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Economic Overview & News

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April 2015 Edition

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**STUDIES AND WORKSHOPS****California Road Usage Charge Alternatives to the Gas Tax**

SB 1077 (Chapter 835/ 2014) created the California Road Usage Charge Pilot Program and tasked the Chair of the Commission, in consultation with the California State Transportation Agency (CalSTA) to convene a fifteen member Technical Advisory Committee (TAC) to study road usage charge alternatives to the gas tax, gather public comment, and make recommendations to CalSTA regarding the design of a road usage charge pilot program. Future meetings are 5/27-28 (Fresno) and 6/24-25 (Sacramento). Refer to the CATC for details and other dates. *Source: [www.catc.ca.gov](http://www.catc.ca.gov)*

**"Sharing Economy" and the FTC**

On June 9 the FTC will host a workshop to include examining economic issues of online and mobile peer-to-peer business platforms for certain sectors of the economy. Among the questions addressed include: How can state and local regulators meet legitimate regulatory goals (such as protecting consumers, and promoting public health and safety) in connection with their oversight of sharing economy platforms and business models, without also restraining competition or hindering innovation? Comments will be accepted on or before May 26, 2015, but the record will be held open to receive comments until August 4, 2015. *Source: [www.ftc.gov](http://www.ftc.gov)*

*Please contact your Client Services Manager for a local perspective on economic trends, or with questions or comments regarding this report.*

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## GLOBAL AND THE U.S. ECONOMY

### Economic Indicators

Source: Bureau of Economic Analysis (March 2015)

**Gross domestic purchases** (purchases by U.S. residents of goods and services wherever produced) increased 3.2 percent in the fourth quarter, compared with an increase of 4.1 percent in the third.

**Gross national product** (the goods and services produced by the labor and property supplied by U.S. residents) increased 1.4 percent in the fourth quarter, compared with an increase of 5.3 percent in the third.

**Current dollar GDP** (the market value of the production of goods and services in the U.S.) increased 2.4 percent, or \$103.9 billion, in the fourth quarter to a level of \$17,703.7 billion.

**Gross domestic income** (measures the value of the production of goods and services in the U.S. as the costs incurred and the incomes earned in production) increased 3.1 percent in the fourth quarter, compared with an increase of 5.2 percent in the third.

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## CALIFORNIA'S ECONOMY

### UCLA Anderson Forecast and Forecast L.A. Highlights

Source: [www.caeconomy.org](http://www.caeconomy.org)

**Outlook:** Healthy California and U.S. economic growth between 2015-2020 (Beacon Economics), or 2015-2017 (UCLA Anderson Forecast), with the U.S. economy growing 3 percent or more over the next two to three years.

**Jobs:** The state's falling unemployment is due to genuine improvements in labor markets rather than more workers giving up on their job search, which is a positive sign. Jobs will increase 2-3 percent over the next couple years.

**Employment:** California's economy created 216,000 more jobs in 2014 than previously thought because of yearly data revisions in early 2015 that painted a healthier picture. This bodes well for future growth. Workers across the state will watch their incomes rise 4.2 percent on average during the next three years.

**Home building:** 100,000 housing units are expected to be permitted in California during 2015, a 22 percent increase over 2014 and the highest level since the Great Recession. This will be dwarfed by 120,000 units in 2016 and 137,000 in 2017.

**Housing:** Even with California home prices rising much higher than other regions across the nation, a so-called asset bubble isn't here today and isn't anticipated in the near future.

**Venture investment:** In 2014, California hit a record level for venture capital investments. More than \$19 billion had been placed in firms, a 73 percent increase over 2013.

**Taxes and regulations:** California's geographic and diverse benefits will continue outweighing the costs to most corporations with respect to its strict business climate.

**Skilled manufacturing:** While California's business climate is not palatable for manufacturers in general, several key high-skilled manufacturing sectors are experiencing a robust uptick in activity and jobs.

**Government defense spending:** The negative U.S. trend from 2011-2014 will reverse between 2015-2017 and experience higher spending, a good sign for California.

**Inflation:** Currently low annual U.S. inflation will normalize to about 3 percent yearly by 2016 and most likely remain stable.

### California's Department of Finance Economic Update (*Extrapolated*)

Source: *Department of Finance (April 2015)*

- **Job Growth:** California continues to add jobs at a faster pace than the nation. The difference between the California and U.S. unemployment rate has narrowed to its smallest since January 2008.
- **Real Estate:** Real estate markets and home building are improving at a slow and somewhat uneven pace.
- **Personal Income:** California personal income growth increased by 4.7 percent in 2014 compared with 2.8% in 2013.
- **Non-Farm Jobs:** California added 29,400 nonfarm jobs in February, following a revised 59,100 job gain in January. This is the 44th consecutive month of job gains—averaging about 37,000 new jobs per month.
- **Industry Sector Jobs:** Eight industry sectors gained jobs while three lost jobs. The largest job gain was in leisure and hospitality (12,600), followed by construction (11,200), professional and business services (9,200), manufacturing (4,200), trade, transportation, and utilities (2,800), educational and health services (2,100), financial activities (1,200), and mining and logging (200). Sectors that lost jobs were government (8,400, mostly in local government), information (5,000), and other services (700).

### RETAIL SALES/ LUXURY TRENDS & “HENRY”

#### U.S. Consumers - Opening Their Wallets

Source: *Kiplinger and Wall Street Journal (April 2015)*

Excluding gasoline, retail sales will climb about 4.5% this year, compared with a 4% increase in 2014. Low prices at the pump will continue to keep a lid on gas station revenue, slowing total retail sales growth to about 2.5% for the year. The lower price for a gallon of gasoline, coupled with a strengthening economy, will nudge consumers to dig deeper into their pockets. Continued strong growth for restaurants and bars is about 8%. Furniture firms should see sales bump up about 4% as first-time home buyers decorate. Sales of building materials will grow by 5%, (tied to new-home sales.)

#### Luxury Sales Moving Online, Study Says

Source: <http://www.jckonline.com/2015/04/21/luxury-sales-moving-online-study-says>

A new report from L2, the retail researcher and think tank, suggests that the number of luxury sales that start online, through research, or end online, through e-checkout, could grow by 40 percent by 2020. Currently, just 5 percent of total luxury sales are online. But nearly 50 percent of luxury sales are “triggered or influenced” by online experiences.

#### The definition of luxury retail is being ‘shattered’/ HENRY: “Higher-Earner Not Rich Yet”

Source: *Washington Post*

As recently as 10 years ago, the profile of a luxury shopper was fairly clear-cut: It was the kind of man or woman who owned a lavish penthouse condo, had a fat investment portfolio and freely threw down cash on pricey Chanel handbags or Louis Vuitton luggage. The experts said that many of today’s millennial luxury shoppers fall into a category of customer known in industry jargon as a “HENRY” — an acronym for a person who is a “high-earner not rich yet.” Because they have steady cash flow but little accumulated wealth, their spending patterns are different, according to Ken Nisch, chairman of retail design firm JGA. For example, Nisch said that over 50 percent of luxury cars in the United States are being leased, not bought. They’re turning to services such as Rent the Runway and Uber that allow them to have an upscale experience at a fraction of the cost.

**Duty Free Retailing Market Sales Worth \$73.6 Billion by 2019**

Source: [www.prnewswire.co.uk](http://www.prnewswire.co.uk)

The Global Duty Free Retailing reports key findings of airport retail and luxury trends: a) Overall, 60% of travelers spend 15 min or less per visit to a duty paid airport retail outlet; b) The majority of respondents aged more than 45 years bought magazines and newspapers from airport retail outlets in the last year (2014); c) Respondents incurred significant expenditure on precious jewelry, briefcases, men's bags, and handbags during their visits to airport retail outlets; d) 92% of travelers intend to buy Dior products at an airport departure/duty-free area over the next year (2015); and e) Competitive prices and the availability of luxury brands at discounted prices are key factors motivating travelers to purchase at airport retail stores.

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**SERVICES SPENDING AND ESTIMATES****Services Spending Rises At Fastest Pace Since 2000**

Source: *Wall Street Journal* (March 2015)

U.S. consumer spending rose at a 4.4% annual pace in the fourth quarter, up from an earlier estimate of 4.2% and the fastest pace since the first quarter of 2006. Spending on goods rose at a 4.8% rate versus an earlier estimate of 4.5%. Spending on services grew at a 4.3% pace, up from the earlier estimate of 4.1% and the fastest pace since the second quarter of 2000.

**The Quarterly Services Survey (QSS)**

Source: <http://www.census.gov/econ/overview/se0600.html>

The QSS is the only source of service industry indicator performance providing timely estimates of revenue and expenses for selected service industries. The United States Code, Title 13, authorizes this survey and provides for voluntary responses. The report a source of hard data on how much consumers are spending on services.

**Estimate of Potential Revenue from the Taxation of Currently Non-Taxable Services**

Source: <http://www.boe.ca.gov/legdiv/pdf/ServicesRevEstimate.pdf>

The California State Board of Equalization (BOE) released an estimate indicating that California's state and local governments may receive approximately \$122.6 billion in new revenue if tax was collected on services that are currently non-taxable. Of that amount, \$60.9 billion could go to the state, with \$61.7 billion for city, county, and other local government entities. The estimate assumes a statewide average sales tax rate of 8.42 percent.

**RESTAURANT SALES AND TREND FOR FAST CASUAL****Restaurants lead U.S. March sales increase**

Source: *International Council of Shopping Centers (April 14, 2015)*

Consumer confidence appeared to thaw last month, with more shoppers visiting restaurants, bars and home improvement stores. U.S. retail sales increased by 0.9 percent in March compared to the previous month and by 1.3 percent compared to March 2014, the U.S. Department of Commerce reported. That's the largest gain in a year, the agency says. Sales at food service and drinking establishments grew 7.7 percent year on year. Meanwhile building material and garden supply retailers reported a 6.3 percent increase year on year

**Fast casual success attributed to speed, cost, nutrition**

Source: *www.fastcasual.com (April 17, 2015)*

The fast casual sector has grown by more than 550 percent since 1999, according to the Village Voice, and Americans spent more than \$21 billion at fast casual stores in 2014.

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**GROCERY STORE NEWS**

*Several clients have raised questions on various grocery stores in the State. The following was extrapolated from noted reports for informational purposes. Please ask your Client Services Manager for specific local impact.*

**Safeway Acquisition is Complete**

Source: *Associated Press*

The combined company (Safeway) will include 2,230 stores, 27 distribution facilities and 19 manufacturing plants with more than 250,000 employees across 34 states and the District of Columbia. It will have corporate offices in Pleasanton; Phoenix, Arizona; and Boise, Idaho. Safeway has more than 1,300 U.S. locations under names including Safeway, Vons, Pavilion's, Randall's, Tom Thumb and Carrs. Safeway will no longer list on the New York Stock Exchange.

**Haggen Grocery Chain**

Source: *LA Times*

Despite the retrenchment by Fresh & Easy, which is closing 30 Southland stores, the region bristles with food purveyors. Farmers' markets and ethnic shops are sprouting in the shadow of stalwarts Ralphs and Albertsons. Smaller chains, including Trader Joe's, are expanding as Wal-Mart and Target pump up their food offerings. Then there are online players Amazon.com and Google, which are pushing into grocery delivery. Haggen Inc., a small Pacific Northwest chain that will soon become a familiar sight in the region. The Bellingham, Wash., company said in December that it was buying 146 Albertsons, Vons, Pavilions and Safeway stores, including 83 in California, almost all in the south. The Federal Trade Commission ordered Albertsons and Safeway to sell those stores as part of their recent merger. Haggen plans to convert its California stores by the end of June. Its first spot opened in Carlsbad two weeks ago. Haggen stores are known for carrying a greater array of organic produce and higher-quality meats and seafood than can be found at a typical supermarket, Shaner said, but with similar prices.

**RETAIL NEWS**

Source: [www.plainvanillashsell.com](http://www.plainvanillashsell.com) (April 2015)

**Nordstrom, Macy's** see benefits from keeping their discount stores close: The off-price/outlet route also has proved useful. In its most recent fiscal year, Nordstrom sales at its full-line stores open at least a year - an industry benchmark known as same-store sales - slipped 0.5 percent. Same-store sales at its Rack stores rose 3.8 percent over the same period. The Seattle retailer, which now has 173 Rack locations, has set a target of opening 300 by 2020.

Remodeling, expanded assortments boost **99 Cents Only** results: The company opened a record 40 new stores during the fiscal year and said it expects to open between 30 and 40 stores this year in California, Arizona and Texas.

**Wok Box:** Will develop 37 restaurants throughout Northern California over the next 10 years. Under the agreement, which marks Wok Box's entry into California, the 37 restaurants will be developed from Kern County up to the Oregon border, with the first slated to open in the San Francisco Bay Area in the first half of 2015.

Why **Wal-Mart** Is Betting Big On Being Your Local Urban Grocer: Wal-Mart made its name by going big: massive supercenters with gallon jars of pickles and rows and rows of lawn chairs and tires. Its future may depend a lot on going small. It's investing in smaller stores in densely populated urban neighborhoods, where customers buy fewer items at a time.

**Leslie's Swimming Pool Supplies** to Open 15 Stores: In total, Leslie's plans to open 41 new stores this year (many in California) between March and May.

**Pier 1:** After a disappointing fourth-quarter earnings report, Pier 1 Imports said Wednesday that it will close about 100 stores over the next three years.

**Walgreens** to close 200 stores.

**CREAM**, a San Francisco-based dessert franchise that specializes in high quality ice cream sandwiches and other confections, has inked a franchise deal that will bring 13 new locations to various uncharted parts of Northern California, including Fairfield, Vacaville, Marin County, Chico, Santa Cruz and Napa, among others.

**Frederick's of Hollywood** has closed all of its stores and will do business only online.

**Dick's Sporting Goods** forecasts \$9 billion in sales by 2017. Expects sales of up to \$9 billion annually by 2017 and plans to open between 135 and 150 stores in the next three years, for a total of about 735 to 750 stores nationwide.

**AUTO SALES****Annual Contributions of California's New Car Dealers (extrapolated from the CNCDA's 2015 Economic Impact Report)**

Source: California New Car Dealers Association

**Total sales:** \$105.12 billion

Average sales per dealership: \$77.42 million

Percent of total Statewide sales tax collected: 12.5%

Number of new car dealerships 1,358

**Total taxes collected or paid:** \$8.82 billion

**Total spent for products and services from other California businesses:** \$2.4 billion

New vehicles sold 1,848,254 and Used retail vehicles sold 691,189

Total new and used vehicles sold 2,539,443

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**GASOLINE PRICES****Gas Prices in California**

Source: LA Times (April 3, 2015)

On January 30, 2015 Californians paid an average of \$2.43 for a gallon of gasoline, the lowest since May 2009, according to fuel tracking group GasBuddy.com. It shot up 93 cents in a month and has since been fluctuating around \$3.20, nearly 80 cents more than the national average. The price uptick began shortly after Tesoro Corporation idled its Martinez plant amid a nationwide walkout by union members. Oil companies said market conditions such as supply and demand guide pump prices. Before California adopted its special gasoline blend, refinery-level wholesale prices in the state averaged an inflation-adjusted 6 cents above the national average. From 1996 to 2014, they averaged 16 cents higher. Early each year, California refineries also transition from making winter blend gasoline to a cleaner-burning, pricier summer blend. The facilities also temporarily scale back production during planned maintenance. Taxes, among the highest in the country, also lift the price of the fuel. As of Jan. 1, California retail gasoline taxes accounted for 63.8 cents per gallon, 15 cents higher than the nationwide average. Toward the end of last year, when a gallon of regular gasoline cost an average of \$2.68, fees and taxes accounted for nearly a quarter of the cost, according to the California Energy Commission. Nearly half of the total cost was attributed to the cost of crude oil, 16.5 percent covered dealer and distributor costs, and 12 percent went to refiners.