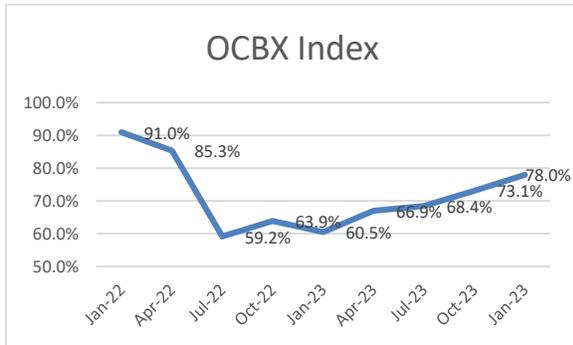


# Orange County Business Expectations Survey, OCBX 1st Quarter 2024

Project Director: Anil K. Puri, Ph.D. ([apuri@fullerton.edu](mailto:apuri@fullerton.edu))

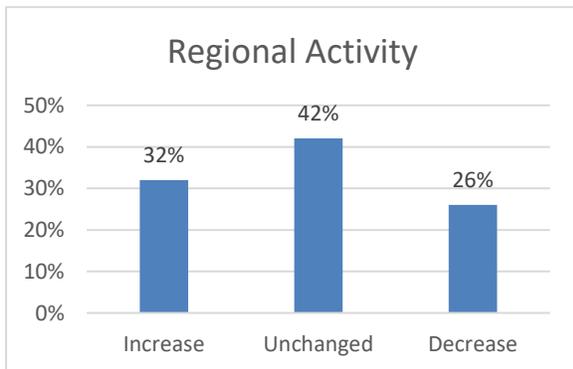
## Orange County Business Expectations: OCBX Index

The overall index, OCBX, for the 1st quarter of 2024 climbed to 78 from 73.1 in the 4th quarter of 2023, the highest level since the second quarter of 2022, and its fifth increase in a row. 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.



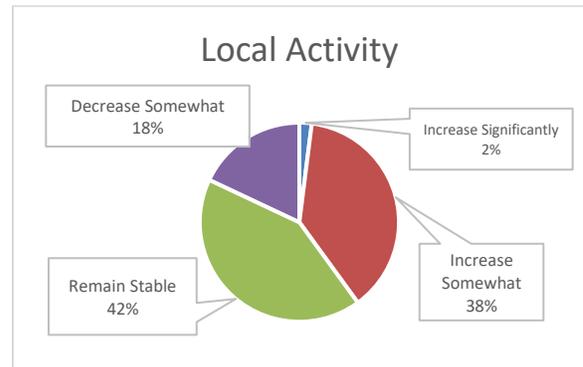
## Overall Business Activity

The proportion of owners, CEOs, and managers that expect overall business activity to improve increased to 32% for the 1st quarter of 2024 from 26% in the 4th quarter of 2023. Those believing the situation will remain unchanged the percentage increased to 42% from 39%, and those expecting the regional economy to slow down decreased to 26% from 35%. This measure asks for responses to questions about Orange County executives' outlook for the regional economy.



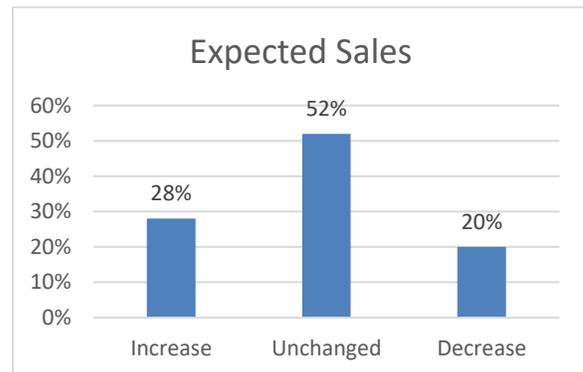
## Own Industry Activity

2% of the executives surveyed expect their own industry activity to increase significantly in the coming quarter compared to 4% last quarter. 38% expect some growth in their own industry (compared to 37% in the last quarter). 42% (compared to 41% last quarter) of Orange County firms believe that their own industry will remain stable. 18% (compared to 18% in the previous quarter) predict decreases in their industry. Most of the business leaders expect to have moderate growth in their own industry in the coming quarter, same as in the previous quarter.



## Sales and Revenue

28% of the firms surveyed expect their sales to increase this quarter (compared to 27% in the last quarter), 52% expect little change (compared to 56% the last quarter) and 20% expect to have lower sales (compared to 17% in the last quarter). It seems that the firms expect generally steady sales for the coming quarter.

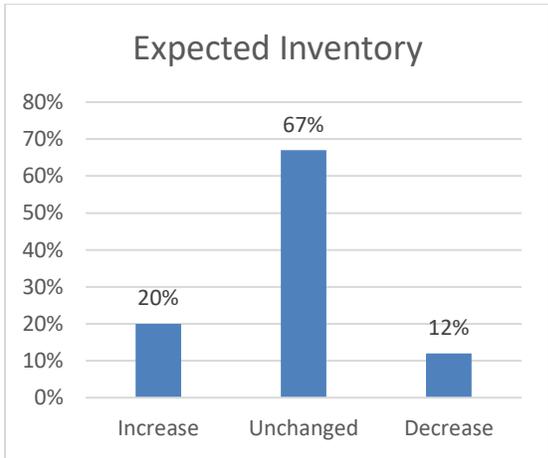


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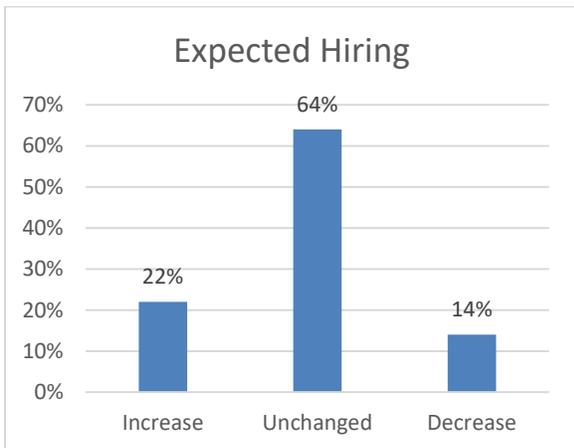
### Investments in Inventory and Equipment

2% 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 58% in the last quarter, and those who expect to have reduced inventories moved to 12% from 21%. These answers show a little more caution on the part of business executives.



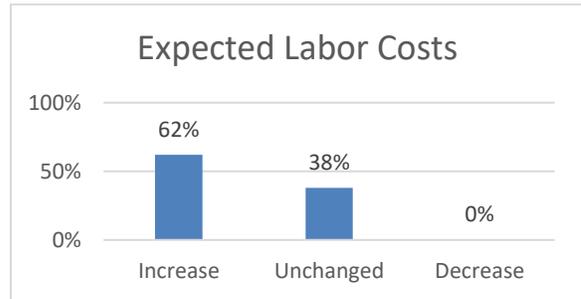
### Employment

22% of firms surveyed intend to increase their labor force (compared to 26% in the last quarter), 64% intend to make no change (compared to 65% last quarter), and 14% expect to cut jobs (9% in the last quarter). It appears that the firms will be a bit cautious in hiring workers this quarter.



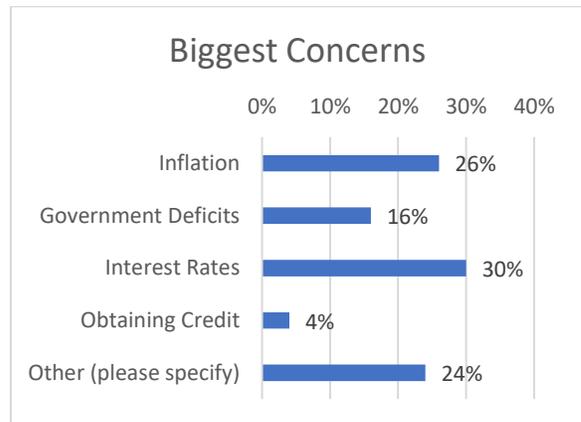
### Labor Costs

62% of executives surveyed, compared to 63% last quarter, expect wages to increase in the coming quarter, and 38%, compared to 33% last quarter, expect them to remain unchanged. Very few, compared to 4% last quarter, executives expect wages to decrease in Q1:2024. As in the last quarter, these expectations for higher labor costs in the near term could explain the continuing caution in hiring seen in the previous question.



### Biggest Concerns

In a special question, we enquired about executives' major concerns. Inflation continues to be a major concern, with 26% compared to 44% last quarter but interest rates shot up to the most important item (30%) with government deficit as the third most important concern (16%), ahead of labor shortages. Other concerns mentioned were state deficit, housing/commercial real estate affordability, debt availability, international disruption, workforce shortages and high labor costs, and regulatory environment.

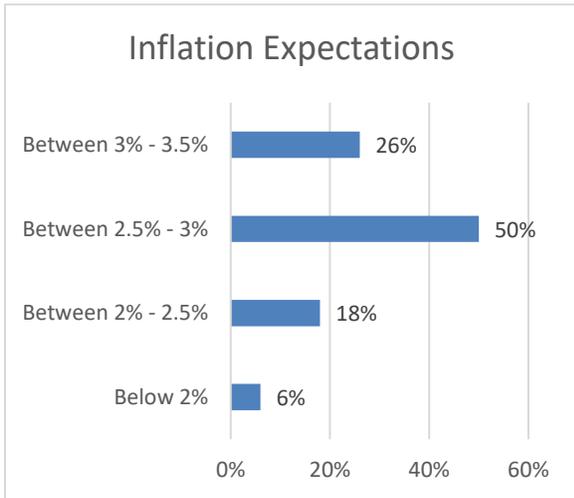


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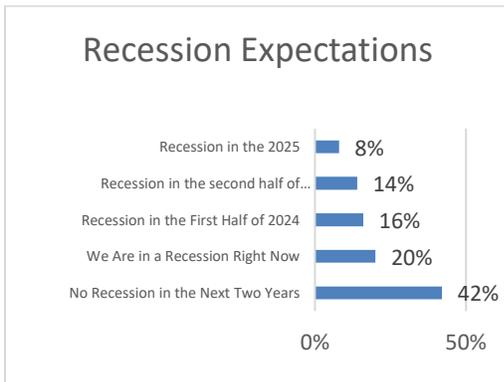
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## Inflation Expectations

In another special question, we asked respondents to share their forecasts of inflation for December 2024. 26% expect inflation by the end of 2024 to be between 3% and 3.5%. 50% expect it to come in between 2.5% and 3% and 18% expect it to be between 2% and 2.5%. Another 6% expect it to fall to below 2%. In general, overall inflation expectations have declined by about 1%.

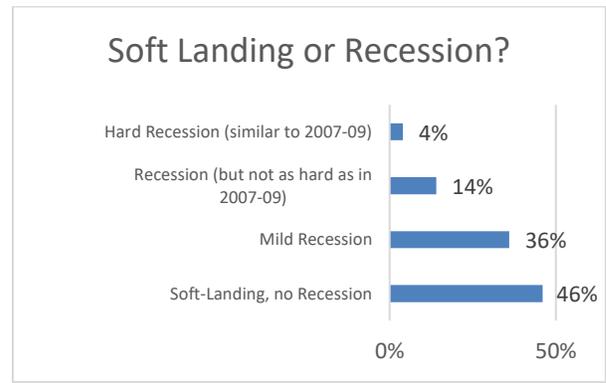


**When asked about when the recession might begin** if one does take place, 20% believe that a recession has already started (21% last quarter). 16% think it will be in the first half of 2024 while 14% think it will occur in the second half of 2024. 8% think it will happen in 2025 while 42% believe that there will be no recession during the next two years. Expectations for recession have moved to a later time and a much larger number believe that there will be no recession in the near term.



## Recession Likelihood

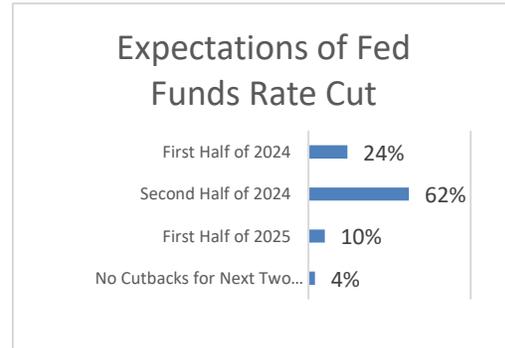
Given the continuing uncertainty about whether the US economy is headed for a recession, we again asked their views on the shape of a possible recession. While 36% (41% last quarter), think it will be a mild recession, over 14% (21% last quarter) believe it will be more serious but not as bad as the 2007-09 recession. 46% (33% last quarter) believe that the Fed will engineer a soft landing. At the same time 4% (5% last quarter) think that the US economy is headed for a serious recession. A much greater number now expect a soft landing or a mild recession.



## 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.

24% of the respondents think that the fed will start cutting rates in the first half of 2024 (15% last quarter), 62% think it will be in the second half of 2024 (67% last quarter) and 10% think it will happen in 2025. 4% don't expect a rate cut in the next two years (19% last quarter). 86% of the respondents think the rate cuts will take place sometimes in 2024.

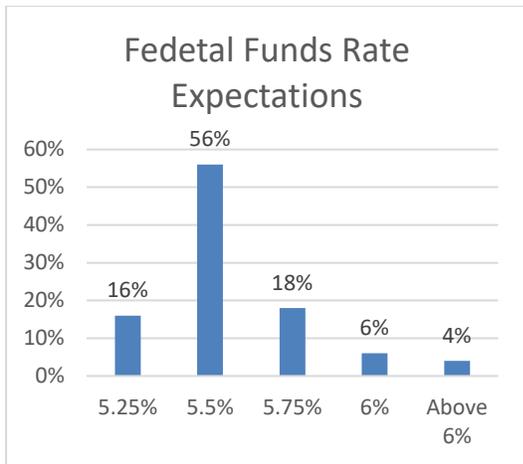


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## As the Fed has started to raise interest rates from zero, what federal funds rate do you expect by the end of 2023?

16% (2% last quarter) expect that the rate range will be 5%-5.25% and 56% (26% last quarter), think the rate will reach 5.5%. 18% (32% last quarter) think it will go up to 5.75%. Finally, 10% (40% last quarter) think it will reach 6% or higher. More respondents appear to believe that the fed rate will stay at or below 5.5%.



## 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.

