
ECONOMIC NEWS & TRENDS

This non-confidential edition includes excerpts from articles, studies, and economic research. The content focuses on trends and news between mid-May 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.

CONTENTS

- Section 1: [U.S. ECONOMY \(page 3\)](#)
- Section 2: [CALIFORNIA ECONOMY \(page 5\)](#)
- Section 3: [AUTO SALES \(page 5\)](#)
- Section 4: [GASOLINE \(page 6\)](#)
- Section 5: [RETAIL TRENDS / E-COMMERCE \(page 7\)](#)
- Section 6: [RESTAURANT INDUSTRY \(page 9\)](#)
- Section 7: [GROCERY INDUSTRY \(page 10\)](#)
- Section 8: [LOCAL REVENUES \(page 10\)](#)
- Section 9: [THE FUTURE OF RETAIL SPACE \(page 11\)](#)
- Section 10: [SHARED ECONOMY \(page 11\)](#)
- Section 11: ["BATTLE BETWEEN KING KONG AND GODZILLA" \(page 12\)](#)



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HIGHLIGHTS

GDP: Real GDP increased at an annual rate of 1.4% in 1Q2017. In 4Q2016, the GDP increased 2.1%.

U.S. Sales for Retail and Food Services, June 2017: Sales were down 0.1% from May 2017, and up 3.0% from last year. Non-store retailers were up 9.2% from June 2016. Restaurants dropped 0.6% in June, department stores fell 0.7% and 1.3% for service stations. Spending improved 0.4% at non-store retailers (also on-line outlets), building materials up 0.5% and auto dealers and furniture sales gained (0.1%). Auto dealers (includes purchases of rental cars) fell 3% in June.

California Retail Sales and Use Tax for June: \$2.32 billion were \$57.2 million, or 2.5% higher than May.

E-Commerce Results for 1Q2017: 8.50% for 1Q2017, up from 8.20 from last quarter or a 3.66% change.

Retail Trends Nationwide: Macy's closed 68 stores this year. Another 34 stores are planned to close in the next 4 years. At the end of this month, JC Penny will begin to close 138 stores. Sears and Kmart are closing 72 more stores after announcing that more than 180 stores will close.

Companies Creating Shopping Holidays: Amazon's 2017 Prime Day is a big hit and further its retail dominance. Starting July 10 at 9 p.m. ET, Amazon offered deals to Prime members for 30 hours. Walmart and others will have deals on Prime Day. And China-based Alibaba has its own shopping holiday on 11/ 11.

Auto Sales Forecast for 2017: 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.

Used Vehicles: A jump in leasing that started several years ago means more late-model autos coming off lease.

California Retail Car Registrations for 1Q2017: Changed by -9.3% (254,409 from 280,616 in 2016). After seven years of increasing sales, the market has fully recovered from the low point in 2009, and as a result, pent up demand is easing. In addition, interest rates are increasing, used vehicle prices are weakening, and incentives are on the rise, all signs of a market that has likely reached its peak.

Gasoline Prices: AAA shows (July 16, 2017) the national average price of self-serve regular at \$2.25 per gallon which is four cents less than one week and one month ago, and 14 cents more than the same date last year.

California Gas Average: \$2.91 (July 16, 2017); \$2.94 (May 10, 2017); \$2.79 (May 10, 2016).

California Home Sales: The median home price in May was \$550,200, up 2.3%, and up 5.8% from May 2016. April 2017 was \$537,920.

Fine Dining and Upscale Casual Show Strength for 2Q2017: Affluent restaurant consumers continue to respond positively to brands that provide experience-driven dining occasions.

Amazon-Whole Foods: Amazon in June acquired Whole Foods (over 460 stores). It was also granted a patent for future technology that would prevent brick-and-mortar shoppers from online price checking.

Wireless Telephone Service: Fell 13.2% over the past year

Logistics: The rise of e-commerce means big business for the warehouse industry as more retailers invest in distribution centers to facilitate fast delivery of goods.

Sharing Economy: Uber, Airbnb lead the way as sharing economy expands. 56.5 million people will use sharing economy service this year; this is over a quarter (26%) of U.S. adult internet users.

Construction in May 2017: 4.5% above the May 2016 estimate. During the first 5 months of this year, construction spending amounted to \$469.2 billion, 6.1% above the \$442.4 billion for the same period in 2016.

SECTION 1: U.S. ECONOMY**U.S. Economy and Indicators**

<https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm> (June 29, 2017); www.bls.gov/news.release/pdf/cpi.pdf; <https://www.bls.gov/news.release/cpi.htm>; www.usa.today (July 14, 2017); <https://www.census.gov/economic-indicators/>

GDP: Real GDP increased at an annual rate of 1.4% in 1Q2017. In 4Q2016, real GDP increased 2.1%.

June 2017 Snapshot: Sales for Retail and Food Services: Consumers account for roughly 70% of the U.S. economic activity. Sales were down 0.1% from May 2017, and up 3.0% from last year. Non-store retailers were up 9.2% from June 2016, while sporting goods, hobby, book, & music stores were down 8.9% from last year. Restaurants dropped 0.6% in June, department stores fell 0.7% and 1.3% for service stations. Spending improved 0.4% at non-store retailers (also on-line outlets), building materials up 0.5% and auto dealers and furniture sales gained (0.1%). Auto dealers (includes purchases of rental cars) fell 3% in June.

Construction in May 2017: 4.5% above the May 2016 estimate. During the first 5 months of this year, construction spending amounted to \$469.2 billion, 6.1% above the \$442.4 billion for the same period in 2016.

Income for May: Personal: Increased 0.4% in May. **Disposable:** Increased 0.5%.

Consumer Price Index (CPI) for June 2017

<https://www.bls.gov/news.release/cpi.nr0.htm> (July 14, 2017)

U.S. CPI for June 2017: Unchanged. Decreased 0.2% in May.

Gasoline: Declined 2.8% in June; declined 6.4% in May.

Food: Unchanged in June. Rose 0.2% in May.

Shelter: Increased 0.2% in June and May.

Apparel (from proceeding month): For January 2017 (1.4%); February 2017 (.6%); March 2017 (-.7%); April (-.3%); May (-.8%); June (-0.1%).

Rent: Increased 0.3% in June and 0.2% in May.

Tobacco: Decreased 4% in June. April 2017 is the largest increase (4.2%) since April 2009.

Alcohol: Increased 0.2% in June.

New Vehicles (from proceeding month): For January 2017 (.9%); February 2017 (-.2%); March 2017 (-.3%); April (-.2%); May (-.2%); June (-.3%).

Used Cars and Trucks (from proceeding month): For January 2017 (-.4); February 2017 (-.6); March 2017 (-.9); April (-.5%); May (-.2%); June (-.7%).

Car and Truck Rental: Increased 9.9% in June and 2.3% in May.

Wireless Telephone Service: Fell 13.2% over the past year.

Lodging Away from Home: Fell 1.9% in June. Rose 2.1% in April after declining 2.4% in March.

Services Sector for 1Q2017

<https://www.census.gov/services/qss/qss-current.pdf> (June 8, 2017)

Services Sector Total Revenue: 1Q2017 was \$3,569.6 billion (-1.3%); in 4Q2014 was \$3,616.9 billion (+2.4%).

Utilities: \$148.2 billion, an increase of 6.2% from 4Q2016 and up 2.8% from the 1Q2016.

Transportation and Warehousing: Decrease of 3.9% from the 4Q2016 and up 3.3% from 1Q2016.

Real Estate and Rental and Leasing: Decrease of 4.0% from 4Q2016 and up 8.1% from 1Q2016.

Accommodation: \$58.9 billion, an increase of 1.4% from 4Q2016 and up 6.6% from 1Q2016.

Economic Outlook

<http://www.kiplinger.com/tool/business/T019-S000-kiplinger-s-economic-outlooks/index.php> (July 2017)

GDP Outlook: 2.1% pace in 2017; 2.4% in 2018.

Interest Rates: 10-year T notes at 2.5% by end of 2017.

Inflation: 1.6% in 2017, down from 2.1% in 2016.

Energy: Crude trading from \$40 to \$45 barrel in September 2017.

Gasoline: \$2.10 to \$2.30 in September 2017.

Retail Sales: Growing by 3.5% in 2017 (excluding gas) falling below its 3.8% pace in 2016.

E-commerce: Will grow 15% this year, compared with 13% in 2016. The flip side of strong e-commerce gains is that in-store sales will pick up only gradually, at about a 2% rate.

Consumer Price Changes for 12/ 2016 to 12/17: Food 1.6% (more competitive); Gasoline at -4.8% (down slightly in second-half of 2017); Cell Plans at 1.9%.

Total Inflation: Picking up a bit in second half of 2017 as energy stabilizes (1.3%).

Employment / Wages

http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2017/Jun-17.pdf; www.bls.com

U.S. Unemployment: 4.4% in June. Employment increased in health care, social assistance, financial activities, and mining. The unemployment is the lowest for the US economy since the Great Recession ended in 2009, when unemployment peaked at 10%. (BLS)

California's Unemployment: Fell by 0.1% to 4.7% in May, below the pre-recession low of 4.9% in December 2006 and tying with the historic low of 4.7% in November-December 2000. California's labor force rate is at a new low of 62%. (DOF)

Sector Gains and Losses in May: Largest gain is from local government, information, trade, transportation, and utility, other services, financial activities, educational and health services. Losses from leisure and hospitality. (DOF)

U.S. Allows More Season-Worker Visas: The Department of Homeland Security announced it would make 15,000 more visas for seasonal workers available, increasing the current amount by 50%. The currently shortfall has left hotels, restaurants, and other businesses in demand for workers.

Share of Goods Through US Ports: Total California goods exports were up \$0.2 billion from May 2016 (up 1.2%), the 8th month in a row reporting year-over-year export growth. California remained in 2nd place with 11.32% of all US goods exports (12 month moving total), behind Texas at 16.25%. US goods trade (exports and imports) through California ports edged up to 18.43% (12 month moving total; up from 18.41% in April 2017). <http://centerforjobs.org/>

Travel and Tourism Spending Turned Up in the First Quarter: Spending: 0.4% increased for 1Q2017 after decreasing 2.7% in 4Q2016. Related GDP for the nation increased 1.2% in 1Q2017 after a 2.1% increase in 4Q2016. Traveler accommodations increased 5.3% after decreasing 5.9% in 4Q2016. Prices for all other transportation-related goods and services, which includes gasoline, increased 7.0% in 1Q2017 after increasing 16.8% in 4Q2016. **Total Tourism-Related Output:** \$1.6 trillion in 1Q 2017, comprising 58% of direct tourism spending and 42% of indirect tourism-related spending. <https://bea.gov/newsreleases/industry/tourism/2017/tour117.htm>

SECTION 2: CALIFORNIA ECONOMY / FISCAL FOCUS

<http://www.sco.ca.gov/Files-EO/07-17summary.pdf>

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

California GDP: Increased by 1.2% in 1Q2017. California's economy in 2016 was the sixth largest economy in the world as measured by GDP, just behind the United Kingdom and ahead of France. (DOF, June 2017)

Retail Sales and Use Tax for June: \$2.32 billion were \$57.2 million, or 2.5% higher than May estimates. For FY 2016-17, total receipts of \$24.71 billion missed the Budget Act projections by \$1.03 billion.

Personal Income Tax for June: \$10.94 billion lagged by \$161 million, or 1.5. (Controller)

Corporation Tax for June: \$2.42 billion were 12.5% lower than assumptions in the May Revision. (Controller, July 2017)

June State Government Revenues: \$16.63 billion which fell short of projections in the 2017 Budget by 2.5%. (Controller, July 2017)

California Home Sales: Median existing single-family sales price increased by 2.3% to \$550,200 in May compared with April. This was \$44,330 lower than the pre-recession peak of \$594,530 in May 2007. For the first five months of 2017, the year-over-year median home price growth was 6.1%, which follows 5.6% year-over-year growth for all of 2016. In May, the number of existing homes sold was 430,060, 5.4% higher than April, and 2.6% higher than May of 2016. (DOF, July 2017)

California Wages and Salaries: Comprised 51% of the total personal income of \$2.25 trillion in 1Q2017. Wages and salaries increased 4.9% while supplements to wages and salaries increased 4.5%. (DOF, July 2017)

Tax Expenditures (Revenue Loss) for Fiscal Year 2016-17

http://dof.ca.gov/Forecasting/Economics/Tax_Expenditure_Reports/documents/Tax_ExpenditureReport_2016-17.pdf

Sales and Use Tax: About **\$10 billion**. Examples include food; prescription medicines; gas, electricity, and water delivered through mains; farm equipment; and fuel sold to common carriers. **Local Property Taxes:** Excess of **\$100 million**

Corporation Tax: Over **\$6 billion**. Examples include provisions for research and development, interest on state and local government obligations, and provisions for water's edge election. **Personal Income Tax:** Estimated at more than **\$41 billion**. **Other Taxes:** Estimated by over **\$100 million** annually; from aircraft jet fuel used by common carriers and the armed services, and diesel fuel used by transit districts and schools. Expenditures that cannot be quantified include livestock, meals furnished by institutions, property tax exemptions for intangibles and air carrier ground time.

SECTION 3: AUTO SALES**California Car Sales Covering 1Q2017**

<http://www.cncda.org/CMS/Pubs/CA%20Auto%20Outlook%201Q%202017.pdf>

After seven years of increasing sales, the market has fully recovered from the low point in 2009, and as a result, pent up demand is easing. In addition, interest rates are increasing, used vehicle prices are weakening, and incentives are on the rise, all signs of a market that has likely reached its peak.

The state new vehicle market is expected to plateau and decline slightly over the next several years, but sales should remain strong, based on historical standards.

Retail Car Registrations for 1Q2017: Changed by -9.3% (254,409 from 280,616 in 2016).

New vehicles sold: YTD for 2017 is 506,745; Total: 1,927,640 (2016); 2,052,750 (2015); 1,848,254 (2014).

Auto Trends / Forecast

Sources: Kiplinger; Wall Street Journal; Federal Reserve

Auto Sales in 2017: 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.

Used Vehicles: A jump in leasing that started several years ago means more late-model autos coming off lease.

Discounts and Incentives: Discounts average \$3,550, up 10% from a year ago; BMW, Mercedes and Nissan will exceed \$4,000.

Expect deals to get better in the second half of 2017. There will be offers on pickup trucks and SUVs.

Impact on Manufacturing: GM, Ford and Honda have already announced short-term plant shutdowns. GM moving some jobs from Mexico to the U.S.

Pay to go: Such service could capture 20% of consumer spending on transportation. In California, Los Angeles is considered a risky regulatory market, San Francisco a likely launch market, yet risky, and San Diego, risky.

Auto Financing During and After the Great Recession

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

In 2007, before funding of finance companies dried up, U.S. households bought about 16 million new cars at an annual rate. When the financial crisis hit, retail auto sales collapsed to 7.9 million at an annual rate in 2009. A considerable share of consumer credit is originated by nonbanks that rely on short-term funding markets. During the financial crisis, counties in which consumers historically relied most on nonbank financing for auto purchases exhibited the largest drop in auto sales.

SECTION 4: GASOLINE

Prices: AAA shows (July 16, 2017) the national average price of self-serve regular at \$2.25 per gallon which is four cents less than one week and one month ago, and 14 cents more than the same date last year. MuniServices' May 16, 2017 report noted \$2.35 per gallon and in December 16, 2016 \$2.15. MuniServices' February 17, 2017 report noted \$2.26 per gallon and in December 16, 2016 \$2.15. **California Average: \$2.91 (July 16, 2017):** \$2.94 (May 10, 2017); \$2.79 (May 10, 2016).

National Average: On July 3, 2017 the national average dropped to a low for 2017 at \$2.23. On April 17, the national average price for a gallon of regular unleaded gasoline was at a 2017 high at \$2.41 which is 30 cents more than one year ago. <http://gasprices.aaa.com/>

SECTION 5: RETAIL TRENDS/ E-COMMERCE*(Selection from May 16, 2017 to July 17, 2017)*

Abercrombie & Fitch: 60 closures in 2017; opening five new prototype stores including a Century City location.

Ascena Retail Group (Ann Taylor, Loft, Dress Bard, Lane Bryant, Justice): 667 closures (268 by 2019).

Alfred Angelo: Largest bridal retailer in mid-July closed locations including those in California.

American Apparel: 110 closures in 2017.

Bennigans: Will open in Sacramento.

Burlington: Looking to grow store base; currently has 592 units and plans to expand to 1,000.

Bebe: 180 closures in 2017.

BCBG: 120 closures in 2017.

Chick-fil-A is the 'hottest' big chain in the country expected to overtake **Dunkin' Donuts**.

Coach: To acquire Kat Spade.

CVS: 70 closures in 2017.

Crocs: 160 closures in 2017.

Dollar General: Stores remodeled to include perishables.

Dave and Busters: Considers big box locations; opened locations, including one in Carlsbad.

Dd's Discounts: Launched in 2004 with 10 stores; in June opened 7 new stores and now 200 locations.

Dicks: Opening two locations including Milpitas.

Elements: Fastest growing therapeutic massage to open 30 studios in 2017.

Family Christian: 240 closures in 2017.

Floor and Décor: Opening three stores including one in California, which has 7.

Gamestop: 100 store closures.

Guess: 60 closures in 2017.

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

Gymboree: 350 closures (14 in California).

hhgregg: 88 closures in 2017.

Hollar: On-line version of a Dollar Store; has two-million active monthly users.

Ikea: Sets up shop on Amazon.

JCPenny: 135 closures in 2017.

K-Mart: 109 closures in 2017.

Luna Grill: San Diego fast casual chain to open as many as two dozen restaurants by end of next year; now top

five fast casual chains in the country, outranking Shake Shack and Starbucks.

Macys: 68 closures in 2017.

Michael Kors: 100 to 125 stores.

Nike: Experience deflating sales; starting pilot program to sell sneakers through Amazon.

Nutella Café: Opening first store in Chicago.

Mountain Gender: 30 closures in 2017.

Michael Kors: 100 to 125 closures.

Payless: 400 closures in 2017.

Papa Murphys: To close 16 company-owned restaurants; will focus on franchises and on-line ordering.

Pedego Electric Bikes: Opening 100th store, including a San Diego location.

Pet Supplies Plus: Reached 75 franchises, expanded in six states, including California.

Radio Shack: 550 closures in 2017.

Rue 21: 400 closures in 2017.

Staples: Staples: 70 closures in 2017.

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

Sears: 41 closures in 2017.

The Limited: 250 closures in 2017.

Togos: Opening up to four locations in the Bakersfield area.

T-Mobile: Expects to open an additional 1,000 stores by mid-year, with 500 more by the end of the year.

Tiffany: About 45% of sales come from lower-priced items of \$530 or less.

T.J. Maxx: Defying retail slump. Sales per square foot in 2017: TJX (\$332) and Macys (\$188).

True Religions: Closing 27 stores.

Vampire Penguin: Opened first store in Sacramento in 2013 and has 9 locations in Northern California.

Wet Seal: 170 closures in 2017.

Walgreens: Pulled from alliance to acquire Rite Aid.

Walmart: Remodeling hundreds of stores to ease in-store pickup.

William-Sonoma: Opening "dual concept" stores in the San Francisco area and Orange County.

E-Commerce Results for 1Q2017: U.S. E-Commerce sales as percent of retail sales is 8.50% for 1Q2017, up from 8.20 from last quarter or a 3.66% change. Represents an annualized growth rate of 14.63%. For the U.S. totaled \$102.7 billion, an increase of 1.9% from 3Q2016. Total retail sales for 1Q2017 were estimated at \$105.7 billion, an increase of 4.1% from 4Q2016. California's e-commerce sales comprise approximately 13-14% the total sales, based on California's portion of the national economy.

Marketplace Fairness Act – Allowing States to Collect Taxes from Residents on Goods Purchased Online: S.976, The Marketplace Fairness Act (MFA), has a small-seller exemption for annual sales of less than one million. H.R. 2193, The Remote Transactions Parity Act (RTPA), also has a small seller exemption, but sets the threshold at \$10 million per year. Based on research by ICSC and the National Conference of State Legislatures, states lost an estimated \$26 billion to the online sales tax loophole in 2015.

“The 2017 Retail Fallout”

<http://californiaforecast.com/july-2017/> (July 2017)

Causes: Too many stores and shopping malls. Rents are expensive for retailers. Baby Boom generation is buying less “stuff”, opting more for experiential purchases such as education and travel. The Millennials do not want stuff either, other than phones, food, and craft beer; because they are not buying many homes, they are not having to furnish those homes.

Future of Retail: The Internet and the growth of the online retail experience continues to evolve as one of the most disruptive forces in the economy. The transition from the current retail environment to a steady state retail economy where rising rents for retail space do not exceed the growth in retail sales is ahead of us. This transition could span years.

Future of Online Stores: The biggest factor is the widespread and pervasive migration to online stores for many goods, even clothing. Despite the view that shoppers prefer to try on clothing in physical stores, apparel and accessories are expected this year to overtake computers and consumer electronics as the largest e-commerce category as a percentage of total online sales. And though total online sales account for only 9% of total retail sales in the U.S, the growth of online purchasing is rising geometrically.

Sales in Stores: Comprise over 90% percent of all retail sales. Consequently, making the retail experience more compelling will be the challenge to retailers.

What 's Ahead: To the extent that online shopping for goods and services becomes more mainstream among consumers (as it threatens to be), more store closures are likely until the supply of stores is compatible with the demand for stores.

Retail Trends

Back to School Season All Year: Discounts seem modest, like the 10% off backpacks at Target; others run deep, like 60% off school uniforms at JCPenney. Parents plan to spend an average of \$501 per student; this is a projected total of \$27 billion. Mark Cohen, Director of Retail Studies at Columbia University during a recent interview on back to school shopping season spoke of his best memory as a retailer: “We very carefully calibrated our stores' inventory and staffing to coincide with the actual school districts opening throughout the markets that Mervyn's served. And so, we were ready for it. And that's the heart and soul of retailing. It's ringing the bell for the parade that you're going to put on for your customers. It's the excitement of retail that I think, unfortunately, has diminished to some degree, especially in physical retailing.” *USA Today, July 13, 2017; <https://www.marketplace.org/2017/07/17/economy/its-back-school-season-all-year>*

Companies Creating Shopping Holidays: Amazon's 2017 Prime Day will be a big hit and further its retail dominance. Starting July 10 at 9 p.m. ET, Amazon offered deals to Prime members for 30 hours. The day, started in 2015, rings up more in sales for Amazon than does Black Friday or Cyber Monday, while also landing lots of customers for its \$99-per-year buying club. Other retailers are scrambling to respond. Walmart and others will have deals on Prime Day. And China-based Alibaba has its own shopping holiday on 11/ 11. *(Kiplinger, July 7 and 11)*

Furniture Sales: Furniture is one of the fastest growing segments of the U.S. online retailing, growing 18% in 2015, second to groceries. About 15% of the \$70 billion U.S. furniture market has moved online. *(IBISWorld & Barclays)*

High Debt Loads Shake Retailers: Sales at traditional retailers have come under pressure with the rising of online rivals, a squeeze intensified by the heavy debt burden of many firms. The slowdown has made raising debt more difficult in the sector. *(Wall Street Journal, July 18, 2017)*

On-Line Challenge – Box Shopping: Giving shoppers reason not to visit stores. Amazon Prime members can try on clothes at home under Prime Wardrobe. The service would let members fill a box with three or more eligible items to try on at home for seven days and ship back what they don't want for free.

Impact on Self-Storage Industry: About 8% of the U.S. population uses a storage facility, up from 3% in 1980. Slowing population growth and a shift from the consumption of storage goods towards services points to shift.

SECTION 6: RESTAURANT INDUSTRY

Weakest Segments for 2Q2017: Fast casual and the bar-and-grill sub-segment within casual dining. "Quick service," which was the best-performing segment in 2016, and among the top three segments in 2015, is now struggling to keep building on rapid growth. A positive secular trend is a greater propensity of Millennials to eat away from home. Cyclically, rising incomes and lower unemployment should help restaurant sales. **Trends:** Growth of the sale of meal kits by the likes of Blue Apron; sales are insignificant now and estimated to have been \$1.5 billion in 2016, compared with combined restaurant and grocery sales of \$1.2 trillion, but could be a major threat long term. As this niche grows, it is likely to take sales away from restaurants. Growth of delivery is another trend, as well as Millennials' greater propensity to eat out because of a lack of cooking skills. <http://www.nrn.com/finance/opinion-what-restaurants-can-learn-retail-s-decline>, June 26, 2017

Top Restaurant Segments by Share of Total Top 100 Sales: Burger (30.5%); Casual Dining (15.2%); Beverage/ Snack (11.1%); Chicken (8.5%) and Pizza (8.1%). www.restaurant.org

California Restaurant Industry in 2017: Restaurant and Food Service Jobs: 10% of employment in the State, and by 2017 that is projected to grown by 10.6%; **Projected Sales in California's Restaurants:** \$82.2 billion.

U.S. Restaurant Industry in 2017: Sales: 4% of the U.S. GDP; **Employment:** 10% of the nation's workforce; **Share of the Food Money:** In 1955, 25% and 48% for the present time. **Sales and Traffic for June:** Same-store sales and traffic fell in June and in the second quarter of 2017. Year over year, same-store sales have declined for the last six consecutive quarters.

Fine Dining and Upscale Casual Show Strength for 2Q2017: Fine dining was the best-performing segment based on same-store sales growth in the second quarter, followed by upscale casual. The increased competition for dining occasions both from within the industry (independent operators) and from other sectors (prepared food, meal kits, convenience stores and food trucks) continue to steal additional share from traditional restaurant chains.

SECTION 7: GROCERY INDUSTRY**Trends and News**

<http://www.theshelbyreport.com/> (from May 16, 2017 to July 17, 2017)

Amazon-Whole Foods: Amazon in June acquired Whole Foods (over 460 stores). It was also granted a patent for future technology that would prevent brick-and-mortar shoppers from online price checking.

Amazon Prepared Food Kits: Prior to the acquisition of Whole Foods, Amazon claimed the word mark “We do the prep. You be the chef.” Amazon’s delivery service poses a major threat to Blue Apron. This is a relatively small market at \$4 billion, and a total addressable market of \$36 billion annually by 2026. The total US grocery market currently stands at \$750 billion per year.

Sprouts/ Amazon Prime: Sprouts plans to more than double a current 10-store e-commerce business through a partnership with Amazon Prime Now.

Blue Apron: Trying to carve a slice of the \$600 billion U.S. grocery market; on the verge of an IPO. Churning through customers; 60% of customers stop using the service after 6 months. Amazon’s meal kit delivery service poses a threat.

Grocery Store Expansions: Expected to be robust. Amongst those include Kroger and Sprouts Farmers Markets as well as Aldi and Lidl.

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.

SECTION 8: LOCAL REVENUES

Sweetened Beverage Tax: Tuft University in a June 2017 article notes “at the local level alone, there is potential for soda taxes to spread to cover up to 40% of the US population.” Berkeley in 2015 became the first city in the U.S. to tax soda, tacking on 20 cents to the cost of a 20-ounce drink. <http://now.tufts.edu/news-releases/spread-local-taxes-sugar-sweetened-beverages-likely>. MuniServices is proud to note its partnership with the City of Berkeley in helping to implement the sweetened beverage tax ordinance. The U.S. Conference of Mayors 2017 Best Practices book, *Mayors and Businesses Driving Economic Growth*, features this partnership. <http://www.usmayors.org/wp-content/uploads/2017/07/BestPracticesReport2017.pdf>; <http://www.theshelbyreport.com/2017/04/18/nations-first-soda-tax-study/>

“Dark Store” Strategy – Big Box Retailers Battle Locals Over Property Taxes: It’s a series of rulings by the Michigan Tax Tribunal that have allowed large retailers to reduce their property tax assessments, in many cases by as much as half. Big-box retailers argue that the market value of their commercial property should be the sale price of similarly sized but vacant retail buildings. They point out that these buildings are extremely hard to sell as-is once the retailer moves out. Thus, the assertion is, they aren’t worth nearly as much as local tax assessors have traditionally assumed in valuing the property. This appeals approach was first largely successful in the Detroit area following the recession, when nearly all retailers were dealing with depressed property values. The assessment community has even given it a name, dubbing it the “dark-store” strategy. <http://www.governing.com/topics/finance/gov-big-box-retail-property-taxes.html>

“Who Pays the Local Tax Bill?”: Some creative-class cities have become victims of their own success, unable to keep up with demand for housing, local public services and livable-wage jobs for the lower-middle class. The result is a crisis of affordability driven by huge spikes in home prices, rents and homelessness. In the past 18 months, Los Angeles, San Francisco, Seattle, Silicon Valley in Santa Clara County, Calif., and other localities have proposed new local taxes to expand affordable housing and bolster services for the homeless. As they grapple with this new challenge of affordability, they must also confront an old question at the heart of local public finance: Who actually pays local taxes? There are two ways to think about who pays. One is the “statutory incidence,” or who is required to remit a tax to the government. The other is the “economic incidence,” or who pays a tax because they’re unable to avoid it.

http://www.governing.com/columns/public-money/gov-local-sales-property-taxes.html?utm_term=Who%20Pays%20the%20Local%20Tax%20Bill&utm_campaign=Uncertain%20of%20the%20Future%20C%20States%20Save%20and%20Save%20Some%20More&utm_content=email&utm_source=Act-On+Software&utm_medium=email

SECTION 9: THE FUTURE OF RETAIL SPACE

Logistics: The rise of e-commerce means big business for the warehouse industry as more retailers invest in distribution centers to facilitate fast delivery of goods ordered online. The warehouse sector will add 50,000 jobs this year, more than the number of jobs that brick-and-mortar stores will shed as traditional retailers keep struggling. Amazon broke ground first fulfillment center in Fresno which is Amazon’s fifth fulfillment center in the Central Valley, with three operating fulfillment centers located in Tracy and Patterson, and a fourth facility under construction in Sacramento. Other Amazon California fulfillment facilities are in San Bernardino, Redlands, Moreno Valley, Rialto, Eastvale and Newark.

Food Hall/ Restaurants and Other Eateries Are More than 20% of Units in New and Redeveloped Shopping Centers: With spending on eating out expected to grow over the next 10 years and consumers’ desire to enhance a shopping trip with social and leisure experiences increasing, food and beverage is now critical to the success of any retail development, the report asserts. Other concepts, such as the food hall, have evolved, while there’s also a move toward creating different eating and drinking zones within shopping centers. <https://www.cpexecutive.com/post/economy-watch-food-beverage-sales-may-help-ailing-shopping-centers/>

International Council of Shopping Centers: The death of U.S. malls is being greatly exaggerated according to the ICSC.

Demographics: U.S. demographics could give a boost to malls in the coming years Millennials, who account for 27% of the U.S. population, are entering their late 30s, an active phase of buying goods and services as they form families. **Technology:** Artificial intelligence, robotics, 3-D printing, virtual reality and drones will be used in the future. Consumers will have goods, such as shoes, printed on demand by 3-D machines while drones will move items around stores. **Automated Purchases:** Recurring purchases of commodity items will become more automated and stores more social hubs.

<https://www.reviewjournal.com/business/despite-store-closings-us-retail-industry-sees-bright-future/>

SECTION 10: SHARED ECONOMY

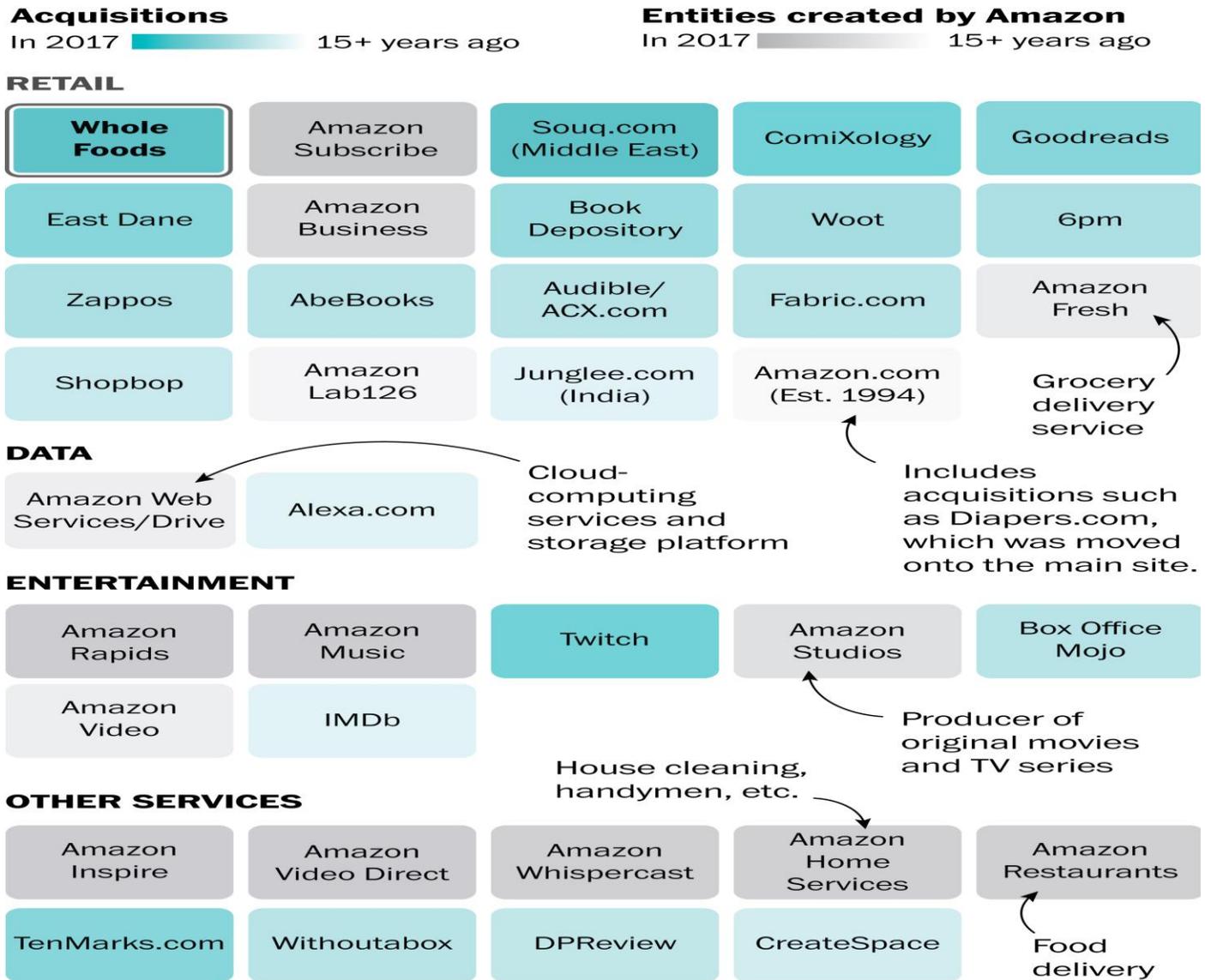
Sharing Economy: Uber, Airbnb lead the way as sharing economy expands. 56.5 million people will use sharing economy service this year; this is over a quarter (26%) of U.S. adult internet users. This year 16.9% of U.S. adult internet users are expected to use their Airbnb account at least once (36.8 million people); 20.4% or 44 million people will book a ride on their Uber account. Airbnb rolled out a program last fall that would give landlords who allow tenants to rent units a cut of the revenue. (Source: www.emarketer.com, June 30, 2017)

SECTION 11: "BATTLE BETWEEN KING KONG AND GODZILLA"

The battle between King Kong and Godzilla retail has moved to the cloud. Walmart is telling some technology companies that if they want its business, they can't run their application serving Amazon. (*Wall Street Journal, June 22, 2017*)

Amazon's basket of companies

The acquisition of Whole Foods will complement the company's forays into the grocery market, one of several retail sectors it has plans to reshape. The darker the color, the more recently Amazon started or acquired the business.



Note: Jeffrey P. Bezos, the founder and CEO of Amazon.com, owns The Washington Post.

Source: Staff reports

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