News from
COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE WEDNESDAY, SEPTEMBER 1, 2021

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COMPTROLLER LEMBO, IN INITIAL FY22 REPORT, PROJECTS GENERAL FUND SURPLUS OF $265.3 MILLION, NOTES ECONOMIC EFFECTS OF DELTA VARIANT

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a General Fund surplus of $265.3 million for Fiscal Year 2022, the first projection for the current fiscal year. Lembo cited lingering uncertainty as the COVID-19 Delta variant impacts the economy, jeopardizing the progress made over the last few months.

Concerns over the variant, and corresponding rising infection and hospitalization rates nationally, have resulted in modest drops in consumer spending and consumer confidence. Despite this, job gains were made on the national level, up 16.7 million since April 2020. Connecticut added 9,400 jobs in July, the seventh consecutive month of employment gains. Even with the surge of new COVID cases, employment trends show signs of consistent recovery, particularly in the leisure and hospitality sector. Wages have been rising and may be further aided in Connecticut as the minimum wage was increased to $13.00 per hour on Aug. 1.

"Connecticut's economy continues to grow modestly," said Lembo. "It's encouraging to see so many in Connecticut finding employment and wages rising to meet the new demand for labor. Our state largely avoided the worst-case economic scenarios forecast at the onset of the pandemic due to the strength of the stock and housing markets and essential federal aid. As many federal programs come to an end, it will be critical to monitor the effects on residents and employers and intervene when necessary to protect the economic gains we've achieved and continue to build on that momentum."

The surplus projection provided by Lembo is somewhat lower than that of the Office of Policy and Management. In a letter to Governor Ned Lamont, Lembo noted the difference is owed to an expected increase in adjudicated claims resulting from the SEBAC v. Rowland legal settlement. Lembo noted that it remains early in the fiscal year and projections should be treated cautiously.

Connecticut's Budget Reserve Fund ("Rainy Day Fund") is projected to far exceed its statutory cap, generating a sizeable payment towards unfunded pension liabilities. The projected excess revenue from volatility transfers for Fiscal Year 2021 is estimated at $1.14 billion, which does not include additional funds from the FY 21 General Fund surplus, which will be deposited after final year-end auditing. Final statutory tax accruals for FY 21 are in the process of being calculated by the Department of Revenue Services and will be finalized later this month. The final volatility transfer amount will be determined at that point.

"Paying down our unfunded liabilities to such a large extent is a result of good planning and sound fiscal policy, something I am proud to have championed with bipartisan support," said Lembo. "Reducing the burden of legacy costs presents us with an opportunity to offer relief to Connecticut residents now, and in the long-term."

The state's housing market continues to be strong with median sales prices of single-family homes up 13.3 percent from this time last year. The average number of days on the market also decreased. In July, the average home sold for 102.8 percent of its list price. Supply issues continue to put pressure on potential homebuyers. Despite continued rising prices, the total number of home sales declined, and most of the activity is contained in upper-end markets, restricting opportunities for those seeking starter homes. Renters are also feeling the effects of rising housing costs. According to an Apartment Guide analysis in June, Connecticut's average rental costs have risen 12.42 percent this year.

Inflation concerns are also impacting consumer confidence. Many cite concern with rising food and gas prices around the country in addition to fears of the Delta variant. Though consumer confidence has regressed, the stock market ended the month with a strong performance. Historically, August and September are the lowest performing months for the market, but all three major indices ended the month at, or near, record-highs.

"After all the nation has endured since March of 2020, it's natural for consumers to be wary of the surge of this new variant," Lembo said. "I expect we'll continue to see an erratic recovery, and may experience some short-term setbacks, but with increasing rates of vaccinations and thoughtful continued government assistance, I'm hopeful that we will see more economic progress over the next few months."

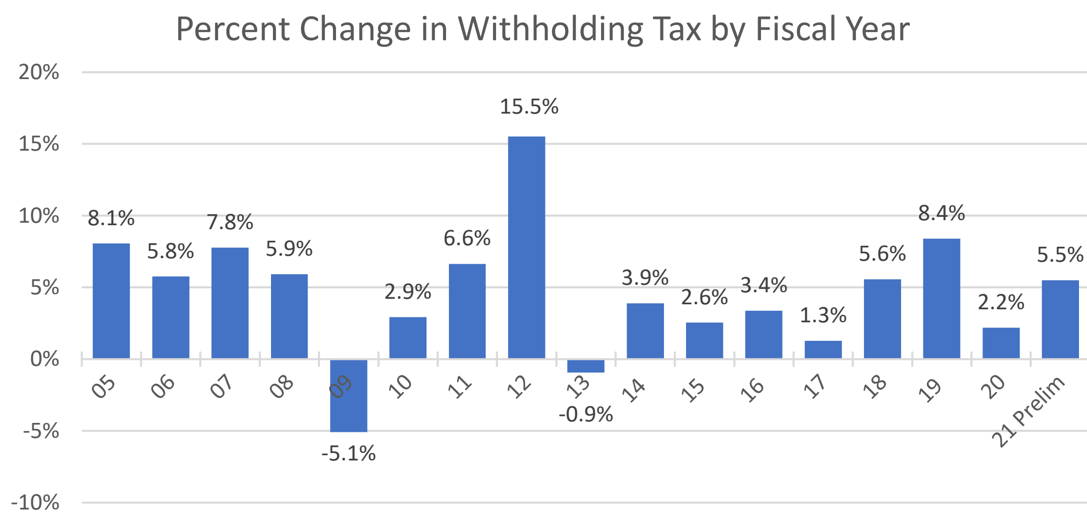
Fiscal Year 2021 year-end adjustments are still being processed and could have a significant impact on the final operating results for that year. Lembo said he expects to issue his preliminary reporting of unaudited operating results for Fiscal Year 2021 by Sept. 30.

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 and Withholding Receipts

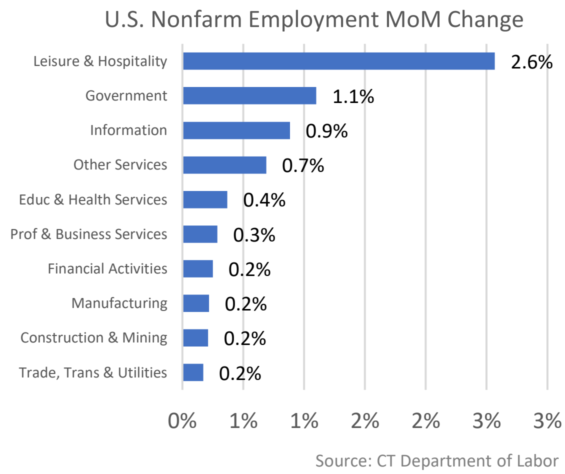
The withholding portion of the income tax is the largest single General Fund revenue source. Current collection trends for FY 2021 through June show withholding receipts growing by 5.5 percent above FY 2020 levels, an improvement over the previous month. This result coincides with job growth reported by Connecticut Department of Labor (DOL) in recent months. The budget target for withholding represents 4.4 percent growth above FY 2020 realized amounts. Therefore, the current estimate is somewhat conservative based on year-to-date growth over the previous fiscal year. One remaining item to watch for year-end is the statutory accrual process. By law certain tax collections, including income tax withholding, are accrued through the first five business days in August and credited back to the prior fiscal year, in this case FY 2021. Those collections could have a significant impact on year-end results.

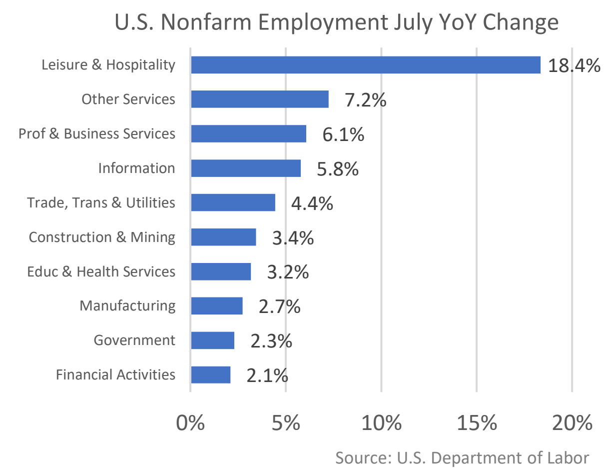


National Jobs & Unemployment Picture – Strong Improvement in July

The national jobs and unemployment picture continued to brighten in July as the labor market improved. The Bureau of Labor Statistics (BLS) reported the U.S. added 943,000 jobs in July, a continued improvement from June's revised estimate of +938,000. Notable job gains occurred in leisure and hospitality, local government education, and professional and business services. Nonfarm payroll employment is up by 16.7 million since April 2020 but is down by 5.7 million, or 3.7 percent, from its pre-pandemic level in February 2020.

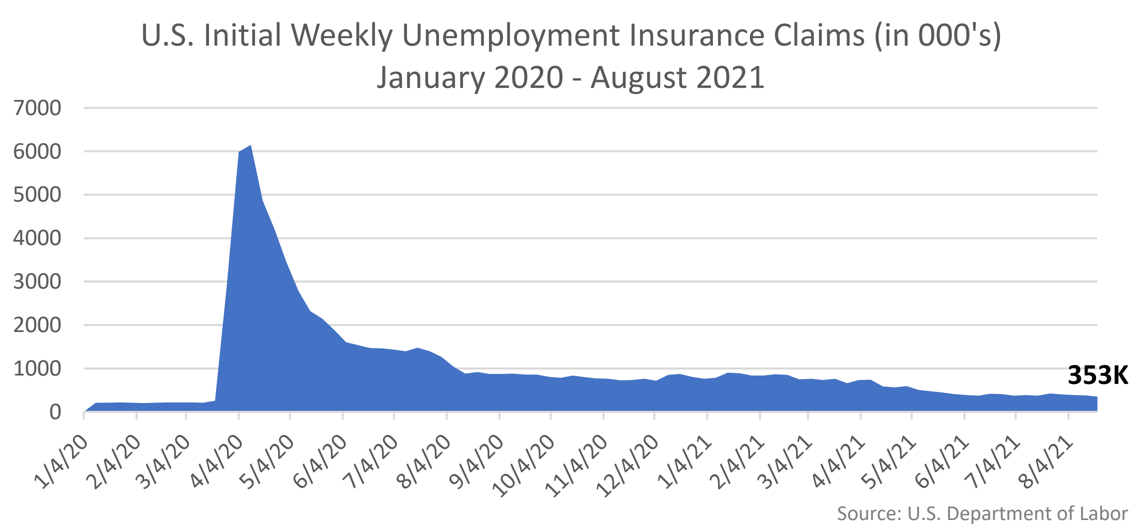
The graphs below display the month over month and year over year net change in employment by sector. On a national level, all sectors experienced gains from last month and last year.





In July, the national unemployment rate declined by 0.5 percentage points to 5.4 percent, which is still higher than pre-pandemic levels (3.5%). The number of long-term unemployed people (those jobless for 27 weeks or more) decreased by 560,000 to 3.4 million, and account for 39.3 percent of the total unemployed in July. "With vaccinations rising, schools reopening, and enhanced unemployment benefits ending, some factors that may be holding back job seekers are likely fading. While the Delta variant presents a near-term risk, the prospects are good for continued progress toward maximum employment," says Federal Reserve Chair Jerome Powell.

For the week ending August 21st, BLS reported that seasonally adjusted initial claims totaled 353,000. This is somewhat high by historical standards and represented an increase of 4,000 from the previous week's level of 349,000. As can be seen in the graph below, despite clear improvement in initial claims for unemployment insurance, there is still a long way to go for the jobs recovery to reach pre-pandemic levels. Weekly initial UI claims averaged closer to 210,000 before the coronavirus-related shutdowns began a little more than a year ago.



In the same release, BLS reported the total receiving unemployment benefits was approximately 12 million for the week ending August 7th, up from 11.8 million the previous week and down from

27.5 million the previous year. This large number still indicates serious, ongoing struggles with unemployment for a significant portion of the population. The totals reported in the chart below do not represent unique individuals, rather the number collecting from all programs.

Continued Weeks Claimed Filed for UI Benefits in All Programs (Unadjusted)				
Week Ending	**August 7**	**July 31**	**Change**	**Prior Year**
Regular State	2,795,245	2,836,917	-41,672	14,071,142
Federal Employees	9,355	9,478	-123	13,914
Newly Discharged Veterans	5,963	5,935	+28	13,503
Pandemic Unemployment Assistance	5,004,753	4,900,047	+104706	11,348,092
Pandemic EmergencyUC	3,793,956	3,846,045	-52,089	1,497,806
Extended Benefits	351,427	177,916	+173511	224,423
State Additional Benefits	1,090	1,316	-226	2,674
STC/Workshare	45,843	47,813	-1,970	304,861
TOTAL	12,007,632	11,825,467	+182165	27,476,415

Source: U.S. Department of Labor

Additional Federal Assistance Runs out on Labor Day

Four federal unemployment benefits programs are set to expire Labor Day weekend. 1) Federal Pandemic Unemployment Compensation (FPUC): $600 then $300 in weekly benefits in addition to state unemployment benefits, 2) Pandemic Unemployment Assistance (PUA): allows gig workers, freelance, self-employed people to get regular state unemployment benefits, 3) Pandemic Emergency Unemployment Compensation (PEUC): extends aid to those who've exhausted their state's benefits period, and 4) Mixed Earner Unemployment Compensation (MEUC): allows mixed earners to temporarily qualify for unemployment benefits and receive an additional $100 weekly.

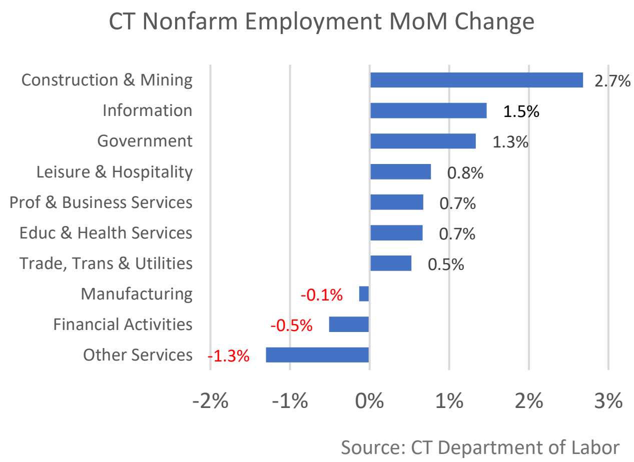
Twenty-six states, not including Connecticut, have already ended these federal benefits between June and July to encourage people to get back to work. Economists argue that factors related to the pandemic are keeping some people from re-joining the labor market, not unemployment benefits. Factors such as health and safety concerns, childcare, early retirement, and switching industries are keeping unemployment higher than anticipated.

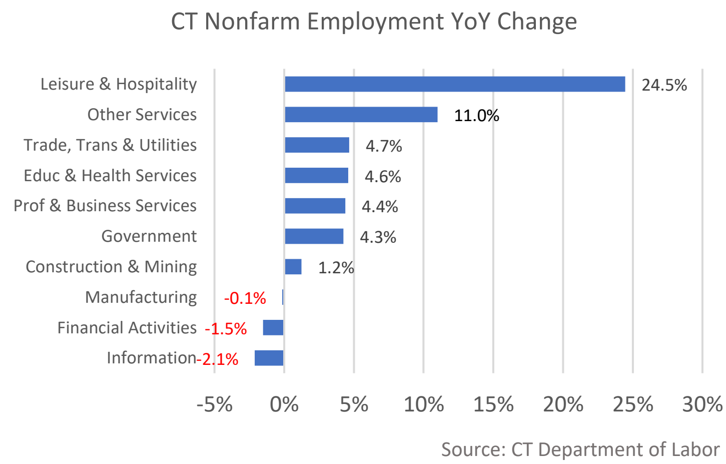
In Connecticut, for the week ending August 7th, continued claims (not seasonally adjusted) for the Pandemic Unemployment Assistance (PUA) program totaled 22,174. For the Pandemic Emergency Unemployment Compensation Program (PEUC), continued claims totaled 59,560. As of September 4th, these programs will no longer be available.

Connecticut Jobs Picture – July Gains Largest in 2021

After Connecticut experienced historic levels of employment losses in March and April of 2020, the state began regaining jobs over the following six months. Later in the year, the employment recovery stalled as coronavirus infection rates rose. More recently, new information released by the Connecticut Department of Labor (DOL) indicates Connecticut's labor market is gradually improving through 2021.

On August 19th, DOL reported the preliminary Connecticut nonfarm job estimates for July 2021 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 9,400 net jobs (0.6%) in July to a level of 1,600,300 jobs seasonally adjusted. This follows job growth of 1,500 positions in June and represents seven consecutive months of employment gains. The graphs below display the month over month and year over year net change in employment by sector.

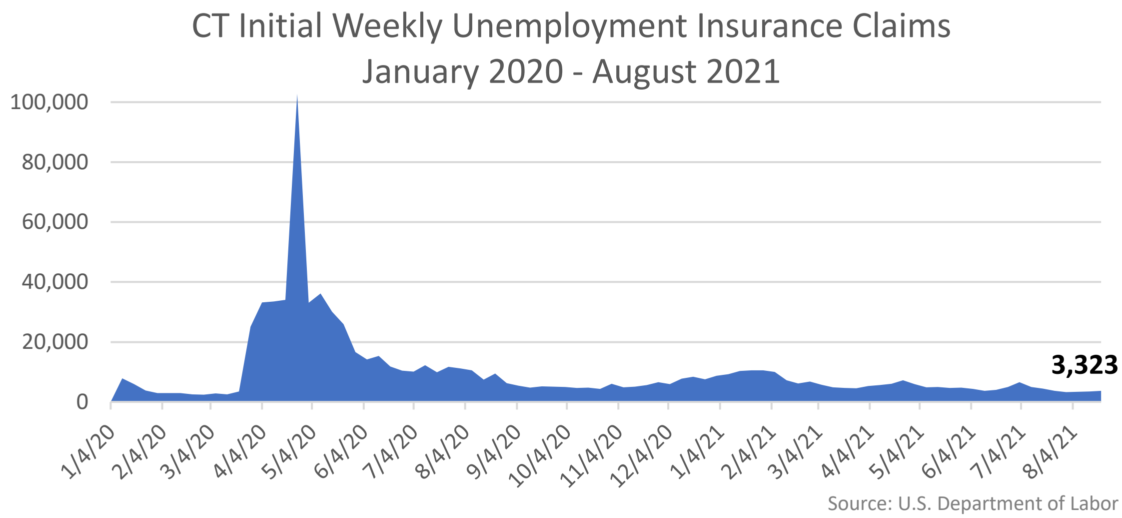




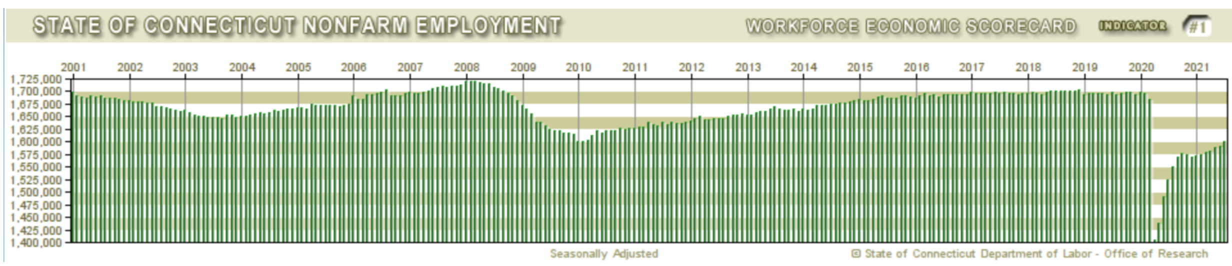
On a month-to-month basis, DOL noted that seven of the ten major industry sectors experienced improvement while three experienced decline. Government lead the way (+3,000 jobs), followed by education and health services (+2,200), construction and mining (+1,500), and trade, transportation and utilities (+1,500). The sectors that lost jobs include other services (-800), financial activities (-600), and manufacturing (-200). Overall, the government sector added 3,000 jobs, while the private sector gained 6,400. The government sector includes all federal, state, and local employment, including public education and Native American casino employment located on tribal reservation land.

On a year-over-year basis, seven sectors experienced gains and three experienced losses. The leisure & hospitality sector, hardest hit during the pandemic, experienced the largest gains on a percentage basis, growing 24.5 percent from a year ago. This was followed by other services (+11%) and trade, transportation & utilities (+4.7%). Information, financial activities, and manufacturing sectors lost jobs over the same period.

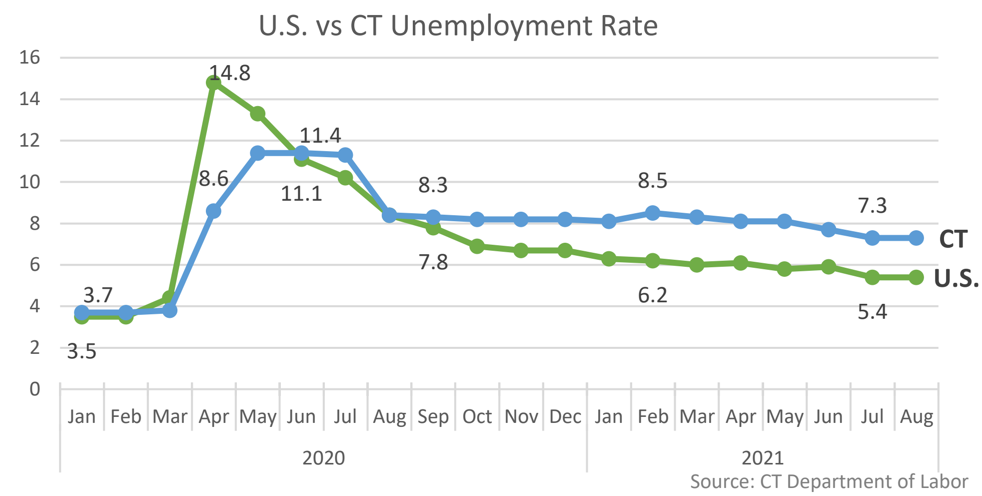
According to the Department of Labor, for the week ending August 21st, initial claims totaled 3,323 (not seasonally adjusted). Unemployment claims for first-time filers (seasonally adjusted) in Connecticut were an average of 3,937 per week in July, down 587 (-13.0%) from the June 2021 (4,524) level and lower by 6,857 claims (-63.5%) from the average weekly count of 10,794 in July 2020. This is the first time Connecticut monthly average weekly initial claims have been below 4,000 since February 2020 (3,243).



Connecticut reached its pandemic-related employment low in April of 2020. The state's total payroll employment is now 75,300 positions higher than July 2020, representing an increase of 4.9 percent. Connecticut has now recovered 67.2 percent of the 292,400 jobs lost in March and April 2020 due to the COVID-19 lockdown. The DOL graph below illustrates the longer-term trend.



Connecticut's official unemployment rate stood at 7.3 percent in July 2021, down from 7.7 percent a month earlier and 11.3 percent from a year ago. Connecticut's unemployment rate remains one of the highest across the country but continues to improve gradually each month. Danté Bartolomeo, Interim Commissioner of CT DOL says, "Sixteen months after a global pandemic created an unprecedented economic lockdown, Connecticut's economy and job market are showing strong and consistent signs of recovery. As childcare capacity increases, schools go back into session, and vaccinations continue, more workers are entering the job market—some are finding higher-paying jobs, some are making major career changes. It's a job seeker's market and the timing works well with the end of federal programs approaching."



Income and Salary

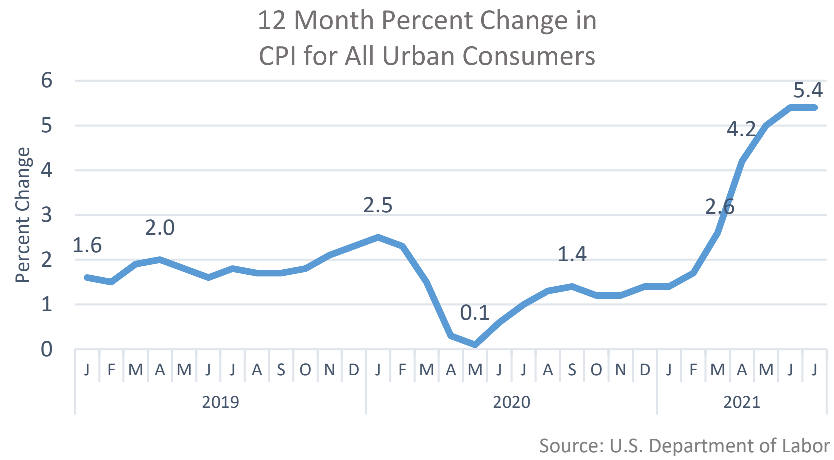
According to the U.S. Department of Labor, in July, national average hourly earnings for all employees on private nonfarm payrolls increased by 11 cents to $30.54, following increases in the prior 3 months. The data for recent months suggest that the rising demand for labor associated with the recovery from the pandemic may have put upward pressure on wages. However, because average hourly earnings vary widely across industries, the large employment fluctuations since February 2020 complicate the analysis of recent trends in average hourly earnings.

In Connecticut, July 2021 average hourly earnings at $33.66, not seasonally adjusted, were higher by $0.06 (0.2%) from the July 2020 estimate ($33.60). The resultant average private sector weekly pay came in at $1,144.44, down $8.04 or 0.7 percent from a year ago. This could reflect the recent addition of lower paying jobs in the service sector as it continues to recover from pandemic-related employment losses. Due to fluctuating sample responses, DOL warns that private sector earnings and hours estimates can be volatile from month-to-month.

Inflation Rises in July but Annual Rate Remains Steady

Inflation met economist's expectations, coming in at an annual rate of 5.4 percent for the 12 months ending in July, a 0.5 percent increase month over month, according to the U.S. Department of Labor. The annual rate of 5.4 percent remained the same from the 12 months ending in June. The largest price increases were seen in shelter, food, energy, and new vehicles. The food away from home index rose 0.8 percent in July, its largest monthly increase since February 1981. Core CPI, which excludes food and energy, rose 0.3 percent in July for an annual rate of 4.3 percent, its smallest monthly increase in 4 months.

While inflation has reached levels experienced in the great recession, some analysts believe that it has peaked and will retreat within the next few months. The following graph displays the year over year inflation by month.



The Personal Consumption Expenditures (PCE) index is the Federal Reserve's preferred measure of inflation because it removes volatile price categories such as food and energy. According to the Bureau of Economic Analysis, the 12-month change in Personal Consumption Expenditures (PCE) prices was 3.6 percent in July, holding steady from June numbers.

Another forward-looking statistic used to predict long term inflation is the Core Sticky Price Consumer Price Index, which also excludes items such as food and energy. The Federal Reserve Economic Data (FRED) tracks this statistic since it incorporates expectations about future inflation to a greater degree than prices that change on a more frequent basis. The Core Sticky-Price CPI increased 2.7% in July and its 12-month percent change was 2.35%. The chart below shows the longer-term trend.

On August 27th, Federal Reserve Chairman Jerome Powell reiterated that increases in inflation are transitory and due to a narrow group of goods and services that were directly affected by the pandemic. Long-term inflation expectations have moved much less than actual inflation, suggesting that households, businesses, and market participants also believe that current high inflation readings are likely to prove transitory.

The central bank issued guidance last year indicating they will continue accommodative monetary policy until substantial progress is made to achieve maximum employment and price stability. On August 27th, Powell indicated that the Federal Open Market Committee (FOMC) believes substantial progress has been met which indicates they will begin the tapering process soon. This will include reducing the pace of asset purchasing but *not* increasing interest rates just yet. There is no official announcement or date of when this process will begin, but analysts expect an announcement this Fall.

Connecticut Housing Prices Continue to Rise in July

For Connecticut's housing market, sales declined in July while prices continued to rise. Berkshire Hathaway HomeServices reported year over year sales of all property types decreased 10.75 percent and new listings were down 12.17 percent. However, median sales price increased by 13.33 percent and the median list price increased by 9.97 percent. Average sales price increased 24.71 percent and the average list price increased 20.56 percent. Average days on the market decreased 50.72 percent—69 days in July 2020 and 34 days in July of 2021. On average, sales prices came in above list prices, with a list/sell price ratio of 102.8 percent. The table below contains more detailed data for the Connecticut housing market.

Connecticut Market Summary

	July 2021	July 2020	% Change	YTD 2021	YTD 2020	% Change
New Listings	6,255	7,122	-12.17%	39,604	38,402	3.13%
Sold Listings	5,195	5,821	-10.75%	30,202	25,195	19.87%
Median List Price	$329,900	$300,000	9.97%	$309,900	$274,900	12.73%
Median Selling Price	$340,000	$300,000	13.33%	$317,500	$270,000	17.59%
Median Days on the Market	17	39	-56.41%	24	49	-51.02%
Average Listing Price	$535,110	$443,866	20.56%	$494,714	$398,762	24.06%
Average Selling Price	$542,885	$435,334	24.71%	$495,424	$385,508	28.51%
Average Days on the Market	34	69	-50.72%	47	78	-39.74%
List/Sell Price Ratio	102.8%	98.7%	4.08%	101.4%	97.8%	3.66%

Source: Berkshire Hathaway HomeServices

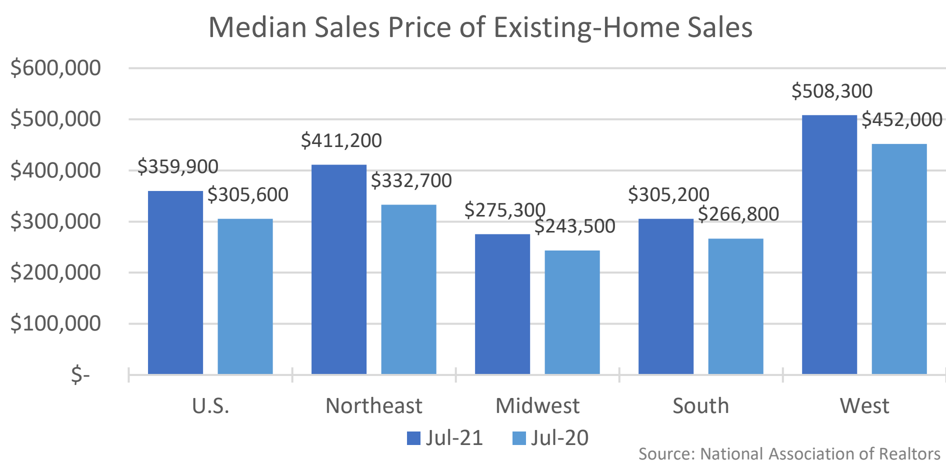
National Housing Market

The National Association of Realtors (NAR) reported existing-home sales increased 2 percent to a seasonally adjusted annual rate of 5.99 million in July. Three of the four major U.S. regions had month-over-month sales inclines in July. Year-over-year sales were up 1.5 percent from a year ago (5.9 million in July 2020) reflecting the pandemic's impact.

NAR reported the median existing-home price for all housing types was $359,900, up 17.8 percent from July 2020 as prices increased in every region. July's national price growth marks 113 straight months of year-over-year gains dating back to March 2012. All regions of the country experienced double-digit price growth from a year ago. The largest regional gains on a percentage basis were in the Northeast (+23.6%), followed by the South (+14.4%), the Midwest (+13.1%), and the West (+12.5%).

July's inventory increased 7.3 percent from last month, with 1.32 million homes for sale indicating some relief from the current tight inventory conditions. Year-over-year inventory is 12 percent lower, which marks 26 straight months of year-over-year declines. Unsold inventory sits at a 2.6-

month supply at the present sales pace, up slightly from the 2.5-month figure recorded in June but down from 3.1 months in July 2020. "We see inventory beginning to tick up, which will lessen the intensity of multiple offers," said Lawrence Yun, NAR's chief economist. "Much of the home sales growth is still occurring in the upper-end markets, while the mid- to lower-tier areas aren't seeing as much growth because there are still too few starter homes available."



Rental Market

According to the July 2021 Zillow Real Estate Market Report, U.S. rents grew 9.2% year-over-year to $1,843/month. In Connecticut, average rent increased 12.42 percent this year, from $1,661 to $1,868 according to Apartment Guide. Thirty five percent of households rent their homes in Connecticut.

While some residents benefitted from the booming housing market, not all felt the positive effects. In Connecticut, low income families are concerned about foreclosures, renters are worried about evictions, and the current housing market is putting home ownership out of reach. In Hartford, the average renter needs to save 9.1 years for a 20 percent down payment on a $189,579 starter home, according to a Zillow study. Sixty-five percent of first-time home buyers do not put 20 percent down because it is unrealistic, especially since home prices have increased rapidly in 2021.

Commercial Real Estate – Delinquency Rates Drop in July

While many analysts focus on the residential housing market, it is also worthwhile to monitor trends in the commercial real estate market, especially for the impact of COVID-19 on the health of the sector. The Mortgage Bankers Association's (MBA) CREF Loan Performance Survey found delinquency rates for mortgages backed by commercial and multifamily properties declined hitting the lowest point since the start of the pandemic. In all, 95.5 percent of outstanding loan balances were current, up from 95.2 percent in June.

Loans backed by lodging and retail properties, the sectors most directly affected by the pandemic, continue to see the greatest levels of stress, but both improved in July. The overall share of industry, office, and multifamily property loan balances that are delinquent decreased from last month.

Percent of Balance Not Current			
	July 2021	June 2021	Percent Change
Lodging Loans	15.5%	17.6%	-2.1%
Retail Loans	9.0%	10.0%	-1.0%
Industry Property Loans	1.8%	3.1%	-1.3%
Office Property Loans	3.2%	3.5%	-0.3%
Multifamily Property Loans	1.5%	2.1%	-0.6%

Source: Mortgage Bankers Association

Regarding the survey results, Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research noted, "Loan performance continues to be very property-type dependent, with lodging loans still the hardest hit but showing strong improvement. Office properties saw a decline in overall delinquencies, but there was an uptick in loans that are newly delinquent. The strength of the economy should continue to support most property types in the coming months."

CDC Eviction Moratorium Overturned by Supreme Court

The federal government instituted an eviction moratorium in September of 2020 which lapsed July 31, 2021. Due to congressional and public pressure, the CDC issued a new order temporarily halting evictions for people in counties experiencing substantial or high rates of Covid-19 transmission set to expire October 3rd. The order came as a relief to many in Connecticut since state protections expired on June 30, 2021. Since June 30th, landlords have filed 1,394 eviction cases with the largest numbers in Bridgeport (130), Hartford (129), and Waterbury (74). On August 26th the Supreme Court ruled that the CDC order is illegal due to a lack of congressional authorization. Now there are no federal or state eviction moratoriums effective in Connecticut.

To address the eviction crisis, the federal government allocated $45 billion in rental assistance to be distributed at the state level. Connecticut established the UniteCT Program to provide landlords and tenants with rental and utility assistance. As of August 31st, 9,037 cases had been approved and $70,428,778 total dollars had been allocated out of $212.3 million budgeted.

Along with establishing UniteCT, Governor Lamont also issued Executive Order 12D which provides protections for renters to reduce the number of evictions. The following provisions are in effect until September 30th:

1. Landlords must complete a UniteCT rental assistance application before delivering a notice to quit for nonpayment of rent;
2. Landlords must give tenants a 30-day notice to quit if they intend to evict; and
3. Landlords must provide information on the UniteCT program alongside any notice to quit.

According to the most recent U.S. Census Bureau Household Pulse Survey, 12,097 Connecticut tenants reported it is likely they will have to leave their current home in the next two months due to eviction. In addition, 38,452 Connecticut tenants reported they were not caught up on rent, and 158,492 Connecticut tenants reported low confidence in their ability to make next month's rent payment.

Experts are concerned a wave of evictions could generate far reaching social and economic issues. Evictions taint a tenant's record and can reduce credit ratings. This further deters the ability to secure safe, affordable housing which affects employment, educational opportunities, health outcomes, and much more. Evictions can force people to stay in crowded shelters, move in with family or friends, or become homeless which decreases the ability to social distance or quarantine properly. With Delta variant cases increasing across the country, officials are concerned a wave of evictions could create long-lasting economic and health problems.

Stock Market

As calendar 2020 came to end, the overall economy had not recovered to its pre-pandemic levels, but the stock market ended the year at or near record highs. The DOW gained 7.25 percent and ended the year at an all-time high. The NASDAQ, heavily composed of tech stocks, was the strongest performer and was up 43.64 percent. The S&P 500 rose to record levels as 2020 ended, rising 16.26 percent for the year.

Calendar 2021 second quarter earnings results fueled a strong stock market. Profit growth exceeded analysts' forecasts which now expect the highest quarter for earnings growth since 2009. Historically, August and September are the lowest performing months for investors, but this year has proved otherwise. The DOW hit a record high closing in August and is up 15.53% this year. The S&P 500 and NASDAQ closed at record highs on Monday, August 30th, with the S&P 500 up over 3% this month, and 20% this year as of this writing.

A year and a half ago, in late March 2020, the stock market was in free fall as the pandemic-related shutdowns were taking place. As the charts below illustrate, all three indices have significant gains since then. To give a broader perspective, three-year results are shown:

<u>DOW Jones Industrial Average</u>

NASDAQ Composite Index

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 S&P 500 from 2000 to the present:

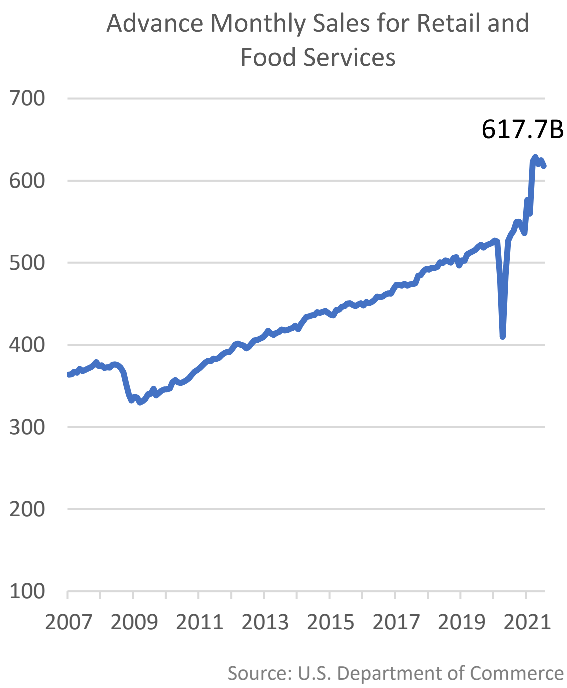
The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 25-30 percent of total state income tax receipts, but can be an extremely volatile revenue source.

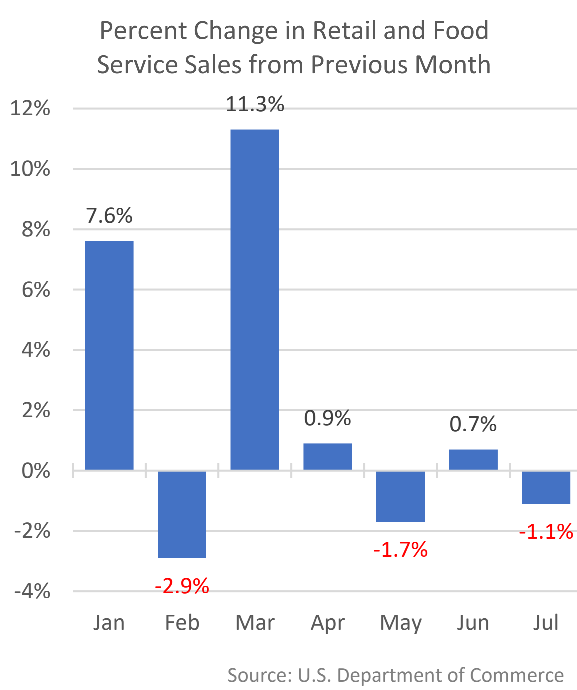
FY 2020 results showed estimated and final payments were down a combined 13.2 percent compared with the previous year. Preliminary estimates for the first ten months of FY 2021 indicate better than expected results through April 2021.

To date, combined estimated and final payments are 116.6 percent above FY 2020's level, with estimates up 56.6 percent and final payments up 240.8 percent. Caution should be used in interpreting this year-over-year comparison since the 2020 income tax filing deadline was postponed by three months last year due to the pandemic, so these increases may be largely due to timing difference between years.

Consumer Spending – Decrease in July Amid Covid Fears

Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output. On August 17th, the U.S. Department of Commerce reported that U.S. advance retail sales were $617.7 billion in July, down 1.1 percent from June. This was a larger drop than analysts expected, possibly due to the spreading of the delta variant of COVID-19.





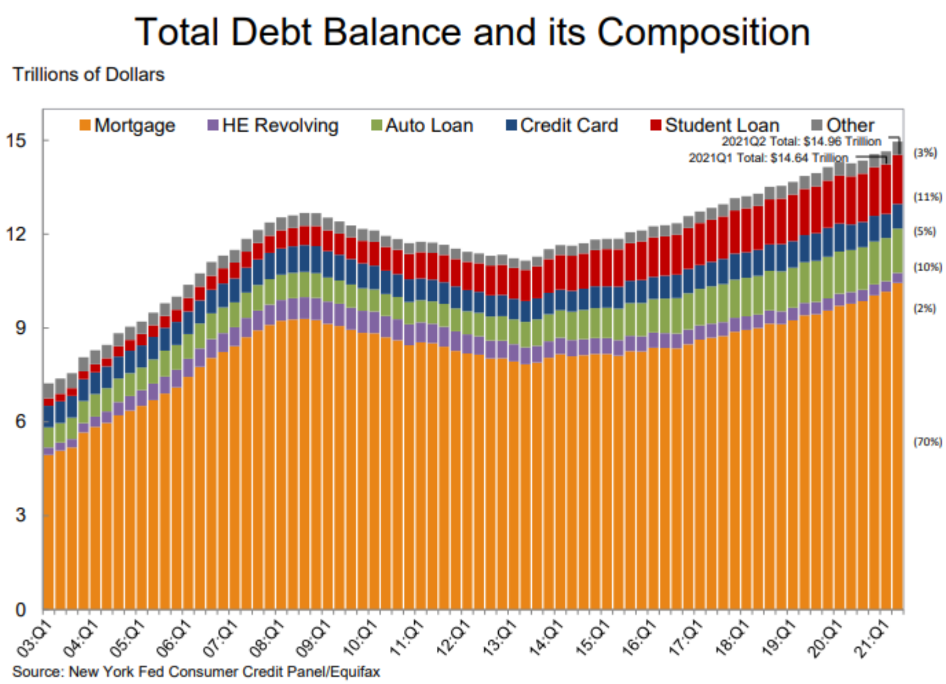
The sectors with the biggest gains in July were miscellaneous store retailers (+3.5%), gasoline stations (+2.4%), and food services and drinking places (+1.7%). Sectors that experienced a step back included motor vehicle and parts dealers (-3.9%), nonstore retailers (-3.1%), and clothing stores

(-2.6%). Core retail sales decreased 1.5 percent in July, after increasing 0.5 percent in June. This category excludes automobiles, gasoline, building materials and food services.

Consumer Debt

According to the Federal Reserve Bank of New York, total household debt increased by $313 billion in the second quarter of 2021 to $14.96 trillion, a 2.1 percent rise from the first quarter. Balances are $812 billion higher than at the end of 2019 and $691 billion higher than quarter 2 of 2020. The 2.1 percent increase in aggregate balances was the largest since 2013 and marked the largest nominal increase in debt balances since 2007.

Mortgage balances – the largest component of household debt – increased by $282 billion to $10.44 trillion at the end of June. Outstanding student loans, the second largest category of household debt, totaled $1.57 trillion, a $14 billion decrease from last quarter. Auto loan balances increased by $33 billion, reaching $1.4 trillion. Balances on home equity lines of credit decreased by $13 billion, the 18th consecutive decrease since the fourth quarter of 2016, bringing the outstanding balance to $322 billion. Credit card balances increased by $17 billion, but remain $140 billion lower than they had been at the end of 2019.



Delinquency rates have remained low since the beginning of the pandemic, reflecting forbearances provided by the CARES Act and lenders, which protect borrowers' credit records from the reporting of skipped or deferred payments. As of June, 2.7% of outstanding debt was in some stage of delinquency, a two-percentage point decrease from the fourth quarter of 2019, just before the pandemic. Of the $405 billion of debt that is delinquent, $316 billion is seriously delinquent (at least 90 days late).

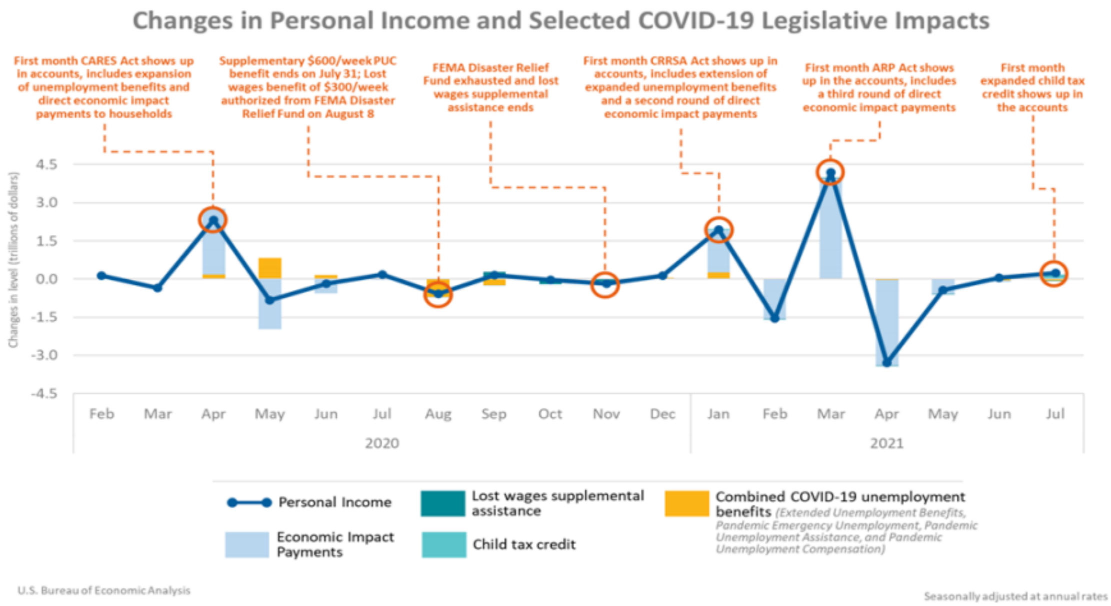
Personal Savings Rate

In its August 27th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 9.6 percent in July, an increase from 9.4 percent in June. Previous increases were largely driven by government social benefits, primarily direct economic impact payments to households from the American Rescue Plan Act.

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.

In July, personal income increased $225.9 billion (1.1 percent) while personal consumption expenditures (PCE) increased $42.2 billion (0.3 percent). As a result, disposable personal income (DPI) increased $198 billion (1.1 percent). According to the BEA, the increase in personal income in July reflected increases in government social benefits and compensation of employees mostly in the private sector.

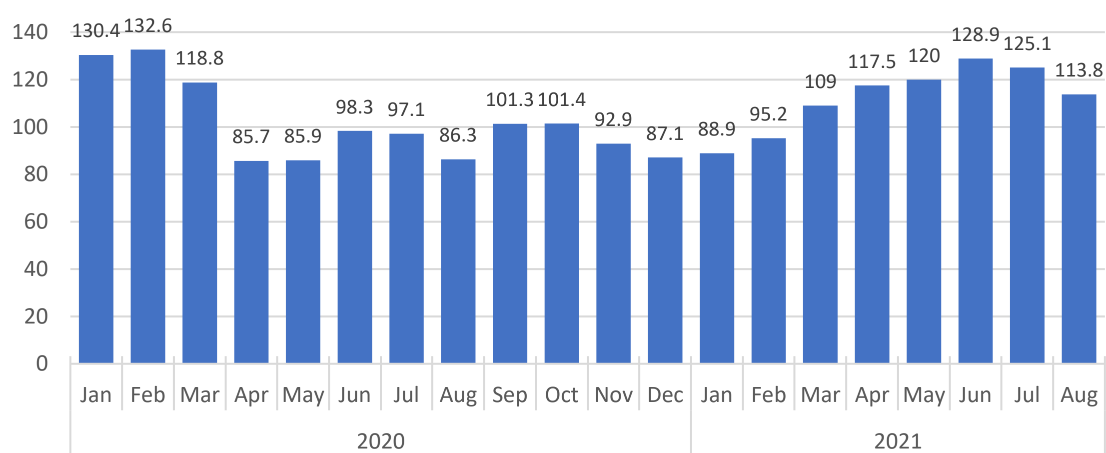
As can be seen from the chart above, the personal savings rate has been volatile since the pandemic began – with large swings in both directions. BEA noted that over the past 15 months, changes in personal income have primarily reflected changes in governmental social benefit payments, which were based on the enactment and expiration of various legislative acts and related programs in response to COVID-19. Examples include direct economic impact payments to households and supplemental weekly unemployment benefits. The BEA graphic below illustrates these legislative changes and their impact on personal income during the pandemic.



Consumer Confidence Drops in August

The U.S. consumer confidence index (CCI) is published by the Conference Board and 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 CCI now stands at 113.8, down from July's revised reading of 125.1.

U.S. Consumer Confidence Index



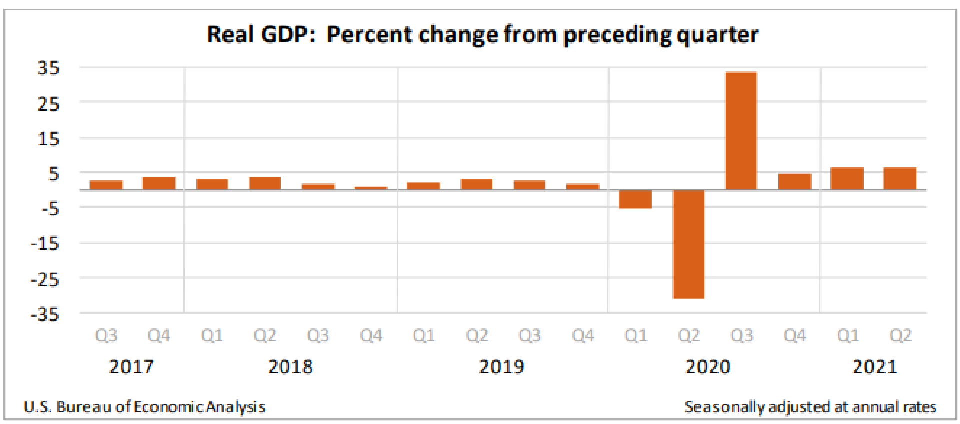
Source: The Conference Board Consumer Confidence Survey

The Consumer Confidence Index is made up of two parts, including the Present Situation Index, which looks at current conditions and the Expectation Index, which measures consumers' views of anticipated conditions for the next six months. In the August survey, the Present Situation Index decreased from 157.2 to 147.3. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, decreased from 103.8 to 91.4.

Lynn Franco, Senior Director of Economic Indicators at The Conference Board noted, "concerns about the Delta variant—and, to a lesser degree, rising gas and food prices—resulted in a less favorable view of current economic conditions and short-term growth prospects. Spending intentions for homes, autos, and major appliances all cooled somewhat; however, the percentage of consumers intending to take a vacation in the next six months continued to climb. While the resurgence of COVID-19 and inflation concerns have dampened confidence, it is too soon to conclude this decline will result in consumers significantly curtailing their spending in the months ahead."

Business and Economic Growth – GDP 2nd Quarter 2021 Second Estimate

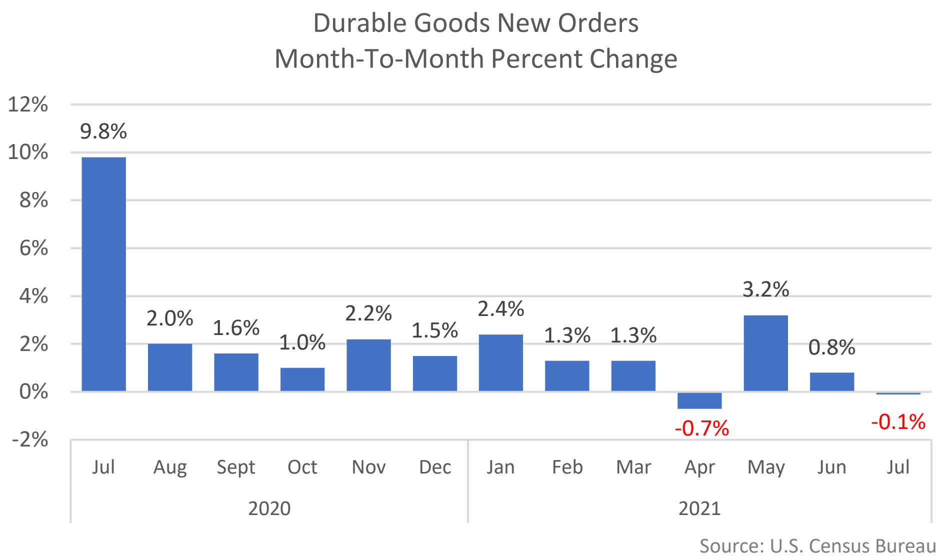
According to an August 26th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 6.6 percent in the second quarter of 2021. This follows a 6.3 percent real GDP increase in the first quarter of 2021. BEA noted the second quarter results reflected the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic. In the second quarter, government assistance payments in the form of loans to businesses and grants to state and local governments increased, while social benefits to households, such as the direct economic impact payments, declined.



According to BEA, the increase in real GDP in the second quarter reflected increases in personal consumption expenditures (PCE), nonresidential fixed investment, exports, and state and local government spending that were partly offset by decreases in private inventory investment, residential fixed investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Durable Goods – Slight Decrease in July driven by Transportation Equipment

According to an August 25th report by the U.S. Department of Commerce, new orders for manufactured durable goods decreased $0.4 billion or 0.1 percent in July to $257.2 billion. The decrease follows a 0.8 percent increase in June.



July's decrease was driven by transportation equipment, specifically, nondefense aircraft and parts, which decreased 2.2 percent to $75.3 billion. Excluding transportation, new orders increased 0.7%. The largest increases for new orders included machinery (+2.9%), primary metals (+2.7%), and fabricated metal products (+0.3%). Orders for so called core capital goods remained unchanged in July after increasing 0.5 in June. Core capital goods are defined as non-defense capital goods excluding aircraft, which is considered a proxy for business spending.