

# CITY OF PLACERVILLE

## SALES TAX UPDATE

### 1Q 2023 (JANUARY - MARCH)



**PLACERVILLE**  
TOTAL: \$ 1,442,717

-8.4%  
1Q2023



-5.8%  
COUNTY

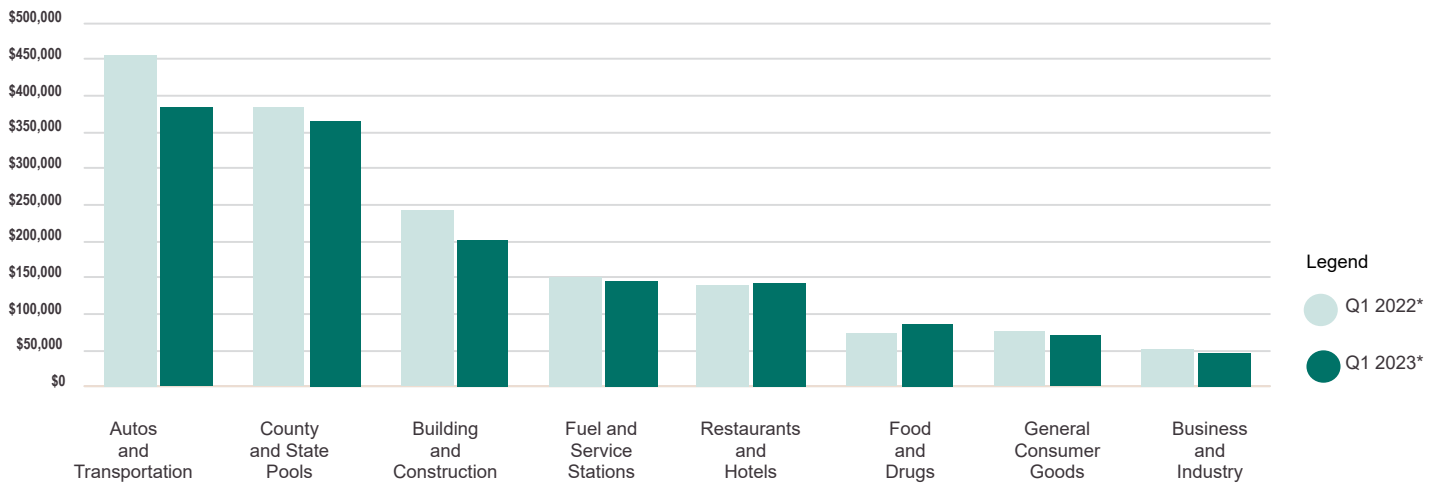


-1.1%  
STATE



*\*Allocation aberrations have been adjusted to reflect sales activity*

### SALES TAX BY MAJOR BUSINESS GROUP



**Measure J**  
TOTAL: \$342,220  
-12.0%

**Measure H**  
TOTAL: \$342,220  
-12.0%

**Measure L**  
TOTAL: \$684,556  
-12.0%



### CITY OF PLACERVILLE HIGHLIGHTS

Placerville's receipts from January through March were 7.4% below the first sales period in 2022. Excluding reporting aberrations, actual sales were down 8.4%.

Sales weakened in multiple sectors due to pricing pressures on essentials such as food and energy as federal policy makers continued their actions to cool consumer demand. Factor in the record snow and severe weather affecting residents and businesses. Fewer online sales transactions, including private party vehicle and general retail sales transpired for a drop in countywide pool revenue.

Fuel-service station receipts fell as the cost to fill up at the pump is down from the elevated level seen in the spring and the

double-digit growth recently. Restaurant sales improved, especially quick service, but operators have reported that gains were due to menu price increases rather than more customers. Grocery prices had been rising faster than eating out, but that trend has now shifted where it is now more economical to eat at home.

Measures H, J & L all declined with most industry groups reporting lower receipts and corrections from the misallocations from certain service stations continued into this quarter.

Net of aberrations, taxable sales for the Sacramento region declined 3.5% over the comparable time period.



### TOP 25 PRODUCERS

- |                             |                                   |
|-----------------------------|-----------------------------------|
| Bricks Restaurant           | Rancho Convenience Center         |
| C & H Motor Parts           | Rite Aid                          |
| Chuck's Cannabis Collective | Sacred Roots                      |
| Diamond Pacific             | Save Mart                         |
| Ferguson Enterprises        | Shell                             |
| Fuel 4 Less                 | Thompsons Buick Gmc               |
| Home Depot                  | Thompsons Chrysler Dodge Jeep Ram |
| In N Out Burger             | Thompson's Toyota                 |
| Kwik Serv                   | Tractor Supply                    |
| Les Schwab Tire Center      | W N Hunt & Sons Distributors      |
| Marathon                    |                                   |
| McDonald's                  |                                   |
| Mobil                       |                                   |
| Placerville Valero          |                                   |
| Raley's                     |                                   |



## STATEWIDE RESULTS

California’s local one cent sales and use tax receipts for sales during the months of January through March were 1.1% lower than the same quarter one year ago after adjusting for accounting anomalies. The first quarter of the calendar year experienced heavy rainfall and a slight pullback by consumers during this post-holiday period.

The building and construction sector was most impacted by wet weather conditions, especially contractors and paint/glass vendors. Furthermore, when coupled with year-over-year (YOY) lumber price declines, the sector saw a 9.7% statewide drop.

YOY declines in fuel prices at the pump reduced receipts from gas stations and petroleum providers. Even with OPEC’s recent production cuts, the global cost of crude oil has remained steady setting up for moderate gas prices for travelers and commuters in the coming summer months. Retailers also selling fuel experienced a similar impact and when combined with weak results from department stores, overall general consumer goods’ returns slightly declined.

After multiple years of high demand for vehicles (especially high-end luxury and electronic/hybrid brands), along with inflation driving car prices higher, customers demand has softened with revenue slumping 1.3%. The return of available inventory later this calendar year may sustain downward pressure on activity, potentially giving buyers more leverage to negotiate lower prices.

Use taxes remitted via the countywide pools decreased 1.1%, marking the second consecutive quarter of decline. Cooling consumer confidence, expansion

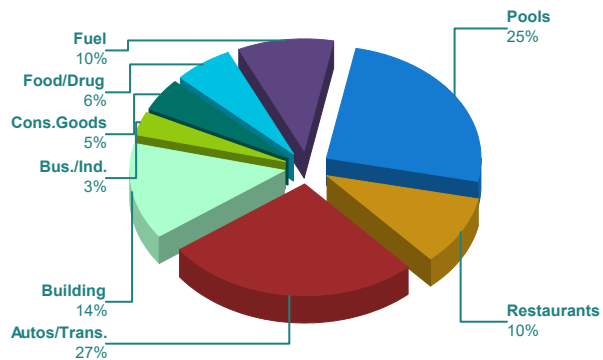
of more in-state fulfillment centers and retailers using existing locations to deliver goods tied to online orders continue to shift taxes away from the pools. While the offsetting effect was these revenues being allocated directly to jurisdictions where the goods were sourced, only a limited number of agencies benefited.

Spending at local restaurants and hotels continues to be robust. Patrons were unaffected by increased menu prices and wait times and maintained their willingness to dine out. In addition, investments in warehouse/farm/construction equipment was steady.

For the remainder of 2023 sales taxes may

decrease modestly, then begin a nominal recovery in early 2024. Volatile economic indicators such as the Federal Funds rate, unemployment levels, and discretionary spending will influence outcomes. While it appears the Federal Reserve’s actions to fight inflation is taking effect, any lasting downward pressure on consumer pricing could also hinder short term growth.

### REVENUE BY BUSINESS GROUP Placerville This Quarter\*



\*ADJUSTED FOR ECONOMIC DATA

### TOP NON-CONFIDENTIAL BUSINESS TYPES

Placerville Business Type	Q1 '23*	Change	County Change	HdL State Change
Service Stations	110.2	-8.5% ↓	-5.5% ↓	-9.8% ↓
Casual Dining	77.3	1.5% ↑	-3.5% ↓	9.7% ↑
Quick-Service Restaurants	58.2	3.0% ↑	1.2% ↑	5.1% ↑
Automotive Supply Stores	52.6	-2.7% ↓	5.7% ↑	5.4% ↑
Grocery Stores	36.3	2.0% ↑	4.4% ↑	5.4% ↑
Auto Repair Shops	19.7	-1.2% ↓	5.3% ↑	5.7% ↑
Home Furnishings	12.1	-16.0% ↓	-14.5% ↓	-10.4% ↓
Convenience Stores/Liquor	11.0	-9.0% ↓	-8.0% ↓	-5.0% ↓
Electronics/Appliance Stores	10.3	29.0% ↑	-17.4% ↓	-2.4% ↓
Sporting Goods/Bike Stores	8.4	-7.6% ↓	3.7% ↑	-8.1% ↓

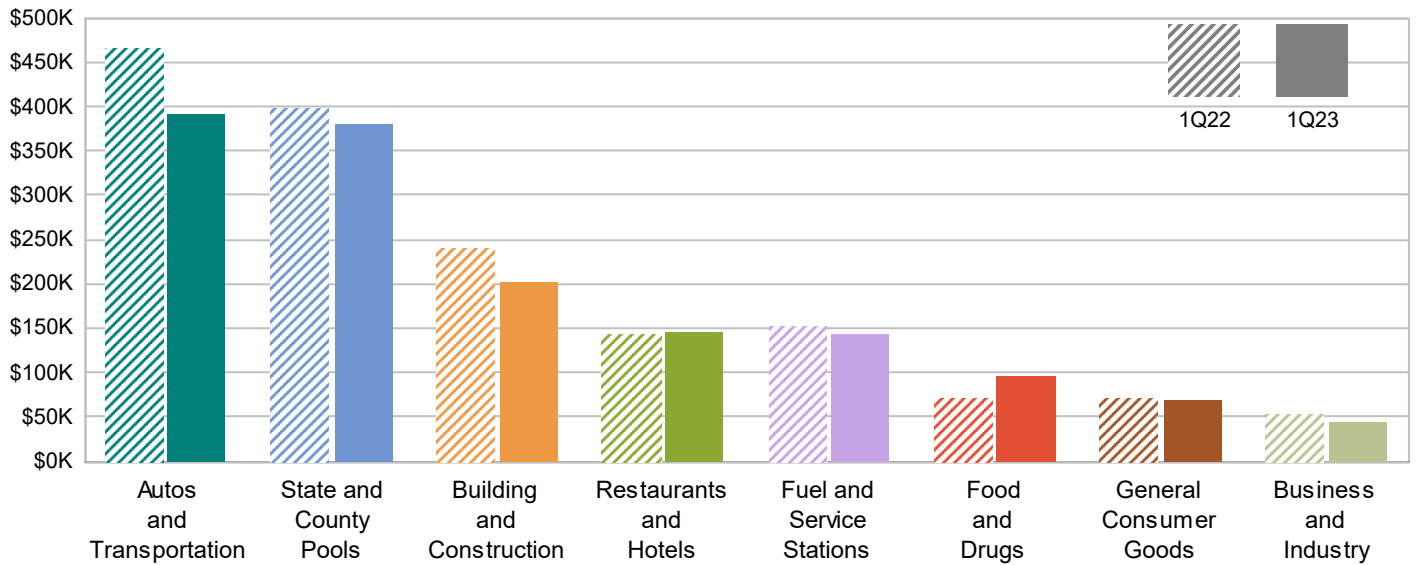
\*Allocation aberrations have been adjusted to reflect sales activity

\*In thousands of dollars

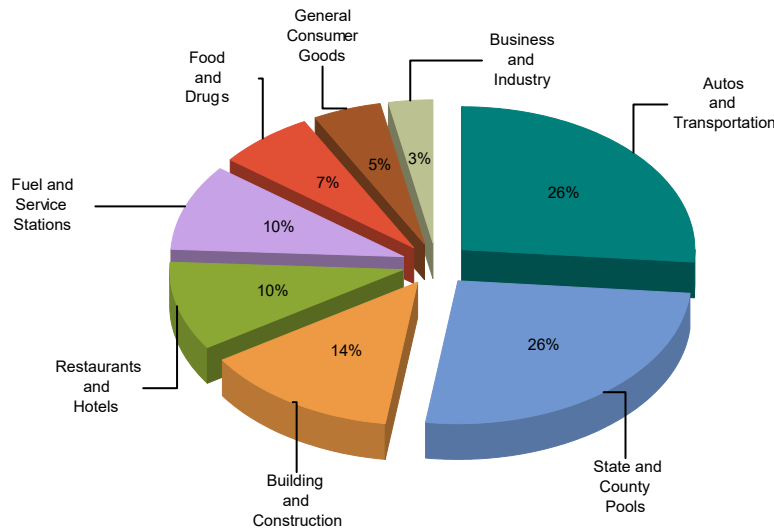


<u>Major Industry Group</u>	<u>Count</u>	<u>1Q23</u>	<u>1Q22</u>	<u>\$ Change</u>	<u>% Change</u>
Autos and Transportation	44	392,407	464,683	(72,277)	-15.6%
State and County Pools	-	379,408	397,774	(18,367)	-4.6%
Building and Construction	13	202,344	241,119	(38,776)	-16.1%
Restaurants and Hotels	90	147,613	144,379	3,234	2.2%
Fuel and Service Stations	18	145,015	153,138	(8,123)	-5.3%
Food and Drugs	25	98,267	72,119	26,148	36.3%
General Consumer Goods	326	70,245	72,371	(2,125)	-2.9%
Business and Industry	142	45,775	54,041	(8,266)	-15.3%
Transfers & Unidentified	7	2,088	1,551	537	34.6%
<b>Total</b>	<b>665</b>	<b>1,483,162</b>	<b>1,601,176</b>	<b>(118,014)</b>	<b>-7.4%</b>

**1Q22 Compared To 1Q23**

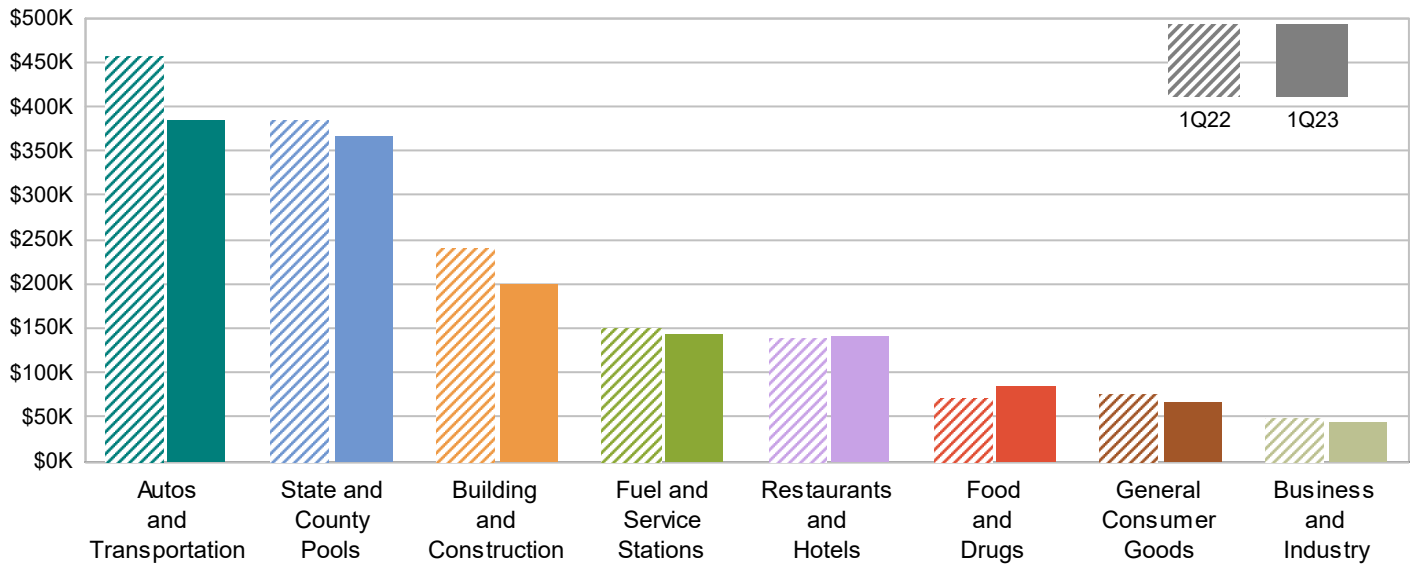


**1Q23 Percent of Total**

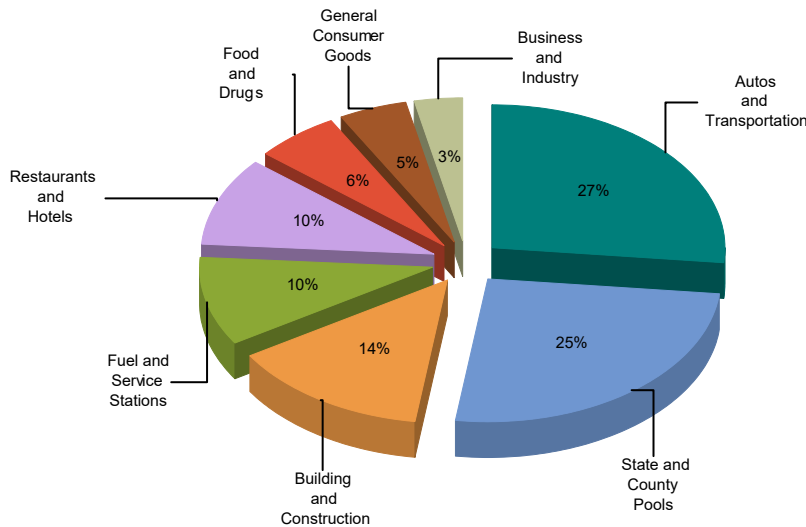


Major Industry Group	Count	1Q23	1Q22	\$ Change	% Change
Autos and Transportation	44	384,103	455,667	(71,564)	-15.7%
State and County Pools	-	366,153	384,773	(18,620)	-4.8%
Building and Construction	13	201,119	241,119	(40,000)	-16.6%
Fuel and Service Stations	18	145,153	151,740	(6,587)	-4.3%
Restaurants and Hotels	90	142,415	140,774	1,641	1.2%
Food and Drugs	25	85,732	72,119	13,612	18.9%
General Consumer Goods	326	68,878	76,458	(7,580)	-9.9%
Business and Industry	142	46,673	51,384	(4,711)	-9.2%
Transfers & Unidentified	7	2,491	1,062	1,429	134.6%
<b>Total</b>	<b>665</b>	<b>1,442,717</b>	<b>1,575,096</b>	<b>(132,379)</b>	<b>-8.4%</b>

**1Q22 Compared To 1Q23**



**1Q23 Percent of Total**



Sales Tax by Major Industry Group

**Autos And Transportation**

Count: 44

**State & County Pools**

**Building And Construction**

Count: 13

**Fuel And Service Stations**

Count: 18

**Restaurants And Hotels**

Count: 90

**Food And Drugs**

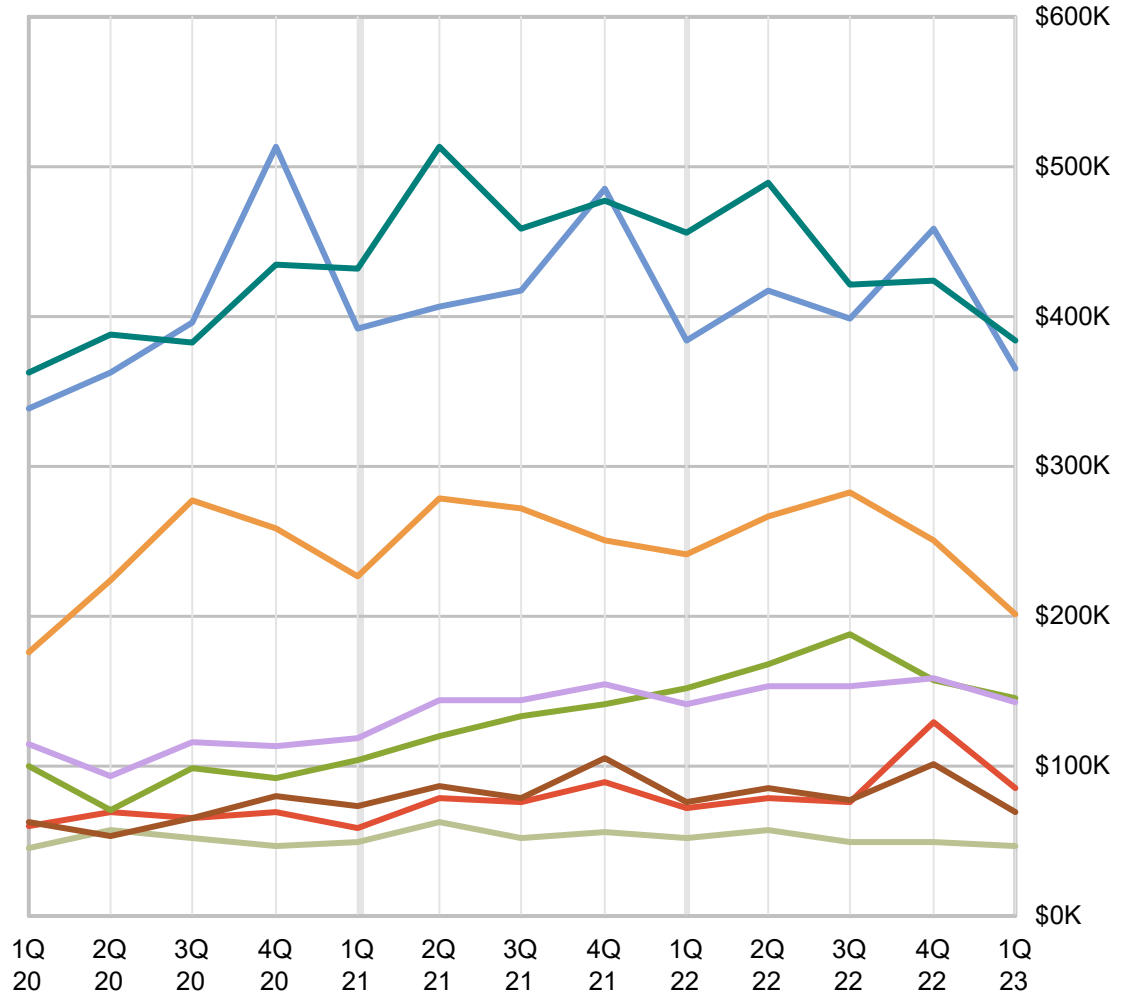
Count: 25

**General Consumer Goods**

Count: 326

**Business And Industry**

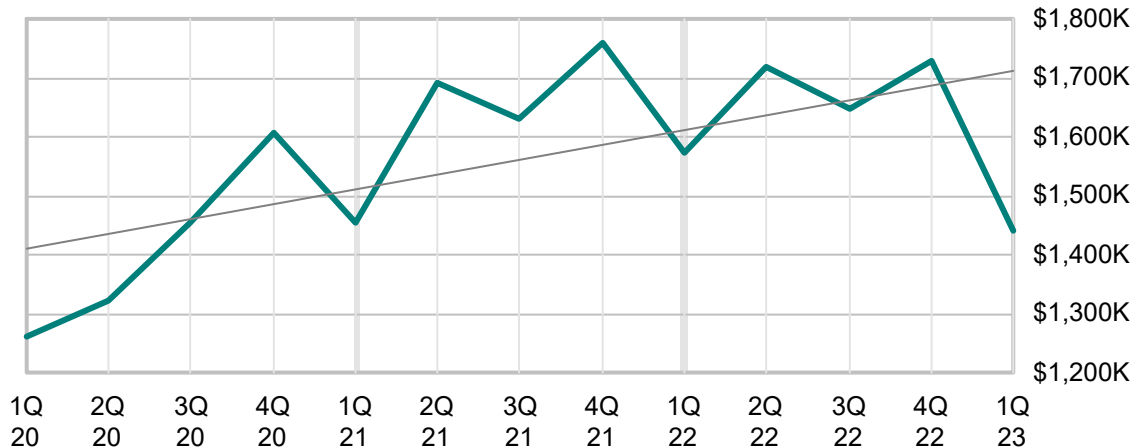
Count: 142



Agency Trend

**Placerville**

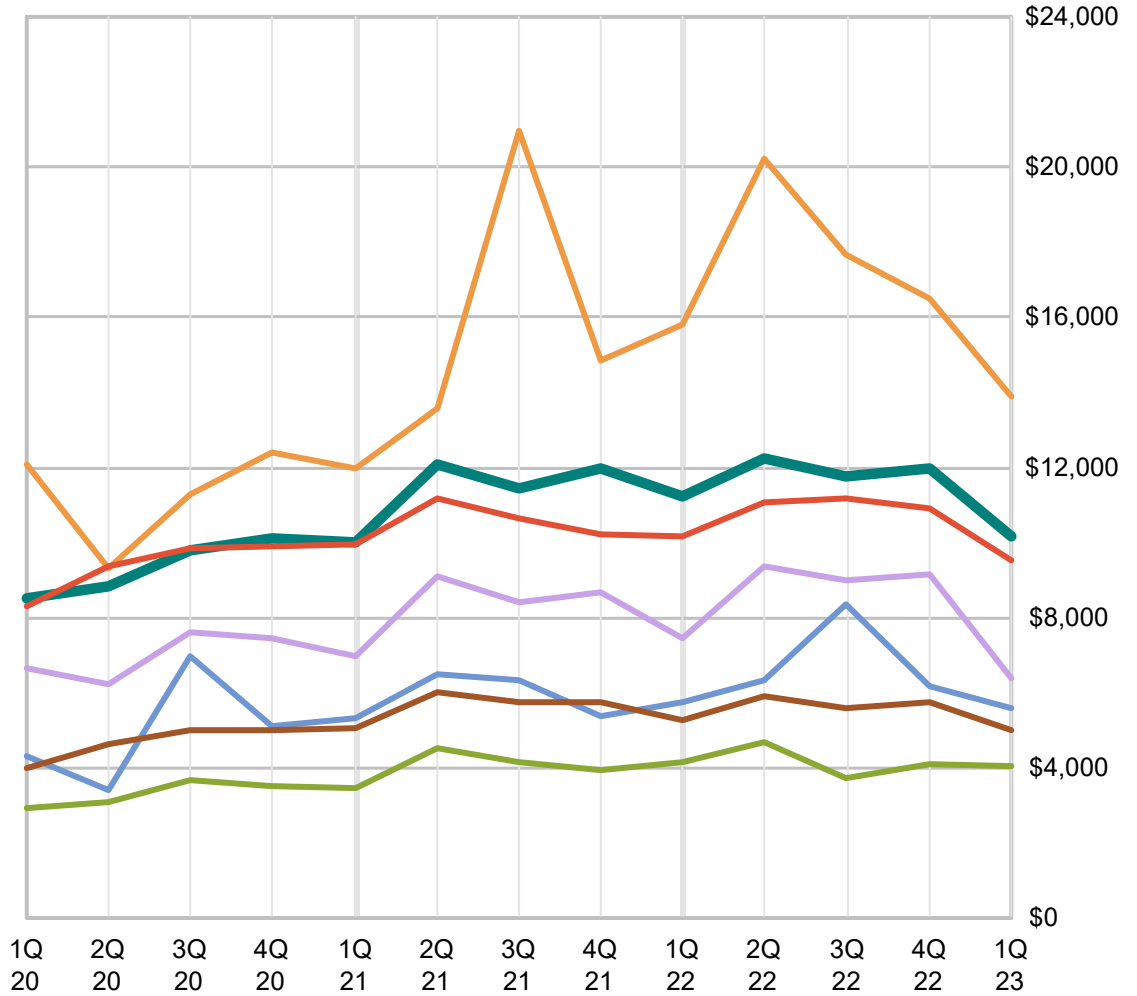
13 Quarter Trend: +21.2%



Periods shown reflect the period in which the sales occurred - Point of Sale

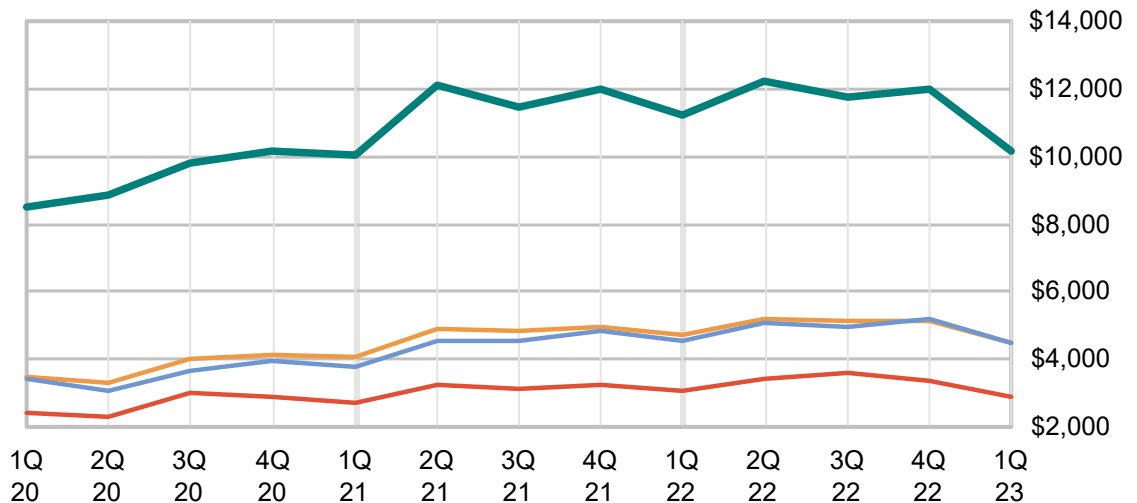
**Per Capita Sales**

- Placerville**  
Count: 665
- South Lake Tahoe**  
Count: 982
- Auburn**  
Count: 859
- Marysville**  
Count: 344
- Nevada City**  
Count: 431
- Grass Valley**  
Count: 929
- Yuba City**  
Count: 1,673



**Per Capita Sales**

- Placerville**
- El Dorado County**
- Sacramento Region**
- California**



Periods shown reflect the period in which the sales occurred - Point of Sale

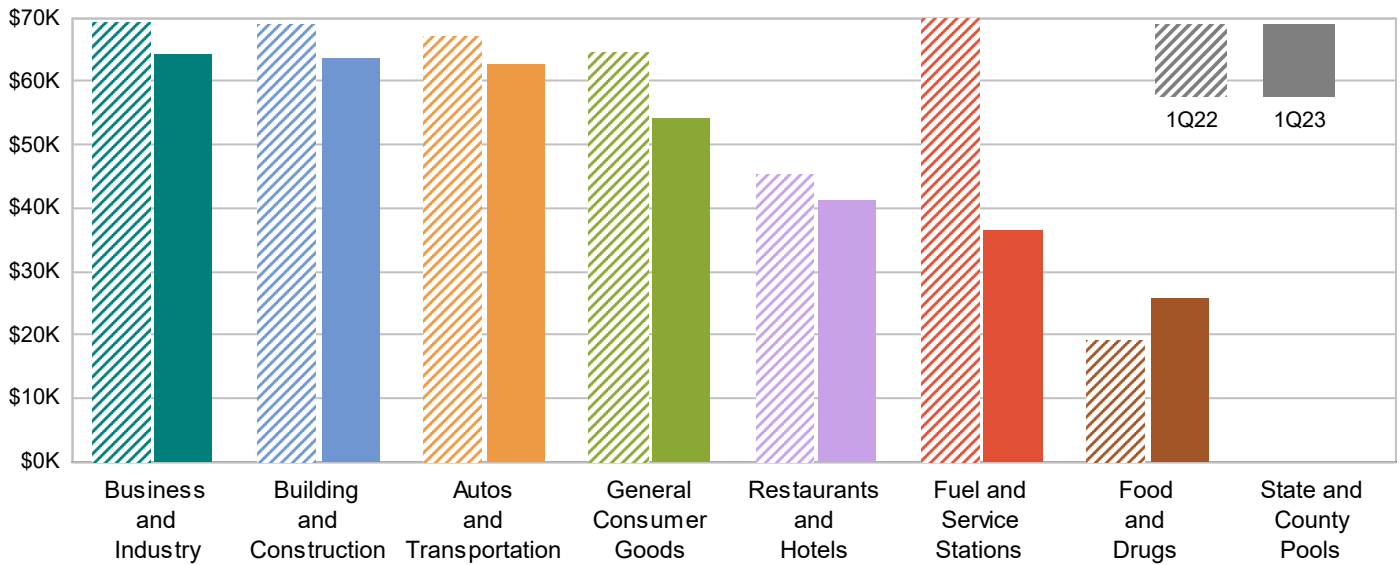


# CITY OF PLACERVILLE MEASURE H

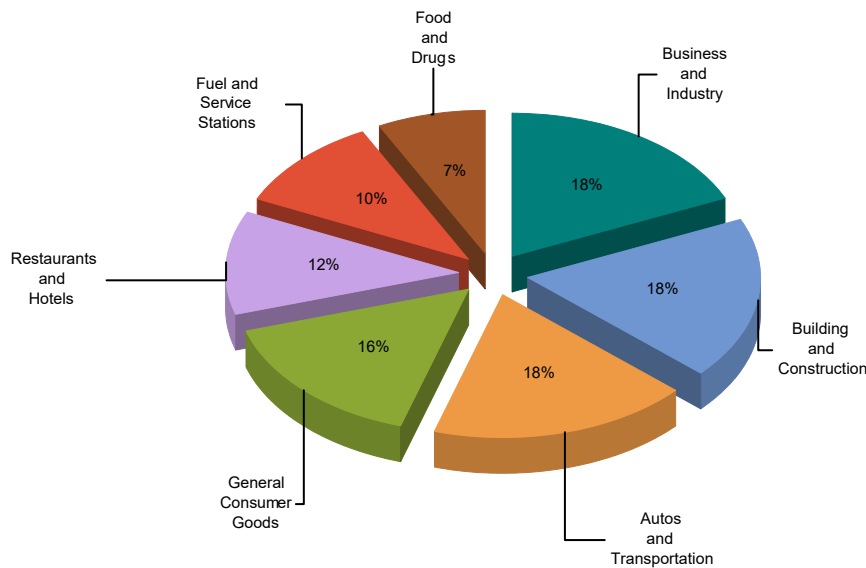
## MAJOR INDUSTRY GROUPS

Major Industry Group	Count	1Q23	1Q22	\$ Change	% Change
Business and Industry	3,005	64,143	69,178	(5,035)	-7.3%
Building and Construction	386	63,679	69,018	(5,340)	-7.7%
Autos and Transportation	565	62,764	67,201	(4,438)	-6.6%
General Consumer Goods	2,166	54,217	64,653	(10,436)	-16.1%
Restaurants and Hotels	132	41,222	45,523	(4,301)	-9.4%
Fuel and Service Stations	50	36,554	69,913	(33,359)	-47.7%
Food and Drugs	97	25,992	19,271	6,722	34.9%
Transfers & Unidentified	1,372	4,813	4,162	650	15.6%
State and County Pools	-	0	0	0	-N/A-
<b>Total</b>	<b>7,773</b>	<b>353,384</b>	<b>408,920</b>	<b>(55,536)</b>	<b>-13.6%</b>

**1Q22 Compared To 1Q23**

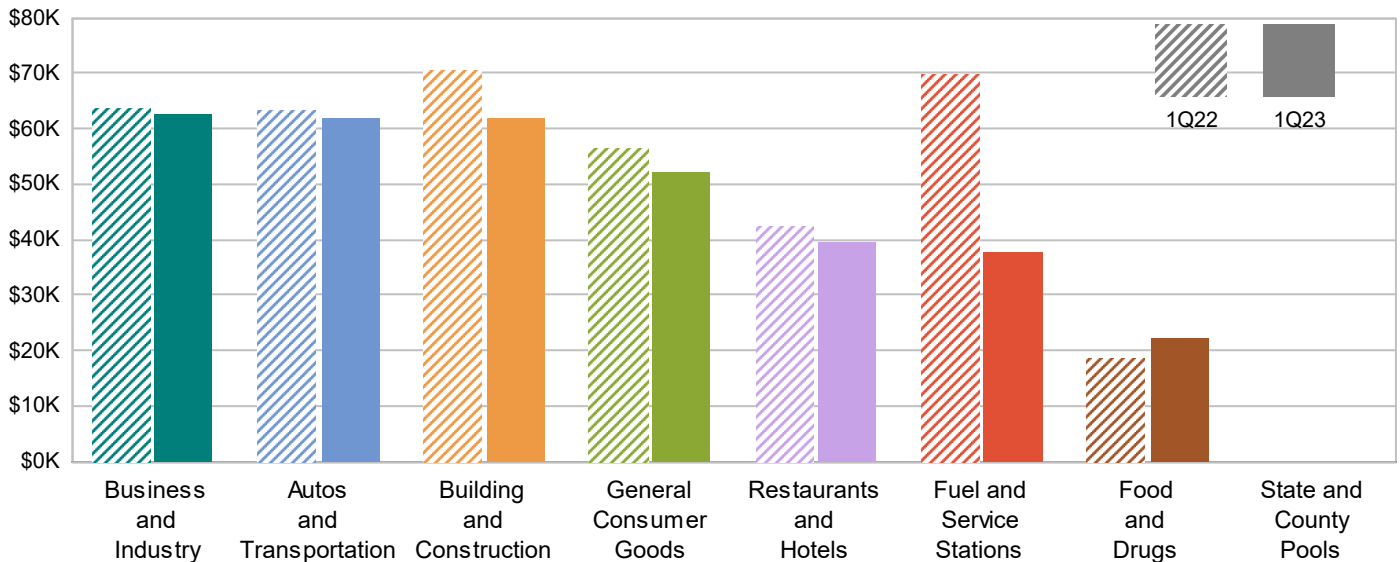


**1Q23 Percent of Total**

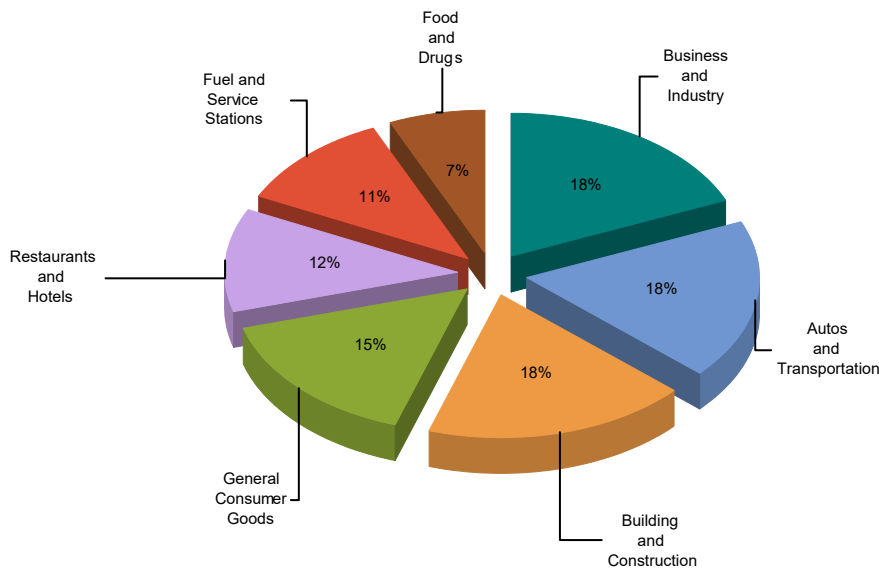


Major Industry Group	Count	1Q23	1Q22	\$ Change	% Change
Business and Industry	3,005	62,503	63,676	(1,173)	-1.8%
Autos and Transportation	565	61,992	63,453	(1,461)	-2.3%
Building and Construction	386	61,779	70,468	(8,689)	-12.3%
General Consumer Goods	2,166	52,234	56,583	(4,350)	-7.7%
Restaurants and Hotels	132	39,517	42,467	(2,949)	-6.9%
Fuel and Service Stations	50	37,723	69,775	(32,053)	-45.9%
Food and Drugs	97	22,533	18,972	3,561	18.8%
Transfers & Unidentified	1,372	3,940	3,418	522	15.3%
State and County Pools	-	0	0	0	-N/A-
<b>Total</b>	<b>7,773</b>	<b>342,220</b>	<b>388,812</b>	<b>(46,592)</b>	<b>-12.0%</b>

**1Q22 Compared To 1Q23**



**1Q23 Percent of Total**





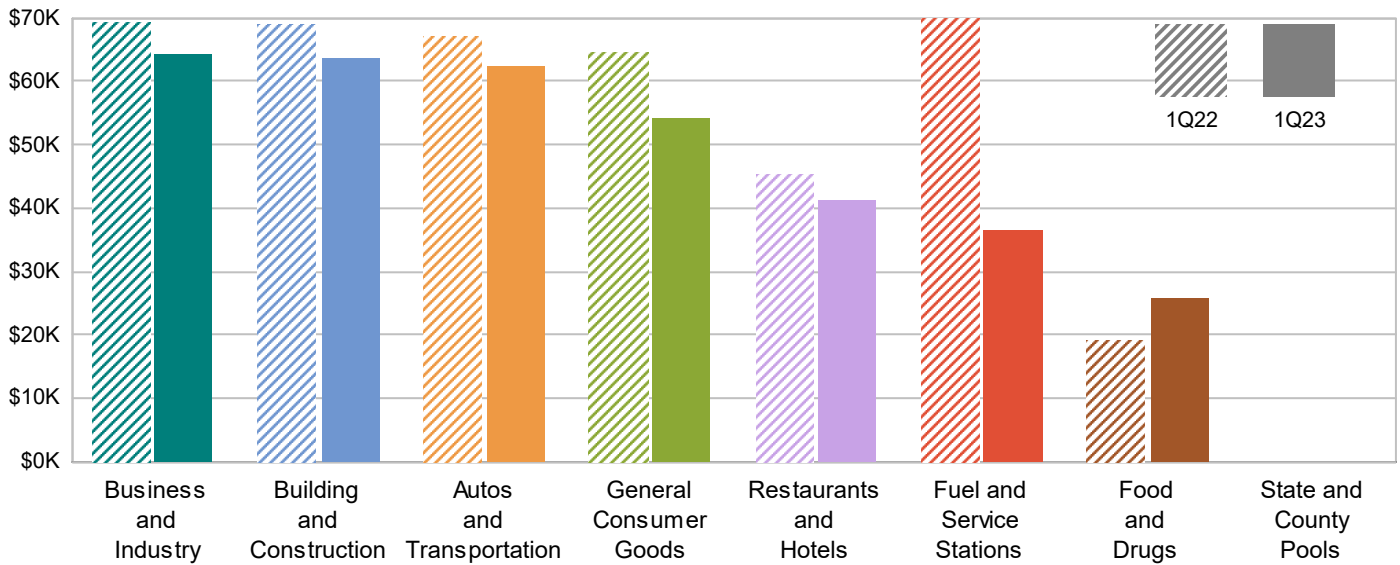


# CITY OF PLACERVILLE MEASURE J

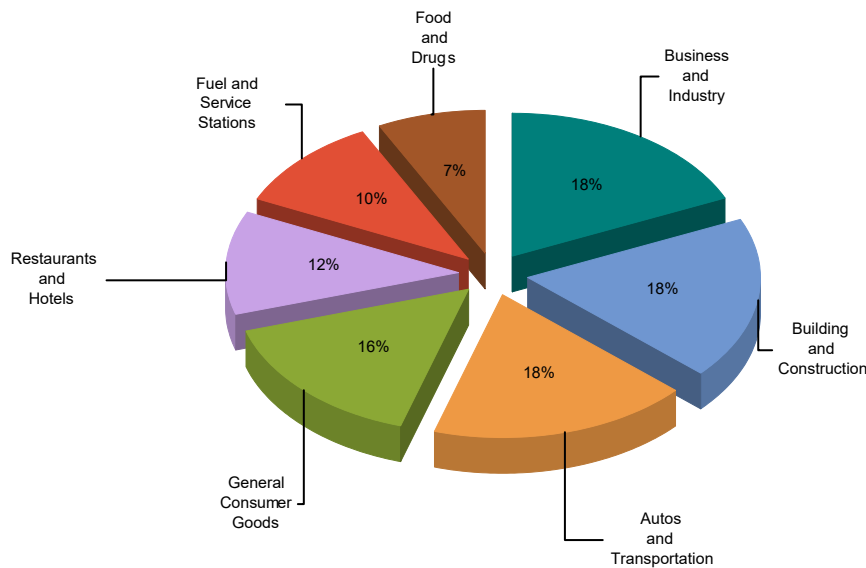
## MAJOR INDUSTRY GROUPS

<u>Major Industry Group</u>	<u>Count</u>	<u>1Q23</u>	<u>1Q22</u>	<u>\$ Change</u>	<u>% Change</u>
Business and Industry	3,000	64,270	69,328	(5,058)	-7.3%
Building and Construction	387	63,664	69,022	(5,358)	-7.8%
Autos and Transportation	564	62,534	67,038	(4,504)	-6.7%
General Consumer Goods	2,170	54,149	64,681	(10,532)	-16.3%
Restaurants and Hotels	132	41,239	45,541	(4,301)	-9.4%
Fuel and Service Stations	50	36,546	69,909	(33,363)	-47.7%
Food and Drugs	100	25,980	19,295	6,685	34.6%
Transfers & Unidentified	1,373	4,813	4,170	643	15.4%
State and County Pools	-	0	0	0	-N/A-
<b>Total</b>	<b>7,776</b>	<b>353,194</b>	<b>408,983</b>	<b>(55,789)</b>	<b>-13.6%</b>

**1Q22 Compared To 1Q23**

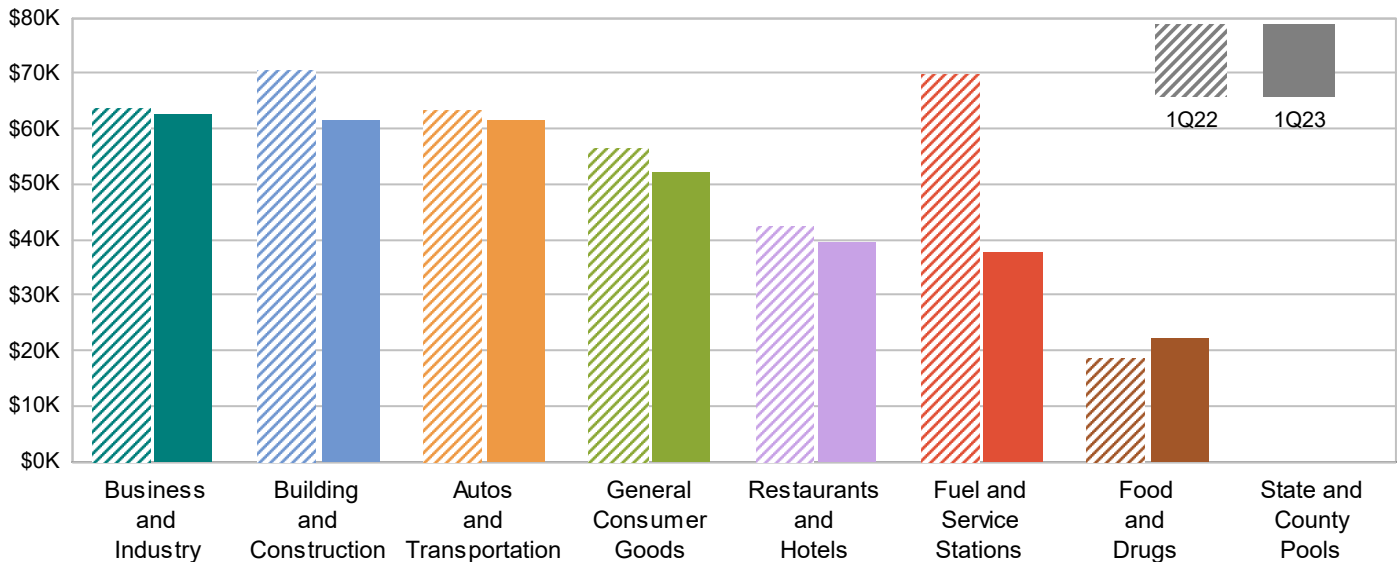


**1Q23 Percent of Total**

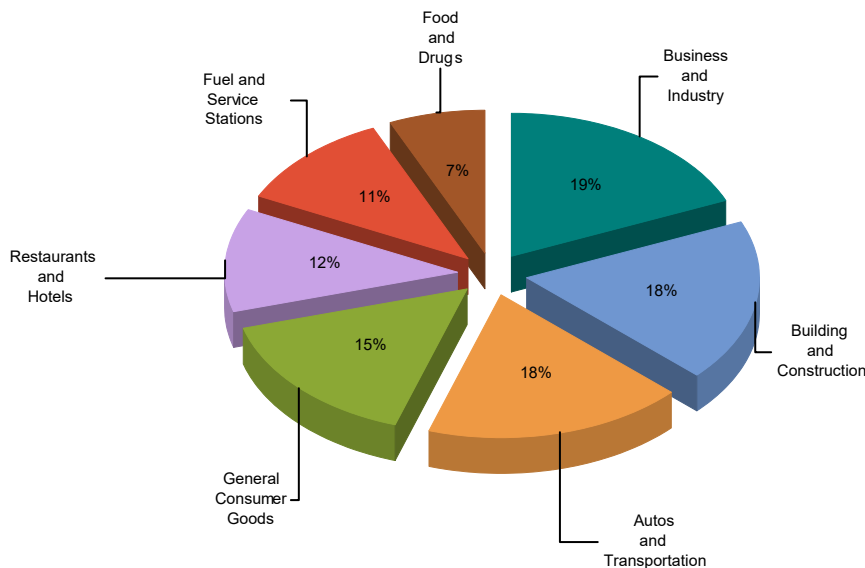


Major Industry Group	Count	1Q23	1Q22	\$ Change	% Change
Business and Industry	3,000	62,764	63,792	(1,028)	-1.6%
Building and Construction	387	61,764	70,472	(8,708)	-12.4%
Autos and Transportation	564	61,761	63,286	(1,525)	-2.4%
General Consumer Goods	2,170	52,204	56,611	(4,407)	-7.8%
Restaurants and Hotels	132	39,517	42,467	(2,949)	-6.9%
Fuel and Service Stations	50	37,714	69,771	(32,057)	-45.9%
Food and Drugs	100	22,556	18,996	3,560	18.7%
Transfers & Unidentified	1,373	3,940	3,418	522	15.3%
State and County Pools	-	0	0	0	-N/A-
<b>Total</b>	<b>7,776</b>	<b>342,220</b>	<b>388,811</b>	<b>(46,591)</b>	<b>-12.0%</b>

**1Q22 Compared To 1Q23**



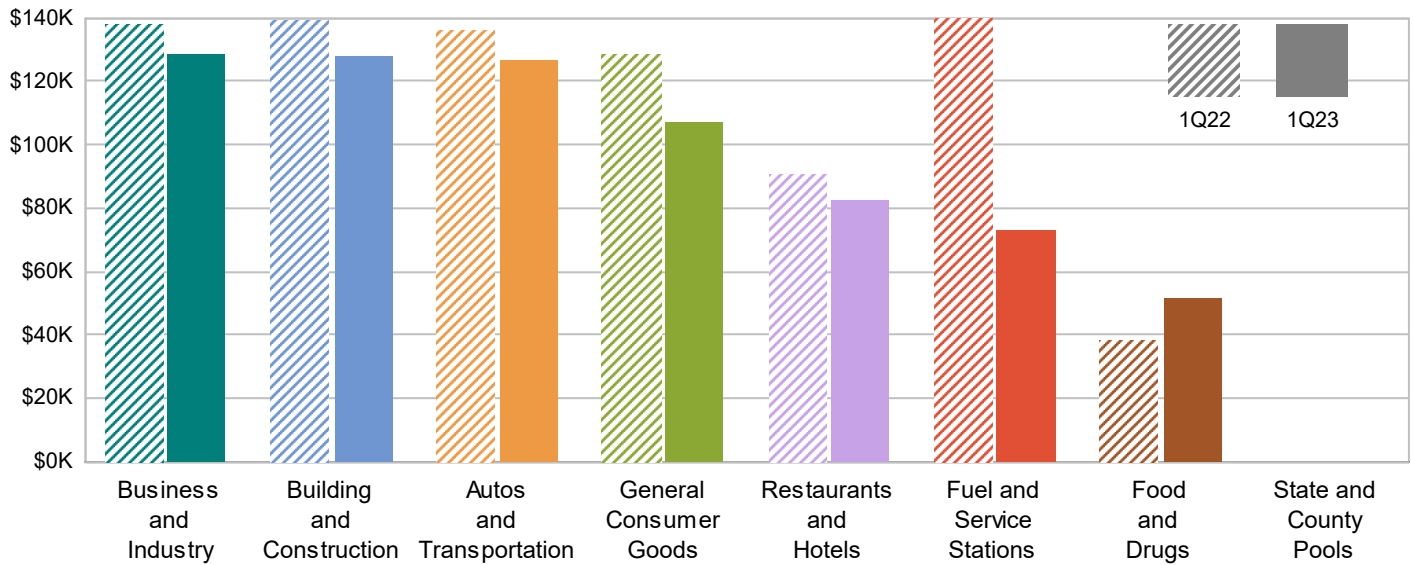
**1Q23 Percent of Total**



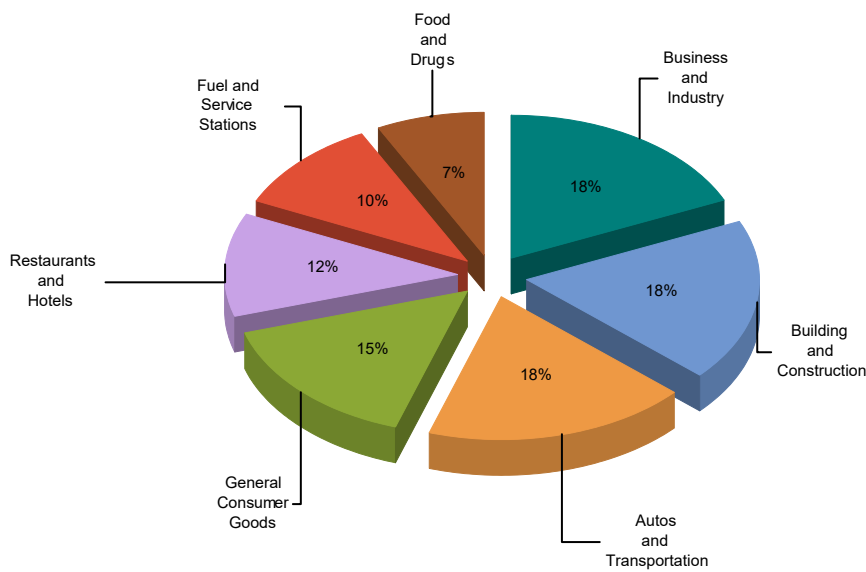


<u>Major Industry Group</u>	<u>Count</u>	<u>1Q23</u>	<u>1Q22</u>	<u>\$ Change</u>	<u>% Change</u>
Business and Industry	3,038	128,720	137,694	(8,974)	-6.5%
Building and Construction	403	127,821	138,959	(11,139)	-8.0%
Autos and Transportation	562	126,717	135,804	(9,087)	-6.7%
General Consumer Goods	2,152	106,938	128,377	(21,439)	-16.7%
Restaurants and Hotels	133	82,444	91,045	(8,601)	-9.4%
Fuel and Service Stations	51	73,105	139,827	(66,721)	-47.7%
Food and Drugs	96	51,984	38,540	13,444	34.9%
Transfers & Unidentified	1,378	9,575	8,301	1,274	15.4%
State and County Pools	-	0	0	0	-N/A-
<b>Total</b>	<b>7,813</b>	<b>707,304</b>	<b>818,547</b>	<b>(111,243)</b>	<b>-13.6%</b>

**1Q22 Compared To 1Q23**

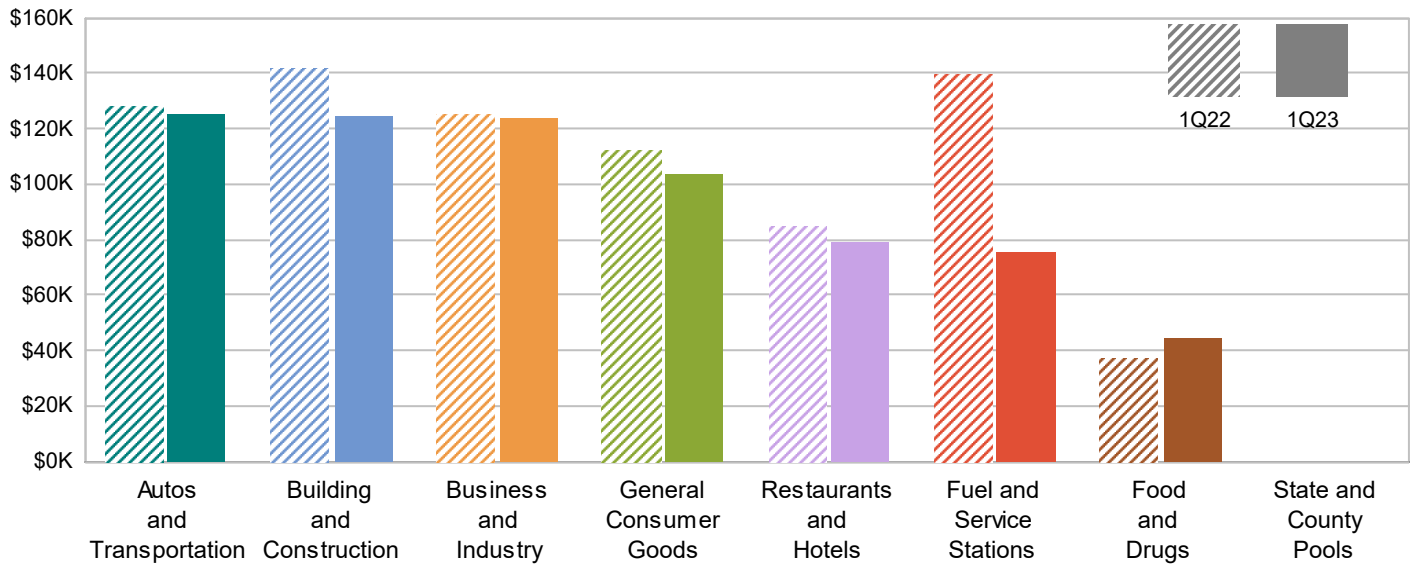


**1Q23 Percent of Total**

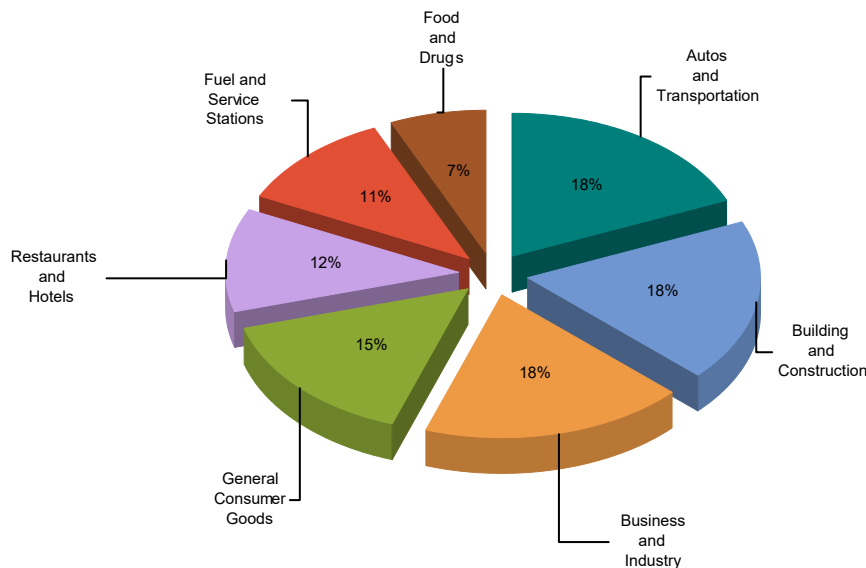


Major Industry Group	Count	1Q23	1Q22	\$ Change	% Change
Autos and Transportation	562	125,104	128,369	(3,265)	-2.5%
Building and Construction	403	124,528	141,942	(17,414)	-12.3%
Business and Industry	3,038	124,052	125,252	(1,200)	-1.0%
General Consumer Goods	2,152	103,467	112,711	(9,244)	-8.2%
Restaurants and Hotels	133	79,057	84,931	(5,874)	-6.9%
Fuel and Service Stations	51	75,431	139,551	(64,120)	-45.9%
Food and Drugs	96	45,072	37,942	7,130	18.8%
Transfers & Unidentified	1,378	7,846	6,831	1,015	14.9%
State and County Pools	-	0	0	0	-N/A-
<b>Total</b>	<b>7,813</b>	<b>684,556</b>	<b>777,529</b>	<b>(92,972)</b>	<b>-12.0%</b>

**1Q22 Compared To 1Q23**



**1Q23 Percent of Total**



# HdL<sup>®</sup> Companies

June 29, 2023

Thank you for your continued trust in HdL. For 40 years we have had the pleasure of providing local government leaders the revenue solutions they require to help build and sustain thriving communities. We remain passionate about this mission and are thankful for the opportunity and inspired by the success the City of Placerville has had throughout our partnership.

Attached is an annual summary of the cumulative sales and use tax revenues the City of Placerville has recognized through calendar year 2022. The recoveries represent a return of 1,196% on all fees paid to HdL since the beginning of its contract with the City. An additional \$17,441 was recovered from ongoing audits of your transaction tax. Well done!

At HdL we are always looking for opportunities to further increase returns for our local government partners. We have seen recent success in returns via rental unit registration, utility users' tax administration, and maximizing federal grant funding. As business operations in most communities have returned to normal during the past year, so have our business tax discovery services ensuring proper registration and revenue collections. Please visit our [website](#) for additional information about these services.

If you are looking to ensure your revenue programs are operating at peak efficiency, give us a call. We can help with tax code modernization, tax and fee administration, revenue discovery, business audits, and more. Let us know how we can help by contacting us at [solutions@hdlcompanies.com](mailto:solutions@hdlcompanies.com), 714.879.5000, or by talking with your Client Services Representative at your next sales tax meeting.

Kindly Regards,

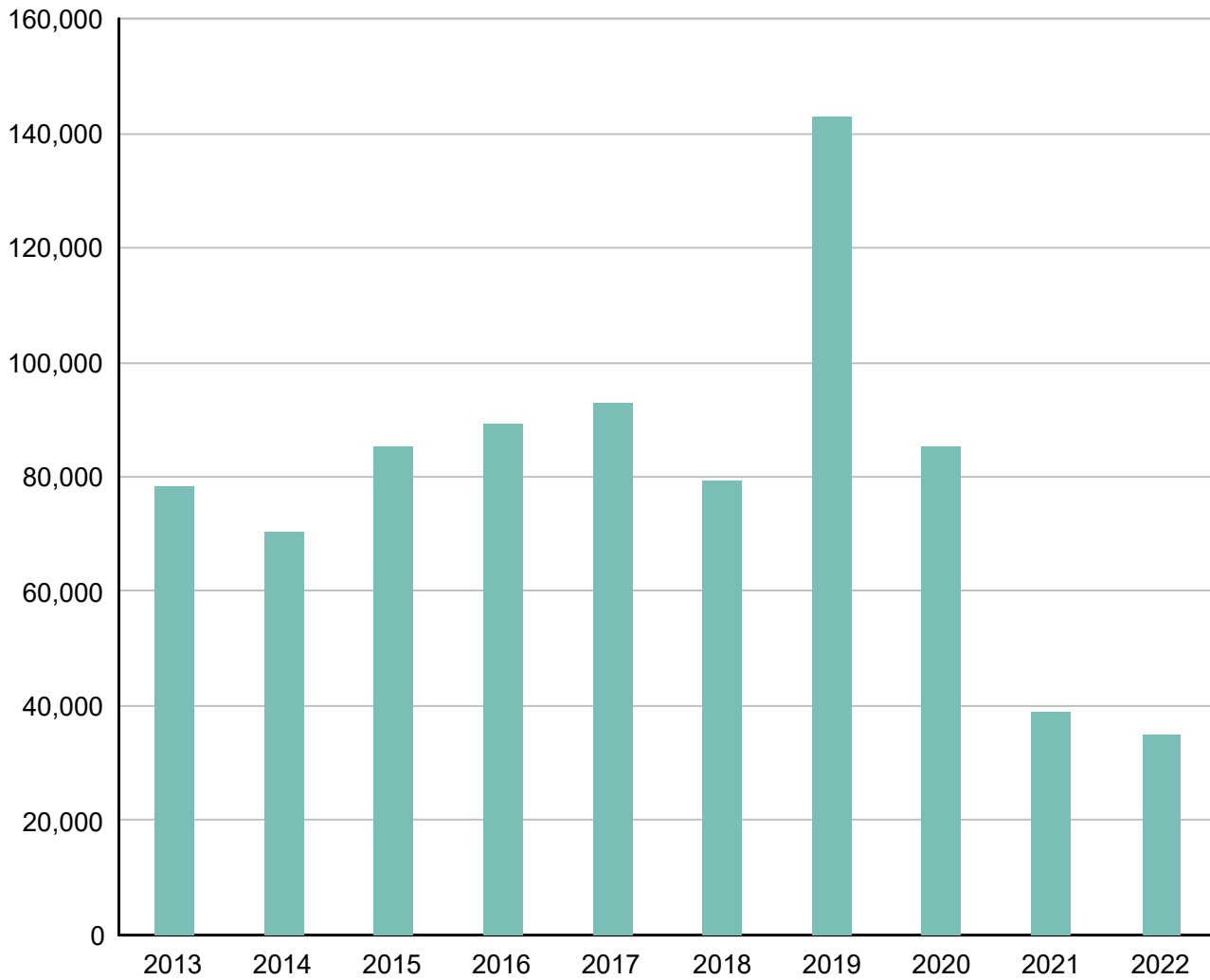


Andy Nickerson  
President/CEO



# CITY OF PLACERVILLE

## ANNUAL SALES TAX RECOVERY



<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
\$78,342	\$70,558	\$85,202	\$89,203	\$92,865
<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022*</b>
\$79,204	\$142,887	\$85,176	\$38,997	\$35,109

**Cumulative Recovery Since 1991: \$1,578,672\***

\* 2022 dollars are estimated

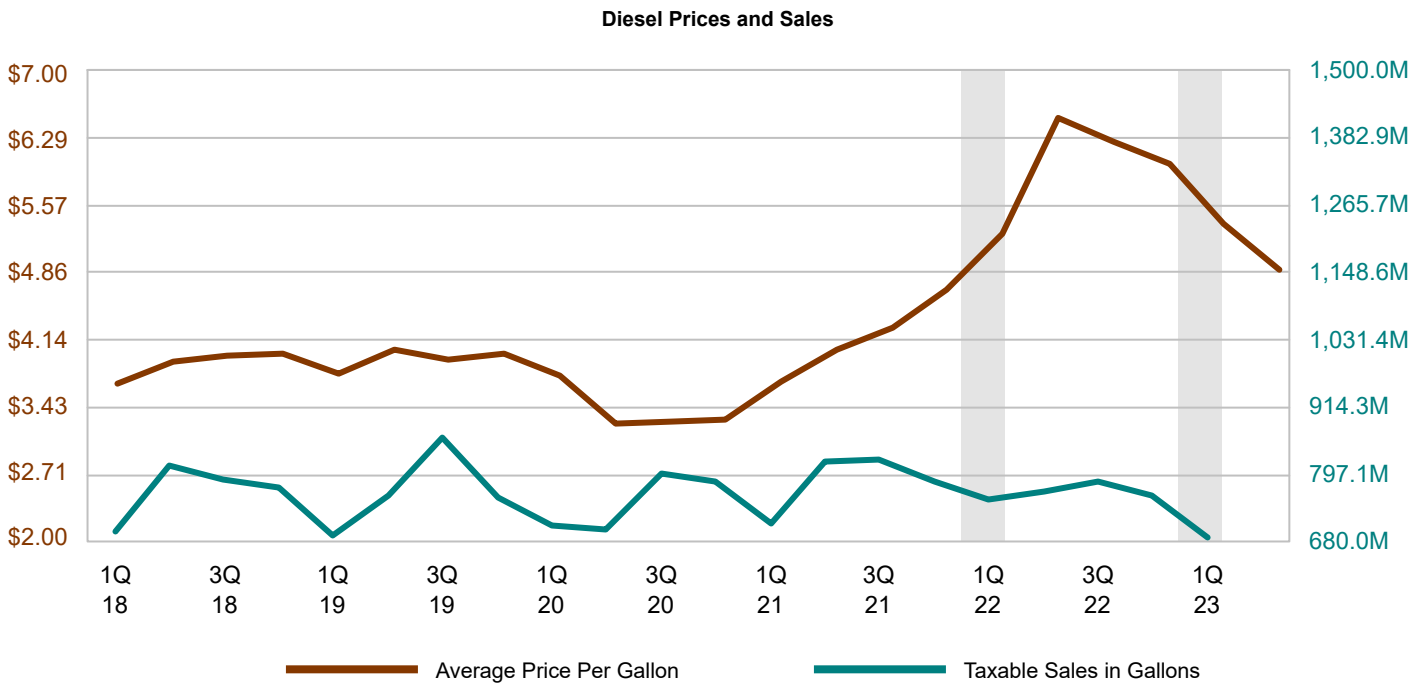
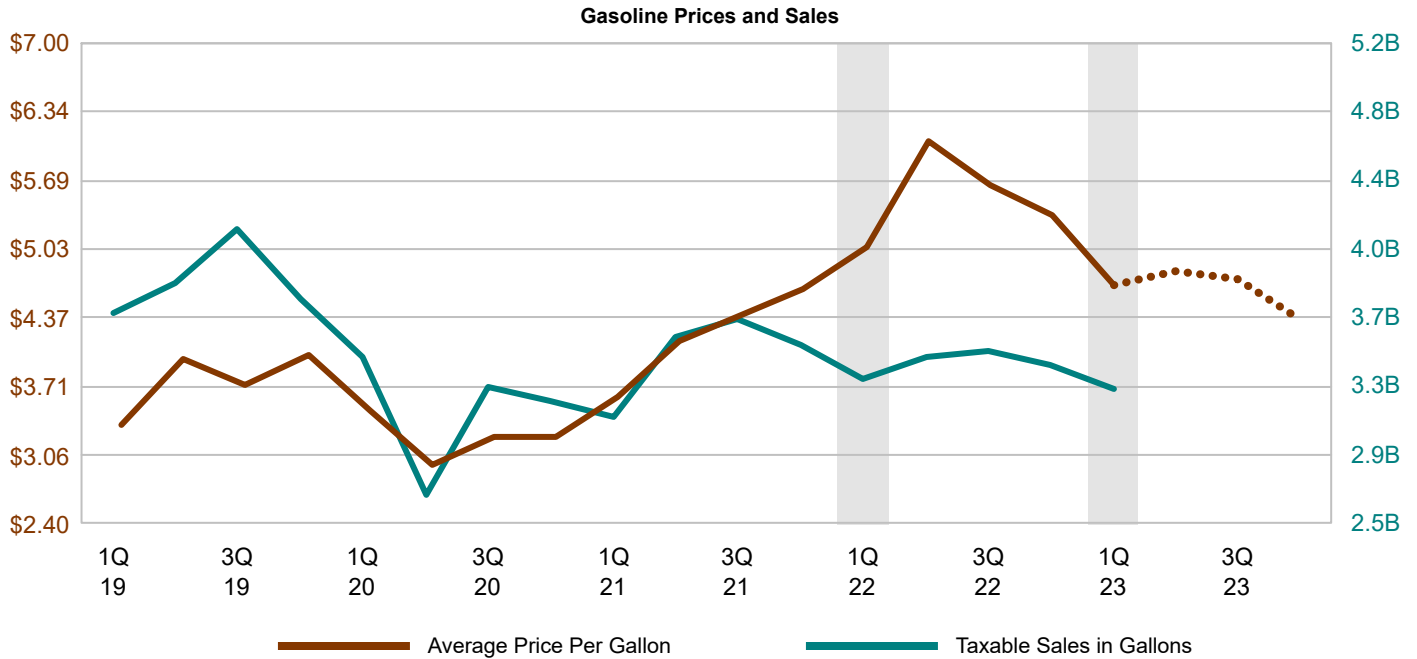


# STATE OF CALIFORNIA

## GASOLINE AND DIESEL TRENDS

Gasoline Data	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23*	3Q23*	4Q23*
Average Price Per Gallon	\$4.65	\$5.05	\$6.07	\$5.64	\$5.35	\$4.69	\$4.82	\$4.74	\$4.36
% Change from Prior Quarter	5.50%	8.63%	20.13%	-7.03%	-5.13%	-12.32%	2.70%	-1.66%	-8.02%
% Change from Same Qtr Prior Year	43.56%	39.43%	45.69%	28.01%	15.11%	-7.09%	-20.57%	-15.98%	-18.54%

\* - Estimate



Sources: Board of Equalization, California Department of Tax and Fee Administration, Energy Information Administration, The HdL Companies



HdL<sup>®</sup> Companies

# CALIFORNIA FORECAST

SALES TAX TRENDS & ECONOMIC DRIVERS

JUNE 2023



Tuolumne County, CA

**Delivering Revenue, Insight, and Efficiency to Local Government Since 1983**

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



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**Overview:** As of June 2023, the uncertainty of whether the nation will enter a recession continues to loom. Over the past year, the most significant trend observed has been strong employment numbers despite certain industry outlooks requiring a smaller workforce. The low unemployment rate has been a key driving force behind the Fed Funds 500% rate increase dating back to the summer of 2022. Yet, inflation lingers. Recent sales tax performance echoed more cautious behaviors by consumers, along with commodity prices fluctuating in multiple directions. Given the melting pot of economic indicators, our current outlook at this juncture is a modest decline in sales tax returns through CY 2023, with small levels of growth beginning in early 2024.

2022/23 | 2023/24



**Autos/Transportation**

2.0% | -3.3%

Tax receipts associated with the automotive industry experienced a decline for the first time since the onset of the pandemic in early 2020. This drop can be attributed to hesitation from potential buyers purchasing a high-cost vehicle. Additionally, the increasing inventory of cars available on dealership lots has begun to exert pressure on prices. Though the average transaction price remained slightly higher YOY, it has finally dropped below the Manufacturer's Suggested Retail Price (MSRP) after several years of consumers being required to pay over sticker price. Simultaneously, the wholesale price of used cars has experienced a notable decline, indicating retail prices are likely to follow suit. There is an expectation that both used and new vehicles will become more readily available in the months ahead, leading to increased competition and subsequently exerted downward pressure on vehicle pricing through the remainder of CY 2023.

2022/23 | 2023/24



**Food/Drugs**

1.4% | 2.0%

Like other sectors, the impacts of higher pricing and shopping behavior yielded only a modest 0.3% bump in Q1 2023 payments. Higher tallies at grocery chains were offset by weaker returns from cannabis merchants and convenience stores. This segment is the most stable of all and is on track to produce an average of 2% gains in 2023 and the years to follow. Expect some contraction from areas of the state where stores are over concentrated. Additionally, expansion of merchant stores is anticipated where new communities are established and regional populations are on the rise.



**Building/Construction**

0.0% | -0.6%

Prior to the end of CY 2022, new home construction starts declined significantly, but other types of construction posted stable activity levels. In Q1 of 2023, four noteworthy trends were observed. First, adverse weather limited building activity which impacted painting, groundwork and foundation sets. Wet weather also decreased seasonal homeowner spending on yard improvements. Second, the value of lumber retail prices plummeted as much as 64% compared to a year ago as retailers finally sold off the pricier inventory. The direct result led to a big decrease in comparative sales totals. Third, pro builders started pulling back on new starts until the price of other construction inputs and financing rates rolled back to more profitable levels. Lastly, the fourth trend relates to the average consumer who is now purchasing fewer big-ticket items and scaling back on DIY projects. Expect returns from Q2 2023 to reflect contractors making up for delays. However, short term receipts are predicted to weaken due to the continuous decline of lumber prices and the pause in general construction taking place.



**Fuel/Service Stations**

-0.5% | -9.5%

This category is now experiencing downward pressure in all facets. Regular gasoline, diesel, jet fuel, and West Texas Intermediate (WTI) oil barrel prices have all declined while consumption of fuel was lower in CY 2022 and in Q1 of 2023. WTI crude ended CY 2022 significantly below the Q4 2022 projection, with consumption remaining flat. CY 2023 projections are similarly reduced from what was presented in the March edition of HdL's *California Forecast*. As a result of these factors, our forecast now predicts an additional reduction of 10% per quarter through the end of CY 2023, followed by a flattening out in the first two quarters of 2024 and no growth for FY 2024-2025.



**General Consumer Goods**

0.1% | -0.5%

Local tax receipts for Q1 2023 showed signs of retreat, contracting 1.9% compared to the same period YOY. As overall demand weakens, retailers appear to expect a slowdown, particularly in the discretionary and durable good categories. Consumer confidence and sentiment have both contributed toward a deceleration within this sector. Consequently, local tax has begun to emulate consumer trends. With excess savings drying up, access to credit becoming more stringent, and modest income gains taking place, households are becoming more prudent with their buying habits which has encouraged some customers to compromise on quality or switching to more affordable brands. Additionally, many consumers are now shifting to spending on services rather than tangible items. Our forecast shifts moderate declines slightly forward through the end of CY 2023 with growth returning in the spring of 2024.



**Business/Industry**

5.2% | 2.3%

In a down-shift, only nine of the twenty-one business types in this varied tax group trended positively for the quarter. Claiming almost 30% of all revenues, fulfillment centers continued expanding with more direct taxpayer allocations to agencies. Several regional energy projects bolstered electrical equipment revenues and large (non-auto) transportation equipment sales increased 33%. Technology needs and other B2B efforts buoyed business services outcomes. Conversely, garden-agricultural supply transactions slowed by 19%, likely attributed to financing challenges. After considerable growth during the pandemic, demand faded for medical biotech-related supplies/equipment. The heavy industrial sector also dipped, strained by the cost of capital and uncertainty. HdL projects modest overall growth, however, given the group's unique composition, predictions vary based on the size and character of local businesses and industry taxpayers.

While Proposition 172 (1/2 cent designated for Public Safety) projections closely track with the statewide Bradley-Burns, calculations vary somewhat due to the state's allocation methodology. HdL projects an average statewide increase of 1.7% for fiscal year 2022-23 and a .73% decrease for 2023-2024. As Bradley-Burns countywide pool allocations are reduced to reflect direct allocations for changes to internet-related sales, Proposition 172 pro-rata factors have shifted considerably for many counties.



2022/23 | 2023/24



## Restaurants/Hotels

8.1% | 3.5%

Since Q1 of 2022, the restaurant industry has experienced an increase of menu prices due to various inflationary impacts that have persisted to current day. However, the pace of growth in restaurant sales has slowed in recent months. Though consumers continue to dine out, they are looking for the best value deal and may opt for take-out instead of enjoying sit down establishments. Meanwhile, hotels are still awaiting a full return of international tourism. The slow return of travelers will offset any moderation in the tourism industry over the next few years. Leisure activities are expected to trend at a similar pace as the demand for experiences holds strong.

2022/23 | 2023/24



## State and County Pools

0.6% | -0.3%

Patterns of online spending behaviors have held steady. However, with additions of in-state fulfillment centers delivering products to nearby local shoppers, less merchandise is received from out-of-state locations. This trend has resulted in fewer dollars available for distribution in the countywide pools. For the second consecutive quarter, comparative results have decreased. The business development strategy of housing products for local delivery destinations will boost local taxes for a limited number of jurisdictions which have these types of facilities. The tradeoff is expected reductions in available pool use taxes through the end of CY 2023.



BEACON ECONOMICS

# NATIONAL AND STATEWIDE ECONOMIC DRIVERS

2022/23 | 2023/24



## U.S. Real GDP Growth

1.6% | 1.3%

Real GDP growth in Q1 of 2023 clocked in at 1.1%, a slowdown from the 2.6% growth in Q4 of 2022. Weaker GDP growth in Q1 was driven exclusively by a sharp reduction in inventories. The real growth in final demand, which is a more important measure than output and indicates the pace at which spending drives the economy, reached 3.5%. This growth rate is the highest since the first half of 2021. Moreover, consumer spending was the largest contributor to growth. The U.S. Bureau of Economic Analysis' monthly data on real consumer spending jumped to a record high level in April, suggesting continued consumer spending in Q2 and overall economic growth.

2022/23 | 2023/24



## U.S. Unemployment Rate

3.5% | 3.6%

Unemployment in the nation at the start of 2023 remains rock bottom. In May, unemployment was 3.7% and 3.5% overall in Q1 of 2023 even as consumer spending continues despite inflation. In May, the numbers for job gains exceeded 300,000 and the participation rate continues to increase, suggesting that rising income is having the expected effect of expanding labor supply, though at too slow of a pace. The U.S. job openings rate, while down, is still higher than before the pandemic. However, supply is struggling to keep up with demand.



## CA Unemployment Rate

4.2% | 4.4%

According to the latest figures from the Bureau of Labor Statistics, the ratio of unemployed persons to job openings in California is 0.9. In short, there are not enough workers to fill the number of job openings. This is because California's labor force contracted during the pandemic. As of Q1 in 2023, there were still 180,000 fewer workers in the state's labor force than there were prior to the pandemic, while the national labor force has expanded over the same period. These figures reveal a contradiction—the state's economy has added jobs since the pandemic, but there are fewer workers active in the California economy. The most plausible explanation is that there has been an increase in the number of workers holding more than one job among the state's workforce. Going forward, worker availability will be a primary constraint on job growth in the state.



## CA Residential Building Permits

129,553 | 132,703

After three consecutive quarters of double-digit declines, California home sales returned to moderate growth in Q1 of 2023. However, home sales are still down about 40% YOY as higher mortgage rates cool the housing market from its pandemic surge. Despite steep declines in home sale activity, there are only about 75,000 homes for sale in California (about two months of supply), according to recent Redfin data. In other words, if no new units were added to the housing market, based on current sales activity, the number of homes for sale would be exhausted in two months. A healthy housing market is typically considered to be one that has six months of supply. The long-term problem is that California does not build enough housing and the number of permits issued for new housing in the state remains far below historic levels. While California's economy continues to expand, its growth is increasingly constrained by the state's housing market with no apparent relief in sight.



## CA Total Nonfarm Employment Growth

3.3% | 1.6%

In Q1 of 2023, California total nonfarm employment grew 2.8% YOY, a decrease from the 3.5% YOY growth seen in Q4 of 2022. Nonetheless, the latest monthly data from the Employment Development Department (EDD) showed that the Golden State added about 47,000 jobs in May, indicating a 2.4% increase from May 2022. Notably, California's nonfarm jobs gain during May amounted to 14% of the overall 339,000 jobs gained in the nation during the month. While California's economy has added more jobs relative to other states in the nation, this is mostly a function of its size (whereby a small percentage increase in job growth will translate into a relatively high number of jobs). Overall, California's job growth has still lagged other states, including Texas and Florida.



## CA Median Existing Home Price

\$655,154 | \$631,186

California house prices have fallen to 10% below their pre-pandemic peak. Despite the pullback, house prices remain 27% above their pre-pandemic levels. Since the start of the pandemic, annual house price growth has averaged 11.3%, compared to 6.1% in the 10 years prior to the pandemic. Price depreciation will be somewhat limited in 2023 despite a high interest rate environment causing further weakness in home prices. Beacon Economics is forecasting house prices to fall 6.3% in 2023. Further house price drops will be limited, especially when compared to the Great Recession, due to consumer balance sheets being stronger today than they were then, unemployment rates remaining at all-time lows, and the acute housing shortage in the state.

