

County Business Outlook Sinks to Lowest Point

Annual measurement of government friendliness toward business and those considering moving out of the county remains stable from 2015

SUMMARY: Confidence among San Diego County businesses in this month’s Silvergate Bank-sponsored Business Forecast has fallen to the lowest point. Inconsistent since the beginning of the year, San Diego County’s Business Outlook Index (BOI) is now at 15.7. While this is the lowest point the Index has hit since it began nearly three years ago, because the BOI ranges from -100 to +100, with zero being neutral, the business community’s outlook is still in somewhat positive territory. This month’s Forecast also took the annual measurement of how business friendly local governments are and whether firms are considering moving out of the County. The findings indicate that not much has changed since last year. Most business people see their local government as being friendly to commerce, and the percentage of businesses not considering a move out of the County is down slightly.

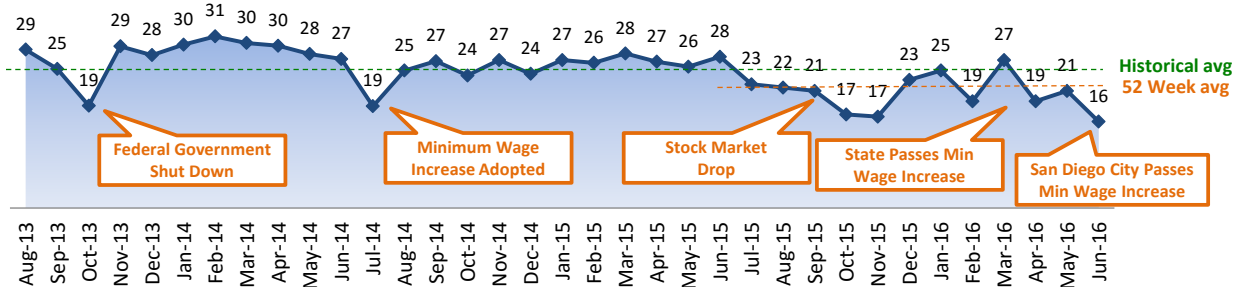
Statement from San Diego Regional Chamber: “We continue to see the affect government regulations, specifically minimum wage increases, have on the local business climate,” said Jerry Sanders, President and CEO of the San Diego Regional Chamber. “This month, we see minimum wage contributing to how friendly businesses view government and in turn, how likely a company is to relocate. This is important information for our elected officials when considering business retention in the region.”

Statement from Business Forecast Sponsor: “While it has been a rather tumultuous first half of the year for the confidence of county businesses, we are buoyed this month by the fact that the large majority still consider our region a good place to do business and are not thinking of relocating elsewhere,” said Dino D’Auria, Executive Vice President and Chief Banking Officer at Silvergate Bank.

Forecast:

Confidence among San Diego County businesses in this month’s Silvergate Bank-sponsored Business Forecast has fallen to a new low. Inconsistent since the beginning of the year, San Diego County’s Business Outlook Index (BOI) is now at 15.7. While this is the lowest point the Index has hit since it began nearly three years ago, because the BOI ranges from -100 to +100, with zero being neutral, the business community’s outlook is still in somewhat positive territory.

Business Outlook Index Over Time



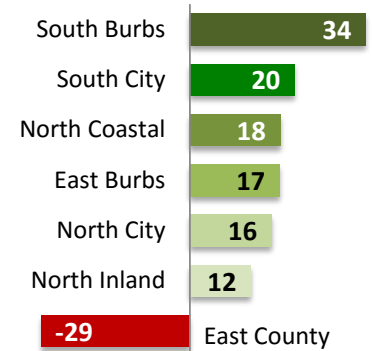
The downturn revolves around deteriorating confidence in the number of hours employers will be offering their workers, as well as business conditions within each industry. Only one-quarter of survey respondents say they'll need employees to work more during the next three months -- that's down from 32 percent in the prior quarter. Additionally, only 39 percent report business conditions in their industry are improving -- that figure averaged 51 percent in the previous three months.

There is a geographic component to the trend. Businesses outside the City of San Diego went from a BOI in the previous quarter of 22 to June's 14 and East County's outlook has definitely worsened in the past month dropping into negative territory. When it comes to employment, 42 percent in the East County see their firms letting workers go and none in our survey are likely to add employees. Also contributing to East County's poor outlook is the fact that businesses located there are more likely to sense a loss of revenue approaching, predict they'll need fewer hours from current employees, and that revenue will decline.

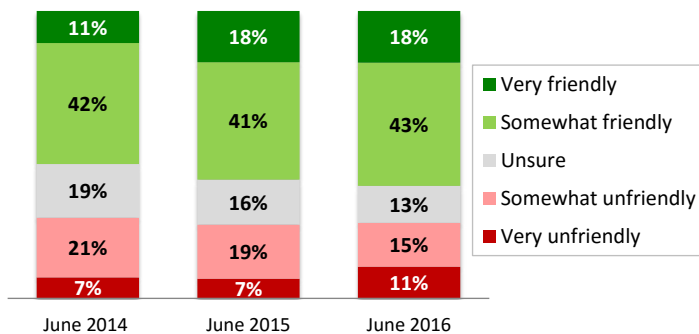
Looking at challenges facing businesses, the minimum wage increase remains the top concern with 10 percent of businesses saying it is their major hurdle up from 9 percent last month. Other government related issues make up a majority of the challenges as a total of 24 percent say their main new challenge is coming from government. These concerns weigh on business confidence as we see those with government-related issues tend to be much less optimistic than those with more "normal" challenges.

Each June the Forecast measures the business friendliness of local government and also whether firms are considering moving out of the County. The survey found that not much has changed since last year. Most business people see their local government as being friendly to commerce, and the percentage of businesses not considering a move out of the County is down slightly.

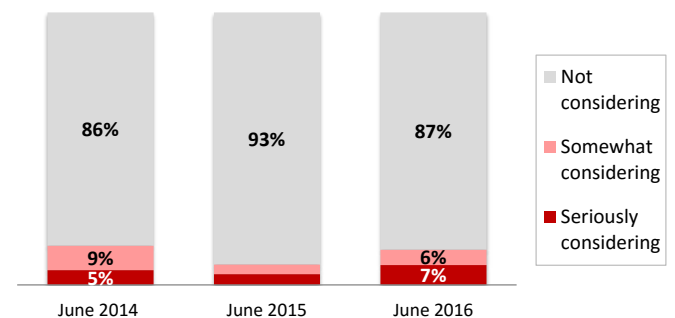
BOI by Area



Government Friendliness Over Time



Business Relocation Consideration Over Time



While most business throughout the county see their local government as being friendly to commerce, that answer is dependent on whether their business faces challenges and the nature of those challenges. Most of those who say minimum wage increases are a big issue see government as unfriendly and 32 percent characterize government's disposition as *very* unfriendly. On the other side of things are those who report no challenges and, as one might suspect, an overwhelming percentage feel government gives the business community a fair shake.

Size of business also plays a role in perceived friendliness of local government. Surprisingly, larger firms are more likely to sense government's cold shoulder. As the chart shows, fewer than one-in-five micro firms see local government as unfriendly, but more than one-third of companies with over ten employees get that impression.

When asked about moving operations out of San Diego, fewer respondents remain committed to San Diego than last year. This year's survey finds that 87 percent of San Diego County business people are not considering moving out of the area. While that percentage is less than it was in 2015, it is not different enough to conclude that more firms now want to leave. However, it is clear that business retention has not moved in the right direction.

Business size also plays a role here with smaller companies more apt to be looking to leave. Firms not considering leaving the County employ 88 workers, on average. On the other hand, those contemplating the idea average only 32

employees and those seriously considering relocation tend to be much smaller than that. Therefore, the net effect of firm movement on employment would be limited.

The key predictors of whether a firm is looking elsewhere relate to the business environment. Those who feel conditions in their industry are deteriorating are far more likely to be looking to move. But we also find that if businesses see their local government as less than friendly – regardless of what they think of industry conditions – the exit door opens wider.

About the Business Forecast

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 June 15-30, 2016 by [Competitive Edge Research & Communication](#) using responses from 201 randomly-selected members of the San Diego, East County, Alpine, Escondido, Lakeside, Vista, Santee, Encinitas 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.

About Silvergate Bank, Business Banking Redefined

For over 25 years, as a San Diego based community bank, Silvergate provides a rewarding banking experience where the client's needs always come first. Our business banking experts listen to needs and work to provide customized solutions to support your company's growth and profit objectives. Our bankers are committed to superior responsiveness, local decision making, and the agility that allows our clients to choose the way they want to bank with us. To learn more, visit www.silvergatebank.com or contact Dino D'Auria at dauria@silvergatebank.com.

About The San Diego Regional Chamber

The San Diego Regional Chamber is the hub for connections and collaboration among the regional business community, and uses that clout to advocate for public policies and candidates that support economic growth and the creation of jobs for all businesses. As the largest Chamber on the West Coast, representing more than 2,500 businesses and approximately 300,000 jobs, the San Diego Regional Chamber is fighting to make San Diego the most business-friendly region in California. For more information, please visit SDChamber.org or call 619-544-1300.