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Bay Area Economy Sees Slight Improvement, but CEO Confidence Stagnates

Severe Variations between Industry Segments and Large and Small Businesses

BAY AREA, June 13, 2008 —The Bay Area Council today announced it has found regional business confidence has improved slightly from its lowest point ever recorded last quarter by the *Business Confidence Survey*. The business confidence index - the number that distills the survey findings - registered at 41 out of 100, up three points from the last evaluation. A reading over 50 points signals positive economic times and below 50 is negative.

The six-month economic outlook of the 428 CEO's and top executives in the nine Bay Area counties surveyed between May 7 and June 5, 2008 remains grim, but a slightly more positive trend has emerged. Twenty-eight percent of Bay Area business leaders expect the regional economy to improve in the next six months. The survey also showed 35 percent expect it to worsen and 37 percent expect it to hold steady. While far from positive territory, these expectations are more optimistic than the last survey, which saw only 15 percent of respondents with a positive outlook.

The Bay Area's job market appears to be moving back into safer territory, as slightly more companies are planning to increase their workforce (23 percent) versus those planning lay-offs (21 percent). More than half of respondents (53 percent) are planning to make no changes over the next six months.

"It looks like we danced on the employment precipice and have come back from the edge" said Jim Wunderman, President and CEO of the Bay Area Council. "We are very pleased to see more CEOs hiring, but the negative sentiment of large companies still gives us pause."

Of the very large employers surveyed, those with over 10,000 employees in the Bay Area, 28 percent are planning to decrease their workforce while only 9 percent plan increases. The same trend extends through other large and medium-sized companies. Only small businesses, those with 99 or less Bay Area employees are planning hires. Twenty-five percent of the smallest employers will increase their workforce and 16 percent will layoff.

The job market is severely varied by industry segments. Business leaders from the construction and manufacturing sectors are planning the most workforce increases at 39 percent and 36 percent hiring, and seven and 23 percent laying off, respectively. On the other end of the spectrum are government and retail, where 43 percent and 37 percent of executives are planning to decrease their workforce over the next six months, and only 8 percent and 13 percent increasing, respectively.

Geographically throughout the Bay Area, the workforce outlook variation is subtle. Only those executives in San Mateo break the mold with 55 percent planning hires and only 18 percent planning decreases. Conversely, in Alameda only 10 percent of CEOs are planning increases while 22 percent plan decreases, and executives from other parts of the region tend to mirror the latter prediction.

Current immigration policies appear to be having a negative effect on Bay Area business's recruitment practices. Indeed, 48 percent of executives feel that current immigration policies make recruiting employees challenging and eight percent find it extremely challenging.

"Now, more than ever, the world's top talent, including executives, entrepreneurs and researchers can choose among a host of international cities as homes for their endeavors," said Chairman Lenny Mendonca, "In order for the Bay Area to maintain its privileged position, our region's leaders must work to overcome the unique set of challenges that go hand in hand with our region's success."

The Bay Area Council has spent considerable time lobbying D.C. officials to change H1-B visa quotas and other restrictive immigration policies.

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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 confidential survey of Bay Area business executives is conducted quarterly by Evans/McDonough Company Incorporated. 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.

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