Business Confidence Drops to Lowest Point in 2017

Tax reform regarded as very important to the economy by nearly half of county businesses

The Business Forecast, sponsored by San Diego Private Bank, shows confidence has dipped to its lowest point of 2017, with the Business Outlook Index (BOI) at 13.2. This is a significant drop from last month, which was solidly positive (20.7). The Index runs from -100 to +100, with zero being neutral, so it remains in positive territory, but August 2017 marks the lowest BOI since October 2016 when the index hit 9.3. That was the worst showing since the BOI’s inception and due to the uncertainty surrounding the presidential election. Since then, confidence had been solid until this month.

Expectations about revenue, employment, and business conditions are all down this month when compared to the previous three months. Results for the number of work hours firms expect to offer their employees did not change.

Confidence dropped significantly across several industries from July to August. The transportation/automotive industry fell into negative territory from a solid score of 26 to -2 this month. Concerns over rising costs and competition top their list of challenging issues. One person in this industry identified the “price of gas for freight charges” as a problem. Insurance costs are also mentioned, along with competition from the Uber ridesharing service. Specifically, the transportation/auto sector is less optimistic about revenue and the number of work hours.
The printing/design industry also dropped into negative territory from July’s 24 to the current -2. The challenges are likely to continue, at least for the near-term, as firms in this industry are less optimistic about hiring in the coming months. And, although manufacturing/fabrication are doing well year to date, they too are feeling the near-term pinch and are also less optimistic about hiring.

The outlook for hospitality had been upbeat so far this year, but has become more pessimistic this month. Rising costs, minimum wage, and the overall economy are concerns. One person in this industry told us, “The rising cost of low end or entry level minimum wage earners is making it tough to hire more employees and/or give current employees significant hours.” This is starting to bleed into pessimism related to revenues. In one bright spot, the healthcare industry plans to increase the number of hours worked by employees. and 9 percent of firms do not care about comprehensive tax reform.

Our featured topic this month is comprehensive federal tax reform, currently on the national agenda. We asked businesspeople about their preferred outcome of a tax reform package, and there is no collective goal for the business community. Twenty-two percent want reforms to result in a fairer tax system, the most common response. Lowering personal income taxes and lowering corporate tax rates are both preferred by 19 percent of companies, followed by a simpler tax system at 18 percent. Only 1 percent of firms prioritize an increase in Federal tax revenue, and 9 percent of firms do not care about comprehensive tax reform.

When considering the health of the overall economy, 18 percent of firms think it is extremely important to adopt comprehensive federal tax reform, and 28 percent believe it is very important. Yet, 14 percent believe federal corporate tax reform is unimportant and another 16 percent are unsure what to make of the issue. Thus, although a sizable proportion of firms believe it is at least very important to reform the tax code, one-third have basically tuned out the issue and other quarter see it only as a middling objective.

Importance of federal tax reform varies by preferred outcome of the reforms. Firms whose preferred outcome for comprehensive tax reform is lower corporate tax rates are more likely to see it as critically important.
About the Business Forecast
The San Diego County Business Forecast, sponsored by San Diego Private Bank, is a scientific look at where our region’s economy is headed. The survey for this month’s installment was fielded August 15-30, 2017 by Competitive Edge Research & Communication using responses from 200 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 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 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.