

# CALIFORNIA FORECAST

SALES TAX TRENDS & ECONOMIC DRIVERS

MARCH 2026



*San Diego, CA*



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**Overview:** Amid ongoing global events, political volatility, and consumer uncertainty surrounding both the California and national economies, near-term sales tax revenues are still expected to post modest growth. Fiscal year 2025–26 projections are consistent with expectations set in the second quarter of 2025, reflecting a broadly stable outlook, and gradually improving statewide sales tax revenues. Consumers remain attentive to inflation trends, tariff-related price changes, interest rate movements, and fuel costs. Despite these pressures, overall spending patterns have demonstrated resilience. Household demand is expected to remain steady, supporting moderate gains over the coming year even as pockets of unpredictability persist across numerous sectors.

**Autos/Transportation** 2025/26 | 2026/27  
-0.5% | 2.5%



The expiration of federal electric vehicle tax credits in September 2025 caused a sharper-than-anticipated 4Q25 decline in auto sales as many consumers advanced purchases to take advantage of the incentive. Consequently, the current-year forecast is modestly revised downward. Additional uncertainty stems from the onset of conflict involving Iran, which contributed to higher fuel prices. This dynamic temporarily delayed vehicle purchases and may shift consumer preferences toward more affordable, fuel-efficient models. Still, the sector's longer-term outlook remains constructive. The historically high average age of the nation's vehicle fleet points to significant pent-up demand that is expected to support renewed growth and a gradual return to normalized sales conditions beyond 2026.

**Building/Construction** 2025/26 | 2026/27  
-2.2% | 1.3%



Activity in this category remained largely unchanged compared to the third quarter of 2025. The expiration of the 30% federal solar investment tax credit on December 31 drove a short-term increase in sales for some material suppliers and electrical contractors. Infrastructure projects had limited direct impact as materials were often sourced through suppliers classified under business and industry. Roofing activity saw a modest uptick, though gains were concentrated among a small number of contractors. Based on patterns observed following 2022 heavy rainfall, more significant repair activity is anticipated to begin during the summer months. First-quarter results for large home improvement retailers may appear softer due to year-ago calendar and tax allocation anomalies.

**Business/Industry** 2025/26 | 2026/27  
2.3% | 3.0%



Business and industry produced a net positive result in the quarter, buoyed primarily by constant expansion in e-commerce. Consumers leaned heavily into the convenience of mobile-enabled online shopping during the winter season. California-based fulfillment centers accounted for an estimated 34% of revenues, helping to offset softness elsewhere. YoY comparisons were affected by one-time technology and energy-related payments recorded in the prior year. While industrial segments continue to face challenges related to capital financing costs and tariffs, the statewide forecast remains cautiously optimistic. Growth is expected to be driven by AI-integrated technologies, logistics efficiencies, and continued e-commerce adoption.

**Food/Drugs** 2025/26 | 2026/27  
-1.7 | 0.4%



Grocery stores recorded a modest uptick, 0.8%, reflecting the sustained rise of online ordering and click-and-collect services. Viral social media trends created sudden surges in demand for specific products, accelerating turnover cycles. Convenience stores and liquor markets experienced contraction, although many operators are attempting to stabilize traffic by expanding prepared food offerings. Cannabis retailers posted positive results, as vape products surpassed traditional flower in sales for the first time. Drug stores, however, continued to struggle amid widespread closures, contributing to the emergence of 'pharmacy deserts' in urban and under-served areas. Overall, tax filings are expected to soften further through the remainder of the fiscal year.

**Fuel/Service Stations** 2025/26 | 2026/27  
1.3% | 3.9%



Fuel-related taxable sales entered 2026 with significant volatility following a weaker outcome in fourth quarter 2025. Geopolitical tensions involving Iran drove sharp swings in crude markets, with West Texas Intermediate (WTI) prices fluctuating between \$80 and \$120 per barrel in March. As a general benchmark, every \$10 increase in WTI prices translates into an approximate \$0.24 increase per gallon at California pumps. Structural supply pressures—including the closure of the Phillips 66 refinery in Los Angeles and the scheduled shutdown of Valero's Benicia refinery in April along with CARB regulations—are compounding upward price risks. While short-term price volatility may temporarily lift taxable sales, long-term growth in this group continues to average near 2% annually.

**General Consumer Goods** 2025/26 | 2026/27  
1.1% | 1.2%



Brick-and-mortar retailers maintained momentum in late 2025, posting year-over-year growth of 0.8%. Gains were concentrated in family apparel, led by off-price retailers and the continuous expansion of athleisure brands. As 2026 unfolds, comparisons will be influenced by last year's national retail boycotts, which weighed on in-store sales at major chains. A partial rebound is anticipated, supported by larger tax refunds in the first half of the year. While tariff-related uncertainties linger, conditions across general consumer goods are expected to stabilize. Retail risk has increasingly shifted toward secondary impacts from fuel price volatility and geopolitical disruptions; discretionary spending could contract in the coming months.

**Restaurants/Hotels** 2025/26 | 2026/27  
1.8% | 1.9%



Consumers remain highly value-conscious, and the restaurant industry continues to contend with elevated labor and operational costs. Several national chains are closing underperforming locations while reallocating resources toward higher-growth markets. Despite these pressures, the outlook includes notable upside. California hosted the Super Bowl in 2026 and will do so again in 2027, alongside multiple World Cup matches in 2026 and the Olympic Games in 2028. These events reliably boost visitor spending, generating meaningful revenue gains for restaurants and hotels in host regions and lifting statewide averages.

**State and County Pools** 2025/26 | 2026/27  
5.3% | 2.5%



Use tax pool collections exceeded expectations in the fourth quarter of 2025, driven largely by e-commerce marketplace sellers and retailers with a strong online presence. Additional one-time gains were observed in select counties from business-related segments such as energy-utilities and the Franchise Tax Board for self-reported sales activity. The long-term trend remains clear: an increasing share of consumer retail revenue is generated through internet-based transactions. Substantial company investment in AI-enabled platforms and digital fulfillment is expected to further expand the pool tax base in coming years.



# NATIONAL AND STATEWIDE ECONOMIC DRIVERS

2025/26 | 2026/27

2025/26 | 2026/27



## U.S. Real GDP Growth

2.5% | 2.2%

The year is progressing amid domestic unease and foreign policy shocks in the Middle East. Uncertainty remains elevated, and consumer confidence has plunged to near record lows. Still, the big picture reveals that very little has changed in the U.S. economy over the last year. The federal government shutdown left much of the core data lagging, but what did filter through points to more of the same—decent economic growth despite soft labor markets. Real GDP grew 2.2% in 2025, confirming Beacon Economics' view that the economy would remain stable in the near term. Heading into the second half of 2026, the nation's economy appears set for a modest acceleration, with the Federal Reserve and Congress moving into stimulus mode.



## U.S. Unemployment Rate

4.4% | 4.5%

The nation's unemployment rate, now 4.4%, has gradually increased over the last two years. Uncertainty is partly to blame for soft labor markets, despite a growing economy. This prevents employers from pursuing aggressive expansion plans, and AI may have slightly reduced demand for certain jobs. The concentration of softness at the entry level (younger workers) seems to support the AI claim. But the deeper truth is that U.S. labor markets aren't as soft as they appear. Claims for unemployment insurance remain very low, and the job-openings rate is still 4.5%—a historically normal level. The real issue is flat or even contracting labor supply due to policy shifts related to undocumented immigrants. Current policies have essentially halted immigration into the United States, a challenge being masked by these short-term fluctuations in labor demand.



## CA Unemployment Rate

5.5% | 5.3%

California's unemployment rate has remained stable, reaching 5.6% in September 2025 and staying within a narrow 5.4% to 5.6% range over the past year. The consistency of the rate indicates that the labor market has settled into a new equilibrium. Labor market flows have slowed, with hiring no longer keeping pace with worker separations, limiting net job growth. Increases in unemployment have been concentrated among labor force re-entrants and longer-duration job seekers, while job losses have remained stable. Together, these patterns point to slower job switching and longer job searches, rather than an increase in layoffs, keeping unemployment elevated even as the labor market avoids broader deterioration.



## CA Residential Building Permits

94,175 | 102,021

Over the past decade, California permitted an average of approximately 9,000 single- and multifamily housing units per month. For FY 2026, permits in the state are on track to reach around 105,000; not nearly enough to meaningfully expand supply. Under the 2021–2029 RHNA cycle, California jurisdictions are expected to accommodate about 2.5 million units statewide, or roughly 312,000 units per year. Actual production, even in strong years, has typically been between 100,000 to 130,000 units annually, meaning the state has been building about one-third of what planners estimate is needed to keep up with demand and address existing undersupply.



## CA Total Nonfarm Employment Growth

0.2% | 0.2%

In California, hiring has remained soft since the pandemic, labor force growth continues to lag the nation, and unemployment remains high. Demand for workers has cooled but not evaporated. Job postings are now roughly in line with 2015 levels, well below both the recent hiring surge and the pre-pandemic period. The state's labor market will remain soft in the near term, with modest employment gains and elevated unemployment. California's ability to sustain growth will depend on expanding housing supply and restoring population growth. Without progress on these fronts, demographic aging and labor force constraints will continue to weigh on the state's economic growth, even with favorable conditions nationwide.



## CA Median Existing Home Price

\$741,508 | \$747,246

California's housing market has cooled, but that hasn't translated into meaningful price relief. Unsold inventory has rebounded from pandemic lows but remains below pre-pandemic levels; 20% lower than 2015. With listings still limited, price growth has slowed, but not fallen. Current trends look similar to the pre-pandemic period. Local resistance to new development is still strong, and without sustained increases in housing production, supply constraints will prevent significant declines in home prices across the state.

## Proposition 172

Statewide Proposition 172 revenues declined a modest 0.3% in fiscal year 2024–25, following a similar decrease of 0.9% the prior year. Growth is forecast to resume, with projected increases of 0.9% in 2025–26 and 1.8% in 2026–27. Current county estimates rely on pro-rata allocation factors issued by the State Controller's Office in July 2025, based on updated 2024 data. These factors are expected to change with the release of calendar year 2025 sales tax results in April 2026. As Bradley-Burns sales tax data often shift due to audits and taxpayer adjustments, Proposition 172 revenues will continue to vary by county.

Watch our webinar for more details!





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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.