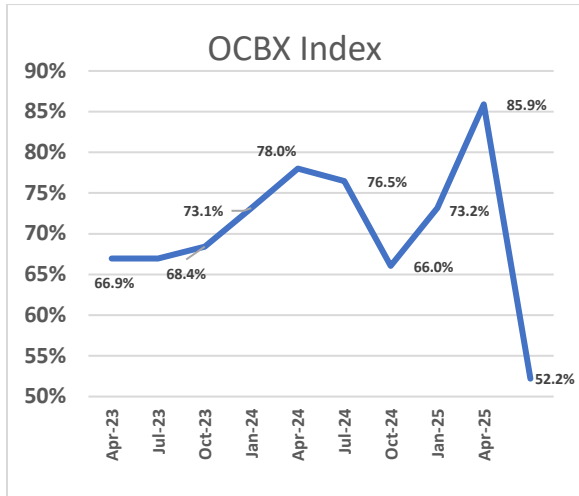


Orange County Business Expectations Survey, OCBX 2nd Quarter 2025

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

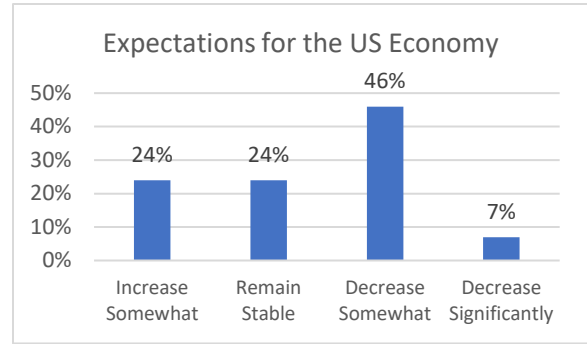
Orange County Business Expectations: OCBX Index

The overall index, OCBX, for the 2nd quarter of 2025 plunged to 52.2% from 85.9% in the 1st quarter of 2025, a decline of over 33 points. This is the sharpest decline and the lowest value of the index since the pandemic era value of 22.7% in Q2:2020. 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. Responses below to other questions in the survey provide us with explanations for this change.



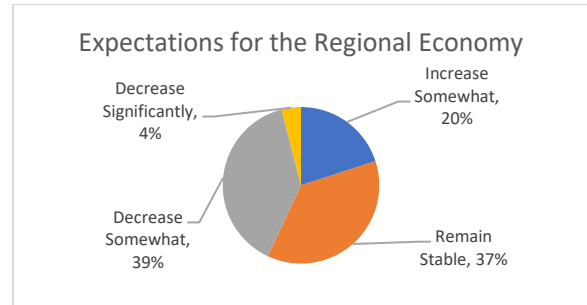
Overall U.S. Business Activity

The proportion of owners, CEOs, and managers that expect overall national business activity to improve decreased to 24% for the 2nd quarter of 2025 from 57% in the 1st quarter 2025. Those believing the situation will remain unchanged the percentage fell to 24% from 27%, and those expecting the economy to slow down increased to 53% from 16%. It shows that the respondents' expectations for the national economy have worsened significantly from Q1:2025.



Own Industry Activity

20% of the executives surveyed expect the regional industry activity to increase somewhat in Q2:2025 compared 50% last quarter but none said that the growth will be significant. 37% (compared to 34% last quarter) of Orange County firms believe that their own industry will remain stable. 43% (compared to 11% in the previous quarter) predict decreases in their industry including 4% who expect significant declines. Business expectations for their own growth have downshifted significantly this quarter.

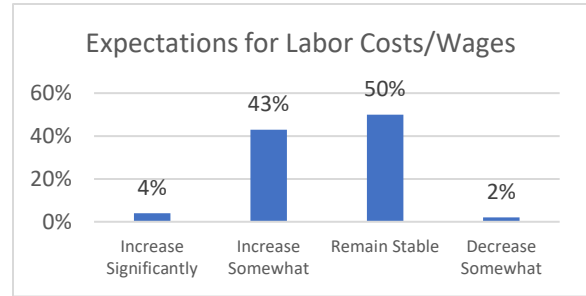
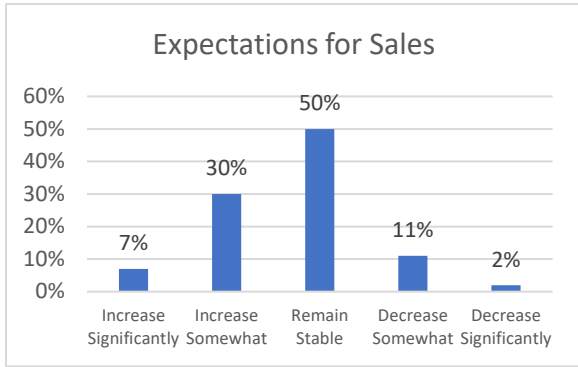


Sales and Revenue

37% of the firms surveyed expect their sales to increase this quarter (compared to 52% in the last quarter), 50% expect little change (compared to 41% the last quarter) and 13% expect to have lower sales (compared to 7% in the last quarter). More firms have lowered their expectations for sales in the coming quarter.

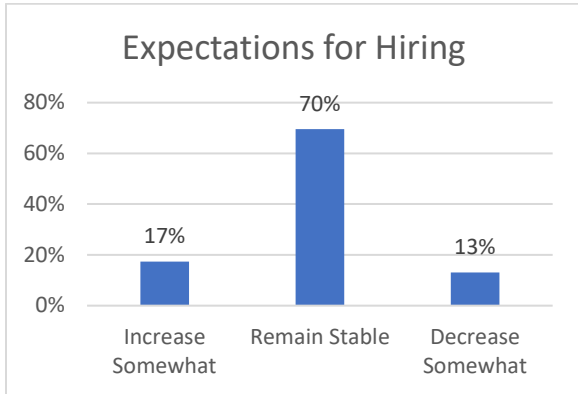
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Employment

17% of firms surveyed intend to increase their labor force (compared to 58% in the last quarter), 41% intend to make no change (compared to 70% last quarter), and 13% expect to cut jobs (7% in the last quarter). Most firms have become very cautious about hiring and the number expecting to lay off employees has doubled this quarter.



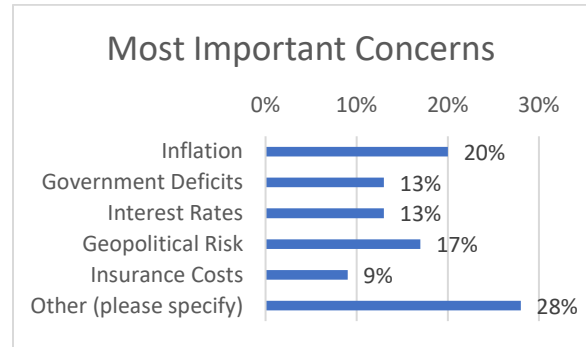
Labor Costs

47% of executives surveyed (compared to 56% last quarter) expect wages to increase in the coming quarter, and 50% (compared to 41% last quarter) expect them to remain unchanged. Very few, 2%, executives expect wages to decrease in Q2:2025, same as in the previous quarter.

Biggest Concerns

Inflation reclaimed its spot (20%) as the top concern displacing government deficits (and Interest rates) to third place (13%) after geopolitical risks (17%). But there were a number of other issues on the executives' minds: Tariffs, Antisemitism, Financial Uncertainty and Leadership Volatility, Tariffs causing companies to hold back on investments for growth as well as a fast pace government firings causing individuals to hold back on purchases leading to a slowdown in the economy, Uncertainty, Instability and lack of clarity from the federal government and DC chaos

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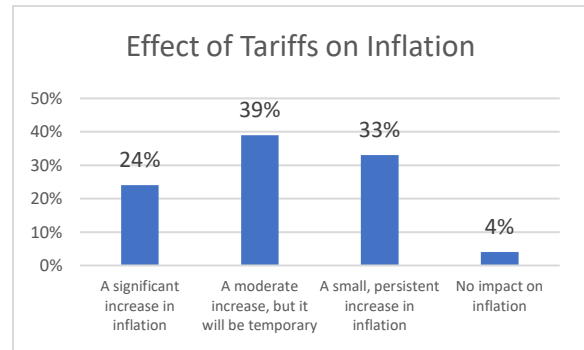
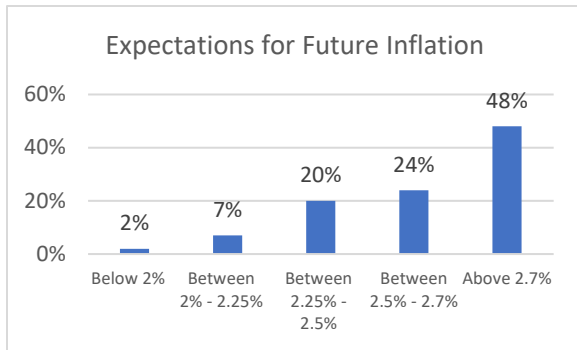


Inflation Expectations

We asked respondents to share their forecasts of inflation for December 2025 given the February 2025 rate of 2.8%. Almost half (48%) expect inflation to be above 2.7% and fewer than 10% expect it to reach the fed's target of 2%. This is a substantial reversal of sentiments when only 23% expected the rate to be above 2.7% last quarter.

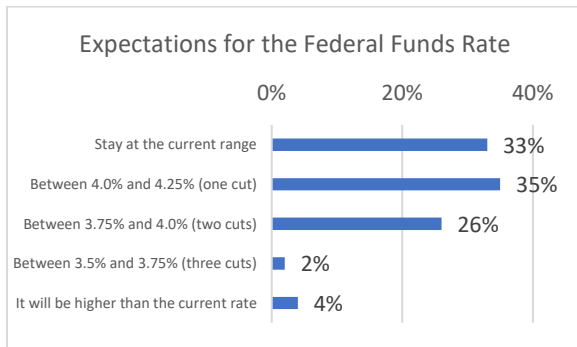
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Expectations for the Federal Funds Rate in 2025

In answer to this question, given the current rate of 4.5%, a third expect the rate to stay at the current level while another third (35%) expect it to be 4% to 4.25% or one cut of 25 basis points. 26% expect it to be between 3.75% and 4% (two cuts) and 2% expect it to be between 3.5% and 3.75% (three cuts). A small percentage (4%) expect it to be above 4.5%.

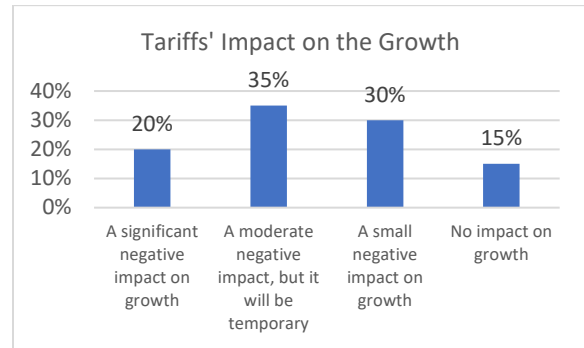


Impact of Tariffs on Inflation

We asked what impact you think the proposed tariffs of President-elect Trump will have on the rate of inflation. Almost a quarter of the respondents think the tariffs will lead to significant increase in the rate of inflation while only 4% think they will have no impact. 39% believe the tariffs will increase inflation somewhat but the effect would be temporary. A third (33%) expect a persistently negative impact on inflation.

Impact of Tariffs on Economic Growth

We asked what impact you think the proposed tariffs of President-elect Trump will have on economy's growth. The answers to this question were similar to those in the previous one: 20% of the respondents think the tariffs will lead to significant negative impact on growth while 15% think they will have no impact. 35% believe the tariffs will lower growth somewhat but the effect would be temporary. However, almost a third (30%) expect a small negative impact on the growth of the economy (presumably lasting over a longer period).



Outlook for the Economy Over Next 2 Years:

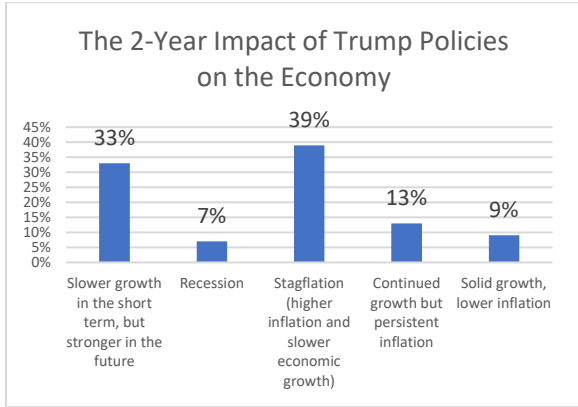
The Trump administration is reshaping the economy in two ways: tariffs and spending cuts. It has also promised tax cuts and deregulation. We asked the business executives: Based on these policies what are your expectations for the US economy over the next TWO years?

Over a third (39%) think the policies will lead to stagflation, i.e., higher inflation and slower growth. A third (33%) think economic growth will be slower in the short run but will be stronger in the future. 13% expect continued growth but higher inflation and 9%

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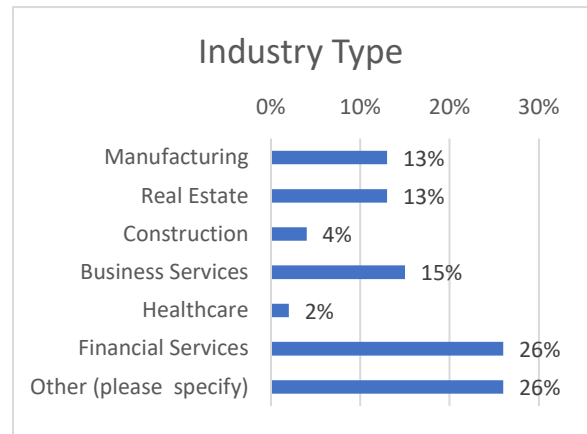
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expect solid growth and lower inflation. However, a 7% think these policies will lead to a recession.



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: Printing, Consulting Engineering, Technology, Metals Service Center, Wholesale, Entertainment



Expectations for the Stock Market

The stock market recently entered briefly in correction territory (a drop of 10%). We asked the respondents for their expectation for the stock market since it has an important impact on the economy. Almost half (49%) of the respondents think the market has reached a bottom and will improve in the near future. At the same time, 42% expect a further 10% fall in the market and another 9% expect a larger decline. As usual, expectations of stocks going up or down are evenly split.

