News from:

COMPTROLLER KEVIN LEMBO

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Contact: Tara Downes
631-834-5234
Tara.Downes@ct.gov

COMPTROLLER LEMBO CONTINUES TO PROJECT $93.9-MILLION DEFICIT ABSENT A STATE BUDGET

Comptroller Kevin Lembo today said the state, still absent a budget for Fiscal Year 2018, remains on track to end the year with a deficit of $93.9 million under the provisions of an executive order by the governor.

In a letter to Gov. Dannel P. Malloy, Lembo said the administration's spending reduction authority under his executive order should allow him to meet current savings targets. However, spending trends so far – 7.2 percent higher than the same period last fiscal year – show that fixed costs (including debt, state employee and teachers retirement and retiree health care) continue to rise, while discretionary spending is forcibly decreasing.

"The state's municipalities, nonprofits and Connecticut residents, including the most vulnerable, depend on discretionary program spending for critical services and to enhance the quality of life," Lembo said. "Vital programs that have faced significant cuts include Grants for Substance Abuse Services; Mental Health Service Grants; the Connecticut Home Care Program, Aid to the Disabled; Employment Opportunities; and the Early Care and Education program."

Lembo said the provisions of SEBAC 2017 will start to mitigate these costs as the year progresses, but it will require close monitoring.

"The state's capacity to meet its spending obligations is impaired by the inability to enact a budget that provides for policy changes that increase revenue. This problem is exacerbated each month as potential sources of additional revenue are foregone due to the absence of necessary changes to the revenue structure.

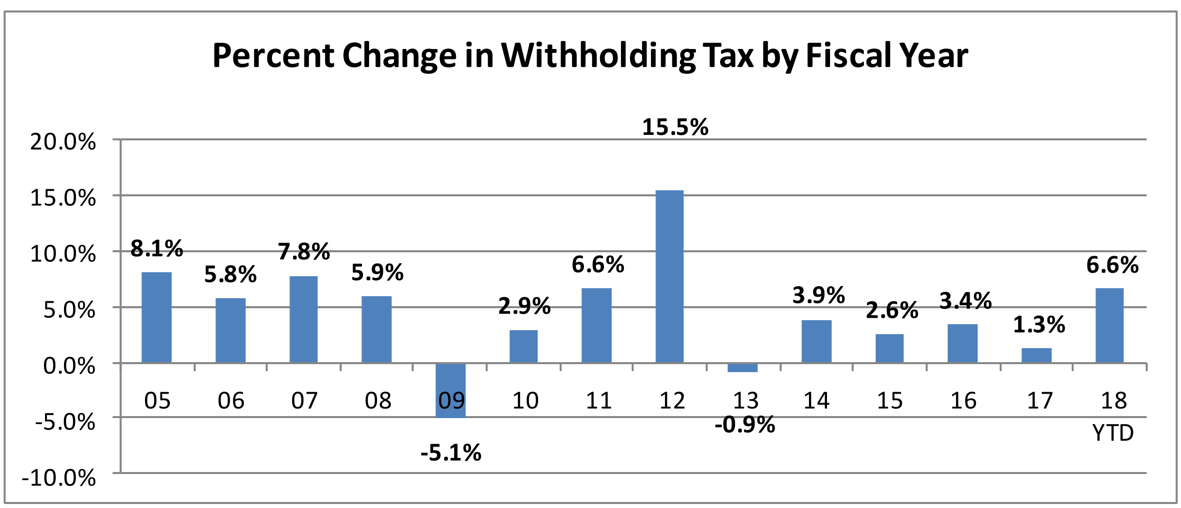
"As the state enters the second quarter of the fiscal year, even a potential agreement to increase in the hospital tax remains in doubt, even though it would result in higher Federal reimbursements. Moreover, ongoing budget uncertainty will slow Connecticut's economic growth and could ultimately lead to the state and its municipalities receiving downgrades in credit ratings that will cost taxpayers even more.

'The state's economy continues to post mixed results across an array of key economic indicators. These results do not indicate Connecticut can grow its way out of the current revenue stagnation, especially in light of the state missing it revenue targets in the last two fiscal years."

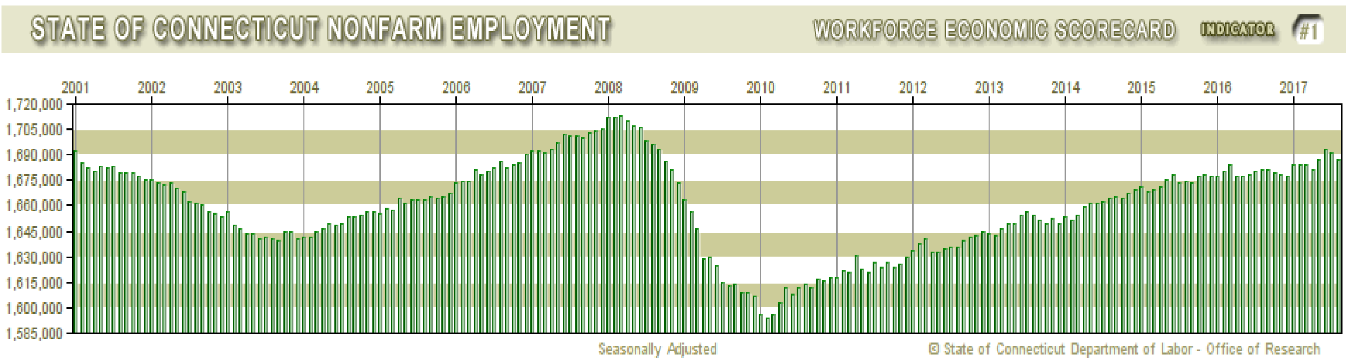
Lembo pointed to latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

- Based on FY 2017 unaudited final results, the withholding portion of the income tax increased only 1.3 percent compared with the prior fiscal year.
- In the first two months of the new fiscal year, withholding receipts were up 6.6 percent from last year. This growth is somewhat overstated due to an extra calendar day of deposit activity in FY 2018. Adjusting for this difference and screening out revenue accrual activity reduces the FY 2018 year-to-date growth to closer to 1.4 percent.



- Preliminary state Department of Labor (DOL) data for August 2017 show that Connecticut lost 3,900 jobs during the month of August to a level of 1,687,200 seasonally adjusted. July's original preliminary job loss of 600 was revised down by the Bureau of Labor Statistics (BLS) to a loss of 1,100. Over the past 12-month period ending in August, the state has posted 6,000 new payroll jobs. During the last period of economic recovery, employment growth averaged over 16,000 annually.



- Connecticut has now recovered 78.1 percent (93,000 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). The job recovery is into its 90th month and the state needs an additional 26,100 jobs to reach an overall employment expansion.
- Connecticut's unemployment rate for August fell by two-tenths of a point from last month and now stands at 4.8 percent. The decrease in the unemployment rate was due to a decline in the size of the state's labor force. Nationally, the unemployment rate was 4.4 percent in August.

Payroll Employment Trend				
Jobs in thousands				
Sector	**8/17**	**8/16**	**Gain/Loss**	**% Change**
Construction	57.8	59.0	-1.2	-2.0%
Manufacturing	157.6	156.8	0.8	0.5%
Transp. & Public Utilities	298.4	298.7	-0.3	-0.1%
Information	31.8	32.7	-0.9	-2.8%
Financial	132.1	129.7	2.4	1.9%
Prof . & Business Svc.	217.2	218.6	-1.4	-0.6%
Education & Health Svc.	332.7	329.9	2.8	0.8%
Leisure & Hospitality	158.1	154.8	3.3	2.1%
Other Services	68.3	64.7	3.6	5.6%
Government	232.7	235.7	-3.0	-1.3%

- Connecticut's employment and revenue numbers must be viewed in the light of its declining population. The U.S. Census reported that Connecticut saw a decline in population of 8,278 residents between July 1, 2015 and July 1, 2016. Connecticut was one of only eight states to experience a decline in population during this period. Connecticut has now posted three consecutive years of population decline.

- According to a May 2017 report by CT Data Collaborative, the largest driver of Connecticut's declining population was an increase in the number of people leaving Connecticut for other states. This net migration to other states increased 55 percent (or about 9,200 individuals) over the period from 2013 thru 2016 compared to the mid-2000's.
- International migration has helped to mitigate Connecticut's overall population loss, as there has been about a 30-percent increase (or about 3,700 people) in the average number of net migrants per year post-recession compared to pre-recession.
- Based on the Internal Revenue Service tax return data, more households move in to Connecticut from New York and New Jersey than leave Connecticut for those states. On the other hand, more people leave Connecticut for Massachusetts and Florida than move in from those states.
- Our neighboring states of Massachusetts, New York, and Rhode Island are experiencing substantially more growth in total tax returns filed compared to Connecticut.
- Connecticut is losing on net a higher number of 22-29 year olds and those aged 65 or older compared to pre-recession. Conversely, post-recession Connecticut is gaining on net a higher number of domestic in-migrants aged 30-64 years, especially those aged 30 to 49.

Wage and $alary income

- Average hourly earnings at $30.72, not seasonally adjusted, were up $0.33, or 1.1 percent, from the August 2016 estimate. The resultant average Private Sector weekly pay amounted to $1,041.41, up $20.31, or 2.0 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 August 2017 was 1.9 percent.
- The Bureau of Economic Analysis reported that Connecticut's personal income grew by 3 percent between 2015 and 2016. This ranked Connecticut 33rd nationally in 2016 income growth.
- A September 26th report from the Bureau showed Connecticut personal income increasing at a quarterly rate of 0.8 percent between the first and the second quarter of 2017. This ranked Connecticut 22nd nationally in personal income growth.

Housing

- According to a Sept. 20 report from CT Realtors, the sale of single-family residential homes in Connecticut increased by 1.9 percent in August 2017 from the same month a year earlier. The median sales price of a home increased 2.3 percent to $274,000. The sale of townhouses and condominiums in the state posted a sales decrease of 2.8 percent, comparing August 2017 to August 2016. The median price was up 4.7 percent to $175,828.
- Nationally, total home sales (includes single-family homes, townhouses and condominiums) in August 2017 increased 0.2 percent from August of last year according to the National Association of Realtors. The national median price of a home in was $253,500.

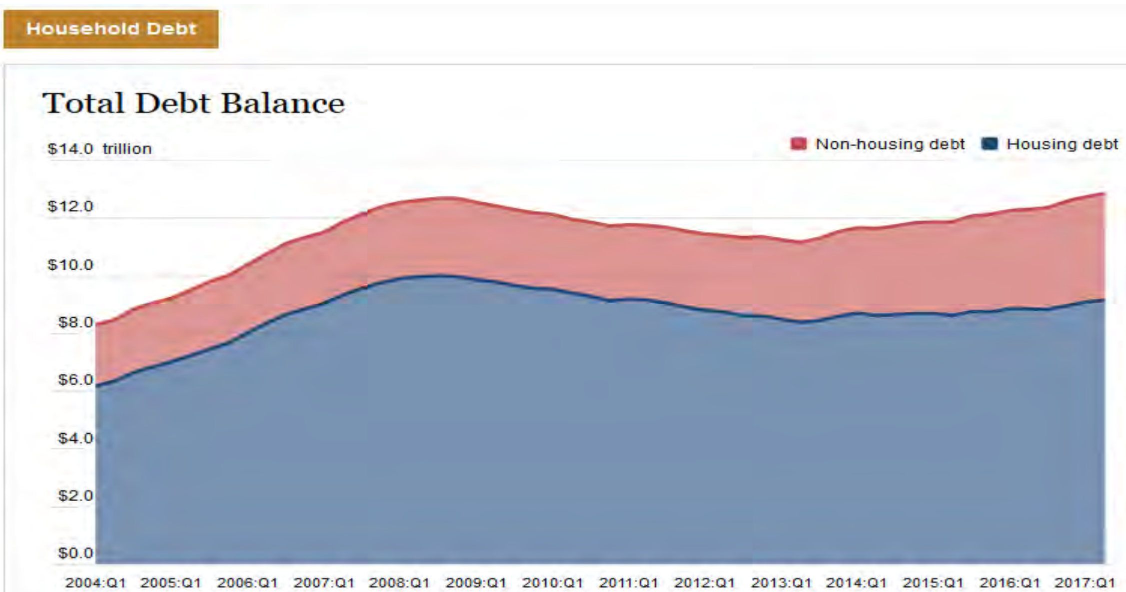
Consumers

- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output. The Commerce Department reported that retail sales fell unexpectedly by 0.2 percent in August 2017, in part due to the effects of Hurricane Harvey. Data for July was revised to show sales increasing 0.3 percent instead of the previously reported 0.6 percent jump. Retail sales increased 3.2 percent in August on a year-over-year basis.
- According to Dow Jones, retail sales in August were weak in most categories. One exception was gasoline station sales, which rose 2.5 percent in August compared with the prior month. Gas prices surged in the wake of Hurricane Harvey, as Texas refineries temporarily shut down in the aftermath of the storm.
- Sales were uneven across other categories last month. They rose modestly at home furnishings stores and grocery stores, but declined at building materials, garden and department stores. Sales at nonstore retailers, mostly online-shopping outlets, fell 1.1% in August. That was the largest decline for the category since April 2014.

Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to a new peak in the second quarter of 2017. As of June 30, overall debt – including mortgages, auto loans and student loans – hit a record $12.84 trillion. This increase put overall household debt $164 billion above its peak in the third quarter of 2008, and 15.1 percent above its trough in the second quarter of 2013. Aggregate household debt balances have now increased in 12 consecutive quarters.

- The New York Federal Reserve also noted that mortgage balances, the largest component of household debt, increased again during the first quarter. Mortgage balances shown on consumer credit reports on June 30 stood at $8.69 trillion, an increase of $64 billion from the first quarter of 2017. Balances on home equity lines of credit were roughly flat, and now stand at $452 billion. Non-housing balances were up in the second quarter. Auto loans grew by $23 billion and credit card balances increased by $20 billion, while student loan balances were roughly flat.

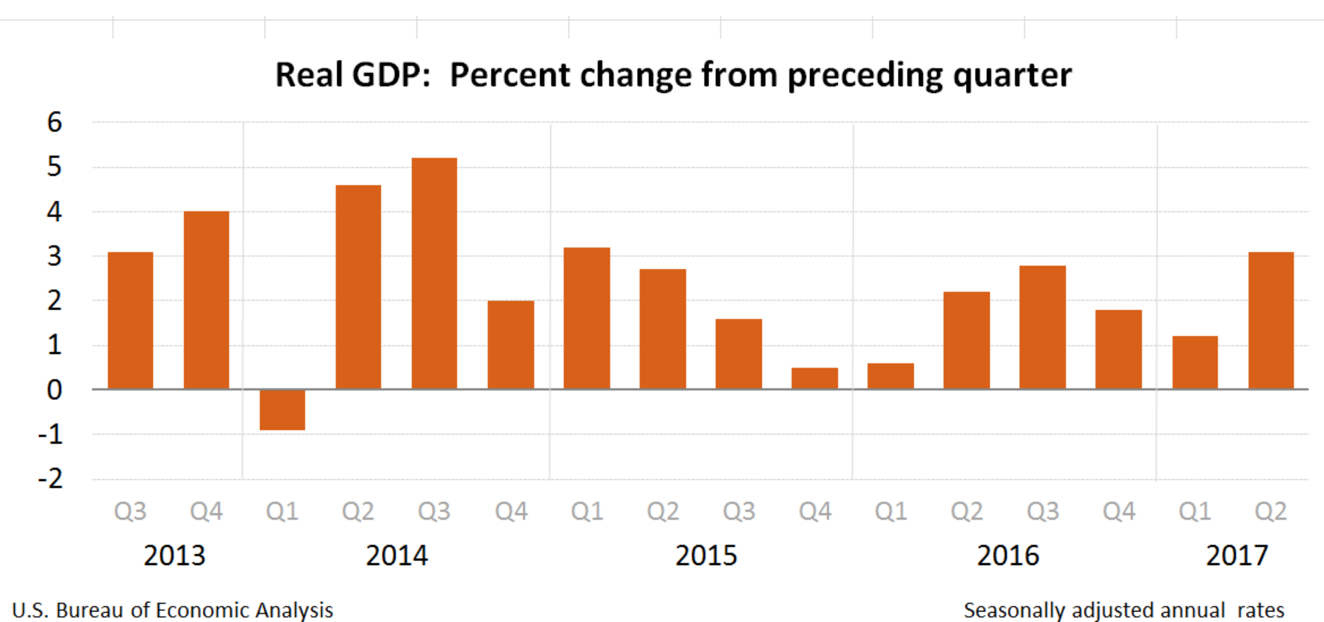


- Americans have also dramatically reduced their savings over the past year. The personal-saving rate fell to 3.8 percent in June, down from a recent peak of 6.3 percent in October 2015 and not far off from prerecession lows.
- The higher debt levels and lower savings point to U.S. wage gains that aren't keeping up with consumers' needs and desires to spend. This also signals a more uncertain outlook for future consumer spending gains.
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1969 through June of 2017. As can be seen there is a pronounced downward trend over the period. It should be noted that the U.S. Personal Saving Rate does not include capital gains from the sale of land or financial assets in its estimate of personal income. This effectively excludes capital gains – an important source of income for some.

- The U.S. consumer confidence index (CCI), published by the Conference Board, is an indicator designed to measure consumer confidence. This is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.
- The Conference Board reported that consumers' assessment of current economic conditions improved marginally in August and declined slightly in September. The Index now stands at 119.8, down from 120.4 in August.

Business and Economic Growth

- According to a September 28th release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product increased at an annual rate of 3.1% in the second quarter of 2017. In the first quarter, real GDP increased 1.2 percent.
- The increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports,



and federal government spending that were partly offset by negative contributions from private residential fixed investment, private inventory investment, and state and local government spending.

- Corporate pre-tax earnings were up 6.3 percent on a year-over-year basis and were up 0.7 percent on a quarter-to-quarter basis.

- Corporate profits deteriorated in 2015 as falling oil prices squeezed the domestic energy industry and a strong dollar damped demand for U.S. exports. But earnings began to recover last year as crude prices stabilized, and exporters are getting a boost because the dollar has weakened since early 2017.
- According to a Sept. 27 report by the U.S. Department of Commerce, new orders for manufactured durable goods increased in August by $3.9 billion or 1.7 percent to $232.8 billion. This increase, up two of the last three months, followed a 6.8 percent July decrease. The modest increase for August reflected a rebound in the volatile aircraft sector, which had plunged in July. Excluding transportation, new orders increased 0.2 percent and excluding defense, new orders increased 2.2 percent.

The Markit Flash Purchasing Manager's Index (PMI) for September 22nd reported the following:

Key findings:

- Flash U.S. Composite Output Index at 54.6 (55.3 in August). 2-month low.
- Flash U.S. Services Business Activity Index at 55.1 (56.0 in August). 2-month low.
- Flash U.S. Manufacturing PMI at 53.0 (52.8 in August). 2-month high.
- Flash U.S. Manufacturing Output Index at 52.4 (52.4 in August). Unchanged.

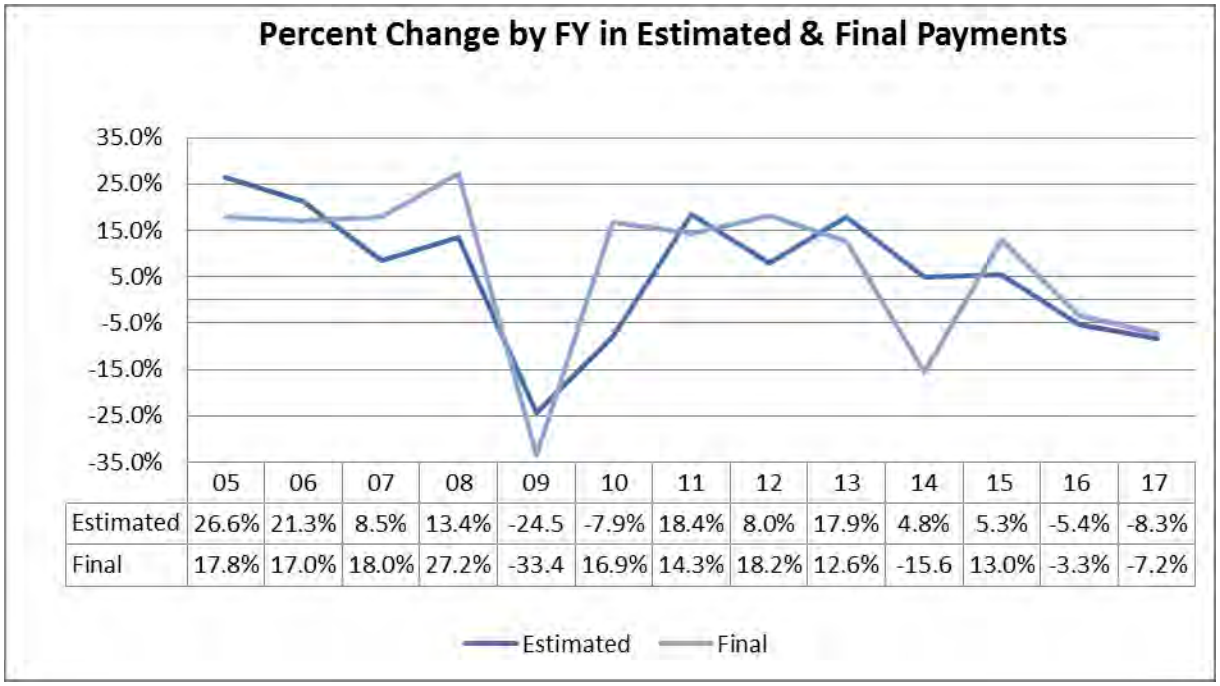
Data collected September 12-21

- According to the Connecticut Business and Industry Second Quarter Economic and Credit Availability Survey, only 29 percent of business leaders statewide that were polled during the quarter had a positive outlook for their company's growth over the next three months. This was down from 37 percent who were optimistic about growth in the 1st quarter.
- Also, fewer of the 127 survey respondents expected to grow their workforces – 23 percent in the 2nd quarter, compared with 26 percent in the 1st quarter.
- More than half of respondents, or 57 percent, said they expected stable conditions over the following three months, up from 47 percent the previous quarter, while 14 percent expected conditions to deteriorate, down slightly from 16 percent in the 1st quarter.
- Asked about access to credit, 83 percent of company leaders said credit availability was not a problem during the 2nd quarter, with 19 percent saying Connecticut's credit conditions were "excellent" or "good." Another 61 percent described conditions as average, while 21 percent said they were fair.

Stock Market

- Estimated and final income tax payments account for approximately 35 to 40% of total state income tax receipts. Both the estimated and final payments had a negative rate of growth in both Fiscal Years 2016 and 2017.
- Over $200 million of the drop in Fiscal Year 2017 receipts came from the state's closely monitored top 100 income earners, who are the source of an outsize proportion of the state's revenue.
- According to Revenue Services, after each of the past two income-tax increases the average tax liability for the state's 100 wealthiest residents increased in one year and then fell. This pattern suggests those wealthy residents either adjusted their tax strategies or earned less money in the down years.

- A bulk of the estimated and final payment receipts for Fiscal Year 2018 will be collected between September and the end of the Fiscal Year.



	05	06	07	08	09	10	11	12	13	14	15	16	17
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%
Final	17.8%	17.0%	18.0%	27.2%	-33.4	16.9%	14.3%	18.2%	12.6%	-15.6	13.0%	-3.3%	-7.2%

- Shifts in equity portfolio allocations following the presidential election and a run-up in equity values have not resulted in capital gains related revenue increases for the state.
- The potential for lower federal capital gains tax rates has remained uncertain since the presidential election and investors may have been unwilling to take large gains in this environment of uncertainty. In addition, investors are increasingly using tax efficient vehicles such as Exchange Traded Funds (ETFs) that don’t generate as a large a number of taxable gains transactions. Assets in these investments rose from $450 billion in 2008 to almost $2.8 trillion today.
- Both the Dow Jones Industrial Average and the Nasdaq Composite Index are showing significant year-to-date gains in calendar 2017.

DOW


22,000
21,500
21,000
20,500
20,000
YEAR TO DATE CHANGE 13.20%
Jan 2017
+4.56%
Apr 2017
+3.32%
Jul 2017
+4.79%

NASDAQ


6,400
6,200
6,000
5,800
5,600
YEAR TO DATE CHANGE 19.89%
Jan 2017
+9.82%
Apr 2017
+3.87%
Jul 2017
+5.10%

*****END*****