CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 6, 2014

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary First Quarter Sales (January – March 2014)

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: Economic Categories and Segments (PDF)
- Attachment D: MuniServices Economic Overview July 2014 (PDF)

Department Head: Harriet Richardson, City Auditor

Office of the City Auditor

City of Palo Alto Sales Tax Digest Summary - First Quarter Sales (January – March 2014)

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 2014 first quarter sales (January through March 2014). These funds are reported as part of the City's fiscal year 2014 revenue. ASD advised that in September, it should receive information from the State on aggregate sales and use tax receipts for second 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 first quarter ending March 2014 decreased by approximately $1.3 million, or 17.7 percent, including pool allocations, compared to the first quarter ending March 2013. This change is due in part to an unexpectedly high and one-time flow of revenue in FY 2013 and not from a decrease in base receipts. For all jurisdictions in Santa Clara County, sales and use tax revenue for the first quarter ending March 2014 increased by $2.4 million, or 2.7 percent, compared to the first quarter ending March 2013.

- Statewide, every region in California experienced an increase in sales and use tax revenue for the year ending March 2014. Statewide sales and use tax revenue has shown growth of 3.7 percent during the first quarter ending March 2014 compared to the first quarter ending March 2013.

- In Palo Alto, sales and use tax revenue totaled $27.2 million for the year ending March 2014, an increase of 6.0 percent from $25.7 million in the prior year ending March 2013. This amount includes sales and use tax for the City of Palo Alto and pool allocations from the State and Santa Clara County.

- Excluding pool allocations and adjusting for prior period and late payments, Palo Alto's sales and use tax revenue for the first quarter ending March 2014 decreased by 20.3 percent compared to the first quarter ending March 2013. On a yearly basis, Palo Alto's sales and use tax revenue for the year ending March 2014 increased by 3.7 percent compared to the prior year ending March 2014.

More detailed information is shown in Attachment B.

Economic Influences on Sales and Use Tax

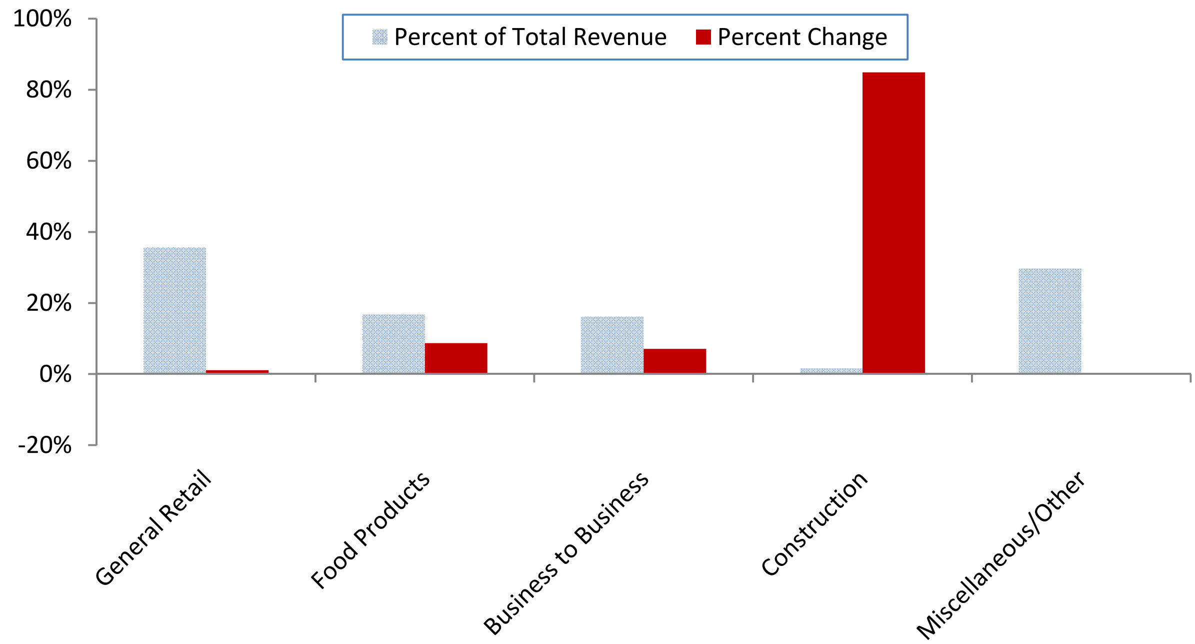
In its Economic Overview (Attachment C), MuniServices discusses economic influences, including national economic trends, retail and auto sales, the job market, mortgage rates, and forecast information that may affect the City's sales and use tax revenue.

Preliminary estimates from the State of California Employment Development Department show the June 2014 unemployment rate, which is not seasonally adjusted, in Santa Clara County at 5.4 percent and Palo Alto at 2.8 percent.

Economic Category Analysis

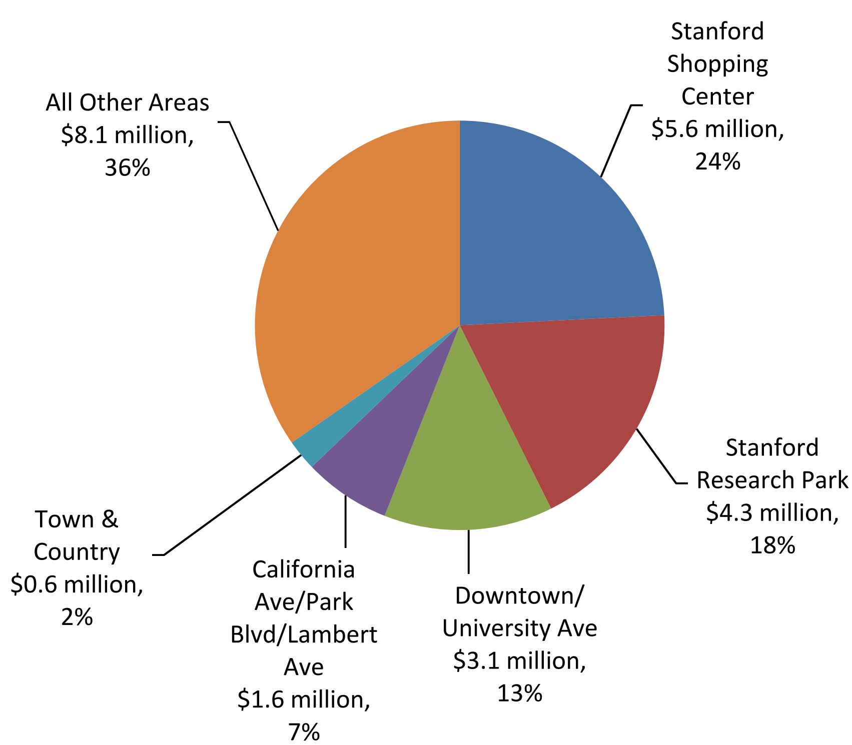
MuniServices' analysis of economic categories for the year ending March 2014 shows that General Retail comprised 35.7 percent of Palo Alto's sales and use tax revenue and increased by 1.1 percent compared to the prior year. Food Products comprised 16.8 percent of total revenues and increased by 8.7 percent. Business to Business comprised 16.2 percent of total revenues and increased by 7.1 percent.

Exhibit 1 - Comparison of Palo Alto's Sales and Use Tax Revenue and Percent Change by Economic Category for the Year Ending March 2014



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 March 2014 (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 June 2014
Sales through March 2014 (2014Q1)

California Overview

The percent change in cash receipts from the prior year was 5.6% statewide, 5.3% in Northern California and 5.9% 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 3.4% statewide, 3.8% in Northern California and increased by 3.2% in Southern California.

City of Palo Alto

For the year ended 1st Quarter 2014, sales tax cash receipts for the City grew by 6.0% from the prior year. On a quarterly basis, sales tax revenues declined by -17.7% from 1st Quarter 2013 to 1st Quarter 2014. 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 3.7% for the year ended 1st Quarter 2014 from the prior year. On a quarterly basis, sales tax activity declined by -20.3% in 1st Quarter 2014 compared to 1st Quarter 2013.

Regional Overview

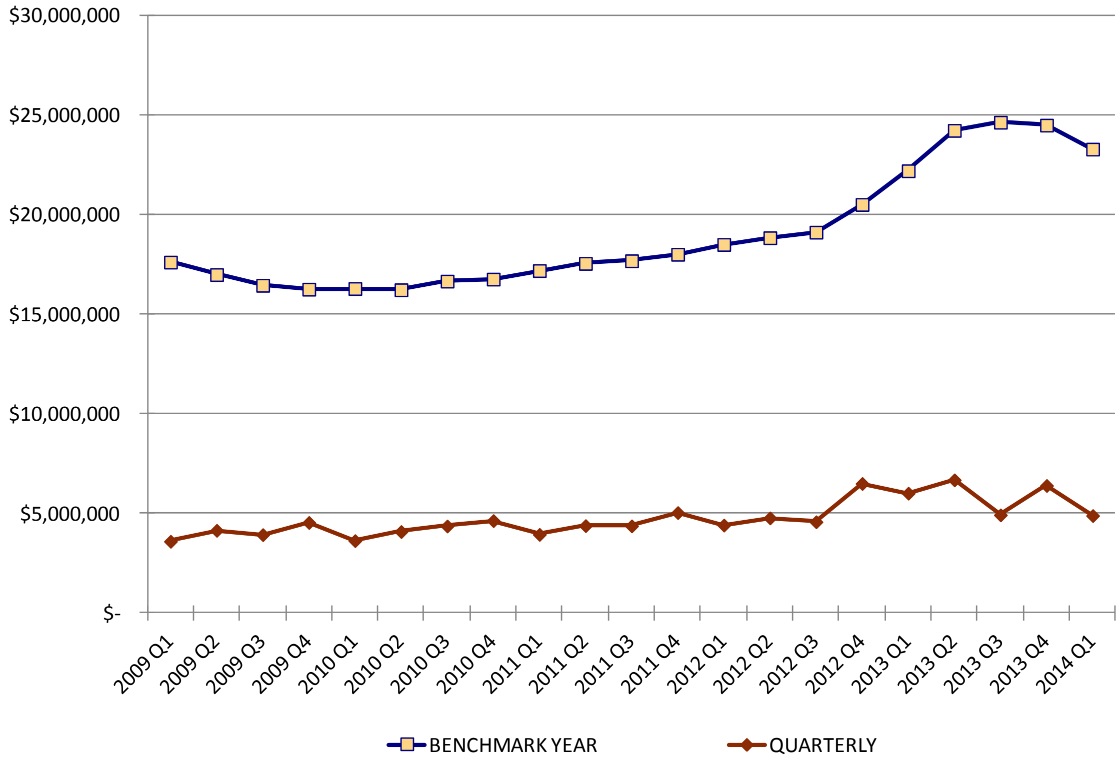
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

CITY OF PALO ALTO

BENCHMARK YEAR 2014Q1 COMPARED TO BENCHMARK YEAR 2013Q1

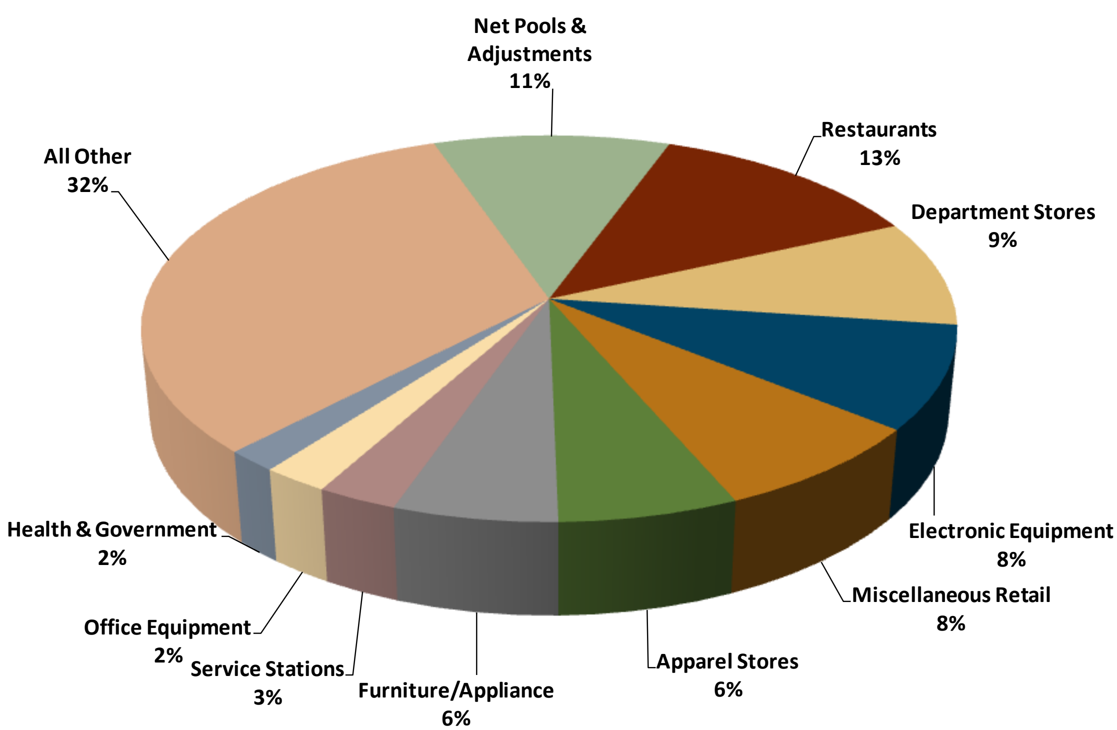
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 4th QUARTER 2013									
% of Total / % Change	**City of Palo Alto**	**California Statewide**	**S.F. Bay Area**	**Sacramento Valley**	**Central Valley**	**South Coast**	**Inland Empire**	**North Coast**	**Central Coast**
General Retail	35.7 / 1.1	28.4 / 1.8	27.7 / 2.1	28.4 / 1.2	30.4 / 3.2	28.9 / 1.4	26.8 / 2.2	28.4 / 1.0	32.4 / 1.1
Food Products	16.8 / 8.7	19.4 / 4.7	20.5 / 6.5	16.4 / 2.8	16.0 / 3.1	20.3 / 4.2	16.7 / 5.6	18.4 / 2.8	29.9 / -1.6
Construction	1.6 / 84.9	9.0 / 5.9	9.1 / 9.1	10.6 / 6.4	11.1 / 6.5	8.0 / 2.9	11.0 / 9.2	12.5 / 5.8	9.3 / 9.2
Business to Business	16.2 / 7.1	16.9 / 2.4	19.3 / -0.2	14.1 / 4.0	14.1 / 1.4	17.1 / 3.0	15.7 / 6.4	9.0 / 4.9	5.2 / -3.4
Miscellaneous/Other	29.7 / 0.0	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 / 3.7**	**100.0 / 3.4**	**100.0 / 3.7**	**100.0 / 3.9**	**100.0 / 3.8**	**100.0 / 2.7**	**100.0 / 5.0**	**100.0 / 2.4**	**100.0 / 1.1**
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	Service Stations	Service Stations	Restaurants
% of Total / % Change	*** / ***	13.4 / 6.0	14.3 / 7.8	12.0 / 13.5	14.0 / 1.1	14.5 / 6.6	12.2 / -5.7	13.3 / -6.0	21.2 / 13.5
2nd Largest Segment	Restaurants	Auto Sales - New	Auto Sales - New	Department Stores	Service Stations	Auto Sales - New	Department Stores	Department Stores	Misc. Retail
% of Total / % Change	14.8 / 10.4	10.4 / 10.8	10.0 / 10.5	11.5 / 1.5	11.3 / -1.4	10.6 / 15.2	11.2 / -1.1	11.4 / -9.0	9.9 / 1.5
3rd Largest Segment	Department Stores	Department Stores	Department Stores	Restaurants	Auto Sales - New	Department Stores	Restaurants	Auto Sales - New	Service Stations
% of Total / % Change	10.4 / -2.7	10.1 / 0.0	8.5 / -0.7	10.5 / 1.3	9.8 / 11.6	9.8 / 0.9	10.5 / 5.3	10.1 / 16.4	9.6 / 1.3
	***** 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 1st Quarter 2014: $27,225,597

**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2014Q1 BMY is sum of 2014 Q1 & 2013 Q4, Q3, Q2)*

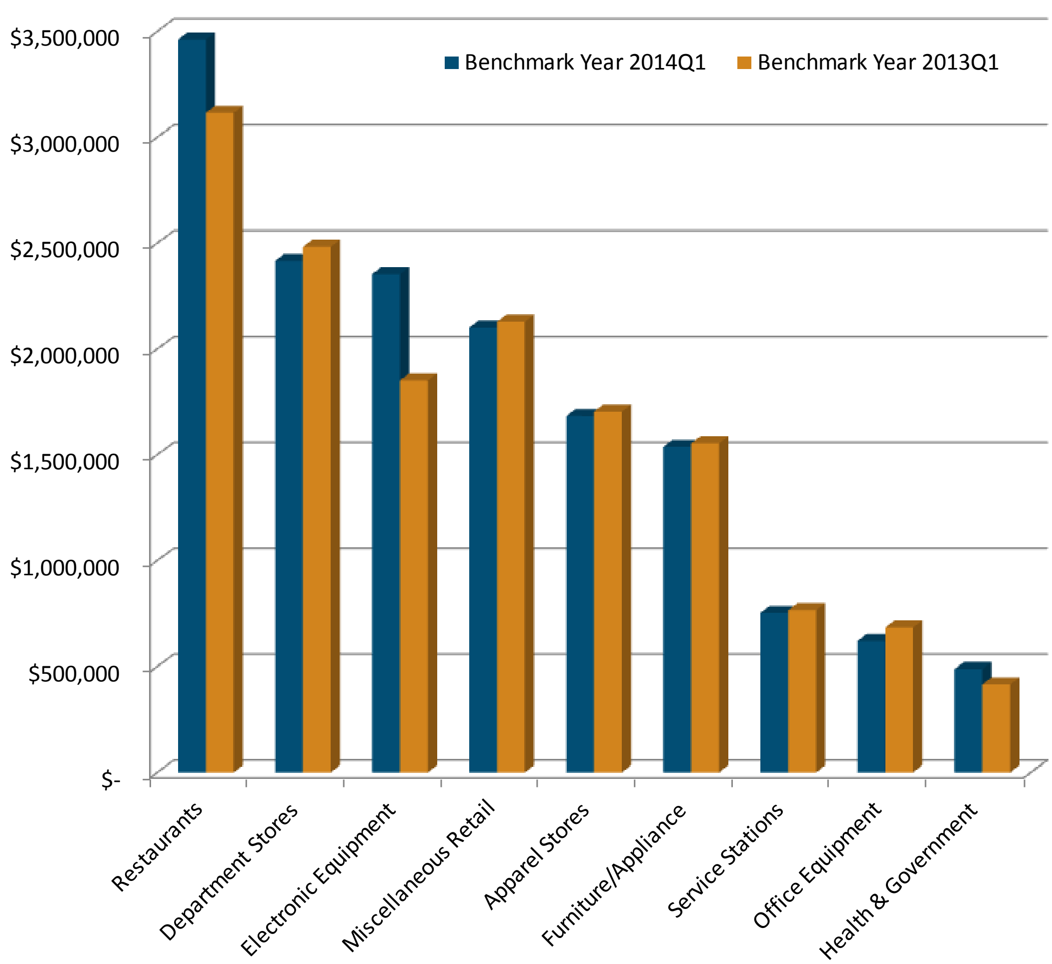


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto's Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 1st Quarter 2014. The Top 25 Sales/Use Tax contributors generate 55.9% 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	%	2014Q1	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3
General Retail	30.3%	1,791,298	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
Miscellaneous/Other	21.7%	1,283,210	1,553,169	1,196,569	2,974,293	2,796,863	2,067,125	958,899	899,455	844,868	843,618	858,973
Food Products	16.4%	972,997	1,009,848	950,359	966,208	882,949	905,156	877,520	886,852	816,336	838,138	799,167
Business To Business	14.5%	858,119	1,268,059	848,634	800,341	592,136	1,101,068	843,770	993,147	1,064,996	932,723	842,771
Net Pools & Adjustments	17.1%	1,013,633	1,095,801	924,963	1,227,552	1,162,968	1,155,841	603,635	840,789	754,099	725,000	933,424
Total	100.0%	5,919,257	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

Economic Segments	%	2014Q1	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3	2012Q2	2012Q1	2011Q4	2011Q3
Miscellaneous/Other	39.3%	2,328,959	3,184,808	2,230,000	3,943,660	3,584,353	3,451,258	1,967,348	2,091,371	2,660,028	2,876,362	2,535,369
Restaurants	14.7%	870,158	890,739	833,865	845,107	771,596	782,184	760,929	780,314	714,487	783,595	689,568
Miscellaneous Retail	8.1%	481,305	661,268	458,124	471,954	393,506	584,169	429,989	456,771	347,112	488,492	385,236
Department Stores	8.0%	472,857	762,760	574,389	603,773	509,699	779,973	584,178	608,894	382,336	573,750	455,335
Apparel Stores	6.2%	365,777	515,296	400,201	404,202	372,909	496,073	383,337	402,471	178,409	171,472	160,037
Service Stations	3.1%	184,185	177,096	214,276	196,568	187,333	182,060	198,973	198,604	90,636	101,023	98,054
Food Markets	1.5%	90,272	104,592	104,815	106,760	99,711	110,625	106,652	95,807	37,116	38,854	42,654
Business Services	1.1%	63,768	61,832	57,139	67,759	63,791	73,619	69,722	71,828	6,634	9,046	9,857
Recreation Products	0.8%	48,343	58,616	68,166	60,260	48,148	57,916	92,186	82,846	11,199	12,838	11,321
Net Pools & Adjustments	17.1%	1,013,633	1,095,801	924,963	1,227,552	1,162,968	1,155,841	603,635	840,789	754,099	725,000	933,424
Total	100.0%	5,919,257	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

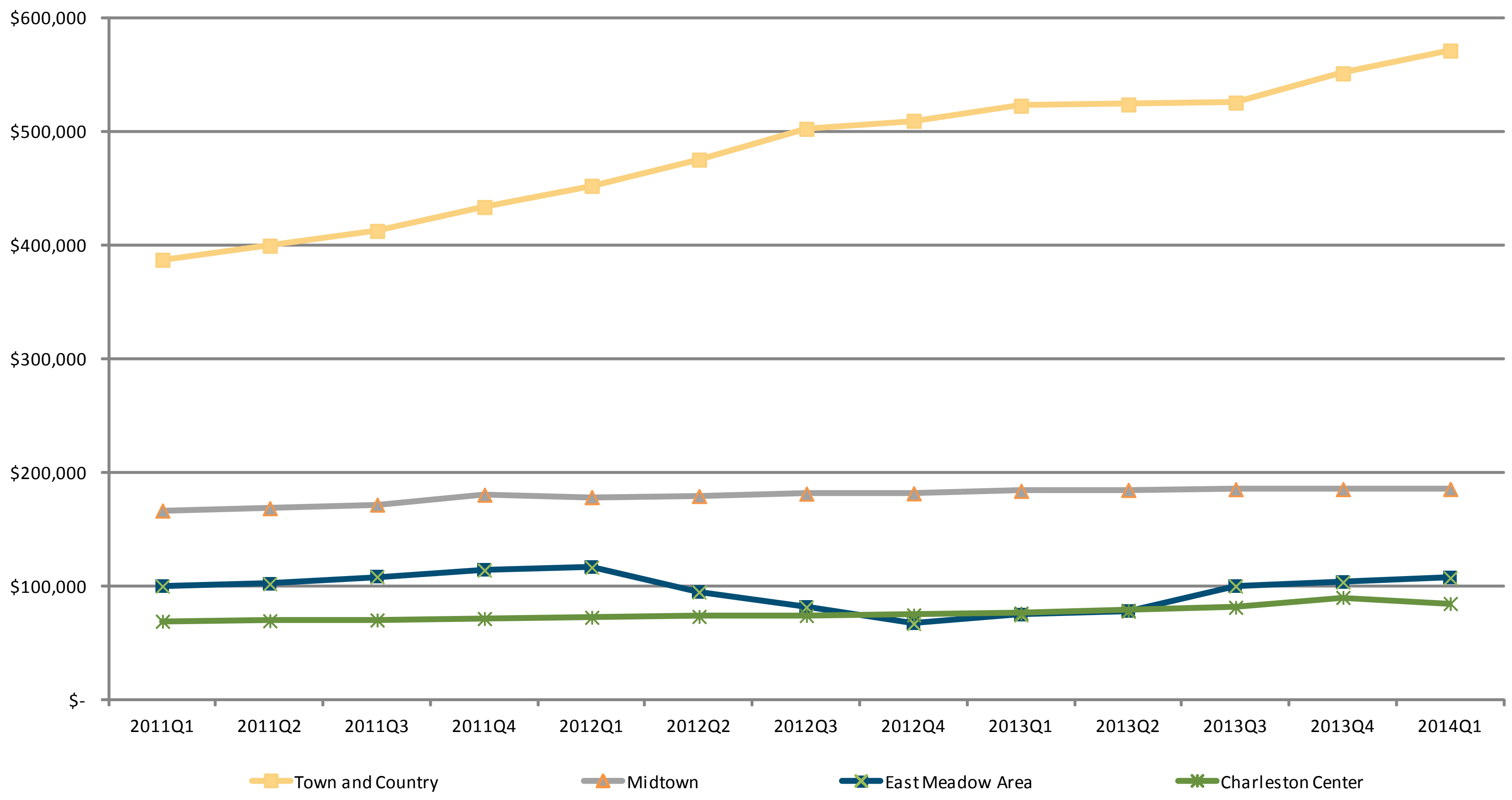
*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

Quarterly Analysis by Economic Category, Total and Segments: Change from 2013Q1 to 2014Q1

	General Retail	Food Products	Construction	Business to Business	Misc/Other	2014/1 Total	2013/1 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	-1.9%	8.6%	-2.0%	17.6%	6.4%	2,089,493	1,997,868	4.6%	Business Services	Restaurants	Furniture/Appliance	Apparel Stores
Cupertino	-4.3%	7.1%	342.8%	6.6%	-5.2%	4,626,508	4,248,874	8.9%	Business Services	Bldg.Matls-Whsle	Electronic Equipment	Office Equipment
Gilroy	-1.2%	5.1%	-1.4%	-1.7%	16.6%	2,856,687	2,744,567	4.1%	Auto Sales - New	Misc. Vehicle Sales	Apparel Stores	Service Stations
Los Altos	-8.3%	-2.8%	34.3%	7.0%	-4.7%	474,697	493,144	-3.7%	Bldg.Matls-Whsle	Apparel Stores	Miscellaneous Retail	Food Markets
Los Gatos	-9.3%	6.6%	17.5%	-13.9%	10.9%	1,588,503	1,605,504	-1.1%	Auto Sales - New	Restaurants	Miscellaneous Retail	Business Services
Milpitas	-14.8%	5.3%	-4.5%	-37.8%	0.7%	3,501,504	4,095,997	-14.5%	Restaurants	Service Stations	Office Equipment	Furniture/Appliance
Morgan Hill	-7.4%	5.3%	3.0%	6.9%	2.5%	1,660,876	1,631,730	1.8%	Electronic Equipment	Misc. Vehicle Sales	Auto Parts/Repair	Recreation Products
Mountain View	-2.0%	10.0%	12.3%	6.2%	2.8%	3,386,482	3,252,430	4.1%	Business Services	Restaurants	Electronic Equipment	Office Equipment
Palo Alto	1.6%	8.8%	83.3%	41.7%	-57.5%	4,905,624	6,157,577	-20.3%	Electronic Equipment	Restaurants	***	Department Stores
San Jose	-1.5%	6.5%	11.0%	5.5%	3.6%	33,213,138	31,885,139	4.2%	Auto Sales - New	Restaurants	Service Stations	Furniture/Appliance
Santa Clara	33.0%	2.8%	5.9%	0.0%	1.6%	9,067,205	8,538,964	6.2%	Office Equipment	Electronic Equipment	Light Industry	Food Processing Eqp
Santa Clara Co.	7.0%	0.1%	32.5%	-8.7%	-11.8%	881,811	856,422	3.0%	Bldg.Matls-Whsle	Miscellaneous Retail	Service Stations	Light Industry
Saratoga	11.0%	0.8%	62.3%	-30.4%	-5.7%	197,066	198,070	-0.5%	Miscellaneous Retail	Food Markets	Service Stations	Office Equipment
Sunnyvale	-3.2%	6.0%	24.2%	0.1%	0.4%	6,399,075	6,267,083	2.1%	Office Equipment	Bldg.Matls-Retail	Light Industry	Electronic Equipment

City of Palo Alto - Selected Geographic Areas of the City
Benchmark Year 1st Quarter 2014

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
Town and Country	386,944	399,378	412,361	433,313	451,982	475,054	502,127	509,180	522,374	523,504	525,116	550,852	570,860
Midtown	166,440	168,537	171,719	180,415	178,344	179,250	181,352	181,654	183,780	184,646	185,301	185,348	185,472
East Meadow Area	100,032	102,028	108,176	114,083	116,558	94,868	81,598	67,124	74,680	77,869	100,045	103,590	107,316
Charleston Center	69,150	69,606	70,301	71,555	72,602	73,408	74,213	74,683	76,315	78,734	81,455	90,116	84,760

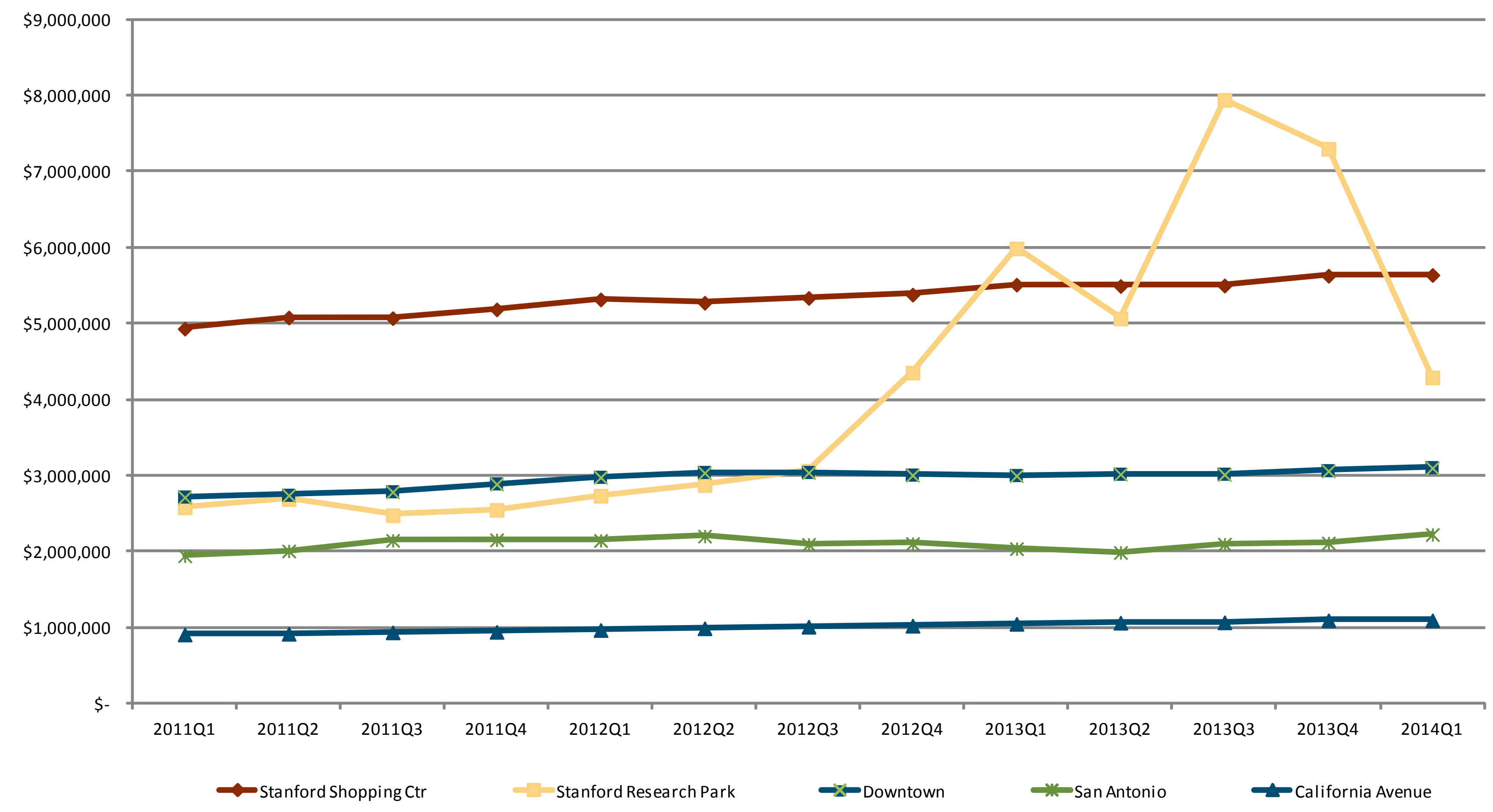


**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2013Q4 BMY is sum of 2013 Q4, Q3, Q2, & Q1)*

City of Palo Alto - Selected Geographic Areas of the City

Benchmark Year 1st Quarter 2014

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
Stanford Shopping Ctr	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	5,647,210
Stanford Research Park	2,589,986	2,700,836	2,487,708	2,557,399	2,744,058	2,884,600	3,073,009	4,362,778	5,995,489	5,075,848	7,949,998	7,307,557	4,299,015
Downtown	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	3,108,592
San Antonio	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	2,234,235
California Avenue	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	1,104,237

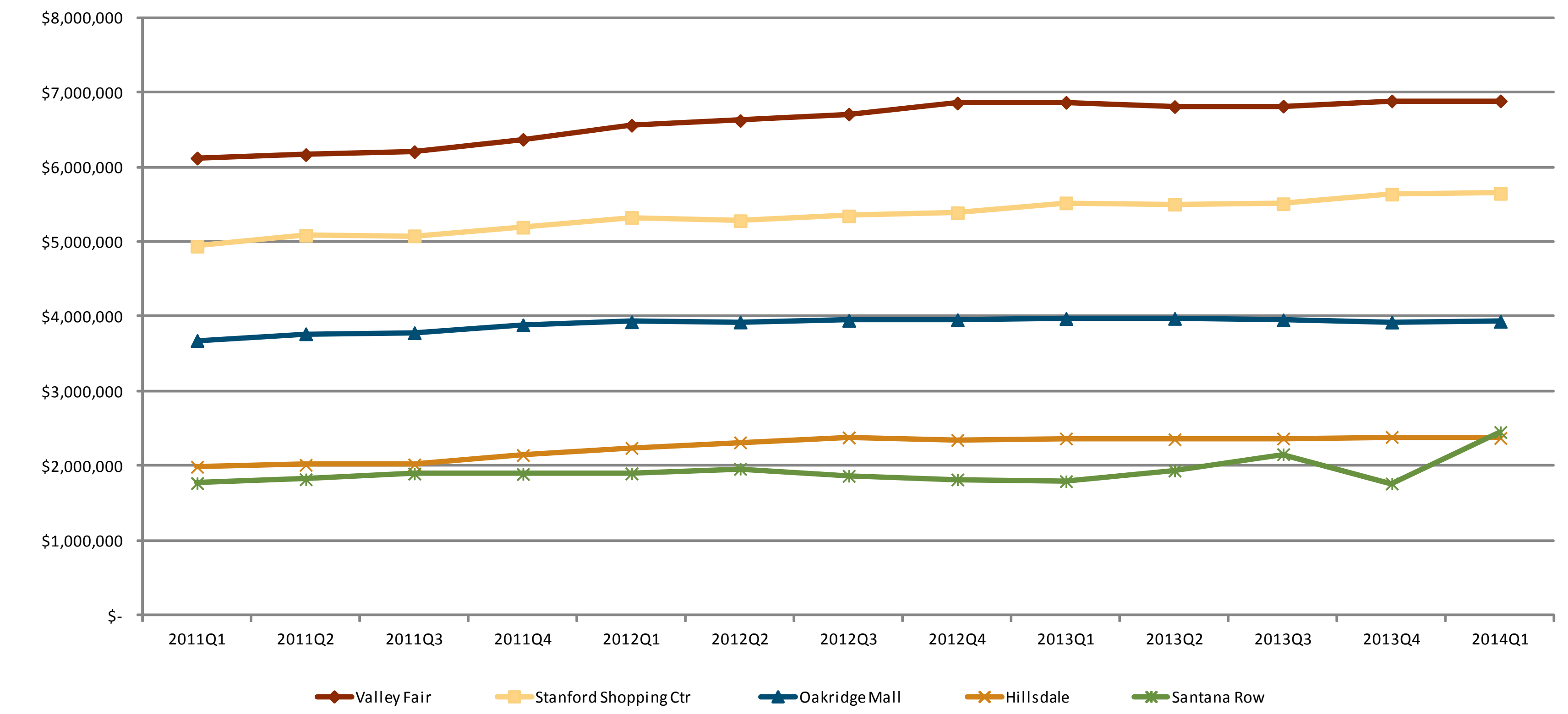


Benchmark year (BMY) is the sum of the current and 3 previous quarters (2014Q1 BMY is sum of 2014 Q1 & 2013 Q4, Q3, Q2)

City of Palo Alto - Regional Shopping Mall Comparison

Benchmark Year 4th Quarter 2013

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
Valley Fair	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	6,885,378
Stanford Shopping Ctr	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	5,647,210
Oakridge Mall	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	3,934,469
Hillsdale	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	2,374,185
Santana Row	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	2,453,638



Benchmark year (BMY) is the sum of the current and 3 previous quarters (2014Q1 BMY is sum of 2014 Q1 & 2013 Q4, Q3, Q2)

Economic Categories and Segments		
Economic Category	**Economic Segment**	**Description**
Business to Business - sales of tangible personal property from one business to another business and the buyer is the end user. Also includes use tax on certain purchases and consumables.	Business Services	Advertising, banking services, copying, printing and mailing services
	Chemical Products	Manufacturers and wholesalers of drugs, chemicals, etc.
	Electronic Equipment	Manufacturers of televisions, sound systems, sophisticated electronics, etc.
	Energy Sales	Bulk fuel sales and fuel distributors and refiners
	Heavy Industry	Heavy machinery and equipment, including heavy vehicles, and manufacturers and wholesalers of textiles and furniture and furnishings
	Leasing	Equipment leasing
	Light Industry	Includes, but is not limited to, light machinery and automobile, truck, and trailer rentals
	Office Equipment	Businesses that sell computers, and office equipment and furniture, and businesses that process motion pictures and film development
Construction	Building Materials – Retail	Building materials, hardware, and paint and wallpaper stores
	Building Materials - Wholesale	Includes, but is not limited to, sheet metal, iron works, sand and gravel, farm equipment, plumbing materials, and electrical wiring
Food Products	Food Markets	Supermarkets, grocery stores, convenience stores, bakeries, delicatessens, health food stores
	Food Processing Equipment	Processing and equipment used in mass food production and packaging
	Liquor stores	Stores that sell alcoholic beverages
	Restaurants	Restaurants, including fast food and those in hotels, and night clubs

Economic Categories and Segments		
Economic Category	**Economic Segment**	**Description**
General Retail – all consumer focused sales, typically brick and mortar stores	Apparel Stores	Men's, women's, and family clothing and shoe stores
	Department Stores	Department, general, and variety stores
	Drug Stores	Stores where medicines and miscellaneous articles are sold
	Florist/Nursery	Stores where flowers and plants are sold
	Furniture/Appliance	Stores where new and used furniture, appliances, and electronic equipment are sold
	Miscellaneous Retail	Includes, but is not limited to, stores that sell cigars, jewelry, beauty supplies, cell phones, and books; newsstands, photography studios; personal service businesses such as salons and cleaners; and vending machines
	Recreation Products	Camera, music, and sporting goods stores
Miscellaneous/Other	Miscellaneous/Other	Includes but not limited to health services, government, nonprofit organizations, non-store retailers, businesses with less than $20,000 in annual gross sales, auctioneer sales, and mortuary services and sales
Transportation	Auto Parts/Repair	Auto parts stores, vehicle and parts manufacturing facilities, and vehicle repair shops
	Auto Sales - New	New car dealerships
	Auto Sales - Used	Used car dealerships
	Miscellaneous Vehicle Sales	Sale and manufacture of airplanes and supplies, boats, motorcycles, all-terrain vehicles, trailers and supplies
	Service stations	Gas stations, not including airport jet fuel

Economic Overview

2Q2014 News

Growth poised for rebound

After harsh winter, signs of recovery in job, consumer data

The U.S. economy took a beating from an especially harsh winter during the January-March quarter, skidding into reverse for the first time in three years. But spring has arrived and along with it, signs that the chill was just a temporary setback in the long road to recovery.

Gross domestic product contracted at an annual rate of 1 percent in the first quarter, the Commerce Department said recently. That was worse than the government's initial estimate that GDP grew by a slight 0.1 percent. The economy last posted a decline in the first three months of 2011 when it dropped 1.3 percent. Since then, the labor market has continued to improve, consumer spending is solid and manufacturers are benefiting from increased spending. Economists expect a robust GDP rebound in the April-June quarter as a result. "We knew that weather dramatically impacted growth in the first quarter, and we fully expect a bounce back in the second quarter," said Dan Greenhaus, chief strategist at BTIG, in a note to clients.

The government released a separate report recently reflecting progress. Applications for unemployment benefits, a proxy for layoffs, fell by 27,000 recently to 300,000. The result is nearly a seven-year low. Ian Shepherdson, chief economist at Pantheon Macroeconomics, said that the big drop in unemployment benefit applications was more significant than the latest GDP figure because "it strongly supports the idea that the labor market conditions are improving markedly, despite the weak headline growth during the winter."

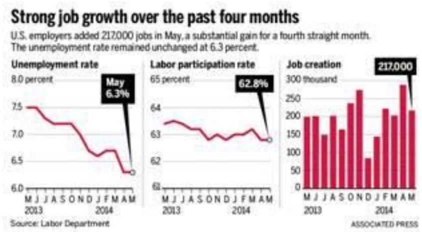
1% Annual rate that GDP contracted in the first quarter of 2014
3.1% Rate that consumer spending grew in the first quarter
7.5% Amount business investment in infrastructure fell in the first quarter

Other analysts noted that consumer spending, which accounts for 70 percent of economic activity, was very strong in the first quarter, growing at an upwardly revised 3.1 percent annual rate. A report earlier this week showed that consumer confidence is climbing, with nearly one-fifth of Americans expecting their incomes to grow over the next six months. And earlier this month, the Institute for Supply Management said that manufacturing grew faster in April than March as exports picked up and factories accelerated their hiring.

The release recently was the government's second look at first quarter GDP, the country's total output of goods and services. The data primarily reflected a sharp slowdown in businesses stockpiling, which subtracted 1.6 percentage points from growth, a full percentage point more than the initial estimate. Analysts noted that the weaker inventory figure would likely translate into more restocking and stronger growth in the second quarter.

Job growth in May stays on track

Economy has recovered all jobs lost to recession



For the first time since 1999, American employers have added more than 200,000 jobs a month for four straight months, offering more evidence that the U.S. economy is steadily growing while much of Europe and Asia struggle.

Last month's gain of 217,000 jobs means the economy has finally recovered all the jobs lost to the Great Recession. And it coincides with indications that American consumers have grown more confident. Auto sales have surged. Manufacturers and service companies are expanding. "I don't think we have a boom, but we have a good economy growing at about 3 percent," said John Silvia, chief economist at Wells Fargo. "We're pulling away from the rest of the world."

Still, the report from the Labor Department showed that pay remains subpar for many workers, millions who want full-time work are still stuck in part-time jobs and the number of people out of work for more than six months remains historically high. Monthly job growth has averaged 234,000 for the past three months, up sharply from 150,000 in the previous three. The unemployment rate, which is derived from a separate survey, matched April's 6.3 percent.

Although the economy has regained the nearly 9 million jobs lost to the recession, more hiring is needed, because the working-age U.S. population has grown nearly 7 percent since the recession began. Economists at the liberal Economic Policy Institute estimate that 7 million more jobs would have been needed to keep up with population growth. In addition, average wages have grown only about 2 percent a year since the recession ended, well below the long-run average annual growth of about 3.5 percent.

Unemployment has fallen from a 10 percent peak in 2009 partly for an unfortunate reason: Fewer people are working or seeking work. The percentage of adults who either have a job or are looking for one remained at a 35-year low in May. The solid U.S. hiring gains in May might be expected to lower the unemployment rate. But the two figures come from separate surveys. The job gains are derived from a survey of businesses, the unemployment rate from a survey of households. The two surveys sometimes diverge but usually paint a similar picture over time. For May, the survey of businesses found a bigger job gain than the survey of households did. There are still 2.9 million fewer people working in full-time jobs than when the recession began. And nearly 2.5 million more are working in part-time positions.

Retail Sales Trends

Report says U.S. retail sales topped $4.5 trillion in 2013, outpaced GDP growth

Total retail sales In the U.S. topped $4.53 trillion in 2013, and e-commerce accounted for a significant portion of that growth, up 16.9 percent in 2013 - Or nearly $40 billion - according to new figures from eMarketer.

According to the company, this is eMarketer's first-ever benchmark of total retail and retail store sales, which are based on a multimodel analysis of 169 data points that eMarketer gathered from 47 research firms and government institutions. The forecast separates retail e-commerce sales - including all purchases made on desktop and laptop computers, tablets and mobile phones - and non e-commerce sales, which mostly comprise brick-and-mortar retail purchases.

Retail growth is a reflection of what's happening in the broader economy, which is gaining momentum. The Dow Jones Industrial Average reached a new high early in 2014, and consumer confidence, as measured by The Conference Board's Consumer Confidence Index, rose in February after three months of decline. Total retail sales are leading economic growth, increasing 4.2 percent in 2013, according to eMarketer's forecast, which projects total retail sales to accelerate further in 2014, increasing 4.4 percent to reach $4.732 trillion this year.

In 2013, retail represented 27.0 percent of nominal U.S. gross domestic product (GDP), up from 26.8 percent in 2012, comparing eMarketer figures against GDP figures from the U.S. Department of Commerce. That share has been increasing consistently since a drop-off in 2009, when consumer confidence was at a low after the recession.

While brick-and-mortar sales still command a vast majority of the retail market - nearly $4.27 trillion in 2013 - e-commerce sales are increasing much faster, contributing significantly to retail's overall growth throughout the forecast period. eMarketer estimates that U.S. retail e-commerce sales will increase 15.5percent in 2014 to reach $304.1 billion, up from $263.3 billion in 2013. E-commerce growth will represent more than 20 percent of this year's increase in total retail sales. E-commerce still represents a small portion of overall retail sales - a mere 5.8 percent last year. However, e-commerce will continue to increase in the double digits year over year to bring its share of overall retail to almost 9 percent by the end of the forecast period.

Mobile retail sales are on a rapid rise as well, steadily gaining share of overall e-commerce. In 2013, retail m-commerce - which includes products and services ordered on mobile devices, including tablets - increased 70.0 percent to reach $42.13 billion. eMarketer estimates that in 2014, that figure will increase another 37.2 percent to total $57.79 billion, or about one-fifth of all retail e-commerce sales and 1.2 percent of total retail sales. In 2014, tablet sales will account for nearly two-thirds of m-commerce sales, eMarketer predicts, increasing to nearly 75 percent of all mobile retail sales by the end of the forecast period.

Amazon Study: Customers May Look Elsewhere When Sales Tax Advantage Ends

Removing Amazon.com's sales tax advantage decreased sales for the online retailer by 9.5 percent, a study of the buying habits of thousands of households has revealed.

The study, "The 'Amazon Tax': Empirical Evidence from Amazon and Main Street Retailers," was conducted by researchers at the Ohio State University's Fisher College of Business. Its findings might be expected to lend credence to proponents of the federal Marketplace Fairness Act (MFA) of 2013 (S. 7430 and H.R. 684), who have long argued that not Collecting a sales tax creates an advantage for online retailers, harming brick-and-mortar operations. However, the study found that the beneficiaries of removing the tax advantage were largely other online retailers.

NetChoice Executive Director Steve DelBianco said the report shows that collecting a sales tax from Amazon is of little benefit to Main Street stores and instead helps big-box retailers. "This report doesn't support the claim that MFA would help main street stores, since all the action is Amazon versus the stores and websites of the big-box chains," he told Tax Analysts. "MFA does not foster fairness, since it creates unfair collection and audit burdens for small businesses that struggle to compete with Amazon and big-box chains. NetChoice recently proposed a better way than MFA, by treating online and brick-and-mortar stores exactly the same."

Former U.S. Rep. Christopher Cox, who testified for NetChoice before the House Judiciary Committee, said the debate in Congress "has moved beyond the simple question of whether it is desirable for states to have the option of taxing online retail, to the much more difficult question of finding a workable mechanism of doing so." He said that while the study doesn't address that issue, it shows that brick-and-mortar stores don't benefit much.

"According to the study, consumers fleeing the Amazon tax moved almost entirely to other online sellers operated by big-box stores, not to Main Street retailers," he said, adding that the study found that in Virginia brick-and-mortar sales fell by 3.7 percent following the introduction of the "Amazon" tax.

The researchers - Brian Baugh, Itzhak Ben-David, and Hoonsuk Park - looked at transaction data for 1.4 million households. The study focused on five states (California, New Jersey, Pennsylvania, Texas, and Virginia) that began collecting sales taxes on Amazon purchases in 2012 and 2013. More than 500,000 of the households providing the data were located in those five states.

The study found an even steeper drop in larger purchases. Amazon customers' purchases of over $300 fell by 23.8 percent after states began collecting the sales tax, according to the study. "If you're going to make a big-ticket purchase like a big-screen TV or a laptop, there are currently huge incentives to go online to avoid the sales tax," Baugh, a doctoral student, said in a press release. ''These incentives are much stronger for large purchases than for small purchases, and our findings confirm that large purchases are indeed more sensitive to the introduction of this tax."

Park, also a doctoral student, added that when the sales tax advantage disappeared, buyers were "more likely to find another online retailer where you don't have to pay the tax or go to a local store where you can see the product and return it easier." “The results suggest that broader and more consistently applied sales tax collection [on] online purchases, such as those suggested by the Marketplace Fairness Act of 2013, will lead to an increase in the online sales of national retailers while only modestly increasing local brick-and-mortar revenues," the researchers concluded.

The MFA would authorize states to enforce state and local sales and use tax laws on remote online sales as long as they simplify sales and use tax administration and collection, and include an exemption for remote sellers that make less than $1 million a year nationwide. States would be required to provide free software to remote sellers that not only calculates sales and use taxes at the time of sale, but also files sales and use tax returns. The U.S. Senate approved S. 743 in May 2013. The U.S. House recently held a hearing on the issue and is working on a substitute bill.

The study notes that Amazon, which has been opening warehouses and other facilities throughout the country, now collects sales taxes in 19 states that make up more than half of the U.S. population. It also examined whether other retailers benefited when Amazon began collecting a sales tax. The study looked at sales at competing retailers, including Wal-Mart Stores Inc., Target Corp., Costco Wholesale Corp., Home Depot Inc., Lowe's, Sears Holdings Corp., Best Buy, Macy's, Apple Inc., T.J. Maxx, Kohl's,
and True Value Co.

The study found "a positive and statistically significant substitution effect corresponding to a 3.4 percent increase in sales of competing retailers following implementation of the Amazon Tax." The greatest effects were in Texas, which registered a 6.5 percent increase, and California, with a 3.5 percent increase.

Those competing retailers, which were already collecting a sales tax because of a physical presence in the states, saw a 19.8 percent increase in online sales. However, the study found that the brick-and mortar operations of the retailers had just a 2 percent increase in sales. These results "suggest the gains to leveling the playing field are primarily garnered by the online operations of retailers," the study says.

The biggest beneficiary was Amazon Marketplace, a collection of merchants that sell on Amazon's website but do not collect sales taxes. Those sellers saw an increase of 15.2 percent in sales and a 60.5 percent increase in larger purchases.

RETAIL TRENDS

Best Buy planning 'enclosed mini-malls'

Best Buy Co. Inc. said recently that it plans a massive expansion of its "store-within-a-store" concept, with Sony opening stores in 350 Best Buy locations and Samsung adding 500 new stores to its presence within Best Buy.

The Richfield, Minn.-based retailer has been aggressively trying to remake the way it sells products, carving out space for individual brands in its big boxes in efforts to once again become a go-to destination for consumer electronics. By June, Sony, Samsung, Microsoft, Pacific Kitchen and Magnolia will each occupy its own domain within Best Buy. "I think Best Buy is brilliant in following this strategy, and coexisting on the same distribution platform with other strong brands," said Robin Lewis, CEO of the Robin Report, a newsletter that tracks retail companies. "That big box becomes kind of an enclosed mini-mall."

Samsung already sells phones, tablets, and other small tech gear at its Samsung Experience shops within all 1,000 Best Buy locations across the country. The 500 new dedicated Samsung areas will be separate and showcase the South Korean electronics giant's latest televisions, including its line of curved ultra-high-definition TVs. The company is the world's top maker of both TVs and cellphones by units.

Sony's 350 new locations within Best Buy, which it is calling the "Sony Experience at Best Buy," also will highlight home entertainment products, as well as audio equipment and PlayStations. The Japanese electronics company is the world's fourth-largest seller of TVs after Samsung, LG Electronics and TCLThe new stores will start opening within Best Buy locations this month; all should be launched by July.

Research suggests that stores-within-a-store do more than just occupy space. A study by marketing professors at the University of Pennsylvania and Carnegie Mellon University found that the concept can boost sales of high-value products that require a degree of service that can't easily be found elsewhere in the store. Despite a disappointing holiday season, Best Buy has stabilized sales and increased its fourth-quarter online revenue by 25 percent.

AUTO TRENDS

Lightweight vehicles are wave of the future

Carmakers look to shed hundreds of pounds to get to 45mpg by 2025

Roofs made of carbon fiber. Plastic windshields. Bumpers fashioned out of aluminum foam. What sounds like a science experiment could be your next car. While hybrids and electrics may grab the headlines, the real frontier in fuel economy is the switch to lighter materials.

Automakers have been experimenting for decades with lightweighting, as the practice is known, but the effort is gaining urgency with the adoption of tougher gas mileage standards. To meet the government's goal of nearly doubling average fuel economy to 45 mpg by 2025, cars need to lose some serious pounds.

Lighter doesn't mean less safe. Cars with new materials are already acing government crash tests. Around 30 percent of new vehicles already have hoods made of aluminum, which can absorb the same amount of impact as steel. Some car companies are teaming up with airplane makers, which have years of crash simulation data for lightweight materials.

Ford gave a glimpse of the future recently with a lightweight Fusion car. The prototype, developed with the U.S. Department of Energy, is about 800 pounds lighter than a typical Fusion thanks to dozens of changes in parts and materials. The instrument panel consists of a carbon fiber and nylon composite instead of steel. The rear window is made from the same tough but thin plastic that covers your cell phone.

The car has aluminum brake rotors that are 39 percent lighter than cast iron ones and carbon fiber wheels that weigh 42 percent less than aluminum ones. Because it's lighter, the prototype can use the same small engine as Ford's subcompact Fiesta, which gets an estimated 45 mpg on the highway.

The car won't be in dealerships anytime soon. For one thing, it's prohibitively expensive. Its seats, for example, cost up to $73 a piece because they have carbon fiber frames. The same seats with steel frames are $12. Still, prototypes are helping Ford and other companies figure out the ideal mix of materials. "These are the technologies that will creep into vehicles in the next three to five years," said Matt Zaluzec, Ford's technical leader for materials and manufacturing research.

Some vehicles have already made a lightweight leap. Land Rover's 2013 Range Rover, which went on sale last year, dropped around 700 pounds with its all-aluminum body, while the new Acura MDX shed 275 pounds thanks to increased use of high-strength steel, aluminum and magnesium.

Ford has unveiled an aluminum-body 2015 F-150 pickup, which shaves up to 700 pounds off the current version. The truck goes on sale later this year. The average vehicle has gained more than 800 pounds over the last 12 years and now tops out at just over 3,900 pounds, according to government data. Not only have cars gotten bigger, but safety features like air bags and more crash-resistant frames have also added weight. General Motors' Chevrolet Volt electric car has to drag around a 400-pound battery.

Morgan Stanley estimates than shaving 110 pounds off each of the 1 billion cars on the world's roads could save $40 billion in fuel each year.

JUNE AUTO SALES

US VEHICLE SALES UNEXPECTEDLY ACCELERATE TO 16.9 MILLION

Vehicle sales hit an annualized rate of 16.98 million units in June, reports Wards Auto's John Sousanis.

Bloomberg is reporting a pace of 16.92 million.

Both numbers were much stronger than analysts' expectations for sales to slip to 16.38 million, down from 16.7 million in May. General Motors saw its U.S. auto sales rise 1% in June, despite what seemed to be an endless stream of negative headlines regarding product recalls. Analysts' had been forecasting a 6.3% drop in GM sales.

“June was the third very strong month in a row for GM, with every brand up on a selling-day adjusted basis,” said GM VP Kurt McNeil. “In fact, the first half of the year was our best retail sales performance since 2008, driven by an outstanding second quarter.”

This follows better-than-expected results from the rest of the Detroit 3. Chrysler saw its June U.S. auto sales jump 9.2%, beating expectations for a 5.9% gain. This is the company's 51st straight month of growth.

Ford sales fell 5.8%. However, this wasn't as bad as the 6.3% drop expected. Throughout the day, the world's big auto makers will be announcing their June sales results.

Here's our tally:

- **Chrysler**: +9.2% (+5.9% Estimated)
- **GM**: +1% (-6.3% Est.)
- **Ford**: -5.8% (-6.6% Est.)
- **Toyota**: +3.3% (+3.5% Est.)
- **Nissan**: +5.3% (+3% Est.)
- **Honda**: -5.8% (-5.8% Est.)
- **Hyundai**: +4%
- **Subaru**: +5%
- **Mitsubishi**: +13.7%
- **Mercedes-Benz**: +8.2%
- **Audi**: +23.1%
- **Porsche**: +11%

RISING MORTGAGE RATES STILL A DAMPER

U.S. housing sales bouncing back

Previously owned homes sell at best pace in May in nearly three years

Sales of previously owned U.S. homes posted the best monthly gain in nearly three years in May, providing hope that housing is beginning to regain momentum lost over the past year.

The National Association of Realtors reported Monday that sales of existing homes increased 4.9 percent last month to a seasonally adjusted annual rate of 4.89 million homes. The monthly gain was the fastest since August 2011, but even with the increase, sales are still 5 percent below the pace in May 2013.

"Sales appear to be moving up again, although the increase to date — over two months — reverses just a fraction of earlier weakening," Jim O'Sullivan, chief U.S. economist at High Frequency Economics, said in a research note. Sales had been dampened by last year's rise in mortgage rates from historic lows and various other factors including tight supplies and tougher lending standards. The median price of a home sold in May was $213,400, up 5.1 percent from a year ago.

By region of the country, sales were up the most in May in the Midwest, an 8.7 percent gain which likely reflected further catch-up from the severe winter. Sales rose 5.7 percent in the South and 3.3 percent in the Northeast but showed only a slight 0.9 percent increase in the West.

The number of first-time buyers remained stuck near record lows at just 27 percent of sales in May, down from 29 percent in April. Analysts expressed concerns about the scarcity of first-time buyers, who historically have made up around 40 percent of the market. "The existing home sales market can only retain its strength for so long if move-up buyers cannot find a first-time buyer to purchase their starter homes," said Stephanie Karol, an economist at Global Insight.

The level of distressed sales — either foreclosures or short-sales in which the homeowner has to sell for less than the value of the mortgage — declined to 11 percent of all sales in May, an improvement from 18 percent of all sales a year ago. After hitting a recent peak of 5.38 million sales at an annual rate last July, sales started sliding. Potential buyers have been grappling with a limited supply of houses, more expensive homes and lending standards which have been tightened in response to the housing boom of the past decade which resulted in millions of houses going into foreclosure.

Five years into the recovery from a deep recession that was triggered in part by the collapse in housing, housing sales have yet to return to their historic averages. Demand remains strong for the most expensive homes but has faltered for starter homes and those priced for middle class buyers. The pace of home sales is below the 5.1 million homes sold in 2013 and off the pace of 5.5 million annual sales that would be consistent with a healthy housing market.

Lawrence Yun, chief economist for the Realtors, said because of the weaker start to sales this year, he expects that sales for the entire year will be down 3.1 percent this year to 4.9 million, compared with 5.1 million sales of existing homes in 2013, which had been a 9.2 percent rise from 2012. Yun said he was predicting a stronger second half for sales this year but he said that would not be enough to compensate for the weakness at the start of this year, a slowdown that reflected in part a harsh winter.

BAY AREA COUNCIL POLL

Upbeat outlook for the region

Survey: 50% of residents expect economy to improve in 6 months

More than half of Bay Area residence said the region's economy is better today than it was six months ago, and half say it will be even better six months from now, according to a Bay Area Council 2014 poll released recently. The poll suggests that the Bay Area's surge in employment, powered by a technology boom in Santa Clara County, the Peninsula and San Francisco, has created an optimistic outlook among residents about economic conditions in the region.

"Bay Area residents are feeling generally upbeat about the region and the economy," Jim Wunderman, president and CEO of the Bay Area Council, said in a prepared release. "But there are serious issues lurking that we can't ignore." In concert with other surveys, the poll found that the three biggest issues facing the Bay Area, according to poll respondents, are: the cost of living, housing costs, and crime.

"Housing is usually the biggest expenditure that people have, and home and rent prices are rising quickly," said Scott Anderson, chief economist with San Francisco-based Bank of the West. "This is a real cause of concern for some people."

'A better mood'

The Bay Area Council poll found that 53 percent of Bay Area residents believe the economy of the nine-county region is better today than it was six months ago. "People are getting jobs, incomes are rising, people are in a better mood, people feel richer," said Anderson. "You also have rising home prices, so that adds to the optimism."

The poll also found that 50 percent of Bay Area residents believe the region's economy will be better in six months than it is today. The council's online poll obtained the views of 1,018 residents who were surveyed from April 8 through April 15, and has a margin of error of 3 percent. "This shows consumer confidence is strong in the Bay Area," said Stephen Levy, director of the Palo Alto-based Center for Continuing Study of the California Economy. "People are bullish. They are going to go out and buy a home or a car, go shopping, go to restaurants."

Regions with a high concentration of technology workers tended to have the most favorable views regarding the current strength of the Bay Area economy, the poll found. Regions hardest hit by the housing meltdown tended to be less bullish about the economy of the region.

Continued optimism

The Bay Area economy is better today than it was six months ago, according to 58 percent of Santa Clara County residents, 57 percent of San Mateo County residents, and 57 percent of San Francisco residents, according to the poll.

An estimated 55 percent of Contra Costa County residents believe the economy in the nine-county region has improved over the last six months, while just 46 percent of Alameda County residents hold that view.

The survey found that 51 percent of residents in the region believe California is on the right track, while 31 percent believe the state is on the wrong track. The poll determined that 57 percent of residents in the nine-county region believe the Bay Area is on the right track, and 27 percent say the Bay Area is on the wrong track.

The strength of the job market could fuel continued optimism. Case in point: Santa Clara County's job market expanded at an annual rate of 4.3 percent over the 12 months that ended in April, which is expected to make the South Bay the fastest-growing job market in the nation."The upturn in the Bay Area has legs and it's going to stay that way," Levy said.

JOBLESS RATE BELOW 5%

East Bay driving job gains as pace of expansion slows

The Bay Area added 6,500 jobs in May, powered mainly by gains in the East Bay, which offset modest job losses in Santa Clara County and the San Francisco area, the state announced recently. And unemployment rates in the Bay Area improved to their best levels in about six years, according to a Beacon Economics analysis of figures issued by the state Employment Development Department. Jobless rates in the region are now below 6 percent for the first time since mid-2008.

But the pace of job growth in the Bay Area has begun to slow. During the first five months of 2014, the Bay Area added 32,700 jobs, well below the 50,800 jobs created in the first five months of 2013.

"You are seeing a real slowdown in job creation in areas that were rolling along last year, Santa Clara County and San Francisco," said Scott Anderson, chief economist with Bank of the West.

Santa Clara County added 8,400 jobs in the first five months of 2014, down from the year-ago five-month total of 16,300, while the San Francisco-San Mateo-Marin metro area gained 6,000 jobs over the first five months of this year, down from 16,000 in the first five months of 2013. The East Bay has added 13,300 jobs this year, unchanged from a year ago.

In May, the East Bay gained 8,700 jobs, while the South Bay lost 900 and the San Francisco-San Mateo-Marin area shed 1,600, the EDD reported. The numbers were adjusted for seasonal variations.

More sluggish growth is to be expected as the jobs rebound matures. And it may be difficult to hire employees if they are unable to find places to live in the Bay Area due to the rise in home prices.

"As the Bay Area achieves full employment and we see physical constraints like housing, the rate of growth will slow down," said Jeffrey Michael, director of the Stockton-based Business Forecasting Center at University of the Pacific.

In May, the East Bay jobless rate was 5.9 percent, down from 6.3 percent in April, the South Bay posted a jobless rate of 5.5 percent, down from 5.8 percent in April, and the San Francisco-San Mateo-Marin area had a 4.4 percent jobless rate, down from 4.6 percent in April, according to seasonally adjusted figures from the EDD that were analyzed by Beacon. "We see some real improvement in the unemployment rate in the Bay Area," said Jordan Levine, an economist and director of research with Beacon. "The jobless rate is coming down for solid reasons."

The improvement in the jobless rates in the Bay Area as a whole resulted from more residents finding employment rather than an increase in the number of people leaving the labor force, the EDD report showed. "Overall, I'm pretty optimistic and sanguine about the Bay Area job market," said Jon Levine, chief economist with Marin Economic Consulting. "But there is a decided slowing in Santa Clara County and San Francisco, although the East Bay may be picking up some of the slack."

California added 18,300 jobs and the statewide jobless rate improved to 7.6 percent in May, lower than the 7.8 percent April rate. The job market for the tech sector, whose components include professional, scientific and technical services, the information industry and durable goods manufacturing, was generally flat in the Bay Area during May. But analysts believe that sector will perk up. "Corporate profits are still high and capacity utilization is favorable," Levine said. "That suggests more investments will occur in equipment, software, business services. That bodes well for tech."

Analysts also pointed to the annual job growth rates in the Bay Area as a sign the Bay Area still compares favorably with the state and the nation. Over the 12 months that ended in May, total jobs grew at a yearly pace of 3.6 percent in Santa Clara County, 2.6 percent in the San Francisco metro area, 2.3 percent in the East Bay and California, and 1.7 percent in the United States, state and federal statistics show. "This will continue," Anderson said. "The Bay Area and Santa Clara County will outperform the nation and the state."

UCLA Anderson School Forecast

California job growth beats rest of U.S., UCLA Anderson Forecast says

Job growth in much of California has outpaced the national average over the last year, signaling a continued economic rebound for the state in the coming years, according to the quarterly UCLA Anderson Forecast released Thursday [06/12/14].

Economists with UCLA's Anderson School of Management found that Silicon Valley had the highest rate of job growth in the state during the last year, at 4% — more than double the national average. Employment numbers in Los Angeles, the Inland Empire, Ventura County and Orange County also outperformed the national average, according to the analysis.

Employment numbers in the Inland Empire and Los Angeles are still below the pre-recession peak, while San Francisco, Silicon Valley and San Diego have regained the job losses in the wake of the foreclosure crisis. The East Bay, the San Joaquin Valley and counties near the Oregon border were the only regions that experienced job growth slower than the U.S. average.

"California really is bucking the trend of what's happening in the rest of the U.S.," said Jerry Nickelsburg, a senior economist with the UCLA Anderson Forecast who focuses on state economic trends.

UCLA economists also projected a continuing decline in California's unemployment rate over the next two years, dropping from an average of 7.7% this year to 5.9% in 2016. Those rates are still expected to be higher than the national average, but Nickelsburg pointed to data showing continued growth in California's labor force. Unemployment rates can be imprecise statistics because the numbers do not reflect workers who have dropped out of the labor force and given up on finding work.

Data showing a growing labor force in California, along with higher employment numbers, indicate a strengthening economy, Nickelsburg said. "The whole reason you talk about discouraged workers is that people drop out of the labor force to do something else, because the markets aren't providing them with good enough options," he said. "We have just the opposite. We have people coming into the labor force —hundreds of thousands of them since the recession."

Sources:
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