CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 13, 2012

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Second Quarter Sales (April - June 2012)

This is an informational report, and no action is required.

BACKGROUND

Sales and use tax represents about 15 percent, or $22.5 million, of projected General Fund revenue in the City's Adopted Operating Budget for fiscal year 2013. This revenue includes sales and use tax for the City of Palo Alto and pool allocations[1] from the State and Santa Clara County.

The City Auditor's Office contracts with MuniServices LLC (hereafter MuniServices), the City's sales and use tax consultant, to provide sales and use tax recovery services and informational reports. The City Auditor's Office uses the recovery services and informational reports to help identify misallocation of tax revenue owed to the City, and to follow up with the State Board of Equalization to ensure the City receives identified revenues. The City Auditor's Office includes information on sales and use tax recoveries in our quarterly reports to the Policy and Services Committee.

The City Auditor's Office also shares the information provided by MuniServices with the Administrative Services Department (ASD) for use in revenue forecasting and budgeting, and Economic Development for business outreach strategies. We coordinated this informational memo with them.

DISCUSSION

The attached report (Attachment A) was prepared by MuniServices and covers calendar year second quarter sales (April through June 2012). These funds are reported as part of the City's fiscal year 2013 revenue. Due to the timing of reporting by businesses and the State, MuniServices' detailed reports on third quarter sales (July through September 2012) should be available by February 2013. ASD advises that in mid-December, it should receive information from the State on aggregate sales and use tax receipts for third quarter 2012.

[1] See definitions on page 4.

Following are some highlights of the sales and use tax information we received:

- In Palo Alto, overall sales and use tax revenue (cash receipts) for the second quarter ending June 2012 increased by approximately $384,800, or 7.3 percent, (including pool allocations) compared to the second quarter ending June 2011.[2] For all jurisdictions in Santa Clara County, sales and use tax revenue for the second quarter ending June 2012 increased by $2.4 million, or 2.8 percent, compared to the second quarter ending June 2011.

- Statewide, every region in California experienced an increase in sales and use tax revenue for the year ending June 2012, compared to the prior year ending June 2011. Statewide sales and use tax revenue has shown growth of 6.8 percent during the second quarter ending June 2012 compared to the second quarter ending June 2011.

- In Palo Alto, sales and use tax revenue totaled $21.9 million for the year ending June 2012, an increase of 8.0 percent from $20.3 million in the prior year ending June 2011.[2] This amount includes sales and use tax for the City of Palo Alto and pool allocations from the State and Santa Clara County.

More detailed information is shown on Attachment A.

Economic Influences on Sales and Use Tax

In its Economic Overview (Attachment B), MuniServices discusses economic influences including national economic trends, retail sales, housing, auto sales, and national and state forecast information that may affect the City's sales and use tax revenue.

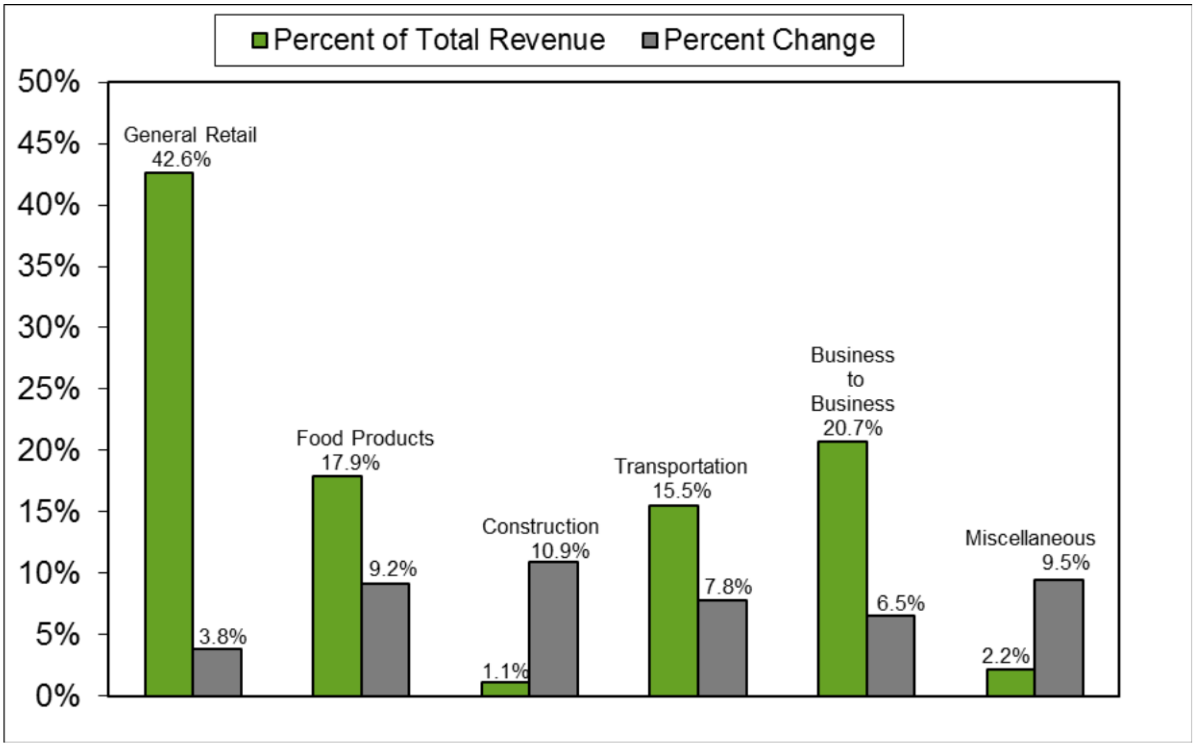
Preliminary estimates from the State of California Employment Development Department show the September 2012 unemployment rate in Santa Clara County at 7.9 percent and Palo Alto at 4.2 percent.

Economic Category Analysis

MuniServices' analysis of six economic categories, for the year ending June 2012, shows that General Retail comprised the largest percentage of Palo Alto's sales and use tax revenue and experienced 3.8 percent growth. Business to business experienced a 6.5 percent increase and comprised 20.7 percent of total revenues. Transportation experienced a 7.8 percent increase and comprised 15.5 percent of total revenues.

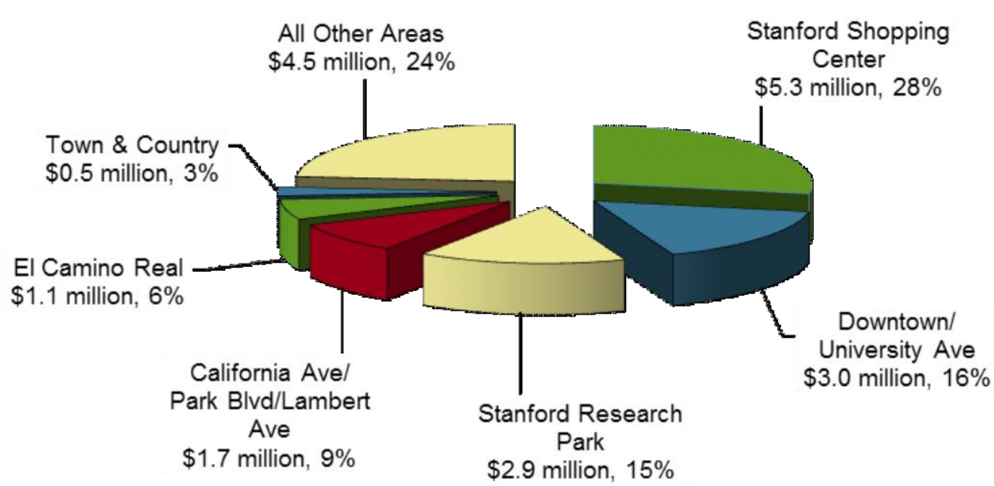
[2] Excluding pool allocations and adjusting for prior period and late payments, Palo Alto's sales and use tax revenue for the second quarter ending June 2012 increased by 6.1 percent compared to the second quarter ending June 2011. On a yearly basis, Palo Alto's sales and use tax revenue for the year ending June 2012, increased by 6.1 percent compared to the prior year ending June 2011.

Exhibit 1 - Comparison of Palo Alto's Sales and Use Tax Revenue and Percent Change by Economic Category for the Year Ending June 2012



The following chart shows sales and use tax revenue by geographical area based on information provided by MuniServices.

Exhibit 2 - Palo Alto's Sales and Use Tax Revenue by Geographical Area For the Year Ending June 2012 (Amounts include tax estimates and exclude pool allocations)



DEFINITIONS

In California, either sales tax or use tax may apply to a transaction, but not both. The sales and use tax rate in Palo Alto during the second quarter 2012 was 8.25 percent, and the City should receive 1 percent of every taxable transaction. Effective July 1, 2012, the sales and use tax rate in Palo Alto increased to 8.375 percent.

Sales tax - imposed on all California retailers; applies to all retail sales of merchandise (tangible personal property) in the state.

Use tax - generally imposed on: consumers of merchandise (tangible personal property) that is used, consumed, or stored in this state; purchases from out-of-state retailers when the out-of-state retailer is not registered to collect California tax, or for some other reason does not collect California tax; leases of merchandise (tangible personal property).

Countywide/statewide pools - mechanisms used to allocate local tax that cannot be identified with a specific place of sale or use in California. Local tax reported to the pool is distributed to the local jurisdiction each calendar quarter using a formula that relates to the direct allocation of local tax to each jurisdiction for a given period.

Examples of taxpayers who report use tax allocated through the countywide pool include construction contractors who are consumers of materials used in the improvement of real property and whose job site is regarded as the place of business, out-of-state sellers who ship goods directly to consumers in the state from inventory located outside the state, and California sellers who ship goods directly to consumers in the state from inventory located outside the state.

Other examples of taxpayers who report use tax through the pools include auctioneers, construction contractors making sales of fixtures, catering trucks, itinerant vendors, vending machine operators and other permit holders who operate in more than one local jurisdiction, but are unable to readily identify the particular jurisdiction where the taxable transaction takes place.

Respectfully submitted,

Jim Pelletier
City Auditor

Sources: MuniServices; California State Board of Equalization; State of California Employment Development Department; City of Palo Alto's Adopted Operating Budget Fiscal Year 2013

Audit staff: Lisa Wehara

ATTACHMENTS:

- Attachment A: City of Palo Alto Sales Tax Digest Summary (PDF)
- Attachment B: Economic Overview (October 2012) (PDF)

Department Head: Jim Pelletier, City Auditor

City of Palo Alto
Sales Tax Digest Summary
Collections through September 2012
Sales through June 2012 (2012Q2)

Attachment A

California Overview

The percent change in cash receipts from the prior year was 8.3% statewide, 8.6% in Northern California and 8.1% in Southern California. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When we adjust for non-period related payments, we determine the overall business activity increased for the year ended 2nd Quarter 2012 by 7.0% statewide, 7.8% in Northern California and increased by 6.8% in Southern California.

City of Palo Alto

For the year ended 2nd Quarter 2012, sales tax cash receipts for the City grew by 8.0% from the prior year. On a quarterly basis, sales tax revenues increased by 7.3% from 2nd Quarter 2011 to 2nd Quarter 2012. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments.

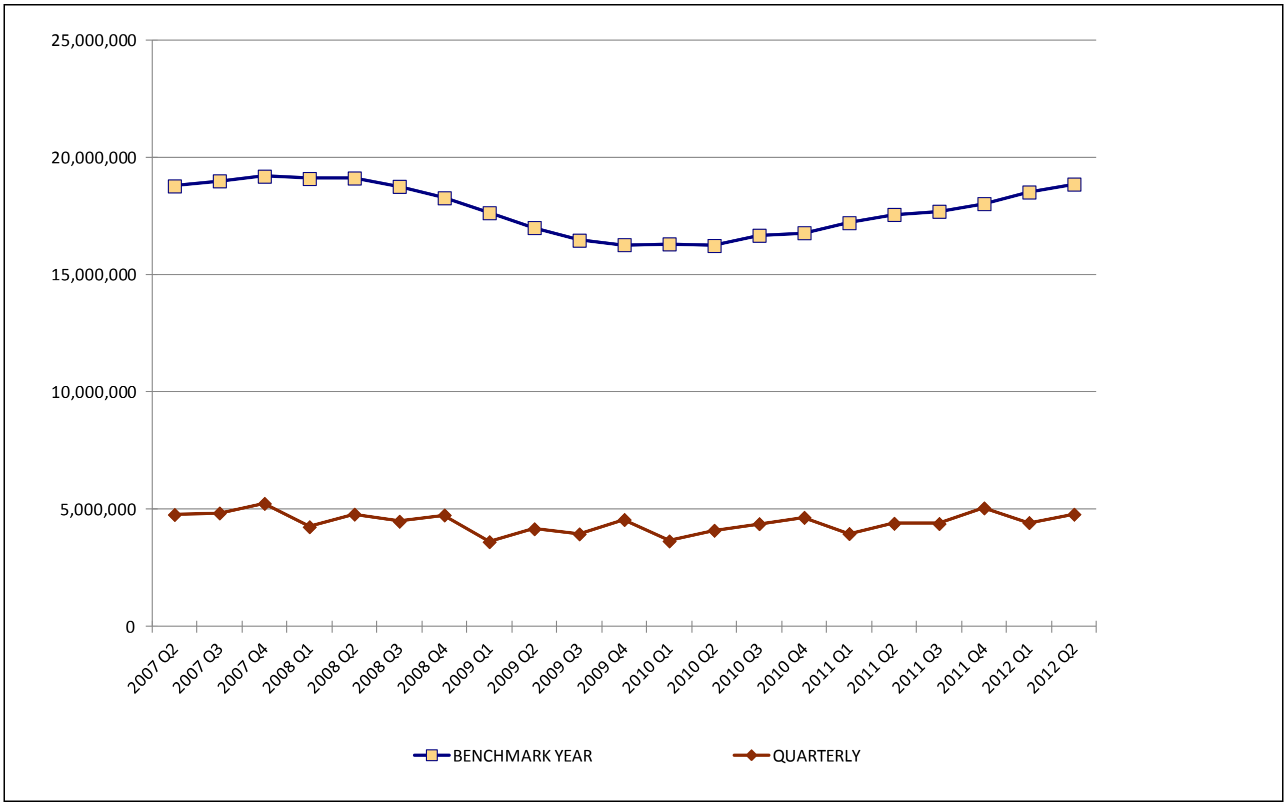
Excluding state and county pools and adjusting for anomalies (payments for prior periods) and late payments, local sales tax increased by 6.1% for the year ended 2nd Quarter 2012 from the prior year. On a quarterly basis, sales tax activity grew by 6.1% in 2nd Quarter 2012 compared to 2nd Quarter 2011.

Regional Overview

This seven-region comparison includes estimated payments and excludes net pools and adjustments.

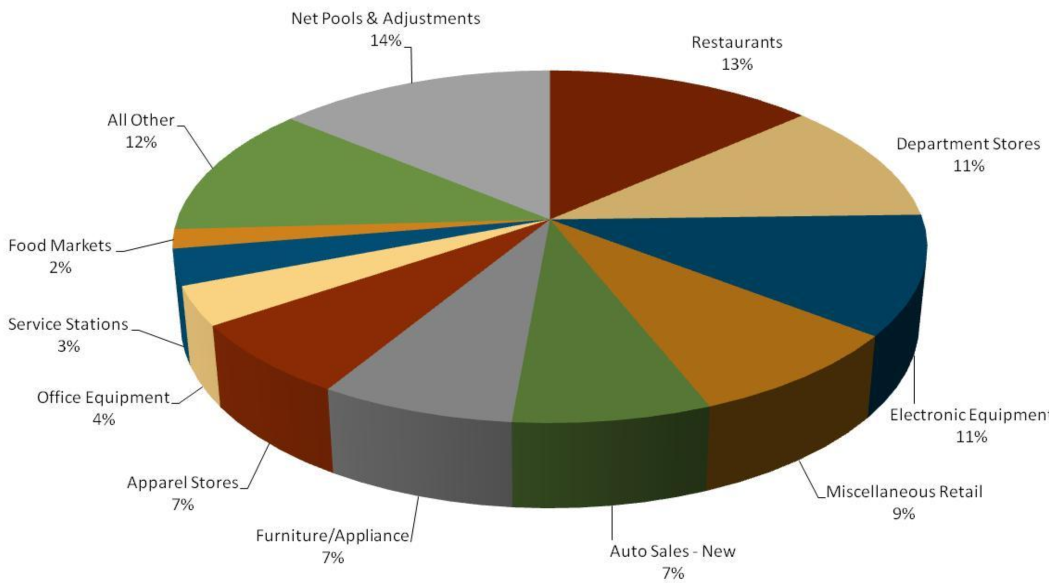
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 2nd QUARTER 2012									
% of Total / % Change	**City of Palo Alto**	**California Statewide**	**S.F. Bay Area**	**Sacramento Valley**	**Central Valley**	**South Coast**	**Inland Empire**	**North Coast**	**Central Coast**
General Retail	42.6 / 3.8	29.1 / 4.4	28.3 / 4.5	29.5 / 1.5	31.2 / 5.6	29.3 / 4.4	28.1 / 4.8	29.2 / 4.9	32.1 / 2.8
Food Products	17.9 / 9.2	19.2 / 7.1	19.8 / 7.4	16.9 / 3.4	16.2 / 5.4	19.8 / 7.6	17 / 6.5	18 / 5.2	31.4 / 9.5
Construction	1.1 / 10.9	8.5 / 4.3	8.4 / 6.7	9.9 / -1	10.8 / 11.7	7.8 / 2.6	9.8 / 3.4	11.6 / 3.6	8.4 / -2.3
Transportation	15.5 / 7.8	24.5 / 11.7	21.2 / 10.1	27.8 / 13.8	26.6 / 15.5	24.7 / 11.6	28.6 / 11.8	30.5 / 10.2	21.4 / 8
Business to Business	20.7 / 6.5	17.5 / 6.9	21.1 / 8.1	14.4 / 7.5	14.0 / 14.0	17.3 / 6.1	14.5 / -0.5	9.6 / 12.7	5.6 / 4
Miscellaneous	2.2 / 9.5	1.2 / -0.5	1.2 / 4.1	1.5 / 4.9	1.2 / -6.2	1.1 / -2.8	2.0 / 1.0	1.1 / 13.3	1.1 / -20.5
Total	**100.0 / 6.1**	**100.0 / 7.0**	**100.0 / 7.2**	**100.0 / 5.6**	**100.0 / 9.7**	**100.0 / 6.8**	**100.0 / 5.9**	**100.0 / 7.2**	**100.0 / 9.7**
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 2nd QUARTER 2012									
	City of Palo Alto	**California Statewide**	**S.F. Bay Area**	**Sacramento Valley**	**Central Valley**	**South Coast**	**Inland Empire**	**North Coast**	**Central Coast**
Largest Segment	**Restaurants**	**Restaurants**	**Restaurants**	**Department Stores**	**Department Stores**	**Restaurants**	**Service Stations**	**Service Stations**	**Restaurants**
% of Total / % Change	15.6 / 11.2	13.1 / 7.2	13.6 / 7.8	12.6 / 3.5	14.5 / 3.6	14.1 / 7.6	12.6 / 11.0	14.8 / 7.6	20.6 / 9.5
2nd Largest Segment	**Department Stores**	**Service Stations**	**Service Stations**	**Service Stations**	**Service Stations**	**Service Stations**	**Department Stores**	**Department Stores**	**Misc Retail**
% of Total / % Change	13.0 / 3.0	10.7 / 11.0	9.2 / 11.8	11.1 / 11	12.5 / 13.7	10.7 / 10.7	11 / 3.5	12.1 / 1.6	9.9 / -0.4
3rd Largest Segment	**Electronic Equipment**	**Department Stores**	**Department Stores**	**Restaurants**	**Restaurants**	**Department Stores**	**Auto Sales - New**	**Restaurants**	**Service Stations**
% of Total / % Change	12.7 / 8.2	10.5 / 3.5	9.1 / 3.4	10.5 / 7.2	9.6 / 6.5	10.3 / 4.0	10.7 / 15.3	9.6 / 4.7	9.9 / 7.7

Gross Historical Sales Tax Performance by Benchmark Year and Quarter (Before Adjustments)



Net Cash Receipts for Benchmark Year 2nd Quarter 2012: $21,913,038

Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q2 BMY is sum of 2012 Q2, Q1, 2011 Q4, & Q3)

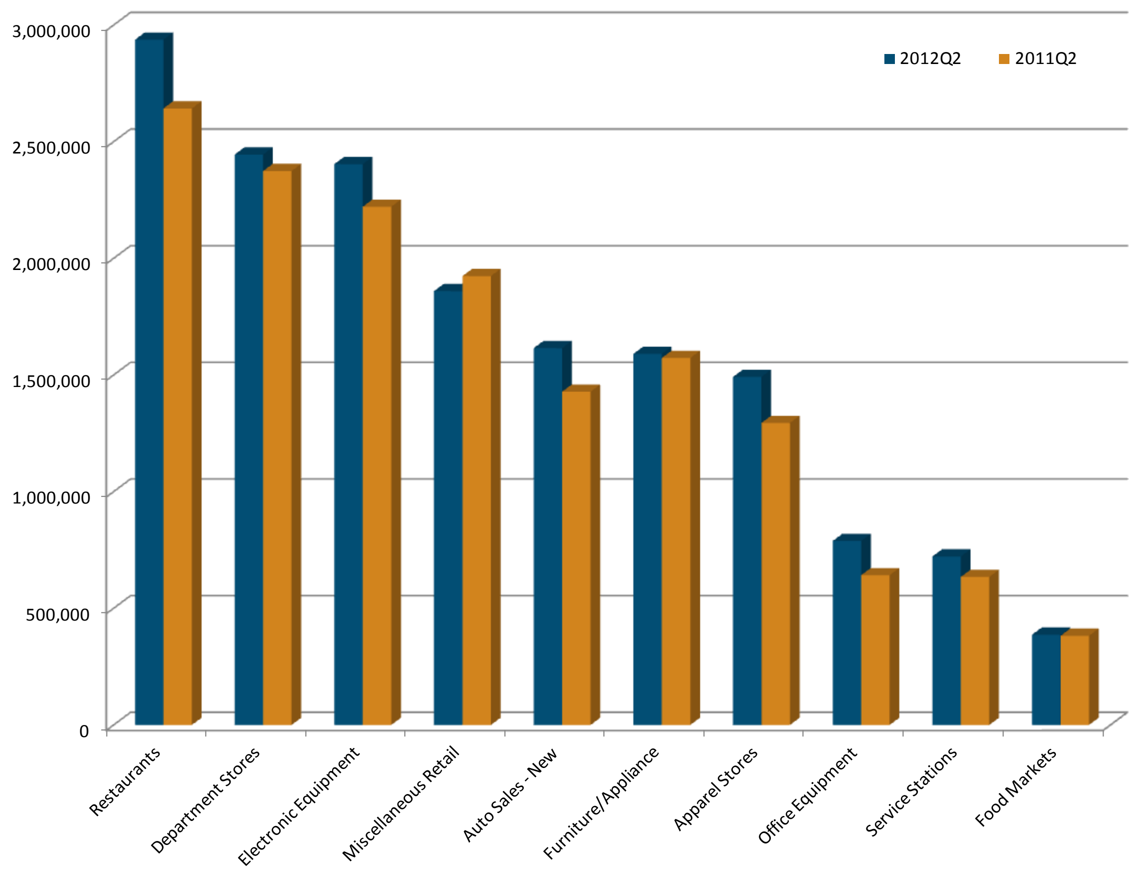


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto's Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 2nd Quarter 2012. The Top 25 Sales/Use Tax contributors generate 51.49% of Palo Alto's total sales and use tax revenue.

Anderson Honda	Integrated Archive Systems	Stanford University Hospital
Apple Stores	Keeble & Shucat Photography	Tiffany & Company
Bloomingdale's	Loral Space Systems	Urban Outfitters
Carlsen Motor Cars	Macy's Department Store	Valero Service Stations
Carlsen Subaru	Magnussen's Toyota	Varian Medical Systems
Crate & Barrel	Neiman Marcus Department Store	Walgreen's Drug Stores
CVS/Pharmacy	Nordstrom Department Store	Wilkes Bashford
Fry's Electronics	Pottery Barn	
Hewlett-Packard	Shell Service Stations	

Sales Tax from Largest 10 Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

Economic Category	%	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2	2011Q1	2010Q4	2010Q3	2010Q2
General Retail	35.7%	2,009,452	1,701,757	2,440,953	1,886,520	1,984,860	1,573,474	2,275,627	1,810,271	1,864,922
Business To Business	17.6%	993,147	1,064,996	932,723	842,771	842,709	925,263	887,037	1,006,576	788,373
Food Products	15.8%	886,852	816,336	838,138	799,167	806,987	740,594	769,253	726,360	739,629
Transportation	13.3%	749,507	703,039	682,786	694,998	619,897	593,452	590,209	576,597	551,313
Miscellaneous	1.8%	99,404	94,397	98,550	117,132	100,653	87,535	75,077	217,465	78,340
Construction	0.9%	50,544	47,432	62,282	46,843	44,589	38,765	54,645	44,171	40,415
Net Pools & Adjustments	14.9%	840,789	754,099	725,000	933,424	845,214	769,789	508,973	782,981	626,593
Total	100.0%	5,629,695	5,182,056	5,780,432	5,320,855	5,244,909	4,728,872	5,160,821	5,164,421	4,689,585

Economic Segments	%	2012Q2	2012Q1	2011Q4	2011Q3	2011Q2	2011Q1	2010Q4	2010Q3	2010Q2
Restaurants	13.9%	780,314	714,487	783,595	689,568	705,459	639,353	651,614	622,517	636,566
Electronic Equipment	11.6%	651,686	488,132	724,274	563,373	608,784	474,566	748,885	541,942	565,706
Department Stores	10.8%	608,894	382,336	573,750	455,335	482,723	399,243	584,895	396,580	381,222
Miscellaneous Retail	8.1%	456,771	347,112	488,492	385,236	392,126	301,427	421,877	447,946	416,128
Auto Sales - New	7.5%	419,941	335,069	429,491	321,296	333,697	266,990	387,682	299,340	321,787
Apparel Stores	7.1%	402,471	178,409	171,472	160,037	181,065	158,421	147,520	143,233	140,859
Furniture/Appliance	6.5%	365,585	99,210	104,348	104,234	105,507	100,241	146,732	112,153	143,241
Service Stations	3.5%	198,604	90,636	101,023	98,054	89,530	91,274	105,573	93,651	92,036
Office Equipment	3.3%	188,369	46,718	48,340	49,977	51,743	47,157	43,537	45,689	40,037
Food Markets	1.7%	95,807	37,116	38,854	42,654	35,131	34,857	36,962	40,480	36,129
Health & Government	1.6%	92,612	31,168	44,402	41,338	38,236	34,016	48,591	39,747	35,783
Recreation Products	1.5%	82,846	11,199	12,838	11,321	11,319	9,967	12,060	10,192	11,027
Business Services	1.3%	71,828	6,634	9,046	9,857	8,724	6,458	8,714	5,751	7,689
Drug Stores	1.2%	65,943	7,110	22,227	8,349	8,029	3,833	3,580	3,288	4,887
Misc. Vehicle Sales	1.0%	57,680	16,264	17,880	5,505	6,353	4,749	6,054	4,424	4,632
All Other	4.4%	249,555	1,636,357	1,485,400	1,441,297	1,341,269	1,386,531	1,297,572	1,574,507	1,225,263
Net Pools & Adjustments	14.9%	840,789	754,099	725,000	933,424	845,214	769,789	508,973	782,981	626,593
Total	100.0%	5,629,695	5,182,056	5,780,432	5,320,855	5,244,909	4,728,872	5,160,821	5,164,421	4,689,585

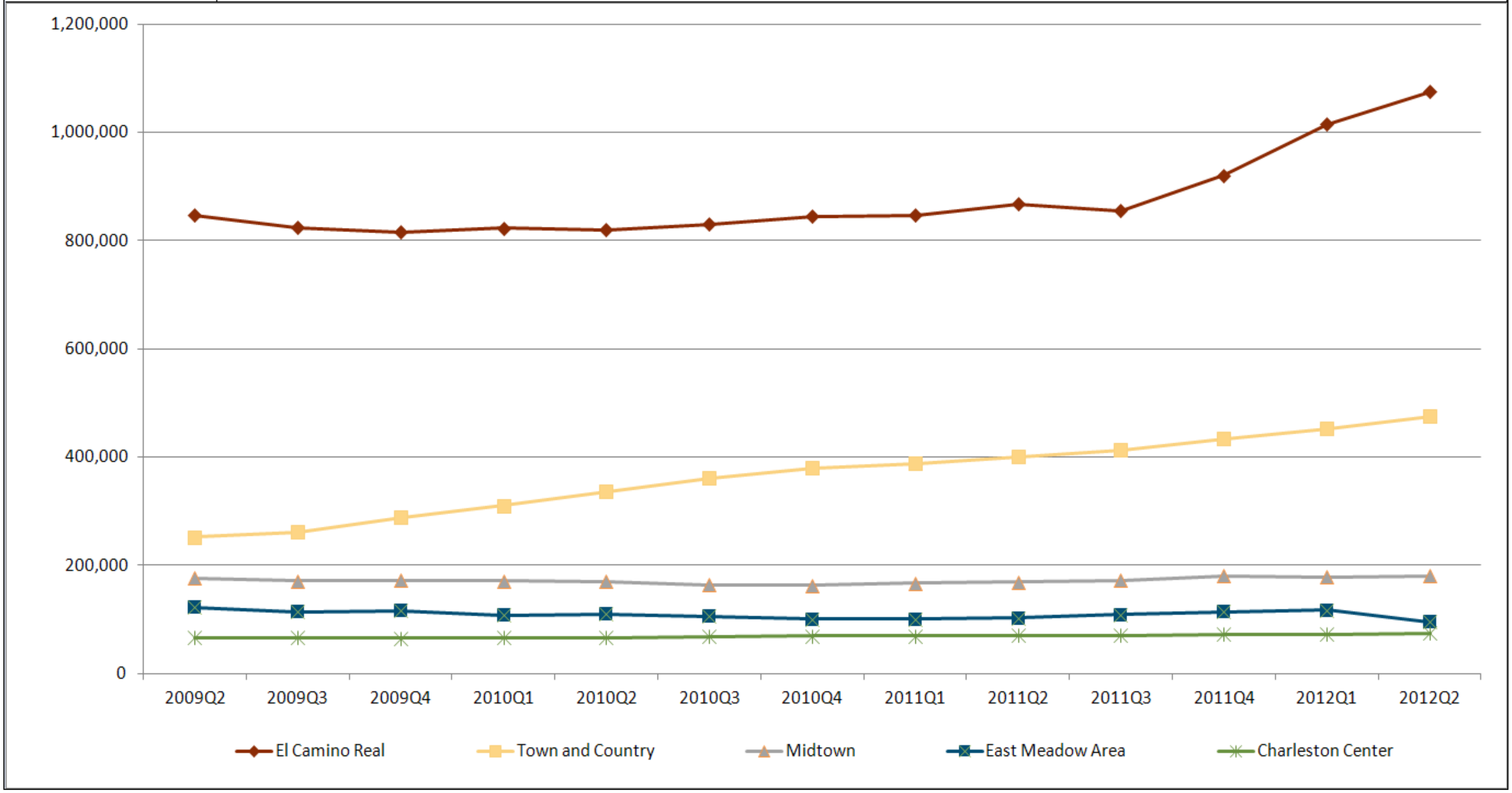
*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

Quarterly Analysis by Economic Category, Total and Segments: Change from 2011Q2 to 2012Q2

	General Retail	Food Products	Transportation	Construction	Business to Business	Miscellaneous	2012/2 Total	2011/2 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	**1.4%**	**11.2%**	**3.8%**	**0.2%**	**-0.7%**	**-54.2%**	**2,081,588**	**2,025,912**	**2.7%**	**Restaurants**	**Service Stations**	**Furniture/Appliance**	**Business Services**
Cupertino	4.1%	12.5%	-2.0%	27.2%	1.7%	-9.1%	5,015,399	4,876,847	**2.8%**	Office Equipment	Electronic Equipment	Business Services	Service Stations
Gilroy	**3.8%**	**4.0%**	**0.7%**	**2.7%**	**-4.7%**	**3.8%**	**3,012,455**	**2,945,480**	**2.3%**	**Misc. Vehicle Sales**	**Apparel Stores**	**Service Stations**	**Energy Sales**
Los Altos	-2.8%	10.7%	3.9%	4.3%	-24.6%	-6.9%	530,630	514,087	**3.2%**	Restaurants	Food Markets	Furniture/Appliance	Office Equipment
Los Gatos	**-39.9%**	**13.3%**	**1.7%**	**11.9%**	**14.1%**	**7.6%**	**1,719,822**	**2,197,196**	**-21.7%**	**Restaurants**	**Food Markets**	**Miscellaneous Retail**	**Service Stations**
Milpitas	3.4%	2.6%	23.7%	79.2%	14.1%	-1.3%	4,409,001	3,881,355	**13.6%**	Office Equipment	Bldg.Matls-Whsle	Electronic Equipment	Light Industry
Morgan Hill	**5.6%**	**11.9%**	**30.2%**	**-3.4%**	**52.3%**	**16.7%**	**1,654,317**	**1,349,777**	**22.6%**	**Auto Sales - New**	**Electronic Equipment**	**Bldg.Matls-Retail**	**Chemical Products**
Mountain View	0.6%	5.5%	7.4%	-5.4%	-26.3%	0.8%	3,269,654	3,426,001	**-4.6%**	Restaurants	Service Stations	Electronic Equipment	Office Equipment
Palo Alto	**0.4%**	**9.6%**	**6.3%**	**10.1%**	**16.8%**	**-3.1%**	**4,788,910**	**4,513,843**	**6.1%**	**Electronic Equipment**	**Restaurants**	**Business Services**	**Miscellaneous Retail**
San Jose	2.7%	4.0%	13.1%	2.4%	9.1%	-5.1%	33,251,644	31,129,325	**6.8%**	Auto Sales - New	Office Equipment	Light Industry	Bldg.Matls-Retail
Santa Clara	**2.5%**	**7.9%**	**12.9%**	**12.3%**	**-6.5%**	**6.3%**	**9,290,092**	**9,093,871**	**2.2%**	**Auto Sales - New**	**Bldg.Matls-Whsle**	**Leasing**	**Electronic Equipment**
Santa Clara Co.	7.7%	4.8%	-26.7%	13.2%	-47.9%	-13.9%	921,355	986,696	**-6.6%**	Apparel Stores	Bldg.Matls-Whsle	Misc. Vehicle Sales	Business Services
Saratoga	**-2.7%**	**2.2%**	**1.9%**	**194.1%**	**-31.0%**	**10.8%**	**228,568**	**223,738**	**2.2%**	**Bldg.Matls-Retail**	**Miscellaneous Retail**	**Florist/Nursery**	**Light Industry**
Sunnyvale	16.4%	6.4%	4.4%	-3.6%	-1.9%	3.6%	6,804,979	6,615,017	**2.9%**	Miscellaneous Retail	Office Equipment	Electronic Equipment	Heavy Industry

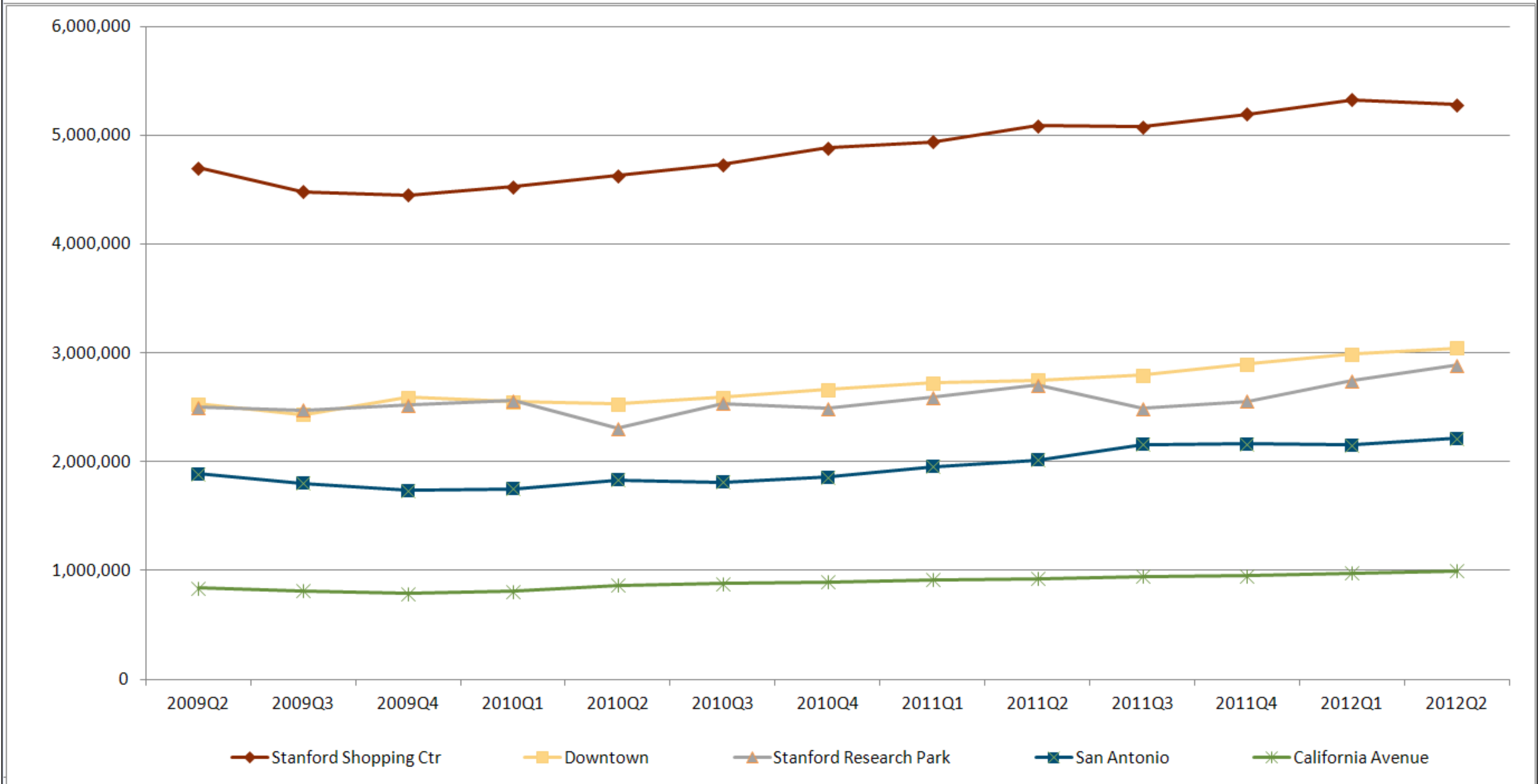
City of Palo Alto - Selected Geographic Areas of the City
Benchmark Year 2nd Quarter 2012

	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2
El Camino Real	846,897	823,627	814,940	822,245	818,947	830,152	843,626	846,897	867,868	854,828	920,020	1,014,867	1,074,079
Town and Country	251,608	261,294	288,103	309,848	336,444	360,254	379,066	386,944	399,378	412,361	433,313	451,982	475,054
Midtown	175,723	170,741	172,297	170,517	169,297	162,869	162,122	166,440	168,537	171,719	180,415	178,344	179,250
East Meadow Area	122,493	112,819	116,128	107,931	108,922	104,777	100,155	100,032	102,028	108,176	114,083	116,558	94,868
Charleston Center	66,529	65,328	64,981	65,642	66,446	67,447	68,693	69,150	69,606	70,301	71,555	72,602	73,408



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q2 BMY is sum of 2012 Q2, Q1, 2011 Q4, & Q3)*

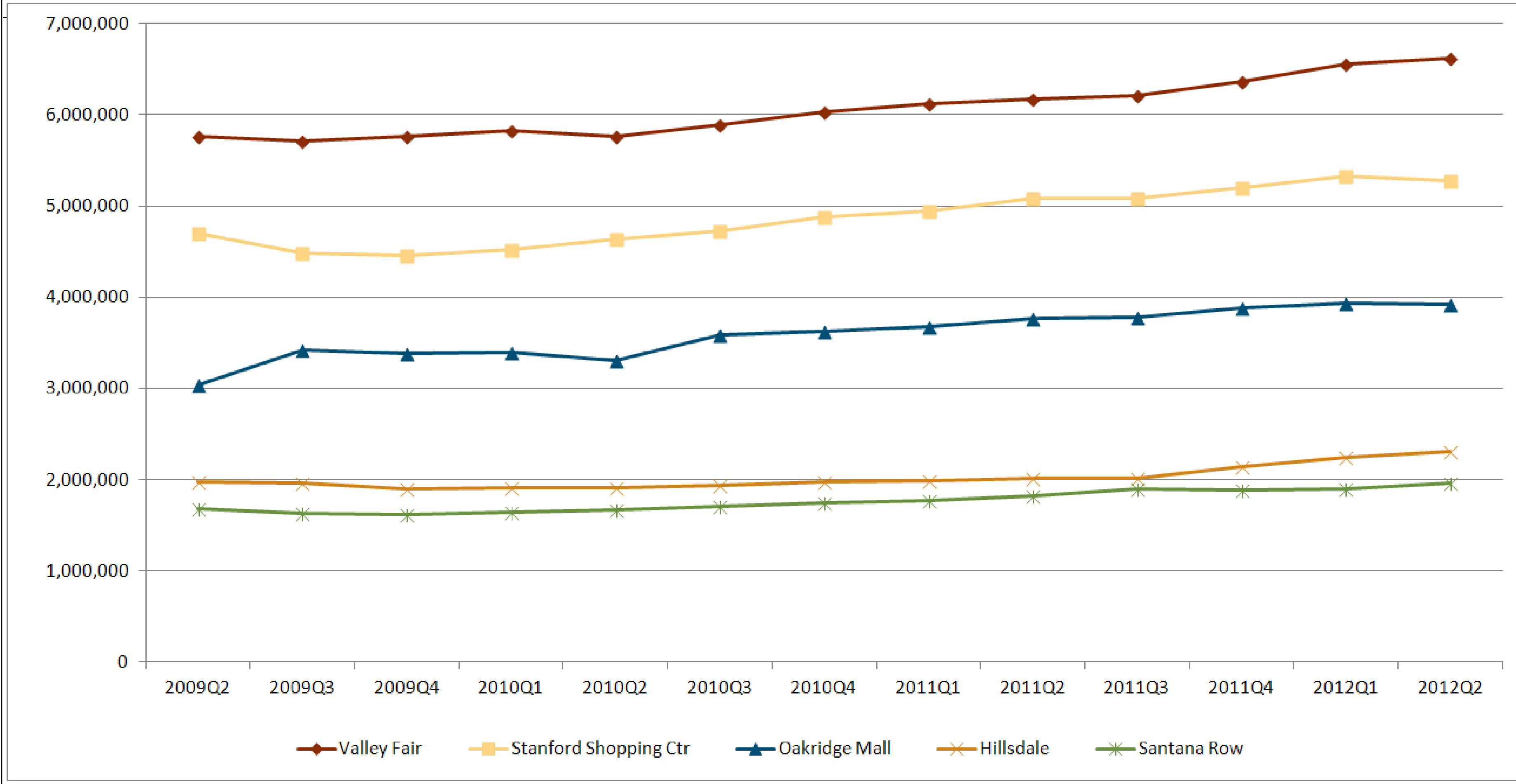
City of Palo Alto - Selected Geographic Areas of the City Benchmark Year 2nd Quarter 2012													
	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2
Stanford Shopping Ctr	4,701,109	4,479,311	4,451,986	4,524,318	4,631,095	4,731,800	4,884,843	4,941,127	5,087,834	5,079,526	5,194,491	5,325,435	5,281,772
Downtown	2,528,443	2,434,567	2,591,213	2,549,106	2,528,095	2,589,660	2,663,500	2,723,552	2,748,925	2,793,987	2,897,003	2,986,093	3,044,755
Stanford Research Park	2,500,473	2,472,512	2,517,622	2,560,998	2,305,707	2,534,669	2,489,301	2,589,986	2,700,836	2,487,708	2,557,399	2,744,058	2,884,600
San Antonio	1,890,196	1,802,851	1,737,780	1,752,653	1,831,894	1,811,722	1,856,817	1,954,526	2,017,259	2,156,535	2,164,335	2,155,721	2,212,977
California Avenue	839,591	812,294	790,954	807,490	863,730	879,364	895,989	917,851	928,031	945,340	952,300	976,897	999,421



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q2 BMY is sum of 2012 Q2, Q1, 2011 Q4, & Q3)*

City of Palo Alto - Regional Shopping Mall Comparison
Benchmark Year 2nd Quarter 2012

	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2
Valley Fair	5,769,466	5,717,263	5,761,442	5,829,695	5,769,507	5,887,510	6,031,602	6,119,960	6,166,420	6,204,976	6,370,656	6,559,394	6,621,598
Stanford Shopping Ctr	4,701,109	4,479,311	4,451,986	4,524,318	4,631,095	4,731,800	4,884,843	4,941,127	5,087,834	5,079,526	5,194,491	5,325,435	5,281,772
Oakridge Mall	3,035,077	3,419,383	3,380,772	3,395,994	3,308,231	3,589,119	3,630,341	3,679,073	3,768,899	3,782,531	3,888,402	3,928,855	3,925,454
Hillsdale	1,981,010	1,961,708	1,895,456	1,915,711	1,917,510	1,943,391	1,982,532	1,989,259	2,015,790	2,019,678	2,145,957	2,241,553	2,315,120
Santana Row	1,685,331	1,635,305	1,615,462	1,637,476	1,667,967	1,711,667	1,749,506	1,770,255	1,821,843	1,897,528	1,892,070	1,900,328	1,961,561



Benchmark year (BMY) is the sum of the current and 3 previous quarters (2012Q2 BMY is sum of 2012 Q2, Q1, 2011 Q4, & Q3)

Attachment B

MUNISERVICES

Economic Overview

3Q2012 News

TEPID ECONOMIC GROWTH LIKELY TO CONTINUE THROUGH REST OF YEAR

The U.S. economy grew at a tepid 1.7 percent annual rate in the April-June quarter, suggesting growth will stay weak in the second half of the year. Slightly stronger consumer spending and greater exports were the main reasons the Commerce Department reported that growth was better than its initial estimate of 1.5 percent. Still, growth has slowed from the 2 percent annual rate in the January-March quarter and the 4.1 percent rate in the fourth quarter of 2011.

Economists expect only modest improvement in the second half of the year. Most believe the economy will keep growing, but at a subpar rate of around 2 percent. “The economy was sluggish in the second quarter and the slight upward revision … does nothing to change that picture,” said John Ryding, an economist at RDQ Economics.

The report was the government’s second look at gross domestic product for the second quarter. GDP measures the country’s total output of goods and services, from the purchase of restaurant meals to construction of highways and bridges. A third and final estimate of second-quarter growth was released recently and that number was revised downward to 1.3%.

Growth at or below 2 percent is not enough to lower the unemployment rate, which was 8.3 percent in July. Most expect the unemployment rate to stay above 8 percent for the rest of this year.

ECONOMIC RECOVERY? THE NUMBERS DON’T SAY SO

Sluggish spending, feeble job growth paint ugly picture

The recession that ended three years ago this summer has been followed by the feeblest economic recovery since the Great Depression. Since World War II, 10 U.S. recessions have been followed by a recovery that lasted at least three years. An Associated Press analysis shows that by just about any measure, the one that began in June 2009 is the weakest.

The ugliness goes well beyond unemployment, which at 8.3 percent is the highest this long after a recession ended. Economic growth has never been weaker in a postwar recovery. Consumer spending has never been so slack. Only once has job growth been slower. More than in any other post-World War II recovery, people who have jobs are hurting: Their paychecks have fallen behind inflation.

Many economists say the agonizing recovery from the Great Recession, which began in December 2007 and ended in June 2009, is the predictable consequence of a housing bust and a grave financial crisis. Credit, the fuel that powers economies, evaporated after Lehman Brothers collapsed in September 2008. And a 30 percent drop in housing prices erased trillions in home equity and brought construction to a near-standstill. So any recovery was destined to be a slog.

"A housing collapse is very different from a stock market bubble and crash," says Nobel Prize-winning economist Peter Diamond of the Massachusetts Institute of Technology. "It affects so many people. It only corrects very slowly."

The U.S. economy has other problems, too. Europe's troubles have undermined consumer and business confidence on both sides of the Atlantic. And the deeply divided U.S. political system has delivered growth-chilling uncertainty. The AP compared nine economic recoveries since the end of World War II that lasted at least three years. A 10th recovery that ran from 1945 to 1948 was not included because the statistics from that period aren't comprehensive, although the available data show that hiring was robust. There were two short-lived recoveries — 24 months and 12 months — after the recessions of 1957-58 and 1980. Here is a closer look at how the comeback from the recent recession stacks up with the others:

Feeble growth

America's gross domestic product — the broadest measure of economic output — grew 6.8 percent from the April-June quarter of 2009 through the same quarter this year, the slowest in the first three years of a postwar recovery. GDP grew an average of 15.5 percent in the first three years of the eight other comebacks analyzed.

The engines that usually drive recoveries aren't firing this time. Investment in housing, which grew an average of nearly 34 percent this far into previous postwar recoveries, is up just 8 percent since the April-June quarter of 2009. That's because the overbuilding of the mid-2000s left a glut of houses. Prices fell and remain depressed. The housing market has yet to return to anything close to full health even as mortgage rates have plunged to record lows.

Government spending and investment at the federal, state and local levels was 4.5 percent lower in the second quarter than three years earlier. Three years into previous postwar recoveries, government spending had risen an average 12.5 percent. In the first three years after the 1981-82 recession, during President Ronald Reagan's first term, the economy got a jolt from a 15 percent increase in government spending and investment. This time, state and local governments have been slashing spending — and jobs. And since passing President Barack Obama's $862 billion stimulus package in 2009, a divided Congress has been reluctant to try to help the economy with federal spending programs. Since June 2009, governments at all levels have slashed 642,000 jobs, the only time government employment has fallen in the three years after a recession. This long after the 1973-74 recession, by contrast, governments had added more than 1 million jobs.

Exhausted consumers

Consumer spending has grown just 6.5 percent since the recession ended, feeblest in a postwar recovery. In the first three years of previous recoveries, spending rose an average of nearly 14 percent. It's no mystery why consumers are being frugal. Many have lost access to credit, which fueled their spending in the 2000s. Home equity has evaporated, and credit cards have been canceled. "We were in a period in which we borrowed too much," says Carl Weinberg, chief economist at High Frequency Economics. "We are now deleveraging. That's a process that slows us down."

The jobs hole

The economy shed a staggering 8.8 million jobs during and shortly after the recession. Since employment hit bottom, the economy has created just over 4 million jobs. So the new hiring has replaced 46 percent of the lost jobs, by far the worst performance since World War II. In the previous eight recoveries, the economy had regained more than 350 percent of the jobs lost, on average.

Never before have so many Americans been unemployed for so long three years into a recovery. Nearly 5.2 million have been out of work for six months or more. The long-term unemployed account for 41 percent of the jobless; the highest mark in the other recoveries was 22 percent. Federal Reserve Chairman Ben Bernanke has called long-term unemployment a "national crisis."

Shrinking paychecks

Usually, workers' pay rises as the economy picks up momentum after a recession. Not this time. Employers don't have to be generous in a weak job market because most workers don't have anywhere to go. As a result, pay raises haven't kept up with even modest levels of inflation. Earnings for production and nonsupervisory workers – a category that covers about 80 percent of the private, nonfarm workforce – have risen just over 6.2 percent since June 2009. Consumer prices have risen nearly 7.2 percent. Adjusted for inflation, wages have fallen 0.8 percent. In the previous five recoveries – the records go back only to 1964 – real wages had gone up an average 1.5 percent at this point.

Falling wages haven't hurt everyone. Lower labor costs helped push corporate profits to a record 10.6 percent of U.S. GDP in the first three months of 2012, according to the Federal Reserve Bank of St. Louis. As weak as this recovery is, it's nothing like what the U.S. went through in the 1930s. The period known as the Great Depression actually included two severe recessions separated by a recovery that lasted from March 1933 until May 1937.

It's tough to compare the current recovery with the 1933-37 version. Economic figures comparable to today's go back only to the late 1940s. But calculations by economist Robert Coen, professor emeritus at Northwestern University, suggest that things were far bleaker during the recovery three-quarters of a century ago: Coen found that unemployment remained well above 10 percent – and usually above 15 percent – throughout the 1930s.

SHOPPERS BOOST RETAILERS' RESULTS

Despite economic woes, consumers spend in August

This summer, Americans were walking contradictions: They opened their wallets despite escalating fears about the slow economic recovery and surging gas prices. A group of 18 retailers ranging from discounter Target to department-store chain Macy's reported August sales rose 6 percent – the industry's best performance since March – according to trade group International Council of Shopping Centers. At the same time, the government released numbers showing that Americans spent in July at the fastest clip in five months.

The news appears to show that what Americans say and do are two different things: The reports come two days after a private research firm said consumer confidence in August fell to its lowest level since November 2011 as Americans grew more concerned about the job market, business conditions and the overall economy. "This is bit of a head scratcher," said Mark Vitner, a Wells Fargo Securities senior economist. "This runs counter to most of the other data related to the consumer."

The revenue gains in August, which only factor in stores that were open at least a year, are better than the 4 to 5 percent increase Wall Street predicted at the beginning of the month. And it was the industry's best performance since March, when stores collectively posted a gain of 6.8 percent.

HOLIDAY SALES EXPECTED TO RISE BY ABOUT 3.3%

After wrapping up a decent back-to-school shopping season, merchants are expected to see healthy sales gains for the critical winter holidays, though the pace should be slightly below last year, accordingly to one of the first forecasts issued for the holiday sales season.

Retail revenue in November and December should be up 3.3. percent during what's traditionally the biggest shopping period of the year, Chicago based research firm ShopperTrak said recently. The sales prediction from ShopperTrak would be below last year's pace of 3.7 percent and the more than 5 percent gains seen during the boom economic times. But it would be respectable given that shoppers are still grappling with high unemployment and other financial challenges.

Another encouraging sign from the ShopperTrak holiday forecast: Customer traffic should be up 2.8 percent compared with the 2.2 percent drop during the year ago period. That reverses declines seen for the past four holiday periods and extends the gains in foot traffic posted earlier this year, according to ShopperTrak founder Bill Martin. That influx of foot traffic should offer retailers the opportunity to convert browsers into buyers.

The retail industry is still waiting for a widely watched holiday forecast from the National Retail Federation, the nation's largest retail trade group, which will be issuing its report early October. But the figures from ShopperTrak, which counts foot traffic at 50,000 stores and blends it with government figures and its own proprietary sales numbers from stores, offer one of the first insights into how shoppers might spend during the season. The period accounts for up to 40 percent of stores' annual revenue.

CONSUMER CONFIDENCE REACHES 7 – MONTH HIGH

Gains in hiring, home values boost economic optimism

Americans are growing more confident in the economy. A new survey of consumer confidence rose to a seven-month high recently on expectations that hiring will soon pick up. And a separate report showed home values rising steadily, signaling sustained improvement in housing. "This is like an opinion poll on the economy without the political parties attached," said John Ryding, chief economist at RDQ Economics, a consulting firm. The confidence survey "says people are feeling better. If so, they are less likely to vote for change."

The Conference Board's index of consumer confidence shot up in September. The jump surprised many economists because the most recent hiring and retail sales figures have been sluggish. The consumer confidence index is closely watched because consumer spending drives nearly 70 percent of economic activity. The index jumped from 61.3 for August to 70.3 for September. It remains well below 90, the level that is thought to signify a healthy economy.

Stocks are up: The Standard & Poor's 500 stock index has surged nearly 15 percent this year. Gas prices have leveled off after rising for several months. And the broad increase in home prices is likely giving would-be buyers more confidence. When prices rise, buyers don't worry so much that a home might lose value after they bought it. National home prices rose 1.2 percent in July compared with a year ago, according to the Standard & Poor's/Case-Shiller index released recently. That was the second straight month in which year-over-year home prices have increased.

Some economists question whether the higher level of confidence is sustainable. They've seen the index spike briefly before since the Great Recession ended more than three years ago. Some say confidence could be affected by negative campaign ads that focus on the economy. But others note that even a weak economy doesn't feel so bad to many consumers once it begins to make steady improvement.

RETAILERS: SHOP ONLINE, PICK UP AT STORE

Options offered to combat websites like Amazon.com

As online shopping has surged, traditional retailers have lost millions in sales to so-called showrooming – when shoppers check out products in stores that they then buy from websites like Amazon. It has gotten so bad that Best Buy even replaces standard bar codes with special Best Buy only codes on big-ticket items so they cannot be scanned and compared online.

Now some big retailers are taking a new approach to the dreaded showrooming by transforming their stores into extensions of their own online operations. Wal-Mart, Macy's, Best Buy, Sears, the Container Store and other retailers are stepping up efforts to add Web return centers, pickup locations, free shipping outlets, payment booths and even drive-through customer service centers for online sales to their brick-and-mortar buildings.

"We are living in the age of the customer, and you can either fight these trends that are happening – showrooming is one – or you can embrace them," said Joel Anderson, the president and CEO of Walmart.com for the United States. "We have a lot of assets, but they're only assets if you embrace the trends of the customers."

Fiona Dias, the chief strategy officer at ShopRunner, which coordinates shipping for retailers, called the trend "really an offensive strategy against Amazon and pure-play online retailers." "Unfortunately, stores have been portrayed as the ugly stepsister here," she said. "They do have disadvantages, but the advantages of having a physical footprint are many." One advantage is the ability to reach customers who pay with cash.

In April, Wal-Mart began allowing shoppers to order merchandise online and pay for it with cash at a store when they picked it up. Even without the cash option, in the six years since Wal-Mart has allowed online items to be picked up in stores, customer demand has been high. More than half of the sales from Walmart.com are now picked up at the stores, Anderson said.

With the cash option, Wal-Mart was trying to appeal to customers who did not have bank accounts or credit cards. Wal-Mart says the majority of in-store purchases are made with cash or debit cards, and that about 15 percent are made with credit cards.

Another advantage traditional retailers hold over their online-only counterparts is same-day delivery and returns. Sears, which has long offered store pickup for items bought on the Web, added a drive-through service a few months ago that allows customers to return or exchange purchases without leaving their cars. Customers meet a clerk waiting outside the Sears, provide a mobile phone receipt or printout, and the merchandise is swapped. "People have certain need for immediacy – they want something that same day," said Tom Aiello, a company spokesman. "They want to have their hands on it; they don't want to wait."

The Container Store has also been pushing a drive-through service, a reflection of its altered approach to online shopping. Initially, executives viewed the pick-up-in-store feature as a way to draw consumers into stores and encourage customers to buy more. Now, they would rather close the deal on an online order as soon as possible so shoppers do not go elsewhere or forgo the merchandise altogether.

Many major stores, including Apple, Nordstrom and Best Buy, let people place orders online and pick up items within a day at a selected location, forgoing shipping charges. The retailers say this option is especially popular with bulky items that do not qualify for free shipping, and for people in a rush. Other places, like Cabela's and J.C. Penney, offer in-store pickup for online orders, though with a delay of several days.

Macy's and Nordstrom are going even further by integrating the physical and online merchandise selections. Nordstrom last year added a feature allowing customers to search an individual store's inventory via the Web. That follows the company's decision three years ago to combine its online and offline inventories, so that if nordstom.com was sold out of a size 8 Nicole Miller shift but a store in Los Angeles had the item in stock, the store would ship the item to the e-commerce customer. Macy's recently integrated inventory, too. It currently has

202 branches that can send items to online customers, and will expand that to 292 by the end of the year.

DIGITAL FITTING ROOMS, 3-D PRINTERS AND BUSINESS MINING YOUR DATA?

Yes, the future of retail is upon us.

Nola Donato has seen the future of retail, and it is in a Magic Mirror. The Intel scientist has designed a high-tech mirror that shows how clothes look on a consumer who simply stands in front of an LCD monitor. Parametric technology simulates body type and how fabrics fit — based on weight, height and measurements. Think of it as a digital fitting room. The concept is three to five years from fruition but could open the door for Intel in the retail market.

The convergence of smartphone technology, social-media data and futuristic technology such as 3-D printers is changing the face of retail in a way that experts across the industry say will upend the bricks-and-mortar model in a matter of a few years. "The next five years will bring more change to retail than the last 100 years," says Cyriac Roeding, CEO of Shopkick, a location-based shopping app available at Macy's, Target and other top retailers.

Within 10 years, retail as we know it will be unrecognizable, says Kevin Sterneckert, a Gartner analyst who follows retail technology. Big-box stores such as Office Depot, Old Navy and Best Buy will shrink to become test centers for online purchases. Retail stores will be there for a "touch and feel" experience only, with no actual sales. Stores won't stock any merchandise; it'll be shipped to you. This will help them stay competitive with online-only retailers, Sterneckert says.

Branding strategist Adam Hanft says this all might sound futuristic, but much of it is rooted in reality. He says satellite stores will open in apartment buildings and office centers. FedEx and UPS will delve deeper into refrigerated home delivery. Google trucks will deliver local services. Clothing — even pharmaceuticals — will be produced in the home via affordable 3-D printers. "Every waking moment is a shopping moment," says Steve Yankovich, head of eBay's mobile business, which expects to handle $10 billion in transactions this year. "Anytime, anywhere." Game-shifting tech — such as smartphones, location-based services, augmented reality and big data, which makes sense of all the data on mobile devices and social networks — will most assuredly upend several multibillion-dollar retail markets, forcing retailers to adapt or die, say venture capitalists and analysts.

Eventually, 3-D printers will let consumers produce their own towels, utensils and clothes. While in their infancy, the devices have been used to print hearing aids, iPad cases and model rockets, says Andy Filo, an expert on 3-D printers. The technology is several years away, however, from being widely available and affordable, he says. And almost all of it will be paid with … your phone. "Cash will still exist, but no one will use it," says Jim Belosic, CEO of ShortStack, a self-service, social-media platform that lets users create custom Facebook tabs. "Carrier payments and the swipe of a smartphone will do the trick." Technology advances won't just change the physical appearance of stores for consumers, but should transform the retail workforce into more of a customer-friendly field, too. Retailers who don't adapt quickly and successfully risk losing out, Sterneckert says.

What might this evolution mean for the nation's malls and shopping centers and people whose paychecks depend on today's retail model? Experts aren't predicting the end of the in-store experience, but it stands to reason that as with other industries, technology might improve efficiency while setting retailers on a path toward a leaner workforce.

Retail's revolution

Just as online retailers led a revolution in retail shopping in the 1990s, bricks-and-mortar retailers are ready to use technology to fight back. By the time you walk into a store in the near future, the employees there will probably know what you want to buy, based on information on your trusty phone or tablet. Merchants will know your gender, age, race and income, analyst Sterneckert and others say.

Once you're inside, imagine waving your smartphone over products and seeing what's inside. Holding the phone over a DVD's bar code might activate a movie trailer on the phone's screen, for example. All of this will be made possible with so much personal data on smartphones, and the ability of merchants to parse it to gauge who is just browsing and who's on a mission to buy. The clerk greeting you at the door will be able to make targeted suggestions. Sound Orwellian? All of this is done online today through search engines and cookie technology. Putting a personal touch on one's in-store experience could mean big bucks for bricks-and-mortar retailers, according to John McAteer, head of retail at Google.

There might be less merchandise inside, as bricks-and-mortar stores offer only special products that distinguish them from Web competitors. "The first 15 years of online shopping was about making it easier for people to find and purchase items they were looking for," says David Fisch, director of platform partnerships at Facebook, which is working closely with retailers. "Now, it's about helping you find what you may not know about, based on your social (media profile)."

With computer chips seemingly embedded in everything — goods, smartphones and the like — merchants will not only know what's in your shopping basket, but what you plan to buy next. Target, for example, already combs shopping data via purchases, e-mail, activity on Target.com accounts and more to determine which customers are pregnant, so it can sell goods popular to them such as orange juice, according to journalist Charles Duhigg, who outlined the practice in his book, *The Power of Habit*. "There is a trade-off between privacy and convenience, which I think will only accelerate," Duhigg says. "People always choose convenience and don't realize the cost of privacy." Target spokeswoman Molly Snyder acknowledges it uses "research tools that help us understand guest shopping trends … (but) we take our responsibility to protect our guests' trust in us very seriously."

Increasingly, where one shops will be irrelevant. Phones and bar codes will let consumers shop from their kitchens — a digital screen on a refrigerator, for example, will allow orders from home, with a delivery service dropping off the produce. "A screen is a screen is a screen," says Jill Puleri, of IBM's Global Business Services retail-consulting practice.

At the CeBit computer trade show in March in Hanover, Germany, an exhibit of a futuristic airport gave new meaning to duty-free shopping. Within a few years, travelers will be able to touch a store window containing a digital menu to order goods for shipping. Subways in South Korea, the United Kingdom and elsewhere already contain virtual stores in which consumers wave their smartphones at bar codes to order. The goods are delivered before the commuter arrives home. "Retailers are asking the question, 'How do we address the demand for now?" Gartner's Sterneckert says. "Customers want their goods by the time they get home from work."

Driving the future

All of this will be possible within several years because of:

•**Smartphones.** Location-based services and the growing adoption of Near Field Communication — a wireless technology standard for one-tap payment — will turn consumers' phones into stand-ins for credit, debit and loyalty cards, says Bill Gajda, head of mobile at Visa. Meanwhile, Nordstrom, among many, is phasing out cash registers this year in favor of smartphones with store-designed apps for purchases and inventory.

•**The death of cash.** If credit cards diminished use of cash in the 1950s, powerful smartphones and tablets will hasten its demise. Both are reshaping the relationship between merchant and customer as newfangled wallets, and each is edging toward becoming credit card readers and (cash) registers. "Cash has dug in its heels for small-value transactions, but with the arrival of each new tech offering (providing) an alternative way to pay for little stuff — text your parking payment, Starbucks mobile app, Square, etc. — cash is being further and further marginalized," says David Wolman, author of the book *The End of Money*.

•**Augmented reality.** The increasingly popular technology adds a visual layer of information on top of surfaces such as a mirror. One breakthrough might come at the mall, with AR mirrors that let consumers shop based on data projected on glass, say social-media experts such as Brian Solis.

Another intriguing option is Google Glass, which puts computer-processing power, a camera, a microphone, wireless communications and a tiny screen into a pair of lightweight eyeglasses. Ultimately, Google hopes the "smart" glasses — which are a few years away — will be able to access information in real time, including the ability to identify locations and provide additional information about your whereabouts.

Harnessing social media

As smartphones and tablets grow in popularity, retailers are trying to get their hands around Facebook, Twitter and social media, and cater to consumers, says Niraj Shah, CEO of Wayfair, an e-commerce company that recently passed Crate & Barrel to become the No. 2 Internet retailer of home products. It racked up a record $500 million in revenue last year.

Only 8% to 13% of retail shopping in the USA is done online. Impressive as future retail technology might look, it will take good old-fashioned customer service to boost those figures, says Will Young, who heads Zappos Labs. Some of that will come because of original editorial content from commerce sites such as Zappos, Fab.com and Etsy that offer shoppers advice on products and services. Zappos has beefed up its content with advice on fashion, trends, outfits and lifestyles.

Software giant SAP's "clienteling" application, for instance, lets Burberry track and analyze customers' buying and browsing patterns, giving sales reps the information they need to instantly make specific recommendations tailored to that person's taste. For the first time, retailers can offer consumers the same personalized experience in the store that they're used to when shopping online.

In the physical world, the same rules apply. Consumers won't need a smartphone to get an interactive glimpse of what they want. Digital billboards on every conceivable surface will do the trick. Thin, energy-efficient LED displays are being tested to show video on everything from a curved wall at the NASCAR Museum in Charlotte to subways and airports. China, home to some of the world's largest buildings, is a prime candidate for even larger displays.

"The pace of change has never been faster," says Google's McAteer. “The big question is (turning) physical stores into a showplace, distribution center and place for consumers to have fun."

HOUSING MARKET IS PICKING UP

Existing-home sales, construction gains give positive signs

A jump in sales of previously occupied homes and further gains in home construction suggest the U.S. housing recovery is gaining momentum. The pair of reports recently followed other signs of steady progress in the housing market after years of stagnation. New-home sales are up, builder confidence has reached its highest level in more than six years and increases in home prices appear to be sustainable.

Sales and construction rates are still below healthy levels, economists caution. But the improvement has been steady. And the broader economy is likely to benefit. When home prices rise, Americans typically feel wealthier and spend more — a point Federal Reserve Chairman Ben Bernanke made recently after the Fed unveiled a plan to lower mortgage rates. Consumer spending drives 70 percent of the economic growth. "We have a real housing recovery taking root, and that has positive implications for the broader economy," said Sal Guatieri, senior economist at BMO Capital Markets. "If home prices continue to rise, so, too, will household wealth and consumer confidence."

Sales of previously occupied homes rose 7.8 percent in August from July to a seasonally adjusted annual rate of 4.82 million, the National Association of Realtors said. That's the highest level since May 2010, when sales were aided by a federal home-buying tax credit. U.S. builders broke ground on 2.3 percent more homes and apartments in August than July. The Commerce Department said the annual rate of construction rose to a seasonally adjusted 750,000. The increase was driven the best rate of single-family home construction since April 2010.

Even with the gains, the market has a long way back to full health. Sales of previously occupied homes remain below the more than 5.5 million that's consistent with a thriving market. In better economies, homebuilders start twice as many homes. Strict credit standards and bigger down payment requirements have made it harder for many first-time buyers — who are critical to a housing rebound — to qualify for mortgages. The number of first-time homebuyers made up just 31 percent of the market in August. In healthier markets, the percentage is more than 40 percent.

For those who can qualify, the market is tempting. Mortgage rates are just above record lows. Prices, on average, are much lower than they were six years ago. The Fed plans to spend $40 billion a month to buy mortgage bonds for as long as it thinks necessary to make home buying more affordable. Bernanke said the Fed will keep buying the bonds until the job market improves "substantially."

TIME ON MARKET FOR HOME SALES SHORTENS

Homes in the U.S. sold at the fastest clip in more than a year last month, new data show, a testament to the strength of the housing recovery this year. The median time a home was listed for sale was 69 days in July, a 29.6% plunge from the same month just a year ago, according to data from the National Assn. of Realtors.

Home buyers, agents and other professionals have been complaining for months that a lack of inventory has become a major force in the market this year -- leading to bidding wars in some cases. "As inventory has tightened, homes have been selling more quickly," Lawrence Yun, chief economist of the group said in a prepared statement. "A notable shortening of time on market began this spring, and this has created a general balance between home buyers and sellers in much of the country. This equilibrium is supporting sustained price growth, and homes that are correctly priced tend to sell quickly, while those that aren't often languish on the market."

U.S. AUTO SALES PICK UP

Demand for pickups rose 16% in August for best month in 3 years

Big pickups carried U.S. auto sales to their highest level in three years. Demand for full-size pickups jumped 16 percent in August, helping to make it the strongest sales month since August 2009. Overall auto sales increased 20 percent from a year earlier to nearly 1.3 million, according to Autodata corp. The rising demand shows that businesses need to replace aging trucks and feel more confident about the recovery in U.S. housing -- an industry where pickups are essential for hauling equipment and crews. "Businesses don't usually go buy a fleet of trucks unless they have good reason to believe that business will be ramping up," said Jesse Toprak, vice president of market intelligence for the TrueCar.com auto pricing service

Ford, GM and Chrysler, the biggest makers of full-size trucks, notched double-digit gains in overall sales last month. In pickups, Ford's F-Series, the top-selling vehicle in America, saw a 19 percent sales increase, as did Chrysler's Ram pickup. Sales of General Motors' Chevy Silverado rose 4 percent, while the GMC Sierra was up 9 percent. Toyota's struggling big truck, the Tundra, posted a huge increase of 68 percent.

The rising demand helped push total U.S. auto sales last month to an annual rate of 14.5 million. That's the best monthly sales pace since the government's "Cash for Clunkers" rebate program in August of 2009. Pent-up demand is part of the reason for last month's truck increase. The average vehicle on U.S. roads is nearing 11 years old, and some are simply wearing out.

But automakers and industry analysts say the economic recovery -- new housing in particular -- is also starting to make buyers feel more comfortable about a big-ticket purchase. There's a direct correlation between the housing market and pickup sales, they say. When people who work in housing or other construction are more confident, they tend to invest in equipment. Some may be adding crews and need vehicles to get them to and from job sites. Truck sales fell dramatically in 2008 and 2009 as gas prices spiked and the housing industry collapsed. Since then, they've never fully recovered.

Gas mileage also is playing a role in the pickup increase. Newer models are lighter than older ones and can be equipped with small but powerful V-6 engines. A business owner can cut costs dramatically by replacing a 10-year-old pickup, said Jeff Schuster, senior vice president of forecasting for LMC Automotive, an industry consulting firm. A new Ford F-150 with a six-cylinder engine can get up to 23 miles per gallon on the highway. A V-8-powered F-150 got only 18 mpg on the highway in 2002.

Normally, strong truck sales don't happen until the last three months of the year due to marketing promotions and customers wanting four-wheel-drive vehicles as winter approaches, Schuster said. So the August surge bodes well for the industry. Toprak expects truck sales to grow faster than the rest of the U.S. car market for the remainder of the year.

Truck sales also are good for automakers' profits, especially the Detroit Three. The companies make $5,000 or more on pickup sales, compared with $1,000 to $2,000 for an average car, Schuster said. The strong sales in August can't be attributed to deals. Discounts on the F-150 and Ram pickups fell compared with last year, while they rose only 5 percent on Chevy's Silverado, to $4,787. The F-150 incentives are the lowest since 2007, when Ford offered an average of $3,598 per truck, according to the Edmunds.com website.

In overall sales, Toyota, Honda and Volkswagen led the way with big increases. Toyota sales rose 46 percent, while Honda's climbed 60 percent. VW kept its stunning growth going with an increase of 63 percent. Both Honda and Toyota reported jumps because last year's numbers were depressed when an earthquake in Japan hobbled their factories and caused vehicle shortages.

Gas prices, which rose more than 20 cents a gallon during the month to an average of $3.82, drove people into smaller cars. The Chevrolet Cruze notched almost 26,000 in sales, making it the top-selling compact in America. Sales of Toyota's Corolla, and Ford's Focus surged, and Honda Civic sales more than doubled.

UCLA ANDERSON SCHOOL FORECAST

State's economic recovery to take longer

California economy will rebound even more slowly than previously anticipated due to the economic slump in China, the recession in Europe and a sluggish upswing in the United States, researchers with the closely watched UCLA Anderson Forecast said recently.

Just three months ago, the Anderson Forecast predicted the statewide jobless rate would drop to 9.8 percent by the middle of next year. But it now says statewide unemployment will remain at or above 10 percent through mid-2013. "The recovery in California is going more slowly than we had expected," said Jerry Nickelsburg, a senior economist with the group. "California is being affected because the U.S. recovery is going more slowly."

Because of its booming tech industries, the Bay Area has been the strongest regional economy in California. Two of its three major urban centers, the South Bay and the San Francisco-San Mateo-Marin region in recent months have posted the fastest rate of annual employment growth in the entire country. "Silicon Valley is a hugely bright spot and will remain so," said Edward Leamer, director of the Anderson Forecast. "San Francisco is doing well. The tech centers make those areas the healthiest economies in the state."

Economists say there are good reasons that regions with a strong technology base are doing much better than other areas. "This tech surge is real," said John Silvia, chief economist for San Francisco-based Wells Fargo Bank. "People are spending money on smartphones, on tablets, on iPads, on equipment to interact and communicate with each other."

Despite the robust technology economy, the state and nation face serious economic headwinds, analysts said. "Europe is in recession, China is slowing, many parts of Asia are slowing," said Jon Haveman, chief economist with the Bay Area Council's Economic Institute.

Nickelsburg added: "What happens in China matters to the California economy." He noted that during the second quarter of this year, China was California's second-biggest export market after Mexico, buying up 8.7 percent of the state's exports. California and the nation also face long-term "structural" job losses in some industries that appear unlikely to reclaim their past pinnacles. "We have permanently displaced workers in a variety of fields," Leamer said.

"Manufacturing, construction, retail; a lot of those jobs are not coming back. This is a workforce that will have to find different industries, new skills, and new aspirations." But economists believe the technology boom won't vanish anytime soon. "People want better communications, better software, better equipment," Silvia said. "That's what you make in Silicon Valley and San Francisco."

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