# Orange County Business Expectations Survey, OCBX
## 2nd Quarter 2024

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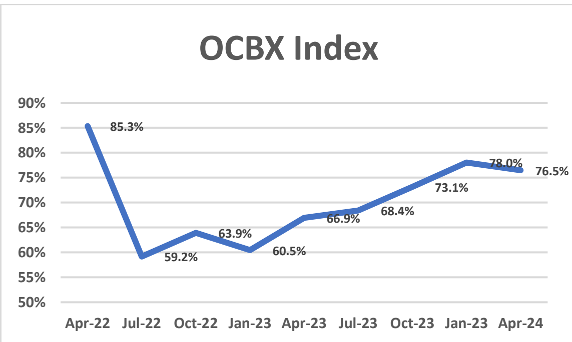
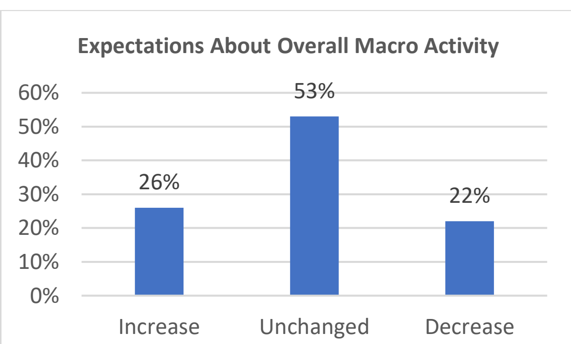
**Orange County Business Expectations: OCBX Index**

The overall index, OCBX, for the 2nd quarter of 2024 dipped to 76.5 from 78 in the1st quarter of 2024, the first decline in 5 quarters. It indicate weakening of the business sentiment for the 2nd quarter 2024. OCBX index is a measure of the overall view of the economy, and it is constructed from other variables in the survey. A reading of above 50 indicates future growth in the economy.



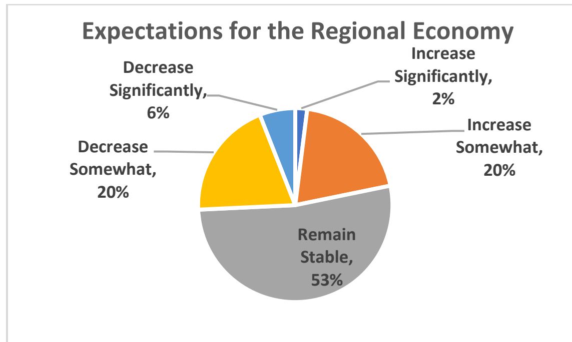

**Overall Business Activity**

The proportion of owners, CEOs, and managers that expect overall business activity to improve increased to 26% for the 2nd quarter of 2024 from 32% in the 1st quarter of 2023. Those believing the situation will remain unchanged the percentage increased to 53% from 42%, and those expecting the regional economy to slow down decreased to 22% from 26%. This measure asks for responses to questions about Orange County executives' outlook for the macro economy.



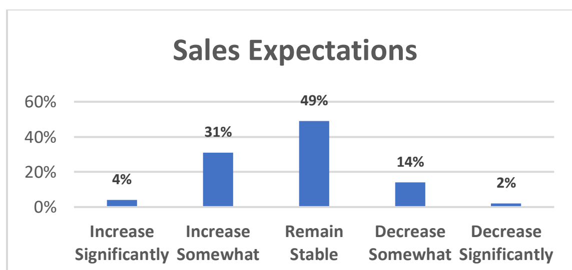

**Own Industry Activity**

2% of the executives surveyed expect their own industry activity to increase significantly in the coming quarter, same as the last quarter. 20% expect some growth in their own industry (compared to 38% in the last quarter). 53% (compared to 42% last quarter) of Orange County firms believe that their own industry will remain stable. 20% (compared to 18% in the previous quarter) predict decreases in their industry. Most of the business leaders expect to slightly lower growth in their own industry in the coming quarter.



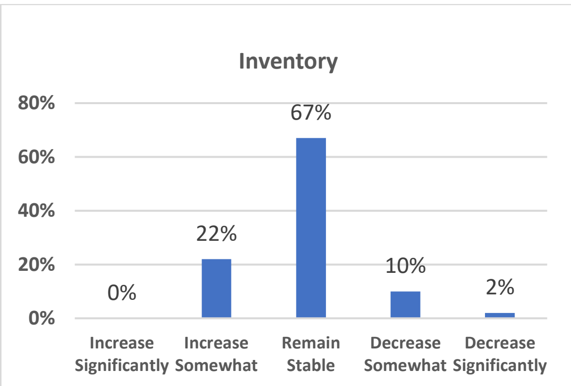

**Sales and Revenue**

35% of the firms surveyed expect their sales to increase this quarter (compared to 28% in the last quarter), 49% expect little change (compared to 52% the last quarter) and 16% expect to have lower sales (compared to 20% in the last quarter). It seems that the more firms expect sales to grow in the coming quarter.



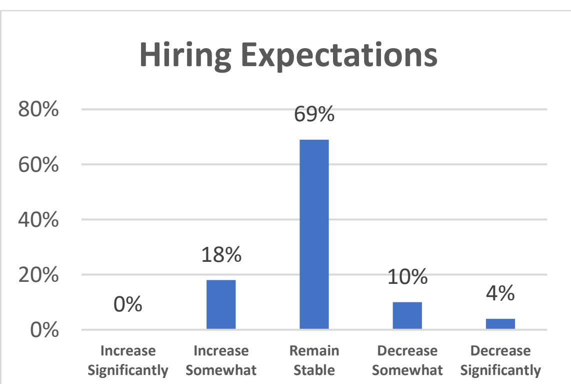
**Investments in Inventory and Equipment**

22% of respondents said that they expect to have higher inventories compared to 21% in the last quarter. The share of those expecting inventory levels to remain unchanged moved to 67% compared to 67% in the last quarter, and those who expect to have reduced inventories also stayed at 12%, same as last quarter. These answers show little change in the inventory planning on the part of business executives.



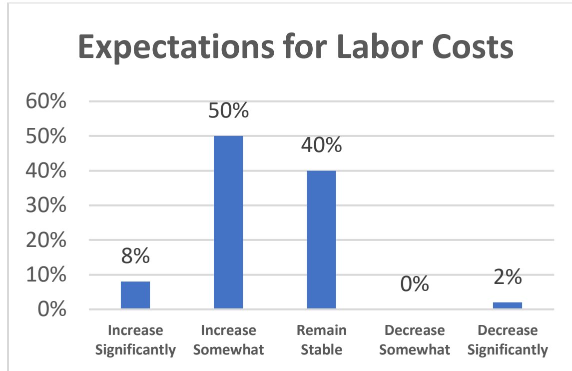

**Employment**

18% of firms surveyed intend to increase their labor force (compared to 22%in the last quarter), 69% intend to make no change (compared to 64% last quarter), and 14% expect to cut jobs (14% in the last quarter). It appears that the firms will be a bit cautious in hiring workers this quarter.



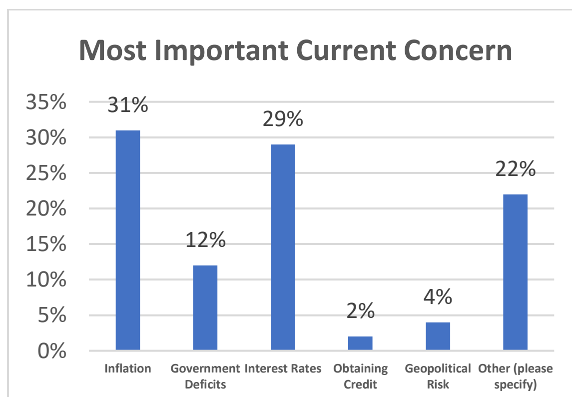

**Labor Costs**

58% of executives surveyed, compared to 62% last quarter, expect wages to increase in the coming quarter, and 40%, compared to 38% last quarter, expect them to remain unchanged. Very few executives expect wages to decrease in Q2:2024.




**Biggest Concerns**

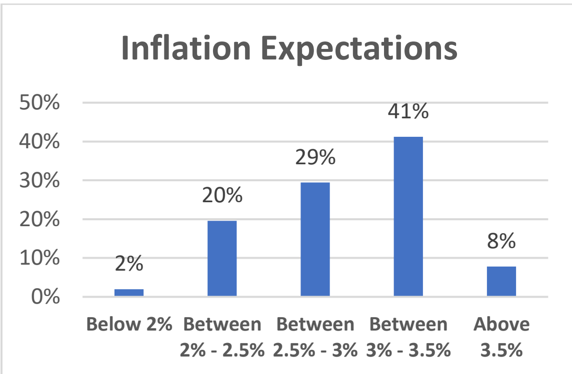
In a special question, we enquired about executives' major concerns. Inflation continues to be a major concern, with 31% compared to 26% last quarter but interest rates remains the second most important item (29%), with government deficit as the third most important concern (12%), ahead of labor shortages. Geopolitical issues play a small role (4%). Other concerns mentioned were regulatory constraints, immigration, AI and the election.




**Inflation Expectations**

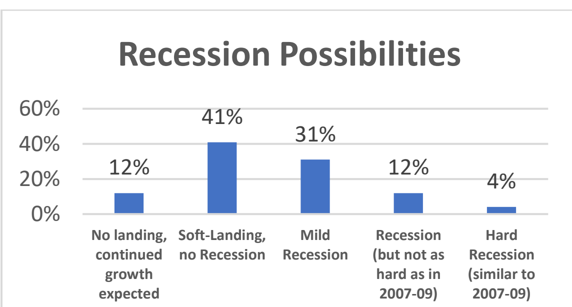
In another special question, we asked respondents to share their forecasts of inflation for December 2024. 8% expect inflation to be above 3.5%, 41% expect inflation by the end of 2024 to be between 3% and 3.5% (compared to 26%v last quarter). 29% expect it to come in between 2.5% and 3% (compared to 50%

last quarter) and 20% expect it to be between 2% and 2.5% (18% last quarter). Another 2% expect it to fall to below 2% (6% last quarter). In general, overall inflation expectations have gone up.




**Recession Likelihood**

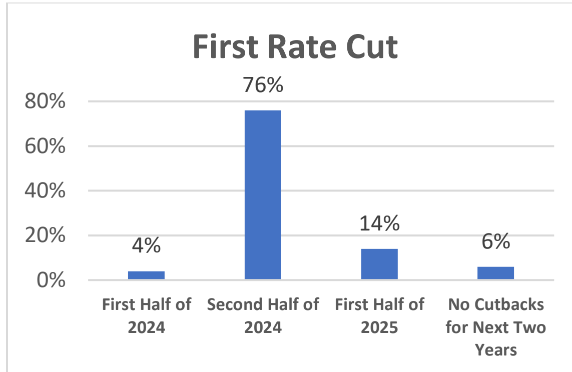
Given the continuing uncertainty about whether the US economy is headed for a recession, we again asked their views on the shape of a possible recession. While 31% (36% last quarter), think it will be a mild recession, over 12% (14% last quarter) believe it will be more serious but not as bad as the 2007-09 recession. 41% (46% last quarter) believe that the Fed will engineer a soft landing. At the same time 4% (4% last quarter) think that the US economy is headed for a serious recession. 12% think there will not be a recession, instead the economy is going to continue to grow..




**When do you think the Fed will start cutting interest rates?**

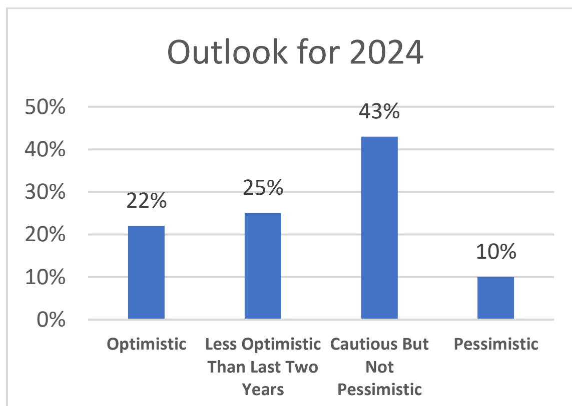
The assumption behind this question is that if a recession occurs, the Fed will need to reduce interest rates.

4% of the respondents think that the fed will start cutting rates in the first half of 2024 (24% last quarter), 76% think it will be in the second half of 2024 (62% last quarter) and 14% think it will happen in 2025 (compared to 10% last quarter. 6% don't expect a rate cut in the next two years (4% last quarter).




**What is your outlook for 2024?**

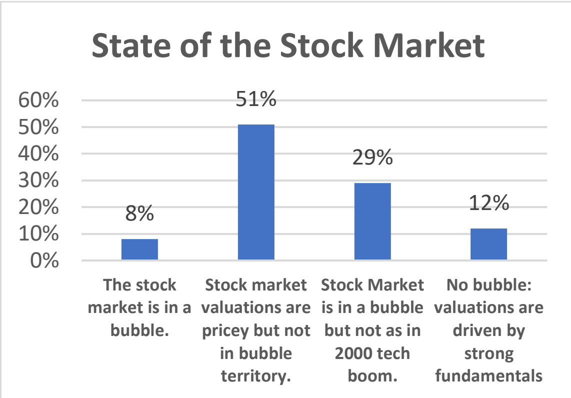
For this new question, we wanted to know general expectations of OC businesspeople for the current year. 22% said they were optimistic while 25% indicated they were less so than the last two years. 43% are cautious yet not pessimistic for the year while 10% said they were pessimistic.




**Is the Stock Market in a Bubble?**

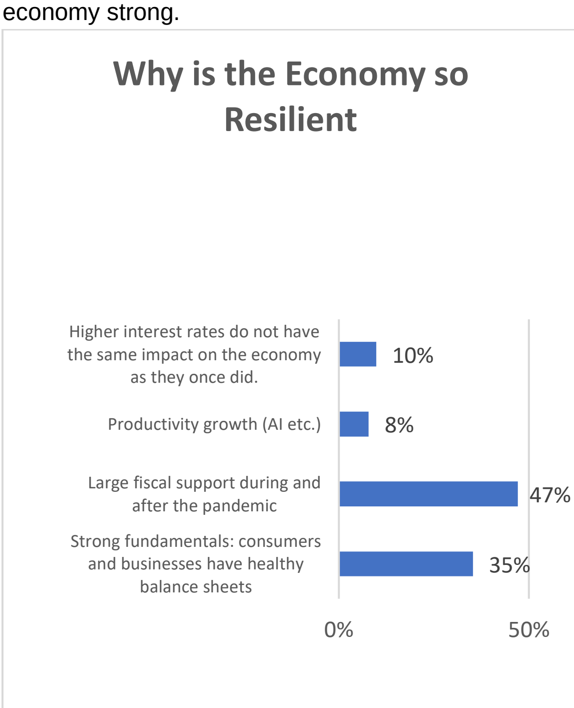
The stock market as measures by S&P 500 has risen nearly 26% over the past four months. Some speculate that this may be a bubble or irrational exuberance. Others believe this is warranted based on fundamentals.

In response to this new question, only 8% of the respondents think that the stock market is in a bubble. Majority of respondents, 51%, think that the stock market valuations are pricey but still not in the bubble territory. 29% believe that it may be in a bubble but it is not as bad as the tech bubble of 2000. 12% think that there is no bubble, the current valuations are justified by fundamentals such as earnings, productivity and AI.




### Why is the US Economy So Strong?

The US economy has shown surprising strength in the last several months. 10% of the respondents think the high interest rates no longer have the kind of drag they used to have, presumably because of some structural change in the economy. 8% think the productivity growth, likely driven by AI, is supporting the current growth. 47% believe that the large fiscal stimulus due to the pandemic has provided the economy sustenance in the recent past. 35% think that strong fundamentals, healthy balance sheets of households and businesses, is what is keeping the economy strong.




### Industry Categories

The graph below shows industry category of those who responded to the survey. In addition to the those shown in the graph below, these categories were also mentioned: non-profit, education, geo-technical engineering, wholesale distribution, government, media, consulting and engineering.