



# STATE BOARD OF EQUALIZATION ECONOMIC PERSPECTIVE

Summary of Recent Economic Developments  
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## ❖ A Closer Look at Services

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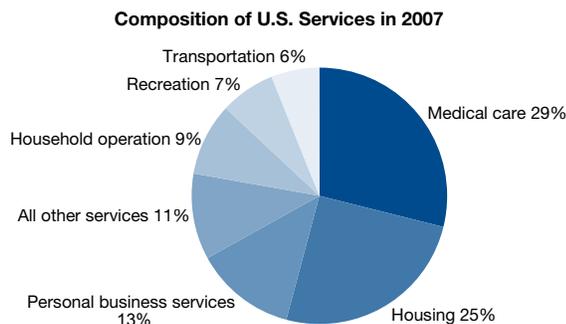


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It is often said that the U.S. economy is services based. This article describes trends in the services component of the economy. What are services? According to the U.S. Bureau of Economic Analysis (BEA), “services are products, such as medical care, that cannot be stored and are consumed at the place and time of their purchase.”<sup>1</sup>

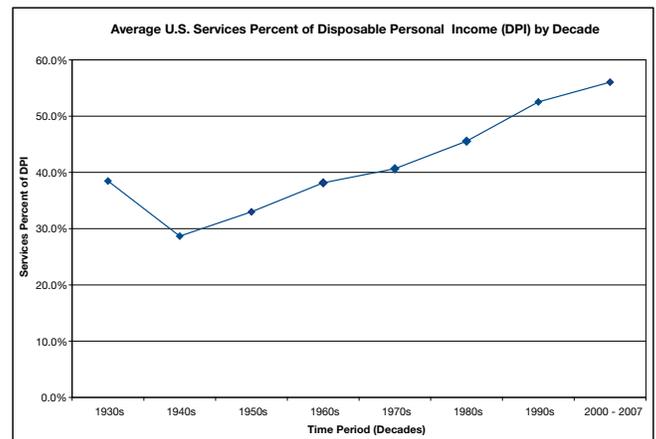
### Broad Services Components

The chart below shows the composition of U.S. services in 2007 as valued in defining gross domestic product (GDP). Housing and medical care combined account for over half the value of all services consumed and produced, with medical care accounting for 29 percent and housing accounting for 25 percent. Other service categories in the chart include personal business services (13 percent of the total), household operation (9 percent), recreation (7 percent), transportation (6 percent), and all other services (11 percent).



<sup>1</sup>*Concepts and Methods of the U.S. National Income and Product Accounts*, U.S. Bureau of Economic Analysis, July 2008.

A large component of housing services (the value of owning or renting living space) is not valued in market transactions in calculating GDP. The value of “owner-occupied rent” accounts for three quarters of housing services. This value is imputed by the BEA to be the value of what a home owner would pay for his or her house if they were renting that house.<sup>2</sup>



### A Long Term Look at Services Shares of Incomes

The BEA has kept track of services spending since 1929.<sup>3</sup> Services spending as shares of disposable personal incomes (DPI) move up and down with the economy quarterly and annually, but have generally been increasing since the 1940s. The chart above shows average services shares of disposable personal incomes by decade and for the 2000 through 2007 period. As shown in the chart, services spending rose from an average of 29 percent

<sup>2</sup>The BEA considers home ownership to be a service, having a value as a part of GDP.

<sup>3</sup>Data cited in the rest of this article are from the U.S. Bureau of Economic Analysis, National Economic Accounts, Interactive Tables 2.1 and 2.4.5, [www.bea.gov/national/nipaweb/SelectTable.asp?Selected=N](http://www.bea.gov/national/nipaweb/SelectTable.asp?Selected=N)

of DPI during the 1940s to 53 percent during the 1990s. The average share for the most recent eight years is 56 percent of DPI.

### Income Benchmark

A benchmark economists often use to compare components of spending is disposable personal income. Spending on goods or services growing faster than income are called “income elastic,” while spending on goods or services growing slower than income are called “income inelastic.” If growth of a good or service is the same as income, it is said to have grown proportionately.

### Services Income Elastic

Services as a group are somewhat income elastic. From 1930 through 2007 services have grown an average of 7.1 percent per year while DPI has grown 6.6 percent per year. More recent data have shown a similar pattern; from 2000 to 2007 services have averaged growth of 5.9 percent per year while DPI increased 5.4 percent annually.

### Services Detail

Spending for specific services have grown at vastly different annual growth rates. The table on the next page ranks detailed components of services as tabulated by the BEA by their average annual growth rates since 1930. Services growth rates are also shown for the 2000 through 2007 period and for 2007 alone. The category names closely follow those used by the BEA.

### Airlines Fastest Long Term Growth

Airline transportation has been the fastest growing services category, increasing an average of 10.9 percent per year since 1930. Other relatively fast growing services include bank services, brokerage services, medical care, higher education, nonadmission recreation, car and truck repairs, and legal services. These have all grown at least

one percentage point faster than income on average since 1930.

### Housing Proportional to Income

A few services have increased within a percentage point of the average long term growth in DPI of 6.6 percent per year. Owner-occupied housing is the largest category to rise more or less proportional to income, increasing 7.0 percent per year.

### Lagging Services

Not all services tend to grow as fast as incomes. Services growing less rapidly than DPI on average since 1930 include barber and beauty shops, rental housing, admissions to amusements, bus transportation and taxicabs. Since 1930 passenger railway transportation annual growth was at the bottom of the list, averaging growth of just 2.3 percent per year.

### Recent Aberrations

Some services have had radical changes in growth rates from their long term trends in recent years. Reflecting problems in the mortgage markets in 2007, owner-occupied housing increased just 4.2 percent, down from its long term average of 7.0 percent. With recent increases in fuel prices and other factors, airline transportation increased only 2.2 percent in 2007, down from its long term average of 10.9 percent growth per year. At the other end of the spectrum, rail transportation increased 16.7 percent in 2007 (also reflecting consumer responses to higher fuel prices), a sharp increase from its average long term growth of 2.3 percent.

## ❖ U.S. Economic Developments

### Real GDP Declines

Turning to recent trends in the overall economy, U.S. economic growth slowed

dramatically in late 2007 and so far this slowdown has generally continued through

2008. Real gross domestic product (GDP) dipped 0.3 percent in the third quarter.

### Rankings of Average Annual Growth in Selected U.S. Services (Long-Term, 2000s, and 2007, Ranked by Long-Term Growth)

Services Category	Average Annual Growth (1930-2007)	Average Annual Growth (2000-2007)	2007 Growth
Airline transportation	10.9%	1.6%	2.2%
Bank service charges	10.1%	9.0%	8.2%
Brokerage charges and investment counseling	9.9%	4.7%	11.9%
Medical care	8.9%	7.2%	6.7%
Higher education	8.5%	7.5%	6.2%
Other recreation services (nonadmissions)	8.4%	6.3%	6.2%
Nursery, elementary, and secondary schools	8.2%	5.3%	6.5%
Car and truck repairs	8.2%	3.5%	5.1%
Legal services	7.6%	6.1%	6.3%
Electricity	7.5%	5.9%	5.3%
Water and other sanitary services	7.5%	5.2%	6.0%
Telephone services	7.5%	2.3%	4.3%
Religious and welfare activities	7.3%	6.4%	5.0%
<b>All Services</b>	<b>7.1%</b>	<b>5.9%</b>	<b>5.9%</b>
Owner-occupied dwellings	7.0%	6.0%	4.2%
Natural gas	6.8%	9.6%	2.4%
Life insurance and pension plans	6.6%	4.4%	6.3%
<b>Disposable Personal Income</b>	<b>6.6%</b>	<b>5.4%</b>	<b>5.5%</b>
Barbershops, beauty parlors, and health clubs	6.4%	4.9%	2.0%
Tenant-occupied dwellings	5.6%	4.0%	7.9%
Admissions to spectator amusements	5.4%	5.5%	5.8%
Intercity bus transportation	5.3%	-1.1%	-9.1%
Taxicabs	5.2%	4.1%	4.7%
Funeral and burial expenses	4.5%	1.9%	1.3%
Laundry and clothing repair services	3.8%	1.7%	0.6%
Domestic services	3.8%	4.3%	5.7%
Mass transit systems	3.6%	4.2%	4.4%
Railway passenger transportation	2.3%	4.6%	16.7%

Many economists expect a larger decline in the fourth quarter and little, if any, growth for all of 2009.

## ❖ California Economic Developments

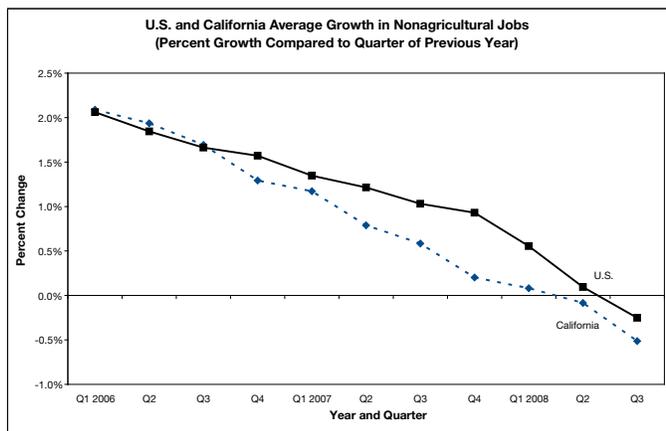
### Employment Declining

One of the most comprehensive indicators of economic well-being available for states

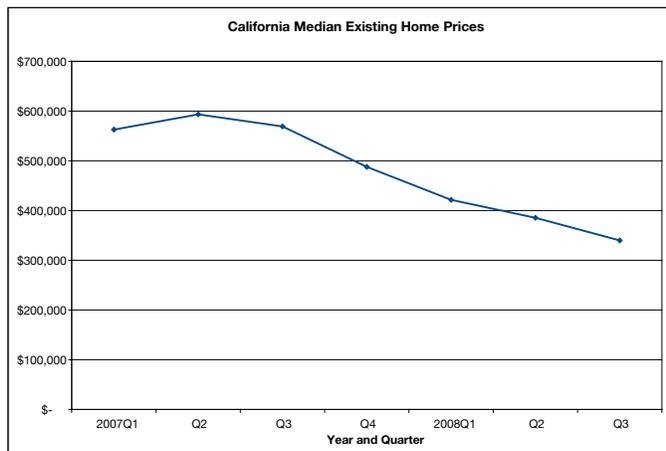
on a timely basis is nonagricultural payroll employment. Both the California and the U.S. economies had fewer nonagricultural jobs in the third quarter of 2008 than they did in the third quarter of 2007. As shown in the chart, California nonagricultural employment declined 0.5 percent in the third quarter, while U.S. nonagricultural employment decreased 0.3 percent.

One important indicator of the health of real estate markets is median prices of existing

California homes sold. This figure reflects both prices of homes sold and the mix of high-end and low-end homes sold. Recent data show that California median home



prices have plummeted since early 2007. After peaking at about \$593,000 the second quarter of 2007, the most recent quarterly data show that the California median home price was about \$339,000 in the third quarter.



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Taxpayers' Rights Advocate: 888-324-2798

To contact your Board Member, see  
[www.boe.ca.gov/submenus/boardmembers.htm](http://www.boe.ca.gov/submenus/boardmembers.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](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**  
[www.bea.gov](http://www.bea.gov)

**U.S. Bureau of Labor Statistics**  
[www.bls.gov/cpi/](http://www.bls.gov/cpi/)

**U.S. Census Bureau**  
[www.census.gov](http://www.census.gov)