FOR IMMEDIATE RELEASE

JULY 2, 2012

Contact: Tara Downes
631-834-5234
Tara.Downes@po.state.ct.us

# COMPTROLLER LEMBO PROJECTS \$192.3-MILLION DEFICIT FOR FISCAL YEAR 2012

Comptroller Kevin Lembo today announced that the slow-growing economy has positioned Connecticut to end Fiscal Year 2012 with a \$192.3-million deficit, which will ultimately be eliminated by using General Fund reserves from prior years.

The withholding portion of the state income tax – related to job and wage growth – is performing as expected, up 18.3 percent from last year. However, the estimated payment portion of the tax – related to capital gains and bonus payments – was up only 5.9 percent, which is lower than historical post-recession patterns.

"The economy is the largest single influence on the state budget – dwarfing any other budget drivers," Lembo said. "Wall Street's erratic equity markets and challenges in the financial sector – which had the largest private-sector job loss in the state – is the driving force behind this deficit."

In a letter to Gov. Dannel P. Malloy, Lembo reported that General Fund revenue for Fiscal Year 2012 is expected to fall \$250.7 million short of original budget projections and total state spending is expected to exceed appropriated levels by \$22.5 million.

"Economic growth has not reached normal recovery levels – but there are some positive economic indicators going forward, particularly in new homes sales in the Northeast housing market," Lembo said.

Data from the state and federal Departments of Labor and other sources show:



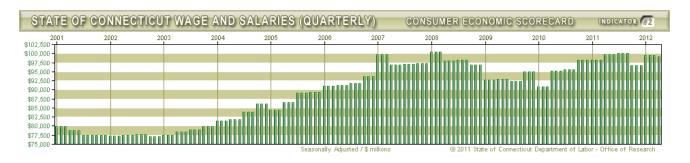
- In May, Connecticut added 1,400 payroll jobs;
- For the year to date, the state has gained 6,100 payroll positions.
- The state has recovered slightly less than one-third of the jobs lost to the March 2008-February 2010 recession.
- The state's unemployment rate edged up slightly in May to 7.8 percent, compared to the national rate of 8.2 percent.
- Strong growth in Connecticut's labor force helps to explain the increase in the unemployment rate. While payroll jobs increased, the number of people seeking work grew by 5,270.
- Nationally, job openings fell to a five-month low in April and showed their sharpest percentage decline in about seven and a half years, according to a government report released June 19.
- Gains: The largest job gains for the month were in education & health services and government with each supersector adding 1,600 positions.
- Losses: The largest job losses were in professional and business services and other services (general repairs, personal care, pet care etc.), which were down 1,600 positions and 1,200 positions respectively.
- May average weekly unemployment claims in Connecticut edged up slightly (74 additional claims) but continued below the 5,000 level for the fourth straight month.



## Wage and **\$**alary income

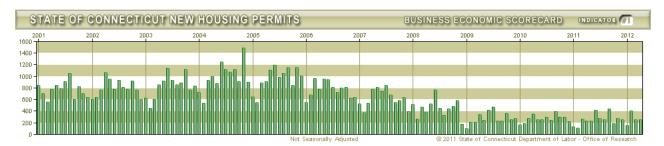
• According to the Bureau of Economic Analysis, Connecticut quarterly personal income has been advancing at a rate of 4.7 percent.

• Department of Labor quarterly data indicates that wage and salary growth in the state is relatively flat as compared to the same period last year.





- Nationally, homeowner equity grew to its highest level since 2008 recorded at \$6.7 trillion for the first quarter of 2012.
- The 7.3-percent gain was the biggest percentage jump in more than 60 years, according to Bloomberg of Federal Reserve data. Homeowners are taking advantage of low interest rates to refinance mortgages and increase home equity.
- Connecticut housing permits reached their highest level since January 2008 in February of this year. In April permits were up 6.4 percent from one year ago.

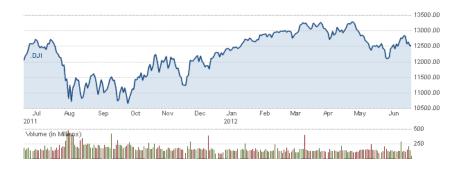


- According to the Census Bureau, U.S. new home sales increased 7.6 percent in May from the prior month and were up a solid 19.8 percent from 12 months ago. Sales in the Northeast showed the strongest advance growing 36.7 percent from April and 127.8 percent for the 12-month period ending in May.
- However, results were mixed for the larger existing home sales market. According to the National Association of Realtors, U.S. existing home sales fell 1.5 percent in May, but were up 9.6 percent for the 12-month period.
- The comparable numbers for the Northeast were -4.8 percent and 7.3 percent. Home prices in the Northeast were 3.8 percent higher over last year.

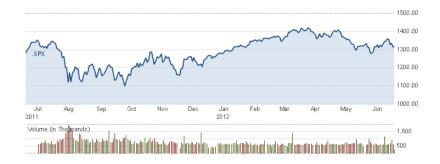
### Business Activity and Consumer Spending

• At this writing, markets remain below their spring peaks.

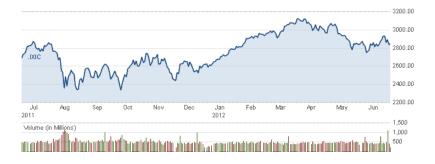
#### DOW:



#### **S&P 500:**

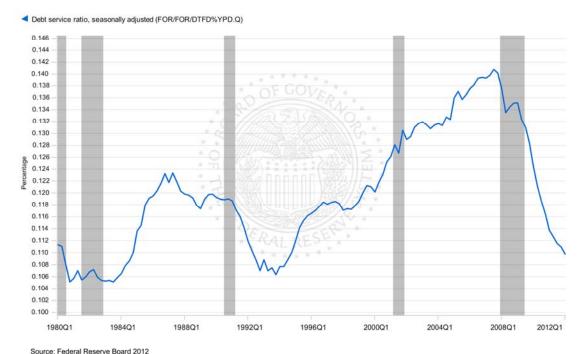


#### NASDAQ:



- Nationally, advance retail sales in May were 5.3 percent higher than one year ago. This is down from April's 6.4-percent advance.
- The strongest gains for the year have been in building materials and gardening equipment, and non-store retailers. All categories were showing some level of gain.
- Interest rates remain at historically low levels with the prime rate at 3.25 percent and conventional mortgage rate of 3.91 percent.

- According to the Federal Reserve Board, U.S. consumer credit outstanding grew at a 3.1-percent rate in April down from the 5.8-percent growth rate established in the first quarter of the year.
- The line chart below displays the Federal Reserves calculation of household debt payments as a percentage of personal income. The bars show periods of recession. As the economy comes out of recession and associated job losses are regained, the debt payment ratios rise. At present the slope continues downward.
- Debt Payments as a % of Personal Income:



Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.

- In April, four of seven Connecticut Department of Labor business indicators were up and three were down. Housing permits and the Connecticut Manufacturing Production Index showed solid growth.
- Corporate profits advanced at a 6.5-percent rate in the first quarter of 2012 from a year ago. This is down slightly from the profit level posted in 2011 of 7.9 percent.
- Real gross domestic product increased at a slower than projected rate of 1.9 percent in the first quarter of 2012. This is a slowing from the fourth-quarter growth of 3 percent.



