

News From:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS \$20.7 MILLION DEFICIT; SAYS DEFICIT COULD BE REVERSED IF ECONOMY IMPROVES

Comptroller Kevin Lembo provided his monthly update on the state's financial status, projecting that Connecticut will end Fiscal Year 2012 with a General Fund deficit of \$20.7 million.

Under Generally Accepted Accounting Principles (GAAP) provisions, the projected deficit would be \$95.7 million.

In a letter to Gov. Dannel P. Malloy, Lembo said that the variance with OPM (Office of Policy and Management) is explained by two factors.

Lembo said the Earned Income Tax Credit is generating refunds approximately 20 percent above budget expectations. If this trend continues through the rest of the fiscal year, refunds will exceed budget expectations by \$22 million, he said.

Additionally, General Fund spending through January over the past four years has represented approximately 58 percent of that year's total spending. If this trend continues this year, OPM's additional lapse of \$34.5 million will be difficult to realize, Lembo said.

"Spending pressures to support state services are growing," Lembo said, noting that outlays in the Other Expenses appropriation category grew by more than 20 percent between December and January. "Based on these trends, caution prohibits the inclusion of the additional \$34 million lapse into my estimate.

"It is important to note that these deficit projections are small, when compared to total fund appropriations, and could be reversed if the economy improves."

Lembo said revenues for Fiscal Year 2012 are falling \$94.7 million short of original projections. He said his estimate incorporates \$22 million in additional tax refunds, bringing the revenue shortfall to \$116.7 million.

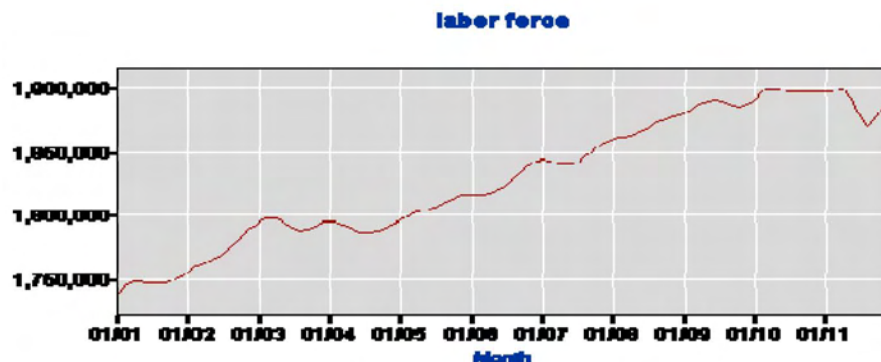
Net state spending is \$49.6 million below the original budget plan. Lembo said he has increased the spending total by \$34.5 million, as explained above.

“Connecticut’s economy continues to show slow and inconsistent growth,” Lembo said.

State employment numbers for January will be available March 13. However, here are the latest available state and national economic indicators from the Department of Labor and other sources:

Employment

- 154,525 Connecticut residents are unemployed.
- For the 12 months ending in December, the state added 9,000 payroll jobs.
- December unemployment rate dropped to 8.2 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.
- Unemployment has continued to decline, but remains at a historically high level
- The state has recovered approximately 29 percent of the recessionary job loss.
- Connecticut’s recessionary job loss between March 2008 and February 2010 was 119,200
- Job gains since the recovery (as of December 2011) was 33,500 (29 percent recovered)
- Average job recovery per month was 1,600.
- For the month of December, approximately 600 jobs were added.
- Nationally 200,000 jobs were added to payroll in December – the sixth consecutive month with a national employment gain of 100,000 or more.



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.
- Financial activities has been a significant job loss sector.
- 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 supersector provided the largest job gain (1,900, 1.1 percent) last month. 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 supersector 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 percent) last month but is a strong job contributor over the year (3,300, 1.7 percent). The monthly loss in this sector was mainly attributed to a 900 (-1.1 percent) decline in professional, scientific, and technical services. This loss was partially offset by a 600 (0.7 percent) 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).

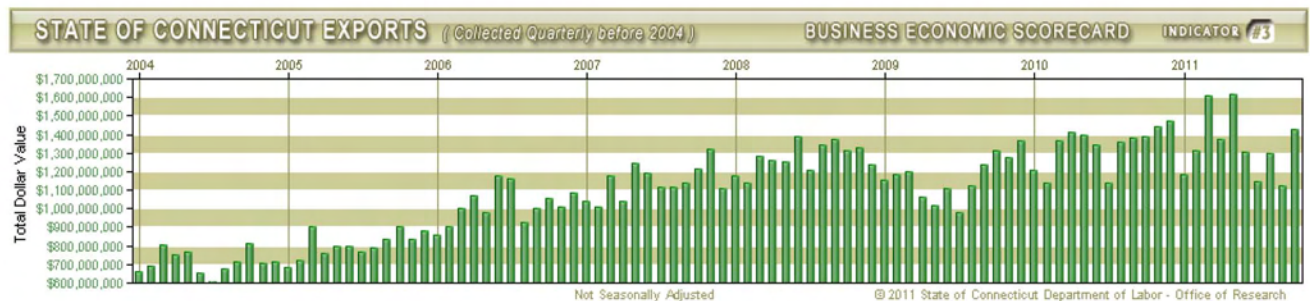
Wage and salary income

- Wages and Salary/ Personal Income continue to post solid growth.
- For individuals with jobs, wage and salary income has performed well, growing 4.2 percent from a year ago for the quarter ending in December.
- Personal income in Connecticut has also resumed its growth pattern with a gain of 4.7 percent in the final quarter of 2011.

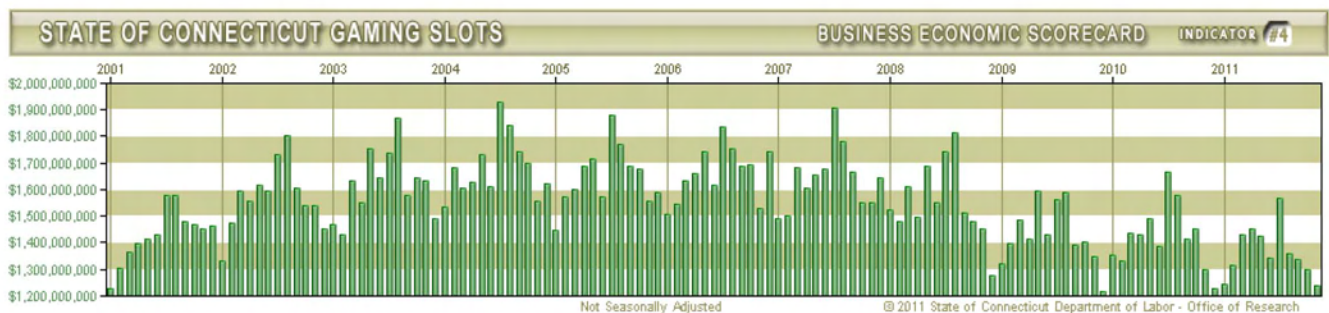
Business Activity

- The overall business climate in Connecticut has been improving, but like employment has not been able to generate normal post recession growth.
- Corporate profit totals for the fourth quarter of 2011 will be released on March 29.
- Corporate profits in the third quarter rose an annualized 10.3 percent, following a 4.3 percent gain the quarter before.

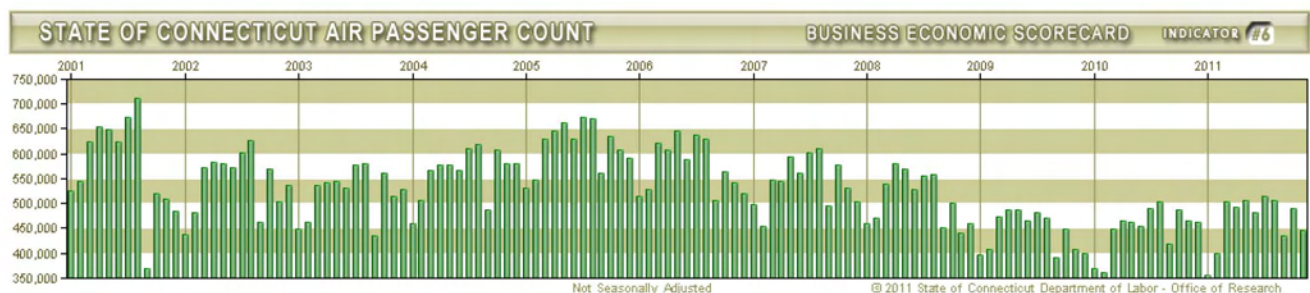
- Profits were up 7.9 percent from the third quarter a year ago but still off the pace set in 2009 and 2010.
- Bloomberg reports that corporate profits are expected to grow at their slowest rates in two years for the year ending 2011.
- Slowing global growth is expected to impair exports. China is expected to post its slowest growth rate in 11 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.
- Connecticut's exports have remained on a positive trend.



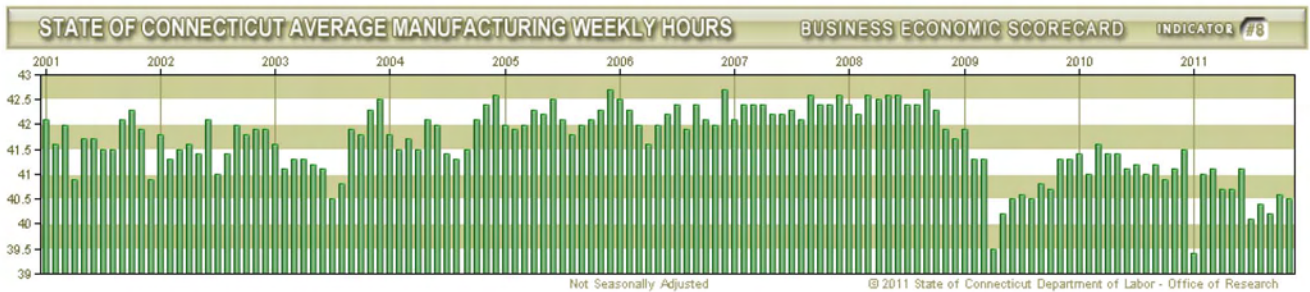
- Slot activity at the casinos has been trending down.



- The state's air passenger count has been trending down.



- Average weekly hours worked in manufacturing have been slumping.



- The stock market has posted solid advances.



Housing

- Connecticut housing permits, which give an indication of economic activity in the construction sector, financial lending, and durable goods, were down almost 4.6 percent in 2011. Better than the drop of almost 40 percent experienced in 2009.
- Permits are down 75 percent from the peak reached in 2004.
- Home prices in the state were down 3.5 percent from the third quarter a year ago.
- 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.
- 2011 year-end numbers are not yet available. However, nationally, existing-home sales rose in January, marking three gains in the past four months, while inventories continued to improve, according to the National Association of Realtors.
- The January increase was 4.3 percent an annualized volume of 4.57 million. Economists are looking for annualized volume of 6 million to signal a national housing market recovery.

Consumer Spending and Debt

- Consumers are beginning to expand credit purchases and total sales figures remain solid.
- Nationally, Advance Retail Sales for January were running almost 6 percent above last year.
- The strongest gains were in building material and gardening equipment with an advance of 10.5 percent.
- Electronics and appliance stores had the largest decline at -1.1 percent.
- The Federal Reserve reported that Consumer Credit had its strongest surge since 2001 in November of 2011 with growth of almost 10 percent.
- Consumer Credit has been growing over the past three months as the labor market has improved. December credit expanded at an annualized rate of 9.25 percent.
- Interest rates remain at historically low levels with no significant upward movement in sight.

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