

Department of Finance Releases October Finance Bulletin



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September 2021 General Fund revenues beat estimates in the 2021-22 State Budget by \$5.6 billion, or 40.4%. Across all revenue categories, state revenue is 27.5% (\$9.145 billion) above forecast year-to-date. As we march toward the Governor's January Budget proposal, the Administration is going to have a lot of options. The October Finance Bulletin summarizes the state's revenue performance for the first three months of the fiscal year and includes the most recent forecasts and economic factors.

Leading news centered on the comparative growth of the United States and California economies, noting that according to the Annual Bureau of Economic Analysis, updated data—as illustrated in the table below—shows that California real gross domestic product (GDP) returned to pre-pandemic levels (fourth quarter of 2019) in the first quarter of 2021, while the U.S. economy is a full quarter behind, not reaching that milestone until the second quarter of 2021. U.S. real GDP grew at 6.7% in the second quarter of 2021 (on a seasonally adjusted annualized rate [SAAR]), following the first quarter growth of 6.3%. Similarly, California grew at 8.1% in the second quarter, following 11.7% in the first quarter. Interestingly, California's first quarter results were revised upward from 6.3%. The chart below illustrates the old adage: as goes the nation, so goes California—but on steroids.

U.S.

Levels Relo

104

102

100

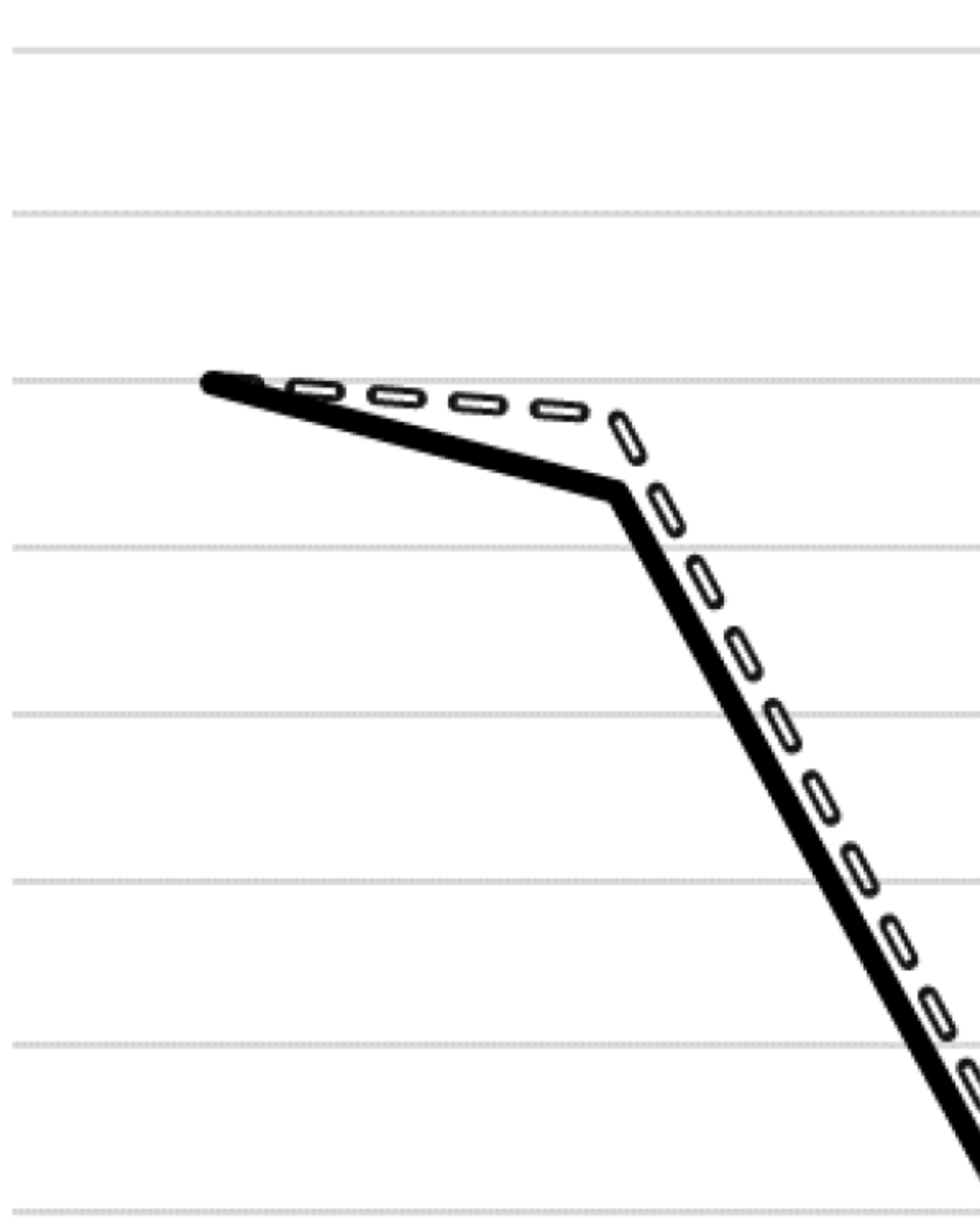
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The U.S. unemployment rate fell to 4.8% in September from 5.2% in August. Driving the gains was an increase of civilian employment by 526,000 combined with 183,000 fewer people in the labor force. Comparing the most recent September 2021 jobs data to February 2020, there were 5.1 million fewer people employed, with 3.1 million fewer in the labor force, and 2 million more unemployed. California's unemployment rate remains unchanged at 7.5% in September. Employment increased by 43,000 with 31,000 more people entering the labor force, leaving only 13,000 fewer people unemployed (published numbers do not add perfectly due to rounding of state data). Examining California's data from September 2021 to that of February 2020, California employs 993,000 fewer people, with 420,000 fewer people in the labor force, and 574,000 more people unemployed.

California state revenues continue robust growth with the big three taxes of personal income tax (PIT), sales and use taxes (SUT), and corporate tax (CT) all above forecast for the month and year. For the month of September, PIT exceeded expectations by \$3.994 billion (42.1%), while SUT and CT beat expectations by \$365 million (16.6%) and \$1.12 billion (62.8%), respectively. Examination of PIT shows September payroll tax withholding receipts outperforming estimates by \$1.667 billion, while other (payroll related) cash receipts beat the forecast by \$2.433 billion. PIT refunds exceeded estimates by \$34 million. Fiscal year-to-date (July-September), PIT is 29.7% (\$6.557 billion) above estimates, while SUT and CT are 15.5% (\$1.035 billion) and 52.9% (\$1.449 billion) above forecast, respectively.