State Board of Equalization

# Economic Perspective

Summary of Recent Economic Developments August 2006

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## ❖ Are California Consumers Different?

California has its own climate, geography, politics, history, and demographics. And, according to the U.S. Census Bureau, our own buying preferences, as well. Compared to national averages, what products do we buy more of, and what do we buy less of?

The U.S. Census Bureau surveys industries every five years, including detailed data for states. Using data from the most recent survey (2002) we compared California to U.S. spending for 63 retail industries for which data are available. The industries are defined under the North American Industry Classification System (NAICS). We also compared total California retail spending to total U.S. retail spending.

### Total California Retail Spending Matches U.S. Average

As an overall average, California retail spending is similar to that of the rest of the country. Californians accounted for about 12 percent of total retail spending in 2002, matching our 12 percent share of U.S. population.

### Many California Retail Industries Vary From U.S. Average

While total spending matches our population share of the U.S., many specific industries vary a great deal around this average. The accompanying table shows California shares of U.S. average spending by industry for the top ten of the 63 retail industries we analyzed. These industries do not necessarily measure all purchases of specific products. For example, computers may be purchased from various retail industries such as computer and software stores, office supply stores, or discount warehouse stores. Though the industries in the table do not measure all consumption, they do provide an indication of the types of goods that Californians tend to purchase in relation to the national averages.

**Top Ten California Retail Industries in Percentages of U.S. Average Spending (2002 Retail Census)**

| Rank | NAICS Industry | California Share of Average U.S. Spending |
|---|---|---|
| 1 | Computer and software stores | 189% |
| 2 | Window treatment stores | 149% |
| 3 | Other fuel dealers | 145% |
| 4 | Luggage and leather goods stores | 145% |
| 5 | Hardware stores | 141% |
| 6 | Food (health) supplement stores | 141% |
| 7 | Prerecorded tape, compact disc, and record stores | 141% |
| 8 | Pet and pet supplies stores | 136% |
| 9 | Specialty food stores | 131% |
| 10 | Radio, television, and other electronics stores | 130% |
| | **All Retail Trade Industries** | **100%** |

### Computers Lead Top Ten Industries

In each of the top ten industries Californians spent a minimum of 130 percent of the national average for each industry. (Alternatively stated, spending was more than 30 percent above the national average. This implies that the California share of national spending was at least 15.6 percent rather than 12.0 percent for each of these retail industries.) The number one retail industry where Californians spent more than the national average is computer and software stores. In 2002, total California purchases made from computer and software stores was 189 percent of the national average. Such high relative spending on computers and software is not surprising since California is well known for being a technology-oriented state.

Californians also spent relatively more at window treatment stores, the second leading retail industry (149 percent of the national average). The third leading industry may be somewhat unexpected; we spent 145 percent of the national average at "other fuel dealers." One wonders what kinds of fuels are included in this industry. Using the NAICS definitions, we can gain a more detailed understanding of this and other retail industries (see *www.census.gov/epcd/www/naics.html*). Other fuel dealers are defined as coal and firewood dealers that sell directly to the public. Since Californians purchase little coal, most of our spending in this category must have been for firewood. Apparently Californians used their fireplaces more than average U.S. consumers did despite our relatively sunny climate.

The remaining top ten industries indicate what other goods are specifically important to Californians, along with their associated activities. We travel more than average (luggage and leather goods stores are ranked fourth). We spend more on our homes (hardware stores are ranked fifth). We buy more vitamins and supplements; food (health) supplement stores are ranked next. We also buy more music in various media (prerecorded tape, compact disc and record stores) and spend more on pets. Californians also spend more on specialty foods. According to the NAICS code definitions, specialty food stores include meat markets, fish and seafood markets, fruit and vegetable markets, bakeries, ice cream stores, and gourmet food stores. Rounding out the top ten list are purchases from radio, television, and other electronics stores.

**Bottom Ten California Retail Industries in Percentages of U.S. Average Spending (2002 Retail Census)**

| Rank | NAICS Industry | California Share of Average U.S. Spending |
|---|---|---|
| | **All Retail Trade Industries** | **100%** |
| 54 | All other motor vehicle dealers | 72% |
| 55 | Beer, wine, and liquor stores | 69% |
| 56 | Boat dealers | 68% |
| 57 | Nursery, garden center, and farm supply stores | 67% |
| 58 | Used car dealers | 65% |
| 59 | Liquefied petroleum gas (bottled gas) dealers | 65% |
| 60 | Vending machine operators | 60% |
| 61 | Manufactured (mobile) home dealers | 39% |
| 62 | Outdoor power equipment stores | 33% |
| 63 | Heating oil dealers | 11% |

## Heating Oil Leads Bottom Ten Industries

The table above shows the other end of the spectrum of industries, identifying items that Californians spent less on than the national average. Not surprisingly, at the bottom of the list we find heating oil dealers. Californians spent only 11 percent of the national average on heating oil. This reflects not only a warmer than average climate, but also the fact that Californians tend to heat their homes with natural gas rather than heating oil. We spent only 33 percent of the national average on outdoor power equipment (primarily lawn and garden equipment), the ninth industry in the bottom ten. Californians also purchased fewer mobile homes, items from vending machines, and liquefied petroleum gas. Somewhat surprisingly, we spent less at used car dealers (65 percent of national spending). Despite our miles of coastlines and many rivers and lakes, we also buy fewer boats (68 percent of the national average). Californians also spend less at "all other motor vehicle dealers," a category that includes aircraft, golf carts, snowmobiles, and trailers.

### Total Sales Perspective

While the industries in this table reveal some interesting differences between average California and national consumer retail spending, it is important to keep the sales figures in perspective relative to the totals. The top ten industries in the table combined represented 6.0 percent of California retail sales. The bottom ten industries represented a combined total of about 3.5 percent of California retail sales. As a percentage of total retail sales, the value of the top ten and bottom ten industries combined is small (9.5 percent) compared to the percentage of retail sales that one might consider to be very similar to the nation. About half of California retail industry spending fell between 90 percent and 110 percent of the national averages.

In summary, California spending patterns were more similar than unsimilar when compared to the rest of the country. However, U.S. Census data also reflect dissimilarities between spending by Californians and national averages in specific retail industries.

## ❖ U.S. Economic Developments

### Average Growth Continues

Over the last few quarters real Gross Domestic Product (GDP) growth has been in a see-saw pattern, 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 53 professional forecasters polled by the Federal Reserve Bank of Philadelphia in May calls for real GDP to increase 3.4 percent in 2006 and 3.0 percent in 2007.

### Slowing Payroll Employment Growth

U.S. payroll employment growth slowed in the second quarter of 2006. In 2005, U.S. nonagricultural jobs increased by an average of 165,000 jobs per month. In 2006, jobs increased by 176,000 jobs per month in the first quarter, but declined to an average of 108,000 jobs per month in the second quarter. The U.S. unemployment rate held steady, averaging 4.7 percent in the first half of 2006.

### 2006 Growth in Remote Sales Through May Was Faster Than 2005

So far in 2006, growth in U.S. remote retail sales (electronic shopping and mail order houses) has been faster than the average of 2005. According to U.S. Census Bureau data, remote retail sales increased about 15 percent from January through May of 2006 compared to the same period of 2005. This is well above the 9.8 percent growth rate for all of 2005. First quarter 2006 data for U.S. retail e-commerce sales (which are included in remote retail sales) show growth of about 26 percent over the first quarter of 2005. This is a continuation of about the same rate for both 2004 and 2005.

# ❖ California Economic Developments

## California Real GSP Faster Than Average

In June, the U.S. Bureau of Economic Analysis (BEA) released its annual real gross state product (GSP) estimates for 2005. GSP is the state counterpart of GDP.

The 2005 data show that much more real economic growth occurred in the western region of the United States in relation to its population. Eight of the ten fastest growing states were west of the Mississippi River in 2005. Of the 15 westernmost states in the BEA regions, only Alaska and Oklahoma had real GSP growth less than the average of 3.5 percent. California had GSP growth of 4.4 percent, nearly one percent higher than average.

## California Follows U.S. Employment Growth Slowdown

One of the most comprehensive indicators of economic well being available for states on a timely basis is nonagricultural payroll employment. California followed the U.S. with slower payrolls growth so far in 2006 compared to 2005. In 2005, California's growth averaged about 24,000 nonagricultural jobs per month. In the first half of 2006, job growth averaged less than half of this figure. Like the U.S., the California unemployment rate has changed little so far in 2006, averaging 5.0 percent in the first half, fairly close to the national average rate of 4.7 percent.

## 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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*www.boe.ca.gov/news/epcont.htm*

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.calmis.cahwnet.gov*

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

**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*