemployment to be severely underestimated."

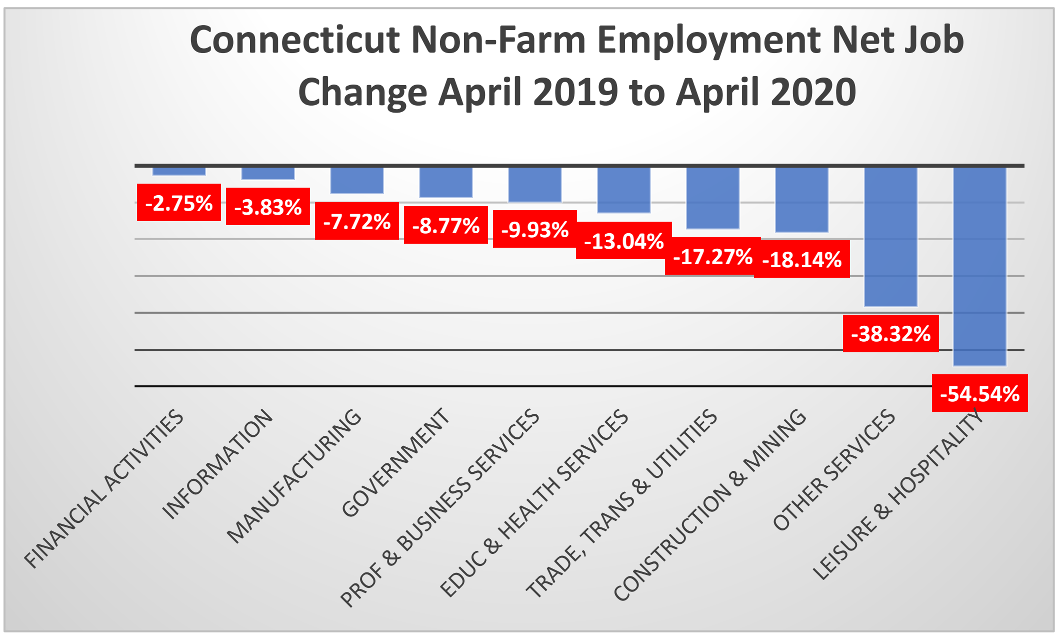
DOL's Office of Research estimates Connecticut's unemployment rate to be much higher, in the range of 17.5 percent for the mid-March to Mid-April period. DOL notes this higher estimate was made using Connecticut residential unemployment insurance claims and adding a similar factor for the unemployed self-employed population. By comparison, the official US jobless rate in April 2020 was 14.7 percent, up 10.3 points from March.

The overriding question at this point is how many of these job losses are temporary and will return when it is safe for businesses to reopen and how many will be lost permanently?



Among the major job sectors listed below, all ten experienced significant losses in April 2020 versus April 2019 levels. The leisure & hospitality sector was particularly hard hit, losing over half its jobs for the period, followed by the other services and construction categories.

Payroll Employment Trend				
April 2020 Versus April 2019				
Sector	**April 2020 (P)**	**April 2020**	**Gain/Loss**	**% Change**
Construction and Mining	50,100	61,200	-11,100	-18.1%
Manufacturing	149,500	162,000	-12,500	-7.7%
Trade, Transportation & Utilities	241,400	291,800	-50,400	-17.3%
Information	30,100	31,300	-1,200	-3.8%
Financial Activities	120,400	123,800	-3,400	-2.7%
Professional & Business Services	197,800	219,600	-21,800	-9.9%
Education & Health Services	294,100	338,200	-44,100	-13.0%
Leisure & Hospitality	72,100	158,600	-86,500	-54.5%
Other Services	40,400	65,500	-25,100	-38.3%
Government	215,200	235,900	-20,700	-8.8%
Total Connecticut Non-Farm Employment	**1,411,100**	**1,687,900**	**-276,800**	**-16.4%**



Wage and Salary income

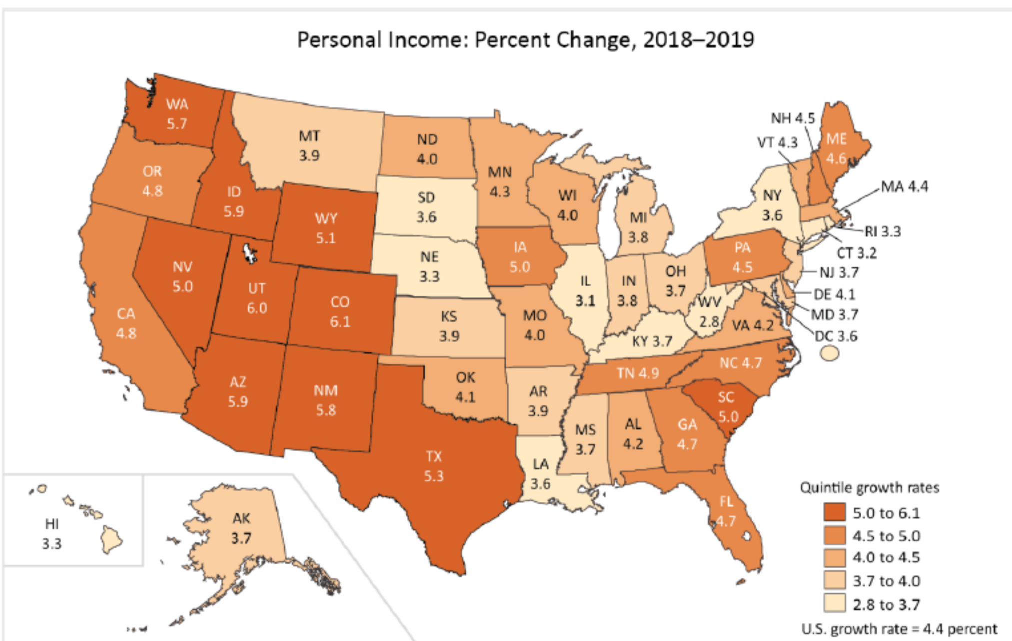
April 2020 average hourly earnings at $35.14, not seasonally adjusted, were up $2.11 from the April 2019 estimate. The resultant average private sector weekly pay amounted to $1,191.25, up $68.23 or 6.1 percent from a year ago. However, DOL warns that due to fluctuating sample responses, private sector earnings and hours estimates can be volatile from month-to-month.

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 was a very modest 0.3 percent.

On March 24th, the Bureau of Economic Analysis reported that Connecticut's personal income grew by a 1.8 percent annual rate between the third and fourth quarters of 2019. Based on this result, Connecticut ranked 46th in the nation for fourth quarter income growth. This growth rate was below the national average of 3.0 percent and the New England region's average growth rate of 2.8 percent.

In the same release, BEA reported preliminary income growth for the full 2019 calendar year. In total, U.S. personal income increased 4.4 percent in 2019, after increasing 5.6 percent in 2018. In 2019, increases in earnings, property income (dividends, interest, and rent), and transfer receipts contributed to personal income growth in all states and the District of Columbia. The percent change in personal income across all states ranged from 6.1 percent in Colorado to 2.8 percent in West Virginia.

For Connecticut, personal income rose 3.2 percent in 2019, which ranked 48th in the nation overall. Despite the slower level of growth, Connecticut still ranked first in the nation for per capita personal income at $79,087. This represented 140 percent of the national average of $56,663.



U.S. Bureau of Economic Analysis

BEA's next report, covering state personal income for the first quarter of 2020, will be released June 23, 2020.

Housing

Berkshire Hathaway HomeServices reported results for the Connecticut housing market for April 2020 compared with April 2019. Sales of single-family homes dropped by 8.24 percent, with the median sale price increasing by 11.28 percent. Reflecting the impact of COVID-19 and social distancing efforts, new listings were down 56.52 percent in Connecticut. However, the median list price rose 11.54 percent to $289,900. Average days on the market decreased 15.05 percent in April 2020 compared to the same month in the previous year (79 days on average compared with 93 in April 2019).

The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

APRIL 2020 | SINGLE FAMILY HOMES

Market	Month to Date			Year to Date		
Summary	April 2020	April 2019	Percent Change	Year-To-Date 2020	Year-To-Date 2019	Percent Change
New Listings	2799	6437	-56.52%	15309	19627	-22%
Sold Listings	2583	2815	-8.24%	9530	9199	3.6%
Median Listing Price	$289,900	$259,900	11.54%	$278,650	$249,900	11.5%
Median Selling Price	$287,000	$257,900	11.28%	$270,000	$245,000	10.2%
Median Days on Market	46	62	-25.81%	62	67	-7.46%
Average Listing Price	$417,370	$421,775	-1.04%	$409,328	$384,216	6.54%
Average Selling Price	$402,485	$404,174	-0.42%	$392,786	$367,900	6.76%
Average Days on Market	79	93	-15.05%	87	93	-6.45%
List/Sell Price Ratio	98%	97.5%	0.51%	97.5%	97.2%	0.28%

For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales fell in April 2020, continuing a two-month drop in sales brought on by the coronavirus pandemic. Each of the four major regions experienced a decline in month-over-month and year-over-year sales, with the West seeing the greatest decrease in both categories.

Total existing-home sales (completed transactions that include single-family homes, townhomes, condominiums and co-ops) dropped 17.8 percent from March to a seasonally adjusted annual rate of 4.33 million in April. Overall, sales decreased year-over-year, down 17.2 percent from a year ago (5.23 million in April 2019).

April's decline in existing-home sales is the largest month-over-month drop since July 2010.

While sales have declined, home prices remain strong. According to NAR, the median existing-home price for all housing types in April was $286,800, up 7.4 percent from April 2019 ($267,000), as prices rose in every region. April's national price increase marks 98 straight months of year-over-year gains.

Federal Reserve Bank of Boston – COVID's Impact on Homeowners and Renters

In a May 18th report, the Federal Reserve Bank of Boston reviewed the COVID-19 pandemic's impact on the New England region's homeowners and renters. Due to the large number of job losses and the high cost of housing in the region, more than a million New England households are at risk for missing a mortgage or rent payment, including approximately 98,600 homeowners and 170,600 renters in Connecticut.

Table 2: Total Number of Households at Risk of Missing Housing Payments

Not including CARES Act financial support, New England states

	Homeowners	Renters
New England Region	410,800	664,143
Connecticut	98,603	170,594
Maine	43,364	48,968
Massachusetts	173,985	315,814
New Hampshire	41,173	53,846
Rhode Island	32,324	51,360
Vermont	21,351	23,561

Note(s): Households are at risk of nonpayment if their monthly housing costs plus a low-cost food budget are greater than their monthly household income after job loss. Monthly low-cost food budgets are adjusted for household size and composition.
Source(s): 2018 American Community Survey one-year estimates; USDA Food Plans: Cost of Food Report for February 2020

Without federal CARES Act support, a total of about $1.43 billion in rents and mortgages would be at risk of nonpayment every month in New England due to coronavirus-related job losses. Just over half of this sum would be missed rent payments, with the remainder representing missed mortgage payments. Connecticut's missed rents would be about $188 million per month and missed mortgages would total $178 million per month.

Federal policy intervention in the form of the CARES Act and state moratoriums on evictions and foreclosures are expected to provide vital, but temporary support to many of these households. As the report notes, the CARES Act provides households with a one-time direct payment of as much as $1,200 per eligible adult and $500 per eligible child, depending on the adult's adjusted gross income. In addition, the CARES Act extends unemployment insurance (UI) for workers who are currently unemployed and for those laid off at a later date to 39 weeks, and it provides an additional $600 per week on top of any state UI benefit.

The report concludes the effect of the CARES Act is substantial. It estimates that 694,400 to 836,200 fewer households in New England (homeowners and renters combined) may be at risk of missing their rent or mortgage payments as a result of this relief bill. As a result, the federal policy response has likely averted an immediate financial disaster for many households. However, the ultimate economic consequences of the pandemic, along with the adequacy of economic-policy responses, will be determined largely by how long it takes to stop the spread of the virus.

Table 3: Households at Risk of Missing Monthly Housing Payments and Total Value of Missed Payments

Including CARES Act financial support, New England states

	Homeowner Households				Renter Households			
	Based on 75% of Eligible UI Recipients		Based on 95% of Eligible UI Recipients		Based on 75% of Eligible UI Recipients		Based on 95% of Eligible UI Recipients	
	Households at Risk	Monthly Unpaid Mortgages	Households at Risk	Monthly Unpaid Mortgages	Households at Risk	Monthly Unpaid Rent	Households at Risk	Monthly Unpaid Rent
New England Region	127,651	$235,977,769	67,835	$139,960,215	252,814	$306,488,400	170,811	$214,905,925
Connecticut	31,260	$63,538,194	16,252	$37,524,398	58,918	$66,981,418	36,260	$41,863,628
Maine	12,903	$16,501,361	7,228	$10,792,929	17,949	$15,011,182	11,920	$10,024,594
Massachusetts	54,781	$108,210,574	29,261	$62,597,251	129,350	$177,027,283	92,990	$132,209,029
New Hampshire	12,783	$24,195,018	7,061	$15,871,414	19,290	$19,593,458	12,096	$12,136,580
Rhode Island	9,265	$14,178,919	4,469	$7,392,429	18,869	$19,586,713	12,492	$13,665,725
Vermont	6,660	$9,353,703	3,563	$5,781,795	8,437	$8,288,345	5,054	$5,006,369

Note(s): Households are at risk of nonpayment if their monthly housing costs plus a low-cost food budget are greater than their monthly household income after job loss. The 75% scenario assumes 75 percent of eligible unemployed workers receive UI benefits. The 95% scenario assumes 95 percent receive UI benefits. Eighty percent of households are assumed to receive their direct payments through direct deposit.

Source(s): 2018 American Community Survey one-year estimates; USDA Food Plans: Cost of Food Report *for February 2020*

If the economic slow-down related to COVID-19 continues, more policy interventions and relief efforts will be needed to avoid long term damage to businesses, family finances and the larger economy.

The full report can be found at the following link:
https://www.bostonfed.org/publications/new-england-public-policy-center-regional-briefs/2020/impact-of-the-covid-19-pandemic-on-new-england-homeowners-and-renters.aspx

CBO Interim Economic Projections – COVID-19's Impact

On May 19th, the Congressional Budget Office (CBO) released interim projections of key economic variables based on information currently available and recent federal legislation addressing the COVID-19 pandemic. CBO concluded the U.S. economy will experience a sharp contraction in the second quarter of 2020, including a dramatic decrease in GDP and an increase in unemployment, with impacts lasting into 2021:

- Inflation adjusted gross domestic product (GDP) is expected to decline 11.2 percent during between the first and second quarters, the equivalent of an annual rate decrease of 37.7 percent for the quarter.
- The nation's unemployment rate is expected to average 15.1 percent during the second quarter, up from 3.8 percent in the first quarter.
- The unemployment rate is seen averaging 11.5 percent over the full year and improving only marginally in 2021 to 9.3 percent, just below the high reached in the 2007-2009 recession.

CBO is expecting economic activity to increase in the third quarter of 2020 as state and local governments ease stay at home orders and businesses begin to reopen:

- After severe levels of contraction in the second quarter, economic growth is expected to average about 15.8 percent at an annual rate for the second half of calendar year 2020.
- Increases in consumer spending are expected to more than offset further declines in business investment during that period.
- However, even with improvements in the second half of 2020, GDP for the full year is projected to be -5.6 percent.
- Unemployment is expected to rise to 15.8 percent in the third quarter, before dropping down to 11.5 percent in the fourth quarter.

CBO warns these projections are subject to enormous uncertainty and incorporate an expectation that social distancing measures will continue through June on average, with some region variation. The projections also include the possibility of a reemergence of the pandemic. To account for this possibility, CBO projects social distancing will continue, although to a lesser degree, through the first half of next year.

Population

According the U.S. Census Bureau, Connecticut's population declined by 6,623 between 2018 and 2019 and now stands at 3,565,287. This represents a small decrease of 0.17% compared with the prior year's estimate.

Components of Connecticut Population Change

July 1, 2018 to July 1, 2019		Vital Events		Net Migration		
	Total Population Change	Natural Increase	Births	Deaths	Total	International	Domestic
Connecticut	-6,233	3,418	34,567	31,149	-9,736	12,323	-22,059

April 1, 2010 to July 1, 2019			Vital Events		Net Migration		
	Total Population Change	Natural Increase	Births	Deaths	Total	International	Domestic
Connecticut	-8,860	54,839	333,491	278,652	-63,899	136,392	-200,291

Source: U.S. Census Bureau

Over the longer term, Connecticut's population is smaller than it was nine years ago. While the decline is relatively small (8,860), Connecticut is one of only four states to lose population since 2010, along with Illinois, Vermont and West Virginia. As shown on the chart above, the components of the change followed a similar pattern in the long and the short-term: A higher number of births than deaths and gains from international migration into Connecticut helping to offset larger domestic migration out to other states.

Connecticut's demographic trends can have an impact on the state's economy. As the baby boom generation continues to retire and leave the workforce, both economic demand and output could be further reduced. In short, Connecticut's lack of population growth remains a constraint to the State's potential for economic expansion.

Stock Market – Uncertainty Drives Volatility:

In the third week of March, the stock market reached its low point (to date) in 2020 as the impact of the coronavirus became more widespread. Since that time, the major indices have recovered some of their losses, especially in the second half of May. Investors appeared to gain confidence from states beginning to reopen their economies. Despite generally strong April and May results, only the NASDAQ is in positive territory year-to-date. In addition, volatility continues as the markets experience large swings, both positive and negative, due to uncertainty about the ongoing economic impact of the COVID-19 pandemic.

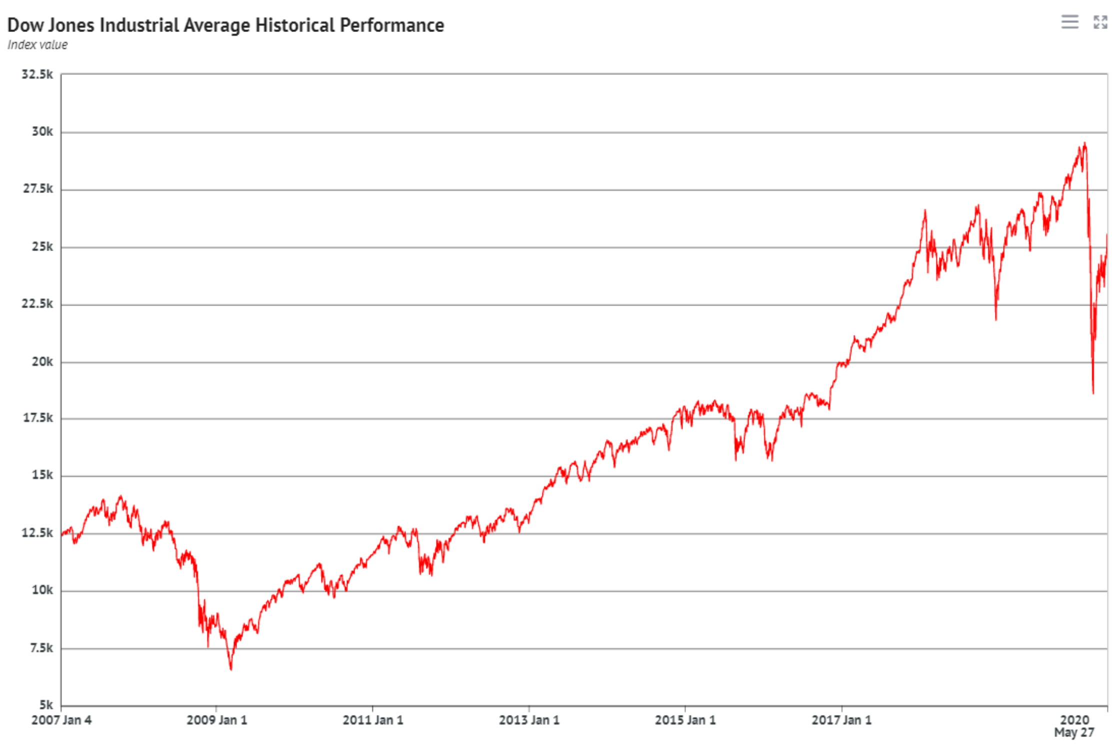
One-year changes for the three major stock indices follow.

DOW

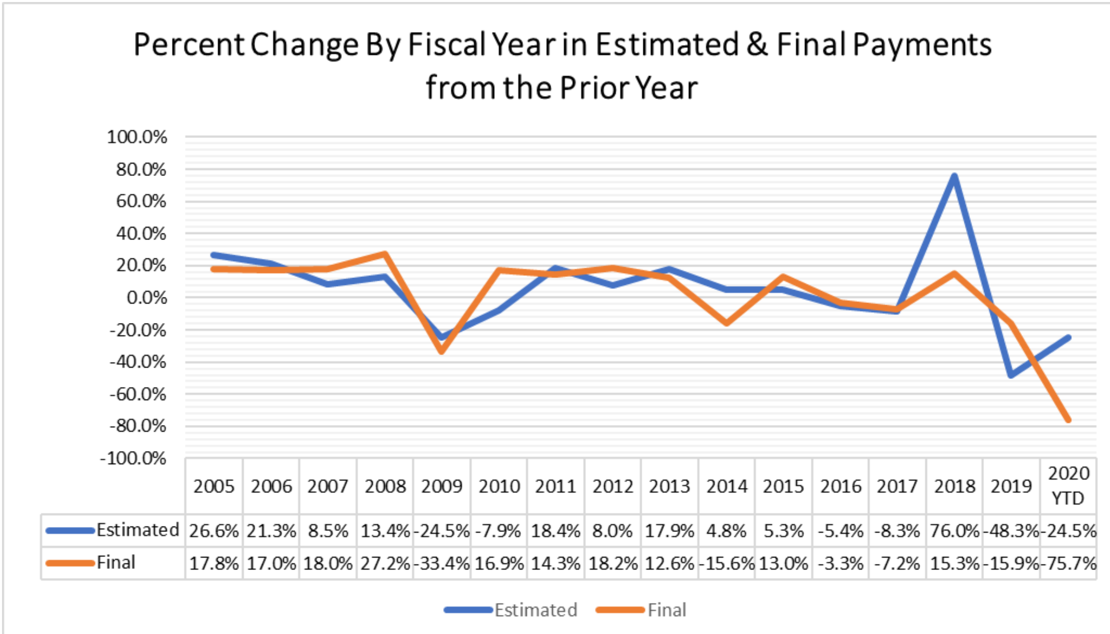
NASDAQ

S&P 500 INDEX

To give more perspective on the performance of the stock market over the longer term, the chart below shows the level of the DOW from 2007 to the present:



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 percent of total state income tax receipts, but can be an extremely volatile revenue source.



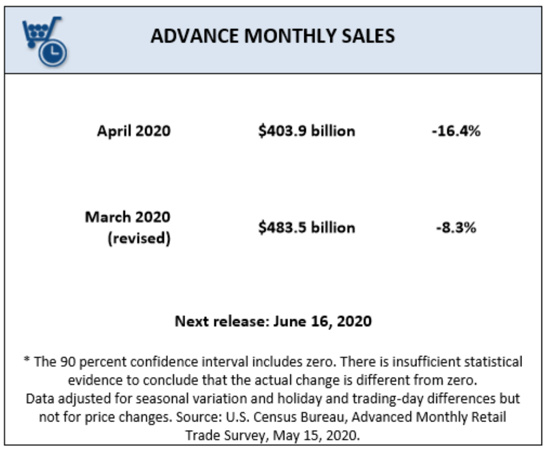
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	76.0%	-48.3%	-24.5%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%	-3.3%	-7.2%	15.3%	-15.9%	-75.7%

Year-to-date through April 2020, estimated and final payments are down a combined 52.8 percent compared with the same period a year ago. The largest factor is the Final Payment category of the income tax, which was down over $1 billion from FY 2019. However, a large portion of that total is related to a 90-day extension in the filing and payment deadline from April 15 to July 15, 2020 to provide some relief to taxpayers due to COVID-19 outbreak. As a result, the full impact on FY 2020 revenues will not be known for several months.

Consumer Spending

Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.

On May 15th, the Commerce Department reported that U.S. advance retail sales plummeted by 16.4 percent as the full impact of COVID-19 related closures and mounting layoffs took their toll on the US economy. April's decline was bigger than economists expected and the largest on record since the federal government began tracking advance retail sales in 1992.

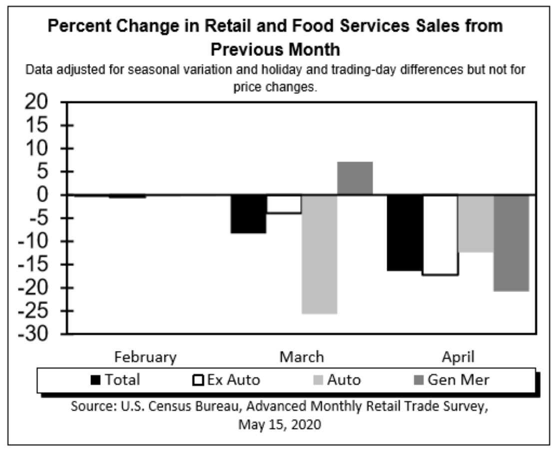


ADVANCE MONTHLY SALES

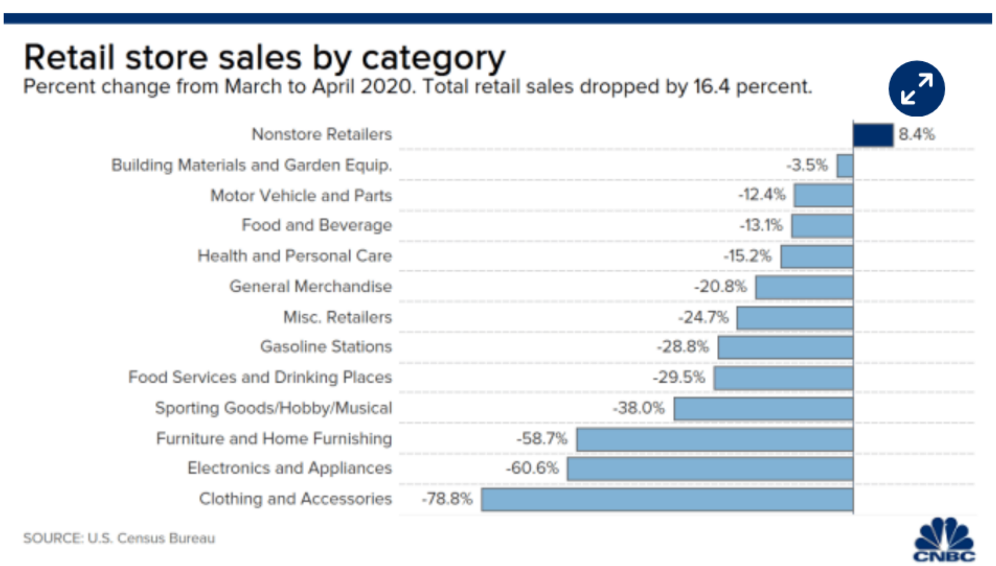
April 2020	$403.9 billion	-16.4%
March 2020 (revised)	$483.5 billion	-8.3%

Next release: June 16, 2020

* 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, May 15, 2020.



Weakness in retail sales was widespread in April as many sectors of the economy suffered significant declines. CNBC reported the only sectors that showed growth were online retailers and grocery stores. Clothing retailers were particularly hard hit in April, along with electronics & appliance, furniture and sporting goods stores. Restaurants and bars saw big declines in sales due to social distancing related closures. Receipts at gas stations dropped due to lower fuel prices and consumers staying at home and driving less.

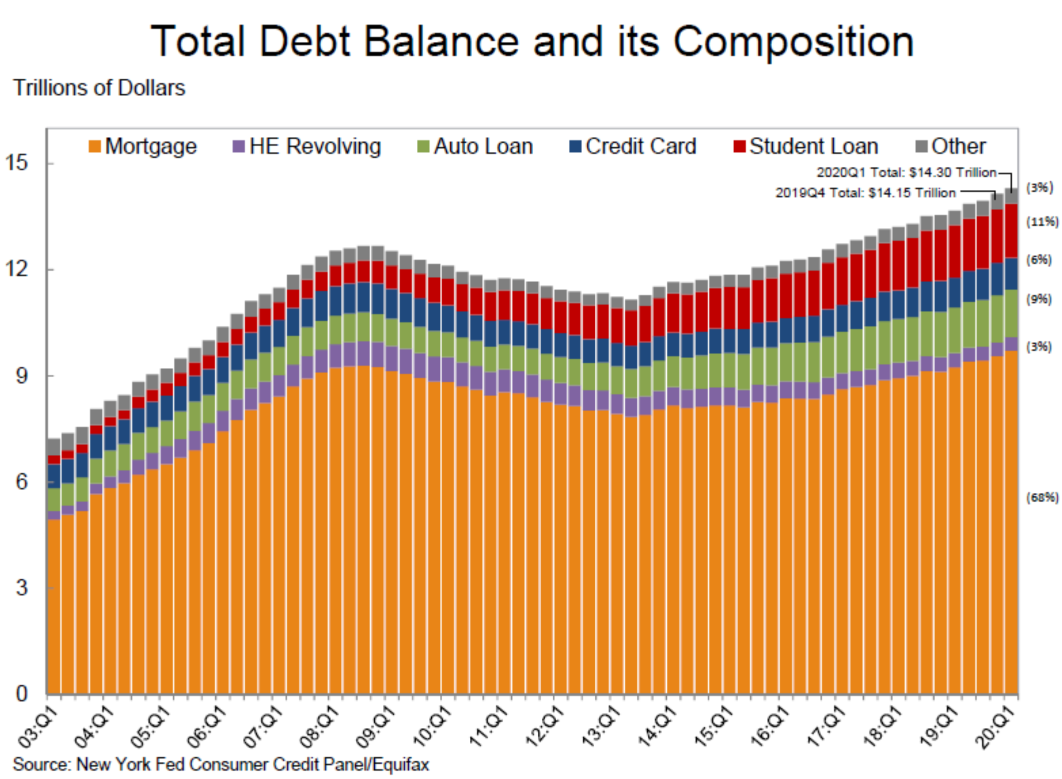


Consumer Debt and Savings Rates

According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the first quarter of 2020. However, the report captures consumer credit data as of March 31, 2020. As a result, the report states the data do not fully reflect the potential effects of COVID-19 that materialized in the second half of March 2020.

In the first quarter of 2020, total household debt increased by $155 billion (1.1 percent) to $14.30 trillion. The total balance is now $1.6 trillion higher, in nominal terms, than the previous peak of $12.68 trillion in the third quarter of 2008.

The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.71 trillion during the first quarter of 2020, a $156 billion increase from the fourth quarter of 2019. At $1.54 trillion, student loans were the second largest category of household debt. Student loan balances increased by $27 billion in the first quarter of 2020. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $4 billion to $386 billion. Auto loans grew by $15 billion in the fourth quarter to $1.35 trillion in total. Credit card balances decreased by $34 billion to $893 billion, which partly reflects a seasonal decline. However, the report also noted the decrease in credit card balance was notably larger than the same period last year, which may reflect the early signs of lower levels of consumer spending due to COVID-19.



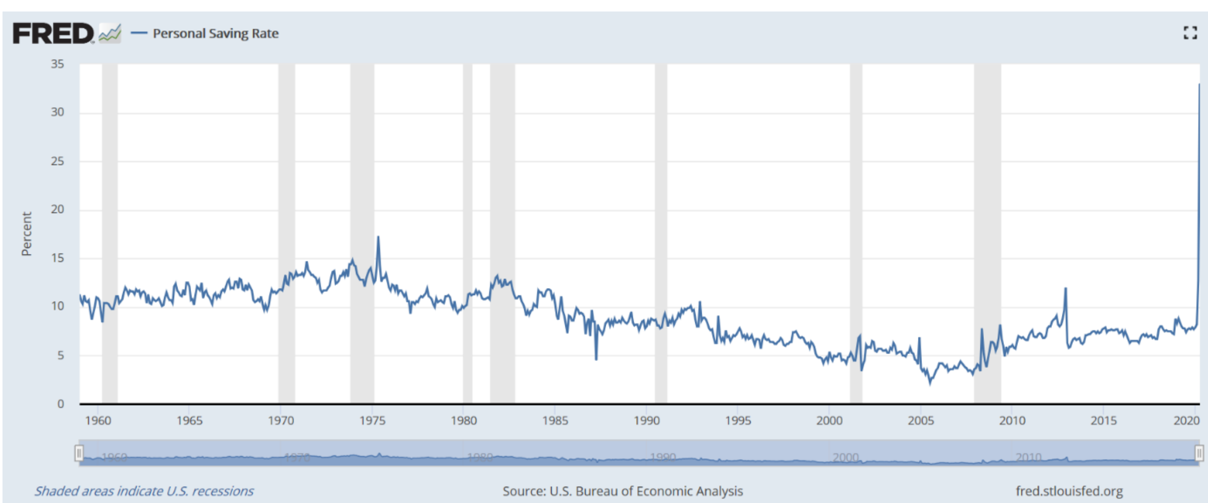
The Federal Reserve reported aggregate delinquency rates were mostly unchanged in the first quarter of 2020. As of March 31, 4.6 percent of outstanding debt was in some stage of delinquency, a 0.1 percentage point decrease from the fourth quarter of 2019. Of the $652 billion of debt that is delinquent, $449 billion is seriously delinquent (at least 90 days late or "severely derogatory", which includes some debts that have been removed from lenders books but upon which they continue to attempt collection).

Personal Savings Rate

In its May 29th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was a historically high 33.0 percent in April, a significant increase from March's revised rate of 12.7 percent. The personal savings rate is defined as personal saving as a percentage of disposable personal income. As seen in the chart below, the savings rate tends to increase during recessionary periods as consumers cut back on discretionary spending. However, April's savings rate was the highest since the federal government began tracking this measure dating back to the 1960's.

Analysts pointed to the COVID-19 pandemic for the explanation, as uncertainty gripped the nation's consumers and the closure of businesses afforded fewer opportunities to spend. Diane Swonk, chief economist at Grant Thornton, described the situation as "forced savings" in an interview with CNBC. BEA reported the growth in personal income in April primarily reflected an increase in government social benefits to persons as payments were made to individuals from federal economic recovery programs in response to the COVID-19 pandemic.

In April disposable personal income increased by $2.13 trillion or 12.9 percent while personal consumption expenditures decreased $1.89 trillion or 13.6 percent, which led to an increase in the personal savings rate.



In past reports, the Office of the State Comptroller has warned that the personal savings rate has remained low by historical standards, despite a decade of economic growth since the end of the Great Recession. Even before the current corona virus crisis hit, studies showed four in ten U.S. adults would have difficulty covering an emergency $400 expense due to lack of savings. In relatively good economic times, many working families lived paycheck to paycheck. Now with large scale job losses, a lack of savings will make the present downturn much more difficult to navigate.

Consumer Confidence – Stabilizes in May After Sharp Drop in April

The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.

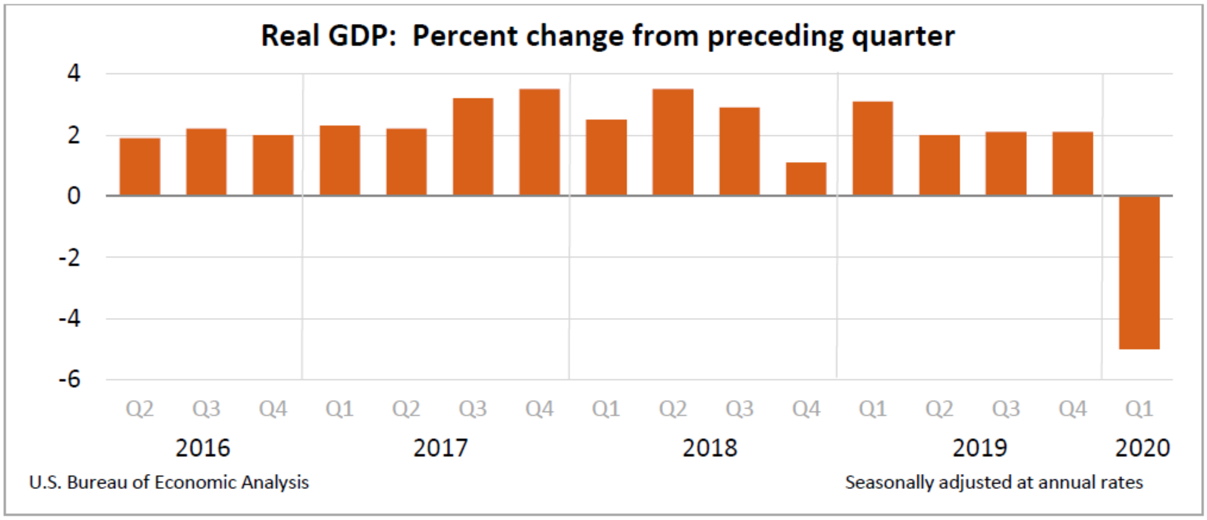
The Conference Board reported that the Consumer Confidence Index held steady in May following two months of significant declines. The Index now stands at 86.6, up from 85.7 in April. The result was better than anticipated; economists polled by Dow Jones had expected consumer confidence of 82.3 in May. The release noted the free-fall in confidence stopped in May and that short-term expectations moderately increased as the economy began to gradually re-open.

The Conference Board reported consumers remain concerned about their financial prospects: "While the decline in confidence appears to have stopped for the moment, the uneven path to recovery and potential second wave are likely to keep a cloud of uncertainty hanging over consumers' heads."

Business and Economic Growth

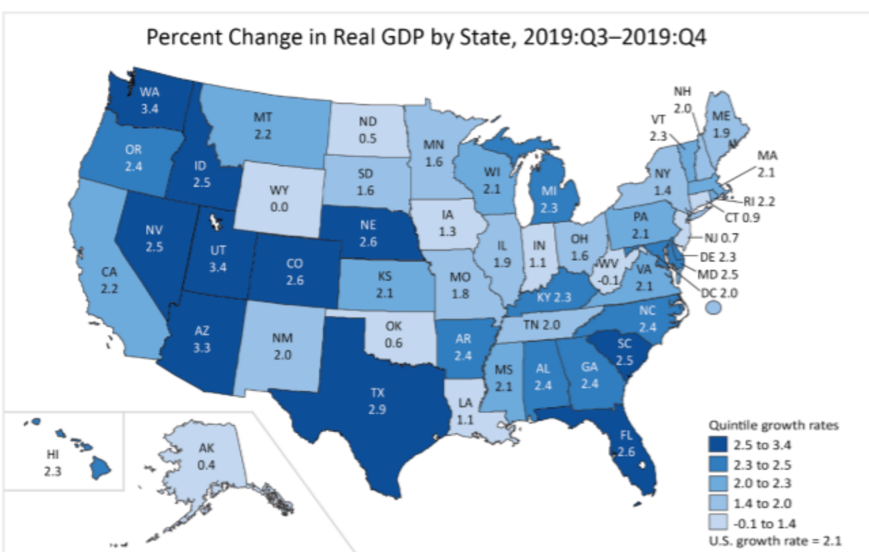
According to a May 28th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) decreased at an annual rate of 5.0 percent in the first quarter of 2020, according to BEA's second estimate. This represents the steepest decline since the Great Recession. In the fourth quarter, real GDP increased 2.1 percent.

BEA reported the decline in first quarter GDP was, in part, due to the response to the spread of COVID-19, as governments issued stay-at-home orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending. However, since the COVID-related slowdown did not begin until mid-March, many analysts believe the drop in second quarter GDP will be far worse.



The decrease in real GDP in the first quarter reflected declines in consumer spending, business investment, exports, and private inventory investment. These decreases were partly offset by positive contributions from residential fixed investment (i.e., spending on private residential structures and equipment) as well as federal, state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

In an April 7th report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the fourth quarter of 2019. Connecticut experienced a seasonally adjusted annual growth rate of just 0.9 percent, which ranked 44th in the nation overall. This growth rate was well below both the national average of 2.1 percent and only half of the New England regional average of 1.8 percent. The percent change in real GDP in the fourth quarter ranged from 3.4 percent in Washington and Utah to –0.1 percent in West Virginia. The next report covering state-level GDP results for the first quarter of 2020 is scheduled to be released July 7, 2020.

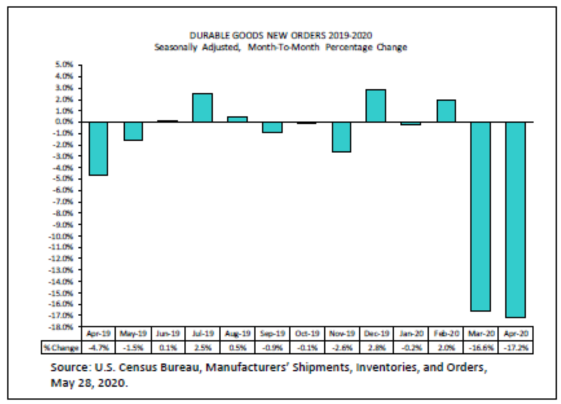


U.S. Bureau of Economic Analysis

In the same release, BEA also reported GDP growth for the full 2019 calendar year. On this measure Connecticut fared slightly better, with real GDP growing at 1.6 percent for the year, which ranked 33rd in the nation overall. However, Connecticut's growth rate was still below the national and New England regional average of 2.3 percent.

Durable Goods

According to a May 28th report by the U.S. Department of Commerce, new orders of manufactured durable goods decreased $35.4 billion to $170.0 billion in April, a drop of 17.2 percent. April's decline comes after dropping 16.6 percent in March. Transportation equipment led the decrease and was down $35.6 billion or 41.0 percent to $51.2 billion.



Orders for so called core capital goods dropped by 5.8 percent in April. Core capital goods are defined as non-defense capital goods excluding aircraft, which is considered a proxy for business spending. Data for March was revised sharply down to show these so-called core capital goods orders falling 1.1 percent instead of declining 0.1 percent as initially reported.

IHS Markit Flash Purchasing Manager's Index

The IHS Markit Flash Purchasing Manager's Index (PMI) is a composite index based on a weighted combination of the following five survey variables: new orders, output, employment, suppliers' delivery times, and stocks of materials purchased. Investors track PMI readings to get early indicators as to where the economy may be heading.

In its May 21st release, IHS Markit noted that U.S. private sector firms reported a slightly slower rate of contraction of activity in May, as small portions of the economy began to reopen. However, the fall in output was still substantial, as both manufacturers and service providers reported significant declines in client demand.

Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite PMI Output Index posted 36.4 in May, up from a historic low of 27.0 in April. Despite the improvement, this represented the second-sharpest decline in business activity since the series began in late-

2009. In addition, IHS reports both service sector and manufacturing firms registered the second-sharpest reductions in new orders since the global financial crisis.

Data collected May 12-20

IHS Markit Composite PMI and U.S. GDP

Sources: IHS Markit, U.S. Bureau of Economic Analysis

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