CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

March 4, 2013

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Third Quarter Sales (July - September 2012)

This is an informational report, and no action is required.

BACKGROUND

Sales and use tax represents about 15 percent, or $22.5 million, of projected General Fund revenue in the City's Adopted Operating Budget for fiscal year 2013. 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 Policy and Services 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 third quarter sales (July through September 2012). These funds are reported as part of the City's fiscal year 2013 revenue. Due to the timing of reporting by businesses and the State, MuniServices' detailed reports on fourth quarter sales (October through December 2012) should be available by May 2013. ASD advises that in mid-March, it should receive information from the State on aggregate sales and use tax receipts for fourth 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 third quarter ending September 2012 decreased by approximately $123,900, or 2.3 percent, (including pool allocations) compared to the third quarter ending September 2011.[2] For all jurisdictions in Santa Clara County, sales and use tax revenue for the third quarter ending September 2012 increased by $6.6 million, or 7.8 percent, compared to the third quarter ending September 2011.

- Statewide, every region in California experienced an increase in sales and use tax revenue for the year ending September 2012, compared to the prior year ending September 2011. Statewide sales and use tax revenue has shown growth of 8.1 percent during the third quarter ending September 2012 compared to the third quarter ending September 2011.

- In Palo Alto, sales and use tax revenue totaled $21.8 million for the year ending September 2012, an increase of 6.5 percent from $20.5 million in the prior year ending September 2011.[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 Overview (Attachment B), MuniServices discusses economic influences including national economic trends, holiday and retail sales, housing, auto sales, and national and state 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 December 2012 unemployment rate in Santa Clara County at 7.5 percent and Palo Alto at 4.0 percent.

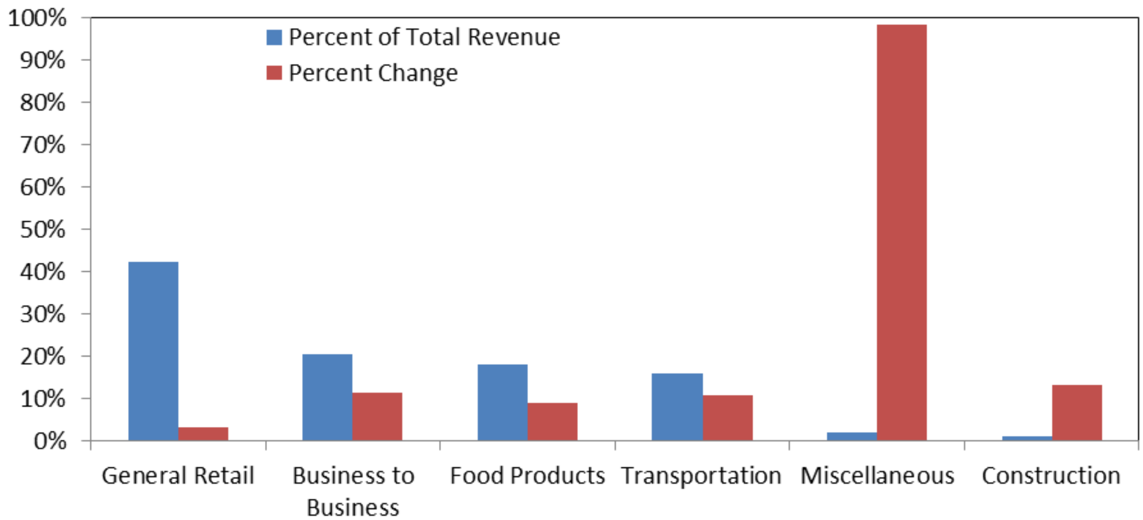
Economic Category Analysis

MuniServices' analysis of six economic categories, for the year ending September 2012, shows that General Retail comprised the largest percentage of Palo Alto's sales and use tax revenue and experienced 3.4 percent growth. Business to business experienced an 11.4 percent increase and comprised 20.5 percent of total revenues. Transportation experienced a 10.9 percent increase and comprised 16.1 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 third quarter ending September 2012 increased by 3.5 percent compared to the third quarter ending September 2011. On a yearly basis, Palo Alto's sales and use tax revenue for the year ending September 2012, increased by 8.4 percent compared

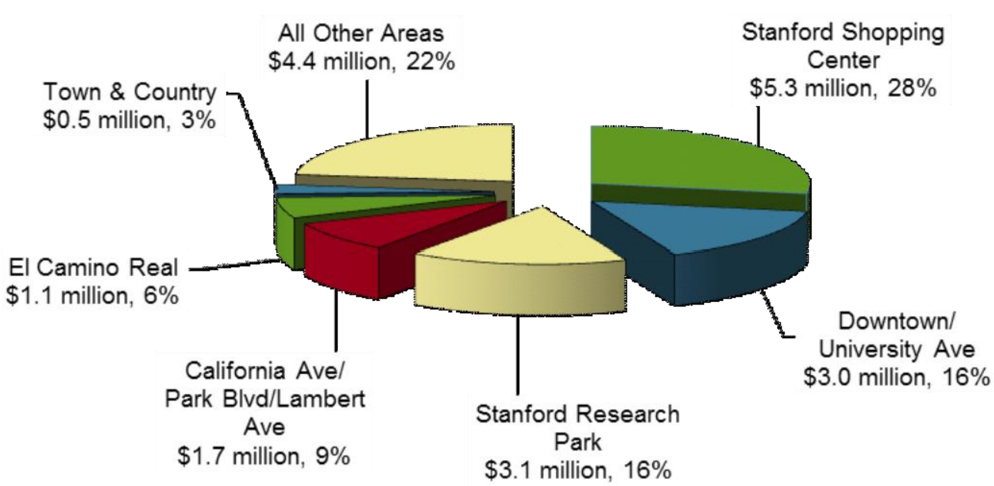
to the prior year ending September 2011.

Exhibit 1 - Comparison of Palo Alto's Sales and Use Tax Revenue and Percent Change by Economic Category for the Year Ending September 2012



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 September 2012 (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 during the third quarter 2012 was 8.375 percent, and the City should receive 1 percent of every taxable transaction. Effective January 1, 2013, the sales and use tax rate in Palo Alto increased to 8.625 percent.

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 2013

Audit staff: Lisa Wehara

ATTACHMENTS:

- Attachment A: City of Palo Alto Sales Tax Digest Summary (PDF)
- Attachment B: MuniServices Economic Overview (January 2013) (PDF)

Department Head: Jim Pelletier, City Auditor

Attachment A

City of Palo Alto
Sales Tax Digest Summary
Collections through December 2012
Sales through September 2012 (2012Q3)

California Overview

The percent change in cash receipts from the prior year was 8.0% statewide, 8.1% in Northern California and 8.0% 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 3rd Quarter 2012 by 6.8% statewide, 7.5% in Northern California and increased by 6.3% in Southern California.

City of Palo Alto

For the year ended 3rd Quarter 2012, sales tax cash receipts for the City grew by 6.5% from the prior year. On a quarterly basis, sales tax revenues decreased by 2.3% from 3rd Quarter 2011 to 3rd Quarter 2012. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments.

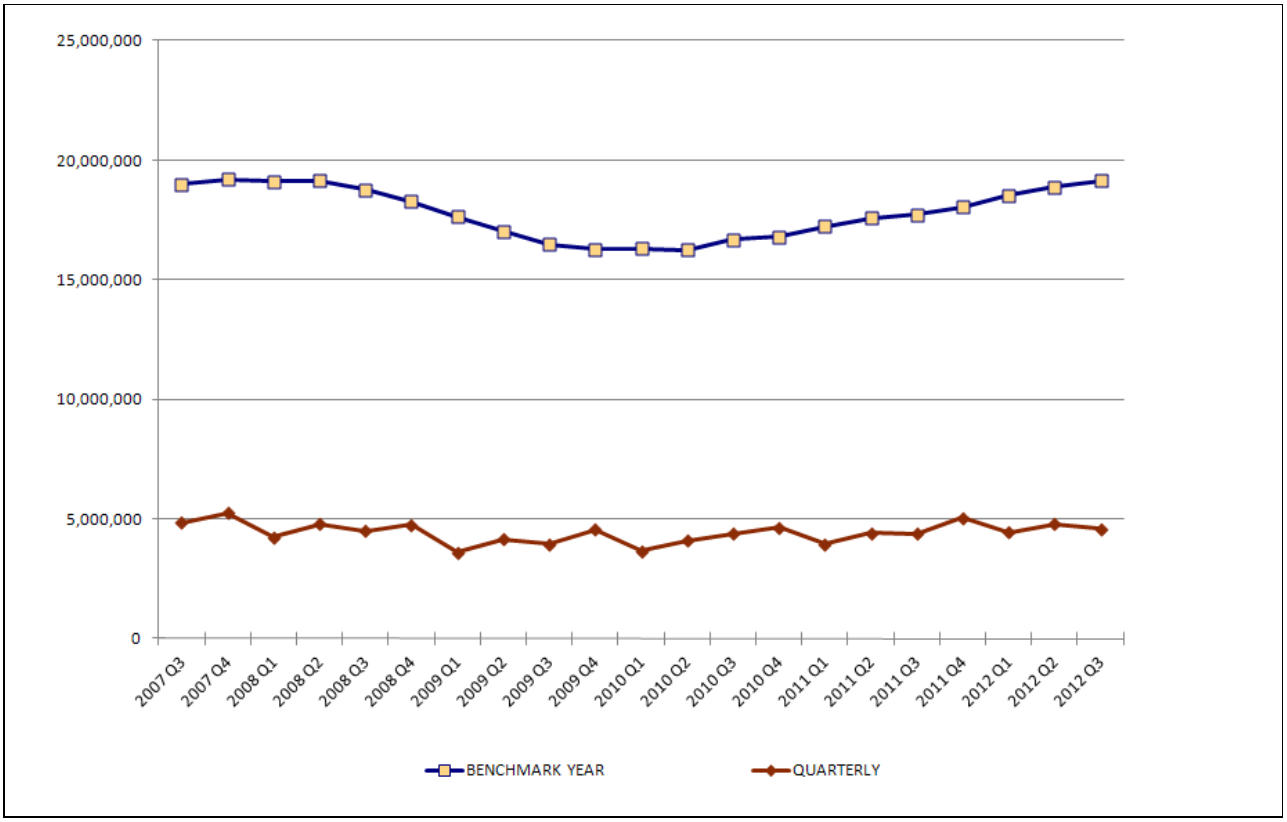
Excluding state and county pools and adjusting for anomalies (payments for prior periods) and late payments, local sales tax increased by 8.4% for the year ended 3rd Quarter 2012 from the prior year. On a quarterly basis, sales tax activity grew by 3.5% in 3rd Quarter 2012 compared to 3rd Quarter 2011.

Regional Overview

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

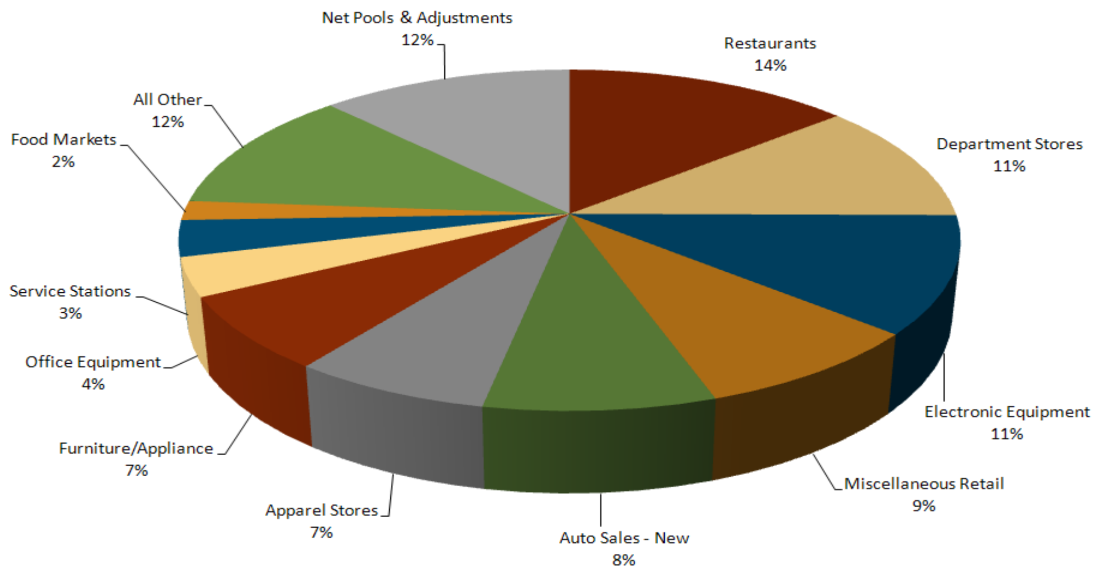
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 3rd QUARTER 2012									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	42.2 / 3.4	29 / 4.5	28.1 / 4.7	29.4 / 2.2	31 / 5.8	29.2 / 4.3	27.7 / 5.4	29 / 4.3	32.4 / 4.6
Food Products	18.0 / 9.0	19.2 / 7	19.8 / 7.5	16.8 / 2.7	16.1 / 5.1	19.9 / 7.3	16.9 / 8.9	18 / 5.3	31.4 / 7.9
Transportation	16.1 / 10.9	24.6 / 10.4	21.4 / 10.6	28.1 / 12.1	26.7 / 13.3	24.8 / 9.7	28.3 / 11	30.9 / 9.7	21.2 / 3.5
Construction	1.1 / 13.1	8.6 / 7.7	8.5 / 9.4	10 / 0.6	10.8 / 12.2	7.8 / 6.3	10.3 / 11.7	11.9 / 8.2	8.4 / 0.7
Business to Business	20.5 / 11.4	17.5 / 5.8	21 / 6.9	14.3 / 5	14.2 / 13.5	17.2 / 4.4	15 / 5.1	9.1 / 4.8	5.6 / 6.3
Miscellaneous	2.1 / 98.5	1.2 / -1.5	1.2 / 6.9	1.5 / -0.7	1.2 / -8.9	1.1 / -4	1.9 / -3.1	1.1 / 19.1	1.1 / 3.7
Total	**100.0 / 8.4**	**100 / 6.8**	**100 / 7.4**	**100 / 5.1**	**100 / 9.1**	**100 / 6.3**	**100 / 7.9**	**100 / 6.8**	**100 / 5.1**
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 3rd QUARTER 2012									
	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	15.7 / 10.6	13.1 / 7.2	13.6 / 7.8	12.6 / 3.5	14.5 / 3.6	14.1 / 7.6	12.6 / 11.0	14.8 / 7.6	20.6 / 9.5
2nd Largest Segment	**Department Stores**	**Service Stations**	**Service Stations**	**Service Stations**	**Service Stations**	**Service Stations**	**Department Stores**	**Department Stores**	**Misc Retail**
% of Total / % Change	12.9 / 2.9	10.7 / 11.0	9.2 / 11.8	11.1 / 11	12.5 / 13.7	10.7 / 10.7	11 / 3.5	12.1 / 1.6	9.9 / -0.4
3rd Largest Segment	**Electronic Equipment**	**Department Stores**	**Department Stores**	**Restaurants**	**Restaurants**	**Department Stores**	**Auto Sales - New**	**Restaurants**	**Service Stations**
% of Total / % Change	12.7 / 21.9	10.5 / 3.5	9.1 / 3.4	10.5 / 7.2	9.6 / 6.5	10.3 / 4.0	10.7 / 15.3	9.6 / 4.7	9.9 / 7.7

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



Net Cash Receipts for Benchmark Year 3rd Quarter 2012: $21,789,131

Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q3 BMY is sum of 2012 Q3, Q2, Q1,& 2011 Q4)

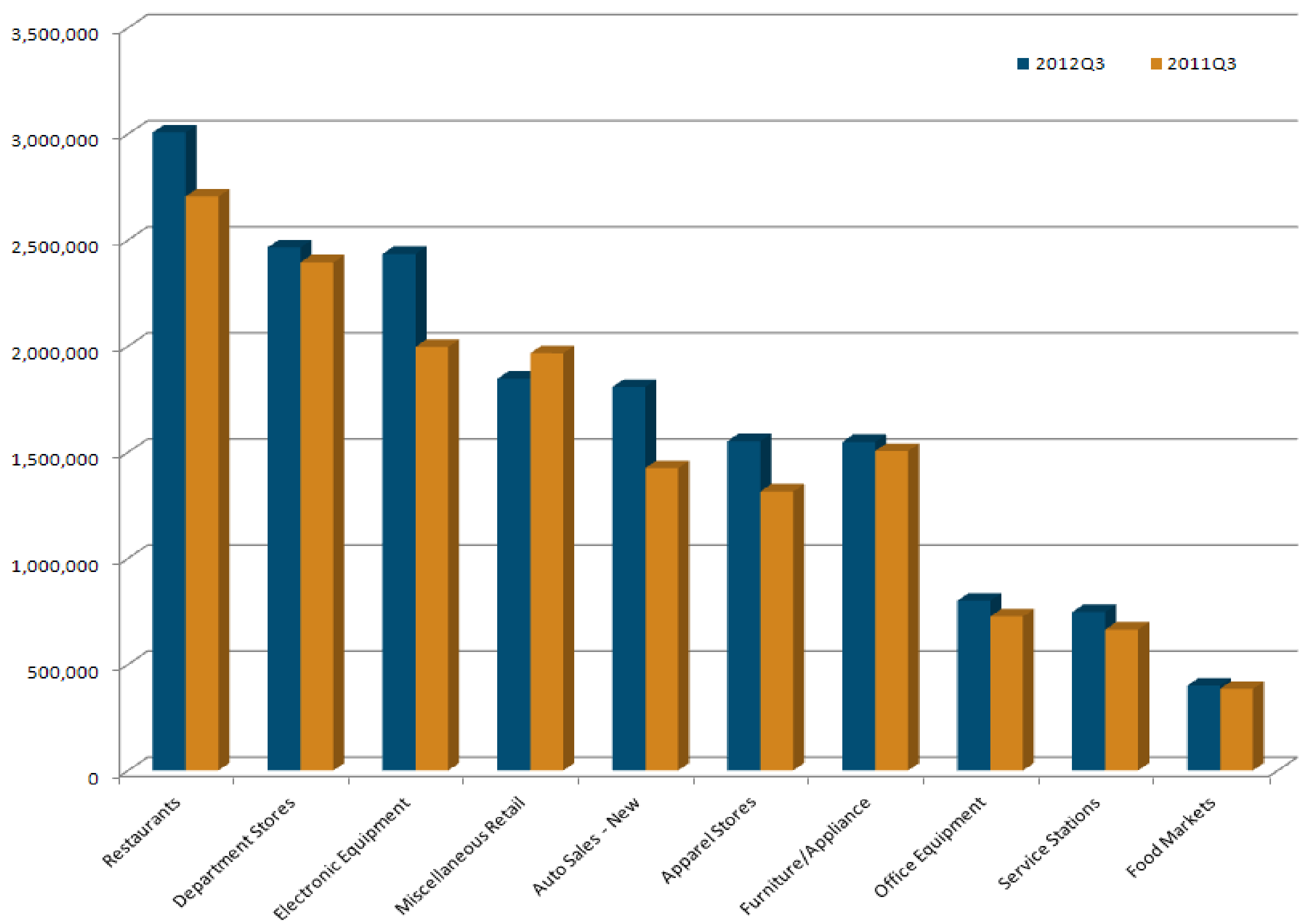


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto's Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 3rd Quarter 2012. The Top 25 Sales/Use Tax contributors generate 51.21% of Palo Alto's total sales and use tax revenue.

Anderson Honda	Integrated Archive Systems	Shell Service Stations
Apple Stores	Keeble & Shucat Photography	Stanford University Hospital
Bloomingdale's	Loral Space Systems	Tesla Motors
Carlsen Motor Cars	Macy's Department Store	Tiffany & Company
Carlsen Subaru	Magnussen's Toyota	Urban Outfitters
Crate & Barrel	Neiman Marcus Department Store	Valero Service Stations
CVS/Pharmacy	Nest Labs	Varian Medical Systems
Fry's Electronics	Nordstrom Department Store	
Hewlett-Packard	Pottery Barn	

Sales Tax from Largest 10 Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

Economic Category	%	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2	2011Q1	2010Q4	2010Q3
General Retail	36.8%	1,913,125	2,009,452	1,701,757	2,440,953	1,886,520	1,984,860	1,573,474	2,275,627	1,810,271
Business To Business	16.2%	843,770	993,147	1,064,996	932,723	842,771	842,709	925,263	887,037	1,006,576
Food Products	16.9%	877,520	886,852	816,336	838,138	799,167	806,987	740,594	769,253	726,360
Transportation	15.5%	803,701	749,507	703,039	682,786	694,998	619,897	593,452	590,209	576,597
Miscellaneous	2.0%	101,778	99,404	94,397	98,550	117,132	100,653	87,535	75,077	217,465
Construction	1.0%	53,420	50,544	47,432	62,282	46,843	44,589	38,765	54,645	44,171
Net Pools & Adjustment:	11.6%	603,635	840,789	754,099	725,000	933,424	845,214	769,789	508,973	782,981
Total	100.0%	5,196,949	5,629,695	5,182,056	5,780,432	5,320,855	5,244,909	4,728,872	5,160,821	5,164,421

Economic Segments	%	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2	2011Q1	2010Q4	2010Q3
Restaurants	14.6%	760,929	780,314	714,487	783,595	689,568	705,459	639,353	651,614	622,517
Electronic Equipment	9.9%	516,554	651,686	488,132	724,274	563,373	608,784	474,566	748,885	541,942
Department Stores	11.2%	584,178	608,894	382,336	573,750	455,335	482,723	399,243	584,895	396,580
Miscellaneous Retail	8.3%	429,989	456,771	347,112	488,492	385,236	392,126	301,427	421,877	447,946
Auto Sales - New	9.4%	489,383	419,941	335,069	429,491	321,296	333,697	266,990	387,682	299,340
Apparel Stores	7.4%	383,337	402,471	178,409	171,472	160,037	181,065	158,421	147,520	143,233
Furniture/Appliance	6.6%	345,043	365,585	99,210	104,348	104,234	105,507	100,241	146,732	112,153
Service Stations	3.8%	198,973	198,604	90,636	101,023	98,054	89,530	91,274	105,573	93,651
Office Equipment	3.1%	162,015	188,369	46,718	48,340	49,977	51,743	47,157	43,537	45,689
Food Markets	2.1%	106,652	95,807	37,116	38,854	42,654	35,131	34,857	36,962	40,480
Health & Government	1.8%	94,969	92,612	31,168	44,402	41,338	38,236	34,016	48,591	39,747
Recreation Products	1.8%	92,186	82,846	11,199	12,838	11,321	11,319	9,967	12,060	10,192
Business Services	1.3%	69,722	71,828	6,634	9,046	9,857	8,724	6,458	8,714	5,751
Drug Stores	1.2%	62,624	65,943	7,110	22,227	8,349	8,029	3,833	3,580	3,288
Misc. Vehicle Sales	0.9%	45,325	57,680	16,264	17,880	5,505	6,353	4,749	6,054	4,424
All Other	4.8%	251,435	249,555	1,636,357	1,485,400	1,441,297	1,341,269	1,386,531	1,297,572	1,574,507
Net Pools & Adjustment:	11.6%	603,635	840,789	754,099	725,000	933,424	845,214	769,789	508,973	782,981
Total	100.0%	5,196,949	5,629,695	5,182,056	5,780,432	5,320,855	5,244,909	4,728,872	5,160,821	5,164,421

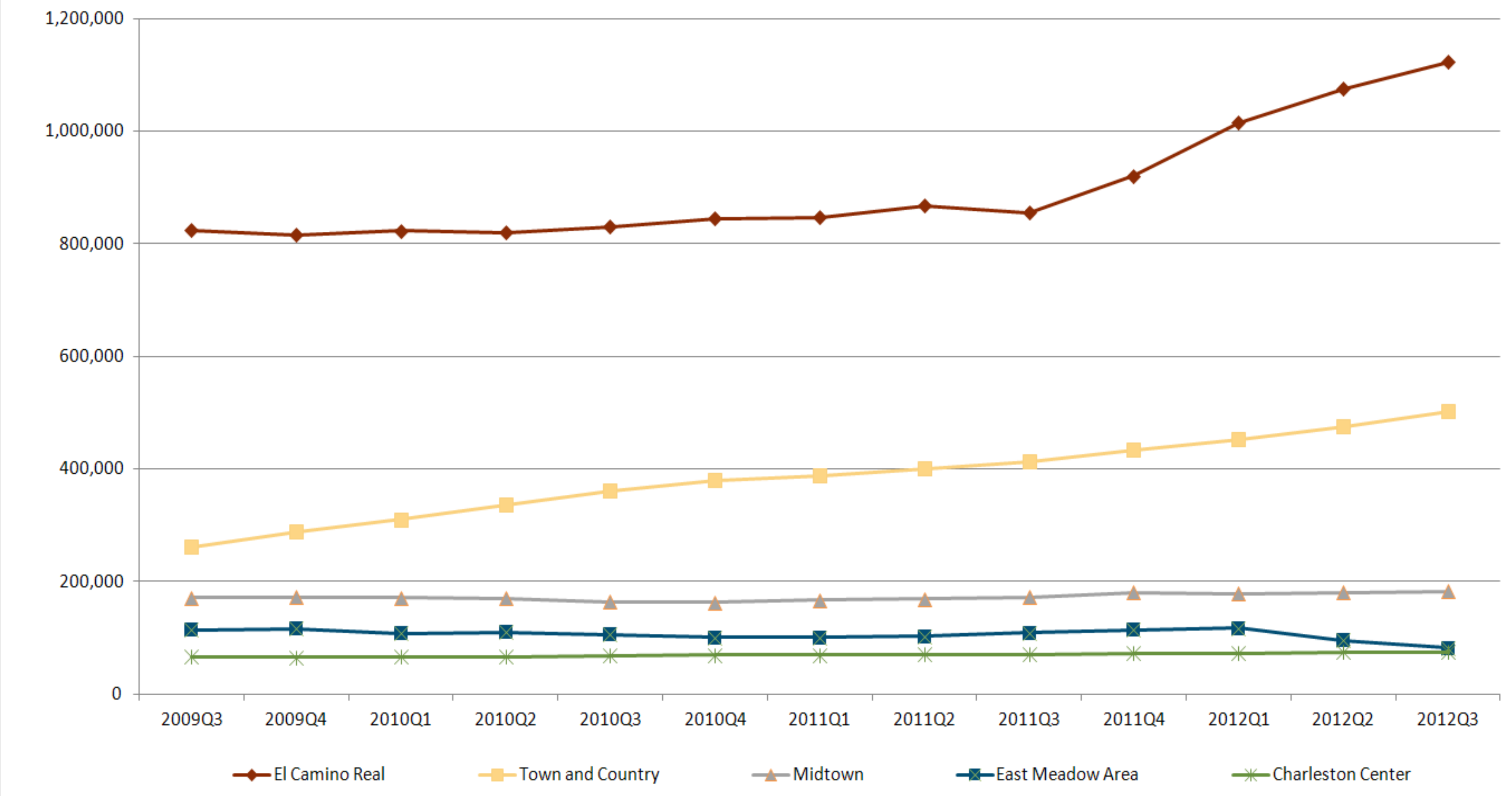
*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

Quarterly Analysis by Economic Category, Total and Segments: Change from 2011Q3 to 2012Q3

	General Retail	Food Products	Transportation	Construction	Business to Business	Miscellaneous	2012Q3 Total	2011Q3 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	2.0%	7.1%	3.1%	0.9%	-15.8%	-52.5%	2,032,069	2,028,858	**0.2%**	Restaurants	Bldg.Matls-Retail	Business Services	Bldg.Matls-Whsle
Cupertino	2.7%	23.6%	6.7%	26.2%	40.5%	-7.6%	5,737,846	4,336,321	**32.3%**	Business Services	Food Processing Eqp	Miscellaneous Retail	Department Stores
Gilroy	6.6%	3.9%	-1.6%	4.1%	12.7%	-6.5%	3,176,554	3,041,275	**4.4%**	Apparel Stores	Department Stores	Furniture/Appliance	Auto Sales - Used
Los Altos	3.9%	7.6%	3.4%	6.8%	6.5%	-8.2%	534,779	508,490	**5.2%**	Restaurants	Miscellaneous Retail	Florist/Nursery	Business Services
Los Gatos	-39.4%	7.9%	3.9%	9.5%	-5.6%	8.0%	1,696,607	2,174,270	**-22.0%**	Auto Sales - New	Food Markets	Miscellaneous Retail	Service Stations
Milpitas	9.4%	4.5%	14.0%	82.8%	17.5%	27.9%	4,385,119	3,783,457	**15.9%**	Bldg.Matls-Whsle	Office Equipment	Light Industry	Chemical Products
Morgan Hill	8.4%	7.4%	40.5%	7.2%	7.3%	81.4%	1,654,918	1,384,272	**19.6%**	Auto Sales - New	Electronic Equipment	Light Industry	Business Services
Mountain View	4.0%	2.2%	10.2%	-19.1%	40.9%	19.2%	3,586,000	3,199,999	**12.1%**	Office Equipment	Business Services	Electronic Equipment	Bldg.Matls-Whsle
Palo Alto	1.4%	8.2%	13.3%	13.0%	-2.2%	-14.0%	4,593,316	4,437,243	**3.5%**	Auto Sales - New	Apparel Stores	Misc. Vehicle Sales	Furniture/Appliance
San Jose	4.1%	5.4%	9.1%	3.3%	-1.4%	13.5%	32,921,502	31,606,978	**4.2%**	Auto Sales - New	Restaurants	Electronic Equipment	Light Industry
Santa Clara	7.7%	3.2%	14.8%	25.8%	10.9%	15.8%	9,557,424	8,548,464	**11.8%**	Electronic Equipment	Auto Sales - New	Bldg.Matls-Retail	Office Equipment
Santa Clara Co.	16.9%	-6.6%	-1.9%	44.5%	-36.5%	-29.7%	1,035,010	1,074,328	**-3.7%**	Bldg.Matls-Whsle	Office Equipment	Health & Government	Heavy Industry
Saratoga	-0.1%	2.6%	-3.7%	-92.6%	-42.7%	-29.8%	234,546	244,229	**-4.0%**	Apparel Stores	Restaurants	Bldg.Matls-Retail	Florist/Nursery
Sunnyvale	6.9%	5.1%	2.3%	7.3%	3.0%	1.9%	6,741,111	6,482,771	**4.0%**	Light Industry	Department Stores	Electronic Equipment	Heavy Industry

City of Palo Alto - Selected Geographic Areas of the City
Benchmark Year 3rd Quarter 2012

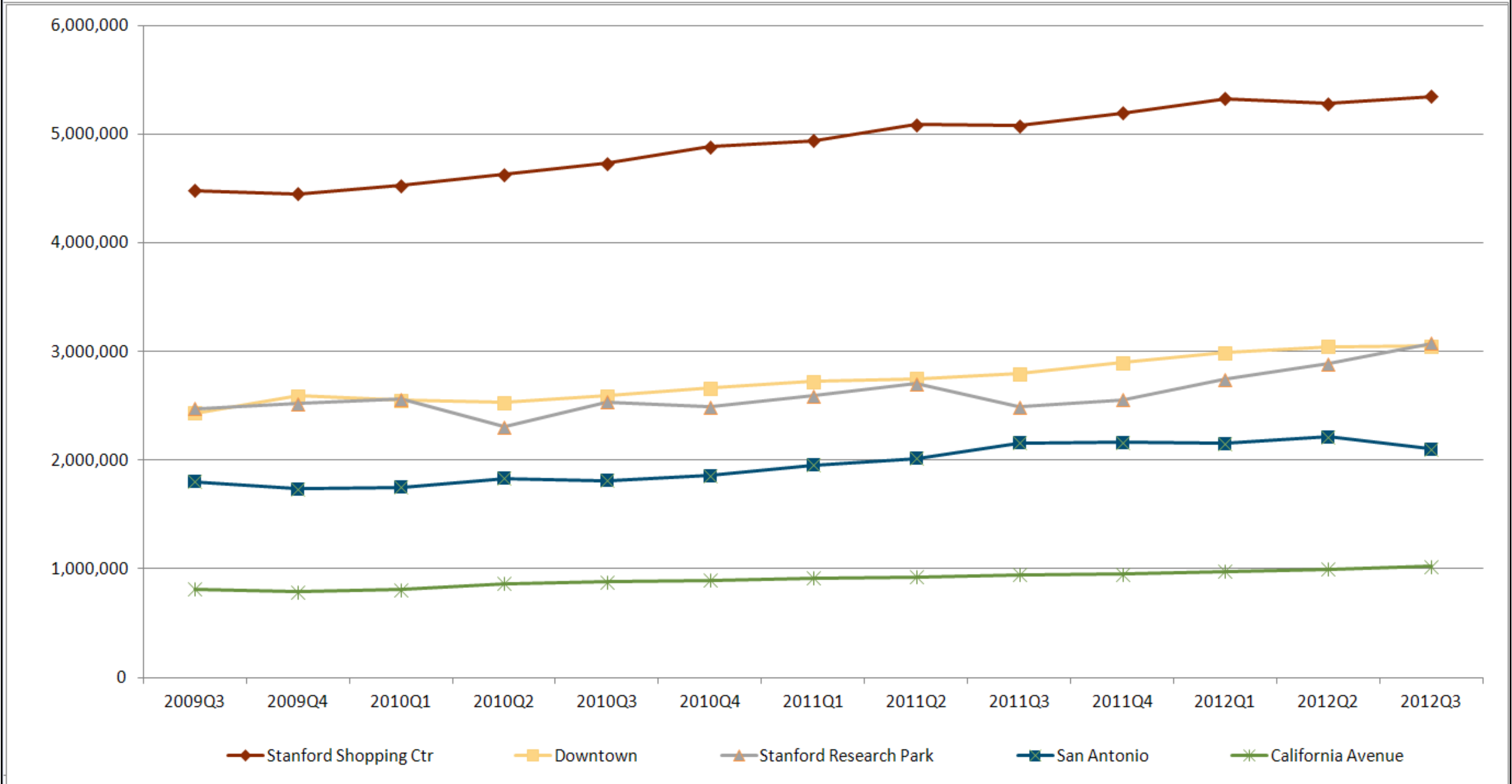
	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3
El Camino Real	823,627	814,940	822,245	818,947	830,152	843,626	846,897	867,868	854,828	920,020	1,014,867	1,074,079	1,122,001
Town and Country	261,294	288,103	309,848	336,444	360,254	379,066	386,944	399,378	412,361	433,313	451,982	475,054	502,127
Midtown	170,741	172,297	170,517	169,297	162,869	162,122	166,440	168,537	171,719	180,415	178,344	179,250	181,352
East Meadow Area	112,819	116,128	107,931	108,922	104,777	100,155	100,032	102,028	108,176	114,083	116,558	94,868	81,598
Charleston Center	65,328	64,981	65,642	66,446	67,447	68,693	69,150	69,606	70,301	71,555	72,602	73,408	74,213



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q3 BMY is sum of 2012 Q3, Q2, Q1,& 2011 Q4)*

City of Palo Alto - Selected Geographic Areas of the City
Benchmark Year 3rd Quarter 2012

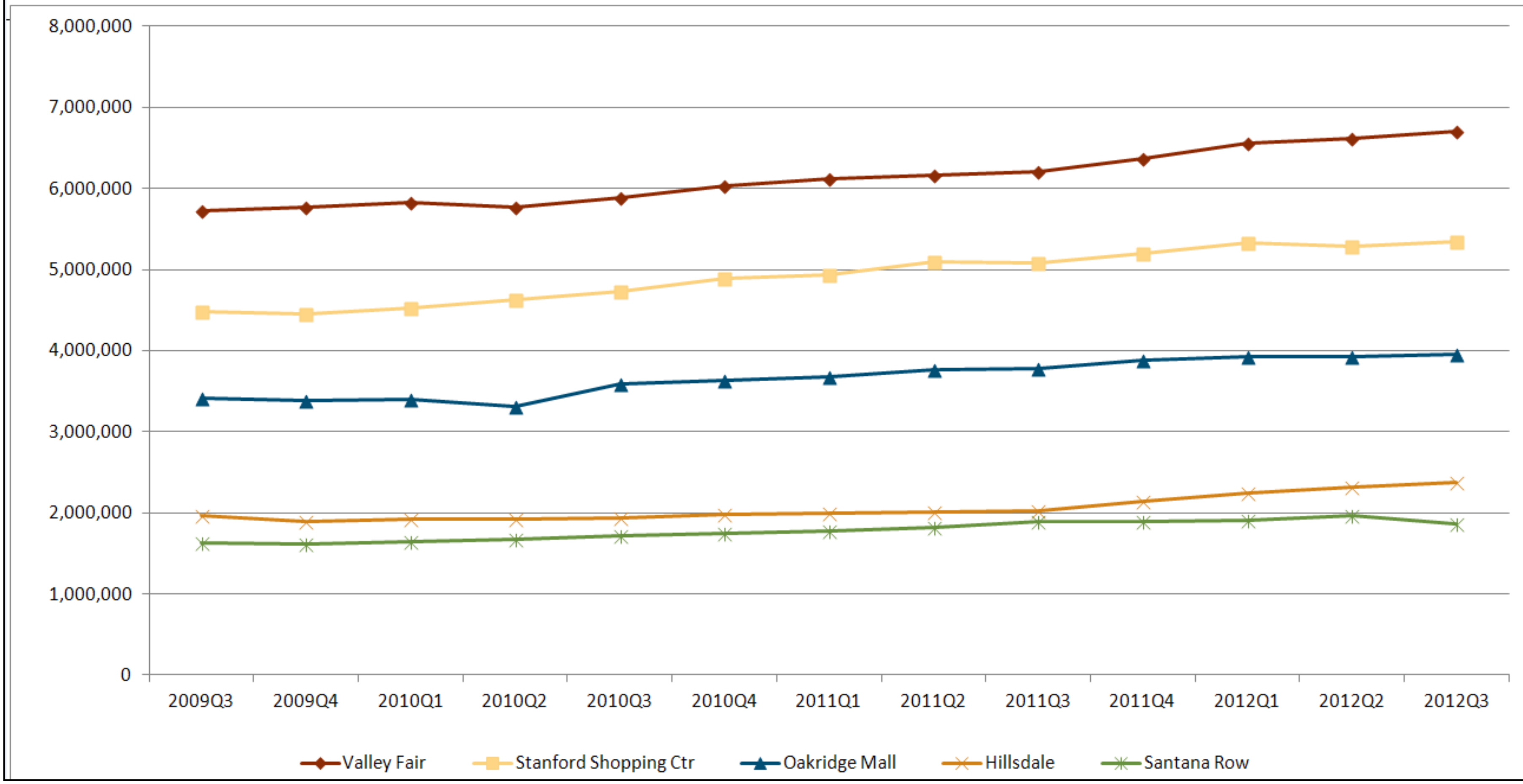
	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3
Stanford Shopping Ctr	4,479,311	4,451,986	4,524,318	4,631,095	4,731,800	4,884,843	4,941,127	5,087,834	5,079,526	5,194,491	5,325,435	5,281,772	5,345,618
Downtown	2,434,567	2,591,213	2,549,106	2,528,095	2,589,660	2,663,500	2,723,552	2,748,925	2,793,987	2,897,003	2,986,093	3,044,755	3,047,356
Stanford Research Park	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	2,744,058	2,884,600	3,073,009
San Antonio	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	2,155,721	2,212,977	2,103,881
California Avenue	812,294	790,954	807,490	863,730	879,364	895,989	917,851	928,031	945,340	952,300	976,897	999,421	1,020,704



Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q3 BMY is sum of 2012 Q3, Q2, Q1,& 2011 Q4)

City of Palo Alto - Regional Shopping Mall Comparison
Benchmark Year 3rd Quarter 2012

	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3
Valley Fair	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	6,559,394	6,621,598	6,708,343
Stanford Shopping Ctr	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	5,325,435	5,281,772	5,345,618
Oakridge Mall	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	3,928,855	3,925,454	3,947,751
Hillsdale	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	2,241,553	2,315,120	2,381,548
Santana Row	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	1,900,328	1,961,561	1,867,513



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q3 BMY is sum of 2012 Q3, Q2, Q1,& 2011 Q4)*

Economic Overview

4Q2012 News

2013 GROWTH VIEWS WIDE-RANGING

Most forecasters are looking at 2013 as being another mediocre year for the economy, but many appear hopeful that growth will accelerate as the year progresses.

Beyond that broad outline, the outlook for next year is muddled. The range of economic growth projections is about as wide as it's ever been, reflecting the great fiscal haze hanging over the nation. In its year-end survey released recently, the National Association for Business Economics said the consensus view from its panel of forecasters shows gross domestic product expanding next year at an average annual growth rate of 2.1 percent. That's little changed from the modest 2.2 percent pace this year.

And don't expect the unemployment rate to budge. Most of these 48 professional economists see the jobless rate averaging 7.7 percent in 2013 -- exactly where it stands now. These numbers represent the consensus or median, which means half the experts are predicting GDP will grow stronger than 2.1 percent next year and half predict growth below 2.1 percent. But what's striking about this year's survey results are the varying views from these economists, who work at companies, universities and government.

Although they predict GDP to grow in the fourth quarter of 2013 from the same period in 2012, five of the forecasters on the panel think growth will come in at 3.6 percent, while another five expect the increase to be a mere 1.3 percent. The top and bottom range of forecasts for job growth is just as stark. Some see the nation adding on average 300,000 jobs a month in the second half of next year, but the pessimistic five believe payrolls will rise by no more than 125,000 a month in that period. "It just shows there's a lot of uncertainty among economists," said Nayantara Hensel, chair of the association's outlook survey.

Much of that uncertainty, of course, is over the looming “fiscal cliff” -- deep federal budgets cuts and tax increases that would take effect at the start of next year unless the White House and congressional Republicans can agree on how to avert the fall.

HOME CONSTRUCTION GATHERS STRENGTH

Storm slows pace in Northeast, but permits up sharply

New housing starts fell 3 percent in November from the previous month as Superstorm Sandy kept builders from breaking ground in the Northeast, the Commerce Department reported recently. But the number of building permits issued, a sign of future activity, rose 3.6 percent in November compared with October. It was the highest level in more than four years and an indication that the housing market is continuing its strong rebound despite Sandy's effects.

Compared with a year earlier, housing starts and building permits were up sharply. Construction began on new privately owned residential homes at a seasonally adjusted annual rate of 861,000 in November, down from a revised rate of 888,000 in October. The reading was below analysts' expectations of a drop to about an 872,000 annual pace. Starts dropped 5.2

percent in the Northeast, which was hit hard by Sandy on Oct. 29-30. Starts also fell 19.2 percent in the West, but were up 3.3 percent in the Midwest and 2.9 percent in the South.

Compared with a year earlier, starts were down 25.5 percent in the Northeast, the only region to show a decrease. Building permits also dropped about 6.2 percent in the Northeast in November from the previous month. But permits were up in the rest of the country to an annual rate of 899,000, their highest level since July 2008.

The annual rate of permits was a 26.8 percent increase from a year earlier. Despite last month's drop, housing starts also were well above last year's pace, up 21.6 percent compared with November 2011.

ECONOMY PICKS UP, BUT MAY PULL BACK

2.7 percent growth strong, but storm, “cliff” pose hazards

The U.S. economy grew at a 2.7 percent annual rate from July through September, much faster than first thought. The strength is expected to fade in the final months of the year because of the impacts of Superstorm Sandy and uncertainty about looming tax increases and government spending cuts.

The Commerce Department said growth in the third quarter was significantly better than the 2 percent rate estimated a month ago. And it was more than twice the 1.3 percent rate reported for the April-June quarter. The main reason for the upward revision to the gross domestic product was businesses restocked at a faster pace than previously estimated. That offset weaker consumer spending growth.

GDP measures the nation’s total output of goods and services — from restaurant meals and haircuts to airplanes, appliances and highways. Most economists say economic growth is slowing to below 2 percent in the current October-December quarter. That’s generally considered too weak to rapidly lower the unemployment rate.

Paul Ashworth, Chief U.S. economist at Capital Economics, said companies are likely restocking more slowly now. Businesses typically cut back on restocking when they think consumers will spend less. Consumer spending drives roughly 70 percent of economic activity.

Economists cite two reasons for the anticipated weakness in consumer and business spending. Superstorm Sandy halted business activity along the East Coast in late October and November. And spending may weaken in the final weeks of the year, if lawmakers and Obama fail to reach a deal to avoid the "fiscal cliff."

Still, consumers and businesses appeared to be more cautious over the summer, according to the GDP report. Consumer spending grew at a weaker 1.4 percent rate in the third quarter, down from the 2 percent rate estimated a month ago and nearly in line with the 1.5 percent rate in the second quarter. Businesses spending on equipment and software fell at an annual rate of 2.7 percent in the third quarter, the first decline since the depths of the recession in April-June 2009.

CYBER MONDAY SALES SKYROCKET

They shopped till fingers dropped

New taxes collected on online sales could not slow the roll of the Cyber Monday phenom, which saw purchases jump 28 percent over last year.

Some retail analysts had predicted that online tax rules that went into effect this year in California and other states would level the playing field for shopping malls and traditional brick-and-mortar stores that have watched customers disappear to Cyber Monday since it was created seven years ago as yet another day devoted to national consumerism. They were wrong. "It doesn't look like they're having a lot of negative impact," said professor Dale Achabal, executive director of Santa Clara University's Retail Management Institute. "What we're seeing is a shift in the way consumers are shopping, with a greater use of online for a significant percentage of their holiday purchases."

Confident consumers

Cyber Monday sales continued to grow around the country this year because of heavy marketing and deals by online merchants, consumer confidence in the economy and the explosion of iPads, smartphones and apps, said Jay Henderson, strategy director of IBM Smarter Commerce, which tracked a 28.4 percent increase in Cyber Monday sales.

No Cyber Monday sales figures were immediately available. But research firm comScore projected earlier this month that sales would reach $1.5 billion, making it the biggest online shopping day of the year. Cyber Monday purchases came on the heels of a blockbuster four-day Black Thursday weekend in which 247 million shoppers spend $59.1 billion, according to the National Retail Federation.

"Consumers today are sitting at their desks at work with their credit cards out and clicking away and buying ... or curling up on the couch and doing a little couch commerce," Henderson said. The San Francisco office of Deloitte & Touche surveyed Cyber Monday customers in Southern California, but not the Bay Area, and found a 3 percent increase in buyers who planned to shop online Monday, or 26 percent of all consumers.

"It's similar to national trends," said Ellen Basilico a partner with Deloitte's San Francisco office. "We do know that consumers are more accustomed to Cyber Monday promotions and retailers are also better at driving more urgency and creating some uncertainty whether those deals will be there later in the season." Until this year, online customers in California were supposed to report their purchases to tax collectors on the honor system. Then on Sept. 15, state officials began requiring online retailers to collect sales taxes directly, based on individual county rates.

HOLIDAY SHOPPING

Sandy and 'fiscal cliff' take wind from retails sales

Shocks produce weakest growth since '08, preliminary data says

U.S. holiday retail sales this year were the weakest since 2008, when the nation was in a deep recession. In 2012, the shopping season was disrupted by bad weather and consumers' rising uncertainty about the economy. A report that tracks spending on popular holiday goods, the MasterCard Advisors SpendingPulse, said recently that sales in the two months before Christmas increased 0.7 percent, compared with last year. Many analysts had expected holiday sales to grow 3 to 4 percent.

Shoppers were buffeted this year by a string of events that made them less likely to spend: Superstorm Sandy and other bad weather, the distraction of the presidential election and grief about the massacre of schoolchildren in Newtown, Connecticut. The numbers also show how Washington's current budget impasse is trickling down to Main Street and unsettling consumers. If Americans remain reluctant to spend, analysts say, economic growth could falter next year.

In the end, even steep last-minute discounts weren't enough to get people into stores, said Marshal Cohen, chief research analyst at the market research firm NPD Inc. "A lot of the Christmas spirit was left behind way back in Black Friday weekend," Cohen said, referring to the traditional retail rush the day after the Thanksgiving holiday in late November. "We had one reason after another for consumers to say, `I'm going to stick to my list and not go beyond it."

Holiday sales are a crucial indicator of the economy's strength. November and December account for up to 40 percent of annual sales for many retailers. If those sales don't materialize, stores are forced to offer steeper discounts. That's a boon for shoppers, but it cuts into stores' profits. Spending by consumers accounts for 70 percent of overall economic activity, so the eight-week period encompassed by the SpendingPulse data is seen as a critical time not just for retailers but for manufacturers, wholesalers and companies at every other point along the supply chain.

The SpendingPulse data include sales by retailers in key holiday spending categories such as electronics, clothing, jewelry, luxury goods, furniture and other home goods between Oct. 28 and Dec. 24. They include sales across all payment methods, including cards, cash and checks.

It's the first major snapshot of retail sales during the holiday season through Christmas Eve. A clearer picture will emerge as retailers like Macy's and Target report revenue from stores open for at least a year. That sales measure is widely watched in the retail industry because it excludes revenue from stores that recently opened or closed, which can be volatile. Still, this season's weak sales could have repercussions for 2013, he said. Retailers will make fewer orders to restock their shelves, and discounts will hurt their profitability. Wholesalers, in turn, will buy fewer goods, and orders to factories for consumer goods will likely drop.

In the run-up to Christmas, analysts blamed the weather and worries about the "fiscal cliff" for putting a damper on shopping. Superstorm Sandy battered the Northeast and mid-Atlantic states in late October. Many in the New York region were left without power, and people farther inland were buried under feet of snow. According to McNamara, the Northeast and mid-Atlantic account for 24 percent of U.S. retail sales. Buying picked up in the second half of November as retailers offered more discounts and shoppers waylaid by the storm finally made it into malls, he said.

RETAILERS SAY YES TO PRICE-MATCHING SHOPPERS BOOST RETAILERS' RESULTS

Fry's, Best Buy sees opportunity in 'showrooming' by holiday shoppers

Some big retailers are embracing rather than fighting the growing number of holiday shoppers who come to their stores to browse with the intent of buying online from someplace else.

Both Fry's and Best Buy say they hope to turn shoppers who come to their stores to "showroom," as the industry calls it, into loyal customers by instantly matching online prices and providing what they say is better customer service than their online competitors. "We're very confident that this is an opportunity for Fry's to shine," said Manuel Valerio, a spokesman for the San Jose-based retailer. "Many times people want to kick the tires, so to say, but they also come in because we often have the lowest price. If not, we'll price match it there and then."

About 56 percent of holiday shoppers plan to check out clothes and gear in person this year and then buy online, according to retail consulting firm Accenture Research. Around the country, 19 percent of shoppers told Accenture that they even plan to use their smartphones or tablets to compare prices while still inside a store. Best Buy estimates that 15 percent of its 6 million annual shoppers enter its stores with the same intention. "They come in with the sole purpose to 'showroom' and not buy anything," said spokeswoman Maggie Habashy.

Like Fry's, Best Buy this year joined major retailers such as Target and Walmart in offering instant online price matching to combat "showrooming." "We see 'showrooming' as a great opportunity to greet our customer," Habashy said. "We fully embrace 'showrooming.' "

Fry's, which has six Bay Area electronics stores, for years has refunded 110 percent of the price difference for any item a customer buys and then finds cheaper at a different brick-and-mortar store. Now Fry's sales associates, with the approval of a supervisor or manager, also can match online prices instantly, Valerio said. This year, Cyber Monday sales totaled $1.46 billion, as measured by comScore, and set a record for one-day online sales. The surge in online sales presents an expensive dilemma for traditional retailers who typically have to charge higher prices to keep the lights on and cover other overhead costs, including salaries for salespeople. "Across the entire spectrum of big-box discounters, consumer electronics and fashion retail, this is a major issue," said Jason Buechel, managing director of Accenture's retail operations practice.

So are traditional retailers giving away the store by matching lower online prices? The answer relies on the ability of retailers to go beyond price matching, said Sheri Petras, CEO of CFI Group, a customer satisfaction technology and analytics firm that works with businesses to identify customer satisfaction.

Customers tell CFI that they value service, sales associates and the shopping experience, so a "poorly executed price-matching strategy will destroy loyalty rather than build it," Petras said. "There is an opportunity for retailers to set themselves apart and showcase their competitive advantage outside of price such as delivery options, product depth and the ease of purchasing."

Cameron Yuill, founder and CEO of AdGent Digital, agrees that online price matching is only one part of a plan that can turn online shoppers into loyal in-store customers. "It's possible for brick-and-mortar retailers to put strategies in place to counter 'showrooming' by engaging those customers directly and providing excellent service," Yuill wrote in an email. "The concept as a whole, however, is here to stay, especially now that mobile technology has become so integrated into the shopping experience."

NOVEMBER RETAIL SALES UP

Drop in consumer confidence may presage slowdown

U.S. consumers shook off Superstorm Sandy in November and stepped up holiday shopping, helped by a steady job market and lower gas prices.

Retail sales rose 0.3 percent in November from October, reversing the previous month's decline. Sales increased mostly because Americans spent more online, bought more electronics and began to replace cars and rebuild after the storm. And a sharp drop in gas prices lowered the overall increase. Excluding gas stations, retail sales rose a solid 0.8 percent, according to the Commerce Department report released recently.

Still, department store sales tumbled. And consumer confidence has slipped in recent weeks, which has raised concerns that some Americans may be growing worried about looming tax increases. That could dampen December sales. Many retailers depend on the two months of holiday shopping for roughly 40 percent of their annual revenue.

High unemployment and weak wage growth have kept consumers cautious about spending, which accounts for 70 percent of economic growth. Most economists expect just slim gains in consumer spending in the final three months of the year, which should keep growth weak. "Despite the positive numbers today ... we are not in a consumer-led recovery," said Chris Christopher, an economist at IHS Global Insight.

RETAIL SALES DECEMBER

Holiday sales better than expected for retailers

Many major U.S. retailers were able to recover from a slow start to December shopping, according to monthly sales results reported recently.

Despite early indications that the holiday season would be lackluster, the 17 chains tracked by Thomson Reuters reported a 4.5 percent increase in sales at stores open at least a year in December, exceeding the 3.3 percent gain analysts had expected. However, Target, the nation's second-biggest retailer after Wal-Mart, said its December sales were flat. And retailers relied on discounts to get that December revenue, which may hurt results when they report fourth-quarter profit. "Sales came late in the holiday shopping season and, as a result, were at deeper discounts than planned," said Kevin Mansell, Kohl's chief executive and chairman. He said the company would take further markdowns as it prepares for spring.

The stores reporting sales data recently ranged from apparel retailers to department stores, although some large retailers including J.C. Penney and Saks Fifth Avenue, as well as Wal-Mart, do not report monthly data. Analysts noted a rush of last-minute promotions after slow sales early in the month.

Most of the department stores reporting results beat analyst expectations. Target, which heavily promotes the holiday season, said its same-store sales were flat compared with December 2011, while analysts had expected a 0.8 percent gain. Its heavily promoted collection of designer holiday gifts, in partnership with Neiman Marcus, was a disappointment, according to some analysts.

DECEMBER CONSUMER CONFIDENCE

Consumer worries spurred by 'fiscal cliff'

Confidence tumbles in December for 2nd straight month

US consumers peering over the ''fiscal cliff'' don't like what they see. Fears of sharp tax increases and government spending cuts sent consumer confidence tumbling in December to its lowest level since August.

The Conference Board said that its Consumer Confidence Index fell for the second straight month in December to 65.1, down from 71.5 in November. The survey showed consumers' outlook for the next six months deteriorated to its lowest since 2011 — a signal to Lynn Franco, the board's director of economic indicators, that consumers are worried about tax hikes and spending cuts that take effect Jan. 1 if the White House and Congress can't reach a budget deal.

Earlier this week a report showed consumers held back shopping this holiday season, another indication of their concerns about possible tax increases. The December drop in confidence ''is obvious confirmation that a sudden and serious deterioration in hopes for the future took place in December — presumably reflecting concern about imminent 'fiscal cliff' tax increases,'' said Pierre Ellis, an economist with Decision Economics.

The decline in confidence comes at a critical time when the economy is showing signs of improvement elsewhere. A recovery in housing market is looking more sustainable. Recently, the government said new-home sales increased in November at the fastest seasonally adjusted annual pace in 2½ years.

And the job market has made slow but steady gains in recent months. The average number of Americans applying for unemployment benefits over the past month fell to the lowest level since March 2008. But the political wrangling in Washington threatens the economy's slow, steady progress.

While consumers are more worried about where the economy is headed, they were upbeat about current conditions, according to the latest survey. Their assessment of current economic conditions rose this month to the highest level since August 2008.

HIGHER HOME PRICES FUELING RECOVERY

A measure of U.S. home prices rose 6.3 percent in October compared with a year ago, the largest yearly gain since July 2006. The jump adds to signs of a comeback in the once-battered housing market.

Core Logic Inc., also said that prices declined 0.2 percent in October from September, the second drop after six straight monthly increases. The monthly figures are not seasonally adjusted. The real estate data provider says the decline reflects the end of the summer home-buying season. Steady price increases are helping fuel a housing recovery. They entice would-be buyers to purchase homes before prices rise further.

Home values are rising in more states and cities, according to the report. Prices increased in 45 states in October, up from 43 the previous month. The biggest increases were in Arizona, where prices rose 21.3 percent, and in Hawaii, where they were up 13.2 percent. In 100 large metro areas, only 17 reported price declines. That is an improvement from September, when 21 reported declines.

Mortgage rates are near record lows, while rents in many cities are rising. That makes home buying more affordable, pushing up demand. More people are looking to buy or rent a home after living with relatives or friends during and immediately after the Great Recession.

At the same time, the number of available homes is at the lowest level in 10 years, according to the National Association of Realtors. The combination of low inventory and rising demand pushes up prices. Recently, an index measuring the number of Americans who signed contracts to buy homes in October jumped to the highest level in almost six years. That suggests sales of previously occupied homes will rise in the coming months.

Builders, meanwhile, are more optimistic that the recovery will endure. A measure of their confidence rose to the highest level in six and a half years last month. And builders broke ground on new homes and apartments at the fastest pace in more than four years in October.

TOYOTA ADDS TO SALES LEAD OVER GM

Toyota has widened its global sales lead over General Motors after bouncing back from a series of natural disasters.

The company said Friday it sold 7.4 million vehicles globally in the first nine months of this year — 450,000 more than General Motors. While Toyota's sales rose 28 percent in that period, GM's rose 2.5 percent, to 6.95 million cars and light-duty trucks. Toyota's factories were hobbled by an earthquake and tsunami in early 2011, leaving it short of cars in the U.S. and other regions. But now the company has recovered, and is building and selling more vehicles globally. Germany's Volkswagen is also seeing strong global sales.

GM is more concerned with profitable growth than the global sales race, spokesman Jim Cain said. Toyota has made similar statements, but executives concede privately that the crown is a matter of corporate pride for both companies. GM was the top-selling automaker for more than seven decades before losing the title to Toyota in 2008.

NOVEMBER CAR SALES

Superstorm gives extra boost to U.S. car sales

Sandy adds up to 30,000 purchases during November

Superstorm Sandy gave an extra boost to already-strong U.S. auto sales in November, although carmakers warned that uncertainty over the "fiscal cliff" could undo some of those gains.

Most major companies, from Toyota to Chrysler, posted impressive increases from a year earlier. Only General Motors was left struggling to explain its 3-percent sales gain and large inventory of unsold trucks. Americans were already willing to buy a new car or truck last month because they're more confident in the economy. Also, the average age of a vehicle on U.S. roads is approaching a record 11 years, so many people are looking to replace older cars.

Sandy just boosted that demand. The storm added 20,000 to 30,000 sales industrywide in November, mostly from people who planned to buy cars during the October storm but had to delay their purchases, Ford estimated. People who need to replace storm-damaged vehicles are expected to drive sales for several more months. GM estimates that 50,000 to 100,000 vehicles will eventually need to be replaced.

November sales, when calculated on an annual basis, are likely to be 15 million or more, the highest rate since March 2008, according to LMC Automotive, a Detroit-area consulting firm.

That's higher than the 14.3 million annual rate so far this year. Both GM and Chrysler predicted November sales would run at an annual rate of 15.3 million. If sales end up at 15 million for the year, it would be a vast improvement over the 10.4 million during the recession in 2009.

DECEMBER AUTO SALES

Automakers finally have a good year

Polk researchers say 2013 likely to be even better

A steadily improving economy and strong December sales lifted the American auto industry to its best performance in five years in 2012, especially for Volkswagen and Japanese-brand vehicles, and experts say the next year should be even better. Carmakers recently announced their final figures, which totaled 14.5 million — 13 percent better than 2011.

More than three years after the federal government's $62 billion auto-industry bailout, Americans had plenty of incentive to buy new cars and trucks in the year just ended. Unemployment eased. Home sales and prices rose. And the average age of a car topped 11 years in the U.S., a record that spurred people to trade in old vehicles. Banks made that easier by offering low interest rates and greater access to loans, even for buyers with lousy credit.

"The U.S. light vehicle sales market continues to be a bright spot in the tremulous global environment," said Jeff Schuster, senior vice president of forecasting for LMC Automotive, a Detroit-area industry forecasting firm. Sales were far better than the bleak days after the U.S. economy tanked and GM and Chrysler sought bankruptcy protection. Back then, sales fell to a 30-year low of 10.4 million, and they are still far short of the recent peak of around 17 million set in 2005. The best part of 2012 came at the end, when special deals on pickup trucks and the usual round of sparkling holiday ads helped December sales jump 9 percent to more than 1.3 million, according to Autodata Corp. That translates to an annual rate of 15.4 million, making December the strongest month of the year.

The Polk auto research firm predicted even stronger U.S. sales for 2013, forecasting 15.3 million vehicle sales as the economy continues to improve. Polk, based in Southfield, Mich., expects 43 new models to be introduced, up 50 percent from last year. New models usually boost sales. But the firm's optimistic forecasts hinge on Washington reaching an agreement on government debt limits and spending cuts.

EAST BAY PROPELS JOB

South Bay's numbers stay strong; state employment rate lowest in nearly 4 years

The Bay Area job market continued as the state's strongest after a gain of 2,900 jobs in November, a month that saw the California jobless rate slip below 10 percent for the first time in nearly four years, the state reported recently.

The employment boom linked to the rise of the Internet, social media, software and mobile communications is the primary driver of that robust job market in the nine-county region. The East Bay could be enjoying some of that benefit. The Alameda County-Contra Costa County region was the strongest market in the Bay Area during November, even as job growth stayed strong in the South Bay.

"Without a doubt, the strong tech economy in the South Bay, Peninsula and San Francisco is a factor in the Bay Area recovery," said Jeffrey Michael, director of the Stockton-based Business Forecasting Center at University of the Pacific. "The strength of that tech economy is spreading out farther and reaching more geographic areas."

California's jobless rate improved to 9.8 percent in November, compared with 10.1 percent in October. The November jobless rate statewide was the lowest since California chalked up a 9.7 percent unemployment rate in January 2009, the state's Employment Development Department reported. Despite the improvement in the unemployment rate, California lost 3,800 payroll jobs. The jobless rate and the payroll numbers can move in opposite directions at times because they are derived from different surveys to measure the employment market.

The job losses statewide contrasted with the sturdy gains in the Bay Area. The region's job gains were powered by an upswing of 3,100 jobs in the East Bay and 600 in the South Bay. The San Francisco-San Mateo-Marin region lost 100 jobs.

The EDD also delivered a cheery message for the region by disclosing that the job market in the Bay Area -- especially in the South Bay -- was far stronger than originally thought. "The overarching message in all this is that the economy and the job market continue to move forward," said Jordan Levine, director of economic research with Beacon Economics.

Instead of a gain of 8,800 jobs in October, the Bay Area actually added 11,700 jobs after the EDD revised its data. And the South Bay, rather than gaining 3,400 jobs as first estimated, actually added 5,400 jobs, after the revisions. During the first 11 months of 2012, the Bay Area has added nearly 91,000 jobs. That's nearly double the pace for the first 11 months of 2011, when the gains were just under 49,000. "Most of the gains have come from the San Francisco and San Jose metro areas, but in the last year the East Bay joined the recovery," said Stephen Levy, director of the Palo Alto-based Center for Continuing Study of the California Economy.

During the first 11 months of 2012, the South Bay added nearly 29,000 jobs, while the San Francisco-San Mateo-Metro region has gained more than 28,000 jobs. Over the same period of time, the East Bay has added nearly 23,000 jobs.

In November, the strongest industry in the East Bay was retail, which added 1,600 jobs. Repair, personal, laundry and other services added 1,100 jobs, while construction gained 800 jobs, according to a Beacon Economics analysis of the EDD numbers. The South Bay's two strongest industries in November were construction and professional and scientific technical services, which each gained 1,000 jobs. The information, Internet, software, telecommunications and media industry gained 700 jobs, Beacon calculated.

The East Bay jobless rate was 8.6 percent in November, unchanged from October. The South Bay jobless rate was 8 percent, an improvement from October's rate of 8.1 percent. The San Francisco metro jobless rate was 6.6 percent, unchanged from October. Analysts believe California's improving jobless rate is a signal the state has turned the corner. "It's a surprise, but I'm pleasantly surprised by the statewide jobless rate improvement," Michael said. "There are still a lot of people on the sidelines who need jobs in California. But the sub 10 percent jobless rate is a positive development."

UCLA ANDERSON SCHOOL FORECAST

National and Statewide Outlooks Anticipate Modest Growth in GDP, Housing and Employment Next Year

In its fourth and final quarterly report of 2012, the UCLA Anderson Forecast's outlook for the United States says that Gross Domestic Product (GDP) will grow at less than a 2% annual rate through mid-2013. After that, the forecast expects growth to pick up and exceed 3% for most of 2014 with housing activity leading the way. Unemployment will stay close to the current 7.9% rate in 2013, but gradually decline to 7.2% by the end of 2014. By the end of the forecast period, inflation is expected to be above the Fed's 2% target, bringing to an end the zero interest rate policy that has been in place since late 2008.

In California, though the passage of Proposition 30 by California voters creates some risk and has some impact on the forecast, the outlook for 2013 and 2014 is not much different than the previously released September forecast, with numbers marginally lowered for 2013 and 2014 still seen as a year that California's growth rate exceeds the nation's.

The National Forecast

In the December Forecast report, UCLA Anderson Forecast Senior Economist David Shulman looks beyond the "fiscal cliff" (a colloquial expression describing the expiration of previously enacted tax cuts combined with some automatic spending cuts totaling about $600 billion—about 4% of the economy—scheduled to take effect in January 2013) and assumes that the executive and legislative branches of government will reach an agreement before the year's end. If they don't, "… according to the Congressional Budget Office, the economy will fall back into recession with unemployment returning to 9% late next year," Shulman writes.

Even if a compromise is reached, considering the recent upward revision to the third quarter GDP data, "the near-term outlook for the U.S. economy continues to be characterized by modest growth," Shulman writes. "Specifically, we are forecasting that real GDP will increase at an annual rate of only 0.7% in the current quarter and less than 2% growth in 2013's first half."

The California Forecast

The California report, authored by UCLA Anderson Forecast Senior Economist Jerry Nickelsburg, examines the economic consequences of Proposition 30, which Nickelsburg refers to as "the most important change in the Golden State since the September UCLA Anderson Forecast release." On the positive side, writes Nickelsburg, Proposition 30 provides a way forward in funding state investment in education and providing at least some funding for the re-alignment of services. On the negative side, it does not address the issues of the way in which Californians fund state government for the long-run, which could make things worse rather than better.

Employment is expected to grow 1.3% in 2013 and 2.4% in 2014. Payrolls will grow at 1.4% and 2.2% in the respective forecast years. Real personal income growth is forecast to be 1.8% in 2013 followed by 3.1% in 2014. Unemployment will fall through 2013 and will average approximately 9.7% for the year. In 2014 it is expected that the unemployment rate will drop to 8.4% on average, a percent higher than the U.S. forecast.

Sources:

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