
ECONOMIC NEWS & TRENDS

This non-confidential edition includes excerpts from articles, studies, and economic research through the date of publication. The content focuses on trends and news between mid-July and mid-October, 2016. Please note that some sources may require a subscription for a full review. This report may be forwarded and used by others in your agency, local chamber and in your community.

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U.S. Economy and Indicators

<http://www.census.gov> (released September 16, 2016); *Washington Post* (October 12, 2016); *Kiplinger* (October 7, 2016)
http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2016/October/Oct-16.pdf

U.S. GDP: Grew by an annualized 1.4% in 2Q 2016 after a 0.8% growth in the first quarter; predictions for 2% in 2017. Growth is reflective of consumer spending and exports that were offset by negative contributions from inventory investment, residential fixed investment, state and local government spending, and nonresidential fixed investment. Some officials noted that the labor market is still healing evidenced by the return of workers to the labor force.

Interest Rates: In September, the Federal Reserve opted against raising interest rates; rates were increased in December for the first time since the Great Recession. There is concern that waiting too long may force a hike if inflation gets 'out of hand' and sending the country back into a recession.

Manufacturing and Trade Inventories and Sales for August 2016: Total business sales were \$1,304.1 billion, up 0.2% from July.

Sales for Retail and Food Services for September: \$459.8 billion, an increase of 0.6% from August.

Rental Vacancy Rate for 2Q2016: 6.7%, down from the 2Q2015 rate of 6.8%.

Homeownership Rate: 2Q2016 was 62.9% down from the 2Q2015 rate of 63.4%.

New Residential Sales in August: 609,000, which is 7.6% below the revised July 2016 estimate of 659,000.

Services Sector for 2Q2016: \$3,457.9 billion, an increase of 3.4% from the 1Q2016 and up 4.3% from 2Q2015.

E-commerce sales: 2Q2016 accounted for 8.1% of total U.S. sales.

Total retail sales: Estimated at \$1, 201.9 billion for 2Q2016; an increase of 1.5% from the 1Q2016.

Consumer Price Index for September, 2016

<http://www.bls.gov/news.release/pdf/cpi.pdf> (released October 18, 2016)

Consumer Price Index for All Urban Consumers: Increased 0.3% in September and 1.5% over the last 12 months.

Food Index: Food at home fell 1.1% for the fifth month; food away from home increased 0.2%. Over the last 12 months, the food at home index has declined 2.2%, the largest 12-month decline since December 2009.

Gasoline Index: Rose 5.8% in September after falling 0.9% in August and accounted for more than half of all the items increase. The fuel oil index rose by 2.4%, natural gas increased (0.8%) following larger increases in July and August. The gasoline index has declined 6.5% over the last year.

Indexes Unchanged: Household furnishings and operations.

Indexes That Rose: Shelter (0.4%), rent (0.3%), owner equivalent (0.4%), hospital services index (1.7%), prescription drugs (0.8%), medical care services (0.2%), motor vehicle insurance (0.4%), alcohol beverages (0.3%), and tobacco (0.4%).

Indexes Declining: Apparel (0.7%), communications (0.8%) which is the largest decline since October 2014, used cars and trucks (0.3%), new vehicles (0.1%).

U.S. Employment Data for August

<http://www.bls.gov/news.release/empsit.nr0.htm>

Unemployment: 5.0, which is a little change since August and represents about 7.9 million unemployed persons.

Retail Trade: Added +22,000 jobs, clothing and clothing accessories +14,000, and gasoline stations +8,000. Over the year, employment in retail trade has risen by 317,000.

Food Services and Drinking Places: +30,000 and has increased by 300,000 over the year.

Professional and Business Services: Rose by 67,000 and has risen by 582,000 over the year; management and technical consulting services +16,000, and administrative and support services +35,000.

Health Care: Increased by 33,000, ambulatory health care services +24,000, and hospitals +7,000; over the past 12 months health care added 445,000 jobs. National healthcare costs is expected to have changes with either presidential candidate winning, whether it is raising premium subsidies for people who buy individual coverage, adding tax credits, or letting people deduct premium on tax returns.

U.S. Economic Outlook

http://soba.ucr.edu/centers/pdf/Thornberg_Southwest_Riverside_Forecast_6_8_2016.pdf;

<http://www.forbes.com/sites/billconerly/2016/09/16/u-s-economic-forecast-2017-2018-mild-rebound/#5dad22b123b6>

Outlook: For 2017 looks brighter than this year's performance. 2016 suffered from the short-term impact of reduced petroleum drilling more than the long-term benefit of cheaper gasoline.

Consumer Spending: Adding to the better performance next year will be continued gains in consumer spending, as well as housing and non-residential construction. Consumer attitudes are stable at a good level, a bit above the long-run average. Consumers in 2017 should continue increasing their spending in line with their incomes. This is in contrast to what happened a decade ago when spending was being fueled by debt accumulation.

Worker competition: The competition for workers has finally shifted the economic balance toward labor to a small degree. Median real wages for a full-time worker have grown 4% over the past two years.

Housing bubble: There is no sign of anything resembling a housing bubble re-emerging, as low interest rates imply that overall housing affordability is still very good. Tight credit remains a major impediment to full recovery.

Corporate profits: Will remain weak and government spending will stay constrained through the election cycle. And while the dollar has stabilized, it continues to be elevated compared to the last decade.

Recession: The next U.S. downturn will be in three years, according to 31 economists.

State and Local Governments: Are increasing both their revenue and expenditures at a mild pace, just over 2% not adjusted for inflation. Slack economic growth doesn't generate much tax gains.

California: Leading and not lagging the nation; California in January 2015 became the 6th largest economy in the world with \$2.46 trillion in gross state product.

California Economic and Revenue Update for 2Q2016

State Controller, Department of Finance, October, 2016

Revenues: Year-to-date revenues are \$217 million below the expected \$24.807 billion. **Personal Income Tax:** Largest portion of General Fund receipts at almost \$7.14 billion which exceeded budget projections by \$127.7 million. **Sales and**

Use Taxes: \$70 million below the month's forecast of \$2.033 billion. Year-to-date revenues are \$221 million below forecast. **Other revenues:** Estate, alcoholic beverage, tobacco taxes, and pooled money interest were \$2 million above the month's forecast of \$35 million.

Construction: Residential permits: Increased by 43.4% in August to annual total of 113,170 units, the highest since April 2014. Permits for single-family units increased by 11.9% to 46,300, while multifamily permits increased by 78.3% to 66,870 in August. During the first eight months of 2016, more than half of the total 97,000 residential permits were for multifamily. **Non-residential construction:** Fell in August by 23.4% to \$20.9 billion.

Real estate sales in August: Existing single-family homes increased 1.1% (420,000 units). Sales of the first eight months in 2016 increased by 0.1% compared to the same period in 2015. **Median Price Single Family Home:** Remained above \$526,580; median was 11% (or \$67,950) less than the pre-recession peak of \$594,530 from May of 2007.

Personal income: California's personal income in the second quarter of 2016 grew by 3.6% compared to a year ago, following 4.7% growth in the first quarter. In 2015, California's personal income grew 6.4%, while U.S. personal income grew by 4.5%. **Wages and salaries:** For \$1.4 trillion of total personal income of \$2.2 trillion in the second quarter of 2016, and grew by 4.8% on a year-over-year basis.

California Labor and Employment Trends

Labor Market Information, EDD, August, 2016

Unemployment: The number of unemployed Californians fell by 85,000 (7.4%) over the 12-months ending in August 2016. This was California's smallest year-over decrease in number since July 2011 (76,000) and its smallest year-over percentage decrease since November 2011 (7.3%). U.S. unemployment was 4.9% in August, unchanged from July, and down 0.2% from a year ago. **Civilian employment:** There were 1,170,000 fewer unemployed Californians in August 2016 than there were at the height of the recession in October 2010, but 202,000 more than there were at the pre-recession low in September 2006. Employed Californians increased by 57,000 persons to 18,170,000 in August 2016.

Non-Farm Jobs: Up 151,000 jobs (0.1%) over the month and up 2,447,000 jobs (1.7%) over the year. In comparison, California non-farm jobs were up 63,100 jobs (0.4%) over the month and up 378,000 jobs (2.3%) since August 2015. **Sectors:** The largest gains in August were in the government (27,900), professional and business services (14,400), trade, transportation, and utilities (10,300), and private sector (35,000) sectors. Leisure and hospitality has a gain of 31,900 to date in 2016. Month-over job losses were manufacturing (3,400) and mining and logging (400).

California Auto Trends for 2nd Q 2016

<http://www.cncda.org/>

New Vehicle Market: Increased in 2Q2016. New vehicle registrations were up 1.8% versus a year earlier. **Used vehicle market:** Gain of 7.4% in first half of 2016; used registrations for vehicles six years old or newer were up by more than 17% in the first half of this year, while new vehicles increased by less than 3%. **Registrations:** 2.8% change: YTD 15 (1,017,198) and YTD (1,045,440); New retail light vehicle registrations in California increased 3.0% during the first six months of this year, while fleet registrations slipped 1.1%. Retail car registrations declined. Light trucks (consisting of pick-ups, SUVs, and vans) were up 14%. **Future Gains:** Strong consumer interest in the abundance of new vehicles, combined with low fuel prices, attractive incentive offers, and low interest rates should help keep the market on an upward path for at least the next 12 months. National forecasts predict slower sales for new cars that fall below 2015 records; forecast cut by 300,000 (or 1.7%) (*LWC Automotive, July 2016*)

California New Car Dealer 2016 Economic Impact Report: New Vehicles Sold: 2,052,750 (2015); 1,848,254 (2014); **Used Retail Vehicles Sold:** 769,500 (2015); 691,189 (2014); **Total Sales:** \$117.36 billion (2016 Report); \$105.12 billion (2015 Report)

Gasoline

<https://www.consumeraffairs.com/gas-prices>

The national average price for regular unleaded gasoline has increased for 12 of the past 14 days, reaching today's price of \$2.26 per gallon. Pump prices typically decline during this time of year due to lower driving demand after the busy summer driving season has concluded and the changeover from summer-blend to a cheaper-to-produce winter-blend gasoline, which took place in many parts of the country starting on September 15. Consumer Affairs reports from September 29, 2016 report that gas prices are not going back to \$3 a gallon anytime soon.

Retail Sales and Food Services (Advanced Estimates for September)

<http://www.marketwatch.com/story/us-retail-sales-climb-06-in-september-2016-10-14-81033311>

Retail and Auto Sales: Retail has grown slowly because cheaper gas. Sales at retail stores rose 0.3% in September. Auto sales are about 1/5 of retail spending.

Gasoline Service Stations: 2.4% pick-up last month; gasoline averaged \$2.20 a gallon in September, up from \$2.16 in August.

Restaurants: Increase since April with a 0.8% gain.

Department Stores: Receipts fell 0.7%. Sales fell at stores that sell clothes, electronics and pharmacies. In August, retail sales declined 0.2% instead of 0.3%.

Food Services and Drinking Places: Increased 0.8% in August, the biggest advance since February.

Retail categories: Ten of 13 major retail categories showed gains in September. Motor vehicle dealers, furniture stores, restaurants and building supply outlets were among those showing solid increases.

Miscellaneous Retail Establishments: Jumped 1.8% in September; helped by Apple Inc.'s iPhone 7, with pre-orders four times as great as for previous models.

Convenience Stores: The U.S. industry, with more than 154,000 stores across the country, conducts 160 million transactions a day, sells 80% of the fuel purchased in the country and had total sales of \$575 billion in 2015. (*Association of Convenience and Refueling, October, 2016*)

Home Improvements: Analysts predicted sales at existing stores will rise 4.8% at Home Depot and 4% at Lowe's. Repairs and remodeling is expected to surpass \$300 billion in 2016 (<http://www.jchs.harvard.edu/>)

Holiday Spending and Hiring: Sales in November and December, excluding autos, gas and restaurant sales are expected to increase a solid 3.6% to \$655.8 billion, higher than the 10-year average of 2.5% and above the seven-year average of 3.4% since recovery began in 2009. The National Retailer Federation (NRF) is forecasting non-store sales to increase between 7 and 10% to as much as \$117 billion. Retailers are expected to hire between 640,000 and 690,000 seasonal workers this holiday season, in line with last year's 675,300 new holiday positions. Retailers open on Thanksgiving include Best Buy, Kohl's, Macy's, Sears, Target and Walmart. (*NRF, October, 2016*)

Luxury: Designer brands are suffering some of their slowest revenue growth since the 2008 financial crisis. Luxury department stores are recognizing that their clients are keen on high-quality bargains. (*Wall Street Journal, July 2016*)

On-Line Grocery Trends: **Amazon:** Making progress toward brick-and-mortar stores to augment home delivery of groceries, convenience store, and curbside pick up. **Wal-Mart:** Purchased web retailer Jet.com; Wal-Mart gets more than half of its U.S. revenue from food and groceries.

Food: Lower food prices at supermarkets but not at restaurants because of low agricultural commodity and transportation costs. Grocers face increasing competition from online shopping outlets, which adds pressures to grocers' thin profit margins. Restaurateurs will hold menu prices fairly steady, despite the drop in farm prices for corn, wheat, meat and other foods. Americans seek deals in supermarkets yet accustomed to paying more when dining out. (*Kiplinger, October 7, 2016*)

Restaurant Trends: While same-store sales and customer traffic trends were a mixed bag in recent months ('restaurant recession') that did not paint a complete picture on the health of the overall industry. A better performance metric is total restaurant industry sales, which is both existing restaurant sales and sales at new restaurants that enter the market. Contributors to growth in the restaurant industry: a) Labor market is healthy (the number-one driver of restaurant sales is a healthy labor market); b) wage growth is picking up; c) households have breathing room (housing debt is rising again), d) pent-up demand remains elevated (consumers have yet to get their fill of restaurants), and e) consumers crave experience. (<http://www.restaurant.org/News-Research/News/5-reasons-restaurant-growth-will-continue.>)