County Business Outlook Sinks to Lowest Point Yet

Annual measure of business climate and those considering a move from the county remains stable

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, down from 21.3 last month. While this is the lowest point the Index has hit since it began nearly three years ago, the business community’s outlook is still in somewhat positive territory because the BOI ranges from -100 to +100, with zero being neutral.

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 businesses 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 14 in June. East County’s outlook has worsened in the past month, dropping into negative territory, from 24 to -29. 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.

The minimum wage increase remains the top challenge for businesses, with 10 percent 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; those with government-related issues tend to be much less optimistic than those with more “normal” challenges.

Each year in 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 businesses see their local government as being overall friendly to commerce, and the percentage of businesses considering a move out stands at 13 percent.

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 is more inviting.

While most businesses throughout the county see their local government as being overall friendly to commerce, that answer depends on whether their particular 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 are those who report no challenges and, as one might suspect, an overwhelming percentage of them 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. Fewer than one-in-five micro firms (those with a single employee) 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, 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 last year’s 93 percent, it is not 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.

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**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 & 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.

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**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 ddauria@silvergatebank.com.

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**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.