



Finance Bulletin

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Economic Update

Recent employment and construction data indicate that California's economy continues a slow recovery. The labor market report for September was a very welcome turnaround from the gloomy report for August. Amid considerable month-to-month volatility, home construction has shown modest improvement over 2010.

LABOR MARKET CONDITIONS

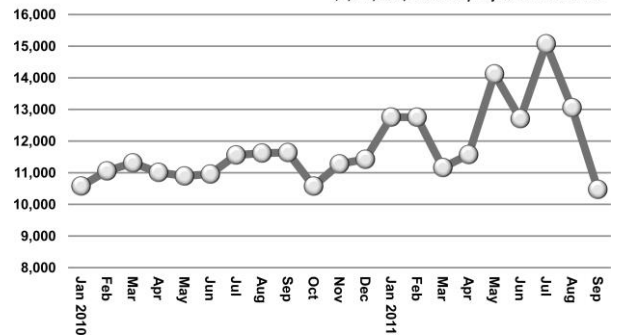
- California gained 11,800 industry jobs in September, and August was revised to a gain of 21,100 from the initially reported loss of 8,400—a 29,500-job swing.
- In September, professional and business services added 13,300 jobs—boosted by employment service (temporary help) gains. Construction added 6,900 jobs, principally from heavy and civil engineering construction (roads and bridges). Leisure and hospitality gained 4,700 jobs. Trade, transportation, and utilities employment grew 4,600, led by retail employment gains which reflect the recent strength of consumer spending—on cars in particular.
- Six industry sectors lost jobs. Government lost 7,000 jobs, predominantly in local education. Manufacturing dropped 4,700 jobs. Elsewhere, educational and health services lost 3,500 jobs; information, 2,200; financial activities, 800; and mining and logging, 100.
- On a year-over-year basis, nonfarm employment rose by 250,600 (1.8 percent) from September 2010 to September 2011—the strongest year-over gain since August 2006. The growth was very broad-based—nine of the state's 11 major industry sectors gained jobs over the year.
- Employment rose 78,000 in professional and business services; 45,100 in educational and health services; 40,100 in leisure and hospitality; 32,100 in trade, transportation, and utilities; 23,000 in construction; 21,800 in information; 15,800 in manufacturing; 3,000 in government; and 500 in mining and logging. Over the year, employment fell by 7,000 in financial activities; and 1,700 in other services.
- The state's unemployment rate also improved in September, falling to 11.9 percent from 12.1 percent in August. The number of Californians employed increased and the number unemployed fell, which led to the strongest labor force gain since January 2000 and to the first improvement in the state's Labor Force Participation Rate since December 2007.

BUILDING ACTIVITY

- Residential construction permitting slowed in September. Multi-family construction slowed, but was still up over the year and gradually improving. In contrast, single-family construction, which also slowed in September, suffered its ninth consecutive year-over-year loss. Since the beginning of 2011, multi-family building accounted for over half of all new residential permits—a definite switch from the early 2000s when it represented about one-third.
- A second consecutive sharp slowing in September led nonresidential construction to suffer its first year-over-year drop (10 percent) since March. Despite this slowing, nonresidential permitting was up 13 percent during the first nine months of 2011 compared to the same months of 2010, led by healthy gains in office, hotel/motel, industrial, and alteration and addition construction.

Interruption in Nonresidential Construction

Value of Nonresidential Permitting
\$1,000,000s, Seasonally Adjusted Annual Rate



REAL ESTATE

- After gaining ground in August, existing home sales and prices slipped in September. Consistent with an ongoing pattern of alternating monthly gains and losses, sales of existing, single-family detached homes slowed to 487,940 units at a seasonally adjusted annualized rate. The median price of existing homes sold in September was \$287,440, down 8.3 percent from a year earlier.

Monthly Cash Report

Preliminary General Fund agency cash for October was \$608 million below the 2011-12 Budget Act forecast of \$5.774 billion. Year-to-date revenues are \$1.28 billion below the expected \$25.164 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 October included \$263 million of the unallocated revenue increase. If 2011-12 revenues are to reach the Budget Act level, it is currently 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 \$362 million below the month's forecast of \$3.422 billion. Withholding was \$334 million below the estimate of \$3.287 billion. Withholding in October 2010 saw substantial year-over-year growth and month-over-month growth. The forecast assumed the same month-over-month growth pattern for October 2011 that was seen in October 2010. This pattern did not occur. October withholding was in line with monthly withholding seen for most of 2011. Other receipts were \$131 million below the forecast of \$961 million and refunds came in \$96 million below the forecast of \$764 million. Part of the shortfall in other receipts is due to timing of payments related to the Voluntary Compliance Initiative 2 (VCI2). It was expected that \$225 million in related personal income tax VCI2 payments were to post in October; however, because the due date was October 31, about \$100 million of these payments were posted in early November. Proposition 63 requires that 1.76 percent of total monthly personal income tax collections, net of refunds, be transferred to the Mental Health Services Fund (MHSF). The amount transferred to the MHSF in October was \$7 million below the month's estimate of \$62 million. Year-to-date General Fund income tax revenues are \$105 million above forecast.
- Sales and use tax receipts were \$115 million above the month's forecast of \$1.57 billion. The final payment for third-quarter taxable sales was due at the end of October and a portion of this payment is received in early November. Early November cash receipts indicate that the majority of this month's gain is likely due to timing. Year-to-date, the sales tax cash is \$65 million above forecast.
- Corporation tax revenues were \$2 million below the month's estimate of \$286 million. Prepayments were \$25 million above the forecast of \$134 million and other payments were \$40 million below the \$234 million that was expected. Refunds were \$13 million lower than the estimate of \$82 million. The VCI2 target of \$28 million for October was achieved, and it appears that additional VCI2 revenue in the range of \$30 million to \$40 million was booked in early November. Year-to-date corporation tax revenues are \$228 million below forecast.
- Vehicle License Fee General Fund revenues reported in October were \$8 million lower than the estimate of \$13 million.
- Revenues from the insurance, estate, alcoholic beverage, and tobacco taxes were \$2 million above the month's estimate of \$48 million. Pooled money interest income was \$1 million below the estimate of \$3 million and "other" revenues were \$89 million lower than the month's estimate of \$169 million mainly due to the timing of certain deposits.

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

(Dollars in Millions)

Revenue Source	OCTOBER 2011				2011-12 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$3,422	\$3,060	-\$362	-10.6%	\$13,741	\$13,846	\$105	0.8%
Sales & Use	1,570	1,685	115	7.3%	6,868	6,918	50	0.7%
Corporation	286	284	-2	-0.7%	1,853	1,626	-227	-12.3%
Insurance	12	14	2	16.7%	521	550	29	5.6%
Estate	0	-1	-1	n/a	0	0	0	0.0%
Pooled Money Interest	3	2	-1	-33.3%	14	10	-4	-28.6%
Alcoholic Beverages	28	29	1	3.6%	114	115	1	0.9%
Tobacco	8	8	0	0.0%	32	34	2	6.3%
Vehicle License Fees	13	5	-8	-61.5%	104	52	-52	-50.0%
Other	169	80	-89	-52.6%	879	738	-141	-16.0%
Unallocated Revenue Increase	263				1,038			
Total	\$5,774	\$5,166	-\$608	-10.5%	\$25,164	\$23,889	-\$1,275	-5.1%

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.