



Finance Bulletin

Ana J. Matosantos, Director

Economic Update

Recent California economic indicators have been consistent with a gradual recovery that may have hit a temporary soft patch. After adding over 100,000 jobs in the first two months of the year, the state gained only 7,700 jobs during the four months ending in June. There was no clear explanation for the weakness, although by mid-year the national economic recovery appeared to stall from factors like tornadoes and floods, high gasoline prices, and manufacturing supply chain disruptions caused by the earthquake and tsunami in Japan.

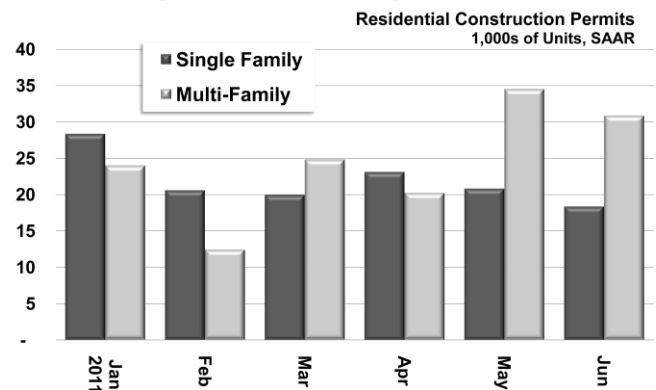
LABOR MARKET CONDITIONS

- The employment report for June was the polar opposite of May's. The state gained nonfarm jobs but the unemployment rate inched up a tenth of a percent. In May, California lost jobs but the unemployment rate improved. California gained 28,800 nonfarm jobs in June, which more than recouped the 21,100 jobs lost in May.
- The best news was renewed growth in professional and business services, which added 16,400 jobs after three consecutive monthly losses. Growth in this sector is notable because in addition to temporary help services, it includes a variety of high value added (high-wage) industries such as scientific research, computer systems design, consulting services, and legal, accounting and architectural services.
- Elsewhere, educational and health services added 9,400 jobs; leisure and hospitality, 4,900; manufacturing, 4,900; information, 3,000; other services, 1,300; and financial activities, 1,000. The state lost 11,000 jobs in trade, transportation, and utilities and 1,100 in construction.
- On a year-over-year basis, nonfarm payroll employment rose by 157,000 (1.1 percent) from June 2010 to June 2011. Eight of the state's major industry sectors gained jobs and three lost jobs. The gains were led by professional and business services with 66,400 additional jobs—a 3.2-percent increase. Educational and health services followed with a 50,500 gain.
- The information sector added 27,900 jobs reflecting strong hiring in the Silicon Valley as well as multiple successful initial public stock offerings. The metropolitan areas that encompass the Silicon Valley experienced the fastest year-over-year job growth of all California MSAs.
- Declining government employment (down 61,600) accounted for nearly all of the year-over-year job losses.
- California's unemployment rate rose 0.1 percentage point to 11.8 percent in June—the first uptick since September 2010. The unemployment rate has trended down since the end of 2010, accompanied by a general deterioration in the labor force.

BUILDING ACTIVITY

- The trend in new home construction during the first six months of 2011 decisively favored multi-family units (up nearly 40 percent over the year) over single-family (down 17 percent). Multi-family construction accounted for more than half of total new home permitting; it historically accounts for less than a third.
- Nonresidential construction showed more life during the first half of 2011 than the residential sector. In May, the value of nonresidential construction permits issued jumped to its strongest pace since December 2009. It moderated in June, but was still up nearly 10 percent from a year earlier. For the first half of 2011 as a whole, nonresidential permitting was up 12.8 percent from the same months of 2010—more than double the improvement in the residential sector.

Home Building Favors Multi-Family



REAL ESTATE

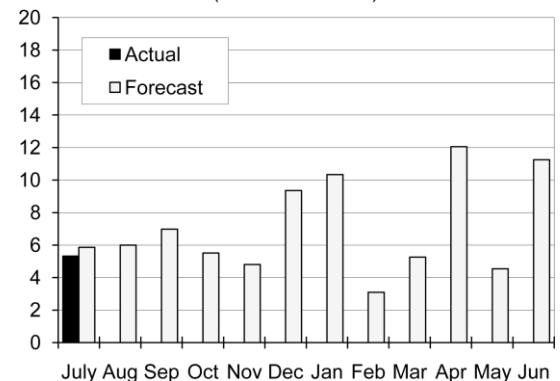
- In June, existing home markets recouped some of the ground lost in May. Sales of existing, single-family detached homes accelerated to 477,700 units at a seasonally adjusted annualized rate, which was still down 3.6 percent from twelve months earlier. The median price of existing, single-family homes sold in June rose to \$295,300, but was still down 5.9 percent from a year earlier (Source: [California Association of Realtors](#)).

Monthly Cash Report

Preliminary General Fund agency cash for July was \$541 million below the 2011-12 Budget Act Forecast of \$5.867 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 that roughly mirrored Personal Income Tax (PIT) collections. The forecast for July included \$229 million of an unallocated revenue increase. If 2011-12 revenues are to reach their expected level, it is anticipated that the bulk of 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 \$21 million below the month's forecast of \$3.165 billion. Withholding receipts were \$16 million lower than the projected level of \$3.035 billion. Other receipts were \$14 million below the anticipated \$384 million – July is not a significant month for income tax estimated payments or final payments – and refunds came in \$8 million under the estimate of \$197 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 July was \$1 million below the month's estimate of \$57 million.
- Sales and use tax receipts were \$1 million above the month's forecast of \$1.64 billion. July represents the final payment for second quarter taxable sales, which was due on August 1. Since the due date fell in August this year, a significant portion of this payment is received in early August. Further, July cash receipts reflect taxable sales activity that occurred in June when the General Fund tax rate was still 6 percent.
- Corporation tax revenues were \$112 million below the month's estimate of \$361 million. Prepayments were \$11 million higher than the forecast of \$237 million and other payments were \$86 million below the \$187 million that was expected. The month's refunds, which included \$45 million associated with prior tax years, were \$37 million over the projected level of \$63 million.
- Vehicle License Fee General Fund revenues reported in July were \$13 million below the estimate of \$39 million.
- Revenues from the insurance, estate, alcoholic beverage, and tobacco taxes came in \$2 million higher than the \$52 million that was expected. Receipts from pooled money interest income was \$3 below forecast. "Other" revenues were \$166 million below the forecast of \$377 million, the majority of which is likely due to timing of deposits.

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



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

Revenue Source	JULY 2011				2011-12 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$3,165	\$3,144	-\$21	-0.7%	\$3,165	\$3,144	-\$21	-0.7%
Sales & Use	1,640	1,641	1	0.1%	1,640	1,641	1	0.1%
Corporation	361	249	-112	-31.0%	361	249	-112	-31.0%
Insurance	12	11	-1	-8.3%	12	11	-1	-8.3%
Estate	0	0	0	0.0%	0	0	0	0.0%
Pooled Money Interest	4	1	-3	-75.0%	4	1	-3	-75.0%
Alcoholic Beverages	32	35	3	9.4%	32	35	3	9.4%
Tobacco	8	8	0	0.0%	8	8	0	0.0%
Vehicle License Fees	39	26	-13	-33.3%	39	26	-13	-33.3%
Other	377	211	-166	-44.0%	377	211	-166	-44.0%
Unallocated Revenue Increase	229				229			
Total	\$5,867	\$5,326	-\$541	-9.2%	\$5,867	\$5,326	-\$541	-9.2%

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.

Totals may not add due to rounding. The forecast is from the 2011 May Revision updated for the 2011 Budget Act.