
ECONOMIC NEWS & TRENDS

April 27, 2018

This non-confidential edition includes excerpts from recent articles, studies, and economic research. This report may be forwarded to others in your agency and community.

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HIGHLIGHTS

Economic Indicators

GDP: Real GDP increased at an annual rate of 2.3% in 1Q2018 (advance estimate); was 2.9% in 4Q2017; 3.2% in 3Q2017, 3.1% in 2Q2017, 1.4% in 1Q2017, and 2.1% in 4Q2016). The increase reflects positive contributions from nonresidential fixed investment, personal consumption expenditures, exports, private inventory investment, federal government spending, and state and local government spending.

California's GDP for 3Q2017: 3.4%. Real GDP by state growth for the 3Q2017 ranged from 5.7% in Delaware to 0.5% in South Dakota.

Digital Economy: 6.5% of U.S. GDT or \$1.2 trillion in 2016; 5.6% average annual growth from 2006 to 2016; outpaced overall U.S. economic growth of 1.5%; 3.9% of total U.S. employment.

Consumer Confidence: The Conference Board *Consumer Confidence Index*[®] increased in April, following a decline in March. Consumers' assessment of current conditions improved with consumers rating both business and labor market conditions quite favorably; this suggests that the economy will continue expanding at a solid pace.

Interest Rates: The Federal Reserve raised interest rates for the first time in 2018, citing strength in the economy.

Inflation: Expected to head up this year; unemployment in the last year dropped to a 17-year low yet inflation continues to run below the Fed's 2% target.

US / China Trade: Some Chinese businesses are canceling or slowing plans to invest in the American market because of U.S. threats to restrict investment. Some businesses are feeling the effects; exports from small businesses to China had tripled in the past 15 years. U.S. consumers may feel the effect on the Administration's proposed tariffs on Chinese imports to include a 25% levy on TV's and related components.

U.S. and California Economic Outlook

U.S Outlook: Continued US growth: 2017: 2.5%, 2018: 2.5 to 2.8%; domestic spending will continue; oil prices will be steady in the \$55-\$70 barrel range; inflation is low but rising; policy uncertainty.

California and Local Outlook: Growth constrained by limited increases in labor force; leading sectors are construction, consumer-serving sectors, tourism, health care, and defense / aerospace; housing shortages (owner occupied rentals) (Beacon Economics, April, 2018)

Housing

U.S. homeownership was up in 2017 for the first time in 13 years; to 64.2% in 4Q2017 from 63.7% a year earlier.

Sales of Existing Single-Family Homes in California: 423,990 in March up 0.3% from February and 1.6% from March 2017. California median home in March was \$565,830, up 8.1% from a year ago; the peak was \$594,530 in May 2007. The lowest was \$245,230 in February of 2009 (-59% from the peak). Alameda, Marin, San Mateo, Santa Clara, San Diego, and Orange counties are a new peak at \$955,000, \$1,392,500, \$1,615,000, \$1,454,500, \$625,400, and \$824,450, respectively.

Employment

California's unemployment rate reached a record low of 4.3% in February. The U.S. unemployment rate was at 4.1% for the sixth consecutive month in March.

Forecast: Ending 2018 at 3.9% down from 4.1% at end of 2017. (Kiplinger) The number of Americans applying for unemployment benefits week of April 16, 2018 fell to the lowest level since December 6, 1969. (WSJ)

California WARN Notices & Permanent Closures

Dec 2017: 33 notices / 13 closures; **Jan 2018:** 76 notices/ 30 closures; **Feb 2018:** 44 notices/ 18 closures; **Mar 2018:** 41 notices/ 22 closures; **As of Apr 25:** 56 notices/ 25 closures.

HIGHLIGHTS

Fuel

Gasoline Prices: AAA shows (April 25, 2018) the national average at \$2.78.2 per gallon. California's average is \$3.591. The Energy Information Administration's shows this is the highest level on record for the month of April and exceeds typical summer demand measurements. Increases from one year ago: California (+55 cents).

California Auto Sales

Rose 1% in January 2018 to 1.2 million. New registrations for 2017 were above 2 million (third consecutive year); market declined slightly in 2017 but annual total exceeded 2009 levels by nearly 100%. The CNCDA 2018 forecast is 2.01 million units.

Retail

Retail Outlook in 2018: Tax cuts, an improved economy and a consumer that is less cautious about spending will make 2018 a better year for retailers. Retail sales are on track to match or exceed the healthy 4.2% gain they made in 2017.

Holiday 2017 Retail Sales Between November 1 and December 24: Up 4.9% for 2017. This is the largest year-over-year increase since 2011. Online shopping also saw large gains of 18.1% compared to 2016. (Mastercard)

On-Line Sales

4Q2017: Percent of Retail Sales Increased 3.2% for 4Q2017 from 3Q2017. Total E-Commerce Sales for 4Q2017: \$119.0 billion. Total Retail Sales for 4Q2017: est. at \$1,204.3 billion, an increase of 2.7% from 3Q2017.

E-Commerce Sales for 2016 and 2017: 2017 increased 4.4% from 2016. E-commerce sales in 2017 accounted for 8.9% of total sales; 2016 accounted for 8% of total sales. California's e-commerce sales comprise approximately 13-14% of the total sales, based on California's portion of the national economy. An estimated 40% of the U.S. online spending goes to Amazon.

Groceries and Restaurants

Grocery Among Fastest-Growing Retail Segments: 674 stores are expected to open in 2018. The other two fastest growing segments are mass merchandisers and dollar stores, and convenience stores. Online grocery spending is projected to grow to 20% of the market, or \$100 billion, by 2025. Amazon now delivers orders to parked vehicles.

U.S. Food Stamp Program Proposed Reduction - Impact on Grocers: The Trump Administration is proposing reducing program budget by \$130 billion over a decade, which is 20% reduction of the current annual allotment. The grocery sector is bracing for a possible loss of billions of dollars in purchases.

Food Away From Home: From March 2017 to Mar 2018 (2.5%); Mar 2018 (.1); Feb 2018 (.2); Jan 2018 (-.4%).

Food at Home: From March 2017 to Mar 2018 (.4%); Mar 2018 (.1); Feb 2018 (-.2); Jan 2018 (.1%).

Restaurants: Driving success in a new era of competition: More than 620,000 eating and drinking establishments. Imperatives defining industry in 2018: Embrace the experience, drive employee engagement, dominate delivery, compete with non-traditional players, and operational excellence and compliance. (Deloitte)

Hospitality Industry Outlook

Travel is a \$1-trillion US industry. Spending will grow by 5% in 2018. Revenue drivers include consumer spending, airline competition, corporate travel, the move from products to experience. (Deloitte) Hotel rates will rise modestly, up 2.4% from 2017. (Kiplinger)

Retail Space

Destination centers are the super-sized versions of the future. Values centers share the customers' values. Innovation centers are digitally-powered. "Retailidential" centers redefine living over the store.

SECTION 1: U.S. ECONOMY

Consumer Price Index (CPI) (March 2018 From Preceding Month)

U.S. CPI for March 2018: Decreased 0.1% in Mar.

Gasoline: From Mar 2017 to Mar 2018 (11.1%); Mar 2018 (-4.9); Feb 2018 (-.9); Jan 2018 (5.7%); Dec 2017 (.8%).

New Vehicles: From March 2017 to Mar 2018 (-1.2%); Mar 2018 (.0); Feb 2018 (-.5); Jan 2018 (-.1%); Dec 2017 (.5%).

Used Cars & Trucks: From March 2017 to Mar 2018 (.4%); Mar 2018 (-.3); Feb 2018 (-.3); Jan 2018 (.4%); Dec 2017 (.7%).

Apparel: Mar 2018 (-.6); Feb 2018 (1.5); Jan 2018 (1.7%); Dec 2017 (-.3%).

Cigarettes: From Mar 2017 to Mar 2018 (5.9%); Mar 2018 (-.4); Feb 2018 (.2); Jan 2018 (.2%). **Alcohol:** Mar 2018 (.1); Feb 2018 (.2); Jan 2018 (.0%).

Wine: From Mar 2017 to Mar 2017: **Wine At Home** (.9%); **Wine Away From Home:** (2%).

Cable and Satellite TV Service: From Mar 2017 to Mar 2018 (2.7%).

Wireless Telephone Service From March 2017 to Mar 2018 (-2.4%); Mar 2018 (.2); Feb 2018 (-.5); Jan 2018 (-.2).

Lodging Away from Home: From March 2017 to Mar 2018 (2.4%); Mar 2018 (2.3); Feb 2018 (.0); Jan 2018 (-2.0%).

Shelter: From March 2017 to Mar 2018 (3.3%).

Services Sector for 4Q2017/ Contributions to Percentage Change in GDP from 4Q2017

www.census.gov/services/index.html (March 8, 2018) ;

<https://bea.gov/newsreleases/international/trade/tradnewsrelease.htm> (April 5, 2018)

4Q2017 Total Revenue: An increase of 2.2% from 3Q2017 and up 5% from 4Q2016.

Personal Consumption Expenditures: Up 2.1% from 3Q2017.

Exports and Imports: Exports increased 5.9%; Imports increased 9.1%, year-to-date from February.

Utilities: Decrease of 7.6% from 3Q2017 and up 3.0% from the 4Q2016.

Transportation and Warehousing: Decrease of 1.2% from 3Q2017; and up 3% from 4Q2016.

Arts, Entertainment and Recreation: Decrease of 4.6% from 3Q2017; and up 3.7% from 4Q2016.

Real Estate and Rental and Leasing: Increase 1.2% from 3Q2017; and up 6.5% from 4Q2016.

Accommodations: Decrease 11.9% from 3Q2017 and up 0.7% from the 4Q2016.

Other Services: Includes auto and electronic repair, personal and laundry services: Increase 11% from 3Q2017 and up 9.9% from 4Q2016.

E-Commerce 4Q2017

https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf (Next release is on May 17, 2018)

4Q2017 Percent of Retail Sales: Increase of 3.2% for 4Q2017 from 3Q2017. **Total E-Commerce Sales for 4Q2017:** \$119.0 billion. **Total Retail Sales for 4Q2017:**

An increase of 2.7% from 3Q2017. **Total E Commerce Sales for 4Q2017:** Accounted for 9.1% of total sales.

Total E-Commerce Sales for 2016 and 2017: 2017 up 16% from 2016. Total retail sales in 2017 up 4.4% from 2016. E-commerce sales in 2017 was for 8.9% of total sales.

California: E-commerce sales comprise approximately 13-14% of the total sales, based on California's portion of the national economy.

Amazon: Estimated 40% of U.S. online spending goes to Amazon. Amazon offering deliveries to parked cars for Prime members.

Walmart: Website plans for an upscale redesign; online sales represents 3.6% of its U.S. sales.

Luxury: By 2025, online will represent 25% of luxury goods.

SECTION 2: CALIFORNIA ECONOMY

<https://www.sco.ca.gov/Files-EO/04-18summary.pdf>

http://www.dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2018/Apr-18.pdf

Personal Income: California grew by 4.1% in 2017 following growth of 3.7% in 2016. U.S. personal income growth was 3.1% in 2017 and 2.4% in 2016.

Retail Sales and Use Tax for March: \$17 million below the month's forecast of \$1.724 billion. Year-to-date, sales tax revenues are \$26 million below forecast.

SECTION 3: HOME SALES

[https://www.car.org/marketdata/data/countysalesactivity\(March2018\)](https://www.car.org/marketdata/data/countysalesactivity(March2018))

[https://www.car.org/aboutus/mediacenter/newsreleases/2018releases/march2018homesales\(April17,2018\)](https://www.car.org/aboutus/mediacenter/newsreleases/2018releases/march2018homesales(April17,2018))

Sales of Existing Single-Family Homes in California for March: 423,990 in March up 0.3% from February and 1.6% from March 2017.

\$955,000, \$1,392,500, \$1,615,000, \$1,454,500, \$625,400, and \$824,450, respectively.

California Median Home Price in March: The statewide median home price in March was \$565,830, up 8.1% from a year ago; the peak was \$594,530 in May of 2007; and lowest at \$245,230 in February of 2009 (-59% from the peak). Alameda, Marin, San Mateo, Santa Clara, San Diego, and Orange counties are a new peak price at

Interest Rates Rising: Rising interest rates figure to dent the mortgage refinance market in 2018.

Refinancing: The average interest rate on a 30-year fixed-rate loan has hit 4.44%. Refinancing to keep declining in popularity as rates keep rising and make refinancing a less attractive option. For the year overall; will make up only 30% of total mortgage originations, the lowest in 18 years. (Kiplinger)

SECTION 4: AUTO SALES / TRENDS**California Car Sales**

<https://www.cncda.org/wp-content/uploads/California-Covering-4Q-2017-1.pdf>

California, January 2018: Rose 1% in January to 1.2 million.

New Registrations for 2017: Above 2 million for the third consecutive year; market declined slightly in 2017 but annual total exceeded 2009 levels by nearly 100%.

CNCDA 2018 Forecast: 2.01 million units.

Total Cars 2016 to 2017: California (-10.3%); US (-11%).

Light Trucks 2016 to 2017: California (7.4%); US (4.4%).

2017 Electric Vehicle Market in California: 2.6%; Hybrid/Electric is 9.4%.

Used Car Registrations in 2017/ California: Small increase of 1.2%. Used light truck increased 3.7%; cars were down .4%.

Older Vehicle Market Share in 2017/ California: 4 to 6 years old increased 49.6%.

Electric Vehicles: Electric vehicle sales grew 30% in 2017. Governor Brown in January signed an executive order to put five million zero-emission vehicles on California's roads by 2030.

SECTION 5: RETAILER UPDATES, TRENDS AND INFLUENCES

Retail Outlook in 2018: Tax cuts, an improved economy and an American consumer that is less cautious about spending will make 2018 a better year for retailers. Retail sales are on track to match or exceed the healthy 4.2% gain they made in 2017.

Holiday 2017 Retail Sales Between November 1 and December 24: Up 4.9% for 2017, setting a record for dollars spent. This is the largest year-over-year increase since 2011. Online shopping also saw large gains of 18.1% compared to 2016. (Mastercard)

Convenience Continues to Expand: The number of convenience stores reached a new high of 154,958, up 0.3% or 423 units in 2017, from the 2016 year-end total of 54,535 at the end of 2016. (NACS).

Period from November 1, 2017 to April 27, 2018; http://www.edd.ca.gov/Jobs_and_Training/warn/WARN-Report-for-7-1-2017-to-04-25-2018.pdf

Albertsons: To acquire Rite Aid stores not sold to Walgreens

Applebee's: To close 60-80 restaurants in 2018 following the closure of 100 in 2017

Ashley HomeStores: To open 800th store (Tijuana)

Backstage: (Macy's off-price unit): Plans to expand with 100 stores

Batteries Plus Bulbs: Plans to open 47 stores in 2018

Best Buy: Increase holiday sales by 9%; ramped up electronic toys after Toys R Us announced closure

Black Bear Diner: Adding 19 locations

Blaze Pizza: Plans to develop 400 additional locations including some in the U.S.

Build a Bear: Closed in Anaheim (EDD WARN report)

Burgerim: Expanding in the Sacramento area and Bay

California Tortilla: Will grow brand in new states in 2018

Chipotle: Plans store upgrades and slower expansion

Costco: Reports that 40% of new member signups are Millennials

Curry Up: Largest Indian fast casual expanding

CVS: Launching private label hoping to compete with Sephora and Ulta

Dave and Busters: Expanding; filling large empty store spaces

Dicks: Pulls assault rifles from stores

Black Friday 2017: Consumers spent more than \$5 billion on Black Friday, 16.9% more than in 2016. Physical stores dominated sales; more than 145 million adults spent time at malls and shopping centers and spent an average of \$377.50 (<https://retailleader.com>)

Gen Zers Enjoy Malls: Americans under 22 prefer buying at physical stores rather than ordering from websites. They like to experience shopping, but not downtown or at outlets. Just hanging out at the mall is apparently as much fun for them as it was for teens in the 1980s.

Mother's Day 2018: Spending to reach \$23.1 billion

Apparel: Mar 2018 (-.6); Feb 2018 (1.5); Jan 2018 (1.7%); Dec 2017 (-.3%). **Upscale Uniforms:** The future of the office fashion.

Dollar Tree: In 3Q2017 opened 169 stores; ended with 14,744 stores

Dogtopia: 40 new stores in 2018; on pace to reach 400 by 2021

Dunkin' Donuts: Plans to add 1,000 new locations by end of 2020; will have 18,000 in the U.S.

Family Christian: 240 closures

Future Perfect: New showroom in Los Angeles

Fred Meyer Jewelers: Closing many mall stores

Gamestop: 100 store closures

Gander Outdoors: Camping World to re-open 69 stores

GNC: Closing up to 200 stores in 2018

Go! Go! Curry: Japanese comfort food plans to expand

GoPro, Inc.: Layoffs in San Mateo (EDD WARN report)

Grocery Outlet: 25 new stores planned

H&M: Closing 170 stores in 2018

HelloFresh: Aims to eclipse Blue Apron

Home Depot: Buys The Company Store, a catalog and e-commerce retailer of home goods and textiles;

Indochino: Ready-to-wear suits opening 4 new stores including a San Diego location

JC Penny: Eliminated 360 jobs in response to simplifying operations and as more people shop online

Jersey Mike's: Plans to open 200 restaurants in 2018; aiming to have 2000 stores in the U.S. by 2020

Jimby's Tacos: Expanding in Northern California

K-Mart: Closed in Cudahy, Redding, Ontario (EDD WARN report)

Kohls: Increase holiday sales by 6.3% compared with a 2.3% decline a year earlier

Land of Nod: Owned by Crate and Barrel - Closed the Land of Nod brick-and-mortar stores in January

Lands' End: Plans to open 60 new stores in the next five years

Loves: Travel stop. Plans to open 40 new locations in 2018

Macys Corporate Services: Closed in Redondo Beach (EDD WARN report)

Macys: Closed in Laguna Hills, Los Angeles, San Francisco (EDD WARN report)

Mattel, Inc.: Layoff's in El Segundo (EDD WARN report)

Mattress Firm: Will close 200 stores by mid-2019

McDonalds: To invest \$2.4 billion on upgrades in 2018

Modern Market: Acquired by Butterfly

Nestle: Closed in Glendale and Oakland (EDD WARN report)

Nekter Juice Bar: 100th restaurant to open in Anaheim Hills

New Seasons Market: Closed in Sunnyvale; will not open in SF, Carmel and Emeryville

New Leaf Community Markets: New location in Aptos

Nine West: Will close all 70 stores

Nordstrom: Revamping some of its 122 stores. Much of the company's success comes from opening Rack off-price stores and e-commerce

Old Navy: To open 60 stores in 2018

Papa John's International: No longer will be the official pizza of the NFL

P.F. Changs: Closed in Burbank (EDD WARN report)

Planet Fitness: More agreements signed; brick and mortar spaces give expansion opportunity

Reserve: Starbuck's high-end stores plans 1,000 stores with fuller service of food and beverages. Several CA locations - future California locations unknown.

Rituals: Shoppers experiment with products; expands to California

Sam's Club: Closed in Rowland Heights, Sacramento, San Fernando, Stanton (EDD WARN report); shrinking stores to compete and hopes for more affluent shoppers. In January 2018, Wal-Mart chain closed 63 U.S. Sam's Clubs locations

Shake Shack: Expects to open 32 to 35 new restaurants in 2018; will open more airport locations

Soft Surroundings: Women's apparel. Opening a location in California

Smart & Final: Replaces Ralphs in north Torrance

Sears: Closed in Brea, Citrus Heights, El Cajon, Fairfield, Roseville Westminster (EDD WARN report)

Starbucks: Closed on-line business

Subway: Closing about 500 stores

Take 5 Oil: Will add dozens of stores in 2018

T-Mobile: Expanding footprint by opening new stores

Target: Plans to increase small-format stores; closing 12 underperforming stores (none in California)

Teriyaki Madness: Fresh Asian fast casual targeting Los Angeles for expansion; plans for 20-25 additional locations

TGI Fridays: Closed in Oxnard, Brea (EDD WARN report)

Toys "R" Us: Announced closing 200 more stores due to bankruptcy

Tractor Supply Company: Opening store 1700; operates in 49 states

Tuesday Morning: In Spring will have five closures, 19 relocations and one expansion, seven openings

Walmart: Investing \$145 million to renovate 34 California stores; adding FedEx offices to 500 locations

Wendy's: Rolling out smaller model called Smart 55

Wetzel's Pretzels: New store opening pipeline

Warby Parker: Aims to run nearly 100 stores this year - other internet based retailers are similarly opening more brick and mortar locations

7-Eleven: Closed on the acquisition of approximately 1,030 Sunoco LP convenience stores in 17 states

SECTION 6: RESTAURANT AND FOOD INDUSTRY / ECONOMIC INDICATORS

Restaurants as Economic Engine: Industry's share of the food dollar is 48%.; Industry sales constitute 4% of the U.S. GDP. For every dollar spent in restaurants, \$2 is generated in sales for other industries. (National Restaurant Association)

SECTION 7: GROCERY INDUSTRY

Ace Hardware: Kroger rumored to be in talks to add Ace stores within its stores (not in CA)

Aldi: Opened Southern California location in La Habra

Albertsons: To purchase Rite Aid stores not sold to Walgreens

Amazon Go: Plans to open up to six stores by 2019

Brandless: Everything is \$3

Bristol Farms: Prototype store in Woodland Hills

Erewhon: Organic store opened fourth in California

Grocery Outlet: Plans 25 store expansion

Island Pacific: Closing six California locations

Lucky: New concept store; first opening in Dublin

"Managed": Asian American chain and online; opens in El Monte

Mother's Market: Expanding with new locations in Los Angeles

Restaurant Franchises: Poised for growth in 2018, with output increasing by around 6%, eclipsing 2017's 5% rise.

Food: From March 2017 to Mar 2018 (1.3%); Mar 2018 (.1); Feb 2018 (.0); Jan 2018 (.2%); Dec 2017 (.2%)

New Seasons: Closing Sunnyvale; will not open in San Francisco, Carmel and Emeryville

New Leaf Community Markets: New location in Aptos

Raley's: Extends E-Commerce

Stater Brothers: To open first Pasadena store this Fall; opens in Norco

Vallarta Supermarket: Opened 50th store location in Pasadena

Walmart: Using DoorDash for on-line grocery delivery

Whole Foods 365 Store: Concord and Long Beach locations to open

Whole Foods: Free two-hour delivery of natural and organic products, includes Sacramento and San Diego

Kohls: To add Aldi groceries to stores

Source: <http://www.theshelbyreport.com/> (from November 1, 2017 to April 27, 2018)