

18TH ANNUAL PENNSYLVANIA ECONOMIC SURVEY



Pennsylvania Chamber of Business and Industry
August 8, 2008

The Pennsylvania Chamber of Business and Industry is pleased to present the 18th Annual Pennsylvania Economic Survey. This year's questionnaire was similar to those in previous years in order to identify trends in responses over time.

This report contains the findings for the 2008 study with comparison data over the previous year.

Survey Methodology

This scientific poll was conducted July 28-August 8, 2008 using a sample size of 350 completed interviews with business owners and executives who are members of the Pennsylvania Chamber. The demographics of the respondents were monitored to ensure a representative sample according to industry type, company size and geographical location in the Commonwealth. Interviews were randomly selected and conducted via telephone from the call center of Susquehanna Polling and Research, Harrisburg using professionally-trained survey research interviewers. The margin of error is +/-5.2% at the 95% confidence level.

Analytical Notes

- Percentages have been rounded.
- Percentages may not add up to 100 percent due to rounding and/or multiple responses.
- Base is the number of respondents who were asked a particular question; at times, questions are skipped by some respondents based on their answers to previous questions.
- A top-two box score refers to the two highest responses on the scale combined (for example, excellent and good).

Sample Characteristics

The following tables outline the sample characteristics of the 350 companies that participated in the 2008 survey.

Companies' Area/Region

	2008
Base	n=350
South Central PA	51%
The "T"/Central PA	24%
Northeast/Lehigh	13%
Southeast PA	4%
Southwest PA	3%
Allegheny	3%
Philadelphia	1%
Northwest PA	1%
Out of state	2%

Number of Employees

	2008
Base	n=350
1-9 employees	55%
10-49 employees	23%
50-99 employees	5%
100-499 employees	5%
500-999 employees	2%
1,000+ employees	7%

Types of Business/Industry Category

	2008
Base	n=350
Services	43%
Retail	7%
Manufacturing	19%
Construction	6%
Wholesale	4%
Finance	7%
Transportation/utilities	7%
Agriculture/Forestry/Fishing	1%
Public administration	2%
Mining	1%

Titles of Survey Respondents

	2008
Base	n=350
President/CEO/owner/chairman	53%
Vice president/COO	10%
CFO/Accountant/Financial-related /controller	11%
Professional – human resources, directors, administrative, attorneys, consultants, managers	23%

Executive Summary

This year's annual economic survey shows concern for the weak economy and Pennsylvania's business climate consistent with last year's survey. Businesses report that sales growth, new hiring and technological investments the last 12 months mirror slow levels reported in last year's survey based on the 2006-2007 timeframe. A negative outlook may be due to rising fuel and delivery costs, which are currently rated the single most important problem now facing employers, cited by 18%, and in the current survey they outrank traditional business issues like taxes (13%) or healthcare (15%). At the same time, health care costs and business taxes continue to be primary concerns for most employers, with an overwhelming percentage of employers continuing to report annual increases in health care premiums, with most facing hikes between five and twenty-five percent.

In terms of sales, new hiring and investments for the past 12 months, most employers report sluggish gains in all three categories consistent with last year, well below the robust figures reported in 2006, before the economic slowdown began. Nor do most employers expect increases in sales, the size of their workforces or substantial technology investments for the next 12 months, also consistent with last year's findings. One bright spot is the number of employers (22%) saying they would leave Pennsylvania if they could, which is down from 32% in 2007, and well below a high of 40% in 2003.

Survey Findings

I. Business Climate

1. **Generally speaking, would you rate the overall business climate in Pennsylvania—that is, how it is to do business in this state—as excellent, good, fair or poor?**

	2008	2007
Base	n=350	n=400
Excellent	3%	1%
Good	40%	36%
Fair	46%	48%
Poor	9%	12%

2. How business-friendly would you rate Pennsylvania - very friendly, somewhat friendly, or not at all business-friendly?

	2008
Base	n=350
Very	18%
Somewhat	63%
Not at all	17%

3. Do you think the business climate in Pennsylvania has gotten better, worse or stayed about the same during the past 12 months?

	2008	2007
Base	n=350	n=400
Better	5%	12%
Worse	45%	34%
Stayed same	50%	52%

4. Do you think the economy in Pennsylvania is better than, worse than or about the same in comparison to the national economy?

	2008	2007
Base	n=350	n=400
Better than	27%	11%
Worse than	15%	38%
About the same	54%	38%
Undecided	3%	12%

5. If you could, would you consider leaving Pennsylvania?

	2008	2007	2006	2005	2004	2003
Base:	n=350	n=400	n=341	n=439	n=303	n=270
Yes	22%	32%	33%	39%	28%	40%
No	76%	66%	67%	61%	72%	60%

If Yes, Where?

	2008	2007	2006	2005
Base	n=76	n=132	n=91	n=131
South/Southeast		17%	9.8%	23%
North Carolina	12%	10%	7.7%	11%
Virginia	1%	9%	5.5%	4%
Southwest	20%	6%		
Business Friendly State			8.8%	14%
West	13%	6%		
South Carolina	7%	4%	2.2%	4%
Delaware	7%	2%		9%
Florida			14.3%	6%
Maryland	5%	2%	2.2%	5%
Ohio		2%	4.4%	2%
New York		2%		
New Jersey		1%		
Mid-Atlantic	1%	2%		
All Others	18%	19%	40.6%	15%
Don't Know	24%	23%	2.2%	7%

6. Which of the following three approaches is the most effective role that state government can play to foster a better business climate?

	2008	2007
Base	n=350	n=400
To reduce the cost of doing business by doing such things as cutting business taxes, regulations, health care costs and reforming things like unemployment comp, workers' compensation and legal reform, or...	66%	69%
To increase incentives for businesses to grow, expand and locate in Pennsylvania including increased state spending on economic development programs, or...	20%	16%
To increase spending on public schools as a way to better train and develop the workforce to meet the demand for skilled workers, or...	12%	10%
Undecided	1%	2%
None/other	1%	1%

7. **Do you agree or disagree with the following statement: “If Pennsylvania were to decrease the cost of doing business, that is, lower business taxes, reduce workers’ comp costs and cut costly and unnecessary regulations and mandates, businesses could thrive in the state without extra economic incentives?”**

	2008	2007
Base	n=350	n=400
Strongly agree	48%	52%
Somewhat agree	42%	33%
Strongly disagree	3%	4%
Somewhat disagree	5%	8%
Undecided	3%	3%

II. Legislative and Regulatory Issues

8. **What do you believe is the single most important issue affecting your company today? That is, the one that most seriously impacts your ability to be competitive in today’s marketplace?**

	2008	2007
Base	n=350	n=400
Energy/fuel/delivery costs	18%	0%
Healthcare costs	15%	13%
Taxes	13%	17%
Cost of goods and services	8%	12%
Workforce development, training	7%	6%
Poor economy (general)	7%	3%
Government/politicians (general)	4%	2%
Staying competitive in marketplace	3%	10%
Mandates/regulations/minimum wage	3%	9%
Transportation/infrastructure	2%	1%
Environmental/EPA/OSHA/red tape	2%	0%
Insurance costs/workers comp, UC, etc.	1%	4%
Foreign/out-of-state competition	1%	3%
Human resources/personnel issues	1%	2%
Inadequate financing/start-up costs	1%	2%
Cost of lawsuits/legal issues	0%	1%
Immigration/illegal aliens	0%	0%
Electronic commerce/internet	0%	0%
Other	7%	7%
Undecided/none	5%	9%

9. Which TWO of the following eight issues should be the top legislative priorities for the Pennsylvania Chamber to focus on in its dealings with the state’s elected officials?

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
Controlling the costs of healthcare	65%	60%	45%	44.2%	32.9%	21%
Lowering business taxes	41%	36%	23%	23.1%	24.0%	13%
Reforming the legal system including cutting down on frivolous lawsuits	31%	33%	8%	8.3%	11.1%	10%
Cutting down on regulations and mandates	16%	18%	n/a	n/a	n/a	n/a
Better training and development of the workforce to meet the demand for skilled workers	13%	17%	5%	2.2%	1.6%	1%
Reducing workers’ compensation rates	11%	17%	6%	7.0%	4.9%	3%
Increasing economic incentives for business including higher state funding for economic development programs	10%	14%	n/a	n/a	n/a	n/a
Reforming the unemployment compensation system	8%	n/a	n/a	n/a	n/a	n/a

10. Are the following issues a major deterrent, a minor deterrent or no deterrent at all to business growth and job creation in Pennsylvania?

Pennsylvania’s transportation system including its roads, bridges, highways and mass transit systems – a major deterrent, a minor deterrent or no deterrent at all?

Transportation	2008	2007
Base	n=350	n=400
Major	45%	46%
Minor	39%	39%
No deterrent	15%	15%

Pennsylvania's workers' compensation system – a major deterrent, a minor deterrent or no deterrent at all?

Workers' Compensation	2008	2007
Base	n=350	n=400
Major	32%	33%
Minor	46%	44%
No deterrent	18%	14%

Pennsylvania's unemployment compensation system – a major deterrent, a minor deterrent or no deterrent at all?

Unemployment Compensation	2008
Base	n=350
Major	25%
Minor	48%
No deterrent	21%

Pennsylvania's tax structure – a major deterrent, a minor deterrent or no deterrent at all?

Tax structure	2008	2007
Base	n=350	n=400
Major	60%	56%
Minor	31%	34%
No deterrent	6%	7%

Pennsylvania's environmental regulations – a major deterrent, a minor deterrent or no deterrent at all?

Environmental regulations	2008	2007
Base	n=350	n=400
Major	27%	22%
Minor	51%	51%
No deterrent	19%	19%

Pennsylvania's employment law regulations and mandates - a major deterrent, a minor deterrent or no deterrent at all?

Employment law regulations	2008	2007
Base	n=350	n=400
Major	27%	22%
Minor	53%	52%

No deterrent	17%	17%
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The cost of health care in Pennsylvania – a major deterrent, a minor deterrent or no deterrent at all?

Health care costs	2008	2007
Base	n=350	n=400
Major	85%	80%
Minor	11%	14%
No deterrent	5%	4%

11. Which TWO of the following taxes most hinder job creation and economic growth in Pennsylvania?

	2008	2007
Base	n=350	n=400
Corporate Net Income Tax (the rate)	33%	38%
Corporate Net Income Tax (the apportionment formula)	17%	n/a
Capital Stock & Franchise Tax	15%	16%
Personal Income Tax	25%	21%
Property Tax	34%	43%
Sales Tax	11%	14%
Estate Tax	13%	15%
Gross Receipts Tax	9%	19%
Business Privilege Tax	21%	19%
None/other	2%	4%

12. In 48 others states, a company that loses money on its operations can deduct all of those losses from future profits before paying their taxes. In Pennsylvania, the amount of losses that can be deducted in any future year is capped at 12.5% of the loss, or \$3 million dollars, whichever is higher. What impact would either extending or eliminating this cap have on your business – a major impact, a minor impact or no impact at all?

	2008
Base	n=350
Major	18%
Minor	25%
No impact	54%

III. Rendell Administration Proposals

- 13. As you may know, the Rendell Administration’s healthcare reform plan proposes the creation of a new government-subsidized, healthcare program designed to expand access to affordable healthcare for the uninsured. As the state legislature in Harrisburg grapples with healthcare reform, which two of the following six areas are essential to ensure meaningful reform of the system is achieved?**

	2008
Base	n=350
Addressing the real cost-drivers of the system, such as mandated benefits, lack of competition among carriers or the threat of lawsuits	44%
Insurance reform, including changing the way insurance companies determine rates	44%
Allowing tax credits as a way to encourage small employers to offer healthcare	40%
Giving employers the right to offer a basic benefits plan free of costly state mandates	28%
Providing consumers with the option to enroll in Health Savings Accounts	17%
Greater use of wellness programs in the workplace	13%
None/other	3%

- 14. A state law enacted in 2004 mandated a market for alternative energy by requiring that utility companies include alternative energy sources as a certain percentage of their electric supply mix to customers. Currently, the Rendell Administration and state legislature in Harrisburg have agreed on a plan to allow the state to borrow hundreds of millions of dollars to be primarily used as financial incentives to alternative energy companies. In your opinion, what is the best approach to pursuing alternative energy in the Commonwealth: (A) By letting the free enterprise system drive which alternate energy options are most viable, or (B) By allowing state government to pick and choose alternative energy sources through the use of targeted tax breaks and financial incentives?**

	2008
Base	n=350
Allow the free enterprise system to drive which options are most viable	81%

Allow state government to pick and choose which sources to invest in	16%
None/other	1%

- 15. Would an automatic increase in the state minimum wage tied to the Consumer Price Index have a positive or negative impact on your business or would it have no impact at all?**

	2008
Base	n=350
Positive	7%
Negative	22%
No impact	70%

(For those who said their business would be negatively impacted [n=77]):

- 16. How would your business be negatively impacted?**

	2008
Base	n=77
Raise prices on consumers	40%
Layoffs/reduce workforce	25%
Hiring freeze	14%
Pay employees more/raise wages	12%
Reduce hours	8%
Other	14%

IV. Health Care Costs

- 17. Do you currently provide a health care plan for your employees?**

	2008	2007
Base	n=350	n=400
Yes	81%	73%
No	19%	23%

(For those who said they do provide a health care plan for employees [N=285]):

- 18. In comparison to last year have your health insurance premiums increased, decreased or remained about the same?**

	2008	2007
Base	n=285	n=293
Increase	78%	71%

Decrease	5%	6%
Stay same	14%	20%
Undecided	3%	2%

(For those who said they had an increase in health insurance premiums [N=221]):

19. By what percentage have your health insurance premiums increased – less than five percent, five to nine percent, ten to twenty-five percent or more than twenty-five percent?

	2008	2007
Base	n=221	n=209
Less than 5 percent	10%	17%
5 to 9 percent	31%	30%
10 to 25 percent	38%	38%
More than 25 percent	13%	8%
Undecided	7%	7%

(For those who said they had an increase in health insurance premiums [N=221]):

20. As a result of an increase in premiums have you shifted additional costs to employees, reduced benefits or dropped coverage or taken some other action?

	2008	2007
Base	n=221	n=209
Shifted costs to employees	26%	32%
Reduced benefits	11%	12%
Dropped coverage	5%	6%
None of above/ate the costs	54%	55%
Undecided	1%	1%
Other	14%	3%

V. Sales, Workforce and Investments

21. During the last 12 months did the sales for your company increase over the previous year, decrease or stay about the same?

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
Increased	40%	36%	60%	56%	54%	26%
Decreased	24%	18%	16%	20%	18%	44%
Stayed about the same	32%	40%	24%	24%	29%	30%

22. For the next 12 months do you expect sales for your company to increase, decrease or stay about the same?

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
Will increase	42%	45%	54%	51%	48%	50%
Will decrease	16%	8%	10%	12%	6%	10%
Will stay about the same	36%	40%	36%	37%	46%	40%

23. During the last 12 months did the size of your workforce increase over the previous year, decrease or stay about the same?

	2008	2007	2006	2005
Base	n=350	n=400	n=341	n=439
Increased	25%	18%	41%	33%
Decreased	17%	16%	13%	20%
Stayed about the same	58%	63%	46%	47%

24. For the next 12 months do you expect the size of your workforce to increase, decrease or stay about the same?

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
Will increase	23%	23%	39%	35%	30%	23%
Will decrease	11%	5%	9%	12%	10%	15%
Will stay about the same	65%	69%	52%	53%	61%	61%

25. Would you rate the quality of the workforce in Pennsylvania in terms of being able to meet the business community's demand for skilled or trained workers as excellent, good, fair or poor?

	2008	2007
Base	n=350	n=400
Excellent	11%	6%
Good	50%	41%
Fair	31%	38%
Poor	7%	11%

26. Do you think the quality of the workforce in Pennsylvania has gotten better, gotten worse or stayed about the same in recent years?

	2008	2007
Base	n=350	n=400
Better	9%	12%
Worse	32%	33%
Stayed same	56%	50%

27. During the last 12 months did your company make major investments, minor investments or no investments at all on such things as expansion or purchase of machinery or equipment, technology or other improvements in comparison to the previous year?

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
Major investments	28%	27%	33%	25%	30%	33%
Minor investments	38%	32%	49%	54%	54%	52%
No investments	33%	36%	18%	20%	16%	16%

28. For the next 12 months do you expect your company to make major investments, minor investments or no investments at all on such things as expansion or purchase of machinery or equipment, technology or other improvements?

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	N=341	n=439	n=307	n=301
Major investments	19%	17%	21%	23%	20%	22%
Minor investments	37%	43%	63%	60%	65%	56%
No investments	42%	34%	16%	17%	15%	21%

VI. Performance of elected officials

Pennsylvania employers give the state's elected officials low job approval scores on the issues affecting business. The percentage of respondents who believe the governor and the state General Assembly are doing either an excellent or good job is only 27 percent and 18 percent, respectively.

29. On issues that affect business, would you rate the job Governor Ed Rendell has been doing lately as excellent, good, fair or poor?

	2008	2007
Base	n=350	n=400
Excellent	2%	3%
Good	22%	24%
Fair	40%	34%
Poor	35%	33%

30. On issues that affect business, would you rate the job the State House and Senate in Harrisburg have been doing lately as excellent, good, fair or poor?

	2008	2007
Base	n=350	n=400
Excellent	0%	0%
Good	22%	18%
Fair	47%	51%
Poor	28%	26%

VII. Demographics

Companies' Area/Region

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
Western PA	7%	17%	12%	16%	19%	23%
Central PA	75%	53%	52%	45%	42%	40%
Eastern PA	18%	30%	35%	39%	39%	35%

Number of Employees

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
1 to 49 Employees	78%	85%	57%	62%	46%	47%
50 to 499 Employees	10%	11%	28%	29%	34%	37%
Over 500 Employees	9%	3%	15%	9%	20%	14%

Types of Business/Industry Category

	2008	2007	2006	2005	2004	2003
Base	n=350	n=400	n=341	n=439	n=307	n=301
Services	43%	38%	35%	37%	36%	34%
Manufacturing	19%	14%	24%	26%	31%	34%
Retail	7%	16%	8%	9%	5%	3%
Wholesale	4%	7%	6%	7%	6%	4%
Construction	6%	8%	8%	7%	6%	4%
Transportation, Utilities, Communications	7%	5%	7%	7%	6%	5%
Finance, Insurance, Real Estate	7%	7%	7%	4%	7%	1%
Agriculture, Forestry, Fishing	1%	4%	3%	2%	2%	1%
Mining	1%	0%	2%	1%	2%	0%
Public administration	2%	1%				

Titles of Survey Respondents

	2008	2007
Base	n=350	n=400
President/CEO/owner/chairman	53%	52%
Vice president/COO	10%	6%
CFO/Accountant/Financial-related /controller	11%	4%
Professional – human resources, directors, administrative, attorneys, consultants, managers	23%	35%

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