



# CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 27, 2018

The Honorable City Council  
Palo Alto, California

## City of Palo Alto Sales Tax Digest Summary Fourth Quarter Sales (October - December 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 – Fourth Quarter Sales (October – December 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. The Economic Categories and Segments are shown in Attachment C. Sales tax information is reported on a calendar-year basis.

#### DISCUSSION

The Sales Tax Digest Summary covers fourth quarter sales for calendar year 2017, which are reported as part of the City's fiscal year 2018 revenue. In May 2018, ASD should receive information from the state on aggregate sales and use tax receipts for the first quarter of 2018. Following are some highlights of the sales and use tax information:

- Palo Alto's overall sales and use tax revenue (cash receipts) for the fourth quarter of 2017 increased by \$430,000, or 5.4 percent, including pool allocations, compared to the fourth quarter of 2016. For all Santa Clara County jurisdictions, sales and use tax revenue for the fourth quarter of 2017 increased by \$7.0 million, or 6.2 percent, compared to the fourth quarter of 2016.
- Statewide, most regions in California experienced an increase in sales and use tax revenue for the year ending in December 2017, with a one-year statewide increase of 3.6 percent.
- Palo Alto's sales and use tax revenue totaled \$30.0 million for the year ending in December 2017, an increase of 5.4 percent from \$28.4 million during the prior one-year period.

<sup>1</sup> 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 fourth quarter of 2017 increased by 4.1 percent compared to the fourth quarter of 2016. The annual increase was 1.3 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, 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 March 2018 unemployment rate, which is not seasonally adjusted, was 2.6 percent in Santa Clara County and 2.2 percent in Palo Alto.

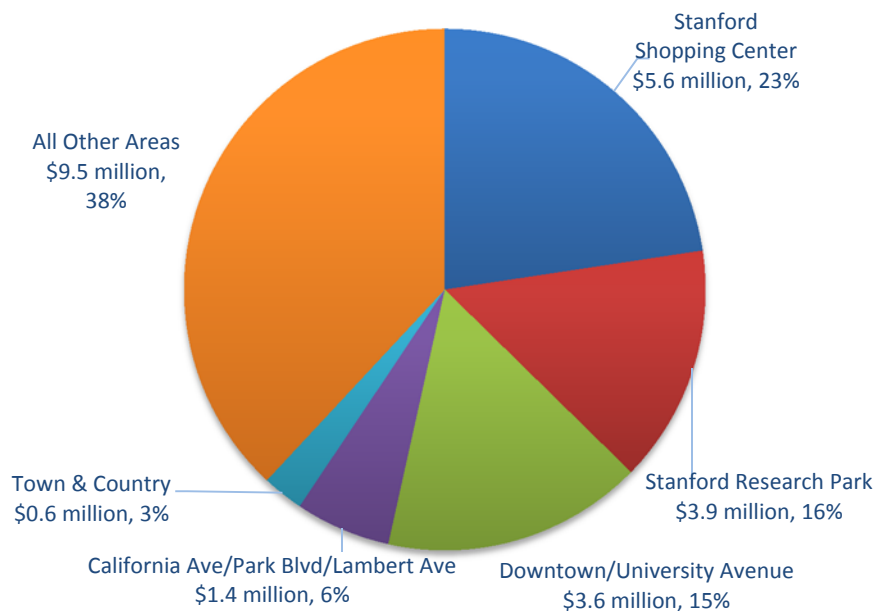
### Economic Category Analysis

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

Economic category	Percent of Palo Alto's sales and use tax revenue	Percent Increase (Decrease) compared to prior year
General retail	32.8%	(6.6%)
Food products	19.1%	1.0%
Business-to-business	22.5%	18.4%
Construction	2.2%	(33.5%)
Miscellaneous	23.4%	4.5%

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 December 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 fourth 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

# City of Palo Alto

## Sales Tax Digest Summary

### Collections through March 2018

#### Sales through December 2017 (2017Q4)

### California Overview

The percent change in cash receipts from the prior year was 3.6% statewide, 3.9% in Northern California and 3.5% in Southern California. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When we adjust for non-period related payments, we determine the overall business activity increased for the year ended 4th Quarter 2017 by 3.1% statewide, 3.0% in Southern California and 2.9% in Northern California.

### City of Palo Alto

For the year ended 4th Quarter 2017, sales tax cash receipts for the City increased by 5.4% from the prior year. On a quarterly basis, sales tax revenues increased by 5.4% from 4th Quarter 2016 to 4th 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 1.3% for the year ended 4th Quarter 2017 from the prior year. On a quarterly basis, sales tax activity increased by 4.1% in 4th Quarter 2017 compared to 4th Quarter 2016.

### Regional Overview

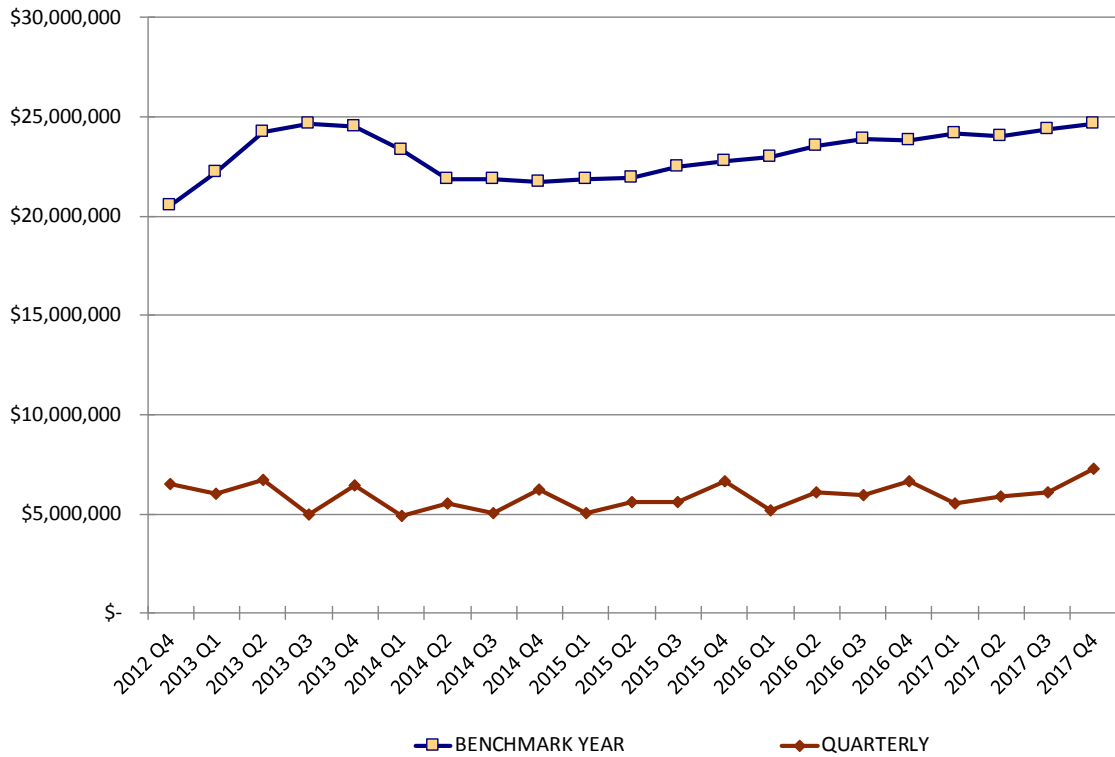
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

#### CITY OF PALO ALTO

BENCHMARK YEAR 2017Q4 COMPARED TO BENCHMARK YEAR 2016Q4

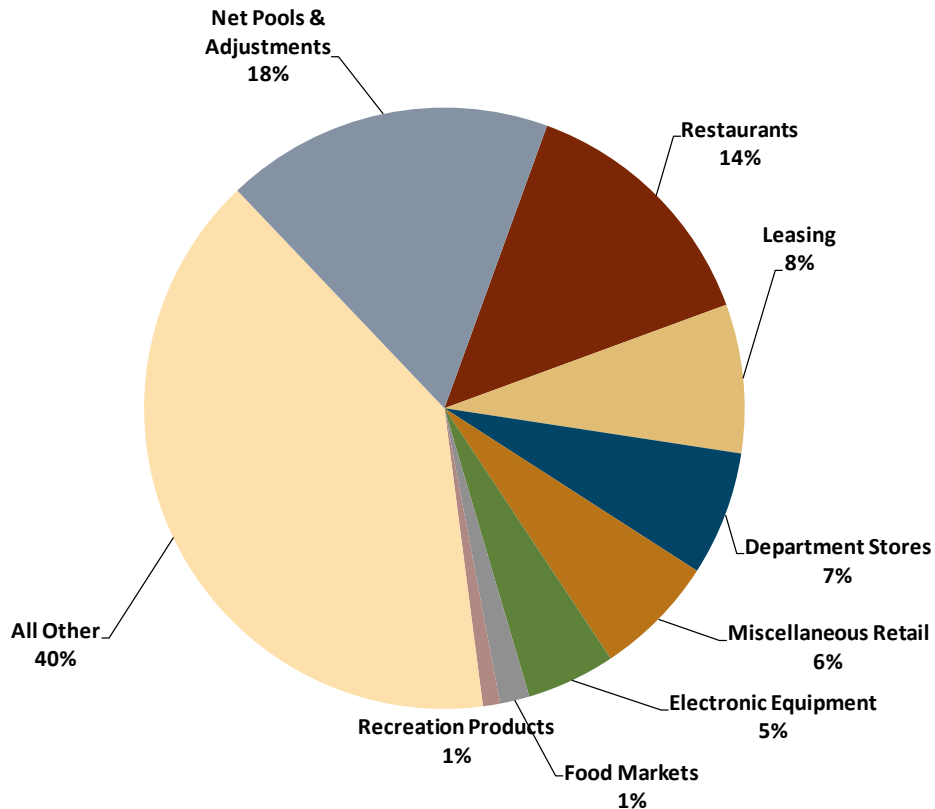
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 4th QUARTER 2017									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	32.8 / -6.6	27.7 / 1.1	25.7 / -0.9	26.8 / 1.4	30.8 / 4.8	28.4 / 0.5	26.8 / 3.5	27.5 / -1.3	29.8 / -7.4
Food Products	19.1 / 1.0	21.1 / 3.6	22.4 / 2.7	17.5 / 5.2	16.5 / 4.1	22.6 / 3.7	17.6 / 4.3	18.4 / 1.4	30.9 / -5.7
Construction	2.2 / -33.5	9.7 / 4.8	9.9 / 5.0	12.5 / 8.0	12.0 / 5.8	8.5 / 5.6	10.6 / 0.2	14.3 / 8.3	8.6 / -12.9
Business to Business	22.5 / 18.4	16.5 / 3.4	19.5 / 0.8	13.7 / 7.0	13.3 / 14.6	16.2 / 2.5	16.3 / 5.0	8.1 / 2.1	6.0 / -6.3
Miscellaneous/Other	23.4 / 4.5	25.1 / 5.3	22.6 / 6.4	29.5 / 8.9	27.3 / 6.9	24.3 / 3.3	28.6 / 5.1	31.7 / 6.5	24.7 / 8.4
<b>Total</b>	<b>100.0 / 1.3</b>	<b>100.0 / 3.1</b>	<b>100.0 / 2.2</b>	<b>100.0 / 4.8</b>	<b>100.0 / 6.3</b>	<b>100.0 / 2.5</b>	<b>100.0 / 4.0</b>	<b>100.0 / 3.1</b>	<b>100.0 / -3.7</b>
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 4th 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	16.8 / 0.6	15.1 / 4.0	16.0 / 2.6	16.7 / 4.4	13.0 / 3.1	16.4 / 55.9	11.6 / 4.4	12.2 / 5.3	21.9 / -6.7
2nd Largest Segment	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New	Service Stations	Auto Sales - New	Service Stations	Auto Sales - New
% of Total / % Change	15.9 / 3.2	11.2 / 2.7	11.2 / 5.6	11.1 / 0.6	10.8 / 5.9	11.8 / 28.5	10.9 / 2.1	11.1 / 13.6	11.7 / 20.9
3rd Largest Segment	Leasing	Department Stores	Department Stores	Department Stores	Restaurants	Restaurants	Department Stores	Restaurants	Misc. Retail
% of Total / % Change	9.7 / 53.3	9.2 / 2.3	7.5 / 1.6	8.9 / 1.6	10.8 / 4.2	9.8 / 47.4	10.1 / 3.0	10.8 / 2.1	10.1 / -6.2
*** Not specified to maintain confidentiality of tax information									

Gross Historical Sales Tax Performance by Benchmark Year and Quarter (Before Adjustments)



Net Cash Receipts for Benchmark Year 4th Quarter 2017: \$29,978,035

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

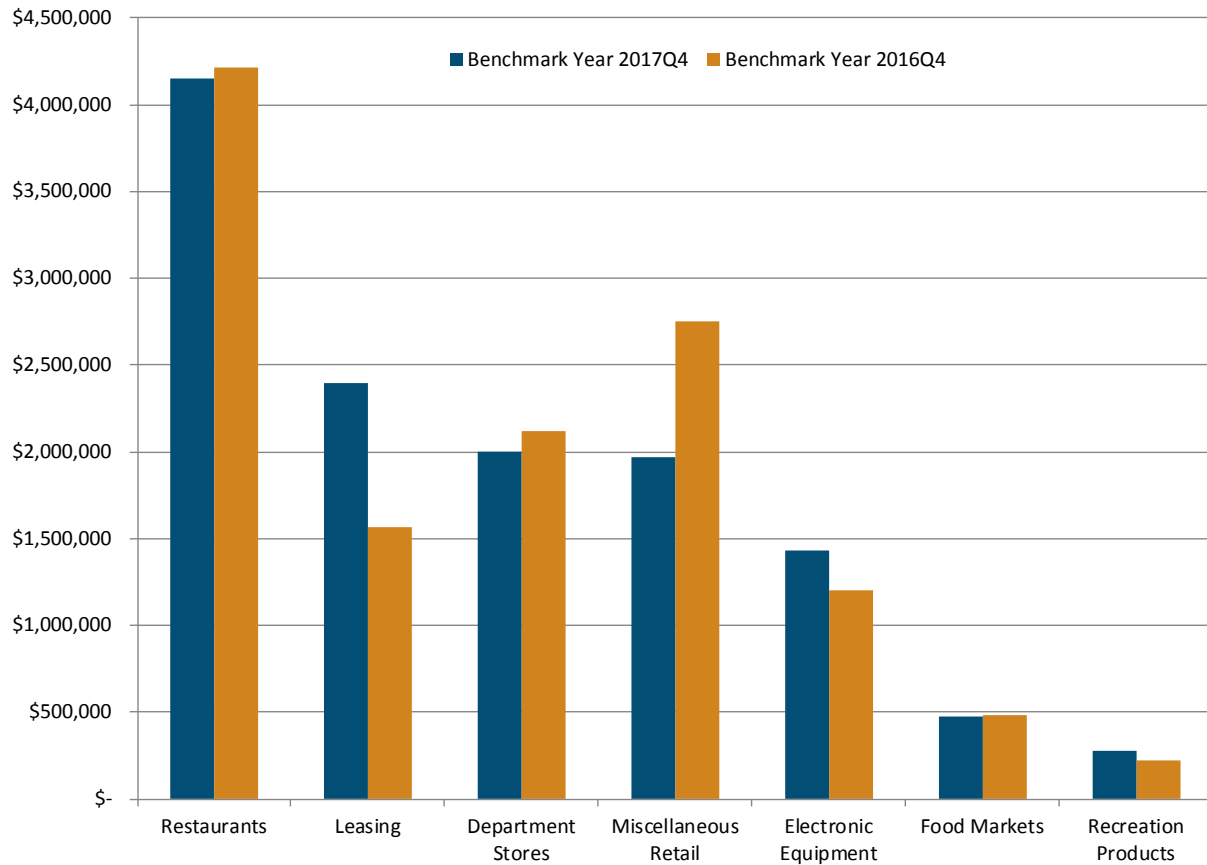


**TOP 25 SALES/USE TAX CONTRIBUTORS**

The following list identifies Palo Alto’s Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 4th Quarter 2017. The Top 25 Sales/Use Tax contributors generate 52.6% of Palo Alto’s total sales and use tax revenue.

Anderson Honda	Lucile S.Packard Chldrn Hospit	Tesla Lease Trust
Apple Stores	Macy's Department Store	Tesla Motors
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	Wilkes Bashford
Integrated Archive Systems		

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





Historical Analysis by Calendar Quarter

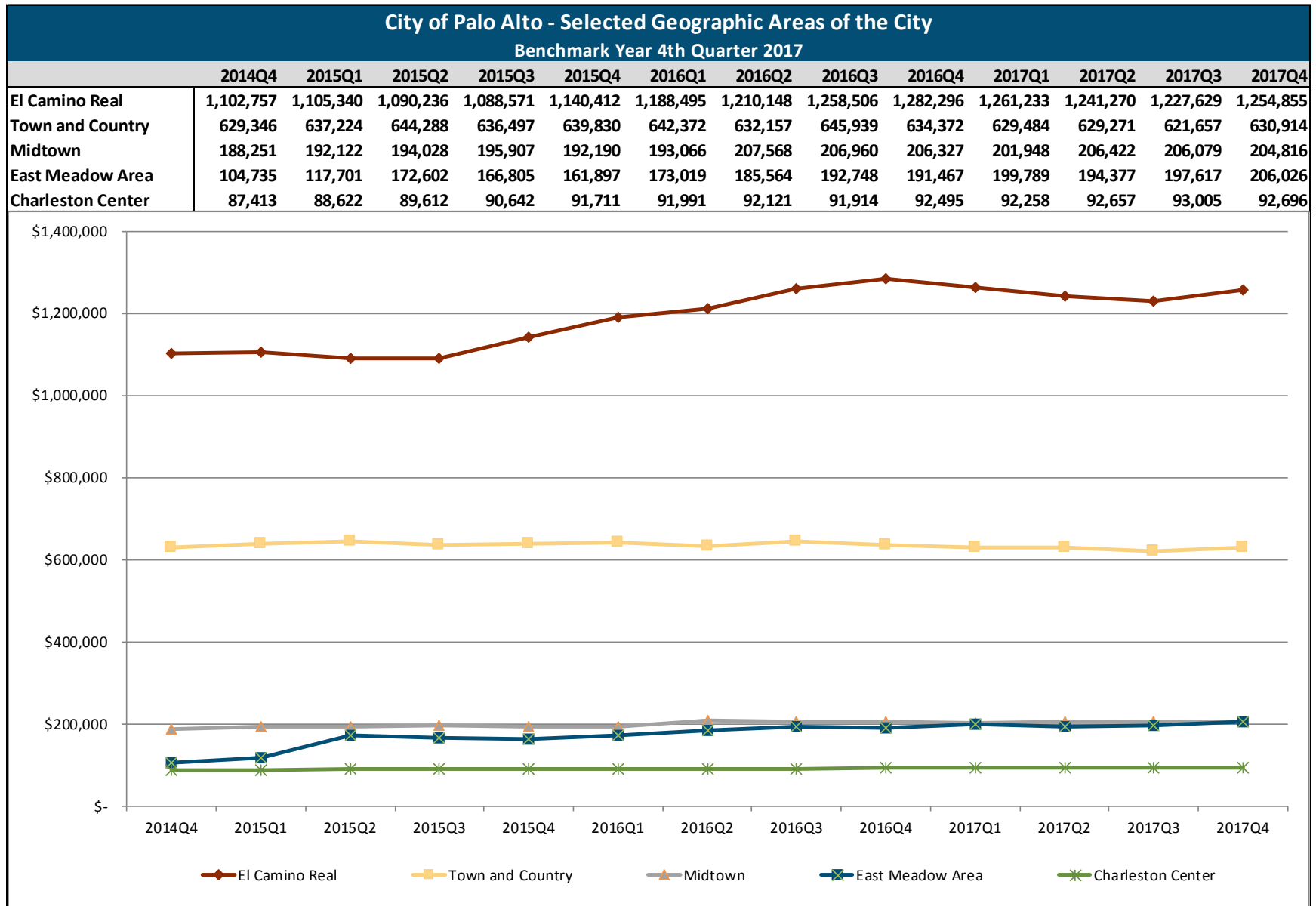
Economic Category	%	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2
General Retail	31.3%	2,635,136	1,860,347	1,952,490	1,684,023	2,784,731	1,983,231	2,141,794	1,673,846	2,526,551	1,935,178	2,009,743
Miscellaneous/Other	22.3%	1,881,732	1,602,213	1,301,138	1,392,756	1,621,044	1,727,134	1,617,307	1,413,133	1,491,158	1,609,541	1,564,157
Food Products	14.3%	1,206,578	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
Business To Business	18.6%	1,569,619	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
Net Pools & Adjustments	13.5%	1,136,075	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
Total	100.0%	8,429,140	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

Economic Segments	%	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2
Miscellaneous/Other	45.0%	3,791,527	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
Restaurants	12.5%	1,054,073	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
Miscellaneous Retail	8.3%	701,369	419,279	452,135	435,757	1,002,389	581,831	681,345	469,360	714,151	478,994	479,298
Department Stores	7.6%	642,666	458,066	510,561	392,565	641,541	491,433	546,629	435,470	714,831	553,325	595,374
Apparel Stores	7.0%	585,892	440,005	449,402	372,033	553,250	398,170	444,383	337,880	519,318	397,534	428,100
Service Stations	1.8%	148,906	147,499	159,371	119,552	130,396	138,155	144,735	123,004	140,758	173,082	181,582
Food Markets	1.5%	128,671	117,256	112,566	131,676	145,179	126,755	109,108	104,676	116,778	113,092	106,818
Business Services	1.9%	157,861	173,439	75,722	43,548	102,095	47,066	65,510	51,647	76,156	51,885	120,003
Recreation Products	1.0%	82,100	56,998	76,514	61,392	61,328	72,885	60,737	52,422	62,406	71,844	68,246
Net Pools & Adjustments	13.5%	1,136,075	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
Total	100.0%	8,429,140	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

\*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.

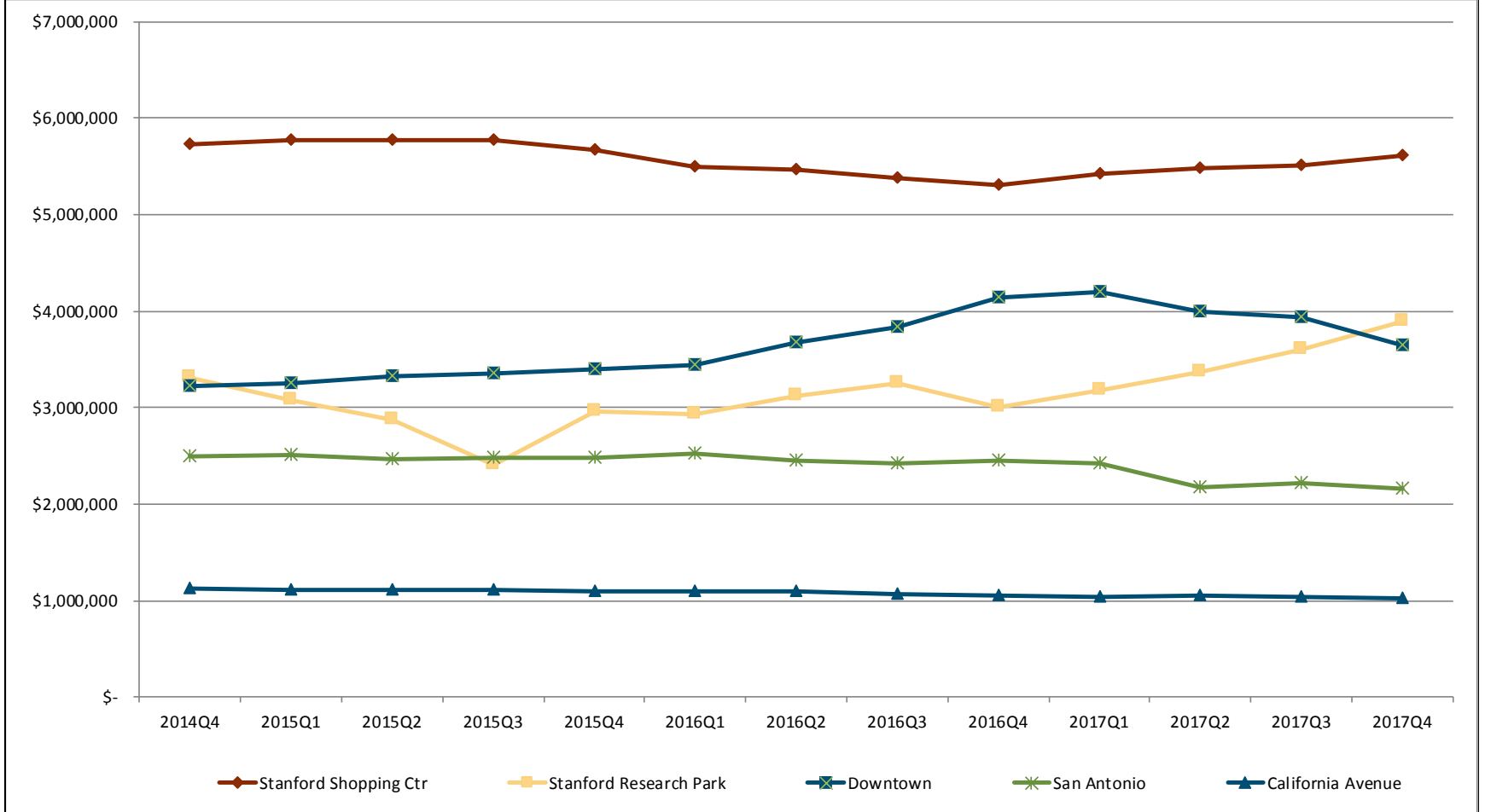
Quarterly Analysis by Economic Category, Total and Segments: Change from 2016Q4 to 2017Q4

	General Retail	Food Products	Construction	Business to Business	Misc/Other	2017/4 Total	2016/4 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	-3.7%	3.8%	5.7%	-18.8%	-24.0%	2,470,029	2,563,410	-3.6%	Restaurants	Business Services	Office Equipment	Furniture/Appliance
Cupertino	3.4%	10.1%	-60.6%	25.4%	-14.2%	9,437,048	7,942,209	18.8%	Business Services	Food Processing Eqp	Office Equipment	Bldg.Matls-Whsle
Gilroy	-2.4%	4.5%	4.0%	23.2%	-16.6%	4,302,514	4,021,877	7.0%	Auto Sales - New	Service Stations	Apparel Stores	Department Stores
Los Altos	-3.2%	2.0%	22.3%	40.0%	-0.8%	655,243	642,319	2.0%	Restaurants	Office Equipment	Food Processing Eqp	Furniture/Appliance
Los Gatos	-4.1%	1.5%	22.1%	-13.7%	-11.5%	1,733,713	1,784,620	-2.9%	Service Stations	Bldg.Matls-Retail	Miscellaneous Other	Business Services
Milpitas	-2.2%	3.3%	-2.5%	35.8%	23.5%	6,110,432	5,539,071	10.3%	Office Equipment	Heavy Industry	Business Services	Light Industry
Morgan Hill	-1.5%	4.4%	18.1%	30.0%	54.0%	2,161,964	1,954,455	10.6%	Auto Sales - New	Bldg.Matls-Whsle	Recreation Products	Chemical Products
Mountain View	-3.9%	4.2%	30.1%	18.0%	-42.7%	4,516,789	4,291,080	5.3%	Business Services	Bldg.Matls-Whsle	Office Equipment	Recreation Products
Palo Alto	-6.7%	2.3%	-42.0%	13.5%	66.6%	7,293,063	7,003,235	4.1%	Leasing	Auto Sales - New	Miscellaneous Retail	Business Services
San Jose	2.6%	4.6%	3.6%	3.0%	-12.8%	41,186,979	39,644,799	3.9%	Department Stores	Heavy Industry	Office Equipment	Apparel Stores
Santa Clara	-13.9%	0.2%	3.9%	19.8%	-58.3%	12,243,704	11,623,504	5.3%	Office Equipment	Electronic Equipment	Miscellaneous Retail	Health & Government
Santa Clara Co.	-12.3%	-14.0%	-28.2%	155.0%	-39.2%	239,462	270,288	-11.4%	Business Services	Service Stations	Restaurants	Miscellaneous Retail
Saratoga	-4.2%	8.9%	10.6%	-12.2%	25.5%	7,179,320	7,332,315	-2.1%	Auto Sales - New	Restaurants	Electronic Equipment	Office Equipment
Sunnyvale	-0.2%	5.9%	27.4%	213.6%	0.5%	1,112,223	962,788	15.5%	Bldg.Matls-Whsle	Heavy Industry	Auto Sales - Used	Furniture/Appliance

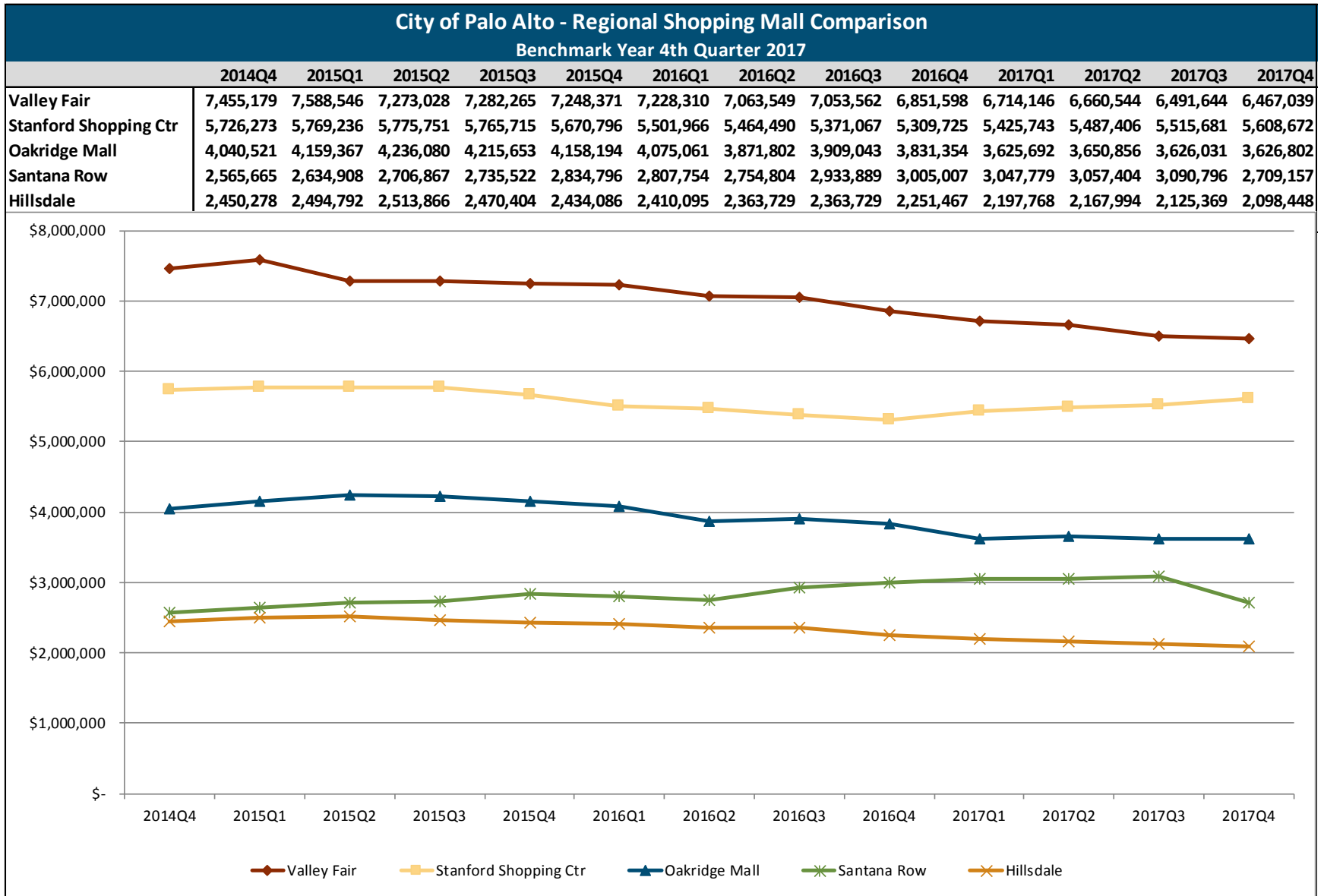


*\*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2017Q4 BMY is sum of 2017 Q4, Q3, Q2, Q1)*

City of Palo Alto - Selected Geographic Areas of the City													
Benchmark Year 4th Quarter 2017													
	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
Stanford Shopping Ctr	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	5,515,681	5,608,672
Stanford Research Park	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	3,595,493	3,898,022
Downtown	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	3,938,441	3,646,422
San Antonio	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	2,219,389	2,161,989
California Avenue	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	1,035,739	1,026,218



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



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

<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

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# ECONOMIC NEWS & TRENDS

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April 27, 2018





## HIGHLIGHTS

### Economic Indicators

**GDP:** Real GDP increased at an annual rate of 2.3% in 1Q2018 (advance estimate); was 2.9% in 4Q2017; 3.2% in 3Q2017, 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016). The increase reflects positive contributions from nonresidential fixed investment, personal consumption expenditures, exports, private inventory investment, federal government spending, and state and local government spending.

**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.

**Digital Economy:** 6.5% of U.S. GDT or \$1.2 trillion in 2016; 5.6% average annual growth from 2006 to 2016; outpaced overall U.S. economic growth of 1.5%; 3.9% of total U.S. employment.

**Consumer Confidence:** The Conference Board *Consumer Confidence Index*<sup>®</sup> increased in April, following a decline in March. Consumers' assessment of current conditions improved with consumers rating both business and labor market conditions quite favorably; this suggests that the economy will continue expanding at a solid pace.

**Interest Rates:** The Federal Reserve raised interest rates for the first time in 2018, citing strength in the economy.

**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.

**US / China Trade:** Some Chinese businesses are canceling or slowing plans to invest in the American market because of U.S. threats to restrict investment. Some businesses are feeling the effects; exports from small businesses to China had tripled in the past 15 years. U.S. consumers may feel the effect on the Administration's proposed tariffs on Chinese imports to include a 25% levy on TV's and related components.

### U.S. and California Economic Outlook

**U.S Outlook:** Continued US growth: 2017: 2.5%, 2018: 2.5 to 2.8%; domestic spending will continue; oil prices will be steady in the \$55-\$70 barrel range; inflation is low but rising; policy uncertainty.

**California and Local Outlook:** Growth constrained by limited increases in labor force; leading sectors are construction, consumer-serving sectors, tourism, health care, and defense / aerospace; housing shortages (owner occupied rentals) (Beacon Economics, April, 2018)

### Housing

U.S. homeownership was up in 2017 for the first time in 13 years; to 64.2% in 4Q2017 from 63.7% a year earlier.

**Sales of Existing Single-Family Homes in California:** 423,990 in March up 0.3% from February and 1.6% from March 2017. California median home in March was \$565,830, up 8.1% from a year ago; the peak was \$594,530 in May 2007. The lowest was \$245,230 in February of 2009 (-59% from the peak). Alameda, Marin, San Mateo, Santa Clara, San Diego, and Orange counties are a new peak at \$955,000, \$1,392,500, \$1,615,000, \$1,454,500, \$625,400, and \$824,450, respectively.

### Employment

California's unemployment rate reached a record low of 4.3% in February. The U.S. unemployment rate was at 4.1% for the sixth consecutive month in March.

**Forecast:** Ending 2018 at 3.9% down from 4.1% at end of 2017. (Kiplinger) The number of Americans applying for unemployment benefits week of April 16, 2018 fell to the lowest level since December 6, 1969. (WSJ)

### California WARN Notices & Permanent Closures

**Dec 2017:** 33 notices / 13 closures; **Jan 2018:** 76 notices/ 30 closures; **Feb 2018:** 44 notices/ 18 closures; **Mar 2018:** 41 notices/ 22 closures; **As of Apr 25:** 56 notices/ 25 closures.

## HIGHLIGHTS

### Fuel

**Gasoline Prices:** AAA shows (April 25, 2018) the national average at \$2.78.2 per gallon. California's average is \$3.591. The Energy Information Administration's shows this is the highest level on record for the month of April and exceeds typical summer demand measurements. Increases from one year ago: California (+55 cents).

### California Auto Sales

Rose 1% in January 2018 to 1.2 million. New registrations for 2017 were above 2 million (third consecutive year); market declined slightly in 2017 but annual total exceeded 2009 levels by nearly 100%. The CNCDA 2018 forecast is 2.01 million units.

### Retail

**Retail Outlook in 2018:** Tax cuts, an improved economy and a 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. 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

**4Q2017:** Percent of Retail Sales Increased 3.2% for 4Q2017 from 3Q2017. Total E-Commerce Sales for 4Q2017: \$119.0 billion. Total Retail Sales for 4Q2017: est. at \$1,204.3 billion, an increase of 2.7% from 3Q2017.

**E-Commerce Sales for 2016 and 2017:** 2017 increased 4.4% from 2016. E-commerce sales in 2017 accounted for 8.9% of total sales; 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 the U.S. online spending goes to Amazon.

## Groceries and Restaurants

**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 is projected to grow to 20% of the market, or \$100 billion, by 2025. Amazon now delivers orders to parked vehicles.

**U.S. Food Stamp Program Proposed Reduction - Impact on Grocers:** The Trump Administration is proposing reducing program budget by \$130 billion over a decade, which is 20% reduction of the current annual allotment. The grocery sector is bracing for a possible loss of billions of dollars in purchases.

**Food Away From Home:** From March 2017 to Mar 2018 (2.5%); Mar 2018 (.1); Feb 2018 (.2); Jan 2018 (-.4%).

**Food at Home:** From March 2017 to Mar 2018 (.4%); Mar 2018 (.1); Feb 2018 (-.2); Jan 2018 (.1%).

**Restaurants:** Driving success in a new era of competition: More than 620,000 eating and drinking establishments. Imperatives defining industry in 2018: Embrace the experience, drive employee engagement, dominate delivery, compete with non-traditional players, and operational excellence and compliance. (Deloitte)

## Hospitality Industry Outlook

Travel is a \$1-trillion US industry. Spending will grow by 5% in 2018. Revenue drivers include consumer spending, airline competition, corporate travel, the move from products to experience. (Deloitte) Hotel rates will rise modestly, up 2.4% from 2017. (Kiplinger)

## Retail Space

Destination centers are the super-sized versions of the future. Values centers share the customers' values. Innovation centers are digitally-powered. "Retailidential" centers redefine living over the store.

## SECTION 1: U.S. ECONOMY

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

**U.S. CPI for March 2018:** Decreased 0.1% in Mar.

**Gasoline:** From Mar 2017 to Mar 2018 (11.1%); Mar 2018 (-4.9); Feb 2018 (-.9); Jan 2018 (5.7%); Dec 2017 (.8%).

**New Vehicles:** From March 2017 to Mar 2018 (-1.2%); Mar 2018 (.0); Feb 2018 (-.5); Jan 2018 (-.1%); Dec 2017 (.5%).

**Used Cars & Trucks:** From March 2017 to Mar 2018 (.4%); Mar 2018 (-.3); Feb 2018 (-.3); Jan 2018 (.4%); Dec 2017 (.7%).

**Apparel:** Mar 2018 (-.6); Feb 2018 (1.5); Jan 2018 (1.7%); Dec 2017 (-.3%).

**Cigarettes:** From Mar 2017 to Mar 2018 (5.9%); Mar 2018 (-.4); Feb 2018 (.2); Jan 2018 (.2%). **Alcohol:** Mar 2018 (.1); Feb 2018 (.2); Jan 2018 (.0%).

**Wine:** From Mar 2017 to Mar 2017: **Wine At Home** (.9%); **Wine Away From Home:** (2%).

**Cable and Satellite TV Service:** From Mar 2017 to Mar 2018 (2.7%).

**Wireless Telephone Service** From March 2017 to Mar 2018 (-2.4%); Mar 2018 (.2); Feb 2018 (-.5); Jan 2018 (-.2).

**Lodging Away from Home:** From March 2017 to Mar 2018 (2.4%); Mar 2018 (2.3); Feb 2018 (.0); Jan 2018 (-2.0%).

**Shelter:** From March 2017 to Mar 2018 (3.3%).

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

[www.census.gov/services/index.html](http://www.census.gov/services/index.html) (March 8, 2018) ;

<https://bea.gov/newsreleases/international/trade/tradnewsrelease.htm> (April 5, 2018)

**4Q2017 Total Revenue:** An increase of 2.2% from 3Q2017 and up 5% from 4Q2016.

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

**Exports and Imports:** Exports increased 5.9%; Imports increased 9.1%, year-to-date from February.

**Utilities:** Decrease of 7.6% from 3Q2017 and up 3.0% from the 4Q2016.

**Transportation and Warehousing:** Decrease of 1.2% from 3Q2017; and up 3% from 4Q2016.

**Arts, Entertainment and Recreation:** Decrease of 4.6% from 3Q2017; and up 3.7% from 4Q2016.

**Real Estate and Rental and Leasing:** Increase 1.2% from 3Q2017; and up 6.5% from 4Q2016.

**Accommodations:** Decrease 11.9% from 3Q2017 and up 0.7% from the 4Q2016.

**Other Services:** Includes auto and electronic repair, personal and laundry services: Increase 11% from 3Q2017 and up 9.9% from 4Q2016.

### E-Commerce 4Q2017

[https://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf) (Next release is on May 17, 2018)

**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:**

An increase of 2.7% from 3Q2017. **Total E Commerce Sales for 4Q2017:** Accounted for 9.1% of total sales.

**Total E-Commerce Sales for 2016 and 2017:** 2017 up 16% from 2016. Total retail sales in 2017 up 4.4% from 2016. E-commerce sales in 2017 was for 8.9% of total sales.

**California:** E-commerce sales comprise approximately 13-14% of the total sales, based on California's portion of the national economy.

**Amazon:** Estimated 40% of U.S. online spending goes to Amazon. Amazon offering deliveries to parked cars for Prime members.

**Walmart:** Website plans for an upscale redesign; online sales represents 3.6% of its U.S. sales.

**Luxury:** By 2025, online will represent 25% of luxury goods.

## SECTION 2: CALIFORNIA ECONOMY

<https://www.sco.ca.gov/Files-EO/04-18summary.pdf>

[http://www.dof.ca.gov/Forecasting/Economics/Economic\\_and\\_Revenue\\_Updates/documents/2018/Apr-18.pdf](http://www.dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2018/Apr-18.pdf)

**Personal Income:** California grew by 4.1% in 2017 following growth of 3.7% in 2016. U.S. personal income growth was 3.1% in 2017 and 2.4% in 2016.

**Retail Sales and Use Tax for March:** \$17 million below the month's forecast of \$1.724 billion. Year-to-date, sales tax revenues are \$26 million below forecast.

## SECTION 3: HOME SALES

[https://www.car.org/marketdata/data/countysalesactivity\(March2018\)](https://www.car.org/marketdata/data/countysalesactivity(March2018))

[https://www.car.org/aboutus/mediacenter/newsreleases/2018releases/march2018homesales\(April17,2018\)](https://www.car.org/aboutus/mediacenter/newsreleases/2018releases/march2018homesales(April17,2018))

**Sales of Existing Single-Family Homes in California for March:** 423,990 in March up 0.3% from February and 1.6% from March 2017.

\$955,000, \$1,392,500, \$1,615,000, \$1,454,500, \$625,400, and \$824,450, respectively.

**California Median Home Price in March:** The statewide median home price in March was \$565,830, up 8.1% from a year ago; the peak was \$594,530 in May of 2007; and lowest at \$245,230 in February of 2009 (-59% from the peak). Alameda, Marin, San Mateo, Santa Clara, San Diego, and Orange counties are a new peak price at

**Interest Rates Rising:** Rising interest rates figure to dent the mortgage refinance market in 2018.

**Refinancing:** The average interest rate on a 30-year fixed-rate loan has hit 4.44%. Refinancing to keep declining in popularity as rates keep rising and make refinancing a less attractive option. For the year overall; will make up only 30% of total mortgage originations, the lowest in 18 years. (Kiplinger)

## SECTION 4: AUTO SALES / TRENDS

### California Car Sales

<https://www.cncda.org/wp-content/uploads/California-Covering-4Q-2017-1.pdf>

**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.

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

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

**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%.

**Electric Vehicles:** Electric vehicle sales grew 30% in 2017. Governor Brown in January signed an executive order to put five million zero-emission vehicles on California's roads by 2030.

## SECTION 5: RETAILER UPDATES, 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)

**Convenience Continues to Expand:** The number of convenience stores reached a new high of 154,958, up 0.3% or 423 units in 2017, from the 2016 year-end total of 54,535 at the end of 2016. (NACS).

*Period from November 1, 2017 to April 25, 2018; [http://www.edd.ca.gov/Jobs\\_and\\_Training/warn/WARN-Report-for-7-1-2017-to-04-25-2018.pdf](http://www.edd.ca.gov/Jobs_and_Training/warn/WARN-Report-for-7-1-2017-to-04-25-2018.pdf) (Updated April 27, 2018)*

**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 100 stores

**Batteries Plus Bulbs:** Plans to open 47 stores in 2018

**Best Buy:** Increase holiday sales by 9%; ramped up 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:** Expanding in the Sacramento area and Bay

**California Tortilla:** Will grow brand in new states in 2018

**Chipotle:** Plans store upgrades and slower expansion

**Costco:** Reports that 40% of new member signups are Millennials

**Curry Up:** Largest Indian fast casual expanding

**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

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

**Gen Zers Enjoy Malls:** Americans under 22 prefer buying at physical stores rather than ordering from websites. They like to experience shopping, but not downtown or at outlets. Just hanging out at the mall is apparently as much fun for them as it was for teens in the 1980s.

**Mother's Day 2018:** Spending to reach \$23.1 billion

**Apparel:** Mar 2018 (-.6); Feb 2018 (1.5); Jan 2018 (1.7%); Dec 2017 (-.3%). **Upscale Uniforms:** The future of the office fashion.

**Dollar Tree:** In 3Q2017 opened 169 stores; ended with 14,744 stores

**Dogtopia:** 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.

**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

**GNC:** Closing up to 200 stores in 2018

**Go! Go! Curry:** Japanese comfort food plans to expand

**GoPro, Inc.:** Layoffs 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

**Jimby'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:** 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

**Nine West:** Will close all 70 stores

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

**Old Navy:** To open 60 stores in 2018

**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:** Starbucks' high-end stores plans 1,000 stores with fuller service of food and beverages. Several CA locations - future California locations unknown.

**Rituals:** Shoppers 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, Citrus Heights, El Cajon, Fairfield, Roseville Westminster (EDD WARN report)

**Starbucks:** Closed on-line business

**Subway:** Closing about 500 stores

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

**T-Mobile:** Expanding footprint by opening new 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:** Announced closing 200 more stores due to bankruptcy

**Tractor Supply Company:** Opening store 1700; operates in 49 states

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

**Walmart:** Investing \$145 million to renovate 34 California stores; adding FedEx offices to 500 locations

**Wendy's:** Rolling out smaller model called Smart 55

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

**Warby Parker:** Aims to run nearly 100 stores this year - other internet based retailers are similarly opening more brick and mortar locations

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

## SECTION 6: RESTAURANT AND FOOD INDUSTRY / ECONOMIC INDICATORS

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

**Restaurant Franchises:** Poised for growth in 2018, with output increasing by around 6%, eclipsing 2017's 5% rise.

**Food:** From March 2017 to Mar 2018 (1.3%); Mar 2018 (.1); Feb 2018 (.0); Jan 2018 (.2%); Dec 2017 (.2%)

## SECTION 7: GROCERY INDUSTRY

**Ace Hardware:** Kroger rumored to be in talks to add Ace stores within its stores (not in CA)

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

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

**Amazon Go:** Plans to open up to six stores by 2019

**Brandless:** Everything is \$3

**Bristol Farms:** Prototype store in Woodland Hills

**Erewhon:** Organic store opened fourth in California

**Grocery Outlet:** Plans 25 store expansion

**Island Pacific:** Closing six California locations

**Lucky:** New concept store; first opening in Dublin

**"Managed":** Asian American 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

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

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

**Walmart:** Using DoorDash for on-line grocery delivery

**Whole Foods 365 Store:** Concord and Long Beach locations to open

**Whole Foods:** Free two-hour delivery of natural and organic products, includes Sacramento and San Diego

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

*Source: <http://www.theshelbyreport.com/> (from November 1, 2017 to April 27, 2018)*