CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

March 17, 2014

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Third Quarter Sales (July – September 2013)

The following files are attached for this informational report for which no action is required.

ATTACHMENTS:

- Attachment A: Sales Tax Digest Summary - Background and Discussion(PDF)
- Attachment B: MuniServices Sales Tax Digest Summary (PDF)
- Attachment C: MuniServices Economic Overview (PDF)

Department Head: Houman Boussina, Acting City Auditor

Office of the City Auditor

City of Palo Alto Sales Tax Digest Summary Third Quarter Sales (July September 2013)

Informational Report to the City Council

BACKGROUND

Sales and use tax represents about 15 percent, or $23.8 million, of projected General Fund revenue in the City's Adopted Operating Budget for fiscal year 2014. According to the Administrative Services Department, projected sales and use tax revenue has increased and is now estimated at $27.4 million for fiscal year 2014.This revenue included sales and use tax for the City of Palo Alto and pool allocations from the State and Santa Clara County.[1]

The Office of the City Auditor contracts with MuniServices LLC (hereafter MuniServices), the City's sales and use tax consultant, to obtain sales and use tax recovery services and informational reports. The Office of the City Auditor 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 Office of the City Auditor includes information on sales and use tax recoveries in our quarterly reports to the Policy and Services Committee.

The California Revenue and Taxation Code, Section 7056, requires that sales and use tax data remain confidential. As such, the City may not disclose amounts of tax paid, fluctuations in tax amounts, or any other information that would disclose the operations of a business. This report, including the attached Sales Tax Digest Summary includes certain modifications and omissions to maintain the confidentiality of taxpayer information.

The Office of the City Auditor 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 B) was prepared by MuniServices and covers calendar year 2013 third quarter sales (July through September 2013). These funds are reported as part of the City's fiscal year 2014 revenue. ASD advises that in mid-March, it should receive information from the State on aggregate sales and use tax receipts for fourth quarter 2013.

[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 2013 increased by approximately $670,000, or 12.9 percent (including pool allocations), compared to the third quarter ending September 2012.[2] For all jurisdictions in Santa Clara County, sales and use tax revenue for the third quarter ending September 2013 increased by $3.2 million, or 3.5 percent, compared to the third quarter ending September 2012.

- Statewide, every region in California experienced an increase in sales and use tax revenue for the year ending September 2013, compared to the prior year ending September 2012. Statewide sales and use tax revenue has shown growth of 3.4 percent during the third quarter ending September 2013 compared to the third quarter ending September 2012.

- In Palo Alto, sales and use tax revenue totaled $28.7 million for the year ending September 2013, an increase of 31.5 percent from $21.8 million in the prior year ending September 2012.[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 in Attachment B.

Economic Influences on Sales and Use Tax

In its Economic Overview (Attachment C), MuniServices discusses economic influences including national economic trends, retail and auto sales, the job market, and forecast information that may affect the City's sales and use tax revenue.

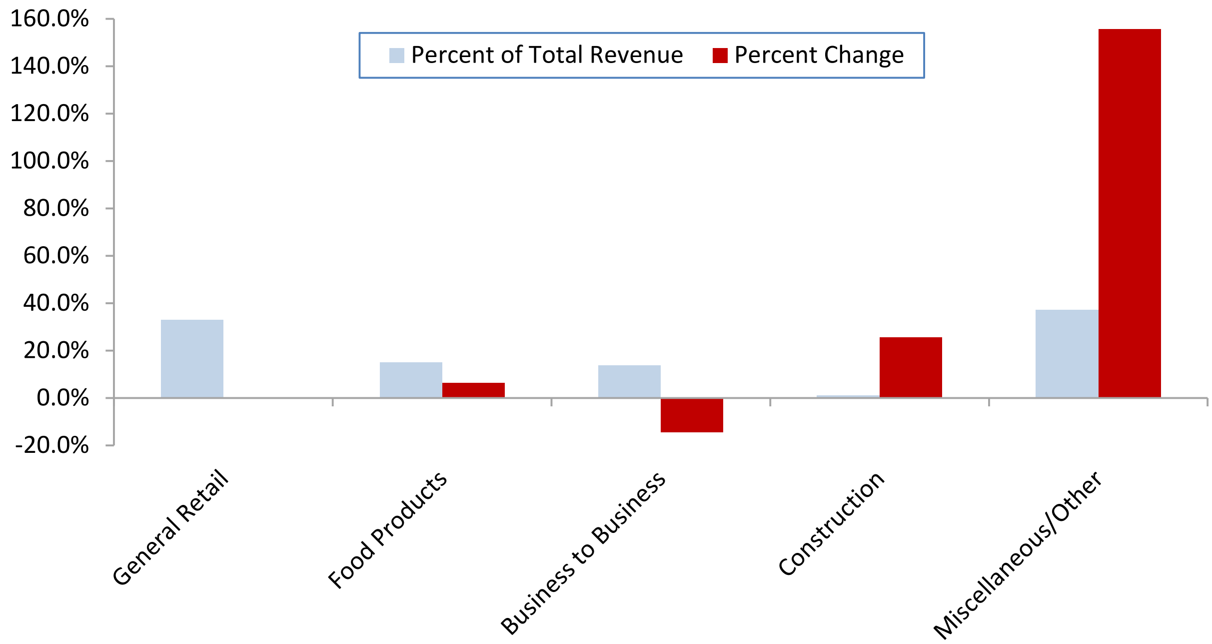
Preliminary estimates from the State of California Employment Development Department show the December 2013 unemployment rate in Santa Clara County at 5.7 percent and Palo Alto at 3.0 percent.

Economic Category Analysis

MuniServices' analysis of economic categories for the year ending September 2013 shows that General Retail comprised a large percentage of Palo Alto's sales and use tax revenue and experienced 0.2 percent growth. Food Products experienced a 6.5 percent increase and comprised 15.0 percent of total revenues. Business to Business experienced a 14.5 percent decrease and comprised 13.7 percent of total revenues.

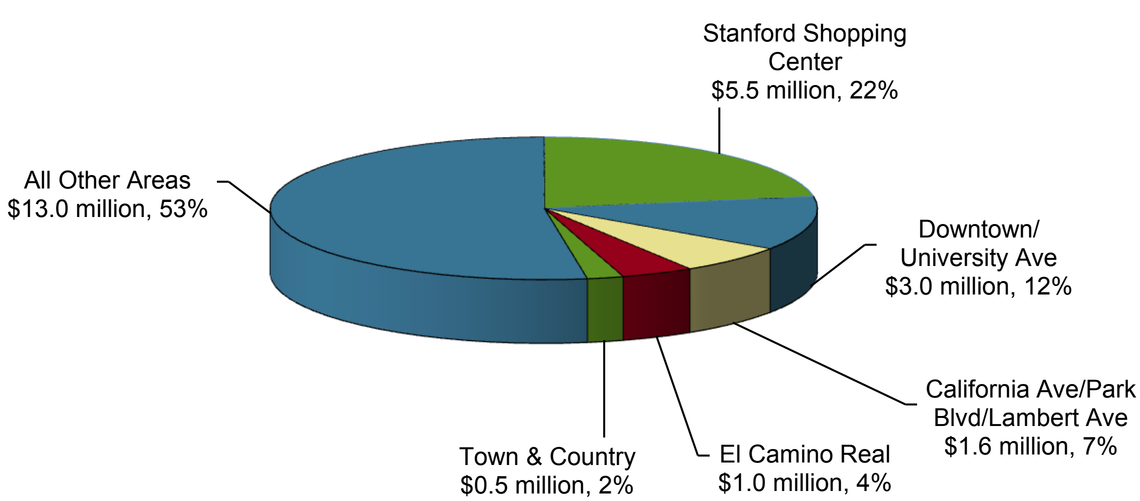
[2] Excluding pool allocations and adjusting for prior period and late payments, Palo Alto's sales and use tax revenue for the third quarter ending September 2013 increased by 5.0 percent compared to the third quarter ending September 2012. On a yearly basis, Palo Alto's sales and use tax revenue for the year ending September 2013 increased by 27.4 percent compared to the prior year ending September 2012.

Exhibit 1 - Comparison of Palo Alto's Sales and Use Tax Revenue and Percent Change by Economic Category for the Year Ending September 2013



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 2013 (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 8.75 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,

Houman Boussina
Acting City Auditor

Sources: MuniServices; California State Board of Equalization; State of California Employment Development Department; City of Palo Alto Fiscal Year 2014 Adopted Operating Budget

Audit staff: Lisa Wehara

Attachment B: City of Palo Alto Sales Tax Digest Summary
Attachment C: Economic Overview

Attachment B

City of Palo Alto
Sales Tax Digest Summary
Collections through December 2013
Sales through September 2013 (2013Q3)

California Overview

The percent change in cash receipts from the prior year was 5.0% statewide, 4.8% in Northern California and 5.1% 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 2013 by 3.7% statewide, 4.0% in Northern California and increased by 3.6% in Southern California.

City of Palo Alto

For the year ended 3rd Quarter 2013, sales tax cash receipts for the City grew by 31.5% from the prior year. On a quarterly basis, sales tax revenues grew by 12.9% from 3rd Quarter 2012 to 3rd Quarter 2013. 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 27.4% for the year ended 3rd Quarter 2013 from the prior year. On a quarterly basis, sales tax activity grew by 5.0% in 3rd Quarter 2013 compared to 3rd Quarter 2012.

Regional Overview

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

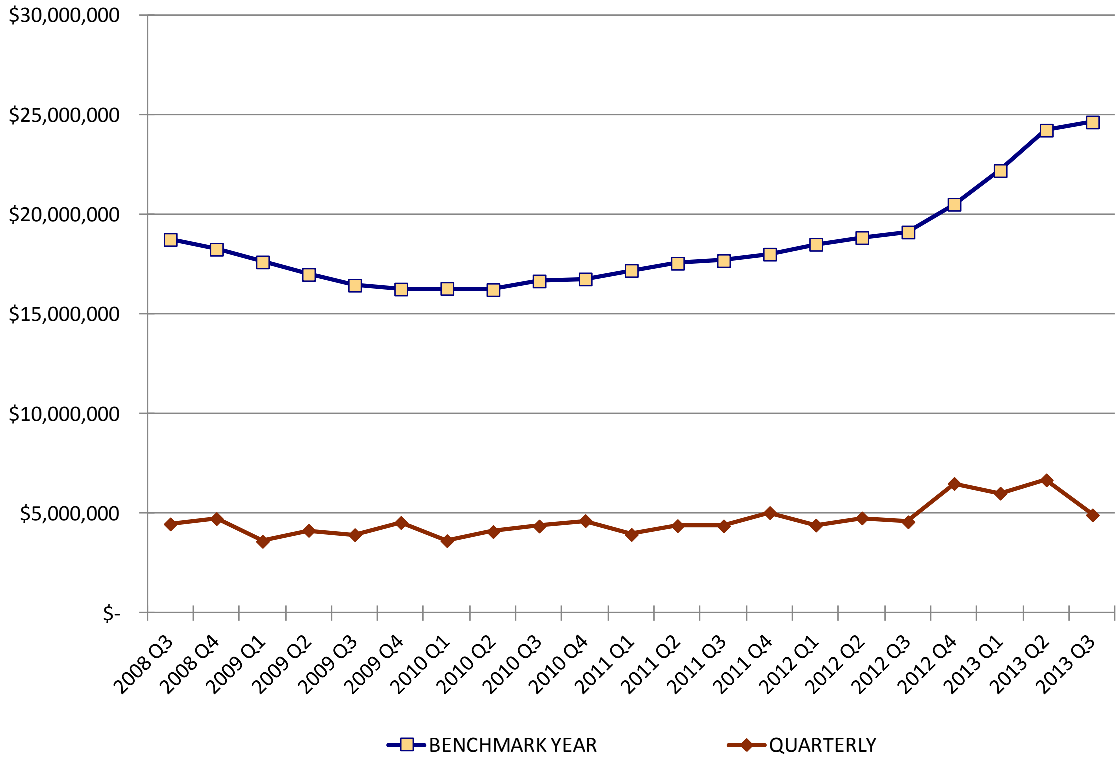
CITY OF PALO ALTO

BENCHMARK YEAR 2013Q3 COMPARED TO BENCHMARK YEAR 2012Q3

ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 3rd QUARTER 2013									
% 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	33.0 / 0.2	28.9 / 3.5	28.2 / 3.8	29 / 3.6	30.6 / 2.5	29.2 / 3.4	26.7 / 4.3	28.6 / 3.8	32.3 / 3.6
Food Products	15.0 / 6.5	19.3 / 4.5	20.3 / 6.3	16.4 / 2.3	16 / 2.3	20.1 / 4.2	16.3 / 4.1	18 / 2.9	30.4 / 2.6
Construction	1.1 / 25.6	8.8 / 3.9	8.7 / 6	10.1 / 4.5	10.7 / 1.7	7.8 / 0.8	11.9 / 15.9	12.4 / 5.5	9.4 / 12.9
Business to Business	13.7 / -14.5	17 / 1.1	19.1 / -4.8	14.1 / 5.9	14.4 / 3.9	17.2 / 2.5	15.5 / 10.7	9 / 1.9	5.2 / -3.2
Miscellaneous/Other	37.2 / 155.7	26.4 / 4.1	23.7 / 9.0	30.3 / 7.6	28.3 / 7.1	25.7 / 3.2	30.0 / 5.0	32.1 / 4.1	22.7 / 0.8
Total	**100.0 / 27.4**	**100 / 3.7**	**100 / 3.9**	**100 / 5**	**100 / 3.8**	**100 / 3.1**	**100 / 7**	**100 / 3.7**	**100 / 3.1**

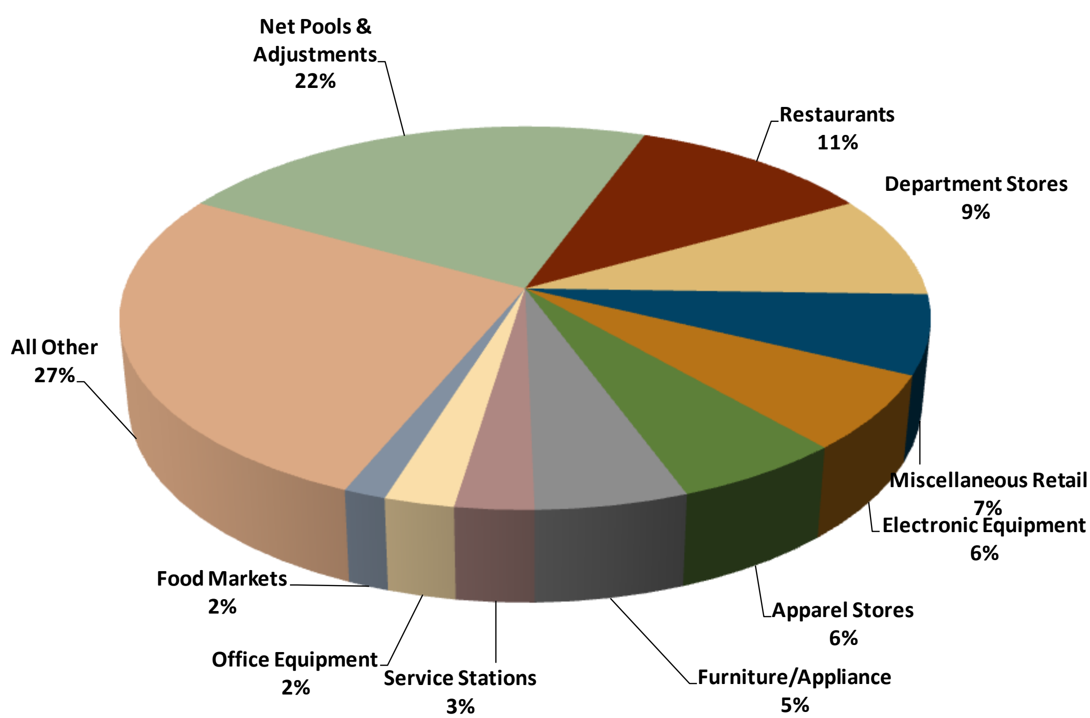
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 3rd QUARTER 2013									
	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
Largest Segment	*** / ***	Restaurants	Restaurants	Department Stores	Department Stores	Restaurants	Auto Sales - New	Department Stores	Restaurants
% of Total / % Change	*** / ***	13.3 / 5.3	14.1 / 6.5	11.9 / 3.0	14.3 / 3.6	14.2 / 5.1	11.6 / 15.2	13.6 / 1.3	20.5 / 2.3
2nd Largest Segment	Restaurants	Department Stores	Auto Sales - New	Auto Sales - New	Service Stations	Department Stores	Service Stations	Service Stations	Department Stores
% of Total / % Change	13.1 / 6.7	10.5 / 3.6	9.5 / 20.8	11.4 / 18.9	11.9 / 0.2	10.2 / 3.6	11.2 / -1.5	13.3 / -1.9	9.7 / 15.1
3rd Largest Segment	Department Stores	Auto Sales - New	Department Stores	Restaurants	Restaurants	Auto Sales - New	Department Stores	Restaurants	Misc. Retail
% of Total / % Change	10.0 / 0.2	10.1 / 14.7	9.3 / 3.9	10.4 / 4.5	9.6 / 4.2	10.2 / 11.8	10.4 / 2.7	9.6 / 4.6	9.6 / -0.3
	***** Not specified to maintain confidentiality of tax information**								

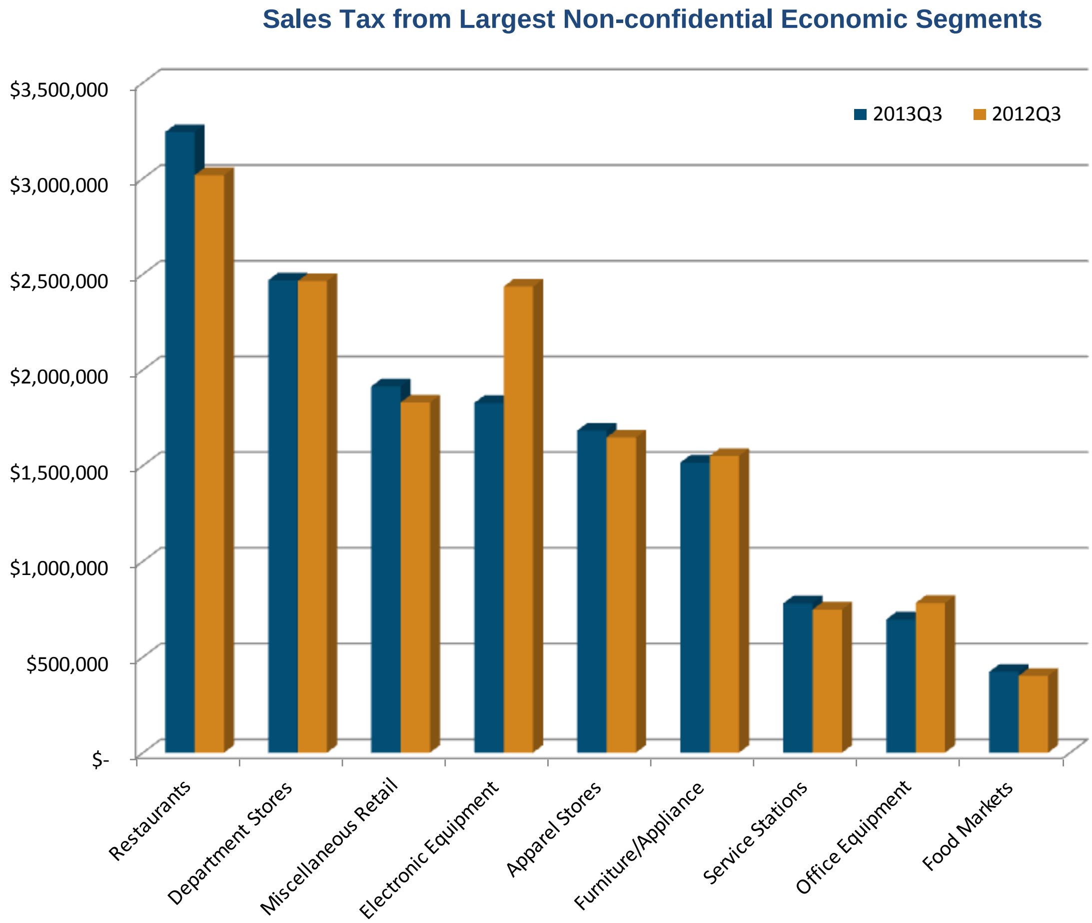
Gross Historical Sales Tax Performance by Benchmark Year and Quarter (Before Adjustments)



Net Cash Receipts for Benchmark Year 3rd Quarter 2013: $28,661,265

**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2013Q3 BMY is sum of 2013 Q3, Q2 & Q1, 2012 Q4)*




Sales Tax from Largest Non-confidential Economic Segments
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
2013Q3
2012Q3
Restaurants
Department Stores
Miscellaneous Retail
Electronic Equipment
Apparel Stores
Furniture/Appliance
Service Stations
Office Equipment
Food Markets

Historical Analysis by Calendar Quarter

Economic Category	%	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2	2011Q1
General Retail	33.2%	1,945,413	1,959,201	1,759,098	2,444,528	1,913,125	2,009,452	1,701,757	2,440,953	1,886,520	1,984,860	1,573,474
Miscellaneous/Other	19.4%	1,137,974	2,867,931	2,759,713	2,004,507	905,479	848,911	797,436	781,336	812,130	720,550	680,987
Food Products	16.2%	950,359	966,208	882,949	905,156	877,520	886,852	816,336	838,138	799,167	806,987	740,594
Business To Business	14.5%	848,634	800,341	592,136	1,101,068	843,770	993,147	1,064,996	932,723	842,771	842,709	925,263
Construction	1.0%	58,595	106,362	37,150	62,618	53,420	50,544	47,432	62,282	46,843	44,589	38,765
Net Pools & Adjustments	15.8%	924,963	1,227,552	1,162,968	1,155,841	603,635	840,789	754,099	725,000	933,424	845,214	769,789
Total	100.0%	5,865,938	7,927,595	7,194,014	7,673,718	5,196,949	5,629,695	5,182,056	5,780,432	5,320,855	5,244,909	4,728,872

Economic Segments	%	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2	2011Q1
Miscellaneous/Other	16.5%	969,342	2,812,501	2,621,201	1,887,567	740,818	669,496	1,971,426	1,914,891	1,762,593	1,674,966	1,653,521
Restaurants	14.2%	833,865	845,107	771,596	782,184	760,929	780,314	714,487	783,595	689,568	705,459	639,353
Department Stores	9.8%	574,389	603,773	509,699	779,973	584,178	608,894	382,336	573,750	455,335	482,723	399,243
Miscellaneous Retail	7.8%	458,124	471,954	393,506	584,169	429,989	456,771	347,112	488,492	385,236	392,126	301,427
Electronic Equipment	7.5%	438,760	421,200	284,607	695,663	516,554	651,686	488,132	724,274	563,373	608,784	474,566
Apparel Stores	6.8%	400,201	404,202	372,909	496,073	383,337	402,471	178,409	171,472	160,037	181,065	158,421
Furniture/Appliance	6.2%	363,855	325,112	350,375	444,725	345,043	365,585	99,210	104,348	104,234	105,507	100,241
Service Stations	3.7%	214,276	196,568	187,333	182,060	198,973	198,604	90,636	101,023	98,054	89,530	91,274
Office Equipment	2.6%	150,825	172,585	131,629	223,538	162,015	188,369	46,718	48,340	49,977	51,743	47,157
Health & Government	1.8%	107,663	100,829	86,330	88,669	94,969	92,612	31,168	44,402	41,338	38,236	34,016
Food Markets	1.8%	104,815	106,760	99,711	110,625	106,652	95,807	37,116	38,854	42,654	35,131	34,857
Recreation Products	1.2%	68,166	60,260	48,148	57,916	92,186	82,846	11,199	12,838	11,321	11,319	9,967
Drug Stores	1.1%	63,567	66,722	64,492	65,440	62,624	65,943	7,110	22,227	8,349	8,029	3,833
Business Services	1.0%	57,139	67,759	63,791	73,619	69,722	71,828	6,634	9,046	9,857	8,724	6,458
Misc. Vehicle Sales	0.6%	35,942	44,711	45,719	45,656	45,325	57,680	16,264	17,880	5,505	6,353	4,749
Net Pools & Adjustments	17.5%	1,025,009	1,227,552	1,162,968	1,155,841	603,635	840,789	754,099	725,000	933,424	845,214	769,789
Total	100.0%	5,865,938	7,927,595	7,194,014	7,673,718	5,196,949	5,629,695	5,182,056	5,780,432	5,320,855	5,244,909	4,728,872

*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 2012Q3 to 2013Q3

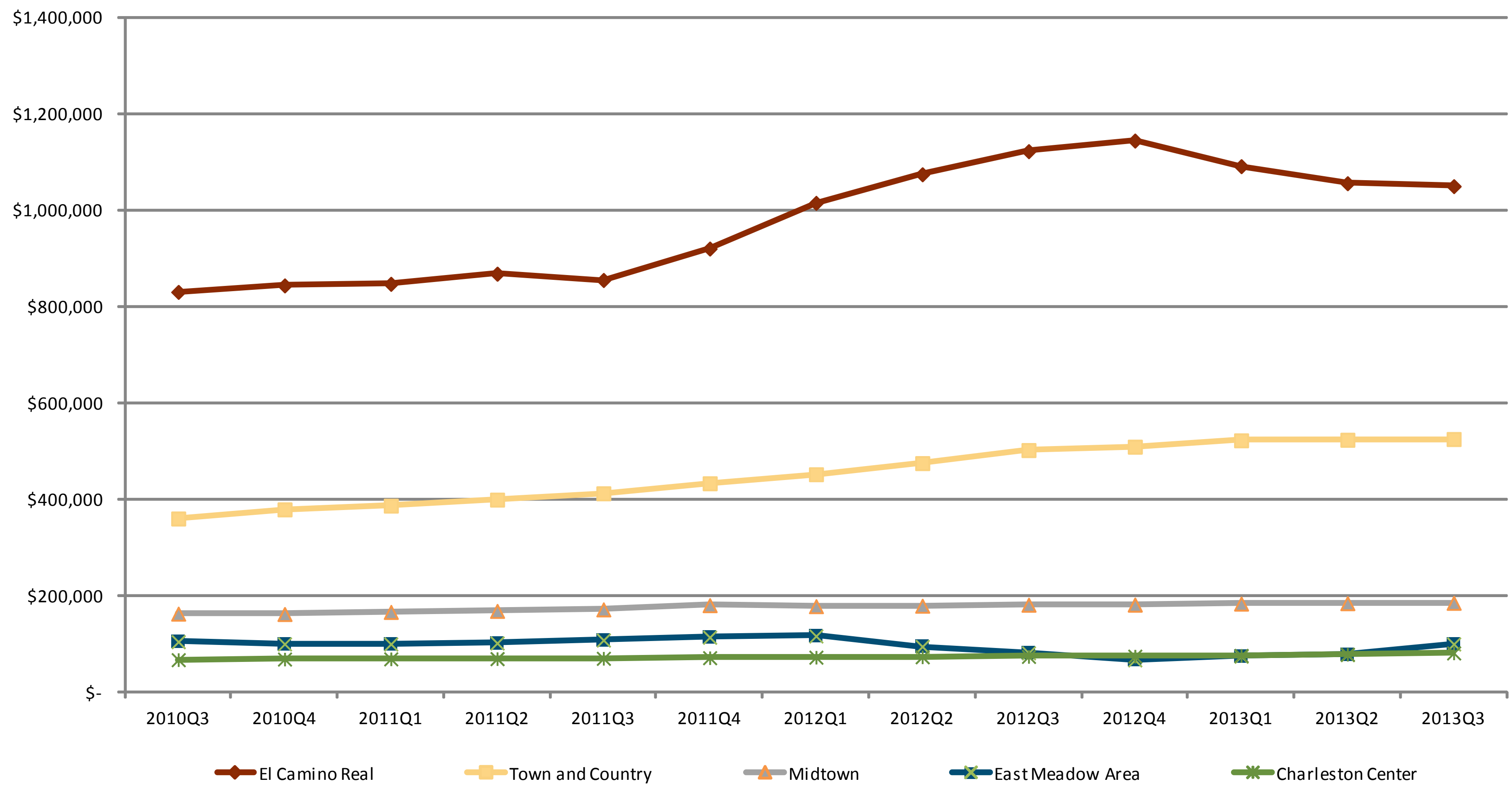
	General Retail	Food Products	Construction	Business to Business	Misc/Other	2013/3 Total	2012/3 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	-1.5%	6.1%	-2.9%	69.4%	7.0%	2,261,751	2,056,858	10.0%	Office Equipment	Business Services	Furniture/Appliance	Bldg.Matls-Retail
Cupertino	3.9%	4.4%	61.7%	-28.1%	3.2%	4,619,558	5,774,718	-20.0%	Bldg.Matls-Whsle	Miscellaneous Retail	Business Services	Office Equipment
Gilroy	-3.4%	-0.1%	4.4%	-13.3%	12.8%	3,204,627	3,184,111	0.6%	Auto Sales - New	Misc. Vehicle Sales	Apparel Stores	Chemical Products
Los Altos	-14.0%	-2.2%	22.3%	24.0%	-5.2%	511,897	539,934	-5.2%	Restaurants	Recreation Products	Florist/Nursery	Food Markets
Los Gatos	-9.0%	4.6%	18.2%	7.6%	14.0%	1,740,572	1,727,943	0.7%	Auto Sales - New	Food Markets	Miscellaneous Retail	Auto Parts/Repair
Milpitas	4.1%	8.6%	-2.8%	-32.6%	0.1%	4,131,912	4,432,707	-6.8%	Electronic Equipment	Restaurants	Office Equipment	Auto Sales - New
Morgan Hill	2.8%	10.5%	11.0%	15.2%	3.6%	1,799,788	1,681,972	7.0%	Auto Sales - New	Electronic Equipment	Auto Parts/Repair	Misc. Vehicle Sales
Mountain View	0.8%	24.7%	5.7%	-0.6%	0.5%	3,667,828	3,479,418	5.4%	Restaurants	Electronic Equipment	Office Equipment	Light Industry
Palo Alto	0.7%	6.4%	10.5%	5.1%	11.4%	4,940,974	4,706,073	5.0%	Heavy Industry	***	Electronic Equipment	Health & Government
San Jose	2.7%	4.5%	12.7%	-0.5%	6.1%	35,207,846	33,814,008	4.1%	Bldg.Matls-Whsle	Auto Sales - New	Electronic Equipment	Light Industry
Santa Clara	18.4%	4.3%	13.3%	-4.0%	-3.9%	9,917,667	9,737,218	1.9%	Miscellaneous Retail	Bldg.Matls-Whsle	Electronic Equipment	Miscellaneous Other
Santa Clara Co.	-7.7%	5.4%	7.0%	-42.5%	4.4%	1,078,287	1,096,408	-1.7%	Health & Government	Bldg.Matls-Retail	Service Stations	Office Equipment
Saratoga	22.4%	5.6%	848.9%	-1.6%	-6.3%	254,324	238,122	6.8%	Furniture/Appliance	Restaurants	Service Stations	Health & Government
Sunnyvale	-5.8%	6.8%	-24.7%	-12.9%	3.0%	6,300,542	6,766,714	-6.9%	Restaurants	Misc. Vehicle Sales	Office Equipment	Light Industry

*** Not specified to maintain confidentiality of tax information

**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2013Q3 BMY is sum of 2013 Q3, Q2 & Q1, 2012 Q4)*

City of Palo Alto - Selected Geographic Areas of the City
Benchmark Year 3rd Quarter 2013

	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3
El Camino Real	830,152	843,626	846,897	867,868	854,828	920,020	1,014,867	1,074,079	1,122,001	1,143,951	1,090,870	1,055,524	1,049,438
Town and Country	360,254	379,066	386,944	399,378	412,361	433,313	451,982	475,054	502,127	509,180	522,374	523,504	525,116
Midtown	162,869	162,122	166,440	168,537	171,719	180,415	178,344	179,250	181,352	181,654	183,780	184,646	185,301
East Meadow Area	104,777	100,155	100,032	102,028	108,176	114,083	116,558	94,868	81,598	67,124	74,680	77,869	100,045
Charleston Center	67,447	68,693	69,150	69,606	70,301	71,555	72,602	73,408	74,213	74,683	76,315	78,734	81,455

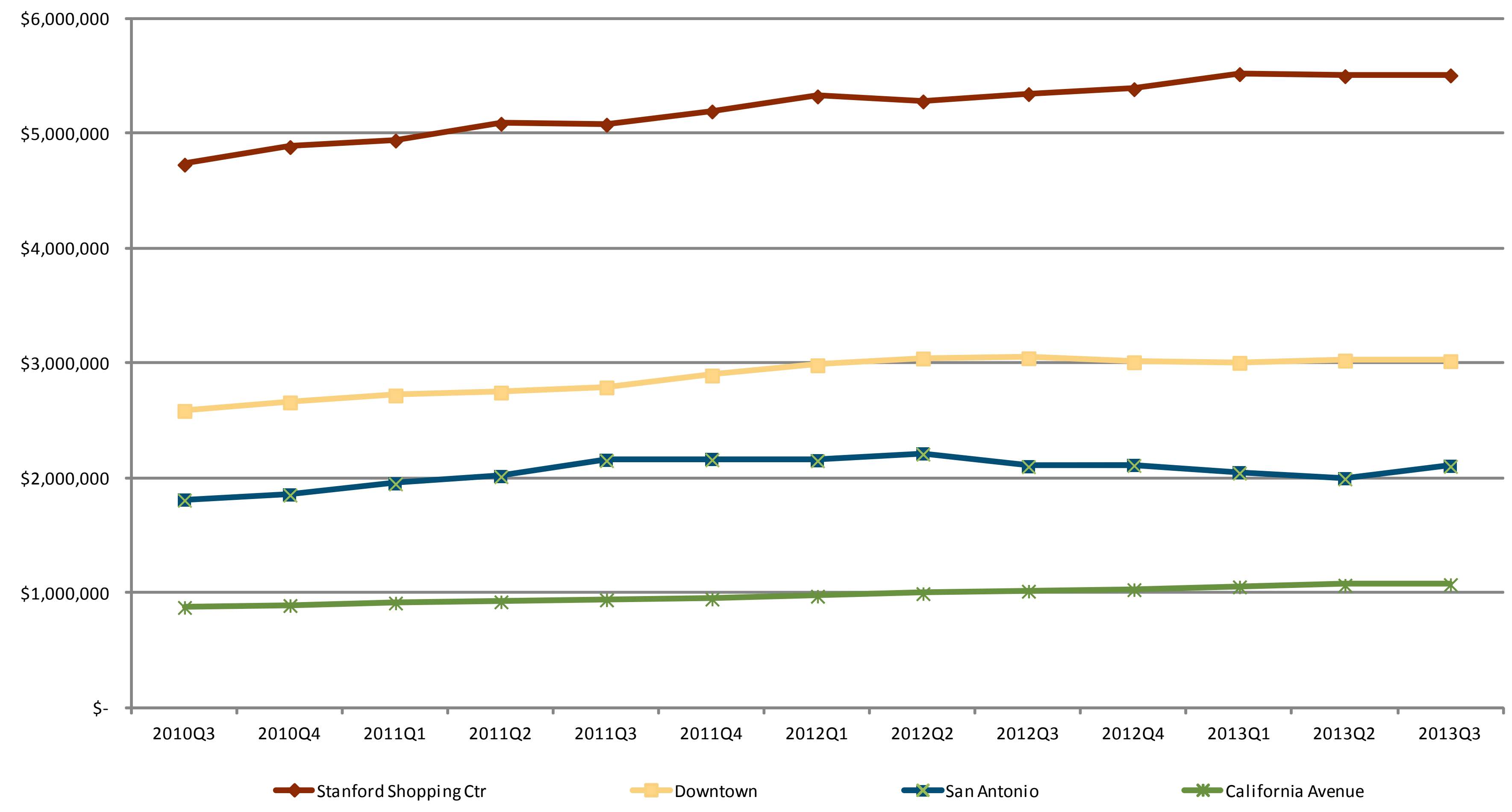


**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2013Q2 BMY is sum of 2013 Q3, Q2 & Q1, 2012 Q4)*

City of Palo Alto - Selected Geographic Areas of the City

Benchmark Year 3rd Quarter 2013

	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3
Stanford Shopping Ctr	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	5,388,747	5,519,326	5,501,836	5,508,513
Downtown	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	3,013,183	3,007,123	3,027,279	3,022,194
San Antonio	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	2,114,306	2,047,925	1,997,654	2,106,291
California Avenue	879,364	895,989	917,851	928,031	945,340	952,300	976,897	999,421	1,020,704	1,034,151	1,058,098	1,072,925	1,078,153

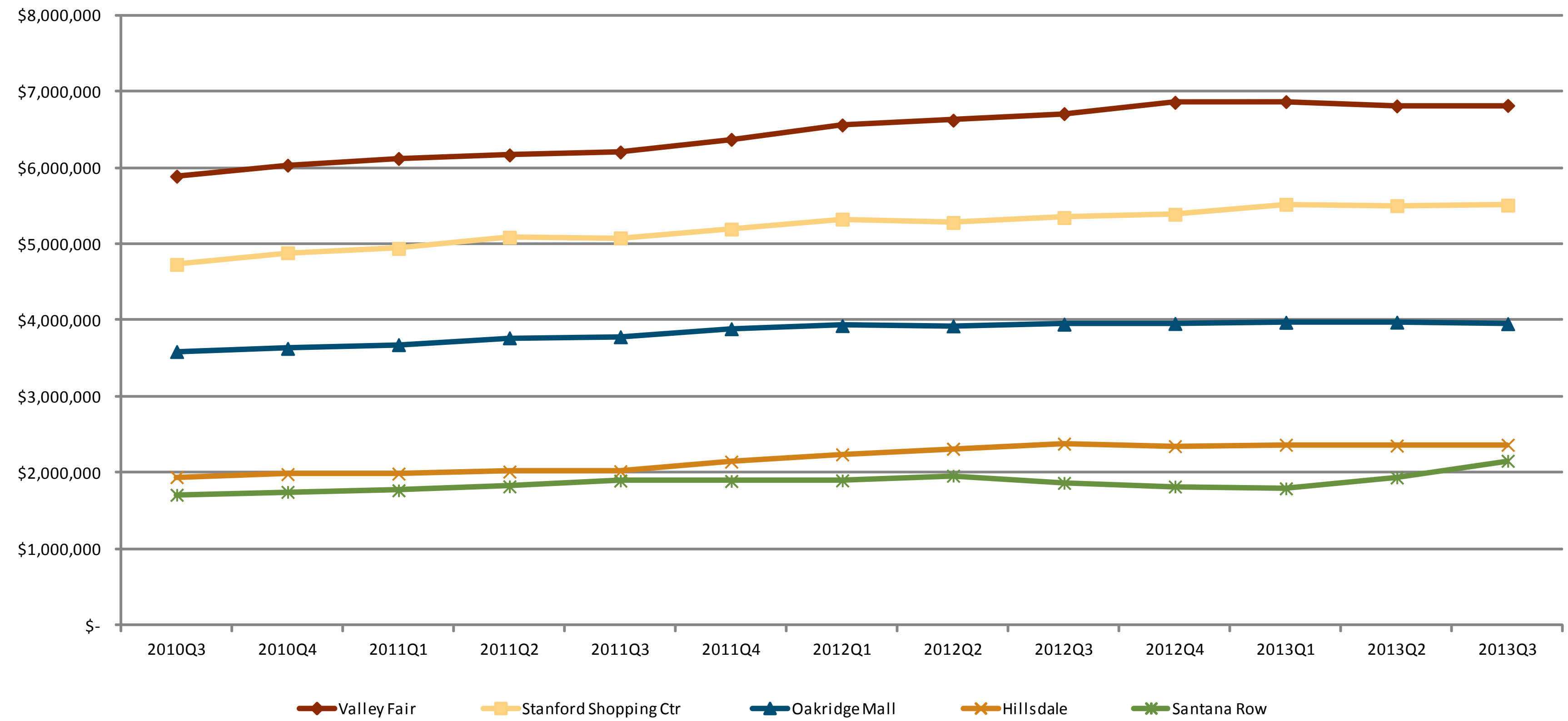


**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2013Q3 BMY is sum of 2013 Q3, Q2 & Q1, 2012 Q4)*

City of Palo Alto - Regional Shopping Mall Comparison

Benchmark Year 3rd Quarter 2013

	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3
Valley Fair	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	6,855,987	6,865,443	6,808,919	6,815,517
Stanford Shopping Ctr	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	5,388,747	5,519,326	5,501,836	5,508,513
Oakridge Mall	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	3,957,195	3,972,739	3,974,067	3,954,094
Hillsdale	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	2,348,668	2,367,315	2,356,855	2,367,935
Santana Row	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	1,819,616	1,795,942	1,938,742	2,156,984



Attachment C

Economic Overview

4Q2013 News

Economy’s surprise spurt based on inventory buildup

The U.S. economy grew at a 3.6 percent annual rate from July through September, the fastest since early 2012. But nearly half the growth came from a buildup in business stockpiles, a trend that could reverse in the current quarter and hold back growth. The Commerce Department's second estimate of third-quarter growth released recently was sharply higher than the initial 2.8 percent rate reported previously. And it was well above the 2.5 percent growth rate for the April-June quarter.

Almost the entire third-quarter revision was due to a big jump in stockpiles. Consumer spending, the lifeblood of the economy, was the weakest in nearly four years – a 1.4 percent annual rate, the slowest since the final quarter of 2009. When excluding inventories, the economy grew at a 1.9 percent rate in the third quarter, down from 2.1 percent in the spring. That's in line with the same subpar rate that the economy has seen since the Great Recession ended four years ago. "There's no momentum here," said Ian Shepherdson, chief economist at Pantheon Macroeconomics. He said overall economic growth could come in below 2 percent in the current October-December quarter.

U.S. manufacturers lag amid upswing

Sector has gained about a quarter of the 2 million jobs lost during recession

The economy is firming, hiring is on an upswing and consumers appear inclined to spend. That’s good news for D’Addario & Co., a U.S. firm that manufactures musical instrument strings.

U.S. manufacturers, are still trying to make up for ground lost during the Great Recession. It’s doing so in part by investing in technology that makes it lean, boosting output with fewer workers and smarter production. “We’re probably about 85 percent back” to pre-recession levels, said Rick Drumm, co-president of D’Addario in Farmingdale, a suburb of New York City.“

Indeed, even with recovery, the overall manufacturing sector is at best about three-quarters of the way back, less so when tech products such as semiconductors are taken out of the mix. At a contemporary peak, manufacturing represented about 21 percent of the U.S. economy in 1980. Today, it’s closer to 12 percent, and the sector employs about 12 million workers. “The general economy fell only 4 percentage points in the recession, but manufacturing fell (almost) 20 percent,” said Daniel Meckstroth, chief economist for the Manufacturers Alliance for Productivity and Innovation, an industry research group.

The long slog back is also reflected in the hiring numbers. The sector lost more than 2 million jobs, or 15 percent of the manufacturing workforce, from December 2007 to June 2009 -- a period spanning the Great Recession. At the end of 2009 the sector had its lowest employment level since 1941.

The sector has gained a little more than half a million new jobs since February 2010. That would be good in normal times. These aren’t normal times. A key reason is that manufacturers are rebounding in part thanks to greater productivity, getting more output from fewer workers. “We’ve added 543,000 workers since the end of the recession. My gut reaction is many of those people are different than the people they might have replaced,” said Chad Moutray, chief economist for the National Association of Manufacturers. “Because they are so much more skilled and manufacturing is much more advanced than it used to be, it further serves to increase those productivity gains.”

A new reality for shoppers

Virtual and augmented technologies will help ease buying decisions

In the not-too-distant future, grocery shoppers wearing Google Glass will see coupons for a new cereal flash before their eyes as they search for Cheerios, while others browsing the dairy section will have information about the health benefits of soy milk pop up automatically on their iPads.

Dozens of big-name retailers -- including Bloomingdale's, Victoria's Secret, Tesco, Walmart and Target -- already are experimenting with virtual reality, a computer-simulated 3-D environment viewed through a computer screen or wireless glasses, or augmented reality, which uses technology to alter the physical environment by adding sound, images or words to enhance the real-world experience. Give it a few more years, industry experts say, and the once ho-hum trip to the average store will be radically different.

For consumers, this is mostly good news, experts say. The technology will give shoppers the power to make better buying decisions and eliminate some shopping irritations. Retailers are using virtual reality to improve store layouts, and companies are creating augmented reality apps for in-store navigation, so shoppers aren't searching up and down aisles for five of the 10 ingredients to make dinner. Shoppers will also be able to try on clothes virtually -- no more running in and out of dressing rooms with clothes that don't fit. "In five years, you will not walk into a retailer and get lost," said Barbara Barclay, general manager of North America for Tobii, an eye-tracking technology company with offices in Mountain View. "They'll know who you are and what your last shopping experience was. They will know where you're looking on a shelf. The whole shopping experience in five years will be highly personalized."

Much of the new technology has been developed in Silicon Valley, where companies including Accenture, a technology and consulting company in San Jose; Matterport, a Mountain View tech startup and 3-D camera developer; and Tobii have been quietly courting retailers with new products. Some are preparing for mass market rollouts early next year. "Everyone is interested in personalizing shopping and augmented reality and virtual reality," said William Brinkman, graduate director of the computer science department at Miami University of Ohio. "They are trying to see what their value is and what they do that Amazon doesn't.''

Already, glimpses of this virtual reality retail bonanza have appeared from the Bay Area to Europe. Bloomingdale's recently tested virtual dressing rooms, which let customers "try on" outfits that appear when they are looking at themselves on a large screen. Accenture has developed an app for Google Glass, the Internet-connected and voice-controlled eyeglasses, that allows customers to explore Toyota showrooms and check out new cars through augmented reality. Glashion, a fashion app for Google Glass, came out of the TechCrunch Disrupt conference in San Francisco in September. Using the app, Glass users can purchase fashion items online as soon as they spot someone else wearing it. "It's all about understanding how people think," Barclay said. "It's almost like being inside someone's head."

Retailers believe that virtual and augmented reality will make shopping easier than it's ever been -- easier even than online. Accenture has a new app for appliance, electronic, home improvement and grocery retailers, and one retailer that sells mobile devices is preparing to release it to customers, said Michael Redding, managing director of Accenture technology labs. Using a tablet or smartphone with the app installed, shoppers will see everything in a grocery store that's gluten-free, for example, or the tile that matches their bathroom vanity at home.

In early 2014, Matterport will start publicly selling software that can create a 3-D rendering of the inside of a house. People can view the rendering on a computer screen, explore the house as though taking a video tour and add objects to rooms. Matterport is selling the technology to home improvement and furniture retailers; Crate and Barrel founder Gordon Segal is an investor. "Instead of the consumers shopping on the retailer's turf, the retailer is being moved into (the customers') kitchen and their living room," said Bill Brown, Matterport chief executive. "In a few years we'll have the technology on a tablet or smartphone."

Virtual and augmented reality apps will offer a level of insight into shoppers' personal lives -- their house, social networks, diet, dress size and shopping routine -- that may feel like an invasion of privacy. But between Facebook, PayPal and store loyalty programs, many businesses already have this information, Brinkman said. They just aren't doing much with it that's very useful for shoppers, he said.

Los Angeles based Facecake, the company behind the Bloomingdale's virtual dressing rooms, will introduce a technology called Swivel to new retailers starting in early 2014. The company will add stores almost every month, including several in the Bay Area, said founder Linda Smith. Shoppers use hand gestures in front of the interactive screens to select clothes to virtually try on, and can accessorize and give themselves a makeover. "It's taking the frustration out of going into the dressing room with just a few items and not being able to mix and match outfits," Smith said. "I tried to take everything about the shopping experience that I find irritating and offer a solution. If you had your dream shopping experience, that's what I tried to put into this."

November Retail Sales

Panic ‘on’ as merchants see lull

Sales are flat in gift categories, according to Commerce Department

With holiday spending on clothes and toys off to a chilly start, worried retailers are plying shoppers with an early gift: Black Friday-style bargains extended into the first weeks of December. Merchants get nervous each year during the dreaded early-December shopping lull, when consumers rest their wallets before swarming back into malls at the last minute — if they return at all. But this time, shoppers are splurge-shy, there's a dearth of hot new fashion trends and the key Thanksgiving weekend failed to deliver hoped-for sales.

"This is the last thing you want to be dealing with, the lack of forward momentum," said Columbia Business School professor Mark Cohen. "The panic is on." That was underscored recently by the Commerce Department's report on November retail sales, which rose 0.7 percent from October. The increase beat forecasts, mostly because analysts "were bracing for modest disappointment, which lowered the bar of expectations," said Sterne Agee Chief Economist Lindsey Piegza.

While the gauge was bolstered by strong gains in big-ticket items such as cars and home improvement goods, sales in the categories normally popular for Christmas gifts — apparel, sporting goods and general merchandise — fell or were flat.

The average consumer spent nearly 4 percent less during the shopping blowout weekend than last year. On top of that, the period between Thanksgiving and Christmas was the shortest it's been in a decade.

In recent months, retail sales "can euphemistically be described as lackluster," said Columbia's Cohen. He and other analysts interpreted November's 0.7 percent upswing — the largest increase in five months — as a promising sign economically, in line with gains in the stock market, a reprieve from high pump prices and improving home values. However, the government numbers "run against the grain of the early holiday shopping season reports," which have generally been less than enthusiastic, according to Credit Suisse.

Holiday sales are down third week in a row

After a strong start to the holiday shopping season, sales at stores have fallen for the third consecutive week as Americans continue to hold back on spending during what is traditionally the busiest buying period of the year. Sales at U.S. stores dropped 3.1 percent to $42.7 billion for the week that ended on 12/23/13 compared with the same week last year, according to ShopperTrak, which tracks data at 40,000 locations. That follows a decline of 2.9 percent and 0.8 percent during the first and second weeks of the month, respectively.

Retailers started the season cautiously optimistic. But after a strong start through most of November — ShopperTrak said sales were up 3.4 percent for the month — retailers have found it increasingly hard to attract shoppers into stores despite big discounts and expanded hours during the final days. Shoppertrak estimates that holiday sales at stores so far are up 2 percent to $218.4 billion compared with the same period last year. That's below the 2.4 percent forecast for the two-month period, but the company is standing by that estimate with a few days left before Christmas and a little over a week before the season ends.

The National Retail Federation, the nation's largest retail group, also said it's sticking with its forecast that sales in stores and online will be up 3.9 percent to $602.1 billion. But even online sales, which had been a bright spot for much of the season, aren't growing at the expected pace. Online spending from home and work desktop computers in the U.S. from Nov. 1 through Dec. 15 was up 9 percent from the same period last year to $37.8 billion, according to the most available data from comScore. That's below the 14 percent growth that the Internet research firm is forecasting for the season. The company still expects online sales to grow at that pace for the season, but the category only accounts for about 11 percent of spending in the three months that include the holiday shopping season.

Cyber Monday booms with online shoppers, while in-store sales slip

Once slighted as a marketing gimmick by online retailers, Cyber Monday has turned into one of the holiday shopping season's most important selling days -- and this year its record-setting totals helped make up for lackluster sales over the Thanksgiving weekend.

Much of the retail spending has shifted, not disappeared, to online and to later in the holiday season, retail experts say. By midafternoon Monday, online sales were up 17.5 percent from the year before, according to IBM Digital Analytics Benchmark, the arm of IBM that tracks real-time retail sales, with the day's total take predicted to top $2 billion. And more spending -- both online and in stores -- is yet to come. The traditional holiday shopping days aren't a barometer of the retail season they way they used to be, according to retail experts.

"You're seeing the holiday period get longer in terms of the number of days and number of hours," said Larry Chiagouris, a consumer behavior expert at Pace University and marketing consultant. "People are shopping online for an increasing portion of purchases and for more expensive purchases."

The season got off to a slow start over the weekend when purchases at stores and on websites fell 2.9 percent to $57.4 billion during the four days beginning on Thanksgiving, according to the National Retail Federation. While 141 million people shopped, about 2 million more than last year, average spending dropped 3.9 percent to $407.02, the survey showed.

"The spending is shifting to online," said Roger Kay, an analyst with Massachusetts-based Endpoint Technologies Associates. "We skipped the downside (of Black Friday), which is the fights and brawls, and the waiting in line, and being too hot or being too cold. The convenience outweighs the chagrin." When the season is over, retailers will find that total holiday purchases will be more than last year, Chiagouris said. He forecasts slightly more than 4 percent above last year; the National Retail Federation predicted 3.9 percent.

Experts say retailers have encouraged this shift by offering perks to capture a piece of the growing e-commerce pie. Most large retailers offer exclusive online and mobile discounts, free delivery during the holidays and free pickup in stores. Better technology in stores and in the hands of consumers has created a hybrid shopping experience -- shoppers using their phones to scan bar codes of items in stores, price compare and build gift registries. "Retailers really are making the shopping experience much more ubiquitous and free flowing for the customer," said Dale Achabal, executive director of the Retail Management Institute at Santa Clara University. All of these digital options have, for some consumers, taken away the sense of urgency and need for instant gratification, moving more purchases online and later in the season.

Holiday sales rise 2.3% online Christmas spending up 16.5%

Retail sales in holiday-related categories such as apparel, electronics and jewelry rose a “decent” 2.3%, according to a Thursday report from MasterCard SpendingPulse. The so-so upswing from Nov. 1 to Dec. 24 improved on the same period in 2012 and was in line with expectations, researchers said.

Overall sales from all categories swelled 3.5%. The growth remained modest due to six fewer shopping days between Thanksgiving and Christmas this year, as well as stormy weather during the final two weekends of the season – normally key consumption time for last-minute shoppers.

The jewelry sector was, by MasterCard’s calculations, the top-performing holiday category and one of the few that improved on its performance from 2012.

On Christmas Day alone, online sales surged 16.5% year over year, according to IBM Digital Analytics Benchmark. Visits from mobile devices made up a record 48% of all online traffic – up 28.3% from last year. Tablet users spent $98.61 per order on average while smartphone users shelled out $85.11.

E-commerce giant Amazon.com said it had its best holiday season ever. On Cyber Monday alone, 36.8 million items were ordered worldwide from the site, amounting to 426 items per second, according to the company. Amazon said that more than a million customers became members of its Prime service in the third week of the month – a new high. Popular products included tablets such as the Kindle Fire HD, televisions such as the Samsung 32 and laptops such as the ASUS Transformer Book.

RV Sales back on track to pre-recession levels

Employment recovers as people begin trading up, buy large vehicles

RV manufacturers expect to pass another milestone in their steady recovery from the recession that landed the industry in a deep ditch. Led by sales growth for towable RVs and pricier stand-alone motor homes, recreational vehicle makers expect to ship more than 300,000 units to dealers' lots this year for the first time since the economic downturn battered the industry in 2008 and 2009.

Those grim days are now in the rear view mirror. Employment across the industry has rebounded, and consumers who once picked small, no-frills travel trailers — dubbed "recession trailers" — are now trading up or buying larger, pricier RVs. "We're back to a more normal market where people are stepping up and buying nicer equipped travel trailers," said RV dealer Debbie Brunoforte, who has logged her best post-recession sales year at her lots in Phoenix and Mesa, Ariz.

Shipments from RV manufacturers to dealers — a key measure of consumer demand — are expected to reach 316,300 units in 2013, up nearly 11 percent from last year's total of 285,749, the Recreation Vehicle Industry Association said recently on the first day of the industry's trade show in Louisville. More gains are projected for next year. Through October, 2013 shipments were up nearly 13 percent from the same period last year, the group said. Indiana is the manufacturing pacesetter, accounting for 83 percent of RV production in 2012. Oregon, California, Iowa and Michigan were next, each with a sliver of output.

Next year's overall shipments are expected to rise another 6 percent, to 335,500 units, putting production in the neighborhood of 2007's total of 353,400. It's a big turnaround from 2009, when shipments sank to 165,700 units amid weak demand and dried up credit that left dealers' lots filled with the hulking vehicles. Some manufacturers closed their doors, and those that survived cut their workforces. Now, easier credit is helping fuel the comeback as dealers obtain financing to fill lots and consumers get loans to drive away with RVs bound for campgrounds or tailgates.

Pent up demand and favourable demographics also are aiding sales, as the industry's core Baby Boomer base heads toward retirement. The industry says its focus on the 30-to-49 age group has paid dividends, with younger families entering the market for towable RVs attached to pickups or hitched to other vehicles.

Stand-alone motor homes, which took the biggest hit from the recession, are also showing signs of a comeback. Through October, motor home shipments for the year were up 36 per cent from the same 10-month period last year, the RVIA said. Shipments for towables were up 10 percent compared to a year ago. Towables cost between $8,000 and $95,000, with an average price of about $29,000, according to RVIA. Stand-alone motor homes range from $45,000 to $1.5 million for top-of-the-line, bus-like vehicles. The average price is about $131,000 for the amenity-filled moving homes. The industry is much leaner now with 70 manufacturers — nearly a third less than before the recession.

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Job Market is showing consistent gains

The job market is showing signs of the consistent gains the nation has awaited in the 4½ years since the Great Recession. Employers added 203,000 jobs in November, and the unemployment rate fell to 7 percent, a five-year low, the Labor Department reported recently. Four straight months of robust hiring have raised hopes that 2014 will be the year the economy returns to normal. The economy has added a four-month average of 204,000 jobs from August through November, up sharply from 159,000 a month from April through July. “The consistency (in hiring) is actually reassuring,” said Doug Handler, chief U.S. economist at IHS Global Insight. “Slow and steady is something you can plan and build on.”

In addition to the solid job gains and the drop in unemployment, the report report offered other encouraging signs:

• Higher-paying industries are adding jobs. Manufacturers added 27,000, the most since March 2012. Construction companies added 17,000.

• Hourly wages are up. The average rose 4 cents in November to $24.15. It’s risen just 2 percent in the past year. But that’s ahead of inflation. Consumer prices are up only 0.9 percent in that time;

• Employers are giving their workers more hours. The average workweek rose to 34.5 hours from 34.4. A rule of thumb among economists is that a one-tenth of an hour increase in the workweek is equivalent to adding 300,000 jobs; and

• Hiring was broad-based. In addition to higher-paying industries, retailers added 22,300 jobs, and restaurants, bars and hotels 20,800. Education and health care added 40,000. And after years of cutbacks, state and local governments are hiring again. In November, governments at all levels combined added 7,000 jobs.

The report did contain some sour notes: Many Americans are still avoiding the job market, neither working nor looking for work. That’s one reason the unemployment rate has fallen in recent months. The percentage of adults either working or searching for jobs remains near a 35-year low, at 63 percent. Low-wage industries also still account for a disproportionate share of jobs added. About 45 percent of jobs created in the past year have been in retail, hotels, restaurants and entertainment, temporary positions and home health care.

NOVEMBER AUTO SALES

Auto sales zoom on new models, Black Friday

Powered by Black Friday sales promotions, rising incentives and alluring new models, auto sales hit a torrid pace November -- an unexpectedly high annual selling rate of 16.4 million, well up from 15.3 million in the month a year ago, according to Autodata.

That's the fastest annualized sales pace since 16.8 million February 2007, Autodata says. "Black Friday did give us a lift," said Bill Perkins, president of Chevrolet dealerships in Michigan. "A lot of people were out shopping over the weekend."

Sales of all new vehicles by all automakers rose 8.9% from the year-ago November, and 3.1% from October. Only a handful of automakers failed to post robust gains, mainly Honda, Volkswagen Mazda and BMW.

General Motors and Chrysler drove the blistering sales month -- up 13.7% and 16.1% respectively. Ford Motor gained 7.1%, ordinarily laudable, but in November it wasn't even enough to hold the company's market share, which slipped to 15.2%, down 0.3 of a point. GM and Chrysler both gained share.

GM's chief economist, Mustafa Mohatarem, noted in a conference call with investment analysts and auto journalists that he sees a stable labor market, stable oil prices and record household net worth numbers, so isn't surprised by strong new-vehicle sales. Automakers said November's incentive increases were concentrated late in the month, mainly for Black Friday promotions, which have become a staple of the auto business as much as they are at department stores and other retail outlets.

DECEMBER AUTO SALES

Soft December can't undercut boffo 2013 auto sales

Auto sales flattened in December as storm-wary buyers stayed home and others already had bought during the November "black Friday" promotions, but many car companies still mustered 2013 records.

The 21 automakers selling new cars and trucks in the U.S. snagged 15.6 million buyers last year, according to sales tracker Autodata, up 9.2% from 2012 and highest since 2007. That's still short of the 17 million-plus yearly tallies in the pre-recession heyday, but healthy nonetheless.

Among those reporting full-year sales records: Hyundai, Subaru, Nissan, Audi, BMW, Mercedes-Benz, Maserati, Land Rover, Porsche.

Kia and Honda had their second-best sales years.

Detroit sales reports: GM slips, Ford and Chrysler gain

European maker sales: Luxury brands boom, Volkswagen slides

Asian maker sales: Toyota closes year with whimper, others with a bang

"Much stronger than we had a right to expect, with unemployment still high, overall economic growth at best moderate and consumer confidence generally down," said Jack Nerad, a top analyst at Kelley Blue Book.

But plenty of old vehicles in America's driveways — average age is 11-plus years — cheap loans and a sense of wealth from the rising stock market "all were all drivers of what turned out to be very robust auto sales," he said.

Incentives were common in December, but not especially generous, averaging $2,676 per vehicle, according to TrueCar.com, price tracker and researcher. That's 4% more than a year ago. TrueCar says the average transaction price in December was $30,786, down only 0.6% from a year ago.

Automakers are forecasting a bit more than 16 million sales this year. "The economy continues to grow," said General Motors chief economist Mustafa Mohatarem. "We're a long ways from meeting all the expected demand."

Sales signatures of 2013:

•Detroit was resurgent. General Motors, Ford Motor and Chrysler Group, combined, accounted for 45.2% of all new-vehicle sales in 2013, up from 44.5% in 2012.

That's the first time the Detroit 3 boosted their full-year share of the pie in 25 years, except in 2011 when a tsunami wiped out Toyota and Honda production in Japan, according to the *Automotive News* Data Center.

•Pickups roared. An improving economy put more tradesmen to work and they finally decided to replace their aging trucks, and the trucking gentry bounded back into the market. Pickups priced $40,000 and up were about one-third of pickup sales.

Big-pickup sales of 1.9 million for the year were up 16.8%, Autodata tallies show.

•Leasing — because it promises lower payments — accounted for a record 27.5% of all December sales, according to Edmunds.com senior analyst Jessica Caldwell. In two or three years, as those leases expire, used car buyers could find great bargains, especially on luxury models, which are the most-leased vehicles.

•Small cars were a hard sell. Autodata totals show small cars of all types, combined, fell 8.8% in December and were down 7.8% for all of 2013.

•Small SUVs, on the other hand, were popular. And they didn't have to be new designs to get the spotlight.

Honda 's now-aging CR-V — best-selling SUV of any size or type in the U.S. — hit nearly 304,000 sales in 2013, putting it in the fast company of the high-volume midsize sedans, such as Ford Fusion and Nissan Altima.

Ford's Escape small SUV, which is a new design, notched about 294,000. But General Motors' Chevrolet Equinox is about as hoary as they come in that segment, and it was next at about 238,000.

Toyota RAV4, a new model, rounds out the top-selling SUVs — of any kind, not just smaller SUVs — with 218,000.

Any of those sales numbers is enough to keep a big auto plant running on two shifts, perhaps with some overtime.

UCLA Anderson School Forecast

Job growth is leaving parts of state behind

Tech areas hum, but interior areas, East Bay face hurdles

California’s economy has evolved into a tale of two recoveries, with large urban centers along the coast adding jobs at a much faster pace than inland areas, according to a closely watched economic report released recently.

Santa Clara County and the San Francisco-San Mateo-Marin region are gaining jobs at a much faster pace than the East Bay, the Central Valley and other interior regions, such as the Inland Empire. "Santa Clara County and the San Francisco metro area have rebounded," said Jerry Nickelsburg, a senior economist with the UCLA Anderson Forecast. "The East Bay is just kind of bouncing along, not much above the trough of the recession."

Both Santa Clara County and the San Francisco-San Mateo-Marin area now boast job totals nearing the peaks of the tail end of the dot-com boom in 2001, while the East Bay's job levels are only as high as 2009, which means the Alameda County-Contra Costa County area has yet to recover the jobs it lost in the Great Recession. "The high-tech industries in the South Bay and San Francisco and the Peninsula are leading the way, but you could start to see areas such as the East Bay and the Central Valley start to do better next year in their job growth," said Scott Anderson, chief economist with San Francisco-based Bank of the West.

During the one-year period that ended in October, Santa Clara County posted job growth of 2.5 percent.

Coastal areas show job growth

Coastal area economies are faring the best, while those inland areas that depended on the housing boom still struggle.

Percent change in job totals in key urban centers of California

Santa Clara County	**2.5%**
San Francisco-San Mateo-Marin area	**2.3%**
San Joaquin County	**2.2%**
Solano County	**2.2%**
Santa Barbara County	**2.2%**
Orange County	**2.0%**
Ventura County	**2.0%**
San Diego County	**1.8%**
Monterey County	**1.8%**
Riverside-San Bernardino	**1.4%**
Los Angeles County	**1.4%**
Santa Cruz County	**1.3%**
Sonoma County	**1.3%**
Sacramento County	**0.9%**
East Bay	**0.6%**
Fresno County	**0.1%**
Stanislaus County	**-0.5%**

Source: UCLA Anderson Forecast
BAY AREA NEWS GROUP

"Santa Clara County and San Francisco have a concentration of the industries that are producing the products that are in demand," Nickelsburg said. "All over the world, companies are looking for ways to operate more efficiently, and consumers are looking for new ways to access technology."

Over the same period, the East Bay eked out merely 0.6 percent annual job growth, the EDD figures show. The Central Valley region stretching from the Sacramento area to the Stockton region and south to Bakersfield was even weaker, with 0.5 percent annualized job growth, "The gap isn't widening, but it isn't improving, either," said Jeffrey Michael, director of the Stockton-based Business Forecasting Center at University of the Pacific. "It's like you're trading baskets when you're already down 20 points."

Coastal regions are being bolstered by several advantages that have kept them in the forefront of the recovery. "Tech centers, tourist centers, biotech clusters, are all on the coast," said Stephen Levy, director of the Palo Alto-based Center for Continuing Study of the California Economy. "But it's also about where the industries that pay high wages, such as tech, Internet services and social networks are located. And it's also about where the people who are employed in those industries want to live."

Although the housing meltdown triggered severe job losses in the East Bay and Central Valley, the current housing and retail rebound could be a catalyst for job growth starting in 2014, said Jordan Levine, an economist with Beacon Economics.

"Home prices are rising, people are buying more cars, apartment vacancies are decreasing, commercial real estate is on the upswing," Levine said. "All of those could help the East Bay and other areas."

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