News from:

COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE FRIDAY, SEPTEMBER 1, 2017

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COMPTROLLER LEMBO SAYS $93.9-MILLION DEFICIT WILL GROW IF BUDGET GRIDLOCK CONTINUES

Comptroller Kevin Lembo today said the state, absent a budget for Fiscal Year 2018, is 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 "untethered control" of discretionary spending – until the legislature adopts a budget – should allow him to achieve his targets, but prolonged legislative budget gridlock will have a devastating impact in the short and long term.

"The inability to pass a budget will slow Connecticut's economic growth and will ultimately lead to the state and its municipalities receiving downgrades in credit ratings that will cost taxpayers even more," Lembo said. "Connecticut's economy continues to post mixed results across an array of key economic indicators. These results do not indicate that the state can grow its way out of the current revenue stagnation.

Lembo said that, as Governor Malloy noted in his executive order, the state's ability 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 the necessary changes to the revenue structure," Lembo said.

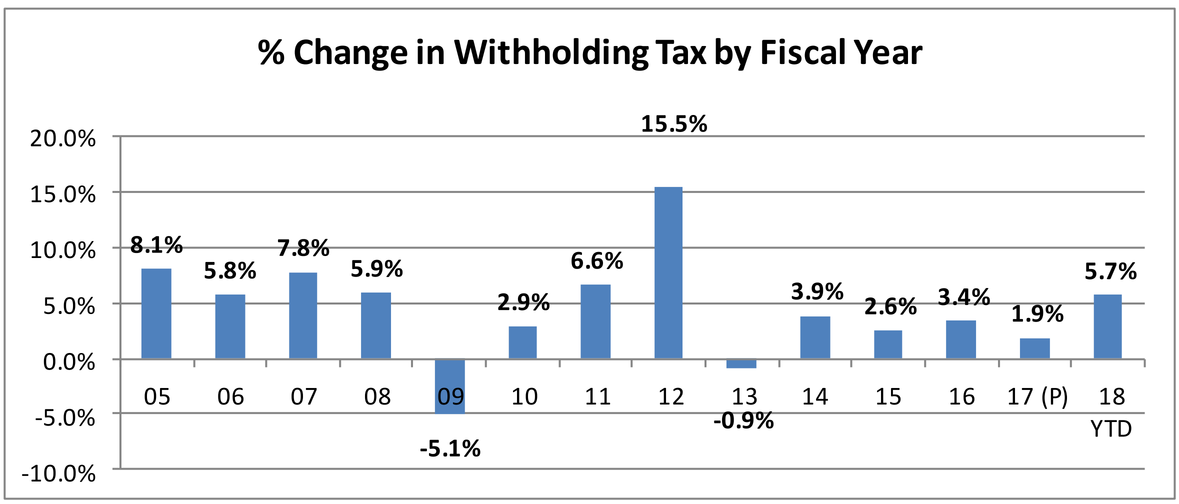
Lembo said that expenditures through July – the first month of the fiscal year – were 10.1 percent higher than last year and reflect the problems that the state will face throughout the year. The double-digit increase is due to rising fixed costs, including debt and retirement costs.

Meanwhile, the state continues to experience a fluctuant pattern of job gains and losses.

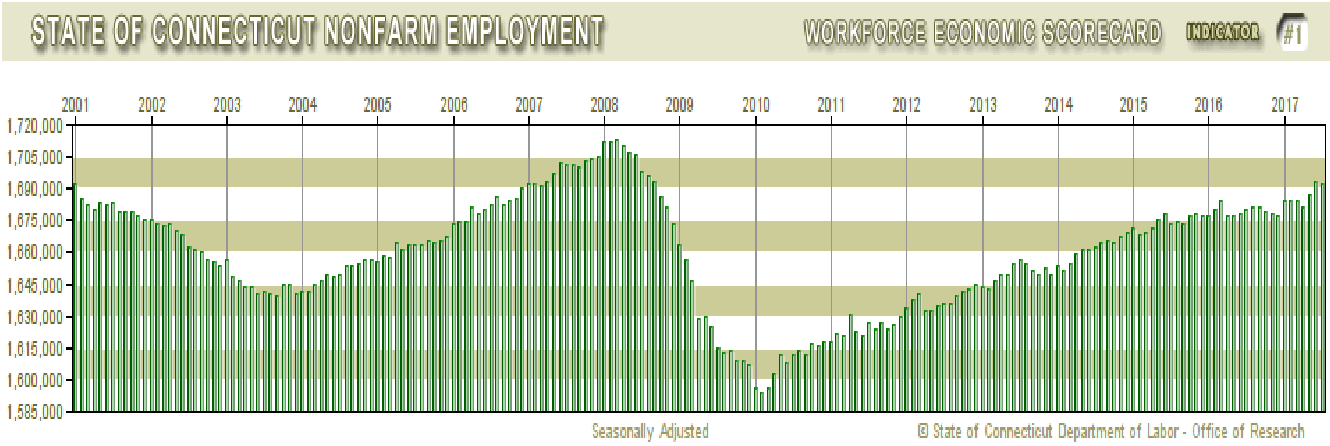
Lembo pointed to latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

- Based on preliminary numbers prior to the finalization of accruals, in Fiscal Year 2017 the withholding portion of the income tax increased 1.9 percent from the prior fiscal year.
- In the first month of the new fiscal year, withholding receipts were up 5.7 percent from last year. This growth is somewhat overstated due to two extra calendar days of deposit activity in Fiscal Year 2018. In addition, a large share of the Fiscal Year 2018 withholding collections will be accrued back to Fiscal Year 2017.



- Preliminary data for July of 2017 show that Connecticut lost 600 jobs during the month of July to a level of 1,692,200, seasonally adjusted. June's original preliminary job gain of 7,000 was revised down by 1,400 to an employment gain of 5,600. Over the past 12-month period ending in July, the state has posted 11,600 new payroll jobs. During the last period of economic recovery, employment growth averaged over 16,000 annually.



- Connecticut has now recovered 82.3 percent (98,000 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 89th month and the state needs an additional 21,100 jobs to reach an employment expansion.
- Connecticut's unemployment rate for July was unchanged from last month now at 5.0 percent. Nationally, the unemployment rate was 4.3 percent in July.

Payroll Employment Trend				
jobs in thousands				
Sector	7/17	7/16	Gain/Loss	% Chng.
Construction	58.9	58.8	0.1	0.2%
Manufacturing	156.4	156.5	-0.1	-0.1%
Transp. & Public Utilities	300.4	298.5	1.9	0.6%
Information	32.0	32.3	-0.3	-0.9%
Financial	133.3	129.7	3.6	2.8%
Prof . & Business Svc.	215.8	218.5	-2.7	-1.2%
Education & Health Svc.	334.0	330.5	3.5	1.1%
Leisure & Hospitality	159.1	154.3	4.8	3.1%
Other Services	68.8	64.9	3.9	6.0%
Government	232.9	236.0	-3.1	-1.3%

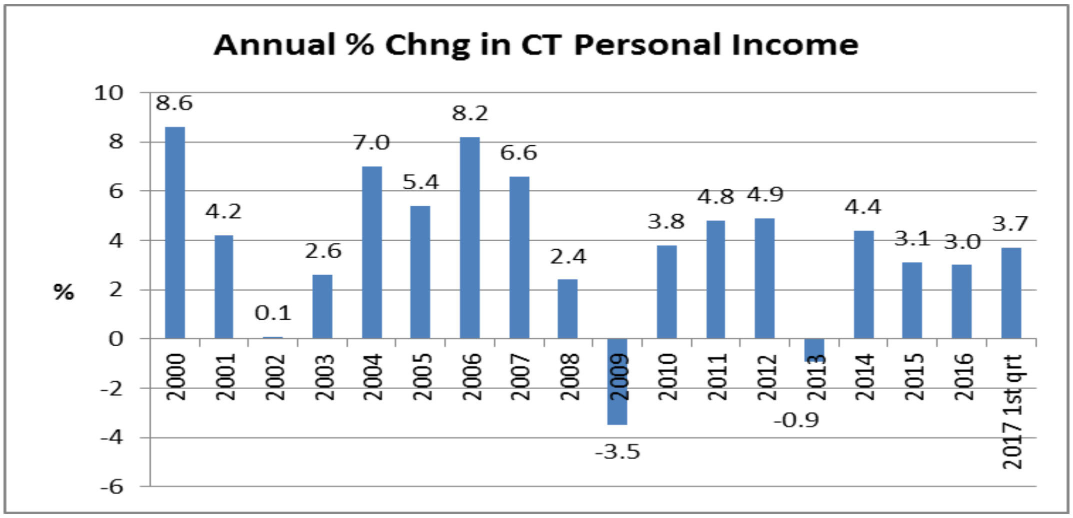
- Connecticut's employment and revenue numbers must be viewed in the light of its declining population. The U.S. Census reported that Connecticut saw a decline in population of 8,278 residents between July 1, 2015 and July 1, 2016. Connecticut was one of only eight states to experience a decline in population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

- Average hourly earnings at $31.33, not seasonally adjusted, were up $1.15, or 3.8 percent, from the July 2016 estimate. The resultant average Private Sector weekly pay amounted to $1,058.95, up $44.90, or 4.4 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 July 2017 was 1.7 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 June 27 report from the Bureau showed Connecticut personal income increasing at an annualized rate of 3.7 percent in the first quarter of 2017. This ranked Connecticut 37th nationally in personal income growth.



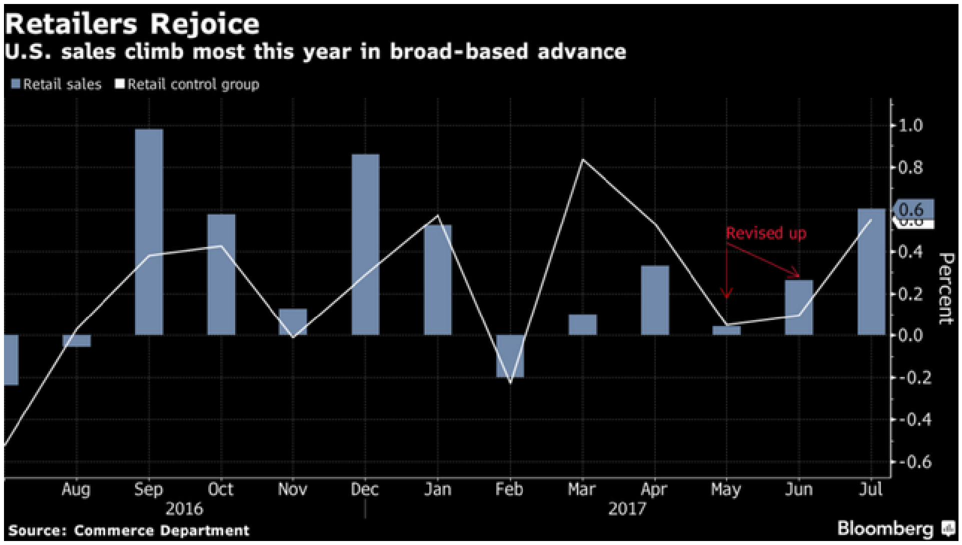
- Results for the second quarter will be released on Sept. 26.

Housing

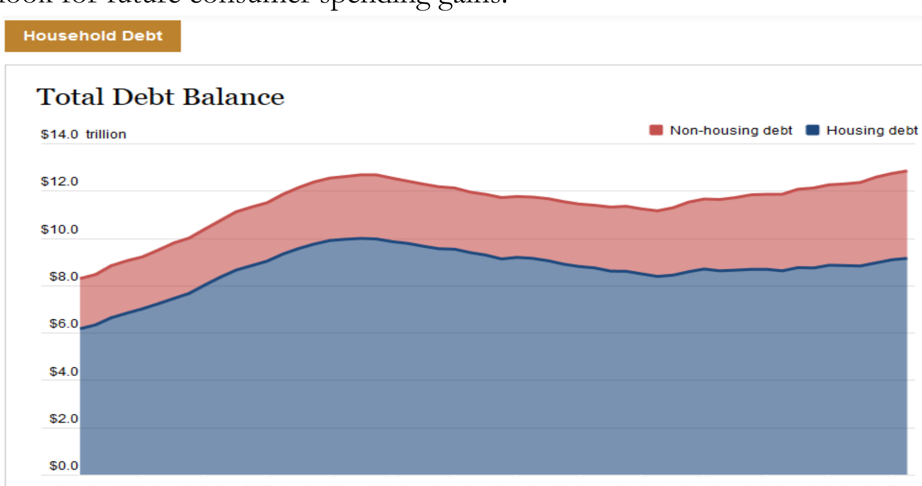
- According to an Aug. 24 report from CT Realtors, the sale of single-family residential homes in Connecticut increased by 0.1 percent in July 2017 from the same month a year earlier. The median sales price of a home increased 3.0 percent to $273,000. The sale of townhouses and condominiums in the state posted a sales decrease of 0.5 percent in July 2017 from July 2016. The median price was up 1.2 percent to $169,000.
- Nationally, total home sales (includes single-family homes, townhouses and condominiums) in July increased 2.1 percent from July of last year. The median price of a home in June was $258,300.

Consumers

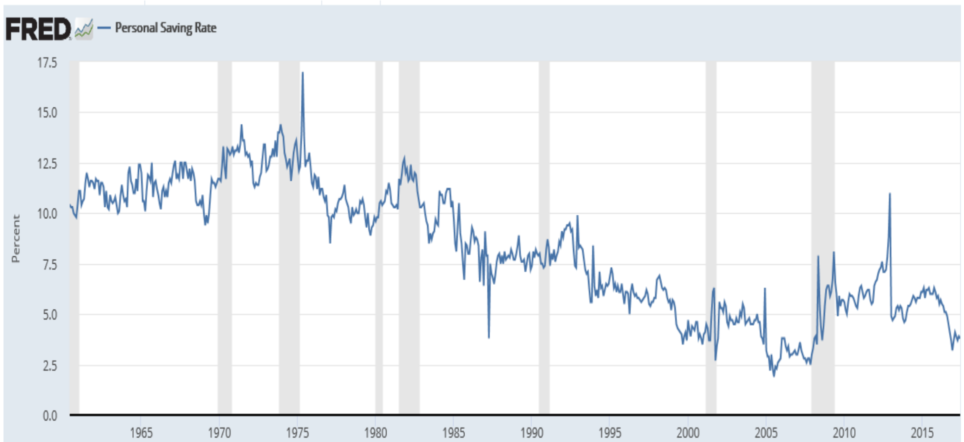
- The Commerce Department reported that retail sales jumped 0.6 percent last month, the largest gain since December 2016 and followed June's upwardly revised 0.3 percent rise. Retail sales increased 4.2 percent in July on a year-over-year basis.
- Internet sales posted the strongest gains followed by building and gardening equipment and autos sales. Department stores and sporting goods stores recorded declines.



- The latest positive spending trends carry some risks. Debt financing is being used to fuel much of the uptick in spending. Total credit-card balances grew $20 billion in the second quarter to $784 billion, the highest since late 2009 according to the New York Federal Reserve. Overall debt -- including mortgages, auto loans and student loans -- hit a record $12.8 trillion in the second quarter of 2017.
- 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.



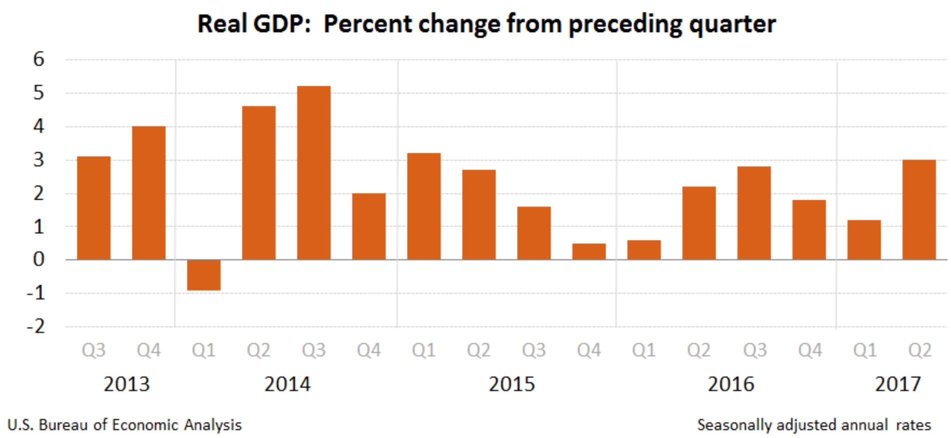
- The graph below provides a long-term view of the U.S. savings rate from the beginning of 1969 through June of 2017. As can be seen there is a pronounced downward trend over the period. It should be noted that the U.S. Personal Saving Rate does not include capital gains from the sale of land or financial assets in its estimate of personal income. This effectively excludes capital gains — an important source of income for some.



- The Conference Board reported that consumers' assessment of current economic conditions hit the highest level this month since July 2001. The Board's overall consumer confidence index, which takes into account Americans' views of current conditions and their expectations for the next six months, rose to 122.9 in August from 120 in July.

Business and Economic Growth

- According to an Aug. 30 release from the Bureau of Economic Analysis, U.S. Real Gross Domestic Product increased at an annual rate of 3 percent 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.



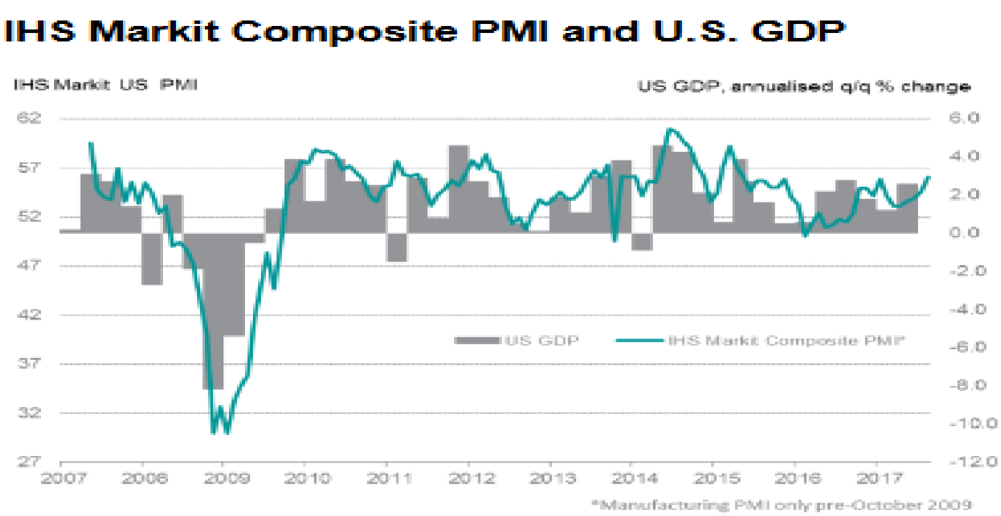
- Corporate pre-tax earnings were up 7 percent on a year-over-year basis and were up 1.3 percent on a quarter-to-quarter basis.
- Corporate profits deteriorated in 2015 as falling oil prices squeezed the domestic energy industry and a strong dollar damped demand for U.S. exports. But earnings began to recover last year as crude prices stabilized, and exporters are getting a boost because the dollar has weakened since early 2017.
- The Commerce Department said on Friday non-defense capital goods orders excluding aircraft, a closely watched proxy for business spending plans, increased 0.4 percent last month after being unchanged in June. They were up 3.3 percent from a year ago.
- However, the most comprehensive measure of durable goods spending fell 6.8 percent from last month as bookings for transportation equipment plunged 19 percent. The drop in durable goods orders was the biggest since August 2014 and followed a 6.4 percent increase in June.
- Boeing has reported on its website that it received only 22 aircraft orders in July, sharply down from 184 in the prior month. Orders for motor vehicles and parts fell 1.2 percent in July, the biggest drop since May 2016, after decreasing 0.7 percent in June. Auto sales peaked in December 2016 and slowing demand has led to three consecutive monthly declines in motor vehicle production.

- The Markit Flash Purchasing Manager's Index (PMI) for August reported the following findings:

Key findings:

- Flash U.S. Composite Output Index at 56.0 (54.6 in July). 27-month high.
- Flash U.S. Services Business Activity Index at 56.9 (54.7 in July). 28-month high.
- Flash U.S. Manufacturing PMI at 52.5 (53.3 in July). 2-month low.
- Flash U.S. Manufacturing Output Index at 52.2 (54.1 in July). 14-month low.

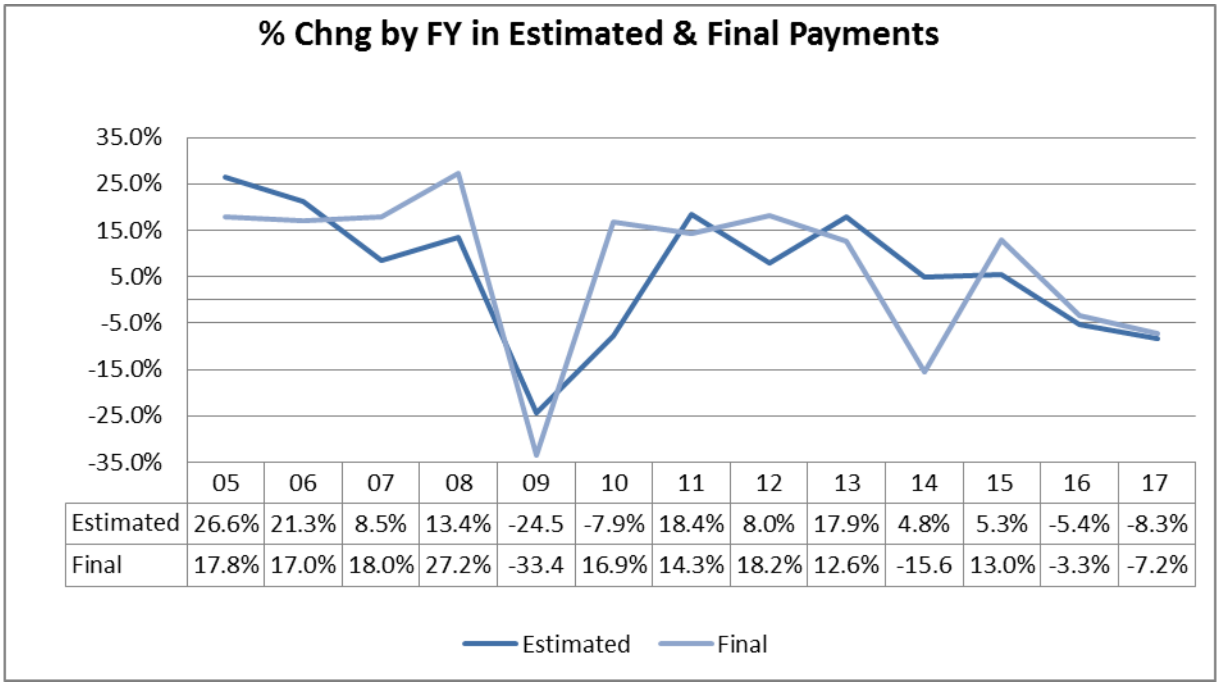
Data collected August 11-22



- 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 40 percent 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.

DOW

NASDAQ


6,400
6,200
6,000
5,800
5,600
YEAR TO DATE CHANGE 18.30%
Jan 2017
+9.82%
Apr 2017
+3.87%
Jul 2017
+3.71%

*****END*****