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ECONOMIC NEWS

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July 2015

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## 1) THE U.S. ECONOMY

### Economic Indicators

Source: *The Bureau of Economic Analysis (June, 2015)*

**Gross domestic purchases** (purchases by U.S. residents of goods and services wherever produced) decreased 1.6 percent in the first, compared with an increase of 3.2 percent in the 4 Q 2014.

**Gross national product** (the goods and services produced by the labor and property supplied by U.S. residents) decreased 1.0 percent in the fourth quarter, compared with an increase of 1.4 percent in the fourth of 2014.

**Current dollar GDP** (the market value of the production of goods and services in the U.S.) decreased 0.2 percent, or \$10.4 billion, to a level of \$17.693.3 billion. In the 4 Q, current dollar DGP increased 2.4 percent to a level of \$103.9 billion.

## 2) CALIFORNIA'S ECONOMY

### Selected Events Influencing California's Economic Indicators During the 2nd Q 2015

Source: *The Department of Finance*

**Water restrictions:** April 1: Governor Brown announces mandatory water restrictions in California.

**Port drivers and strike:** April 28: Port truck drivers in Los Angeles and Long Beach strike (ongoing).

**Pipeline spill:** May 19: Underground pipeline spills up to 101,000 gallons of crude oil in Santa Barbara County.

**Farmers' volunteer water cuts:** May 22: Cut water use by 25 percent in exchange for assurances they would not face further restrictions later this summer as the record drought continues.

**Rockets and spacecraft:** May 26: SpaceX wins U.S. Air Force approval to launch military satellites.

**California's economy / GDP:** June 10: California's economy remains *eighth* largest in the world as the state's gross domestic product reached \$2.3 trillion in 2014 ([www.dof.ca.gov/HTML/FS\\_DATA/LatestEconData/FS\\_Misc.htm](http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/FS_Misc.htm)).

**Citywide minimum wage increase for Los Angeles:** June 13: Los Angeles mayor signs law raising the citywide minimum wage to \$15 by 2020.

**San Francisco Uber drivers are made employees:** June 16: The California Labor Commission rules that a San Francisco Uber driver is an employee, not a contractor (under litigation).

**California's State Budget:** June 24: Governor Brown signs California's 2015-16 State Budget.

**U.S. Supreme Court decisions:** June 25: Affordable Care Act upheld; June 26: rules in favor of same-sex marriage nationwide.

**Rule on overtime salary changed:** June 29: President Obama announced a rule change that makes more U.S. workers eligible for overtime pay; moves the threshold to \$50,440 from \$23,660 per year.

### California's Economy – A Snapshot

Sources: *Sacramento Bee, Department of Finance, Cal Lutheran, UCLA Anderson, Beacon Economics*

**Recovery:** California's economy is recovering from its worst recession since the Great Depression.

**Challenges:** Drought; infrastructure spending; entitlements; regulatory environment.

**Growth:** Tourism/ hotels; consumer spending; port activity; commercial real estate; budget balanced; population growth.

**Population forecast:** 2014 (38,610,764); 2015 (39,001,777); 2016 (39,409,864); 2017 (39,829,532).

**Home sales forecast:** 2014 (314,594); 2015 (347,413); 2016 (370,528); 2017 (383,720).

**Medium home price forecast:** 2014 (377,630); 2015 (396,284); 2016 (412,449); 2017 (430,594).

**Median home prices in California:** To illustrate extreme's San Mateo's median home price was \$1,202,000 in February; one hundred miles east of San Mateo, Merced's median home price was \$177,240.

**Homeownership: Upper:** Yorba Linda (85.2); Mission Viejo (82.3); Carson (75.6); Chino Hills (75.5); Simi Valley (72.7); San Ramon (71.2); Elk Grove (71.1); Menifee (71.1) and Livermore (69.9); **Lower:** El Cajon (37.6); Santa Barbara (37.0); El Monte (36.6); Los Angeles (35.9); San Francisco (35.9); Inglewood (35.7); Glendale (34.1); East Los Angeles (32.1); Hawthorne (27.2), and Santa Monica (23.4) (*Source: Beacon Economics presentation to the California Apartment Association/ Note: 136 California cities have more than 15,000 households*).

**Taxable sales in millions & growth percentage:** 2014 (625,498/ 4.8); 2015 (655,701/ 4.8); 2016 (686,992/ 4.8); 2017 (722,860/ 5.2).

**Jobs:** California added over 54,000 jobs in May; unemployment rate inched up by 0.1 percentage point to 6.4 percent. The U.S. unemployment rate fell to 5.3 percent in June, due partly to reduced participation.

**Unemployment forecast:** The state's unemployment rate will fall to 5 percent by 2017. Thirteen California counties had unemployment rates under 5 percent in April, while 26 had unemployment rates over seven percent.

### California's DOF Economic Update (Extrapolated)

Source: *Department of Finance, Finance Bulletin (July, 2015)*

**Revenues:** June year-to-date revenues are \$732 million *above* the forecast of \$114.124 billion.

**Personal income tax:** \$737 million *above* the month's forecast of \$10.232 billion.

**Sales and use tax:** \$35 million *above* the month's forecast of \$2.443 billion Year-to-date, sales tax revenues are \$40 million *above* forecast.

**Corporation tax:** \$1 million *above* the month's forecast of \$2.664 billion. Year-to-date revenues are \$9 million *below* forecast.

**Insurance tax:** \$43 million *below* the \$176 million estimated for June. Year-to-date revenues are \$36 million *below* the forecasted \$2.486 billion.

**Revenues from the estate, alcoholic beverage and tobacco taxes, and pooled money interest:** came in \$3 million above the \$41 million that was expected.

### 3) CALIFORNIA'S EMPLOYMENT AND LABOR

#### Employment Forecast and Economic Expansion

Source: [www.uclaforecast.com/uploads/forecasts/2015/june/uclaforecast\\_june2015\\_Nickelsburg.pdf](http://www.uclaforecast.com/uploads/forecasts/2015/june/uclaforecast_june2015_Nickelsburg.pdf)

The current economic expansion has had an unusually large spike in the number of long-term unemployed. This roughly corresponds to the decline in manufacturing, the shrinkage of a construction sector bloated by the housing bubble, and the changes in the finance, legal and professional services sectors. The Anderson Forecast favors that the coming of the information age has eliminated jobs that no amount of stimulus would bring back. Some examples of this are the GM/Toyota plant in Fremont being transformed into a highly automated, robot driven Tesla plant, the elimination of human toll takers on the Golden Gate Bridge, and the automated warehouse handlers in the Inland Empire.

#### Preparing the State's Workforce to Compete for Future Job Opportunities

Source: *Regional Economic Analysis Profile/ EDD (July, 2015)* [www.labormarketinfo.edd.a.gov](http://www.labormarketinfo.edd.a.gov)

This report is to account for industry clusters with the largest number of projected total job openings and help the California workforce development system prepare the state's workforce to compete for these future job opportunities.

**Job Opening Projections of Employment 2012-2022:** Hospitality & tourism: 823,883; Retail: 647,468; Health care services: 602,228; Business services: 492,658; Education and training: 467,713; Professional technical services: 350,483; Information and communication technologies: 317,896; Construction materials and services: 304,961; Social services: 271,977; Financial services and real estate: 246,710.

Note: There continues to be a shifting view in employees as investments rather than labor and one reason is that brick-and-mortar retailers are starting to raise wages for their workforces. As more store sales are lost to online shopping, store owners are seeing the benefits of a more knowledgeable and engaged staff that can draw customers to the store.

### 4) RETAIL SALES

U.S. retail sales (cars, furniture, and groceries), as reported by CNN Money, fell 0.3% in June compared to May. Americans are saving more now than a year ago. The annual savings rate, now 5.6%, is higher than it was a year ago. American spenders make up the majority (about 70%) of economic activity in the country.

#### Retail Spending/ Back to School Forecasts

Source: *CNN Money (July, 2015)*

The National Retail Federation's prediction is that back-to-school sales will drop 9 percent this year. The average family is expected to spend \$630 on back-to-school supplies this year, compared with \$669 last year. The NRF also recently revised down its forecast for 2015 retail sales growth of 3.5 percent this year, down from an earlier estimate of 4.1 percent.

### Luxury Brands and Online Shoppers

Source: [www.washingtonpost.com](http://www.washingtonpost.com)

A recent report from McKinsey & Co. found that nearly all of the growth in the global luxury goods market in 2014 came from e-commerce purchases. In studying the shopping “decision journeys” of 7,000 luxury shoppers in the world, three out of four luxury purchases are influenced by digital interactions.

### Malls as a Top shopping Destination

Source: [www.icsc.org/press/variety-convenience-promotions-make-malls-top-shopping-destination-report](http://www.icsc.org/press/variety-convenience-promotions-make-malls-top-shopping-destination-report) (May, 2015)

Consumer shopping habits have changed in the 40 years since the first U.S. mall opened, but the venue remains Americans’ favorite place to shop.

### Regulating Marijuana

Source: <http://www.boe.ca.gov/runner/info/pdf/CannabisCompliancePilotProjectStatement.pdf>

The BOE instituted the Cannabis Compliance Pilot Project to determine the scope of non-compliance and develop strategies to address compliance barriers. A primary focus is in the collection of taxes and reducing the tax gap. Findings and recommendations from this effort are due to the Board in early November.

## 5) RETAIL NEWS

Source: [www.plainvanillashsell.com](http://www.plainvanillashsell.com) (May, June and July, 2015)

- **Bowl of Heaven.** Expanding via a franchise deal to include La Canada, Pasadena, and Burbank.
- **Costco.** As of 2014, it is the second largest retailer in the US, the third largest in the world and the largest membership warehouse club chain in the US; changed its credit card co-branding partner from American Express to Visa and will bring in more customers when that partnership begins in less than a year.
- **Dick’s Sporting Goods.** Launching a competitor to Lululemon, Chelsea Collective.
- **Dunkin’ Donuts.** Multi-unit store development agreements are in place in California for 26 restaurants.
- **Habit Burger.** In fiscal year 2015, the company plans to open between 26 and 28 stores.
- **Lululemon.** Expansion in North America and growing international markets likely to ramp up growth in sales.
- **LunchBox.** Agreements in Southern California Salons and agreements in East San Francisco Bay and Sacramento areas.
- **Muscle Maker Grill.** Plan to grow the fast-casual chain in Southern California.
- **Nordstrom.** The downtown Seattle store and its counterparts in Chicago and San Francisco are getting an expensive makeover in hopes of creating an “international destination” experience.
- **Sears.** Planning to raise more than \$2.5 billion by selling more than 200 of its top Sears and Kmart properties and leasing them back through a new real-estate investment trust.
- **Schlotzsky's.** 170 locations in California, including Los Angeles, Riverside, Ventura and San Bernardino counties.
- **Tuesday Morning.** Closed 21 stores since May.
- **Wok Box.** Will develop 37 restaurants throughout Northern California over the next 10 years.
- **Yogasmoga.** Yoga-inspired athletic apparel adding five new units in California (Beverly Hills, Newport Beach's Fashion Island, La Jolla Village in San Diego and Malibu Country Mart. Next is San Francisco's Union Square district.

### 10 Most Popular (Visited) Stores in America

Source: <http://247wallst.com/special-report/2015/05/14/the-most-popular-stores-in-america/2/>

- **Dollar Tree.** About half of its merchandise is consumable, which may help increase the volume of customers.
- **Taco Bell.** Food is consumed much more regularly than many other products.
- **Burger King.** Approximately 13,960 restaurants worldwide.
- **CVS.** Has roughly 7,800 stores located around the country.
- **Target.** Nearly 24% of American consumers visited a Target at least once in March.
- **Walgreen Co.** One of several drug retailers in America; pharmaceutical drug use has been on the rise in recent years.
- **Starbucks.** Researchers observe a relationship between rising real estate prices and growth concentrations of stores.
- **Subway.** Over 25,000 locations worldwide.
- **McDonalds.** Roughly 16,000 restaurants.
- **Walmart.** Was visited by more than half of American consumers in March; highest share among all U.S. companies.

### The Top 10 Clothing Companies in America

Source: [www.businessinsider.com/the-10-biggest-apparel-companies-in-the-us-2015-7](http://www.businessinsider.com/the-10-biggest-apparel-companies-in-the-us-2015-7)

- **Under Armour.** Continues to grow; signed deals with athletes, like Stephen Curry and Jordan Spieth.
- **American Eagle.** New techniques to help its business after comparable sales decreased by 5% in fiscal 2014.
- **Tommy Hilfiger.** The company reported fourth consecutive earnings beat in the most recent fiscal quarter.
- **Coach.** Too many outlets; millennials are less inclined to spend more money on luxury apparel.
- **Michael Kors.** Affected by millennials' gravitation away from luxury brands.
- **Levi Strauss & Co.** More customers are embracing basics and drifting back to classic styles.
- **Gap.** Although Gap's revenue lends the company a high ranking it is closing many stores and firing employees.
- **Old Navy.** Doing better than parent brand, the Gap with lower prices, targeting the right consumers.
- **Ralph Lauren.** It's one of the leading brands in this industry; stays true to its core aesthetic and sticks with what works.
- **Nike.** Nike is the most successful and recognizable sports brand in the world. It recently closed a deal rumored to be worth roughly \$1 billion to become the official uniform and apparel provider for the NBA.

**6) ON-LINE SALES****Quarterly Retail E-Commerce Sales / 1<sup>st</sup> Q 2015**

Source: <http://www.census.gov> (CB15 - 80)

- **Estimate:** Adjusted for seasonal variation, but not for price changes, was \$80.3 billion, an increase of 3.5 percent ( $\pm 0.5\%$ ) from the 4<sup>th</sup> Q 2014.
- **Total retail sales:** Estimated at \$1,151.2 billion, a decrease of 1.5 percent ( $\pm 0.2\%$ ) from the 4<sup>th</sup> Q 2014.
- **Increase in estimates:** Increased 14.5 percent ( $\pm 1.9\%$ ) from the 1<sup>st</sup> Q 2014 while total retail sales increased 1.6 percent ( $\pm 0.4\%$ ) in the same period.
- **E-commerce sales:** Accounted for 7.0 percent of total sales.
- **On a not adjusted basis:** Totaled \$74.9 billion, a decrease of 19.9 percent ( $\pm 0.5\%$ ) from the 4<sup>th</sup> Q 2014; 1Q 2015 e-commerce estimate increased 14.3 percent ( $\pm 1.9\%$ ) from the 1<sup>st</sup> Q 2014 while total retail sales increased 1.4 percent ( $\pm 0.4\%$ ) in the same period. E-commerce sales in the 1<sup>st</sup> Q 2015 accounted for 7.0 percent of total sales.

The Quarterly Retail E-Commerce sales estimate for the second quarter of 2015 is scheduled for release on 8.17.15.

**Amazon.com Retail Sales**

Source: <http://www.nytimes.com/2015/07/18/business/amazon-says-prime-day-outdid-black-friday-in-unit-sales.html>

Amazon had exponential revenue growth (from \$7 billion in 2004 to \$90 billion in 2014). Amazon announced a one-day sales event (July 15) that promises "more deals than Black Friday." The target market of the event was Amazon's Prime subscribers (customers who pay Amazon's \$99 annual fee and get 1-2-day shipping on most products and a host of other services). The event, commemorating Amazon's 20th anniversary, was a bid by Amazon to add more users to its Prime membership base. Though Amazon remains the undisputed leader in e-commerce, other retail giants have increased efforts to steal away shoppers, including Walmart, which this year started offering unlimited shipping for \$50 a year.

**7) SERVICES SPENDING AND ESTIMATES****Inflation is Low, but US Consumers Still Feel a Pinch/ The Gap Between Goods and Services**

Source: <http://www.wsj.com/articles/inflation-is-low-but-u-s-consumers-still-feel-a-pinch-1436727650>

- **The gap between goods and services:** prices of goods are falling for most of the current economic expansion, while the cost of services has increased, sometimes sharply.
- **Pricing power:** Service providers have more pricing power than goods producers because of: a) lack of global competition; b) rising labor costs; and c) slower productivity.

**Cumulative change in related goods and service for the five years ended in May 2015:**

- |   |  |
|---|--|
| ▪ Television set (-57.7); cable / satellite service (13.7)            | ▪ Stationary (-1.4); postage for mail delivery (19.2)        |
| ▪ Bottle of wine @ home(-0.6); bottle of wine @ restaurant (12.0)     | ▪ Sports equipment (-15.3); tickets to sporting event (17.3) |
| ▪ Men's suits and coats (-3.7); dry cleaning (9.2)                    |  |
| ▪ Household cleaning products (0.3); household domestic service (7.8) |  |

## 8) RESTAURANTS

### Top 14 Fastest-Growing Restaurant Chains / 2015 Q1 Same-Store Sales Growth

Source: *Forbes (July, 2015)*

- **Domino's Pizza:** 14.5%
- **Shake Shack:** 11.7%
- **Chipotle Mexican Grill:** 10.4%
- **Dave & Buster's Entertainment:** 9.9%
- **Jack in the Box:** 8.9%
- **Good Times Restaurants:** 8.3%
- **Diversified Restaurant Holdings:** 8%
- **Bojangles:** 7.9%
- **Popeyes Louisiana Kitchen Popeyes Louisiana Kitchen:** 7%
- **Sonic:** 6.1%
- **Papa Murphy's Holdings:** 5.6%
- **Cracker Barrel Old Country Store:** 5.1%
- **El Pollo Loco Holdings:** 5.1%
- **Jamba Inc.:** 5%

### Restaurant Sales Surpassed Grocery Store Sales for the First Time

Source: [www.restaurantnews.com/restaurant-sales-surpassed-grocery-store-sales-for-the-first-time](http://www.restaurantnews.com/restaurant-sales-surpassed-grocery-store-sales-for-the-first-time) (May, 2015)

Monthly sales at restaurants exceeded grocery stores sales for the first time on record and per the National Restaurant Association. The gap between monthly grocery store sales and restaurant sales started gradually shrinking in 2010, a trend that was partially due to the increase in consumers buying their groceries at big box stores.

**Why consumers spend more at restaurants than from one year ago:** a) more confident in their financial situation; b) gas prices are lower; c) household incomes went up; d) got a new job; and e) home or investments worth more.

## 9) GROCERY STORES

**Albertsons/ Safeway.** Albertsons Company, the second-largest supermarket operator following its recent \$9 billion merger with Safeway early this year, filed for an initial public offering. The planned IPO comes just six months after Cerberus combined Albertsons with Safeway Inc., part of a string of deals among U.S. grocery chains grappling with tepid growth and fierce competition from both discounters and upscale stores (<http://www.wsj.com/articles/albertsons-launches-ipo-process-1436353307>)

**Amazon.** Amazon is expanding the grocery business by broadening its private-label brand, Elements, to include an array of grocery items such as milk, cereal, and baby food as well as household cleaners ([http://www.wsj.com/articles/amazon-plans-to-add-its-own-line-of-food-1432843763?mod=yahoo\\_hs](http://www.wsj.com/articles/amazon-plans-to-add-its-own-line-of-food-1432843763?mod=yahoo_hs))

## 10) AUTO SALES

### California Auto Outlook/ 1<sup>st</sup> Q 2015

Source: <http://cncda.org/CMS/Docs/Cal%20Covering%201Q%2015.pdf>

- **New Car Registrations:** New light vehicle registrations in the state increased 12.1 percent during the first three months of this year versus last year, the 18th consecutive quarterly improvement, and the fourth in a row that exceeded 8 percent. New retail car and light truck registrations in California increased 104 percent during the first three months of 2015 versus 2010. New fleet car registrations increased in the 1 Q 2015.
- **Use Car Registrations:** Used car registrations were down 4.6 percent, while light trucks fell 3.4 percent. Korean brand used registrations improved 12.8 percent.
- **Top Selling Brands:** Among the top 15 selling brands, Jeep, Subaru, Mazda, BMW, Lexus, and Kia had the biggest percentage increases during the first three months of 2015. New registrations for each of the six brands increased by more than 15 percent. Japanese brand registrations increased 13.3 percent in the 1<sup>st</sup> Q 2015 and market share was up 0.6 points. Korean brand registrations improved 14.5 percent. Toyota Camry, Honda Civic, Nissan Altima, Toyota Corolla, and Honda Accord were top sellers in the state's six year old or newer used vehicle market.
- **Forecast:** New vehicle registrations for all of this year will exceed 1.9 million units, and it's possible that the total could reach 2 million in 2015 or 2016.
- **Retail Market:** The Southern California retail market increased 11 percent, while Northern California was up 12.7 percent.

## 11) GASOLINE PRICES

### Current Gas Prices in California

Source: [fuelgaugereport.aaa.com](http://fuelgaugereport.aaa.com)

The California statewide average increased 16 cents to \$3.88 a gallon on Monday July 20. The national average dropped a penny to \$2.76 a gallon. **Causes:** Drivers are paying the highest averages since August 2014, largely due to imbalances between gasoline supply and demand. A shortage of imported components used to make California's unique summer gasoline blend is one reason for the price hike. There also has been a halt since February of California gas production at the Exxon-Mobil refinery in Torrance, and a Tesoro refinery in Carson began a later-than-usual seasonal overhaul that usually curtails production. Motorists pay a 30-cent-per-gallon state excise tax at the pump, plus a federal fuel tax of about 18 cents, and about 10 cents a gallon for passed-along costs of cap-and-trade fees from refiners, along with local taxes.

### Sky-High California Gas Prices Have a Green Additive

Source: *Wall Street Journal* (July, 2015)

The national average is \$2.76 a gallon, while California is \$3.88. Eco-virtue is expensive. The average gas price nationally has dropped by nearly 25% to \$2.76 a gallon over the past 12 months. The state's 2006 global-warming law, AB32, also established a cap-and-trade program that requires large industrial companies operating in the state to cut their carbon emissions or buy permits. Cap-and-trade auctions commenced in 2012, but this year refiners have to buy permits. Based on an Air Resources Board analysis, the Western States Petroleum Association last year extrapolated that cap and trade would add 16 cents to 76 cents a gallon to the retail price of gas. Other economists projected a 10-cent bump.