News from:

COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE TUESDAY, MARCH 1, 2016

Contact: Tara Downes
860-702-3308
Tara.Downes@ct.gov

COMPTROLLER LEMBO PROJECTS $219.9-MILLION DEFICIT FOLLOWING EXPECTED REVENUE EROSION

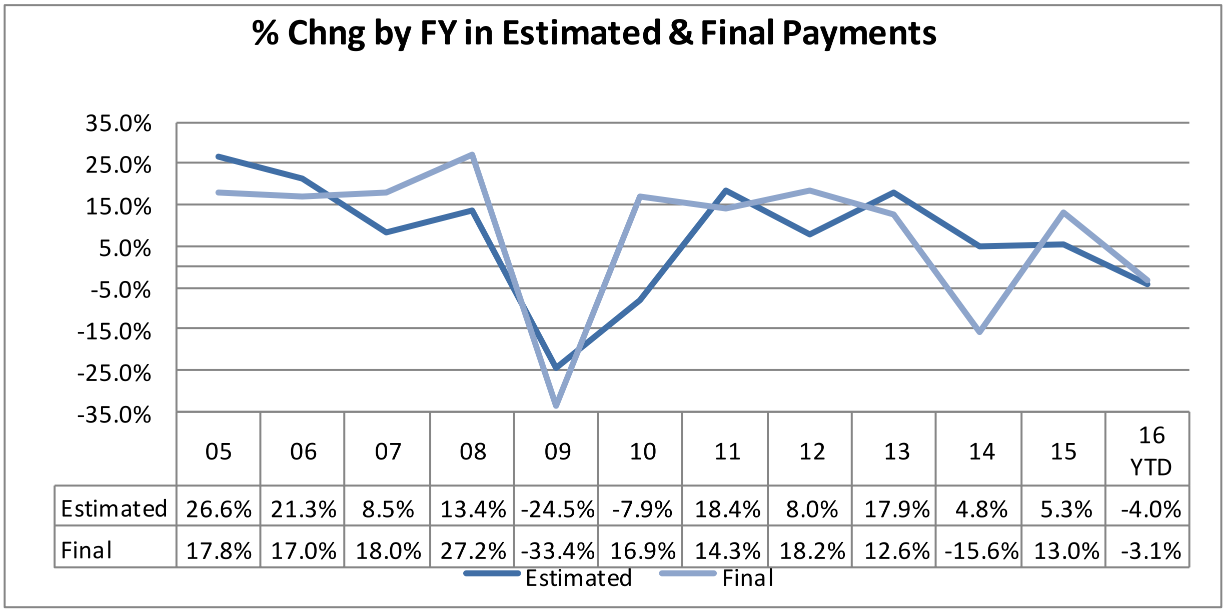
Comptroller Kevin Lembo announced today that, as he reported last month, revenue has further eroded -- bringing the latest projected deficit for the current fiscal year to $219.9 million.

In a letter to Gov. Dannel P. Malloy, Lembo said that he agrees with the Office of Fiscal Analysis' (OFA) recent revenue briefing that reduced the January consensus income tax estimate for Fiscal Year 2016 by $200 million.

"I cautioned last month that I was concerned with the potential for further erosion in the consensus revenue forecast," Lembo said. "Economic data now supports a downward adjustment in that forecast. This projected deficit – now exceeding 1 percent of the state budget (1 percent is $181.6 million) – should prompt renewed collaborative mitigation efforts."

Lembo said the payroll withholding portion of the income tax, which contributes over 60 percent of total collections, continues to show moderate growth. However, the estimated payment portion of the income tax – which is more volatile and largely influenced by stock market conditions – was 4 percent below last fiscal year as of January.

"In nine of the past 11 fiscal years, final payments have moved in the same direction as estimated payments," Lembo said (see chart immediately below). "This historical pattern raises serious concerns regarding April final payment receipts."



	05	06	07	08	09	10	11	12	13	14	15	16 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-4.0%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%	-3.1%

"Recent market developments that impact estimated and final income tax payments have increased the probability of negative year-over-year collections in these income tax components," Lembo said. "The Federal Reserve reported that the stock market decline in the third quarter of 2015 contributed to a $1.2-trillion drop in American household wealth, which was one of the largest losses since the recession. Corporate equities lost $2.3 trillion during the quarter. At this writing, the stock market continues to post negative growth for 2016.

"The market-driven decline in wealth has had a dampening effect on all states that rely on capital-gains driven tax receipts."

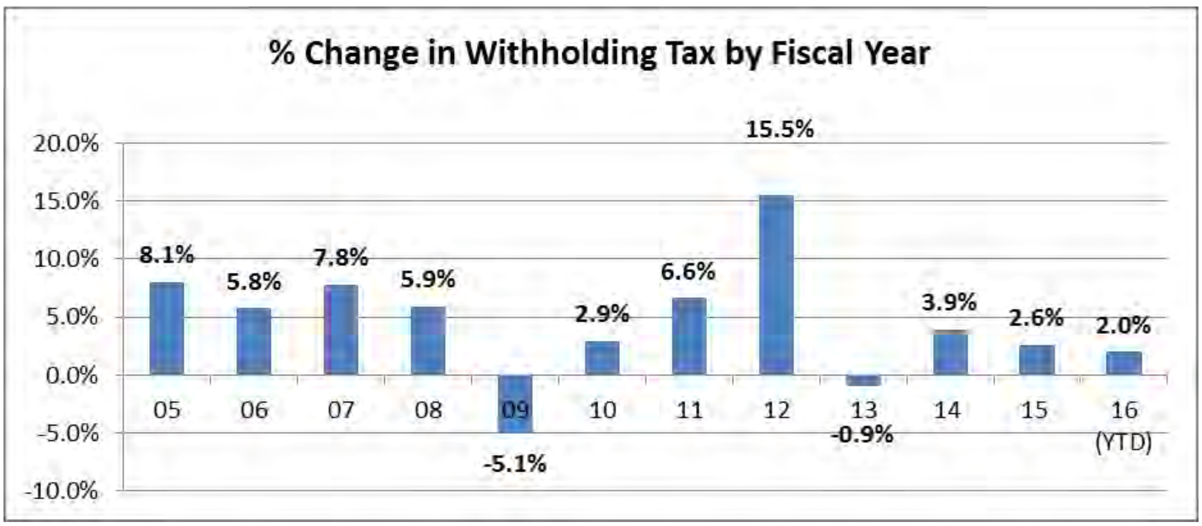
Lembo said it is still possible and imperative that the Office of Policy and Management (OPM) achieve their spending reduction targets of $87.8 million below the budget plan for the current fiscal year. OPM is attempting to achieve $350.5 million in General Fund savings, which is $149.9 million above the original budget plan. This savings target includes the spending reductions adopted late last year and other forced savings, which are partially offset by $62.1 million in agency deficiencies.

"Despite the revenue reductions this month, Connecticut's economy continues to experience moderate growth," Lembo said.

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

Employment

- Through Feb. 25, year-to-date income tax withholding receipts were running 2 percent above the same period last fiscal year. New tax rate tables incorporating the higher rate structure as adopted in PA 15-244 were required to be implemented by the end of August. Therefore, beginning September 2015 receipts have incorporated the higher tax rates.
- Withholding receipts are the largest single source of state tax revenue, accounting for 61 percent of the total income tax receipts in Fiscal Year 2015 and almost 40 percent of total General Fund tax receipts in that year. With the exception of tax increase spikes in Fiscal Years 2011 and 2012, the current cycle of economic recovery has posted below normal withholding gains.



- Labor market information for January and February will not be available until later in March. According to the Department of Labor, December nonfarm employment estimates from the U.S. Bureau of Labor Statistics (BLS) payroll survey (seasonally adjusted) indicated that Connecticut gained 300 jobs in December bringing payroll employment to a level of 1,700,700. November's original estimate of 5,100 job gains improved to a gain of 5,800 jobs. Connecticut has now increased nonfarm employment by 22,600 (1.35 percent) in calendar year 2015 averaging 1,883 jobs per month during the year.
- Connecticut has now recovered 106,700 positions, or 89.7 percent of the 119,000 seasonally adjusted total nonfarm jobs that were lost in the state during the March 2008 - February 2010 employment recession (pre-benchmark). The state needs to reach the 1,713,000 job level to enter a clear nonfarm employment expansionary phase. This will require an additional 12,300 nonfarm jobs.

- Connecticut's nonfarm jobs recovery is now 70 months old and is averaging about 1,524 jobs per month since February 2010. The table below looks at peak employment by job sector before the recession and the December 2015 job totals for each sector. The sectors with the strongest job additions, Education and Health Services and Leisure and Hospitality pay wages that are below the statewide average; whereas, sectors with losses such as Manufacturing and Financial Services have pay rates well above the statewide average.

Sector	Pre-Recession Peak	Dec-15	Gain/ Loss	% Chng. from Peak
Construction	69.4	57.1	-12.3	-17.7%
Manufacturing	191.8	161.3	-30.5	-15.9%
Transp. & Public Utilities	314.5	308.8	-5.7	-1.8%
Information	39.3	32	-7.3	-18.6%
Financial	145.6	130.9	-14.7	-10.1%
Prof . & Business Svc.	210.1	217.2	7.1	3.4%
Education & Health Svc.	295	332.9	37.9	12.8%
Leisure & Hospitality	138.5	159.1	20.6	14.9%
Other Services	64.4	63.6	-0.8	-1.2%
Government	252.8	237.3	-15.5	-6.1%

- As the state's employment recovery has progressed, an increasing number of job sectors have posted sustained employment gains. As this trend continues, improved wage growth and withholding receipts should occur.

Sector	Dec-14	Dec-15	Gain/Loss	% Chng.
Construction	54.9	57.1	2.2	4.0%
Manufacturing	159.7	161.3	1.6	1.0%
Transp. & Public Utilities	304.1	308.8	4.7	1.5%
Information	31.4	32	0.6	1.9%
Financial	128.3	130.9	2.6	2.0%
Prof . & Business Svc.	214.7	217.2	2.5	1.2%
Education & Health Svc.	328.7	332.9	4.2	1.3%
Leisure & Hospitality	155	159.1	4.1	2.6%
Other Services	63	63.6	0.6	1.0%
Government	237.7	237.3	-0.4	-0.2%

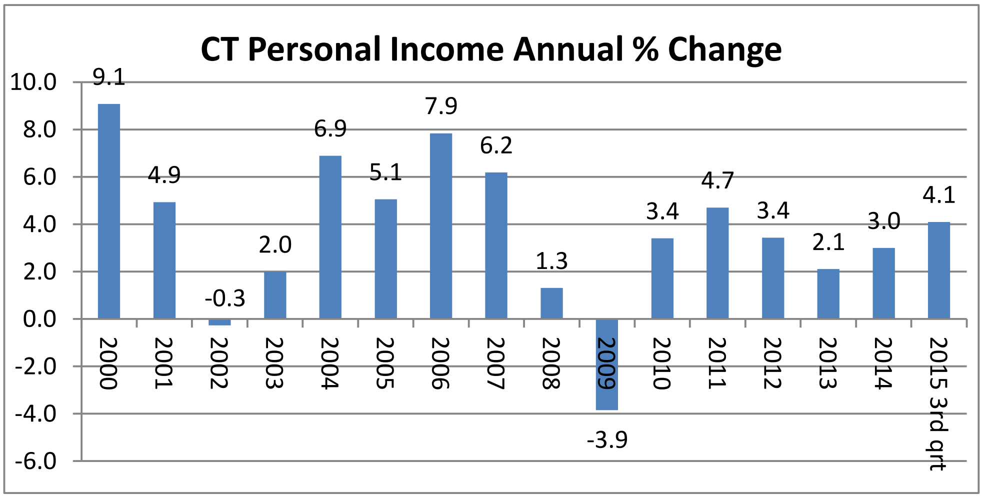
- U.S. employment has been advancing at a rate of 1.9 percent over the 12-month period ending in December; Connecticut's employment growth was 1.3 percent for the same period.
- Connecticut's unemployment rate was 5.2 percent in December; the national unemployment rate was 5 percent. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.

- There were 99,000 unemployed job seekers in Connecticut in December. A low of 36,500 unemployed workers was recorded in October of 2000. The number of unemployed workers hit a recessionary high of 177,200 in December of 2010.

Wage and $alary income

- The Department of Labor reports that average hourly earnings at $29.64, not seasonally adjusted, were up $1.17, or 4.1 percent, from the December 2014 hourly earnings estimate. The resultant average private-sector weekly pay was calculated at $995.90, up $36.46, or 3.8 percent higher than a year ago.
- The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in December 2015 was 0.7 percent.
- The graph below shows the monthly percent change from the prior year in Connecticut private-sector weekly earnings. Since the start of Fiscal Year 2015, Connecticut has experienced positive growth in wages, although still below the pre-recession growth levels.

- Based on third-quarter data from the Bureau of Economic Analysis released on Dec. 21, 2015 Connecticut ranks 27th nationally in income growth for the quarter. The chart below shows the 12-month trend in Connecticut personal income, which has yet to attain its past expansionary strength. Data for the fourth quarter will be released on March 24.



- Per capita income does not provide information on income distribution or relative income inequality. A report issued by the Economic Policy Institute in 2015 stated that New York and Connecticut had the largest gaps between the average incomes of the top 1 percent and the average incomes of the bottom 99 percent. In both states, the top 1 percent earned average incomes more than 48 times those of the bottom 99 percent.
- In 2015, Connecticut ranked number two in the nation in the number of households per capita with investable assets of over $1 million. According to Phoenix Global Wealth Monitor, 100,996 or 7.3 percent of households in the state were millionaires. The state also held this ranking in 2014.
- Based on Connecticut's progressive income tax structure, the top 2 percent of wage earners in the state pay almost 40 percent of the total income tax.

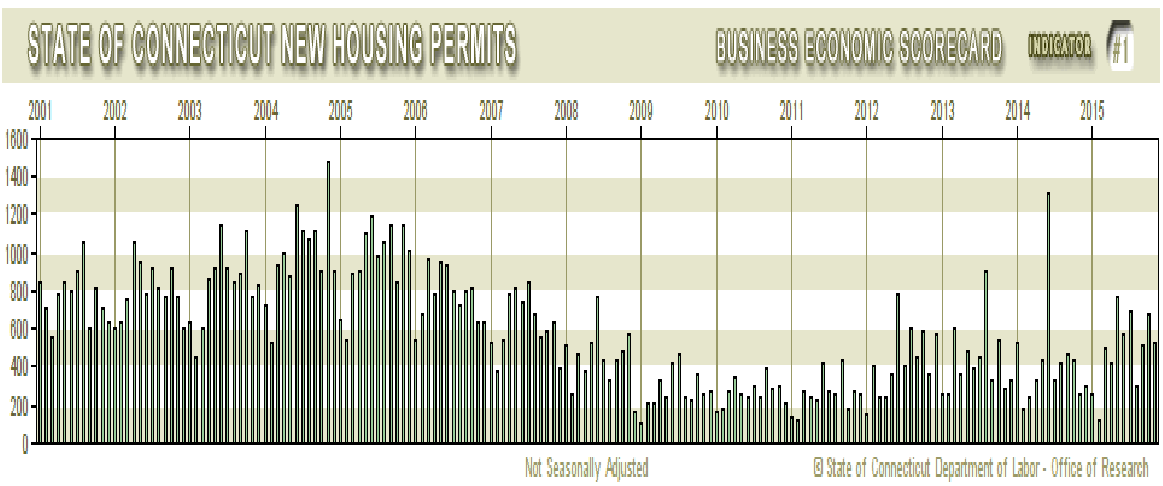
Housing

- According to a Feb. 11 release by the Warren Group, Connecticut recorded 2,588 single-family home sales in December 2015, the largest sales total for the month since 2006. The December sales volume was 17.9 percent higher than the same month last year.
- The December 2015 median price for a home in the state was $235,000, a decrease of 2.1 percent from the median price of $240,000 in December 2014.
- Sales volume in the state's housing market had been solid throughout 2015. The year-over-year sales gain through 2015 was 16.9 percent. The Warren Group notes that due to price deflation, Connecticut remains a buyer's market.
- The table below shows sales activity in 2015 by County. All counties experienced

strong sales gains in 2015.

	2015 Home Sales by County		
County	2014	2015	% Change
Fairfield	6,796	7,809	14.9%
Hartford	6,577	7,490	13.9%
Litchfield	1,586	1,888	19.0%
Middlesex	1,376	1,612	17.2%
New Haven	5,325	6,398	20.2%
New London	2,029	2,387	17.6%
Tolland	1,172	1,338	14.2%
Windham	959	1,064	10.9%

- In 2015, housing permits increased from last year in eight out of 12 months. Permits have been trending upward, but are below the levels experienced in 2004-2005.



Consumers

- Sales at retail stores and restaurants rose 0.2 percent in January from the prior month, according to a Feb. 12 release by the Commerce Department. A core measure of retail sales that excludes the more volatile components of autos and gasoline posted a January increase of 0.4 percent. Americans stepped up spending across most major retail categories. Compared with a year earlier, sales grew 3.4 percent. Gasoline stations posted a 9.5-percent drop from January of last year.
- January marked the fourth consecutive month of gains and showed how American households remain relatively strong. However, despite the recent upward trend in

spending, the University of Michigan's preliminary February consumer sentiment index dropped to 90.7 from 92.0 in January. The surveyors attributed the drop to a less favorable outlook for the economy this year reflected in early market activity.

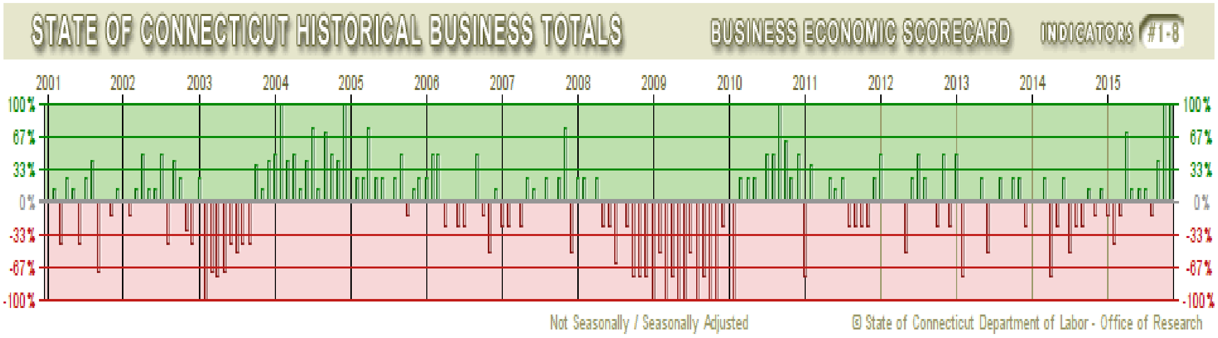
- Companies have also warned about the impact of market volatility on shoppers recently. A number of companies that reported quarterly earnings this past week referred to the turbulent macroeconomic backdrop, but they said it has yet to have a pronounced impact on their bottom line.
- The personal savings rate ended in 2015 about where it began. The rate in December was 5.5 percent, and it began the year at 5.3 percent. The personal savings rate has been on a general downward trajectory over the past 50 years. The savings rate tends to increase during recessionary periods as consumers become more cautious. The shaded areas on the graph below represent recessions.

Business and Economic Growth

- Nationally, orders for long-lasting manufactured goods posted their largest monthly gain in January since last spring. This comes after a year in which the manufacturing industry recorded its worst performance since the recession ended.
- New orders for durable goods—products designed to last at least three years, like dishwashers and aircraft— rose a seasonally adjusted 4.9 percent in January from a month earlier. New orders are up 0.6 percent from January a year ago. New orders for nondefense capital goods excluding aircraft, considered a proxy for business spending on equipment, rose 3.9 percent, which was the largest monthly increase since June 2014. That increase follows two consecutive monthly drops. However it was still 4.4 percent lower than January a year ago. Economists have noted that one

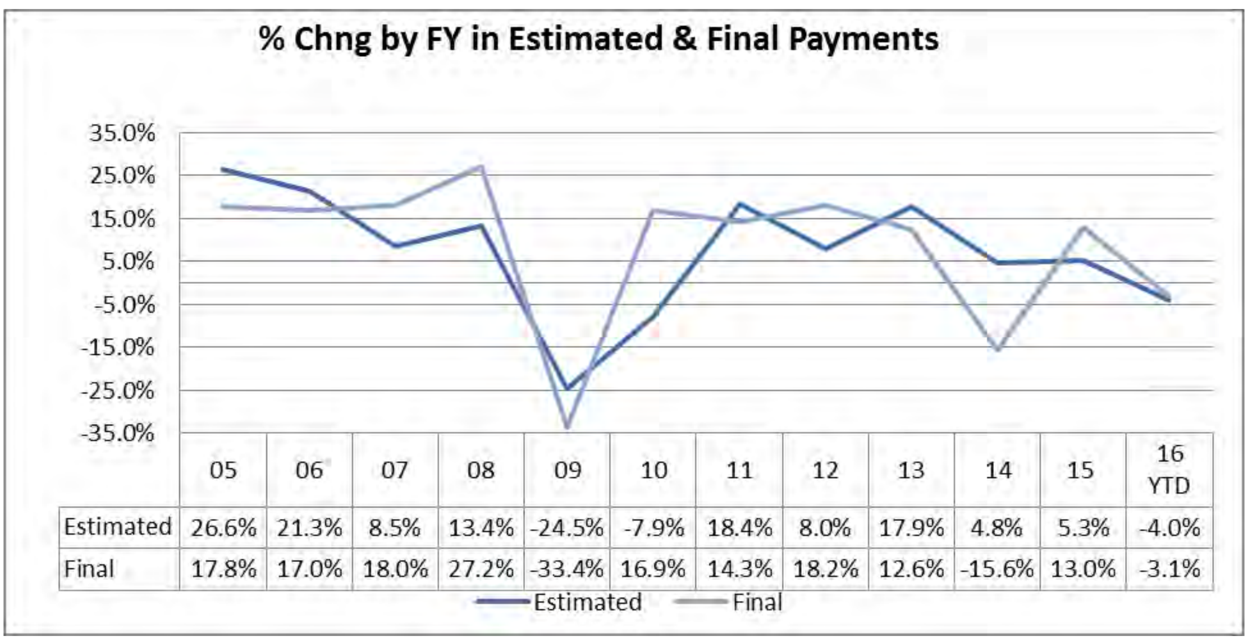
month of improved data doesn't necessarily signal the resurgence of the manufacturing sector.

- As the manufacturing sector strengthened coming into 2016, the service sector, the biggest part of the U.S. economy, shrank in February for the first time in more than two years.
- The Market Economics preliminary purchasing managers' services index for February fell to 49.8 (the lowest reading since the partial government shutdown in October 2013) from 53.2 the prior month. It was the second-weakest reading in data going back to October 2009. Readings lower than 50 signal contraction.
- Four states – Alaska, North Dakota, West Virginia and Wyoming – are in a recession and three others are at risk of prolonged declines according to Moody's Analytics. These states are especially hard hit by the drop in oil prices and the strong dollar. Louisiana, New Mexico and Oklahoma are all at risk of recession, according to Moody's. This industry-specific decline is similar to 1985-86 which did produce a recession in Texas and other energy states, but it did not spread to the rest of the nation.
- According to the Feb. 26 second estimate by the Bureau of Economic Analysis (BEA), GDP increased at an annual rate of 1 percent in the fourth quarter of 2015. This follows growth of 2 percent in the third quarter.
- The 1-percent increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, and federal government spending that were partly offset by negative contributions from exports, nonresidential fixed investment, state and local government spending, and private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased.
- Corporate profits for the fourth quarter of 2015 will be released by BEA on March 25.
- Fourth-quarter earnings reports from S&P 500 companies are expected to decline by 5 percent, potentially marking the first back-to-back decline since 2009, according to S&P Capital IQ. The drop in oil prices and the rise of the U.S. dollar are expected to continue to negatively impact corporate profits. It comes at a time when global growth is also in decline.
- In Connecticut, the business trends tracked by the Department of Labor – which include housing permits, exports, gaming slots, visits to major attractions, air passenger count, CT manufacturing production index, and weekly hours – had been on an upward trend as 2015 ended.



Stock Market

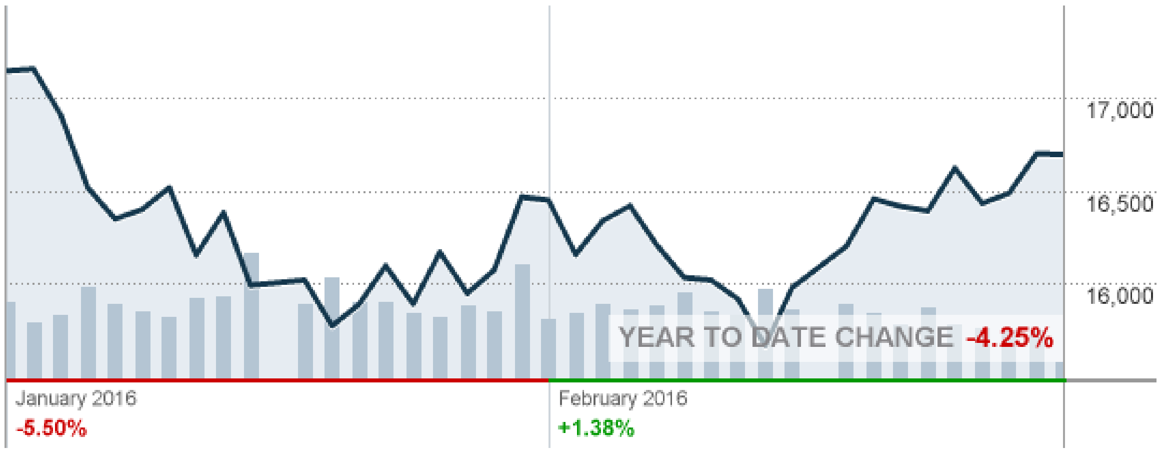
- Estimated and final income tax payments account for approximately 40 percent of total state income tax receipts. These payments show a correlation to activity in equity markets relating to capital gains.
- At the end of January, year-to-date estimated and final income tax payments for Fiscal Year 2016 were negative as compared to last fiscal year. Over the past 11 fiscal years, estimated and final payments moved in opposite directions twice. The current negative trend in estimated payments through the Jan. 15 filing date raises concerns about final April receipts.

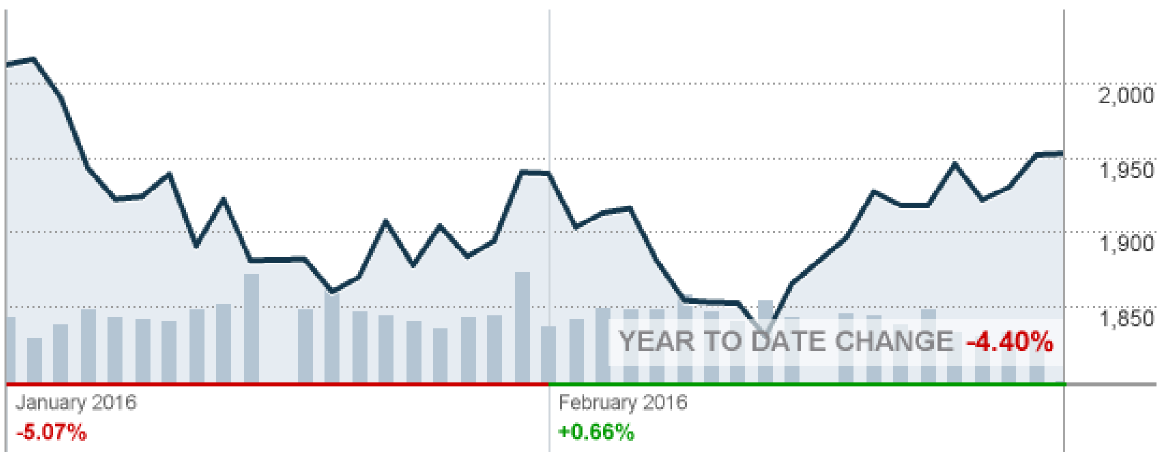


	05	06	07	08	09	10	11	12	13	14	15	16 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-4.0%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%	-3.1%

- According to a recent report released by the Federal Reserve, Americans lost nearly $1.2 trillion in wealth in the third quarter of 2015 as the stock market dropped. This equity decline contributed to one of the largest losses in household net worth since the economic recovery began. To put the loss in perspective, in the third quarter total real GDP was $16.4 trillion.

- Corporate equities lost $2.3 trillion over the quarter. Major stock indexes in the U.S. plunged sharply in late August of 2015. Market volatility has continued to erode gains that occurred after the August correction.
- The graphs below show the year-to-date movement in the DOW and the S&P respectively.





*****END*****