Second Quarter Fiscal Year 2026
Local Economic Update and Sales Tax Revenues

Local Economy

Six months into FY 2026, the economic data is pointing to an economy that is resilient to tariff increase, a federal government shutdown, slow job growth, and growing uncertainty.

The national economy continues to show solid expansion. US Bureau of Economic Analysis recently released estimates GDP for Q1 Fiscal Year 2026. Real US GDP grew at 4.4%. This level of growth is notable and surpasses expectations. Q3 FY2025 saw strong swings in US trade policy and federal spending that led to a quarter of negative GDP growth (-0.6%). GDP growth then recorded strong expansion in the subsequent quarter (3.8% in Q4 FY2025). Following the pendulum swing, many economists expected more muted GDP growth for Q1 F2026 as the economy settled into an environment characterized by shifting policies. However, strong consumer spending and trade balances favoring US exports fueled the robust growth in Q1 FY2026. The scale of this expansion is cautiously driving up the outlook for the remainder of FY 2026.

Despite consumer sentiment remaining low, consumer spending, as shown in GDP and retail sales, continues to bolster the national economy. This trend is supported by recent data releases. The US economy saw steady inflation and a stable labor market, even as these areas continue to be a source of worry for households. Inflation averaged 2.7% in Q2 FY 2026 across the nation. The unemployment rate was 4.1%, showing little change in employment levels and the size of the labor force.

In the San Diego region, the data points to economic conditions not necessarily following national trends. The cost of living is rising more rapidly in the San Diego region. Headline inflation is one of the broadest measures of price changes. It remains higher than what was observed in FY 2025, and higher than the national average. In the first half of this fiscal year, Q1 averaged 3.9% and 4% in Q2. (US inflation was 2.9% and 2.7%, respectively.) Changes in housing, new and used vehicles, and gas contributed to the rise in our region. The challenges of rising prices are compounded by wage growth slowing and not keeping pace with inflation. In November, average hourly earnings were $41.07, only 3.3% higher than a year ago.

Despite slower wage growth and rising inflation, the labor market continues to anchor the San Diego regional economy. November data shows small – but positive – movements. The region’s labor force grew; employment rose, and unemployment fell. Data estimates for October are not available, because of data collection efforts disrupted by the federal government shutdown. However, data for November reports the labor force in the San Diego region grew to 1.69 million, with over 6,700 people entering the labor force compared to September. Total employment rose to 1.61 million, as the local economy added over 10,500 jobs between September and November, and the number of unemployed fell to 78,400 (approximately 3,800 fewer). These dynamics resulted in an unemployment rate of 4.6%.

While the employment base is growing modestly, job expansion is uneven across the San Diego regional economy. Job gains continue to be concentrated in a handful of sectors – health care, leisure and hospitality, and state and local government. Other key sectors, including manufacturing and professional and technical services, continue to contract slightly.

The outlook on the economy has not changed since last quarter. Nationally, expectations remain generally positive, while simultaneously acknowledging uncertainty is not likely to ease. Locally, the San Diego regional economy is stable. The region continues to add jobs and see wage growth. Inflation remains a concern as it tracks higher than the national average. However, overall economic activity remains positive.

Sales Tax Revenues

Table 1 compares revenue by month for the current and previous fiscal years. It shows that the momentum in sales tax revenue continued through the second quarter of FY 2026. Revenue in the three months (October through December) was $105.47 million, up 2.3% compared to the same quarter in FY 2025.

Table 2 reports annual revenue beginning in FY 2009 (the first year of the TransNet Extension Ordinance). It shows that revenue growth was relatively flat for two consecutive years. FY 2024 collections recorded a slight decrease (-0.7%); FY 2025 recorded a small increase (0.1%). SANDAG recently revised its sales tax revenue forecast (as it does every year). This year's preliminary draft forecast reflects a stronger (than previously anticipated) uptick in FY 2026 sales tax revenue. This increase aligns with how TransNet revenue is tracking through FY 2026; mid-way through the year, revenue is 3.25% above first six months of FY 2025. It also aligns with reports of stronger than expected retail sales and key components of sales tax revenue seeing price increases (e.g. gas, vehicles and restaurants).

Economic conditions influencing sales tax revenue in the remainder of FY 2026 are uncertain, but promising based on inflation patterns and job market stability. 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	$36,569,399
December	$35,389,735	$35,368,535
January	$31,821,636	
February	$47,515,705	
March	$31,941,036	
April	$28,707,040	
May	$40,969,261	
June	$34,335,347	
TOTAL*	$426,937,565	**$218,521,921**

**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	$426,937,565
FY 2026	$218,521,921
TOTAL*	**$5,375,030,721**

**July through December FY26*