



Finance Bulletin

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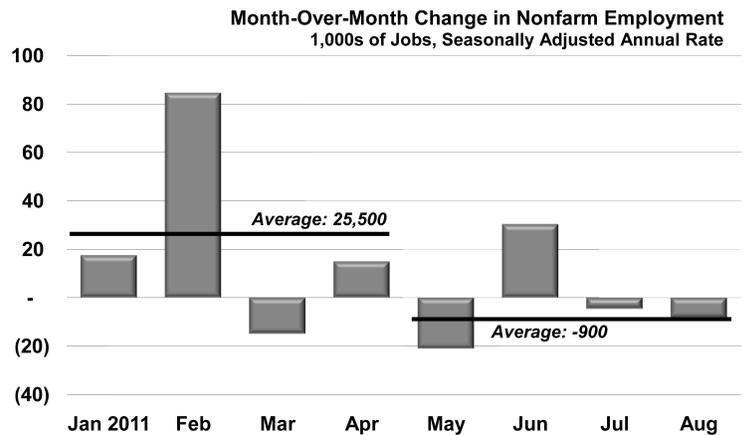
Economic Update

The state's economic recovery appears to have lost momentum. While an average of 25,500 jobs were gained each month between January and April, an average of 900 jobs were lost each month from May to August. Home construction improved in August, but at a subdued rate.

LABOR MARKET CONDITIONS

- California lost 8,400 nonfarm jobs in August 2011—the second consecutive month-over-month loss and the fourth loss in six months.
- Only five of the state's 11 major industry sectors gained jobs in August. After three consecutive month-to-month losses, a strong gain in retail trade employment led the trade, transportation, and utilities sector to add 5,700 jobs. Manufacturing added 1,600 jobs; leisure and hospitality, 1,500; mining and logging, 200; and professional and business services, 100.
- Construction lost 7,200 jobs; financial activities, 4,000; government, 3,600; other services, 1,300; information, 800; and educational and health services, 600.
- From August 2010 to August 2011, nonfarm payroll employment rose by 171,300 (1.2 percent)—the 11th consecutive annual increase.
- On a year-over-year basis, employment rose 57,800 in professional and business services; 46,600 in educational and health services; 35,900 in leisure and hospitality; 24,100 in information; 19,600 in trade, transportation, and utilities; 17,200 in manufacturing; 7,800 in construction; and 400 in mining and logging.
- Over the year, employment fell by 27,300 in government; 6,600 in financial activities; and 4,200 in other services.
- The state's unemployment rate rose to 12.1 percent in August—the third consecutive increase. The number of people unemployed in California rose 8,800, but was down 82,800 compared with August of last year.

Job Growth Sputters



BUILDING ACTIVITY

- New home construction continued to be led by strong growth in multi-family building. Residential permits were issued at a seasonally adjusted annual rate of 49,733 units, up nearly 21 percent from a year earlier. Multi-family permitting was up 57 percent. Conversely, single-family permits were down 8.2 percent.
- Nonresidential construction permitting slowed in August but was up 9.5 percent from a year earlier. For the first eight months of 2011 as a whole, nonresidential permitting was up 14 percent from the same months of 2010, led by healthy gains in store, industrial, and alteration and addition construction.

REAL ESTATE

- August saw a modest rebound in existing home markets. Sales of existing, single-family detached homes totaled 497,390 units at a seasonally adjusted annualized rate in August, which more than made up for a sharp slowdown in July.
- The median price of existing, single-family homes sold in August also improved, rising to \$297,000—the highest median price thus far in 2011.
- There was mixed news for the housing inventory situation in August. The unsold inventory index fell to 5 months. However, the median number of days needed to sell a home stretched out to 52.7 days. (Source: [California Association of Realtors](#)).

Monthly Cash Report

Preliminary General Fund agency cash for September was \$62 million below the 2011-12 Budget Act forecast of \$7.291 billion. Year-to-date revenues are \$654 million below the expected \$19.39 billion. Compared to the May Revision forecast, the 2011-12 Budget Act assumed a \$4 billion increase in revenues for the entire 2011-12 fiscal year that was not allocated to any of the individual taxes. The \$4 billion unallocated revenue increase was spread out by month in a pattern that is roughly proportional to expected Personal Income Tax (PIT) collections. The forecast for September included \$310 million of an unallocated revenue increase. If 2011-12 revenues are to reach their expected level, it is anticipated that the bulk of these revenues would be reflected in higher PIT and Corporation estimated tax payments and final return payments which will be made in the months of December, 2011, through June, 2012. In November and December, the Legislative Analyst's Office and Finance will produce new forecasts of revenue for the 2011-12 fiscal year based on the economic and cash data available at those times. It is these forecasts that will determine whether the "trigger" budget reductions will be implemented.

- Personal income tax revenues to the General Fund were \$373 million higher than the \$3.99 billion forecast for the month. Withholding receipts were \$36 million above the projected level of \$2.966 billion and estimated payments came in \$233 million above the estimated \$969 million. Beginning in 2010, under the Personal Income Tax Law and the Corporation Tax Law, the number of required estimated payments was reduced from four to three. The third estimated payment, which was due in September, is no longer required, yet many taxpayers still made a payment. It is unclear how much of this month's strength is due to more taxpayers making September estimated payments than had been predicted. Other receipts for September were \$27 million above the forecast of \$327 million, and refunds came in \$16 million below the forecast of \$198 million. Proposition 63 requires that 1.76 percent of total monthly personal income tax collections be transferred to the Mental Health Services Fund (MHSF). In September, the State Controller's Office made a \$64 million settle-up adjustment for amounts transferred in the 2009-10 fiscal year. As a result, the net amount transferred to the MHSF in September was \$61 million below the forecast of \$74 million. Year-to-date General Fund income tax revenues are \$467 million above forecast.
- Sales and use tax receipts were \$15 million below the month's forecast of \$1.449 billion. September represents the second prepayment for third quarter taxable sales. A more complete picture of third quarter sales activity will be available when final payments for the quarter are received in late October and early November. Year-to-date sales tax cash revenues are \$50 million below forecast.
- Corporation tax revenues were \$196 million below the estimate of \$1.115 billion. Prepayments were \$131 million lower than the estimate of \$985 million. The change in requirements for estimated payments, referred to under the personal income tax, also apply to business entities under the Corporation Tax Law. Other payments were \$29 million below the projected \$210 million, and refunds came in \$36 million above the estimated \$80 million. Year-to-date corporation tax revenues are \$227 million below forecast.
- Total Vehicle License Fee General Fund revenue reported in September was \$19 million below the forecast of \$26 million. The only General Fund VLF revenue that will be received in 2011-12 is late payments related to bills that were due prior to July 1, 2011 – when the 0.5-percent additional VLF rate was in place. It appears that this revenue is coming in more slowly than had been anticipated at the time of the Budget Act. Year-to-date revenues are \$44 million below forecast.
- Revenues from the insurance tax were \$103 million above the month's estimate of \$174 million, which offset the prior month's shortfall, as expected. Estate, alcoholic beverage, and tobacco taxes came in \$2 million above the month's estimate of \$36 million. Pooled money interest income and other revenues matched the month's estimate of \$191 million.

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

(Dollars in Millions)

| Revenue Source | SEPTEMBER 2011 | | | | | 2011-12 YEAR-TO-DATE | | | |
|------------------------------|----------------|----------------|--------------|----------------|----------|----------------------|-----------------|---------------|----------------|
| | Forecast | Actual | Change | Percent Change | | Forecast | Actual | Change | Percent Change |
| Personal Income (a) | \$3,990 | \$4,363 | \$373 | 9.3% | | \$10,319 | \$10,786 | \$467 | 4.5% |
| Sales & Use | 1,449 | 1,434 | -15 | -1.0% | | 5,298 | 5,248 | -50 | -0.9% |
| Corporation | 1,115 | 919 | -196 | -17.6% | | 1,567 | 1,340 | -227 | -14.5% |
| Insurance | 174 | 277 | 103 | 59.2% | | 509 | 536 | 27 | 5.3% |
| Estate | 0 | 1 | 1 | n/a | | 0 | 1 | 1 | n/a |
| Pooled Money Interest | 3 | 6 | 3 | 100.0% | | 11 | 8 | -3 | -27.3% |
| Alcoholic Beverages | 28 | 27 | -1 | -3.6% | | 86 | 86 | 0 | 0.0% |
| Tobacco | 8 | 10 | 2 | 25.0% | | 24 | 26 | 2 | 8.3% |
| Vehicle License Fees | 26 | 7 | -19 | -73.1% | | 91 | 47 | -44 | -48.4% |
| Other | 188 | 185 | -3 | -1.6% | | 710 | 658 | -52 | -7.3% |
| Unallocated Revenue Increase | 310 | | | | | 775 | | | |
| Total | \$7,291 | \$7,229 | -\$62 | -0.9% | | \$19,390 | \$18,736 | -\$654 | -3.4% |

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 May Revision updated for the 2011 Budget Act.

(a) September and year-to-date personal income tax revenue reflects a \$64 million revision to the MHSF transfer (see text for details).