



News from:
COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE

THURSDAY, MARCH 1, 2018

Contact: Tara Downes
631-834-5234
Tara.Downes@ct.gov

COMPTROLLER LEMBO PROJECTS \$198.5-MILLION DEFICIT

Comptroller Kevin Lembo announced today that the state is currently on track to end Fiscal year 2018 with a deficit of \$198.5 million.

In a letter to Gov. Dannel P. Malloy, Lembo said that this deficit projection is slightly higher than the Office of Policy and Management's (OPM) projection due to a larger anticipated deficiency in the state's Adjudicated Claims account – the account responsible for paying the ongoing SEBAC v. Rowland claims, related fees and other state settlements.

“The deficit has receded from last month through a combination of revenue adjustments and spending restraints, including ongoing savings associated with the recent implementation of the Medicare Advantage Program for retired state employees and dependents,” Lembo said. “Adopting Medicare Advantage was part of the SEBAC 2017 agreement and is currently saving approximately \$11 million per month – with an overall savings projection of \$135 million in Fiscal Year 2019.

General Fund estimated revenues also increased by \$17.8 million this month based on a legislative change that canceled a planned transfer of resources from FY 2018 into FY 2019 that was part of the enacted budget.

“Connecticut's overall budget results are ultimately dependent upon the performance of the national and state economies and there are economic indicators – both good and bad – that deserve close attention, including manufacturing growth, consumer confidence, as well as consumer debt and savings patterns.”

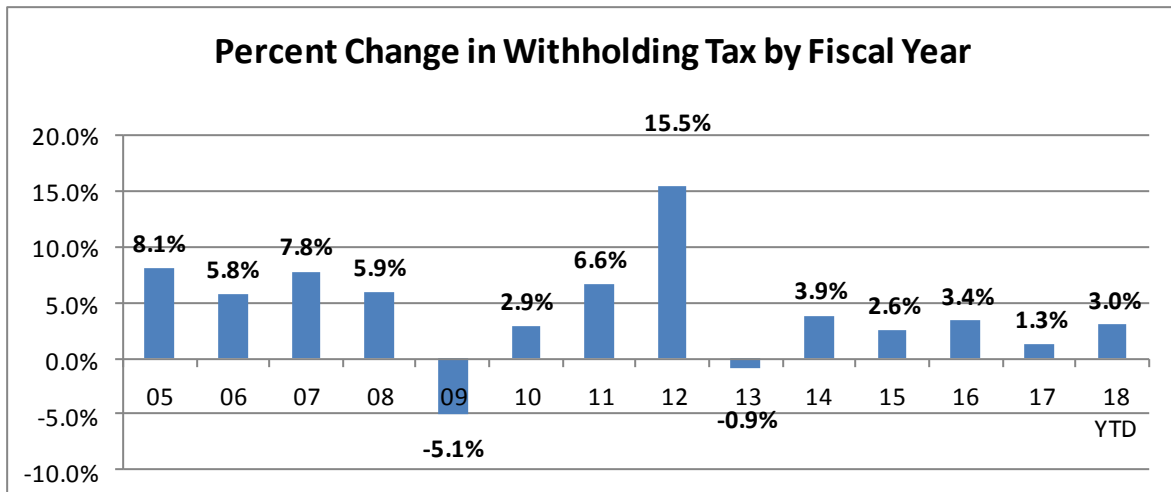
Key labor data will not be released until next week. Until then, Lembo highlighted promising

growth in the finance and insurance, durable goods and manufacturing, and information services sectors. He also noted that consumer confidence surged this February to its highest level since November 2000 – although he warned that consumer debt has also risen, while savings has diminished.

Lembo pointed to the latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

- Through the first seven months of FY 2018, withholding receipts were up a nominal 6.3 percent compared with last fiscal year. However, this growth is somewhat overstated due to revenue accruals related to FY 2017 year-end adjustments and differences in the number of collection days. Accounting for this activity, the FY 2018 year-to-date growth in withholding collections is closer to 3.0 percent, which is in line with recent employment results for Connecticut.

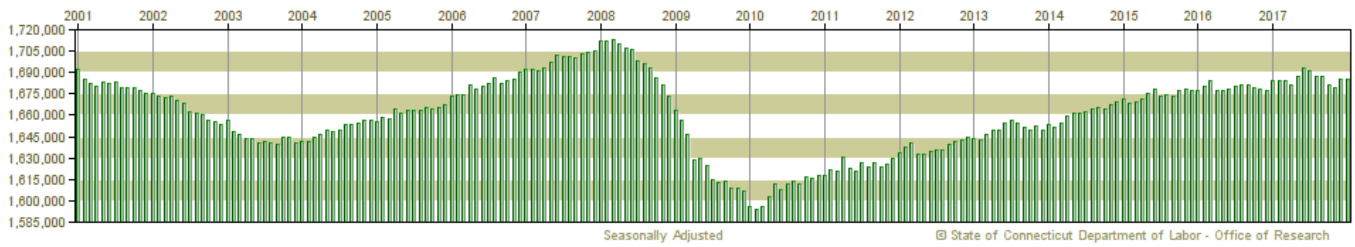


- Updated job data from the U.S. Bureau of Labor Statistics (BLS) and the Connecticut Department of Labor (DOL) is scheduled to be issued on March 9. This upcoming release will include both results for January 2018 and new benchmarked job data for the 2017 calendar year.
- In January, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for December from the business payroll survey administered by the US Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state gained 6,000 net jobs (0.4 percent) in December 2017, to a level of 1,685,200, seasonally adjusted. In addition, November's originally-released job loss of 3,500 was revised down by the BLS to a loss of 1,800 for the month.

STATE OF CONNECTICUT NONFARM EMPLOYMENT

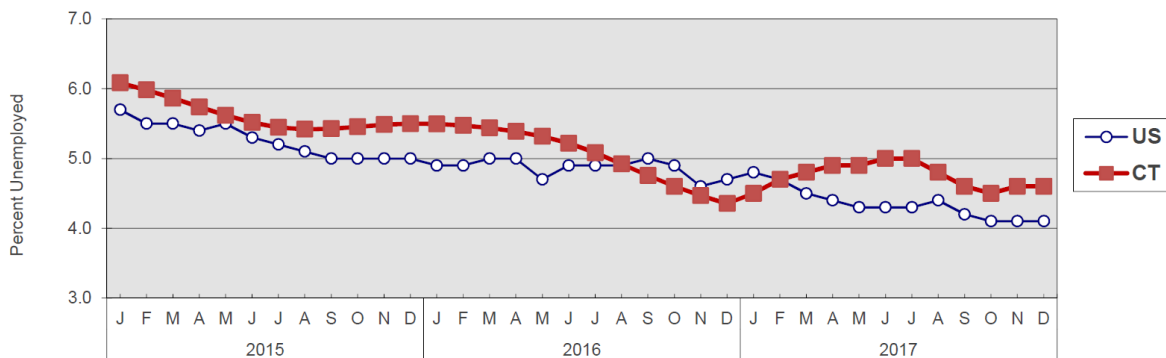
WORKFORCE ECONOMIC SCORECARD

INDICATOR #1



- For the year, DOL reported preliminary data show that Connecticut gained 7,700 jobs on a seasonally-adjusted basis and 6,200 jobs on an annual average basis. This compared favorably with 2016, which saw annual average growth of 5,000 jobs. However, this level of increase is still lower than the last period of economic recovery where employment growth averaged over 16,000 annually. DOL cautioned that the 2017 data is subject to revision by BLS as the result of the annual benchmark process that will be released in March.
- Connecticut has now recovered 76.4% (91,000 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). The job recovery is into its 94th month and the state needs an additional 28,100 jobs to reach an overall employment expansion.
- Connecticut's unemployment rate remained at 4.6 percent in December, unchanged from November 2017 and two-tenths of percentage point higher than from a year ago when it was 4.4 percent. Nationally, the unemployment rate was 4.1 percent in December 2017. The chart below shows a comparison of the Connecticut and U.S. unemployment rates for the past three calendar years.

U.S. AND CONNECTICUT UNEMPLOYMENT RATES - Seasonally Adjusted
2015 - 2017



- DOL reports that December 2017 seasonally adjusted average weekly initial unemployment claims for first-time filers in Connecticut fell by 652 claimants (-16.6%) to 3,279 from November 2017, and were lower by 533 claims (14.0%) from the December 2016 level of 3,812.
- Among the major job sectors listed below, six experienced gains and four experienced losses in December 2017 versus December 2016 levels. Manufacturing was the bright spot, adding 4,100 jobs year-over-year. DOL noted that the strategic manufacturing sector has not seen an employment increase since 2010 and before that in 1997. Sectors with the largest job losses included Government, Leisure & Hospitality and Construction.

Payroll Employment Trend				
<i>Jobs in thousands</i>				
Sector	12/17 (P)	12/16	Gain/Loss	% Change
Construction	56.1	58.0	-1.9	-3.3%
Manufacturing	160.3	156.2	4.1	2.6%
Transp. & Public Utilities	300.3	298.1	2.2	0.7%
Information	31.1	31.9	-0.8	-2.5%
Financial	132.4	130.2	2.2	1.7%
Prof. & Business Svc.	219.0	216.4	2.6	1.2%
Education & Health Svc.	334.9	331.3	3.6	1.1%
Leisure & Hospitality	153.3	155.3	-2.0	-1.3%
Other Services	66.4	65.6	0.8	1.2%
Government	230.8	233.9	-3.1	-1.3%

2017 Survey of Connecticut Manufacturing Workforce Needs

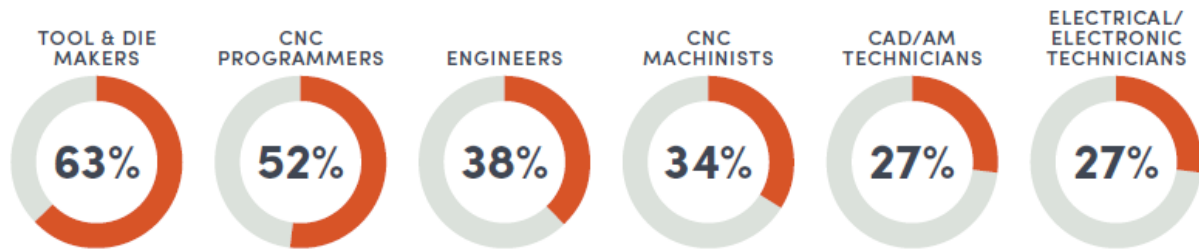
- Connecticut is the home of over 4,000 manufacturing firms that represent key industries such as transportation equipment (aerospace, submarines and automotive), fabricated metals, electronic and computer related products, machinery, plastics, pharmaceuticals and medical equipment.
- The Connecticut Business and Industry Association (CBIA) recently conducted a survey of manufacturing workforce needs in partnership with NSF Regional Center for Next Generation Manufacturing and the Connecticut State Colleges and Universities (CSCU). The survey reported that the manufacturing industry employs over 159,000 workers in Connecticut, representing 9.5 percent of all non-farm jobs. The industry pays over \$12.6 billion in wages, with an annual average wage of \$95,118. Manufacturing is experiencing a resurgence in Connecticut. Based on the sample, CBIA is estimating there will be 13,601 job openings by the end of 2018. However, firms are having trouble filling jobs in some categories due to a shortage of skilled workers.
- Survey respondents reported high levels of satisfaction with graduates who have attained higher levels of education, those who have completed relevant technical training and students who have completed certificate programs at the state's community colleges. However, manufacturing firms are seeking assistance from state policy makers to find ways to expand the pool of potential employees.

POSITION	JOB NEEDS STATEWIDE
Entry-level	3,324
Engineers	2,245
Electrical engineers	1,752
Welders	1,650
Mechanical engineers	1,236
Machinists	1,048
Quality control	821
Warehousing	508
CNC machinists	407
Tool & die makers	282
CNC programmers	156
Transportation	86
CAD/AM	55
Drivers	31
TOTAL	13,601

To overcome Connecticut's manufacturing workforce challenges, CBIA recommends the following:

- Further expansion of the state's community college technical training programs.
- Expansion of state programs that help manufacturers overcome difficulties attracting, training and retaining talent. Examples include the Manufacturing Innovation Fund Incumbent Worker Training Program and the Small Business Express Program.
- Have public schools increase their efforts to educate students, guidance counselors, and parents about careers in modern manufacturing, with particular emphasis on outreach to female and minority students.

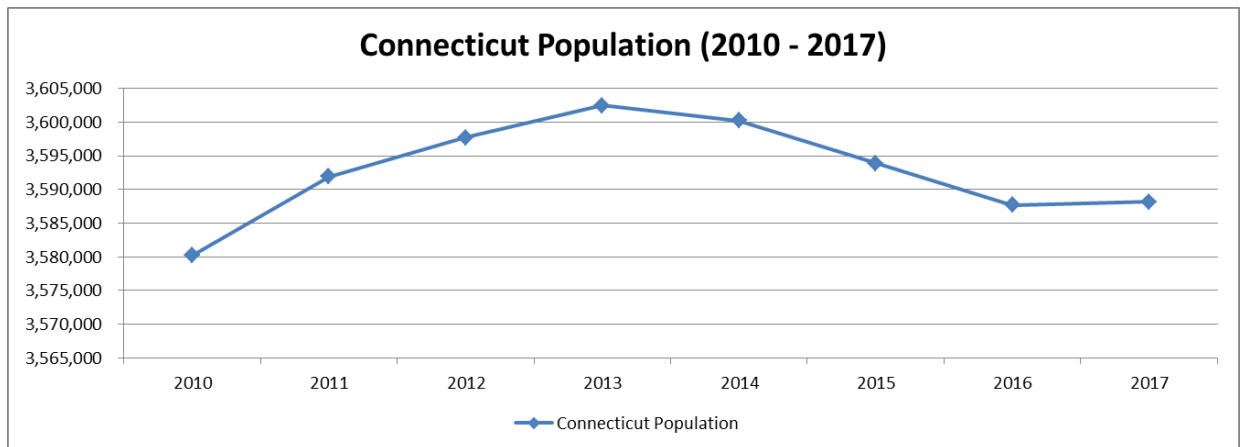
- Encourage Connecticut state and private schools to create and improve engineering programs to help meet the growing demand for high skilled workers.



Most difficult manufacturing jobs to fill

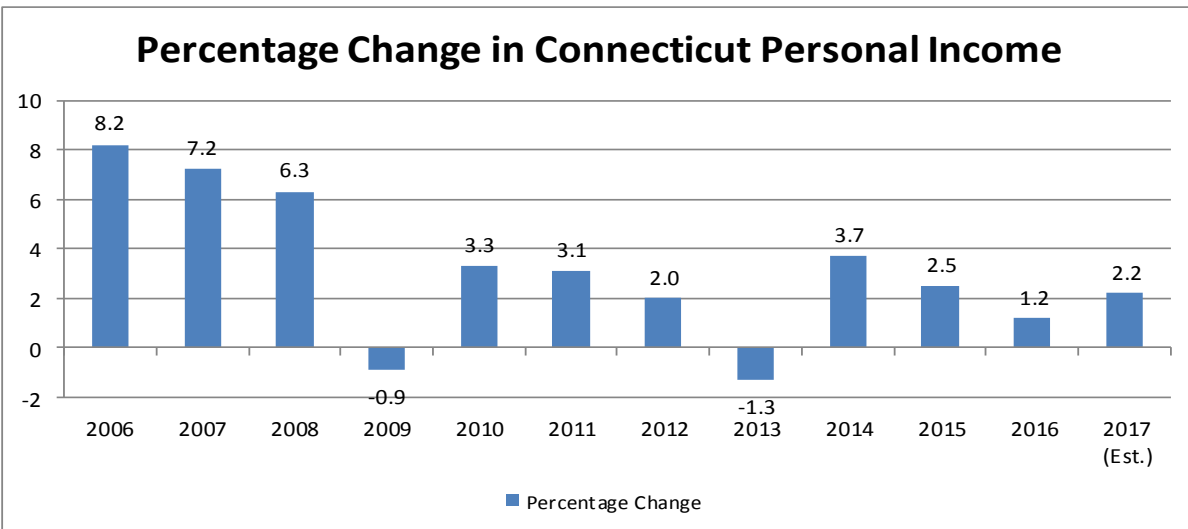
Population

- On Dec. 20, the U.S. Bureau of the Census released its population estimates for July 1, 2017. After three years of declines, there was essentially no change in Connecticut’s population between 2016 and 2017. The state’s population now stands at 3,588,184, which represented growth of 0.01 percent from the prior year’s estimate. The Census Bureau reports Connecticut ranks 29th in the nation in terms of population. However, since 2010, Connecticut’s population grew only 0.4 percent, which ranked 48th for the period among U.S. states.



Wage and \$Salary income

- December 2017 average hourly earnings at \$31.00, not seasonally adjusted, were up \$0.34, or 1.1 percent, from the December 2016 estimate. The resultant average private sector weekly pay amounted to \$1,050.90, up \$17.66, or 1.7 percent higher than a year ago.
- The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in December 2017 was 2.1 percent.
- The Bureau of Economic Analysis reported that Connecticut's personal income grew by 3 percent between 2015 and 2016. This ranked Connecticut 33rd nationally in 2016 income growth.
- A Dec. 20 report from the Bureau showed Connecticut personal income increasing at a quarterly rate of 0.6 percent between the second and third quarters of 2017. Based on these results, Connecticut ranked 36th nationally in personal income growth, and below the national average of 0.7 percent for the quarter. On an annualized basis, Connecticut's income growth would be 2.2 percent, which is just keeping up with the rate of inflation.
- State Personal Income for the fourth quarter 2017 and preliminary annual 2017 data are schedule to be released on March 22, 2018.



- In its Feb. 7 release, Berkshire Hathaway HomeServices reported mixed results for the Connecticut housing market for January 2018 compared with January 2017. Sales of single family homes declined 10.62 %. However, the median sale price rose 8.70 percent. New listings in Connecticut decreased by 15.36%, but the median list

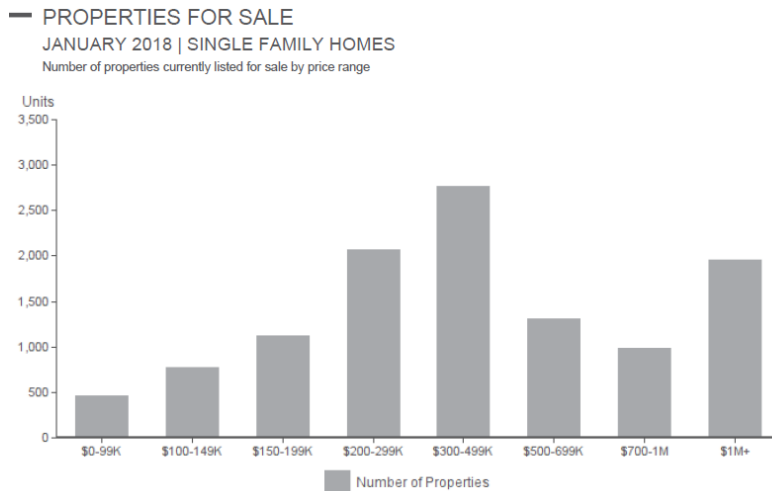
price increased 8.34 percent to \$259,900. Average days on the market increased 14.29 % in January 2018 compared to the same month in the previous year (104 days on average, up from 91 days). The table below contains more detailed data for the Connecticut market.

MARKET SUMMARY

JANUARY 2018 | SINGLE FAMILY HOMES

Market Summary	Month to Date			Year to Date		
	January 2018	January 2017	Percent Change	Year-To-Date 2018	Year-To-Date 2017	Percent Change
New Listings	3361	3971	-15.36% ▼	3361	3971	-15.36% ▼
Sold Listings	2063	2308	-10.62% ▼	2063	2308	-10.62% ▼
Median Listing Price	\$259,900	\$239,900	8.34% ▲	\$259,900	\$239,900	8.34% ▲
Median Selling Price	\$250,000	\$230,000	8.7% ▲	\$250,000	\$230,000	8.7% ▲
Median Days on Market	79	64	23.44% ▲	79	64	23.44% ▲
Average Listing Price	\$396,168	\$384,334	3.08% ▲	\$396,168	\$384,334	3.08% ▲
Average Selling Price	\$377,566	\$364,934	3.46% ▲	\$377,566	\$364,934	3.46% ▲
Average Days on Market	104	91	14.29% ▲	104	91	14.29% ▲
List/Sell Price Ratio	96.8%	96.1%	0.74% ▲	96.8%	96.1%	0.74% ▲

- The following chart from Berkshire Hathaway HomeServices shows the total number of Connecticut single family homes for sale in January 2018 distributed by list price:



Stock Market

- After strong gains throughout calendar year 2017, the stock market experienced significant turbulence in February 2018. Some analysts noted, somewhat ironically, the initial stock sell-off occurred after a strong jobs report released on Feb. 2 by the BLS. Total U.S. nonfarm payroll employment increased by 200,000 in January and average hourly earnings rose a strong 2.9 percent over January 2017. As the national labor market tightens, employers have to offer higher wages to attract and retain workers. Another possible factor, according to the Economic Policy Institute, was

that 18 states increased their minimum wages as of Jan. 1, which benefited 4.5 million workers nationwide.

- The better-than-expected wage growth sparked fears of inflation among investors, with worries about the Federal Reserve's reaction in terms of interest rate hikes. In addition, from Wall Street's perspective, higher earnings for employees can mean lower profits for companies.
- Since hitting record highs in late January, the stock market entered into correction territory in mid-February, which is defined as dropping at least 10%. As of this writing the markets have recovered more than half of those losses. The underlying fundamentals of the economy are still strong, but analysts warn that volatility in the market will likely continue.
- Recent swings in the stock market are illustrated on the two charts that follow:

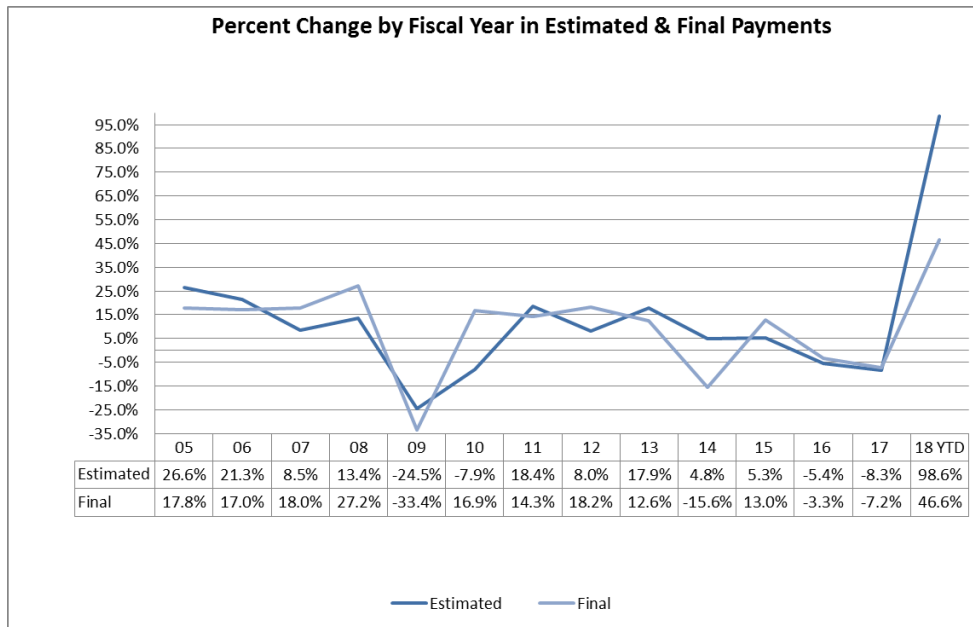
DOW



NASDAQ



- The performance of the stock market has a significant impact on the State of Connecticut revenues. Estimated and final income tax payments typically account for approximately 35 to 40% of total state income tax receipts, but can be an extremely volatile revenue source. Both estimated and final payments had negative growth rates in Fiscal Years 2016 and 2017.
- However, due to a combination of one-time events, estimated payment collections increased substantially in December and January, nearly doubling the year-to-date total from the prior year. For example, through January 2018 estimated payments totaled \$2.17 billion versus \$1.09 billion through January 2017. Year-to-date final payments through January grew by \$110.5 million or 46.6 percent over the same period a year ago.



- Two primary factors contributed to the significant increase in estimated payments year-to-date in FY 2018. The first is related to the recent Federal tax change that placed limits on the amount of state and local taxes (SALT) that can be deducted for federal tax purposes. Based on this new provision, many Connecticut taxpayers made payments prior to the end of calendar 2017 to ensure these estimated income tax payments would be deductible for their federal 2017 returns. Therefore, these payments probably represent a shift from collections that would likely have occurred in April 2018.
- The second factor was related to an October 2008 federal law that eliminated a common mechanism used by hedge fund managers that enabled them to defer receipt of incentive or management fees earned by charging them to an offshore fund. Under the new rules (Internal Revenue Code Section 475A) hedge fund managers had to recognize these profits, earned prior to January 1, 2009, as income before Dec. 31, 2017. Therefore, a significant amount of the estimated payments collected were related to hedge fund managers bringing these profits back to the United States from overseas. As such, they should be considered to be a one-time revenue source.
- Due to the new revenue volatility adjustment contained in the Section 704 of Public Act 17-2, June Special Session, any estimated and final payment collections amount above \$3.15 billion will be transferred to the Budget Reserve Fund (BRF). Based on this new statutory provision, if current revenue forecast totals are realized, \$664.9 million will be deposited in the BRF, bringing the balance to \$877.8 million, approximately 4.7 percent of General Fund expenditures.

Consumer Spending

- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- U.S. retail sales fell unexpectedly in January, recording their biggest drop since February 2017. The Commerce Department reported that advance retail sales decreased 0.3 percent last month. Data for December was revised to show sales unchanged instead of rising 0.4 percent as previously reported.
- Auto sales fell 1.3 percent in January after declining 0.1 percent in December. Receipts at service stations rose 1.6 percent, reflecting higher gasoline prices. Sales at

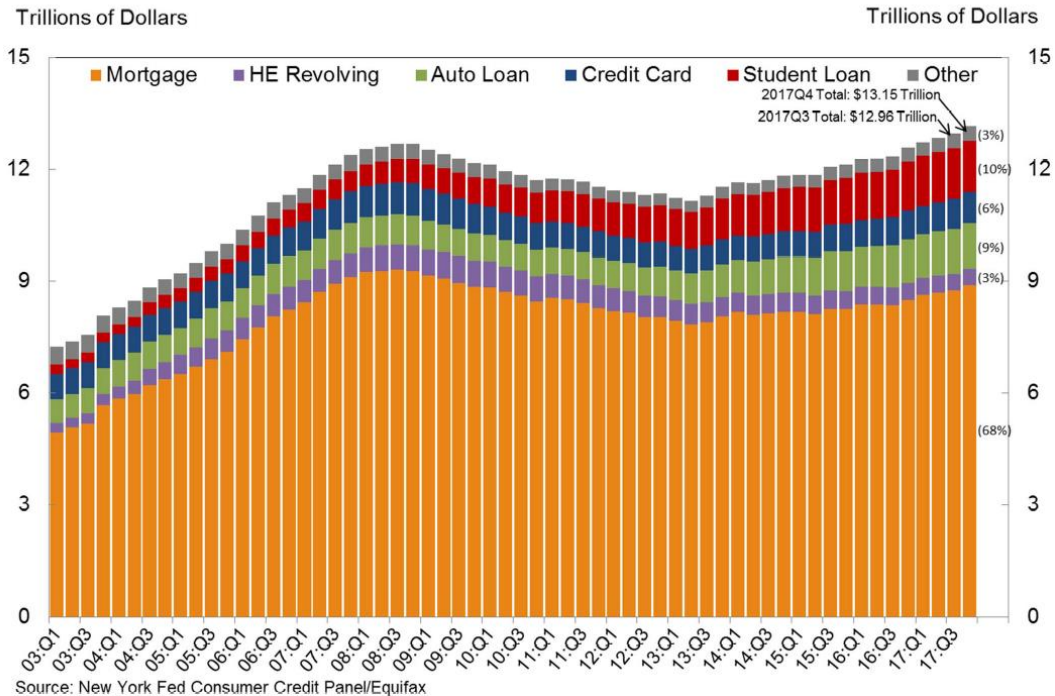
building material stores dropped 2.4 percent, which represented the largest decline since April 2016.

- There were also declines in sales at furniture and health and personal care stores. Sales at electronics and appliance stores rose 0.5 percent. Receipts at clothing stores increased 1.2 percent. Sales at online retailers were unchanged as were those at restaurants and bars.
- Receipts at sporting goods and hobby stores fell 0.8 percent in January.
- For the year, retail sales grew 3.6 percent over January 2017 levels. Auto sales increased 1.5 percent year-over-year and receipts at gas stations were up 9 percent. Sales at non-store retailers (largely online merchants) increased 10.2 percent from a year ago.
- The February 2018 Advance Monthly Retail report is scheduled for release on March 14.

Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the fourth quarter of 2017. Household debt has now grown in 14 consecutive quarters. As of December 31, 2017, overall debt – including mortgages, auto loans and student loans – hit a record \$13.15 trillion. This represented a \$193 billion (1.5%) increase from the third quarter of 2017.
- This report marks the fifth consecutive year of positive annual household debt growth. There were increases in mortgage (+1.6%), student (+1.5%), auto (+0.7%), and credit card debt (+3.2%) and another modest decline in home equity line of credit (HELOC) balances (decreasing by 0.9%).

Total Debt Balance and its Composition



Other highlights of the report titled, Quarterly Report on Household Debt and Credit, include:

Housing Debt

- Mortgage balances increased substantially, and the median credit score of borrowers for new mortgages decreased slightly.
- The share of mortgage balances that were 90 or more days delinquent (“seriously delinquent”) continued to improve.

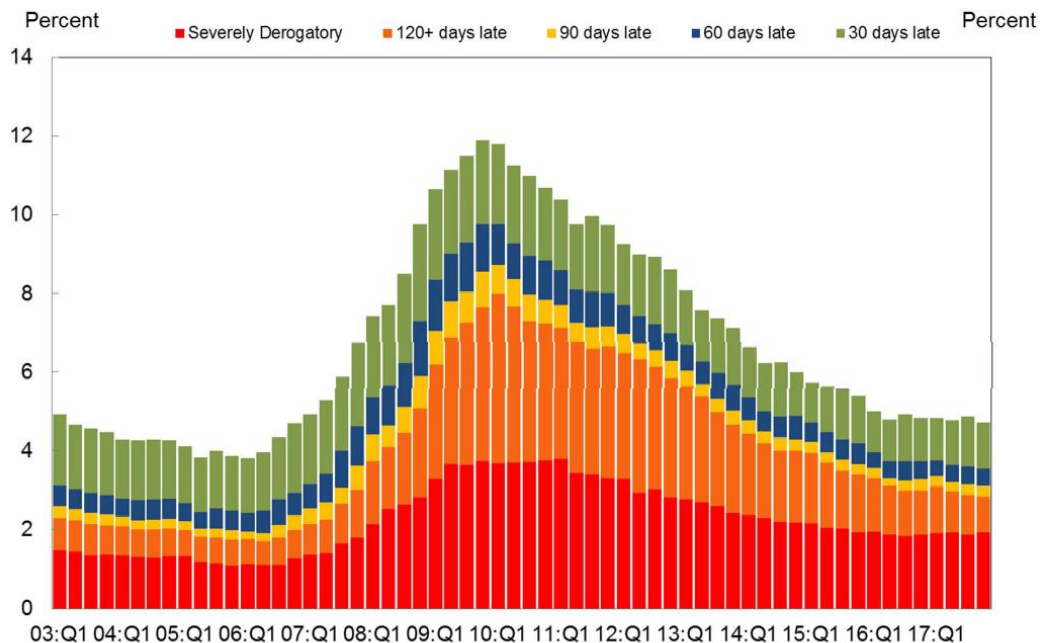
Non-Housing Debt

- Auto loan balances continued their steady rise seen since 2011. Although originations decreased slightly in the quarter, 2017 had the highest annual auto loan origination volume observed in the New York Fed data.
- Credit card balances increased and flows into serious delinquency have increased since the third quarter of 2016.
- Outstanding student loan balances increased. Student loan delinquency flows declined slightly but remain at a high level.

Bankruptcies & Foreclosures

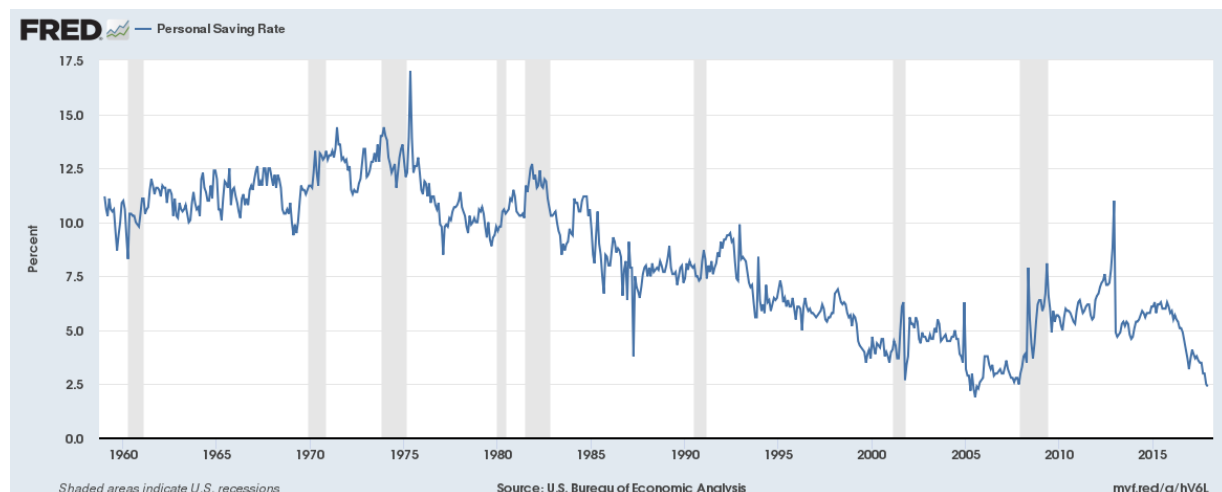
- Bankruptcies decreased for the second consecutive quarter.
- Foreclosures remained essentially unchanged at the lowest levels observed in the New York Fed’s data.

Total Balance by Delinquency Status



Source: New York Fed Consumer Credit Panel/Equifax

- In its Jan. 29 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate declined to 2.4 percent in December from 2.5 percent in November. This level has decreased steadily from a recent peak of 6.3 percent in October 2015 and is close to prerecession lows. BEA will release savings data for January 2018 on March 1.
- The higher debt levels and lower savings point to U.S. wage gains that are not keeping up with consumers' needs and desires to spend. This also signals a more uncertain outlook for future consumer spending gains. One explanation for this trend is the so-called wealth effect. Consumers may feel richer because the stock market is rising and home values have increased in recent years.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1959 through December 2017. As can be seen there is a pronounced downward trend over the period. It should be noted that the U.S. Personal Saving Rate does not include capital gains from the sale of land or financial assets in its estimate of personal income. This effectively excludes capital gains – an important source of income for some.



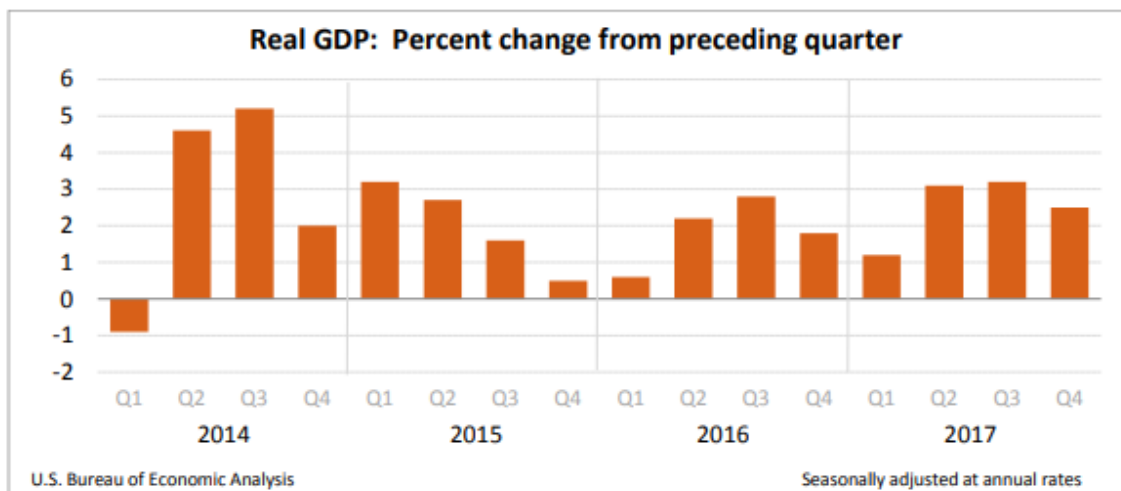
- Despite the overall improvement in the nation's economy, income inequality continues to widen as wage growth remains modest. A number of economists see the dramatic decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

Consumer Confidence

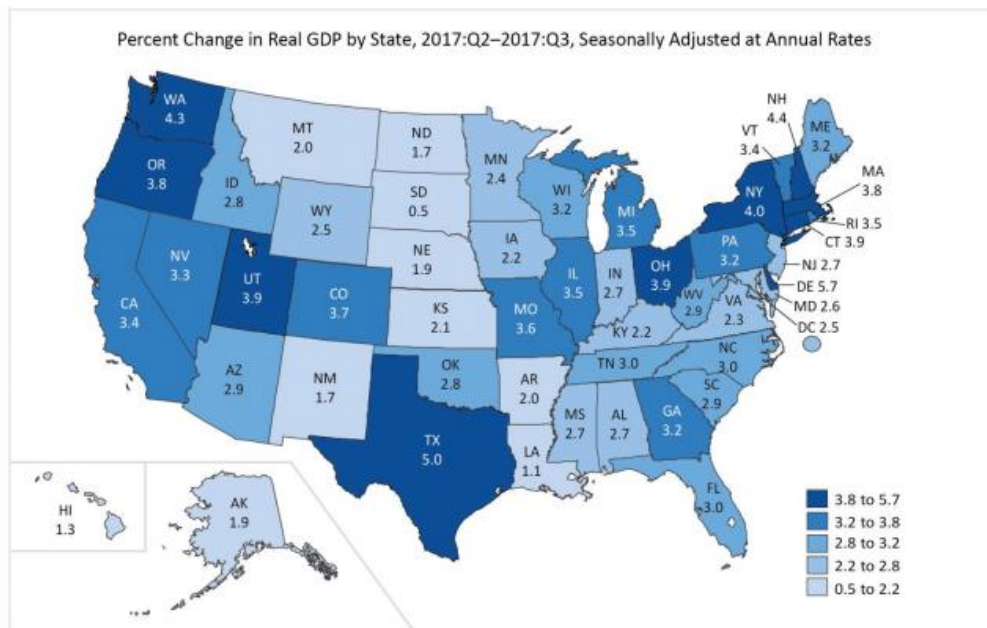
- The U.S. consumer confidence index (CCI), published by the Conference Board, is an indicator designed to measure consumer confidence. This is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.
- The Conference Board reported that consumers' assessment of current economic conditions surged in February 2018, reaching its highest level since November 2000. The Index now stands at 130.8, up from 124.3 in January. The board noted that expectations improved from the previous month largely due to optimism about the labor market.
- Consumers expressed greater optimism in the short-term for both business and labor market conditions. In addition, consumers were upbeat about their own financial prospects, despite recent volatility in the stock market. The Conference Board reported that consumers remain quite confident that the economy will continue expanding at a strong pace in the months ahead.

Business and Economic Growth

- According to a Feb. 28 release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product increased at an annual rate of 2.5 percent in the fourth quarter of 2017. In the third quarter, real GDP increased 3.2 percent. For the year, the economy grew at 2.3 percent, up from the 1.5 percent growth rate experienced in 2016.
- The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, residential fixed investment, state and local government spending, and federal government spending that were partly offset by a negative contribution from private inventory investment. Imports, which subtract from GDP growth, increased at their fastest quarterly rate in more than seven years.



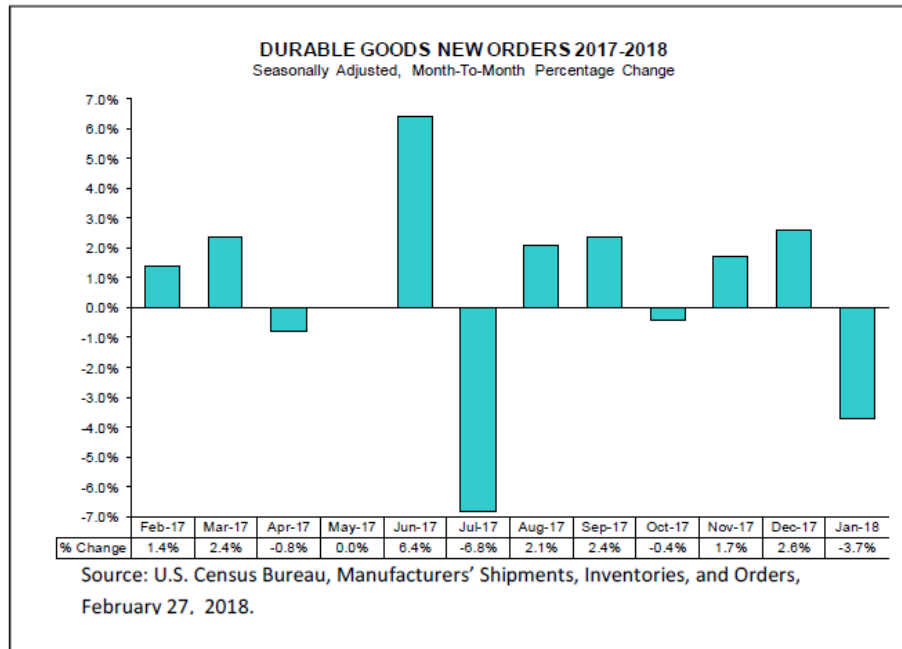
- Corporate profits rose 4.3 percent between the second and third quarter and grew 5.3 percent in the third quarter compared to the same period a year ago. Corporate profit for the fourth quarter and 2017 annual results are scheduled to be released on March 28.
- In a Jan. 24 report, the Bureau of Economic Analysis released Real Gross Domestic Product (GDP) results by state for the third quarter of 2017. Connecticut experienced a seasonally adjusted annual growth rate of 3.9 percent, which ranked 8th in the nation overall. This was a significant improvement from the second quarter of 2017, when Connecticut ranked 44th in the nation with annualized growth of 1.9 percent. The sectors that contributed most to Connecticut's strong third quarter performance were finance and insurance, durable goods manufacturing, and information services.



U.S. Bureau of Economic Analysis

- Updated data for Gross Domestic Product by State is scheduled to be issued on May 4. That release will cover fourth quarter GDP and preliminary annual results for 2017.
- According to a Feb. 27 report by the U.S. Department of Commerce, new orders for durable goods in January decreased \$9.2 billion or 3.7 percent to \$239.7 billion. This decrease, down after two consecutive monthly increases, followed a 2.6-percent increase in December. Transportation equipment led January's decrease, down 10.0 percent to \$77.7 billion.

- Excluding transportation, new orders decreased 0.3 percent. Orders for non-defense capital goods excluding aircraft (a proxy for business spending) dropped 0.2 percent last month after declining 0.6 percent in December.



- The Feb. 21 Markit Flash Purchasing Manager's Index (PMI) reported that U.S. private sector companies experienced a significant improvement in business activity growth during February. The U.S. Composite PMI Output Index rose to 55.9, up from 53.8 in January and the highest reading for almost two-and-a-half years. The report also noted that February data pointed to similarly sharp increases in both manufacturing production and service sector activity.

Key findings:

- Flash U.S. Composite Output Index at 55.9 (53.8 in January). 27-month high.
- Flash U.S. Services Business Activity Index at 55.9 (53.3 in January). 6-month high.
- Flash U.S. Manufacturing PMI at 55.9 (55.5 in January). 40-month high.
- Flash U.S. Manufacturing Output Index at 56.1 (56.2 in January). 2-month low.

Data collected February 12-20

END