

behavior research center's

Rocky Mountain Poll

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BUSINESS CONFIDENCE IN ECONOMY SPIKES – CURRENT CONDITIONS INDEX HIGHEST SINCE JANUARY 2001

Phoenix, Arizona, March 11, 2004. Confidence in the economy among Arizona business people rebounded strongly in March to its highest level since January of 2001 and now stands at 149.0, compared to 123.1 last Summer. The higher Index readings reflect a huge increase in confidence about current business conditions and a modest, but continuing, swelling in belief that company finances are improving. The Index improvements are impressive on all fronts: The proportion of businesses who rate current business conditions as good in Arizona rose to 49 percent from 35 percent in July. Similarly, positive assessments of business conditions in the U.S. rose to 31 percent from 23 percent in the same period and their assessment of conditions in their industry rose to 52 percent from 38 percent.

While business people feel much better about current business conditions both in their industry, in Arizona and in the U.S. as a whole, their confidence that the coming six months will be even better, has softened, but is still well above one year ago today. The *Expected Business Conditions Index* fell to 118.5 from 120.9 and the *Expected Company Finances Index* fell to 99.7 from 105.1 in July.

The decrease in the *Expected Company Finances Index* was, itself, driven by concern that interest rates and availability of credit may be less advantageous to businesses in the coming six months. Running in parallel with this is a decline in projections of profitability and cash flow in the second and third quarter.

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This findings outlined in this report are based on a survey of 400 owners and managers of private businesses in Maricopa county. The **BusinessTRACK™** studies were initiated in January of 1990 and are completed twice a year in the public interest and are co-sponsored by the ASU College of Business Center for the Advancement of Small Business and by Behavior Research Center. The estimated margin of error for this study is plus or minus five percent at a .95 confidence interval. To qualify for this study a respondent must be an owner or manager of the company, employ between three and 100 employees and not be a subsidiary of a larger company that employs more than 100 employees. The survey was completed during February-March of 2004, by the Behavior Research Center of Arizona as part of the Center's independent and non-partisan Rocky Mountain Poll series. For more information you may visit www.brcpolls.com.

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EDITOR'S NOTE: This Rocky Mountain Poll Arizona (2004-I-11) is based on 400 telephone interviews conducted from February 23, 2004 to March 2, 2004 with owners or managers of businesses in the metropolitan Phoenix area which have from three to 100 employees and which are not subsidiaries of larger corporations. In a sample of this size, one may say with 95 percent certainty that the results have a statistical precision of plus or minus 5.0 percent of what they would have been had the entire population of owners and managers of such small businesses been surveyed. **BusinessTRACK™** Arizona is co-sponsored by the ASU College of Business Center for the Advancement of Small Business and Behavior Research Center.

This statement conforms to the principles of disclosure of the National Council on Public Polls.

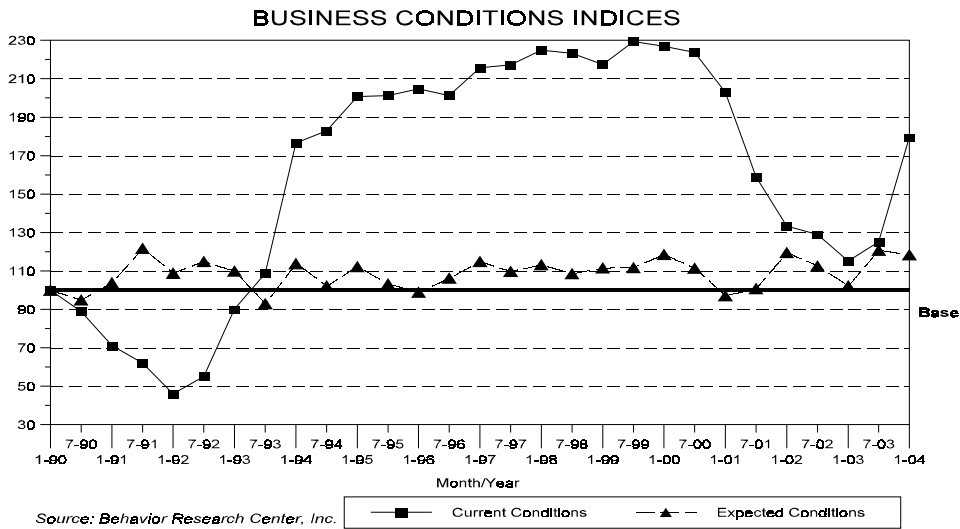
NOTE: January 1990, data constitute the base of 100.0 for the BusinessTRACK™ Arizona indices.

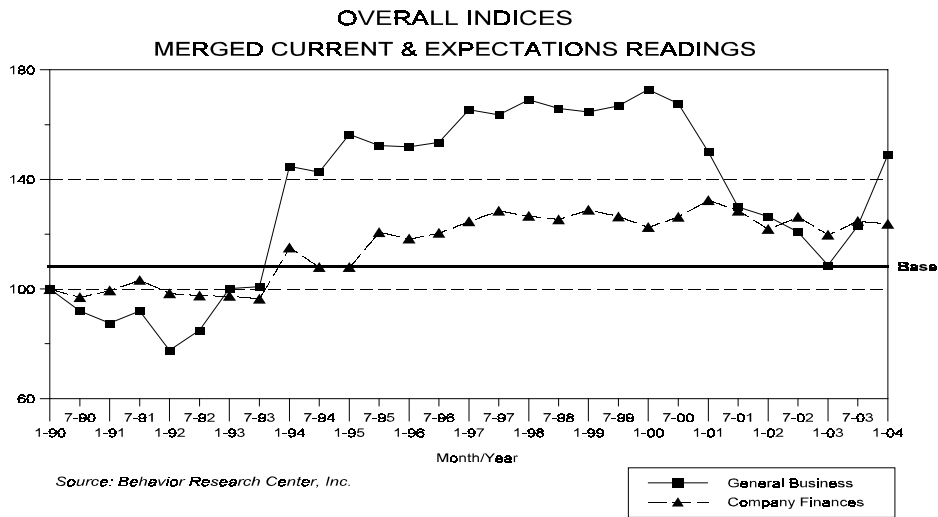
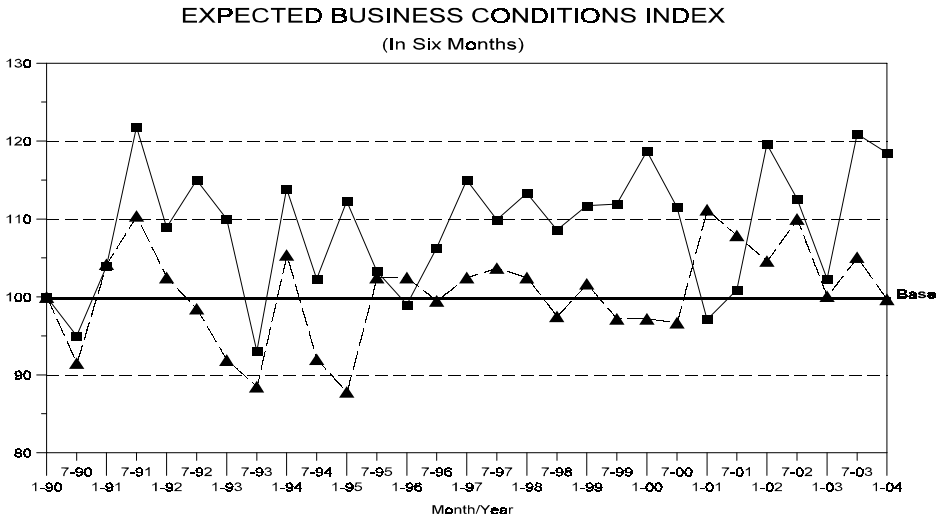
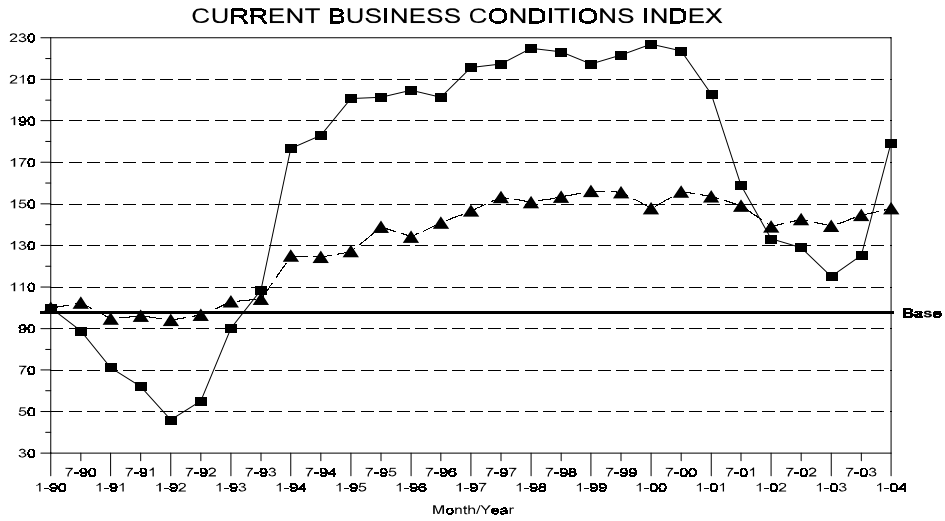
QUARTER

	First 2004	Third 2003	First 2003	Third 2002	First 2002	Third 2001	First 2001	Third 2000	First 2000
A. OVERALL INDICES									
<u>MERGING CURRENT AND EXPECTATIONS READINGS</u>									
General Business Conditions	149.0	123.1	108.7	120.8	126.4	129.9	150.0	167.6	172.8
Company Finances	123.8	124.9	119.8	126.4	121.9	128.6	132.5	126.4	122.6
B. INDICES ON CURRENT BUSINESS CONDITION									
General Business Conditions	179.5	125.2	115.1	128.9	133.2	158.9	202.9	223.7	226.9
Company Finances	147.9	144.7	139.4	142.7	139.2	149.2	153.7	156.0	148.0
C. INDICES ON EXPECTED BUSINESS CONDITIONS (6 MONTHS)									
General Business Conditions	118.5	120.9	102.3	112.6	119.6	100.9	97.1	111.5	118.7
Company Finances	99.7	105.1	100.1	110.0	104.6	107.9	111.2	96.7	97.2

NOTE: Data for earlier periods is available in prior reports.

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Source: Behavior Research Center, Inc.



DETAILED ANALYSIS

Current Business Conditions Index

The *Current Business Conditions Index* rose from 125.2 last July to 179.2 today, the highest reading since January 2001. As can be seen in the table below, improved readings are robust for each of the components of the Index – In Your Industry, In Arizona and In the U.S.

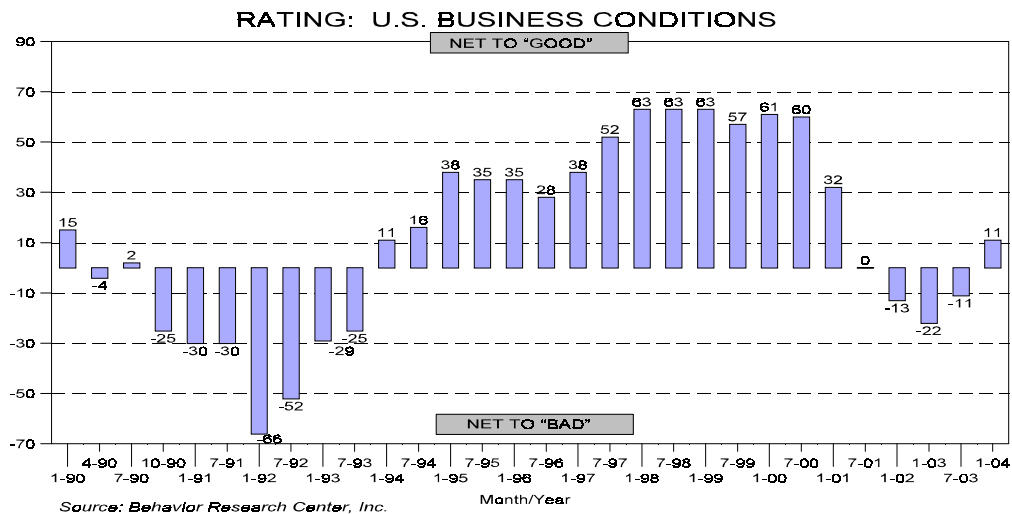
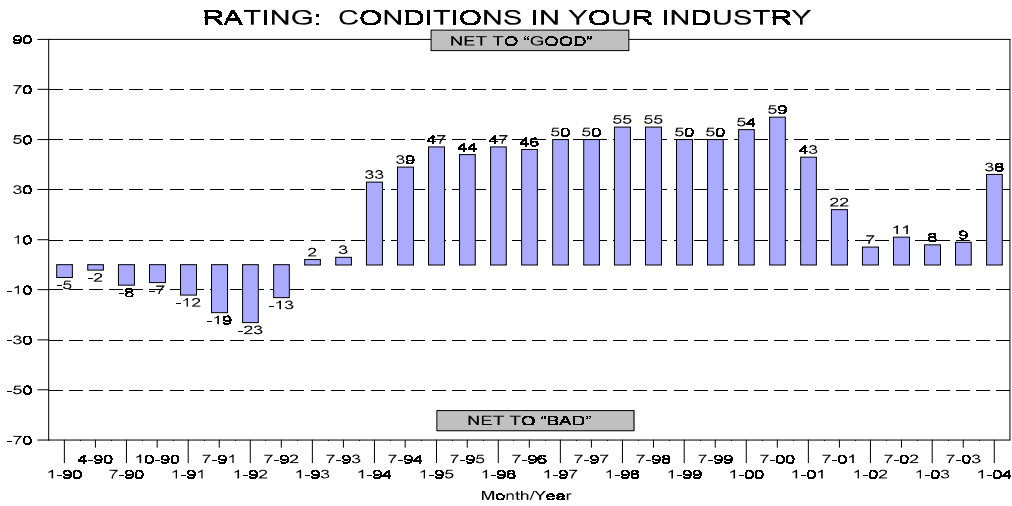
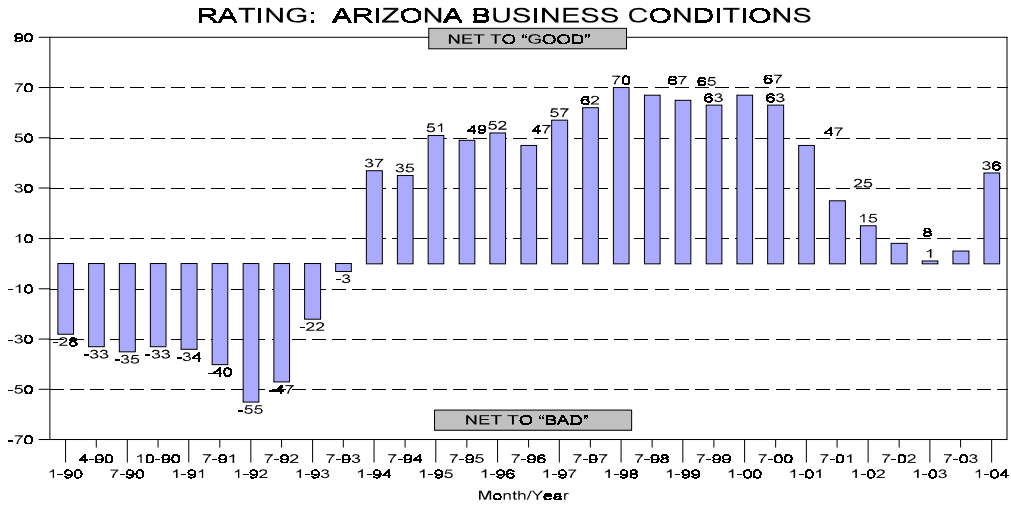
*"Thinking about the present, would you rate each of the following as good, normal or bad?"*

|                                      | <u>QUARTER</u>        |               |               |               |               |               |               |               |               |
|--------------------------------------|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                      | <b>First<br/>2004</b> | Third<br>2003 | First<br>2003 | Third<br>2002 | First<br>2002 | Third<br>2001 | First<br>2001 | Third<br>2000 | First<br>2000 |
| CURRENT BUSINESS<br>CONDITIONS INDEX | <b>179.5</b>          | 125.2         | 115.1         | 128.9         | 133.2         | 158.9         | 202.9         | 223.7         | 226.9         |
| <u>IN ARIZONA</u>                    |                       |               |               |               |               |               |               |               |               |
| Good                                 | <b>49%</b>            | 35%           | 31%           | 34%           | 37%           | 41%           | 56%           | 68%           | 70%           |
| Normal                               | <b>35</b>             | 33            | 34            | 36            | 39            | 42            | 33            | 26            | 26            |
| Bad                                  | <b>13</b>             | 30            | 30            | 26            | 22            | 16            | 9             | 5             | 3             |
| <u>IN YOUR INDUSTRY:</u>             |                       |               |               |               |               |               |               |               |               |
| Good                                 | <b>52</b>             | 38            | 37            | 40            | 39            | 44            | 56            | 67            | 62            |
| Normal                               | <b>31</b>             | 31            | 31            | 31            | 29            | 33            | 30            | 25            | 27            |
| Bad                                  | <b>16</b>             | 29            | 29            | 29            | 32            | 22            | 13            | 8             | 8             |
| <u>IN THE U.S.:</u>                  |                       |               |               |               |               |               |               |               |               |
| Good                                 | <b>31</b>             | 23            | 18            | 22            | 21            | 25            | 41            | 64            | 65            |
| Normal                               | <b>39</b>             | 34            | 31            | 37            | 38            | 45            | 46            | 26            | 27            |
| Bad                                  | <b>20</b>             | 34            | 40            | 33            | 34            | 25            | 9             | 4             | 4             |

NOTE: Data for earlier periods is available in prior reports.

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The following charts exhibit the “net” scores obtained when total negative ratings are subtracted from total positive ratings.



Source: Behavior Research Center, Inc.

Expected Business Conditions Index

The *Expected Business Conditions Index*, which rebounded strongly in the third quarter of 2003 to 120.9, has dipped slightly and now sits at 118.5. Slight declines are recorded on all three indicators comprising the Index.

"And thinking about six months from now, will each of the following be better, about the same or worse?"

	<u>QUARTER</u>								
	First 2004	Third 2003	First 2003	Third 2002	First 2002	Third 2001	First 2001	Third 2000	First 2000
EXPECTED BUSINESS CONDITIONS INDEX	118.5	120.9	102.3	112.6	119.6	100.9	97.1	111.5	118.7
<u>IN ARIZONA:</u>									
Better	49%	53%	42%	47%	51%	35%	29%	26%	34%
Same	42	38	43	43	38	51	58	67	61
Worse	5	7	13	7	7	11	10	4	3
<u>IN YOUR INDUSTRY:</u>									
Better	45	47	37	47	48	35	33	30	34
Same	49	47	49	41	45	54	56	63	57
Worse	6	4	11	10	5	10	9	6	6
<u>IN THE U.S.:</u>									
Better	47	51	42	48	57	38	28	24	29
Same	38	36	37	36	30	43	52	63	63
Worse	8	7	13	11	8	15	15	7	4

NOTE: Data for earlier periods is available in prior reports.

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Current Company Financial Conditions Index

The *Current Company Financial Conditions Index* improved by 3.2 points since last July and now sits at 147.9. The driving forces behind the increase are improved attitudes about profitability and cash flow. The Index's other two indicators, credit availability and interest rates, recorded slight downturns since the last period.

*"Thinking about the present, would you rate each of the following as good, normal or bad for your business?"*

| COMPANY FINANCIAL<br>CONDITION                         | QUARTER       |               |               |               |               |               |               |               |               |  |
|--------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
|                                                        | First<br>2004 | Third<br>2003 | First<br>2003 | Third<br>2002 | First<br>2002 | Third<br>2001 | First<br>2001 | Third<br>2000 | First<br>2000 |  |
| Current Condition Index                                | <b>147.9</b>  | 144.7         | 139.4         | 142.7         | 139.2         | 149.2         | 153.7         | 156.0         | 148.0         |  |
| <u>PROFITABILITY:</u>                                  |               |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>47%</b>    | 42%           | 43%           | 40%           | 44%           | 44%           | 51            | 59%           | 55%           |  |
| Normal                                                 | <b>35</b>     | 36            | 32            | 38            | 38            | 41            | 39            | 29            | 33            |  |
| Bad                                                    | <b>13</b>     | 18            | 20            | 18            | 15            | 12            | 7             | 9             | 8             |  |
| (NET)*                                                 | <b>(+34)</b>  | (+24)         | (+23)         | (+22)         | (+29)         | (+32)         | (+44)         | (+50)         | (+47)         |  |
| <u>CASH FLOW:</u>                                      |               |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>42</b>     | 38            | 41            | 41            | 37            | 43            | 43            | 53            | 50            |  |
| Normal                                                 | <b>39</b>     | 39            | 32            | 36            | 41            | 41            | 45            | 35            | 36            |  |
| Bad                                                    | <b>14</b>     | 18            | 22            | 18            | 19            | 14            | 8             | 8             | 11            |  |
| (NET)                                                  | <b>(+28)</b>  | (+20)         | (+19)         | (+23)         | (+18)         | (+29)         | (+35)         | (+45)         | (+39)         |  |
| <u>CREDIT AVAILABILITY TO<br/>YOUR COMPANY :</u>       |               |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>49</b>     | 51            | 52            | 52            | 50            | 55            | 49            | 61            | 51            |  |
| Normal                                                 | <b>25</b>     | 26            | 21            | 28            | 25            | 29            | 31            | 23            | 25            |  |
| Bad                                                    | <b>9</b>      | 8             | 9             | 9             | 10            | 8             | 7             | 5             | 8             |  |
| (NET)                                                  | <b>(+40)</b>  | (+43)         | (+43)         | (+43)         | (+40)         | (+47)         | (+42)         | (+56)         | (+43)         |  |
| <u>INTEREST RATES YOUR COMPANY<br/>PAYS FOR LOANS:</u> |               |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>33</b>     | 36            | 34            | 32            | 29            | 33            | 25            | 23            | 21            |  |
| Normal                                                 | <b>22</b>     | 21            | 18            | 25            | 26            | 28            | 33            | 29            | 31            |  |
| Bad                                                    | <b>7</b>      | 5             | 7             | 6             | 8             | 7             | 8             | 9             | 10            |  |
| (NET)                                                  | <b>(+26)</b>  | (+31)         | (+27)         | (+26)         | (+21)         | (+26)         | (+17)         | (+14)         | (+11)         |  |

\*NET is the difference between the "good" and the "bad" ratings within each category.  
NOTE: Data for earlier periods is available in prior reports.

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Expected Company Financial Conditions Index

Business people are less enthusiastic when assessing their future company conditions as regards profitability, cash flow, credit availability and interest rates on loans than was the case last period. Thus, we find the *Expected Conditions Index* dipping to 99.7 from 105.1 last July.

"Thinking about six months from now, will each of the following be better, about the same or worse for your business?"

<u>EXPECTED COMPANY FINANCIAL CONDITION</u>	<u>Q U A R T E R</u>									
	<u>First 2004</u>	Third 2003	First 2003	Third 2002	First 2002	Third 2001	First 2001	Third 2000	First 2000	
Expected Condition Index	99.7	105.1	100.1	110.0	104.6	107.9	111.2	96.7	97.2	
<u>PROFITABILITY:</u>										
Better	60%	63%	55%	57%	59%	56%	49%	50%	54%	
Same	33	31	38	36	35	37	43	43	39	
Worse	4	4	5	3	3	3	6	3	4	
(NET)*	(+56)	(+59)	(+50)	(+54)	(+56)	(+53)	(+43)	(+47)	(+50)	
<u>CASH FLOW:</u>										
Better	52	56	50	56	55	50	49	50	53	
Same	39	36	41	34	38	42	44	43	42	
Worse	4	4	6	6	4	5	4	4	2	
(NET)	(+48)	(+52)	(+44)	(+50)	(+51)	(+45)	(+45)	(+46)	(+51)	
<u>CREDIT AVAILABILITY TO YOUR COMPANY:</u>										
Better	23	26	22	27	25	23	24	19	23	
Same	54	59	59	59	55	64	61	66	63	
Worse	6	5	7	4	6	7	5	5	4	
(NET)	(+17)	(+21)	(+15)	(+23)	(+19)	(+16)	(+19)	(+14)	(+19)	
<u>INTEREST RATES YOUR COMPANY PAYS FOR LOANS:</u>										
Better	12	15	12	18	17	22	30	11	11	
Same	44	43	46	42	42	47	42	43	42	
Worse	14	13	9	9	13	10	10	18	22	
(NET)	(- 2)	(+ 2)	(+ 3)	(+ 9)	(+ 4)	(+12)	(+20)	(- 7)	(-11)	

NOTE: Data for earlier periods is available in prior reports.

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Perceptions On Area Labor Pool

Belief that the availability of quality personnel for hire is improving remains basically unchanged since first quarter of 2002 – with 36 percent saying such availability is “good.” Further, attitudes about future availability are little changed over the past several years.

AVAILABILITY OF  
QUALIFIED PERSONNEL TO HIRE

CURRENT

| QUARTER      |             | GOOD       | NORMAL     | BAD        | (NET)         |
|--------------|-------------|------------|------------|------------|---------------|
| <b>First</b> | <b>2004</b> | <b>36%</b> | <b>34%</b> | <b>26%</b> | <b>(+ 10)</b> |
| Third        | 2003        | 36         | 34         | 26         | (+ 10)        |
| First        | 2003        | 36         | 35         | 26         | (+ 10)        |
| Third        | 2002        | 37         | 34         | 27         | (+ 10)        |
| First        | 2002        | 37         | 34         | 27         | (+ 10)        |
| Third        | 2001        | 27         | 35         | 36         | (- 9)         |
| First        | 2001        | 23         | 34         | 40         | (- 17)        |
| Third        | 2000        | 23         | 28         | 45         | (- 22)        |
| First        | 2000        | 23         | 29         | 44         | (- 21)        |

Note: Data for earlier periods is available in prior reports.

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SIX MONTHS HENCE:

		BETTER	SAME	WORSE	(NET)
First	2004	22%	65%	9%	(+ 13)
Third	2003	23	66	9	(+ 14)
First	2003	22	66	9	(+ 13)
Third	2002	24	61	11	(+ 13)
First	2002	25	63	9	(+ 16)
Third	2001	19	66	12	(+ 7)
First	2001	21	62	14	(+ 7)
Third	2000	23	61	14	(+ 9)
First	2000	18	65	13	(+ 5)

Note: Data for earlier periods is available in prior reports.

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Perceptions of Company Health

Fifty-eight percent of executives report that their company is healthy and growing, the highest such reading since January 2001.

*“In the case of your company, which of the following phrases best describes your company? Was your company...”*

|              |             | HEALTHY<br>AND<br>GROWING | HEALTHY,<br>BUT NO<br>GROWTH | STRUGGLING,<br>BUT OKAY | STRUGGLING<br>AND FACING<br>POSSIBLE<br>FAILURE | (NET<br>GROWING TO<br>STRUGGLING) |
|--------------|-------------|---------------------------|------------------------------|-------------------------|-------------------------------------------------|-----------------------------------|
| <b>First</b> | <b>2004</b> | <b>58%</b>                | <b>19%</b>                   | <b>21%</b>              | <b>1%</b>                                       | <b>(+36)</b>                      |
| Third        | 2003        | 52                        | 20                           | 24                      | 3                                               | (+23)                             |
| First        | 2003        | 49                        | 22                           | 26                      | 3                                               | (+20)                             |
| Third        | 2002        | 49                        | 25                           | 25                      | 1                                               | (+23)                             |
| First        | 2002        | 48                        | 26                           | 24                      | 2                                               | (+22)                             |
| Third        | 2001        | 56                        | 25                           | 17                      | 2                                               | (+37)                             |
| First        | 2001        | 60                        | 20                           | 19                      | 1                                               | (+40)                             |
| Third        | 2000        | 65                        | 21                           | 13                      | 1                                               | (+51)                             |
| First        | 2000        | 64                        | 16                           | 18                      | 2                                               | (+44)                             |

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