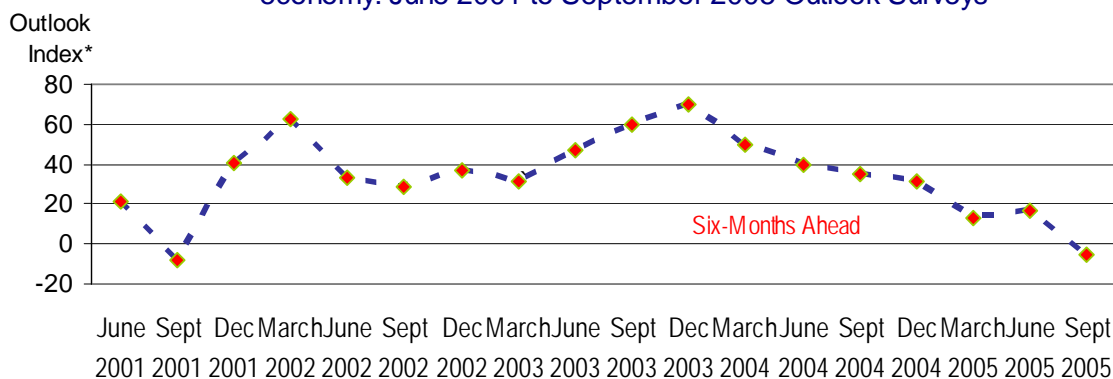


Business Conditions and Outlook Survey September 2005

Firms Pessimistic about Substantial Improvement in Business Conditions within the Local Economy during the next six months

Six-month Projections about general business conditions in the local
economy: June 2001 to September 2005 Outlook Surveys



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

Business Outlook for Local Economic Activity

The Business Outlook Index derived from the September 2005 survey fell from 17 to -5 between the June 2005 and September 2005 surveys. The most recent survey found that 20 percent of reporting firms felt that future business conditions are likely to improve while 25 percent indicated that conditions are likely to get worse. In comparison, the June 2005 survey found that 30 percent of the reporting firms anticipated improved business conditions while 13 percent expected worsening conditions.

(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 September 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:

- A slight change in the proportion of firms indicating that business conditions in the local economy are likely to remain unchanged from 51 percent to 52 percent between the June 2005 and September 2005 surveys. Respondents also indicated that the most pressing problems they face are: health care expenses for employees, high energy cost, uncertainty of future economic performance, competition from other businesses, and the quality of labor.
- With regard to their own levels of activity, the most recent survey found that 43 percent of reporting firms expect to expand their activity compared to 41 percent in June 2005. Among the reporting firms, 51 percent expect to maintain their current levels of activity. For those firms that expect to expand their level of activity, 38 percent anticipate improved business conditions in the local economy.
- Among the firms that feel business conditions will get better over the next six months, 83 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 rose from 26 percent to 38 percent between the June 2005 and September 2005 surveys. The most recent survey indicated 59 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 an upward direction in the most recent survey compared to the June 2005 survey. The percent of firms planning to increase capital expenditures was 26 percent in the September 2005 survey compared to 21 percent in the June 2005 survey. Among the firms planning to increase capital expenditures, 38 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 decrease in the percent of firms planning to reduce capital expenditures from 13 percent to 12 percent.
- The percent of firms planning to raise average selling prices increased from 32 percent in the June 2005 survey to 45 percent in the September 2005 survey. Meanwhile, there was a decrease in the percentage of firms reporting that their employees received more compensation in the preceding six months from 64 percent to 51 percent between the June 2005 and September 2005 surveys.
- The proportion of reporting firms anticipating easier access to financing dropped from 10 percent in June 2005 to 5 percent in September 2005. At the same time there was a noticeable increase in the proportion of firms unsure about prospects for obtaining funding from 3 percent to 10 percent between the June 2005 and September 2005 surveys.

**Summary of Returns
September 2005**

Questions	Response			
	Improve/ Increase	Same	Worse/ Decrease	Unsure
	<i>(Percentage of Total Responses)</i>			
Business conditions in local economy in next six months	20	52	25	3
Level of activity of your firm in next six months	43	51	5	1
Capital expenditures of your firm in next six months	26	59	12	3
Employment by your firm in next six months	38	59	3	0
Average selling price of your firm in next six months	45	35	2	18
Access to financing by your firm in next six months	5	59	26	10
Employee compensation by your firm in last six months	51	47	2	0
Sales in last six months compared to previous six months	47	33	20	0

**Survey Responses
Disaggregated by Sector/Activity**

Questions by Industry	Response			
	Improve/ Increase	Same	Worse/ Decrease	Unsure
	<i>(Percentage of Total Responses)</i>			
Manufacturing				
Business conditions in local economy in next six months	0	70	30	0
Level of activity of your firm in next six months	50	50	0	0
Construction				
Business conditions in local economy in next six months	33	0	67	0
Level of activity of your firm in next six months	0	100	0	0
Real Estate				
Business conditions in local economy in next six months	0	100	0	0
Level of activity of your firm in next six months	25	75	0	0

Retail & Wholesale Trade				
Business conditions in local economy in next six months	20	27	40	13
Level of activity of your firm in next six months	27	53	13	7
Professional & Scientific Services				
Business conditions in local economy in next six months	25	75	0	0
Level of activity of your firm in next six months	63	37	0	0
Health Care & Social Services				
Business conditions in local economy in next six months	20	60	20	0
Level of activity of your firm in next six months	40	40	20	0
Other Services				
Business conditions in local economy in next six months	50	50	0	0
Level of activity of your firm in next six months	50	50	0	0
Communications and Information				
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
Finance and Insurance				
Business conditions in local economy in next six months	60	40	0	0
Level of activity of your firm in next six months	100	0	0	0

Summary:

Results from the September 2005 survey indicate a substantial decline in expectations about general business conditions in the local economy, reinforcing a trend of declining sentiment that began with the June 2004 survey. Over the past four years survey respondents have identified the following important challenges to their activities: health care expenses for employees, availability of employees, competition from other businesses, and quality of labor. In the most recent survey, three of the four have been identified as the most pressing problems. 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 20 percent of reporting firms felt that future business conditions are likely to improve while 43 percent expect an expansion in activity level during the next six months.

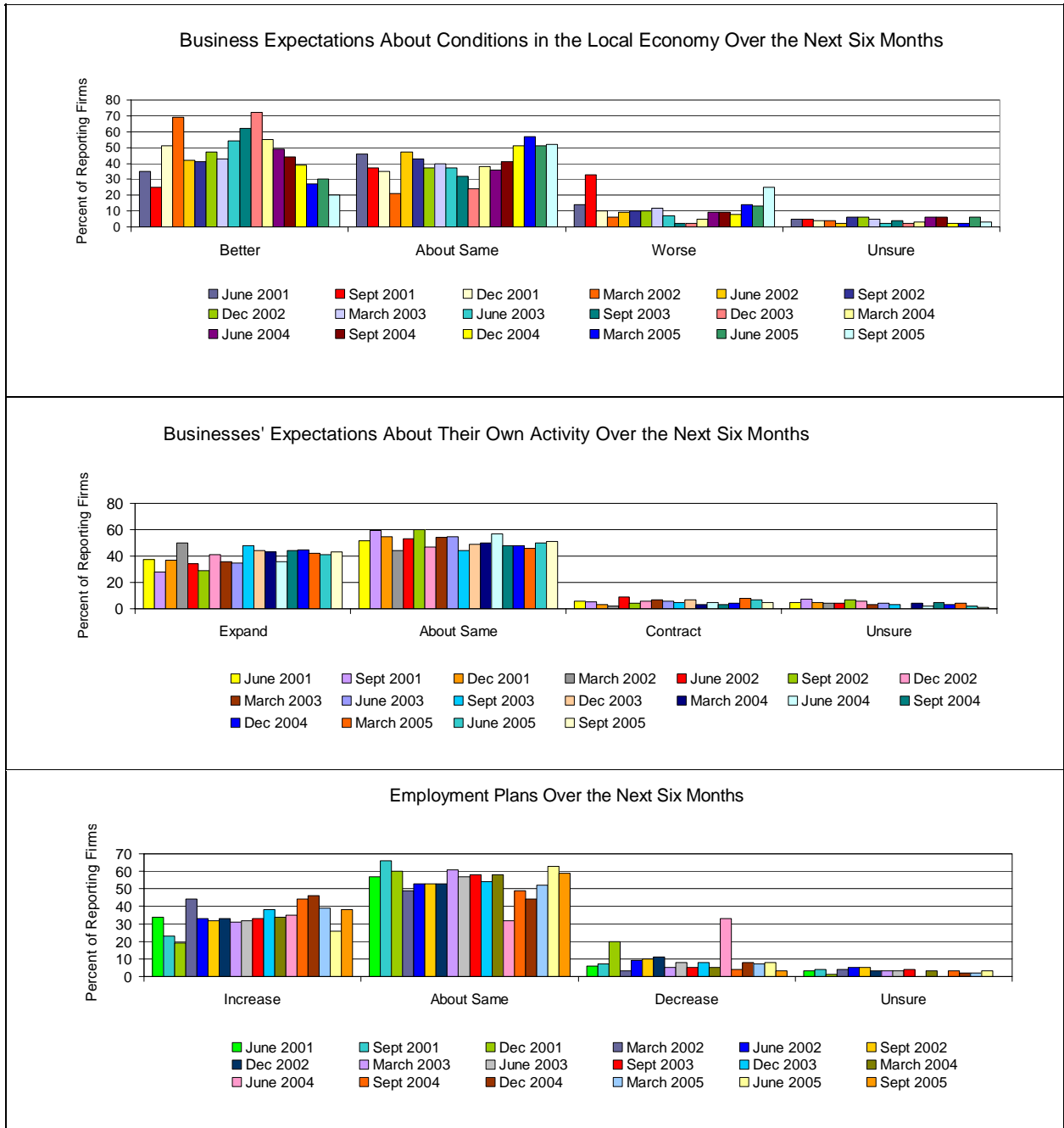
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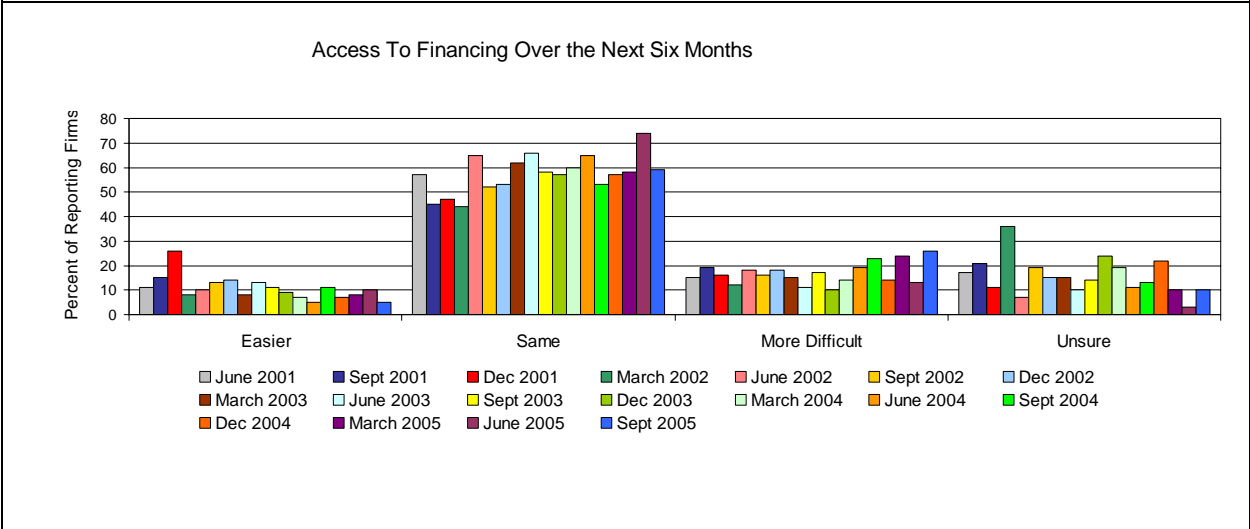
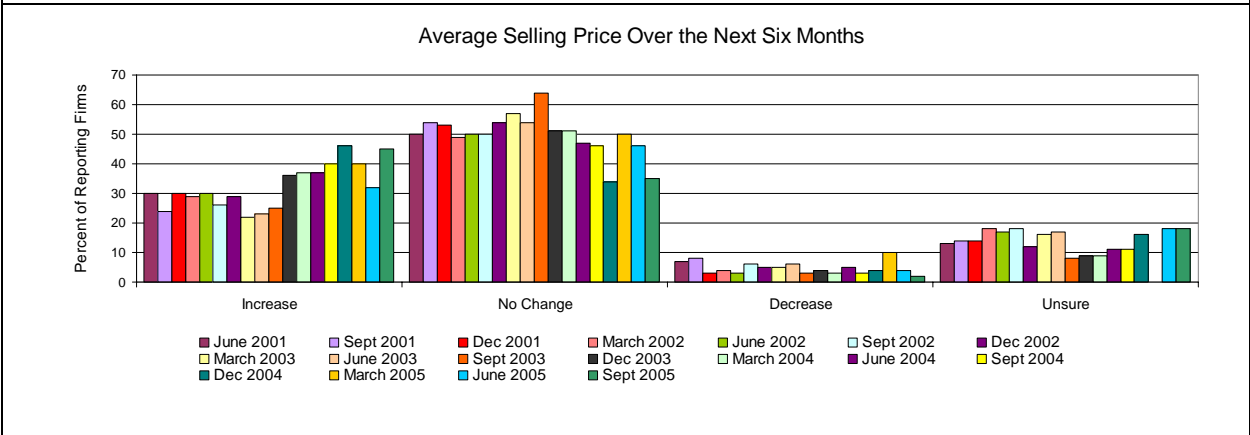
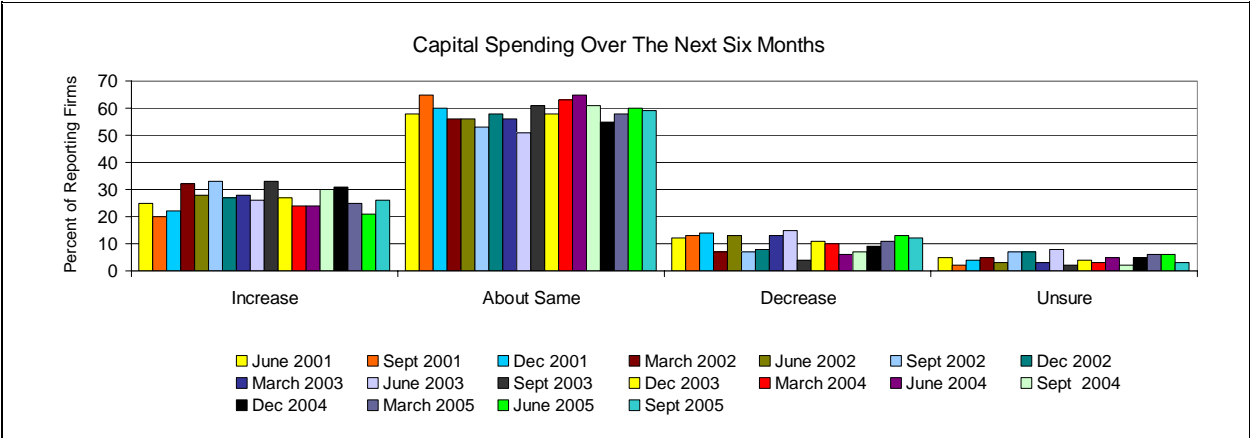
- [Graphs Comparing September 2005 with Previous Quarters](#)
- [Diffusion Index of Firm-Level Economic Activity by Sector](#)

Further Information:

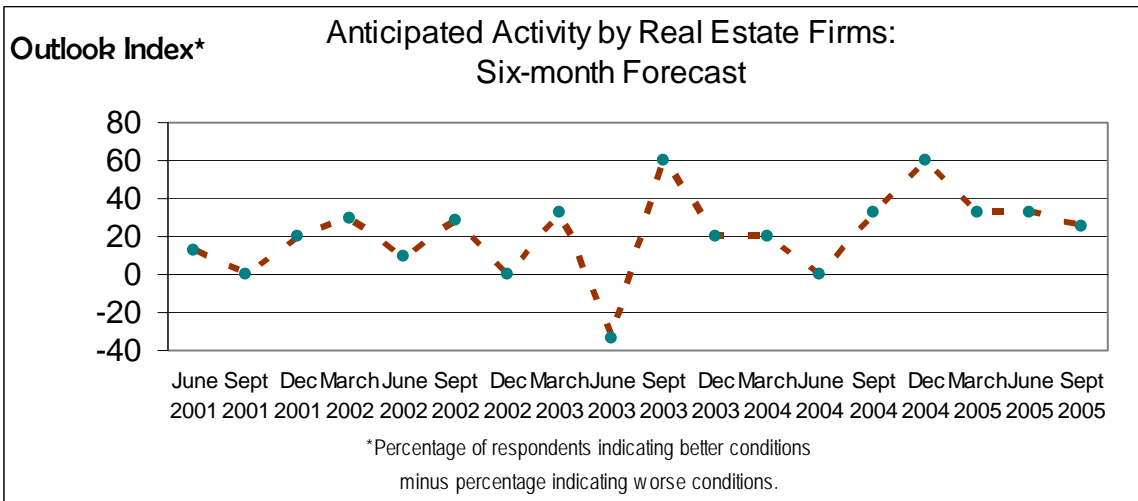
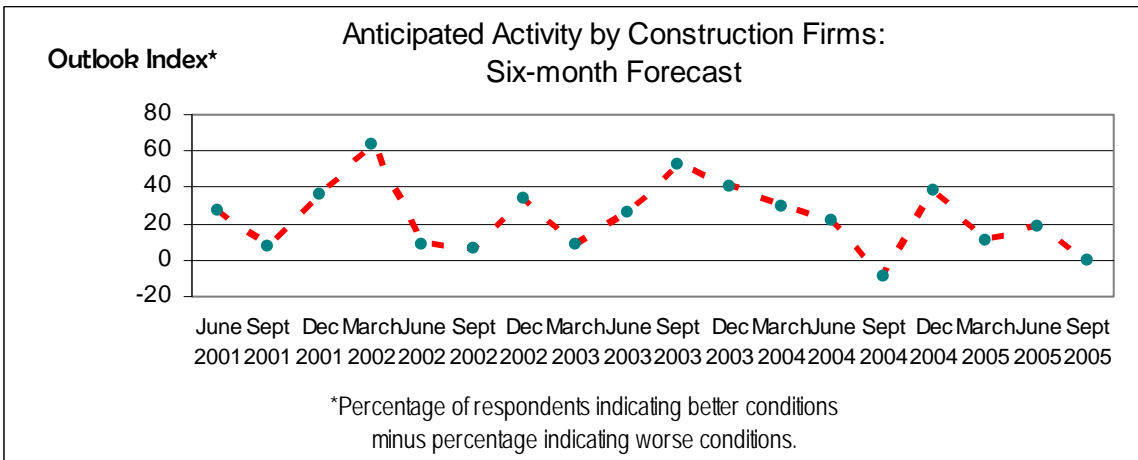
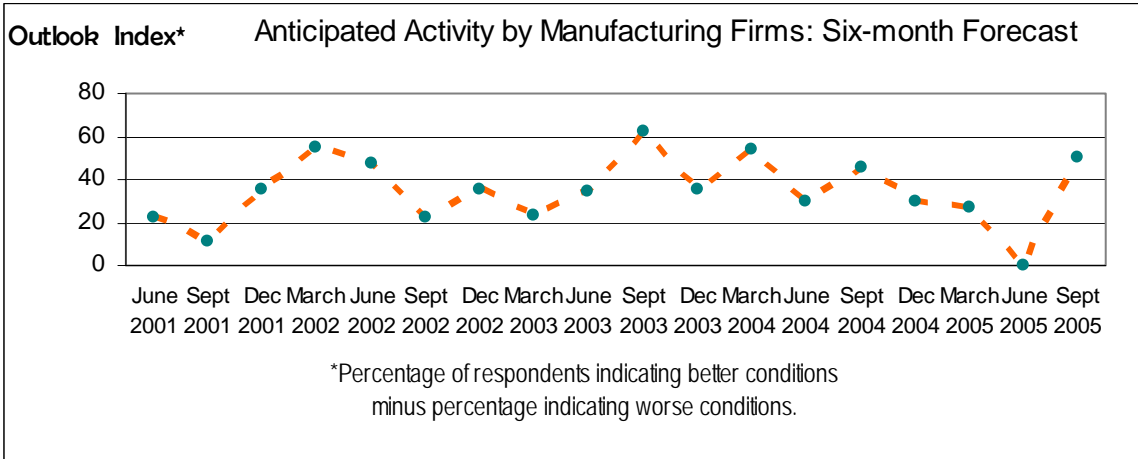
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Comparison of September 2005 to Previous Quarters



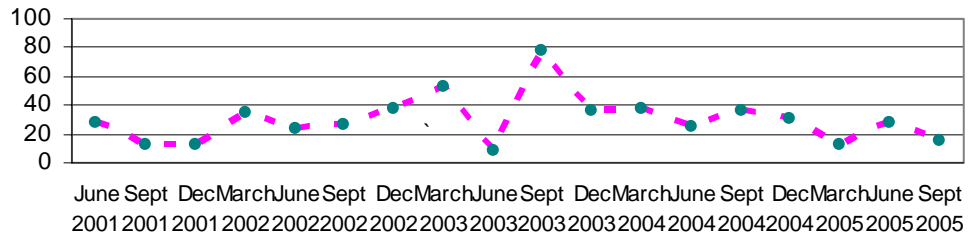


Diffusion Index of Firm-Level Economic Activity by Sector



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

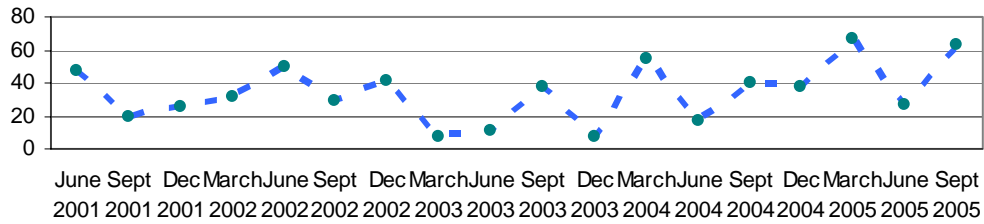
Outlook Index*



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

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

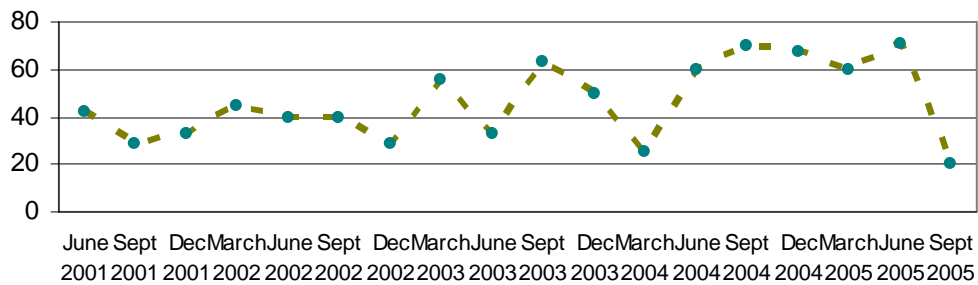
Outlook Index*



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

Anticipated Activity by Health Care Firms: Six-month Forecast

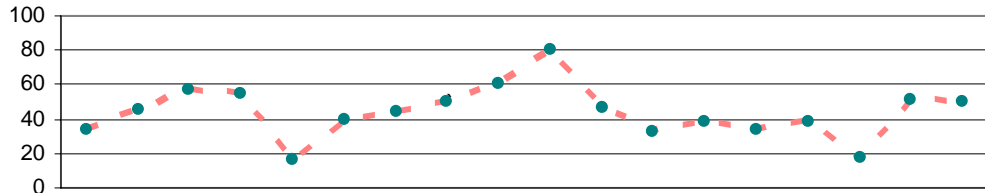
Outlook Index*



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

Anticipated Activity by Personal Services Firms: Six-month Forecast

Outlook Index*

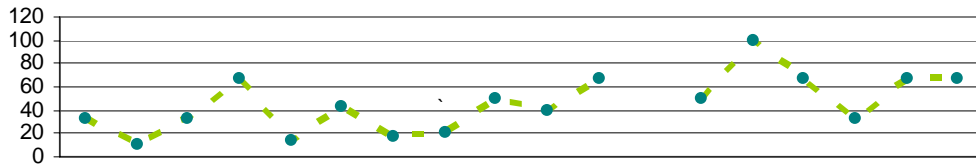


June Sept Dec March June Sept Dec March June Sept Dec March June Sept Dec March June Sept
2001 2001 2001 2002 2002 2002 2002 2003 2003 2003 2003 2004 2004 2004 2004 2005 2005 2005

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

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

Outlook Index*

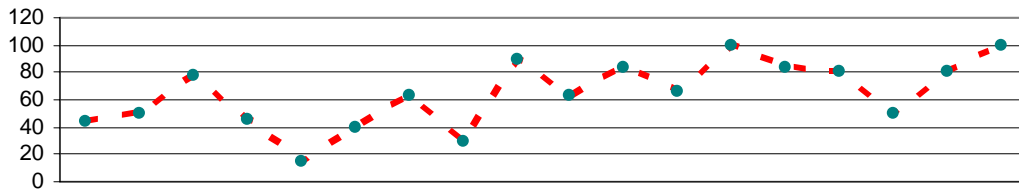


June Sept Dec March June Sept Dec March June Sept Dec March June Sept Dec March June Sept
2001 2001 2001 2002 2002 2002 2002 2003 2003 2003 2003 2004 2004 2004 2004 2005 2005 2005

*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 June Sept
2001 2001 2001 2002 2002 2002 2002 2003 2003 2003 2003 2004 2004 2004 2004 2005 2005 2005

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