



Finance Bulletin

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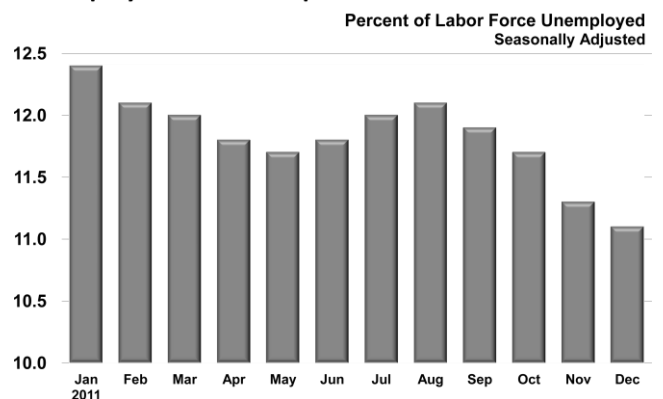
Economic Update

Most economic readings for the final months of 2011 indicate that the economy shrugged off the midyear slowdown and that the recovery may have become self-sustaining. Labor markets made steady progress. Real estate markets improved slightly. Construction activity accelerated modestly, but remained very subdued.

LABOR MARKET CONDITIONS

- California's labor market definitely picked up the pace in the closing months of 2011. In the four months ending with December, nonfarm employment rose 112,300 versus gaining only 25,800 in the preceding four months. The unemployment rate dropped a full percentage point during the final four months, compared to rising 0.3 percentage point in the preceding four months.
- The employment report for December 2011 contained good news across the board. Nonfarm jobs grew 10,700—the fifth consecutive month-over-month gain. November's gain was revised up to 24,700—an 18,200-job improvement from originally reported 6,500 gain.
- The unemployment rate tumbled 0.2 percentage point to 11.1 percent—the lowest rate since April 2009. In December, the number of Californians employed rose 73,000, unemployment dropped 37,000, and the labor force grew by 37,000.
- Looking at the industry employment trends; five industries gained jobs and six lost. The best gain in December was in professional and business services (13,400) and followed by construction (4,800) and then information (3,600), government (1,500) (mainly local education—state government payrolls dropped 1,300), and education and health services (600).
- The biggest loss in December was in trade, transportation and utilities (4,200)—likely due to post-holiday draw downs in retail trade and delivery services. Employment also fell in leisure and hospitality (3,400), manufacturing (2,500), other services (1,900), mining and logging 600), and financial activities (600).
- The employment estimates for 2007 through 2011 will change on March 9 following the annual benchmark revision process. The month-to-month pattern evident in the most recent months will still be evident, but the employment levels will be different.

Unemployment Rates Improves



BUILDING ACTIVITY

- Even though it faltered in December, home building activity followed a moderately—but volatile—rising trend during 2011. Despite this trend, home building remained at a relatively subdued level.
- Residential permits were issued at a seasonally adjusted annual rate of 51,813 units in December, down almost 19 percent from November. Single-family permits were down 12 percent, while multi-family permitting was down 23 percent.
- New home permitting during the 2011 as a whole was up 5 percent from 2010, but was down a substantial 78 percent from the prerecession peak in 2004.
- Similarly, after slowing sharply in 2008, nonresidential construction also gradually improved throughout 2011. Nonresidential permitting rose 18 percent in December from a year earlier. For 2011 as a whole, the pace of nonresidential permitting accelerated 16.3 percent from 2010. This gain was broad based with slowdowns in only two sectors, amusement parks and service stations.

REAL ESTATE

- Existing home markets firmed up slightly in the last two months of 2011, with modest improvement in prices and sales. However, both measures were still softer than a year earlier. Sales of existing, single-family detached homes in December totaled 520,940 units at a seasonally adjusted annualized rate, off nearly 7 percent from the pace set at the end of 2010. The median price of existing, single-family homes sold was \$285,920, down 6.2 percent from a year earlier.
- The inventory picture was mixed in December. The unsold inventory index slipped to 4.2 months—the lowest level since December 2009. Conversely, the median number of days needed to sell a home rose to 59 days, up slightly from a year earlier.

Monthly Cash Report

Preliminary General Fund agency cash for January was \$630 million below the 2012-13 Governor's Budget forecast of \$10.215 billion. Year-to-date revenues are \$625 million below forecast.

- Personal income tax revenues to the General Fund were \$679 million below the month's forecast of \$7.852 billion. The final estimated payment for the 2011 tax year, which was due in mid-January, came in \$609 million below the projected level of \$3.754 billion. This represented a year-over-year decline of 12.4 percent, which is in contrast to the 18.3-percent growth rate seen in the other estimated payment months for the 2011 tax year. Additional information on this reversal will not be known until after final 2011 income tax payments are made in mid-April. Withholding was \$19 million above the estimate of \$4.306 billion. Other receipts were \$13 million below the forecast of \$330 million and refunds were \$83 million higher than the \$402 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 \$7 million below the estimate of \$136 million. Year-to-date General Fund income tax revenues are \$631 million below estimate.
- Sales and use tax receipts were \$89 million above the month's forecast of \$1.932 billion. January cash represents the final payment for fourth quarter sales, which was due at the end of January, and a portion of this payment is received in early February. Year-to-date, the sales tax cash is \$36 million above forecast.
- Corporation tax revenues were \$127 million below the month's estimate of \$262 million. Prepayments were \$153 million below the forecast of \$353 million and other payments totaled \$85 million. Refunds were \$26 million below the projected level of \$176 million. Year-to-date revenues are \$122 million below estimate.
- Total Vehicle License Fee General Fund revenues reported in January were \$1 million lower than the estimate of \$4 million. Year-to-date revenues are \$2 million below forecast.
- Insurance tax revenues were \$10 million above the month's estimate of \$0 million, primarily due to the revised timeline for issuing refunds resulting from 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 be delayed. Year-to-date insurance tax revenues are \$16 million above the forecasted \$1,047 million. Adjusting for the delayed refunds, year-to-date revenues would be \$4 million below forecast.
- Revenues from the estate, alcoholic beverage, tobacco taxes and pooled money interest came in \$3 million above the \$43 million that was expected. "Other" revenues were \$75 million above the month's estimate of \$122 million.

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

Revenue Source	JANUARY 2012				2011-12 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$7,852	\$7,173	-\$679	-8.6%	\$30,101	\$29,470	-\$631	-2.1%
Sales & Use (a)	1,932	2,021	89	4.6%	11,859	11,895	36	0.3%
Corporation	262	135	-127	-48.5%	3,390	3,268	-122	-3.6%
Insurance	0	10	10	n/a	1,047	1,063	16	1.5%
Estate	0	0	0	0.0%	0	0	0	0.0%
Pooled Money Interest	3	1	-2	-66.7%	16	14	-2	-12.5%
Alcoholic Beverages	32	36	4	12.5%	205	209	4	2.0%
Tobacco	8	9	1	12.5%	58	59	1	1.7%
Vehicle License Fees	4	3	-1	-25.0%	64	62	-2	-3.1%
Other	122	197	75	61.5%	1,192	1,267	75	6.3%
Total	\$10,215	\$9,585	-\$630	-6.2%	\$47,932	\$47,307	-\$625	-1.3%

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.