



Project Director: Anil K. Puri, Ph.D.

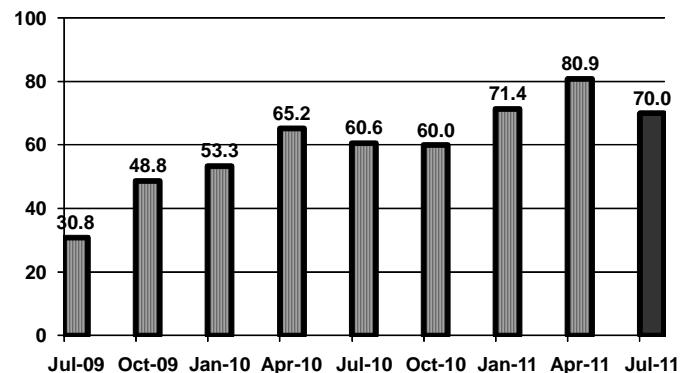
Orange County Business Expectations Survey, OCBX

This survey of OC business executives was conducted during June 21-27, 2011. 102 executives responded for a response rate of approximately 17%.

Orange County Business Expectations: OCBX Index

After rising for two quarters, the overall index, OCBX, fell for the third quarter 2011. Its value was 70 in comparison with the values of 80.9 for the second quarter and 71.4 for the first quarter 2011. OCBX index is a measure of 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. There has been general and significant decline in the overall outlook for the local and national economies.

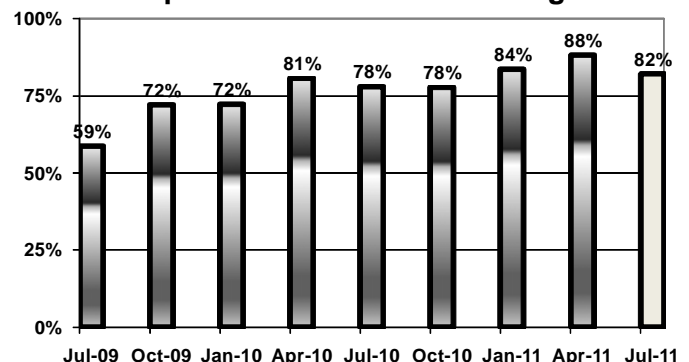
Orange County Business Expectations: OCBX Index



Overall Business Activity

The proportion of owners, CEOs, and managers that expect overall business activity to improve or stay the same decreased to 82% for the 3rd quarter of 2011 from 88% for the 2nd quarter 2011. This variable measures responses to questions about Orange County executives' own industry as well as their outlook for the regional economy. It is clear that expectations for the growth of the local economy have deteriorated in the last quarter.

Overall Business Activity: Expect Increase or No Change



**Orange County Business Expectations Survey, OCBX
3rd Quarter 2011**

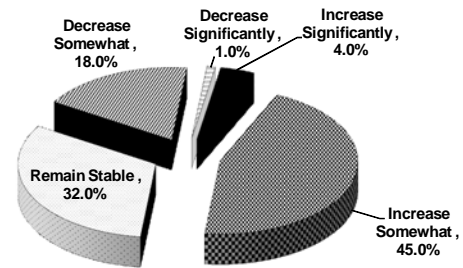
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Own Industry Activity Survey Results

49% (53.4% in the previous quarter) of the executives expect significant or some growth in their own industry.

19% of businesses predict some decreases in their industry (compared to 9.3% previously). A 32% (37.3% previously) of Orange County firms believe that their own industry will remain stable. The downward trend in OC leaders' expectations is spread across sectors and shows a general lowering of expectations.

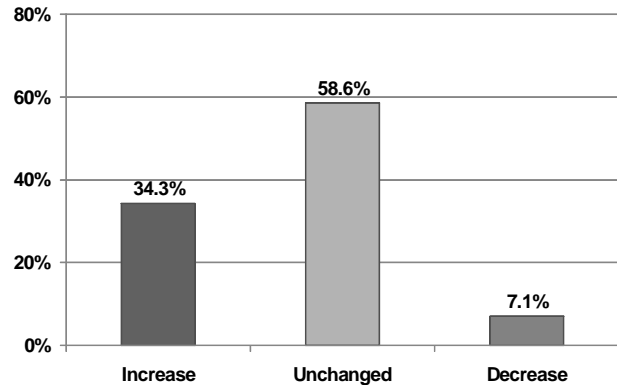
Expected Local Industry Activity Over the Next Three Months



Expected Employment

Employment

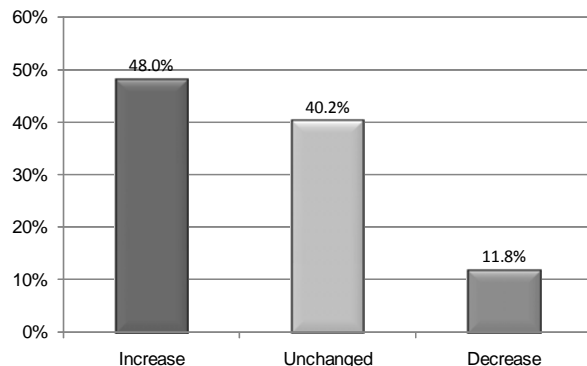
The employment prospects have made important changes. 58.6% of firms surveyed intend to make no change in their labor force (compared to 53.2% last quarter), 34.3% intend to hire more (compared to 39% last quarter) and 7.1%, expect to cut jobs (compared to 7.8% last quarter). Employers are not planning to lay off more workers but they are becoming cautious about adding to the payroll.



Expected Gross Sales/Revenue

Sales/Revenues

48% of the firms surveyed expect their sales to increase this quarter (compared to 54.4% in the 2nd quarter of 2011), 40.2% expect little change (compared to 38% the last quarter) and a 11.8% expect to have lower sales (compared to 7.6% in the last quarter). Executives are also becoming cautious about predicting increases in their sales volumes.



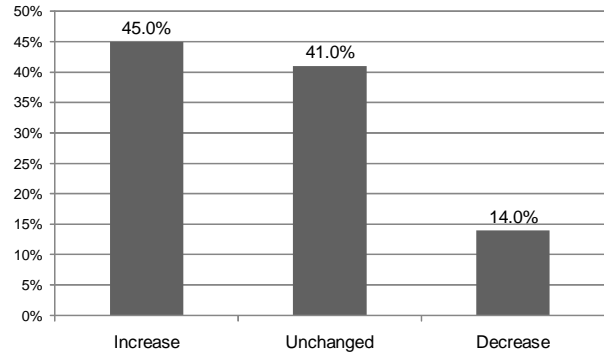
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Operating Profits

45% of the firms surveyed expect to have higher profits in the next three months (compared to 43% last quarter), 41% expect no change (compared to 45.6% from last quarter) while 14% expect lower profits (compared to 11.4% last quarter). Profit expectations of OC firms have worsened somewhat over the previous quarter along with expectations of improvement in sales and general economic conditions..

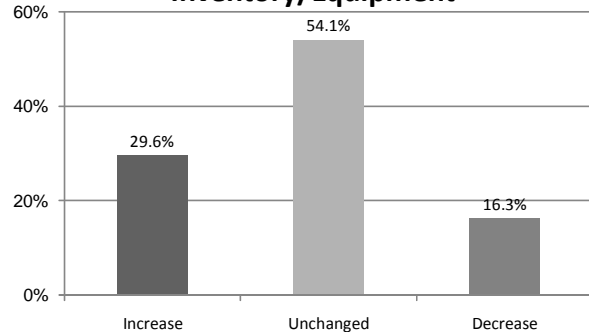
Expected Operating Profits



Inventory/Equipment Investment

The percentage of those who said that they expect to see inventories increase was 29.6% compared to 28% in the last quarter. The share of those expecting the inventories to remain unchanged fell to 54.1% from 60% and those who were expecting to reduce inventories rose to 16.3% from 12%. There appears to be a tendency towards higher business inventory expectations but these are presumably involuntary increases.

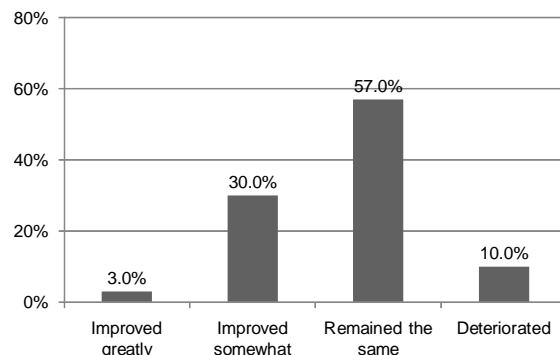
Expected Invest. in Inventory/Equipment



Credit Conditions

When asked how the credit conditions in their businesses have changed, 33% said that there has been some improvement (compared to 43% in the last quarter). 57% indicated no change (compared to 48.1% in the last quarter) while 10% (compared to 8.9% in the last quarter) indicated further deterioration. It appears that the credit conditions in the county have again taking turn for the worse.

Credit Conditions over the Last Three Months



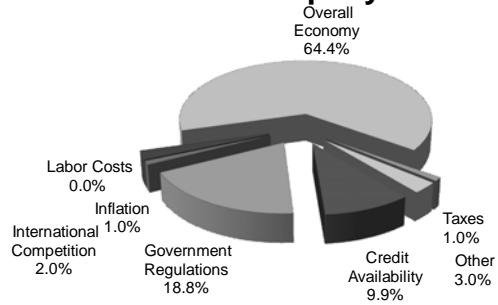
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Most Significant Factors

The concern over the state of the overall economy increased to 64.4% (compared to 57.7% last quarter). Government regulation was the second major concern with 18.8% (compared to 17.9% last quarter) and the credit availability concern remained in the third place with 9.9% (compared to only 6.4% last quarter). Other issues became relatively less important.

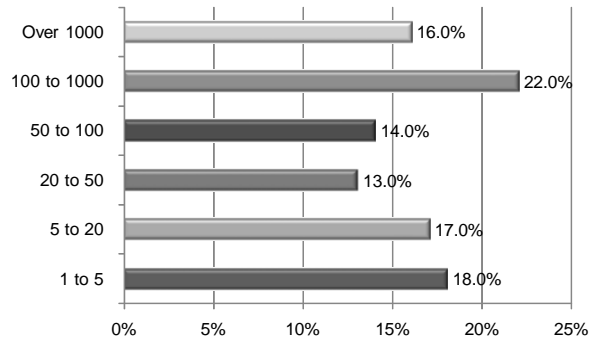
Most Significant Factor Impacting Your Company



Sample Firm Size

Over 38% of the firms who responded to the survey employ more than 100 workers, (compared to 37.2% in the last quarter), while 35% had fewer than 20 employees (compared to 29.5% last quarter). The rest, 27% (33.3% in the previous quarter), hire between 20 and 100 employees.

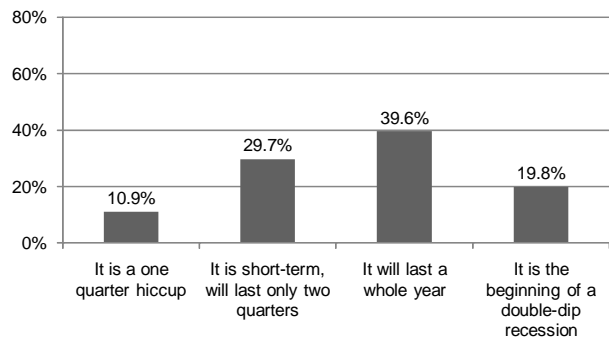
**Size of Firms included in OCBX
Index: Employment Levels**



**Current Slowdown of the U.S. Economy
U.S. [SPECIAL QUESTION]**

In the special question for this quarter's survey, we asked executives about their opinion of the current slowdown of the economy. Only 10.9% thought that it was a very short term phenomenon expected to last only about a quarter. 29.7% felt it will take two quarters for the economy to get back on track. But 39.6% felt it will take a year to recover while 19.8% believe that this is the beginning of a double-dip recession.

Current Slowdown of the U.S. Economy



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**Expected Interest Rate Increase
[SPECIAL QUESTION]**

When asked when they expect the Fed to start raising interest rates, 11.3% expect that to happen within the next six months, 18.4% expect it by the end of 2011 (compared to 36.7% last quarter), 37% expect it to happen in early 2012 while over 32.7% think it will in 2012 or later. It appears that the weight of the opinion has shifted towards a later increase.

When will the Fed begin to raise interest rates?

