

## **Bay Area Business Confidence Plunges to Lowest Level Ever Recorded by Survey**

*Layoffs across the Bay Area Appear Inevitable – Economy Will Worsen For Next 15 Months*

**BAY AREA, November 20, 2008** — Today the Bay Area Council announced that business confidence among Bay Area CEO's has plunged to its lowest level ever recorded by its quarterly *Business Confidence Survey*. The business confidence index – the number that distills the survey findings – registered at 32 out of 100, falling seven more points from the last reading in July. This index reading is worse than the reading found one month after 9/11. A reading over 50 signals positive economic times and below 50 is negative.

Respondents also said that the economy will worsen for another year and three months, and three Bay Area employers report planned layoffs for every one expecting to hire.

The *Survey* responses of the 509 CEO's and top executives in the nine Bay Area counties surveyed between October 30 and November 7, 2008 were pessimistic across the board. Indeed, 90 percent of respondents felt that economic conditions in the Bay Area are worse now than six months ago, seven percent felt conditions were the same and three percent felt conditions had gotten better. Looking ahead, 52 percent of Bay Area executives expect economic conditions in the Bay Area to worsen in six months, 25 percent think things will stay the same and 23 percent are optimistic that conditions will improve.

“Extreme pessimism has finally breached the psyche of Bay Area business executives whereas before the Bay Area seemed somewhat shielded from the national economic woes,” said Jim Wunderman, President and CEO of the Bay Area Council. “Unfortunately, layoffs often follow on the heels of pessimism, and I think we may see bad get worse.”

Layoffs appear inevitable across the Bay Area. Overall, 40 percent of respondents plan to decrease their workforce over the next six months while only 13 percent plan increases, and 45 percent plan to hold steady. Most of the cuts planned are in the 1-10 percent range, though 24 percent of small businesses with 1-49 employees plan cuts between 11 and 50 percent. Executives in San Mateo and San Francisco were more likely to report layoff plans. Indeed, 60 percent of San Mateo respondents are planning to decrease their workforce, only seven percent are planning increases. In San Francisco, 51 percent of executives reported planned workforce decreases, while seven percent plan increases. Silicon Valley, represented by Santa Clara county, appears to be right in line with overall Bay Area sentiments, with 31 percent planning layoffs and 16 percent predicting hires.

While across the board, most industries in the Bay Area are planning more layoffs than hires, the hardest hit industries appear to be construction and retail. Indeed, 60 percent of construction executives plan layoffs in the next six months, only four percent plan to increase their workforce and 34 percent plan no change. Fifty percent of retail executives say they are planning to decrease their workforce, 10 percent plan increases and 30 percent plan to hold steady.

The industry appearing to weather the storm the most successfully is leisure and hospitality. Fifty-six percent of leisure and hospitality executives are planning to increase their workforce over the next six months while 28 percent plan layoffs and 16 percent plan to no change.

“The Bay Area, like the rest of the world, is feeling the effects of this world-wide economic downturn,” said Lenny Mendonca, Director at McKinsey & Company and Chairman of the Bay Area Council. “This will have a major impact on the state budget, the local business community and quality of life in our region. Strengthening our economy must now be the number one priority for business, government and civil society.”

The average Bay Area executive predicts that recovery in California won't begin until five more quarters, or a year and three months, have passed. Nearly half, or 41 percent, predict conditions will worsen for a year and a half to more than 3 years. An optimistic 3 percent think the California economy is already in recovery.

The tight credit markets have greatly impacted Bay Area businesses. Nearly a third, or 28 percent, say the tightening of credit has had a very negative impact on their business, and another 36 percent say it has had a somewhat negative impact. Only 31 percent say tight credit has had little to no impact on their operations. The tight credit has had a “very negative” impact on certain industries in the Bay Area, including construction (54 percent), financial activities (53 percent), and retail trade (44 percent). Scarce credit appears to have had the smallest impact on the leisure and hospitality, education and health services, government, and professional and business services sectors.

# # #

#### **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 EMC Research. 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](http://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](http://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.

# # #