



News from:
COMPTROLLER KEVIN LEMBO

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**COMPTROLLER LEMBO REPORTS \$150.1-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 \$150.1 million.

This surplus is based on Generally Accepted Accounting Principles (GAAP), whereas the surplus would reach approximately \$197.6 million on a modified cash basis accounting.

In a letter to Gov. Dannel P. Malloy, Lembo said that he generally agrees with the Office of Policy and Management's (OPM) projection this month, which incorporates the consensus revenue projections announced Tuesday.

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.

"This growing surplus is good news for this fiscal year – but should lead only to cautious optimism for future years," Lembo said. "The surplus is largely attributable to unanticipated windfalls from the inheritance and estate tax and capital gains, both unpredictable revenue sources that may not continue into the next fiscal year."

Since last month, revenues are up \$247.1 million, which is slightly offset by a projected \$15.9-million increase in spending. The increase in the capital gains tax rate for 2013 that resulted from the expiration of the Bush-era tax cuts provided an incentive to distribute gains before the end of calendar 2012. According to the Bureau of Economic Analysis data, net dividend distributions in the fourth quarter of 2012 were 23.2 percent higher than in the same period last year. Therefore, taxable gains have been realized in Fiscal Year 2013 that

otherwise would have been paid in future fiscal years. In addition, the stock market has experienced double-digit growth that may not continue into the next biennium, Lembo said.

These factors have resulted in the income tax exceeding budget projections by \$109.6 million, estimated income tax payments are up more than 20 percent from last year, and final payments are up almost 16 percent. In addition, the inheritance and estate tax, which had been expected to exceed original budget estimates by \$150 million, is now projected to generate \$262.4 million over the original budget.

“These one-time revenue gains in Fiscal Year 2013 are tempered by losses in other major recurring revenue sources,” Lembo said.

The sales tax is projected to fall \$189.3 million short of initial projections, showing almost no growth over last year’s receipts. While the combined income tax exceeds budget projections, the payroll-driven withholding component of the tax, which is the largest component, is not growing.

General Fund spending in Fiscal Year 2013 is expected to be about 2 percent above the prior year, which is a historically slow rate of budget growth, Lembo said.

“I am pleased to hear ongoing discussions about the benefit of using any surplus to replenish the Rainy Day Fund, which would provide the state with greater financial security and budget stability going forward.”

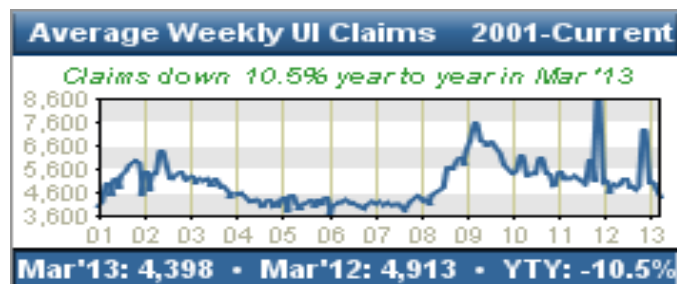
“Continued slow economic growth raises budget concerns moving into the next biennium.” Lembo said. Economic data from federal and state Departments of Labor and other sources show:

Employment

- In March the state added 2,600 payroll jobs. This follows February’s decline of 5,700 positions, which was assumed to be impacted by weather conditions.
- Connecticut hit its employment peak in March of 2008, which was followed by almost two years of employment declines with the loss totaling over 120,000 jobs.
- To date, the state has regained 51,200 of the jobs lost to recession or 42.2 percent of the recessionary loss.



- The strongest job sectors on a year-to-year basis have been leisure and hospitality (+4,800), education and health services (+3,700) and construction (+1,700).
- The sectors experiencing the largest job losses are manufacturing (-2,700), government (-2,500), financial activities (-2,300), and transportation and public utilities (-1,800). According to the State Department of Labor, five of the six major Connecticut Labor Market Areas (LMAs) posted job gains in March 2013, as just one of the major state LMAs declined.
- The Bridgeport-Stamford-Norwalk LMA (1,200, 0.3%) added the most jobs in March, followed by the New Haven LMA (800, 0.3 percent). The largest LMA by employment, the Hartford-West Hartford-East Hartford LMA (300, 0.1%), added a small number of jobs as did the Waterbury LMA (200, 0.3%) and the Danbury LMA (100, 0.2%). The Norwich-New London LMA (-400, -0.3%), which was unchanged during the February blizzard month was the only region to lose jobs in March 2013.
- Connecticut's unemployment rate in March remained fixed at 8 percent; the national rate was 7.6 percent that month. Average weekly claims for unemployment insurance have continued to fall.



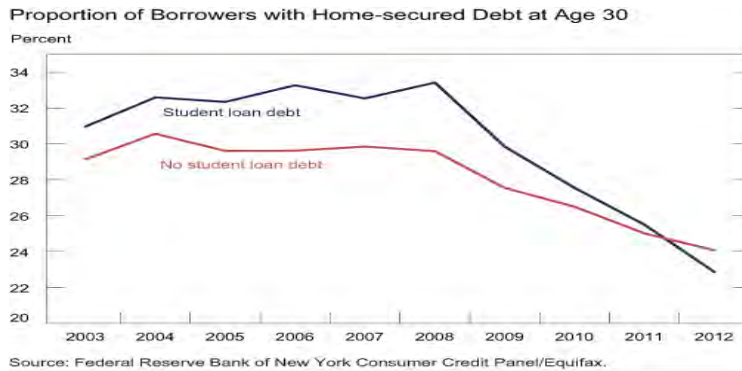
Wage and **\$**Salary income

- 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 first quarter of 2013 will be available in June).

- Average hourly earnings at \$27.99, not seasonally adjusted, were down twenty-five cents, or -0.9 percent from the March 2012 hourly pay estimate. Private sector weekly pay was estimated at \$932.07, down \$25.27, or -2.6 percent over the year.
- The Consumer Price Index (CPI) for all urban consumers was advancing at a 1.5-percent rate in March.



- Housing permits in Connecticut have continued to post strong gains coming into 2013. For the 12-month period ending in March, housing permits were up just over 50 percent from the same period last year.
- According to the Census Bureau, U.S. new home sales increased 18.5 percent from last March. Sales in the Northeast were up 32.3 percent from March of last year. Both nationally and in the Northeast March sales exceeded February's total.
- Results for the larger existing home sales market were as follows, according to the National Association of Realtors (NAR). Nationally, March sales were down 0.6 percent from the previous month, but sales were up 10.3 percent from March of last year. Home prices were up a solid 11.8 percent from one year ago. Existing home sales in the Northeast were unchanged on a month-over-month basis in March. Sales were up 6.8 percent from March of last year. Home prices in the Northeast were up 3.0 percent for the year to a median price of \$237,000.
- There were other signs in the existing-home sales report pointing toward greater market stability. More expensive homes were also seeing strong gains. Homes priced below \$100,000 posted a 16-percent drop in sales, NAR says. Meanwhile, homes in all other price ranges were up year-over-year. Homes priced from \$250,000 to \$500,000, for instance, saw sales jump 22 percent year over year.
- Almost 2 million fewer homeowners were underwater at the end of last year than a year prior, according to data from Zillow. Nationwide, 13.8 million homeowners with a mortgage were underwater at the end of last year.
- According to research from the Federal Reserve Bank of New York, student debt is making it harder for young people to buy homes. Student debt has grown dramatically over the last decade — some 43 percent of Americans under the age of 25 had student debt in 2012, with the average debt burden now \$20,326. By contrast, back in 2003, just 25 percent of younger Americans had debt, and the average burden was \$10,649.
- Student loans appear to be crowding out other types of borrowing for younger consumers. Historically, Americans with student debt were more likely to own homes than those without — largely because educational attainment corresponds to higher income. But that trend has reversed:



- This has some interesting long-term economic implications. Home ownership is an important asset in most consumer portfolios. That asset can be leveraged to fuel higher amounts of consumer spending. To the extent that the asset purchase is absent or deferred, consumer spending could be dampened.

Business Activity and Consumer Spending

- At this writing, the Dow was advancing at a rate of almost 12 percent over last year.

DOW:



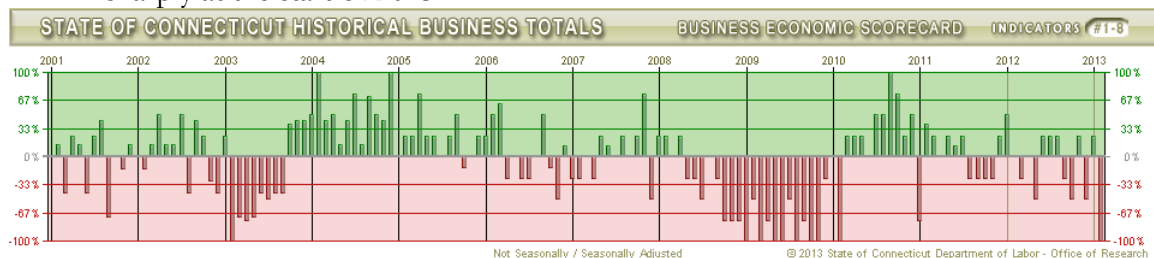
Consumers

- In March, advance retail sales were up 2.8 percent from the same period last year. Sales were down from February, and still well off the pace set in FY 12. The strongest growth was in automobiles and non-store retailer sales.
- Automakers reported that March sales of new cars and trucks were the highest monthly total in five years, providing more evidence of a sustained turnaround in the industry.
- According to Autodata, 1.45 million vehicles were sold during the month, a 3.4-percent improvement over last year, as a strengthening housing market and low interest rates spurred consumers and businesses to replace aging models.
- General Motors, the largest American automaker, said it sold 246,000 new vehicles during March, a 6.4-percent increase over the same period last year.

- Workers are seeing decreased take-home pay since the expiration of the two-year payroll tax reduction. The tax change is expected to remove about \$125 billion in expendable income from consumers. Connecticut's share of the loss would be about \$2 billion.
- According to the Federal Reserve, in February, consumer credit increased at a seasonally adjusted annual rate of 7.75 percent. Revolving credit increased at an annual rate of 0.75%, while non-revolving credit increased at an annual rate of 11 percent (non-revolving credit includes automobile and educational loans).

Business and Economic Growth

- Based on advance estimates, real Gross Domestic Product grew at an annual rate of 2.5 percent in the first quarter of 2013. This follows fourth-quarter growth of just 0.4 percent.
- Current-dollar personal income decreased \$109.1 billion (3.2 percent) in the first quarter, in contrast to an increase of \$262.3 billion (8.1 percent) in the fourth. The downturn in personal income primarily reflected a sharp downturn in personal dividend income and a sharp acceleration in contributions for government social insurance -- a subtraction in the calculation of personal income.
- Fourth-quarter personal dividend income was boosted by the payment of accelerated and special dividends. The acceleration in contributions for government social insurance in the first quarter resulted from the expiration of the "payroll tax holiday."
- 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 fourth quarter of 2012 were up 23.2 percent from the same quarter a year ago.
- In 2012, American banks increased their commercial and industrial loans by \$174 billion or 13 percent. Since 1990, the annual growth in such loans has averaged 4.2 percent.
- The combined pension deficit of companies in the Standard & Poor's 1,500-stock index fell to \$372 billion at the end of March, according to Mercer. The figure marks a \$185-billion drop from the record \$557 billion at the end of the year. Stock market gains in March contributed heavily to this improvement.
- The Labor Department's scorecard of business activity was mixed in 2012. But down sharply at the start of 2013.



- New business starts in Connecticut have been down by double-digit percentages from last year in each of the first three months of 2013.

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