News from:

**COMPTROLLER KEVIN LEMBO**

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# COMPTROLLER LEMBO REPORTS IMPROVEMENT FOR FISCAL YEAR 2013 OUTLOOK

Comptroller Kevin Lembo today announced that an improvement in revenue is shrinking the projected deficit and improving the outlook for the end of Fiscal Year 2013.

In a letter to Gov. Dannel P. Malloy, Lembo said he is currently projecting a $91.3-million deficit for the end of the fiscal year – a $40-million improvement over his projection last month – and said it's possible the deficit could be eliminated entirely.

Lembo said the reduced deficit projection is almost entirely driven by revenue and primarily attributable to a $30-million gain in the inheritance tax. Unanticipated increases in Medicaid caseload numbers throughout the year have produced most of the spending in excess of original budget projections.

"It should be noted that both the actual expenditure growth trend through February, and the OPM (Office of Policy and Management) spending target, represent historically low rates of General Fund spending growth," Lembo said. "This low growth in spending has also helped to mitigate the Fiscal Year 2013 deficit.

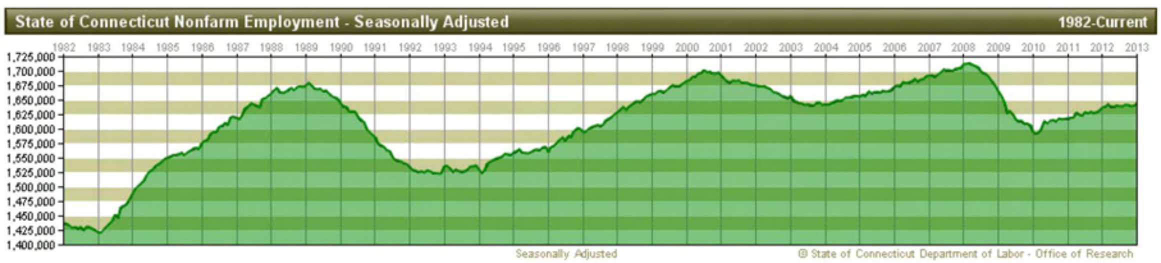
"Connecticut's economy is showing signs of a moderate, but steady, recovery," Lembo said.

Lembo highlighted a point of interest to monitor going forward with respect to young adults, particularly those under 35. According to a recent Pew Research Center report and available government data, young adult U.S. households are carrying lower debt (mortgage loans, credit cards, auto loans, student loans and other consumer borrowing) – despite ballooning student loans. Fewer young adults are carrying credit-card balances and 22 percent didn't have any debt at all in 2010 – the most since government tracking began in

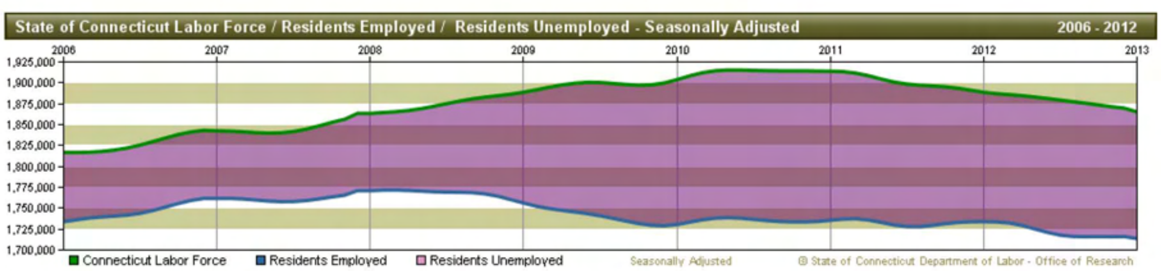
1983, according to these reports.

## Employment

- Based on newly established benchmark data, the state added 700 jobs in the first two months of the new year.
- During all of 2012, the state gained 8,600 jobs. This followed a 2011 gain of 14,300 jobs.




- Connecticut has regained over 40 percent of the 121,200 jobs lost to recession. This puts the current recovery ahead of the job growth experienced after the 1990s recession during which over 155,000 jobs were lost, but behind the growth rate experienced after the 2000 recession that saw the loss of almost 65,000 jobs. As might be expected, the depth of the job loss correlates to the rate of recovery.
- Connecticut's labor force has been in decline for the past two years. During 2011 and 2012, 44,300 people left the state's labor force. The shaded area between the two lines represents the number of unemployed residents. There are over 150,000 residents unemployed.



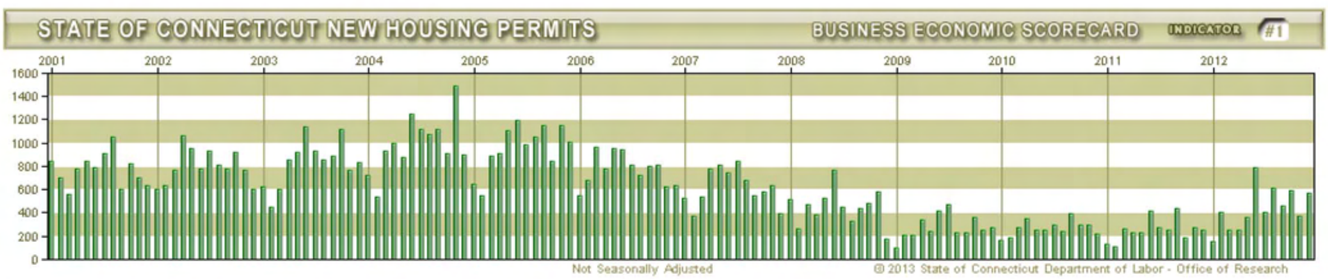

## Wage and $alary income

- In 2012 Connecticut personal income advanced 2 percent, ranking the state 49th nationally in income growth.
- The strongest growth in the New England region was in Vermont with growth of 3.4 percent.

- Nationally, income grew at a 3.5-percent rate in 2012. Quarterly personal income in Connecticut performed better in the first half of 2012 than the second half. Average weekly hours worked and weekly pay are stagnant or decreasing.
- The Consumer Price Index (CPI) for all urban consumers is advancing at a rate of less than 1 percent.

## Housing

- Housing permits in Connecticut have continued to post strong gains coming into 2013. Permit activity for the 12-month period ending in January of this year was up 75 percent from the same period one year ago.




- According to the Census Bureau, U.S. new home sales increased 12.3 percent from last February. Sales in the Northeast fell 10.3 percent from February of last year. Both nationally and in the Northeast new home activity slowed in February from the previous month.
- Results for the larger existing home sales market were as follows according to the National Association of Realtors:
- Nationally, February sales were up 0.8 percent from the previous month, and were up 10.2 percent from February of last year.
    - Home prices were up a solid 11.6 percent from one year ago. Existing home sales in the Northeast decreased 3.1 percent on a month over month basis in February.
    - For the 12-month period ending in February sales were up 8.6 percent.
    - Home prices in the Northeast were up 7.6 percent for the year to a median price of $238,800.

## Business Activity and Consumer Spending

- The S&P 500 index is trading at 13.6 times estimated 12-month earnings, compared with around 14.9 times in October 2007 when the index hit its intraday high, according to Thomson Reuters data. This suggests that stocks are still about 9 percent cheaper than they were at the 2007 peak.

- At this writing, the DOW and major market indexes continue on an upward trend:

**DOW**:


## Consumers

- In February advance retail sales were up 4.6 percent from last year. Sales were slightly better than last month, but still well off the pace set in FY 12. The strongest growth was in automobiles and non-store retailer sales.
- The auto industry said 2012 was its best year in five years in the U.S., helped by a strong boost in sales in December. Sales totaled 14.5 million in 2012, 13 percent higher than in 2011. Sales at Chrysler, the smallest of automakers headquartered in Detroit, increased 21 percent.
- Workers are seeing decreased take-home pay since the expiration of the two-year payroll tax reduction. The tax change is expected to remove about $125 billion in expendable income from consumers. Connecticut's share of the loss would be about $2 billion.
- A tightening of debt-driven consumption especially with respect to consumers under age 35 is negatively impacting sales. A typical young U.S. household had $15,000 in total debt in 2010, down from $18,000 in 2001 and the lowest since 1995, according to a recent Pew Research Center report and government data. Total debt includes mortgage loans, credit cards, auto lending, student loans and other consumer borrowing. In addition, fewer young adults carried credit-card balances and 22 percent didn't have any debt at all in 2010—the most since government tracking began in 1983.
- The lower debt level of young households comes despite a ballooning of student loans. These loans stood at $966 billion in 2012, up from $253 billion in 2003.
- According to the Federal Reserve, overall consumer credit in January increased at a seasonally adjusted annual rate of 7 percent. Revolving credit was little changed, while non-revolving credit increased 10 percent.

## Business and Economic Growth

- Real GDP growth was relatively flat in the 4th quarter of 2012 advancing 0.4 percent. In the 3rd quarter GDP advanced by a stronger than expected 3.1 percent.
- According to Barclay's economists, since 2008 corporate earnings have been advancing at an annual rate of 20.1 percent.
- As a percentage of national income, corporate profits stood at 14.2 percent in the third quarter of 2012, the largest share at any time since 1950, while the portion of income that went to employees was 61.7 percent, near its lowest point since 1966.
- The Labor Department's scorecard of business activity was mixed in 2012.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