

## PNC SURVEY SHOWS STRONG ORANGE COUNTY BUSINESS OWNER OPTIMISM AMID IMPROVING ECONOMIC CONDITIONS

### ANALYSIS BY PNC CHIEF ECONOMIST Gus Faucher

Although economic growth in Orange County is slowing, the area remains in good shape, with job growth in 2023 slightly above the national average. Most industries are expanding, but transportation, leisure/hospitality services and education/health services lead the way. The Orange County economy benefits from strong U.S. economic growth, tourism spending, and the area's exposure to international trade through its port and rail facilities. The local unemployment rate was 3.8% at the end of 2023, close to the national rate and well below the 5.1% California rate.

Economic growth in Orange County will slow in 2024 but remain above the national average. U.S. and California consumer fundamentals will remain solid due to the strong labor market, supporting the area's important leisure/hospitality services industry. Lower gasoline prices and a weaker U.S. dollar will support drive-in and international tourism, respectively. Lower interest rates and the ongoing national economic expansion will support demand for Orange County's high-tech industries, which support area incomes far above the national average.

The local housing market will remain the biggest issue. Constrained supply has led to major house price increases since the pandemic, which, along with higher mortgage rates, has led to housing affordability far lower than it is nationally. This has led to net population outflow, as Orange County residents look elsewhere for more affordable housing. Population losses contribute to the area's tight labor market. According to the PNC survey, local business owners have lower hiring expectations compared to the rest of the U.S.

### HIGH ECONOMIC AND BUSINESS PROSPECT OPTIMISM

#### Highly Optimistic about National Economy (Rate 8-10 on 10pt. Scale)



PNC's latest semi-annual survey of small and mid-sized businesses shows that Orange County business owner optimism about the national economy in the next six months is consistent with the national measure, a 22-year high amid lessening fears of a recession.

A majority (54%) of Orange County owners are highly optimistic about the national economy, similar to the national level (55%), which is up from 34% last fall and 26% a year ago. In Orange County and nationwide, four in 10 (40%) are highly optimistic about the global economy. This global optimism reading is up from 25% last fall and 9% a year ago, nationally. A majority (55%) in Orange County are optimistic about their local economy, compared to 63% nationally, which increased from 47% last fall and 30% a year ago.

#### Highly Optimistic about Own Business (Rate 8-10 on 10pt. Scale)



Optimism also runs high about Orange County business leaders' prospects for their own business. Seven in 10 (71%) report they are highly optimistic about the prospects for their own business. Nationally, eight in 10 (79%) are highly optimistic about their business, consistent with last fall (77%) and up substantially from a year ago (60%).

More than four in 10 (42%) Orange County business leaders expect an increase in their company's profits in the next six months. Nationally, the outlook on profits remains steady with over half (52%) expecting an increase, midway between the levels recorded last fall (55%) and a year ago (49%). Few Orange County businesses anticipate decreases in profits (3% vs. 5% U.S.) or sales (3% vs. 5% U.S.) in the next six months.

### INFLATION PRESSURES EASE

Based on the survey results, inflation pressures appear to be lessening. Fewer than half (45%) of Orange County businesses expect to increase prices in the next six months, similar to the portion nationally (47%), which is down from last fall and spring (55%).

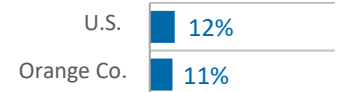
Of those expecting to take that step, one in 10 (11%) plan to raise prices by 5% or more, consistent with the national reading (12%), which is down from last fall (25%) and a year ago (23%).

At the same time, three in 10 Orange County business owners (31% vs. 40% U.S.) expect their suppliers' prices to increase in the next six months. The national measure is down from six months ago (49%) and last spring (47%). Three in 10 (30% vs. 41% U.S.) of those expecting supplier price increases only expect a modest 1-2% rise, while fewer (14% vs. 13% U.S.) expect an increase of 5% or more.

#### Expect to Increase Prices to Customers in next six months

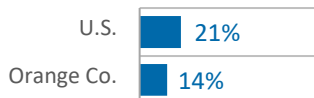


#### Expect to Increase Prices to Customers by 5% or More

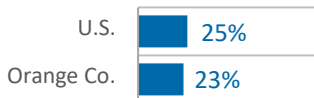


**EXPANDING WORKFORCES**

**Expect to Increase the Number of Full-Time Employees in next six months**



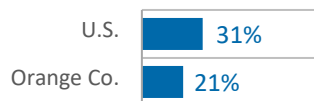
**Harder to Hire Qualified Employees vs. six months to a year ago, among those hiring**



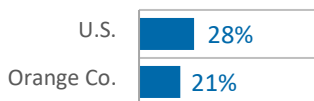
More than one in 10 (14%) Orange County business owners expect to increase their full-time workforce in the next six months, compared to 21% nationally. Eight in 10 (80% vs. 74% U.S.) expect the number of full-time employees to remain unchanged, while a small number (5% vs. 4% U.S.) anticipate reductions. Among Orange County businesses looking to hire, 23% say it's become harder to hire qualified employees, similar to the portion nationally (25%), which is down from last fall (35%) and a year ago (36%).

The top issue for employers in Orange County is candidates' lack of experience or skills (20% vs. 22% U.S.), followed by a lack of applicants overall (16% vs. 28% as the top issue nationally). Concern about high salary/benefit or flexibility requirements (13% vs. 9% U.S.) falls ahead of candidates' inability to meet legal/security requirements (8% vs. 9% U.S.) in Orange County.

**Expect Employee Compensation to Increase in next six months**



**Expect Increase in Employee Health Care Costs in next six months**



Two in 10 (21%) Orange County business owners expect employee compensation to increase in the next six months, compared to 31% nationally. A similar portion (21% vs. 28% U.S.) anticipate increasing employee health care costs in the next six months.

Four in 10 (40%) Orange County employers are making plans to innovate or improve their human resources practices in the coming year, compared to 43% nationally. More than a quarter (27% vs. 26% U.S.) are targeting workplace flexibility, and more than two in 10 (22% vs. 24% U.S.) are focusing on employee benefits with improvement and innovation strategies. Among owners who regularly hire employees, two in 10 (20% vs. 26% U.S.) look to enhance hiring practices.



**Planning to Make Human Resources Improvements**

among employers in next year, including changes to workplace flexibility, employee benefits or hiring practices



**FRAUD ALERT**

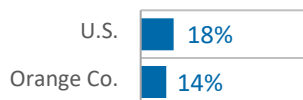
Half of Orange County business owners (51% vs. 66% U.S.) are extremely or moderately concerned about the risk of fraud (47% vs. 59% U.S.) or potential cyber security breaches (44% vs. 58% U.S.). A similar portion are concerned about U.S. political uncertainty (44% vs. 45% U.S.). Less than four in 10 are at least somewhat concerned about inflation (37% vs. 49% U.S.), extreme weather events (36% vs. 45% U.S.) and increased energy prices (36% vs. 45% U.S.). Fewer than three in 10 are concerned about the impact of geopolitical uncertainty (29% vs. 36% U.S.) and Federal Reserve interest rate changes (28% vs. 40% U.S.).

**Potential Risks to Business** extremely or moderately concerned



**NEED FOR FINANCING**

**Expect Financing Needs to Increase in next six months**



More than one in 10 (14%) Orange County business owners expect their need for business financing will increase in the next six months, compared to 18% nationally. Two in 10 (21%) say they will definitely or probably request a new loan or line of credit in the next six months, compared to 15% of businesses nationwide.

**Definitely or Probably will Request a New Loan/Line of Credit in next 6 months**

