WHY AREN'T REVENUE ESTIMATES MORE ACCURATE?

NOVEMBER 1984

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

925 L STREET, SUITE 650

SACRAMENTO, CALIFORNIA 95814

84-13

PREFACE

Revenue estimates play a crucial role in the state's budget process. The Legislature relies heavily on these estimates in deciding at what levels to fund state programs, how much money should be "put aside" in reserves, and whether taxes should be raised or lowered. Consequently, the more accurate revenue estimates are, the more successful the Legislature can be in accomplishing its fiscal objectives--that is, selecting a combination of expenditure levels and tax rates that best meets the public's need and willingness to pay for services without giving rise to unwanted budget surpluses or deficits. In contrast, the more inaccurate revenue estimates prove to be, the more difficult it becomes for the Legislature to attain its objectives and manage the state's fiscal affairs effectively.

This report examines the general subject of revenue estimating. Specifically, it seeks to shed light on the factors causing revenue estimates to be inaccurate, the extent to which recent revenue estimates have been off the mark, and what--if anything--can be done to minimize inaccuracies in revenue estimates or lessen the problems which they cause.

This report was prepared by Jon David Vasche and reviewed by Peter Schaafsma.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Importance of Revenue Estimates

Revenue estimates play a crucial role in the state's budget process. Without accurate revenue estimates, the Legislature is severely handicapped in its efforts to manage the state's fiscal affairs and achieve its policy objectives.

The most dramatic consequences of inaccurate revenue estimates occur when revenues are overestimated. This puts the Legislature under great pressure to either locate new revenue sources--perhaps by raising existing tax rates--or cut back the level of services provided to the public.

Problems can also arise when revenues are underestimated, as the experience of the middle 1970s clearly demonstrates. A large unanticipated surplus can lead the public to view existing tax rates as being higher than they need to be, or fault the Legislature for not providing desired public services.

Factors Responsible for Discrepancies Between Estimated and Actual Revenues

Revenue estimates can go awry for many reasons. On the one hand, revenue estimators can fail to project accurately the state's tax base or the effective rates at which the base is taxed. They may also overestimate or underestimate the lag between when tax liabilities are incurred and when revenues are actually collected.

On the other hand, unpredictable external forces can cause the estimators' projections not to be borne out. For example, the Legislature may enact legislation with fiscal consequences that were not anticipated,

the courts may render decisions that increase or decrease state revenues, the voters may approve initiatives with fiscal consequences, and the federal government can exert an influence over state revenues through its own budget decisions.

By far the dominant reason why revenue estimates frequently miss the mark is the failure of economic forecasts, on which the estimates ultimately are based, to come true. In recent years, inaccurate economic forecasts have caused huge swings in revenue estimates. For example, in 1982-83 General Fund revenues were nearly $2.4 billion below the original budget estimate. In the following year (1983-84), estimated revenues turned out to be $835 million higher than what was forecast.

Not only are inaccurate economic forecasts the dominant cause of faulty revenue estimates; they tend to be the rule, rather than the exception. In fact, if the difference between the Department of Finance's May economic forecast and the actual performance of the economy in 1984-85 is of average proportions, General Fund revenues for the fiscal year will be $1.2 billion off the mark. (At this point, we do not expect a discrepancy of anything approaching this magnitude.)

Can Revenue Estimates Be Improved?

Unfortunately, the accuracy of revenue forecasts cannot be improved by simply adjusting for an upward or downward bias in the Department of Finance's estimating procedure. The department's track record in forecasting revenues during the past 11 years indicates that its forecasts are not consistently biased in one direction or another.

Nor can the Legislature reduce the size of the revenue discrepancies with which it must deal by placing greater reliance on the forecasts issued by the Commission on State Finance. The commission's track record since 1981 is, if anything, a bit poorer than the department's.

The available evidence clearly demonstrates that the inability of forecasters in the Department of Finance to make accurate revenue estimates on a consistent basis is due not to deficiencies in staffing or procedures. Instead, it reflects the fact that, today, economic forecasting is an art, not a science. This is not always fully appreciated because the large number of equations and complex economic models used by forecasters tend to suggest a more predictable and stable relationship between various sectors of the economy than actually exists.

The Department of Finance's Track Record Compared With Those of Other Forecasters

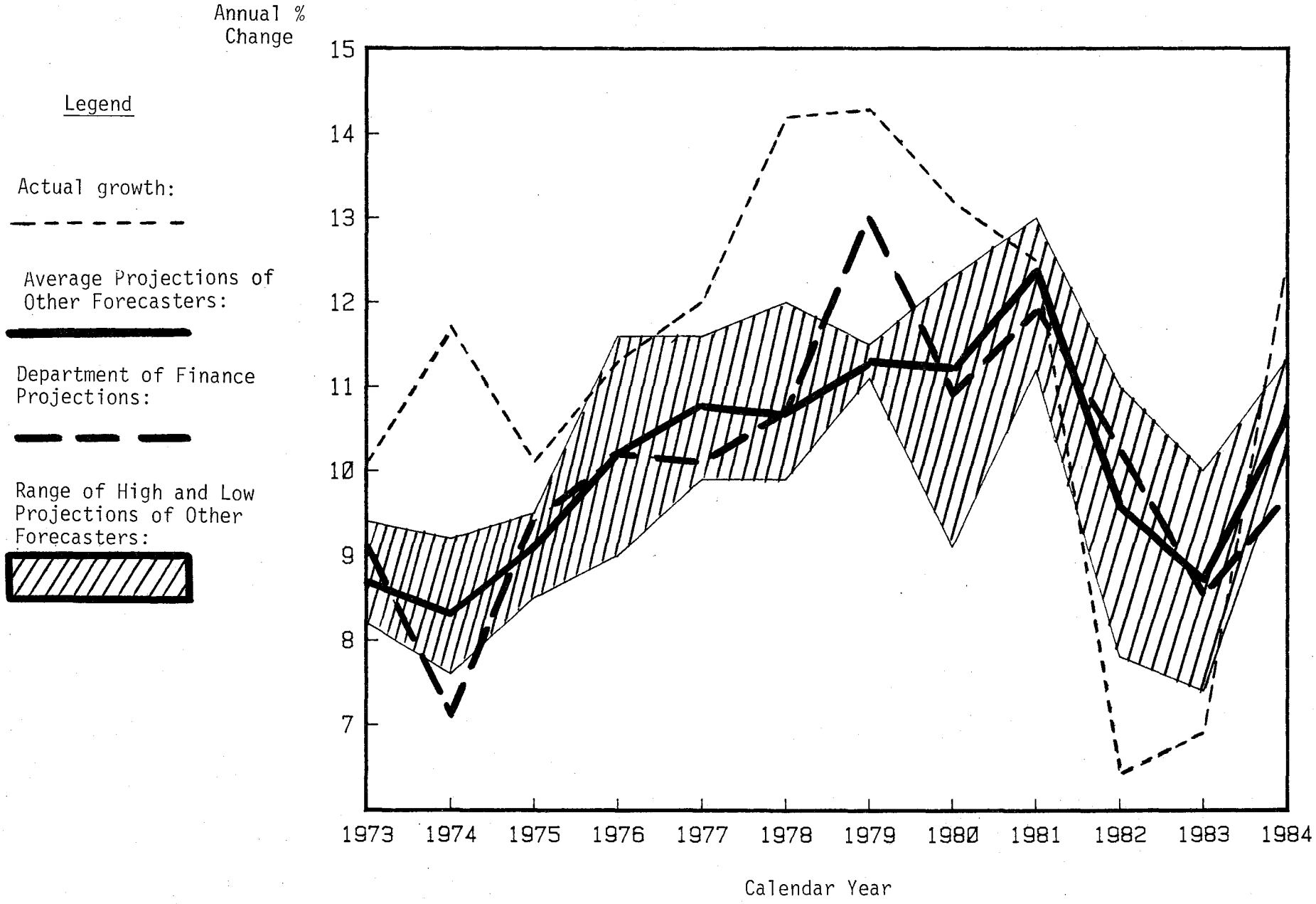
As Chart 1 graphically demonstrates, the Department of Finance's track record in forecasting economic activity is typical of that for the forecasting profession as a whole. This chart shows that in 9 of the last 11 years (and apparently for 1984 as well), the actual increase in California personal income has either been higher than the most optimistic forecast, or lower than the most pessimistic forecast made by any of the leading forecasters in the state. During this period, the Department of Finance's track record was neither better nor worse than those of other forecasters.

What Can the Legislature Do To Minimize the Problems Caused By Inaccurate Revenue Estimates?

Since the primary cause of inaccurate revenue estimates lies outside of state government--that is, with the economics profession generally--

CHART 1

Comparisons and Accuracy of California Personal Income Growth Forecasts



a. Based upon data in Appendix D.

there is very little that can be done by the Legislature to improve the quality of individual revenue forecasts. How, then, can the Legislature minimize the problems brought about by inaccurate revenue estimates? This report identifies two courses of action available to the Legislature that would mitigate these problems:

1. Maintain a fiscal cushion to protect the budget--that is, a "reserve for economic uncertainties." This cushion should be equal to at least 3 percent, and preferably 5 percent, of planned General Fund expenditures.

2. Require the Department of Finance on an ongoing basis to provide the Legislature with more frequent revenue forecast updates and more comprehensive information on the characteristics, including potential error margins, of these forecasts.

CHAPTER I

INTRODUCTION

The purpose of this report is to examine the accuracy of revenue estimates prepared for the California Legislature. Specifically, this report discusses (1) why the revenue estimates prepared by the state's Department of Finance frequently go awry, (2) the size of the discrepancies between estimated and actual revenues in recent years, and (3) what (if anything) can be done to minimize such discrepancies in the future and lessen the problems which they cause.

WHY ARE ACCURATE REVENUE ESTIMATES IMPORTANT?

In order to effectively manage the state's budget, the Legislature must have accurate revenue estimates. This is because an inaccurate forecast can seriously impair the Legislature's ability to achieve the desired balance between state-funded services and the level of taxes. Revenue estimating inaccuracies result in problems both for those who manage the state's fiscal affairs and for the public generally, regardless of whether the error is on the high side or low side. For example:

- Significant underestimates of revenues can result in (1) tax rates being higher than they really need to be, (2) underfunding of public services, and (3) unacceptably large budget surpluses.
- Significant overestimates of revenues can result in (1) unwanted program cutbacks and (2) unwanted tax increases, in order to avoid budget deficits. The problems associated with revenue overestimates can be especially serious when the revenue

shortfall is discovered after implementation of the expenditure plan for a fiscal year has begun.

Thus, making the state's revenue estimates as accurate as possible is an extremely important objective for state government.

SCOPE OF THE REPORT

The balance of this report is divided into four chapters:

- Chapter II identifies and discusses the primary factors which can cause revenue estimates to be off the mark.
- Chapter III examines the Department of Finance's "track record" in estimating revenues, and identifies the factors that have been most responsible for revenue estimating inaccuracies in recent years.
- Chapter IV focuses on the single most important cause of inaccurate revenue estimates--incorrect economic forecasts--concentrating on the Department of Finance's "track record" in projecting the economy's performance in recent years.
- Lastly, Chapter V discusses the prognosis for making revenue estimates more accurate in the future, and recommends ways in which the Legislature can cope with the ongoing problem of inaccurate revenue estimates.

This report includes several appendices which present a detailed history of the department's economic and revenue forecasts during the past decade.

CHAPTER II

WHY REVENUE ESTIMATES GO AWRY

Making accurate estimates of state revenues is an extremely complex and difficult task. This is especially true for a state like California, where the amount of revenues collected (over $30 billion in 1984-85) is so large and the revenue base is so diverse (consisting of over 50 separate major taxes, licenses, fees, and other sources of income). Given this, it is inevitable that revenue estimates frequently will prove to be inaccurate.

WHAT FACTORS CAN CAUSE REVENUE ESTIMATES TO BE OFF THE MARK?

Many factors can cause revenue estimates to be wrong. Seven factors, however, stand out as the most important. These are:

- Inaccurate forecasts of the level of economic activity.
- Inaccuracies in estimating the size of the state's tax base and the effective tax rates that will be applied to the base.
- Faulty estimates of the time lags between when tax liabilities are incurred and when revenues are actually collected by the state.
- Unanticipated changes in state laws which affect the amount of revenues collected.
- Court decisions that affect revenue collections.
- Voter-approved ballot initiatives having implications for revenues.

- Actions taken by the federal government which affect state revenues.

Each of these factors is briefly discussed below.

1. Inaccurate Economic Forecasts

The level of economic activity is the primary determinant of how much revenue the state will collect. Consequently, forecasting the performance of the state's economy in the future is the single most important task in preparing revenue estimates.

The economic projections of most forecasters, including the Department of Finance, are developed using fairly complex multi-equation models of the nation's and state's economies. The equations in these models are constructed using various mathematical and statistical techniques. Essentially, the models assume that economic data covering past years reveal how different sectors of the economy affect one another on a continuing basis, and thus can be used to predict the values for specific economic variables--such as output, employment, inflation, and interest rates--in the future.

There are three principal reasons why an economic forecast can prove to be inaccurate:

- First, equations in the model used to prepare the forecast may be faulty. This could be the result of using "bad" historical data to "calibrate" the equations--a common problem since most economic data are developed using surveys, and are frequently revised--sometimes over and over--in subsequent years. Alternatively, the equations may be faulty because the economists

who built the model guessed incorrectly as to the proper mathematical form of the equations, or overlooked certain factors which should be included in the equations.

- Second, certain equations may be good at explaining past economic activity but may not be very good at predicting economic activity in the future, due to changes over time in the way that the economy behaves. For example, if households and businesses "get used to" high interest rates, the negative effects of these rates on home buying and business investment may lessen over time.
- Third, because of the nature of the statistical procedures available to model-builders, the projections yielded by economic models inherently fall within a range of probable outcomes, thus giving rise to a "margin of error" on either side of the forecast. For example, while a model may predict that California employment will rise by 3 percent in a given year, the model may find a 50 percent chance that the increase will be under 2 percent or over 4 percent, and a 20 percent chance that it will be under 1 percent or over 5 percent. Thus, even the most accurate model makes no claim that what it finds to be the "most likely" outcome will actually occur.

2. Inaccuracies in Projecting the Tax Base and Effective Tax Rates

Once an economic forecast has been prepared, revenue estimators use this forecast to project the tax base for each of the state's individual taxes. These tax bases include, among others, taxable personal income, taxable sales, and pre-tax corporate profits. Even if the basic economic

forecast proves to be accurate, projections of individual tax bases, and the extent to which each is taxed, may prove to be wrong. For example:

- Consumers may choose to spend a larger (or smaller) percentage of their incomes than they have spent in the past, or increase (or reduce) the percentage of total spending which goes for goods and services subject to the sales and use tax.
- The distribution of income among taxpayers in different income classes may change, causing the average rate at which this income is taxed to be higher or lower than the historical norm (due to the progressive nature of the state's income tax rate schedule).
- The relationship between corporate profits in California (for which timely data do not exist) and corporate profits in the U.S. as a whole (for which relatively complete and timely data do exist) may change, causing estimates of revenue from the state's bank and corporation tax to miss the mark. In fact, exactly such a change seems to have happened during the past several years, as a result of recent changes in federal law involving depreciation allowances. Because California has not conformed its law to the new federal law, U.S. profit data have become a less reliable indicator of profits in California than previously.

3. Faulty Estimates of Time Lags

Normally, there is a lag between when tax liabilities are incurred and when state revenues are actually received. Predicting what these time lags will be is an important component of the revenue estimating process, since the size of the lag can affect both the cash-management needs of the state and the General Fund's condition in a given fiscal year.

State law generally prescribes the dates when tax liabilities are due and payable. For calendar year taxpayers, personal income tax returns are due in the following April and bank and corporation tax returns are due in the following March. Most taxpayers, however, are required to prepay portions of their liabilities during the year. Because the state permits taxpayers considerable discretion in when they make their tax prepayments and allows taxpayers to request and receive an extension of the deadline by which they must submit their final tax returns, it is virtually impossible to predict accurately the timing of revenue receipts.

At first glance, faulty estimates of the time lag between tax liabilities and collections would seem to be pose nothing more than a cash-flow problem for the state--revenue shortfalls at one point in time, which are offset by corresponding revenue overages later on, and vice versa. In terms of giving the Legislature an accurate picture of what the state's fiscal condition is, however, the problem potentially is much more severe. This is because it often is impossible to know whether a revenue shortfall or gain is due to timing factors (and thus will "come out in the wash") or due to factors of a more enduring nature. As a result, it is impossible to know whether and, if so, exactly how, the revenue estimates should be revised.

4. The Enactment of Legislation

Newly enacted legislation can throw revenue estimates off if the fiscal effect of the measure was not incorporated into the original revenue estimates. Three types of legislation can be especially important in causing revenue estimates to be wrong:

- Legislation which changes tax rates or the tax bases to which these rates apply (for example, legislation expanding the types of transactions which are subject to the sales tax).
- Legislation which changes the timing of when tax liabilities are due to the state (for example, legislation increasing the proportion of final tax liabilities which must be prepaid through income tax withholding deductions).
- Legislation which shifts the allocation of state revenues from special funds to the General Fund or vice versa (for example, legislation shifting tidelands oil revenues to the General Fund).

In addition, projecting the revenue effects of proposed legislation can, itself, be a source of revenue estimating errors. This is because frequently the available data are not adequate to support reliable estimates of a bill's revenue effect.

5. Court Decisions

Decisions rendered by federal and state courts can affect state revenues by revising the way in which tax laws are applied. For instance, in 1982 a California Court of Appeals ruled that the state had implemented Proposition 6 from the June 1976 ballot (which repealed the so-called "principal office deduction" for insurance companies) one year too early. This decision resulted in a $32 million tax refund to various insurance companies. Similarly, several court decisions rendered in 1984 increased bank and corporation tax revenues by $47 million during 1983-84.

6. Voter-Approved Ballot Initiatives

A variety of ballot initiatives having significant implications for state revenues have been approved by California voters in recent years. For example, Proposition 13 on the June 1978 ballot increased state income tax revenues by about $350 million annually. It did so by reducing local property taxes and thereby cutting itemized deductions under the personal income tax. In contrast, the adoption of permanent full income tax indexing (Proposition 7) in June 1982 directly reduced state income tax revenues by $200 million in 1982-83.

7. Actions Taken By the Federal Government

The federal government can take actions that, directly or indirectly, cause state revenue estimates to be wrong. For example, the federal government can:

- Change tax laws to which California automatically conforms.
- Change the amount of money which it shares with California.

CONCLUSION

In summary, we conclude that:

- Revenue estimates can prove to be wrong for many different reasons.
- Because revenue collections are so sensitive to changes in economic conditions, the single most important factor accounting for inaccurate revenue estimates is incorrect economic forecasts.
- Only one of the many factors that can cause revenue estimates to be off the mark--enacted legislation--is under the direct control of the Legislature. The remaining factors cannot be controlled by the Legislature.

- For these reasons, revenue estimating inaccuracies are both inevitable and generally unpredictable.

CHAPTER III

ACCURACY OF REVENUE ESTIMATES: THE HISTORICAL RECORD

How significant have discrepancies between estimated and actual revenues been in recent years? To answer this question, we now examine the Department of Finance's "track record" in projecting revenues. In this chapter, we will identify both the magnitude of the discrepancies between the department's estimates and actual revenues, as well as the causes of these discrepancies.

THE MAGNITUDE AND CAUSES OF REVENUE ESTIMATING REVISIONS

Tables A-1 through A-11 in Appendix A present the complete details on the magnitude and principal causes of revisions to the department's revenue estimates for each of the years 1973-74 through 1983-84. (Partial-year data for 1984-85 are presented in Table A-12.) These data cover General Fund revenue sources, which yield about 85 percent of all income collected by the state.

The 1973-74 to 1983-84 period encompasses a wide variety of economic conditions which made revenue estimating particularly difficult. During this period, there were three recessions, three post-recession recoveries, one unusually long economic expansion, a foreign oil embargo, and, at various times, record-high interest rates, inflation, and huge federal budget deficits. The period also saw major changes in California (as well as federal) tax laws, including enactment of income tax indexing, several large one-time tax cuts, Proposition 13, and revisions both to the payment due dates and the penalties assessed for late tax payments. Together, these conditions presented forecasters with unprecedented challenges.

Table 1 summarizes data from Appendix A in order to show both the magnitude and principal causes of the discrepancies between actual and estimated revenues, for each of the 11 fiscal years. For each fiscal year, the estimates cited in the table cover an 18-month period between when the budget for that year was introduced (January) and the end of the year (June). The table indicates that:

- Revenues came in above the estimate in seven years and below the estimate in four years. As a percent of the original revenue estimates, these discrepancies averaged 5.7 percent, and ranged from nearly 7 percent on the downside (1973-74) to nearly 11 percent on the upside (1977-78).
- For the entire period, actual revenues exceeded the budget estimates by $4.1 billion (net). In order to appreciate the extent of the problems that these discrepancies cause for the Legislature's fiscal planning, however, one needs to add the individual discrepancies together without offsetting shortfalls against overages. When this is done, the total dollar volume of the discrepancies between actual and projected revenues during this period is found to have been much greater--$8.4 billion.
- By far, the single most important cause of these discrepancies has been inaccurate economic forecasts. In fact, failure of the economy to perform as forecast caused revenue estimates to miss the mark by $10 billion for the 11 years taken together.
- In "normal" years, discrepancies due to the enactment of new legislation are minor relative to the size of the revenue base.

Table 1

Discrepancies Between Estimated and Actual General Fund Revenues
1973-74 Through 1983-84
(millions of dollars)[a]

Fiscal Year	Initial Budget Estimate (Adjusted)[b]	Actual[c]	Total Discrepancies		Discrepancies Due To:		
			Dollars	Percent	Economic and Technical Factors	New Legislation	Other Factors[d]
1973-74	$7,463	$6,963	-$500	-6.7%	$139	-$702	$63
1974-75	7,870	8,613	743	9.4	722	60	-39
1975-76	9,153	9,616	464	5.1	459	1	4
1976-77	10,368	11,382	1,014	9.8	886	82[e]	46
1977-78	12,357	13,695	1,338	10.8	1,333	5	--
1978-79	15,161	15,217	57	0.4	973	-987	71
1979-80	17,368	18,043	675	3.9	635	-19	59
1980-81	19,361	19,047	-314	-1.6	-283	-55	24
1981-82	21,062	20,921	-142	-0.7	-1,358	1,256	-41
1982-83	22,424	21,231	-1,193	-5.3	-2,376	1,521	-338
1983-84	21,802	23,727	1,925	8.8	835	998	92

a. Detail may not add to totals due to rounding. Background data for this table appear in Appendix A.
b. Published in January preceding the start of each fiscal year. Figures exclude General Fund special account revenues, which do not represent unrestricted General Fund monies. Figures also exclude the effects of major revenue measures proposed in the Governor's Budget.
c. Income estimate published by the State Controller. Figures exclude General Fund special account revenues, which do not represent unrestricted General Fund monies. Figure for 1983-84 is a preliminary estimate.
d. These factors include voter-approved ballot measures, court cases, actions of the federal government, and year-end revisions by the State Controller.
e. Includes $19 million revenue gain from Proposition 6 (June 1976), which was placed on the ballot by the Legislature.

Generally, they total less than $100 million. In five of the 11 years, however, "special" circumstances have led the Legislature to significantly change the level of revenues and transfers going to the General Fund. In both 1973-74 and 1978-79 the Legislature cut taxes in order to eliminate budget surpluses. During the last three years covered by Table 1 (1981-82 through 1983-84), the Legislature increased revenues in order to eliminate budget deficits. With the exception of 1983-84, the revenue effects of legislation enacted during "special" circumstances served to offset in part or in whole revenue revisions associated with economic forecasting errors.

- Revenue revisions due to all other factors, such as voter approval of ballot measures, court decisions, and actions taken by the federal government, also have been relatively minor--under $100 million--in most years. The one exception occurred in 1982-83, when voter-approval of initiatives on the June 1982 ballot that indexed personal income taxes and eliminated inheritance and gift taxes caused a large shortfall in revenues.

REVENUE REVISIONS DUE TO ECONOMIC FORECASTING PROBLEMS

As indicated above, inaccurate economic forecasts are the principal cause of discrepancies between estimated and actual General Fund revenues. Indirectly, they are also responsible for the conditions that prompted the

Legislature to enact bills altering revenues in order to eliminate budget deficits or undesired budget surpluses.[1]

Even a small "error" in projecting the level of economic activity can produce a large discrepancy between actual and estimated revenues. For example, if the Department of Finance overestimates personal income growth in California by 10 percent, the revenue estimate can easily be $300 million to $500 million too high. In contrast, a 10 percent error in the estimated revenue effect of newly enacted legislation would, in a normal year, throw the overall revenue estimate off by only $10 million.

Table 2 provides a more complete picture of the revenue discrepancies associated with inaccurate economic forecasts. The table shows what these discrepancies have been when measured over three different time intervals:

- Actual Revenues Compared With the Original January Budget Estimate. Table 2 shows that economics-related discrepancies between estimated and actual revenues averaged 6.2 percent of the original estimate. Actual revenues ranged from over 10 percent above to over 10 percent below the original estimate made six months before the start of the fiscal year. During the last three years, the average discrepancy caused by economics-related factors (over 6.9 percent) was even larger than the average for the period as a whole.

1. In this report, we have combined discrepancies attributable to technical revenue-estimating procedures with those caused by economic forecasting inaccuracies. We have done so for two reasons. First, the department has never provided information on the estimated effects of these technical errors, and it is difficult for us to measure these effects ourself since we do not have direct access to the department's revenue models. Second, many of these procedural errors are related, either directly or indirectly, to economic forecasting inaccuracies.

Table 2

Discrepancies Between Estimated and Actual General Fund Revenues Attributable to Economic and Technical Factors 1973-74 through 1983-84 (millions of dollars)[a]

Fiscal Year	Actual Revenues Compared With: Original January Budget Estimate		First May Estimate		Mid-Year Estimate (January)	
	Difference	As Percent of Estimate	Difference	As Percent of Estimate	Difference	As Percent of Estimate
1973-74	$139	1.9%	$119	1.6%	$243	3.7%
1974-75	722	9.2	322	3.9	166	2.0
1975-76	459	5.0	621	6.9	451	4.9
1976-77	886	8.5	680	6.4	394	3.6
1977-78	1,333	10.8	961	7.5	325	2.4
1978-79	973	6.4	780	5.1	220	1.5
1979-80	635	3.7	458[b]	2.6	203	1.1
1980-81	-283	-1.5	-276	-1.4	-80	-0.4
1981-82	-1,358	-6.4	-1,612	-7.6	-724	-3.5
1982-83	-2,376	-10.6	-1,163	-5.5	282	1.4
1983-84	835	3.8	625[c]	2.8	341	1.5
Average Discrepancy for 11-year period[d]	--	6.2%	--	4.7%	--	2.4%

a. Figures derived from tables in Appendix A.
b. A revenue estimate was also published one month later, in June 1979. The difference between this estimate and actual revenues was $562 million (3.2 percent).
c. Revision to June 1983 estimate; in 1983, an April revision, but no May revision, was published.
d. Unweighted average of absolute values of percent revisions for individual years.

- Actual Revenues Compared With First May Estimate. Table 2 shows that economics-related discrepancies between actual revenues and the estimate made one to two months before each fiscal year began (when the Legislature actually made its decisions on the budget for that fiscal year), averaged 4.7 percent. These discrepancies ranged from over 7 percent above to over 7 percent below the first May revenue estimate. During the last three years, the average discrepancy (5.3 percent) was high by historical standards.

- Actual Revenues Compared With Midyear Estimate. This comparison relates to the six-month period from the middle of a fiscal year (when the Legislature reviews whether the budget for that fiscal year needs to be modified) to the end of the fiscal year. Table 2 shows that economics-related discrepancies between estimated revenues at midyear (which are included in the Governor's budget for the following year) and actual revenues averaged 2.4 percent. These discrepancies ranged from about 5 percent above to 3.5 percent below the midyear estimates.

Four main conclusions can be drawn from the data summarized in Table 2:

- First, significant economics-related discrepancies between estimated and actual revenue are the rule, not the exception.
- Second, the dollar amounts of these discrepancies can be very large. In fact, if actual revenues in 1984-85 differ from estimated revenues by the average percentage discrepancy for the

period 1973-74 through 1983-84, the discrepancy for 1984-85 would range from $1.2 billion (measured from the May revision) to about $1.6 billion (measured from the original budget estimate).

- Third, subsequent estimates of revenues generally prove to be more accurate than earlier estimates. That is, in most years the first May revision estimate has been closer to actual revenues than the original budget estimate, but not as close as the midyear budget estimate. This suggests that periodic updates to the economic and revenue forecasts can improve the Legislature's ability to conduct fiscal planning and manage the state's budget.
- Fourth, there is no evidence to suggest that the department has a consistent bias toward either overestimating or underestimating revenues. While a pattern of underestimating revenues showed up during the period 1973-74 through 1979-80, revenues were significantly overestimated during the 1980-81 through 1982-83 period.

THE REVENUE ESTIMATING TRACK RECORD OF OTHER FORECASTERS

Do other forecasters have a better track record than the Department of Finance in estimating revenues?

A number of entities periodically have "taken a stab" at estimating state General Fund revenues, including the Graduate School of Management at UCLA, the Office of Economic Planning, Policy and Research in the state's Department of Commerce (formerly the Department of Business and Economic Development), and Data Resources, Inc. In most cases, they have done so on a one-time basis--often not very successfully.

Table 3 summarizes the track record of the one entity which, apart from the department, does prepare on a regular and ongoing basis detailed state revenue forecasts--the Commission on State Finance (COSF). The table indicates that, due to economics-related factors, the commission's forecasts, like the department's, frequently have missed the mark. In the majority of cases, the discrepancy between estimated and actual revenues has been a bit larger for the commission than for the department. In short, there is no evidence that the department's track record is worse than the COSF's, and there is some evidence that its performance has actually been a bit better.

CONCLUSION

In summary, we conclude that:

- The Department of Finance's revenue estimates frequently prove to be inaccurate--often by a significant amount. These inaccuracies impair the Legislature's ability to effectively manage the state's fiscal affairs.
- The chief cause of discrepancies between estimated and actual revenues has been inaccurate economic forecasts. These forecasts often have caused revenue estimates to be off-target by huge amounts. In fact, if the economic forecast on which the May revision to the 1984-85 budget is based proves to be no more reliable than the "average" forecast issued in the previous 11 Mays, actual revenues in the current year would differ from the estimate by $1.2 billion.

Table 3

Comparisons of Revenue Forecasts Issued by
The Department of Finance and Commission on State Finance:
Discrepancies Due to Economics-Related Factors in
1981-82, 1982-83 and 1983-84
(millions of dollars)[a]

Fiscal Year and Forecaster	Difference Between Actual and Estimated Revenues[b]		
	Department of Finance	Commission on State Finance	Most Accurate
1981-82			
First Budget Estimate	-$1,358	NA[c]	NA
May Estimate	-1,612	-$1,745	DOF
Mid-Year Budget Estimate	-724	-873	DOF
1982-83			
First Budget Estimate	-2,376	-2,885	DOF
May Estimate	-1,163	-711	COSF
Mid-Year Budget Estimate	282	280	BOTH
1983-84[d]			
First Budget Estimate	835	1,337	DOF
May Estimate	625	783	DOF
Mid-Year Budget Estimate	341	161	COSF

a. Data developed from Table 2 and reports published by the COSF.
b. Because the COSF normally issues its reports in March, June, September and December, the dates of the COSF forecast revisions shown differ slightly from the department's. These data use the COSF's December and June revisions in conjunction with the department's January and May revisions, respectively.
c. The COSF did not issue its first revenue forecast until June 1981.
d. Data revisions reflect estimated revenue receipts as of June 1984.

- The department's revenue forecasts do not reflect a consistent bias toward either underestimating or overestimating revenues.
- The department's forecasting record since June 1981 generally has been as good as, if not somewhat better than, the Commission on State Finance's.
- The department's revenue forecasts for a given fiscal year generally become more accurate as they are revised.

CHAPTER IV

ACCURACY OF ECONOMIC FORECASTS: THE HISTORICAL RECORD

The previous chapter demonstrated that inaccurate economic forecasts have been, by far, the single most important factor causing the department's revenue estimates to go awry. In this chapter, we review in more detail the department's economic forecasting record, and compare it to the record compiled by other economists.

THE DEPARTMENT'S ECONOMIC FORECASTING TRACK RECORD

Tables B-1 through B-13 in Appendix B show the department's track record in forecasting the performance of the California economy from 1973 to the present. Data are provided for a variety of economic variables which affect, either directly or indirectly, state revenues.

These tables indicate that the department's economic forecasts frequently have proven to be inaccurate. This is especially true of:

- Forecasts made 12 months prior to the start of the calendar year (for example, the forecast for 1983 contained in the Governor's 1982-83 Budget transmitted in January 1982, or the forecast for 1982 contained in the Governor's 1981-82 Budget transmitted in January 1981),
- Forecasts made during periods in which the level of economic activity is fluctuating--especially forecasts made during recessions and post-recession recovery periods, and
- Forecasts made for the more volatile components of the state's revenue base, such as taxable corporate profits.

For example, as Tables B-9, B-10, and B-11 show:

- The level of California corporate profits initially was overestimated by $7.5 billion (24 percent) in 1981, by $9 billion (27 percent) in 1982, and by $12 billion (30 percent) in 1983.
- The levels of taxable sales in 1981, 1982, and 1983 initially were overestimated by $14 billion (8 percent), $29 billion (16 percent), and $28 billion (14 percent), respectively.

To be sure, there have been years in which the department has done quite well in predicting certain economic variables. Nevertheless, the department's overall economic forecasting record obviously leaves much to be desired. Furthermore, there is no clear evidence that the department's economic forecasts have become more reliable in recent years.

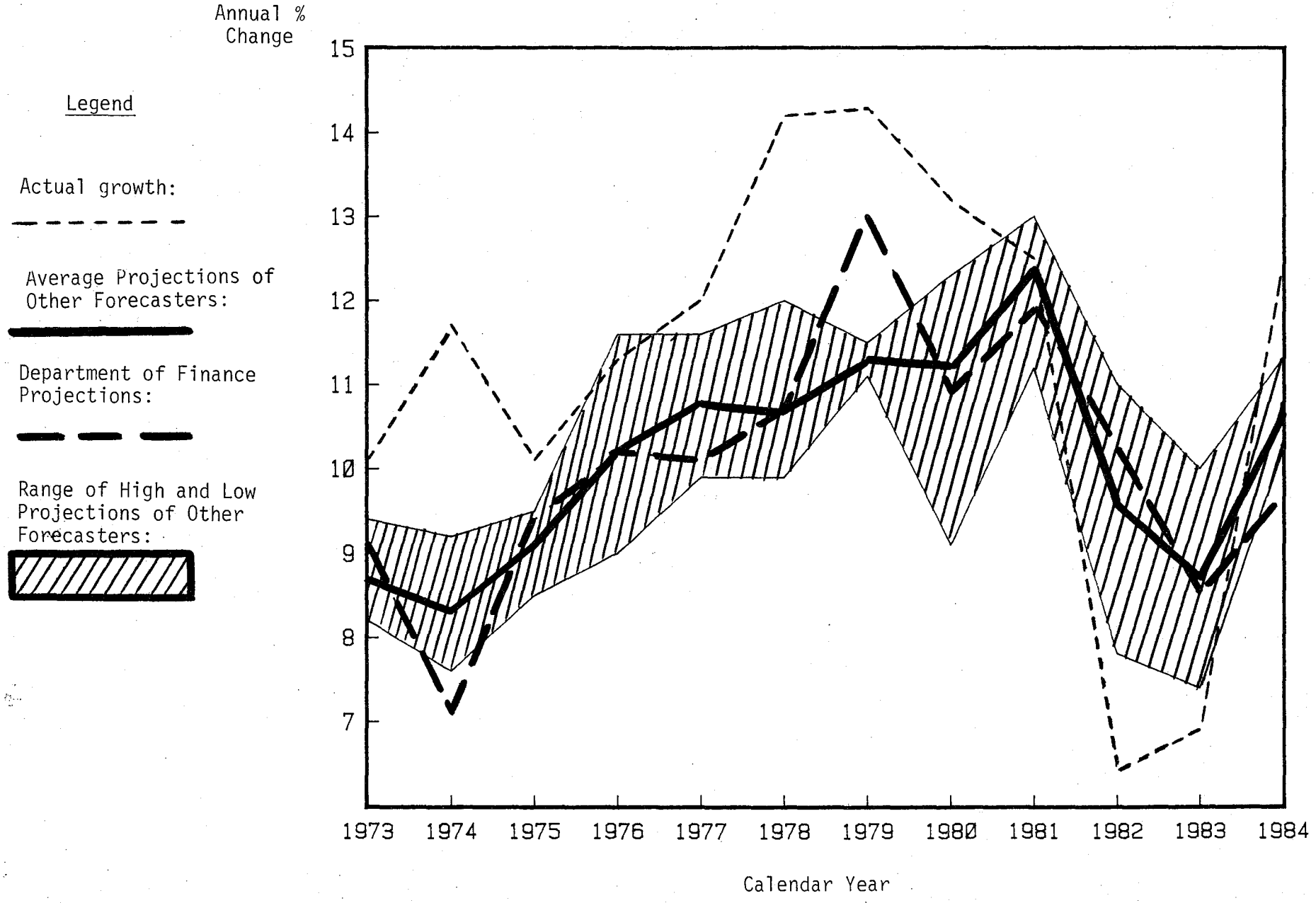
DO OTHER FORECASTERS OUTPERFORM THE DEPARTMENT?

Data comparing the department's economic forecasting record with that of other forecasters appear in Appendix C (national data) and Appendix D (state data). These appendices show forecasts for a variety of revenue-related economic variables during the period 1973 to the present. The data in these appendices indicate that, like the department, other forecasters frequently miss the mark in projecting the economy's performance.

Chart 1 summarizes the forecasting record of both the department and other economists with respect to the growth in California personal income--the single most important determinant of state revenue growth. This chart clearly shows that (1) all forecasters have done extremely poorly in predicting changes in this variable, and (2) the department's forecasts

CHART 1

Comparisons and Accuracy of California Personal Income Growth Forecasts



a. Based upon data in Appendix D.

have, in most cases, been within the range of other forecasts--that is, higher than some and lower than others.

One way of evaluating the department's overall forecasting record is to determine what percentage of the time the economy's actual performance has come closer to the department's forecasts than to the forecasts of other economists. We have done this using the data in Appendices C and D. As Table 4 indicates, the department has a somewhat poorer record than other individual forecasters in predicting national economic performance. In terms of predicting the performance of the California economy, however, the department's "batting average" is slightly better than those compiled by other individual forecasters. Moreover, Table 4 shows that the department's record in projecting the growth in California personal income is decidedly superior to the record of other forecasters. This is of special significance, since personal income is an especially important variable in making revenue estimates.

We, therefore, conclude that the department's relative track record in forecasting the economy's performance is neither significantly worse nor significantly better than those of other economic forecasters.

DOES THE ECONOMY'S PERFORMANCE TEND TO FALL WITHIN THE RANGE OF ALTERNATIVE FORECASTS?

Given that no individual economic forecaster has established a good track record for predicting the economy's performance, it is natural to ask: Can we expect the economy's performance to fall within the spectrum of forecasts published by economists? In general, the answer to the question is no. As Chart 1 shows, the actual percent growth in California

Table 4

Accuracy of Economic Forecasts:
The Department of Finance Versus Other Forecasters
(1973 Through 1983)

Basis of Comparison	Percentage of Economic Forecasts for Which: Finance Was Most Accurate	Other Forecasters Were Most Accurate	Finance and Other Forecasters Were Equally Accurate
A. National Economic Variables[a]			
• Finance Versus Individual Forecasters	44%	50%	6%
• Finance Versus the Average of Other Forecasters	36	53	11
B. California Economic Variables[b]			
1. All Variables Combined			
• Finance Versus Individual Forecasters	47	45	8
• Finance Versus the Average of Other Forecasters	42	45	13
2. Personal Income Growth Only			
• Finance Versus Individual Forecasters	57	37	6
• Finance Versus the Average of Other Forecasters	45	36	18

a. Based upon data in Appendix C.
b. Based upon data in Appendix D. For the purposes of the comparisons shown in this table, Appendix D's California personal income growth data for certain years have been adjusted to include certain data revisions released in August 1984 by the U.S. Department of Commerce.

personal income has either exceeded the most optimistic forecast or fallen below the most pessimistic forecast in all but two of the last 11 years. Preliminary data indicate that this will again be the case in 1984, because income growth has exceeded everyone's original expectation.

There are several reasons why it is so common for the actual performance of the economy to fall outside the spectrum of published forecasts. The most important reason, however, is that, despite the use of sophisticated forecasting techniques, economists simply do not have a good enough understanding of the economy's behavior to predict it accurately on a consistent basis.

The Department of Finance often attempts to bracket the range of possible outcomes by preparing "optimistic" and "pessimistic" forecasts to supplement its own "most likely" forecast. Its efforts to encompass the actual outcome within this bracket, however, frequently have been unsuccessful. For example, the department's original (January 1981) "pessimistic" revenue forecast for 1981-82 was about $770 million below its official forecast, while revenues actually turned out to be $1.4 billion less. Likewise, the department's original (January 1982) "pessimistic" revenue forecast for 1982-83 was $1.2 billion below its standard forecast, while the actual revenue shortfall was $2.4 billion.

CONCLUSION

In summary, we conclude that:

- The department's economic forecasting record leaves much to be desired.

- The department's economic forecasting "batting average" is neither significantly worse nor significantly better than those of other forecasters.
- It is the rule, rather than the exception, that the economy's performance (as measured by the growth in personal income) is better or worse than what any forecaster anticipated. This has been the case in 9 of the past 11 years, and appears again to be the case in 1984.

The department's inability to accurately forecast the level of economic activity on a consistent basis is not due to an inadequately trained professional staff, failure to use state-of-the-art forecasting techniques and equipment, or an optimistic or pessimistic bias. Given the track record of the various forecasters, it seems safe to conclude that the department is on a par with the rest of the forecasting community. Rather, the department's inability to accurately forecast the level of economic activity reflects an incomplete understanding of the economy itself on the part of economic forecasters generally.

CHAPTER V

PROGNOSIS AND RECOMMENDATIONS REGARDING REVENUE ESTIMATING

The principal conclusion of this report should now be clear: so long as economists' understanding of the economy is incomplete, discrepancies between estimated and actual revenues are inevitable. Consequently, we believe that although there is always room for improvement in forecasting techniques and procedures, there is relatively little that the Department of Finance can do to significantly reduce the chances of overestimating or underestimating revenues in the foreseeable future.

RECOMMENDATIONS

Given that significant discrepancies between estimated and actual revenues are virtually certain to occur in the future, what can the Legislature do to minimize the problems that these discrepancies create?

We believe the Legislature has two courses of action available to it which, if taken, would help it to better understand, anticipate and deal with revenue overages or shortfalls. Specifically, it could (1) maintain a large "rainy day" fund or reserve for economic uncertainties and (2) take steps to improve the timeliness and comprehensiveness of the information on which it bases its decisions.

1. Reserve for Economic Uncertainties

We recommend that the Legislature maintain a substantial balance--preferably an amount equal to 5 percent of General Fund expenditures--in the Reserve for Economic Uncertainties. Such a balance, built up in good times, would provide a fiscal cushion for the budget to fall back on during

years in which unexpected revenue shortfalls occur. This would reduce the extent to which the provision of goods and services by the state is disrupted by short-term economic fluctuations.

We know of no analytical basis for specifying precisely what the size of this balance should be. This is because setting aside money for a "rainy day" always confronts the Legislature with a difficult "trade-off": the benefits derived from a large reserve (that is, more "protection") versus the benefits derived from an increase in spending on public services. Only the Legislature can make this trade-off.

Nevertheless, we believe that the Legislature should strive to achieve a budgetary cushion equal to a minimum of 3 percent and preferably 5 percent of planned General Fund expenditures. A 5 percent reserve would almost fully insure the state against mild economic downturns, such as what occurred in 1981-82 when actual revenues were about 6 percent below the original budget estimate. While it would provide only partial protection against more severe downturns, such as the one that caused revenues in 1982-83 to come in 11 percent below the budget estimate, a 5 percent reserve would still fulfill its "insurance policy" function by "buying time" for the Governor and the Legislature to seek and adopt other alternatives for bringing the budget back in balance.

2. More-Timely and More-Comprehensive Data on Revenues

The Legislature's ability to understand, anticipate and adjust to revenue shortfalls or overages would be enhanced if it had more timely and comprehensive information on the key variables affecting revenues. With this in mind, we have recommended elsewhere (see Perspectives and Issues

for 1983-84 and 1984-85) that the Legislature require the Department of Finance to:

- Submit updates of revenue estimates at four-to-five specified points during the year,
- Provide detailed explanations for any revisions to its revenue estimates, and
- Indicate the degree of uncertainty surrounding its estimates, including statistical error margins, economic forecasting uncertainties, and revenue estimates which would result from alternative economic scenarios.

We believe this information would help the Legislature better cope with the problems caused by inaccurate revenue estimates. For example, more frequent updates would give the Legislature a head start in making any needed changes to the budget in the face of emerging revenue shortfalls. Likewise, better information on the uncertainty surrounding revenue estimates will help the Legislature determine how much of a fiscal cushion should be kept in reserve.

These requirements were imposed by the Legislature for 1984-85 through the adoption of supplemental language in connection with the 1984 Budget Act. The Legislature also sought to make these requirements permanent by enacting SB 1742 (Alquist) earlier this year. This bill, however, was vetoed by the Governor.

For the reasons given above, we recommend that the revenue reporting requirements set forth in the Supplemental Report of the Conference Committee on the 1984 Budget Act be continued beyond 1984-85, either

through the adoption of supplemental language in connection with the annual budget act or by making a permanent change to the Government Code along the lines of SB 1742.

APPENDIX A

HISTORY OF DEPARTMENT OF FINANCE GENERAL FUND INCOME ESTIMATES

1973-74 THROUGH 1984-85

Table A-1

History of Department of Finance General Fund Income Estimates for 1973-74
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1973)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department					Adjustments Related to Other Factors				Actual Totals as Reported by the State Controller
		May 1973	January 1974	May 1974	January 1975	Subtotal	1973 Legislation	Federal Revenue Sharing Revision	Controller's Revisions	Subtotal	
A. Major Taxes											
Bank and Corporation	$995	$75	-$50	$23	$4	$52	$10	--	--	$10	$1,057
Personal Income	2,175	-105	-14	70	37	-12	-331	--	-$3	-334	1,829
Sales and Use	3,000	35	-103	100	16	48	-372	--	--	-372	2,676
All Other	875	3	-48	-28	--	-73	-3	--	--	-3	799
Subtotal, Major Taxes	$7,045	$7	-$215	$165	$57	$14	-$696	--	-$3	-$699	$6,360
B. Interest Income	64	11	68	24	-1	102	--	--	--	--	166
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	139[b]	2	23	-1	-1	23	-6	--	1[c]	-5	157
D. Federal Revenue Sharing	215	--	--	--	--	--	--	$65	--	65	280
Totals, General Fund Revenues and Transfers	$7,463	$20	-$124	$188	$55	$139	-$702	$65	-$2	-$639	$6,963

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1974-75 Analysis of the Budget Bill (Table 10, page A-37) or are available from the Legislative Analyst's office.
b. Excludes $11 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.
c. Excludes $12 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.

Table A-2

History of Department of Finance General Fund Income Estimates for 1974-75
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1974)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department					Adjustments Related to Other Factors				Actual Totals as Reported by the State Controller
		May 1974	January 1975	May 1975	January 1976	Subtotal	1974 Legislation	Federal Revenue Sharing Revisions	Controller's Revisions	Subtotal	
A. Major Taxes											
Bank and Corporation	$1,050	$100	$30	$35	$39	$204	--	--	--	--	$1,254
Personal Income	2,289	76	95	50	12	233	$60	--	-$2	$58	2,580
Sales and Use	3,175	155	30	-25	34	194	--	--	--	--	3,369
All Other	879	-53	-15	14	1	-53	--	--	--	--	826
Subtotal, Major Taxes	$7,393	$279	$140	$74	$85	$578	$60	--	-$2	$58	$8,029
B. Interest Income	72	52	45	-9	8	96	--	--	--	--	168
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	155[b]	69	-29	4	4	48	--	--	-2[c]	-2	201
D. Federal Revenue Sharing	250	--	--	--	--	--	--	-$35	--	-35	215
Totals, General Fund Revenues and Transfers	$7,870	$400	$156	$69	$97	$722	$60	-$35	-$4	$21	$8,613

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1975-76 Analysis of the Budget Bill (Table 8, page A-27) or are available from the Legislative Analyst's office.
b. Excludes $10 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.
c. Excludes $12 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.

Table A-3

History of Department of Finance General Fund Income Estimates for 1975-76
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1975)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department					Adjustments Related to Other Factors			Actual Totals as Reported by the State Controller
		May 1975	January 1976	May 1976	January 1977	Subtotal	1975 Legislation	Controller's Revisions	Subtotal	
A. Major Taxes										
Bank and Corporation	$1,045	$7	$14	$158	$14	$193	$49	--	$49	$1,287
Personal Income	2,950	-125	60	110	70	115	25	-$3	22	3,087
Sales and Use	3,681	-61	76	15	3	33	4	--	4	3,718
All Other	849	27	12	69	2	110	--	--	--	959
Subtotal, Major Taxes	$8,525	-$153	$162	$352	$89	$450	$78	-$3	$75	$9,050
B. Interest Income	140	-17	4	10	2	-1	--	1	1	139
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	273[b]	7	5	1	-3	10	-77	6[c]	-71	212
D. Federal Revenue Sharing	215	--	--	--	--	--	--	--	--	215
Totals, General Fund Revenues and Transfers	$9,153	-$162	$170	$363	$88	$459	$1	$4	$5	$9,616

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1976-77 Analysis of the Budget Bill (Table 8, page A-29) or are available from the Legislative Analyst's office.
b. Excludes $22 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.
c. Excludes $26 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.

Table A-4

History of Department of Finance General Fund Income Estimates for 1976-77
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1976)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department					Adjustments Related to Other Factors					Actual Totals as Reported by the State Controller
		May 1976	January 1977	May 1977	January 1978	Subtotal	1976 Legislation	Proposition 6 Revenue Effect	Court Cases	Controller's Revisions	Subtotal	
A. Major Taxes												
Bank and Corporation	$1,375	$70	$126	$50	$17	$263	$4	--	--	--	$4	$1,642
Personal Income	3,405	120	95	155	-39	331	25	--	--	--	25	3,761
Sales and Use	4,100	-22	-6	85	51	108	28	--	$45	--	73	4,281
All Other	947	26	30	61	9	126	6	$19[b]	--	--	25	1,097
Subtotal, Major Taxes	$9,827	$194	$245	$351	$37	$827	$63	$19	$45	--	$127	$10,781
B. Interest Income	115	10	14	--	13	37	--	--	--	--	--	152
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	211[c]	1	27	4	-10	22	--	--	--	$1[c]	1	234
D. Federal Revenue Sharing	215	--	--	--	--	--	--	--	--	--	--	215
Totals, General Fund Revenues and Transfers	$10,368	$204	$286	$354	$40	$886	$63	$19	$45	$1	$128	$11,382

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1977-78 Analysis of the Budget Bill (Table 10, page A-53) or are available from the Legislative Analyst's office.
b. Reflects Proposition 6 on the June 1976 ballot, which repealed the principal office deduction for insurance companies.
c. Excludes $24 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.

Table A-5

History of Department of Finance General Fund Income Estimates for 1977-78
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1977)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department					Adjustments Related to Other Factors			Actual Totals as Reported by the State Controller
		May 1977	January 1978	May 1978	January 1979	Subtotal	1977 and 1978 Legislation	Controller's Revisions	Subtotal	
A. Major Taxes										
Bank and Corporation	$1,750	$40	$112	$155	$27	$334	-$2	--	-$2	$2,082
Personal Income	4,285	215	83	20	63	381	2	--	2	4,668
Sales and Use	4,610	90	316	--	15	421	-1	--	-1	5,030
All Other	1,087	29	66	-13	2	84	--	--	--	1,170
Subtotal, Major Taxes	$11,732	$374	$577	$162	$107	$1,220	-$2	--	-$2	$12,950
B. Interest Income	143	7	75	10	48	140	--	--	--	283
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	267[b]	-9	-17	-11	9	-28	7	--[c]	7	246
D. Federal Revenue Sharing	215	--	--	--	--	--	--	--	--	215
Totals, General Fund Revenues and Transfers	$12,357	$373	$636	$161	$164	$1,333	$5	--	$5	$13,695

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1979-80 Analysis of the Budget Bill (Table 25, page A-51) or are available from the Legislative Analyst's office.
b. Excludes $39 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.
c. Excludes $37 million in revenues to General Fund Special Accounts which are not unrestricted General Fund revenues.

Table A-6

History of Department of Finance General Fund Income Estimates for 1978-79
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1978)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department						Adjustments Related to other Factors					Actual Totals as Reported by the State Controller
		May 1978	January 1979	May 1979	June 1979	January 1980	Subtotal	1978 Legislation	Proposition 13 Revenue Effect	Federal Revenue Sharing Revision	Controller's Revisions	Subtotal	
A. Major Taxes													
Bank and Corporation	$2,120	$60	$27	$33	--	$41	$181	-$7	$87	--	--	$80	$2,381
Personal Income	5,500	60	145	-22	-$30	67	220	-980	22	--	--	-958	4,762
Sales and Use	5,515	75	140	30	28	26	299	3	-38	--	--	-35	5,779
All Other	1,282	-16	17	-21	--	10	-10	-6	--	--	--	-6	1,266
Subtotal, Major Taxes	$14,417	$179	$329	$70	-$2	$114	$690	-$990	$71	--	--	-$919	$14,188
B. Interest Income	190	10	225	25	--	-3	257	--	--	--	-$1	-1	446
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	279	4	6	5	--	11	26	3	--	--	--	3	308
D. Federal Revenue Sharing	275	--	--	--	--	--	--	--	--	$1	--	1	276
Totals, General Fund Revenues and Transfers	$15,161	$193	$560	$100	-$2	$122	$973	-$987	$71	$1	-$1	-$916	$15,217

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1980-81 Analysis of the Budget Bill (Table 26, page A-46) or are available from the Legislative Analyst's office.

Table A-7

History of Department of Finance General Fund Income Estimates for 1979-80
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1979)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department						Adjustments Related to Other Factors			Actual Totals as Reported by the State Controller
		May 1979	June 1979	January 1980	May 1980	January 1981	Subtotal	1979 Legislation	Controller's Revisions	Subtotal	
A. Major Taxes											
Bank and Corporation	$2,460	$180	$110	-$228	-$99	-$1	-$38	$44	$44[b]	$88	$2,510
Personal Income	6,213	-13	-150	232	185	46	300	-7	--	-7	6,506
Sales and Use	6,375	5	-64	190	10	52	193	-46	--	-46	6,522
All Other	1,394	-23	--	9	-20	10	-24	-4	--	-4	1,366
Subtotal, Major Taxes	$16,442	$149	-$104	$204	$76	$106	$431	-$13	$44	$31	$16,904
B. Interest Income	325	25	--	150	45	1	221	--	-2	-2	544
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	325	3	--	5	4	-29	-17	-6	17[c]	11	319
D. Federal Revenue Sharing	276	--	--	--	--	--	--	--	--	--	276
Totals, General Fund Revenues and Transfers	$17,368	$177	-$104	$359	$125	$78	$635	-$19	$59	$40	$18,043

a. Details may not add to totals due to rounding. First budget estimate excludes an administrative proposal to reduce revenues by approximately $1.4 billion. Additional details on the revisions shown in this table appear in the 1981-82 Analysis of the Budget Bill (Table 16, page A-28) or are available from the Legislative Analyst's office.

b. Represents reclassification of certain bank and corporation tax revenues, designated as FALA Fund transfers under the provisions of AB 66 (Ch 1150/79), from special funds revenues to General Fund revenues.

c. Includes $13 million in General Fund transfer income from the Driver Training Penalty Assessment Fund ($6 million) and Working Capital Advances ($6 million).

Table A-8

History of Department of Finance General Fund Income Estimates for 1980-81
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1980)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department					Adjustments Related to Other Factors			Actual Totals as Reported by the State Controller
		May 1980	January 1981	May 1981	January 1982	Subtotal	1980 Legislation	Controller's Revisions	Subtotal	
A. Major Taxes										
Bank and Corporation[b]	$2,800	$67	-$126	$55	-$48	-$52	-$17	--	-$17	$2,731
Personal Income	6,800	-130	15	-35	14	-136	-35	--	-35	6,629
Sales and Use	7,240	--	-225	28	-33	-230	-4	--	-4	7,006
All Other	1,517	-6	48	-88	-14	-60	-15	--	-15	1,443
Subtotal, Major Taxes	$18,357	-$69	-$288	-$40	-$81	-$478	-$71	--	-$71	$17,808
B. Interest Income	400	25	29	8	4	66	-2	-$1	-3	463
C. Other Revenues and Transfers, Excluding Federal Revenue Sharing	328	37	63	5	24	129	18	25[c]	43	500
D. Federal Revenue Sharing	276	--	--	--	--	--	--	--	--	276
Totals, General Fund Revenues and Transfers	$19,361	-$7	-$196	-$27	-$53	-$283	-$55	$24	-$31	$19,047

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1982-83 Analysis of the Budget Bill (Table 21, page A-39) or are available from the Legislative Analyst's office.

b. Revenue figures treat certain transfers to special funds under AB 66 (Ch 1150/79) as General Fund revenues, consistent with how the Controller treats these transfers. The department had treated these transfers as direct special funds revenues until January 1982, when it reclassified them as General Fund revenues. See footnote "a" above.

c. Represents $25 million in General Fund transfer income, including funds from the Special Account for Capital Outlay ($10 million), the State Beach, Park, Recreational and Historical Facilities Fund of 1974 ($7 million), the Fair and Exposition Fund ($4 million), and the California Housing Finance Fund ($2 million).

Table A-9

History of Department of Finance General Fund Income Estimates for 1981-82
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1981)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department						Adjustments Related to Other Factors					Actual Totals as Reported by the State Controller
		May 1981	January 1982	March 1982	May 1982	January 1983	Subtotal	Legislation 1981	Legislation 1982	Federal Revenue Sharing Revision	Controller's Revisions	Subtotal	
A. Major Taxes													
Bank and Corporation	$3,077[b]	$248	-$303	-$255	-$50	-$101	-$461	-$2	$35	--	--	$33	$2,649
Personal Income	7,435	100	-184	-97	65	-10	-126	-1	185	--	-10	174	7,483
Sales and Use	8,001	-41	-359	-140	-25	-40	-605	-26	179	--	--	153	7,549
All Other	1,564	-98	-49	17	--	-15	-145	-1	--	--	-46[c]	-47	1,372
Subtotal, Major Taxes	$20,077	$209	-$895	-$475	-$10	-$167	-$1,338	-$29	$399	--	-$56	$314	$19,053
B. Interest Income	327	48	-61	--	--	22	9	--	--	--	-3	-3	333
C. Other Revenue	402	-4	95	--	-30	-27	34	17	--	--	3	20	456
Subtotal, Revenues	$20,805	$254	-$861	-$475	-$40	-$172	-$1,294	-$12	$399	--	-$56	$331	$19,842
D. Transfers, Excluding Federal Revenue Sharing	77	--	-26	--	--	-37	-63	547	322	--	16[d]	885	899
E. Federal Revenue Sharing	180	--	--	--	--	--	--	--	--	-$1	--	-1	179
Subtotal, Transfers	$257	--	-$26	--	--	-$37	-$63	$547	$322	-$1	$16	$884	$1,078
Totals, General Fund Revenues and Transfers	$21,062	$254	-$888	-$475	-$40	-$209	-$1,358	$535	$721	-$1	-$40	$1,215	$20,921

a. Details may not add to totals due to rounding. Additional details on the revisions shown in this table appear in the 1983-84 Budget: Perspectives and Issues (Table 29, page 71) or are available from the Legislative Analyst's office.
b. Revenue figure treats certain transfers to special funds under AB 66 (Ch 1150/79) as General Fund revenue, consistent with how the Controller treats these transfers. See footnote "a" above.
c. Includes revisions to horseracing revenues (-$4 million) and inheritance and gift tax revenues (-$13 million), plus a $31 million insurance tax refund due to a court case associated with the elimination of the principal office deduction (Proposition 6, June 1976).
d. Includes $11 million from Fair and Exposition Fund.

Table A-10

History of Department of Finance General Fund Income Estimates for 1982-83
(millions of dollars)[a]

Income Category	Original Estimate (May 1981)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department							Adjustments Related to Other Factors						Actual Totals as Reported by the State Controller
		January 1982	March 1982	May 1982	January 1983	June 1983	January 1984	Subtotal	1982 Ballot Initiatives	Legislation 1981	Legislation 1982	Legislation 1983	Controller's Revisions	Subtotal	
A. Major Taxes															
Bank and Corporation	$3,755	-$334	-$330	-$325	-$235	-$129	-$29	-$1,382	--	$34	$75	$54	--	$163	$2,536
Personal Income	8,670	-659	-195	-40	-346	270	123	-847	-$222	-1	68	45	--	-110	7,713
Sales and Use	9,060	-465	-290	-40	-827	18	13	-1,591	--	--	140	34	--	174	7,643
All Other	1,558	-63	10	-3	40	10	--	-6	-145	22	227	--	$31[b]	135	1,687
Subtotal, Major Taxes	$23,043	-$1,521	-$805	-$408	-$1,368	$169	$107	-$3,826	-$367	$55	$510	$133	$31	$362	$19,579
B. Interest Income	375	-71	--	--	-74	30	-7	-122	--	--	--	--	--	--	253
C. Other Revenue	397	139	--	--	13	-27	5	130	--	--	132	--	1	133	660
Subtotal, Revenues	$23,815	-$1,453	-$805	-$408	-$1,429	$172	$105	-$3,818	-$367	$55	$642	$133	$32	$495	$20,492
D. Transfers	60	-53	--	--	-16	12	-7	-64	--	--	449	297	-3	743	739
Totals, General Fund Revenues and Transfers	$23,875	-$1,506	-$805	-$408	-$1,445	$184	$98	-$3,882	-$367	$55	$1,091	$430	$29	$1,238	$21,231

a. Details may not add to totals due to rounding. First budget estimate (January 1982) excludes an administrative proposal to raise revenues by approximately $1.2 billion. Additional details on the revisions shown in this table appear in the 1984-85 Budget: Perspectives and Issues (Table 30, page 77) or are available from the Legislative Analyst's office.

b. Reclassification of an insurance tax refund, as a claim against 1981-82 revenues instead of 1982-83 revenues, associated with a court case involving the principal office deduction initiative (Proposition 6, June 1976). The $31 million revenue loss due to this court case had been incorporated into the January 1982 insurance tax revenue estimate for 1982-83.

Table A-11

History of Department of Finance General Fund Income Estimates for 1983-84
(millions of dollars)[a]

Income Category	Original Estimate (June 1982)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department							Adjustments Related to Other Factors				Totals as of June 1984
		January 1983	April 1983	June 1983	January 1984	May 1984	June 1984	Subtotal	Legislation 1983	Legislation 1984	Court Cases and Federal Law Changes	Subtotal	
A. Major Taxes													
Bank and Corporation	$3,240	-$440	$55	-$40	$288	$5	-$40	-$172	$45	-$5	$92	$132	$3,200
Personal Income	8,810	-210	-56	310	-140	185	70	159	236	-5	--	231	9,200
Sales and Use	9,475	-1,022	-103	51	150	75	30	-819	24	--	--	24	8,680
All Other	1,290	-170	-6	1	-13	22	4	-162	8	--	--	8	1,136
Subtotal, Major Taxes	$22,815	-$1,842	-$110	$322	$285	$288	$64	-$993	$313	-$10	$92	$395	$22,216
B. Interest Income	350	-96	--	-19	5	12	8	-90	--	--	--	--	260
C. Other Revenue	500	70	--	13	--	-26	-4	53	227	--	--	227	780
Subtotal, Revenues	$23,665	-$1,868	-$110	$316	$290	$274	$68	-$1,030	$540	-$10	$92	$622	$23,256
D. Transfers	5	--	--	4	-6	-1	--	-3	440	28[b]	--	468	470
Totals, General Fund Revenues and Transfers	$23,670	-$1,868	-$110	$320	$284	$273	$68	-$1,033	$980	$18	$92	$1,090	$23,727

a. Details may not add to totals due to rounding. First budget estimate (January 1983) excludes an administrative proposal to raise revenues by approximately $675 million. Additional details on the revisions shown in this table appear in the 1984-85 Budget: Perspectives and Issues (Table 33, page 82) or are available from the Legislative Analyst's office.

b. This amount, which represents transfers to the General Fund from the COFPHE fund under AB 1XX, has been treated as a negative expenditure by the Department of Finance.

Table A-12

History of Department of Finance General Fund Income Estimates for 1984-85
(millions of dollars)[a]

Income Category	First Budget Estimate (January 1984)	Adjustments Related to Technical Reestimates and Economic Forecasting Revisions by the Department				Adjustments Related to Other Factors			Totals as of June 1984
		May 1984	June 1984	July 1984	Subtotal	Action on the 1984 Budget Act	Interest Earnings from Short-term External Borrowing Program[b]	Subtotal	
A. Major Taxes									
Bank and Corporation	$4,290	-$370	$80	--	-$290	--	--	--	$4,000
Personal Income	9,860	140	-70	93[c]	163	--	--	--	10,023
Sales and Use	9,600	110	-110	--	--	$5	--	$5	9,605
All Other	1,232	28	6	--	34	--	--	--	1,266
Subtotal, Major Taxes	$24,982	-$92	-$94	$93	-$93	$5	--	$5	$24,894
B. Interest Income	285	42	3	--	45	--	$68	68	398
C. Other Revenue	530	-14	--	--	-14	--	--	--	516[d]
Subtotal, Revenues	$25,797	-$64	-$91	$93	-$62	$5	$68	$73	$25,808
D. Transfers	29	-3	--	--	-3	3	--	3	28
Totals, General Fund Revenues and Transfers	$25,826	-$67	-$91	$93	-$65	$7[e]	$68	$75	$25,836

a. Details may not add to totals due to rounding.
b. These gains are partially offset by the interest costs of short-term external borrowing.
c. Includes $70 million reflecting a compromise between the Governor and the Legislature.
d. Includes a $5 million overstatement by the department of tidelands oil revenues.
e. Represents net effect of legislative changes ($38 million) and Governor's vetoes (-$31 million).

APPENDIX B

HISTORY OF DEPARTMENT OF FINANCE
ECONOMIC FORECASTS

1973 THROUGH 1985

Table B-1

History of Department of Finance Economic Forecasts for 1973[a]

Economic Variable	First Budget Estimate (January 1972)	First May Revision (May 1972)	Second Budget Estimate (January 1973)	Second May Revision (May 1973)	Third Budget Estimate (January 1974)	Actual[b]
A. National Variables:						
Growth in real GNP (%)	3.7%	4.1%	6.1%	6.4%	5.9%	5.8%
Consumer price inflation (%)	4.5%	4.1%	3.4%	4.4%	6.1%	6.2%
Civilian employment (000)	82,677 (2.2%)	82,840 (2.2%)	83,820 (2.6%)	83,910 (2.7%)	84,380 (3.3%)	85,064 (3.5%)
Unemployment rate (%)	5.1%	5.4%	5.2%	5.0%	4.8%	4.9%
Private housing starts (millions of units)	1.78 (-8.0%)	2.10 (-12.5%)	2.10 (-11.0%)	2.20 (-6.7%)	2.08 (-11.6%)	2.04 (-13.2%)
Automobile sales (millions of units)	NA	NA	NA	NA	11.8 (7.8%)	11.4 (4.4%)
Before-tax corporate profits (billions $)	$106.2 (9.8%)	$108.5 (11.3%)	$107.5 (13.9%)	$114.5 (21.4%)	$125.9 (28.5%)	$125.6 (24.9%)
B. California Variables:						
Personal income (billions $)	$108.7 (7.7%)	$110.4 (8.9%)	$111.5 (9.1%)	$111.7 (9.5%)	$112.0 (9.7%)	$114.7 (10.1%)
Civilian employment (000)	8,370 (2.3%)	8,405 (2.4%)	8,535 (2.8%)	8,560 (3.0%)	8,742 (5.2%)	8,285 (3.6%)
Unemployment rate (%)	NA	NA	5.4%	NA	5.1%	7.0%
Wage and salary employment (000)	NA	NA	7,450 (3.3%)	NA	7,656 (6.0%)	7,622 (5.7%)
Consumer price inflation (%)	4.5%	4.1%	3.5%	4.7%	5.8%	5.8%
Housing permits (single & multiple units, thousands)	160 (-27.3%)	170 (-38.2%)	220 (-21.4%)	225 (-19.3%)	225 (-19.1%)	216 (-22.7%)
Automobile sales (thousands of units)	1,025 (-2.4%)	NA	1,110 (1.9%)	NA	1,130 (5.0%)	1,167 (8.9%)
Taxable sales (millions $)	$53,000 (6.3%)	NA	$60,320 (11.8%)	NA	$61,030 (13.6%)	$61,738 (14.9%)
Corporate profits (millions $)	NA	NA	$9,400 (11.7%)	NA	$10,000 (10.5%)	$10,694 (20.4%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.

Table B-2

History of Department of Finance Economic Forecasts for 1974[a]

Economic Variable	First Budget Estimate (January 1973)	First May Revision (May 1973)	Second Budget Estimate (January 1974)	Second May Revision (May 1974)	Third Budget Estimate (January 1975)	Actual[b]
A. National Variables:						
Growth in real GNP (%)	4.4%	2.8%	1.6%	-0.2%	-2.0%	-0.6%
Consumer price inflation (%)	3.6%	3.6%	6.2%	10.4%	11.2%	11.0%
Civilian employment (000)	85,500 (2.0%)	85,470 (1.9%)	85,200 (1.0%)	86,400 (2.4%)	86,200 (2.1%)	86,794 (2.0%)
Unemployment rate (%)	5.0%	5.0%	5.9%	5.4%	5.5%	5.6%
Private housing starts (millions of units)	2.03 (-4.7%)	2.00 (-9.1%)	1.76 (-15.6%)	1.70 (-16.9%)	1.36 (-33.5%)	1.33 (-34.8%)
Automobile sales (millions of units)	NA	NA	10.8 (-8.9%)	9.8 (-14.9%)	9.0 (-22.1%)	8.8 (-22.8%)
Before-tax corporate profits (billions $)	$115.0 (7.0%)	$116.9 (2.1%)	$121.2 (-3.7%)	$137.0 (8.6%)	$144.6(17.8%)	$136.7 (8.8%)
B. California Variables:						
Personal income (billions $)	$121.0 (8.5%)	$120.0 (7.5%)	$120.0 (7.1%)	$121.9 (9.2%)	$124.3 (9.3%)	$128.1 (11.7%)
Civilian employment (000)	8,750 (2.5%)	8,735 (2.0%)	8,865 (1.4%)	8,320 (1.7%)	8,355 (2.2%)	8,637 (4.2%)
Unemployment rate (%)	NA	NA	5.9%	NA	7.8%	7.3%
Wage and salary employment (000)	NA	NA	7,780 (1.6%)	7,862 (3.0%)	7,825 (2.5%)	7,834 (2.8%)
Consumer price inflation (%)	3.6%	4.0%	6.1%	9.4%	10.6%	10.2%
Housing permits (single & multiple units, thousands)	175 (-20.5%)	200 (-11.1%)	200 (-11.1%)	175 (-19.7%)	123 (-43.6%)	129 (-40.2%)
Automobile sales (thousands of units)	1,100 (0%)	NA	1,015 (-10.2%)	NA	840 (-21.9%)	831[c] (-28.8%)
Taxable sales (millions $)	$64,320 (6.6%)	NA	$63,415 (3.9%)	NA	$68,400 (10.8%)	$68,071 (10.3%)
Corporate profits (millions $)	NA	NA	$10,000 (0%)	NA	$11,680 (10.3%)	$11,728 (9.7%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.
c. Assembly Bill 505 (Chapter 1010, Statutes of 1973) revised the treatment of certain noncamper trucks such as pickups, causing a one-time permanent downward shift in car sales totals.

Table B-3

History of Department of Finance Economic Forecasts for 1975[a]

Economic Variable	First Budget Estimate (January 1974)	First May Revision (May 1974)	Second Budget Estimate (January 1975)	Second May Revision (May 1975)	Third Budget Estimate (January 1976)	Actual[b]
A. National Variables:						
Growth in real GNP (%)	3.7%	3.9%	-2.2%	-4.4%	-3.0%	-1.2%
Consumer price inflation (%)	5.0%	6.5%	10.3%	8.8%	9.3%	9.1%
Civilian employment (000)	87,050 (2.2%)	88,550 (2.5%)	86,200 (0%)	84,600 (-1.6%)	84,850 (-1.3%)	85,846(-1.1%)
Unemployment rate (%)	5.8%	5.3%	7.1%	8.7%	8.5%	8.5%
Private housing starts (millions of units)	2.00 (13.6%)	2.00 (17.6%)	1.35 (-0.7%)	1.10 (-17.8%)	1.15 (-14.1%)	1.16 (-12.8%)
Automobile sales (millions of units)	11.0 (2.3%)	10.7 (9.7%)	10.0 (17.7%)	7.9 (-11.2%)	8.8 (-1.1%)	8.5 (-3.4%)
Before-tax corporate profits (billions $)	$129.5 (6.9%)	$142.0 (3.6%)	$121.0 (-16.3%)	$112.0 (-20.4%)	$121.5 (-13.7%)	$132.1 (-3.3%)
B. California Variables:						
Personal income (billions $)	$129.7 (8.1%)	$133.4 (9.4%)	$136.0 (9.4%)	$135.2 (7.5%)	$137.1 (8.7%)	$141.0 (10.1%)
Civilian employment (000)	9,080 (2.4%)	8,575 (3.1%)	8,360 (0.1%)	8,550 (0.3%)	8,505 (-0.2%)	8,597 (-0.5%)
Unemployment rate (%)	NA	NA	9.3%	9.8%	9.9%	9.9%
Wage and salary employment (000)	NA	8,153 (3.7%)	7,825 (0%)	7,860 (0.4%)	7,816 (-0.2%)	7,847 (0.2%)
Consumer price inflation (%)	5.0%	6.6%	10.8%	9.9%	10.5%	10.4%
Housing permits (single & multiple units, thousands)	220 (10.0%)	200 (14.3%)	115 (-6.5%)	115 (-10.2%)	135 (5.5%)	132 (1.9%)
Automobile sales (thousands of units)	1,075 (5.9%)	NA	775 (-7.7%)	775 (-6.6%)	825 (-0.7%)	808 (-2.7%)
Taxable sales (millions $)	NA	NA	$73,800 (7.9%)	$72,240 (6.0%)	$73,675 (8.2%)	$73,476 (7.9%)
Corporate profits (millions $)	NA	NA	$10,400 (-11.0%)	$10,400 (-14.8%)	$11,400 (-4.1%)	$12,314[c] (5.0%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.
c. Data prior to 1975 not strictly comparable, due to statutory changes governing depreciation.

Table B-4

History of Department of Finance Economic Forecasts for 1976[a]

Economic Variable	First Budget Estimate (January 1975)	First May Revision (May 1975)	Second Budget Estimate (January 1976)	Second May Revision (May 1976)	Third Budget Estimate (January 1977)	Actual[b]
A. National Variables:						
Growth in real GNP (%)	5.9%	6.3%	5.4%	6.0%	6.3%	5.4%
Consumer price inflation (%)	6.9%	5.6%	6.9%	6.0%	5.9%	5.8%
Civilian employment (000)	88,350 (2.5%)	87,600 (3.6%)	87,400 (3.0%)	87,500 (3.2%)	87,500 (3.2%)	88,752 (3.4%)
Unemployment rate (%)	6.5%	7.7%	7.8%	7.3%	7.6%	7.7%
Private housing starts (millions of units)	1.75 (29.6%)	1.58 (43.2%)	1.45 (26.1%)	1.50 (29.3%)	1.54 (32.8%)	1.53 (31.9%)
Automobile sales (millions of units)	10.0 (17.7%)	9.5 (20.3%)	10.0 (13.6%)	10.2 (14.6%)	10.2 (18.6%)	10.0 (17.6%)
Before-tax corporate profits (billions $)	$132.0 (9.1%)	$135.0 (20.5%)	$145.0 (19.3%)	$148.0 (26.4%)	$147.5 (28.8%)	$166.3 (25.9%)
B. California Variables:						
Personal income (billions $)	$150.5 (10.7%)	$148.4 (9.8%)	$151.0 (10.2%)	$153.4 (10.9%)	$154.0 (10.6%)	$156.9 (11.3%)
Civilian employment (000)	8,675 (3.8%)	8,850 (3.5%)	8,750 (2.9%)	8,710 (3.0%)	8,595 (1.7%)	8,989 (4.6%)
Unemployment rate (%)	NA	8.8%	9.2%	9.0%	9.6%	9.2%
Wage & salary employment (000)	8,120 (3.8%)	8,090 (2.9%)	8,050 (3.0%)	8,150 (3.7%)	8,137 (3.8%)	8,154 (3.9%)
Consumer price inflation (%)	6.9%	5.6%	7.6%	5.9%	6.1%	6.3%
Housing permits (single & multiple units, thousands)	175 (52.2%)	175 (52.2%)	175 (29.6%)	190 (43.9%)	215 (62.9%)	222 (68.5%)
Automobile sales (thousands of units)	NA	915 (18.1%)	935 (13.3%)	950 (17.6%)	910 (12.6%)	917 (13.5%)
Taxable sales (millions $)	$82,300 (11.5%)	$80,580 (11.5%)	$81,990 (11.3%)	$82,600 (12.4%)	$83,500 (13.6%)	$83,822 (14.1%)
Corporate profits (millions $)	NA	$12,200 (17.3%)	$12,900 (13.2%)	$13,900 (20.9%)	$14,442 (18.9%)	$15,424 (25.3%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.

Table B-5

History of Department of Finance Economic Forecasts for 1977[a]

Economic Variable	First Budget Estimate (January 1976)	First May Revision (May 1976)	Second Budget Estimate (January 1977)	Second May Revision (May 1977)	Third Budget Estimate (January 1978)	Actual[b]
A. National Variables:						
Growth in real GNP (%)	5.4%	5.4%	4.8%	4.8%	4.9%	5.5%
Consumer price inflation (%)	5.5%	6.0%	5.4%	6.4%	6.5%	6.5%
Civilian employment (000)	90,200 (3.2%)	89,950 (2.8%)	90,100 (3.0%)	90,100 (3.0%)	NA	92,017 (3.7%)
Unemployment rate (%)	6.6%	6.4%	6.9%	7.2%	7.1%	7.1%
Private housing starts (millions of units)	1.70 (17.2%)	1.85 (23.3%)	1.75 (13.6%)	1.90 (23.3%)	1.93 (25.6%)	1.96 (28.1%)
Automobile sales (millions of units)	11.0 (10.0%)	11.0 (7.8%)	10.8 (5.9%)	11.0 (8.9%)	11.4 (12.4%)	11.0 (10.0%)
Before-tax corporate profits	$168.0 (15.9%) (billions $)	$164.5 (11.2%)	$167.0 (13.2%)	$171.0 (15.5%)	$170.2 (8.5%)	$194.7 (17.1%)
B. California Variables:						
Personal income (billions $)	$167.4 (10.8%)	$169.5 (10.5%)	$169.5 (10.1%)	$172.4 (11.4%)	$173.2 (12.5%)	$175.7 (12.0%)
Civilian employment (000)	9,080 (3.8%)	9,000 (3.3%)	8,845 (2.9%)	9,140 (3.6%)	9,200 (4.3%)	9,512 (5.8%)
Unemployment rate (%)	7.9%	7.9%	8.4%	7.9%	7.6%	8.2%
Wage & salary employment (000)	8,335 (3.5%)	8,400 (3.1%)	8,430 (3.6%)	8,480 (4.4%)	8,509 (4.8%)	8,600 (5.5%)
Consumer price inflation (%)	5.6%	5.7%	5.9%	6.9%	7.0%	7.1%
Housing permits (single & multiple units, thousands)	210 (20.0%)	230 (21.1%)	240 (11.6%)	290 (31.2%)	275 (24.4%)	271 (21.9%)
Automobile sales (thousands of units)	1,030 (10.2%)	1,030 (8.4%)	990 (8.8%)	1,025 (11.8%)	1,145 (24.9%)	1,123 (22.5%)
Taxable sales (millions $)	$90,440 (10.3%)	$91,800 (11.1%)	$92,525 (10.8%)	$94,800 (13.1%)	$99,760 (19.0%)	$99,482 (18.7%)
Corporate profits (millions $)	NA	$15,400 (10.8%)	$16,200 (12.2%)	$16,900 (12.0%))	$18,150 (17.7%)	$18,830 (22.1%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.

Table B-6

History of Department of Finance Economic Forecasts for 1978[a]

Economic Variable	First Budget Estimate (January 1977)	First May Revision (May 1977)	Second Budget Estimate (January 1978)	Second May Revision (May 1978)	Third Budget Estimate (January 1979)	Actual[b]
A. National Variables:						
Growth in real GNP (%)	4.9%	5.0%	4.8%	3.9%	3.9%	5.0%
Consumer price inflation (%)	4.9%	5.3%	6.3%	6.4%	7.7%	7.7%
Civilian employment (000)	92,650 (2.8%)	92,730 (2.9%)	NA	93,800 (3.6%)	94,225 (4.1%)	96,048 (4.4%)
Unemployment rate (%)	6.2%	6.7%	6.7%	6.2%	6.1%	6.1%
Private housing starts (millions of units)	1.80 (2.9%)	1.93 (1.6%)	1.90 (1.7%)	1.83 (-8.2%)	1.97 (-0.9%)	2.00 (2.0%)
Automobile sales (millions of units)	10.8 (0%)	10.6 (-3.6%)	11.2 (-1.3%)	11.0 (-1.9%)	11.3 (0.9%)	11.2 (1.8%)
Before-tax corporate profits (billions $)	$181.5 (8.7%)	$185.5 (8.5%)	$190.5 (11.9%)	$188.0 (9.6%)	$201.0 (15.6%)	$229.1 (17.7%)
B. California Variables:						
Personal income (billions $)	$186.2 (9.8%)	$190.0 (10.2%)	$191.8 (10.7%)	$193.9 (12.5%)	$197.4 (14.0%)	$200.7 (14.2%)
Civilian employment (000)	9,070 (2.5%)	9,375 (2.6%)	9,515 (3.4%)	9,905 (6.3%)	9,824 (5.6%)	10,135 (6.5%)
Unemployment rate (%)	7.4%	7.4%	7.2%	7.4%	7.2%	7.1%
Wage & salary employment (000)	8,700 (3.2%)	8,725 (2.9%)	8,815 (3.6%)	9,123 (6.4%)	9,239 (7.6%)	9,200 (7.0%)
Consumer price inflation (%)	4.9%	5.2%	6.1%	6.7%	7.8%	8.1%
Housing permits (single & multiple units, thousands)	275 (14.6%)	260 (-10.3%)	235 (-14.5%)	235 (-13.0%)	237 (-12.3%)	244 (-9.9%)
Automobile sales (thousands of units)	990 (0%)	985 (-3.9%)	1,100 (-3.9%)	1,200 (6.9%)	1,170 (4.2%)	1,185 (5.5%)
Taxable sales (millions $)	$101,430 (9.6%)	$103,700 (9.4%)	$110,390 (10.7%)	$111,700 (12.3%)	$113,875 (14.5%)	$113,468 (14.1%)
Corporate profits (millions $)	NA	$18,400 (8.9%)	$19,965 (10.0%)	$20,500 (10.4%)	$22,600 (19.9%)	$23,247 (23.5%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.

Table B-7

History of Department of Finance Economic Forecasts for 1979[a]

Economic Variable	First Budget Estimate (January 1978)	First May Revision (May 1978)	Second Budget Estimate (January 1979)	Second May Revision (May 1979)	Update of Second May Revision (June 1979)	Third Budget Estimate (January 1980)	Actual[b]
A. National Variables:							
Growth in real GNP (%)	4.5%	3.8%	2.1%	2.1%	1.8%	2.0%	2.8%
Consumer price inflation (%)	6.0%	6.3%	8.3%	10.7%	10.6%	11.3%	11.3%
Civilian employment (000)	NA	96,095 (2.5%)	95,740 (1.6%)	96,728 (2.5%)	NA (2.3%)	96,901 (2.7%)	98,824 (2.9%)
Unemployment rate (%)	6.9%	6.3%	6.8%	6.0%	6.2%	5.8%	5.8%
Private housing starts (millions of units)	1.77 (-7.1%)	1.77 (-3.3%)	1.75 (-11.2%)	1.62 (-19.0%)	1.56 (-22.3%)	1.75 (-13.0%)	1.72 (-14.0%)
Automobile sales (millions of units)	10.6 (-5.4%)	10.7 (-2.7%)	10.4 (-8.0%)	10.9 (-3.0%)	10.8 (-4.2%)	10.6 (-6.4%)	10.6 (-5.4%)
Before-tax corporate profits (billions $)	$206.0 (8.1%)	$208.0 (10.6%)	$209.0 (4.0%)	$222.3 (10.1%)	$231.3 (14.5%)	$233.5 (13.6%)	$252.7 (10.3%)
B. California Variables:							
Personal income (billions $)	$211.5 (10.3%)	$214.6 (10.7%)	$223.2 (13.0%)	$222.0 (12.6%)	$221.6 (12.3%)	$226.5 (13.8%)	$229.3 (14.3%)
Civilian employment (000)	9,800 (3.0%)	10,330 (4.3%)	10,074 (2.5%)	10,306 (4.3%)	10,092 (2.2%)	10,248 (3.8%)	10,565 (4.2%)
Unemployment rate (%)	6.9%	6.9%	7.0%	6.6%	6.7	6.2	6.2%
Wage & salary employment (000)	9,095 (3.2%)	9,438 (3.5%)	9,550 (3.4%)	9,666 (4.6%)	9,590 (4.0%)	9,681 (4.9%)	9,665 (5.1%)
Consumer price inflation (%)	6.0%	6.3%	6.8%	9.0%	10.4%	10.7%	10.8%
Housing permits (single & multiple units, thousands)	230 (-2.1%)	220 (-6.4%)	190 (-19.8%)	190 (-19.8%)	190 (-19.8%)	212 (-13.1%)	210 (-13.8%)
Automobile sales (thousands of units)	1,050 (-4.5%)	1,150 (-4.2%)	1,080 (-7.7%)	1,131 (-4.6%)	1,140 (-3.8%)	1,140 (-3.8%)	1,127 (-4.8%)
Taxable sales (millions $)	$120,305 (9.0%)	$123,000 (10.1%)	$126,900 (11.5%)	$128,500 (13.2%)	$129,200 (13.8%)	$131,100 (15.5%)	$131,678 (16.0%)
Corporate profits (millions $)	$21,562 (8.0%)	$22,800 (11.2%)	$24,300 (7.7%)	$26,200 (12.9%)	$27,100 (16.6%)	$26,340 (13.7%)	$25,337 (9.0%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.

Table B-8

History of Department of Finance Economic Forecasts for 1980[a]

Economic Variable	First Budget Estimate (January 1979)	First May Revision (May 1979)	Update of First May Revision (June 1979)	Second Budget Estimate (January 1980)	Second May Revision (May 1980)	Third Budget Estimate (January 1981)	Actual[b]
A. National Variables:							
Growth in real GNP (%)	3.7%	1.6%	1.2%	-1.8%	-1.1%	-0.7%	-0.3%
Consumer price inflation (%)	6.8%	9.1%	9.2%	11.6%	14.0%	13.6%	13.5%
Civilian employment (000)	98,300 (2.7%)	98,082 (1.4%)	NA	97,077 (0.2%)	97,096 (0.2%)	97,246 (0.3%)	99,303 (0.5%)
Unemployment rate (%)	6.6%	6.6%	7.1%	7.6%	7.4%	7.2%	7.1%
Private housing starts (millions of units)	1.90 (8.6%)	1.64 (0.9%)	1.49 (-4.5%)	1.32 (-24.2%)	1.01 (-41.5%)	1.28 (-25.8%)	1.30 (-24.4%)
Automobile sales (millions of units)	11.0 (5.8%)	10.8 (-1.1%)	10.4 (-3.3%)	9.7 (-8.6%)	9.0 (-16.0%)	9.0 (-15.5%)	9.0 (-15.1%)
Before-tax corporate profits (billions $)	$236.0 (12.9%)	$208.2 (-6.4%)	$223.4 (-3.4%)	$214.2 (-8.3%)	$240.0 (1.4%)	$230.2 (-2.7%)	$234.6 (-7.1%)
B. California Variables:							
Personal income (billions $)	$246.5 (10.5%)	$246.0 (10.8%)	$243.5 (9.9%)	$251.2 (10.9%)	$255.5 (12.4%)	$256.6 (12.5%)	$259.6 (13.2%)
Civilian employment (000)	10,501 (4.2%)	10,671 (3.5%)	10,323 (2.3%)	10,443 (1.9%)	10,404 (1.1%)	10,432 (1.4%)	10,793 (2.2%)
Unemployment rate (%)	6.8%	6.9%	7.4%	7.6%	7.3%	6.8%	6.8%
Wage & salary employment (000)	9,850 (3.1%)	9,949 (2.9%)	9,740 (1.6%)	9,812 (1.4%)	9,885 (2.1%)	9,844 (1.7%)	9,852 (1.9%)
Consumer price inflation (%)	7.1%	8.3%	9.1%	11.7%	16.4%	15.7%	15.5%
Housing permits (single & multiple units, thousands)	215 (13.2%)	215 (13.2%)	210 (10.5%)	165 (-22.2%)	130 (-37.6%)	140 (-32.8%)	145 (-31.0%)
Automobile sales (thousands of units)	1,150 (6.5%)	1,175 (3.9%)	1,150 (0.9%)	1,070 (-6.1%)	970 (-13.9%)	950 (-15.7%)	961 (-14.8%)
Taxable sales (millions $)	$141,000 (11.1%)	$145,100 (12.9%)	$145,100 (12.3%)	$146,400 (11.7%)	$146,400 (11.2%)	$143,300 (8.8%)	$142,759 (8.4%)
Corporate profits (millions $)	$27,500 (13.2%)	$25,700 (-2.0%)	$27,000 (-0.1%)	$26,300 (0.0%)	$27,500 (5.0%)	$26,600 (5.1%)	$25,772 (1.7%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.

Table B-9

History of Department of Finance Economic Forecasts for 1981[a]

Economic Variable	First Budget Estimate (January 1980)	First May Revision (May 1980)	Second Budget Estimate (January 1981)	Second May Revision (May 1981)	Update of Second May Revision (June 1981)	Third Budget Estimate (January 1982)	Actual[b]
A. National Variables:							
Growth in real GNP (%)	4.5%	1.0%	1.3%	2.7%	2.8%	1.8%	2.6%
Consumer price inflation (%)	8.7%	11.1%	10.5%	10.3%	10.0%	10.5%	10.4%
Civilian employment (000)	99,784 (2.8%)	97,534 (0.5%)	98,617 (1.4%)	98,758 (1.5%)	99,110 (1.9%)	98,439 (1.2%)	100,397 (1.1%)
Unemployment rate (%)	7.3%	9.0%	7.8%	7.5%	7.5%	7.5%	7.6%
Private housing starts (millions of units)	1.76 (32.8%)	1.42 (41.0%)	1.37 (6.9%)	1.42 (8.6%)	1.34 (3.1%)	1.12 (-13.8)	1.10 (-15.4%)
Automobile sales (millions of units)	10.5 (8.7%)	10.3 (14.8%)	9.7 (7.4%)	9.7 (6.5%)	9.3 (3.1%)	8.7 (-3.4%)	8.5 (-5.6%)
Before-tax corporate profits[c] (billions $)	$254.3 (18.7%)	$266.3 (10.9%)	$255.7 (11.1%)	$287.0 (16.9%)	$253.9 (3.4%)	$225.3 (-8.2%)	$226.9 (-3.3%)
B. California Variables:							
Personal income (billions $)	$281.8 (12.2%)	$286.7 (12.2%)	$287.2 (11.9%)	$289.3 (12.7%)	$292.2 (13.2%)	$291.1 (12.1%)	$292.1 (12.5%)
Civilian employment (000)	10,893 (4.3%)	10,683 (2.7%)	10,897 (4.5%)	10,707 (2.5%)	10,734 (2.8%)	10,557 (1.1%)	10,937 (1.3%)
Unemployment rate (%)	7.2%	8.4%	6.7%	7.6%	7.3%	7.4%	7.4%
Wage & salary employment (000)	10,201 (4.0%)	10,030 (1.5%)	10,085 (2.4%)	10,101 (2.2%)	10,133 (2.5%)	10,078 (2.0%)	9,996 (1.5%)
Consumer price inflation (%)	8.3%	10.7%	11.4%	10.3%	10.4%	11.1%	10.9%
Housing permits (single & multiple units, thousands)	230 (39.4%)	185 (42.3%)	175 (25.0%)	155 (6.9%)	155 (6.9%)	109 (-24.3%)	105 (-27.7%)
Automobile sales (thousands of units)	1,150 (7.5%)	1,070 (10.3%)	975 (2.6%)	1,015 (6.7%)	NA	930 (-3.2%)	920 (-4.2%)
Taxable sales (millions $)	$169,400 (15.7%)	$169,400 (15.7%)	$161,000 (12.4%)	$160,000 (12.1%)	NA	$156,010 (9.3%)	$155,127 (8.7%)
Corporate profits (millions $)	$31,200 (18.5%)	$30,700 (11.6%)	$29,700 (11.7%)	$32,000 (5.9%)	NA	$29,700 (11.9%)	$23,699 (-8.0%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.
c. Beginning with the 1981 income year, pre-tax U.S. corporate profits were reduced because of various federal law changes regarding such factors as depreciation schedules. In June 1984, the department estimated that these provisions reduced U.S. taxable profits in 1981 by about $6.4 billion. The forecast revisions shown here include on-going adjustments to the originally-estimated effects of these provisions.

Table F-10

History of Department of Finance Economic Forecasts for 1982[a]

Economic Variable	First Budget Estimate (January 1981)	First May Revision (May 1981)	Update of First May Revision (June 1981)	Second Budget Estimate (January 1982)	Update of Second Budget Estimate (March 1982)	Second May Revision (May 1982)	Third Budget Estimate (January 1983)	Actual[b]
A. National Variables:								
Growth in real GNP (%)	4.2%	4.1%	4.1%	-0.4%	-1.1%	-1.1%	-1.8%	-1.9%
Consumer price inflation (%)	9.1%	9.2%	9.1%	8.5%	6.1%	6.1%	6.3%	6.1%
Civilian employment (000)	101,815 (3.2%)	101,986 (3.3%)	101,553 (2.5%)	98,750 (0.3%)	99,442 (-1.0%)	99,788 (-0.6%)	99,605 (-0.8%)	99,526 (-0.9%)
Unemployment rate (%)	7.3%	7.0%	7.3%	8.4%	9.2%	9.2%	9.6%	9.7%
Private housing starts (millions of units)	1.62 (18.9%)	1.76 (24.4%)	1.78 (32.5%)	1.24 (10.2%)	1.04 (-6.2%)	1.04 (-5.9%)	1.04 (-5.3%)	1.06 (-3.6%)
Automobile sales (millions of units)	10.5 (8.4%)	10.1 (4.3%)	10.3 (10.4%)	8.5 (-1.6%)	8.8 (1.9%)	8.3 (-3.6%)	7.8 (-8.8%)	8.0 (-5.9%)
Before-tax corporate profits[c] (billions $)	$283.6 (10.9%)	$334.5 (16.6%)	$281.4 (10.8%)	$229.6 (1.9%)	$205.3 (-12.2%)	$180.0 (-22.8%)	$176.9 (-23.8%)	$174.2 (-23.2%)
B. California Variables:								
Personal income (billions $)	$321.8 (12.0%)	$327.3 (13.1%)	$329.7 (12.8%)	$321.1 (10.3%)	$316.8 (8.5%)	$316.6 (8.5%)	$311.0 (7.8%)	$310.7 (6.4%)
Civilian employment (000)	11,378 (4.4%)	11,304 (5.6%)	11,244 (4.8%)	10,668 (1.1%)	10,958 (0.5%)	10,995 (0.8%)	10,940 (0.3%)	10,973 (0.3%)
Unemployment rate (%)	6.1%	7.0%	7.0%	8.1%	9.3%	9.1%	9.9%	9.9%
Wage & salary employment (000)	10,456 (3.7%)	10,563 (4.6%)	10,526 (3.9%)	10,192 (1.1%)	10,117 (0.7%)	10,067 (0.3%)	9,901 (-1.4%)	9,824 (-1.7%)
Consumer price inflation (%)	9.4%	9.9%	10.0%	11.3%	7.0%	7.5%	6.9%	6.5%
Housing permits (single & multiple units, thousands)	215 (22.9%)	190 (22.6%)	190 (22.6%)	125 (14.4%)	95 (-9.6%)	86 (-18.2%)	79 (-25.8%)	84 (-19.9%)
Automobile sales (thousands of units)	1,060 (8.7%)	1,100 (8.4%)	NA	975 (4.8%)	950 (3.3%)	NA	840 (-8.7%)	852 (-7.4%)
Taxable sales (millions $)	$183,150 (13.8%)	$183,200 (14.5%)	NA	$171,006 (9.6%)	$164,600 (6.1%)	$163,160 (5.2%)	$154,400 (-0.5%)	$154,553 (-0.4%)
Corporate profits (millions $)	$33,100 (11.4%)	$37,000 (15.7%)	NA	$32,900 (10.8%)	$28,000 (1.8%)	$25,000 (-3.8%)	$23,500 (-3.6%)	$24,123 (1.4%)[d]

a. Figures in parentheses represent estimated annual percentage changes in variable values.

b. Actual values as reported in the 1984 Economic Report of the President and the 1984 Economic Report of the Governor. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.

c. Beginning with the 1981 income year, pre-tax U.S. corporate profits were reduced because of various federal law changes regarding such factors as depreciation schedules. In June 1984, the department estimated that these provisions reduced U.S. taxable profits in 1982 by about $15.1 billion. The forecast revisions shown here include the on-going adjustments to the originally-estimated effects of these provisions.

d. Profit total reflects approximately $100 million in additional 1982 profits due to a revised procedure adopted in May 1984 for allocating profits of non-calendar year corporations between calendar years. This revised treatment, while adjusted for in the "actual percentage gain" figure, is not incorporated into the various profits forecasts for 1982.

Table B-11

History of Department of Finance Economic Forecasts for 1983[a]

Economic Variable	First Budget Estimate (January 1982)	Update of First Budget Estimate (March 1982)	First May Revision (May 1982)	Second Budget Estimate (January 1983)	Update of Second Budget Estimate (April 1983)	Second May Revision[b] (May 1983)	Third Budget Estimate (January 1984	Actual[c]
A. National Variables:								
Growth in real GNP (%)	4.0%	3.8%	4.0%	2.2%	2.9%	2.7%	3.5%	3.4%
Consumer price inflation (%)	7.5%	6.0%	5.6%	5.5%	3.2%	3.5%[d]	3.3%	3.2%
Civilian employment (000)	101,301 (2.6%)	101,895 (2.5%)	102,325 (2.5%)	100,617 (1.0%)	100,576 (1.1%)	100,022 (0.5%)	100,744 (1.2%)	100,821 (1.3%)
Unemployment rate (%)	7.6%	8.7%	8.6%	10.0%	10.0%	10.0%	9.6%	9.6%
Private housing starts (millions of units)	1.54 (24.0%)	1.40 (34.2%)	1.43 (37.9%)	1.34 (28.7%)	1.58 (49.4%)	1.62 (53.2%)	1.71 (61.6%)	1.70 (61.3%)
Automobile sales (millions of units)	9.4 (9.6%)	9.7 (10.7%)	9.9 (19.1%)	8.6 (10.9%)	9.1 (13.4%)	8.8 (10.4%)	9.1 (13.9%)	9.2 (15.2%)
Before-tax corporate profits[e] (billions $)	$282.3 (23.0%)	$230.6 (12.3%)	$208.4 (15.7%)	$195.8 (10.7%)	$210.4 (19.2%)	$220.8 (26.2%)	$202.1 (16.0%)	$207.6 (19.2%)
B. California Variables:								
Personal income (billions $)	$358.1 (11.5%)	$348.0 (9.8%)	$347.2 (9.7%)	$337.6 (8.5%)	$333.0 (7.2%)	$330.8 (6.6%)	$332.1 (6.9%)	$332.1 (6.9%)
Civilian employment (000)	11,131 (4.3%)	11,376 (3.8%)	11,371 (3.4%)	11,110 (1.5%)	11,068 (0.8%)	11,050 (0.7%)	11,116 (1.3%)	11,140 (1.5%)
Unemployment rate (%)	7.1%	8.9%	8.3%	10.2%	10.8%	10.1%	9.7%	9.7%
Wage & salary employment (000)	10,605 (4.1%)	10,487 (3.7%)	10,429 (3.6%)	9,974 (0.7%)	9,997 (1.3%)	9,925 (0.7%)	9,969 (1.0%)	10,007 (1.9%)
Consumer price inflation (%)	8.3%	5.8%	4.7%	4.4%	0.9%	1.7%[d]	1.8%	1.6%
Housing permits (single & multiple units, thousands)	175 (40.0%)	145 (52.6%)	140 (63.4%)	125 (58.8%)	135 (65.3%)	135 (61.3%)	162 (93.5%)	164 (95.5%)
Automobile sales (thousands of units)	1,095 (12.3%)	1,060 (11.6%)	NA	930 (10.7%)	970 (NA)	975 (NA)	1,010 (18.6%)	1,032 (21.1%)
Taxable sales (millions $)	$197,814 (15.7%)	$188,100 (14.3%)	$187,790 (15.1%)	$168,100 (8.9%)	$165,950 (7.4%)	$166,830 (7.9%)	$168,900 (9.3%)	$169,412 (9.6%)
Corporate profits (millions $)	$39,100 (18.8%)	$33,200 (18.6%)	$29,500 (18.0%)	$25,400 (8.1%)	$25,900 (10.2%)	$25,900 (10.2%)	$28,500 (20.8%)	$27,461[f] (13.8%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Forecast prepared in May and released in June.
c. Actual values as reported by the California Department of Finance in June 1984. In some instances, actual data values and some forecast revisions may reflect certain revisions in variable definitions which are not reflected in earlier forecasts.
d. Beginning with this forecast, California CPI data shown reflect the revised CPI developed by the U.S. Bureau of Labor Statistics to account for, among other things, a rental-equivalency treatment of homeownership costs. This new CPI began publication in January 1983.
e. Beginning with the 1981 income year, pre-tax U.S. corporate profits were reduced because of various federal law changes regarding such factors as depreciation schedules. In June 1984, the department estimated that these provisions reduced U.S. taxable profits in 1983 by about $33.4 billion. The forecast revisions shown here include on-going adjustments to the originally-estimated effects of these provisions.
f. Profit total reflects a revised procedure adopted in May 1984 for allocating profits of non-calendar year corporations between calendar years. This revised treatment, while adjusted for in the "actual percentage gain" figure, is not incorporated into the various profits forecasts for 1983.

Table B-12

History of Department of Finance Economic Forecasts for 1984[a]

Economic Variable	First Budget Estimate (January 1983)	Update to First Budget Estimate (April 1983)	First May Revision[b] (May 1983)	Second Budget Estimate (January 1984)	Second May Revision (May 1984)	Update to Second May Revision (June 1984)
A. National Variables:						
Growth in real GNP (%)	4.4%	4.5%	4.7%	5.6%	5.9%	5.7%
Consumer price inflation (%)	6.0%	5.2%	5.3%[c]	5.4%	5.0%	5.0%
Civilian employment (000)	103,733 (3.1%)	104,082 (3.5%)	103,213 (3.2%)	104,393 (3.6%)	104,954 (4.1%)	104,906 (4.1%)
Unemployment rate (%)	8.7%	9.1%	8.9%	8.1%	7.5%	7.7%
Private housing starts (millions of units)	1.63 (21.3%)	1.65 (4.1%)	1.71 (5.4%)	1.73 (1.1%)	1.89 (10.7%)	1.85 (8.8%)
Automobile sales (millions of units)	10.2 (18.2%)	10.4 (15.3%)	9.9 (12.3%)	10.4 (14.5%)	10.6 (15.2%)	10.4 (12.9%)
Before-tax corporate profits[d] (billions $)	$229.0 (17.0%)	$248.5 (18.1%)	$268.6 (21.6%)	$257.4 (27.3%)	$241.3 (16.2%)	$247.9 (19.4%)
B. California Variables:						
Personal income (billions $)	$370.3 (9.7%)	$363.4 (9.1%)	$362.3 (9.5%)	$364.4 (9.7%)	$365.8 (10.2%)	$366.4 (10.3%)
Civilian employment (000)	11,579 (4.2%)	11,597 (4.8%)	11,474 (3.8%)	11,591 (4.3%)	11,560 (3.8%)	11,575 (3.9%)
Unemployment rate (%)	8.5%	9.5%	9.1%	7.9%	7.7%	7.6%
Wage & salary employment (000)	10,300 (3.3%)	10,402 (4.1%)	10,289 (3.7%)	10,359 (3.9%)	10,542 (5.3%)	10,557 (5.5%)
Consumer price inflation (%)	6.7%	5.1%	6.1%[c]	6.0%	5.1%	5.1%
Housing permits (single & multiple units, thousands)	150 (20.0%)	165 (22.2%)	165 (22.2%)	170 (4.9%)	185 (13.1%)	189 (15.4%)
Automobile sales (thousands of units)	1,090 (17.2%)	1,115 (14.9%)	NA	1,110 (9.9%)	1,170 (13.4%)	1,195 (15.8%)
Taxable sales (millions $)	$191,000 (13.6%)	$187,545 (13.0%)	$188,020 (12.7%)	$190,700 (12.9%)	$193,410 (14.2%)	$192,990 (13.9%)
Corporate profits (millions $)	$29,200 (15.0%)	$30,600 (18.1%)	$30,600 (18.1%)	$36,000 (26.4%)	$33,320[e] (18.6%)	$33,794[e] (23.1%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Forecast prepared in May and released in June.
c. Beginning with this forecast, California CPI data shown reflect the revised CPI developed by the U.S. Bureau of Labor Statistics to account for, among other things, a rental-equivalency treatment of homeownership costs. This new CPI began publication in January 1983.
d. Beginning with the 1981 income year, pre-tax U.S. corporate profits were reduced because of various federal law changes regarding such factors as depreciation schedules. In June 1984, the department estimated that these provisions reduced U.S. taxable profits in 1984 by about $45 billion. The forecast revisions shown here include on-going adjustments to the originally-estimated effects of these provisions.
e. Profit total reflects a revised procedure adopted in May 1984 for allocating profits of non-calendar year corporations between calendar years. This revised treatment, while adjusted for in the percentage gain figure, is not incorporated into the earlier profits forecasts.

Table B-13

History of Department of Finance Economic Forecasts for 1985[a]

Economic Variable	First Budget Estimate (January 1984)	First May Revision (May 1984)	Update of First May Revision (June 1984)
A. National Variables:			
Growth in real GNP (%)	3.2%	3.6%	3.0%
Consumer price inflation (%)	5.7%	5.3%	5.3%
Civilian employment (000)	106,599 (2.1%)	107,590 (2.5%)	107,188 (2.2%)
Unemployment rate (%)	7.7%	6.9%	7.3%
Private housing starts (millions of units)	1.63 (-5.6%)	1.70 (-9.8%)	1.67 (-9.9%)
Automobile sales (millions of units)	10.8 (3.4%)	10.7 (0.7%)	10.1 (-2.4%)
Before-tax corporate profits[b] (billions $)	$299.7 (16.4%)	$262.1 (8.6%)	$276.2 (11.4%)
B. California Variables:			
Personal income (billions $)	$394.9 (8.4%)	$398.8 (9.0%)	$398.3 (8.7%)
Civilian employment (000)	11,897 (2.6%)	11,884 (2.8%)	11,857 (2.4%)
Unemployment rate (%)	7.6%	7.1%	7.1%
Wage & salary employment (000)	10,630 (2.6%)	10,889 (3.3%)	10,868 (2.9%)
Consumer price inflation (%)	6.0%	5.6%	5.6%
Housing permits (single & multiple units, thousands)	155 (-8.8%)	183 (-1.4%)	165 (-12.6%)
Automobile sales (thousands of units)	1,155 (4.1%)	1,175 (0.4%)	1,145 (-4.2%)
Taxable sales (millions $)	$207,800 (9.0%)	$212,120 (9.7%)	$208,820 (8.2%)
Corporate profits (millions $)	$42,200 (17.0%)	$38,270 (14.9%)[c]	$39,397[c] (16.6%)

a. Figures in parentheses represent estimated annual percentage changes in variable values.
b. Beginning with the 1981 income year, pre-tax U.S. corporate profits were reduced because of various federal law changes regarding such factors as depreciation schedules. In June 1984, the department estimated that these provisions reduced U.S. taxable profits in 1985 by about $60 billion. The forecast revisions shown here include on-going adjustments to the originally-estimated effects of these provisions.
c. Profit total reflects a revised procedure adopted in May 1984 for allocating profits of non-calendar year corporations between calendar years. This revised treatment, while adjusted for in the percentage gain figure, is not incorporated into the earlier profits forecasts.

APPENDIX C

THE TRACK RECORD OF SELECTED NATIONAL ECONOMIC FORECASTERS

1973 THROUGH 1984

Table C-1

Comparisons and Accuracy of 1973 National Economic Forecasts for Selected Variables and Forecasters

		Percent Change in:						Housing Starts	
		Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits	Personal Income	Unemployment Rate	(millions of units)	Savings Rate
A.	Department of Finance	6.1%	3.4%	3.4%	15.4%	8.6%	5.2%	2.10	7.4%
B.	Other Forecasters[a]								
	Security Pacific Bank[b]	6.1	3.6	NA	NA	9.1	5.1	NA	7.6
	Wells Fargo Bank								
	United California Bank	6.0	3.5	3.5	18.8	8.4	5.1	2.10	6.6
	UCLA	6.0	3.4	3.4	15.7	8.9	5.1	1.78	7.7
	Average of "Other" Forecasters	6.0%	3.5%	3.4%	17.2%	8.8%	5.1%	1.94	7.3%
C.	ACTUAL[c]	5.8%	5.8%	6.2%	24.9%	12.0%	4.9%	2.04	8.6%

a. Forecasts as of approximately year-end 1972, corresponding to when the Department of Finance forecast was prepared.
b. Forecast as of March 1983.
c. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-2

Comparisons and Accuracy of 1974 National Economic Forecasts for Selected Variables and Forecasters

		Percent Change in:						Housing Starts (millions of units)	
		Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits	Personal Income	Unemployment Rate		Savings Rate
A.	Department of Finance	1.6%	4.1%	6.2%	-3.7%	7.3%	5.9%	1.76	6.6%
B.	Other Forecasters[a]								
	Security Pacific Bank	2.2	5.8	6.4	NA	8.4	5.2	1.72	6.5
	United California Bank	3.5	5.0	5.1	-4.7	8.2	5.4	1.80	6.7
	UCLA	1.2	6.4	7.5	-7.9	NA	5.5	1.55	7.8
	Average of "Other" Forecasters	2.3%	5.7%	6.3%	-6.3%	8.3%	5.4%	1.69	7.0%
C.	ACTUAL[b]	-0.6%	8.9%	11.0%	8.8%	9.7%	5.6%	1.33	8.5%

a. Forecasts as of approximately year-end 1973, corresponding to when the Department of Finance forecast was prepared.

b. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-3

Comparisons and Accuracy of 1975 National Economic Forecasts for Selected Variables and Forecasters

		Percent Change in:						Housing Starts (millions of units)	
		Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits	Personal Income	Unemployment Rate		Savings Rate
A.	Department of Finance	-2.2%	10.2%	10.3%	-16.3%	9.3%	7.1%	1.35	6.8%
B.	Other Forecasters[a]								
	Security Pacific Bank	-1.9	8.8	9.4	NA	8.2	7.8	1.32	7.3
	Crocker Bank	-1.6	9.7	NA	NA	9.5	7.4	1.40	NA
	Wells Fargo Bank	0.0	8.5	9.0	NA	9.0	6.7	NA	NA
	United California Bank	-0.6	8.0	9.0	NA	8.4	6.0	1.50	7.5
	UCLA	-1.8	9.3	9.6	-24.6	10.2	7.7	1.27	8.1
	Average of "Other" Forecasters	-1.2%	8.9%	9.3%	-24.6%	9.1%	7.1%	1.37	7.6%
C.	ACTUAL[b]	-1.2%	9.2%	9.1%	-3.3%	8.2%	8.5%	1.16	8.6%

a. Forecasts as of approximately year-end 1974, corresponding to when the Department of Finance forecast was prepared.

b. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-4

Comparisons and Accuracy of 1976 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:						
	Real GNP	GNP Prices	Consumer Price Index	Personal Income	Unemployment Rate	Housing Starts (millions of units)	Savings Rate
A. Department of Finance	5.4%	6.0%	6.9%	10.4%	7.8%	1.45	7.4%
B. Other Forecasters[a]							
Security Pacific Bank	5.7	5.7	6.5	11.0	7.7	1.59	8.1
Crocker Bank	5.5	6.1	NA	NA	7.7	1.51	8.2
Wells Fargo Bank	5.7	5.5	6.3	NA	7.8	1.54	7.8
United California Bank	6.0	6.7	7.6	12.1	7.6	1.45	8.4
UCLA	5.6	5.2	6.5	10.3	8.1	1.46	8.0
Average of "Other" Forecasters	5.7%	5.8%	6.7%	11.1%	7.8%	1.51	8.1%
C. ACTUAL[b]	5.4%	5.2%	5.8%	10.0%	7.7%	1.53	6.9%

a. Forecasts as of approximately year-end 1975, corresponding to when the Department of Finance forecast was prepared.

b. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-5

Comparisons and Accuracy of 1977 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:						
	Real GNP	GNP Real	Consumer Price Index	Personal Income	Unemployment Rate	Housing Starts (millions of units)	Savings Rate
A. Department of Finance	4.8%	5.3%	5.4%	10.1%	6.9%	1.75	7.2%
B. Other Forecasters[a]							
Security Pacific Bank	4.7	5.1	5.3	9.6	7.3	1.81	NA
Crocker Bank	3.9	5.1	NA	NA	7.6	1.81	7.3
United California Bank	4.9	6.0	6.5	10.3	6.9	1.60	6.7
UCLA	5.2	5.3	5.1	9.9	7.2	1.86	6.7
Chase Econometrics	4.6	5.1	5.8	10.3	7.9	1.60	7.2
Average of "Other" Forecasters	4.7%	5.3%	5.7%	10.0%	7.4%	1.74	7.0%
C. ACTUAL[b]	5.5%	5.8%	6.5%	10.7%	7.1%	1.96	5.9%

a. Forecasts as of approximately year-end 1976, corresponding to when the Department of Finance forecast was prepared.

b. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-6

Comparisons and Accuracy of 1978 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:							
	Real GNP	GNP Prices	Consumer Price Index	Personal Income	Unemployment Rate	New Car Sales (millions of units)	Housing Starts (millions of units)	Savings Rate
A. Department of Finance	4.8%	5.8%	6.3%	10.4%	6.7%	11.2	1.90	5.8%
B. Other Forecasters[a]								
Security Pacific Bank	4.1	5.8	5.7	10.0	6.6	11.1	1.86	5.9
Crocker Bank	4.9	5.9	NA	10.5[b]	6.5	11.1	1.81	5.7
Wells Fargo Bank	4.5	5.5	6.0	10.5[b]	6.5	11.3	1.90	5.6
United California Bank	2.9	5.9	6.0	9.2	7.3	10.5	1.70	5.9
UCLA	4.9	6.2	5.4	10.8	6.6	11.1	1.96	6.6
Chase Econometrics	3.9	5.9	5.9	10.1	6.7	10.5	1.85	6.2
Bank of America	4.4	6.5	6.2	10.5	6.5	10.6	1.85	5.3
Average of "Other" Forecasters	4.2%	6.0%	5.9%	10.2%	6.7%	10.9	1.85	5.9%
C. ACTUAL[c]	5.0%	7.4%	7.7%	12.5%	6.1%	11.2	2.00	6.1%

a. Forecasts as of approximately year-end 1977, corresponding to when the Department of Finance forecast was prepared.
b. Growth in disposable personal income.
c. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-7

Comparisons and Accuracy of 1979 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:							
	Real GNP	GNP Prices	Consumer Price Index	Personal Income	Unemployment Rate	New Car Sales (millions of units)	Housing Starts (millions of units)	Savings Rate
A. Department of Finance	2.1%	7.4%	8.3%	10.4%	6.8%	10.4	1.75	5.7%
B. Other Forecasters[a]								
Security Pacific Bank	1.6	8.1	8.7	10.4	6.6	10.0	1.52	5.5
Crocker Bank	2.3	8.2	9.5	11.7	6.4	10.6	1.70	6.0
Wells Fargo Bank	1.8	7.5	8.5[b]	9.9	6.7	10.5	1.69	6.0
United California Bank	3.4	6.6	6.8	10.6	6.3	10.8	1.75	6.2
UCLA	2.1	7.1	7.7	9.7	6.6	10.2	1.60	6.3
Chase Econometrics	1.5	7.7	8.5	9.9	6.6	10.3	1.57	5.2
Bank of America	1.9	7.5	7.6	10.2	6.6	10.5	1.70	6.2
Average of "Other" Forecasters	2.1%	7.5%	8.2%	10.3%	6.5%	10.4	1.65	5.9%
C. ACTUAL[c]	2.8%	8.7%	11.3%	12.6%	5.8%	10.6	1.72	5.9%

a. Forecasts as of approximately year-end 1978, corresponding to when the Department of Finance forecast was prepared.
b. Published forecast showed a range of 8 percent to 9 percent.
c. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-8

Comparisons and Accuracy of 1980 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:						
	Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits	Unemployment Rate	New Car Sales (millions of units)	Housing Starts (millions of units)
A. Department of Finance	-1.8%	10.3%	11.6%	-8.3%	7.6%	9.7	1.32
B. Other Forecasters[a]							
Security Pacific Bank	-2.0	9.1	12.1	-10.0	7.8	9.0	1.29
Wells Fargo Bank	-1.8	9.0	11.3	NA	7.6	9.8	1.40
United California Bank	0.5	8.6	9.5	2.2	7.1	10.0	1.60
UCLA	-1.7	8.4	11.1	-5.1	7.4	9.4	1.51
Chase Econometrics	-1.8	8.2	11.3	-13.4	7.7	9.1	1.36
Bank of America	-2.1	9.0	11.0	NA	7.4	9.3	1.40
Average of "Other" Forecasters	-1.5%	8.7%	11.1%	-6.6%	7.5%	9.4	1.43
C. ACTUAL[b]	-0.3%	9.2%	13.5%	-7.1%	7.1%	9.0	1.30

a. Forecasts as of approximately year-end 1979, corresponding to when the Department of Finance forecast was prepared.

b. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-9

Comparisons and Accuracy of 1981 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:						
	Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits	Unemployment Rate	New Car Sales (millions of units)	Housing Starts (millions of units)
A. Department of Finance	1.3%	9.4%	10.5%	11.1%	7.8%	9.7	1.37
B. Other Forecasters[a]							
Security Pacific Bank	0.5	10.2	10.4	3.5	8.1	9.4	1.40
Crocker Bank	0.0	9.1	10.1	12.5	7.9	8.9	1.35
Wells Fargo Bank	1.2	9.5	9.6	NA	7.8	9.3	1.56
United California Bank	2.1	8.5	10.0	4.9	7.0	10.2	1.55
UCLA	1.3	9.8	11.0	-4.1	7.8	9.4	1.44
Data Resources, Inc.	0.8	9.8	11.0	-6.3	7.9	9.3	1.44
Chase Econometrics	0.6	10.2	11.6	0.5	8.1	9.2	1.40
Bank of America	0.5	9.6	9.7	-1.3	7.8	8.6	1.50
Average of "Other" Forecasters	0.9%	9.6%	10.4%	1.4%	7.8%	9.3	1.46
ACTUAL[b]	2.6%	9.4%	10.4%	-3.3%	7.6%	8.5	1.10

a. Forecasts as of approximately year-end 1980, corresponding to when the Department of Finance forecast was prepared.

b. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-10

Comparisons and Accuracy of 1982 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:						
	Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits	Unemployment Rate	New Car Sales (millions of units)	Housing Starts (millions of units)
A. Department of Finance	-0.4%	8.6%	8.5%	1.9%	8.4%	8.5	1.24
B. Other Forecasters[a]							
Security Pacific Bank	-0.3	7.9	7.8	-3.5	9.2	8.9	1.30
Crocker Bank	-0.5	7.5	7.6	NA	8.6	8.9	1.32
Wells Fargo Bank	0.1	7.8	8.3	NA	8.2	9.2	1.20
First Interstate Bank[b]	2.5	7.9	8.2	11.2	7.1	9.7	1.55
UCLA	-1.7	7.1	5.9	-15.9	8.9	8.3	1.32
Data Resources, Inc.	-0.6	7.7	8.3	-7.1	8.6	9.1	1.28
Chase Econometrics	0.0	8.2	8.4	-7.0	9.0	9.4	1.26
Bank of America	-0.9	7.7	8.2	-15.6	8.7	8.9	1.20
Average of "Other" Forecasters	-1.8%	7.7%	7.8%	-6.3%	8.5%	9.1	1.30
C. ACTUAL[c]	-1.9%	6.0%	6.1%	-23.2%	9.7%	8.0	1.06

a. Forecasts as of approximately year-end 1981, corresponding to when the Department of Finance forecast was prepared.
b. Formerly United California Bank (UCB).
c. Actual values as reported in the 1984 Economic Report of the President and/or the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-11

Comparisons and Accuracy of 1983 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:							
	Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits	Personal Income	Unemployment Rate	New Car Sales (millions of units)	Housing Starts (millions of units)
A. Department of Finance	2.2%	5.2%	5.5%	10.7%	7.4%	10.0%	8.6	1.34
B. Other Forecasters[a]								
Security Pacific Bank	2.1	5.3	5.1	22.2	7.3	10.6	8.9	1.48
Evans Economics	3.2	5.7	5.8	NA	NA	9.3	9.1	1.38
Conference Board	0.9	5.0	4.7	11.9	5.6	11.4	8.4	1.35
Wells Fargo Bank	2.4	5.2	5.3	23.1	6.8	10.5	8.9	1.33
First Interstate Bank[b]	3.6	5.8	5.6	19.8[c]	9.5	9.5	9.0	1.31
UCLA	1.9	5.1	3.9	7.0	7.1	10.9	8.9	1.41
Citibank	3.1	5.4	5.2	15.9	8.3	9.9	9.4	1.50
Commission on State Finance	2.2	5.2	5.2	10.3	7.5	10.1	8.6	1.41
Data Resources, Inc.	1.6	5.3	5.1	8.5	7.4	10.7	8.7	1.48
Wharton	2.4	5.2	4.9	10.2	7.1	10.5	9.6	1.47
Chase Econometrics	2.1	5.0	4.8	14.6	7.2	10.3	9.3	1.39
Bank of America	1.9[d]	5.3	4.9	2.0	6.8	10.3	8.5	1.39
Blue Chip Concensus[e]	2.5	5.1	5.0	17.5	7.6	10.3	9.2	1.45
Average of "Other" Forecasters	2.3%	5.3%	5.0%	13.6%	7.4%	10.3%	9.0	1.41
C. ACTUAL[f]	3.4%	4.2%	3.2%	19.2%	6.3%	9.6%	9.2	1.70

a. Forecasts as of approximately year-end 1982, corresponding to when the Department of Finance forecast was prepared.
b. Formerly United California Bank (UCB).
c. Projection of pre-tax corporate operating profits.
d. Midpoint of published forecast range of 1.3 percent to 2.5 percent.
e. Consensus forecast for approximately 40 private sector economic forecasters collected monthly by Eggert Economic Enterprises, Inc.
f. Actual values as reported by the Department of Finance in June 1984. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table C-12

Comparisons and Accuracy of 1984 National Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:							
	Real GNP	GNP Prices	Consumer Price Index	Pre-Tax Profits[a]	Real Disposable Personal Income	Unemployment Rate	New Car Sales (millions of units)	Housing Starts (millions of units)
A. Department of Finance	5.6%	4.3%	5.4%	27.3%	4.7%[b]	8.1%	10.4	1.73
B. Other Forecasters[c]								
Security Pacific Bank	5.6	4.7	5.4	28.5	4.7	7.8	10.3	1.76
Crocker Bank	4.5	4.9	4.9	NA	4.1	8.7	10.3	1.68
Evans Economic	4.4	3.9	3.9	19.6	4.8	8.0	9.9	1.61
Conference Board	5.5	4.6	5.6	30.1	NA	8.0	10.2	1.76
First Interstate Bank[d]	5.0	5.3	5.8	25.6	3.9	8.4	10.1	1.63
UCLA	5.5	4.9	5.1	23.6	4.7	8.2	10.0	1.73
Commission on State Finance	5.4	4.7	4.9	23.0	4.4	8.2	10.4	1.73
Data Resources, Inc.	5.4	4.7	4.9	23.0	4.4	8.1	10.4	1.73
Chase Econometrics	5.2	4.9	4.9	23.0	4.4	8.0	10.3	1.71
Bank of America	5.6	5.1	4.9	27.4	4.5	8.2	10.4	1.75
Blue Chip Concensus[e]	5.3	4.7	5.0	24.7	5.2	8.0	10.3	1.74
Average of "Other" Forecasters	5.2%	4.8%	5.1%	25.5%	4.3%	8.1%	10.2	1.71
C. ACTUAL	NA	NA	NA	NA	NA	NA	NA	NA

a. For most forecasters this figure was reported as having been computed without the inventory valuation adjustment.
b. Computed by deflating total disposable personal income by the U.S. GNP Consumption Expenditures Deflator. "Real" income growth would be 3.9 percent using the Consumer Price Index.
c. Forecasts as of approximately year-end 1983, corresponding to when the Department of Finance forecast was prepared.
d. Formerly United California Bank (UCB).
e. Consensus forecast for approximately 40 private sector forecasters collected monthly by Eggert Economic Enterprises, Inc.

APPENDIX D

THE TRACK RECORD OF SELECTED CALIFORNIA ECONOMIC FORECASTERS

1973 THROUGH 1984

Table D-1

Comparisons and Accuracy of 1973 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	9.1%	3.5%	5.4%	2.8%	5.4%	220
B. Other Forecasters[c]						
Security Pacific Bank	8.4	4.0	4.2	2.9	5.1	240
United California Bank	9.4	3.3	5.9	2.8	5.5	225
UCLA	8.2	NA	NA	3.1	5.4	NA
Average of "Other" Forecasters	8.7%	3.7%	5.1%	2.9%	5.3%	233
C. ACTUAL[d]	10.1%	5.8%	4.1%	3.6%	7.0%	216

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1972, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-2

Comparisons and Accuracy of 1974 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	7.1%	6.1%	0.9%	1.4%	5.9%	200
B. Other Forecasters[c]						
Security Pacific Bank	7.6	5.8	1.7	0.4	5.5	200
United California Bank	8.0	5.0	2.9	1.8	5.4	200
UCLA	9.2	8.0	1.1	2.1	5.7	NA
Average of "Other" Forecasters	8.3%	6.3%	1.9%	1.4%	5.5%	200
C. ACTUAL[d]	11.7%	10.2%	1.4%	4.2%	7.3%	129

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1973, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-3

Comparisons and Accuracy of 1975 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	9.4%	10.8%	-1.3%	0.1%	9.3%	115
B. Other Forecasters[c]						
Security Pacific Bank	8.5	9.8	-1.2	-0.5	9.8	127
Crocker Bank	9.5	10.0	-0.5	0.9	9.3	NA
Wells Fargo Bank	9.0	8.5	0.5	0.2	8.9	131
United California Bank	9.2	9.0	0.2	2.3	8.3	217
UCLA	9.3	8.8	0.5	-2.4	9.9	110
Average of "Other" Forecasters	9.1	9.2	-0.1	0.1	9.2	146
C. ACTUAL[d]	10.1	10.4	-0.3	-0.5	9.9	132

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1974, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-4

Comparisons and Accuracy of 1976 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	10.2%	7.6%	2.4%	2.9%	9.2%	175
B. Other Forecasters[c]						
Security Pacific Bank	10.2	7.3	2.7	NA	9.3	180
Crocker Bank	10.2	7.5	2.5	2.1	9.6	164
Wells Fargo Bank	9.0	6.3	2.5	2.0	9.0	170
United California Bank	11.6	7.6	3.7	3.2	9.2	150
UCLA	9.8	7.2	2.4	2.0	9.4	198
Average of "Other" Forecasters	10.2%	7.2%	2.8%	2.3%	9.3%	172
C. ACTUAL[d]	11.3%	6.3%	4.7%	4.6%	9.2%	222

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1975, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-5

Comparisons and Accuracy of 1977 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	10.1%	5.9%	4.0%	2.9%	8.4%	240
B. Other Forecasters[c]						
Security Pacific Bank	10.6	5.8	4.5	3.5	8.2	217
Crocker Bank	9.9	6.3	3.4	3.2	8.9	216
United California Bank	11.6	6.7	4.6	3.0	8.9	240
UCLA	11.0	5.5	5.2	3.7	8.1	231
Average of "Other" Forecasters	10.8%	6.1%	4.4%	3.4%	8.5%	226
C. ACTUAL[d]	12.0%	7.1%	4.6%	5.8%	8.2%	271

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1976, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-6

Comparisons and Accuracy of 1978 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	10.7%	6.1%	4.3%	3.4%	7.2%	235
B. Other Forecasters[c]						
Security Pacific Bank	10.2	5.4	4.6	3.5	7.0	225
Crocker Bank	10.7	6.5	3.9	3.7	6.9	230
Wells Fargo Bank	10.0	6.5	3.3	3.4	6.8	215
United California Bank	9.9	6.5	3.2	2.2	8.1	245
UCLA	12.0	5.2	6.5	4.6	5.5	228
Bank of America	11.2	6.5	4.4	3.9	6.8	220
Average of "Other" Forecasters	10.7%	6.1%	4.3%	3.6%	6.9%	227
C. ACTUAL[d]	14.2%	8.1%	5.6%	6.5%	7.1%	244

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1977, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-7

Comparisons and Accuracy of 1979 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	13.0%	6.8%	5.8%	2.5%	7.0%	190
B. Other Forecasters[c]						
Security Pacific Bank	11.1	6.9	3.9	2.8	6.9	203
Crocker Bank	11.5	9.0	2.3	2.7	7.0	205
Wells Fargo Bank	11.1	9.0	1.9	3.0	7.6	195
United California Bank	11.3	6.7	4.3	4.0	7.5	250
UCLA	11.3	7.0	4.0	1.5	7.0	188
Bank of America	11.2	7.9	3.1	5.0	7.2	200
Average of "Other" Forecasters	11.3%	7.8%	3.2%	3.2%	7.2%	207
C. ACTUAL[d]	14.3%	10.8%	3.2%	4.2%	6.2%	210

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1978, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-8

Comparisons and Accuracy of 1980 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Wage and Salary Jobs	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	10.9%	11.7%	-0.7%	1.4%	7.6%	165
B. Other Forecasters[c]						
Security Pacific Bank	11.8	12.9	-1.0	0.7	7.6	195
Wells Fargo Bank	11.5	11.0	0.5	NA	7.9	165
United California Bank	12.3	9.5	2.6	2.5	6.7	190
UCLA	9.1	11.6	-2.2	1.3	7.3	186
Bank of America	11.5	10.0	1.4	2.1	7.7	200
Average of "Other" Forecasters	11.2%	11.0%	0.3%	1.7%	7.4%	187
C. ACTUAL[d]	13.2%	15.5%	-2.0%	1.9%	6.8%	145

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1979, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-9

Comparisons and Accuracy of 1981 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Wage and Salary Jobs	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	11.9%	11.4%	0.5%	2.4%	6.7%	175
B. Other Forecasters[c]						
Security Pacific Bank	12.5	10.2	2.1	2.7	7.6	170
Crocker Bank	11.2	10.0	1.1	1.6	7.5	165
Wells Fargo Bank	13.0	10.0	2.7	2.8	7.0	175
United California Bank	12.9	11.0	1.7	3.4	6.5	185
UCLA	12.6	9.6	2.7	3.0	7.5	169
Bank of America	12.0	10.0	1.8	2.2	8.0	175
Average of "Other" Forecasters	12.4%	10.1%	2.0%	2.6%	7.4%	173
C. ACTUAL[d]	12.5%	10.9%	1.4%	1.5%	7.4%	105

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1980, corresponding to when the Department of Finance forecast was prepared.
d. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-10

Comparisons and Accuracy of 1982 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:					
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Wage and Salary Jobs	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	10.3%	11.3%	-0.9%	1.1%	8.1%	125
B. Other Forecasters[c]						
Security Pacific Bank	9.9	8.4	1.4	1.0	8.6	125
Crocker Bank	9.0	7.8	1.1	0.2	8.4	138
Wells Fargo Bank	11.0	8.0	2.8	1.0[d]	8.5	110
First Interstate Bank[e]	11.0	8.3	2.5	2.7	6.9	164
UCLA	7.8	5.7	2.0	-0.5	8.8	133
Bank of America	9.0	7.5	1.4	1.0[d]	8.0	135
Average of "Other" Forecasters	9.6%	7.6%	1.9%	0.9%	8.2%	134
C. ACTUAL[f]	6.4%	6.5%	-0.1%	-1.7%	9.9%	84

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1981, corresponding to when the Department of Finance forecast was prepared.
d. Civilian employment growth estimate.
e. Formerly United California Bank (UCB).
f. Actual values as reported in the 1984 Economic Report of the Governor. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-11

Comparisons and Accuracy of 1983 California Economic Forecasts for Selected Variables and Forecasters

		Percent Change in:						
		Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Wage and Salary Jobs	Unemployment Rate	Residential Building Permits (thousands)
A.	Department of Finance	8.5%	4.4%	3.9%	1.5%	0.7%	10.2%	125
B.	Other Forecasters[c]							
	Security Pacific Bank	9.4	NA	NA	NA	1.4	10.0	102
	Crocker Bank	8.4	4.1	4.1	2.1	1.3	10.2	125
	First Interstate Bank[d]	NA	NA	NA	NA	0.7	NA	110
	UCLA	7.4	2.9	4.4	0.6	0.2	11.6	114
	Commission on State Finance	8.1	4.3	3.6	NA	0.8	10.8	114
	Bank of America	10.0	6.2	3.6	1.6	NA	9.6	80
	Average of "Other" Forecasters	8.7%	4.4%	3.7%	1.4%	0.9%	10.4%	108
C.	ACTUAL[e]	6.9%	1.6%	5.2%	1.5%	1.9%	9.7%	164

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be lower.
c. Forecasts as of approximately year-end 1982, corresponding to when the Department of Finance forecast was prepared.
d. Formerly United California Bank (UCB).
e. Actual values as reported by the Department of Finance in June 1984. In some instances, actual data values may reflect certain revisions in variable definitions and measurement methods not reflected in the forecasts.

Table D-12

Comparisons and Accuracy of 1984 California Economic Forecasts for Selected Variables and Forecasters

	Percent Change in:						
	Personal Income	Consumer Price Inflation[a]	"Real" Personal Income[b]	Civilian Employment	Wage and Salary Jobs	Unemployment Rate	Residential Building Permits (thousands)
A. Department of Finance	9.7%	6.0%	3.5%	4.3%	3.9%	7.9%	170
B. Other Forecasters[c]							
Security Pacific Bank	11.3	4.6	6.4	3.7	3.5	8.7	146
Crocker Bank	10.8	5.1	5.4	4.5	4.5	8.3	175
First Interstate Bank[d]	10.2	5.8[e]	4.2	NA	3.9	NA	143
UCLA	10.9	5.1	5.5	4.8	4.3	8.5	190
Commission on State Finance	10.4	4.7	5.4	3.4	4.8	8.4	166
Bank of America	10.3	5.3	4.8	4.5	NA	8.8	191
Average of "Other" Forecasters	10.7%	5.1%	5.3%	4.2%	4.2%	8.5%	169
C. ACTUAL	NA[f]	NA	NA	NA	NA	NA	NA

a. Inflation as measured by the California Consumer Price Index (CCPI).
b. Defined as personal income growth adjusted for CCPI inflation. If the GNP Consumption Expenditures Deflator were used, "real" personal income growth would be higher.
c. Forecasts as of approximately year-end 1983, corresponding to when the Department of Finance forecast was prepared.
d. Formerly United California Bank (UCB).
e. Consumer price inflation forecast unavailable for California; figure shown represents U.S. consumer price inflation.
f. Preliminary September 1984 estimates of what actual 1984 personal income growth will be include 12.3 percent by the Department of Finance and 12.9 percent by the Commission on State Finance.