U.S. Economic Developments

Stronger than Expected Finish to 1999

Real gross domestic product (GDP) rose 5.7 percent in the third quarter of 1999, according to the U.S. Department of Commerce’s final estimate released in late December. This is a much stronger growth rate than the advance estimate (released in October) of a 4.8 percent increase. Preliminary data also indicate a strong fourth quarter, which is likely to place annual 1999 growth at approximately 4 percent. (The exact figure depends on the final Commerce estimate for the fourth quarter, which will not be released until late March.) To put this number in perspective, real GDP rose an average of 2.9 percent per year from 1990 through 1998. For the most recent three years (1996 through 1998), real GDP increased an average of 4.2 percent per year.

As we reported in the November 1999 newsletter, the U.S. Department of Commerce released major revisions to historical GDP data in October. These revisions showed that the economy in the first half of 1999 and in previous years was stronger than the unrevised data indicated. The Philadelphia Federal Reserve Bank does periodic surveys of 43 economic forecasters. In November they reported that 53 percent of these forecasters increased their fourth quarter 1999 and 2000 forecasts on the basis of the stronger underlying historical economic growth. Thirty-nine percent did not change their forecasts, while only 8 percent lowered their forecasts.

Slower Growth Expected in 2000

❖ **California Economic Developments**

**Employment Growth Continuing as Previously Forecast**

One of the most comprehensive measures of economic well being available for states on a timely basis is nonagricultural employment. Throughout most of 1999, California has had strong nonagricultural employment growth. The December 1999 *Western Blue Chip Economic Forecast*, a consensus average forecast of eight California economists, calls for nonagricultural payrolls to increase 3.3 percent in 1999. This is the same growth rate they predicted in October, indicating that little has changed in recent months from what had been anticipated. If achieved, this growth rate would be close to the 3.5 percent increase of 1998. For 2000, the *Blue Chip Forecast* shows California nonagricultural employment growth slowing to a gain of 2.7 percent. This is slightly stronger than the 2.5 percent growth rate expected by that group in October.

**California Unemployment Rate Closing the Gap With the U.S.**

As noted in our November newsletter, with the monthly gains in jobs and slower growth in the labor force (those employed or looking for jobs), the California unemployment rate has declined throughout most of 1999. This trend stalled in the latter months of the year. The California unemployment rate fell to 4.9 percent by September 1999 and stayed at that level through December. However, compared to last year, the unemployment rate is much lower. In December 1998, the California unemployment rate stood at 5.9 percent, 1 percent higher than the December 1999 rate. The lower rate compared to December 1998 stands in somewhat of a contrast to trends in the unemployment rate for the U.S. as a whole. The U.S. unemployment rate declined just slightly from 4.4 percent in December 1998 to 4.1 percent by December 1999. As a result of California’s declining rate and little change in the U.S. rate, the gap between the two rates has shrunk markedly. In December 1998, the California unemployment rate was 1.6 percent higher than the U.S. unemployment rate. The December 1999 California unemployment rate was 0.8 percent above the December U.S. unemployment rate, cutting the gap by half.

**Strong Taxable Sales Growth for Most of 1999**

The Board of Equalization’s preliminary estimate shows that taxable sales increased 8.0 percent in the third quarter of 1999 compared to the third quarter of 1998. For the first three quarters of 1999, estimates show that taxable sales averaged over 8 percent above sales of the corresponding quarter one year earlier. This is extremely strong growth. To put these numbers in perspective, annual taxable sales rose 5.3 percent in 1998 and 6.2 percent in 1997. (Sources: California Employment Development Department (EDD), “Interim Industry Employment,” *Labor Market Conditions in California*, January 14, 2000; EDD Labor Market

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A Decade of Household Spending: 1987 to 1997

As we enter the new decade, this seems an appropriate time to reflect on changes in consumer spending observed over the past decade. An April 1999 article in American Demographics that is based on the Consumer Expenditure Survey from the Bureau of Labor Statistics (BLS), examined trends in average U.S. inflation-adjusted spending per household from 1987 to 1997. The BLS survey consists of annual in-depth interviews with a large, representative sample of U.S. households regarding the consumption of almost 1,000 different products and services. Unlike aggregated income accounting data, such as GDP, this survey measures consumer trends resulting from demographic shifts in consumers, as groups such as “Baby Boomers” and “Generation X-ers” changed their consumption over the 10-year period covered. While the time period ending in 1997 precedes much of the recent surge in electronic commerce spending, many of the findings discussed in the article are still very relevant, and some are rather surprising.

Despite the high growth rate of the economy, a surging stock market, and America’s reputation for runaway consumer spending, the increase in consumption per U.S. household between 1987 and 1997 was negligible – only 0.9 percent after adjusting for inflation. Spending per household took until 1997 to return to its 1987 level after the recession of the early 1990s. Household heads aged 35-44, who comprised the largest share of American households (23 percent) in 1997, decreased their overall spending 9 percent in the ten-year period and accounted for large portions of the overall declines in several major spending categories. The recession and falling incomes forced 35-to-44-year-old householders to cut their discretionary spending, which adversely affected sales for toy companies, fast-food retailers, and much of the shopping center industry. According to Maritz Marketing Research, average shopping mall visits per person per month fell from 2.6 in 1994 to 2.0 in 1997.

Apparel sales per household declined 15.4 percent between 1987 and 1997. Over this time period, spending on women’s apparel declined over 30 percent for households aged 35-54. Casual dress in the workplace is one factor cited that suppressed sales in the apparel industry. A 1997 survey commissioned by Levi Strauss & Company found that 53 percent of U.S. workers now dress casually every day of the work week, not just on Fridays. The second factor the article cited was the clothing industry’s failure to create products that appeal to middle-aged women.

Average consumer spending on food decreased 7.3 percent per household in the period. Spending diminished particularly for food eaten away from home, which decreased 13.1 percent per
household. Restaurants USA, the trade magazine of the National Restaurant Association, reports American consumers go for take-out dinners at home 61 percent more often and eat dinner in a restaurant 4 percent less often than they did 10 years ago. Again the 35-44 demographic group, the largest restaurant consumer, cut spending here by 23 percent between 1987 and 1997. The restaurant industry is expected to have difficulty regaining the losses because so many supermarket chains have succeeded in promoting home meal replacements.

Other sectors that lost consumer dollars in the 1987 through 1997 period include major appliances, alcoholic beverages, tobacco products, newspapers, books, and magazines. These products had sales declines per household ranging from 18 to 25 percent of their respective 1987 figures.

The entertainment industry helped to compensate for spending decreases in most of the rest of the retail sector. Though 35-to-44-year-olds cut their spending 10 percent in this category, increasingly entertainment-oriented older consumers and the affluence of the general population have contributed to a 7.6 percent increase in entertainment sales per household between 1987 and 1997. Other major gainers include the health care and education industries. Over the ten-year period, spending per household on health care rose 14.8 percent, while spending on education rose 19.9 percent. Almost half the total health care costs per household were for insurance. The effective substitution of computer sales for furniture sales probably best exemplifies the shift in discretionary spending that occurred between 1987 and 1997. As spending on computer products and services rapidly increased, average U.S. household expenditures on furniture fell 13 percent overall and 34 percent for householders aged 35 to 44, who are historically the biggest spenders on furniture. The average household currently spends more on computer products and services than on lawn and garden supplies, housewares, or major appliances (each considered as a separate spending category). A reversal of this trend in discretionary spending is unlikely, particularly in light of the Internet’s growing popularity. (Source: “The New Consumer Paradigm,” American Demographics, April 1999.)