CSUF | Woods Center for Economic Analysis and Forecasting
COLLEGE OF BUSINESS AND ECONOMICS

ORANGE COUNTY BUSINESS COUNCIL

3RD QUARTER **2026**

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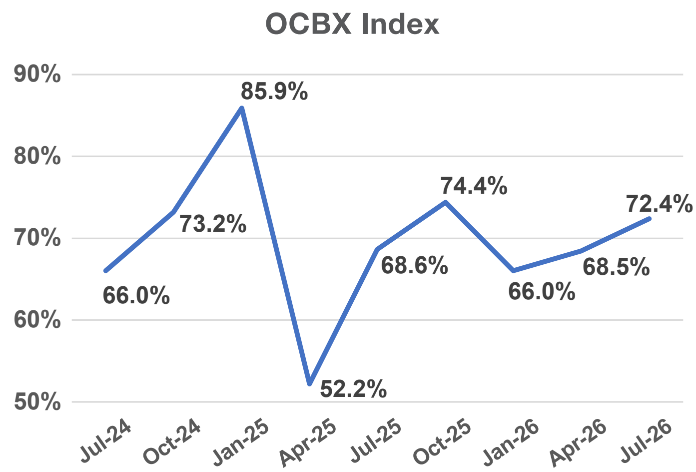
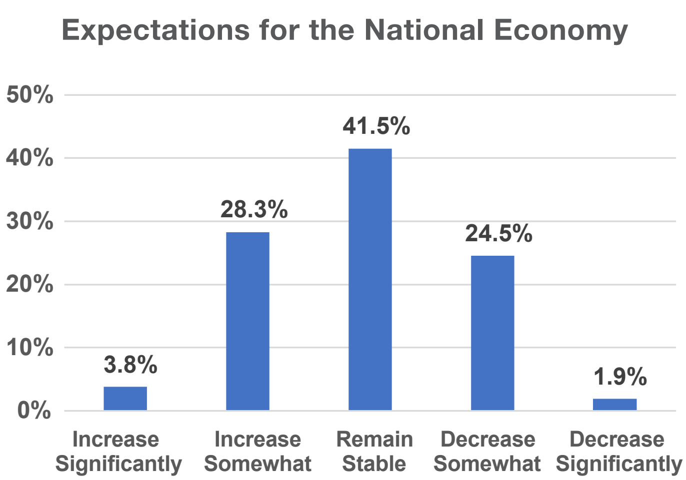
CSUF ORANGE COUNTY BUSINESS EXPECTATIONS SURVEY

In Partnership with Orange County Business Council

Orange County Business Expectations: OCBX Index

The Orange County Business Expectations Index (OCBX) rose to 72.4% in the third quarter of 2026, up from 68.5% in the second quarter. This marks the third consecutive quarterly increase in the index this year. The OCBX measures the overall outlook for the local economy and is calculated from several survey variables. A score above 50 indicates expectations for future economic growth in Orange County. The following sections provide additional detail and context for recent changes in the index.





Overall U.S. Business Activity

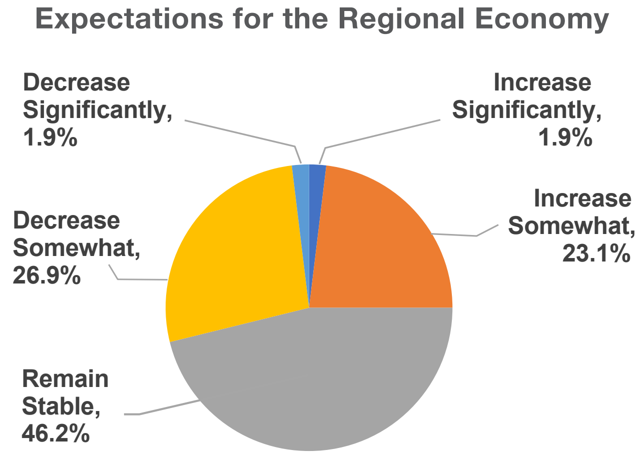
For the third quarter of 2026, owners, CEOs, and managers reported a more positive outlook for national business activity than in the prior quarter. The share of respondents expecting overall U.S. business activity to improve increased to 32.1%, up from 27.7% in the second quarter. The proportion expecting conditions to remain unchanged also rose, reaching 41.5% compared with 33.8% last quarter. Meanwhile, the share anticipating an economic slowdown declined to 26.4%, down from 38.5%. Together, these shifts point to stronger optimism about national economic growth and help explain the improvement in the overall OCBX index.

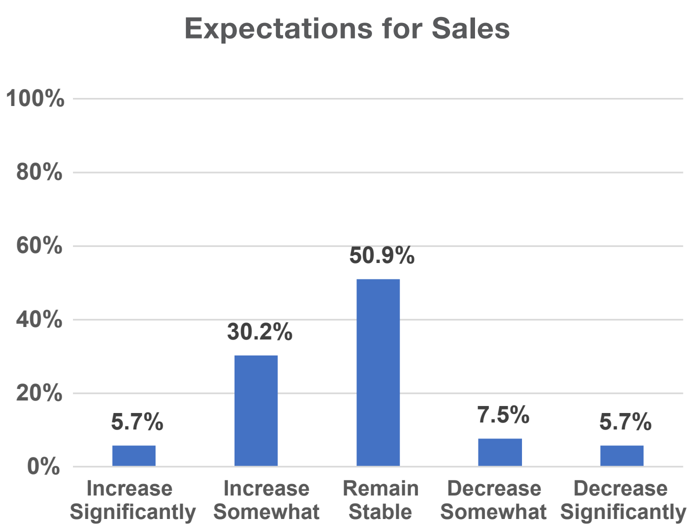
Own and Regional Industry Activity

For the third quarter of 2026, Orange County business leaders expressed a more tempered outlook for activity in their own industries and the regional economy. Survey results show that 25% of executives expect regional industry activity to increase, down from 30.7% in the previous quarter.

At the same time, 46.2% of firms expect their specific industry to remain stable, compared with 44.6% last quarter. This increase suggests that more businesses are shifting from expectations of growth toward expectations of stability. The share of respondents expecting a downturn in their industry also rose to 28.8%, up from 24.6% in the prior quarter.

Overall, expectations for individual firm growth remain broadly steady compared with three months ago, with more businesses now anticipating moderate growth in the third quarter of 2026.





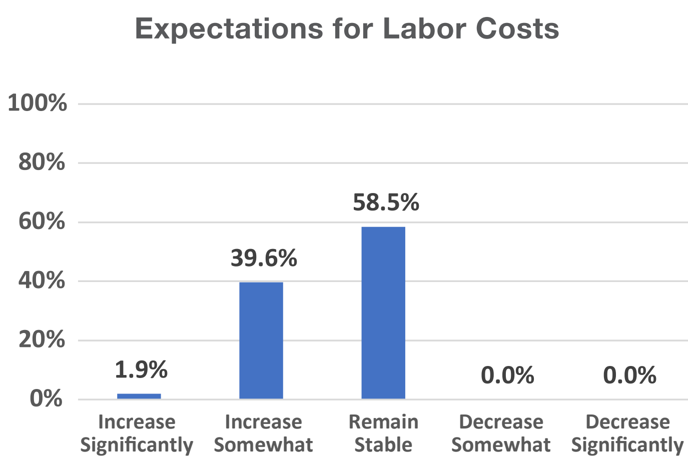
Sales and Revenue

In the third quarter of 2026, Orange County firms reported generally steady expectations for sales and revenue. Survey results show that 35.9% of businesses expect sales to increase, down from 43.1% in the previous quarter. Meanwhile, 50% of respondents expect sales to remain unchanged, up from 47.7% last quarter, indicating a stronger tilt toward stability. The share of firms anticipating a decrease in sales rose to 13.2%, compared with 9.2% previously. Although most companies continue to expect either growth or stable sales levels, a somewhat larger share now anticipates a decline. Overall, sales expectations for the coming quarter remain moderately consistent with those from the prior quarter.

Employment Outlook

Survey results for the third quarter of 2026 show that 17% of Orange County firms plan to increase their workforce, a slight decline from 20% in the previous quarter. The share of businesses expecting no change in employment levels decreased to 67.9%, down from 73.6% last quarter. At the same time, 15.1% of firms anticipate reducing jobs, a notable increase from 6.2% in the prior quarter.

These figures suggest that companies are approaching hiring with greater caution. Fewer firms plan to expand their labor force, while more expect to reduce headcount compared with last quarter. In summary, hiring activity in Orange County may weaken in the coming quarter.



Labor Costs

Expectations for labor costs in the third quarter of 2026 remain largely in line with the previous quarter. Survey data show that 41.5% of executives expect wages to increase during the upcoming quarter, slightly below the 44.6% reported last quarter.

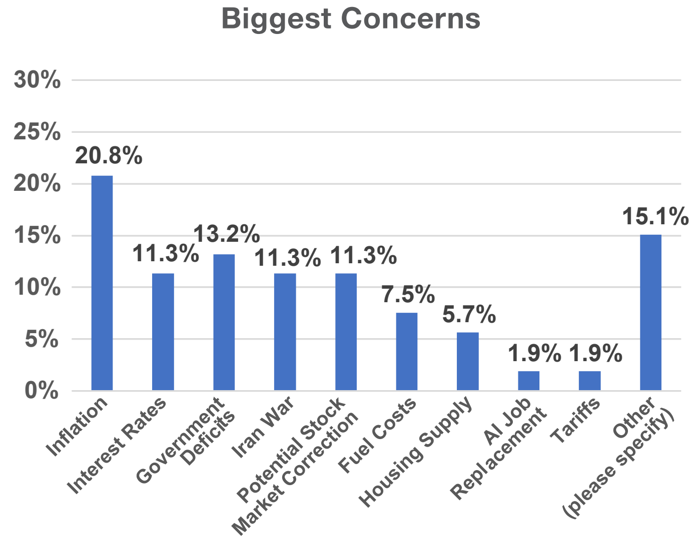
At the same time, 58.5% of respondents expect wages to remain unchanged, up from 53.6% in the previous quarter. This indicates that most firms continue to expect either stable or rising wage levels.

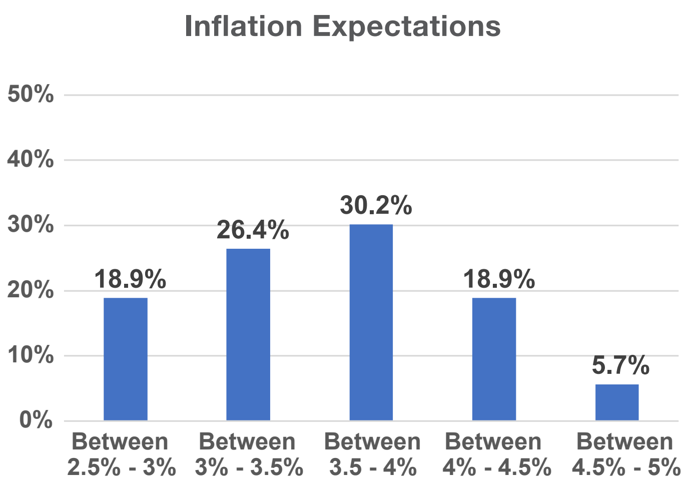
Few executives expect wages to decline in the next quarter. Overall, the results point to only modest changes in labor cost expectations compared with the previous quarter.

Biggest Concerns

At the start of the third quarter of 2026, inflation emerged as the leading concern for Orange County businesses, followed by government deficits. The ongoing war with Iran, interest rates, and a potential decline in stock prices were tied as the third most significant challenges facing local firms. These factors are contributing to uncertainty and are likely to continue influencing business decisions.

Other concerns, while still relevant, included fuel costs, AI-related job losses, and tariffs. Additional issues mentioned by respondents included immigration policies, competition for talent, military spending, and an unstable presidential/federal administration.





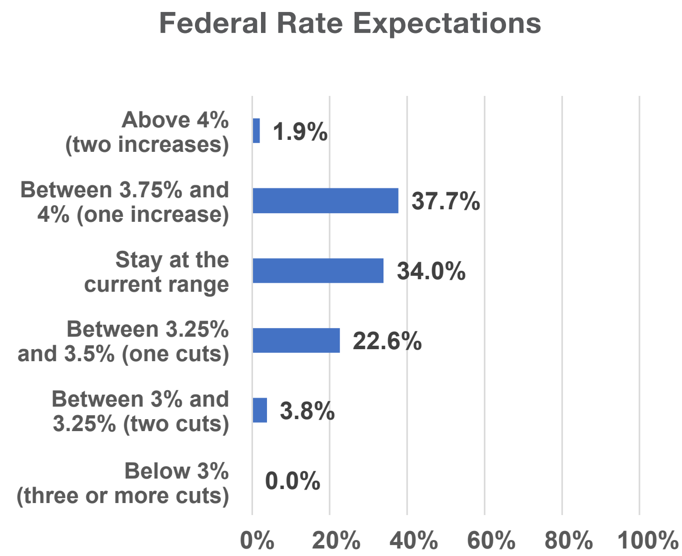
Inflation Expectations

After reviewing recent inflation trends, survey participants were asked to forecast the inflation rate for December 2026. Responses showed a wide range of expectations. Specifically, 18.9% of respondents expect inflation to be between 2.5% and 3%. Another 26.4% expect inflation to fall within the 3% to 3.5% range, while 30.2% forecast inflation between 3.5% and 4%. The remaining 24.6% expect inflation to exceed 4%.

In summary, approximately two-thirds of respondents expect the inflation rate in December 2026 to be below 3.5%, while 24.6% expect it to exceed 4%. This expected rate is notably higher than in the previous quarter, highlighting increased concern about inflation as the year progresses.

Expectations for the Federal Funds Rate

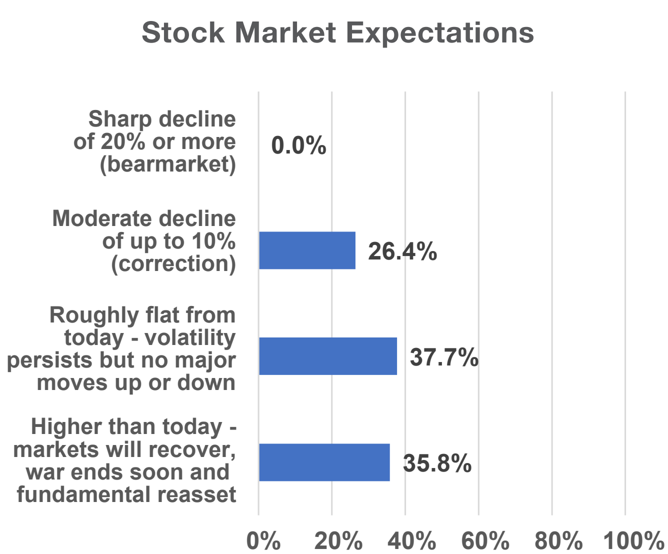
The current federal funds rate stands in the 3.5% to 3.75% range. When asked about expectations for the remainder of 2026, respondents continued to report a diverse set of views. About 34%, roughly the same share as last quarter, expect the rate to remain at its present level through the end of the year. Another 22.6%, compared with about one-third of respondents last quarter, expect the Federal Reserve to implement one quarter-point reduction, while only 3.8%, compared with 15.4% last quarter, expect one additional 0.25% cut by the close of 2026. A sizeable share, 37.7%, expect one increase, while about 3% expect more than one increase, compared with 15.4% last quarter who said the Fed may begin raising rates before year-end. Overall, these results point to shifting expectations and a tighter monetary policy outlook for the coming months.



Expectations for the Stock Market

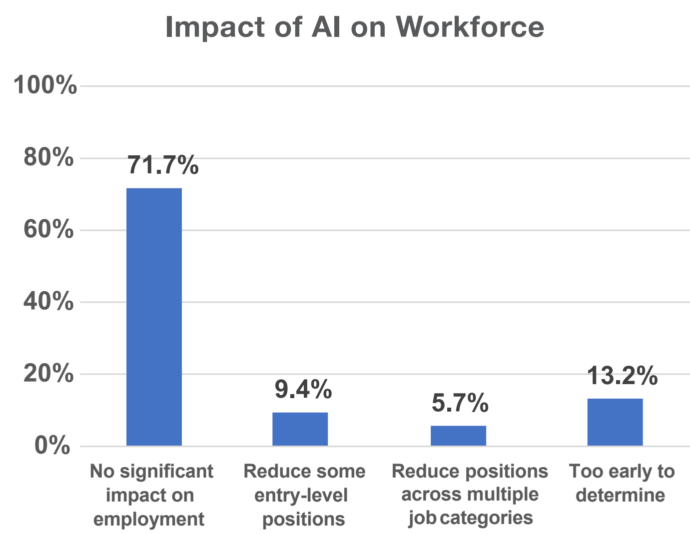
Stock markets have experienced pronounced volatility. In the latest survey, business executives were asked for their outlook on the S&P 500 by the end of 2026. Responses reflected a range of expectations for market performance and stability.

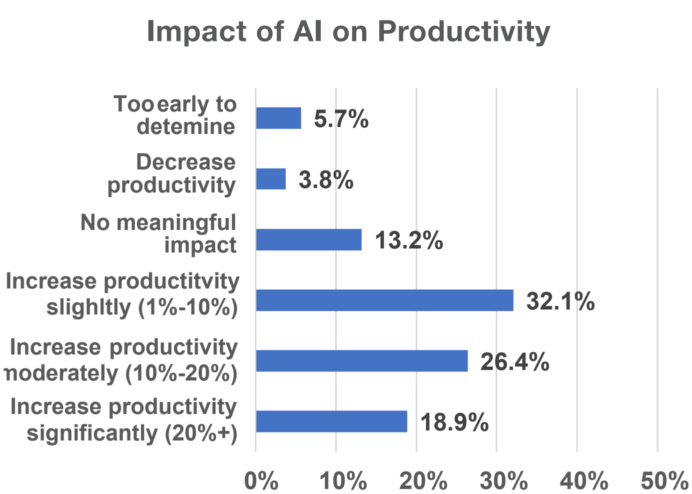
Just over one-third of respondents—35.8%, down from 38.5% in the previous quarter—expect the S&P 500 to be higher at the close of 2026. Meanwhile, 37.7%, compared with 23.1% last quarter, expect greater volatility but little overall change in market value. Another 26.4%, compared with 29.2% last quarter, forecast a market correction, predicting a decline of 10%, while few expect a significant downturn of 20% or more. Notably, the share of respondents expecting a major decline has fallen substantially compared with the previous quarter, although expectations for volatility have increased.



Impact of AI on Workforce

Given the increasing use of AI in business, Orange County business executives were asked how AI has affected their workforce. A majority, 71.7%, said it has had no significant impact so far. Another 9.4% of businesses reported reducing some entry-level positions, while 5.7% have reduced positions across multiple job categories. The remaining 13.2% said it is too early to determine AI's workforce impact, presumably because they are using AI but have not necessarily reduced their workforce to date.



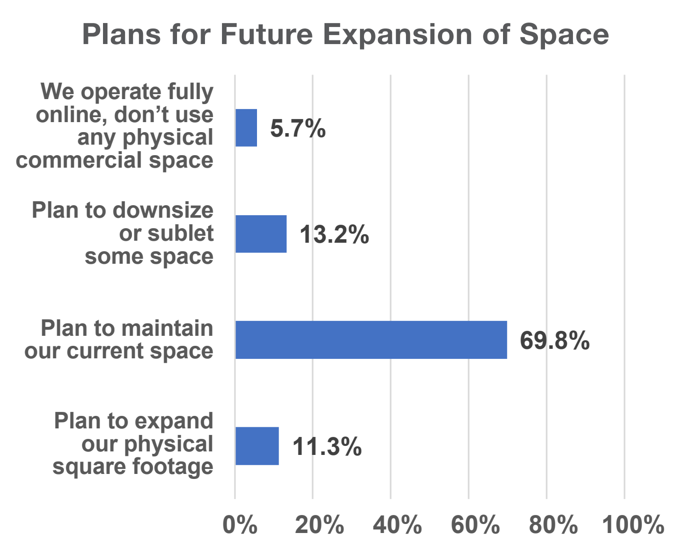


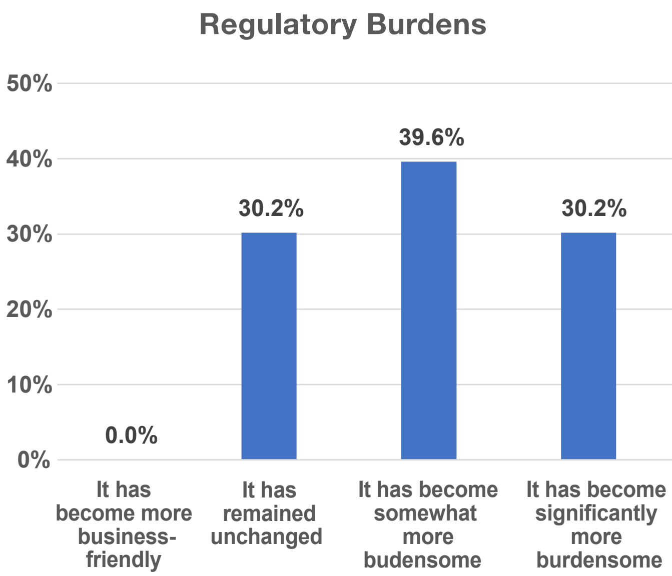
Impact of AI on Productivity

The use of AI may be contributing to improved productivity and profitability. When asked to assess productivity gains from AI, 18.9% of respondents said they have seen improvements of 20% or more in their businesses, while 26.4% reported productivity gains between 10% and 20%. About one-third, 32.1%, have seen productivity improvements of 10% or less. Only 13.2% reported no change, and 3.8% believe AI has reduced productivity. Another 5.7% said it was too early to estimate AI's productivity impact. Overall, more than three-quarters of businesses report productivity improvements from the use of AI.

Plans for Future Expansion

Businesses were asked about their plans over the next 6 to 12 months for expanding physical office, retail, or industrial real estate in Orange County. Almost 70% expect no change, while 13.2% plan to downsize or sublet some space. Another 11.3% plan to expand, and 5.7% are fully online and have no need for physical space.



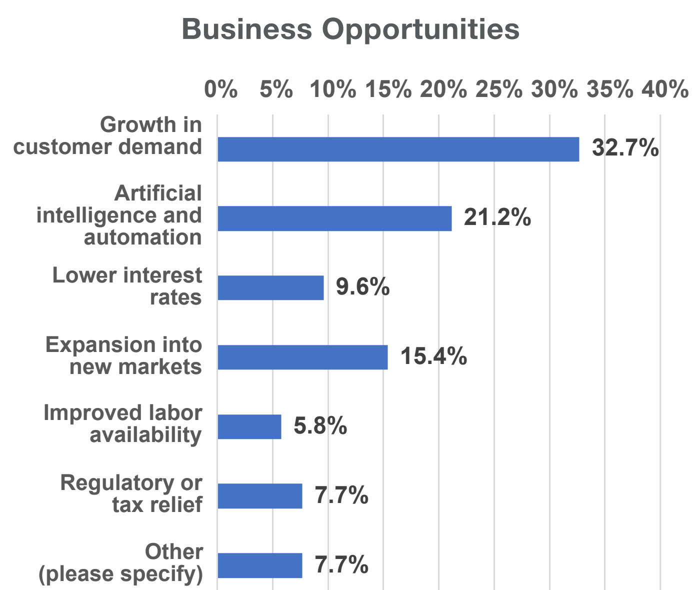


Impact of Regulation

Businesses were asked how California's state and local regulatory environment—including labor laws, environmental mandates, and compliance requirements—has affected their overall cost of doing business compared with one year ago, and whether regulatory burdens in the state have changed. Opinions were broadly distributed: 39.6% said regulatory burdens had increased somewhat, 30.2% said they had become significantly worse, and the same share reported no change. None said regulations had eased.

Business Opportunities

Businesses were asked to identify the single greatest opportunity for their business over the next 12 months. Almost one-third, 32.7%, cited growth in consumer demand. Another 21.2% said AI and automation were likely to serve as growth drivers, while 15.4% identified expansion into new markets as the strongest growth opportunity. Lower interest rates, regulatory relief, and improved labor availability were also cited by several businesses. Other opportunities mentioned included competitors leaving California and creating market openings, lower energy costs, inclusionary density bonus home ownership, and military spending.



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