



Project Director: Anil K. Puri, Ph.D.

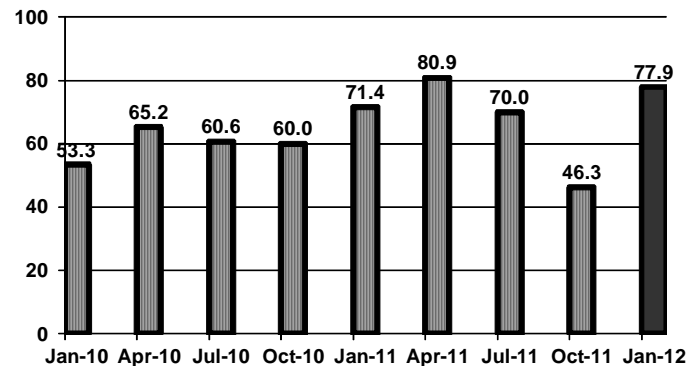
Orange County Business Expectations Survey, OCBX

This survey of OC business executives was conducted during December 13-22, 2011. 88 executives responded for a response rate of approximately 14.7%.

Orange County Business Expectations: OCBX Index

After falling for two quarters, the overall index, OCBX, rose for the 1st quarter of 2012. Its value was 77.9 in comparison with the values of 70 for the third quarter and 46.3 for the fourth quarter 2011. OCBX index is a measure of 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 is the highest value since the second quarter 2011 and indicates renewed optimism about the economy.

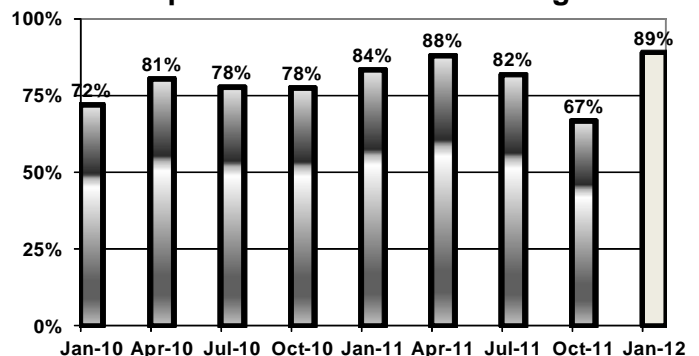
Orange County Business Expectations: OCBX Index



Overall Business Activity

The proportion of owners, CEOs, and managers that expect overall business activity to improve or stay the same rose to 89% for the 1st quarter of 2012 from 67% for the 4th quarter 2011. This variable measures responses to questions about Orange County executives' own industry as well as their outlook for the regional economy. Its current value is the highest since January 2007, before the recession began. It is clear that expectations for the growth of the local economy have significantly improved compared to the last two quarters.

Overall Business Activity: Expect Increase or No Change



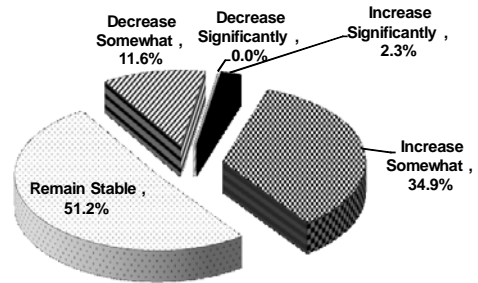
**Orange County Business Expectations Survey, OCBX
1st Quarter 2012**

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Own Industry Activity Survey Results

37.2% (33.8% in the previous quarter) of the executives expect significant or some growth in their own industry. 11.6% of businesses predict some decreases in their industry (compared to 32.5% previously). A 51.2% (33.8% previously) of Orange County firms believe that their own industry will remain stable. This is a remarkable turnaround showing that the business sentiments are becoming significantly less negative.

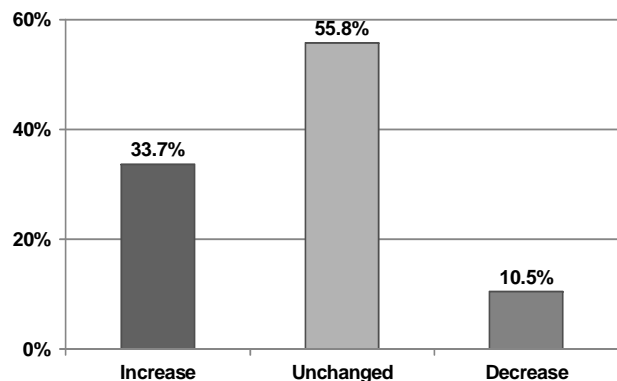
**Expected Local Industry Activity
Over the Next Three Months**



Employment

The employment prospects have changed little compared to those in the last quarter. 55.8% of firms surveyed intend to make no change in their labor force (compared to 53.6% last quarter), 33.7% intend to hire more (compared to 35.5% last quarter) and 10.5% expect to cut jobs (same as last quarter). In spite of deteriorating business conditions, employers are not planning major changes in payrolls.

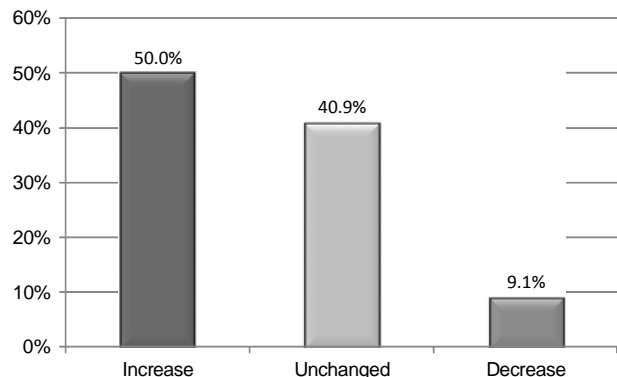
Expected Employment



Sales/Revenues

50% of the firms surveyed expect their sales to increase this quarter (compared to 48.1% in the last quarter of 2011), 40.9% expect little change (compared to 31.2% the last quarter) and a 9.1% expect to have lower sales (compared to 20.8% in the last quarter). Executives have become a lot more optimistic about sales improvement in the coming quarter.

Expected Gross Sales/Revenue



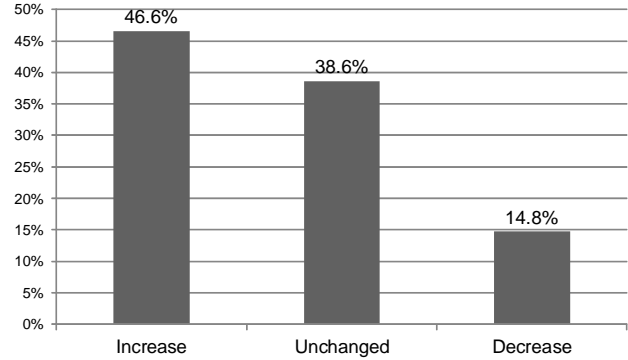
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Operating Profits

46.6% of the firms surveyed expect to have higher profits in the next three months (compared to 39% last quarter), 38.6% expect no change (compared to 32.5% from last quarter) while 14.8% expect lower profits (compared to 28.6% last quarter). Profit expectations of OC firms have improved significantly over the previous quarter along with higher expectations for sales and general economic conditions.

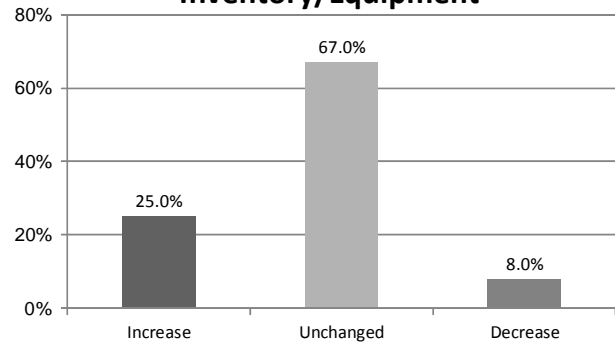
Expected Operating Profits



Inventory/Equipment Investment

The percentage of those who said that they expect to see inventories increase was 25% compared to 23.7% in the last quarter. The share of those expecting the inventories to remain unchanged increased to 67% from 56.6% and those who were expecting to reduce inventories fell to 8% from 19.7%. The executives are more likely to hold on the current level of their inventories in the coming quarter.

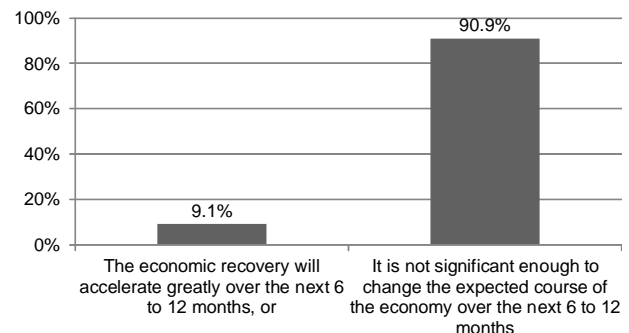
Expected Invest. in Inventory/Equipment



Speed of Economic Recovery

When asked whether the recent improvement in the economic data portends an improved course for the recovery, only 9.1% felt that the changes so far were significant enough to materially affect the pace of the recovery over the next 6 to 12 months. A vast majority are not convinced that prognosis for the future has changed.

Speed of Economic Recovery



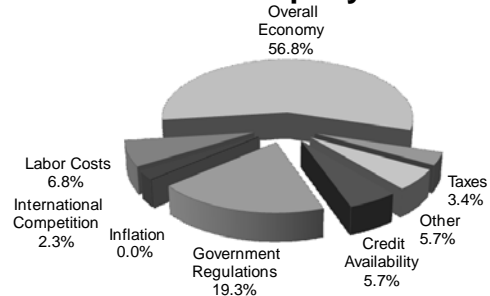
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Most Significant Factors

The concern over the state of the overall economy decreased to 56.8% (compared to 66.2% last quarter). Government regulation was the second major concern with 19.3% (compared to 18.2% last quarter) and labor costs and credit availability remained as the third and fourth most important concerns.

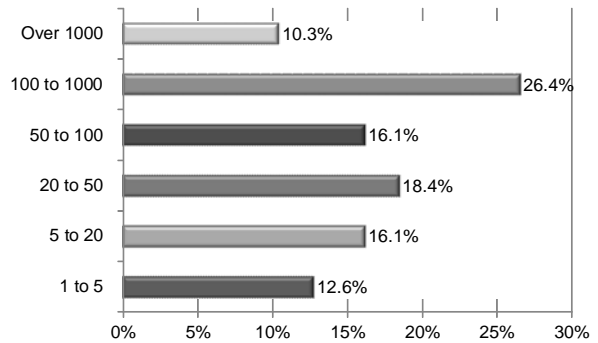
Most Significant Factor Impacting Your Company



Sample Firm Size

Over 36.7% of the firms who responded to the survey employ more than 100 workers, (compared to 37.7% in the last quarter), while 28.7% had fewer than 20 employees (compared to 24.7% last quarter). The rest, 34.5% (37.8% in the previous quarter), hire between 20 and 100 employees..

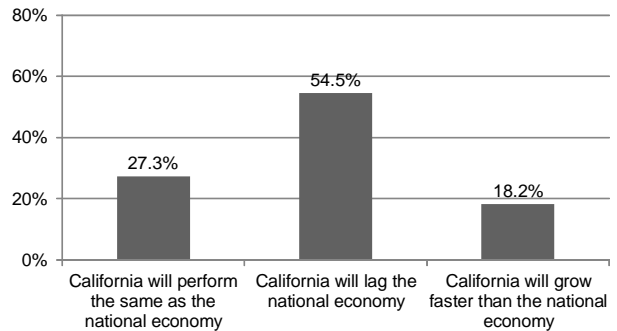
Size of Firms included in OCBX Index: Employment Levels



California Economy vs. U.S. Economy [SPECIAL QUESTION]

In the special question for this quarter's survey, we asked executives about their opinion of the relative speed of recovery of the California economy compared to that of the nation. 27.3% felt that the two economies will move in tandem. 54.5% felt that California will lag the nation while only 18.2% believe that the state will grow faster than the nation.

California Economy vs. National Economy



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Real Estate Prices in Orange County at the end of 2012 [SPECIAL QUESTION]

In a new question, we asked the executives about their expectations of future OC housing prices. 44.2% believe that the housing prices will be lower by five or more percent over the next year. 48.8% believe the prices will be higher but no more than 5% and 7% of those surveyed believe that the housing prices will increase by 10 or higher percentage.

