

Good News, Bad News Scenario Greet Year

Publication date: 1/3/2005

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Getting a handle on what to expect for 2005 is a little like trying to grab hold of Jello.

Sure, sales are improving. Many industries have begun to hire again. Inflation appears to be under control and interest rates, while they are inching up, are still low.

Those trends, begun in 2004, are expected to continue into 2005, and in general, they bode well for the coming year. But like one of those incessant television offers that also promises more than they deliver, wait, there's more.

Job growth, disappointing in 2004, has already begun to stall, and will lag further still in some sectors like manufacturing and government. There are signs that personal income growth is slowing, and with much of the refinancing money that lined consumers pockets in 2004 now spent, buying power is likely to erode further in the coming year.

Meanwhile the gains many companies saw from increased productivity without any corresponding new hiring will soon peak, if they haven't already. And while the need to hire new workers will increase job growth, the added expense is also likely to cut into corporate profit margins.

"Since labor is two-thirds of all business costs, that's a huge change in the profit of companies," said Scott Anderson, senior economist at Wells Fargo & Co. "They're going to have to start hiring new workers, and the workers they have will start seeing salary increases. That's going to be a blow to their bottom line."

The San Fernando Valley, as it has through much of the recession, is likely to fare better than Southern California or even

Los Angeles County as a whole. For one thing, the outlook for entertainment, at least some segments of it, is strong. Accounting and other financial services firms are seeing continued improvement and even aerospace seems to be enjoying something of a revival.

Several local companies are projecting a strong 2005.

"We're expecting it to be great," said Doug Sink, CFO at Remo, makers of drums in Santa Clarita. "Our sales are up 10 or 12 percent over last year, and we expect it to get better."

Such upbeat projections are echoed by Dave DiTomaso, president of 3H Network Inc. in Simi Valley, which operates Subway restaurants in Los Angeles and Ventura Counties.

"My business will be good to very good, and the reason I say that is I think the economy is only going to get better," DiTomaso said. "Particularly fast food, we've taken a little bit of a hit these past few months, but more people are getting employed, the economy is moving in a good direction, so I'm forecasting a five or six percent growth for our business."

But scratch the surface of these projections and there are more worries ahead, if not for the individual business owners, then for the economy at large.

Dollar sinks

A large portion of Remo's business – 40 percent – is export, and it has been boosted substantially by the declining value of the U.S. dollar.

"We keep telling our customers they've gotten a 20 percent price reduction," said Sink, who figures Remo's export sales are up by 15 percent or 20 percent as a result.

But that same weak dollar could also eat into domestic consumers' purchasing power,

turning off what has been a strong economy spigot.

“One of the losers are consumers,” said Anderson. “You’ll see the purchasing power erode and it will be much more expensive to buy those imports. So there are some standard of living implications on the consumer side.”

The good news, bad news scenario even extends to the entertainment industry, as reality shows have replaced traditional scripted television shows.

“What I am seeing is clients of mine who are in television are finding fewer and fewer opportunities,” said Mitchell Freedman, whose Sherman Oaks company MFAC Financial Advisors Inc., consults for a number of entertainment industry clients. “That certainly has had a negative impact on job opportunities for writers and television performers. On the other hand, I have clients that are production companies, two in the San Fernando Valley, that are finding that this trend has been terrific for them.”

While the onslaught of new reality shows has increased job opportunities in the entertainment industry, it has also replaced many of the higher-paying union jobs with non-union, lower-wage jobs.

“We’re seeing a new face for the television industry,” said Freedman. “At this point, I can’t predict whether this will be a permanent trend or it’s a cycle we’re going through.”

Other factors, many local, portend problems for businesses, even as the economy strengthens.

“Anybody looking to expand is having a hard time finding real estate,” said **Barry Kurtz**, of counsel to **Greenberg & Bass** in Encino, who specializes in franchise law. “And as a result it’s deterring people who have expansion rights from expanding.”

Hard to find

Kurtz said those franchisees who have been granted expansion rights to territories in the Valley are having particular difficulty finding good locations with sufficient parking and other amenities in the region. And the prospect of rising interest rates is compounding the problem further because the longer it takes to find a suitable location, the more expensive money is likely to be.

“Those who could have built a restaurant this year are finding if they find a location in the future, they may not be able to build a restaurant out with the same financing available,” Kurtz said.

Indeed, many think interest rates could be the wild card in 2005. While it’s likely that rates will continue their slow, but steady rise, a larger jump would take a toll on profit margins and hamper expansion plans.

Other unknowns, specifically the cost of workers’ compensation insurance family leave regulations and mandatory overtime pay, could also hamper growth going forward. For now, they are continuing to make the job of economic development specialists all the more difficult.

So far at least, companies are reporting that they have not seen any savings from workers’ comp reform, and it’s likely that there will be no relief until more carriers enter the market.

At the same time, the specter of a mandatory health care bill still lingers, and local companies continue to look outside the region for lower-cost expansion opportunities.

“We put the Band-Aid on it, but it was continuing to bleed,” said Alexander Rosas, director of economic development for the Economic Alliance of the San Fernando Valley. “You can only put so many Band-Aids on before they say we can’t do this anymore.”