



Finance Bulletin

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Economic Update

California economic indicators for mid-2011 reflect a slowing recovery. Job growth continued but at a slower pace than at the beginning of the year. Home building also weakened in June and July. Similarly, existing home sales moderated after hovering around a 500,000-unit pace during the first four months of the year.

LABOR MARKET CONDITIONS

- The employment report for July was mixed. While the state gained 4,500 nonfarm jobs, the unemployment rate ticked up two tenths of a percent to 12.0 percent, revealing that job growth has not been sufficient to bring down the state's unemployment rate.
- A bright spot in the report is the fact that the gains were broad-based, with improvement in eight of the 11 major industry sectors. Educational and health services added 4,200 jobs; construction, 3,200; other services, 1,500; information, 1,400; leisure and hospitality, 1,000; professional and business services, 700; mining and logging, 400; and manufacturing, 200. Three sectors lost jobs. Government lost 5,800 jobs; financial activities, 1,900; and trade, transportation, and utilities, 400.
- Eight of the state's major industry sectors gained jobs from July 2010 to July 2011 while three lost jobs. Employment rose 59,400 in professional and business services; 50,200 in educational and health services; 39,000 in leisure and hospitality; 30,000 in information; 19,800 in trade, transportation, and utilities; 15,000 in manufacturing; 13,100 in construction; and 300 in mining and logging.
- In contrast, the information sector was the state's fastest growing industry on a year-over-year basis, expanding 7.1 percent in July compared to a year ago. For the nation as a whole, employment in this sector fell 0.8 percent. Moreover, California's gains were regionally widespread. New jobs were added in the San Francisco Bay Area, the Los Angeles region, and San Diego.
- California's unemployment rate rose 0.2 percentage point to 12.0 percent in July—the second consecutive increase after falling in each of the five months leading up to June. In July, household employment fell 62,000, while the number unemployed rose 34,000. The July unemployment rate was still 0.5 percentage point lower than the recession peak of 12.5 percent.

BUILDING ACTIVITY

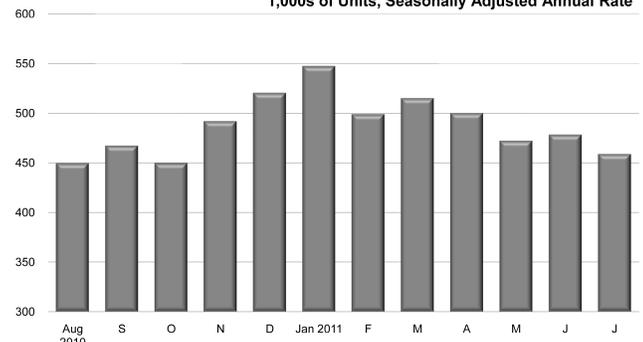
- New home construction permitting faltered in July with slowdowns in both single and multifamily sectors. This was the second consecutive drop in multifamily construction. July's month-over-month slowdown (69 percent) follows exceptionally strong gains in March and May (up 100 percent and 71 percent respectively). During the first seven months of 2011, multifamily permitting was up 22.6 percent from the same months of 2010. On the other hand, single family permitting was down 17.6 percent. Despite July's sharp decline, new home permitting during the first seven months of 2011 was down only 1 percent from the same period a year earlier.
- Nonresidential construction continued to outpace home building in July. Based on strong gains in store and parking structure building, business construction permitting rose over 19 percent in July from a year earlier. For the first seven months of 2011, nonresidential permitting was up 14 percent from the same months of 2010.

REAL ESTATE

- Existing home markets softened somewhat in July. The median price of existing, single-family detached homes sold in July (\$294,230) was essentially unchanged from June. In contrast, home sales slowed 4 percent from June—to a seasonally adjusted annualized rate of 458,400 units.
- Home inventory measures also weakened in July. The unsold inventory index moved up to 5.5 months from 5.0 months in June. The median number of days needed to sell a home rose to 52.1 days from 50.3 days. Despite the July readings, both measures improved since the start of the year. (Source: [California Association of Realtors](#)).

Home Sales Slow at Midyear

Sales of Existing Single-Family Homes
1,000s of Units, Seasonally Adjusted Annual Rate

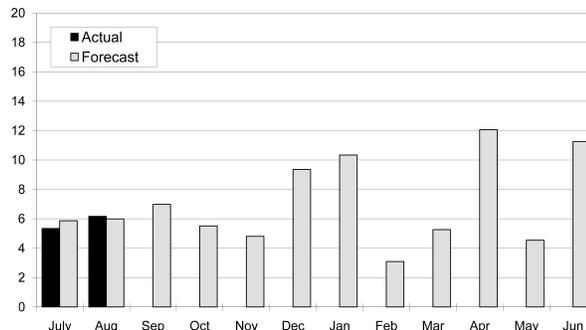


Monthly Cash Report

Preliminary General Fund agency cash for August was \$65 million below the 2011-12 Budget Act forecast of \$6.232 billion. Year-to-date revenues are \$596 million below the expected \$12.099 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 August included \$236 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 \$104 million above the month's forecast of \$3.164 billion. Withholding receipts were \$59 million higher than the projected level of \$3.094 billion. Other receipts were \$57 million above the anticipated \$307 million and refunds came in \$11 million over the estimate of \$179 million. 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 August was \$1 million above the month's estimate of \$58 million. It has been determined that there was a \$64 million overpayment to the MHFS in 2009-10. This overpayment will be recouped in the coming months via withholding of some or all of the monthly transfers that would otherwise be made. Year-to-date General Fund income tax revenues are \$91 million above estimate.
- Sales and use tax receipts were \$36 million below the month's forecast of \$2.209 billion. August cash includes the remaining portion of the final payment for the second quarter sales, which was due July 31. August receipts also include the first prepayment for third quarter sales, which were at the 3.9375 percent rate for the General Fund. The General Fund sales tax rate changed from 6 percent to 3.9375 percent on July 1, 2011. Year-to-date, the sales tax cash is \$35 million below forecast.
- Corporation tax revenues were \$78 million above the month's estimate of \$91 million. Prepayments were \$21 million higher than the forecast of \$57 million and other payments were \$25 million above the \$121 million that was expected. Refunds were \$32 million below the projected level of \$87 million. Year-to-date revenues are \$32 million below estimate.
- Total Vehicle License Fee General Fund revenue reported in August was \$12 million lower than the estimate of \$26 million. Year-to-date revenues are \$25 million below forecast.
- Revenues from the insurance tax were \$75 million below the month's estimate of \$323 million. This shortfall is due to timing which has been recovered in early September collections; the August cash includes the third quarterly prepayment, which was due September 1. Estate, alcoholic beverage, and tobacco taxes came in \$2 million below the \$34 million that was expected. Receipts from pooled money interest income and "other" revenues were \$114 million above the forecast of \$149 million.

General Fund Agency Cash
2011-12 Budget Act Forecast
(Dollars in Billions)



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

(Dollars in Millions)

Revenue Source	AUGUST 2011				2011-12 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$3,164	\$3,268	\$104	3.3%	\$6,329	\$6,420	\$91	1.4%
Sales & Use	2,209	2,173	-36	-1.6%	3,849	3,814	-35	-0.9%
Corporation	91	169	78	85.7%	452	420	-32	-7.1%
Insurance	323	248	-75	-23.2%	335	259	-76	-22.7%
Estate	0	0	0	0.0%	0	0	0	0.0%
Pooled Money Interest	4	1	-3	-75.0%	8	2	-6	-75.0%
Alcoholic Beverages	26	24	-2	-7.7%	58	59	1	1.7%
Tobacco	8	8	0	0.0%	16	16	0	0.0%
Vehicle License Fees	26	14	-12	-46.2%	65	40	-25	-38.5%
Other	145	262	117	80.7%	522	473	-49	-9.4%
Unallocated Revenue Increase	236				465			
Total	\$6,232	\$6,167	-\$65	-1.0%	\$12,099	\$11,503	-\$596	-4.9%

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.