Plateau Persists in Business Confidence
Most county businesses believe upcoming minimum wage increase will hurt the economy

The Business Forecast, sponsored by San Diego Private Bank, remains in solidly positive territory this month, with the Business Outlook Index (BOI) at 20.7. The Index runs from -100 to +100, with zero being neutral. There has been no significant change since last month, and overall sentiment continues to hold steady.

Yearlong overall trends in confidence are positive for some industries and also relate to company size. Despite current near-term hesitation on hiring, the hospitality and restaurant industry has enjoyed a good run this year. Those businesses are joined by transportation/automotive, home and garden, and development/construction, all of which have trended upward in 2017. Small, medium, and large firms have all boasted an increasingly better outlook over the first seven months of the year, but micro-firms (where the owner is the only employee) have not been on the same trajectory. Specifically, firms with more employees are more bullish on hiring.

Geographically, the City of San Diego has seen positive year-to-date gains. Firms there are much more optimistic about revenue in the near future. The northern part of the City is a stand-out, with strong optimism.

Law, legal and security firms report a very positive outlook this month compared to the previous three months, now posting a stellar BOI of 57. These firms anticipate more hours being worked by their employees. Retail firms are decidedly less optimistic. This month their BOI hit a low mark at just 5, as they look past the busy back-to-school season into the fall where they foresee potential doldrums.

By more than 2 to 1, businesses think the minimum wage increase will hurt the local economy

Law, legal and security firms flying high; retail in the doldrums

14 percent will take action that is detrimental to the workers the hike was supposed to help

Business Forecast
Driving San Diego Business

Highlights

• At 20.7, BOI remains in comfortably confident territory
• Law, legal and security firms flying high; retail in the doldrums
• 29 percent of companies will take action to counteract the upcoming minimum wage hike
• 14 percent will take action that is detrimental to the workers the hike was supposed to help

Note: Data for this report was collected July 15-31, 2017
In this month’s installment, we asked about the 2018 minimum wage increases which will take the mandatory floor to $12.50 in the City of San Diego and to $11.50 elsewhere in the county. A large majority of business people say the minimum wage increase will not affect their companies, while a very small portion, 3 percent, say their company will benefit from it. However, 29 percent anticipate having to counteract the effect of the increase and make changes to mitigate their costs. Fourteen percent will respond mostly by raising prices or adding a surcharge, 8 percent will cut employee hours, and 3 percent will reduce the number of employees altogether. Another 2 percent will automate services, while 1 percent will move operations out of the state. With roughly 300,000 businesses in the county, that means about 3,000 will relocate due to the increasing minimum wage.

Company responses to the increases in minimum wage vary by industry type. The response from the hospitality and restaurant industry will be greatest, which is to be expected given this industry relies heavily on hourly workers. One-third will respond by reducing the hours offered to employees and 29 percent will raise prices. Across other industries, 30 percent of those in education will respond by raising prices, while 33 percent of maintenance firms will do the same. In retail, 18 percent will offer fewer work hours.

Company size also plays a role, with larger businesses more often bearing the brunt. Forty-one percent of firms with six or more employees report that the minimum wage increases will harm their company, whereas only 16 percent of companies with five or fewer employees report the same.

By more than a two-to-one margin, businesses believe the impact of the minimum wage increase on the local economy will be more negative than positive. Most say the impact of the increases will be negative, with 20 percent couching the effect as very negative.

A company’s own relationship with the wage increase largely drives opinions of the hike’s effects on the local economy. Businesses tend to take a somewhat myopic view, seeing the impact on themselves and the local economy going hand-in-hand. One reason the minimum wage is not more roundly criticized by the business community is that it does not affect about 70 percent of companies.
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 July 15-31, 2017 by Competitive Edge Research & Communication using responses from 203 randomly-selected members of the San Diego, East County, Alpine, Escondido, Lakeside, Vista, Santee, Encinitas and National City Chambers of Commerce. One-third of the members were invited to complete the survey online. Those members who initially did not respond were invited to complete the survey over the phone.

The Business Outlook IndexTM (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 San Diego Private Bank and Private Bancorp of America, Inc.
Private Bancorp of America, Inc. (OTCQX:PBAM), is the holding company for San Diego Private Bank. San Diego Private Bank, provides a Distinctly Different banking experience through unparalleled service and creative funding solutions to high net worth individuals, professionals, locally owned businesses and real estate entrepreneurs. Clients are serviced by experienced personal bankers through offices in Coronado, San Diego, La Jolla, Beverly Hills and Newport Beach as well as efficient electronic banking offerings. The Bank also offers various portfolio and government guaranteed lending programs, including SBA and cross-border Export-Import Bank programs. San Diego Private Bank is a SBA Preferred Lender and provides a full array of sophisticated treasury management and deposit products. www.sandiegoprivatebank.net Please contact Paul Azzi, EVP and Market President at Paul@sandiegoprivatebank.net to discuss your financial service needs.

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 approximately 2,500 businesses and an estimated 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.