November 7, 2011

Greater Seattle Economic Outlook Survey — Third 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 fourteenth, and covers the third quarter of 2011. The survey was distributed in October.

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

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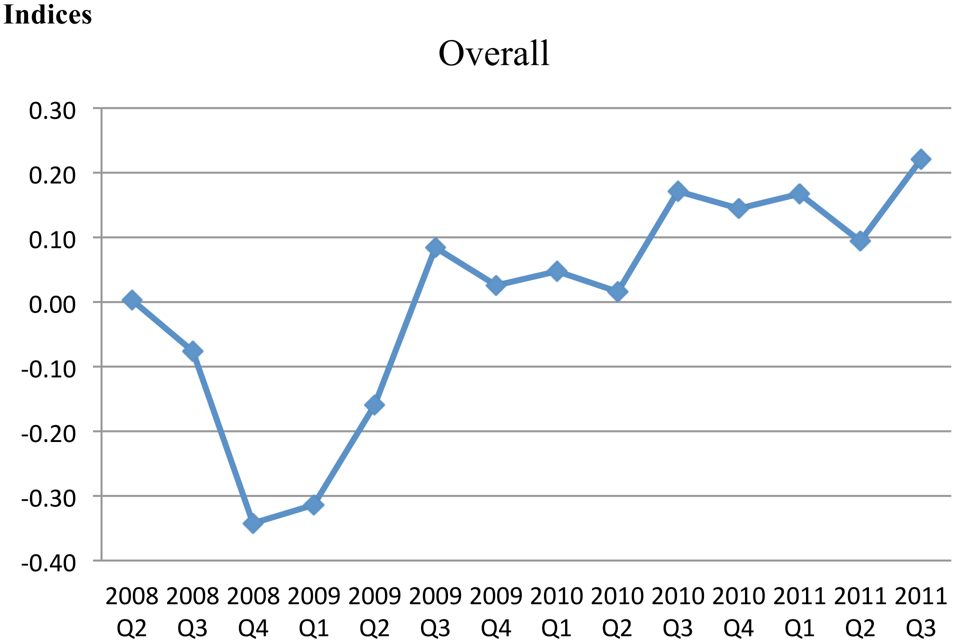
Thanks to Glenna Thomas and Jack Goldberg of SEA for administering the survey and Justin Taylor for survey implementation. Also thanks to Robert Rosenman of the School of Economic Sciences and Tom Marsh of the IMPACT Center. Finally, thanks to the members of the SEA for their willingness to participate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

Executive Summary

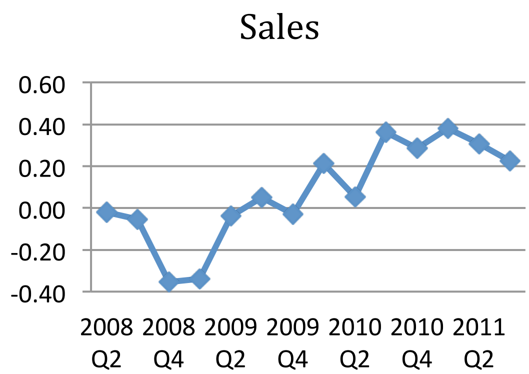
In a reversal from a steep downturn in quarter 2, quarter 3 economic indicators have increased. Though most SEA members reported unchanged levels of employment and sales, the few who did report a change indicated an increase in both measures. In total, there were unchanged levels of difficulty to finance and inventory levels. The overall result is an upturn in economic optimism, following the significant drop from quarter 2.

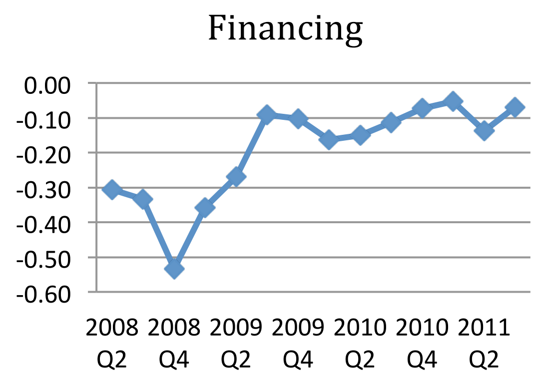
The Current Economic Issues section focuses on workforce composition and labor costs. Just over 40% of respondents reported that that they decreased their labor costs over the past year using a variety of cost saving techniques. However, only a little more than 25% expect to further reduce labor costs in the upcoming year. Given the cuts to labor costs that have already been taken, the survey results indicate that any future labor cuts will be implemented by eliminating currently filled positions or by reducing worker hours. As a result, further reductions in labor costs will be more difficult to implement. Survey results indicate that most believe there is nothing the state or federal government can do to induce further employment in the upcoming year.

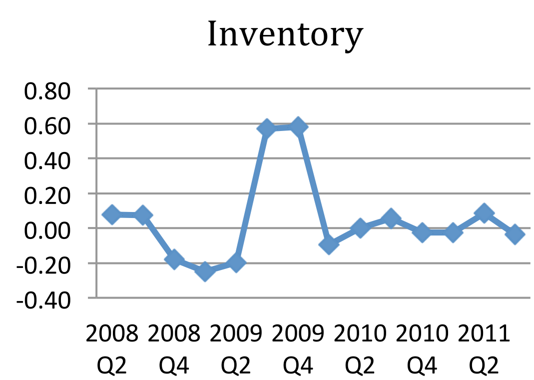
Optimism Indices



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, asks questions in two categories:

- Current Business Conditions & Outlook
- Current Economic Issues

Questions in the Current Business Conditions & Outlook section remain the same quarter-to-quarter so there is consistency with previous questionnaires and to depict trends. The Current Economic Issues section contains new and topical questions each quarter.

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 the second quarter survey each year. An expanded Business Outlook section will appear once per year, in the fourth quarter.

CURRENT SURVEY INSTRUMENT

The 2011 third quarter survey instrument became available to SEA members on October 2 and responses were collected until November 4. The total number of respondents was 49, making the response rate 48%.

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

In a reversal from a steep downturn in quarter 2, quarter 3 economic indicators have increased. Though most survey respondents indicated unchanged levels of employment and sales, the few who did report a change indicated an increase in both measures. In total, there were unchanged levels of difficulty to finance and inventory levels. The overall result is an upturn in economic optimism, following the significant drop from quarter 2.

The results are driven by the fact that in quarter 2 a few respondents expressed a very negative economic outlook. While essentially none of the quarter 3 respondents indicated extremely optimistic outlooks, the fact that no extremely negative views were expressed caused the overall index to rebound in quarter 3. Those that did express optimistic views indicated that optimism was in the context of the last two years of economic pessimism.

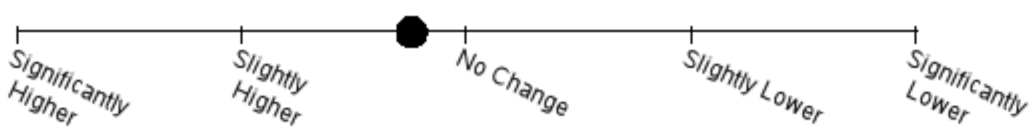
Economic uncertainty continues to be the primary business concern. Domestic competition, however, has overtaken health care expenses as the 2nd most pressing concern to the Greater Seattle business community. Concern about government regulation also moved up one spot to fourth, overtaking labor availability.

Question 1: *Compared to the previous quarter, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?*

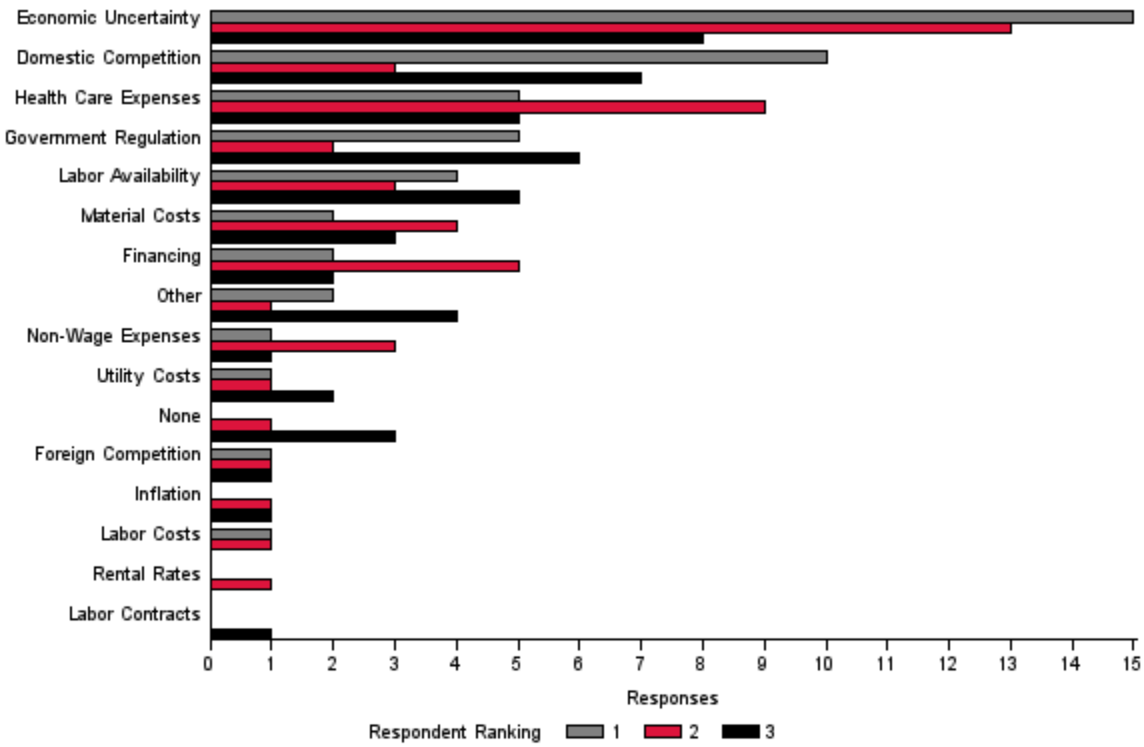
Question 2: *Compared to the previous quarter, was it easier or harder for your firm to finance capital expenditures?*

Question 3: *Compared to the previous quarter, have your inventory levels increased or decreased?*

Question 4: *Compared to the previous quarter, 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 workforce composition and labor costs. Just over 40% of survey respondents reported reducing labor costs over the past year, compared to only 10% who reported deliberately increasing labor costs (through more employment or greater compensation). There does not seem to be one favored method for decreasing labor costs, as respondents reported using a variety of cost saving techniques, including simultaneously implementing multiple cost saving strategies.

Though 40% indicated they reduced labor costs during the past year, only 26% expect that they will do so in the upcoming year. When asked how they would reduce labor costs, participants primarily indicated they would reduce costs through the elimination of currently filled positions or reduced worker hours. This suggests that firms have already eliminated any superfluous or marginally necessary positions, and any further cuts will likely impact core business functions. The results from Question 10 of the survey corroborate this assertion, as only about a third of respondents provided a cost of living adjustment to their workers last year. Additionally, approximately one-fourth of respondents reduced their firm's contributions towards employee benefit levels (Question 12).

By far, most respondents said that there was nothing the state or federal government could do to induce them to hire more in the upcoming year (Question 13). Coming in a distant second, respondents said that decreased government regulation would induce additional employment, followed by reduced business & occupation, profit, or corporate taxes and a repeal of the Affordable Health Care Act.

Question 6: *Over the past year, has your firm made changes to its workforce and/or its workforce compensation structure in an effort to reduce labor costs?*

Workforce Changes	Number of Observations
Yes	21
No	23
My firm made a conscious decision to increase its labor costs (either in total or per worker).	5

Question 7: *If you responded "yes" to the previous question, which of the following responses represents the primary method your firm used to reduce its labor costs?*

Reduction Method	Number of Observations
Eliminate or suspend currently unfilled positions	3
Eliminate currently filled positions	3
Reduce hours for workers	5
Wage and salary reductions	3
Multiple options	4
Other	3

Question 8: *During the next year, do you expect economic conditions will force you to further reduce your labor costs?*

Further Reductions	Number of Observations
Yes	13
No	36

Question 9: *If your firm is forced to further reduce its labor costs over the coming year, which of the following responses represents the primary method your firm will likely use?*

Future Methods	Number of Observations
Eliminate or suspend currently unfilled positions	2
Eliminate currently filled positions	10
Reduce hours for workers	14
Wage and salary reductions	2
Suspend or eliminate pay increases and/or bonuses	6
Multiple options	10
Other	5

Question 10: *Over the past year, did you provide cost of living adjustments and/or nominal pay increases to the majority of your workers?*

Pay Increases	Number of Observations
Yes	19
No	30

Question 11: *Over the past year, did you provide benefits or retirement to the majority of your workers?*

Benefits	Number of Observations
Yes, full health, dental, and retirement	20
Yes, health and retirement, but not dental	5
Yes, health only	12
Yes, retirement only	3
No	9

Question 12: *Over the past year, did you change the benefits package you offer to the majority of your workers?*

Benefit Changes	Number of Observations
Yes, increase firm contribution	7
Yes, decrease firm contribution	10
No change in firm contribution	32

Question 13: *What, if any, state or national policy would induce you to hire more than you already plan to in the next year?*

Hiring Policy	Number of Observations
A decrease in the state's minimum wage	1
Reduced regulation and/or oversight by (state or federal) governmental agencies	7
Reduced business and occupation, profit, or other corporate income taxes	5
A new (state or federal) stimulus package	4
Repeal of the Affordable (health) Care Act	5
A new and/or expanded Social Security tax deduction	1
A new and/or expanded payroll tax deduction	1
A program in which (state or federal) government pays for benefits and retirement of newly hired workers	2
None	19
Other	4

Summary Statistics for Likert Scale Questions

Question	N	MIN	MAX	MEAN	Std.Dev.
Compared to the previous quarter, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?	49	1	3	1.92	0.57
Compared to the previous quarter, was it easier or harder for your firm to finance capital expenditures?	29	2	3	2.93	0.26
Compared to the previous quarter, have your inventory levels increased or decreased?	27	2	5	3.07	0.68
Compared to the previous quarter, were your firm's dollar sales higher or lower?	49	1	5	2.76	0.99