



News From:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS \$45.8 MILLION DEFICIT; SAYS "ALL EYES ARE ON APRIL"

Comptroller Kevin Lembo today announced that his Fiscal Year 2012 deficit projection has grown to \$45.8 million, but said that number could shift dramatically following April income tax payments.

In a letter to Gov. Dannel P. Malloy, Lembo cited two reasons for the \$52.8-million variance in his projection from that of the Office of Policy and Management (OPM).

Lembo said there has been continued strong growth in tax refunds, putting his analysis about \$22 million higher than OPM's analysis. Lembo also said that he did not incorporate OPM's \$36.2 million lapses in his spending projections because, based on a four-year average of spending trends, those additional lapses will be difficult to realize.

These deficit projections are well below 1 percent of total fund appropriations, and could be erased after the state receives final and estimated tax payments in April, Lembo said.

"All eyes are on April," Lembo said. "The complex 2011 income tax withholding changes may have distorted the trend analysis used for projections. As a result, final and estimated income tax payments received in April could differ significantly from those projections."

General Fund revenue for Fiscal Year 2012 is falling \$118.2 million short of original budget projections and net state spending is \$49.7 million below the original budget plan. Lembo said his spending projection reflects caution with respect to the lapse due to the large increase in spending posted in January. Below are the annual month-by-month spending trends:

| | 2009 | 2010 | 2011 | 2012 | Yr 09' to 10' | Yr 10' to 11' | Yr 11' to 12' |
|--------------|--------------|---------------|---------------|---------------|------------------|------------------|------------------|
| July | | | | | -39.0% | 54.1% | -30.9% |
| August | -47.2% | -4.6% | -54.9% | 1.3% | 10.2% | -27.2% | 55.2% |
| Sept. | -5.2% | 5.6% | 42.9% | 6.9% | 22.7% | -1.5% | 16.2% |
| Oct. | 96.0% | 76.4% | 60.7% | 54.5% | 10.4% | -10.3% | 11.7% |
| Nov. | -14.8% | -33.7% | -24.2% | -27.7% | -14.1% | 2.7% | 6.5% |
| Dec. | -28.4% | -6.0% | 3.5% | -15.5% | 12.9% | 13.1% | -13.1% |
| Jan. | 29.9% | 37.1% | 16.5% | 66.8% | 19.2% | -3.9% | 24.4% |
| Feb. | 0.5% | -35.8% | -36.2% | -34.6% | -23.9% | -4.4% | 27.5% |
| March | -33.0% | -7.8% | -5.4% | | 4.7% | -1.9% | |
| April | 134.0% | 112.3% | 142.2% | | -5.0% | 11.8% | |
| May | -56.0% | -42.8% | -57.2% | | 23.3% | -16.4% | |
| June | 14.4% | 7.1% | 66.6% | | 15.5% | 30.1% | |
| 998 | | | | | -37.5% | -62.4% | |
| Total | | | | | -0.2% | 3.7% | |

If a contribution is made against the Generally Accepted Accounting Principles (GAAP) deficit, as proposed, the projected deficit would be \$120.8 million.

“Despite this deficit projection, recent job growth and other economic indicators are positive,” Lembo said. “Connecticut’s economy has been posting slow sustained growth.”

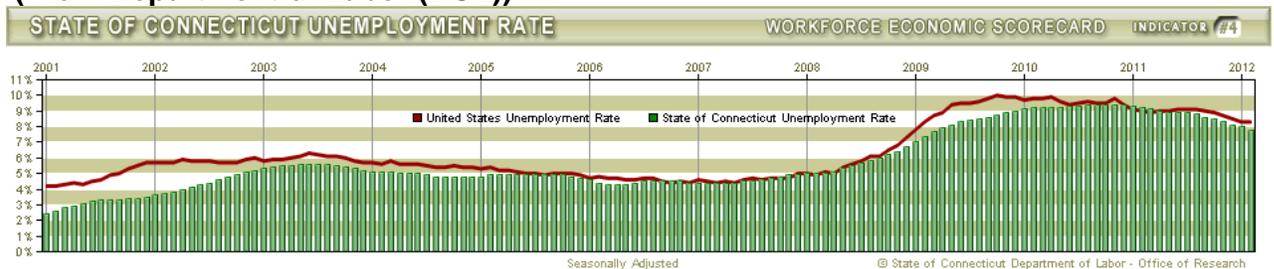
Recent economic indicators from the Department of Labor and other sources include:

Employment

- The February unemployment rate dropped to 7.8 percent.
- State employment numbers for February show an additional 4,900 jobs added to payroll during the month.
- For the 12 months ending in February, the state added 12,100 payroll jobs.
- The state has recovered over 30 percent of the recessionary job loss.
- The two largest employing supersectors, trade, transportation, and utilities (2,200, 0.7%) and education and health services (2,200, 0.7%) had the largest monthly gains in February 2012.
- Retail trade’s monthly gain (1,600, 0.9%) was the most compelling and also considered statistically significant. Wholesale trade (600, 0.9%) was also positive this month.
- In the education and health services supersector (2,200, 0.7%), both categories contributed to monthly gains, but health care and social assistance provided the statistically important movement (1,900, 0.7%). Educational services grew by 300 jobs (0.5%).

- The next largest job-increasing supersector was construction (800, 1.5%) and the closely related mining (mainly gravel in the state) sector.
- Warmer weather has benefitted construction this winter and more specialty trades contractors have been active throughout.
- The four job-declining supersectors in February all had job losses of less than a thousand. The most significant supersector decliner was government (-600, -0.3%), as a result of losses in local government (-600, -0.4%), which also accounts for Indian gaming and tribal government.
- The leisure and hospitality supersector pulled back by 500 positions (-0.4%) while restaurants and hotels were lower by 700 positions (-0.6%). Meanwhile, the arts, entertainment, and recreation actually added 200 jobs (0.8%).
- The information supersector dropped 200 jobs (-0.6%) and the financial activities supersector relinquished another 100 positions (-0.1%).
- Since February 2011, financial activities continues to be the largest declining supersector in percentage terms (-4,100, -3.0%), while government is the largest job loser in magnitude (-5,000, -2.1%).

(From Department of Labor (DOL)):



- Nationally the employment picture has been steadily improving with the addition of over 200,000 jobs per month in the three month period ending in February 2012.
- The national unemployment rate in February was 8.3%.

Wage and salary income

- Connecticut wages and salaries were up 1.8 percent from the first quarter of last year.
- The workweek for employees in the private sector, not seasonally adjusted, averaged 33.8 hours in February 2012, up 0.2 hours (0.6 percent) from the February 2011 figure of 33.6 hours.
- Average hourly earnings at \$28.31, not seasonally adjusted, are now down four cents or -0.1 percent lower than last February.
- The resultant average private sector weekly pay estimate was \$956.88, up just \$4.32, or 0.5 percent over the year. This compares unfavorably to the change in the Consumer Price Index – For All Urban Consumers (CPI-U) since last February (2.9 percent).

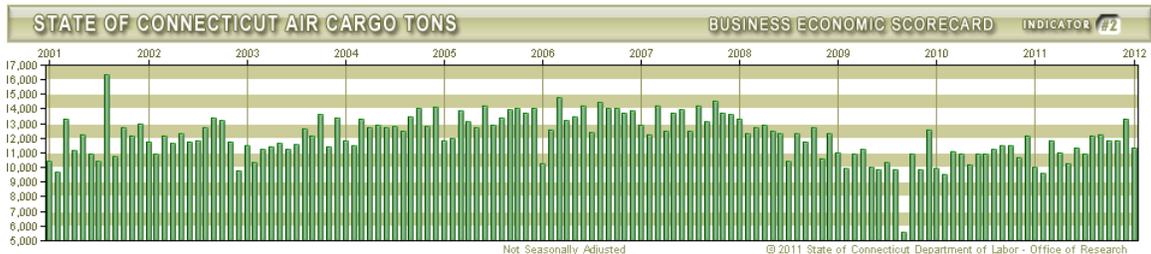
- Personal income was up 2.2 percent for the 12-month period ending January 2012.

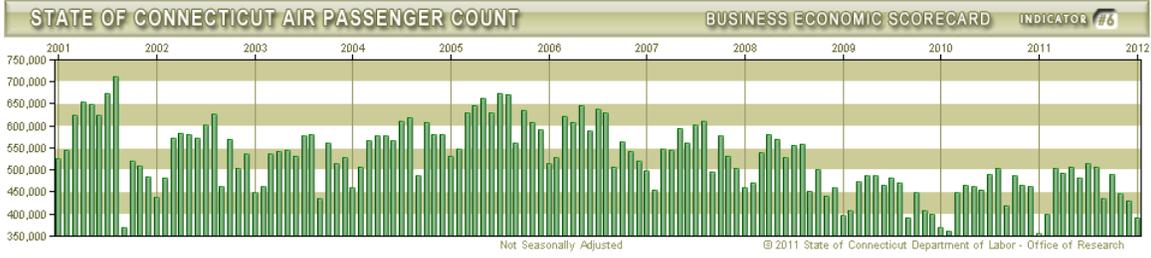
Housing

- Housing permits surged in February as reflected by strong growth in construction employment.
- Housing permits hit a highpoint in February 2012 but home sales and prices have not recovered.
- Housing permits reached their highest level since January 2008 in February of this year.
- Housing prices in the state remained relatively flat in the fourth quarter of 2011.
- Existing home sales have also remained relatively flat.

Business Activity and Consumer Spending

- At this writing the Dow had passed the 13,000 level and was up by more than 7 percent for the year.
- Retail sales for February were running 6.5 percent above last year.
- With the exception of falling casino gaming, slot revenue and a modest decline in export growth, business indicators in the state were moving in a positive direction in January 2012 from one-year ago.
- A few of the indicators showing growth over last January are displayed below courtesy of the State Department of Labor:





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