

# CITY OF MORGAN HILL

## SALES TAX UPDATE

### 4Q 2023 (OCTOBER - DECEMBER)



**MORGAN HILL**  
TOTAL: \$ 3,215,841

-2.6%  
4Q2023



-2.8%  
COUNTY

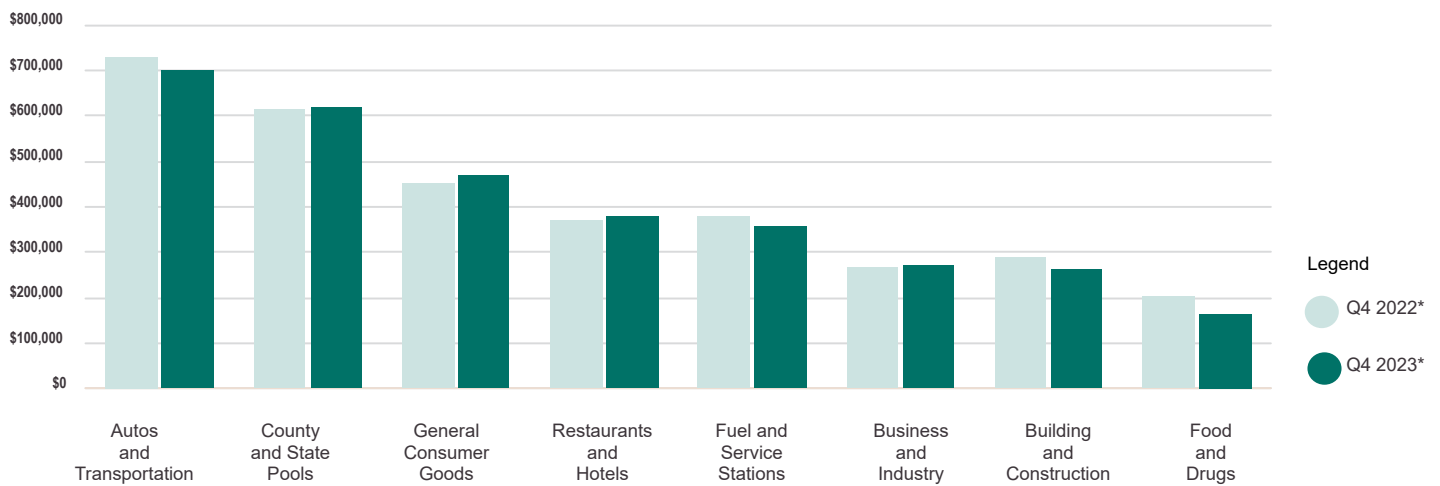


-2.5%  
STATE



*\*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 October through December were 4.6% below the fourth sales period in 2022. However, after adjusting for reporting modifications such as audit adjustments and delayed payments, actual sales were down 2.6%. Several tax groups declined for the period.

While new car sales edged up during the fourth quarter, declines in other transportation sectors, including trailers/RV, drove autos-transportation down 4.1%.

The City's allocation from the countywide use tax pool was essentially even compared to last year. Overall pool revenues reflect strong internet buying and waning third-party auto sales. A shift by online retailers to fill more internet orders from instate fulfillment centers instead of out-of-state locations results in some revenues moving out of the pools and into direct allocation.

In-store shopping improved during the busy holiday season, assisted by a new

family apparel business and electronic/appliance sales. Even with higher menu prices, people continued to dine out, with most sectors of the restaurant-hotels group improving over the prior year.

High returns in medical-biotech and a large one-time allocation in the electrical equipment segment boosted business-industry revenues.

Conversely, decreased building materials receipts and reduced contractor activity caused a drop in building-construction. A pullback in grocery and convenience store spending compared to high levels last year sent the food-drugs group down 21%. The fluctuating price of crude oil negatively affected service station returns.

Net of adjustments, taxable sales for all of Santa Clara County declined 2.8% over the comparable time period; the Bay Area was down 4.9%.



#### TOP 25 PRODUCERS

7 Eleven	Shell
76 with Burger King	Shoe Palace
Anritsu America	Target
Arco	TJ Maxx
Chevron	Victory Honda of Morgan Hill
Chrysler Dodge Jeep Ram Morgan Hill	Walmart Supercenter
Cochrane Chevron	Wolfspeed
Ford Store Morgan Hill	
Golden Eagle Gas	
Hobby Lobby	
Home Depot	
Jayco Morgan Hill	
Johnson Lumber Ace Hardware	
McDonald's	
Morgan Hill Gas & Shop	
Paramit	
Safeway	
Safeway Fuel	



## STATEWIDE RESULTS

California's local one cent sales and use tax receipts during the months of October through December were 2.5% lower than the same quarter one year ago after adjusting for accounting anomalies. The fourth quarter is notably the highest sales tax generating quarter of the year and exhibited diminished year-over-year returns as consumers balanced higher prices and financing costs with essential household needs.

Higher interest rates impacted the auto-transportation sector, especially luxury vehicles, as the group dropped 6.2%. Inventories for many dealers returned, creating downward pressure on prices, further constraining receipts. Lenders have tightened credit standards, making loan financing challenging. Improved leasing activity was the lone bright spot. With slow movement expected by the Federal Treasury setting interest rate policy, future revenue growth may stagnate.

Fuel and service stations contributed a similar downturn, as lower fuel prices reduced receipts from gas stations and petroleum providers. While this has been the trend throughout 2023, recently global crude oil prices have been on the rise and should see growth in the coming year. This decline also impacted the general consumer goods category as those retailers selling fuel experienced a similar drop.

During this holiday shopping period, general consumer goods experienced lackluster sales as results pulled back 3.4%. Most sectors saw reductions with home furnishings, women's apparel, shoe and electronic-appliance stores being the most significant. Returns also marked the fourth consecutive quarter showing comparable declines. Similar to the anticipated trend of new vehicles, consumer spending may be sluggish in the near term.

Even though revenue from most major

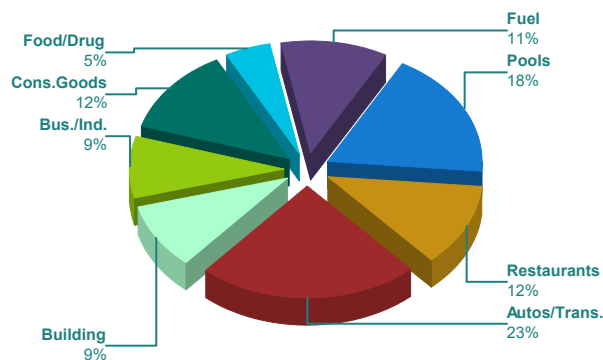
sectors slowed, restaurant sales remained steady with a modest gain of 1.0%. Results from casual dining establishments grew during the early winter period as patrons enjoyed indoor dining. However, following the greater trend of consumers looking for value, fine dining eateries experienced lower receipts. The industry is still bracing for implementation of AB 1228, a new law increasing minimum wages for 'fast food restaurants', on April 1, 2024.

Use taxes remitted via the countywide pools grew 1.0%, marking the first positive rebound after four consecutive quarters of decline. While overall online sales volume is steady, pool collections contracted with more taxes allocated directly to local agencies via in-state fulfillment and through

existing retail outlets.

Statewide, calendar year 2023 ended with a 2.3% decline from 2022. Elevated inflation and interest rates led to higher cost of goods resulting in consumers not spending as much as they had prior. Following multiple years of post-pandemic tax growth assisted by federal tax policy and temporary workplace accommodations, consumers reassessed their economic conditions and limited purchases. As the Federal Reserve considers delaying softening rates, consumer spending could likely stagnate delaying a return to the normal historical growth trend in 2024.

## REVENUE BY BUSINESS GROUP Morgan Hill This Calendar Year\*



\*ADJUSTED FOR ECONOMIC DATA

## TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q4 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	567.1	0.7% ↑	-2.5% ↓	-7.7% ↓
Service Stations	355.9	-6.3% ↓	-4.7% ↓	-4.9% ↓
Building Materials	209.5	-2.0% ↓	-4.3% ↓	-2.0% ↓
Casual Dining	172.7	3.2% ↑	4.1% ↑	1.7% ↑
Quick-Service Restaurants	148.5	5.2% ↑	1.1% ↑	0.3% ↑
Electrical Equipment	94.5	61.6% ↑	-7.2% ↓	-4.1% ↓
Grocery Stores	88.8	-9.6% ↓	-6.2% ↓	-4.6% ↓
Specialty Stores	83.5	-7.5% ↓	0.1% ↑	-2.1% ↓
Family Apparel	82.3	25.2% ↑	1.1% ↑	-0.4% ↓
Trailers/RVs	48.5	-20.7% ↓	-29.8% ↓	-12.2% ↓

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\*In thousands of dollars