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## ❖ U.S. Economic Developments

### Revised Data Show Slower Real GDP Growth

The 2004 annual revision by U.S. Department of Commerce reveals that real GDP increased 3.0 percent in the second quarter of 2004—slower than the rapid growth of the past several quarters. In addition, the revised *annual data* show that real GDP rose 3.0 percent in 2003—slightly below the long-term average of 3.3 percent.

Many economic forecasters expect the relatively strong growth of the past several quarters to continue. A survey of 32 professional forecasters polled by the Federal Reserve Bank of Philadelphia in May (before the revisions were made) calls for real GDP to increase 4.6 percent in 2004 and 3.9 percent in 2005.

### Employment Growth Also Accelerates

Following a decrease of 409,000 jobs in 2003 (an average of about 102,000 jobs per quarter), U.S. nonagricultural employment accelerated sharply in the first half of 2004. About 595,000 nonagricultural jobs were created in the first quarter, nearly three times the gain of 179,000 jobs created in the fourth quarter of 2003. Preliminary data for the second quarter indicate an even stronger growth in employment, with the creation of 671,000 more jobs.

## Stable Unemployment Rate in First Half

The U.S. unemployment rate averaged 5.6 percent during the first half of 2004, with rates for individual months deviating little from that average. This first-half 2004 average unemployment rate is down from the annual average of 6.0 percent for 2003. Improving job creation in the first half of 2004 has led to more people entering the labor force, resulting in the stable first-half rate.

## ❖ California Economic Developments

### Growth in Payroll Jobs in First Half

California nonagricultural payroll employment increased an average of about 0.1 percent per month during the first half of 2004. The growth indicates a turnaround from 2003, when annual nonagricultural payrolls were essentially unchanged, declining by 0.3 percent for the entire year compared to 2002. While modest by historical (pre-recession) standards, the early 2004 growth in jobs is the fastest the state has had over a six-month period since 2000.

Many forecasters expect employment growth in California to continue this year and next. The July/August issue of the *Western Blue Chip Consensus* forecast (an average of eight economic forecasts) calls for California nonagricultural employment to increase 1.1 percent in 2004 and 2.0 percent in 2005.

*(California continued on page 4)*

## In-Depth Perspective

# Divergent Trends in U.S. Mail Order and Electronic Commerce Sales

### Importance of Remote Sales

Sales of retail merchandise made through both mail order and electronic commerce marketing channels are very important to tax administrators and policy makers. (For purposes of this article, we will define these sales as “remote sales”.<sup>1</sup>) If remote sales are made to California residents from vendors located outside of California with no physical presence in this state, federal law prevents California from requiring the vendor to collect use tax from the consumer. The responsibility to remit taxes due falls upon individual California consumers rather than out-of-state vendors.

While California tax administrators are making efforts to collect these taxes from individuals, nearly all these use taxes due remain uncollected. (This is also the case for other states that attempt to collect use taxes from consumers on purchases made from vendors located out-of-state.)

To the extent that such remote mail order and electronic commerce sales are increasing, there are greater potential sales and use tax revenue losses to California.

### Various Estimates of Electronic Commerce

Over the past decade there have been significant changes in data availability for remote sales. The U.S. Census Bureau has been estimating national remote sales since 1992. (The Census data category is called “electronic shopping and mail order houses”). With

increasing Internet usage, the electronic portion of remote sales began to receive a great deal of interest in the late 1990s. Various private forecasting firms began to make estimates of U.S. electronic commerce sales because of the attention being paid to this segment of the remote sales market. To address this information need, in late 1999 the U.S. Census Bureau began estimating electronic commerce sales separately from traditional mail order sales in a distinct data collection category called “retail electronic commerce.” However, many of the private electronic commerce estimates continue to be made, and some have been widely quoted in the media.

#### *Definitional Differences*

Differences in data definitions among the two Census Bureau estimates and the electronic commerce estimates made by private forecasters make any comparison of these numbers a difficult task. For example, even the two Census estimates vary in that “retail electronic commerce” includes car sales, while “electronic shopping and mail order houses” does not. In 2002, about 16 percent of retail electronic commerce sales were sales of motor vehicles and parts. There are other major definitional differences between the two Census estimates in addition to this one.

#### *Mail Order and Electronic Commerce Both Important*

From a sales and use tax perspective, electronic shopping and mail

order houses includes most mail order and electronic commerce sales that could be subject to potential revenue losses from vendors located outside the state. According to the Census Bureau definitions, the only major relevant kinds of remote sales excluded from the category are those from retail businesses that do not operate as separate business units and sales from electronic auctions.

From a use tax perspective, revenue losses can occur whether sales from out-of-state vendors are made through traditional mail order channels or electronically. Therefore, in our judgment, of the two U.S. Census Bureau estimates, the one that most accurately measures total potential revenue losses would be electronic shopping and mail order houses. However, because electronic commerce and mail order sales have been increasing at vastly different growth rates over the past several years, and because electronic commerce sales can easily substitute for traditional mail order sales, sales estimates of both categories are important to analyze.

#### *Total Remote Sales Growing Slower Than Electronic Commerce*

While data definitions are not identical, a comparison of trends in retail electronic commerce and electronic shopping and mail order house sales provides some valuable insights. The chart on the right compares U.S. sales made by electronic shopping and mail order houses with retail electronic commerce sales since 2000.<sup>2</sup> As shown in the chart, trends in these two measures are dramatically different.

While retail electronic commerce sales have shown rapid and uninterrupted growth, electronic shopping and mail order house sales decreased in 2001 while the economy was in recession. However, over the entire 2000 to 2003 period sales from electronic shopping and mail order houses increased 10 percent (from \$110 billion in 2000 to \$121 billion in 2003). This is much slower growth than retail electronic commerce sales, which doubled over the same three-year period (increasing from \$28 billion in 2000 to \$56 billion in 2003).

**Traditional Mail Order Sales  
Twice as Large as Electronic Sales**

The chart also shows that in 2003 electronic shopping and mail order house sales were over twice as large as retail electronic commerce sales (\$121 billion compared to \$56 billion). This difference implies that traditional mail order sales remain much greater than electronic

commerce sales despite the rapid growth in electronic sales. The gap between the two estimates is even greater if we subtract the 16 percent car sales (cited earlier) from retail electronic commerce, which makes the definitions of the two estimates more comparable. If we make this subtraction, traditional mail order sales were over twice as large as retail electronic commerce sales in 2002 (the latest year for which car sales data are available).

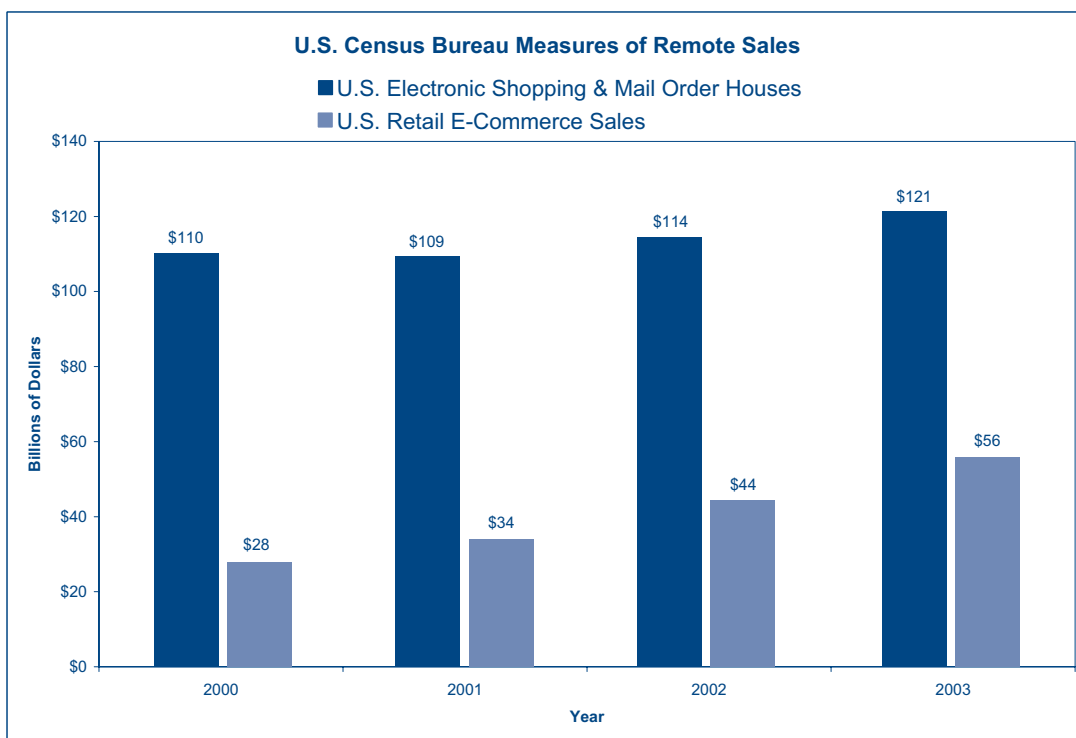
**Electronic Commerce Substituting  
for Traditional Mail Order Sales**

Census data also indicate that the electronic share of sales from electronic shopping and mail order houses increased from 19 percent in 2000 to 28 percent by 2002. These data also show that nonelectronic sales from electronic shopping and mail order houses (assumed to be traditional mail order or telephone catalog sales)

declined from \$89.3 billion in 2000 to \$82.3 billion in 2002. This decrease implies that a large part of the growth in nonauto retail electronic commerce sales came as a substitution for traditional mail order and telephone catalog sales. This is an important conclusion because such a substitution means that use tax revenue losses from remote sales are growing much slower than the electronic commerce data alone would suggest.

<sup>1</sup> Various alternative definitions are possible for the term “remote sales.” For example, newspaper subscriptions could be included in remote sales.

<sup>2</sup> Sources (also for chart data): (1) *Annual Benchmark Report for Retail Trade and Food Services: January 1992 Through February 2004*, U.S. Census Bureau, March 2004; (2) “Retail 1Q, 2004 E-commerce Report,” U.S. Census Bureau, May 21, 2004.



(California continued from page 1)

### California Unemployment Rate Declining

The average quarterly California unemployment rate has declined since reaching a peak in the third quarter of 2003.

Unlike the U.S. unemployment rate, which remained stable in the first half of 2004, the California unemployment rate has continued declining in the first half of 2004. The California unemployment rate declined from an average of 6.8 percent in the third quarter of 2003 to 6.6 percent in the fourth quarter, 6.4 percent in the first quarter of 2004, and 6.2 in the second quarter.

### Strong Taxable Sales Increase in Early 2004

Based on preliminary data, the Board of Equalization estimates an increase of 6.1 percent in California taxable sales for the first quarter of 2004 compared to taxable sales in the first quarter of 2003. This is the strongest quarterly growth since 2000. To put this number in perspective, taxable sales increased 3.0 percent for all of 2003 based on preliminary data for the final two quarters of the year. The first quarter 2004 growth is also above the long-term average, as taxable sales have increased an average of 5.3 percent per year from 1994 through 2003.

## Online Resources

For more information about topics covered in this issue, please visit any of the websites listed below.

Some sites charge a fee to use their services.

#### National Association for Business Economics

<http://www.nabe.com>

#### The UCLA Anderson Forecast

June 2004 Forecast

<http://www.anderson.ucla.edu/research/forecast/>

#### Federal Reserve Bank of Philadelphia

Survey of Professional Forecasters,  
May 24, 2004

<http://www.phil.frb.org/files/spf/survoq204.htm>

#### U.S. Department of Commerce, STAT-USA

<http://www.stat-usa.gov>

#### U.S. Bureau of Economic Analysis

Survey of Current Business

<http://www.bea.doc.gov/bea/pubs.htm>

#### California Department of Finance

<http://www.dof.ca.gov>

#### California Employment Development Department (EDD)

Labor Market Conditions in California,  
July 9, 2004

<http://www.calmis.cahwnet.gov>

#### California State Board of Equalization

Forthcoming news release:

2004 Taxable Sales—First Quarter

<http://www.boe.ca.gov/news>

#### Bank One Economic Outlook Center Arizona State University

Western Blue Chip Economic Forecast

## Contact Us

Please contact us if you would like to be added to our mailing list, need additional copies, or have any questions or comments.

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