



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 26, 2018

The Honorable City Council  
Palo Alto, California

### **City of Palo Alto Sales Tax Digest Summary First Quarter Sales (January - March 2018)**

We received \$6.0 million for first quarter sales of 2018 which is \$1.1 million (15.9 percent) less than the same quarter of 2017. The following files are attached for this informational report for which no action is required.

#### **ATTACHMENTS:**

- Attachment A: Avenu Sales Tax Digest Summary(PDF)
- Attachment B: Economic Categories and Segments (PDF)
- Attachment C: Avenu Economic News and Trends (PDF)

Department Head: Harriet Richardson, City Auditor



Attachment A

# City of Palo Alto

## Sales Tax Digest Summary

### Collections through June 2018

### Sales through March 2018 (2018Q1)

#### California Overview

The percent change in cash receipts from the prior year was 2.7% statewide, 3.3% in Northern California and 2.2% 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 1st Quarter 2018 by 2.1% statewide, 1.6% in Southern California and 3.0% in Northern California.

#### City of Palo Alto

For the year ended 1st Quarter 2018, sales tax cash receipts for the City decreased by 1.7% from the prior year. On a quarterly basis, sales tax revenues decreased by 15.9% from 1st quarter 2017 to 1st Quarter 2018. 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 5.7% for the year ended 1st Quarter 2018 from the prior year. On a quarterly basis, sales tax activity increased by 13.4% in 1st Quarter 2018 compared to 1st quarter 2017.

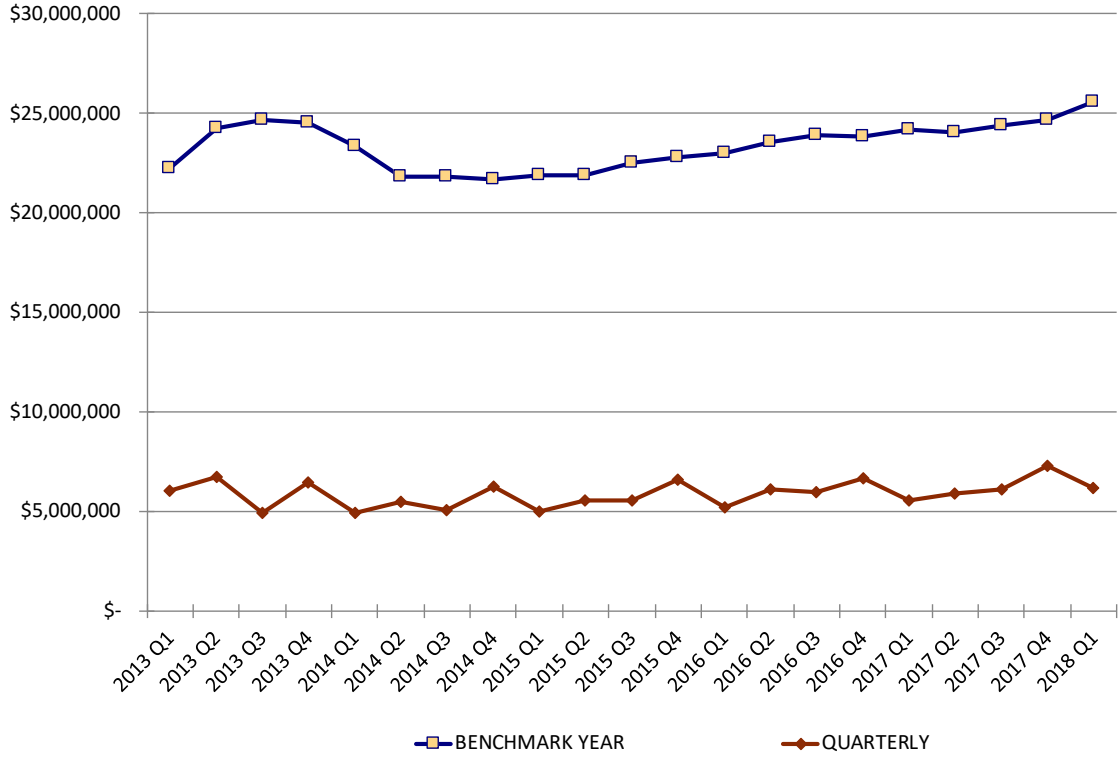
#### Regional Overview

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

**CITY OF PALO ALTO**  
BENCHMARK YEAR 2018Q1 COMPARED TO BENCHMARK YEAR 2017Q1

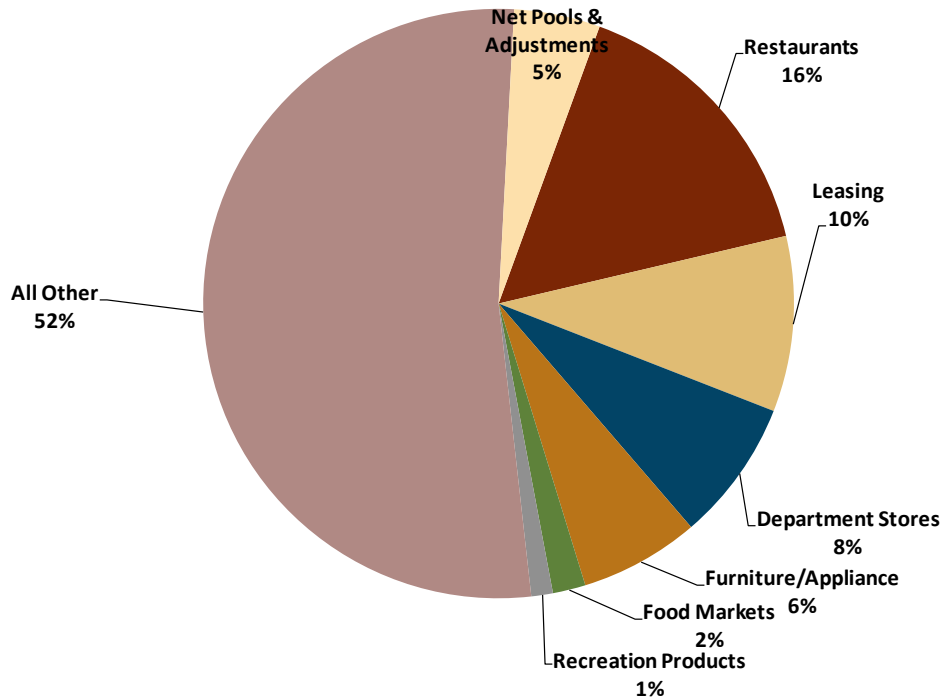
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 1st QUARTER 2018									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	32.1 / -4.5	27.5 / 0.0	25.4 / -1.4	26.5 / 0.3	30.7 / 3.4	28.4 / -0.4	26.7 / 2.2	27.0 / -2.4	29.5 / -7.1
Food Products	18.7 / -1.3	21.2 / 3.1	22.4 / 2.4	17.7 / 5.6	16.4 / 3.0	22.8 / 3.4	17.5 / 3.2	18.4 / 0.9	31.4 / -3.4
Construction	1.8 / -39.6	9.9 / 7.5	10.0 / 7.3	12.8 / 10.9	12.3 / 9.0	8.7 / 7.0	10.9 / 6.1	14.6 / 10.3	8.6 / -8.5
Business to Business	23.6 / 37.3	16.3 / 0.4	19.3 / 0.1	13.4 / 2.7	13.4 / 13.3	15.8 / -1.9	16.4 / 1.9	8.1 / 0.3	5.9 / -7.7
Miscellaneous/Other	23.7 / 9.1	25.1 / 2.7	22.9 / 5.1	29.6 / 4.2	27.2 / 4.3	24.3 / 0.8	28.5 / 3.4	31.9 / 5.5	24.6 / 5.7
<b>Total</b>	<b>100.0 / 5.7</b>	<b>100.0 / 2.1</b>	<b>100.0 / 2.0</b>	<b>100.0 / 4.0</b>	<b>100.0 / 5.5</b>	<b>100.0 / 1.1</b>	<b>100.0 / 3.1</b>	<b>100.0 / 2.6</b>	<b>100.0 / -3.2</b>
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 1st QUARTER 2018									
	City of Palo Alto	State Wide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
Largest Segment	Restaurants	Restaurants	Restaurants	Auto Sales - New	Department Stores	Restaurants	Restaurants	Auto Sales - New	Restaurants
% of Total / % Change	16.8 / 1.5	15.2 / 3.4	16.1 / 2.8	12.4 / 1.9	12.9 / 2.0	16.9 / 3.7	11.6 / 3.8	12.2 / 3.7	22.3 / -4.7
2nd Largest Segment	Auto Sales - New	Auto Sales - New	Auto Sales - New	Restaurants	Restaurants	Auto Sales - New	Auto Sales - New	Service Stations	Auto Sales - New
% of Total / % Change	16.4 / 6.6	11.2 / 1.3	11.4 / 5.3	11.8 / 4.4	10.7 / 3.4	11.1 / -1.0	10.8 / 0.4	11.5 / 15.2	11.9 / 14.8
3rd Largest Segment	Leasing	Department Stores	Department Stores	Department Stores	Auto Sales - New	Department Stores	Department Stores	Restaurants	Miscellaneous Retail
% of Total / % Change	9.3 / 28.8	9.2 / 0.9	7.4 / 0.2	10.6 / 2.8	10.7 / 3.8	8.9 / 0.3	10.2 / 2.5	10.7 / 0.8	10.0 / -5.0
*** Not specified to maintain confidentiality of tax information									

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



Net Cash Receipts for Benchmark Year 1st Quarter 2018: \$28,843,483

\*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2018Q1 BMY is sum of 2018 Q1, 2017 Q4, Q3, Q2)

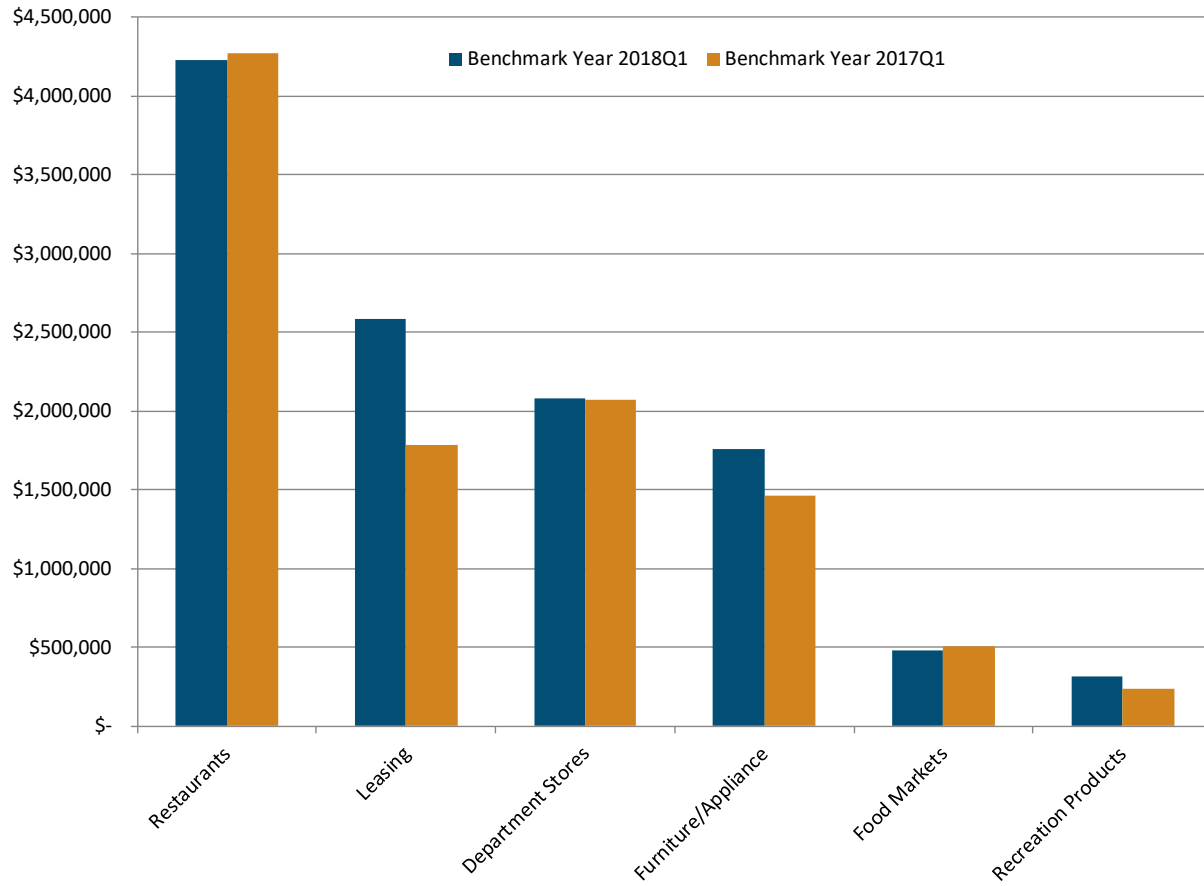


**TOP 25 SALES/USE TAX CONTRIBUTORS**

The following list identifies Palo Alto’s Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 1st Quarter 2018. The Top 25 Sales/Use Tax contributors generate 53.7% of Palo Alto’s total sales and use tax revenue.

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

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



Historical Analysis by Calendar Quarter

Economic Category	%	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3
General Retail	30.8%	1,851,152	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
Miscellaneous/Other	25.3%	1,516,808	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
Food Products	19.7%	1,183,895	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
Business To Business	27.3%	1,639,073	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
Net Pools & Adjustments	-3.1%	-183,952	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
<b>Total</b>	<b>100.0%</b>	<b>6,006,976</b>	<b>8,429,141</b>	<b>7,469,913</b>	<b>6,937,453</b>	<b>7,141,528</b>	<b>7,998,168</b>	<b>6,782,854</b>	<b>7,407,741</b>	<b>6,260,038</b>	<b>7,838,375</b>	<b>6,640,481</b>

Economic Segments	%	2018Q1	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3
Miscellaneous/Other	56.2%	3,373,907	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
Restaurants	17.4%	1,045,496	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
Miscellaneous Retail	6.9%	412,952	701,369	419,279	452,135	435,757	1,002,389	581,831	681,345	469,360	714,151	478,994
Department Stores	7.8%	471,419	642,666	458,066	510,561	392,565	641,541	491,433	546,629	435,470	714,831	553,325
Apparel Stores	6.5%	390,780	585,892	440,005	449,402	372,033	553,250	398,170	444,383	337,880	519,318	397,534
Service Stations	2.7%	163,072	148,906	147,499	159,371	119,552	130,396	138,155	144,735	123,004	140,758	173,082
Food Markets	2.0%	117,783	128,671	117,256	112,566	131,676	145,179	126,755	109,108	104,676	116,778	113,092
Business Services	2.6%	155,193	157,861	173,439	75,722	43,548	102,095	47,066	65,510	51,647	76,156	51,885
Recreation Products	1.0%	60,326	82,100	56,998	76,514	61,392	61,328	72,885	60,737	52,422	62,406	71,844
Net Pools & Adjustments	-3.1%	-183,952	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
<b>Total</b>	<b>100.0%</b>	<b>6,006,976</b>	<b>8,429,140</b>	<b>7,469,913</b>	<b>6,937,452</b>	<b>7,141,528</b>	<b>7,998,168</b>	<b>6,782,854</b>	<b>7,407,741</b>	<b>6,260,038</b>	<b>7,838,375</b>	<b>6,640,481</b>

\*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 2017Q1 to 2018Q1

	General Retail	Food Products	Construction	Business to Business	Misc/Other	2018/1 Total	2017/1 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	-8.1%	5.5%	9.1%	20.9%	-15.0%	2,180,126	2,156,402	1.1%	Business Services	Heavy Industry	Service Stations	Office Equipment
Cupertino	-1.1%	3.8%	-56.2%	-5.8%	-1.8%	5,136,539	5,583,708	-8.0%	Business Services	Restaurants	Office Equipment	Bldg.Matls-Whsle
Gilroy	-1.5%	2.5%	-1.7%	3.5%	-1.1%	3,400,073	3,416,533	-0.5%	Heavy Industry	Service Stations	Leasing	Health & Government
Los Altos	-8.3%	-4.3%	12.5%	8.7%	0.9%	526,091	545,333	-3.5%	Restaurants	Recreation Products	Food Markets	Drug Stores
Los Gatos	-9.1%	-5.8%	-5.1%	-30.1%	-11.7%	1,342,174	1,497,048	-10.3%	Furniture/Appliance	Service Stations	Auto Sales - New	Miscellaneous Other
Milpitas	1.0%	-4.0%	11.9%	-28.2%	0.8%	4,690,227	5,125,995	-8.5%	Bldg.Matls-Whsle	Apparel Stores	Office Equipment	Electronic Equipment
Morgan Hill	-3.4%	1.8%	30.7%	-3.0%	6.6%	1,914,530	1,833,421	4.4%	Bldg.Matls-Whsle	Heavy Industry	Electronic Equipment	Miscellaneous Retail
Mountain View	-6.3%	3.1%	92.7%	-14.3%	10.3%	3,691,911	3,724,528	-0.9%	Bldg.Matls-Whsle	Service Stations	Leasing	Electronic Equipment
Palo Alto	-13.5%	-3.9%	-48.3%	1.8%	14.8%	6,190,928	5,457,418	13.4%	Auto Sales - New	Light Industry	Department Stores	Leasing
San Jose	-3.2%	-4.0%	12.1%	-4.9%	3.9%	34,329,832	34,429,615	-0.3%	Bldg.Matls-Whsle	Office Equipment	Leasing	Business Services
Santa Clara	1.2%	-10.6%	6.2%	-19.5%	-7.9%	9,908,673	11,215,157	-11.6%	Electronic Equipment	Light Industry	Office Equipment	Business Services
Santa Clara Co.	-4.2%	-2.8%	5.8%	-5.8%	1.4%	79,766,962	81,600,054	-2.2%	Electronic Equipment	Bldg.Matls-Whsle	Office Equipment	Leasing
Saratoga	12.1%	-8.9%	-12.3%	82.1%	1.7%	194,816	198,914	-2.1%	Miscellaneous Retail	Business Services	Food Markets	Restaurants
Sunnyvale	-11.6%	2.8%	0.4%	43.7%	-3.9%	6,257,542	5,560,343	12.5%	Electronic Equipment	Business Services	Leasing	Auto Sales - New



<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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July 18, 2018



[www.avenuinsights.com](http://www.avenuinsights.com)

**HIGHLIGHTS****National Economic Indicators / Influences**

**GDP:** Partly due to soft spending in the first quarter, GDP growth slowed. In 2017 consumer spending was up 6%; the year before 3%. Real GDP increased 2.2% in 1Q2018 (was 2.9% in 4Q2017; 3.2% in 3Q2017, 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016). BOE analysts predict a rise to 4% in Q22018.

**Services Sector 1Q2018 Total Revenue:** A decrease of 1.2% from 4Q2017 and up 5.2% from 1Q2017.

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

**Consumer Price Index:** Prices rose for a third straight month in June; sending inflation to its highest rate in more than six years.

**Inflation:** December 2017 to December 2018: Current headline rate of 2.9% will drop by December to 2.4%. (Kiplinger, July 13, 2018)

**Personal Savings:** Falling to 3% in '18 from 3.4% in '17 as a percentage of disposable income.

**Recession Predictions:** Despite persistent warnings about the impending end of the current economic expansion and the onset of another recession, U.S. GDP, employment, income, industrial production, exports, and business and consumer spending are all headed upwards and nothing on the immediate horizon has enough force to disrupt those trends. (Beacon Economics). A recession in the next two to three years has increased significantly, even if ongoing tensions with China don't escalate into a full-blown trade war. (Temasek Holdings)

**Commercial Sectors/ Mall Value:** Student housing, manufactured homes and industrial property were the top performers in the last three months; mall values in June fell 9% over the past 12 months, and 18% since the end of 2016. (WSJ, July 18, 2018)

**Job-Skills Gap May Curb Growth:** White House economists (Council of Economic Advisors) note the growing gap between the rising number of job openings and the number of workers equipped to fill them could limit the Country's economic growth. The Trump Administration is asking some large employers to sign a 'pledge to the American worker' to make significant investments in training their current and future workers.

**Trade and Tariff Threat Gets Closer to Consumers:** After imposing import levies on steel, aluminum and solar panels, the Trump administration is threatening to assess nearly \$505 billion on tariffs in exports that China sends to the U.S. that will affect U.S. customers. Out of the more than 6,000 Chinese products on the latest U.S. tariff list, the top 20 accounted for over \$75 billion in U.S. imports last year, or more than a third of the total import value of all targeted items. Items include network gear, wooden and metal furniture, circuit board equipment, electrical panels, synthetic travel bags, electric lamps, vacuums, vehicle wheels, electric converters, brake parts, handbags, seafood, mattresses and more. About 40% of U.S. imports shipped in containers moves through the ports of Los Angeles and Long Beach. (WSJ, July 18, 2018 and BLS, July 13, 2018)

**California Indicators**

**Ranking:** California became the 5th largest economy in the world in 2017, behind Germany and ahead of the United Kingdom. **Growth:** Growth was 3% for 2017, compared to 2.3% for the U.S. **California's GDP for 4Q2017:** 3.4%. GDP by state growth for the 4Q2017 ranged from 5.2% in Texas to 1.3% in North Dakota.

**Unemployment:** Is 4% for June. Rate held at its record low of 4.2% in May; U.S. unemployment rate dropped to 3.8% in May, matching April 2000 as the lowest reading since 1969.

**Environmental Regulations:** Predictions were dire when AB 32 (2006) meant cutting greenhouse gas emissions 25% by 2020. California's economy grew 26% since 2004, when emissions peaked.

**California Existing Single-Family Homes for May:**

409,270 in May up 0.3% ; -4.6 from May 2017, with May marking the first decline in homes sales in 4 months.

**Median Price in May:** \$600,080 up 9.2% from 2017.

Peaks: Alameda, Marin, San Mateo, Santa Clara, San Diego, and Orange counties all hit a new peak price at \$955,000, \$1,392,500, \$1,615,000, \$1,454,500, \$625,400, and \$824,450, respectively. (CAR)

**E-Commerce, Retail Sales and Outlook**

**Total Retail Sales for 1Q2018:** An increase of 2% from 4Q2017. **Retail Outlook in 2018:** Retail sales are on track to match or exceed the healthy 4.2% gain they made in 2017.

**June Retail Sales:** Up 0.5% from May and 6.6% above June 2017. Total sales for April 2018 through June 2018 up 5.9% from the same period a year ago. Non-store Retailers were up 10.2% from last year.

**E-Commerce as a Percent of Total Sales:** **1Q2018** (9.5%); **4Q2017** (9.1%); **3Q2017** (9.1%); **2Q2017** (8.9%); **1Q2017** (8.5%) California's E-commerce sales comprise approximately 13-14% of the total sales, based on California's portion of the national economy.

**Amazon's Prime Day 2018:** Starts Monday July 16<sup>th</sup> at 3 PM ET and ends Wednesday, July 18 at 3: AM ET. Despite some issues with site crashes, Amazon outpaced previous sales volume for its 'Prime Day' summer sales specials day. The retailer reported "millions" of sales of its smart speaker Alexa.

**Top 10 U.S. Companies / Ranked by E-Commerce Sales Share, 2018:** Amazon 49.1%; eBay 6.6%; Apple 3.9%; Walmart 3.7%; The Home Depot 1.5%; Best Buy 1.3%; QVC 1.2%; Macys 1.2%; Costco 1.2%; Wayfair 1.1%. Total U.S. Retail ecommerce sales equals \$252.69 billion in 2018; top 10 companies' sales share equals 70.1% of total retail ecommerce in 2018. (EMarketer, July 2018)

**Shipping and Handling**

Firms are facing delayed supply deliveries because of a truck driver shortage and slow rail service. Rising e-commerce sales in 2017 drove up delivery costs a rise of 7% from 2016. UPS raised fees by 30% to \$650 for the largest items it delivers to discourage shippers from putting oversize items into a network meant for smaller parcels.

**Gas and Auto Sales**

**Gas Prices:** AAA shows (July 12, 2018) the national average at \$2.884 per gallon. California's average is \$3.660. **Increases from one year ago:** California (\$2.923). Gasoline Stations were up 21.6% from June 2017.

**California Car Sales: YTD Through March: California Total (-3.8%); US Total (-1.0%); Light Truck Registration for 1Q2018:** In California increased 3.7%; passenger cars -11.2%

**Groceries, Food and Restaurants**

**Convenience Continues to Expand:** Reached a 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).

**Restaurants:** Industry's share of the food dollar is 48%

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

**Sports Betting/ States Can Legalize**

Sports betting legalization moves forward following a U.S. Supreme Court ruling. There is a pending state constitutional amendment to capture some of the estimated \$20 billion to \$40 billion a year in black market gambling in California.

## SECTION 1: U.S. ECONOMY

## U.S. Economy and Indicators

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

<https://www.bls.gov/news.release/cpi.htm> (July 12, 2018)

**GDP:** Partly due to soft spending in the first quarter, GDP growth slowed. In 2017 consumer spending was up 6%; the year before 3%. Real GDP increased 2.2% in 1Q2018 (was 2.9% in 4Q2017; 3.2% in 3Q2017, 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016).

**Consumer Inflation: U.S. CPI for June 2018:** Increased 0.1% in Jun, after rising 0.2 in May. Consumer prices rose in June at the highest level in more than six years reflecting a positive economy.

**Gasoline:** From June 2017 to June 2018 (24.3%); **June 2018 (.5%); May 2018 (1.7%); Apr (3%);** Mar 2018 (-4.9); Feb 2018 (-.9); Jan 2018 (5.7%)

**New Vehicles:** From June 2017 to June 2018 (-.5%); **June 2018 (.4%); May 2018 (.3%); Apr (-.5%);** Mar 2018 (.0); Feb 2018 (-.5); Jan 2018 (-.1%)

**Used Cars & Trucks:** From June 2017 to June 2018 (-.7%); **June 2018 (.7%); May 2018 (-.9%); Apr (-1.6%);** Mar 2018 (-.3); Feb 2018 (-.3); Jan 2018 (.4%)

**Apparel: June 2018 (-.9%); May 2018 (0%); Apr (.3%);** Mar 2018 (-.6); Feb 2018 (1.5); Jan 2018 (1.7%)

**Food At Home:** From June 2017 to June 2018 (.4%);

**Food Away At Home:** From June 2017 to June 2018 (2.8%)

**Full Services Meals and Snacks:** From June 2017 to June 2018 (2.963%)

**Wine:** From June 2017 to June 2018: **Wine At Home** (2.1%); **Wine Away From Home:** (1.9%).

**Cable and Satellite TV Service:** From June 2017 to June 2018 (1.495); **June 2018 (.0); May 2018 (.0); Apr 2018 (-.5)**

**Wireless Telephone Service** From June 2017 to June 2018 (1.707); **June 2018 (.0); May 2018 (.1); Apr 2018 (.0)**

**Lodging Away from Home:** From June 2017 to June 2018 (1.707); **June 2018 (.2); May 2018 (-.5); Apr 2018 (-.2)**

**Shelter:** From June 2017 to June 2018 (3.4%)

**Miscellaneous (June 2017 to June 2018):** Eggs (14%);

Citrus Fruits (5.5%); **Food at Elementary and Secondary**

**Schools (6.3%); Clocks and Lamps (-12.2); Dishes/**

**Flatware (-8.4%); Boy's Apparel (10.2%); Video and**

**Audio Products (-13.6%); Toys (-10.2%); Gardening and**

**Lawn Services (7.6%); Cakes/ Cookies (2.3%)**

## Economic Influence and Forecasts

**Interest Rates:** The Federal Open Market Committee raised the current rate to 2% in June 2018. It expects to increase this interest rate to 2.4% in 2018, 2.9% in 2019, and 3.4% in 2020.

**Unemployment:** Rate will drop to 3.6% in 2018, and 3.5% in 2019 and 2020. That's lower than the Fed's 6.7% target.

**Jobs:** Expects total employment to increase by 20.5 million jobs from 2010 to 2020. While 88% of all occupations will experience growth, the fastest growth will occur in healthcare, personal care and social assistance, and construction. (BLS)

**U.S. Manufacturing:** Forecast to increase faster than the general economy. Production will grow 2.8% in 2018. Growth will slow to 2.6% in 2019 and 2% in 2020.

**Services Sector for 1Q2018/ Contributions to Percentage Change in GDP from 1Q2017**

[www.census.gov/services/index.html](http://www.census.gov/services/index.html) (June 7, 2018);

<https://bea.gov/newsreleases/international/trade/tradnewsrelease.htm> (July 6, 2018)

**1Q2018 Total Revenue:** A decrease of 1.2% from 4Q2017 and up 5.2% from 1Q2017.

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

**Exports and Imports:** Exports increased 8.8%; Imports increased 8.6%, year-to-date from May.

**Utilities:** Increase of 9.1% from 4Q2017 and up 5.1% from the 1Q2017.

**Accommodations:** Decrease 1% from 4Q2017 and down 2.2% from the 1Q2017.

**Selected Services:** Percent Change Year to Date 2018 From 2017: Dry Cleaning (11.1%); Auto Repair (7.7%); Spectator Sports (-13.9%).

**Other Services:** Includes auto and electronic repair, personal and laundry services, religious, grantmaking, civic, professional and similar organizations: Decrease 14.3% from 4Q2017 and up 2.0% from 1Q2017.

**E-Commerce 1Q2018**

[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 August 17, 2018)

**E-Commerce as a Percent of Total Sales:** **1Q2018** (9.5%); **4Q2017** (9.1%); **3Q2017** (9.1%); **2Q2017** (8.9%); **1Q2017** (8.5%).

**Percent From Prior Quarter:** **1Q2018** (Total 0.2%; E-Commerce 3.9%); **4Q2017** (Total 2.7%; E-Commerce 3.2%); **3Q2017** (Total 1.1%; E-Commerce 3.5%); **2Q2017** (Total 0.5%; E-Commerce 4.9%); **1Q2017** (Total 1.4%; E-Commerce 4.4%).

**Total Retail Sales for 1Q2018:** An increase of 2.0% from 4Q2017.

**Flipkart:** Walmart is leading a group that will invest a 75% stake in this company; part of strategy to battle Amazon.

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

**Retail:** 15% of retail sales take place online now. In 2013 it was 9%. Amazon nets 44% of those internet sales. 75% of households with yearly income of \$100,000 or more have an Amazon Prime membership. (Kiplinger, June 2018)

**SECTION 2: CALIFORNIA ECONOMY**

<https://www.sco.ca.gov/Files-EO/07-18summary.pdf>

[http://www.dof.ca.gov/Forecasting/Economics/Economic\\_and\\_Revenue\\_Updates/index.html](http://www.dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/index.html)

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

**Economy:** California became the 5th largest economy in the world in 2017, just behind Germany and ahead of the United Kingdom, with \$2.75 trillion in gross domestic product.

**Growth:** California's growth was 3% for 2017, compared to 2.3% for the U.S.

**California's GDP for 4Q2017:** 3.4%.

**Employment:** Unemployment rate held at its record low of 4.2% in May; U.S. unemployment rate dropped to 3.8% in May, matching April 2000 as the lowest

unemployment reading since 1969. The largest job gain was in leisure and hospitality. Job losses occurred in construction trade, transportation, and others.

**California WARN Notices & Permanent Closures:** **Dec 2017:** 36 notices / 14 closures; **Jan 2018:** 78 notices/ closures; **Feb 2018:** 45 notices/ 18 closures; **Mar 2018:** 41 notices/ 22 closures; **Apr 2018:** 65 notices/ 26 closures; **May 2018:** 71 notices/ 39 closures; **June 2018:** 52 notices/ 17 closures; **July** (as of 7.12): 13 notices/ 12 closures.

**California Forecast (UOP, June 2018)**

<http://www.pacific.edu/Documents/school-business/BFC/Forecasts/CA-Metro-Forecast-JUNE-2018-V2.pdf>

**GDP:** Over the next 12 months, real gross state product is forecast to grow at a strong 3.4% pace before dropping to 2.5% growth in 2020 as recession risks grow.

**Unemployment:** Forecast to average 4.2% for 2018 and fall further below its record low to 3.7% in 2019 before gradually increasing.

**Tourism:** Growing tourism and a gradual shift in consumer spending from retail to restaurants has fueled rapid growth in Leisure and Hospitality sector.

**Construction:** Construction activity continues to grow with 40,000 to 50,000 new jobs anticipated in each of the next three years. Construction wages have been among the fastest growing of all sectors as employers compete for a limited supply of skilled workers.

**Housing:** Single family housing starts surpassed 60,000 in 2017 and are projected to grow to 75,000 by 2020. Multi-family production is projected to be near 50,000 units this year, and near 60,000 units by 2021. With this increase, housing production will finally be sufficient to keep up with modest 0.7% projected annual population growth, but will not be enough to provide relief to California's housing crisis.

**Population:** California's population growth rate has declined to 0.7% and is projected to remain at this level through the 4- year forecast. California's population will reach 40 million by early 2019, and is adding less than 300,000 new residents per year, notably fewer than in the past.

**Cannabis**

*(www.pacific.edu)*

In the first three months of legal recreational cannabis sales, California reported \$34 million in revenue from the 15% excise tax that applies to all legal cannabis sales, or \$227 million in sales. Legal cannabis sales should grow as permitting processes become permanent and more stable, and government agencies direct more resources to enforcement of illegal cannabis sales and production. Predictions are that the California legal cannabis industry should exceed \$5 billion in annual sales and support 100,000 jobs over the next few years. The Central Coast region could displace the "Emerald Triangle" region of Humboldt, Mendocino and Trinity area as the center of cannabis growing by taking advantage of a regulatory decision by the California Department of Food and Agriculture to allow a single entity to hold an unlimited number of small grower permits, effectively allowing cannabis farms of unlimited size if allowed by a local jurisdiction.

**Tourism Assessment Program**

<https://tourism.ca.gov/>

Local businesses may receive notices from the California Office of Tourism regarding a possible assessment. The Office is a department within the Governor's Office of Business and Economic Development that supports the promotion of California as a global tourism destination and provides information services to visitors. Certain businesses may be subject to Tourist Assessment Program, and a possible assessment. The California Tourism Marketing Act was enacted in 1995 to increase California's share of the national travel and tourism market. The legislation enabled the state's tourism industry to assess itself, authorizing the establishment of a nonprofit, public benefit corporation, Visit California, to oversee the promotion of California as a premier travel destination. The statute became operative upon industrywide approval in 1997. The assessment program was initiated in 1998 to be subsequently renewed every six years via industry vote. Additional program information can be found within the California Code of Regulations (Chapter 7.65 Tourism Marketing Act).



## SECTION 3: RETAIL TRENDS AND INFLUENCES

**Retail Sales for June:** Higher vehicle sales and gas prices helped push sales up 0.5% in June, versus May's revised 1.3% rise; Retail sales—a measure of spending at U.S. stores, websites and restaurants—rose 0.5% in June from the prior month. (Commerce)

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

**California's Privacy Law:** The National Retail Federation is calling new state privacy legislation "deeply flawed." The law (effective in 2020) prohibits retailers from treating customers who opt out of data sharing any differently from those who do not, a provision that could put an end to retail loyalty programs that offer discounts to members.

## Selected Retail News Since May 2018

**Brookstone:** Debuted a new 'Maker's Showcase' store in Garden City, New York to highlight new technology and innovations. The hands-on demo friendly stores feature products from independent 'makers' and global tech companies.

**Claire's:** As part of its bankruptcy, Claire's has identified 130 stores it plans to close. Most are in malls.

**CVS:** Adds home delivery; relies on Postal Service for delivery. Amazon is buying PillPack and plans to ship prescriptions throughout the country overnight.

**Dick's Sporting Goods:** Sales are up despite predictions by the National Rifle Association and others that the store's policies to cease assault rifle sales and other gun sale restrictions would hurt its business.

**Kroger:** In the fall will debut a new apparel brand called Dip developed by fashion designer Joe Mimran of Club Monaco, Joe Fresh and Pink Tartan brands. While the concept of apparel is unusual in traditional grocery stores, it has long been common in European hypermarkets as well as big box stores with grocery like Costco, Walmart, and Target.

**Robots:** Target plans to add automatic cash-counting machines to its nearly 2,000 stores by this summer. Amongst the lowest unemployment, rising wages and shift to on-line shopping, retailers are automating more store work.

**Subscription:** Hundreds of subscription businesses are flooding the retail market with subscribers to pay a monthly fee for a box of items chosen for them. 16% of U.S. consumers have such a service, and more than half are under 35.

**The Netflix Model Work for Clothes:** Stitch Fix looks to be among subscription model success.

**Shop Crawls:** Store owners and downtown planners are organizing shop crawls, often with alcohol to spark interest.

**Fabletics:** Kate Hudson's athleisure line plans to open 75 new stores across the U.S. and overseas, bringing its total to 100.

**Nike:** Debuted a new concept store on Melrose in Los Angeles called Nike Live. The intent is to fuse its brick and mortar store with its digital marketing for an enhanced loyal customer focus and experience.

**Revolve:** Los Angeles based online clothing retailer preparing for IPO.

**Starbucks:** Raises prices per cup of coffee in June; opened more than 2,000 cafes in the U.S. over the past three years. Closing 150 stores in 2019 fiscal year.

**Toys 'R' Us:** Closed more than 700 stores in late June after dropping plans to reorganize.

**Walmart/ Education Tuition:** Part of the effort to keep staff in tight market.

**Subway:** After closing more than 800 U.S. stores in 2018, expects to close hundreds more this year.

**Sears:** Has identified 100 unprofitable stores and will begin closing sales for at least 72 of these stores.

**Pret A Manger:** KBA Holdings, the parent company of Krispy Kreme, acquired Panera Bread last year and it recently announced plans to purchase the popular British sandwich shop Pret A Manger.

## SECTION 4: AUTO SALES AND GASOLINE

### California Car Sales / 1Q2018

<https://www.cncda.org>

**2018 New Vehicle Projection:** 2 million; 2017 was 2.05 million.

**YTD Through March: California Total** (-3.8%);

**US Total** (-1.0%)

**Light Truck Registration for 1Q2018:** In California increased 3.7%; passenger cars -11.2%

**Truck Market Share:** California 53.7% / 63.3% in the US

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

Tesla is planning to build 500,000 cars a year in China.

**Economic Impact of New Cars in 2017:** Total Sales: \$123.06 billion; Percent of Total Statewide Sales Tax Collected is 13%; Number of New Dealerships is 1,366. Total Spent From Other Businesses is \$2.74 billion. Donations to Charitable Groups is \$48.28 million.

**Car-Rental Firms Try to Push Upstarts:** Membership growth for peer-to-peer car sharing has outstripped revenue growth of rental firms. Accounts for about 3 million registrations.

## SECTION 5: 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. (NAR)

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

**Casual Dining Restaurant Rebound:** Sales are rebounding as sit-down restaurants upgrade decorum and ingredients.

**Local Ordinances/ Food Packaging:** California has more than 120 local food-packaging ordinances. A focus on mandating compostable food packaging is popular, but many cities do not have the infrastructure to properly collect and compost the products.

## SECTION 6: GROCERY INDUSTRY

**Grocery Among Fastest-Growing Retail Segments:** 674 stores are expected to open in 2018. Online grocery spending is projected to grow to 20% of the market, or \$100 billion, by 2025.

**Convenience Expands:** 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).

**Grocers Squeezed:** Competition is coming from Aldo to Amazon.com.

**Suppliers:** Tesco and Carrefour have struck a deal to collaborate on how they buy from suppliers in an effort to cut prices amid mounting competition from Amazon.com. and other rivals.

**What's Working in the Supermarket:** Companies with strong frozen-food portfolios have outperformed rivals; Customers are shying away from packaged, processed foods and buying more fresh vegetables and meats; Investing in private labels; Small challenger brands are responsive (WSJ, June 8, 2018)

**Kroger:** Private-label sales are up 40% over six years, and now account for almost 30% of unit sales.

**Amazon:** Discounts for Prime members are at Whole Foods.