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California and U.S. Household Spending

California Differences From Nation Critical

Compared to much of the rest of the nation, California has a unique climate, geography, politics, history and demographic composition. Have you ever wondered if Californians consume different goods than the national averages indicate? This question is critical in assessing the accuracy of revenue forecasts made for proposals in which we have no specific California data. In such cases, we often rely on national average household consumption numerical relationships for estimation purposes.

BLS Data Quantifies Differences Between California and U.S. Household Spending

Data from the U.S. Bureau of Labor Statistics (BLS) can be used to answer this question. To determine changes in consumer prices, the BLS surveys consumers to develop a market basket of more than 200 item categories. Data for broader groups of these categories are published by metropolitan area. The BLS publishes data for three metropolitan areas in California that cover about 77 percent of the state's population.[1]

The most recently published relative importance of spending components for the "U.S. City Average" and these metropolitan areas is an average of the years 2005 and 2006.[2] We used these data to create an average for California based on January 1, 2009, population in each metropolitan area.[3] Table 1 shows a comparison of this California average and the "U.S. City Average for the CPI-U."[4]

U.S. and California Spending Weights

The first column in the table shows the "weights" or relative importance of each commodity group in the Consumer Price Index (CPI) for the U.S. City Average. For all items the relative importance is set to equal 100, or 100 percent. For example, the first column shows that for all U.S. cities food consumed at home averages 8.16 percent of total household spending (also called the total market basket). The corresponding relative importance for California is shown in the second column, and the California weight divided by the U.S. city average weight is shown in the third column. For example, the California share of food consumed at home is 7.12 percent of the California market basket. As shown in the third column, this is 87 percent of the U.S. city average (7.12 / 8.16 = 0.87). This means that, on average, California households spend 13 percent less on food than all the U.S. households.

Reasons for California Differences Unknown

We do not know if Californians spend less on food because they consume smaller quantities or different mixes of specific foods or if California prices are less than the national average. In fact, some combination of the above causes could result in the lower than average spending.

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1 The three metropolitan areas are (1) Los Angeles-Riverside-Orange County, (2) San Francisco-Oakland-San Jose, and (3) San Diego.

2 Source: "Relative Importance of Items in the Consumer Price Index," December 2008, website: *www.bls.gov/cpi/cpiri2008.pdf*

3 The BLS only has spending data for city dwellers in their consumer price index surveys. Rural household spending patterns may differ.

4 Consumer Price Index for All Urban Consumers.

Table 1

Average U.S. and California Household Spending Patterns, Based on 2008 Personal Income

Item and Group	U.S. City Average Consumer Price Index (CPI) Weights[1]	BOE-Established California CPI Weights, Geographically Weighted by Population in Metropolitan Areas	California Weights as a Percent of U.S. Weights	Implied Difference in Average Household Spending (Dollars, CA – US)
Food consumed at home	8.16	7.12	87%	-$455
Food consumed away from home	6.47	5.94	92%	-212
Alcoholic beverages	1.13	1.01	90%	-43
Rent of primary residence	5.96	8.59	144%	1,157
Owners' equivalent rent of primary residence	24.43	27.77	114%	887
Electricity	3.00	1.74	58%	-546
Utility (piped) gas service	1.16	0.56	49%	-227
Household furnishings and operations	4.79	4.77	100%	-4
Apparel	3.69	3.23	87%	-216
Private transportation	14.19	14.41	102%	273
Gasoline (all types)	2.96	2.93	99%	-28
Medical care	6.39	5.05	79%	-598
Recreation	5.74	5.64	98%	-48
Education and communication	6.30	5.93	94%	-60
Other goods and services	3.39	3.14	93%	-82
All items	**100.00**	**100.00**	**100%**	**-$285**

[1] Comparable detailed weights are not available for all categories. Consequently, the summation of these weights is less than 100.

Dollar Differences in Household Spending

The fourth column of Table 1 shows the differences in U.S. and California household spending from the first two columns put in terms of dollars based on 2008 incomes.[5] To continue using the food consumed at home example, Californian households spent an average of $455 less on food consumed at home than the average U.S. households in 2008.

[5] We applied the U.S. and California spending weights to 2008 median household incomes for the U.S. and California. The source of the income data is the U.S. Census Bureau, "Median Household Income for States: 2007 and 2008, American Community Surveys," September, 2009. website: *www.census.gov/prod/2009pubs/acsbr08-2.pdf*

Californians Spend Considerably More on Housing

Total spending by Californians for all items is close to the national average, about $285 less per year. (See last row of Table 1). However, there are larger differences for some individual commodity groups. As may be expected, Californians spent more than the U.S. average on housing, whether they rent or own their own residences. California renters, in particular spend more, 144 percent of average rent for U.S. households. In dollar terms, California renters pay an average of $1,157 more per year than average U.S. renters. California homeowners spend 114 percent of the U.S. average on housing, $887 per household annually.

Housing is the only commodity group where Californians spend considerably more than their national counterparts. Californians spend slightly more on private transportation, 102 percent of national household spending.

Californians Spend Less on Many Categories

There are many commodity groups where California households spend less than average. As mentioned earlier, we spend less on food consumed at home; we also spend less on food consumed away from home and less on alcohol. With our relatively temperate climate, California households spend only 49 percent of the national average for piped gas into their homes. We also spend much less than average on electricity, 58 percent of the national average.

Other areas of lower average spending are medical care and apparel. California households spend 79 percent of average on medical care, which includes health insurance, and 87 percent of average on apparel.

California Taxable Goods Spending Close to U.S. Average

Using these BLS data and applying them to average consumer spending for more detailed national BLS commodities, we also analyzed California households compared to U.S. households for taxable goods. We sorted the more detailed national commodities into their California taxability status as best as we could determine. Using these groupings, we found on average, that California household spending on taxable goods was 96 percent of the U.S. average. We believe this result supports the general reasonableness of using California shares of national spending to determine revenue impacts of taxable goods for analyses of goods for which we have no specific California data.

A Review of 2008 Taxable Sales

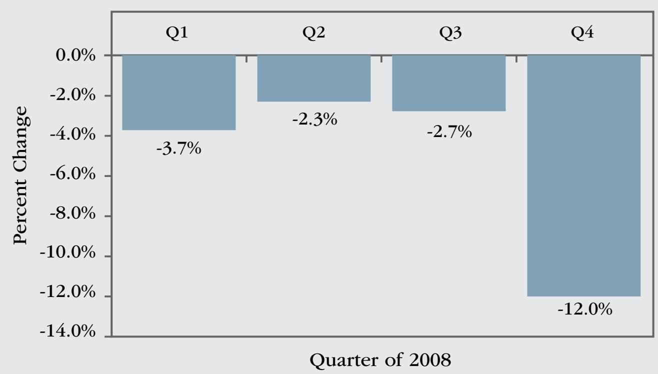
Fourth Quarter 2008 Economic Meltdown Seen in Taxable Sales

Turning to a discussion of trends in the overall economy, the recession that started in December 2007 wreaked havoc on 2008 California taxable sales. The effects of the recession were particularly evident in the fourth quarter of 2008. This quarter was strongly affected by a major credit crisis that unfolded in financial markets starting in September. As shown in Chart 1, over the first three quarters of 2008 quarterly taxable sales declined in the range of 2 to 4 percent compared to the first three quarters of 2007. However, in the fourth quarter of 2008 taxable sales declined 12.0 percent. For 2008 as a whole, taxable sales declined 5.2 percent.

Chart 1

2008 California Taxable Sales

(Change from Corresponding Quarter of 2007)

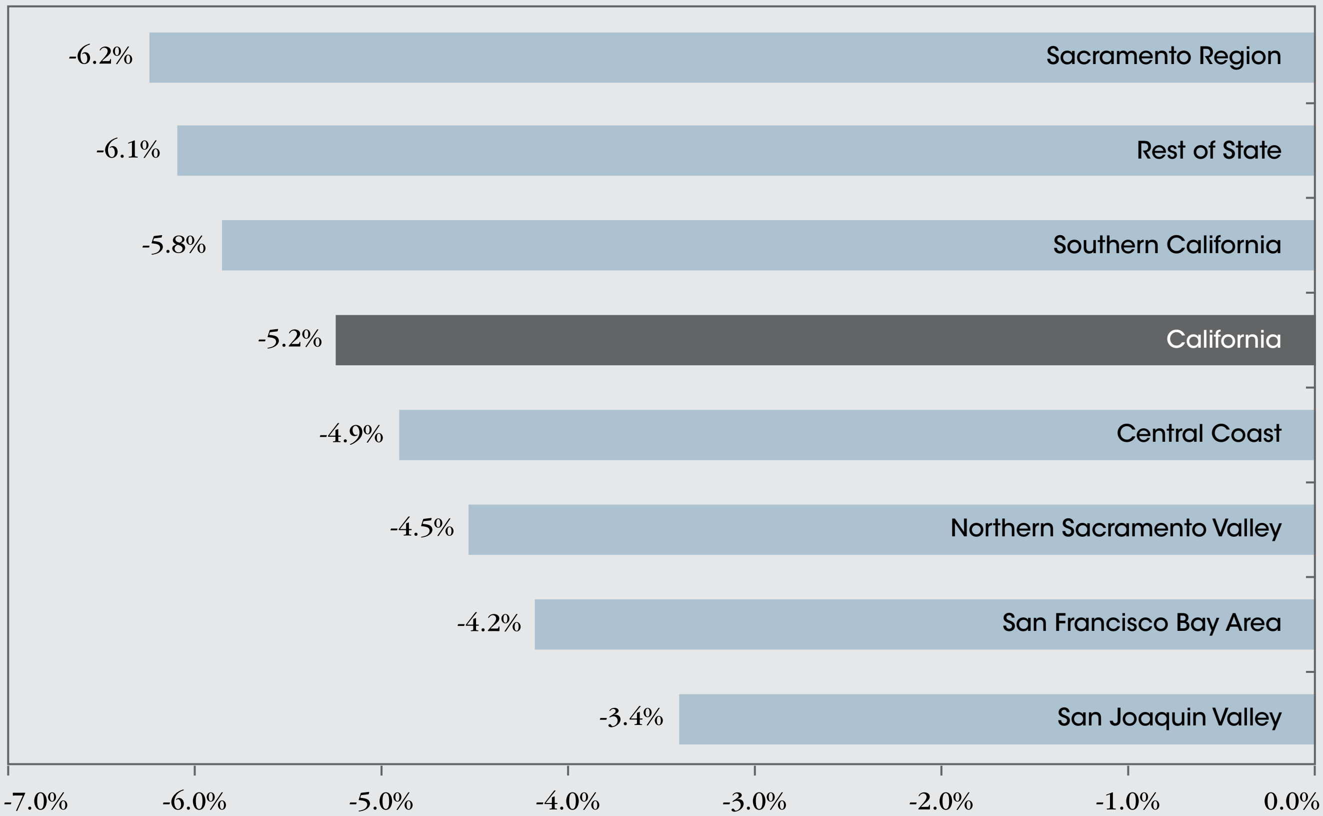


All Major Regions Down in 2008

If we look at taxable sales for major regions of California, no area escaped the vengeance of the recession. As shown in Chart 2, all regions had declines in 2008 taxable sales, ranging from 6.2 percent for the Sacramento region to 3.4 percent for the San Joaquin Valley.

Chart 2

Changes in 2008 Taxable Sales by Region



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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.labormarketinfo.edd.ca.gov

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

National Association for Business Economists
www.nabe.com

U.S. Bureau of Economic Analysis
www.bea.gov

U.S. Bureau of Labor Statistics
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