

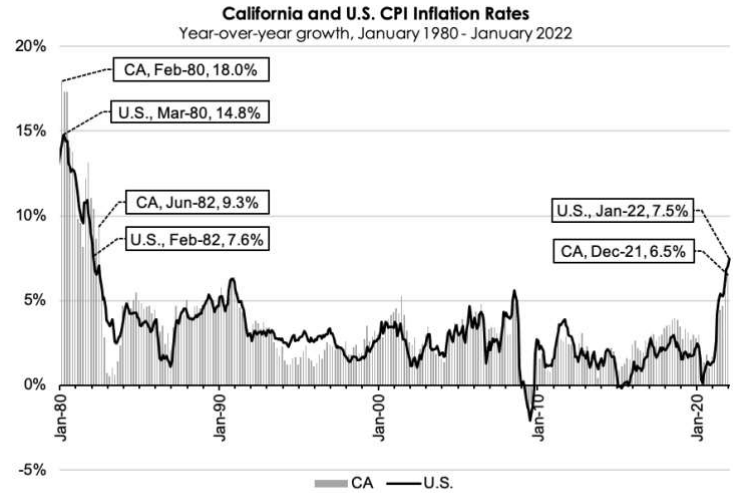


Finance Bulletin

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Economic Update

U.S. headline inflation accelerated from 7 percent in December 2021 to 7.5 percent year-over-year in January 2022 – its fastest pace since February 1982 and the tenth consecutive month above 4 percent. California headline inflation, only available for even months, accelerated from 5.6 percent in October 2021 to 6.5 percent year-over-year in December 2021, its fastest pace since June 1982. Since April 2021, California inflation has exceeded 4 percent. For both the state and the nation, inflation was broad-based, with transportation and shelter prices being major contributors. U.S. inflation nearly quadrupled from 1.2 percent in 2020 to 4.7 percent in 2021, while California inflation jumped from 1.7 percent to 4.2 percent in the same period.



Source: U.S. Bureau of Labor Statistics; California Department of Industrial Relations.

LABOR MARKET CONDITIONS

- In January 2022, the U.S. unemployment rate increased by 0.1 percentage point to 4 percent as labor force (up 1.4 million) increased more than civilian employment (up 1.2 million). The U.S. unemployment rate averaged 5.4 percent in 2021. The U.S. added nearly half a million (467,000) nonfarm jobs with nine sectors gaining jobs: leisure and hospitality (151,000), trade, transportation, and utilities (132,000), professional and business services (86,000), educational and health services (29,000), government (23,000), information (18,000), other services (15,000), manufacturing (13,000), and financial activities (9,000). Two sectors shed jobs: construction (-5,000) and mining and logging (-4,000). Through January 2022, the U.S. recovered almost nine out of every ten of the 22 million (revised) jobs lost (86.9 percent) in March and April 2020. Four sectors have surpassed their February 2020 pre-pandemic levels: professional and business services, trade, transportation, and utilities, information, and financial services.
- The California unemployment rate fell 0.5 percentage point to 6.5 percent in December 2021, bringing the 2021 average unemployment rate to 7.7 percent. California added 50,700 nonfarm jobs with ten sectors adding jobs: leisure and hospitality (15,000), professional and business services (12,000), educational and health services (7,600), government (4,100), information (3,100), other services (3,000), manufacturing (1,800), trade, transportation, and utilities (1,800), construction (1,200), and financial activities (1,100). Mining and logging remained unchanged. As of December 2021, California has recovered 71.7 percent of the 2.7 million nonfarm jobs lost in March and April 2020. Professional and business services became the first and only sector to recover to its February 2020 pre-pandemic level.

BUILDING ACTIVITY & REAL ESTATE

- California permitted 104,000 units on a seasonally adjusted annualized rate (SAAR) basis in December 2021, down 11.7 percent from November 2021 and down 15.1 percent from December 2020. Despite this decrease, in 2021, California permitted a total of 117,000 units, the highest number of permitted units annually since 2006, up from 106,000 units in 2020 and 110,000 units in 2019.
- The statewide median price of existing single-family homes increased to \$796,570 in December 2021, up 1.8 percent from November 2021 and up 11 percent from December 2020. Sales of existing single-family homes in California totaled 429,860 units (SAAR) in December 2021, 15.7 percent below the 15-year high 509,750 units in December 2020, but 7.9 percent higher than the December 2019 pre-pandemic level of 398,370 units.

MONTHLY CASH REPORT

Preliminary General Fund agency cash receipts for the first seven months of the 2021-22 fiscal year were \$15.954 above the 2022-23 Governor's Budget forecast of \$109.355 billion.

Of note, \$6.206 billion of this total additional revenue is due to higher-than-expected Pass-Through Entity (PTE) elective tax payments under the corporation tax, a 2021 state tax change designed to allow some taxpayers to reduce their allowable federal tax liability starting with their 2021 tax returns. Every dollar received from the PTE elective tax paid generates a dollar of personal income tax credit. While the amount of PTE elective tax payments can be tracked in monthly cash reports, the extent to which taxpayers will reduce their personal income tax payments to reflect the elective tax credits cannot be determined until more complete tax return data for 2021 are available. Therefore, it is reasonable to assume that a portion of this \$6.2 billion may overstate the amount of overall revenue strength to date.

The Governor's Budget forecast was finalized at the end of November, so the year-to-date difference accounts for December and January cash receipts.

- Personal income tax cash receipts to the General Fund for the first seven months of the fiscal year were \$9.175 billion above the forecast of \$76.711 billion. Cash receipts for January were \$5.98 billion above the forecast of \$21.106 billion. Withholding receipts were \$130 million below the forecast of \$8.128 billion. Other cash receipts were \$6.12 billion above the forecast of \$13.885 billion, primarily due to stronger fourth quarter estimated payments. The Governor's Budget forecast assumed that personal income tax estimated payments would be reduced by \$1.74 billion in January by taxpayers who adjusted payments to reflect PTE elective tax credits, but it is unknown by how much taxpayers actually did adjust their estimated payments. It is possible the overage would have been smaller or greater if the effect of the PTE elective tax credits were backed out. Refunds issued in January were \$97 million below the expected \$529 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 January was \$107 million higher than the forecast of \$378 million.
- Sales and use tax cash receipts for the first seven months of the fiscal year were \$223 million below the forecast of \$17.919 billion. Cash receipts for January were \$414 million below the month's forecast of \$2.014 billion. January cash receipts include a portion of the final payment for fourth quarter taxable sales.
- Corporation tax cash receipts for the first seven months of the fiscal year were \$7.995 billion above the forecast of \$10.003 billion. Of that overage, \$6.206 billion was from higher PTE elective tax payments. Cash receipts for January were \$2.197 billion above the month's forecast of \$843 million. Estimated payments were \$197 million above the forecast of \$714 million, and other payments were \$63 million above the \$245 million forecast. PTE elective tax payments were \$1.961 billion above the forecast of \$0. Total refunds for the month were \$25 million higher than the forecast of \$116 million.
- Cash receipts from the insurance, alcoholic beverage, tobacco taxes, and pooled money interest were \$1 million above the forecast for the first seven months of the fiscal year, and were \$8 million below the forecast of \$102 million for January. "Other" cash receipts were \$994 million below the forecast for the first seven months of the fiscal year, and were \$1.051 billion below the forecast of \$397 million for the month. January "other" cash receipts included -\$820 million to partially correct over-reporting from prior months of the Individual Shared Responsibility Penalty. The over-reporting of the penalty began in 2020-21 and additional corrections of about \$661 million will be reported in subsequent months.

2021-22 Comparison of Actual and Forecast Agency General Fund Revenues

(Dollars in Millions)

Revenue Source	JANUARY 2022				2021-22 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change	Forecast	Actual	Change	Percent Change
Personal Income	\$21,106	\$27,086	\$5,980	28.3%	\$76,711	\$85,886	\$9,175	12.0%
Sales & Use	2,014	1,600	-414	-20.6%	17,919	17,696	-223	-1.2%
Corporation	843	3,040	2,197	260.7%	10,003	17,998	7,995	79.9%
Insurance	34	39	5	15.3%	1,651	1,670	19	1.2%
Pooled Money Interest	20	8	-12	-60.3%	96	79	-17	-17.6%
Alcoholic Beverages	43	42	-2	-4.2%	266	265	-1	-0.3%
Tobacco	6	6	0	4.2%	35	34	-1	-2.1%
Other	397	-654	-1,051	-264.6%	2,673	1,679	-994	-37.2%
Total	\$24,463	\$31,166	\$6,703	27.4%	\$109,355	\$125,309	\$15,954	14.6%

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 2022-23 Governor's Budget.