Orange County Business Expectations: OCBX Index

The overall index, OCBX, for the 2nd quarter 2022 decreased to 85.3 from 91 in the 1st quarter 2022. 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. This quarterly decline is possibly linked to higher inflation, Russia-Ukraine war and persistence of Covid.

Overall Business Activity

The proportion of owners, CEOs, and managers that expect overall business activity to improve fell to 52% for the 2nd quarter 2022 from 54.5% in the 1st quarter 2022. For those believing the situation will remain unchanged the percentage increased to 33.3% from 32.5% for the coming quarter, and those expecting the regional economy to slow down changed to 14.7% from 13%. This measure asks for responses to questions about Orange County executives’ outlook for the regional economy. Expectations for the region’s economy have lowered slightly for the coming quarter.
Own Industry Activity Survey Results
50.7% of the executives expect significant or some growth (compared to 64.1% in the last quarter) in their own industry. 34.7% (compared to 28.2% last quarter) of Orange County firms believe that their own industry will remain stable. 14.6% of businesses (compared to 7.7% in the previous quarter) predict some decreases in their industry. Business leaders expect conditions to deteriorate in the coming quarter compared to the previous quarter with regard to growth of their own businesses.

Employment
36% of firms surveyed intend to increase their labor force (compared to 49.4% in the last quarter), 54.7% intend to make no change (compared to 41.8% last quarter), and 9.3% expect to cut jobs (8.9% in the last quarter). Hiring expectations have declined from the previous quarter.

Sales/Revenues
52% of the firms surveyed expect their sales to increase this quarter (compared to 53.2% in the last quarter), 38.7% expect little change (compared to 35.4% the last quarter) and 9.3% expect to have lower sales (compared to 11.4% in the last quarter). Sales expectations have become somewhat worse compared to the last quarter.
Operating Profits
40% of the firms surveyed expect to have higher profits in the next three months (compared to 43% last quarter), 37.3% expect no change (compared to 40.5% from last quarter) while 22.7% expect lower profits (compared to 16.5% last quarter). Profit expectations for the coming quarter have downshifted again for the coming quarter in line with lower expectations for sales.

Inventory/Equipment Investment
25.3% of respondents said that they expect to have higher inventories compared to 30.8% in the last quarter. The share of those expecting inventory levels to remain unchanged moved to 66.7% from 62.8% and those who expect to have reduced inventories moved to 8% from 6.4%. It shows some caution on the part of businesses.
SPECIAL QUESTIONS:

What are your most important concerns at this time?

In a special question, we enquired about executives’ major concerns. Inflation is now even bigger concern with 57.3% compared to 43% last quarter with labor shortages close behind with 34.7% compared to 41% during the last quarter. Possible tax increases remained in the third place with 4% compared to 10.3% last quarter. Deficits are the fourth important concern with 2.7% compared to 3.8% last quarter while the competitive threats from China were in the fifth place with 1.3% (1.3% the last quarter)

Inflation Expectations

In another special questions we asked the respondents to share their forecasts of inflation for 2022. [We told them that the Consumer Price Index (CPI-U) inflation was 2.5% in 2018, 1.7% in 2019, 1.2% in 2020, 4.7% in 2021 and 7.7% in 2022 through February 2022]

1.3% of the respondents think that inflation in 2022 will be between 1% and 2% compared to none who said so in the last quarter. 88% believe that inflation will come in between 2% and 4% during 2022 compared to 38.5% last quarter. 37.4% think it will be between 4% and 6% compared to 43.6% last quarter. 43.3% this quarter think that inflation will be over 6% compared to 17.9% last quarter. There is a huge increase in inflation expectations this quarter compared to the last.
As the Fed has started to raise interest rates from zero, what federal funds rate do you expect by the end of 2022?

Expectations about possible federal funds raise are quite dispersed. Only 5.3% expect there to be three more .25% raises while 30.7% think the rate will increase to 1.5%. A quarter, 25.3% believe the fed will raise rates to 1.75%, 18.7% believe it will go up to 2% and 20% think it will be higher than 2% by the end of the year. In other words, 38.7% think there will be six quarter percentage increases or some more than a quarter percent.

Labor Shortages

In another special questions we asked the respondents if they were experiencing trouble hiring workers and how long they expect these problems to persist.

37.7% of the respondents think that the labor shortages will last for more than a year compared to 42.3% last quarter. 21.7% expect the shortages to ease after 9 to 12 months compared to 23.9%. 20.3% expect it to take between 6 to 9 months compared to 11.3% last quarter and 20.2% expect the situation to improve within 6 months compared to 18.3% in the previous quarter. It appears that expectations for easing of labor shortages has improved somewhat.
Supply Shortages
We asked business executives if they had been experiencing supply shortages and how long they expected these to last.

21.7% expect the supply shortages to last more than a year compared to 25.8% last quarter and a similar percentage (27.1%) expect these to last between 9 and 12 months compared to 27.3%. A somewhat smaller number (20.3%) expect these to ease after 6 to 9 months compared to 22.7% last quarter while 228.9% compared to 24.3% last quarter think the supply constraints will get better within 6 months. It seems that conditions on supply shortages is also getting somewhat better.

How long do you think the active Russian attack on Ukraine will continue?
Opinions about the length of the Russian attack are spread out and show uncertainty. 17.6% think it will last more than a year while only 12.2% think it will end within a month. Given the volatile situation and ambiguity about Russia’s intentions, there is little consensus on this question.

What effect on your business do you anticipate from the Russian attack on Ukraine?
Most businesses, 69.3% expect only minor and indirect effects from the Russia-Ukraine war. But one in five, 20%, expect significant effects, likely because they have businesses in Russia and Ukraine.