



*News from:*  
**COMPTROLLER KEVIN LEMBO**

FOR IMMEDIATE RELEASE

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**COMPTROLLER LEMBO, FOLLOWING UPDATED CONSENSUS  
REVENUE ESTIMATES, PROJECTS \$259.1-MILLION DEFICIT  
FOR FISCAL YEAR 2016**

Comptroller Kevin Lembo today, following the recently updated consensus revenue estimate, reported that the state is on track to end the current fiscal year with a \$259.1-million deficit.

The updated consensus revenue estimates by the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA) reflect underperforming income tax receipts, as Lembo similarly projected in recent months.

In a letter to Gov. Dannel P. Malloy, Lembo said total income tax receipts are expected to fall \$559.4 million, or 5.7 percent short of the initial budget plan. That revenue shortfall, combined with other revenue adjustments, result in projected General Fund revenue that is \$430 million short of the budget plan.

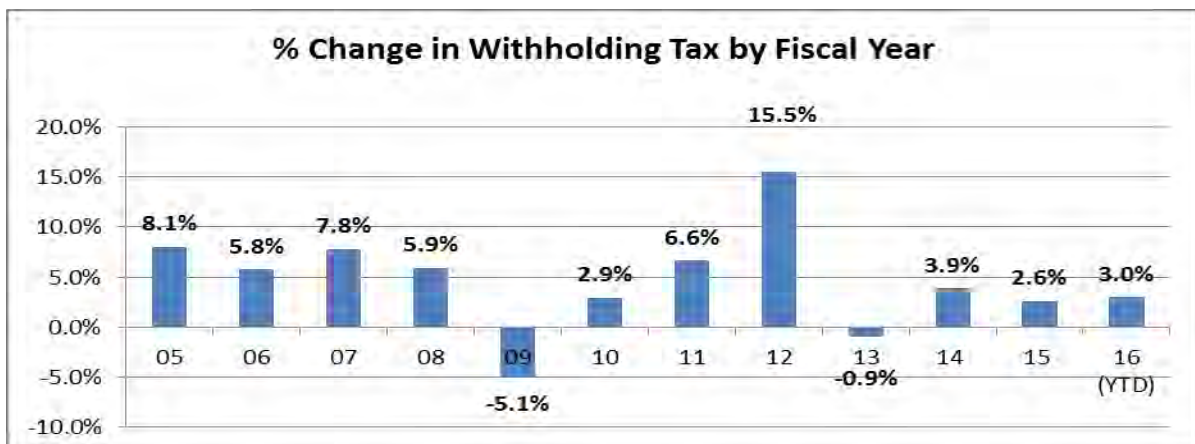
“The major reason for the continued deterioration in the fiscal position of the General Fund is the underperformance of income tax receipts,” Lembo said. “The payroll-driven withholding portion of the income tax has posted positive year-to-date growth of 3 percent compared to last fiscal year. However, the more volatile estimated and final payments portion of the income tax, which is highly dependent on capital gains and bonus payments, is down by 2 percent from last fiscal year.”

Lembo reported that the revenue shortfall for Fiscal year 2016 is partially offset by spending that is \$170.1 million below the budget plan.

Meanwhile, Lembo said Connecticut's economy continues to experience moderate growth. Lembo pointed to some of the latest economic indicators from federal and state Departments of Labor and other sources that show:

## Employment

- Through April, year-to-date income tax withholding receipts were running 3 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 in 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.



- The Department of Labor reported preliminary payroll job numbers for March that showed a gain of 300 positions. This brought the seasonally adjusted job total to 1,685,600. The original release of a 4,200 job gain for February 2016 was slightly lowered to 4,100. For the 12-month period ending in March, the state has added 15,000 jobs.
- Connecticut has now recovered 91,400 positions, or 76.7 percent of the 119,100 seasonally adjusted total nonfarm jobs that were lost in the state during the March 2008 - February 2010 employment recession. The state needs to reach the 1,713,300 seasonally-adjusted job mark to enter a clear nonfarm employment expansion. This will require an additional 27,700 nonfarm jobs. Connecticut's nonfarm jobs recovery is now 73 months old and is averaging about 1,252 jobs per month since February

2010.

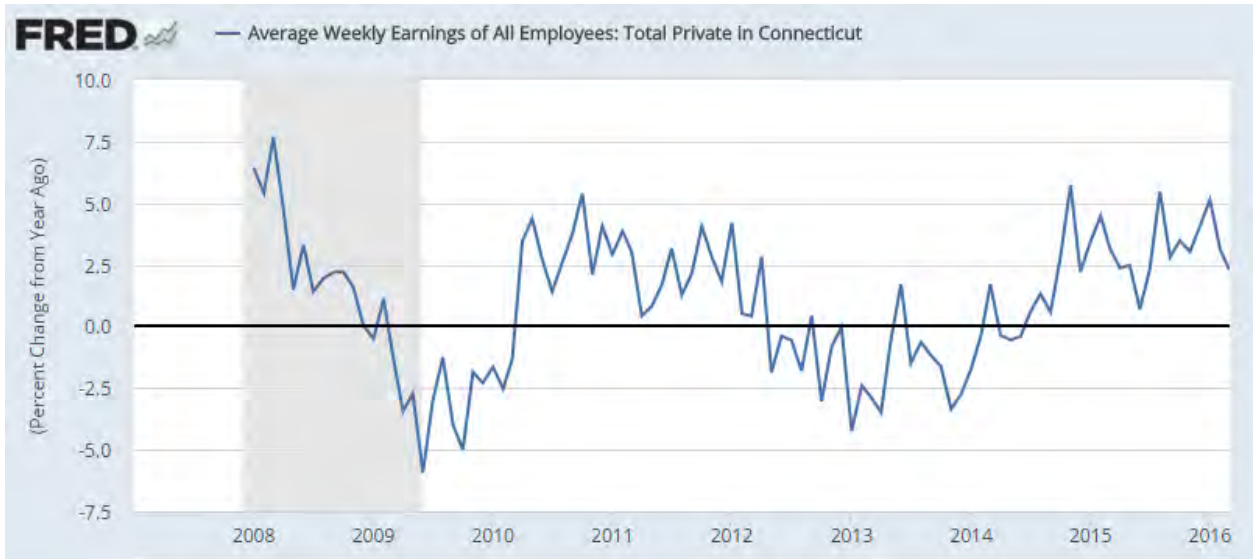
- As the state's employment recovery has progressed, an increasing number of job sectors have posted sustained employment gains. As this trend continues, improved wage growth and withholding receipts should occur.

<u>Sector</u>	<u>3/16</u>	<u>3/15</u>	<u>Gain/Loss</u>	<u>% Chng.</u>
Construction	57.0	57	0	0.0%
Manufacturing	159.7	158.9	0.8	0.5%
Transp. & Public Utilities	299.8	295.9	3.9	1.3%
Information	33.7	32.3	1.4	4.3%
Financial	130.8	129.9	0.9	0.7%
Prof. & Business Svc.	216.9	216.1	0.8	0.4%
Education & Health Svc.	329.2	326	3.2	1.0%
Leisure & Hospitality	155.5	150.9	4.6	3.0%
Other Services	64.7	63.8	0.9	1.4%
Government	237.8	239.2	-1.4	-0.6%

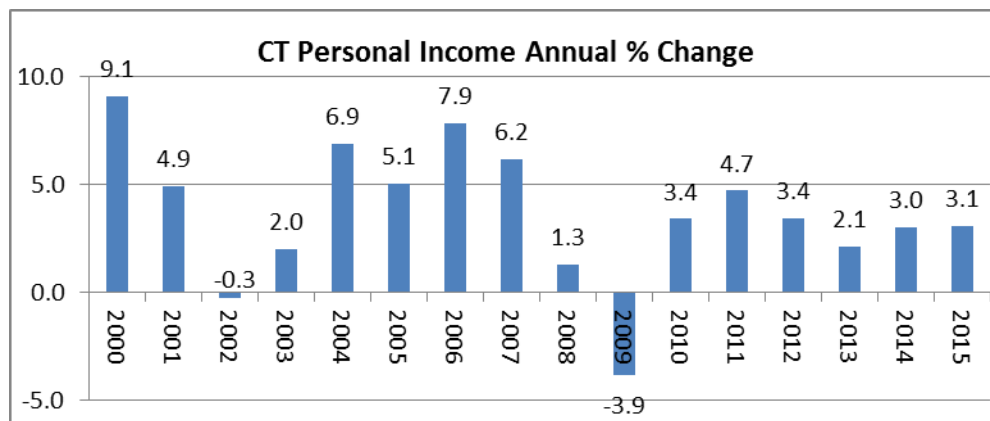
- U.S. employment has been advancing at a rate of 2 percent over the 12-month period ending in March; Connecticut's employment growth was 0.9 percent for the same period.
- Connecticut's unemployment rate was 5.7 percent in March; the national unemployment rate was 5.0 percent. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.
- There were 107,600 unemployed job seekers in Connecticut in March. 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 **\$**Salary income*

- The Department of Labor reported that average hourly earnings at \$30.06, not seasonally adjusted, were up \$1.02, or 3.5 percent, from the March 2015 hourly earnings estimate. The resultant average Private Sector weekly pay was calculated at \$997.99, up \$22.25, or 2.3 percent higher than a year ago.
- The Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in March 2016 was 0.9 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.



- Connecticut ranked 39<sup>th</sup> nationally in income growth for the 2015 calendar year based on personal income statistics released by the Bureau of Economic Analysis on March 24. Personal income grew by 3.1 percent in the state during 2015. Connecticut ranked number one in per capita personal income at \$66,972.
- The chart below shows the trend in Connecticut personal income, which has yet to attain its past expansionary strength. Data for the 1<sup>st</sup> quarter of 2016 will be released on June 22.



- 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.

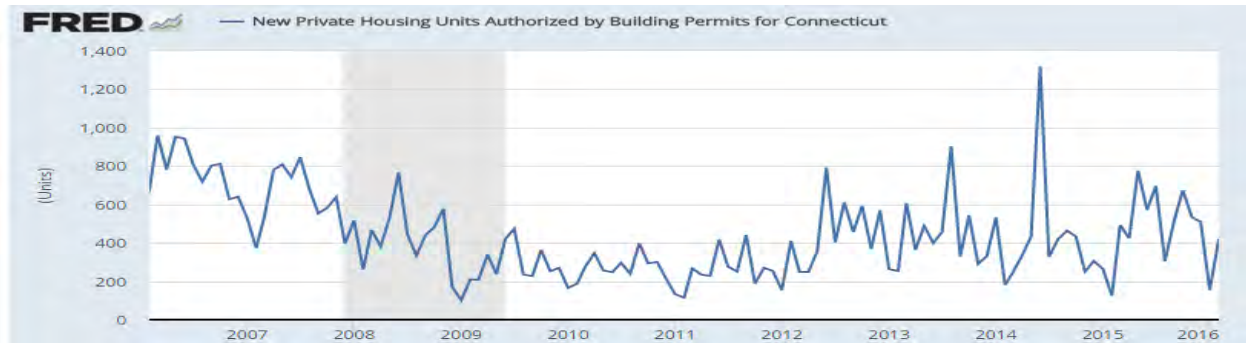


## Housing

- According to an April 4 release by the Warren Group, single family home sales in Connecticut grew by 29.9 percent in February from the same month last year. Connecticut recorded 1,788 single-family home sales in February 2016, the most sales in the month of February since 2007. Condominium sales were also strong, growing 18.2 percent from last February.
- Single-family home prices in Connecticut dropped 1 percent in February to a median price of \$222,750. Condominium prices fell 2 percent to a median of \$150,000. Prices have dropped or remained flat in Connecticut over the past 26 consecutive months.
- The table below shows sales activity in February 2016 by county as compared to last January.

<b>2016 Home Sales and Median Price by County Through Feb.</b>					
<u>County</u>	<u>2015</u>	<u>2016</u>	<u>% Change</u>	<u>Median Price</u>	<u>Change from Jan 2015</u>
Fairfield	360	413	14.7%	\$391,000	-7.0%
Hartford	328	438	33.5%	\$193,895	2.1%
Litchfield	90	111	23.3%	\$205,000	14.05%
Middlesex	74	105	41.89	\$245,000	2.1%
New Haven	322	422	31.1%	\$185,000	2.8%
New London	96	145	51.1%	\$200,000	-1.0%
Tolland	58	74	27.6%	\$205,000	-7.8%
Windham	48	80	66.7%	\$160,450	11.8%

- New housing permits in the state rose in February after a January decline. Overall permits have been on an upward path since the end of the recession, although not reaching the pace of prior post-recession activity. The shaded areas on the graph below represent recessions.



- Nationally, U.S. existing home sales rose 5.1 percent in March following a drop of 7.1 percent in February. Sales were positive throughout the four regions of the country. Prices increased by 5.7 percent to a median price of \$222,700.

## Consumers

- The Commerce Department reported that retail sales fell 0.3 percent between February and March. The March drop marked the third straight month of disappointing results – sales contracted 0.4 percent in January and were virtually unchanged in February. Excluding motor vehicle sales, retail sales climbed 0.2 percent over the month and were up 1.8 percent over the year. But this month's weakness appeared to have little to do with the energy sector. Cheap energy prices have tempered domestic retail growth for months, but recent upticks in gasoline prices appear to have contributed to a slight increase in gas station sales.
- Retail sales aren't the only determinant of overall consumer spending in the U.S. The Commerce Department's separate selective services report documents consumer spending on utilities, transportation, education, administrative support and professional services, among other expenditures that aren't captured in the retail sales report. This is a quarterly rather than a monthly report. The 4<sup>th</sup> quarter of 2015 posted solid consumer spending numbers. Growth of 1.5 percent was reported in that quarter. Results for the 1<sup>st</sup> quarter of 2016 will not be available until June 8.
- The Conference Board reported that its consumer confidence index fell 1.9 points to a reading of 94.2 in April. Consumers were more pessimistic on the economy's short-term prospects, implying they did not expect a pick-up in activity. Slightly fewer people said they planned to take a vacation or buy a car, home or major household appliance within the next six months.
- The Federal Reserve's April report on consumer borrowing showed a February growth in credit of 5.8 percent. The use of revolving credit, mostly credit cards, rose just 3.7 percent after slipping in January. Non-revolving credit, which includes student loans, increased 6.6 percent.
- This graph shows the general upward trend in consumer borrowing.



- This graph shows the movement in personal savings.



## Business and Economic Growth

- According to the April 28 advance estimate, GDP in the 1<sup>st</sup> quarter of 2016 grew 0.5 percent. In the 4<sup>th</sup> quarter GDP expanded by 1.4 percent. This low level of economic activity had been expected based on other economic indicators. The deceleration in real GDP in the 1<sup>st</sup> quarter reflected a larger decrease in nonresidential fixed investment, a deceleration in personal consumption, a downturn in federal government spending, an upturn in imports, and larger decreases in private inventory investment and in exports that were partly offset by an upturn in state and local government spending and an acceleration in residential fixed investment.
- Orders for long-lasting U.S. manufactured goods rebounded far less than expected in March as demand for automobiles, computers and electrical goods slumped, suggesting the downturn in the factory sector was not over. The Commerce Department reported that orders for durable goods, items ranging from toasters to

aircraft meant to last three years or more, increased 0.8 percent last month after declining 3.1 percent in February.

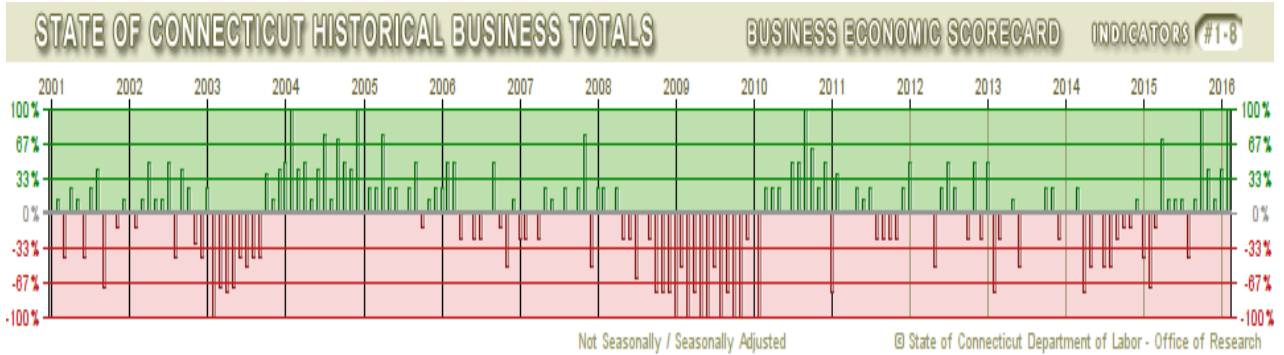
- April data pointed to only a modest rebound in business activity across the U.S. service economy according to the Markit U.S. Services Purchasing Managers Index (PMI).
- Matrix reported that growth momentum remained much weaker than that seen on average since the survey began in late-2009. Survey respondents suggested that subdued client demand and less favorable underlying economic conditions had weighed on business activity at their units in April. Reflecting this, latest data signaled only a marginal rebound in new business growth from the survey-record low recorded in March.
- A relatively weak upturn in new work contributed to slower job creation across the service economy in April. The service sector is the biggest part of the U.S. economy.

### **Service sector business activity** (seasonally adjusted)



- 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 April, year-to-date estimated and final income tax payments for Fiscal Year 2016 were 2 percent or \$62.5 million below the same period last fiscal year. Stock market adjustments that impacted Fiscal Year 2016 receipts were a contributing factor in the decline.
- The graphs below show the year-to-date movement in the DOW and the S&P respectively.





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