

# CITY OF MORGAN HILL

## SALES TAX UPDATE

### 2Q 2023 (APRIL - JUNE)



#### MORGAN HILL

TOTAL: \$ 3,321,668

-1.9%

2Q2023



0.6%

COUNTY



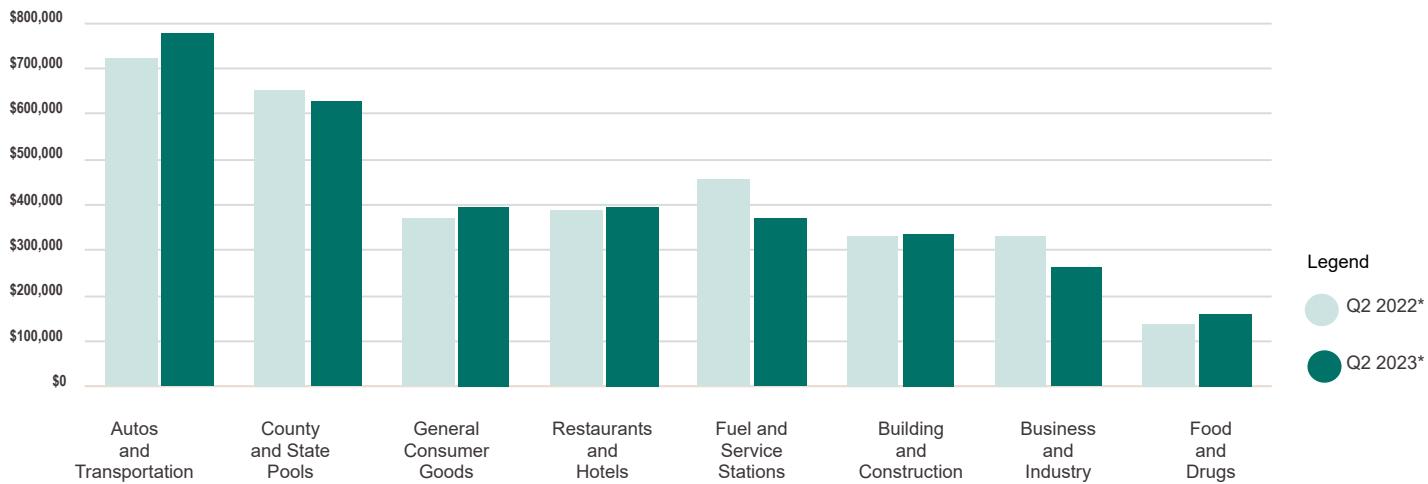
-2.9%

STATE



\*Allocation aberrations have been adjusted to reflect sales activity

#### SALES TAX BY MAJOR BUSINESS GROUP



#### CITY OF MORGAN HILL HIGHLIGHTS

Morgan Hill's gross receipts from April through June were 4.2% below the second sales period in 2022. However, after adjusting for reporting modifications like audit adjustments and delayed payments, actual sales were down 1.7%. Results were mixed across the various sales tax categories.

Although most sectors of the auto-transportation group declined, new vehicle sales continued to deviate from statewide downward trends and jumped almost 11%, boosting the auto-transportation group.

Marking nine consecutive quarters of growth, restaurants-hotels revenues demonstrated that people enjoyed the experience of dining at casual and quick service restaurants during the spring months. Convenience store and taxable grocery store sales also remained strong, lifting food-drugs receipts. Almost all

sectors of general consumer goods grew as in-store shopping remained popular especially apparel and specialty stores.

Conversely, the City's allocation from the countywide use tax pool dropped 3.7% as other agencies in the county realized higher quarterly sales tax returns. A fluctuation in fuel prices and a decrease in consumption resulted in a drop in fuel-service station revenues of 18.5%. Electrical equipment and heavy industrial equipment sales slowed during the period contributing to a large drop in business-industry returns. The combination of these revenue reductions pulled down the overall quarterly results.

Net of adjustments, taxable sales for all of Santa Clara County grew 0.6% over the comparable time period; the Bay Area was down 2.7%.

#### 7 Eleven

Anritsu America

Arco

Cal Door & Drawers

Chevron

Chrysler Dodge Jeep Ram Morgan Hill

Cochrane 76

Cochrane Chevron

Ford Store Morgan Hill

Golden Eagle Gas

Home Depot

House of Thunder

Harley Davidson

Johnson Lumber Ace Hardware

McDonalds

Morgan Hill Gas & Shop

Pan Pacific RV Center

Safeway

Safeway Fuel

Shell

South Bay Airstream Adventures

Star Concrete

Target

TJ Maxx

Victory Honda of Morgan Hill

Walmart Supercenter



#### TOP 25 PRODUCERS



## STATEWIDE RESULTS

California's local one cent sales and use tax receipts for sales during the months of April through June were 2.8% lower than the same quarter one year ago after adjusting for accounting anomalies. The second quarter of the calendar year was impacted by continued wet weather and a difficult comparison with the prior year, which experienced dramatic growth.

The fuel-service stations sector contributed the most to this decline as year-over-year (YOY) falling fuel prices at the pump reduced receipts from gas stations and petroleum providers. Russia's invasion of Ukraine and other world events during this period last year, pushed the global cost of crude oil to record highs. This dynamic also carried into general consumer goods as retailers selling fuel experienced a similar drop. Recently, OPEC and Russia have maintained production cuts having upward pressure on pricing again leading to future comparative growth.

Sustained wet conditions further delayed projects, especially those from the prior quarter, hindering building-construction returns. YOY lumber price declines added to the pull back from building materials providers. Higher interest rates represent a significant headwind for the industry with potential impacts of limited commercial development activity, slowing public infrastructure projects and homeowners left unable to access equity for renovations.

Despite a significant increase in new car registrations, revenue from auto-transportation fell by 1.4%. The improved activity can largely be attributed to rental car agencies restocking their fleets. However, these are wholesale transactions with sales tax charged upon rental of these vehicles. Weak demand for recreational vehicles, boats and motorcycles coupled

with elevated overall financing costs remain challenges going forward.

Use taxes remitted via the countywide pools decreased 0.75%, marking the third consecutive quarter of decline. While overall online sales continue to rise, pool collections dropped with the offsetting effect of more in-state fulfillment generated at large warehouses and through existing retail outlets allocated directly to local agencies.

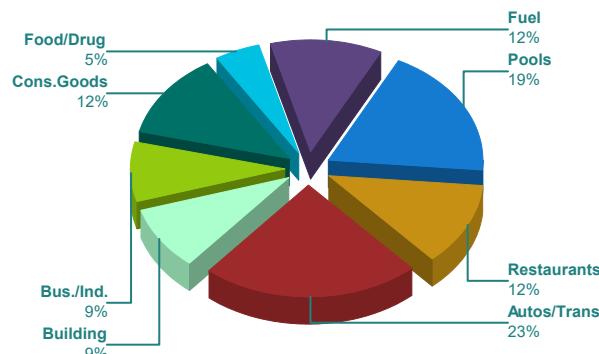
Restaurant sales were a bright spot as the summer season began. Although menu prices have flattened after a year of sharp gains, patrons are making more restaurant trips and are favoring spending their disposable income on experiences. Better sales by office

material suppliers and enhanced investments of warehouse-farm-construction equipment contributed to improved returns for the business-industry category.

Sales tax for the remainder of 2023 appears likely to follow the recent trend of moderate declines before leveling off in early 2024. Cooling consumer confidence and greater pressure on household budgets may lead to a lackluster upcoming holiday shopping period. Furthermore, the possibility of a longer and more pronounced slowdown in economic activity exists as the Federal Reserve considers additional interest rate increases to combat high prices that are already stretching consumer wallets.

### REVENUE BY BUSINESS GROUP

Morgan Hill This Fiscal Year\*



\*ADJUSTED FOR ECONOMIC DATA

### TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q2 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	563.5	12.4% <span style="color: green;">↑</span>	2.4% <span style="color: green;">↑</span>	-0.3% <span style="color: red;">↓</span>
Service Stations	370.6	-18.5% <span style="color: red;">↓</span>	-17.5% <span style="color: red;">↓</span>	-19.9% <span style="color: red;">↓</span>
Building Materials	219.6	-14.1% <span style="color: red;">↓</span>	-4.6% <span style="color: red;">↓</span>	-8.0% <span style="color: red;">↓</span>
Casual Dining	186.0	5.5% <span style="color: green;">↑</span>	8.8% <span style="color: green;">↑</span>	4.5% <span style="color: green;">↑</span>
Quick-Service Restaurants	146.3	4.3% <span style="color: green;">↑</span>	4.5% <span style="color: green;">↑</span>	3.2% <span style="color: green;">↑</span>
Trailers/RVs	96.4	13.1% <span style="color: green;">↑</span>	-12.5% <span style="color: red;">↓</span>	-15.2% <span style="color: red;">↓</span>
Grocery Stores	85.1	12.0% <span style="color: green;">↑</span>	6.5% <span style="color: green;">↑</span>	2.9% <span style="color: green;">↑</span>
Contractors	78.9	67.0% <span style="color: green;">↑</span>	-13.0% <span style="color: red;">↓</span>	-2.9% <span style="color: red;">↓</span>
Specialty Stores	62.7	7.0% <span style="color: green;">↑</span>	-2.8% <span style="color: red;">↓</span>	-1.3% <span style="color: red;">↓</span>
Electrical Equipment	61.9	-46.2% <span style="color: red;">↓</span>	-6.3% <span style="color: red;">↓</span>	0.5% <span style="color: green;">↑</span>

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\*In thousands of dollars