

ECONOMIC PERSPECTIVE

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A Review of the Economy: Fiscal Year 2013-14

National Economy

This edition of the Economic Perspective reviews important economic developments that occurred in fiscal year 2013-14.

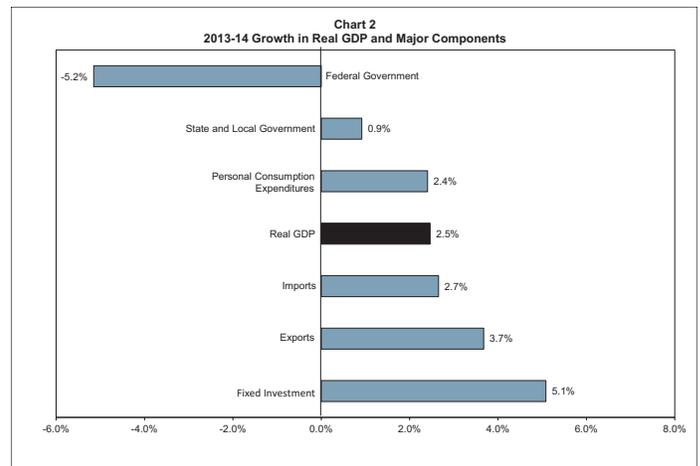
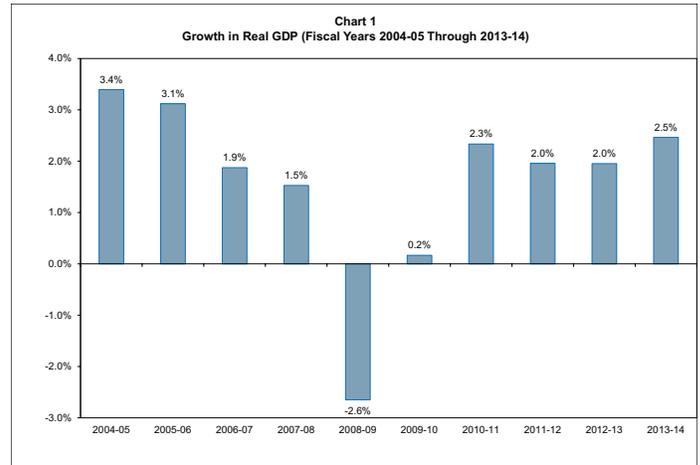
- The U.S. economy in 2013-14 was characterized by stronger than average economic growth, very low interest rates, increasing employment, and declining unemployment rates.
- Unemployment rates for both the U.S. and California have not been as low as they are now since the most recent recession ended.
- By many important measures, the California economy outpaced national growth in fiscal year 2013-14.
- California construction activity, home prices, and car sales increased, while consumer price inflation was below its long-term average.

In fiscal year 2013-14, real U.S. GDP grew 2.5 percent, well above its ten-year average growth rate of 1.6 percent. With the improving economy, employment increased and the unemployment rate declined.

The unemployment rate declined from 7.8 percent in fiscal year 2012-13 to 6.8 percent in 2013-14. However, this rate is high when viewed over a longer time period. In fiscal year 2006-07, the last fiscal year before the recession started, the unemployment rate averaged 4.5 percent.

Gross Domestic Product

Real gross domestic product (GDP) – the broadest measure of the nation’s output of goods and services – rose 2.5 percent in fiscal year 2013-14. As shown in Chart 1, this growth was the fastest since the recession started.



Real GDP by Sector

As shown in Chart 2, real fixed investment spending led economic growth, increasing 5.1 percent. Real personal consumption expenditures, which accounted for 68 percent of GDP, rose 2.4 percent, very close to overall real GDP. Federal government spending declined 5.2 percent, while state and local government spending increased 0.9 percent.

Corporate Profits

U.S. corporate profits before taxes were up 1.2 percent in 2013-14. This was the fifth consecutive year of increasing profits, which are at record levels.

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Nonagricultural Employment

With the growth in overall real GDP and corporate profits, nonagricultural employment rose 1.7 percent. This was the fastest growth since fiscal year 2005-06.

Interest Rates

The U.S. Federal Reserve Board (Fed) maintained extremely low interest rates in 2013-14, essentially continuing its monetary policy instituted during the recession. The Fed kept the federal funds rate within a target range of zero to 0.25 percent. Three-month U.S. Treasury bill rates averaged 0.04 percent in fiscal year 2013-14, while ten-year U.S. Treasury bond yields averaged 2.71 percent. Short-term interest rates were near historic lows.

Consumer Prices

The U.S. consumer price index rose 1.6 percent in 2013-14, below the ten-year average of 2.4 percent.

Housing Starts

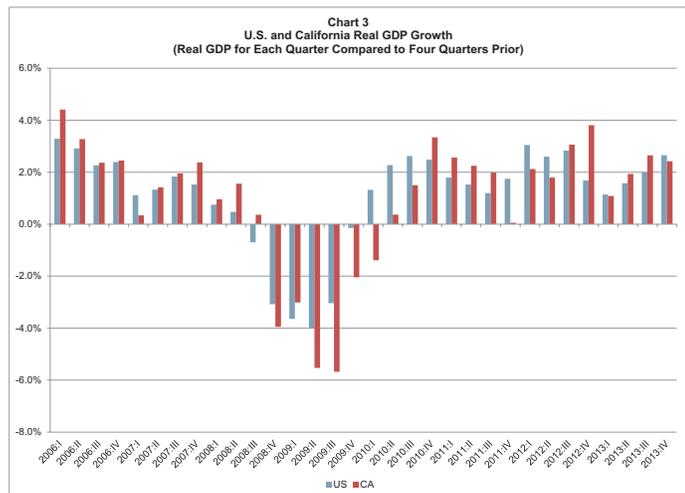
Close to a million housing units were started in 2013-14, the highest number since the recession started.

Federal Budget Deficit

As the economy expanded and incomes increased, the federal budget deficit improved, from \$680 billion in 2012-13 to \$483 billion in 2013-14.

California Economy

As shown in Chart 3, both U.S. and California real GDP have been increasing close to 2.5 percent in recent quarters. However, by some important measures, the California economy outpaced national growth in fiscal year 2013-14. California nonagricultural employment rose 2.6 percent, faster than the 1.7 percent U.S. increase. (See Chart 4.)

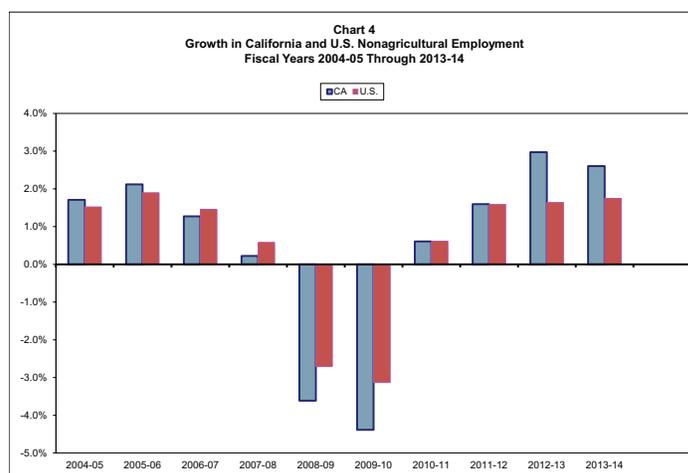


California personal income increased 3.6 percent, above U.S. income growth of 2.7 percent.

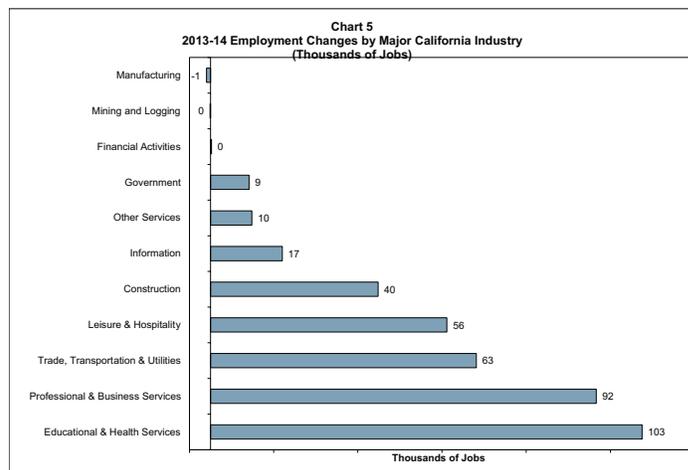
With the strong growth in jobs, the California unemployment rate declined from 9.7 percent in 2012-13 to 8.3 percent in 2013-14. However, the rate remains well above the 5.0 percent rate in fiscal year 2006-07, the last year prior to the start of the Great Recession.

Employment

California nonagricultural employment strengthened 2.6 percent in fiscal year 2013-14, as payrolls rose by 389,000 jobs. Despite the growth, there were 74,000 fewer nonagricultural jobs in 2013-14 compared to the peak reached in fiscal year 2007-08.



The education and health services sector led the gains in jobs in 2013-14, as shown in Chart 5. Other sectors with strong job gains included professional and business services, trade, transportation and utilities, and leisure and hospitality.

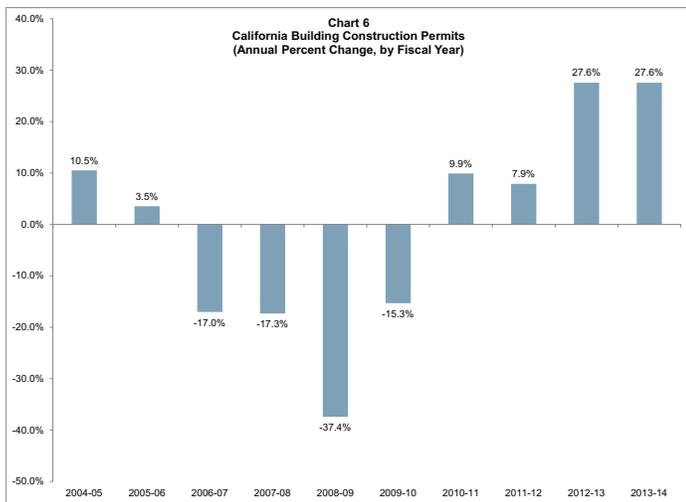


Building Construction and Home Prices

As shown in Chart 6, the value of all private building construction permits issued in California rose by 27.6 percent in fiscal year 2013-14, matching the strong growth of the prior year. Nonresidential construction led the construction boom, increasing 44 percent. Residential construction rose 15 percent. Even with the gains, total construction permit values are still only about 70 percent of their 2005-06 peak levels.

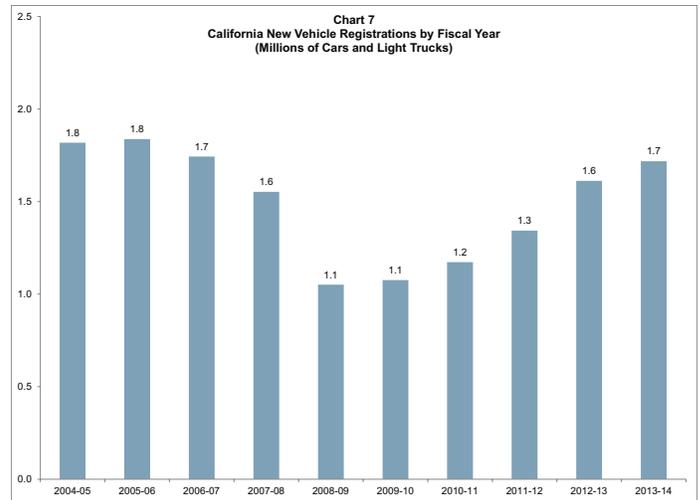
Store building and parking structures led the increases in nonresidential construction, as each rose over 100 percent.

About 82,000 home building permits were issued in 2013-14, up from 74,000 in 2012-13. Permits for both multifamily units and single family increased. Median home prices rose 19 percent in fiscal year 2013-14, nearly matching the rapid growth of the prior year. Despite the increases in home prices, they stood at only 76 percent of their 2006-07 peak.



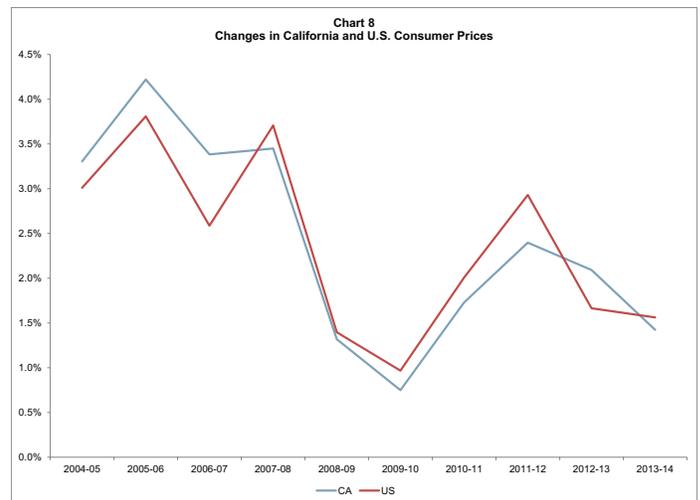
Vehicle Registrations

California new car and truck registrations rose 6.6 percent in fiscal year 2013-14, to 1.7 million cars and light trucks. (See Chart 7.) Car and truck sales matched the 1.7 million units sold in fiscal year 2006-07, the year before the Great Recession started.



Consumer Prices

As shown in Chart 8, California consumer prices for all urban consumers rose 1.4 percent in 2013-14, down from a 2.1 percent increase in 2012-13. California consumer prices rose more modestly than did those of the nation as a whole. At the national level, the consumer price index increased by 1.6 percent in 2013-14.



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Joe Fitz, Chief Economist, MIC:67
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0067
1-916-323-3802
research@boe.ca.gov

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www.boe.ca.gov/members/board.htm

Online Resources

For more information about topics covered in this publication and previous issues, 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/research-and-data/real-time-center/survey-of-professional-forecasters/

National Association for Business Economists
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