May 8, 2011

Greater Seattle Economic Outlook Survey — First Quarter 2011

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 twelfth, and covers the first quarter of 2011. The survey was distributed in April.

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 Robert Rosenman 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.

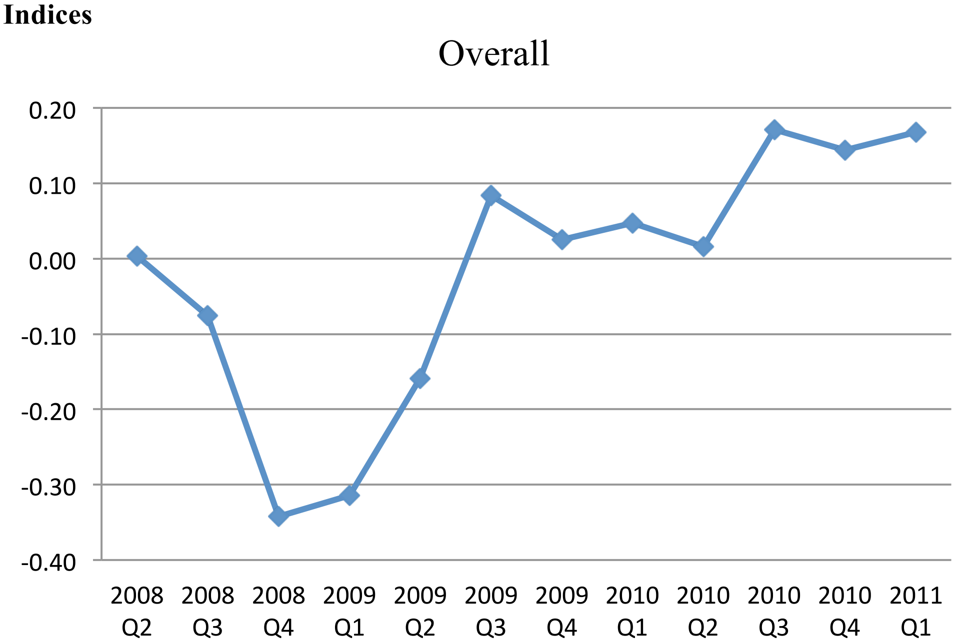
Executive Summary

There was improvement in the economic environment in Greater Seattle in the first quarter of 2011. The overall outlook of firms that participated in the survey increased. Additionally, more firms reported an increase in sales and employment than did not. Only slightly more firms reported more difficulty in financing capital expenditures and inventory levels were constant from the previous quarter. Economic uncertainty continues to be the leading concern. But labor availability is increasingly becoming a problem for firms in Greater Seattle. As in the fourth quarter 2010, other major concerns are healthcare expenses, domestic competition, and government regulation.

Respondents said that the best option for the state economy is for the state government to have a biennially balanced budget. The fewest number of respondents thought cuts to electricity and other utilities would greatly harm the economy whereas the most respondents thought cuts to roads & infrastructure and higher education would bring the greatest harm to the state economy.

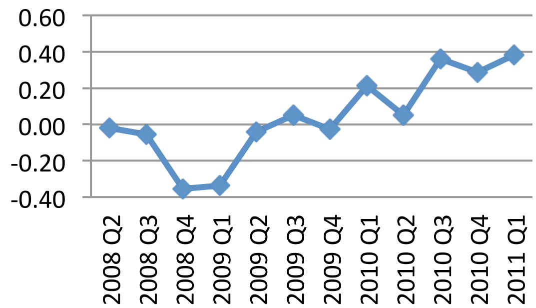
Survey participants are not overly worried about inflation or the increasing cost of gasoline. Fifty percent said the increasing cost of gasoline would not affect them or they would absorb the cost without passing on increased prices to customers. Thirty-nine percent of respondents said they would pass on the increase cost of gasoline to customers in the form of prices or a fuel surcharge.

Optimism Indices

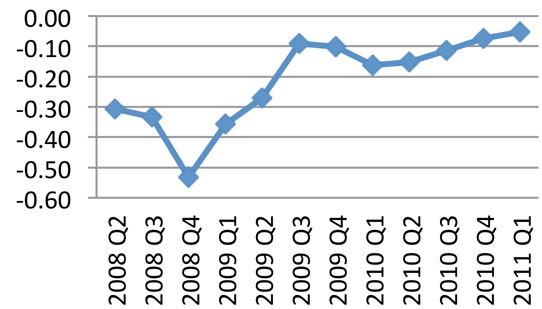


Optimism Indices (cont.)

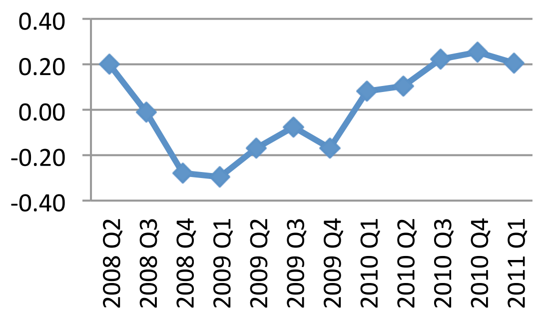
Sales



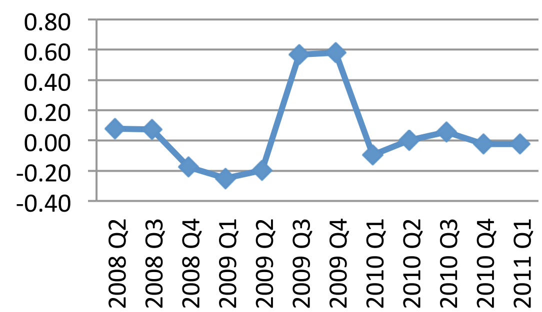
Financing



Employment



Inventory



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 administered 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 2011 first quarter survey instrument became available to SEA members on April 4 and responses were collected until May 2. 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.

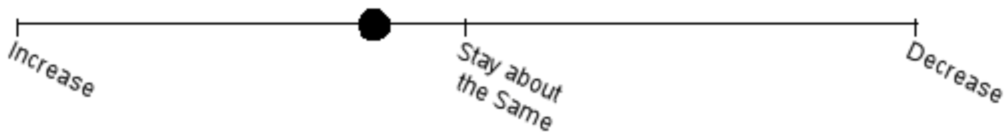
In the ranking question (question 5), the respondent is presented a list of potential problem areas and asked to select the primary, secondary, and tertiary problems facing their business. The resulting chart presents the problem areas in order of total number of selections and includes the number of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

Results

Responses to the Current Business Conditions questions indicate an improvement in the Greater Seattle economy compared to the fourth quarter in 2010. For most survey respondents, sales increased and employment rose in the first quarter of 2011. Meanwhile, the level of inventories remained constant and only a small number of participants indicated that financing was more difficult.

Economic uncertainty remains the leading concern of most of the Seattle area businesses taking the survey. Compared to fourth quarter 2010, more respondents indicated that economic uncertainty was a first, second, or third concern meaning that firms thought other concerns were less important. Results also show that labor availability is becoming an important concern for businesses. Nine respondents said labor availability was the leading economic concern, up from three in the previous quarter. As previously, other leading concerns are domestic competition, healthcare expenses, and government regulation.

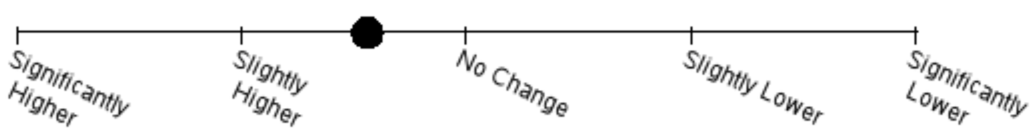
Question 1: *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*



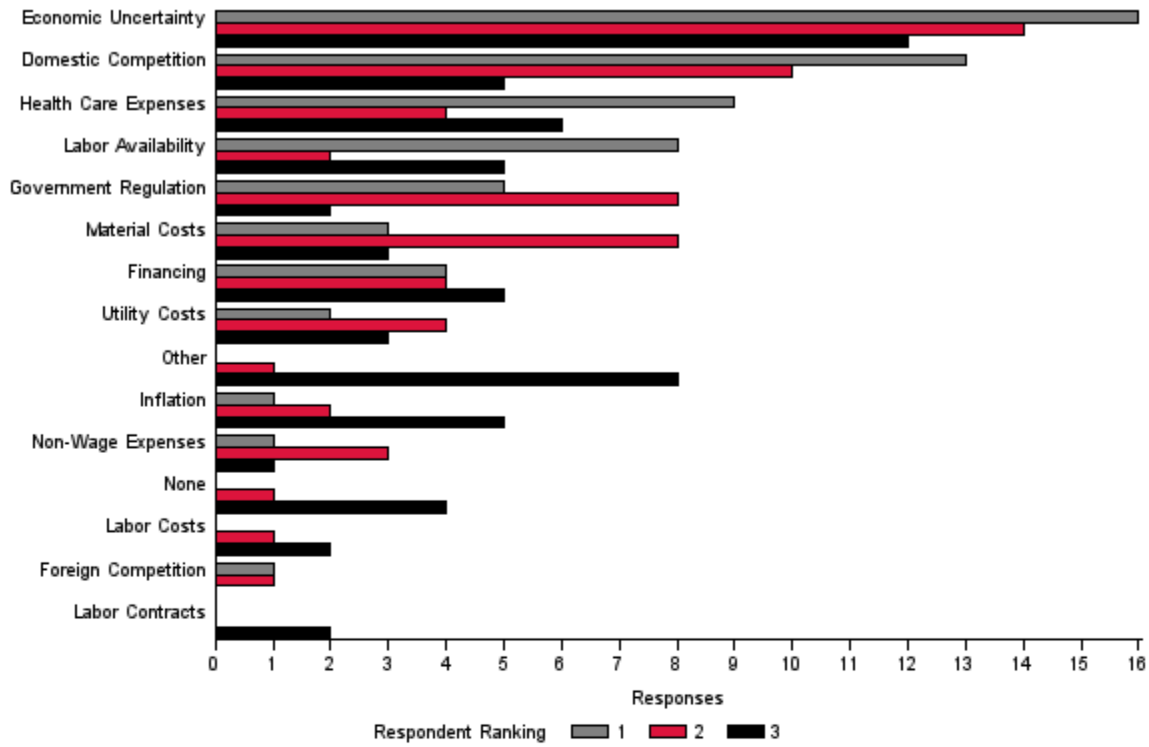
Question 2: *Was it easier or harder for your firm to finance capital expenditures?*

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

Over half (52%) of the survey respondents indicated that a biennially balanced state budget is the best option for the business community. Approximately 21% of respondents thought that the state should be required to run (at least a small) budget surplus each year, while 18% should be able to run limited deficits or small surpluses in accordance with economic conditions and tax revenues. Only 5% of respondents indicated that the best option for the state economy would be for the state government to operate with budget deficits every biennial.

Another question in this section asked respondents to identify those public sectors that, when faced with budget cuts, will have the largest negative impact on businesses in the local economy. Responses indicate that state government cuts to roads and infrastructure, as well as higher education, would be the most damaging to the regional economy, followed by cuts to the Licensing and Permits. The fewest number of participants thought cuts to electricity and other utilities would harm the state economy.

The price of a gallon of gasoline is increasing nationwide. Thirty-six percent of respondents said that rising gasoline prices would have no effect on their business and 14% said they would offset the cost in gasoline by reducing their profit margin. But 25% said they would increase prices in response to changes in the cost of gasoline, with an additional 14% saying they would charge a "fuel surcharge" rather than increase their sticker price.

Most of the survey participants do not export to Japan. The perception of most survey participants is that the earthquake will slightly harm the Greater Seattle economy. This perception is being realized as the survey participants who do export to Japan said that they expected sales to slightly decrease. These results suggest Greater Seattle firms do not believe they will replace competing Japanese firms in the Japanese market.

Question 6: *In your opinion, what would be best for the economy of Washington State?*

Economic Improvement	**Number of Observations**
A mandate to force the State to run (at least a small) budget surplus every biennium, even if that means reduced programs and services.	13
A mandate to biennially balance the budget.	32
To allow the State to run deficits (up to a maximum level) when tax revenues are down and surpluses (up to a targeted level) when tax revenues are up.	11
To allow the State to run permanent deficits (up to a maximum level) until there is a risk that the State's credit rating (and its ability to issue bonds) falls to sub-prime levels?	2
To allow the State to run permanent deficits (up to a maximum level) regardless of whether there is a risk that the State's credit rating (and its ability to issue bonds) might fall to (or below) sub-prime levels?	1
No opinion	4

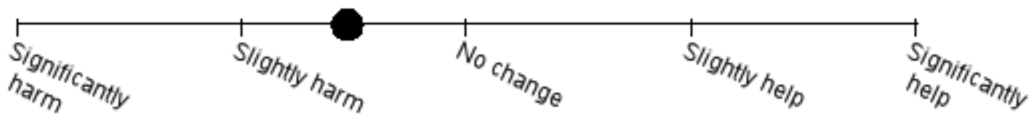
Question 7: *Budget cuts to which of the following government programs do you think will have the largest negative impact on business?*

Budget Cuts	Number of Observations
Roads and transportation infrastructure	22
Electricity	1
Secondary and higher public education	22
Police, fire, and corrections	4
Benefits to the poor	2
Licensing and permits	10
Other local government services:	2

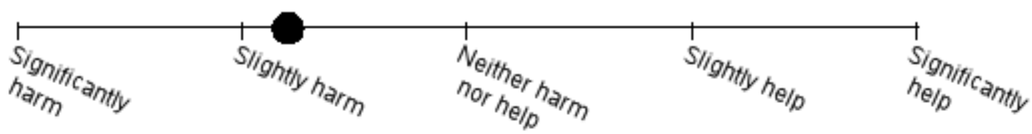
Question 8: *How would your business respond if gasoline prices exceeded $4.00 per gallon for an extending time?*

Fuel Prices	Number of Observations
Rising gasoline prices will not noticeably impact my firm's costs.	23
I would offset the increased gasoline prices by increasing list prices for my products.	16
I would offset the increased gasoline prices by reducing employment and/or labor hours.	2
I would not attempt to offset the increase in gasoline prices and would accept a lower profit margin	9
I would impose a “fuel surcharge” fee but keep the sticker price the same.	9
Other	4

Question 9: *How do you expect the recent earthquake in Japan to affect the State's economy?*



Question 10: *Does your firm export goods/services to Japan? If so, how do you expect the recent earthquake in Japan to affect your business' sales?*



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	1.79	0.65
Was it easier or harder for your firm to finance capital expenditures?	38	1	4	2.89	0.61
Have your inventory levels increased or decreased?	39	1	5	3.03	0.78
Were your firm's dollar sales higher or lower?	63	1	5	2.56	1.16
How do you expect the recent earthquake in Japan to affect the State's economy?	60	1	5	2.47	0.81
Does your firm export goods/services to Japan? If so, how do you expect the recent earthquake in Japan to affect your business' sales?	5	1	3	2.20	0.84