STATE COMPTROLLER
SEAN SCANLON

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COMPTROLLER SEAN SCANLON PROJECTS $1.3 BILLION SURPLUS, URGES RETENTION OF STATE'S FISCAL GUARDRAILS

Connecticut on track for fifth consecutive year of a budget surplus

(HARTFORD, CT) – Comptroller Sean Scanlon today, in his monthly financial and economic update and outlook, projected a Fiscal Year 2023 General Fund surplus of $1.3 billion.

In January, a new consensus revenue forecast issued by the Office of Policy and Management and the Office of Fiscal Analysis showed an increase in revenue projections tied to growing withholding and corporate tax receipts. While projections have improved due to a strong labor market and corporate earnings, the Comptroller cautioned against deviating from the fiscal safeguards and careful budgeting that helped reverse years of budget deficits.

"The fiscal guardrails we have in place in Connecticut have empowered us to weather recent economic volatility," **said Scanlon.** "And while the effects of the pandemic and inflation can still be felt, I am optimistic to see that we are on the path to continue making historic payments towards our pension funds that will save future generations millions. This is not the time to disregard the fiscal discipline measures that have put us on track to have a fifth consecutive budget surplus; instead, I urge the legislature to reinforce them."

Budget Reserve Fund	
Current Balance	3,313,380,000
Projected volatility transfer from GF	1,847,500,000
Projected surplus transfer from GF	1,342,692,188
Projected ending balance	6,503,572,188
Projected ending balance as percent of FY23 GF appropriations	29.4%
Excess to pay down debt (amount above 15% BRF cap)	3,190,192,188
Projected Deposit to SERS	2,333,638,288
Projected Deposit to TRS	856,553,900

Additionally, the U.S. labor market remains strong, with low unemployment and 1.9 job openings for every unemployed person. However, recent layoff announcements are a sign the labor market may be starting to moderate and are something the Office of the State Comptroller will continue to monitor.

The Connecticut Department of Labor reported the state unemployment rate remained steady at 4.2% in December. The total number of unemployed people was 79,800 in December, an increase of 300 from last month. Unemployment claims for first-time filers were an average of 3,952 per week in December, up by 452 claims from last month.

"As we continue to monitor these trends and track key economic indicators, maintaining Connecticut's fiscal guardrails—such as the bond, volatility, and expenditure caps—are critical to ensuring our state's economy and citizens are prepared for any future scenario," said Scanlon.

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

Economic Summary

The big question on the mind of many is whether or not the United States is in a recession. The National Bureau of Economic Research (NBER) is the organization that officially makes the determination, but there are a number of economic indicators that are used as signals of a recession. Unfortunately, these markers continue to provide a mixed message.

Two consecutive quarters of declining Gross Domestic Product (GDP) represent a recession to many observers, but after 1.6% and 0.6% real GDP decreases in the 1st and 2nd quarter of 2022 respectively, 3rd quarter GDP increased at an annual rate of 3.2% and 4th quarter GDP increased at an annual rate of 2.9%.

The S&P 500 Index ended 2022 at 3,928.86, a decline of 19.44% for the year, narrowly avoiding a bear market (which typically describes a condition in which securities prices fall 20% or more). However, the stock market has rallied in January, and as of January 27th, the S&P 500 rose 6.02% to 4,070.56.

Meanwhile, the labor market has remained unnaturally strong. United States unemployment claims as of latest Unemployment Insurance Weekly Claims Report were 186,000 (jobless claims closer to around 300K would be consistent with a recession). November job openings were 10.5 million with unemployment at 6 million, or 1.75 job openings for each available worker. The labor force participation rate (number of individuals which are actively seeking out work or who are already employed) edged up to 62.3% in December 2022 from 62.2% in the previous month, but still remained 1.0 percentage points below its value in February 2020, prior to the pandemic.

However, recent layoffs are a sign the labor market might finally be righting itself. We are only a few weeks into the year and there have already been some massive layoff announcements from big companies such as Microsoft, Amazon, and Salesforce.

We saw Connecticut numbers moderate in December. After 11 months of job growth, Connecticut payroll jobs declined 0.1% with December down 1,600 jobs. The Connecticut Department of Labor reported the state unemployment rate remained steady at 4.2% in December. The total number of unemployed people was 79,800 in December, an increase of 300 from last month. Unemployment claims for first-time filers were an average of 3,952 per week in December, up by 452 claims from last month.

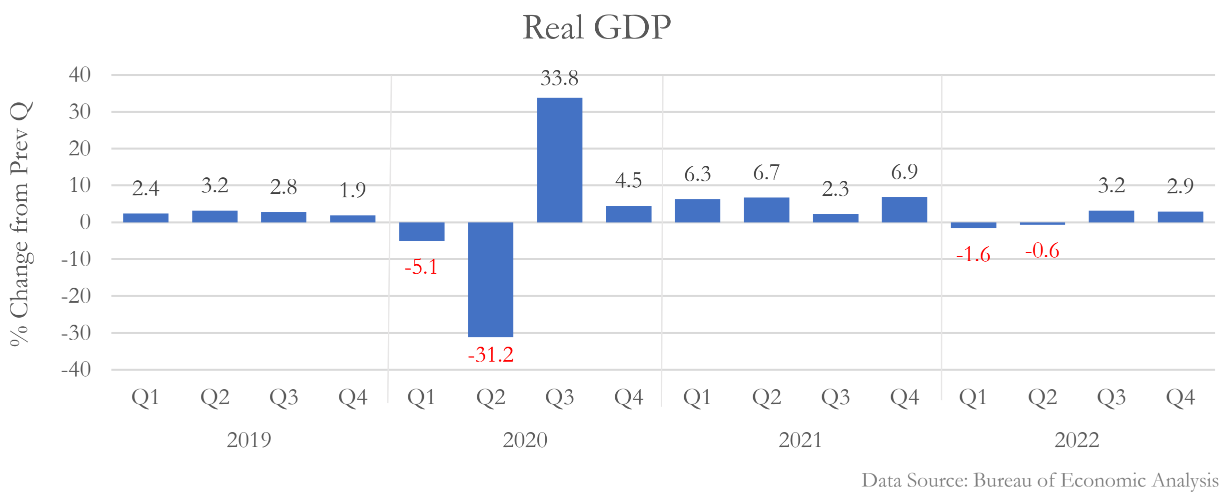
Pending home sales fell 38.6% in 2022, to their second-lowest level on record, driven by a lack of inventory, elevated home prices, and rising mortgage rates. According to economists at the National Association of Realtors (NAR), home sales lag changes in mortgage rates by about two months, which could correspond to a strong selling season. However, the national median existing home-sales price was down for the sixth month in a row in December, and median rent declined for the fourth month in a row.

The Consumer Price Index (CPI) declined 0.1 percent in December, for a 12-month percent increase in CPI of 6.5 percent, a sign that inflation is slowly coming down after the Federal Reserve increased interest rates several times in 2022 in order to combat inflation. The Federal Reserve is poised this week to raise its benchmark interest rate for the eighth time since March, but they will likely announce a smaller hike for the second straight time.

GDP

The Bureau of Economic Analysis reported the first estimate of U.S. real gross domestic product (GDP), which increased at an annual rate of 2.9% in the fourth quarter of 2022. This follows a 3.2% real GDP increase in the third quarter of 2022.

GDP is calculated by adding public consumption, private investment, government spending, and the difference between exports and imports. Consumer spending is approximately 70% of GDP. The increase in real GDP reflected increases in private inventory investment, consumer spending, federal government spending, state and local government spending, and nonresidential fixed investment that were partly offset by decreases in residential fixed investment exports. Imports, which are a subtraction in the calculate in GDP, decreased.



The increase in private inventory investment was led by manufacturing as well as mining, utilities, and construction industries. The increase in consumer spending reflected increases in both services and goods. Within services, the increase was led by health care, housing and utilities, and "other" services (notably, personal care services). Within goods, the leading contributor was motor vehicles and parts. Within federal government spending, the increase was led by nondefense spending. The increase in state and local government spending primarily reflected an increase in compensation of state and local government employees. Within nonresidential fixed investment, an increase in intellectual property products partly offset by a decrease in equipment.

Within residential fixed investment, the leading contributors to the decrease were new single-family construction as well as brokers' commissions. Within exports, a decrease in goods was partly offset by an increase in services. Within imports, the decrease primarily reflected a decrease in goods.

Compared to the third quarter, the deceleration in real GDP in the fourth quarter primarily reflected a downturn in exports and decelerations in nonresidential fixed investment, state and local government spending, and consumer spending. These movements were partly offset by an upturn in private inventory investment, an acceleration in federal government spending, and a smaller decrease in residential fixed investment. Imports decreased less in the fourth quarter than in the third quarter.

Stock Market and State Revenue

The S&P 500 Index ended 2022 at 3,928.86, a decline of 19.44% for the year, narrowly avoiding a bear market (which typically describes a condition in which securities prices fall 20% or more). The NASDAQ and Dow declined 33.10% and 8.78% respectively in 2022. However, the stock market has rallied in January, and as of January 27th, the S&P 500 rose 6.02% to 4,070.56. The NASDAQ is up 11.04% as of January 27th to 11,621.71, and the DOW is up 2.51% to 33,978.08.

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 2023 results show estimated and final payments are up a combined 6.9% compared with the same period from FY 2022.

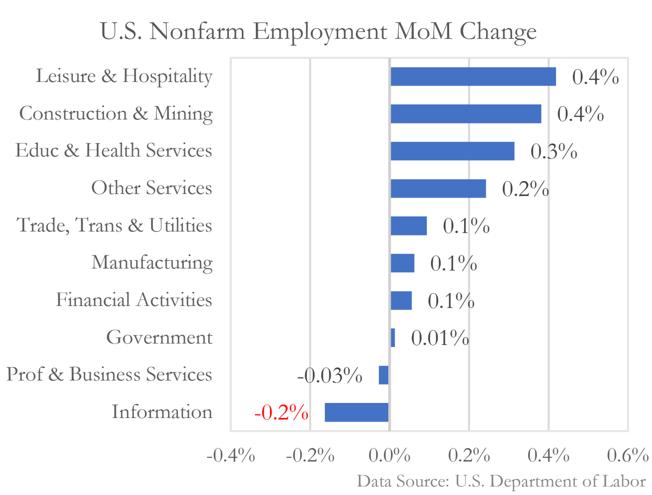
Labor Market Statistical Summary

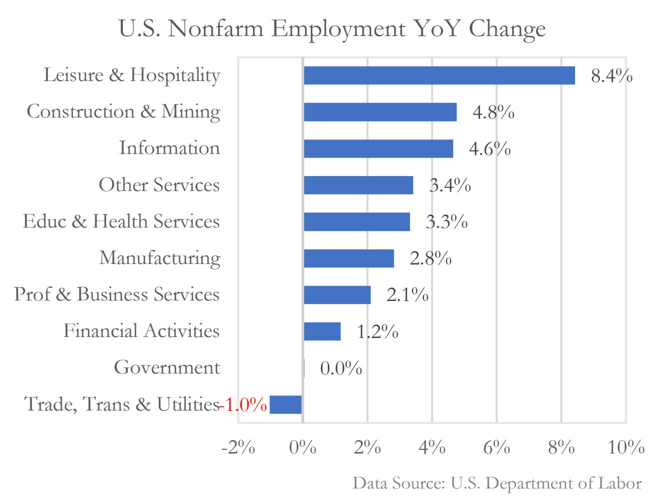
United States	December 2022	November 2022	December 2021
Unemployment Rate	3.5%	3.6%	3.9%
Total Unemployed	5,722,000	6,000,000	6,329,000
Total Nonfarm Employment	159,244,000	158,527,000	156,081,000
Job Growth	+223,000	+263,000	+199,000
Covid Job Recovery	100.0%	100.0%	82.6%
Average Monthly Initial Unemployment Claims	206,000	214,250	228,250
Labor Force Participation Rate	62.3%	62.2%	62.0%
Average Hourly Wage	$32.82	$32.73	$31.51

Connecticut	December 2022	November 2022	December 2021
Unemployment Rate	4.2%	4.2%	5.1%
Total Unemployed	79,800	79,500	94,700
Total Nonfarm Employment	1,667,900	1,669,500	1,635,800
Job Growth	-1,600	+2,900	-500
Covid Job Recovery	89.3%	90.9%	78.0%
Average Monthly Initial Unemployment Claims	3,952	3,500	3,780
Labor Force Participation Rate	63.7%	64.3%	63.2%
Average Hourly Wage	$35.22	$35.04	$33.99

National Job Growth

The Bureau of Labor Statistics reported the U.S. added 223,000 jobs in December after adding 263,000 in November and 284,000 in October. This growth marks 24 straight months of job gains. Year-over-year, all sectors saw improvement with the exception of trade, transportation, and utilities. Month-over-month, the largest job gains occurred in education and health services (+78,000), leisure and hospitality (+67,000), and construction and mining (+32,000). The profession & business services and information sectors lost 6,000 and 5,000 jobs respectively. 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.





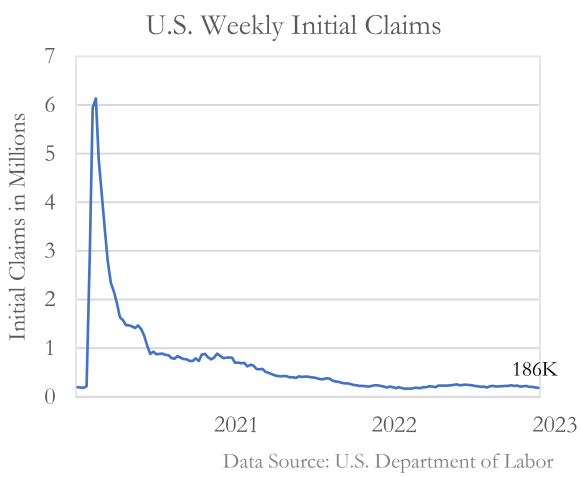
The U.S. has recovered 100% of the 21,991,000 jobs lost in March and April 2020 due to the COVID-19 lockdown, and certain industry sectors have gained jobs above their pre-pandemic levels.

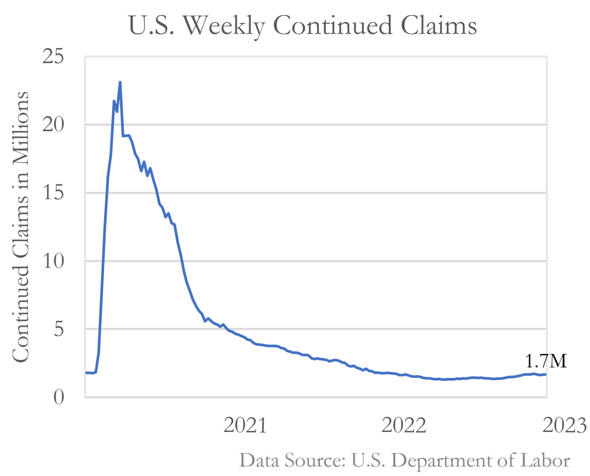
There were 10.5 million job openings in November, which equates to 1.75 jobs for every unemployed person. However, major layoffs have started to be announced in 2023, particularly in the Technology sector. According to Layoffs.fyi, a layoff tracking site, more than 55,300 employees from more than 154 tech companies including Microsoft, Amazon, and Salesforce have already been affected by layoffs in 2023.

National Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate at 3.5%, a 0.1% decrease from last month at 3.6%. The total number of unemployed people in November was 5.7 million, a decrease of 278,000 from last month.

For the week ending January 21, seasonally adjusted initial claims totaled 186,000, while average weekly initial claims were 197,500. In April 2020 at the height of the COVID-19 pandemic, jobless claims topped 6.1 million. The level of jobless claims has increased slowly from the lows in March. For the week ending January 14, seasonally adjusted continued claims totaled 1,675,000, while average weekly continued claims were 1,664,250.

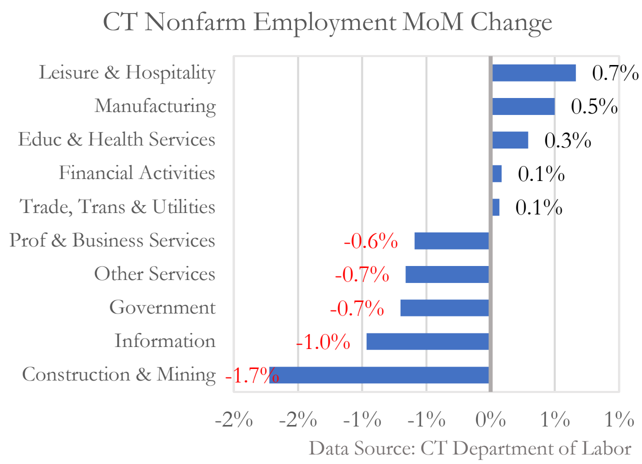


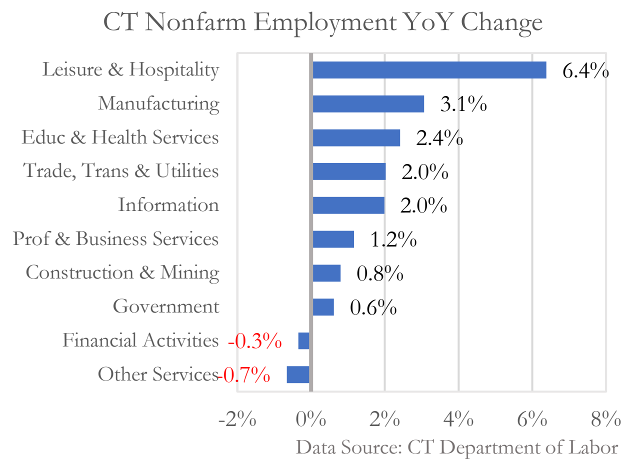


Connecticut Job Growth

After 11 months of job growth, Connecticut payroll jobs declined 0.1% with December down 1,600 jobs. In November, the state added 2,900 jobs across the public and private sectors, however, the November survey week ran through election day and counted poll workers and other one-day jobs.

Five industry sectors increased month over month, while five declined. The largest job gains occurred in Leisure and Hospitality (+1,000), Education & Health Services (+1,000) and Manufacturing (+800). The largest declines occurred in Government (-1,600), Professional & Business Services (-1,300), and Construction & Mining (-1,100). The following graphs display the month-over-month and year-over-year net change in nonfarm employment by sector.

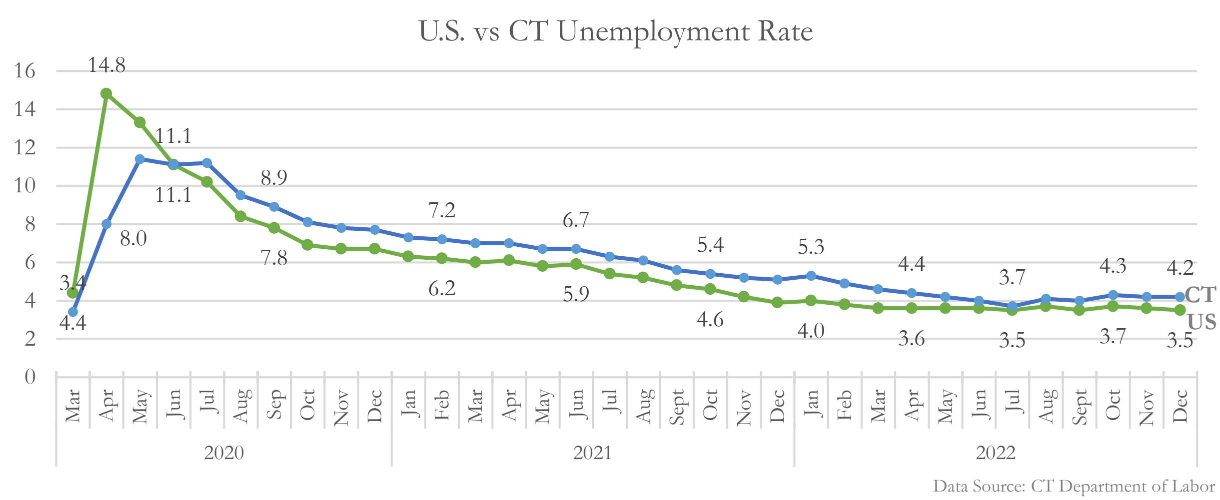




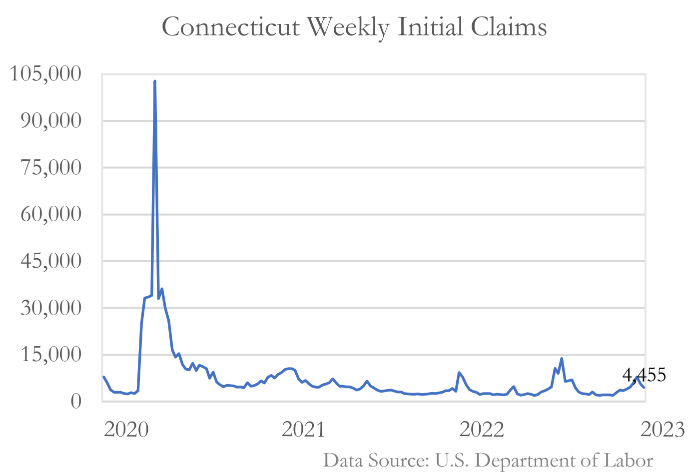
Overall, Connecticut has recovered 89.3% of the 289,400 nonfarm jobs lost in March and April 2020 due to the COVID-19 lockdown. The private sector has recovered 92.1% of jobs lost while the public sector has only recovered 57.6%. See Appendix 2 for detailed industry sector data.

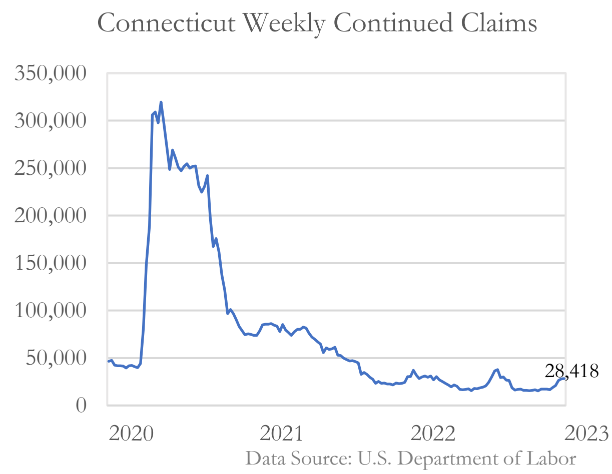
Connecticut Unemployment

The Connecticut Department of Labor reported the state unemployment rate remained steady at 4.2% in December. The total number of unemployed people was 79,800 in December, an increase of 300 from last month.



Unemployment claims for first-time filers were an average of 3,952 per week in December, up by 452 claims from last month. This level of average weekly initial claims is beginning to rise as job growth slows down.

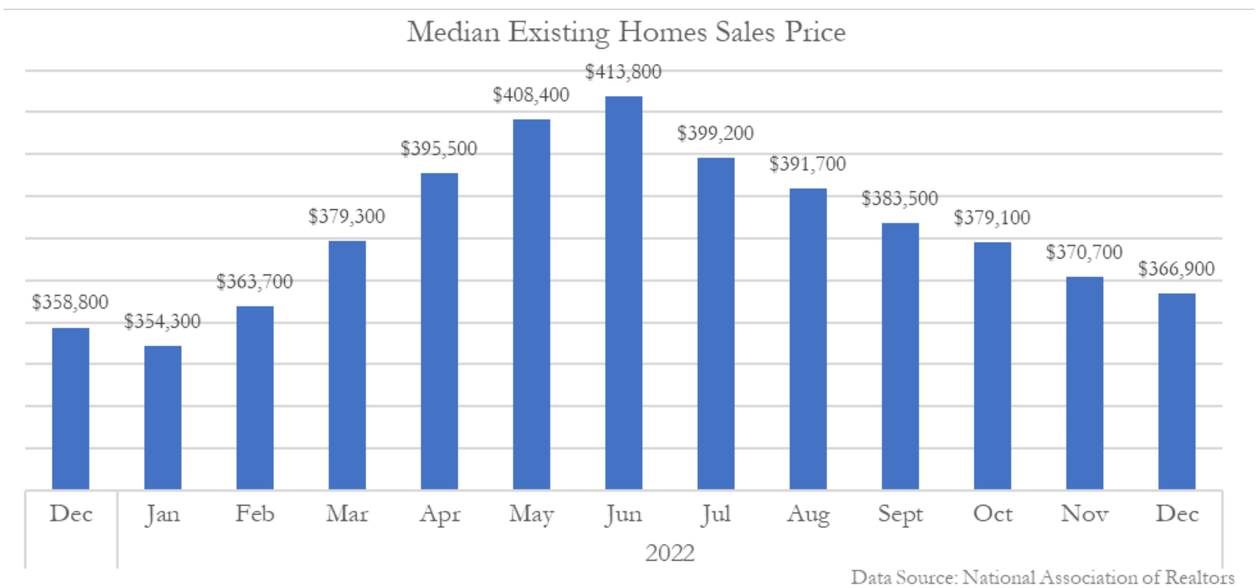




National Housing Market

The National Association of Realtors (NAR) reported existing-home sales decreased for the eleventh straight month in a row, down 1.5.% from last month and 34.0% from last year. This is due to limited inventory and high mortgage rates. Existing home sales totaled 5.03 million in 2022, down 17.8% from 2021. Though mortgage rates have declined significantly after hitting a 7.08% high in October, they are still double what they were a year ago. The Federal Reserve last raised interest rates by 50 basis points in December, bringing the target range to 4.25%-4.5%.

The median existing-home sales price was $366,900 in December, down for the sixth month in a row after June's all-time high. However, December's median price is still 2.3% higher than last year. Price growth is slowing but still remains much greater than pre-pandemic levels.



Total housing inventory registered at the end of December was 970,000 units, which is down 13.4% from November but up 10.2% from one year ago. Unsold inventory sits at a 2.9-month supply at the current sales pace, down from 3.3 months in November but up from 1.7 months in December 2021. First-time buyers were responsible for 31% of sales, up from 28% in November and 30% in December 2021.

Connecticut Housing & Rental Market

Berkshire Hathaway HomeServices reported year-over-year sales of single-family homes decreased 35.8% and new listings were down 28.78% in December. Median sales and list price both increased by 1.45%. Average days on the market decreased to 41 days from 46 a year ago. On average, sales prices came in at 99.9% of list prices. Inventory continues to sit below the 5-months standard, as it has since March of 2020. See Appendix 3 for detailed Connecticut Housing Market data.

December 2022 Connecticut Housing Market

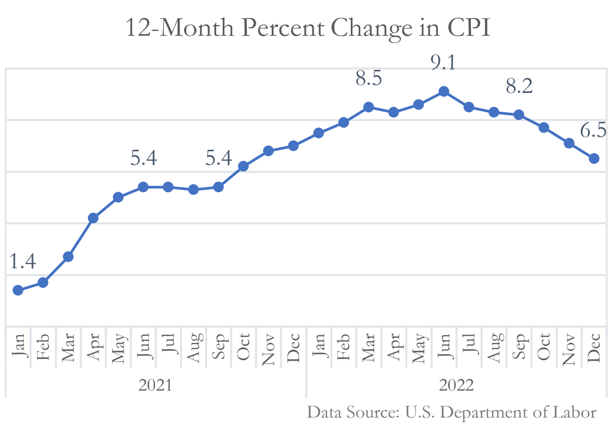
Sales	New Listings	Median Sales Price	Avg Days on Market
2,351	**1,309**	**$350,000**	**41**
-35.8%	-28.78%	+1.45%	-10.87%

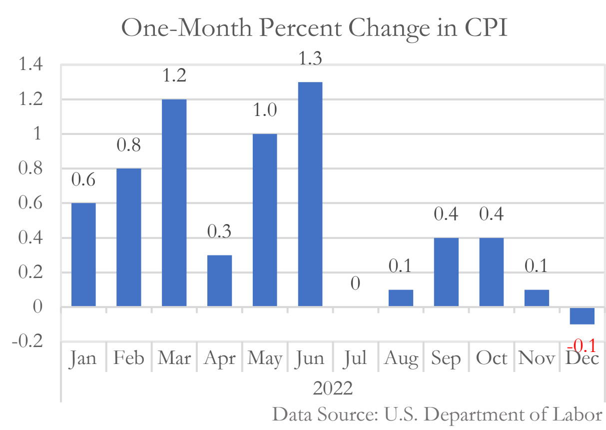
Data Source: Berkshire Hathaway HomeServices

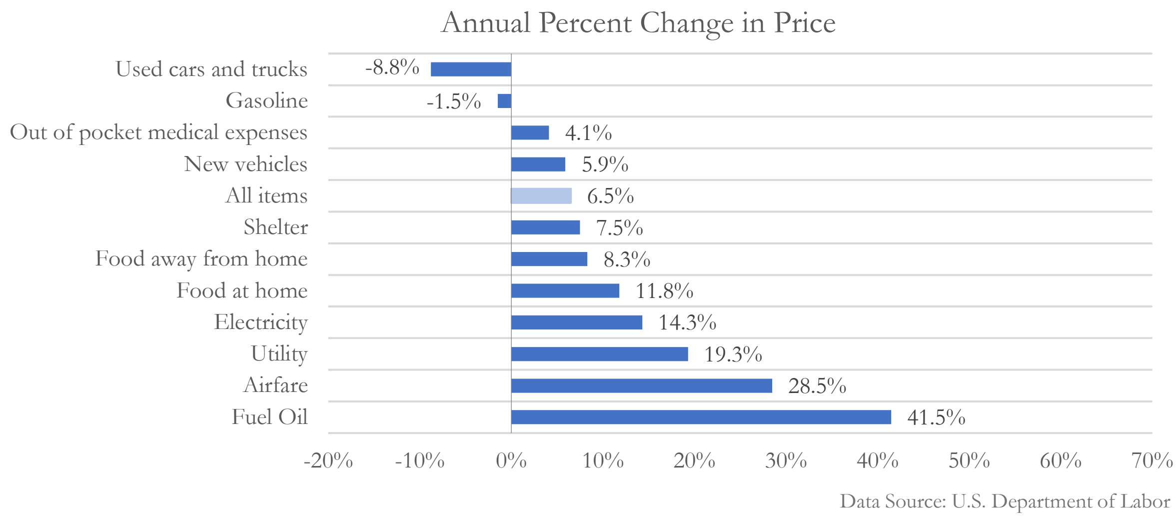
National median rent declined for the fourth month in a row according to Apartment List. 2022 full year rent growth was 3.8%, representing a return to pre-pandemic levels, after the 17.6% spike in rents in 2021. 35% of households in Connecticut rent their homes, and approximately 52% of Connecticut renters 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) declined 0.1% in December for an annual rate of 6.5%—an indication inflation may be slowing down. The all items less food and energy index rose 5.7% over the last 12 months. The energy index increased 7.3% for the 12 months ending December, and the food index increased 10.4% over the last year.





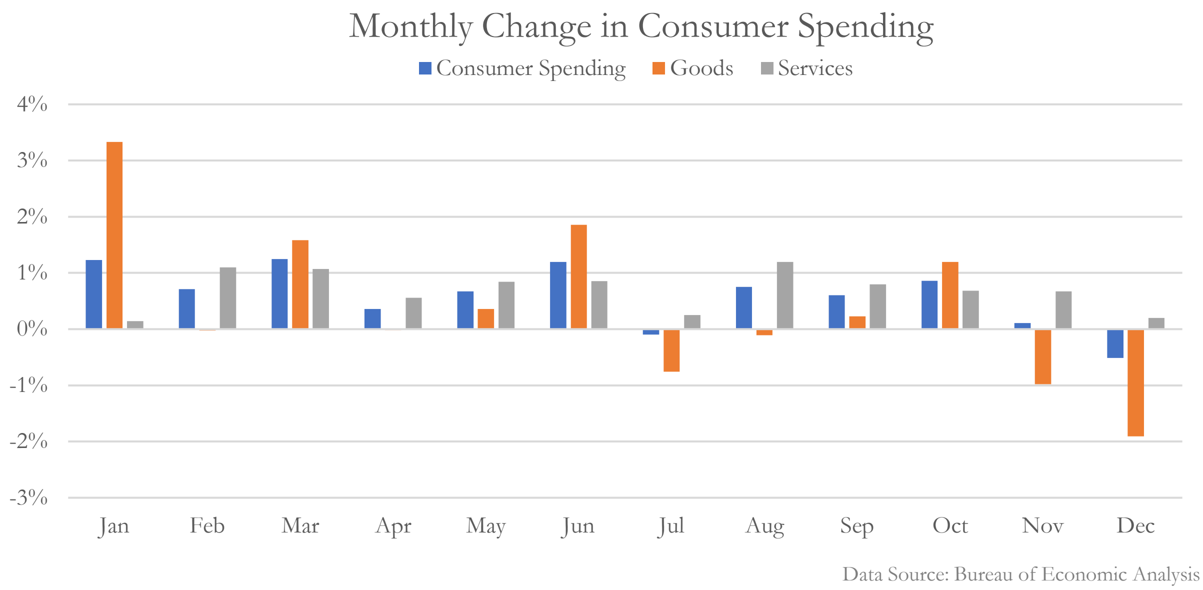


The Bureau of Economic Analysis reported the Personal Consumption Expenditure (PCE) price index excluding food and energy, the Federal Reserve's preferred inflationary index, increased 0.3 percent from last month and now stands at an annual rate of 4.4%.

The widespread, persistent inflation we are experiencing today disproportionately affects low-income households according to Fed Vice Chair Lael Brainard. Low-income households spend a greater share of income on necessities, have less financial cushion, and lower ability to switch to lower priced items. On average, low-income households spend approximately 75% of income on basic necessities such as groceries, gasoline, utilities, rent, and transportation—compared to only about 30% for high-income households. Additionally, households of different income levels have different abilities to change behavior such as switching to generic, buying in bulk, or foregoing goods altogether. On top of this, lower-income households have smaller financial cushions if catastrophic events occur such as job loss, health crises, or costly damage to a home or vehicle.

Consumer Spending, Saving & Debt

The Bureau of Economic Analysis reported consumer spending decreased $41.6 billion in December. Spending on goods decreased $95.0 billion led by gasoline as well as motor vehicles and parts. Services increased $53.4 billion, with the largest contributors to the increase for housing, transportation, and health care. Personal income increased $49.5 billion (0.2%) primarily due to increases in compensation and proprietors' income. The personal-saving rate was 3.4% in December, up from 2.4%. The following graph displays the monthly change in consumer spending.



<u>Consumer Confidence</u>

The Conference Board reported the U.S. consumer confidence index decreased in January following an upwardly revised increase in December 2022. The Index now stands at 107.1, down from 109.0 in December. In the January survey, the Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, improved from 147.2 to 150.2. The Expectations Index, which is based on consumers' short-term outlook for income, business, and the job market, fell to 77.8 from 83.4 partially reversing its December gain. The Expectations Index is below 80, which often signals a recession within the year. Both present situation and expectations indexes were revised up slightly in December.

Appendix 1: National Employment Data by Sector

U.S. Nonfarm Employment by Sector

Sector	December 2022 (P)	November 2022 (P)	December 2021	MoM Change	MoM Rate	YoY Change	YoY Rate
Trade, Trans & Utilities	28,746,000	28,719,000	29,043,000	27,000	0.1%	-297,000	-1.0%
Prof & Business Services	22,426,000	22,432,000	21,964,000	-6,000	0.0%	462,000	2.1%
Manufacturing	12,934,000	12,926,000	12,579,000	8,000	0.1%	355,000	2.8%
Financial Activities	8,997,000	8,992,000	8,893,000	5,000	0.1%	104,000	1.2%
Government	22,441,000	22,438,000	22,430,000	3,000	0.0%	11,000	0.0%
Construction & Mining	8,421,000	8,389,000	8,038,000	32,000	0.4%	383,000	4.8%
Educ & Health Services	24,889,000	24,811,000	24,090,000	78,000	0.3%	799,000	3.3%
Other Services	5,777,000	5,763,000	5,586,000	14,000	0.2%	191,000	3.4%
Leisure & Hospitality	16,051,000	15,984,000	14,804,000	67,000	0.4%	1,247,000	8.4%
Information	3,061,000	3,066,000	2,925,000	-5,000	-0.2%	136,000	4.6%

Data Source: US Department of Labor

Appendix 2: Connecticut Employment Data by Sector

CT Nonfarm Employment by Sector

Sector	December 2022 (P)	November 2022 (R)	December 2021 (R)	MoM Change	MoM Rate	YoY Change	YoY Rate
Financial Activities	116,300	116,200	116,700	100	0.1%	-400	-0.3%
Prof & Business Services	217,800	219,100	215,300	-1,300	-0.6%	2,500	1.2%
Trade, Trans & Utilities	297,600	297,400	291,700	200	0.1%	5,900	2.0%
Government	226,700	228,300	225,300	-1,600	-0.7%	1,400	0.6%
Other Services	60,100	60,500	60,500	-400	-0.7%	-400	-0.7%
Construction & Mining	62,700	63,800	62,200	-1,100	-1.7%	500	0.8%
Information	30,800	31,100	30,200	-300	-1.0%	600	2.0%
Educ & Health Services	343,000	342,000	334,900	1,000	0.3%	8,100	2.4%
Manufacturing	161,200	160,400	156,400	800	0.5%	4,800	3.1%
Leisure & Hospitality	151,700	150,700	142,600	1,000	0.7%	9,100	6.4%

Data Source: CT Department of Labor

Appendix 3: Connecticut Housing Market Statistics

Connecticut Market Summary

	Dec 2022	Dec 2021	% Change	YTD 2022	YTD 2021	% Change
New Listings	1,309	1,838	-28.8%	40,944	49,885	-17.9%
Sold Listings	2,351	3,662	-35.8%	35,177	44,127	-20.1%
Median List Price	$350,000	$345,000	1.5%	$369,000	$349,900	5.7%
Median Selling Price	$350,000	$345,000	1.5%	$375,000	$350,000	7.1%
Median Days on the Market	22	28	-21.4%	17	24	-29.2%
Average Listing Price	$539,170	$553,056	-2.5%	$575,493	$568,695	1.2%
Average Selling Price	$533,038	$546,437	-2.5%	$584,979	$568,879	2.8%
Average Days on the Market	41	46	-10.9%	36	44	-18.2%
List/Sell Price Ratio	99.9%	100.5%	-0.6%	102.5%	101.4%	1.0%

Data Source: Berkshire Hathaway HomeServices