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# The FISCAL REPORT an informational update

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## The Latest on Revenues and the Economy

Earlier this week, two reports were released which may shed some light on how state revenues and the economy will shape up in the upcoming fiscal year.

### State Revenues

The Department of Finance (DOF) reported in its June *Finance Bulletin* that state General Fund revenues exceeded the forecast for May by \$391 million, or 7.8%. Revenues were up for the personal income tax (\$418 million) and the corporation tax (\$73 million), but fell short for the sales and use tax (-\$153 million). All of the other taxes were on net up \$53 million. Revenue collections in May are generally low compared to other months. For June, the final month of the fiscal year, the state expects to collect more than \$11 billion.

The *Finance Bulletin* notes that March saw the state add 4,200 payroll jobs, the third straight month of job gains. We would point out, however, that the March gain is well below the level needed to simply accommodate the growth in the labor market due to population gains. Since the start of the recession in December 2007, California has lost almost 1,340,000 jobs, according to the DOF report.

On a positive note, the report indicates that the sales price of single family homes sold in March was up 21% from one year ago, reaching \$301,800.

### UCLA Forecast

Economists with the UCLA Anderson Forecast released their latest assessment of the state and national economies earlier this week. The June 2010 report is little changed from previous reports, indicating that economic outlook is for a weak recovery.

Edward Leamer, the chief of the forecast project, indicates that the recession ended in the summer of 2009 and that the nation is now in the fourth quarter of recovery. However, the seemingly hopeful economic data (e.g., 5.6% gain in gross domestic product [GDP] in the fourth quarter of 2009), is artificially inflated by inventories, rather than demand-supported GDP growth. After adjusting for inventories, the quarterly gains since last summer have been below 2.0%, insufficient to spur significant gains in the job market.

As a result, the national unemployment rate is expected to remain high for several years, with the rate projected to be 8.6% by the end of 2012. It is currently 9.7% for the nation.

California's outlook is even more discouraging due to problems with the state's housing market and state and local government budget deficits. Export markets, which are one of the keys to California's growth, have weakened in recent months due to concerns over the European debt crisis. A weakening Euro makes imports into the European Union more expensive, depressing demand for many of the goods and services California provides.

The UCLA forecasters expect the state unemployment rate to average 12.1% for the year, but there could be

"a bit more robust growth" due to job gain in health care, business services, construction, and technology-related manufacturing. The state unemployment rate is not expected to drop below 10% until 2012.

The forecasters look for the state economy to pick up steam at the beginning of 2011 "and by the middle of 2011 [to] begin to grow at more normal levels."

We at SSC believe the May revenue gains are a very positive sign along with the four-month pattern set between December 2009 and March 2010. For those four months, revenues exceeded expectations. However, April revenues were far below projections, erasing the prior gains.

As we have commented before, April revenues are more reflective of the settle up of taxes for 2009, not current economic conditions. So, while all indications are that the economy has a long way to go, we are pleased to report a continuation of the upward trend in current-year revenues.

**—Robert Miyashiro and Ron Bennett**

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