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California Forecast: Sales Tax Trends and Economic Drivers

HdL provides relevant information and analyses on the economic forces affecting California's local government agencies. In addition, HdL's Revenue Enhancement Services and Software help clients to maximize revenues.

HdL serves over 380 cities, counties and special districts in California and across the nation.





	2014-15	2015-16
Autos/Transportation	6.7%	4.5%
<p>U.S. new auto sales and leases hit an 8-year high in June and analysts predict that gains will continue through 2017; but others warn that the potential for an interest rate hike by the Federal Reserve and increasing numbers of sub-prime auto loans could signal an impending slowdown in the growth rate. Meanwhile sales of used autos continue upward.</p>		
Building/Construction	6.5%	5.0%
<p>Building permit activity is picking up and more projects are qualifying for loans. Construction jobs are on the rise but there are reports of skilled labor shortages in this segment. New housing, hotel and office projects are all adding to the growth while inland areas close to urban centers are attracting distribution centers to fulfill e-commerce orders.</p>		
Business/Industry	3.6%	4.0%
<p>The initial rush of use tax from alternative energy projects has begun to taper leading to lower business and industry results in prime solar or wind energy areas. However, other business categories including medical equipment, industrial automation and semiconductor fabrication are expected to exhibit solid gains. Burgeoning tech-oriented businesses are boosting business and industry sales in the Bay Area and business investments to expand production or to replace aging equipment are on the rise.</p>		
Food/Drugs	3.0%	2.5%
<p>In spite of narrow margins and increasing segmentation the grocery business continues to attract new retailers. Most recently Aldi announced plans to open 40 stores in California in its first year and continue adding 30-40 stores annually. Meanwhile, existing grocery and food sellers are working to keep their customer bases intact by trimming prices. Growth in this sector will track population gains, prices changes due to inflation and sales of more taxable items including gasoline.</p>		
Fuel/Service Stations	1.6%	2.5%
<p>Increasing domestic petroleum production and refining will lower prices on the world market over the next few quarters though part of the decline may be offset by added costs of the state's controversial "cap and trade" program. The program will expand to include transportation fuels on January 1. Revenues to local agencies are likely to rise in proportion to any price increases</p>		
General Consumer Goods	2.8%	2.0%
<p>Second quarter gains in general consumer sales were modest despite strong results in family apparel, specialty stores and home furnishings segments and a jump in sales at outlet malls. Weak gains in wage income combined with a slow jobs recovery have constrained results as have declines in "real" income for the lowest 60% of earners. Increased consumer purchases over the Internet continued to shift sales from local brick and mortar locations.</p>		
Restaurants/Hotels	6.0%	6.0%
<p>Industry executives are concerned about slack growth in restaurant sales, but this is not apparent in California's local tax data where year-over-year receipts have grown about 6% per year for the past two years. Growth remains concentrated in the quick service and fine dining categories trailed by results from casual dining establishments. Increased tourism, especially from Asia, is boosting results in tourist destinations.</p>		
State and County Pools	10.0%	8.0%
<p>Solid gains in pool revenues are anticipated to continue as consumers buy more goods from a growing number of out-of-state "e-tailers" that are allocated to the countywide use tax pools due to lack of in-state nexus or a "point of sale" to which the sale can be credited. Upticks in capital expenditures by manufacturers are also expected to contribute to pool gains going forward.</p>		
TOTAL	4.9%	4.2%

The Proposition 172 growth projection is 5.17% for Fiscal Year 2014-15. This factor varies from HdL's Bradley-Burns growth forecast due to differing collection periods and comparisons to prior year data that include onetime payment aberrations.



	2014-15	2015-16
U.S. Real GDP Growth	3.5%	3.9%
<p>U.S. real GDP expanded by 4.2% during the second quarter of calendar year 2014, compared to the 2.1% loss in the previous quarter that was widely attributed to adverse weather conditions affecting many parts of the nation. Helping growth get back on track, investment spending was boosted by rising levels of inventories, indicating that production during the quarter outpaced sales - exactly the opposite scenario experienced during Q1. Consumer spending, the largest component of real GDP each quarter, continued to grow - which is much more indicative of the sustained long-run economic growth than the abnormalities in inventories. Real GDP growth is expected to remain strong in the second half of 2014 and further accelerate in 2015.</p>		
U.S. Unemployment Rate	5.7%	5.4%
<p>Employment growth in the U.S. ramped up over the last four months - adding an average of 260,000 new jobs per month and resulting in the unemployment rate declining from 6.7% in March to 6.2% in July. Furthermore, the employment situation had improved on the broader scale as well. For example, the proportion of the labor force that is either unemployed, discouraged, or marginally attached to the labor force declined from 8.7% in July 2013 to 7.5% in July 2014, while the unemployment rate for those who have been jobless for 15 weeks or longer declined from 3.9% to 2.9%. The unemployment rate is expected to continue to improve in the remainder of 2014 and into 2015, but look for these alternative metrics to show greater detail of progress as the headline rate approaches its normal rate of about 5%.</p>		
California Total Nonfarm Employment Growth	1.8%	2.4%
<p>Job growth in California continued its robust recovery, growing by 2.1% from July 2013 to July 2014. The state has now nearly recovered all of the 1.38 million jobs lost during the downturn. Furthermore, job growth has been broad based within every major region of California, including some inland areas that receive less media attention. Also, virtually every major industry is expanding its payrolls - though nowhere is it more evident than in the Information, Professional and Business Services, and Education and Health Care sectors, which grew by 4.1%, 3.9%, and 3.7%, respectively, over the last year - all of which have high proportions of above-average wage workers. The current forecast calls for 1.8% growth this fiscal year, and increasing to 2.4% in 2015-16.</p>		
California Unemployment Rate	7.4%	6.8%
<p>California's unemployment rate continued to fall to levels that are beginning to resemble "normal", reaching 7.4% in July 2014 compared to the 9.0% rate at the same time last year. The unemployment rate remains higher than the pre-recession low of 4.9% reached during 2006, but represents a marked improvement over the 12.4% peak unemployment that persisted throughout most of 2010. As employment grows, unemployment will continue to fall, averaging 7.4% this fiscal year but falling below 7.2% by the end of the fiscal year.</p>		
California Population Growth	1.0%	1.0%
<p>California's population grew by 0.9% in 2014, notably greater than the 0.6% average growth in the previous three years. Domestic migration in recent years has been negative, primarily because housing affordability has created difficulties for households with lower incomes. Birth rates are declining amongst a large segment of the population base. However, this downward pressure on population growth has been offset by foreign immigration and natural increases. Our forecast for population growth in the state has been slightly revised upwards to 1% growth annually.</p>		
California Median Existing Home Prices	\$ 393,600	\$ 412,100
<p>The median single-family home price across the State of California grew by 12% over the last year - the slowest pace of growth on a year-over-year basis in eight quarters. Home appreciation as measured by this metric seems to have slowed, but consider that the share of distressed sales - which tend to sell for a discount and plagued the market in years past - has dwindled. Thus, unlike last year's growth rate of 28% (Q2-2012 to Q2-2013), homes sold at the same time last year now more closely resemble the homes sold this year. Home prices will unlikely continue to rise above double-digit percentages. As such, price appreciation is expected to moderate toward more normal levels in 2014-15 and 2015-16.</p>		
California Residential Building Permits	114,000	154,000
<p>After two years of double-digit growth in residential permitting, construction throughout California has moderated through July of 2014. So far in the calendar year, there have been roughly 1% fewer residential permits issued this year versus the same period in 2013. However, given the supply issues and the steady increases in home prices, builders should continue to expand the stock of residential properties in the state. The current forecast calls for roughly 114,000 new permits this fiscal year followed by nearly 154,000 in 2015-16. Multi-family properties are expected to remain a relatively large share of the residential mix in coming years.</p>		



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California's allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client's specific demographics, tax base and regional trends.



"Good information leads to good decisions."



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Beacon Economics, LLC has proven to be one of the most thorough and accurate, economic research/analytical forecasters in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration and sharing of information between Beacon Economics and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients.