

Contact:
John Grubb
Bay Area Council
415-946-8705
jgrubb@bayareacouncil.org



Bay Area Business Confidence Falls Below Dot-com Bust Nadir

BAY AREA, March 4, 2008 —The Bay Area Council today announced it has found that regional business confidence is at its lowest level ever recorded by its quarterly *Business Confidence Survey*. The *Survey* was established in the midst of the dot-com bust in 2001 when the business confidence index – the number that distills the survey findings – registered at 39 out of 100. A reading over 50 signals positive economic times and below 50 is negative. The current *Bay Area Business Confidence Index* fell 10 points since last quarter, down to its lowest recorded level of 38.

The six-month economic outlook of the 455 CEO's and top executives in the nine Bay Area counties surveyed between January 21 and February 19, 2008 indicates a continuing downward trend. Only 15 percent of Bay Area business leaders think the regional economy will improve in the next six months. Fifty percent expect the economy to worsen and 35 percent think it will hold steady. This current negative outlook builds on six months of worsening confidence. Indeed, 65 percent of those surveyed think that the economic conditions have worsened in the Bay Area over the past six months. With the past six months of declining confidence coupled with the current negative outlook, the Bay Area is in for at least a full year of weak business confidence.

“This survey brings unwelcome and sobering news,” said Jim Wunderman, President and CEO of the Bay Area Council. “With the financial market disarray and housing declines, we expected a negative reading, but not this bad. The last time we saw our business community in this kind of mood, the Bay Area was wracked by massive layoffs and a serious recession. We clearly haven't reached that point yet, but the future is uncertain. Hopefully, we can stay on the sideline of the current U.S. downturn and not become an epicenter.”

The impact of the falling confidence has not yet affected the job market, but the trends look stark. Whereas a year ago 44 percent were planning increases in their workforce and only six percent were planning decreases; today, lay-offs and increases are at parity with 22 percent of business leaders polled expecting to increase their workforce and 22 percent expecting to decrease and 53 percent planning to hold steady.

“Bay Area executives are clearly troubled by the uncertainty and volatility of the economy,” said Lenny Mendonca, Chairman of the Bay Area Council and a director at McKinsey & Company, the international management-consulting firm that helped develop the *Survey*. “Their outlook and hiring plans reflect their pessimism.”

The job market is uneven across the region. The best place to find a job in the Bay Area appears to be San Mateo where 31 percent of executives expect to increase their workforce while 15 percent plan decreases. On the flip side, 17 percent of those surveyed in Marin and Sonoma expect to increase their workforce while 25 percent expect decreases. In Silicon Valley, a quarter of employers (26 percent) plan layoffs and 22 percent plan increases.

One bright spot for employment is in hospitality and tourism, perhaps due to the weakening of the dollar, with 32 percent of industry executives expecting to increase their workforce and only 8 percent planning a decrease. Conversely, 48 percent of retail executives expect to decrease their workforce while 18 percent plan an increase.

Weakness in the housing market seems to be having an impact on Bay Area businesses. In the *Business Confidence Survey* conducted three months ago, a disproportionately large number of business leaders (45 percent) believed the changes in the housing market would significantly impact their business. The industry expecting to be the most negatively impacted was finance, with 76 percent of executives expecting a negative impact and nine percent expecting a positive impact.

Bay Area Business Confidence Survey

The Bay Area Council developed the *Bay Area Business Confidence Survey* to measure employer expectations of the Bay Area economy. The winter survey is the seventeenth in a series of quarterly measures of business confidence. *Survey* findings can be accessed from the “Vault” at www.bayareacouncil.org.

The confidential survey of Bay Area business executives is conducted quarterly by Evans/McDonough Company Incorporated for the Bay Area Council with the assistance of McKinsey & Company. All members in the database were invited to participate through e-mail and the Internet. The *Survey* results are weighted to reflect the approximate percentage of employees in each Bay Area county.

Bay Area Council

Founded in 1945, the Bay Area Council (www.bayareacouncil.org) develops and drives regional public policy initiatives and researches critical infrastructure issues. Led by CEOs, the Bay Area Council presents a strong, united voice for hundreds of major employers throughout the Bay Area region whom employ more than 495,000 workers, or 1 of every six private sector employees in the Bay Area.

McKinsey & Company

McKinsey & Company (www.mckinsey.com) is an international management consulting firm that helps leading corporations and organizations make substantial and lasting improvements in their performance. With approximately 6,000 consultants deployed from eighty-two offices in forty-three countries, McKinsey has expertise on strategic, operational and technological issues.

Evans/McDonough

Evans/McDonough Company Incorporated (www.evansmcdonough.com) is a full-service opinion research and strategic consulting firm serving a broad range of corporate, political and institutional clients. Founded in 1989, EMC principals have been involved in thousands of public opinion studies, ranging from political and public policy strategy polls to extensive market share and customer satisfaction surveys.

#