

**ACCIDENT FUND INSURANCE COMPANY OF AMERICA**  
**OCTOBER 2011 MICHIGAN FUTURE BUSINESS INDEX**

**EXECUTIVE REPORT**

*Michigan small businesses see continued slight growth, while optimism slows down.  
However, long-term trends continue to tick upward.*

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## INTRODUCTION

Conducted semi-annually since 2006 by Lansing, Michigan-headquartered Accident Fund Insurance Company of American, the Michigan Future Business Index survey queries Michigan's small and mid-sized business owners to provide an assessment of economic conditions in the state, as well as an outlook on future conditions, hiring expectations, and business sector growth. Results provide benchmark and trend data for offering insights into how Michigan's small business sector will contribute to regional and statewide economic prosperity.

Lansing, Michigan-based Marketing Resource Group, Inc. (MRG) conducted the October 2011 Michigan Future Business Index survey in partnership with the Greater Lansing Business Monthly. MRG is a Michigan-owned public affairs and public opinion research consulting firm that advises corporate, association, education, and coalition interests. The Greater Lansing Business Monthly provides a regional perspective on business and industry developments in Mid-Michigan.

## METHODOLOGY

- MRG conducted the statewide 2011 Future Business Index survey of small to mid-size business owners and managers across Michigan between October 13 and 21, 2011.
- The telephone survey of 600 randomly selected Michigan businesses has a margin of error of  $\pm 3.9$  percent within a 95 percent degree of confidence.
- Fifty percent of the sampled respondents were randomly selected from the Lansing tri-county region (including Clinton, Eaton and Ingham Counties) and the remaining respondents were randomly selected from businesses across the state.
- The survey gleaned business owners' assessment of business performance over the previous six months and asked for their expectations for the coming months. In addition, the survey asked for their views regarding various topics concerning businesses in Michigan, including taxation and legislative issues.

## EXECUTIVE SUMMARY

### ECONOMIC SATISFACTION SLOWS

#### BUT STILL ON AN UPWARD TREND FOR THE PAST 18 MONTHS

The October 2011 Future Business Index survey of 600 small business owners across Michigan asked respondents to rate their level of satisfaction with the economy and its affect on their business, Although satisfaction with the economy has slowed slightly since June, the long-term upward trend of optimism continues.

### Highlights

- After setting a record high (32%) in June, satisfaction with the economy has slumped five points to 27 percent.



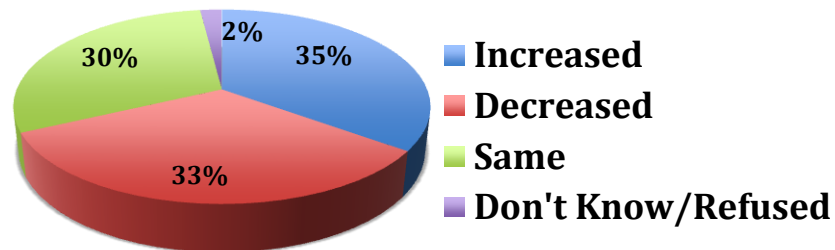
## INVESTMENTS AND WAGES HOLDING STEADY SALES SLIGHTLY INCREASING, ESPECIALLY IN METRO DETROIT

When respondents were asked to assess the performance of their business operations over the previous six months, the results show very little change when compared to the findings of the last Michigan Future Business Index conducted in June.

### Highlights

- Eighteen (18) percent of respondents said their major investments in facilities and equipment had increased in the past six months. By contrast, in June, twenty (20) percent said that they had boosted investments.
- Fifteen (15) percent said they increased employee wages. In June, fourteen (14) percent said they had boosted wages – very little change.
- Eleven (11) percent said they increased the number of employees – only a slight difference from June, when twelve (12) percent said they hired new workers.
  - Most of the hiring happened in the Grand Rapids area, where fifteen (15) percent of respondents said they hired more employees and the fewest number of new jobs were in the Metro Detroit region (9 percent).
- Twenty-two (22) percent said profits had increased in the last six months – a one-point increase from June, when twenty-one (21) percent said that profits had gone up. This is also a two-point increase from last October.
- Thirty-five (35) percent of small business owners reported in this survey that sales had increased over the previous six months. That is a two-point increase from the June survey, when 35 percent reported that sales had increased.

### Sales Over Last Six Months



- Metro Detroit saw the most growth in sales, where forty (40) percent said sales increased.
- Twenty-two (22) percent said the profitability of their business has increased over the past six months, while thirty-five (35) percent said it decreased. Again, a plurality (41

percent) said it stayed about the same.

- Profitability was strongest in Lansing and Metro Detroit (24 percent said increased) and weakest outstate (18 percent increased).

## **GROWTH EXPECTATIONS SLOWING, BUT STILL TRENDING UP OVER THE YEAR** ***SAME FOR SALES, PROFITS, HIRING AND WAGES***

When respondents were asked to look down the road and predict performance in the next six months, it's clear that they are still reigning in their optimism. While they are not necessarily pessimistic, they are not yet likely to believe significant growth is on the near horizon. The most recent economic downturn has slowed the modest optimism that we revealed in the June survey. Nevertheless, expectations are still more confident than one year ago.

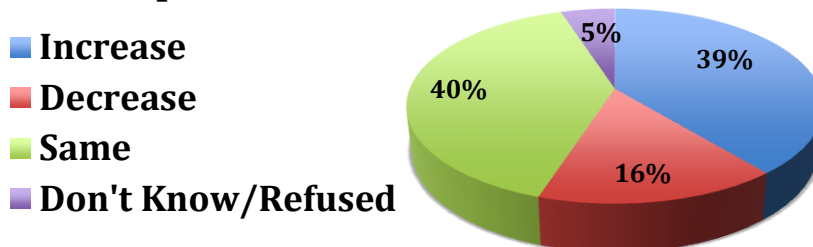
### **Highlights**

- Fifty (50) percent say that the business outlook for the next six months is good, with 36 percent saying "somewhat good." Thirty-four (34) percent said the outlook is bad. Most of those (19 percent) fell in the "somewhat bad" category. While the outlook has slumped slightly since June, it is still trending significantly higher since October 2010.



- Thirty-nine (39) percent of respondents say they expect sales to increase in the next six months. That's a four percent decrease from June, when forty-three (43) percent said they expected sales to increase. The percentage of those who believe sales will decrease has jumped to sixteen (16) percent from nine (9) percent in June.

### Expected Sales Over Next Six Months



- Only thirty (30) percent said they expect profits to increase – an eight (8) percent drop since June.
  - Again, Grand Rapids and Metro Detroit are most bullish about the future when it comes to sales and profits expectations.
- However, when thinking about expectations for their business bottom line (expenses

compared to profits), the trends continue to be positive.



- Fifteen (15) percent plan to hire more employees in the next six months, while eighteen (18) percent plan to increase wages, both showing a slight pullback from June.
  - In Metro Detroit, 22 percent plan to hire more workers.
  - In Lansing, 21 percent plan to increase wages.







- Nineteen (19) percent expect to invest in office equipment in the next six months, which is an increase of one percent since June. And forty-three (43) percent say they will invest in advertising – a two-percent increase. Internet advertising is now preferred by 44 percent of respondents, with newspapers coming in second at 43 percent.

### DOING BUSINESS IN MICHIGAN CYNICISM CONTINUES TO DECLINE

While business owners are still pessimistic about Michigan as a place to do business, we continue to see optimism accumulate, albeit slowly.

#### Highlights

- Fifty (50) percent of small business owners in this survey gave a negative rating to Michigan as a market for their goods and services. That’s down from sixty (60) percent in October 2010.
- Forty (42) percent rated Michigan’s tax system as unfair regarding the way it affects their

business, which is down from fifty-three (53) percent from one year ago.

### **GREATEST CHALLENGES TO DOING BUSINESS IN MICHIGAN**

Once again, nearly one-third (31 percent) cite finding new customers as their greatest challenge to their business over the last year. Concerns about the economy come in second at 13 percent, while cash flow and financing concerns are third at 8 percent.

### **REASONS FOR OPTIMISM**

Fifteen (15) percent of respondents cited the acquisition of new customers or holding on to existing customers as the reason for optimism about their businesses. Eleven (11) percent said they believe they have a good product or service, and nine (9) percent believe the economy is starting to improve. Of those who are optimistic, nearly one in four (21 percent) point to recently increased profits or an expanded customer base.

### **CONCLUSIONS**

In June of 2011, the Michigan Future Business Index showed signs of optimism among small and midsize business leaders in Michigan. Many of the leading indicators including satisfaction with the economy and expectations for the future were trending positive, if only slightly, while negative perceptions were beginning to subside.

In this latest October 2011 index survey, businesses have tempered their optimism slightly, likely because of a late summer slump in the national economy and the markets. Employers of all sizes in Michigan also are increasingly citing a negative outlook on the national economy, and believe that the drag nationally will affect Michigan's economic growth. However the long-term trends continue to move in a positive direction. More business owners are saying they plan to reinvest in their businesses through equipment and advertising purchases. And the regional data this time around show signs of growth in the Metro Detroit region, with more there saying that they are bullish about the future economy and that they plan to hire new employees.

The next survey will play a critical role in determining if these minor pullbacks in optimism are just a temporary correction or if they are the beginnings of another negative trend. We tend to believe that it's more likely to be the former rather than the latter, given that the findings throughout the entire survey are a mixed bag of positive and tentative data.

Bottom line: Michigan's small businesses continue to wait on the sidelines for signs of stability and certainty.