# Economic Outlook Summary

*April 2016*

**Economic Highlights**

- The US Economy continues to "muddle through" with historically low GDP growth this cycle. Why? Demand has been weak throughout the cycle based on historically low wage growth and lack of safe income oriented investments, both of which provide the fuel for discretionary consumption. Both are absent this cycle.

- Although "core" (w/o food and energy) inflation has been heating up a bit in 2016, the Fed will turn a blind eye in policy decision making. We do not expect this to be a meaningful issue given that historically inflation needs wage growth to be sustained.

- The Fed has done an about face on interest rate hikes in 2016 for three reasons: The global economy remains weak. China cannot afford a higher dollar (its currency being tied to the dollar). Additionally, after the Q1 stock market correction, the Fed remains very afraid that a deep market correction will exacerbate already weak domestic demand. At best, the Fed may raise rates twice in 2016, but perhaps not at all. They are beholden to the markets.

- In the aftermath of the stock market correction in Q1, every leading central bank globally took action. The European Central bank is printing ever more money monthly and dropped already negative interest rates deeper. Japan, for the first time in their history has ventured into negative interest rate territory. China devalued their currency further and the Fed backed off on rate hikes. That stabilized markets, but the key issue ahead is that corporate earnings are contracting. The Fed can influence the markets short term, but longer term earnings underpin stock prices. This is the market "tension" of the moment.

- The greater Sacramento area reflects a lot of macro US economic trends – unemployment is down, but average weekly wages are barely up at all from 2009. The Sacramento area is a service sector driven economy. The bulk of job growth since the lows of 2011 can be found in lower wage service sector jobs.

**Mergers & Acquisition Markets**

- Low interest rates and growth still support a strong M&A market, but market volatility and economic uncertainty have dampened the pace.

- M&A activity declined in Q1 2016 with the lowest deal value since Q3 2014, a 28% decline in the number of transaction compared to Q1 of 2015 and $415B in withdrawn deals.

- Multi-billion dollar transactions continue as companies put idle cash to work through acquisitions.

- Regulatory headwinds continue to mount as several large transactions were cancelled or delayed due to public scrutiny over tax avoidance and competition.

- New minimum wages law signed in California and New York increasing minimum wages to $15 per hour over 5 years are expected to create margin pressures on labor intensive businesses.

- Several M&A transactions were completed in the Central Valley, including California Family Fitness, Black Bear Diners, Cesca Therapeutics, Genica Research and Flyers Energy.

*For the full presentation, visit: https://vimeo.com/162756138.*