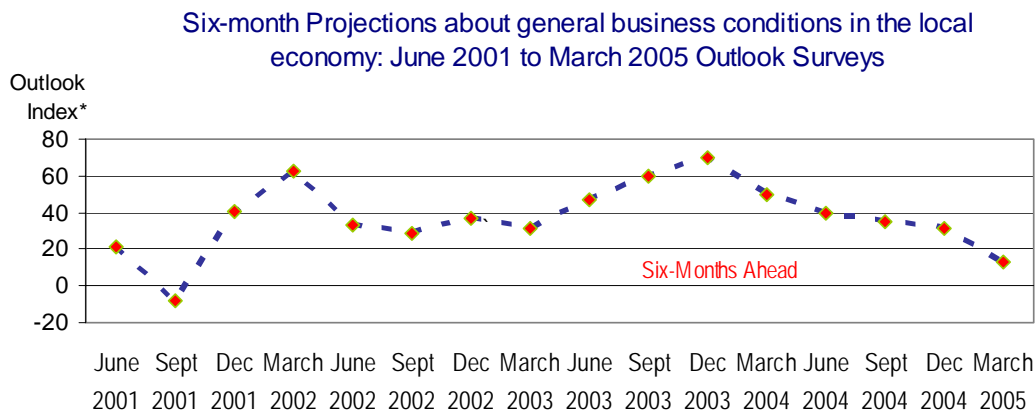


## Business Conditions and Outlook Survey March 2005

### Firms Lower Expectations about Business Conditions in the Local Economy for the second and third quarters of 2005



### Business Outlook for Local Economic Activity

The Business Outlook Index derived from the March 2005 survey dropped from 31 to 13 between the December 2004 and March 2005 surveys. The most recent survey found that 27 percent of reporting firms felt that future business conditions are likely to improve while 14 percent indicated that conditions are likely to get worse. In comparison, the December 2004 survey found that 39 percent of the reporting firms anticipated improved business conditions while 8 percent expected worsening conditions.

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(The Business Conditions and Outlook Survey is a quarterly survey of businesses in the Evansville, Indiana area. Participants indicate the direction of change in overall business activity and in various measures of activity including: employment, employee compensation, Internet activity, capital expenditures, borrowing, and pricing decisions. The first survey was conducted in June 2001 and is a useful source of information for tracking conditions and future prospects in the Evansville economy. See additional information: <http://business.usi.edu/survey/>)

## Results from the survey indicate:

- An increase in the proportion of firms indicating that business conditions in the local economy are likely to remain unchanged from 51 percent to 57 percent between the December 2004 and March 2005 surveys. Respondents also indicated that the most pressing problems they face are: health care expenses for employees, competition from other businesses, higher energy cost, quality of labor, and uncertainty about future economic performance.
- With regard to their own levels of activity, the most recent survey found that 42 percent of reporting firms expect to expand their activity compared to 45 percent in December 2004. Among the reporting firms, 46 percent expect to maintain their current levels of activity. For those firms that expect to expand their level of activity, 37 percent anticipate improved business conditions in the local economy.
- Among the firms that feel business conditions will get better over the next six months, 59 percent plan to expand their own level of activity over the next two quarters. The percent of firms planning to hire more employees in the future dropped from 46 percent to 39 percent between the December 2004 and March 2005 surveys. The most recent survey indicated 52 percent of the reporting firms expect to maintain their current staff levels over the next six months.
- Plans related to capital expenditures for the next six months changed in a downward direction in the most recent survey compared to the December 2004 survey. The percent of firms planning to increase capital expenditures was 25 percent in the March 2005 survey compared to 31 percent in the December 2004 survey. Among the firms planning to increase capital expenditures, 33 percent expect that conditions for obtaining financing will be easier or about the same in the next six months. Between the two surveys there was a slight increase in the percent of firms planning to reduce capital expenditures from 9 percent to 11 percent.
- The percent of firms planning to raise average selling prices decreased from 46 percent in the December 2004 survey to 40 percent in the March 2005 survey. Meanwhile, there was an increase in the percentage of firms reporting that their employees received more compensation in the preceding six months from 51 percent to 54 percent between the December 2004 and March 2005 surveys.
- The proportion of reporting firms anticipating easier access to financing rose slightly from 7 percent in December 2004 to 8 percent in March 2005. At the same time there was a noticeable decline in the proportion of firms unsure about prospects for obtaining funding from 22 percent to 10 percent between the December 2004 and March 2005 surveys.

**Summary of Returns  
December 2004**

<b>Questions</b>	<b>Response</b>			
	<b>Improve/ Increase</b>	<b>Same</b>	<b>Worse/ Decrease</b>	<b>Unsure</b>
	<i>(Percentage of Total Responses)</i>			
Business conditions in local economy in next six months	27	57	14	2
Level of activity of your firm in next six months	42	46	8	4
Capital expenditures of your firm in next six months	25	58	11	6
Employment by your firm in next six months	39	52	7	2
Average selling price of your firm in next six months	40	50	10	0
Access to financing by your firm in next six months	8	58	24	10
Employee compensation by your firm in last six months	54	45	1	0
Sales in last six months compared to previous six months	57	17	25	1

**Survey Responses  
Disaggregated by Sector/Activity**

<b>Questions by Industry</b>	<b>Response</b>			
	<b>Improve/ Increase</b>	<b>Same</b>	<b>Worse/ Decrease</b>	<b>Unsure</b>
<b>Manufacturing</b>	<i>(Percentage of Total Responses)</i>			
Business conditions in local economy in next six months	31	38	25	6
Level of activity of your firm in next six months	44	31	19	6
<b>Construction</b>	<i>(Percentage of Total Responses)</i>			
Business conditions in local economy in next six months	33	44	23	0
Level of activity of your firm in next six months	11	89	0	0

<b>Real Estate</b>				
Business conditions in local economy in next six months	33	67	0	0
Level of activity of your firm in next six months	50	33	17	0
<b>Retail &amp; Wholesale Trade</b>				
Business conditions in local economy in next six months	12	58	24	6
Level of activity of your firm in next six months	29	47	18	6
<b>Professional &amp; Scientific Services</b>				
Business conditions in local economy in next six months	33	67	0	0
Level of activity of your firm in next six months	67	33	0	0
<b>Health Care &amp; Social Services</b>				
Business conditions in local economy in next six months	0	80	20	0
Level of activity of your firm in next six months	60	40	0	0
<b>Other Services</b>				
Business conditions in local economy in next six months	43	57	0	0
Level of activity of your firm in next six months	14	72	0	14
<b>Communications and Information</b>				
Business conditions in local economy in next six months	0	67	33	0
Level of activity of your firm in next six months	33	67	0	0
<b>Finance and Insurance</b>				
Business conditions in local economy in next six months	33	67	0	0
Level of activity of your firm in next six months	50	50	0	0

## Summary:

After reaching a peak at the end of 2003, there has been a persistent downward trend in business sentiment about conditions in the local economy. Within the past two quarters, the downward trend in business sentiment has been linked to several issues firms have consistently identified as important challenges they face. These include health care expenses for employees, quality of labor, competition from other businesses, and availability of employees. Consistently, over the past year, firms are more optimistic about their own prospects compared to what they think will be happening to the overall economy. The most recent survey found that 27 percent of reporting firms felt that future business conditions are likely to improve while 42 percent expect an expansion in the level of activity during the next six months.

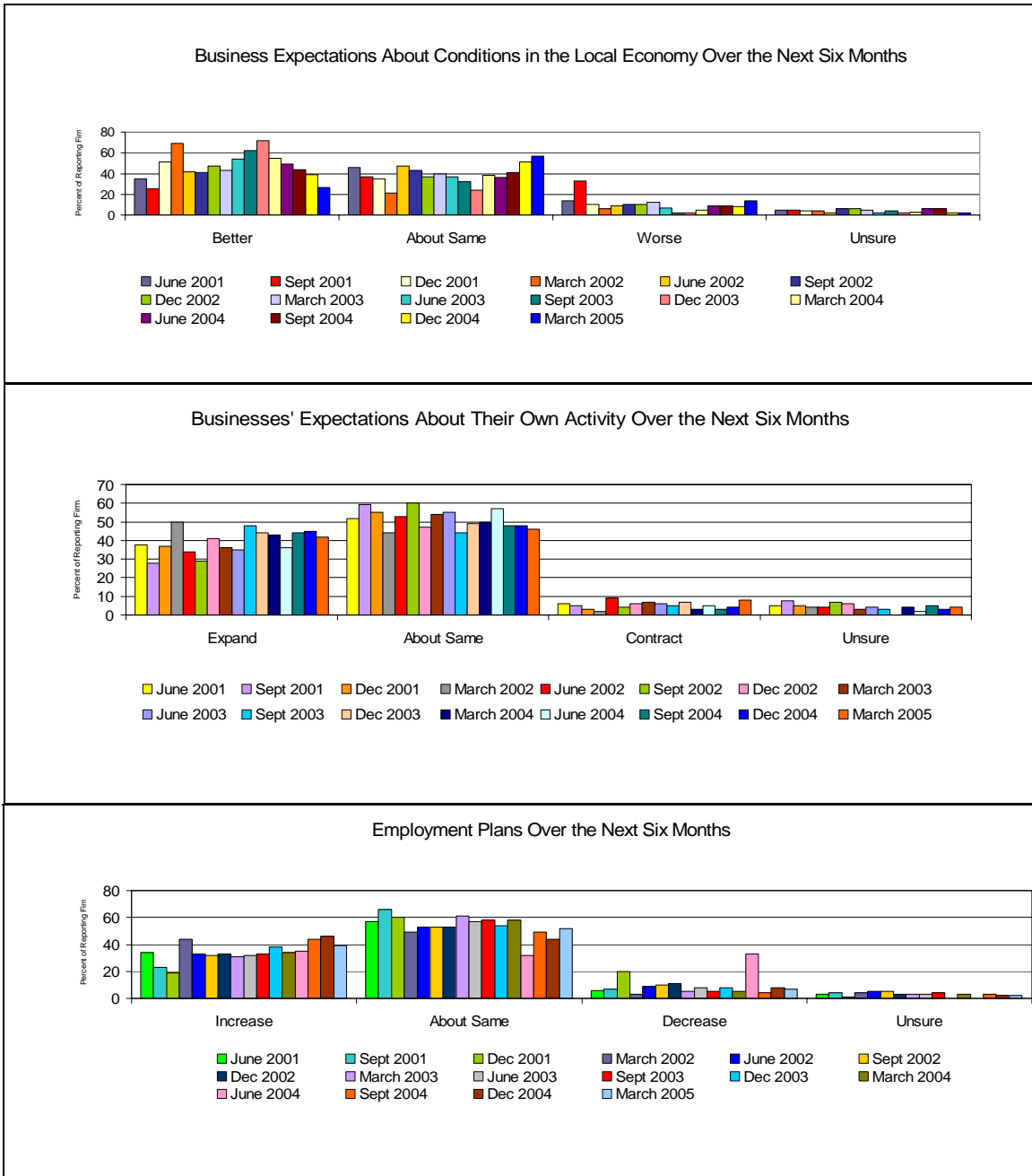
## Links:

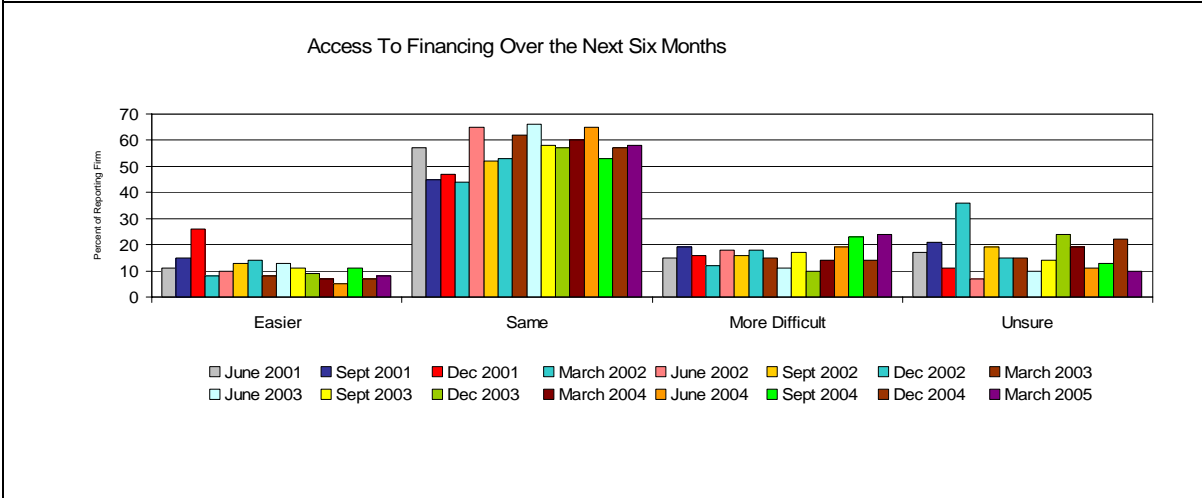
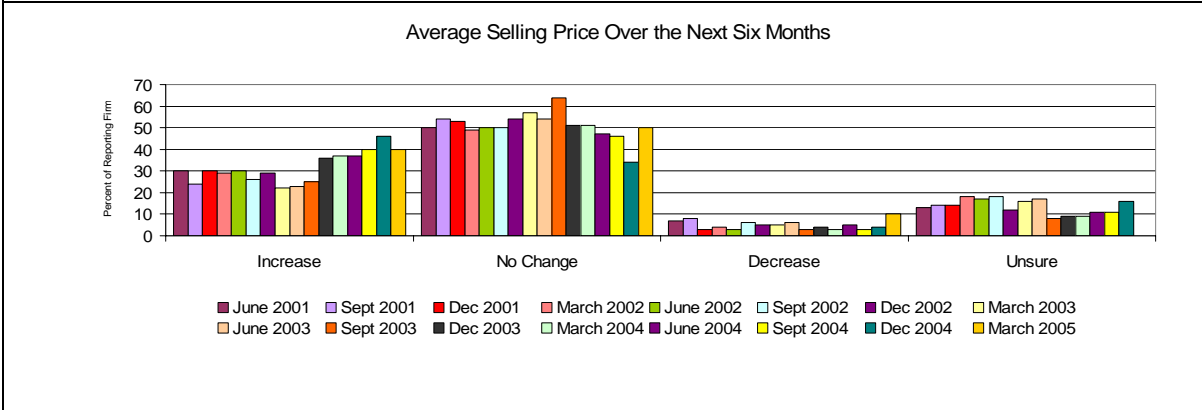
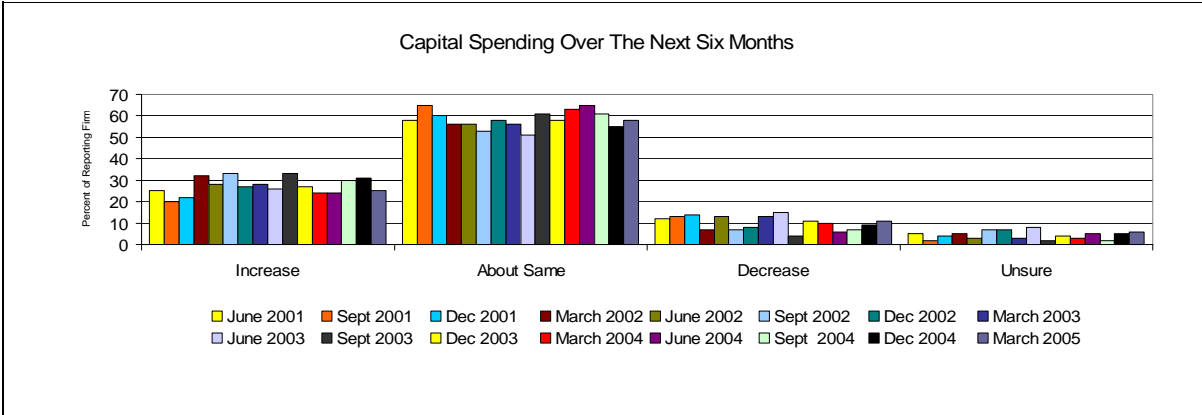
- [Graphs Comparing March 2005 with Previous Quarters](#)
- [Diffusion Index of Firm-Level Economic Activity by Sector](#)

## Further Information:

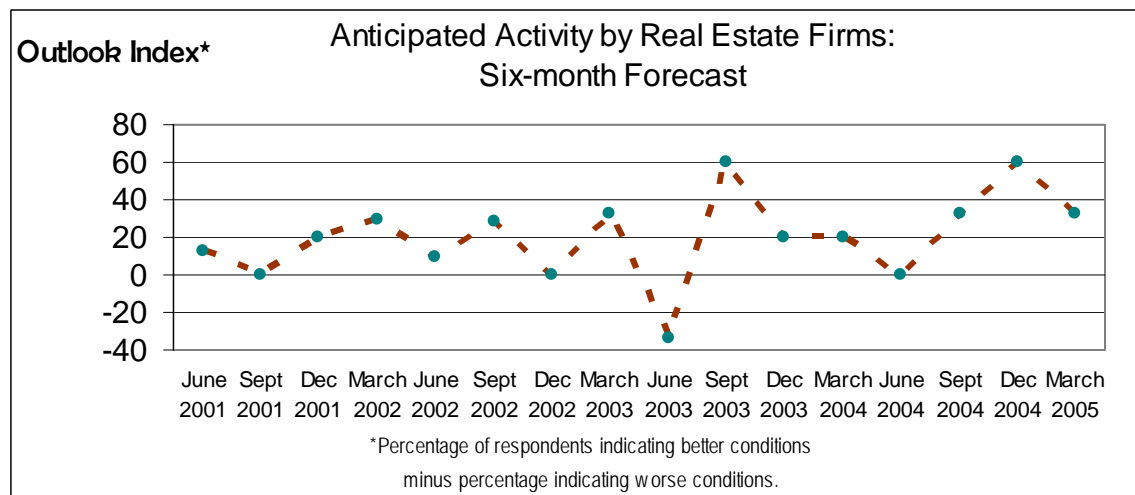
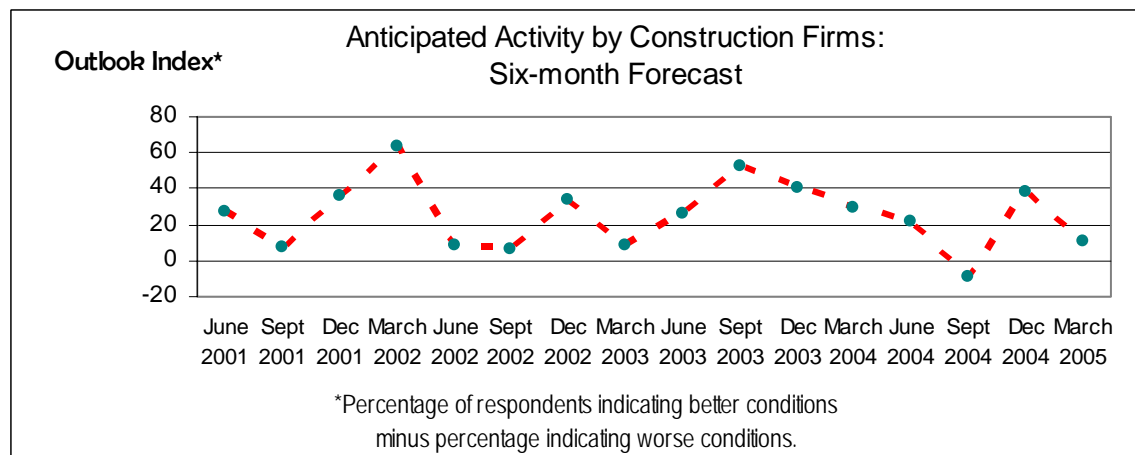
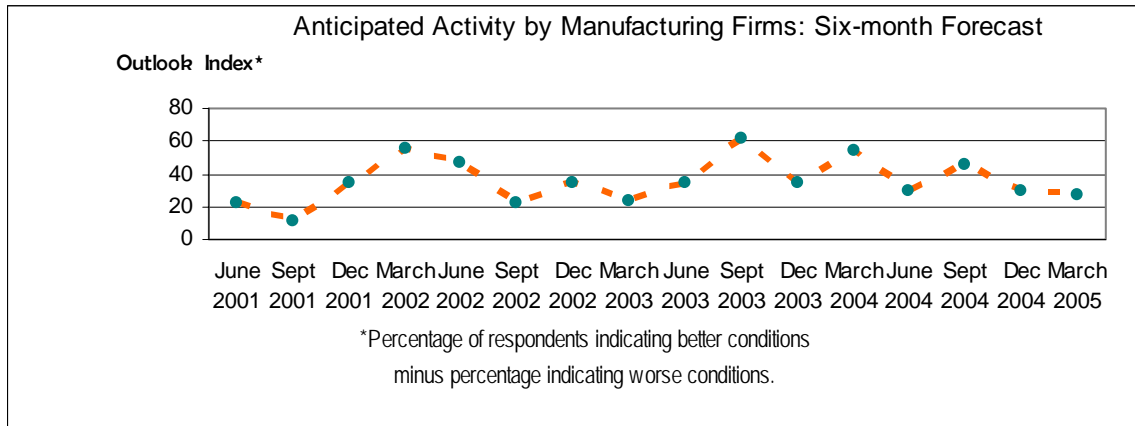
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## Comparison of March 2005 to Previous Quarters



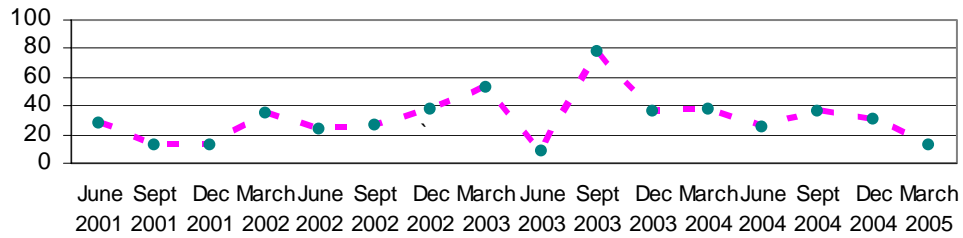


## Diffusion Index of Firm-Level Economic Activity by Sector



### Anticipated Activity by Firms in Retail and Wholesale Trade: Six-month Forecast

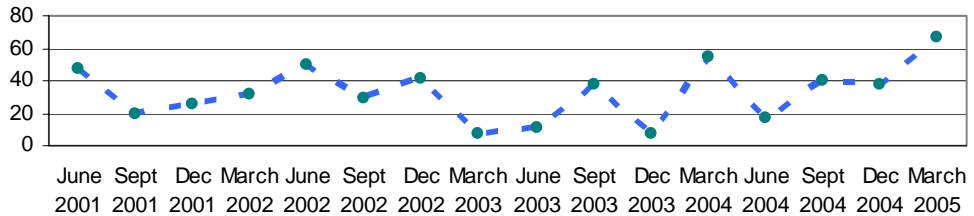
Outlook Index\*



\*Percentage of respondents indicating better conditions minus percentage indicating worse conditions.

### Anticipated Activity by Professional And Scientific Services Firms: Six-month Forecast

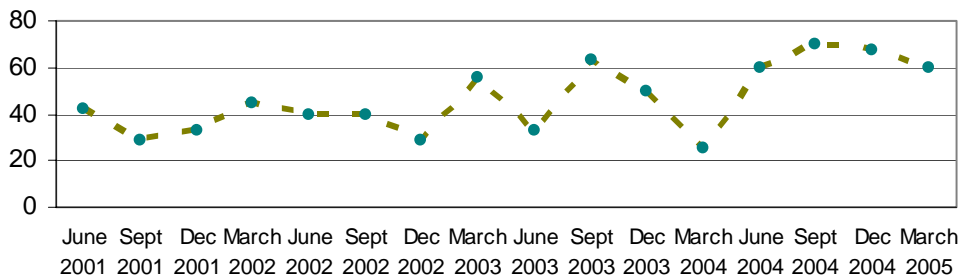
Outlook Index\*



\*Percentage of respondents indicating better conditions minus percentage indicating worse conditions.

### Anticipated Activity by Health Care Firms: Six-month Forecast

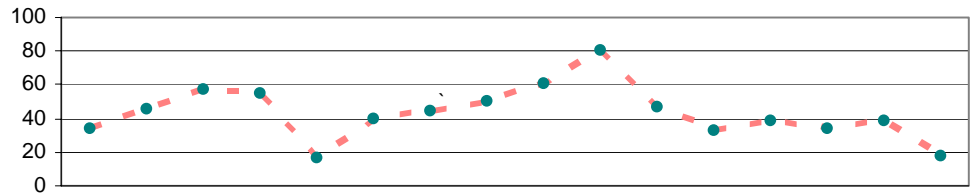
Outlook Index\*



\*Percentage of respondents indicating better conditions minus percentage indicating worse conditions.

### Anticipated Activity by Personal Services Firms: Six-month Forecast

Outlook Index\*

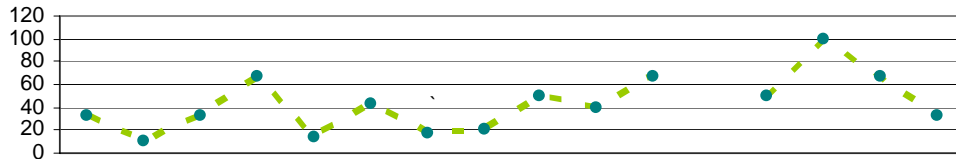


June Sept Dec March June Sept Dec March June Sept Dec March June Sept Dec March  
2001 2001 2001 2002 2002 2002 2002 2003 2003 2003 2003 2004 2004 2004 2004 2005

\*Percentage of respondents indicating better conditions minus percentage indicating worse conditions.

### Anticipated Activity by Communications and Information Firms: Six-month Forecast

Outlook Index\*

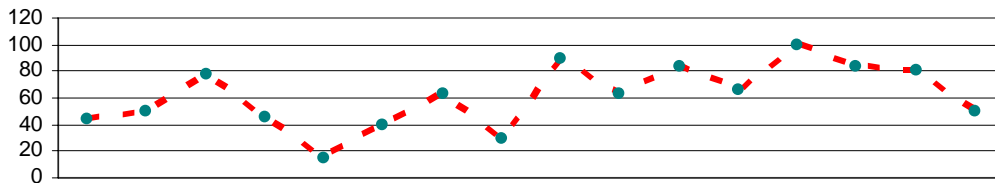


June Sept Dec March June Sept Dec March June Sept Dec March June Sept Dec March  
2001 2001 2001 2002 2002 2002 2002 2003 2003 2003 2003 2004 2004 2004 2004 2005

\*Percentage of respondents indicating better conditions minus percentage indicating worse conditions.

### Anticipated Activity by Finance and Insurance Firms: Six-month Forecast

Outlook Index\*



June Sept Dec March June Sept Dec March June Sept Dec March June Sept Dec March  
2001 2001 2001 2002 2002 2002 2002 2003 2003 2003 2003 2004 2004 2004 2004 2005

\*Percentage of respondents indicating better conditions minus percentage indicating worse conditions.