

Economic and Revenue Developments

Current economic and revenue trends appear to be running ahead of the January budget forecast. Employment and personal income continue to expand moderately and General Fund revenues through March were up \$305 million from the forecast. However, nearly one-third of 1996-97 revenues come in during the last three months of the fiscal year, and the current-year revenue picture will be highly dependent on developments over the next several weeks. Of particular significance will be the magnitude of final personal income tax payments and refunds that were due April 15 and will be processed during the next few weeks.

Economic Developments

The economies of both the nation and California are growing strongly in early 1997. California wage and salary employment increased 42,000 jobs in February, and is up by nearly 380,000 (2.9 percent) from prior-year levels. Every major industry sector except finance is showing significant gains. The state's large and diverse services sector accounted for nearly one-half of the job gains over the past year, reflecting major increases in business

services, movie production, engineering, and management related services. Manufacturing increased 47,000 jobs over the past year, including a 3,000 increase in the aerospace industry. The overall growth in jobs has coincided with a significant improvement in the state's unemployment rate. This rate fell from 6.9 percent in January to 6.5 percent in February, the lowest level since September 1990.

Housing Improving. In another positive development, the state's construction industry, which has lagged in the current recovery, finally appears to be improving. The value of permits issued for new residential and nonresidential construction was up by about 33 percent from year-ago levels in February. Although some of the gain may be due to the unusually dry weather in northern California during the month, major gains also occurred in Southern California regions—such as Orange and San Diego counties—which are less influenced by seasonal weather variations. Increases in construction, if sustained, would have particularly positive implications for sales tax receipts associated with building materials, home furnishings, and sales of other building-related items.

Cal Update

Revenue Developments

General Fund revenues were up \$24 million in March, bringing year-to-date receipts to \$305 million above the January budget forecast.

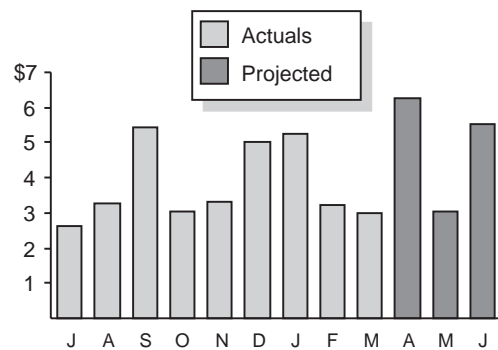
- **Personal income taxes** were up \$26 million in March and by \$333 million for 1996-97 to date. The higher year-to-date receipts are largely due to strong quarterly estimated tax payments in January, which suggests that business activities, investment, and other nonwage earnings were stronger than expected in 1996.
- **Bank and corporation taxes** were down by \$15 million in March, and by \$46 million for the fiscal year to date. March was the month in which final returns were due for corporations that file on a calendar-year basis (which account for about 65 percent of total annual corporation earnings). As we noted in *The 1997-98 Budget: Perspectives and Issues* (February 1997), prepayments made by these companies in September and December had been very weak, posing the risk that final tax payments in March would also fall well below the budget projection. However, corporation tax payments in March were relatively close to projection, falling just 1.9 percent below the estimate. Thus, one of the major downside risks to the budget forecast did not materialize.

- **Sales and use taxes** were down \$16 million in March, leaving cumulative receipts down \$39 million. The cumulative shortfall is just 0.3 percent of the budget projection. Thus this revenue source in “on track” with the budget estimate.

As always, April is a very important month in terms of the overall revenue outlook. As indicated in Figure 1, the state is expected to collect nearly \$6.3 billion this month, including \$2.4 billion from payments on final income tax returns for 1996. April is also a critical revenue month because it is a quarterly estimated payment month for personal and corporate income tax filers. We will report the income tax results for April in our next *Cal Update* in early May, as soon as they become available.

Figure 1
Governor's Budget Projections
1996-97 General Fund Revenues

Revenues by Month (In Billions)



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