



*News from:*

## **COMPTROLLER KEVIN LEMBO**

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### **COMPTROLLER LEMBO PROJECTS \$26.9-MILLION DEFICIT FOR FISCAL YEAR 2013**

Comptroller Kevin Lembo today announced that the state is currently on track to end Fiscal Year 2013 with a \$26.9-million deficit and warned that a slow national and state economic recovery continue to influence the state budget.

In a letter to Gov. Dannel P. Malloy, Lembo reported that his office generally agrees with the Office of Policy and Management's current budgetary deficit projection, which is a deterioration of \$30 million from last month.

While sales tax and casino revenues remain weak, there are positive trends in other tax categories to offset those weaknesses, including the income tax. However, Lembo said Medicaid spending continues to trend higher than budgeted.

"The slow national economic recovery continues to influence Connecticut's state budget in Fiscal Year 2013," Lembo said. "Despite weak sales tax revenues, the state could still reach its revenue targets due to a positive income tax trend and other factors. Our deficit projection is driven by the spending side, where the rising Medicaid caseload continues to grow and will likely run \$100 million over budget."

Medicaid added more than 1,700 additional clients in the month of August alone -- a one month increase of 0.7 percent, and well above budget expectations, Lembo said.

Lembo said Medicaid will run \$100 million over budget, half of which will be offset by a federal match. The other offset to the \$50 million in net higher Medicaid spending is a \$20 million reduction in debt service cost due to lower than anticipated rates of borrowing.

The requirement for GAAP (Generally Accepted Accounting Principles) reserves in Fiscal Year 2012 will depend on the GAAP deficit computed for Fiscal Year 2012, which will not be completed until January, so it's premature to convert the budgetary projection to GAAP at this time, Lembo added.

As for economic indicators, going forward, data from the state and federal Departments of Labor and other sources show continued slow growth this year, and employment numbers were particularly troubling:

## Employment

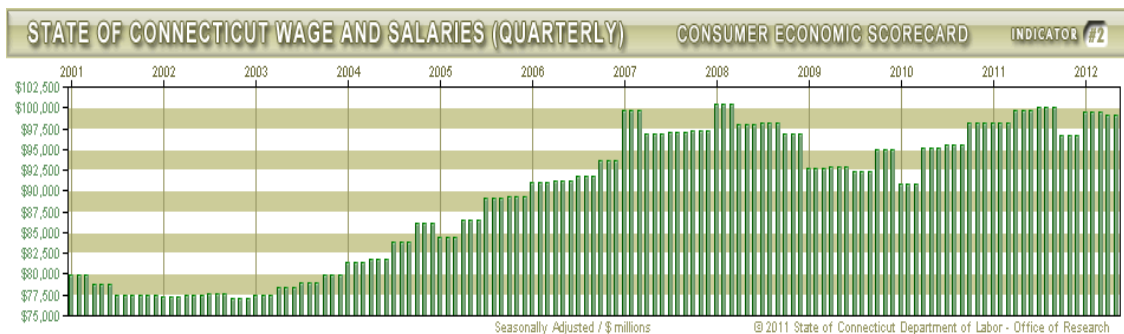
- According to the state Department of Labor, Connecticut lost 6,800 payroll jobs and the unemployment rate rose to 9 percent. This is the second largest monthly job loss since the jobs recovery began in 2010, and it has pushed the state's unemployment rate above the national level of 8.1 percent.
- Over the 12-month period ending in August, the state has added a net 1,100 jobs to payrolls.



- Based on this data, Connecticut has recovered just one quarter of the jobs lost during the recession.
- The strongest job losses for the month were posted in construction (down 1,300 jobs, -2.7 percent), and leisure and hospitality (down 3,100 jobs, -2.2 percent). Manufacturing also shed 1,200 jobs. No sector showed strong gains in August.
- On a year-to-date basis, education and health services has continued to be the strongest employment sector in the state with 11,000 payroll additions. Construction lost 3,100 positions followed closely by government down 2,900 jobs and financial activities down 2,500 positions.
- The US economy added 96,000 positions during August, well below the 200,000 anticipated at this stage of the expansion.
- Despite the poor employment statistics for the state, initial claims for unemployment insurance continued a downward trend in Connecticut, falling 2.9 percent over the 12-month period ending in August.
- In addition, the withholding portion of the income tax was up almost 11 percent through August compared to the same period last year.

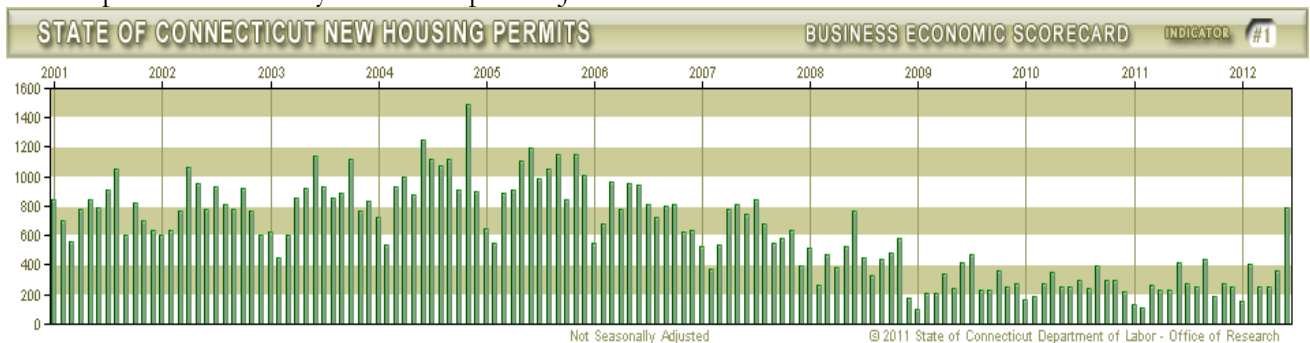
## Wage and **\$**Salary income

- In the 2nd quarter of 2012, on a seasonally adjusted quarterly basis, Bureau of Economic Analysis data shows Connecticut's quarterly personal income advancing at a rate of 0.9 percent from last quarter, ranking the state 34<sup>th</sup> nationally in quarterly growth.
- This is a deceleration from the 1<sup>st</sup> quarter when income rose at a 1.4-percent quarterly rate, ranking Connecticut 13<sup>th</sup> nationally.
- 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, but is up 6.7 percent from the recessionary dip.
- Connecticut's average hourly earnings were down 1.1 percent from August of last year, and weekly private sector pay fell 1.4 percent from August of the previous year.



## Housing

- For the 12-month period ending July, housing permits in the state were up 30 percent over last year with a spike in June.



- According to the Census Bureau, U.S. new home sales increased by 3.6 percent in July from the prior month and were up a solid 25.3 percent from 12 months ago.
- Sales in the Northeast rose 76.5 percent in July against June and were up 30.4 percent from one year ago.
- Results for the larger existing home sales market were as follows according to the National Association of Realtors: Nationally, August sales were up 7.8 percent from the previous month and were up 9.3 percent from August of last year. Home prices were up 9.5 percent from one year ago. Existing home sales in the Northeast rose 8.6 percent on both a month-over-month and 12-month period basis in August. Home prices in the Northeast were up less than 1 percent for the year.

## *Business Activity and Consumer Spending*

- At this writing, markets are trending up from the early summer declines. Major markets are following trends similar to the Dow Jones Industrial Average depicted below.

### **DOW:**



- Nationally, advance retail sales have slowed from the 6-percent gains experienced through most of last year.
- In August, sales were 4.7 percent higher than one year ago, edging up almost 1 percent from the previous month. The strongest gains for the year have been in furniture and home furnishings, auto dealers and non-store retailers. Most 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 3.7 percent, a drop from last month and a continuation of a downward trend.
- According to the Federal Reserve Board, U.S. consumer credit outstanding decreased at an annual rate of 1.5 percent in July. Revolving credit (credit cards) declined by 6.8 percent while non-revolving credit (loans) advanced 1 percent.
- Four out of seven business indicators tracked by the Connecticut Department of Labor were pointing up in the latest data set.

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