STATE BOARD OF EQUALIZATION

# ECONOMIC PERSPECTIVE

*Summary of Recent Economic Developments* *August 2001*



## ❖ *U.S. Economic Developments*

### Slow Economic Growth Continued in First Half of 2001

Real gross domestic product (GDP) increased just 0.7 percent in the second quarter, according to the U.S. Department of Commerce's preliminary estimate released in late July. This is a growth rate similar to first quarter increase of 1.3 percent. While the economy is not officially in a recession, (defined by many economists as two consecutive quarters of declines in real GDP) these growth rates are very weak compared to the long-term average. For the ten-year period from 1991 through 2000, real GDP increased an average of 3.2 percent per year.

### Growth Expected to Improve

Many economists are predicting that growth will slowly improve during the second half of 2001. In late May, the Philadelphia Federal Reserve Bank released the results of a survey of 33 economic forecasters. The average forecast of this survey calls for real GDP to increase 2.0 percent in the third quarter and 2.6 percent in the fourth quarter. Reasons cited for the expected faster growth include the effects of six Federal Reserve Board interest rate cuts made earlier this year and the stimulative impacts of the federal income tax rebate checks. With the weak first half, the forecasters surveyed expect GDP to increase 2.0 percent for all of 2001. For 2002, they expect real GDP to rise 2.8 percent.

The most recent UCLA Anderson Economic Forecast, released in late June, is much more pessimistic than the Philadelphia Federal Reserve consensus. The UCLA forecast calls for real GDP to rise just 1.1 percent in 2001, followed by similarly weak growth of 1.2 percent in 2002. The UCLA real GDP forecasts for these years are little changed from the figures they were forecasting in both April 2001 and December 2000.

(Information for this article derived from: U.S. Department of Commerce, STAT-USA website: www.stat-usa.gov; "Survey of Professional Forecasters," Federal Reserve Bank of Philadelphia, May 21, 2001, website: www.phil.frb.org; *UCLA Anderson Forecast,* June, 2001.)

## ❖ *California Economic Developments*

### Weakening Trend in Employment Growth

Monthly nonagricultural payroll employment is one of the most comprehensive measures of economic well-being available for states on a timely basis. Growth in nonagricultural employment has slowed dramatically over the last year. In the third quarter of 2000, an average of 49,000 non-agricultural jobs were created each month in California. Average nonagricultural growth slowed to 38,000 jobs in the fourth quarter of 2000; 14,000 in the first quarter of 2001; and 6,000 in the second quarter.

### 2001 Annual Employment Growth Expected to Slow

In May 2001, the California Department of Finance released its *May Revision* budget forecast, which includes an economic forecast for the state and the nation. Reflecting the slower growth in the first half of the year, the *May Revision* forecast calls for a 2.3 percent increase in California nonagricultural employment in 2001. This growth rate is well below the average annual 2000 California non-agricultural employment growth rate of 3.8 percent. For the five-year period 1996 through 2000, nonagricultural employment increased an average of 3.2 percent per year. The June UCLA forecast for nonagricultural employment is very close to the Department of Finance, calling for growth of 2.2 percent in 2001.

### Unemployment Rate Rising

The California unemployment rate reached a low of 4.5 percent in February 2001, but has been rising since then. For the second quarter, the California unemployment rate averaged 5.0 percent.

### Dramatic Slowdown in First Quarter 2001 Taxable Sales Growth

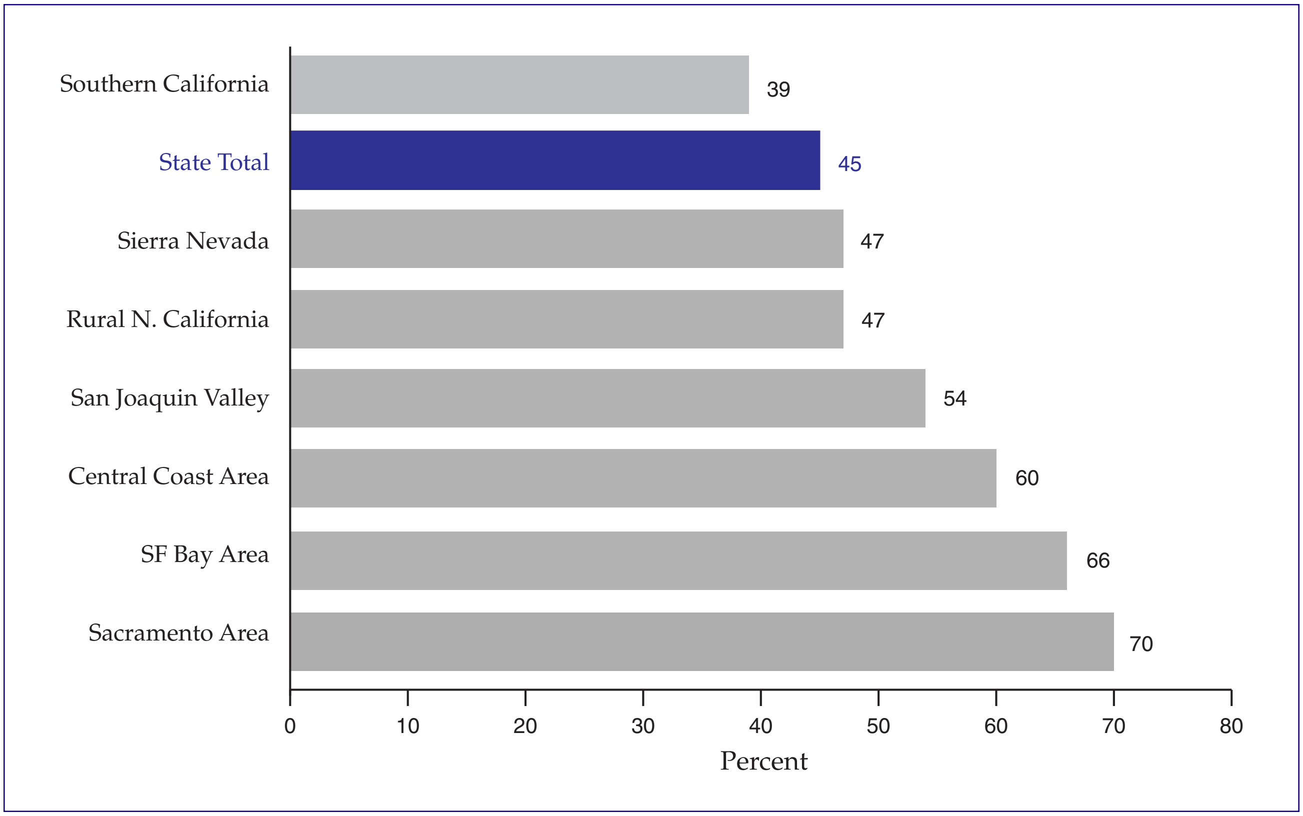
The weaker national and California economies reduced taxable sales in early 2001. The Board of Equalization's preliminary estimate shows that taxable sales increased just 2.5 percent in the first quarter of 2001 compared to the first quarter of 2000. This growth figure is down from fourth quarter of 6.1 percent and considerably below the double-digit growth seen in the first three quarters of 2000.

(Information for this article derived from: California Employment Development Department (EDD), "California Interim Industry Employment Series," Labor Market Conditions in California, July 13, 2001, EDD Labor Market Information website: www.calmis.ca.gov; California Department of Finance, *May Revision*, website: www.ca.dof.gov; *The UCLA Anderson Forecast*, June 2001; Board of Equalization, News Release #24, June 5, 2001, website: www.boe.ca.gov.)

## ❖ *Regional Taxable Sales Growth in the 1990s*

Most discussions of taxable sales in this and many other publications analyze quarterly or annual trends for the state as a whole. The following chart summarizes taxable sales from a different perspective—regional growth for the ten-year period 1990 to 1999. The following table shows the counties in each region and the relative size of each as measured by their shares of 2000 California population.

**Percent Growth in Taxable Sales**
**(Percent Change, Calendar Years 1990 through 1999)**




| REGION | PERCENTAGE OF STATE POPULATION JULY 2000 | COUNTIES IN EACH REGION |
|---|---|---|
| Southern California | 58.3% | Imperial, Los Angles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura |
| Sierra Nevada | 0.5% | Alpine, Amador, Calaveras, Inyo, Mariposa, Mono, and Tuolumne |
| Rural Northern California | 3.3% | Butte, Colusa, Del Norte, Glenn, Humboldt, Lake, Lassen, Mendocino, Modoc, Nevada, Plumas, Shasta, Sierra, Siskiyou, Sutter, Tehama, Trinity, and Yuba |
| San Joaquin Valley | 9.8% | Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare |
| Central Coast Area | 2.8% | Monterey, San Benito, San Luis Obispo, and Santa Cruz |
| San Francisco Bay Area | 20.0% | Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma |
| Sacramento Area | 5.3% | El Dorado, Placer, Sacramento, and Yolo |

As shown in the chart, there were distinctive differences in growth over the decade of the 1990s. Statewide taxable sales increased 45 percent from 1990 to 1999, or about 4.5 percent per year on average. Regional growth over the same period varied quite a bit around this average, from a low of 39 percent in Southern California to a high of 70 percent in the Sacramento Area. Similar to Sacramento, the San Francisco Bay Area also had very strong growth over the decade, 66 percent. Interestingly, every other area of the state grew faster than Southern California.[1]

There are two major reasons why Southern California growth lagged the San Francisco Bay and the Sacramento areas so much over the decade. First, the area was more severely impacted by the aerospace layoffs and the recession of the early and mid-1990s. In the San Francisco Bay Area, which accounted for 20 percent of the state's population in 2000, taxable sales rose 12 percent over the five-year period from 1990 to 1994. In Southern California, which accounted for 58 percent of the state's population in 2000, taxable sales increased just 3 percent over the same five-year period. The second major reason for the comparatively lower growth in Southern California over the decade is the technology-driven boom in the Internet and related computer hardware and software during the latter half of the 1990s. The San Francisco Bay Area, particularly Santa Clara County benefited tremendously from this boom, much more than Southern California. From 1995 to 1999, taxable sales increased 48 percent in the San Francisco Bay Area, compared to 36 percent in Southern California. (The five-year and ten-year taxable sales growth figures cited here are point-to-point comparisons; so summing the two five-year growth figures for a region does not necessarily equal its ten-year growth figure.)

Together, the Southern California and San Francisco Bay areas comprised more than three-quarters of California's population in 2000. Taxable sales growth for regions outside of those two major population centers presented a mixed picture during the 1990s. The sparsely populated Sierra Nevada and Rural Northern California regions both had taxable sales growth of 47 percent over the decade, very close to the state average of 45 percent. At the other extreme, the Sacramento Area had taxable sales growth of 70 percent, higher than the San Francisco Bay Area, and the fastest growth of any region in the state. The San Joaquin Valley and Central Coastal areas had faster than statewide average growth of 54 percent and 60 percent, respectively.

(Information for this article derived from: Board of Equalization, *Taxable Sales in California (Sales and Use Tax)*, (1989 through 1999 quarterly reports); California Department of Finance, website: www. ca.dof.gov.)

[1] It is mathematically possible for growth to be faster than average in every region of the state except Southern California because Southern California has such a large share of the state's total taxable sales. In 1999, the region accounted for about 55 percent of the state's total taxable sales.

## Contact Us

If you would like to be added to the mailing list, need additional copies, or have any questions or comments, please contact:

Joe Fitz, Chief Economist
State Board of Equalization
450 N Street, MIC:67
P. O. Box 942879
Sacramento, CA 94279-0067
916-323-3802
jfitz@boe.ca.gov