May 19, 2009

Greater Seattle Area Survey of Current Business Conditions - First Quarter

The Impact Center in the School of Economic Sciences at Washington State University and the Seattle Executives Association began their fourth quarterly survey of current business conditions in April 2009. 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 Executives Association (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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Executive Summary

Current business conditions in the Seattle economy during the first quarter of 2009 have deteriorated slightly compared to the previous quarter. A comparison of first quarter 2009 responses with the fourth quarter 2008 outlook indicates that businesses realized their expectations for overall economic issues but underestimated the downturn for individual business measures. Much of these results were driven by uncertainty within the economy. Financing and interest rates as well as domestic competition were also frequently cited problems. Businesses have a somewhat mixed outlook on economic conditions during the next three months, with expectations of improving regional economic conditions and increasing levels of sales and employees, but also expect continued reductions in access to capital expenditure financing. Lastly, more than 90 percent of respondents do not think the $787 billion American Recovery and Reinvestment Act will be highly successful at stimulating the national economy.

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, each of which can be accessed directly by clicking on the links provided below. 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.

Current Survey Instrument

The 2009 first quarter survey instrument became available to SEA members on April 2nd, and responses were collected until April 30th. The total number of respondents was 71. As such, the effective response rate is 59.2%.

Firm Characteristics

Purpose

The Firm Characteristic questions provide demographic information. They do not ask about business conditions; however they provide context for the remaining survey responses.

Results

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	3
Partnership	4
Sub-S Corporation	28
Other Corporation	35
Not-for-Profit Organization	1

Question 2: *What is the location of your business?*

Location	Number of Observations
Seattle	42
Edmonds/Lynwood/Snohomish	5
Bothell/Kirkland/Redmond	4
Bellevue	4
Renton	5
Burien/Des Moines/Kent	1
Other	10

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

Industry	Number of Observations
Communication and Information Services	5
Construction	8
Finance and Insurance	5
Health Care and Social Services	4
Hospitality and Restaurants	4
Manufacturing	2
Professional Services	11
Real Estate and Rentals	3
Retail Trade	7
Transportation and Warehousing	8
Utilities	1
Other Goods	1
Other Services	12

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

Size	Number of Observations
1 - 10	33
11 - 25	14
26 - 50	6
51 – 100	9
101 – 250	3
Over 250	6

Current Business Conditions

Purpose

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.

Results

Responses to the Current Business Conditions questions indicate that during the past three months, companies' sales, inventory, and number of employees declined slightly. During the same time period companies found it somewhat more difficult to finance capital expenditures.

Uncertainty about the future of the economy was cited most frequently as the primary concern of businesses during the quarter. Financing and interest rates and domestic competition were also frequently cited problems. Traditionally, the "other" category has not collected any information about the respondents' specific concerns. This quarter the category was altered to collect this information. Other appeared as a top five response in both the primary and tertiary concerns. The "other" primary concerns included; sales, taxes, cash flow, and growth opportunities. The other tertiary concerns were; sales, taxes, overhead costs, regulations, and profitability.

Quarterly Reconciliation

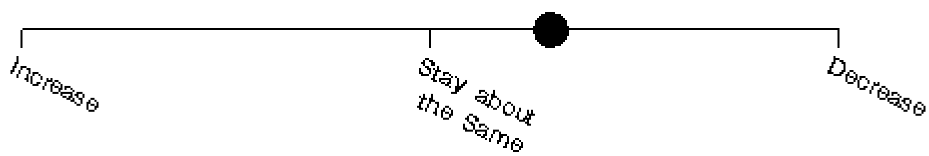
Purpose

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*.

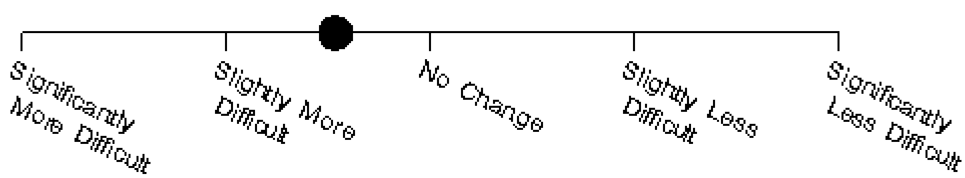
Results

Comparison of Q1 responses with the Q4 outlook indicates that businesses realized their expectations for overall economic issues but underestimated the downturn for individual business measures. Specifically, uncertainty about the economy and domestic competition were expected to be the primary issues in the quarter. Furthermore, businesses anticipated *stable* employment and sales, not the *declining* numbers that were reported for the current quarter. One notable exception is that firms did accurately foresee the decline in access to financing during the quarter.

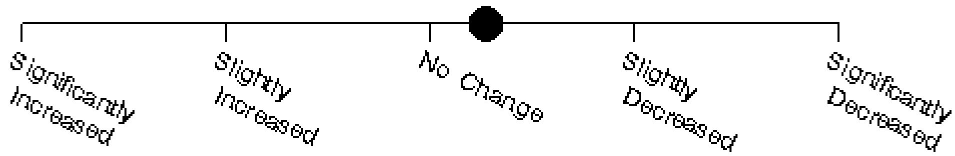
Question 5: *During the past three months, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



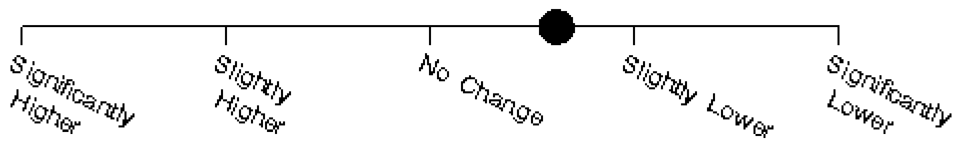
Question 6: *During the past three months, was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?*



Question 7: *During the past three months, have your inventory levels increased or decreased?*



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



Question 9: *What is the greatest concern to your firm today?*

Concern	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	43	65%
Financing and Interest Rates	9	63%
Other	7	74%
Competition from Domestic Businesses	4	49%
Availability of High Quality Labor	3	70%

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

Concern	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	16	24%
Health Care Expenses for Employees	12	22%
Competition from Domestic Businesses	12	20%
Financing and Interest Rates	8	24%
Changes in the Costs of Materials	6	19%

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

Concern	Number of Responses	Mean Relative Importance of the Problem
Competition from Domestic Businesses	14	14%
Health Care Expenses for Employees	12	10%
Other Non-Wage Expenses for Employees	7	11%
Uncertainty about the Future of the Economy	6	9%
Other	5	16%

Business Conditions Outlook

Purpose

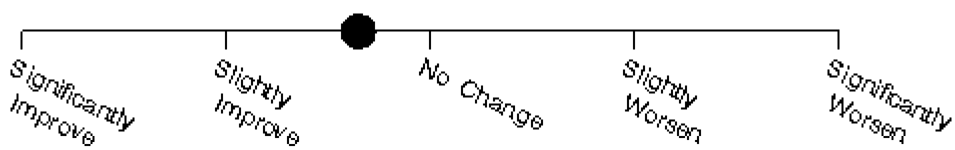
The Business Conditions Outlook section presents similar content to the Current Business Conditions section, except the time horizon is changed to be forward-looking. In particular, respondents are asked about their expectations for the upcoming business quarter.

Results

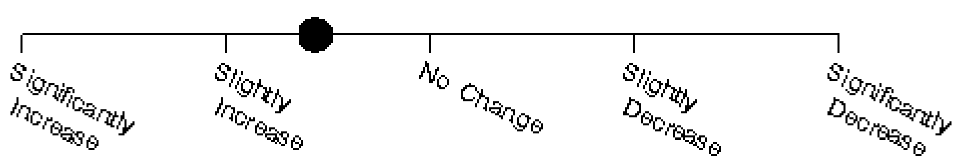
Businesses have a somewhat mixed outlook on economic conditions during the next three months. The positives are evidenced by the expectation of improving regional economic conditions and increasing levels of sales and employees. However, capital expenditures are expected to continue their decline along with access to financing for capital expenditures.

Uncertainty about the future of the economy appears to be the most frequently identified concern for business during the 2nd quarter of 2009. Additionally, financing and interest rates, domestic competition, and employee health care expenses are expected to be important issues in the coming quarter.

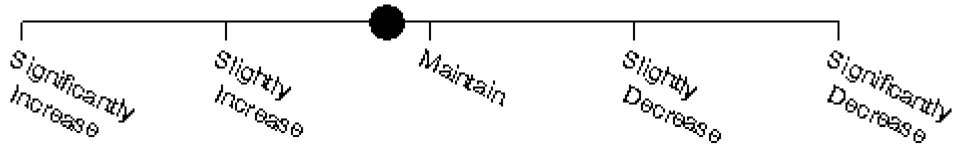
Question 12: *During the next three months, do you think that general economic conditions within the Greater Seattle area will improve or worsen?*



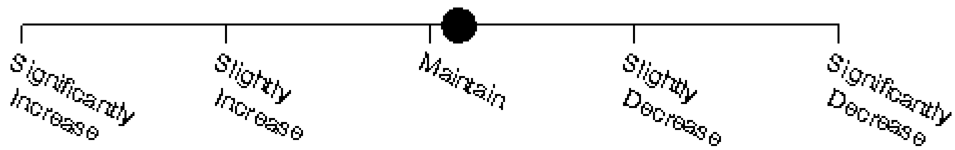
Question 13: *During the next three months, do you expect your firm's sales to increase or decrease?*



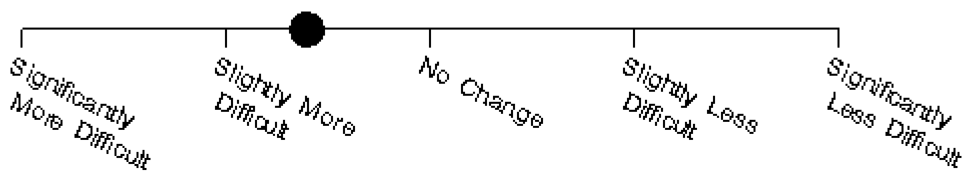
Question 14: *During the next three months, do you plan to increase, maintain, or decrease the number of full-time equivalent employees?*



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 is the greatest concern to your firm over the next three months?*

Concern	**Number of Responses**	**Mean Relative Importance of the Problem**
Uncertainty about the Future of the Economy	44	66%
Financing and Interest Rates	9	64%
Other	6	72%
Availability of High Quality Labor	6	61%
Other Non-Wage Expenses for Employees	1	70%

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

Concern	Number of Responses	Mean Relative Importance of the Problem
Health Care Expenses for Employees	16	23%
Competition from Domestic Businesses	13	22%
Uncertainty about the Future of the Economy	12	20%
Financing and Interest Rates	8	17%
Changes in the Costs of Materials	6	22%

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

Concern	Number of Responses	Mean Relative Importance of the Problem
Competition from Domestic Businesses	13	14%
Uncertainty about the Future of the Economy	9	12%
Health Care Expenses for Employees	9	10%
Non-Benefit Labor Costs	7	11%
Inflation	6	18%

Current Economic Issues

Purpose

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.

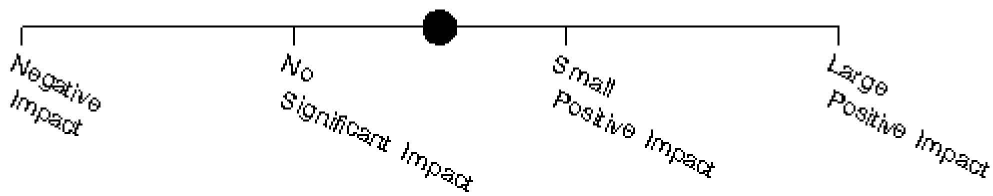
Results

Three questions were added to the survey to determine respondents' perceptions of the federal government's economic stimulus plan. First, respondents were asked how successful they think the American Recovery and Reinvestment Act (ARRA) will be in stimulating the national economy. More than half of the respondents (56%) indicated that the ARRA will have a small positive impact. However, 38% of respondents think it will have no impact or a negative impact, therefore the average response indicates it will have a negligible positive impact. Secondly, respondents were asked how they felt the "pork barrel" spending that was included in the ARRA would alter the bill's effectiveness in Washington. On average, respondents indicated that the additional spending would not have much of an effect in the state. Lastly, we asked how a line item veto would alter the effectiveness of the ARRA, nationally. The majority of respondents felt that a line item veto would have increased the effectiveness of the bill.

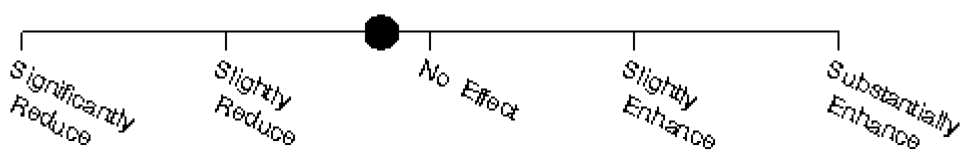
The next series of questions focused on executive employee bonuses, particularly in light of the recent AIG controversy. The first question asked what level of bonuses executives in their company are receiving this year. The majority of respondents (72%) stated that their executives will not be receiving a bonus (55%) or they will be taking pay cuts (17%), another 13% reported bonuses greater than 4%. The next question asked for opinions on how the federal government should respond to AIG providing executive bonuses after the government bailout. The response choices included; advocating no action (The Federal government should do nothing; the bonuses are legal contracts that were established prior to the bailout), heavily taxing the individuals that received the bonuses (The Federal government should tax the bonuses at higher than normal rates), reducing the bailout money that AIG received (The bailout money should be reduced by the amount of the bonuses), or some other action. Nearly two thirds of respondents fell into one of two categories; those that thought the government should take no action (32%) or those that thought the bailout money should be reduced (31%). The remaining percentage was almost equally split between those that thought the bonuses should be taxed heavily and those that felt some other action should be taken. Further analysis of the responses on executive bonuses indicates that the level of bonus within a respondents company does not affect their opinion about how the government should handle AIG. Over sixty percent of the respondents that said no action should be taken against AIG reported zero or negative bonuses for their executives.

The final question in the current issues section asked the business leaders what they felt motivates peoples' purchasing habits. Specifically, do peoples' *perceptions of current and future economic conditions* alter their purchasing habits more than *actual, current economic* *conditions*? The vast majority of respondents indicated that consumers purchasing habits are altered more by perceptions of current and future conditions than by actual current conditions. Combining these responses with those from the Current Business Conditions section implies that local area business leaders believe that the current recession is driven by a lack of consumer confidence, rather than actual, economic fundamentals. Specifically, in questions 9 through 11, most respondents identified issues related to market uncertainty, sales, and revenue considerations as more important than cost (i.e., labor and financing costs) considerations. Our final question suggests that these revenue considerations (particularly consumer spending decisions) are driven by expectations and confidence, rather than reality.

Question 20: *Do you think that the American Recovery and Reinvestment Act will successfully stimulate the national economy?*



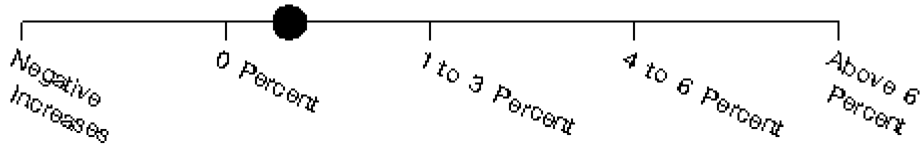
Question 21: *How do you think the "earmarks" or "pork barrel spending" attached to the ARRA will alter the effectiveness of the economic stimulus plan in Washington State?*



Question 22: *Do you think that allowing the President to line item veto provisions in the ARRA would alter the effectiveness of the economic stimulus plan nationally?*

Line Item Veto	**Number of Observations**
No	23
Yes, Reduce Effectiveness	4
Yes, Increase Effectiveness	44

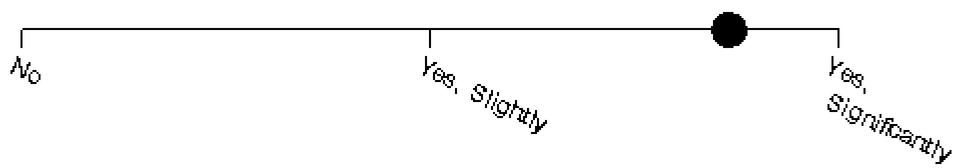
Question 23: *What level of pay increases are you providing to your executive-level employees this year?*



Question 24: *How should the government respond to AIG's decision to pay bonuses?*

AIG Bonus Response	**Number of Observations**
Do Nothing	23
Tax the Bonuses at Higher Rates	12
Reduced the Bailout Money	22
Take Other Action	14

Question 25: *Do you think people's perceptions of current and future economic conditions alters their purchasing habits more than actual, current economic conditions?*



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?	71	1	3	2.30	0.64
During the past three months, was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?	56	1	5	2.54	0.83
During the past three months, have your inventory levels increased or decreased?	44	1	5	3.27	0.90
During the past three months, were your firm's dollar sales higher or lower compared to 4-6 months ago?	71	1	5	3.62	1.37
During the next three months, do you think that general economic conditions within the Greater Seattle area will improve or worsen?	71	1	4	2.65	0.81
During the next three months, do you expect your firm's sales to increase or decrease?	71	1	5	2.44	0.91
During the next three months, do you plan to increase, maintain, or decrease the number of full-time equivalent employees?	71	1	5	2.79	0.63
During the next three months, do you plan to increase, maintain, or decrease capital expenditures?	71	1	5	3.14	0.90
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?	71	1	5	2.39	0.99
Do you think that the American Recovery and Reinvestment Act will successfully stimulate the national economy?	71	1	4	2.54	0.81
How do you think the “earmarks” or “pork barrel spending” attached to the ARRA will alter the effectiveness of the economic stimulus plan in Washington State?	71	1	4	2.76	0.95
What level of pay increases are you providing to your executive-level employees this year?	71	1	5	2.31	1.05
Do you think people’s perceptions of current and future economic conditions alters their purchasing habits more than actual, current economic conditions?	71	1	3	2.73	0.48