



❖ U.S. Economic Developments

Strong Growth Expected Despite Economic Toll of Hurricane Katrina

Real gross domestic product (GDP) increased an average of 3.6 percent in the first half of 2005, which is above the ten-year average of 3.3 percent. Most economic forecasters surveyed by the National Association for Business Economists (NABE) in September expected real GDP growth to remain slightly above the ten-year average for the rest of 2005 and throughout 2006. Hurricane Katrina created only minor revisions to the growth

forecast of the NABE panel. The economists surveyed believe that Hurricane Katrina will reduce third-quarter real GDP growth by 0.4 percent and fourth-quarter real GDP by 0.2 percent (a total of 0.6 percent in the second half of 2005). These percentages are at the low end of the range estimated by the Congressional Budget Office. The CBO has stated that Hurricane Katrina may reduce real GDP growth by 0.5 to 1.0 percent in the second half of 2005.

U.S. Jobs Growing At Steady Rate Prior to Katrina

The accompanying chart shows U.S. and California monthly nonagricultural employment growth on a year-over-year

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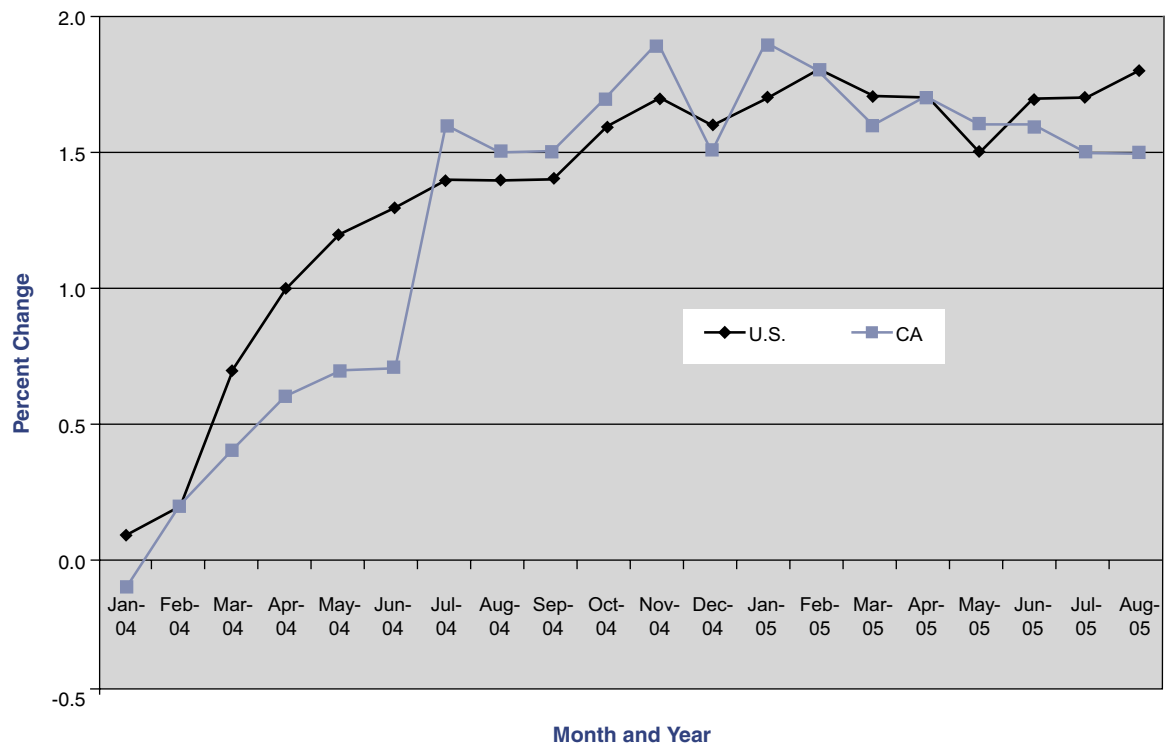
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**Growth in U.S. and California Nonagricultural Employment
(Growth From Corresponding Month of Prior Year)**



basis. As shown in the chart, it appears as though the “jobless recovery” started to produce nonagricultural jobs beginning in early 2004. The rate of year-over-year jobs growth escalated rapidly from January (a meager 0.1 percent increase) to June 2004 (a 1.3 percent increase) before reaching a plateau in mid-2004. From October 2004 through August 2005, year-over-year employment growth was relatively steady, averaging 1.7 percent.

Note: Employment and other national economic data for months following August 2005 reflect unprecedented losses caused by Hurricane Katrina, and are therefore difficult to analyze. Because of this difficulty in interpretation, data in the chart are shown only through August 2005.

❖ In-Depth Perspective: Where Are Taxable Goods Consumed?

Taxable Sales by City

Board of Equalization *Taxable Sales* reports provide a wealth of information on taxable sales for all 478 cities in California.¹ These reports tell us locations of cities and counties from which taxable sales were made. However, they do not tell us where consumption of taxable goods takes place. Consumption of taxable goods by the residents of a city may not be the same figure as taxable sales. For example, a small city with few retail outlets may be located very close to a large city with many retail outlets. Some sales made in the large city are “exported” across the city boundary to the small city when these nonresidents shop there.

Highest Per Capita Income California Cities 1999

Rank	City	Per Capita Income
1	Belvedere	113,595
2	Atherton	112,408
3	Rolling Hills	111,031
4	Woodside	104,667
5	Portola Valley	99,621
6	Hillsborough	98,643
7	Hidden Hills	94,096
8	Los Altos Hills	92,840
9	Tiburon	85,966
10	Sausalito	81,040

Lowest Per Capita Income California Cities 1999

Rank	City	Per Capita Income
462	Cudahy	8,688
463	Farmersville	8,624
464	Bell Gardens	8,415
465	Lindsay	8,230
466	Coachella	7,416
467	Arvin	7,408
468	Orange Cove	7,126
469	Parlier	7,078
470	Mendota	6,967
471	San Joaquin	6,607

Taxable Goods Consumption by City

How can one estimate consumption of taxable goods by the residents of such large and small cities? As discussed in the August 2005 *Economic Perspective*, there is a strong statistical relationship between consumption of taxable goods and personal incomes earned by households. If we know incomes by city, estimates of consumption of taxable goods can be made.

Per Capita Income by City

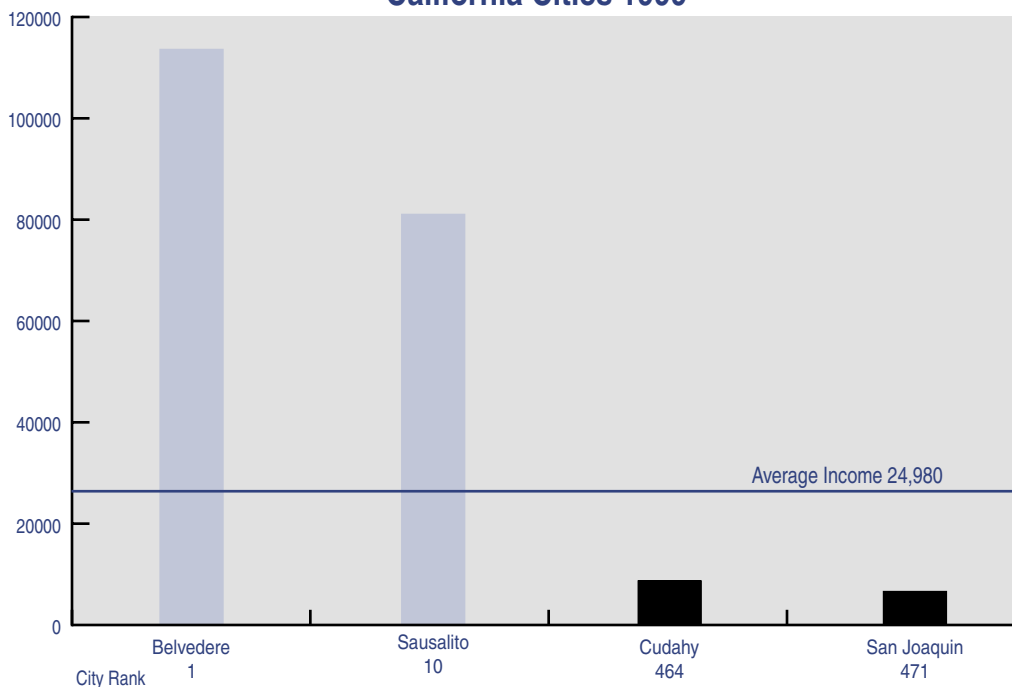
The U.S. Census Bureau has published estimates of 1999 income per capita by city from the 2000 Census. One striking feature of this data is that they show the tremendous variability in incomes among California cities. Income per capita averaged \$24,980 for all California cities in

1999. However, per capita incomes ranged from a high of \$113,595 for Belvedere in Marin County to a low of \$6,607 for the city of San Joaquin in Fresno County. The accompanying charts show the California cities with the highest and lowest per capita incomes for 1999.

Per Capita Taxable Goods Consumption by City

With the variability in incomes by city, there is corresponding variability in estimated consumption of taxable goods. Using the ratios of taxable sales to incomes from the August 2005 *Economic Perspective*, we calculated estimates of per capita taxable sales for selected California cities.² Taxable sales per capita averaged \$7,313 for California cities in 1999.³ The estimates range from a high of \$20,142 in Belvedere to a low of \$3,737 in San Joaquin.

**Range of Per Capita - Incomes
California Cities 1999**



(Footnotes)

¹ The number of cities in California increased from 471 in 1999 to 478 in 2004. Data obtained from *Taxable Sales in California (Sales and Use Tax)*. See BOE web site: www.boe.ca.gov/news.tsalescont.htm

² Two adjustments were made to the data presented in the August 2005 *Economic Perspective*. The first is that the household income classes were converted to per capita income classes using data from the U.S. Bureau of Labor Statistics. The second adjustment is that the 2003 income brackets were adjusted to 1999 for inflation and economic growth to be consistent with the 1999 Census data.

³ Average California per capita income is unweighted by population. Consequently, the average California taxable sales per capita figure calculated here differs from those published in Board of Equalization *Taxable Sales reports*.

Federal Reserve Bank of Philadelphia,
Survey of Professional Forecasters
www.phil.frb.org/econ/spf/index.html

National Association for Business Economists
www.nabe.com

U.S. Bureau of Economic Analysis, *Survey of Current Business*
www.bea.doc.gov/bea/pubs.htm

U.S. Bureau of Labor Statistics
www.bls.gov

U.S. Congressional Budget Office
www.cbo.gov

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.

Bank One Economic Outlook Center,
Arizona State University, *Western Blue Chip Economic Forecast*

California State Board of Equalization
News Releases - 2005
www.boe.ca.gov/news/newscont05.htm

California Department of Finance
www.dof.ca.gov

California Employment Development Department (EDD), *Labor Market Conditions in California*, October 21, 2005
www.calmis.cahwnet.gov

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