



	2011-12	2012-13
Autos/Transportation	9.6%	6.0%
Easing credit coupled with pent-up demand and a broader selection of vehicles has buyers returning to dealer showrooms. The rise in activity has created a mini-bubble of auto sales by car buyers who delayed purchases due to high prices and poor selection following the Japanese earthquake. Used luxury cars and sport utility vehicles are garnering unusually high prices. Strong sales are forecast to continue through the first half of 2012.		
Building/Construction	4.7%	2.5%
California's building and construction industry bottomed out in the third quarter of 2010 after 15 quarters of decline. Construction of all types remains at historically depressed levels. Federal stimulus spending, which has mainly boosted sales related to infrastructure projects, is running out. A recent surge in foreclosure sales is expected to continue into 2012 and should help maintain sales for home improvement chains and small contractors.		
Business/Industry	4.9%	3.5%
Financial turmoil in Europe has the potential to slow California exports. Although there is no sales tax on goods exported outside California, the equipment, materials and supplies purchased by distributors, manufacturers, transporters and other companies involved in export trade is significant and the export industry as a whole accounts for 25% of the state's gross domestic product.		
Food/Drugs	3.6%	2.5%
Fierce competition in the grocery industry continues. Chains are fighting back with more prepared meals and broader selections of other merchandise to attract more business. Further market segmentation featuring new ethnic markets, discount merchandisers and specialty food sellers is putting pressure on traditional chains. Culling of weaker stores to improve profits has begun in some areas.		
Fuel/Service Stations	17.7%	0.0%
Prices will remain high for U.S. consumers as global demand for refined products, strategic maintenance shutdowns and continued political unrest in the Middle East are all expected to keep fuel prices at current record levels in the coming year. The average U.S. household spent over \$4,100 on fuel in 2011.		
General Consumer Goods	4.5%	3.5%
The wealthiest 5% that generate 37% of all consumer expenditures are boosting sales of luxury goods but the growth in spending by the remaining 95% is expected to slow down in 2012. Sluggish employment gains and increased prices of food, fuel and medical care have created a new class of permanently conservative consumers focused on necessities at the lowest prices. This year's better than expected holiday spending was largely funded from savings and revolving credit. Retailers anticipate that the current pace will not sustain itself.		
Restaurants/Hotels	5.6%	3.5%
Growth in domestic travel spending and the increase in international travel to the Golden State are projected to continue into 2012, but overall gains will be modest. Receipts from fast-casual chains and fine dining establishments will continue to edge up but the performance of mid-price restaurant categories, especially the casual dining segment which has been in decline for two years, is expected to remain sluggish.		
State and County Pools	7.1%	3.5%
Private vehicle transactions are up as are equipment leases. Recent state reforms have helped improve the collection of use tax on out-of-state purchases of business materials and supplies.		
TOTAL	7.1%	3.5%

The **Proposition 172** growth factor is **7.6%** for Fiscal Year 2011-12. This factor varies from HdL's Bradley Burns growth rates due to differing collection periods and comparisons to prior year data that include onetime payment aberrations.



	2011-12	2012-13
U.S. Real GDP Growth	3.0%	2.7%
After slowing in the first half of the year, real GDP growth increased to 2.0% in the third quarter of the year. All indications are that the 4th quarter of 2011 will see GDP growth accelerate into the 3% to 4% range from increases in consumer spending, exports, business investment and rising inventories. With growth expected to gain momentum through the remainder of the year, Beacon Economics expects 3% growth in 2011-12 but forecasts growth to slow in 2012-13 as several key tax cuts expire.		
U.S. CPI Inflation	2.0%	2.8%
Inflation has yet to materialize in any significant way and given that unemployment remains elevated and real GDP has yet to return to its long-run trend, CPI inflation is forecast to remain moderate in 2011-12. However, as the economy continues to heal and the unemployment rate falls more substantially in 2012-13, the monetary stimulus that was injected into the system as part of the Federal Reserve's efforts to hold off a deeper recession will eventually lead to price pressure.		
California Population	37,762,800	38,119,138
The 2011 estimates of California's population and the sources of population growth show that the state currently has less population than previously reported. However, net migration remained negative in 2011. Fewer people left the state in 2011 than over the past three years. With home prices more affordable in California (relative to incomes) than in recent memory, net migration is expected to tip positive in 2012. Not only will this be fueled by fewer domestic residents migrating out but a weak dollar should stimulate increased immigration.		
California Nonfarm Employment	14,182,118	14,479,098
By now, it is clear that California's labor markets have made the turn toward recovery. To date, the state has added more than 250,000 jobs to its nonfarm payrolls. Much of this growth has come from the tech-heavy regions of San Jose and San Diego. However, job growth has also expanded to most other parts of the state and most industries including retail and construction. Beacon Economics forecasts this trend to continue through the end of 2011-12 and accelerate in 2012-13.		
California Unemployment Rate	11.6%	10.5%
California's unemployment rate has fallen substantially over the past year from a peak of 12.5% in December 2010 to just 11.3% in November 2011. More importantly, the declines in the unemployment rate have been driven by genuine improvements in the labor market; household employment has expanded by over 290,000 as the labor force has expanded by more than 175,000 since reaching bottom in August. Beacon Economics forecasts that the unemployment rate will continue to fall—dipping below 11% in the second half of 2011-12 and into the 10.5% range by 2012-13.		
California Median Home Price	\$241,027	\$244,321
Despite the fact that affordability is at the highest levels in several years, home prices in California have yet to post any significant gains. In addition to modest sales activity, distressed properties continue to weigh on the market. However, indications are that California has begun to process through this shadow inventory at a faster rate than other states with similar housing downturns like Florida, Nevada, and Arizona. Beacon Economics is forecasting that home prices in the state have reached bottom though they will post less than 2% growth over the next few years.		
California Nonresidential Permit Values (\$ Millions)	\$ 13,957	\$ 15,649
Though they have yet to post much growth, nonresidential building permit values in the state have clearly reached bottom. In fact, by November 2011, California had seen 6% more new nonresidential permits than were issued during all of 2010. Most of this growth has come from alterations and additions to existing structures though some new commercial development is occurring across the state on a small scale.		
California Single-Family Building Permits	22,100	28,800
New single-family permitting remained relatively lackluster during the first half of 2011. However, new permits did pick up during the second half of the year. Currently, the state is running at a 20,000 units per year pace which is expected to be sustained through the remainder of the fiscal year. 2012-13 should see residential construction improve though multi-family units are expected to comprise a larger share of residential construction moving forward.		



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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.



"Good information leads to good decisions."

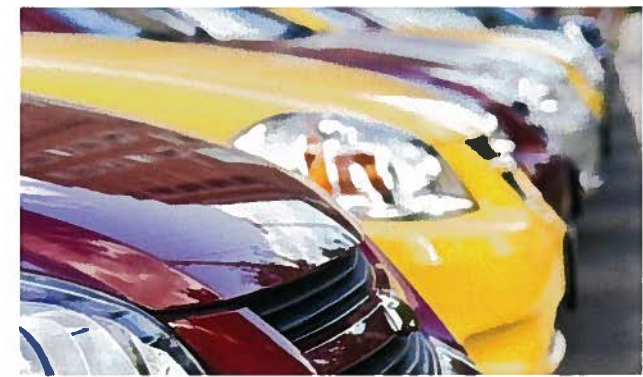


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Beacon Economics, LLC has proven to be one of the most thorough and accurate, economic research/analytical forecasters in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to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



California Forecast: Sales Tax Trends and Economic Drivers

December 2011

HdL provides relevant information and analyses on the economic forces affecting California's local government agencies. In addition, HdL's allocation audits and software help clients to maximize revenues. HdL serves over 350 cities, counties and special districts in California and across the nation.

