FOR IMMEDIATE RELEASE
MONDAY, AUGUST 1, 2022

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COMPTROLLER BRASWELL PROJECTS $1.27 BILLION FY 2022 SURPLUS AS ECONOMIC INDICATORS SEND MIXED MESSAGES ON FUTURE ECONOMIC OUTLOOK

Comptroller Natalie Braswell today, in her monthly financial and economic update, announced that the state's General Fund surplus has grown to $1.27 billion for Fiscal Year 2022, though a strong labor market amid high inflation and slowed growth send mixed messages about what the next economic downturn will look like.

"Our state's financial outlook continues to excel – but a strong labor market, negative GDP and low consumer confidence are blurring economic predictions," Comptroller Braswell said. "Connecticut learned hard lessons when our state was caught flat footed by the Great Recession with depleted financial reserves, skyrocketing unfunded liabilities and debt that forced hiring freezes, program cuts and tax increases at the worst possible time for families.

"Those hardships were transformed into smart budget reforms that Connecticut can now use to protect families and fuel our economy. Those reforms established a fully funded Budget Reserve Fund and an accelerated paydown of Connecticut's unfunded liabilities and debt. Our state must stay the course on smart financial decisions – because strong reserves and lower debt will ensure more resources are available to fuel our economy and provide relief to families."

In a letter to Governor Lamont, Braswell noted that this month's surplus projection increased by $231 million since last month due to $157.8 million in increased tax and other revenue growth, driven by a strong labor market, and a $73.3 million reduction in budgeted net expenditures.

Fiscal Year 2022 revenue will continue to accrue through Aug. 5. The unaudited year-end numbers will be available by the end of August or early September.

Braswell said that – if current projections hold – approximately $4.1 billion will be used to further reduce the state's unfunded pension liabilities. This means a better financial position for the state, and more opportunities for Connecticut to focus on much-needed relief and investments that benefit everyone.

The state's revenue volatility cap requires that certain overperforming revenue categories be immediately transferred to the Budget Reserve Fund. However, now that the state's reserves are fully funded – reaching their statutory maximum of 15% of General Fund appropriations – the excess revenue can be used to pay down debt. The table below outlines how the money will be used pursuant to statute:

Budget Reserve Fund		
Current Balance		3,112,000,000
Projected volatility transfer from GF		3,044,200,000
Projected surplus transfer from GF	+	1,273,820,530
Projected ending balance		**7,430,020,530**
Projected ending balance as percent of FY23 GF appropriations		33.64%
Excess to pay down debt (amount above 15% BRF cap)		4,116,599,797
Projected Deposit to SERS		3,212,956,997
Projceted Deposit to TRS		903,642,800

Braswell said these reserves and lower debt will be key in protecting Connecticut against economic recession.

"A strong labor market coexists alongside declining growth and high inflation," Braswell said. "Even if the signs are unclear, consumers are concerned a recession is here."

Braswell pointed to economic indicators in Connecticut and across the nation:

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.

Economic Summary

The U.S. economy is experiencing diverging trends polarizing experts on what exactly the current state of the economy is. The labor market is hot with plenty of job openings and low unemployment, yet GDP shrank for two consecutive quarters, inflation is the highest in 40 years, and consumer sentiment is low. Consumers are concerned a recession is here, but the signs are not very clear. The U.S. added 372,000 jobs in June while the unemployment rate remained at 3.6% for the fourth month in a row. The US has recovered 97.6% of the jobs lost during Covid-19 and 6 industry sectors have recovered over 100% of job lost. Connecticut added 1,700 jobs in June while the state's unemployment rate fell to 4%. The state has recovered 83.4% of the jobs lost during Covid-19 and 3 industry sectors have recovered over 100% of job lost. While the labor market is not signaling recession, other parts of the economy are. Inflation came in at an annual rate of 9.1% and GDP shrank 0.9% in the second quarter. Consumer confidence dropped for the third month in a row after the Federal Reserve raised interest rates by another 75 basis points. The current economy has not met the litmus test for broad based declines in the overall economy, however these signs indicate it is slowing down.

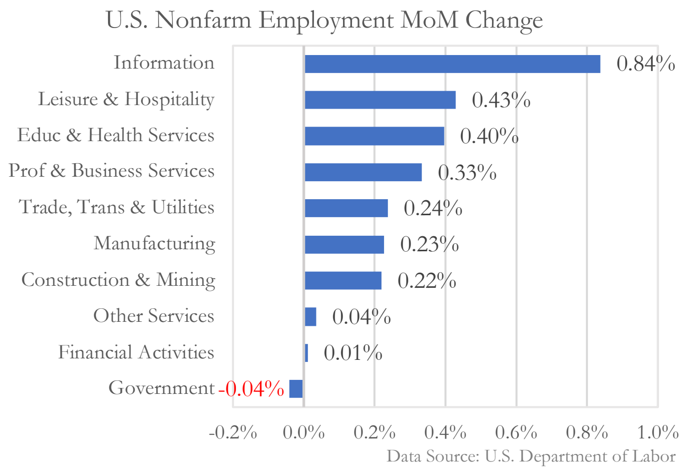
Labor Market Statistical Summary

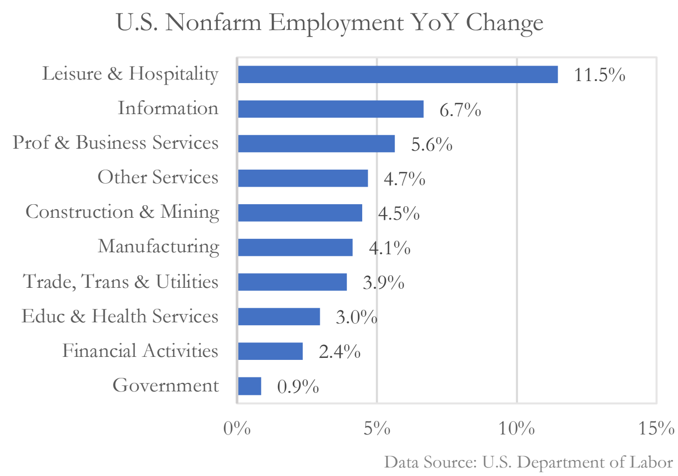
United States	June 2022	May 2022	June 2021
Unemployment Rate	3.6%	3.6%	5.9%
Total Unemployed	5,912,000	5,950,000	9,502,000
Total Nonfarm Employment	151,980,000	151,608,000	145,698,000
Job Growth	+372,000	+384,000	+557,000
Covid Job Recovery	97.6%	95.9%	69.1%
Job Openings to Unemployed Ratio	-	1.89	1.04
Quit Rate	-	2.8%	2.8%
Average Monthly Initial Unemployment Claims	231,750	207,000	419,500
Labor Force Participation Rate	62.2%	62.3%	61.6%
Average Hourly Wage	$32.08	$31.98	$30.52

Connecticut	June 2022	May 2022	June 2021
Unemployment Rate	4.0%	4.2%	6.7%
Total Unemployed	76,000	78,700	125,000
Total Nonfarm Employment	1,651,000	1,649,300	1,612,000
Job Growth	+1,700	+2,400	+5,700
Covid Job Recovery	83.4%	82.8%	69.9%
Job Openings to Unemployed Ratio	-	1.52	0.7
Quit Rate	-	2.2%	2.2%
Average Monthly Initial Unemployment Claims	2,699	2,312	4,832
Labor Force Participation Rate	64.6%	64.4%	63.7%
Average Hourly Wage	$33.96	$34.67	$33.60

National Job Growth

The Bureau of Labor Statistics reported the U.S. added 372,000 jobs in June after adding 384,000 in May and 368,000 in April. This growth marks eighteen straight months of job gains. Total nonfarm payroll was 151,980,000 in June, which is up by 21.5 million since April 2020 but is down by 524,000 from its pre-pandemic level in February 2020. Job gains occurred in education and health services (+96,000), professional and business services (+74,000), and trade, transportation, and utilities (+68,000). The only sector that declined was Government (-9,000). The following graphs display the month over month and year over year net change in nonfarm employment by sector. See Appendix 1 for detailed industry sector data.





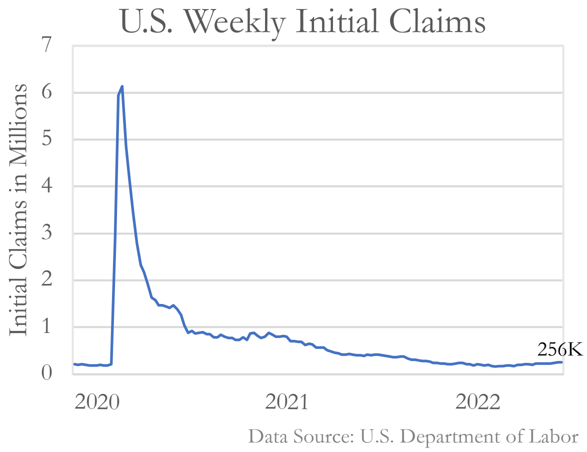
Six industry sectors have gained jobs above their pre-pandemic levels: construction, trade transportation and utilities, professional and business services, information, financial activities, and manufacturing. The U.S. has recovered 97.6% of the 21,991,000 jobs lost in March and April 2020 due to the COVID-19 lockdown, and nineteen states have recovered 100% of the jobs lost.

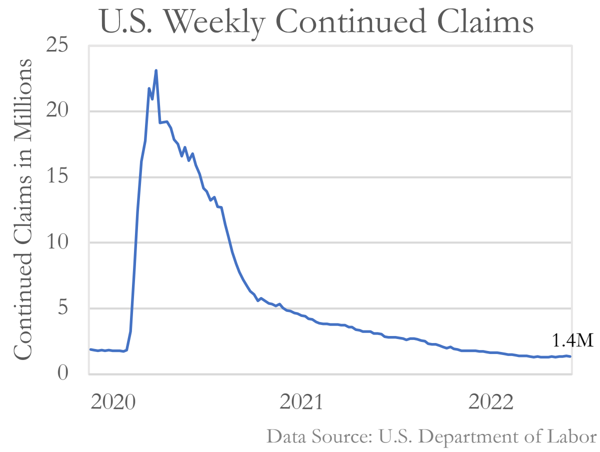
The labor market remains a strong point for the U.S. economy as other indicators signal recession. Job growth remains strong; there were 11.3 million job openings in May, and unemployment remains historically low. However, as the Federal Reserve continues to combat inflation by raising interest rates, job growth is expected to slow down and unemployment is expected to increase.

National Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate was 3.6% in June, remaining unchanged from May. Unemployment has fully recovered from the Covid-19 pandemic, but as monetary policy shifts, it will increase by the end of the year. The total number of unemployed people was 5.9 million, decreasing slightly from last month. The number of long-term unemployed people, those jobless for 27 weeks or more, decreased to 1.3 million, and account for 22.6% of the total unemployed in June.

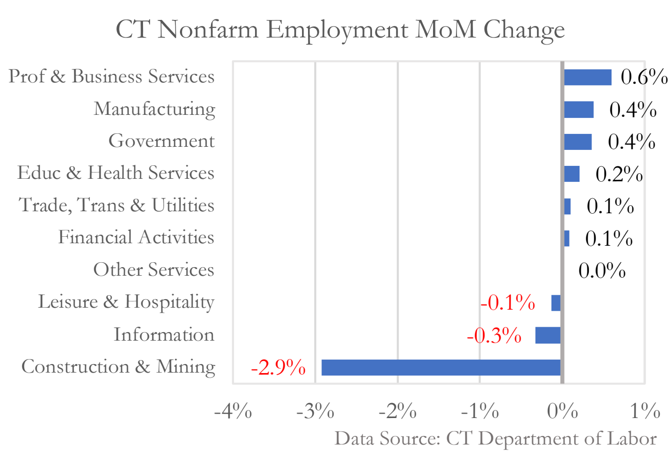
For the week ending July 23, seasonally adjusted initial claims totaled 256,000, while average weekly initial claims were 249,250. This level of jobless claims has increased slowly from the lows in March and is expected to rise as the economy cools down. For the week ending July 16, seasonally adjusted continued claims totaled 1,359,000, while average weekly continued claims were 1,362,000.

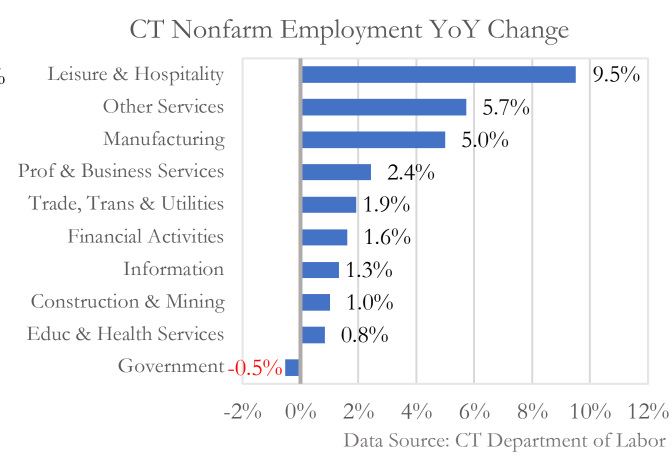




Connecticut Job Growth

The Connecticut Department of Labor reported the state added 1,700 jobs in June after adding 2,400 in May and 1,400 in April. Total nonfarm payroll was 1,651,000 in June, which is up 241,400 since April 2020 but is down by 48,000 from its pre-pandemic level in February 2020. Seven industry sectors increased month over month, while three declined. The largest job gains occurred in professional and business services (+1,300) and government (+800). The largest job declines occurred in construction and mining (-1,800) and leisure and hospitality (-200). The following graphs display the month over month and year over year net change in nonfarm employment by sector.

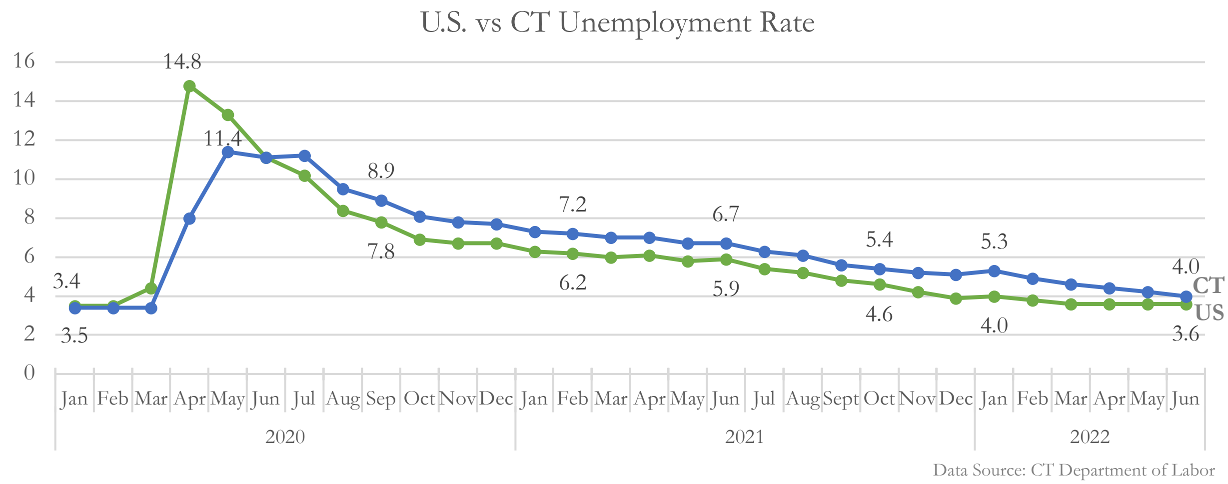




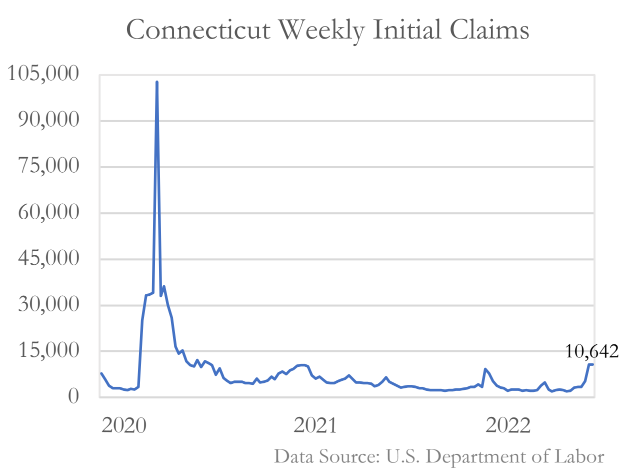
Overall, Connecticut has recovered 83.4% of the 289,400 nonfarm jobs lost in March and April 2020 due to the COVID-19 lockdown. The private sector has recovered 87% of jobs lost while the public sector has only recovered 44%. Three industry sectors have gained jobs above their pre-pandemic levels: construction, professional and business services, and trade, transportation, and utilities. See Appendix 2 for detailed industry sector data.

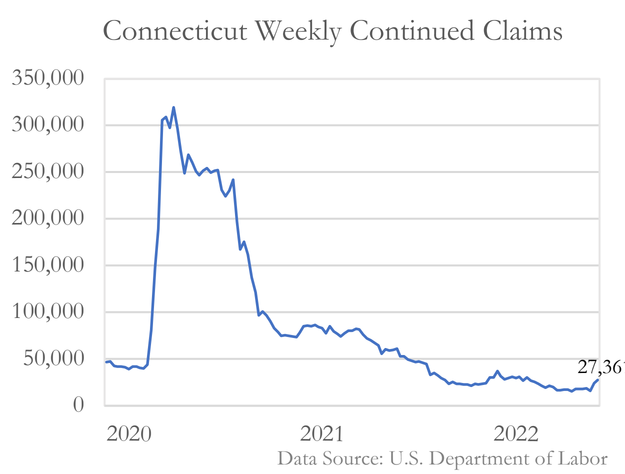
Connecticut Unemployment

The Connecticut Department of Labor reported the state unemployment rate was 4% in June, down from 4.2% in May. This is still higher than pre-pandemic levels (3.4%) but demonstrates how fast unemployment has recovered compared to previous recessions. The total number of unemployed people was 76,000 in June, edging closer to pre-pandemic levels (71,800).



Unemployment claims for first-time filers were an average of 1,800 per week in June, down by 1,266 claims from last month and down 56.2% (-2,309) from last year. This level of average weekly initial claims has reached pre-pandemic levels but is expected to rise as the econonmy cools down.





National Housing Market

The National Association of Realtors (NAR) reported existing-home sales decreased for the fifth month in a row, down 5.4% from May and 14.2% from last year. The median existing-home sales price hit $416,000 in June, a new record high. This is a 13.4% increase from one year ago. First-time buyers were responsible for 30% of sales in June, down from 31% last year. Housing inventory increased this month which may provide some relief in the market. 88% of homes sold in June were on the market for less than a month with an average of 14 days.

Connecticut Housing & Rental Market

Berkshire Hathaway HomeServices reported year over year sales of single-family homes decreased 21% and new listings were down 10% in June. Median sales price increased by 7% and median list price increased by 6%. Average days on the market decreased to 26 days from 37 a year ago. On average, sales prices came in above list prices, with a list/sell price ratio of 105%. Inventory sits at a 1.5-month supply at the current sales pace, down from last year. See Appendix 3 for detailed Connecticut Housing Market data.

June 2022 Connecticut Housing Market

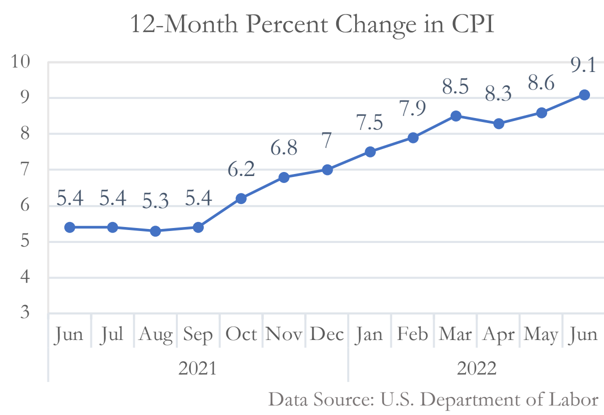
Sales	New Listings	Median Sales Price	Avg Days on Market
3,811	**5,089**	**$405,000**	**26**
-21%	-10%	+7%	-30%

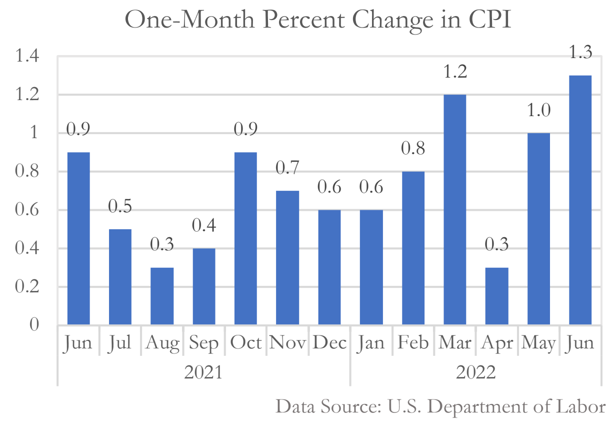
Data Source: Berkshire Hathaway HomeServices

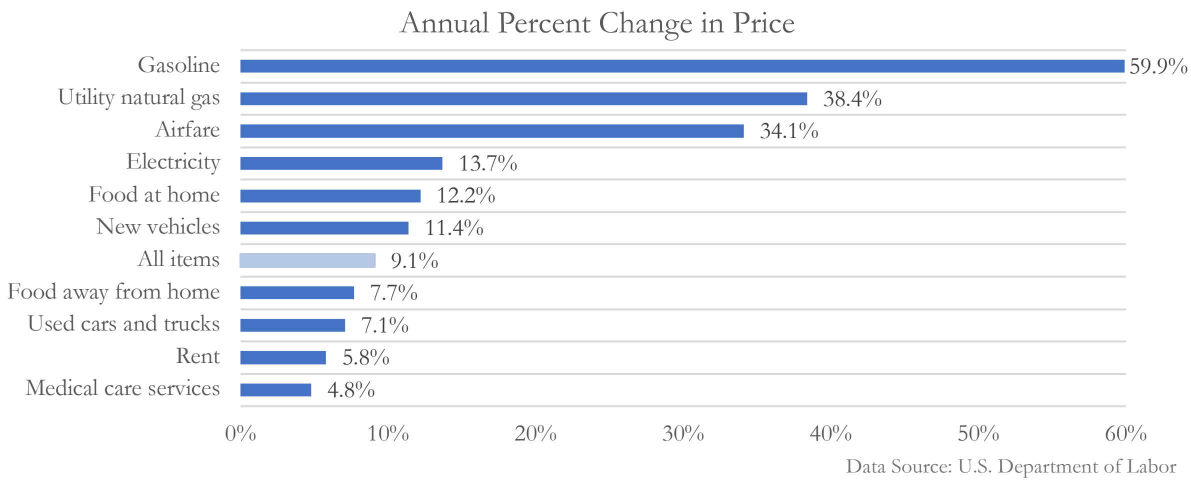
Apartment List reported national average rent was $1,382 in July, up over 1% from last month and 11% from last year. Every state saw rent prices increase year over year. Rents are growing more slowly than last year, but much greater than before the pandemic. In Connecticut, average rent increased 9.6% year over year, from $1,461 to $1,616. 35% of households in Connecticut rent their homes, and approximately 52% of Connecticut renters are cost burdened, meaning they spend more than 30% of household income on housing costs.

Inflation

The Bureau of Labor Statistics reported the Consumer Price Index (CPI) increased 1.3% in June for an annual rate of 9.1%. This is the largest 12-month increase since the period ending November 1981. Core CPI, which excludes food and energy, rose 0.7% in June for an annual rate of 5.9%. Gasoline, shelter, and food were the largest contributors to this month's increase, with energy contributing half of this month's increase. Commodity prices have come down since the June report but remain elevated.



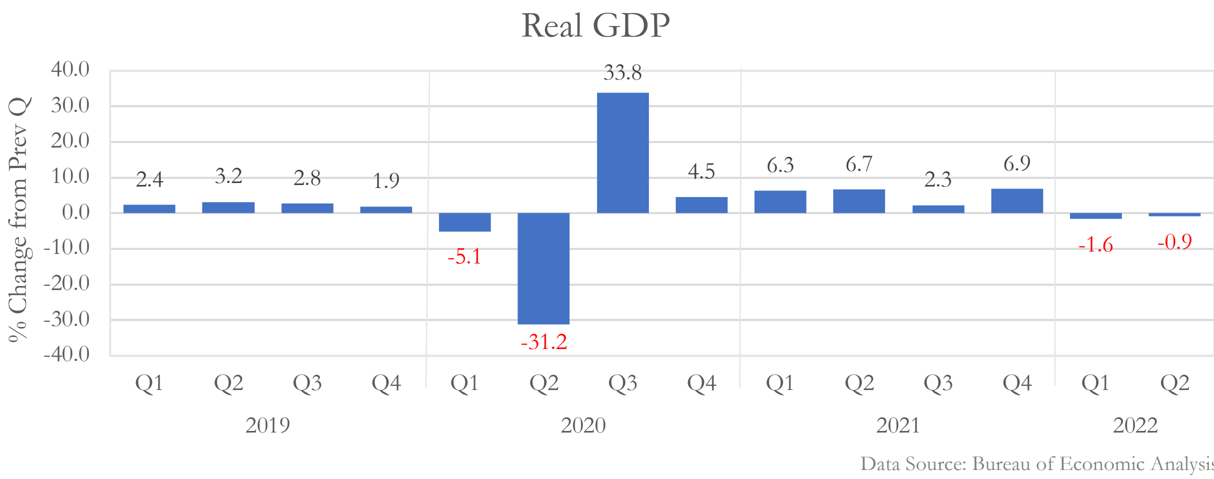




To combat inflation, the Federal Reserve increased the Federal Funds Rate by 0.75% in July for a target range between 2.25% and 2.5%—what they consider a neutral territory. This level neither encourages nor discourages growth. Raising interest rates will tamper consumer demand and slow down the overall economy over time. However, supply chain issues continue to be one of the major factors contributing to price increases holding back the U.S. economy. Persistent inflation as a result of supply chain issues cannot be directly addressed by increasing interest rates. The Federal Reserve's monetary policy will slow consumer demand eventually, but if supply chain issues worsened by lockdowns in China and the war in Ukraine don't ease, prices may remain elevated for some time.

GDP

The Bureau of Economic Analysis reported the preliminary estimate of U.S. real gross domestic product (GDP) decreased at an annual rate of 0.9% in the second quarter of 2022. This follows a 1.6% real GDP decrease in the first quarter of 2022. Real GDP increased 5.7% in 2021, following a decrease of 3.4% in 2020.



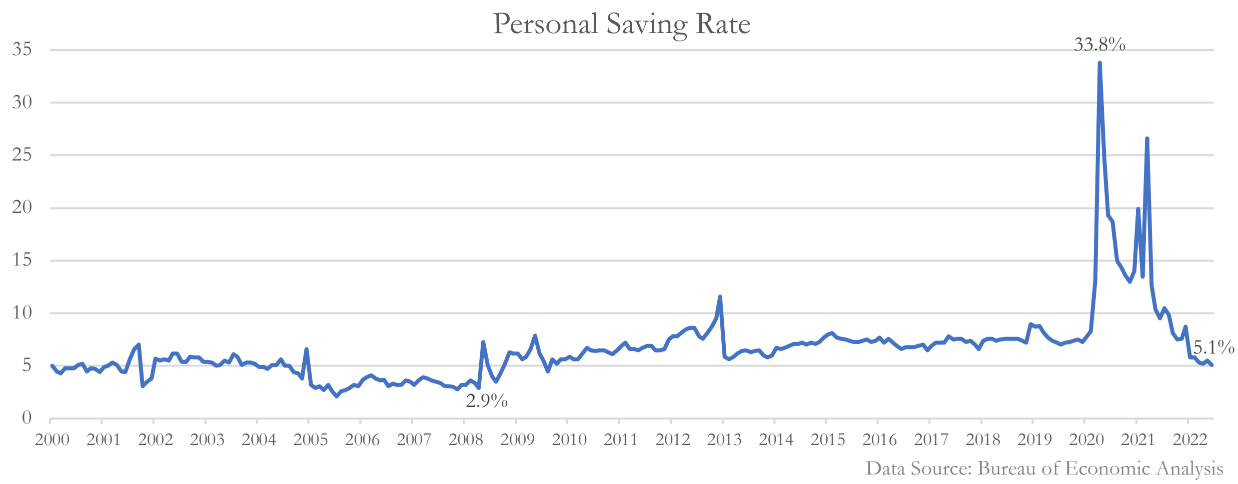
GDP is calculated by adding public consumption, private investment, government spending, and the difference between exports and imports. The decrease in the second quarter primarily reflected an upturn in exports and a smaller decrease in federal government spending. Public consumption, or consumer spending, increased due to food services and accommodations and healthcare offset by a decrease in spending on goods led by food and beverages. Private investment decreased mainly due to weakened retail trade mainly in general merchandise stores and car dealerships. Government spending decreased primarily due to a decrease in nondefense spending which reflected the sale of crude oil from the Strategic Petroleum Reserve, which results in a corresponding decrease in consumption expenditures. Exports increased for both goods (led by industrial supplies) and services (led by travel).

The Bureau of Economic Analysis reported real gross domestic product decreased in 46 states and the District of Columbia in the first quarter of 2022. The percent change in real GDP in the first quarter ranged from 1.2% in New Hampshire to -9.7% in Wyoming. Nondurable goods manufacturing, retail trade, and finance were the leading contributors to the decrease across the nation.

Connecticut's GDP growth rate of -1.4% ranked 22nd in the nation, coming in slightly above national growth (-1.6) but below the New England regional average of -0.2%. Connecticut industries experiencing the largest gains on a percentage basis were accommodation and food services (+0.39%) and information services (+0.32%). Industries contributing to the decrease included nondurable goods manufacturing (-1.17%) and finance and insurance (-1.12%). Connecticut's annualized GDP came in at $312.2 billion for the first quarter.

Consumer Spending & Saving

The Bureau of Economic Analysis reported consumer spending increased $181.1 billion (1.1%) in June. Spending on both goods and services increased with the largest contributors including gasoline, healthcare, housing and utilities, and international travel. Adjusted for inflation, real spending increased 0.1% from last month indicating consumer demand is starting to wane. This is most likely due to increasing interest rates and higher prices. Personal income increased $133.5 billion (0.6%) due to an increase in compensation and proprietor's income. Adjusted for inflation, real personal income declined 0.3% from last month. The personal-saving rate was 5.1% in June, down from 5.5% in May.



Stock Market and State Revenue

The first half of calendar year 2022 marked a steady decline in the stock market. The S&P 500's first half of the year was its worst performance since 1970. High inflation, shifting monetary policy, and geopolitical issues created persistent volatility. The post March 2020 bull market ended, and investors are increasingly pessimistic about the economic future. In July, the market rallied and posted gains fueled by better-than-expected earnings reports and growing tolerance of the Federal Reserve's monetary policy. As of July 29, over the month, the Dow Jones Industrial Average gained 2,070 points or 6.73%, the S&P 500 gained 345 points or 9.11%, and the NASDAQ gained 1,362 points or 12.35%. All three indices had their best moth since November 2020 when news of a Covid-19 vaccine boosted the market.

The performance of the stock market and overall economy has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 30% of total state income tax receipts, but can be an extremely volatile revenue source. Both categories of tax receipts grew by a combined 37.8% over year-to-date results in the previous fiscal year. Higher wages and prices, strong job growth, and record corporate profits have contributed to strong tax collections in FY22.

The withholding portion of the income tax is the largest single General Fund revenue source. Despite historic levels of job losses at the start of the pandemic, income tax withholding still finished FY21 $75.3 million or 1% above its budget target. Compared with prior year realized amounts, FY21 withholding receipts performed even better, growing by $428.6 million or 6.3% over FY20 levels. Growth in withholding receipts reflected several factors, including the concentration of employment losses in the lower wage service sector, the ongoing recovery of jobs throughout the year, and having income tax withheld on enhanced unemployment benefits, including the additional $600 per week that was part of the Federal pandemic relief efforts. In FY22, income tax withholding also performed well. The budget plan called for growth in withholding receipts of 1.8% over FY21 realized amounts. To date through June 30th, collections came in 9.7% above the same period in FY21.

Consumer Confidence

The Conference Board reported the U.S. consumer confidence index decreased in July for the third month in a row from 98.4 to 95.7. In the July survey, the Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, decreased from 147.2 to 141.3. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, decreased from 65.8 to 65.3. Consumers are very concerned about current conditions citing high gas and food prices. Spending intentions have pulled back further as the Federal Reserve raises interest rates to combat inflation. This points to a potential for weaker growth in the second half of 2022 and increased risk of recession.

Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	June 2022 (P)	Msy 2022 (R)	June 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Government	22,215,000	22,224,000	22,025,000	-9,000	0.0%	190,000	0.9%
Financial Activities	8,951,000	8,950,000	8,745,000	1,000	0.0%	206,000	2.4%
Other Services	5,691,000	5,689,000	5,437,000	2,000	0.0%	254,000	4.7%
Construction & Mining	8,249,800	8,231,700	7,897,100	18,100	0.2%	352,700	4.5%
Manufacturing	12,797,000	12,768,000	12,288,000	29,000	0.2%	509,000	4.1%
Trade, Trans & Utilities	28,746,000	28,678,000	27,661,000	68,000	0.2%	1,085,000	3.9%
Prof & Business Services	22,273,000	22,199,000	21,084,000	74,000	0.3%	1,189,000	5.6%
Educ & Health Services	24,339,000	24,243,000	23,640,000	96,000	0.4%	699,000	3.0%
Leisure & Hospitality	15,665,000	15,598,000	14,054,000	67,000	0.4%	1,611,000	11.5%
Information	3,008,000	2,983,000	2,820,000	25,000	0.8%	188,000	6.7%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	June 2022 (P)	May 2022 (R)	June 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Construction & Mining	59,800	61,600	59,200	-1,800	-2.9%	600	1.0%
Information	30,300	30,400	29,900	-100	-0.3%	400	1.3%
Leisure & Hospitality	147,400	147,600	134,600	-200	-0.1%	12,800	9.5%
Other Services	61,000	61,000	57,700	0	0.0%	3,300	5.7%
Financial Activities	119,300	119,200	117,400	100	0.1%	1,900	1.6%
Trade, Trans & Utilities	295,900	295,600	290,300	300	0.1%	5,600	1.9%
Educ & Health Services	335,800	335,100	333,000	700	0.2%	2,800	0.8%
Government	223,500	222,700	224,700	800	0.4%	-1,200	-0.5%
Manufacturing	159,800	159,200	152,200	600	0.4%	7,600	5.0%
Prof & Business Services	218,200	216,900	213,000	1,300	0.6%	5,200	2.4%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	June 2022	June 2021	% Change	YTD 2022	YTD 2021	% Change
New Listings	5,089	5,631	-9.6%	23,445	27,571	-15.0%
Sold Listings	3,811	4,800	-20.6%	16,763	20,281	-17.4%
Median List Price	$389,900	$369,000	5.7%	$358,500	$344,900	3.9%
Median Selling Price	$405,000	$380,000	6.6%	$370,000	$350,000	5.7%
Median Days on the Market	11	17	-35.3%	16	26	-38.5%
Average Listing Price	$632,913	$624,157	1.4%	$571,665	$581,364	-1.7%
Average Selling Price	$659,587	$633,407	4.1%	$585,451	$580,180	0.9%
Average Days on the Market	26	37	-29.7%	39	51	-23.5%
List/Sell Price Ratio	105.0%	103.3%	1.7%	103.3%	101.4%	1.9%

Data Source: Berkshire Hathaway HomeServices

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