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❖ Comparisons of Spending Categories for High Income and Low Income Households

Spending data show differences in buying habits among different income groups, helping government officials make more informed decisions on tax policy and law.

A well established principle in economics is that spending on specific items proportional to incomes varies depending on income levels. Low income households tend to spend greater proportions of their incomes on necessities such as food, rent, utilities, and gasoline, while high income households tend to spend more on discretionary items such as travel, furniture, and new cars.

BLS Spending Data

The U.S. Bureau of Labor Statistics (BLS) conducts an ongoing survey of thousands of U.S. households to collect information on the buying habits of American consumers. The BLS publishes detailed consumer expenditures for quintiles of income classes (households in five equal-sized groups).¹ Average income before taxes for all households was \$54,500 in 2004. For the highest quintile, average income was \$132,200. For the lowest quintile, average income was \$9,200. Average annual household spending for all quintiles was \$43,400. Average spending for the lowest quintile was \$17,800, while average spending for the highest quintile was \$83,700.

¹ *Consumer Expenditures in 2004*, Report 992, Bureau of Labor Statistics, April 2006.

Spending Indices Calculated

The two tables on the following pages were prepared from these data. The tables show indices of the average proportions of spending in specific categories to total spending for selected goods and services for the highest and lowest quintiles. Here is an example of how the indices in the tables were calculated: About 7.7 percent of spending by all consumers is for food consumed at home. For the lowest income quintile, the percentage of spending on food consumed at home is 11.5 percent, and for the highest quintile the corresponding figure is 5.9 percent. Therefore, spending on food consumed at home for the lowest income quintile is 149 percent of average ($11.5/7.7 = 1.49$); for the highest income quintile this percentage is 77 percent of average ($5.9/7.7 = 0.77$).

In the tables, percentages (or indices) over 100 indicate proportionately more than average spending in relation to total spending for each quintile. Indices less than 100 percent indicate proportionately less than average spending in relation to total spending for each quintile.

Spending Categories Selected

Because there are so many BLS spending categories (145 categories and subcategories), we did not include all of them. The specific spending categories in the tables were selected based on several criteria. These include relative importance to total spending and relevance to recent developments (such as gasoline price increases of recent years). Another criterion was variation from the average index value of 100 percent. We generally included items at the extremes and excluded items close to the average of 100 percent. The first table on the next page ranks consumer categories for the lowest income quintile (from highest to low-

est), while the second table ranks categories from the perspective of the highest income quintile. Some categories are duplicated in both tables. Spending on all items in both tables represents about two-thirds of total spending for the average household.

Rent, Tobacco Head Lowest Quintile

As shown in the table to the right, households in the lowest income quintile spent proportionately more than average on rented dwellings, tobacco, and education. For example, households in the lowest quintile spent 271 percent of average on rented dwellings, while households in the highest quintile spent only 31 percent of average. Rented dwellings and tobacco showed the greatest disparity between the low and high income groups of any other consumer categories. The lowest earning quintile spent nearly four times more of their total spending on tobacco than the highest earning quintile (181 percent compared to 49 percent). As for rent, the lowest quintile spent more for rented dwellings, while the highest quintile spent more on owned dwellings, each of which are close substitutes.

Education Spending Unique

Spending on education (which includes tuition, textbooks and supplies) showed a peculiar characteristic compared to other categories. Both the lowest quintile and the highest quintile spent proportionately more than average on education (indices of 172 and 135, respectively). The three middle income quintiles (not shown in the table) all had below average spending on education.

Necessities Dominate Low Income Quintile Indices Over 100

Many of the remaining consumer spending categories on which the lowest income quintile spent more than average include necessities such as utilities (electricity, telephone service, natural gas, and water), nonalcoholic beverages, food for home con-

sumption, health care, apparel and gasoline. Interestingly, both the lowest and the highest quintiles spent close to average on alcoholic beverages (indices of 103 for the lowest quintile and 99 for the highest quintile).

Selected Indices of U.S. Household Spending for Lowest and Highest Income Quintiles, Ranked by Lowest Quintile

Item	Lowest Quintile	Highest Quintile
Rented dwellings.....	271	31
Tobacco products and smoking supplies	181	49
Education	172	135
Electricity.....	156	74
Nonalcoholic beverages.....	152	73
Food at home	149	77
Telephone services	138	76
Health care	134	77
Natural gas.....	134	79
Water and other public services	122	80
Apparel and services	112	104
Gasoline and motor oil	111	81
Alcoholic beverages.....	103	99
Food away from home.....	92	99
Furniture.....	73	124
Public transportation....	70	136
Other lodging.....	69	148
Owned dwellings.....	62	117
Fees and admissions	60	133

Travel Heads High Income Quintile

The table on the next page shows selected spending categories, this time ranked by indices of average spending for the highest income quintile. Categories related to travel are well represented at the top of the list. The top category is other lodging, at 148

percent of average. This grouping includes spending on vacation homes, hotels, motels and bed and breakfast establishments. Public transportation is next (136 percent of average); this class of spending includes fares for airlines and cruise ships.

Some other categories with significantly above average spending by the highest income quintile are education, fees and admissions, furniture, owned dwellings, and new cars and trucks. This group spends slightly more on apparel than average, 104 percent.

Selected Indices of U.S. Household Spending for Highest and Lowest Income Quintiles, Ranked by Highest Quintile

Item	Highest Quintile	Lowest Quintile
Other lodging.....	148	69
Public transportation	136	70
Education	135	172
Fees and admissions	133	60
Furniture.....	124	73
Owned dwellings.....	117	62
Cars and trucks, new	114	53
Apparel and services	104	112
Food away from home.....	99	92
Alcoholic beverages.....	99	103
Gasoline and motor oil	81	111
Food at home	77	149
Nonalcoholic beverages.....	73	152
Drugs.....	62	181
Tobacco products and smoking supplies	49	181
Rented dwellings.....	31	271

Sales and Use Tax Implications Mixed

The sales and use tax implications for spending categories in both tables are mixed. Taxable goods in the categories on which the lowest income quintile households spend significantly more include tobacco, educational materials such as textbooks, carbonated nonalcoholic beverages, apparel, and gasoline. Taxable goods in the categories for which the highest income quintile spend significantly more on include educational materials, furniture, and new cars and trucks.

❖ U.S. Economic Developments

Average Growth Trend Continues

Real Gross Domestic Product (GDP) growth has been erratic over the past several quarters, but has averaged close to the ten-year norm of about 3.3 percent. Many economists expect growth to nearly match the ten-year average this year before slowing in 2007. A survey of 51 professional forecasters polled by the Federal Reserve Bank of Philadelphia in August calls for real GDP to increase 3.4 percent in 2006 and 3.0 percent in 2007. The average survey forecast for 2006 has changed little in over a year, indicating that economic growth has continued to perform close to expectations despite volatility in energy prices and the disruptions of Hurricane Katrina.

Payroll Employment Gains Constant

Over the first three quarters of 2006 U.S. payroll employment growth increased 1.4 percent over the same period of 2005. There has been little variation from this growth rate over the past six months. Likewise, the U.S. unemployment rate has held relatively steady, averaging 4.7 percent for the first three quarters of 2006.

❖ California Economic Developments

California Employment Growth Above U.S.

One of the most comprehensive indicators of economic well being available for states on a timely basis is nonagricultural payroll employment. For most of 2006 California payroll employment has grown slightly faster than U.S. payroll employment. Over the first nine months of 2006, California payroll employment increased 1.6 percent over 2005, slightly higher than the 1.4 percent U.S. growth rate. Like the U.S., the California unemployment rate has changed little so far in 2006, averaging 4.9 percent, fairly close to the national average rate of 4.7 percent.

Construction Permit Valuations Down So Far In 2006

California residential building activity is down from last year's levels, but construction of multifamily dwelling units and non-residential buildings is running contrary to the downward trend. Construction Industry Research Board data indicate that from January through September 2006, 29 percent fewer building permits were issued for single family homes compared to the same time period of 2005.² However, multifamily building permits increased 4 percent. The inflation-adjusted value of nonresidential building construction permits issued is up 16 percent. Overall, the total value of private building activity for the January through September period is down 9 percent from that of 2005 in real terms.

²Website: www.cirbdata.com

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Taxpayers' Rights Advocate:
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To contact your Board Member, see
www.boe.ca.gov/members/board.htm

Online Resources

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

California Department of Finance

www.dof.ca.gov

California Employment Development Department (EDD), Labor Market Conditions in California

www.calmis.cahwnet.gov

Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters

www.phil.frb.org/econ/spff/index.html

National Association for Business Economists

<http://www.nabe.com>

U.S. Bureau of Economic Analysis

www.bea.doc.gov

U.S. Bureau of Labor Statistics

www.bls.gov

U.S. Census Bureau

www.census.gov