May 10, 2010

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 eighth quarterly survey of current business conditions in April 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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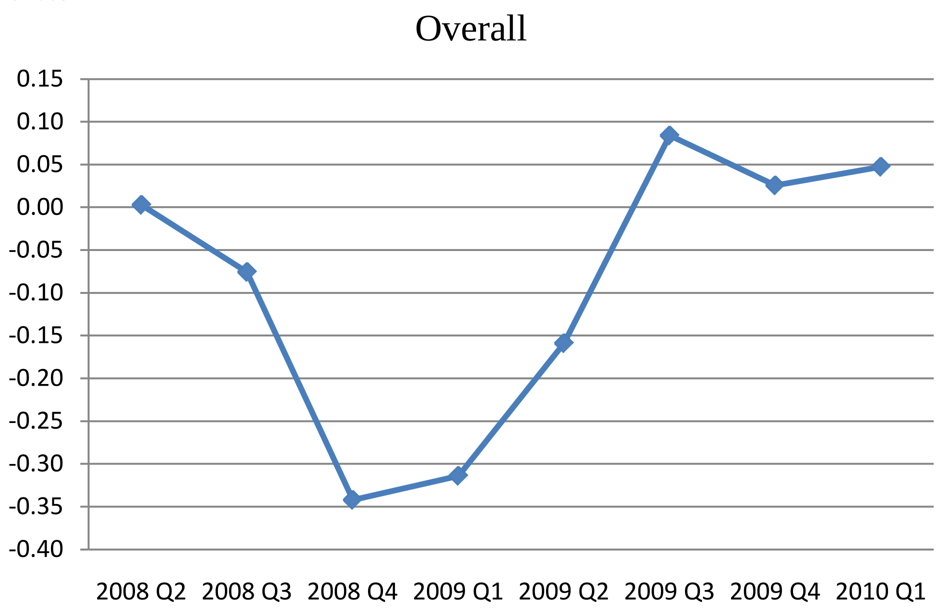
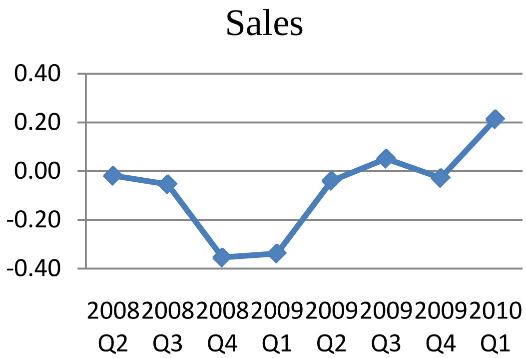
Executive Summary

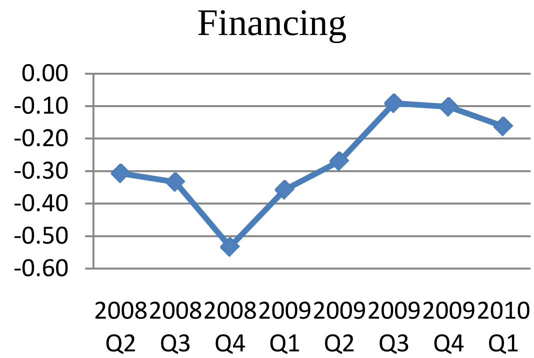
Business conditions in the Seattle economy during the first quarter of 2010 continue to be mixed. The overall outlook was relatively optimistic. For the third quarter in a row more respondents were positive about key economic indicators than negative. Improvements were made in both employment and sales while financing and inventory were stagnant to declining, 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. Uncertainty appears to permeate business leaders' thoughts, as evidenced by their responses to healthcare reform questions. One-third of the respondents do not know how they could minimize costs under the new healthcare legislation. Another 30 percent think that eliminating healthcare coverage for employees would reduce their costs; however, an even smaller number think that a strategy of this nature would be in their best interests. The majority of respondents believe that the Federal jobs bill will be largely impotent. Lastly, most respondents feel that a sales tax increase would be the least disruptive way for the Washington State Legislature to increase tax revenues.

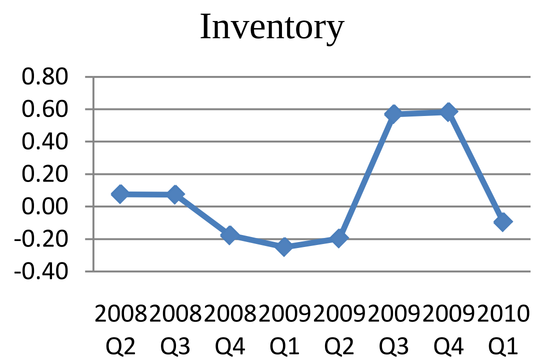
Optimism Indices



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 2010 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 61. As such, the effective response rate is 59.2%.

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.

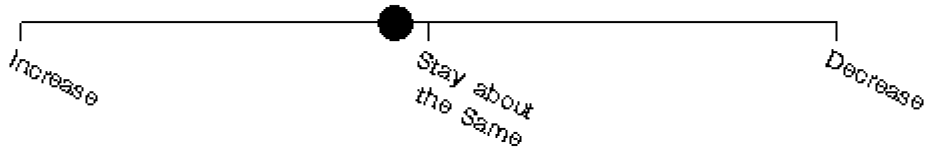
In the ranking question (Question 5) the respondent is presented a list of 12 potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business during the quarter. The results chart presents the problem areas in order of total number of selections and includes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

Results

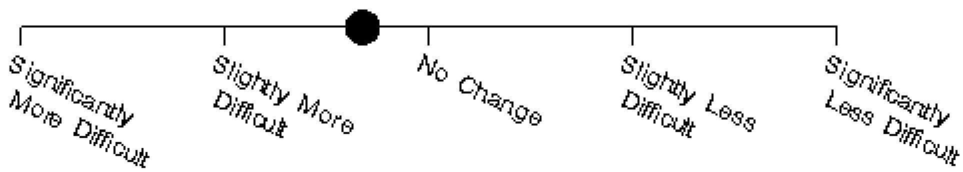
Responses to the Current Business Conditions questions indicate improvements in employment and sales during the past three months. During the same time period companies found it somewhat more difficult to finance capital expenditures and inventories remained relatively unchanged.

Uncertainty about the future of the economy was cited most frequently as the primary concern of businesses during the quarter. Healthcare expenses supplanted financing and interest rates and domestic competition as the other top area of concern.

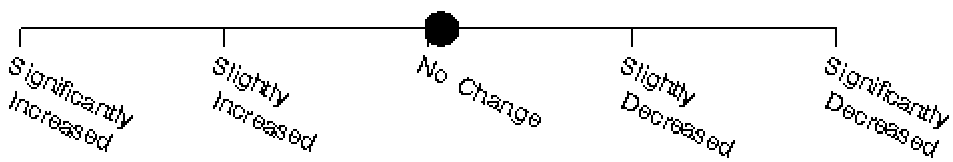
Question 1: *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



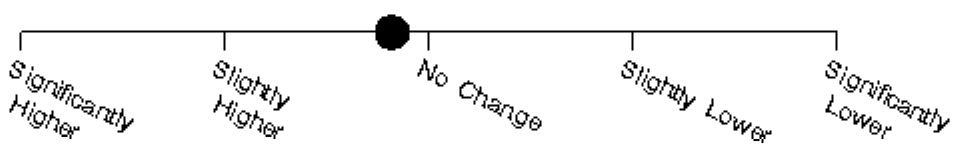
Question 2: *Was it easier or harder for your firm to finance capital expenditures?*



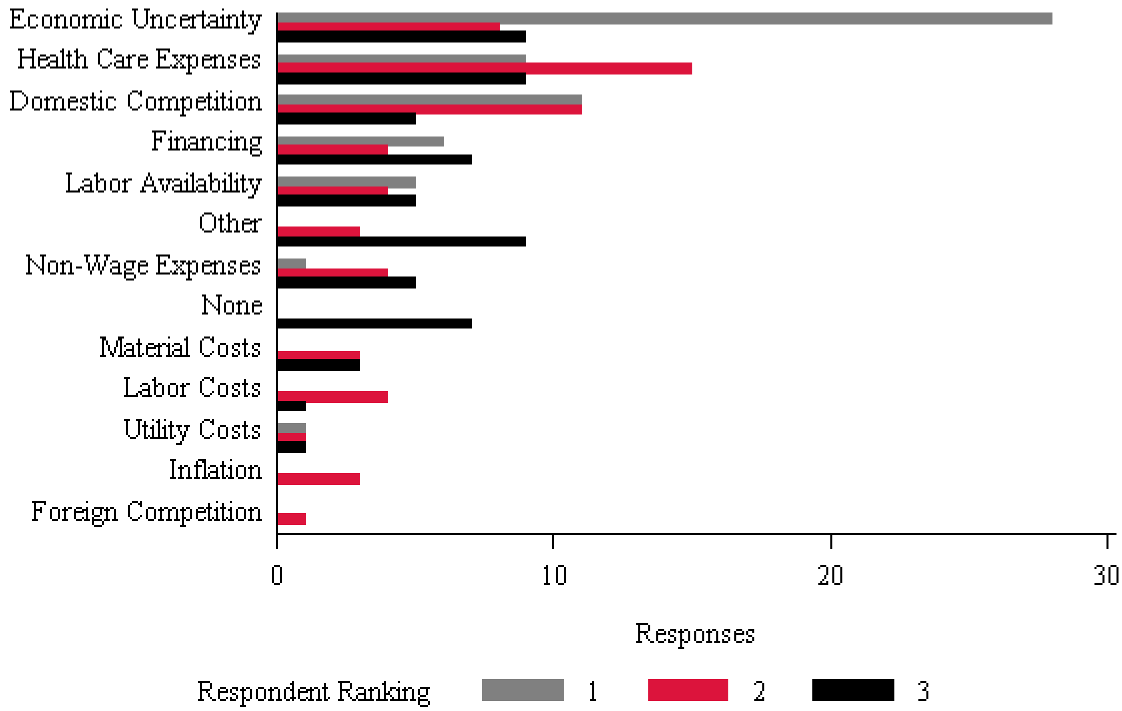
Question 3: *Have your inventory levels increased or decreased?*



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



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 (22 responses), employment (6), healthcare (4), and financing (3). Other issues identified by respondents include; sales growth (15), controlling costs (8), competition (3), and taxes (2).

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 better understand how the recently passed healthcare reforms might affect regional businesses. First, respondents were asked about the cost implications of the incentive and penalty system included in the healthcare legislation. Specifically, would it be more cost effective to eliminate employee health insurance coverage and instead pay the mandated penalties and forgo the tax incentives. Responses were almost equally divided; 30% of the respondents said it would be more cost-effective to drop healthcare benefits, 25% said providing healthcare benefits and receiving the tax credits would be the lowest cost method, and 33% were unsure of the lowest cost approach.

Secondly, respondents were asked if they thought it would be in their company's best interest to discontinue sponsorship of healthcare benefits, assuming the reform legislation succeeds in improving the accessibility of individual health insurance and employees are remunerated for their existing benefits. The majority of respondents (57%) were unsure which approach would be best for their company; 16% said their company would be better off not sponsoring healthcare benefits and 11% felt it would be detrimental to their company.

Another question asked how the recently passed Federal jobs bill might affect business leaders' hiring practices. Almost half (48%) of the respondents said they will only hire based on employees qualifications, and not tax incentives. Only 5% of the respondents indicated that it might alter their hiring decisions.

The final question asked business leaders which tax increase would be the least detrimental means for the Washington State Legislature to solve the State's current budget deficit. The majority of respondents (49%) reported that a sales tax increase would cause the least harm to the economy. Another 28% felt a property tax increase would be the least intrusive.

Question 7: *The recently passed health care legislation proposes an incentive and penalty system to encourage more businesses to offer health insurance to employees. For example, the penalty for businesses with more than 50 employees is $2,000 per employee per year and the incentive is a tax credit of 35-50% of premiums. Under current conditions, would it be less costly for your business to forgo the incentives and pay the fines rather than provide healthcare coverage for your employees?*

Healthcare Cost	**Number of Observations**
Forgoing the incentives and paying the fines would be less costly.	18
Forgoing the incentives and paying the fines would be more expensive.	15
I am unsure which scenario would be lower cost.	20
Not applicable; my firm does not offer health insurance.	8

Question 8: *The new healthcare legislation intends to create state-level cooperative buying groups (a.k.a. health insurance exchanges) to increase competitiveness in the marketplace for individuals purchasing insurance. Assuming the "exchanges" improve the accessibility of individual health insurance, would it be in your firm's best interests (in the long run) to stop sponsoring a specific health insurance plan and monetarily compensate employees in an amount equal to your firm's current health insurance contribution?*

Healthcare Sponsorship	**Number of Observations**
Yes	10
No	7
Uncertain	35
Not applicable; my firm does not offer health insurance to employees.	9

Question 9: *The recently passed jobs bill will provide a $1,000 tax credit and an exemption on Social Security taxes for hiring a previously unemployed worker. How will these incentives affect your hiring decisions?*

Jobs Bill	**Number of Observations**
We will hire without it, but it may determine whom to hire.	3
We will hire based on qualifications, not incentives.	29
The incentives are not large enough to affect our hiring decisions.	16
We are not hiring, regardless of incentives.	13

Question 10: *The Washington State Legislature has proposed increases in a variety of different taxes to solve the State's current budget deficit. If the total dollar value of tax revenues generated by the increases is the same, which of the following tax increases would be the least detrimental to the State's economy?*

Tax Increase	**Number of Observations**
Sales tax	30
Business and occupation tax	4
Property tax	17
Other	10

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?	61	1	3	1.92	0.64
Was it easier or harder for your firm to finance capital expenditures?	37	1	4	2.68	0.88
Have your inventory levels increased or decreased?	31	1	4	3.06	0.77
Were your firm's dollar sales higher or lower?	61	1	5	2.82	1.25