
RKM / BIA

2008 NH Business Outlook Survey

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December 12, 2007



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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 2008.

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 11-30, 2007. 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. 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 four indicators of business confidence are down in 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 possible scenarios: 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.

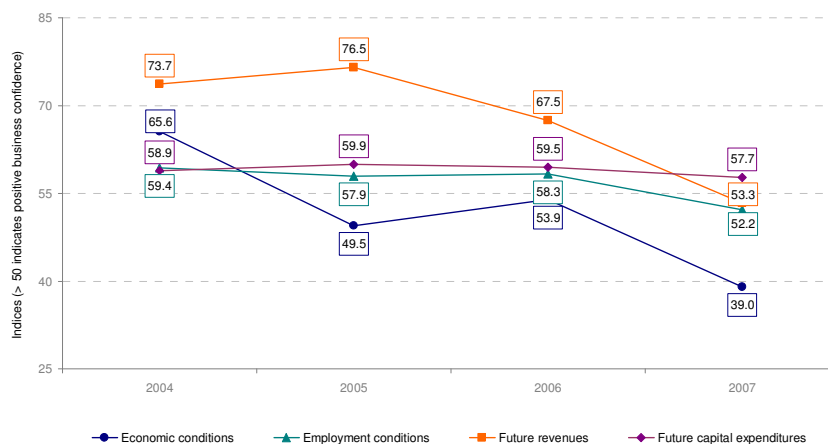
The four indices included in this report are based off of four questions:

- 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?

A comparison of the four indices across time reveals that all four indicators of business confidence have declined since 2006. The Index of Future Economic Conditions declined the most, indicating that a majority of businesses have negative or neutral expectations for the New Hampshire economy in 2008. While the other three indices showed decline in business confidence, they nevertheless continue to register above 50.

Business Confidence Indicators:

[Among: all respondents]

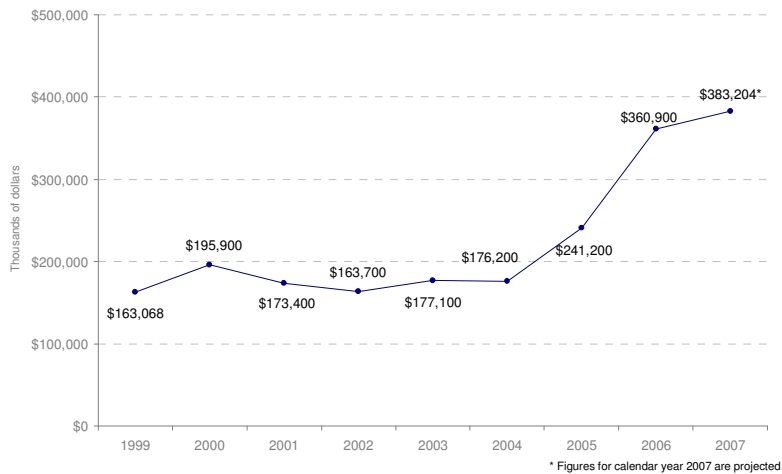


Revenue from the business profits tax proved to be higher than businesses expected, according to R. Kelly Myers.

In 2006, the Index of Future Revenues declined from 76.5 to 67.5, indicating that many businesses expected their annual revenue to decrease in 2007. According to R. Kelly Myers, President and Chief Analyst at RKM Research and Communications, "the data on economic activity in the State of New Hampshire indicate that the state economy may be performing better than expected. Revenues from the state's business profits tax—a direct indicator of profitable economic activity—modestly increased from \$360.9 million in 2006 to \$383.2 million in 2007."¹ Businesses had generally not anticipated diminished employment conditions in 2006. Contrary to these expectations, the State unemployment rate increased slightly from 3.4 percent to 3.7 percent in 2007.²

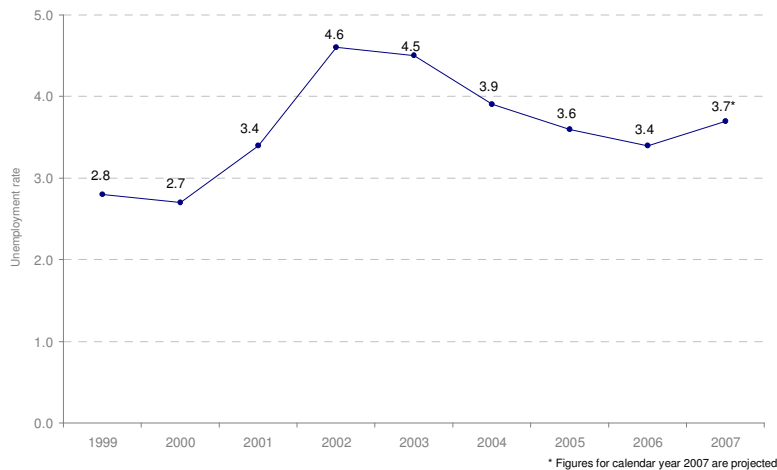
NH Business Profit Tax Revenue:

[Yearly totals]



NH Unemployment Rate:

[Yearly averages]



¹ This figure is based on estimated 2007 numbers taken from the Federal Reserve Bank of Boston website.

² This figure is based on estimated 2007 numbers taken from the US Department of Labor website.

New Hampshire businesses expect overall economic conditions to worsen in 2008.

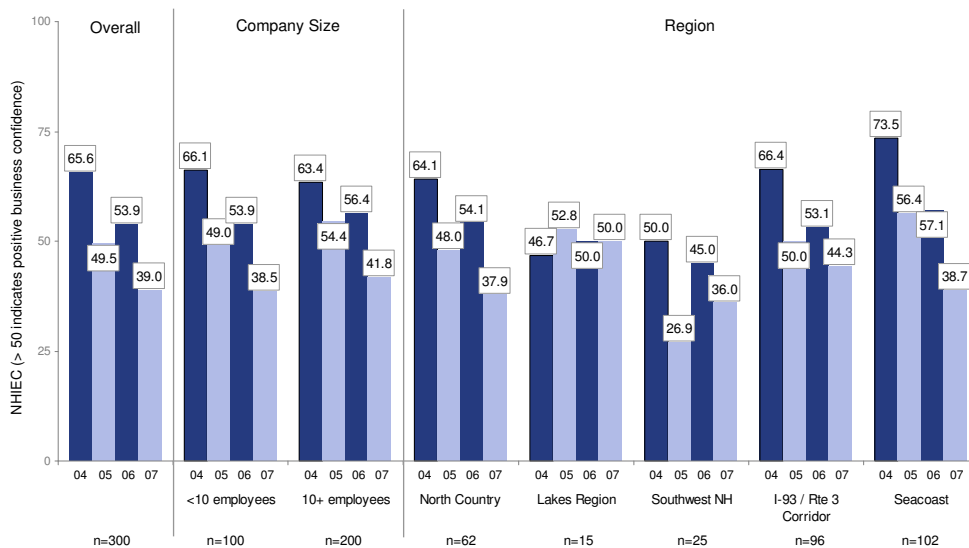
The Index of Economic Conditions is 39.0 in 2007, down considerably from 53.9 in 2006. According to Myers, “these results indicate that confidence in future economic conditions have reached their lowest level in four years.”

Twenty-five percent of businesses expect economic conditions to *get better*, 29 percent expect them to *stay the same* and 38 percent expect them to *get worse*.

Furthermore, both small and large businesses express pessimism over future economic conditions, with the expectations of small businesses slightly more negative. “This,” says Myers, “indicates that pessimism about New Hampshire’s economic conditions in 2008 is widespread and is common among businesses of all sizes.”

NH Index of Economic Conditions (NHIEC):

[Among: all respondents | compared by selected characteristics]



Fewer businesses express confidence in future employment conditions.

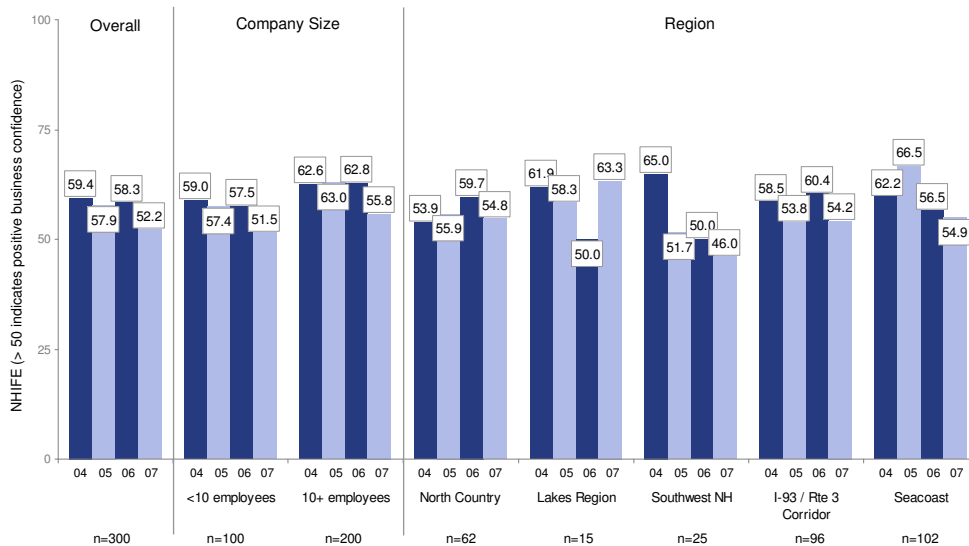
The Index of Future Employment is 52.2 in 2007, down from 58.3 in 2006. According to Myers, “these results indicate that confidence in future employment conditions have reached their lowest level in four years, but remain generally positive on average.”

Fifteen percent of businesses expect the overall number of employees working at their company to *increase*, 75 percent expect it to *stay the same* and six percent expect it to *decrease*.

Among larger businesses, 27 percent expect to hire more employees, compared to 13 percent among smaller businesses. However, 13 percent of larger businesses expect the number of their employees to decrease, compared with only five percent among smaller businesses. According to Myers, “these results indicate that larger businesses are more divided than smaller businesses over their ability to increase their workforce.”

NH Index of Future Employment (NHIFE):

[Among: all respondents | compared by selected characteristics]



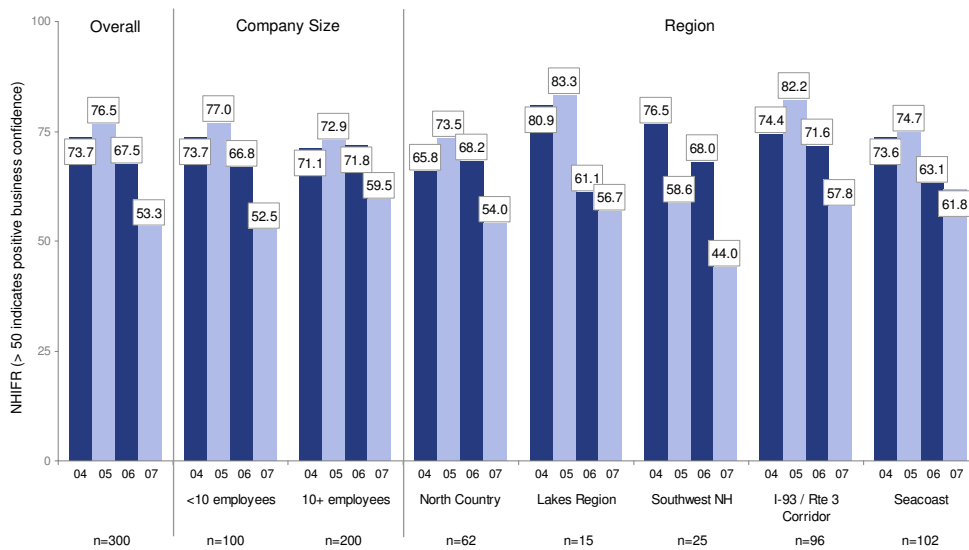
Future revenue expectations have diminished sharply since 2006.

The Index of Future Revenues is 53.3 in 2007, down from 67.5 in 2006. According to Myers, “these results indicate that confidence in future revenue growth have reached their lowest level in four years, but remain generally positive on average.”

Thirty-six percent of businesses expect their annual revenue to *increase* in 2008, 35 percent expect it to *stay the same* and 25 percent expect it to *decrease*. “If these expectations are accurate,” says Myers, “the State may face decline or slower growth in revenue from the business profits tax next year.”

NH Index of Future Revenues (NHIFR):

[Among: all respondents | compared by selected characteristics]



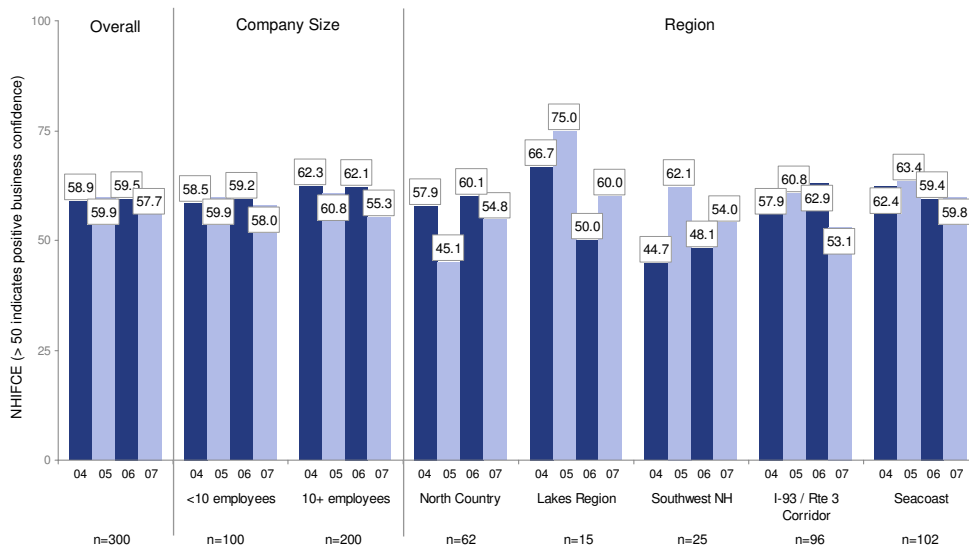
Expectations for future capital expenditures remain relatively strong, suggesting continued confidence in ability to sustain growth despite worsening economic conditions.

The Index of Future Capital Expenditures is 57.7 in 2007, down slightly from 59.5 in 2006. Thirty-four percent of businesses expect their capital expenditures to *increase* in 2008, 47 expect them to *stay the same* and 18 percent expect them to *decrease*.

“These results,” observes Myers, “suggest that while there is increased pessimism about economic conditions, businesses generally remain confident in their ability to persevere and achieve a modest level of growth in 2008.”

NH Index of Future Capital Expenditures (NHIFCE):

[Among: all respondents | compared by selected characteristics]



Many businesses cite poor economic conditions and the high cost of energy as major problems that they currently face.

Respondents were asked to identify the biggest problems, or challenges, facing their business today. *Poor economic conditions* continues to top the list, while *high cost of energy* rose 7 points from the previous year to take second place. *Lack of capital* was cited as a major problem for the first time since 2005, while worries about *foreign competition* have subsided since 2006.

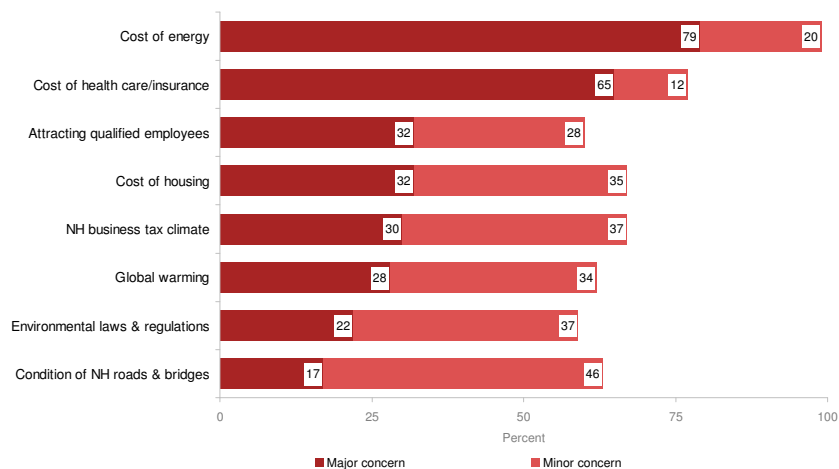
What are the biggest problems, or challenges, facing your business today?

%	2004	%	2005	%	2006	%	2007
20	High cost of health insurance	21	High cost of health insurance	22	Poor economic conditions	23	Poor economic conditions
15	Poor economic conditions	19	Lack of qualified labor	15	High cost of health insurance	22	High cost of energy
10	Lack of qualified labor	12	High cost of energy	14	High cost of energy	14	High cost of health insurance
9	Local or domestic competition	8	High business taxes	13	Lack of qualified labor	10	Lack of qualified labor
8	High business taxes	7	Workers compensation	9	Foreign competition	6	Lack of capital
7	Attracting new business	7	Lack of labor	8	Lack of customers	5	Lack of customers
7	Not enough staff	7	High property taxes	6	High business taxes	5	High property taxes
4	Lack of capital	6	Poor economic conditions	6	Lack of labor	5	High business taxes
4	High property taxes	4	Lack of capital	5	High property taxes	4	Lack of labor
4	High cost of energy	4	High rate of inflation	3	No profits / low revenue	3	Foreign competition

Furthermore, when asked specifically whether the cost of energy was a major or minor concern for their business, 79 percent of respondents said that it was a *major concern* and an additional 20 percent said that it was a *minor concern*.

Is each of the following a major or minor concern for your business?

[Among: all respondents]



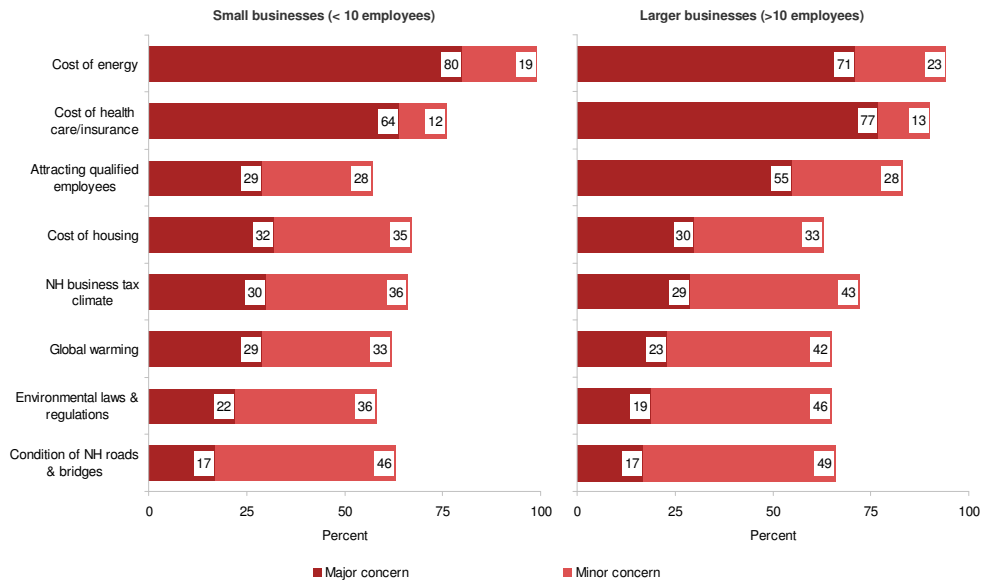
According to Myers, “these results indicate that anxieties over the rising cost of energy, in a time of general pessimism toward economic conditions, may help account for decreased confidence among New Hampshire businesses.”

While small and larger businesses share similar concerns, larger businesses express considerably greater worry over their ability to attract qualified employees.

Fifty-five percent of larger businesses consider attracting qualified employees to be a *major concern*, compared to only 29 percent of small businesses. According to Myers, “this indicates that New Hampshire’s workforce deficiencies continue to have a negative impact of the State’s ability to support the growth of large businesses. This serves to dampen the confidence of large businesses.”

Is each of the following a major or minor concern for your business?

[Among: all respondents | compared by business size]



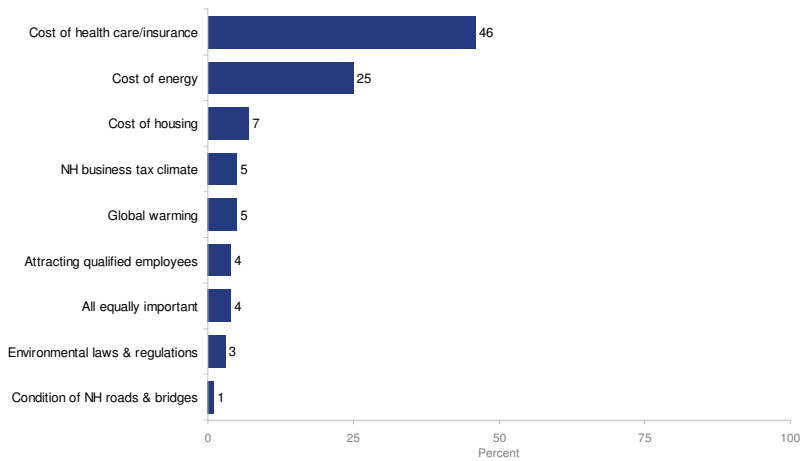
Most businesses think that the BIA should give the most priority to addressing the cost of health insurance or the cost of energy.

Respondents were asked to identify the issue that they think should be given the most priority by the BIA. Forty-six percent of businesses identified *cost of health care and health insurance* and 25 percent identified *cost of energy*. Fewer businesses identified *cost of housing* (7%), *New Hampshire's business tax climate* (5%) *global warming* (5%) or any other issue.

Moreover, when asked to identify the level at which they think the issue of global warming should be addressed, many businesses identified the *international* (34%) or *national* (16%) levels, or *all levels* (28%). Few identified the *state* (3%) or *local* (3%) levels.

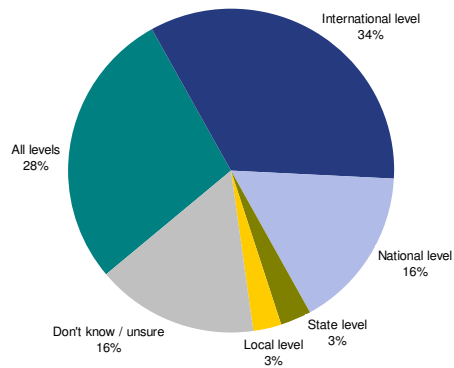
Which of the following do you think should be given the most priority by the BIA?

[Among: all respondents]



At what level do you think global warming should be addressed?

[Among: all respondents]



Most businesses would oppose a state law requiring mandatory health insurance and an increase in the gas tax.

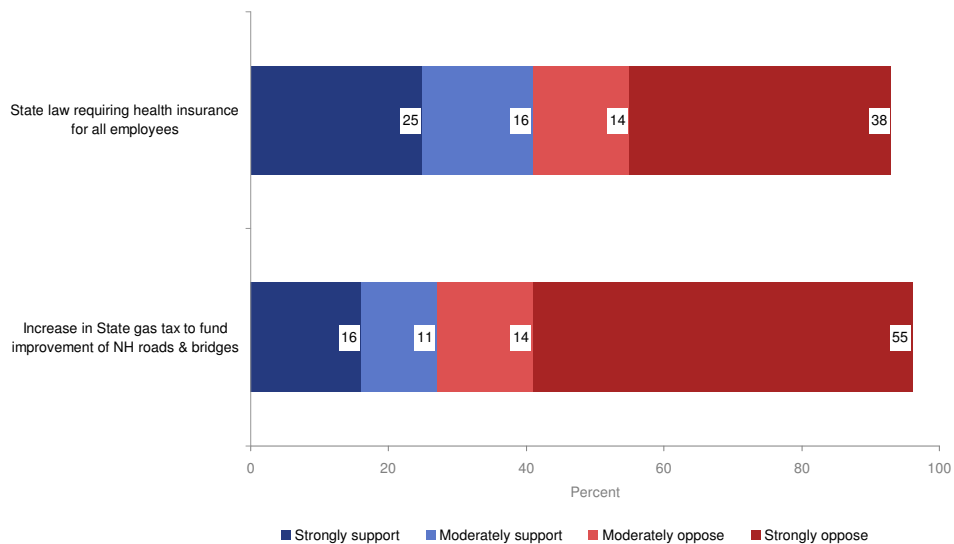
Respondents were asked whether they would support or oppose a state law that would require employers to provide some type of health insurance to all employees. Forty-one percent of businesses said that they would *moderately* (16%) or *strongly* (25%) *support* this law and 52 percent said that they would *moderately* (14%) or *strongly* (38%) *oppose* it.

Respondents were also asked whether they would support or oppose an increase in the State’s gas tax to help fund construction projects to improve New Hampshire’s roads and bridges. The majority of businesses would *moderately* (14%) or *strongly* (55%) oppose an increase in the State gas tax, while about one-quarter would *moderately* (11%) or *strongly* (16%) *support* it.

According to Myers, “these results indicate that most New Hampshire businesses are anticipating the negative effects of higher energy costs, and are therefore reluctant to support legislation that might make their situation worse.”

Support for possible state legislation:

[Among: all respondents]

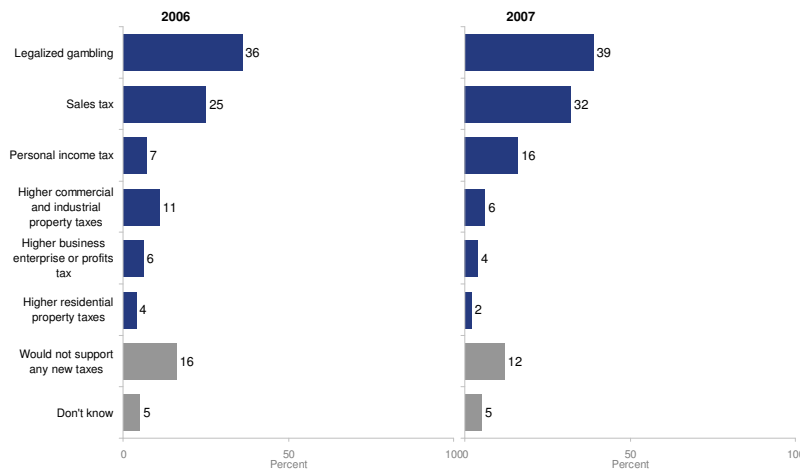


Many businesses would support legalized gambling or a sales tax to help the State raise revenue for education.

Respondents were asked whether they would support several possible State initiatives that would help the State raise revenue for education. Many businesses would support *legalized gambling* (39%) or a *sales tax* (32%), while fewer would support a *personal income tax* (16%) or any other options. These results are similar to those from the previous year. “These results indicate,” says Myers, “that businesses continue to be weary of new taxes that would directly impact their operations, but are nevertheless aware of the importance of improving education in New Hampshire and open to possible solutions that would benefit all parties.”

Which would you support to help the State raise revenue for education?

[Among: all respondents | total mentioned]



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.