CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

May 21, 2012

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Fourth Quarter Sales (October – December 2011)

This is an informational report and no action is required.

BACKGROUND

Sales and use tax represents about 14 percent, or $20.2 million, of projected General Fund revenue in the City's Adopted Operating Budget for fiscal year 2012. This revenue includes sales and use tax for the City of Palo Alto and pool allocations[1] from the State and Santa Clara County.

The City Auditor's Office contracts with MuniServices LLC (hereafter MuniServices), the City's sales and use tax consultant, to provide sales and use tax recovery services and informational reports. The City Auditor's Office uses the recovery services and informational reports to help identify misallocation of tax revenue owed to the City, and to follow up with the State Board of Equalization to ensure the City receives identified revenues. The City Auditor's Office includes information on sales and use tax recoveries in our quarterly reports to the Finance Committee.

The City Auditor's Office also shares the information provided by MuniServices with the Administrative Services Department (ASD) for use in revenue forecasting and budgeting, and Economic Development for business outreach strategies. We coordinated this informational memo with them.

DISCUSSION

The attached report (Attachment A) was prepared by MuniServices and covers calendar year fourth quarter sales (October through December 2011). These funds are reported as part of the City's fiscal year 2012 revenue. Due to the timing of reporting by businesses and the State, MuniServices' detailed reports on first quarter sales (January through March 2012) should be available by August 2012. ASD advises that in mid-June, it should receive information from the State on aggregate sales and use tax receipts for first quarter 2012.

[1] See definitions on page 4.

Following are some highlights of the sales and use tax information we received:

- In Palo Alto, overall sales and use tax revenue (cash receipts) for the fourth quarter ending December 2011 increased by approximately $620,000, or 12.0 percent, (including pool allocations) compared to the fourth quarter ending December 2010.[2] For all jurisdictions in Santa Clara County, sales and use tax revenue for the fourth quarter ending December 2011 increased by $5.4 million, or 6.4 percent, compared to the fourth quarter ending December 2010.

- Statewide, every region in California experienced an increase in sales and use tax revenue for the year ending December 2011, compared to the prior year ending December 2010. Statewide sales and use tax revenue has shown growth of 8.0 percent during the fourth quarter ending December 2011 compared to the fourth quarter ending December 2010.

- In Palo Alto, sales and use tax revenue totaled $21.1 million for the year ending December 2011, an increase of 10.2 percent from $19.1 million in the prior year ending December 2010.[2] This amount includes sales and use tax for the City of Palo Alto and pool allocations from the State and Santa Clara County.

More detailed information is shown on Attachment A.

Economic Influences on Sales and Use Tax

In its Economic Outlook (Attachment B), MuniServices discusses economic influences including national economic trends, auto sales, retail sales, and forecast information that may affect the City's sales and use tax revenue.
Preliminary estimates from the State of California Employment Development Department show the March 2012 unemployment rate in Santa Clara County at

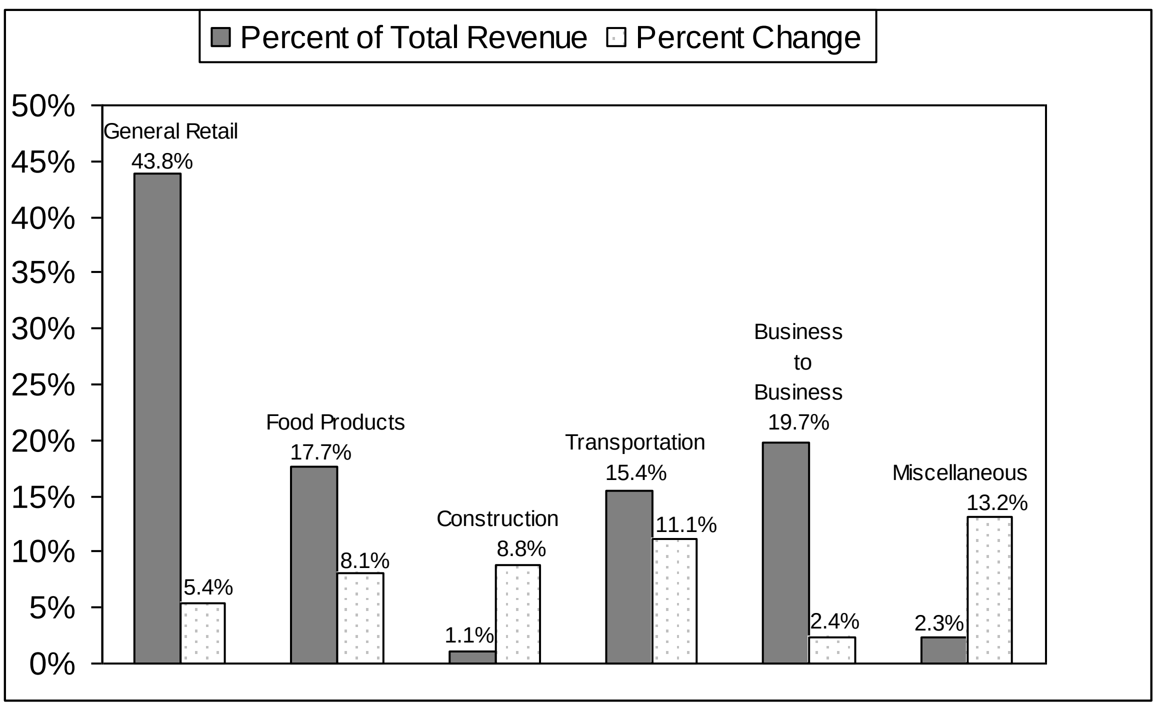
9.0 percent and Palo Alto at 4.8 percent.

Economic Category Analysis

MuniServices' analysis of six economic categories, for the year ending December 2011, shows that General Retail comprised the largest percentage of Palo Alto's sales and use tax revenue and experienced 5.4 percent growth. Business to business experienced a 2.4 percent increase and comprised 19.7 percent of total revenues. Transportation experienced an 11.1 percent increase and comprised 15.4 percent of total revenues.

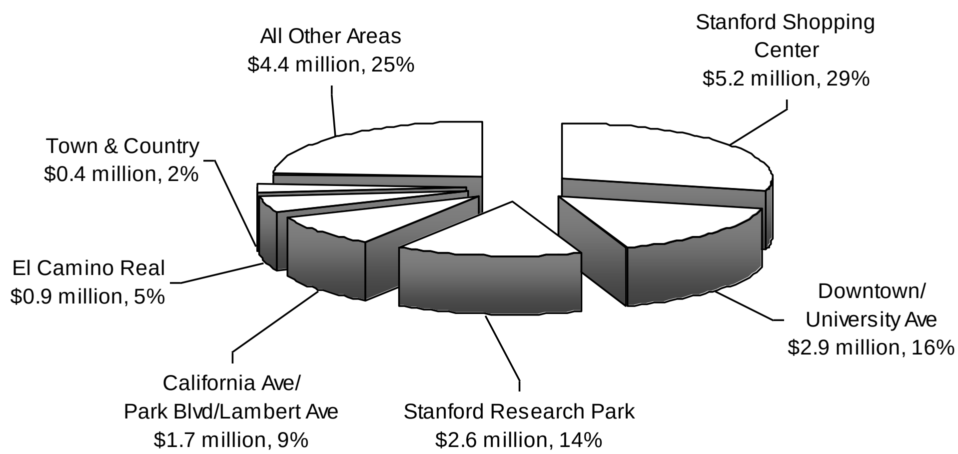
[2] Excluding pool allocations and adjusting for prior period and late payments, Palo Alto's sales and use tax revenue for the fourth quarter ending December 2011 increased by 5.5 percent compared to the fourth quarter ending December 2010. On a yearly basis, Palo Alto's sales and use tax revenue for the year ending December 2011, increased by 6.3 percent compared to the prior year ending December 2010.

Exhibit 1 - Comparison of Palo Alto's Sales and Use Tax Revenue and Percent Change by Economic Category for the Year Ending December 2011



The following chart shows sales and use tax revenue by geographical area based on information provided by MuniServices.

Exhibit 2 - Palo Alto's Sales and Use Tax Revenue by Geographical Area
For the Year Ending December 2011
(Amounts include tax estimates and exclude pool allocations)



DEFINITIONS

In California, either sales tax or use tax may apply to a transaction, but not both. The sales and use tax rate in Palo Alto is 8.25 percent, and the City should receive 1 percent of every taxable transaction.

Sales tax - imposed on all California retailers; applies to all retail sales of merchandise (tangible personal property) in the state.

Use tax - generally imposed on: consumers of merchandise (tangible personal property) that is used, consumed, or stored in this state; purchases from out-of-state retailers when the out-of-state retailer is not registered to collect California tax, or for some other reason does not collect California tax; leases of merchandise (tangible personal property).

Countywide/statewide pools - mechanisms used to allocate local tax that cannot be identified with a specific place of sale or use in California. Local tax reported to the pool is distributed to the local jurisdiction each calendar quarter using a formula that relates to the direct allocation of local tax to each jurisdiction for a given period.

Examples of taxpayers who report use tax allocated through the countywide pool include construction contractors who are consumers of materials used in the improvement of real property and whose job site is regarded as the place of business, out-of-state sellers who ship goods directly to consumers in the state from inventory located outside the state, and California sellers who ship goods directly to consumers in the state from inventory located outside the state.

Other examples of taxpayers who report use tax through the pools include auctioneers, construction contractors making sales of fixtures, catering trucks, itinerant vendors, vending machine operators and other permit holders who operate in more than one local jurisdiction, but are unable to readily identify the particular jurisdiction where the taxable transaction takes place.

Respectfully submitted,

Jim Pelletier
City Auditor

Sources: MuniServices; California State Board of Equalization; State of California Employment Development Department; City of Palo Alto's Adopted Operating Budget Fiscal Year 2012

Audit staff: Lisa Wehara

ATTACHMENTS:

- Attachment A: City of Palo Alto Sales Tax Digest Summary (PDF)
- Attachment B: Economic Outlook (PDF)

Department Head: Jim Pelletier, City Auditor

Attachment A

City of Palo Alto
Sales Tax Digest Summary
Collections through March 2012
Sales through December 2011 (2011Q4)

California Overview

The percent change in cash receipts from the prior year was 8.8% statewide, 9.5% in Northern California and 8.2% in Southern California. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When we adjust for non-period related payments, we determine the overall business activity increased for the year ended 4th Quarter 2011 by 7.8% statewide, 8.0% in Northern California and increased by 7.7% in Southern California.

City of Palo Alto

For the year ended 4th Quarter 2011, sales tax cash receipts for the City grew by 10.2% from the prior year. On a quarterly basis, sales tax revenues increased by 12.0% from 4th Quarter 2010 to 4th Quarter 2011. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments.

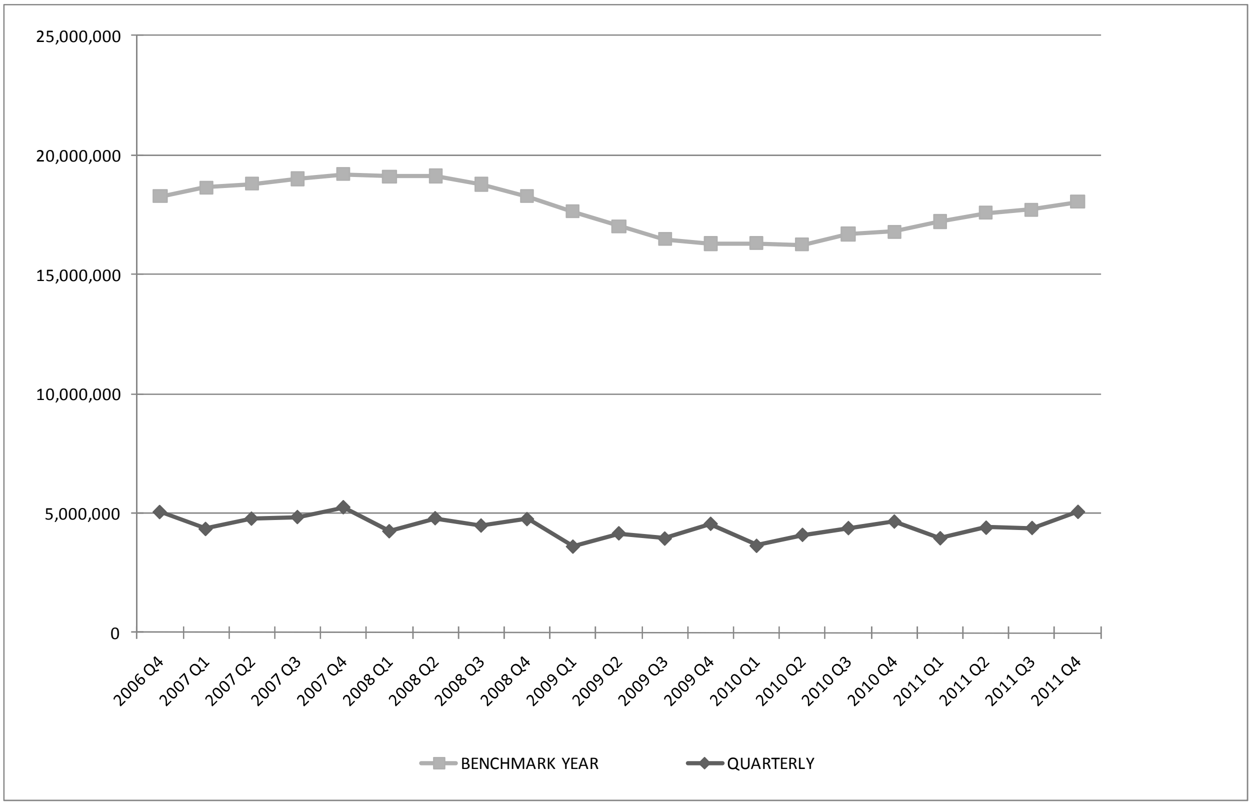
Excluding state and county pools and adjusting for anomalies (payments for prior periods) and late payments, local sales tax increased by 6.3% for the year ended 4th Quarter 2011 from the prior year. On a quarterly basis, sales tax activity grew by 5.5 % in 4th Quarter 2011 compared to 4th Quarter 2010.

Regional Overview

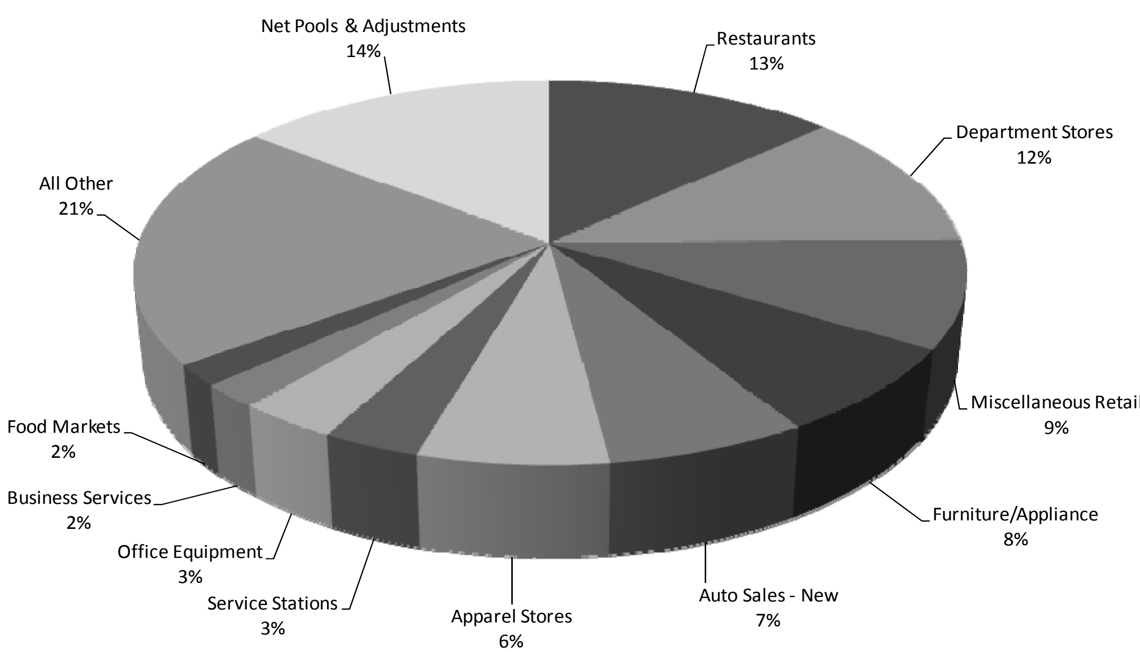
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 4th QUARTER 2011									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	43.8 / 5.4	29.7 / 4.5	29.4 / 4.9	30.1 / 1.9	31.6 / 4.8	29.7 / 4.6	28.2 / 4.9	29.4 / 2.8	32.4 / 1.0
Food Products	17.7 / 8.1	19.1 / 5.4	19.8 / 6.2	16.9 / 2.2	16.5 / 4.6	19.6 / 5.6	16.7 / 4.8	18.6 / 2.8	30.4 / 4.4
Construction	1.1 / 8.8	8.5 / 6.6	8.2 / 7.7	10.3 / 5.9	10.6 / 11.1	7.9 / 5.5	9.9 / 7.4	12.0 / 3.5	8.6 / -3.3
Transportation	15.4 / 11.1	24.1 / 15.8	20.8 / 15.2	26.8 / 14.9	25.7 / 19.4	24.3 / 15.4	28.1 / 18.3	29.5 / 12.4	21.7 / 16.6
Business to Business	19.7 / 2.4	17.4 / 7.1	20.7 / 6.1	14.2 / 3.1	14.3 / 17.2	17.5 / 7.3	15.0 / 3.9	9.4 / 11.5	5.8 / 0.9
Miscellaneous	2.3 / 13.2	1.2 / -1.2	1.1 / -1.7	1.6 / 6.7	1.3 / 18.6	1.1 / -6.0	2.1 / 5.4	1.1 / 12.7	1.1 / -28.3
Total	**100.0 / 6.3**	**100.0 / 7.8**	**100.0 / 7.6**	**100.0 / 5.8**	**100.0 / 10.8**	**100.0 / 7.7**	**100.0 / 8.5**	**100.0 / 6.4**	**100.0 / 4.2**
THREE LARGEST SEGMENTS FOR YEAR ENDED 4th QUARTER 2011									
	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
Largest Segment	Restaurants	Restaurants	Restaurants	Department Stores	Department Stores	Restaurants	Service Stations	Service Stations	Restaurants
% of Total / % Change	15.3 / 10.1	13.0 / 5.7	13.8 / 6.9	12.8 / 2.5	14.8 / 3.1	13.9 / 5.9	12.9 / 21.7	14.4 / 16.5	19.9 / 4.0
2nd Largest Segment	Department Stores	Department Stores	Department Stores	Service Stations	Service Stations	Service Stations	Department Stores	Department Stores	Service Stations
% of Total / % Change	13.5 / 5.1	10.8 / 3.8	9.7 / 4.3	10.9 / 18.1	12.4 / 25.6	10.8 / 21.9	11.2 / 2.2	12.5 / 1.8	10.1 / 22.1
3rd Largest Segment	Electronic Equipment	Service Stations	Service Stations	Restaurants	Restaurants	Department Stores	Restaurants	Restaurants	Misc Retail
% of Total / % Change	confidential / -0.4	10.8 / 22.2	9.3 / 23.6	10.4 / 1.0	96 / 4.0	10.5 / 4.2	10.6 / 4.8	9.7 / 2.0	10.1 / -0.9

Gross Historical Sales Tax Performance by Benchmark Year and Quarter (Before Adjustments)



Net Cash Receipts for Benchmark Year 4th Quarter 2011: $21,075,069

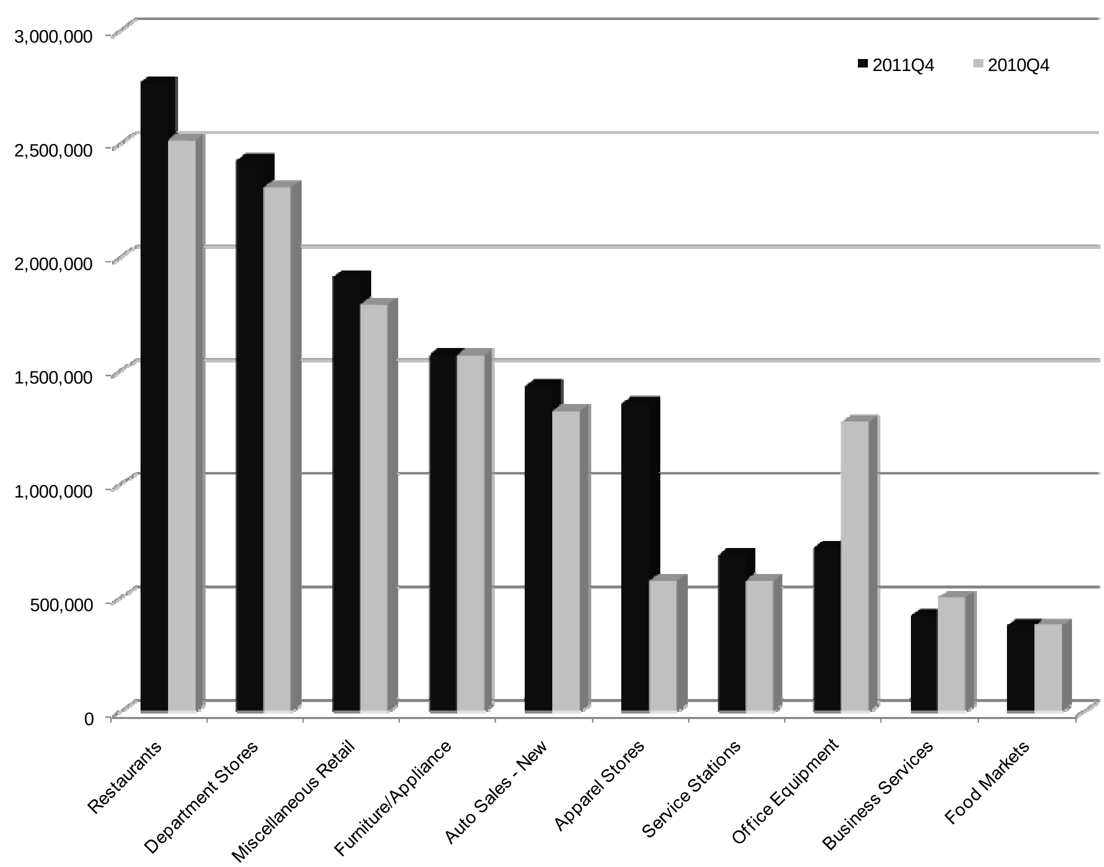


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto's Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 4th Quarter 2011. The Top 25 Sales/Use Tax contributors generate 51.8% of Palo Alto's total sales and use tax revenue.

Anderson Honda	Hewlett-Packard	Shell Service Stations
Apple Stores	Integrated Archive Systems	Stanford University Medical Center
Bloomingdale's	Keeble & Shucat Photography	The Gap
Carlsen Motor Cars	Loral Space Systems	Tiffany & Company
Carlsen Subaru	Macy's Department Store	Valero Service Stations
Crate & Barrel	Magnussen's Toyota	Varian Medical Systems
CVS/Pharmacy	Neiman Marcus Department Store	Walgreen's Drug Stores
Dow Jones & Company	Nordstrom Department Store	
Fry's Electronics	Pottery Barn	

Sales Tax from Largest 10 Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

Economic Category	%	2011Q4	2011Q3	2011Q2	2011Q1	2010Q4	2010Q3	2010Q2	2010Q1	2009Q4
General Retail	42.2%	2,440,953	1,886,520	1,984,860	1,573,474	2,275,627	1,810,271	1,864,922	1,473,821	2,064,636
Business To Business	16.2%	932,723	842,771	842,709	925,263	887,037	1,006,576	788,373	849,181	993,411
Food Products	14.5%	838,138	799,167	806,987	740,594	769,253	726,360	739,629	666,388	699,788
Transportation	11.8%	682,786	694,998	619,897	593,452	590,209	576,597	551,313	534,793	516,345
Miscellaneous	1.7%	98,550	117,132	100,653	87,535	75,077	217,465	78,340	67,673	70,822
Construction	1.1%	62,282	46,843	44,589	38,765	54,645	44,171	40,415	37,914	48,862
Net Pools & Adjustments	12.5%	725,000	933,424	845,214	769,789	508,973	782,981	626,593	487,801	634,071
Total	100.0%	5,780,432	5,320,855	5,244,909	4,728,872	5,160,821	5,164,421	4,689,585	4,117,571	5,027,935

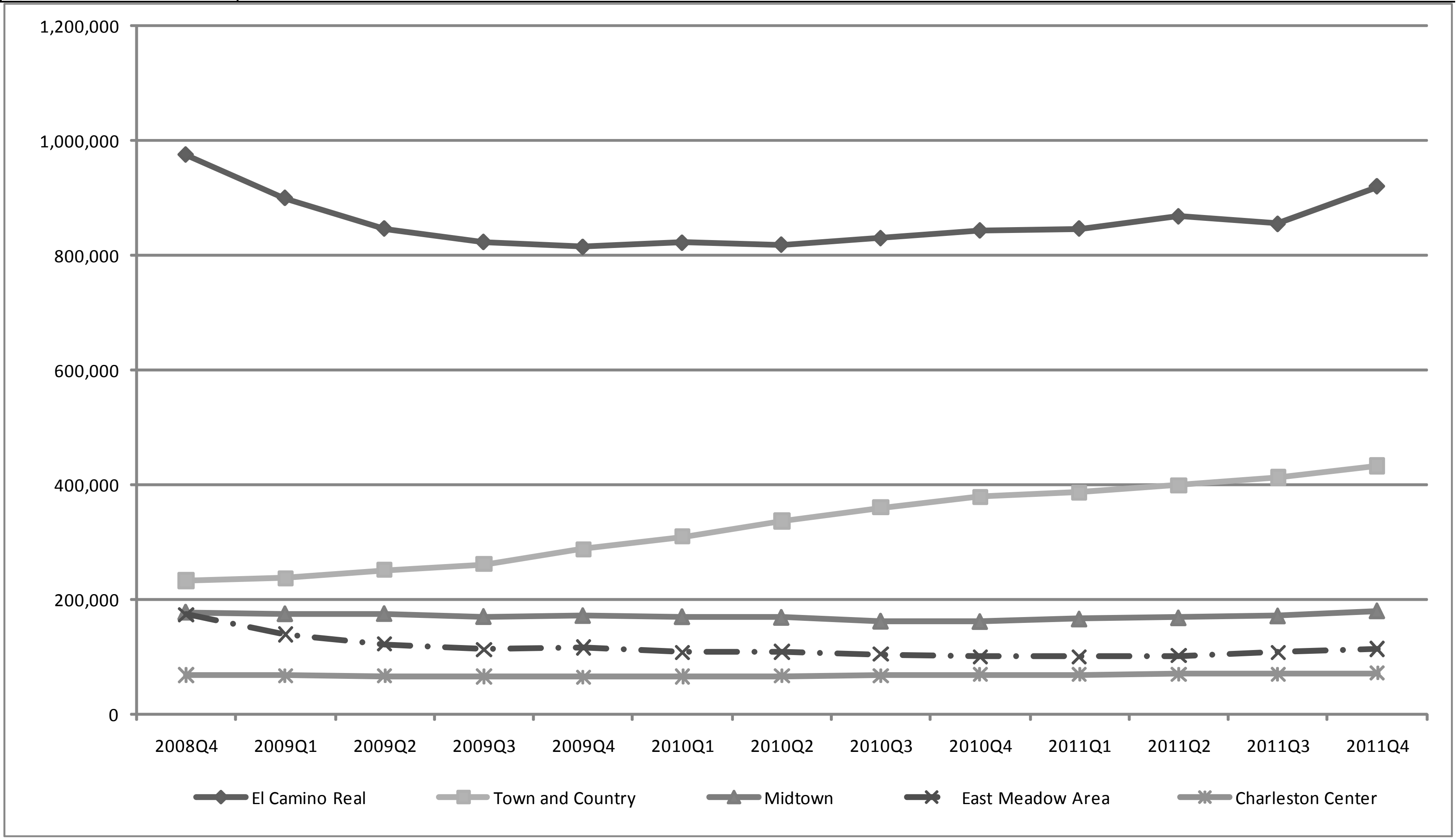
Economic Segments	%	2011Q4	2011Q3	2011Q2	2011Q1	2010Q4	2010Q3	2010Q2	2010Q1	2009Q4
Restaurants	13.6%	783,595	689,568	705,459	639,353	651,614	622,517	636,566	568,305	597,762
Department Stores	12.5%	724,274	563,373	608,784	474,566	748,885	541,942	565,706	455,378	714,431
Miscellaneous Retail	9.9%	573,750	455,335	482,723	399,243	584,895	396,580	381,222	325,512	459,998
Furniture/Appliance	8.5%	488,492	385,236	392,126	301,427	421,877	447,946	416,128	282,989	345,141
Apparel Stores	7.4%	429,491	321,296	333,697	266,990	387,682	299,340	321,787	267,315	375,133
Service Stations	3.0%	171,472	160,037	181,065	158,421	147,520	143,233	140,859	139,906	128,317
Business Services	1.8%	104,348	104,234	105,507	100,241	146,732	112,153	143,241	110,989	113,481
Food Markets	1.7%	101,023	98,054	89,530	91,274	105,573	93,651	92,036	86,892	88,469
Auto Parts/Repair	0.8%	48,340	49,977	51,743	47,157	43,537	45,689	40,037	39,150	39,592
Leasing	0.7%	38,854	42,654	35,131	34,857	36,962	40,480	36,129	34,760	37,222
Bldg.Matls-Retail	0.8%	44,402	41,338	38,236	34,016	48,591	39,747	35,783	33,297	38,766
Liquor Stores	0.2%	12,838	11,321	11,319	9,967	12,060	10,192	11,027	11,162	13,297
Miscellaneous Other	0.2%	9,046	9,857	8,724	6,458	8,714	5,751	7,689	6,550	9,061
Heavy Industry	0.4%	22,227	8,349	8,029	3,833	3,580	3,288	4,887	4,782	5,944
Bldg.Matls-Whsle	0.3%	17,880	5,505	6,353	4,749	6,054	4,424	4,632	4,617	10,096
All Other	25.7%	1,485,400	1,441,297	1,341,269	1,386,531	1,297,572	1,574,507	1,225,263	1,258,166	1,417,154
Net Pools & Adjustments	12.5%	725,000	933,424	845,214	769,789	508,973	782,981	626,593	487,801	634,071
Total	100.0%	5,780,432	5,320,855	5,244,909	4,728,872	5,160,821	5,164,421	4,689,585	4,117,571	5,027,935

*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

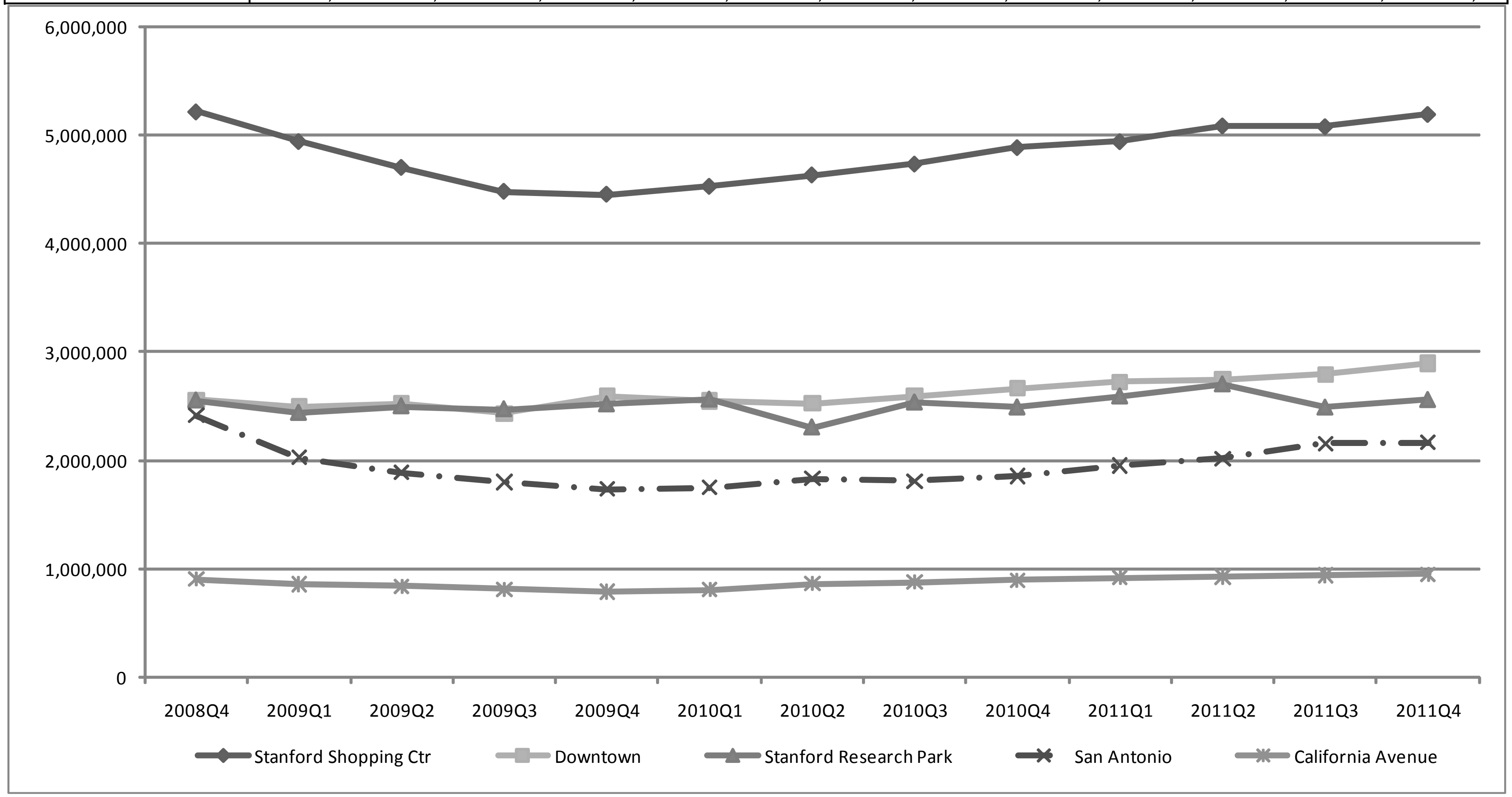
Quarterly Analysis by Economic Category, Total and Segments: Change from 2010Q4 to 2011Q4

	General Retail	Food Products	Transportation	Construction	Business to Business	Miscellaneous	2011/4 Total	2010/4 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	0.5%	8.6%	29.3%	13.2%	2.5%	-29.5%	2,085,456	1,921,053	**8.6%**	Service Stations	Bldg.Matls-Whsle	Business Services	Recreation Products
Cupertino	8.2%	6.2%	4.8%	12.2%	45.0%	1.4%	5,885,452	4,387,124	**34.2%**	Business Services	Office Equipment	Electronic Equipment	Heavy Industry
Gilroy	7.7%	-0.8%	12.4%	0.6%	-18.1%	-71.6%	3,161,712	3,042,099	**3.9%**	Apparel Stores	Misc. Vehicle Sales	Health & Government	Chemical Products
Los Altos	1.8%	1.9%	12.6%	3.7%	-18.0%	-26.6%	539,584	525,152	**2.7%**	Service Stations	Restaurants	Furniture/Appliance	Electronic Equipment
Los Gatos	-6.6%	10.8%	6.6%	-13.1%	-6.4%	21.2%	2,253,284	2,290,185	**-1.6%**	Restaurants	Auto Sales - New	Miscellaneous Retail	Light Industry
Milpitas	4.8%	4.1%	17.7%	46.0%	-1.8%	3.3%	4,132,317	3,876,269	**6.6%**	Bldg.Matls-Whsle	Apparel Stores	Office Equipment	Chemical Products
Monte Sereno	4.7%	-100.0%	-100.0%	-100.0%	414.1%	72.9%	2,415	3,030	**-20.3%**	Electronic Equipment	Miscellaneous Retail	Auto Parts/Repair	Department Stores
Morgan Hill	4.5%	8.1%	33.1%	4.5%	3.8%	5.7%	1,432,551	1,257,670	**13.9%**	Auto Sales - New	Service Stations	Chemical Products	Auto Sales - Used
Mountain View	-0.6%	6.3%	-0.3%	9.6%	-11.6%	10.5%	3,446,405	3,508,773	**-1.8%**	Service Stations	Business Services	Office Equipment	Auto Sales - New
Palo Alto	6.0%	7.5%	-0.4%	13.3%	5.9%	10.4%	5,055,435	4,792,043	**5.5%**	Restaurants	Furniture/Appliance	Misc. Vehicle Sales	Miscellaneous Retail
San Jose	4.2%	5.4%	18.7%	11.5%	-16.0%	-10.5%	32,862,681	32,054,507	**2.5%**	Auto Sales - New	Service Stations	Office Equipment	Electronic Equipment
Santa Clara	5.9%	7.0%	12.1%	18.9%	-2.2%	-10.0%	8,338,535	7,929,460	**5.2%**	Auto Sales - New	Bldg.Matls-Whsle	Heavy Industry	Office Equipment
Santa Clara Co.	138.3%	11.3%	-12.8%	12.1%	15.0%	16.2%	1,194,879	879,525	**35.9%**	Miscellaneous Retail	Health & Government	Misc. Vehicle Sales	Light Industry
Saratoga	14.8%	7.8%	0.6%	-25.2%	-19.9%	-2.2%	240,020	232,258	**3.3%**	Restaurants	Furniture/Appliance	Business Services	Office Equipment
Sunnyvale	4.4%	6.0%	10.4%	-1.5%	-9.2%	6.2%	6,685,781	6,761,135	**-1.1%**	Light Industry	Service Stations	Electronic Equipment	Office Equipment

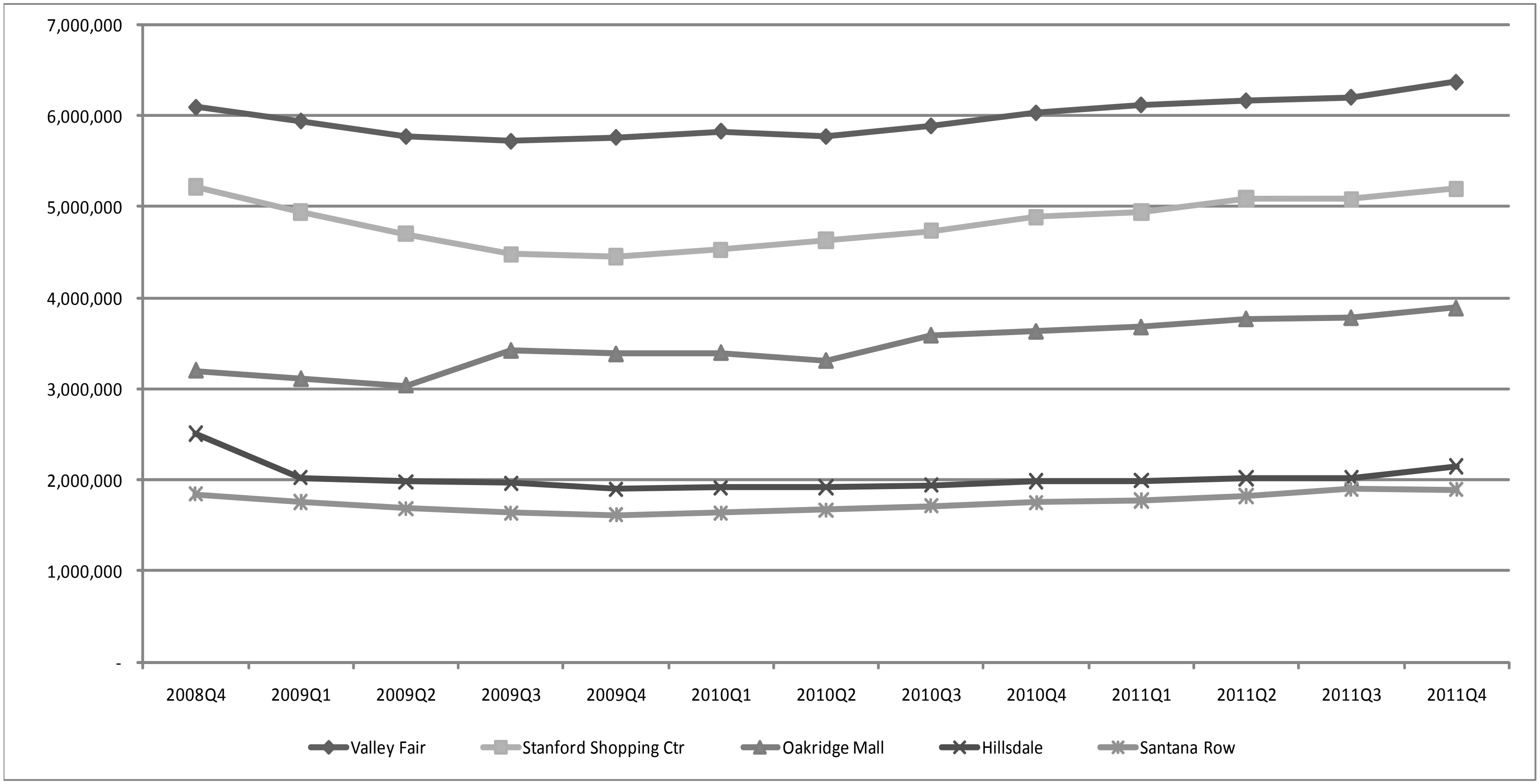
City of Palo Alto - Selected Geographic Areas of the City Benchmark Year 4th Quarter 2011	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4
El Camino Real	974,931	900,018	846,897	823,627	814,940	822,245	818,947	830,152	843,626	846,897	867,868	854,828	920,020
Town and Country	233,208	237,307	251,608	261,294	288,103	309,848	336,444	360,254	379,066	386,944	399,378	412,361	433,313
Midtown	178,212	175,471	175,723	170,741	172,297	170,517	169,297	162,869	162,122	166,440	168,537	171,719	180,415
East Meadow Area	173,424	139,391	122,493	112,819	116,128	107,931	108,922	104,777	100,155	100,032	102,028	108,176	114,083
Charleston Center	68,585	67,632	66,529	65,328	64,981	65,642	66,446	67,447	68,693	69,150	69,606	70,301	71,555



City of Palo Alto - Selected Geographic Areas of the City Benchmark Year 4th Quarter 2011													
	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4
Stanford Shopping Ctr	5,218,085	4,941,824	4,701,109	4,479,311	4,451,986	4,524,318	4,631,095	4,731,800	4,884,843	4,941,127	5,087,834	5,079,526	5,194,491
Downtown	2,557,974	2,493,666	2,528,443	2,434,567	2,591,213	2,549,106	2,528,095	2,589,660	2,663,500	2,723,552	2,748,925	2,793,987	2,897,003
Stanford Research Park	2,552,881	2,439,025	2,500,473	2,472,512	2,517,622	2,560,998	2,305,707	2,534,669	2,489,301	2,589,986	2,700,836	2,487,708	2,557,399
San Antonio	2,414,351	2,028,139	1,890,196	1,802,851	1,737,780	1,752,653	1,831,894	1,811,722	1,856,817	1,954,526	2,017,259	2,156,535	2,164,335
California Avenue	908,095	858,391	839,591	812,294	790,954	807,490	863,730	879,364	895,989	917,851	928,031	945,340	952,300



City of Palo Alto - Regional Shopping Mall Comparison Benchmark Year 4th Quarter 2011													
	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4
Valley Fair	6,093,294	5,941,991	5,769,466	5,717,263	5,761,442	5,829,695	5,769,507	5,887,510	6,031,602	6,119,960	6,166,420	6,204,976	6,370,656
Stanford Shopping Ctr	5,218,085	4,941,824	4,701,109	4,479,311	4,451,986	4,524,318	4,631,095	4,731,800	4,884,843	4,941,127	5,087,834	5,079,526	5,194,491
Oakridge Mall	3,199,518	3,105,561	3,035,077	3,419,383	3,380,772	3,395,994	3,308,231	3,589,119	3,630,341	3,679,073	3,768,899	3,782,531	3,888,402
Hillsdale	2,509,227	2,020,719	1,981,010	1,961,708	1,895,456	1,915,711	1,917,510	1,943,391	1,982,532	1,989,259	2,015,790	2,019,678	2,145,957
Santana Row	1,840,846	1,755,862	1,685,331	1,635,305	1,615,462	1,637,476	1,667,967	1,711,667	1,749,506	1,770,255	1,821,843	1,897,528	1,892,070



MUNISERVICES

Economic Overview

1Q2012 News

Fed's view of 2012 still modest

Federal Reserve chief says economy is improving more than he expected

Federal Reserve Chairman Ben Bernanke said that the central bank retains its modest expectations for the U.S. economy this year, despite some recent signs of stronger growth. Bernanke said the recent rise in oil prices also had not shifted the Fed's view that the economy will expand 2.2 percent to 2.7 percent this year, about the same pace as during the second half of last year. He acknowledged that rising oil prices are "likely to push up inflation temporarily while reducing consumers' purchasing power." But the Fed expects the overall pace of increases in prices and wages to remain "subdued," Bernanke said in testimony before the House Committee on Financial Services.

Some economists see evidence that the pace of growth is increasing. The Bureau of Economic Analysis, an arm of the federal government, said that the economy grew at an annual rate of 3 percent in the last three months of 2011, somewhat higher than its initial estimate of 2.8 percent. The unemployment rate has declined to 8.3 percent in January from 9.1 percent last July.

But the Fed has remained cautious, and Bernanke reiterated a familiar list of reasons for that stance, including the depressed condition of the housing market and turbulence in Europe. "The recovery of the U.S. economy continues, but the pace of expansion has been uneven and modest by historical standards," Bernanke said. He noted that the Fed does not expect "further substantial declines" in the unemployment rate this year. As a result, he said the Fed remains committed to continuing its economic stimulus efforts, keeping short-term interest rates near zero and maintaining a large portfolio of Treasury bonds and mortgage bonds to further reduce long-term rates, holding down borrowing costs for businesses and consumers. Bernanke gave no indication that the Fed is considering new efforts. Indeed, his remarks suggested that the Fed's attention is shifting to the possibility that the recovery is outpacing its expectations.

Growth Accelerates, but U.S. Has Lots of Ground to Make up

The U.S. economy picked up a little steam last quarter, growing at its fastest pace in a year and a half. Whether it can sustain that momentum is critical to millions of Americans out of work. The nation's economic output grew 1.7 percent in 2011 and at an annualized rate of 2.8 percent in the fourth quarter, the Commerce Department reported recently, probably putting to rest last summer's fears that a second recession was imminent. Other reports this week on manufacturing and consumer sentiment offered similar, if mild, encouragement. "All in all, it's not bad, but there's no oomph," said Jay Feldman, an economist at Credit Suisse.

Forecasts have called for such slow growth that the Federal Reserve recently said it planned to keep interest rates near zero through 2014. Even with the pickup in output, the pace last quarter was below the average of economic expansions in the United States since World War II. Given how much ground was lost during the Great Recession, the United States economy needs above-average growth right now. Government spending is not helping, either. Not because it's too big — but because it's shrinking at a rapid pace. Spending at the federal, state and local levels fell at an annual rate of 4.6 percent last quarter, providing a significant drag on total gross domestic product. At least at the state and local levels, the cuts are likely to continue as municipal governments shed workers and public services.

At the federal level, the biggest cuts were in national defense, which fell at a whopping annual rate of 12.5 percent. That's an unusually large dip, and economists do not expect to see it repeated in the beginning of 2012, although legislators may wield the ax elsewhere in the federal budget.

Growth in the fourth quarter was also driven mostly by companies rebuilding their stockroom inventories, not by consumers who were shopping more or foreign businesses buying more American-made products. And companies are likely to have only so much appetite for refilling their back-room shelves if consumers are still unwilling to buy those products.

Consumer spending rose at an annual pace of 2 percent, slightly better than the 1.7 percent in the previous quarter. But based on early data, it looks as if consumer spending deteriorated toward the end of the year. This may be because of unseasonably warm December weather, which probably lowered families' household electricity and gas bills. Consumers also benefited from lower gasoline prices, but appear to remain concerned about stagnant incomes.

One of the more positive surprises in the report was in housing. Investments in sectors like home construction and repairs rose 10.9 percent last quarter. The housing sector is so small now, though, that it didn't provide much energy.

Treasury Secretary Timothy Geithner, speaking at the World Economic Forum in Davos, Switzerland, echoed that sentiment, saying that the critical risks to the American economy were a worsening of Europe's chronic sovereign debt crisis or a rise in tensions between Iran and the international community, which could stoke global oil prices. He said he expected the United States to grow about 2 to 3 percent this year, ahead of the 1.7 percent growth in 2011. Last year was the slowest growth in a nonrecessionary year since 1947, economists at Credit Suisse said.

Many of the bigger American companies have reported strong profits in recent months, too. Companies like General Electric and Lockheed Martin closed the year with record order backlogs, a sign that, at least for some businesses, demand is so strong that they cannot produce quickly enough. The backlogs portend solid growth in coming quarters, and suggest to some economists that the United States could weather the European debt crisis relatively unscathed after all.

On the other hand, corporate success has not translated into big benefits for American workers and consumers so far in this recovery. Today, the nation produces more than it did when the recession began in 2007, but it manages to do so with six million fewer jobs. Companies seem reluctant to use their mounting profits to invest in new workers. "Businesses have been holding much higher levels of cash than they have in past," said Conrad DeQuadros, senior economist at RDQ Economics.

Manufacturing surges again to help lead economic recovery

U.S. factories are roaring back from the depths of the recession, cranking out more machinery, vehicles and energy. Factory production has surged 15 percent above its lows of 2 1/2 years ago and is helping drive the economy's recovery. A jump in manufacturing output last month coincided with other data suggesting that the economy began 2012 with renewed vigor. Wholesale prices are tame. Demand for U.S. Treasury debt should help keep borrowing costs low. Even homebuilders are more optimistic.

Signs "that manufacturing in the U.S. is gaining global market share appears to be growing, and this could be an important dynamic supporting growth in 2012," said John Ryding of RDQ Economics.

Manufacturing rose 0.9 percent from November to December, the Federal Reserve said recently. It was the biggest gain since December 2010.

Overall output at the nation's factories, mines and utilities grew 0.4 percent. Warm weather dampened demand for energy produced by utilities. Over the past year, factory output has risen 3.7 percent. Factories benefited in particular in the second half of 2011 from several trends: People bought more cars. Businesses spent more on industrial machinery and computers before a tax incentive expired. And companies restocked their supplies after cutting them last summer.

Many economists say manufacturing output should expand further this year, though some expect the pace to slow mainly because of Europe's debt crisis. Dan Meckstroth, chief economist at MAPI, a manufacturing research group, said there's still plenty of pent-up consumer demand for cars. That demand should keep production of cars and auto parts growing.

Another contributor to growth could be construction, which is showing signs of life as builders put up more apartments, office buildings and factories. That means construction firms need more manufactured goods, such as drywall, steel beams, glass and copper wires. Last year's growth has also fueled more hiring. Factories added 23,000 jobs in December, the most since July. That helped reduce the unemployment rate to 8.5 percent, the lowest level in nearly three years. Overall, wholesale prices are trending lower. They rose 4.8 percent in December compared with the same month a year ago, reflecting in part higher oil and other commodity prices. Even so, that was the slowest year-over-year increase since January.

Online-Retail Spending at $200 Billion Annually and Growing

Americans spent more than $200 billion on online shopping in 2011 and are expected to shell out $327 billion on Internet stores by 2016.

That’s the estimate from a report by Forrester Research analyst Sucharita Mulpuru, who also predicts that online sales will make up almost 9% of overall retail sales by 2016, up from 7% today. Driving much of that growth are the usual suspects: new Web-shopping converts and current online shoppers spending more. A majority of the U.S. population, 53%, bought something online in 2011. That figure should grow to 58% by 2016, Forrester said.

Relatively recent innovations are also contributing to the rise of online retailing, Forrester said. Flash-sale sites such as Gilt Groupe, which sells heavily discounted luxury goods during sales that typically last for only a few days, have appealed to the frugal. Online-loyalty programs such as Amazon’s Prime shipping service have risen in popularity, with 12% of Web shoppers now belonging to one, up from 9% during the 2010 holiday season. And the rise of tablet computers such as Apple’s iPad have also helped, in part because the layout of tablet-optimized retailing websites spurs impulse purchases, Forrester said.

There’s also a shift in mindset. “Online shoppers believe that promotions available online are even better than what they could find elsewhere,” the report said. More than 70% of online shoppers during the holiday season said they purchased on the Web rather than in stores because they thought the promotions were better online.

Car Sales / January

Average age of US vehicles hits record 10.8 years

Average for car, truck 10.8 years in 2011, up from 10.6 in 2010

That clunker in America's driveway has reached a record old age, but there are signs that people may be growing confident enough in the economy to get a whiff of that fresh new car scent very soon. The average age of a car or truck in the U.S. hit a record 10.8 years last year as job security and other economic worries kept many people from making big-ticket purchases such as a new car. That's up from the old record of 10.6 years in 2010, and it continues a trend that dates to 1995, when the average age of a car was 8.4 years, according to a study of state vehicle registration data by the Southfield, Mich.-based Polk automotive research firm.

Polk said the average age of a car in the U.S. last year was 11.1 years, while the average truck was 10.1.years old. In 2010, the average age of a car was 11.0 and the average truck was 10.1 years old. However, Polk Vice President Mark Seng says that a rebound in sales last year and expected growth for the next couple of years is likely to slow the growth rate in the age of cars as a whole in America. Polk has not predicted if or when the age will start to drop, but Seng doesn't see that happening for at least two or three years, if not longer. "It's going to take the good economy several years of very high sales again, and people being willing to let go of those older vehicles that they've been holding onto," Seng said.

Last year, auto sales rebounded a bit to 12.8 million vehicles, especially in November and December, when sales were unusually strong. In 2010, U.S. sales totaled 11.6 million after hitting a 30-year low of 10.4 million in 2009. Polk expects sales around 13.7 million this year, rising by about 1 million per year through 2015, when they reach about 16 million. That's back to around what industry analysts consider normal, and approaching the U.S. sales peak of 17 million in 2005. But even a 1.0 million per year sales increase will have little impact on the average age because there are more than 240 million cars and trucks on the roads in the U.S., Seng says.

The aging of the American auto fleet has been a big boon for repair shops and companies that sell replacement auto parts, and Seng expects that to continue. He says people can hang onto their cars longer because automakers are making them far better than they did in 1995, the first year that Polk began tracking the average age. Polk also says the number of vehicles in the U.S. has been falling since 2008, but that trend reversed itself last year. In 2010, there were 240 million cars and trucks registered in the United States. That grew slightly to 240.5 million last year, the company said.

The aging vehicle trend and relatively slow sales have kept auto companies and parts makers from hiring new workers in great numbers, and that helps to hold unemployment at relatively high levels. Last month, the unemployment rate fell to 8.5 percent -- still high, but the lowest level in three years. But that started to change last year as sales started to rebound. Last January, Ford said it would hire 7,000 workers over the next two years. During the summer, GM said it would add 2,500 at the Detroit factory that makes the Chevrolet Volt electric car. Volkswagen hired 2,000 for a new plant in Tennessee, and Honda added 1,000 in Indiana. Just last week Chrysler announced plans to add 1,250 jobs at two Detroit factories next year, mainly to build a diesel version of the Jeep Grand Cherokee. The industry will add

167,000 jobs by 2015, a 28 percent increase over current levels, predicts The Center for Automotive Research in Ann Arbor, Mich.

Government estimates show Americans spent roughly $40 billion more on new cars and trucks in 2011 than in 2009. Based on annualized figures from the first quarter of 2011, new-car spending totaled $206 billion, or 1.3 percent of the gross domestic product, Commerce Department data shows. That compares with $166 billion in 2009, about 1.2 percent of the country's economy. Polk said the average age of a car in the U.S. last year was 11.1 years, while the average truck was 10.4 years old. In 2010, the average age of a car was 11 and the average truck was 10.1 years old.

January's new-vehicle sales point to big year

New-vehicle sales in the United States were unexpectedly strong in January, an early sign that the auto industry could have its best year since 2007, carmakers and analysts said recently. Chrysler beat forecasts with a 44 percent increase in monthly sales, and Honda posted its first year-over-year gain since it began struggling with inventory shortages after last year's earthquake and tsunami in Japan. Toyota, Ford Motor and Nissan each reported modest increases, while Hyundai and Kia set January records. Volkswagen reported a 39.5 percent gain, marking its best January since 1974.

The only negative number came from General Motors, whose sales were down 6.1 percent from January 2011, when sales were inflated by big discounts offered after the company's public stock sale. Sales of GM's plug-in hybrid, the Chevrolet Volt, also fell from December after a government investigation into the potential for its battery to catch fire after a crash received widespread publicity.

Chrysler said its passenger-car sales more than doubled, but across the industry, trucks also experienced higher demand. "This is healthy, this is good. It's sustainable," said Jesse Toprak, vice president of industry trends and insight at the automotive research website TrueCar.com. "It's going to be another year of recovery where we have a very good chance of getting to that magic 14 million number." Sales have been below 14 million for each of the past four years, falling to as low as 10.4 million in 2009. Hitting 14 million this year would represent at least a 9 percent increase from the 12.8 million sold in 2011."The strength that the economy and the auto industry showed in the fourth quarter carried into January, so we believe the year is off to a good start," Don Johnson, GM's vice president of U.S. sales operations, said in a statement.

CONSUMER CONFIDENCE ZOOMS IN LATEST SURVEY

Rising gas prices, Europe's woes still could pose threat

Americans are feeling better about the economy again, but will it last this time? A widely watched barometer of consumer confidence surged in February to its highest level in a year as Americans took note of improving job prospects among friends and family and falling unemployment, which is now at a three-year low.

The brighter assessment released by a private research group reflected a more upbeat attitude for the nation generally as the economy picks up. "The economy is getting momentum. Clearly, shoppers are more optimistic about their job prospects," said Amna Asaf, economist at Capital Economics. But consumer confidence is still below the level of a healthy economy, and trouble could lie ahead. Rising gas prices could sully shoppers' mood and derail the economic recovery. There are also fears about a nuclear showdown with Iran and the festering European debt crisis. Those worries could hurt demand for U.S. imports and make American companies pull back in hiring.

The confidence index is closely watched because consumer spending constitutes 70 percent of U.S. economic activity. The big question mark is the price of gasoline, which Asaf said has climbed 20 cents per gallon since the confidence survey concluded two weeks ago. The price of gas is a big issue because it has an immediate effect on shoppers' pocketbooks, particularly low- to middle-income households that are already squeezed by higher costs for basics such as food.

The Conference Board's Consumer Confidence Index now stands at 70.8, significantly higher than the expected 63. A reading of 90 or above indicates a healthy economy. But the index has not reached that level since December 2007, when the recession began. Still, numbers were closer to levels that indicate a stable economy than to the danger zone that would suggest trouble. A year ago, the index rose to 72 as the economic outlook was improving. The February 2011 reading was the highest since before the financial crisis in the fall of 2008. After that, the outlook soured again over the spring and summer. Lynn Franco, director of the Conference Board Consumer Research, hopes the upward trend will have staying power this time. "Consumers are really feeling like the worst is behind them," she said. "We are finally seeing some traction, and hopefully over the next few months, that will prove sustainable."

Car Sales / February

Small cars have big edge in U.S. sales in February

Rising gas prices boost consumer demand for compacts

Small cars sold big in February. With gasoline prices spiking 30 cents last month, demand soared for compact cars like the Focus and Civic. That lifted U.S. sales for Ford, Honda and other major automakers that reported February sales recently. Gasoline -- which now averages $3.74 per gallon nationwide and $4.33 in California -- has sent more buyers looking for fuel-efficient vehicles. Erich Merkle, Ford's top U.S. sales analyst, says small cars made up about 19 percent of industry sales in December. That rose to 21 percent in January and could go as high as 24 percent in February, once final sales are tallied.

Other trends are also helping sales. The average car on U.S. roads is now a record 10.8 years, so there is an increasing need to replace older vehicles. Credit availability is improving, bringing more people back into the market. Japanese automakers have largely recovered from last year's earthquake and now have more cars to sell. And consumer confidence rose dramatically in February, making people more likely to consider a big-ticket purchase. That could add up to a third straight year of improving sales for the industry.

January started strong as sales hit an annual rate of 14.2 million. That pace could accelerate in February. Toyota's U.S. sales chief projected that it could hit 15 million, the best in almost four years. Last year's sales reached 12.8 million. Big winners last month were Volkswagen and Chrysler. Volkswagen sales rose 42 percent, led by the redesigned Passat midsize sedan. Chrysler sales jumped 40 percent. The tiny Fiat 500 had its best month ever, but sales were strong across the company's lineup.

Ford sales rose 14 percent, mostly on demand for the Focus. Its sales more than doubled to 23,350, making it the best February for the car in 12 years.

Car Sales / March

Auto sales surge in March, led by small cars

Appealing small cars, low interest rates, truck deals and unseasonably warm weather helped the auto industry achieve its best monthly performance in almost four years in March.

General Motors Co. said Tuesday that its U.S. sales rose 12 percent compared with last March on solid demand for cars and small crossovers that achieve 30 miles per gallon or better on the highway. Chrysler Group's sales jumped 34 percent as buyers went for Fiat small cars and Chrysler sedans. Toyota Motor Corp. said sales were up 15 percent, with sales of the Prius hybrid climbing 54 percent for the month. Sales at Ford Motor Co. rose 5 percent as demand for the Focus small car rose sharply. Americans who couldn't bear a new payment and kept driving their old car during the economic downturn are back on the market. With gas above $4 in some parts of the U.S., buyers are leaning toward new fuel-efficient compacts like the Chevrolet Cruze and sub-compacts such as the Honda Fit to save money. Also, incentives on trucks are good enough to lure buyers who want something bigger. Ford said sales of the F-Series pickup, the nation's best-selling vehicle, rose 9 percent.

The consulting firm LMC Automotive has predicted U.S. sales of new cars and trucks reached 1.37 million last month, up 6 percent from March of 2011 and the highest number since May of 2008. Industry analysts say sales could run at an annual rate of 14.1 million to 14.5 million vehicles, continuing the strong performance in January and February. GM said compact and subcompact car sales were up a combined 62 percent thanks to the new Chevrolet Sonic subcompact. GM sold 8,251 Sonics in March. Sales of the Chevrolet Cruze small car were up 20 percent.

Ford said it had its best March since 2007. Focus sales were up 65 percent compared to last March. But that came at a price. Sales of the Fiesta subcompact fell 34 percent as buyers flocked to the newer and bigger Focus.

For Chrysler, it was the best month for the company in four years. Chrysler says Fiat sales hit 3,712, compared to just 500 last March when the Fiat 500 subcompact was first on the market. The Fiat 500 is growing in popularity as new dealerships open and fuel prices rise. Sales of Chrysler's 200 and 300 sedans each doubled over last March. Both cars have recently been revamped and have better fuel economy than previous models, which is attracting new buyers. Jeep brand sales rose 36 percent on the strength of the Jeep Grand Cherokee.

March saw more growth in loans to subprime buyers, which boosted sales. Jefferies analyst Peter Nesvold wrote in a note to investors that non-prime buyers, or those with less than stellar credit, are coming back into the market after being shut out for several years due to lack of loan availability. GM said 9.5 percent of its buyers were subprime in March, compared with 6.1 percent in all of 2011. AutoNation, the Fort Lauderdale, Fla., auto retailer, said Tuesday that its sale rose 15 percent in March, mostly on the strength of Detroit brands, which were up 26 percent.

U.S. Job market still enjoying resurgence

Factories play strong role in encouraging employment growth

A resurgent U.S. job market that has lifted the economy appears to be enduring. Factories in the Northeast kept hiring in early March. And the number of people applying for unemployment aid fell back to a four-year low. The economy is adding jobs at a time when inflation remains relatively mild outside of higher gas prices.

The upbeat government reports recently reinforced the message sent by last week's encouraging job figures. "More solid U.S. economic data pointing to a gradually improving labor market, a bounce-back in manufacturing and no material ... inflation pressure," said Robert Kavcic, an economist at BMO Capital Markets. Applications for unemployment aid dropped to a seasonally adjusted 351,000, the Labor Department said recently. That matched a four-year low reached last month. The four-week average, which smooths fluctuations, was unchanged at 355,750, also a four-year low. Applications have declined 14 percent since October. The steady decline has coincided with the best three months of hiring in two years. From December through February, employers added an average of 245,000 jobs a month. The unemployment rate has fallen to 8.3 percent, the lowest in three years. The figures "indicate that the labor market is steadily, if slowly, improving," said Steven Wood, an economist at Insight Economics. "Another month of 200,000-plus payroll employment in March is likely."

U.S. factories in the Northeast are likely to contribute to those March payroll gains, based on two surveys conducted by the Federal Reserve Bank of Philadelphia and the Federal Reserve Bank of New York. The Fed banks said manufacturing in both regions is growing at a healthy pace in March. The Philadelphia Fed manufacturing index posted its highest reading since April 2011; the New York Fed index hit a 21-month high. The two surveys also showed that factories in those areas are hiring more workers. Factories have played a leading role reviving job growth. The Labor Department reported last week that manufacturing jobs grew by 31,000 in February. Over the past year, manufacturing added 227,000 net jobs.

Retailers deliver solid sales gains for January

Americans were shopping in January, but not every store was feeling the love. Retailers reported mixed sales results for the month in a sign that U.S. consumers continue to be cautious about when and where they spend their money in the shaky economy. Overall, merchants reported a 4.8 percent increase for January, according to the International Council of Shopping Center's tally of 20 retailers. That's above the 3 percent gain that ICSC had expected. But the results were divided. Retailers like Target that sell basic household goods did well, as did chains like Saks that cater to wealthier shoppers. Meanwhile, Macy's and other stores that sell mid-price clothing posted disappointing results. "The take away is that the underlying demand is still there, but business continues to be uneven," said Michael P. Niemira, ICSC's chief economist. "It was definitely a divided picture."

The results provide a glimpse into the psyche of the American consumer. January typically is the time when stores offer deep discounts on winter stuff so they can clear it out to make room for spring merchandise. This past January, the average consumer continued to focus more on buying what they need, while unseasonably warm weather made markdowns on puffy coats and furry boots at mid-priced chains unappealing. Industry watchers look closely at retailers' monthly sales numbers, but only a small number of retailers report those figures. Home Depot, Best Buy and even Wal-Mart, the world's largest retailer, don't report monthly revenue. A fuller picture of January spending will come in a government retail sales report that will be released Feb. 14. There's no doubt, though, that retailers have been affected by consumers' finicky shopping habits. January's reports of revenue at stores open at least a year—a gauge of a retailer's health—show that Americans were most willing to shop at discounters and wholesale clubs that offer more of a variety in merchandise.

Costco continued its streak, reporting that revenue at stores open at least a year climbed 8 percent, helped by higher gas prices. Results topped expectations the 6.1 percent predicted by analysts polled by Thomson Reuters. Target Corp. also said revenue at stores open at least a year rose beat Wall Street estimates. The retailer reported a 4.3 percent in January, compared with the 2.1 percent expected by analysts. The company said in a recording that some of its strongest performers were shoes, health care products and boys' and girls' clothing.

The luxury sector also did well as well-heeled shoppers continued to buy. Saks Inc. posted revenue at stores opened at least a year that rose 10.5 percent during January, driven by sales of women's apparel, handbags and men's accessories.

Retail sales increased in February

Americans stepped up their spending in February, boosting sales at many stores and offering the latest sign that shoppers are feeling more confident in the economy. As merchants reported their monthly sales figures recently, a diverse group including Target and Macy's reported sales gains that exceeded Wall Street estimates. Even San Francisco – based Gap, long mired in a sales slump, posted an unexpected increase. The figures, based on revenue at stores opened at least a year, are considered an indicator of a retailer's health. Only a small group of retailers report monthly sales figures. But industry watchers say those merchants that do post monthly numbers offer a snapshot of consumer spending, which accounts for more than 70 percent of all economic activity. "This was a very strong month. A new life has been breathed into the retailers," said Ken Perkins, president of Retail Metrics, a research firm. "Consumers are starting to feel much better about their overall situation."

Overall, merchants reported a 6.7 percent increase for February compared with the year-ago period, according to the International Council of Shopping Center's tally of 21 retailers. That followed a more modest increase of 2.7 percent in January. February's results marked the biggest gain since June 2011 when the index was up 6.9 percent as shoppers took advantage of deep promotions on summer merchandise. An unusually mild winter, which depressed sales of cold weather items like coats during the holiday season, turned out to be a blessing in February. It helped to kick off spending of spring merchandise last month. But what had a bigger impact is the improving economy, which boosted shoppers' moods during the month to the highest level in a year, according to a widely-watched barometer of consumer confidence released Tuesday by private research group the Conference Board.

Target Corp.'s sales rebounded after a muted holiday shopping season. Its key sales figure rose 7 percent in February as more people came to stores and spent more on core categories such as food and health care products. Analysts expected a 5.2 percent rise. Excluding the Easter months, which skew results, Target's increase was the biggest since November 2007 when the figure soared 10.8 percent. That was one month before the recession officially started. Target, however, said it continues to plan for an increase of around 4 percent for the fiscal first quarter. That suggests that executives believe there's the possibility business could be pulled forward.

Department-store chain Macy's Inc., which has had solid results since the recession thanks to its focus on tailoring merchandise to different regions, also reported a sales gain that beat Wall Street estimates. It posted a 4.6 percent increase, better than 3.5 percent increase Wall Street expected. "We saw good consumer response to our early spring deliveries in women's apparel, and continued strong trends in accessories, shoes, cosmetics, men's and home, which bodes well for the months ahead," said Terry J. Lundgren, chairman, president and chief executive officer of Macy's in a statement.

Foreclosure, short sales drop as a proportion of total

Foreclosure, short sales drop as a proportion of total

Bank-owned homes and short sales last year accounted for the smallest slice of overall sales in three years but still made up nearly a quarter of all U.S. homes sold in 2011. Some 907,138 sales were made last year of foreclosed-upon homes and others that were in some stage of the process. They represented about 23 percent of all home sales in 2011, foreclosure listing firm RealtyTrac Inc. said Thursday.

As a percentage of all homes sold, sales of bank-owned properties and other homes on the foreclosure track last year were back down to 2008 levels. But they remained an outsize portion of total sales compared 2005, when sales of previously occupied homes peaked and foreclosure sales comprised less than 1 percent of all sales, the firm said. The sales peaked in 2009 at about 1.1 million and made up about 37 percent of all sales. The decline in foreclosure-related sales last year coincided with a sharp drop in the number of homes taken back by lenders as the banking industry wrestled with foreclosure-abuse claims. Those claims, which included allegations that banks and mortgage servicers processed foreclosures without verifying documents, led banks to temporarily put foreclosures on hold, refile others and put off taking action against borrowers behind on their mortgage payments.

UCLA Anderson School Forecast

Forecast: California to continue job growth

Researchers see state jobless rate dipping below 10% next year

The economic outlook for California has perked up and the state should escape double-digit jobless levels more quickly than previously thought, researchers said recently."Things look slightly better," said Jerry Nickelsburg, a senior economist with the UCLA Anderson Forecast, which released its quarterly outlook.

California is expected to suffer a 10.8 percent average jobless rate this year, but that should improve to an average of 9.8 percent next year. That outlook is brighter than the group's previous view. In December, the Anderson Forecast predicted a 10.5 percent unemployment rate for 2013. "We are seeing improvement in the labor markets," Nickelsburg said. What's more, job growth should steadily improve in the coming years, the researchers predicted.

The number of payroll jobs in California increased 1.2 percent last year, according to the Employment Development Department. The Anderson Forecast said that pattern of job growth should continue, with statewide payroll increases of 1.3 percent this year, 1.9 percent next year and 2.5 percent in 2014, the economists said. "Things do look like they are going to be a little better in California, given the recent sharp drop in the state's unemployment rate," said Jeffrey Michael, director of the Stockton-based Business Forecasting Center at University of the Pacific.

The nationwide job market is also on the upswing. But growth in the United States still doesn't look that great, according to a report for the Anderson Forecast that was prepared by senior economist David Shulman. "We are growing, but curb your enthusiasm," Shulman said. The economy added an average of 250,000 jobs in the first two months of this year. That would work out to a rate of 3 million jobs a year. But Shulman said he doesn't think that kind of growth can be sustained. Instead, the nation is more likely to add 160,000 to 200,000 jobs a month on average, he said. That would equate to an annual pace of 1.2 million to 2.4 million jobs. The strong job growth in January and February was boosted by mild weather around the country, Shulman said. "There was more construction, more outdoor work, people went to restaurants and the mall," he added.

The rebound in California is being led by industries that are strong in the Bay Area."Tech industries, professional, scientific and technical services, health care, computers and electronics -- those are all doing very well," Nickelsburg said. More recently, improvements have begun to surface in some industries that have lagged. Retail, along with leisure and hospitality, are rebounding, Nickelsburg said.

The Bay Area is likely to remain in the vanguard of the recovery for California, analysts said. "The Bay Area has definitely been leading the rebound for the last six months or so," said Michael, the UOP economist. "We think the Bay Area will continue to outpace the rest of the state in job gains." During the one-year period that ended in February, job totals in the Bay Area grew 1.9 percent, more than double the pace of statewide job growth of 0.9 percent. "The rebound started in Silicon Valley and now the improvement is spreading throughout the Bay Area," Michael said.

Sources:
Valley Times
San Jose Mercury News
San Francisco Chronicle
Wall Street Journal
Economy.com