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❖ California's Leading and Lagging Service Industries

We hear a great deal about the “services economy” or the “information economy” or the “knowledge economy.” It is often mentioned that California tends to be a national leader in these areas. This article offers a comparison between California and U.S. economic activity within specific selected services.

California Payroll Shares

The U.S. Census Bureau publishes payroll compensation figures for both the U.S. and California by industry.¹ We used this data to calculate the state's percentage of U.S. payrolls for 64 service industries.² These payroll shares provide a way to compare California and U.S. economic activity for detailed industries. Since California's popu-

lation comprises 12 percent of the total U.S. population, industries having more than a 12 percent national share indicate that California has a proportionately greater share of that industry.³ Conversely, industries having less than the state's 12 percent share of U.S. population indicate that California has a proportionately smaller share of that industry. This payroll data is an incomplete measure, since it excludes self-employed businesses and profits for unincorporated businesses. However, it provides the most detailed body of data by industry available for states and it provides an indication of California shares of U.S. output for detailed service industries.

California Dominates Motion Pictures

Table 1 shows the top ten service industries, ranked by California shares of U.S. payrolls. Not surprisingly, the most dominant California industry is motion pictures and sound recording. The state has a whopping 58 percent of U.S. payrolls in motion pictures and sound.

High Tech and Creative Leadership

Many high technology computer and Internet sectors are represented in this group of leading California industries. California is very dominant in Internet service providers and web search portals, with 48 percent of U.S. payrolls. Software publishing is next, at 30 percent. California lessors of nonfinancial intangible assets (such as patents, trademarks, brand names and franchise agreements) has 21 percent of U.S. payrolls. Other high technology industries in the top ten include Internet publishing and scientific research. Creative and performing arts are also represented. Performing arts has 29 percent of its U.S. payrolls in California,

¹U.S. 2004 County Business Patterns, U.S. Census Bureau, June 2006: <http://www.census.gov/prod/2006pubs/04cbp/cb0400a1us.pdf>; California: 2004 County Business Patterns, U.S. Census Bureau, June 2006: <http://www.census.gov/prod/2006pubs/04cbp/cb0400aca.pdf>

²Industries are classified according to the North American Industry Classification System (NAICS). The NAICS industry titles will generally be used throughout this discussion.

³California has 13 percent of U.S. payroll compensation for all industries, which would be an alternative measure of comparison.

while specialized design services (which includes interior design, web design and fashion design) has 19 percent.

Accounting and Finance Leadership

The perhaps less creative, but complex and knowledge-intensive service industry of accounting and finance is also on the top ten list. California accounting, tax preparation,

bookkeeping and payroll service businesses have 23 percent of U.S. payrolls, while the state's nondepository credit intermediation companies have 18 percent of U.S. payrolls.

Lagging Industries

While many articles on the economy mention the industries California has dominance

Table 1
Top Ten California Service Industries
as Percentages of U.S. Payrolls in 2004

Rank	Industry	California Percentage of U.S. Payrolls
1	Motion picture and sound recording industries (<i>except Internet</i>)	58%
2	Internet service providers and Web search portals	48%
3	Software publishers (<i>except Internet</i>)	30%
4	Performing arts, spectator sports, and related industries	29%
5	Accounting, tax preparation, bookkeeping and payroll services	23%
6	Lessors of nonfinancial intangible assets	21%
7	Internet publishing and broadcasting	20%
8	Scientific research and development services	19%
9	Specialized design services	19%
10	Nondepository credit intermediation	18%

Table 2
Bottom Ten California Service Industries
as Percentages of U.S. Payrolls in 2004

Rank	Industry	California Percentage of U.S. Payrolls
55	Outpatient care centers and other ambulatory health care services	10%
56	Business, professional, labor, political, and similar organizations	10%
57	Remediation and other waste management services	10%
58	Newspaper, periodical, book, and directory publishers (<i>except Internet</i>)	10%
59	Other information services	9%
60	Telecommunications resellers, satellite, and other telecommunications	9%
61	Nursing and residential care facilities	8%
62	Psychiatric, substance abuse, and specialty hospitals	8%
63	Social assistance (<i>except child day care services</i>)	8%
64	Home health care services	7%

in, the data also shows service industries in which California has a much lower share of U.S. payrolls than its 12 percent share of population. Table 2 shows the bottom ten of the 64 service industries for which we calculated the state's shares of national payrolls. The bottom ten industries' shares of payrolls range from seven to ten percent of U.S. payrolls.

Many Health Care Industries Lagging

California home health care service payrolls are only 7 percent of U.S. payrolls. Several other health care industries also have low percentages of national payrolls and appear in the bottom ten table. One reason for the low percentages of health care payrolls may be the reflection of California's younger population compared to the U.S. as a whole, since younger people tend to use fewer health care services than older people. Other industries in the bottom ten include: social assistance, telecommunications resellers, newspaper and other print media, remediation and other waste management services, and various business, professional and labor associations.

❖ U.S. Economic Developments

Review of 2006 Retail Sales

This spring the U.S. Census Bureau released its annual revisions of sales of retail trade and food services for 2006 and previous years.⁴ The figures show that U.S. retail and food services sales increased 5.9 percent in 2006 (unadjusted for inflation). This is lower than growth the previous two years (6.4 percent in 2004 and 6.3 percent in 2005) and

⁴Annual Revision of Monthly Retail and Food Services: Sales and Inventories – January 1992 Through February 2007, U.S. Census Bureau, March 2007, <http://www.census.gov/mrts/www/data/pdf/annpub07.pdf>.

is consistent with smaller increases in U.S. personal income and the overall economy.

Rate of Growth in Remote Sales Twice as Fast as Physical Stores

The body of Census data shows that retail sales of specific industries varied greatly from the average gain of 5.9 percent in 2006. The rate of growth was more than twice as fast for remote retail sales (electronic shopping and mail order houses). U.S. remote retail sales increased 12.9 percent in 2006, up from 9.8 percent growth in 2005. Most of the gains in remote sales were from e-commerce (which are included in remote retail sales). Preliminary data indicate that U.S. retail e-commerce sales rose about 23 percent in 2006, little changed from its 24 percent growth of 2005. With growth rates over 20 percent per year for many years, e-commerce sales reached 3.0 percent of total retail sales in the fourth quarter of 2006. (E-commerce sales include auto sales, but sales made by electronic shopping and mail order houses do not.)

Trends Show Changes in Shopping Channels or Types of Outlets

The Census data also shows that some types of U.S. retail businesses had sales increases or decreases far higher or lower than average in 2006. Some of the below average growth rates may have resulted from substitutions of purchases to e-commerce channels or superstores. Book store sales declined 2.3 percent in 2006, more than any other category. Department store sales decreased 1.0 percent in 2006, and have now declined five of the past six years. In contrast, sales made by warehouse clubs and superstores rose 10.3 percent, continuing a long term trend of double digit increases. Sales by computer and software dealers rose just 1.0 percent in 2006, down sharply from a 10.6 percent increase in 2005.

Below Average Real GDP Growth in Recent Quarters

Turning to recent trends in overall U.S. economic growth, real gross domestic product (GDP) rose 1.3 percent in the first quarter of 2007. Growth has been below its long-term average of 3.2 percent since the first quarter of 2006.

❖ California Economic Developments

California Personal Income Growth Matches U.S. in 2006

This spring the U.S. Bureau of Economic Analysis released personal income estimates by state for 2006. California personal income increased 6.4 percent in 2006, nearly matching the 6.3 percent growth for the U.S. as a whole.

California Employment Growth Expected to Decline

One of the most comprehensive indicators of economic well being available for states on a timely basis is nonagricultural payroll employment. Preliminary data for early 2007 show that California payroll employment increased about 1.7 percent in the first quarter, just above U.S. growth of 1.6 percent. However, many forecasters expect the California economy to follow the U.S. economy slowdown during the rest of the year. According to the May 2007 issue of the Western Blue Chip Economic Forecast (which includes a survey of eight California economists) the average forecast calls for California nonagricultural employment to increase 1.1 percent in 2007, much slower than the growth of 2006.

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Taxpayers' Rights Advocate:
888-324-2798

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.labormarketinfo.edd.ca.gov

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