August 9, 2010

Greater Seattle Economic Outlook Survey—2nd Quarter 2010

The Greater Seattle Economic Outlook Survey, begun in July 2008, gathers information on general business conditions specific to Greater Seattle, and how national and international events and policies affect those conditions. The survey covers:

- Current Business Conditions & Outlook
    - Sales
    - Employment
    - Financing
    - Inventory
- Current Economic Issues

Each quarterly questionnaire repeats the same questions from the previous quarter in the Current Business Conditions & Outlook section for comparisons over time. The Current Economic Issues section introduces new questions each quarter on current events and policies. In addition, the second quarter questionnaire asks about firm characteristics and the fourth quarter survey asks about expectations for the upcoming year.

Survey results provide local businesses, government officials, and the media with information about current and potential future business issues. Results and archives are posted to http://impact.wsu.edu/survey/EconomicOutlook.html.

The Greater Seattle Economic Outlook Survey is the result of a cooperative effort between the School of Economic Sciences at Washington State University, the IMPACT Center in the School of Economic Sciences, and the Seattle Executives Association (SEA). This edition of the survey is the ninth, and covers the second quarter of 2010. The survey was distributed in July.

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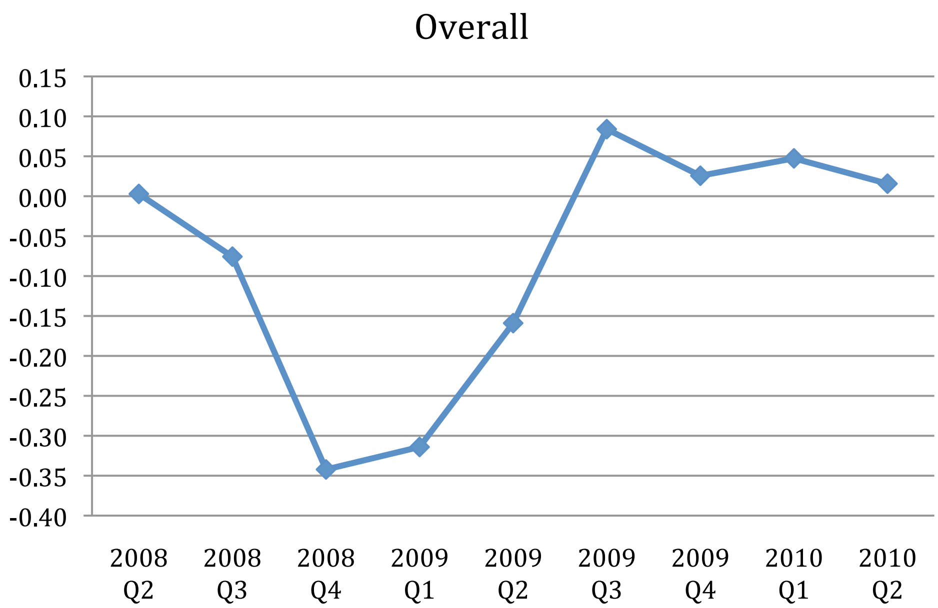
Executive Summary

Business conditions in the Greater Seattle economy during the second quarter of 2010 continue to be mixed. The overall outlook decreased slightly compared to the first quarter. Though the number of employees increased, financing for capital expenditures continues to be difficult for some establishments. These results continue to be related to the uncertainty of the economy. In addition to economic uncertainty, other major concerns are healthcare expenses, domestic competition, and government regulation.

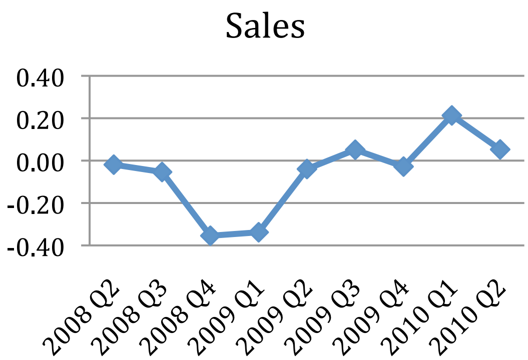
Respondents said they expect the National Export Initiative will slightly increase exports from the Greater Seattle Area. They also thought the announced devaluation of the Chinese currency against the U.S. dollar could slightly increase exports. But respondents do not expect the devaluation of the euro to change Seattle Area exports.

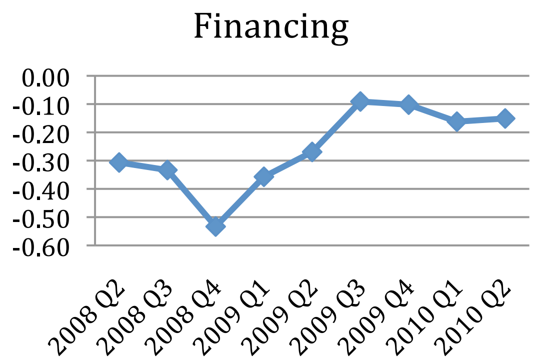
The once-per-year questions on business characteristics indicate that most of the respondents are corporations located in the city limits of Seattle and in the service industry.

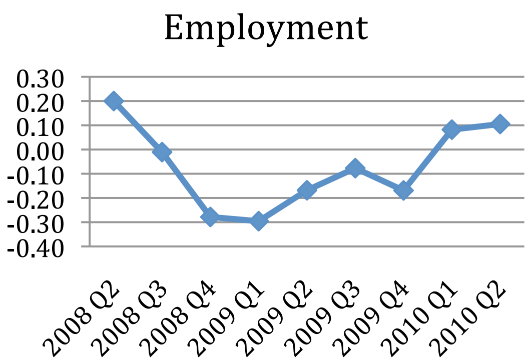
Optimism Indices

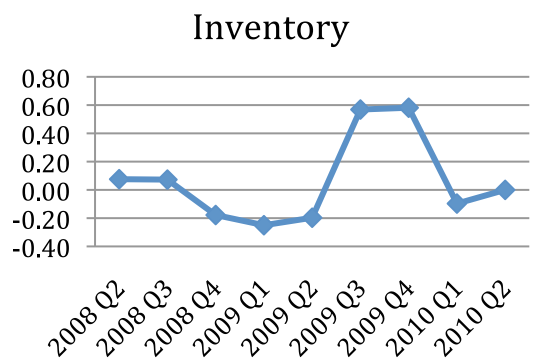


Optimism Indices (cont.)









Note: These graphs show the *net* response of participants. For example, if 20% submitted a positive response, 5% a negative response, and 75% no change, then the index is .20 – .05 = 0.15.

SURVEY METHODOLOGY

Population

Participants in the quarterly survey are members of the Seattle Executives Association. The Association is a network of 103 executives across the spectrum of industries. The survey results from this population provide a broad perspective but do not provide insight into any industry specific issues.

Design

The Greater Seattle Economic Outlook Survey is taken online. The questions in the survey are multiple-choice, ranking, or open-ended format. Respondents can complete the survey in ten minutes without the consultation of business records.

The quarterly survey, begun in the second quarter of 2008, was redesigned prior to the second quarter 2009 and again before second quarter 2010. The questions are now in two categories:

- Current 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, in the second quarter survey. The Current Business Conditions section has been combined with a reduced Business Outlook section. The questions from the former Current Business Conditions remain unaltered so that there is consistency with previous questionnaires. These questions will appear in all futures questionnaires as well. An expanded Business Outlook section will appear once per year, in the fourth quarter.

Current Survey Instrument

The 2010 second quarter survey instrument became available to SEA members on July 12, and responses were collected until August 2. The total number of respondents was 76, making the response rate 74%.

Current Business Conditions & Outlook

Purpose

The Current Business Condition & Outlook questions 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". The various responses are coded with integer values {1, 2, 3, …}. In the graphical analysis of each Likert question, the average response is represented by a black dot. A table of numerical summary statistics relating to all of the Likert questions in the survey may be found at the end of this report.

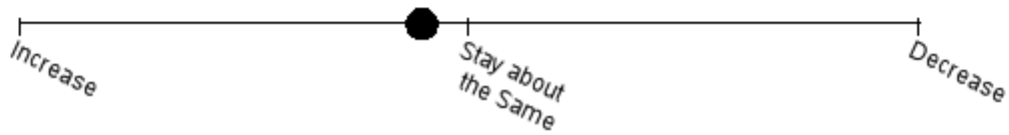
In the ranking question (question 5), the respondent is presented a list of potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business. The resulting chart presents the problem areas in order of total number of selections and includes the number of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

Results

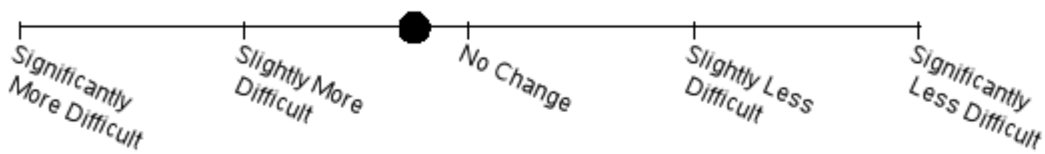
Responses to the Current Business Conditions questions indicate that during the past three months, the number of firms increasing employment rose slightly. But more firms found it slightly or significantly more difficult to finance capital expenditures than not. Equal numbers of respondents found changes to sales and inventory to be up and down, making the average no change.

As in first quarter 2010, uncertainty about the future of the economy was cited most frequently as the primary concern of businesses. But unlike the previous quarter, healthcare expenses, domestic competition, and government regulation were also frequently cited, though lesser, problems. Financing continues to be a major concern for a small portion of the survey respondents.

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



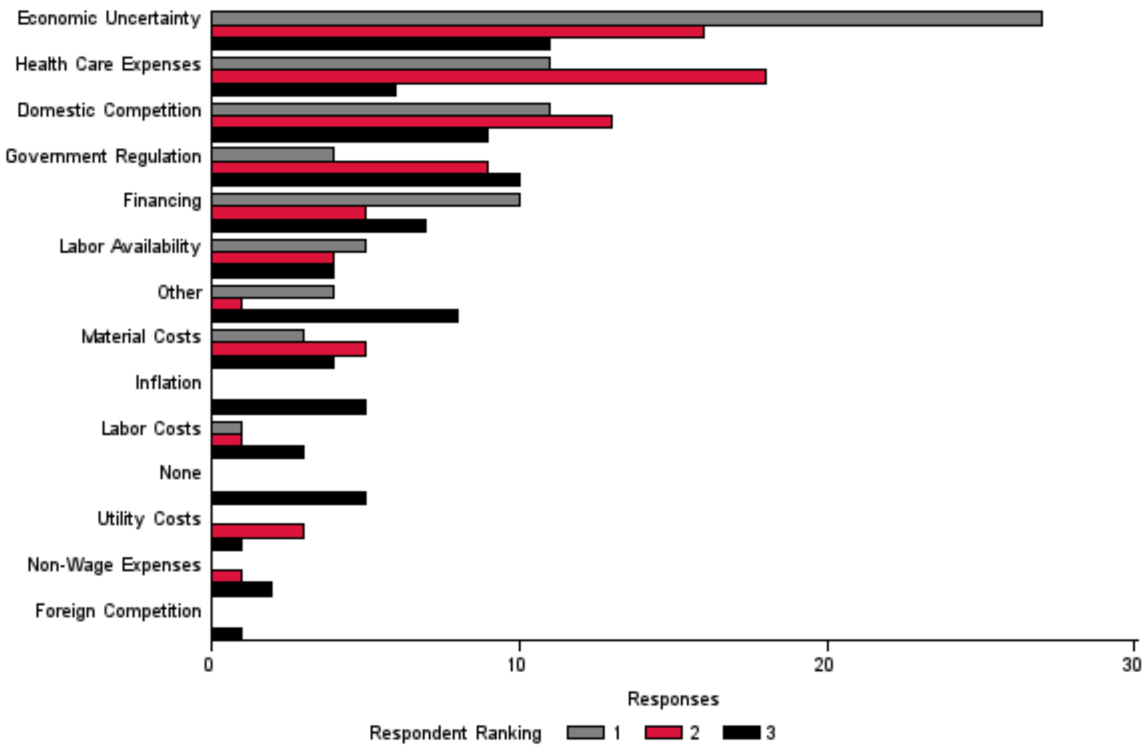
Question 2: *Was it easier or harder for your firm to finance capital expenditures?*



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.*



Current Economic Issues

Purpose

The Current Economic Issues section contains questions about topics of particular importance during the surveyed quarter. These questions are new to each quarter to maintain the relevancy of this section as issues change over time.

Results

The questions for this quarter were related to domestic versus international business opportunities and reactions to exchange rate movements and the National Export Initiative. It is important to realize, however, that most survey participants are in service industries and thus do not export (see business characteristics section). Therefore, the responses are on expectation of how Greater Seattle will respond and not necessarily on expectation of how the respondent's firm will respond.

Twenty-six percent of respondents sell all of their merchandise to customers in Washington State, though nine firms do not have any sales to Washington. Fifty-nine respondents or 77% do not export internationally. Thus, most respondents have a geographic sales scope larger than the state economy, but smaller than the national economy. Though Washington is the national leader in the percent of sales exported compared to overall value of shipments, only one respondent indicated more than 50% of sales were to foreign destinations.

The respondents indicated that they expected the slow devaluation of the Chinese currency to slightly increase sales in Greater Seattle. But they did not indicate an expected change to regional sales from the change in the exchange rate with the euro. However, the respondents did expect a relatively large increase in sales from the National Export Initiative announced by President Obama earlier in 2010. The National Export Initiative hopes to double U.S. exports by 2015 with federal assistance.

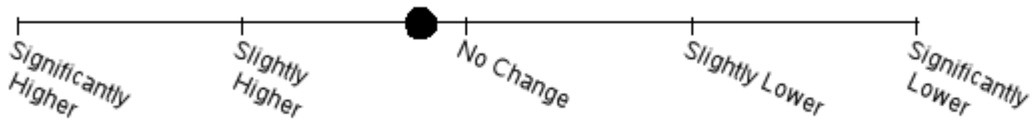
Question 6: *What percent of your sales are shipped to customers in Washington State?*

In-State Sales	Number of Observations
0%	9
1–10%	3
11–25%	1
26–50%	5
51–75%	4
76–90%	10
91–99%	14
100%	27
Don't Know	3

Question 7: *What percent of your sales are exported to foreign countries?*

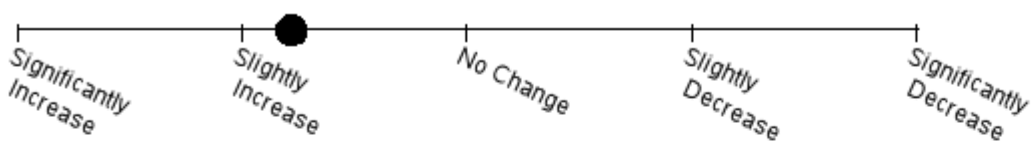
Foreign Sales	Number of Observations
0%	59
1–10%	11
11–25%	1
26–50%	0
51–75%	0
76–90%	1
91–99%	0
100%	0
Don't Know	4

Question 8: *On June 21, 2010, the Chinese government announced a slow and controlled appreciation of the Yuan (renminbi). What effect do you expect this to have on economic activity in the Greater Seattle Area (even if not applicable to your firm)?*



Question 9: *What impact do you expect the depreciation of the euro will have on economic activity in the Greater Seattle Area?*

Question 10: *On March 11, 2010 President Obama signed an executive order containing a goal of doubling national exports by 2015 as part of the National Export Initiative. What effect do you expect this to have on economic activity in the Greater Seattle Area?*



Business Characteristics

Purpose

The Business Characteristics section is asked once a year, in the second quarter. Its purpose is to provide information on the population of survey respondents so that results can be put into context.

Results

Most of the survey respondents are from corporations. There are 4 sole proprietorships and 2 partnerships. Compared to the second quarter 2009, the number of Sub-S corporations increased from 28 to 40 and other corporations have decreased from 35 to 30.

The majority of survey respondents are located in the Seattle city limits. The remaining respondents are spread throughout the region. These results are very similar to those from 2009.

Nearly two-thirds of respondents are from service establishments. Another 13% are in retail trade. Only 3 of 76 are in manufacturing, up from 2 in 2009.

Respondent's 2010 number of employees does not show widespread evidence of hiring or downsizing in comparison to 2009. The ratio of firms in each category is roughly the same.

Question 11: *What is your form of business organization?*

Business Structure	Number of Observations
Sole Proprietorship	4
Partnership	2
Sub-S Corporation	40
Other Corporation	30

Question 12: *What general geographic region does your business operate in?*

Location	Number of Observations
Seattle	39
Everett/Mukilteo	0
Edmonds/Lynwood/Snohomish	4
Bothell/Kirkland/Redmond	3
Bellevue	4
Renton	2
SeaTac	2
Burien/Des Moines/ Kent / Federal Way	2
Gig Harbor/Tacoma	1
Bainbridge/Bremerton/Port Orchard	0
Other	19

Question 13: *What is your primary business classification?*

Business Type	Number of Observations
Arts and Entertainment	0
Communication and Information Services	3
Construction	4
Finance and Insurance	7
Health Care and Social Services	3
Hospitality and Restaurants	4
Manufacturing	3
Professional Services	16
Real Estate and Rentals	3
Retail Trade	10
Transportation and Warehousing	5
Utilities	0
Wholesale Trade	0
Other Goods	1
Other Services	17

Question 14: *How many full-time equivalent employees are in your firm?*

Employment	Number of Observations
1-10	35
11-25	13
26-50	11
51-100	7
101-250	4
Over 250	6

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?	76	1	3	1.89	0.60
Was it easier or harder for your firm to finance capital expenditures?	53	1	5	2.75	0.94
Have your inventory levels increased or decreased?	50	1	4	2.98	0.71
Were your firm's dollar sales higher or lower?	76	1	5	2.93	1.20
On June 21, 2010, the Chinese government announced a slow and controlled appreciation of the Yuan (renminbi). What effect do you expect this to have on economic activity in the Greater Seattle Area (even if not applicable to your firm)?	53	2	5	2.79	0.69
What impact do you expect the depreciation of the euro will have on economic activity in the Greater Seattle Area?	57	2	4	3.04	0.82
On March 11, 2010 President Obama signed an executive order containing a goal of doubling national exports by 2015 as part of the National Export Initiative. What effect do you expect this to have on economic activity in the Greater Seattle Area?	65	1	4	2.22	0.65