August 23, 2011

Greater Seattle Economic Outlook Survey — Second 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://www.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 thirteenth, and covers the second quarter of 2011. The survey was distributed in July.

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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.

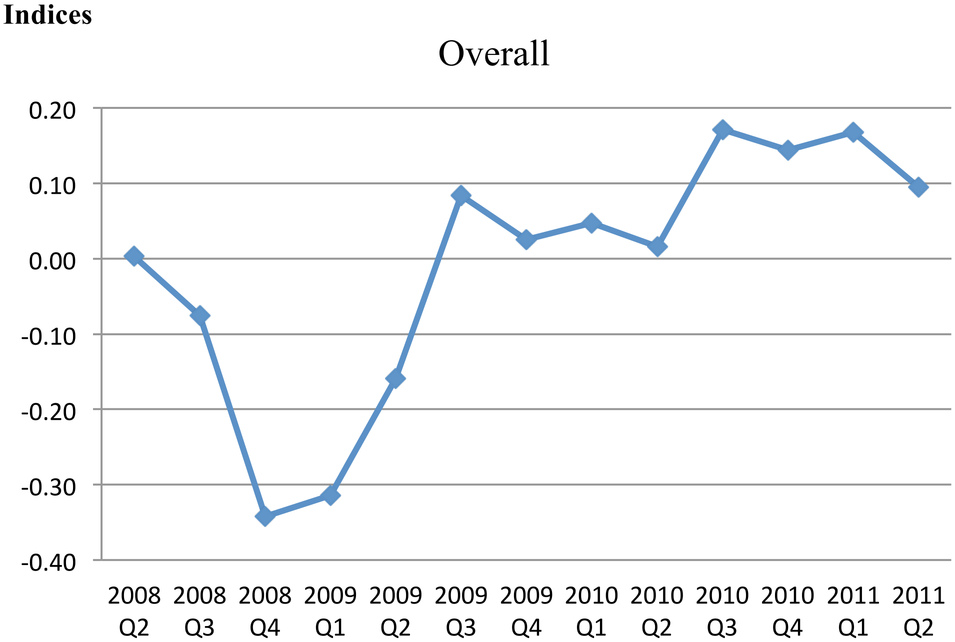
Executive Summary

The majority of participants in the Greater Seattle Economic Outlook Survey are seeing ominous economic clouds. Though most participants indicated their optimism was increased from quarter 1, the strength of that optimism was much less than the previous quarters. And though not the majority, a substantial number of survey participants expressed negative or strongly negative outlooks for the Greater Seattle Economy.

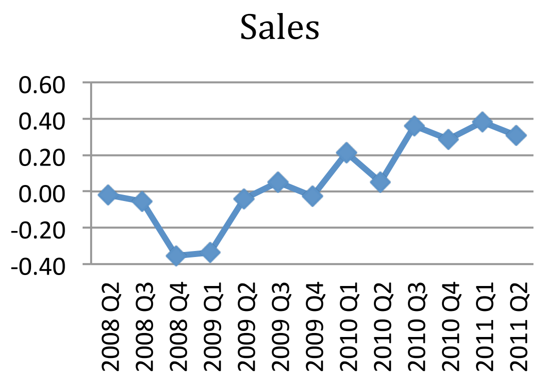
The current economics issues section is about real estate. Despite the fact that the vast majority of our respondents are not willing to pay what was recently the average rental price in the greater Seattle area, slightly more respondents expect that rental rates will increase in the next year compared to the number of respondents who expect rates to decrease. More than half of the responses said they are currently satisfied with the amount of space they have. Of those not satisfied, 60% said the reason was due to economic conditions.

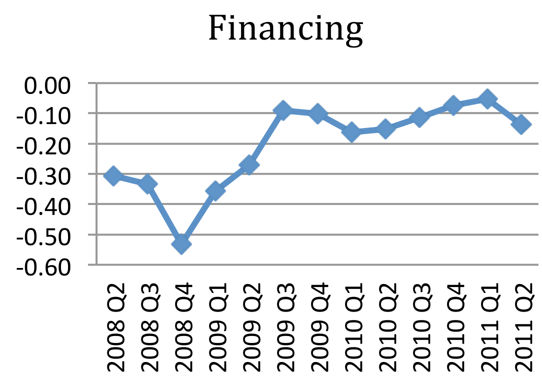
This report also contains information on the business characteristics of survey participants. Most respondents represent businesses with less than 10 employees. However about 15% of the sample are large businesses employing more than 250. Most locate in Seattle proper, but many are located throughout the Puget Sound area. Survey participants have local, national, and international scope. By far, most respondents are in the service industry, with only 2 being manufacturing firms.

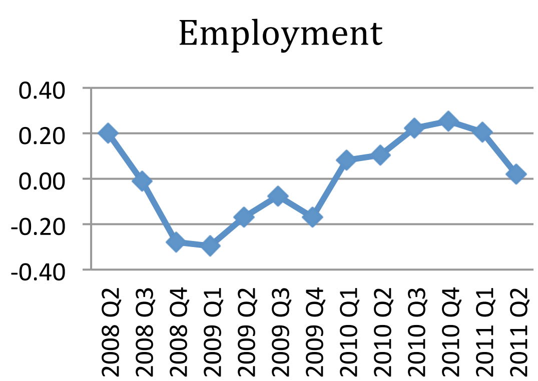
Optimism Indices

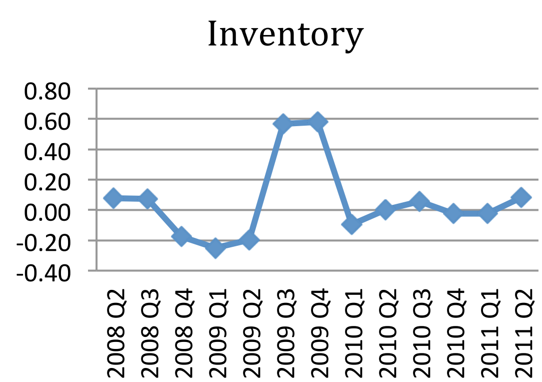


Optimism Indices (cont.)









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 105 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 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 second quarter survey instrument became available to SEA members on July 8, and responses were collected until August 5. The total number of respondents was 52, making the response rate 49.5%.

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

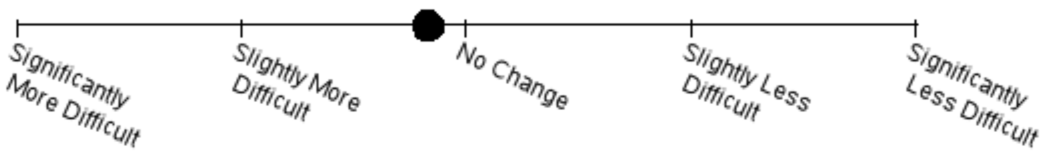
Compared to the most recent previous quarters, all but one of our economic indicators show decreased economic opportunities. In general, respondents indicated slightly improved economic conditions, but the few that saw decreased economic conditions described them as significantly decreased. For example, though the group as a whole indicated that employment stayed about the same, a few responses indicated reduction in employment due to a slowdown in business. Others indicated the number of hours decreased, though employment remained the same.

The one bright spot was sales. More respondents indicated increased sales in quarter 2 compared to quarter 1. But as with employment, a few responses indicated serious declines in sales. One participant wrote that quarter 2 "was our slowest quarter in many years."

Economic uncertainty continues to be the primary business concern. More responses indicated economic uncertainty as their major concern than in the previous quarter.

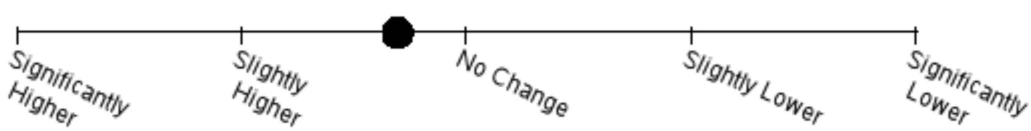
Question 1: *Did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*

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

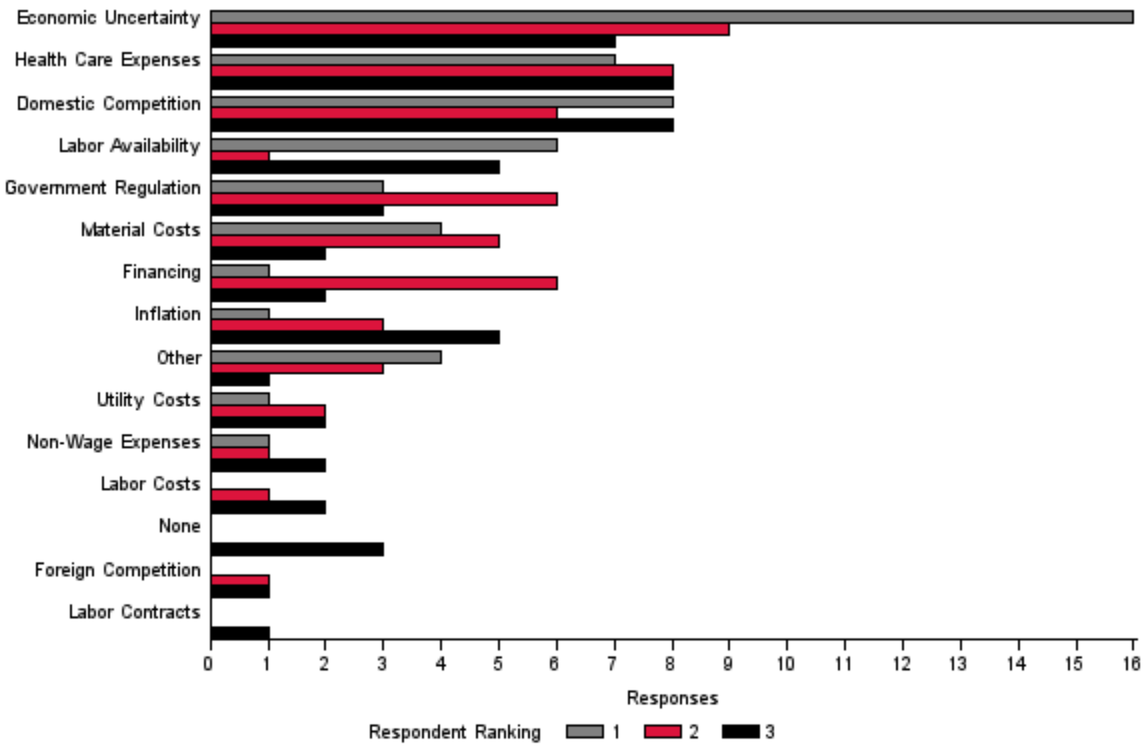


Question 3: *Have your inventory levels increased or decreased?*

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 real estate in practice and idealized. Eighty percent of participants rent some of their property, and exactly 50% said this property was for non-retail use only. However, 16 of 52 said that visibility for consumers was the most important factor in their location decision. Other important factors are access to infrastructure, space availability, and convenience.

Only 8 of 52 respondents said they are willing to currently pay more than $30 per square foot in rent. Only a few years ago, $30 was the average rental price per square foot in the Greater Seattle area. Despite this, slightly more participants expect that rental rates will increase in the next year than expect rates to decrease.

More than half of the responses said they are currently satisfied with the amount of space they have. Of those not satisfied, 60% said the reason was due to economic conditions.

Question 6: *What is the primary venue for consumers to interact with your products and make purchases?*

Primary Venue	Number of Observations
Physical storefront.	19
Website.	10
Home or office demonstrations.	7
Catalog or phone/mail order.	5
Other	11

Question 7: *Does your business rent or own its space?*

Rent Own	Number of Observations
Rent all properties.	30
Own all properties.	12
Both; some facilities are rented, while others are owned.	10

Question 8: *Does your business share retail and non-retail (production, warehousing, etc.) space?*

Share Space	Number of Observations
Yes; we share retail and non-retail space.	7
Partially; we have separate spaces, but share some.	2
No; we have separate retail and productions spaces.	9
No; all of our square footage is allocated to retail space.	6
No; all of our square footage is allocated to non-retail space.	26
No; my business does not have a physical location.	2

Question 9: *Which of the following characteristics was the primary consideration when determining the location(s) of your firm's facilities?*

Location Determinates	Number of Observations
Access to infrastructure.	12
Easy for consumers / highly visible.	16
Employee amenities (good view, places to eat, etc.).	1
Favorable business laws and regulation.	1
Its where I live.	7
Parking availability.	1
Space availability.	8
My business does not have a physical location.	1
Other	5

Question 10: *Given current real estate in the greater Seattle area today, what is the maximum rental or purchasing price per square foot that you would be willing to pay for the desired property?*

Max Rental	Number of Observations
$0	3
$1 to $10 per sq. ft.	13
$11 to $20 per sq. ft.	20
$21 to $30 per sq. ft.	8
$31 to $40 per sq. ft.	3
$41 to $50 per sq. ft.	3
More than $60 per sq. ft.	2

Question 11: *Do you expect commercial rent or property values at your location to change in the next year?*

Question 12: *Given current real estate in the greater Seattle area today, what would be the ideal total square footage of your operation?*

Square Footage	Number of Observations
0 sq. ft.	1
1 to 1,000 sq. ft.	4
1,001 to 2,500 sq. ft.	9
2,501 to 5,000 sq. ft.	18
5,001 to 10,000 sq. ft.	7
10,001 to 15,000 sq. ft.	5
More than 15,000 sq. ft.	8

Question 13: *Does your response to the previous question differ from your actual business square footage and, if so, are current economic conditions the primary reasons?*

SQFootage Difference	Number of Observations
Yes, and current economic conditions are primarily responsible for the different response.	14
Yes, but current economic conditions are not primarily responsible for the different response.	9
No, and current economic conditions are primarily responsible for giving the same response.	8
No, but current economic conditions are not primarily responsible for giving the same response.	21

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 relative to local, regional and national economies.

Results

Most of the survey respondents are from corporations. There are 2 sole proprietorships and 3 partnerships. Compared to the second quarter 2010, the numbers of Sub-S corporations decreased almost by half, from 40 to 23, and other corporations have decreased from 30 to 19.

Most of the survey respondents either operate in Seattle proper or multiple regions throughout Puget Sound. Five respondents indicated that their geographic area of business was all of the United States or the world. In general, the location of firms has not changed substantially since the beginning of the survey in 2008.

The composition of industries represented in this survey remains service based, followed by retail trade. The number of manufacturing establishments slipped from 3 to 2, as it was in 2009.

Most of the survey participants belong to small-sized firms, though almost 1 in 6 is a large firm.

Question 14: *What is your form of business organization?*

Business Structure	Number of Observations
Sole Proprietorship	2
Partnership	3
Sub-S Corporation	23
Other Corporation	19
Other	5

Question 15: *What general geographic region does your business operate in?*

Location	Number of Observations
Bainbridge / Bremerton / Port Orchard	0
Bellevue	3
Bothell/Kirkland/Redmond	2
Burien/Des Moines/Kent/Federal Way	1
Edmonds/Lynwood/Snohomish	3
Everett / Mukilteo	0
Renton	1
SeaTac	1
Seattle	21
Other / Multiple locations	20

Question 16: *What is your primary business classification?*

Industry	Number of Observations
Communication and Information Services	5
Construction	3
Finance and Insurance	3
Health Care and Social Services	3
Hospitality and Restaurants	4
Manufacturing	2
Professional Services	11
Real Estate and Rentals	2
Retail Trade	9
Transportation and Warehousing	3
Other Goods	1
Other Services	6

Question 17: *How many full-time equivalent employees are in your firm (including yourself)?*

FTEs	Number of Observations
1 to 10	22
11 to 25	11
26 to 50	7
51 to 100	3
101 to 250	2
Over 250	7

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?	52	1	3	1.98	0.58
Was it easier or harder for your firm to finance capital expenditures?	29	1	4	2.83	0.60
Have your inventory levels increased or decreased?	36	1	5	2.94	0.79
Were your firm's dollar sales higher or lower?	52	1	5	2.69	1.09
Do you expect commercial rent or property values at your location to change in the next year?	48	2	4	2.60	0.57