



Finance Bulletin

Joe Stephenshaw, Director

Economic Update

U.S. real GDP grew at a 0.7-percent seasonally adjusted annualized rate (SAAR) in the fourth quarter of 2025, revised down 0.7 percentage point from the initial estimate and a deceleration from the 4.4-percent growth in the third quarter of 2025. This brings 2025 growth to 2.1 percent, a significant deceleration from 2.8 percent in 2024. Growth in 2025 was driven mainly by consumer spending, which accounted for 1.8 percentage points of the 2.1-percent real GDP growth, followed by fixed investment (contributed 0.5 percentage point), and government (contributed 0.2 percentage point). In contrast, net exports (contributed -0.2 percentage point) and inventory accumulation (contributed -0.1 percentage point) were drags on GDP growth.

U.S. headline inflation remained unchanged at 2.4 percent year-over-year in February 2026 after decelerating by 0.6 percentage point from 3 percent in September 2025 to 2.4 percent in January 2026, but still 0.1 percentage point higher than its most recent low of 2.3 percent in April 2025. Core inflation, which excludes food and energy, was also unchanged in February at 2.5 percent, its lowest level since March 2021.

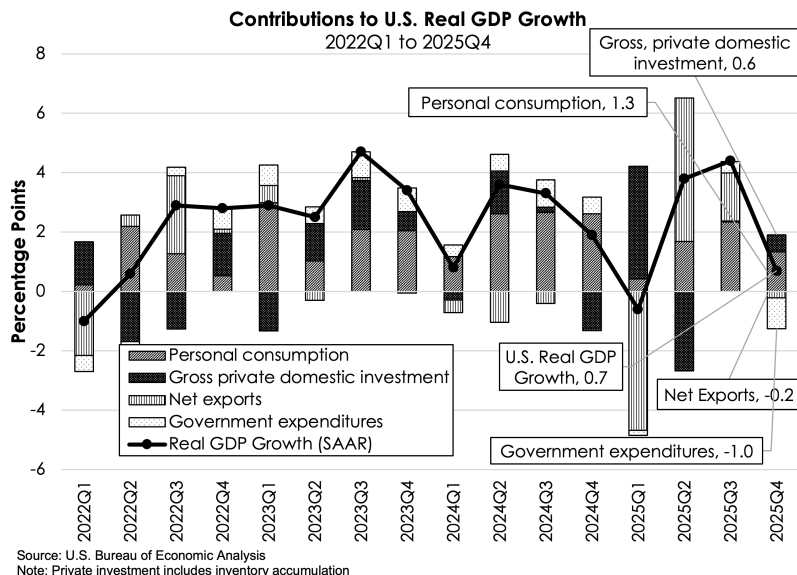
California CPI headline inflation and core inflation both decelerated slightly from 3.3 percent year-over-year in August 2025 to 3.2 percent in December 2025. California headline inflation remains 0.5 percentage point higher than its most recent low of 2.7 percent in April 2025.

LABOR MARKET CONDITIONS

- In February 2026, the U.S. unemployment rate increased by 0.1 percentage point from the previous month to 4.4 percent as the number of employed decreased by 185,000 persons (-0.1 percent), the number of unemployed decreased by 203,000 persons (-2.8 percent), and the labor force increased by 18,000 persons (0.1 percent). The nation lost 92,000 nonfarm payroll jobs in February, with nine sectors losing jobs: education and health services (-34,000 jobs), leisure and hospitality (-27,000 jobs), manufacturing (-12,000 jobs), construction (-11,000 jobs), information (-11,000 jobs), government (-6,000 jobs), professional and business services (-5,000 jobs), and mining and logging (-2,000 jobs). Only two sectors added jobs: financial activities added 10,000 jobs and other services added 8,000 jobs.

BUILDING ACTIVITY

- In December 2025, 115,800 total units (SAAR) were permitted in California, bringing the 2025 annual average to 102,700 units, up 2.7 percent from the 99,900 units permitted in 2024. December's permits authorized 54,700 single-family units (up 3.5 percent from November 2025 but down 13.8 percent from December 2024) and 61,100 multi-family units (up 14.6 percent from November 2025 and up 84.4 percent from December 2024).
- The statewide median sale price of existing single-family homes decreased to \$823,180 in January 2026, down 3.2 percent from \$850,680 in December 2025 and down 1.9 percent from \$838,850 in January 2025. Sales volume of existing single-family homes in California was 257,387 (SAAR) in January 2026, down 10.8 percent from 288,551 (SAAR) in December 2025, but up 1.3 percent from 254,110 (SAAR) in January 2025.



MONTHLY CASH REPORT

Preliminary General Fund agency cash receipts were \$154 million, or 1.4 percent, above the Governor's Budget forecast in February and \$7 billion, or 5.1 percent, above the fiscal year-to-date forecast. The February overage was due largely to overages of \$362 million and \$180 million in corporation and sales taxes, respectively, partially offset by a \$395 million shortfall in personal income. The fiscal year-to-date overage is largely attributable to personal income tax (\$4.3 billion above forecast) and corporation tax (\$1.8 billion above forecast). The Governor's Budget monthly cashflows reflect cash results through November, therefore, fiscal year-to-date variances are primarily related to December through February, with some revisions to prior months. February contains no major due dates, making it relatively unimportant for personal and corporate income taxes.

- Personal income tax cash receipts were \$395 million, or 6.8 percent, below forecast in February but remained \$4.3 billion, or 4.8 percent, above the fiscal year-to-date forecast. The February personal income tax shortfall was due largely to refunds exceeding the forecast by \$616 million, or 15.6 percent, partially offset by withholding, which was \$180 million, or 2 percent, above forecast for February. Cumulatively, refunds are still \$421 million, or 3.7 percent, below the fiscal-year-to-date forecast. In addition to refunds, the fiscal year-to-date overage is explained by estimated payments and withholding, which were \$3.9 billion, or 20.7 percent, and \$248 million, or 0.3 percent, above forecast, respectively through February.
- Corporation tax cash receipts were \$362 million, or 206.7 percent, above forecast in February and \$1.8 billion, or 9.3 percent, above the fiscal year-to-date forecast. The February overage was due largely to lower-than-expected corporation tax refunds of \$375 million. The main drivers of the fiscal year-to-date overage were PTET payments, which were \$1.8 billion, or 17.5 percent, above forecast, and refunds, which were \$768 million, or 17.9 percent, below forecast, partially offset by estimated payments, which were \$660 million, or 6.7 percent, below forecast.
- Preliminary sales and use tax receipts were \$180 million, or 4.2 percent, above forecast in February and \$1 million, or 0.0 percent, above the fiscal year-to-date forecast. February is a significant month for sales tax because it includes some payments related to the January 31st fourth quarter 2025 payment deadline.

2025-26 Comparison of Actual and Forecast Agency General Fund Revenues (Dollars in Millions)

Revenue Source	February 2026					2025-26 YEAR-TO-DATE			
	Forecast	Actual	Difference	Percent Difference		Forecast	Actual	Difference	Percent Difference
Personal Income	\$5,772	\$5,377	-\$395	-6.8%		\$89,263	\$93,577	\$4,314	4.8%
Withholding	8,925	9,105	180	2.0%		72,872	73,119	248	0.3%
Estimated Payments	236	296	60	25.6%		18,985	22,921	3,936	20.7%
Final Payments	316	279	-37	-11.6%		6,098	5,950	-147	-2.4%
Other Payments	358	367	10	2.7%		4,263	4,199	-64	-1.5%
Refunds	-3,953	-4,569	-616	15.6%		-11,257	-10,835	421	-3.7%
MHSF Transfer	-103	-96	7	-6.8%		-1,599	-1,676	-77	4.8%
Corporation	\$175	\$537	\$362	206.7%		\$19,564	\$21,391	\$1,827	9.3%
Estimated Payments	305	282	-23	-7.4%		9,775	9,115	-660	-6.7%
PTET Payments	100	100	1	0.5%		10,446	12,275	1,829	17.5%
Other Payments	287	295	8	2.9%		3,632	3,521	-111	-3.0%
Refunds	-516	-141	375	-72.7%		-4,288	-3,520	768	-17.9%
Sales & Use	\$4,323	\$4,503	\$180	4.2%		\$23,439	\$23,440	\$1	0.0%
Insurance	\$65	\$74	\$10	14.7%		\$2,234	\$2,260	\$26	1.2%
Pooled Money Interest	\$264	\$225	-\$39	-14.6%		\$2,074	\$2,055	-\$19	-0.9%
Alcohol	\$27	\$22	-\$6	-20.5%		\$288	\$285	-\$3	-0.9%
Tobacco	\$2	\$3	\$1	26.0%		\$24	\$24	\$0	0.6%
Other	\$33	\$75	\$42	124.9%		\$1,193	\$2,073	\$880	73.8%
Total	\$10,661	\$10,815	\$154	1.4%		\$138,078	\$145,105	\$7,027	5.1%

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. The personal income total includes Individual Shared Responsibility Penalty transfers. The forecast is from the 2026-27 Governor's Budget.