State Board of Equalization

Economic Perspective

Summary of Recent Economic Developments *November 2003*

❖ U.S. Economic Developments

Rapid Acceleration in Growth in Third Quarter of 2003

After lackluster increases of 1.4 percent for two consecutive quarters, the growth rate of real gross domestic product (GDP) more than doubled to a 3.3 percent rate in the second quarter of 2003. This figure is close to the average of 3.2 percent per year over the past ten years.

Preliminary estimates for the third quarter show real GDP increasing 7.2 percent, the fastest quarterly growth rate in 19 years (final estimates will not be available until December). Many economic forecasters expect relatively strong growth to continue. A survey of 35 professional forecasters who are members of the National Association for Business Economists (NABE) expect to see real GDP to rise 4.0 percent in the fourth quarter. [1]

A Jobless Recovery So Far

A major concern of many economists is that this recovery has been a "jobless" recovery so far. A recent article by the Federal Reserve Bank of New York discusses the extent of this problem. [2]

How this recovery compares to previous recoveries, in terms of employment

According to the National Bureau of Economic Research, the recession ended in November 2001. The ending month of a recession is called the "trough" of the recession. As of August 2003, 21 months had passed since the trough.

Since World War II, the average increase in U.S. payroll employment after 21 months of recovery has been about six percent. However, both the recovery of the early 1990s and the current recovery show employment growth far below six percent.

In the early 1990s recovery period, there was no employment growth for about one year after the trough. Then employment started growing slowly, resulting in approximately a one percent increase in payroll employment in the 21 months following the trough.

Job creation at this 21-month stage for the current recovery period appears to be worse than even the early 1990s. For the first 12 months following the trough, employment changes were very similar to those of the early 1990s. However, rather than increasing after 12 months, as in the 1990s recovery, job losses have continued. At 21 months after the trough, the data show that U.S. employment has declined approximately one percent from employment at the trough.

Gains ahead?

Even though payroll employment continued to decline throughout all but two of the first nine months of 2003, recent data indicate that the employment losses may be abating and may start turning into gains in the months ahead.

Preliminary data for September released by the U.S. Bureau of Labor Statistics shows that payroll jobs increased in September for the first time since January. The data show that a total of 41,000 U.S. payroll employment jobs were lost in the third quarter, down from 181,000 jobs lost in the second quarter. In 2002, U.S. employment declined by an average of 116,000 jobs per quarter. The quarter with the greatest number of losses related to the 2001 recession was the fourth quarter of 2001, when 889,000 jobs were lost. To put these numbers in perspective, the economy needs to generate about 350,000 jobs per quarter to keep the unemployment rate from increasing, assuming average growth in the labor force of about one percent per year.

[1] *NABE Outlook,* National Association for Business Economists, September 15, 2003.

[2] "Has Structural Change Contributed to a Jobless Recovery?," Erica L. Groshen and Simon Potter, *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, August, 2003.

❖ California Economic Developments

Net Payroll Jobs Unchanged in First Three Quarters of 2003

Similar to the rest of the nation, there was no significant net change in California's nonagricultural employment in the first nine months of 2003. Nonagricultural employment is one of the most comprehensive indicators of statewide economic well-being available on a timely basis.

On a seasonally adjusted basis, there were 14.392 million employees on California nonagricultural payrolls in September 2003, down 0.1 percent from the January 2003 figure. Since September 2002, California nonagricultural employment has declined 0.5 percent—slightly greater than the 0.3 percent decline for the U.S. as a whole over the same 12-month time period.

Likewise, the California unemployment rate has remained virtually constant for over a year. The California unemployment rate averaged 6.7 percent in 2002. For the first nine months of 2003, it has also averaged 6.7 percent. From March 2002 through August 2003, the monthly California unemployment rate has remained in a tight numerical range, no lower than 6.6 percent and no higher than 6.9 percent. Despite the lack of growth in payroll jobs, the average 2003 California unemployment rate from January through September 2003 is identical to its 10-year average of 6.7 percent from 1993 through 2002.

UCLA Predicts Employment Turnaround Starting in Late 2003

The September 2003 UCLA forecast indicates that California nonagricultural employment will stop declining and begin to grow slowly starting in the last quarter of 2003. On an annual average basis, after a 0.3 percent decline in jobs in 2003, the UCLA forecast calls for nonfarm payroll employment to increase 1.0 percent in 2004. This is well below average growth in California nonagricultural jobs of 1.8 percent per year over the past 10 years (1993 through 2002). UCLA predicts the unemployment rate will average 6.7 percent in 2003, then decline a bit to 6.4 percent in 2004.

Small Increase in First Half 2003 Taxable Sales

Based on preliminary data, the Board of Equalization estimates an increase of 1.6 percent in California taxable sales for the second quarter of 2003, compared to taxable sales in the second quarter of 2002. This follows a small increase of 0.8 percent growth in the first quarter of 2003 (based on preliminary data).

While these taxable sales increases for the first two quarters of 2003 are very modest, they are the first two consecutive quarters since 2001 to show any gains at all.

(***California*** continued on page 4)

Who is doing the buying?

Is it the individual consumer? or business and government?

About a year ago the U.S. Bureau of Economic Analysis (BEA) released its 1997 benchmark input-output (I-O) accounts.[1] According to the BEA, these accounts, which are updated every five years, "provide the most detailed integrated information available on the structure of the U.S. economy." These detailed accounts show purchases and sales for 491 industries.

Sales to individuals versus sales to business and government

One useful piece of information that can be derived from these accounts is the consumer share of total sales for each industry.[2] By inference, the remaining portion of sales is to businesses and governments. This information on consumer shares is particularly relevant for services, since consumer and business shares of many services are not always obvious.

For example, press reports indicate that business travel is very important to the passenger airline industry. But newspaper and magazine articles rarely mention the percentage of airline travel purchased by businesses. Information from the I-O accounts answers this question.

As shown in the table below, consumers purchase 84 percent of sales from food services and drinking places. This implies that businesses and governments purchase the remaining 16 percent, with these sales probably largely related to employee travel and entertainment of customers or suppliers.

It is interesting to note that businesses make significant purchases from industries generally thought of as consumer-oriented ones, such as cable networks and auto repair, the next industries shown in the table. Businesses purchase 23 percent of cable network sales and 28 percent of auto repairs. Businesses also purchase large shares of insurance, hotels, and auto leasing: 35 percent of insurance premiums, 42 percent of hotel receipts, and 52 percent of auto leasing.

Businesses purchase well over 50 percent of air transportation, telecommunications,

(***Who is buying*** continued on page 4)

Selected Service Industry	U.S. Personal Consumption *	Implied U.S. Business and Government Consumption *
Food services and drinking places	84%	16%
Cable networks and program distribution	77%	23%
Automotive repair and maintenance, except car washes	72%	28%
Insurance carriers	65%	35%
Hotels and motels, including casino hotels	58%	42%
Automotive equipment rental and leasing	48%	52%
Air transportation	43%	57%
Telecommunications	39%	61%
Legal services	35%	65%
Real estate	31%	69%
Securities, commodity contracts, investments	29%	71%
Truck transportation	20%	80%

* Consumption expenditure is expressed as a percentage of the total commodity output in 1997.

(*California* from page 2)

Annual data for recent years show that taxable sales decreased by 0.1 percent in 2001, followed by another decline in 2002, 0.8 percent. In contrast, a long-term perspective shows that taxable sales increased an average of 5.1 percent per year from 1992 through 2001.

(*Who is buying* from page 3)

legal services, real estate, securities, and truck transportation.

These kind of data provide a better understanding of the incidence of various taxes that are either already existing or ones that have been proposed. For example, if these U.S. shares are representative for California, and if the taxable shares are consumed proportionately, businesses pay about 16 percent of sales taxes on prepared food and drinks. The data also indicate that businesses pay about 28 percent of sales taxes on auto parts used for repairs, 35 percent of the insurance premium tax, and 61 percent of the emergency telephone users surcharge.

[1] "Benchmark Input-Output Accounts of the United States, 1997," *Survey of Current Business*, December 2002.

[2] Total sales, as referred to here, include exports and subtract imports.

Contact Us

Please contact us if you would like to be added to the mailing list, need additional copies, or have any questions or comments.

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Online Resources

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Some sites charge a fee to use their services.

National Association for Business Economics
http://www.nabe.com

California Association of Realtors
http://www.car.org/

The UCLA Anderson Forecast
September 2003 Forecast
http://www.anderson.ucla.edu/research/forecast/

Federal Reserve Bank of New York
Current Issues in Economics and Finance, August 2003
http://www.ny.frb.org/research/current_issues/ci9-8.html

Federal Reserve Bank of Philadelphia
Survey of Professional Forecasters, August 22, 2003
http://www.phil.frb.org/econ/spf/index.html

U.S. Department of Commerce, STAT-USA
http://www.stat-usa.gov

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

California Department of Finance
http://www.dof.ca.gov

California Employment Development Department (EDD)
Labor Market Conditions in California, October 10, 2003
http://www.calmis.cahwnet.gov

California State Board of Equalization
September 18, 2003, News Release
Taxable Sales—Second Quarter
http://www.boe.ca.gov/news/pdf/nr091803.pdf