News from:

COMPTROLLER KEVIN LEMBO

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

COMPTROLLER LEMBO PROJECTS $42-MILLION DEFICIT

Comptroller Kevin Lembo announced today that his analysis of recent spending data indicates that the state is currently on track to end the year with a $42-million deficit.

Lembo said that, as always, his office had its first opportunity in mid-October (Oct. 15) to review the state's first-quarter spending data.

In a letter to Gov. Dannel P. Malloy, Lembo said that his office generally agrees with the Office of Policy and Management's (OPM) revenue projection at this time, but believes certain costs on the spending side – particularly for debt service and adjudicated claims (resulting from the SEBAC vs. Rowland settlement) – could grow the deficit to $42 million.

"My variance from OPM is entirely due to spending differentials," Lembo said. "Continued active budget management may eliminate this shortfall, which represents 0.2 percent of net budgeted expenditures.

"I am in general agreement with the OPM revenue projections. However, it should be noted that estimated income tax payments are volatile and must be closely monitored for additional deterioration in the state's revenue outlook."

In the third quarter of 2016, estimated income tax payments dropped by over 10 percent from the prior year. Last year and in Fiscal Year 2014, the third-quarter estimated payment pattern reversed sharply for the remainder of the fiscal year as taxpayers adjusted their January payments to recognize their prior year tax liability.

On the spending side, OPM is estimating that General Fund expenditures will exceed the budget by $9.3 million. Lembo said he projects that number to be closer to $46 million over budget.

Lembo said that the differentials related to two categories: adjudicated claims and debt service. While OPM estimated a $5-million shortfall in adjudicated claims, Lembo's estimate is $22.3 million, due in large part to the ongoing settlement payments related to the SEBAC vs. Rowland case. Lembo's analysis also relies on the state treasurer's larger estimated debt service shortfall of $19.4 million.

It's important to note, Lembo said, that the cost of personal services is declining – just not at the rate necessary to meet savings targets.

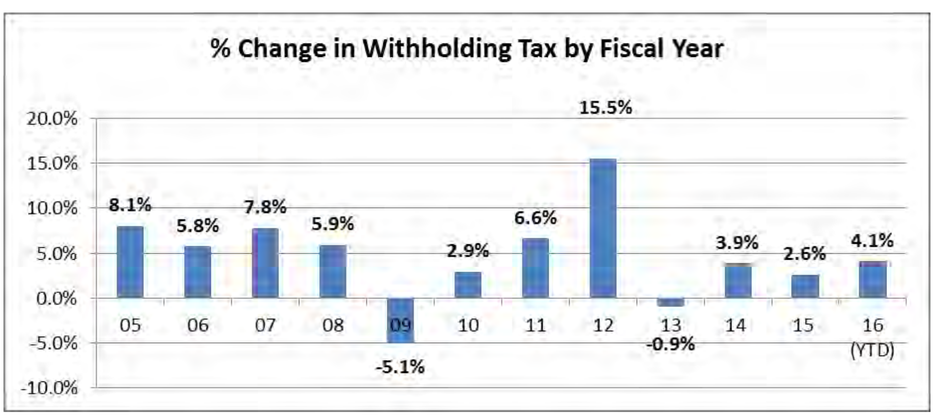
"Notably, the state General Fund personal services line-item has been on a declining trajectory during the first months of Fiscal Year 2017," Lembo said. "However, the rate of decline may not be sufficient to realize the large savings goal. Offsetting the slower-than-anticipated payroll decline are significant decreases in spending trends in other line-items. On balance, current trends indicate that a large portion of the lapse goal is still achievable.

"General Fund revenue estimates for Fiscal Year 2017 are consistent with a continuation of moderate economic growth," Lembo said.

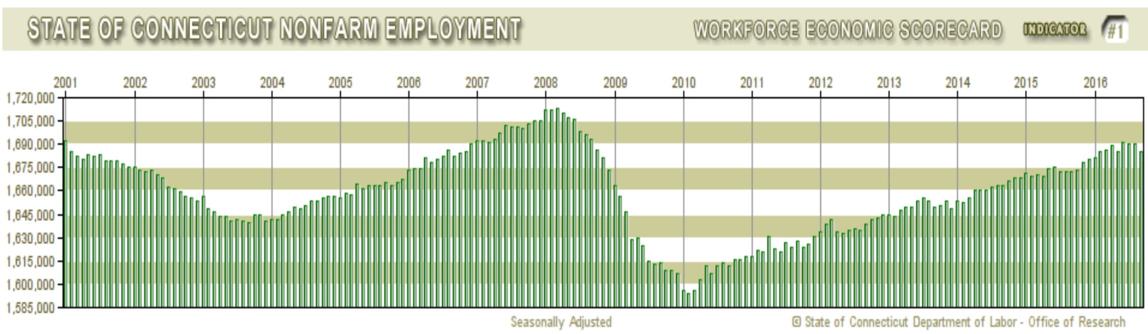
Lembo pointed to some of the latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

- In Fiscal Year 2016 the withholding portion of the income tax increased 3.4 percent from the prior fiscal year. Through September of Fiscal Year 2017, adjusting for accrual differentials, the withholding tax is exceeding last year's growth.



- Preliminary Connecticut payroll job estimates show that the state lost 5,200 jobs in September to a level of 1,685,000, seasonally adjusted. Over the last 12 months ending in September, employment in the state has grown by approximately 12,800 positions (0.8 percent, 1,067 jobs per month). August's originally released job gain of 300 was revised down to a loss of 300. September was the third consecutive month of job losses in the state.
- Connecticut has now recovered 90,800 positions, or 76.2 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 an employment expansion. This will require 28,300 additional nonfarm jobs to be created. Connecticut's nonfarm jobs recovery is now 79 months old and is averaging roughly 1,149 jobs per month since February 2010.



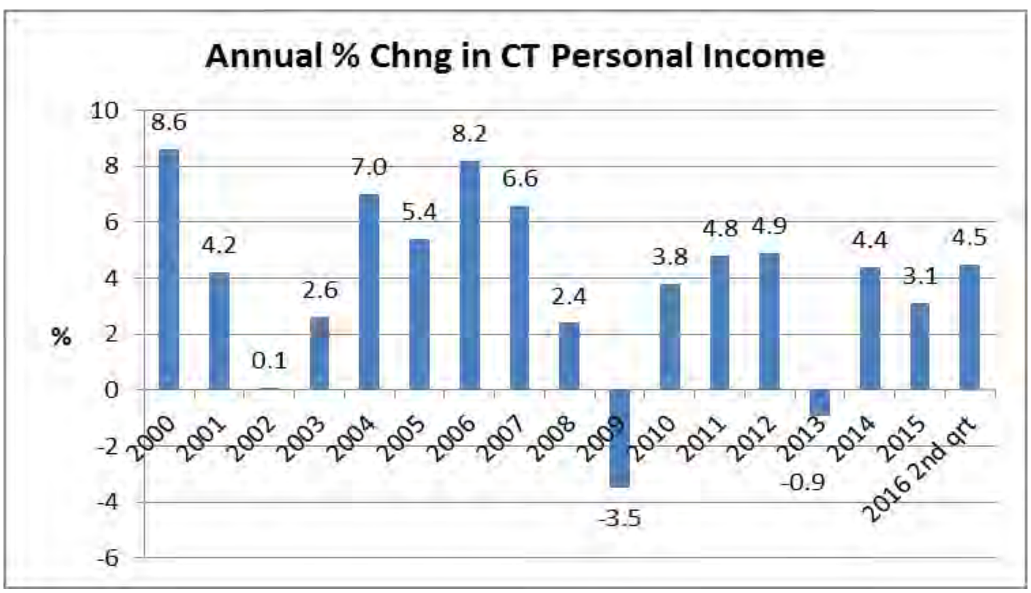
- As the state's employment recovery has progressed over the past year, an increasing number of job sectors have posted employment gains.

jobs in thousands				
Sector	9/16	9/15	Gain/Loss	% Chng.
Construction	56.8	57.5	-0.7	-1.2%
Manufacturing	159.6	159.2	0.4	0.3%
Transp. & Public Utilities	298.4	297.0	1.4	0.5%
Information	33.2	32.5	0.7	2.2%
Financial	131.8	129.8	2	1.5%
Prof . & Business Svc.	219.4	216.4	3	1.4%
Education & Health Svc.	328.0	325.4	2.6	0.8%
Leisure & Hospitality	154.0	150.7	3.3	2.2%
Other Services	64.6	64.1	0.5	0.8%
Government	238.6	239.0	-0.4	-0.2%

- U.S. employment has been advancing at a rate of 1.7 percent over the 12-month period ending in September; Connecticut's employment growth was about half that rate for the same period.
- Connecticut's unemployment rate was 5.4 percent in September; 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 103,200 unemployed job seekers in Connecticut in September. 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 reported average hourly earnings in September at $30.35, not seasonally adjusted, up $0.86, or 2.9 percent, from the September 2015 hourly estimate. The resultant average private-sector weekly pay amounted to $1,025.83, up $40.86, or 4.1 percent higher than a year ago.
- Connecticut ranked 20th nationally in income growth for the second quarter of 2016 based on personal income statistics released by the Bureau of Economic Analysis on Sept. 28. The state's personal income was growing at an annualized 4.5-percent rate in the second quarter of the year. This growth rate exceeds that of the prior year.



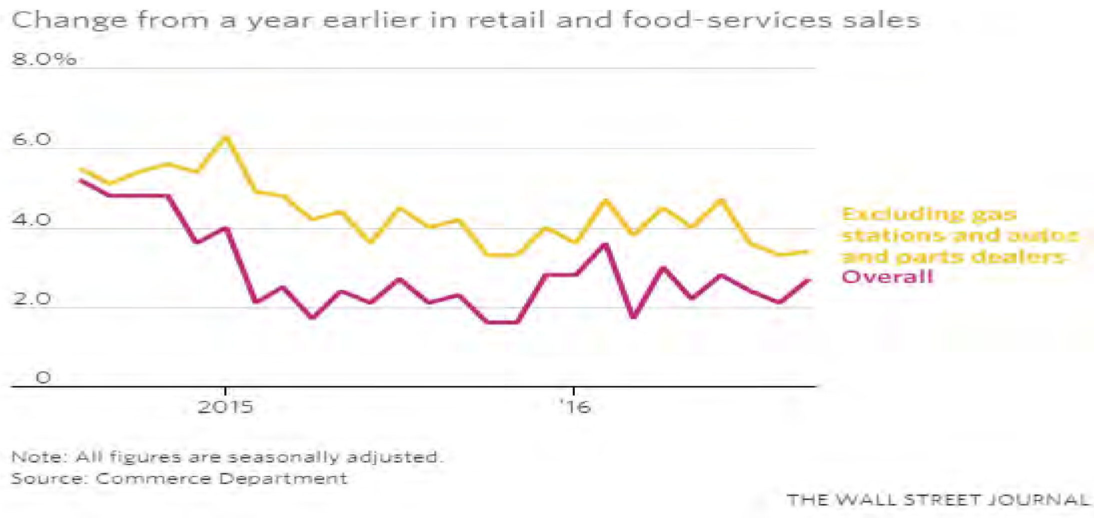
- Personal income statistics for third-quarter personal income growth will be released on Dec. 20.

Housing

- According to an Oct. 25 release from CT Realtors, Connecticut single-family residential home sales increased 2.6 percent in September 2016 from the same month a year earlier. The median sale price also posted an increase of 2 percent to $255,000. This marks a reversal of recent trend of consistent monthly declines in home prices. Townhouse and condominium sales and prices dropped in September by 1.4 percent and 1.8 percent respectively.
- Nationwide, total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose a solid 3.2 percent on a month-over-month basis in September reversing two consecutive reports showing sales declines. Median home prices were up for the 55th consecutive month by 5.6 percent from September of last year to a value of $221,700.
- Sales to first-time home buyers hit the highest level in four years with a 34-percent share of the market. The hope is that first-time home buyers will represent an increasing market share going forward due to improvements in the national job picture and positive signs for future wage growth.

Consumers

- The Commerce Department reported that U.S. sales at retail stores, online platforms and at restaurants rose 0.6 percent in September, matching economists' expectations for a rebound after sales fell 0.2 percent in August. Spending, excluding gas and autos, rose a more modest 0.3 percent, though that increase was the best posted over the last three months. Retail sales in September were up 2.7 percent from a year earlier. Sales for the third quarter as a whole rose 2.4 percent from the same period in 2015.

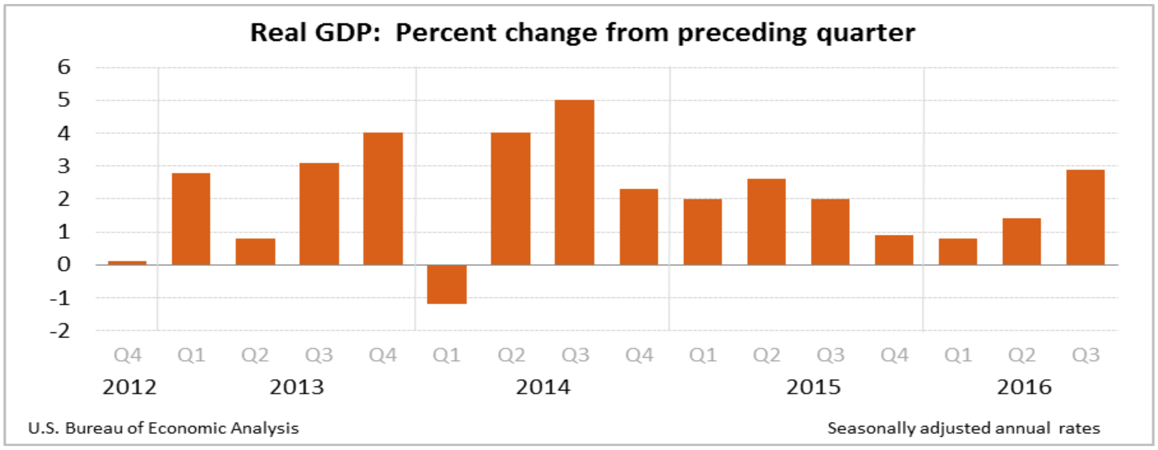


- Sales in September continued to shift to e-commerce platforms from traditional brick-and-mortar retailers. Sales in the non-store category, including online retailers, were up 11 percent in the first nine months of 2016 compared with a year earlier. Sales at department stores were down 4.8 percent over the same period.
- The Conference Board's consumer confidence index fell in October to its lowest reading in three months. Confidence, which soared in late summer and hit a six-month high last month, fell back in October due to consumers lowering their assessments of both the economy's present condition and the likelihood it will perform strongly in the future. The current situation index fell more than 7 points this month while the future index declined more than 3 points. Despite the step back in confidence, it remains close to a post-recession high.
- On Oct. 21 the Federal Reserve released its preliminary report on consumer credit for the month of August 2016. On an annualized seasonally adjusted basis, consumer credit rose 8.5 percent in August, up from 5.9-percent growth posted in July. Total consumer debt rose to $3.687 trillion in August of which $974.6 billion is revolving (mostly credit card) debt and $2.712 trillion is non-revolving debt. Revolving debt rose by 7 percent and non-revolving debt rose by 9 percent. Non-revolving credit includes motor vehicle loans, student loans, among others, and may be secured or unsecured. Mortgage debt is not included in the report.

Business and Economic Growth

- According to the Oct. 28 release from the Bureau of Economic Analysis, GDP in the third quarter of 2016 grew at a 2.9-percent annual rate. That was the strongest rate of growth in two years and followed second-quarter growth of 1.4 percent.

- Consumer spending pulled back from growth of 4.3 percent in the second quarter to 2.1 percent in the third quarter; however, third-quarter exports helped to dampen the impact of lower consumer spending with a growth rate of 10 percent.

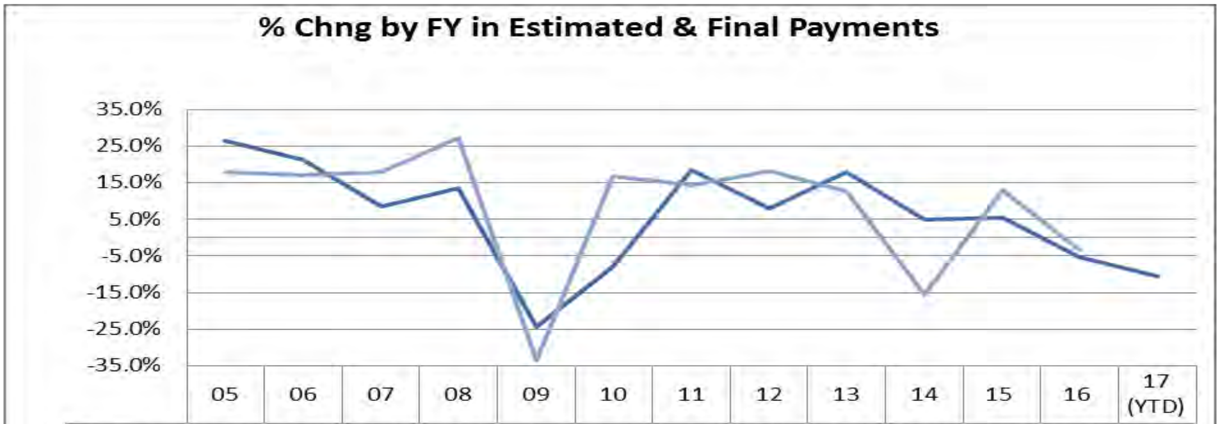


- The solid increase in GDP lowers the probability of a recession in the near term.
- The Commerce Department reported that durable goods orders declined 0.1 percent in September, which was the worst reading in seven months. Non-defense capital spending (a proxy for business investment) fell 1.2 percent in September after three consecutive monthly gains. Weak demand for computer and other electronic products contributed to the decline. Business investment in equipment has been generally subdued since the middle of 2015 due to a strong dollar and oil price declines. Now, with the dollar appearing to have peaked and increased gas and oil drilling there is optimism for business spending improvement in the coming months.
- The service-sector, which is the largest sector of the economy, posted its strongest growth since November of 2015 according to Markit Economics. The October flash index increased from 52.3 to 54.8 (any number above 50 indicates expansion). In the third-quarter, expansion had been weak, so this signals a potential stronger fourth quarter for the service sector.

Stock Market

- Estimated and final income tax payments account for approximately 40 percent of total state income tax receipts. Both the estimated and final payments had a negative rate of growth in Fiscal Year 2016.
- The first large estimated income tax payment for Fiscal Year 2017 was made in September. Estimated payments, net of accrual activity, were down 10.5 percent from last year after the September filings. It should be noted that last fiscal year, as well as in Fiscal Year 2014, the patterns established in September were not consistent with the trends during the remainder of the fiscal year. It is likely that taxpayers

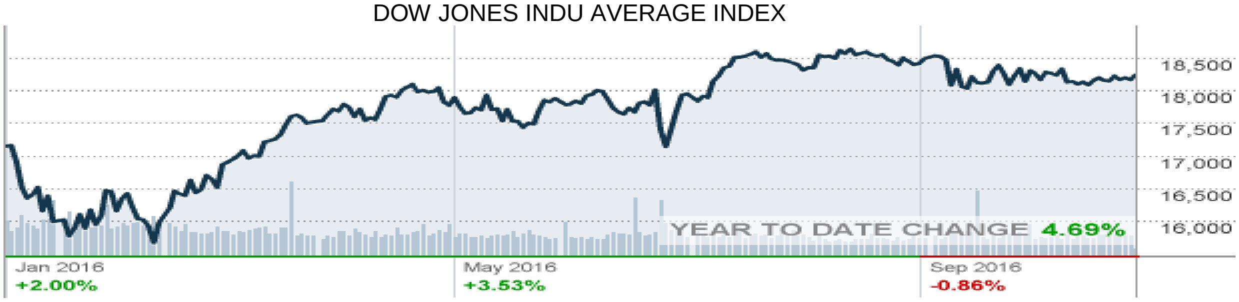
adjusted payments in January to address their anticipated tax liability for the prior calendar year.



	05	06	07	08	09	10	11	12	13	14	15	16	17 (YTD)
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%	-10.5
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%	

- The graphs below show the year-to-date movement in the DOW and the S&P respectively at this writing.

DOW JONES INDU AVERAGE INDEX



S&P 500 INDEX

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