

## BUSINESS FORECAST

May 2015

### San Diego County Businesses Brace for Water Restrictions

Mandated reductions in water consumption of up to 35 percent will seriously impact San Diego County's economy, with 15 percent of businesses anticipating a drop in revenue and 9 percent expecting job losses. According to this month's Business Forecast, sponsored by Silvergate Bank, manufacturing firms will bear the brunt of these restrictions. Eighteen percent anticipate a drop in revenue and 27 percent see their firms losing *both* revenue and jobs.

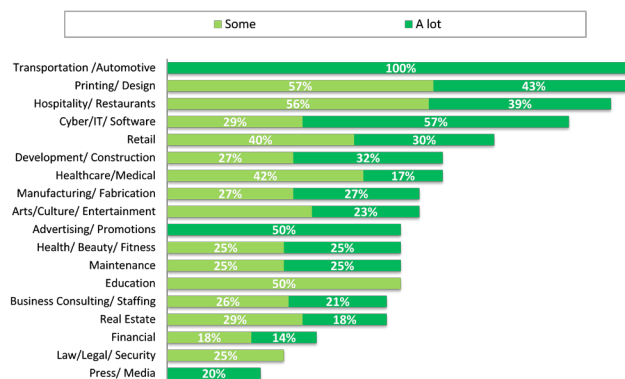
*"In response to California's drought, state water regulators are proposing to mandate that water consumption be cut by as much as 35% over the next year. How would such a mandate affect your business? Would there be..."*



Some types of firms have been more diligent about water conservation than others. All of the businesses surveyed who come from the transportation and automotive sector report making "a lot" of effort. Almost all firms in the hospitality and restaurant sector have made "some" effort at conserving water, and the same can be said for printing and design companies.

A firm's location is a factor in water conservation. East County businesses have set a blistering pace when it comes to efforts to combat the drought. Almost all firms there have made at least "some" effort and 42 percent have done "a lot" in terms of water conservation. Yet, this area is where consumption mandates will hit hardest with one-third of East County businesses believing they would be negatively affected.

Effort Devoted to Water Conservation by Company Type



### Highlights

Solidly positive 26.6 BOI

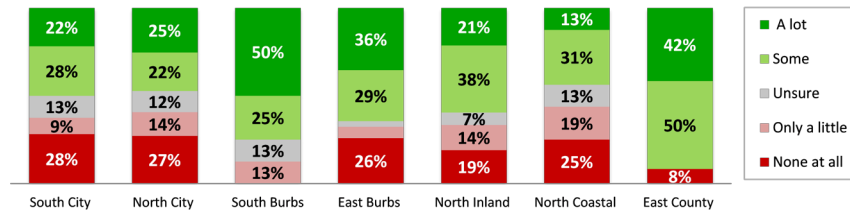
Firms in the City of San Diego particularly bullish

Most firms curtailing water use, with transportation, hospitality and printing leading the way

Mandated water cutbacks will hit revenue, employment; could doom local manufacturing

Note: Data for this report was collected April 15-30, 2015.

Effort Devoted to Water Conservation by Area



Whether it's water or other issues, 22 percent of businesses see government regulations as their primary challenge in doing business. The word cloud below shows the verbatim responses from local businesses. Non-governmental challenges include business specific issues (6 percent), competition (5 percent), staffing (4 percent) and the drought (3 percent).



While water woes and government regulations pose a challenge to businesses, throughout the county the overall Business Outlook Index (BOI) continues to be positive. While there is a minor downtick from last month, the Index is stable at 26.6, sitting squarely on the yearly average.

Across the region, the business outlook for north coastal businesses took a tumble since the previous quarter. Those firms came out of the first quarter in great shape (35 BOI), but are now down at only 16. The health, beauty and fitness sector -- which had been flying high last month -- again came back down to earth. Outside the city of San Diego, there has been some slippage in general outlook. Firms located within the city of San Diego now report far higher optimism than their counterparts outside city limits. San Diego businesses are most optimistic on employment, workforce hours, and revenue.