CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

June 23, 2014

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Fourth Quarter Sales (October - December 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: Harriet Richardson, City Auditor

Office of the City Auditor

City of Palo Alto Sales Tax Digest Summary - Fourth Quarter Sales (October – December 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. This revenue included sales and use tax for the City of Palo Alto and pool allocations from the State and Santa Clara County.[1] 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.

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 fourth quarter sales (October through December 2013). These funds are reported as part of the City's fiscal year 2014 revenue. ASD advised that in mid-June, it received information from the State on aggregate sales and use tax receipts for first quarter 2014.

[1] See definitions on page 4.

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

- In Palo Alto, overall sales and use tax revenue (cash receipts) for the fourth quarter ending December 2013 increased by approximately $4.8 million, or 20.3 percent, including pool allocations, compared to the fourth quarter ending December 2012.[2] For all jurisdictions in Santa Clara County, sales and use tax revenue for the fourth quarter ending December 2013 increased by $2.3 million, or 2.3 percent, compared to the fourth quarter ending December 2012.

- Statewide, every region in California experienced an increase in sales and use tax revenue for the year ending December 2013, compared to the prior year ending December 2012. Statewide sales and use tax revenue has shown growth of 8.7 percent during the fourth quarter ending December 2013 compared to the fourth quarter ending December 2012.

- In Palo Alto, sales and use tax revenue totaled $28.5 million for the year ending December 2013, an increase of 20.3 percent from $23.7 million in the prior year ending December 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, housing supply, and forecast information that may affect the City's sales and use tax revenue.

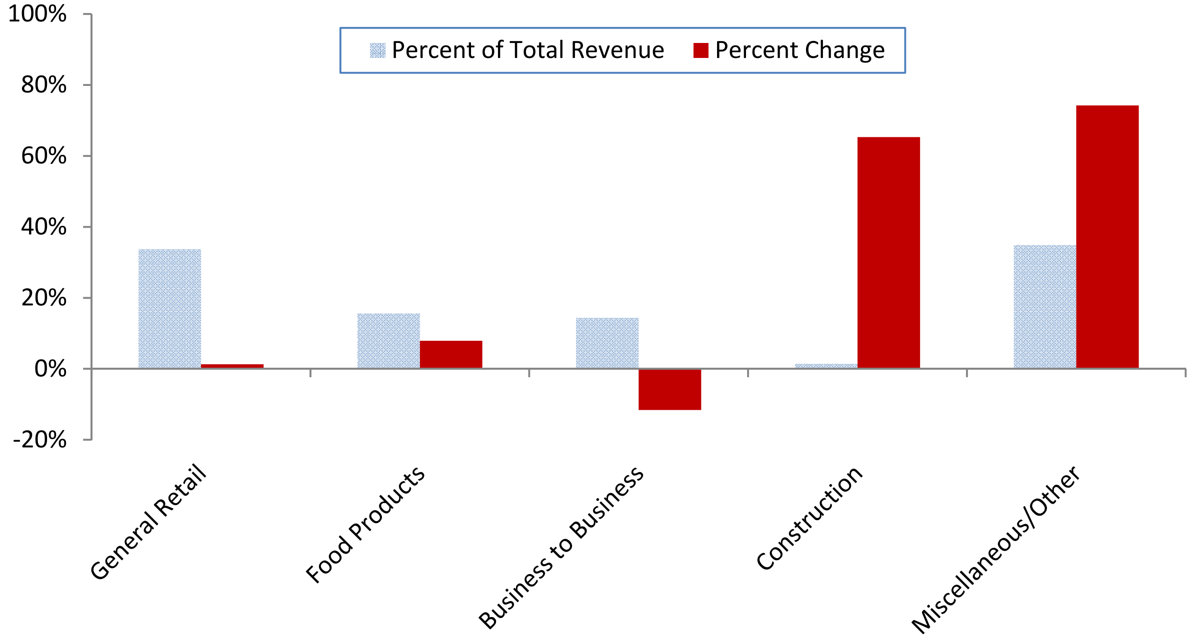
Preliminary estimates from the State of California Employment Development Department show the April 2014 unemployment rate, which is not seasonally adjusted, in Santa Clara County at 5.3 percent and Palo Alto at 2.8 percent.

Economic Category Analysis

MuniServices' analysis of economic categories for the year ending December 2013 shows that General Retail comprised a large percentage of Palo Alto's sales and use tax revenue and experienced 1.3 percent growth. Food Products experienced a 7.9 percent increase and comprised 15.6 percent of total revenues. Business to Business experienced an 11.6 percent decrease and comprised 14.4 percent of total revenues.

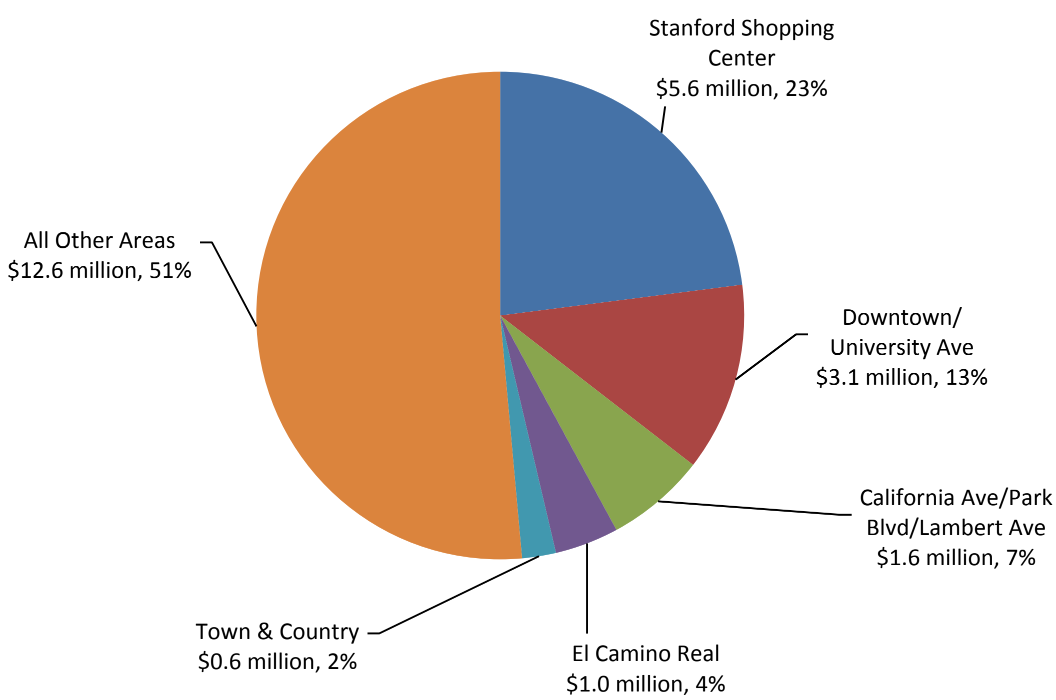
[2] Excluding pool allocations and adjusting for prior period and late payments, Palo Alto's sales and use tax revenue for the fourth quarter ending December 2013 decreased by 4.8 percent compared to the fourth quarter ending December 2012. On a yearly basis, Palo Alto's sales and use tax revenue for the year ending December 2013 increased by 17.8 percent compared to the prior year ending December 2012.

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

Harriet Richardson

Harriet Richardson
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

City of Palo Alto
Sales Tax Digest Summary
Collections through March 2014
Sales through December 2013 (2013Q4)

California Overview

The percent change in cash receipts from the prior year was 6.3% statewide, 6.1% in Northern California and 6.5% in Southern California. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When we adjust for non-period related payments, we determine the overall business activity increased for the year ended 4th Quarter 2013 by 3.5% statewide, 4.2% in Northern California and increased by 3.0% in Southern California.

City of Palo Alto

For the year ended 4th Quarter 2013, sales tax cash receipts for the City grew by 20.3% from the prior year. On a quarterly basis, sales tax revenues declined by -2.1% from 4th Quarter 2012 to 4th 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 17.8% for the year ended 4th Quarter 2013 from the prior year. On a quarterly basis, sales tax activity declined by -4.8% in 4th Quarter 2013 compared to 4th Quarter 2012.

Regional Overview

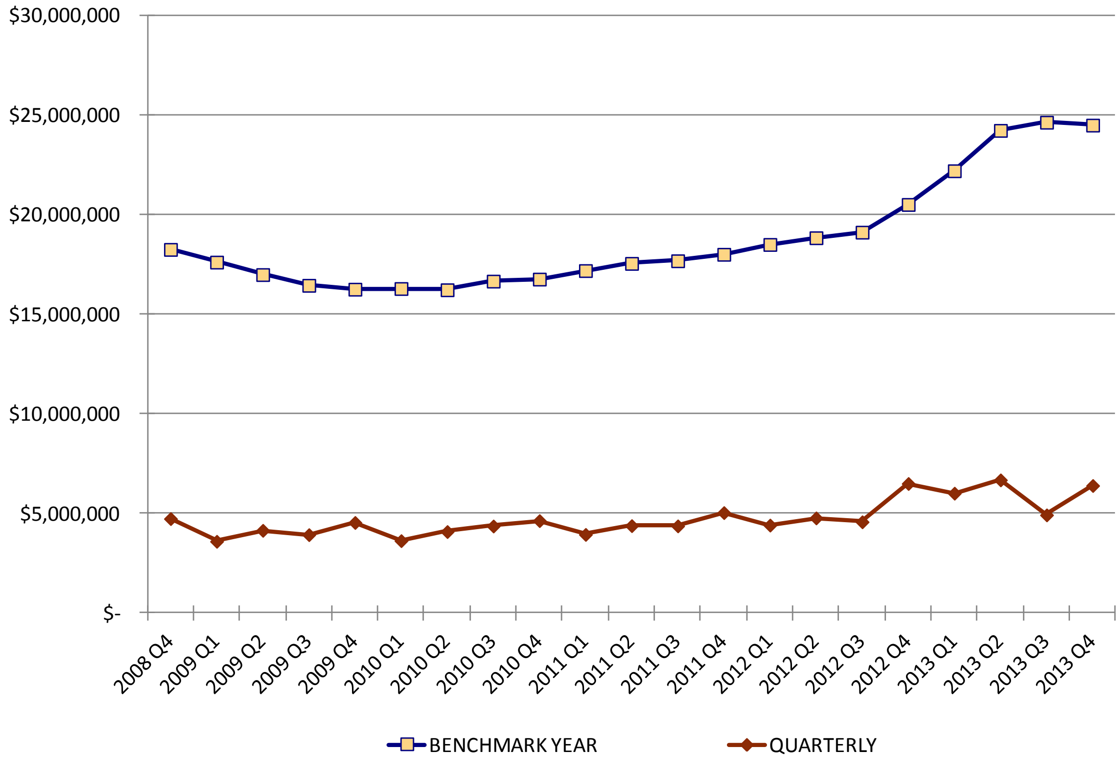
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

CITY OF PALO ALTO

BENCHMARK YEAR 2013Q4 COMPARED TO BENCHMARK YEAR 2012Q4

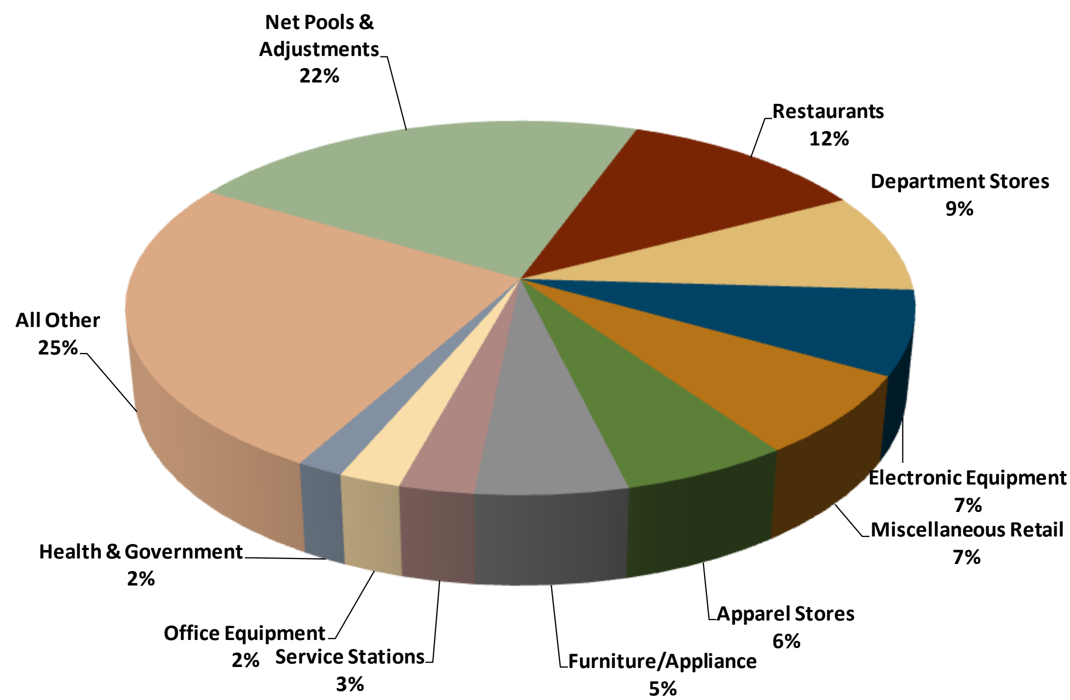
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 4th QUARTER 2013									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	33.7 / 1.3	28.7 / 3.1	28 / 3.5	28.6 / 2.8	30.6 / 4	29.1 / 2.6	27.3 / 4	28.6 / 3.3	32.2 / 3.6
Food Products	15.6 / 7.9	19.2 / 4.1	20.3 / 5.9	16.3 / 2.2	15.9 / 1.8	20.1 / 3.8	16.6 / 4.2	18.3 / 2.7	30.3 / 1.5
Construction	1.4 / 65.3	9.1 / 8.1	9.1 / 11.9	10.8 / 12.9	11.3 / 8.9	8 / 4.5	11 / 10.5	12.7 / 11.1	9.5 / 16
Business to Business	14.4 / -11.6	16.8 / 0.2	19.2 / -3.2	14 / 5.3	14.1 / 1.7	17 / 0.6	15.3 / 4.7	8.9 / 3.2	5.3 / -2.1
Miscellaneous/Other	34.9/ 74.2	26.2 / 6.2	23.4 / 9.7	30.3 / 8.9	28.2 / 8.0	25.7 / 4.3	29.9 / 6.1	31.5 / 2.8	22.7 / 1.6
Total	**100.0 / 17.8**	**100 / 3.5**	**100 / 3.9**	**100 / 5.2**	**100 / 4.2**	**100 / 2.6**	**100 / 4.8**	**100 / 3.5**	**100 / 3.4**
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 4th 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	Auto Sales - New	Department Stores	Restaurants	Auto Sales - New	Department Stores	Restaurants
% of Total / % Change	*** / ***	13.3 / 5.0	14.3 / 7.1	11.9 / 14.5	14.1 / 2.9	13.8 / 4.4	12.0 / 14.2	13.2 / 1.2	20.8 / 1.3
2nd Largest Segment	Restaurants	Auto Sales - New	Auto Sales - New	Department Stores	Service Stations	Auto Sales - New	Service Stations	Service Stations	Misc. Retail
% of Total / % Change	13.7 / 9.0	10.4 / 11.1	9.7 / 14.8	11.7 / 1.6	11.4 / -1.0	10.7 / 8.4	11.4 / -1.2	12.8 / -8.2	9.8 / 3.0
3rd Largest Segment	Department Stores	Department Stores	Department Stores	Restaurants	Auto Sales - New	Department Stores	Department Stores	Restaurants	Service Stations
% of Total / % Change	10.0 / -0.4	10.3 / 2.1	9.1 / 1.4	10.3 / 4.1	9.6 / 11.6	10.2 / 1.9	11.0 / 3.5	9.7 / 4.4	9.7 / -5.7
	*** 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 4th Quarter 2013: $28,500,353

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

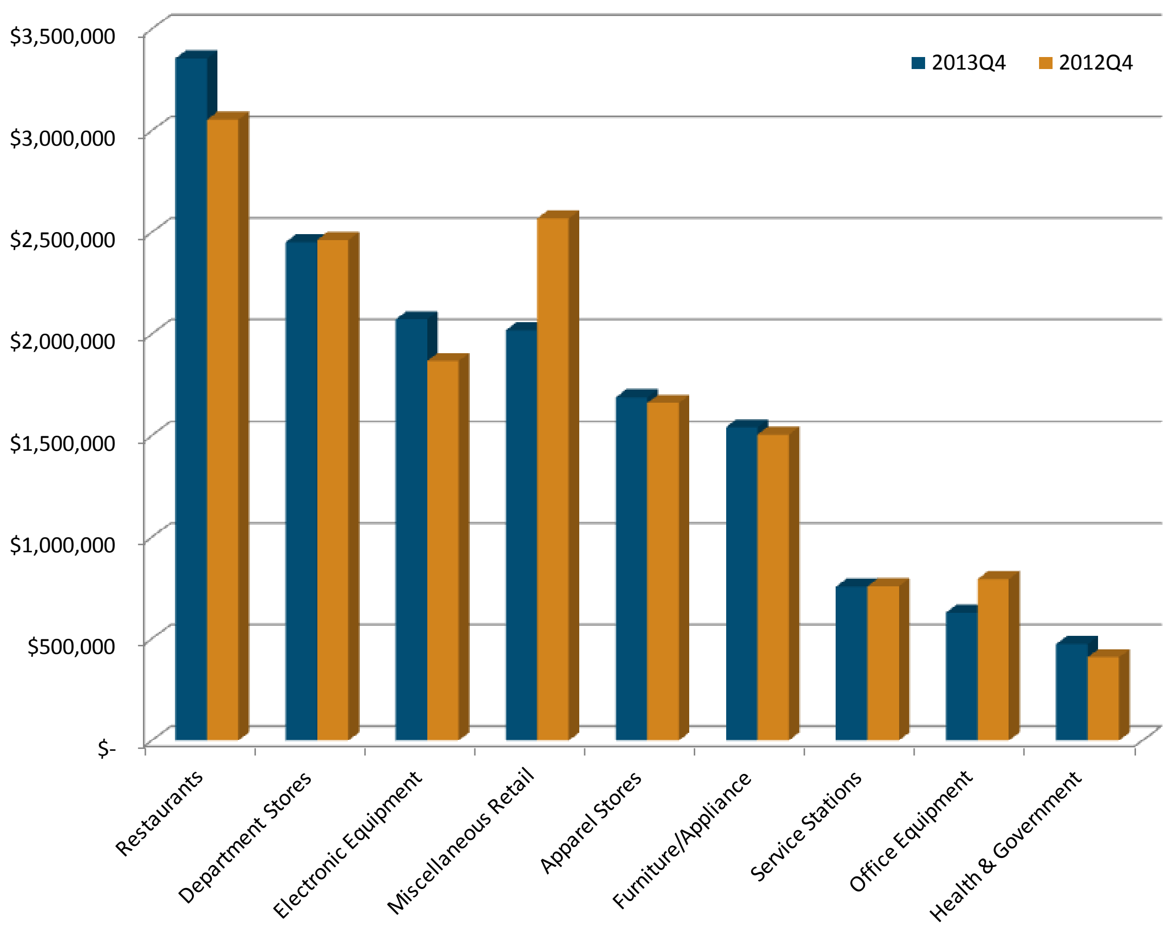


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto's Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 4th Quarter 2013. The Top 25 Sales/Use Tax contributors generate 58.8% of Palo Alto's total sales and use tax revenue.

Anderson Honda	Keeble & Shucat Photography	Stanford University Hospital
Apple Stores	Loral Space Systems	Tesla Motors
Bloomingdale's	Macy's Department Store	Tiffany & Company
Carlsen Motor Cars	Magnussen's Toyota	Valero Service Stations
Crate & Barrel	Neiman Marcus Department Store	Varian Medical Systems
CVS Pharmacy	Nordstrom Department Store	Volvo Palo Alto
Fry's Electronics	Pottery Barn Kids	Wilkes Bashford
Hewlett-Packard	S.G. Herrick Corporation	
Integrated Archive Systems	Shell Service Stations	

Sales Tax from Largest Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

Economic Category	%	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2
General Retail	34.4%	2,585,931	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
Miscellaneous/Other	18.7%	1,408,118	1,137,974	2,867,931	2,759,713	2,004,507	905,479	848,911	797,436	781,336	812,130	720,550
Business To Business	16.9%	1,268,059	848,634	800,341	592,136	1,101,068	843,770	993,147	1,064,996	932,723	842,771	842,709
Food Products	13.4%	1,009,848	950,359	966,208	882,949	905,156	877,520	886,852	816,336	838,138	799,167	806,987
Construction	1.9%	145,051	58,595	106,362	37,150	62,618	53,420	50,544	47,432	62,282	46,843	44,589
Net Pools & Adjustments	14.6%	1,095,801	924,963	1,227,552	1,162,968	1,155,841	603,635	840,789	754,099	725,000	933,424	845,214
Total	100.0%	7,512,808	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

Economic Segments	%	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2
Miscellaneous/Other	17.0%	1,276,166	1,069,388	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
Electronic Equipment	12.3%	922,151	438,760	421,200	284,607	695,663	516,554	651,686	488,132	724,274	563,373	608,784
Restaurants	11.9%	890,739	833,865	845,107	771,596	782,184	760,929	780,314	714,487	783,595	689,568	705,459
Department Stores	10.2%	762,760	574,389	603,773	509,699	779,973	584,178	608,894	382,336	573,750	455,335	482,723
Miscellaneous Retail	8.8%	661,268	458,124	471,954	393,506	584,169	429,989	456,771	347,112	488,492	385,236	392,126
Apparel Stores	6.9%	515,296	400,201	404,202	372,909	496,073	383,337	402,471	178,409	171,472	160,037	181,065
Furniture/Appliance	6.7%	503,346	363,855	325,112	350,375	444,725	345,043	365,585	99,210	104,348	104,234	105,507
Health & Government	2.5%	187,025	107,663	100,829	86,330	88,669	94,969	92,612	31,168	44,402	41,338	38,236
Service Stations	2.4%	177,096	214,276	196,568	187,333	182,060	198,973	198,604	90,636	101,023	98,054	89,530
Office Equipment	2.3%	172,506	150,825	172,585	131,629	223,538	162,015	188,369	46,718	48,340	49,977	51,743
Food Markets	1.4%	104,592	104,815	106,760	99,711	110,625	106,652	95,807	37,116	38,854	42,654	35,131
Drug Stores	0.9%	66,856	63,567	66,722	64,492	65,440	62,624	65,943	7,110	22,227	8,349	8,029
Business Services	0.8%	61,832	57,139	67,759	63,791	73,619	69,722	71,828	6,634	9,046	9,857	8,724
Recreation Products	0.8%	58,616	68,166	60,260	48,148	57,916	92,186	82,846	11,199	12,838	11,321	11,319
Misc. Vehicle Sales	0.8%	56,758	35,942	44,711	45,719	45,656	45,325	57,680	16,264	17,880	5,505	6,353
Net Pools & Adjustments	14.6%	1,095,801	924,963	1,227,552	1,162,968	1,155,841	603,635	840,789	754,099	725,000	933,424	845,214
Total	100.0%	7,512,808	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

*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.

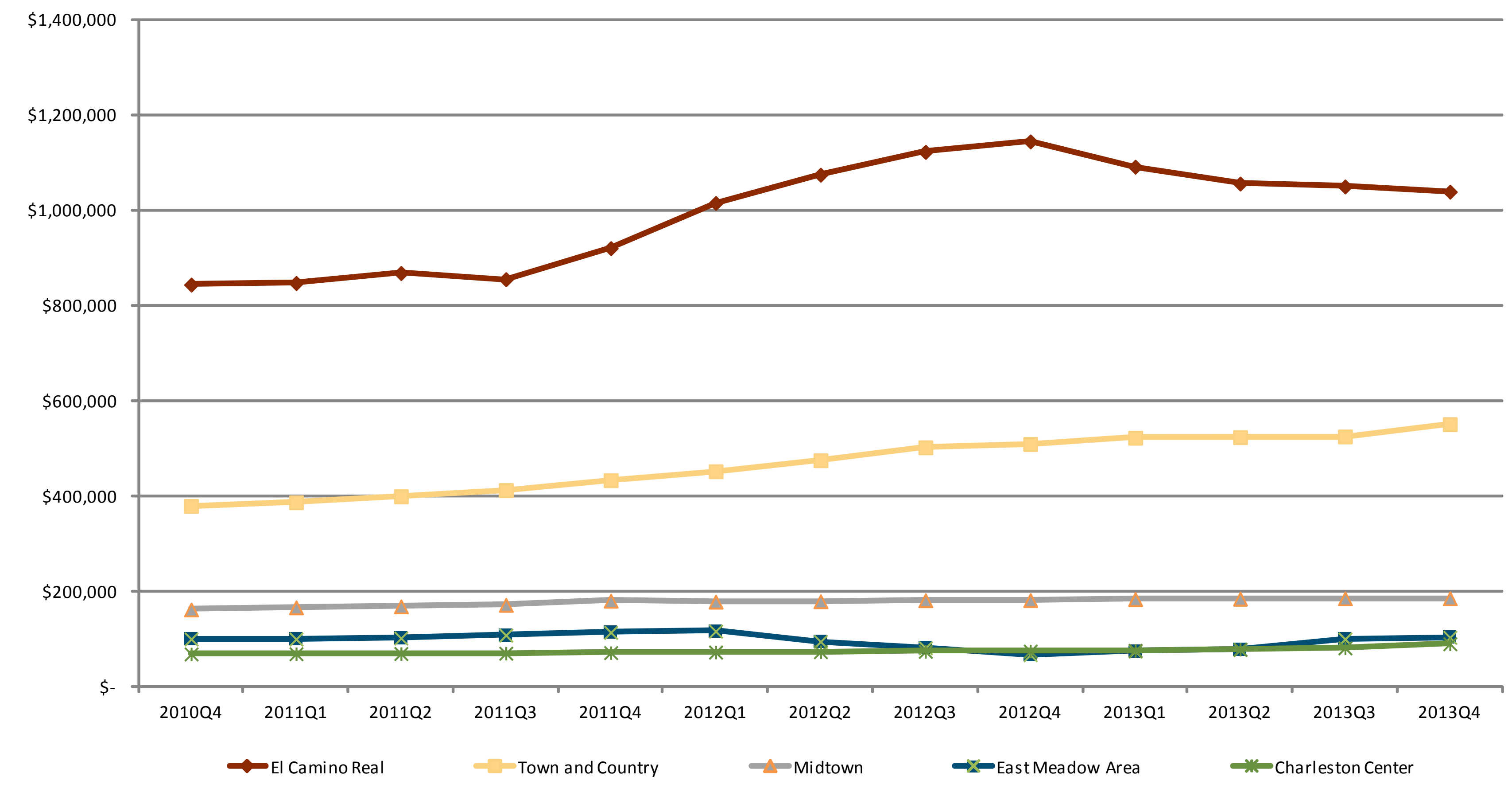
Quarterly Analysis by Economic Category, Total and Segments: Change from 2012Q4 to 2013Q4

	General Retail	Food Products	Construction	Business to Business	Misc/Other	2013/4 Total	2012/4 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	-3.5%	7.6%	2.3%	-18.3%	1.2%	2,220,927	2,257,444	-1.6%	Restaurants	Recreation Products	Business Services	Miscellaneous Retail
Cupertino	-1.8%	23.0%	222.2%	-6.8%	-1.9%	6,672,980	6,805,288	-1.9%	Business Services	Bldg.Matls-Whsle	Electronic Equipment	Office Equipment
Gilroy	3.6%	1.9%	11.1%	-12.8%	5.5%	3,357,878	3,254,365	3.2%	Auto Sales - New	Apparel Stores	Service Stations	Heavy Industry
Los Altos	18.2%	-2.4%	9.6%	7.4%	-4.8%	566,921	547,505	3.5%	Miscellaneous Retail	Apparel Stores	Food Markets	Service Stations
Los Gatos	-1.2%	6.0%	29.7%	-10.3%	11.9%	1,900,237	1,842,522	3.1%	Auto Sales - New	Restaurants	Electronic Equipment	Auto Parts/Repair
Milpitas	-5.0%	7.7%	17.2%	-31.3%	-5.7%	4,112,704	4,516,343	-8.9%	Restaurants	Bldg.Matls-Retail	Office Equipment	Furniture/Appliance
Morgan Hill	1.2%	2.8%	14.0%	-32.9%	-0.5%	1,750,878	1,833,609	-4.5%	Misc. Vehicle Sales	Auto Sales - New	Electronic Equipment	Auto Parts/Repair
Mountain View	5.3%	28.8%	48.8%	-17.3%	-1.3%	3,806,653	3,655,559	4.1%	Restaurants	Furniture/Appliance	Office Equipment	Light Industry
Palo Alto	3.5%	10.9%	127.2%	12.7%	-34.4%	6,417,006	6,742,941	-4.8%	Electronic Equipment	Restaurants	***	Office Equipment
San Jose	-1.3%	4.5%	15.6%	13.1%	5.1%	37,620,478	35,567,853	5.8%	Auto Sales - New	Electronic Equipment	Service Stations	Miscellaneous Retail
Santa Clara	24.1%	5.9%	12.4%	8.6%	-17.1%	10,305,829	9,923,647	3.9%	Electronic Equipment	Miscellaneous Retail	Leasing	Miscellaneous Other
Santa Clara Co.	-5.6%	9.5%	65.4%	-1.3%	-24.7%	1,074,846	1,024,437	4.9%	Bldg.Matls-Whsle	Restaurants	Service Stations	Apparel Stores
Saratoga	2.9%	10.6%	60.3%	-19.1%	-9.0%	250,136	242,703	3.1%	Food Markets	Miscellaneous Retail	Service Stations	Furniture/Appliance
Sunnyvale	0.9%	7.5%	2.6%	6.3%	3.7%	7,032,616	6,719,121	4.7%	Light Industry	Electronic Equipment	Office Equipment	Miscellaneous Retail

City of Palo Alto - Selected Geographic Areas of the City

Benchmark Year 4th Quarter 2013

	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
El Camino Real	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	1,038,409
Town and Country	379,066	386,944	399,378	412,361	433,313	451,982	475,054	502,127	509,180	522,374	523,504	525,116	550,852
Midtown	162,122	166,440	168,537	171,719	180,415	178,344	179,250	181,352	181,654	183,780	184,646	185,301	185,348
East Meadow Area	100,155	100,032	102,028	108,176	114,083	116,558	94,868	81,598	67,124	74,680	77,869	100,045	103,590
Charleston Center	68,693	69,150	69,606	70,301	71,555	72,602	73,408	74,213	74,683	76,315	78,734	81,455	90,116

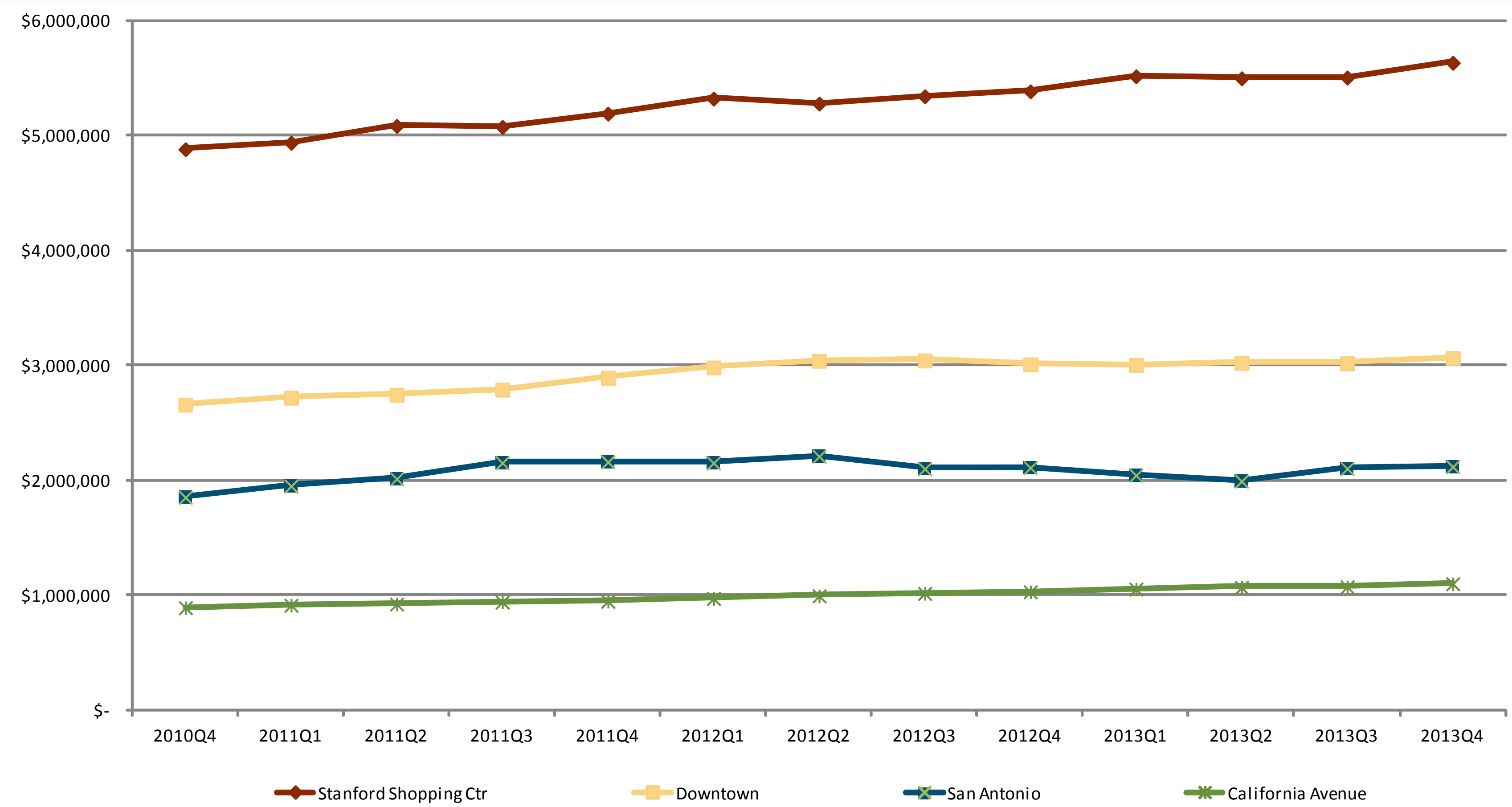


**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2013Q4 BMY is sum of 2013 Q4, Q3, Q2, & Q1)*

City of Palo Alto - Selected Geographic Areas of the City

Benchmark Year 4th Quarter 2013

	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Stanford Shopping Ctr	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	5,637,256
Downtown	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	3,068,553
San Antonio	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	2,122,586
California Avenue	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	1,104,341

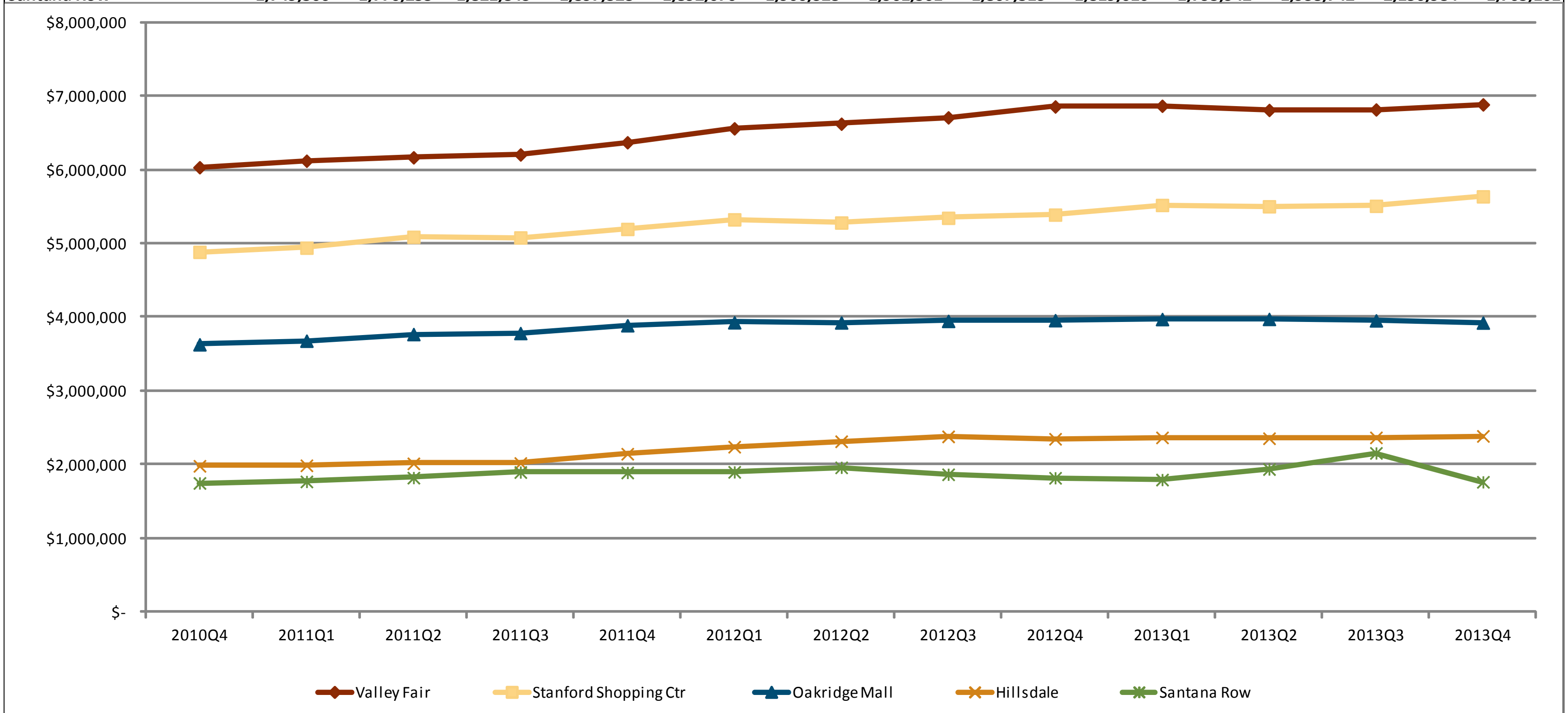


**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2013Q4 BMY is sum of 2013 Q4, Q3, Q2, & Q1)*

City of Palo Alto - Regional Shopping Mall Comparison

Benchmark Year 4th Quarter 2013

	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Valley Fair	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	6,883,838
Stanford Shopping Ctr	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	5,637,256
Oakridge Mall	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	3,924,360
Hillsdale	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	2,387,185
Santana Row	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	1,765,101



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

Economic Overview

1Q2014 News

CONSUMERS CUT BACK

Revised estimate lowers GDP in Q4

Winter cold slows growth; rebound expected in spring.

The U.S. economy grew at a 2.4 percent annual rate last quarter, sharply less than first thought, in part because consumers didn't spend as much as initially estimated. Severe winter weather is expected to further slow the economy in the current quarter. But as temperatures warm, most economists think growth will rebound beginning in the spring.

The Commerce Department reduced its estimate of economic growth in the October-December quarter from an initial 3.2 percent annual rate. The revised estimate of 2.4 percent annual growth is the weakest quarterly showing since the first quarter of 2013. A key reason for the downgrade was that consumer spending is now estimated to have expanded at a 2.6 percent annual rate, below the initial estimate of 3.3 percent though still the strongest quarterly spending by consumers in nearly two years.

Economists said the more sluggish pace of consumer spending resulted from bad weather at the end of the year, which cut into vehicle sales, among other purchases. But they pointed to one key point of encouragement in the report: The government's estimate of business investment was revised up to an annual rate of 7.3 percent — the best quarterly showing in a year and sharply higher than the initial 3.8 percent annual rate.

In a separate report, the University of Michigan's monthly index of consumer sentiment showed that while bad weather kept consumers away from retail outlets, it had not shaken confidence. Economists said steady consumer confidence supported their expectations for a rebound in spending once the weather improves.

FED: 17 PERCENT OF WORKERS EXPECT TO BE LAID OFF

About 17 percent of workers expect to be laid off in the coming year, according to results of a newly launched consumer survey from the Federal Reserve. The figure for December was down from about 18 percent the previous month but up from about 15 percent in June, according to the initial results of the Survey of Consumer Expectations from the Federal Reserve Bank of New York.

About 22 percent of consumers expect to voluntarily switch jobs in the year ahead, down slightly from November but up from about 19 percent in June, the survey reported. Both figures have been holding steady in recent months. Six months ago, the Fed began collecting data on consumer attitudes about the labor market, inflation and household finances. The results were released for the first time recently.

The survey will add to monthly private data on consumer confidence. The information, to be released the first Monday of each month, will be used to help Fed officials set monetary policy and assist staff in researching connections between expectations and behavior.

Fed officials said the survey will track rolling groups of heads of households over 12-month periods to look at their views and behaviors. The initial survey results from about 1,200 people showed expectations on inflation, income growth and spending holding steady over the past six months. Income growth was expected to lag at about 2 percent for 2014.

U.S. ECONOMY MAY BE STUCK IN SLOW LANE FOR LONG RUN

In the 4½ years since the Great Recession ended, millions of Americans who have gone without jobs or raises have found themselves wondering something about the economic recovery:

- Is this as good as it gets?
- It increasingly looks that way.

Two straight weak job reports have raised doubts about economists' predictions of breakout growth in 2014. The global economy is showing signs of slowing—again. Manufacturing has slumped. Fewer people are signing contracts to buy homes. Global stock markets have sunk as anxiety has gripped developing nations.

Some long-term trends are equally dispiriting.

The Congressional Budget Office foresees growth picking up through 2016, only to weaken starting in 2017. By the CBO's reckoning, the economy will soon slam into a demographic wall: The vast baby boom generation will retire. Their exodus will shrink the share of Americans who are working, which will hamper the economy's ability to accelerate.

At the same time, the government may have to borrow more, raise taxes or cut spending to support Social Security and Medicare for those retirees. Only a few weeks ago, at least the short-term view looked brighter. Entering 2014, many economists predicted growth would top 3 percent for the first time since 2005. That pace would bring the US economy near its average post-World War II annual growth rate. Some of the expected improvement would come from the government exerting less drag on the economy this year after having slashed spending and raised taxes in 2013.

In addition, steady job gains dating back to 2010 should unleash more consumer spending. Each of the 7.8 million jobs that have been added provided income to someone who previously had little or none. It amounts to "adrenaline" for the economy, said Carl Tannenbaum, chief economist for Northern Trust. And since 70 percent of the economy flows from consumers, their increased spending would be expected to drive stronger hiring and growth.

"There is a dividing line between a slow-growth economy that is not satisfactory and above-trend growth with a tide strong enough to lift all the boats and put people back to work," said Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi. "That number is 3 percent."

The recovery had appeared to achieve a breakthrough in the final quarter of 2013. The economy grew at an annual pace of 3.2 percent last quarter. Leading the upswing was a 3.3 percent surge in the rate of consumer spending, which had been slack for much of the recovery partly because of high debt loads and stagnant pay. Yet for now, winter storms and freezing temperatures, along with struggles in Europe and Asia, have slowed manufacturing and the pace of hiring.

RETAIL TRENDS

Retail: Order it online, but try on at home

The fitting room is coming home. Online retailers that sell jeans, eyeglasses and shoes are shipping their products to customers for free to try on at home before buying them. It's a way for newer online brands to hook potential customers. A credit card is needed, but nothing is charged unless the items aren't returned on time. The limit for how long you can keep items is usually about a week. Shipping is free both ways and there's no obligation to buy anything.

It's a much slower way to shop. You have to wait for the box to arrive, which can take days, and then arrange to send them back if you don't like anything. Most of the companies tend to sell higher-priced items. But online retailers say it works for busy professionals who can't make it to a store. "Our customers tend to have more money than time," says Rob Wright, the founder of Bungalow Clothing, which sells high-end women's clothing online and ships boxes of clothes for free for 10 days. Wright says customers like trying on items at home because they can see if they match with the jackets or shoes they already have in their closet. And being at home can be more comfortable than an in-store fitting room. "There's no pushy salesperson and no funky lighting," says Wright.

Eric Clark agrees. "Stores are annoying. They try to upsell everything," he says. Clark, who owns a tutoring company called Quincy Tutoring in Massachusetts, used to buy his prescription glasses from brick-and-mortar stores. That changed last spring when he stumbled upon Warby Parker, an online seller of eyeglasses, on social media site Twitter. "I had never even heard of them," Clark says.

He gave Warby Parker a try after seeing that the company would send him five pairs of glasses to try on at home for free. When he received the glasses, he snapped photos of himself wearing them and uploaded them to photo-sharing app Instagram. His friends told him which ones they liked best, and he ended up buying two pairs for about $300. If you plan to try out one of these retailers, make sure you read the rules carefully first. You don't want to keep items for longer than allowed and pay for stuff you don't want. And if you damage an item, you'll pay for it.

Here are some of the companies that offer free home try-on programs:

— CLOTHING: There are a couple of clothing retailers to check out. Bluer Denim, which sells American-made premium jeans for $98 and over, ships up to three pairs that you can try on at home for seven days.

Bungalow Clothing, which sells everything from $200 jeans to $700 leather jackets, lets you text the company when you're ready to ship the box back and they'll arrange for FedEx to pick it up.

Women can try bras at home, too. True & Co., which sells bras that average around $25, allows women to try up to five at home for five days.

— GLASSES: There are also a few eyeglass sellers to choose from. The glasses that Warby Parker sends out are samples that don't have the prescription lenses in them. So you'll need to send them all back, and then the company will send you a fresh pair of the ones you want. Most prescription glasses cost about $95, sunglasses with a prescription lens cost more.

Rivet & Sway, which sells $169 glasses for women only, has a similar home try-on program. Made Eyewear makes the process a bit simpler, sending out glasses with the prescription you need, so you can keep the ones you want right then and send the rest back. Made Eyewear's glasses start at $84.

— SHOES: There's at least one women's shoe company that offers at-home try outs. Brian James Footwear will give you 12 days to try on up to five pairs of shoes for free. The company sells its own brand of boots, wedges, flats and sandals that sell for about $98 and up. Shoes that are shipped back have to be in their original condition.

FEBRUARY RETAIL SALES

Feb. Retail Sales Rebound Despite Winter Weather

Retail sales rose in February, signaling strength in consumer spending despite extreme weather around the country last month. Sales rose a seasonally adjusted 0.3% in February, the first gain in three months, the Commerce Department said Thursday. Excluding volatile sales of autos and parts, sales rose by the same percentage. The results were slightly better than the 0.2% median forecast in Action Economics survey of economists. However, January sales fell more than previously estimated — by 0.6% instead of 0.4%, according to the government's revised estimate.

JOBLESS CLAIMS: Drop points to stronger labor market

Motor vehicle sales, building materials stores and furniture stores all showed increases in sales last month. Restaurant sales also increased after two months of declines. Sales fell at electronics retailers and grocery stores. "Net net, the economy seems to be rebounding from a winter-related slump in the first quarter," said Chris Rupkey, chief financial economist for Bank of Tokyo-Mitsubishi. Along with Thursday's report on jobless claims, which fell to a three-month low last week, "spring is in the air," Rupkey said.

Richard Moody, chief economist of Regions Financial, noted retail sales represent about a quarter of overall consumer spending. Not counted in retail sales is spending on household services, including utilities. The hard winter likely forced some households to shift some spending from goods to services, such as paying heating bills. Meanwhile, spending on big ticket items such as home appliances was probably delayed, not lost forever, he said. "We expect higher spending on household services to further lift total consumer spending for the month. We still expect a better pace of job growth to bring better growth in personal income, in turn fueling stronger gains in consumer spending," Moody said.

U.S. Manufacturing slows in January

U.S. manufacturing barely expanded in January, in part because cold weather delayed shipments of raw materials and caused some factories to shut down. The report from the Institute for Supply Management, a trade group of purchasing managers, contributed to a plunge on Wall Street. The manufacturing report raised the possibility that the U.S. economy might be starting to weaken.

The ISM said that its index of manufacturing activity fell to 51.3 in January from 56.5 in December. It was the lowest reading since May, though any reading above 50 signals growth. The figures suggest that U.S. manufacturing is slowing after a strong finish to last year. Auto sales have decelerated, and businesses are spending cautiously on machinery and other large factory goods. The slowdown means that economic growth in the first three months of this year will probably come in below the strong 3.6 percent annual pace in the second half of 2013.

JANUARY AUTO SALES

Winter puts auto sales on ice for some firms

Three brands see gains on strength of SUV models

Frigid temperatures and snowy weather generally kept buyers away from auto showrooms last month, with Ford, General Motors, Toyota and Volkswagen all reporting declines from a year ago. But Chrysler, Nissan and Subaru dealers were smiling. Sales ran counter to the thermometer and were up for all three brands.

January is usually a snow month for auto sales, but the polar vortex most likely slowed things even more. Industry analysts predicted little or no sales gains in January compared with a year ago. Ford said the industry saw double-digit sales gains in the West, where the weather was good, but big declines in other regions.

Dealers saw the impact firsthand. "When you go three days when no one comes on the lot, it's a little tough to be up to average," said Timothy Detweiler, dealer principal of a Buick-GMC dealer in Masontown, Pa., Temperatures there were near or below zero for several straight days.

GM said its sales dropped 12 percent compared with the same month a year earlier, while Ford and Toyota each were down 7 percent. Volkswagen slumped 19 percent. But Chrysler's U.S. sales advanced 8 percent, while Nissan's rose nearly 12 percent. Subaru saw a 19 percent increase.

All three automakers were boosted by new vehicles. Chrysler notched its best January in six years, with Jeep brand sales up 38 percent on the strength of the new Cherokee small SUVs. Nissan sales gained 11.8 percent, led by the redesigned Rogue small crossover SUV with sales up 55 percent. And sales of Subaru's redesigned Forester SUV jumped 64 percent over last January.

GM predicted an industry wide annual selling rate of 15.3 million for the month, just a touch above the 15.2 million rate in January 2013. Sales of most of its high-volume models were down. The Chevy Silverado pickup, GM's top-selling vehicle, saw sales shrink by more than 18 percent. But like many analysts, GM remained optimistic for the year, predicting total U.S. sales in a range from 16 million to 16.5 million. That's back to pre-recession levels.

FEBRUARY AUTO SALES

Here Are the February 2014 ‘Big 8’ US Auto Sales Numbers: GM, Ford, Chrysler, Toyota, Honda, Nissan, Kia/Hyundai, Volkswagen

The final February U.S. new-auto sales tally comes to 1,191,037 unit sales, with the ‘Big 8’ automakers claiming 1.06 million of those sales, according to auto pricing information provider Edmunds.com. Sales were expected by major forecasters to come in at just over 1.2 million vehicles. The seasonally adjusted annualized rate, or SAAR, for February is 15.3 million, which is on the low end of the range of estimates from forecasters.

“We’re definitely seeing that there were some declines relative to where we expected to be in February,” said Eric Lyman, vice president of editorial and consulting for automotive data provider ALG, a division of TrueCar, Inc. “With the second month in a row with the polar vortex in play, we are seeing it as having an impact. Certainly other industries and the Fed are looking into the economic impact as a result of the poor weather. So [the weather] hypothesis seems to have gained more traction and legitimacy.”

Testifying before the Senate Banking Committee on Feb. 27 about monetary policy, Federal Reserve Chair Janet Yellen pointed to “unseasonably cold weather” as the root cause for recent declines in employment, retail sales and manufacturing output. Among the world’s Big 8 automakers, Nissan and Chrysler managed to squeak through an anemic month with double-digit, year-over-year growth. Chrysler was able to do it in part because of Jeep, whose consumers were perhaps encouraged by the weather to buy 4X4s.

“Nissan saw strong growth in February, despite the continued cold weather that has plagued much of the U.S," said Karl Brauer, senior analyst at automotive pricing and information provider Kelley Blue Book. "This is at least partially due to Nissan's strong customer base in the Southern and coastal regions.” Nissan’s new Rogue crossover and the redesigned Altima sedan, as well as the new Infiniti Q50, all did relatively well last month.

Volkswagen saw the biggest decline among the Big 8 thanks to its exposure to sedans and a Tiguan crossover that is long overdue for a re-fresh in light of the heavy competition in that segment right now.

Pickup truck sales were surprisingly lackluster, too. “We saw a slight decline in the full-size pickup truck segment last month, a trend that continued into February,” Erich Merkle, Ford’s U.S. sales analyst, said during a conference call on Thursday. “Continuing a theme we've discussed for the past several months, small utilities once again hit record industry volumes."

So what’s in store for March? ALG’s Lyman said it will take more than a month to get the industry back in line from its current high inventories and growing incentive spending. He said that by April he’ll know if the weather is the main reason for the tepid sales performance in the first two months of the year -- or if there were any other factors at play.

Edmunds.com analyst Jeremy Acevedo is optimistic "February played out almost like two different months rolled into one,” he said. “The weather complications in the first half of the month kept shoppers away from showrooms early on, leading to depressed sales in the first half of the month. But Presidents' Day weekend offered a nice shot of momentum to sales that continued through the rest of February as the weather cooperated a little more. It's clear that there continues to be a steady level of shopper demand as we carry on into March.”

MARCH AUTO SALES

March U.S. Auto Sales Were In Like A Lamb, Out Like A Lamb

U.S. auto sales in March are shaping up to be disappointing from the industry’s point of view, but for consumers that’s good news because incentives are relatively high and likely to stay that way. “We’re seeing a rebound but not the rebound I think everyone was hoping for,” said Eric Lyman, vice president for partner development and editorial for ALG Inc., Santa Barbara, Calif.

ALG sister company TrueCar Inc. estimated this week that U.S. auto sales in March were just under 1.5 million, an improvement of only around 1.8 percent from March 2013. Granted, that would be an improvement of around 24 percent from February 2014, the company said.

The closely watched Seasonally Adjusted Annual Rate for auto sales was an estimated 15.7 million, an increase of about 3 percent from a year ago, TrueCar said. That’s an estimate of sales for the full year, based on the March sales pace.

The upside for consumers is that incentives for March were the highest they've been since 2010, at an average of $2,773, according to TrueCar, based in Santa Monica, Calif.

TrueCar estimated that incentives averaged $3,719 for General Motors (Buick, Cadillac, Chevrolet, GMC); $3,349 for the Chrysler Group (Chrysler, Fiat, Dodge, Jeep, Ram truck); and $3,260 for Ford Motor Co. (Ford, Lincoln). Estimated incentives were lower on average for biggest-volume Asian brands, with Nissan the highest, at $2,889, TrueCar said. Incentives were below industry average for Honda, Hyundai and Kia, and Toyota, the company said.

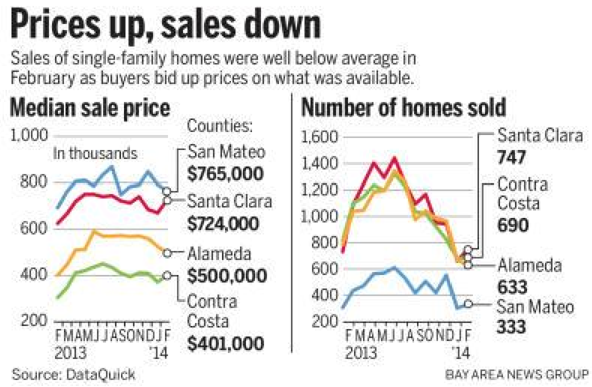
Analysts blamed unusually awful winter weather for lower-than-expected U.S. auto sales in January and February. The weather improved in March, but auto sales didn't exactly roar back. The car companies are expected to report U.S. auto sales for March on Tuesday, April 1. "When customers put off a purchase – say, because of the weather – they don't necessarily go out the next sunny weekend and buy a car. It wasn't reasonable to expect that all of the drop in sales that were blamed on the weather would be made up in March," Lyman said. "Positive momentum was expected," he said. "But it wasn't as high as everybody hoped for."

HOUSING

Supply of homes for sale dries up

February sales across Bay Area fall 10.5% to lowest in six years

Where are all the houses for sale?
That's the question that homebuyers and their real estate agents are asking, as a report recently showed February home sales hit a six-year low around the Bay Area.



While factors ranging from credit to affordability can depress sales, "the main culprit is an inadequate supply of homes for sale," according to real estate information service DataQuick.

While prices jumped, sales of single-family homes dropped an average of 10.5 percent around the nine-county Bay Area, with dips of 15.3 percent in Contra Costa County and 19.5 percent in Alameda County, DataQuick reported. Santa Clara County held its own with a 1.9 percent gain, while San Mateo County was up 8 percent. But sales in those four counties were well below the average February in DataQuick's records, which begin in 1988.

The median price paid for a single-family home in Alameda County was $500,000 in February, up 24.4 percent from a year ago; $401,000 in Contra Costa County, up 31.5 percent; $724,000 in Santa Clara County, up 15.8 percent, and $765,000 in San Mateo County, up 10.5 percent.

The stock of homes for sale typically rises at this time of year. Listings were up from a year ago in Alameda and Contra Costa counties and down in Santa Clara and San Mateo counties, according to Realtor.com. All four counties showed gains from January. It's still far from normal. "We're still way down from where we were two years ago," said David Stark, spokesman for Bay Area East Association of RealtorsSo far this year, the market appears to be a "virtual carbon copy" of the housing market last year that sent prices soaring in the spring, according to Michael Seguin at the Contra Costa Association of Realtors.

Not surprisingly, sellers are cleaning up. With prices rising, the number of homes and condos that sold for less than $500,000 fell 30 percent from a year ago, while homes that sold for more than that increased almost 71 percent, according to DataQuick.

The median price fetched by a resale single-family home was $555,000 in the nine-county Bay Area, up from $540,000 in January. Distressed sales -- foreclosure resales and short sales -- were 12.4 percent of February's sales, down from 34 percent a year ago.

GAINS IN JOBS PICK UP STEAM

Growth not just tech as increase of 14,000 could spur wage rise

The Bay Area job market surged in February, adding 14,000 jobs, led by broad-based gains across the region, state labor officials said recently.

Santa Clara County added 4,200 jobs during the month, the East Bay gained 2,600 and the San Francisco- San Mateo-Marin metro area added 5,000, according to seasonally adjusted numbers released by the state Employment Development Department.

The 14,000 jobs marked the largest one- month gains since August, when the region added 19,000 jobs. While the tech industry did the most hiring, jobs also were added in construction, health care and hotels and restaurants. “This recovery has legs and it has momentum,” said Steve Levy, director of the Palo Alto- based Center for Continuing Study of the California Economy. “The strength of the economy stretches from Market Street in San Jose to Market Street in San Francisco.”

The improvement in the nine- county region was mirrored by a gain of 58, 800 jobs in California. The statewide jobless rate improved to 8 percent in February, down from 8.1 percent in January, the EDD reported. The 8 percent jobless rate in California was the lowest it’s been since September 2008. “The jobless rate in California is improving for the right reasons,” said Jordan Levine, director of economic research with Beacon Economics. The labor force is growing, more people are employed, and fewer are unemployed in California, he added.

Unemployment rates during February were unchanged in Santa Clara County at 6.2 percent and in the San Francisco metro area at 5 percent, according to seasonally adjusted figures released by Beacon. The East Bay jobless rate was 6.7 percent, down from 6.8 in January. The jobless rates so far in 2014 for the Bay Area’s three major urban centers are the lowest since the latter half of 2008, according to Beacon Economics.

Steadily improving jobless rates should soon start lifting stagnant wages, said Scott Anderson, chief economist with San Francisco based Bank of the West. “The faster we can get the jobless rates back to normal, the chances are better that a tighter job market will reflect the higher wages,” he said.

No region of the Bay Area lost jobs during February. Solano County added 1,900 jobs and Napa County gained 300, while Sonoma County was unchanged in its payroll job totals.

More gains are expected in coming months. “Santa Clara County and the San Francisco area in particular will do very well,” Levine said. “Those regions make the computers, software, services, industrial equipment that companies need when they want to expand their capacity.” The Bay Area’s tech sector continued to be a primary driver of job creation, adding 3,700 jobs during February, including 1,700 in Santa Clara County, 1,200 in the San Francisco metro area and 800 in the East Bay.

The rebound, though, goes well beyond tech, according to the Beacon figures. Construction added 3,400 jobs, including 1,100 in the East Bay, 1,300 in the San Francisco area and 600 in Santa Clara County.“This rebound is spreading and as more people get jobs, they will have income, they will shop, dine in restaurants, stay in hotels and buy more services,” Levy said.

UCLA Anderson School Forecast

The UCLA Anderson Forecast asserts that the national economy is growing despite the self-inflicted wounds of the 16-day federal government shutdown and the effects of the botched rollout of the Affordable Care Act's insurance marketplace on the health care sector, which accounts for 18 percent of the economy.

The UCLA forecast identifies that if the federal government does no harm, growth in the national economy will be sparked by strength in the housing and automobile sectors, combined with increased business spending and an end to the dramatic drop in federal purchases. Taken together, these factors are expected to put the economy on track to a 3 percent growth path by mid-year 2014 and bring the unemployment rate down to about 6 percent by the end of 2015.

Policy interest rates will stay low throughout 2014, but with inflation increasing to slightly above 2 percent due to rising housing and health care costs (some coming from the implementation of the Affordable Care Act), it is expected that the zero–interest rate policy of the Fed will come to an end in the spring of 2015.

In California, the economic picture remains split as the gap between the coastal and inland areas widens. Along the coast — from Marin County to San Diego, including a sliver of Los Angeles County — employment gains are outpacing the nation. Over the past 12 months, Silicon Valley has created payroll employment at twice the U.S. rate. But a look inland shows a different picture: the Inland Empire and the Sacramento Delta regions are growing at a subpar rate, and the East Bay and San Joaquin Valley regions are showing little growth or negative growth.

As a whole, California has just about recovered all of the jobs lost during the recent recession. In total, jobs in California — including payroll, farm and self-employed —

declined by 1.065 million but rebounded by 1.044 million through October 2013. But a look at payroll jobs alone reveals that only 0.848 million out of 1.313 million lost jobs have been recovered, suggesting that Californians are creating their own jobs by starting new enterprises at faster rates than established businesses are hiring.

The forecast for total employment growth in 2013 is 2.4 percent. Sadly UCLA predicts it to be only 1.5 percent in 2014 and 2.0 percent in 2015. Non-farm payroll employment is expected to grow at 1.7 percent for 2013, 1.8 percent in 2014 and 2.2 percent in 2015. Real personal income growth is forecast to be 0.6 percent in 2013, followed by 3.2 percent and 3.1 percent in 2014 and 2015, a substantial growth from 2013.

Nonetheless, the forecast calls for the unemployment rate to drop to 8.2 percent on average — more than one percentage point higher than the U.S. forecast — and then to 7.3 percent in 2015. The vast majority of employment gains are found in communities along the coast, while job growth remains stagnated in inland California, which the UCLA forecast loosely compares to Appalachia, a region known for no growth and low-wage jobs from 1960 through 1990.

The UCLA forecast does note some bright spots inland, including Kern County's energy boom and the new medical school at the University of California, Riverside, which will begin to generate higher-education jobs as well as a cluster of health care–related jobs.

Sources:
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