
ECONOMIC NEWS & TRENDS

This non-confidential edition includes excerpts from articles, studies, and economic research. The content focuses on trends and news between mid-October and the date of publication. This report may be forwarded and used by others in your agency, the local chamber and in your community.

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HIGHLIGHTS

U.S. GDP: Real GDP increased at an annual rate of 3.2% in 3Q2016 ("second" estimate released by the BEA).

Consumer Price Index for All Urban Consumers: Increased 0.4% in October and 1.6% over the last 12 months.

U.S. Unemployment: Declined to 4.6%. The unemployment rate fell to levels not seen since August 2007.

California's Economy: Measured in U.S. dollars, only five countries had a GDP larger than California's \$2.5 trillion GDP in 2015. With 34% of California's population, the Los Angeles/Orange County region produces 38% of California's economic output. With 17% of the population, the Bay Area produces 27% of the state's output.

Sales and Use Taxes for California: For October were \$140 million below the month's forecast of \$2.499 billion. Year-to-date revenues are \$361 million below forecast.

Black Friday / Thanksgiving 2016 Sales: Over 75% of American's spent the same or more than in 2015. The average Thanksgiving and/or Black Friday shopper spent \$373 on those two days, divided as follows: \$165.20 spent on holiday gifts (44% of total expenditure); \$134.60 spent on non-gift merchandise (36% of total expenditure); \$48.20 spent on dining (13% of total expenditure); \$25.20 spent on entertainment (7% of total expenditure).

California Auto Sales: New Car Sales YTD: 3Q2016 (867,798) / 3Q2015 (918,835) or a -5.6%; Light Truck Registrations YTD: 3Q2016 (709,531) / 3Q2015 (629,881) or a +12.6%.

National Auto Forecast: 17.1 million light-vehicle sales in 2017; 2016 volume to finish at 17.4 million, just missing the 2015 record of 17.47 million. There is no pent-up demand which means a stable market for U.S. auto sales, not a growing market.

Gasoline and Fuel Oil Index for October: Gasoline rose 7.0% and accounted for more than half of all the items increase. The index for fuel oil was up 5.9%.

Gasoline Prices in California: AAA shows the national average price of self-serve regular has ticked up to \$2.15 a gallon. As of December 4, 2016 California Gas Prices is showing gas prices at some California locations at \$1.99 per gallon.

Fast Casual Dining: 'Casual dining's share of restaurant industry transactions has fallen by 20% over the past eight years, to 8% in 2015, from 10% in 2007.

Sales for Retail and Food Services for October: \$465.9 billion, an increase of 0.8% from September and 4.3% above October 2015. Total sales for August 2016 through October 2016 were up 3.3% from the same period in 2015.

Alcohol and Non-Alcohol Index: From Oct 2006 to Oct 2016 prices for alcoholic beverages increased 21%, compared with 12% for nonalcoholic beverages. There is a 32% increase in prices for alcoholic beverages consumed away from home.

Sales of existing single-family homes in California: Totaled 425,680 units in September; remained above the 400,000 pace for the seventh straight month, and the year-over-year increase was the first since March 2016.

Construction for October 2016: \$1,172.6 billion was 0.5% above the revised September 2016 of \$1,166.5 billion.

Bonds: As of Oct 2016, for this calendar year California has sold \$7.1 billion in GO bonds. About \$2.2 billion worth will be spent on transportation, water, housing and other public works projects; balance of about \$4.8 billion to refinance existing GO bonds.

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

<http://www.census.gov>; https://www.census.gov/retail/marts/www/marts_current.pdf;

<https://www.census.gov/economic-indicators/>; https://bea.gov/newsreleases/national/gdp/2016/gdp3q16_2nd.htm

<http://www.bls.gov/news.release/cpi.nr0.htm> (released November 17, 2016; next release December 15, 2016)

http://www.census.gov/econ/qfr/mmws/current/qfr_mg.pdf; http://www.census.gov/econ/qfr/retail/current/qfr_rt.pdf

U.S. GDP: Real GDP increased at an annual rate of 3.2% in 3Q2016 ("second" estimate released by the Bureau of Economic Analysis); in 2Q2016, real GDP increased 1.4%; the increase in real GDP in the 3Q2016 primarily reflected positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, and federal government spending, that were partly offset by negative contributions from residential fixed investment and state and local government spending.

Manufacturing, Mining, Wholesale Trade for 3Q2016: Manufacturing corporations' seasonally adjusted after-tax profits were \$138.3 billion for the 3Q2016, up \$8.3 billion from 2Q2016.

Retail Trade: Seasonally adjusted after-tax profits for retail corporations with assets of \$50 million and over were \$23.9 billion for the 3Q2016, up \$0.6 billion from 2Q2016.

Sales for Retail and Food Services for October: \$465.9 billion, an increase of 0.8% from September and 4.3% above October 2015. Total sales for August 2016 through October 2016 were up 3.3% from the same period in 2015. The August 2016 to September 2016 percent change was up 0.6% to up 1.0%. Retail trade sales were up 1.0% from September 2016, and up 4.3% from 2015. Non-store retailers were up 12.9% from October 2015, while miscellaneous stores retailers were up 9.5% from 2015.

Rental Vacancy Rate for 3Q2016: 6.8%, down 0.5% from the 3Q2015 rate of 7.3%. The rental vacancy rate in the West was lower than the rate in the third quarter 2015, while the rates in the Northeast, Midwest and South were not statistically different from the rates in the third quarter 2015.

Homeownership Rate 3Q2016: 63.5%; 3Q2015 was 63.7%.

New Residential Sales in October: 563,000 which is 1.9% below the revised September 2016 estimate of 574,000.

Services Sector for 2Q2016: \$3,457.9 billion, an increase of 3.4% from the 1Q2016 and up 4.3% from 2Q2015. Note: the release is on December 8, 2016.

Construction for October 2016: \$1,172.6 billion was 0.5% above the revised September 2016 of \$1,166.5 billion.

International U.S. Trade in Goods: (Advanced) increased to \$62.0 billion in October from \$56.5 billion in September as exports decreased and imports increased.

Interest Rate/ Federal Reserve's December 13-14 Meeting: With the first employment data release after the Presidential election in which the candidates disputed the health and direction of the economy, the data showed a job market that is continuing to steadily strengthen from the recession. The data release was the final one to come before the Federal Reserve's upcoming meeting; some speculate that the bank may announce its first rate increase in a year. Federal Reserve Bank Governor Daniel Tarullo reported in the November 22 edition of *Wall Street Journal* that "data suggest it is time to talk about raising interest rates, though he sees a need for caution."

Medical Care Index for October: Prescription drugs (0.2% increase after a 0.8% increase in September and 1.7% in August. Hospital services increased 0.2% and physician services down 0.1%.

October 2016 Index Increases: Apparel, education, household furnishings and operations. **October 2016 Index Declines:** Communication, recreation, and airfare.

U.S. Employment Data for November 2016

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

U.S. Unemployment: Declined to 4.6%. The unemployment rate fell to levels not seen since August 2007, before a bubble in the U.S. housing market began to burst. The fall was driven partly by the creation of new jobs, and partly by people retiring and otherwise leaving the labor force.

U.S. Jobs: Added 178,000 jobs.

Long-Term and Temporary Jobs: The number of job losers and persons who completed temporary jobs edged down by 194,000 to 3.6 million. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.9 million and accounted for 24.8% of the unemployed. Over the past 12 months, the number of long-term unemployed was down by 198,000.

Professional and Business Services: Rose by 63,000 and has risen by 571,000 over the year; accounting and bookkeeping services added 18,000 jobs, and administrative and support services by 36,000.

Health Care: Increased by 28,000, within the industry ambulatory health care services +22,000; over the past 12 months added 407,000 jobs.

Construction: Continued upward trend with a gain in residential specialty trade contractors (+15,000). Over the past 3 months, construction has added 59,000 jobs, largely in residential construction.

Hourly Earnings: Average hourly earnings declined by 3 cents to \$25.89. The decrease pared back large gains seen in October, but over the year average hourly earnings are still up 2.5%.

Major Industries with Little Change: Mining, manufacturing, wholesale trade, retail trade, transportation and warehousing, information, financial activities, leisure and hospitality, and government.

Gig Economy / Independent Work/ Labor Department to Begin Tracking Gig Worker Data in May: Up to 162 million people in Europe and the US, or 20 to 30% of the working-age population engage in some form of independent work. While demographically diverse, independent workers largely fit into four segments: *free agents*, who actively choose independent work and derive their primary income from it; *casual earners*, who use independent work for supplemental income and do so by choice; *reluctants*, who make their primary living from independent work but would prefer traditional jobs; and the *financially strapped*, who do supplemental independent work out of necessity. Most of the estimated 68 million gig workers choose the freelance lifestyle for better work-life balance. But nearly 20 million of them do it out of necessity because they can't find better work or pay. <http://www.mckinsey.com/global-themes/employment-and-growth/Independent-work-Choice-necessity-and-the-gig-economy>

SECTION 2 - CALIFORNIA ECONOMY**California Economic and Revenue Update for October 2016**

http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2016/Nov_Finance_bulletin_2016.pdf; <http://lao.ca.gov/LAOEconTax/Article/Detail/213>; <http://lao.ca.gov/Publications/Report/3511>

California's Economy: Measured in U.S. dollars, only five countries had a GDP larger than California's \$2.5 trillion GDP in 2015. With 34% of California's population, the Los Angeles/Orange County region produces 38% of California's economic output. With 17% of the population, the Bay Area produces 27% of the state's output.

Construction Permits: Residential construction permits fell by 11.6% to an annualized average of 100,000 in September from 113,000 in August. Permits for single-family units rose 7% to 49,500 units and multifamily units dropped 24% to 50,500 units in September. Residential construction during the first nine months of 2016 averaged 97,000 units with multifamily housing permits accounting for more than half the total.

Sales of existing single-family homes: Totaled 425,680 units at a seasonally adjusted annualized rate in September, an increase of 1.3% from a month ago and 0.8% from a year ago. Sales remained above the 400,000 pace for the seventh straight month, and the year-over-year increase was the first since March 2016.

Median price of homes sold in September: \$514,320, down 2.3% from August but up 6.1% from September 2015.

Revenues: The fiscal year-to-date total of \$30.89 billion in revenues is now 1.1% below estimates. **Personal Income Tax:** Four months into the new fiscal year, California has collected total PIT receipts of more than \$21.45 billion, passing estimates by just \$1.1 million. **Sales and Use Taxes:** Sales and use tax receipts for October were \$140 million below the month's forecast of \$2.499 billion. Year-to-date revenues are \$361 million below forecast. **Other revenues:** Estate, alcoholic beverage, tobacco taxes, and pooled money interest were \$4 million above the month's forecast of \$42 million. **Wages and salaries:** \$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. **Corporation taxes:** Came in at \$240.3 million for October, which was \$4.2 million higher than anticipated. For the first four months of the fiscal year, total corporation tax receipts of \$1.56 billion are \$261.3 million less than predicted in the 2016-17 Budget Act (shortfall of 14.3%). **Insurance tax:** Revenues were \$5 million below the month's forecast of \$22 million. Year-to-date insurance tax revenues are \$64 million above the forecasted \$585 million.

California's Fiscal Outlook / 2017-18 Budget: (<http://lao.ca.gov/reports/2016/3507/Fiscal-outlook-111616.pdf>)

California Labor and Employment

http://www.edd.ca.gov/About_EDD/pdf/urate201611.pdf (November 18, 2016);

http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2016/Nov_Finance_bulletin_2016.pdf

Unemployment: Remained at 5.5% for the third straight month in September; labor force participation rate rose to 62.6%.

Gains: In a year-over-year comparison (Oct 2015 to Oct 2016), nonfarm payroll increased by 389,500 (2.4% increase).

Industry Sectors: Nine of the State's eleven industry sectors added a total of 409,200 jobs year-over. The largest gains were in educational and health services, up 90,700 jobs (a 3.6% increase), and professional and business services, up 81,000 jobs (a 3.2% increase).

Construction: Posted the largest gains on percentage basis, up 4.6% (adding 34,100 jobs).

Other Increases: Trade, transportation and utilities; information; financial activities; leisure and hospitality; other services; and government. **Losses:** Two industry sectors (mining and logging and manufacturing) posted job declines over the year, down a total of 19,700 jobs.

Manufacturing: Fell by 15,800 jobs (down 1.2%).

Debt Watch/ Exploring Debt in California / Strong Investor Demand for California Tax-Exempt Bonds (October 2016 and YTD Data): Over the past 30 years, State and local government entities have issued more than \$1.5 trillion in debt to build infrastructure, provide services and refinance outstanding debt to save taxpayer money. Treasurer Chiang posted more than 2.8 million fields of financial information detailing how much state and local governments have borrowed over the past 30 years. **October and YTD:** As of Oct 2016, for this calendar year California has sold \$7.1 billion in GO bonds.

Proceeds: About \$2.2 billion worth will be spent on transportation, water, housing and other public works projects; balance of about \$4.8 billion to refinance existing GO bonds. As a result, taxpayers will save approximately \$1.3 billion over the remaining lives of the bonds. **November 2016 Ballot: General Obligation Bonds:** Twelve non-school general obligation bond measures. All passed except two library bonds; together voters approved property tax increases to repay \$7.2 billion in GO bonds. **School Bonds:** 184 measures for a total of over \$25.3 billion in school construction bonds (over \$23 billion).

<http://debtwatch.treasurer.ca.gov/>; <http://www.treasurer.ca.gov/publications/dar/2016.pdf>;
(<http://californiacityfinance.com/Votes1611preliminary.pdf>)

SECTION 3 - STATE AND NATIONAL AUTO TRENDS AND FORECAST

California Auto Trends for 3Q2016: The gasoline index for October rose 7.0% and accounted for more than half of all the items increase. The index for fuel oil was up 5.9%. Beginning in 2010, the California new vehicle market began six consecutive years of increasing sales, with new registrations last year exceeding the lofty total of more than 2 million units. Following increases in the last two quarters of 2015, the gains were smaller in the 1Q2016 and 2Q2016 and halted in 3Q2016. With the likely continuation of low interest rates, increasing personal incomes, attractive incentive offers, and significant improvements in today's new vehicles, there should keep the annual total close to the 2 million unit mark for at least the next two years. <http://www.cncda.org/CMS/Pubs/CA%20Auto%20Outlook%203Q%202016.pdf>;
<http://www.bls.gov/news.release/cpi.nr0.htm>

New Car YTD: 3Q2016 (867,798) / **3Q2015** (918,835) or a -5.6%.

Light Truck Registrations YTD: 3Q2016 (709,531) / **3Q2015** (629,881) or a +12.6%.

Registrations YTD: YTD 2016 (1,548,716) / **YTD 2015** (1,577,327) or a +1.8%.

New Retail Light Vehicle Registrations: Increased 2.1% during the first nine months of this year.

Retail Car Registrations: Declined 5.8%, while light trucks (consisting of pickups, SUVs, and vans) surged 13.7%.

Used Vehicle Market: Up 7.4% for the first six months of this year; the increase slipped to just 0.7% after nine months.

Registrations for six year old or newer vehicles were about 933,000 units during the first nine months of this year, 60% of the new vehicle total.

National Auto Forecast: 17.1 million light-vehicle sales in 2017; 2016 volume to finish at 17.4 million, just missing the 2015 record of 17.47 million. There is no pent-up demand which means a stable market for U.S. auto sales, not a growing market.

Causes: Rising interest rates, lengthening auto loan terms and weakening used-vehicle prices. **Strengths:** Preference for light trucks over cars will drive transaction prices higher. **Franchised dealers:** Will sell more used vehicles. Impact on Trump Administration: If there is industry deregulation with infrastructure spending plans that might push 2017 sales to 17.3 or 17.4 million. www.autonews.com/article/20161123/RETAIL01/161129945/1401

Auto Loans: After the auto-lending boom of recent years, signs of trouble are starting to pop up. Total auto loans outstanding in the U.S. reached \$1.1 trillion in the second quarter (Federal Reserve). Auto-loan originations in the period were \$149 billion, close to the record \$151 billion in the third quarter of last year. **Risks:** One is borrowers will prove less creditworthy than expected, giving rise to defaults and write-offs. The second is used-car prices will fall by more than lenders anticipated. For auto leasers it reduces the value of the car that is brought back into possession at the end of a lease and hurts the assumed value of collateral on car loans. http://www.wsj.com/articles/warning-light-flashes-on-auto-loans-1478632602?mod=rss_markets_main

SECTION 4 - GASOLINE

Gasoline Prices in California: AAA shows (November 30, 2016) the national average price of self-serve regular has ticked up to \$2.15 a gallon. That's more than 11 cents a gallon higher than a year ago. The national average price of self-serve regular increased up to \$2.15 a gallon or more than 11 cents a gallon higher than a year ago. The website <http://www.californiagasprices.com/> as of December 4, 2016 is showing gas prices at some California locations at \$1.99 per gallon. <https://www.consumeraffairs.com/gas-prices>; <http://www.californiagasprices.com/>

Lower Gas Prices and Holiday Spending: With optimism up, gas prices down and the election over, Americans say that they will travel and spend more over the holiday season. More than 154 million consumers were expected to shop over Thanksgiving weekend, up from 151 million shoppers in 2015. <https://nrf.com/>; http://www.nacsonline.com/Media/Press_Releases/2016/Pages/PR112216.aspx

SECTION 5 - PHYSICAL AND E-COMMERCE RETAIL SALES AND TRENDS

E-commerce Sales: 3Q2016 was \$101.3 billion, an increase of 4.5% from the second quarter of 2016. Total retail sales for the 3Q2016 were estimated at \$1,212.5 billion, an increase of 0.9% from the 2Q2016. The 3Q2016 e-commerce estimate increased 15.7% from the 3Q2015 while total retail sales increased 2.2% in the same period. E-commerce sales in the EQ 2016 accounted for 8.4% of total sales. https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf (November 17, 2016)

Black Friday On-Line Retailers: While Black Friday has been traditionally one of the biggest, if not the biggest, shopping days for retailers, this year saw online retailers overshadow bricks-and-mortar stores in terms of revenue growth. Overall retail spending was still high, but compared to previous years, more of that came from online and mobile sales than from customers actually visiting a physical store. Average unit retail (AUR) fell 10.5% compared to a year ago, and was indicative of the heavy price promotion strategies brands deployed to cut through the 'noise' of the holiday weekend. <https://www.luxurydaily.com/online-mobile-sales-outpaced-traditional-retail-this-black-friday-report/>

Black Friday and Thanksgiving 2016: Over 75% of American's spent the same or more than in 2015. The 2016 ICSC Thanksgiving/Black Friday Shopping Report shows that 3/4's of Americans spent the same or more this year than last year, and 44% of that spend was on gifts for other people. The average Thanksgiving and/or Black Friday shopper spent \$373 on those two days, divided as follows: \$165.20 spent on holiday gifts (44% of total expenditure); \$134.60 spent on non-gift merchandise (36% of total expenditure); \$48.20 spent on dining (13% of total expenditure); \$25.20 spent on entertainment (7% of total expenditure). **Non-Shopping Black Friday Spending:** Upwards of 68% participated in non-shopping activities.

Shopper Behavior Steers Retail Trends for 2017: Today's retailers are focusing less on overall growth and more on shopper behavior, including developing smaller, more productive stores; digital retailing and online shopping; and more tailored assortment strategies by region and season. **Findings:** Top hurdles facing retailers include vulnerability of regional supply chains to natural and external disasters, continued growth of e-commerce, and continued consolidation; Transparency, social responsibility and traceability continue to be important issues and considerations among retailers and manufacturers; and Private label in the U.S. continues to grow and is a sector that grocers continue to explore, as consumers no longer view these as no-name, lowest price and lesser option products. <https://www.iddba.org/about-us/who-we-are/news-releases/what-s-in-store-2017-shopper-behavior-steers-reta>

SECTION 6 - RESTAURANT TRENDS

Food Indexes for October 2016: The index for food away from home increased 0.1%, while the food at home index fell 0.2%, its sixth consecutive monthly decline. The index for other food at home fell 0.1%, after increasing 0.1% in September. Over the last 12 months, the food at home index has declined 2.3%, the largest 12-month decline since December 2009. The index for food away from home rose 2.4% over the last 12 months. The index for meats, poultry, fish, and eggs declined for the fourteenth consecutive month, falling 0.7%. The index for cereals and bakery products was unchanged in October. The fruits and vegetables index rose 0.2%, and the index for dairy and related products increased 0.3%.

Alcohol and Non-Alcohol Index: From Oct 2006 to Oct 2016 prices for alcoholic beverages increased 21%, compared with 12% for nonalcoholic beverages. There is a 32% increase in prices for alcoholic beverages consumed away from home. <http://www.bls.gov/opub/ted/2016/alcoholic-beverage-prices-up-21-percent-from-october-2006-to-october-2016.htm>; <http://www.bls.gov/news.release/cpi.nr0.htm> (released November 17, 2016 (next release December 15, 2016))

Fast casual dining: 'Casual dining's share of restaurant industry transactions has fallen by 20% over the past eight years, to 8% in 2015, from 10% in 2007. <http://nrm.com/blog/why-casual-dining-restaurants-should-close-thousands-units>

Restaurants cultivating loyalty: 1) Sending out complimentary 'extra'; 2) Provide preferred seating options; 3) Discount birthday meal or send complimentary birthday dish; 4) Preferred reservation access; 5) Call or text customer about VIP events or menu specials; 6) Chef came out to the table to speak about the meal; 7) Acknowledged dietary preferences or restrictions; 8) Preferred drinks were ready at table. <http://nrm.com/workforce/how-next-3-years-could-affect-following-30>

Healthier fast food: American consumers have shown a growing interest in healthier fast food that incorporates more low-calorie ingredients and fresh produce while remaining convenient and affordable. In late November, top food executives told Fortune that cleaner food is not just a trend, but a movement. And that shift is spilling over into the fast food market too, forcing legacy chains to try to keep up. <http://www.businessinsider.com/new-healthy-fast-food-chains-better-than-mcdonalds-2016-12/#salad-and-go-a-drive-thru-salad-chain-1>

New State and Local Laws Affecting Restaurants | 2017

http://www.calrest.org/uploads/2/6/1/5/26153474/2017_new_laws_-_state__local_living_doc.pdf