



News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO SAYS STATE BUDGET OUTLOOK CONTINUES TO SLOWLY IMPROVE

Comptroller Kevin Lembo today announced that the state's General Fund is currently on track to end Fiscal Year 2014 with a surplus of \$273.3 million – another month of improvement for the state's short-term outlook, despite a more cautious long-term view.

In a letter to Gov. Dannel P. Malloy, Lembo said the surplus projection – in line with the Office of Policy and Management's (OPM) latest projection – is an increase of \$27.4 million from Lembo's estimate last month.

Lembo said revenue for 2014 is expected to exceed initial budget targets by \$201.7 million, while spending is close to initial budget targets. The largest portion of the excess revenue is the result of the state's tax amnesty program – however, there are also generally positive trends developing in overall state revenue.

“Improvements in the state's employment numbers, continued strength in the housing market, and strong equity markets are contributing to a more favorable revenue outlook as we enter 2014,” Lembo said. “This growing surplus is a great sign for Connecticut's economic recovery. However, in the next biennium – and beyond – we face new and greater challenges that require action today.”

Lembo noted that, while the state's outlook for the current fiscal year has been improving month after month, more than \$300 million from last year is included in this year's budget.

Due to the state's continued slow recovery -- and many future long-term liabilities – Lembo said it is imperative to re-build the state's Budget Reserve Fund and prepare for future obligations and uncertainties.

“As I stated last month, I strongly recommend that any General Fund surplus amount should be reserved for transfer to the state’s Budget Reserve Fund,” Lembo said. “Both OFA (Office of Fiscal Analysis) and OPM have estimated budget shortfalls beginning in Fiscal Year 2016 if current policies and trends remain unchanged. Therefore, it is essential to the state’s long-term fiscal stability that sufficient reserves be established as soon as possible. Too often in the past, opportunities to build reserves have been missed as other perceived budget priorities were pursued.”

The reserve balance at the end of Fiscal Year 2013 was \$270.7 million, which is 1.6 percent of planned spending. Lembo has called for a reserve level of 15 percent of spending (above the current 10 percent funding cap established by statute).

In analyzing several economic indicators in Connecticut, Lembo highlighted the challenges particularly facing young adults age 35 and under – a generation that continues to struggle with record high student loan debt and record low home ownership when compared to previous generations.

“When young adults cannot access adequate employment, are overburdened by student loan debt – and cannot begin accumulating wealth early on – it has a lasting impact on our state and national economy,” Lembo said. “We need to find new and innovative ways to encourage long-term asset accumulation and investment opportunities for young adults entering the workforce.”

Lembo said Connecticut must build on concepts and initiatives such as the Learn Here, Live Here Program -- legislatively established in 2012 to encourage more graduating students to save money toward a down payment on a first home in Connecticut.

Demonstrating the long-term economic impact of failing to promote long-term asset allocation, Lembo said that even as the larger existing home sales market recovers, the percentage of first-time homebuyers in the market is far lower than it once was. First-time homebuyers – historically 40 percent of the market – were down to 28 percent of the market home sales in November, according to the U.S. Census Bureau.

“This is another indicator of the erosion in asset accumulation by people age 35 and younger,” Lembo said.

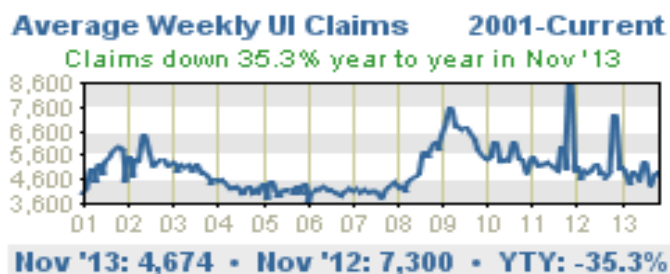
As far as other economic indicators, information from federal and state Departments of Labor and other sources show:

Employment

- According to Department of Labor data, the state added 4,000 jobs in November. This follows disappointing job results through the summer and fall of 2013 with just 900 net jobs added between June and October. For the 12-month period ending in November, employment gains in the state totaled 16,500 payroll positions.
- The payroll withholding portion of the income tax posted negative growth for November; however, for the three-month period ending in November, withholding receipts increased 3.7 percent over the same period one year ago.
- On a year-to-date basis through November, the withholding tax is up 1.8 percent over last year. This compares to a slight decline in the withholding portion of the income tax in Fiscal Year 2013.



- The state has now regained 52.4 percent (63,500 jobs) of the 121,200 positions lost in the March 2008-February 2010 recession. Post-recession job gains in the private sector have been better than the overall numbers with a job recovery rate of 62.8 percent.
- Connecticut's unemployment rate in November stood at 7.6 percent. This compares to a national rate of 7.0 percent. Unemployment rates vary from a high of 9 percent in Rhode Island and Nevada to a low of 2.6 percent in North Dakota.



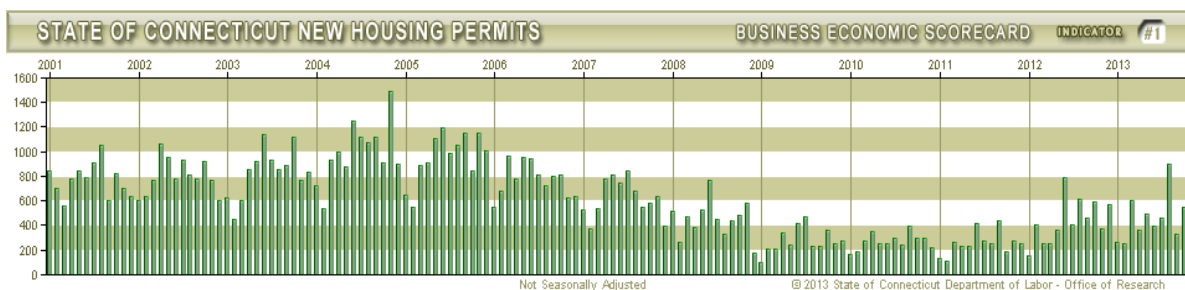
- The strongest job gains over the past 12 months have been in education and health services (+ 9,400). Construction has also rebounded well (+5,600). The largest losses have occurred in manufacturing (-3,200), other services (-2,300), and financial activities (-1,800).

Wage and **\$**Salary income

- Personal income in Connecticut grew at a rate of 0.8 percent between the second and third quarters of 2013. This ranked Connecticut 37th nationally in income growth. On a full year basis, growth was 3.5 percent. For calendar year 2012, Connecticut personal income advanced at a 3.4 percent rate. Data for the fourth quarter will be released on March 25.
- According to the Department of Labor, average hourly earnings declined 2.3 percent from last November and weekly pay was down 3.5 percent for the same period.
- The year-to-year change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average) in November 2013 was 1.2 percent.



- A strong housing market has lifted Connecticut's real estate conveyance tax receipts by almost 40 percent over the amount posted through November of last year.
- Housing permit activity is running almost 16% above last year's level. There is a clear upward trend in building activity over the past few years.



- The Census Bureau reported that U.S. new home sales increased 21.6 percent from October of last year. Sales in the Northeast were up 29.2 percent for the same period.
- The larger existing home sales market posted disappointing results in November with sales falling 1.2 percent below last year's volume. Home prices continued to show strength rising 9.4 percent from November of last year to a median price of \$196,300.
- First time homebuyers, which have historically been about 40 percent of the market, were down to 28 percent of the Market sales in November. This is another indicator of the erosion in asset accumulation by people age 35 and younger.

- Regionally, existing-home sales in the Northeast were up in November by 6.6 percent over last year. The median price in the Northeast was \$242,900, up 5.7 percent from a year ago.
- Conventional mortgage rates have recorded some upward movement, but remain at historically low levels.

Business Activity and Consumer Spending

- The estimated payment portion of the income tax is advancing at a rate of almost 14 percent on a year-to-date basis through November. The strong performance of the equity markets has helped to fuel that growth.
- At this writing the Dow was up over 20 percent on a year-to-date basis.
- The 30 companies listed on the Dow Jones Industrial Average spent \$211 billion on stock repurchases in 2013 according to an analysis by Birinyi Associates. That is three times the amount spent on research and development by those companies in 2013 based on data from S&P Capital IQ.
- The repurchase also lifts earnings per share, an important number closely watched by investors — and by corporate boards in determining executive pay. Of the 30 companies making up the Dow index, all but four list earnings per share in their public documents as a metric used to determine executive pay.
- The Federal Reserve’s quantitative easing policy, which has increased the supply of low rate capital, has also played a role in booting equity markets.

DOW:



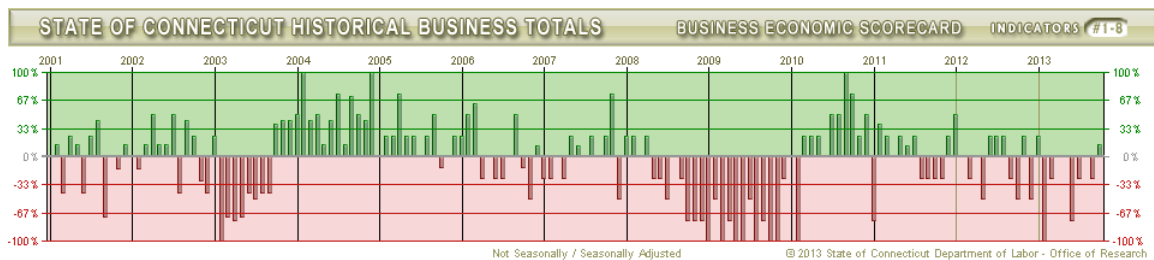
Consumers

- Through November the largest component of the sales tax was advancing at a 1.6-percent rate for the year to date.

- Retailers were expressing disappointment with early tabulations of the Christmas sales results. There is hope that continued discounting will improve sales numbers going into next year.
- In November, advance retail sales were up 4.7 percent from one year ago. Over the past three months sales growth has averaged about 4 percent. Auto sales, home furnishings, and non-store retailers posted the strongest gains.
- The Conference Board reported that the consumer confidence index, which had decreased sharply in October, declined again in November. The Index now stands at 70.4 (1985=100), down from 72.4 in October. The Present Situation Index edged down to 72.0 from 72.6. The Expectations Index declined to 69.3 from 72.2 last month.
- According to the Federal Reserve, in October, consumer credit increased at a seasonally adjusted annual rate of 7 percent. Revolving credit increased at an annual rate of 6 percent, while non-revolving credit increased at an annual rate of 7.5 percent.

Business and Economic Growth

- Based on the December 20 release by the Bureau of Economic Analysis, real GDP increased at a healthy 4.1-percent rate in the 3rd quarter of 2013. This follows growth of 2.5 percent in the 2nd quarter. The acceleration in real GDP growth in the third quarter primarily reflected growth in private inventory investment, a deceleration in imports, and accelerations in state and local government spending and in personal consumption expenditures that were partly offset by a deceleration in exports.
- Corporate profits posted growth of 5.7 percent from one year ago in the 3rd quarter of 2012. Profits grew by better than 7 percent in both 2011 and 2012.
- The Labor Department's scorecard of business activity was mixed in 2012 and been down for most of 2013.



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