



TWELFTH ANNUAL BUSINESS CLIMATE SURVEY EXECUTIVE SUMMARY

California Business Roundtable & California Chamber of Commerce

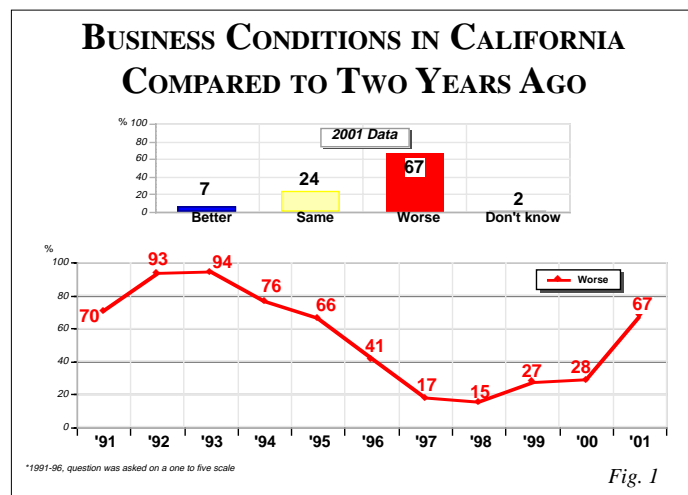
January 2002

For over a decade, the California Business Roundtable and the California Chamber of Commerce have been tracking attitudes of California Business Leaders and Voters toward the state's most important issues. The 2001 random sampling of 400 Business Leaders reflects opinions of the growing number of small and medium-sized businesses in the state, as well as larger employers. The 600n Voters' sample captures responses from California's diverse voting population.

One remarkable finding from this year's surveys is Californians' ability to remain relatively optimistic in the face of an unprecedented war on terrorism coupled with a national recession which is hitting many California regions hard. Though both Voters and Business Leaders agree these circumstances have dramatically changed the business climate from the boom-times enjoyed during the last five years, most do not believe that their personal lives will change much. Perhaps this is one reason many are willing to support upcoming bond measures for education facilities and would like government to continue focusing on education and infrastructure issues rather than economic ones. Furthermore, Business Leaders display a decided confidence in the current privatized energy system despite the fact that they are paying more for energy.

BUSINESS LEADERS REPORT WORSENEDED BUSINESS CONDITIONS IN CALIFORNIA

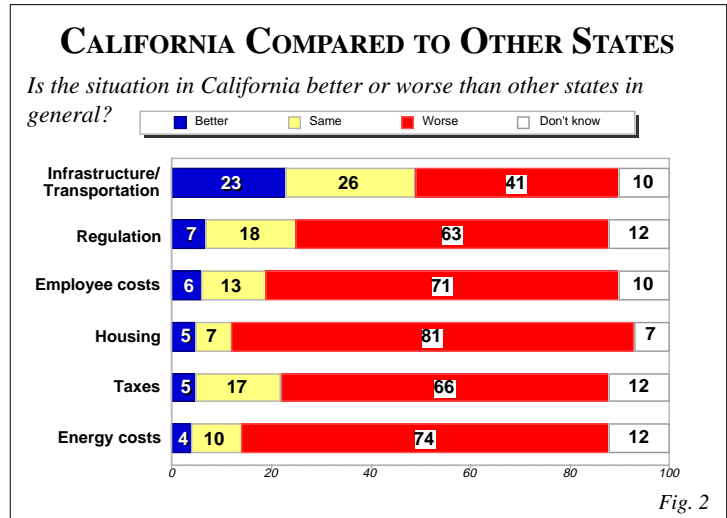
Current business indicators show a significant decline since last year's survey. Compared to two years ago, two-thirds of California Business Leaders agree that business conditions in the state have worsened; an increase of thirty-nine percentage points from last year (See Fig 1). Furthermore, half believe business conditions for their specific industry have declined, compared to twenty-eight percent who reported decline in 2000. Additionally, the number of Business Leaders currently reporting plans to expand operations within California (33%) has dropped seven percentage points since last year to the lowest level since 1995.



However, very few companies—only two percent—have plans to relocate operations to *another* state, and eighty-three percent have no plans to move their operations. These are very similar responses to the 2000 Business Climate Survey with one difference; companies looking to expand in, rather than relocate to, other states jumped from six percent in 2000 to twelve percent in 2001.

COMPARED TO OTHER STATES, CALIFORNIA FALLS SHORT IN SEVERAL AREAS

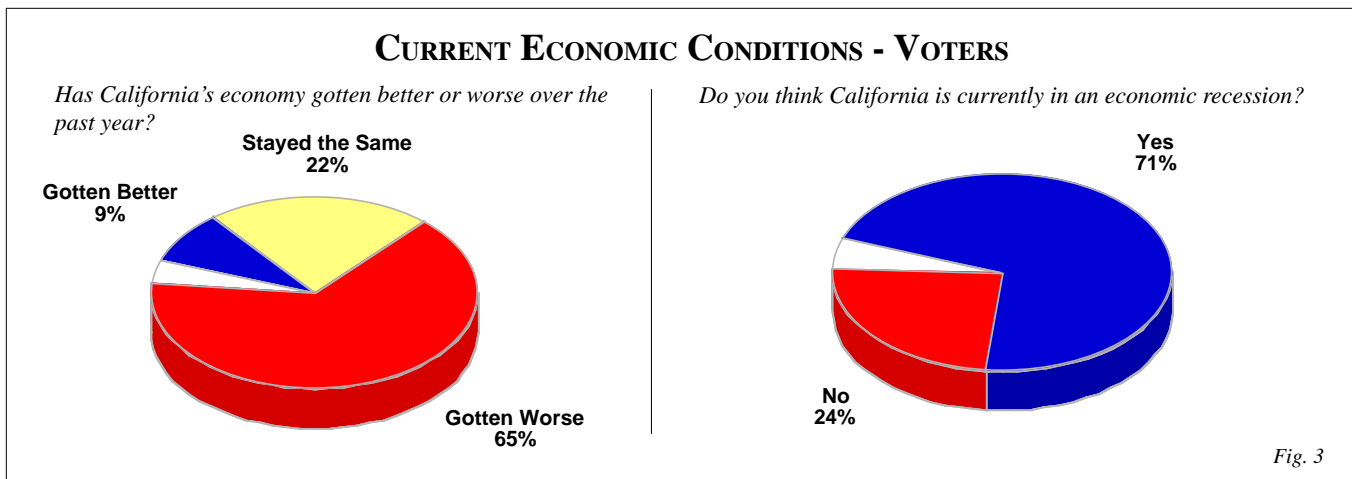
Business Leaders agree the situation in California is somewhat or much worse than in other states in general on nearly every area tested. Housing ranks as the worst area, with eighty-one percent saying the housing situation in California is worse than in other states. Energy costs and employee costs, such as worker's compensation and insurance, follow closely. About two-thirds of business leaders agree that taxes and regulations are worse in California than other states. Infrastructure receives the highest positive ratings with 23% saying conditions are better in California, while all other areas receive less than 10% saying conditions in California are better than in other states (See Fig 2).



All of these areas are of high concern to Business Leaders however. Employee costs are the top issue of concern (94%), followed by taxes (91%), energy costs (90%) and regulations (89%). Housing (86%) and infrastructure (81%) rank slightly lower, though both are still of concern to the great majority of business leaders.

DESPITE UNCERTAIN TIMES, CALIFORNIA VOTERS' AND BUSINESS LEADERS' OVERALL MOOD REMAINS SURPRISINGLY BUOYANT

While recent economic and political events weigh heavy on their minds, California Business Leaders and Voters seem relatively optimistic about the state's economic, political and social future. A significant sixty-five percent of California Voters agree that the economy has gotten worse over the past year, and nearly three-quarters believe the state is currently in an economic recession (See Fig 3). *Bay Area residents are particularly likely to say California's economy has worsened over the past year, while those in the Southern Counties are less likely to agree the state is currently facing a recession.* This is reflected by the fact that the economy (19%) and jobs/unemployment (13%) top the list of concerns mentioned by Voters as the most important issues currently facing the state.



However, nearly half also believe that California is headed in the right direction; a remarkably better measure than when the state faced an energy crisis just a few months ago (See Fig 4). *Those who feel the state is headed in the right direction tend to be aged 18-34, Democrats and residents of the Coastal Counties.* Furthermore, forty-two percent of Voters are confident the state's economy will improve, and forty-three percent believe their own financial situation will get better as well. Similarly, forty-two percent of California's Business Leaders believe the state is headed in the right direction—a drop of twelve percentage points since the 2000 California Business Climate Survey—and fifty-five percent feel business conditions will improve two years from now (See Fig 5).

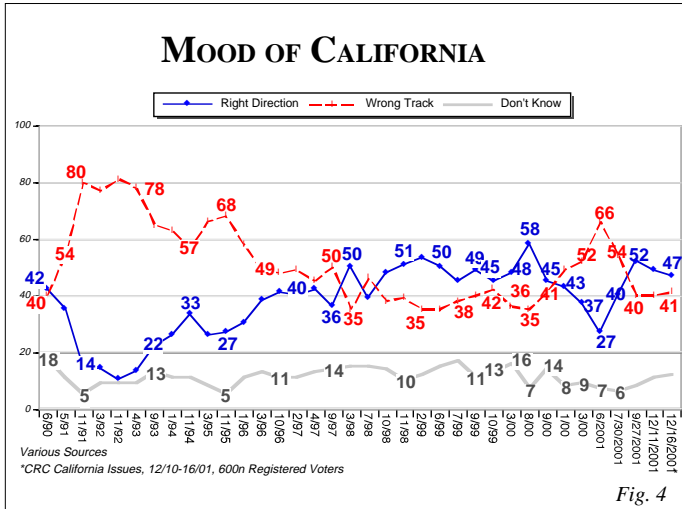


Fig. 4

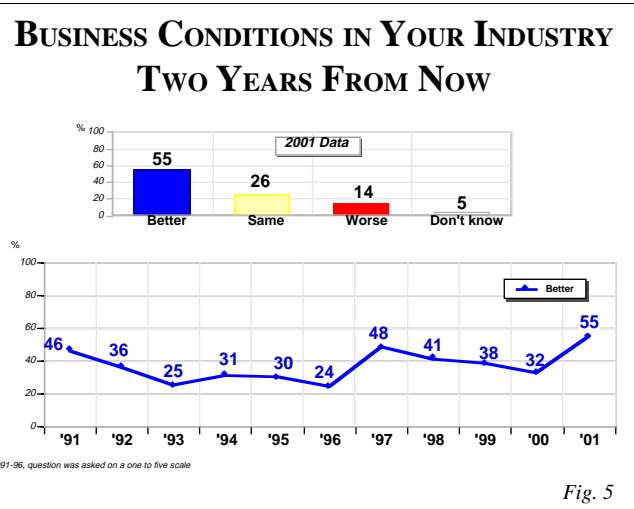


Fig. 5

MOST VOTERS AND BUSINESS LEADERS HAVE NOT EXPERIENCED CHANGES TO THEIR OWN ECONOMIC SITUATIONS

In addition to being optimistic for a future economic turnaround, most Voters and Business Leaders have not witnessed a decline in their personal or company situation since the recession hit. Nearly three-quarters of Voters indicate that their personal financial situation has improved or stayed the same over the past year, and a majority of Business Leaders say business conditions for their specific company have improved or stayed the same since two years ago (See Figs 6 & 7). However, the percentage of Business Leaders who feel conditions have worsened for their company has increased significantly from the past few years.

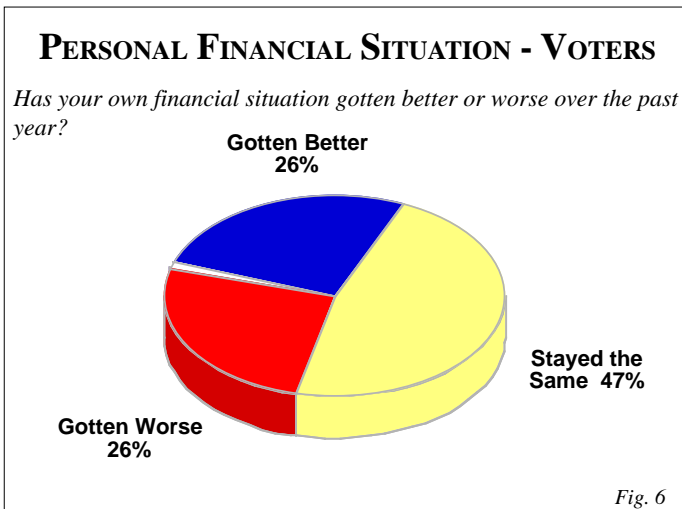


Fig. 6

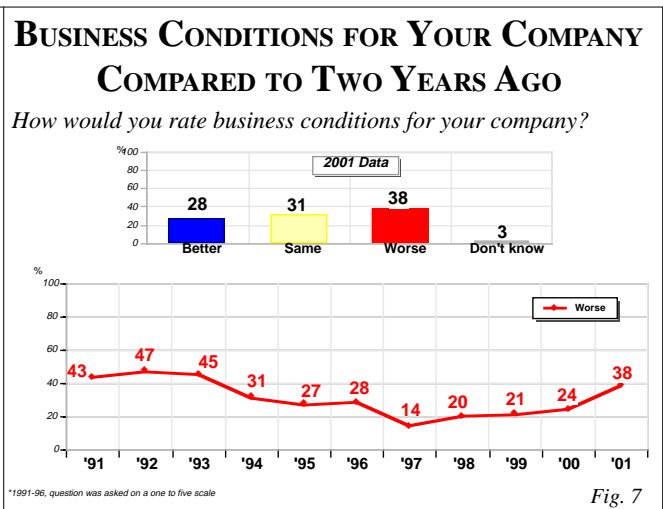
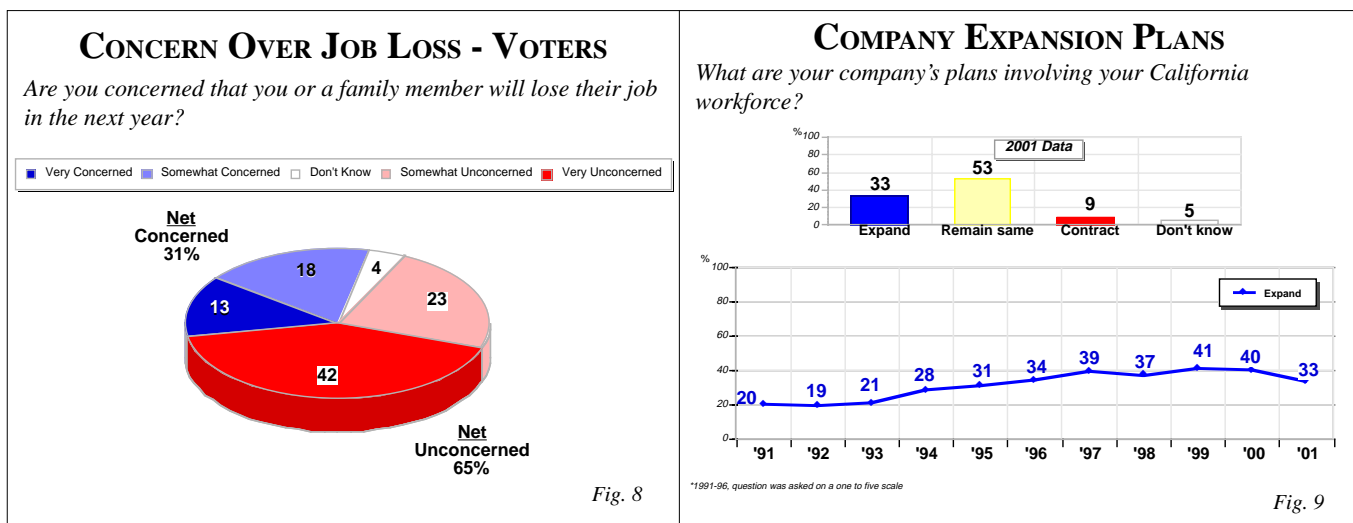


Fig. 7

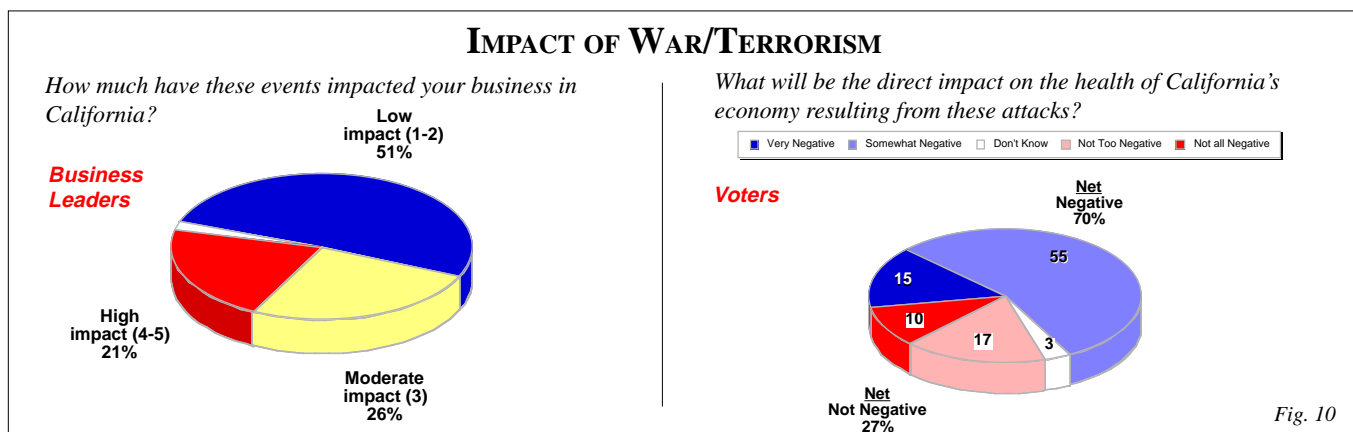
A large majority of Voters (83%) have not personally lost their jobs or had someone in their family lose their job during the last six months. *Residents in LA are more likely to report recent job loss.* More importantly, sixty-five percent are unconcerned that they or someone in their family will lose their jobs in the next year (See Fig 8). Despite these positive indications however, voters cite the economy (19%) and jobs/unemployment (13%) as the most important issues facing California.

This feeling of job security is in keeping with most current business plans. According to Business Leaders, only nine percent of companies plan to reduce their California work force this year—a three percent increase since last year. The number of firms that will expand, thirty-three percent, has decreased seven percent since last year, while fifty-three percent of companies plan to remain the same (See Fig 9). Furthermore, if planning to expand, sixty-eight percent of companies would increase their California workforce while 16% would expand in another state.

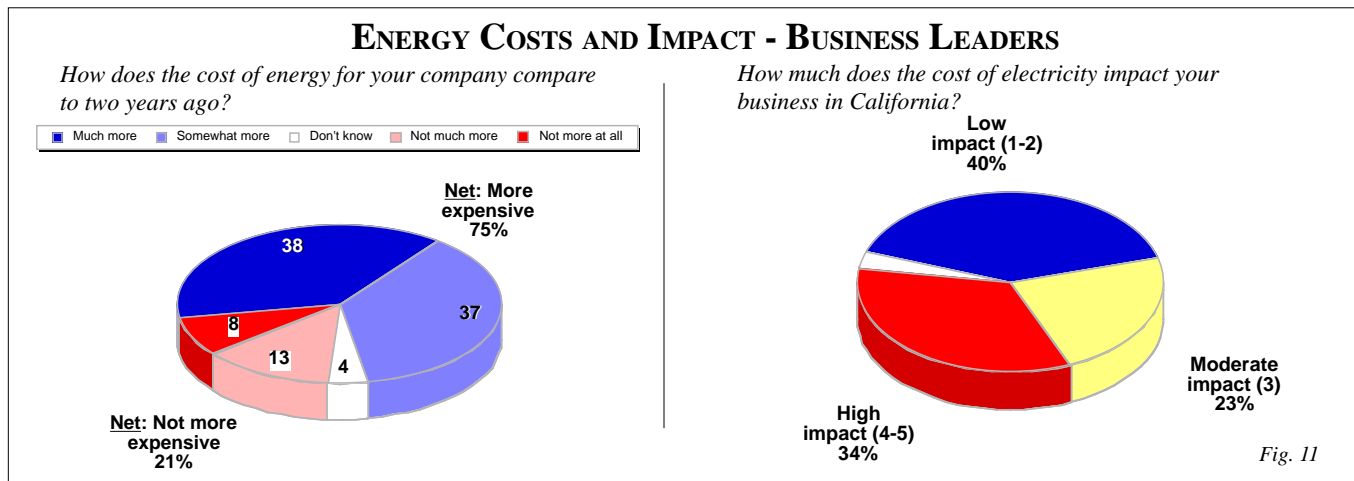


TERRORIST ATTACKS AND RISING ENERGY COSTS NOT PERCEIVED TO HAVE OVERWHELMING IMPACT ON STATE'S BUSINESS

According to Business Leaders, the impact of the war on terrorism has been low-to-moderate on the state's companies. Less than one-quarter of Business Leaders surveyed suggest the events occurring after the September 11 terrorist attacks have had a high impact on their business. These relatively mild responses are very different from the concern felt by California Voters about the impact of terrorism on the state. Seventy percent of Voters believe the attacks will have a direct impact on the health of the California economy that will be somewhat-to-very negative (See Fig 10).

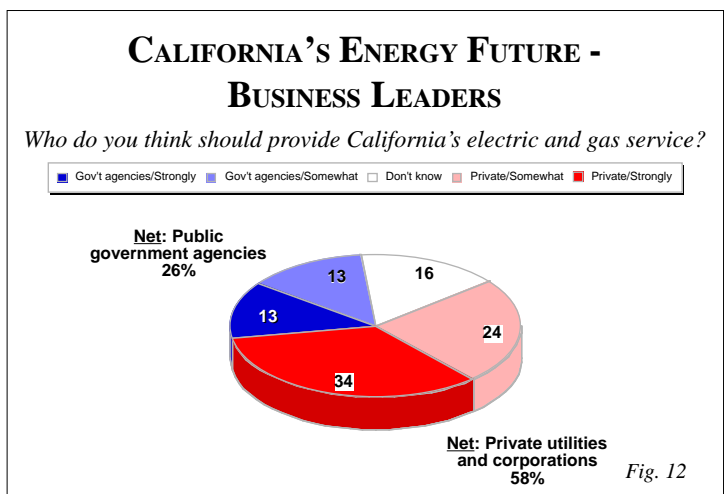


The energy crisis also has subsided as a major issue facing Business Leaders as well as Voters. Many Business Leaders agree that energy has become more expensive compared to two years ago, and only thirty-four percent indicate it has had a high impact on their operations in California (See Fig 11).



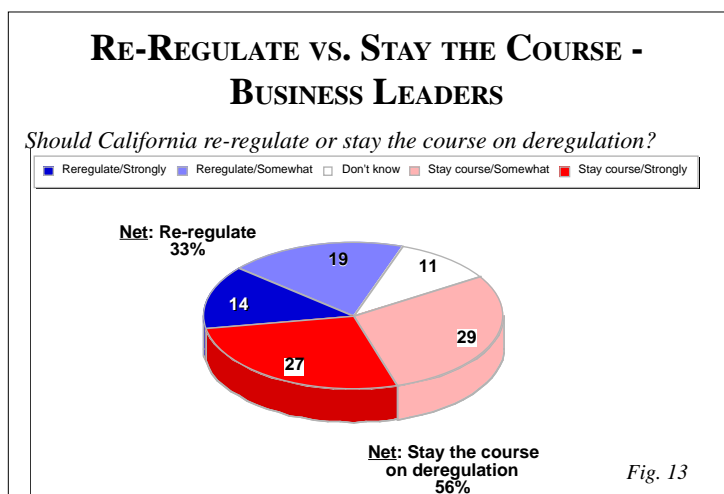
Furthermore, when asked to rate specific concerns facing California businesses, energy costs rate second to employee costs, and are followed closely by taxes, regulation, housing, and infrastructure.

Despite the higher costs, a majority of Business Leaders believe California's energy system should continue to be investor-owned. Fifty-eight percent say private utilities and corporations should provide electric and gas service, while twenty-six percent believe public agencies should once again take over the system (See Fig 12).



When asked specifically whether the state should re-regulate or stay the course on deregulation, fifty-six percent of California Business Leaders agreed with the statement that "even though the California deregulation plan was flawed, we should stay the course and not re-regulate" (See Fig 13).

In fact, a majority of Business Leaders (61%) do not blame the private utilities for mismanaging California's energy system, but instead believe the energy crisis resulted from poorly conceived and implemented plans to deregulate energy markets so that once the crisis is past, private utilities and generators will be more effective and efficient.



Finally, the importance of energy issues has also waned for the voting public since hitting its peak last summer. When asked to name the most important issue facing California in July 2001, thirty-three percent of Voters mentioned energy. By September 2001, in a survey conducted after the terrorist attacks, fifteen percent mentioned energy as people’s focus shifted toward national security. In this December survey, nine percent of Voters identified energy as the top issue facing the state, while thirty-eight percent mentioned economic issues (See Fig 14).

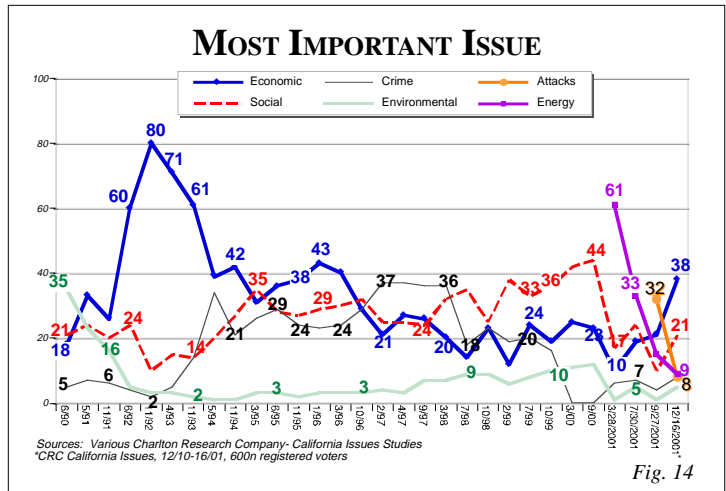


Fig. 14

VOTERS AND BUSINESS LEADERS AGREE ON UPCOMING BALLOT MEASURES; BOTH OFFER MIXED SUPPORT

Again, despite the fact that Voters believe the state is experiencing a recession, fifty-eight percent indicate that in this economic climate they are more likely to support bond measures to provide funding for public projects such as schools, roads, housing and infrastructure. Thirty-one percent are less likely. When asked about their potential support for specific bond measures, Voters and Business Leaders alike offered mixed responses.

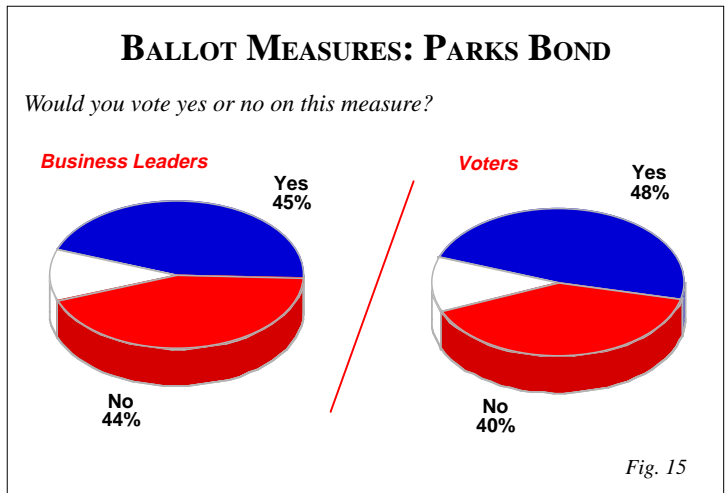


Fig. 15

Voters exhibited a strong desire to vote for an upcoming education bond designed to provide funding for education facilities, with nearly two-thirds supporting the bond. They were less willing to support a financing measure which would provide for restoration and protection of state parks and land with forty-eight percent supporting and forty percent opposing the measure. Business Leaders had a similar reaction to this potential ballot measure with forty-five percent supporting and forty-four percent opposing the parks bond (See Fig 15).

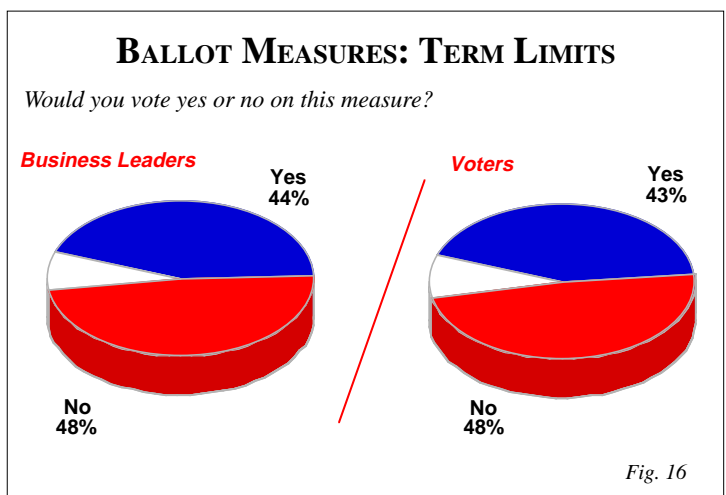


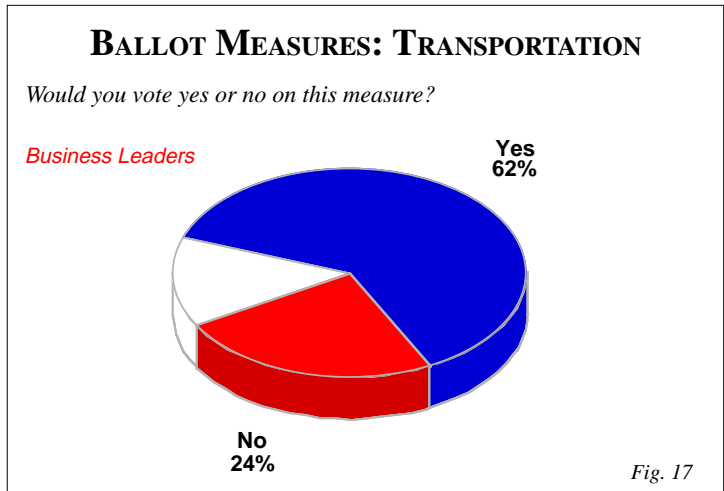
Fig. 16

Another ballot measure which allows registered voters in an Assembly or Senate district to submit petition signatures that would permit their incumbent state legislator to exceed their term limit on a one-time basis received similar mixed support. Forty-three percent of Voters and forty-four percent of Business Leaders would support this potential measure, while forty-eight percent of both groups would oppose it (See Fig 16).

Finally, a majority of Business Leaders would support a measure that would use gas tax revenue exclusively for transportation improvements (See Fig 17).

BUSINESS LEADERS CONTINUE TO DESIRE GOVERNMENT INVOLVEMENT FOCUSED MORE ON EDUCATION AND INFRASTRUCTURE ISSUES

As in the 2000 Business Climate Survey, a large number of Business Leaders agreed that government involvement, in the form of regulations and taxes, constitutes the biggest problem facing California companies. The weakened economy, cost of living, and lack of qualified employees were other problems identified. When asked how government could help business, twenty-six percent suggested lowering taxes, followed by reducing regulations and worker’s compensation costs (See Fig 18).



BIGGEST PROBLEMS FACING BUSINESSES

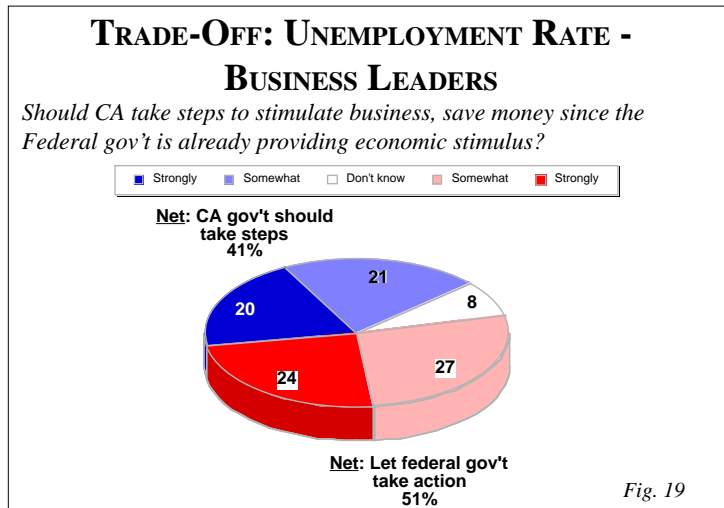
	First mentions	Total mentions
Gov't Involvement	30	44
Economy	15	21
Cost of Living	9	18
Taxes	8	14
Lack of Trained/Qualified/Educated Workers	6	10
Worker's Compensation	4	6
Labor Laws	3	4
Increase in Wages/Minimum Wage	2	5
Environmental Concerns	2	4
Labor Shortage (nonspecific)	1	3
Transportation Issues	1	2
Medical/Health Insurance/Coverage	1	2
Terrorist Attacks/War/National Security	1	2
Traffic	*	1
Other	9	14
Don't know	7	7

HOW GOVERNMENT CAN HELP

	First mentions	Total mentions
Cut/Lower taxes	21	26
Reduce regulations	12	17
Health care cost/Insurance cost	6	8
Reduce Worker's Compensation	5	10
Government can do nothing to help	5	5
Funding issues	4	5
Reduce energy/Electricity cost	3	6
Leave businesses alone	3	5
Wage issues/Overtime issues	2	4
Pass laws/Other things to help businesses/Small	2	4
Modify/Relax environmental regulations	2	3
Increase Education/Training	2	3
Fix transportation/Traffic/Road conditions	1	3
Regulate foreign imports/Trade	1	2
Housing	1	1
Immigration issues	*	1
Other	11	13
Don't know	20	20

Fig. 18

Business Leaders offer mixed reactions when asked about government involvement in ending the recession. Half of Business Leaders agree that the state government should not spend money to stimulate the economy because the federal government is already taking action, while forty-one percent believe California should take such steps (See Fig 19).



For twelve consecutive years, California Business Roundtable and California Chamber of Commerce have conducted research to assess the business climate in California. This year, two separate surveys were conducted. One survey interviewed 400 Business Leaders; 256 were from small to medium-sized companies with fewer than 100 employees, and 144 were from larger businesses with at least 100 employees. The margin of error associated with a survey of this size is +/-4.9%. The Voters survey was conducted among 600 self-identified registered California voters screened for gender and region. This survey yielded a +/-4.0% margin of error. Both surveys were conducted in December 2001.

For more information, please call the California Business Roundtable at (916) 553-4093.

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