



News from:
COMPTROLLER KEVIN LEMBO

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**COMPTROLLER LEMBO REPORTS \$164.8-MILLION
SURPLUS FOR FISCAL YEAR 2013**

Comptroller Kevin Lembo today announced that the state's financial outlook has improved and the Fiscal Year 2013 will likely end with a surplus of approximately \$164.8 million, based on Generally Accepted Accounting Principles (GAAP).

The surplus would reach approximately \$212.3 million on a modified cash basis accounting.

In a letter to Gov. Dannel P. Malloy, Lembo said this projection shows a slower overall rate of General-Fund spending growth of about 2 percent over last fiscal year. General Fund revenues for Fiscal Year 2013 are estimated to increase at a 3.6 percent rate over last year.

Lembo cautioned that the surplus is good news for the current fiscal year, but is largely attributed to unreliable revenue sources that the state may be unable to count on in the following years.

"The surplus results from an improved revenue outlook and spending restraint," Lembo said. "Deficit mitigation efforts, constraints on payroll growth, and fringe benefit budget reductions have contributed to the slower overall rate of spending growth.

"Double-digit growth in the estimated and final payment components of the income tax associated with strong capital markets and tax changes, as well as windfalls in the inheritance and estate tax, are driving the gains in receipts."

As Lembo cautioned last month, "These revenue gains are welcome, but have the potential to be one-time windfalls. The slow rate of the economic recovery continues to present budget challenges."

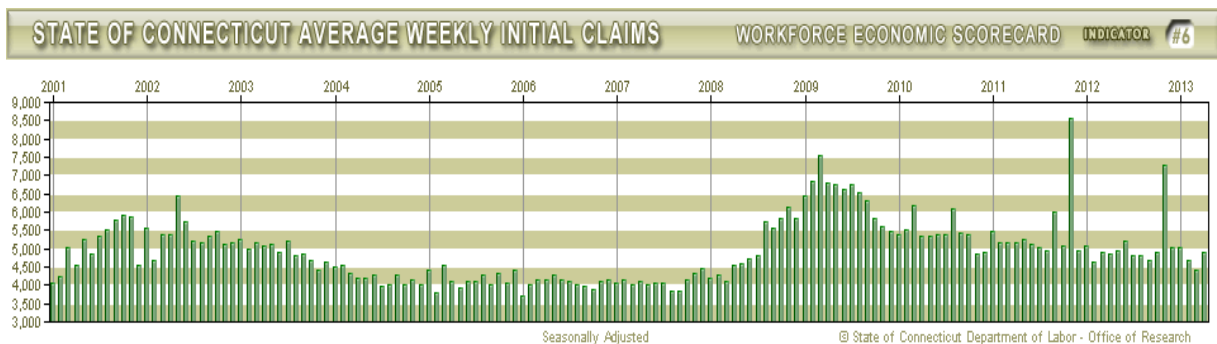
Economic data from federal and state Departments of Labor and other sources show:

Employment

- The state added 6,300 payroll jobs in April. Over the 12-month period ending in April, the state has had six months of job gains and six months of job losses. The net result over that period has been a gain of 10,800 jobs.

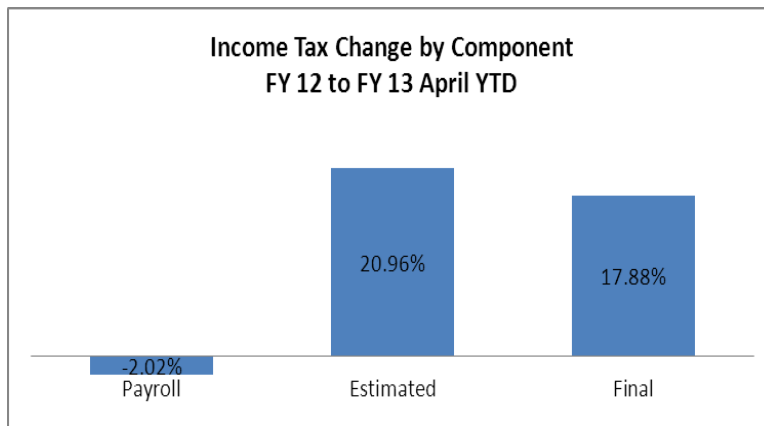


- According to the Department of Labor, Connecticut has recovered 57,500 positions or 47.4 percent of the 121,200 seasonally adjusted total nonfarm jobs that were lost in the state in the March 2008-February 2010 recession. The jobs recovery is now 38 months underway. A recession in the 1990s resulted in a state job loss of almost 160,000 payroll positions. It took 84 months to recover the jobs lost to that recession.
- The strongest job sectors on a year-to-year basis have been leisure and hospitality (+5,900), education and health services (+5,700) and construction (+4,000). The sectors experiencing the largest job losses are manufacturing (-2,500), government (-1,400), and financial activities (-2,200).
- Connecticut's unemployment rate in April remained fixed at 8.0 percent; the national rate was 7.5 percent that month. Average weekly claims for unemployment rose in April, but remain well below the 2009 peak level.



Wage and **\$**Salary income

- In 2012, Connecticut personal income advanced 2 percent, ranking the state 49th nationally in income growth.
- The strongest growth in the New England region was in Vermont with growth of 3.4 percent. Nationally, income grew at a 3.5-percent rate in 2012. Quarterly personal income in Connecticut performed better in the first half of 2012 than the second half (the income figures for the 1st quarter of 2013 will be available in June).
- According to the Department of Labor, average hourly earnings at \$28.15, not seasonally adjusted, were down thirty-five cents, or -1.2 percent from the April 2012 hourly pay estimate. The resulting average private sector weekly pay was estimated at \$943.03, down \$34.52, or -3.5 percent over the year.
- The slow rate of job and income growth has had a significant impact on the payroll withholding component of the income tax.



- The Consumer Price Index (CPI) for all urban consumers was advancing at a 1.1-percent rate in April.



Housing

- Housing permits in Connecticut have continued to post strong gains coming into 2013. For the 12-month period ending in April, housing permits were close to 60 percent from the same period last year. This is almost double the national growth for the period.
- According to the Census Bureau, U.S. new home sales increased 29 percent from last March. Sales in the Northeast were up 3.4 percent from April of last year. Nationally sales in April were above March levels; in the Northeast sales declined in April.

- Results for the larger existing home sales market, according to the National Association of Realtors (NAR), were: Nationally, April sales were up 0.6 percent from the previous month, and sales were up 9.7 percent from April of last year. Home prices were up a solid 11 percent from one year ago. Prices have increased for 14 consecutive months for the first time since the 2005-2006 market acceleration. The median time a home was on the market was 46 days based on April data, down from 83 days a year ago. Existing home sales in the Northeast were up 1.6 percent on a month-over-month basis in April. Sales were up 4.9 percent from April of last year. Home prices in the Northeast were up 5.1 percent for the year to a median price of \$245,100.

Business Activity and Consumer Spending

- At this writing, major equity markets are up over 100 percent since January 2009. Stocks are still trading close to historical medians of price to earnings at around 18 times earnings.

S&P:



Dow Industrial Average



Consumers

- April advance retail sales were up 3.7 percent from the same month one year ago. The strongest gains were in automobiles, and non-store retailers.
- The Conference Board's Consumer Confidence Index hit a five-year high in May. Consumers were considerably more optimistic about the short-term outlook. Those expecting business conditions to improve over the next six months increased to 19.2 percent from 17.2 percent, while those expecting business conditions to worsen decreased to 12.1 percent from 14.8 percent.
- According to the Federal Reserve, consumer credit increased at a seasonally adjusted annual rate of 5-3/4 percent during the first quarter. Revolving credit was little changed, while non-revolving credit increased at an annual rate of 8 percent. In March, consumer credit increased at an annual rate of 3-1/2 percent.

Business and Economic Growth

- Based on advance estimates, real Gross Domestic Product grew at an annual rate of 2.5 percent in the 1st quarter of 2013. This follows 4th quarter growth of just 0.4 percent.
- First quarter corporate profit data will be released on June 26. Corporate profits advanced 6.8 percent in 2012 after growth of 7.3 percent in 2011. Net dividend distributions in the 4th quarter of 2012 were up 23.2 percent from the same quarter a year ago.
- With respect to corporate financial reporting and related transparency issues, many investors are concerned with recent SEC rules that relax the reporting standards for subsidiary activity. At a time that investors and policy makers are seeking a more complete understanding of complex corporate structures and offshore activity, the new disclosure rules are moving in the opposite direction. This makes the work of institutional investors like state pension plans and federal and state tax policy analysts more difficult.

The SEC rules were discussed in a May 22 Wall Street Journal article. The Journal reported that some of the biggest U.S. companies have quietly removed hundreds of offshore subsidiaries from their public financial disclosures over the past several years. Software maker Oracle Corp., for instance, disclosed more than 400 subsidiaries in its 2010 annual report. By 2012 the list had been whittled to eight—five of which were located in Ireland. Oracle declined comment. Google went from over 100 subsidiaries reported in 2009 to zero. Microsoft, FedEx and Raytheon also shed hundreds of subsidiaries from their reporting.

The reporting change stems from SEC rules that demand disclosure only when the subsidiary activity is deemed “significant”. One result of the change is that companies limit information about offshore operations, in particular units operating in countries regarded as tax havens. For many investors, even small disclosures matter. Information about a company's subsidiaries can indicate whether its operations have diversified, how complex the company's financial transactions may be, and how global income is moving. The lists of subsidiaries have been a reliable source for such information.

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