



behavior research center's

Rocky Mountain Poll

NEWS RELEASE
RMP 2004-III-09

Contact: Jim Haynes
President

BUSINESS CONFIDENCE SLIPS SLIGHTLY – REMAINS STRONG COMPARED TO PAST TWO YEARS

Phoenix, Arizona, August 4, 2004. Confidence in the economy among Phoenix area business owners and managers slipped slightly from last January, but remains strong compared to the past two years. The overall Business Conditions Index now stands at 146.3, down 2.7 points from January, but still higher than any other reading since January, 2001.

Both the current and expected conditions components of the index have slipped, with the *Current Business Conditions Index* dipping 2.2 points since January and the *Expected Business Conditions Index* dipping 3.3 points.

Perhaps the most disturbing finding from the study is that the *Expected Company Finances Index* tumbled to 92.1, down from 99.7 in January, and is at its lowest point since the 1990s. This sense of foreboding may be driven by pessimism over the expected interest rates they will pay for loans during the next six months, with 27 percent expecting higher interest rates, double the 14 percent found in January. Despite this, 57 percent describe their company as “healthy and growing,” virtually unchanged from January and higher than any other time since January, 2001.

The 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 July 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.

-30-

EDITOR'S NOTE: This Rocky Mountain Poll Arizona (2004-III-09) is based on 400 telephone interviews conducted from July 12, 2004 to July 23, 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.

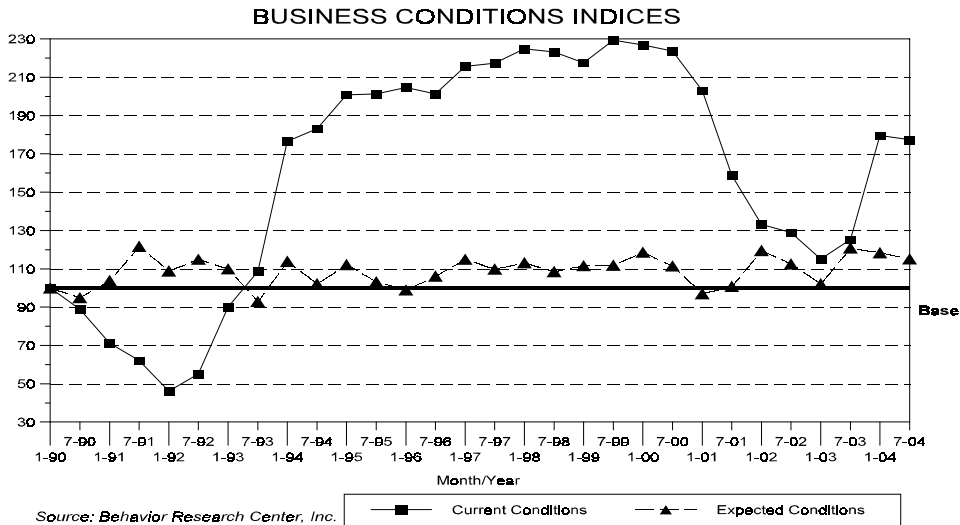
NOTE: January 1990, data constitute the base of 100.0 for the BusinessTRACK™ Arizona indices.

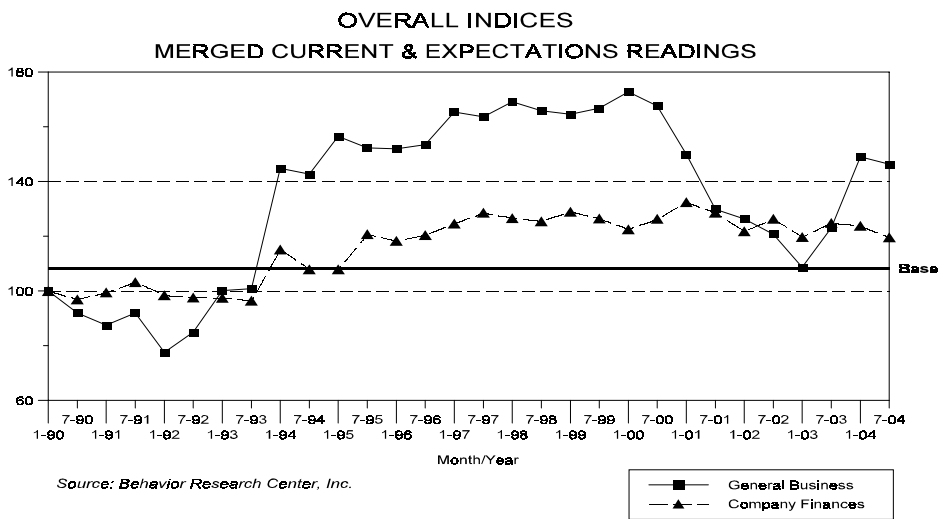
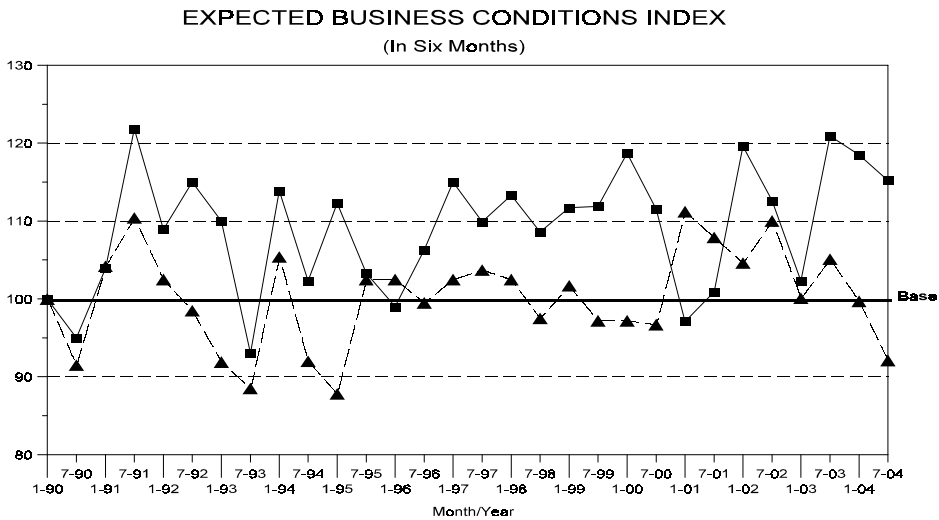
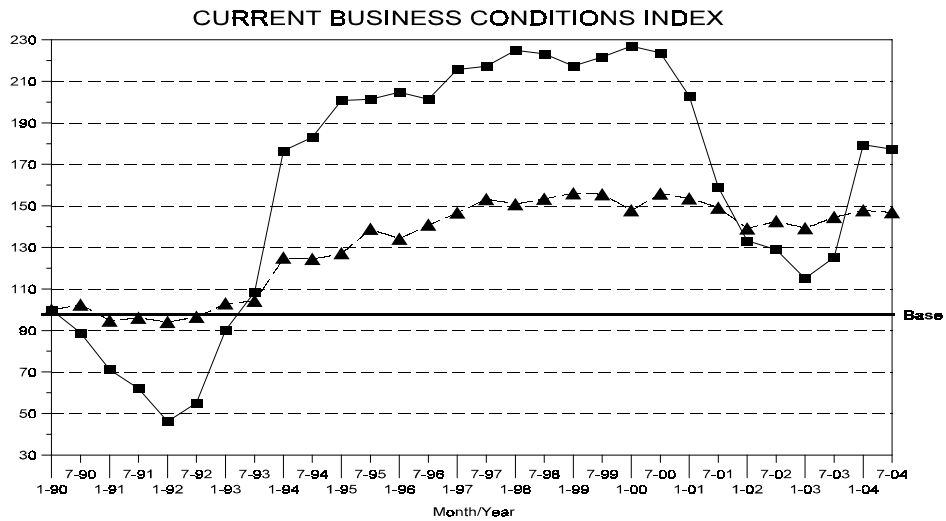
QUARTER

	Third 2004	First 2004	Third 2003	First 2003	Third 2002	First 2002	Third 2001	First 2001	Third 2000
A. OVERALL INDICES									
<u>MERGING CURRENT AND EXPECTATIONS READINGS</u>									
General Business Conditions	146.3	149.0	123.1	108.7	120.8	126.4	129.9	150.0	167.6
Company Finances	119.6	123.8	124.9	119.8	126.4	121.9	128.6	132.5	126.4
B. INDICES ON CURRENT BUSINESS CONDITION									
General Business Conditions	177.3	179.5	125.2	115.1	128.9	133.2	158.9	202.9	223.7
Company Finances	147.0	147.9	144.7	139.4	142.7	139.2	149.2	153.7	156.0
C. INDICES ON EXPECTED BUSINESS CONDITIONS (6 MONTHS)									
General Business Conditions	115.2	118.5	120.9	102.3	112.6	119.6	100.9	97.1	111.5
Company Finances	92.1	99.7	105.1	100.1	110.0	104.6	107.9	111.2	96.7

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* dropped from 179.5 last January to 177.3 today. As can be seen in the table below, declining readings are recorded for two of the components of the Index – In Your Industry, and In Arizona, while an improved reading is recorded for In the U.S.

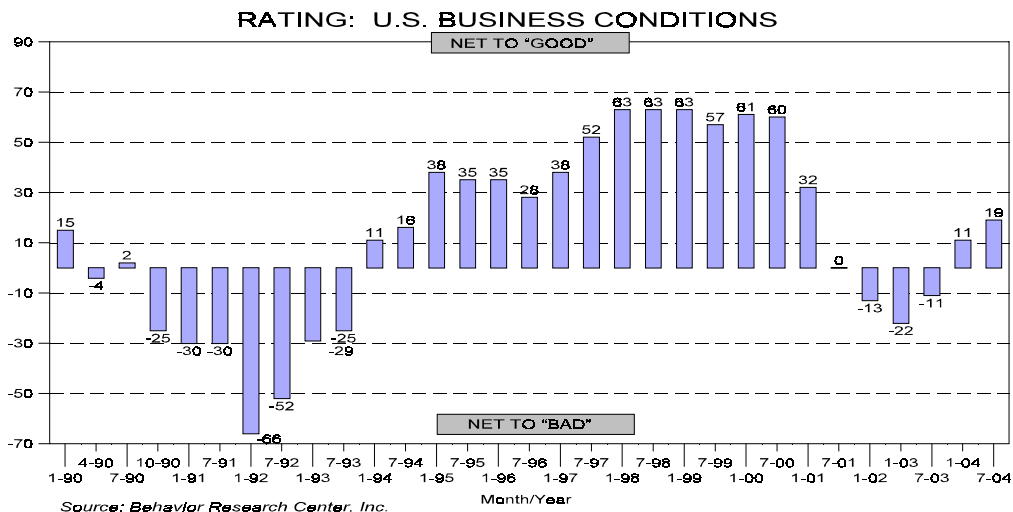
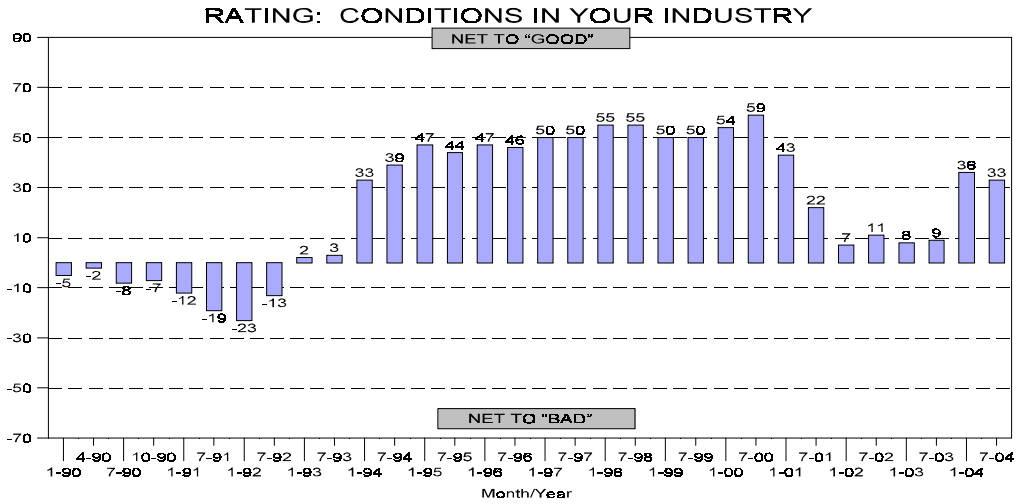
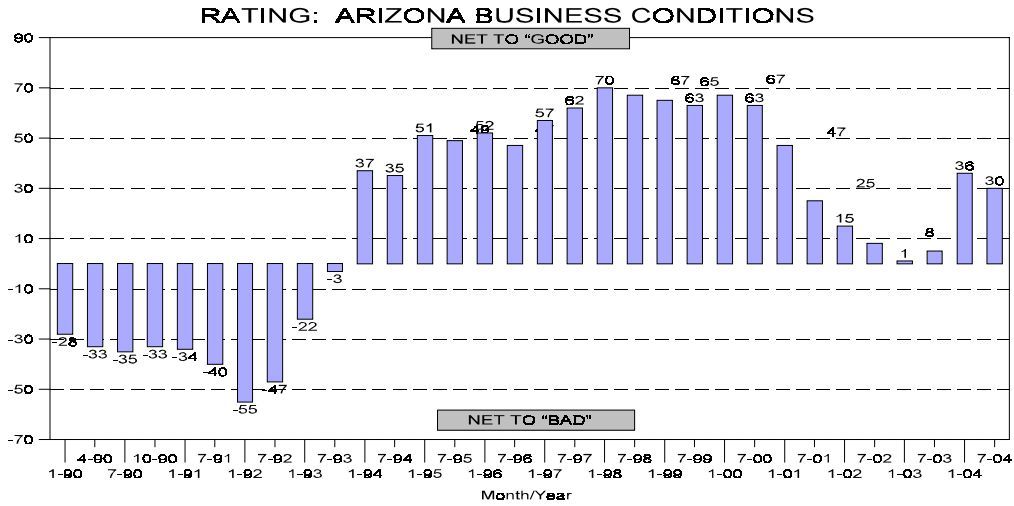
*"Thinking about the present, would you rate each of the following as good, normal or bad?"*

|                                      | <u>QUARTER</u>        |               |               |               |               |               |               |               |               |
|--------------------------------------|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                      | <b>Third<br/>2004</b> | First<br>2004 | Third<br>2003 | First<br>2003 | Third<br>2002 | First<br>2002 | Third<br>2001 | First<br>2001 | Third<br>2000 |
| CURRENT BUSINESS<br>CONDITIONS INDEX | <b>177.3</b>          | 179.5         | 125.2         | 115.1         | 128.9         | 133.2         | 158.9         | 202.9         | 223.7         |
| <u>IN ARIZONA</u>                    |                       |               |               |               |               |               |               |               |               |
| Good                                 | <b>45%</b>            | 49%           | 35%           | 31%           | 34%           | 37%           | 41%           | 56%           | 68%           |
| Normal                               | <b>38</b>             | 35            | 33            | 34            | 36            | 39            | 42            | 33            | 26            |
| Bad                                  | <b>15</b>             | 13            | 30            | 30            | 26            | 22            | 16            | 9             | 5             |
| <u>IN YOUR INDUSTRY:</u>             |                       |               |               |               |               |               |               |               |               |
| Good                                 | <b>50</b>             | 52            | 38            | 37            | 40            | 39            | 44            | 56            | 67            |
| Normal                               | <b>31</b>             | 31            | 31            | 31            | 31            | 29            | 33            | 30            | 25            |
| Bad                                  | <b>17</b>             | 16            | 29            | 29            | 29            | 32            | 22            | 13            | 8             |
| <u>IN THE U.S.:</u>                  |                       |               |               |               |               |               |               |               |               |
| Good                                 | <b>36</b>             | 31            | 23            | 18            | 22            | 21            | 25            | 41            | 64            |
| Normal                               | <b>38</b>             | 39            | 34            | 31            | 37            | 38            | 45            | 46            | 26            |
| Bad                                  | <b>17</b>             | 20            | 34            | 40            | 33            | 34            | 25            | 9             | 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 again and now sits at 115.2. 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>								
	Third 2004	First 2004	Third 2003	First 2003	Third 2002	First 2002	Third 2001	First 2001	Third 2000
EXPECTED BUSINESS CONDITIONS INDEX	115.2	118.5	120.9	102.3	112.6	119.6	100.9	97.1	111.5
<u>IN ARIZONA:</u>									
Better	44%	49%	53%	42%	47%	51%	35%	29%	26%
Same	46	42	38	43	43	38	51	58	67
Worse	7	5	7	13	7	7	11	10	4
<u>IN YOUR INDUSTRY:</u>									
Better	40	45	47	37	47	48	35	33	30
Same	53	49	47	49	41	45	54	56	63
Worse	5	6	4	11	10	5	10	9	6
<u>IN THE U.S.:</u>									
Better	41	47	51	42	48	57	38	28	24
Same	42	38	36	37	36	30	43	52	63
Worse	9	8	7	13	11	8	15	15	7

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* declined by 0.9 points since last January and now sits at 147.0. The driving forces behind the slight decrease are declining attitudes about profitability and cash flow. The Index's other two indicators, credit availability and interest rates, recorded increases since the last period.

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

| <u>COMPANY FINANCIAL<br/>CONDITION</u>                 | <u>QUARTER</u>        |               |               |               |               |               |               |               |               |  |
|--------------------------------------------------------|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
|                                                        | <b>Third<br/>2004</b> | First<br>2004 | Third<br>2003 | First<br>2003 | Third<br>2002 | First<br>2002 | Third<br>2001 | First<br>2001 | Third<br>2000 |  |
| Current Condition Index                                | <b>147.0</b>          | 147.9         | 144.7         | 139.4         | 142.7         | 139.2         | 149.2         | 153.7         | 156.0         |  |
| <u>PROFITABILITY:</u>                                  |                       |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>48%</b>            | 47%           | 42%           | 43%           | 40%           | 44%           | 44%           | 51            | 59%           |  |
| Normal                                                 | <b>33</b>             | 35            | 36            | 32            | 38            | 38            | 41            | 39            | 29            |  |
| Bad                                                    | <b>15</b>             | 13            | 18            | 20            | 18            | 15            | 12            | 7             | 9             |  |
| (NET)*                                                 | <b>(+33)</b>          | (+34)         | (+24)         | (+23)         | (+22)         | (+29)         | (+32)         | (+44)         | (+50)         |  |
| <u>CASH FLOW:</u>                                      |                       |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>42</b>             | 42            | 38            | 41            | 41            | 37            | 43            | 43            | 53            |  |
| Normal                                                 | <b>37</b>             | 39            | 39            | 32            | 36            | 41            | 41            | 45            | 35            |  |
| Bad                                                    | <b>18</b>             | 14            | 18            | 22            | 18            | 19            | 14            | 8             | 8             |  |
| (NET)                                                  | <b>(+33)</b>          | (+28)         | (+20)         | (+19)         | (+23)         | (+18)         | (+29)         | (+35)         | (+45)         |  |
| <u>CREDIT AVAILABILITY TO<br/>YOUR COMPANY :</u>       |                       |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>55</b>             | 49            | 51            | 52            | 52            | 50            | 55            | 49            | 61            |  |
| Normal                                                 | <b>24</b>             | 25            | 26            | 21            | 28            | 25            | 29            | 31            | 23            |  |
| Bad                                                    | <b>8</b>              | 9             | 8             | 9             | 9             | 10            | 8             | 7             | 5             |  |
| (NET)                                                  | <b>(+47)</b>          | (+40)         | (+43)         | (+43)         | (+43)         | (+40)         | (+47)         | (+42)         | (+56)         |  |
| <u>INTEREST RATES YOUR COMPANY<br/>PAYS FOR LOANS:</u> |                       |               |               |               |               |               |               |               |               |  |
| Good                                                   | <b>35</b>             | 33            | 36            | 34            | 32            | 29            | 33            | 25            | 23            |  |
| Normal                                                 | <b>24</b>             | 22            | 21            | 18            | 25            | 26            | 28            | 33            | 29            |  |
| Bad                                                    | <b>6</b>              | 7             | 5             | 7             | 6             | 8             | 7             | 8             | 9             |  |
| (NET)                                                  | <b>(+29)</b>          | (+26)         | (+31)         | (+27)         | (+26)         | (+21)         | (+26)         | (+17)         | (+14)         |  |

\*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, and interest rates on loans than was the case last period. Thus, we find the *Expected Conditions Index* dipping to 92.1 from 99.71 last January.

"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>								
	Third 2004	First 2004	Third 2003	First 2003	Third 2002	First 2002	Third 2001	First 2001	Third 2000
Expected Condition Index	92.1	99.7	105.1	100.1	110.0	104.6	107.9	111.2	96.7
<u>PROFITABILITY:</u>									
Better	57	60%	63%	55%	57%	59%	56%	49%	50%
Same	35	33	31	38	36	35	37	43	43
Worse	4	4	4	5	3	3	3	6	3
(NET)*	(+53)	(+56)	(+59)	(+50)	(+54)	(+56)	(+53)	(+43)	(+47)
<u>CASH FLOW:</u>									
Better	50	52	56	50	56	55	50	49	50
Same	39	39	36	41	34	38	42	44	43
Worse	6	4	4	6	6	4	5	4	4
(NET)	(+44)	(+48)	(+52)	(+44)	(+50)	(+51)	(+45)	(+45)	(+46)
<u>CREDIT AVAILABILITY TO YOUR COMPANY:</u>									
Better	23	23	26	22	27	25	23	24	19
Same	56	54	59	59	59	55	64	61	66
Worse	6	6	5	7	4	6	7	5	5
(NET)	(+17)	(+17)	(+21)	(+15)	(+23)	(+19)	(+16)	(+19)	(+14)
<u>INTEREST RATES YOUR COMPANY PAYS FOR LOANS:</u>									
Better	12	12	15	12	18	17	22	30	11
Same	34	44	43	46	42	42	47	42	43
Worse	27	14	13	9	9	13	10	10	18
(NET)	(-15)	(- 2)	(+ 2)	(+ 3)	(+ 9)	(+ 4)	(+12)	(+20)	(- 7)

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 declined since the first quarter – with 32 percent saying such availability is “good.” Further, attitudes about future availability are also down from last period.

AVAILABILITY OF  
QUALIFIED PERSONNEL TO HIRE

CURRENT

| QUARTER           | GOOD       | NORMAL     | BAD        | (NET)        |
|-------------------|------------|------------|------------|--------------|
| <b>Third 2004</b> | <b>32%</b> | <b>39%</b> | <b>29%</b> | <b>(+ 3)</b> |
| First 2004        | 36         | 34         | 26         | (+ 10)       |
| 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)       |

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

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SIX MONTHS HENCE:

	BETTER	SAME	WORSE	(NET)
Third 2004	18%	68%	11%	(+ 7)
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)

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

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Perceptions of Company Health

Fifty-seven percent of executives report that their company is healthy and growing, virtually unchanged since January.

*“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>Third</b> | <b>2004</b> | <b>57%</b>                | <b>20%</b>                   | <b>20%</b>              | <b>3%</b>                                       | <b>(+34)</b>                      |
| First        | 2004        | 58                        | 19                           | 21                      | 1                                               | (+36)                             |
| 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)                             |

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