November 4, 2009

Greater Seattle Area Survey of Current Business Conditions - Third Quarter

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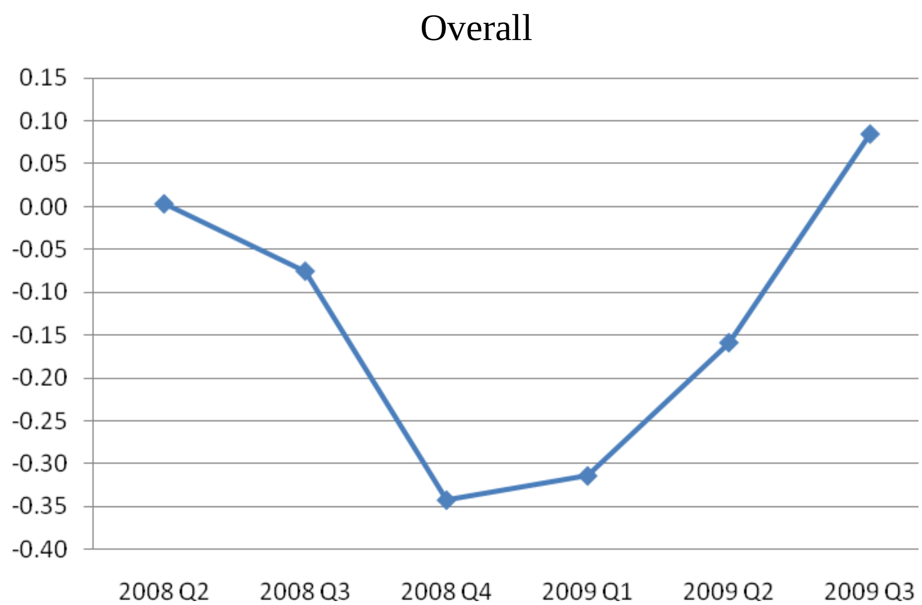
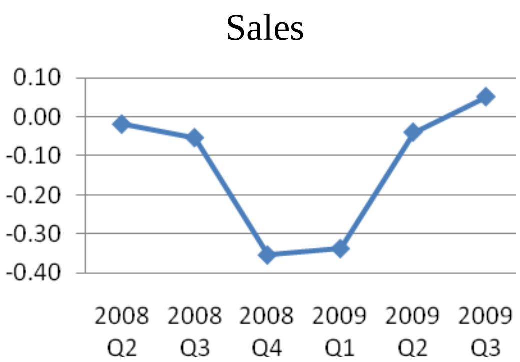
Executive Summary

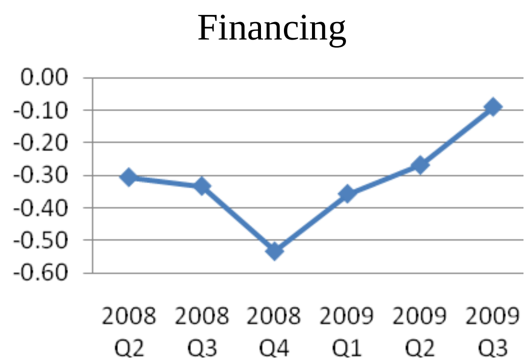
Seattle area business conditions have not noticeably changed compared to the second quarter. On average, businesses reported that sales, inventory, financing, and employment were all stagnant to declining. Uncertainty within the economy continues to drive many of these results. Employee healthcare expenses and domestic competition were also frequently cited problems. Despite the lackluster aggregate reports, the key indices show more optimism than they have been for over a year. The upturn in overall market optimism, beginning in the first quarter of 2009, accelerated through the third quarter. These results are further cemented by business leaders' belief that worker morale and productivity have not significantly declined due to the recession. Lastly, three-quarters of the respondents said they have a business continuity plan capable of handling an influenza pandemic.

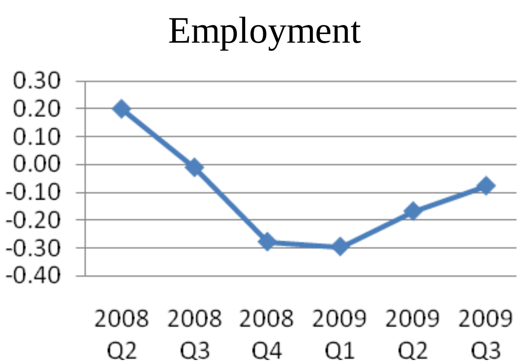
Optimism Indices

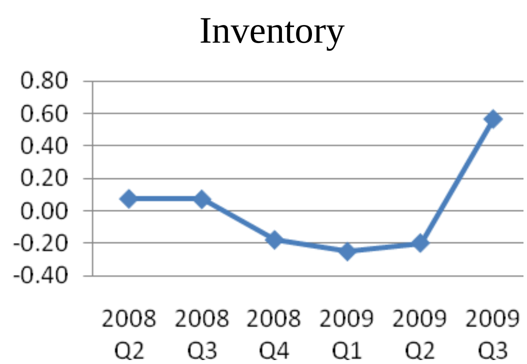


Optimism Indices (cont.)









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 third quarter survey instrument became available to SEA members on October 1st, and responses were collected until October 20th. The total number of respondents was 78. As such, the effective response rate is 65%.

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.

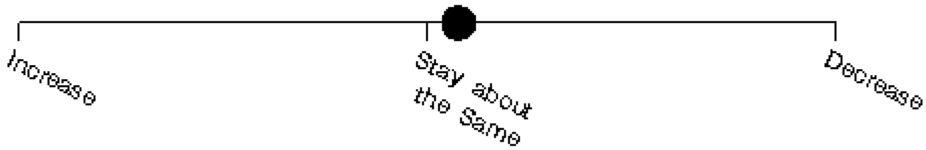
In the ranking question (Question 5) the respondent is presented a list of 12 potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business during the quarter. The results chart presents the problem areas in order of total number of selections and includes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

Results

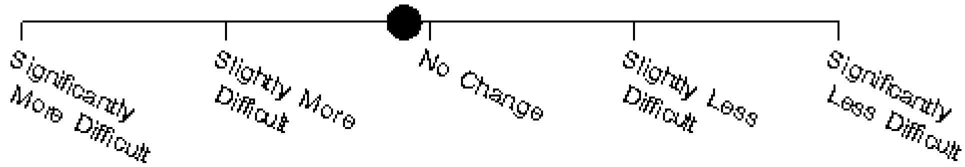
Responses to the Current Business Conditions questions indicate that during the past three months, companies' sales, inventory, and number of employees declined slightly. During the same time period companies found it somewhat more difficult to finance capital expenditures.

Uncertainty about the future of the economy was cited most frequently as the primary and secondary concern of businesses during the quarter. Employee healthcare expenses and domestic competition were also frequently cited problems, but of lesser importance.

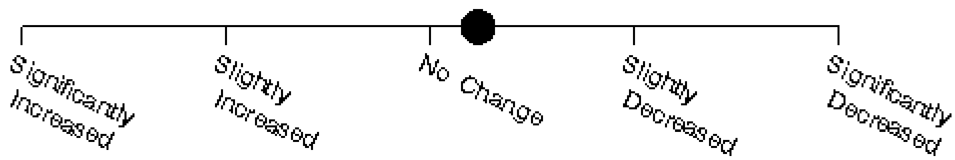
Question 1: *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



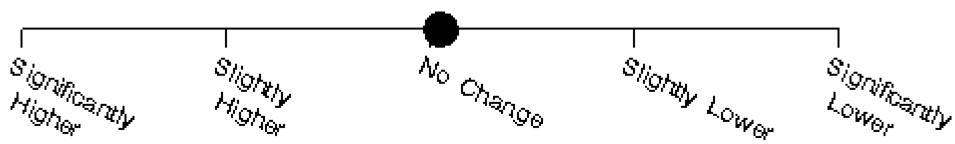
Question 2: *Was it easier or harder for your firm to finance capital expenditures?*



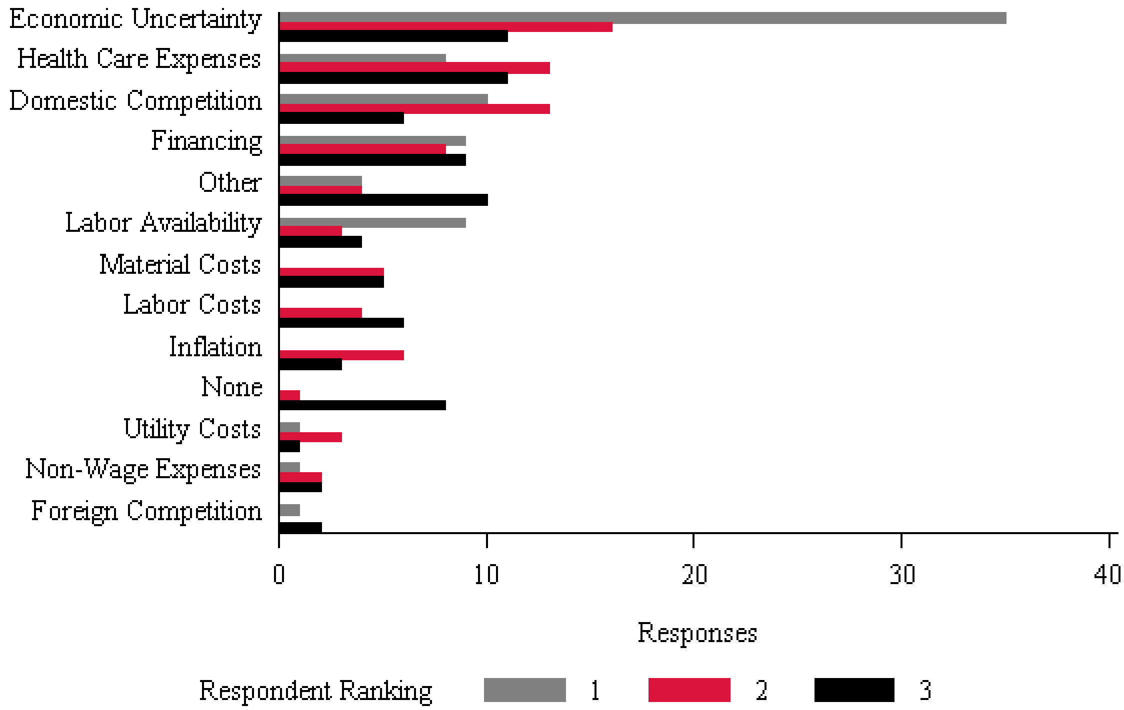
Question 3: *Have your inventory levels increased or decreased?*



Question 4: *Were your firm's dollar sales higher or lower?*



Question 5: *How important are the following 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 (33 responses), financing (8), employment (7), and healthcare (3). Other issues identified were strategic planning (13), government relations (9), and financial positions (8). Comments of particular interest this quarter were in the areas of competition and government relations. Several business leaders stated that they were concerned about their long-term outlook when other companies in their industry were implementing short-term pricing schemes (e.g., pricing below cost). Comments about government relations reflect the national level debates over the government involvement in private industry. Several people were looking for the continuation of tax credits and other supports while others stated that these mechanisms were their greatest concern.

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.

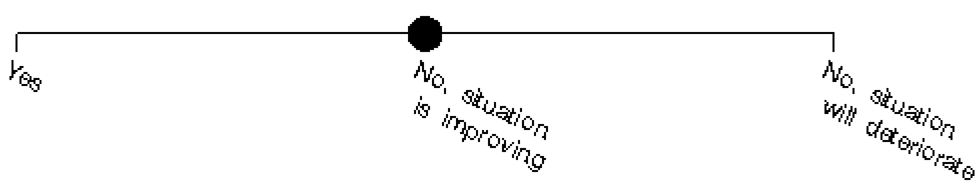
Results

Three questions were included in the survey to determine respondents' perceptions of the current economic recession. First, respondents were asked if they thought the current recession was over. On average, respondents indicated that the recession was still underway but the economic situation was improving. Secondly, respondents were asked what strategy there company was using to handle the recession. Approximately half of the respondents stated their company was implementing a pro-active business model of growing market share or diversifying their offerings to combat the pressures of the recession. Another 20 percent were downsizing to stay in business. The last question asked what affect the recession has had on their workers' morale and productivity. Over 40 percent of respondents said that morale and productivity had increased slightly (35%) or significantly (8%) as workers were thankful to have a job. The majority of the other respondents have experienced a slight decline in morale and productivity.

We continued our line of questions on healthcare issues by asking business leaders to identify which proposed healthcare reform initiatives they support. The most commonly selected reform was increasing regulation of the insurance industry. The next most popular responses were decreasing government involvement in healthcare and creating nonprofit co-ops to compete with the private insurers. Developing a widely available government run, public health-care plan and taking no action were the least popular reform initiatives.

The last question in the survey asked respondents what actions their companies were taking in response to the publicized H1N1 influenza pandemic. Three-quarters of the respondents said they had a business continuity plan to handle the pandemic. Approximately 10 percent had created their plan in preparation of the pandemic. Over a third of respondents said they do not have nor need a business continuity plan for the pandemic.

Question 7: *Do you believe the recession is over?*



Question 8: *What business model has your company chosen for dealing with the economic pressures of the recession?*

Business Model	Number of Observations
Diversifying business by offering new products and/or services	15
Growing market share with existing products and/or services	25
Maintaining existing market position	21
Downsizing to stay in business	14
Other	3

Question 9: *What affect has the recession had on worker morale and productivity in your company?*

Morale and Productivity	Number of Observations
Morale and productivity has significantly improved	6
Morale and productivity has slightly improved	26
Morale and productivity remain unchanged	13
Morale and productivity has slightly declined	25
Morale and productivity has significantly declined	5
Other	3

Question 10: *Which healthcare reform initiative do you support?*

Healthcare Reform	Number of Observations
Developing a widely available government run, public health-care plan	16
Creating nonprofit co-ops to compete with the private insurers	25
Increasing regulation of the insurance industry	30
Taking no action	8
Decreasing government involvement in health-care	28

Question 11: *Has your company addressed its business continuity plans for the influenza pandemic alert?*

Continuity Plan	Number of Observations
Yes, we created a plan	10
Yes, we reviewed/revised our existing plan	10
No, our existing plan is sufficient	28
No, we do not have/need a plan	27
Other	3

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?	78	1	3	2.08	0.62
Was it easier or harder for your firm to finance capital expenditures?	55	1	5	2.87	0.79
Have your inventory levels increased or decreased?	51	2	5	3.24	0.86
Were your firm's dollar sales higher or lower?	78	1	5	3.05	1.30
Do you believe the recession is over?	78	1	3	2.00	0.53