



Business Confidence Index

Associated Industries of Massachusetts

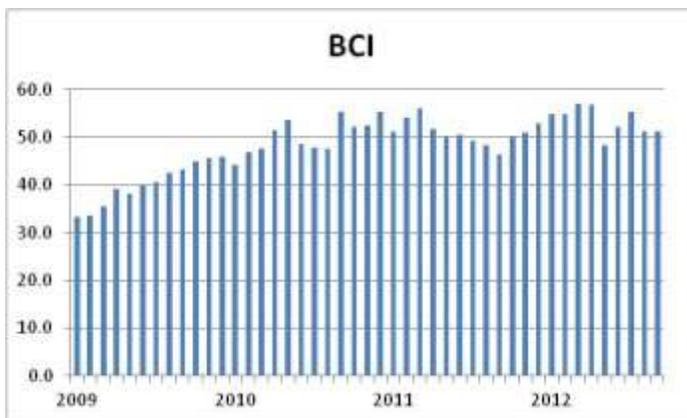
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AIM Business Confidence Index Holds as Election Nears

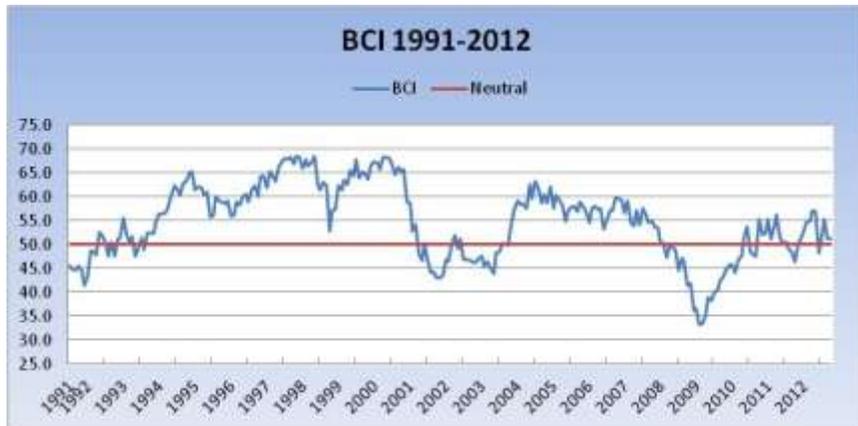


The Associated Industries of Massachusetts Business Confidence Index edged off two-tenths of a point in October to 51.1 as Massachusetts employers awaited the election results – and perhaps more importantly, action to address the “fiscal cliff” of federal spending cuts and tax increases scheduled to take effect in January.

“What stands out in the October survey is a sharp drop in the indicator of national conditions(XX),” said Raymond G. Torto, Global Chief Economist at CB Richard Ellis Group, Inc. and Chair of AIM’s Board of Economic Advisors (BEA). “The political polls have shown a closely divided national electorate, perhaps increasing concerns among our survey sample of deadlock in congress just as Congressional action becomes most urgent,” he went on. “A year ago, in the aftermath of the debt ceiling crisis, poor ratings of national conditions brought our Index even lower (46.6); at that time, however, Q3 domestic economic growth was a bit slower, and the European situation seemed more critical.”

The AIM Index, which has appeared since July 1991, is calculated on a 100-point scale, with 50 as neutral; a reading above 50 is positive, while below 50 is negative. The Index reached its historic high of 68.5 on two occasions in 1997-98, and its all-time low of 33.3 in February 2009.

Policy Concerns Shadow Economic Performance



The sub-indices based on selected questions and respondent characteristics showed a mix of monthly gains and losses in October, although all were up from a year earlier. The big loser was the U.S. Index of national business conditions, off 5.6 points at 39.4. “This is a very low number for an economy which is still growing, albeit slowly,” said Fred Breimyer,

Regional Economist for the Federal Deposit Insurance Corporation and a BEA member. “It is the lowest reading of 2012; only 6% of survey respondents called national conditions ‘good,’ while 50% rated them ‘bad.’” The Massachusetts Index of conditions within the Commonwealth was off 1.5 to 48.6, continuing to run ahead of its national counterpart – “despite the fact that the state’s growth rate appears to have decelerated and fallen slightly below the nation’s,” Breimyer noted.

The Current Index, assessing overall business conditions at the time of the survey, shed a tenth of a point to 50.8, while the Future Index, measuring expectations for six months ahead, was off two-tenths to 51.5. “Massachusetts employers are not experiencing a significant deterioration of conditions, and they still expect the business climate to improve somewhat in the coming months,” Breimyer concluded. “This looks like uncertainty about policy in the short-term, with hope for some resolution after the election.”

Company Indicators Gain

AIM Business Confidence Sub-Indices					
Index	Oct-12	Sep-12	Monthly Change	Oct-11	Yearly Change
Business Confidence	51.1	51.3	-0.2	46.6	4.5
Company Index	55.9	53.8	2.1	51.9	4.0
Massachusetts Index	48.6	50.1	-1.5	43.5	5.1
U. S. Index	39.4	45.0	-5.6	33.0	6.4
Current Index	50.8	50.9	-0.1	47.9	2.9
Future Index	51.5	51.7	-0.2	45.0	6.5
Employment Index	53.7	50.3	3.4	50.9	2.8
Manufacturing Index	52.8	53.1	-0.3	47.3	5.5

Monthly and yearly changes are calculated using unrounded indices.

All three of the company-related sub-indices gained in October: the broad Company Index rose 2.1 points to 55.9, the Sales Index added 1.8 to 54.4, and the Employment Index gained 3.4 to 53.7. “These results point to moderately positive business conditions,” said BEA member Katherine A. Kiel, Professor of Economics at the College of the Holy Cross. “The uptick in the employment

indicator is particularly significant, because it speaks to employer confidence about the future in a very concrete way. The numbers aren’t overwhelmingly strong – over the past six months 31% reported adding staff, while 17% reduced, and for the next period 25% expect to add personnel, while 16% foresee reductions – but they are solidly positive.”

Confidence remained higher among manufacturers (52.8, -0.3) than among other employers (49.8, +0.5), but the gap narrowed. Employers in Greater Boston were slightly more confident (51.5, +0.7) and those elsewhere in the state (50.5, -1.4), reversing September's pattern; and larger employers were more positive than smaller ones on all questions. "Certain sectors, such as defense-related manufacturing, face specific risk from the budget-cutting (sequestration) side of the 'fiscal cliff,' but the immediate impact is broader on the tax side – especially for the great majority of small businesses that are subject to the personal income tax," Kiel noted.

It's What Happens After the Election that Matters

"Of course the election itself is uppermost in the public mind, but to some extent Massachusetts employers seem to be most concerned with what Congress will do between Election Day and Inauguration Day to head off a looming fiscal crisis," commented Richard C. Lord, President and CEO of AIM and a BEA member. "Right now, they don't know what tax rates will be in two months, which makes planning difficult; and last year's political deadlock which brought us to this situation was not a confidence-builder, to say the least. And while a temporary fix may be necessary, it will not be sufficient – we need to see constructive agreement on a long-term solution, soon."

The economy and economic policy have received a great deal of attention in this political campaign season. How useful has the debate been in defining the most important issues and moving us towards effective responses? "AIM members are divided on this question," Lord said. "In response to a special question on our October survey, 15% said 'very useful' and 43% 'somewhat useful' – but 37% replied 'useless,' and 5% 'worse than useless.' That's 58% on the positive side, good enough to win an election but not to pass an economics course. However the election goes, the real test comes afterwards."

The monthly Business Confidence Index, initiated by AIM's Board of Economic Advisors in July 1991, is based on a survey of AIM member-companies across Massachusetts, asking questions about current and prospective business conditions in the state and nation, as well as for respondents' own operations. On the Index's 100-point scale, a reading above 50 indicates that the state's employer community is predominantly optimistic, while a reading below 50 points to a negative assessment of business conditions. A number of component sub-indices are derived by analyzing responses to selected questions or those of particular groups of respondents.

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