This survey of 900+ OC business executives was conducted during June 20-28, 2022.

Orange County Business Expectations: OCBX Index
The overall index, OCBX, for the 3rd quarter 2022 fell to 59.2 from 85.3 in the 2nd 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 large quarterly decline is linked to expectations of a slowing economy in light of higher inflation, higher interest rates, and Russia-Ukraine war.

Overall Business Activity
The proportion of owners, CEOs, and managers that expect overall business activity to improve fell to 25% for the 3rd quarter 2022 from 52% in the 2nd quarter 2022. For those believing the situation will remain unchanged the percentage decreased to 25% from 33.5% for the coming quarter, and those expecting the regional economy to slow down changed to 50% from 14.7%. This measure asks for responses to questions about Orange County executives’ outlook for the regional economy. Expectations for the region’s economy have lowered significantly for the coming quarter.
Own Industry Activity Survey Results
33.4% of the executives expect significant or some growth (compared to 50.7% in the last quarter) in their own industry. 35% (compared to 34.7% last quarter) of Orange County firms believe that their own industry will remain stable. 31.6% of businesses (compared to 14.6% in the previous quarter) predict decreases in their industry. Business leaders expect conditions to deteriorate in the coming quarter compared to the previous quarter, in line with expectations for regional economy.

Employment
30% of firms surveyed intend to increase their labor force (compared to 36% in the last quarter), 45% intend to make no change (compared to 54.7% last quarter), and 25% expect to cut jobs (9.3% in the last quarter). Hiring expectations have declined from the previous quarter even with tighter labor markets.

Sales/Revenues
37.7% of the firms surveyed expect their sales to increase this quarter (compared to 52% in the last quarter), 42.6% expect little change (compared to 38.7% the last quarter) and 19.7% expect to have lower sales (compared to 9.3% in the last quarter). Sales expectations have become worse compared to the last quarter.
Operating Profits
30% of the firms surveyed expect to have higher profits in the next three months (compared to 40% last quarter), 45% expect no change (compared to 37.3% from last quarter) while 25% expect lower profits (compared to 22.7% last quarter). Profit expectations for the coming quarter have not changed in a major way for the coming quarter.

Inventory/Equipment Investment
23% of respondents said that they expect to have higher inventories compared to 25.3% in the last quarter. The share of those expecting inventory levels to remain unchanged moved to 70.5% from 66.7% and those who expect to have reduced inventories moved to 6.6% from 8%. 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 76.7% compared to 57.3% last quarter with labor shortages in second place with 20% compared to 34.7% during the last quarter. Other concerns ranked much lower.

Inflation Expectations

In another special question 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 8.2% in 2022 through May 2022]

Every respondent expects inflation in 2022 to exceed 5%, much higher than the Fed’s target of 2%. While last quarter 43.3% expected inflation to be over 6%, now only 18.6% think it will be below that level. Over 64.4% believe that inflation will exceed 7% 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 level by the end of 2022 have sky-rocketed. No one expects a rate below 2.5% and 64.4% believe that it will be above 3% which is above the current projections by the Wall Street. There appears to be a full buy-in of the Fed’s resolve to push rates up to tame inflation.

Labor Shortages

34.5% of the respondents think that the labor shortages will last for more than a year compared to 37.7% last quarter. 20% expect the shortages to ease after 9 to 12 months compared to 21.7%. 21.8% expect it to take between 6 to 9 months compared to 20.3% last quarter and 22.6% expect the situation to improve within 6 months compared to 20.2% in the previous quarter. It appears that expectations for easing of labor shortages have remained unchanged compared to the last quarter.
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 21.7% last quarter and a similar percentage (21.7%) expect these to last between 9 and 12 months. A similar number (20.3%) expect these to ease after 6 to 9 months compared to 20.3% last quarter. It seems that conditions on supply shortages is little changed.

How long do you think the active Russian attack on Ukraine will continue?
Opinions about the length of the Russian attack show uncertainty. 51.7%, (compared to 17.6% last quarter ) think that the attack will last more than a year. Another 41.7% believe it will take 6 more months. Given the volatile situation and ambiguity about Russia’s intentions, there is little consensus on this question but no end is in sight in the near term.

Do you expect the US economy to fall into a recession? If so, when do you expect it to begin?
In this new question, given the rising interest rates, we asked people about their thinking on the US economy. While a small number, 3.4%, believe we are already in a recession, a majority, 52.5% believe that it will begin in the second half of 2023 while 16.9% think it will start in the first half of 2023. A sizeable number, 22%, believe that we will not have a recession for the next two years.