

*Late Twentieth
Century*



Live/work space, Emeryville

Economic Analysis



National Economy

The U.S. economy grew rapidly in 1998-99, continuing the trend of the previous two fiscal years. Along with the strong economic growth, the inflation rate, the unemployment rate, and interest rates fell to their lowest levels since the 1960s. At the same time, the stock market continued its four-year surge. The economic expansion that has continued since 1991 strongly contributed to a second consecutive year of federal budget surpluses—a two-year streak unmatched in more than 40 years.

Gross Domestic Product

Real gross domestic product (GDP)—the broadest measure of the nation's output of goods and services—rose 4.3 percent in 1998, following a similar 4.2 percent gain in 1997. These increases are both well above the 2.9 percent average yearly GDP increase from 1990 through 1998. In the first half of 1999, GDP growth slowed a little from the 1998 average, but underlying growth (GDP less inventories) remained strong: real final sales of domestic product increased an average of 4.0 percent in the first two quarters. All of

these figures reflect the historical revisions of the GDP and changed definitions released by the U.S. Department of Commerce in October 1999. A major element of the revisions included all business and government software in the definition of fixed investment, a change that increased real GDP growth by 0.4 percent annually from 1992 through 1998.

Real GDP by Sector

Consumer spending, which accounts for about two-thirds of total GDP, anchored overall growth in 1998 through mid-1999. Real consumer spending increased by 4.9 percent in 1998 and by an average annualized rate of 5.8 percent in the first half of 1999. The exceptionally strong consumer spending in early 1999 fueled fears of inflation and prompted the Federal Reserve Board (Fed) to raise the federal funds rate by 0.25 percent in late June.

Real investment spending—which comprised 17 percent of total real GDP in 1998—increased by 11.7 percent. Real spending on equipment and software, a major component of investment spending, rose 15.8 percent in

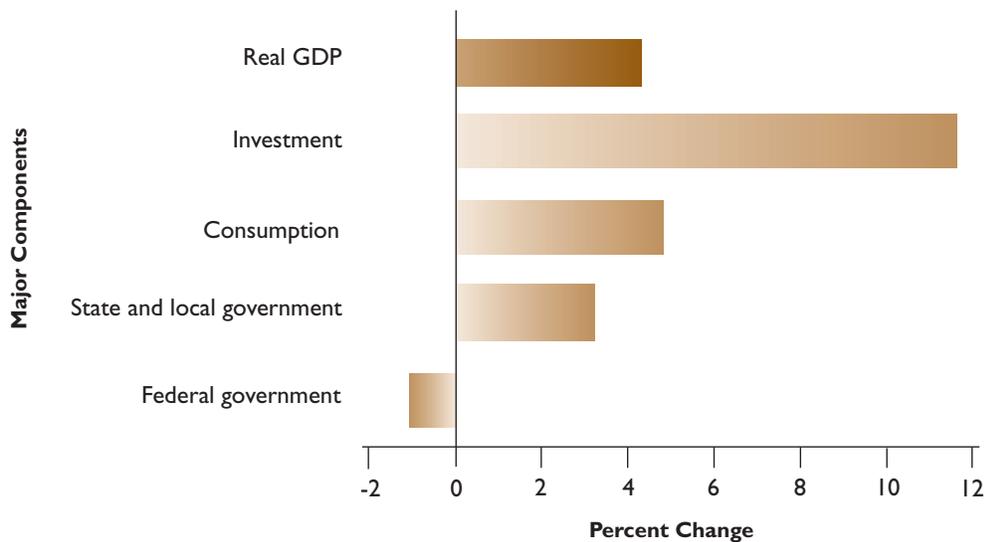
1998, the sixth consecutive year of double-digit growth rates. Real fixed investment spending (which excludes inventory investment) slowed from an average growth rate of 11.8 percent in 1998 to 7.9 percent in the first half of 1999.

In 1998 exports showed signs of recovery from the fall 1997 financial crisis in Asia. After three quarters of negative growth, averaging a quarterly decline of 2.3 percent, exports rebounded to a 16.3 percent growth rate in the fourth quarter, to finish the year with a 2.2 percent annual growth rate. However, export growth stalled in the first half of 1999, and the U.S. trade deficit continued to increase. Imports exceeded exports by \$245.8 billion during the

second quarter of 1999, compared with \$153.9 billion during the same period of 1998 (current dollars). Imports grew by 11.6 percent in 1998 and averaged 13.5 percent annualized growth per quarter during the first six months of 1999.

Real government spending on goods and services grew by just 1.7 percent in 1998. The growth was due to a 3.2 percent increase in spending by state and local governments. In contrast, federal spending declined by 0.9 percent because of decreased national defense spending. A 1.9 percent decline in defense spending more than offset increased federal spending for nondefense-related goods and services.

1998 Growth in Real GDP and Major Components



Consumer Prices and the Unemployment Rate

The remarkable 1997 combination of low unemployment and low inflation was repeated in 1998. The U.S. unemployment rate averaged 4.5 percent in 1998, its lowest level since 1969. At the same time, the U.S. consumer price index increased by just 1.6 percent, its smallest gain since 1965. The sum of the inflation and unemployment rates, the so-called “misery index,” was just 6.1 percent in 1998, the lowest level since 1965.

The Asian economic crisis was one of the reasons the inflation rate was so low. The crisis held down prices of imported goods and led to the strong value of the U.S. dollar compared with Asian currencies. Weak demand in Asia also held down world prices for crude oil products. These factors led to a 5.9 percent decline in prices of imported goods in 1998 as measured by the “chain-type price index.” Though Asian economies began to improve in the first half of 1999, the U.S. inflation rate remained low. Consumer prices increased at an annualized rate of 1.9 percent in the first six months of 1999, little changed from the 1998 average of 1.6 percent. The unemployment rate also remained exceptionally low, averaging 4.3 percent.

Federal Budget Surplus

As low interest rates and strong economic growth raised household incomes and tax

receipts, the federal government budget had a surplus in both 1998 and 1999. The federal budget surplus grew from \$70 billion in federal fiscal year 1998 to \$123 billion in federal fiscal year 1999. The last time the federal budget had a surplus for two consecutive years was in 1956 and 1957.

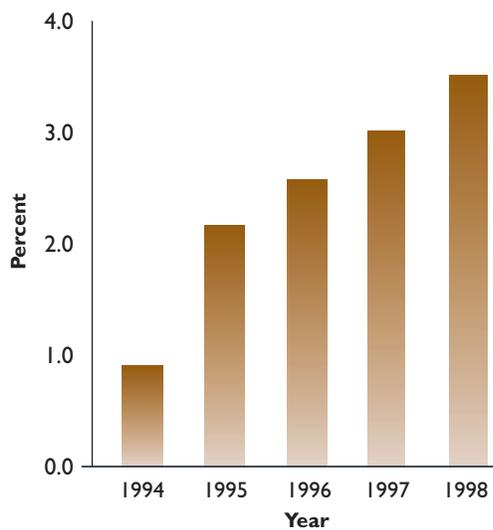
California Economy

The California economy continued its strong, sustained growth in 1998. About 450,000 nonagricultural jobs were gained—a 3.5 percent increase for the year. This was the most rapid jobs growth since 1988 and followed a 3.0 percent increase in 1997, the second-fastest growth rate since 1988. Construction employment shot up, reflecting increases in building activity. Growth in most other employment sectors was fairly well balanced, with service jobs increasing the most. California wage and salary income rose 9.0 percent in 1998, higher than the national increase of 7.6 percent.

Employment and Income Growth

In the fifth consecutive year of continuous growth, California nonagricultural employment payrolls rose 3.5 percent in 1998. This state growth rate was much faster than the 2.6 percent growth in national payrolls and is comparable to the fast state growth of the mid-1980s. As payroll jobs increased, the California unemployment rate continued to decline; it fell from an average of 6.3 percent in 1997 to 5.9 percent in 1998. Though the

**California Nonagricultural Employment
Growth (Annual Percent Change)**



gap was closer than in recent years, California unemployment was still 1.4 percent higher than the U.S. average of 4.5 percent.

California personal income rose 6.9 percent in 1998, well above the 1997 increase of 6.0 percent and U.S. personal income growth of 5.0 percent.

Employment Sectors

Construction and Related Industries.

Construction is closely associated with finance, insurance, and real estate activities. Construction and these related sectors provided about 10 percent of all nonfarm jobs in California in 1998. Construction

employment rose 9.4 percent in 1998, making it the state's fastest-growing employment sector for two consecutive years.

Construction jobs were added more rapidly than in any year since 1984. Employment in the finance, insurance, and real estate sectors rose 5.2 percent.

Services. The service sector is the largest sector of the California economy, accounting for over 30 percent of all nonfarm jobs in the state. In 1998 about 194,000 service jobs were added to payrolls, a 4.8 percent increase. Business services employment rose the most rapidly, posting an 8.8 percent increase. Other rapidly increasing subsectors included social services, engineering and management, and private educational services.

Manufacturing. About 14 percent of all California nonfarm jobs were in manufacturing in 1998. Manufacturing employment increased by 2.4 percent for the year, slower than its 3.4 percent growth in 1997 and slower than the 3.5 percent average for all nonagricultural industries. This slower growth was largely due to the Asian economic crisis, which reduced the demand for California goods.

Other Sectors. Trade, the second-largest source of employment behind services, accounted for 23 percent of all nonfarm jobs in California in 1998. Jobs in the trade sector increased by 2.4 percent in 1998, with 73,000 jobs added. Employment in

transportation and public utilities increased 4.6 percent. The technology-driven communications subsector posted a 9.0 percent increase in employment, reflecting the rapid growth in wired and wireless telephone services. State and local government employment rose 2.1 percent, mostly due to the increased hiring of new teachers. Federal jobs declined by 5.4 percent, as both defense and nondefense employment dropped.

Building Construction and Home Prices

The value of all building construction increased by 16 percent in 1998, following a 21 percent increase in 1997 (inflation-adjusted 1998 dollars). Double-digit increases were again posted for both residential and nonresidential construction in 1998. The value of nonresidential construction, which includes offices, stores, and industrial buildings, rose 18 percent. Residential-construction values of homes and apartments increased 14 percent. A total of 125,700 home building permits were issued in 1998, up from 111,700 permits in 1997.

The median price of an existing single-family detached home was \$201,410 in 1998. Statewide median home prices increased about 8 percent in 1998, up from a 5 percent increase in 1997. These gains are in sharp contrast to the years 1992 through 1996, when median home prices declined each year. Home prices appreciated throughout the

state, with strong price increases in most major metropolitan regions. Resales of existing single-family homes increased 13.1 percent in 1998. The resale of 628,000 homes was the highest annual number of resales in the 1990s and one of the highest in the state's history.

Exports

California export sales to other countries declined by 4.2 percent in 1998, after increasing by about 6 percent in 1997. The Asian economic crisis caused the decline. Nearly half of the state's exports had gone to Asia in recent years. Exports to California's top ten Asian trading partners declined by 20 percent in 1998. However, much of this decline was offset by stronger exports to Canada, Mexico, Europe, and other trading partners.



Consumer Prices

Consumer prices have risen modestly in California in recent years, as they have in the nation as a whole. The California Consumer Price Index rose by 2.0 percent in 1998, slightly lower than the 2.2 percent increase in 1997.

Taxable Sales Activity

Transactions subject to the sales and use tax totaled \$373.0 billion during the 1998-99 fiscal year, an increase of \$22.8 billion, or 6.5 percent, over the 1997-98 fiscal year. In the third and fourth quarters of 1998, taxable sales grew by 5.5 percent and 4.2 percent, respectively. The strongest growth was in the first and second quarters of 1999, which saw increases of 7.4 percent and 9.0 percent, respectively.

In real terms, taxable sales grew by 7.5 percent. The California Taxable Sales Deflator (an index that tracks price increases only for commodities subject to the sales and use tax) showed negative inflation (deflation) in the first three quarters of 1998-99 and positive inflation of 0.3 percent in the fourth quarter of the fiscal year. This was the first positive inflation rate measured by the Deflator since the first quarter of 1997. For all of 1998-99, the Deflator showed negative inflation of 0.9 percent. In contrast, the California Consumer Price Index, which tracks the prices of both goods and services, measured inflation as 1.7 percent for the fiscal year. Prices of taxable goods decreased in 1998-99 while prices for services increased.

Retail stores in California reported taxable receipts of \$240.6 billion for fiscal year

1998-99 Quarterly Taxable Sales

Growth in Actual Dollars Compared to Growth in Constant-Value Dollars

Quarter	Taxable Transactions		Percent Change from Prior Year in		
	Amount	Percent of Total	Actual Dollars	Constant Value Dollars	California Taxable Sales Deflator
July—September	\$91,373,547,000	24.5	5.5	7.5	-1.9
October—December	96,363,967,000	25.8	4.2	6.3	-1.9
January—March	87,199,741,000	23.4	7.4	8.4	-0.9
April—June	98,056,760,000	26.3	9.0	8.6	0.3
Fiscal Year	\$372,994,015,000	100.0	6.5	7.5	-0.9

1998-99, an increase of 8.1 percent over sales in the prior fiscal year. Taxable transactions for “Business and Personal Service Establishments” totaled \$19.5 billion, an increase of 9.0 percent. This category comprises businesses whose tax liability is based mainly on sales of materials and parts, although much of their income is from nontaxable service and repair labor.

“All Other Outlets” had taxable transactions totaling \$112.9 billion, up 2.8 percent from the 1997-98 fiscal year. This category comprises manufacturers and wholesalers of all types, construction contractors, petroleum producers, publishers, and a multitude of part-time permittees, the bulk of whose business is exempt. (See Appendix Table 19 for details on sales tax activity and the number of sales tax permittees by business type.)

Thirty-four of the 37 types of retail business shown in Appendix Table 19 experienced increases in sales. Retailers specializing in durable goods outperformed stores dealing mainly in nondurable goods. Durable goods retailers reported sales growth of 11.7 percent, while retailers specializing in nondurable goods saw a sales increase of 4.9 percent.

Durable Goods

New car dealers. New car dealers posted a second very strong year and again set the



Residence, Newcastle

pace for the durable goods category. New car dealers' sales increased by 12.4 percent in the 1998-99 fiscal year, to total \$36.6 billion. This growth was stronger than in the prior fiscal year, when sales expanded by 10.9 percent. The strong sales growth in fiscal year 1998-99 was exceeded only by sales of new cars in the 1984-85 fiscal year, when sales shot up by 14.2 percent.

According to the Department of Motor Vehicles, new vehicle registrations for fiscal year 1998-99 totaled 1,881,184, an increase of 182,140 registrations, or 10.7 percent, over fiscal year 1997-98. New automobile registrations totaled 1,534,640, an increase

1998-99 New Vehicle Registrations and Taxable Sales of New Car Dealers
by Quarter

Quarter	Number of Registrations of New Vehicles						Taxable Sales of New Car Dealers	
	Automobiles		Trucks		Total		Amount	Percent Change Year to Year
	Number	Percent Change Year to Year	Number	Percent Change Year to Year	Number	Percent Change Year to Year		
July—Sept	373,807	10.3	84,560	12.8	458,367	10.7	\$ 9,161,532,000	11.5
Oct—Dec	352,974	7.4	80,462	11.7	433,436	8.2	8,340,753,000	9.6
Jan—Mar	389,800	12.5	82,496	11.0	472,296	12.2	9,060,518,000	15.2
Apr—June	418,059	10.3	99,026	17.3	517,085	11.5	10,019,288,000	13.1
Fiscal Year	1,534,640	10.1	346,544	13.3	1,881,184	10.7	\$ 36,582,091,000	12.4

of 10.1 percent. New truck registrations numbered 346,544, an increase of 13.3 percent.

Construction industry and related businesses. As California's construction industry continued to improve, taxable sales for building material retailers continued to increase. Sales for the building material group, which includes lumber and building material stores, hardware stores, plumbing and electrical supply stores, and paint, glass, and wallpaper stores, grew by 16.1 percent, to total \$18.6 billion. Construction contractors posted taxable sales of \$16.0 billion, an increase of 13.6 percent over the prior fiscal year. Other related businesses that posted healthy increases in taxable transactions

during the fiscal year were household and home furnishings stores, which reported taxable sales of \$7.1 billion, an increase of 13.3 percent, and household appliance dealers, whose taxable sales totaled \$4.0 billion, an increase of 8.2 percent.

Specialty stores. Another group of durable goods retailers, specialty stores, fared well during the fiscal year with sales of \$37.9 billion, up 8.7 percent from the prior fiscal year. The specialty store group includes such retailers as sporting goods, jewelry stores, office and school supply stores, toy stores, book stores, and a variety of other specialized retailers. Office and school supply stores showed the largest increase in taxable sales for the group, with transactions of

\$12.4 billion, a gain of 12.7 percent from the prior fiscal year.

Nondurable Goods

In the nondurable goods category, taxable sales by service stations declined by 0.9 percent during the 1998-99 fiscal year, to \$18.3 billion. Service stations have changed over the years, from specialty businesses that sold gasoline and automotive supplies and offered repair services to today's mini-mart operations that sell a variety of items—many not related to automobiles. However, gasoline remains service stations' main stock in trade.

The volatile price of gasoline once again produced large fluctuations in quarterly

service station sales. While the average yearly price of gasoline declined by only 2.4 percent, quarterly price changes ranged from a decline of 15.5 percent during the fourth quarter of 1998 to an increase of 22.6 percent in the second quarter of 1999. Gasoline consumption remained fairly stable: California motorists purchased 14.2 billion gallons in 1998-99, an increase of only 2.1 percent from 1997-98.

Other nondurable goods retailers also reported sales increases for the fiscal year. General merchandise stores posted taxable sales of \$35.7 billion, an increase of 11.1 percent over the 1997-98 fiscal year. Restaurants posted sales of \$31.1 billion, an increase of 6.9 percent.

1998-99 Taxable Transactions of Service Stations Compared to Gasoline Distributions
by Quarter

Quarter	Taxable Transactions		Gasoline Distributions			
	Amount	Percent Change Year to Year	Gallons	Percent Change Year to Year	Estimated Expenditure	Percent Change Year to Year
July—Sept	\$ 4,557,675,000	-9.0	3,572,021,000	0.8	\$ 4,068,532,000	-12.5
Oct—Dec	4,213,958,000	-13.6	3,593,870,000	3.5	4,021,541,000	-12.5
Jan—Mar	4,195,957,000	0.3	3,395,777,000	1.4	3,830,436,000	1.0
Apr—June	5,327,063,000	21.2	3,663,104,000	2.8	5,183,292,000	26.0
Fiscal Year	\$18,294,653,000	-0.9	14,224,772,000	2.1	\$17,103,801,000	-0.3

Comparison of Revenues 1997-98 and 1998-99

(In thousands of dollars)

Revenue Source	1997-98	1998-99	Percent Change
Sales and Use Taxes			
State tax (5%)	\$ 17,765,162	\$19,127,134	7.7
State disaster relief tax (1/4 of 1%) ¹	-31	-283	- ⁵
Local revenue fund state sales tax (1/2 of 1%)	1,783,397	1,882,248	5.5
Public safety fund sales tax (1/2 of 1%)	1,783,581	1,882,081	5.5
City and county sales tax (1%)	3,550,264	3,726,056	5.0
County transportation tax (1/4 of 1%)	886,656	930,749	5.0
Special district taxes	2,374,150	2,451,198	3.2
Other taxes and fees	536	577	7.6
Totals	28,143,715	29,999,760	6.6
Fuel taxes and fees			
Gasoline and jet fuel	2,499,609	2,597,396	3.9
Diesel and use fuel ²	384,963	422,755	9.8
Totals	2,884,572	3,020,151	4.7
Alcoholic beverage taxes	270,950	273,124	0.8
Cigarette and tobacco products taxes			
Cigarette tax	162,650	150,190	-7.7
Cigarette and tobacco products surtax	451,798	406,384	-10.1
Breast cancer research cigarette stamp tax	32,835	30,047	-8.5
California children and families first cigarette stamp tax	-	391,158	- ⁵
Totals	647,283	977,778	51.1
Electrical energy surcharge	43,264	44,210	2.2
Emergency telephone users surcharge	86,091	97,461	13.2
Hazardous substances taxes and other environmental fees ³	308,862	329,764	6.8
Local taxes on state-assessed properties ⁴	754,382	761,224	0.9
Timber yield tax	22,993	22,675	-1.4
Private railroad car tax	6,184	6,354	2.7
Grand totals	\$33,168,296	\$35,532,501	7.1

¹ This tax was in effect from December 1, 1989, through December 31, 1990.

² Includes diesel fuel taxes collected under the International Fuel Tax Agreement (IFTA) implemented on January 1, 1996.

³ Includes revenues from the hazardous substances tax, integrated waste management fee, underground storage tank maintenance fee, tire recycling fee, oil spill prevention and administration fee, oil spill response fee, childhood lead poisoning prevention fee, occupational lead poisoning prevention fee, and oil recycling fee.

⁴ Collected by county tax collectors.

⁵ Not computed.

Revenue Growth

Tax programs administered by the Board of Equalization produced state and local revenues totaling \$35,532,501,000 during fiscal year 1998-99. This was an increase of \$2.36 billion, or 7.1 percent, over fiscal year 1997-98. Revenue growth was largely due to the continuing improvement in the California economy. The only major tax rate change during the fiscal year was the increase in the excise tax rate on cigarettes and tobacco products due to the passage of Proposition 10 in November 1998. Revenues from each tax are presented in the “Comparison of Revenues” table on the opposite page. Additional detail and historical comparisons are provided in Appendix Table 2.

Sales and Use Taxes

The combination of all state and local sales and use taxes produced \$29,999,760,000 in revenue, up 6.6 percent for the fiscal year. Sales and use taxes comprise 84 percent of the revenue from Board-administered tax programs. The state’s portion of the sales tax grossed \$19,127,134,000. The portion allocated to other jurisdictions—cities, counties, and special districts—totaled \$10,872,626,000, including allocations to the Local Revenue Fund and the Public Safety Fund. (Details are given in Appendix Tables 19–23.)

By the end of 1998-99, special district taxes were being levied by 36 jurisdictions encompassing 25 counties. Eighty-seven percent of all taxable sales in the state occur in those counties.

Special Taxes

Fuel taxes. During the year under review, the state’s fuel taxes totaled \$3,020,151,000, a 4.7 percent increase from fiscal year 1997-98. Distribution of gasoline for highway use increased 2.1 percent, to 14.22 billion gallons. (Historical data on assessments are presented in Appendix Tables 24–26.)

Alcoholic beverage taxes. The state’s excise taxes on alcoholic beverages produced nearly the same revenue in 1998-99 as in the prior fiscal year. Alcoholic beverages, taxed at rates of twenty cents a gallon for wine to \$3.30 per



proof gallon for distilled spirits, produced \$273,124,000 for the fiscal year, an increase of only 0.8 percent. Revenues from beer and wine increased to \$145,083,000, while revenues from distilled spirits increased to \$128,040,000. (See Appendix Tables 27–29 for historical data on taxes, total consumption, and per capita consumption by major type of beverage.)

Cigarette and tobacco taxes. Excise taxes on cigarettes and other tobacco products increased dramatically in January 1999, boosting the total 1998-99 revenue from all four tobacco-related taxes to \$977,778,000, an increase of 51.1 percent. The November 1998 passage of Proposition 10 raised the tax on cigarettes by 50 cents per pack and increased the tax on other tobacco products by a corresponding amount. The new Proposition 10 tax produced revenues of \$391,158,000 for January through June 1999—the first six months it was in effect. Receipts from the three tobacco-related taxes that existed prior to January 1999 totaled \$586,621,000 for the fiscal year, a decline of 9.4 percent from fiscal year 1997-98. This drop in revenue was due to an unusually large decrease in apparent cigarette consumption that corresponded with the higher January 1999 tax rates. Cigarette distributions during

the first half of 1999 dropped 28.6 percent from the first half of 1998. (See Appendix Tables 30A and 30B for additional data regarding these taxes.)

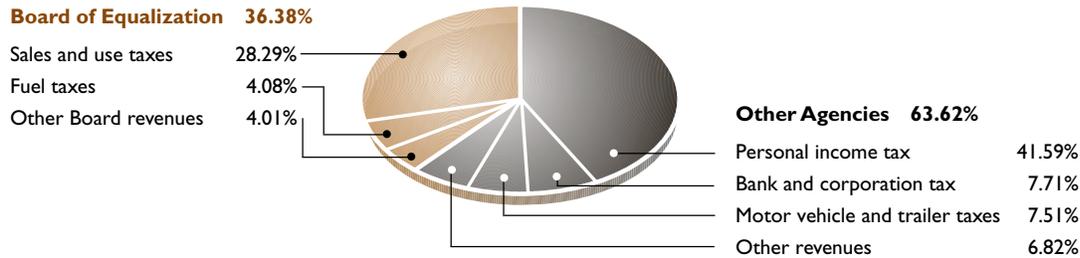
Electricity and telephone usage surcharges. The electrical energy surcharge, levied on the use of electricity in California, produced \$44,210,000, a 2.2 percent increase over the prior year. The emergency telephone users surcharge receipts, used to fund the 911 statewide emergency number system, yielded \$97,461,000, an increase of 13.2 percent.

Hazardous substance taxes and environmental fees. Hazardous substance taxes and other environmental fees totaled \$329,764,000, an increase of 6.8 percent over the prior year. All of these taxes and fees are used to fund specific environmental programs.

Property Taxes

Locally collected property taxes on state assessed properties yielded \$761,224,000, an increase of 0.9 percent. The timber yield tax, levied at the time timber is harvested in lieu of any annual ad valorem property tax, totaled \$22,675,000, a decline of 1.4 percent. The private railroad car tax, levied on railroad cars owned by firms other than operators of railroads, produced \$6,354,000, an increase of 2.75 percent.

Sources of State Revenue July 1, 1998—June 30, 1999



Revenue Source	Revenue (in thousands)	Percent Change from 1997-98	Percentage of Total State Revenue
Board of Equalization			
<i>Major Taxes and Licenses</i>			
Sales and Use Tax ¹	\$21,011,061	7.0	28.29
Gasoline and Jet Fuel Tax	2,597,702	5.21	3.50
Diesel and Use Fuel Taxes	428,412	11.38	0.58
Insurance Companies Tax	1,253,972	2.68	1.69
Cigarette and Tobacco Products Tax	976,548	51.57	1.31
Alcoholic Beverage Tax	273,113	0.80	0.37
Totals, Major Taxes and Licenses	\$26,540,808	8.13	35.73
<i>Totals, Minor Revenues ²</i>	<i>477,789</i>	<i>7.51</i>	<i>0.64</i>
Grand Total, Board of Equalization	\$27,018,597	8.12	36.38
Other Agencies			
<i>Major Taxes and Licenses</i>			
Personal Income Tax	\$30,891,480	10.62	41.59
Bank and Corporation Tax	5,724,035	-1.94	7.71
Motor Vehicle "in lieu" Tax	3,699,894	-3.66	4.98
Trailer Coach Fees "in lieu" Tax	34,284	-1.98	0.05
Motor Vehicle Registration and Other Fees	1,843,443	5.87	2.48
Estate, Inheritance and Gift Tax	890,488	14.14	1.20
Horse Racing Revenue	63,562	-24.00	0.09
Totals, Major Taxes and Licenses	\$43,147,186	7.22	58.09
<i>Totals, Minor Revenues</i>	<i>4,110,042</i>	<i>0.16</i>	<i>5.53</i>
Grand Total, Other Agencies	\$47,257,228	6.56	63.62
Total state revenue	\$74,275,825	7.12	100.00

¹ Sales and Use Tax Revenues include revenues from the state sales tax, the state disaster relief tax, and the local revenue fund state sales tax.

² Board of Equalization Minor Revenues include private railroad car, electrical energy, emergency telephone, and environmental taxes and fees.