December 5, 2008

Greater Seattle Area Survey of Current Business Conditions - Third Quarter[1]

The Impact Center in the School of Economic Sciences at Washington State University and the Seattle Executives Association began their second quarterly survey of current business conditions in October 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 timely, the survey is conducted quarterly, and the results are posted on the website of the IMPACT Center (http://impact.wsu.edu/survey/EconomicOutlook.html) 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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[1] Revised December 5, 2008 to correct results for Questions 9-11 and 17-19.

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 third quarter survey instrument became available to SEA members on October 3rd, and responses were collected until October 24th. The total number of respondents was 92. As such, the effective response rate is 76.7%.

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. As expected, the reported Firm Characteristics closely match the responses from the previous quarter.

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

Company Type	Number of Observations
Sole Proprietorship	9
Partnership	6
Sub-S Corporation	38
Other Corporation	39

Question 2: *What geographic area represents the location of your business?*

Location	Number of Observations
Seattle	55
Edmonds/Lynwood/Snohomish	7
Bothell/Kirkland/Redmond	5
Bellevue	6
Renton	3
Issaquah/North Bend	1
SeaTac	1
Burien/Des Moines/Kent	3
Other	11

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

Industry	**Number of Observations**
Communication and Information Services	8
Construction	10
Finance and Insurance	6
Health Care and Social Services	3
Hospitality and Restaurants	6
Manufacturing	4
Professional Services	16
Real Estate and Rentals	7
Retail Trade	9
Transportation and Warehousing	6
Utilities	1
Other Goods	1
Other Services	15

Question 4: *What is the number of full-time equivalent employees in your firm?*

Size	**Number of Observations**
1 - 10	35
11 - 25	19
26 - 50	15
51 – 100	8
101 – 250	7
Over 250	8

Current Business Conditions

The Current Business Condition questions (Questions 5–11) are posed in two formats, Likert Scale (Questions 5–8) and multiple choice (Questions 9–11). 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 6, 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, and 5} for questions with five possible responses as in Question 6, 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 9) 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 9–11 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, inventory, and number of employees have remained essentially unchanged. During the same time period companies found it somewhat more difficult to finance capital expenditures.

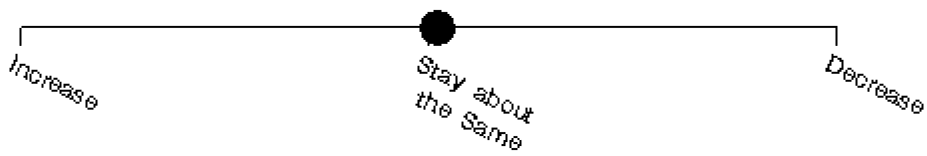
Uncertainty about the future of the economy was the most frequently cited primary and overall problem facing businesses during the quarter. However, Interest rates and the availability of quality labor both appear to be more important issues. Health care costs, domestic competition, and material costs were also frequently cited problems but of lesser importance.

Quarterly Reconciliation

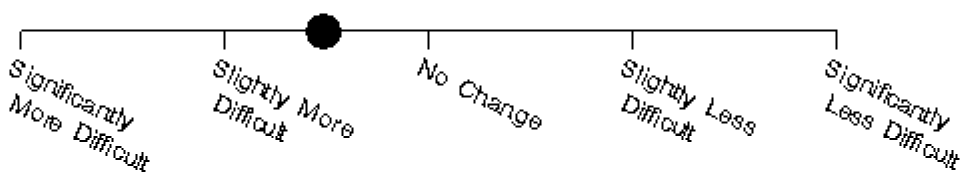
In addition to providing information about the most recent quarter; the survey instrument was designed to facilitate the comparison of responses across time. The comparison is conducted by juxtaposing the Business Conditions Outlook responses from the previous survey with the Current Business Conditions responses from this survey. This exercise allows us to reconcile what business leaders *expected to happen* during a quarter with what *actually happened*.

Comparison of Q3 responses with the Q2 outlook indicates that businesses realized their expectations for overall economic issues but deviated on individual business measures. Specifically, uncertainty about the economy and the availability of labor were expected to be the primary issues in the quarter. Furthermore, businesses anticipated a small *increase* in employees and sales, not the *stagnant to declining* numbers that were reported for the current quarter. One notable exception is that firms did accurately foresee the decline in access to financing indicated in the survey responses from the previous quarter.

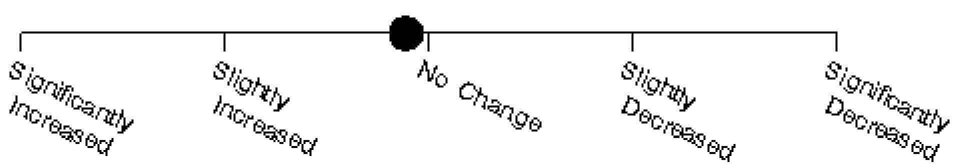
Question 5: *During the past three months, did the number of full-time equivalent employees in your firm change?*



Question 6: *During the past 1-3 months, was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?*



Question 7: *Over the past three months, have your inventory levels changed?*



Question 8: *During the past 1-3 months, were your firm's sales higher or lower compared to 4-6 months ago?*

Question 9: *What would be of greatest concern to your firm today?*

	Number of Responses	**Mean Relative Importance of the Problem**
Uncertainty about the Future of the Economy	56	60%
Competition from Domestic Businesses	8	58%
Availability of High Quality Labor	8	55%
Financing and Interest Rates	7	74%
Changes in the Costs of Materials	6	46%

Question 10: *What would be the second greatest concern to your firm today?*

	Number of Responses	**Mean Relative Importance of the Problem**
Financing and Interest Rates	19	28%
Availability of High Quality Labor	13	24%
Health Care Expenses for Employees	10	27%
Uncertainty about the Future of the Economy	10	23%
Changes in the Costs of Materials	9	26%

Question 11: *What would be the third greatest concern to your firm today?*

	Number of Responses	Mean Relative Importance of the Problem
Health Care Expenses for Employees	22	16%
Competition from Domestic Businesses	13	19%
Other	11	7%
Financing and Interest Rates	10	19%
Availability of High Quality Labor	8	18%

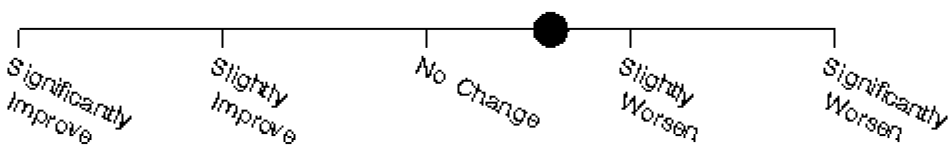
Business Conditions Outlook

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.

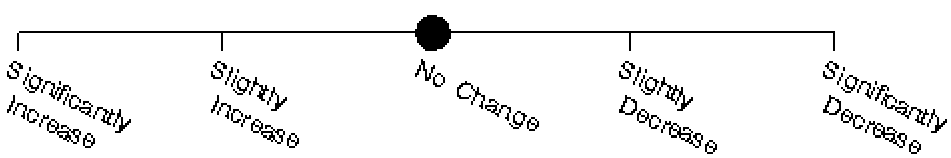
Businesses foresee a negative change in regional economic conditions during the next three months. This outlook is evidenced by the expectation of decaying regional economic conditions, decreased capital expenditures, and a further reduction in the access to financing.
No changes are expected in the level of sales or employees.

Uncertainty about the future of the economy and interest rates appear to be the most frequently identified problems for business during the 4th quarter of 2008. These issues along with domestic competition and labor availability are expected to be the most important issues in the final quarter.

Question 12: *Over the next three months, do you think that general economic conditions within the Greater Seattle area will change?*

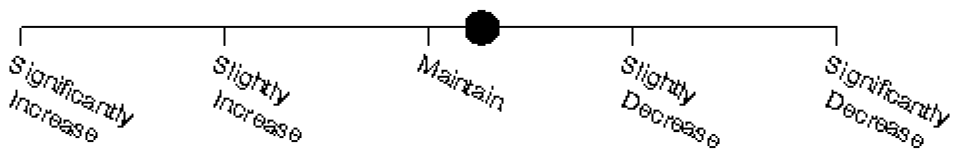


Question 13: *During the next three months, do you expect your firm's sales to change?*

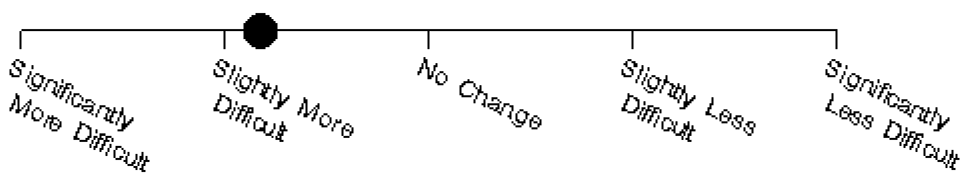


Question 14: *During the next three months, do you plan to change the number of full-time equivalent employees?*

Question 15: *During the next three months, do you plan to increase, maintain, or decrease capital expenditures?*



Question 16: *During the next three months, do you expect it to be more or less difficult for the typical firm in your industry to finance capital expenditures?*



Question 17: *What would be of greatest concern to your firm over the next three months?*

	Number of Responses	**Mean Relative Importance of the Problem**
Uncertainty about the Future of the Economy	52	62%
Changes in the Costs of Materials	10	47%
Financing and Interest Rates	9	68%
Availability of High Quality Labor	8	60%
Competition from Domestic Businesses	7	55%

Question 18: *What would be the second greatest concern to your firm over the next three months?*

	Number of Responses	Mean Relative Importance of the Problem
Financing and Interest Rates	17	26%
Availability of High Quality Labor	13	25%
Uncertainty about the Future of the Economy	13	24%
Competition from Domestic Businesses	11	25%
Inflation	11	22%

Question 19: *What would be the third greatest concern to your firm over the next three months?*

	Number of Responses	Mean Relative Importance of the Problem
Health Care Expenses for Employees	20	17%
Financing and Interest Rates	11	17%
Competition from Domestic Businesses	10	18%
Changes in the Costs of Materials	10	16%
Uncertainty about the Future of the Economy	9	13%

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.

Last quarter, most business leaders indicated that they stay abreast of regional economic issues by monitoring them at least weekly. This quarter we inquired about the sources that are used to gather that information. Local business journals were identified by a majority of respondents as the most reliable source for this type of information, followed by local and national newspapers.

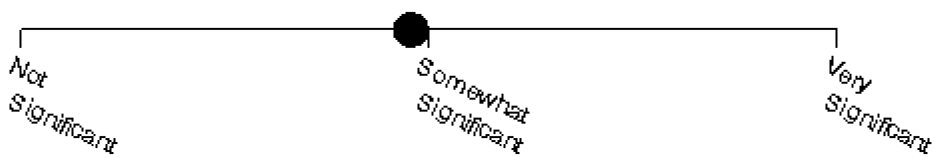
In a continuation of the questions related to the fuel market, respondents were asked to estimate the significance of the increased level and volatility of fuel prices as it relates to their businesses long-run financial well-being. The results indicate that businesses believe the escalated level and volatility is fairly significant to their long-run well-being. However, the question does not specify whether the change in well-being is positive or negative. Interestingly, responses last quarter showed only a modest decrease in financial well-being due to volatility in fuel prices.

Two new questions were added to the survey to ascertain the effect of recent changes in the finance markets. First, respondents were asked how significant the recent market fluctuations were to their long-run financial well being. On average, respondents indicated that the fluctuations were fairly significant in their financial well-being. Comparison of the fuel market and financial market questions shows that, on average, the financial market is more important for firms. Secondly, respondents were asked what they felt the Federal Government's role should be in stabilizing the credit markets. This question was of particular interest because Congress was debating the "financial bail-out" legislation during the end of the quarter. The response choices ranged from a free market approach (The Government should not be involved, the market will self-correct) to direct government intervention similar the final legislation (The Government should take an aggressive financial position in purchasing at-risk assets). Intermediate response choices included "The Government should provide increased oversight, but not have a financial stake in the market" and "The Government should provide insurance or other options to create a financial saftey net", both of which were discussed as legislative options. An equal number of respondents selected the extreme options for government invlovement (16 -18 percent), 40 percent believe the Government should provide increased oversight, and the remaining 26 percent thought the Government should provide a saftey net. The average result indicated moderate Government involvment, somewhere between providing increased oversight and a financial saftey net.

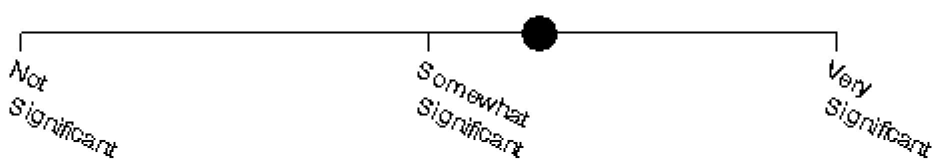
Question 20: *What do you believe is the most reliable source for monitoring regional economic conditions?*

News Source	Number of Observations
Local/Regional Print Newspaper	15
National Print Newspaper	12
Internet Web Site	9
Television News	4
Radio	5
Local Business Journals	35
Trade Publications	5
Other Source	7

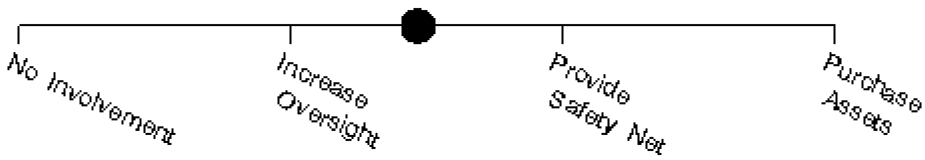
Question 21: *How significant is the escalated level and volatility of fuel prices to the long-run financial well-being of your firm?*



Question 22: *How significant is the instability of the credit markets to the long-run financial well-being of your firm?*



Question 23: *What do you believe the Federal Government's role should be in stabilizing the credit markets?*



Summary Statistics for Likert Scale Questions

Question	N	MIN	MAX	MEAN	Std. Dev.
During the past three months, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?	92	1	3	2.02	0.59
During the past 1-3 months, was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?	62	1	4	2.48	0.80
During the past 1-3 months, have your inventory levels increased or decreased?	54	1	4	2.89	0.66
During the past 1-3 months, were your firm's dollar sales higher or lower compared to 4-6 months ago?	92	1	5	3.13	1.18
During the next three months, do you think that general economic conditions within the Greater Seattle area will improve or worsen?	92	2	5	3.61	0.96
During the next three months, do you expect your firm's dollar sales (or gross income) to increase or decrease?	92	1	5	3.03	1.06
During the next three months, do you plan to increase, maintain, or decrease the number of full-time equivalent employees?	92	2	5	3.03	0.69
During the next three months, do you plan to increase, maintain, or decrease capital expenditures?	92	2	5	3.26	0.74
During the next three months, do you expect it to be more or less difficult for the typical firm in your industry to finance capital expenditures?	92	1	4	2.17	0.83
How significant is the escalated level and volatility of fuel prices to the long-run financial well-being of your firm?	92	1	3	1.96	0.69
How significant is the instability of the credit markets to the long-run financial well-being of your firm?	92	1	3	2.27	0.70
What do you believe the Federal Government's role should be in stabilizing the credit markets?	92	1	4	2.47	0.98