CALIFORNIA FORECAST

SALES TAX TRENDS & ECONOMIC DRIVERS

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STATEWIDE

SALES TAX TRENDS

	2024/25 | 2025/26
TOTAL	-0.8% | 1.8%

Overview: Economic volatility persists through 2025. Key stabilizing factors include a resilient labor market and the potential easing of inflation, contingent on the timing and extent of interest rate reductions by the Federal Reserve. Unpredictable national policies—particularly tariff impositions on taxable goods—influence consumer behavior. Many are either accelerating purchases in anticipation of price hikes or delaying spending until greater financial stability emerges. Global instability continues to weigh on the economic outlook. Fiscal Year 2024–25 is projected to underperform compared to the previous year, followed by a modest recovery in FY 2025–26.

2024/25 | 2025/26

Autos/Transportation -0.9% | 1.4%

Receipts posted a modest gain in the first quarter of 2025, partly driven by consumers accelerating purchases ahead of anticipated tariffs which, according to some industry analysts, are expected to raise new car pricing an average 6 percent over the next year. While higher vehicle costs may provide a short-term boost to taxable receipts, this effect is likely to be offset by weakening demand. Some consumers may be priced out of the market or choose to delay purchases. Steady employment levels should support vehicle related taxes near breakeven levels in the near term. However, gains will likely remain modest until the market adjusts to the new pricing environment, with more normalized growth anticipated once the initial effects of the tariffs are absorbed.

Building/Construction -0.9% | 0.2%

Despite the effects of inflated construction material prices and mortgage rates above 6.5%, sales rose 2.9% this period. The gain captured an extra week of sales realized by one large retailer. The latest forecast assumes the Fed will approve at least one .25% interest rate cut during calendar 2025 which may encourage developers to restore new home construction growth that began in 2024. Tariff impacts as a percentage of total new home cost will be minor. Both infrastructure related spending, DIY centers sales related to smaller-scale home projects should remain stable. Finally, the solar industry could produce at least one more quarter of modest growth as customers commit to new installations ahead of any potential federal tax credit changes.

Business/Industry 0.3% | 1.5%

Despite looming uncertainty, business-industrial returns edged up slightly. Ecommerce continued its growth march and local orders filled from CA-based fulfillment centers drove related revenues higher – even with a couple of statewide audits redistributing some payments back into pools and agencies. The industrial segments rose slightly – possibly related to pre-tariff stockpiling. Large, one-time technology purchases impacted business-to-business, and energy projects propelled electrical equipment sales. Still, many categories stayed flat or declined with variables such as interest rates and tariff fears curbing growth. The outlook anticipates low increases for the current fiscal year and modest improvement thereafter.

Food/Drugs -3.2% | -0.6%

Grocery stores' earnings were meager, falling 1% in 1Q25. Viral products and category trends on social media are translating to in-store sales, most notably for on-the-go meals. Convenience/liquor merchants are beginning to pivot towards better food service prepared onsite with affordable consumer options. The cannabis segment declined for the sixth consecutive quarter (-10%). While more cannabis is being sold, customers are choosing less expensive products. Drug store challenges linger as they face increased competition and shifting consumer behavior, contributing to consolidation and smaller store footprints and as a result, this category must reinvent itself. This group finishes lower at the end of June, fiscal year 2025-26 stays relatively flat.

2024/25 | 2025/26

Fuel/Service Stations -10% | 5.0%

Retail fuel prices decreased again in 1Q25 as statewide pump prices dropped 2.3% and oil barrel prices trended lower. CDTFA-reported fuel consumption regressed compared to the first two months of 2024. As a result, revenue from this group fell 6%, marking a steeper decline than the price drop alone would suggest. Structural factors unique to California will tighten supply and drive price increases into 2026. Two petroleum refineries — the Phillips 66 in Carson/Wilmington and Valero in Benicia — will likely cease operations by the end of 2025 and April 2026, respectively. Together, they represent 16% of statewide refining capacity. Near-term revenue remains flat, then modest recovery begins in FY 2025–26 as supply constraints emerge and price trends begin to stabilize.

General Consumer Goods -2.0% | 0.9%

Sales tax expanded 0.7% during 1Q25, yet another reminder to watch what customers do, not what they say. Even with consumer sentiment near historical lows, discretionary spending on taxable goods improved. Lower sales were reported by most retail categories but exacerbated by mass closures due to Chapter 11 filings from multiple merchants. Home furnishings increased for the first time in almost three years, potential evidence of pulled forward demand ahead of perceived price increases from tariffs. HdL's outlook remains steady, although expectations are lowered for the remainder of 2025. Stockpiled inventory holds inflation in check as price increases play out in the third and fourth quarters resulting in a bump in sales tax offset by a drop in consumption.

Restaurants/Hotels 1.0% | 2.4%

California's restaurant industry is navigating a turbulent landscape. Restaurants are feeling the pinch of higher operational costs and inflation, prompting a noticeable shift in consumer behavior. More diners are opting for value offerings, leading many establishments to adjust their pricing and menu selections. Tourism, too, presents a mixed portfolio. While the number of tourists is expected to dip, domestic spending is set for a slight boost, even as international spending declines. Regional results vary, painting a picture of an industry in flux. Both the tourism and restaurant sectors are navigating a complex economic landscape, with the outlook remaining cautiously optimistic, hinging on broader economic conditions

State and County Pools 3.6% | 3.5%

Q1 2025 saw 5% growth, outperforming the 3% forecast, driven by strong sales in medical/biotech, office equipment, and industrial sectors. Taxpayer audits led to reallocated revenues, boosting pool tax contributions from electronics/appliances. Despite inflation and tariff concerns, consumer online spending is expected to rise. Foreign-based firms in the pool's tax base may adjust import and sales strategies to adapt to shifting tariffs while meeting consumer demand. Ecommerce growth remains steady as many orders continue to be fulfilled from inventory held outside California.

NATIONAL AND STATEWIDE ECONOMIC DRIVERS

Beacon Economics

2024/25 | 2025/26

U.S. Real GDP Growth — 2.2% | 2.2%

The Trump administration has largely backed away from its most severe tariff threats. This includes withdrawing the 100%+ tariffs levied on imports from China and delaying previously threatened tariff increases on the EU. While uncertainty remains on where this trade war will ultimately lead, the backtracking has caused U.S. equity markets to rally. The small negative growth rate in the first quarter of 2025 is assuredly not the start of a Trump-driven recession. The U.S. economy came into 2025 with good momentum, but concerns remain regarding how the rising instability of the markets will impact chronic problems that have been building in the U.S. economy for years, including overheated asset markets and tremendous federal debt.

CA Unemployment Rate — 5.3% | 5.2%

California's unemployment rate held steady at 5.3% in April 2025 and has stayed above 5% since early 2023. One concern has been the increase in long-term unemployment, with the number of people who are jobless for 27 to 51 weeks up 43.6% year-over-year and those unemployed for more than a year up 44.7%. Much of this increase is concentrated among re-entrants to the workforce, whose numbers rose 16.2% year-over-year. Many of these workers face skill mismatches or diminished employability after spending time out of the workforce. At the same time, new entrants are also up 6.4%, highlighting a growing pressure on entry-level hiring.

CA Total Nonfarm Employment Growth — 0.5% | 0.4%

The California labor market has remained flat with total nonfarm employment increasing by just 38,700 from the first quarter of 2024 to the first quarter of 2025. This marks the lowest single year-over-year change since the first quarter of 2021. In a positive development, the state's labor force expanded by more than 300,000 people from April 2024 to April 2025, pushing the total workforce slightly above its pre-pandemic peak. Even so, California's labor force participation rate remains flat at nearly 62%, or about one percentage point below its pre-pandemic level, due to faster growth in the working-age population.

2024/25 | 2025/26

U.S. Unemployment Rate — 4.2% | 4.3%

Proposed trade policies may not inflict the level of damage that many analysts formerly believed. If the United States implements a 20% average tariff on all imported goods, it would amount to approximately $600 billion in trade taxes for the year ahead. This cost would be split between businesses, consumers, and foreign exporters. While these impacts are significant, they are unlikely to cause a U.S. recession, particularly given the strong economic growth trends and low unemployment rate inherited by President Trump. Although conditions have moderated, the U.S. labor market remains relatively tight, which helps support wage growth and household spending.

CA Residential Building Permits — 93,471 | 95,653

Residential permitting in California remains sluggish, stalling efforts to expand the state's housing supply. From 2023 to 2024, total residential permits fell 22% year-over-year, driven by a sharp 43% drop in multifamily permits and reinforcing a persistent slowdown in construction activity. Lengthy approval timelines and high local impact fees, which far exceed national averages, continue to weigh heavily on multifamily development. A typical project in California takes nearly twice as long to permit as one in Texas, adding substantial carrying costs and delays. Without a meaningful acceleration in permitting activity, California is unlikely to build at a scale that would ease housing costs.

CA Median Existing Home Price — $794,047 | $820,192

California's housing market shows few signs of momentum, as elevated prices and borrowing costs continue to suppress market activity. Single-family home sales declined 7.4% year-over-year in May 2025, while the median sale price increased 0.1%. Inventory has continued to build, with the number of homes for sale in May 2025 up 8.5% year-over-year. This increase has occurred as more homeowners have adjusted to higher mortgage rates and listed their properties. However, the prospect of further increases in long-term interest rates remains a risk. Demand for long-term Treasuries has weakened amid concerns over U.S. trade policy and the growing federal deficit, putting upward pressure on yields and, in turn, mortgage rates. While higher borrowing costs could weigh on sales, weak construction activity will continue to constrain supply and keep upward pressure on prices.

Proposition 172

After a 1% decrease in fiscal year 2023-24 statewide Proposition 172 (P-172) revenues, the forecast predicts a 0.7% decline for the FY 2024-25, followed by modest growth of 1.7% and 2.9% for fiscal years 2025-26 and 2026-27, respectively. Current county projections reflect revised pro-rata factors published by the State Controller's Office in April 2025 (based on calendar year 2024 actuals). Pro-rata growth factors and resultant P-172 revenues will vary for many counties as the calendar year Bradley-Burns results fluctuate due to taxpayer modifications, audits, economic impacts, and other factors.

Watch our webinar for more details!

HdL Companies

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.