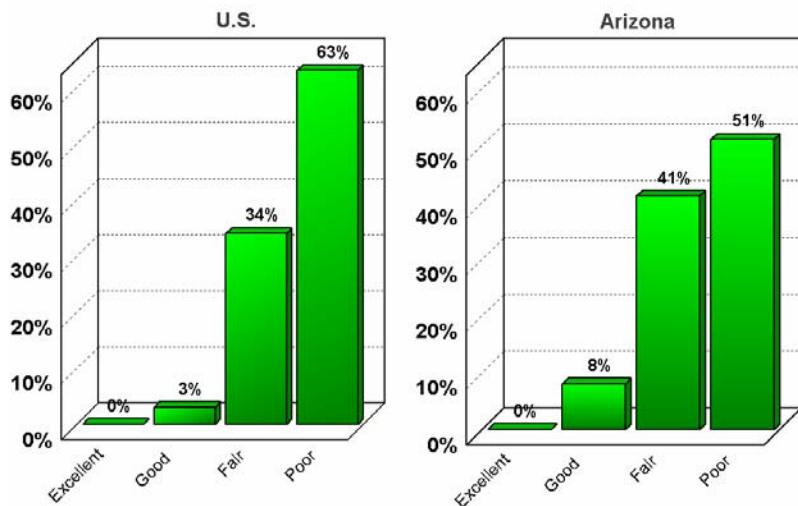


Quarter 4, 2008

***Economic Pessimism Now Universal***

For the past year we have measured the sentiments Arizona small businesses and have noted decreasing degrees of optimism each quarter. In the current (Q4 2008) survey, that optimism is virtually nonexistent. An almost universal 97% rated economic conditions in the country today as either poor (63%) or fair (34%). None rated it excellent and a hearty(!) 3% rated the U.S. economy as good.

*How would you rate economic conditions today?*



When we turn our attention to the Arizona economy we see results that are only marginally better. The negative (fair/poor) ratings comprise 92% (a majority, 51% rated it poor, while 41% rated it as fair). Again, no respondents rated the Arizona economy as excellent and only 8% rated the Arizona economy as good. Overall then, the miserable ratings ascribed to the U.S. economy are only marginally better for Arizona.

**Why These Surveys Matter**

Our stock markets have been battered. Housing prices have plummeted. Banks are afraid to lend. Consumers have pulled back on their spending. And businesses are reluctant to hire. All told, more “wealth” has been lost in the last year than in any in human history.

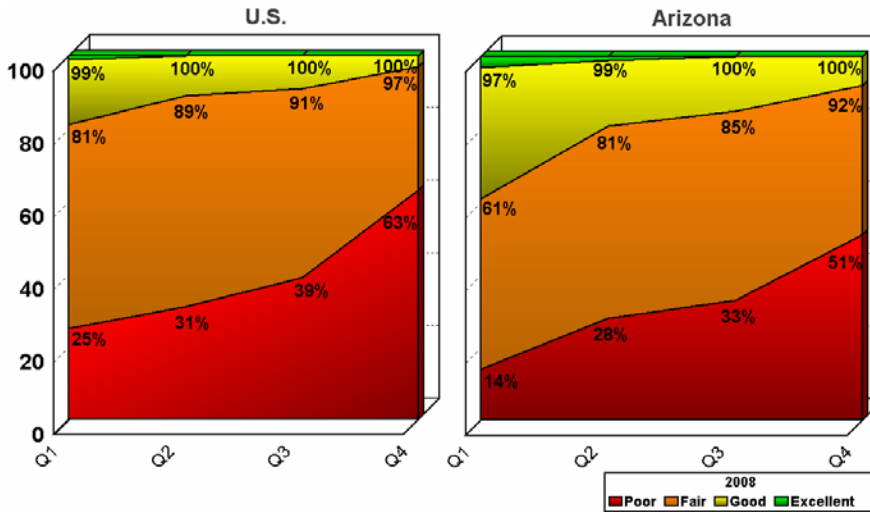
An incoming Presidential administration proposes to spend unprecedented sums primarily to inspire confidence in the resilience of the economy.

Whether or not it works will depend almost exclusively in whether it is successful in inspiring that confidence. Should that confidence return, all of the negative impacts described in the first paragraph will be reversed.

The significance of the Arizona Economic Indicators Monitor is that it measures precisely the perceptions that will ultimately drive our economy up or down.

Follow these reports and you will know a lot about what to expect from the economy.

## Four Quarter Trends



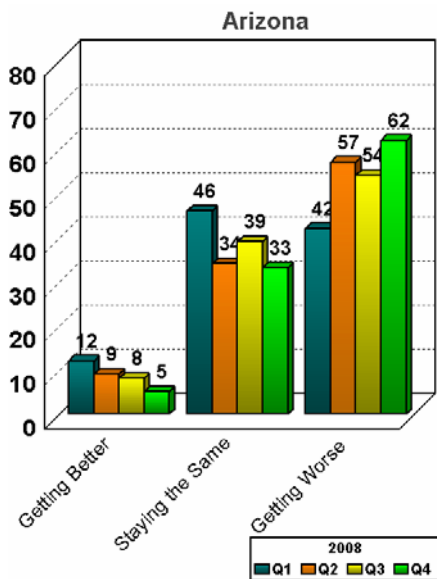
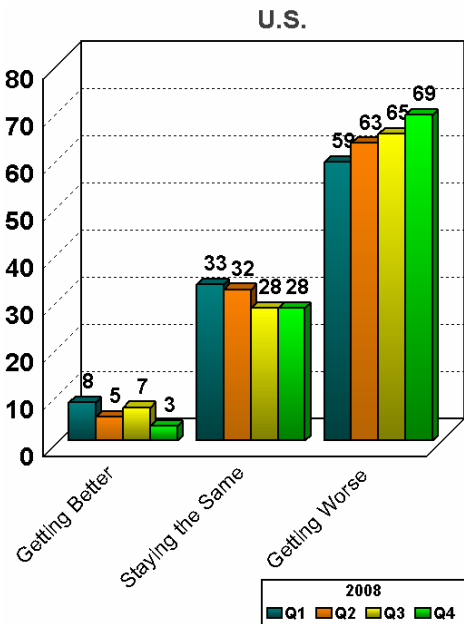
When we examine the results for the last four quarters, the collapse of economic optimism is dramatic. This is most evident when we examine specifically the proportion of Arizona small businesses who rate the U.S. economy as poor. This number has sky-rocketed: from 25% in Q1, to 31% in Q2, to 39% in Q3 to a whopping 63% in the current quarter.

When we examine the Arizona economy, these figures are only marginally better. While only 14% rated the Arizona economy as poor in Q1, this number increased to 28% in Q2, 33% in Q3 and a majority (51%) in Q4.

According to the poll’s director, Dr. Michael O’Neil, *“We have recorded increasing pessimism over the course of 2008. All of our measures deteriorated significantly over this period. In the current survey, however, there is little variance left to analyze. Pessimism is now virtually universal.”*

## Quarterly Trends

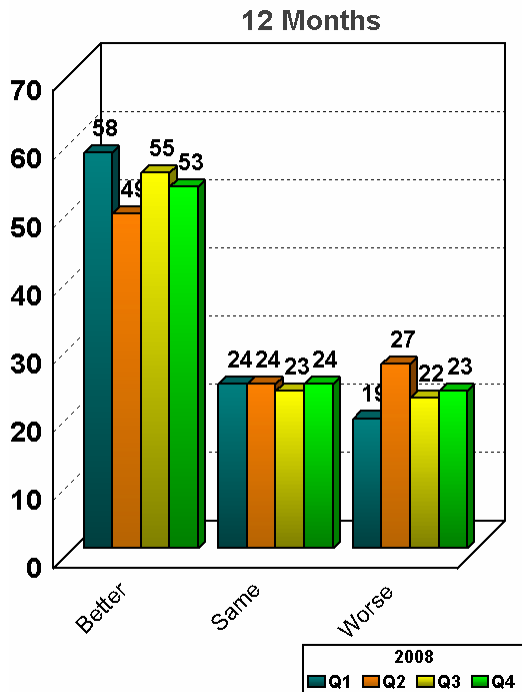
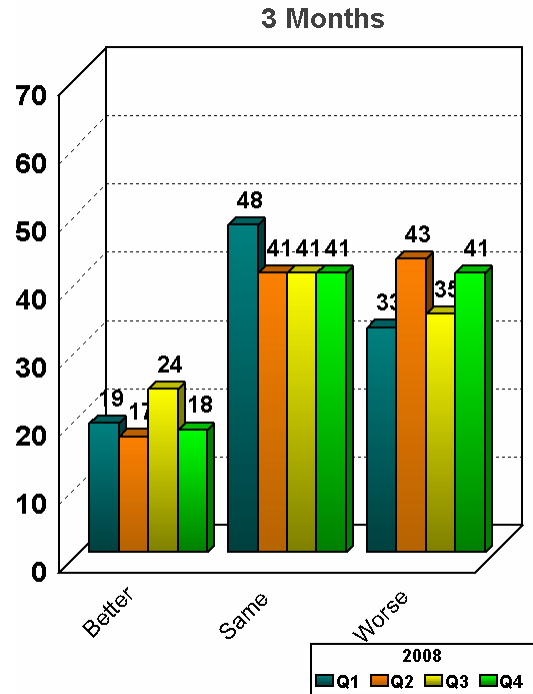
How do these same respondents perceive economic trends over time? The proportion who see the conditions in the U.S. as getting worse has climbed each quarter this year from 59% in Q1 to 69% in Q4. Not only are conditions considered to be bad, they are perceived to be getting worse by an increasing number of people.



A very similar trend is evident for Arizona. Although the Arizona figures have lagged the national figures in this regard, over the last four quarters the proportion who think that the economy is getting worse has increased from 42% in Q1 to 62% in Q4. Indeed, we see a convergence of the Arizona and national figures. In Q1, the negativity in Arizona lagged that in the U.S. by 17 points. That margin has been cut to 7% in Q4.

## When Will It End?

In order to get some sense of how long Arizona small businesses think our economic doldrums will continue, we asked two specific questions. First, we asked if Arizona small businesses think economic conditions will be better, the same, or worse in 3 months. The second question was the same, except with a 12 month timeframe. Throughout the last four quarters, the consensus has been that conditions in the next 3 months will be either the same or worse. If anything, the Q4 figures match the most negative figures we have seen to date which occurred in Q2. The minor blip of optimism we saw in Q3 has evaporated.



When we turn our attention to a 12 month time horizon, however, perspectives get considerably more optimistic. A majority of 53% think that things will move in a positive direction in the next 12 months, a proportion that is down only insignificantly from the 55% we observed last quarter.

According to the poll’s Director, Dr. Michael O’Neil, *“When we observe the responses to both of these questions together, the picture that emerges is that businesses do not see an immediate turnaround, but hold out some hope for some improvements by the end of 2009. This is the sole point of optimism which we observed in this entire series of questions, which otherwise paint an utterly dismal portrait of the expectations of Arizona businesses.”*

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These results are taken from the Q4 **O'Neil Associates/ASBA Arizona Economic Indicators Monitor**. This project provides insights to support business leaders in companies of all sizes to make key economic decisions, as well as sharing small business attitudes on major political issues. **O'Neil Associates**, a national public opinion research firm based in Tempe, sent surveys to ASBA's membership of 3,000 small businesses across the state as it did at the end of Q1, Q2, and Q3 2008. The survey covered a wide range of economic issues, including business performance, revenue and job growth, and overall business confidence ratings. Results provide insights into the perceptions of business owners on the economic health and vitality of the Arizona economy. Based on 285 responses, the survey has a margin of error (at the 95% confidence level) of approximately +/-6%.

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**Results of this survey may be cited freely with the proviso that they be cited as the O'Neil Associates/ASBA Arizona Economic Indicators Monitor"**

The **O'Neil Associates/ASBA Arizona Economic Indicators Monitor** is made possible by a cooperative effort of

- **O'Neil Associates**, a national public opinion research firm based in Tempe, has done over 1700 public opinion and marketing research projects since 1981. These include surveys and focus group projects for a wide array of businesses throughout the country.
- **ASBA**, the Arizona Small Business Association, is the leading voice for small businesses in the State of Arizona.

For a complete copy of all **O'Neil Associates/ASBA Arizona Economic Indicators Monitor** reports released to date, as well as opinion research reports on an array of other topics visit <http://www.oneilresearch.com/publicdomain> or click on the banner below.



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