Dane County Economic Survey

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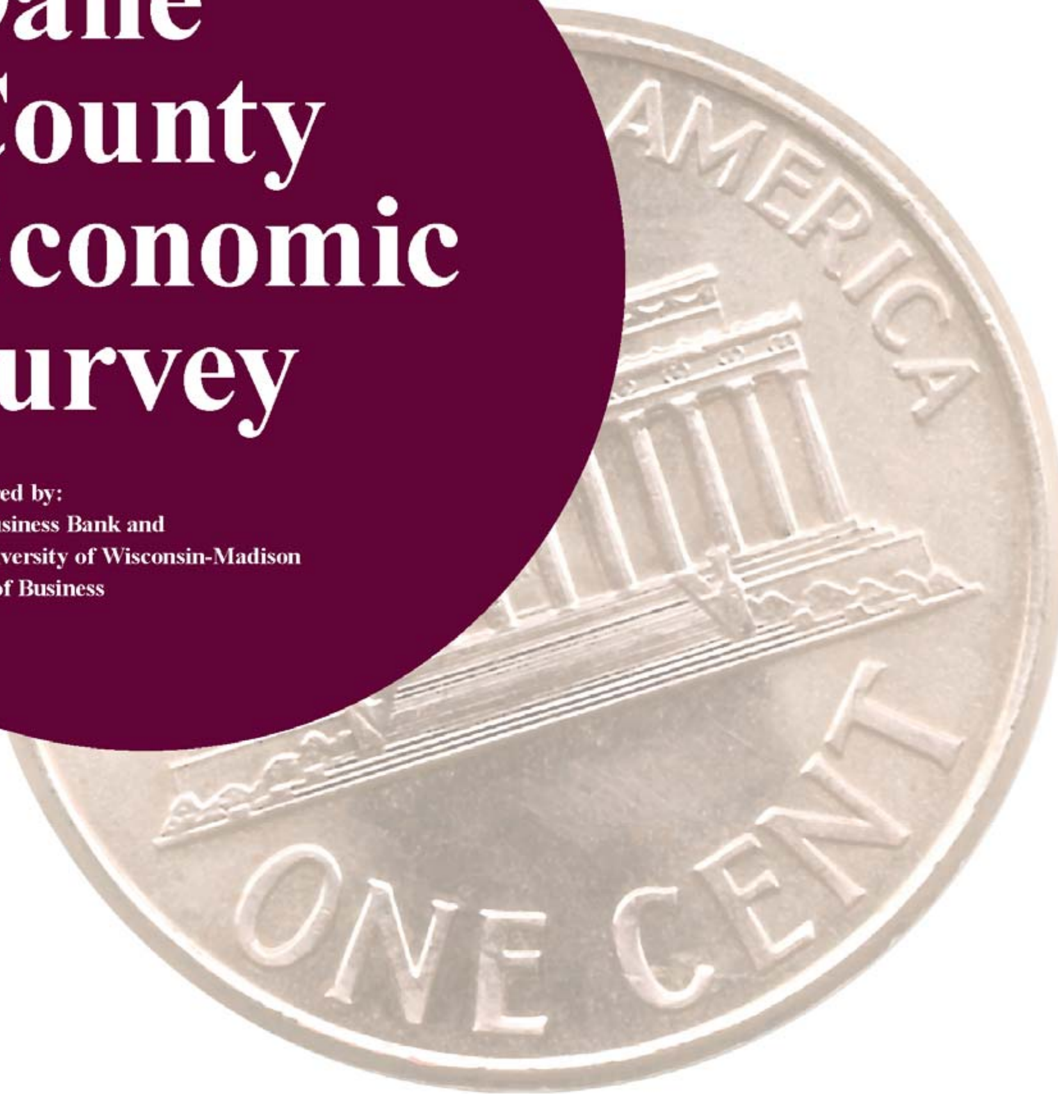

2003 Survey Results

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Background

This report highlights the findings of the 2003 Dane County Economic Survey, which was conducted by the A.C. Nielsen Center for Marketing Research in November 2003. The survey was sent to 3706 businesses in Dane County with five or more employees. It was sent to participants with the title of CEO, CFO, President, and/or business owner. The survey asked questions regarding eight key economic indicators in each of the following areas:

- Sales Revenue
- Profitability
- Production/Operating Costs as a % of Revenue
- Capital Expenditures
- Production/Office Space
- Number of Employees
- Overall Wage Change
- Operating Capacity

452 responses received within the stipulated time --135 online and 217 fax/mail**.** Of those, there were a total of 382 respondents that had fully completed the questionnaire, with the exception of the capital expenditures section, which received 353 responses. This sample size has an error range of .05. Significant differences noted in this report are at the 95% confidence level.

Topline Results:

Overall, the economy of Dane County will improve in 2004. When compared to 2003, companies are predicting bigger increases in revenues and profits, and more capital spending. In the employment area, fewer companies are predicting workforce reductions and more companies are predicting workforce increases. Most employers are expecting to increase wages in the range of 1-3% and fewer will be reducing overall wages.

Between segments, the service sector appears to be doing better than the retail sector in Dane County, especially in the areas of capital expenditures, number of employees, and wages. Across geographic markets, companies operating in Dane County exclusively are not doing as well as companies that operate in broader National/International markets.

Detailed Findings:

Sales Revenue

Overall, sales revenue are expected to be better in 2004 than in 2003. In 2003, 32.4% of respondents expected a decrease in sales revenue, but in 2004 only 8.6% expected a decrease. This difference is shown in the large increase in the number of respondents predicting an increase in sales revenue in 2004.

Sales Revenue

	Decrease	Unchanged	Increase
2002-03	**32.4%**	8.9%	58.6%
2003-04	**8.6%**	13.1%	78.3%

- The same amount of respondents reported an increase of 10+% in both periods (27.49% of respondents).
- The biggest difference was in the number of respondents who predicted moderate growth (1-9%): 31.5% of respondents in 2003 vs. 50.8% in 2004.

There were not any significant differences between the retail and service sectors, but in the geographic markets sectors there was a significant difference between companies operating in Dane County exclusively and companies operating elsewhere.

- Companies operating in Dane County only are not doing as well as companies operating elsewhere.
  - In 2004, the Dane County sector predicts that 73.2% of companies will have increasing revenues.
  - Other geographic markets show 83.3% of companies having increased revenues.

Sales Revenue by Region of Operation

	Region	Decrease	Unchanged	Increase
2002-2003	Dane	33.3%	11.9%	54.8%
2003-2004	Dane	11.3%	15.5%	**73.2%**
2002-03	Other	31.6%	6.2%	62.2%
2003-04	Other	6.2%	10.5%	**83.3%**

Profitability

Profitability expectations mirrored revenue expectations, with an improved outlook for 2004. The number of responses indicating a decline in profitability of 10+% went from 14.1% in 2003 to 2.6% for 2004, although there was no change in the respondents who showed growth of 10+%.

Profit

	Decrease	Unchanged	Increase
2002-03	37.4%	13.6%	49.0%
2003-04	11.8%	14.6%	73.6%

Profit expectations in the 1-9% range increased considerably from 2003 to 2004 (29.8% to 54.2%). This is similar to the results shown in the sales revenue area. The number of companies indicating no change in profitability remained stable over the two periods.

Between sectors there were a few significant differences.

- Service breakdown is no different than the whole.
- Retail saw more of a change than the whole, with 41.7% fewer companies predicting a decrease in profitability in 2004 compared to only 25.6% less for the whole. The number of companies expecting a profitability increase in the retail sector went from 30.6% to 70.8%, a change of 40.2%, compared to just 24.6% for the whole.

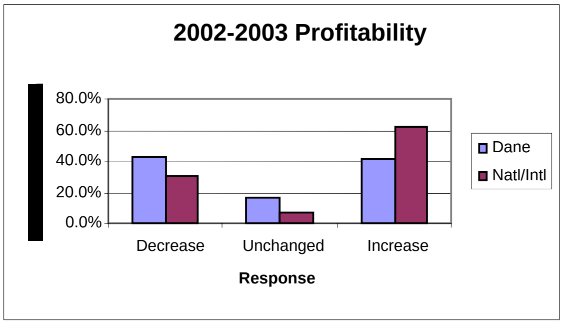
Profit by Company Type

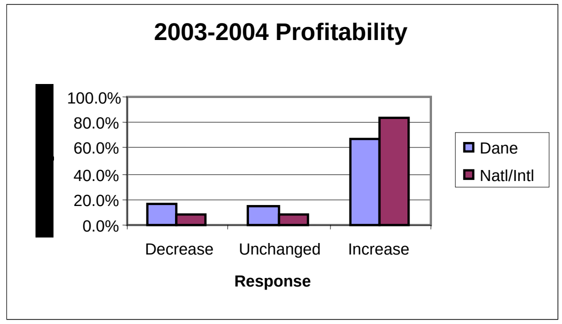
	Sector	Decrease	Unchanged	Increase	N
2002-03	**Retail**	**52.8%**	16.7%	**30.6%**	72
2003-04		**11.1%**	18.1%	**70.8%**	
2002-03	Service	36.4%	15.0%	48.5%	206
2003-04		11.6%	14.6%	73.8%	

- The Natl/Intl segment is expecting to do significantly better than the Dane County segment in 2004. This was also true in their outlook for 2003 vs. the prior year.

Profit by Region of Operation

	Region	Decrease	Unchanged	Increase	N
2002-03	Dane	42.3%	16.7%	**41.0%**	168
2003-04		16.7%	15.5%	**67.8%**	
2002-03	Midwest	35.1%	12.7%	52.2%	134
2003-04		7.5%	16.4%	76.1%	
2002-03	Natl / Intl	30.7%	6.7%	**62.7%**	75
2003-04		8.0%	8.0%	**84.0%**	





- The Natl/Intl Segment also has a disproportionately high number of companies that are expecting high profits (10+%) in both periods.

	% of responses (10+% profitablility)	
Segment	2002-03	2003-04
Dane	11.9%	9.5%
Wisc/Midwest	17.9%	18.7%
Natl/Intl	**38.7%**	**44.0%**
Total	19.1%	19.4%

Production/Operating Costs as a % of Revenue

More respondents predicted no change in Production/Operating Costs as a Percent of Revenue from 2003-2004 than from 2002-2003.

Production/Operating Costs as a Percent of Revenue

	Decrease	**Unchanged**	Increase
2002-03	24.9%	**15.2%**	60.0%
2003-04	17.8%	**29.8%**	52.4%

- Significantly fewer respondents reported large increases (4+%) in Production/Operating Costs in 2004 – 34.6% reported large increases of 34.6% compared to 24.9% in 2004

When comparing the responses from 2002-2003 to 2003-2004, the retail sector is showing more of an improvement than the service segment. While the majority of retailers still show increasing costs, the retail segment shows a large drop in the number of companies who have increasing production/operating costs (16.7% fewer). The service segment has more consistent expectations of production/operating costs from 2002-03 and 2003-04.

Production/Operating Costs as a Percent of Revenue by Company Type

	Sector	Decrease	Unchanged	Increase	N
2002-03	Retail	20.8%	11.1%	**68.1%**	72
2003-04		18.1%	30.6%	**51.4%**	
2002-03	Service	25.2%	18.0%	56.8%	206
2003-04		15.0%	29.6%	55.4%	

In 2004, businesses operating in Dane County only are predicting bigger increases in production/operating costs as a % of revenue than companies operating elsewhere. 58.3% of businesses operating in Dane County exclusively are facing production/operating cost increases in 2004, compared to 47.4% of businesses operating in other markets. All other differences are NOT significant at a 95% confidence level.

Production/Operating Costs as a Percent of Revenue by Operating Region

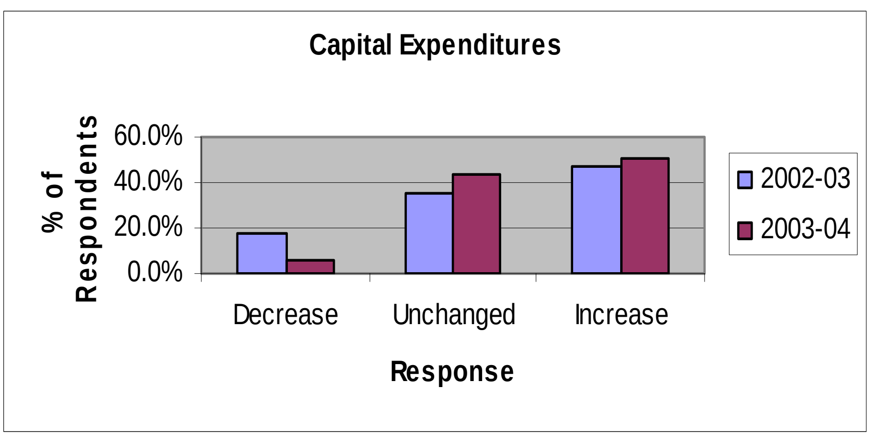
	Market	Decrease	Unchanged	Increase	N
2002-2003	Dane	19.6%	16.1%	64.3%	168
2003-2004		13.6%	28.0%	**58.3%**	
2002-03	Others	29.2%	14.8%	56.0%	209
2003-04		21.1%	31.6%	**47.4%**	

Capital Expenditures

The overall outlook on capital spending in Dane County is better than last year. In 2004, there are significantly fewer companies decreasing capital spending from the previous year, especially in the 10+% decrease category. In that category, the number of responses decreased from 7.7% to 2.2% in 2004.

Capital Expenditures

	Decrease	Unchanged	Increase
2002-03	**18.2%**	35.3%	46.6%
2003-04	**6.1%**	43.3%	50.7%



Between segments, there were a few significant differences between the service and retail sectors, but none between geographic markets. More companies in the service sector are predicting an increase in capital spending in 2004 when compared to the retail sector.

Capital Expenditures by Company Type

	Sector	Decrease	Unchanged	Increase	N
2002-03	Retail	11.6%	46.4%	42.0%	69
2003-04		8.5%	50.7%	**40.8%**	71
2002-03	Service	20.6%	34.7%	44.7%	199
2003-04		5.5%	39.2%	**55.3%**	

Production/Office Space

A large majority of the respondents reported no change in their production/office space over both periods. The results in individual segments look very similar to the total results.

Production/Office Space

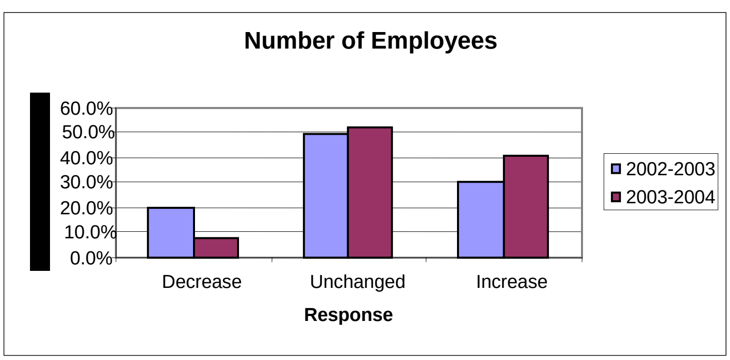
	Decrease	**Unchanged**	Increase
2002-03	5.0%	**80.4%**	14.6%
2003-04	5.5%	**77.5%**	17.0%

Number of Employees

In 2003, more companies are expecting to increase their employee base than decrease it. However, the outlook is even stronger for 2004, with 40.6% of companies expecting to increase their employee base. In addition, fewer companies are expecting to decrease their total number of employees in 2004, when compared to 2003.

Number of Employees

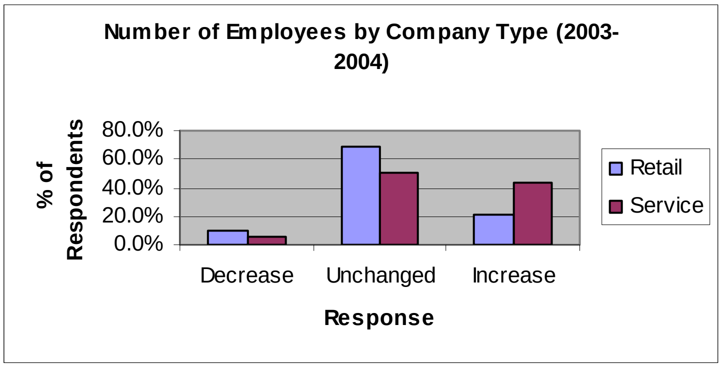
	Decrease	Unchanged	Increase
2002-03	**20.2%**	49.7%	**30.1%**
2003-04	**7.6%**	51.8%	**40.6%**
Significant at 95%	Yes	No	Yes



There were significant differences between the service sector and the retail sector. In 2004 more companies in the service sector expect to increase their number of employees when compared to the retail sector: 20.8% in the retail segment compared to 43.7% in the service sector. Retail companies were more likely to expect no change in their employee base.

Number of Employees by Company Type

	Sector	Decrease	Unchanged	Increase	N
2002-03	Retail	18.1%	55.6%	26.4%	72
2003-04		9.7%	**69.4%**	**20.8%**	
2002-03	Service	18.4%	52.9%	28.6%	206
2003-04		6.3%	**50.0%**	**43.7%**	



There also are significant differences between geographic markets. In 2004, fewer companies operating only in the Dane County region are predicting increases in the number of employees when compared to other segments. The difference is shown in the number of companies that will be keeping the same number of employees in 2004.

	Region	Decrease	Unchanged	Increase	N
2002-03	Dane	15.5%	61.3%	23.2%	168
2003-04		5.4%	**65.4%**	**29.2%**	
2002-03	Midwest	19.4%	44.8%	35.8%	134
2003-04		7.5%	**47.8%**	**44.8%**	
2002-03	Natl / Intl	33.3%	30.7%	36.0%	75
2003-04		12.0%	**29.3%**	**58.7%**	

Overall Wage Change

Over two thirds of Dane County companies reported wage increases in 2003. These companies are expecting fewer wage decreases and more wage increases in 2004 when compared to 2003.

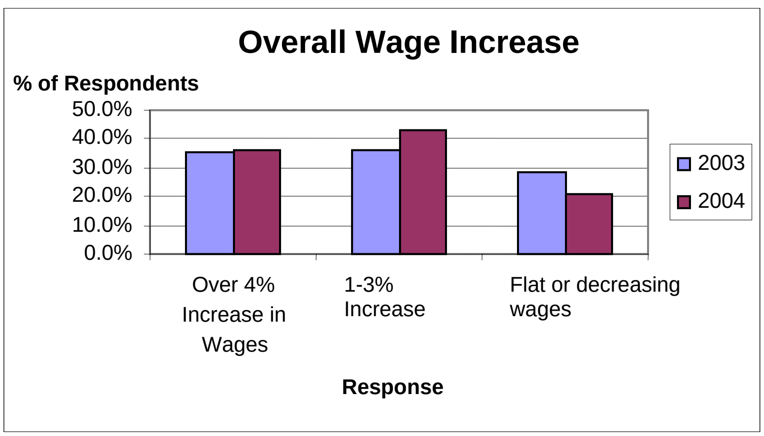
Overall Wage Change

	Decrease	Unchanged	Increase
2002-03	**10.2%**	18.1%	**71.7%**
2003-04	**4.2%**	16.7%	**79.1%**
Significant at 95%	YES	NO	YES

With this data, we also examined the wage increases to see if they are more than the cost of living increase (CPI = 2.1 in 2002). Companies are predicting wage increases in 2004, but the increases are more likely in the 1-3% range. Fewer companies will remain unchanged or decrease wages.

% Wage Change

	Over 4% Increase in Wages	1-3% Increase	Unchanged or Decrease in Wages
2003	35.6%	36.1%	28.3%
2004	35.9%	43.2%	20.9%
Significant at 95%	NO	YES	YES



The retail sector is predicting more unchanged or declining wages in 2004 when compared with the service sector. Only 18% of companies in the service sector do not expect to increase wages in 2004 compared with 31.9% for the retail sector.

% Wage Change by Company Type

	Sector	Over 4% Increase in Wages	1-3% Raise	No Raise or Pay cut	N
2002-03	Retail	31.9%	41.7%	26.4%	72
2003-04		27.8%	40.3%	**31.9%**	
2002-03	Service	35.0%	35.4%	29.6%	206
2003-04		35.9%	46.1%	**18.0%**	

In 2004 the Natl/Intl Segment has a higher percentage of companies expecting to give large raises (4+%) than the other segments -- 50.6% Natl/Intl compared to 32.8% for other segments.

% Wage Change by Operating Area

	Market	Over 4% Increase in Wages	1-3% Raise	No Raise or Paycut	N
2002-03	Dane	33.9%	43.4%	22.6%	168
2003-04		**29.2%**	46.4%	24.4%	
2002-03	Midwest	33.6%	32.8%	33.6%	134
2003-04		**37.3%**	43.3%	19.4%	
2002-03	Natl / Intl	44.0%	28.0%	28.0%	75
2003-04		**50.6%**	36.0%	13.3%	

Operating Capacity

The final question on the survey asked the respondents about operating capacity. The goal was to determine how much “unused” capacity we have in Dane County. This question was open-ended, meaning that the respondents could fill in any number from 1% to 100%. On average, companies reported being at 81.6% of capacity, with a median response of 85%. Responses ranged from 5% to 110%

Operating Capacity	% of Respondents
Under 50%	3.14%
50-59%	3.14%
60-69%	6.29%
70-79%	16.75%
80-89%	***30.89%***
90-99%	23.56%
100+%	16.23%
Total	***100.00%***