

Economic and Related Trends

**Joe Fitz
Chief Economist
Legislative and Research Division
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Outline

- U.S. economic trends and forecast
- Factors behind these trends
- CA trends and forecast
 - GSP
 - Taxable Sales
 - CA budget
- Other social and political trends
 - SSUTA

Trends in U.S. Economy

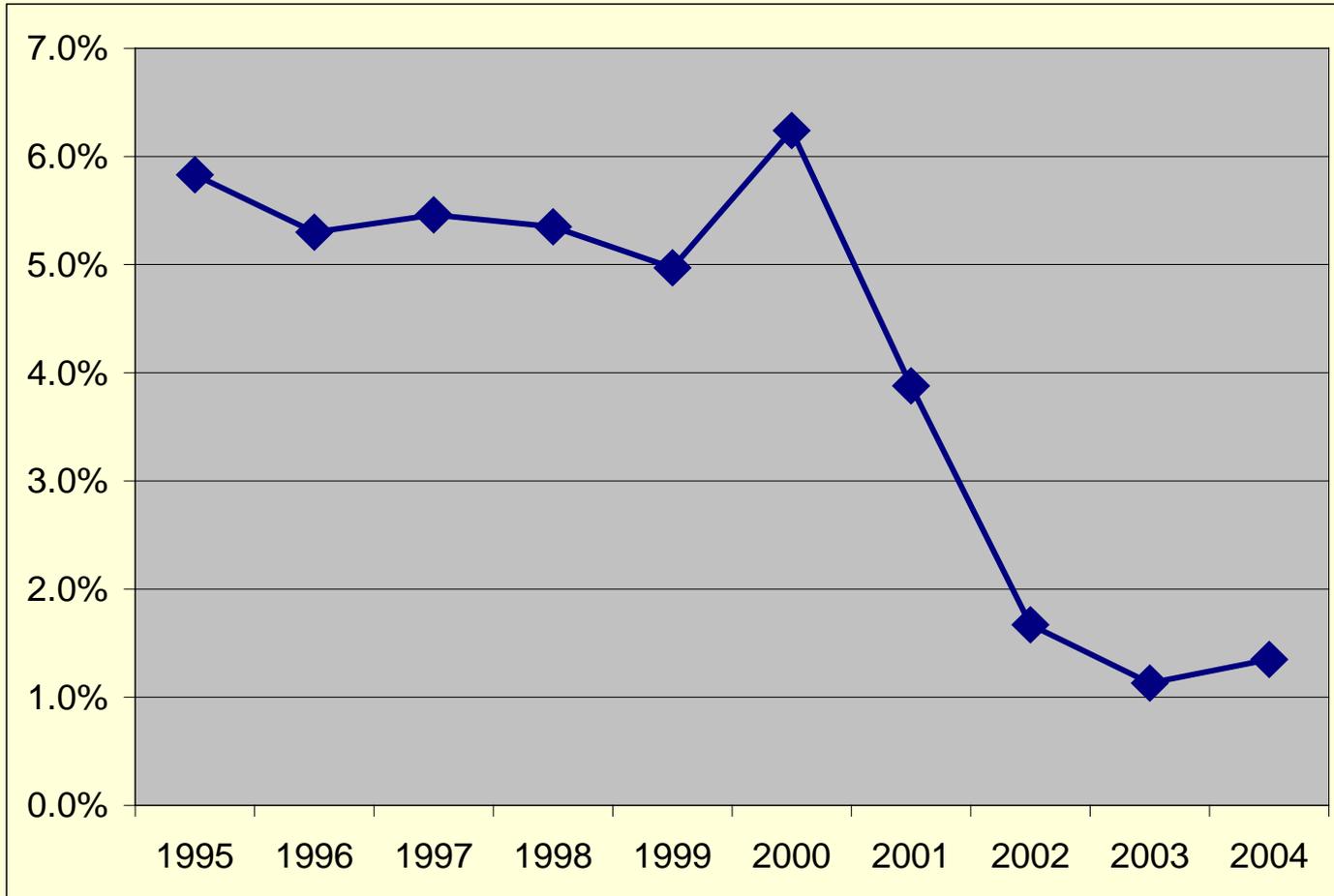
Economic expansion since 2002:

- **Low interest rates**
- **High productivity growth**
- **Slow jobs growth, yet declining unemployment rate**
- **Increasing trade deficit**
- **Higher federal deficits**

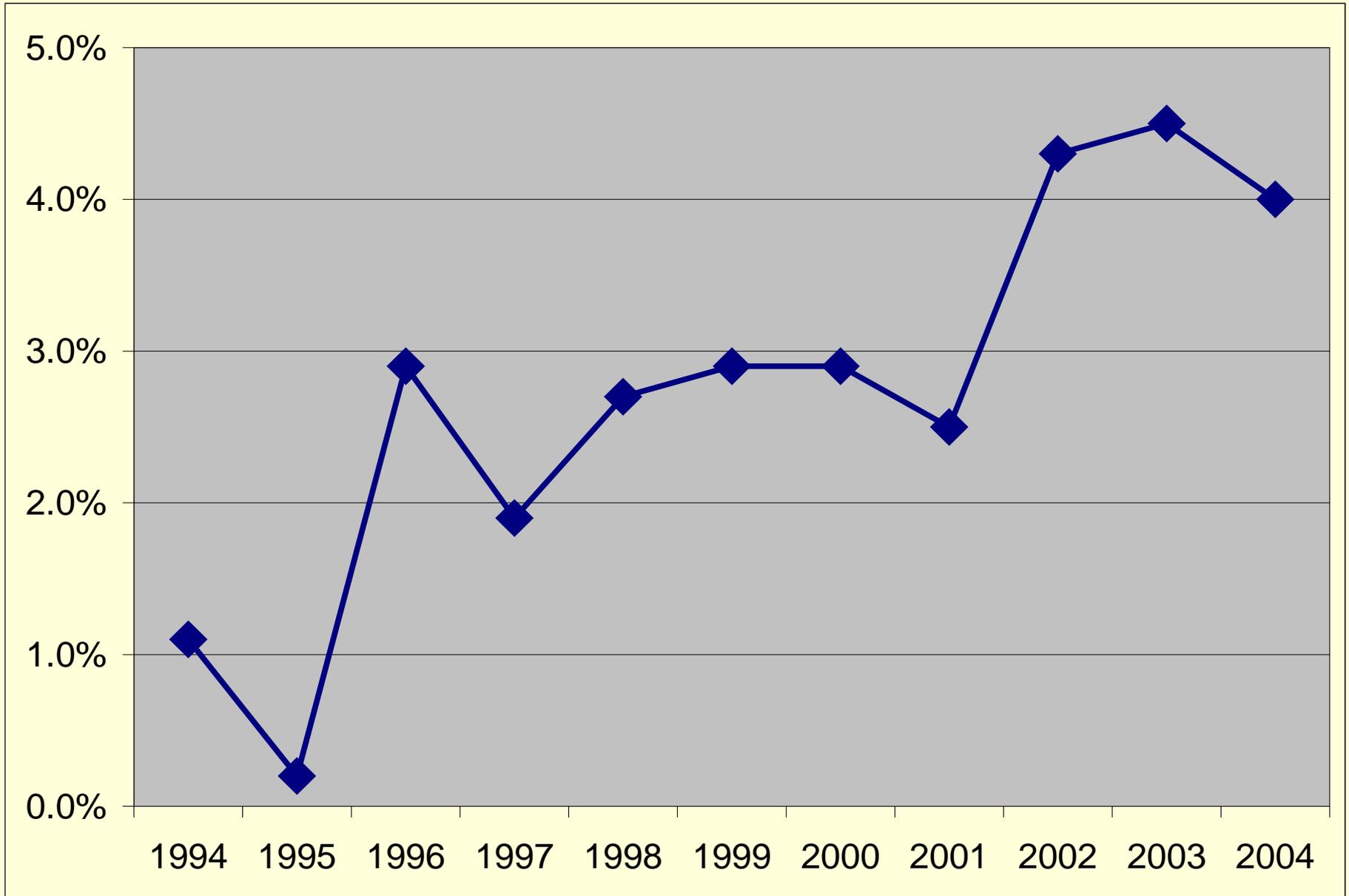
Some Perspectives on Gas Prices

- At \$3.00/gallon, fuel costs are 30% of ownership costs of large pickup truck (25% for compact car)
- Real gas prices still lower than in 1980
- Gas prices generally expected to rise slightly in 2006, decline in 2007
- Gas prices are 4% of all consumer spending
- In CA, service station sales were 6% of 2003 total taxable sales

U.S. Federal Funds Rate



U.S. Annual Productivity Growth



Growth of Chinese Imports

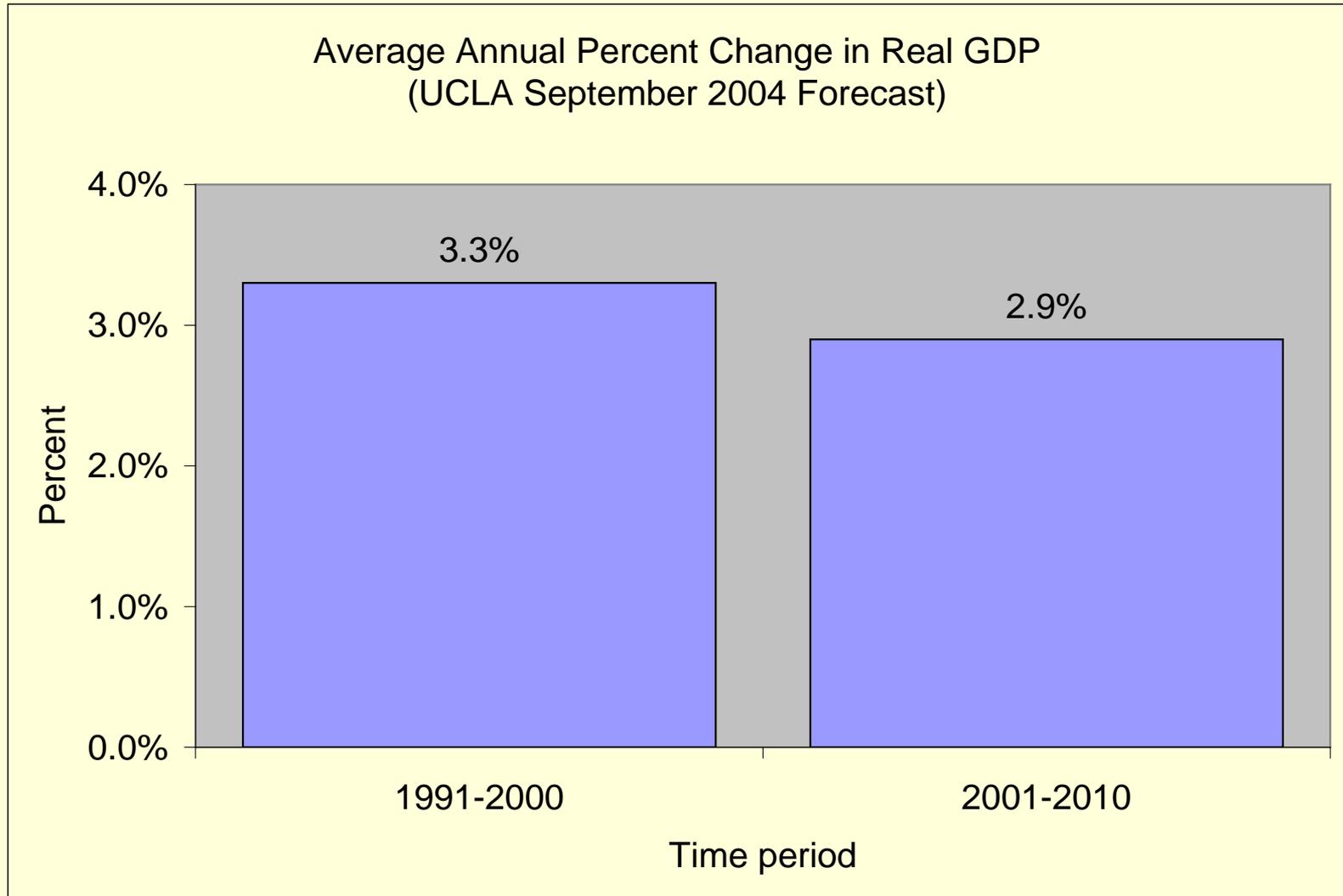
U.S. Imports (Billions of Dollars)			
Selected Countries			
	1998	2004	Percent Change
All Countries	\$917	\$1,473	61%
China	\$71	\$197	176%
Rest of Asia	\$247	\$454	84%
Mexico	\$95	\$157	65%

Future Growth in U.S. Economy

Close to Historical trend GDP growth

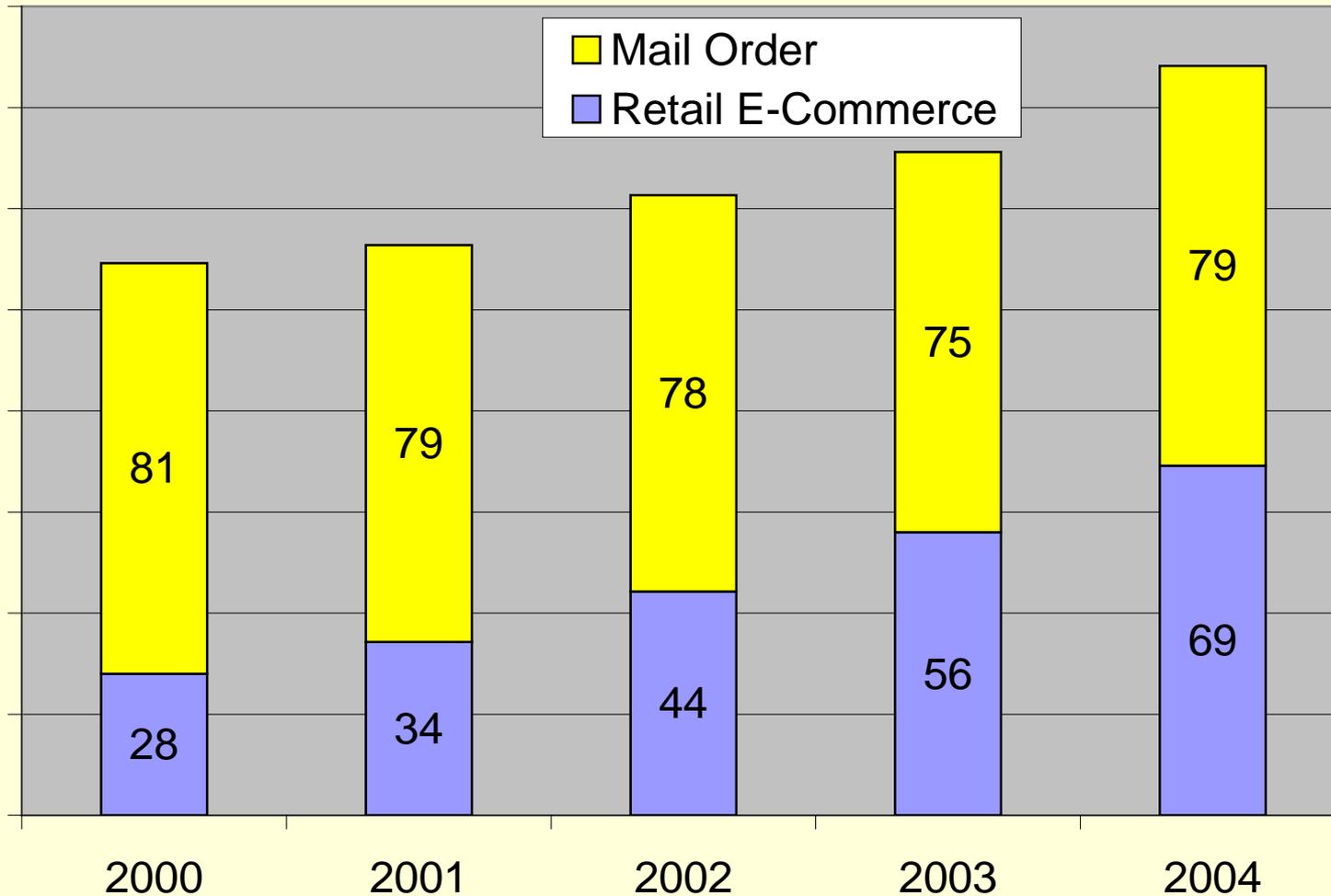
- **Aging work force, slower labor force growth**
- **Continued strong gains in productivity**
 - **Offshoring, outsourcing**
 - **Continued rapid advancements in technology**
- **Continued increases in globalization**

Expect Trend Growth

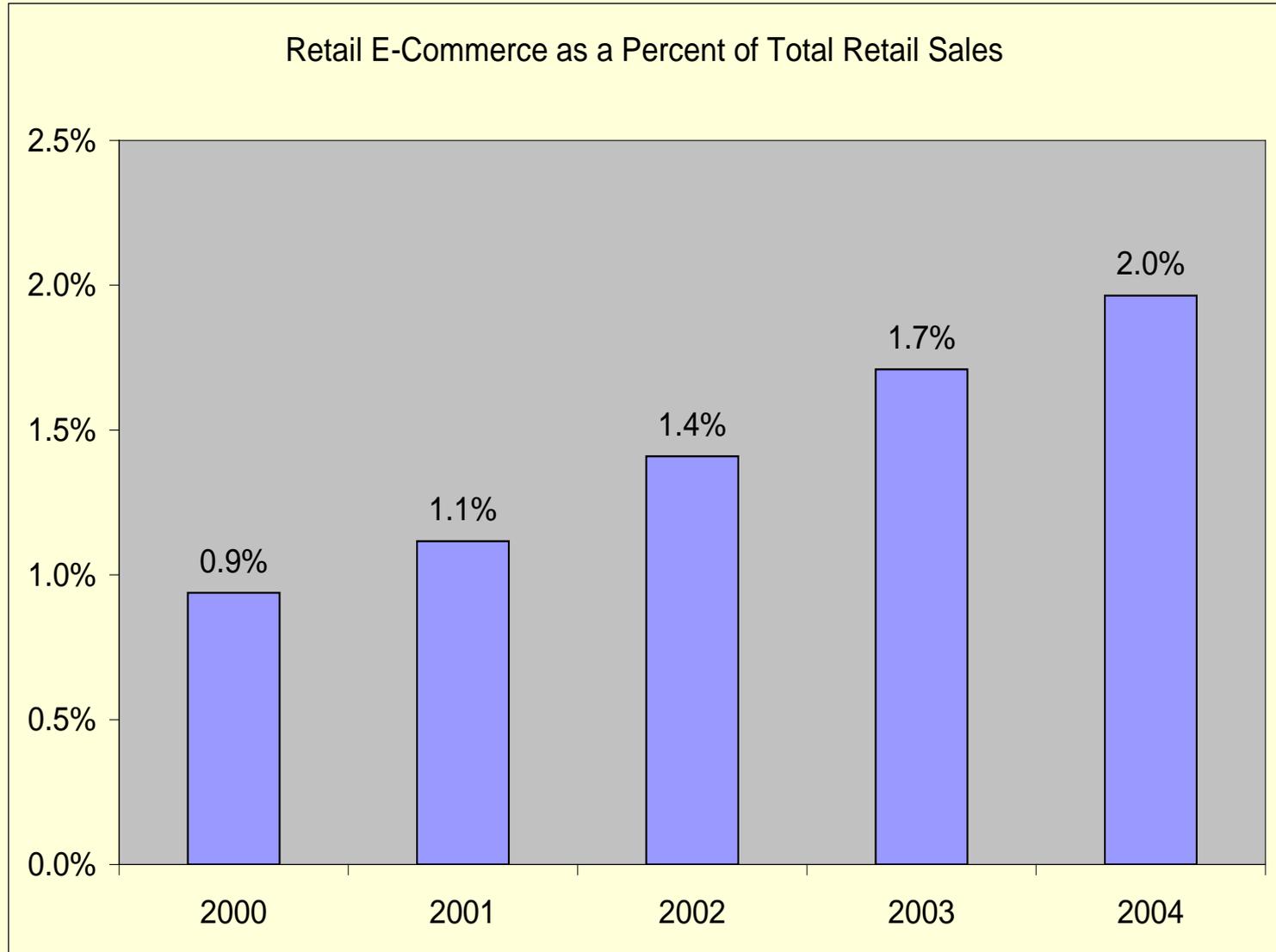


E-Commerce Soaring

U.S. Mail Order and E-Commerce Retail Sales (\$ Billions)



E-Commerce Small Share, But Growing Rapidly



E-Commerce Share of Remote Sales Growing Rapidly

E-Commerce Share of U.S. Electronic Shopping and Mail Order House Sales

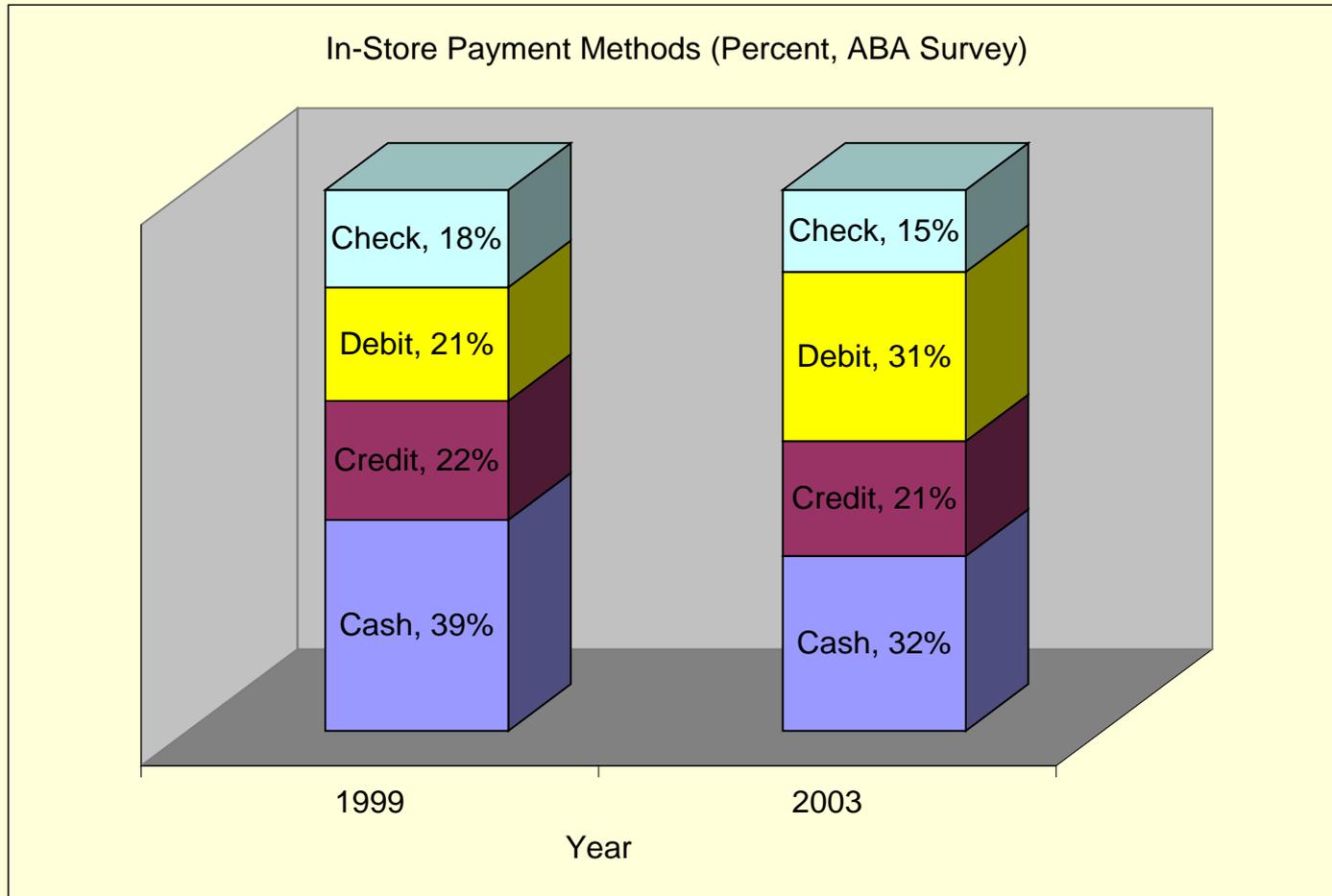


Increasing Sales of Superstores

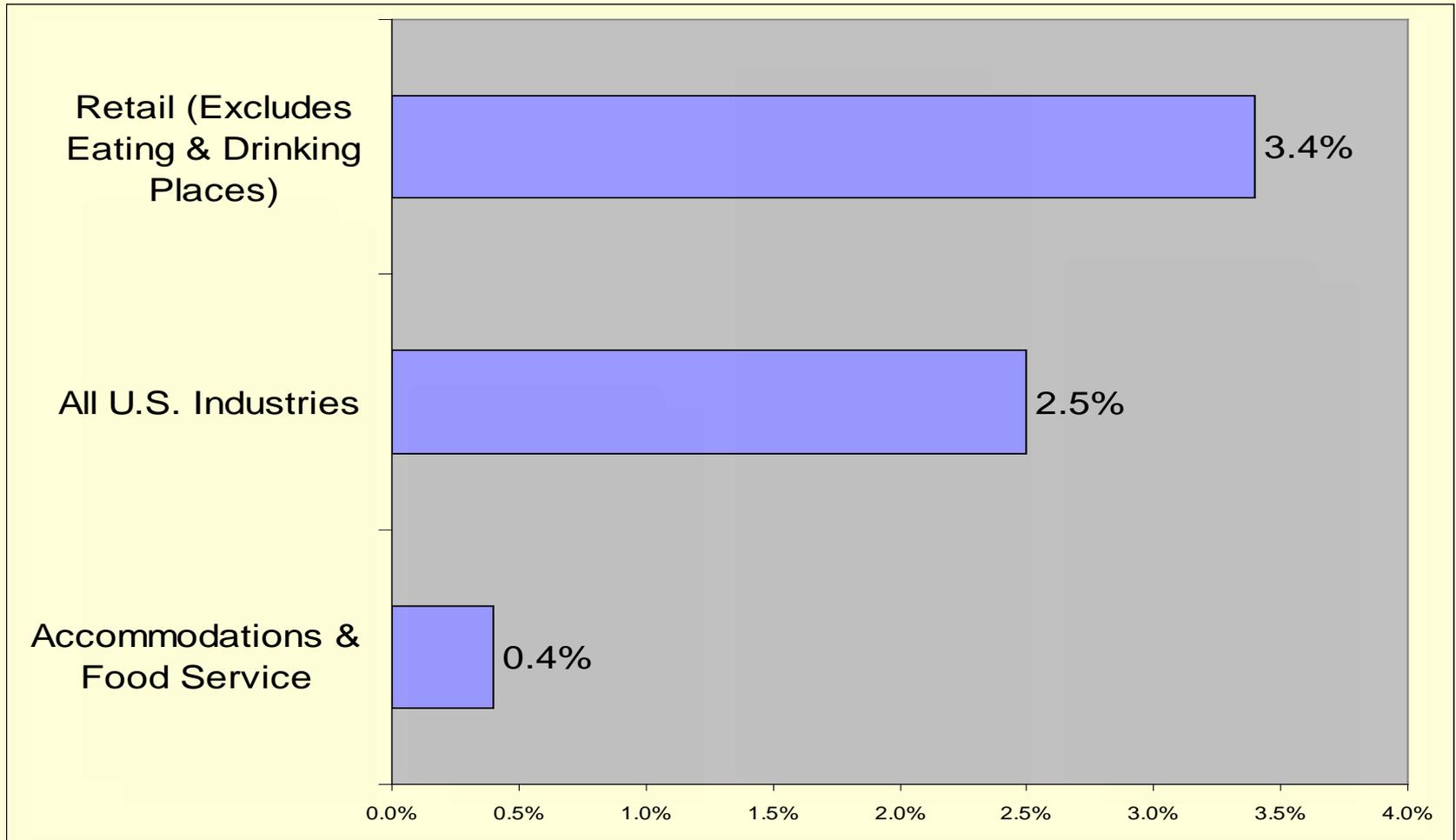
U.S. Retail Sales
Billions of Dollars
(Unadjusted for Inflation)

	1998	2004	Growth	1998 Shares	2004 Shares
General Merchandise Stores	\$351	\$503	43%	100%	100%
Department Stores	\$223	\$216	-3%	64%	43%
Superstores	\$99	\$247	151%	28%	49%
Other General Merchandise	\$29	\$40	35%	8%	8%

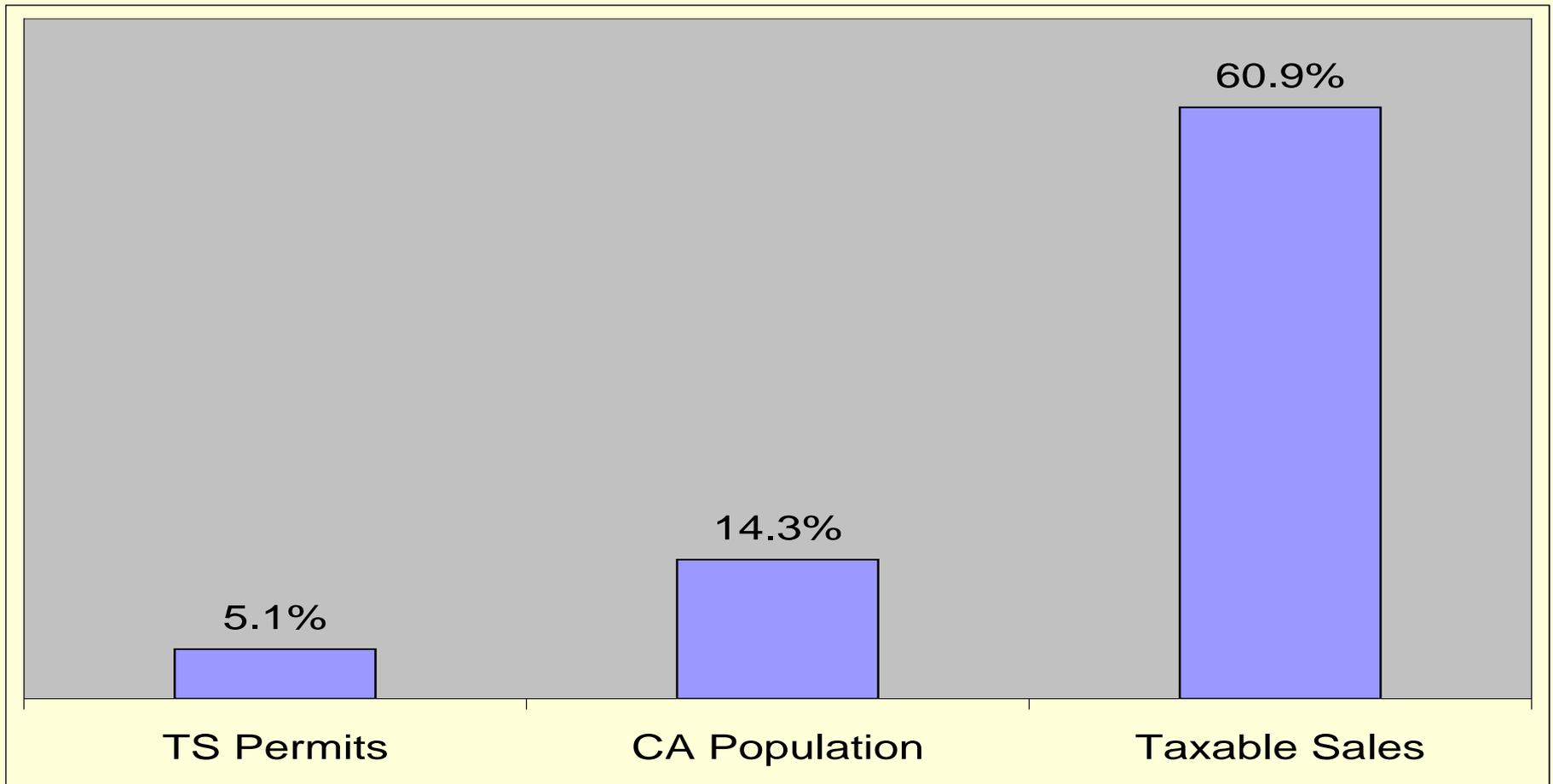
Closer to a Cashless Society



U.S. Retail Productivity Growth, 1990 - 2003



Cumulative Growth for Ten Fiscal Years Ending in 2003-04

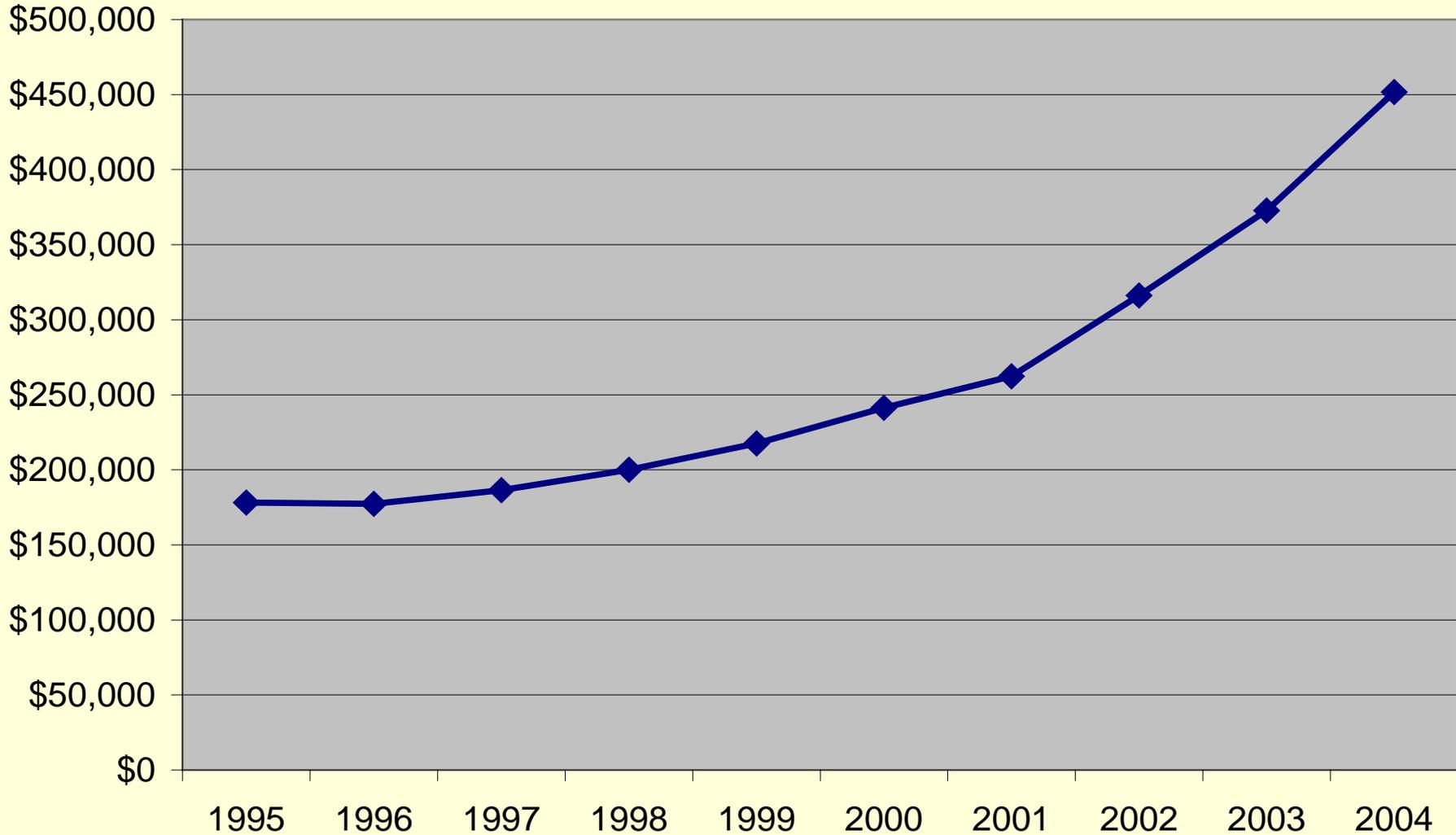


Differences Between California and US Economies

- **Population growth** CA growing about 50% faster than US (CA 1.5%/year or so)
- **Home prices** Median CA home prices 2.5 times those of US in 2004
 - CA \$415,700
 - US \$184,100
- CA is still competitive with other states

CA Home Prices Soaring

California Home Prices (Dollars)



CA Long-Term Forecast

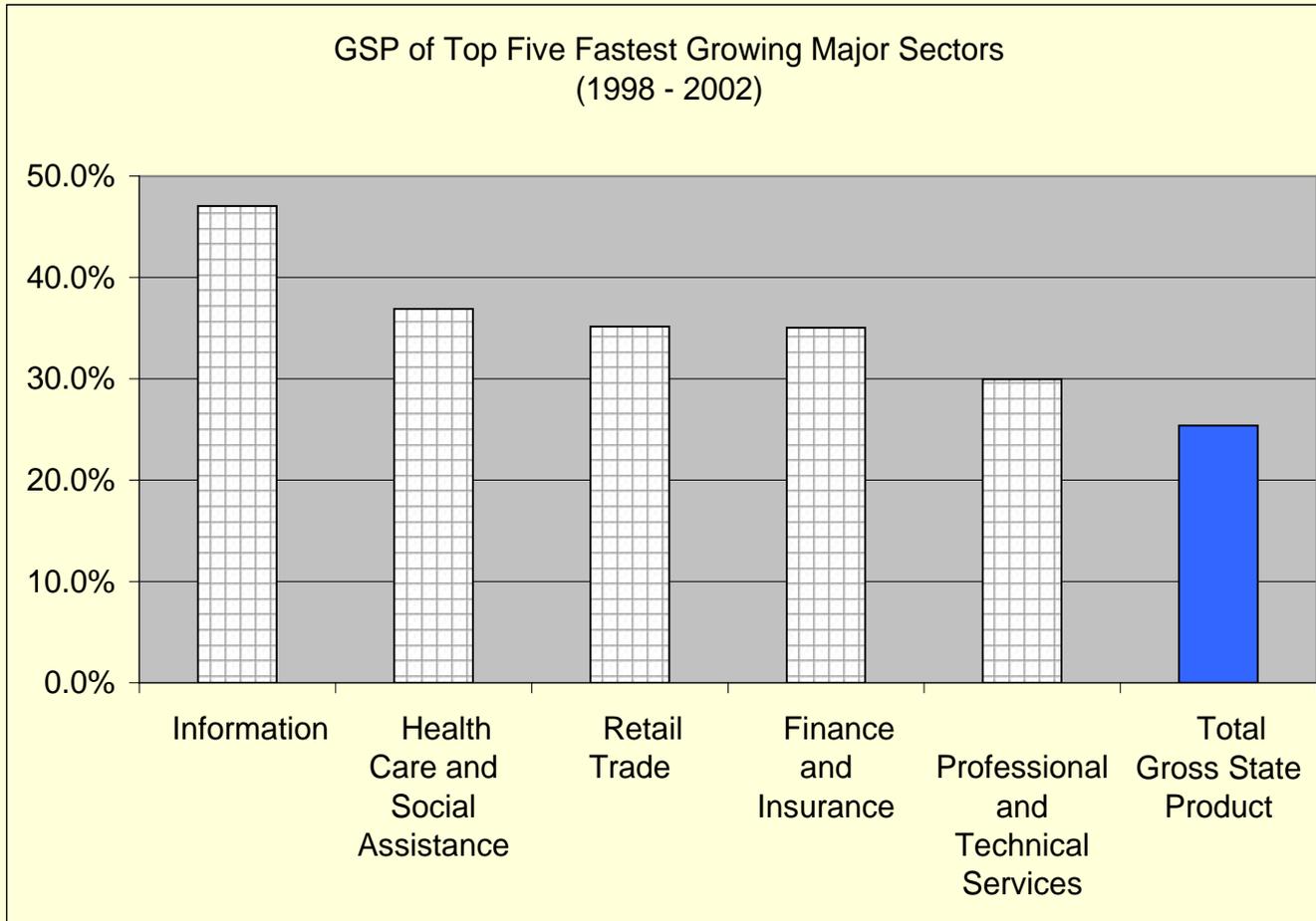
UCLA California Long-Term Forecast

Annual Growth Rates for Five-Years Ending:

California:	2005	2010
Nonfarm Employment (% Change)	0.5	2.3
Personal Income (% Change)	3.8	5.6
Taxable Sales (% Change)	2.9	5.4
Unemployment Rate (Percent)	6.2	6.1
Housing Permits (Thousands of Units)	184	186
Consumer Price Index (% Change)	2.8	2.5

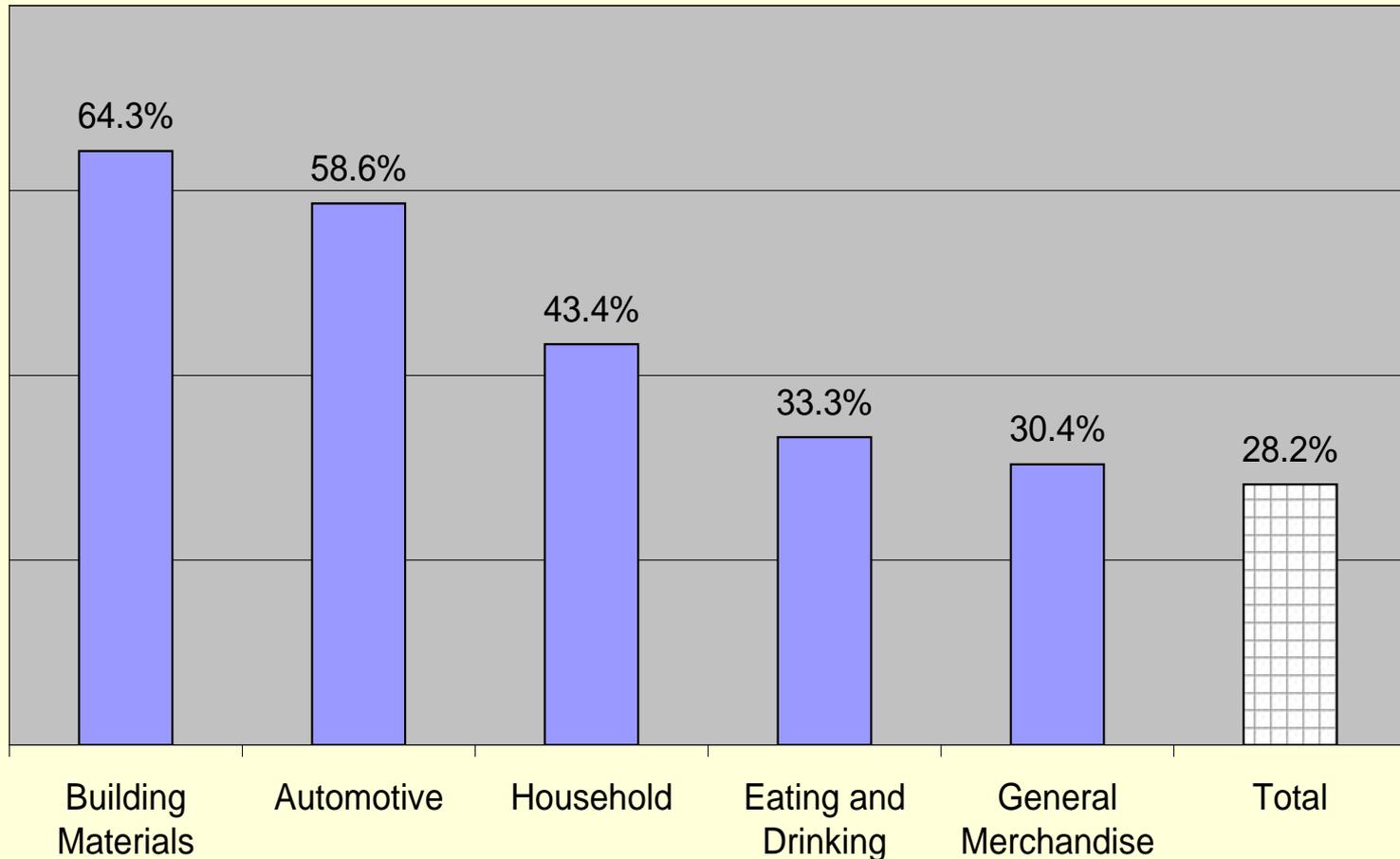
Source: September 2004 UCLA Anderson Forecast

Information and Health Care Lead GSP Growth

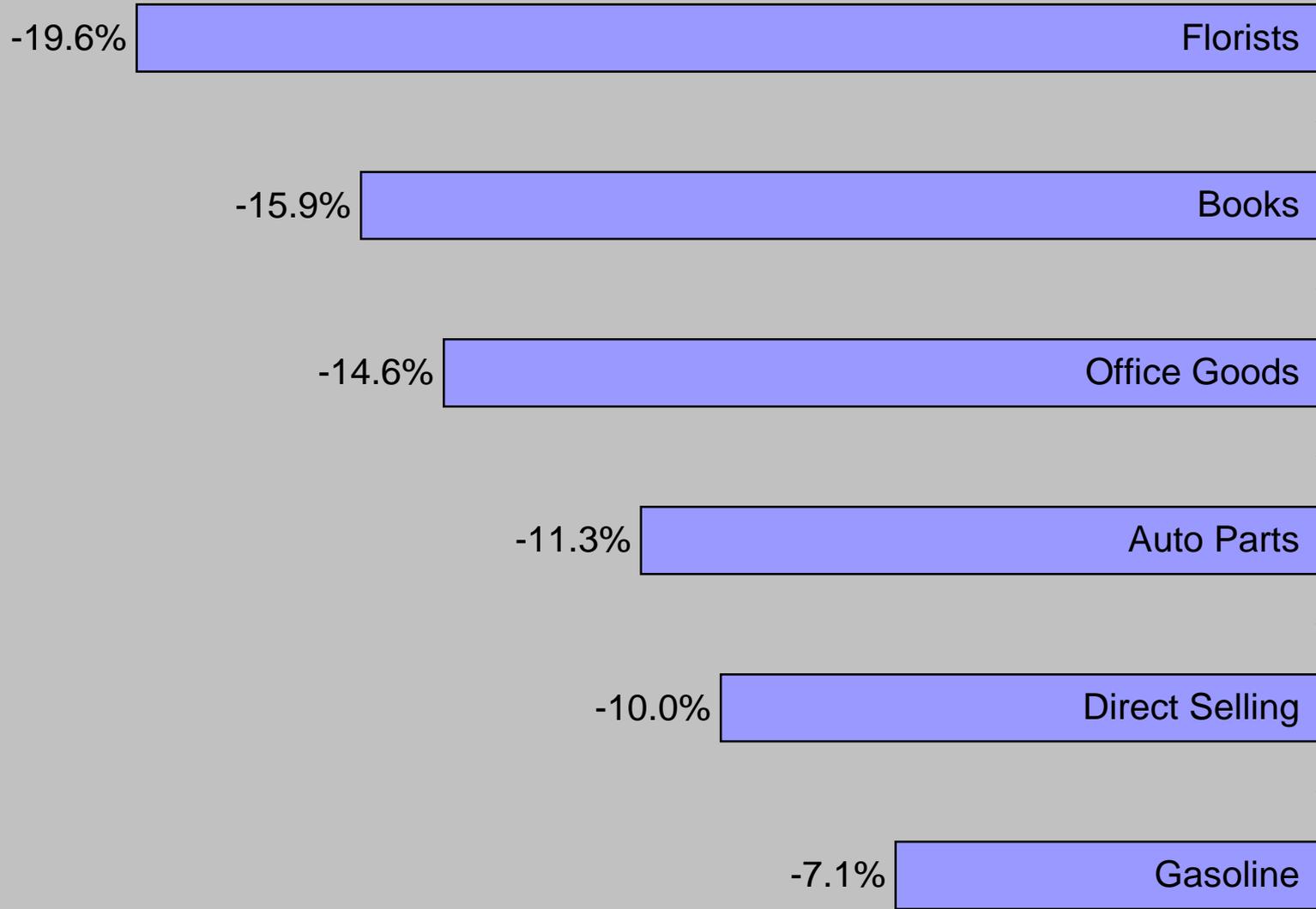


Building Materials and Autos Lead Taxable Sales Growth

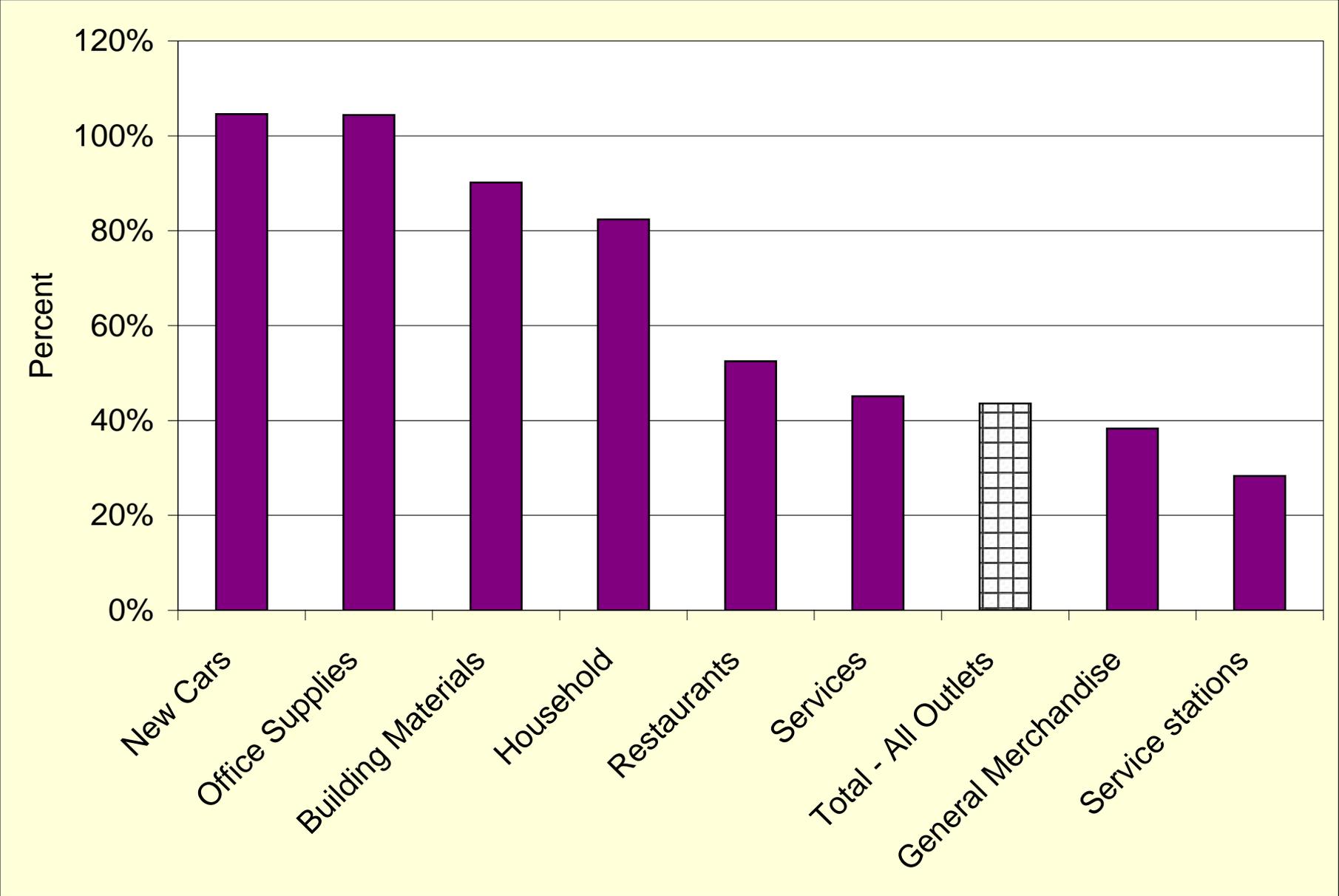
Growth in Taxable Sales: 1998 - 2003
Top Five Fastest Growing Groups



Lagging Retail: CA Employment, 1998 - 2004

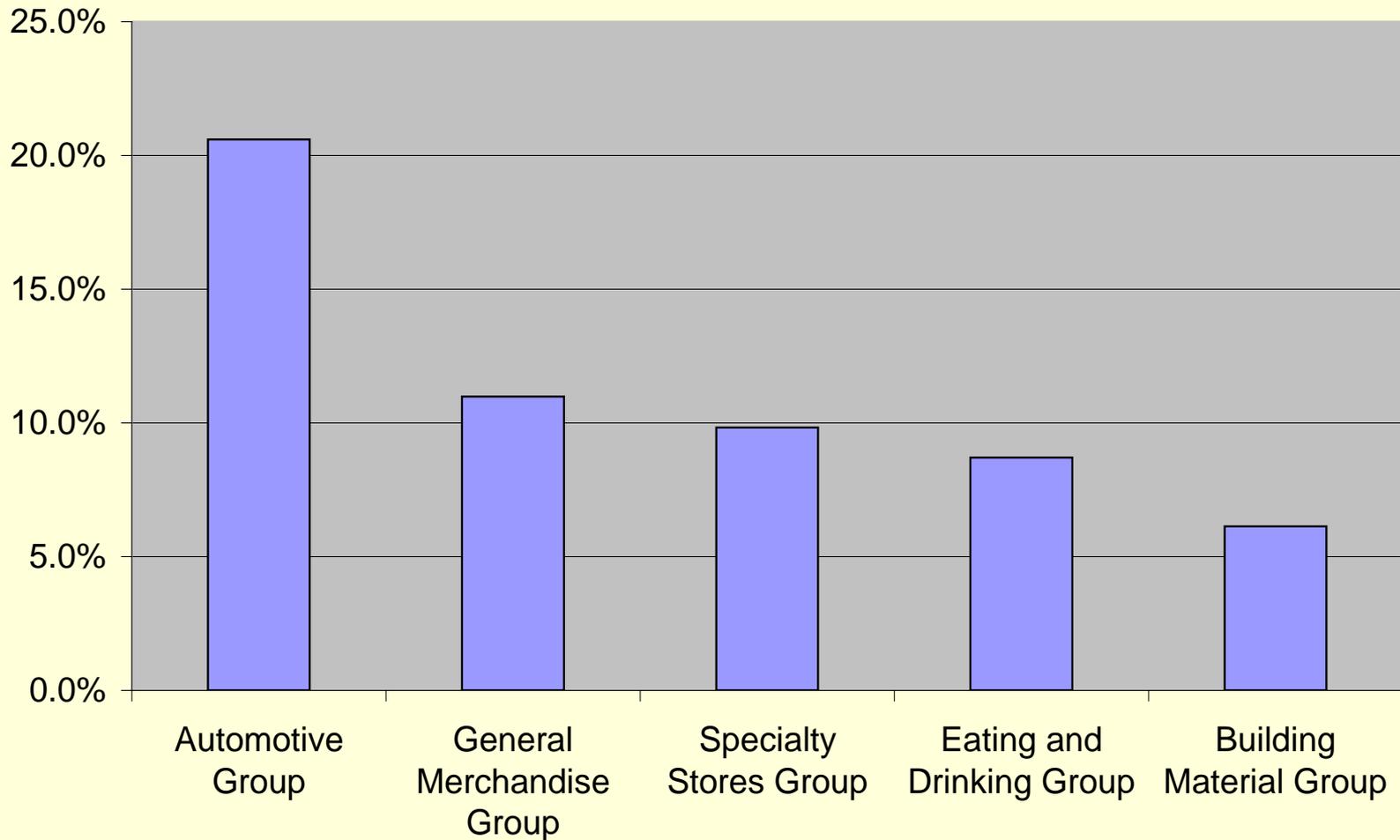


Growth in Per Capita Taxable Sales, 1993 - 2002

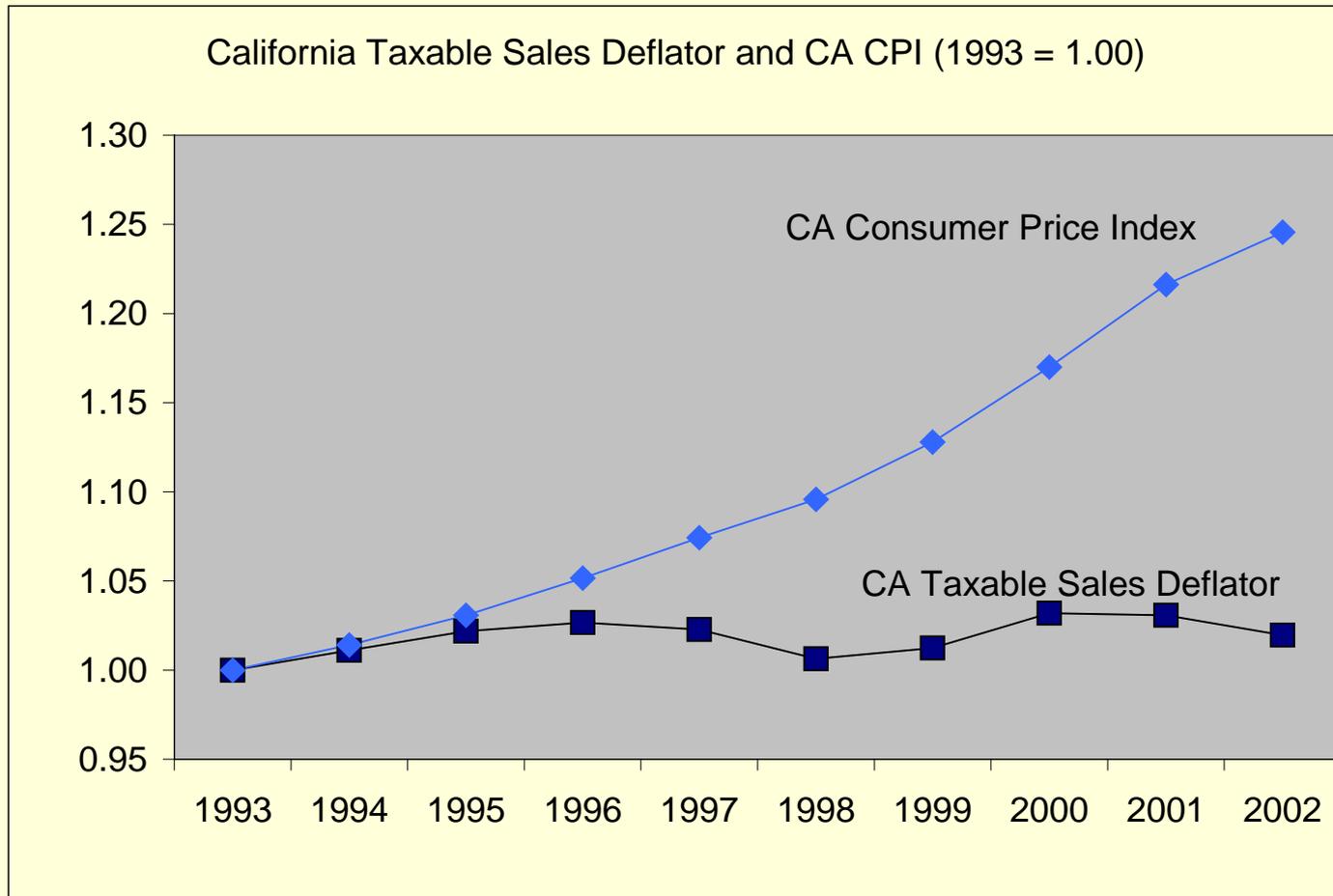


Autos Leader in Share of Total Taxable Sales

2003 Shares of Total Taxable Sales: Top Five Categories



Low Inflation for Many Taxable Goods

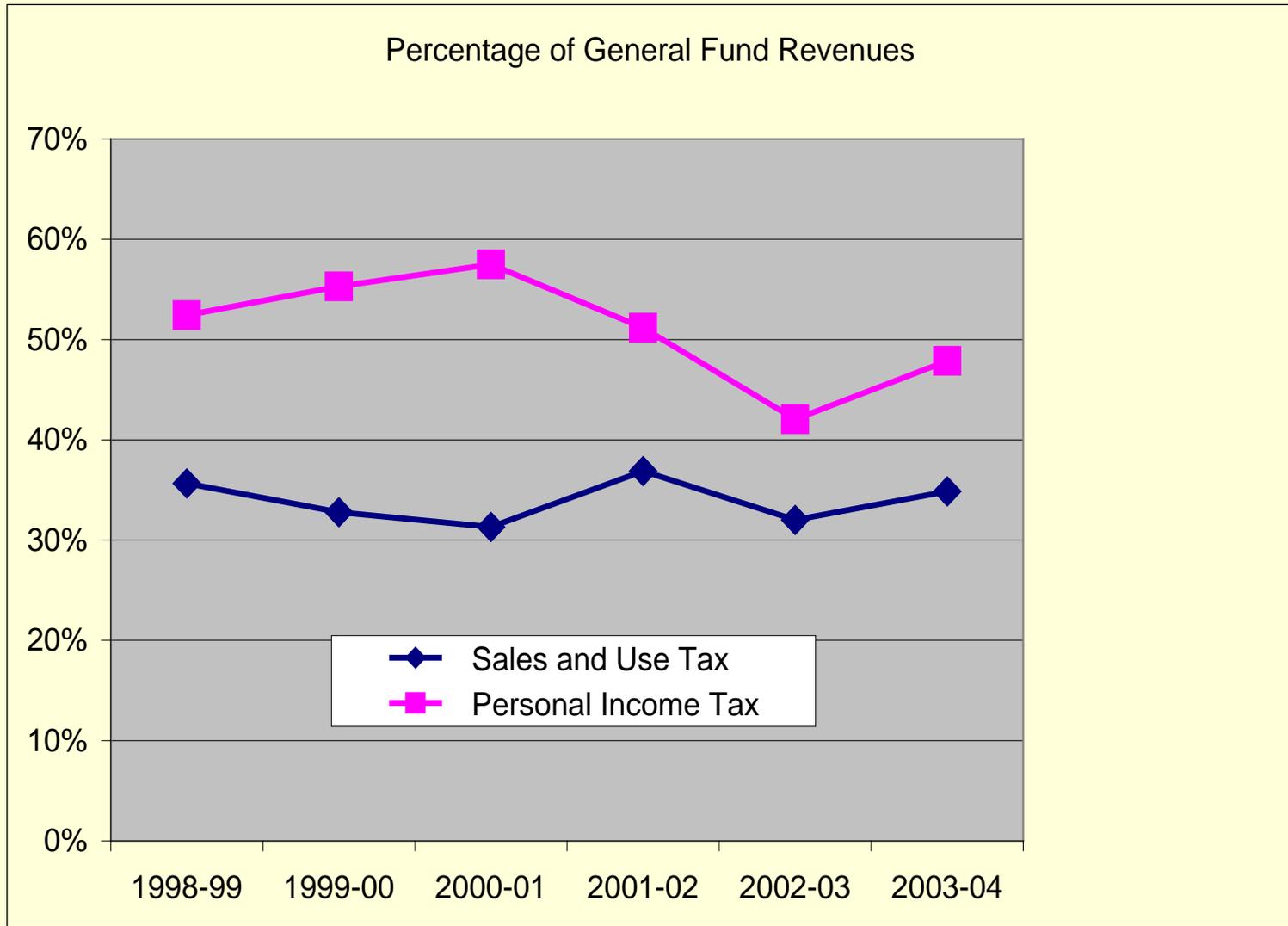


Computers and Electronics Prices Falling Rapidly

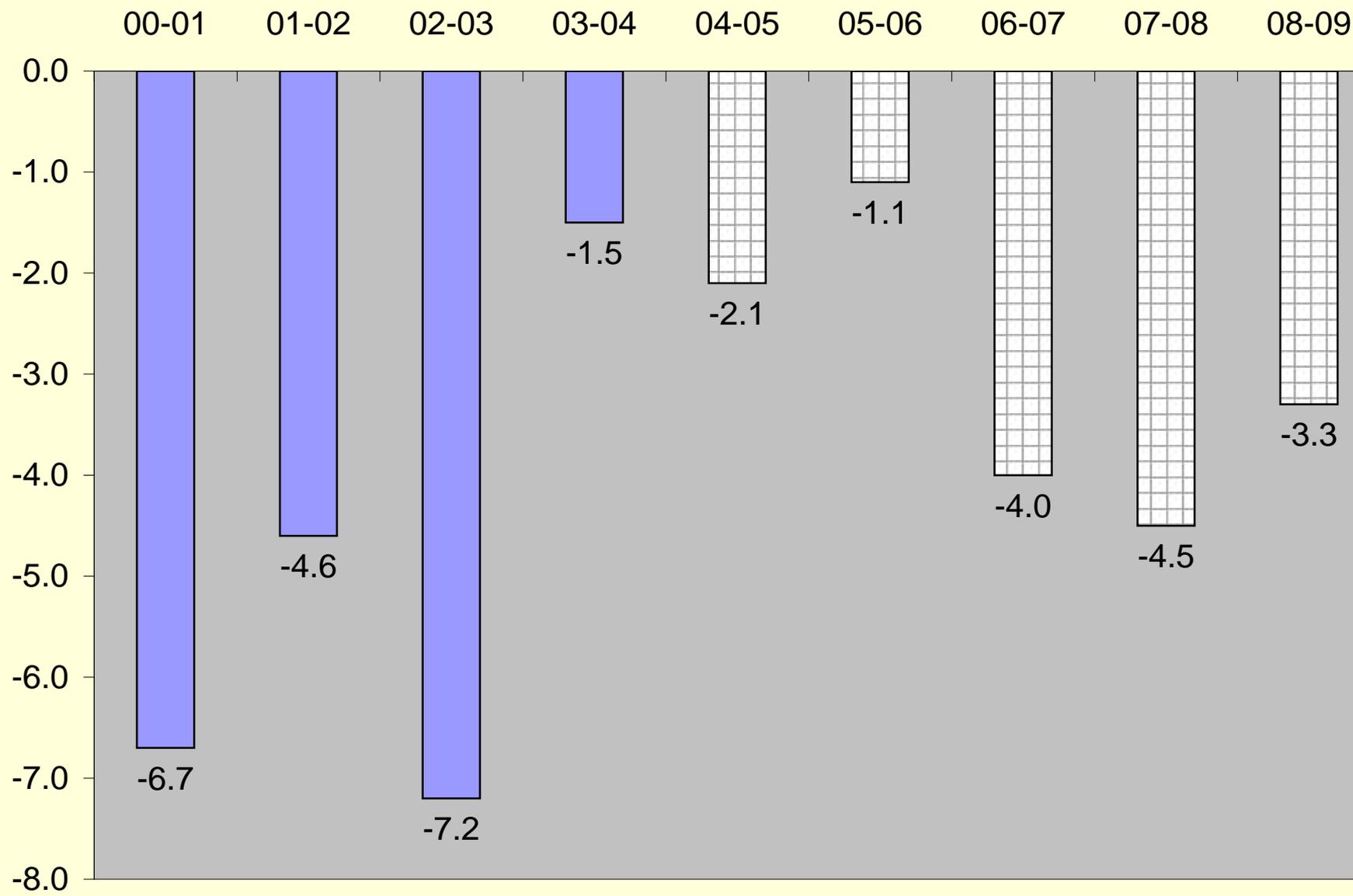
Selected Implicit Price Indices,
Percent Change From 1993-2002

Services	27.9%
Total Personal Consumption Expenditures	17.8%
New Cars	3.7%
Telephone and Telegraph	-6.8%
Clothing and Shoes	-13.9%
Furniture and Household Equipment	-35.2%
Computers, Peripherals and Software	-91.9%

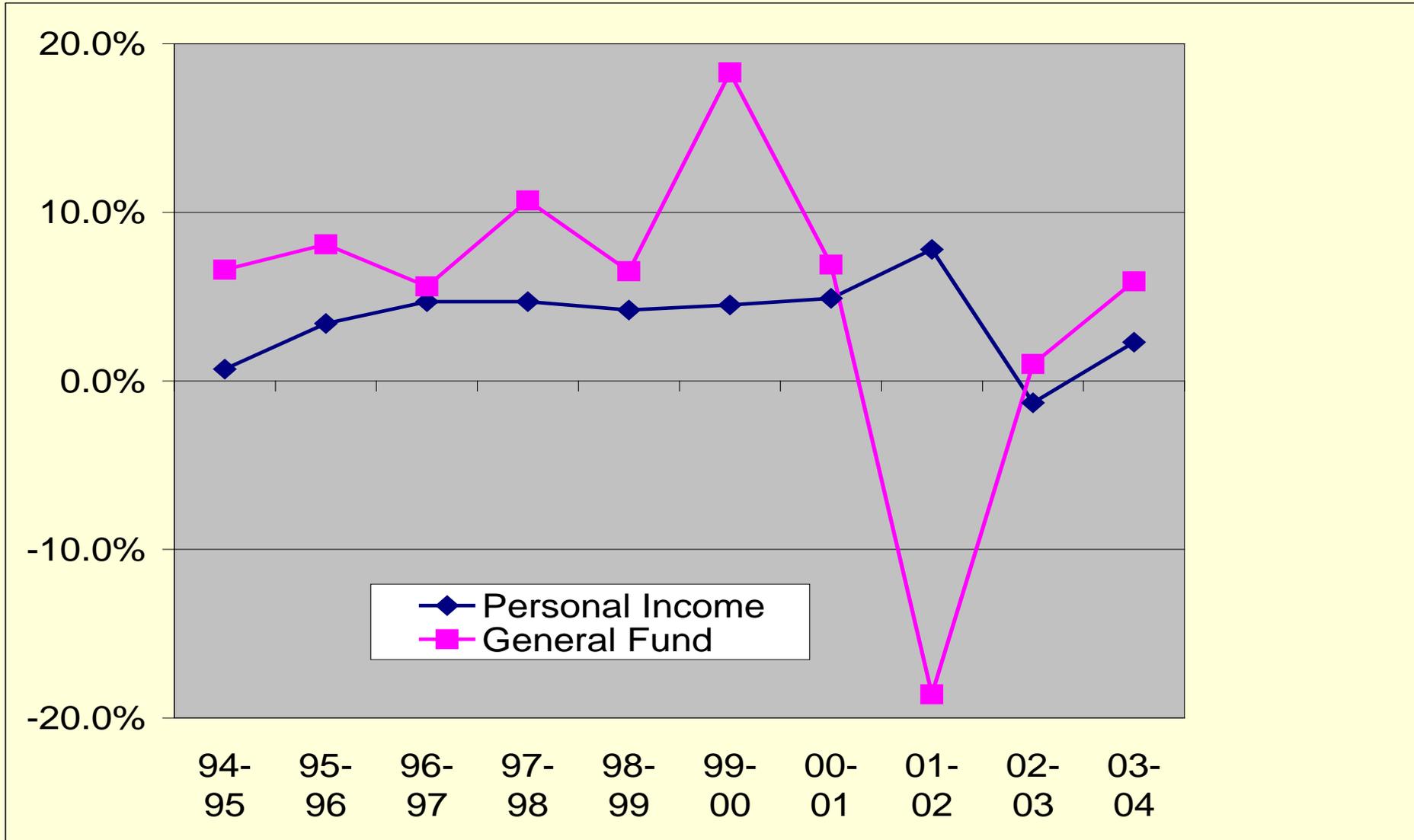
Sales and Use Taxes Relatively Stable Revenue Sources



General Fund Budget Operating Shortfalls (LAO February 2005 Projections, Billions of Dollars, By Fiscal Year, Assuming Governor's Budget Plan)



Per Capita Growth in Personal Income and General Fund Revenues



Streamlined Sales and Use Tax Agreement (SSUTA)

- SSUTA is a national effort to develop a standardized sales and use tax system
- As of November 2004, 21 states had enacted legislation to conform
- CA is a voting participant
- Each state has one vote (not weighted by population)

Conforming States (November 2004)

- Arkansas
- Indiana
- Iowa
- Kansas
- Kentucky
- Michigan
- Minnesota
- Nebraska
- Nevada
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- South Dakota
- Tennessee
- Texas*
- Utah
- Vermont
- Washington *
- West Virginia
- Wyoming

* Partial compliance

CA SSUTA Conformity?

- CA legislature has not yet voted to conform to SSUTA
- CA conformity to SSUTA would require a major overhaul of the CA tax system
- Conformity would have major implications for tax administration and revenues

Some Other Social Trends

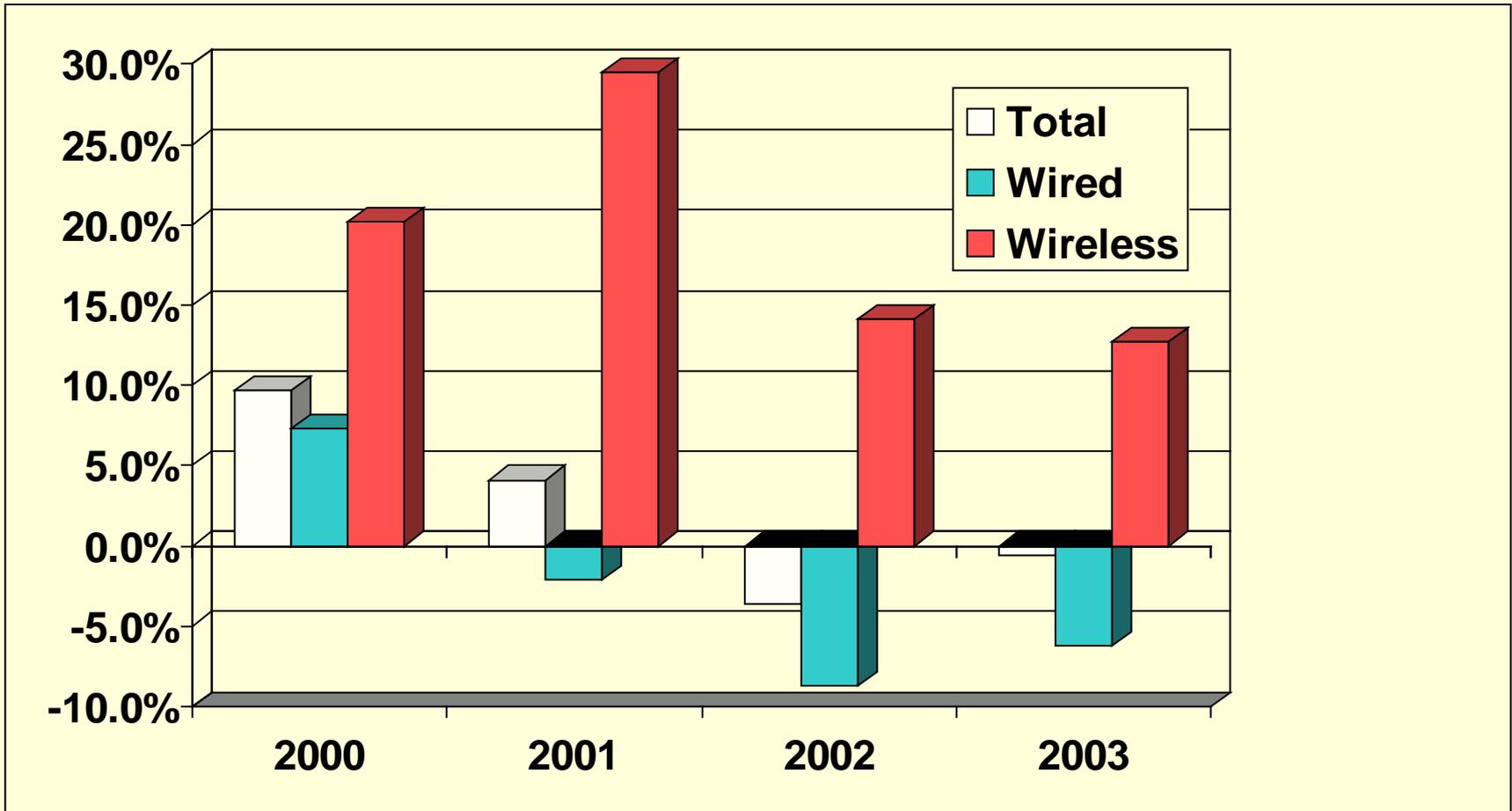
- Greater economic competition
- Longer work hours
 - Time squeeze
 - Convenience has greater value
(home and at work)
 - More stress in work place
- Greater employment uncertainty
- Decline in job satisfaction for many
- Less company loyalty

Some Other Social Trends

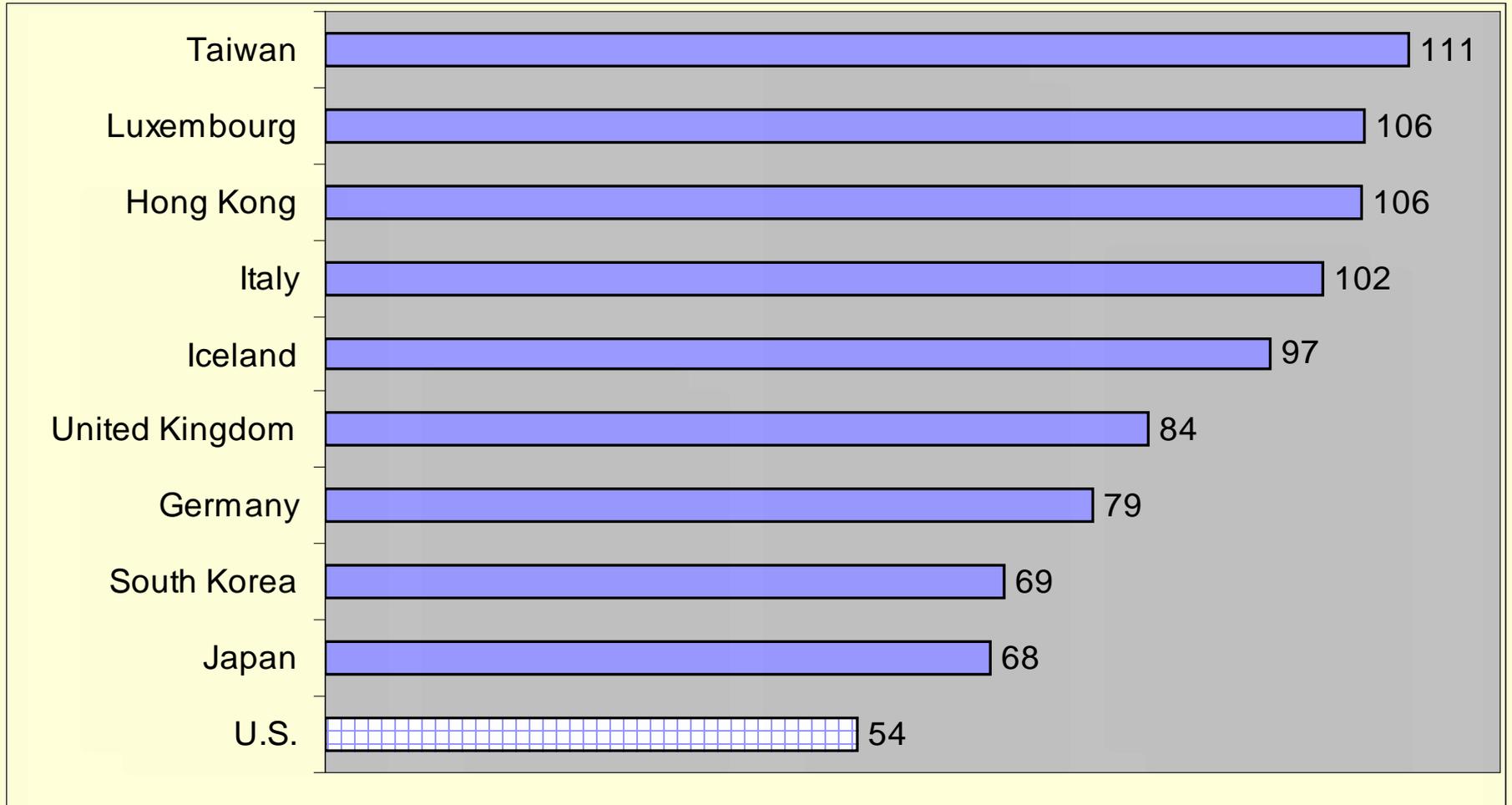
- Aging parents of Baby Boomers
- Family/work priority pressures
- Rapidly advancing technologies:
- PC's now common in homes
 - Internet, Broadband
 - Cell phones
- These technologies lead to higher customer service expectations

Wireless Substituting for Wired Phone Service

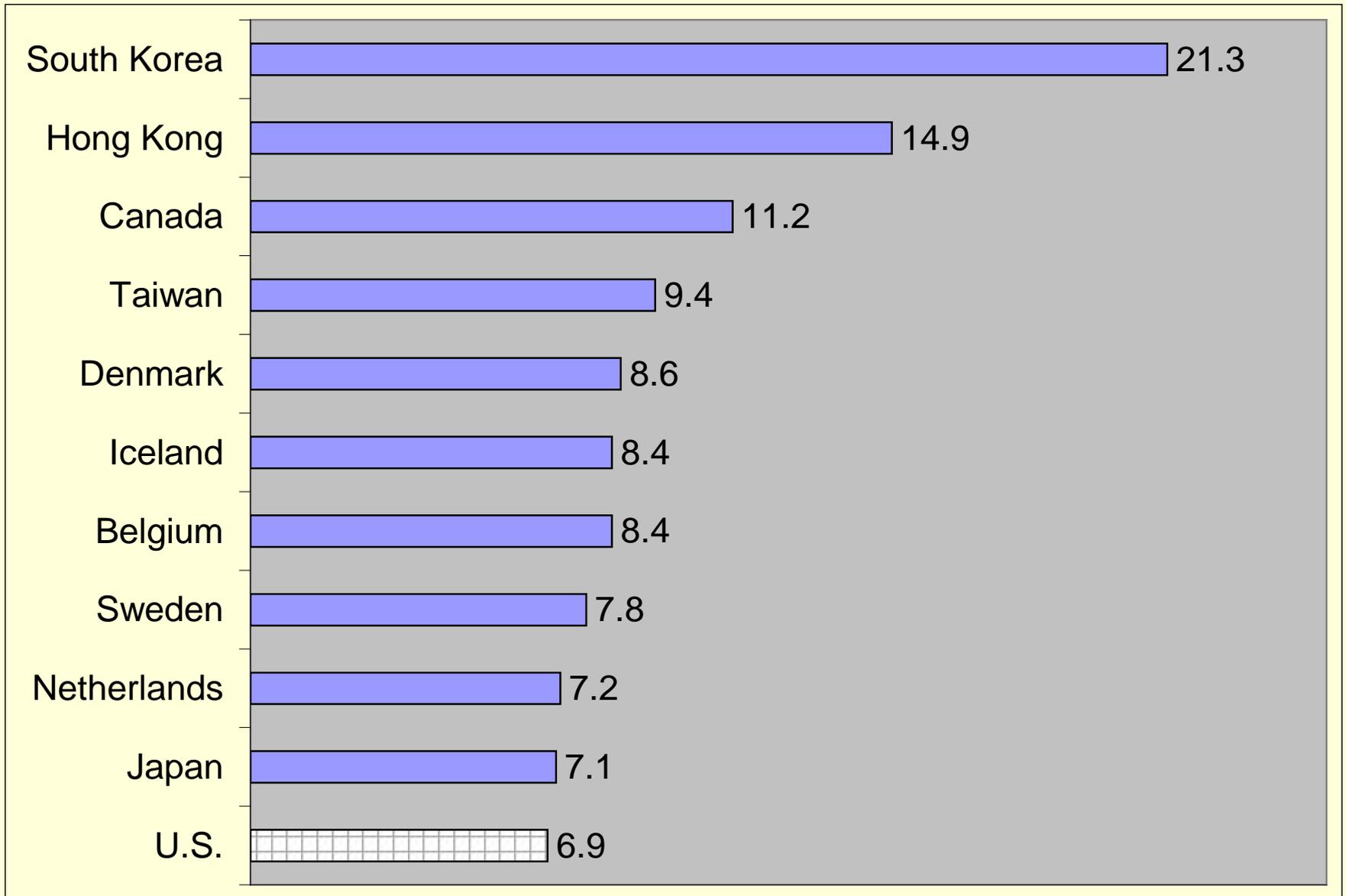
(U.S. Revenues)



Cell Phone Subscriptions Per 100 Inhabitants, 2003 (AEA)



Broadband Subscriptions Per 100 Inhabitants, 2002 (AEA)



What About Blogs?

- Blog (Weblog): Online personal journal
- “Blogs will change your business,”
BusinessWeek (May 2, 2005)
- “Citizen journalism”
- Anyone can become a publisher
- Less control of news
- Potential increases for confidentiality breaches to affect wider audiences