



Finance Bulletin

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Economic Update

More signs of an improving economy arrived in February 2011. Job gains continued for the fifth consecutive month and, further, the gains were spread widely across the private sector. The unemployment rate dropped for the second month in a row. Unfortunately, home building and real estate markets continued to be a major source of economic weakness for California.

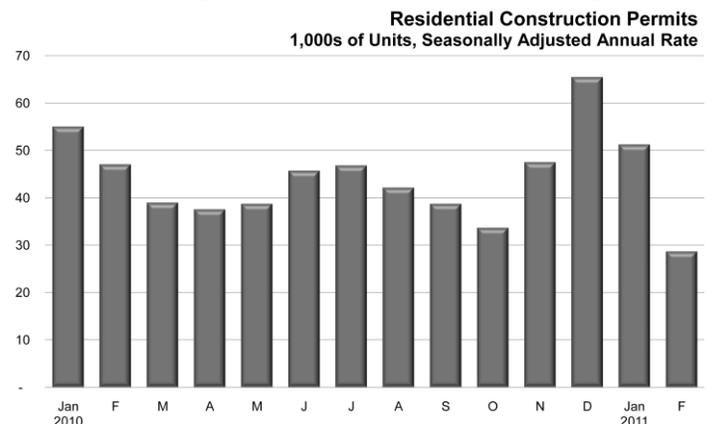
LABOR MARKET CONDITIONS

- California [gained 96,500 nonfarm jobs in February 2011](#)—the largest month-to-month gain in a record going back to 1990. This was also the fifth in a string of monthly job gains that average 41,600.
- The job gains were widely spread, with government the only major industry sector to lose jobs. Professional and business services added 39,700 jobs; construction, 15,500; information, 15,500; trade, transportation, and utilities, 9,100; leisure and hospitality, 5,900; other services, 3,800; manufacturing, 3,600; financial activities, 2,500; educational and health services, 2,000; and mining and logging, 100. The public sector lost jobs (1,200) in February, with state government employment essentially accounting for all of the losses.
- Nonfarm payroll employment rose 196,400 from February 2010 to February 2011—the fifth consecutive annual gain and the strongest growth (1.4 percent) since October 2006. Employment rose 100,000 in professional and business services; 49,200 in educational and health services; 38,200 in trade, transportation, and utilities; 32,000 in leisure and hospitality; 24,800 in information; 9,500 in manufacturing; 6,400 in construction; and 1,300 in mining and logging.
- Over the year, the public sector accounted for most of the jobs lost. Employment fell by 62,000 in government; 2,500 in other services; and 500 in financial activities.
- The state's unemployment rate fell to 12.2 percent in February—the second consecutive month-over decline and the lowest rate since December 2009. The number of people unemployed in California was 2,202,000—down 44,500 over the month, and down 49,500 compared with February of last year.
- Total nonfarm employment was still down 1,134,800 from the beginning of the national recession in December 2007.

BUILDING ACTIVITY

- Home building fell for a second consecutive month in February following an end-of-the-year surge to beat the imposition of new building codes that took effect at the beginning of 2011. Despite the weak showing in the first two months of the year, the average pace of permitting during the four months ending with February was up 6 percent from the same period a year earlier.
- In February, residential permits were issued at a seasonally adjusted annual rate of 28,652 units, down 39 percent from a year earlier. Single-family permits were down 33 percent, while multi-family permitting was down over 48 percent.
- Nonresidential construction permitting also slowed slightly in February but was still up almost 11 percent from a year earlier. In fact, permitting accelerated on a year-over-year basis in four out of the most recent six months. For the six months ending with February 2011, nonresidential permitting was up 7.5 percent from the same months a year earlier.

Home Building Slows After Year-end Surge



REAL ESTATE

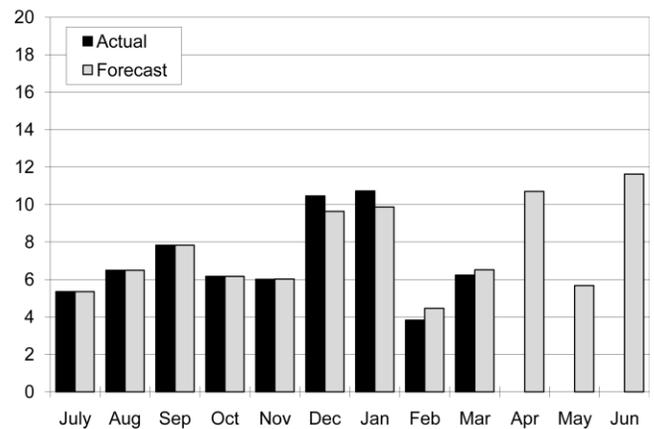
- Real estate markets were stuck in neutral in February. Sales of existing, single-family detached homes—497,700 units at a seasonally adjusted annualized rate—dropped 9 percent from January. The median sales price also dropped 2.8 percent in February—to \$271,300—and was down 2.5 percent from a year earlier.
- The unsold inventory index rose to 7.3 months. The median number of days needed to sell a home lengthened to 64.4 days—the longest median registered since February 2008.
(Source: [California Association of Realtors](#))

Monthly Cash Report

Preliminary General Fund agency cash for March was \$277 million below the 2011-12 Governor's Budget forecast of \$6.511 billion. Year-to-date revenues are \$763 million above the estimate of \$62.315 billion. Adjusting for the cancelled sale-leaseback of state buildings, revenues would be almost \$2 billion above forecast.

- Personal income tax revenues to the General Fund were \$1.346 billion above the month's forecast of \$870 million. Withholding receipts were \$450 million above the estimate of \$3.432 billion and other receipts were \$32 million lower than the projected level of \$553 million. The primary gain in receipts was due to refunds, which came in \$952 million under the estimate of \$3.099 billion. This shortage was primarily due to a forecast misallocation of refunds between February and March. (February refunds came in \$445 million above forecast). April will be a critical month for this tax as final returns or extension requests for the 2010 tax year are filed. Proposition 63 requires that 1.76 percent of total monthly personal income tax collections be transferred to the Mental Health Services Fund (MHSF). The amount transferred to the MHSF in March was \$24 million above the estimate of \$16 million. Year-to-date General Fund income tax revenues are \$2.641 billion above estimate.
- Sales and use tax receipts were \$54 million above the month's forecast of \$1.886 billion. March cash includes the second prepayment for first quarter sales and use tax liabilities. Year-to-date, the sales tax cash is \$21 million below expectations.
- Corporation tax revenues were \$423 million below the month's estimate of \$1.991 billion. Prepayments were \$4 million below the forecast of \$680 million and other payments, which include the final payments for 2010 calendar year corporations, were \$423 million lower than the \$1.406 billion that was anticipated. The loss in final payments suggests that underlying profits in 2010 were not as strong as expected. Total refunds for the month were \$4 million lower than the estimate of \$95 million. Year-to-date revenues are \$603 million below estimate.
- Total Vehicle License Fee General Fund revenues reported in March were \$15 million lower than the estimate of \$129 million. Year-to-date revenues are \$39 million below forecast.
- Insurance tax revenues were \$4 million below the month's estimate of \$307 million. The forecast assumed that \$27 million of refunds attributable to a Board of Equalization (BOE) decision in the California Automobile Insurance Company case. Recent information indicates that refunds will most likely be delayed until 2011-12. After adjusting for the delayed refunds, year-to-date revenues would be \$25 million below forecast.
- Revenues from the estate, alcoholic beverage, tobacco taxes and pooled money interest came in \$1 million below the \$33 million that was expected. "Other" revenues were \$1.234 billion below the month's estimate of \$1.295 billion, primarily due to the recent cancellation of the plan to sell and then lease back 11 state-owned properties, which was estimated to generate about \$1.2 billion this month.

**General Fund Agency Cash
2011-12 Governor's Budget Forecast**
(Dollars in Billions)



2010-11 Comparison of Actual and Forecast Agency General Fund Revenues

Revenue Source	MARCH 2011				2010-11 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$870	\$2,216	\$1,346	154.7%	\$30,999	\$33,640	\$2,641	8.5%
Sales & Use	1,886	1,940	54	2.9%	19,824	19,803	-21	-0.1%
Corporation	1,991	1,568	-423	-21.2%	6,320	5,717	-603	-9.5%
Insurance	307	303	-4	-1.3%	1,308	1,348	40	3.1%
Estate	0	1	1	n/a	5	7	2	40.0%
Pooled Money Interest	4	2	-2	-50.0%	28	23	-5	-17.9%
Alcoholic Beverages	22	22	0	0.0%	243	248	5	2.1%
Tobacco	7	7	0	0.0%	70	70	0	0.0%
Vehicle License Fees	129	114	-15	-11.6%	1,075	1,036	-39	-3.6%
Other	1,295	61	-1,234	-95.3%	2,443	1,186	-1,257	-51.5%
Total	\$6,511	\$6,234	-\$277	-4.3%	\$62,315	\$63,078	\$763	1.2%

This is an agency cash report and the data may differ from the Controller's report to the extent that cash received by agencies has not yet been reported to the Controller.

Totals may not add due to rounding. The forecast is from the 2011-12 Governor's Budget.