



News from:
COMPTROLLER KEVIN LEMBO

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**COMPTROLLER LEMBO REPORTS \$121.3-MILLION
SURPLUS FOR FISCAL YEAR 2014**

Comptroller Kevin Lembo today reported a Fiscal Year 2014 surplus of \$121.3 million, noting that budget accruals will continue through August.

In a letter to Gov. Dannel P. Malloy, Lembo said he will provide an update on Sept. 30 to reflect accrual activity and any additional adjustments to the current estimates for Fiscal Year 2014 – and his next monthly report on Sept. 1 will include the first early projection on Fiscal Year 2015.

The latest surplus report on Fiscal Year 2014 is an increase of \$88.1 million from last month due to a revenue projection increase of \$63 million.

The majority of the increase relates to federal reimbursements for Medicaid (up \$42.1 million after adjustments) and upward trending of the income tax.

“As the state has experienced five consecutive months of job growth, the withholding portion of the income tax has been trending upward,” Lembo said. “This is something to be optimistic about – and hopefully it will sustain through the end of the year.”

At the end of the first quarter of Fiscal Year 2014, the withholding tax was increasing at a rate of 1.3 percent. As the fiscal year came to a close the rate of increase was 2.9 percent. Based on a continuation in June of this positive trend, the income tax projection is up \$37.2 million from last month.”

Total General Fund revenue projections for Fiscal Year 2014 are \$53 million below the

initial budget plan, though overall budget savings are expected to exceed the original plan by \$154.8 million.

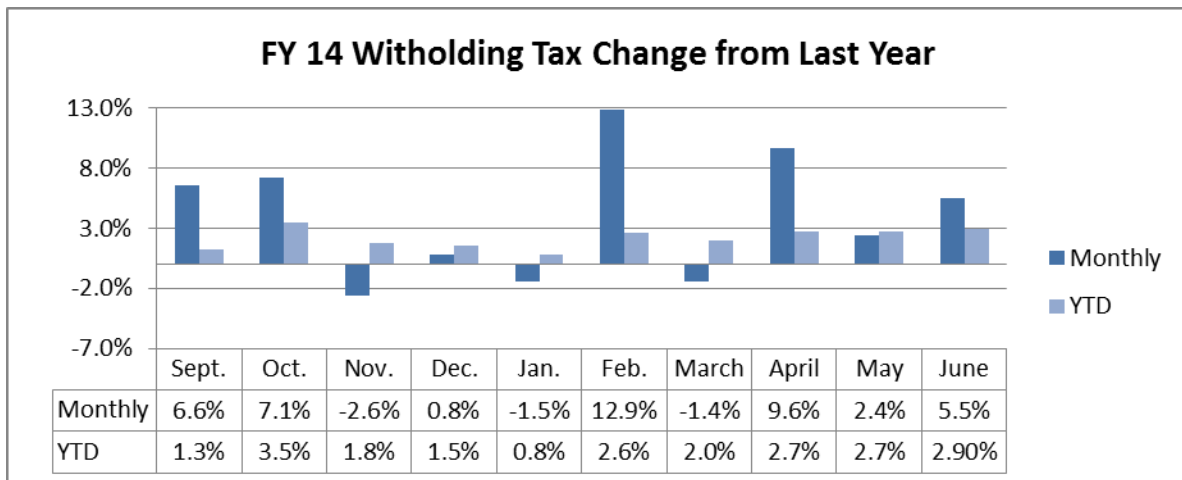
When the final audit for Fiscal Year 2014 is complete – around Dec. 30 – the surplus will be deposited into the Budget Reserve Fund, otherwise known as the “Rainy Day Fund.” The deposit of \$121.3 million would bring the balance to \$392 million, or 2.3 percent of net budget plan appropriations.

Looking forward, Lembo pointed to slow – but real – evidence that the state economy may be moving in the right direction.

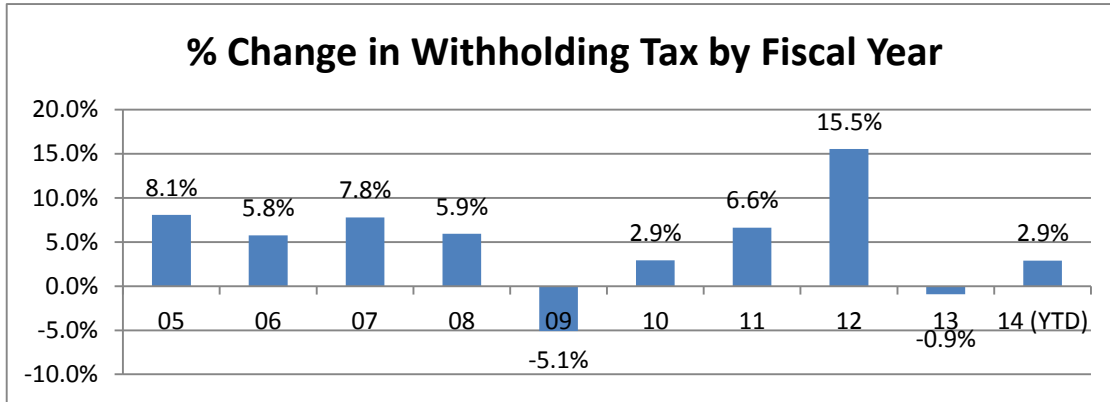
“Connecticut’s overall economy has shown gradual improvement,” Lembo said. He highlighted data and other information from federal and state Departments of Labor and other sources that show:

Employment

- Year-to-date gains in the employment-driven withholding portion of the state income tax remained positive through June growing 2.9 percent from a year ago. June receipts were up 5.5 percent. As can be seen in the graph below, the second half of Fiscal Year 2014 posted better results than the first half of the year. Additional withholding tax accruals for Fiscal Year 2014 will be posted later in August.



- Taking a longer view, in the four years leading up to the last recession, the annual increase in income tax withholdings averaged 6.9%. In Fiscal Year 2011 and 2012, the withholding receipts spiked due to an increase in the income tax rates. Factoring out the rate increase, withholdings have not yet attained post-recession growth levels.

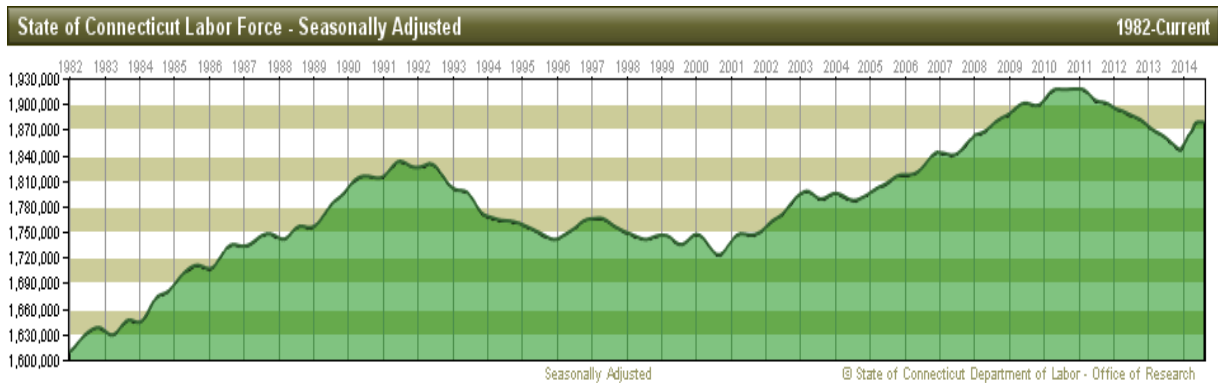


- Connecticut gained 1,700 payroll jobs in June. This is the fifth consecutive month of employment growth in the state, reversing an earlier trend of highly erratic monthly gains and losses.
- Most of June's gains (1,200 positions) were in government. Even with this June gain, government has experienced a loss of 9,100 positions during the course of Fiscal Year 2014.
- According to the Department of Labor, Connecticut has regained 73,500 payroll positions, or 61.7 percent of the 119,100 positions lost to the March 2008 - February 2010 employment recession. The state has regained 73.7 percent of the private sector jobs lost during the recession.
- Nationally, all recessionary job losses have been regained and exceeded.
- The table below shows the distribution of employment gains and losses by major employment sector over the latest twelve month period ending in June.
- Job additions in Connecticut during this period total 5,300.

Job Gains Latest 12 Months		Job Losses Latest 12 Months	
<u>Sector</u>		<u>Sector</u>	
Transp. & Utilities	5,000	Government	-9,100
Education & Health	4,900	Financial Activities	-1,100
Leisure & Hospitality	3,500	Manufacturing	-1,100
Prof & Business Service	2,000	Other Services	-400
Construction	1,900	Information	-300

- Connecticut's unemployment rate fell to 6.7 percent in June; the national unemployment rate was 6.1 percent. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.
- There are approximately 125,400 unemployed workers in Connecticut. A low of 36,500 unemployed workers was recorded in October of 2000.
- Connecticut's labor force has been growing since the beginning of the year.

Throughout the post-recession period, Connecticut's labor force participation rate has been above the national average.



- Based on the June state jobs data, the 13 states that raised their minimum wages at the beginning of this year are adding jobs at a faster pace than those that did not. Nine of the 13 states increased their minimum wages automatically in line with inflation: Arizona, Colorado, Florida, Missouri, Montana, Ohio, Oregon, Vermont and Washington. Four more states — Connecticut, New Jersey, New York and Rhode Island — approved legislation mandating the increases. According to the Economic Policy Institute, there are over 200,000 minimum wage workers in Connecticut.

*Wage and **\$**Salary income*

- The Department of Labor calculates that Connecticut's average hourly earnings rose a modest 0.4 percent over June of 2013.
- Average hourly earnings of private sector workers have struggled to establish a consistent growth trend over the last two years.

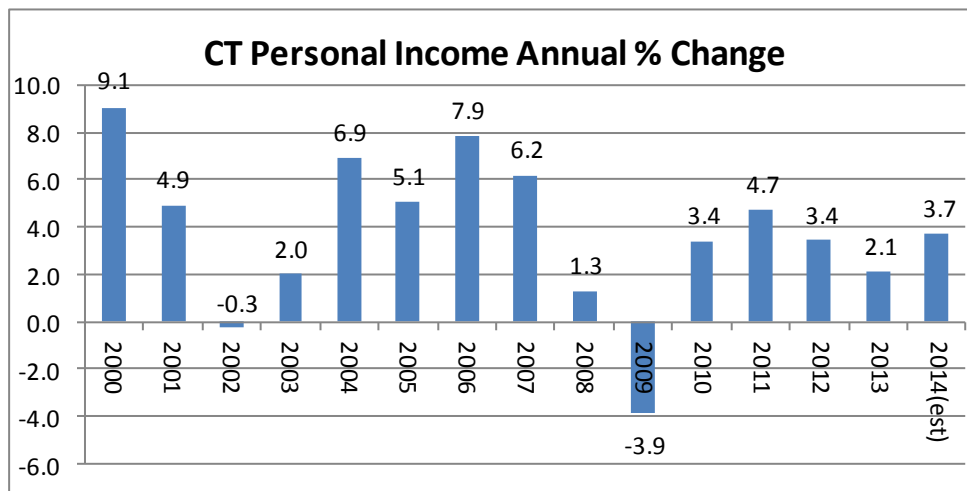


- A persistent problem has been that wage growth in the sectors adding jobs has been declining; while sectors shedding jobs have seen wage increases. This has tempered gains realized in the withholding portion of the income tax and slowed the overall recovery.
- The point is illustrated by looking at wage patterns in the employment growth sector of education and health services, and the pattern in the job loss financial activities sector. You will also note the higher overall wage level in financial activities as opposed to education and health services.





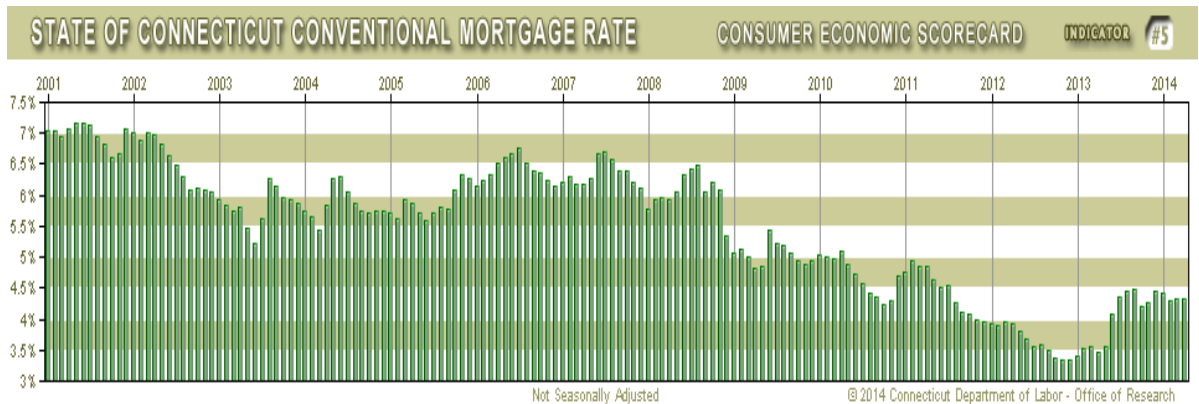
- The year-to-year change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) has remained below 3 percent throughout the fiscal year.
- Based on data released by the Bureau of Economic Analysis on June 24, personal income in Connecticut grew at an annualized rate of 3.7 percent in the 1st quarter of 2014. This ranked Connecticut 16th in quarterly personal income growth. State personal income grew at a rate of 2.1 percent between 2012 and 2013 ranking Connecticut 37th nationally in personal income growth.
- The chart below shows the annual trend in Connecticut personal income over time. The 2014 estimate is based on annualizing 1st quarter results. The results for the 2nd quarter will be available on September 30.





Housing

- A strong housing market has lifted Connecticut's real estate conveyance tax receipts. Through June, total receipts are running 70 percent above last fiscal year's level. Adjusting for the elimination of the transfer of almost \$40 million to the municipal revenue sharing account from this revenue source, the underlying activity growth is double-digit over last fiscal year.
- Current data shows a recent softening in the housing market. According to a report from the Warren Group released on July 15, single-family home sales in Connecticut fell 14 percent in May from the same month a year ago. This is the second year-over-year sales decline in 13 months. The report also shows median home prices in the state grew by less than 1 percent at \$229,500. Statewide condominium sales were flat in May with prices down 1.6 percent to \$147,625.
- The National Association of Realtors reported total U.S. existing home sales in June were 2.3 percent below June of 2013. The median price of a home rose 4.3 percent to \$223,300 from June of last year. Regionally, existing home sales in the Northeast fell 3 percent from last June and prices were relatively unchanged at \$269,800.
- Conventional mortgage rates have been on an upward trend since June of 2013, which places a drag on housing market activity.

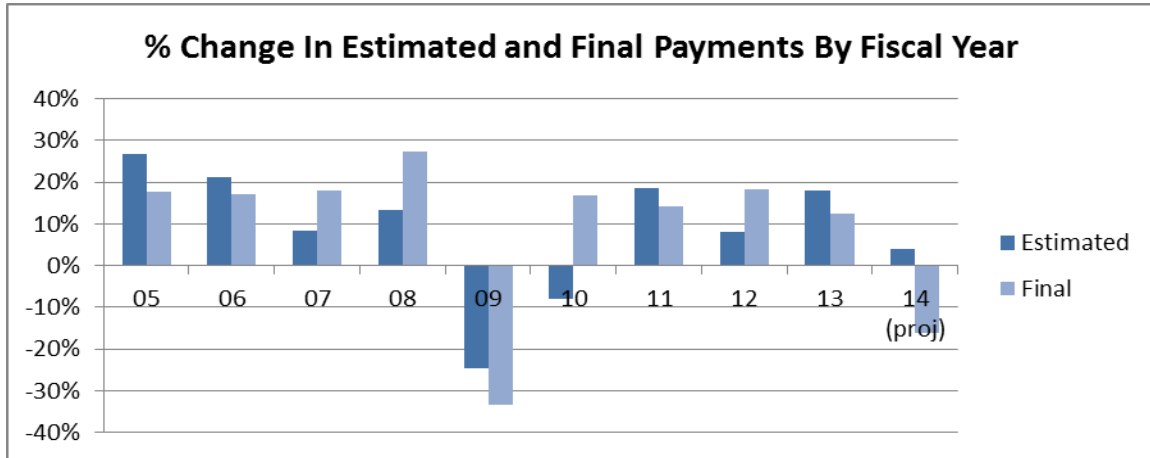


Business Activity and Consumer Spending

- The capital gains-driven estimated payment portion of the income tax grew by almost 18 percent last fiscal year. This Fiscal Year, it has advanced at a 5.3-percent rate through June. The large increase in Fiscal Year 2013 was partially attributable to a capital gains tax change that went into effect at the end of 2012 and resulted in an acceleration of capital gains receipts into Fiscal Year 2013. Absent the tax change,

these gains would have been realized in future years with some of the revenue occurring in the current fiscal year.

- The budget plan anticipated a softening of estimated payments in Fiscal Year 2014 based on the tax incentives. However, final income tax receipts due by April dropped far more than expected, declining 15.7 percent through June. As illustrated by the time series graph below, it is highly unusual for estimated and final payments to move so dramatically in opposite directions.



- It is difficult at this point in time to accurately determine the cause of the deviation in final income tax payments from the historical trend. Certainly the forward shift in capital gains discussed above played a role. It is also significant that profit taking has been on a downward trend since the height of the financial crisis as trading volume has receded even as the market has risen.

DOW

- At this writing the Dow Jones Industrial Average has posted a 12-month gain of 9.9 percent; however, on a calendar year-to-date basis the market has been less robust.

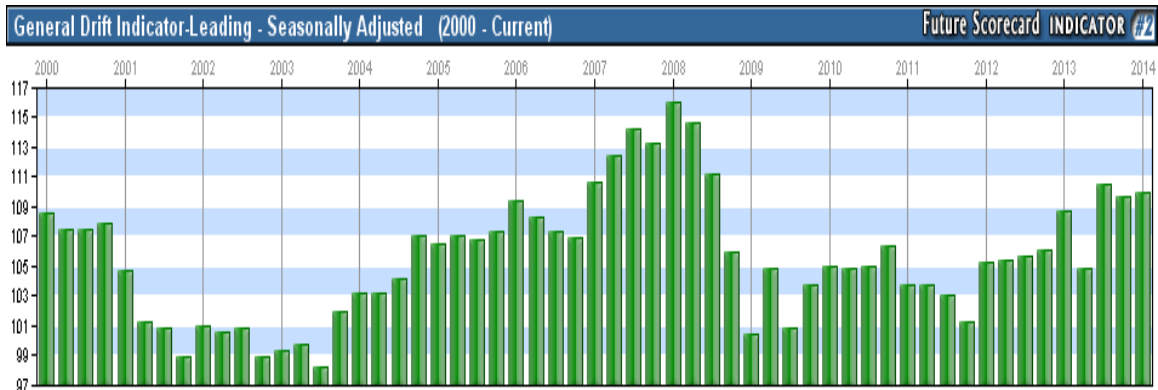


Consumers

- June advance retail sales were up 4.3 percent from the same month last year. For the first six months of calendar year 2014, sales are up 3.6 percent from last year. In calendar year 2013, sales were 4.2 percent higher than in 2012.
- Automobile dealers, health and personal care establishments and non-store retailers posted the strongest June gains.
- According to the Federal Reserve, consumer credit in May grew at a rate of 7.5 percent. This follows April consumer credit growth of 10.2 percent. In May, revolving credit was up 2.5 percent. Non-revolving credit posted a gain of 9.2 percent. Consumer credit began to expand in 2011 after a recessionary period of contraction. Accelerating consumer borrowing has been notable in the first five months of 2014.

Business and Economic Growth

- Based on the July 30 release by the Bureau of Economic Analysis, real GDP increased at a rate of 4.0 percent in the 2nd quarter of 2014. In the 1st quarter of 2014 real GDP declined 2.1 percent.
- The negative GDP reflects decreases in private inventory investment, exports, state and local government spending, and both residential and non-residential investment. Partially offsetting these declines were an increase in personal consumption expenditures. Imports, which reduce GDP, also increased.
- In the 1st quarter of 2014, U.S. corporate profits posted a decline of 4.8 percent from the same quarter one year ago. Profits grew by better than 7 percent in both 2011 and 2012.
- The Department of Labor's General Drift Indicators are composite measures of the four-quarter change in three coincident (Connecticut Manufacturing Production Index, nonfarm employment, and real personal income) and four leading (housing permits, manufacturing average weekly hours, Hartford help-wanted advertising, and initial unemployment claims) economic variables, and are indexed so 1986 = 100.



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