

CALIFORNIA FORECAST

SALES TAX TRENDS & ECONOMIC DRIVERS

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Bishop, CA



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Overview: Steady household spending, despite historically low unemployment, has shielded the economy from recession, a unique situation even as inflation exceeded Federal Reserve targets and interest rates on loans and credit cards rose. In California, sales tax performance for fiscal year 2022-23 grew by 2.1%, but it lags far behind the double-digit growth seen during the pandemic recovery. Looking ahead, households face tight budgets, and various industries grapple with challenges like labor costs, inventory issues, and competition. Spending generating sales taxes is expected to dip slightly in fiscal year 2023-24, with limited expansion anticipated in the following year.

2023/24 | 2024/25

2023/24 | 2024/25



Autos/Transportation

-2.2% | 2.0%

The California New Car Dealership Association (NCDA) reported a 16.8% increase in new car registrations in Q2 2023 compared to the previous year. Despite this, sales tax revenue from the auto industry declined by 1.3%. Rental car agencies bought many new vehicles, deferring taxes until rentals. Sales of recreational vehicles, boats, and yachts also dropped from pandemic highs. Challenges include higher auto loan rates and labor disputes at major automakers. However, the aging vehicle fleet and limited pandemic inventory provide some protection against future tax revenue declines.



Fuel/Service Stations

-4.6% | 0.5%

Fuel sellers are facing upward price pressure due to slowing demand and consumption of fuel, including oil barrel, regular, and diesel prices. Reduced consumption of jet fuel is attributed to a pilot shortage, leading to fewer aircraft in operation with lower fuel needs. The price of West Texas Intermediate crude has risen significantly compared to the previous quarter's forecast, and global oil production is limited until the end of 2023. As a result, HdL has adjusted its projections, raising each of the next four quarters by 5% from the previous forecast, with an overall expected growth of only 0.5% over 2022-23. Taxes are anticipated to increase by around 2% per year starting in fiscal year 2024-2025.



Building/Construction

-1.8% | 3.5%

First-quarter rains delayed construction, with a slight second-quarter rebound in home improvement sales. Cement and asphalt plants saw increased activity, but overall sales didn't surpass last year due to reduced customers and big-ticket purchases at major home improvement stores. Lumber prices dropped significantly, down 42% compared to last year. Rising interest rates, reaching a 20-year high in the third quarter, have hampered both commercial and residential development. Slow progress in public infrastructure projects hasn't fully offset the decline in private development. Conditions will likely persist through the end of 2023, with mild growth expected by the close of fiscal year 2023-24. Improvements may be seen starting in 2024-25, and further gains are anticipated from 2025-26 onward, driven by more favorable mortgage rates.



General Consumer Goods

-1.2% | 1.4%

Tax proceeds from General Consumer Goods showed a decline of 4.8% in the second quarter compared to the same period in 2022. This marks the second consecutive quarter of contraction following eight quarters of expansion. The slowdown was expected, with major business types experiencing a more pronounced sales pullback as household finances tighten. Major retailers are forecasting modest declines in the remainder of 2023, particularly in general merchandise categories. While consumer spending remains supportive of the economy, nontaxable service spending is gaining a larger share compared to goods, which is reducing demand for many retail types. The outlook suggests a continued mild decline in direct tax allocations for the remainder of the year, with limited growth expected in the second half of 2024.



Business/Industry

2.0% | 2.2%

In Q2 2023, this category showed resilience with a statewide growth of slightly over 3%. Fulfillment centers, making up around 30% of B&I revenues, continued to expand as e-commerce increasingly relies on California-based warehouses. This shift redirects some indirect allocations from countywide pools directly to agencies with fulfillment centers. Excluding fulfillment centers, the remaining segments experienced a minor decline of 0.2%. Certain sectors, such as trailers/auto parts, farm/construction, and business technology, saw increases due to strong equipment sales. However, medical-biotech declined as post-pandemic product needs decreased, and industrial sectors also dipped due to inventory, labor, and demand challenges. Taking into account these influencing factors, HdL anticipates modest overall growth, mainly driven by fulfillment center revenues. Predictions at the local level vary depending on the size and nature of local businesses and industry companies.



Restaurants/Hotels

3.0% | 3.0%

Restaurant sales remain strong, with patrons allocating around 40% of their food budget to dining out. Younger diners increasingly prefer food delivery over dining in. While menu prices are stabilizing after a year of rapid growth, operating costs remain high, and profit margins are slim. The campus food category saw improvement as employees spent more time in office buildings, while fine dining experienced a decline as consumers seek more budget-friendly options. HdL's projections have only slightly moderated from the previous forecast, anticipating year-over-year gains of 3% for the next few years.



State and County Pools

-0.5% | 2.0%

In response to recent trends, there was a decrease in out-of-state inventories for e-commerce sales in California. Despite an overall increase in online sales, pool collections saw a 2% decline. This was partly offset by more in-state fulfillment from large warehouses and existing retail outlets. Economic experts have differing opinions on the outlook for the holiday season in 2023, ranging from lackluster to potentially stressful. While most agree that consumers will continue to increase online spending, estimates for local pool-related revenues are expected to dip slightly in fiscal year 2023-24 due to existing sales tax law allocations, with subsequent years showing modest increases.



Food/Drugs

1.0% | 2.0%

Mixed performance was evident in 2Q23, with grocery stores showing growth while all other sectors experienced declines. Convenience store purchases decreased, drug stores saw contractions with some closures and increased online shopping. Cannabis tax revenue remained challenging, with county sales performance ranging from \$4.55 to \$75.55 per capita according to CDTFA data. Looking ahead, price fluctuations driven by inflation and limited growth in new taxpayers constrain the outlook for the current year to a 1% growth rate. However, annual year-over-year gains are expected to gradually increase, reaching 2% starting in fiscal year 2024-25.



NATIONAL AND STATEWIDE ECONOMIC DRIVERS

2023/24 | 2024/25



U.S. Real GDP Growth

2.2% | 1.2%

Real GDP growth reached 2.1% in the second quarter, a slight improvement from the 2% growth recorded in the first quarter. Over the past four quarters, from the third quarter of 2022 to the second quarter of 2023, GDP growth has averaged 2.5% on an annualized basis, driven by robust consumer spending. Job growth continues, industrial production remains close to record highs, profits and wages are on the rise, and U.S. debt markets show minimal signs of stress. This economic strength is expected to carry into the second half of the year. According to the GDPNow estimate from the Atlanta Fed, third-quarter growth for this year could range between 5% and 6%.



CA Unemployment Rate

4.7% | 5.2%

The Bureau of Labor Statistics reports that in California, there are currently more job openings than unemployed individuals, with a ratio of 0.86. This situation stems from a reduction in California's labor force during the pandemic, which has yet to return to pre-pandemic levels. As of the second quarter of 2023, the state's labor force remains about 168,000 workers short of its January 2020 levels. In contrast, the national labor force has expanded during the same period. This presents a paradox: California has added jobs since the pandemic, but there are fewer active workers in the state's economy. One plausible explanation is an increase in multiple job holders, where workers hold more than one job. Looking ahead, labor shortages will likely impede job growth in the state, largely due to California's severe housing shortage.



CA Total Nonfarm Employment Growth

1.3% | 0.4%

In the second quarter of 2023, California's total nonfarm employment grew by 2.3% year-over-year, down from the 2.8% growth in the first quarter. However, recent data from the BLS for July indicates a 2% increase in jobs since May 2022, with the state adding about 29,000 jobs. While California has added a significant number of jobs compared to other states, this is mainly due to its large population, where even a small percentage increase results in a substantial job count. In terms of percentage growth, California lags behind states like Texas and Florida. Moreover, employment growth in California is slowing, partly due to the state's high housing costs, which have led to significant domestic migration losses.

2023/24 | 2024/25



U.S. Unemployment Rate

3.7% | 4.2%

Unemployment in the U.S. remains exceptionally low at the beginning of 2023, standing at 3.8% in August and 3.6% in the second quarter, despite challenges such as higher interest rates and inflation. In August, the economy added 187,000 jobs, and the labor force participation rate continues to rise. These trends indicate that increasing incomes are encouraging more people to join the workforce, albeit at a slower pace. The issue is that labor supply is struggling to keep up with demand, not the other way around. The nation appears to be on course for what's often referred to as a 'soft landing'—a scenario where inflation subsides without a rise in unemployment.



CA Residential Building Permits

140,369 | 147,744

California's severe housing shortage has been a longstanding issue. Some estimates suggest that the state was short by 3.5 million homes needed to accommodate its population in 2016. Although there has been a rapid increase in housing construction in recent years, with around 377,000 units built from 2020 to 2023 according to the California Department of Finance, this pace must be sustained or even accelerated for a decade or longer to make a significant impact on the housing shortage. Additionally, the updated forecasts from the CDF indicating essentially zero population growth in California over the next several decades will also need to materialize to address the problem effectively.



CA Median Existing Home Price

\$672,968 | \$709,999

Median home sale prices have fallen 10.6% from their pandemic peak in April 2022 to February 2023. However, they started to rebound in March 2023 and have shown year-over-year growth since July 2023. As of July, prices are 33% above pre-pandemic levels and only 6.4% below the peak. If this trend continues, California home prices will surpass the pandemic peak by Q1 2024. The state's severe housing shortage is a primary reason for the price increase, even as sales decline. Existing homeowners, locked into low mortgage rates, are also contributing to the housing shortage by hesitating to sell.

Proposition 172

While Proposition 172 (½ 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 decrease of 0.8% for fiscal year 2023-24 and a 2.1% increase for 2024-2025.

Projections reflect the recent change in county allocation factors published by the SCO in late August. As Bradley-Burns countywide pool allocations are reduced to reflect direct allocations for changes to internet-related sales in the first part of fiscal year 2023-24, Proposition 172 pro-rata factors can shift considerably for many counties.

Watch our webinar for more info!





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Delivering Insight, Revenue, and Efficiency
to Local Government

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

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