

LOS ANGELES SMALL BUSINESS ATTITUDES

Spring 2018 | Issue No. 1

Optimism and Expected Growth



1ST CENTURY BANK



WELCOME TO THE SMALL BUSINESS ATTITUDES SURVEY

FROM 1ST CENTURY BANK AND BEACON ECONOMICS

Small companies are drivers of ingenuity and progression, yet within the economic sector, their contributions are often overlooked. The media relies largely on macro data — primarily GDP and the S&P 500 (a snapshot of the largest 500 publicly traded companies) — to gauge the health of the U.S. economy. A look at small business, however, can reveal more nuanced insights. Small companies are, in many respects, the most fragile businesses — fighting for market share, funding, sales and profits while balancing the costs of payrolls and new technology to stay competitive.

For small businesses in core workforce industries (Professional, Scientific & Technology; Finance & Insurance; Real Estate & Leasing; Administrative Support; and Information), there are tremendous barriers to entry. How can a small company compete with corporate titans? The answer is, in today's economy, there are more than enough sales and profits to go around. Small businesses are succeeding in their own space, growing rapidly as they ride the economic wave alongside their mainstay rivals. The first half of 2018 is a time of optimism and expected growth.

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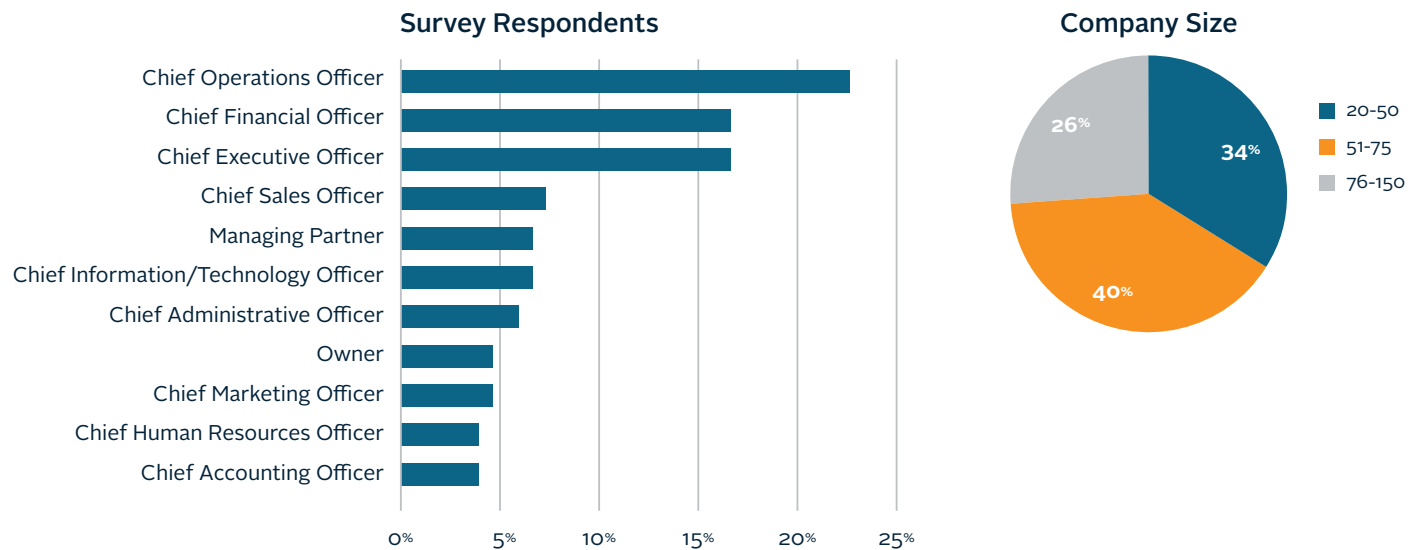
There has been growth and success even in the city of Los Angeles, which is no small feat. Increasing office and retail rents make it difficult to start a company without taking on a great deal of debt or being in an undesirable location. Los Angeles has gone so far as to offer tax incentives, loan programs, and online tools geared specifically toward helping small businesses get started. Right now, small businesses are growing and doing well, and this is expected to continue into the near future. However, should things begin to shift, economic strain would be felt by small businesses long before the rest of the economy.

Created by 1st Century Bank and Beacon Economics, the Small Business Attitudes Survey captures the current and near-future health of the economy. Reported twice a year, the results will help predict the direction of the economy and bring to light any shifts that may be emerging.

The survey looks at key indicators from 150 small businesses, 30 from each core industry, including Professional, Scientific & Technical Services, Finance & Insurance, Real Estate & Leasing, Administrative Support; and Information. The current findings show a healthy and growing economy, with even more growth expected in the next six months.

WHOM WE SURVEYED

All respondents were from businesses with 20 to 150 employees and a physical office in the city of Los Angeles. Respondents were C-Suite executives or the equivalent.



KEY FINDINGS

- **Market confidence is rising.**
Over the next six months, 78 percent of small-business respondents said they expect an increase in market demand.
- **Margins are gaining momentum.**
54 percent of respondents reported increased margins in the past six months, and 79.3 percent of respondents said they believe margins will increase in the future.
- **Expectations for increased sales are high.**
56 percent of respondents reported increased sales in the past six months, and 70.7 percent said they expect sales to increase in the next six months.

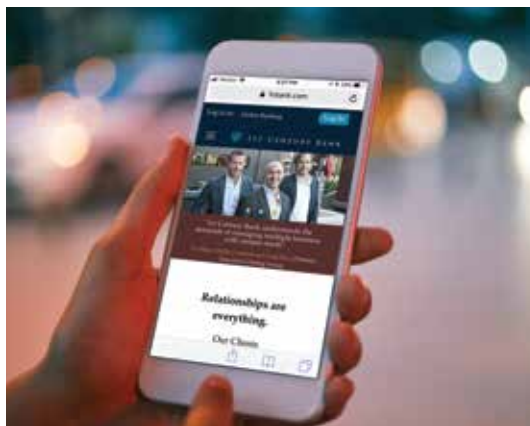
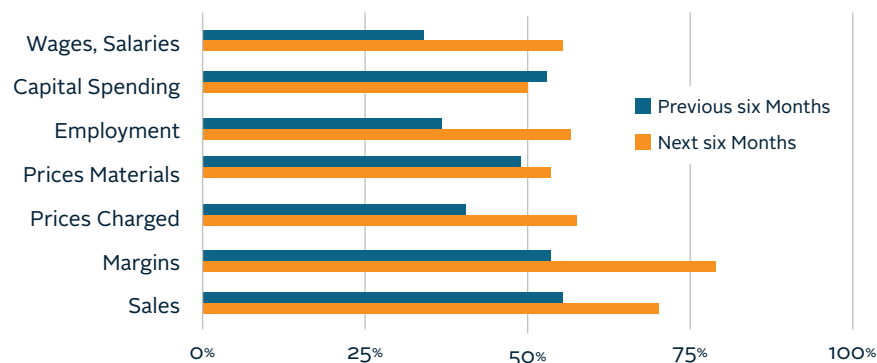
*Positive
market
sentiment
is growing.*

SECTION 1: 6-MONTH REFLECTIONS & PREDICTIONS

*79.3%
of survey
respondents
expect
higher
margins in
the coming
six months.*

The first section of the survey asked respondents whether seven key company attributes had risen, remained unchanged or fallen in the previous six months and what was expected in the next six months. More than half of all respondents expected an increase in all seven attributes. The most commonly shared expected increase was in margins, with 79.3 percent expecting higher margins in the next six months. This is a high expectation, considering that only 54.0 percent reported increased margins in the previous six months. Increased sales were also expected by 70.7 percent of respondents, compared with just 56.0 percent who reported increased sales in the previous six months.

Risen in the Past vs. Rising in the Future

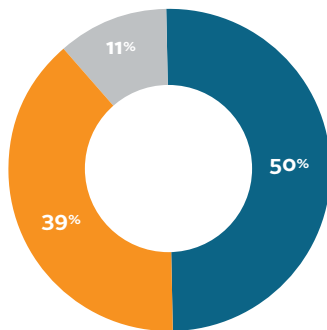


SECTION 2: ECONOMIC EXPECTATIONS & THE IMPORTANCE OF TECHNOLOGY

The second section of the survey asked questions crafted to reveal company expectations for the future of the economy and views on new technology in the workplace.

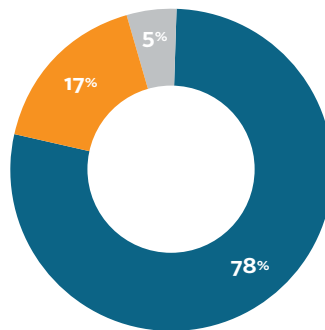
Over the next six months, do you expect the economy's health to be...?

■ Rising ■ Unchanged ■ Falling



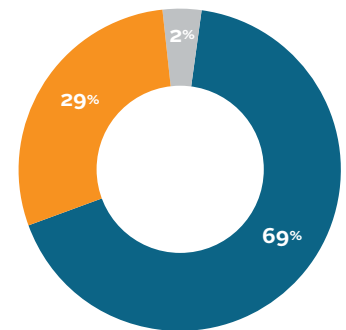
Over the next six months, do you expect the market demand to be...?

■ Rising ■ Unchanged ■ Falling

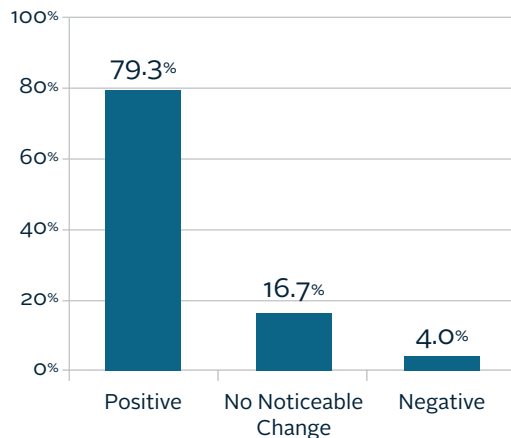


Over the next six months, do you expect the amount of your financial investment to be...?

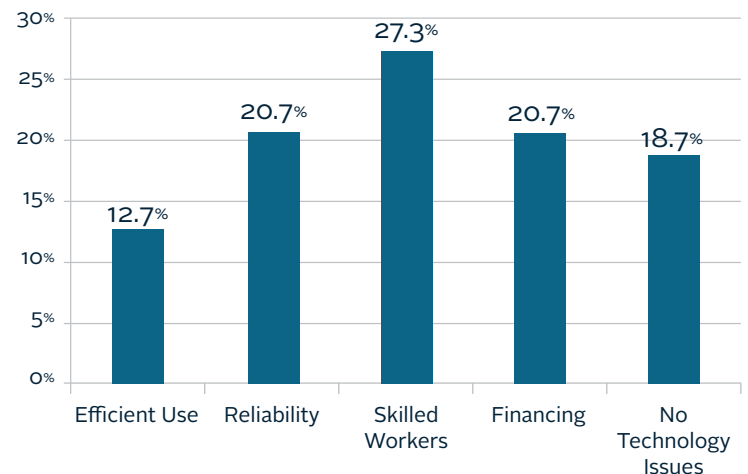
■ Rising ■ Unchanged ■ Falling



What effect would the most current technology have on the competitiveness and success of your company?



Greatest Technology Issues Over Past Six Months



Only half of respondents thought the economy's health would improve in the next six months. This is interesting, considering that 78 percent expected rising market demand and 69 percent expected increased financial investment. In this unique political climate, small-business owners are more confident in their own business than in the economy as a whole.

A NOTE OF CAUTION

In this unique political climate, small-business owners are more confident in their own business than in the economy as a whole.

INDUSTRIES SURVEYED

NAICS 54 - Professional, Scientific & Technical Services

- Office of Lawyers
- Offices of Certified Public Accountants
- Other Accounting Services
- Architectural Services
- Landscape Architectural Services
- Engineering Services
- Interior Design Services
- Graphic Design Services
- Custom Computer Programming Services
- Computer Systems Design Services
- Administrative Management & General Management Consulting Services
- Marketing Consulting Services
- Advertising Agencies
- Public Relations Agencies

NAICS 52 - Finance & Insurance

- Commercial Banking
- Securities Brokerage
- Portfolio Management
- Investing Advice
- Insurance Agencies & Brokerages

NAICS 53 - Real Estate & Leasing

- Lessors of Residential Buildings
- Lessors of Nonresidential Buildings
- Offices of Real Estate Agents and Brokers

NAICS 56 - Administrative Support

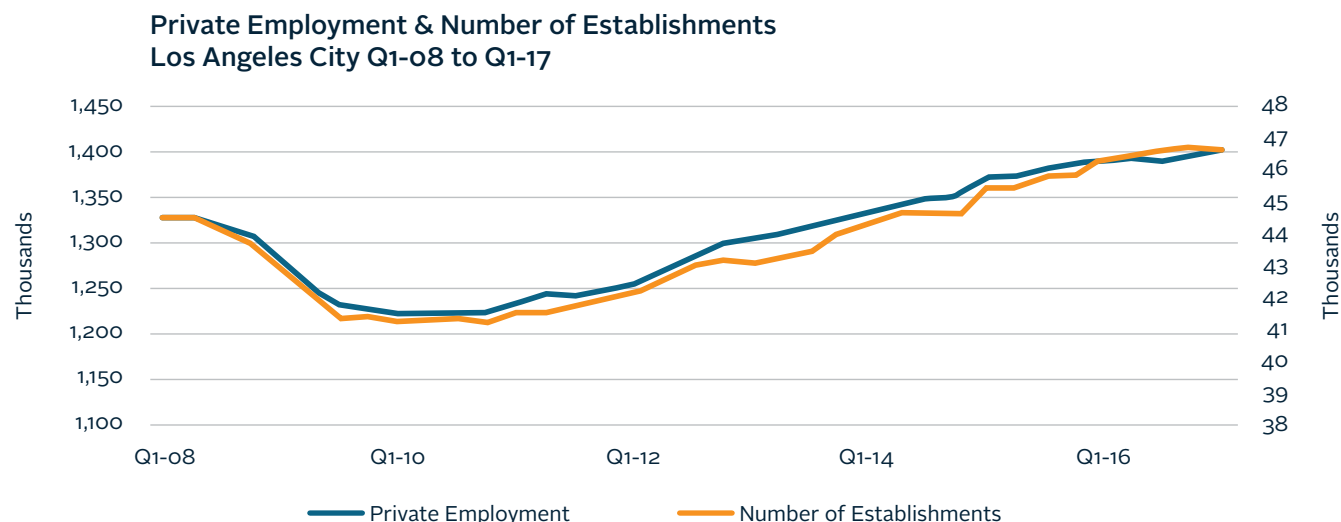
- Office Administration

NAICS 51 - Information

- Motion Picture & Video Production
- Motion Picture & Video Distribution
- Teleproduction & Other Postproduction Services
- Other Motion Picture & Video Industries
 - Bookings agencies, motion picture
 - Bookings agencies, motion picture or video productions
 - Film libraries, motion picture or video, stock footage
 - Film processing laboratories, motion picture
 - Film restoration services
 - Laboratory services, motion picture
 - Libraries, motion picture stock footage film
 - Libraries, videotape, stock footage
 - Motion picture bookings agencies
 - Motion picture film laboratories
 - Motion picture film libraries, stock footage
 - Motion picture film reproduction for theatrical distribution
 - Motion picture laboratories
 - Reproduction of motion picture films for theatrical distribution
 - Stock footage of film libraries
 - Videotape libraries, stock footage
- Data Processing, Hosting & Related Services



SIGNS OF A GROWING LA ECONOMY

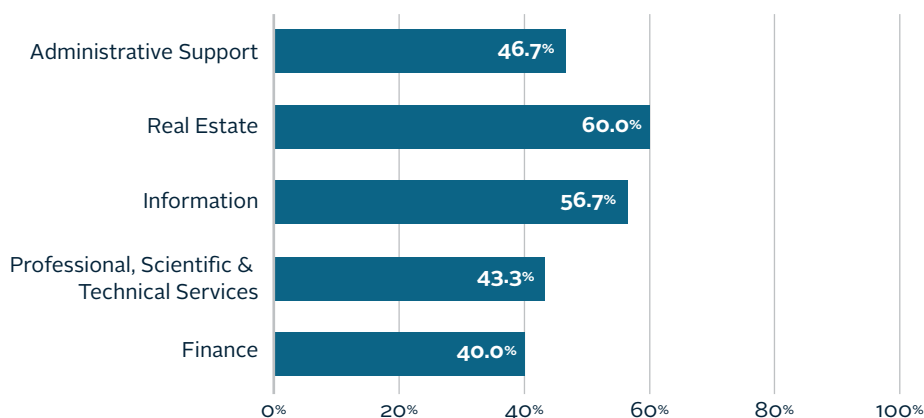


Source: Employment Development Department

Overall, employment and the number of establishments in Los Angeles have been increasing since a low point in early 2010. In the first quarter of 2017, the city had 1.4 million private employees. This is a one-year increase of 1 percent and a five-year increase of 12.1 percent. The number of private establishments is just under 47,000. From the first quarter of 2016 to the first quarter of 2017, the number of establishments increased 0.7 percent; the five-year change is 10.7 percent.

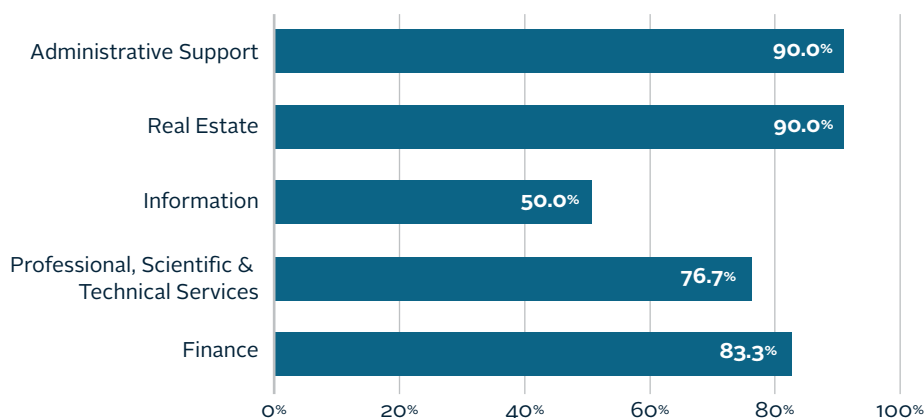
Industry	Employment (000s)	Employment Change 1yr	Employment Change 5yr	Number of Establishments (000s)	Est. Change 1yr	Est. Change 5yr
Total Private	1,395.1	1.0%	12.1%	46.6	0.6%	10.7%
Prof, Sci, & Tech	124.6	0.9%	7.0%	5.2	0.1%	10.5%
Finance & Insurance	61.1	-1.8%	-2.6%	2.2	-1.2%	8.4%
Real Estate & Leasing	36.1	2.6%	9.5%	2.0	1.0%	15.2%
Admin Support	92.1	1.8%	7.7%	2.2	-2.1%	4.3%
Information	61.0	0.8%	7.0%	1.4	-1.9%	6.3%

Over the next six months, do you expect the economy's health to be rising?



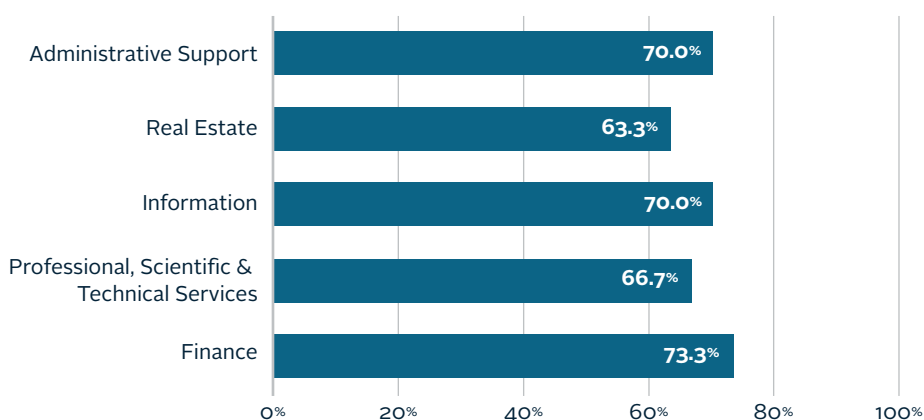
- Industries have high expectations for their own performance, but they have much lower expectations for the overall economy.
- Real Estate has the highest expectation of increased economic health.
- Finance has the lowest, which is surprising since tax cuts are expected to boost spending and the stock market is at record highs.

Over the next six months, do you expect market demand to be rising?



- Expectations for increased market demand are extremely high, in large contrast to expectations of economic health.
- Information had the lowest expectations of increased market demand. Only 50 percent expect market demand to increase, despite the fact that 83.3 percent expect margins to increase.

Over the next six months, do you expect the amount of your financial investment to be rising?

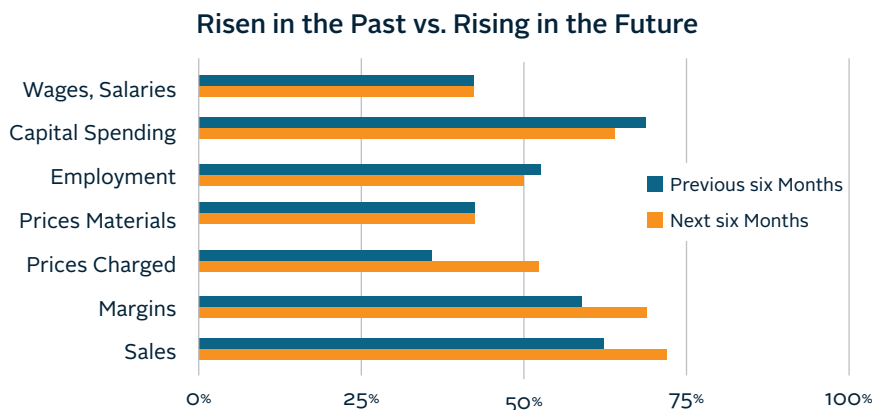


- Increased investment is a strong indicator of a healthy economy.

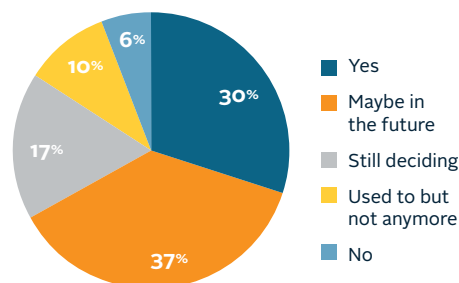
RESULTS BY INDUSTRY

PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES

Professional, Scientific & Technical Services make up 8.9 percent of Los Angeles employment. This industry is important because it includes establishments whose work requires high expertise and training. Activities include, but are not limited to, legal representation, accounting, architecture, engineering, computer services and consulting. Businesses in this industry typically need new technology and skilled workers to stay competitive.

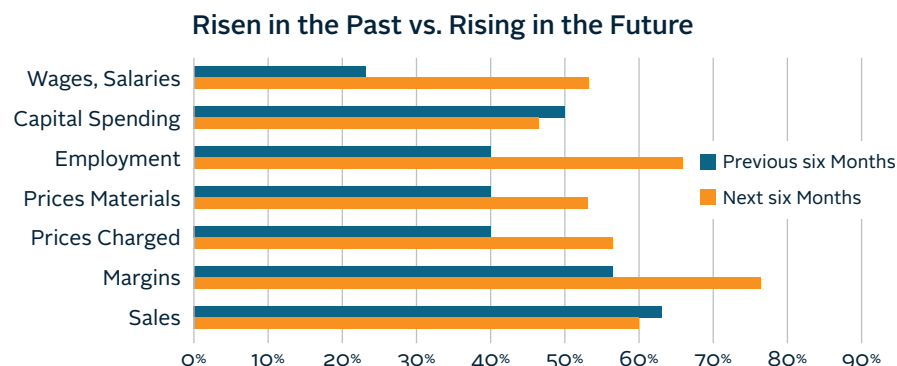


Do you allow employees to telecommute?

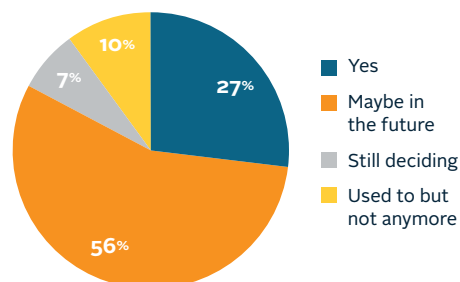


FINANCE & INSURANCE

Finance & Insurance, which consists of commercial banks, brokers, portfolio managers, and insurance firms, employs 4.4 percent of LA's workforce. In the last year, employment in this industry has declined by 1.8 percent and establishments have decreased by 1.2 percent. Finance & Insurance relies on positive household outlook (consumers who are confident in the economy are more willing to take out loans and invest in the market). An energetic end to 2017 has left consumers with investment momentum into the first half of 2018!



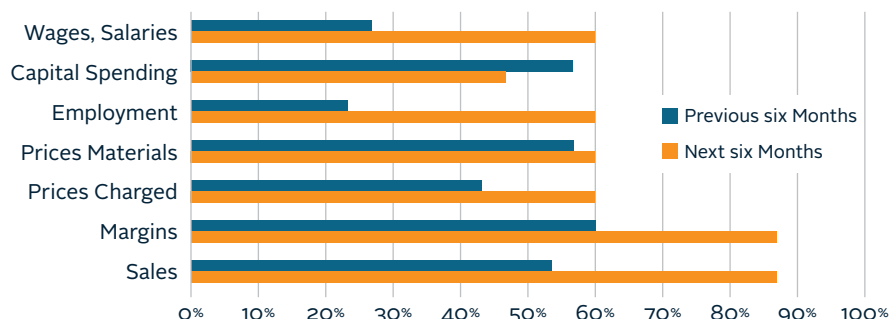
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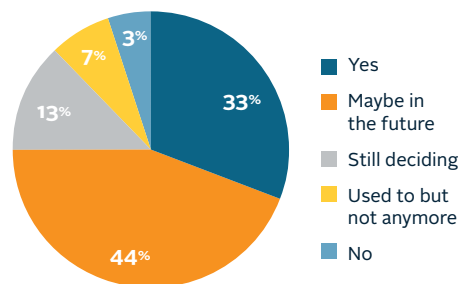
REAL ESTATE & LEASING

Real Estate & Leasing makes up 2.6 percent of employment. Real Estate & Leasing includes establishments engaged in managing real estate, selling and/or buying real estate, and lessors of nonresidential buildings. Similar to Finance & Insurance, Real Estate & Leasing is positively linked with household wealth and outlook.

Risen in the Past vs. Rising in the Future



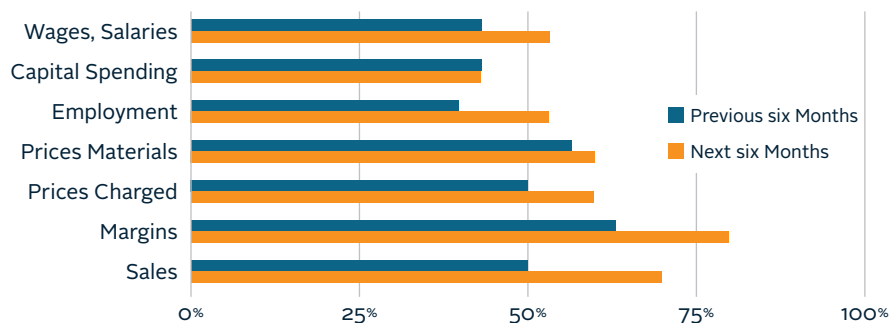
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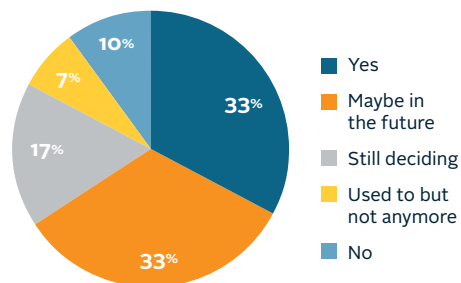
ADMINISTRATIVE SUPPORT

Administrative Support, with 6.6 percent of private employment, has had strong growth over the past five years, increasing 7.7 percent since the first quarter of 2012. Administrative Support includes establishments that provide office administration, hiring and placing personnel, document preparation, security, cleaning and waste disposal.

Risen in the Past vs. Rising in the Future



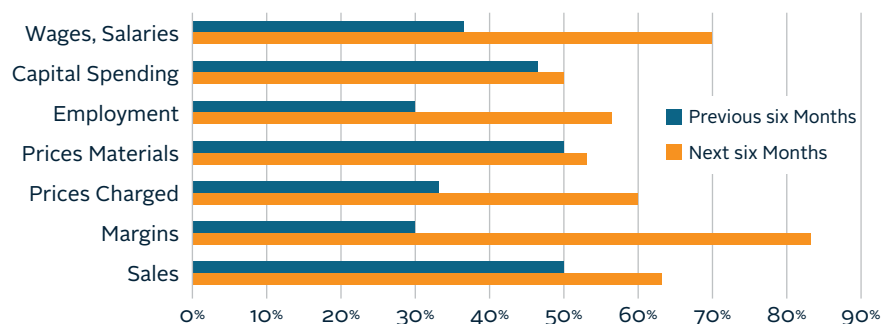
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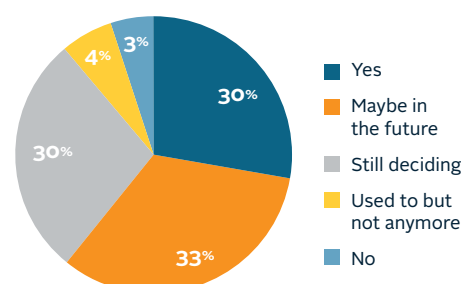
INFORMATION

Information makes up 4.4 percent of private employment in Los Angeles. Information is a broad industry that covers software, print and digital publishing, motion picture and sound recording, broadcasting, web portal, data processing and information services industries. The Information industry is fast changing and highly competitive.

Risen in the Past vs. Rising in the Future



Do you allow employees to telecommute?





CLOSING REMARKS

This survey looked at key indicators across 150 Los Angeles-based small businesses. The findings show that the Los Angeles economy is healthy and growing. Market sentiment is overwhelmingly positive, with more growth expected in the coming six months.

The Small Business Attitudes Survey helps assess and predict the health of the Los Angeles economy. Reported twice a year, the results provide key economic insights, as small businesses are sensitive to, and therefore predictive of, economic change.

METHODOLOGY

The survey sampled 150 respondents, 30 from each of five NAICS-identified industries: 51, 52, 53, 54 and 56. Respondents were CEO-level or equivalent (COO, CFO, managing partner or similar). All respondents were from businesses with 20 to 150 employees and a physical office in the city of Los Angeles. Surveys were conducted online. Respondents received personalized access URLs and confidentiality was held. Several vetting functions were implemented to ensure respondents met survey requirements. Surveys were written in English and issued on January 2, 2018; results were compiled on January 23, 2018.

Survey questions covered a broad range of relevant issues and topics. The wording was reviewed to remove response bias. Optioned answers were selected to encompass all possible responses, and questions were sectioned categorically to minimize any question order bias.

Even with all variables controlled, there will always be some bias when issuing surveys. It should be noted surveys are intended to capture population data but will always contain a margin of error.



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