
ECONOMIC NEWS & TRENDS

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

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MUNISERVICES

Discover. Recover. Prosper.

HIGHLIGHTS

GDP: Increased 0.7% in 1Q2017; 4Q2016 increased 2.1%.

U.S. CPI for April 2017: Increased 0.2% in April with shelter, energy, tobacco and food contributing.

U.S. Retail Trade: Up 0.4% from March 2017, and up 4.5% from last year. April represents the largest gain in three months.

Internet Sales & Other Non-Stores: E-commerce today accounts for 9% of total sales, 25% of electronics and 20% of apparel. By 2022, 30% of clothing sales will take place online.

1Q2017 E-Commerce Sales: 8.50% for 1Q2017, up from 8.20 from last quarter or a 3.66% change. Represents an annualized growth rate of 14.63%. Total retail sales for 1Q2017 were estimated at \$105.7 billion, an increase of 4.1% from 4Q2016. California's e-commerce sales comprise approximately 13-14% the total sales, based on California's portion of the national economy.

Proposed Federal Marketplace Fairness Act: Allowing states to collect taxes from residents on goods purchased online introduced.

Services Sector Total Revenue: 4Q2016 was \$3,615.3 billion, an increase of 2.3% from 3Q2016 and up 6.0% from 4Q2015. (Updated release on May 19, 2017).

Lodging Away From Home: Rose 2.1% in April after declining 2.4% in March.

Tobacco and Alcohol: Increased 4.2% in April (largest increase since April 2009); was +.5% in March.

New Vehicles: (from proceeding month): For January 2017 (.9); February 2017 (-.2); March 2017 (-.3); April (0.2%).

Used Cars and Trucks: (from proceeding month): For January 2017 (-.4); February 2017 (-.6); March 2017 (-.9); April (0.5%)

U.S. Gasoline Stations: Sales up 12.3% from April 2016. Gasoline index fell 6.2% in March & increased 1.2% in April. Over the last year, the gasoline index increased 14.3%. For March over March the index was 19.9%.

U.S. Gas Prices: AAA shows (May 10, 2017) the national average price of self-serve regular at \$2.35 per gallon.

California Gas Prices: \$2.94 (May 10, 2017).

Tesla: In April market value surpassed Ford and General Motors; now the most grown American car company.

Car Loans: Banks are pulling back from auto loans, helping drive a drop-in car sales. Net loss on securitized subprime loans increased to 10% late 2016, the highest since February 2009.

Telecommunication: Fell 6.5% over the past year; wireless phone services declined 12.9% over the year.

Inflation: Rising consumer prices are impacting modest pay increases.

Interest Rates: Most economists expect two more hikes by the Federal Reserve in 2017; higher rates for auto loans and credit lines.

California CPI: Increased by 2.7% and 3.0% in the U.S. and California (respectively) in February from a year ago, posting their biggest year-over-year increase in more than four years.

California Retail Sales and Use Tax for April 2017: \$696.7 million fell short of projections by \$106.7 million, or 13.3%. For the fiscal year to date, sales tax receipts of \$18.99 billion are \$453.5 million below revised estimates.

Employment: For California, dropped to a ten-year low of 5.0% in February from a revised 5.2% in January. U.S. unemployment rate dropped by 0.1% to 4.7% in February before falling in March to a near ten-year low of 4.5%.

California Median Home Prices: In March 2017 was \$517,020, February was \$478,790, down 2.2% from January, but up 7.6% from February 2016.

California's Cannabis Economy: Most economists project a \$7 billion potential pot economy in California with recreational legalization taking effect January 1, 2018 with an expected \$1 billion in state & local annual taxes.

Travel: California had the largest share of domestic travel among all 50 states with a mark of 11% in 2016.

Restaurants Sales Passed Grocery Store Sales: First time ever in 2016.

Hotels / Grocery Delivery: Consumers spent an estimated \$42 billion in online grocery orders in 2016; a 160% increase in revenue for the online grocery industry from 2015. Wyndham launched a grocery delivery pilot.

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

<https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm> (April 28, 2017); www.bls.gov/news.release/pdf/cpi.pdf ; https://www.census.gov/retail/marts/www/marts_current.pdf

GDP: Real GDP increased at 0.7% in 1Q2017. In 4Q2016, real GDP increased 2.1%.

Gasoline: Gasoline stations sales were up 12.3% from April 2016. The gasoline index, which fell 6.2% in March, increased 1.2% in April. Over the last year, the gasoline index increased 14.3%. For March over March the index was 19.9%.

Retail Trade: Up 0.4% from March 2017, and up 4.5% from last year. April represents the largest gain in three months; highlighted the shift in spending from malls and storefronts to online.

Consumer Price Index (CPI) Year for April 2017

<https://www.bls.gov/news.release/cpi.nr0.htm>Note: Refer to MuniServices February 2017 economic report for 2016 results

U.S. CPI for April 2017: Increased 0.2% in April with shelter, energy, tobacco and food contributing to the increase. For March 2017, the CPI decreased 0.3%; gasoline index was the largest factor and wireless telephone services.

Gasoline (from proceeding month): For January 2017 (7.8); February 2017 (-3.0); March 2017 (-6.2); April (1.2)

Shelter (from proceeding month): For January 2017 (.2); February 2017 (.3); March 2017 (.1); April (.3).

Apparel (from proceeding month): For January 2017 (1.4); February 2017 (.6); March 2017 (-.7); April (-.3)

Rent: Increased 0.2%.

Lodging Away From Home: Rose 2.1% in April after declining 2.4% in March.

Internet and Other Non-stores: Up 11.9% from last year. **Disposable Personal Income:** Increased 3.4% in 1Q2017, compared with an increase of \$141.6 billion, or 4.1%, in 4Q2016.

Finance and Insurance: Increased 6.3% in 4Q2016, after increasing 9% in 3Q2016.

Professional, Scientific, and Technical Services: + 3.6%, after increasing 2.6%; eleventh consecutive quarter of growth.

Energy for April: + 1.1%; fell 3.2% in March.

Medical Care: Increased 3.0% in April; + 0.1% in March.

Tobacco and Alcohol: Increased 4.2% in April (largest increase since April 2009); was +.5% in March; alcoholic beverages index + 0.2%. Cigarettes sold in the U.S. fell 37% from 2001 to 2006. Over the same period companies raised prices, increasing revenues by 32%.

New Vehicles (from proceeding month): For January 2017 (.9); February 2017 (-.2); March 2017 (-.3); April (0.2%).

Used Cars and Trucks (from proceeding month): For January 2017 (-.4); February 2017 (-.6); March 2017 (-.9); April (0.5%).

Communication: Fell 6.5% over the past year; wireless phone services declined 12.9% over the year.

Services Sector for 4Q2016

<https://www.census.gov/services/qss/qss-current.pdf> (Updated release on May 19, 2017).

Services Sector Total Revenue: 4Q2016 was \$3,615.3 billion, an increase of 2.3% from 3Q2016 and up 6.0% from 4Q2015.

Utilities: \$140.9 billion, a decrease of 9.2% from 3Q2016 and up 5.0% from the 4Q2015.

Transportation and Warehousing: increase of 1.2% from the 3Q2016 and down 1.6% from 4Q2015.

Real Estate and Rental and Leasing: \$168.6 billion, an increase of 0.9% from 3Q2016 and up 7.6% from 4Q2015.

Educational Services: \$16.1 billion, a decrease of 0.3% from 3Q2016 and up 4.3% from 4Q2015.

Health Care and Social Assistance: \$630 billion, an increase of 4.2% from 3Q2016 and up 6.9% from 4Q2015.

Arts, Entertainment, and Recreation: \$67.5 billion, an increase of 0.9% from 3Q2016 and up 9.7% from 4Q2015.

Accommodation: \$58.2 billion, a decrease of 9.8% from 3Q2016 and up 4.8% from 4Q2015.

Economic Forecasts Under the New U.S. Administration

<http://blogs.anderson.ucla.edu/anderson/2017/03/tweetonomics-ucla-anderson-forecasts-second-look-economic-policy-changes-new-us-presidential-administration.html>; May 5, Kiplinger

GDP Growth: GDP growth of 2.4 % is projected in 2017, 3 % in 2018 and 2.2% 2019, respectively. (UCLA)

Dollar: Appreciating 3% late in 2017 reversing 3% fall from January through April. (Kiplinger)

Interest Rates: 10-year T-note rate projected to increase to 2.7% at the end of 2017. (Kiplinger)

Interest Rates: Expect two more hikes by the Federal Reserve in 2017. This will impact rates for auto loans and home equity credit lines. (Kiplinger)

Job Growth: Though job growth appears robust with 170,000 jobs a month expected in 2017 and 2018, the figures will trail off to about 110,000 a month in 2019 and

become even slower if the administration embarks on a large-scale deportation program of undocumented immigrants. The unemployment rate could bottom out at 4.1 % in late 2018, before gradually rising. (UCLA)

Housing and Interest Rates: Housing starts may plateau at the 1.2 million to 1.3 million range and 30-year fixed mortgage rates could exceed 6 % in 2019, up from the current 4.25 % and the recent low of 3.5 %.

Crude Oil: Trading from \$47.50 to \$52.50 / bbl. in August. NO major increases in the price of crude are anticipated in the upcoming year. (Kiplinger)

Employment and Wages

Unemployment 4.4; Lowest Since May 2007: America added 211,000 jobs in April, surpassing 79,000 jobs gained in March. The low unemployment is the lowest for the US economy since the Great Recession ended in 2009, when unemployment peaked at 10%. (<https://www.bls.gov>; https://www.census.gov/retail/marts/www/marts_current.pdf)

Seasonal Worker and Tight Labor Market: The continuing resolution signed into law May 5 authorizes the Federal Administration to boost the number of H-2B visas for fiscal year to as many as 129,547. The H-2B program provides roughly 66,000 visas to temporary nonagricultural workers every 12 months. (Bloomberg, May 5, 2017)

1Q2017 U.S. Home Sales

For 1Q2017 the U.S. national median price was up 6.9% from the same quarter a year earlier to \$232,100, the sharpest gain in two years. The disparity between the most and least expensive housing markets continue to grow. The San Jose metro area is the most expensive area in the country with a mid-price home costing \$1.07 million, while the cheapest home is in Youngstown, Ohio which costs \$79,200. Home prices in San Jose has risen over 10% over the last year. (NAR)

SECTION 2 - CALIFORNIA ECONOMY / FISCAL FOCUS

California CPI: Increased by 2.7% and 3.0% in the U.S. and California (respectively) in February from a year ago, posting their largest year-over-year increase in more than four years. (DOF)

Economic Update: Total personal income rose 4.5% in 2016 after rising 6.3% in 2015. U.S. real GDP grew by 1.6% in 2016, after expanding 2.6% in 2015. (DOF)

April State Government Revenues: \$15.98 billion which fell short of projections in the governor's proposed 2017-18 budget by \$1.05 billion, or 6.2% (Controller)

Retail Sales and Use Tax for April 2017: \$696.7 million fell short of projections in the governor's proposed 2017-

18 budget by \$106.7 million, or 13.3%. For the fiscal year to date, sales tax receipts of \$18.99 billion are \$453.5 million below the revised estimates released in January.

Personal Income Tax for April: \$12.76 billion lagged by \$707.6 million, or 5.3%. Last year nearly 17% of PIT receipts arrived in April. (Controller)

Corporation Tax for April: \$1.97 billion were 13.8% lower than assumptions in the proposed 2017-18 budget. Fiscal year-to-date corporation tax receipts of \$7.17 billion are 1.6 % above projections in the proposed budget, the only one of the "big three" General Fund revenue sources to exceed expectations. (Controller)

California Economic Outlook

<http://californiaforecast.com/monthly-newsletter/>; www.dof.ca.gov; *California Association of Realtors*;
http://www.anderson.ucla.edu/Documents/areas/ctr/forecast/reports/March2017_CAForecast_Nickelsburg.pdf

Employment: California's unemployment rate dropped to a ten-year low of 5.0% in February from a revised 5.2% in January. The nation's unemployment rate dropped by 0.1% to 4.7% in February before falling again in March to a near ten-year low of 4.5%.

Labor Force: Fell 0.1% to 62.1% while the nation's rose 0.1% to 63%.

Major Industry Gains: Trade, transportation, and utilities; leisure and hospitality; construction; professional and business services; educational and health services; other services; and information.

Major Industry Losses: Manufacturing, financial activities; government; and mining and logging.

Residential Building Permits: Fell for a second consecutive month in February 2017, following an end-of-

the-year surge to beat new green building code standards that took effect January 2017.

Home Sales: Volume totaled 400,500 in February, down 4.7% from January and up 4.9% from February 2016.

California Median Home Prices: In March 2017 was \$517,020, February was \$478,790, down 2.2% from January, but up 7.6% from February 2016.

Unemployment Rate: U.S. rate at 4.6% by the end of the forecast period (2019). Forecast for 2017, 2018 and 2019 total employment growth is 2.1%, 1.2% and 0.9% respectively. (UCLA)

Personal Income Growth: Forecast to be 3.4%, 3.7% and 3.2% in 2017, 2018, and 2019, respectively.

Homebuilding: Will continue in California at about 118,000 units per year through the forecast horizon.

Go-Biz (Governor's Office of Business and Economic Development) Small Business in California / Jump Start

<http://www.business.ca.gov/Newsroom/ArticleId/23/state-officials-kick-off-small-business-month-at-the-state-capitol>

California has over 3.8 million small businesses operating – most of any state in the U.S. The State on May 9 launched the Jump Start program which makes direct loans to business owners under the California Infrastructure and Economic Development Bank (IBank) within GO-Biz.

Tourism in California/ Impact on the Economy

http://www.anderson.ucla.edu/Documents/areas/ctr/forecast/reports/March2017_CAForecast_Nickelsburg.pdf

<http://industry.visitcalifornia.com/Why-Travel-Matters/Fast-Facts/>

Economic Growth: Largest market share of domestic travel among all 50 states with a mark of 11% in 2016.

Travel / Tourism Spending: Generated \$126.3 billion in spending 2016; directly supported 1,096,000 jobs with \$45.4 billion in job earnings; approximately \$30.3 billion on food and beverages in 2016; visitors spent \$25 billion on accommodations in 2016.

Tourism Environment and Economic Impact: After the January 27 travel ban was announced by the President, bookings searches were down by 6 to 17 % on websites; translates to a loss of \$7.5 billion and \$9.2 billion in direct income for California in 2017 and 2018 respectively.

U.S. April CPI Lodging Away From Home Index: Rose 2.1% in April after declining 2.4% in March.

SECTION 3 – AUTO SALES**Annual Contributions of California’s New Car Dealers in 2016 (CNCDA’s 2017 Economic Impact Report)**

Source: California New Car Dealers Association

New vehicles sold: 1,927,640 (2016); 2,052,750 (2015); 1,848,254 (2014).

Used retail vehicles sold: 777,796 (2016); 769,500 (2015); 691,189 (2014).

Total new and used vehicles sold: 2,705,436 (2016); 2,822,250 (2015); 2,539,443 (2014).

Total sales: \$121.21 billion (2016); \$105.12 billion (2014)

Average sales per dealership: \$89.92 (2016); \$77.42 million (2014).

Percent of total Statewide sales tax collected: 13% (2016); 12.5% (2014).

Number of new car dealerships: 1,346 (2016); 1,358 (2014).

Total taxes collected or paid: \$9.93 billion (2016); \$8.82 billion (2014).

Total spent for products and services from other California businesses: \$2.68 billion (2016); \$2.4 billion (2014).

California Car Sale Trends / California New Car Dealers Association Covering 4Q2016

<http://www.cncda.org/CMS/Pubs/CA%20Auto%20Outlook%204Q%202016.pdf>

California New Car Market: Leveled off in 2016. Quarterly new light vehicle registrations increased by less than 2 % during the final three quarters of last year. The robust growth in auto sales 2010 and 2016 has been leveling off in 2017. Between 2010 and 2016 the state’s new vehicle market improved for seven consecutive years and doubled in size, with new vehicle registrations.

New Retail Light Vehicle Registrations: Increased 1.8% from 2015 to 2016.

Retail Car Registrations: Declined 7%, while light trucks (consisting of pickups, SUVs, and vans) surged 13.9%.

Used Vehicle Market: Registrations declining by less than 1 %. Registrations for vehicles in the four to six-year-old category increased 8.1% in 2016. The seven to ten-year-old market fell 15.1 %.

Auto Trends / Forecast

Auto sales will be down: Sales of new vehicles will hit 17.2 million, versus 17.5 million in 2016.

Leased vehicles: An alternative to buying new vehicles over the next several years. Leasing is growing in popularity, rising from 22% of the vehicle market to 31% over the past four years. This has offset some of the declining growth in auto sales.

Favor SUVs and pickup trucks: Eases the sting because SUVs on average cost \$8,500 more than sedans.

Tesla: In early April Tesla's market value surpassed Ford and General Motors; Tesla is now the most grown

American car company. Tesla is on track to begin production of the Model 3 sedan. (Wall Street Journal)

Car Loans: Banks are pulling back from auto loans, helping drive a drop in car sales. Net loss on securitized subprime loans increased to 10% late 2016, the highest since February 2009. (Fitch Ratings)

Dealerships Back Out of Real Estate: Nearly 90% of car shoppers use the internet to shop. Buyers check out cars online, so chains pare inventory and the property to store it. Auto dealers own or lease \$134.4 billion of real estate in the U.S. (Wall Street Journal)

SECTION 4 - GASOLINE

Gas Prices

<http://gasprices.aaa.com/>

Gasoline Prices: AAA shows (May 10, 2017) the national average price of self-serve regular at \$2.35 per gallon which is four cents less than one week and one month ago, and 14 cents more than the same date last year. MuniServices' February 17, 2017 report noted \$2.26 per gallon and in December 16, 2016 \$2.15.

California Average: \$2.94 (May 10, 2017); \$2.79 (May 10, 2016).

National Average: On April 17 national average price for a gallon of regular unleaded gasoline was at a 2017 high at \$2.41 which is 30 cents more than one year ago.

Oil Market Dynamics: At the time of print, U.S. petroleum futures were below \$50 per barrel. There are some signals that OPEC and non-OPEC producers are willing to continue taking steps to rebalance the market to offset declining prices. However, since OPEC announced production cuts, U.S. oil production has increased more than 10 % since mid-2016 to a total of 9.3 million barrels per day and close to levels of the world's top producers, Russia and Saudi Arabia. It is uncertain what the outlook for oil will be through the end of the year, but there is no indication that prices will move dramatically in one direction or another.

Gas Taxes

California's Gas Taxes with Enacted 2017 Legislation (Average Revenue \$2.4 Billion): The base excise tax is 18 cents a gallon. A price-based excise tax is currently set at 9.8 cents a gallon, for a total rate of 27.8 cents a gallon. On November 1, 2017 the base excise tax will increase to 30 cents a gallon. On July 1, 2019 the price-based excise tax will reset to 17.3 cents a gallon, about half-a-cent more than the rate the Brown administration projects will be in effect by then anyway. The 47.3-cent combined excise tax in effect July 1, 2019 will be adjusted for inflation beginning July 1, 2020.

Diesel Taxes with Enacted 2017 Legislation (Average Revenue \$1.08 Billion): The base excise tax is 16 cents a gallon. The state collects two categories of sales taxes on diesel fuel: the regular state and local sales tax, which averages 8.44 %, and an additional 1.75 % sales tax. On November 1, 2017 the base diesel fuel excise tax will increase to 36 cents a gallon. The 36-cent excise tax will be adjusted for inflation beginning July 1, 2020. On November 1, 2017, the 1.75 % diesel fuel sales tax will increase to 5.75 %.

Initiative Filed to Repeal 2017 California Gas Tax Increase: Assembly Member Travis Allen filed a proposed 2018 ballot measure to eliminate the \$5.2 billion annual packages; 365,880 signatures to place the repeal before voters.

President Is Willing to Consider Raising Gas Tax: The President is reported to saying he will explore the possibility of higher gasoline and diesel fuel taxes to pay for his infrastructure plan. The U.S. trucking industry shoulders roughly half the cost of the fuel taxes. By increasing fuel taxes by 35 cents a gallon, the federal government would raise an additional \$473.6 billion over the next decade. (Sacramento Bee)

SECTION 5 – RETAIL TRENDS, E-COMMERCE, TAX REFORM

E-Commerce Results for 1Q2017

https://ycharts.com/indicators/ecommerce_sales_as_percent_retail_sales

https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

U.S. E-Commerce sales as percent of retail sales is 8.50% for 1Q2017, up from 8.20 from last quarter or a 3.66% change. Represents an annualized growth rate of 14.63%. For the U.S. totaled \$102.7 billion, an increase of 1.9% from 3Q2016. Total retail sales for 1Q2017 were estimated at \$105.7 billion, an increase of 4.1% from 4Q2016. California's e-commerce sales comprise approximately 13-14% the total sales, based on California's portion of the national economy.

Retail Meltdown in 2017

[\(https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017/522384/\)](https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-2017/522384/)

In the middle of an economic recovery, hundreds of shops and malls are shuttering. The reasons why go far beyond Amazon. The reality is that overall retail spending continues to grow steadily, if a little meagerly. But several trends including the rise of e-commerce, the over-supply of malls, and the surprising effects of a restaurant renaissance have conspired to change the face of American shopping. **1) People are simply buying more stuff online than they used to.** Between 2010 and last year, Amazon's sales in North America quintupled from \$16 billion to \$80 billion. Sears' revenue last year was about \$22 billion, so you could say Amazon has grown by three Sears in six years. Even more remarkable, according to several reports, half of all U.S. households are now Amazon Prime subscribers. **2) American built way too many malls.** There are about 1,200 malls in America today. In a decade, there might be about 900. That's not quite the "the death of malls." But it is decline, and it is inevitable. **3) Americans are shifting their spending from materialism to meals out with friends.** Travel and hotel occupancy is growing. Domestic airlines have flown more passengers each year since 2010, and last year U.S. airlines set a record, with 823 million passengers. The rise of restaurants is dramatic. Since 2005, sales at "food services and drinking places" have grown twice as fast as all other retail spending. In 2016, for the first time ever, Americans spent more money in restaurants and bars than at grocery stores.

Retail Trends

Echo Look by Amazon: A \$200 device to further penetrate the clothing market; via invitation only will enable Amazon consumers to take videos and photos of their outfits and compare them via algorithms.

Furniture Sales: Furniture is one of the fastest growing segments of the U.S. online retailing, growing 18% in 2015, second to groceries. About 15% of the \$70 billion U.S. furniture market has moved online. Amazon is expected to rely on third-party logistics to manage distribution centers. (IBISWorld & Barclays).

Off Price Chains Derive 1% of Revenues from E-Commerce in 2016: In 2016, off-price retailers captured 19% of overall clothing and accessories sales in the U.S., up from 15% in 2012. Lead chains: T.J. Maxx, Marshalls, Home Goods, Ross, Burlington and Nordstrom Rack. The company that operates Marshalls, T.J. Maxx and HomeGoods, derived 1% of its revenues from e-commerce in 2016. (NREI)

Luxury Retail Hits The Wall: Neiman Marcus is looking to restructure its debts. HBC's Saks Fifth Avenue division revenues have stalled during the past year. Nordstrom has seen five straight quarters of declines in its full-line stores. Tiffany and Kors are among other brands facing similar declines. **Reasons:** Little new customer growth; Little or no transactions growth; Unfavorable demographics; Growing competition; The omni-channel migration dilemma; Looming over-capacity. (Forbes, March, 2017)

Ageing Americans: With an increasing amount of Americans approaching retirement, they will opt to spend less on dining out, household furnishings, etc., as they move to bolster savings accounts. The highest levels of spending occur between ages 45 and 54 (about \$70,000 per average household) before dropping by around \$10,000 each decade thereafter. When people reach 75, annual spending declines to about \$38,000 per household; spending more on health care in their later years. Less spending by seniors will cut GDP growth by a fifth of a percentage point by 2020 as the percentage of the population age 54 and older expands to 38%. Eventually, millennials will partially offset the spending declines by seniors, but it will be 2022 or so before their annual spending levels start to make a difference. (Kiplinger)

Pet Menus: In 2016, the U.S.'s 84.6 million pet-owning households spent \$28.2 billion on pet food, up from 23% from 2016 (American Pet Products Association)

Malls and Space

Pop-up Stores Blossoming in Southern California: The social media-friendly temporary storefronts are helping financially struggling mall operators fill empty space while riding a hot trend. Some estimates report there are 33% more malls than the U.S. marketplace can support. With disposable income in shorter supply, consumers have moved from shopping trendy retail stores in the mall to value-oriented stores. (Daily Bulletin, May 5, 2017)

Mall and Anchor Space: By August there will about 350 fewer J.C.Penny, Macy's Sears and Kmart stores. Some landlords are looking to repurpose centers by offering portions of them for back-office facilities to support orders placed on line; 15% of malls nationwide are expected to close during the next decade.

Turning Stores into Distribution Centers: An edge for retailers with physical stores versus online sellers is that those stores can be turned into distribution centers for shipping products ordered online. Some chains are seeing better sales by offering in-store pickup of online orders (shoppers spend more if they walk in the door).

Foot Traffic Decline: Macy's stores open at least a year sales declined 5.2%. Kohl's (February same store sales declined 8%), Nordstrom (for March-April same-store sales fell 2.8%, but rose 2.3% at the Nordstrom Rack).

Containers Find Out-of-the-Box Second Lives: Container boxes are popping up in restaurants, homes and pools. (WSJ)

Marketplace Fairness Act – Allowing States to Collect Taxes from Residents on Goods Purchased Online

The U.S. House and Senate reintroduced bipartisan bills that would allow states to collect taxes from residents on goods purchased online regardless of where the seller of the goods is based. S.976, The Marketplace Fairness Act (MFA), has a small-seller exemption for annual sales of less than one million. H.R. 2193, The Remote Transactions Parity Act (RTPA), also has a small seller exemption, but sets the threshold at \$10 million per year. Sen. Mike Enzi (R-Wyo.), a lead sponsor of the Senate bill, said the measure "is about supporting jobs and services we have in our towns, while ensuring states have the ability to collect taxes they are owed, if they choose to." The previous Marketplace Fairness Act passed in the Senate in 2013 by a vote of 69 to 27, with strong bipartisan support. Based on research by ICSC and the National Conference of State Legislatures, states lost an estimated \$26 billion to the online sales tax loophole in 2015.

Open and Closures

Ulta: The nation's number 1 specialty beauty retailer plans to open 100 new stores each year; **Coach:** To acquire Kate Spade; **DICK'S Sporting Goods:** Opened three stores in May including a San Diego location; **uBreakiFix:** Tech repair opened 300th location in Camden, California; **Nordstrom Rack:** Five new locations in California in 2017 including the first in Marin County (Novato); **Bebe:** To close all stores and switches on-line only; **Forever 21:** Expanding F21 Red copy with 40 new locations; **Payless Shoesource:** Files Chapter 11 bankruptcy.

SECTION 6 - FOOD SERVICE INDUSTRY / RESTAURANT TRENDS

Food Index: Increased 0.2% in April, March was 0/2% following a 0.2% increase in February; April represents a fourth consecutive increase.

Groceries: Groceries in the U.S. fell 1.3% annually in 2016, the steepest decline since 1959 (Wall Street Journal)

Food at Home: The food at home index declined 0.8% over the past year as five of the six major grocery store food group indexes declined. The exception was the fruits and vegetables index, which rose 0.7%. The index for meats, poultry, fish, and eggs decreased 3.0% over the last year, and the remaining groups posted smaller declines. The index for food away from home rose 0.2% in April, and rose 2.3% over the last 12 months.

Packaged Food: Dropped 2.4% in 1Q2017; consumers opt for ready-to-eat meals or fresh produce (Nielsen)

Food Service Industry: Expanding at an exponential rate with the amount of retail space dedicated to food growing from five percent a decade ago to 15 percent today. This trend is expected to increase to 20 percent by 2025.

Restaurant Sales Eclipsed Grocery Store Sales: Occurred for the first time ever in 2016, a signal of changing consumer behavior. Europe is tracking in the same direction and Asia was the leader in this trend. The increasing popularity of dining out is revitalizing retail real estate around the globe by creating a true sense of community where people can go out to dinner, take in a movie and shop, all in one place. (thecenterofshopping.com)

Minimum Wage: The State will raise the wage floor to \$15 as soon as 2022; San Francisco's minimum wage will be \$15 next year. SFist in January 2017 reported at least 60 restaurants have been closed since September. (Wall Street Journal)

McDonalds: Offers franchises to help regain businesses. In the last 5 years McDonalds lost 500 million U.S. orders mostly to other fast food chains, rather than to the fast-casual restaurants it was trying to emulate with healthier offerings.

Grocery Store Trends and News

<http://www.theshelbyreport.com/>

Hotels / Grocery Delivery: According to Wyndham Hotel Group, consumers spent an estimated \$42 billion in online grocery orders in 2016; that's a 160% increase in revenue for the online grocery industry from 2015. The hotelier launched its own grocery delivery pilot.

Digital Circles: To attract younger customers, grocers are investing in digital circulars to complement traditional circulars.

Amazon Go grocery: Beta in Seattle exceeds projected results; a convenience store allows for a checkout-free shop.

eCart Online Services: Raleys and Nob Hills Foods expands program in Bay Area.

Safeway Community Markets: Open in Berkeley, Los Altos and San Anselmo.

Costco Treads in E-Commerce: New partnership with Shipt expands retailer's online grocery offering. Costco members are shopping online at Amazon at a higher rate than all U.S. shoppers. Other retailers will step into that gap if not addressed.

Walmart: Investing heavy into lower prices in U.S. stores. (Wall Street Journal)

Best Prices: Aldi, Costco, Fareway Stores, Market Basket, Military Commissary, Trader Joes, WinCo, Woodmans.

Nation's First Soda Tax Study/ Grocery Store Spending: The study was published in PLOS Medicine by the Public Health Institute and the University of North Carolina. It found that the volume of sugar sweetened beverages sold in Berkeley declined significantly, by 9.6%, in the year following implementation. Because sales for healthier beverages also rose, including water and milk, there was no negative impact on overall beverage sales at studied local businesses. Overall grocery bills (consumer spending per checkout) did not go up.

Whole Foods/ Organic Sales: Has lost nearly half its value since peaking in 2013. The largest organic retailer in the U.S. is believed to be Costco, which in 2015 sold \$4 billion of organic produce and packaged foods. Like Walmart, Kroger and Aldi, Costco sells organic produce for considerably less than do natural food stores, farmers markets or Whole Foods. Aldi announced plans for a \$1.6 billion U.S. expansion, with growth aimed at organics and gluten-free products.

Sprouts: Sales surge 14% in Q1. Sprouts plans to open 32 locations this year.

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