Sales Tax Trends & Economic Drivers

California Forecast

September 2025

HdL Companies

Introductions

Ken Nordhoff

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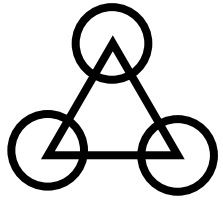
ABOUT HdL COMPANIES

PROUD
TO SERVE
CITIES, COUNTIES & SPECIAL DISTRICTS FOR
40+ YEARS

100%
EMPLOYEE
OWNED



TRIFECTA
Superior service
Increased revenue
Decreased costs

COMPLIANCE
HdL helps clients reduce risk by keeping current with ever-changing legislation

RESULTS
Average city growth rates are ~3%, HdL clients are 2x that!

900+
Municipal Clients

$4billion+
Recovered revenue

99.6%
Avg. Client Retention

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2nd Quarter 2025 Statewide Results

Major Industry Group	2Q 2025
Autos & Transportation	-0.9%
Building & Construction	-0.1%
Business & Industry	3.9%
Food & Drugs	-1.7%
Fuel & Service Stations	-7.6%
General Consumer Goods	-0.6%
Restaurants & Hotels	1.2%
Pools	3.7%
Total	**0.6%**
June Projection	*-0.1%*

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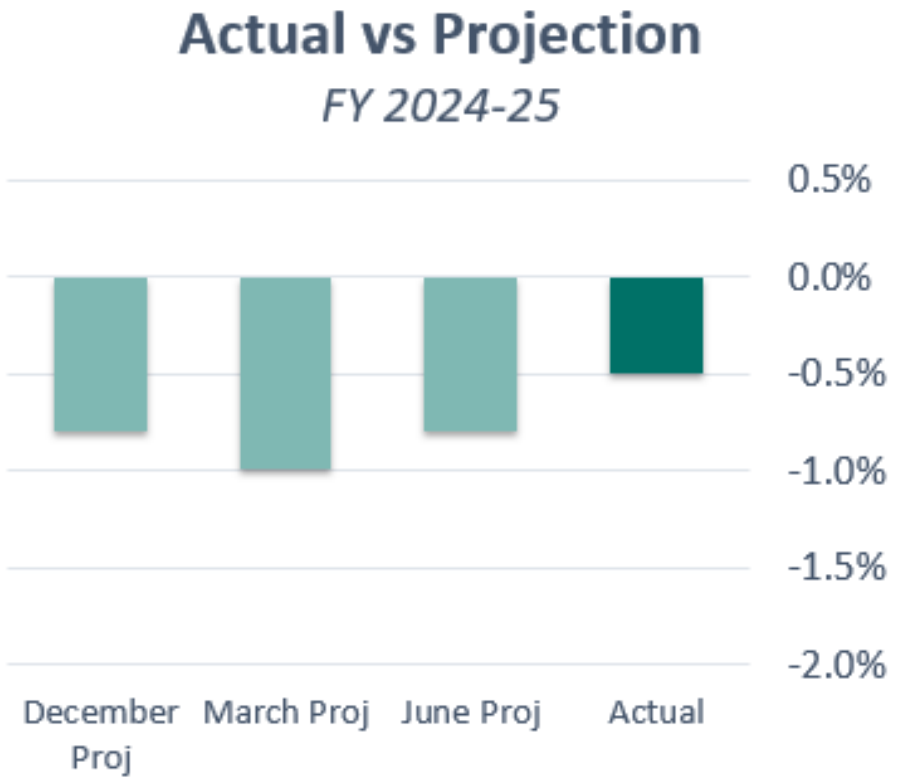
Fiscal Year 2024-25 Results

Major Industry Group	FY 2024-25
Autos & Transportation	-1.8%
Building & Construction	-1.0%
Business & Industry	1.7%
Food & Drugs	-2.9%
Fuel & Service Stations	-9.8%
General Consumer Goods	-1.7%
Restaurants & Hotels	1.3%
Pools	3.2%
Total	**-0.5%**



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Statewide Forecast Considerations

Tariffs/Inflation & Trade

Labor/Wages

Consumer Spending

Overall Uncertainty

Interest Rates

Business Investment

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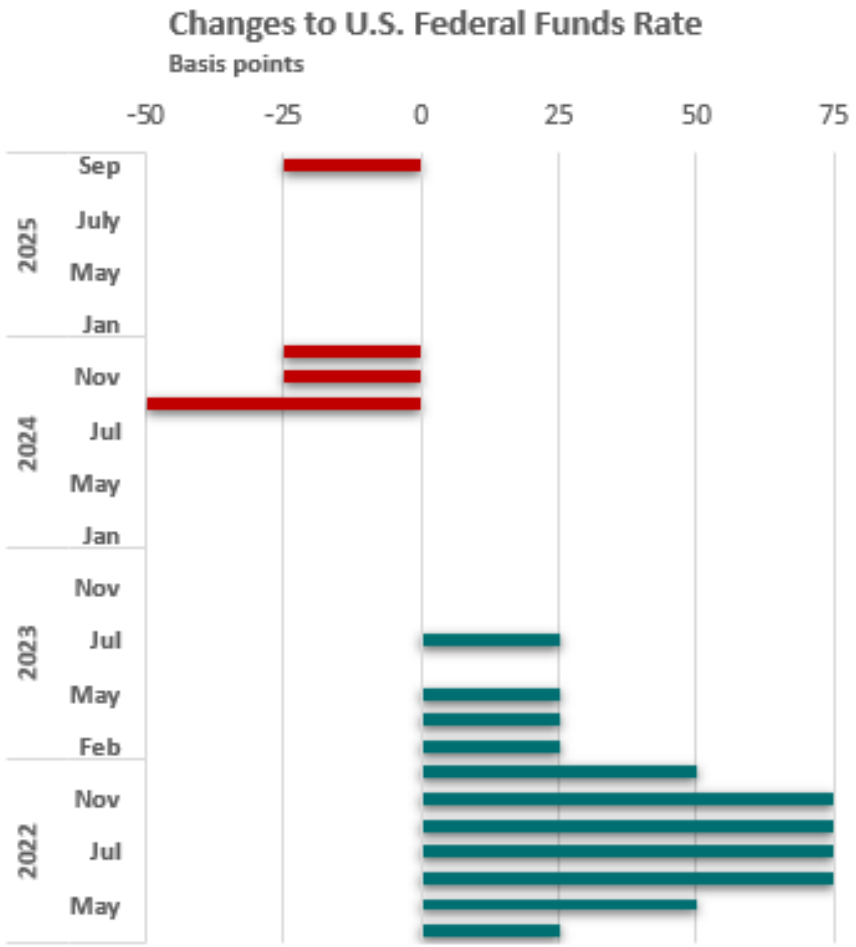
Interest Rates: FOMC Sept. Statement

FOMC lowered the target range for the federal funds rate at 4% – 4.25%.



- Recent indicators suggest that growth of economic activity moderated in the first half of the year
- Job gains have slowed, and the unemployment rate has edged up but remains low
- Inflation has moved up and remains somewhat elevated.
- Downside risks to employment have risen.

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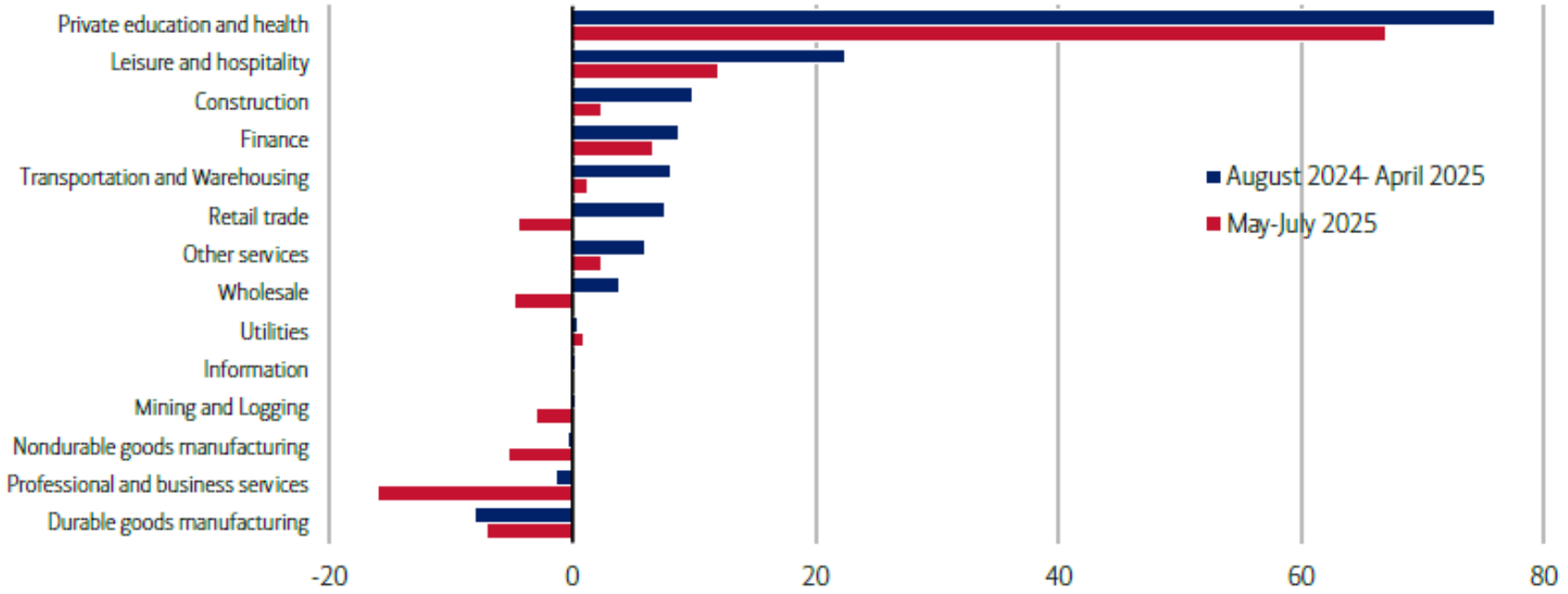
Consumer Checkpoint (BofA)

1. July card spending per household was up 1.8% YoY. Boosted by extended online promotions (longer Amazon Prime Day event)
2. Widening income gaps threaten low earners but **decent wage growth from middle and higher earners should keep consumer spending robust.**
3. Payroll growth has **significantly cooled since May** and is broad based.

Exhibit 7: The cool down in payroll growth is broad based
Average MoM change in payrolls by industry over August 2024 to April 2025 and May to July 2025 (SA, '000s)



Source: Haver Analytics

BANK OF AMERICA INSTITUTE

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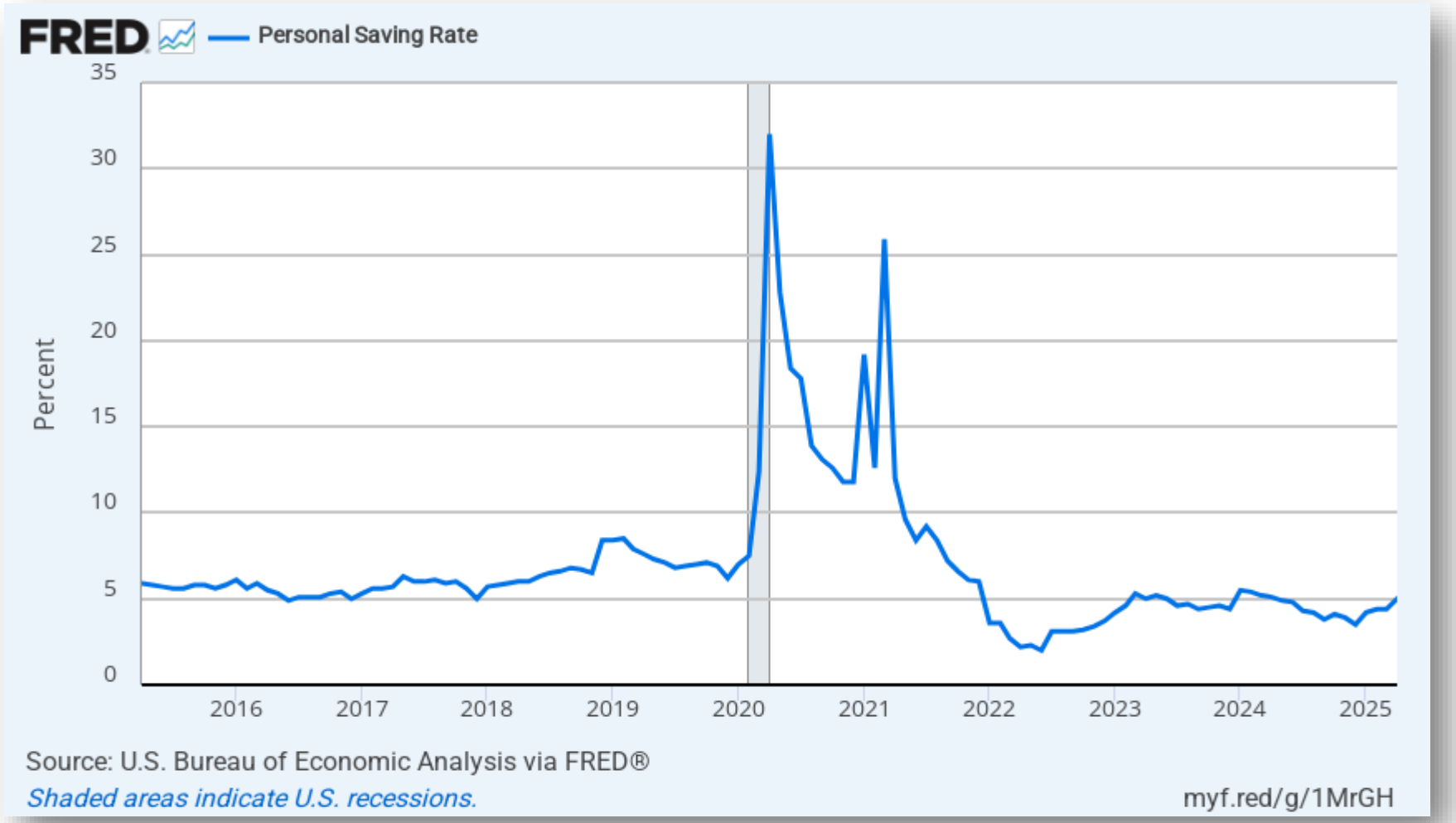
Savings & Disposable Income



Personal Savings Rate

- **Q2 2025: 4.6%**
- Q1 2025: 4.3%
- Q4 2024: 3.8%
- Q3 2024: 4.1%
- Q2 2024: 4.9%
- Q1 2024: 5.4%
- Q4 2023: 4.5%
- Q3 2023: 4.6%
- Q2 2023: 5.1%

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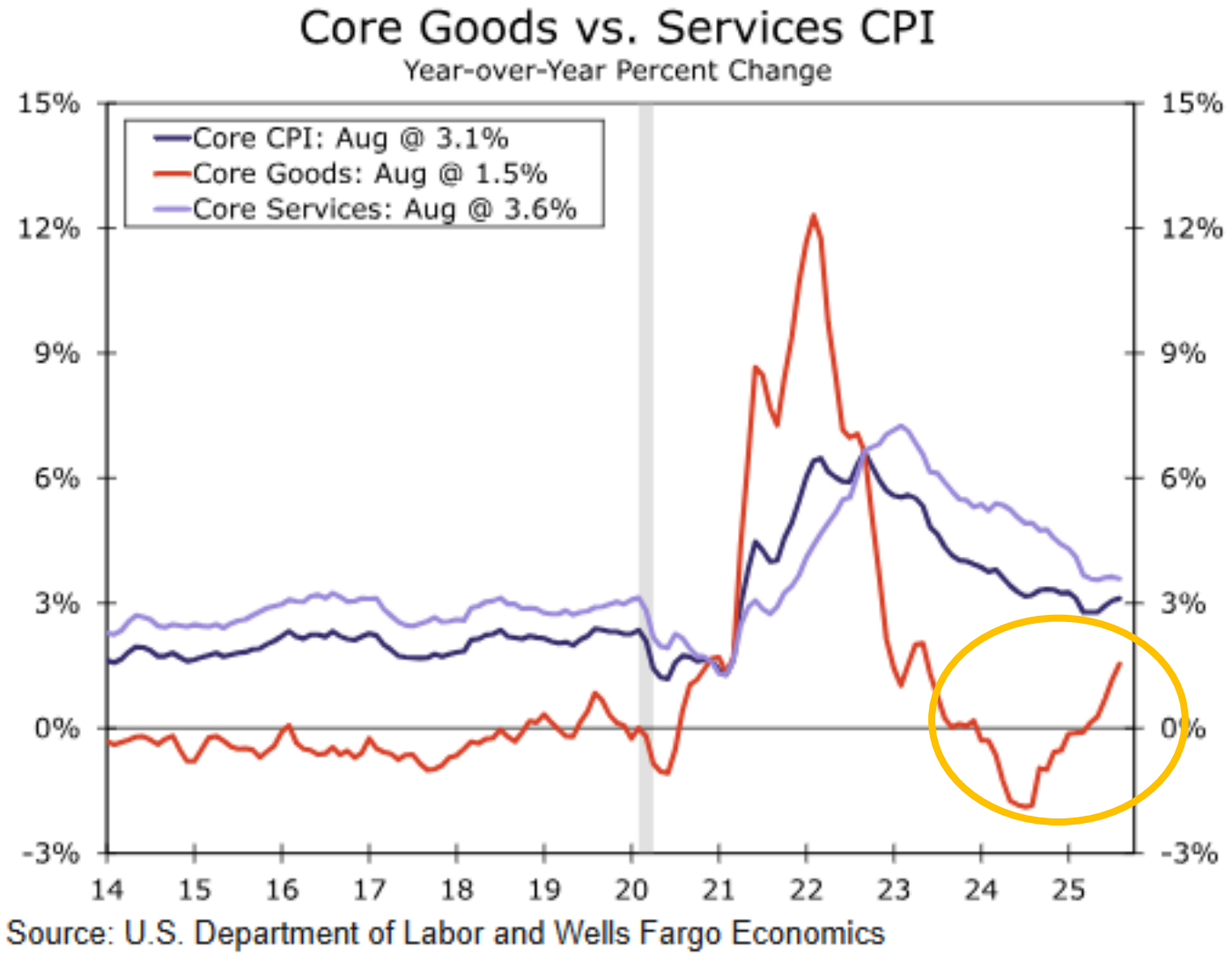
Goods vs Services



Source: U.S. Department of Labor and Wells Fargo Economics

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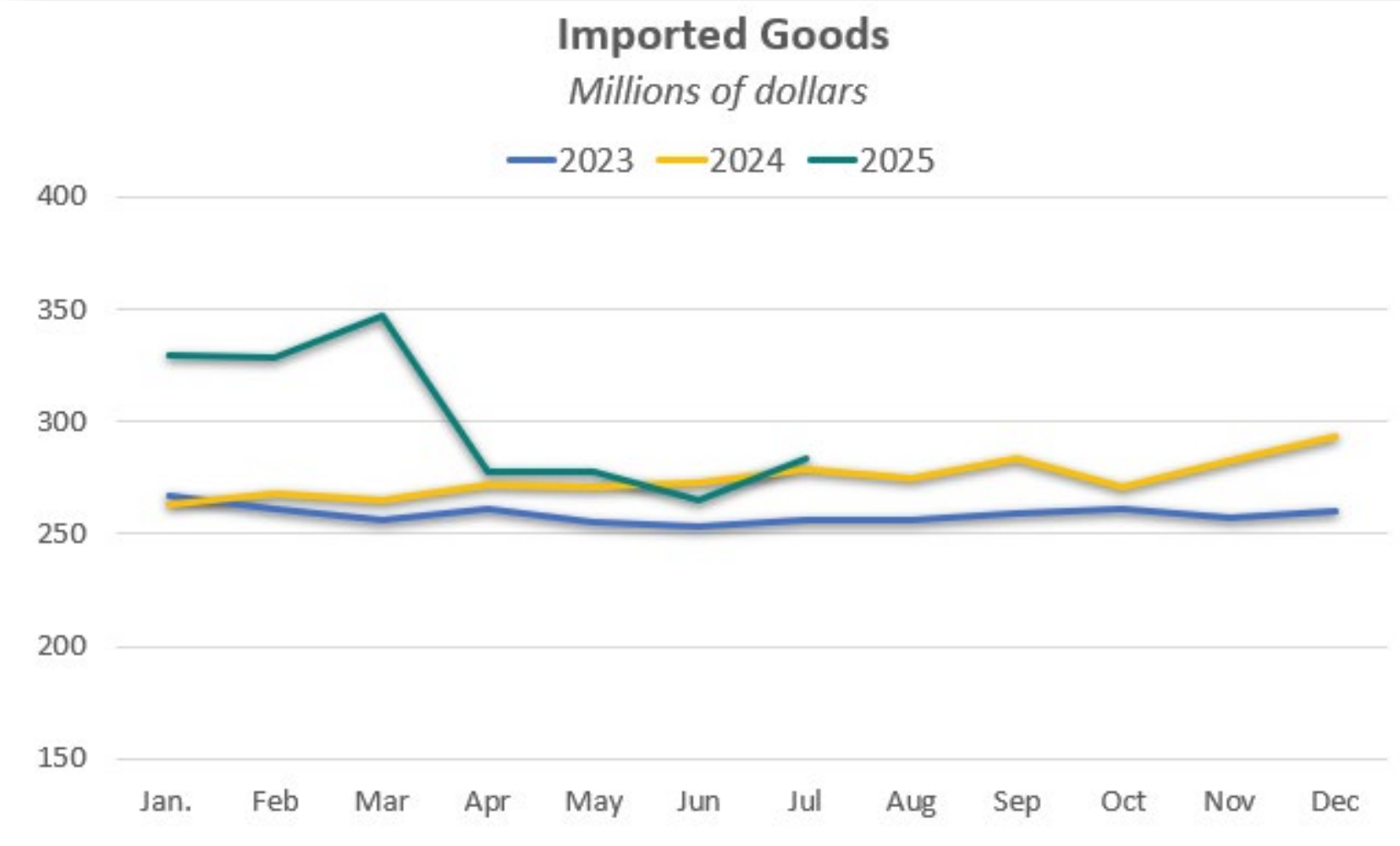
Tariff Impact – Stockpiling



Source: U.S. Bureau of Economic Analysis; U.S. Census Bureau

Imported Goods
2025 Jan. – July: +12% (YoY)

*Just 1.5% growth in July
****Average annual growth is 4.1% over the last 20 years.**

Goods Trade Deficit
Jan. – July: +23% (YoY) larger

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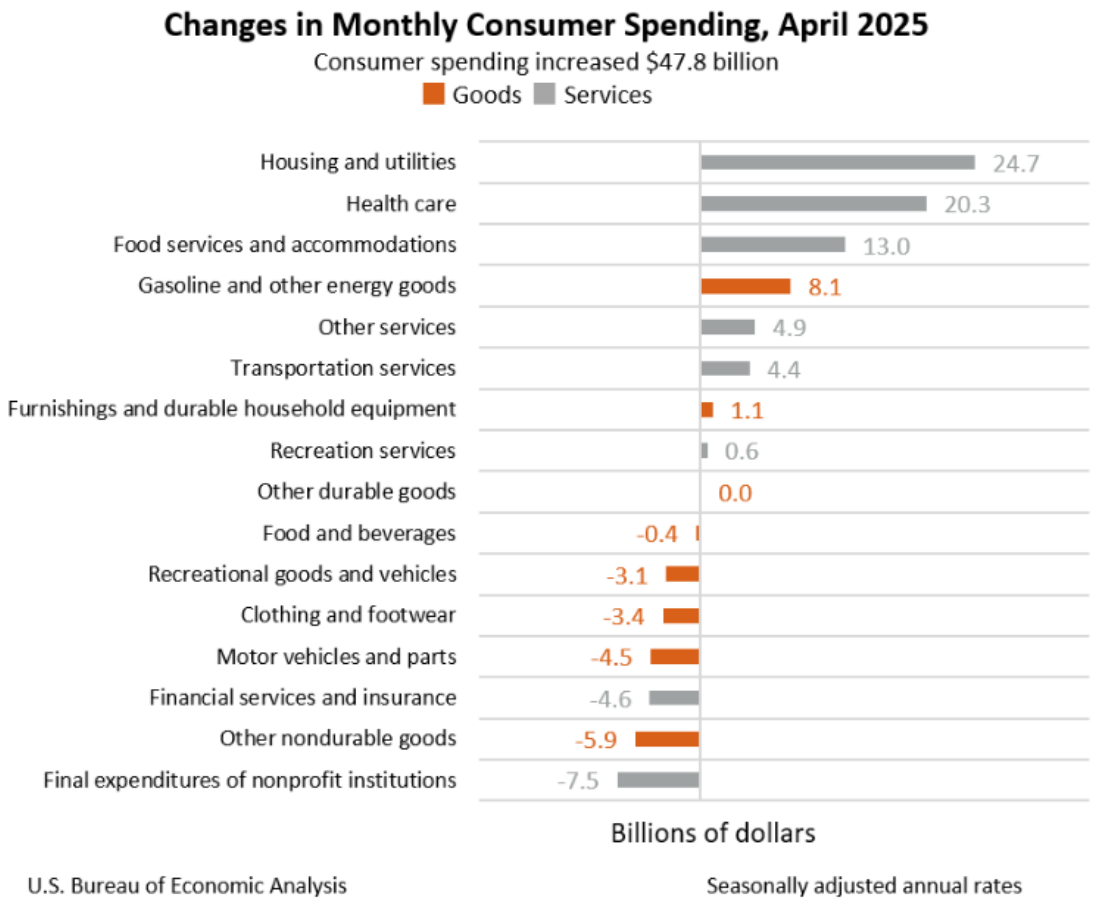
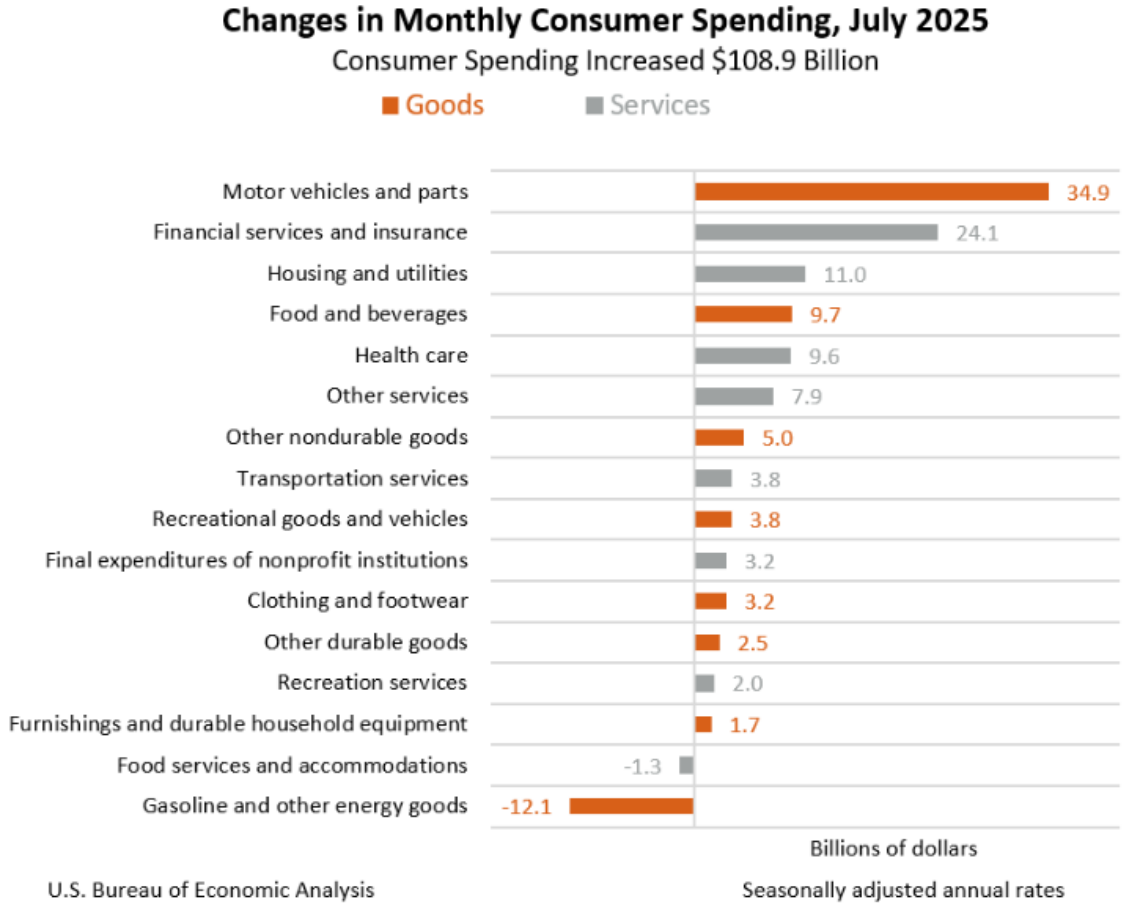
BEA: Changes in Consumer Spending





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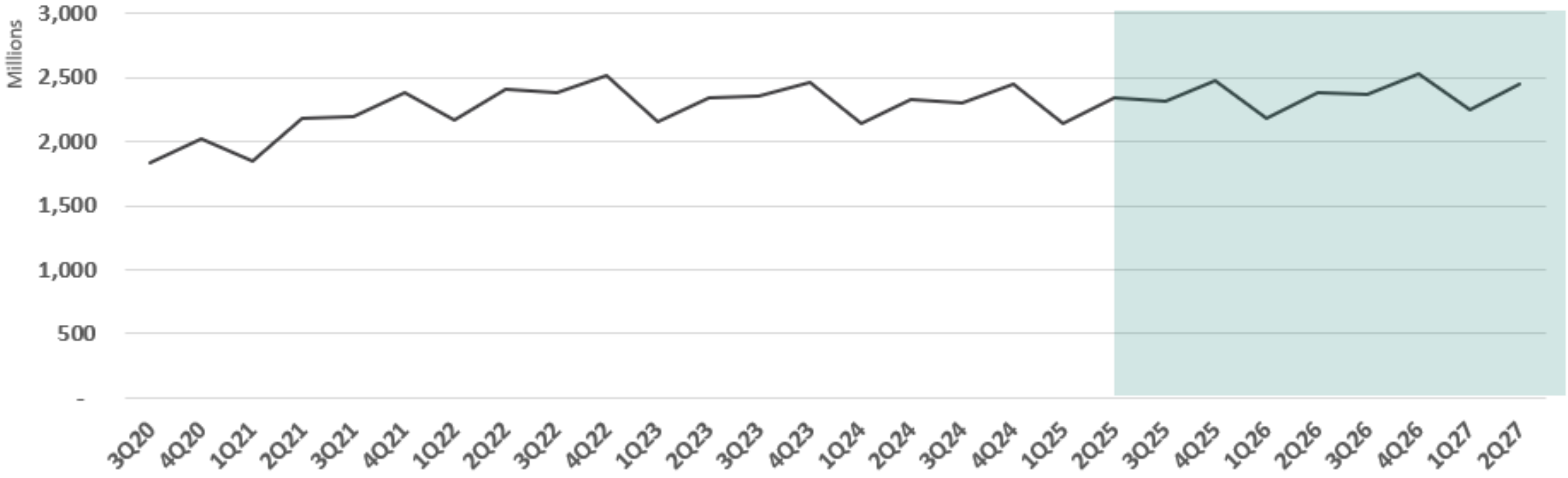
HdL Statewide Trend

% Change YoY	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
	-1.4%	-1.9%	-0.4%	-0.5%	-2.2%	-0.5%	0.1%	0.6%	0.4%	0.8%	1.8%	1.6%	2.6%	2.6%	2.8%	2.8%
Fiscal Year Change	-1.0%				-0.5%				1.4%				2.7%			



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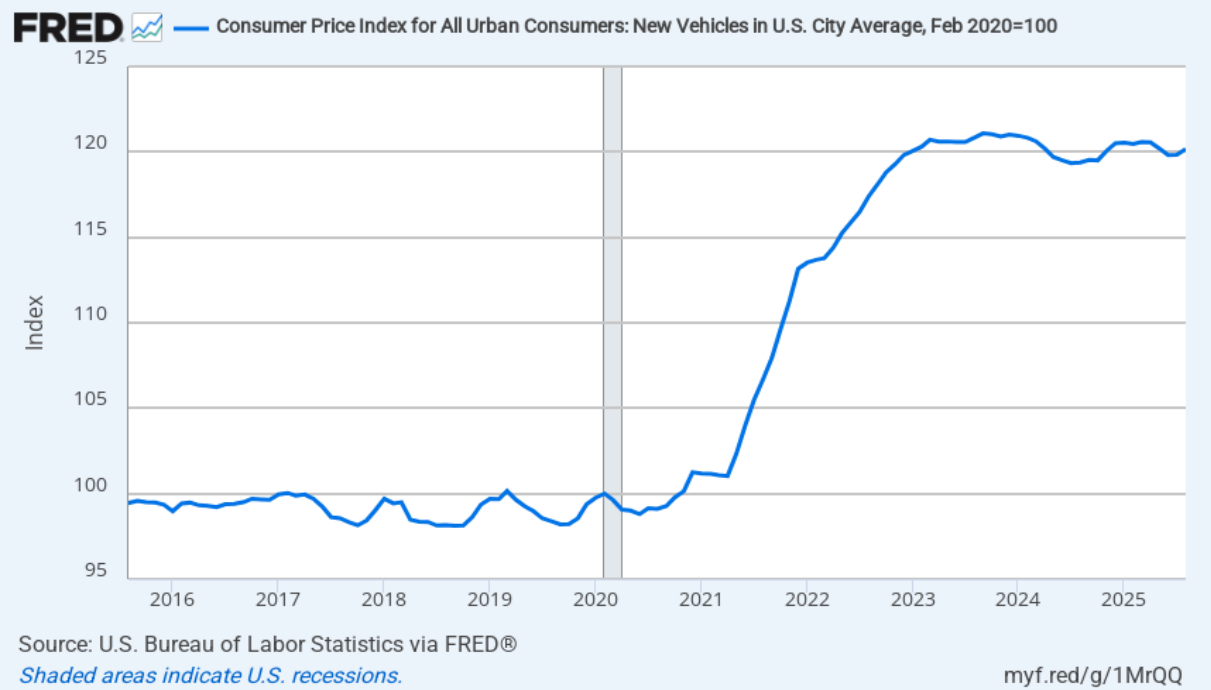
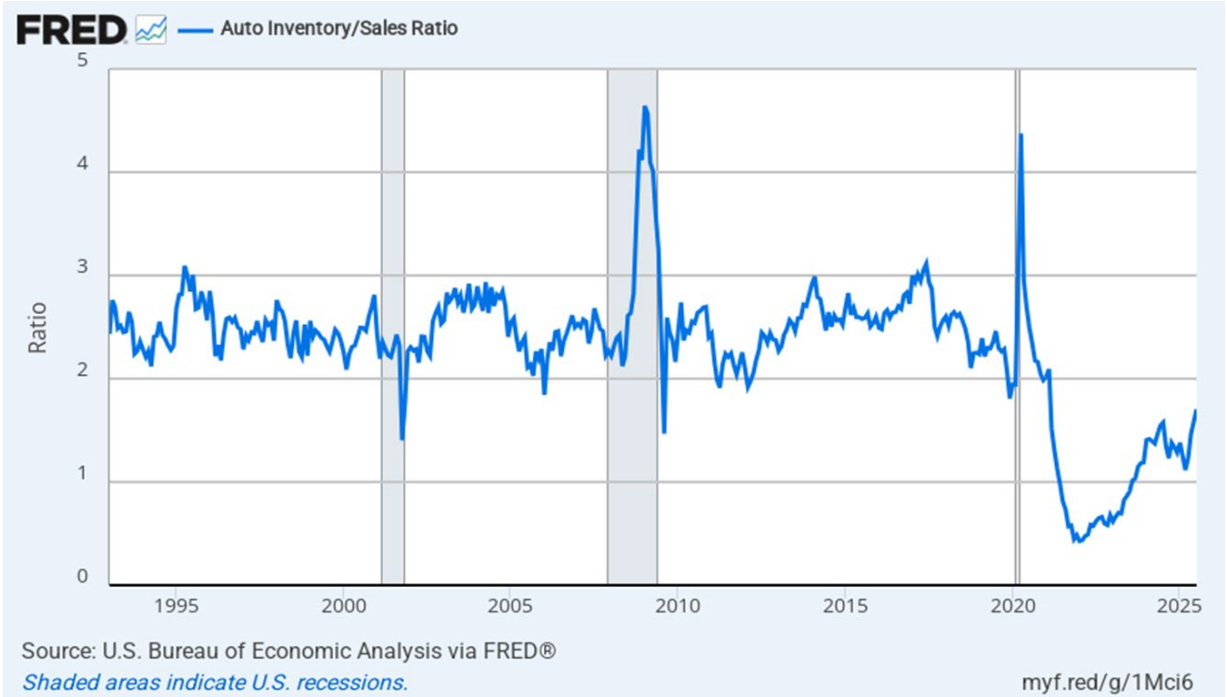
Autos & Transportation: Trends

New Vehicle Pricing



2Q25 +0.3%

Inventory



Trending up

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Impact of Tariffs on New Car Prices

- **So far minimal effect on sticker prices** – automakers absorbed costs, stockpiled parts.
- **Profits hit hard** – Ford, GM, Toyota, Honda report billions lost due to tariffs.
- **Price hikes coming** – analysts expect up to **8% increase by year-end**, ~$5k more on imports, ~$1k on U.S.-made cars (for imported components).
- **Broader effects** – higher used car demand/prices, rising repair costs, affordability challenges for lower-income buyers.

Source: Ewing, J. (2025, August 9). *Trump's tariffs are set to drive up car prices*. *The New York Times*. https://www.nytimes.com/2025/08/09/business/trump-tariffs-car-prices.html

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EV Sales Surge Ahead of Credit Expiration

- **August 2025 new-vehicle sales +3.7% YoY (all cars) – boosted by rush to claim $7,500 federal EV tax credits.**
- **EVs outperform – Hyundai +72%, Honda Prologue +80%, GM 21,000 EVs (record); Tesla -6.7% (subset of total market).**
- **Post-credit slowdown expected – automakers cutting EV production and adjusting shifts for lower demand after 9/30/2025 expiration.**

Otts, C. (2025, September 4). *Record EV sales drive auto market ahead of credit end*. *The Wall Street Journal*. https://www.wsj.com/business/autos/record-ev-sales-drive-auto-market-ahead-of-credit-end-3a55b366

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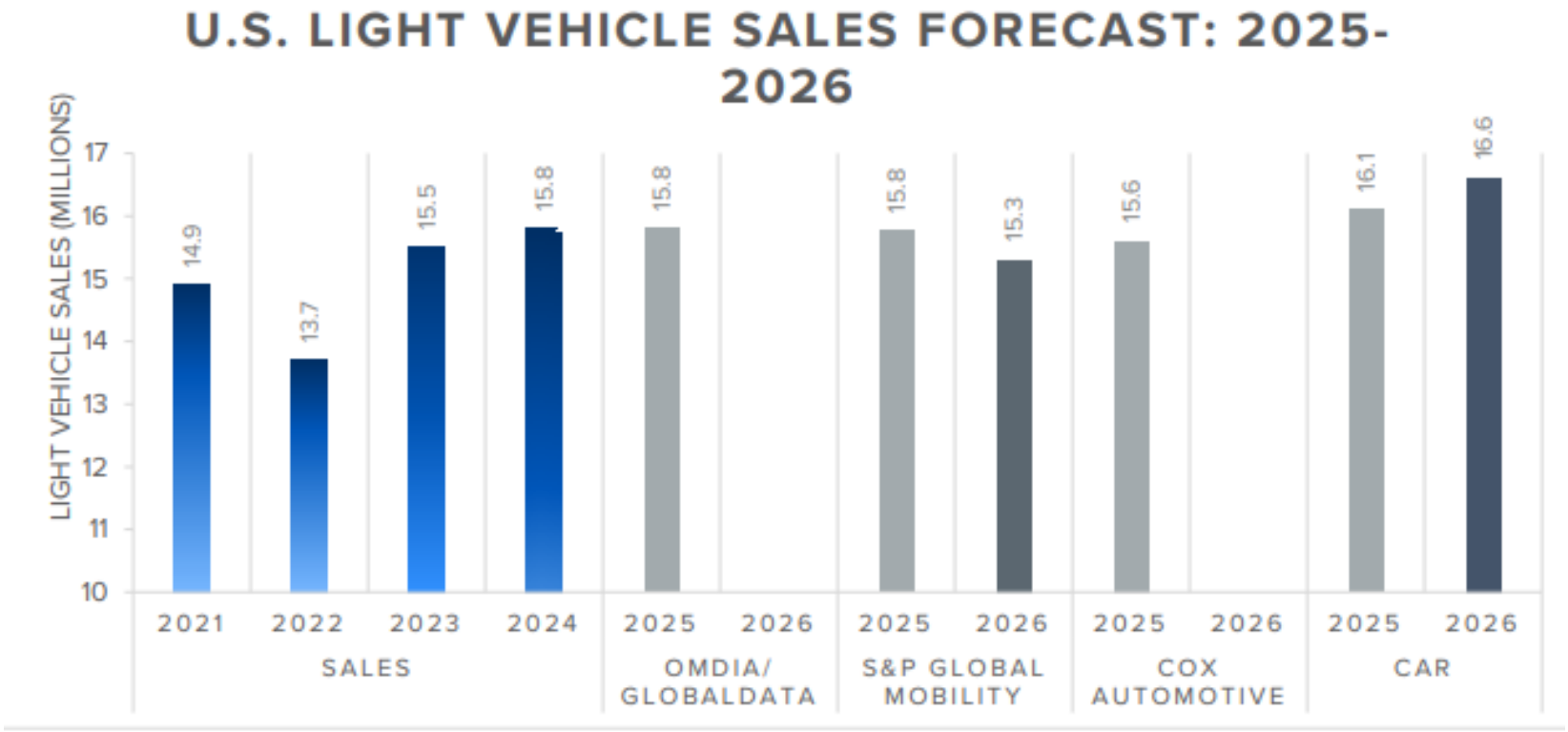
Recent analyst forecasts

Summary:

2025 forecasts range from -1.3% to +1.9% sales volume change

2026 forecasts are scarce, but the outlook remains cautious



Source:
Reading the Meter: State of the Industry Report 9/5/25
Alliance for Automotive Innovation
https://www.autosinnovate.org/posts/papers-reports/Reading%20the%20Meter%209-5-2025.pdf
Published Sept. 5, 2025

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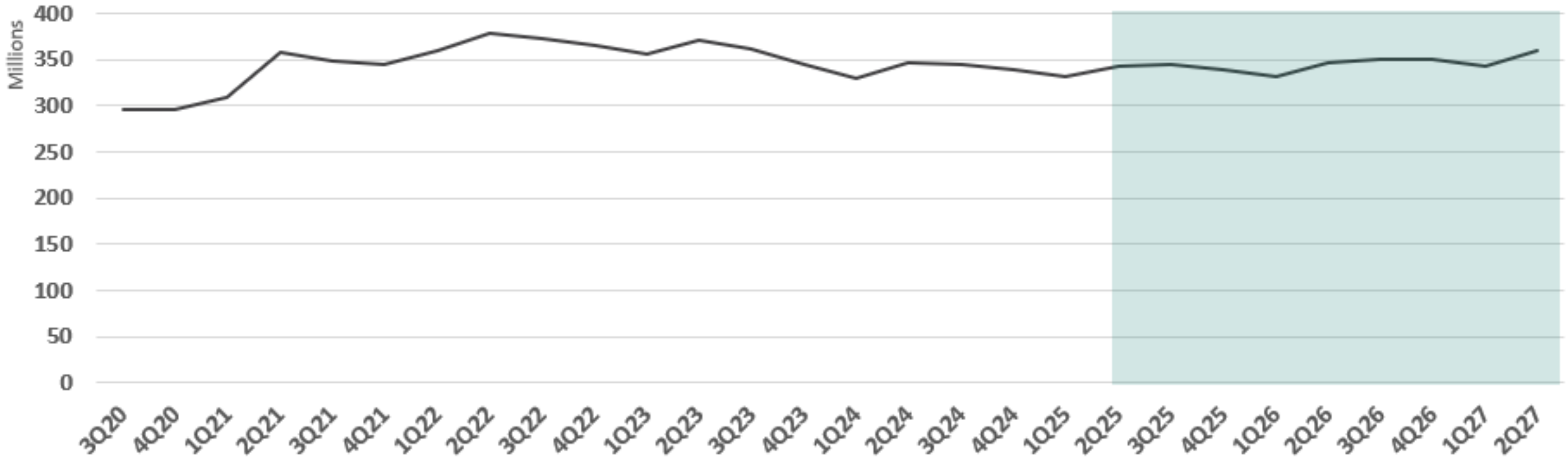
Autos & Transportation Forecast

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	-2.8%	-5.9%	-7.4%	-6.5%	-4.9%	-1.4%	0.4%	-0.9%	0.0%	0.0%	0.5%	1.0%	2.0%	3.0%	3.0%	4.0%
Fiscal Year Change	-5.6%				-1.8%				0.4%				3.0%			



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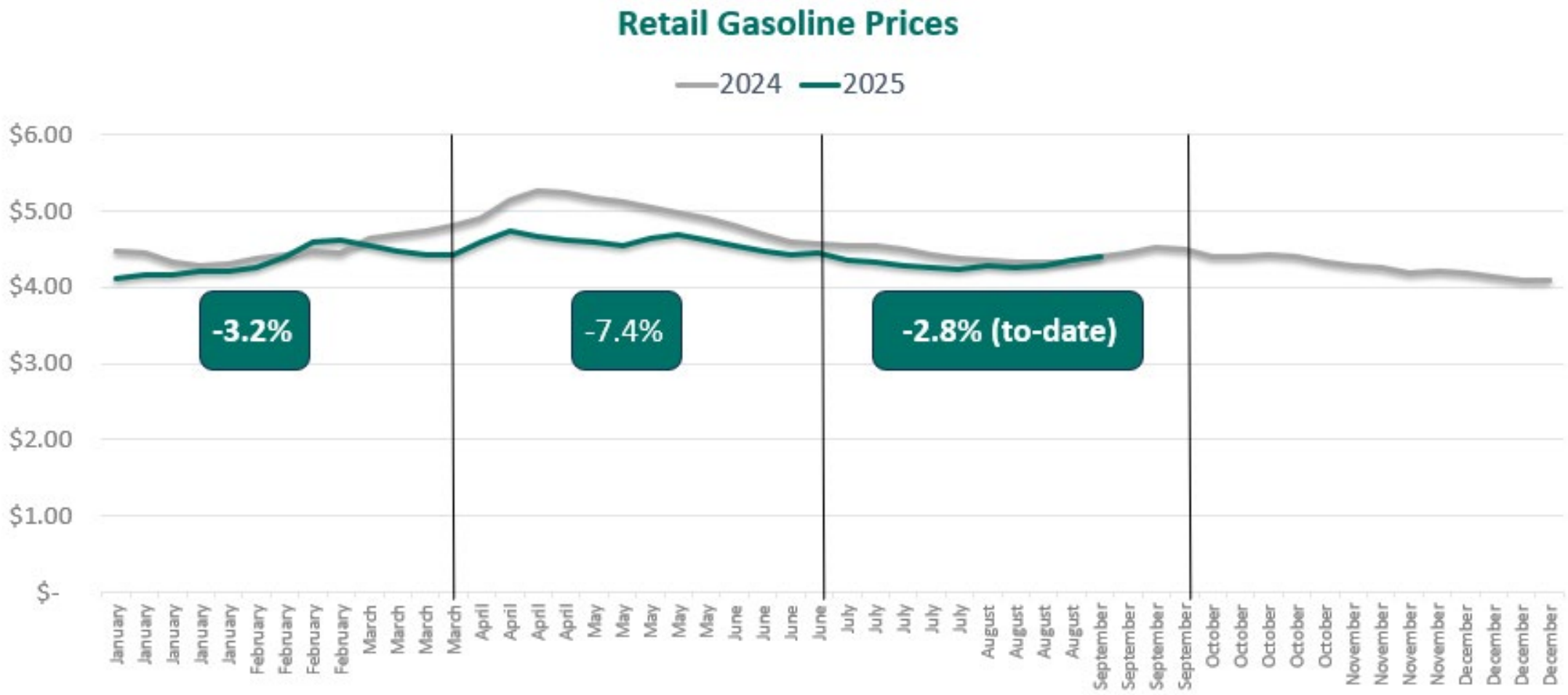
Fuel and Service Stations: Gas Prices



Source: Energy Information Administration (EIA)

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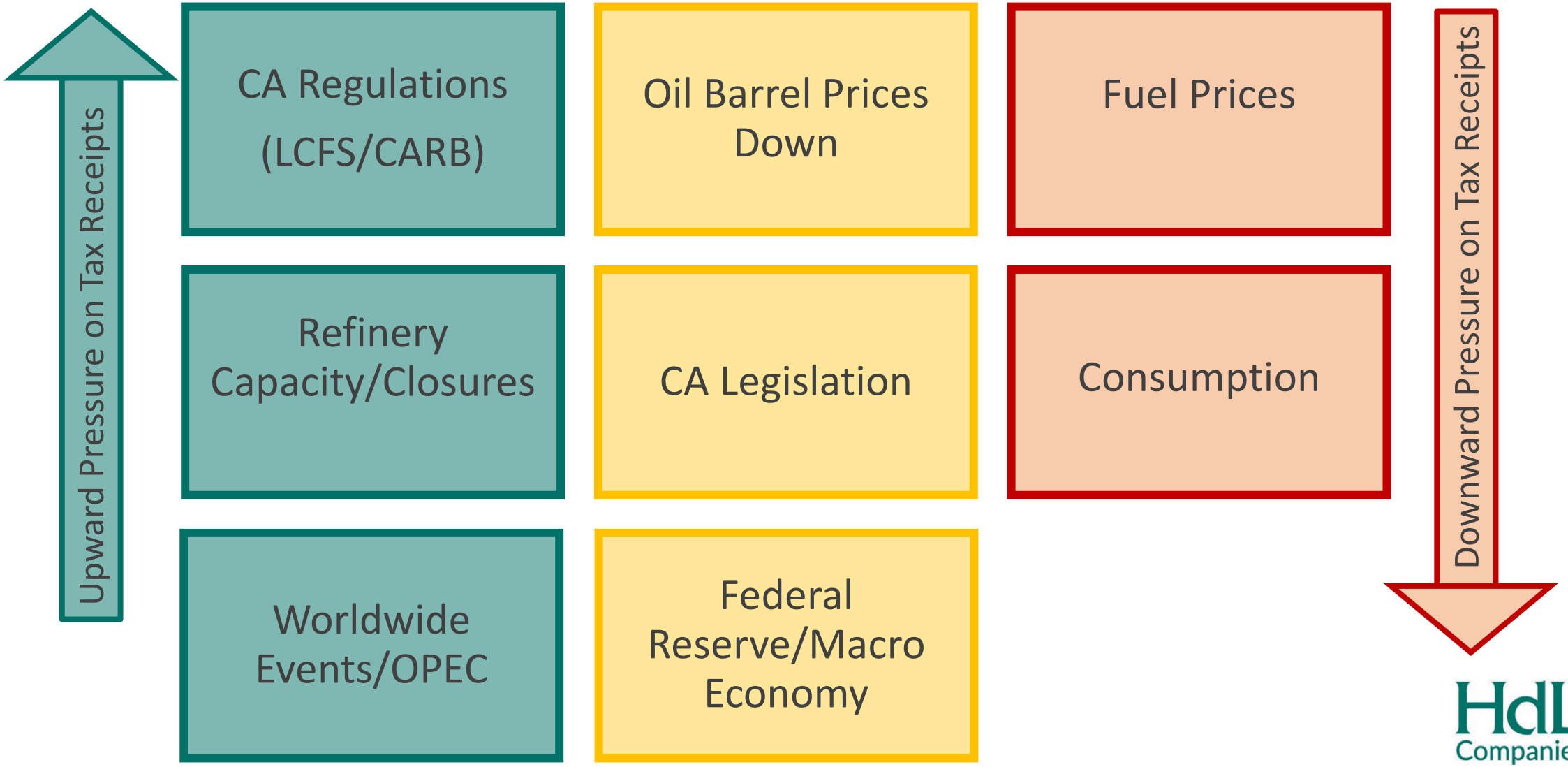
Fuel and Service Stations Indicators



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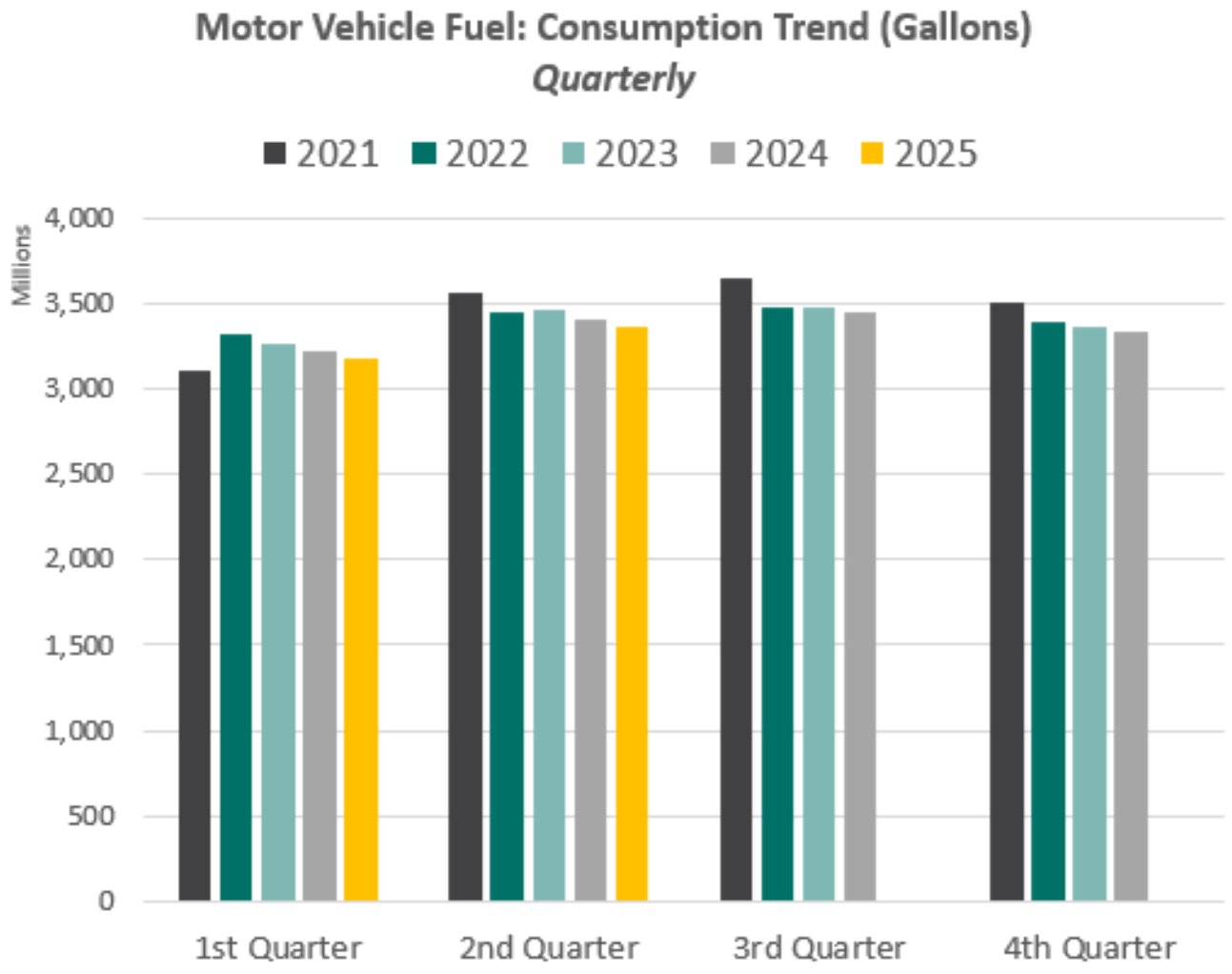
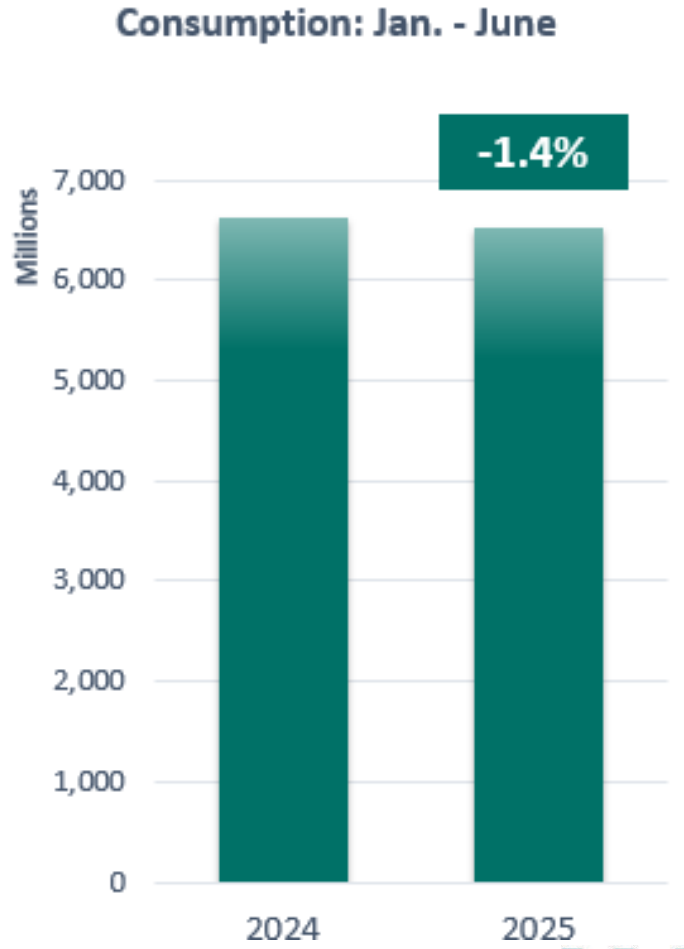
CA Fuel Consumption





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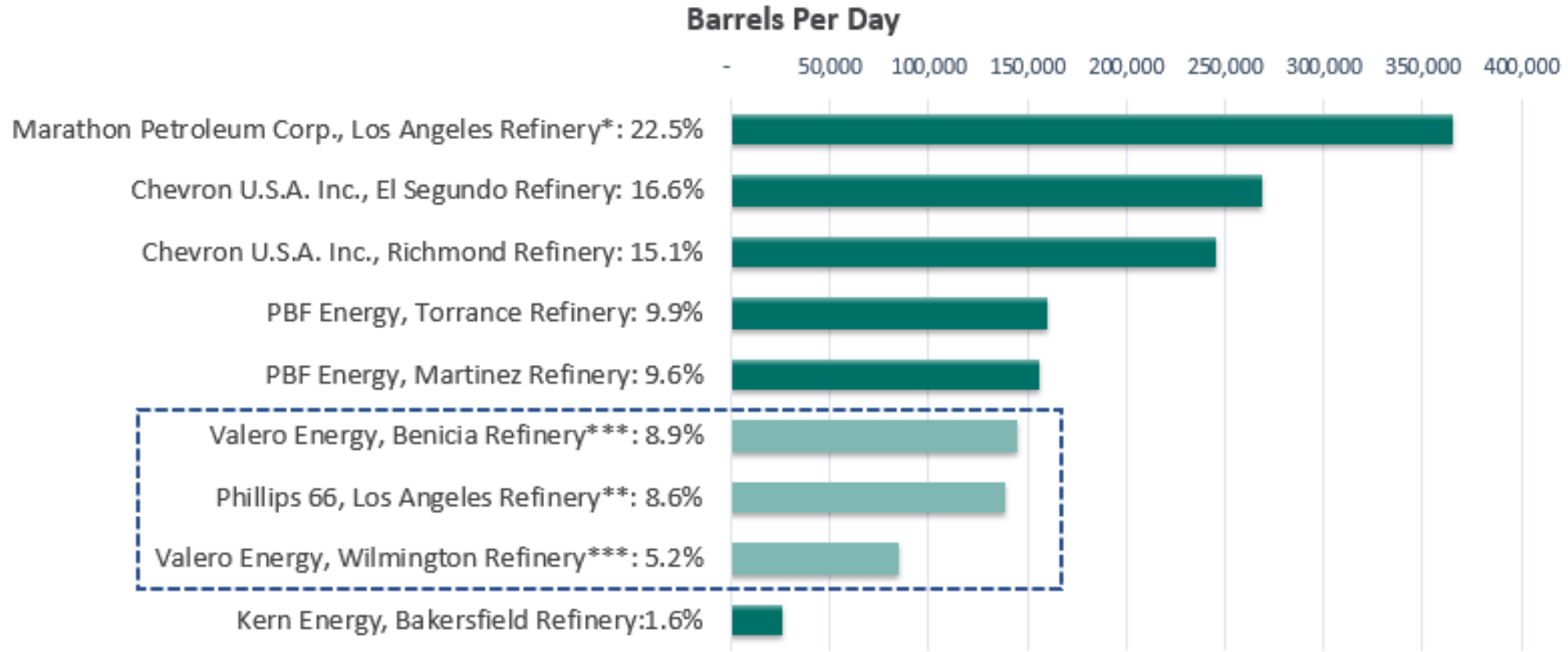
California Oil Refineries: Capacity



**Includes both Marathon Carson and Wilmington as one entity since 2019*
*** Phillips 66 Los Angeles has announced plans to cease operation in late 2025*
****Valero announced impending closure of Benicia and Wilmington Refineries in April 2026*

Source: California Energy Commission; October 17, 2024

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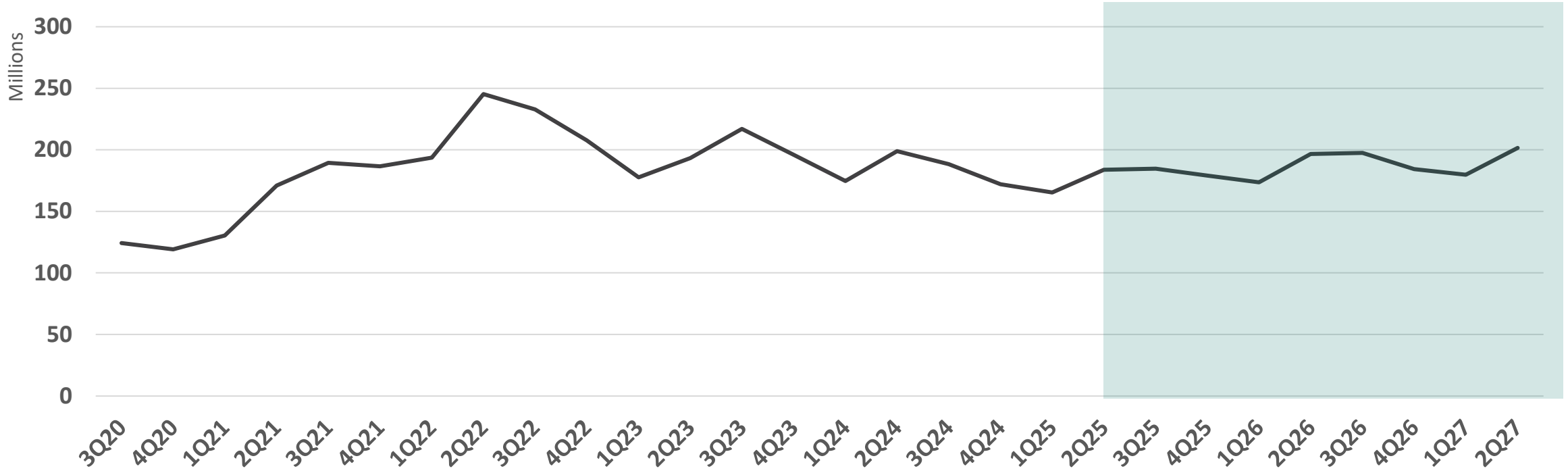
Fuel & Service Stations Forecast

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	-6.8%	-5.6%	-1.7%	2.9%	-13.2%	-12.2%	-5.3%	-7.6%	-2.0%	4.0%	5.0%	7.0%	7.0%	3.0%	3.5%	2.5%
Fiscal Year Change	-3.1%				-9.8%				3.4%				4.0%			



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Construction Factors

Building

- Mortgage rates
- Infrastructure projects
- Data center bubble
- Federal Solar Credit Ends 12/31/25

Labor

- Immigration-deportations impact to workforce
- Upward pressure on costs
- Jobsite delays

Costs

- 10% baseline
- Metal Prices Up
- Lumber Future Down (material hoarding)
- Tariffs Possible $10K-$15K price impacts overall

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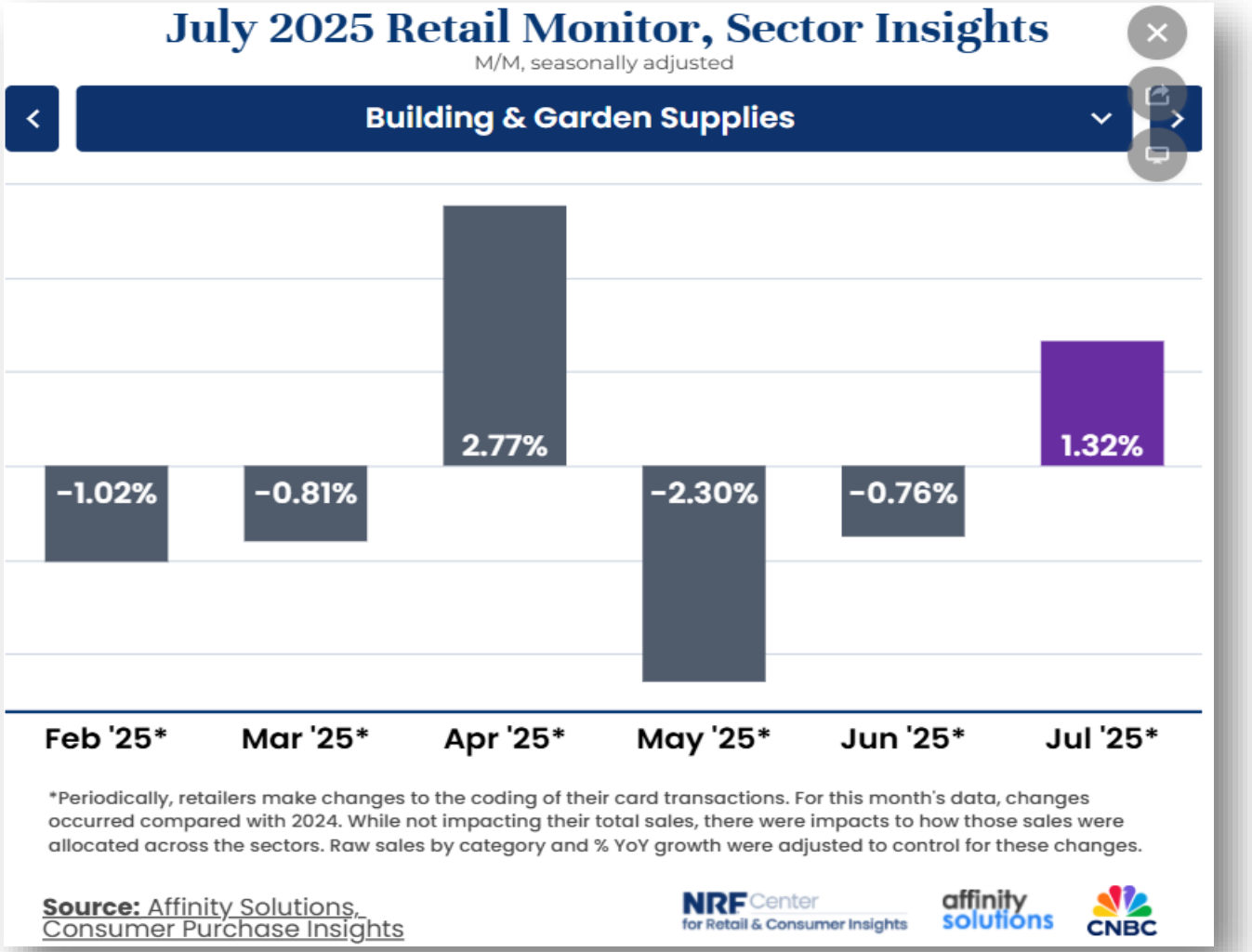
Building Supplies



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Lumber Futures

Market Summary > Lumber Futures

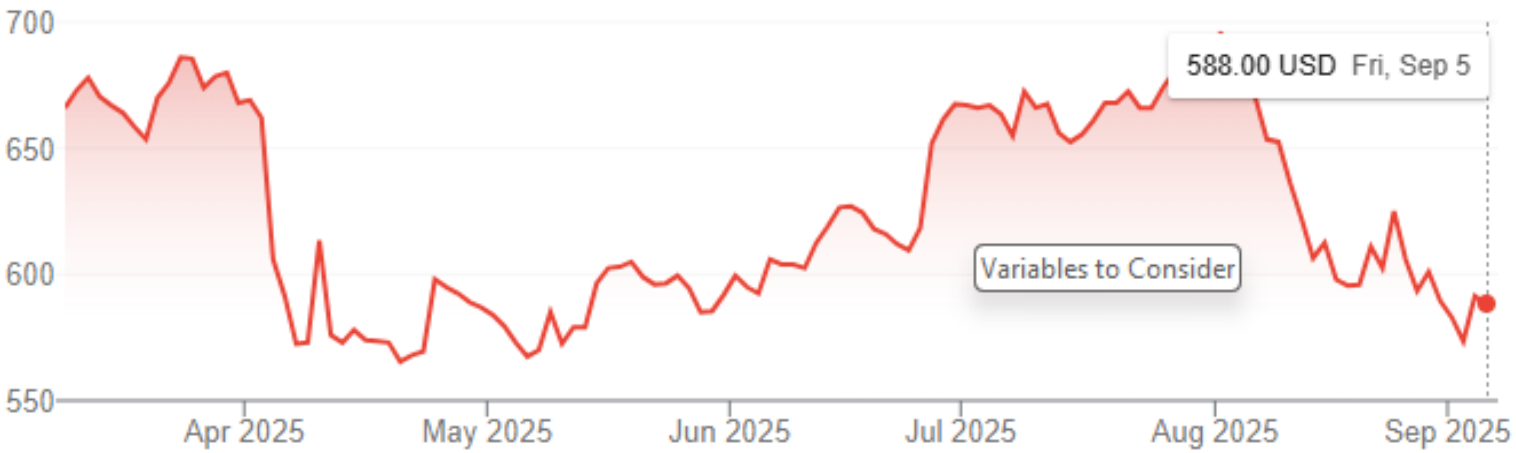
580.00 USD

CME: LBRW00

-86.00 (-12.91%) ↓ past 6 months

Sep 8, 11:35 AM CDT • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	585.00	Low	576.50	Volume	276
High	585.50	Prev close	588.00	Open interest	5,854

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Construction Considerations

- Considers Fed lowers interest rates again before end of 2025
- Mortgage rates float lower; encouraging some movement in the market
- Federal policy change fuels uncertainty around funding
- Data centers activity

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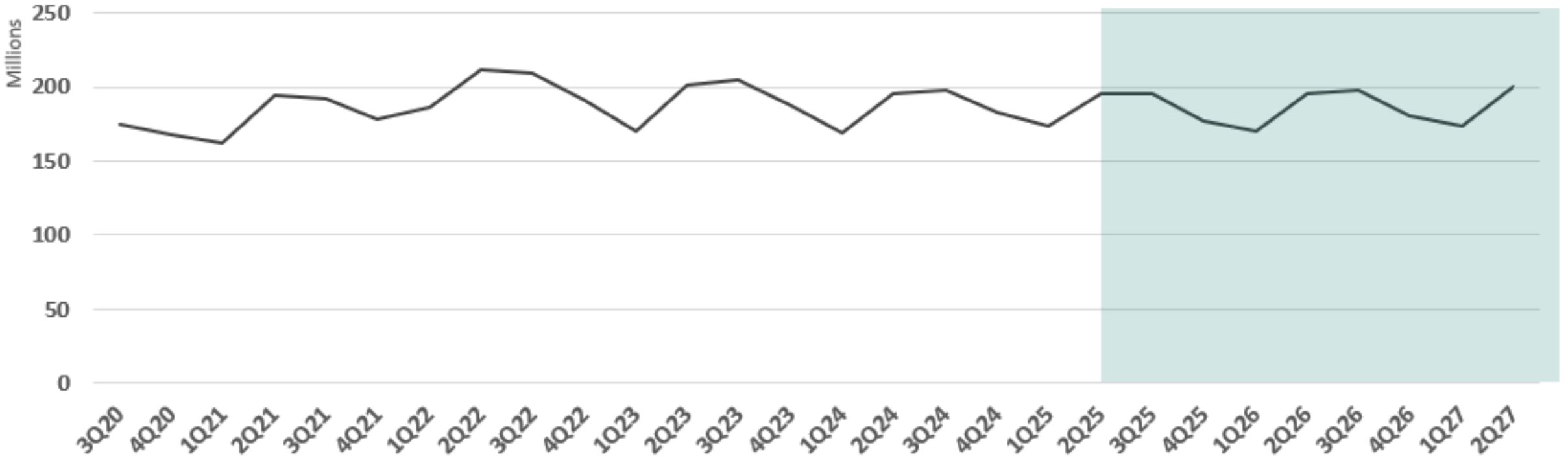
Building & Construction Forecast

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	-2.3%	-1.5%	-0.2%	-2.8%	-3.3%	-2.7%	2.4%	-0.1%	-1.6%	-2.7%	-2.0%	0.1%	1.1%	1.4%	2.4%	2.4%
Fiscal Year Change	-1.7%				-1.0%				-1.5%				1.8%			



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Food & Drugs

Group accounts for **4.5%** of statewide taxable sales

Category results

- Grocery Stores: 0.4%
- Convenience Stores: -1.5%
- Drug Stores: -11.5%
  - closures
- Cannabis: -2%

Trends

- Drug Store vacancies
- Grocery looking at partnering with other industry
- Convenience stores focus on foodservice

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Cannabis Trends

CDTFA Cannabis Excise Tax

- Effective October 1, 2025, based on AB 564, the cannabis excise tax rate will remain in effect at 15% of gross receipts from retail sales of cannabis or cannabis products until at least July 2028. The Department of Finance was required by law to adjust the cannabis excise tax rate for the FY 2025-26 and every two years thereafter to offset the cultivation exemption; however, this legislation has modified that requirement at this time.

Cannabis Lounges

- The lounge is part cabaret, part café with a small stages for entertainment, DJ's and comedy nights, which can provide food or partner with food trucks. Typically, the lounges will have customers order from the dispensary and have it delivered to their seat.

Smoke Shops CBD and Hemp-Derived Products

- The CBD and hemp markets have grown steadily in recent years, and the trend shows no sign of slowing. Smoke shops are now carrying CBD Tinctures, edibles, topical products and CBD vapes. Concerns regarding money laundering both legal and illegal products.

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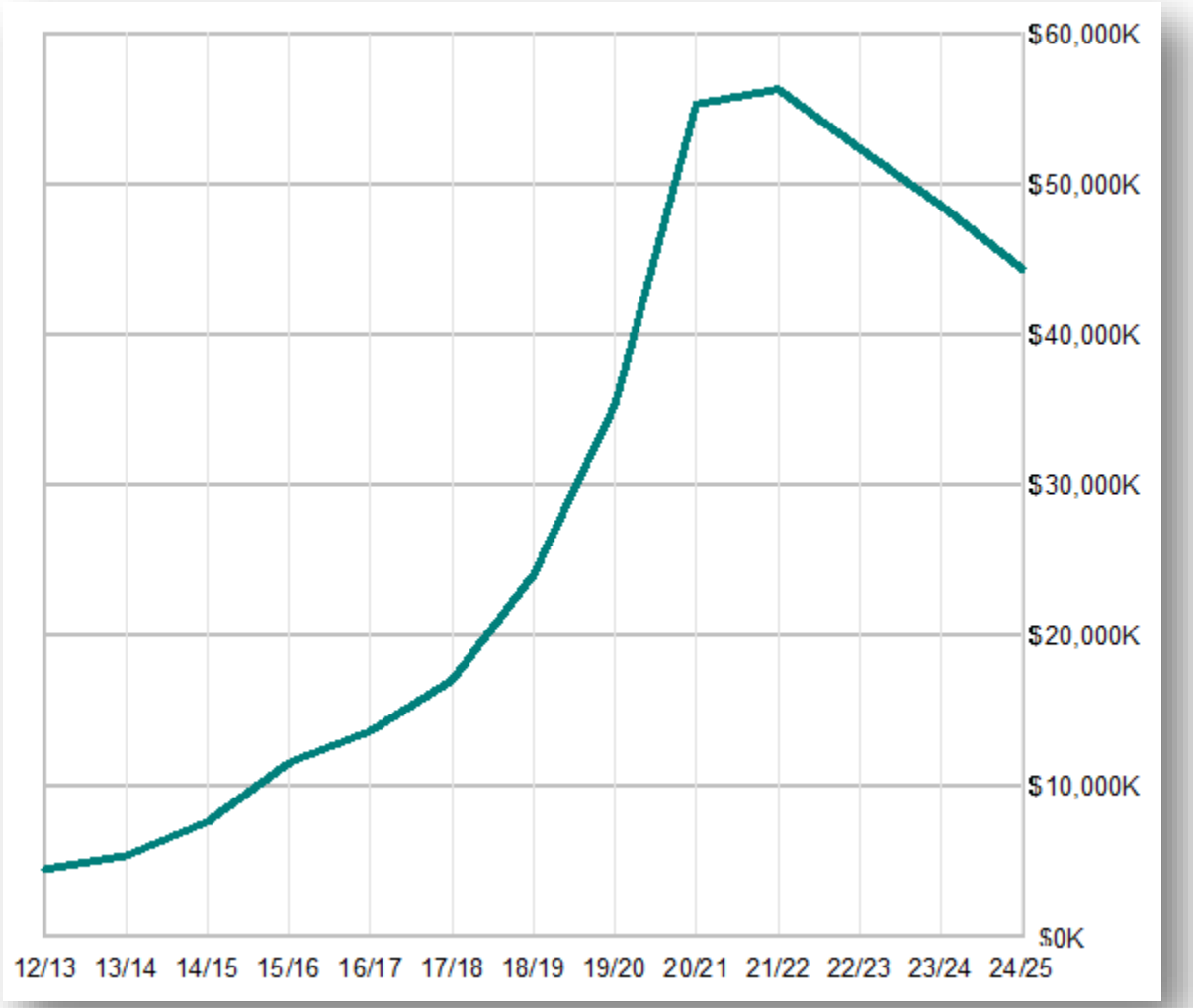
Cannabis Sales Tax Revenue: FY 2024-25 -8.7%



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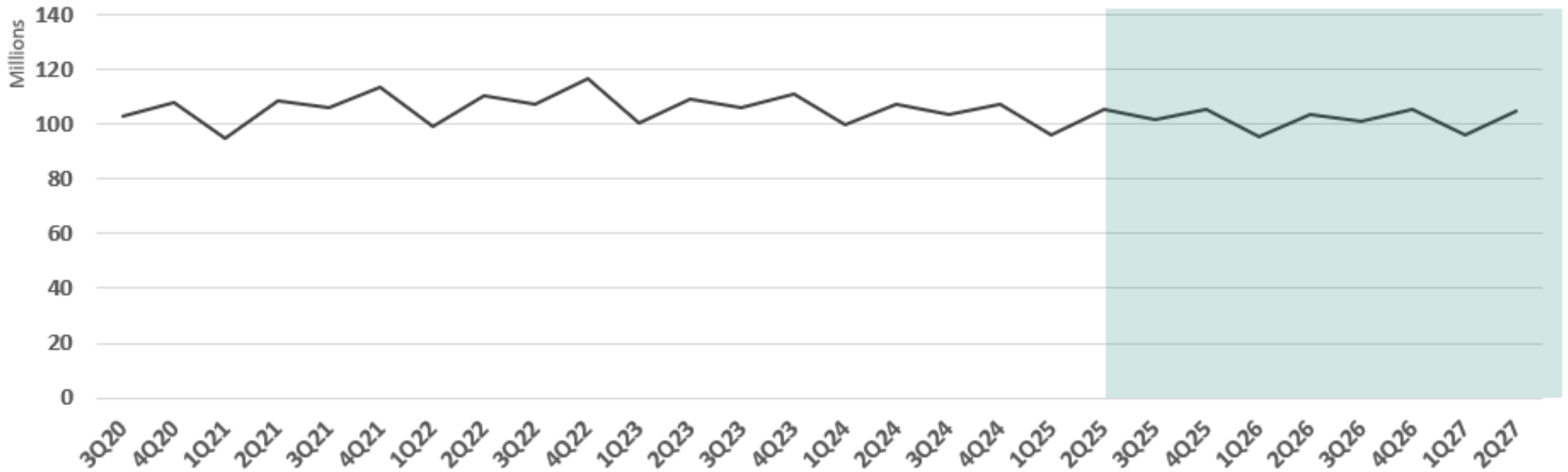
Food & Drugs Forecast

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	-1.3%	-5.0%	-0.4%	-1.6%	-2.6%	-3.6%	-3.9%	-1.7%	-1.7%	-1.7%	-0.8%	-1.5%	-0.5%	0.5%	1.0%	1.0%
Fiscal Year Change	-2.2%				-2.9%				-1.4%				0.5%			



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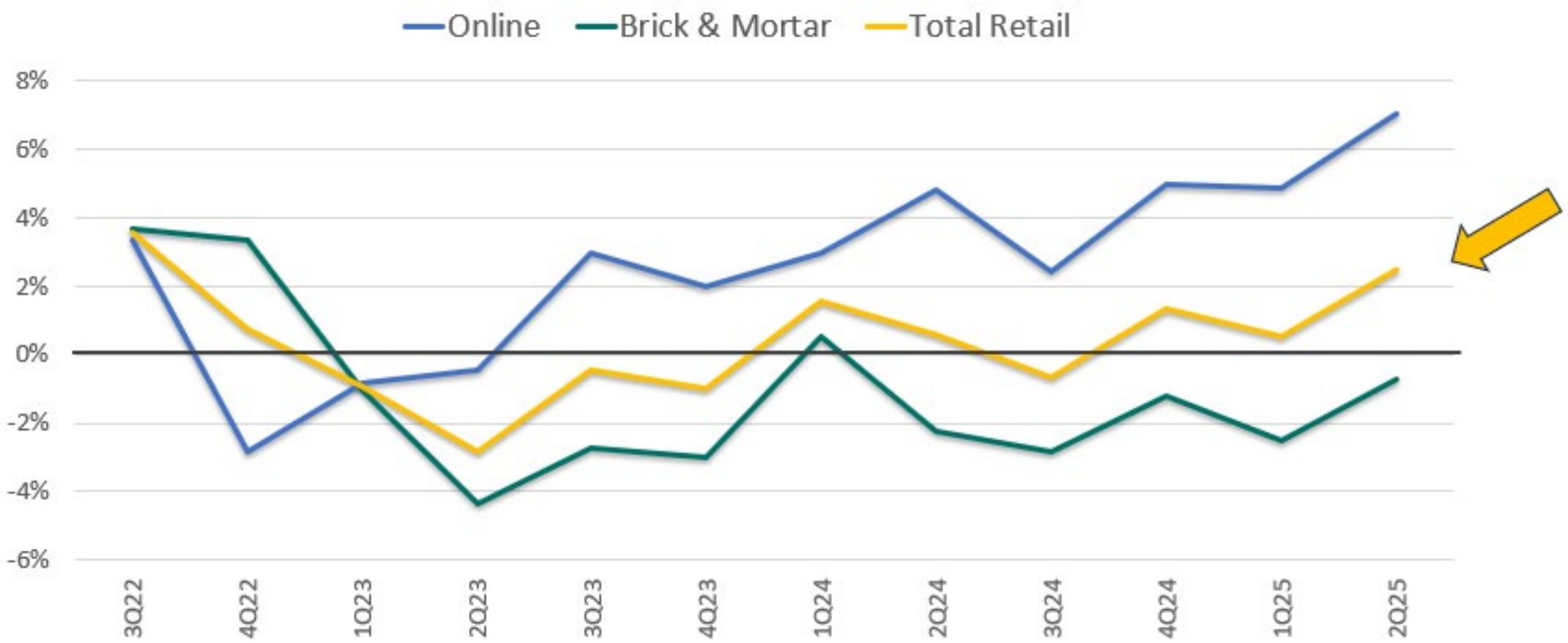
Retail Sales – the Total Picture



Online taxes include “direct” from Fulfillment Centers and “indirect” through the County Pools

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Consumer Expectations for Retail

Consumers are relatively split on cutting back.

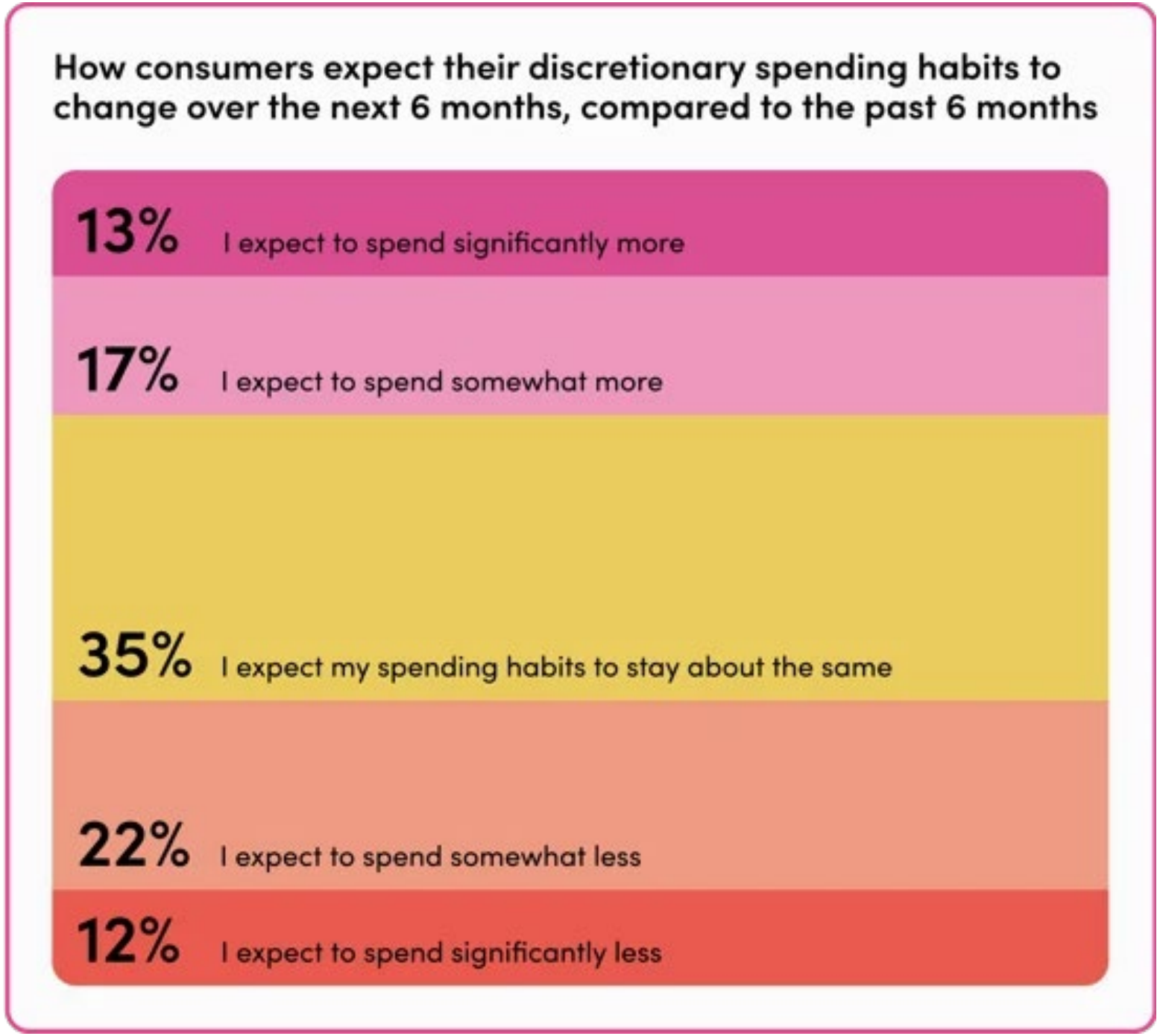
Nearly equal numbers of shoppers expect to

spend less on discretionary purchases (34%)

over the next six months as those who expect to

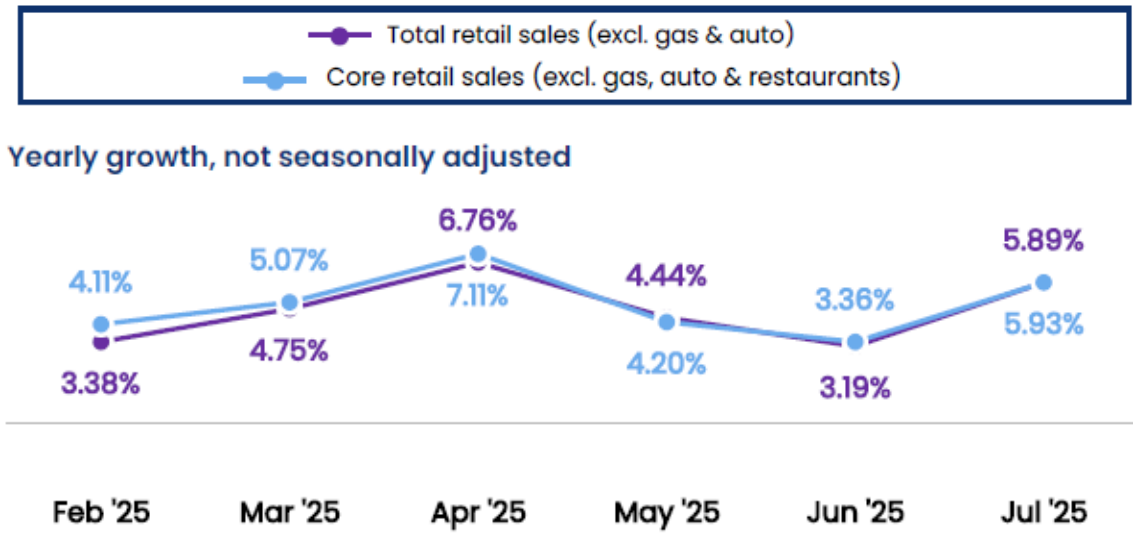
spend more (30%).

Source: Optimum Retailing



NRF Retail Monitor

"We may be seeing growing inflationary impacts from tariffs since recent data shows price increases in commodity goods, particularly non-durables. Even with weaker job growth than many expected, consumers still have the ability to spend on household priorities as wages are growing above the rate of inflation."



Year-Over-Year Change in Retail Sales, unadjusted

	May '25*	Jun '25*	Jul '25*
Building & Garden Supplies	-7.31%	-5.33%	**-4.11%**
Clothing & Accessories	3.21%	2.71%	**6.73%**
Electronics & Appliances	2.58%	2.43%	**2.11%**
Food Services & Drinking Places	5.47%	2.47%	**5.75%**
Furniture & Home Furnishings	-0.10%	-1.14%	**1.53%**
Digital Products	28.04%	24.11%	**25.01%**
General Merchandise	4.63%	3.18%	**6.94%**
Grocery & Beverage	4.53%	2.59%	**5.42%**
Health & Personal Care	3.85%	3.47%	**4.44%**
Misc	5.30%	3.65%	**5.31%**
Sporting Goods, Hobby, Music & Bookstores	8.21%	8.52%	**9.99%**

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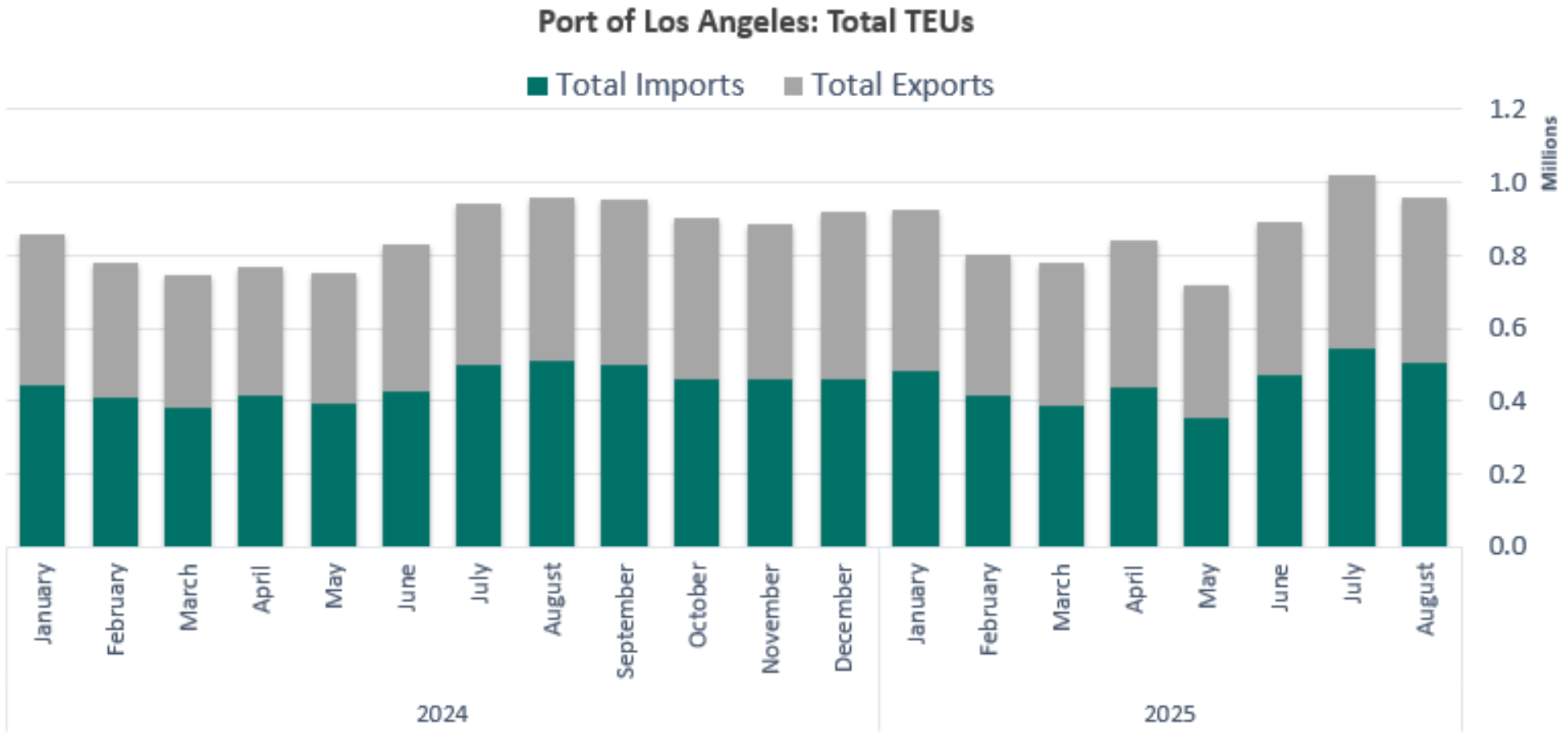
Port Activity

Port of Los Angeles handled record volumes in July. The spike in TEUs handled come amid tariff uncertainty.



Source: Port of Los Angeles Container Statistics

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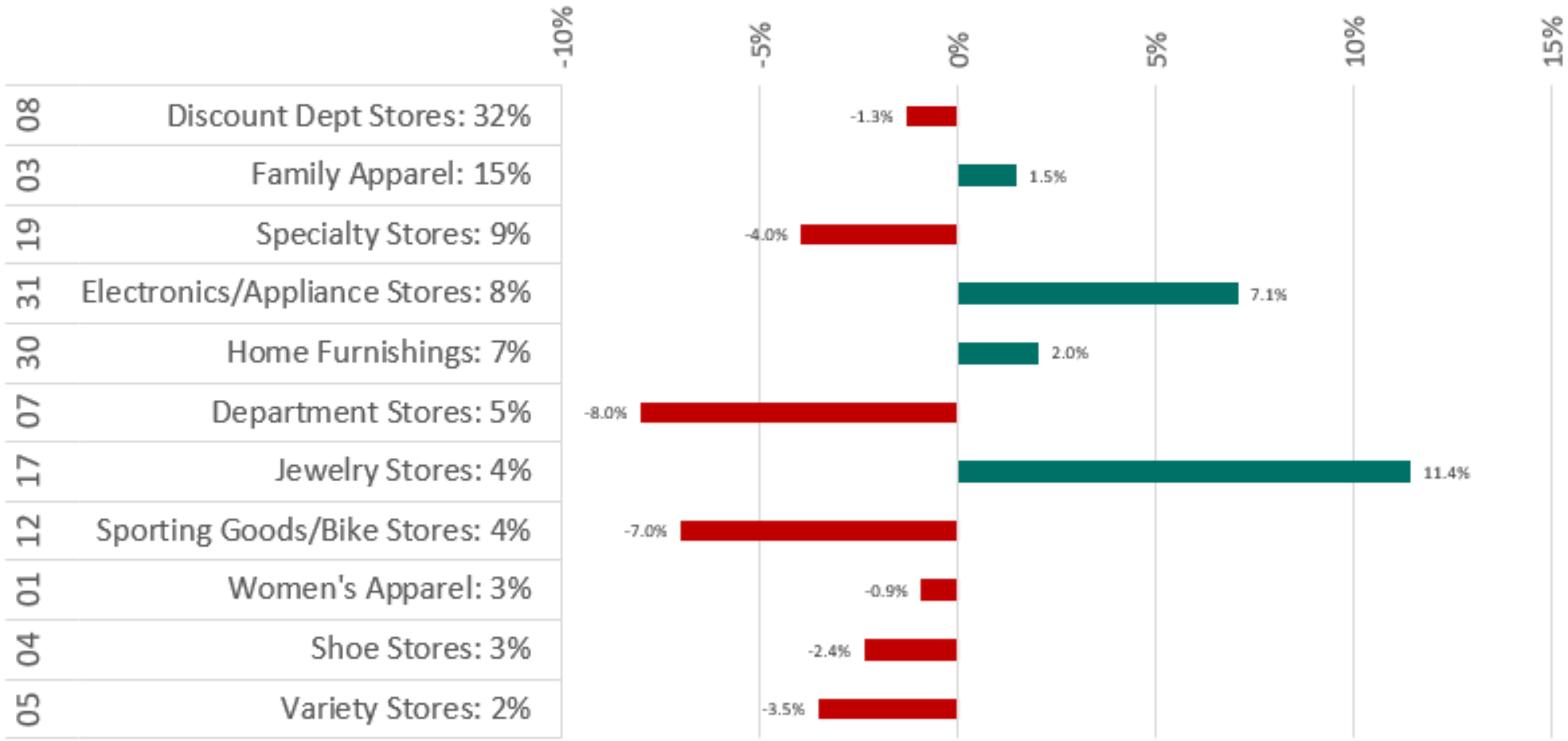
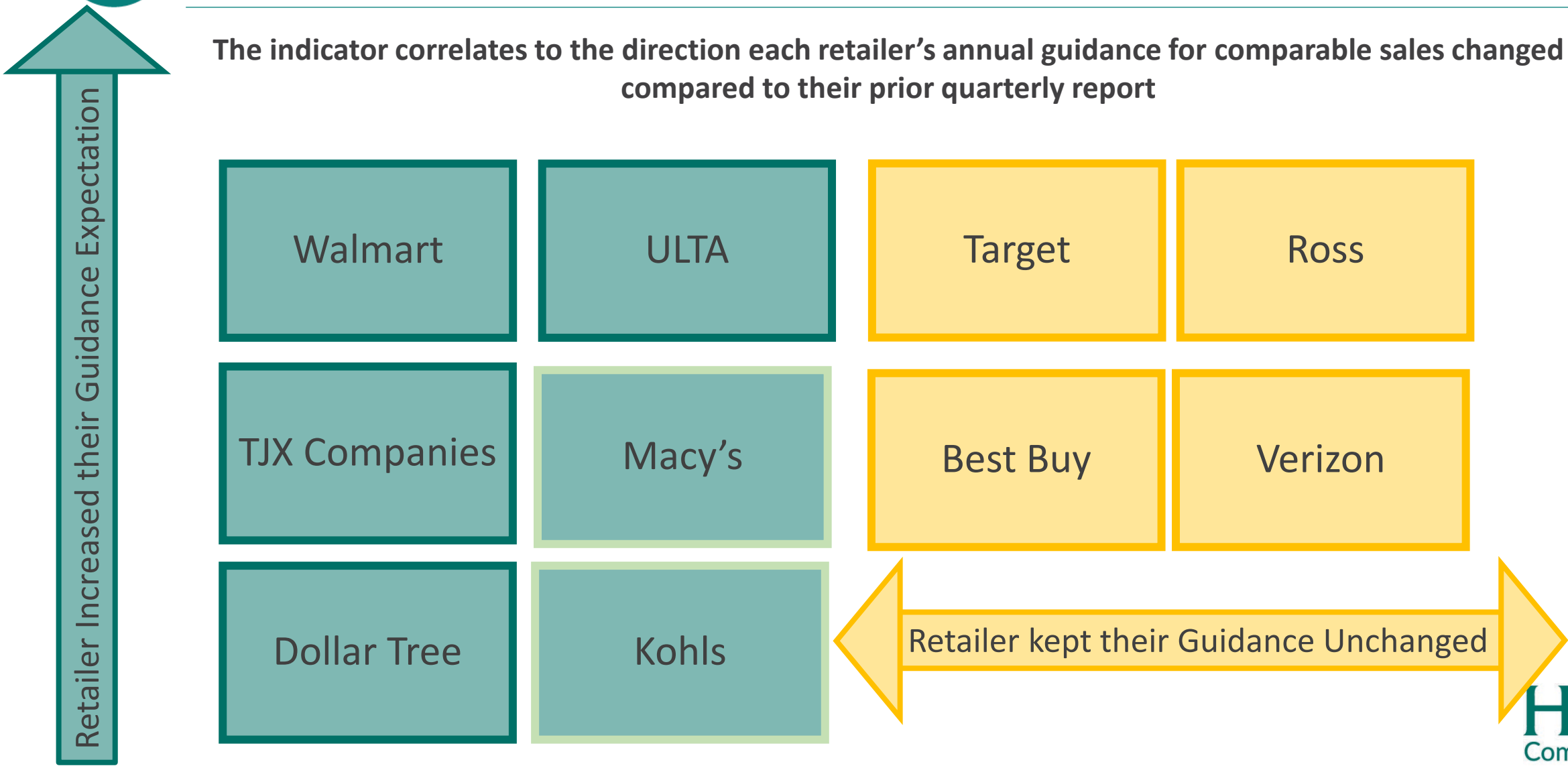
General Consumer Goods: 2Q25



HdL Companies

Changing Retailer Guidance

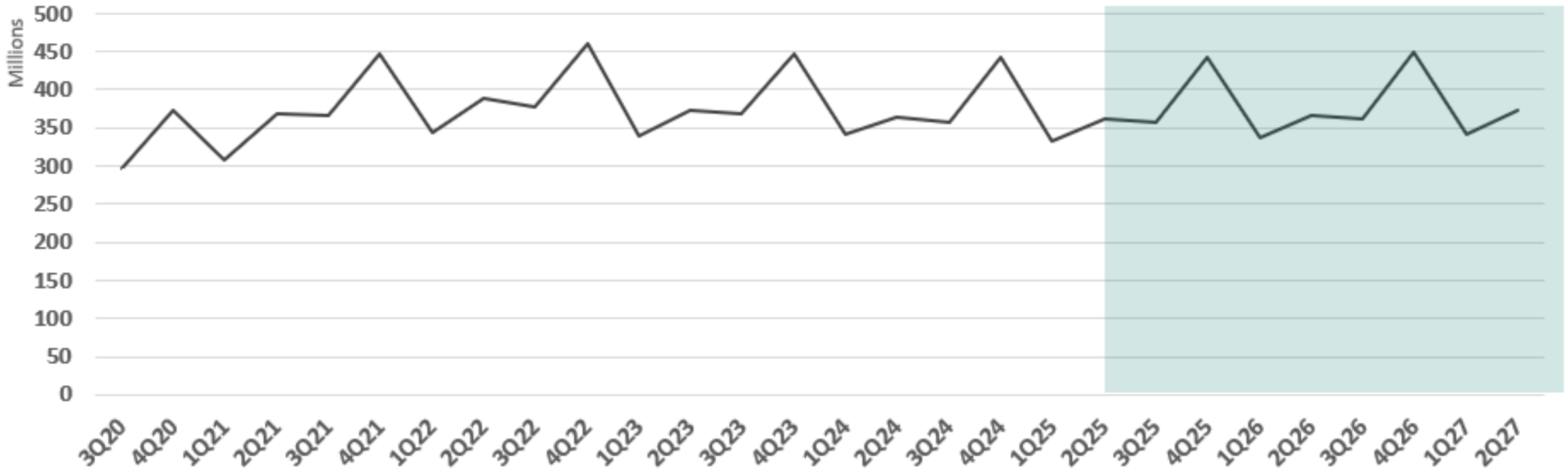
The indicator correlates to the direction each retailer's annual guidance for comparable sales changed compared to their prior quarterly report



HdL Companies

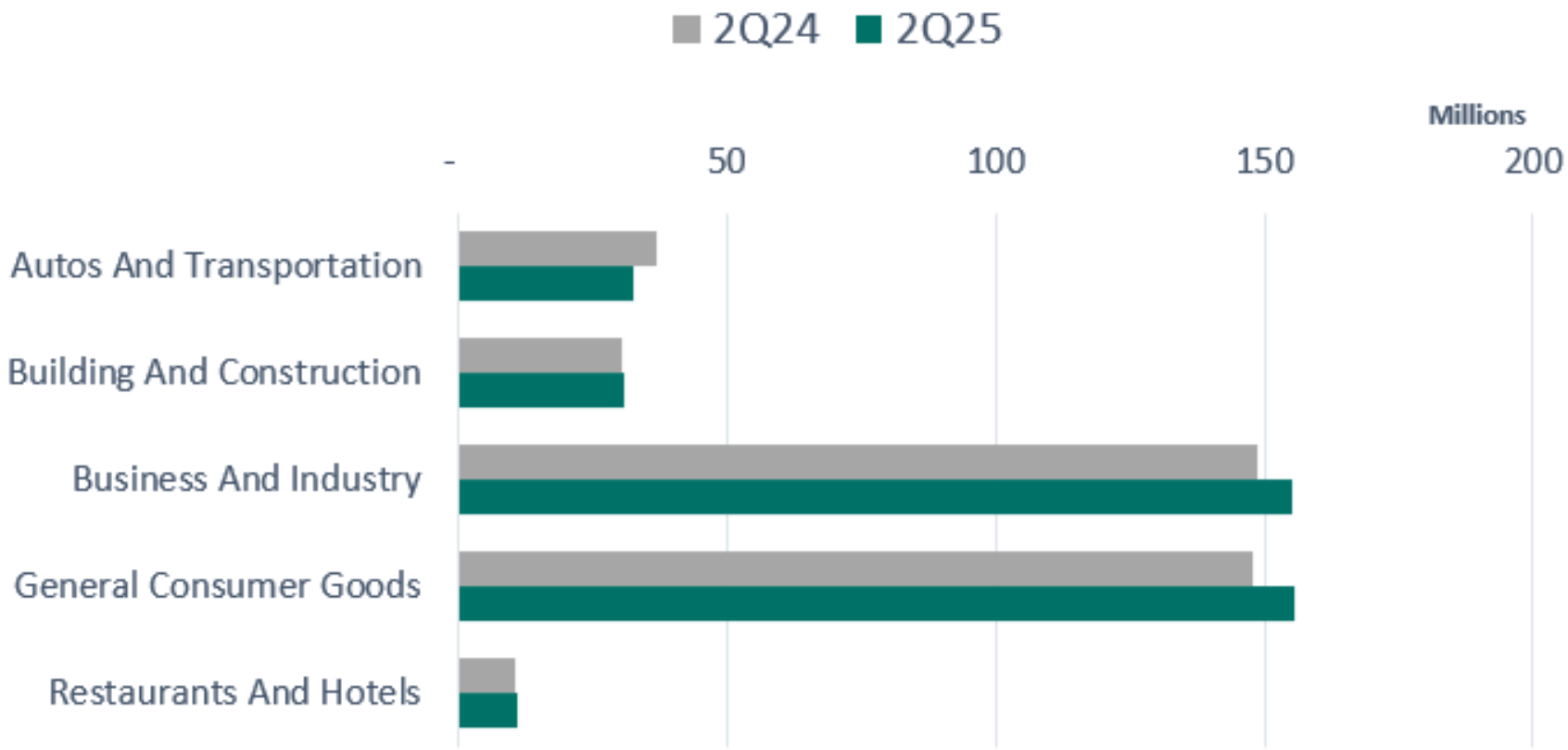
General Consumer Goods Forecast

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	-2.7%	-3.0%	0.5%	-2.2%	-2.8%	-1.2%	-2.5%	-0.6%	0.2%	0.3%	1.5%	1.5%	1.1%	1.3%	1.3%	1.3%
Fiscal Year Change	-2.0%				-1.7%				0.8%				1.3%			



HdL Companies

County Pools – by Major Industry Groups



HdL Companies

County Pools – Top Business Types

Business Type	2Q25	% Change	Share of Total
Marketplace Sellers	61.7 M	0.9%	15%
Apparel, Misc GCG *(3 categories)*	55.7 M	9.1%	13%
Medical/Biotech	25.8 M	12.9%	6%
Used Autos *(Private to Private)*	23.2 M	-17.2%	6%
Contractors	21.8 M	0.0%	5%
Light Industrial	21.0 M	0.6%	5%
Business Services	20.7 M	3.9%	5%
Electronics/Appliance Stores	17.7 M	47.5%	4%
Top 10 Subtotal	**247.7 M**	**4.2%**	**60%**
Remaining Business Types	167.9 M	3.5%	40%
TOTAL	**415.6 M**	**3.9%**	**100%**

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Pool Considerations

Ecommerce continues to rise

Past trend = future outlook by experts

Expected to grow modestly as % of overall retail sales, pool allocation slower than fulfillment centers in CA.

Tariffs - not a significant negative impact

Narrative changes daily - no clear policies leave companies scrambling and rudderless

Vendors adapt to reduce cost impacts and/or adjust prices

Economic Outlook

Consumers will spend

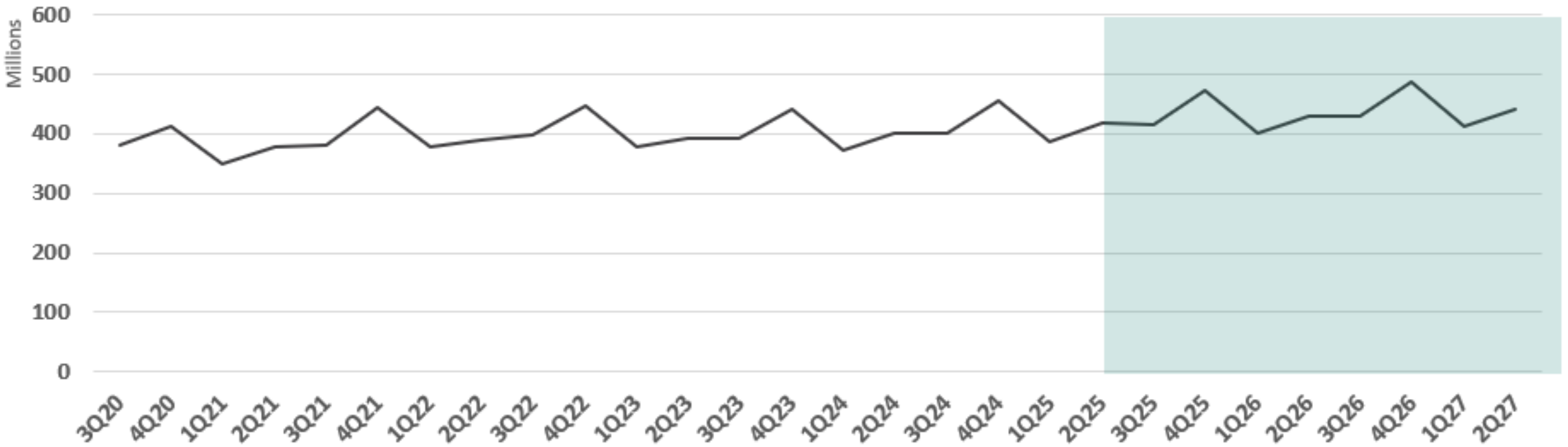
Impacts more likely at B&M merchants

Little relief to help consumers (e.g. Fed Funds' rate cuts)

HdL Companies

County Pools Forecast

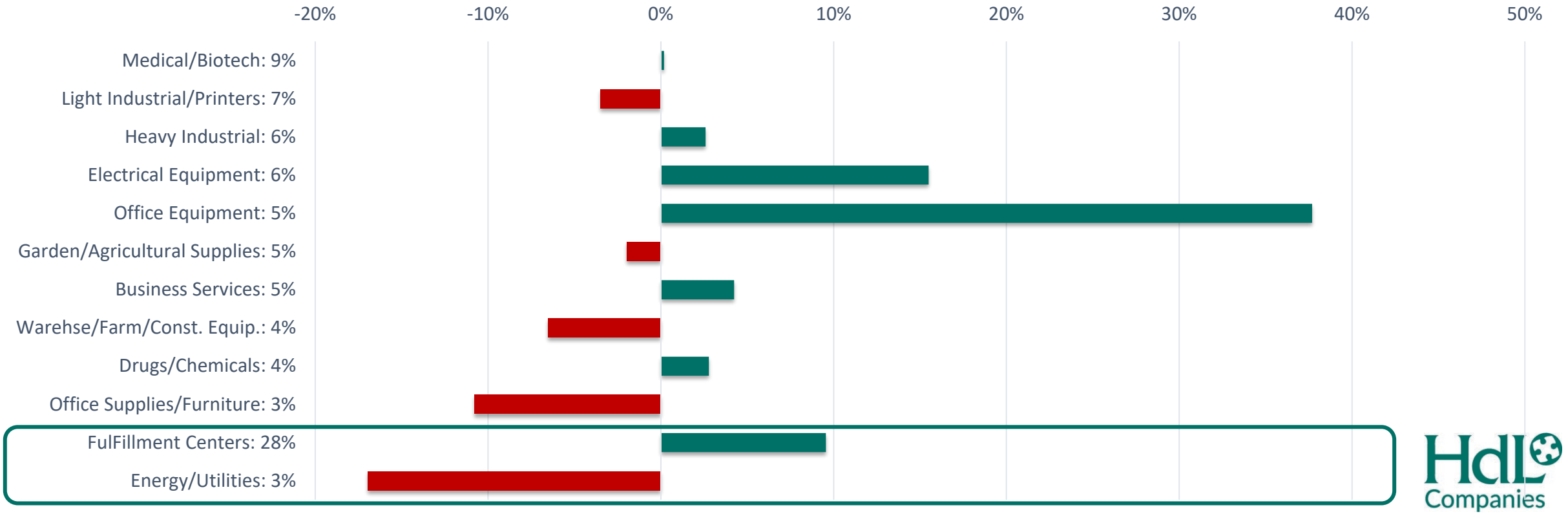
	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	-1.7%	-1.0%	-0.8%	2.3%	2.2%	3.1%	3.8%	3.7%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fiscal Year Change	-0.3%				3.2%				3.5%				3.0%			



HdL Companies

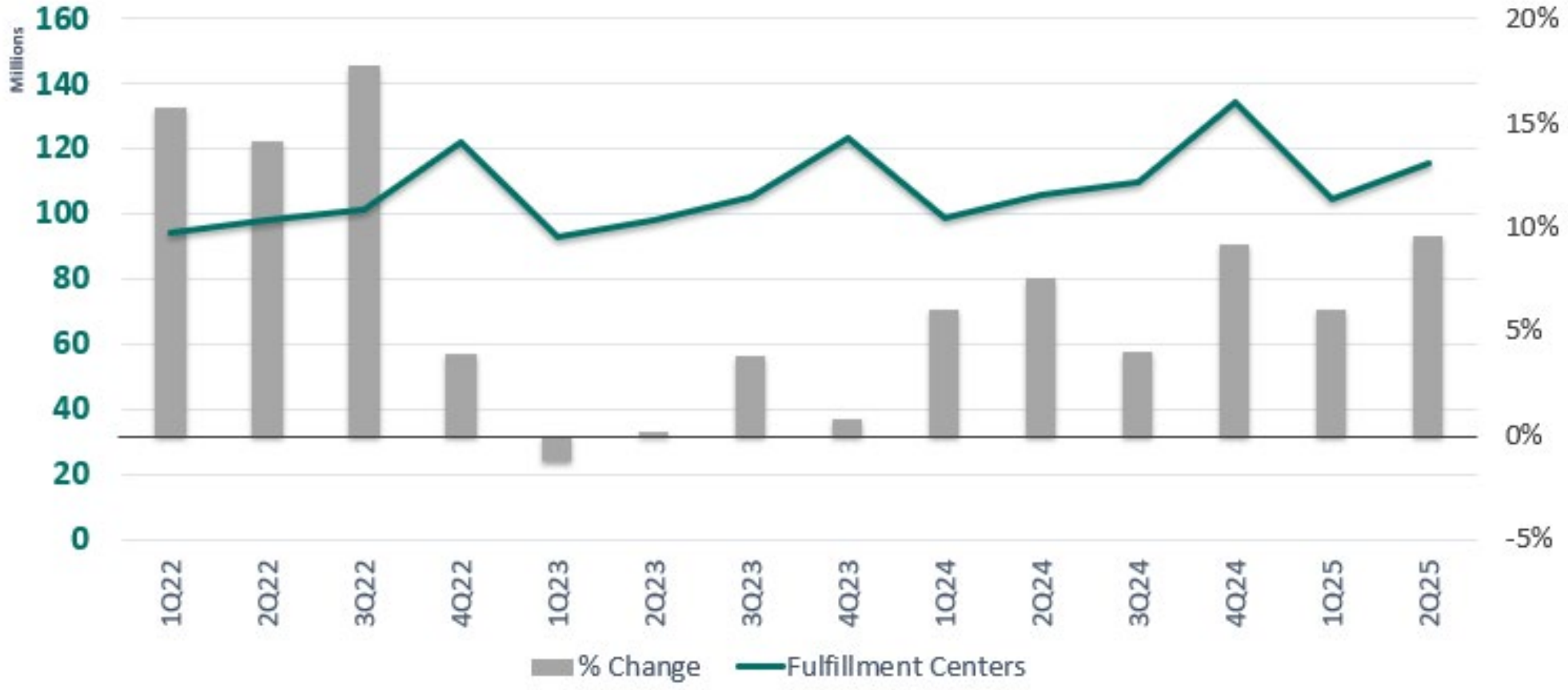
Business & Industry– Top Business Types

Business & Industry Group	2Q25	% Chg	Share of Total
Top 10 Business Types	228.1 M	3.3%	55%
Fulfillment Centers	115.8 M	9.5%	28%
Energy/Utilities	14.6 M	-17.0%	3%
Total Business & Industry	416.8 M	3.9%	100%



Business & Industry: Fulfillment Centers

Place-of-Sale direct allocations to local agencies



Fulfillment Centers were 4.9% of statewide Bradley Burns 1% Sales Tax in 2Q25

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Business & Industry– Agriculture (9% of B&I)

CA agricultural outlook

Key challenges…

- Agriculture workers – estimated 50% undocumented
- Water scarcity
- Rising input costs (e.g., fertilizer and energy)
- Export Tariffs (especially for China and EU markets) – exports to China dropped 50% in first ½ of 2025

Some optimism…

- 2025 Almond production 10% higher than 2024
- Technology investments – precision agriculture
- Sustainable farming practices

Farm Flavor, FSA.USDA.GOV, Reuters, Valley AG Voice, AgAmerica, My Job Depends on Ag

"California produces over 400 different commodities, making it the most agriculturally diverse state in the U.S."

CA almonds = 80% of world supply (¾ exported) CA produces a third of country's vegetables and ¾ of country's fruits & nuts

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Industry Trends

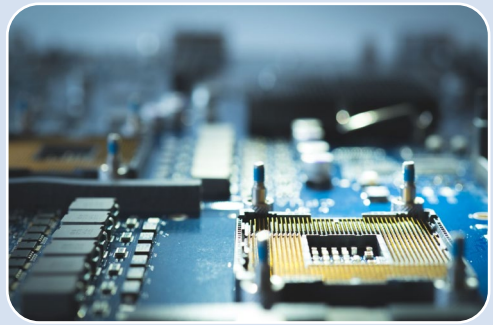
CA Fulfillment Centers

Accounted for 28% of Business & Industry

Growth

+9.5% in 2Q25

Forecast at 4-5% going forward

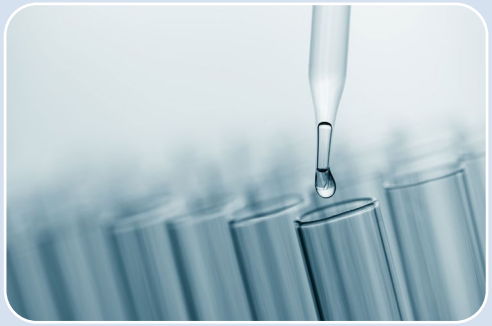


Industry

PMI remains below 50

Tariff uncertainty impacting planning

Production & employment contracting



Medical/Biotech

Federal Funding (NIH Cuts)

Loss of talent

Vaccine Skepticism

Pharma tariffs could result in shortages

Agriculture

Tariffs impact equipment production

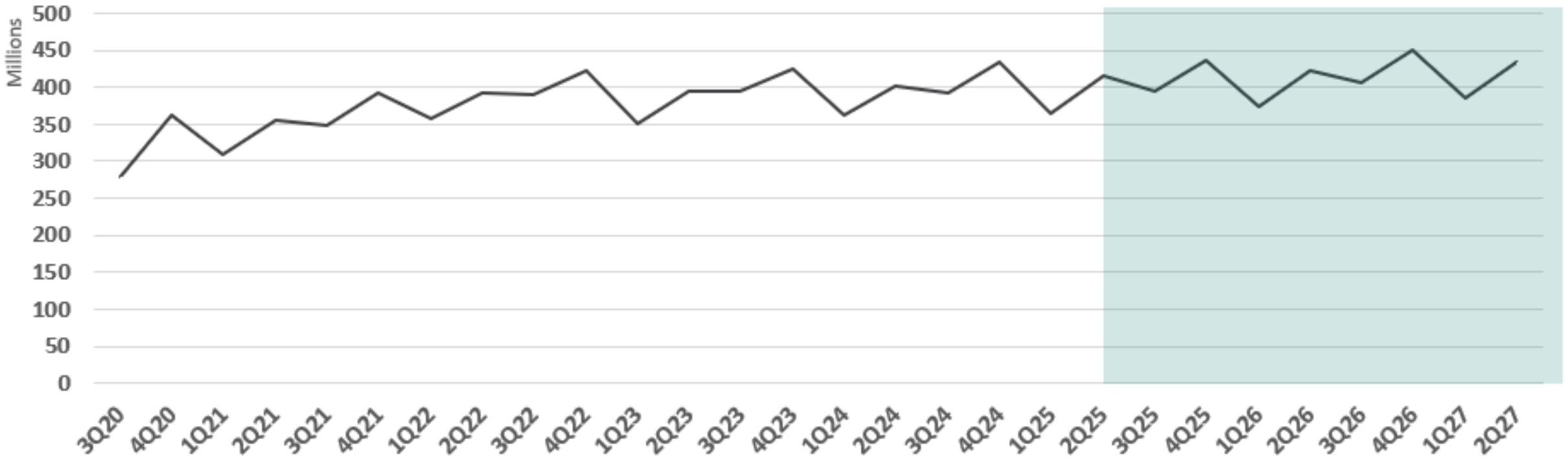
Interest rate reduction could help

Labor challenges

Retaliatory tariffs impacting demand

Business & Industry Forecast

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	1.0%	0.6%	3.9%	1.7%	-0.2%	2.3%	0.5%	3.9%	0.5%	0.6%	2.6%	1.2%	3.1%	3.2%	3.2%	3.1%
Fiscal Year Change	**1.8%**				**1.7%**				**1.2%**				**3.1%**			



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Restaurant & Hotels Business Types

Business Type	% Change	Share of Total
Casual Dining	2.0%	44%
Quick-Service Restaurants	-0.2%	30%
Fast-Casual Restaurants	-2.3%	8%
Fine Dining	-4.2%	6%
Hotels/Motels	6.0%	5%
Leisure/Entertainment	3.8%	5%
Food Delivery/Catering	10.2%	3%
TOTAL	**1.2%**	**100%**

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National Restaurant Association

"Disposable personal income – a key driver of restaurant sales – is projected to increase at an inflation-adjusted rate of 1.4% in 2025. While still positive, that would be down from a stronger 2.7% gain in 2024."

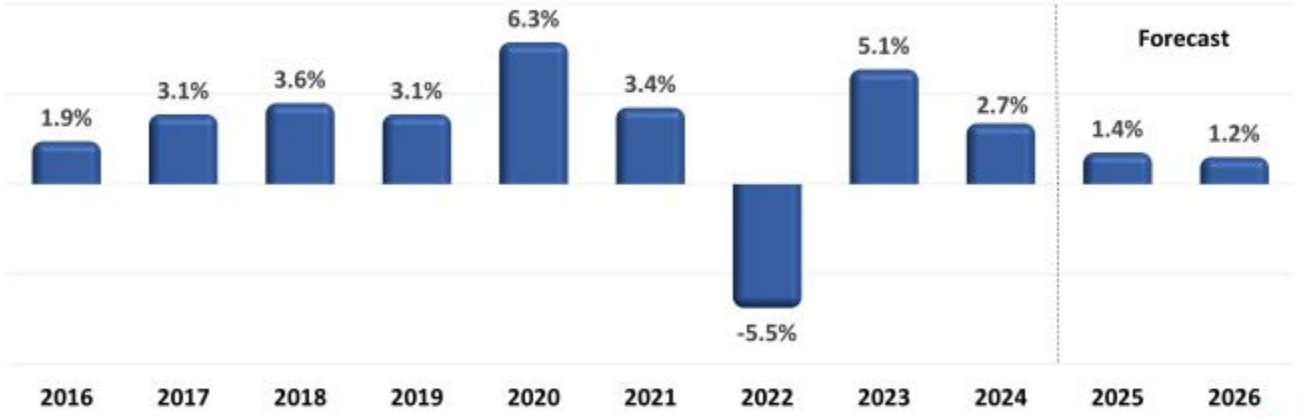
U.S. Economic Outlook

Indicator	2023	2024	2025	2026
Real Gross Domestic Product (GDP)	2.9%	2.8%	1.7%	1.7%
Total U.S. Employment	2.2%	1.3%	1.0%	0.8%
Real Disposable Personal Income	5.1%	2.7%	1.4%	1.2%
Consumer Price Index	4.1%	3.0%	3.0%	2.5%

Source: National Restaurant Association projections; August 2025

Real Disposable Personal Income

Historical and projected growth rates



Sources: Bureau of Economic Analysis, National Restaurant Association projections

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Menu Prices

📈 Cost Increases Across the Board

Tariffs have raised prices on a wide range of imported goods:

Ingredients: Coffee (up to 46% tariff), Canadian beef (+25%), European wine (+20%), seafood, and fresh produce.

Packaging: Takeout containers from China face tariffs up to 125%, affecting delivery-heavy operations.

Equipment & Furniture: Kitchen appliances and dining fixtures are more expensive due to tariffs on steel, aluminum, and electronics.

Even restaurants that source domestically are affected, as increased demand pushes up local prices.

Tariff uncertainty – a wild card in price forecast

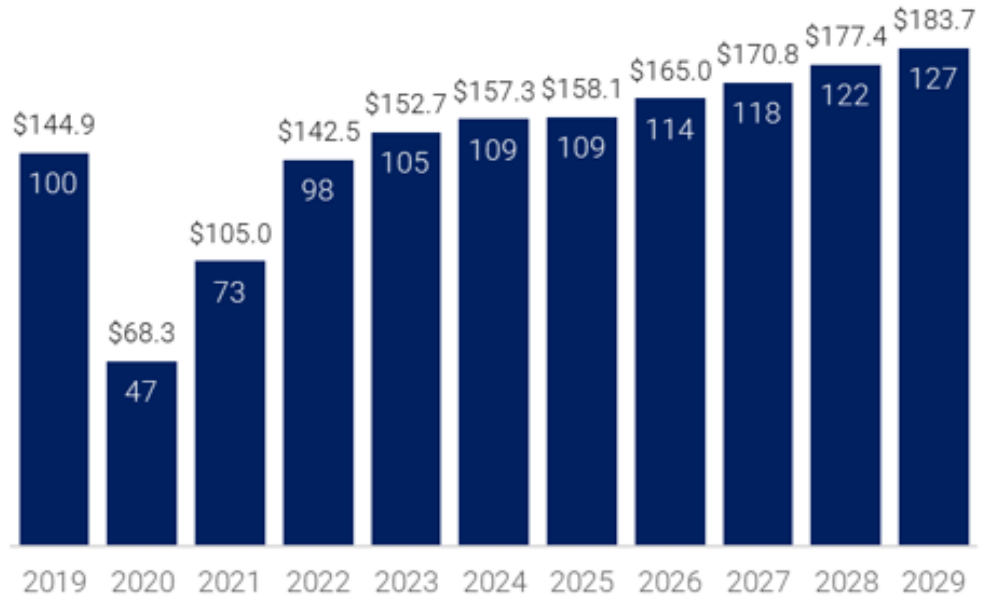
Like other tariffs, restaurants will find new suppliers, new strategies and adjust to keep tariff impacts as minimal as possible.

Visitation & Spending

Visit California's May 2025 forecast expects 4% annual growth in visitor spending in 2026 and forward.

Total visitor spending in California

Billions (Index relative to 2019)



Source: Dean Runyon & Associates, Tourism Economics

Domestic vs. international visitor spending

Billions

Source: Dean Runyan, Tourism Economics

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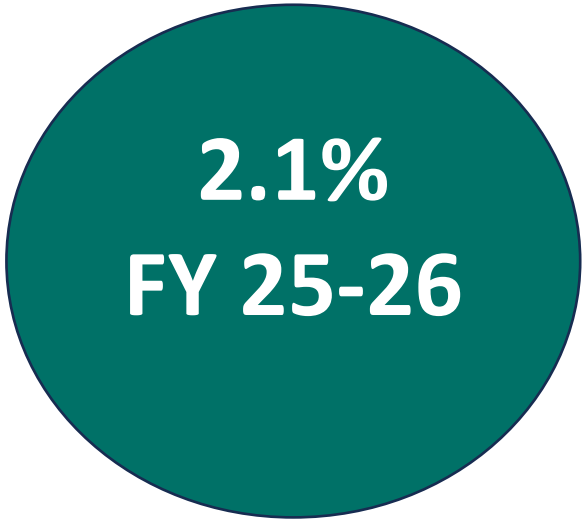
Restaurants & Hotels: Considerations

- Expect 3Q25 and 4Q25 to continue to be slower with growth in 1Q26
- 1Q26 inflated rebound due to the LA Fires in the prior year.



Growth

- Visit CA projects Growth
- Menu prices increase 4% (again)

Flat

- Hotel Management projects flat
- Restaurant operators 50/50 on increase/decrease
- Black Box says flat to slightly positive

Decline

- Eat out less because of menu prices
- Eat out less because of lower disposable income

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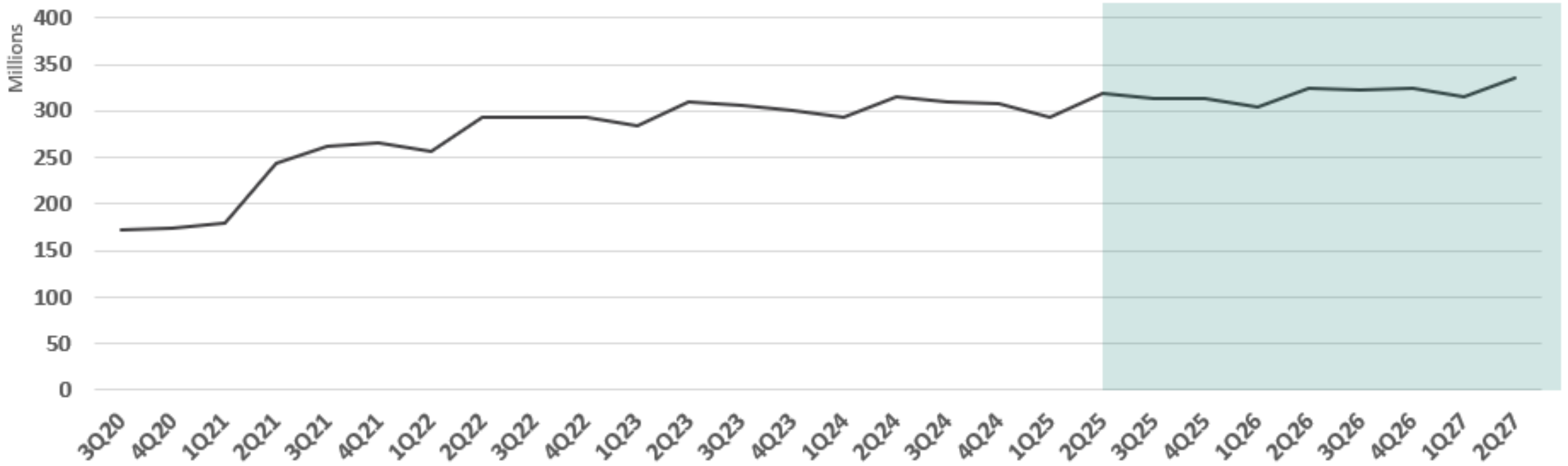
Restaurants & Hotels Forecast

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
% Change YoY	3.9%	2.6%	3.1%	1.6%	1.6%	2.3%	0.2%	1.2%	1.2%	1.4%	4.0%	1.9%	3.0%	3.5%	3.6%	3.6%
Fiscal Year Change	**2.8%**				**1.3%**				**2.1%**				**3.4%**			



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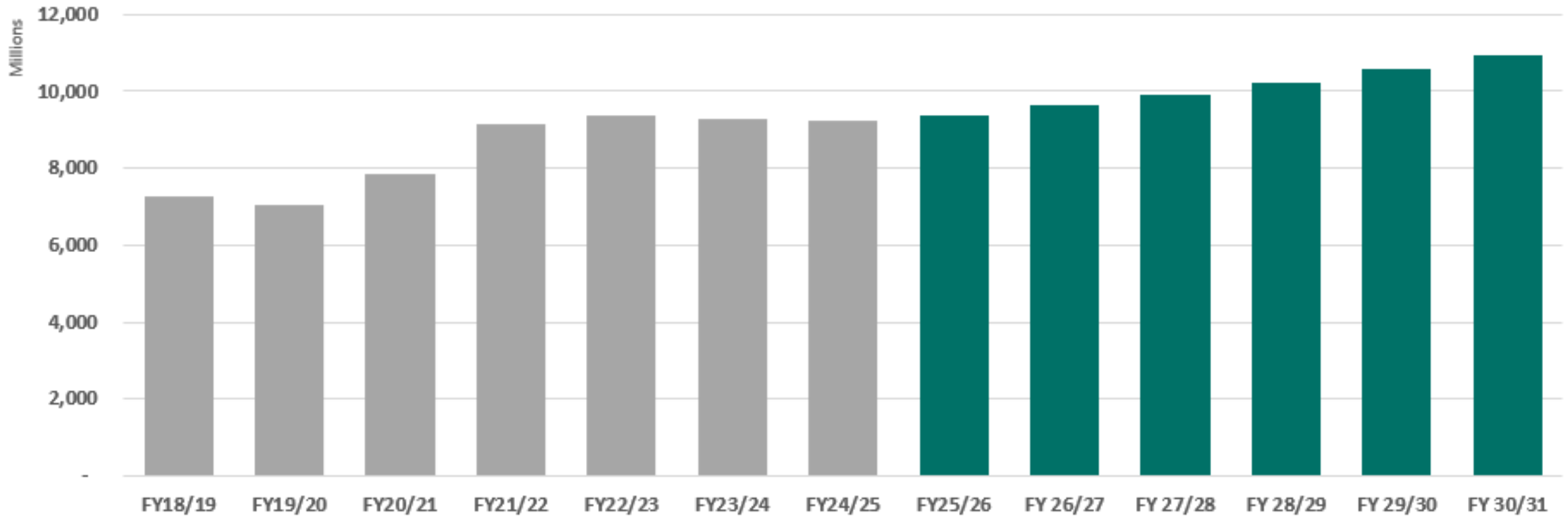
HdL Statewide Trend – Annual Outlook

% Change YoY	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
	4.2%	-2.7%	11.5%	16.3%	2.6%	-1.0%	-0.5%	1.4%	2.7%	3.0%	3.3%	3.3%	3.3%



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Q & A

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Run Your Business Licensing Program with Confidence

Our business license administration service helps you:

- Lower operating costs while improving administrative results
- Free up staff to increasingly focus on municipal strategic priorities
- Deliver improved and expanded customer experience to your business community
- Conserve precious IT resources and reduce security risk footprint
- Gain local revenue expertise and best practices

Optimized Revenue. Modern Technology. Zero Administrative Overhead.

"I've implemented HdL's services in four cities now and have had the same success in four cities. Not by adding staff, but by making HdL an arm of the city. It's such a recipe for success, there is no question about moving forward with it."

– City Manager Bret Prebula, Suisun City

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Thank you!