



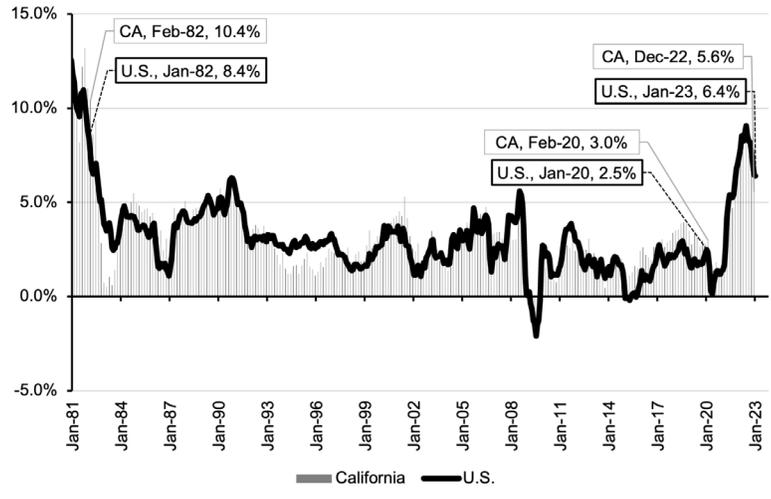
Finance Bulletin

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Economic Update

U.S. headline inflation slowed for the seventh consecutive month to 6.4 percent year-over-year in January 2023, down 0.1 percentage point from December and from the peak of 9.1 percent in June 2022. Core inflation—which excludes food and energy—slowed to 5.6 percent year-over-year, also down 0.1 percentage point from December. Food inflation slowed slightly from 10.4 percent to 10.1 percent but remained elevated while energy inflation increased to 8.7 percent from 7.3 percent year-over-year driven by the increase in gasoline prices. Shelter inflation, which measures rent currently paid by tenants, rose from 7.5 percent to 7.9 percent. This measure typically changes slower than other components and is expected to reflect the recent declines in asking rents later in 2023.

U.S. and California CPI Inflation Rates
(January 1981 - January 2023)



LABOR MARKET CONDITIONS

- The U.S. unemployment rate decreased 0.1 percentage point to 3.4 percent in January 2023, the lowest level since 1969. U.S. civilian employment increased by 894,000 in January while civilian unemployment decreased by 28,000. During January, the U.S. labor force increased by 866,000 people in January, bringing the labor force participation rate up 0.1 percentage point to 62.4 percent, 0.9 percentage point below the February 2020 pre-pandemic rate. The U.S. added 517,000 nonfarm jobs in January 2023, the largest job gain since July 2022 and higher than the average monthly gain of 401,000 in 2022. Ten of the eleven major sectors added jobs: leisure and hospitality (128,000), educational and health services (105,000), professional and business services (82,000), government (74,000), trade, transportation, and utilities (63,000), construction (25,000), manufacturing (19,000), other services (18,000), financial activities (6,000), and mining and logging (2,000). Information shed 5,000 jobs in January.
- California's unemployment rate remained unchanged at 4.1 percent in December 2022. The household survey -- which comprises all employed people including agricultural workers and self-employed workers-- indicated that civilian unemployment in the state decreased by 6,700 while civilian employment decreased by 20,000, and 26,800 people dropped out of the labor force. There were 293,300 (1.6 percent) fewer employed and 313,600 (1.6 percent) fewer persons in the labor force in December 2022 than in February 2020. The payroll survey--which measures nonfarm employment-- indicated that California added 16,200 nonfarm jobs in December 2022, driven by gains in educational and health services (8,200), followed by construction (7,500), government (6,000), leisure and hospitality (5,300), professional and business services (3,500), other services (1,300), financial activities (900), manufacturing (600), and mining and logging (100). Trade, transportation, and utilities (11,100) and information (6,100) lost jobs in December.

BUILDING ACTIVITY

- The statewide median price of existing single-family homes decreased to \$774,580 in December 2022, down 0.4 percent from November, down 2.8 percent from December 2021, and down 14 percent from the record high of \$900,170 in May 2022. Sales of existing single-family homes in California increased to 240,330 units (seasonally adjusted annual rate) in December 2022, up 1.1 percent from November but down 44.1 percent from December 2021. The average 30-year mortgage rate for December 2022 was 6.36 percent, down from 6.81 percent in November, but up from 3.1 percent in December 2021.

MONTHLY CASH REPORT

Preliminary General Fund agency cash receipts for the first seven months of the 2022-23 fiscal year were \$3.322 billion below the 2023-24 Governor's Budget forecast of \$105.011 billion. This is due to a \$2.002-billion shortfall in January cash receipts, a \$1.327-billion shortfall in December cash receipts, and minor revisions to receipts in prior months. Fiscal year-to-date shortfalls were mainly due to lower personal income tax revenues as well as corporate tax receipts that exclude Pass-Through Entity (PTE) Elective Tax payments. The shortfalls in personal income tax withholding and corporate estimated payments, which totaled \$2.18 billion, indicate genuine weakness relative to the forecast. In contrast, the higher-than-expected personal income tax refunds and shortfall in December personal income estimated payments, which led to a cumulative revenue shortfall of \$1.871 billion, were likely due to timing issues associated with the impact of higher PTE Elective Tax credit usage for tax year 2021, higher PTE Elective Tax payments of \$1.276 billion in December and January, and an early start of the IRS filing season that resulted in accelerated processing of refunds in January. The Governor's Budget monthly cashflow reflects the expected impact of delayed payment and filing deadlines for Californians in 41 counties to May 15 due to recent winter storms and flooding. This impacted 2022 fourth quarter personal income tax estimated payments that were initially due in January, adding significant uncertainty to interpreting January estimated payments cash results. Deadlines for various March and April payments for personal income tax and corporation tax were also shifted to May 15.

- Personal income tax cash receipts for the first seven months of the fiscal year were \$3.437 billion below the forecast of \$65.265 billion. December and January withholding receipts, which are significant due to large bonuses and stock-based compensation occurring within those months, were \$1.311 billion below forecast cumulatively. Much of the withholding weakness was related to 2022, including lower-than-expected bonus payments through the first week of January. Due to the delayed payment deadline for fourth quarter estimated payments, it is unknown to what extent taxpayer behavior that differed from what was assumed in the Governor's Budget cashflow affected the variance for estimated payments in January.
- Corporation tax cash receipts for the first seven months of the fiscal year were \$203 million above the forecast of \$16.910 billion, due entirely to higher PTE Elective Tax payments, which were \$1.276 billion above forecast. Corporation tax receipts that exclude PTE Elective Tax payments were \$1.073 billion below forecast fiscal year-to-date, including a \$545-million shortfall in January.
- Sales and use tax cash receipts for the first seven months of the fiscal year were \$128 million below the forecast of \$18.934 billion and were \$270 million above forecast in January.

2022-23 Comparison of Actual and Forecast Agency General Fund Revenues (Dollars in Millions)

Revenue Source	JANUARY 2023				2022-23 YEAR-TO-DATE			
	Forecast	Actual	Difference	Percent Difference	Forecast	Actual	Difference	Percent Difference
Personal Income	\$15,377	\$13,542	-\$1,835	-11.9%	\$65,265	\$61,828	-\$3,437	-5.3%
Withholding	9,301	7,968	-1,333	-14.3%	53,423	52,111	-1,311	-2.5%
Estimated Payments	5,981	5,936	-45	-0.7%	11,941	11,402	-539	-4.5%
Final Payments	134	145	11	8.4%	4,192	4,268	76	1.8%
Other Payments	866	801	-65	-7.5%	4,560	4,214	-346	-7.6%
Refunds	-616	-1,055	-439	71.2%	-7,552	-8,930	-1,377	18.2%
MHSF Transfer	-275	-243	33	-11.9%	-1,169	-1,108	62	-5.3%
Corporation	\$2,839	\$2,271	-\$568	-20.0%	\$16,910	\$17,113	\$203	1.2%
Estimated Payments	753	437	-317	-42.1%	7,830	6,962	-868	-11.1%
PTE Payments	1,911	1,888	-23	-1.2%	8,156	9,432	1,276	15.6%
Other Payments	327	371	45	13.8%	2,631	2,704	72	2.7%
Refunds	-152	-425	-273	180.1%	-1,707	-1,984	-277	16.2%
Sales & Use	\$1,486	\$1,755	\$270	18.1%	\$18,934	\$18,810	-\$124	-0.7%
Insurance	\$41	\$38	-\$3	-7.2%	\$1,798	\$1,775	-\$24	-1.3%
Pooled Money Interest	\$150	\$165	\$15	10.1%	\$805	\$747	-\$58	-7.2%
Alcohol	\$45	\$44	-\$2	-3.3%	\$271	\$267	-\$4	-1.4%
Tobacco	\$5	\$5	\$0	5.1%	\$30	\$30	\$0	0.5%
Other	\$159	\$279	\$121	76.2%	\$997	\$1,118	\$121	12.2%
Total	\$20,102	\$18,101	-\$2,002	-10.0%	\$105,011	\$101,689	-\$3,322	-3.2%

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. The personal income total includes Individual Shared Responsibility Penalty transfers. The forecast is from the 2023-24 Governor's Budget.