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 the 1st quarter of 2024, the first decline in 5 quarters. It indicates 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 remain 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% 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).

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

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.
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.