News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $89.4-MILLION DEFICIT FOR FISCAL YEAR 2015 AFTER LATEST REDUCTIONS

Comptroller Kevin Lembo today reported that – following the latest reductions announced in January – the state is on track to end Fiscal Year 2015 with an $89.4-million deficit.

In a letter to Gov. Dannel P. Malloy, Lembo said this month's projection takes into account $31.5 million in reductions that the Office of Policy and Management (OPM) announced last month, and previous reductions of $54.7 million announced in November.

Lembo noted that OPM reported a $120.9-million deficit in January – a deficit increase of $89.3 million from the prior month due to a $50-million increase in the Medicaid shortfall and reduction in the consensus revenue forecast that both OPM and the non-partisan Office of Fiscal Analysis (OFA) agreed on.

"Based on current spending trends and with historical experience of realized lapses over the past five fiscal years, I believe that the OPM savings target is attainable," Lembo said. "I am, therefore, in general agreement with OPM's deficit projection for the General Fund."

Lembo acknowledged OFA's Jan. 26 report that projected a $170.9-million deficit. Both OPM and OFA agree on revenue – but depart on spending, Lembo said. On the spending side, OPM's lapse target (money that was appropriated to agencies, but now expected to go unused) stands at $290.5 million. OFA's projection uses a lapse figure $60.2 million below that.

"Over the past five fiscal years, annual realized lapses have averaged $511.2 million," Lembo said. "Although (OPM's) current lapse target is a significant challenge, it is not inconsistent with past performance in difficult budget circumstances."

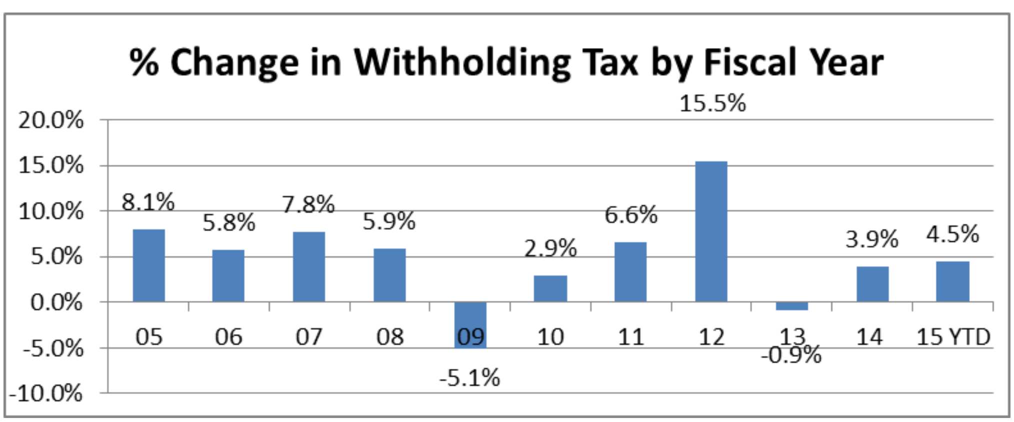
Lembo said the largest changes to revenues this month relates to a decline in oil company tax receipts due to lower oil prices. Meanwhile, the Department of Social Services (DSS) is continuing to work through retroactive settlement payments to hospitals – and has adopted a new payment system that will eventually eliminate the need for such settlements. Also, while enrollment on the state General Fund portion of the Medicaid program advanced at a stronger rate than expected during the early months of the fiscal year, enrollment has since leveled off over the past several months.

As far as economic indicators, Connecticut posted another month of job growth in December – which means the state has posted job gains in 10 of the past 11 months, reversing an earlier trend of inconsistent job additions, Lembo said.

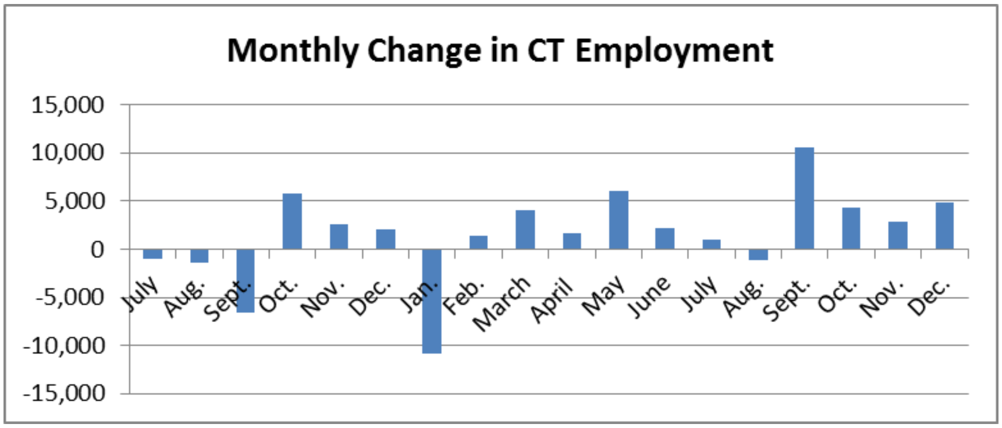
State and national economic indicators from federal and state Departments of Labor and other sources show:

Employment

- Through the first six months of Fiscal Year 2015, the withholding tax trend was running 4.5 percent above the same period last year. This is an increase in the growth rate from last month.
- Withholding receipts have yet to attain the 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 Years 2011 and 2012. The poor performance also continued through Fiscal Year 2013. In Fiscal Year 2015, the consistent growth in employment is beginning to produce stable growth in the withholding receipts.



- The graph below depicts the stabilization of job growth in Connecticut going into the second half of Fiscal Year 2014 and continuing in Fiscal Year 2015. The state has gained jobs in 10 of the last 11 months. December's preliminary gain totaled 4,800 payroll positions.



- Connecticut has now recovered 96,300 positions, or 80.9 percent of the 119,100 seasonally adjusted jobs that were lost in the state during the March 2008 - February 2010 employment recession. Connecticut's jobs recovery is now 58 months old and is averaging approximately 1,660 jobs per month since February 2010.
- The table below shows the distribution of employment gains and losses by major employment sector over the latest 12-month period ending in December.
- Job additions in Connecticut during this period total 26,700.

Job Gains Latest 12 Months		**Job Losses Latest 12 Months**	
Sector		Sector	
Transp. & Public Utility	7,700	Financial Activities	-2,400
Leisure & Hospitality	6,400		
Education & Health Svc	5,600		
Prof. & Business Svc	4,800		
Manufacturing	1,900		
Government	1,000		
Construction	800		
Other Services	700		
Information	200		

- U.S. employment has been advancing at a rate of 2.1 percent over the 12-month period ending in December; Connecticut's employment growth was 1.6 percent for the same period.
- Connecticut's unemployment rate was 6.4 percent in December; the national

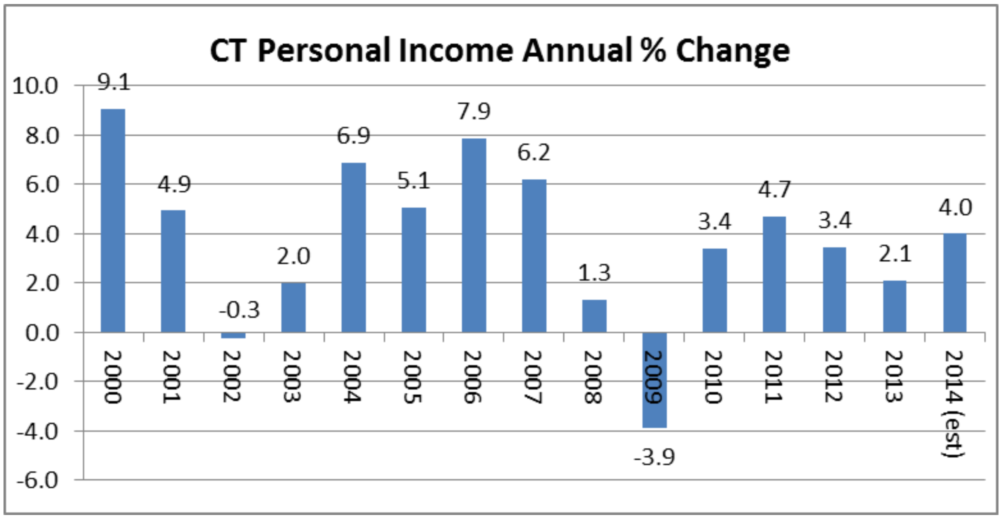
unemployment rate was 5.6 percent. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.

- There are approximately 121,400 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 181,300.

Wage and $alary income

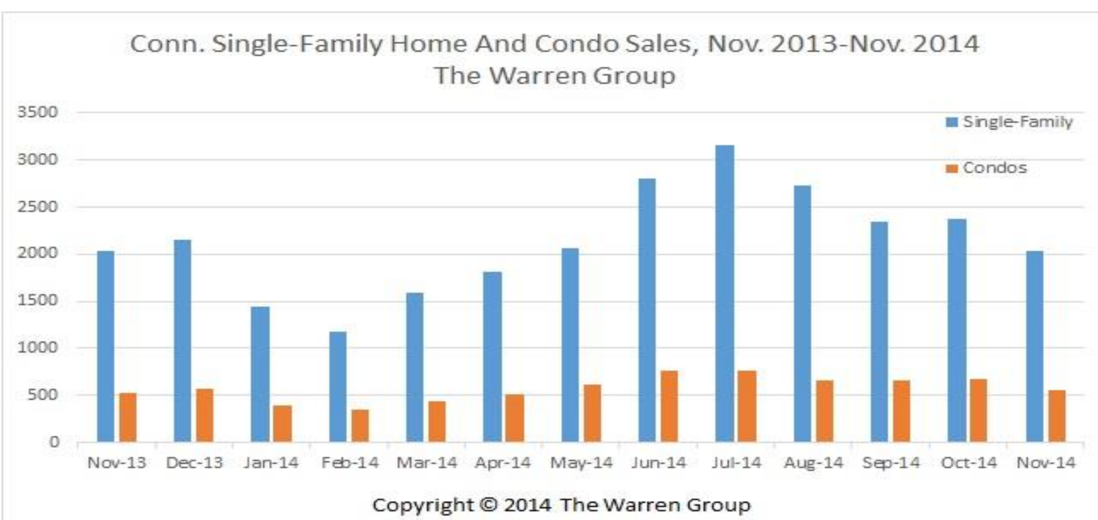
- The Department of Labor calculates that Connecticut's average hourly earnings rose 39 cents to $28.42, an increase of 1.4 percent, from last December 2013. The resulting average private-sector weekly pay was calculated at $960.60, up $18.79, or 2 percent over the year. This is below the strong wage growth recorded in November.

- Based on data released by the Bureau of Economic Analysis on Dec. 19 for the 3rd quarter of 2014, personal income in Connecticut grew at an annualized rate of approximately 4 percent, down from the 5.2-percent rate of increase in the 2nd quarter of 2014.Connecticut ranked 18th nationally in personal income growth for the quarter. Fourth quarter results will be released on March 25.
- The chart below shows the annual trend in Connecticut personal income over time. The 2014 estimate is based on annualizing 3rd quarter results.



Housing

- The Real Estate Conveyance Tax is trending almost 6 percent ahead of collections through December of last year.
- According to a report from the Warren Group released on Jan. 13, single-family home sales in Connecticut rose a modest 0.4 percent from November of last year. The median price of a single-family home fell 1.6 percent to $238,100 in November, down from $242,000 a year earlier. November marked the ninth consecutive month that sales prices have decreased year-over-year.



- The National Association of Realtors reported that existing U.S. home sales in

December were up 3.5 percent from the same month last year, while prices were up 5.8 percent.

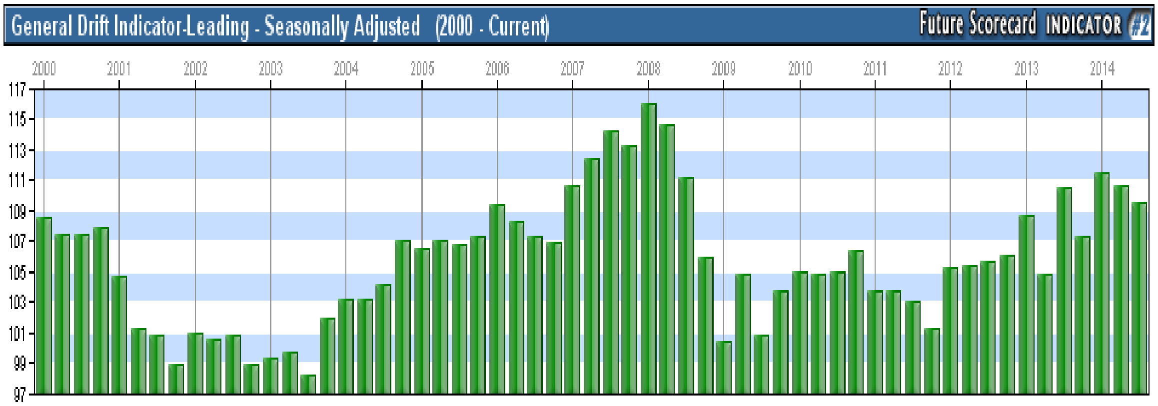
Consumers

- Sales tax receipts through December of Fiscal Year 2015 were somewhat sluggish after rising at a year-to-date pace of 4.5 percent through October. At present, the sales tax is expected to exceed the initial budget projection of $58.8 million.
- Advance retail sales were up 4 percent for the 12-month period ending in December. Sales were down at gas stations due to declining prices. Sales also dropped at department stores. As has been the case throughout 2014, auto sales experienced the strongest growth, rising almost 9 percent above 2013 totals.
- According to the Conference Board, consumer confidence in January was at its highest level since August of 2007. Consumers gave a positive assessment of current business and labor market conditions. Consumers also indicated a higher degree of optimism regarding the short-term outlook for the economy and labor market, as well as their earnings potential.
- The Federal Reserve reported that In November, consumer credit increased at a seasonally adjusted annual rate of 5 percent. Revolving credit decreased at an annual rate of 1.25 percent, while non-revolving credit increased at an annual rate of 7.5 percent.

Business and Economic Growth

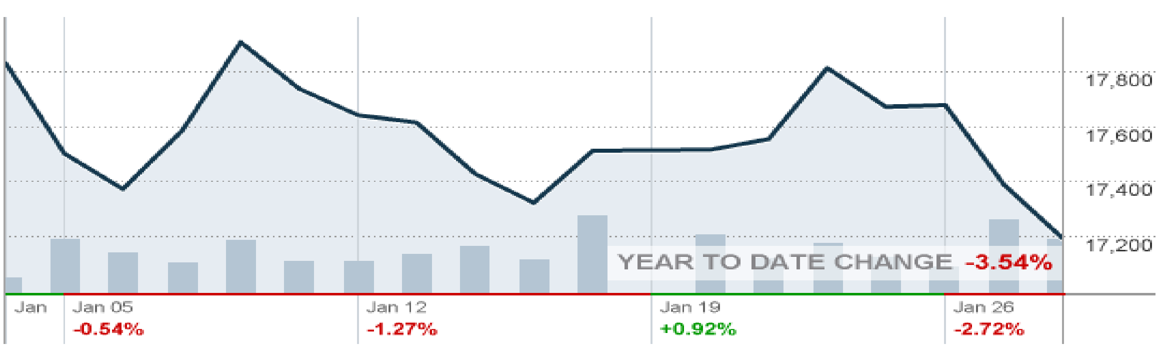
- Based on the Jan. 30 advance estimates by the Bureau of Economic Analysis, real GDP increased at a rate of 2.6 percent in the 4th quarter of 2014. In the 3rd quarter of 2014 real GDP increased at a 5-percent rate.
- The increase in real GDP in the 4th quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment that were partly offset by a negative contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.
- In the 3nd quarter, U.S. corporate profits posted a 3.1-percent gain from the 3rd quarter. The 2nd quarter had posted a stronger 8.4-percent rise in profits. Profits were up 1.4 percent from the 3rd quarter one year ago.
- 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.



- Estimated income tax payments were trending 6.6 percent higher thru December from the same period one year ago.
- At this writing, over the past 12 months the DOW has advanced almost 8 percent; however, on a year-to-date basis the Dow has slipped recently, and was down 3.5 percent as January came to an end.

DOW



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