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February 10, 2012

Greater Seattle Economic Outlook Survey — Fourth 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 fifteenth, and covers the fourth quarter of 2011. The survey was distributed in January.

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

Andrew J. Cassey,	Assistant Professor, WSU School of Economic Sciences
Dan Friesner	Professor, North Dakota State University and Adjunct Professor, WSU School of Economic Sciences

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.

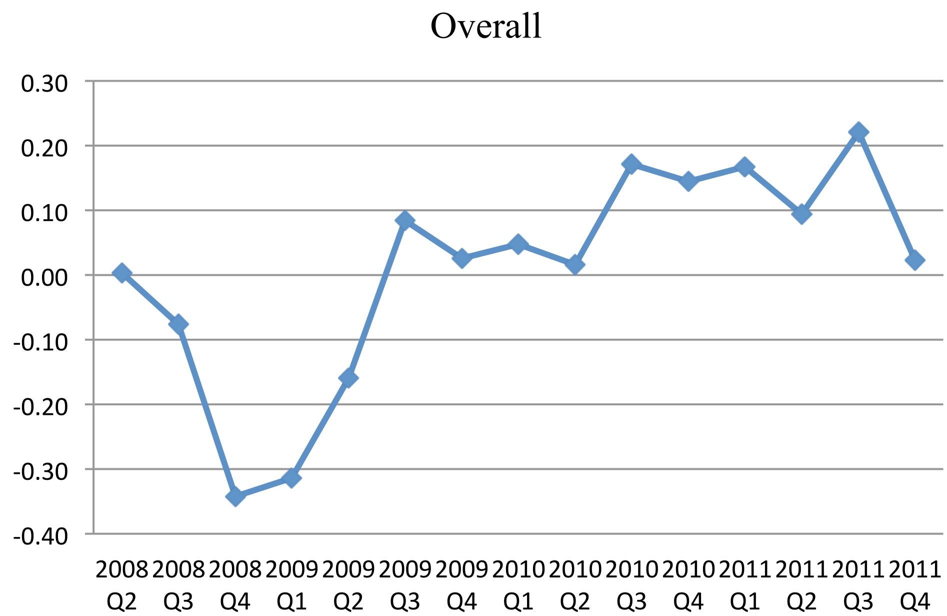
Executive Summary

According to survey participants, economic conditions during the fourth quarter of 2011 have remained relatively stagnant. All of the major indicators of economic health were flat, except for sales, which experienced a slight decrease in optimism. The lack of variability in these economic indicators can be interpreted either positively (i.e., the economy is not getting worse), or negatively (i.e., that it is not recovering). Because the economic indicators are constant, overall optimism indices (which focus on changes in business sentiment indicators over time) declined from just over 0.2 in the third quarter of 2011 to nearly zero in the fourth quarter. This represents the biggest decline in optimism since 2008. For perceptions of firm sales, individual perceptions differed widely between respondents, with nearly as many indicating significantly higher sales as significantly lower sales. This implies that for some firms (and the industries in which they operate) there may be cause for cautious optimism in 2012, while other firms may continue to face financial and economic challenges.

In the current events section, most respondents indicated that they do not take advantage of any of the more than 90 tax incentives in Washington. A number of written comments suggested this was due to the time, effort and expenses necessary to document and claim the tax incentives. Most preferred a decreased general tax rate, even if that meant a reduction in tax incentives.

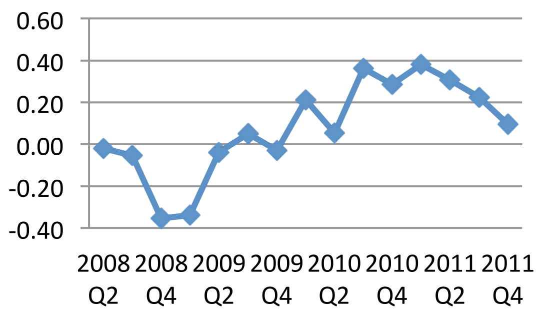
Participants were asked to consider the state and national economic outlook for all of 2012. Most participants indicated a slightly optimistic outlook at the national level, and still positive (but less so) for the state. Participants expect higher employment in 2012, but also higher interest rates and inflation. They also expect taxes to increase slightly. Cumulatively, the results signal an improving economy rather than a hit to business.

Optimism Indices

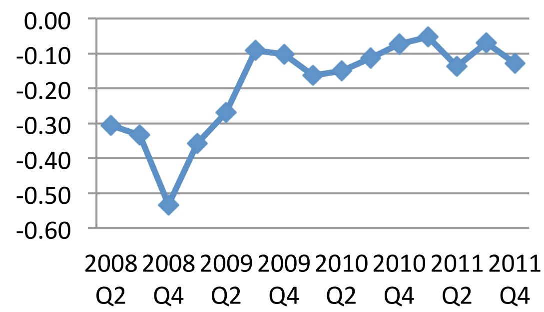


Optimism Indices (cont.)

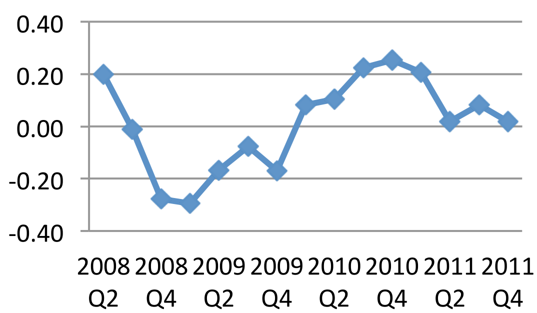
Sales



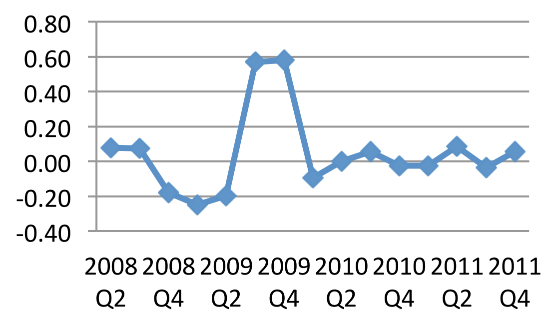
Financing



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 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 fourth quarter survey instrument became available to SEA members on January 9, and responses were collected until January 31. The total number of respondents was 54, making the response rate 52%.

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

All of the major economic indicators were relatively constant in the fourth quarter of 2011, except for sales, which decreased slightly. The stability of these indicators suggests a decrease in economic optimism compared to previous quarters, going back to 2008. While the stability of the indicators may indicate good news that the economy is not getting worse, it also suggests bad news in that the economy is not recovering. These results present a less optimistic picture of the Greater Seattle economy compared to the national economy, where optimism indices are up.

Overall, sales decreased compared to the previous quarter. A closer look at the data also suggests tremendous variation in responses during the fourth quarter of 2011. In other words, although the average experience was a slight decrease in sales, many firms indicted sales increased significantly. But these large increases in sales were offset at the firm-level with almost the same number of participants indicating a large decrease in sales.

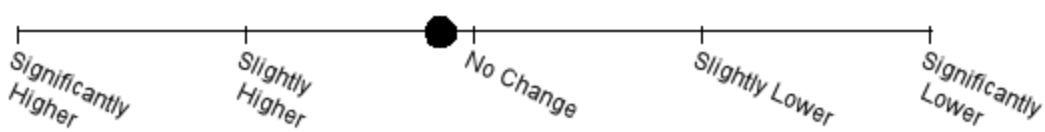
As in all of 2011, economic uncertainty is by far the largest concern. Domestic competition, health care expenses for employees and labor availability ranked as areas of secondary and tertiary concern.

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?*

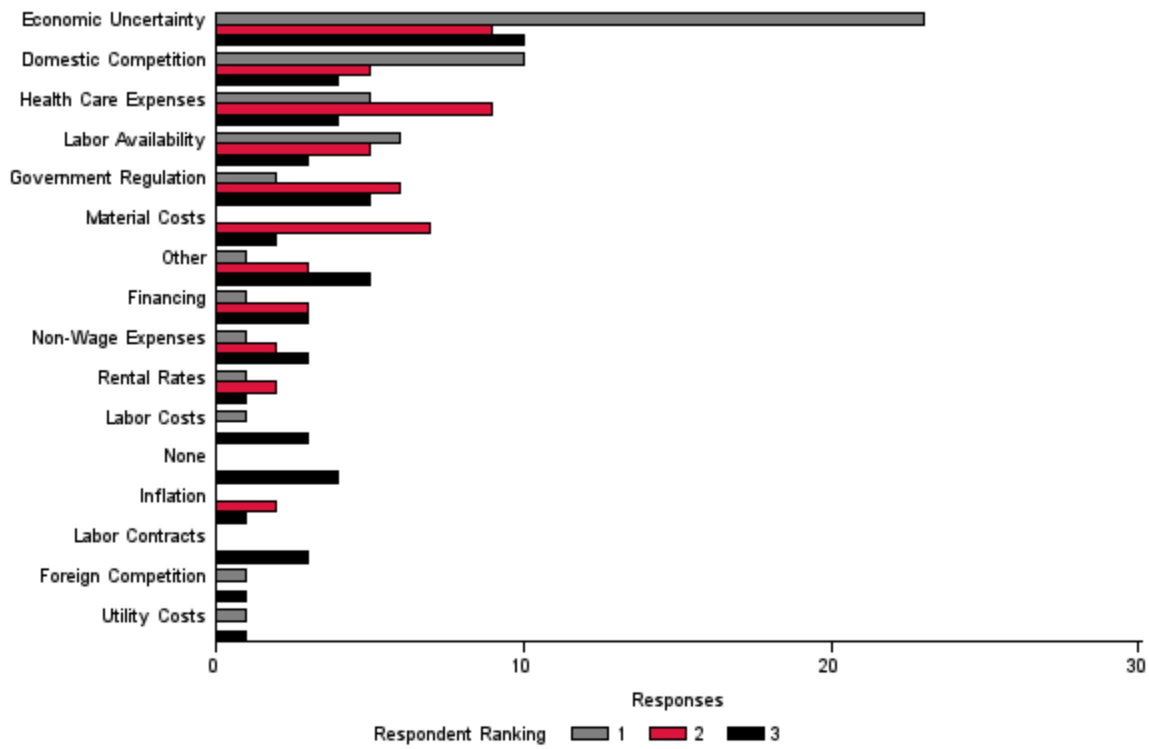
Question 2: *Compared to the previous quarter, was it easier or harder for your firm to finance capital expenditures?*

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 in order of importance.*



Current Economic Issues

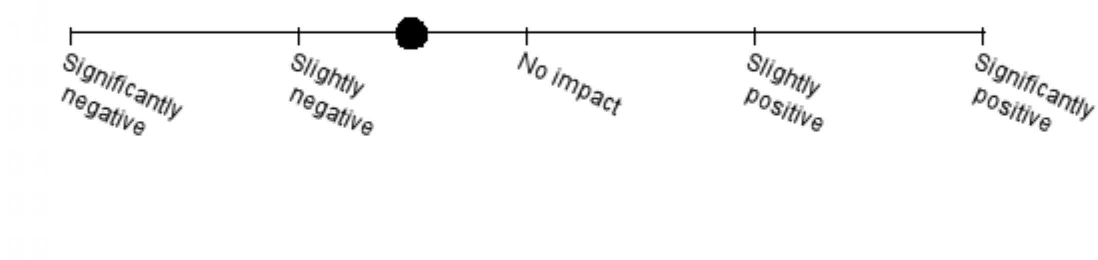
Purpose

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 state taxes and business tax incentives. Washington has over 90 tax incentives for firms. Almost a third of respondents indicate that they do not take advantage of these incentives. One of the most common reasons given for not participating is that the costs of fulfilling the accounting and information technology requirements to capture the tax incentives exceeded the monetary benefits of the using the incentive. Of those firms that do use the state tax incentives, the most popular incentives are business and occupation tax credits, deductions or differential rates, followed by other incentives, and private or personal property tax deductions. Consistent with these results, the greatest number of participants indicated that an expansion of B&O tax incentives would help Washington's economy the most, while the next largest group indicated that no tax incentives could help the state economy. The vast majority of participants indicated that decreasing taxes generally or moving to a flat tax would be the most beneficial to the state economy while being revenue neutral.

Question 6: *If the Social Security Payroll Tax deduction expires, do you expect it to have a positive or negative impact on employment levels within the state economy?*



Question 7: *Which of the following types of tax incentive categories do you take advantage of?*

Tax Incentives Used	Number of Observations
Private or personal property deductions	11
Business & Occupation credits, deduction, or differential rates	15
Sales / Use incentives	6
Tobacco and/or fuel taxes	2
Public transportation or utilities	1
Other business tax deductions, credits, or exemptions	14
My firm does not knowingly take advantage of tax incentives	26

Question 8: *Which state tax incentive, if eliminated or expanded, would have the largest impact (positive or negative) on the state's economy?*

Tax Incentives Impact	Number of Observations
Private or personal property deductions	9
Business & Occupation credits, deduction, or differential rates	17
Sales / Use incentives	3
Tobacco and/or fuel taxes	2
Public transportation or utilities	2
Other business tax deductions, credits, or exemptions	6
None	14

Question 9: *Suppose that the State Legislature decided to alter the components in the tax base in a revenue-neutral fashion. Which of the following would you most prefer?*

Preferred Tax Change	**Number of Observations**
Increase taxes generally, but also increase tax incentives, credits, and deductions	5
Decrease taxes generally, but also decrease tax incentives, credits, and deductions	16
Reduce business taxes, but increase property and/or sales taxes	8
Increase business taxes, but decrease property and/or sales taxes	2
I prefer a lump-sum or flat tax rather than having tax incentives	22

Expanded Economic Outlook

Purpose

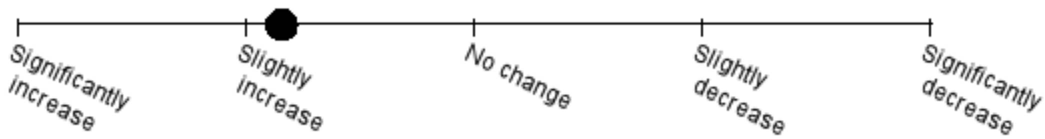
Each fourth quarter, the survey asks about the economic outlook for the upcoming year for both the state and national level.

Results

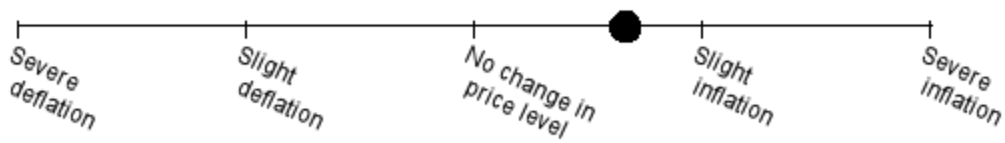
Though the results of the fourth quarter do not indicate optimism for the regional economy, the outlook is generally positive for 2012. Almost all participants expected their taxes to increase slightly in 2012. In another instance of nearly unanimous agreement, most participants expect slight inflation and slightly increased interest rates in 2012. Though these changes may not be good for business, respondents indicated they saw these increases as a sign of an improved economy. Additionally, nearly all respondents expect employment to increase slightly. Only two respondents expected employment to decrease in 2012.

When asked for their overall outlook, respondents reported slightly different expectations for the national and state economies. Very few indicated strong optimism or pessimism, with the majority of respondents expressing slight optimism for both the state and national economies. Generally, however, respondents expressed slightly more optimism for the national economy in 2012 than for the state economy.

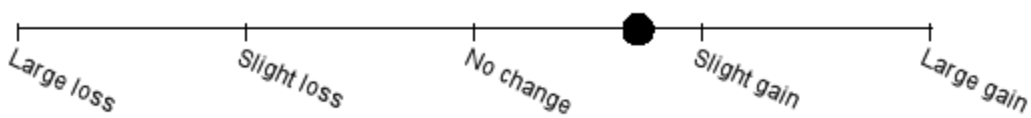
Question 10: *Over the next year, do you expect your firm's total tax burden (net of State and Federal incentives and after adjusting for inflation) to increase or decrease?*



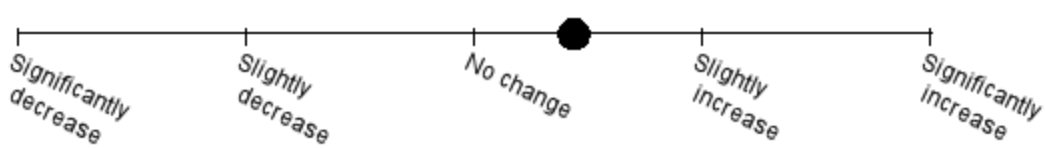
Question 11: *What do you expect to happen to inflation over the next year?*



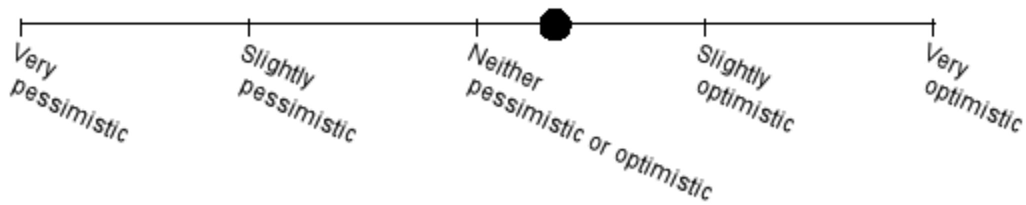
Question 12: *What do you expect to happen to employment (public plus private) over the next year?*



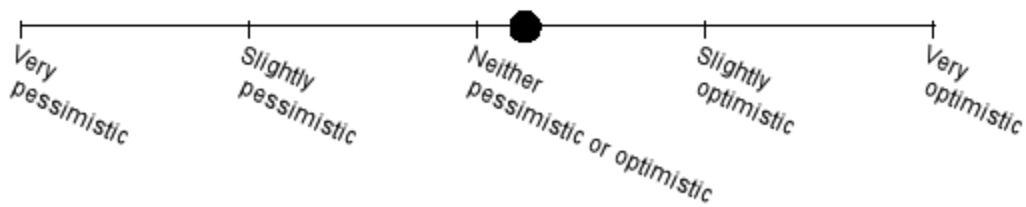
Question 13: *What do you expect to happen to interest rates over the next year?*



Question 14: *Your overall outlook for the NATIONAL economy for the next year is?*



Question 15: *Your overall outlook for the STATE economy for the next year is?*



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?	53	1	3	1.98	0.60
Compared to the previous quarter, was it easier or harder for your firm to finance capital expenditures?	31	1	5	2.87	0.72
Compared to the previous quarter, have your inventory levels increased or decreased?	35	1	5	2.94	0.84
Compared to the previous quarter, were your firm's dollar sales higher or lower?	53	1	5	2.85	1.22
If the Social Security Payroll Tax deduction expires, do you expect it to have a positive or negative impact on employment levels within the state economy?	53	1	4	2.49	0.78
Over the next year, do you expect your firm’s total tax burden (net of State and Federal incentives and after adjusting for inflation) to increase or decrease?	53	1	3	2.15	0.63
What do you expect to happen to inflation over the next year?	53	2	5	3.66	0.65
What do you expect to happen to employment (public plus private) over the next year?	53	2	5	3.72	0.63
What do you expect to happen to interest rates over the next year?	53	2	4	3.43	0.64
Your overall outlook for the NATIONAL economy for the next year is?	53	1	5	3.34	1.02
Your overall outlook for the STATE economy for the next year is?	53	1	5	3.21	1.08