



**BUSINESS OUTLOOK AND SENTIMENT SURVEY
(BOSS)
MARCH 2015**

**Prepared for:
Hawaii Business Magazine**



BACKGROUND & METHODOLOGY

The research was conducted using a company listing purchased from Equifax Polk Business Directory as well as Hawaii Business Magazine's Top 250 list and classified yellow page listings. The sample of companies was stratified based on number of employees. Small businesses were divided into two sub-groups. Businesses with 3 to 9 employees were designated as "very small" and those with 10 to 49 employees were designated as "small." Medium sized firms were those with 50 to 99 employees while companies with 100 or more employees were classified as "large." A targeted sample of 100 businesses in each size sector was the goal.

A secondary goal was to complete interviews with a minimum of 100 businesses who describe their company as doing a majority of their work in the construction industry. A total of 100 companies were surveyed in this segment.

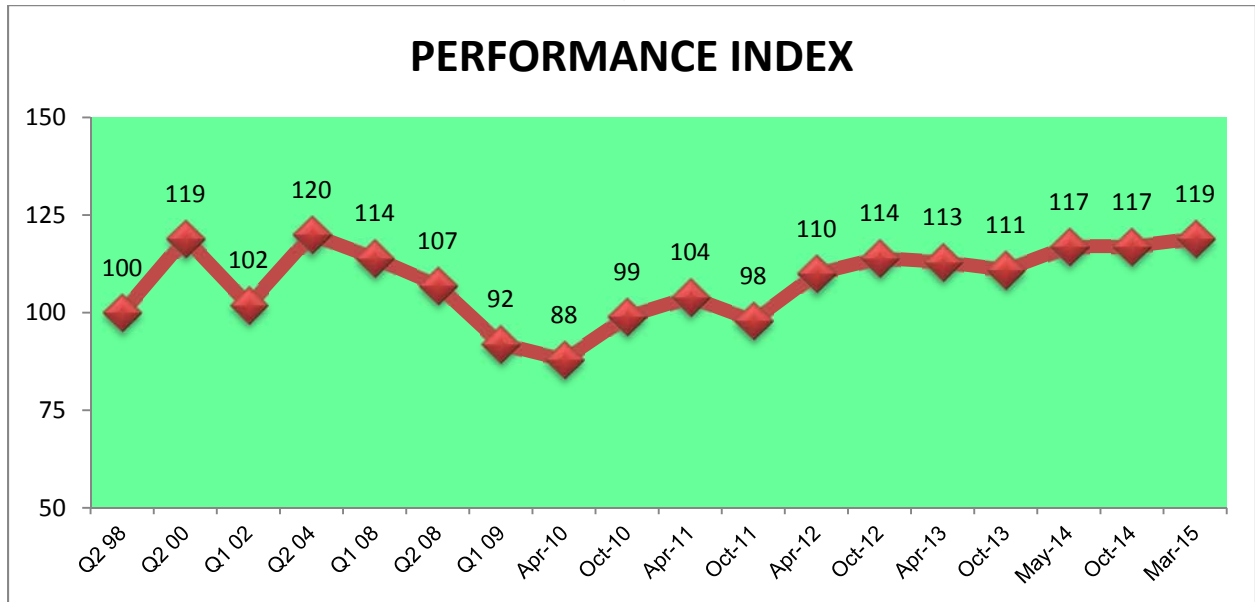
A total of 401 random interviews on all the major islands were conducted from March 17, 2015 to March 30, 2015. The data was weighted to reflect the proper proportions of each company segment based on number of employees as reported by the State of Hawaii Department of Labor. A sample of this size (n=400) has a margin of error of +/- 4.90 percentage points with a 95% level of confidence.

An additional 28 surveys among construction-impacted firms was necessary in order to obtain the targeted 100 companies in this segment.

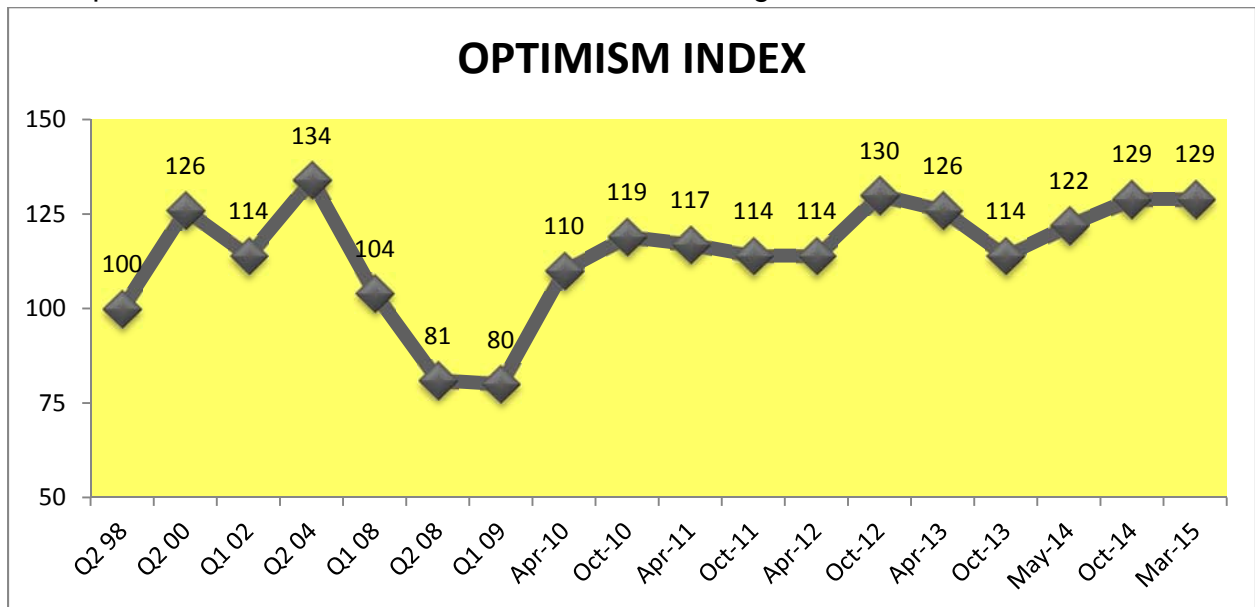
EXECUTIVE SUMMARY

In order to provide additional tracking data, two sets of indices were created: the Performance Factor Index which measures changes in employment, gross revenues and profit before taxes and the Optimism Factor which reveals a business' general outlook for the economic future of the islands.

The Performance Factor Index has risen slightly to 119.



The Optimism Index continues has remained unchanged at 129.





- Gross revenue: 44% have experienced an increase in gross revenue compared to a year ago, 21% report no change in this area while 22% have experienced a decline.
- Profit before taxes: 38% say profits before taxes are up from a year ago, 20% report no change while 24% say profits before taxes have actually declined.
- Employment changes: 20% of the businesses polled say they have more employees now than they did a year ago. 66% say their number of employees is unchanged from the previous year while 13% report staffing declines.
- Economic outlook: 45% of the businesses contacted are optimistic about Hawaii's economic future and believes things are improving now. 41% feel things will remain the same for the coming year while 13% feel things will get worse.

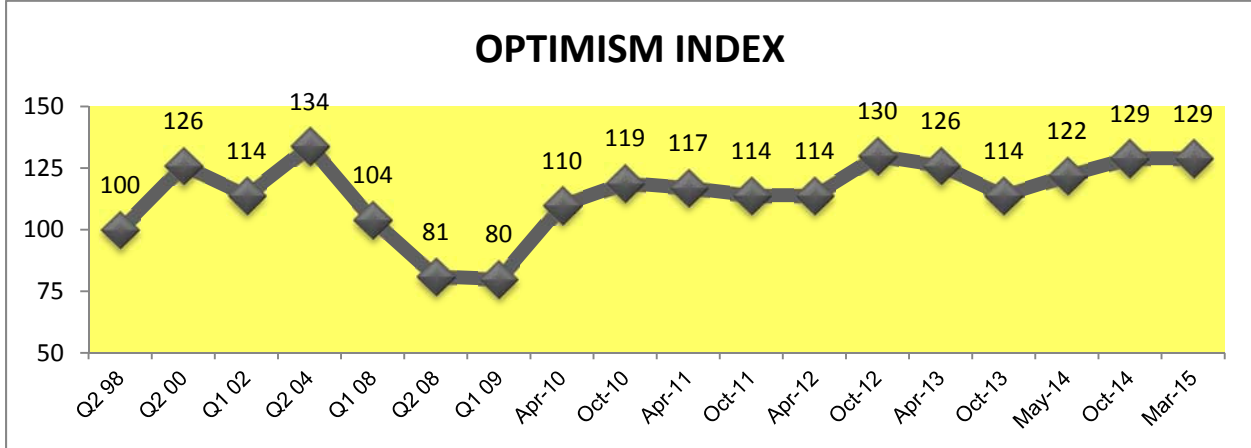
SUMMARY TABLE

	Increase	Stayed the same	Decrease
Gross revenue	44%	21%	22%
Profit before taxes	38%	20%	24%
Employment changes	20%	66%	13%
Economic outlook	45% Improving	41% Remain the same	13% Get worse

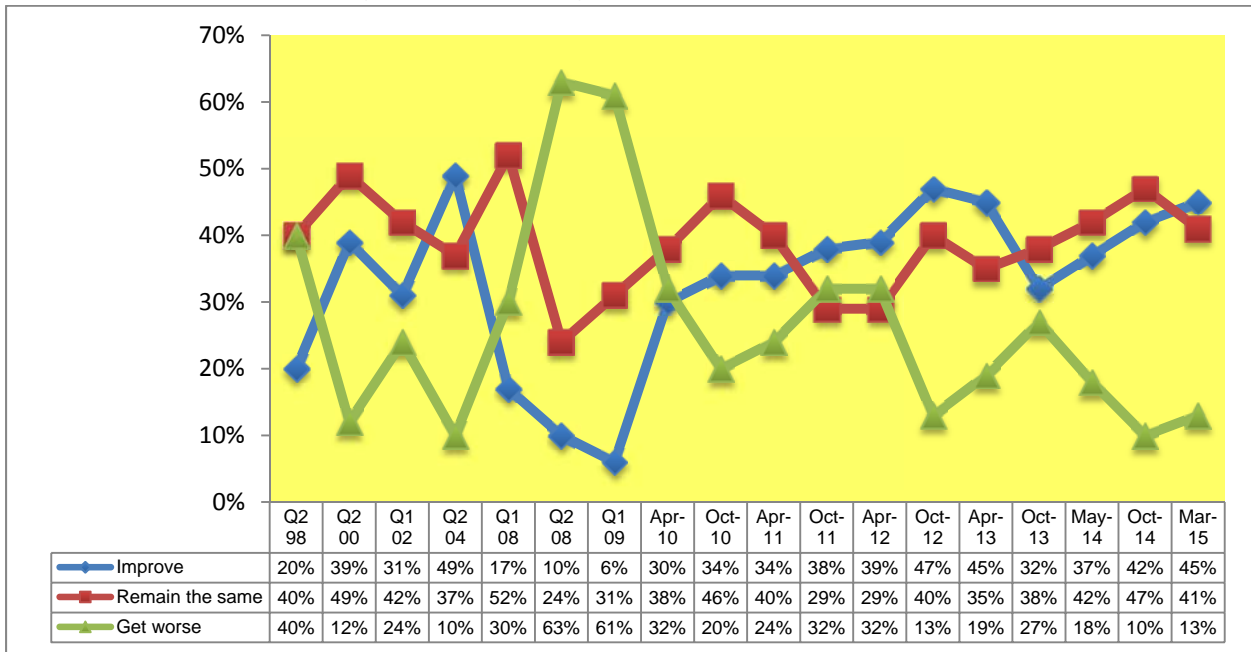
ECONOMIC OUTLOOK

The economic outlook index provides a summation or recap of the data highlighted in the graphic at the bottom of the page. The question posed to business representatives asked about their thoughts regarding Hawaii’s economic outlook for the coming year.

The optimism index has remained unchanged since the most recent reporting period.



Forty-five percent of the businesses polled believe the economic outlook for the State will improve in the coming year. Two in five (41%) expects little or no change in this area while 13% feels things will actually get worse.



When these results are tracked we note no significant changes.



- Optimism regarding the local economy tends to be higher on Oahu than it is among N.I. businesses. For example, among N.I. businesses, 36% believe the economic outlook for the State will improve in the coming year. As a point of comparison, the proportion of Oahu businesses that feel the same (improve in the coming year) increases to 50%.

In order to further probe the perception of the local economic climate, businesses were asked which of three statements presented to them best describes their firm's future plans in regards to spending in the coming year.

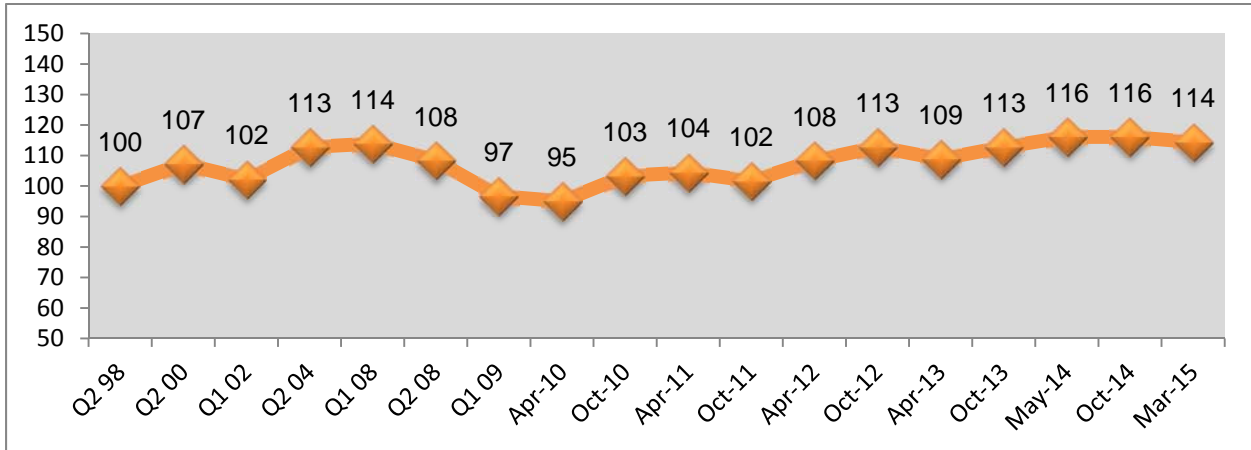
	Oct 2012	Apr 2013	Oct 2013	May 2014	Oct 2014	Mar 2015
Substantial increase in spending on capital or other items	18%	17%	14%	21%	22%	24%
No substantial cost cutting and no substantial spending increases	56%	58%	48%	48%	54%	56%
More cost cutting	21%	21%	32%	27%	18%	16%
Don't know	5%	4%	6%	4%	5%	4%

The results show 16% of the businesses polled expects more cost cutting in the coming year. Of the remainder, 56% expect no substantial changes in terms of spending while 24% actually expects to spend more later this year.

When the results are tracked we note no significant changes from the most recent reporting period.

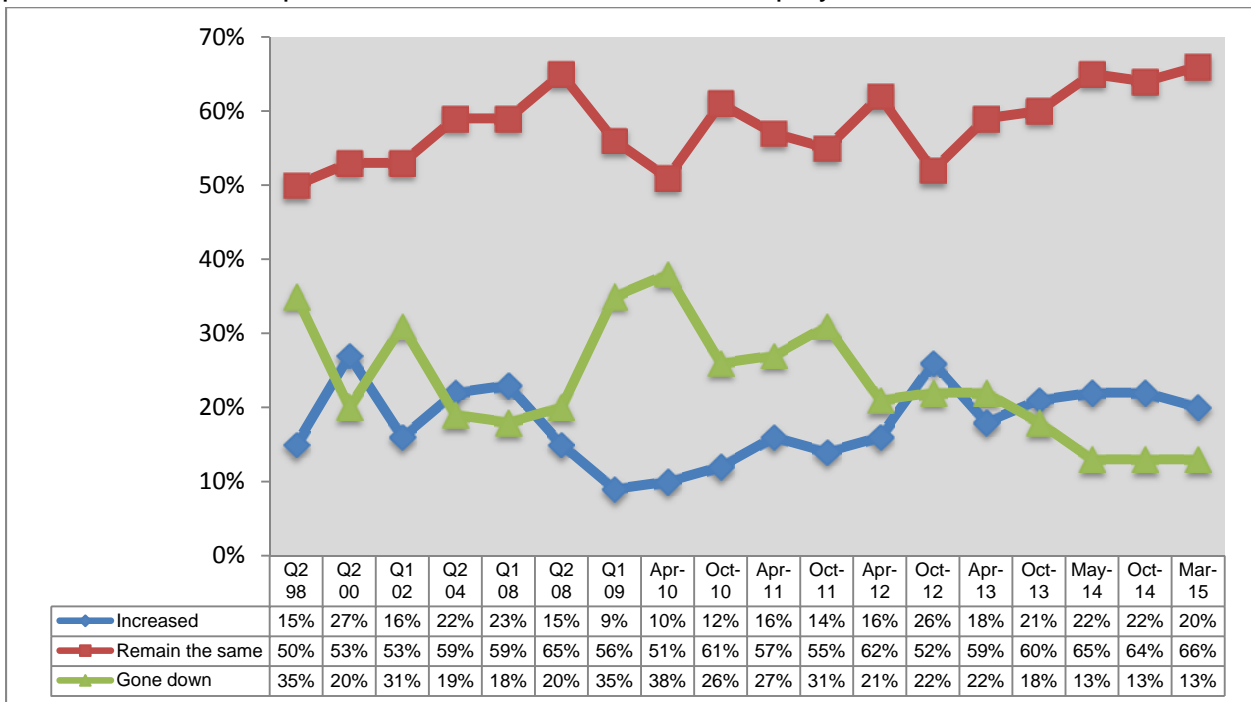
EMPLOYMENT CHANGES

The index below summarizes changes in employment over the last year for each reporting period.



The employment index has remained relatively unchanged since the most recent reporting period.

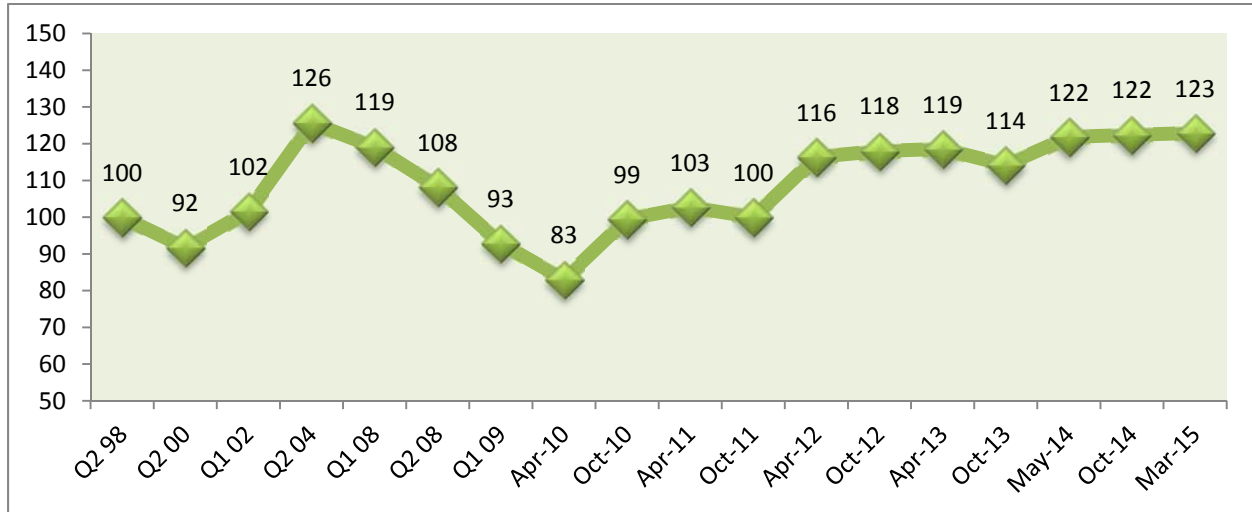
Twenty percent of the businesses polled have increased staffing levels over the last year. Two-thirds (66%) say staffing levels have remained unchanged during this time period while 13% report declines in their number of employees.



When the results are tracked we find virtually no changes from the last reporting period.

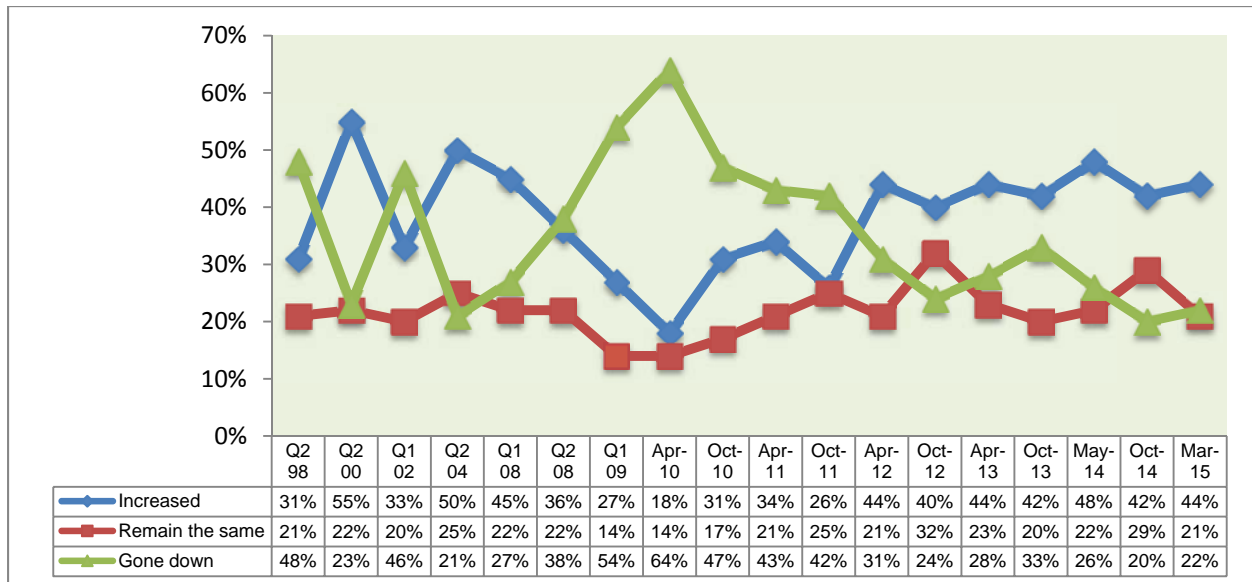
CHANGES IN GROSS REVENUE – LAST YEAR

The index reflecting changes in gross revenue for each reporting period is highlighted below.



The gross revenue index has remained relatively unchanged from the most recent reporting period.

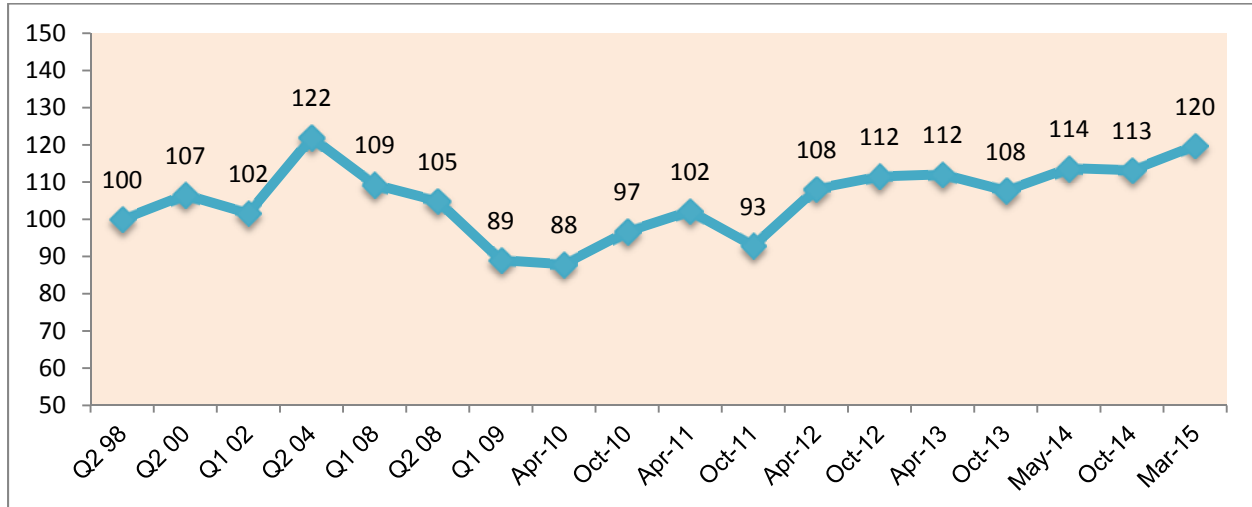
Forty-four percent of the companies polled report increases in gross revenue over the last year. Twenty-one percent indicates no change in gross revenue while 22% report declines in this area.



When the results are tracked we note a decline in the proportion that report no changes offset by minor changes in those reporting increases or decreases in this measurement.

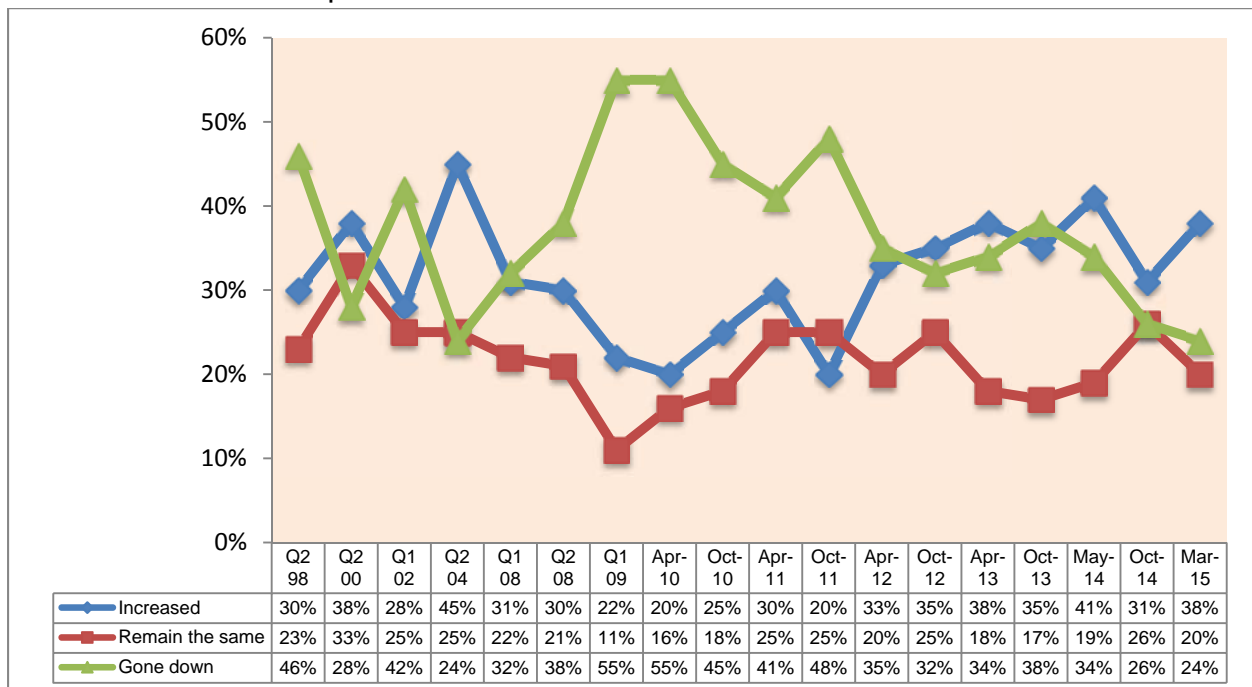
CHANGES IN PROFIT BEFORE TAXES – LAST YEAR

The index recapping changes in profit before taxes is highlighted below.



This index has improved this reporting period nearly equaling its highest point since 2004.

Thirty-eight percent of the businesses polled report increases in profit before taxes compared to the prior year. Twenty percent indicate profits before taxes have remained the same while 24% report a decline in this area.



The proportion reporting increases in profits before taxes is up by seven percentage points this reporting period.



SECTION – OIL PRICES

Each business representative was asked how the recent drop in oil prices has affected them. They were instructed to quantify their perceptions using a standard five-point rating scale highlighted in the table below. In addition to the percent results a mean or average score was also computed. The higher the mean score the more positive the impact on their business.

	MARCH 2015
Helped by business A lot (5)	16%
Helped - A little (4)	35%
No Effect (3)	40%
Hurt – A little (2)	6%
Hurt – A lot (1)	0%
Don't know/ Rf	3%
MEAN	3.63

Overall 16% of the businesses polled indicate the drop in oil prices has helped them a lot. A third (35%) believe they have been helped a little by this drop while two in five (40%) are of the opinion that this has had no effect on them. Of the remainder, six percent feel the drop in oil prices has actually hurt their bottom line. When these scores are looked at in the aggregate they result in a mean or average score of 3.63 out of a possible 5.00.

- Businesses impacted by the construction industry are more likely to be positively affected (27% helped my business a lot) by the drop in oil prices than are businesses not impacted by construction (13% helped my business a lot).



SECTION – WORK ENVIRONMENT

Telecommuting

Businesses were asked if they allowed employees to work from home.

	MARCH 2015
Yes, allow employees to work from home	23%
No, not allowed	77%
Don't know/ Refused	-

The research shows that one in four (23%) businesses allow their employees to work from home as an option.

- Businesses on Oahu (28%) were more likely to allow this practice than were businesses on the Neighbor Islands (15%).

Flexible Schedules

In this section of the study businesses were asked if they allowed flex time so that employees do not have to be on a set schedule say like a 9 to 5.

	MARCH 2015
Yes, allow flex time	45%
No, not allowed	55%
Don't know/ Refused	0%

Nearly half (45%) the businesses polled allow some form of flex time for their employees.

- The likelihood of allowing flex time increases as companies grow larger in size. For example, among very small firms with less than 10 employees (3-9), 44% allow flex time for employees. As a point of comparison, the proportion that allows flex time among larger firms (100+ employees) increases to 66%.
- Oahu (53%) businesses are more likely to offer their employees this option than are firms based on the Neighbor Islands (30%).



Amount of Hours Worked- Present versus 2008-09

In this section of the study research respondents were asked about the amount of hours they are working presently versus the amount of hours they worked prior to the recession of 2008-09.

	MARCH 2015
Longer hours now	38%
About the same	47%
Fewer hours now	14%
Don't know/ Refused	1%

The research shows that 38% of those polled say they are working longer hours now than they did prior to 2008-09. Half (47%) indicate the amount of hours they are working has not changed while 14% are actually working less than they did prior to 2008-09.

- Those working in smaller sized firms were more likely to be working longer hours now when compared to a few years ago than were those employees polled from larger companies. For example, 38% of those who work in firms with fewer than 10 employees (3-9) say they are working longer hours now than they did prior to 2008-09. As a point of comparison, among those working in firms with 100 or more employees 28% say they are working longer hours now.



SECTION - COMPENSATION

Union

At the outset of this section of the study business representatives were asked if their firm employed unionized employees.

	MARCH 2015
Unionized	8%
Not unionized	91%
Combination of both	1%
Don't know/ Refused	0%

The research shows a majority (91%) of the businesses taking part in the study are not unionized at present.

Raises in the Last Two Years

Businesses were asked if their company has given raises to their employees within the last two years.

	MARCH 2015
Raises to all or most employees	42%
Raises to some employees	19%
Raises to a few or no employees	34%
Don't know/ Refused	5%

Two in five (42%) Hawaii businesses gave pay raises to all or most of their employees within the last two years. One in five (19%) say some employees received pay raises while a third (34%) indicate few or no employees benefited from increases in pay during this time period.

- Small businesses were the least likely to lavish pay raises on all or most of their employees in the last two years. For example, among businesses with fewer than 10 (3-9) employees, 38% say all or most of their employees have received raises in the last two years. As a point of comparison, this number (all or more received raises) increases to 61% among businesses with 100 or more employees.
- Companies on Oahu (46%) were more likely to give all or most of their employees a raise in the last two years than were businesses on the Neighbor Islands (33%).



Next, those businesses who stated in the prior section that all or most of their employees received raises in the last two years (n=283) were asked to estimate the general amount of the raises given out.

	MARCH 2015
Less than 2%	18%
2% but less than 5%	54%
5% or more	20%
Don't know/ Refused	8%

The research shows that half (54%) of these businesses gave their employees raises ranging from over 2% but less than 5%. Eighteen percent indicate most of their employees received raises of less than two percent while one in five (20%) companies gave all or most of their employee raises in excess of 5%.

- Oahu (23%) firms that fall into this segment were more likely to give their employees raises in excess of 5% than were their Neighbor Island (12%) counterparts.
- Firms that are impacted by the construction industry that fall into this segment (gave all or most employees raises in the last two years) were more generous than non-construction companies. For example, 41% of firms related to the construction industry that gave raises to all or most of their employees indicate that this amount was usually over 5%. As a point of comparison the proportion of non-construction firms in this segment that gave all or most of their employees a raise above 5% was 13%.



SECTION – NEXTERA

Impact on Local Economy

At the outset of this section of the study Hawaii businesses were asked about the perceived impact of the potential purchase of Hawaiian Electric Industries by NextEra will have on the local economy.

	MARCH 2015
Benefit Hawaii's economy	23%
Hurt Hawaii's economy	18%
No impact	19%
Don't know/ Refused	41%

The research shows that one in four (23%) businesses believe this transaction will have a positive impact on the local economy. Eighteen percent feel just the opposite and worry that it will make things worse. Nineteen percent feel it will be business as usual in that this transaction would have no effect on the local economy. Two in five (41%) businesses are still unsure about this sale's potential impact locally.

Impact on Your Business

Next, these same individuals were asked how this potential transaction would affect their individual businesses.

	MARCH 2015
Benefit my company	8%
Hurt my company	12%
No impact	55%
Don't know/ Refused	24%

A little over half (55%) the businesses polled believe this transaction will have no impact on their company. Just eight percent believe their company will benefit from this sale while 12% are of the opposite opinion and worry that it will have a negative impact on their business. One in four (24%) is unsure regarding how their company will be affected.

- Neighbor Island businesses (72% will not affect my company) are more confident that this sale will not impact them than are their Oahu (47%) counterparts.



PROFILE OF RESPONDENTS – RANDOM SAMPLE

	TOTAL	VERY SMALL	SMALL	MEDIUM	LARGE
FIRM SIZE					
MEAN	18.18	5.75	22.20	67.49	371.45
MEDIAN	7	6	18	65	195
YEARS IN HI					
MEAN	27.88	27.16	28.03	34.53	43.18
MEDIAN	26	26	25	30	40
ISLAND					
Oahu	67%	67%	69%	72%	73%
B.I.	13%	13%	12%	11%	10%
Maui	14%	14%	13%	11%	13%
Kauai	6%	6%	6%	5%	4%

*Not weighted	*Construction-Impacted	Non-Construction
FIRM SIZE		
MEAN	43.52	20.86
MEDIAN	14	7
YEARS IN HI		
MEAN	30.61	29.06
MEDIAN	26	25
ISLAND		
Oahu	74%	65%
B.I.	10%	11%
Maui	11%	16%
Kauai	5%	7%



SECTION – SECTOR ANALYSIS

Construction

In this section of the research we focus on companies in the construction industry or those directly impacted by it (n=100).

Separate indices were run just for these businesses. The results are highlighted in the table below contrasted against the results for the entire random sample.

PERFORMANCE INDEX		OPTIMISM INDEX	
OVERALL	CONSTRUCTION IMPACTED COMPANY	OVERALL	CONSTRUCTION IMPACTED COMPANY
119	125	129	145

When the performance index is compared we find construction firms performing at slightly higher levels to the overall random sample. The optimism index among those in the construction industry is significantly higher than that of the random sample.

These businesses were also compared against the overall sample for certain key measurements highlighted in the first section. The research shows when the construction industry is segmented and contrasted against the overall random sample this segment appears to be doing better overall. They are more likely to see increases in gross revenue and are also more likely to report staffing increases in the last year. In terms of economic outlook those in the construction industry are far more optimistic than the overall random sample.

	Increase		Stayed the same		Decrease	
	Overall	Construction	Overall	Construction	Overall	Construction
Gross revenue	44%	59%	21%	15%	22%	21%
Profit before taxes	38%	42%	20%	23%	24%	25%
Employment changes	20%	33%	66%	57%	13%	9%
Economic outlook	45%	65%	41%	29%	13%	5%
	Improving		Remain the same		Get worse	



Gross Sales/ Past Year

Each of the businesses impacted by this sector was read the following statement:

The University of Hawaii Economic Research Organization says the construction industry is positioned for healthy growth over the next several years.

They were then asked to comment on their own situation and estimate how their company’s sales have fared over the last year.

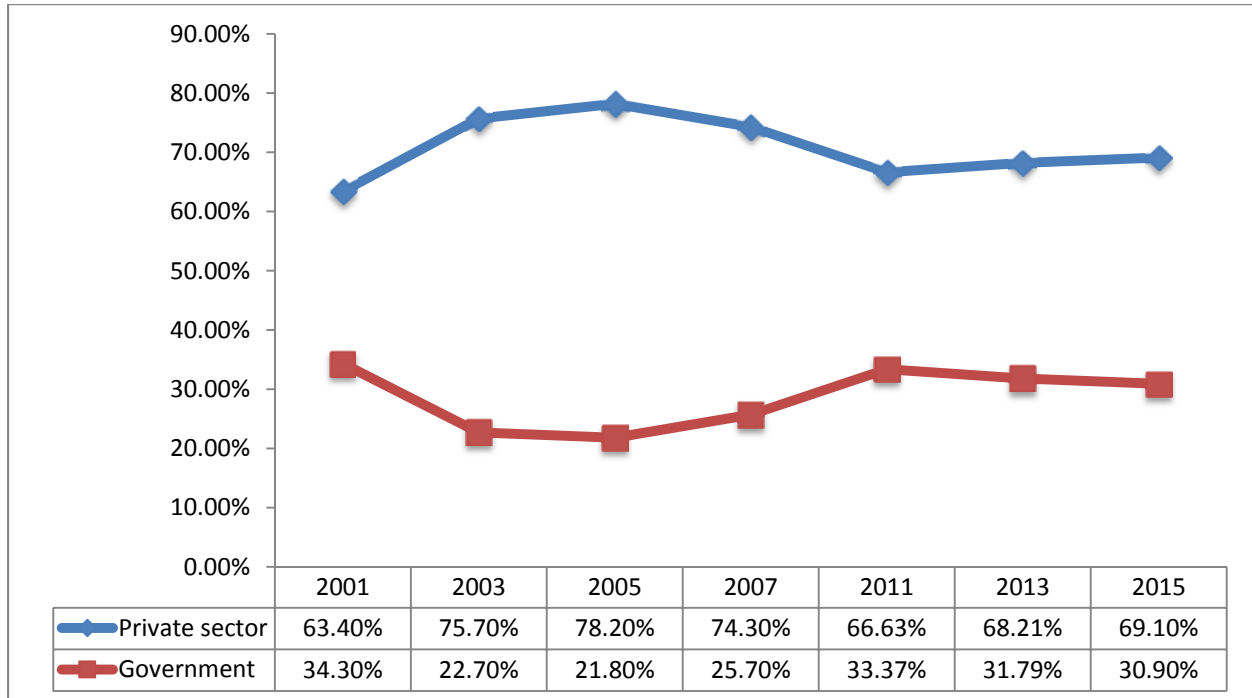
*Economic forecast/ description adjusted each year	2007	2011	2013	2015
More than 5% growth	41%	12%	30%	42%
Just about 5% growth	26%	11%	15%	16%
Growth, but less than 5%	8%	15%	10%	14%
No growth	10%	29%	21%	8%
Loss in revenue	11%	26%	15%	9%
Don't know/ Refused	4%	7%	10%	11%

The results show 42% of firms impacted by the construction industry reporting revenue growth that exceeded 5%. Of the remainder, 16% saw growth of just about 5% while 14% saw increases in revenue ranging anywhere from one to four percent. Eight percent recognized no change while nine percent saw a drop in revenue compared to a year ago.

When the results are tracked from two years ago we find construction impacted firms continuing to show improved growth from the prior year.

Gross Sales/ Past Year – Government vs Private sector

In this section of the research firms impacted by the construction industry were asked to estimate the proportion of sales over the last year derived from the private and public sectors.

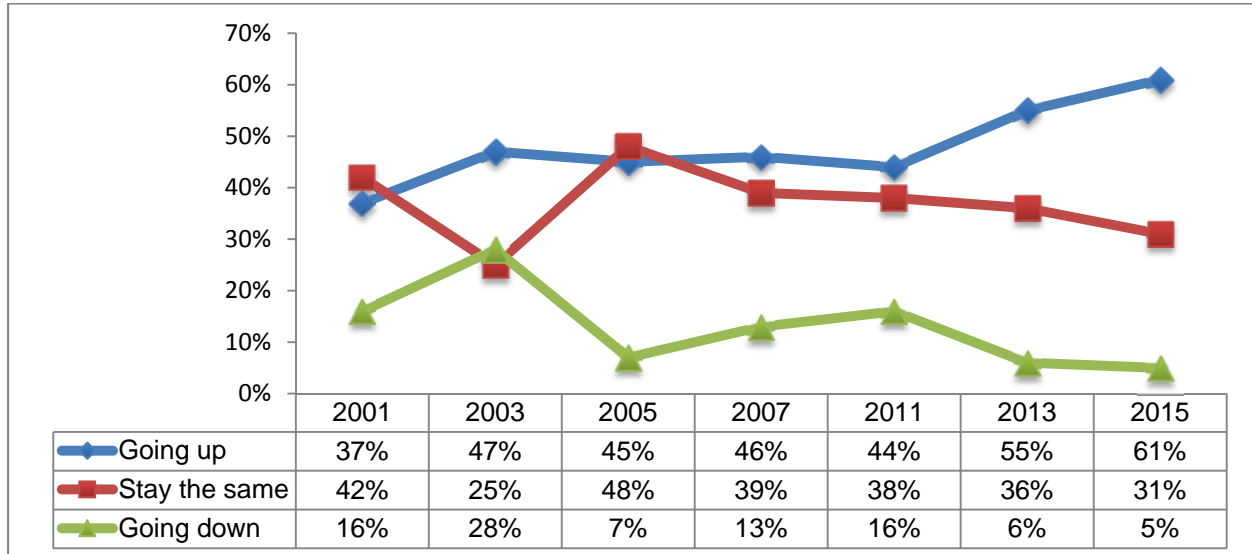


A little over two-thirds (69.10%) of the jobs generated from the prior year came from the private sector. The remainder (30.90%) represented Government projects.

- Oahu (33.47%) firms impacted by the construction industry were more likely to rely on Government-related work than those on the Neighbor Islands (23.58%).

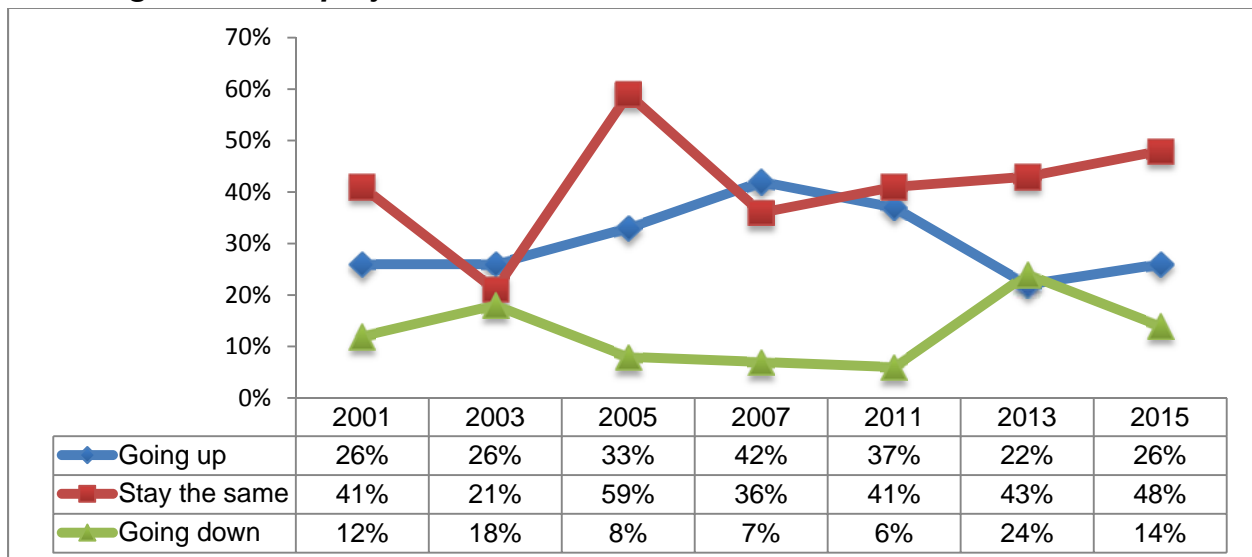
When the results are tracked we see the proportion of business from the public and private sector has remained relatively unchanged from two years prior.

Next, these same individuals were asked to project how much of their business **private sector sales** will make up in the coming year or two.



The results show 61% expect sales from the private sector to increase while 31% expect no changes from this market segment. Just five percent project a dip in work from this sector.

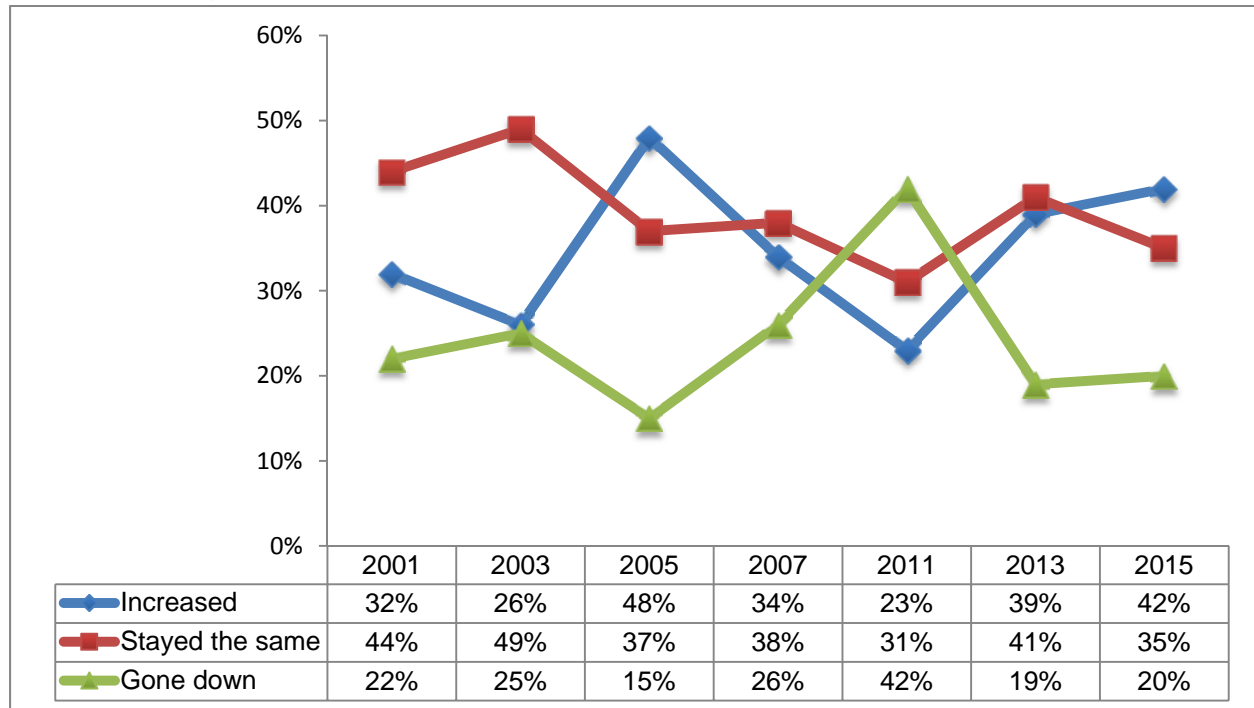
These same companies were also asked the same question regarding their expected share of **government projects**.



Overall, 26% of those businesses impacted by the construction industry expect revenue from government projects to increase in the coming year or so. Forty-eight percent predict no changes from this market segment while 14% warn of a decline in government work.

Project Backlog

Businesses that are impacted by the construction industry were then asked how their project backlog has fared over the course of the last year.

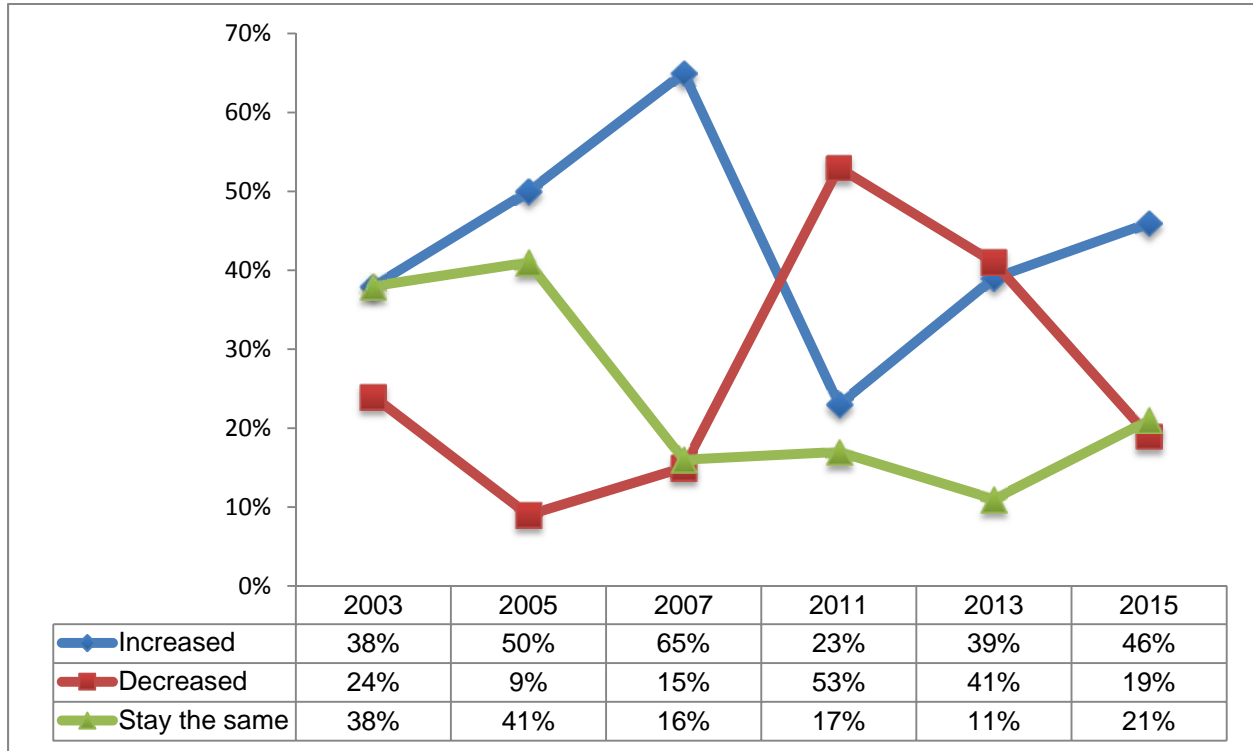


The results show 42% reporting that their project backlog has increased over the last year while another 35% report no change in this area. One in five (20%) firms indicates business has declined to a point where their backlog has actually gone down.

When the results are tracked we find no significant changes from the most recent reporting period.

Profit Before Taxes – Per Project

In this section of the research respondents were asked about profits before taxes on an individual project basis they experienced in the prior year.



The results show 19% of the firms responding to this question indicating profits before taxes per project has declined over the course of the last year. Nearly half (46%) report an increase in this measurement. One in five (21%) percent reports no change.

When the results are tracked we note an increase in profitability in the most recent reporting period continuing an upward trend.



Construction Costs

At the outset of this section of the study construction firms were asked if costs for them have continued to rise over the last two years.

	2013	2015
Yes- have continued to rise over the last 2yrs	86%	91%
No	13%	4%
Don't know	1%	5%

A majority of the construction impacted firms indicate costs have continued to rise over the last two years.

Next, construction firms were asked for their perception of how much costs have increased for them over the past two years.

	2007	2011	2013	2015
Costs have increased less than 5%	4%	13%	26%	11%
Costs have increased 5%-9%	30%	41%	41%	51%
Costs have increased 10%-14%	32%	20%	16%	22%
Costs have increased 15% or more	28%	16%	7%	9%
Don't know/ Refused	6%	10%	11%	8%

One in ten (11%) firms estimate costs have increased less than 5% over the last two years. Fifty-one percent estimate construction costs have risen anywhere five to nine percent during this time. Roughly a third (31%) of these firms has experienced cost increases above 10% during this time frame.



Mass Transit

Next, these same companies were asked about their firm’s involvement with this public works project.

	2011	2013	2015
Yes, I already have lined up work for this year or next on the rail system	10%	16%	10%
No but we will bid and I hope to get a substantial amount of rail work eventually	24%	12%	11%
No I don’t think I will get any substantial rail work	66%	72%	77%

The number of firms that have already lined up work related to the rail project has dropped back down to 10%. Conversely the proportion of firms that have come to understand they will not get any substantial work from this project continues to increase topping out at 77%.

Next, regardless of how they responded to the prior question, each business was asked to estimate the effect the rail project might have on their company.

	2013	2015
Increase my business a lot	5%	5%
Increase my business a little	29%	34%
No increase at all	61%	56%
Don’t know/Rf	5%	5%

Two in five construction-impacted firms surveyed expect to see increases to their bottom line as a result of the rail project in general. Five percent expect to substantially benefit from rail construction while another 34% project at least some positive impact.

When these results are tracked we note a slight increase in the proportion of construction-impacted firms that expect to see positive impacts to their company as a result of the rail project.



Construction Financing

Each of the firms involved in the construction industry were then asked for their thoughts regarding the availability of financing for construction projects over the past year.

	2013	2015
Improved	18%	23%
Stayed the same	61%	52%
Declined	13%	12%
Refused	8%	13%

Roughly one in four (23%) firms in this segment feels that the availability of financing for construction projects has improved over the past year. Half (52%) agree that nothing has really changed in this area while 12% are of the opinion financing has been harder to obtain.

When the results are tracked we see a slight improvement in the perceived availability of construction financing.



General Perceptions

Construction firms were asked about different economic sectors in the local market and how each would fare over the next two years in terms of activity and spending.

	More activity/ spending	Less activity/ spending	Remain the same	Don't know
Residential Construction	64%	4%	29%	3%
Commercial Construction (non-tourism)	63%	5%	25%	7%
Tourism-related Construction	43%	13%	32%	12%
Military Construction	16%	33%	34%	17%
Non-Military Construction	46%	9%	29%	16%

The research shows those taking part in the study are fairly bullish on the various sectors tested with the exception of military construction. Sixty-four percent thinks residential construction will be more active over the next two years while 63% feel the same way about commercial projects. Forty-three percent think tourism-related construction projects will have more spending while 46% think non-military construction will see more activity.

The table below tracks the proportion that predicted more activity and/or spending for each sector.

	2013	2015
Residential Construction	54%	64%
Commercial Construction (non-tourism)	46%	63%
Tourism-related Construction	53%	43%
Military Construction	23%	16%
Non-Military Construction	42%	46%

When the results are tracked we find companies more optimistic about residential and commercial construction while optimism regarding tourism-related projects and military contracts are down this year.



Permitting Process

In this section of the study companies impacted by the construction industry were asked if the building permit process in the counties they operated in has improved in the past four years.

	2015
Improved	22%
No- has not improved	51%
Don't know	27%

The research shows that 22% in this segment believe that the permitting process has improved over the course of the last four years. Of the remainder, 51% notice no change while 27% are unsure.