



Finance Bulletin

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Economic Update

California closed out 2010 with guardedly positive economic news. Employment expanded during the last three months of the year at the fastest three-month pace since the end of 2005. Home building accelerated in December, but most likely will be followed by a slowdown in January. Existing home sales accelerated sharply in December in response to lower mortgage rates.

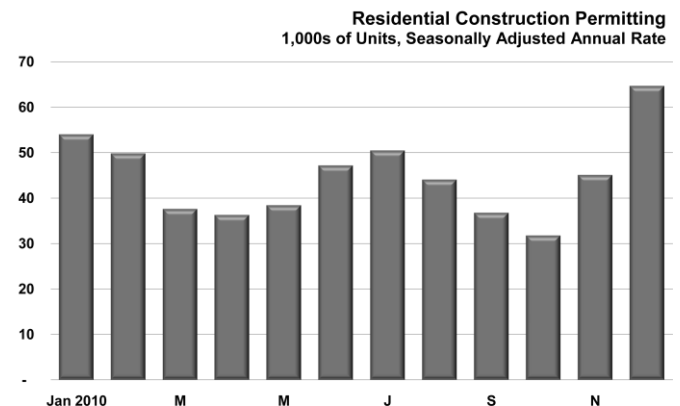
LABOR MARKET CONDITIONS

- California ended 2010 with a string of three consecutive job gains totaling 78,500 jobs.
- The state [added 4,900 nonfarm jobs in December 2010](#), with the new jobs spread across seven industry sectors. Leisure and hospitality added 9,300 jobs; professional and business services, 7,000; financial activities, 6,200; manufacturing, 4,400; educational and health services, 3,700; information, 3,000; and other services, 100.
- Four major industry sectors lost jobs. Government lost 15,400 jobs; trade, transportation, and utilities, 9,200; construction, 3,200; and mining and logging, 1,000.
- On a year-over-year basis, industry employment rose by 87,500 from December 2009 to December 2010. Employment rose 66,900 in professional and business services; 30,700 in educational and health services; 26,700 in leisure and hospitality; 12,900 in manufacturing; 5,000 in other services; 3,000 in financial activities; and 1,500 in information. Employment in mining and logging was unchanged over the year.
- The pattern of year-over losses clearly reflect the ongoing troubles in the state's housing market and state and local government fiscal problems. Over the year, employment fell by 32,900 in construction; 21,700 in government; and 4,600 in trade, transportation, and utilities (most of them in the retail trade subsector).
- The state's unemployment rate ticked up a tenth of a percent to 12.5 percent in December. The number of people unemployed in California was 2,269,290—up 3,600 over the month, and up 35,400 from December of last year.
- The labor market readings summarized above will be revised in early March when the annual benchmark revisions of California employment estimates are published.

BUILDING ACTIVITY

- Residential permitting accelerated dramatically at the end of the year in anticipation of new building codes that took effect at the beginning of 2011. This will likely result in an unseasonal drop in permitting activity in January 2011. Residential permits were issued at a seasonally adjusted annual rate of 64,600 units, up over 60 percent from a year earlier. Multi-family permitting rose 272 percent, while single-family permits were up almost 15 percent.
- For 2010 as a whole, nonresidential permitting was essentially unchanged from 2009. However, the pace of permitting decelerated during the second half of the 2010 ending with a sharp slowdown in December.

New Codes Bring Year-End Home Building Surge



REAL ESTATE

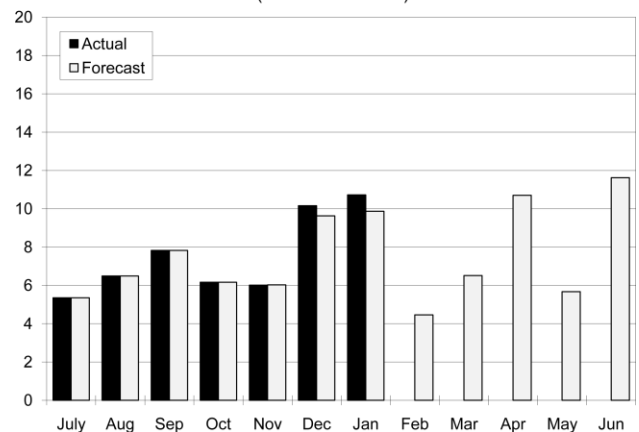
- California paralleled the nation by ending 2010 with a sharp uptick in home sales, most likely spurred by the low 30-year mortgage rates that prevailed in September, October, and November. Sales of existing, single-family detached homes totaled 520,680 units at a seasonally adjusted annualized rate in December, up nearly 6 percent from November. (Source: [California Association of Realtors](#))

Monthly Cash Report

Preliminary General Fund agency cash for January was \$856 million above the 2011-12 Governor's Budget forecast of \$9.864 billion. December cash was \$512 million higher than expected due primarily to large final-quarter personal income tax estimated payments. Year-to-date revenues are \$1.368 billion above forecast.

- Personal income tax revenues to the General Fund were \$494 million above the month's forecast of \$6.787 billion. A large portion of the gain was attributed to estimated payments, which were \$294 million above the projected level of \$3.297 billion. It is not known at this time if the strength is due to higher-than-expected year-end non-wage income, such as capital gains, or if it will be offset in April when final returns are due. Withholding contributed to the gain as well, coming in \$166 million above the estimate of \$3.686 billion. Other receipts were \$43 million above the forecast of \$265 million and refunds were \$1 million higher than the \$339 million that was expected. 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 January was \$8 million above the estimate of \$122 million. December's cash was \$777 million above forecast with the strength concentrated in estimated payments. Although due January 18, many taxpayers remit their fourth quarter estimated payment in December to be able to claim the payment as a federal income tax deduction for the 2010 year, rather than the 2011 year. Year-to-date General Fund income tax revenues are \$1.271 billion above estimate.
- Sales and use tax receipts were \$450 million above the month's forecast of \$2.346 billion. January cash represents the final payment for fourth quarter sales, which was due on January 31. A portion of this payment is received in early February. Early February cash receipts indicate that a portion of the January gain was due to timing. Year-to-date, the sales tax cash is \$166 million above estimate. Because of the recent law change exempting gasoline from the General Fund portion of the sales tax (local sales taxes still apply to gasoline), a portion of the local gas tax revenues was inadvertently allocated to the state General Fund (due to a reporting error) in the monthly cash receipts reported in August through January. The total amount of the overstatement for all those months is approximately \$300 million. The year-to-date sales tax number reported in this bulletin reflects the estimated \$300 million downward revision due to this issue.
- Corporation tax revenues were \$57 million below the month's estimate of \$421 million. Prepayments were \$52 million below the forecast of \$394 million and other payments were \$25 million lower than the forecast of \$121 million. Refunds were \$20 million below the projected level of \$94 million. Year-to-date revenues are \$43 million below estimate.
- Total Vehicle License Fee General Fund revenues reported in January were \$10 million lower than the estimate of \$118 million. Year-to-date revenues are \$6 million below forecast.
- Insurance tax revenues were \$10 million above the month's estimate of -\$1 million, primarily due to the recently revised timeline for finalizing regulations pursuant to a Board of Equalization (BOE) decision in the California Automobile Insurance Company case. The forecast assumed that \$11 million of refunds attributable to the BOE decision would be issued this month; however, recent information indicates that refunds will most likely be delayed until 2011-12. Year-to-date insurance tax revenues are \$22 million above forecast.
- Revenues from the estate, alcoholic beverage, tobacco taxes and pooled money interest came in \$4 million above the \$43 million that was expected. "Other" revenues were \$35 million below the month's estimate of \$150 million.

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



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

(Dollars in Millions)

| Revenue Source | JANUARY 2011 | | | | 2010-11 YEAR-TO-DATE | | | |
|-----------------------|----------------|-----------------|--------------|----------------|----------------------|-----------------|----------------|----------------|
| | Forecast | Actual | Change | Percent Change | Forecast | Actual | Change | Percent Change |
| Personal Income | \$6,787 | \$7,281 | \$494 | 7.3% | \$28,557 | \$29,828 | \$1,271 | 4.5% |
| Sales & Use (a) | 2,346 | 2,796 | 450 | 19.2% | 15,611 | 15,777 | 166 | 1.1% |
| Corporation | 421 | 364 | -57 | -13.5% | 4,059 | 4,016 | -43 | -1.1% |
| Insurance | -1 | 9 | 10 | -1000.0% | 1,005 | 1,027 | 22 | 2.2% |
| Estate | 0 | 1 | 1 | n/a | 5 | 6 | 1 | 20.0% |
| Pooled Money Interest | 4 | 3 | -1 | -25.0% | 22 | 20 | -2 | -9.1% |
| Alcoholic Beverages | 31 | 34 | 3 | 9.7% | 201 | 206 | 5 | 2.5% |
| Tobacco | 8 | 9 | 1 | 12.5% | 56 | 57 | 1 | 1.8% |
| Vehicle License Fees | 118 | 108 | -10 | -8.5% | 824 | 818 | -6 | -0.7% |
| Other | 150 | 115 | -35 | -23.3% | 1,007 | 960 | -47 | -4.7% |
| Total | \$9,864 | \$10,720 | \$856 | 8.7% | \$51,347 | \$52,715 | \$1,368 | 2.7% |

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.

(a) Year-to-date sales and use tax revenue reflects a \$300 million downward revision due to a reporting error (see text for details).