



Finance Bulletin

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Economic Update

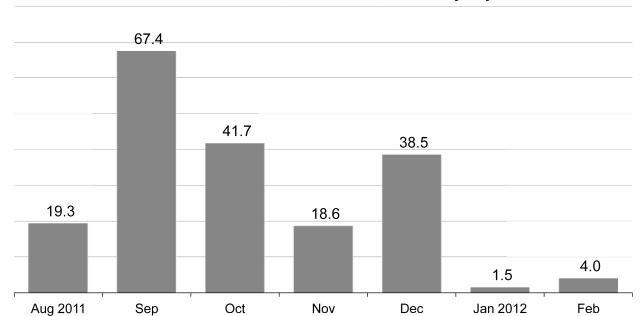
California continued to experience a very measured recovery. Employment growth continued in the first two months of 2012, but at a much slower pace than at the end of 2011. The pace of homebuilding during January and February was subdued, but improved from a year earlier.

LABOR MARKET CONDITIONS

- In February, labor markets continued to make progress, but at a gradual pace. Nonfarm employment expanded modestly and the job loss originally reported in January was revised to a small gain. The unemployment rate held steady.
- The pace of job growth during the first two months of 2012 was much weaker than during the last few months of 2011—just 2,800 per month on average in January and February compared to 37,100 per month on average during August through December 2011. The unusually warm winter weather likely impacted construction, retail trade, and leisure and hospitality employment.
- California nonfarm payrolls grew by 4,000 jobs in February. The originally reported 5,200-job loss in January was revised to a 1,500-job gain—a 6,700-job swing.
- Four industries gained jobs, one held steady, and six lost. The largest gain was in information, which added 9,300 jobs following an unusual 23,200 loss in January. Other sectors that added jobs include manufacturing (6,200), education and health services (6,100), and professional and business services (2,800).
- The largest losses were in government (10,300) led by a sizable drop in local government employment (6,700). Other sectors that lost jobs include trade, transportation, and utilities (5,800), other services (2,300), construction (900), financial activities (600), and mining and logging (500). There was no change in leisure and hospitality employment.
- Nonfarm payroll employment rose by 127,300, or 0.9 percent, from February 2011 to February 2012.
- Employment rose 67,700 in professional and business services; 46,800 in trade, transportation, and utilities; 39,800 in educational and health services; 19,300 in leisure and hospitality; 4,300 in manufacturing; 3,500 in information; 2,300 in construction; and 500 in financial activities. There was no change in mining and logging employment.
- Over the year, employment fell by 49,800 in government; and 7,100 in other services.
- After falling in each of the five previous months, California's unemployment rate held steady at 10.9 percent in February.

Job Gains Slow at Beginning of 2012

Month-Over-Month Change in Nonfarm Employment
1,000s of Jobs, Seasonally Adjusted Annual Rate



BUILDING ACTIVITY

- As of April 2012, the Construction Industry Research Board (CIRB) ceased operation. At this point, residential construction data published by the Bureau of the Census will be used to evaluate California residential construction trends.
- After slowing dramatically in January, residential construction permitting rebounded in February. According to not seasonally adjusted data, permitting of multifamily units dropped over 80 percent in January and then reversed course, rising nearly 200 percent in February. Over the course of both January and February, residential permitting increased over 15 percent from the same months of 2011.

REAL ESTATE

- The news for California residential real estate markets was mixed in February. Home prices remained weak, but sales improved modestly. Inventory measures improved as well.
- Looking at the first two months of 2012 together, existing home sales were essentially unchanged from the same months of 2011, while the median price was down 2.8 percent.
- In February, the unsold inventory index inched down to 5.3 months. The median number of days needed to sell a home dropped to 58.9 days, down 9 percent from a year earlier.

Monthly Cash Report

Preliminary General Fund agency cash for March was \$236 million below the 2012-13 Governor's Budget forecast of \$5.928 billion. Year-to-date revenues are \$898 million below the estimate of \$57.114 billion.

- Personal income tax revenues to the General Fund were \$194 million below the month's forecast of \$2.514 billion. Withholding receipts were \$102 million above the estimate of \$3.947 billion and other receipts were \$8 million higher than the projected level of \$644 million. The primary loss in net receipts was due to refunds, which came in \$305 million above the estimate of \$2.034 billion. April will be a critical month for this tax as final returns or extension payments for the 2011 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 \$1 million below the estimate of \$43 million. Year-to-date General Fund income tax revenues are \$807 million below estimate.
- Sales and use tax receipts were \$48 million above the month's forecast of \$1,321 billion. March cash includes the second prepayment for first quarter sales and use tax liabilities. Year-to-date, the sales tax cash is \$41 million above expectations.
- Corporation tax revenues were \$143 million below the month's estimate of \$1.531 billion. Prepayments were \$251 million below the forecast of \$703 million and other payments, which include the final payments for 2011 calendar year corporations, were \$100 million higher than the \$933 million that was anticipated. Total refunds for the month were \$7 million lower than the estimate of \$105 million. Year-to-date revenues are \$304 million below estimate.
- Insurance tax revenues were \$89 million above the month's estimate of \$376 million, due partly to the revised timeline for issuing refunds resulting from a Board of Equalization (BOE) decision in the *California Automobile Insurance Company* case (December 12, 2006). The forecast assumed \$27 million of refunds attributable to the BOE decision would be issued this month; however, recent information indicates that refunds will be delayed until 2012-13. The remaining \$62 million gain is likely to be due to timing and could be offset in April. Year-to-date insurance tax revenues are \$127 million above the forecasted \$1.422 billion. Adjusting for the delayed refunds, year-to-date revenues would be \$52 million above forecast.
- Revenues from the estate, alcoholic beverage, tobacco taxes, the vehicle license fee, and pooled money interest matched the \$37 million that was expected. "Other" revenues were \$36 million below the month's estimate of \$149 million.

2011-12 Comparison of Actual and Forecast Agency General Fund Revenues

(Dollars in Millions)

Revenue Source	MARCH 2012				2011-12 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$2,514	\$2,320	-\$194	-7.7%	\$34,048	\$33,241	-\$807	-2.4%
Sales & Use	1,321	1,369	48	3.6%	14,673	14,714	41	0.3%
Corporation	1,531	1,388	-143	-9.3%	5,054	4,750	-304	-6.0%
Insurance	376	465	89	23.7%	1,422	1,549	127	8.9%
Estate	0	0	0	0.0%	0	1	1	n/a
Pooled Money Interest	3	3	0	0.0%	21	17	-4	-19.0%
Alcoholic Beverages	23	25	2	8.7%	248	256	8	3.2%
Tobacco	7	7	0	0.0%	72	73	1	1.4%
Vehicle License Fees	4	2	-2	-50.0%	72	66	-6	-8.3%
Other	149	113	-36	-24.2%	1,504	1,549	45	3.0%
Total	\$5,928	\$5,692	-\$236	-4.0%	\$57,114	\$56,216	-\$898	-1.6%

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 2012-13 Governor's Budget.