
ECONOMIC NEWS & TRENDS

This non-confidential edition includes excerpts from articles, studies, and economic research. The content focuses on trends and news between mid-July and the date of publication. This report may be forwarded to others in your agency and community. Please contact your MuniServices Client Manager for specific local trends.

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SECTION 1: HIGHLIGHTS

GDP: Real GDP increased at an annual rate of 3.0% in 3Q2017 (was 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016). The increases were partly offset by negative contributions from residential fixed investment and state and local government spending. September was the fastest consumer growth rate since 2009.

Disaster Impact: Hurricanes made it challenging to discern the underlying 3Q2017 GDP growth trend; storms appear to have depressed spending on services like restaurants. Hurricanes likely suppressed business activity such as oil and gas extraction, but boosted emergency services and repair efforts. California fires will certainly impact re-purchasing of cars, construction and the purchase of other retail items.

U.S. Sales for Retail and Food Services for September 2017: Increased 1.6% to \$483.9 billion; increased 4.4% from September 2016. **California Retail Sales and Use Tax for September:** \$5 million above the month's forecast of \$1.898 billion.

Services Sector Total Revenue: 2Q2017 was \$3,684.6 billion (3.2% increase from 1Q2017).

U.S. E-Commerce Results for 2Q2017: Percent of Retail Sales: Increase of 4.8% for 2Q2017 from 1Q2017. **Total Sales for 2Q2017:** 8.9%. California's e-commerce sales comprise approximately 13-14% the total sales, based on California's portion of the national economy.

U.S. Unemployment: Fell by 0.2 percentage point to 4.2% in September. **California's Unemployment:** September (5.1%); August (5.1%); July (4.8%); June (4.7%); May (4.7%); April (4.8%).

Savings: U.S. savings dropped to a 10 year low of 3.1% in September 2017 down from the 6.3% peak in October 2015. Bankrate.com reports that **millennials are cutting** spending to put emphasis on savings.

Auto Sales: Will plateau after years of strong growth. Sales of new vehicles will hit 17 million, versus 17.5 million in 2016; and the first downturn since the recession of 2009. The market will contract again in 2018; about 16.4 million sales.

New Retail Car Registrations for 2Q2017: Declined in 2Q2017 versus a year earlier. It was the first quarterly drop since 3Q2010. Changed by -2.0% (1,047,380 in YTD 2016 from 1,026,882 in YTD 2017).

Used Cars for 2Q2017: Declined by 3.5%. **Aging Market:** For 2Q2017: 4- to 6-year-old market has largest percentage increase (10.9%); 3 years old or less (-18.9%); 7 to 10 years old (-10.3); older than 10 years old (2.5%).

National Gasoline Prices: AAA shows (October 25, 2017) the national average price of self-serve regular at \$2.46 per gallon. The average price at the pump has fallen for 15 of the last 20 days, by 7 cents. **California Gas Average:** \$3.03 (October 30, 2017). \$3.14 a month ago and \$2.80 a year ago. State tax increase will add 12 cents per gallon starting November 1.

New Residential Home Sales: New single-family houses in September 2017 were at 667,000. This is 18.9% above the revised estimates of 561,000.

Tapping Homes for Cash is Back: Rising home prices are making borrowers more comfortable.

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

Starbucks Closes On-Line Shop: Closed October 1 and will focus on in-person experience.

Restaurants: Moderately-priced restaurants are losing their edge as diners seek out fast food. Smash Burger is offering 54 days of \$1 burgers for \$54 between November 15 through January 9.

2017 Record for Store Closures: Since January 1, retailers have announced plans to shutter more than 6,700 stores in the U.S. That beats the 6,163 store closings in 2008 amid the financial meltdown. As many as 8,600 brick-and-mortar stores are expected to close this year.

California Worker Adjustment and Retraining Notification (WARN Notices): July 2017: 48 notices; 23 permanent closures; **August 2017:** 49 notices; 29 permanent closures; **September 2017:** 63 notices and 18 permanent closures; **As of October 25, 2017:** 37 notices and 15 permanent closures.

Wireless Telephone Service: Increased 0.4% in September, ending a streak of 14 consecutive declines. From September 2016 to September 2017 (-11.7%).

SECTION 2: 2017 HOLIDAY NEWS AND PREDICTIONS

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

Shopper Spending: Shoppers plan to spend \$728.40 each, on average, on gifts and other holiday-related items. 96% of the shoppers intend to make a purchase from a retailer with both a physical and an online presence, and 91%, and 92% of Millennials plan to buy something at physical locations. Some 40% say they plan to buy items online and pick them up in the store. Online shoppers plan to spend 70% more than store shoppers this holiday. (*International Council of Shopping Centers, 2017 survey of 2000 shoppers*)

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

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

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

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

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

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

SECTION 3: U.S. ECONOMY**U.S. Economy and Indicators**

<https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm> (September 28, 2017);

www.bls.gov/news.release/pdf/cpi.pdf (October 13, 2017);

<https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm> (October 27, 2017)

<https://www.bls.gov/news.release/cpi.htm>; <https://www.census.gov/economic-indicators/>

GDP: Real GDP increased at an annual rate of 3.0% in 3Q2017 (was 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016).

Unemployment for September: Declined to 4.2%.

Sales for Retail and Food Services for September 2017: Increased 1.6% to \$483.9 billion; increased 4.4% from September 2016. **Motor vehicles and parts dealers:** Rose 3.6%. **Gasoline stations:** Rose 5.8%. **Electronics & appliance stores:** Dropped 1.1%. **Clothing shops:** Rose 0.4%. **Food & beverage stores:** Rose 0.8%. **General merchandise shops:** Increased 0.3%.

Consumer Price Index (CPI) (September 2017 From Preceding Month)

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

U.S. CPI for September 2017: Rose 0.5%.

Gasoline: From Sep 2016 to Sep 2017 (19.3%). March (-6.2%); April (1.2%); May (-6.4%); June (-2.8%); July (.0%); August (6.3%); **Sep 2017** (13.1%)

Food: Sep (.1%); August (.1%); Food at home: August (-.2%); Sep (-.2%); Food away from home increased .3% each in August and Sep.

Apparel Sep (-.1%); August (.1%), July (.3%).

Shelter: Sep (.3%); August (.5%); July (.1%).

Tobacco: Sep (.4%). From Sep 2016 to Sep 2017 (6.3%).

Alcohol: Increased 0.4% in September.

New Vehicles in 2017: March (-.3%); April (-.2%); May (-.2%); June (-.3%); July (-.5%); August (.0%); **Sep** (-.4%)

Used Cars & Trucks: March (-.9); April (-.5%); May (-.2%); June (-.7%); July (-.5%); August (-.2%); **Sep** (-.2%)

Wireless Telephone Service: Increased 0.4% in Sep, ending a streak of 14 consecutive declines. From September 2016 to September 2017 (-11.7%).

Lodging Away from Home: Sep (1.5%) and 4.4% in August.

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

<https://www.census.gov/services/qss/qss-current.pdf> (September 7, 2017)

https://bea.gov/newsreleases/national/gdp/2017/pdf/gdp3q17_adv.pdf

3Q2017 GDP Contribution from Previous Quarter:

Services (up .70%); **Household Consumption**

Expenditures (up .67%).

Services Sector Total Revenue: 2Q2017 was \$3,684.6 billion (3.2% increase from 1Q2017); up 6.2% from 2Q2016.

Utilities: Decrease of 7.8% from 1Q2017 and up 6.3% from the 2Q2016.

Transportation and Warehousing: Increase 7.9% from 1Q2017 and up 4.9% from the 2Q2016.

Real Estate and Rental and Leasing: Increase 8.8% from 1Q2017 and up 8.1% from the 2Q2016.

Accommodation: Increase 10.3% from 1Q2017 and up 4.5% from the 2Q2016.

Real Estate and Rental and Leasing: Increase 8.8% from 1Q2017 and up 8.1% from the 2Q2016

SECTION 4: CALIFORNIA ECONOMY

<http://www.sco.ca.gov/Files-EO/10-17summary.pdf>

http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2017/Oct-17.pdf

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

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

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

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

Home Sales/ Housing Crisis / Impact on Economy

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

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

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

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

SECTION 5: AUTO SALES**California Car Sales Covering 2Q2017**

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

New Retail Car Registrations for 2Q2017: Declined in 2Q2017 versus a year earlier. It was the first quarterly drop since 3Q2010. Changed by -2.0% (1,047,380 in YTD 2016 from 1,026,882 in YTD 2017).

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

2017 Forecast: Registrations likely exceeding 2 million.
Total Cars History: 1,927,640 (2016); 2,052,750 (2015); 1,848,254 (2014).

Used Cars for 2Q2017: Declined by 3.5%: **Aging Market:** For 2Q2017: 4- to 6-year-old market has largest percentage increase (10.9%); 3 years old or less (-18.9%); 7 to 10 years old (-10.3); older than 10 years old (2.5%).

Auto Financing and Sales Trends

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

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

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

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

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

SECTION 6: GASOLINE

National Gasoline Prices: AAA shows (October 25, 2017) the national average price of self-serve regular at \$2.46 per gallon. The average price at the pump has fallen for 15 of the last 20 days, by 7 cents. This is 12 cents less than a month ago and 24 cents more than over a year ago. **California Gas Average:** \$3.03 (October 30, 2017). \$3.14 a month ago and \$2.80 a year ago. The State tax increase will add 12 cents per gallon starting November 1. The state’s gasoline tax, not including local and federal taxes, will raise to nearly 55 cents a gallon, from the current 41.47 cents a gallon. California will have the second-highest state gas tax in the country, behind Pennsylvania’s 59.3 cent a gallon tax.

Gas Station with Convenience Stores: A & W: Opening new franchises, including gas station / convenience store locations in Berkeley and Hayward.

Best Gas Station Coffee: California’s top-rated store is 7-Eleven. 56 percent of Americans who have visited a convenience store in the past three months feel that the convenience stores make coffee drinks as good as coffeehouses.

<https://business.gasbuddy.com/the-best-gas-station-coffee-in-every-state/>

SECTION 7: OPEN AND CLOSURES / WARN NOTICES

(Selection from July 17, 2017 to October 25, 2017. For historical open/close updates, please refer to:

<http://www.muniservices.com/muniservices-policy-update-library/>);

<https://www.forbes.com/sites/richardkestenbaum/2017/09/11/there-will-be-more-retail-stores-opening-than-closing-in-2017/#1c3aac8d3447>

Applebee's: Closing at least 135 locations in fiscal 2017.

A & W: Opening new franchises, including gas station / convenience store locations in Berkeley and Hayward.

Aerosoles: Filed bankruptcy.

Bass Pro: Merged with Cabela.

Bebe: 180 closures in 2017.

BCBG: 120 closures in 2017.

Big Lots ("Jennifer"): About 20 stores will get a new look.

Giving a new name to create a friendly environment.

"Jennifer" the nickname given to its target customer.

Bob's Discount Furniture: Opening new locations in the Los Angeles area in early 2018.

Chick-fil-A: 'Hottest' big chain in the country expected to overtake Dunkin' Donuts.

Chili's: Cutting down menu 30% to 40% next year.

Coach: Changing its name to Tapestry at the end of October hoping to broaden image after acquiring Kate Spade and Stuart Weitzman brands.

CVS: 70 closures in 2017.

Crocs: 160 closures in 2017.

Dunkin' Donuts: Franchise growth in the Bay Area.

Family Christian: 240 closures.

Gamestop: 100 store closures.

Gap, Inc: Plans to cut 200 Gap and Banana Republic stores nationally, while adding 270 Old Navy and Athleta

Guess: 60 closures in 2017.

Goodwill: Will close 5 of its 42 retail stores by year end.

Gymboree: 350 closures (14 in California).

Habit: Shifts to adding drive-thru feature.

hhgregg: 88 closures in 2017.

H&M: Seeing fewer shoppers; closing 90 stores in 2017.

JCPenny: 135 closures in 2017; closing 400 of 1000 stores.

K-Mart: 109 closures in 2017.

Le Macaron: Plans for 15 California locations.

Lazy Boy: Opened 350th store.

Macys: 68 closures in 2017.

Mountain Gender: 30 closures in 2017.

Nordstrom Local: Opened 10/3 in West Hollywood; one-stop hub for convenient time-saving services.

Office Depot: Launching same day delivery.

PetSmart: On track to open more than 70 locations in 2017 on top the 70 opened in 2016.

Ralph Lauren: Up to 25% of department store outlets closing.

Radio Shack: 550 closures in 2017.

Ross Stores: Adding 40 new locations in 2017.

Rue 21: 400 closures in 2017.

See's Candies: In response to outdoor malls and strip centers, will have opened or relocated 10 shops in California.

Staples: 70 closures in 2017.

Spirit Halloween: Taking space in mall as retailers vacate.

Sprint: Expansion includes 78 new stores in Southern California in 2017.

Sears: 41 closures in 2017; will begin selling Kenmore on Amazon.com.

Starbucks: Closed on-line business.

Target: Plans to increase small-format stores; next day delivery. Launching four more house brands and plans to launch 12 by the end of 2018.

The Limited: 250 closures in 2017.

Toys "R" Us: Filed bankruptcy; online presence increased.

Trader Joes: Opening 14 new locations in 2017.

T.J. Maxx and Marshalls: 70 and 65 new locations.

True Religions: Closing 27 stores.

Wet Seal: 170 closures in 2017.

Walgreens: Closing 600 stores by Spring of 2018.

Walmart: To partner with Lord and Taylor to create an on-line mall. Openings are fewest in 25 years; part of strategy to fend off Amazon.com.

California Worker Adjustment and Retraining Notification (WARN Notices):

July 2017: 48 notices; 23 permanent

closures; **August 2017:** 49 notices; 29 permanent

closures; **September 2017:** 63 notices and 18 permanent

closures; **As of October 25, 2017:** 37 notices and 15

permanent closures.

http://www.edd.ca.gov/Jobs_and_Training/warn/WARN_Report_for_7-1-2017_to_10-25-2017.pdf

SECTION 8: RETAIL TRENDS AND INFLUENCES

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

Warehousing “Showrooming:” Will fuel demand for more logistics space and services. Nordstrom Local opened 10/3 in West Hollywood. Shoppers try on clothes and the merchandise can be retrieved by a nearby Nordstrom or through the website. Manicures, wine and coffee are available. *(<https://shop.nordstrom.com/c/nordstrom-local>)*

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

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

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

Luring the 26 Year-Old Shopper: Home Depot, Williams-Sonoma, West Elm, Sherwin-Williams Co. are hosting classes and online tutorials to teach basic skills as how to mow the lawn, use a tape measure, mop a floor, hammer a nail and pick a paint color. The generation, with over-scheduled childhoods, tech-dependent, etc., is different from previous ones. *(WSJ)*

Stronger Performance by Outlets: They are not weighed down by anchors like J.C. Penney, Macy’s and Sears. Outlet centers enjoy a balanced mix of retailers, and they’ve largely escaped the recent spate of bankruptcies and shutdowns.

Ikea to Acquire “Gig Economy” TaskRabbit: TaskRabbit connects people with freelancers willing to do odd jobs, run errands, and to assemble Ikea furniture. Ikea to set up shop on Amazon. Plans to test “open-source design and showrooms.

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

Savings: U.S. savings dropped to a 10 year low of 3.1% in September 2017 down from the 6.3% peak in October 2015.

SECTION 9: E-COMMERCE TRENDS

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

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

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

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

Segment Survival - Impacted by E-Commerce

http://img04.en25.com/Web/JLLAmericas/%7B88537be6-f837-429d-b8ee-6c702f665056%7D_JLL_Retail_POV_Screens_to_Stores_Report_FNL_LR.pdf

Diners: Meal subscription services are set to push consumers away from traditional in-person dining to dining at home. Ordering online and picking up takeout will be a factor in e-commerce penetration. **Online Outlook:** The immediacy of freshly prepared food will keep this category entrenched in bricks-and-mortar.

Off Price Retailers: Consumers look for value when making their purchases, so the unique model of off-price retailers like Ross and TJ Maxx/Marshalls makes it very profitable to operate in the physical space., respectively. **Online Outlook:** E-commerce penetration is a negligible; 1% in this retail category, while same-store sales growth in 2016 was 3.4%.

Dollar Stores: Appeal lies in convenience and low prices, a universal attraction to shoppers across all income levels. Households with an annual income of more than \$100,000 make up 19% of the revenue at dollar store chains, compared to 23% from households with an annual income of less than \$25,000. Retailers in this category are aggressively expanding, planning 1,250 new stores in the next 12 months. **Online Outlook:** Will continue to flourish in the bricks-and-mortar space.

Sporting Goods: Largely been undone by intense competition from mass merchandisers, online retailers and department stores. High e-commerce penetration. Dick's Sporting Goods remains the prime retail player in this market. **Online Outlook:** While a little more than half (56%) of consumers prefer to buy sporting goods in person, this is a diluted product category, with sales taking place at mass merchandisers and online, as well as in specialty store.

Toys and Children's Goods: Shift online, though bricks-and-mortar still dominates. Toys and hobby products saw a 16% jump in e-commerce from 2015 to 2016, with 13% of sales occurring online. **Online Outlook:** While toy stores and children's retailers offer the ability to interact with the products, online retailers offer time savings for parents.

Office Supplies: Consolidate rather than differentiate. Seen closures along with mergers (Office Depot and Office Max), reflecting a consolidation of physical space. In 2016 e-commerce penetration has reached 13.7%. **Online Outlook:** Office Depot/Office Max is closing 300 stores while Staples is shuttering 70. Online competition is strong for this category.

Electronics: Same-store sales in the category fell 5.9% in 2016, while e-commerce penetration is 9.5%. Best Buy is a standout. Best Buy is hiring sales people to sit down with consumers in homes and recommend electronics to buy, part of a fee services; hope to drive sales of TVs and gadgets when few people are visiting shopping centers. **Online Outlook:** Retailers like Apple and Best Buy offer high-touch experiences for draw to physical locations. Will continue to move online.

Book Stores: Large-format bookstores have already made the move online. Books, along with gifts, are number one for e-commerce penetration with 24.8% of sales happening online. **Online Outlook:** Like music and video, the availability of books in digital format has pushed sales online.

Furniture Showrooms: Consumers want to see and try out furniture in person. **Online Outlook:** Same-store sales up 0.5% in 2016, while e-commerce penetration is at 19%. Physical retail will continue to dominate the category.

Grocery: Click-and-collect and delivery are attractive for daily needs purchases. Continues to move to an omni-channel format, with delivery or pick-up options. **Online Outlook:** 93% of consumers prefer to buy food and groceries in person.

Big Box: Big box discounters like Target remain very popular. Same-store sales growth was 0.2% in 2016. E-commerce penetration is at 4.2%, and set to grow as major players invest more in their omni-channel strategies. **Online Outlook:** Consumers still prefer to purchase many of their products in-store (e.g., apparel, household goods, pet supplies and sporting goods). This category will maintain a strong presence in the physical space.

SECTION 10: RESTAURANT INDUSTRY

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

Projected Sales in California Restaurants in 2017: \$82.2 billion.

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

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

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

SECTION 11: GROCERY INDUSTRY TRENDS

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

Grocery Among Fastest-Growing Retail Segments: 674 stores are expected to open in 2018. The other two are mass merchandisers and dollar stores, and convenience stores. www.progressivegrocery.com

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

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

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

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

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

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

Raley's: Launched grocery delivery services in Alameda.

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

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

Costco Grocery Delivery Expanding: Two-day delivery on shelf-stable food; free shipping on about 500 products for orders of at least \$75. (*MarketWatch, October 7, 2017*)