February 3, 2011

**Greater Seattle Economic Outlook Survey — Fourth 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 eleventh, and covers the fourth quarter of 2010. The survey was distributed in Jan. 2011.

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.

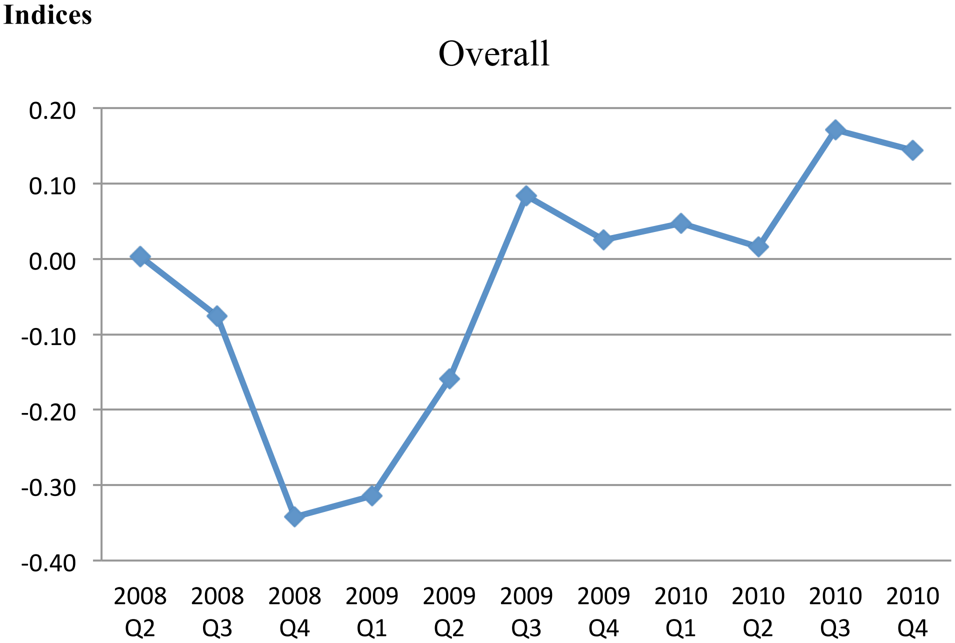
## Executive Summary

Business conditions in the Greater Seattle economy during the fourth quarter of 2010 appear to be improving slightly. The overall outlook index remains above 0, indicating survey respondents believe conditions are improving. However, the rate of improvement has slowed from third quarter 2010. Sales and the number of employee continued to increase, whereas inventory levels and the difficulty of financing remain near the levels indicated in the third quarter. Economic uncertainty remains the largest concern to business, though not as much as in quarter 3. Domestic competition was indicated as the second most important concern, moving up one place from number 3 in the previous quarter.

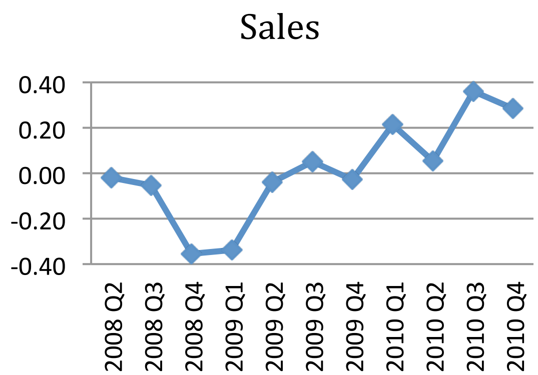
Respondents said that though most of their workforce is college educated, and most of those were educated in Washington's public higher education system, a college-educated workforce is neither important nor unimportant to their business. They do think there will be a slight change in the availability of college-educated labor based on the state's recent reductions to higher education and the increase in tuition.

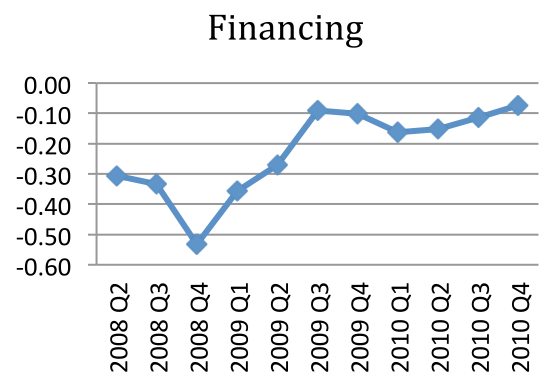
Respondents indicated they believe fiscal policy such as the Dec. 2010 tax deal has a better chance of improving the national economy than the actions of the Federal Reserve. There was a slight belief that deficit reduction was important for the health of the national economy. But respondents reacted differently to state policy. Results show the large majority of participants believe a state balanced-budget is good for the state economy and that voter-approved changes to Washington tax structure will not affect the economy.

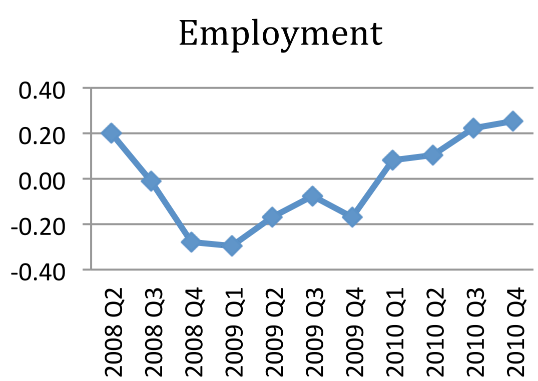
**Optimism Indices**

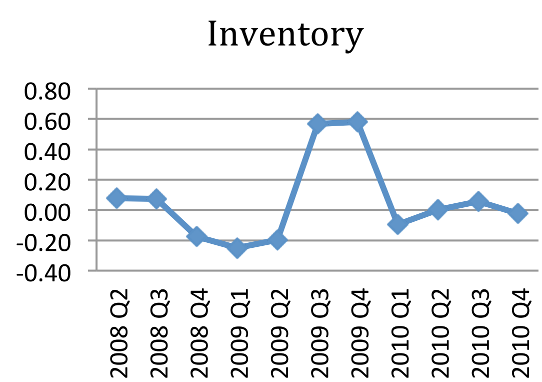


**Optimism Indices (cont.)**




*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 fourth quarter survey instrument became available to SEA members on January 5, and responses were collected until January 31. The total number of respondents was 63, making the response rate 61%.

### 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.

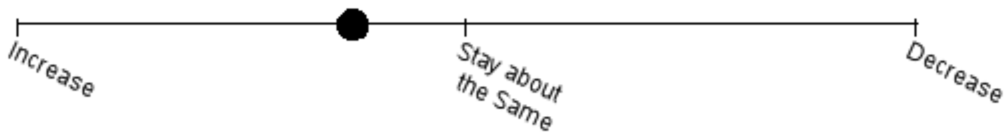
In the ranking question (question 5), the respondent is presented a list of potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business. The resulting chart presents the problem areas in order of total number of selections and includes the number of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

*Results*

Responses to the Current Business Conditions questions indicate that the number of firms increasing employment rose slightly. This mimics national data in which hiring is up, but not quickly enough to reduce the unemployment rate substantially. Firms found the difficulty of financing capital expenditures to be about the same as in third quarter 2010, which was slightly up over second quarter 2010. Equal numbers of respondents found changes to sales and inventory to be up and down, making the average no change. However, more firms indicated increased sales in fourth quarter 2010 in comparison to third quarter. The fourth quarter results are roughly the same as the third quarter results in terms of employment and sales, but with less difficultly in financing capital projects and inventory build-up than in the third quarter.

Uncertainty about the future of the economy was again cited most frequently as the primary concern of business. But the number of respondents ranking this the #1 concern decreased in quarter 4 compared to quarter 3. Instead, many more respondents indicated their #1 concern was domestic competition. Healthcare expenses dropped to the third most pressing concern, although the number of respondents indicating it is the most important problem increased. Government regulation and financing continue to be the most important problem for a small portion of survey respondents.

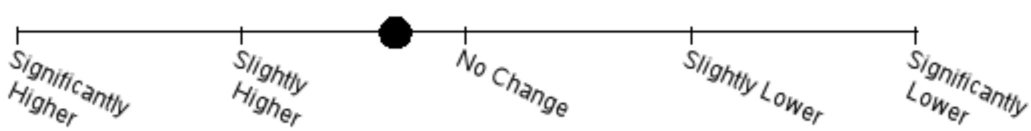
***Question 1:*** *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



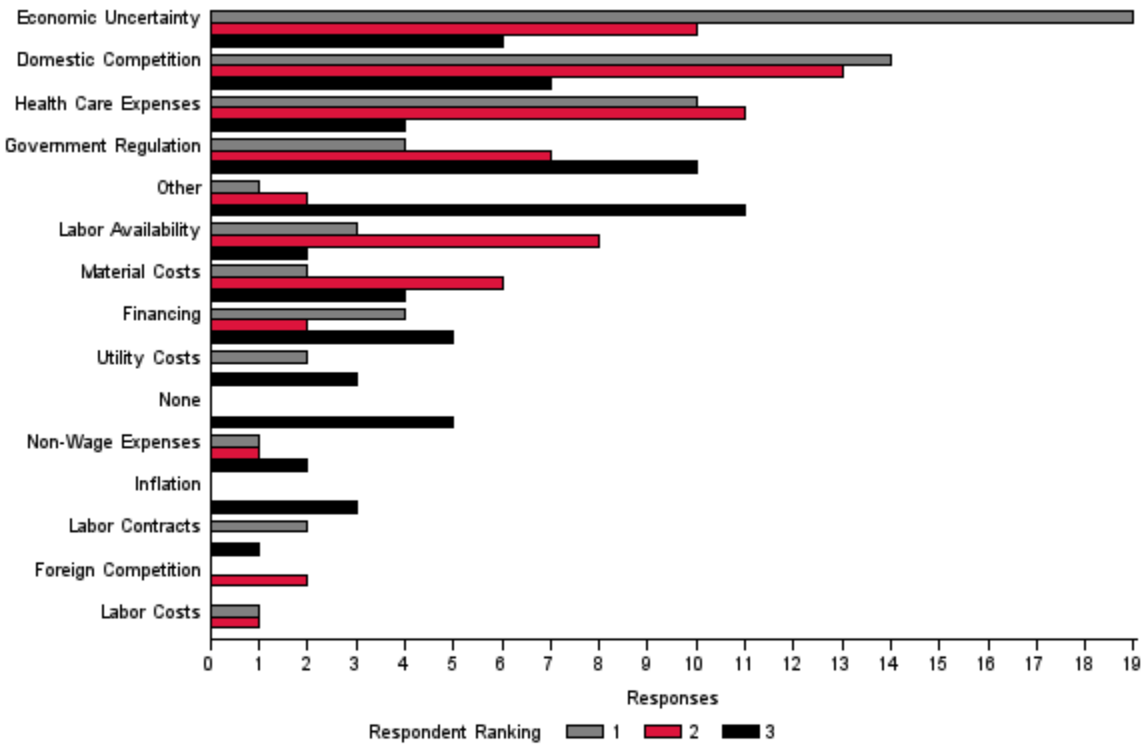

***Question 2:*** *Was it easier or harder for your firm to finance capital expenditures?*


***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 each quarter to maintain relevancy as issues change over time. The fourth quarter survey has an extended current economic issues section in order to gauge business expectation for the new calendar year.

*Results*

The fourth quarter survey questions were related to 1) higher education and 2) state and federal government policy and the economy.

Most respondents indicated that the majority of their employees are college educated (71%) and of these, most of their employees (63% of all respondents and 89% with college educated employees) received their education at one of Washington's state supported colleges and universities. The vast majority of respondents (51% of all responses and 71% with college educated employees) reported that their employees attended a Washington public research or regional university rather than a two-year community or technical college. At the same time, respondents indicated that overall, a college educated workforce is neither important nor unimportant to their business. Respondents did indicate, however, that the reduction of state support for higher education in Washington and resulting increases in tuition will slightly decrease the availability of a college-educated workforce.

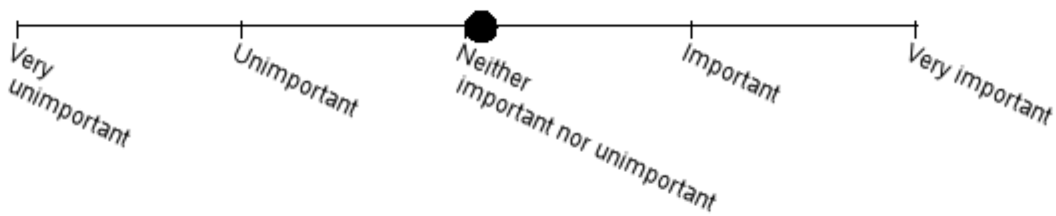
Survey respondents indicated that they expect no change to Washington's economy from legislation passed in the November election. In particular, respondents do not see voter-approved Initiative 1053 concerning tax and fee increases imposed by the state to have an effect on the economy. Similarly, the results show that respondents do not think the Federal Reserve's program to buy up to $600 billion in U.S. government bonds (nicknamed Quantitative Easing 2) will have much of an impact on the national economy. There is only a slight indication that respondents think this program will improve the national economy. Nonetheless, respondents indicated that slight inflation is likely in 2011.

Survey respondents indicated they thought fiscal policy has a better chance of improving the national economy than monetary policy. Participants indicated that they expected the national economy had a better chance to improve from the December 2010 tax bill ($858 billion for two year extension of tax rates, one year payroll tax cut for some workers, a change to the estate tax, and the extension of jobless benefits) than from the actions of the Federal Reserve. Furthermore, results show there is a slight, but not strong, belief that federal deficit reduction (as suggested by the Bowles-Simpson plan) would improve the economy. But respondents indicated they do not believe fiscal policy is important for the state economy. Rather, a large majority of respondents indicated that Washington's biennially-balanced budget was good for the state economy.

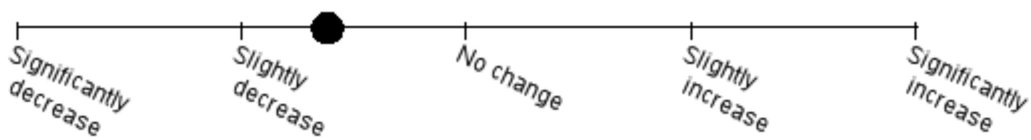
***Question 6:*** *Of your business's college-educated (or greater) workforce, which of the following choices best describes where most attended?*

| **Education Source** | **Number of Observations** |
|---|---:|
| Washington four-year regional campus (Eastern Washington, Central Washington, Western Washington, Evergreen State) | 13 |
| Washington statewide campus (University of Washington, Washington State) | 19 |
| Washington two-year community or technical college | 4 |
| Washington private college | 4 |
| Out-of-state public college | 3 |
| Out-of-state private college | 2 |
| Most of my employees are not college educated. | 18 |

***Question 7:*** *How important is a college-educated (or greater) workforce to your business?*

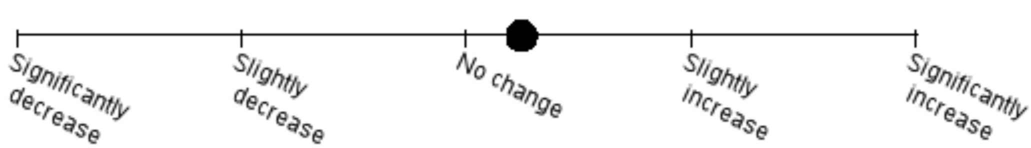



***Question 8:*** *In response to state funding reductions, Washington public colleges and universities have announced large tuition increases. How do you expect this to affect the availability of a college-educated workforce?*




***Question 9:*** *How do you expect your business will be affected by the November 2010 voter-approved changes to Washington's tax structure and implementation, specifically initiative 1053 concerning tax and fee increases imposed by state government?*

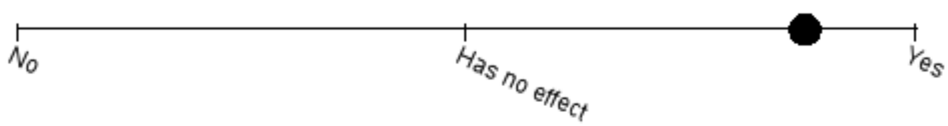

***Question 10:*** *In November 2010, the Federal Reserve announced a program to buy as much as $600 billion in U.S. government bonds through June 2011. What impact do you expect this program (nicknamed Quantitative Easing 2) will have on the overall economy?*



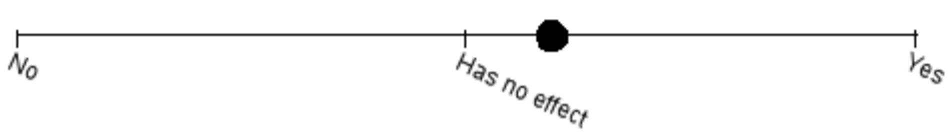
***Question 11:*** *In December 2010, President Obama signed a $858 billion tax bill whose provisions include a two year extension of current tax rates, a one year payroll tax cut for some workers, a change to the estate tax, and the extension of jobless benefits. What do you expect this law will have on the overall economy?*


***Question 12:*** *What do you expect to happen to inflation over the next year?*


***Question 13:*** *Do you think a state government balanced budget (biennially) is good for the state economy?*




***Question 14:*** *Do you think eliminating loopholes and exemptions (such as home mortgage interest deduction and employer-provided healthcare benefits deduction) and lowering overall tax rates (for example a decrease from 35% to 25% in corporate tax rate) is good for the national economy? These suggestions are part of those in the Bowles-Simpson tax plan.*



**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? | 63 | 1 | 3 | 1.75 | 0.51 |
| Was it easier or harder for your firm to finance capital expenditures? | 41 | 1 | 4 | 2.88 | 0.60 |
| Have your inventory levels increased or decreased? | 41 | 1 | 5 | 2.95 | 0.89 |
| Were your firm's dollar sales higher or lower? | 63 | 1 | 5 | 2.68 | 1.13 |
| How important is a college-educated (or greater) workforce to your business? | 63 | 1 | 5 | 3.06 | 1.09 |
| In response to state funding reductions, Washington public colleges and universities have announced large tuition increases. How do you expect this to affect the availability of a college-educated workforce? | 58 | 1 | 5 | 2.38 | 0.77 |
| How do you expect your business will be affected by the November 2010 voter-approved changes to Washington's tax structure and implementation, specifically initiative 1053 concerning tax and fee increases imposed by state government? | 48 | 1 | 5 | 2.94 | 0.78 |
| In November 2010, the Federal Reserve announced a program to buy as much as $600 billion in U.S. government bonds through June 2011. What impact do you expect this program (nicknamed Quantitative Easing 2) will have on the overall economy? | 45 | 1 | 5 | 3.24 | 0.80 |
| What effect do you expect President Obama's $858 billion tax bill will have on the overall economy? | 59 | 2 | 5 | 3.63 | 0.85 |
| What do you expect to happen to inflation over the next year? | 62 | 2 | 5 | 3.76 | 0.67 |
| Do you think a state government balanced budget (biennially) is good for the state economy? | 61 | 1 | 3 | 2.75 | 0.62 |
| Do you think eliminating loopholes and exemptions and lowering overall tax rates is good for the national economy? | 58 | 1 | 3 | 2.19 | 0.98 |