

Fourth Quarter Fiscal Year 2025 Economic Update and Sales Tax Revenues

Local Economy

In the fourth quarter (Q4) of fiscal year 2025 (April through June 2025), many economists – and the Federal Reserve – adopted a “wait and see” stance on interpreting evolving economic conditions. While financial markets were very reactive to US tariff policy, key economic indicators did not reveal cracks in the economy.

On the other hand, early July data is subtly suggesting otherwise. Consumer spending weakened notably in the second half of FY 2025. Real personal consumption (68% of US GDP and the main driver of economic growth) slowed in the second half of FY 2025. It grew at the slowest pace in a decade, excluding FY 2020. Annualized growth was 0.5% in Q3 and 1.4% in Q4.

Inflation was relatively stable April through June. Nationally, headline CPI, which is the broadest measure of prices, remained below 3%. For the San Diego region, inflation was unchanged (3.8%). Key commodities impacting the household budget for San Diegans showed prices beginning to move, but without a clear pattern or sharp changes. For example, San Diego’s CPI for groceries was 2% in January, 3.7% in March, and 1.6% in May, and disinflation continued to be evident in gas prices. In contrast, CPI for durable goods hinted at tariffs beginning to have an effect. From January to May, prices on durable goods shifted from falling to rising. Inflation on durable goods climbed from -0.6% in January to 1.3% in May. While July CPI estimates are not available for the San Diego Region, measures for the US and nearby Los Angeles metropolitan area indicate prices are creeping up.

Labor market data is being closely watched, especially after revisions to the labor market data revealed weaker conditions than initially believed. Nationally, the unemployment rate was relatively unchanged through Q4 FY 2025 with the size of the labor force and the number of employed and unemployed recording relatively small changes. In contrast, the State of California and the San Diego region saw the unemployment rate rise. In the San Diego region, it rose from 4.1% to 4.9% (April and June, respectively), and the state’s unemployment rate increased from 5% to 5.7%. While June typically sees the unemployment rate increase, the most recent data is a concern. For the San Diego Region, 6,400 people exited the labor force between May and June; it was the largest June contraction since 2022. The total number of employees also fell (by 20,600), and the number of people actively seeking employment rose by 14,200. The State saw similar directional changes with unemployment rising, total employment falling, and the labor force contracting.

Despite these losses, the San Diego region is tracking higher than last year in terms of total employment and the size of its labor force. Job growth was net positive even as regional industries reported mixed trends. The health care and tourism-related sectors added jobs in Q4 FY 2025, while the manufacturing and professional, scientific, and technical sectors continued to lose jobs. For the manufacturing sector, Q4 employment was down by 500 employees compared to Q3, and 4,000 compared to Q4 last year. The professional, scientific and technical services sector lost 1,200 jobs between Q3 and Q4 of FY2025 and 2,800 compared to Q4 of FY2024. These latter two sectors are important components of the regional economy, and they are directly exposed to international trade dynamics. Looking ahead, further weakness in their employment base will be an indicator of how the regional economy is tracking.

Wage growth in the region slowed in the second half of FY 2025. Weekly earnings grew strongly in the first half of FY 2025. On average, wages were 8% higher compared to the same period in FY 2024, and outpaced inflation. However, this growth slowed significantly through the second half of the fiscal year. Wage growth decelerated from 8.1% in January to 1.9% in June.

Looking ahead to FY 2026, the economic outlook is uncertain. The downside risk is for a weak labor market, tepid wage growth, and rising inflation to continue into the new fiscal year. In combination, they can act as a drag on the regional economy by causing households to pull back further on personal consumption. The upside potential is that tariff policy stabilizes or eases inflationary pressure or provide certainty to businesses. In both scenarios, the Federal Reserve is expected to cut rates, but it is not readily apparent if rate cuts can offset the forces causing households to reduce spending or incentivize business investment to fuel job growth.

Sales Tax Revenues

Monthly collections through the fourth quarter (FY 2025) had significant positive and negative year-over-year swings, reflecting challenges at the State level in projecting for payment advances rather than volatility in underlying consumer spending behavior. However, on net, it was stronger than expected. Total estimated collections were \$104 million, resulting in TransNet revenue closing FY 2025 on a positive note. Total sales tax revenue for FY 2025 was \$426.9 million, just slightly above FY 2024. Notably, FY 2025 TransNet revenue was \$6.8 million higher than predicted. Table 1 compares revenue by month for the current and previous fiscal years. Table 2 reports annual revenue beginning in FY 2009 (the first year of the TransNet Extension Ordinance).

While sales tax collection exceeded expectations, outlook for consumer spending is increasingly cautious. Collections for FY 2024 and FY 2025 were flat as inflation slowed and disinflation (particularly for gas) impacted taxable items, consumer spending patterns shifted to nontaxable necessities (housing, groceries), and business spending moderated in anticipation of higher rates for longer. For FY 2026, the consumer spending patterns of the last two years are expected to remain stable. However, growth in sales tax revenue will be sensitive to inflation – especially for gas, automobiles (new and used), and durable goods. Tariff policy and Federal Reserve action on interest rates in the coming fiscal year are critical unknowns that will play important roles.

Table 1: TransNet Revenue by Month

Month	FY 2024	FY 2025
July	\$43,691,260	\$42,756,562
August	\$27,925,686	\$29,154,928
September	\$36,672,942	\$36,669,208
October	\$38,088,738	\$34,614,090
November	\$33,489,426	\$33,063,017
December	\$35,801,646	\$35,389,735
January	\$33,972,638	\$31,821,636
February	\$39,509,271	\$47,515,705
March	\$35,786,454	\$31,941,036
April	\$33,305,657	\$28,707,040
May	\$33,419,427	\$40,969,261
June	\$35,029,838	\$34,335,347
TOTAL	\$426,692,983	\$426,937,565

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
TOTAL	\$5,156,508,803