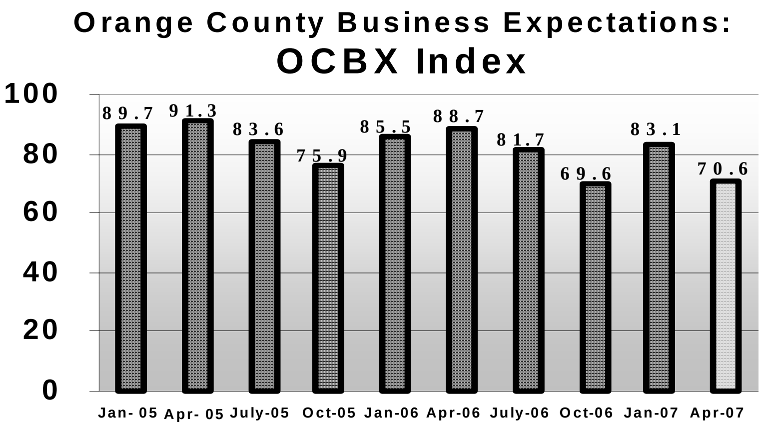
Institute for Economic and Environmental Studies
CALIFORNIA STATE UNIVERSITY, FULLERTON

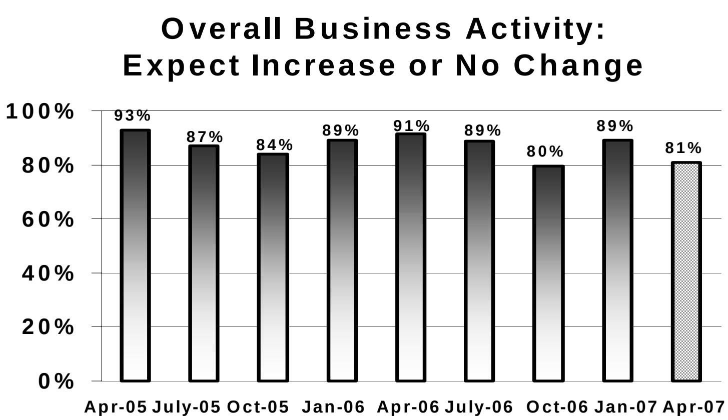
# Orange County Business Expectations Survey, *OCBX*, 2nd Quarter 2007

Project Director: Anil K. Puri, Ph.D; Research Associate: Lee Cockerill

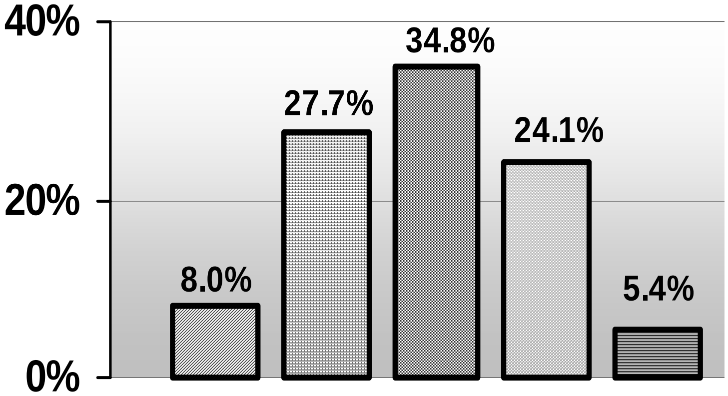
This survey of businesses was conducted during the week(s) of March 20th through the 27th, 2007. Of the 730 firms contacted, 112 responded for a response rate of 15%.




*Business expectations:* Business expectations for growth in Orange County fell again after an improvement in the last quarter. The overall index, OCBX, value was 70.6 compared to a reading of 83.1 for the 1st quarter 2007. A reading of 50 would indicate no change. Slowing housing market with troubled sub prime mortgage markets, continued high oil prices, and slower growth of gross domestic product weighed down the business expectations of future growth for Orange County.




*Overall Business Activity:* The proportion of owners, CEOs and managers that expect overall business activity to improve or stay the same decreased 81% from 89% in the 1st quarter 2007. This level is almost the same as the 4th quarter of 2006. The bounce in the 1st quarter seems to have fizzled.




*Sub-Prime Market Impact:*
In a special question, we asked the OC executives, about the impact of the current woes of the sub prime mortgage sector on the overall economy. It appears that the opinion at this time is roughly evenly split. While 35% believe the impact will be severe or high, 30% believe it will be low or none with approximately 35% believing the impact will be moderate. The jury is still out.

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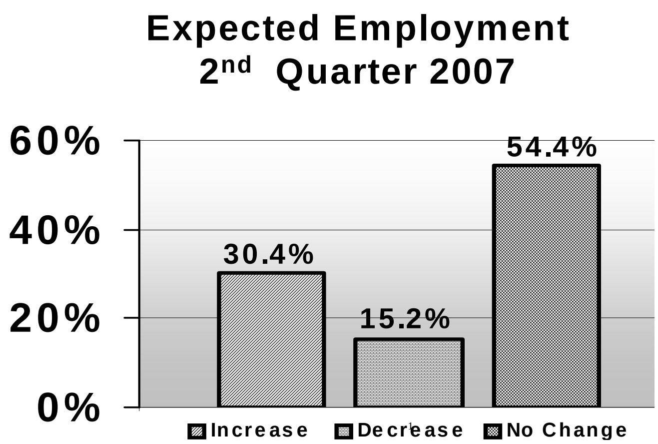
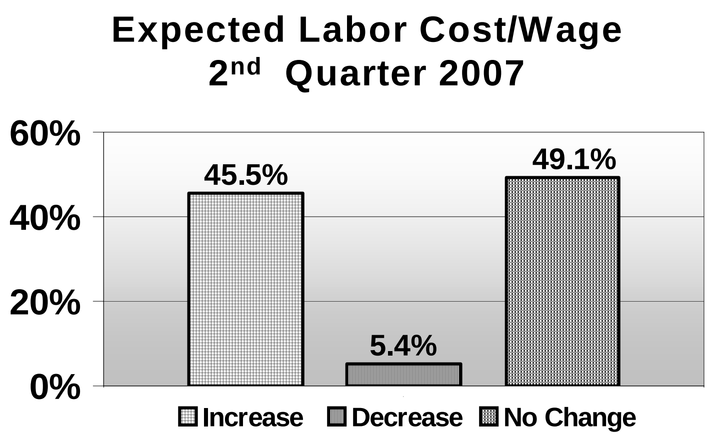
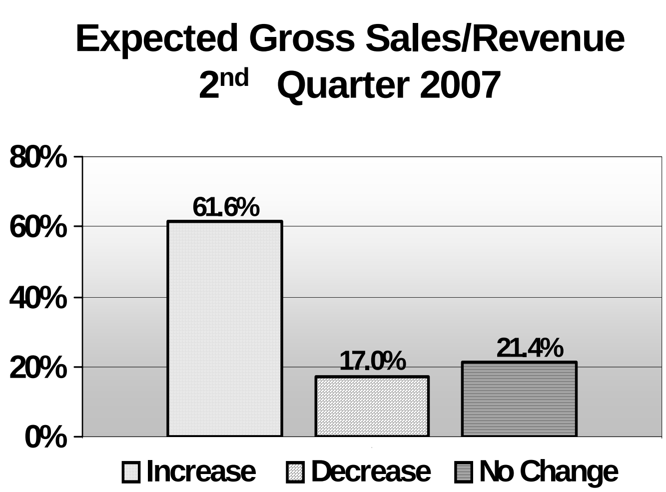



*Employment:* Employment prospects are becoming less bright. A larger number, 54.4%, of firms surveyed intend to make no change in their labor force (compared to 53.8% last quarter), 30.4 % intend to hire more (compared to 36.5% last quarter) while 15.2 % expect to cut jobs (compared to 9.7% last quarter). Overall, the hiring plans have turned more pessimistic for the second quarter of the year.




*Labor Costs:*
45.5% expect increases (compared to 59.6% last quarter) and 49.1% of the firms expect no change in their labor costs (compared to 34.6% last quarter). At the same time 5.4% expect their labor costs to fall (compared to 5.8% last quarter). Overall, the firms expect benign labor costs environment in the coming three months.




*Sales/Revenues:* 61.6% of the firms surveyed expect their sales to increase this quarter (compared to 68.3% in the 1st quarter of 2007), 21.4% expect little change (compared to 19.2% last quarter) and 17% expect to have lower sales (compared to 12.5% in the last quarter). Overall, the sales expectations are somewhat lower this quarter compared to the last quarter.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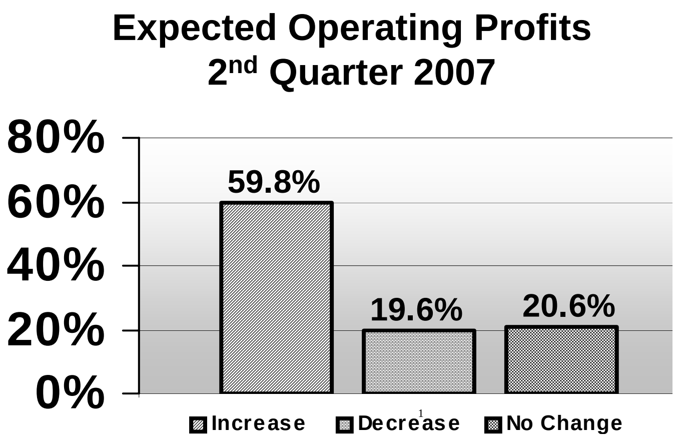
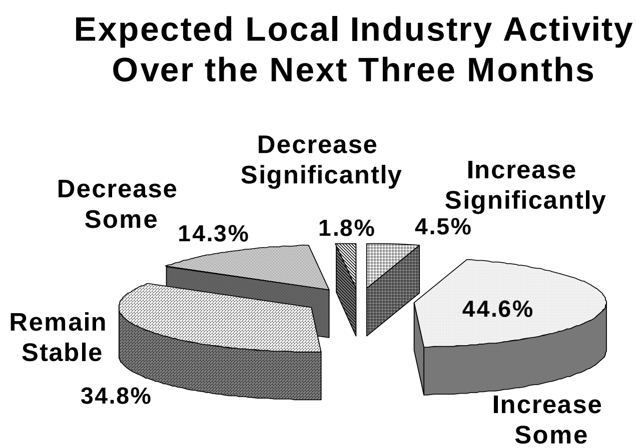
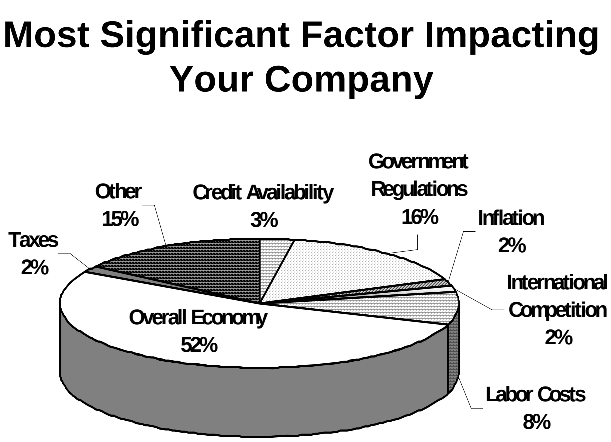



*Operating Profits:* 59.8% of the firms surveyed expect to have higher profits in the next three months (compared to 65.4% last quarter), 20.6 % expect no change (compared to 19.2% last quarter) while 19.6% expect lower profits (compared to 15.4% last quarter). Profit expectations of OC firms have declined this quarter compared to the last quarter. It follows the national trend.




*Own Industry Activity Survey Results*:
The breakdown of survey results reveals that 49.1% expect significant or some growth (compared to 64.4% last quarter) in their own industry. 14.3% of businesses predict some decreases (compared to 11.6% in the last quarter) in their industry. 34.8% of Orange County firms believe that their own industry will remain stable (compared to 24% in the last quarter). This, too, indicates that firm are expecting somewhat slower growth for their own industry overall, following similar expectations for the broader eonomy.




*Most Significant Factors:* The state of the overall economy continues to be the most important concern. The importance of that concern increased from 42.3% to 52.7%. Government regulation is a distant second followed by labor costs.



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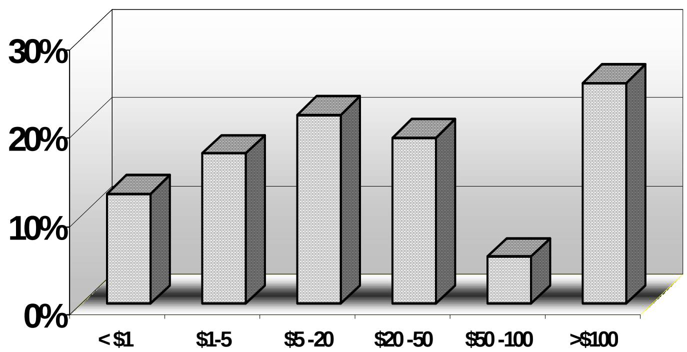
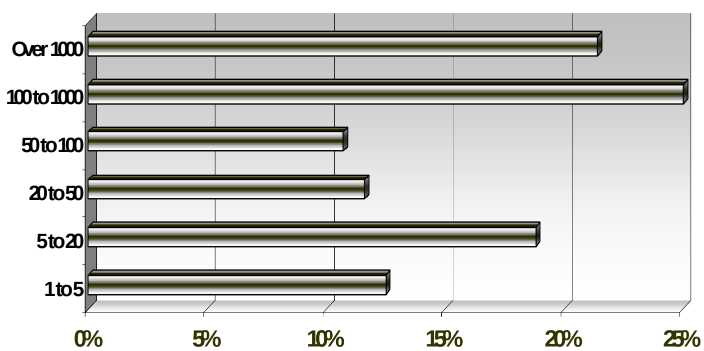
## Annual Sales/Gross Revenues
### Survey Firms (in $millions)




<u>*Firm Size- Sales/Revenues*</u>*:*
Approximately 30.4% (compared to 31.7% last quarter) of the firms had revenues of over $50 million while 29.4% had sales under $5 million (compared to 27% in the previous quarter) while 40.2% had sales between $5 and $50 million (compared to 41.4% in the last quarter)

## Size of Firms Included in OCBX Index: Employment Levels




<u>*Sample Firm Size:*</u> Over 46.4% of the firms who responded to the survey employ more than 100 workers, (compared to 49% of the last quarter), while 31.3% had fewer than 20 employees (compared to 26% last quarter). The rest, 22.3%, hire between 20 and 100 employees



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