CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

March 5, 2018

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Second Quarter Sales (April - June 2017)

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

ATTACHMENTS:

- Attachment A: Sales Tax Highlights (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

Attachment A

Office of the City Auditor

Sales Tax Highlights – Second Quarter Sales (April – June 2017)

CITY OF PALO ALTO

Informational Report to the City Council

BACKGROUND

Sales and use tax represents $29.2 million, or 15 percent, of projected General Fund revenue in the City's adopted operating budget for fiscal year 2017. Actual sales and use tax revenue was $29.9 million for fiscal year 2017. 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 California Department of Tax and Fee Administration (formerly 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.

MuniServices prepares the Sales Tax Digest Summary and Economic & News Trends report (Attachments B and D), which we share with the Administrative Services Department (ASD) for use in revenue forecasting and budgeting. Sales tax information is reported on a calendar-year basis.

DISCUSSION

The Sales Tax Digest Summary covers second quarter sales for calendar year 2017, which are reported as part of the City's fiscal year 2018 revenue. In December 2017, ASD should receive information from the state on aggregate sales and use tax receipts for the third quarter of 2017. 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 2017 decreased by $470,000, or 6.3 percent, including pool allocations, compared to the second quarter of 2016. Excluding one-time prior period adjustments of $182,000, the second quarter of 2017 decreased by $288,000, or 3.9 percent, including pool allocations, compared to the second quarter of 2016. For all Santa Clara County jurisdictions, sales and use tax revenue for the second quarter of 2017 decreased by $2.3 million, or 2.1 percent, compared to the second quarter of 2016.
- Statewide, most regions in California experienced an increase in sales and use tax revenue for the year ending in June 2017, with a one-year statewide increase of 2.8 percent.
- Palo Alto's sales and use tax revenue totaled $28.9 million for the year ending in June 2017, an increase of 2.5 percent from $28.1 million during the prior one-year period.

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[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 2017 decreased by 3.5 percent compared to the second quarter of 2016 and increased by 1.8 percent compared to the prior year.

Economic Influences on Sales and Use Tax

The Economic News & Trends report discusses economic influences, including national and state economic trends, auto, gasoline, retail, e-commerce, restaurant and grocery trends, that may affect the City's sales and use tax revenue.

Preliminary estimates from the California Employment Development Department show that the September 2017 unemployment rate, which is not seasonally adjusted, was 3.3 percent in Santa Clara County and 2.2 percent in Palo Alto.

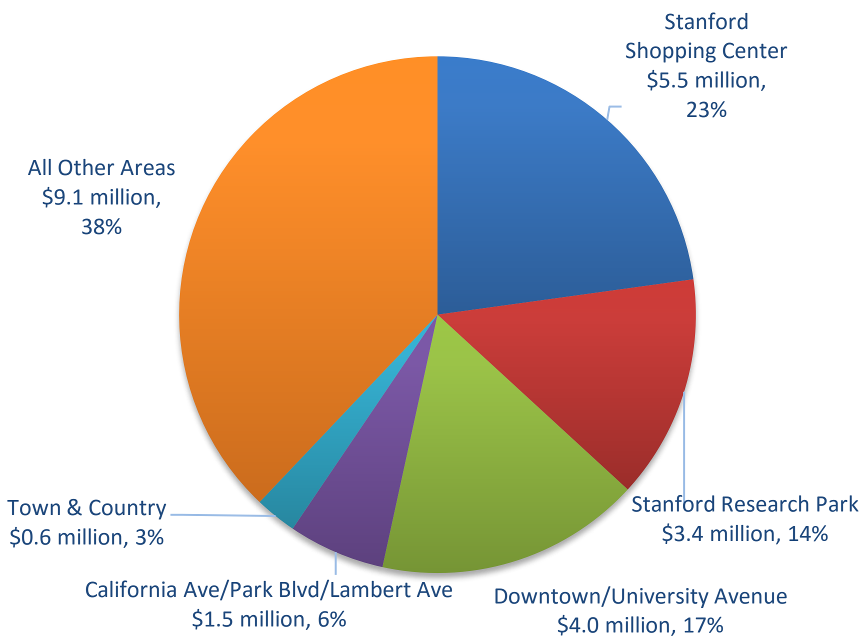
Economic Category Analysis

MuniServices' analysis of economic categories for the year ending June 2017 shows:

Economic category	Percent of Palo Alto's sales and use tax revenue	Percent Increase (Decrease) compared to prior year
General retail	34.9%	0.6%
Food products	19.2%	(1.4%)
Business-to-business	20.0%	5.1%
Construction	2.9%	(20.6%)
Miscellaneous	23.3%	7.9%

The following chart shows sales and use tax revenue by geographic area:

Palo Alto's Sales and Use Tax Revenue by Geographic Area
For the Year Ending June 2017
(Amounts include tax estimates and exclude county 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 was 9.0 percent during the second quarter of 2017.

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 does not collect California tax for some other reason; and 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 consume materials used when improving real property and whose job site is regarded as the place of business
- California or out-of-state sellers who ship goods directly to consumers in the county from inventory located outside the state
- Auctioneers, catering trucks, itinerant vendors, and 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 Department of Tax and Fee Administration
California Employment Development Department
City of Palo Alto Fiscal Year 2017 Adopted Operating Budget
City of Palo Alto Fiscal Year 2017 Comprehensive Annual Financial Report

Audit staff: Lisa Wehara

Attachment B

City of Palo Alto
Sales Tax Digest Summary
Collections through September 2017
Sales through June 2017 (2017Q2)

California Overview

The percent change in cash receipts from the prior year was 2.8% statewide, 2.2% in Northern California and 3.3% 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 2017 by 1.9% statewide, 1.8% in Southern California and 2.0% in Northern California.

City of Palo Alto

For the year ended 2nd Quarter 2017, sales tax cash receipts for the City increased by 2.5% from the prior year. On a quarterly basis, sales tax revenues decreased by -6.3% from 2nd Quarter 2016 to 2nd Quarter 2017. 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 1.8% for the year ended 2nd Quarter 2017 from the prior year. On a quarterly basis, sales tax activity decreased by -3.5% in 2nd Quarter 2017 compared to 2nd Quarter 2016.

Regional Overview

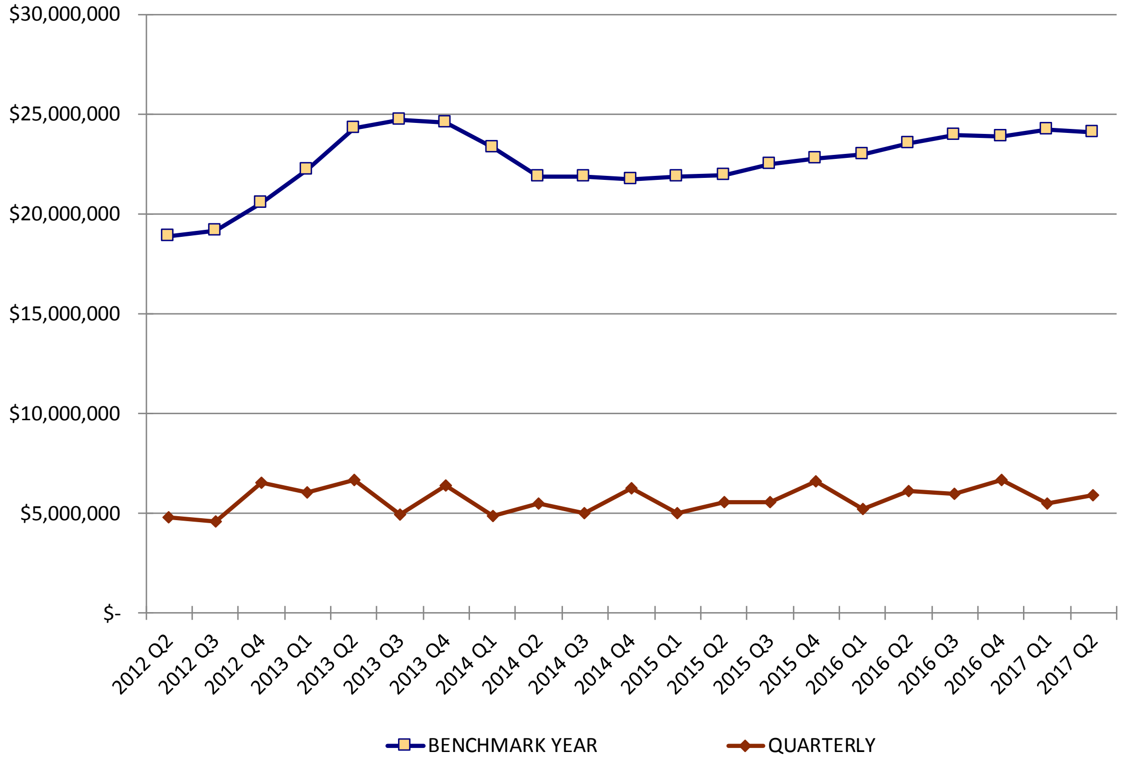
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

CITY OF PALO ALTO

BENCHMARK YEAR 2017Q2 COMPARED TO BENCHMARK YEAR 2016Q2

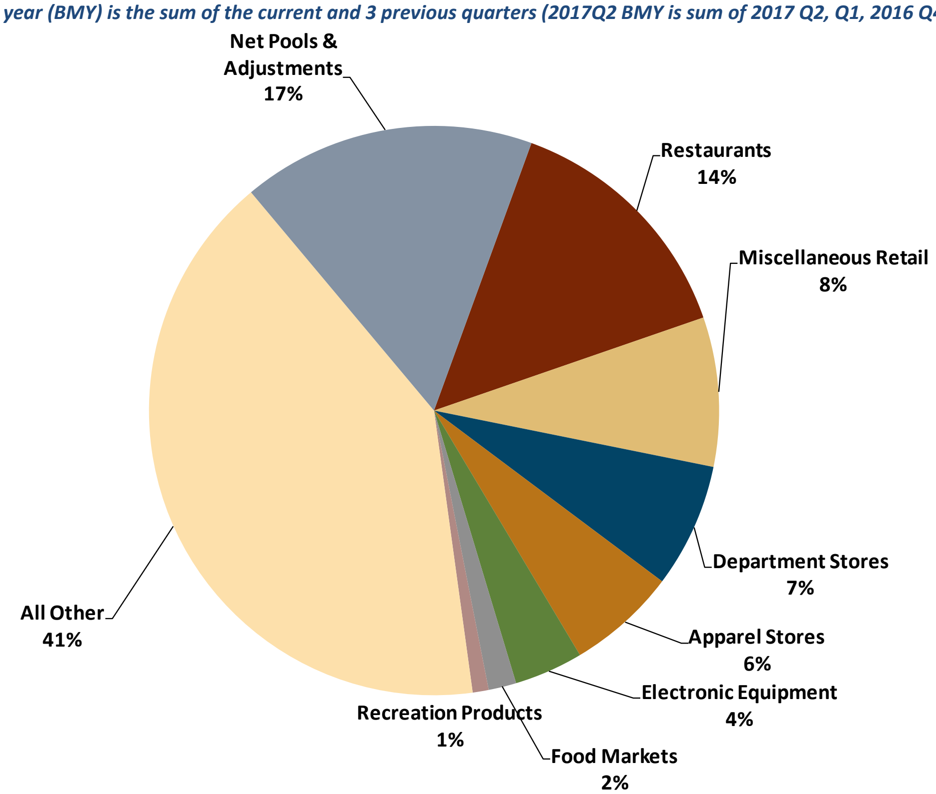
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 2nd QUARTER 2017									
% of Total / % Change	**City of Palo Alto**	**California Statewide**	**S.F. Bay Area**	**Sacramento Valley**	**Central Valley**	**South Coast**	**Inland Empire**	**North Coast**	**Central Coast**
General Retail	34.9 / 0.6	28.1 / 0.9	26.2 / -0.7	27.4 / 1.2	31.4 / 6.4	28.8 / 0.0	27.1 / 3.4	28.4 / 0.2	31.1 / -6.2
Food Products	19.2 / -1.4	21.1 / 4.0	22.4 / 3.1	17.2 / 4.8	16.9 / 4.8	22.4 / 4.4	17.6 / 4.5	18.7 / 2.4	30.8 / -7.4
Construction	2.9 / -20.6	9.4 / -1.2	9.5 / 1.2	11.6 / 2.8	11.9 / 1.7	8.3 / 0.8	10.5 / -12.9	13.7 / 2.7	8.3 / -16.6
Business to Business	20.0 / 5.1	16.4 / 1.4	19.4 / -1.9	14.0 / 0.7	12.4 / 1.3	16.2 / 2.2	16.3 / 6.9	8.0 / -5.2	6.3 / -3.8
Miscellaneous/Other	23.3 / 7.9	25.1 / 2.8	22.5 / 4.7	29.8 / 3.8	27.5 / 3.8	24.4 / 1.3	28.6 / 4.3	31.2 / 1.8	23.6 / 2.7
Total	**100.0 / 1.8**	**100.0 / 1.9**	**100.0 / 1.3**	**100.0 / 2.7**	**100.0 / 4.2**	**100.0 / 1.7**	**100.0 / 2.4**	**100.0 / 1.0**	**100.0 / -5.5**
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 2nd QUARTER 2017									
	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	17.0 / -1.8	15.0 / 4.8	16.0 / 3.1	16.5 / 5.3	13.2 / 2.0	18.6 / -55.5	11.6 / 6.2	12.2 / 6.1	22.0 / -7.9
2nd Largest Segment	**Auto Sales - New**	**Auto Sales - New**	**Auto Sales - New**	**Auto Sales - New**	**Auto Sales - New**	**Restaurants**	**Auto Sales - New**	**Restaurants**	**Auto Sales - New**
% of Total / % Change	15.5 / 8.1	11.4 / 4.6	11.4 / 6.8	11.3 / 2.8	11.0 / 7.1	14.6 / -32.2	11.1 / 4.7	10.9 / 3.0	10.9 / 18.9
3rd Largest Segment	**Miscellaneous Retail**	**Department Stores**	**Department Stores**	**Department Stores**	**Restaurants**	**Auto Sales - New**	**Department Stores**	**Department Stores**	**Misc. Retail**
% of Total / % Change	10.2 / 3.1	9.2 / 0.0	7.5 / -1.2	8.9 / -0.7	10.9 / 5.4	12.0 / 10.1	10.3 / 2.2	10.6 / -2.1	10.3 / -8.5
	***** 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 2017: $28,860,004

**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2017Q2 BMY is sum of 2017 Q2, Q1, 2016 Q4 & Q3)*

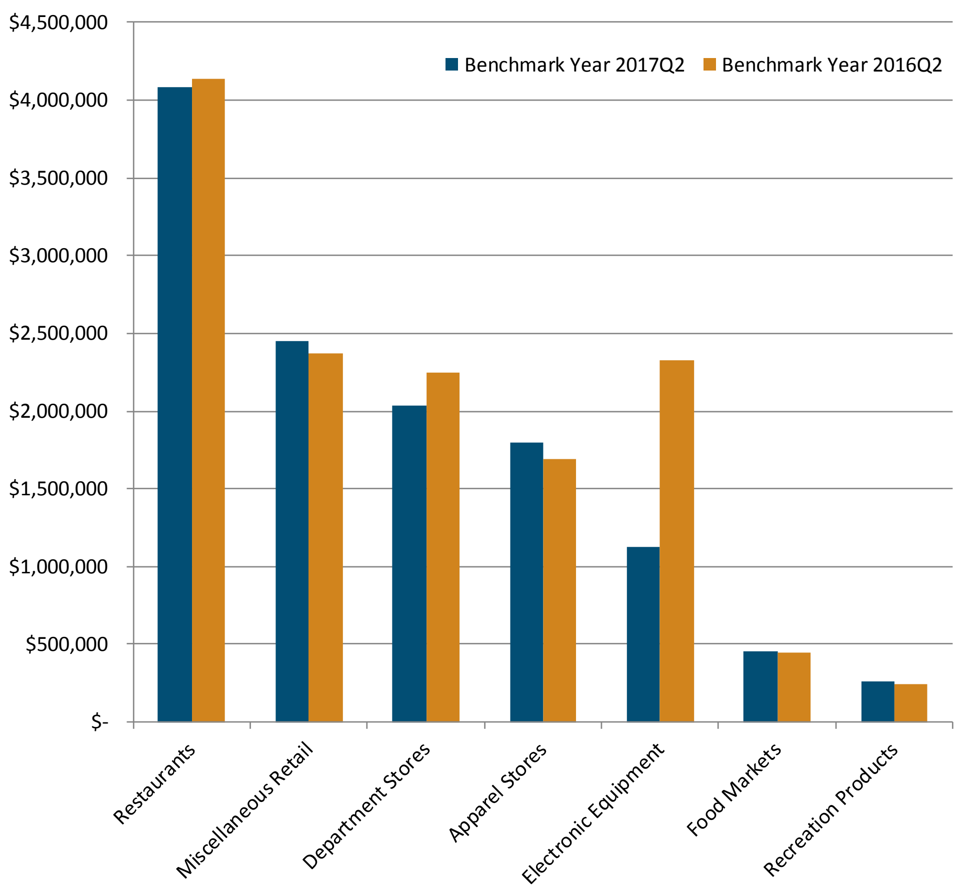


TOP 25 SALES/USE TAX CONTRIBUTORS

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 2017. The Top 25 Sales/Use Tax contributors generate 51.1% of Palo Alto's total sales and use tax revenue.

Anderson Honda	Integrated Archive Systems	Tesla Motors
Apple Stores	Lucile Packard Children's Hosp	The Pace Gallery
Audi Palo Alto	Macy's Department Store	Urban Outfitters
Bloomingdale's	Magnussen's Toyota	USB Leasing
Bon Appetit Management Co.	Neiman Marcus Department Store	Varian Medical Systems
CVS/Pharmacy	Nordstrom Department Store	Volvo Cars Palo Alto
Fry's Electronics	Space Systems Loral	Wilkes Bashford
Magnussen's Toyota	Stanford University Hospital	
Houzz Shop	Tesla Lease Trust	

Sales Tax from Largest Non-Confidential Economic Segments



Historical Analysis by Calendar Quarter

Economic Category	%	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4
General Retail	28.1%	1,952,490	1,684,023	2,784,731	1,983,231	2,141,794	1,673,846	2,526,551	1,935,178	2,009,743	1,797,756	2,591,589
Miscellaneous/Other	18.8%	1,301,138	1,392,756	1,621,044	1,727,134	1,617,307	1,413,133	1,491,158	1,609,541	1,564,157	1,400,769	1,655,225
Food Products	17.1%	1,189,257	1,192,662	1,235,801	1,213,382	1,194,369	1,126,103	1,166,195	1,146,174	1,167,014	1,061,755	1,096,087
Business To Business	18.5%	1,284,056	1,240,962	1,004,883	1,027,730	1,140,526	974,162	1,428,210	888,609	833,370	757,827	885,327
Net Pools & Adjustments	17.4%	1,210,511	1,631,125	1,351,709	831,377	1,313,745	1,072,794	1,226,261	1,060,979	1,039,250	968,777	1,178,482
Total	100.0%	6,937,452	7,141,528	7,998,168	6,782,854	7,407,741	6,260,038	7,838,375	6,640,481	6,613,534	5,986,884	7,406,710

Economic Segments	%	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4
Miscellaneous/Other	43.1%	2,986,873	2,910,133	2,939,228	3,027,081	2,973,047	2,607,097	3,237,983	2,720,241	2,549,852	2,370,361	2,906,134
Restaurants	15.3%	1,058,606	1,043,747	1,071,053	1,068,101	1,068,502	1,005,688	1,029,733	1,019,505	1,045,011	942,709	962,018
Miscellaneous Retail	6.5%	452,135	435,757	1,002,389	581,831	681,345	469,360	714,151	478,994	479,298	415,270	628,099
Department Stores	7.4%	510,561	392,565	641,541	491,433	546,629	435,470	714,831	553,325	595,374	503,590	750,481
Apparel Stores	6.5%	449,402	372,033	553,250	398,170	444,383	337,880	519,318	397,534	428,100	370,810	507,843
Service Stations	2.3%	159,371	119,552	130,396	138,155	144,735	123,004	140,758	173,082	181,582	148,902	166,861
Food Markets	1.6%	112,566	131,676	145,179	126,755	109,108	104,676	116,778	113,092	106,818	104,856	117,245
Business Services	1.1%	75,722	43,548	102,095	47,066	65,510	51,647	76,156	51,885	120,003	103,773	131,505
Recreation Products	1.1%	76,514	61,392	61,328	72,885	60,737	52,422	62,406	71,844	68,246	57,836	58,042
Net Pools & Adjustments	15.2%	1,055,702	1,631,125	1,351,709	831,377	1,313,745	1,072,794	1,226,261	1,060,979	1,039,250	968,777	1,178,482
Total	100.0%	6,937,452	7,141,528	7,998,168	6,782,854	7,407,741	6,260,038	7,838,375	6,640,481	6,613,534	5,986,884	7,406,710

*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.

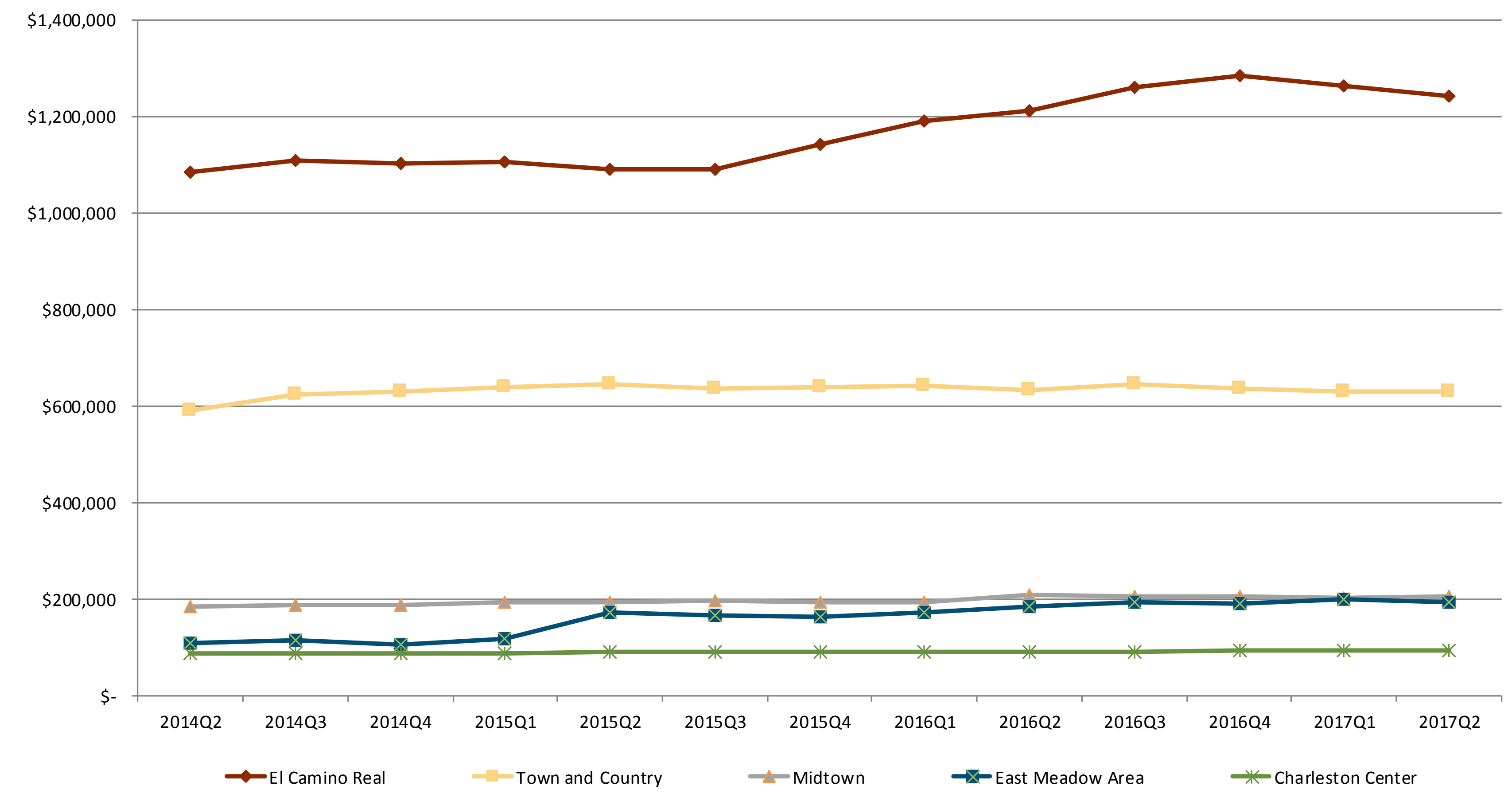
Quarterly Analysis by Economic Category, Total and Segments: Change from 2016Q2 to 2017Q2

	General Retail	Food Products	Construction	Business to Business	Misc/Other	2017/2 Total	2016/2 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	1.4%	0.8%	-1.0%	18.1%	-6.0%	2,403,817	2,334,694	3.0%	Business Services	Electronic Equipment	Miscellaneous Retail	Light Industry
Cupertino	-14.3%	22.8%	-47.4%	16.1%	-5.9%	5,813,970	5,340,710	8.9%	Business Services	Office Equipment	Bldg.Matls-Whsle	Furniture/Appliance
Gilroy	1.0%	4.4%	3.4%	-11.0%	53.7%	3,864,283	3,638,654	6.2%	Auto Sales - New	Misc. Vehicle Sales	Heavy Industry	Recreation Products
Los Altos	2.9%	3.2%	-1.1%	-8.2%	-9.5%	587,545	573,188	2.5%	Miscellaneous Retail	Restaurants	Recreation Products	Bldg.Matls-Whsle
Los Gatos	-3.5%	-4.9%	-12.1%	2.1%	-15.4%	1,573,720	1,633,168	-3.6%	Auto Sales - New	Light Industry	Miscellaneous Other	Food Processing Eqp
Milpitas	-3.5%	4.9%	-3.7%	45.6%	16.9%	5,558,434	4,975,863	11.7%	Office Equipment	Auto Sales - New	Recreation Products	Bldg.Matls-Whsle
Morgan Hill	7.1%	6.5%	5.0%	42.6%	-20.5%	2,142,445	1,966,188	9.0%	Electronic Equipment	Food Markets	Auto Parts/Repair	Chemical Products
Mountain View	-14.3%	1.0%	15.3%	-3.7%	37.0%	4,279,202	4,455,098	-3.9%	Furniture/Appliance	Liquor Stores	Miscellaneous Retail	Business Services
Palo Alto	-9.2%	-1.6%	-31.4%	12.9%	3.3%	5,881,749	6,093,509	-3.5%	Leasing	Furniture/Appliance	Miscellaneous Retail	Auto Sales - New
San Jose	-1.8%	1.8%	4.1%	-15.2%	12.2%	38,679,856	38,764,694	-0.2%	Auto Sales - New	Service Stations	Light Industry	Electronic Equipment
Santa Clara	3.3%	-5.4%	9.7%	4.6%	-25.1%	11,412,285	11,040,018	3.4%	Light Industry	Auto Sales - New	Restaurants	Office Equipment
Santa Clara Co.	-15.8%	-6.4%	-2.7%	11.7%	8.0%	227,587	239,933	-5.1%	Business Services	Food Processing Eqp	Restaurants	Miscellaneous Retail
Saratoga	-4.4%	6.2%	-11.3%	-26.5%	-1.3%	5,773,247	6,624,087	-12.8%	Restaurants	Light Industry	Electronic Equipment	Auto Sales - New
Sunnyvale	16.5%	9.0%	27.0%	21.3%	1.4%	1,131,961	1,023,548	10.6%	Bldg.Matls-Retail	Bldg.Matls-Whsle	Service Stations	Light Industry

City of Palo Alto - Selected Geographic Areas of the City

Benchmark Year 2nd Quarter 2017

	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
El Camino Real	1,084,815	1,108,045	1,102,757	1,105,340	1,090,236	1,088,571	1,140,412	1,188,495	1,210,148	1,258,506	1,282,296	1,261,233	1,241,270
Town and Country	590,134	624,333	629,346	637,224	644,288	636,497	639,830	642,372	632,157	645,939	634,372	629,484	629,271
Midtown	185,910	187,120	188,251	192,122	194,028	195,907	192,190	193,066	207,568	206,960	206,327	201,948	206,422
East Meadow Area	109,171	114,419	104,735	117,701	172,602	166,805	161,897	173,019	185,564	192,748	191,467	199,789	194,377
Charleston Center	86,432	86,288	87,413	88,622	89,612	90,642	91,711	91,991	92,121	91,914	92,495	92,258	92,657

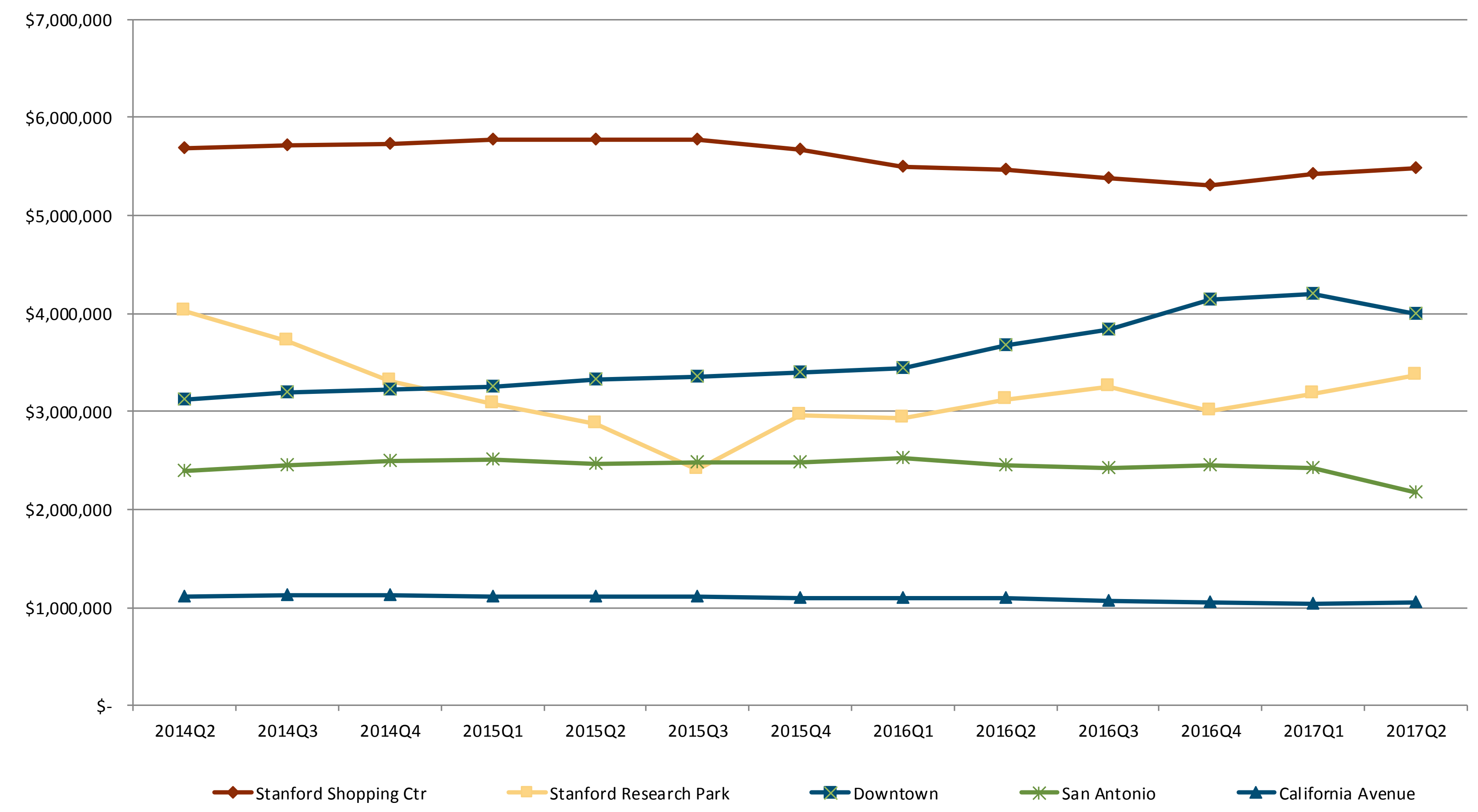


Benchmark year (BMY) is the sum of the current and 3 previous quarters (2017Q2 BMY is sum of 2017 Q2, 2017 Q1, 2016 Q4 & Q3)

City of Palo Alto - Selected Geographic Areas of the City

Benchmark Year 2nd Quarter 2017

	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
Stanford Shopping Ctr	5,685,894	5,713,169	5,726,273	5,769,236	5,775,751	5,765,715	5,670,796	5,501,966	5,464,490	5,371,067	5,309,725	5,425,743	5,487,406
Stanford Research Park	4,027,889	3,724,671	3,304,003	3,082,331	2,869,143	2,411,043	2,953,900	2,924,944	3,119,427	3,257,664	2,999,685	3,177,058	3,371,781
Downtown	3,124,224	3,189,273	3,220,248	3,251,198	3,318,323	3,351,331	3,399,758	3,445,331	3,672,532	3,838,501	4,144,463	4,202,364	3,990,498
San Antonio	2,393,463	2,453,548	2,495,915	2,504,156	2,465,311	2,483,850	2,476,949	2,517,603	2,451,491	2,414,093	2,448,764	2,420,850	2,174,308
California Avenue	1,109,685	1,119,047	1,120,996	1,113,385	1,108,904	1,106,175	1,097,493	1,091,796	1,090,901	1,073,085	1,048,035	1,034,377	1,050,195

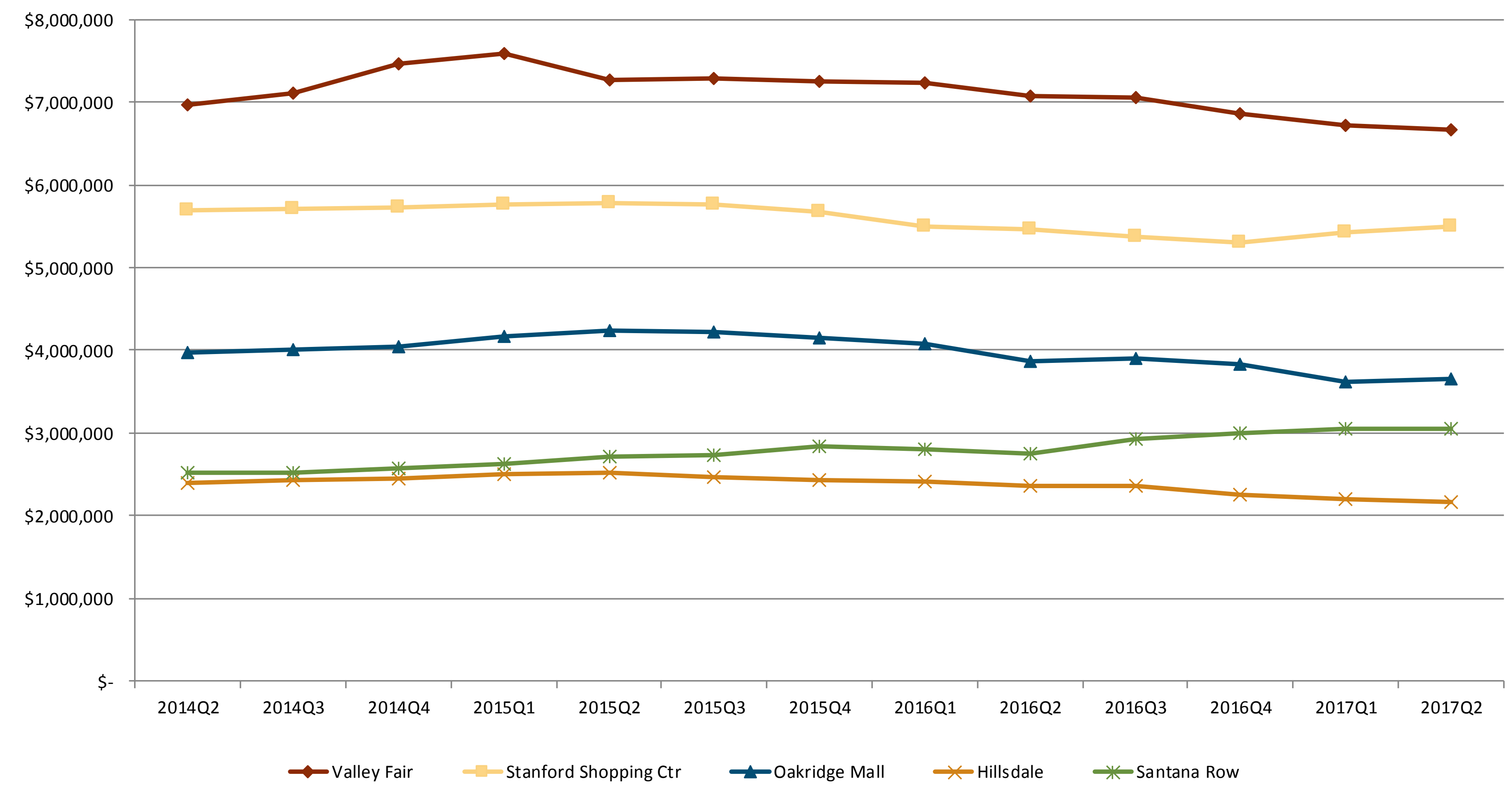


Benchmark year (BMY) is the sum of the current and 3 previous quarters (2017Q2 BMY is sum of 2017 Q2, 2017 Q1, 2016 Q4 & Q3)

City of Palo Alto - Regional Shopping Mall Comparison

Benchmark Year 2nd Quarter 2017

	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
Valley Fair	6,958,214	7,108,448	7,455,179	7,588,546	7,273,028	7,282,265	7,248,371	7,228,310	7,063,549	7,053,562	6,851,598	6,714,146	6,660,544
Stanford Shopping Ctr	5,685,894	5,713,169	5,726,273	5,769,236	5,775,751	5,765,715	5,670,796	5,501,966	5,464,490	5,371,067	5,309,725	5,425,743	5,487,406
Oakridge Mall	3,972,556	4,005,370	4,040,521	4,159,367	4,236,080	4,215,653	4,158,194	4,075,061	3,871,802	3,909,043	3,831,354	3,625,692	3,650,856
Hillsdale	2,401,370	2,438,295	2,450,278	2,494,792	2,513,866	2,470,404	2,434,086	2,410,095	2,363,729	2,363,729	2,251,467	2,197,768	2,167,994
Santana Row	2,523,193	2,525,349	2,565,665	2,634,908	2,706,867	2,735,522	2,834,796	2,807,754	2,754,804	2,933,889	3,005,007	3,047,779	3,057,404



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2017Q2 BMY is sum of 2017 Q2, 2017 Q1, 2016 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

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HIGHLIGHTS

GDP: Real GDP increased at an annual rate of 3.0% in 3Q2017 (was 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016). The increase in real GDP in 3Q2017 reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, exports, and federal government spending. These increases were partly offset by negative contributions from residential fixed investment and state and local government spending.
September was the Fastest Consumer Growth Rate Since 2009: Includes spending from post hurricane.
U.S. Sales for Retail and Food Services for September 2017: Increased 1.6% to $483.9 billion; increased 4.4% from September 2016. **California Retail Sales and Use Tax for September:** $5 million above the month's forecast of $1.898 billion.
Services Sector Total Revenue: 2Q2017 was $3,684.6 billion (3.2% increase from 1Q2017); up 6.2% from 2Q2016.
U.S. E-Commerce Results for 2Q2017: Percent of Retail Sales: Increase of 4.8% for 2Q2017 from 1Q2017. **Total Sales for 2Q2017:** 8.9%. California's e-commerce sales comprise approximately 13-14% the total sales, based on California's portion of the national economy.
Millennials Savings: Are cutting spending to put emphasis on savings. *(Bankrate.com)*
Amazon's Impact on Whole Foods Sales and Traffic: In the first month of acquiring Whole Foods, Amazon.com has sold $1.6 million more in store-brand items; Third party data shows increase in traffic to stores; August traffic was up 10% from the year's monthly average.
Starbucks Closes On-Line Shop: Closed October 1 and will focus on in-person experience.
U.S. Unemployment: Fell by 0.2 percentage point to 4.2% in September.
California's Unemployment: September (5.1%); August (5.1%); July (4.8%); June (4.7%); May (4.7%); April (4.8%)
Auto Sales: Will plateau after years of strong growth, and sales of building materials will settle down to a more normal pace of 5%. Sales of new vehicles will hit 17 million, versus 17.5 million in 2016; and the first downturn since the recession of 2009. The market will contract again in 2018; about 16.4 million sales.

New Retail Car Registrations for 2Q2017: Declined in 2Q2017 versus a year earlier. It was the first quarterly drop since 3Q2010. Changed by -2.0% (1,047,380 in YTD 2016 from 1,026,882 in YTD 2017).
Used Cars for 2Q2017: Declined by 3.5%: **Aging Market:** For 2Q2017: 4- to 6-year-old market has largest percentage increase (10.9%); 3 years old or less (-18.9%); 7 to 10 years old (-10.3); older than 10 years old (2.5%).
National Gasoline Prices: AAA shows (October 25, 2017) the national average price of self-serve regular at $2.46 per gallon. The average price at the pump has fallen for 15 of the last 20 days, by 7 cents. **California Gas Average:** $2.91 (July 16, 2017): $2.94 (May 10, 2017); $2.79 (May 10, 2016).
New Residential Home Sales: New single-family houses in September 2017 were at 667,000. This is 18.9% above the revised estimates of 561,000.
Tapping Homes for Cash is Back: Rising home prices are making borrowers more comfortable.
Wireless Telephone Service: Increased 0.4% in September, ending a streak of 14 consecutive declines. From September 2016 to September 2017 (-11.7%).
Restaurants: Mmoderately priced restaurants are losing their edge as diners seek out fast food.
2017 Record for Store Closures: Since January 1, retailers have announced plans to shutter more than 6,700 stores in the U.S. That beats the 6,163 store closings in 2008 amid the financial meltdown. As many as 8,600 brick-and-mortar stores are expected to close this year.
California Worker Adjustment and Retraining Notification (WARN Notices): July 2017: 48 notices; 23 permanent closures; **August 2017**: 49 notices: 29 permanent closures; **September 2017:** 63 notices and 18 permanent closures; **As of October 10, 2017:** 10 notices and 2 permanent closures.
http://www.edd.ca.gov/Jobs_and_Training/warn/WARN_Report_for_7-1-2017_to_10-10-2017.pdf

SECTION 1: 2017 HOLIDAY NEWS AND PREDICTIONS

Projected Holiday Sales: Sales during the holiday season are likely to increase 3% to 4%. Online holiday retail sales will grow by 12% in 2017, accounting for over one-quarter of total US eCommerce sales for the year. Brick-and-mortar sales will dominate, accounting for about 85% of purchases. *(Kiplinger, National Retail Federation and Deloitte, https://www.forrester.com/report/US+Holiday+2017+Outlook+Digital+Sales+Grow+Boosting+Total+Retail/-/E-RES140075)*

Holiday Sales: Shoppers plan to spend $728.40 each, on average, on gifts and other holiday-related items. 96% of the shoppers intend to make a purchase from a retailer with both a physical and an online presence, and 91%, and 92% of Millennials plan to buy something at physical locations. Some 40% say they plan to buy items online and pick them up in the store. *(International Council of Shopping Centers, 2017 survey of 2000 shoppers)*

Online Shoppers: Plan to spend 70% more than store shoppers this holiday. Non-store sales, which include online sales and those from kiosks, are expected to rise 11% to 15%, to roughly $140 billion. In 2016, those sales climbed 12.6%. *(https://www.npd.com/wps/portal/npd/us/news/press-releases/2017/online-shoppers-plan-to-spend-70-percent-more-than-in-store-shoppers-this-holiday-reports-npd/)*

Retail Landlords Taking a Black Friday Holiday: Some Thanksgiving Day closures include: Burlington; Cabela's; Cost Plus World Market; Costco; Crate and Barrel; DSW – Designer Shoe Warehouse; Ethan Allen; H&M; Hobby Lobby; Home Depot; HomeGoods; IKEA; JOANN Fabric and Craft Stores; Jos. A. Bank; Lowe's; Marshalls; Mattress Firm; Neiman Marcus; Nordstrom; Nordstrom Rack; Office Depot and OfficeMax too); Petco; PetSmart; Pier 1 Imports; Sam's Club; Staples; Stein Mart; Sur La Table; The Container Store; TJ Maxx; and West Marine. *(https://bestblackfriday.com/blog/stores-closed-on-thanksgiving-day-2017/As of October 24, 2017)*

Swap (Holiday) Presents On-Line Before Final Purchase: Target's "GiftNow" is allowing online shoppers to send an email to the recipient to see if they want something instead of what was initially selected as a gift.

Self-Giving: About 70% of shoppers admit that they bought a gift or two for themselves during the holiday season last year. One common self-gifting strategy is to offer bonuses with gift cards and holiday purchases. *(National Retailers Federation)*

Small Business Saturday / November 25, 2017: Since its inception (founded by American Express) in 2010, the Saturday after Thanksgiving has become the biggest sales day of the year for many small companies. On Small Business Saturday in 2016, 112 million shoppers spent a reported $15.4 billion at small businesses. *https://www.americanexpress.com/us/small-business/shop-small/promote?extlink=SBS2017_SBO_PaidSearch_Bing https://www.practicalecommerce.com/4-predictions-for-the-2017-holiday-shopping-season*

Holiday Hiring / 2017: Employers are recruiting seasonal help early as tight labor market sparks urgency, especially for processing the surge in e-commerce sales. Amazon increased staff by 77% to 541,900 full-time employees, largely because of its purchase of Whole Foods; this does include the more than 120,000 seasonal hires for the holidays.

2017 Holiday Play Book (National Federation of Retailers): Packed with research including weather implications and what motivates shoppers during the holiday. For example, what convinces shoppers to make purchases: Limited time promotions (50%); Ability to buy on line and pick up purchases (33%); Free give with purchase (25%); Helpful customer services (24%). *https://nrf.com/system/tdf/Documents/retail%20library/Holiday-Planning-Playbook-WEB-FINAL.pdf?file=1&title=2017%20Retail%20Holiday%20Planning%20Playbook*

SECTION 2: U.S. ECONOMY

U.S. Economy and Indicators

https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm (September 28, 2017); www.bls.gov/news.release/pdf/cpi.pdf (October 13, 2017); https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm (October 27, 2017) https://www.bls.gov/news.release/cpi.htm; https://www.census.gov/economic-indicators/

GDP: Real GDP increased at an annual rate of 3.0% in 3Q2017 (was 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016).
Sales for Retail and Food Services for September 2017: Increased 1.6% to $483.9 billion; increased 4.4% from September 2016. **Motor vehicles and parts dealers:** Rose 3.6%. **Gasoline stations**: Rose 5.8%. **Electronics & appliance stores:** Dropped 1.1%. **Clothing shops**: Rose 0.4%. **Food & beverage stores:** Rose 0.8%. **General merchandise shops**: Increased 0.3%.
Unemployment for September: Declined to 4.2%.

Consumer Price Index (CPI) (From Proceeding Month)

https://www.bls.gov/news.release/cpi.nr0.htm (October 13, 2017)

U.S. CPI for Sep 2017: Rose 0.5%.
Gasoline: From September 2016 to September 2017 (19.3%). March (-6.2%); April (1.2%); May (-6.4%); June (-2.8%); July (.0%); August (6.3%); **Sep 2017 (13.1%)**
Food: Sep (.1%); August (.1%); Food at home: August (-.2%); September (-.2%); Food away from home increased .3% each in August and September
Apparel Sep (-.1%); August (.1%), July (.3%).
Shelter: Sep (.3%); August (.5%); July (.1%).
Tobacco: Increased 0.4% in Sep. From September 2016 to September 2017 (6.3%).
Alcohol: Increased 0.4% in September.
New Vehicles in 2017: March (-.3%); April (-.2%); May (-.2%); June (-.3%); July (-.5%); August (.0%); **Sep (-.4%)**
Used Cars & Trucks: March (-.9); April (-.5%); May (-.2%); June (-.7%); July (-.5%); August (-.2%); **Sep (-.2%)**
Wireless Telephone Service: Increased 0.4% in Sep, ending a streak of 14 consecutive declines. From September 2016 to September 2017 (-11.7%).
Lodging Away from Home: Increased 1.5% in Sep and 4.4% in August.

Services Sector for 2Q2017/ Contributions to Percentage Change in GDP

https://www.census.gov/services/qss/qss-current.pdf (September 7, 2017) https://bea.gov/newsreleases/national/gdp/2017/pdf/gdp3q17_adv.pdf

3Q2017 GDP Contribution from Previous Quarter: Services (up .70%); **Household Consumption Expenditures** (up .67%).
Services Sector Total Revenue: 2Q2017 was $3,684.6 billion (3.2% increase from 1Q2017); up 6.2% from 2Q2016.
Utilities: Decrease of 7.8% from 1Q2017 and up 6.3% from the 2Q2016.
Transportation and Warehousing: Increase 7.9% from 1Q2017 and up 4.9% from the 2Q2016.
Real Estate and Rental and Leasing: Increase 8.8% from 1Q2017 and up 8.1% from the 2Q2016.
Accommodation: Increase 10.3% from 1Q2017 and up 4.5% from the 2Q2016.
Real Estate and Rental and Leasing: Increase 8.8% from 1Q2017 and up 8.1% from the 2Q2016

SECTION 3: CALIFORNIA ECONOMY

http://www.sco.ca.gov/Files-EO/10-17summary.pdf
http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2017/Oct-17.pdf

Retail Sales and Use Tax for September: $5 million above the month's forecast of $1.898 billion. September represents the second prepayment for third quarter taxable sales. Year-to-date revenues are $247 million above forecast.

Personal Income Tax for September: $9 million above the month's forecast of $7.622 billion. Withholding receipts were $75 million above the forecast of $4.689 billion. Other receipts were $38 million lower than the forecast of $3.354 billion. Refunds issued in September were $29 million above the forecasted $284 million.

Corporation Tax for September: $125 million above the month's forecast of $931 million. Prepayments were $36 million above the forecast of $957 million and other payments were $101 million higher than the $124 million forecast.

Additional Revenues: Revenues from the estate, alcoholic beverage, tobacco taxes, and pooled money interest came in $4 million above the month's forecast of $49 million, and are up $17 million year-to-date. "Other" revenues were $6 million above the month's forecast of $31 million, and are up $52 million year-to-date.

Home Sales/ Housing Crisis / Impact on Economy

http://www.sco.ca.gov/Files-EO/08-17summary.pdf; https://www.scribd.com/document/361954559/Monthly-Housing-Market-Outlook-2017-09#download&from_embed

California Home Sales Continue to Grow Annually: September 2017 Sales: 436,920 Units, +2.6% YTD, +1.7% YTY

California Median Price Expected to Grow YTT: September 2017: $553,490, -2.1% MTM, +7.2% YTY

Rent Burden: More than half of California renters are "rent burdened," paying more than 30% of income in rent. In the state's 10 highest-cost metropolitan areas, half of renter households earning less than $75,000 are rent burdened. *(CDHCD, 2017 Draft Housing Plan)*

SECTION 4: AUTO SALES

California Car Sales Covering 2Q2017

http://cncda.org/CMS/Slides/Auto%20Outlook%20CA%202017%20Q2.pdf

New Retail Car Registrations for 2Q2017: Declined in 2Q2017 versus a year earlier. It was the first quarterly drop since 3Q2010. Changed by -2.0% (1,047,380 in YTD 2016 from 1,026,882 in YTD 2017).
New Vehicles Sold YTD for 2017: 512,627 or -10.8% (for cars) and 514,255 or 8.8% (for light trucks)

2017 Forecast: Registrations likely exceeding 2 million.
Total Cars History: 1,927,640 (2016); 2,052,750 (2015); 1,848,254 (2014).
Used Cars for 2Q2017: Declined by 3.5%: **Aging Market:** For 2Q2017: 4- to 6-year-old market has largest percentage increase (10.9%); 3 years old or less (-18.9%); 7 to 10 years old (-10.3); older than 10 years old (2.5%).

Auto Financing and Sales Trends
https://www.federalreserve.gov/econres/notes/feds-notes/auto-financing-during-and-after-the-great-recession-20170622.htm (June 22, 2017)

National September Auto Sales: Discounting, demand following hurricane drive monthly performance. From a year earlier: GM (12%); Toyota (15%); Ford (8.9%); Honda (6.8%) FCA (10%); Nissan (9.5%).

Loan Trends: Twice a Month Payments: Starting in December, MotoLease LLC will roll out a twice-a-month payment structure for subprime lessors. **Cutting Back on 84 Month Loan:** U.S. Bank has been cutting back on its 84-month loan offerings. The company has seen an uptick in 30-to-89-day delinquencies.

Hurricane Impact: "Moderate impact" on auto delinquencies in 3Q2017 due to the recent hurricanes; auto loans 30 to 59 days past due rose 87% to $71 million from the same time the year prior. The increase was primarily due to higher delinquencies in the auto, home equity, and credit card portfolios in hurricane-affected states. (Financial Services Group)

Auto-Part Retailers: Underperformance is in part from a lull in new car sales in 2008 to 2010, which lessened the demand for replacement parts. CarMax fared better than Advanced Auto Parts, Auto Zone and O'Reilly Automotive. Instead of servicing or repairing vehicles, CarMax sells new and used cars and offers financing.

Recreation Vehicles/ Outdoor Experience: The nation's largest network of RV-centric retail locations, Camping World, will actively seek opportunities to acquire quality dealerships.

SECTION 5: GASOLINE

National Gasoline Prices: AAA shows (October 25, 2017) the national average price of self-serve regular at $2.46 per gallon. The average price at the pump has fallen for 15 of the last 20 days, by 7 cents. This is 12 cents less than a month ago and 24 cents more that over a year ago. **California Gas Average:** $2.91 (July 16, 2017): $2.94 (May 10, 2017); $2.79 (May 10, 2016).

Gas Station with Convenience Stores: A & W: Opening new franchises, including gas station / convenience store locations in Berkeley and Hayward. **7-Eleven/ Top Rated Coffee:** California's top-rated store is 7-Eleven.
According to the recent GasBuddy footfall report, more than half (56 percent) of Americans who have visited a convenience store in the past three months feel that the convenience stores make coffee drinks as good as coffeehouses.

SECTION 6: OPEN AND CLOSURES

(Selection from July 17, 2017 to October 25, 2017)

Applebee's: Closing at least 135 locations in fiscal 2017.
A & W: Opening new franchises, including gas station / convenience store locations in Berkeley and Hayward.
Aerosoles: Filed bankruptcy.
Bass Pro: Merged with Cabela.
Bebe: 180 closures in 2017.
BCBG: 120 closures in 2017.
Big Lots ("Jennifer"): About 20 stores will get a new look. Giving a new name to create a friendly - "Jennifer" the nickname given to its target customer.
Bob's Discount Furniture: Opening new locations in the Los Angeles area in early 2018.
Chick-fil-A: 'Hottest' big chain in the country expected to overtake Dunkin' Donuts.
Chili's: Cutting down menu 30% to 40% next year.
Coach: Changing its name to Tapestry at the end of October hoping to broaden image after acquiring Kate Spade and Stuart Weitzman brands.
CVS: 70 closures in 2017.
Crocs: 160 closures in 2017.
Dunkin' Donuts: Franchise growth in the Bay Area.
Family Christian: 240 closures.
Gamestop: 100 store closures.
Gap, Inc: Plans to cut 200 Gap and Banana Republic stores nationally, while adding 270 Old Navy and Athleta
Guess: 60 closures in 2017.
Goodwill: Will close 5 of its 42 retail stores by year end.
Gymboree: 350 closures (14 in California).
Habit: Shifts to adding drive-thru feature.
hhgregg: 88 closures in 2017.
H&M: Seeing fewer shoppers; closing 90 stores in 2017.
Ikea: Sets up shop on Amazon. Plans to test "open-source design and showrooms
JCPenny: 135 closures in 2017; closing 400 of 1000 stores.
K-Mart: 109 closures in 2017.
Le Macron: Plans for 15 California locations.
Lazy Boy: Opened 350th store.
Macys: 68 closures in 2017.
Mountain Gender: 30 closures in 2017.
Nordstrom Local: Opening in West Hollywood; one-stop hub for convenient time-saving services.
Office Depot: Launching same day delivery
PetSmart: On track to open more than 70 locations in 2017 on top the 70 opened in 2016.
Ralph Lauren: Up to 25% of department store outlets closing.
Radio Shack: 550 closures in 2017.
Ross Stores: Adding 40 new locations in 2017.
Rue 21: 400 closures in 2017.
See's Candies: In response to outdoor malls and strip centers, will have opened or relocated 10 shops in California.
Staples: 70 closures in 2017.
Spirit Halloween: Taking space in more mall as retailers vacate.
Sprint: Expansion includes 78 new stores in Southern California in 2017.
Sears: 41 closures in 2017; will begin selling Kenmore on Amazon.com.
Starbucks: Closed on-line business.
Target: Plans to increase small-format stores; next day delivery. Launching four more house brands and plans to launch 12 by the end of 2018.
The Limited: 250 closures in 2017.
Toys "R" Us: Filed bankruptcy; online presence increased.
T.J. Maxx and Marshalls: 70 and 65 new locations
True Religions: Closing 27 stores.
Wet Seal: 170 closures in 2017.
Walgreens: Scheduled to close 600 stores by Spring of 2018 in wake of its purchase of 1,932 Rite Aid stores.
Walmart: Is reported to partner with Lord and Taylor to create an on-line mall. Openings are fewest in 25 years; part of strategy to fend off Amazon.com. Plans to increase on-line and grocery pick up at stores.

SECTION 7: RETAIL TRENDS

U.S. Retail Mall Vacancies in 3Q2017: Rose to 8.3% due to confirmed closings, including Sears and JC Penny stores. Toys R Us, The Gap, Teavana and True Religion Jeans. *(Reuters)*

Warehousing "Showrooming:" Will fuel demand for more logistics space and services. Nordstrom Local is opening in West Hollywood. Shoppers try on clothes and the merchandise can be retrieved by a nearby Nordstrom or through the website. Manicures, wine and coffee are available. *(https://shop.nordstrom.com/c/nordstrom-local)*

Pop Up Short-Term Rental Space: Modular spaces with rotating up-and-coming retailers offer one solution to fill the gaps.

Ditching the "M word": 20% of malls have removed the word "mall" from their name since 2014 (common replacements are "shoppes," "village" and "towne center." *(JJL survey)*

Breweries Anchoring Major Developments Around the U.S.: Craft beer production in the United States has nearly tripled over the past decade; breweries have become valuable anchors for large mixed-use projects. *(www.bisnow.com)*

Luring the 26 Year-Old Shopper: Companies such as Scotts, Home Depot Inc., Procter & Gamble Co. , Williams-Sonoma Inc.'s West Elm and the Sherwin-Williams Co. are hosting classes and online tutorials to teach such basic skills as how to mow the lawn, use a tape measure, mop a floor, hammer a nail and pick a paint color. This generation, with its over-scheduled childhoods, tech-dependent lifestyles, etc., is different from previous ones. *(WSJ, October 10, 2017)*

Outlets: One reason for the stronger performance of outlet centers, is that they're not weighed down by sagging anchors like J.C. Penney, Macy's and Sears. Rather, outlet centers enjoy a relatively balanced mix of retailers, and they've largely escaped the recent spate of store bankruptcies and shutdowns.

Ikea to Acquire "Gig Economy" TaskRabbit: TaskRabbit connects people with freelancers willing to do odd jobs, run errands, and to assemble Ikea furniture; TaskRabbit is SF based and is available in 40 U.S. cities as well as London.

Consumption Habits Impact Retail Space: Industry is vulnerable to store closures. Americans a whole are consuming less food on a per-capita basis, while millennials are increasingly snacking their way through the day. *(WSJ, August 1, 2017)*

SECTION 8: E-COMMERCE TRENDS

U.S. E-Commerce Results for 2Q2017: Percent of Retail Sales: Increase of 4.8% for 2Q2017 from 1Q2017. **Total Sales for 2Q2017:** 8.9%. California's e-commerce sales comprise approximately 13-14% the total sales, based on California's portion of the national economy. An estimated 40% of U.S. online spending goes to Amazon. *(WSJ)*

Luxury On-Line Sales: The absence of high end products hampers Amazon's push to be a force in the fashion industry; estimated e-commerce revenue for 2016: Burberry (8.5%); Tiffany (6%); Louis Vuitton (2.4%); Prada (1.2%).

Shopping Allowance Application for On-Line Sales: Amazon welcomes teens with new parent-controlled shopping allowance application. *(Fox News)*

Curbside Pickup: Retailers and numerous grocery stores are offering drive-up pick up for online orders. Includes retailers Toys R Us, Walmart, Nordstrom, CVS, Sears,

Segment Survival - Impacted by E-Commerce
http://img04.en25.com/Web/JLLAmericas/%7B88537be6-f837-429d-b8ee-6c702f665056%7D_JLL_Retail_POV_Screens_to_Stores_Report_FNL_LR.pdf

Diners: Meal subscription services are set to push consumers away from traditional in-person dining to dining at home. Ordering online and picking up takeout will be a factor in e-commerce penetration. **Online Outlook**: The immediacy of freshly prepared food will keep this category entrenched in bricks-and-mortar.
Off Price Retailers: Consumers look for value when making their purchases, so the unique model of off-price retailers like Ross and TJ Maxx/Marshalls makes it very profitable to operate in the physical space., respectively. **Online Outlook**: E-commerce penetration is a negligible; 1.0 percent in this retail category, while same-store sales growth in 2016 was 3.4 percent.
Dollar Stores: Appeal lies in convenience and low prices, a universal attraction to shoppers across all income levels. Households with an annual income of more than $100,000 make up 19.0 percent of the revenue at dollar store chains, compared to 23.0 percent from households with an annual income of less than $25,0006. Retailers in this category are aggressively expanding, planning 1,250 new stores in the next 12 months. **Online Outlook**: Dollar stores are all about saving money, and consumers across income levels appreciate value. This category will continue to flourish in the bricks-and-mortar space.
Sporting Goods: Largely been undone by intense competition from mass merchandisers, online retailers and department stores. High e-commerce penetration. Dick's Sporting Goods remains the prime retail player in this market. **Online Outlook**: While a little more than half (56.0 percent) of consumers prefer to buy sporting goods in person, this is a diluted product category, with sales taking place at mass merchandisers and online, as well as in specialty store.
Toys and Children's Goods: Shift online, though bricks-and-mortar still dominates. Toys and hobby products saw a 16.0 percent jump in e-commerce from 2015 to 2016, with 13.0 percent of sales occurring online. **Online Outlook**: While toy stores and children's retailers offer the ability to interact with the products before purchasing, online retailers for this category offer huge time savings for parents.
Office Supplies: Consolidate rather than differentiate. Seen closures along with mergers (Office Depot and Office Max), reflecting a consolidation of physical space. In 2016 e-commerce penetration has reached 13.7 percent. **Online Outlook**: Office Depot/Office Max is closing 300 stores while Staples is shuttering 70. Online competition is strong for this category.
Electronics: Same-store sales in the category fell 5.9 percent in 2016, while e-commerce penetration is 9.5 percent. Best Buy is a standout. Best Buy is also hiring hundreds of sales people to sit down with consumers in homes and recommend electronics to buy, part of a fee services; hope to drive sales of TVs and gadgets at a time when few people are visiting shopping centers. **Online Outlook**: Only 33% of consumers say they prefer to buy electronics in store. Retailers like Apple and Best Buy offer high-touch experiences for draw to physical locations. Will continue to move online.
Book Stores: Large-format bookstores have already made the move online. Books, along with gifts, are number one for e-commerce penetration with 24.8 percent of sales happening online. **Online Outlook**: Like music and video, the availability of books in digital format has pushed sales online.
Furniture Showrooms: Consumers want to see and try out furniture in person. **Online Outlook**: Same-store sales up 0.5% in 2016, while e-commerce penetration is at 19%. Physical retail will continue to dominate the category.
Grocery: Click-and-collect and delivery are attractive options for daily needs purchases. Continues to move to an omni-channel format, with delivery or pick-up options. **Online Outlook**: 93% of consumers prefer to buy food and groceries in person.
Big Box: Big box discounters like Target remain very popular. Same-store sales growth was 0.2 percent in 2016. E-commerce penetration is at 4.2 percent, and set to grow as major players invest more in their omni-channel strategies. **Online Outlook**: Consumers still prefer to purchase many of their products in-store (e.g., apparel, household goods, pet supplies and sporting goods). This category will maintain a strong presence in the physical space.

SECTION 9: RESTAURANT INDUSTRY

3Q2017: Food and Beverages Purchased for Off Premises Consumption (up .16%); **Food Services and Accommodations** (up .15%).

Projected Sales in California Restaurants in 2017: $82.2 billion

Moderate Price Restaurants Losing Edge: Higher food cost; Tight labor market; Expanding fast-food menus; Rebounding economy; Popularity of delivery services: *(https://www.usatoday.com/story/money/2017/09/28/tight-fisted-diners-flock-fast-food-not-midprice-restaurants/703328001/)*

Restaurant Technology Trends for 2018: Facial recognition payment technology; Complete self-service checkout; 3. Line cutting because of technology. *(https://upserve.com/restaurant-insider/3-hot-restaurant-technology-trends-watch-2018/*

Fast Food: McDonalds, Starbucks, Dunkin: Heightened focus is on low prices to compete

SECTION 10: GROCERY INDUSTRY TRENDS

http://www.theshelbyreport.com/ (from July 17, 2017 to October 25, 2017)

Grocery Among Fastest-Growing Retail Segments: Grocery retailers as among the three fastest-growing core retail segments. The other two fastest-growing core retail segments, were mass merchandisers and dollar stores and convenience stores. *www.progressivegrocery.com*

Estimated U.S. Market Share of Food and Beverage Sales: Walmart (25%); Kroger (10%); Albertsons (7%); Costco (6%); Whole Foods 2.0; Amazon (1.0). Noting the Amazon acquisition of Whole Foods will make Amazon even more competitive.

Smart & Final Stores Inc.: Launched its own delivery platform at shop.smartandfinal.com

K**roger Company:** The largest traditional grocery, aims to sell its convenience stores; cites e-commerce threats.

Amazon's Impact on Whole Foods Sales and Traffic: In the first month of acquiring Whole Foods, Amazon.com has sold $1.6 million in store-brand items; August traffic was up 10% from the year's monthly average.

Peapod / Meal Kits: A pioneer grocery delivery services is adding meal kits to its service; concerned with Amazon.com.

Trader Joes: Opened 14 new locations for 2017 bringing the total number of stores to 474.

Raley's: Launched grocery delivery services in Alameda.

Walmart: Opened its 1,000th Online Grocery Pickup location in September.

Blue Apron/ Meal Kits: Announced laying off 6% (300 employees) months after IPO in June.

Costco Grocery Delivery: Expanding home delivery services as food becomes an increasingly competitive front in e-commerce; two-day delivery on shelf-stable food; free shipping on about 500 products for orders of at least $75. Instacart will sell 1700 grocery products with same day delivery on orders of at least $35. (MarketWatch, October 7, 2017