

# ECONOMIC PERSPECTIVE

Discussion of Recent Economic Developments  
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This edition of the *Economic Perspective* reviews important economic developments that occurred in fiscal year 2012-13.

- The U.S. economy in 2012-13 was characterized by moderate economic growth, very low interest rates, modestly rising corporate profits, increasing employment, and declining unemployment rates.
- Even with increased employment, U.S. and California unemployment rates remained much higher than the long-term average prior to the “Great Recession” of 2008-2009.
- By many important measures, the California economy outpaced national growth in fiscal year 2012-13.
- California construction activity, home prices, and car sales increased dramatically, while consumer price inflation rose only modestly.

## A Review of the Economy: Fiscal Year 2012-13

### National Economy

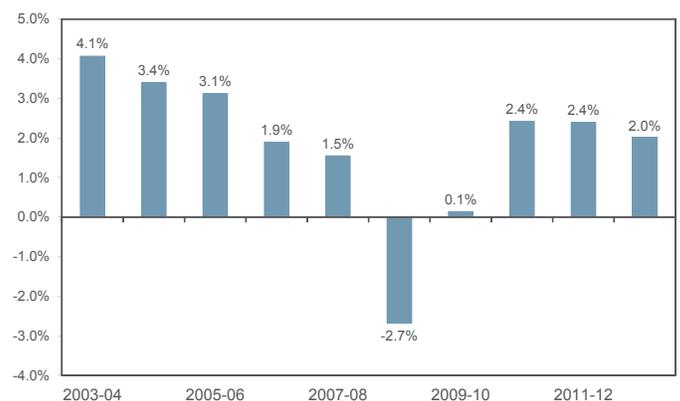
In fiscal year 2012-13, real U.S. Gross Domestic Product (GDP) grew 2.0 percent, close to its ten-year average growth rate of 1.8 percent. The U.S. economy in 2012-13 was characterized by very low interest rates, modestly rising corporate profits, increasing employment, and declining unemployment rates. However, unemployment rates remained much higher than the long-term average prior to the “Great Recession” of 2008-09. Inflation indicators showed restrained increases.

The unemployment rate declined from 8.5 percent in fiscal year 2011-12 to 7.8 percent in 2012-13. However, this rate is high when viewed over a longer time period. In fiscal year 2006-07, the last fiscal year before the recession started, the unemployment rate averaged 4.5 percent.

### Gross Domestic Product

Real GDP—the broadest measure of the nation’s output of goods and services—rose 2.0 percent in fiscal year 2012-13. As shown in Chart 1, growth was below the 2.4 percent increases of the prior two fiscal years, continuing a trend of a subdued economic expansion.

Chart 1  
Growth in Real GDP  
(Fiscal Years 2003-04 Through 2012-13)



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**Sen. George Runner (Ret.)**  
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**Michelle Steel**  
Third District  
Orange County

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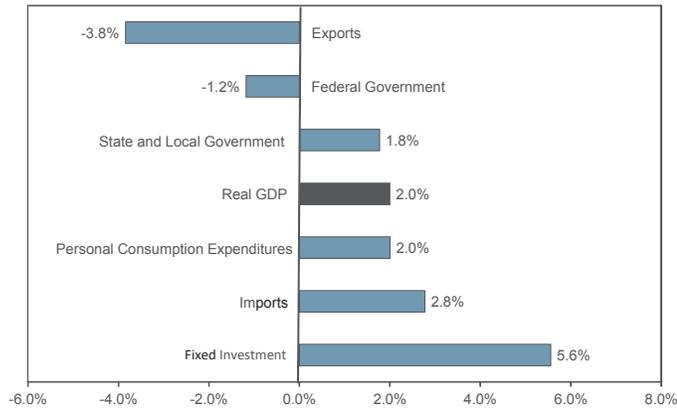
**John Chiang**  
State Controller

**Cynthia Bridges**  
Executive Director

## Real GDP by Sector

Real fixed investment spending led economic growth, increasing 5.6 percent. Real personal consumption expenditures, which accounted for 69 percent of GDP, rose 2.0 percent, the same as overall real GDP. Federal government spending declined 1.2 percent, while state and local government spending increased 1.8 percent.

Chart 2  
2012-13 Growth in Real GDP and Major Components



## Corporate Profits

U.S. corporate profits before taxes were up 3.8 percent in 2012-13. This was the fourth consecutive year of increasing profits.

## Nonagricultural Employment and the Unemployment Rate

With the growth in overall real GDP and corporate profits, nonagricultural employment rose 1.6 percent. This was the fastest growth since fiscal year 2006-07. The unemployment rate declined from 8.5 percent in 2011-12 to 7.8 percent in 2012-13. However, this rate is still considered to be relatively high by most economists, and it does not include large additional numbers of people who are either underemployed or too discouraged to be actively looking for jobs.

## Interest Rates

The U.S. Federal Reserve Board (fed) maintained extremely low interest rates in 2012-13, essentially continuing its monetary policy instituted during the recession. The fed kept the federal funds rate within a target range of zero to 0.25 percent. Three-month U.S. Treasury bill rates averaged 0.08 percent in fiscal year 2012-13, while ten-year U.S. Treasury bond yields averaged 1.82 percent. Interest rates were near historic lows.

## Consumer Prices

The U.S. consumer price index rose 1.7 percent in 2012-13, below the ten-year average of 2.4 percent.

## Housing Starts

Housing starts improved from 0.69 million units in 2011-12 to 0.88 million units in 2012-13, a 27.6 percent gain.

## Federal Budget Deficit

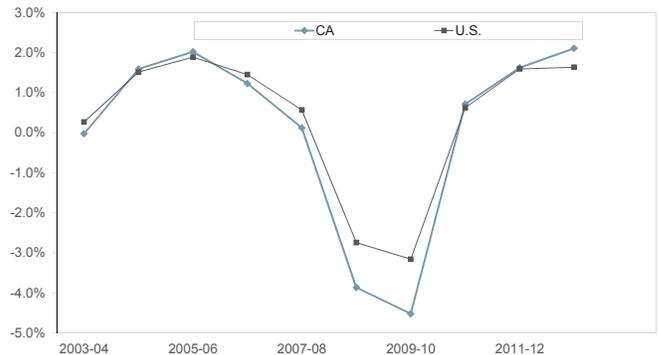
As the economy expanded and incomes increased, the federal budget deficit improved dramatically, from \$1,231 billion in 2011-12 to \$695 billion in 2012-13.

## California Economy

By some important measures, the California economy outpaced national growth in fiscal year 2012-13. California nonagricultural employment rose 2.1 percent, faster than the U.S. increase. (See Chart 3.) California personal income increased 4.5 percent, above U.S. income growth of 3.5 percent.

With this strong growth in jobs and income, the California unemployment rate declined from 11.2 percent in 2011-12 to 9.6 percent in 2012-13. However, the rate remains well above the 5.0 percent rate in fiscal year 2006-07, the last year prior to the start of the Great Recession.

Chart 3  
Growth in California and U.S. Nonagricultural Employment  
Fiscal Years 2003-04 Through 2012-13

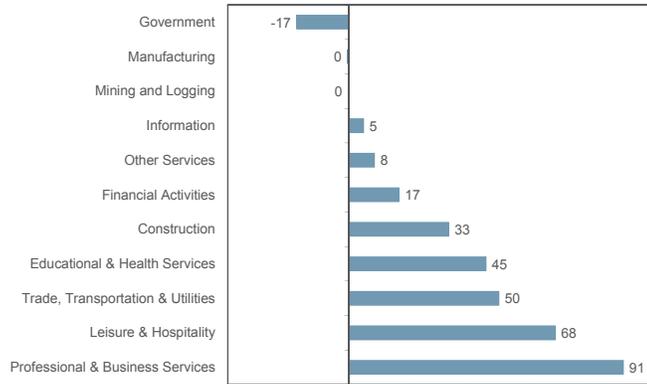


## Employment

California nonagricultural employment strengthened 2.1 percent in fiscal year 2012-13, as payrolls rose by 299,000 jobs. Despite the growth, there were 618,000 fewer nonagricultural jobs in 2012-13 compared to the peak reached in fiscal year 2007-08.

The professional and business services sector led the gains in jobs in 2012-13, as shown in Chart 4. Other sectors with strong job gains included leisure and hospitality, trade, transportation and utilities, education and health services, and construction.

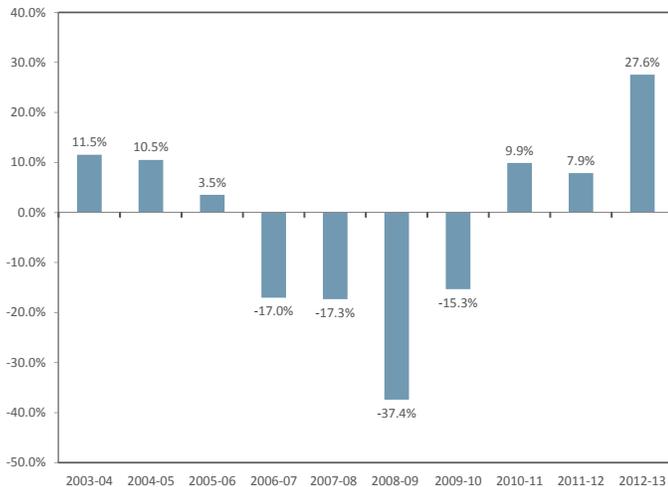
**Chart 4**  
2012-13 Changes in California Nonagricultural Employment  
(Thousands of Jobs)



### Building Construction and Home Prices

As shown in Chart 5, the value of all private building construction permits issued in California rose by 27.6 percent in fiscal year 2012-13. The construction gains were widespread, as both residential and nonresidential construction increased more than twenty percent. Even with the gains, total construction permit values are still only about 55 percent of their 2005-06 peak levels.

**Chart 5**  
California Building Construction Permit Valuations  
(Annual Percent Change, by Fiscal Year)



About 74,000 home building permits were issued in 2012-13, up from 50,000 in 2011-12. Permits for both multifamily units and single family units increased by similar numbers.

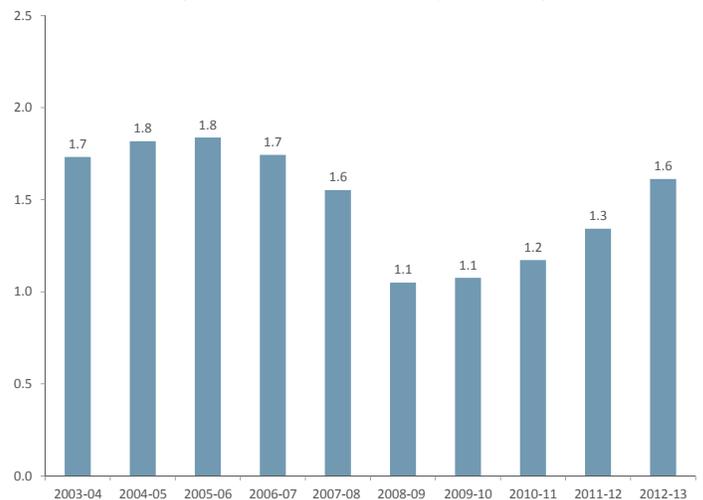
Industrial building and office building led the increases in nonresidential building construction. Industrial building permit valuations jumped 188 percent from the prior fiscal year, while those for office buildings rose 57 percent.

Median home prices jumped 24.6 percent to average \$364,900 in fiscal year 2012-13. Despite the rise in prices in 2012-13, they stood at only 64 percent of their peak levels reached in fiscal year 2006-07. About 430,000 existing single-family homes were sold in fiscal year 2012-13, nearly matching the prior fiscal year.

### Vehicle Registrations

California new car and truck registrations rose 20.1 percent in fiscal year 2012-13, to 1.6 million cars and light trucks. (See Chart 6.) Car and truck sales are getting close to the 1.7 million units sold in fiscal year 2006-07, the year before the Great Recession started.

**Chart 6**  
California New Vehicle Registrations by Fiscal Year  
(Millions of Cars and Light Trucks)



### Consumer Prices

California consumer prices for all urban consumers rose 2.1 percent in 2012-13, down from a 2.4 percent increase in 2011-12. California consumer prices rose a bit more rapidly than did those of the nation as a whole. At the national level, the consumer price index increased by 1.7 percent in 2012-13.

## Contact Us

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

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[www.boe.ca.gov/members/board.htm](http://www.boe.ca.gov/members/board.htm)

## Online Resources

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For more information about topics covered in this publication and previous issues, please visit any of the websites listed below.

California Department of Finance  
[www.dof.ca.gov](http://www.dof.ca.gov)

California Employment Development Department (EDD),  
Labor Market Conditions in California  
[www.labormarketinfo.edd.ca.gov](http://www.labormarketinfo.edd.ca.gov)

Federal Reserve Bank of Philadelphia, Survey of  
Professional Forecasters  
[www.phil.frb.org/econ/spf/index.html](http://www.phil.frb.org/econ/spf/index.html)

National Association for Business Economists  
[www.nabe.com](http://www.nabe.com)

U.S. Bureau of Economic Analysis  
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