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## ECONOMIC NEWS & TRENDS

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February 26, 2019

*This non-confidential edition includes excerpts from articles, studies, and research. Also included are links to resourceful economic data. The report period is between November 2018 and the date of publication. Please contact your Client Executive for regional trends.*

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*The partial shutdown of the U.S. government delayed the release of certain economic data. This report reflects the most recent data available.*

<https://www.census.gov/newsroom/press-releases/2019/revise-indicator-calendar.html>

## PART 1: NATIONAL ECONOMIC INDICATORS / INFLUENCES

### Indicators and Influences

**GDP:** Rose 3.4% in 3Q2018; 4.2% in 2Q2018. California GDP rose by 3.3% in the second quarter of 2018, following 3.7% growth in the first quarter on a year-over-year basis. In late January, The WSJ reported the GDP for 4Q2018 at a 2.6% annual rate. Economists believe a big slowdown in China's economy and slower growth in Europe are reducing demand for American exports which is holding back the U.S. economy.

**Consumer Price Index:** The CPI measures the change in prices paid by consumers for goods and services. CPI dropped 0.1% in December, the first decline since March. It comes amid a plunge in gasoline prices. The adjusted decline in the "All Items Index" was caused by a sharp decrease in the gasoline index, which fell 7.5% in December. This decline more than offset increases in several indexes, including shelter, food, and other energy components. Natural gas and electricity increased. (BLS, January 11, 2019)

**U.S. Tax Revenue:** Federal tax revenue declined 0.4% in 2018, the first full calendar year under the new tax law, despite robust economic growth and the lowest unemployment rate in nearly five decades.

**Conference Board Consumer Confidence Index:** Decreased in January, following a decline in December. The Index now stands at 120.2, down from 126.6 in December. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, declined marginally. The Expectations Index, based on consumers' short-term outlook for income, business and labor market conditions, decreased from 97.7 last month to 87.3 this month.

## United State Conference of Mayors Metro Economies

**Update:** With fiscal stimulus still boosting economic growth, plus solid gains in income, fourth-quarter GDP growth should register 2.8%, bringing overall 2018 growth to 3.1%. Slowing global growth, a strong dollar, fading fiscal stimulus, tightening monetary policy, weaker stock prices, the effects of recent tariffs, and approaching capacity constraints point to a material slowdown in the pace of US growth this year. Project GDP growth of 2.1% (fourth quarter over fourth quarter) across 2019.

<http://www.usmayors.org/wp-content/uploads/2019/02/Metro-Economies-Update.pdf>

### Year in Review (2018) CPI Indexes

**All Items for 2018:** Rose 1.9% in 2018, a smaller increase than the 2.1% increase in 2016 and 2017, but larger than the increases in any of the years from 2012 to 2015.

**Food:** Increased 1.6% in 2018, the same increase as in 2017; **Food at Home:** increased 0.6% in 2018.

**Nonalcoholic Beverages:** Increased 1.4% in 2018 after being unchanged in 2017. **Energy:** Fell slightly in 2018, declining 0.3% after rising 6.9% in 2017. **Gasoline:** Fell 2.1% in 2018 after rising in 2016 and 2017. The decline in the gasoline index more than offset increases in other energy component indexes. **Electricity:** Increased 1.1% in 2018 after rising 2.6% the prior year. **Medical Care:** Rose 2.0% in 2018, a slightly larger increase than its 1.8% increase the year prior. **Hospital Services:** Rose 3.7%, while the physicians' services index increased 0.6%.

**Motor Vehicle Insurance:** Rose 4.6% in 2018 following larger increases in recent years. **New Vehicles:** Fell for the second year in a row, decreasing 0.3% after a -0.5% decline in 2017. **Used Cars and Trucks:** Rose 1.4% in 2018 after decreasing in each of the prior 2 years.

**Education Index:** Increased 2.6% in 2018.

## Services Revenue

**Services Sector Revenue for 3Q2018 Total Revenue:** An increase of 1.9% from 2Q2018 and up 6.3% from 3Q2017.

**Personal Consumption Expenditures:** Up 2.1% from 3Q2017. **Information Sector:** Up 1.9% from 2Q2018 and up 8.4% from 3Q2017. **Transportation/ Warehousing:** Up 1.1% from 1Q2018 and up 6.3% from 3Q2017.

**Utilities:** Increase of 15% from 2Q2018 and up 3.0% from the 3Q2017. **Passenger Car Leasing:** Increase of 13% from 2Q2018. **Real Estate, Rental, and Leasing:** Increase of 3.2% from 2Q2018 and up 7.4% from 3Q2017.

**Professional, Scientific, and Technical Services:** Increase of 1.2% from 2Q2018 and up 6.4% from 3Q2017.

**Accommodations for 3Q2018 from 2Q2018:** RV Parks (24%); Rooming and Boarding Houses (43.2%). **Arts and Entertainment:** Increase of 7.5% from 2Q2018 and up 4.1% from 3Q2017. **Personal Services:** Sep 2017 to Sep 2018 (2.6%); **Legal Services** (4.6%); **Financial Services** (5.5%). <https://www.bls.gov/opub/ted/2019/consumer-price-index-2018-in-review.htm>

**Consumer Finances / Federal Reserve Survey:**

The Federal Reserve Board in March will begin its Survey of Consumer Finances, a statistical study of household finances that provides policymakers with important insight into the economic condition of a broad cross section of American families. The data collected will provide a representative picture of what Americans own (from houses and cars to stocks and bonds), how and how much they borrow, and how they bank. Past study results have contributed to policy discussions about the recovery of households from the Great Recession, changes in the use of credit, the use of tax-preferred retirement savings accounts, and a broad range of other issues.

<https://www.federalreserve.gov/newsevents/pressreleases/files/other20190213a1.pdf>

## Consumer Spending, Debt and Borrowing

**Quarterly Report on Household Debt and Credit:**

Reveals that total household debt rose by \$32 billion, or 0.2%, in 4Q2018 to reach \$13.54 trillion. The total is now \$869 billion higher than the previous peak of \$12.68 trillion in 3Q2008, and 21.4% above the post-

financial-crisis trough reached in 2Q2013. **Mortgage balances:** shown on consumer credit reports on December 31 stood at \$9.1 trillion, essentially unchanged from 3Q2018. **Balances on home equity lines of credit (HELOC):** continued declining from 2009 with a drop of \$10 billion in 4Q2018, the lowest level seen in 14 years. **Non-housing balances:** increased by \$58 billion in 4Q2018, with auto loans increasing by \$9 billion, credit card balances going up by \$26 billion, and student loan balances by \$15 billion. Some 4.47% of auto-loan balances were delinquent in 4Q2018. More than 8% of borrowers with credit scores below 620 became delinquent in 4Q2018. <https://www.newyorkfed.org/>

**Consumer Debt and Borrowing:** Borrowing rises for cars but falls in housing market. Including credit cards, auto and student, and personal loans is expected to top \$4 trillion in 2019. Easing the burden are the growing U.S. economy, wage gains, unemployment near a 50-year low, and relatively low interest rates. Consumer spending has increased 2.7% on average in the four quarters through September. See [https://www.treasurydirect.gov/govt/reports/pd/pd\\_debttothepenny.htm](https://www.treasurydirect.gov/govt/reports/pd/pd_debttothepenny.htm) (Federal Reserve, January 8, 2019)

**Interest Rates – What’s Ahead:** The Federal Reserve opted not to raise interest rates during its January policy meeting and pledged that future moves will be done patiently and with an eye toward how economic conditions unfold.

## Risk of Recession

**Risk of Recession:** Economists surveyed by The WSJ see a growing risk of recession in the U.S. On average, economists surveyed as part of a monthly poll conducted by the newspaper said there was a 25% chance of a recession in the next year, the highest level since October 2011. The probability was just 13% a year ago. Forecasters are even more concerned about the outlook for 2020. More than half of the economists, 56.6%, said they expected a recession to start in 2020, a presidential election year, while another 26.4% of those surveyed expect a recession in 2021. Survey: <https://www.wsj.com/graphics/econsurvey/> (WSJ, January 10, 2019)

## Forecasts

**GDP Growth Forecast:** 2.5% in 2019. Down from 2.9% in 2018. **Interest Rates:** 10-year T notes ending 2019 at 3%, up from 2.7% at the end of 2018. **Inflation:** 2.3% at end of 2019, up from 1.9% at end of 2018. **Unemployment:** Expected to be 3.4% by the end of 2019, down from 3.7% at end of 2018. **Crude Oil:** Trading at \$65 to \$70 per barrel in March. (Kiplinger, February 1, 2019)

**Consumer Spending Forecast:** Americans' purchases make up nearly 70% of economic activity and is expected to continue to underpin growth in 2019. The average household should save \$224 to \$480 on gas in 2019. Spending should grow 2.7% in 2019. (Wolters Kluwer/Moody's).

**2019 / 2020 Forecast / Economy will Downshift:** The economy is in the process of downshifting from the 3% growth in real GDP this year to 2% in 2019 and 1% in 2020. (UCLA, December 2018)

**Hotel Industry Forecast:** The hotel industry will log the 10th consecutive year of growth in 2019. Strong demand means hotels will drive a hard bargain with businesses. Occupancy rates are sky-high. Room rates will increase by 3% over last year.

**Lower Tax Refunds:** Lower tax refunds this spring may ding spending on some big-ticket items, such as motor vehicles. Tax reform led to lower rates and lower withholding in 2018, and fewer people will itemize deductions. The end result: Smaller average refunds. Folks often use tax refunds for down payments on all sorts of major purchases. The average tax refund for 2017 was close to \$3,000. It will be less for many this year. Areas in the Northeast and on the Pacific coast will see the biggest impact from the cap on the deduction for state and local property, income, and sales taxes.

## Employment and Job Market

**Unemployment:** The U.S. unemployment rate rose 0.2 percentage point to 3.9% in December before increasing 0.1 percentage point to 4.0% in January. (DOF, February 2109).

**Strong Job Market:** Average monthly job growth is forecast to slow from over 200,000 in 2018 to about 160,000 in 2019 (JP Morgan); this still enough to keep pushing down the unemployment rate (JP Morgan).

## Manufacturing

**Manufactured Goods:** New orders in December increased by 1.2%. This is up for two consecutive months. This is largely driven by commercial aircraft and parts orders, and orders for vehicles and vehicle parts. **December Shipments:** Up four of the last five months, increasing 0.8%. This followed a 1.0% November decrease. (Census, February 21, 2019)

## U.S. Residential Sales

**National New Home Sales:** Sales of previously owned homes fell in January by 1.2% from December. January is the third declining month and December 2018 was the lowest since November 2015. Compared with an earlier year, sales in January declined 8.5%. Inventories rose 3.9% in January. (NAR, WSJ February 2019)

**PART 2: U.S. AND CHINA TARIFF /  
IMPACT ON THE U.S. AND CALIFORNIA ECONOMIES**

**U.S Impact – On Hold Until March 2:** The U.S. and China imposed tariffs on a portion of each other's exports but agreed in early December to hold off on expanding tariffs until March 2. The *WSJ* on February 20, 2019 reported that the President gave his firmest indication yet that the U.S. may not increase tariffs on Chinese goods on March 1 despite from statements by his trade official that the U.S. should stick to a firm deadline.

To date, the U.S. has imposed tariffs on \$250 billion worth of Chinese imports. The White House threatened to raise the tariffs from 10% to 25% and extend them to cover an additional \$267 billion worth of Chinese imports but refrained when both countries agreed to the time-out. China retaliated with tariffs on about \$110 billion worth of U.S. imports, including motorcycles and soybeans, but recently resumed some purchases of U.S. soybeans and cut tariffs on U.S. car imports from 25% to 15%. Many U.S. vendors import materials from China including flooring, cabinets, sinks, refrigerators, and lighting fixtures, which are on the list of imports from China that have a 10% tax. (*WSJ*, December 27, 2018) (*Think Advisor*, December 2018) See <https://www.jpmorgan.com/global/research/trade-2018>.

**Examining Effects of the Tariffs on the California**

**Economy:** By a significant margin, California ranks as the nation's number one importer of Chinese goods and services. According to the U.S. Census Bureau, 2017 Chinese imports to California totaled more than \$159 billion, accounting for 36% of the state's imports. In comparison, Texas, China's second-largest U.S. import partner, had a Chinese import total of \$43 billion. China also represents a significant export destination for California products, ranking as the state's third largest export destination behind Mexico and Canada. In 2017, California exports to China totaled \$16 billion. Exports to China from California consist largely of computers and electronics, transportation equipment, agricultural products (especially fruits and nuts), software, and machinery. [https://sco.ca.gov/Files-EO/2019\\_01summary.pdf](https://sco.ca.gov/Files-EO/2019_01summary.pdf)

**PART 3: WAYFAIR IMPLEMENTATION / E-COMMERCE**

The U.S. Supreme Court's June 2018 ruling in *Wayfair v. South Dakota* allows states more authority to require out-of-state sellers to collect use tax. Previously, California individuals were responsible for reporting and paying use tax on out-of-state purchases. The California Department of Tax and Fee Administration announced that it will require out-of-state retailers to collect and remit use tax beginning on April 1, 2019 if in the preceding or current calendar year their sales into California exceed \$100,000, or 200 or more separate transactions.

AB 147 (Burke) defines "doing business in California" for the purposes of collecting sales and use taxes as having \$500,000 in cumulative sales or deliveries into California in the preceding 12 months; this is different than the \$100,000 or 200 separate transaction standard used in South Dakota and replicated in proposed CDTFA implementation regulations. As recently amended the bill would authorize the CDTFA to grant relief for interest and penalties imposed on use tax liabilities if specified conditions are met. Beginning October 1, 2019, the bill defines "marketplace facilitators" as the seller and retailer for each sale facilitated through its marketplace, thus, responsible for collecting and remitting sales and use tax for each transaction. To determine cumulative sales in California, a facilitator must include sales made on its own behalf and those sales facilitated on behalf of marketplace sellers.

**Revenue Impact:** According to an Assembly Committee analysis, the CDTFA estimates that this bill's marketplace facilitator provisions will result in state and local revenue gains of \$309 million in FY 2019-20 and \$476 million in FY 2020-21. CDTFA estimates that this bill's threshold increase provisions will result in state and local revenue losses of \$12 million in FY 2019-20 and \$14 million in FY 2020-21.

**E-Commerce as a Percent of Total U.S. Sales (3Q2018):** 9.8% in 3Q2018. 9.6% in 2Q2018. 9.4% in 1Q2018. 9.1% in 4Q2017. 3Q2018 e-commerce estimate increased 14.5% from 3Q2017 while total retail sales increased 5.3% in the same period.

**PART 4: CALIFORNIA ECONOMIC INDICATORS / INFLUENCES**

**California Revenues for December 2018:** Total revenues of \$18.79 billion in January were lower than estimates in the governor's 2019-20 fiscal year budget proposal by \$1.81 billion (8.8 %) but higher than projections in the FY 2018-19 Budget Act by \$1.21 billion (6.9 %). In the fiscal year to date, state revenues are just 0.2 % lower than the same time last year. Sales tax and corporation tax, two of the state's "big three" revenue sources came in higher than assumed in last month's proposed budget. For January, personal income tax (PIT) receipts of \$16.36 billion were \$2.53 billion (13.4 %) less than the DOF forecasted last month but \$403.6 million (2.5 %) higher than assumed in the budget enacted last June. PIT revenue was still 4.8 % higher than in January 2018. Sales tax receipts of \$1.59 billion for January were \$602.8 million higher than anticipated in the proposed FY 2019-20 budget and \$647.4 million higher than in the FY 2018-19 Budget Act. Last month's corporation taxes were 9.0 % higher than estimates in the FY 2019-20 budget proposal and 12.0 % higher than in the enacted FY 2018-19 budget. (State Controller, February 2019)

**California CPI: San Francisco Area** (Up 0.1% over the past two months ending in December 2018; up 4.5% from a year ago) (BLS, December 2018); **West Region** (Down 0.2% in December 2018; up 3.1% from a year ago). The December decrease was influenced by lower prices for gasoline and apparel. (BLS, December 2018); **Los Angeles Area** (Down 0.3% in November; up 3.6% from a year ago) (BLS, November 2018).

**Consumer Inflation for the U.S. and California:** Rose 2.4% and 3.7%, respectively, in 2018 following 2.1% and 2.9% increases, respectively, in 2017. For California, housing inflation was 4.1% in 2018. (DOF, February 2019)

**California Housing and Interest Rate Forecast:** The California Association of Realtors forecast a modest decline in existing single-family home sales of 3.3% in 2019 to reach 396,800 units, down from the projected 2018 sales figure of 410,460. The 2018 figure is 3.2% lower than the 424,100 sold in 2017. The average for 30-year, fixed mortgage interest rates will rise to 5.2% in

2019, up from 4.7% in 2018 and 4.0% in 2017, but will remain low by historical standards. The California median home price is forecast to increase 3.1% to \$593,450 in 2019, following a projected 7.0% increase in 2018 to \$575,800.

**California Residential Sales, 4<sup>th</sup> Quarter 2018:** 28% of California households could afford to purchase the \$564,270 median-priced home in the 4Q2018, up from 27% in 3Q2018 and down from 29% a year ago. A minimum annual income of \$122,340 was necessary to make monthly payments of \$3,060, including principal, interest, and taxes on a 30-year fixed-rate mortgage at a 4.95% interest rate. 37% of home buyers were able to purchase the \$460,000 median-priced condo or townhome. An annual income of \$99,730 was required to make a monthly payment of \$2,490. (CAR)

**Real Estate Sales in California:** Statewide sales of existing, single-family homes in January 2019 totaled 357,730, down 3.9% from December and down 12.6% from January 2018. The 30-year, fixed-mortgage interest rate averaged 4.46% in January, up from 4.03% in January 2018 (Freddie Mac). (DOF, February 2019; CAR)

**California Auto Sales in 2018 and 4Q2018:** New vehicle registrations in California remained above the 2-million-unit mark in 2018. The state's new vehicle market is predicted to decline 2% from 2018 to 2019, which would be the third consecutive annual decline. Although the market is sliding lower, new vehicle registrations are well above average, based on historical standards. 4Q2018: The California new vehicle market fell by a slim 1%, an improvement from the 3.5% drop in 3Q2018. (CNCDA, February 2019)

**California Building Permits:** Totaled 96,000 units in December, up 0.6% from the prior month, and down 22.9% from the previous year. Permits for single-family housing fell 26.9% from November to 40,000 units, while permits for multifamily housing increased 37.4% to 56,000 units. Total residential permits for 2018 averaged 114,000, only 500 units above the 2017 annual average, an increase of 0.4%. (DOF, February 2019)

**CDTFA Cannabis Revenues for 4Q2018:** Tax revenue reported by the cannabis industry totaled \$103.3 million for Q4 returns due by January 31, 2019, which includes state cultivation, excise, and sales taxes. It does not include tax revenue collected by each jurisdiction. As of February 14, 2019, the cannabis excise tax generated \$50.8 million in revenue reported on Q4 returns due by January 31, 2019. The cultivation tax generated \$16.4 million and the sales tax generated \$36.1 million in reported revenue. Retail sales of medicinal cannabis and medicinal cannabis products are exempt from sales and use taxes if the purchaser provides a valid Medical Marijuana Identification Card and valid government-issued identification card. California took in \$345.2 million in tax revenue from legal cannabis during the first year of regulated sales in 2018. The prediction had been \$1 billion in annual revenue.

<https://cannabis.ca.gov/2019/02/19/california-department-of-tax-and-fee-administration-reports-cannabis-tax-revenues-for-fourth-quarter-of-2018/>

**California's Labor Market:** Unemployment rate increased to 4.2% in December after remaining at a historic low of 4.1% in September through November. The labor force participation rate in both California and the U.S. increased in December 2018, to 62.5% and 63.1% respectively, their highest levels since September 2013. (DOF, February 2019)

## PART 5: RETAIL NEWS AND TRENDS / LEGISLATION

### 2018 Retail Results

**4Q2018 Retail Sales:** U.S. retail sales recorded their biggest drop in over nine years in December; receipts fell across the board, suggesting a sharp slowdown in economic activity. U.S. retail and food services sales for December 2018 decreased 1.2% from the previous month, but 2.3% above December 2017. Total sales for 2018 was up 5.0% from 2017. Total sales for the 2018 October through December period was up 3.7% from the same period a year ago. Clothing and accessories stores were up 4.7% from December 2017, while food services and drinking places were up 4.0% from last year. ([https://www.census.gov/retail/marts/www/marts\\_current.pdf](https://www.census.gov/retail/marts/www/marts_current.pdf))

**Looking Back at 2018: Walmart Inc.:** Wal-Mart Stores Inc changed its name to Walmart Inc, signaling the retailer is taking the online retail space seriously. **Ace Hardware:** There were rumors that Kroger would embark on a partnership with Ace Hardware for a store-within-a-store concept. This did not happen. Ace has more than 200 locations that are operated by grocery retailers. **Truck Drivers:** There has been a shortfall of qualified truck drivers to make deliveries; new federal mandate requiring most truckers to use electronic logging devices has not helped. **Commuter E-Commerce:** Mass transit in certain parts of Canada is allowing commuters to preorder groceries online for pick up during their next day's commute. **Bring it Home:** Home deliveries exploded. **Wag:** Amazon's private label dog food is posing greater threat to pet market for both on-line and in-store. **Desserts:** Healthy lifestyle desserts trended. **Straws:** Consumers pushing retailers to eliminate single-use plastics for the sake of the environment. **Self-Driving Cars:** Walmart's pilot program and others illustrate the ways retailers are exploring the possibilities. **Bots:** Using robots to measure and address the shelf-life of products. (Supermarket News, December 2018)

### 2018 Holiday Sales

**Holiday Spending:** Retail sales rose 5.1% between November 1 and December 24 from a year ago. Total sales topped \$850 billion this year. Online sales continued to grow, up more than 19% from a year ago. Online sales made up 13% of total retail sales. Clothing sold well, up nearly 8% from last year, the biggest growth for apparel sales since 2010. Home furniture sales rose 2.3%, while electronics and appliances slipped 0.7%. Shoppers used the websites of department stores, where sales rose 10.2%. (WSJ, Mastercard, December 26, 2018)

**Amazon Holiday Season:** Amazon announced a record-breaking holiday season with more items ordered worldwide than ever before. **Best Seller Trends:** Toys, Electronics, Amazon Brands, Amazon Fashion. **Fast and Free Shipping:** Free two-hour delivery offered through Prime Now. **Amazon Physical Store:** Customers shopped at physical stores, including Amazon Books, Amazon 4-star locations, Amazon Go, and Whole Foods Market.

**Walmart Holiday Season:** In the U.S. the comparable sales which exclude gas but include e-commerce sales rose 4.2% in the January-ended quarter, one of the biggest quarterly sales in a decade. The increase is from grocery sales, online orders and holiday purchases including toys.

#### Amazon Retail Updates

**Selling on Amazon:** Amazon held invitation-only meetings designed to convince people who sell their wares on Amazon's Marketplace to pay up to \$5,000 a month to join a support program that would get them an Amazon account representative. Marketplace accounts for about half of the company's total unit sales. (Business Insider, January 2018)

**Valentine's Day:** The average spent on the holiday keeps rising. This year, folks plan to spend \$162, versus \$102 in 2009. About half of folks age 18 to 34 will take part this year, versus 72% in 2009.

**Household Staples Increase:** Will offset higher commodity costs and boost profits. This is in response to higher costs of raw materials and transportation and well as unfavorable foreign-currency swings. (WSJ)

#### Warehouse News / Legislation

**Imports Strain Warehouses in California:** In January, estimated seaborne imports to the U.S. rose 4.1% year-over-year. Imports surged after U.S. trade officials announced on January 1 a plan in September to raise tariffs on \$200 billion in Chinese imports by 25%. During the last three months of 2018, import volume at the ports of Los Angeles and Long Beach increased 9% over the same period a year earlier. (WSJ, February 20, 2019)

**Warehouse Space:** The availability of space fell to 7% in 4Q2018, the lowest point since 2000. (CBRE Group). Retailer warehouses are getting taller and sophisticated. Property owners are competing for industrial space closer to urban consumers, where companies can sort packages and deliver them more rapidly. (WSJ)

#### 2019 Proposed California Legislation:

**Local Government: Economic Incentives:** Proposed SB 531 (Glazer) includes intent language. During a conversation with the author's office, MuniServices was told that SB 531 will be amended with language that addresses the League of California Cities City Managers Sales Tax Working Group recommendations for addressing economic incentives, prospectively. As currently drafted the bill states the Legislature's intent to enact legislation that would prohibit a local government from agreeing to offer economic incentives in an amount measured by local sales tax revenue to a private corporation in exchange for the corporation locating within the local government's jurisdiction.

SCA 20 from 2018 proposed to shift the allocation of sales and use tax for all online purchases from point-of-sale (POS) to point-of-destination. While the current system allows jurisdictions that house distribution centers and warehouses that fulfill internet sales to receive sales and use tax allocations, those jurisdictions would no longer capture these revenues under SCA 20, and cities and counties with residents that make purchases online would instead receive increased revenues.

**Local Economic Development Subsidies:** AB 485 (Medina) would require a local agency to provide specified information to the public before approving an economic development subsidy for a warehouse distribution center and to hold hearings and report on those subsidies. The bill requires a warehouse distribution center to provide a local agency with any information necessary to comply with these provisions. Prohibits a local agency from signing a nondisclosure agreement regarding a warehouse distribution center as part of negotiations or in the or in the contract for any economic development subsidy. In 2018 Governor Brown vetoed a related measure, AB 2853 (Medina).

MuniServices Discussion Documents for the City  
Managers Sales Tax Working Group

<https://www.avenuinsights.com/wp-content/uploads/2018/08/MuniServices-I-Avenu-Research-and-Analysis-City-Managers-Working-Group-SCA-20-and-Destination-Sourcing-Revised-083018-Final-PDF-v2.pdf>

MuniServices Discussion Options for a Broader Approach  
to Reform Included:

**Modernize:** Broaden sales tax to services and digital downloads; increase flexibility of the regulations to meet the challenges and changes of the future.

**“Pooling”:** End pooling of online retail sales, third party vehicle sales made at DMV, and lower threshold to \$100,000 from \$500,000 on out of state sales.

**Destination Sourcing:** Allocate local sales tax to the destination of buyer for *all* on-line retail sales.

**Exemptions:** Remove as many of the existing exemptions as politically and practically possible.

**“Rebates” / Warehouse Distribution: Rebates/  
Incentives:** “Revisit” the intent of SB 533 from 2015 as part of the overall SCA 20 and tax reform discussion and whether the law is working for all local governments.

Pets

More than two-thirds of U.S. households own a pet, and in 2018 spent an estimated \$70 billion on pet food, supplies, veterinary services, compared with \$40 billion from a decade ago. (American Pet Products Association)

Robots and Assistants

**Robots for Inventory:** Retailers that have been turning to robots to handle inventory in warehouses are testing whether machines can handle a new task: detecting when store shelves need restocking. **Voice Assistants:** U.S. consumers use voice assistants throughout the entire shopping journey including research products (51%); add to my shopping list (36%); track a package (30%); make a purchase (22%); provide ratings or reviews (20%); contact support (18%); and reorder items (17%).

Trends and Other News

**10 Retail Trends to Watch for 2019:** Sustainability; Store concepts; Retail as a service to expand this year; Retailers glean lessons from direct to consumer success stories; Private label will grow online; Retail landscape will be rearranged; Bankruptcies expected to slow; Loyalty gets more relevant; Shopping via tech gets more sophisticated; The cost of e-commerce will force a reckoning. (Retail Dive)

**PART 6: AUTO SALES AND GASOLINE**

**National Trends:** The industry sold about 17.3 million vehicles in 2018, up less than 1% from a year earlier. Auto executives remain concerned of a market slowdown in the U.S. as rising interest rates on car loans and new price increases will make it more difficult for buyers to afford cars. Sales of all sedans under \$20,000, including compact cars, were down 29% for the same year-over-year period. (Edmunds.com). There is also a robust second-hand market. (WSJ, January 4, 2019)

**California Auto Sales in 2018 and 4Q2018:** New vehicle registrations in California remained above the 2-million-unit mark in 2018. The state's new vehicle market is predicted to decline 2% from 2018 to 2019, which would be the third consecutive annual decline. Although the market is sliding lower, new vehicle registrations are well above average, based on historical standards. 4Q2018: The California new vehicle market fell by a slim 1%, an improvement from the 3.5% drop in 3Q2018. (CNCDA, February 2019)

**California and National Gas Influences:** Price as of February 12, 2019. California's average is 3.269 (the average a year ago was \$3.342). Cities in California are expected to see the highest prices in 2019, with daily averages totaling \$4.10 in Sacramento, \$4.15 in Los Angeles, and \$4.20 in San Francisco. The national average on January 13, 2019 is \$2.245 per gallon (was at \$2.765 per gallon on November 4, 2018). Last year's lower pump prices were linked to a decision by the Organization of the Petroleum Exporting Countries (OPEC) to extend production cuts. Due to concerns about the economy and a glut of petroleum production, December's gas prices were the lowest of the year with nearly 20% of states enjoying prices below \$2 per gallon. (American Automobile Association and GasBuddy).

**Oil Prices:** The U.S. in 2018 became the world's top oil producer, regaining a spot it ceded 45 year ago; the new year kicks off with a new agreement between OPEC and its partners to curtail production. Baring a severe slump in global growth, the market should reach equilibrium. (WSJ, January 2, 2019)

**Tesla:** Getting the logistics right is especially crucial this year. Tesla will bring down the price of the Model 3 from its current \$42,900 base sticker price to the long-promised \$35,000 threshold to reach mainstream buyers. Tesla customers in recent months have been venting on social media about trouble getting repair appointments.

**PART 7: RESTAURANT AND GROCERY TRENDS**

The CPI measures the change in prices paid by consumers for goods and services. **Dining and Food: Food at Home: Dec 2018 (0.3%); Nov 2018 (0.2%); Oct 2018 (-0.2%); Food Away From Home: Dec 2018 (0.4%); Nov 2018 (0.3%); Oct 2018 (0.1%); Full Services Meals and Snacks: Dec 2018 (0.5%); Nov 2018 (0.2%); Oct 2018 (0.2%); Mobile Vendors and Vending Machines: Dec 2018 (0.3%); Nov 2018 (0.5%); Oct 2018 (0.3%); Wine: From Dec 2017 to Dec 2018 Wine at Home (1.1%); Wine Away from Home: (2.6%).**

**Grocery Retailer Ranking:** The top five are: Trader Joes, Costco Wholesale, Amazon, H-E-B, Wegmans Food Markets. Others, in decreasing order, are: Market Basket, Sam's Club, Sprouts, WinCo Foods, Walmart, Aldi, Peapod, and The Fresh Market. (Retailer Preference Index, January 2019)

**Pizza Vending Machines:** French-made automated machines can cook and dispense piping hot pizzas and are now in 400 spots in Europe. A 10-inch pepperoni pizza costs \$8 and takes three minutes to bake. A machine costs \$59,000 and can pay for itself in 12-18 months.

**Alcohol Import Tax:** In late December, regulations were finalized limiting the ability of U.S. wineries and global companies to reduce import taxes. The federal government's view is that the rules stop wine and spirits companies from double-dipping on tax breaks. The change is expected to yield more than \$600 million for the government over the next decade.

<https://www.wsj.com/articles/trump-administration-blocks-tax-break-for-alcohol-companies-11545075911>

## PART 8: SELECTED RETAIL UPDATES

**Sources:** *The Shelby Report; Plain Vanilla Shell, California Employment Development Department - Period Covered: November 1, 2018 to February 21, 2019*

**Apple:** Apple and Amazon reached an agreement to increase the amount and range of Apple products Amazon sells on its site. Amazon will sell a wider variety of iPhones, iPads. A contributing factor to the new alliance is Amazon's decision to stop its third-party merchants not authorized by Apple from offering the companies' products on the Amazon site.

**Ace:** 4Q2018 revenues up 5.7% from 4Q2017.

**Albertsons:** Merger with Rite Aid did not happen.

**Amazon:** Grocery grew 45% in 2018, yet that is less than the nearly 60% growth in 2016-17. Top categories by sales in 2018 were cold beverages / 35%; coffee / 40%; snacks / 50%; and breakfast foods / 15%.

**Bed Bath & Beyond:** Expecting the retailer to make changes; stores have been called messy.

**Blue Apron:** Entered into a partnership with Weight Watchers.

**Blue Diamond:** Expanding California manufacturing plant to Turlock. **Chico's:** Set to close 250 stores within their brand family in the U.S. as they pivot to omnichannel strategy.

**Burger King:** Expanded deliveries.

**Chick-fil-A:** On track to become the third-largest chain in the U.S., behind McDonalds and Starbucks.

**Chipotle:** Opens 2,500 restaurant; digital sales grow 42%.

**Curry Up:** Acquired Tava Kitchen.

**FarmStead:** San Francisco-based online grocer is lowering prices and offering refill and save program.

**Gelson's:** In-store wine bars debut 'robot bartender.'

**Grocery Outlet:** Rides the discount wave; opened 30 stores in 2018 and plans for 40 more in 2019. Partnering with RangeMe, an online platform for sourcing. **Jet.com:** Introduced experiences in New York tailored to the lifestyle of city dwellers who can choose three-hour scheduled same day and next day windows.

**Gymboree:** Reportedly planning to close all 900 stores.

**Kmart:** March closures in Auburn, Stockton, Santa Maria, Burbank, and Apple Valley.

**Kohls:** Announced 4 non-California closures; experienced decelerating same-store sales for the holiday period.

**Kroger's:** Plans to acquire private meal kit company, Home Chef.

**New Seasons Market:** Increase starting pay for staff.

**Payless:** Files for bankruptcy; will close all of its North American stores.

**P.F. Changs:** The chain is debt-burdened and in agreement to be sold.

**Rebag:** To open 30 brick and mortar stores including locations in Los Angeles.

**Raley's:** Relaunches private label lines with greater transparency.

**Samuel Jewelers:** To close all its stores.

**Sleep Outfitters:** Files for bankruptcy.

**Starbucks:** Scales back plans for upscale shops to revive sales. In January, reported sales at U.S. cafes boosted; growth of 4% in the first quarter of its fiscal year.

**Sears:** Has been granted another lifeline, with a bankruptcy judge approving the company's \$5.2 million sale to chairman and ex-CEO Eddie Lampert. The deal would allow the department store chain to continue operations at 425 stores and save the jobs of 45,000 employees. Mr. Lampert has a plan for Sears which includes smaller stores and less apparel.

**Vons:** Opens replacement store on Catalina Island.

**Walmart:** Pilot grocery delivery in the U.S. with autonomous cargo vans.

**Whole Foods:** Amazon will be ending Whole Foods partnership with Instacart. Amazon will offer its own delivery services for Whole Foods. Pressure from consumer-product companies to cover rising costs for packaging, ingredients and transportation has led Amazon to start raise prices again.

**EDD Warn Report:**

[https://www.edd.ca.gov/Jobs\\_and\\_Training/warn/WARN\\_Report\\_for\\_7-1-2018\\_to\\_02-10-2019.pdf](https://www.edd.ca.gov/Jobs_and_Training/warn/WARN_Report_for_7-1-2018_to_02-10-2019.pdf)

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