**U.S. Economic Developments**

**Economic Indicators Decline in the First Quarter**

Many economic indicators continue to show a sluggish national economy in recent months, as consumers and businesses may have been distracted by the war in Iraq.

**Consumer confidence index.** The consumer confidence index, published by the Conference Board (a private nonprofit research organization), decreased to 62.5 in March, following a sharp 14-point drop in February. This is the fourth consecutive monthly decline in this indicator and the lowest reading since October 1993, when it dipped to 60.5.

**Purchasing managers’ index.** Another closely watched indicator, the purchasing managers’ index (a gauge of manufacturing conditions published by the Institute for Supply Management) fell to 46.2 in March, declining for the third consecutive month. This is the lowest reading since November 2001.

**Payroll employment.** During the first three months of 2003 payroll employment declined an average of 87,000 jobs per month (less than 0.1 percent per month). This average monthly decline for the first quarter of 2003 is larger than the fourth quarter of 2002, when payroll employment declined an average of 53,000 jobs per month.

The U.S. Bureau of Labor Statistics reported that seasonally adjusted total nonagricultural payroll employment fell by 357,000 jobs in February—the largest one-month decline in nonfarm employment since the decline in October 2001, which resulted from the September 2001 terrorist attacks in New York City and at the Pentagon. In March 2003, nonagricultural employment declined by an additional 108,000 jobs.

As of March 2003, U.S. nonfarm payroll employment had decreased by 2.1 million jobs from its peak at the beginning of the recession in March 2001. While most economists think that the recession ended in the latter part of 2001, payroll employment has continued to decline since then. However, many fewer jobs were lost in 2002, and so far in 2003, than in 2001. Of the total 2.1 million jobs lost since March 2001, 1.6 million were lost in 2001. The rest of the decline, about 0.5 million jobs, occurred in 2002 and during the first three months of 2003.

Despite the declines in payroll jobs, the unemployment rate has held relatively steady in recent months. In the first three months of 2003 the unemployment rate averaged 5.8 percent, identical to the average rate for all of 2002.

**Slow Growth Expected for 2003**

The U.S. Department of Commerce reported that real GDP increased at a very moderate 1.6 percent during the first quarter of 2003. For 2002 as a whole, real GDP increased 2.4 percent. The average forecast of a panel of 37 economists surveyed in February by the Federal Reserve Bank of Philadelphia called for real GDP to increase 2.5 percent in 2003. This is about the same growth rate as in 2002. The most recent UCLA forecast (March 2003) and the Governor’s budget project real GDP growth very near the estimates of the Philadelphia Federal Reserve Bank. UCLA calls for a 2.3 percent increase in real GDP in 2003, while the Governor’s Budget forecasts a gain of 2.5 percent. Over the last ten years (from 1993 through 2002) real GDP rose an average of 3.2 percent per year. If any of these forecasts are accurate, real growth...
would be well below the 3.2 percent per year long-term average for the third year in a row.

❖ California Economic Developments

Revised Data Show Larger Job Losses in 2002

In late February 2003, the Employment Development Department (EDD) made its annual revisions to statewide payroll employment data using a more recent and accurate survey population of business establishments. The revised total nonfarm employment figures show a much larger job loss in 2002 than previously reported. Based on data released earlier in the year, EDD had estimated a job loss of about 0.3 percent; the current figures now show a job loss during 2002 of approximately 0.9 percent. Based on revised data, California is now estimated to have lost over 125,000 jobs during 2002. As was the case with the national figures, the newly released seasonally adjusted series shows that statewide payroll employment peaked at 14,725,300 in March 2001. Thereafter, statewide industry employment decreased in nine of the next 10 months before leveling-off during the middle and latter part of 2002.

Unemployment Rate Increases in 2002

Newly revised labor force data (from the Current Population Survey, or CPS) indicates that the seasonally adjusted unemployment rate increased gradually from 6.4 percent in January of 2002 to 6.9 percent in December of that same year. Of interest is the fact that there were major revisions to the 2002 CPS series. On an annual basis, statewide employment was revised downward by 212,000, while unemployment was revised upward by 30,000. These revisions resulted in the adjustment of the 2002 unemployment rate from a preliminary 6.4 percent to 6.7 percent. From a historical perspective, the 6.7 percent rate is not high. For example, during the 1991 recession, the statewide unemployment rate peaked at 9.7 percent in late 1992 and early 1993.

Of greater concern today is the problem of the long-term unemployed (persons designated as unemployed for 27 or more consecutive weeks). In California, the percentage of long-term unemployed as a share of the unemployed total has, without exception, increased steadily, from 11.7 percent in September of 2001 (the lowest percentage of the 1990s expansion) to 21.8 percent by March of 2003 (12-month moving averages).

UCLA Predicts Slow Economic Growth

On March 12, 2003, the UCLA Anderson Business Forecasting Project released their forecast for the U.S. and California economies.

Nonfarm payroll employment. Their projections for statewide nonfarm employment have not changed from their December 2002 forecast; they still estimate that statewide nonfarm payroll employment will show a 0.7 percent increase in 2003 and a larger 2.2 percent increase in 2004. (This is largely in agreement with the Governor’s Budget, which calls for a 0.7 percent rise in 2003 and a 2.1 percent increase in 2004.)

Unemployment rate. Consistent with their anticipated growth in payroll employment, UCLA expects the unemployment rate to remain at 6.7 percent in 2003 followed by a decrease to 6.4 percent in 2004. They expect statewide unemployment rates to remain at least a half of a percentage point above the U.S. rate during these two years.

Inflation. Inflation in California, at the consumer level, is expected to remain around 2.5 percent over the next two years.

Impact of state budget deficit. As an aside, UCLA does not think that the state’s budget
In February the UCLA Center for Communication Policy published the third in a series of annual reports related to the Internet and its influence on social and economic behavior in America. The UCLA Internet Project surveys more than 2,000 U.S. households each year, and comparisons of the survey responses from the same households help researchers determine how the Internet affects the lives of users and nonusers over time. Surveys have now been made in 2000, 2001, and 2002.

Following are some highlights from the latest report.

Number of users
- U.S. Internet access remained relatively unchanged in 2002 (71.1%) when compared with 2001 (72.3%).

Time spent online
- The average number of hours online showed a marked increase to 11.1 hours per user per week, from 9.8 hours per week in 2001.

Why users go online
- The most popular use of the Internet in 2002 was for e-mail (87.9%); of the five most popular activities, shopping online ranked last at 44.5%.

Younger vs. older
- Internet usage has increased steadily during the past three years among the youngest age group surveyed (age 12–15) and the more senior groups, age 56–65 and over 65 years of age.

Men vs. women
- While the difference is not large, men continue to use the Internet more than women.

Modem vs. high-speed
- Three out of every four households still use a telephone modem to connect to the Internet, although the use of the modem has decreased steadily from 2000 to 2002.
- The use of cable and DSL has become more popular during this period. By 2002, broadband (cable) had captured 17% of the Internet market; this is an increase from 8% in 2000 and 12% in 2001.

Consumer behavior
- Approximately 40% of adult Internet users purchased goods online in 2002, a decrease from 45.1% in 2000 and 50.9% in 2001.
- Even though the number of adults buying products decreased, the average number of purchases per adult almost tripled last year, increasing from 10.8 in 2001 to 28.3 in 2002.
- More experienced users (i.e., those with six or more years of experience) tended to purchase computer software and hardware, electronic equipment, and books. New users (i.e., those with less than one year of experience), more frequently bought compact discs, clothes, and jewelry.
- While the type of product purchased by most Internet users was clothing, the average online monthly expenditure in 2002 was about $100—a 43% increase from the $70 average reported in 2001.

Clicks vs. bricks
- Almost two out of every three Internet purchasers indicated that buying online did result in a reduction in spending at retail stores.
- Even though online shopping continues to be popular, most users (about 70%) did not primarily view it as a less costly method of shopping.
- In 2002, most online shoppers (71.2%) agreed that their purchases over the Internet would likely increase in the future.

- Over 45% of online shoppers indicated that if sales tax were charged for purchases, they would most likely buy less over the Internet.

Use of Internet for business-related activities
- There has been a steady increase in the use of the Internet for business-related activities over the past three years. By 2002, the use of the Internet by respondents at work reached 90.2%.
- Over the past three years, the percentage of users who think the Internet has contributed to an improvement in productivity has increased steadily from 56.7% in 2000 to 64.5% in 2002.

Satisfaction with Internet
- Overall, users were very satisfied with the Internet, giving it an average score of 4.0 on a scale of 1 to 5 (with 1 being “not satisfied” and 5 being “completely satisfied”).
- About two out of every three users and over half of all nonusers surveyed felt that communication technology, including the Internet, has improved their quality of life or, as characterized in the report, “made the world a better place.”

Want to learn more?
You can go online to read the report and learn about UCLA’s Internet Project. Go to http://www.ccp.ucla.edu.
deficit will derail the state’s recovery, but it could well dampen economic growth for several years.

Small Decrease in Fourth Quarter Taxable Sales

Based on preliminary data for California, the Board of Equalization estimates a decrease of 1.7 percent in taxable sales for the fourth quarter of 2002. This follows an increase of 0.9 percent for the previous quarter. Assuming these estimates hold, three of the four quarters of 2002 experienced year-to-year decreases, indicating that taxable sales remain very weak historically. Comparable taxable sales data for the 1992 through 2001 period showed average increases of 5.1 percent each year. The preliminary estimates for 2002 indicate that taxable sales declined by 1.2 percent compared to 2001.

Residential Construction on the Rise

The effects of lower interest rates and sharply rising home prices over the last couple of years appear to have resulted in increasing California home building activity during the last six months.

According to the California Construction Industry Research Board (CIRB), residential permits have been issued at a seasonally adjusted average annual rate of 198,000 units from September 2002 through February 2003. This rate is much greater than average permits issued in recent years. Approximately 149,000 residential building permits were issued in California each year in 2000 and 2001. In 2002, residential permits increased to 165,000 units. The CIRB forecasts 174,000 residential permits to be issued in 2003. If this forecast proves accurate, more residential permits will be issued in 2003 than in any year since 1989.

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