



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

February 13, 2017

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Second Quarter Sales (April - June 2016)

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 and Trends (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 2016)

Informational Report to the City Council

BACKGROUND

Sales and use tax represents about \$27.6 million, or 15 percent, of projected General Fund revenue in the City's adopted operating budget for fiscal year 2016. Actual sales and use tax revenue was \$30.0 million for fiscal year 2016. This revenue includes sales and use tax for the City of Palo Alto and pool allocations from the state and Santa Clara County.¹

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 coordinated this report with them.

DISCUSSION

MuniServices prepared the attached report (Attachment B) covering calendar year 2016 second quarter sales (April through June 2016). These funds are reported as part of the City's fiscal year 2017 revenue. In December, ASD should receive information from the state on aggregate sales and use tax receipts for the third quarter of 2016.

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 2016 increased by about \$794,000, or 12.0 percent, including pool allocations, compared to the second quarter of 2015. For all Santa Clara County jurisdictions, sales and use tax revenue for the second quarter of 2016 increased by \$4.9 million, or 4.7 percent, compared to the second quarter of 2015.
- Statewide, almost every region in California experienced an increase in sales and use tax revenue for the year ending in June 2016, with a one-year statewide increase of 2.4 percent.
- Palo Alto's sales and use tax revenue totaled \$28.1 million for the year ending in June 2016, an increase of 8.3 percent from \$26.0 million during the prior one-year period.

¹ See definitions of state and county pools on page 3.

- Excluding pool allocations and adjusting for prior-period and late payments, Palo Alto’s sales and use tax revenue for the second quarter of 2016 increased by 8.6 percent compared to the second quarter of 2015 and increased by 6.1 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 D), MuniServices discusses economic influences, including national and state economic trends, employment data, 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 2016 unemployment rate, which is not seasonally adjusted, was 3.8 percent in Santa Clara County and 2.6 percent in Palo Alto.

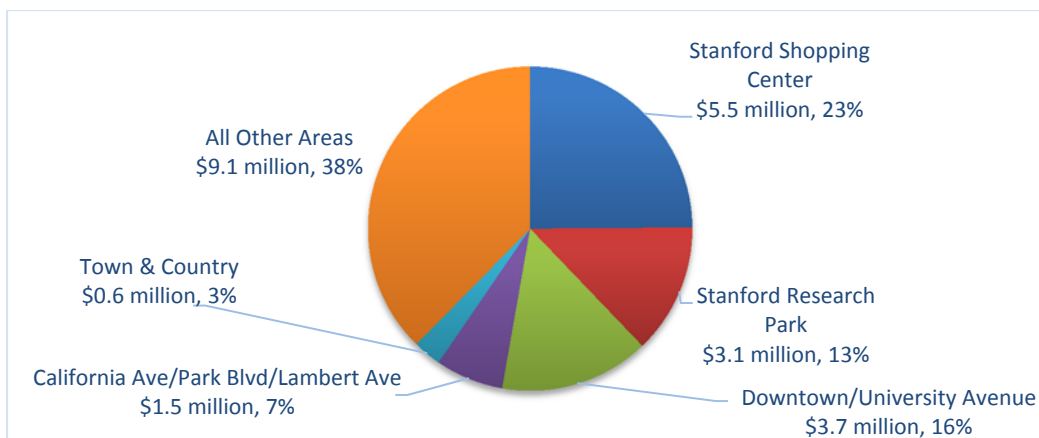
Economic Category Analysis

MuniServices’ analysis of economic categories for the year ending June 2016 shows:

Economic category	% of Palo Alto’s sales and use tax revenue	% Increase (Decrease) compared to prior year
General retail	35.3%	(1.6%)
Food products	19.7%	6.1%
Business-to-business	19.3%	31.9%
Construction	3.8%	(7.7%)
Miscellaneous	22.6%	(0.3%)

The following chart shows sales and use tax revenue by geographic area, based on information provided by MuniServices.

**Palo Alto’s Sales and Use Tax Revenue by Geographic Area
For the Year Ending June 2016
(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 2016 Adopted Operating Budget

Audit staff: Lisa Wehara

Attachment B

City of Palo Alto

Sales Tax Digest Summary

Collections through September 2016

Sales through June 2016 (2016Q2)

California Overview

The percent change in cash receipts from the prior year was 2.4% statewide, 3.2% in Northern California and 1.8% 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 2016 by 2.5% statewide, 2.6% in Southern California and 2.3% in Northern California.

City of Palo Alto

For the year ended 2nd Quarter 2016, sales tax cash receipts for the City increased by 8.3% from the prior year. On a quarterly basis, sales tax revenues increased by 12.0% from 2nd Quarter 2015 to 2nd Quarter 2016. 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 6.1% for the year ended 2nd Quarter 2016 from the prior year. On a quarterly basis, sales tax activity increased by 8.6% in 2nd Quarter 2016 compared to 2nd Quarter 2015.

Regional Overview

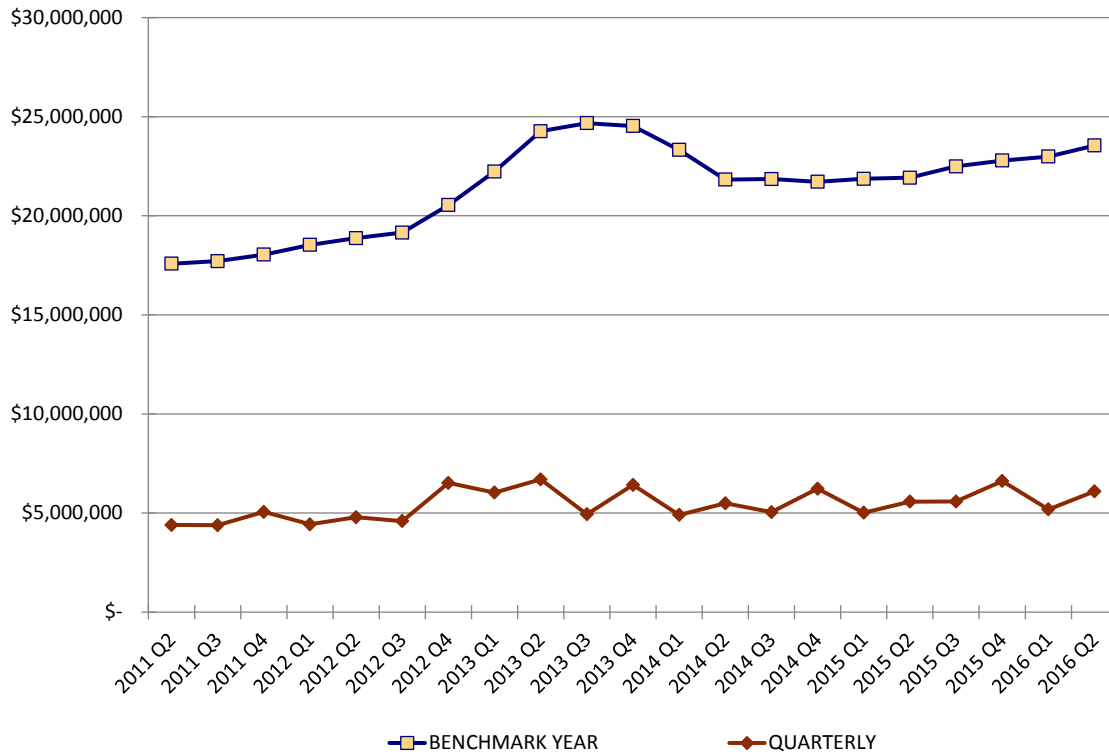
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

CITY OF PALO ALTO

BENCHMARK YEAR 2016Q2 COMPARED TO BENCHMARK YEAR 2015Q2

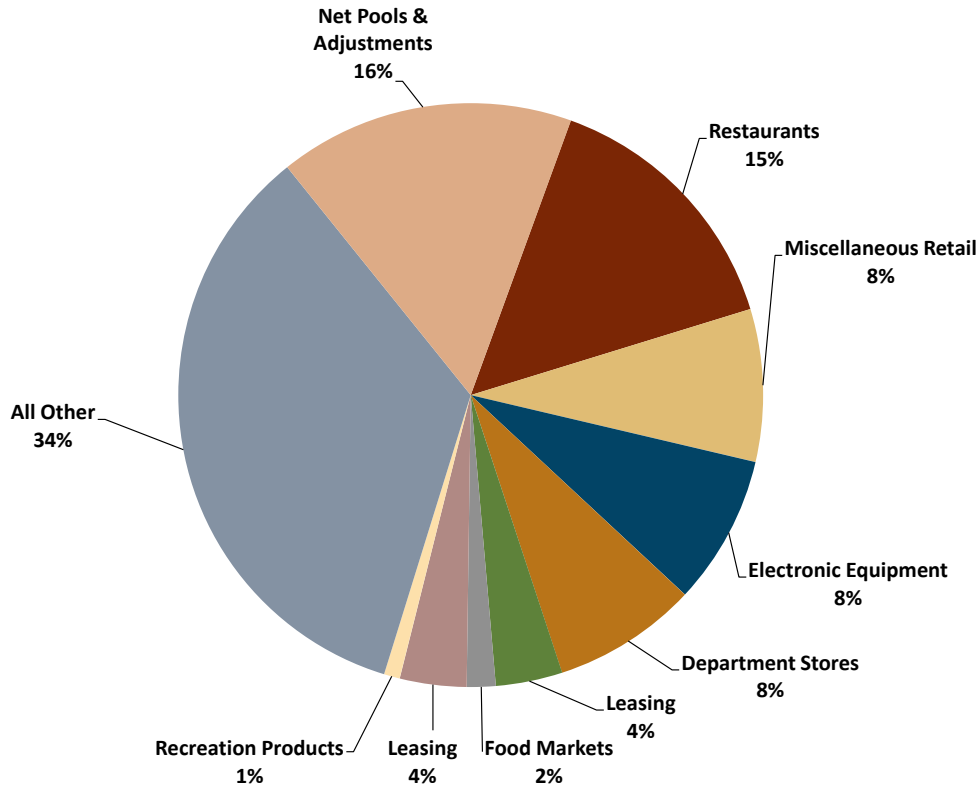
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 2nd QUARTER 2016									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	35.3 / -1.6	28.3 / 2.6	26.7 / 1.1	27.9 / 4.2	30.8 / 3.3	29.2 / 2.2	26.8 / 5.9	28.5 / 4.5	31.5 / 0.9
Food Products	19.7 / 6.1	20.6 / 5.0	22.0 / 5.2	16.9 / 3.6	16.6 / 3.9	21.8 / 5.1	17.1 / 5.5	18.4 / 3.0	30.8 / 2.0
Construction	3.8 / -7.7	9.7 / 7.5	9.5 / 4.1	11.4 / 7.1	12.2 / 5.4	8.4 / 5.8	12.4 / 20.2	13.5 / 7.7	9.5 / 5.1
Business to Business	19.3 / 31.9	16.5 / -0.1	20.1 / 4.0	14.2 / 5.1	12.7 / -8.0	16.1 / -2.1	15.4 / 0.7	8.6 / -3.7	6.2 / 5.8
Miscellaneous/Other	22.6 / -0.3	24.9 / 2.8	21.8 / 1.4	29.7 / 6.5	27.7 / 3.7	22.0 / 1.9	28.3 / 7.6	31.0 / 1.6	22.0 / 1.9
Total	100.0 / 6.1	100.0 / 2.5	100.0 / 2.3	100.0 / 4.2	100.0 / 1.0	100.0 / 1.8	100.0 / 5.4	100.0 / 2.6	100.0 / 1.4
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 2nd QUARTER 2016									
	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	Restaurants	Department Stores	Service Stations	Restaurants	Auto Sales - New	Restaurants
% of Total / % Change	17.6 / 6.3	14.6 / 6.1	15.7 / 6.0	16.0 / 6.2	13.6 / 1.9	26.0 / -1.6	11.1 / 6.3	11.7 / 13.8	22.3 / 1.5
2nd Largest Segment	***	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New	Restaurants	Auto Sales - New	Department Stores	Misc. Retail
% of Total / % Change	*** / ***	11.1 / 5.7	10.7 / 4.9	11.3 / 4.9	10.8 / 6.6	13.3 / 6.0	10.9 / 7.9	11.0 / 1.3	10.8 / 8.2
3rd Largest Segment	Miscellaneous Retail	Department Stores	Department Stores	Department Stores	Restaurants	Food Markets	Department Stores	Restaurants	Auto Sales - New
% of Total / % Change	10.1 / 16.1	9.5 / 0.5	7.8 / -1.8	9.2 / 0.4	10.8 / 6.2	8.6 / 1.7	10.4 / 2.3	10.6 / 4.3	8.7 / 12.0
*** 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 2016: \$28,146,636

*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q2 BMY is sum of 2016 Q2, Q1 & 2015 Q4 & Q3)

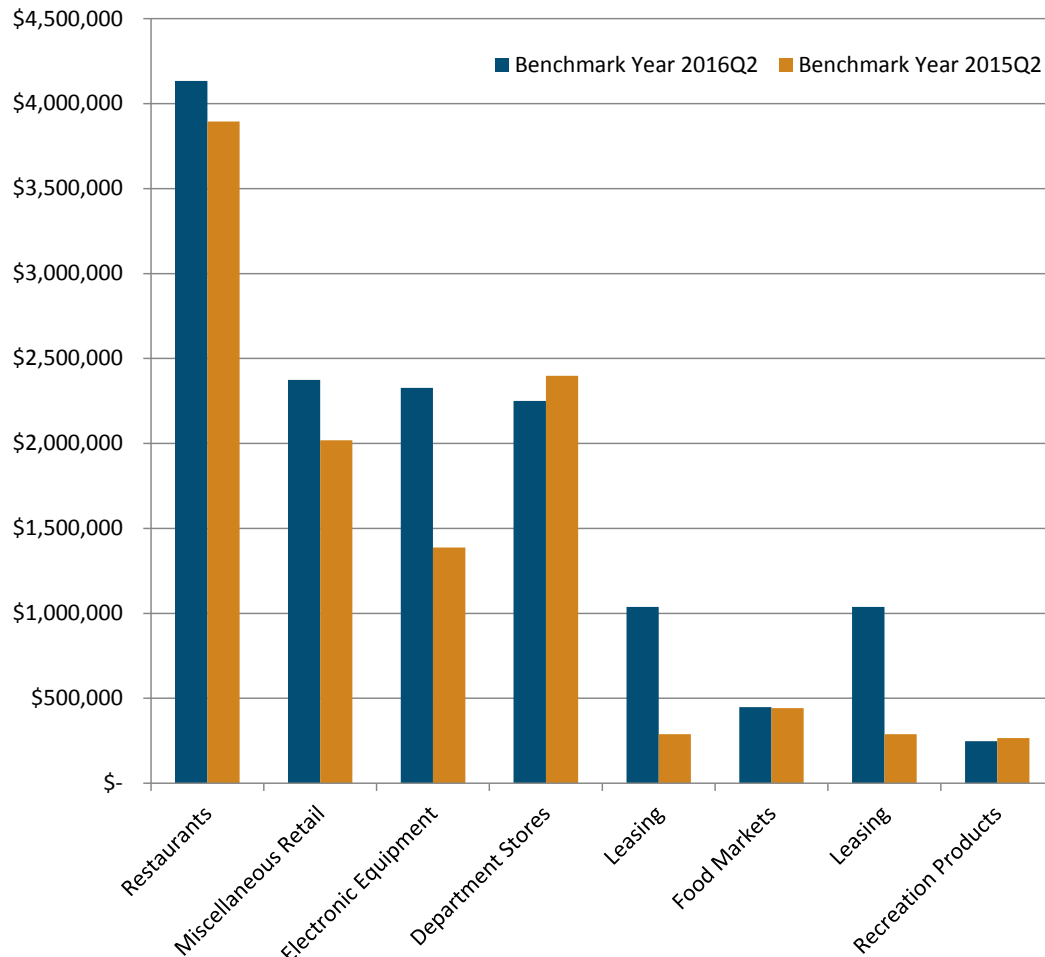


TOP 25 SALES/USE TAX CONTRIBUTORS

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 2016. The Top 25 Sales/Use Tax contributors generate 51.0% of Palo Alto’s total sales and use tax revenue.

Anderson Honda	Integrated Archive Systems	Tesla Lease Trust
Apple Stores	Macy's Department Store	Tesla Motors
Audi Palo Alto	Magnussen'S Toyota	The Pace Gallery
Bloomingdale's	Neiman Marcus Department Store	Tiffany & Company
Bon Appetit Management Co.	Nordstrom Department Store	USB Leasing
CVS/Pharmacy	Pottery Barn Kids	Varian Medical Systems
Eat Club	Redwood City Electric	Volvo Cars Palo Alto
Fry's Electronics	Space Systems Loral	
Hewlett-Packard	Stanford University Hospital	

Sales Tax from Largest Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

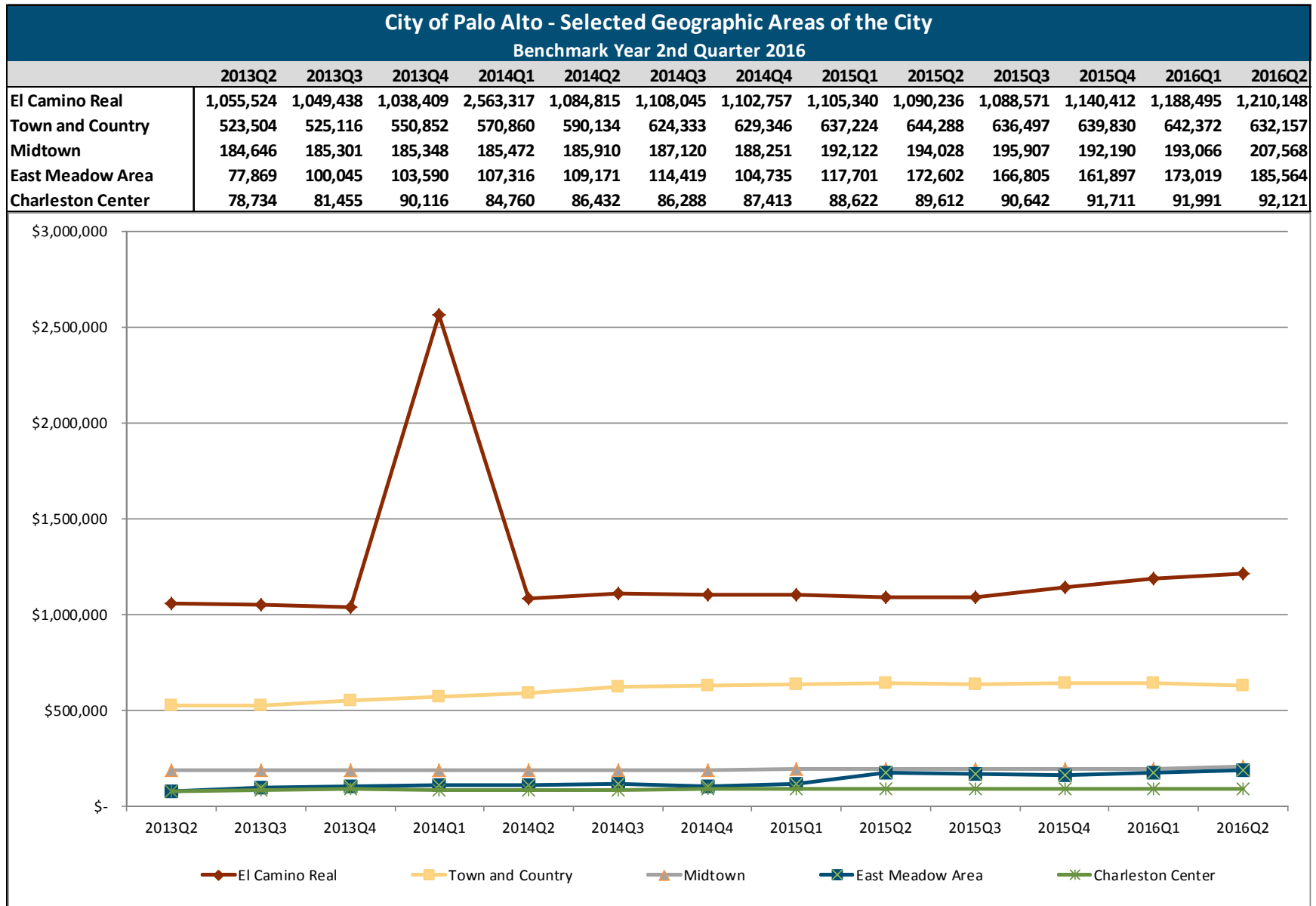
Economic Category	%	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4
General Retail	28.9%	2,141,794	1,673,846	2,526,551	1,935,178	2,009,743	1,797,756	2,591,589	1,994,264	2,032,155	1,791,298	2,585,931
Miscellaneous/Other	21.8%	1,617,307	1,413,133	1,491,158	1,609,541	1,564,157	1,400,769	1,655,225	1,400,415	1,437,507	1,283,210	1,553,169
Food Products	16.1%	1,194,369	1,126,103	1,166,195	1,146,174	1,167,014	1,061,755	1,096,087	1,054,462	1,051,681	972,997	1,009,848
Business To Business	15.4%	1,140,526	974,162	1,428,210	888,609	833,370	757,827	885,327	596,226	970,762	858,119	1,268,059
Net Pools & Adjustments	17.7%	1,313,745	1,072,794	1,226,261	1,060,979	1,039,250	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801
Total	100.0%	7,407,741	6,260,038	7,838,375	6,640,481	6,613,534	5,986,884	7,406,710	5,991,020	6,279,050	5,919,257	7,512,808

Economic Segments	%	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4
Miscellaneous/Other	40.1%	2,973,047	2,607,097	3,237,983	2,720,241	2,549,852	2,370,361	2,906,134	2,211,697	2,577,014	2,328,959	3,184,808
Restaurants	14.4%	1,068,502	1,005,688	1,029,733	1,019,505	1,045,011	942,709	962,018	936,160	940,540	870,158	890,739
Miscellaneous Retail	9.2%	681,345	469,360	714,151	478,994	479,298	415,270	628,099	508,061	514,133	481,305	661,268
Department Stores	7.4%	546,629	435,470	714,831	553,325	595,374	503,590	750,481	548,595	591,500	472,857	762,760
Apparel Stores	6.0%	444,383	337,880	519,318	397,534	428,100	370,810	507,843	398,747	429,748	365,777	515,296
Service Stations	2.0%	144,735	123,004	140,758	173,082	181,582	148,902	166,861	203,484	215,162	184,185	177,096
Food Markets	1.5%	109,108	104,676	116,778	113,092	106,818	104,856	117,245	105,600	98,705	90,272	104,592
Business Services	0.9%	65,510	51,647	76,156	51,885	120,003	103,773	131,505	66,163	62,060	63,768	61,832
Recreation Products	0.8%	60,737	52,422	62,406	71,844	68,246	57,836	58,042	66,860	63,243	48,343	58,616
Net Pools & Adjustments	17.7%	1,313,745	1,072,794	1,226,261	1,060,979	1,039,250	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801
Total	100.0%	7,407,741	6,260,038	7,838,375	6,640,481	6,613,534	5,986,884	7,406,710	5,991,020	6,279,050	5,919,257	7,512,808

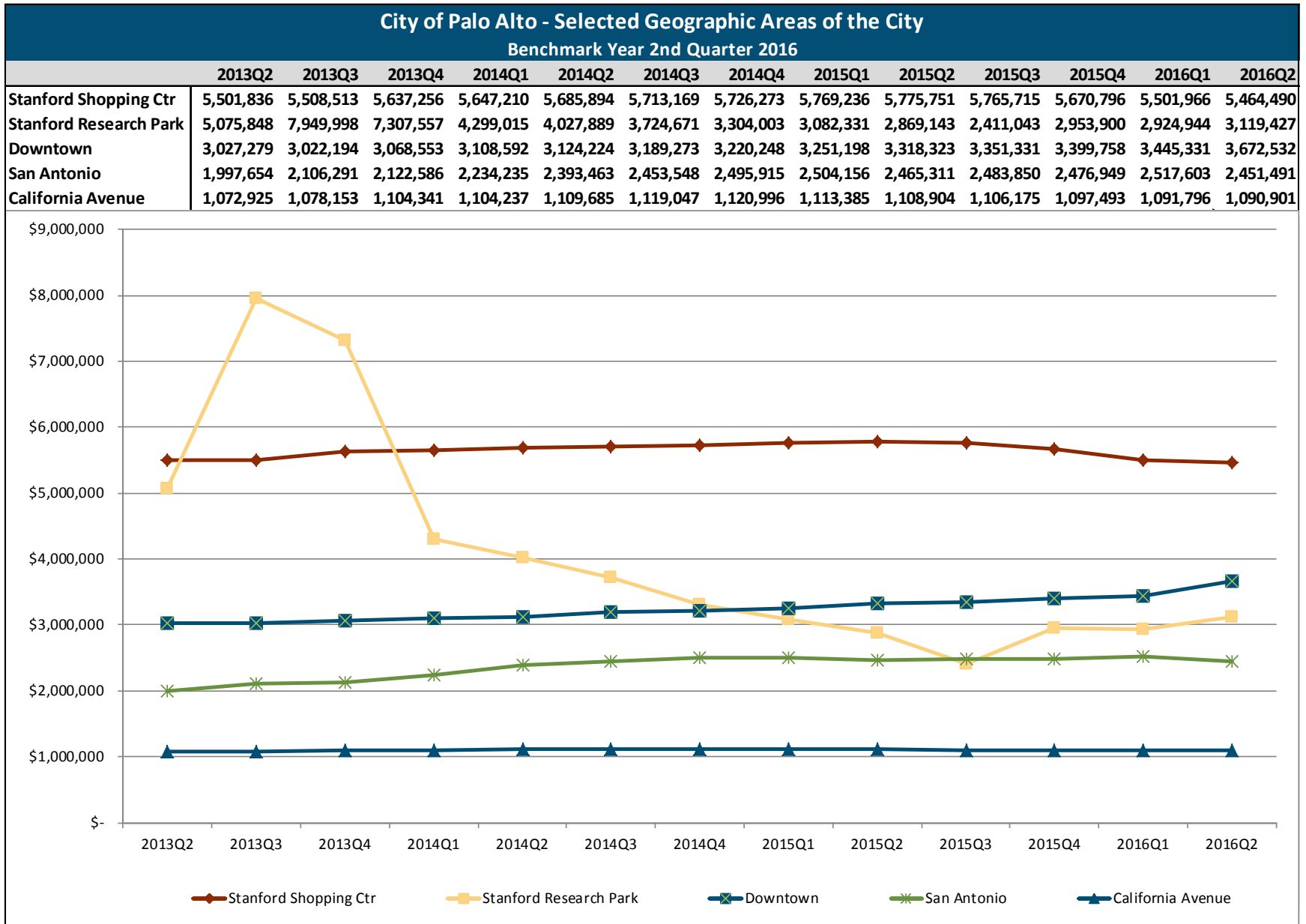
*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

Quarterly Analysis by Economic Category, Total and Segments: Change from 2015Q2 to 2016Q2

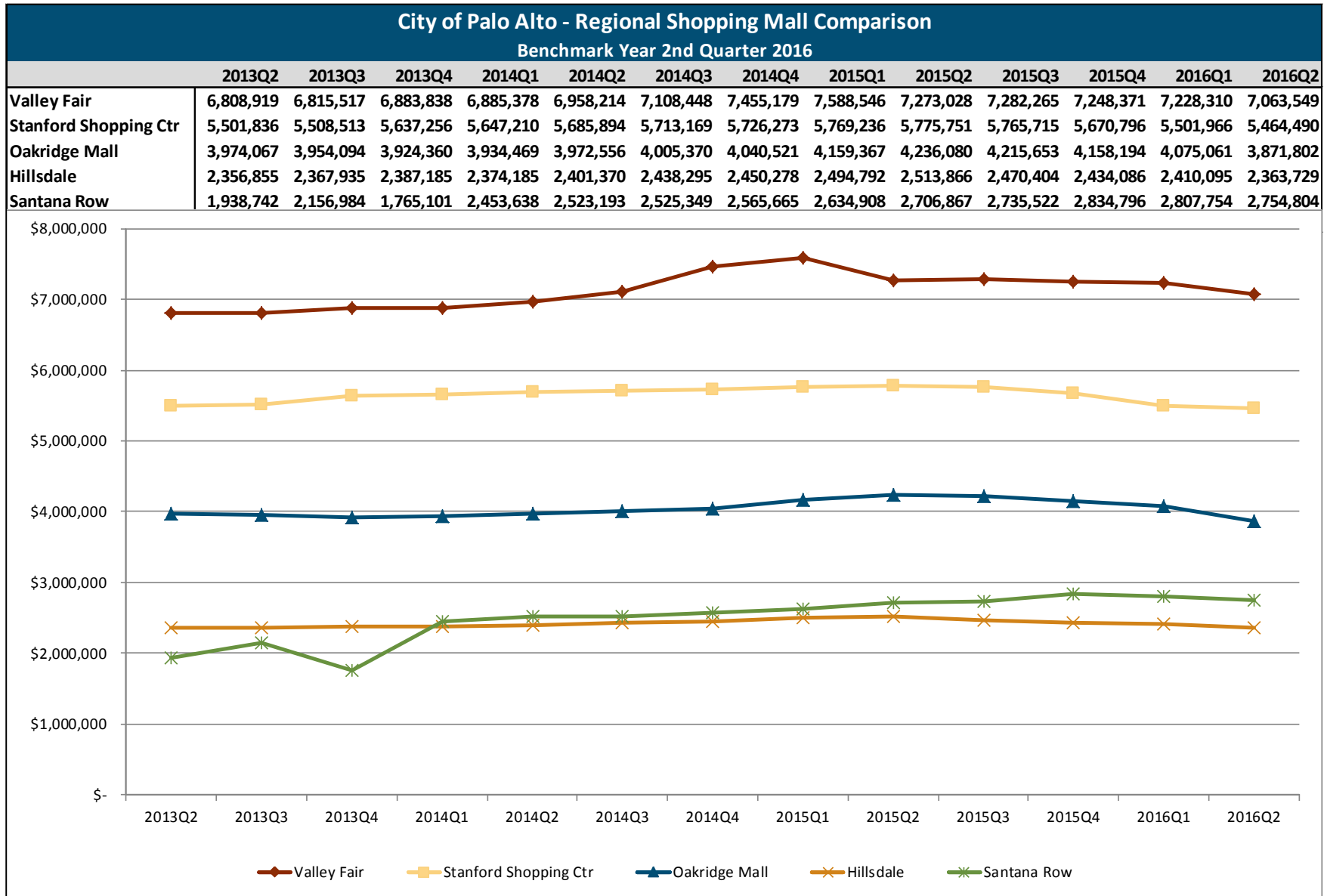
	General Retail	Food Products	Construction	Business to Business	Misc/Other	2016/2 Total	2015/2 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	5.2%	6.4%	-3.7%	-23.9%	10.6%	2,318,937	2,416,561	-4.0%	Recreation Products	Restaurants	Business Services	Service Stations
Cupertino	-17.4%	8.4%	-45.6%	-18.8%	13.4%	5,260,419	6,530,019	-19.4%	Office Equipment	Restaurants	Business Services	Bldg.Matls-Whsle
Gilroy	-2.3%	4.9%	12.1%	22.2%	-1.5%	3,627,576	3,532,484	2.7%	Heavy Industry	Auto Sales - New	Service Stations	Apparel Stores
Los Altos	-6.7%	9.3%	-15.0%	-14.4%	11.3%	562,140	568,561	-1.1%	Liquor Stores	Restaurants	Service Stations	Furniture/Appliance
Los Gatos	-7.7%	2.1%	1.4%	-34.5%	11.4%	1,601,032	1,748,209	-8.4%	Restaurants	Business Services	Office Equipment	Miscellaneous Other
Milpitas	-1.6%	7.5%	55.7%	-23.7%	2.9%	4,966,322	5,066,048	-2.0%	Bldg.Matls-Whsle	Restaurants	Electronic Equipment	Office Equipment
Morgan Hill	4.0%	6.7%	4.3%	0.3%	0.4%	1,932,710	1,892,765	2.1%	Heavy Industry	Misc. Vehicle Sales	Service Stations	Electronic Equipment
Mountain View	2.5%	0.8%	-1.4%	42.3%	13.5%	4,237,788	3,926,348	7.9%	Business Services	Miscellaneous Retail	Auto Sales - New	Light Industry
Palo Alto	5.7%	3.9%	-8.5%	23.1%	-10.3%	6,093,993	5,613,826	8.6%	Leasing	Miscellaneous Retail	Office Equipment	Department Stores
San Jose	-0.5%	5.8%	2.8%	6.5%	2.2%	38,541,231	37,797,727	2.0%	Light Industry	Restaurants	Office Equipment	Service Stations
Santa Clara	0.8%	0.4%	-3.2%	-1.4%	2.1%	10,906,435	11,032,886	-1.1%	Business Services	Office Equipment	Electronic Equipment	Light Industry
Santa Clara Co.	-14.8%	3.1%	-0.1%	-40.3%	18.4%	1,013,597	1,143,982	-11.4%	Restaurants	Service Stations	Office Equipment	Health & Government
Saratoga	-25.3%	-1.9%	37.2%	-20.3%	13.9%	238,127	262,731	-9.4%	Bldg.Matls-Retail	Food Markets	Miscellaneous Retail	Service Stations
Sunnyvale	-1.0%	3.0%	-9.2%	5.4%	2.0%	6,683,287	6,615,403	1.0%	Electronic Equipment	Auto Sales - New	Office Equipment	Health & Government



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q2 BMY is sum of 2016 Q2, Q1 & 2015 Q4 & Q3)*



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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



U.S. Economy and Indicators

<http://www.census.gov> (released September 16, 2016); *Washington Post* (October 12, 2016); *Kiplinger* (October 7, 2016)
http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2016/October/Oct-16.pdf

U.S. GDP: Grew by an annualized 1.4% in 2Q 2016 after a 0.8% growth in the first quarter; predictions for 2% in 2017. Growth is reflective of consumer spending and exports that were offset by negative contributions from inventory investment, residential fixed investment, state and local government spending, and nonresidential fixed investment. Some officials noted that the labor market is still healing evidenced by the return of workers to the labor force.

Interest Rates: In September, the Federal Reserve opted against raising interest rates; rates were increased in December for the first time since the Great Recession. There is concern that waiting too long may force a hike if inflation gets 'out of hand' and sending the country back into a recession.

Manufacturing and Trade Inventories and Sales for August 2016: Total business sales were \$1,304.1 billion, up 0.2% from July.

Sales for Retail and Food Services for September: \$459.8 billion, an increase of 0.6% from August.

Rental Vacancy Rate for 2Q2016: 6.7%, down from the 2Q2015 rate of 6.8%.

Homeownership Rate: 2Q2016 was 62.9% down from the 2Q2015 rate of 63.4%.

New Residential Sales in August: 609,000, which is 7.6% below the revised July 2016 estimate of 659,000.

Services Sector for 2Q2016: \$3,457.9 billion, an increase of 3.4% from the 1Q2016 and up 4.3% from 2Q2015.

E-commerce sales: 2Q2016 accounted for 8.1% of total U.S. sales.

Total retail sales: Estimated at \$1, 201.9 billion for 2Q2016; an increase of 1.5% from the 1Q2016.

Consumer Price Index for September, 2016

<http://www.bls.gov/news.release/pdf/cpi.pdf> (released October 18, 2016)

Consumer Price Index for All Urban Consumers: Increased 0.3% in September and 1.5% over the last 12 months.

Food Index: Food at home fell 1.1% for the fifth month; food away from home increased 0.2%. Over the last 12 months, the food at home index has declined 2.2%, the largest 12-month decline since December 2009.

Gasoline Index: Rose 5.8% in September after falling 0.9% in August and accounted for more than half of all the items increase. The fuel oil index rose by 2.4%, natural gas increased (0.8%) following larger increases in July and August. The gasoline index has declined 6.5% over the last year.

Indexes Unchanged: Household furnishings and operations.

Indexes That Rose: Shelter (0.4%), rent (0.3%), owner equivalent (0.4%), hospital services index (1.7%), prescription drugs (0.8%), medical care services (0.2%), motor vehicle insurance (0.4%), alcohol beverages (0.3%), and tobacco (0.4%).

Indexes Declining: Apparel (0.7%), communications (0.8%) which is the largest decline since October 2014, used cars and trucks (0.3%), new vehicles (0.1%).

U.S. Employment Data for August

<http://www.bls.gov/news.release/empsit.nr0.htm>

Unemployment: 5.0, which is a little change since August and represents about 7.9 million unemployed persons.

Retail Trade: Added +22,000 jobs, clothing and clothing accessories +14,000, and gasoline stations +8,000. Over the year, employment in retail trade has risen by 317,000.

Food Services and Drinking Places: +30,000 and has increased by 300,000 over the year.

Professional and Business Services: Rose by 67,000 and has risen by 582,000 over the year; management and technical consulting services +16,000, and administrative and support services +35,000.

Health Care: Increased by 33,000, ambulatory health care services +24,000, and hospitals +7,000; over the past 12 months health care added 445,000 jobs. National healthcare costs is expected to have changes with either presidential candidate winning, whether it is raising premium subsidies for people who buy individual coverage, adding tax credits, or letting people deduct premium on tax returns.

U.S. Economic Outlook

http://soba.ucr.edu/centers/pdf/Thornberg_Southwest_Riverside_Forecast_6_8_2016.pdf;

<http://www.forbes.com/sites/billconerly/2016/09/16/u-s-economic-forecast-2017-2018-mild-rebound/#5dad22b123b6>

Outlook: For 2017 looks brighter than this year's performance. 2016 suffered from the short-term impact of reduced petroleum drilling more than the long-term benefit of cheaper gasoline.

Consumer Spending: Adding to the better performance next year will be continued gains in consumer spending, as well as housing and non-residential construction. Consumer attitudes are stable at a good level, a bit above the long-run average. Consumers in 2017 should continue increasing their spending in line with their incomes. This is in contrast to what happened a decade ago when spending was being fueled by debt accumulation.

Worker competition: The competition for workers has finally shifted the economic balance toward labor to a small degree. Median real wages for a full-time worker have grown 4% over the past two years.

Housing bubble: There is no sign of anything resembling a housing bubble re-emerging, as low interest rates imply that overall housing affordability is still very good. Tight credit remains a major impediment to full recovery.

Corporate profits: Will remain weak and government spending will stay constrained through the election cycle. And while the dollar has stabilized, it continues to be elevated compared to the last decade.

Recession: The next U.S. downturn will be in three years, according to 31 economists.

State and Local Governments: Are increasing both their revenue and expenditures at a mild pace, just over 2% not adjusted for inflation. Slack economic growth doesn't generate much tax gains.

California: Leading and not lagging the nation; California in January 2015 became the 6th largest economy in the world with \$2.46 trillion in gross state product.

California Economic and Revenue Update for 2Q2016

State Controller, Department of Finance, October, 2016

Revenues: Year-to-date revenues are \$217 million below the expected \$24.807 billion. **Personal Income Tax:** Largest portion of General Fund receipts at almost \$7.14 billion which exceeded budget projections by \$127.7 million. **Sales and Use Taxes:** \$70 million below the month's forecast of \$2.033 billion. Year-to-date revenues are \$221 million below forecast. **Other revenues:** Estate, alcoholic beverage, tobacco taxes, and pooled money interest were \$2 million above the month's forecast of \$35 million.

Construction: Residential permits: Increased by 43.4% in August to annual total of 113,170 units, the highest since April 2014. Permits for single-family units increased by 11.9% to 46,300, while multifamily permits increased by 78.3% to 66,870 in August. During the first eight months of 2016, more than half of the total 97,000 residential permits were for multifamily. **Non-residential construction:** Fell in August by 23.4% to \$20.9 billion.

Real estate sales in August: Existing single-family homes increased 1.1% (420,000 units). Sales of the first eight months in 2016 increased by 0.1% compared to the same period in 2015. **Median Price Single Family Home:** Remained above \$526,580; median was 11% (or \$67,950) less than the pre-recession peak of \$594,530 from May of 2007.

Personal income: California's personal income in the second quarter of 2016 grew by 3.6% compared to a year ago, following 4.7% growth in the first quarter. In 2015, California's personal income grew 6.4%, while U.S. personal income grew by 4.5%. **Wages and salaries:** For \$1.4 trillion of total personal income of \$2.2 trillion in the second quarter of 2016, and grew by 4.8% on a year-over-year basis.

California Labor and Employment Trends

Labor Market Information, EDD, August, 2016

Unemployment: The number of unemployed Californians fell by 85,000 (7.4%) over the 12-months ending in August 2016. This was California's smallest year-over decrease in number since July 2011 (76,000) and its smallest year-over percentage decrease since November 2011 (7.3%). U.S. unemployment was 4.9% in August, unchanged from July, and down 0.2% from a year ago. **Civilian employment:** There were 1,170,000 fewer unemployed Californians in August 2016 than there were at the height of the recession in October 2010, but 202,000 more than there were at the pre-recession low in September 2006. Employed Californians increased by 57,000 persons to 18,170,000 in August 2016.

Non-Farm Jobs: Up 151,000 jobs (0.1%) over the month and up 2,447,000 jobs (1.7%) over the year. In comparison, California non-farm jobs were up 63,100 jobs (0.4%) over the month and up 378,000 jobs (2.3%) since August 2015. **Sectors:** The largest gains in August were in the government (27,900), professional and business services (14,400), trade, transportation, and utilities (10,300), and private sector (35,000) sectors. Leisure and hospitality has a gain of 31,900 to date in 2016. Month-over job losses were manufacturing (3,400) and mining and logging (400).

California Auto Trends for 2nd Q 2016

<http://www.cncda.org/>

New Vehicle Market: Increased in 2Q2016. New vehicle registrations were up 1.8% versus a year earlier. **Used vehicle market:** Gain of 7.4% in first half of 2016; used registrations for vehicles six years old or newer were up by more than 17% in the first half of this year, while new vehicles increased by less than 3%. **Registrations:** 2.8% change: YTD 15 (1,017,198) and YTD (1,045,440); New retail light vehicle registrations in California increased 3.0% during the first six months of this year, while fleet registrations slipped 1.1%. Retail car registrations declined. Light trucks (consisting of pick-ups, SUVs, and vans) were up 14%. **Future Gains:** Strong consumer interest in the abundance of new vehicles, combined with low fuel prices, attractive incentive offers, and low interest rates should help keep the market on an upward path for at least the next 12 months. National forecasts predict slower sales for new cars that fall below 2015 records; forecast cut by 300,000 (or 1.7%) (*LWC Automotive, July 2016*)

California New Car Dealer 2016 Economic Impact Report: New Vehicles Sold: 2,052,750 (2015); 1,848,254 (2014); **Used Retail Vehicles Sold:** 769,500 (2015); 691,189 (2014); **Total Sales:** \$117.36 billion (2016 Report); \$105.12 billion (2015 Report)

Gasoline

<https://www.consumeraffairs.com/gas-prices>

The national average price for regular unleaded gasoline has increased for 12 of the past 14 days, reaching today's price of \$2.26 per gallon. Pump prices typically decline during this time of year due to lower driving demand after the busy summer driving season has concluded and the changeover from summer-blend to a cheaper-to-produce winter-blend gasoline, which took place in many parts of the country starting on September 15. Consumer Affairs reports from September 29, 2016 report that gas prices are not going back to \$3 a gallon anytime soon.

Retail Sales and Food Services (Advanced Estimates for September)

<http://www.marketwatch.com/story/us-retail-sales-climb-06-in-september-2016-10-14-81033311>

Retail and Auto Sales: Retail has grown slowly because cheaper gas. Sales at retail stores rose 0.3% in September. Auto sales are about 1/5 of retail spending.

Gasoline Service Stations: 2.4% pick-up last month; gasoline averaged \$2.20 a gallon in September, up from \$2.16 in August.

Restaurants: Increase since April with a 0.8% gain.

Department Stores: Receipts fell 0.7%. Sales fell at stores that sell clothes, electronics and pharmacies. In August, retail sales declined 0.2% instead of 0.3%.

Food Services and Drinking Places: Increased 0.8% in August, the biggest advance since February.

Retail categories: Ten of 13 major retail categories showed gains in September. Motor vehicle dealers, furniture stores, restaurants and building supply outlets were among those showing solid increases.

Miscellaneous Retail Establishments: Jumped 1.8% in September; helped by Apple Inc.'s iPhone 7, with pre-orders four times as great as for previous models.

Convenience Stores: The U.S. industry, with more than 154,000 stores across the country, conducts 160 million transactions a day, sells 80% of the fuel purchased in the country and had total sales of \$575 billion in 2015. (*Association of Convenience and Refueling, October, 2016*)

Home Improvements: Analysts predicted sales at existing stores will rise 4.8% at Home Depot and 4% at Lowe's. Repairs and remodeling is expected to surpass \$300 billion in 2016 (<http://www.jchs.harvard.edu/>)

Holiday Spending and Hiring: Sales in November and December, excluding autos, gas and restaurant sales are expected to increase a solid 3.6% to \$655.8 billion, higher than the 10-year average of 2.5% and above the seven-year average of 3.4% since recovery began in 2009. The National Retailer Federation (NRF) is forecasting non-store sales to increase between 7 and 10% to as much as \$117 billion. Retailers are expected to hire between 640,000 and 690,000 seasonal workers this holiday season, in line with last year's 675,300 new holiday positions. Retailers open on Thanksgiving include Best Buy, Kohl's, Macy's, Sears, Target and Walmart. (*NRF, October, 2016*)

Luxury: Designer brands are suffering some of their slowest revenue growth since the 2008 financial crisis. Luxury department stores are recognizing that their clients are keen on high-quality bargains. (*Wall Street Journal, July 2016*)

On-Line Grocery Trends: **Amazon:** Making progress toward brick-and-mortar stores to augment home delivery of groceries, convenience store, and curbside pick up. **Wal-Mart:** Purchased web retailer Jet.com; Wal-Mart gets more than half of its U.S. revenue from food and groceries.

Food: Lower food prices at supermarkets but not at restaurants because of low agricultural commodity and transportation costs. Grocers face increasing competition from online shopping outlets, which adds pressures to grocers' thin profit margins. Restaurateurs will hold menu prices fairly steady, despite the drop in farm prices for corn, wheat, meat and other foods. Americans seek deals in supermarkets yet accustomed to paying more when dining out. (*Kiplinger, October 7, 2016*)

Restaurant Trends: While same-store sales and customer traffic trends were a mixed bag in recent months ('restaurant recession') that did not paint a complete picture on the health of the overall industry. A better performance metric is total restaurant industry sales, which is both existing restaurant sales and sales at new restaurants that enter the market. Contributors to growth in the restaurant industry: a) Labor market is healthy (the number-one driver of restaurant sales is a healthy labor market); b) wage growth is picking up; c) households have breathing room (housing debt is rising again), d) pent-up demand remains elevated (consumers have yet to get their fill of restaurants), and e) consumers crave experience. (<http://www.restaurant.org/News-Research/News/5-reasons-restaurant-growth-will-continue.>)