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

ORANGE COUNTY BUSINESS COUNCIL

1ST QUARTER **2026**

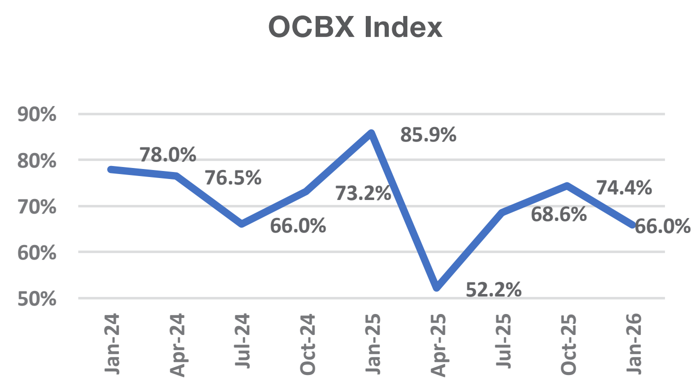
Anil K. Puri, Ph.D.

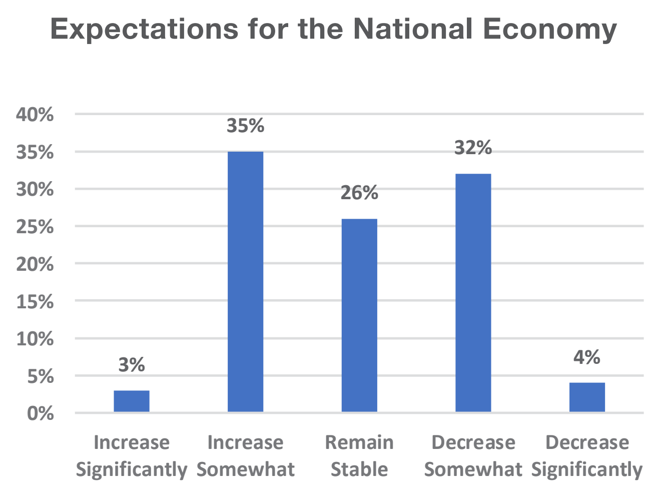
CSUF ORANGE COUNTY BUSINESS EXPECTATIONS SURVEY

In Partnership with Orange County Business Council

Orange County Business Expectations: OCBX Index

The overall index, OCBX, for the 1st quarter of 2026 fell to 66%, from 74.4% for the 4th quarter of 2025, reaching the level of the 3rd Quarter of 2024. The OCBX index is a measure of the overall view of the economy, and it is constructed from other variables in the survey. A reading above 50 indicates future growth in the economy. Responses below provide explanations for this change in the index.



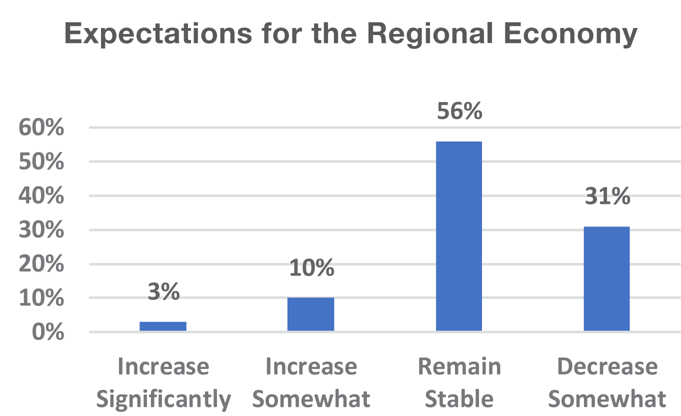


Overall U.S. Business Activity

The proportion of owners, CEOs, and managers that expect national business activity to improve increased to 38% for the 1st quarter of 2026 from 31% in the 4th quarter of 2025. Those believing the situation will remain unchanged, the percentage fell to 26% from 44%, and those expecting the economy to slow down increased to 40% from 26%. There is greater disagreement on the shape of the national economy with more people on both ends of the spectrum and fewer in the middle.

Own/Regional Industry Activity

13% of the executives surveyed expect the regional industry activity to increase somewhat or significantly in the 1st quarter of 2026 compared with 33% last quarter. 56% (compared to 37% last quarter) of Orange County firms believe that their own industry will remain stable. 31% (compared to 30% in the previous quarter) predict decreases in their industry. Business expectations for their own growth have deteriorated this quarter compared to three months ago. Most businesses anticipate stability, but a larger proportion expect slower growth in the first quarter of 2026. This explains the fall in the overall OCBX index from 74.4% in the 4th quarter of 2025 to 66% this quarter.

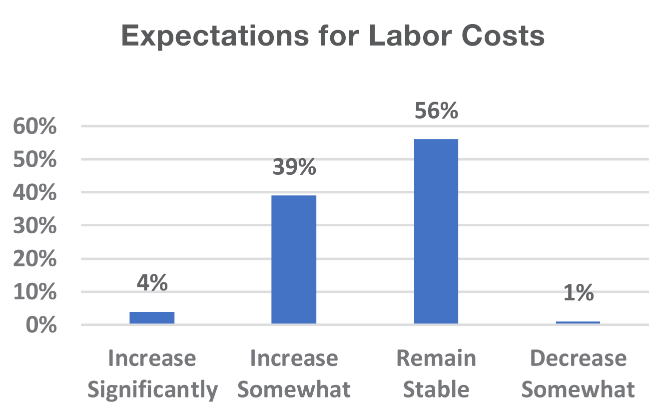


Sales and Revenue

46% of the firms surveyed expect their sales to increase this quarter (compared to 28% in the last quarter), 39% expect little change (compared to 51% in the last quarter) and 15% expect to have lower sales (compared to 20% in the last quarter). More firms have heightened expectations for sales in the coming quarter compared to the last quarter.

Employment

22% of firms surveyed intend to increase their labor force (compared to 18% in the last quarter), 68% intend to make no change (compared to 67% last quarter), and 10% expect to cut jobs (16% in the last quarter). A few more firms have plans to increase their hiring but about the same number as last quarter intend to make no change. A smaller number intend to cut employment. Overall, hiring appears to be on stable grounds.

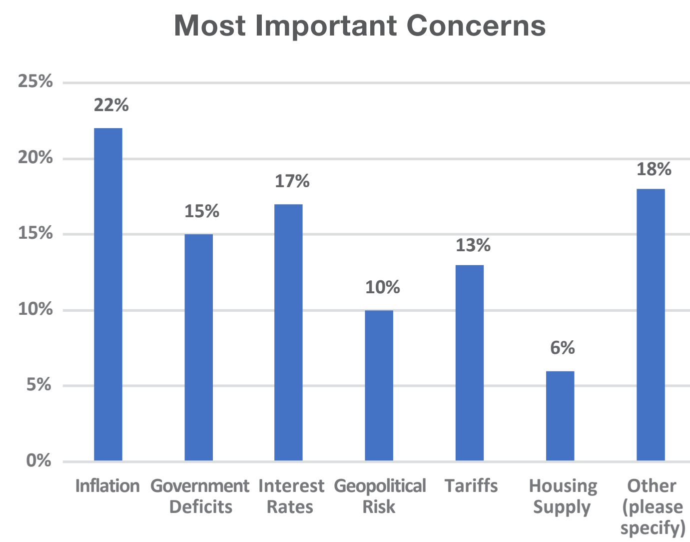


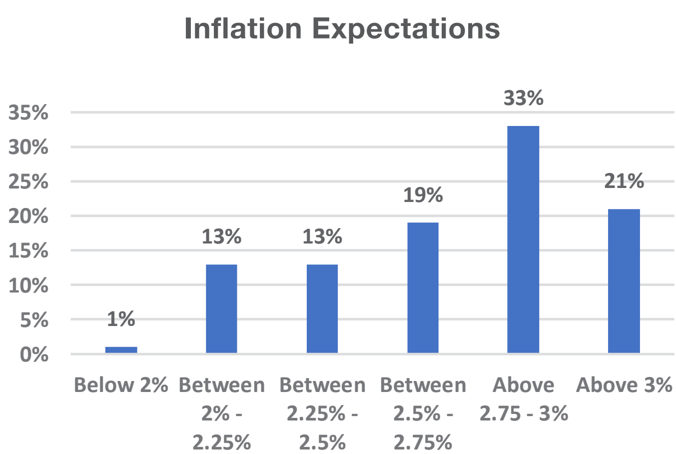
Labor Cost

43% of executives surveyed (compared to 41% last quarter) expect wages to increase in the coming quarter, and 56% (compared to 59% last quarter) expect them to remain unchanged. Only 1% of the executives expect wages to decrease in the next quarter.

Biggest Concerns

Inflation was again the most important concern for the 1st quarter of 2026 same as the last quarter, followed by interest rates. Government deficits (moving up from the fifth position in the previous quarter), tariffs, geopolitical risks and housing supply followed in order. Others mentioned were reskilling existing labor force to learn AI, investment funding instability, chaotic government policies, general state of the economy, decrease in philanthropy, high unemployment, consumer spending and wages and aerospace/ defense spending.



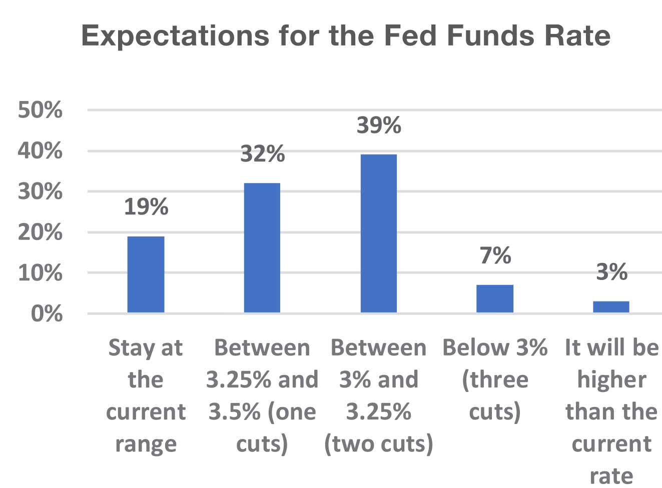


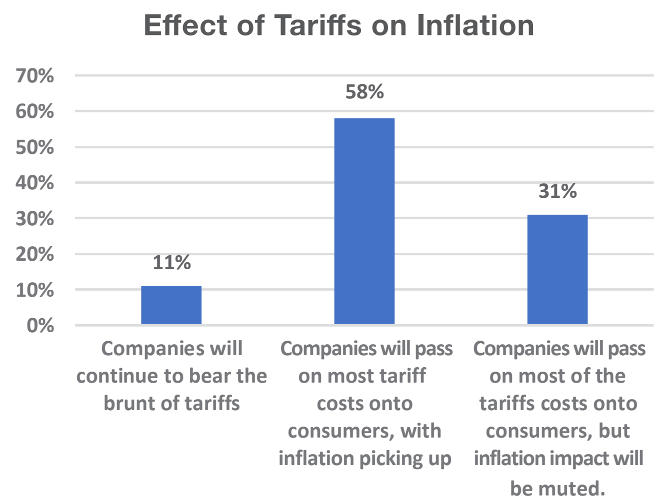
Inflation Expectations

We asked respondents to share their forecasts of inflation for December 2026 (after giving them the recent history). 14% expect inflation rate to be below 2.25% and another 13% expect it to be between 2.25% and 2.5%. 19% of respondents expect the inflation rate to be between 2.5% and 2.75% and 33% expect it to be between 2.75% and 3%. But 21% expect it to go over 3%. In other words, over half the respondents expect 2026 to end up at the same inflation rate as of the time of this survey, 2.7% for November 2025.

Expectations for the Federal Funds Rate in 2026

After the fed funds rate in December 2025 was lowered by 25 basis point to the 3.5%-3.75% range, 32% expect one more cut of 25% by the end of 2026, 39% expect two cuts and 7% expect three cuts. 19% expect no cuts during 2026 and 3%, in fact, expect the rate at the end of 2026 to be higher than the current rate.



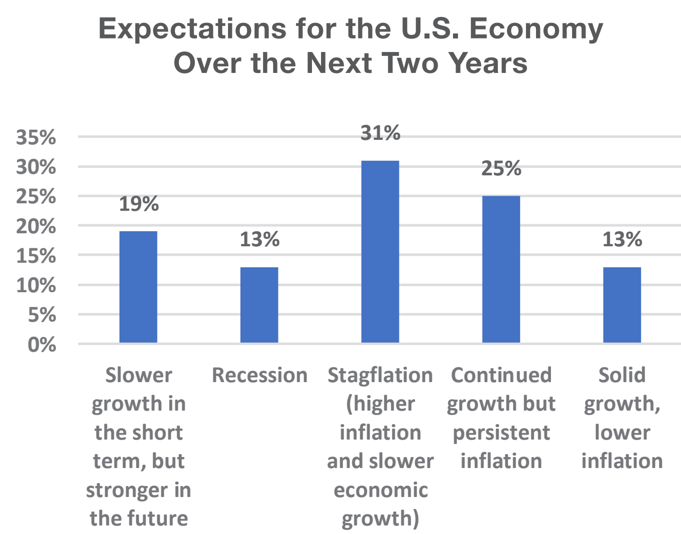


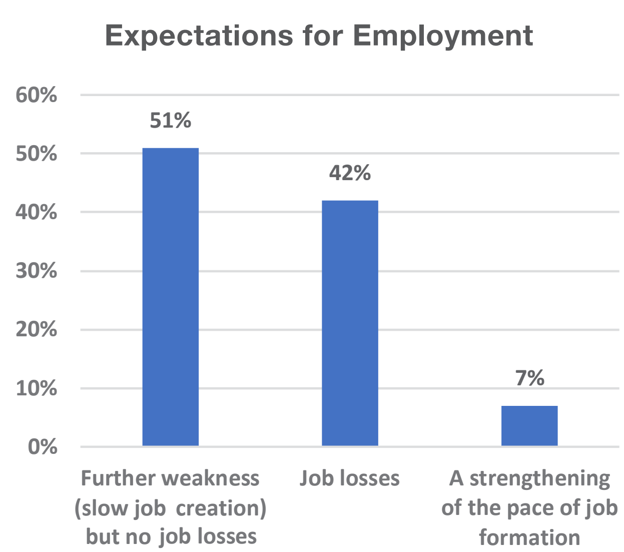
Impact of Tariffs on Inflation

We asked to what extent the tariffs will lead to higher inflation. 11% think that the companies will continue to bear the brunt of the cost of tariffs without passing it on to the consumers. 58% believe that most of the tariff cost will be passed on to consumers resulting in higher inflation. 31% expect companies to pass on most of the cost to consumers but inflation impact will be muted.

Expectations for the Next Two Years

For expectations for the economy over the next two years given the policy changes under President Trump, responses continued to be quite split. 13% (compared to 15% last quarter) expect solid growth with lower inflation, 25% (also 25% last quarter) expect continued growth but persistent inflation and 31% (compared to 26%) see stagflation on the horizon (slow growth and higher inflation). In addition, 19% (versus 23% last quarter) expect slower growth in the near term but stronger afterwards and 13% (compared to 8%) expect a recession in the next two years. Despite significant variations, overall expectations for the upcoming two years have been revised downward.



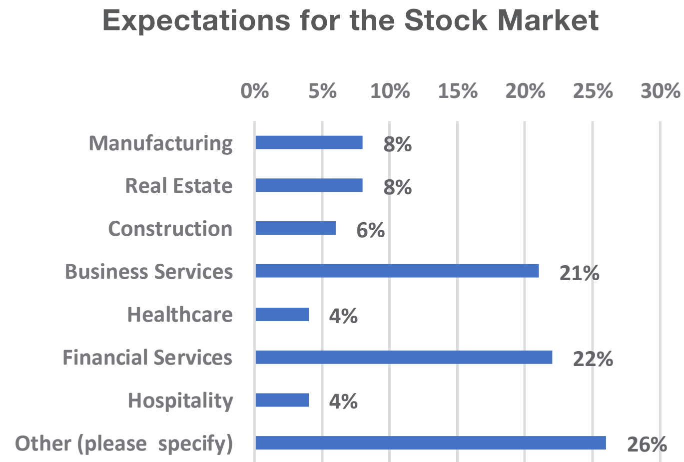


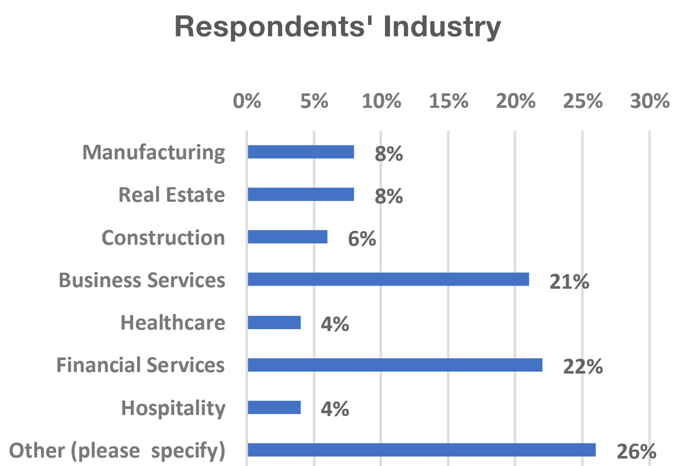
Expected Changes in Employment

The labor market appears to have weakened this year. For example, the average job growth per month through September 2025 is 76K versus 172K in 2024. When asked what they expected during 2026, a majority, 51%, expect further weakening or slower job growth, but no job losses. 42% expect that there will be loss of jobs and 7% believe that the job market, in fact, will improve with an acceleration in job creation.

Expectations for the Stock Market

Stock market valuations are high, and they may move even higher. The P/E ratio (price earning) is now hovering near levels last seen in 1999. For 2026, almost a third, 32%, expect the markets to continue to set fresh records, 58% expect a small, 10%, correction while 10% expect a major correction of 20% or more.





Industry Categories

The graph at left shows the industry category of those who responded to the survey. In addition to those shown in the graph, these categories were also mentioned: Banking, Water District, Transportation, Telecommunications, Sports and tourism, R&D, Nonprofit, Workforce Development, Local Government, Insurance, Hi-tech, Fiber Development and Internet Service, Distribution, Consulting and Engineering.

WOODS CENTER FOR ECONOMIC ANALYSIS AND FORECASTING

California State University, Fullerton
College of Business and Economics
800 N. State College Blvd.
Fullerton, CA 92831

business.fullerton.edu/woodscenter

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