SEATTLE EXECUTIVES ASSOCIATION

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IMPACT

August 13, 2008

Greater Seattle Area Survey of Current Business Conditions

The Impact Center in the School of Economic Sciences at Washington State University and the Seattle Executives Association began their inaugural survey of current business conditions in July 2008. The survey was designed to gather detailed and reliable information on general business conditions specific to the Greater Seattle Area and the Pacific Northwest, including:

- Measures of economic optimism
- Labor forecasts
- Financial conditions
- Output markets

The survey results are intended to provide local businesses, government officials, and the media with information about current and potential future business issues. To insure the information is relevant, the survey will be conducted quarterly, and the results will be posted on the website of the IMPACT Center (www.impact.wsu.edu) located in the School of Economic Sciences at Washington State University.

This survey is the result of a cooperative effort between the School of Economic Sciences and Seattle Economics Associates (SEA), and particular acknowledgement is owed to Glenna Thomas and Jack Goldberg of SEA for coordinating the survey. Furthermore, everyone involved in the design, implementation, and analysis of the survey would like to thank the members of the SEA for their willingness to participate in this survey. Authors contributing to this report include:

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Survey Methodology

Population

Participants in the quarterly survey are members of the Seattle Executives Association. The Association is an exclusive network of currently 120 executives from the Greater Seattle Area. Each member individually represents their specific business sector. Therefore, survey results from this population provide a broad perspective across industries but do not provide broad insight into any industry specific issues that might exist.

Instrument Design

The survey is designed to be administered online. Internet surveys allow for the development of an easy-to-use instrument and provide a cost-effective means of rapid data collection. All of the questions in the survey are multiple-choice or some other closed-form format. No open-ended questions or comment fields are included to eliminate any subjectivity in data coding. Respondents who are unable or unwilling to use the online instrument have the opportunity to print a hardcopy of the questionnaire and fax their responses to SEA upon completion. Subsequently, the information is transcribed to the online survey instrument. It is expected that respondents can complete the survey in ten minutes or less without the consultation of specific business records.

Survey questions are presented in four categories. The specific categories are:

- Firm Characteristics
- Current Business Conditions
- Business Conditions Outlook
- Current Economic Issues

The first three categories of questions are expected to remain relatively unchanged across editions of the quarterly survey. This consistency facilitates analysis and comparisons across time periods in addition to current response summarization. However, questions and response items may be altered as necessary to refine the data collection instrument. Questions in the fourth and final section can be substantially altered as useful or necessary, each time the survey is administered, to gain information on pressing issues in the local economy. The results section describes the questions in each of the four categories, summarizes responses to each question from the current survey, and outlines the respondents' general sentiment.

Results

The 2008 second quarter survey instrument became available to SEA members on July 1st, and responses were collected until July 24th. The total number of respondents was 105. As such, the effective response rate is 87.5%.

Firm Characteristics

The Firm Characteristic questions provide demographic information. They do not ask about business conditions; however they provide context for the remaining survey responses. Responses to Questions 1–4 imply that most of the companies are small to medium sized service based corporations located in the City of Seattle. Responses to Question 5 indicate that the vast majority of the respondents pay for some portion of their employees' health insurance, a slightly smaller percentage contributes to employee retirement funds, and less than half pay for employee life insurance.

Question 1: *What is your form of business organization?*

Company Type	Number of Responses
Sole Proprietorship	9
Partnership	7
Sub-S Corporation	40
Other Corporation	49

Question 2: *What general geographic region does your business operate in?*

Location	Number of Responses
Seattle	66
Everett	1
Edmonds/Lynwood/Snohomish	7
Bothell/Kirkland/Redmond	8
Bellevue	7
Renton	1
SeaTac	1
Burien/Des Moines/Kent	4
Gig Harbor/Tacoma	2
Other	8

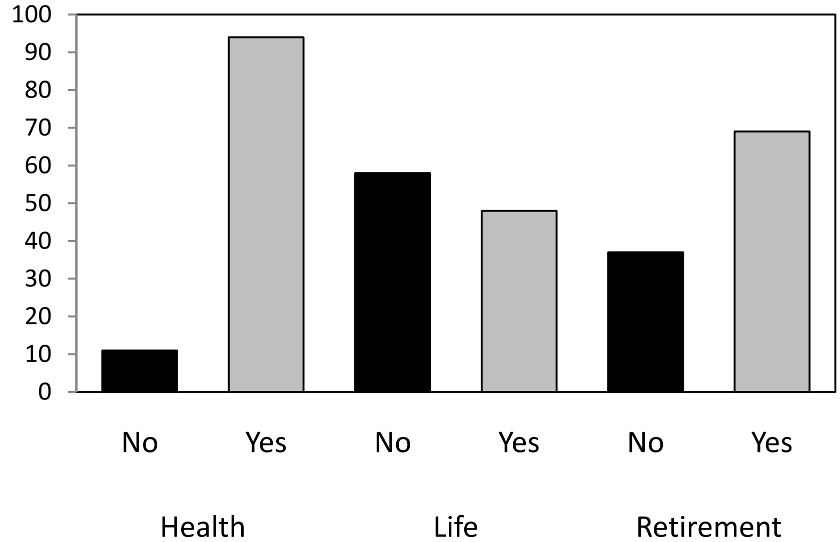
Question 3: *What is your primary business classification?*

Industry	Number of Responses
Arts and Entertainment	1
Communication and Information Services	10
Construction	14
Finance and Insurance	5
Health Care and Social Services	4
Hospitality and Restaurants	7
Manufacturing	3
Professional Services	14
Real Estate and Rentals	5
Retail Trade	8
Transportation and Warehousing	7
Utilities	2
Wholesale Trade	1
Other Goods	2
Other Services	22

Question 4: *How many full-time equivalent employees are in your firm?*

Size	Number of Responses
1 - 10	34
11 - 25	22
26 - 50	16
51 - 100	14
101 - 250	8
Over 250	11

Question 5: *Do you offer and pay some portion of health insurance, life insurance, or retirement benefits for your full-time employees?*



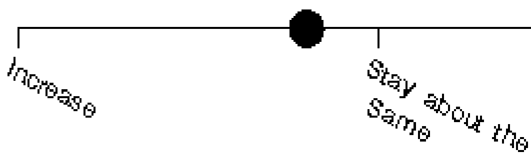
Current Business Conditions

The Current Business Condition questions (Questions 6–12) are posed in two formats, Likert Scale (Questions 6–9) and multiple choice (Questions 10–12). The Likert Scale questions require respondents to select a response from a range of possibilities. The range is encapsulated by extreme responses and centered on a neutral response. For example in Question 7, respondents can select from one of five responses ranging from "Significantly More Difficult" to "Significantly Less Difficult". In the graphical analysis of each Likert question the average response is represented by a black dot. The various responses are coded with integer values, the range of possibilities being $\{1,2,3,4,5\}$ for questions with five possible responses as in Question 7, or $\{1,2,3\}$ in the case where only three responses were possible. A table of numerical summary statistics relating to all of the Likert questions in the survey is presented at the end of this report.

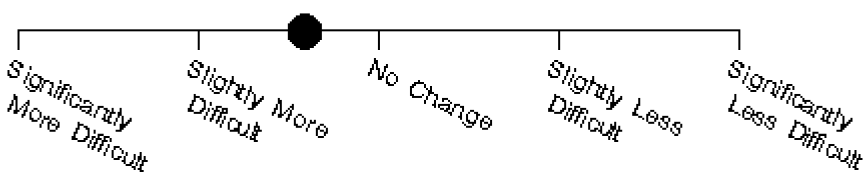
The multiple choice Current Business Conditions questions are all interrelated. In the first question (Question 10) the respondent is presented a list of 12 potential problem areas and asked to select the one that they consider the primary problem facing their business. Subsequently, the respondent is presented with the list of potential problem areas two more times and asked to identify the second and third most important problems affecting their business. In addition, respondents are asked to indicate the relative importance of the three problem areas they identify. The relative importance of the problems is indicated by assigning a percentage value, from 0 to 100, to each problem. The three percentage values should sum to 100. The results tables for Questions 10–12 present the five problem areas most frequently identified as primary, secondary, and tertiary problems. The tables also report the average importance rating assigned by respondents who selected each problem area.

Responses to the Current Business Conditions questions indicate that during the past three months, companies' sales and inventory have remained essentially unchanged while their number of employees has slightly increased. During the same time period companies found it somewhat more difficult to finance capital expenditures. Currently, uncertainty about the future of the economy, the availability of quality labor, and changing material costs are the most frequently cited primary or secondary problem areas facing businesses. Domestic business competition and health care expenses are also of notable concern for businesses.

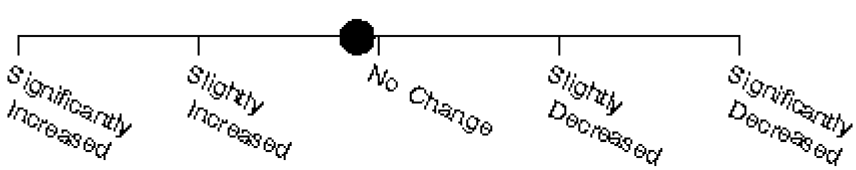
Question 6: *During the past three months, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



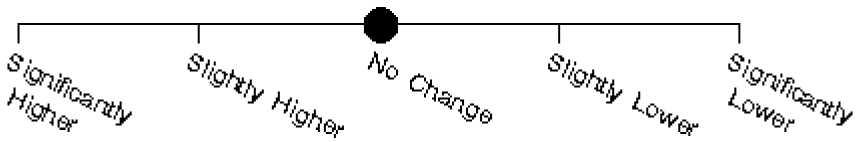
Question 7: *During the past three months, was it easier or harder for your firm to finance capital expenditures compared to 4 - 6 months ago?*



Question 8: *Over the past three months, have your inventory levels increased or decreased?*



Question 9: *During the past three months, were your firm's dollar sales higher or lower than 4-6 months ago?*



Question 10: *What is the first main problem facing your firm today?*

	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	39	59%
Availability of High Quality Labor	18	53%
Competition from Domestic Businesses	11	50%
Changes in the Costs of Materials	11	48%
Health Care Expenses for Employees	7	53%

Question 11: *What is the second main problem facing your firm today?*

	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	17	27%
Availability of High Quality Labor	15	30%
High Energy, Water or Other Utility Costs	14	27%
Changes in the Costs of Materials	11	25%
Financing and Interest Rates	8	32%

Question 12: *What is the third main problem facing your firm today?*

	Number of Responses	Mean Relative Importance of the Problem
Health Care Expenses for Employees	22	20%
Competition from Domestic Businesses	14	18%
Uncertainty about the Future of the Economy	12	23%
High Energy, Water or Other Utility Costs	10	20%
Other	10	15%

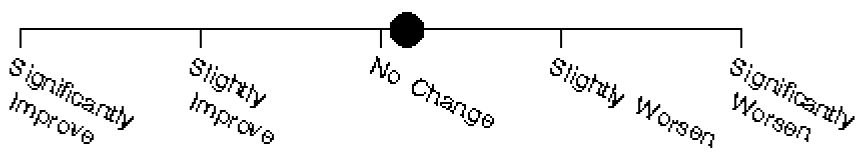
Business Conditions Outlook

The Business Conditions Outlook section presents similar content to the Current Business Conditions section, except the time horizon is changed to be forward-looking. In particular, respondents are asked about their expectations for the upcoming business quarter.

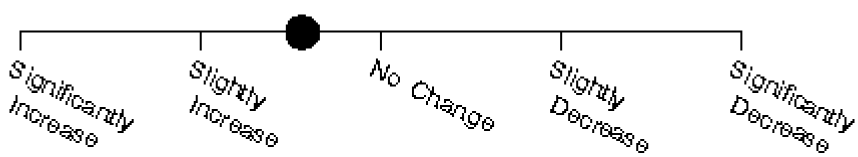
Businesses foresee little change in regional economic conditions during the next three months. However, they expect a small increase in sales and in the number of people employed in their firms. Capital expenditures are expected to be maintained at current levels, but businesses expect financing for expenditures to be somewhat more difficult to attain.

Uncertainty about the future of the economy appears to be the dominant problem for business during the 3^{rd} quarter of 2008. It is the most frequently cited primary, secondary, and tertiary issue. In addition, issues of domestic business competition and the availability of labor maintain their level of importance from the previous quarter.

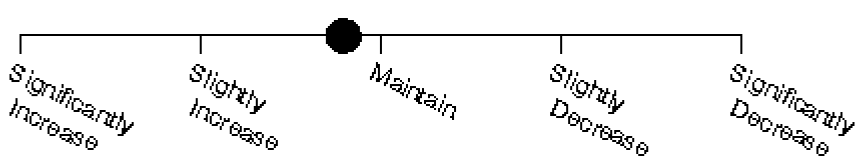
Question 13: *Do you think general economic conditions within the Greater Seattle area will improve or worsen over the next three months?*



Question 14: *Do you expect your firm's dollar sales to be higher or lower during the next three months?*

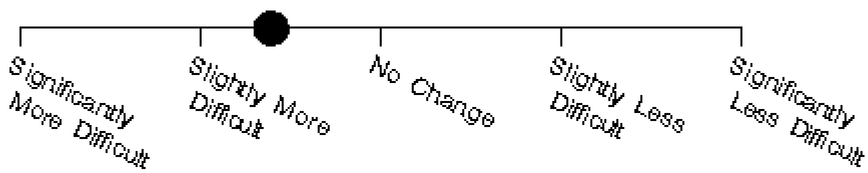


Question 15: *Do you plan to increase, maintain, or decrease the number of full-time equivalent employees during the next three months?*



Question 16: *Do you plan to increase, maintain, or decrease capital expenditures over the next three months?*

Question 17: *Do you expect it to be more or less difficult for the typical firm in your industry to finance capital expenditures over the next three months?*



Question 18: *What do you expect to be first main problem facing your firm over the next three months?*

	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	37	60%
Availability of High Quality Labor	17	54%
Competition from Domestic Businesses	14	54%
Changes in the Costs of Materials	12	49%
Financing and Interest Rates	8	50%

Question 19: *What do you expect to be second main problem facing your firm over the next three months?*

	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	20	28%
Availability of High Quality Labor	13	28%
Competition from Domestic Businesses	13	25%
High Energy, Water or Other Utility Costs	12	28%
Health Care Expenses for Employees	9	31%

Question 20: *What do you expect to be third main problem facing your firm over the next three months?*

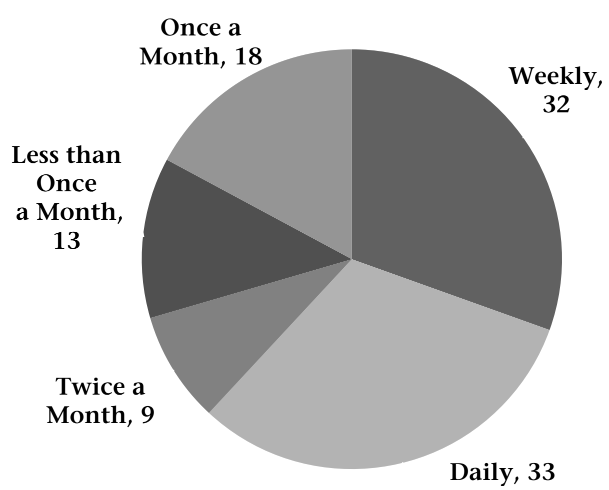
	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	17	23%
Health Care Expenses for Employees	16	19%
Inflation	11	17%
Other	11	12%
High Energy, Water or Other Utility Costs	10	19%

Current Economic Issues

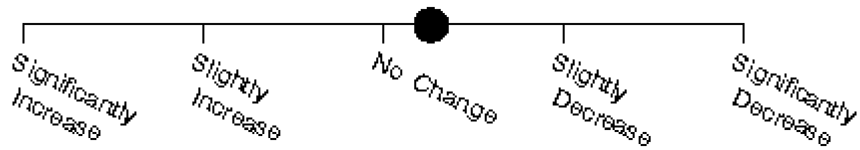
The Current Economic Issues section is designed to contain questions about topics that appear to be of particular importance during the pertinent quarter. These questions are expected to be updated, as needed, to maintain the relevancy of this section as the importance and priority of issues change over time.

Questions 21–24 indicate that most business leaders stay abreast of regional economic issues by monitoring them at least weekly. Despite the publicity of recent changes in fuel markets, businesses expect the volatility in these markets to result in only a minor decrease in their financial status. Furthermore, even though a majority of businesses procure their inputs within the region, it appears that the current transportation infrastructure is felt not to be notably constraining on their growth potential.

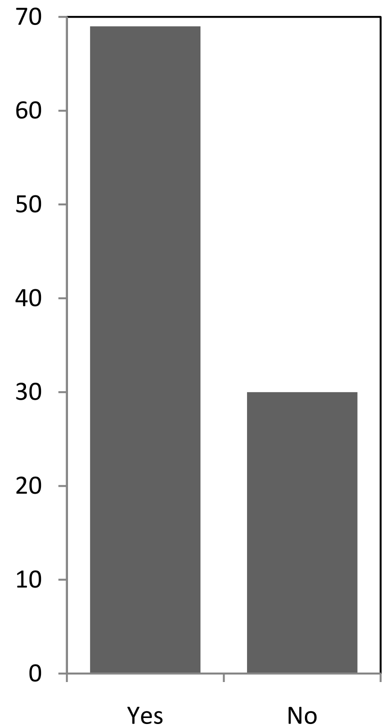
Question 21: *How frequently do you monitor regional economic conditions?*



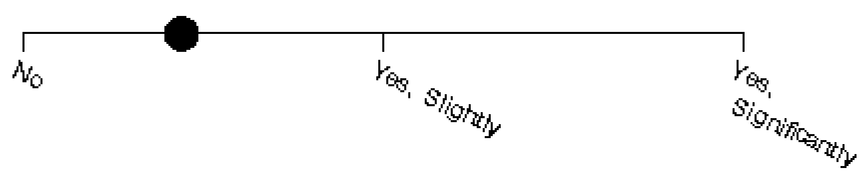
Question 22: *Do you expect the recent volatility of fuel prices to significantly increase or decrease the long-run financial well-being of your firm?*



Question 23: *Are most of your supplies obtained within the Pacific Northwest?*



Question 24: *Is your firm's growth potential limited by the current infrastructure (roads, rail, etc.) available in your geographic area?*



Summary Statistics for Likert Scale Questions

Question	N	Min	Max	Mean	Std Dev
6. During the past three months, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?	105	1	3	1.80	0.67
7. During the past three months, was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?	75	1	5	2.59	0.81
8. Over the past three months, have your inventory levels increased or decreased?	66	1	5	2.88	0.89
9. During the past three months, were your firm's dollar sales higher or lower than 4-6 months ago?	105	1	5	3.01	1.19
13. Do you think general economic conditions within the Greater Seattle area will improve or worsen over the next three months?	105	1	5	3.14	0.92
14. Do you expect your firm's dollar sales to be higher or lower during the next three months?	105	1	5	2.56	1.00
15. Do you plan to increase, maintain, or decrease the number of full-time equivalent employees during the next three months?	105	1	4	2.79	0.62
16. Do you plan to increase, maintain, or decrease capital expenditures over the next three months?	105	1	5	3.05	0.86
17. Do you expect it to be more or less difficult for the typical firm in your industry to finance capital expenditures over the next three months?	105	1	5	2.39	0.81
22. Do you expect the recent volatility of fuel prices to significantly increase or decrease the long-run financial well-being of your firm?	103	1	5	3.26	1.15
24. Is your firm's growth potential limited by the current infrastructure available in your geographic area?	105	1	3	1.44	0.71