Orange County Business Expectations: OCBX Index

The overall index, OCBX, for the 3rd quarter 2020 improved appreciably to 62.9 from 22.7 in the 2nd quarter 2020. This is the most significant improvement in the index since the great recession of 2008-9. The difference, however, is that a similar improvement took almost two years to achieve during the Great Recession compared to a single quarter now. 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 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 or stay the same improved to 42.9% for the 3rd quarter 2020 from 9.1% in the 2nd quarter 2020. This index measures responses to questions about Orange County executives’ own industry as well as their outlook for the regional economy. Expectations for the region’s economy have dramatically gotten better for the coming quarter.
Own Industry Activity Survey Results
47.1% of the executives expect significant or some growth (compared to 20% in the last quarter) in their own industry. 20% (compared to 16% last quarter) of Orange County firms believe that their own industry will remain stable. 32.9% of businesses (compared to 63% in the previous quarter) predict some decreases in their industry. Significant number of the business leaders have increased their expectations for growth for the coming quarter for their industry.

Employment
22.9% of firms surveyed intend to increase their labor force (compared to 3.8% in the last quarter), 58.6% intend to make no change (compared to 46.2% last quarter), and 18.6% expect to cut jobs (50% in the last quarter). Hiring picture has brightened appreciably for the coming quarter.

Sales/Revenues
45.7% of the firms surveyed expect their sales to increase this quarter (compared to 14.8% in the last quarter), 22.9% expect little change (compared to 13% the last quarter) and 31.4% expect to have lower sales (compared to 72.2% in the last quarter). Sales expectations have turned up for the coming quarter with only a third expecting lower sales compared to almost three quarter of business expecting declines.
Operating Profits
41.4% of the firms surveyed expect to have higher profits in the next three months (compared to 9.3% last quarter), 25.7% expect no change (compared to 13% from last quarter) while 32.9% expect lower profits (compared to 77.8% last quarter). Profit expectations for the coming quarter have improved for the coming quarter in line with expectations for sales.

Inventory/Equipment Investment
18.8% of respondents said that they expect to increase inventory compared to 7.5% in the last quarter. The share of those expecting inventory to remain unchanged increased to 65.2% from 43.4% and those who expect to have reduced inventory moved to 15.9% from 49.1%. Businesses in general expect to increase their inventories in the third quarter reflecting improved expectations for the economy and their markets.

Most Significant Factors
Concern over the state of the overall economy remained the most important concern (increasing to 63.8% from 42.6% from the last quarter) while Government Regulation stayed as the next important factor at 17.4% (compared to 11.1% last quarter). All other factors remained of lesser concern.
Sample Firm Size
50% of the firms who responded to the survey employ more than 100 workers, while 18.6% had fewer than 20 employees and the rest, 31.4%, had between 20 and 100 employees.

When do you expect your business to recover to the level of beginning of 2020? [SPECIAL QUESTION]
In this special question, we wanted to know their expectations of how long it will take for their businesses to get back to the level before the epidemic hit. 24.3% of the business expect to get there over the next 6 months, by the end of this year. But a fifth, 20%, think it will be after 2021, more than 18 months from now. Most others expect to get there by the middle of 2021. So, there is wide dispersion on quickly the businesses expect to regain their original strength.

What do you believe is the biggest threat to the economy?
In this special question, we asked executives about their biggest fear for the overall economy.

An overwhelming majority, 71.8%, think that the political and social conditions currently gripping the country pose a major threat to the economy and business. Given the upcoming elections and deep polarization, it is not surprising to have that listed as a major concern. But added to that now is the social upheaval caused by Black Lives Matter protests that are on the mind of businesses. These factors are also likely to have longer term impacts.

Incidentally, there is less agreement on whether the current fiscal actions are sufficient or not to mitigate the impacts of the coronavirus.