NATALIE BRASWELL
Connecticut State Comptroller

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COMPTROLLER BRASWELL PROJECTS $1 BILLION SURPLUS AS NATIONAL RECESSION CONCERNS GROW

Comptroller Natalie Braswell today, in her monthly financial and economic update, projected a General Fund surplus of $1 billion for Fiscal Year 2022 and a substantial reduction of pension debt amid growing concerns over a potential recession.

"As volatility and uncertainty continue to cloud the nation's economic outlook, Connecticut's budgetary position is comparatively strong," said Comptroller Braswell. "The Rainy Day Fund is filled to capacity and we will make another substantial payment later this year to reduce pension debt. If the nation does slip into a recession, as a number of economists warn is possible, the state is well-positioned to weather that downturn and protect Connecticut taxpayers."

State law requires excess revenue in particularly volatile categories be automatically deposited into the Budget Reserve Fund (commonly known as the "Rainy Day Fund"). Those reserves are used to guard against potential service cuts or tax increases should a significant economic downturn occur. The fund has reached its cap of approximately $3.11 billion.

For the third consecutive year, deposits exceeding the Budget Reserve Fund's cap will be used to pay down the state's pension debt. Braswell is projecting $3.7 billion will be available to reduce the outstanding liability in the pension funds for state employees and teachers. Although the fiscal year ended on June 30, the final certification and subsequent deposits will occur later this fall.

In a letter to Governor Lamont, Braswell noted that the labor market remains strong. Nationally, there are nearly two job openings for every unemployed worker. Connecticut added 1,600 jobs in May and has now recovered 83% of the jobs lost during the pandemic, including 86% of private sector jobs. Three sectors — construction, professional and business services, and trade, transportation and utilities — have added jobs above pre-pandemic levels.

Connecticut's per capita income of $82,918 is the third-highest in the country and, today, is increasing the state's minimum wage to $14 per hour.

Despite the strong job market, inflation is having a punishing effect across the country. Consumer confidence and personal savings rates have dipped as families spend more for housing, travel and food. Rising interest rates, intended to tame inflationary pressures, are making homeownership more expensive. Nationally, the average cost of a monthly mortgage is up 45% from this time last year. Applications for new mortgages are down 20% in the same span, as the market grows more untenable for would-be first-time homebuyers.

A new state program called *Time to Own* has been created to help low- and moderate-income buyers with down payment and closing cost assistance. More information can be found at: www.chfa.org/TimeToOwn.

"Failure to build a sufficient supply of housing after the 2008 recession is driving up costs and forcing families to compete with investors," said Braswell. "It should be a top policy priority across the board to help workers and families afford mortgages and rental costs to grow our middle class."

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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 continues to evolve as it recovers from the Covid-19 pandemic recession. The two years following the recession were marked by strong job growth, a booming stock market, and high consumer demand. However, inflation has hit 40-year highs prompting a shift in monetary policy which has started to affect the stock market, consumer demand, and the labor market. The U.S. added 390,000 jobs in May while the unemployment rate remained at 3.6% for the third month in a row. National unemployment claims creeped up slightly yet remain relatively low. Connecticut added 1,600 jobs in May while the state's unemployment rate fell to 4.2%. The state has recovered 83% of the jobs lost during Covid-19 and 3 industry sectors have recovered over 100% of job lost. Inflation continues to run high coming in at an annual rate of 8.6%. In response, the Federal Reserve increased interest rates by 75 basis points and are expected to continue to raise rates to cool demand. The stock market was extremely volatile in June as the S&P 500 plummeted into a bear market. Investors are concerned about a looming recession, inflation and shifting monetary policy. Consumer confidence declined along with slowed consumer spending amid higher interest rates and prices.

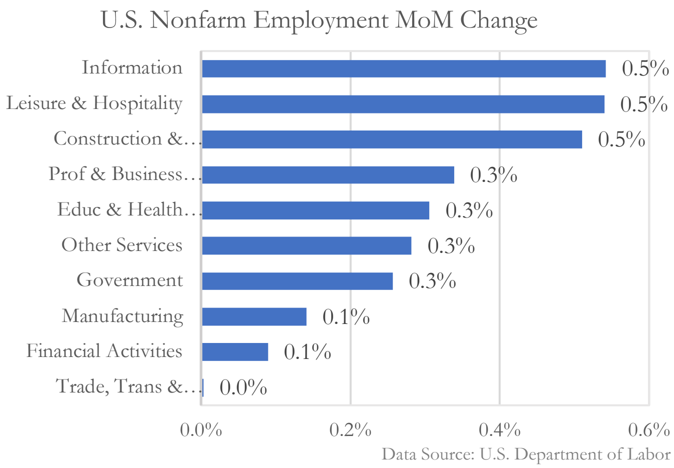
Labor Market Statistical Summary

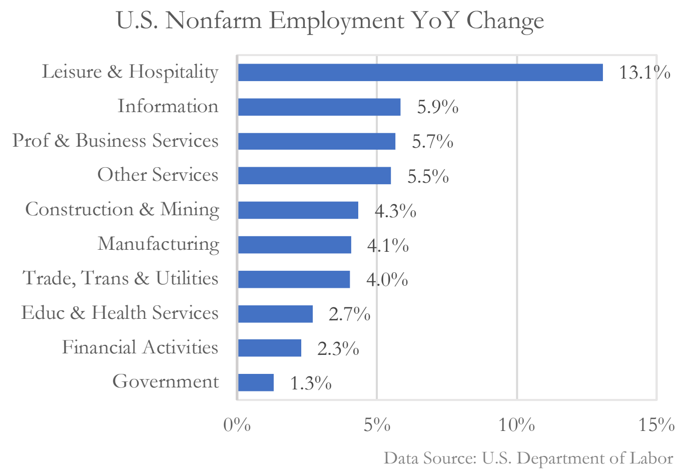
United States	May 2022	April 2022	May 2021
Unemployment Rate	3.6%	3.6%	5.8%
Total Unemployed	5,950,000	5,941,000	9,251,000
Total Nonfarm Employment	151,682,000	151,292,000	145,141,000
Job Growth	+390,000	+436,000	+447,000
Covid Job Recovery	96.3%	94.5%	66.5%
Job Openings to Unemployed Ratio	-	1.92	1.04
Quit Rate	-	2.9%	2.6%
Average Monthly Initial Unemployment Claims	201,188	177,850	508,950
Labor Force Participation Rate	62.3%	62.2%	61.6%
Average Hourly Wage	$31.95	$31.85	$30.36

Connecticut	May 2022	April 2022	May 2021
Unemployment Rate	4.2%	4.4%	6.7%
Total Unemployed	78,700	83,700	123,700
Total Nonfarm Employment	1,648,500	1,646,900	1,606,300
Job Growth	+1,600	+1,400	+6,500
Covid Job Recovery	82.6%	82.0%	68.0%
Job Openings to Unemployed Ratio	-	1.25	0.84
Quit Rate	-	2.4%	1.5%
Average Monthly Initial Unemployment Claims	2,312	3,090	4,727
Labor Force Participation Rate	64.4%	64.2%	63.4%
Average Hourly Wage	$34.71	$34.35	$33.98

National Job Growth

The Bureau of Labor Statistics reported the U.S. added 390,000 jobs in May after adding 436,000 in April and 398,000 in March. This growth marks seventeen straight months of job gains. Total nonfarm payroll was 151,682,000 in May, which is up by 21.2 million since April 2020 but is down by 822,000 from its pre-pandemic level in February 2020. Job gains occurred in leisure and hospitality (+84,000), professional and business services (+75,000), and education and health services (+74,000). 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.





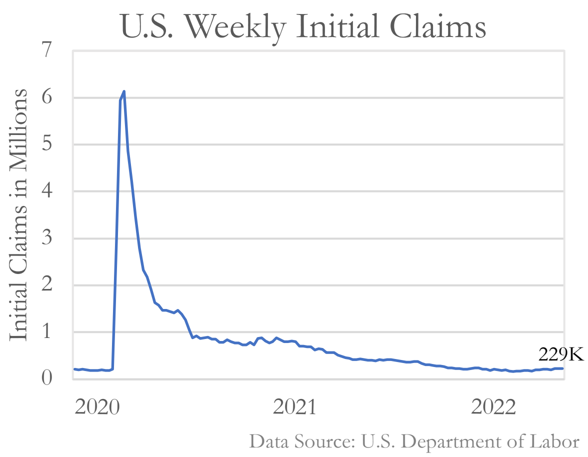
Five industry sectors have gained jobs above their pre-pandemic levels: construction, trade transportation and utilities, professional and business services, information, and financial activities. The U.S. has recovered 96.3% of the 21,991,000 jobs lost in March and April 2020 due to the COVID-19 lockdown, and eighteen states have recovered 100% of the jobs lost.

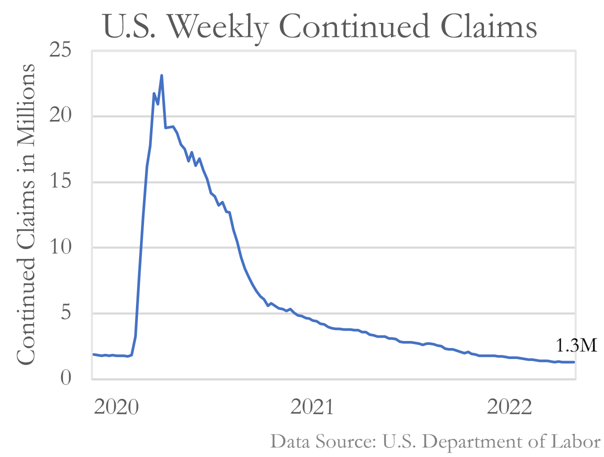
The labor market remains extremely tight with high demand for labor amid low unemployment and increased wages. 4.4 million Americans quit their jobs in April with 11.4 million job openings. For every one unemployed person there are almost two job openings. As the Federal Reserve continues to combat inflation by raising interest rates, job growth is expected to slow down. Tesla, Robinhood, Coinbase, Redfin, Netflix, and Peloton are just a few companies that have already started laying off employees. These industries had success during the pandemic but are cutting back amid expectations of economic decline.

National Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate was 3.6% in May, remaining unchanged from April. 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 6 million, increasing slightly from last month. The number of long-term unemployed people, those jobless for 27 weeks or more, decreased to 1.4 million, and account for 23.2% of the total unemployed in May.

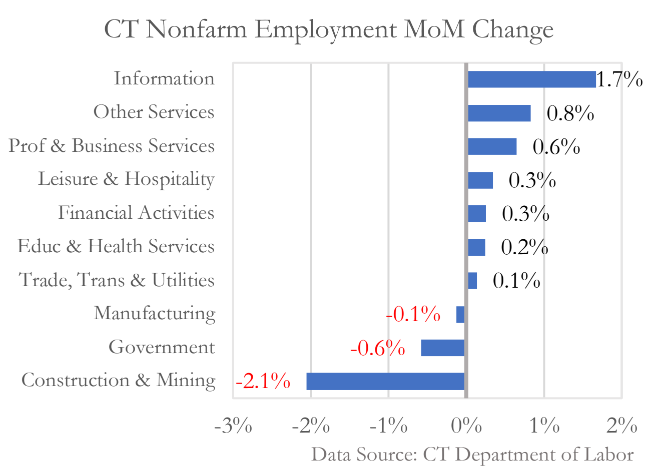
For the week ending June 18th, seasonally adjusted initial claims totaled 229,000, while average weekly initial claims were 223,500. For the week ending June 11th, seasonally adjusted continued claims totaled 1,315,000, while average weekly continued claims were 1,310,000.

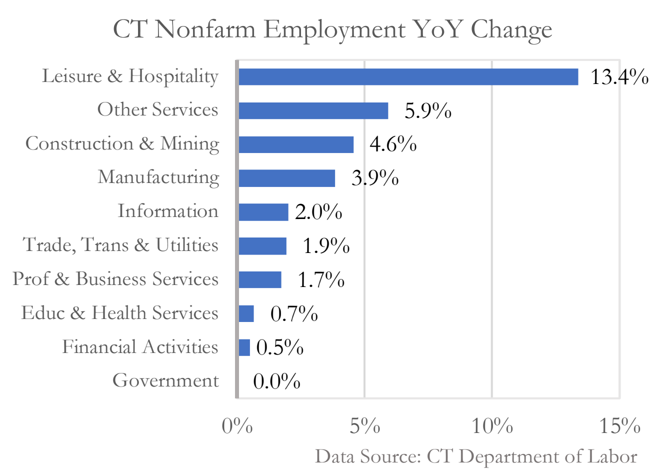




<u>Connecticut Job Growth</u>

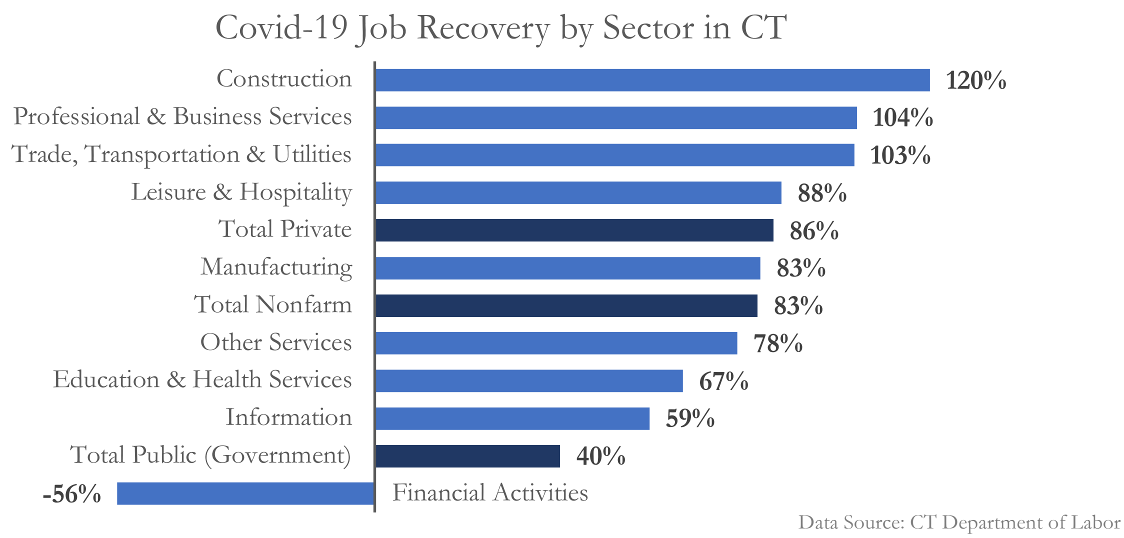
The Connecticut Department of Labor reported the state added 1,600 jobs in May after adding 1,400 in April and 3,700 in March. Total nonfarm payroll was 1,648,500 in May, which is up 238,900 since April 2020 but is down by 50,500, or 3%, from its pre-pandemic level in February 2020. Seven industry sectors increased month over month, while three declined. The largest job gains occurred in professional and business services (+1,400) and education and health services (+800). The largest job declines occurred in government (-1,300) and construction (-1,300). The following graphs display the month over month and year over year net change in nonfarm employment by sector.





Overall, Connecticut has recovered 83% of the 289,400 nonfarm jobs lost in March and April 2020 due to the COVID-19 lockdown. The private sector has recovered 86% of jobs lost while the public sector has only recovered 40%. The public sector has steadily declined since the beginning of the calendar year impacted by surging retirements. The public sector includes all federal, state, local, and tribal employment, including public education and Native American casino employment.

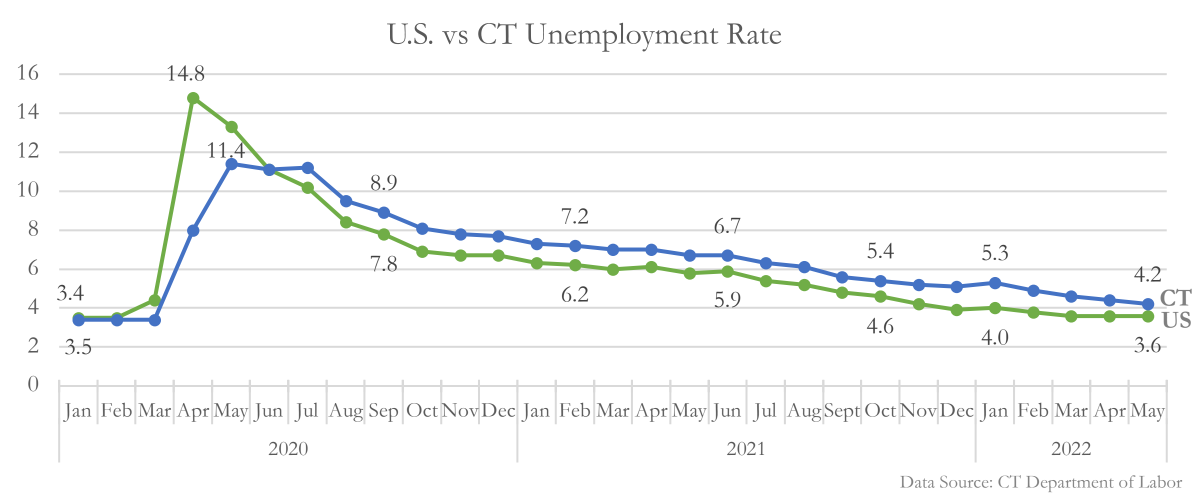
Three industry sectors have gained jobs above their pre-pandemic levels: construction, professional and business services, and trade, transportation and utilities. The financial activities sector, which includes insurance, banking, and real estate, has declined steadily since 2008 and has had negative growth since the Covid-19 recession. See Appendix 2 for detailed industry sector data.



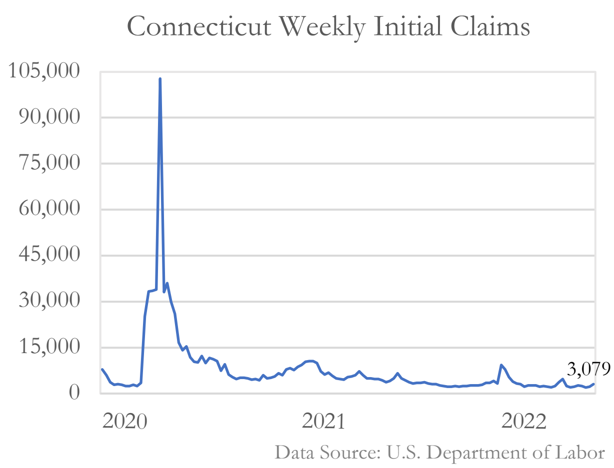
In the first quarter of 2022, Connecticut's personal income grew 5.4% over the last quarter. Connecticut's per capita income is $82,918, the third highest in the country after D.C. and Massachusetts. In May, Connecticut's average hourly earnings for private sector employees was $34.71. Connecticut's minimum wage increased to $14.00 on July 1st.

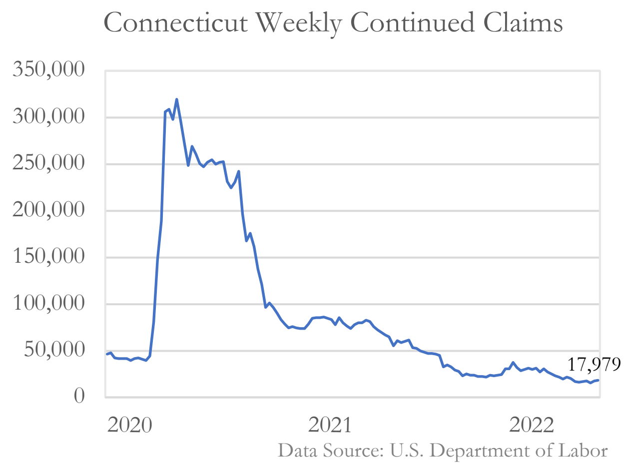
Connecticut Unemployment

The Connecticut Department of Labor reported the state unemployment rate was 4.2% in May, down from 4.4% in April. 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 78,700 in May, edging closer to pre-pandemic levels (71,800).



Unemployment claims for first-time filers were an average of 3,066 per week in May, up by 218 claims from last month and down 64.8% (-5,636) from last year. This level of average weekly initial claims has reached pre-pandemic levels.





National Housing Market

The National Association of Realtors (NAR) reported existing-home sales decreased 3.4% from April and 9.6% from last year. The median existing-home sales price hit $407,600 in May, exceeding $400,000 for the first time. This is a 14.8% increase from one year ago. First-time buyers were responsible for 27% of sales in May, down from 28% in April and down from 31% in May 2021. 80% of homes sold in May were on the market for less than a month with an average of 16 days.

According to NAR, housing affordability continues to decline with monthly mortgage payments increasing 45% over last year. Due to rising mortgage rates, mortgage applications are down over 20% from a year ago according to the Mortgage Bankers Association (MBA). Continued high home prices are due to an imbalance of supply and demand in the housing market. After the 2008 recession, construction of new homes steadily declined. It is projected the U.S. is short 4 million homes than what is needed. In 2020, due to the pandemic and low interest rates, demand surged for single family homes. The high demand coupled with low inventory drove prices up. Rising mortgage rates due to the Federal Reserve's shifting monetary policy aims to decrease consumer demand for housing. But if the supply side of the market is not addressed, prices will remain high, despite it becoming more expensive to borrow money.

Connecticut Housing & Rental Market

Berkshire Hathaway HomeServices reported year over year sales of single-family homes decreased 16% and new listings were down 14% in May. Median sales price increased by 8% and median list price increased by 5%. Average days on the market decreased to 30 days from 41 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.

May 2022 Connecticut Housing Market

Sales	New Listings	Median Sales Price	Avg Days on Market
2,972	**4,958**	**$380,500**	**30**
-16%	-14%	+8%	-27%

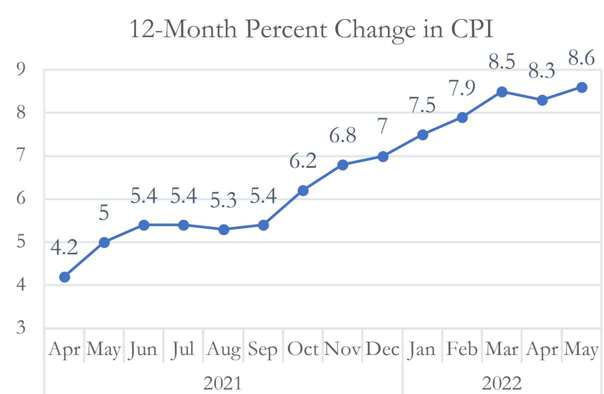
Data Source: Berkshire Hathaway HomeServices

Connecticut has launched the "Time to Own" program which offers down payment and closing cost assistance to low and moderate income homebuyers in Connecticut. The program is administered by the Connecticut Housing Finance Authority (CHFA) on behalf of the Connecticut Department of Housing, and is available to eligible homebuyers in conjunction with a CHFA first mortgage loan.

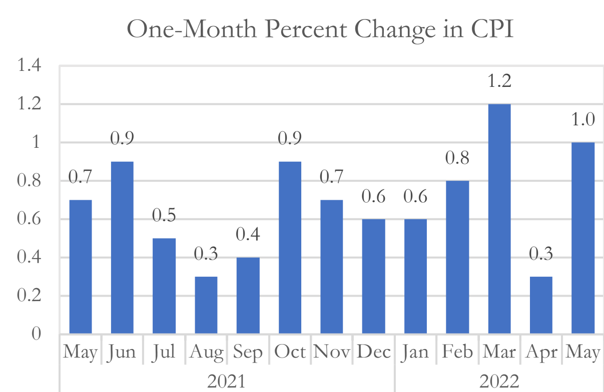
Apartment List reported national average rent was $1,362 in June, up over 1% from last month and 12% from last year. Every state saw rent prices increase year over year. Rents are still growing, however more slowly than last year, but much greater than before the pandemic. In Connecticut, average rent increased 11% year over year, from $1,416 to $1,582. 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.

<u>Inflation</u>

The Bureau of Labor Statistics reported the Consumer Price Index (CPI) increased 1% in May for an annual rate of 8.6%. This is the largest 12-month increase since the period ending December 1981. Core CPI, which excludes food and energy, rose 0.6% in May for an annual rate of 6%. Shelter, gasoline, and food were the largest contributors to this month's increase.



Data Source: U.S. Department of Labor



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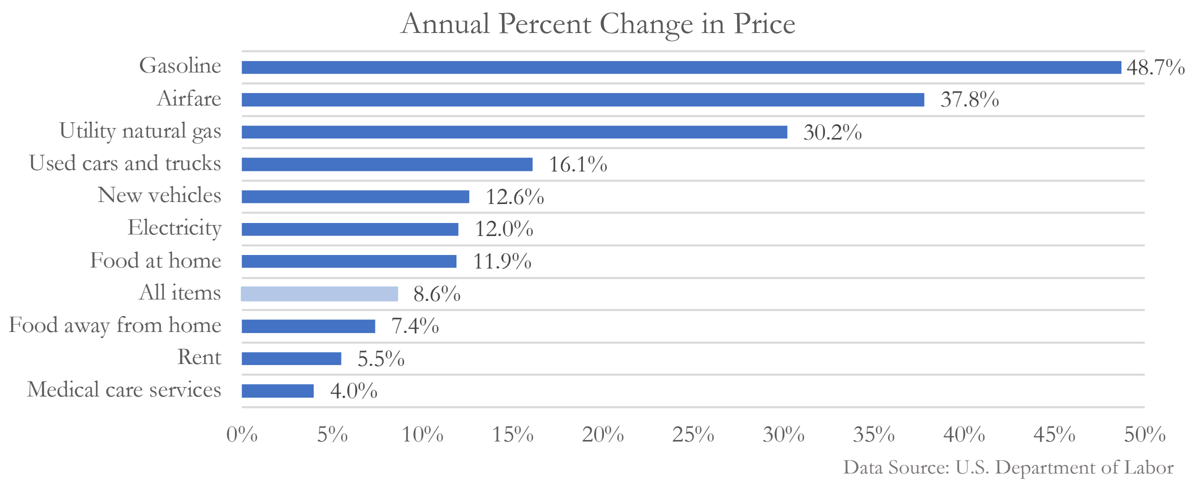


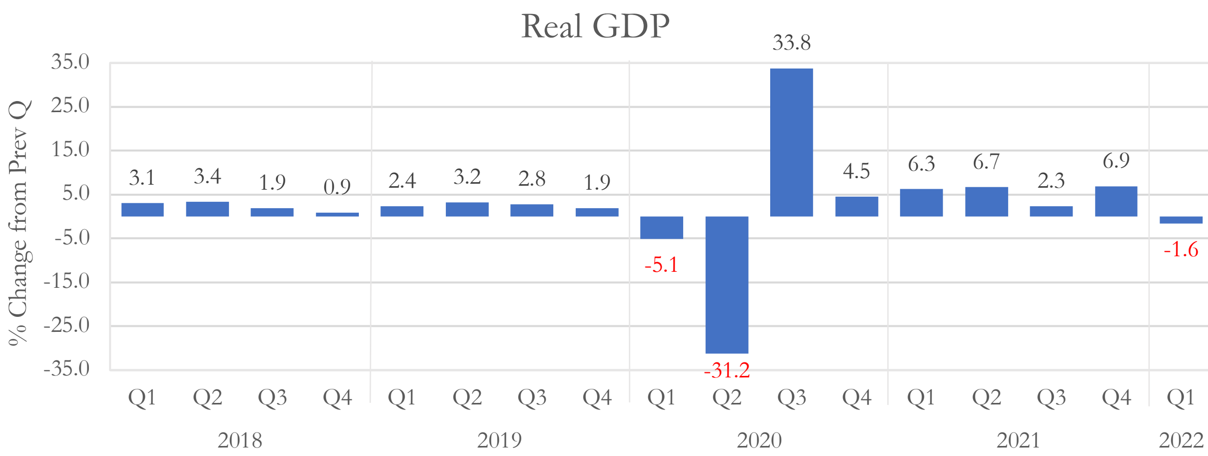
In order to combat inflation, the Federal Reserve increased the Federal Funds Rate by 0.75% in June for a target range between 1.5% and 1.75%. Raising interest rates will tamper consumer demand and slow down the overall economy over time. However, supply chain issues continue to be one of the major factors 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.

Some analysts are concerned the aggressive shift in monetary policy will trigger a recession in 2023. A recession is defined by two quarters of negative economic activity typically seen in GDP, employment, and consumer spending. The Fed's policies are expected to slow job growth and raise unemployment as a trade-off to bringing prices down.

GDP

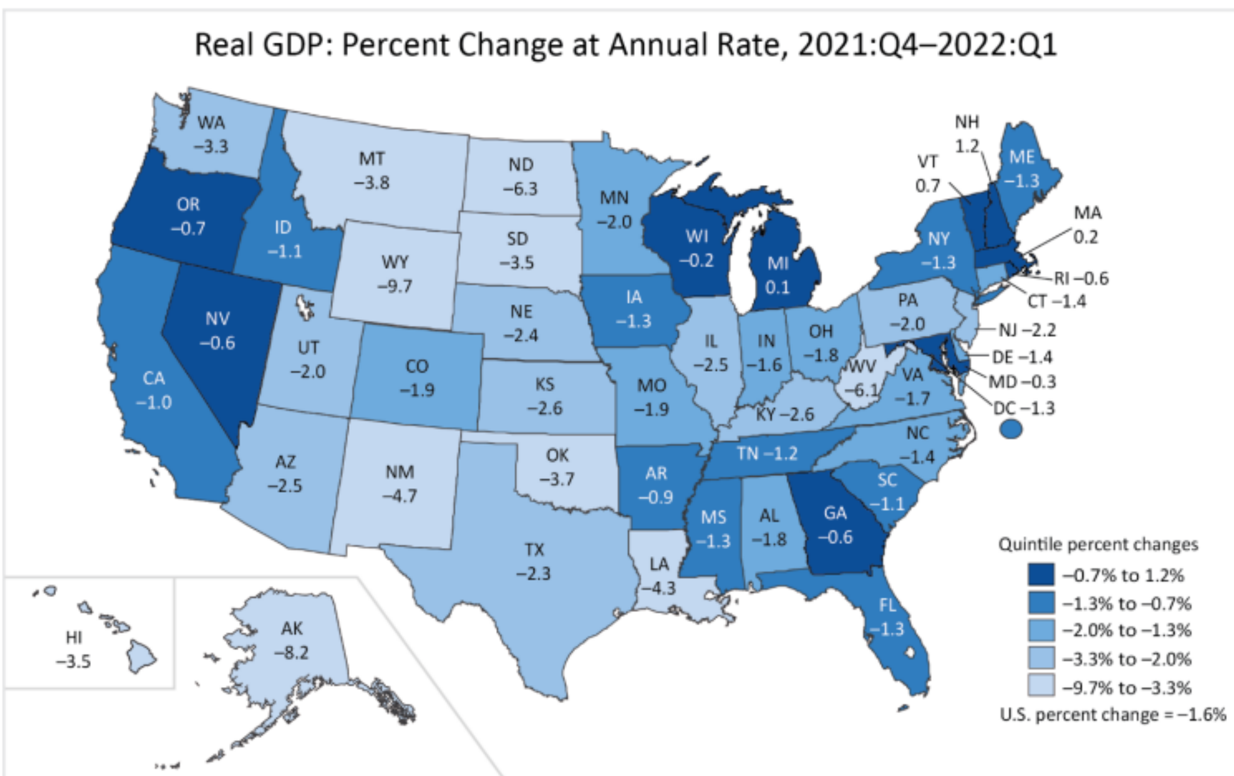
The Bureau of Economic Analysis reported the third estimate of U.S. real gross domestic product (GDP) decreased at an annual rate of 1.6% in the first quarter of 2022. This follows a 6.9% real GDP increase in the fourth quarter of 2021. Real GDP increased 5.7% in 2021, following a decrease of 3.4% in 2020.

GDP is calculated by adding public consumption, private investment, government spending, and the difference between exports and imports. In the first quarter of 2022, public consumption, or consumer spending, remained strong as spending on services outweighed spending on goods. Private investment decreased mainly due to weakened wholesale and retail trade. Government spending decreased primarily due to a decrease in defense spending and a reduction in government assistance payments as federal programs expired. The U.S. is currently in a trade deficit, importing more than it exports which greatly contributed to the Q1 decrease despite U.S. exports hitting a record high in March.



Data Source: Bureau of Economic Analysis

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.



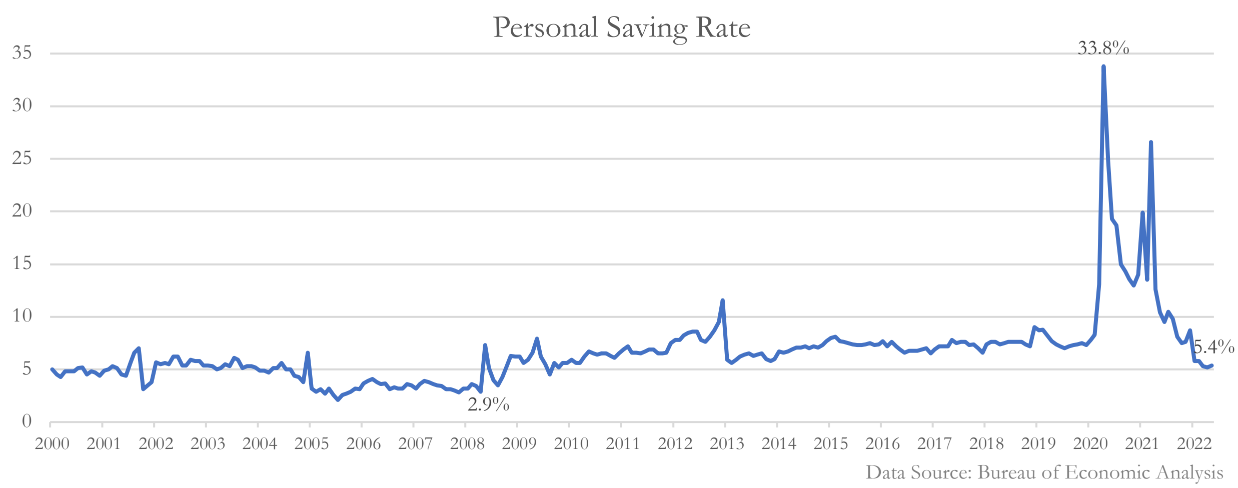
U.S. Bureau of Economic Analysis

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 $32.7 billion (0.2%) in May. Spending on services increased while spending on goods decreased. The largest contributors to spending on services included housing, utilities, airline travel, and healthcare. The largest decrease in spending on goods was due to a decline in motor vehicles and parts partially offset by gasoline. Adjusted for inflation, real spending declined 0.4% 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 $113.4 billion (0.5%) due to an increase in private compensation. The personal-saving rate was 5.4% in May, up slightly from 5.2% in April.



Stock Market and State Revenue

The first half of calendar year 2022 has marked a steady decline in the stock market. The post March 2020 bull market has now ended as investors are increasingly pessimistic about the economic future. Many factors are contributing to volatility including shifting monetary policy, the Russian Invasion of Ukraine, and inflation. As of June 30th, over the month, the Dow Jones Industrial Average fell 2,215 points or 6.71%, the S&P 500 dropped 347 points or 8.39%, and the NASDAQ dropped 1,053 points or 8.71%. Economists have raised the probability of a recession signifying the market has not reached its trough yet.

The performance of the stock market and overall economy have 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 39.8% 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. Through the first eleven months of FY22, income tax withholding continues to perform well. The budget plan called for growth in withholding receipts of 1.8% over FY21 realized amounts. To date through May 31st, collections are coming in 9.5% above the same period in FY21.

Consumer Confidence

The Conference Board reported the U.S. consumer confidence index decreased to 98.7 in June from May's revised reading of 103.2. This is the lowest level since February 2021. In the June survey, the Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, decreased from 147.4 to 147.1. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, decreased from 73.7 to 66.4. Consumers are very concerned about the short-term citing high gas and food prices. Spending intentions have started to cool due to inflation and higher interest rates. 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	May 2022 (P)	April 2022 (R)	May 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Trade, Trans & Utilities	28,651,000	28,650,000	27,538,000	1,000	0.0%	1,113,000	4.0%
Financial Activities	8,948,000	8,940,000	8,747,000	8,000	0.1%	201,000	2.3%
Manufacturing	12,768,000	12,750,000	12,268,000	18,000	0.1%	500,000	4.1%
Government	22,264,000	22,207,000	21,976,000	57,000	0.3%	288,000	1.3%
Other Services	5,692,000	5,676,000	5,395,000	16,000	0.3%	297,000	5.5%
Educ & Health Services	24,258,000	24,184,000	23,620,000	74,000	0.3%	638,000	2.7%
Prof & Business Services	22,214,000	22,139,000	21,023,000	75,000	0.3%	1,191,000	5.7%
Construction & Mining	8,238,100	8,196,300	7,895,500	41,800	0.5%	342,600	4.3%
Leisure & Hospitality	15,638,000	15,554,000	13,830,000	84,000	0.5%	1,808,000	13.1%
Information	2,967,000	2,951,000	2,803,000	16,000	0.5%	164,000	5.9%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	May 2022 (P)	April 2022 (R)	May 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Construction & Mining	61,900	63,200	59,200	-1,300	-2.1%	2,700	4.6%
Government	222,500	223,800	222,500	-1,300	-0.6%	0	0.0%
Manufacturing	159,000	159,200	153,100	-200	-0.1%	5,900	3.9%
Trade, Trans & Utilities	295,300	294,900	289,700	400	0.1%	5,600	1.9%
Educ & Health Services	334,800	334,000	332,600	800	0.2%	2,200	0.7%
Financial Activities	118,400	118,100	117,800	300	0.3%	600	0.5%
Leisure & Hospitality	148,200	147,700	130,700	500	0.3%	17,500	13.4%
Prof & Business Services	217,200	215,800	213,500	1,400	0.6%	3,700	1.7%
Other Services	60,800	60,300	57,400	500	0.8%	3,400	5.9%
Information	30,400	29,900	29,800	500	1.7%	600	2.0%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	May 2022	May 2021	% Change	YTD 2022	YTD 2021	% Change
New Listings	4,958	5,735	-13.6%	18,326	21,940	-16.5%
Sold Listings	2,972	3,544	-16.1%	12,836	15,481	-17.1%
Median List Price	$365,000	$349,000	4.6%	$349,900	$335,000	4.5%
Median Selling Price	$380,500	$351,550	8.2%	$360,000	$340,000	5.9%
Median Days on the Market	10	16	-37.5%	19	30	-36.7%
Average Listing Price	$561,178	$602,396	-6.8%	$554,357	$568,095	-2.4%
Average Selling Price	$584,882	$606,921	-3.6%	$564,255	$563,677	0.1%
Average Days on the Market	30	41	-26.8%	43	55	-21.8%
List/Sell Price Ratio	105.0%	102.6%	2.4%	102.8%	100.8%	2.0%

Data Source: Berkshire Hathaway HomeServices

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