Orange County Business Expectations Survey, OCBX
3rd Quarter 2023
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Orange County Business Expectations:
OCBX Index
The overall index, OCBX, for the 3rd quarter of 2023 rose to 68.4 from 66.9 in the 2nd quarter of 2023, the highest level in over a year. 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 26.3% for the 3rd quarter of 2023 from 18.6% in the 2nd quarter of 2023. For those believing the situation will remain unchanged the percentage decreased to 33.3% from 42.4% for the coming quarter, and those expecting the regional economy to slow down changed to 40.4% from 39%. This measure asks for responses to questions about Orange County executives' outlook for the regional economy. Expectations for the region's economy have become more diverse.

Own Industry Activity Survey Results
7% of the executives surveyed expect their own industry activity to increase significantly in the coming quarter compared to no increase last quarter. 30% expect some growth in their own industry (compared to 40.7% in the last quarter). 40% (compared to 32.2% last quarter) of Orange County firms believe that their own industry will remain stable. 23% (compared to 27.1% in the previous quarter) predict decreases in their industry. Business leaders expect conditions to get slightly better in their own industry in the coming quarter compared to the previous quarter.

Sales and Revenue
Sales expectations have remained generally consistent but more diverse. 38.6% of the firms surveyed expect their sales to increase this quarter (compared to 31% in the last quarter), 40.4% expect little change (compared to 50% the last quarter) and 21.1% expect to have lower sales (compared to 19% in the last quarter).
Investments in Inventory and Equipment
23.2% of respondents said that they expect to have higher inventories compared to 17.9% in the last quarter. The share of those expecting inventory levels to remain unchanged stayed at 64.3%, same as in the last quarter, and those who expect to have reduced inventories moved to 12.5% from 17.9%.

Employment
22.8% of firms surveyed intend to increase their labor force (compared to 21.1% in the last quarter), 61.4% intend to make no change (compared to 64.9% last quarter), and 15.8% expect to cut jobs (14% in the last quarter). Firms’ hiring plans appear to diverge more than in the last quarter, similar to other trends.

Labor Costs
A substantial portion of executives surveyed, 59.6% compared to 55.2% last quarter, expect wages to increase in the coming quarter, and 38.6% compared to 43.1% last quarter, expect them to remain unchanged. 1.8%, compared to 2% last quarter, of executives expect wages to decrease in Q3 of 2023.

These expectations for higher labor costs in the near term could explain the cautious hiring plans depicted in the previous question.

Biggest Concerns
In a special question, we enquired about executives’ major concerns. Inflation continues to be a major concern with 33.3% compared to 44.1% last quarter and labor shortages in second place with 28.1% (22% last quarter). Government deficits remained in the third place (with 8.8% compared to 10.2% last quarter). Other concerns mentioned were government regulation, interest rate environment, Fed interest rate policy, economy, Inventory, political divisions, bank failures, recession.

Inflation Expectations
In another special questions we asked respondents to share their forecasts of inflation for 2023. 12.3% of the respondents, compared to 8.5% in the last quarter, expect inflation to be below 4% in 2023, while 5.3%, compared to 11.9% last quarter, believe that inflation will be above 7%. 50.9%, compared to 32.7% last quarter, expect inflation to be between 4% and 5%. 22.8%, compared to 33.9% last quarter, expect it to be between 5% and 6%.
Recession Likelihood
Given the uncertainty about whether the US economy is headed for recession, we asked the business executives to give their views on the shape of a possible recession. While 52.6% (45.8% last quarter), think it will be a mild recession, over 21.1% (40% last quarter) think it will be more serious but not as bad as the 2007-09 recession. 21.1% (6.8% last quarter) believe in the administration’s belief that the Fed will be able to engineer a soft landing. At the same time 5.3% (5.1% last quarter) think that the US economy is headed for a serious recession. A much greater number now expect a soft landing of the economy.

When asked about when the recession might begin if one takes place, 22.8% believe that a recession has already started (13.6% last quarter). 35.1% (45.8% last quarter) think it will be in the second half of 2023. 22.4% think it will take place in 2024. But 19.3% (6.8% last quarter) believe that there will be no recession during the next two years. Expectations for recession have moved to a later time or no 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.
Only 1.8% expect Fed to start lowering rates in the second half of 2023 (13.6% in the last quarter), 36.8% think it will be first half of 2024 (42.4% last quarter), 40.4% think it will be the second half of 2024 (27.2% last quarter) 21.1% don’t expect a rate cut in the next two years (16.9% last quarter).

As the Fed has started to raise interest rates from zero, what federal funds rate do you expect by the end of 2023?
None of the respondents expect a rate lower than 5%. 10.7% (34.5% last quarter) expect that the rate range will be 5%-5.25% and another 37.5 (34.5% last quarter), think the rate will reach 5.5%. Finally, 37.5% (15.5% last quarter) think it will reach 6% and 14.3% (compared to 15.5% last quarter) expect it to exceed 6%. There appears to be increased belief in the Fed’s resolve to push rates up to tame inflation.
Fed Funds Rate Expectations

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<tr>
<th>Rate</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>5.25%</td>
<td>10.7%</td>
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<tr>
<td>5.50%</td>
<td>37.5%</td>
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<tr>
<td>6%</td>
<td>37.5%</td>
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<td>Above 6%</td>
<td>14.3%</td>
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