
RKM / BIA

2007 NH Business Outlook Survey

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Project Summary

Situation Analysis

The primary purpose of this study is to assess business confidence in New Hampshire and to identify challenges facing businesses. The results are used to predict economic conditions in New Hampshire for 2007.

Methodology

The results of this report are based on a telephone survey commissioned by RKM Research and Communications and the Business and Industry Association of New Hampshire. The survey was administered by RKM Research and Communications, Inc., November 28-December 5, 2006. The survey is based on a stratified random sample of businesses located in New Hampshire.

Because a large number of businesses in the state are very small (< 10 employees) and include a large portion of self-employed individuals, the number of interviews with small businesses was capped at 100. A total of 200 interviews were completed with companies that employ at least 10 employees. The purpose of this sample design is to ensure an adequate number of completed interviews with larger firms in the state that employ more people. Self-employed individuals and small firms (< 10 employees) make up about 85 percent of the businesses in the state, but account for about one-third of the employed population. Larger firms, on the other hand, make up about 15 percent of the businesses in the state, but account for about two-thirds of the employed population. Of course, when the results for all employers in the state are shown in this report, the results are weighted to reflect the actual distribution.

Throughout this report, results are sometimes broken down by the following regions:

| Region | Counties within region |
|-------------------------|-------------------------|
| North Country | Carroll, Coos, Grafton |
| Lakes Region | Belknap |
| Southwest NH | Cheshire, Sullivan |
| I-93 / Route 3 Corridor | Hillsborough, Merrimack |
| Seacoast | Rockingham, Strafford |

The survey was administered using a computer-assisted telephone interviewing (CATI) system. The CATI system allows data to be entered directly into a computerized database as interviews are conducted, providing a highly reliable system of data collection. A central polling facility in Portsmouth, New Hampshire was used to administer the survey. All interviews were conducted by paid, trained and professionally supervised interviewers.

The survey of 300 businesses has a maximum margin of error of +/- 5.7 percent.

Executive Summary

All of the major economic indicators suggest a strong and stable economy for 2007.

The four indices included in this report each range in score from 0 to 100. A score of “0” would indicate that 100 percent of businesses in New Hampshire think that conditions will deteriorate in the next 12 months, and a score of 100 would indicate that 100 percent of businesses think that conditions will improve in the next 12 months. A score of 50 would indicate two things: that businesses are evenly divided in their outlook, or that 100 percent of businesses expect conditions to remain the same in the next 12 months. A score below 50 would indicate that a majority of businesses anticipate that conditions will stay the same or worsen, and a score above 50 would indicate that a majority of businesses anticipate that conditions will stay the same or get better.

The four indices included in this report are based off of four questions:

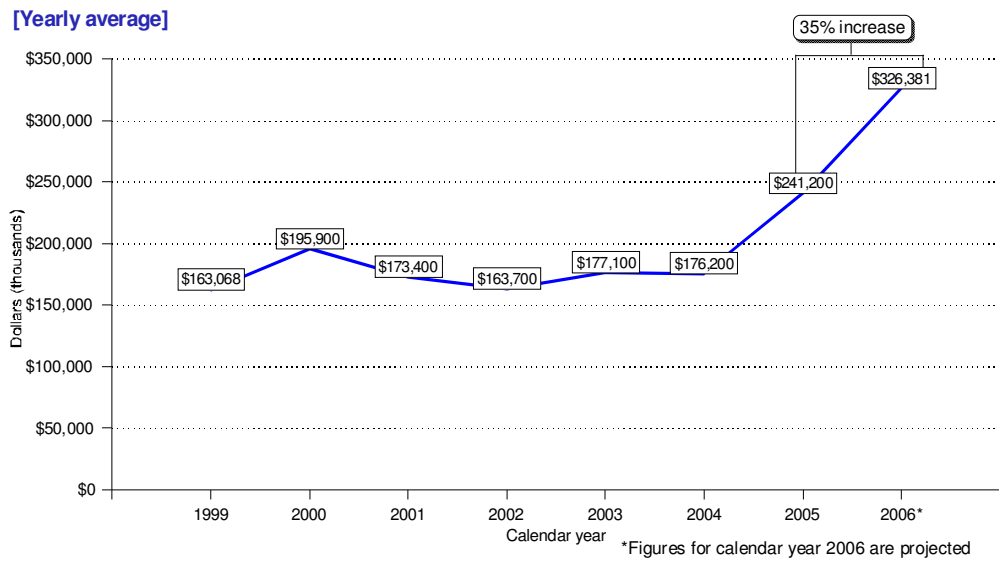
- Do you think that overall economic conditions in New Hampshire will get better, get worse or stay the same in the next 12 months?
- Do you think that the overall number of people working for your company in New Hampshire will increase, decrease or stay the same in the next 12 months?
- Do you think that annual revenues for your business operations in New Hampshire will increase, decrease or stay the same in the next 12 months?
- Do you think that capital expenditures, such as equipment, for your business operations in New Hampshire will increase, decrease or stay the same in the next 12 months?

Indices were calculated in 2004, 2005 and 2006, allowing comparison over time.

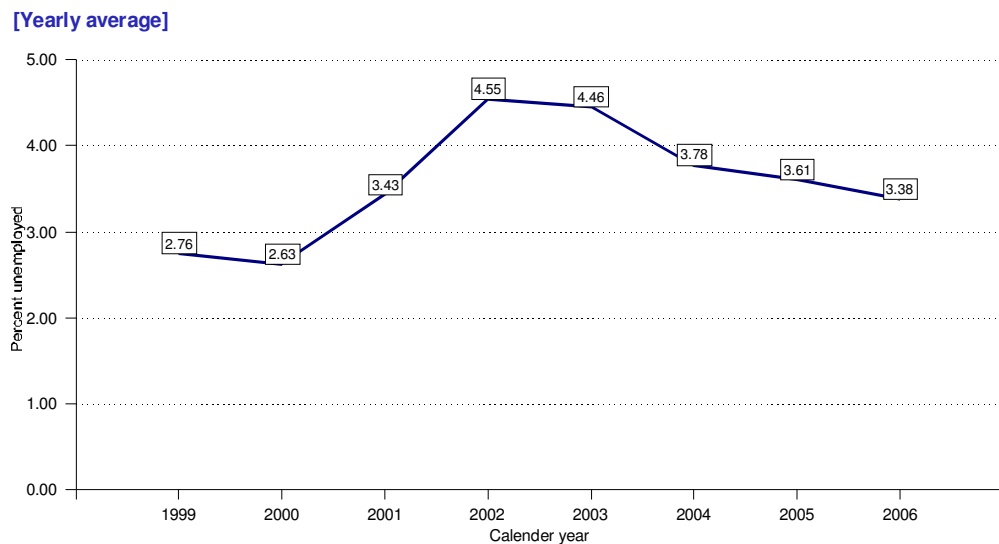
Expectations of increased revenue were met.

In 2005, the Index of Future Revenues was high at 76.5, indicating that many businesses expected their revenue to increase in 2006. Data on economic activity in the State indicate that these optimistic expectations were met. Revenues from the State's business profits tax—a direct indicator of profitable economic activity—increased dramatically, up from \$241,200,000 in 2005 to \$326,381,000 in 2006. This represents an increase of 35 percent.¹ Businesses also anticipated increased employment, and these expectations were met. Unemployment declined from 3.61 percent to 3.38 percent in 2006.²

NH Business Profit Tax Revenue:



NH Unemployment Rate:



¹ This figure is based on estimated 2006 numbers taken from the Federal Reserve Bank of Boston website.

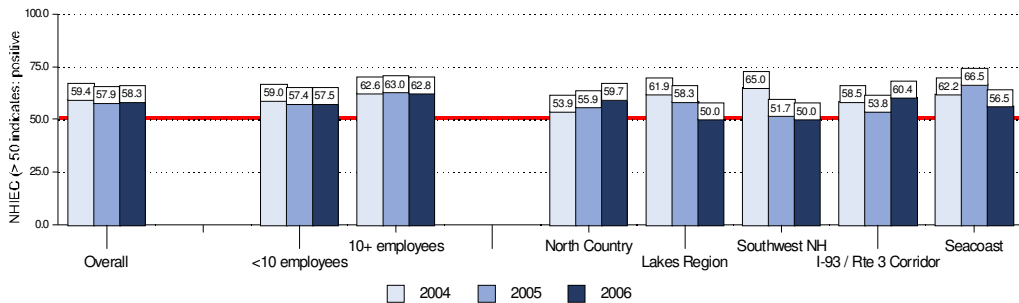
² This figure is base on estimated 2006 numbers taken from the US Department of Labor website.

New Hampshire businesses anticipate increased employment and expenditures in 2007.

The Index of Future Employment for 2007 is 58.3, indicating a positive trend in employment. Seventy-five percent of businesses expect that the overall number of employees working for their company will *stay the same*, while 21 percent of businesses expect to hire new employees. Only four percent of businesses expect their overall number of employees to *decrease*. These results are essentially unchanged from 2004 (59.4) and 2005 (57.9) and in both these years unemployment declined.

NH Index of Future Employment (NHIFE):

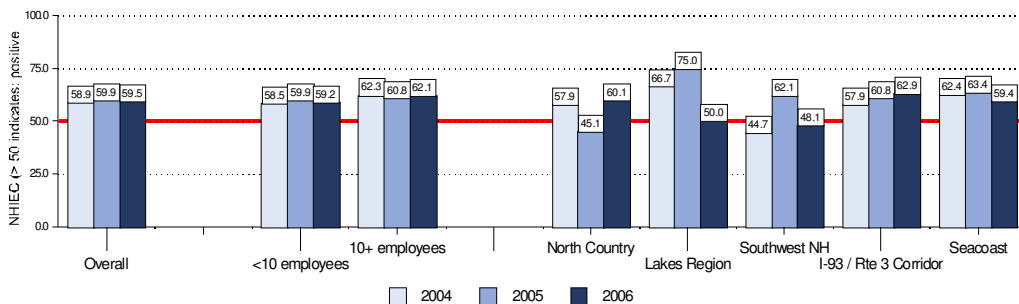
[Among: all respondents | compared by selected characteristics]



The Index of Future Capital Expenditures for 2007 is 59.5, indicating a positive trend in likely future capital investment. Thirty-four percent of businesses expect expenditures to *increase* and 52 percent expect expenditures to *stay the same*. Fifteen percent of businesses expect expenditures to *decrease*. These results are essentially unchanged from 2004 (58.9) and 2005 (59.9).

NH Index of Future Capital Expenditures (NHIFCE):

[Among: all respondents | compared by selected characteristics]



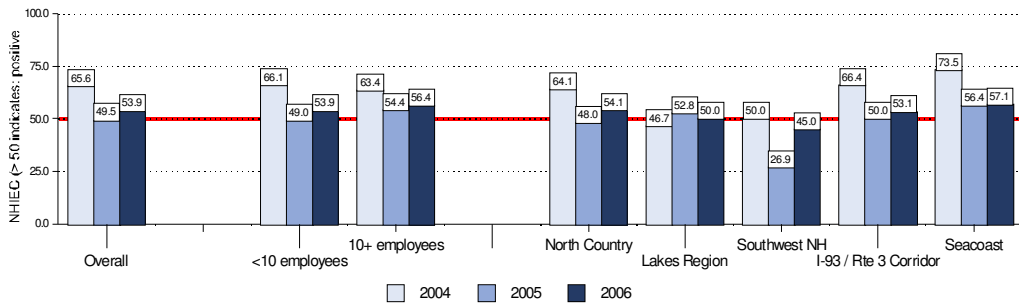
This suggests that overall business confidence remains robust and that many businesses in the State expect to hire more employees and increase capital expenditures in 2007.

New Hampshire businesses expect overall economic conditions to stay strong in 2007.

The Index of Economic Conditions for 2007 is 53.9, surpassing levels in 2005 (49.5). While this still represents a decline from 65.6 in 2004, three-fourths of businesses expect the State's currently well-performing economic conditions to *continue* (42%) or *get better* (33%) in 2007. In addition, only 25 percent of businesses anticipate that overall economic conditions will deteriorate in 2007, compared to 29 percent last year.

NH Index of Economic Conditions (NHIEC):

[Among: all respondents | compared by selected characteristics]

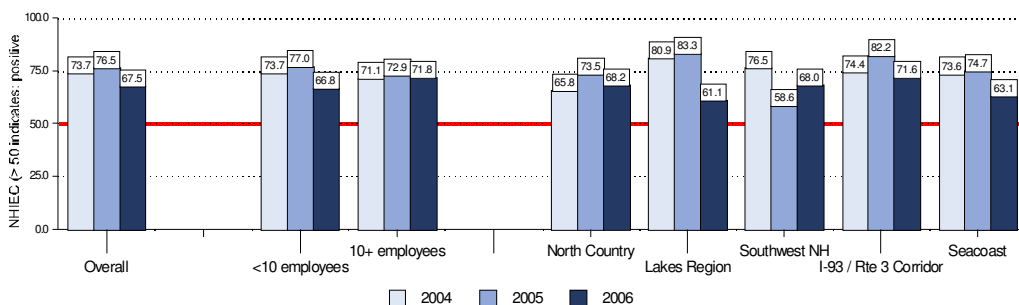


Revenue expectations, while still robust, are more modest than last year.

The Index of Future Revenues for 2007 is 67.5, a decline from 76.5 registered last year, but still quite robust. These results suggest that, while most businesses expect revenues to *increase* (46%) or *stay the same* (43%), an increasing number of New Hampshire businesses expect revenues to decline in 2007. Eleven percent of businesses expect revenues to decrease in 2007, compared to seven percent last year. These anxieties are reflected in the specific concerns of some New Hampshire businesses. Eleven percent said that *attracting and marketing to new customers* (8%) and *low profits and revenue* (3%) are problems, or challenges, facing their business today. If these expectations are accurate, the State may not see the same high level of revenue growth from the business profits tax next year.

NH Index of Future Revenues (NHIFR):

[Among: all respondents | compared by selected characteristics]



Optimism improved in the Southwest region of New Hampshire.

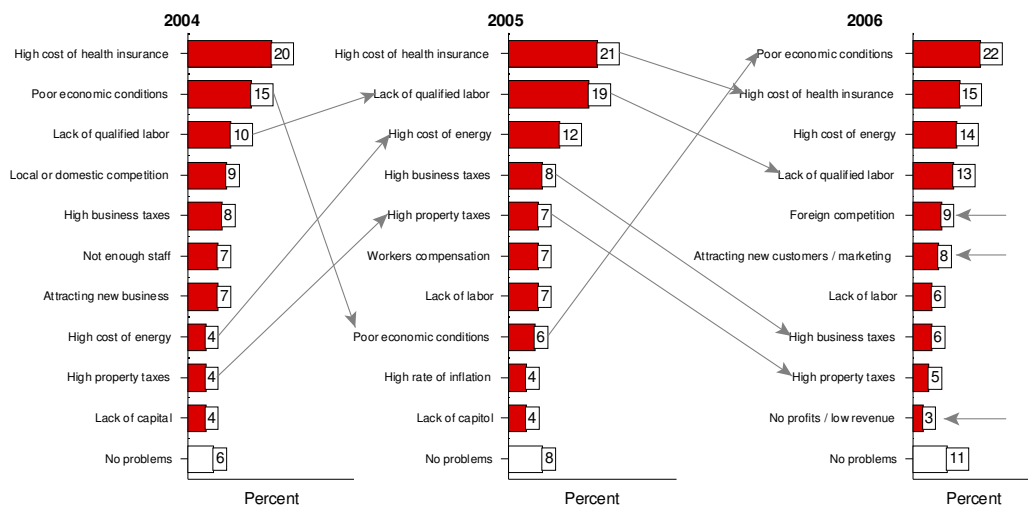
In 2005, businesses in Southwest New Hampshire were generally less confident in New Hampshire's economic future, but the results suggest that the economic outlook in the region may be improving. The Index of Economic Conditions is 45.0, up from 26.9 last year. In addition, the Index of Future Revenues is 68.0, up from 58.6 last year. In the Southwest region, only 19 percent of businesses expect overall economic conditions to get worse in 2007, compared to 52 percent last year. Also, 96 percent of businesses expect revenues to *increase* (40%) or *stay the same* (55%).

In addition to rising health and energy costs, a significant minority of businesses also consider poor economic conditions their biggest challenge today.

Respondents were asked to identify the biggest problems, or challenges, facing their business today. *The high cost of health insurance* dominated the list in 2004 (20%) and 2005 (21%), but fell to number two in 2006 (15%). *Poor economic conditions* (22%) replaced it as the number one problem, or challenge, facing New Hampshire businesses today. Additionally, businesses cited *the high cost of energy* (14%), *the lack of qualified labor* (13%), *foreign competition* (9%) and *attracting and marketing to new customers* (8%) as other challenges facing them today.

What are the biggest problems, or challenges, facing your business today?

[Among: all respondents | top 10 responses | compared over time | total mentioned]

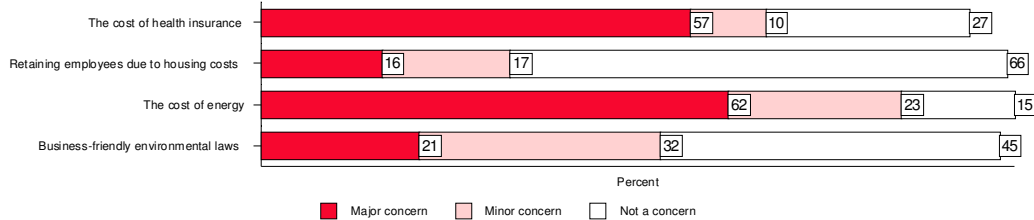


Anxiety about the cost of energy and health insurance declined in the most recent survey.

Businesses were asked whether specific issues represented a major or minor concern. The four issues examined were *the cost of health insurance*, *the ability to retain employees due to high housing costs*, *the cost of energy* and *business-friendly environmental laws and regulations*. Not surprisingly, the *cost of health insurance* and the *cost of energy* remain concerns for many businesses, although the level of concern has declined. Sixty-two percent of businesses think that *the cost of energy* is a *major concern*, down from 75 percent last year. Fifty-seven percent of businesses believe that that *the cost of health insurance* is a *major concern*, down from 76 percent last year. The results suggest that anxiety about the cost of energy and health insurance may have declined in the past year.

Do each of the following represent a major, minor or not a concern for your business?

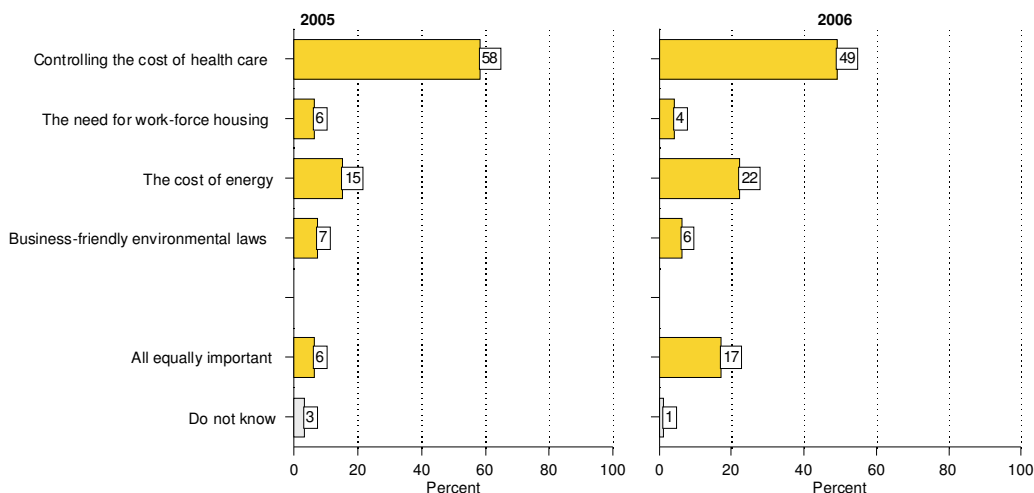
[Among: all respondents]



Still, the issues are of great importance to New Hampshire businesses. Forty-nine of percent of businesses believe that *controlling the cost of health care* is the issue that State leaders should give the greatest priority, and 22 percent believe that *controlling the cost of energy* should be given the greatest priority. In contrast, *work-force housing* (4%) and *business-friendly environmental laws* (6%) are not priorities among the vast majority of businesses.

Which of these 4 issues would you say should be given the most priority by state leaders?

[Among: all respondents | compared by time]



Index Construction Description

The four indices described in this report each represent a diffusion index constructed using a standardized methodology widely used by other organizations. The following is a description of the methodology used to construct the New Hampshire Index of Economic Conditions (NHIEC). Each of the other three indices is constructed using a similar methodology.

The survey contained the following question:

Do you think that overall economic conditions in New Hampshire will get better in the next 12 months, get worse or stay the same?

- Get better
- Stay the same
- Get worse

The index value is the percentage of respondents expecting “better” conditions, plus one-half of the percentage of respondents expecting “unchanged” conditions. This methodology is identical to the methodology used by the Institute for Supply Management (formerly the National Association of Purchasing Management) in the construction of their manufacturing index.