

BUSINESS FORECAST

December 2015

San Diego County's Business Outlook Continues Downward

CEQA negatively impacts one-in-five County businesses

As 2015 comes to a close, the Business Outlook Index (BOI) for county businesses sets a new low at 16.6. The BOI has a range of -100 to +100, with zero indicating a neutral outlook, so local businesses remain significantly more optimistic than pessimistic. However, the BOI has been declining the past five months and sits more than 10 points lower than a year ago. This drop appears more serious than the two previous dips which lasted only a month in each case.

Highlights

The Business Outlook Index sets a new low at 16.6

Serious long-term downward trends in revenue and industry conditions

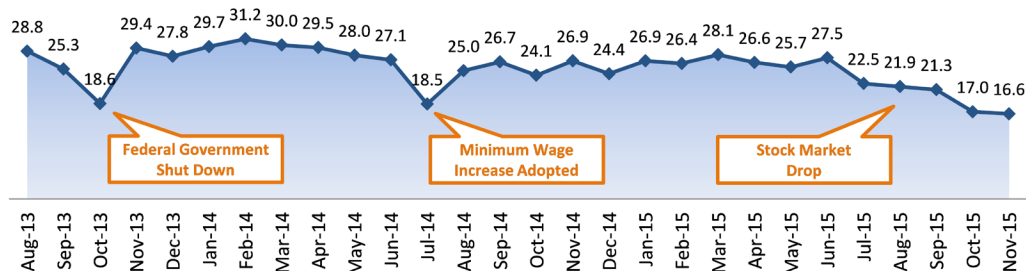
Hospitality and restaurants go negative, possibly due to coming minimum wage increase

About one-in-five County businesses have been negatively impacted by CEQA

CEQA reforms are supported, though not overwhelmingly so

Note: Data for this report was collected November 17-30, 2015.

Business Outlook Index Over Time



All four of the BOI's components show a downward trend, but changes in expected revenue and business conditions have been the most dramatic. Now, 18 percent think their industry's business conditions will worsen in the near future. That is the highest percentage on record. As for revenue, 11 percent of firms think theirs will decline, also a high.

A bright spot in this month's report comes from health, beauty and fitness firms. Perhaps anticipating a post-New Year's bump, those companies are rebounding from last month. The BOI for the health, beauty and fitness space excels at 39. Firms engaged in cyber activities are equally bullish.

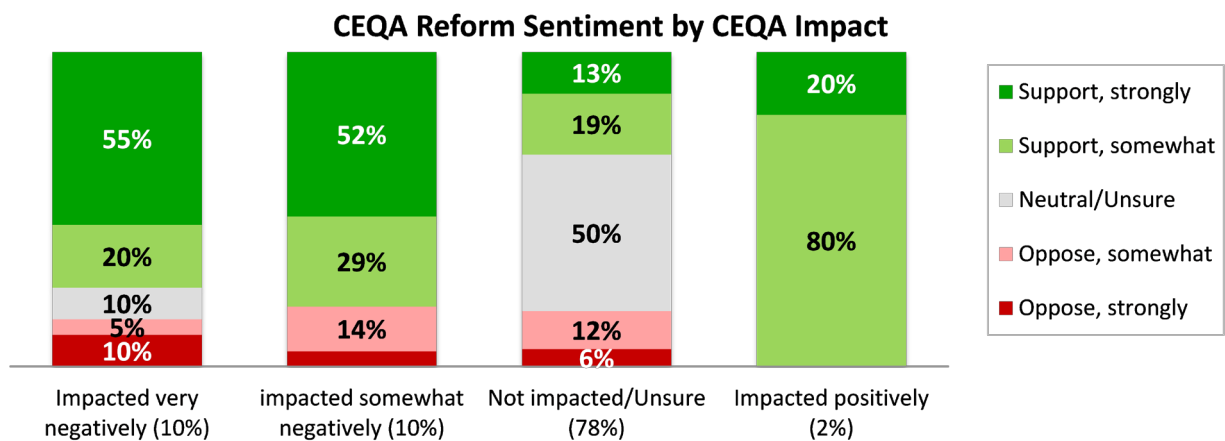
The hospitality industry sits at the very low end of the BOI index. Posting a score of -2, this industry has never before been as short on optimism. All four components are in poor shape and, for the first time, more firms in the hospitality space say they will cut workforce hours than increase them. One

culprit could be the coming minimum wage increase, which will go into effect in January 2016. One of five in the hospitality and restaurant industry cite the state's \$1 raise to \$10 as a new challenge they face. And 13 percent point to increased competition.

This month's survey also looks at the California Environmental Quality Act (CEQA), a statute that requires state and local agencies to identify the significant environmental impacts of their actions and to avoid or mitigate those impacts, if feasible. Nineteen percent of the County's businesses report being negatively impacted by California's signature environmental law, which was originally instituted in 1970. Only 2 percent of companies in San Diego County believe CEQA has impacted them in a positive way. The two industries hit hardest by CEQA are development/construction and real estate.

Within the business community there is substantial support for, and little opposition to, reform efforts directed at CEQA. Forty-three percent of business people in the County favor reforming CEQA, 35 percent are unsure of their position, and 17 percent oppose reforms (although opposition is rarely intense).

Firms that have been adversely affected by CEQA tend to be very pro-reform. More than half of those firms strongly support efforts to amend the law and more than three-quarters express some level of support. Although one-third of the firms that have not been negatively impacted support CEQA reform, half take no position and 18 percent actually oppose reform.



Between large and small companies, large firms of more than 50 employees are more likely to back reforms regardless of whether CEQA has affected them. Owners of one-person businesses are just as likely to oppose CEQA as they are to support it with 25 percent in the survey going each way.

The San Diego County Business Forecast sponsored by Silvergate Bank is a scientific look at where our region's economy is headed. The survey for this month's installment was fielded November

17-30, 2015 by Competitive Edge Research & Communication using responses from 211 randomly-selected members of the San Diego, East County, Alpine, Escondido, Lakeside, Vista, Santee, and National City Chambers of Commerce. All Chamber members are invited to complete the survey either online or over the phone.

The Business Outlook Index™ (BOI) is comprised of four self-reported assessments regarding the next three months: Will a respondent's business increase or decrease its number of employees, experience an increase or a decrease in revenue, increase or decrease the number of hours its employees work, and experience an improvement or a worsening of business conditions. For each assessment, definite and positive responses are scored 100, probable and positive responses are scored 50, neutral responses are scored 0, probable and negative responses are scored -50 and definite and negative responses are scored -100. The scores are summed and divided by 4 to get a range for the BOI of -100 to +100, with zero being a neutral outlook. Visit <http://sdchamber.org/businessforecast> to see past Business Forecasts.

