

Bay Area CEO's Planning Layoffs in Next Six Months

Say State Won't Start to Recover For 12 Months - Approximately July, 2009

BAY AREA, August 15, 2008 — Marking a significant turn in the economy, for the first time in five years, more CEO's are planning Bay Area layoffs than those planning workforce increases, the Bay Area Council announced today in the release of its quarterly *Business Confidence Survey*. Indeed, 26 percent are planning layoffs in the next six months – the highest percentage ever recorded by the *Survey*, which began capturing data in 2001. Twenty percent of executives are planning to increase their workforce, while 51 percent plan to hold steady.

Overall business confidence of the 505 CEO's and top executives in the nine Bay Area counties surveyed between July 21 and July 30, 2008 was near the bottom recorded to date. The business confidence index – the number that distills the survey findings – registered at 39 out of 100, down two points from the last evaluation. A reading over 50 signals positive economic times and below 50 is negative.

Prospects for recovery appear far over the horizon. The averaged survey respondent's prediction for the beginning of California economic recovery is slightly more than 12 months. Forty-five percent expect economic recovery in nine months to a year, 26 percent say one and a half to two years, and six percent think it will take more than two years. On the more optimistic side, 20 percent of the Bay Area CEO's polled think recovery will commence in three to six months and four percent believe it is already in recovery. National predictions were similar, if slightly less positive. The averaged prediction on the beginning of national economic recovery was just over 13 months.

“Considering the pain in other parts of the country, the Bay Area has weathered the current recession well, but with the planned layoffs – especially among our largest employers – we may yet suffer collateral damage,” said Jim Wunderman, President and CEO of the Bay Area Council. “Despite the general pessimism, we are very pleased to see that Silicon Valley and smaller companies throughout the region are still strong and even hiring.”

Bay Area workers looking for a job in the next six months should head to small employers. According to the surveyed Bay Area executives, small businesses are faring much better than large companies. Nineteen percent of small business respondents expect to reduce their workforce size over the next six months, while 25 percent are planning increases and 53 percent plan no change. Forty-four percent of respondents from large companies, those with between 1,000 and 10,000 employees, plan layoffs, only 11 percent expect to increase their workforce.

“The survey reveals the mood of Bay Area executives has turned, with many preparing for a long downturn,” 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*. “The triple strike of rising energy and commodity prices, real estate problems and the state budget crisis are signaling a hold for hiring plans. The bright spot remains Silicon Valley which is benefitting from export growth and booming Asian economies.”

Layoffs are predominant throughout the Bay Area, with the exception of Silicon Valley. Silicon Valley, represented in the survey by Santa Clara County respondents, is the only place in the Bay Area planning more hires than layoffs. Indeed, 35 percent of Santa Clara executives are planning to increase their workforce, 23 percent plan layoffs.

Layoff plans vary significantly by industry, and professional services and information technology seem to rise above the fray. Twenty-nine percent of executives in professional services plan to increase their workforce over the next six months, while 16 percent plan layoffs. Only 12 percent of tech or “information” executives expect to decrease their workforce, while 16 percent plan increases and 72 percent expect to hold steady. Taking the biggest hit was leisure and hospitality, and manufacturing. Indeed, 48 percent of leisure and hospitality executives are planning layoffs while only nine percent are planning to increase their workforce. Similarly 42 percent of manufacturing professionals are planning layoffs, 17 percent are planning hires.

The snapshot of current economic conditions compared to six months ago varies only slightly across the Bay Area, with Silicon Valley once again reporting the least damage. Fifty-nine percent of Santa Clara respondents think that the Bay Area economy is worse off than it was six months ago, compared to 79 percent of San Francisco executives who believe conditions are worse.

Bay Area executives are split when it comes to their expectations on the impact the next president will have on their business, reflecting a relative wash. Thirty-nine percent of the surveyed CEO’s thought Sen. John McCain would have a positive impact on their business, while 33 percent expect a negative impact and 28 percent expect no impact whatsoever. Forty-seven percent of executives think that a Barack Obama presidency would have a positive impact on their business while 38 percent expect a negative impact and 16 percent foresee no impact.

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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 500,000 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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