CALIFORNIA FORECAST

SALES TAX TRENDS & ECONOMIC DRIVERS

DECEMBER 2025

Truckee, CA

HdL Companies

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STATEWIDE SALES TAX TRENDS

HdL Companies

TOTAL 2025/26 | 2026/27: 1.7% | 2.6%

Overview: The outlook for the U.S. and California economy is anchored to various policies and economic indicators, all of which add up to a limited anticipated improvement in sales tax revenues. Inflation has been mostly tamed as the Federal Reserve reduced the target interest rates three times in the latter part of this year. Consumers are constantly nervous about price increases, tied to ever-evolving tariff policies. Recent data shows state housing and labor markets have cooled. In summary, uncertainty leads customers to continue spending, albeit with an eye focused on essentials and value while awaiting a more stable, predictable economy.

2025/26 | 2026/27

Autos/Transportation — 0.3% | 3.0%

National automobile sales have declined following the expiration of federal electric vehicle tax credits on September 30, 2025. In October, the California New Car Dealers Association projected that sales will remain under pressure through 2026, as higher prices—driven in part by tariffs filtering through the supply chain—and prolonged elevated costs contribute to buyer fatigue. Nevertheless, recent reductions in the Federal Funds rate, combined with strong pent-up demand and a record-high average vehicle age, are expected to support modest revenue growth in 2026. Beyond 2026, the market is anticipated to stabilize as consumers adapt to new pricing levels while taking advantage of lower financing costs and ongoing vehicle replacement needs.

Building/Construction — -2.0% | 1.8%

Summer 2025 saw the continued decline in the value of materials purchased for infrastructure and roofing projects. A dwindling number of commercial and utility construction projects generated one-time tax allocations. Consistent demand for commercial and residential solar energy components ahead of the December 31, 2025 expiration of the 30% federal tax credit provided a positive offset. This forecast anticipates the Fed maintains its cautious approach to adjusting interest rates, prompting developers to gradually initiate new developments while existing homeowners find remodeling more affordable. In the near term, more infrastructure projects are expected to break ground plus data center and health care facilities stay on as steady contributors to the tax base.

Business/Industry — 3.2% | 4.0%

Ecommerce and energy-related spending buoyed this group during third quarter 2025, expanding 5.1%. Shoppers favored online purchasing, so CA-based fulfillment centers once again boosted revenues. Results also grew from energy project outlays, medical-biotech equipment and support services companies. Yet, many sectors held flat or declined, tempered by variables such as lending rates and tariffs. Agricultural and farm/construction equipment struggled, facing numerous headwinds ranging from water scarcity to limited capital funding. The statewide outlook anticipates continued ecommerce growth, driving moderate gains for the current fiscal year and modest improvement thereafter; varying by the size and character of local businesses.

Food/Drugs — -2.0 | -0.1%

Grocery stores' payments fell 2.4% in 3Q25 as consumers actively searched for bargains and rethought their grocery buying habits. Store-brand purchases increased, and 35% of all purchases are now conducted on ecommerce platforms. Convenience/liquor markets experienced a mix of economic impacts from inflation to reductions in alcohol consumption. Cannabis enjoyed modest increases as unit sales rose while the State Excise Tax declined. Drug stores focused on cost cutting measures and withdrawals from underperforming markets; one major chain shuttered all remaining stores. AI technologies are being deployed more fully to better serve customers and address employee retention challenges.

2025/26 | 2026/27

Fuel/Service Stations — 1.9% | 3.7%

Revenues declined 3.8% in 3Q25, reflecting lower average fuel prices relative to 3Q24 and a sharper-than-anticipated price correction at the pumps. From FY 2018-19 to FY 2024-25, consumption of motor vehicle gallons decreased by 13% while average fuel prices increased roughly 14%. Over the same period, taxable sales rose nearly 9%, confirming that local station operators successfully adjusted pricing and margins to offset weaker consumption. The short-term forecast is modestly tempered, while the long-term outlook remains supported by structurally elevated pricing tied to California-specific supply constraints, including confirmed refinery closures scheduled for late 2025 and April 2026, which remain on track.

General Consumer Goods — 1.0% | 1.2%

General retail sales were robust, expanding 4.1%. The strength persisted from online sales where tax flows either indirectly to local jurisdictions by way of their pool share or concentrated to agencies with fulfillment centers. Brick-and-mortar storefronts (direct allocations) grew a moderate 0.8%. While big box retailers were flat, tax from apparel, furnishings, and jewelry categories thrived. As consumers held fast to pessimism, retail spending was supported by wage increases and a pullback in other discretionary areas. Affluent households have not hit the brakes while lower income shoppers remain focused on value. Even as rising prices may be adding pressure to reduce consumption, taxable spending is still gradually increasing. The outlook for this group anticipates mild growth.

Restaurants/Hotels — 1.7% | 2.8%

Restaurants posted modest growth in the first quarter of the new fiscal year. Dining frequency continues to weaken, and when dining out, consumers increasingly favor value-oriented menu options. Tourism—responsible for 30% of combined restaurant-hotel expenditures—is a bright spot, with sustained gains forecast. Quick-service restaurants face the most pronounced impact from reduced dining activity, as elevated menu prices drive customers toward alternatives. Households with constrained disposable income are cutting back significantly on fast-food purchases. Despite these challenges, the industry remains cautiously optimistic, strategically closing underperforming locations while investing in new outlets in high-potential markets.

State and County Pools — 4.3% | 2.8%

Taxes generated by online transactions posted higher numbers for the sixth consecutive quarter. The makeup of these revenues has been steady over time; 50% coming from household purchases, one third from business-based activity, and the remainder from other segments. Shoppers are increasingly drawn to ecommerce buying as companies invest in technologies like AI agents, and expand social media platforms as sales channels. Early reports from multiple outlets show Black Friday through Cyber Monday spending hit record levels and this outcome is factored into the current year's projection. Recent ecommerce YoY trends taking up a larger percentage of overall retail sales is presumed to keep expanding, supporting our forecast for this category.

NATIONAL AND STATEWIDE ECONOMIC DRIVERS

Beacon Economics

	2025/26 | 2026/27
U.S. Real GDP Growth	2.3% | 2.3%

The U.S. economy remains resilient, with real GDP up 2.1% year-over-year in Q2 2025, reflecting continued expansion despite elevated uncertainty. Growth has moderated and job creation softened, showing signs of jobless expansion, with employment gains lagging output. This is due to productivity gains and AI-driven automation, as well as trade and policy uncertainty prompting firms to pause hiring. Inflation has moved past its peak but remains above the Federal Reserve's 2% target, with core PCE inflation at 2.6%. The decline in the 10-year Treasury yield from about 4.8% to roughly 4.15% implies stable inflation and interest-rate expectations, giving the Fed some flexibility in addressing labor-market conditions.

CA Unemployment Rate — 5.7% | 5.5%

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 Total Nonfarm Employment Growth — 0.1% | 0.6%

California's labor market has remained largely flat, with year-over-year nonfarm employment growth slowing to just 0.3% as of September 2025, which translates to an increase of roughly 62,000 jobs statewide. Job gains have decelerated steadily from the post-pandemic rebound, leaving employment growth well below national and peer-state trends. At the same time, the labor force expanded by about 174,000 people between September 2024 and September 2025; however, the labor force participation rate has remained near 62%, roughly in line with pre-pandemic trends, as growth in the working-age population has kept pace with labor market absorption.

	2025/26 | 2026/27
U.S. Unemployment Rate	4.4% | 4.3%

The unemployment rate has continued to edge up, though maintaining historically low levels below 5%; reaching 4.6% in November 2025 compared to 4.2% in 2024, and 3.7% in 2023. Unemployment has increased due to slower job creation as firms scale back hiring amid AI adoption and uncertainty around trade policy. Layoffs and quits remain subdued, pointing to limited job loss but weaker labor market dynamism. Labor force participation hovers pre-pandemic levels near 62%, largely unchanged in recent years, indicating limited expansion in the available workforce. As a result, economic growth may translate less directly into broad-based employment gains. Total nonfarm employment momentum has slowed, with YoY growth falling to 0.6% in November 2025, the weakest pace in over four years.

CA Residential Building Permits — 94,175 | 102,021

Residential permitting in California remains weak through Q3 2025, continuing to limit growth in the state's housing supply. After peaking in early 2022 at more than 30,000 permits per quarter, activity declined to 23,532 permits in Q3 2025, down 6.4% year-over-year and among the lowest quarterly totals in four years. The slowdown is evident even as the state enacted major reforms in 2025 to exempt many infill projects from routine environmental review to shorten approval times. Despite these reforms, projects in major metros continue to encounter entitlement delays and plan check backlogs due to staff shortages. Without more consistent acceleration in approvals, housing production is unlikely to expand enough to ease affordability pressures.

CA Median Existing Home Price — $736,709 | $739,652

California's housing market has cooled, with weaker demand and limited housing supply. As of the third quarter of 2025, median home prices were $735,401, up 1.13% YoY, while home sales declined 4.2%, reflecting affordability constraints and elevated borrowing costs. As of November 2025, inventory remains tight, with 92,930 homes for sale, down 1.9% from a year earlier, and months of supply holding at three, well below levels associated with a balanced market. Median days on market increased to 49, indicating slower transactions. Together, these conditions point to a market adjusting through reduced activity rather than broad-based price declines.

Proposition 172

Fiscal year 2024-25 statewide Proposition 172 (P-172) revenues declined 0.3%, which follows the 0.9% drop in fiscal year 2023-24. The current forecast expects modest growth of .85% and 2.3% for fiscal years 2025-26 and 2026-27, respectively. Current county projections include pro-rata factors published by the State Controller's Office in July 2025 (based on updated calendar year 2024 actual sales tax performance). As the calendar year Bradley-Burns results fluctuate due to taxpayer modifications, audits, economic impacts, etc., pro-rata growth factors and resultant P-172 revenues will vary for many counties.

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.