February 3, 2010

Greater Seattle Area Survey of Current Business Conditions - Fourth Quarter

The Impact Center in the School of Economic Sciences at Washington State University and the Seattle Executives Association began their seventh quarterly survey of current business conditions in January 2010. 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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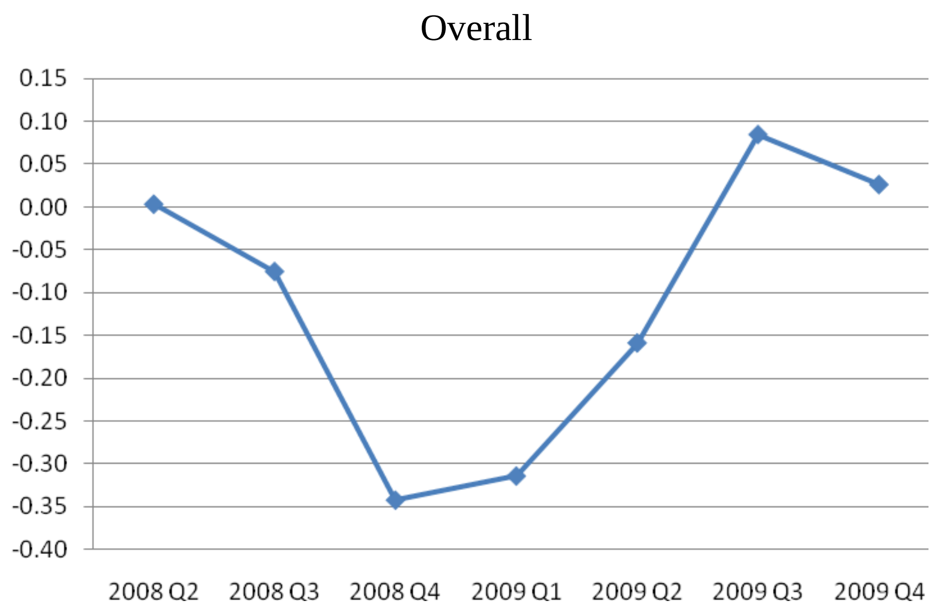
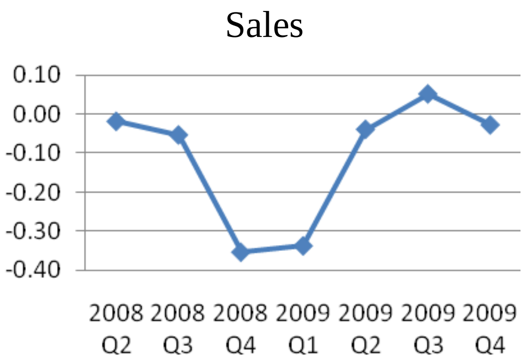
Executive Summary

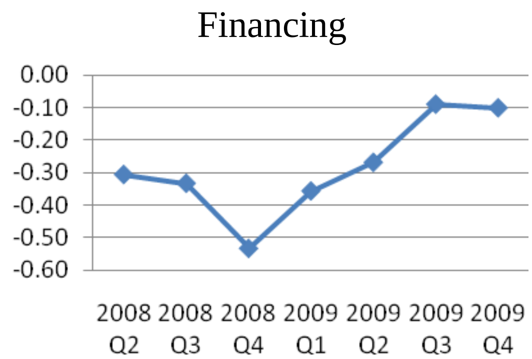
Perceptions of current business conditions in the Seattle economy during the fourth quarter of 2009 were mixed. The overall outlook was relatively optimistic. For the second quarter in a row more respondents were positive about key economic indicators than negative. However, conditions appear to have deteriorated slightly compared to the previous quarter. This past quarter brought declines in employment and inventory along with stagnant to declining sales and financing, on average. These results continue to be driven primarily by uncertainty within the economy, with healthcare expenses and domestic competition as secondary drivers of pessimism. Issues of profitability and efficiency have also become a priority, as 50 percent of business leaders say that they have had to price goods and services below cost to stay in business and 70 percent believe their competitors have done the same. On the national level, local business leaders gave President Obama a below average rating after his first year in office. His worst marks came on domestic issues and he fared only slightly better on foreign affairs.

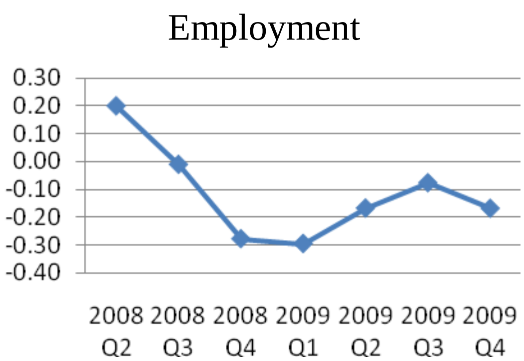
Optimism Indices

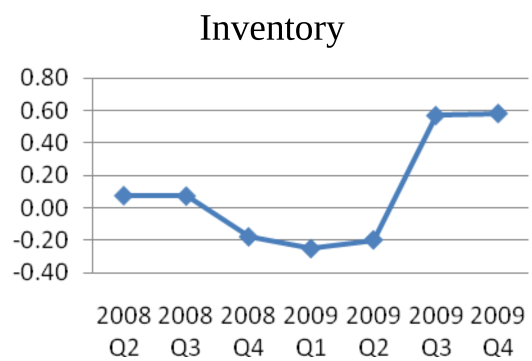


Optimism Indices (cont.)









Survey Methodology

Population

Participants in the quarterly survey are members of the Seattle Executives Association. The Association is an exclusive network of currently 103 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 fourth quarter survey instrument became available to SEA members on January 4th, and responses were collected until January 31st. The total number of respondents was 71. As such, the effective response rate is 68.9%.

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.

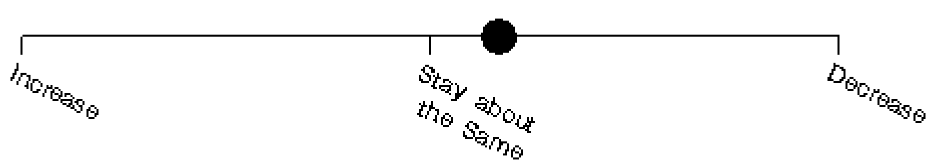
In the ranking question (Question 5) the respondent is presented a list of 12 potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business during the quarter. The results chart presents the problem areas in order of total number of selections and includes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

Results

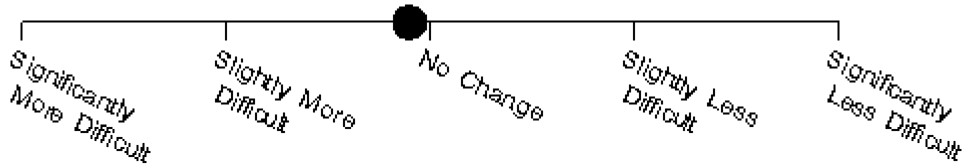
Responses to the Current Business Conditions questions indicate that during the past three months, companies' inventories, and number of employees declined slightly. During the same time period companies sales and access to financing remained relatively unchanged.

Uncertainty about the future of the economy was cited most frequently as the primary concern of businesses during the quarter. Health care expenses, domestic competition and financing were frequently cited as the second and third most important issues of concern, respectively.

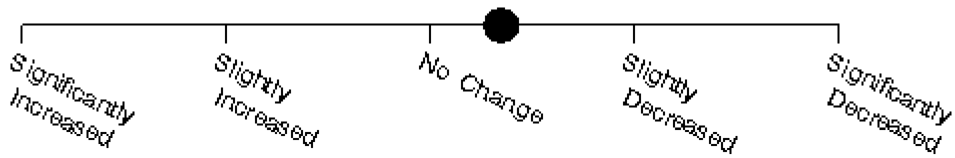
Question 1: *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



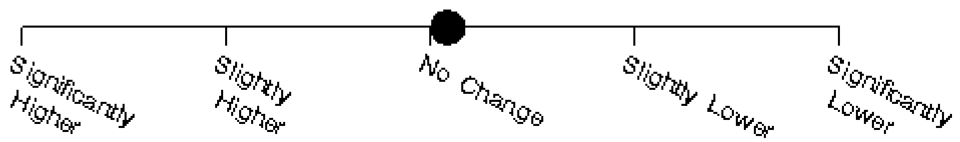
Question 2: *Was it easier or harder for your firm to finance capital expenditures?*



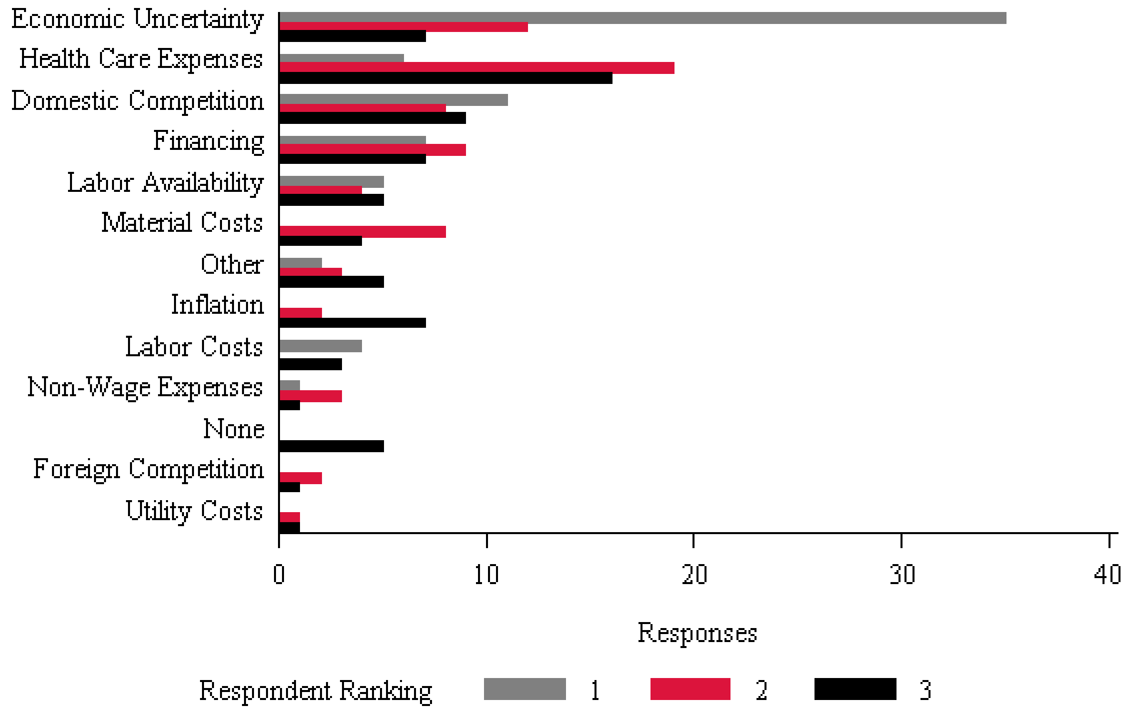
Question 3: *Have your inventory levels increased or decreased?*



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



Question 5: *Please identify the importance of the following concerns in order of importance.*



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 (15 responses), financing (5), healthcare (4), and employee relations (3). However, some other issues were identified as well. For example, issues of profitability (13), business growth (11), consumer confidence (9), and government regulation (6) were frequently discussed. Respondents appear to be continuing their trend of focusing on internal issues of efficiency and profitability instead of waiting for general economic conditions to improve.

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

We asked respondents two questions about recessionary pricing strategies. Both questions focused on the need to lower prices below cost in an effort to generate sales and maintain workers. The first question was based on their own pricing strategies and the second regarded perceptions of their competitor's strategies. Respondents were equally split on their own pricing strategies with equal numbers pricing above and below cost. However, the majority (70 percent) felt their competitors were willing to take a loss.

Two questions focused on economic recovery. The first question asked what respondents were doing to prepare for a recovery. Over 30% of the respondents indicated that were not taking any action, less than 20% were hiring employees, and 45% were taking other action. The other actions focused on 4 areas: marketing, business efficiency, sales systems, and employee training. The second question asked what the biggest threat to economic recovery is. Taxes, inflation, and rising interest rates were the most prevalent responses. Several other responses highlighted government affairs and consumer confidence.

Respondents were asked to evaluate President Obama's performance as the first year of his tenure nears completion. Response options for each of the 10 topic areas ranged from Poor to Excellent in 5 distinct classifications. The President received an overall rating of 2.5, placing him in the Average to Below Average range. His rating in all of the topic areas fell within the same range (2 to 3). His best ratings were in foreign affairs, Iraq, Afghanistan, and international trade. He received the worst ratings for domestic policies including, taxes, health care, and economic recovery.

Question 7: *Has your firm been forced to lower its prices (or submit bids) below costs in an attempt to generate sales and maintain the firm's current workforce?*

Below Cost	Number of Observations
Yes	32
No	33

Question 8: *Do you believe that your competitors have been forced to lower their prices (or submit bids) below costs in an attempt to generate sales and maintain the firm's current workforce?*

Competition Below Cost	Number of Observations
Yes	47
No	20

Question 9: *What are you doing to prepare for an economic recovery?*

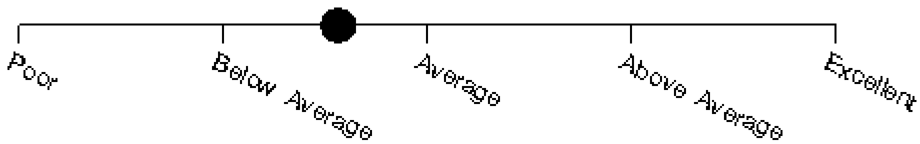
Recovery Preparation	Number of Observations
Increasing inventories	1
Hiring employees	15
Nothing at this time	26
Other	35

Question 10: *What do you think is the biggest threat to an economic recovery?*

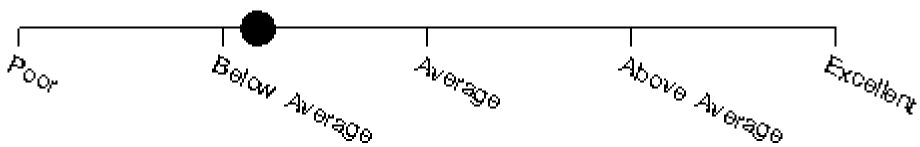
Recovery Threat	Number of Observations
Inflation	11
Increased taxes	21
Raising interest rates	11
Health care reform	9
Terrorism	2
Other	17

Question 11: *As we approach the end of President Barack Obama's first year in office how would you rank his performance in the following areas:*

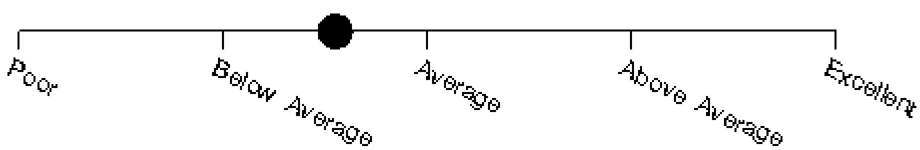
Domestic Issues



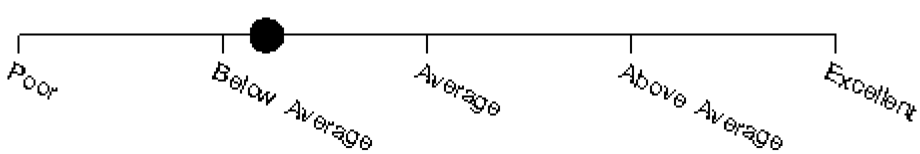
Tax Policies



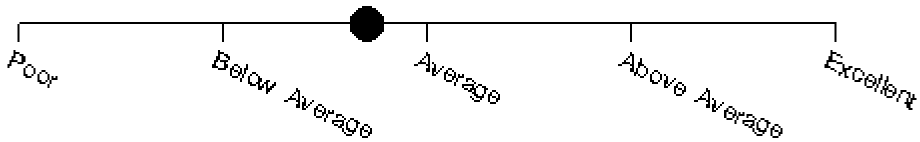
Economic Recovery Policies



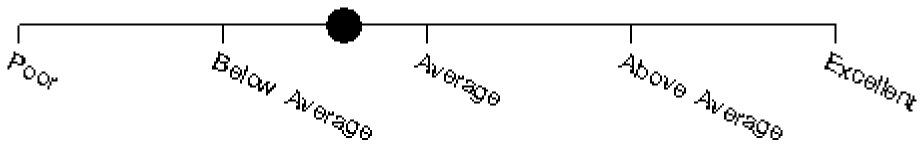
Health Care Policies



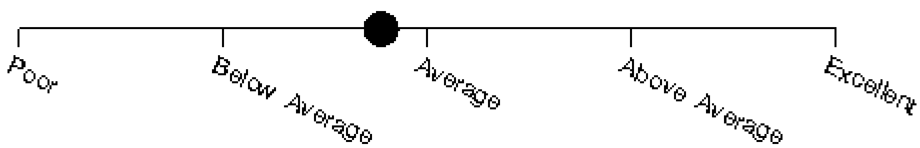
Foreign Affairs



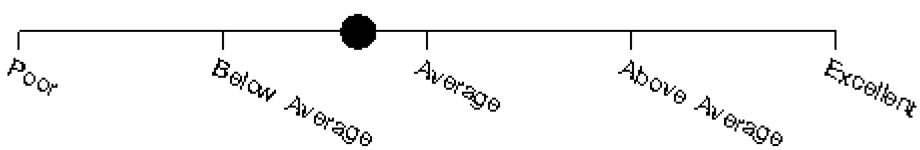
International Trade Policies



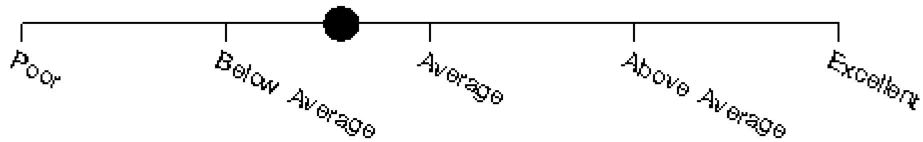
Iraq Policies



Afghanistan Policies



Global Warning and Environmental Policies



Overall

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?	71	1	3	2.17	0.63
Was it easier or harder for your firm to finance capital expenditures?	49	1	5	2.90	0.74
Have your inventory levels increased or decreased?	43	2	5	3.35	0.72
Were your firm's dollar sales higher or lower?	71	1	5	3.08	1.27
Obama: Domestic Issues	71	1	5	2.56	1.09
Obama: Tax Policies	71	1	4	2.17	1.00
Obama: Economic Recovery Policies	71	1	5	2.55	1.20
Obama: Health Care Policies	71	1	5	2.21	1.22
Obama: Foreign Affairs	71	1	5	2.70	1.10
Obama: International Trade Policies	71	1	5	2.59	1.02
Obama: Iraq Policies	71	1	5	2.77	1.00
Obama: Afghanistan Policies	71	1	5	2.66	1.11
Obama: Global Warning and Environmental Policies	71	1	5	2.56	1.19
Obama: Overall	71	1	5	2.54	1.07