



❖ U.S. Economic Developments

Average Monthly Job Creation Meeting Expectations

U.S. nonagricultural payroll employment increased an average of 195,000 jobs per month in the second quarter of 2005 (seasonally adjusted data). While there was a great deal of month-to-month variation in job creation over the first six months of 2005, the first half average was 188,000 jobs per month.

It is interesting to note that this 188,000-job average is very close to what many economists were expecting for 2005 more than a year and a half ago. The February 2004 Survey of Professional Forecasters by the Philadelphia Federal Reserve Bank was the first of their surveys to ask economists their nonagricultural employment forecasts for 2005. A total of 32 forecasters responded to the survey. The February 2004 Philadelphia Federal Reserve average of these forecasts called for an

increase of 187,700 nonagricultural jobs per month for 2005. This is an annual increase of 1.7 percent over 2004. The most recent Philadelphia Federal Reserve consensus forecast (May 2005) calls for a 1.6 percent increase in nonagricultural jobs in 2005. While data are known only for the first half of 2005, so far it appears these forecasts should prove to be reasonably accurate.

❖ California Economic Developments

California Employment Growth Tracking Consensus Forecast in Mid-2005

In the first half of 2005, nonagricultural employment increased 1.7 percent compared to the first half of 2004. This rate matched U.S. growth in nonagricultural jobs. The 1.7 percent growth rate is also equal to average growth predicted by the July/August *Western Blue Chip Economic Forecast* for 2005.

California Real GSP Faster Than Average Since 2001

In June the U.S. Bureau of Economic Analysis released its annual Gross State Product (GSP) estimates for 2004 and revised estimates for the previous three years. GSP is the state counterpart of Gross Domestic Product (GDP). As shown in Chart 1, California suffered greater than the U.S. as a whole in the 2001 recession, as real California GSP declined 0.2 percent while average U.S. real GSP for all states increased 0.9 percent.¹ However, California real GSP rose faster than average from 2002 through 2004.

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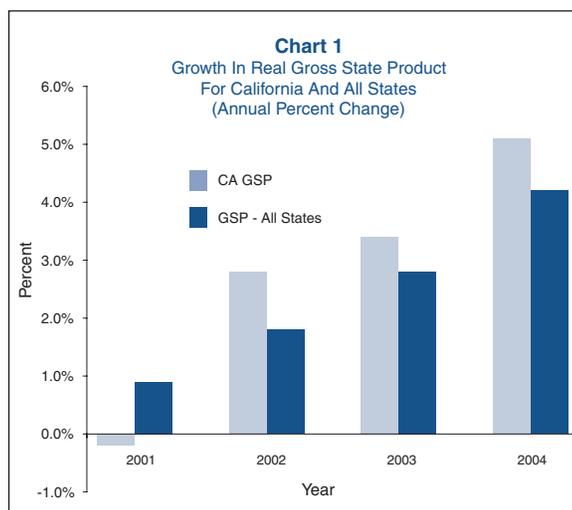
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❖ In-Depth Perspective: U.S. BLS Taxable Spending by Income Class

BLS Consumer Expenditures Survey

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 data collected are used in the calculation of the consumer price index, among other purposes. The survey provides more detailed information than is available elsewhere on household incomes and spending. The BLS survey does not publish California data. However, the regional and metropolitan area data that the survey does publish indicate that spending habits for California tend to be similar to those of the nation as a whole.

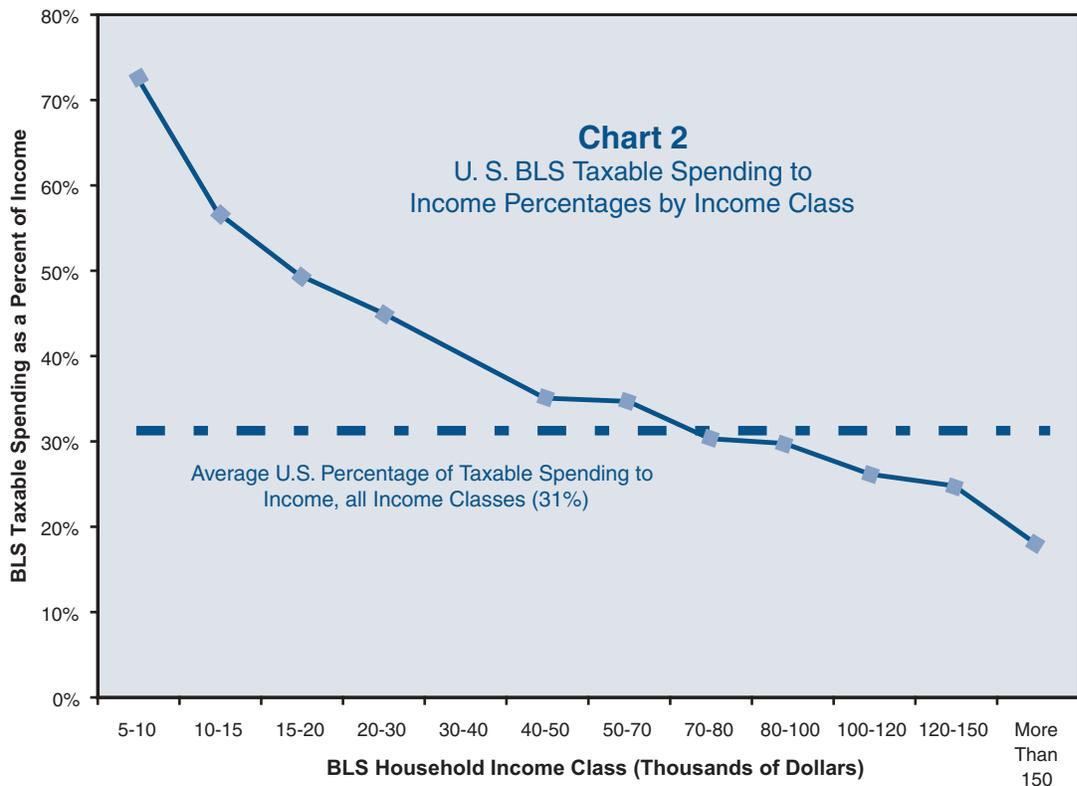
Spending by Income Class

Recently the BLS began reporting household expenditures by more detailed income

classes than they have in the past. They now report detailed spending for 13 household income classes, ranging from households earning less than \$5,000 per year to those earning more than \$150,000. Incomes are defined relatively broadly, including public assistance and the value of food stamps. Consumer expenditures for these income classes were recently published for 2003.²

California Taxable U.S. Spending By Income Class

The BLS does not consider California sales and use taxes in how the data are displayed. However, with knowledge of the California sales and use tax law, it is possible to make a general approximation of California-taxable BLS expenditure categories. We have tabulated such an approximate breakout by household income class.³ Charts 2 and 3 were prepared using these tabulations for the highest 12 income classes.⁴



Spending Falls as a Percent of Income As Incomes Increase

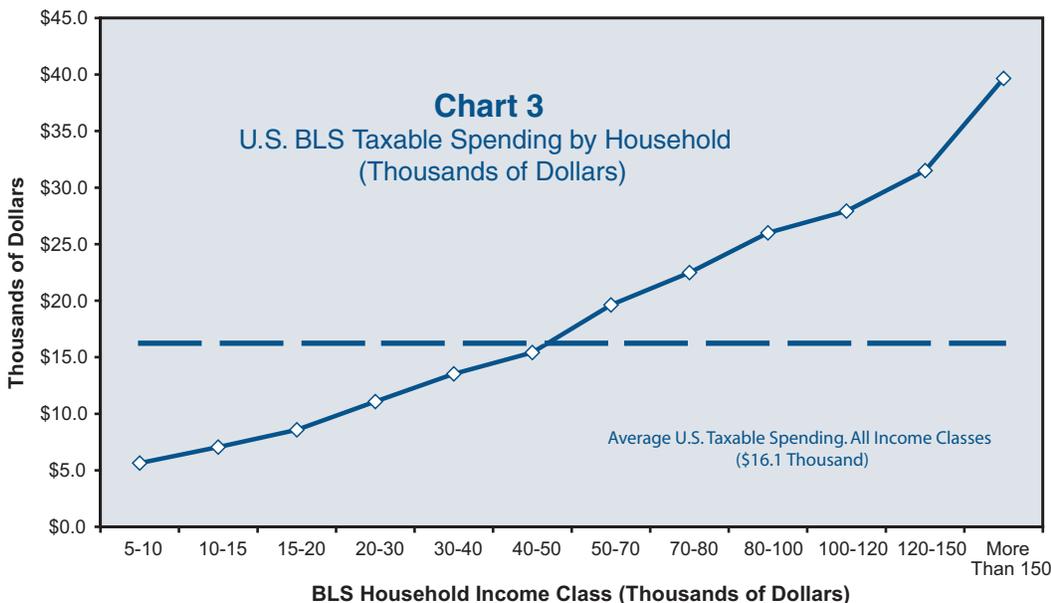
Chart 2 shows BLS taxable spending as a percent of income by income class for the 12 highest income classes. The chart also shows average BLS taxable spending as a percent of income for all income classes of 31 percent (horizontal dashed line). As shown in the chart, taxable spending percentages fall steadily as income increases, from 72 percent for households earning between \$5,000 and \$10,000 per year to 18 percent for households earning more than \$150,000. Households subject to the same tax rate are shown to pay smaller percentages of sales taxes to their incomes as incomes rise.

This result is consistent with economic theory and the results of other studies. It is a well documented axiom in economic theory that households who earn higher incomes tend to spend smaller portions of their incomes than households who earn lower incomes. This concept also applies to spending on taxable goods.

Spending Increases as Incomes Increase

While the percentage of income subject to taxable sales declines as incomes increase, the total dollars subject to sales tax increases as incomes increase. This relationship is shown in Chart 3. The BLS data show that taxable spending for the highest income group is almost \$40,000 per household, which is more than double the average taxable spending for all BLS income classes of \$16,100. Therefore, if all other factors were the same, we would expect taxable sales per capita in a high-income area to be much greater than taxable sales per capita in a low-income area. Conversely, we would expect taxable sales per capita in a low income area to be much less than average.

In summary, the BLS consumer expenditure survey provides valuable data that can be applied to analyze California taxable purchases by households. The BLS survey results are consistent with those predicted by economic theory, and can be used to estimate city and county taxable purchases made by households if their incomes are known.



(Footnotes)

¹ There are slight definitional differences between GDP and GSP. GDP includes spending by U.S. federal employees stationed abroad.

² *Consumer Expenditures in 2003*, Report 986, Bureau of Labor Statistics, June 2005.

³ Spending in some BLS expenditure categories, such as “drugs” and “food away from home,” cannot be accurately placed into taxable and nontaxable categories. Prescription drugs and certain types of food purchases are exempt, and we do not have more detailed data required to delineate taxable from nontaxable purchases. The data used to create the charts in this section are subject to these data limitations, and are meant only to analyze general trends.

⁴ We excluded the lowest income class (households earning less than \$5,000 annually) in Charts 2 and 3 because the data point for this income class is so dramatically different from those of the other 12 income classes that it greatly affects the scale of the charts. Taxable spending for this income class is 604 percent of income, compared to the average for all income classes of 31 percent of income. The BLS data show that 4.5 percent of households that reported complete information for the survey are in this income class.

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.

California Department of Finance

www.ca.dof.gov

California Employment Development Department (EDD), *Labor Market Conditions in California*, July 22, 2005

www.calmis.cahwnet.gov

Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters*, May 16, 2005

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. Department of Commerce, STAT-USA

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

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