

February 13, 2009

Greater Seattle Area Survey of Current Business Conditions - Fourth Quarter

The Impact Center in the School of Economic Sciences at Washington State University and the Seattle Executives Association began their third quarterly survey of current business conditions in January 2009. The survey was designed to gather detailed and reliable information on general business conditions specific to the Greater Seattle Area and the Pacific Northwest, including:

- Measures of economic optimism
- Labor forecasts
- Financial conditions
- Output markets

The survey results are intended to provide local businesses, government officials, and the media with information about current and potential future business issues. To insure the information is timely, the survey is conducted quarterly, and the results are posted on the website of the IMPACT Center (<http://impact.wsu.edu/survey/EconomicOutlook.html>) located in the School of Economic Sciences at Washington State University.

This survey is the result of a cooperative effort between the School of Economic Sciences and Seattle Economics Associates (SEA), and particular acknowledgement is owed to Glenna Thomas and Jack Goldberg of SEA for coordinating the survey. Furthermore, everyone involved in the design, implementation, and analysis of the survey would like to thank the members of the SEA for their willingness to participate in this survey. Authors contributing to this report include:

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The Impact Center in the School of Economic Sciences at Washington State University and the Seattle Executives Association (SEA) have been monitoring business conditions in the Greater Seattle Area since July 2008 through quarterly surveys of the SEA membership. These surveys gather information on measures of economic optimism, labor forecasts, financial conditions, and output markets. Businesses participating in the surveys are primarily small to medium sized service based corporations located in the City of Seattle.

The 2008 surveys clearly indicate that businesses in the Seattle area are concerned about the future of the economy. Despite listing uncertainty about the economy as a top concern in three consecutive surveys, business leaders remain somewhat optimistic about their own future. Beginning in the second quarter, businesses reported steady sales and inventory levels along with slightly increased employment. Predictions for the third quarter indicated that they expected more of the same. However, third quarter responses did not confirm their optimism as conditions began to stagnate. Business leaders, looking towards the holiday season, expected a decline in regional economic conditions, but no changes in sales levels or employment. Ultimately, fourth quarter responses showed that those predictions were also overly optimistic. Sales, inventory, and employment all declined slightly in the fourth quarter. In the final quarterly survey of the year area business leaders did not foresee changes in sales or employment for the first quarter of 2009, counter to national economic indicators.

The overall condition of the economy has dominated the national and local news; however regional business leaders continue to have other concerns. Of particular note is the availability of quality labor, increasing domestic competition, and health care expenses for employees.

The final section of the SEA membership survey focuses on timely economic issues such as fuel prices, federal legislation, and policy changes. Throughout the recent swings in fuel prices, local businesses consistently reported that the level and volatility of fuel prices would have only a minor long term impact on them. Instability in the credit market was seen as more significant in the long run. Responses to questions about bailouts in the credit and auto industries revealed that local business leaders felt the federal government should have been much more conservative in their interventions. Respondents stated that the current recession would last for another 12 to 18 months and they were only somewhat optimistic that the Obama Administration would be able to alter that course within the first six month of 2009.

Survey Methodology

Population

Participants in the quarterly survey are members of the Seattle Executives Association. The Association is an exclusive network of currently 120 executives from the Greater Seattle Area. Each member individually represents their specific business sector. Therefore, survey results from this population provide a broad perspective across industries but do not provide broad insight into any industry specific issues that might exist.

Instrument Design

The survey is designed to be administered online. Internet surveys allow for the development of an easy-to-use instrument and provide a cost-effective means of rapid data collection. All of the questions in the survey are multiple-choice or some other closed-form format. No open-ended questions or comment fields are included to eliminate any subjectivity in data coding. Respondents who are unable or unwilling to use the online instrument have the opportunity to print a hardcopy of the questionnaire and fax their responses to SEA upon completion. Subsequently, the information is transcribed to the online survey instrument. It is expected that respondents can complete the survey in ten minutes or less without the consultation of specific business records.

Survey questions are presented in four categories. The specific categories are:

- Firm Characteristics
- Current Business Conditions
- Business Conditions Outlook
- Current Economic Issues

The first three categories of questions are expected to remain relatively unchanged across editions of the quarterly survey. This consistency facilitates analysis and comparisons across time periods in addition to current response summarization. However, questions and response items may be altered as necessary to refine the data collection instrument. Questions in the fourth and final section can be substantially altered as useful or necessary, each time the survey is administered, to gain information on pressing issues in the local economy. The results section describes the questions in each of the four categories, summarizes responses to each question from the current survey, and outlines the respondents' general sentiment.

Current Survey Instrument

The 2008 fourth quarter survey instrument became available to SEA members on January 8th, and responses were collected until January 30th. The total number of respondents was 79. As such, the effective response rate is 65.8%.

Firm Characteristics

Purpose

The Firm Characteristic questions provide demographic information. They do not ask about business conditions; however they provide context for the remaining survey responses.

Results

Responses to Questions 1–4 imply that most of the companies are small to medium sized service based corporations located in the City of Seattle. As expected, the reported Firm Characteristics closely match the responses from the previous quarter.

Question 1: *What is your form of business organization?*

Company Type	Number of Observations
Sole Proprietorship	3
Partnership	5
Sub-S Corporation	34
Other Corporation	37

Question 2: *What is the location of your business?*

Location	Number of Observations
Seattle	47
Edmonds/Lynwood/Snohomish	4
Bothell/Kirkland/Redmond	7
Bellevue	2
Renton	3
Issaquah/North Bend	1
Burien/Des Moines/Kent	2
Gig Harbor/Tacoma	3
Other	10

Question 3: *What is your primary business activity?*

Industry	Number of Observations
Communication and Information Services	6
Construction	7
Finance and Insurance	6
Health Care and Social Services	4
Hospitality and Restaurants	4
Manufacturing	4
Professional Services	16
Real Estate and Rentals	4
Retail Trade	7
Transportation and Warehousing	6
Utilities	1
Other Goods	1
Other Services	13

Question 4: *What is the number of full-time equivalent employees in your firm?*

Size	Number of Observations
1 - 10	33
11 - 25	15
26 - 50	10
51 – 100	8
101 – 250	7
Over 250	6

Current Business Conditions

Purpose

The Current Business Condition questions (Questions 5–11) are posed in two formats, Likert Scale (Questions 5–8) and multiple choice (Questions 9–11). 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 6, respondents can select from one of five responses ranging from “Significantly More Difficult” to “Significantly Less Difficult”. In the graphical analysis of each Likert question the average response is represented by a black dot. The various responses are coded with integer values, the range of possibilities being {1, 2, 3, 4, and 5} for questions with five possible responses as in Question 6, or {1, 2, 3} in the case where only three responses were possible. A table of numerical summary statistics relating to all of the Likert questions in the survey is presented at the end of this report.

The multiple choice Current Business Conditions questions are all interrelated. In the first question (Question 9) the respondent is presented a list of 12 potential problem areas and asked to select the one that they consider the primary problem facing their business. Subsequently, the respondent is presented with the list of potential problem areas two more times and asked to identify the second and third most important problems affecting their business. In addition, respondents are asked to indicate the relative importance of the three problem areas they identify. The relative importance of the problems is indicated by assigning a percentage value, from 0 to 100, to each problem. The three percentage values should sum to 100. The results tables for Questions 9–11 present the five problem areas most frequently identified as primary, secondary, and tertiary problems. The tables also report the average importance rating assigned by respondents who selected each problem area.

Results

Responses to the Current Business Conditions questions indicate that during the past three months, companies’ sales, inventory, and number of employees declined slightly. During the same time period companies found it somewhat more difficult to finance capital expenditures.

Uncertainty about the future of the economy was cited most frequently as the primary concern of businesses during the quarter. Financing and interest rates and domestic competition were also frequently cited problems, but of lesser importance.

Quarterly Reconciliation

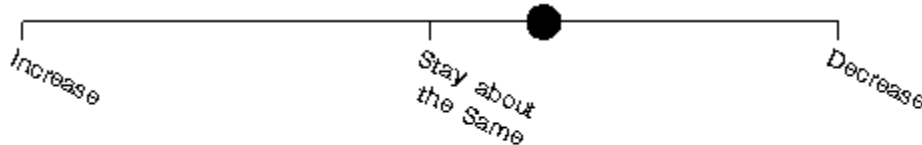
Purpose

In addition to providing information about the most recent quarter; the survey instrument was designed to facilitate the comparison of responses across time. The comparison is conducted by juxtaposing the Business Conditions Outlook responses from the previous survey with the Current Business Conditions responses from this survey. This exercise allows us to reconcile what business leaders *expected to happen* during a quarter with what *actually happened*.

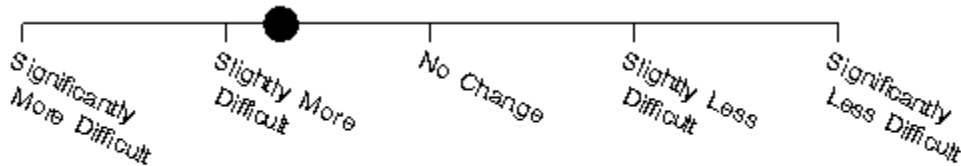
Results

Comparison of Q4 responses with the Q3 outlook indicates that businesses realized their expectations for overall economic issues but deviated on individual business measures. Specifically, uncertainty about the economy, financing and interest rates, and domestic competition were expected to be the primary issues in the quarter. Furthermore, businesses anticipated *stable* employment and sales, not the *declining* numbers that were reported for the current quarter. One notable exception is that firms did accurately foresee the decline in access to financing indicated in the survey responses from the previous quarter.

Question 5: During the past three months, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?



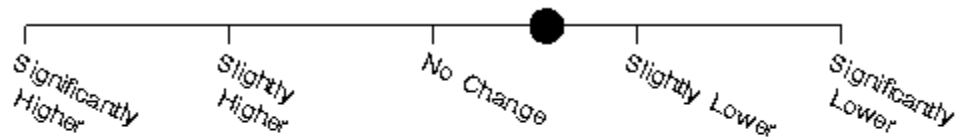
Question 6: During the past three months, was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?



Question 7: During the past three months, have your inventory levels increased or decreased?



Question 8: During the past three months, were your firm's dollar sales higher or lower compared to 4-6 months ago?



Question 9: What is the *GREATEST* concern to your firm today?

Concern	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	52	65%
Financing and Interest Rates	9	53%
Other	5	51%
Availability of High Quality Labor	3	57%
Competition from Domestic Businesses	3	55%

Question 10: What is the *SECOND GREATEST* concern to your firm today?

Concern	Number of Responses	Mean Relative Importance of the Problem
Financing and Interest Rates	16	21%
Uncertainty about the Future of the Economy	15	31%
Competition from Domestic Businesses	11	24%
Other	7	22%
Changes in the Costs of Materials	7	22%

Question 11: What is the *THIRD GREATEST* concern to your firm today?

Concern	Number of Responses	Mean Relative Importance of the Problem
Other	21	12%
Financing and Interest Rates	11	18%
Inflation	11	15%
Health Care Expenses for Employees	10	13%
Changes in the Costs of Materials	7	22%

Business Conditions Outlook

Purpose

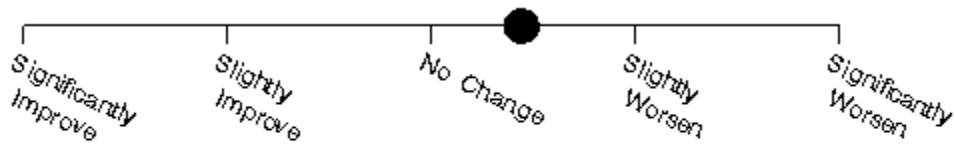
The Business Conditions Outlook section presents similar content to the Current Business Conditions section, except the time horizon is changed to be forward-looking. In particular, respondents are asked about their expectations for the upcoming business quarter.

Results

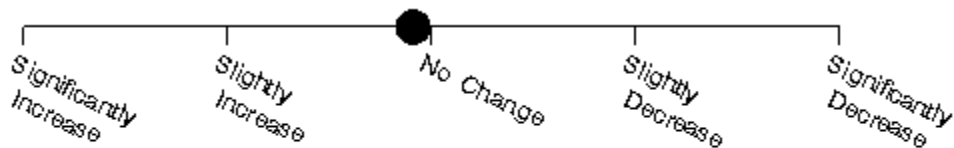
Businesses foresee a negative change in regional economic conditions during the next three months. This outlook is evidenced by the expectation of decaying regional economic conditions, decreased capital expenditures, and a further reduction in the access to financing. No changes are expected in the level of sales or employees.

Uncertainty about the future of the economy appears to be the most frequently identified concern for business during the 1st quarter of 2009. Additionally, domestic competition, labor availability, and inflation are expected to be important issues in the quarter.

Question 12: *During the next three months, do you think that general economic conditions within the Greater Seattle area will improve or worsen?*



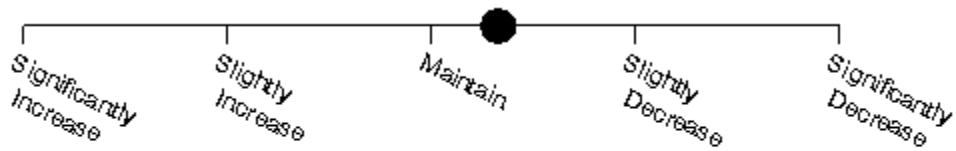
Question 13: *During the next three months, do you expect your firm's dollar sales to increase or decrease?*



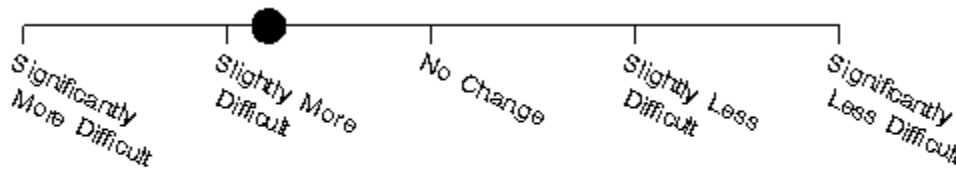
Question 14: During the next three months, do you plan to increase, maintain, or decrease the number of full-time equivalent employees?



Question 15: During the next three months, do you plan to increase, maintain, or decrease capital expenditures?



Question 16: During the next three months, do you expect it to be more or less difficult for the typical firm in your industry to finance capital expenditures?



Question 17: What would be of GREATEST concern to your firm over the next three months?

Concern	Number of Responses	Mean Relative Importance of the Problem
Uncertainty about the Future of the Economy	51	68%
Financing and Interest Rates	8	53%
Other	5	50%
Competition from Domestic Businesses	3	58%
Availability of High Quality Labor	3	57%

Question 18: What would be the *SECOND GREATEST* concern to your firm over the next three months?

Concern	Number of Responses	Mean Relative Importance of the Problem
Financing and Interest Rates	18	20%
Uncertainty about the Future of the Economy	14	31%
Competition from Domestic Businesses	11	21%
Inflation	10	26%
Availability of High Quality Labor	6	22%

Question 19: What would be the *THIRD GREATEST* concern to your firm over the next three months?

Concern	Number of Responses	Mean Relative Importance of the Problem
Other	24	10%
Inflation	9	14%
Changes in the Costs of Materials	7	19%
Health Care Expenses for Employees	7	14%
Uncertainty about the Future of the Economy	6	21%

Current Economic Issues

Purpose

The Current Economic Issues section is designed to contain questions about topics that appear to be of particular importance during the pertinent quarter. These questions are expected to be updated, as needed, to maintain the relevancy of this section as the importance and priority of issues change over time.

Results

In previous 2008 surveys we asked respondents how the increased level and/or volatility of fuel markets will affect their businesses' long-run financial well-being and most business leaders indicated that it would have somewhat negative effects. Subsequently, fuel prices began to fall precipitously. Therefore, this quarter we inquired what affect these lower prices might have had on any fuel saving initiatives. The vast majority of respondents stated that they did not have any fuel saving plans, corroborating their previous statements that high fuel prices would have negligible long term financial impacts.

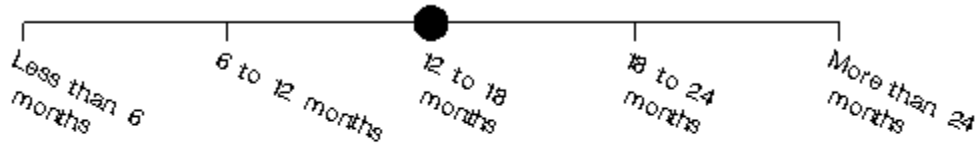
Four new questions were added to the survey to determine respondents' perceptions of national economic issues. First, respondents were asked how long they think the current recession will last. Respondents clearly indicated that the recession will last for another year to a year and a half. Secondly, respondents were asked about their optimism for the Obama Administration's ability to quickly alter the economic outlook. On average, respondents are only marginally optimistic that the Obama Administration will have an impact within the next six months.

The last two questions focused on recent federal policy. Neither question has positive implications for the direction of federal policy. The first question asked how respondents felt the Federal Reserve's recent interest rate changes will affect bankers lending practices. Almost three quarters of the respondents felt the rate change will not increase banks' willingness to lend capital. The final question asked for opinions on the U.S. auto industry bailout. The response choices ranged from total opposition to the government's plan (The Government should not have intervened in the market) to approval of government intervention (The Government's bailout plan was justified and reasonable). The intermediate response indicated that intervention was necessary, but the legislation's methods were flawed (The Government should have bailed out the auto manufacturers, but the terms of the bailout were not appropriate). Almost 50 percent of respondents said they felt the government should not have intervened. The remaining percentage was equally split between those that thought the Government bailout was justified and reasonable and those that felt the bailout was necessary, but not well designed. Therefore, the average result indicates dissatisfaction with government involvement in the auto industry.

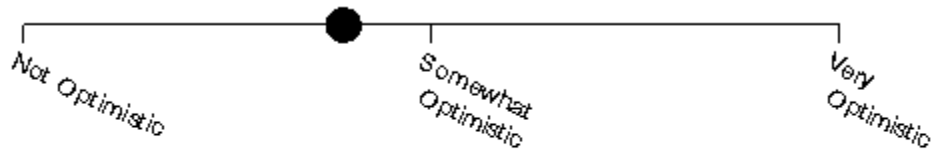
Additional analysis of the survey responses on current economic issues by business industry and size provides results very similar to the aggregated responses previously presented. The similarities across businesses indicate the recessionary pressures have been equally disparaging. One exception comes in how businesses feel about the auto industry bailout. The businesses

were segregated as service based and non-service based.¹ Non-service based businesses responded similarly to each of the options, however service based businesses were much more disapproving. Sixty percent of service based respondents felt the government should not have intervened and another 23 percent disagreed with the terms of the final legislation.

Question 20: *How long do you think the nation's current recession will last?*



Question 21: *How optimistic are you that the Obama Administration will be able to alter the country's current economic outlook within the next six months?*



Question 22: *Has the decrease in fuel costs affected your company's plans to implement fuel saving practices?*

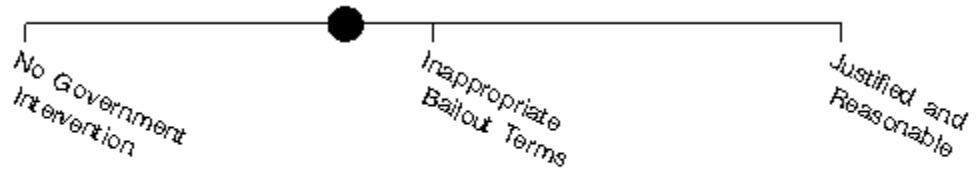
Fuel Saving Plans	Number of Observations
No fuel saving practices were planned/implemented.	72
Fuel saving plans have been postponed.	7

Question 23: *Do you think that the Federal Reserve's recent decrease of interest rates to historic lows will increase banks willingness to lend capital?*

Interest Rates	Number of Observations
No, banks will continue to be conservative in their lending practices.	56
Yes, decreased interest rates will liberalize banks' lending practices.	23

¹ Service based businesses include: Communication and Information Services; Health Care and Social Services; Hospitality and Restaurants; Professional Services; and Other Services.

Question 24: Which of the following responses best matches your opinion about the Federal Government's "bailout" of U.S. auto manufacturers?



Question 24 Response by Industry Type:

Industry		No Government Intervention	Inappropriate Bailout Terms	Justified and Reasonable
Service	N	26	10	7
	% of industry	60%	23%	16%
Other	N	11	12	13
	% of industry	31%	33%	36%

Summary Statistics for Likert Scale Questions

Question	N	MIN	MAX	MEAN	Std. Dev.
During the past three months, did the number of full-time equivalent employees in your firm increase, stay about the same, or decrease?	79	1	3	2.28	0.70
During the past 1-3 months, was it easier or harder for your firm to finance capital expenditures compared to 4-6 months ago?	60	1	3	2.27	0.78
During the past three months, have your inventory levels increased or decreased?	45	1	5	3.22	0.93
During the past 1-3 months, were your firm's dollar sales higher or lower compared to 4-6 months ago?	79	1	5	3.56	1.26
During the next three months, do you think that general economic conditions within the Greater Seattle area will improve or worsen?	79	1	5	3.44	1.01
During the next three months, do you expect your firm's dollar sales to increase or decrease?	79	1	5	2.91	1.11
During the next three months, do you plan to increase, maintain, or decrease the number of full-time equivalent employees?	79	1	5	3.04	0.74
During the next three months, do you plan to increase, maintain, or decrease capital expenditures?	79	1	5	3.33	0.90
During the next three months, do you expect it to be more or less difficult for the typical firm in your industry to finance capital expenditures?	79	1	5	2.20	0.87
How long do you think the nation's current recession will last?	79	1	5	3.00	1.03
How optimistic are you that the Obama Administration will be able to alter the country's current economic outlook within the next six months?	79	1	3	1.78	0.69
Which of the following responses best matches your opinion about the Federal Government's "bailout" of U.S. auto manufacturers?	79	1	3	1.78	0.83