November 9, 2010

Greater Seattle Economic Outlook Survey — Third 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 tenth, and covers the third quarter of 2010. The survey was distributed in October.

The authors of this edition of the survey and report are:

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Thanks to Glenna Thomas and Jack Goldberg of SEA for administering the survey and Justin Taylor for survey implementation. Also thanks to Ron Mittelhammer of the School of Economic Sciences and Tom Marsh of the IMPACT Center. Finally, thanks to the members of the SEA for their willingness to participate in the survey.

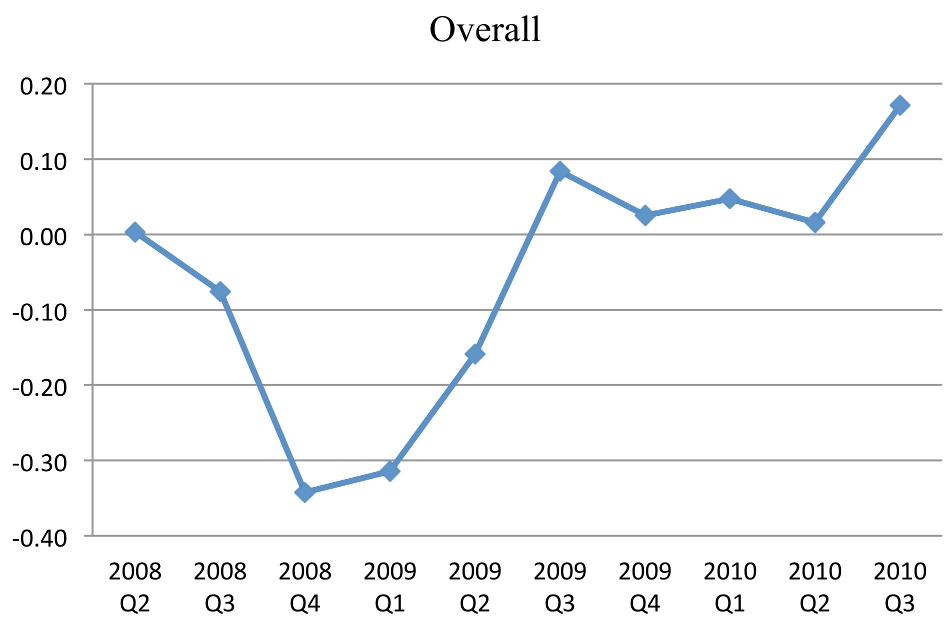
Executive Summary

Business conditions in the Greater Seattle economy during the third quarter of 2010 show improvement over the second quarter. The overall outlook increased by the largest amount in the past year. A greater number of survey respondents indicated their business had increased sales and hired more employees than in quarter 2. Respondents did not indicate any changes in the ability to obtain financing or in their inventory levels.

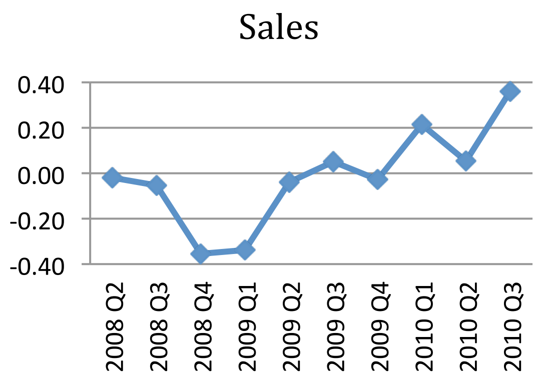
The primary concern for survey respondents continued to be economic uncertainty. In addition to economic uncertainty, other major concerns were healthcare expenses, domestic competition, and government regulation. Though not a concern listed by most participants, there was a large increase in the number of firms indicating that labor availability is an issue.

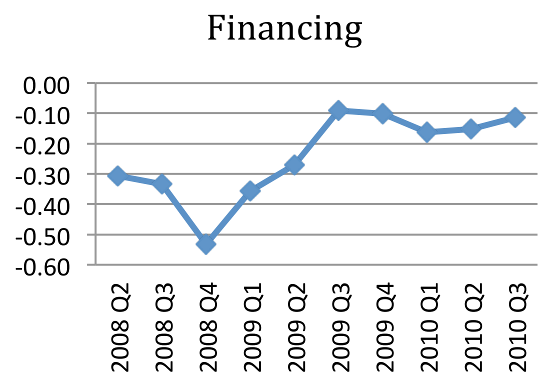
Most respondents said opportunities to innovate did not decrease after the recession began in 2007. However, they reported that continued economic uncertainty is causing them to delay or bypass opportunities for innovation, and to increase cash reserves. Most respondents indicated that they would pursue opportunities to innovate once the economy improves.

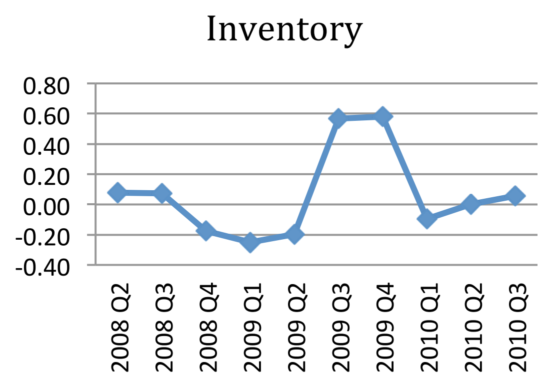
Optimism Indices



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 third quarter survey instrument became available to SEA members on October 6, and responses were collected until November 3. The total number of respondents was 58, making the response rate 56%.

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.

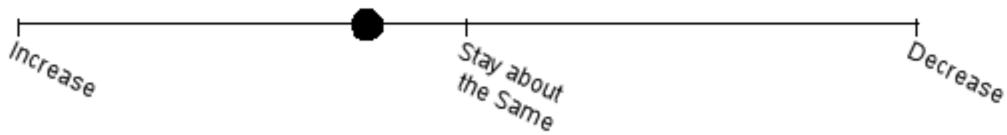
In the ranking question (question 5), the respondent is presented a list of potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business. The resulting chart presents the problem areas in order of total number of selections and includes the number of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

Results

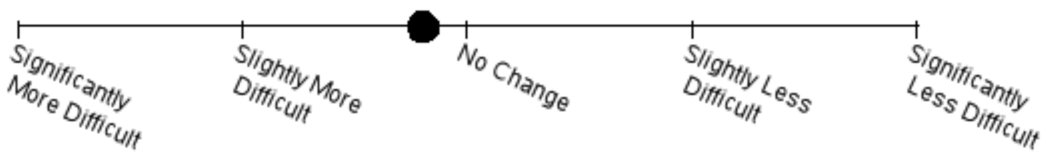
Responses to the Current Business Conditions questions indicate that during the past three months, the number of firms hiring employees increased. More firms reported hiring during quarter 3 than at any other time in 2010. Changes to financing and inventories remained roughly the same as in quarter 2. But more firms reported an increase in sales in quarter 3 over quarter 2 than did not. The increase in sales was the largest reported to this survey since early 2009.

As in both first and second quarter 2010, uncertainty about the future of the economy is the most frequently cited concern of respondents. Healthcare expenses, domestic competition, and government regulation were also frequently cited, though lesser, problems. Though not a concern for most survey participants, labor availability become a worry to more firms in quarter 3 than quarter 2. Inflation was not cited as a potential problem.

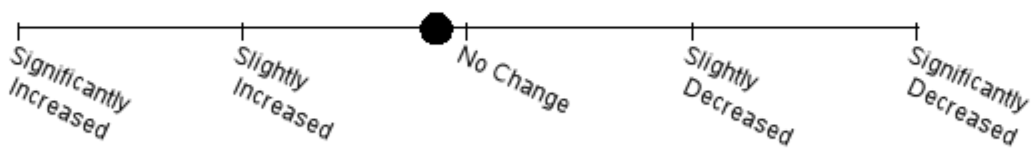
Question 1: *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



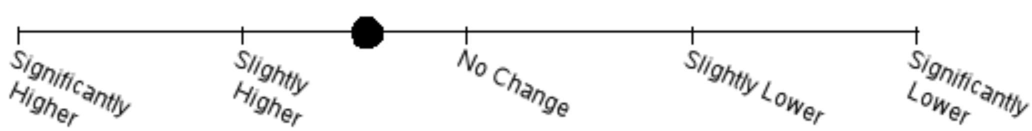
Question 2: *Was it easier or harder for your firm to finance capital expenditures?*



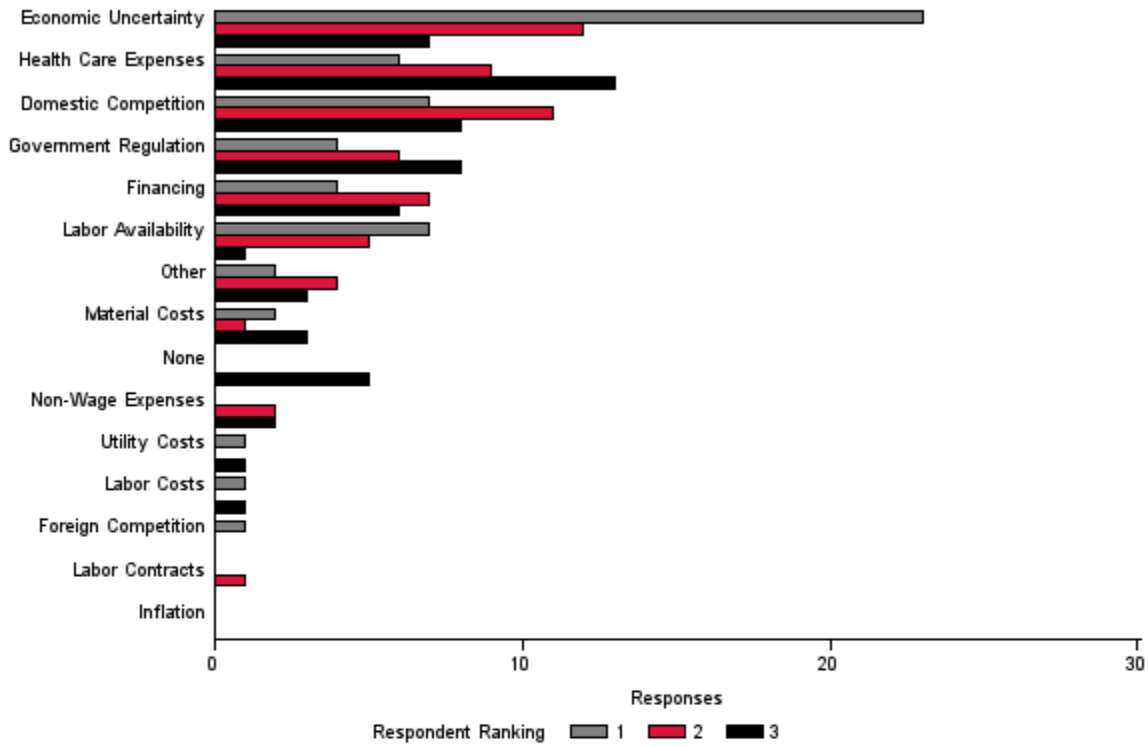
Question 3: *Have your inventory levels increased or decreased?*



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.*



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 opportunities for innovation. The answers indicate that opportunities to innovate have been strong in the past and most say they have not declined with the recession beginning three years ago. However, more than half of the respondents indicated that since the recession began, they have declined or delayed opportunities to innovate. Instead, most respondents indicated that economic uncertainty caused them to keep larger cash reserves than previously. However, most respondents said they plan to pursue opportunities to innovate once the economy improves.

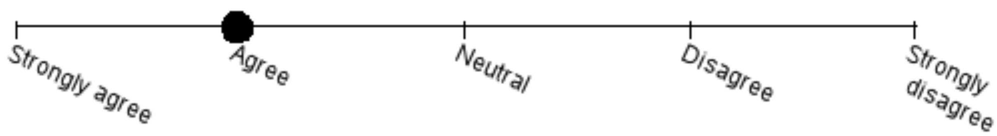
Two-thirds of respondents indicated that customers are the primary source for innovation and changes to products. Peer firms that do not directly compete with respondents were the second most cited source of innovation, but only by 9%.

Washington initiative 1098 was a ballot measure for wide sweeping tax changes to Washington State. A piece of the tax restructuring proposed by I-1098 was the repeal of the Business and

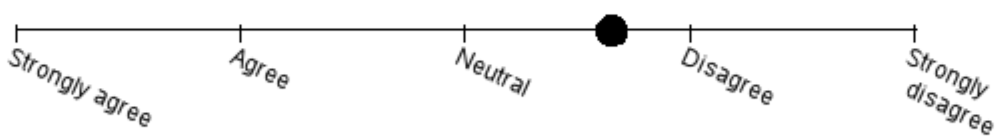
Occupation tax for small businesses (by increasing the exemption level). The B&O tax is a tax on gross receipts and is measured on the value of products or services sold. There are no deductions on the basis of labor or material costs.

Most survey respondents indicated that the elimination of the B&O tax for small businesses would hurt business conditions. Initiative 1098 failed by popular vote in early November.

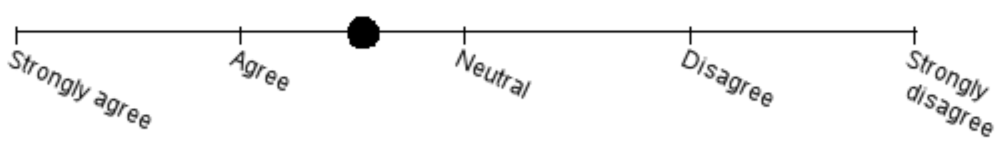
Question 6: *Over the past ten years (or since the inception of your firm), there have been abundant opportunities for innovation.*



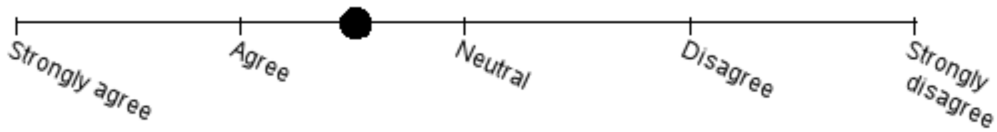
Question 7: *Over the past three years (or since the inception of your firm), opportunities to innovate and/or increase the number and mix of products and services offered have declined.*



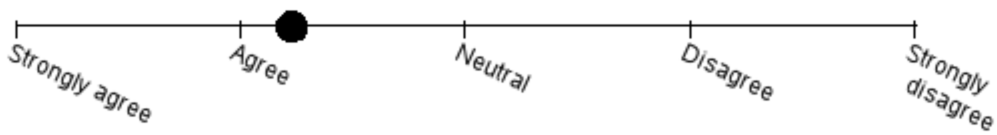
Question 8: *Over the past three years (or since the inception of your firm), my firm has declined or indefinitely delayed unique growth opportunities because of economic uncertainty.*



Question 9: *Compared to three years ago (or since the inception of your firm), uncertainty in the local economy is causing my firm to increase its cash reserves.*



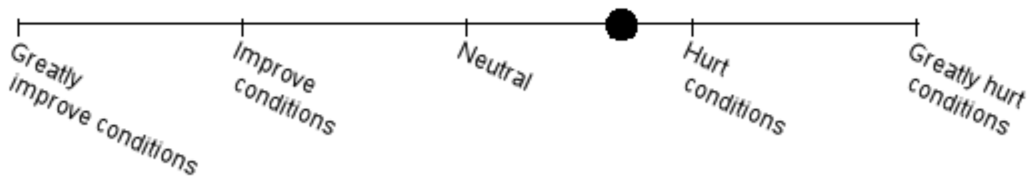
Question 10: *When the economy improves, my firm will more aggressively pursue opportunities to innovate or expand the number and/or mix of goods and services produced than now.*



Question 11: *When your firm innovates its existing product line and/or adds news products and services, what is the main source of inspiration?*

Inspiration_Source	**Number of Observations**
Customers	39
Employees	1
Peers (similar firms that do not compete with you or are in a different region)	5
Competitors	3
Supply chain partner firms	4
Not applicable	3
Other	3

Question 12: *What do you expect to happen to business conditions if the implementation of the I-1098 tax reform, specifically the repeal of the B&O tax, were enacted?*



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?	58	1	3	1.78	0.62
Was it easier or harder for your firm to finance capital expenditures?	35	1	4	2.80	0.72
Have your inventory levels increased or decreased?	36	1	4	2.86	0.83
Were your firm's dollar sales higher or lower?	58	1	4	2.55	0.96
Over the past ten years (or since the inception of your firm), there have been abundant opportunities for innovation.	57	1	4	1.98	0.64
Over the past three years (or since the inception of your firm), opportunities to innovate and/or increase the number and mix of products and services offered have declined.	57	1	5	3.65	1.04
Over the past three years (or since the inception of your firm), my firm has declined or indefinitely delayed unique growth opportunities because of economic uncertainty.	57	1	5	2.54	1.15
Compared to three years ago (or since the inception of your firm), uncertainty in the local economy is causing my firm to increase its cash reserves.	53	1	4	2.51	0.95
When the economy improves, my firm will more aggressively pursue opportunities to innovate or expand the number and/or mix of goods and services produced than now.	58	1	4	2.22	0.84
What do you expect to happen to business conditions if the implementation of the I-1098 tax reform, specifically the repeal of the B&O tax, were enacted?	57	2	5	3.68	0.95