
RKM / BIA

2010 NH Business Outlook Survey

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RKM Research and Communications, Inc.

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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 2010.

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., December 10-14, 2009. 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 101. A total of 201 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 approximately one-third of the employed population. Larger firms, on the other hand, make up roughly 15 percent of the businesses in the state, but account for approximately 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 302 businesses has a maximum margin of error of +/- 5.7 percent. RKM Research and Communications and the New Hampshire Business and Industry Association have administered the study for the past six years, providing insight into what business leaders think about the state of the economy moving forward.

When results are shown for 2006, they represent expectations for 2007. When results are shown for 2007, they represent expectations for 2008. When results are shown for 2008, they represent expectations for 2009. Finally, when results are shown for 2009, they represent expectations for 2010.

Executive Summary

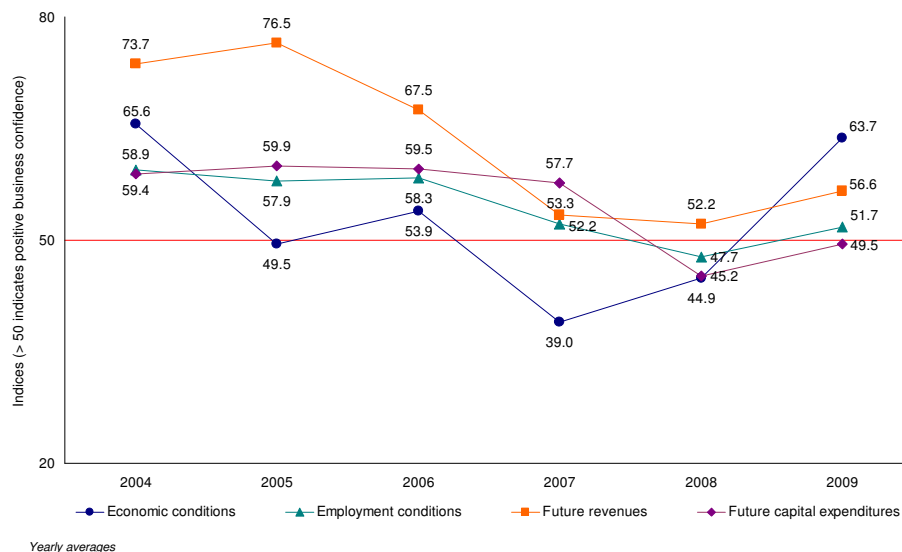
All business confidence indicators have improved significantly from 2008 to 2009.

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. 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 indicates that a majority of businesses anticipate that conditions will stay the same or worsen, while a score above 50 indicates that a majority of businesses anticipate that conditions will stay the same or get better. The four diffusion 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?

The Index of Future Economic Conditions increased by the greatest margin, reaching 63.7 in 2009, up from 44.9 in 2008. This represents the largest increase in the index since 2004, and the highest overall score since that same year. These results suggest that New Hampshire business owners are largely confident that economic conditions will improve in 2010.

Business Confidence Indicators:



While no other index increased to the same degree as the Index of Economic Conditions, the indices of Future Revenues, Future Employment and Future Capital Expenditures all increased from 2008 to 2009. These results suggest that business owners, on average, are more confident that they will hire new employees, increase revenues and invest through capital expenditures in 2009 than they were in 2008.

While New Hampshire businesses expect overall economic conditions to remain weak in 2009, confidence is higher than it was going into 2008.

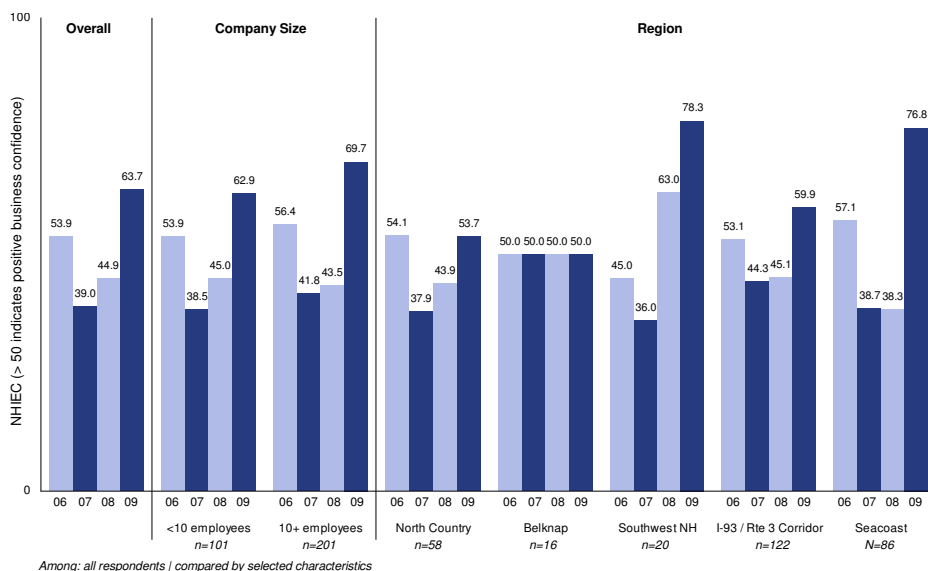
The Index of Economic Conditions is 63.7 in 2009, up significantly from 44.9 in 2008. According to R. Kelly Myers, president and chief analyst for RKM Research and Communications, “these results indicate that confidence in future economic conditions has improved significantly from last year. Part of this trend may be due to the perception that 2009 was a tough year for the state and that conditions are likely to get much better moving forward.”

Forty-eight percent of businesses expect economic conditions to *get better*, 31 percent expect them to *stay the same* and only 16 percent expect them to *get worse* in 2009.

Notably, large businesses expressed greater optimism over future economic conditions than small businesses. Among large businesses, the Index of Economic Conditions is 69.7, compared to 62.9 among small businesses.

In addition, businesses in Southwest NH and the Seacoast are particularly optimistic about future economic conditions. For the second year in a row, businesses in Southwest NH are more likely to be optimistic than those in any other region of the state. Businesses in the Seacoast region, however, exhibit the most dramatic change in confidence from 2008 to 2009. While Seacoast businesses had the lowest Index of Economic Conditions (38.3) in 2008, they exhibit one of the highest scores in 2009 (76.8).

NH Index of Economic Conditions (NHIEC):



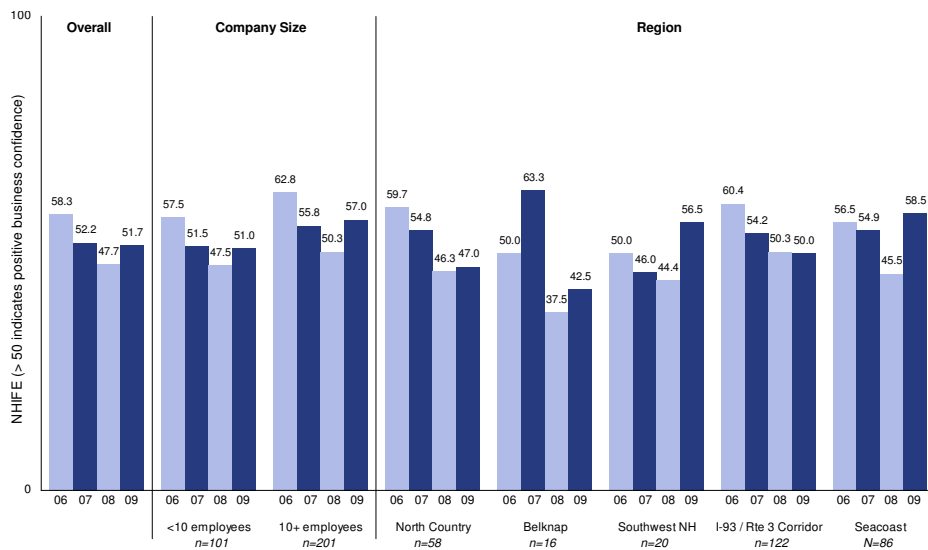
The strong majority of businesses expect their number of employees to stay the same in the next 12 months.

The Index of Future Employment is 51.7, up from 47.7 in 2008 and similar to 52.2 in 2007. According to Myers, “these results indicate that confidence in future employment conditions have rebounded from last year. However, the vast majority of businesses expect their employment levels to remain the same as in 2009.”

Thirteen percent of businesses expect the overall number of employees working at their company to *increase*, while 78 percent expect it to *stay the same* and four percent expect it to *decrease*.

Among larger businesses, 25 percent expect to hire more employees, compared to 11 percent among smaller businesses. However, larger businesses are also more likely to expect the number of their employees to decrease (8%) than smaller businesses (4%). According to Myers, “these results indicate that smaller businesses are less likely than large businesses to make hiring and firing decisions in weaker economic times.”

NH Index of Future Employment (NHIFE):



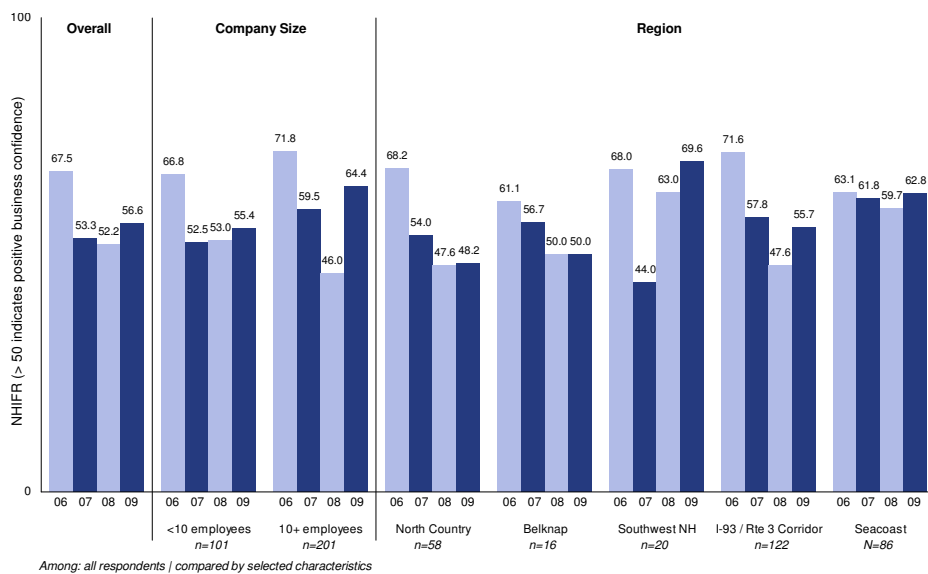
Future revenue expectations have improved from last year.

The Index of Future Revenues is 56.6 in 2009, up slightly from 52.2 in 2008. According to Myers, “these results indicate that confidence in future revenue growth is strong compared to 2007 and 2008.”

Thirty-six percent of businesses expect their annual revenue to *increase* in 2009, 40 percent expect it to *stay the same* and 18 percent expect it to *decrease*.

Notably, businesses in Southwest NH, the Seacoast and the I-93 corridor regions are more optimistic about future revenue growth than businesses in Belknap County and the North Country.

NH Index of Future Revenues (NHIFR):

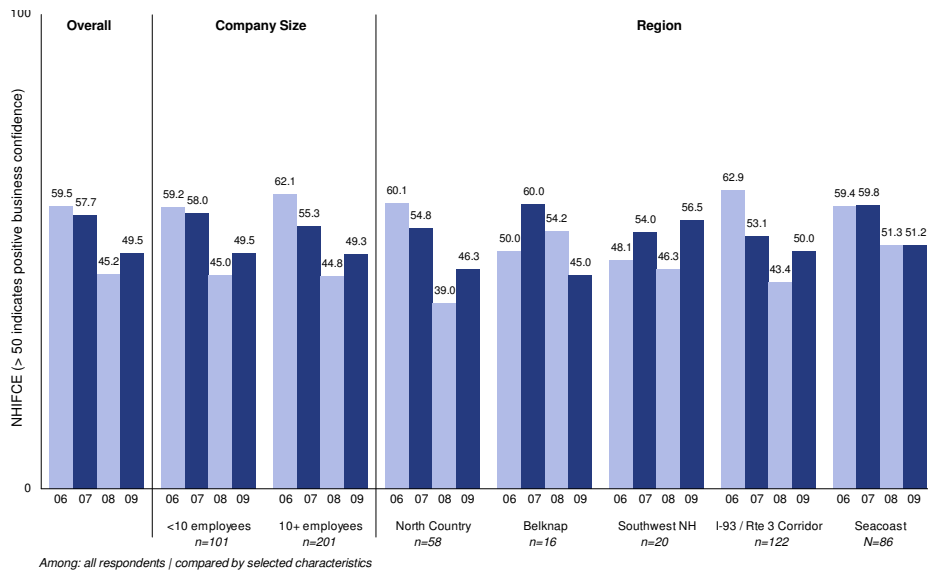


Expectations for future capital expenditures improved from 2008 but remain low compared to 2007 and 2006.

The Index of Future Capital Expenditures is 49.5 in 2009, up from 45.2 in 2008. Despite this improvement, the index remains relatively low compared to 2007 (57.7) and 2006 (59.5) levels.

Twenty-four percent of businesses expect their capital expenditures to *increase* in 2009, 50 percent expect expenditures to *stay the same* and 22 percent expect expenditures to *decrease*. “These results,” observes Myers, “suggest that businesses are more likely to make capital investments this year than last. However, a strong minority still plan to reign in costs and hold their capital spending steady.”

NH Index of Future Capital Expenditures (NHIFCE):



New Hampshire businesses are most likely to cite poor economic conditions, high health insurance costs and taxes 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 in 2009, with 34 percent of businesses citing it as a problem or challenge they face. In addition, 14 percent of businesses are concerned about the *high cost of health insurance*.

Notably, businesses are more likely to cite *high business taxes* (10%) or *high property taxes* (7%) in 2009 than in 2008 (2% and 1%, respectively). Similarly, *workers compensation* (6%) and a *high rate of inflation* (6%) are greater concerns than in recent years. However, while a *lack of customers* was the second-most common concern in 2008, it did not place in the top 10 in 2009.

Myers observes that, “while the economy is still the number one concern, it is a less prominent issue than in 2008. Even more encouraging, the concern over a lack of customers was the number two challenged last year, but it did not make the top ten list this year.”

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

Key changes in perceptions:

- Respondents are less likely to cite *poor economic conditions* in 2009 (34%) than in 2008 (44%).
- High cost of health insurance (14%) and lack of capital (8%) remain challenges for many state businesses.
- Respondents are more likely to mention *high business taxes* (10%) in 2009 than in 2008 (2%).
- *Workers compensation* (6%) and *high rate of inflation* (6%) are greater concerns than in recent years.

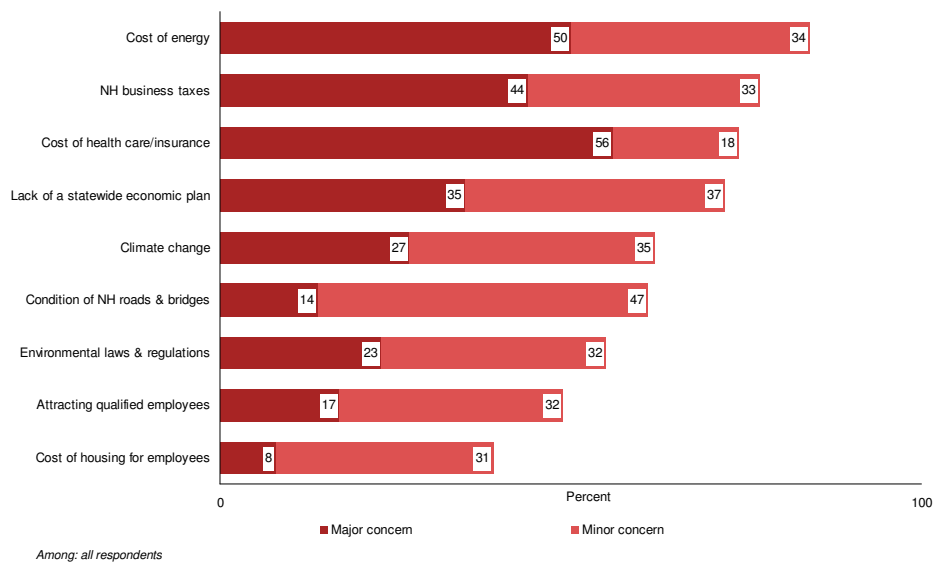
%	2006	%	2007	%	2008	%	2009
22	Poor economic conditions	23	Poor economic conditions	44	Poor economic conditions	34	Poor economic conditions
15	High cost of health insurance	22	High cost of energy	12	Lack of customers	14	High cost of health insurance
14	High cost of energy	14	High cost of health insurance	11	High cost of health insurance	10	High business taxes
13	Lack of qualified labor	10	Lack of qualified labor	7	Lack of capital	8	Lack of capital
9	Foreign competition	6	Lack of capital	7	High cost of energy	7	High property taxes
8	Lack of customers	5	Lack of customers	5	Lack of qualified labor	6	Workers compensation / labor law
6	High business taxes	5	High property taxes	4	High cost of materials / operational costs	6	High rate of inflation
6	Lack of labor	5	High business taxes	4	Lack of available credit	5	High cost of energy
5	High property taxes	4	Lack of labor	4	Low cash flow / revenue	5	Lack of labor
3	No profits / low revenue	3	Foreign competition	4	Lack of labor	4	High cost of housing

Among: all respondents | total mentioned | top 10 responses

Businesses are most concerned about the cost of energy, state business taxes, the cost of health care and the lack of a statewide economic plan.

When asked specifically whether the cost of energy was a major or minor concern for their business, 50 percent of respondents said that it was a *major concern* and an additional 34 percent said that it was a *minor concern*. Seventy-seven percent of respondents consider New Hampshire’s business taxes a *major* (44%) or *minor* (33%) *concern*, 74 percent consider the cost of health care and health insurance a *major* (56%) or *minor* (18%) *concern* and 72 percent consider the lack of a statewide economic plan a *major* (35%) or *minor* (37%) *concern*. Among all of the concerns under investigation, businesses are least concerned about attracting qualified employees (47%) and the cost of housing for employees (39%).

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

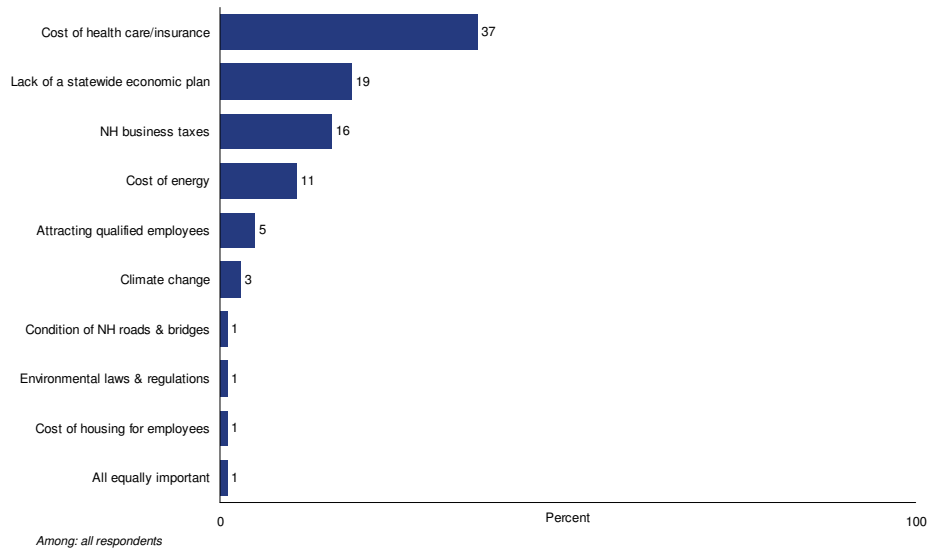


In general, small businesses and large businesses do not differ widely in their level of concern over a variety of issues. However, 88 percent of large businesses consider the cost of health care and health insurance a *minor* or *major concern*, compared to only 73 percent of small businesses. Similarly, 64 percent of larger businesses consider attracting qualified employees a *minor* or *major concern*, compared to 47 percent among small businesses.

Businesses are most likely to identify the cost of health insurance and the lack of a statewide economic plan as the problems the BIA should prioritize.

Respondents were asked to identify the issue that they think should be given the most priority by the BIA. Thirty-seven percent of businesses identified the *cost of health care and health insurance*, while 19 percent identified the *lack of a statewide economic plan* and 16 percent identified *business taxes*. Fewer businesses identified the *cost of energy* (11%), *attracting qualified employees* (5%) or *climate change* (3%) as the issue that they think should be given the most priority by the BIA.

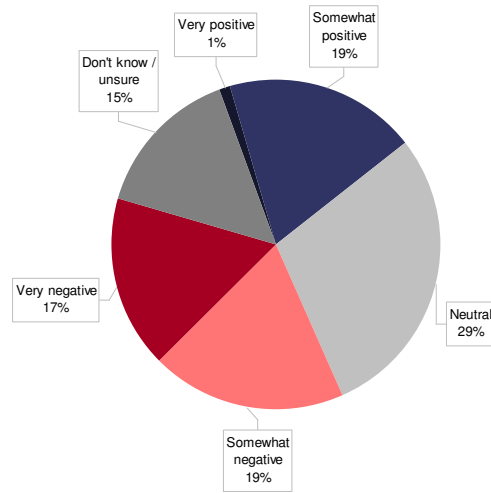
Which of the following do you think should be given the most priority by the BIA?



Although many business owners have reserved judgment of the New Hampshire state legislature, a strong minority believe it is having a negative impact on the state's business climate.

Respondents were asked if they generally think that the New Hampshire state legislature in Concord is having a positive or negative impact on the state's business climate. Twenty-one percent of businesses believe that the legislature is having a *somewhat* (20%) or *very* (1%) *positive* impact on the state's business climate, while 36 percent believe that it is having a *somewhat* (19%) or *very* (17%) *negative* impact. An additional 44 percent believe it is having a *neutral* (29%) impact or are *unsure* (15%).

Do you generally think that the New Hampshire state legislature in Concord is having a positive or negative impact on the state's business climate?



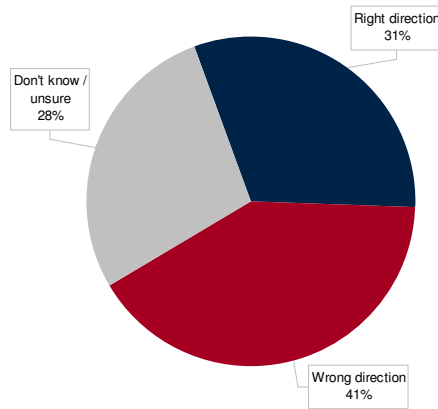
Among: all respondents

Businesses are somewhat divided on their perceptions of whether the state is enabling businesses to grow.

Businesses were asked, in terms of their ability to grow in New Hampshire, whether they think that the state is currently moving in the right direction or the wrong direction.

Forty-one percent believe that the state is moving in the *wrong direction*, 31 percent think that the state is moving in the *right direction* and 28 percent are *unsure*.

In terms of your ability to grow your business in New Hampshire, do you think that the state is currently moving in the right direction or the wrong direction?



Among: all respondents

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.