



*News from:*

## **COMPTROLLER KEVIN LEMBO**

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### **COMPTROLLER LEMBO SAYS STATE DEFICIT CLOSE TO MITIGATION; RECOMMENDS COLLABORATIVE DEFICIT REDUCTION PLANNING**

Comptroller Kevin Lembo today projected a \$172.8-million General Fund deficit for Fiscal Year 2015 – an amount just short of one percent of total appropriations, which would legally trigger a mandatory deficit mitigation plan, but close enough that Lembo recommended deficit reduction planning with the legislature proceed without delay.

In a letter to Gov. Dannel P. Malloy, Lembo explained that his projection is a \$40-million increase from the Office of Policy and Management's (OPM) most recent projection due to lower estimated income tax collections, as he reported last month.

State law requires that the administration prepare a deficit mitigation plan for submission to the legislature when the General Fund deficit certified in the comptroller's monthly report exceeds one percent of total appropriations, which would amount to \$176 million this fiscal year.

“Because my current estimate is so close to the mitigation trigger and only three months remain in the fiscal year, I recommend that deficit reduction planning with the legislature should proceed without delay,” Lembo said.

The most significant revenue shortfalls are related to federal grants, the health provider tax and the income tax – while notable gains are in the sales tax and the corporation tax.

OPM has estimated that deficiencies across agencies will exceed lapses (savings) in other areas by \$7.7 million – the largest deficiency within the Medicaid account.

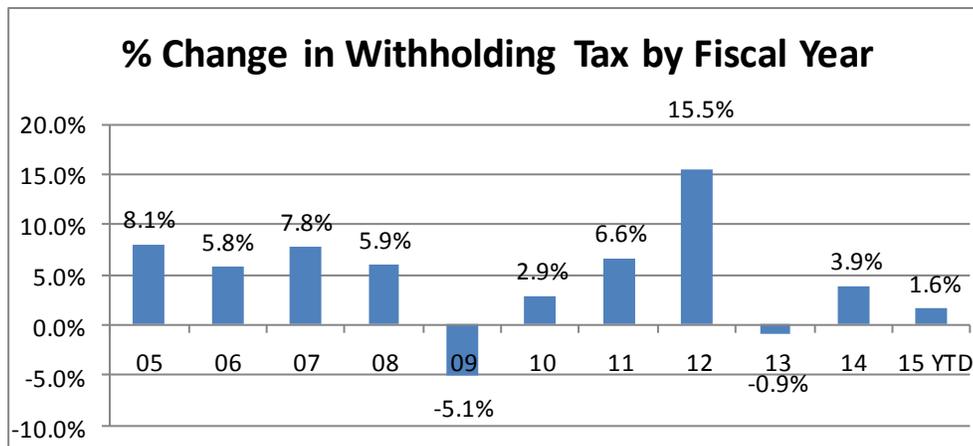
Lembo said that, while technically not attributable to the General Fund, it's important to note a \$14.3-million cash shortfall in the retiree health insurance fiduciary fund – the fund that holds employer, employee and retiree health contributions and pays medical claims for eligible retirees. Typically, cash shortfalls in non-General Fund activities are eliminated by transfers from the General Fund in years of surplus if they cannot be addressed through other policy options, Lembo noted.

“My original budget request for this account in Fiscal Year 2015 was reduced in the final version of the budget act,” Lembo said. “Had the amount that I requested been approved, no deficiencies would have resulted.”

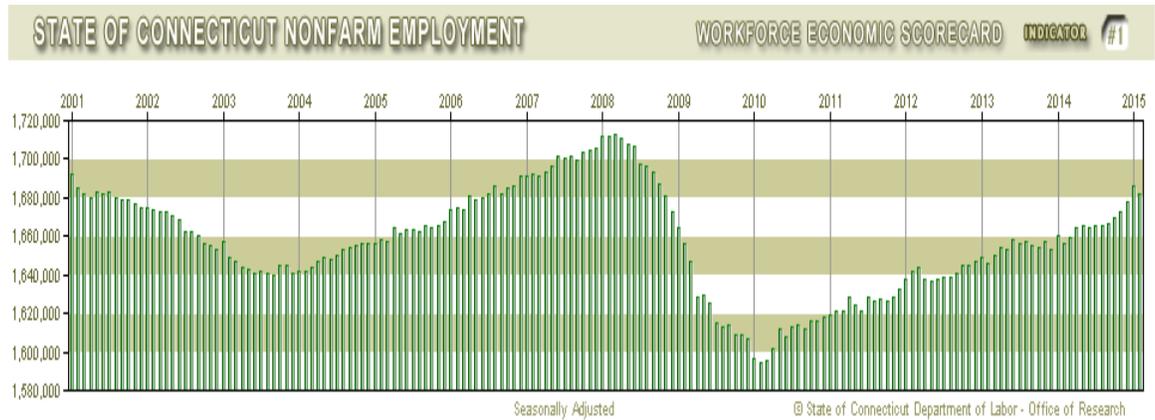
As far as the economy, Lembo said the state experienced a net jobs gain so far this year – gaining 7,500 jobs in January, though losing 3,700 payroll positions in February. The latest economic indicators from federal and state Departments of Labor and other sources show:

## Employment

- Through the first eight months of Fiscal Year 2015, the withholding portion of the income tax was running 1.6 percent above the same period last year. This is a deceleration from the gains experienced over the past several months.
- Withholding receipts have yet to attain 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 Year 2011 and Fiscal Year 2012. The poor performance also continued through Fiscal Year 2013. In Fiscal Year 2015, despite improving employment statistics, the withholding tax has yet to establish a pattern of consistent accelerating growth.



- According to the Department of Labor, Connecticut gained 7,500 payroll positions in January but lost 3,700 jobs in February. January was the seventh straight month of job gains in the state before February's loss. The graph below depicts the significant upward trend in Connecticut's job market.



- Connecticut has now recovered 87,900 positions, or 73.9 percent of the now 119,000 seasonally adjusted total nonfarm jobs that were lost in the state during the March 2008 - February 2010 employment recession (post-benchmark). Connecticut's jobs recovery is now 60 months old (five years) and is averaging 1,465 jobs per month since February 2010. At 1,681,900 overall nonfarm jobs for February 2015, the state needs to reach the 1,713,000 level to start a true nonfarm employment expansion. This will require an additional 31,100 nonfarm jobs.
- The table below shows the distribution of employment gains and losses by major employment sector over the latest 12-month period ending in February. Job additions in Connecticut during this period total 25,800.

<b>Job Gains Latest 12 Months</b>		<b>Job Losses Latest 12 Months</b>	
<u>Sector</u>		<u>Sector</u>	
Education & Health Svc.	8,600	Manufacturing	-1,600
Leisure & Hospitality	6,000	Information	-300
Prof. & Business Svc.	5,600		
Transp. & Utilities	3,500		
Government	1,300		
Construction	900		
Financial Activities	1,000		
Other Services	700		
Mining	100		

- U.S. employment has been advancing at a rate of 2.4 percent over the 12-month period ending in February; Connecticut's employment growth was 1.6 percent for the same period.
- Connecticut's unemployment rate was 6.4 percent in February; the national unemployment rate was 5.5 percent. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.
- There are approximately 122,000 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 177,200 in December of 2010.

## Wage and **\$**Salary income

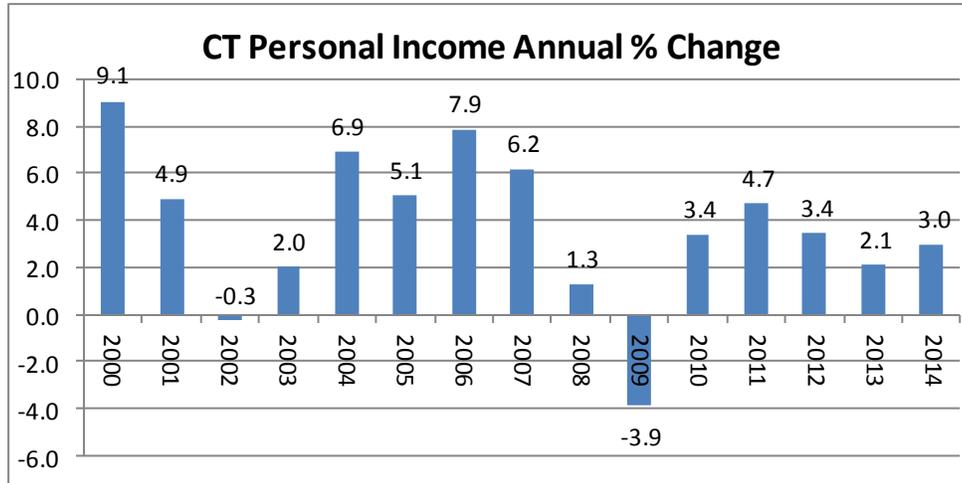
- The Department of Labor reports that average hourly earnings at \$28.26, not seasonally adjusted, were down 21 cents, or -0.7 percent, from January 2014. Because of an increase in hours worked, average private-sector weekly pay was calculated at \$952.36, up \$28.07, or 3.0 percent over the year.
- The year-to-year change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in January 2015 was negative 0.1 percent.



- Based on data released by the Bureau of Economic Analysis on March 25 for calendar year 2014, personal income in Connecticut grew at a rate of 3 percent between 2013 and 2014; however, annualized growth for the 4<sup>th</sup> quarter was just over 4 percent. Connecticut was ranked 39<sup>th</sup> nationally in personal income growth in 2014,

but ranked 22<sup>nd</sup> in 4<sup>th</sup> quarter income growth.

- The chart below shows the annual trend in Connecticut personal income over time, which is well off the pace set during the last post-recessionary period.



## 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 March 9, January single-family home sales in Connecticut fell 6.3 percent from January of last year. This ended four months of consecutive increases in state sales data. The median price of a single-family home held steady at \$230,000. Condominium sales statewide also declined in January with a drop of 6.2 percent from the same month last year. Condominium prices were up slightly from \$162,500 to \$163,800.
- The National Association of Realtors reported that existing U.S. home sales in February were up 4.7 percent from the same period last year and prices were up 7.5 percent to \$202,600.

## Consumers

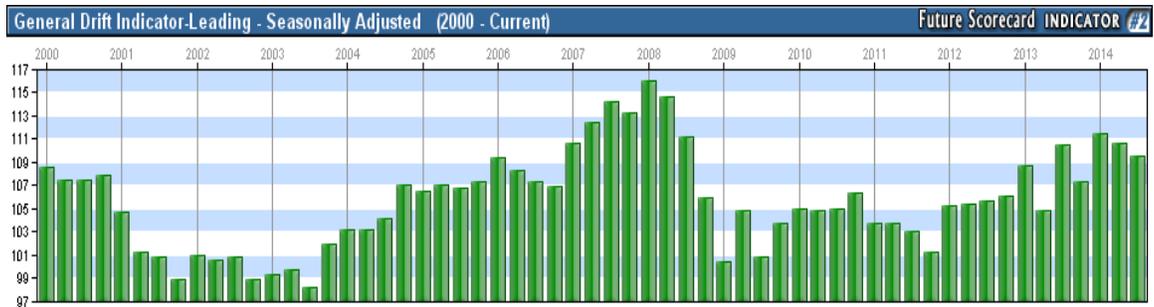
- Sales tax receipts through February of Fiscal Year 2015 were up 2.2 percent over last year. The sales tax is on track to complete the year almost \$60 million above the original budget estimate.
- Advance retail sales were up 1.7 percent from February of last year. This is a deceleration from the three-month average growth of 2.9 percent. Auto sales were

still advancing with a gain of 6.2 percent from last February. Auto sales grew at a 12.9-percent rate in January.

- Gasoline stations posted the largest sales decline due to falling prices. Department stores also experienced a decrease in sales.
- According to the Universities of Michigan's consumer sentiment index, consumer optimism reached its highest level in a decade through the first three months of 2015. There was some pullback in the index in February and March. There was an especially sharp drop in low-income households over the last two months. High heating costs were blamed for much of the decline.
- The Federal Reserve reported that January consumer credit increased at a seasonally adjusted annual rate of 4.2 percent. Revolving credit decreased at an annual rate of 1.6 percent, while non-revolving credit increased at an annual rate of 6.3 percent. Consumer credit advanced at a rate of 7.1 percent in 2014 with revolving credit growing 3.7 percent, while non-revolving credit grew 8.3 percent.

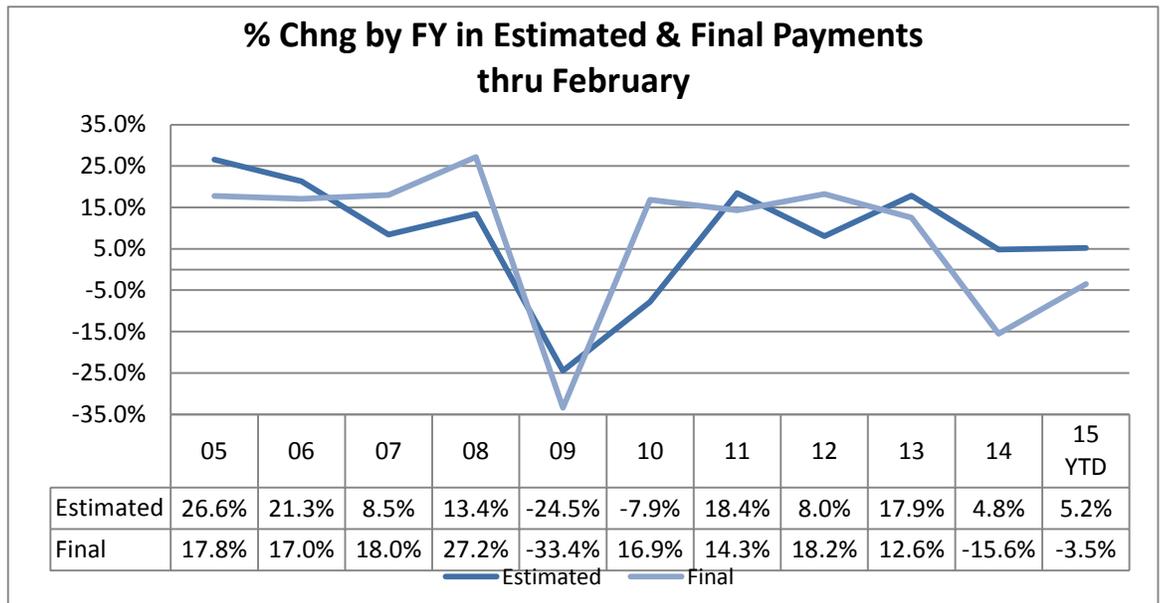
## **Business and Economic Growth**

- Based on the March 27 third estimate by the Bureau of Economic Analysis, real GDP increased at a rate of 2.2 percent in the 4<sup>th</sup> quarter of 2014. In the 3<sup>rd</sup> quarter of 2014 real GDP increased at a 5-percent rate.
- The increase in real GDP in the 4<sup>th</sup> 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.
- Corporate profits were down slightly in 2014. After gains in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2014, profits fell in the 4<sup>th</sup> quarter.
- 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.



## Stock Market

- Estimated income tax payments, which are influenced by capital gains receipts, were trending 5.2 percent higher on a year-to-date basis thru February from the same period one year ago. The chart below shows the trends in estimated and final income tax payments since 2005. For Fiscal Year 2015, only a small portion of the final payments have been processed to date. Most final payment activity occurs in April. Looking at data through the first three weeks of March, final payments were accelerating at a double-digit growth rate over last year; however, the dollars collected in March are a small percentage of the total receipts and cannot be relied upon for April projections.



- Over the past 12 months the Dow has posted a gain of 8.3 percent with significant monthly swings.



- As a result of the monthly volatility, the Dow has posted little movement on a year-to-date basis.



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