



News From:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO SAYS REVENUE DECLINE POSITIONS STATE FOR \$73.6-MILLION DEFICIT

Comptroller Kevin Lembo today announced that, due to declining state revenue, the state is currently projected to end Fiscal Year 2012 with a \$73.6 million deficit on the basis of Generally Accepted Accounting Principles (GAAP).

This projection is an erosion of \$82.3 million from last month's financial position.

In a letter to Gov. Dannel P. Malloy, Lembo said that he agrees with both the Office of Policy Management (OPM) and the Office of Fiscal Analysis (OFA) in their consensus that state revenues have declined by about \$83.1 million for Fiscal Year 2012.

As for state expenditures, General Fund spending is trending about 2.3 percent above last year through December. However, the OPM deficit projection anticipates 5.9 percent growth. Lembo noted that OPM's spending projections are dependent upon achieving lapses -- or forced savings -- of \$900.7 million, which based on current spending patterns should be attainable.

"In light of state spending trends -- and the budget control mechanisms available to OPM -- this estimated savings is reasonable," Lembo said. "I must emphasize that my analysis is based on the total state spending trend for the year, and not on achieving savings in any individual areas within the budget plan. The potential need to shift funds in order to address a savings shortfall is ultimately a matter for the administration and legislature."

Lembo said the state revenue decline is primarily due to poor collections in estimated income tax payments, while expenditure estimates changed little from last month. Due to the projection that \$75 million is required to cover GAAP accruals this fiscal year, we project an overall General Fund deficit of \$73.6 million.

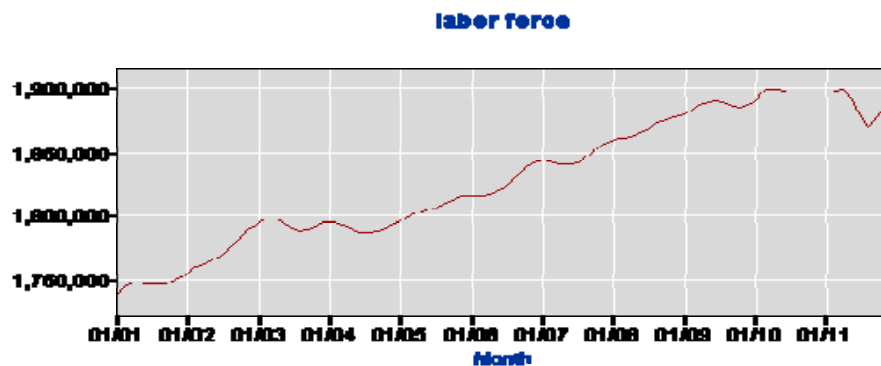
“Despite the projected state shortfall, the economy continues to show slow and erratic growth – overall headed in a positive upward trajectory,” Lembo said.

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

Employment

- For the twelve months ending in December the state added 9,000 payroll jobs.
- Unemployment has continued to decline, but remains at a historically high level. The December unemployment rate dropped to 8.2 percent.
- The state has recovered approximately 29 percent of the recessionary job loss.
- Connecticut’s recessionary job loss between March 2008 and February 2010: 119,200
- Job gains since the recovery (as of December 2011): 33,500
- Average Per Month: 1,600.
- December job addition: 600
- For the fourth straight month the state’s unemployment rate has been below 9 percent. Connecticut was one of 37 states that posted a drop in the December unemployment rate. The U.S. unemployment rate fell to 8.5 percent.
- Nationally 200,000 jobs were added to payroll in December -- the sixth consecutive month with a national employment gain of 100,000 or more.
- 154,525 Connecticut residents are unemployed.

(Courtesy of DOL):



Jobs by employment Sector

- The trade, transportation, and utilities sector became the fastest growing job sector in December on both a monthly and year-to-year basis.

- The professional and business service sector lost jobs in December but remained a strong job creator over the past year.
- The trade, transportation and utilities sector led all major sector growth in December, adding 2,500 jobs, or 0.9 percent. The retail trade component in this super sector provided the largest job gain (1,900, 1.1 percent) last month, boding well for holiday sales in the state. The transportation segment added personnel (+800, 1.7 percent), perhaps exhibiting positive holiday activity from e-commerce. Meanwhile, the wholesale trade part slightly declined (-200, -0.3 percent) last month. This large super sector has contributed the most sector job growth since last December (+5,700, 2.0 percent).
- The professional and business services sector lost 300 positions (-0.2%) last month but is a strong job contributor over the year (3,300, 1.7%). The monthly loss in this sector was mainly attributed to a 900 (-1.1%) decline in professional, scientific, and technical services. This loss was partially offset by a 600 (0.7%) gain from administrative and support services (which includes employment services).
- The financial activities category finished 2011 lower by 900 (-0.7 percent) jobs. Both finance and insurance (-800, -0.7 percent) and real estate (-100, -0.5 percent) figured in on the job loss. Financial activities industries are the biggest declining major sector over the year (-4,300, -3.2 percent).

Wage and salary income

- For the period ending in November, wage and salary income in Connecticut was up 4.3 percent from last year.
- For individuals with jobs, wage and salary income has performed well growing 4.3 percent from a year ago for the period ending in November.
- Personal income in Connecticut has also resumed its growth pattern with a gain of 5.2 percent from last November.

Business Activity

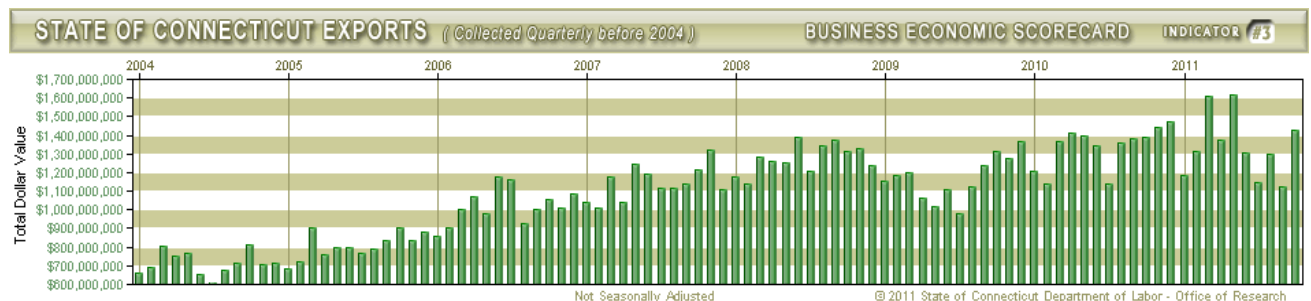
- The overall business climate in Connecticut has been improving, but like employment has not generated normal post-recession growth.
- Nationally, corporate profits were up 7.9 percent in the third quarter of 2011.
- The Connecticut Manufacturing Production Index has held steady against last year. Connecticut's export sector continues to perform well.
- Bloomberg reports that corporate profits are expected to grow at their slowest rates in two years for the year ending 2011. Slowing global growth is expected to impair exports. China is expected to post its slowest growth rate in eleven years. It's likely that when 2011 results are tallied, banks will post their worst revenue growth since 1938.
- Compensation experts predict a 30-percent reduction in Wall Street bonus payments from 2010.

Housing

- Housing permits were down 6.2 percent from November a year ago and off 75 percent from the peak level reached in 2004. This is consistent with the trend experienced in existing home sales.
- Connecticut housing permits, which give an indication of economic activity in the construction sector, financial lending, and durable goods, were down almost 6.2 percent from November of last year.
- Existing home sales in Connecticut were up 7.4 percent in the third quarter of 2011 from a year ago.
- Quarterly sales volume peaked at almost 85,000 units in 2005. The volume in the third quarter of 2011 was 41,000 units.
- Home prices in the state were down 3.5 percent from the third quarter a year ago. Nationally, sales of previously owned homes rose 5 percent in December to a seasonally adjusted annual rate of 4.61 million, the best showing since January 2011 and the third straight monthly increase, according to the National Association of Realtors. The market has been helped by record low mortgage rates.
- Yearly figures though reflect the long road ahead for the sector — sales rose only 1.7 percent to 4.26 million, up from 2010's dismal 4.19 million — still well below the 6 million that economists say means the housing market is back at healthy levels.

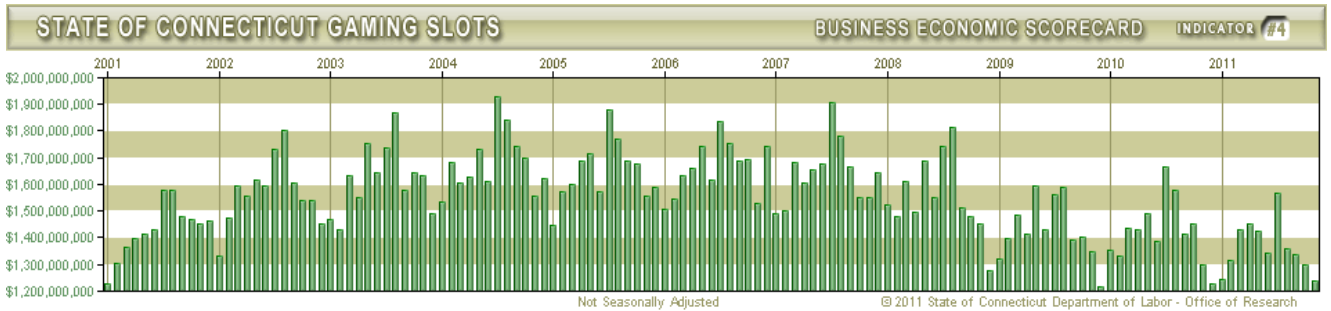
Exports

- Connecticut's exports have remained on a positive trend.



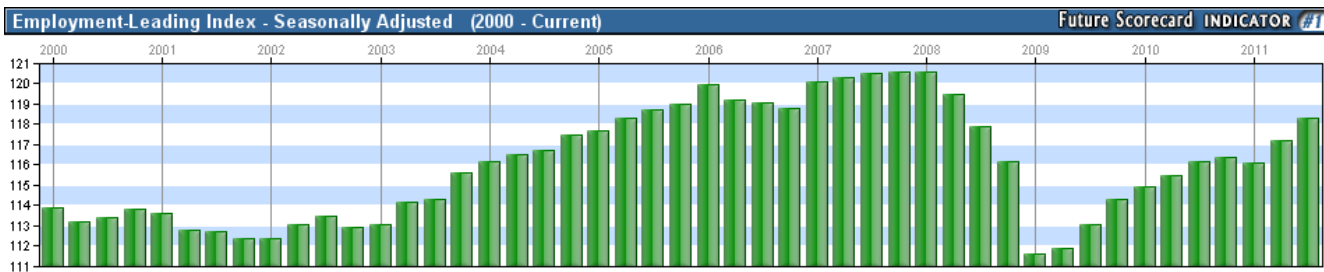
Gaming Revenue

- Slot activity at the casinos has been trending down.



Consumer Spending

- Consumers are beginning to expand credit purchases and total sales figures remain solid.
- Nationally, Advance Retail Sales for December were running 6.5 percent above last year. Total sales for the October-December period were up 7 percent. Non-retail sales were up 10.6 percent.
- The Federal Reserve reported that Consumer Credit had its strongest surge since 2001 in November of 2011. Consumer Credit has been growing over the past three months as the labor market has improved.
- Interest rates remain at historically low levels with no significant upward movement in sight.
- The leading indicators are pointing toward continued growth.



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