Forecast: Slowly, Steady Growth Continues

UCLA Anderson Forecast's second quarterly report in 2016 for the United States calls for continued slow but steady GDP growth in the two percent range. As forecast in the spring report, national economic growth will be driven by increases in consumer spending and housing, along with an end to the inventory correction currently underway. In California, the Forecast anticipates continued steady gains in employment through 2018 and a steady decrease in the unemployment rate over the next two years.

California's unemployment rate is expected to be insignificantly different from the U.S. rate at 5.1% by the end of the forecast period.

THE NATIONAL FORECAST

In his Forecast essay for the nation, UCLA Anderson Forecast Director Ed Leamer took a deep dive into the factors driving the current U.S. economy, one that has been growing steadily at 2% following quarterly growth rates of 3% for the 40 years between 1965 and 2005. Leamer wrote that growth since 2010 has been so eerily steady that it is defining an entirely new corridor at 2% instead of 3%.

“Something is different, terribly different. What should forecasters be thinking?” Leamer asked. “We are thinking 1.7% real GDP growth in 2016, 2.8% in 2017 and 2.1% in 2018, averaging 2.2, with a strong labor market averaging about 200,000 increases in payroll per month and a steady unemployment around 5%. More of the same, in other words. We are starting to see more evidence of inflation ahead, and are forecasting interest rate increases to keep real rates of interest pretty constant.”

Leamer’s essay examines the factors that led to the current state of the U.S. economy, specifically gross domestic product and employment. The article breaks down the historical performance of GDP (since 1951) and notes that productivity and employment. Consistent with the April statement from the Federal Reserve Board, the Forecast still expects two or three increases in the Federal funds rate, with the first one expected this July. As growth will be driven by increases in consumer spending and housing, coupled with the end of the inventory correction we are now experiencing. Despite coming off a weak first quarter of 2016, real annual GDP is expected to grow 1.7% this year.

THE CALIFORNIA FORECAST

In his latest essay regarding the California economy, UCLA Anderson Senior Economist Jerry Nickelsburg focused on the state’s employment situation.

“Employment in California has grown steadily and is now at record levels. The number of payroll jobs is now at 16.4 million and is 6% above its previous peak,” wrote Nickelsburg. “The number of people employed, including farm labor and the self-employed, is now at 18.1 million and 6.2% above its previous peak. One might claim that this is not near enough, since California’s population has grown by 9.5% since 2007 and therefore the state is a bit away from that elusive full employment level. However, it is not the population per se, but the age profile of the population that matters when considering full employment.”

Nickelsburg’s look at California revisits the notion of “the bifurcated California” – the idea that inland California, with its traditional manufacturing government and agriculture, continue to suffer in terms of employment, while the coast, with its technology, information and trade sectors, led the recovery.

While California experiences “full employment,” Nickelsburg warns of a number of risks, including the extension of Prop 30, which is on the September ballot (Prop 30, first passed in 2012, taxes the state’s top earners at a higher rate, passed in 2012, taxes the state’s top earners at a higher rate, and the upcoming presidential election, as the next president’s policies might have an impact on international trade, a sector on which California relies.

The California Forecast has been revised downward slightly, as a consequence of slower than expected growth in the U.S. in 2016. The current Forecast calls for continued steady gains in employment through 2018 and a steady decrease in the unemployment rate in California over the next two years. Nickelsburg expects California’s unemployment rate to be insignificantly different from the U.S. rate at 5.1% by the end of the forecast period.

Nickelsburg estimates total employment growth for 2016 to be 2.0%, and forecasts 1.6% and 0.8% growth for 2017 and 2018 respectively. Payrolls will grow at about the same rate over the forecast horizon. Real personal income growth is estimated to be 3.1% in 2016 and forecast to be 3.4% in 2017 and 3.0% in 2018.

LETTING THE AIR OUT OF THE COMMERCIAL REAL ESTATE BALLOON

In a companion essay, UCLA Anderson Senior Economist David Shulman examined the nation’s commercial real estate sector.

Citing a number of factors, including “cheap money, low levels of new construction, except for apartments and modestly improving demand, we are truly living in heady times for commercial real estate,” Shulman wrote. But, it seems the heady times are slowly ending.

Shulman’s essay notes that the combination of a less favorable financial environment along with weakening fundamentals arising from increased supply and reduced demand will likely bring to an end the seven-year bull market in commercial real estate. “To be sure,” he says, “we are in no way forecasting a ‘crash’, but rather an extended period of sideways to down prices. Simply put, financial conditions will transition from being extraordinarily easy to just plain easy, making it unlikely for us to witness a repetition of the events of 2007-2009.”

THE MIDDLE CLASS ACROSS THE UNITED STATES

In a second companion essay, Forecast Economist William Yu looks at the implications of the country’s shrinking middle class. Yu’s report concludes that, during the past four decades, the middle class in the U.S. has been shrinking, share of the upper class has been rising and the share of the lower class remains stable; the statistics reveal a source of frustration, as real median household income in the U.S. has been stagnant since 2000, due to high cost of housing, Los Angeles has the lowest homeownership among 40 of the largest metropolitan areas; and Los Angeles has the largest share of lower class residents with a smaller share of the middle class.

Yu said that without improvements in Los Angeles’ public education and investments in human capital, the local economy will continue to be bifurcated.

UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation, and was unique in predicting both the seriousness of the early-1990s downturn in California and the strength of the state’s rebound since 1993. More recently, the Forecast was credited at the first major U.S. economic forecasting group to declare the recession of 2001. Visit UCLA Anderson Forecast at uclaforecast.com.
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Grow Your Business Fiscally and Physically

By TOM JONES

T here’s a question that every business owner wants answered, preferably with ways that don’t cost them a small fortune. The response is simple. There are really only three ways to grow any business.

First, you go out and find new customers. Second, you increase the unit of purchase, and third, you increase the frequency of purchase. These are the only three ways I know of to grow any business. Let’s take a closer look at what each one really means.

Most people believe that in order to grow a business, you have to prospect, cold call, advertise, do direct mail, or use the Internet to find new customers. While finding new customers may be one way of growing your business, it’s also the most expensive and most risky way to go.

There is no guarantee that the thousands of dollars you just spent placing an ad in a national magazine is going to bring you new business, or that the 10,000 pieces of mail you just sent out will generate a profitable response. Yet, if you look around, most businesses spend the majority of their time and resources in this one area alone.

A better way is to focus more of your attention on the other two ways of growing your business. Although at first glance, these two may seem surprisingly similar, they are, in fact, very different.

The first one is to increase the unit of sale. What this means is that you want to make your current or even any new customers purchase more from you at each and every sale. In other words, if your typical customer buys an average of $100 worth of goods or services from you at each purchase, your goal is to try and move that number up as much as possible without losing that customer.

You might try adding complimentary items to your product mix. An example that immediately comes to mind is a photo store I once worked with. To increase the unit of sale, instead of having the customers just come in for film or processing, I suggested he start offering photo albums, frames, and batteries. So when a customer came in to pick up their finished photos, they could also buy a nice frame or photo album, while they were thinking about it. This also saved them from having to go to another merchant for these items.

This increased the unit of purchase for the store owner, and inevitably increased his bottom line. Think about it, he had no additional advertising expenditures, he took very little risk, and he still managed to achieve his goal of growing his business.

The other way to grow your business is by increasing the frequency of sale. In other words, if your typical customer buys from you once a month, for example, you could offer them a reason to buy twice a month.

An example that comes to mind is a client I worked with just last year. In this case we also had them offer an extended product line in order to increase the number of times a customer would purchase from them. This was a business services company that offered a wide range of services for the small office/home office professional. We looked at what people were buying and how often they were buying.

We decided to poll their customers directly and ask them what was missing. In just a few days, we had an answer. What they needed most were simple office supplies. For just a few hundred dollars, the owner of the business was able to bring in a full range of office supplies including paper, computer ribbons, cables, staples, ink, etc. These were the types of things these people frequently run out of and by offering them in this location, they saved a long trip down to the office super-center.

It’s always a good idea to talk to your customers on a regular basis. Find out what they really like about your business, but even more importantly, find out what they don’t like and change it. You may find that if you were just to offer them the product(s) they needed either before or after purchasing your products, you could increase your sales exponentially.

These last two methods work for most any business because they have very little risk associated with them and can very easily have the same growth effect as finding new customers, but without the inherent risk associated with cold prospecting.

Another key advantage to using these two methods is that your customers already know you and trust you. They’ve done business with you in the past and they have some positive references about your company. In a cold prospecting situation, you are trying not only to sell a product or service, but you are trying to sell your prospect on your company’s integrity for which they have no references.

A great question I often ask of my clients is how do they get most of their new business? Inevitably they’ll tell me that most of their new customers come from referrals. So, my next logical question is, how much time and effort do you place into developing referrals? I’m always amazed to find out that although they realize that referrals are a major part of their business, they dedicate few, if any, resources to this powerful means of generating new business!

If referrals are a major part of your growth strategy, you’ve got to speed time developing programs that increase the number and frequency of referred clients to your business. An easy way to do this is to offer your existing clients a premium or discount of some sort for each new customer they bring you. What you are actually doing is turning your satisfied customers into a powerful, persuasive sales force and paying them only when they produce a result or in other words, bring you a new client.

Growing your business doesn’t have to be expensive, risky, or even time-consuming. Unless you have a time-tested way to advertise that produces reliable results, try these other ways I’ve mentioned first. You might be surprised to find that they work as good or better than cold prospecting at a fraction of the cost and with dramatically reduced risk!

Tom Jones is an independent business management consultant and freelance writer.

Last week, the Los Angeles Business Journal hosted a roundtable style discussion on economic trends and forecasts for Los Angeles County and Southern California. This biannual Economic Forecast & Trends Breakfast featured a panel of regional experts who shared their insights on the biggest headlines of 2016 and where they feel the market is going for the remainder of this year. Moderated by the San Fernando Valley Business Journal’s Publisher and Editor, Charles Crumpley, the discussion was spirited, informative and insightful.
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The Background and Implications of Brexit

By DAVID PRESSON

The European Union - often known as the EU - is an economic and political partnership involving 28 European countries. It began after World War II to foster economic co-operation, with the idea that countries which trade together are more likely to avoid going to war with each other. It has since grown to become a “single market” allowing goods and people to move around, basically as if the member states were one country. It has its own currency, the euro, which is used by 19 of the member countries, its own parliament and it now sets rules in a wide range of areas - including the environment, transport, consumer rights and other services.

We give this brief background on the EU to provide some context as the United Kingdom (UK) shocked the world last month by voting narrowly to leave the European Union. The UK has been a member of the EU since 1973 and is a leading trading power and financial center. The EU is the UK’s largest trading partner, with about half of its exports going to EU countries and exports to the EU accounting for about 13% of its total GDP. Many of those exports are services that previously benefited from access to EU markets without having to meet regulatory requirements at the individual country level. The UK also benefited from EU trade agreements with over 50 other economies, which were non-negotiable under the EU. The UK has also benefited from EU trade agreements with over 50 other economies, which now require re-negotiation. It is the third largest economy in Europe after Germany and France. It is the 11th largest exporter in the world and the 6th largest importer. Given its importance to the world’s economy, the news sparked a sell-off in the global stock markets, though bond and gold prices rallied in a flight to safety. Prime Minister David Cameron announced his resignation and he will be leaving office in October.

“Brexit,” as the British exit from the EU is called, is unprecedented — no country has ever left the union, which has created tremendous uncertainty among investors as to its full ramifications, which may not be known for years. For the UK to leave the EU it has to invoke an agreement called Article 50. Mr. Cameron or his successor needs to decide when to invoke this - that will then set in motion the formal legal process of withdrawing from the EU, and give the UK two years to negotiate its withdrawal. The UK will continue to abide by EU treaties and laws until then, but not take part in any decision-making, as it negotiates a withdrawal agreement.

While at this time no one truly knows the full ramifications of Britain’s exit from the EU, the main issues appear to be:

• Will Brexit undermine confidence and increase uncertainty enough that businesses retreat potentially hurting global growth?
• Will other countries leave the EU and this the beginning of a slow breakup of the EU?
• Can Great Britain negotiate a successful exit from the EU without undue harm on trade agreements?
• What policies will the new prime minister of Great Britain implement?
• Will Scotland try to break apart from the United Kingdom? Its population voted not to leave the EU.

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Could Brexit not happen at all? There have already been murmurs that last month’s vote will lead the EU to offer new, more generous terms to convince Britain to stay, prompting a second referendum.

• How will Central Banks around the world respond? It appears near-term rate hikes in the U.S. are now almost off the table for the rest of the year.

Given that investors anticipated that the UK would not exit the EU before last month’s vote, the global markets had to “reset” leading to a sharp drop in the equity markets on the two days after the vote, though the markets did recover most of these losses by the end of the month. We don’t expect the markets to “calm down” anytime soon as we expect more volatility as investors continue to digest the implications of Brexit. We believe the best course of action for investors is to not make any rash moves and to ride out this expected near term volatility with a sound, well balanced and broadly diversified portfolio. The markets historically have always climbed a “wall of worry” and this isn’t the first time the global markets have faced uncertainty. It is because the markets are uncertain and risky that we are rewarded with higher longer term returns, but only if we stick to our long-term, disciplined strategy.

David Presson is Director - Investment Services for First Bank Wealth Management Group. For more information, visit www.firstbanks.com.
The growth in the Los Angeles Real Estate market continually surprises me. With the condo market in Santa Monica surpassing $2,500 per square foot, in some cases, to my personal favorite, Downtown Los Angeles. The DTLA market has had a major surge of development in the last 3 years I have lived there. With over 90 different development projects going on, we are seeing a surging amount of high end luxury apartment rentals being built. For the next 5 years it is probable that we will start to see more developments in Hollywood, DTLA and West LA.

DTLA is a major focus for all Commercial and Residential Real Estate Investors. From Restaurants like Shake Shack, Otium and Q Sushi to the expansion of the New Expo line taking resident’s from DTLA to Santa Monica in just about 40 minutes, DTLA is an up and coming investment opportunity!

Over the last 5 years, we have seen “mini-mansions” being built throughout Los Angeles and I think that this is a trend that is coming to an end. The risk versus reward limits have been pushed and with the uncertainty of the Fed trying to raise rates and the 2016 Presidential Election, the $5MM+ Luxury market has gone stale.

The “flipping” trends have dramatically changed over the last 3 years as well. Buyers want to perceive that they are getting more value in their purchases now. They want to feel that if they are going to spend $1.5MM for a home, they want quality finishes and higher end amenities. You won’t see laminate flooring anymore but instead, European French Oak floors or luxurious stone entries. The kitchens have gone from Corian or Granite counter tops to Exotic Onyx, glass and even butcher block style counter tops. I am seeing that the general perception of the public is still cautious about seeing another “bubble” in the Real Estate market and that is why the high end market has suffered. With the interest rates at all-time lows, we are still seeing multiple offers and deals being done above the asking price in the low $1MM range all the way up to $3MM. A buyer’s dollar is stretching even further now due to the low interest rates and allowing for home owners, who purchased just three years ago, to already buy and sell to a “move up” property.

On a Global standpoint, we are still experiencing a large influx of monies from China and now Europe do to the latest announcement of Brexit. On the West Coast, investors are moving towards Inglewood (due to the LA Rams coming back into the city), Seattle and San Francisco, largely due to the ever growing Technology sector’s moving towards these strong Real Estate driven areas.

The next 9 months are going to be crucial for how we will fare in the immediate future. It is my personal thought that it is still an unbelievable time to sell as well as buy. With your money being able to stretch further than ever due to the low interest rates; it makes it the time to buy. With the shortage of quality inventory across Los Angeles, sellers will be able to cash in on this as buyers feel more and more eager to take advantage of the interest rates and are willing to pay a little more for something that they truly love.

With almost two decades in the real estate industry, Nest Seekers International’s Regional Managing Director Jason Galardi has proven himself to be a leader, educator, mentor and top producing agent throughout his expansive career. Additionally, his connectivity to a wide-ranging network of realtors and influencers has been instrumental in increasing Nest Seekers Beverly Hills’ production as the leading brokerage in Los Angeles’ highly competitive real estate market. For more information, visit www.NestSeekers.com/Offices/Beverly-Hills.

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Earlier this year, the Los Angeles County Economic Development Corporation (LAEDC), in coordination with San Diego Regional Economic Development Corporation (San Diego Regional EDC), released the results of a comprehensive Southern California aerospace industry cluster study, an in-depth analysis, authored by LAEDC’s Dr. Christine Cooper, that describes the highly developed industry cluster across eight Southern California counties, and provides insight into industry drivers, trends, and the economic contribution of aerospace as an economic engine for the SoCal region.

Released during California Aerospace Days 2016 (#CAAERODAYS) in Sacramento, the report, entitled The Changing Face of Aerospace in Southern California, examines the industry’s impact today and looks at the trends that will impact the industry tomorrow, and contains key findings:

- Aerospace Industry represented 85,500 direct jobs in Southern California in 2014, 14 percent of U.S. industry employment (Over 100,000 jobs when we include JPL, NASA and other public employees in SoCal).
- Southern California aerospace generates 245,770 total jobs, including jobs in its supply chain.
- Southern California is becoming a center for guided missiles and space vehicles manufacturing, with related employment up by more than 64 percent since 2004.
- Nearly a quarter of all jobs nationally in guided missile and space vehicles manufacturing are located in Southern California.
- Southern California’s aerospace industry overall maintains a high degree of specialization and concentration with employment location quotient (LQ) of 2.1, and an LQ of 3.5 for guided missiles and space vehicles.
- 41 percent of job openings over the next five years will require a Bachelor’s degree or higher.

Southern California’s advantages include:
1. Deep ecosystem of aerospace talent, suppliers, specialized service providers, and IP
2. Active defense sector
3. Engineering prowess
4. A culture of technological innovation, risk-taking, and entrepreneurship
5. Highly skilled and specialized workforce
6. Aerospace targeted educational programs and job training
7. World-leading research and development capabilities

“We all know that our region has unmatched talent, a deep ecosystem of aerospace suppliers, specialized service providers, and IP, and now this report provides numbers and data to back that up,” said David Blanco, Co-Chair of the SoCal Aerospace Council, whose mission is to help aerospace thrive, grow and hire.

The report was made possible through the generous funding of Bank of America, California Manufacturing Technology Consulting, Northrop Grumman Corporation, and PricewaterhouseCoopers LLP (PwC).

Established in 1981, the Los Angeles County Economic Development Corporation (LAEDC) provides strategic economic development leadership to promote a globally competitive, prosperous and growing L.A. County economy to improve the health and wellbeing of our residents and communities and enable those residents to meet their basic human need for a job. We achieve this through objective economic research and analysis, strategic assistance to government and business, and targeted public policy. Our efforts are guided and supported by the expertise and counsel of our business, government and education members and partners.

Since 1996, the LAEDC’s Business Assistance team has directly helped to retain or attract over 200,000 annual jobs in Los Angeles County. Learn more by visiting www.LAEDC.org

Aerospace: Southern California is Home to Sectors Shaping Future of the Industry

David Blanco
Co-Chair of the SoCal Aerospace Council

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