



The Mechanics Bank Business Optimism Index

“Business Owners and Managers Show Great Optimism in the Face of Adversity”

Bay Area business people are a tough and hardy lot. And they have to be. Faced with some of the highest costs of doing business and some of the most stringent state and local government regulations in the country, doing business in the Bay Area requires vision, dedication and mental toughness.

As the country works its way through a strangely jobless recovery from a recent deep recession, The Mechanics Bank’s first annual Business Optimism Index found Bay Area business people enjoying a better year than the year before, with high expectations that the coming year will be better still. That’s not to say that they think everything is coming up roses. By significant margins, those polled said that doing business in Northern California is harder than in other parts of the country and felt that many of the external forces impacting their businesses – everything from the cost of employee benefits and transportation issues to taxes – will only get worse during the next 12 months. Still, though, when it came to forecasting the future of their own businesses, almost 9 out of every 10 Bay Area business owners and managers expected their business to be better next year.

Here, then, are the questions and responses that helped form The Mechanics Bank’s Business Optimism Index:

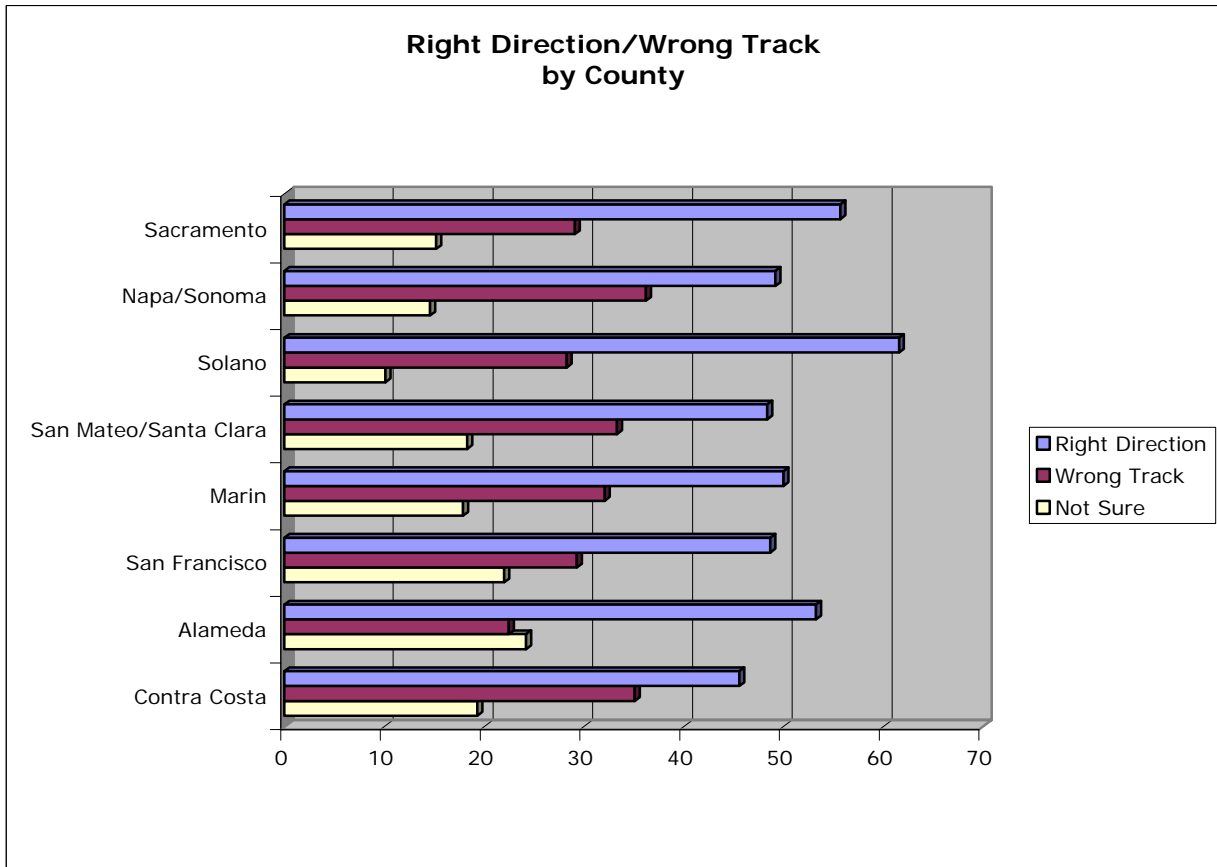
Do you think the general business climate in California is on the right track or headed off in the wrong direction?

<i>Right direction</i>	<i>51.3</i>
<i>Wrong track</i>	<i>31.1</i>
<i>Not sure/No response</i>	<i>17.5</i>

In each of the Bay Area’s counties plus Sacramento, more people believed that the general business climate is headed in the right direction than otherwise. Only in Solano, Sacramento and Alameda counties, however, did a clear majority of respondents say so. In each of the other counties comprising the Bay Area, respondents believing that things are headed in the right direction only comprised pluralities of those polled.



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And thinking about the Bay Area specifically, do you think things generally will be easier or tougher for businesses in the Bay Area in the next year?

<i>Easier</i>	<i>31.1</i>
<i>Tougher</i>	<i>54.0</i>
<i>Not sure/No response</i>	<i>14.8</i>

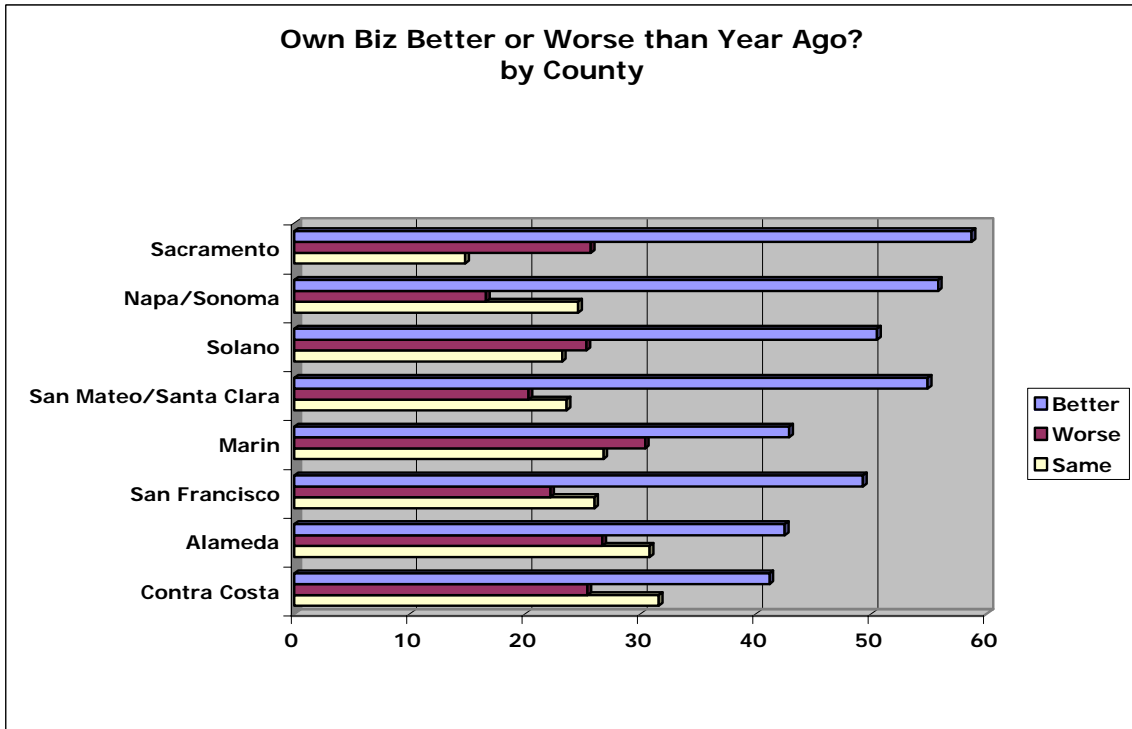
Generally, is your own business better off or worse off than it was last year at this time?

<i>Better</i>	<i>51.6</i>
<i>Worse</i>	<i>22.9</i>
<i>About the same [DO NOT READ]</i>	<i>24.0</i>
<i>Not sure/No response</i>	<i>1.5</i>



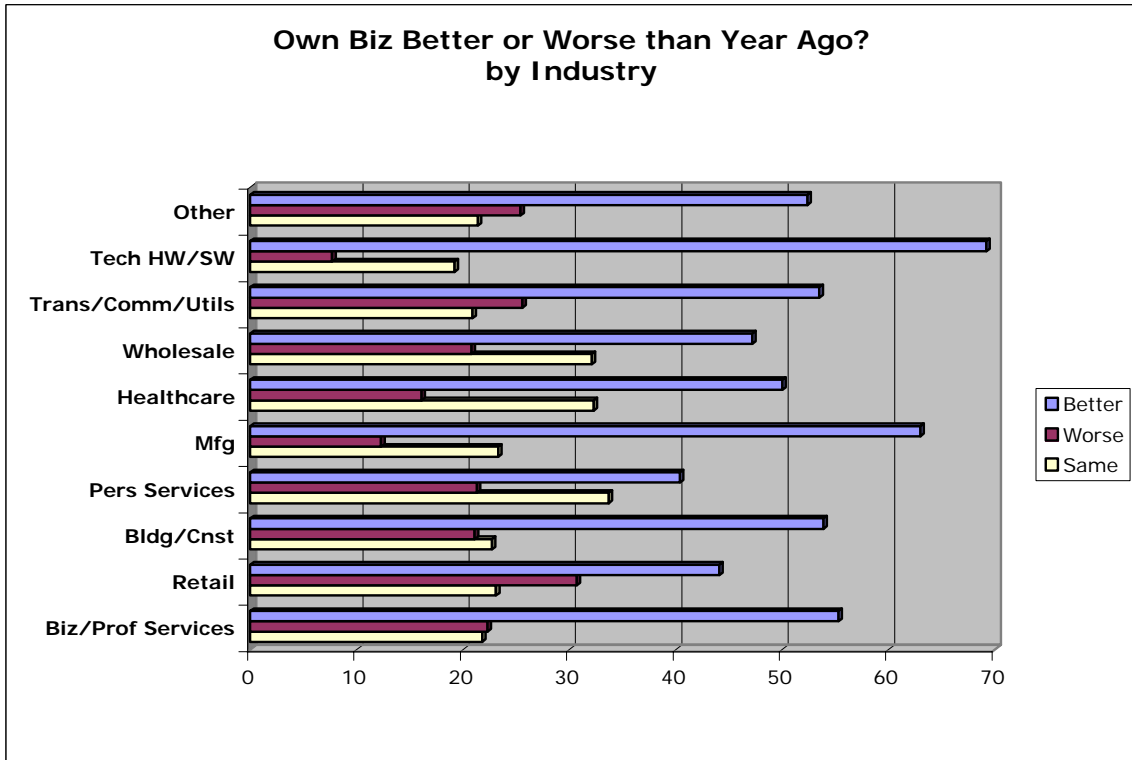
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Survey respondents in all locations and across all industries reported that their own businesses were better off now than at the same time last year. There were differences, however. Overall, businesses located in Sacramento, Napa/Sonoma and the south bay counties of San Mateo and Santa Clara led the way. Similarly, larger majorities of respondents whose businesses were in the fields of technology hardware and software, manufacturing, and professional services than other fields reported that their businesses had improved in the past 12 months.





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The core questions forming The Mechanics Bank's Business Optimism Index were designed to illuminate business owners' intentions regarding their own businesses and their expectations of some of the external forces that create the environment in which they operate. The first set of questions asked respondents how likely they were to take specific actions regarding their own businesses over the course of the next year.

Please tell me how likely you are to do each of the following during the course of the next year:

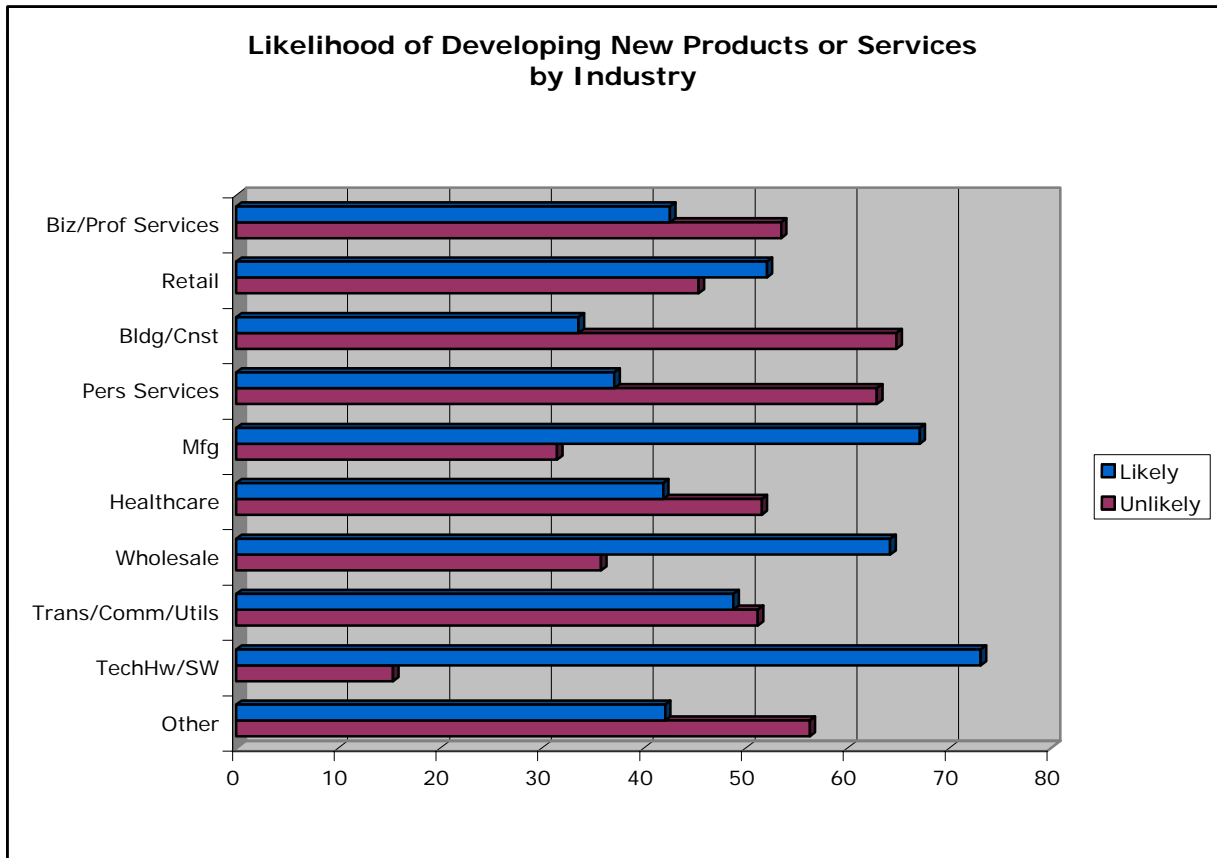
	<u>VERY LIKELY</u>	<u>SOME- WHAT LIKELY</u>	<u>SOME- WHAT UNLIKELY</u>	<u>VERY UNLIKELY</u>	<u>NS/ NA</u>
<i>Hire new employees</i>	28.9	25.5	11.1	32.6	1.9
<i>Invest in new equipment</i>	36.5	28.7	12.6	21.4	0.8
<i>See an increase in sales or revenues overall</i>	43.7	36.2	7.7	8.3	4.0
<i>Replace staff with temporary Contractors</i>	4.7	6.2	8.9	75.1	5.1
<i>Expand to new domestic markets or territories</i>	20.4	20.4	10.2	46.9	2.1
<i>See an increase in net profits</i>	40.0	36.2	9.7	10.1	3.9
<i>Borrow to finance expansion</i>	10.2	13.3	12.4	61.7	2.4
<i>Develop new product or service lines</i>	24.3	22.0	11.2	39.8	2.7
<i>Develop export markets</i>	6.0	6.7	6.7	75.9	4.8
<i>Reduce staff size or layoff employees beyond any normal seasonal or cyclical pattern</i>	3.9	4.5	12.9	73.2	5.5



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Responses to most of these questions yielded general agreement across such dimensions as county and industry. There were a few notable differences however.

Technology companies were most likely to develop new products or services in the next 12 months, followed by manufacturing companies and wholesalers. Building and construction firms were least likely.





The same pattern was found when looking at the likelihood of various industry types developing export markets. Technology companies, manufacturing companies and wholesalers were more likely to do so than were any other types of businesses.

The series of Index questions that measured expectations of the governmental, regulatory and institutional environments in which businesses operate presented the least optimistic responses of the overall study. By large margins, business owners and managers expected things to get worse over the course of the coming year. The cost of employee benefits, transportation issues and Workers Compensation were the issues about which respondents were least optimistic.

Please tell me whether you expect each of the following to get better or worse during the next 12 months.

	<u>A LOT BETTER</u>	<u>A LITTLE BETTER</u>	<u>A LITTLE WORSE</u>	<u>A LOT WORSE</u>	<u>NS/ NA</u>
<i>The availability of credit/cost of money</i>	8.1	30.2	31.6	13.8	16.2
<i>Local regulations and business requirements</i>	2.1	17.0	31.5	28.6	20.8
<i>The cost of employee benefits</i>	1.2	7.8	36.2	41.8	12.9
<i>Workers' Comp costs and requirements</i>	2.4	16.6	25.9	39.7	15.3
<i>Taxes</i>	1.3	13.3	39.5	32.0	13.9
<i>Transportation issues</i>	2.6	11.8	33.6	37.3	14.7
<i>The ability to find qualified workers</i>	7.7	31.5	23.7	21.6	15.5

Agreement on the likelihood of these factors getting worse over the course of the next year was found across the board, by geography, by industry, by size of business and by length of time doing business in the Bay Area. The overall picture created by these responses is one of little faith or trust in government at either the local or the state level to improve business conditions or the reduce the constraints under which business people labor. These findings make it abundantly clear that the optimism that business people feel is firmly grounded in their own business skills and talents and in their own abilities to succeed in a difficult environment.



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With healthcare issues and benefits having been so much in the news in recent years, the survey asked respondents whether their businesses provided these benefits to their employees. Within the context of reported pessimism about the cost of employee benefits, the incidence of those businesses still offering healthcare benefits may be surprising.

Does your company provide healthcare benefits to employees?

<i>Yes</i>	48.8
<i>No</i>	48.6
<i>Not sure/No response</i>	2.6

Businesses in the transportation, communications and utilities industries were most likely to provide healthcare benefits for employees, along with wholesale, and the building and construction trades. Interestingly, only 53% of healthcare businesses surveyed provided healthcare benefits for employees. Generally, businesses that have been in business longer are more likely to offer healthcare benefits than are newer businesses.

We also asked all of those surveyed whether their business' position on healthcare benefits was a change from last year. While overall, only about 9% of respondents indicated any change in policy, those whose policies did change were more likely to have added benefits rather than to have eliminated existing benefits.

Is that a change from last year?

<i>Yes</i>	8.9
<i>No</i>	89.3
<i>Not sure/No response</i>	1.8

Business owners and managers across the board believed that doing business in Northern California is harder than in other parts of the country.

Do you think doing business in Northern California is easier or harder than in other parts of the country?

<i>Easier</i>	18.8
<i>Harder</i>	58.6
<i>Not sure/No response</i>	22.6

With all the challenges of doing business in a region considered to be harder for business and amid low expectations of that environment changing for the better, respondents to The Mechanics Bank's Business Optimism Index remained wildly optimistic about their own businesses. Almost 9 of 10 respondents in all counties in the Bay Area and in all industries expected their business to be better one year from today.



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Do you expect your business to be better or worse one year from today?

<i>Better</i>	86.2
<i>Worse</i>	5.8
<i>Not sure/No response</i>	8.0

Maybe the most telling response to the survey, and the one most reflective of the general sense of optimism it found, was the overwhelming majority of business people who said that if they had it to do over again – even in the face of all the regulations, costs and obstacles faced by business people every day – they still would start the same business again.

Taking into consideration everything about your business, if you had it to do over again, would you? [Probe if necessary – would you start the same business again?]

<i>Definitely yes</i>	65.7
<i>Probably yes</i>	17.3
<i>Maybe</i>	4.0
<i>Probably not</i>	4.0
<i>No</i>	7.7
<i>Not sure/No response</i>	1.2

That spirit – that optimism – reflects the heart and soul of those hardy individuals who own and operate small businesses throughout the Bay Area.

The Mechanics Bank’s Bay Area Business Optimism Index is based on a telephone survey of 1,214 randomly-selected owners and senior managers of Bay Area businesses with annual revenues ranging from \$50,000 to \$20,000,000. Survey results are accurate to within ± 2.8 percent at the 95% confidence level. The Optimism Index defines 17 business indicators that represent Optimism in business. Periodic tracking of those indicators will allow The Mechanics Bank to analyze and report upon future increases and decreases in Optimism over time. The survey was conducted for The Mechanics Bank by Seldin Research, an independent market research company located in Half Moon Bay. Full results of the survey can be found on The Mechanics Bank’s website, at www.mechbank.com.