



News from:
COMPTROLLER KEVIN LEMBO

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**COMPTROLLER LEMBO PROJECTS \$161.7-MILLION DEFICIT
FOR FISCAL YEAR 2015 FOLLOWING LAST MONTH'S
RESCISSIONS**

Comptroller Kevin Lembo announced today that, following the updated consensus revenue forecast released yesterday, the state General Fund is on track to end Fiscal Year 2015 with a \$161.7-million deficit.

In a letter to Gov. Dannel P. Malloy, Lembo said that he is in general agreement with the Office of Policy and Management's (OPM) revised projection released Thursday.

"Last month, my Fiscal Year 2015 General Fund projection anticipated revenue would be \$40 million lower than the number that OPM was projecting at the time," Lembo reported. "As a result of the April 30 consensus revenue forecast, OPM's net revenue projection is now \$500,000 below my estimate of last month. I have accounted for the small net revenue change, as well as an additional \$11.6 million in net spending reductions due to (the administration's) April rescissions."

Overall, General Fund revenue this fiscal year is projected to fall \$166.1 million short of original budget projections. The largest shortfalls are related to federal grants, the health provider tax and the income tax. The most significant revenue gains are in the sales tax and the corporation tax.

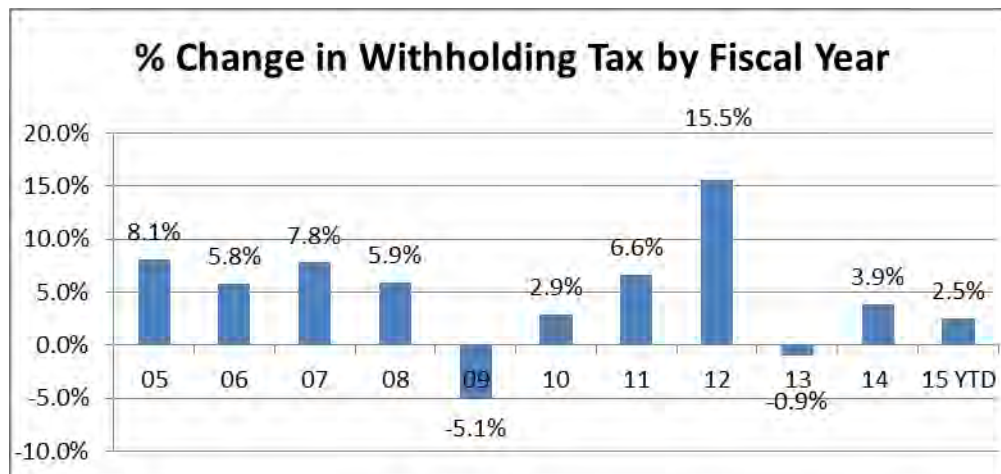
OPM has reported plans to save \$285.8 million by the end of the fiscal year, which Lembo said is "well within the range of lapses experienced over the past five fiscal years." Over those five years, multiple administrations have achieved average annual savings targets of \$511.2 million.

“As I have been reporting, the state’s overall economic climate has been gradually improving,” Lembo said.

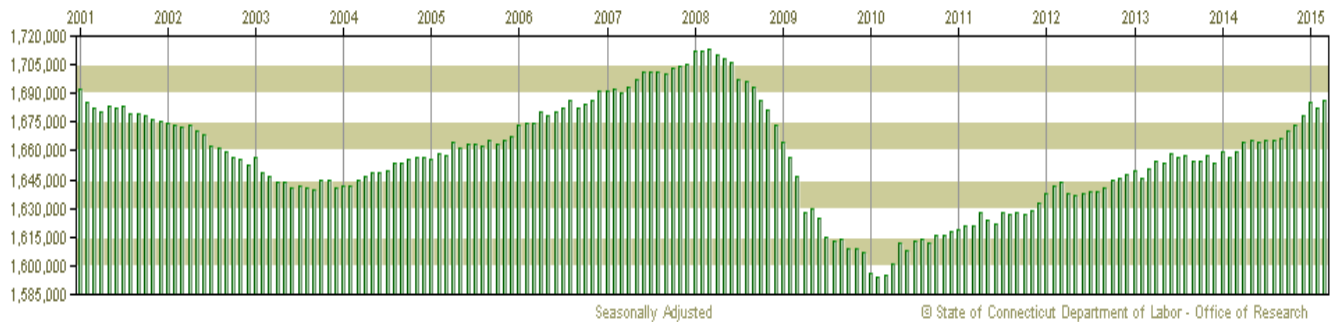
Lembo pointed to the latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

- Through the first nine months of Fiscal Year 2015, the year-to-date withholding portion of the income tax was running 2.5 percent above the same period last year. For most of Fiscal Year 2015, withholding receipts have been running close to the gains experienced in the prior year.
- Withholding receipts have yet to attain pre-recession growth rates. The large revenue increases in Fiscal Years 2011 and 2012 were almost entirely attributable to higher income tax rates. Net of those tax increases, withholding receipts were stagnant in both Fiscal Year 2011 and Fiscal Year 2012. The poor performance also continued through Fiscal Year 2013. In Fiscal Year 2015, despite improving employment statistics, the withholding tax has yet to establish a pattern of consistent accelerating growth.



- According to the Department of Labor, preliminary figures show that Connecticut gained 4,000 payroll positions in March. Seasonally adjusted year-to-date employment growth in the first quarter of 2015 was estimated at 8,600, compared to 6,600 jobs over the same period in 2014.



- Connecticut has now recovered 92,700 positions, or 77.9 percent of the 119,000 seasonally adjusted total nonfarm jobs that were lost in the state during the March 2008 - February 2010 employment recession. Connecticut's jobs recovery is now 61 months old and is averaging 1,520 jobs per month since February 2010. The state needs another 26,300 jobs to reach the 1,713,000 employment level attained before the recession.
- The table below shows the distribution of employment gains and losses by major employment sector over the latest 12-month period ending in March.
- Job additions in Connecticut during this period total 27,100.

Job Gains Latest 12 Months		Job Losses Latest 12 Months	
Sector		Sector	
Education & Health Svc.	7,400	Manufacturing	-600
Prof. & Business Svc.	7,100	Information	-100
Leisure & Hospitality	5,400		
Transp. & Utilities	4,500		
Other Services	1,100		
Government	1,000		
Financial Activities	900		
Construction	300		
Mining	100		

- U.S. employment has been advancing at a rate of 2.3 percent over the 12-month period ending in March; Connecticut's employment growth was 1.6 percent for the same period.

- Connecticut's unemployment rate was 6.4 percent in March; the national unemployment rate was 5.5 percent. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.
- There are approximately 121,900 unemployed workers in Connecticut. A low of 36,500 unemployed workers was recorded in October of 2000. The number of unemployed state workers hit a recessionary high of 177,200 in December of 2010.

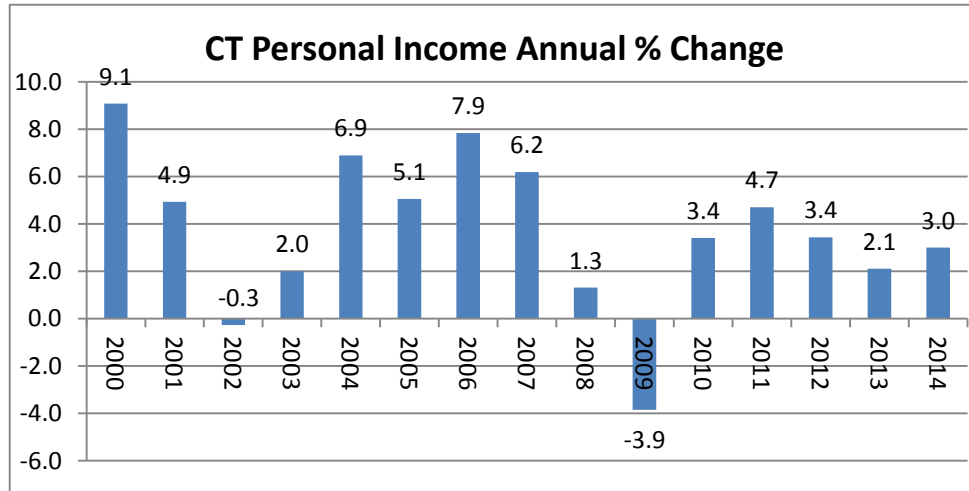
Wage and **\$**Salary income

- The Department of Labor reports that average hourly earnings at \$29.06, not seasonally adjusted, were up 91 cents, or 3.2 percent, from the March 2014 estimate. The resulting average private sector weekly pay was estimated at \$976.42, up \$30.58, or 3.2 percent higher over the year. Wages appear to be establishing a more consistent upward trend.
- The year-to-year change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in March 2015 was -0.1 percent (deflating).



- Based on data released by the Bureau of Economic Analysis on March 25 for calendar year 2014, personal income in Connecticut grew at a rate of 3 percent between 2013 and 2014; however, annualized growth for the first quarter was just over 4 percent. Connecticut was ranked 39th nationally in personal income growth in 2014, but ranked 22nd in fourth-quarter income growth. Results for the first quarter of 2015 will be released on June 22.
- The chart below shows the annual trend in Connecticut personal income over time,

which is well off the pace set during the last post-recessionary period.



- The Real Estate Conveyance Tax is trending 2.1 percent ahead of collections through March of last year.
- According to a report from the Warren Group released on April 8, Connecticut single-family home sales rose 13.8 percent in February from the same month last year. This follows a 6.3-percent sales decline in January. The state has experienced sales increases in five of the last six months. This was the strongest February increase since 2008. The median price of a single-family home fell by almost 5 percent in February to \$224,750 from \$236,000 a year ago. The only year of the last four that posted a price gain was 2013. Declines experienced in 2015 are following a pattern similar to last year.
- The National Association of Realtors reported that existing U.S. home sales in March were up 10.4 percent from the same period last year and prices were up 7.8 percent to \$212,100. The Association reported that the positive sales results were experienced in all regions of the country.

Consumers

- Sales tax receipts through February of Fiscal Year 2015 were up 3.2 percent over last year. The sales tax is on track to complete the year almost \$60 million above the original budget estimate.
- Advance retail sales were up 1.3 percent in March from the same month last year.

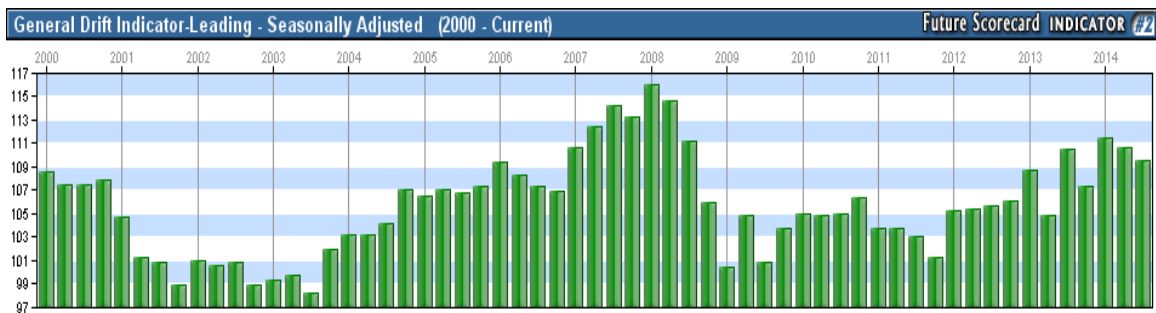
For the first quarter of 2015 sales were advancing at a 2.2-percent rate. Food services and drinking places had the strongest gain at 7.7 percent. Building material, gardening and supplies stores posted a March gain of 6.3 percent. Auto sales were down slightly from earlier in the year, growing 5.8 percent. Gasoline stations posted the largest sales decline at -22 percent due to lower prices. Department stores also experienced a decrease in sales.

- According to the University of Michigan's consumer sentiment index, consumer optimism rebounded in early April to its second highest level since 2007. More importantly, consumer optimism has recorded a higher average level during the last five months than any time since May 2004.
- There were some important exceptions to the index trend. The consumer outlook for income gains remained weak. While expected income gains have improved over the recent recession lows, the actual gains in income have been unimpressive for a recovery period. Although lower inflation expectations have acted to bolster real income expectations, they also still remain at historically low levels. Consumers' spending has become increasingly dependent on low interest rates even as they widely expect interest rate increases during the year ahead. Importantly, few consumers now anticipate that the Fed would raise rates enough to affect their current purchase plans. Overall, the data continue to support a 3.3-percent growth rate in personal consumption expenditures during 2015, even with a weather diminished 1st quarter performance.
- The Federal Reserve reported that February consumer credit increased at a seasonally adjusted annual rate of 5.5 percent. Revolving credit, primarily credit cards, decreased at an annual rate of 5 percent, while non-revolving credit, which includes auto loans and student loans, increased at an annual rate of 9.5 percent. Revolving credit has been following a downward trend; while non-revolving credit has been trending upward.

Business and Economic Growth

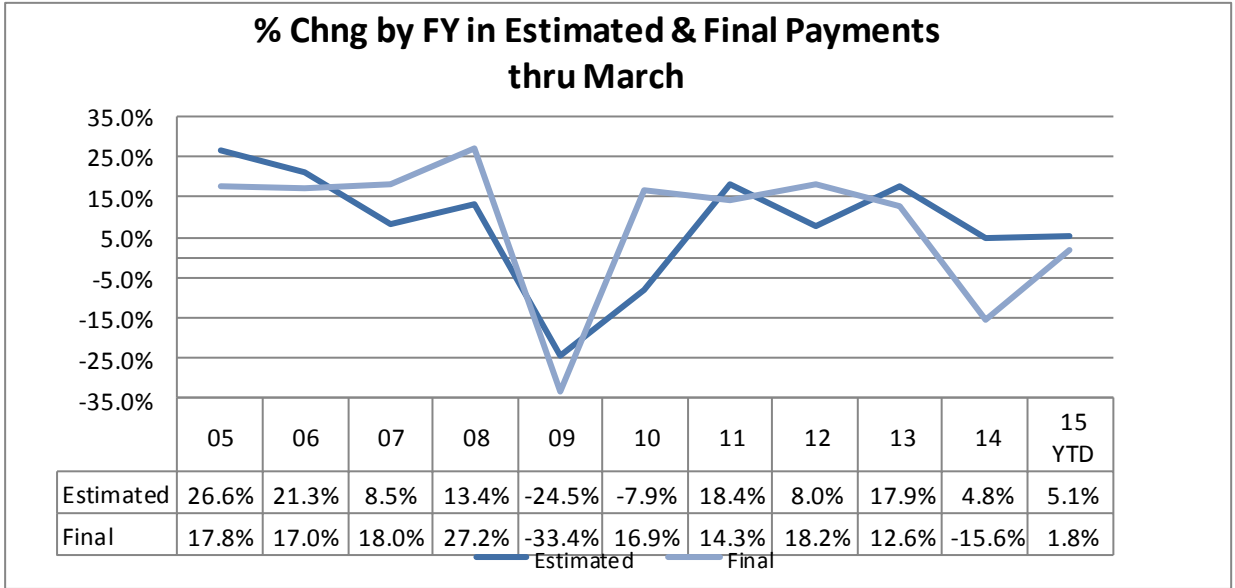
- Based on the April 29 advance estimate by the Bureau of Economic Analysis, real GDP increased at a rate of 0.2 percent in the first quarter of 2015. In the fourth quarter of 2014 real GDP increased at a 2.2-percent rate. The second estimate for the first quarter will be released on May 29.
- The deceleration in real GDP growth in the first quarter reflected a deceleration in personal consumption expenditures, downturns in exports, in nonresidential fixed investment and in state and local government spending, and a deceleration in residential fixed investment that were partly offset by a deceleration in imports and upturns in private inventory investment and in federal government spending.

- Corporate profits were down slightly in 2014. After gains in the second and third quarters of 2014, profits fell in the fourth quarter. The first-quarter preliminary profit report will be released on May 29.
- 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. The index has been showing a general upward trend, although it remains well below pre-recession levels.



Stock Market

- Estimated income tax payments, which are influenced by capital gains receipts, were trending 5.1 percent higher on a year-to-date basis thru March from the same period one year ago. The chart below shows the trends in estimated and final income tax payments since 2005. Generally, less than one quarter of total final payments have been received by March. April is the single most significant month for state revenue analysis. The books for April, on which we base our data, will not close until May 15 in order to account for any adjustments to revenue coding.
- If current payroll withholding growth and estimated payment growth remain at March year-to-date levels, then the April income tax final receipts must grow by 25 percent over last April to achieve the budget projection for the income tax. At this writing, April final payments to date were posting double digit growth against last April, but had not attained the 25-percent level.



- Over the past 12 months the Dow has posted a gain of 10.1 percent with significant monthly swings.



- As a result of the monthly volatility, the Dow gain on a year-to-date basis has been less than 2 percent.



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