NATALIE BRASWELL
Connecticut State Comptroller

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COMPTROLLER BRASWELL PROJECTS $299 MILLION SURPLUS IN FIRST UPDATE ON FISCAL YEAR 2023

Comptroller Natalie Braswell today, in her first monthly financial and economic update on Fiscal Year 2023, projected a $299 million surplus amid strong job numbers nationally and in Connecticut.

"There continues to be strong demand for labor across the nation, creating new opportunities for job-seekers," said Braswell. "There are more job openings across Connecticut than people currently looking for work. That is creating leverage for workers and resulting in rising wages."

Connecticut added approximately 6,500 jobs in July and has now recovered over 86% of the jobs lost during the original pandemic lockdown. Three industry sectors — construction; professional and business services; and trade, transportation and utilities — have now surpassed pre-pandemic employment levels.

Nationally, the country achieved its 19th consecutive month of job gains in July and has an estimated two open jobs for every unemployed person. Connecticut has similar levels of job availability illustrating the broad strength of the labor market.

The price of energy, particularly gasoline, declined in July, offering a much-needed reprieve from rising inflation, which remains at the highest level in decades. Consumer confidence ticked up slightly accordingly.

Connecticut's housing market continues to experience an inventory shortage, resulting in a decrease in sales year-over-year and an increase in prices. Rental costs have risen as well, experiencing a 9% increase in the same span.

"Consumers are feeling more positive about the nation's economic trajectory but are still grappling with high costs for necessities like food, housing and energy," said Braswell. "As external factors, including international conflict and interest rate increases, cloud the long-term economic outlook, it's critical that policymakers continue to search for ways to help working families afford essential needs, and maintain the momentum of recent job gains."

In a letter to Governor Lamont, Braswell noted it is still very early in the fiscal year and projections will change. Preliminary reporting of unaudited operating results for Fiscal Year 2022 will be produced by Sept. 30.

The final FY22 volatility transfer, approximately $3 billion, will also be made later this month. Those funds are required to be deposited into the state's Budget Reserve Fund (commonly known as the "Rainy Day Fund"). Because reserves have reached capacity, that money will instead be used to pay down pension debt. By the end of the calendar year, the final FY22 budget surplus will also be available for debt reduction.

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. labor market remained incredibly strong in July, officially recovering 100% of jobs lost during the Covid-19 recession. The U.S. added 528,000 jobs while the unemployment rate dropped to 3.5%. Unemployment claims have creeped up on a national and state level, however people are remaining unemployed for shorter periods of time due in part to the abundance of job openings. Connecticut added 6,500 jobs in July while the state's unemployment rate fell to 3.7%. The state has recovered 86% of the jobs lost during the Covid-19 recession and 3 industry sectors have recovered over 100% of job lost. Inflation remained flat in July mostly due to energy prices decreasing. The slowdown was welcome, however high prices remain the largest roadblock to a fully recovered economy. Second quarter GDP was revised upwards to -0.6% from -0.9%, indicating the decline was less severe than originally calculated. However, this still represents two quarters of negative growth. Consumer spending increased modestly in July as private wages increased, indicating cooling demand. Consumer confidence increased in August for the first time in three months.

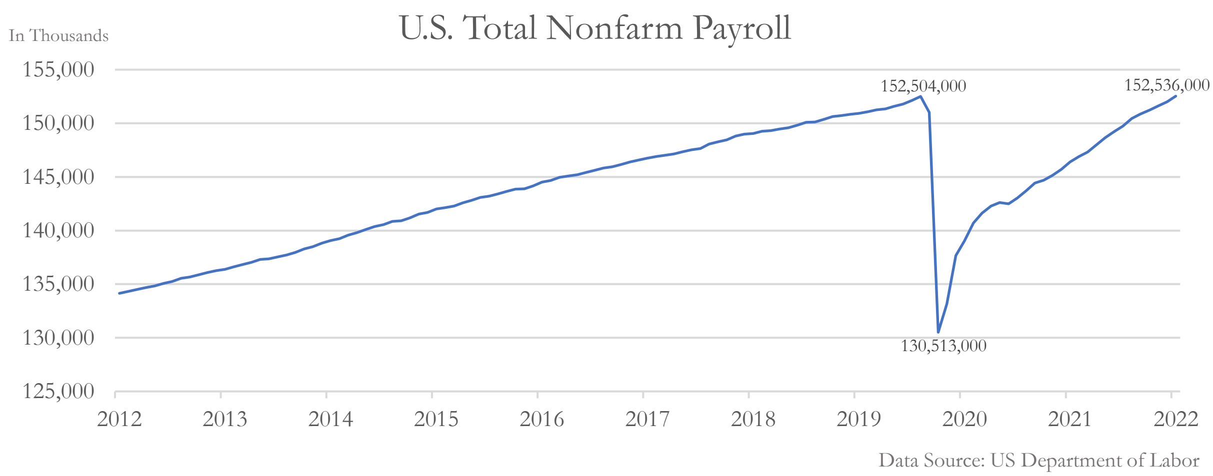
Labor Market Statistical Summary

United States	July 2022	June 2022	July 2021
Unemployment Rate	3.5%	3.6%	5.4%
Total Unemployed	5,670,000	5,912,000	8,671,000
Total Nonfarm Employment	152,536,000	152,008,000	146,387,000
Job Growth	+528,000	+398,000	+689,000
Covid Job Recovery	100.0%	97.7%	72.2%
Job Openings to Unemployed Ratio	1.98	1.86	1.24
Quit Rate	2.7%	2.8%	2.8%
Average Monthly Initial Unemployment Claims	245,200	231,750	408,600
Labor Force Participation Rate	62.1%	62.2%	61.7%
Average Hourly Wage	$32.27	$32.12	$30.37

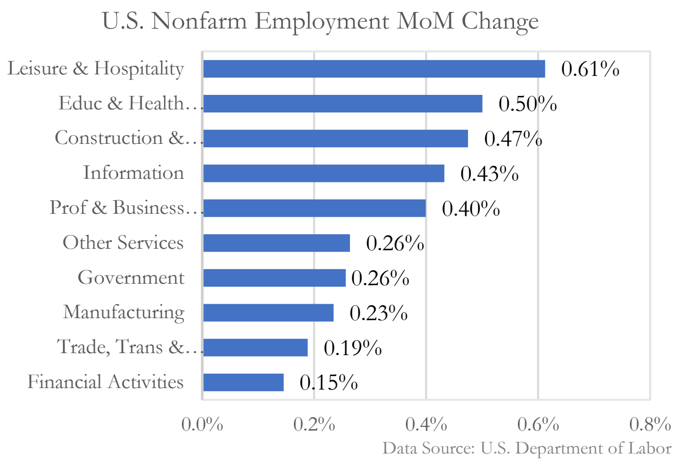
Connecticut	July 2022	June 2022	July 2021
Unemployment Rate	3.7%	4.0%	6.3%
Total Unemployed	70,400	76,000	117,700
Total Nonfarm Employment	1,658,800	1,652,300	1,626,600
Job Growth	+6,500	+3,000	+14,600
Covid Job Recovery	86.1%	83.9%	75.0%
Job Openings to Unemployed Ratio	-	1.4	0.92
Quit Rate	-	2.4%	2.3%
Average Monthly Initial Unemployment Claims	8,436	2,699	3,961
Labor Force Participation Rate	64.5%	64.6%	63.6%
Average Hourly Wage	$34.53	$34.08	$33.66

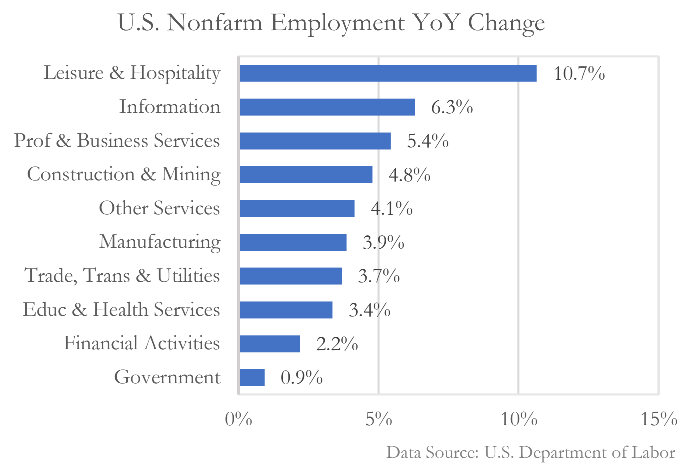
National Job Growth

The Bureau of Labor Statistics reported the U.S. added 528,000 jobs in July after adding 398,000 in June and 386,000 in May. The U.S. has now recovered 100% of the almost 22 million jobs lost during the Covid-19 pandemic and has surpassed February 2020 payroll levels. This growth marks nineteen straight months of job gains and represents a much faster recovery than previous recessions.



Both month over month and year over year, all sectors saw improvement. Month over month, the largest job gains occurred in education and health services (+122,000), leisure and hospitality (+96,000), and professional and business services (+89,000). 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.



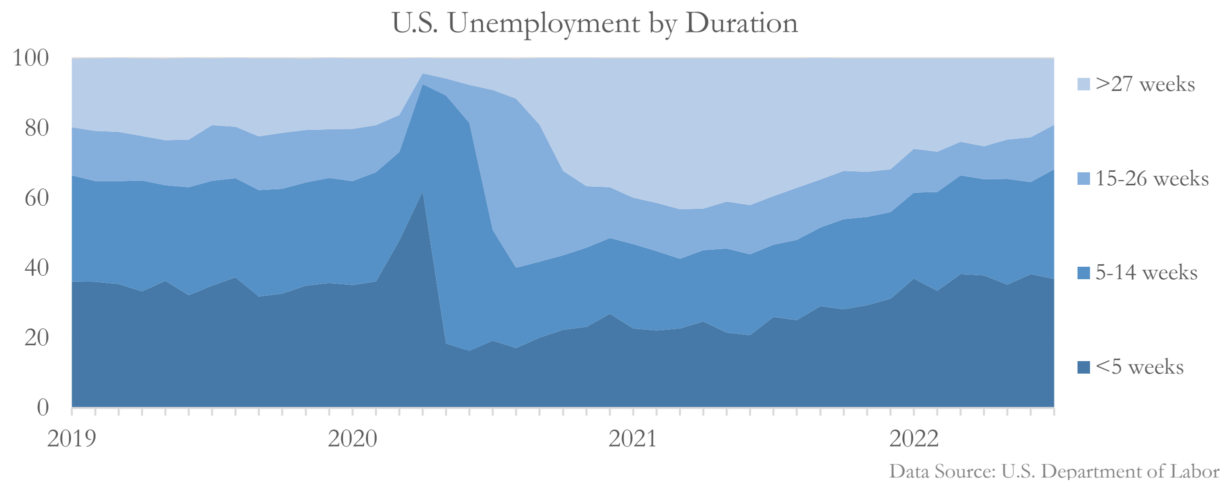


Six industry sectors have gained jobs above their pre-pandemic levels: construction, trade transportation and utilities, professional and business services, information, financial activities, and manufacturing. The U.S. has recovered 100% of the 21,991,000 jobs lost in March and April 2020 due to the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

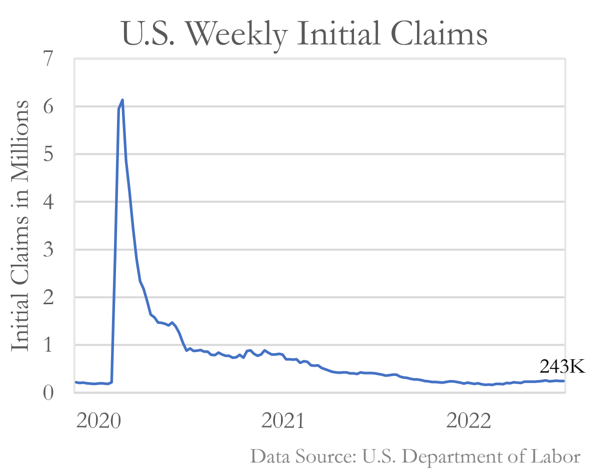
The number of job openings nationally has steadily declined from the all-time high in March of 11.9 million job openings. There were 11.2 million job openings in July and the quit rate has dropped to 2.7%. Some economists attribute these shifts to fear of economic downturn driving people to take jobs while they are still plentiful. Nationally there are 1.98 jobs for every unemployed person with the greatest number of job openings in health care and social assistance, accommodation and food services, professional and business services, and retail trade. Demand for labor remains high alongside strong wage growth which is encouraging for employees.

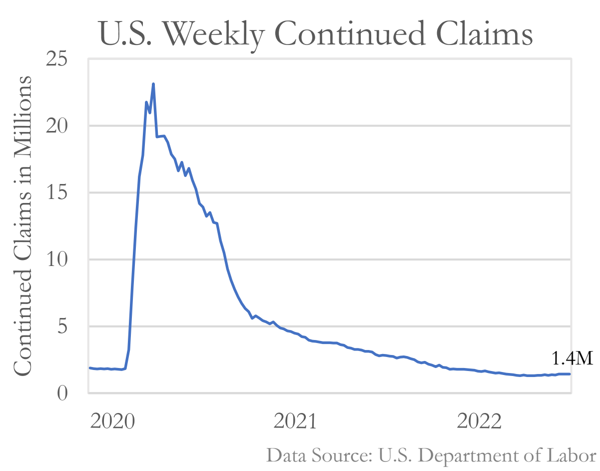
National Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate was 3.5% in July, decreasing by 0.1% from June's level (3.6%). Unemployment has fully recovered from the Covid-19 pandemic, but as monetary policy shifts, it is expected to increase by the end of the year. The total number of unemployed people in July was 5.7 million, declining by 242,000 from last month. Due to the abundance of job openings and other factors, the duration of unemployment has decreased since the height of the pandemic. The number of long-term unemployed people, those jobless for 27 weeks or more, decreased by 269,000 to 1.1 million, and account for only 18.9% of the total unemployed in July. The majority of unemployed people (36.9%) were unemployed for less than five weeks. The graph below represents the share of unemployment by duration.



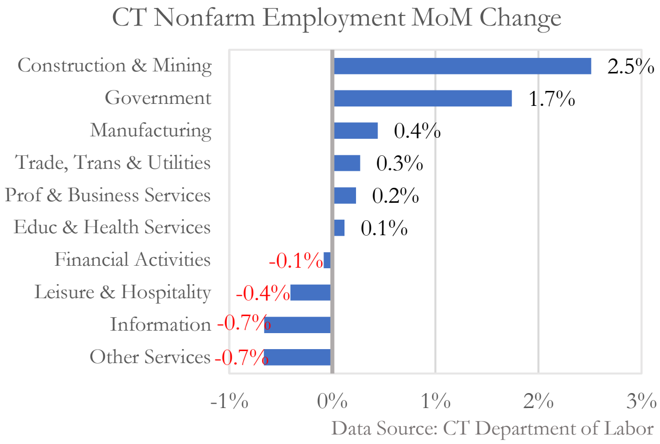
For the week ending August 20, seasonally adjusted initial claims totaled 243,000, while average weekly initial claims were 247,000. This level of jobless claims has increased slowly from the lows in March and is expected to rise as the economy cools down. For the week ending August 13, seasonally adjusted continued claims totaled 1,415,000, while average weekly continued claims were 1,424,750.

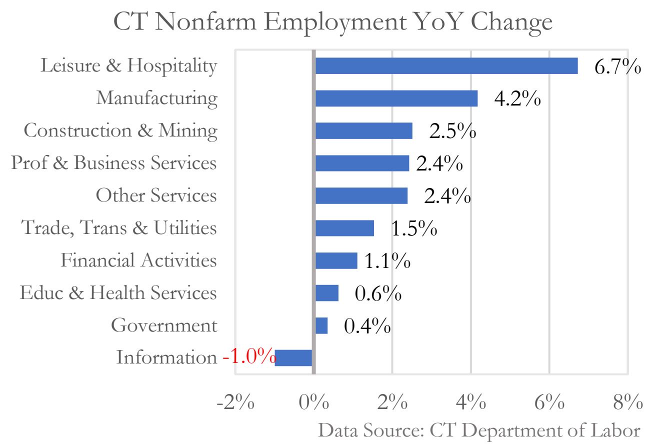




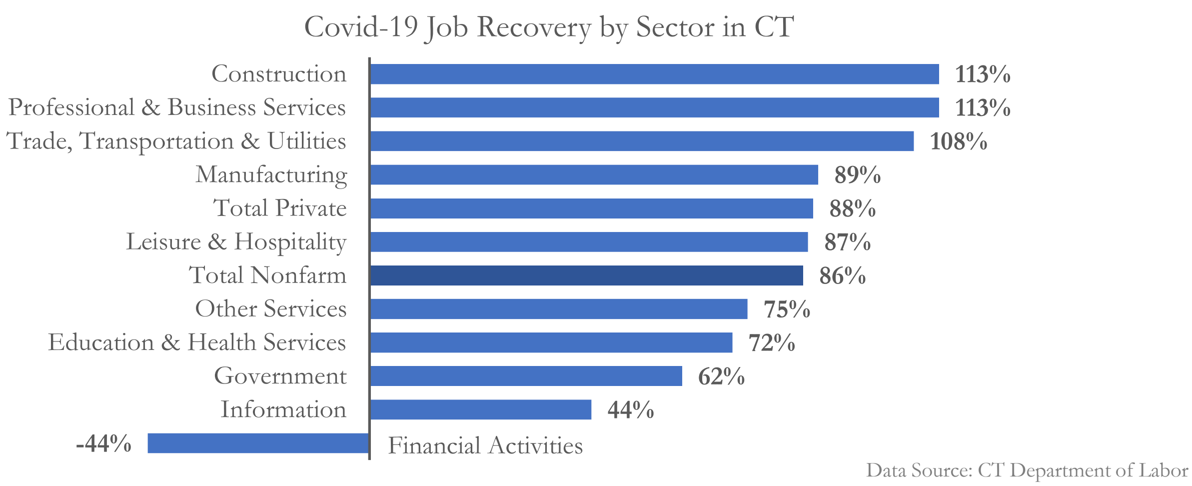
Connecticut Job Growth

The Connecticut Department of Labor reported the state added 6,500 jobs in July after adding 3,000 in June and 1,400 in May. Total nonfarm payroll was 1,658,800, which is up 249,200 since April 2020 but is down by 40,200 from its pre-pandemic level in February 2020. Six industry sectors increased month over month, while four declined. The largest job gains occurred in government (+3,900) due to federal Covid-19 funding that allowed for summer programs, and construction and mining (+1,500). The largest job declines occurred in leisure and hospitality (-600), and other services (-400). The following graphs display the month over month and year over year net change in nonfarm employment by sector.





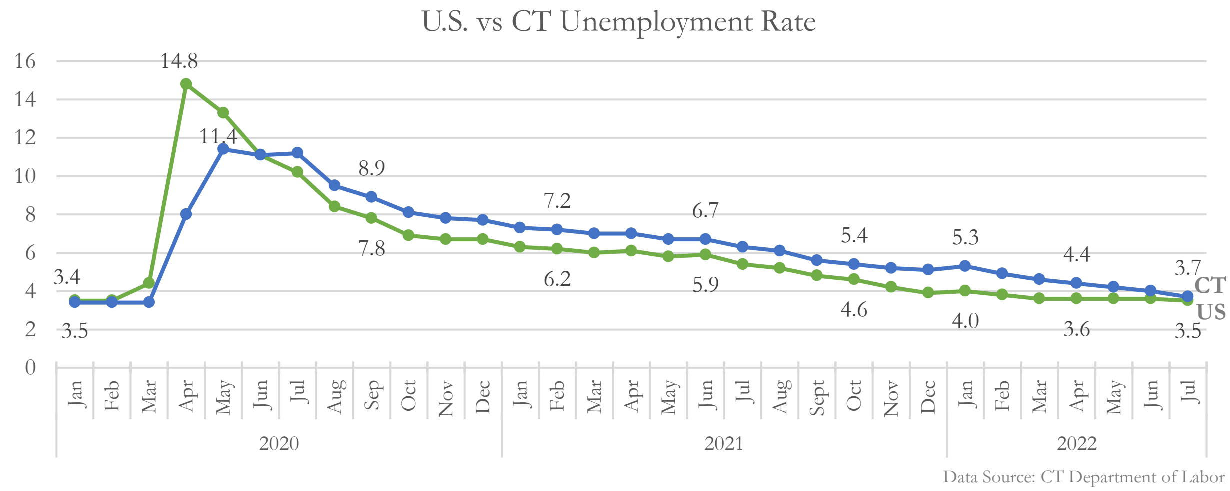
Overall, Connecticut has recovered 86% of the 289,400 nonfarm jobs lost in March and April 2020 due to the COVID-19 lockdown. The private sector has recovered 88% of jobs lost while the public sector has only recovered 62%. Three industry sectors have gained jobs above their pre-pandemic levels: construction, professional and business services, and trade, transportation, and utilities. See Appendix 2 for detailed industry sector data. The following graph displays job recovery by sector in Connecticut.



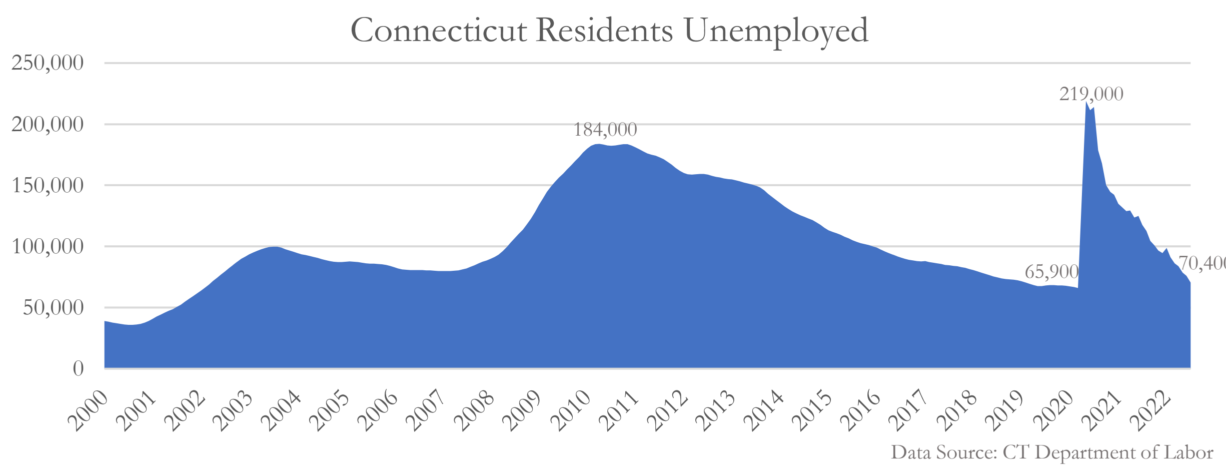
In Connecticut, there were 105,000 job openings in June and 76,000 people actively looking for work. This means if every unemployed person got a job there would still be 29,000 open jobs. This trend is not unique to Connecticut but represents the strong demand for labor. Nationally, industries with the greatest number of job openings include health care and social assistance, accommodation and food services, professional and business services, and retail trade.

Connecticut Unemployment

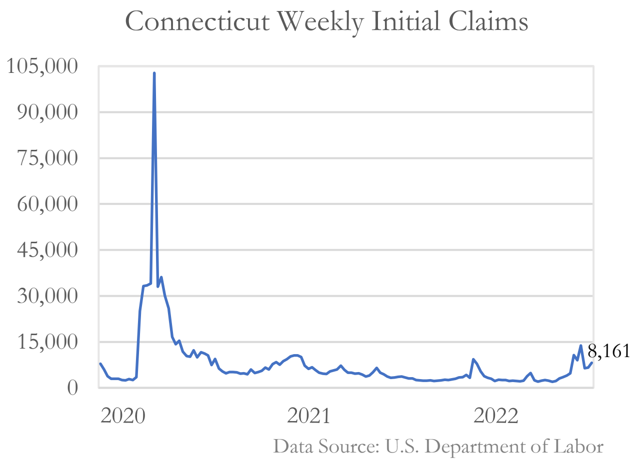
The Connecticut Department of Labor reported the state unemployment rate was 3.7% in July, down from 4% in June. This unemployment rate is just 0.3% higher than pre-pandemic levels (3.4%) which was at a 20 year low. Connecticut's unemployment rate ranks 33 in the nation and is just 1.9 percentage points higher than Minnesota's 1.8% unemployment rate.

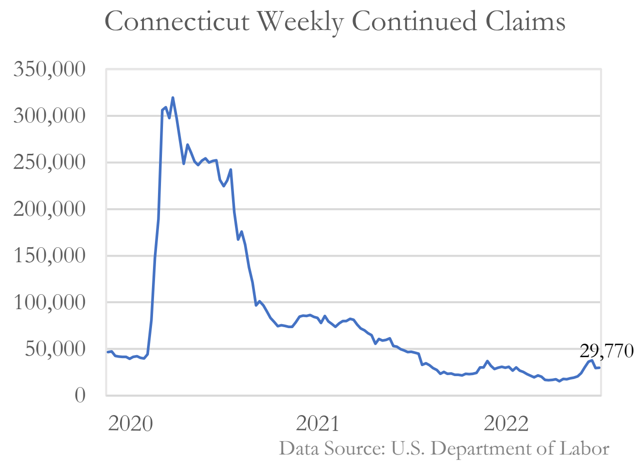


The total number of unemployed people was 70,400 in July, edging close to pre-pandemic levels (65,900).



Unemployment claims for first-time filers were an average of 10,124 per week in July, up by 8,324 claims from last month. 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 sixth month in a row, down 5.9% from June and 20.2% from last year. The median existing-home sales price was $403,800 in July, up 10.8% from last year. First-time buyers were responsible for 29% of sales, down from 30% last year. Housing inventory increased this month which may provide some relief in the market. 82% of homes sold 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 26% and new listings were down 20% in July. Median sales price increased by 8% and median list price also increased by 8%. Average days on the market decreased to 29 days from 33 a year ago. On average, sales prices came in above list prices, with a list/sell price ratio of 104%. Inventory sits at a 1.7-month supply at the current sales pace, down from last year. See Appendix 3 for detailed Connecticut Housing Market data.

July 2022 Connecticut Housing Market

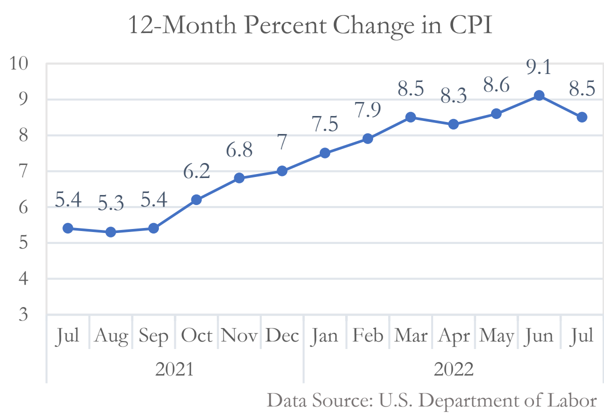
Sales	New Listings	Median Sales Price	Avg Days on Market
3,405	**4,096**	**$415,000**	**29**
-26%	-20%	+8%	-12%

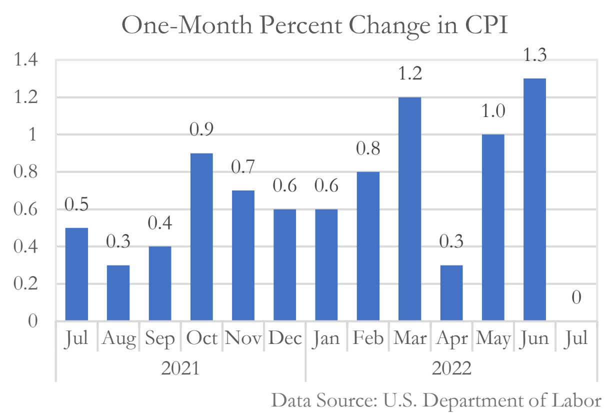
Data Source: Berkshire Hathaway HomeServices

Apartment List reported national average rent was $1,388 in August, up slightly 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% year over year, from $1,492 to $1,622. 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.

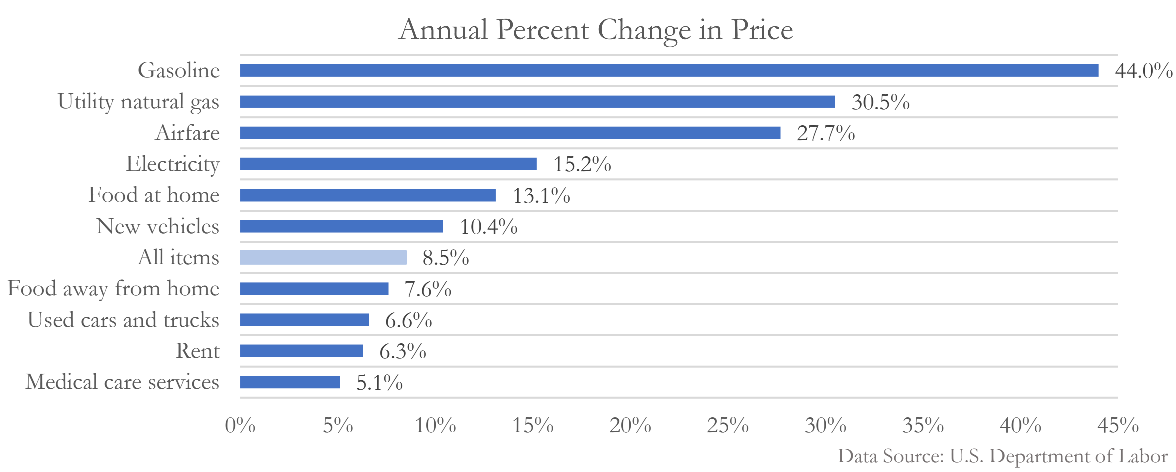
Inflation

The Bureau of Labor Statistics reported the Consumer Price Index (CPI) remained unchanged in July from June for an annual rate of 8.5%. Core CPI, which excludes food and energy, rose 0.3% in July for an annual rate of 5.9%. The price of gasoline fell significantly offsetting price increases in food and shelter. Inflationary pressures may have begun to ease but remain at the highest levels in decades.





The chart below displays the annual percent change in price by good or service. Energy prices may have declined in July, however, gasoline is still up by 44% from a year ago and natural gas by 30.5%.



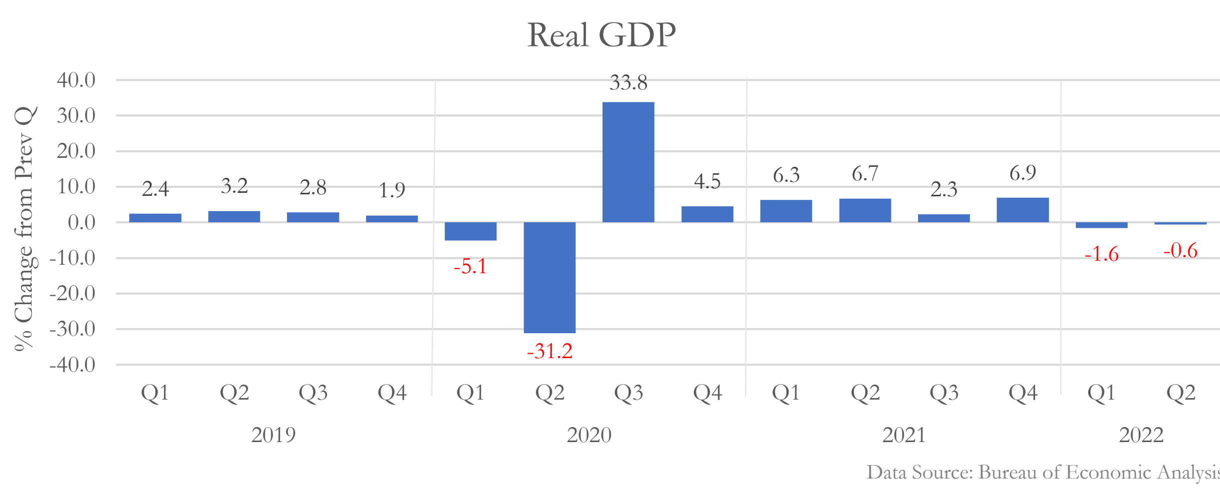
The slowdown in CPI and consumer spending (discussed below) is welcome news to the Federal Reserve as they attempt to cool demand and bring prices down. The central bank has stated that "our responsibility to deliver price stability is unconditional" and has made reducing inflation their main priority now that maximum employment has been achieved. The Fed has adjusted monetary policy utilizing interest rate increases to fight inflation. They have raised interest rates 4 times by a total of

2.25 percentage points to make borrowing money more expensive and hopefully bring inflation down to their 2% long-run target. The Federal Open Market Committee (FOMC) is set to meet in September and may raise rates again by 0.75 percentage points.

Supply chain issues continue to be one of the major factors contributing to price increases. 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 second estimate of U.S. real gross domestic product (GDP) decreased at an annual rate of 0.6% in the second quarter of 2022, revised from -0.9% in the first estimate. This follows a 1.6% real GDP decrease in the first quarter of 2022.



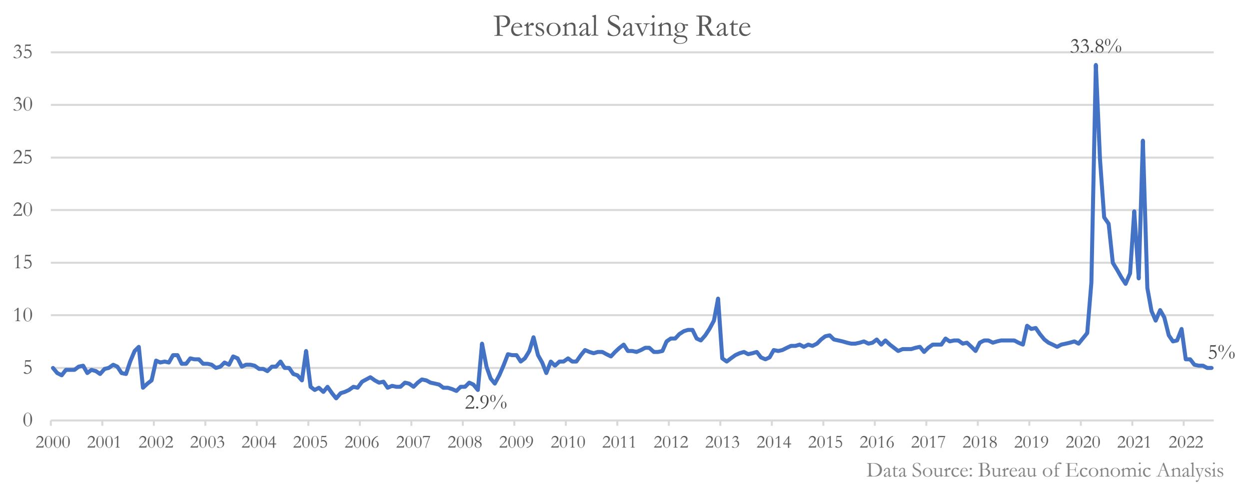
GDP is calculated by adding public consumption, private investment, government spending, and the difference between exports and imports. The decrease in the second quarter primarily reflected an upturn in exports and a smaller decrease in federal government spending. Public consumption, or consumer spending, 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 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 revised estimate included upward revisions to consumer spending, private inventory investment, and state and local government spending that were partly offset by downward revisions to residential fixed investment, federal government spending, and exports. Imports were revised down.

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 first quarter 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 & Debt

The Bureau of Economic Analysis reported consumer spending increased $23.7 billion (0.1%) in July which is a slowdown from recent months. Spending on goods decreased by $9.6 billion mostly due to a drop in gasoline and energy prices. Spending on services increased by $33.3 billion driven by housing, utilities, and international travel. Adjusted for inflation, real spending increased 0.2% from last month. Personal income increased $47 billion (0.2%) due to an increase in private wages and salaries. Adjusted for inflation, real personal income increased 0.3% from last month. The personal-saving rate was 5% in July, remaining unchanged from last month.



The Federal Reserve Bank of New York reported total household debt increased by $312 billion in the second quarter of 2022, a 2% rise from the previous quarter. Balances now stand at $16.15 trillion and have increased $2 trillion since the end of 2019.

All debt types saw sizeable increases, excluding student loan debt due to forbearance that was extended again in August to December 31, 2022, affecting more than 40 million students. President Biden announced he is cancelling $10,000 in student loan debt for Americans earning $125,000 or less per year and will cancel an additional $10,000 for students who received a Pell Grant. Mortgage balances were the largest driver of the increase as interest rates increased along with home prices. Credit card balances increased 13% year-over-year which marked the largest growth in 20 years. Overall debt growth reflected widespread inflation of consumer goods and services.

Although debt balances grew, household debt is overwhelmingly held by higher credit score borrowers demonstrating policy changes made after the 2008 recession to avoid subprime lending. Delinquency rates hit record lows in the last two years due to forbearance programs and higher savings throughout the pandemic. However, delinquency rates are creeping up especially in lower income areas suggesting households are experiencing inflation differently.

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. July saw a rally while August proved to be volatile following comments from the Federal Reserve about aggressively hiking interest rates to fight inflation. As of August 31, over the month, the Dow Jones Industrial Average dropped 1,334 points or 4.06%, the S&P 500 dropped 175 points or 4.24%, and the NASDAQ dropped 574 points or 4.64%.

The performance of the stock market and overall economy has a significant impact on Connecticut tax revenue. In a typical year, estimated and final income tax payments account for approximately 25-30% of total state income tax receipts, but can be an extremely volatile revenue source. FY 2022 results showed estimated and final payments were up a combined 37.8% compared with FY 2021. The withholding portion of the income tax is the largest single General Fund revenue source. In FY 2022, income tax withholding also performed well. The budget plan called for growth in withholding receipts of 1.8% over FY 2021 realized amounts. FY 2022 results show collections came in 9.7% above the same period in FY 2021. Strong job growth, higher wages, and record corporate profits continue to contribute to strong tax collections.

The revenue volatility cap, introduced by former Comptroller Kevin Lembo and passed by the legislature, automatically captures excess revenue in volatile revenue categories and deposits them in the state's Budget Reserve Fund. As a result of that policy, and continued bipartisan support for maintaining it, the state's reserves have reached their statutory cap. Due to increased revenue projections, the projected volatility transfer for FY22 is approximately $3 billion.

Consumer Confidence

The Conference Board reported the U.S. consumer confidence index increased in August from 95.3 to 103.2 following three months of decline. In the August survey, the Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, increased from 139.7 to 145.4. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, increased from 65.6 to 75.1. Concerns about inflation have lessened but remain elevated. Purchasing intentions improved in August amid falling gas prices, but persistent inflation and interest rate hikes pose risks to economic growth.

Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	July 2022 (P)	June 2022 (R)	July 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Financial Activities	8,965,000	8,952,000	8,772,000	13,000	0.1%	193,000	2.2%
Trade, Trans & Utilities	28,759,000	28,705,000	27,735,000	54,000	0.2%	1,024,000	3.7%
Manufacturing	12,826,000	12,796,000	12,350,000	30,000	0.2%	476,000	3.9%
Government	22,282,000	22,225,000	22,076,000	57,000	0.3%	206,000	0.9%
Other Services	5,700,000	5,685,000	5,473,000	15,000	0.3%	227,000	4.1%
Prof & Business Services	22,379,000	22,290,000	21,226,000	89,000	0.4%	1,153,000	5.4%
Information	3,020,000	3,007,000	2,841,000	13,000	0.4%	179,000	6.3%
Construction & Mining	8,296,500	8,257,300	7,917,600	39,200	0.5%	378,900	4.8%
Educ & Health Services	24,495,000	24,373,000	23,699,000	122,000	0.5%	796,000	3.4%
Leisure & Hospitality	15,769,000	15,673,000	14,251,000	96,000	0.6%	1,518,000	10.7%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	July 2022 (P)	June 2022 (R)	July 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Other Services	59,900	60,300	58,500	-400	-0.7%	1,400	2.4%
Information	30,000	30,200	30,300	-200	-0.7%	-300	-1.0%
Leisure & Hospitality	147,500	148,100	138,200	-600	-0.4%	9,300	6.7%
Financial Activities	118,700	118,800	117,400	-100	-0.1%	1,300	1.1%
Educ & Health Services	337,500	337,100	335,400	400	0.1%	2,100	0.6%
Prof & Business Services	219,000	218,500	213,800	500	0.2%	5,200	2.4%
Trade, Trans & Utilities	297,600	296,800	293,100	800	0.3%	4,500	1.5%
Manufacturing	159,700	159,000	153,300	700	0.4%	6,400	4.2%
Government	227,700	223,800	226,900	3,900	1.7%	800	0.4%
Construction & Mining	61,200	59,700	59,700	1,500	2.5%	1,500	2.5%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	July 2022	July 2021	% Change	YTD 2022	YTD 2021	% Change
New Listings	4,096	5,110	-19.8%	27,571	32,681	-15.6%
Sold Listings	3,405	4,593	-25.9%	20,331	24,875	-18.3%
Median List Price	$399,900	$369,900	8.1%	$365,000	$349,900	4.3%
Median Selling Price	$415,000	$385,000	7.8%	$375,000	$354,000	5.9%
Median Days on the Market	14	17	-17.7%	16	24	-33.3%
Average Listing Price	$640,120	$637,021	0.5%	$582,262	$591,627	-1.6%
Average Selling Price	$655,895	$645,052	1.7%	$596,406	$592,145	0.7%
Average Days on the Market	29	33	-12.1%	37	47	-21.3%
List/Sell Price Ratio	103.7%	102.9%	0.8%	103.4%	101.7%	1.7%

Data Source: Berkshire Hathaway HomeServices

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