This survey of 900+ OC business executives was conducted during September 17-27, 2022.

Orange County Business Expectations: OCBX Index
The overall index, OCBX, for the 4th quarter 2022 increased slightly to 63.9 from 59.2 in the 3rd quarter 2022. 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. This small quarterly increase is somewhat of a surprise given general expectations of a slowing economy in light of higher inflation, higher interest rates and the Russia-Ukraine war. It can possibly be explained by a divergence between OC businesses’ expectations for the regional/national economy which are lower than that for their own industries which are more stable.

Overall Business Activity
The proportion of owners, CEOs, and managers that expect overall business activity to improve fell to 20.5% for the 4th quarter 2022 from 25% in the 2nd quarter 2022. For those believing the situation will remain unchanged the percentage increased to 32.5% from 25% for the coming quarter, and those expecting the regional economy to slow down changed to 47% from 50%. This measure asks for responses to questions about Orange County executives’ outlook for the regional economy. Expectations for the region’s or the US economy have deteriorated for the coming quarter.
Own Industry Activity Survey Results

40.9% of the executives expect significant or some growth (compared to 33.4% in the last quarter) in their own industry. 33.7% (compared to 35% last quarter) of Orange County firms believe that their own industry will remain stable. 25.3% of businesses (compared to 31.6% in the previous quarter) predict decreases in their industry. Business leaders expect conditions to improve for their own businesses in the coming quarter compared to the previous quarter, in defiance of their expectations of lower growth for the regional economy overall.

Employment

34.9% of firms surveyed intend to increase their labor force (compared to 30% in the last quarter), 59% intend to make no change (compared to 45% last quarter), and 6% expect to cut jobs (25% in the last quarter). Hiring expectations have strengthened from the previous quarter even with continuing tight labor markets.

Sales/Revenues

44.6% of the firms surveyed expect their sales to increase this quarter (compared to 37.7% in the last quarter), 32.5% expect little change (compared to 42.6% the last quarter) and 22.9% expect to have lower sales (compared to 19.7% in the last quarter). Sales expectations have deteriorated compared to the last quarter.
Operating Profits
32.5% of the firms surveyed expect to have higher profits in the next three months (compared to 30% last quarter), 34.9% expect no change (compared to 45% from last quarter) while 32.5% expect lower profits (compared to 25% last quarter). Profit expectations for the coming quarter have become a little less optimistic for the coming quarter.

Inventory/Equipment Investment
23.2% of respondents said that they expect to have higher inventories compared to 23% in the last quarter. The share of those expecting inventory levels to remain unchanged moved to 65.9% from 70.5% and those who expect to have reduced inventories moved to 11% from 6.6%. It shows continued caution on the part of businesses.
SPECIAL QUESTIONS:

What are your most important concerns at this time?

In a special question, we enquired about executives’ major concerns. Inflation is now even bigger concern with 67.5% compared to 76.7% last quarter with labor shortages in second place with 25.3% compared to 20% during the last quarter. Other concerns ranked much lower.

Inflation Expectations

In another special question, we asked the respondents to share their forecasts of inflation for 2022. [We told them that the Consumer Price Index (CPI-U) inflation was 2.5% in 2018, 1.7% in 2019, 1.2% in 2020, 4.7% in 2021 and 8.2% in 2022 through May 2022]

Every respondent expects inflation in 2022 to exceed 5%, much higher than the Fed’s target of 2%. 27.2% think it will be between 5% and 7%. Over 72.8% believe that inflation will exceed 7% There is a huge increase in inflation expectations this quarter compared to the last.
As the Fed has started to raise interest rates from zero, what federal funds rate do you expect by the end of 2022?

Expectations about possible federal funds level by the end of 2022 have sky-rocketed. Very few, 2.4%, expects a rate below 2.5%. Over 85.4% expect the rate to be above 4%. There appears to be a full buy-in of the Fed’s resolve to push rates up to tame inflation.

Labor Shortages

31.5% of the respondents think that the labor shortages will last for more than a year compared to 34.5% last quarter. 19.2% expect the shortages to ease after 9 to 12 months compared to 20%. 23.3% expect it to take between 6 to 9 months compared to 21.8% last quarter and 20.5% expect the situation to improve within 6 months compared to 22.6% in the previous quarter. It appears that expectations for easing of labor shortages have improved somewhat compared to the last quarter. A few people did not respond to this question (while they answered all other questions) and it is possible that they are not facing any labor shortages.
Supply Shortages
We asked business executives if they had been experiencing supply shortages and how long they expected these to last.

21.7% expect the supply shortages to last more than a year compared to 21.7% last quarter and a similar percentage (21.7%) expect these to last between 9 and 12 months. A similar number (20.3%) expect these to ease after 6 to 9 months compared to 20.3% last quarter. It seems that conditions on supply shortages is little changed. But a few people did not respond to this question (as for the labor shortages question) and it is possible that they are not facing any supply shortages. If so, supply constraints are expected to be less severe in the coming quarter.

How long do you think the active Russian attack on Ukraine will continue?
Opinions about the length of the Russian attack show uncertainty. 49.4%, (compared to 51.7% last quarter) think that the attack will last more than a year. Another 37.3% believe it will take 6 more months (compared to 41.7% last quarter). Given the volatile situation and ambiguity about Russia’s intentions, there is little consensus on this question but there appears to be no end is in sight in the near term.

Do you expect the US economy to fall into a recession? If so, when do you expect it to begin?
In this new question, given the rising interest rates, we asked people about their thinking on the US economy. While 9.6%, believe we are already in a recession (compared to 3.4% last quarter), a majority, 21.7% believe that it will begin in the second half of 2023 (compared to 52.5% in the last quarter). 20.5% think it will start in the first half of 2023 (compared to 16.9% last quarter). In other words, 42.3% of the respondents believe that a recession will begin sometime in 2023. But a sizeable number, 42.2% (compared to 22% last quarter) believe that we will not have a recession for the next two years. In light of the recent tightening posture of the Fed, this expectation may be revised in the coming months. The survey was sent just before the latest Fed rate increase and about half the people took the survey before that much anticipated rate increase was announced.
Recession Likelihood

- No recession in the next two years: 42.2%
- Recession beginning before the end of 2022: 6.0%
- Recession in the first half of 2023: 20.5%
- Recession in the second half of 2023: 21.7%
- We are in a recession right now: 9.6%