August 10, 2009

Greater Seattle Area Survey of Current Business Conditions - Second Quarter

The Impact Center in the School of Economic Sciences at Washington State University and the Seattle Executives Association began their fifth quarterly survey of current business conditions in July 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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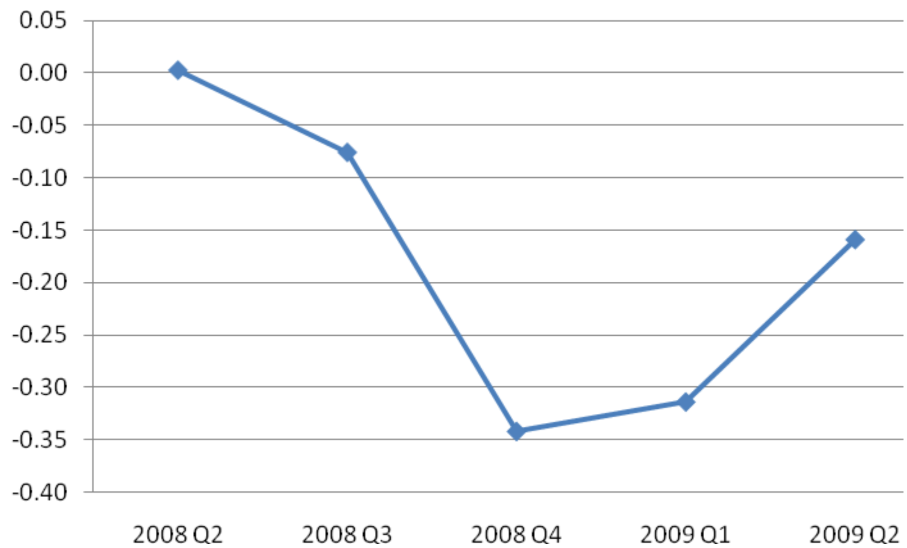
Executive Summary

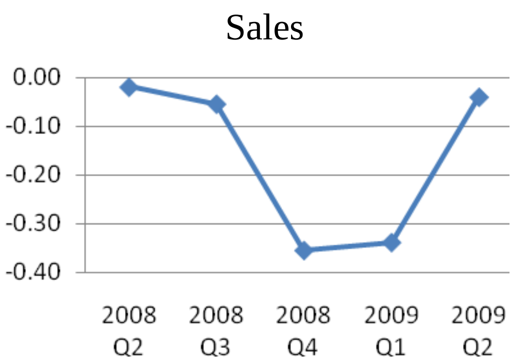
Current business conditions in the Seattle economy during the second quarter of 2009 have not markedly improved compared to the previous quarter. The continued downturn is evidenced by stagnant sales, inventory, and employment. Much of these results were driven by uncertainty within the economy. Financing and interest rates as well as employee healthcare expenses were also frequently cited problems. Despite the negative economic reports, business leaders are less pessimistic than they have been for the last two quarters. The upturn in overall market optimism from the first quarter of 2009 accelerated through the second quarter. This rise was lead by improvements in business’ gross sales during the quarter. Lastly, almost 80 percent of respondents do not think the federal government should pursue an additional stimulus package and less than half support the proposed national healthcare plan.

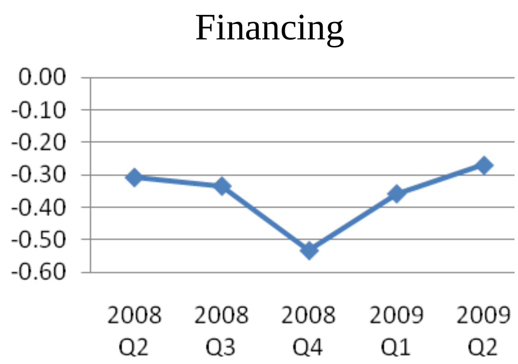
Optimism Indices

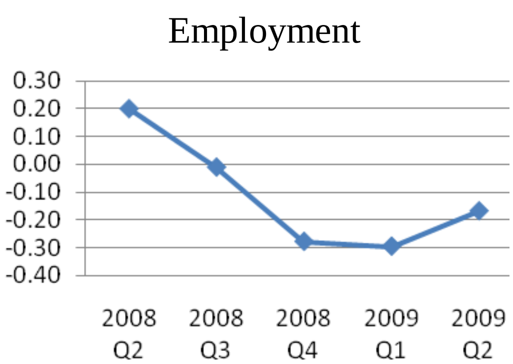
Overall

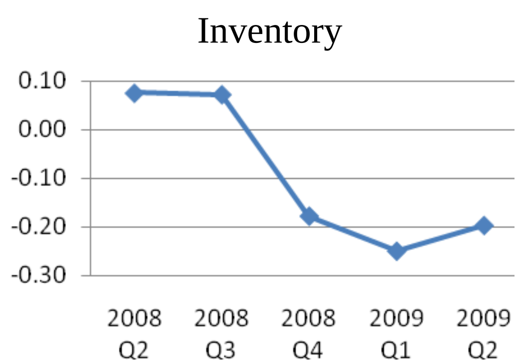


Optimism Indices (cont.)









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. The questions in the survey are multiple-choice, ranking, or open-ended format. It is expected that respondents can complete the survey in ten minutes or less without the consultation of specific business records.

The quarterly survey was re-designed prior to the second quarter of 2009. The questions were consolidated into three categories. The specific categories are:

- Current Business Conditions
- Business Conditions Outlook
- Current Economic Issues

Previous editions of the survey included a section on business characteristics. This section was removed to decrease respondent burden, however it will be included in one survey per year to capture any changes that might occur. The Current Business Conditions section was unaltered during the revision and the questions are expected to remain relatively unchanged in the future. This consistency facilitates analysis and comparisons across time periods in addition to current response summarization. The Business Conditions Outlook section was dramatically altered to reduce it from eight multiple choice questions focused on the outlook for the coming quarter to one open-ended question about potential concerns in the upcoming 12 month period. A revised version of the previous section will be included in the survey once per year to collect structured information for annual business outlook. Questions in the final section continue to be substantially altered each quarter to gain information on pressing issues in the local economy. The results section describes the questions in each of the categories, summarizes responses to each question from the current survey, and outlines the respondents' general sentiment.

Current Survey Instrument

The 2009 second quarter survey instrument became available to SEA members on July 10th, and responses were collected until July 31st. The total number of respondents was 101. As such, the effective response rate is 84.2%.

Current Business Conditions

Purpose

The Current Business Condition questions (Questions 1–5) are posed in two formats, Likert Scale (Questions 1–4) and ranking (Question 5). 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 2, 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 2, 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.

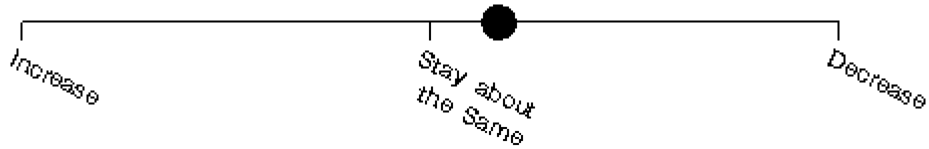
In the ranking question (Question 5) the respondent is presented a list of 12 potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business during the quarter. The results chart presents the problem areas in order of total number of selections and includes the number of selections for each rank.

Results

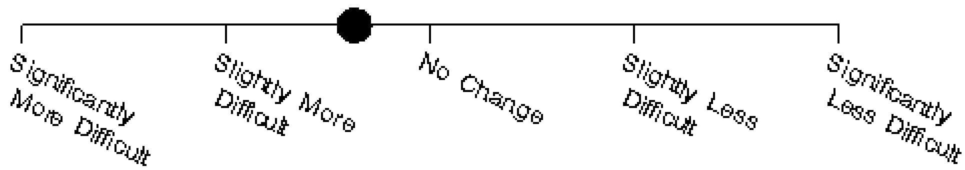
Responses to the Current Business Conditions questions indicate that during the past three months, companies' sales, inventory, and number of employees declined slightly. During the same time period companies found it somewhat more difficult to finance capital expenditures.

Business concerns during the quarter centered on uncertainty about the future of the economy, health care expenses for employees, and financing and interest rates. Economic uncertainty received the most selections as the primary and secondary concern. Financing and interest rates and health care expenses closely followed for secondary concerns and health care expenses was the most common tertiary concern.

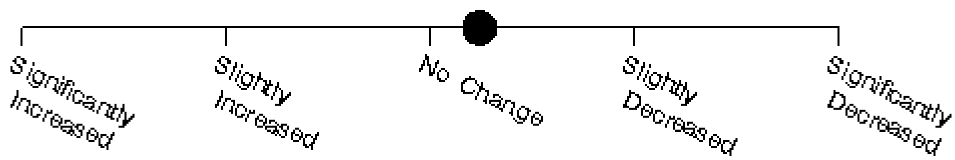
Question 1: *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



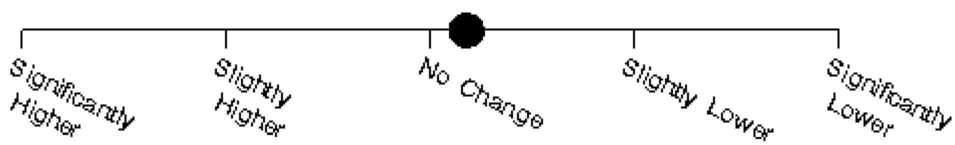
Question 2: *Was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?*



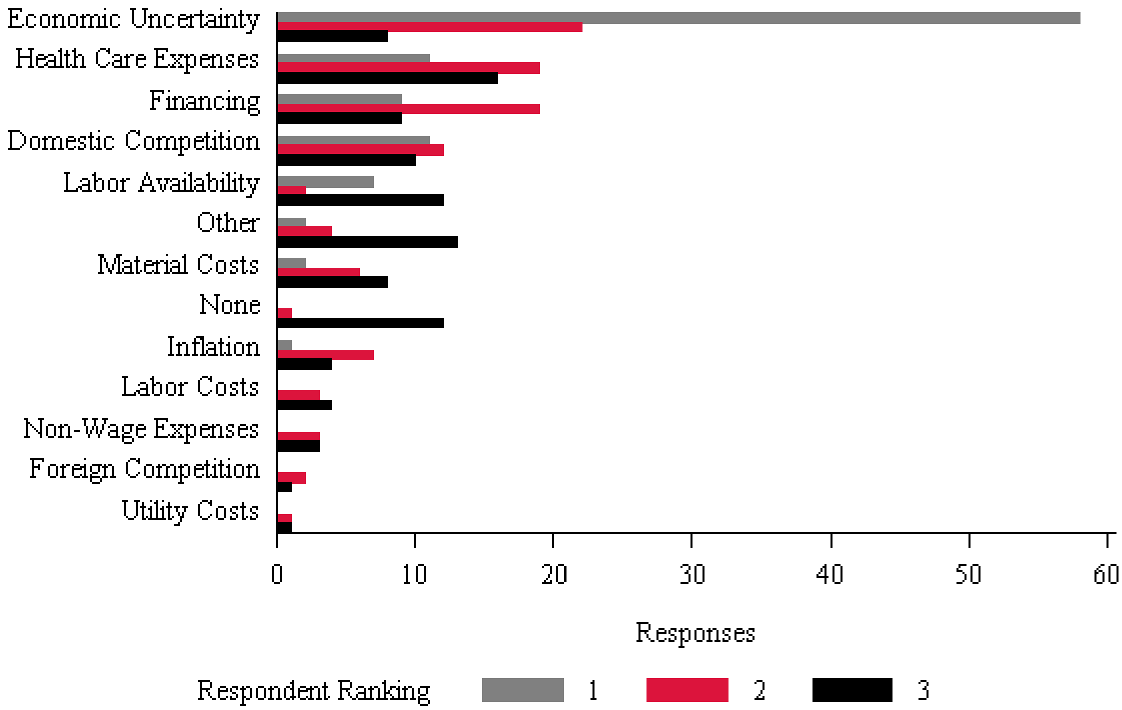
Question 3: *Have your inventory levels increased or decreased?*



Question 4: *Were your firm's sales higher or lower compared to 4-6 months ago?*



Question 5: *Ranking of Business Concerns*



Business Conditions Outlook

Purpose

The Business Conditions Outlook question asks respondents to describe what they foresee as the most important issue for their business over the next 12 months.

Results

Respondents concerns for the next 12 months emulate their concerns for the past quarter. Specifically, they identified issues related to economic uncertainty (67 responses), financing (9), employment (6), and healthcare (4). However, some other issues were identified as well. For example, issues of strategic planning (8), government regulation (5), and financial positions (3) were frequently discussed. Furthermore, the issue of economic uncertainty was typically presented in one of two ways; concern about general economic recovery (50) or growth in a time of uncertainty (17). The two areas provide a stark contrast in managing the situation. The first area was dominated by comments about relying on external forces (e.g., consumer confidence) to improve and thereby improve their situation. The second area was focused on internal issues (e.g., product development, customer loyalty) that they needed to alter to prosper in uncertain times.

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.

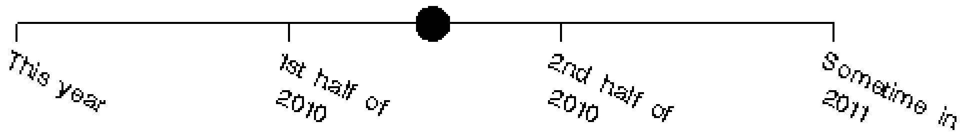
Results

Two questions were included in the survey to determine respondents' perceptions of national economic issues. First, respondents were asked when they thought the current recession would end. On average, respondents indicated that the recession will last for another year. Secondly, respondents were asked if they thought the federal government should pursue another stimulus package. The vast majority of respondents are not in favor of the federal government attempting another stimulus package.

The last three questions focused on healthcare issues. The first question asked if respondents offered and paid some portion of the health insurance for their full-time employees. Over 90% of the respondents indicated that they provide some type employee healthcare benefit. This question was intended to be used as a barometer for the two following questions, however with virtually all of the respondents providing the same response, further decomposing the responses by those that do or do not provide a benefit does not provide much additional insight.

Respondents were almost equally split (40/60) on the approval of the federal government's proposed national healthcare plan. Even less congruence can be found in how it should be paid for. Approximately 30% of respondents indicated that a new payroll tax should be used for the payment mechanism.

Question 6: *When do you think the current recession will end?*



Question 7: *Do you think the federal government should pursue another stimulus package?*

Additional Stimulus	Number of Observations
Yes	21
No	80

Question 8: *Do you offer and pay some portion of health insurance for your full-time employees?*

Employee Healthcare	Number of Observations
Yes	84
No	7

Question 9: *Do you support the federal government's proposal for a national health care plan?*

National Health Care	Number of Observations
Yes	40
No	61

Question 10: *What do you think should be the main source of revenue to pay for the plan?*

Health Care Payment	Number of Observations
A new payroll tax	16
A tax on employer-provided health benefits	8
Eliminating tax deductions on charitable giving	6
Other	24

Summary Statistics for Likert Scale Questions

Question	N	Min	Max	Mean	Std. Dev.
Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?	101	1	3	2.17	0.68
Was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?	78	1	5	2.63	0.79
Have your inventory levels increased or decreased?	66	1	5	3.24	0.91
Were your firm's sales higher or lower compared to 4-6 months ago?	101	1	5	3.18	1.40
When do you think the current recession will end?	91	1	4	2.53	0.95