

## First Quarter Fiscal Year 2026 Economic Update and Sales Tax Revenues

### Local Economy

FY 2026 started with uncertainty and volatility at the forefront of discussions around how economic conditions are unfolding in response to policy, tariffs, and geopolitical relations – and most recently, the federal government shutdown (which started October 1, 2025). In addition to elevating economic uncertainty, the government shutdown has disrupted data availability. As a result, the data paints an incomplete picture of where the economy stood at the end of Q1 FY 2026.

**Economic Activity.** Growth in economic activity appears to be stable – despite weakening consumer confidence and growing economic uncertainty. As indicated in the FOMC's summary of economic projections (June 2025), real GDP growth for the US is expected to be closer to 1.6%. Although slower than past years, it still represents solid growth. California is likely to track slightly higher. Quarterly estimates for the first half of calendar year 2025 showed California's GDP growth higher than the nation.

**Inflation.** Inflation is the one economic indicator that has a complete picture for the first quarter of FY 2026. Despite concern that tariff policy would fuel inflation, US inflation has remained lower than last year. However, this is not the case for the San Diego region. The region's measure of CPI has consistently tracked higher than last year. While the September data showed easing price pressure for food and shelter, the San Diego region also experienced prices rising more quickly for a broad range of discretionary and nondiscretionary items such as household furnishings, gas, and medical care.

**Labor Market.** The labor market continues to be closely watched both locally and nationally. The US unemployment rate reached a 36-month high in July (4.6%) as the labor force expanded and employment decreased. San Diego County's unemployment rate also reached a 3-year high in July (5.2%) before falling slightly to 5% in August. Despite the upward trend in unemployment, labor force participation remains strong in the San Diego region. The region's labor force was 1,675,300 in July and increased to 1,681,500 in August. Total employment was 1,597,100 in August, which was 24,450 more than August of last year. The change in employment and labor force are positive signs that the employment situation in the region was stable despite elevated unemployment rates. With September data not available, unemployment insurance claims are serving as an alternative indicator. The data reaffirms that labor market conditions continue to be stable. Claims fell in September and the distribution of claims by industry did not point to growing softness in any particular sector.

**Outlook.** The outlook on the economy is generally positive, while simultaneously acknowledging greater uncertainty in the short term. Despite weak job creation and rising unemployment, overall economic activity is positive. Notably, consumer spending appears to be holding up even as households express worry about inflation and a growing number of reports point to bifurcation of consumption patterns (between low- and high-income consumers).

## Sales Tax Revenues

Table 1 compares revenue by month for the current and previous fiscal years. It shows that sales tax revenue in the first quarter of FY 2026 recorded solid gains over the same quarter last year. July through September, collections totaled \$113.06 million, which was up 4%. However, it is still too soon to determine how sales tax revenue will track through the fiscal year.

Table 2 reports annual revenue beginning in FY 2009 (the first year of the TransNet Extension Ordinance). It shows that revenue growth has been relatively flat for two consecutive years. FY 2024 collections recorded a slight decrease (-0.7%); FY 2025 recorded a small increase (0.1%). SANDAG forecasted FY 2026 to be another year with TransNet revenue showing only slight growth (just 0.34%). A number of factors have been a drag on sales tax revenue growth over the last two years. These factors include slower inflation and disinflation (particularly for gas) for taxable items, weak business spending, low absorption in commercial and industrial real estate markets, and a constrained housing market.

Economic conditions influencing sales tax revenue in the remainder of FY 2026 are uncertain. SANDAG's economists continue to monitor how inflation, interest rates, and the labor market evolve and can impact TransNet revenue.

**Table 1: TransNet Revenue by Month**

Month	FY 2025	FY 2026
July	\$42,756,562	\$37,896,840
August	\$29,154,928	\$36,082,553
September	\$36,669,208	\$39,076,372
October	\$34,614,090	\$33,528,222
November	\$33,063,017	
December	\$35,389,735	
January	\$31,821,636	
February	\$47,515,705	
March	\$31,941,036	
April	\$28,707,040	
May	\$40,969,261	
June	\$34,335,347	
<b>TOTAL*</b>	<b>\$426,937,565</b>	<b>\$146,583,987</b>

\*Aug through October FY26

**Table 2: TransNet Revenue by Year**

Year	Annual Revenue
FY2009	\$221,991,360
FY2010	\$204,191,748
FY2011	\$221,304,014
FY2012	\$236,947,113
FY2013	\$247,221,162
FY2014	\$260,114,931
FY2015	\$268,840,549
FY2016	\$275,500,023
FY2017	\$284,456,260
FY2018	\$301,455,493
FY2019	\$305,349,500
FY2020	\$305,851,214
FY2021	\$333,998,567
FY 2022	\$405,921,138
FY 2023	\$429,735,180
FY 2024	\$426,692,983
FY 2025	\$426,937,568
FY 2026	\$146,583,987
<b>TOTAL*</b>	<b>\$5,303,092,790</b>

\*Aug through October FY26