



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

March 26, 2018

The Honorable City Council  
Palo Alto, California

### **City of Palo Alto Sales Tax Digest Summary Third Quarter Sales (July - September 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





CITY OF  
**PALO  
ALTO**

## Office of the City Auditor

Sales Tax Highlights – Third Quarter Sales (July – September 2017)

### Informational Report to the City Council

#### BACKGROUND

Sales and use tax represents \$31.5 million, or 15 percent, of projected General Fund revenue in the City's adopted operating budget for fiscal year 2018. This revenue includes sales and use tax for the City of Palo Alto and pool allocations from the state and Santa Clara County.<sup>1</sup>

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 third quarter sales for calendar year 2017, which are reported as part of the City's fiscal year 2018 revenue. In February 2018, ASD should receive information from the state on aggregate sales and use tax receipts for the fourth 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 third quarter of 2017 increased by \$690,000, or 10.1 percent, including pool allocations, compared to the third quarter of 2016. For all Santa Clara County jurisdictions, sales and use tax revenue for the third quarter of 2017 increased by \$4.6 million, or 4.5 percent, compared to the third quarter of 2016.
- Statewide, most regions in California experienced an increase in sales and use tax revenue for the year ending in September 2017, with a one-year statewide increase of 3.4 percent.
- Palo Alto's sales and use tax revenue totaled \$29.5 million for the year ending in September 2017, an increase of 4.4 percent from \$28.3 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 third quarter of 2017 increased by 0.9 percent compared to the third quarter of 2016. The annual increase was 1.2 percent compared to the prior year.

<sup>1</sup> See definitions of state and county pools on page 3.

### 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 December 2017 unemployment rate, which is not seasonally adjusted, was 2.6 percent in Santa Clara County and 1.8 percent in Palo Alto.

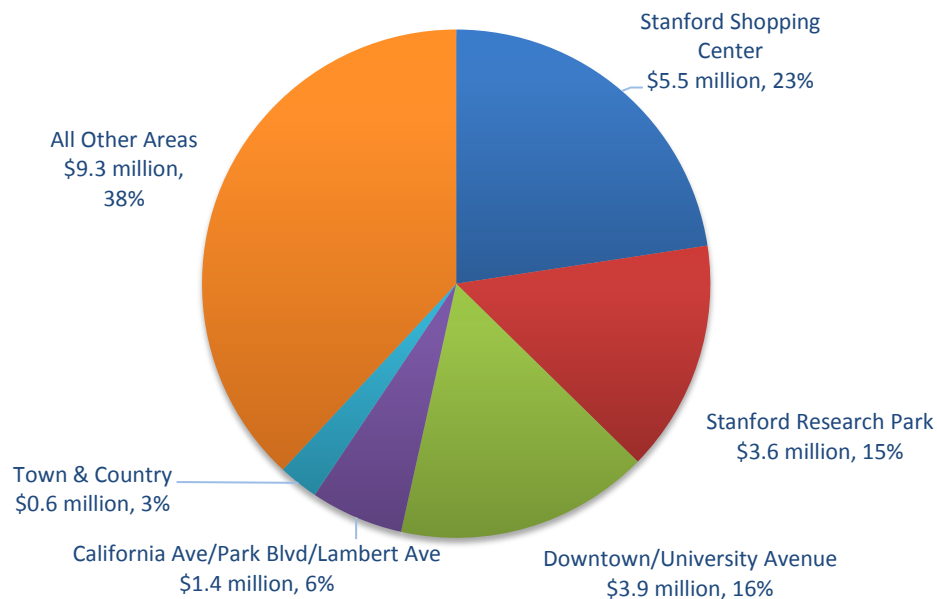
### Economic Category Analysis

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

Economic category	Percent of Palo Alto's sales and use tax revenue	Percent Increase (Decrease) compared to prior year
General retail	33.9%	(1.7%)
Food products	19.1%	0.2%
Business-to-business	22.1%	10.8%
Construction	2.6%	(24.9%)
Miscellaneous	22.2%	(0.9%)

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 September 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 third 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  
City Auditor

Sources: MuniServices  
California Department of Tax and Fee Administration  
California Employment Development Department  
City of Palo Alto Fiscal Year 2018 Adopted Operating Budget

Audit staff: Lisa Wehara

Attachment B

# City of Palo Alto

## Sales Tax Digest Summary

### Collections through December 2017

### Sales through September 2017 (2017Q3)

#### California Overview

The percent change in cash receipts from the prior year was 3.4% statewide, 3.0% in Northern California and 3.7% 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 3rd Quarter 2017 by 1.9% statewide, 1.6% in Southern California and 2.3% in Northern California.

#### City of Palo Alto

For the year ended 3rd Quarter 2017, sales tax cash receipts for the City increased by 4.4% from the prior year. On a quarterly basis, sales tax revenues increased by 10.1% from 3rd Quarter 2016 to 3rd 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 1.2% for the year ended 3rd Quarter 2017 from the prior year. On a quarterly basis, sales tax activity increased by 0.9% in 3rd Quarter 2017 compared to 3rd Quarter 2016.

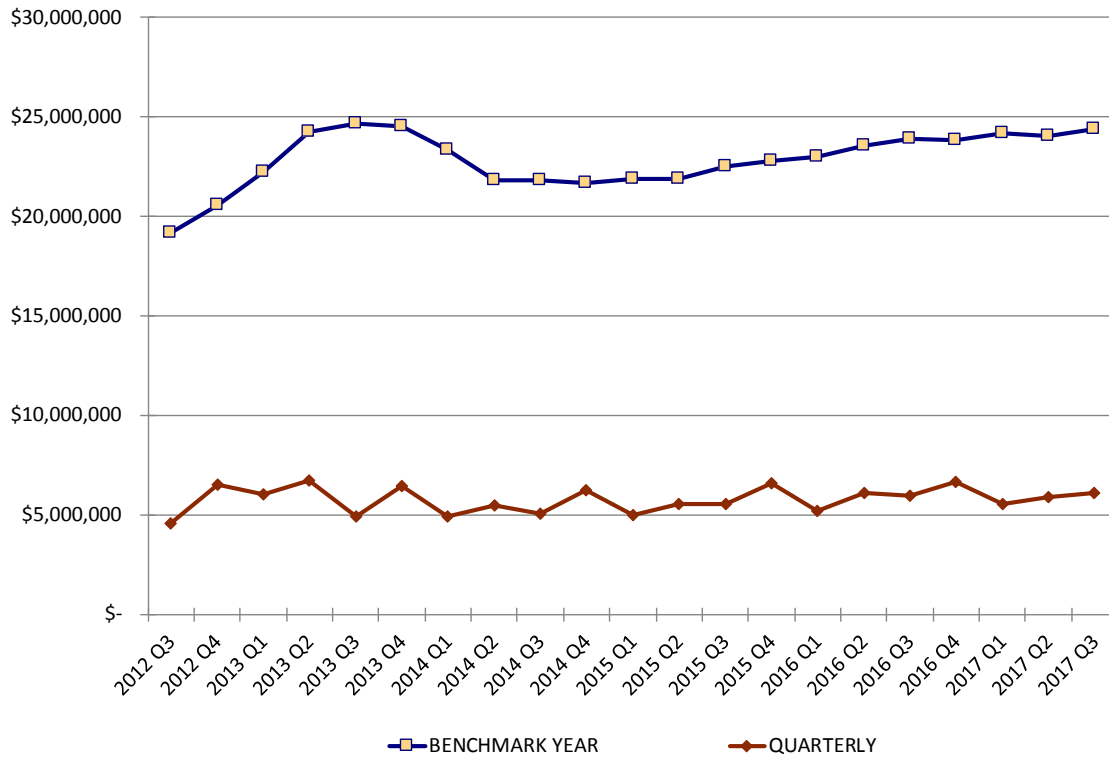
#### Regional Overview

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

**CITY OF PALO ALTO**  
BENCHMARK YEAR 2017Q3 COMPARED TO BENCHMARK YEAR 2016Q3

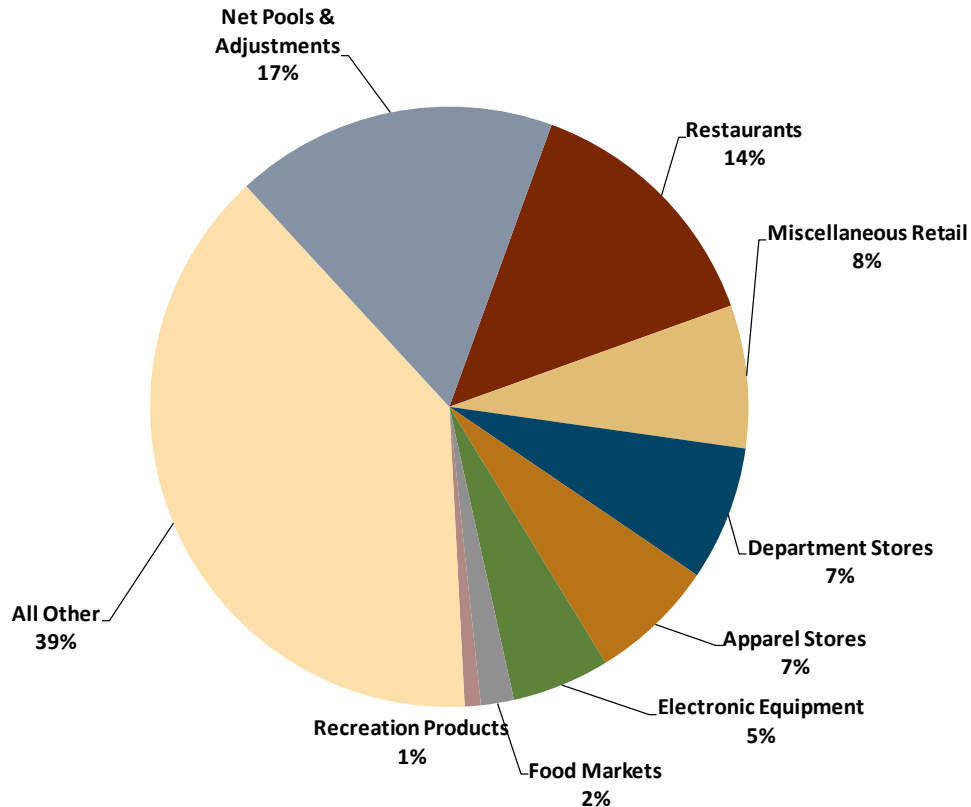
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 3rd QUARTER 2017									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	33.9 / -1.7	28.1 / 0.8	26.2 / -0.7	27.4 / 1.2	31.4 / 6.4	28.8 / 0.0	27.1 / 3.4	28.4 / 0.2	31.0 / -6.3
Food Products	19.1 / 0.2	21.1 / 4.0	22.4 / 3.0	17.2 / 4.8	16.8 / 4.7	22.4 / 4.4	17.5 / 4.4	18.7 / 2.4	30.8 / -7.4
Construction	2.6 / -24.9	9.4 / -1.2	9.6 / 1.4	11.6 / 2.9	11.9 / 1.9	8.3 / 1.0	10.5 / -12.9	13.7 / 2.9	8.4 / -16.3
Business to Business	22.1 / 10.8	16.4 / 1.4	19.4 / -1.8	14.0 / 0.7	12.4 / 1.2	16.1 / 2.2	16.3 / 6.9	8.0 / -5.2	6.3 / -3.8
Miscellaneous/Other	22.3 / 1.8	25.1 / 3.8	22.5 / 5.0	29.8 / 4.5	27.5 / 5.2	24.4 / 2.6	28.7 / 5.3	31.4 / 4.1	24.3 / 7.0
<b>Total</b>	<b>100.0 / 1.2</b>	<b>100.0 / 1.9</b>	<b>100.0 / 1.2</b>	<b>100.0 / 2.7</b>	<b>100.0 / 4.2</b>	<b>100.0 / 1.7</b>	<b>100.0 / 2.3</b>	<b>100.0 / 1.0</b>	<b>100.0 / -5.5</b>
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 3rd 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	Department Stores	Restaurants	Auto Sales - New	Restaurants
% of Total / % Change	16.9 / 0.0	15.0 / 4.8	16.0 / 3.1	16.5 / 5.3	13.2 / 2.0	15.7 / -11.7	11.6 / 6.1	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	Service Stations	Auto Sales - New	Restaurants	Auto Sales - New
% of Total / % Change	15.2 / 2.0	11.4 / 4.6	11.4 / 6.5	11.3 / 2.8	11.0 / 7.1	12.7 / -12.5	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	9.3 / -9.1	9.3 / 0.0	7.5 / -1.2	8.9 / -0.7	10.9 / 5.4	10.6 / 9.6	10.3 / 2.1	10.6 / -2.1	10.3 / -8.4
*** 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 3rd Quarter 2017: \$29,547,063

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

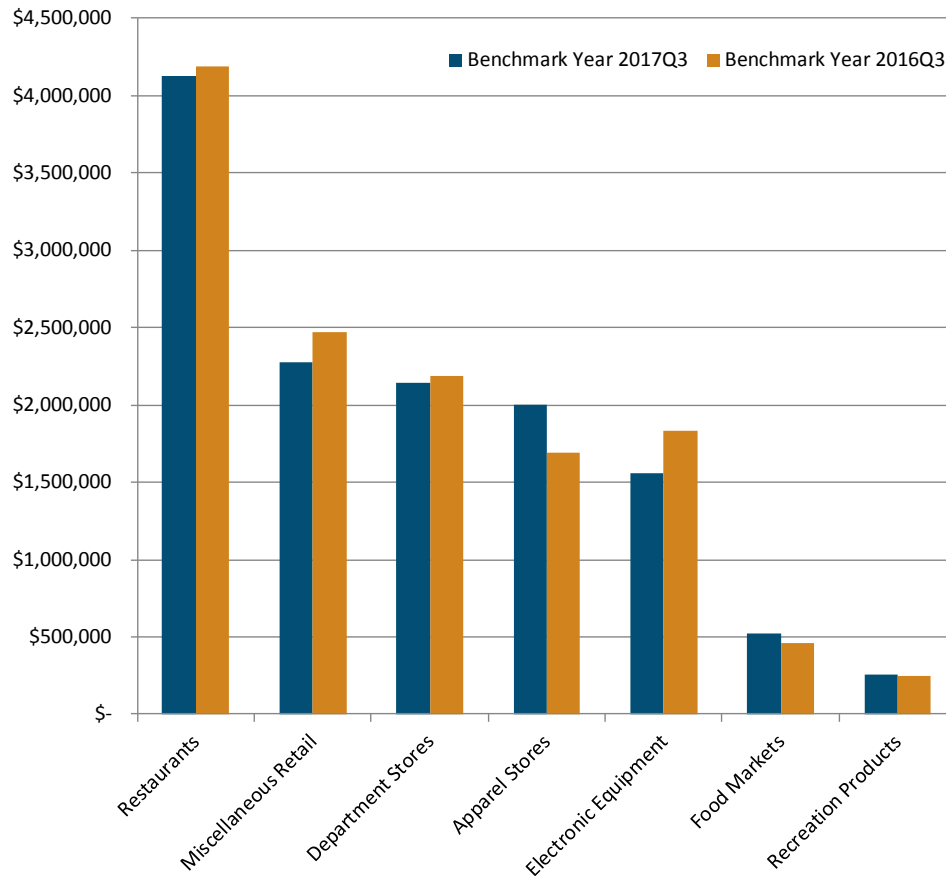


**TOP 25 SALES/USE TAX CONTRIBUTORS**

The following list identifies Palo Alto’s Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 3rd Quarter 2017. The Top 25 Sales/Use Tax contributors generate 52.9% of Palo Alto’s total sales and use tax revenue.

Anderson Honda	Lucile Packard Children's Hosp	Tesla Motors
Apple Stores	Macy's Department Store	The Pace Gallery
Audi Palo Alto	Magnussen's Toyota	Tiffany & Company
Bloomingdale's	Neiman Marcus Department Store	Urban Outfitters
Bon Appetit Management Co.	Nordstrom Department Store	Usb Leasing
Fry's Electronics	Shell Service Stations	Varian Medical Systems
Hewlett-Packard	Space Systems Loral	Volvo Cars Palo Alto
Houzz Shop	Stanford University Hospital	
Integrated Archive Systems	Tesla Lease Trust	

**Sales Tax from Largest Non-Confidential Economic Segments**





Historical Analysis by Calendar Quarter

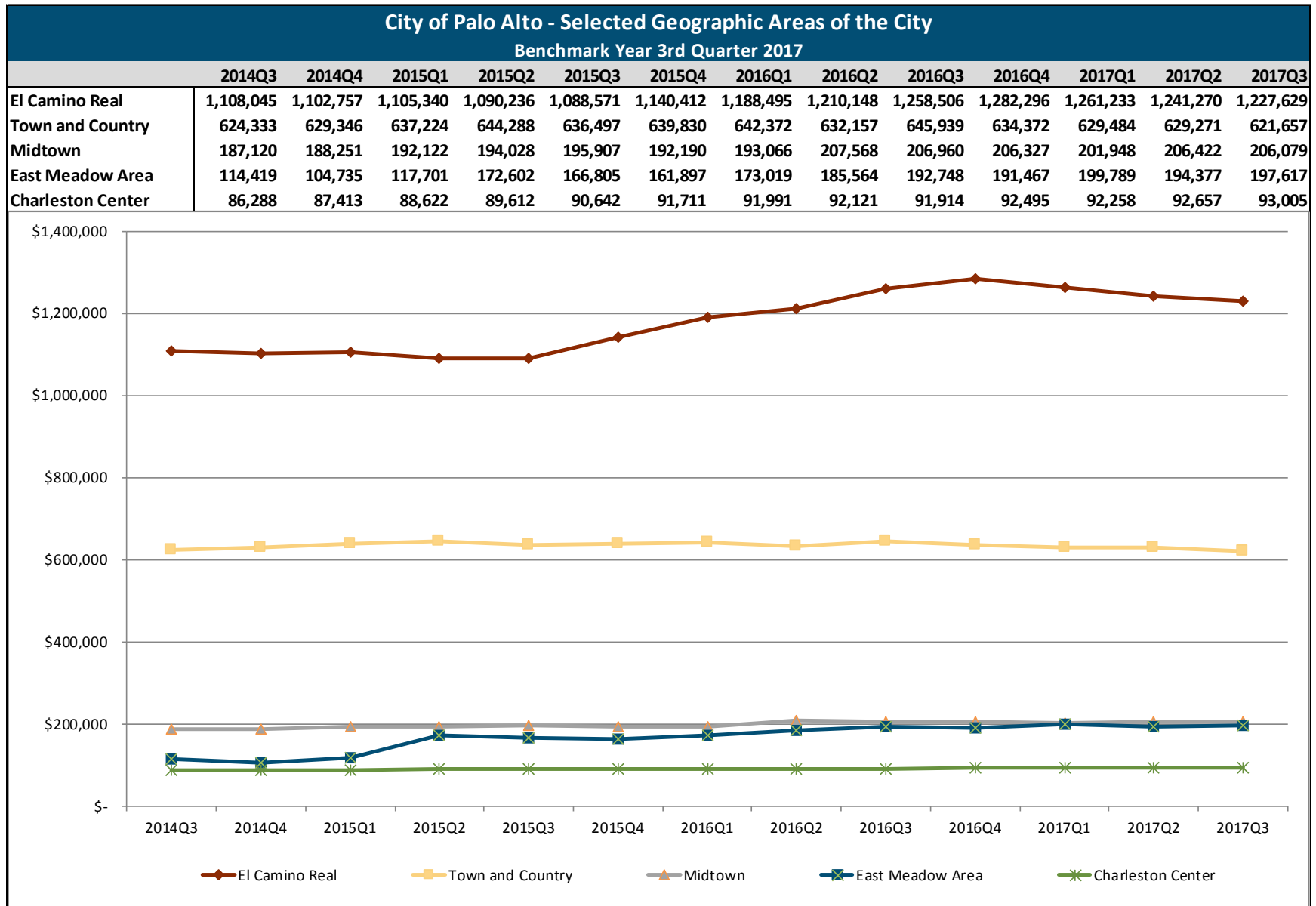
Economic Category	%	2017Q3	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1
General Retail	24.9%	1,860,347	1,952,490	1,684,023	2,784,731	1,983,231	2,141,794	1,673,846	2,526,551	1,935,178	2,009,743	1,797,756
Miscellaneous/Other	21.4%	1,602,213	1,301,138	1,392,756	1,621,044	1,727,134	1,617,307	1,413,133	1,491,158	1,609,541	1,564,157	1,400,769
Food Products	15.9%	1,184,645	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
Business To Business	19.4%	1,448,336	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
Net Pools & Adjustments	18.4%	1,374,372	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
Total	100.0%	7,469,913	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

Economic Segments	%	2017Q3	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1
Miscellaneous/Other	43.3%	3,233,434	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
Restaurants	14.1%	1,049,565	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
Miscellaneous Retail	5.6%	419,279	452,135	435,757	1,002,389	581,831	681,345	469,360	714,151	478,994	479,298	415,270
Department Stores	6.1%	458,066	510,561	392,565	641,541	491,433	546,629	435,470	714,831	553,325	595,374	503,590
Apparel Stores	5.9%	440,005	449,402	372,033	553,250	398,170	444,383	337,880	519,318	397,534	428,100	370,810
Service Stations	2.0%	147,499	159,371	119,552	130,396	138,155	144,735	123,004	140,758	173,082	181,582	148,902
Food Markets	1.6%	117,256	112,566	131,676	145,179	126,755	109,108	104,676	116,778	113,092	106,818	104,856
Business Services	2.3%	173,439	75,722	43,548	102,095	47,066	65,510	51,647	76,156	51,885	120,003	103,773
Recreation Products	0.8%	56,998	76,514	61,392	61,328	72,885	60,737	52,422	62,406	71,844	68,246	57,836
Net Pools & Adjustments	18.4%	1,374,372	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
Total	100.0%	7,469,913	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

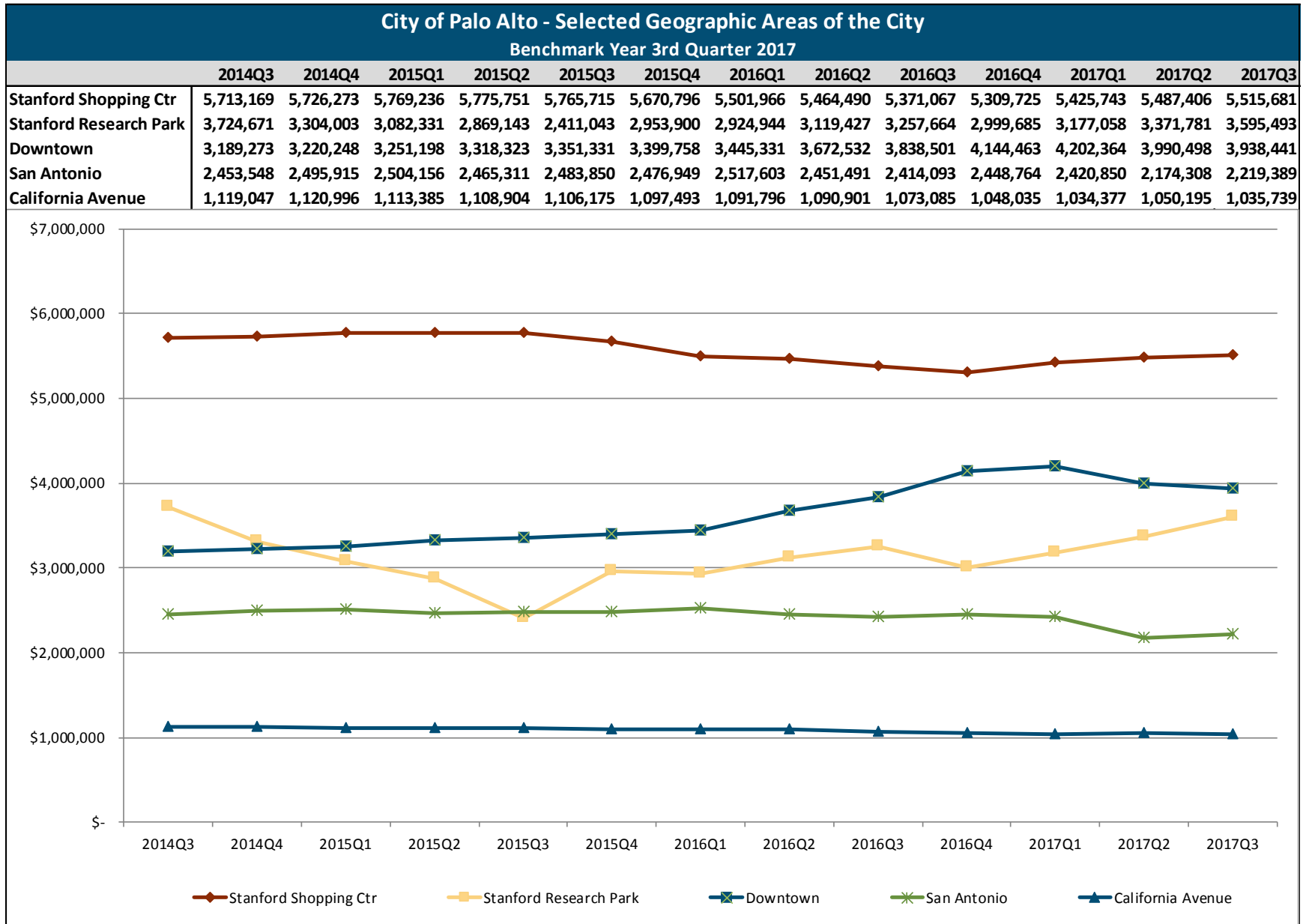
\*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

Quarterly Analysis by Economic Category, Total and Segments: Change from 2016Q3 to 2017Q3

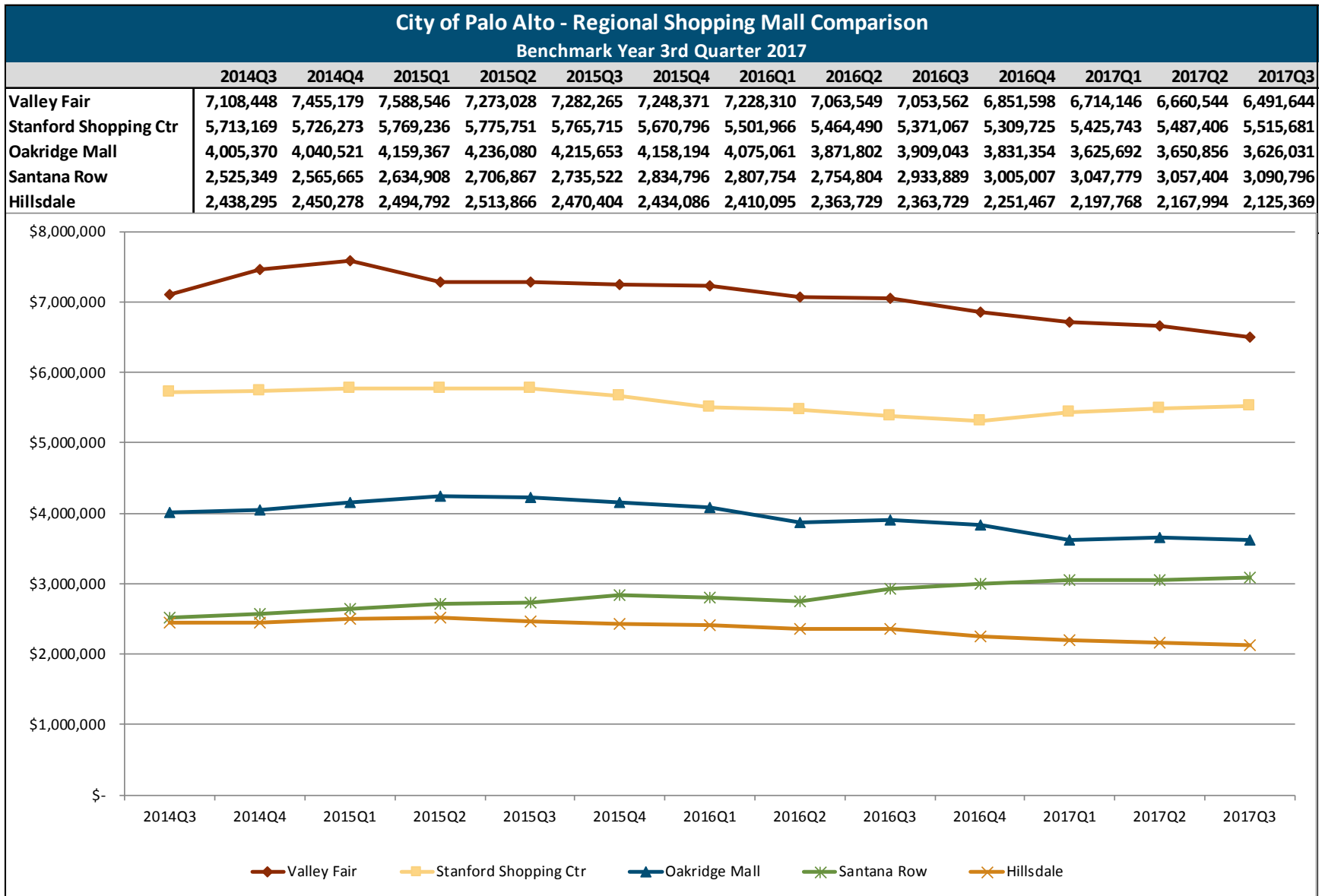
	General Retail	Food Products	Construction	Business to Business	Misc/Other	2017/3 Total	2016/3 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	-4.2%	-1.5%	6.9%	25.8%	2.0%	2,430,887	2,342,258	3.8%	Business Services	Bldg.Matls-Retail	Miscellaneous Retail	Food Markets
Cupertino	4.9%	13.5%	-63.3%	28.7%	5.7%	6,872,719	5,851,166	17.5%	Business Services	Food Processing Eqp	Bldg.Matls-Whsle	Office Equipment
Gilroy	-0.8%	6.0%	45.9%	2.5%	15.8%	4,124,099	3,772,986	9.3%	Auto Sales - New	Bldg.Matls-Whsle	Apparel Stores	Miscellaneous Retail
Los Altos	-4.9%	4.1%	-9.9%	5.2%	-1.5%	581,651	579,417	0.4%	Restaurants	Recreation Products	Furniture/Appliance	Bldg.Matls-Whsle
Los Gatos	-5.6%	-1.7%	9.7%	-6.1%	-1.8%	1,598,242	1,643,509	-2.8%	Light Industry	Auto Sales - New	Miscellaneous Other	Apparel Stores
Milpitas	-2.9%	3.6%	2.1%	31.0%	11.1%	5,760,545	5,230,545	10.1%	Office Equipment	Electronic Equipment	Heavy Industry	Apparel Stores
Morgan Hill	-0.2%	0.5%	13.0%	18.2%	5.0%	2,256,332	2,115,673	6.6%	Electronic Equipment	Auto Sales - New	Food Processing Eqp	Auto Sales - Used
Mountain View	0.9%	-0.4%	35.1%	-28.4%	-3.1%	3,842,301	4,095,571	-6.2%	Furniture/Appliance	Bldg.Matls-Whsle	Business Services	Electronic Equipment
Palo Alto	-7.9%	4.0%	-33.6%	24.9%	-3.6%	6,095,542	6,038,772	0.9%	Leasing	Electronic Equipment	Miscellaneous Retail	Office Equipment
San Jose	-0.6%	3.0%	1.2%	-2.2%	1.6%	37,843,180	37,666,044	0.5%	Department Stores	Service Stations	Office Equipment	Miscellaneous Retail
Santa Clara	1.0%	-1.1%	47.2%	-9.0%	-2.9%	11,519,421	11,691,692	-1.5%	Bldg.Matls-Whsle	Electronic Equipment	Office Equipment	Health & Government
Santa Clara Co.	-5.8%	-23.0%	9.7%	92.5%	5.5%	230,816	266,865	-13.5%	Business Services	Miscellaneous Other	Restaurants	Miscellaneous Retail
Saratoga	0.1%	6.9%	0.7%	-20.9%	-0.4%	6,467,427	7,027,164	-8.0%	Restaurants	Department Stores	Electronic Equipment	Light Industry
Sunnyvale	1.8%	5.2%	12.4%	51.0%	-13.8%	1,198,118	1,122,618	6.7%	Light Industry	Heavy Industry	Office Equipment	Auto Sales - Used



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



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



<b>Economic Categories and Segments</b>		
<b>Economic Category</b>	<b>Economic Segment</b>	<b>Description</b>
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

<b>Economic Categories and Segments</b>		
<b>Economic Category</b>	<b>Economic Segment</b>	<b>Description</b>
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

---

March 5, 2018





## Economic Indicators (See Sections 1 and 2)

**GDP:** Slightly weaker than initially thought; was 2.5% in 4Q2017; the earlier estimate was 2.6%. **Forecast:** 2.9% GDP growth in 2018, the best pace since 2015. (*Kiplinger*)

**California's GDP for 3Q2017:** 3.4%.

**Consumer Confidence:** The Conference Board in late Feb said the U.S. consumer confidence increased to 130.8 in Feb from 124.3 in Jan.

**Interest Rates:** The Fed did not raise its benchmark interest rate at the meeting in January, but reinforced investor expectations the Fed would raise rates at its next meeting in March.

**Inflation:** Expected to head up this year; unemployment in the last year dropped to a 17-year low yet inflation continues to run below the Fed's 2% target.

## Housing (See Section 3)

**Sales of Existing Single-Family Homes in California for January:** 388,800, down 7.6% from December and down 2.9% from January 2017. **California Median Home Price in January:** \$527,800, down 4.0% from December and up 7.3% from January 2017. **U.S. Homeownership:** Up in 2017 for the first time in 13 years; to 64.2% in 4Q2017 from 63.7% a year earlier.

## Labor and Wages (See Section 4)

**Unemployment (California and the US):** Rate fell to 4.3% in December. The U.S. rate held at 4.1% in December and remained 4.1% in January 2018.

**Labor Forecast:** Businesses can expect increasing labor shortages. The jobless rate will fall even further, to 3.8%.

**Wages Forecast:** By the end of the year, wages will be rising by an average clip of 3%, versus the current average rate of 2.5%.

## Auto Sales and Gasoline (See Sections 5 and 6)

**Gasoline Prices:** AAA shows (March 1, 2018) the national average price of self-serve regular at \$2.54 per gallon. California's average is \$3.34. **Forecast:** AAA forecasts spring gas prices will be the highest since 2015.

## Retail (See Sections 7 and 8)

**Retail Outlook in 2018:** Tax cuts, an improved economy and an American consumer that is less cautious about spending will make 2018 a better year for retailers. Retail sales are on track to match or exceed the healthy 4.2% gain they made in 2017.

**Holiday 2017 Retail Sales Between November 1 and December 24:** Up 4.9% for 2017, setting a record for dollars spent. This is the largest year-over-year increase since 2011. Online shopping also saw large gains of 18.1% compared to 2016. (Mastercard)

## On-Line Sales (See Section 9)

**U.S. E-Commerce Results for 4Q2017:** Percent of Retail Sales: Increase of 3.2% for 4Q2017 from 3Q2017. Total E-Commerce Sales for 4Q2017: \$119.0 billion. Total Retail Sales for 4Q2017: estimated at \$1,204.3 billion, an increase of 2.7% from 3Q2017. **Total E-Commerce Sales for 2016 and 2017:** Total retail sales in 2017 increased 4.4% from 2016. E-commerce sales in 2017 accounted for 8.9% of total sales. E-commerce sales in 2016 accounted for 8% of total sales. California's e-commerce sales comprise approximately 13-14% of the total sales, based on California's portion of the national economy.

## Grocery Industry (See Section 10)

**Grocery Among Fastest-Growing Retail Segments:** 674 stores are expected to open in 2018. The other two fastest growing segments are mass merchandisers and dollar stores, and convenience stores. **Online Grocery Spending:** Projected to grow to 20% of the market, or \$100 billion, by 2025. [www.progressivegrocery.com](http://www.progressivegrocery.com)

## Restaurant Industry (See Section 11)

**Online Grocery Spending:** Projected to grown to 20% of the market, or \$100 billion, by 2025.

## SECTION 1: U.S. ECONOMY

## U.S. Economy and Indicators

<https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm> (February 28, 2018)

<https://www.bls.gov/news.release/cpi.htm> (February 14, 2018)

**GDP:** Real GDP increased at an annual rate of 2.5% in 4Q2017 (was 3.2% in 3Q2017, 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016). The increase reflects positive contributions including from personal consumption expenditures. **California's GDP for 3Q2017:** 3.4%. Real GDO by state growth for the 3Q2017 ranged from 5.7% in Delaware to 0.5% in South Dakota. (BEA) **Sales for Retail and Food Services for Jan 2018:** a 0.3% decrease from Dec 2017, but 3.6% above Jan 2017. Total sales for the Nov 2017 through Jan 2018 period were up 4.9% from the same period a year ago.

**Retail Trade:** Down 0.3% from Dec 2017; up 3.9% from Jan 2017. **Miscellaneous Store Retailers:** Up 4.6% in Jan 2017. **Non-store Retailers:** Up 10.2% from Jan 2017. **Clothing shops:** Up 1.9% in Jan 2017. **Food & Beverage Stores:** Up 3.6% in Jan 2017. **General Merchandise Shops:** Up 3.0% in Jan 2017. **Gasoline Stations:** Up 9.0% from Jan 2017; Up 10.4% between Nov 2016 and Jan 2017. **Vehicles & Parts Dealers:** Up 3.6% in Jan 2017. **Electronics & Appliance Stores:** Up 1.6% in Jan 2017.

## Consumer Price Index (CPI) (January 2018 From Preceding Month)

<https://www.bls.gov/news.release/cpi.nr0.htm> (February 14, 2018)

**U.S. CPI for Jan 2018:** Up 0.5%; over the last 12 months (Jan 2017 to Jan 2018); the 'all items' index rose 2.1%.

**Gasoline:** From Jan 2017 to Jan 2018 (8.5%); **Jan 2018 (5.7%);** Dec 2017 (.8%); Nov 2017 (6.0%).

**New Vehicles:** From Jan 2017 to Jan 2018 (-1.2%); **Jan 2018 (-.1%);** Dec 2017 (.5%); Nov 2017 (.2%). **Used Cars & Trucks:** From Jan 2017 to Jan 2018 (-.6%); **Jan 2018 (.4%);** Dec 2017 (.7%); Nov 2017 (.5%).

**Food:** From Jan 2017 to Jan 2018 (1.7%); **Jan 2018 (.2%);** Dec 2017 (.2%); Nov 2017 (.0%). **"Away From Home":** From Jan 2017 to Jan 2018 (2.5%); **Jan 2018 (-.4%).**

**Apparel: Jan 2018 (1.7%);** Dec 2017 (-.3%); Nov 2017 (-.9%).

**Tobacco:** From Jan 2017 to Jan 2018 (6.6%); **Jan 2018 (.3%);** Dec 2017 (-.4%); Nov 2017 (.2%).

**Alcohol: Jan 2018 (.0%);** Dec 2017 (.0%); Nov 2017 (.2%).

**Wireless Telephone Service:** From Jan 2017 to Jan 2018 (-10.2%); **Jan 2018 (-.2);** Dec 2017 (0%); Nov 2017 (.3%).

**Lodging Away from Home:** From Jan 2017 to Jan 2018 (-1.3%); **Jan 2018 (-2.0%);** Dec 2017 (.4%); Nov 2017 (-.9%).

**Shelter: Jan 2018 (.2%);** Dec 2017 (.3%); Nov 2017 (.2%).

## Services Sector for 4Q2017/ Contributions to Percentage Change in GDP from 3Q2017

[www.census.gov/services/index.html](http://www.census.gov/services/index.html) (February 16, 2018) and [www.bea.gov](http://www.bea.gov) (February 28, 2018)

**4Q2017 Total Revenue:** \$3,792.8 billion, an increase of 2.4% from 3Q2017 and up 5.2% from 4Q2016.

**Personal Consumption Expenditures:** Up 2.1% from 3Q2017.

**Exports Services:** Down 1.9% from 3Q2017.

**Import Services:** Up 1.9% from 3Q2017.

**Utilities:** Decrease of 6.3% from 3Q2017 and up 4.5% from the 4Q2016.

**Transportation and Warehousing:** Decrease of 1.0% from 3Q2017; and up 3.2% from 4Q2016.

**Arts, Entertainment and Recreation:** Decrease of 4.1% from 3Q2017; and up 4.4% from 4Q2016.

**Real Estate and Rental and Leasing:** Increase 1.5% from 3Q2017; and up 6.68% from 4Q2016.

**Accommodations:** Decrease 12.9% from 3Q2017 and down 0.5% from the 4Q2016.

**Other Services** (includes auto and electronic repair, personal and laundry services, religious, grantmaking, civic, professional and similar organizations): Increase 11.6% from 3Q2017 and up 10.4% from 4Q2016.

**SECTION 2: CALIFORNIA ECONOMY**

<https://www.sco.ca.gov/Files-EO/02-18summary.pdf>

[http://www.dof.ca.gov/Forecasting/Economics/Economic\\_and\\_Revenue\\_Updates/documents/2018/EconFebruary2018.pdf](http://www.dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2018/EconFebruary2018.pdf)

[https://www.bea.gov/newsreleases/regional/gdp\\_state/qgdppstate\\_newsrelease.htm](https://www.bea.gov/newsreleases/regional/gdp_state/qgdppstate_newsrelease.htm)

**California's GDP for 3Q2017:** 3.4%. Real GDP by state growth for the 3Q2017 ranged from 5.7% in Delaware to 0.5% in South Dakota. (BEA)

**Total California Revenues for January:** \$17.35 billion which beat the governor's 2018-19 proposed budget estimates by \$2.37 billion, or 15.8%, and outpaced 2017-18 Budget Act projections by \$1.45 billion. (SCO)

**Retail Sales and Use Tax for January:** \$43 million below the month's forecast of \$2.790 billion. January receipts includes the final payment for fourth quarter sales, which was due on January 31. Year-to-date sales tax revenues are \$35 million below forecast. (DOF)

**Personal Income Tax for January:** \$15.60 billion or 16.9% above the proposed budget's projections and \$1.33 billion ahead of 2017-18 Budget Act estimates. (SCO)

**Corporation Tax for January:** \$551.6 million or 62.1%, higher than expected in the proposed budget and \$143.4 million above the enacted budget's estimates. (SCO)

**Additional Revenues in January:** From the estate, alcoholic beverage, tobacco taxes, pooled money interest, and vehicle license fee came in \$5 million above the \$58 million forecast and are up \$5 million year-to-date. "Other" revenues were \$32 million above the month's forecast of \$71 million and are up \$51 million year-to-date. (DOF)

**SECTION 3: HOME SALES**

<https://www.car.org/en/aboutus/mediacenter/newsreleases/2018releases/Jan2018homesales>

**Sales of Existing Single-Family Homes in California for January:** 388,800, down 7.6% from December and down 2.9% from January 2017.

**California Median Home Price in January:** \$527,800, down 4.0% from December and up 7.3% from January 2017.

**Affordability:** The most affordable 20% of the market now has a median price of \$220,000 in California, up more than 10% from a year ago, when an entry-level home averaged \$200,000.

**U.S. New Residential Sales:** Sales of new single-family houses in Jan 2018 was 593,000 (7.8% below the Dec

2017 estimate of 643,000); The Jan national median sales price was \$323,000.

**U.S. Homeownership:** Up in 2017 for the first time in 13 years; to 64.2% in 4Q2017 from 63.7% a year earlier. Homeownership under 35 years rose to 36% in 4Q2017 from 34.7% a year earlier.

**Credit Scores:** New types of credit scores could expand mortgage financing to more people. The Federal Housing Finance Agency is looking at a new version of FICO. About 45 million Americans lack FICO scores. The new scores would give credit scores to 35 million more consumers.

**SECTION 4: LABOR MARKET CONDITIONS**

**Unemployment (California and the US):** Rate fell to 4.3% in December. The U.S. rate held at 4.1% in December and remained 4.1% in January 2018.

**Labor Shortage:** In industries such as manufacturing and construction, small firms are forced to hike wages. (Kiplinger, 01/19/18)

**Job Gains:** California's continued for a fourth consecutive month as nonfarm jobs increased by 52,700 in December, well above the average monthly gain of 28,500 jobs in 2017. Year-over-year nonfarm job gains averaged 295,500 (up 1.8%) in 2017. This compares with 421,500 (up 2.6%) in 2016 and 477,900 (up 3.1%) in 2015.

## SECTION 5: AUTO SALES / TRENDS

**California Car Sales for 4Q2017; 2017 Results; January 2018 Results**

<http://cncda.org/CMS/Pubs/California%20Covering%204Q%202017.pdf>

<http://www.jdpower.com/press-releases/jd-power-and-lmc-automotive-forecast-january-2018>

**California, January 2018:** Rose 1% in January to 1.2 million.

**New Registrations for 2017:** Above 2 million for the third consecutive year; market declined slightly in 2017 but annual total exceeded 2009 levels by nearly 100%.

**CNCDA 2018 Forecast:** 2.01 million units. JD Power in January predicted early forecasts for a decrease including a full year fall of 1.5%.

**Total Registrations 2016 to 2017:** California (-2.0%); US (-1.7%).

**Total Cars History / California:** 996,287 (2017); 1,110,222 (2016).

**Total Cars 2016 to 2017:** California (-10.3%); US (-11%).

**Light Trucks 2016 to 2017:** California (7.4%); US (4.4%).

**Truck Market Share in 2017:** California (51.3%); US: (64.2%).

**New Vehicles Sold YTD for 2017:** 512,627 (-10.8%) for cars; and 514,255 (8.8%) for light trucks.

**2017 Electric Vehicle Market in California:** 2.6%; Hybrid/Electric is 9.4%.

**Used Car Registrations in 2017/ California:** Small increase of 1.2%. Used light truck increased 3.7%; cars were down .4%.

**Older Vehicle Market Share in 2017/ California:** 4 to 6 years old increased 49.6%.

**California Segment Market Share in 2017:** Non-luxury takes over top spot (26%); small cars (25%); pickups and vans (15%); non-luxury mid cars (14%); luxury and sports (10%) and luxury SUVs (10%).

**Electric Vehicles:** Electric vehicle sales grew 30% in 2017. Though electric vehicle sales barely topped 1% of all auto sales, that number is sure to grow rapidly – probably eventually to consume almost the entire market.

Governor Brown in late January signed an executive order to put five million zero-emission vehicles on California's roads by 2030.

**Ride Sharing:** Uber has more drivers in New York than there are taxis, and nationwide Uber and Lyft have more market share than taxi cabs.

## SECTION 6: GASOLINE

**Gasoline Prices:** AAA shows (March 1, 2018) the national average price of self-serve regular at \$2.54 per gallon. California's average is \$3.34. Looking at the gas average map, Mono is the highest at \$4.24. The state's gas tax, not including local and federal taxes, is close to 55 cents a gallon, up from 41.47 cents.

**Forecast:** AAA forecasts spring gas prices will be the highest since 2015. AAA predicts that motorists in California could see gas reach \$4 a gallon this spring, but it will be temporary.

**Lifestyle Changes if Gas Prices Increase:** 40% of drivers said they would start making changes when gas reaches \$3 a gallon. Another 25% said their breaking point would be \$2.75 a gallon. (AAA Survey)

**Buying New Cars Gets More Difficult:** Auto sales slumped in February as tightened credit conditions, higher interest rates drove up monthly payments. Overall U.S. vehicle sales dropped 2.4% in February. (Autodata)

**Detroit Auto Show May Move from January to October:** The January date is a throwback to the days when auto dealers needed to drum up demand during the slow period. Many new model-year launches take place in the fall.

**SECTION 7: SELECTED RETAILER UPDATES/ CALIFORNIA WARN NOTICES**

Selection from November 1, 2017 to March 1, 2018). For historical open/close updates, please refer to:  
<http://www.muniservices.com/muniservices-policy-update-library/>;  
[http://www.edd.ca.gov/Jobs\\_and\\_Training/warn/WARN-Report-for-7-1-2017-to-02-25-2018.pdf](http://www.edd.ca.gov/Jobs_and_Training/warn/WARN-Report-for-7-1-2017-to-02-25-2018.pdf)

Please contact your Avenu Client Manager for specific impact.

**Albertsons:** To acquire Rite Aid stores not sold to Walgreens  
**Applebee's:** To close 60-80 restaurants in 2018 following the closure of 100 in 2017  
**Ashley HomeStores:** To open 800<sup>th</sup> store (Tijuana)  
**Backstage:** (Macy's off-price unit): Plans to expand with another 100 stores  
**Batteries Plus Bulbs:** Plans to open 47 stores in 2018 including 14 corporate locations and 33 franchise locations  
**Best Buy:** Increase holiday sales by 9%; ramped up robotic and electronic toys after Toys R Us announced closure.  
**Black Bear Diner:** Adding 19 locations  
**Blaze Pizza:** Plans to develop 400 additional locations including some in the U.S.  
**Build a Bear:** Closed in Anaheim (EDD WARN report)  
**Burgerim:** Entered Sacramento (Auburn)  
**California Tortilla:** Will grow brand in new states in 2018  
**Chipotle:** Plans store upgrades and slower expansion  
**Costco:** Reports that 40% of new members signups are Millennials  
**CVS:** Launching private label hoping to compete with Sephora and Ulta  
**Dave and Busters:** Expanding; filling large empty store spaces  
**Dicks:** Pulls assault rifles from stores (post February 2018 Florida school shooting); earlier this year announced for fiscal 2018 the new stores planned fell to 15 to 20  
**Dollar Tree:** In 3Q2017 opened 169 stores; ended with 14,744 stores  
**Dogtopia:** Plans to open 40 new stores in 2018; on pace to reach 400 by 2021  
**Dunkin' Donuts:** Plans to add 1,000 new locations by end of 2020; will have 18,000 in the U.S.; includes 9 new Sacramento stores  
**Family Christian:** 240 closures  
**Future Perfect:** New showroom in Los Angeles  
**Fred Meyer Jewelers:** Closing many mall stores

**Gamestop:** 100 store closures  
**Gander Outdoors:** Camping World to re-open 69 stores  
**Go! Go! Curry:** Japanese comfort food plans to expand  
**GoPro, Inc.:** Layoff's in San Mateo (EDD WARN report)  
**Grocery Outlet:** 25 new stores planned  
**H&M:** Closing 170 stores in 2018  
**HelloFresh:** Aims to eclipse Blue Apron  
**Home Depot:** Buys The Company Store, a catalog and e-commerce retailer of home goods and textiles;  
**Indochino:** Ready-to-wear suits opening 4 new stores including a San Diego location  
**JC Penny:** Eliminated 360 jobs in response to simplifying operations and as more people shop online  
**Jersey Mike's:** Plans to open 200 restaurants in 2018; aiming to have 2000 stores in the U.S. by 2020  
**Jimboy's Tacos:** Expanding in Northern California  
**K-Mart:** Closed in Cudahy, Redding, Ontario (EDD WARN report)  
**Kohls:** Increase holiday sales by 6.3% compared with a 2.3% decline a year earlier  
**Land of Nod:** Owned by Crate and Barrel - Closed the Land of Nod brick-and-mortar stores in January  
**Lands' End:** Plans to open 60 new stores in the next five years  
**Loves:** Travel stop. Plans to open 40 new locations in 2018  
**Macys Corporate Services:** Closed in Redondo Beach (EDD WARN report)  
**Macys:** Closed in Laguna Hills, Los Angeles, San Francisco (EDD WARN report)  
**Mattel, Inc.:** Layoff's in El Segundo (EDD WARN report)  
**Mattress Firm:** Will close 200 stores by mid-2019  
**McDonalds:** To invest \$2.4 billion on upgrades in 2018  
**Modern Market:** Farm to table fast casual was acquired by Butterfly  
**Nestle:** Closed in Glendale and Oakland (EDD WARN report)  
**Nekter Juice Bar:** 100<sup>th</sup> restaurant to open in Anaheim Hills  
**New Seasons Market:** Closed in Sunnyvale; will not open in SF, Carmel and Emeryville  
**New Leaf Community Markets:** New location in Aptos

**Nordstrom:** Revamping some of its 122 stores. Much of the company's success comes from opening Rack off-price stores and e-commerce

**Papa John's International:** No longer will be the official pizza of the NFL

**P.F. Changs:** Closed in Burbank (EDD WARN report)

**Planet Fitness:** More agreements signed; brick and mortar spaces give expansion opportunity

**Reserve:** Starbuck's high-end stores plans 1,000 stores with fuller service of food and beverages. Not sure on a California location.

**Rituals:** Average 1200 square foot store, encourages shoppers to experiment with products; expands to California

**Sam's Club:** Closed in Rowland Heights, Sacramento, San Fernando, Stanton (EDD WARN report); shrinking stores to compete and hopes for more affluent shoppers. In January 2018, Wal-Mart chain closed 63 U.S. Sam's Clubs locations

**Shake Shack:** Expects to open 32 to 35 new restaurants in 2018; will open more airport locations

**Soft Surroundings:** Women's apparel. Opening a location in California

**Smart & Final:** Replaces Ralphs in north Torrance

**Sears:** Closed in Brea, Westminster (EDD WARN report)

**Starbucks:** Closed on-line business

**Subway:** Expect more closures and relocations

**Take 5 Oil:** Will add dozens of stores in 2018

**T-Mobile:** Expanding footprint by opening stores

**Target:** Plans to increase small-format stores; closing 12 underperforming stores (none in California)

**Teriyaki Madness:** Fresh Asian fast casual targeting Los Angeles for expansion; plans for 20-25 additional locations

**TGI Fridays:** Closed in Oxnard, Brea (EDD WARN report)

**Toys "R" Us:** Closed in Emeryville, San Jose (EDD WARN report); announced closing 200 more stores; Amazon.com, Walmart, and Target stand to be greatest beneficiaries; Best Buy has also shown results

**Tuesday Morning:** In Spring will have five closures, 19 relocations and one expansion, seven openings

**Walmart:** Removed hyphen from name. To partner with Lord and Taylor to create an on-line mall, part of strategy to fend off Amazon.com. Openings are fewest in 25 years; new store format

**Wetzel's Pretzels:** New store opening pipeline

**Warby Parker:** Aims to run nearly 100 stores this year, as other Web shops follow; started online in 2010, spearheaded the trend of e-commerce companies opening brick-and-mortar stores

**7-Eleven:** Closed on the acquisition of approximately 1,030 Sunoco LP convenience stores in 17 states.

### WARN notices

#### **California Worker Adjustment and Retraining Notification (WARN Notices)**

**November 2017:** 58 notices and 20 permanent closures;

**December 2017:** 36 notices and 14 permanent closures;

**January 2018:** 78 notices and 40 permanent closures;

**As of February 25, 2018:** 41 notices and 13 permanent closures.

[http://www.edd.ca.gov/Jobs\\_and\\_Training/warn/WARN-Report-for-7-1-2017-to-02-25-2018.pdf](http://www.edd.ca.gov/Jobs_and_Training/warn/WARN-Report-for-7-1-2017-to-02-25-2018.pdf)

## SECTION 8: RETAIL TRENDS AND INFLUENCES

**Retail Outlook in 2018:** Tax cuts, an improved economy and an American consumer that is less cautious about spending will make 2018 a better year for retailers. Retail sales are on track to match or exceed the healthy 4.2% gain they made in 2017.

**Holiday 2017 Retail Sales Between November 1 and December 24:** Up 4.9% for 2017, setting a record for dollars spent. This is the largest year-over-year increase since 2011. Online shopping also saw large gains of 18.1% compared to 2016. (Mastercard)

**Retailers Expect Economic Boost from Tax Reform:** Reports suggest the tax legislation will boost the nation's economy. Cutting the corporate tax rate will save large businesses enough to create between 500,000 and 1.5 million jobs while reducing taxes for "pass throughs" will benefit the small retailers that make up 95% of the industry. Congressional estimates show a family earning the average income of \$73,000 a year will see a tax cut of over \$2,000 in 2018, which is easily enough to cover the \$967 NRF research shows the average consumer will spend this holiday season. (NFR, 12/22/17)

**Consumers Ramp Up Debt:** In Q42017 consumer debt excluding mortgages and other home loans rose 5.5% from a year earlier. Overall, households are paying about 5.8% of their disposable personal income to stay current on non-mortgage debts. (WSJ; Moody's Analytics; <https://www.newyorkfed.org/newsevents/news/research/2018/rp180213>)

**U.S. Savings:** Dropped to a 10 year low of 3.1% in September 2017 down from the 6.3% peak in October 2015. Now, only 2.4 cents of every after-tax dollar of income gets saved, versus 4.9 cents in 2016 and 6 cents in 2015. (Kiplinger, 2/2/18)

**Shopping Centers.** In the U.S. one-quarter of the country's roughly 1,200 malls are expected to close over the next five years. Restaurants and food establishments might occupy between 20% and 40% of a shopping center; 10 years ago, it was 10% or 15% (CBRE Group)

**Gyms Locating to Malls:** Gym leases in malls has doubled in the last five years; apparel has dropped from 70% of mall space to 40%. Consumer spending at fitness centers rose 3.7% in 3Q2017 compared to the year before. (WSJ)

**Malls in Transportation Terminals:** Developers are looking at ways to grab attention along long corridors that take the masses to and from planes, trains and automobiles.

**Convenience Continues to Expand:** The number of convenience stores reach a new high of 154,958, up 0.3% or 423 units in 2017, from the 2016 year-end total of 154,535 at the end of 2016. (NACS). With so many retailers vowing to save shoppers time and eliminate friction from the store experience, retailers focused squarely on convenience grew the fastest in 2017.

**Retailers Pay the Price of Success:** Strong holiday sales and more online selling means more returns to offload at a discount. 2017 was the strongest growth in holiday sales since 2011 and the rise of online shopping, where purchases are more likely to be returned. Trickle Down: Secondary Retail Sales in 2016: Online auction houses (24%); Salvage dealers (37%); Factory outlets (7%); Value retailers / Dollar stores (15%); Other (17%) such as warehouse wholesaler "Twice as Nice."

**Black Friday 2017:** Consumers spent more than \$5 billion on Black Friday, 16.9% more than on that day in 2016. Physical stores still dominated sales; more than 145 million adults spent time at malls and shopping centers and spent an average of \$377.50. <https://retailleader.com>

**Valentine's Day 2018:** U.S. consumers were expected to spend an average \$143.56, an increase from last year's \$136.57. (NFR)

**Saint Patrick's Day 2018:** Americans plan to spend a record \$5.9 billion. Last year was \$5.3 billion. (NRF).

**Smaller Format Stores:** Sales at smaller-format stores are projected to grow 3.9% annually until 2022, outpacing 0.8% sales growth for their big-box counterparts. (Washington Post, 12/25/17)

**Big Retailers Raise Age for Gun Buyers:** As of March 1, Dick's, Field & Stream, Walmart (Alaska) announced raising age to 21 (WSJ)

**Price War Pressure Consumer Brands:** Retailers such as Walmart are pushing for steeper discounts as they struggle to compete with Amazon.

**Phone Prices Hitting a Wall:** In 2017, there were new redesigned smartphones with higher prices. For unit sales, Apple and Samsung sales were flat.

## SECTION 9: E-COMMERCE RESULTS AND TRENDS

[https://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf)

**U.S. E-Commerce Results for 4Q2017 (Adjusted Seasonal Variation):** Percent of Retail Sales: Increase of 3.2% for 4Q2017 from 3Q2017. Total E-Commerce Sales for 4Q2017: \$119.0 billion. Total Retail Sales for 4Q2017: estimated at \$1,204.3 billion, an increase of 2.7% from 3Q2017. The 4Q2017 estimate increased 16.9% from 4Q2016 while total retail sales increased 5.7% in the same period. E Commerce sales for 4Q2017 accounted for 9.1% of total sales.

**U.S. E-Commerce Results for 4Q2017 (Not Adjusted):** \$143.1 billion, an increase of 33.7% from 3Q2017. 4Q2017 estimate increased 16.8% from the 4Q2016 while total retail sales increased 5.3% in the same period. E-commerce sales in the 4Q2017 accounted for 10.5% of total sales.

**Total e-commerce Sales for 2016 and 2017:** 2017 was estimated at \$453.5 billion, an increase of 16% from 2016. Total retail sales in 2017 increased 4.4% from 2016. E-commerce sales in 2017 accounted for 8.9% of total sales. E-commerce sales in 2016 accounted for 8% of total sales. California's e-commerce sales comprise approximately 13-14% of the total sales, based on California's portion of the national economy. An estimated 40% of U.S. online spending goes to Amazon.

## SECTION 10: RESTAURANT INDUSTRY

**Restaurants as Economic Engine:** Industry's share of the food dollar is 48%.; Industry sales constitute 4% of the U.S. GDP. Restaurant industry sales in 2017 (based on current data), representing 4% of the U.S. GDP. For every dollar spent in restaurants, \$2 is generated in sales for other industries. National Restaurant Association)

**Restaurant Count:** The U.S. restaurant count reached 647,288 in the Fall of 2017, a 2% decrease in units from a year ago. Restaurant chain counts grew to 301,183 units, a 982-unit increase, which kept the total chain count flat compared to fall 2016. The total number of independent restaurants declined to 346,105 units, a decrease of 10,952 units from last year. Quick-service restaurants (QSR) declined by 1% to 353,121 units. Fast casual chains, which are a restaurant category under QSR, increased

**Big Brands Risk Losing Voice/ Alexa:** If a voice shopper doesn't specify a brand, Alexa is more likely to recommend "Amazon's Choice product.

**"Shipping with Amazon":** Will directly compete with UPS and FedEx Corporation. Will roll out in Los Angeles with third-party merchants that sell goods via its website. President Trump in late 2017 wrote that the U.S. Postal Service should charge Amazon.com and other companies more to deliver packages.

**Wal-Mart and Japan's Rakuten:** Rakuten is Japan's largest on-line retailer and joined by Wal-Mart to bolster efforts to compete with Amazon.com in Asia and the U.S.

**Luxury:** By 2025, online will represent 25% of luxury goods (Bain & Company). Industry estimated e-commerce revenue for 2016: Burberry (8.5%); Tiffany (6%); Louis Vuitton (2.4%); Prada (1.2%). Luxury giant Richemont is buying Yoox Net-a-Porter a major online marketplace for luxury goods to help boost the market.

**Sharing Economy in Luxury:** Consumers are considering sharing over owning.

**E-Commerce Trends in 2018:** Commerce through email will become vital to brands (email drives more revenue than all social networks). (Forbes, John Hall)

units by 4% to a total of 25,118. Full-service restaurant units, which include casual dining, family dining and fine dining restaurants, stood at 294,167 units in Fall 2017, a 2% decline. (NPD February 14, 2018 press release)

**Consumer Price Changes from Dec 2017 to Dec 2018 for Food Cost of Eating Out:** Up 17% (Kiplinger)

**Top Five Domestic Restaurant Brands:** McDonald's Corp., Starbucks Corp., Subway, Taco Bell, and Burger King

**Restaurant Franchises:** Poised for strong growth in 2018, with output increasing by around 6%, eclipsing 2017's 5% rise. The industry is buoyed by higher consumer spending and rising business investment spurred by tax reform.

**Food Halls:** Combines dining, entertainment, and locally sustainable eating in one place.



## SECTION 11: GROCERY INDUSTRY

<http://www.theshelbyreport.com/> (from November 1, 2017 to March 2, 2018)

Please contact your Avenu Client Manager for specific impact.

**Aldi:** Opened new Southern California location in La Habra

**Albertsons:** To purchase Rite Aid stores not sold to Walgreens

**Amazon Go:** Plans to open as many as six stores in 2019. Some will open in Amazon's hometown of Seattle, where the first location is based, as well as Los Angeles, and other cities

**Brandless:** <https://brandless.com/> Everything is \$3

**Bristol Farms:** Opened prototype store in Woodland Hills

**Gelson's:** Unveiled three remodeled stores in Southern California

**Whole Foods 365 Store:** Opened in Concord; <https://www.wholefoodsmarket.com/stores/list/development>

**Grocery Outlet:** Plans 25 store expansion, including over a dozen in the Los Angeles area

## Trends

**Fastest-Growing Retail Segments:** 674 stores are expected to open in 2018. The other fastest growing segments are mass merchandisers, dollar stores, and convenience stores. [www.progressivegrocery.com](http://www.progressivegrocery.com)

**Shopping Options:** Shop in-store, order online for in-store pickup, order online for curbside pickup and order online for home delivery. **Mobile payment at checkout.**

Chance to pay for groceries with smart phones. **Eating and drinking at stores.** Sampling stations for wine and beer, as well as add in-store dining. **Meal-kits.** Pre-measured ingredients, recipes and cooking instructions.

**Online Grocery Spending:** Projected to grown to 20% of the market, or \$100 billion, by 2025.

**Amazon Go:** Amazon's new cashier-less convenience store uses technology (cameras, sensors, etc.,) to automatically charge customers for their purchases after shoppers scan their smartphones at the entrance. Still requires workers to stock shelves, assist customers, and troubleshoot the tech. (Kiplinger, 1/26/18)

**"Managed":** iFresh, Asian American grocery supermarket chain and online opens in El Monte

**Mother's Market:** Expanding with new locations in Los Angeles

**New Seasons:** Closing Sunnyvale; will not open in San Francisco, Carmel and Emeryville

**New Leaf Community Markets:** New location in Aptos

**Raley's:** Extends E-Commerce, same day delivery in Sacramento

**Stater Brothers:** To open first Pasadena store this Fall; opens location in Norco

**Superior Grocers:** Chain with 45 Southern California stores offering same day delivery with Instacart

**Vallarta Supermarket:** Opened 50<sup>th</sup> store location in Pasadena

**Walmart:** Introduces Eden, a high-tech food initiative to improve the quality of perishable foods; partners with Deliv for delivery in San Jose

**Kohls:** To add Aldi groceries to stores

**Amazon and Whole Foods Marriage:** Amazon is considering stocking stores with popular consumer packaged goods that don't meet the chain's current quality standards. The change could alienate certain customers but could attract new customers who might not have shopped there.

**Food Manufactures Warn of Higher Costs if Aluminum Imports Face New Tax:** In response to President Trump's planned 10% tariff. Concern the tariff will act as a regressive tax on low-income consumers. Would impact makers of beer and sodas.

**Meal-Kit Start Ups Losing Sizzle:** Some are waiting to see how Amazon.com's acquisition of Whole Foods reshapes the grocery and food delivery businesses. An estimated 70% of customers of Blue Apron stopped buying its meals six months after signing up, while more than 80% of Hello Fresh were not active.