



News from:
COMPTROLLER KEVIN LEMBO

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Contact: Tara Downes
860-702-3308
Tara.Downes@po.state.ct.us

COMPTROLLER LEMBO PROJECTS GROWING DEFICIT FOR FISCAL YEAR 2013

Comptroller Kevin Lembo today announced that the state is currently on track to end Fiscal Year 2013 with a deficit of at least \$60.1 million due to poor revenue receipts and increased Medicaid caseload.

This current deficit projection amount is less than 1 percent of the state budget.

“I am increasingly concerned with the deterioration in revenue receipts, especially in the sales tax category,” Lembo said in a letter to Gov. Dannel P. Malloy. “The potential for a deficit in excess of 1 percent of General Fund appropriations is growing.”

State revenue is currently projected to be \$16.7 million above projections – but only because of federal Medicaid recoveries due to higher state spending. Lembo said the sales tax growth is below target, which historically has correlated to personal income growth in the state.

Total General Fund spending is expected to exceed its original target by \$80 million, mostly due to Medicaid spending, which is \$100 million over budget due to caseload growth. That higher-than-anticipated Medicaid expenditure is partially offset by \$20 million in lower debt service payments due to a favorable interest rate environment.

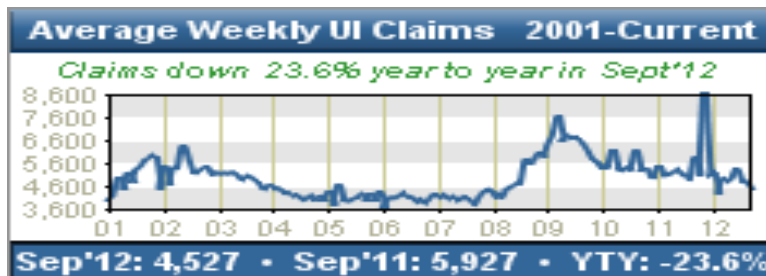
Lembo said continued slow state and national economic growth remains a concern, as it has the single greatest influence on the state budget. Lembo reported the following based on data from state and federal labor and other sources:

Employment

- Connecticut's employment outlook marginally improved in September following a poor August performance.
- The state added 2,000 payroll jobs in September, bringing the job additions for the 12-month period ending in September to 1,900.
- To date, calendar year 2012 has posted four months of job gains, four months of job losses and one month with no change.
- The first nine months of 2012 have now produced job growth of 2,600 positions, which is behind last year's pace of 8,500 jobs added through September 2011.



- Connecticut has recovered 31,400 (just over one quarter) of the 117,500 total nonfarm jobs lost in the March 2008 - February 2010 recessionary downturn. The private sector has regained almost 40 percent of its job loss.
- Job losses have persisted even after the recovery began in government (-11,200), financial activities (-3,000), construction and mining (-1,200), other services (-100), and more recently manufacturing (-200). The strongest job gains have continued to be in educational and health services with 25,500 jobs added during the recovery.
- Connecticut's unemployment rate in September was 8.9 percent; the national rate was 7.8 percent. Last month saw the single largest increase in the state's unemployment rate since 1976, Therefore, a slight decline of one tenth of one percent from last month was stabilizing.
- Initial claims for unemployment insurance have been on a generally downward trend since last year at this time.

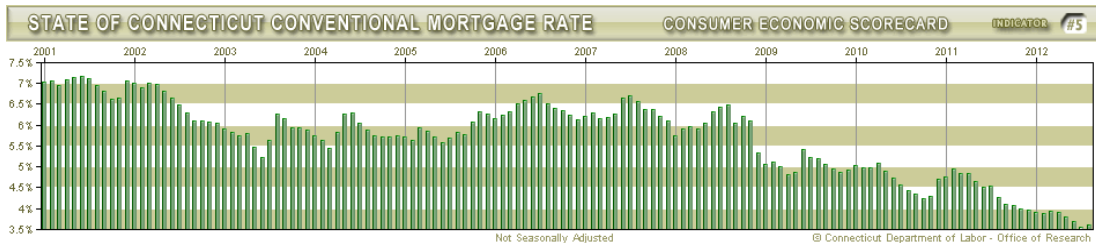


Wage and **\$**Salary income

- 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% from last quarter ranking the state 34th nationally in quarterly growth. This is a deceleration from the 1st quarter when income rose at a 1.4 percent quarterly rate ranking Connecticut 13th nationally.
- Third quarter results for Connecticut will not be available until December 19th.
- Both hours worked and weekly wages are relatively flat from the same September period of one year ago. The Consumer Price Index (CPI) for all urban consumers rose 2 percent in September.



- Mortgage rates remain at historically low levels.



- Housing permits in Connecticut have been showing double-digit rates of increase on a seasonally adjusted basis throughout the summer months. Connecticut building activity is running ahead of national rates of increase, which are also strong.
- According to the Census Bureau, U.S. new home sales decreased slightly in August from the prior month but were up a solid 27.7 percent from 12 months ago. Sales in the Northeast rose 20 percent in August as compared to July and were up 56.5 percent from one year ago.
- Results for the larger existing home sales market were as follows according to the National Association of Realtors: Nationally, September sales were down 1.7 percent from the previous month but were up 11 percent from September of last year. Home prices were up 11.3 percent from one year ago. Existing home sales in the Northeast declined 6.3 percent on a month-over-month basis in September. For the 12-month period ending in September sales were up 7.3 percent. Home prices in the Northeast were up 4.1 percent for the year to a median price of \$238,700.

- According to the Federal Reserve's Beige Book, housing is one area of the economy that is showing strong growth throughout the Fed's twelve districts.

Business Activity and Consumer Spending

- At this writing, markets are up from the early summer slide but are unsteady.

DOW:



- Nationally, advance retail sales have slowed from the gains of over 6 percent experienced through most of last year. However, September sales were up a solid 1.1 percent from last month and are 5.4 percent higher than one year ago.
- Non-retailer sales were up 15 percent and auto and other motor vehicle dealers were up 9.3 percent as compared to the same time last year.
- According to the Federal Reserve Board, in August, consumer credit increased at a seasonally adjusted annual rate of 8 percent. Revolving credit increased at an annual rate of 6 percent, and non-revolving credit increased at an annual rate of 9 percent. Consumer credit remains at post recessionary low rates of increase.
- Corporate profits have been slowing and the last half of the year is expected to continue that trend. Third quarter earnings were expected to be relatively flat. Analysts are beginning to lower fourth quarter estimates based on an expected weakening in global demand.
- Four of the eight indicators that the Department of Labor uses to track business trends are up and four are down. Air cargo loads have been trending up since last year. Exports have strengthened over the past two months. The manufacturing production index has been in decline for the past two months.

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