



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

January 4, 2016

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Second Quarter Sales (April - June 2015)

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 News (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Office of the City Auditor

Sales Tax Digest Summary – Second Quarter Sales (April – June 2015)

Informational Report to the City Council

BACKGROUND

Sales and use tax represents about \$26 million, or 15 percent, of projected General Fund revenue in the City's Adopted Operating Budget for fiscal year 2015. This revenue includes sales and use tax for the City of Palo Alto and pool allocations from the state and Santa Clara County.¹ The Midyear Financial Report shows that projected sales and use tax revenue increased to an estimated \$29.2 million for fiscal year 2015. The \$29.2 million includes an additional two months (i.e., 14 months) of revenue accruals. This is a one-time adjustment resulting from changes in the Government Accounting Standards Board's rules regarding the timing for recognizing revenue. Fiscal year 2016 will reflect 12 months of sales and use tax receipts.

We contract with MuniServices LLC (MuniServices) for sales and use tax recovery services and informational reports. We use 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 that the City receives identified revenues. We include sales and use tax recovery information 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. Therefore, 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 required confidentiality of taxpayer information.

We share the information provided by MuniServices with the Administrative Services Department (ASD) for use in revenue forecasting and budgeting and with Economic Development for business outreach strategies. We coordinated this informational report with them.

DISCUSSION

MuniServices prepared the attached report (Attachment B) covering calendar year 2015 second quarter sales (April through June 2015). These funds are reported as part of the City's fiscal year 2016 revenue. In December, ASD should receive information from the state on aggregate sales and use tax receipts for the third quarter of 2015.

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

- Palo Alto's overall sales and use tax revenue (cash receipts) for the second quarter of 2015 increased by approximately \$334,000, or 5.3 percent, including pool allocations, compared to the second quarter of 2014. For all Santa Clara County jurisdictions, sales and use tax revenue for the second quarter of 2015 increased by \$3.8 million, or 3.9 percent, compared to the second quarter of 2014.

¹ See definitions on page 3.

- Statewide, almost every region in California experienced an increase in sales and use tax revenue for the year ending in June 2015, with a one-year statewide increase of 4.3 percent.
- Palo Alto’s sales and use tax revenue totaled \$26.0 million for the year ending in June 2015, an increase of 1.7 percent from \$25.6 million during the prior one-year period.
- Excluding pool allocations and adjusting for prior-period and late payments, Palo Alto’s sales and use tax revenue for the second quarter of 2015 increased by 0.5 percent compared to the second quarter of 2014 and decreased by 0.3 percent compared to the prior year.

More detailed information is shown in Attachment B.

Economic Influences on Sales and Use Tax

In its Economic News & Trends (Attachment C), MuniServices discusses economic influences, including national and state economic trends, employment, and auto and retail sales, that may affect the City’s sales and use tax revenue.

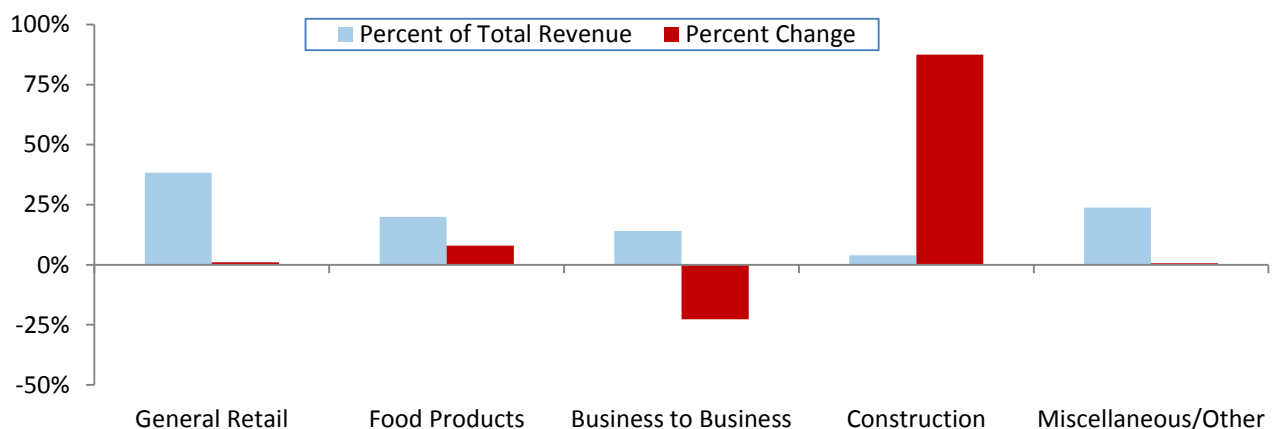
Preliminary estimates from the California Employment Development Department show that the September 2015 unemployment rate, which is not seasonally adjusted, is 3.7 percent in Santa Clara County and 2.5 percent in Palo Alto.

Economic Category Analysis

MuniServices’ analysis of economic categories for the year ending June 2015 shows:

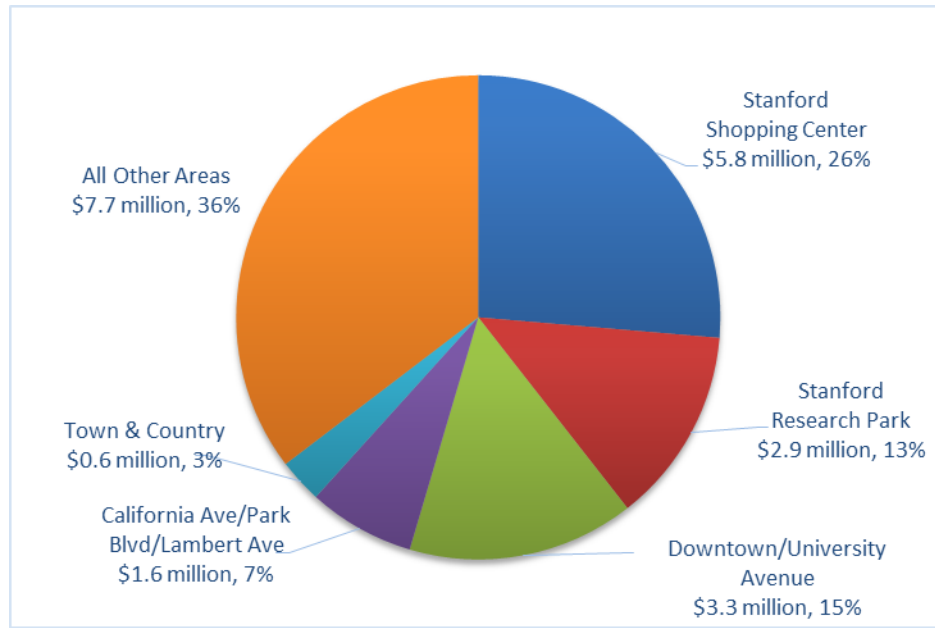
- General retail comprised 38.3 percent of Palo Alto’s sales and use tax revenue, a 1.0 percent increase compared to the prior year.
- Food products comprised 20.0 percent of total revenues, a 7.9 percent increase.
- Construction comprised 4.0 percent of total revenues, an 87.4 percent increase.
- Business-to-business comprised 14.1 percent of total revenues, a 22.7 percent decrease.
- Miscellaneous/Other comprised 23.8 percent of total revenues, a 0.6 percent increase.

Exhibit 1 - Comparison of Palo Alto’s Sales and Use Tax Revenue and Percent Change by Economic Category for the Year Ending June 2015



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 June 2015
(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 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
City Auditor

Sources: MuniServices
California State Board of Equalization
California Employment Development Department
City of Palo Alto Fiscal Year 2015 Adopted Operating Budget

Audit staff: Lisa Wehara

City of Palo Alto

Sales Tax Digest Summary

Collections through September 2015

Sales through June 2015 (2015Q2)

California Overview

The percent change in cash receipts from the prior year was 4.3% statewide, 4.2% in Northern California and 4.3% 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 2nd Quarter 2015 by 2.9% statewide, 2.7% in Southern California and 3.2% in Northern California.

City of Palo Alto

For the year ended 2nd Quarter 2015, sales tax cash receipts for the City increased by 1.6% from the prior year. On a quarterly basis, sales tax revenues increased by 5.3% from 2nd Quarter 2014 to 2nd Quarter 2015. 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 decreased by -0.3% for the year ended 2nd Quarter 2015 from the prior year. On a quarterly basis, sales tax activity increased by 0.5% in 2nd Quarter 2015 compared to 2nd Quarter 2014.

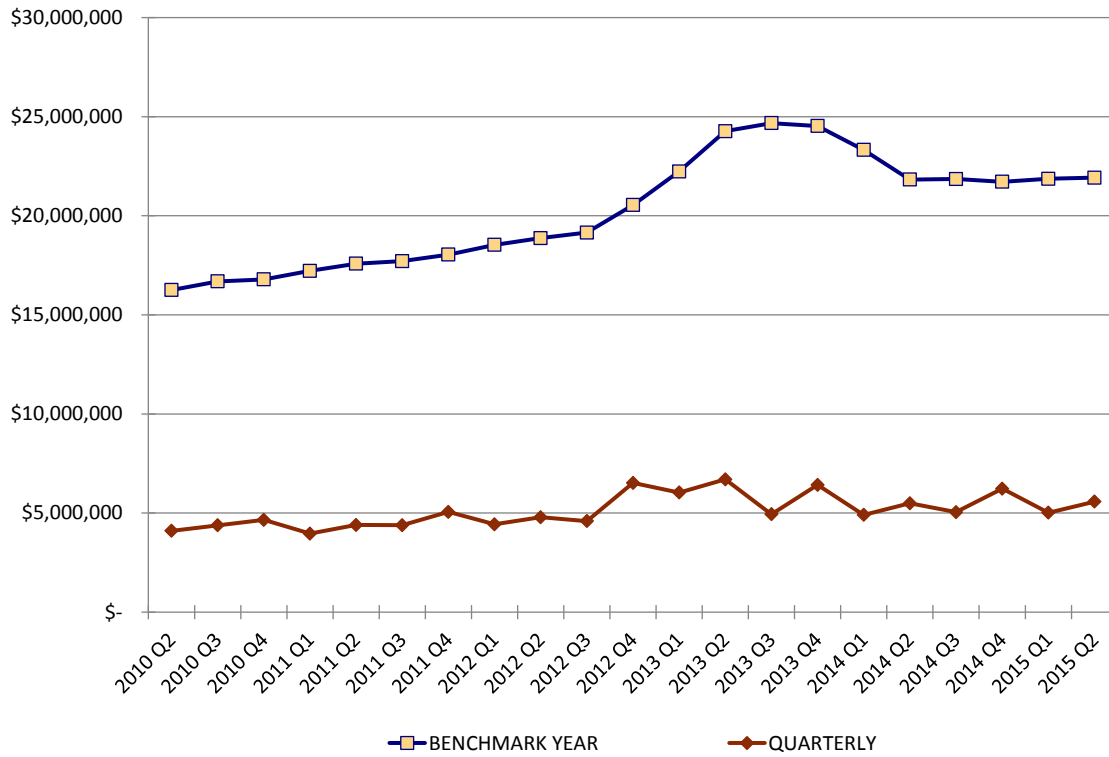
Regional Overview

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

CITY OF PALO ALTO
BENCHMARK YEAR 2015Q2 COMPARED TO BENCHMARK YEAR 2014Q2

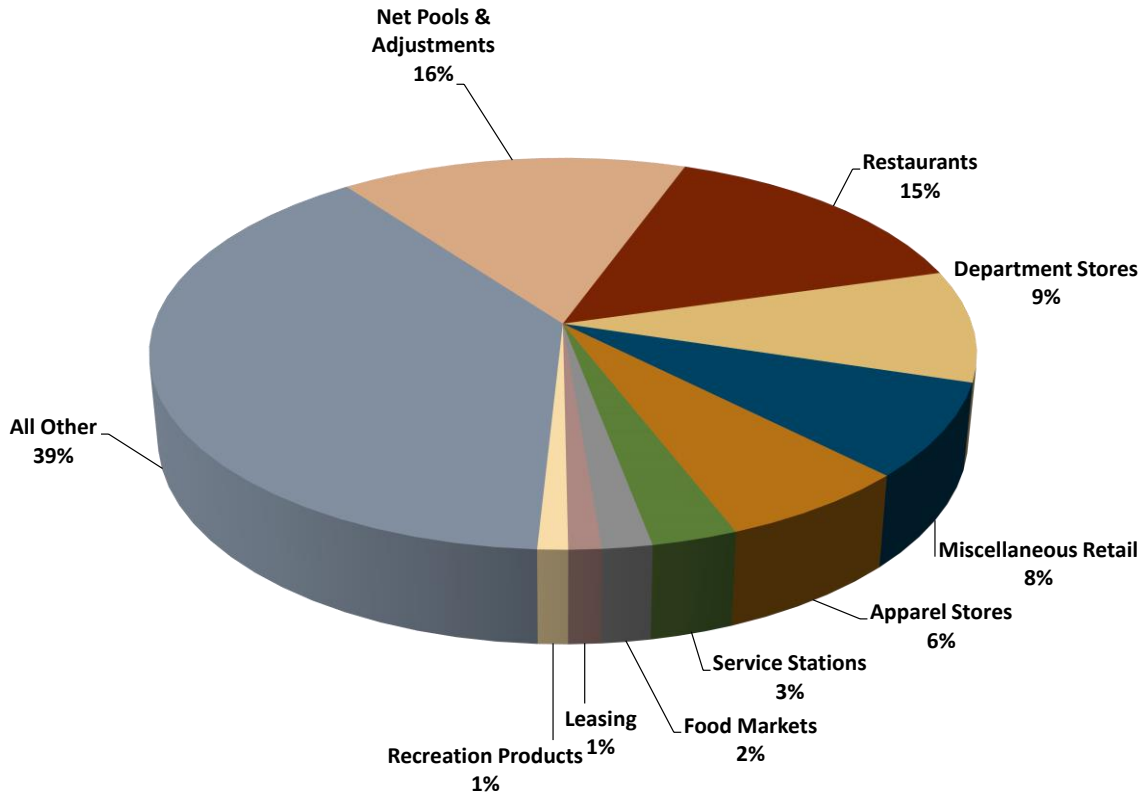
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 2nd QUARTER 2015									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	38.3 / 1.0	28.4 / 2.5	27.1 / 1.6	28.0 / 2.3	30.6 / 4.1	29.1 / 2.3	26.7 / 3.8	28.1 / 1.8	31.7 / 1.8
Food Products	20.0 / 7.9	20.1 / 5.8	21.4 / 6.8	17.0 / 6.0	16.1 / 4.5	21.1 / 5.6	17.0 / 5.4	18.4 / 3.6	30.8 / 4.6
Construction	4.0 / 87.4	9.2 / 6.5	9.3 / 6.8	11.1 / 6.6	11.7 / 7.7	8.1 / 7.3	10.8 / 2.8	13.0 / 5.7	9.2 / 2.2
Business to Business	14.1 / -22.7	16.8 / 2.1	19.6 / 3.7	13.8 / 1.8	13.8 / -0.3	16.7 / 0.8	16.1 / 5.5	9.2 / 5.0	6.1 / 22.3
Miscellaneous/Other	23.8 / 0.6	25.5 / 0.4	22.5 / 0.2	30.0 / 1.4	28.0 / 1.3	25.0 / -0.5	29.4 / 3.1	31.3 / -1.5	22.2 / -1.3
Total	100.0 / -0.3	100.0 / 2.9	100.0 / 3.3	100.0 / 3.0	100.0 / 3.1	100.0 / 2.4	100.0 / 4.0	100.0 / 1.8	100.0 / 3.1
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 2nd QUARTER 2015									
	City of Palo Alto	State Wide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
Largest Segment	Restaurants	Restaurants	Restaurants	Auto Sales - New	Department Stores	Restaurants	Restaurants	Service Stations	Restaurants
% of Total / % Change	17.8 / 7.7	14.1 / 7.3	15.1 / 7.8	12.3 / 7.3	13.6 / 2.0	15.3 / 6.9	11.0 / 8.6	12.5 / -9.2	22.1 / 5.3
2nd Largest Segment	***	Auto Sales - New	Auto Sales - New	Department Stores	Auto Sales - New	Auto Sales - New	Auto Sales - New	Department Stores	Misc. Retail
% of Total / % Change	*** / ***	10.9 / 8.0	10.5 / 9.1	11.1 / 0.9	10.7 / 11.0	11.0 / 6.7	10.8 / 9.7	11.2 / 0.6	10.0 / 4.7
3rd Largest Segment	Department Stores	Department Stores	Department Stores	Restaurants	Restaurants	Department Stores	Department Stores	Auto Sales - New	Service Stations
% of Total / % Change	10.9 / -0.2	9.8 / 0.6	8.2 / 0.4	11.0 / 7.4	10.2 / 8.0	9.5 / 0.1	10.7 / 1.3	10.5 / 7.3	9.0 / -4.2
	*** 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 2nd Quarter 2015: \$25,998,149

*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q2 BMY is sum of 2015 Q2, Q1 & 2014 Q4, Q3)

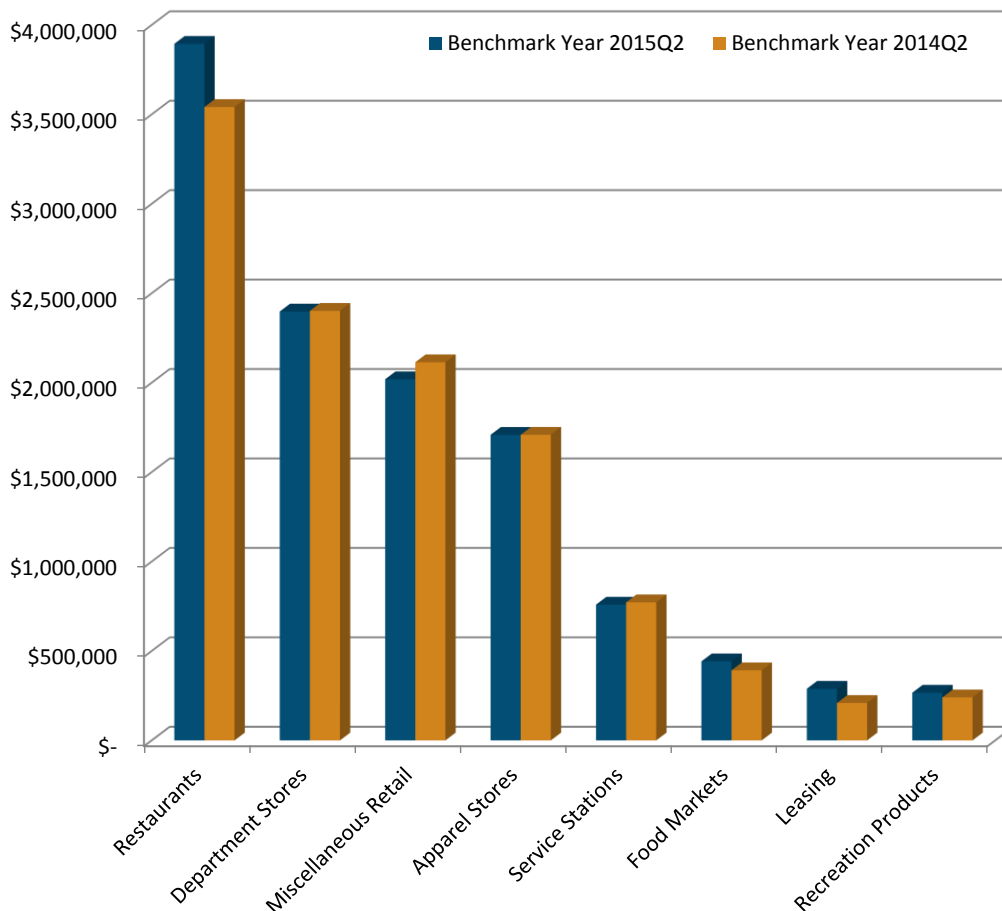


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto’s Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 2nd Quarter 2015. The Top 25 Sales/Use Tax contributors generate 48.5% of Palo Alto’s total sales and use tax revenue.

Anderson Honda	Integrated Archive Systems	Tesla Lease Trust
Apple Stores	Loral Space Systems	Tesla Motors
Audi Palo Alto	Macy's Department Store	Tiffany & Company
Bloomingle's	Magnussen's Toyota	Urban Outfitters
Critchfield Mechanical	Neiman Marcus Department Store	Valero Service Stations
CVS/Pharmacy	Nordstrom Department Store	Varian Medical Systems
Eat Club	Pottery Barn Kids	Wilkes Bashford
Fry's Electronics	Shell Service Stations	
Hewlett-Packard	Stanford University Hospital	

Sales Tax from Largest Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

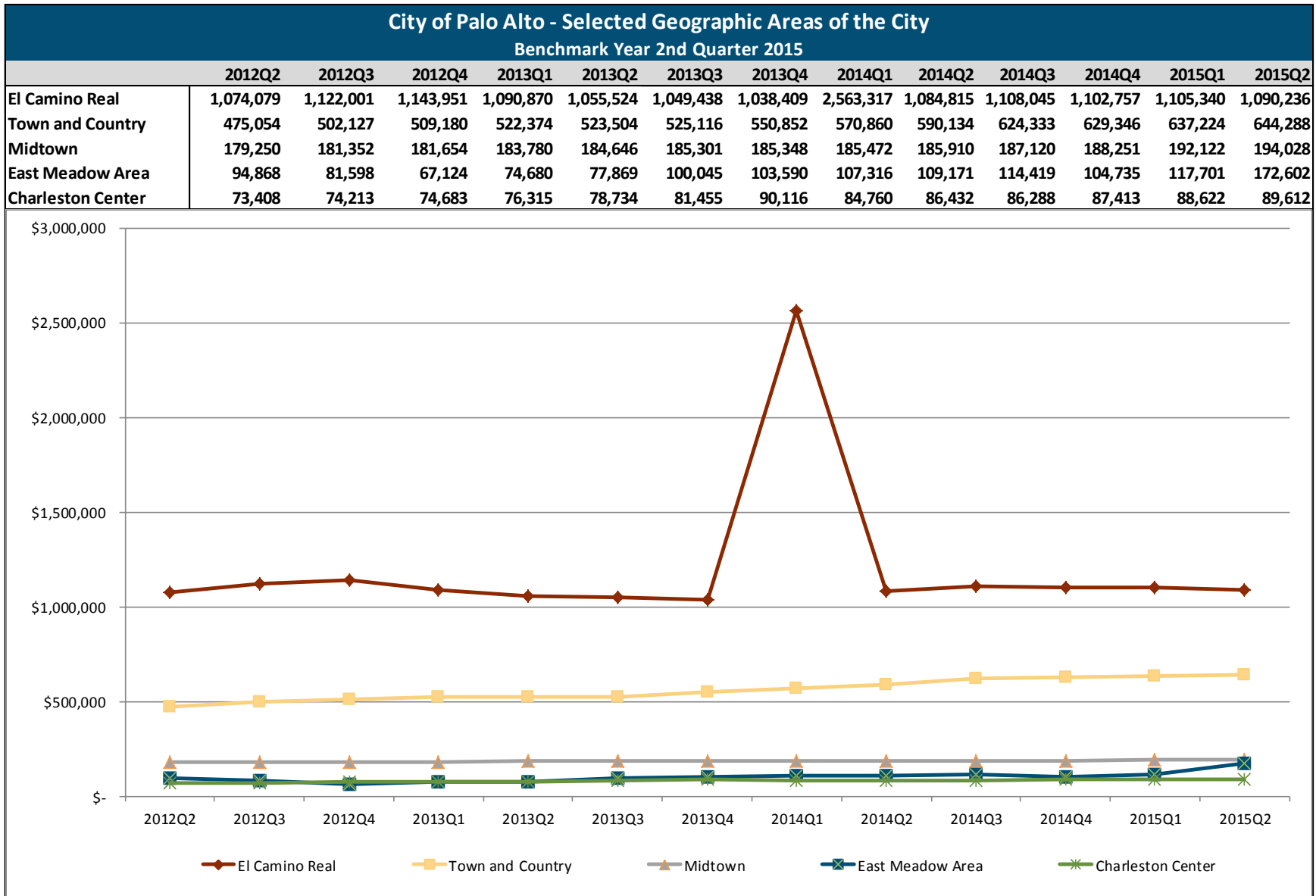
Economic Category	%	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4
General Retail	30.4%	2,009,743	1,797,756	2,591,589	1,994,264	2,032,155	1,791,298	2,585,931	1,945,413	1,959,201	1,759,098	2,444,528
Miscellaneous/Other	23.7%	1,564,157	1,400,769	1,655,225	1,400,415	1,437,507	1,283,210	1,553,169	1,196,569	2,974,293	2,796,863	2,067,125
Food Products	17.6%	1,167,014	1,061,755	1,096,087	1,054,462	1,051,681	972,997	1,009,848	950,359	966,208	882,949	905,156
Business To Business	12.6%	833,370	757,827	885,327	596,226	970,762	858,119	1,268,059	848,634	800,341	592,136	1,101,068
Net Pools & Adjustments	15.7%	1,039,250	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801	924,963	1,227,552	1,162,968	1,155,841
Total	100.0%	6,613,534	5,986,884	7,406,710	5,991,020	6,279,050	5,919,257	7,512,808	5,865,938	7,927,595	7,194,014	7,673,718

Economic Segments	%	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4
Miscellaneous/Other	38.6%	2,549,852	2,370,361	2,906,134	2,211,697	2,577,014	2,328,959	3,184,808	2,230,000	3,943,660	3,584,353	3,451,258
Restaurants	15.8%	1,045,011	942,709	962,018	936,160	940,540	870,158	890,739	833,865	845,107	771,596	782,184
Miscellaneous Retail	7.2%	479,298	415,270	628,099	508,061	514,133	481,305	661,268	458,124	471,954	393,506	584,169
Department Stores	9.0%	595,374	503,590	750,481	548,595	591,500	472,857	762,760	574,389	603,773	509,699	779,973
Apparel Stores	6.5%	428,100	370,810	507,843	398,747	429,748	365,777	515,296	400,201	404,202	372,909	496,073
Service Stations	2.7%	181,582	148,902	166,861	203,484	215,162	184,185	177,096	214,276	196,568	187,333	182,060
Food Markets	1.6%	106,818	104,856	117,245	105,600	98,705	90,272	104,592	104,815	106,760	99,711	110,625
Business Services	1.8%	120,003	103,773	131,505	66,163	62,060	63,768	61,832	57,139	67,759	63,791	73,619
Recreation Products	1.0%	68,246	57,836	58,042	66,860	63,243	48,343	58,616	68,166	60,260	48,148	57,916
Net Pools & Adjustments	15.7%	1,039,250	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801	924,963	1,227,552	1,162,968	1,155,841
Total	100.0%	6,613,534	5,986,884	7,406,710	5,991,020	6,279,050	5,919,257	7,512,808	5,865,938	7,927,595	7,194,014	7,673,718

*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.

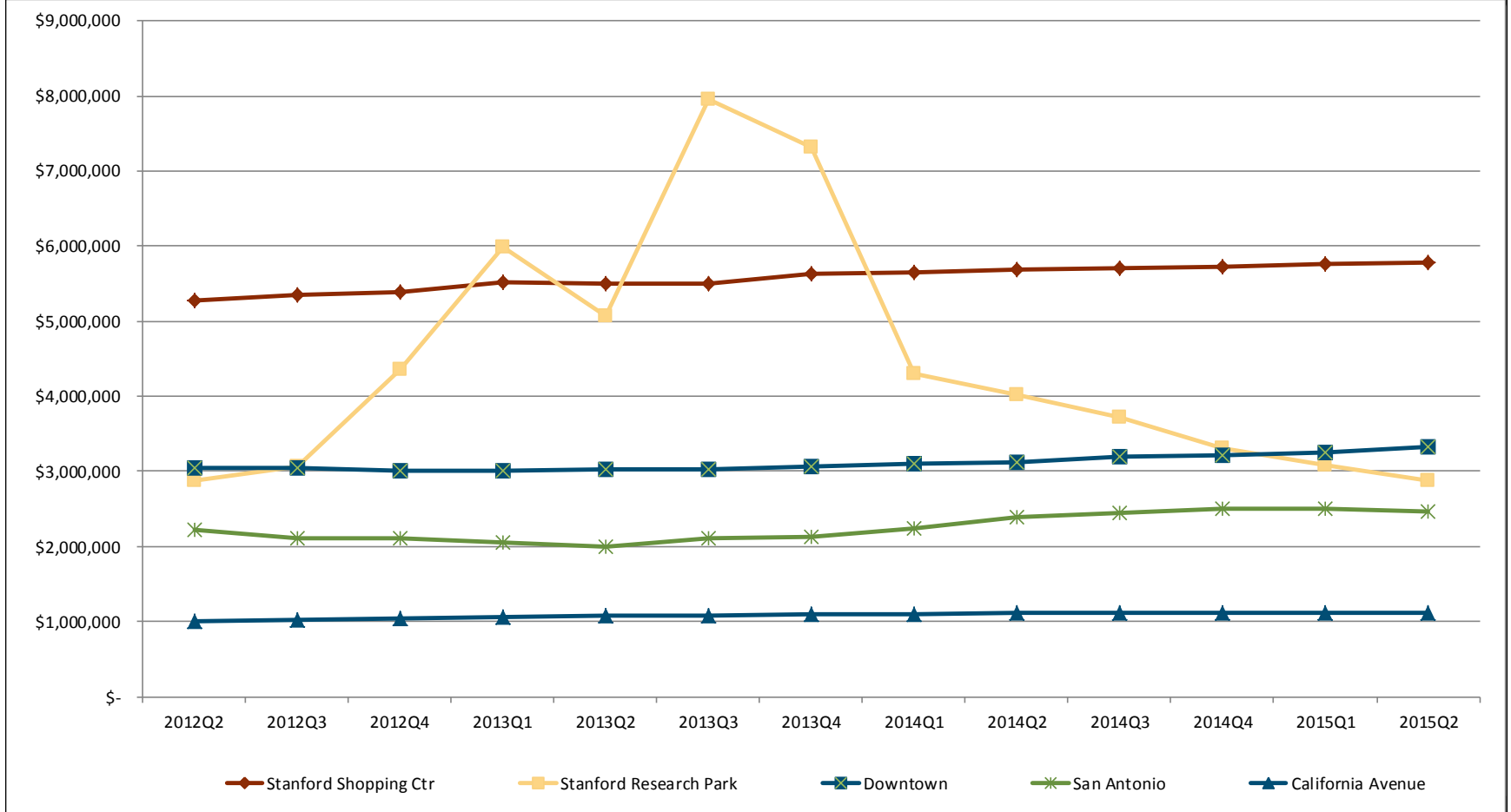
Quarterly Analysis by Economic Category, Total and Segments: Change from 2014Q2 to 2015Q2

	General Retail	Food Products	Construction	Business to Business	Misc./Other	2015/2 Total	2014/2 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	0.3%	5.0%	-8.5%	18.1%	-13.9%	2,397,189	2,405,123	-0.3%	Business Services	Restaurants	Service Stations	Bldg.Matls-Whsle
Cupertino	1.6%	3.2%	88.7%	40.5%	-13.4%	6,476,742	4,850,583	33.5%	Business Services	Bldg.Matls-Whsle	Office Equipment	Service Stations
Gilroy	1.0%	3.1%	-1.1%	-2.0%	7.2%	3,484,029	3,391,420	2.7%	Auto Sales - New	Misc. Vehicle Sales	Service Stations	Health & Government
Los Altos	-5.0%	8.2%	-19.6%	3.7%	-11.7%	551,023	558,317	-1.3%	Food Markets	Restaurants	Service Stations	Furniture/Appliance
Los Gatos	-4.8%	1.3%	-2.8%	29.7%	-11.1%	1,706,078	1,751,534	-2.6%	Furniture/Appliance	Heavy Industry	Miscellaneous Retail	Service Stations
Milpitas	6.8%	2.6%	73.5%	45.6%	-1.6%	4,951,970	4,203,865	17.8%	Office Equipment	Bldg.Matls-Whsle	Service Stations	Bldg.Matls-Retail
Morgan Hill	-2.1%	6.2%	7.1%	4.9%	-1.6%	1,871,550	1,849,232	1.2%	Auto Sales - New	Restaurants	Service Stations	Recreation Products
Mountain View	1.3%	14.5%	-20.6%	19.9%	-9.9%	3,897,695	3,706,309	5.2%	Restaurants	Business Services	Service Stations	Heavy Industry
Palo Alto	-1.0%	7.6%	110.9%	-14.3%	-2.4%	5,574,280	5,543,984	0.5%	Bldg.Matls-Whsle	Restaurants	Electronic Equipment	Service Stations
San Jose	1.1%	4.5%	-1.4%	-3.0%	-0.9%	37,306,529	37,335,428	-0.1%	Auto Sales - New	Restaurants	Service Stations	Office Equipment
Santa Clara	-2.5%	19.1%	-7.4%	-2.5%	-0.4%	11,085,824	10,954,822	1.2%	Office Equipment	Restaurants	Electronic Equipment	Furniture/Appliance
Santa Clara Co.	-39.5%	-1.0%	5.7%	76.9%	11.4%	1,138,769	1,189,324	-4.3%	Health & Government	Office Equipment	Miscellaneous Retail	Food Markets
Saratoga	34.2%	9.2%	60.3%	54.4%	-8.7%	257,945	232,690	10.9%	Miscellaneous Retail	Restaurants	Service Stations	Miscellaneous Other
Sunnyvale	-5.2%	6.7%	10.7%	11.5%	-4.5%	6,529,585	6,275,086	4.1%	Electronic Equipment	Bldg.Matls-Whsle	Service Stations	Office Equipment



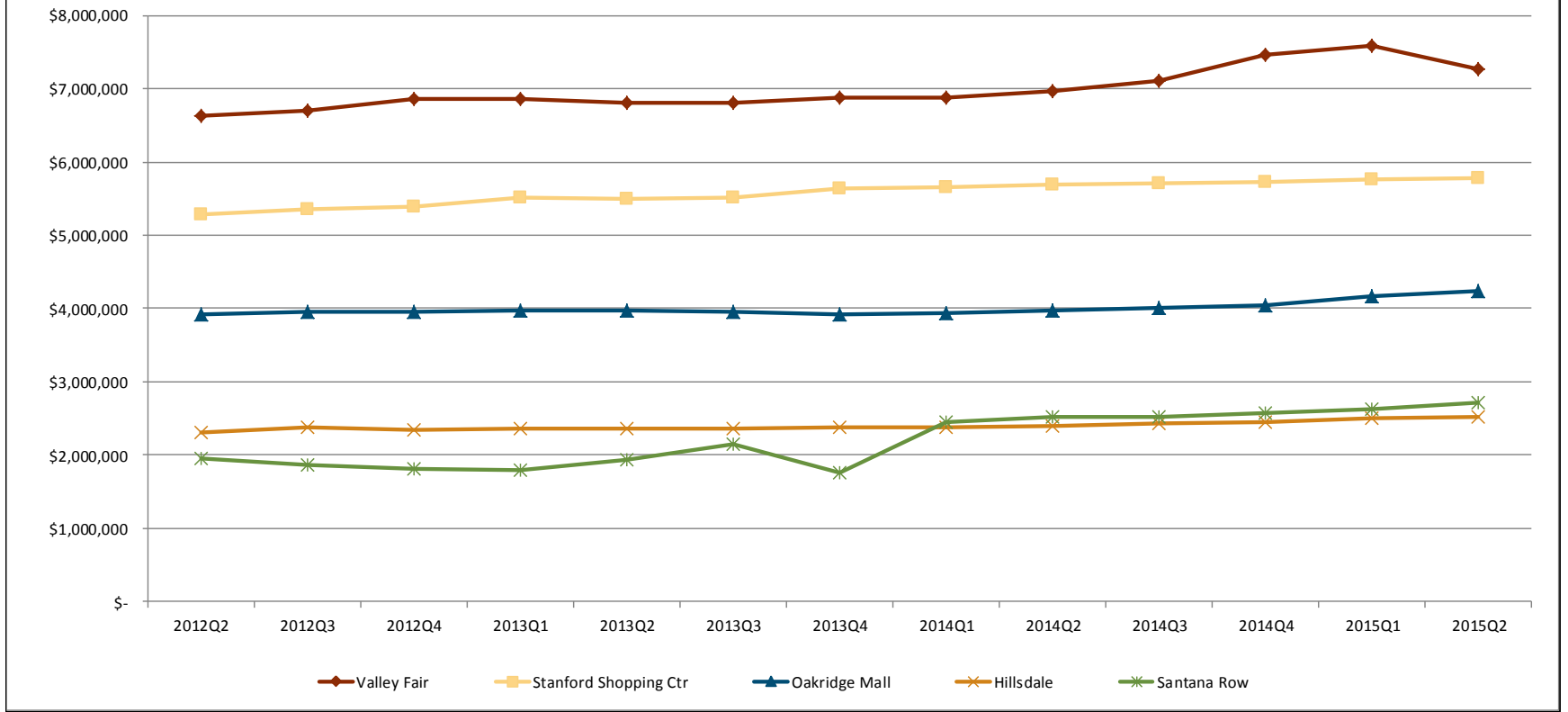
**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q2 BMY is sum of 2015 Q2, Q1 & 2014 Q4, Q3)*

City of Palo Alto - Selected Geographic Areas of the City													
Benchmark Year 2nd Quarter 2015													
	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Stanford Shopping Ctr	5,281,772	5,345,618	5,388,747	5,519,326	5,501,836	5,508,513	5,637,256	5,647,210	5,685,894	5,713,169	5,726,273	5,769,236	5,775,751
Stanford Research Park	2,884,600	3,073,009	4,362,778	5,995,489	5,075,848	7,949,998	7,307,557	4,299,015	4,027,889	3,724,671	3,304,003	3,082,331	2,869,143
Downtown	3,044,755	3,047,356	3,013,183	3,007,123	3,027,279	3,022,194	3,068,553	3,108,592	3,124,224	3,189,273	3,220,248	3,251,198	3,318,323
San Antonio	2,212,977	2,103,881	2,114,306	2,047,925	1,997,654	2,106,291	2,122,586	2,234,235	2,393,463	2,453,548	2,495,915	2,504,156	2,465,311
California Avenue	999,421	1,020,704	1,034,151	1,058,098	1,072,925	1,078,153	1,104,341	1,104,237	1,109,685	1,119,047	1,120,996	1,113,385	1,108,904



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q2 BMY is sum of 2015 Q2, Q1 & 2014 Q4, Q3)*

City of Palo Alto - Regional Shopping Mall Comparison													
Benchmark Year 2nd Quarter 2015													
	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Valley Fair	6,621,598	6,708,343	6,855,987	6,865,443	6,808,919	6,815,517	6,883,838	6,885,378	6,958,214	7,108,448	7,455,179	7,588,546	7,273,028
Stanford Shopping Ctr	5,281,772	5,345,618	5,388,747	5,519,326	5,501,836	5,508,513	5,637,256	5,647,210	5,685,894	5,713,169	5,726,273	5,769,236	5,775,751
Oakridge Mall	3,925,454	3,947,751	3,957,195	3,972,739	3,974,067	3,954,094	3,924,360	3,934,469	3,972,556	4,005,370	4,040,521	4,159,367	4,236,080
Hillsdale	2,315,120	2,381,548	2,348,668	2,367,315	2,356,855	2,367,935	2,387,185	2,374,185	2,401,370	2,438,295	2,450,278	2,494,792	2,513,866
Santana Row	1,961,561	1,867,513	1,819,616	1,795,942	1,938,742	2,156,984	1,765,101	2,453,638	2,523,193	2,525,349	2,565,665	2,634,908	2,706,867



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q2 BMY is sum of 2015 Q2, Q1 & 2014 Q4, Q3)*

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 NEWS & TRENDS



MUNISERVICES

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SECTION 1 - U.S. ECONOMY (INDICATORS, OUTLOOK, TRENDS, INFLATION GAP BETWEEN GOODS AND SERVICES)**Economic Indicators**

Source: *The Bureau of Economic Analysis (September, 2015)*

Real Gross National Product (GNP) is goods and services produced: increased at an annual rate of 3.9 percent in 2015Q2; in 2015Q1, the real GDP increased 0.6 percent.

Real Gross Domestic Purchases (GDP) is purchases of goods and services regardless of where produced: increased at an annual rate of 3.6 percent in 2015Q2; in 2015Q1, the real GDP increased 3.6 percent.

Current-Dollar Gross Domestic Purchases (GDP) is goods and services regardless of where produced: increased by 6.1 percent in 2015Q2, in contrast to an increase of 0.8 in 2015Q1.

Real Gross Domestic Income (GDI) is income earned by the production of goods and services: increased 0.7 percent in 2015Q2, compared to an increase of 0.4 percent in 2015Q1. Estimates of GDP and GDI may vary in a given quarter, but they tend to follow similar patterns of change over time.

Real Personal Consumption Expenditures (PCE) is expenditures for goods and services: increased by 0.4 percent in 2015Q2, compared with an increase of 1.8 percent in 2015Q1.

Economic Outlook

Source: *Kiplinger Economic Outlooks (October, 2015); Anderson Forecast (September, 2015);*

<http://www.usatoday.com/story/money/business/2015/10/06/us-trade-deficit-china-japan-imports-exports/73441758/>
(October, 2015)

Gross Domestic Product: 2.7% in second half of 2015; 2.5% for the year

Interest Rates: By end 2015, 10-year notes at 2.3%; mortgages, 4.1%

Business Spending: Increasing by 4% in 2015

Housing: Single-family starts rising 12% in second half of 2015 (1.14 million units in 2015, 1.42 in 2016 and 1.44 in 2017)

Unemployment: Falling to 5% by year-end

Inflation: 2.5% for 2016, up from 1.5% in 2015

Retail Sales: Up 4.5% to 5% this year, excluding gasoline sales

US Trade Deficit: Increased 15.6% to \$48.3 billion in August. Exports of goods and services dropped 2% to \$185.1 billion, while imports rose 1.2% to \$233.4 billion. The drop in exports reflected lower sales of manufactured goods such as computers, industrial machinery and autos and a drop in exports of U.S. energy products, and to a stronger dollar.

The Gap in Inflation Between Goods and Services May Widen

Source: <https://www.clevelandfed.org/en/newsroom-and-events/publications/economic-trends/2015-economic-trends/et-20150602-the-gap-between-services-inflation-and-goods-inflation.aspx>

Because goods account for the bulk of international trade, a stronger dollar keeps prices for goods lower. Sharp appreciation of the dollar over the last three quarters may push the prices of goods even lower in the next few months, widening the gap and impacting sales tax revenues (Federal Reserve Bank of Cleveland). So a strong dollar is a double edged sword that may actually hurt sales tax revenues.

Trends / “Picking Up Steam and Watching the Headwinds”

Source: https://beaconecon.com/archive/presentations/2015.8.5_NCSL2015Thornberg.pdf (August, 2015)

Picking up steam: Slower start to year transitory; solid acceleration in domestic demand; labor markets turned a corner; worker wages *about* to start rising; credit expanding on many levels; asset markets/ tech is not in a bubble yet; interest rates aren’t going anywhere; commodity prices down; housing market bouncing.

Watch the headwinds: State and local budgets still stressed; global economy has slowed, particularly in Asia; housing and housing policy in California; frothy markets could start becoming an issue; growing inequality/ political gridlock.

What not to worry about the economy

The stronger US dollar
Student debt
Asset bubbles
Drought
Consumer spending
Labor markets
California business
Taxes
Politics

What to worry about the economy

China
Educational choices
Bad financial regulation
Water policy
Savings rates
Growing inequality
California housing
Lack of public investment
A lack of engagement

SECTION 2 - CALIFORNIA’S ECONOMY (INDICATORS, REVENUE, REAL ESTATE, DROUGHT)**California Economy (Indicators)**

Source: *Fast Facts, by the Assembly Committee on Jobs, Economic Development and the Economy (September, 2015)*

- **California GDP:** In 2014 grew from \$2.2 billion to \$2.3 billion; California is the eighth largest in the world, larger than Russia, Italy, India, and Canada.
- **Largest private industry sectors:** Finance, insurance, real estate, rental, and leasing (20.2% of state GDP); trade, transportation, and utilities (12.7% of total GDP); professional and business services (12.0% of state GDP); and manufacturing (12.0% of state GDP).
- **Employment/ Workers:** 19 million workers in the California labor force in August 2015 with 17.8 million individuals employed. A month over increase of 12,000 jobs, and represents a 425,000 (2.4%) increase in jobs over the prior year.
- **Employment/ Sectors:** For August, 2015, non-farm employment rose in seven industry sectors: largest gains were in the government (+31,300); leisure and hospitality (+10,600); trade, transportation, and utilities (+7,900); education and health services (+3,800); financial activities (+1,600); construction (+700); and information (+300) (Source: EDD Labor Market Review, August 2015).
- **Per Capita Personal Income (PCPI):** The population of California in 2014 was 38,802,500 (rank is 1st in the nation). In 2014, California had a PCPI of \$49,985. This PCPI ranked 11th in the US and was 109 percent of the national average, \$46,049. The 2014 PCPI reflected an increase of 3.9 percent from 2013. The 2013-2014 national change was 3.6 percent. In 2004, the PCPI of California was \$37,244 and ranked 9th in the US. The 2004-2014 compound annual growth rate of PCPI was 3.0 percent. The compound annual growth rate for the nation was 3.0 percent.

California's Economic Update (Revenues)

Source: Department of Finance, Finance Bulletin (September, 2015)

Revenues: August year-to-date revenues are \$474 million *above* the forecast of \$13.364 billion. Preliminary agency cash for August total revenues was \$108 million above the 2015-16 Budget forecast.

Personal income tax: \$33 million *above* the month's forecast of \$4.142 billion. Proposition 63 requires that 1.76 percent of the total personal income tax collections be transferred to the Mental Health Services Fund; the amount transferred in August was \$1 million higher than the forecast of \$74 million. Year to date revenues are \$162 above the forecast.

Sales and use tax: \$42 million *above* the month's forecast of \$1.96 billion. Year-to-date, sales tax cash is \$5 million *above* forecast. August cash includes the remaining portion of the final payment for the second quarter sales, which was due July 31. August receipts also include the first prepayment for third quarter sales.

Corporation tax: \$25 million *below* the month's forecast of \$123 million. Prepayments were \$8 million above the forecast of \$88 million and other payments were \$24 million higher than the \$93 million forecast. Total refunds for the month were double the forecast of \$57 million. Year-to-date revenues are \$42 million below forecast.

Insurance tax: \$25 million *above* the \$432 million estimated for August. Year-to-date revenues are \$48 million *above* the forecasted \$407 million.

Revenues from the estate, alcoholic beverage and tobacco taxes, and pooled money interest: came in \$1 million *below* the \$37 million that was expected.

California's Employment, Homeownership, and Real Estate Economy

Sources: UCLA Anderson, Beacon Economics, Department of Finance, Legislative Analyst Office

Employment Forecast: Total employment growth at 2.7% in 2015; 2.2% in 2016; and 1.4% in 2017. Real personal income is estimated to be 4.6% in 2015 and forecast to be 4.5% in 2016, and 4.2% in 2017. Unemployment should drop below 6.0% through balance of 2015.

Housing: Starts of 1.14 million units this year, 1.42 in 2016 and 1.44 million in 2017; home prices in California will become increasingly less affordable over the next two years, as the amount of building will not meet new demand.

Rental Housing: Declining homeownership rate is a rise in renting. Multi-family housing starts, which bottomed in 2009 at 112,000 units, will exceed 400,000 in 2015; and average 460,000 units over the next two years.

Homeownership: 40 percent of those born in 1960 owned a home at age 30, 27 percent of those born in 1980 did.

Housing costs: 46% of renters, compared to 40% ten years ago paying more than 30% of their income on rent.

Real Estate Sales: July sales of existing single-family homes increased 2.7 percent from June and 12.7 percent from July 2014 to 449,530 homes.

Median Home Price: The statewide median home price in July was \$488,260, down 0.3 percent from June but up by 5.4 percent from a year earlier.

California's Drought and Impact on Agriculture

Source: Center for Business and Policy Research at the University of the Pacific

The severe drought has had limited statewide economic costs for the past two years, reducing state GDP by about 0.1% in 2014 and 2015. Strong market conditions have more than offset water shortages for farms. The value of agricultural production increased in 2014 even though about 5% of irrigated acres were fallowed. While the broad economic impacts of the drought have been modest, the environmental and community impacts have been severe in some areas as evidenced by destructive wildfires, fish species on the brink of extinction, and thousands of dry wells.

California's Drought / Downstream Impacts on California's Economy

Source: https://watershed.ucdavis.edu/files/biblio/Final_Drought%20Report_08182015_Full_Report_WithAppendices.pdf

California's ongoing drought will cost the economy an estimated \$2.74 billion in 2015 and lead to the loss of 10,000 seasonal farm jobs, despite overall health in the state's agricultural sector. Agricultural economists at the University of California, Davis, said the drought, entering its fourth year, would impact the state more in 2015 than in 2014, when the total cost to the economy was estimated to be \$2.2 billion. The focus of the report is on agricultural production including crops, livestock and dairies. Products from agriculture serve as production inputs for much larger value added sectors like food processing which have a higher share in the economy.

California's Industry Impacted if China's Economic Growth Slows

Sources: CapRadio.org

California Exports to China: California goods will be more expensive in Chinese markets; a weaker Chinese economy will mean less demand for California exports.

Agriculture and high-tech goods are California's largest exports to China. Apple products are made in China, but they're shipped back to California to be sold from the United States.

The Service Sector in California: More than one million Chinese tourists visited California in 2014 and spent \$2.5 billion.

Education in California: UC and CSU are banking on filling budget holes by enrolling more international students.

International student enrollment in UC increased nearly fivefold from 2007 to 2014/2015, from 1.8 percent to 8.5 percent.

SECTION 3 - CALIFORNIA'S EMPLOYMENT AND LABOR (INDICATORS, JOBS, MINIMUM WAGE)

California Labor Market Indicators

Source: <http://www.labormarketinfo.edd.ca.gov>

Unemployment rate: 6.1 (August) / 6.2 (July); **Drop Change -0.1**

Labor Force: 19,035,200 (August) / 19,039,600 (July); **Drop Change -4,400**

Employment: 17,872,100 (August) / 17,859,900 (July); **Increase Change 12,200**

Unemployment: 1,163,100 (August) / 1,179,700 (July); **Drop Change -16,600**

Non Farm Jobs: 16,185,100 (August) / 16,148,800 (July); **Increase Change 36,300**

UI Initial Claims: 181,893 (August) / 214,100 (July); **Drop Change -32,207**

Minimum Wage Increase on January 1, 2016

Source: <http://www.sacbee.com>; https://beaconecon.com/products/employment_report

Advocates for a statewide \$15 per hour minimum wage are moving to November 2016 initiative. The Fair Wage Act of 2016 will raise the minimum wage for all California workers by \$1 annually, effective January 2017. Once the minimum wage reaches \$15, it will automatically go up each year to match the cost of living. The state's minimum wage is \$9 an hour and will rise to \$10 on January 1, 2016. Cities will have the option of setting higher local minimum wages.

Benefits: Higher wages for workers (net loss of public support services); increased local spending

Cost: Higher labor costs, reduced profits & investments for businesses; reduced employment & higher costs for consumers

Industry shift: High for low skilled labor substitution

Low margin businesses: Small businesses in low income neighborhoods may be forced out of business

Impact: Projected job losses including one third of job losses will occur for workers under 25; and for those without a high school diploma; reduced business investment, reduced educational attainment; some reduction in need for public benefits

SECTION 4 - BUILDING AND URBANIZATION (COMMERCIAL, URBAN GROWTH, MALL TRENDS)**California's Commercial Real Estate**

Source: <http://www.anderson.ucla.edu/media-relations/2015/allen-matkinsucla-forecast-summer-survey> (August, 2015)

Commercial construction activity in California has risen to its highest level since 2001. Available financing, low cap rates, an increasingly high demand from technology, advertising, media and information companies, and a shortage of multi-family housing have sparked the industry boom. The outlook for the next three years is for continued growth in commercial property development.

Urbanization's Impact

Source: http://www.globest.com/reforum/69_16/national/development/Urbanizations-Impact-362240-1.html?page=4

In 2013, 2.3 million more people were living in metro areas than in 2012; 269.9 million people are living in and around cities. McKinsey & Company research concludes that urban expansion is unprecedented and could inject up to \$30 trillion a year into the world economy by 2025.

The Great Outdoors: Key to Success for Today's Malls

Source: <http://www.globest.com/blogs/counterculture/retail/The-Great-Outdoors-The-Key-to-Success-for-Todays-Malls-361698-1.html>

Mall owners and operators are beginning to understand that outdoor spaces deliver tremendous value when it comes to driving traffic and increasing length of stay. For this reason, many once-traditional indoor malls are being redeveloped and revitalized in order to add outdoor dining and socialization hubs where consumers can relax and spend time.

SECTION 5 - SHARED ECONOMY (DEMOGRAPHICS)**The Sharing Economy / Demographics**

Source: <http://www.pwc.com/us/en/industry/entertainment-media/publications/consumer-intelligence-series/assets/pwc-cis-sharing-economy.pdf>

PricewaterhouseCoopers' 2015 study is a snapshot of the business of sharing (automotive, retail and consumer goods, hospitality, entertainment, media and communications). Airbnb averages 425,000 guests per night, totaling more than 155 million guests stay annually, nearly 22% more than Hilton Worldwide, which served 127 million guests in 2014. Uber operates in more than 250 cities worldwide and as of February 2015 was valued at \$41.2 billion, that exceeds the market capitalization of companies such as Delta Air Lines, American Airlines and United Continental. PwC's projections show that five key sharing sectors, travel, car sharing, finance, staffing, and music and video streaming, have the potential to increase global revenues from roughly \$15 billion today to around \$335 billion by 2025. The study found 19 percent of U.S. adults have engaged in the sharing economy as either a buyer or a seller. 1 in 4 sellers are over 55. A recent Airbnb company survey found that among the hosts who are 50-plus, about half of them rely on their Airbnb income to make ends meet, and more than 30 percent say hosting helps them afford to stay in their homes. The hosts set their own rates. The typical hosts over age 50 earn about \$7,500 a year from renting out their property through the site.

SECTION 6 - ON-LINE SALES (QUARTERLY RETAIL ECOMMERCE SALES FOR 2ND Q 2015)**Quarterly Retail E-Commerce Sales / 2nd Q 2015**

Source: <http://www.census.gov> (CB15 - 133)

- **Estimate:** Adjusted for seasonal variation, but not for price changes, was \$83.9 billion, an increase of 4.2 percent ($\pm 0.9\%$) from the first quarter of 2015.
- **Total retail sales:** Estimated at \$1,171.5 billion, an increase of 1.6 percent ($\pm 0.2\%$) from the first quarter of 2015.
- **Increase in estimates:** Increased 14.1 percent ($\pm 1.1\%$) from the second quarter of 2014 while total retail sales increased 1.0 percent ($\pm 0.4\%$) in the same period.
- **E-commerce sales:** Accounted for 7.2 percent of total sales.
- **Not adjusted basis:** Totaled \$78.8 billion, an increase of 5.1 percent ($\pm 0.9\%$) from the first quarter of 2015. The second quarter 2015 e-commerce estimate increased 14.4 percent ($\pm 1.1\%$) from the second quarter of 2014 while total retail sales increased 0.9 percent ($\pm 0.4\%$) in the same period. E-commerce sales in the second quarter of 2015 accounted for 6.6 percent of total sales.
- **Next release:** 3Q2015 Quarterly Retail E-Commerce sales estimate is released 11.17.15

SECTION 7 - SERVICES SPENDING (THE CHANGING ECONOMY)**The Changing Economy - Gap Between Goods and Services / Expect Proposed Legislation in 2016**

“Don’t Be Fooled – Services Should Be Subject to Sales Tax” an article in *Tax Analysts* by Deputy Publisher David Brunori captures a national perspective on the issue are reasons why services should be subjected to tax. Foremost, the sales tax should fall on all final consumption preferably at a very low rate and everything we buy should be subject to tax.

- There is no economic or tax policy reason to tax the purchase of a toaster oven, but exempt the purchase of a haircut or accounting service. They’re both consumption.
- Exempting services narrows the base and results in higher taxes on everything else.
- Exempting services creates a government-led incentive to spend money on services over things that are taxable. The tax laws shouldn’t be used to mess with markets in that manner.
- Taxing services would make the system less regressive; rich people buy more services than poor people.
- The exemption in a service-dominated economy is very expensive.

The *Wall Street Journal* cited the change for related products and services for the five years ended in May 2015:

- Television set (-57.7); cable / satellite service (13.7)
- Bottle of wine @ home(-0.6); bottle of wine @ restaurant (12.0)
- Men’s suits and coats (-3.7); dry cleaning (9.2)
- Household cleaning products (0.3); household domestic service (7.8)
- Stationary (-1.4); postage for mail delivery (19.2)
- Sports equipment (-15.3); tickets to sporting event (17.3)

Senator Hertzberg introduced SB 8 in 2015 to broaden the tax base by imposing a sales tax on services. This bill did not allow an increase sales tax on services for local voter-approved district taxes and did not lower the sales tax rate. The discussion and action on a bill is expected to continue during the 2016 Legislative Session. Although MuniServices has not seen draft language we are told a proposal would be comprehensive, capturing most services. Assuming there is no rate decrease a proposal would be expected to raise over \$120 billion a year.

SECTION 8 - AUTO SALES (CALIFORNIA AUTO OUTLOOK AND 2ND Q 2015 RESULTS)**California Auto Outlook/ 2nd Q 2015 / Released August 2015**

Source: <http://www.cncda.org/CMS/Pubs/Cal%20Covering%20Q%2015%20Ver%202.pdf>

New Car Registrations: New light vehicle registrations exceeded one million units during the first six months of 2015 and improved 11.5 percent versus the first half of 2014. The market was up 105 percent from the recession low-point in 2009.

Reasons: Strong consumer affordability, pent-up-demand, and the impressive array of advanced technologies being offered on new cars and trucks boost the state's new vehicle market.

Forecast: The momentum should continue into 2016, as well. Registrations for all of this year are expected to approach two million units, with another increase likely in 2016.

Trends in the State Market

- **The top 15 selling brands:** Jeep, Subaru, Mazda, Lexus, Chevrolet, and Mercedes had the biggest percentage increases during the first six months of 2015
- **Passenger car registrations:** Increased 7.3 percent in the first half of this year, while market share fell 2.3 points
- **Light truck registrations:** Improved 18.4 percent; used vehicle registrations increased by less than one percent
- **Car Registrations:** Used registrations were up 0.9 percent in the first half of this year, versus a year earlier. The new vehicle market continued to post larger percentage gains. New registrations increased 11.5 percent so far this year. New vehicle registrations have remained well above six-year old used registrations. Used car registrations were up 0.9 percent, while light trucks increased 0.8 percent. Korean brand used registrations improved 17.8 percent. The three year old or newer market was up 13.8 percent, while the four to six year old market fell 6.6 percent.
- **Tracking the used car vehicle market:** Franchised dealership share use vehicle market remains above 20 percent

Hybrid and Electric New Vehicle Registrations

Year	2011	2012	2013	2014	2015 YTD
Hybrid Registration	58,563	94,878	11,692	115,544	56,117
Plug-In Hybrid Registration	1662	14,103	20,633	29,949	12,022
Electric Registration	5,302	5,990	21,912	29,536	16,930

Market Share

Toyota 20% (Toyota, Lexus, and Scion), **Honda 12.4%** (Honda and Acura), **Ford 10.5%** (Ford and Lincoln), **GM 10.0%** (Buick, Cadillac, Chevrolet, and GMC), **Nissan 9.1%** (Nissan and Infiniti), **Hyundai 7.8%** (Hyundai and Kia), **FCA 6.5%** (Chrysler, Dodge, Fiat, Jeep, and Ram), **VW 4.9%** (Audi, Bentley, Volkswagen, and Porsche), **BMW 4.5%** (BMW, Rolls Royce, and MINI), **MB 3.9%** (Mercedes Benz and smart), **Other 9.4%** (all other brands).

SECTION 9 - GASOLINE PRICES (PREDICTIONS, NATIONAL AVERAGE)**California Gas Could Reach \$4 a Gallon in Month**

Source: http://www.mercurynews.com/bay-area-news/ci_25115475/california-gas-could-reach-4-gallon-month

The prediction: Energy experts predict a 50-cent rise in prices as supplies tighten, an annual event as refineries scale back production for maintenance,

The record: Even the high end of the prediction is far below the record \$4.67 a gallon set in California on October 9, 2012, following a fire at the Chevron refinery in Richmond and pipeline disruptions between Northern and Southern California. Big price spikes this time of year are common.

National average: Last year the national average jumped 49 cents from Jan. 1 to Feb. 27, peaking at \$3.79. In 2012 pump prices surged 66 cents from the same date to a peak of \$3.94 on April 5. In 2011 prices soared 91 cents to a peak of \$3.98 on May 5. But over the course of the year, prices may stay relatively low.

Crude oil: The Federal Energy Information Administration reports that crude oil will average \$93.22 a barrel in 2014, 11 cents less than the September outlook.

SECTION 10 - RETAIL NEWS (STORE OPENINGS, POP-UP RETAIL, EARLY HOLIDAY FORECASTS)**Retailers Raise Number of Store Openings Planned for the Next Two Years**

Source: <http://nreionline.com>, September 29, 2015

Nationwide, there were 42,554 stores on the board for the next year and 79,655 stores on the board for the next two years to open as per the *National Retailer Demand Monthly*. **Top:** Subway, Dollar General, Five Guys Burgers and Fries, Family Dollar and Pizza Hot taking the top spots. **Expansion in store openings:** The top four include entertainment, crafts, childcare/learning centers and restaurants. **Shrinkage in store openings:** Toy stores, laundromats, book stores and car care and car service establishments.

Pop Up Retail Stores

Source: <http://www.inquisitr.com>, September 25, 2015

There are many types of pop-up stores and they range from the modular retail establishments up to those that are housed in shipping containers. **Impact on the economy:** Pop-up stores spur spontaneous purchases, because the temporary nature of pop-up stores creates a good sense of urgency among the customers to purchase what they want. Unlike the traditional retail establishments, these types of stores have presented themselves as the limited edition.

A Case that Costco and Other Warehouse Clubs have Transformed Retail More than Amazon

Source: www.washingtonpost.com

From the arrival of e-books and digital music in the 1990's to the recent explosion of online subscription services such as Stitch Fix or Birchbox, it's easy to see just how dramatically e-commerce has changed our shopping routines. There's a shopping trend that has had a transformative effect on the retail industry during the last two decades: The rise of Costco, Sam's Club and other warehouse clubs. A University of Chicago study on how the structure of the retail sector has changed over the last 15 to 20 years, and, in a new National Bureau of Economic Research working paper, make the case that warehouse clubs have had a greater effect on the retail landscape than e-commerce.

Retail Stores

Source: www.plainvanillashsell.com (July, August, September and October)

Macys: Closing up to 40 stores

American Apparel: Filed for bankruptcy protection

Dollar Store: Entering new markets and adding new locations

Uniqlo: Reducing expansion from a goal to open 15 new stores to five, for a total of 44

Costco: To build 32 new stores in the U.S. and abroad

Herman Miller: Will open 6 Design Within Reach stores in fiscal 2016; the first two will open in Scottsdale and Berkeley

Quiksilver: Closing 27 stores including three in Orange County

Forever 21: Contemplating downsizing some of its biggest stores, according to people familiar with the matter.

Goodwill: Going upscale with boutiques; currently in Orange County; 60 stores nationwide

Stein Mart: 9 new store openings fall of 2015; new sites planned for 2016

DSW Inc.: Plans the opening of 22 new stores in the fall of 2015; including California locations

H&M: Expanding Collection of Style line with 27 new stores globally, including in the U.S, specifically in Costa Mesa

Staples/ Office Depot: Staples will acquire Office Depot which is on track to close by the end of 2015

Sportsman's Warehouse: Expanding to four new retail locations including Rohnert Park

Holiday Spending/ Forecasts (ShopperTrak, Deloitte and AlixPartners)

Source: <http://www.cnbc.com/2015/10/05/holiday-spending-forecasts-the-real-story.html> (October 10, 2015)

- According to PwC's survey, which polled more than 2,000 consumers and 230 retailers and manufacturers between July and August, shoppers plan to spend on average \$1,018 during the holidays.
- Retailers should brace themselves for another year of tepid growth, predicting slower sales growth than in 2014.
- 67 percent of shoppers with an annual income of less than \$50,000 indicate they plan to spend the same or less than they did in 2014, compared to 64 percent of those making \$50,000 or more.
- Consumers who earn at least \$50,000 will spend on average \$1,331 which is double that of the \$681 shoppers who earn less than \$50,000 plan to spend.
- Millennials are the "retail prize" this holiday season, with 47 percent of consumers between 18 and 34 planning to spend more. That compares to 25 percent of older shoppers.
- Much of the \$63 billion that PwC estimates millennials will spend this year won't go toward traditional holiday categories like apparel or consumer electronics. Instead, the group plans to spend 52 percent of its holiday dollars on experience-related purchases including travel and entertainment, compared to 39 percent of older shoppers.

Holiday Spending/ Forecasts (National Retail Federation)

Source:

http://www.philly.com/philly/business/retail/20151009_National_retail_trade_group_predicts_slight_decline_in_holiday_season_sales.html (October 9, 2015)

- NRF reports holiday-season sales are forecast to increase 3.7 percent
- Online sales on mobile devices are expected to rise 6 percent, up from last year's 5.8 percent gain
- Retailers to hire about 750,000 seasonal workers nationwide, up from last year's 715,000

SECTION 11 - GROCERY STORES (EXPANSIONS, CLOSURES AND NEWS)**Expansions, Closures and News**

Source: <http://www.theshelbyreport.com>

Fresh & Easy: Closing 14 stores in Southern California (Fountain Valley, Lake Forest, Seal Beach, San Diego and Los Angeles)

Fresh Market: Pulled out of Southern California

Sprouts: Opening 12 locations including areas in California (Alhambra, Los Angeles and San Clemente, Clovis and Oakland)

Hagen: Will sell 36 stores in California and Nevada (Smart and Final and Gelsons expected to purchase)

Smart & Final: Plans to open 100 new stores over the next four years; includes its "Extra!" and "Cash & Carry" formats

Grocery Outlet Bargain Market: Plans to open 14 stores in the greater Los Angeles area beginning in December; the goal is to open 20 to 30 stores each year in Southern California over the next several years

Aldi's: In March 2016 will open in Southern California

Dash In's: Adding six to 10 new stores per year over the next several years

Whole Foods: Laying off about 1,500 employees; will stop selling goods made by prison labor by April 2016, if not sooner

SECTION 12 - RESTAURANTS (IMPACT ON THE ECONOMY, CONSUMER SPENDING)**Impact on the Economy and Consumer Spending**

Source: <http://www.businessinsider.com/average-american-family-is-going-to-be-700-richer-this-year-and-thats-good-news-for-the-economy-2015-10>

For most Americans, trying to cut back on bills involves a mix of discipline and sacrifices. Drivers around the country have been getting a reprieve due to falling gas prices. It's been estimated that in 2015, Americans will save about \$700 from the dip. According to the J.P. Morgan Institute, Americans spend about 80 cents for every dollar they've saved. They're going out to restaurants, which accounted for nearly 20 percent of gas savings, shopping for clothes, and buying groceries, electronics, and appliances.

David's Tea: Has a current base of 168 stores and North American potential for 550 stores

Dave & Buster's: Plans to have added eight to nine new locations this year, an increase of one unit from earlier projections

Del Taco: To expand in Central California by 27 stores

McDonald's Corporation: Cutting 225 jobs; more than half of them at the company headquarters in Illinois

Slapfish: A Huntington Beach-based fast-casual seafood restaurant opened at Los Angeles International Airport; expansion in 2015 includes both franchise and corporate locations including Orange County

LaBoulange: In mid-June announced by Starbucks the closing of 23 stores

Planet Fitness: Continues to expand, adding 38 new locations