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MICHIGAN FUTURE BUSINESS INDEX November 2013

FINDINGS REPORT

- **Uncertainty and concern over the Affordable Care Act is deepening.** Businesses are being forced to reevaluate profit expectations and modify how they provide health care benefits to employees.
- **Michigan's small to mid-sized businesses are bullish on the state economy and future business in Michigan.** After a short pause in 2012, Michigan's businesses show sustained confidence in a brighter future for the economy and their own success.
 - *Projected hiring and business investment plans continue to improve for the next six months.*
 - *Hiring the right people remains to be a challenge. The demand for qualified talent continues to outpace supply.*

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INTRODUCTION

The Michigan Future Business Index (MFBI), commissioned semi-annually by Accident Fund Insurance Company of America, surveys owners of small to medium-sized businesses in Michigan and provides a business perspective of economic conditions in the state. The survey also measures business owners' expectations for future economic and business sector growth. Results provide data to track trends and offer insights into the small to medium-sized business sector's contribution to regional and statewide economic prosperity.

Phoenix Innovate conducts the MFBI survey in partnership with the Accident Fund Insurance Company of America and the Michigan Business Network. Phoenix Innovate is a Michigan-based marketing services and survey research firm that advises corporate, association, education and coalition interests. The Michigan Business Network provides perspectives on business and industry developments across Michigan.

METHODOLOGY

- Phoenix Innovate conducted the November 2013 MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan between November 11 and 30, 2013.
- The mixed-method survey included telephone and web interviews with 933 business executives from Michigan companies with 500 employees or fewer. It has a margin of error of ± 3 percent within a 95 percent degree of confidence.
- Thirty-four percent (n=317) 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 their expectations for the next six months. In addition, the survey garnered various perceptions and personal experiences regarding doing business in Michigan.

MFBI CONCLUSIONS: NOVEMBER 2013

Michigan's small to medium-sized business leaders believe the state economy has turned the corner and is moving in the right direction. They also have renewed, and now sustained, confidence in the future of their own businesses to bolster their plans to reinvest in their own futures and those of their employees. This latest survey shows they are maintaining their plans — as reported in the June MFBI — to hire additional workers and increase wages, while additional employee training and education investments are also slated. These investment strategies are fueled by their recent gains and their confidence in their future business success.

While they see continued optimism regarding future sales and the opportunities for growing businesses within their market, their confidence in maintaining a strong bottom line has slightly weakened. The data indicate that one of the dark clouds casting a shadow on this optimism is the Affordable Care Act. It is now seen as the top challenge to doing business in Michigan and has forced business leaders to further modify their employee health care plans to comply with new regulations and limit operating cost overruns. Ultimately this means that employees will take on more financial responsibility with their health care coverage.

Another challenge for business is the continued shortage of qualified talent. The number of businesses who say they are having difficulties finding job candidates with specific skillsets continues to climb. Many are providing additional training and educational opportunities to their current employees to fill their short-term needs, but more must be done on the state level to make Michigan more attractive to recent graduates and highly skilled workers.

Aside from these struggles, Michigan small to medium-sized businesses are in a strong position to grow in the next quarter. With that continued growth, along with individual and collective efforts to understand and overcome the challenges created by the current recovering economy and existing regulatory environment, the Michigan economy is poised to make significant gains.

FINDINGS

SATISFACTION WITH THE STATE ECONOMY CONTINUES A POSITIVE TREND

Overall, 2013 has been a very positive year in terms of how the Michigan business community views the state economy. Throughout 2013 a majority of respondents to the MFBI have said that they are satisfied with the direction of the state economy. That's the first time in the history of the MFBI that satisfaction outgained dissatisfaction over two consecutive surveys.

Satisfaction with the state economy gained one point since the spring survey — now up to 55 percent — while dissatisfaction dropped one point to 43 percent. We've seen a consistent upward climb in this satisfaction trend line since January of 2010.

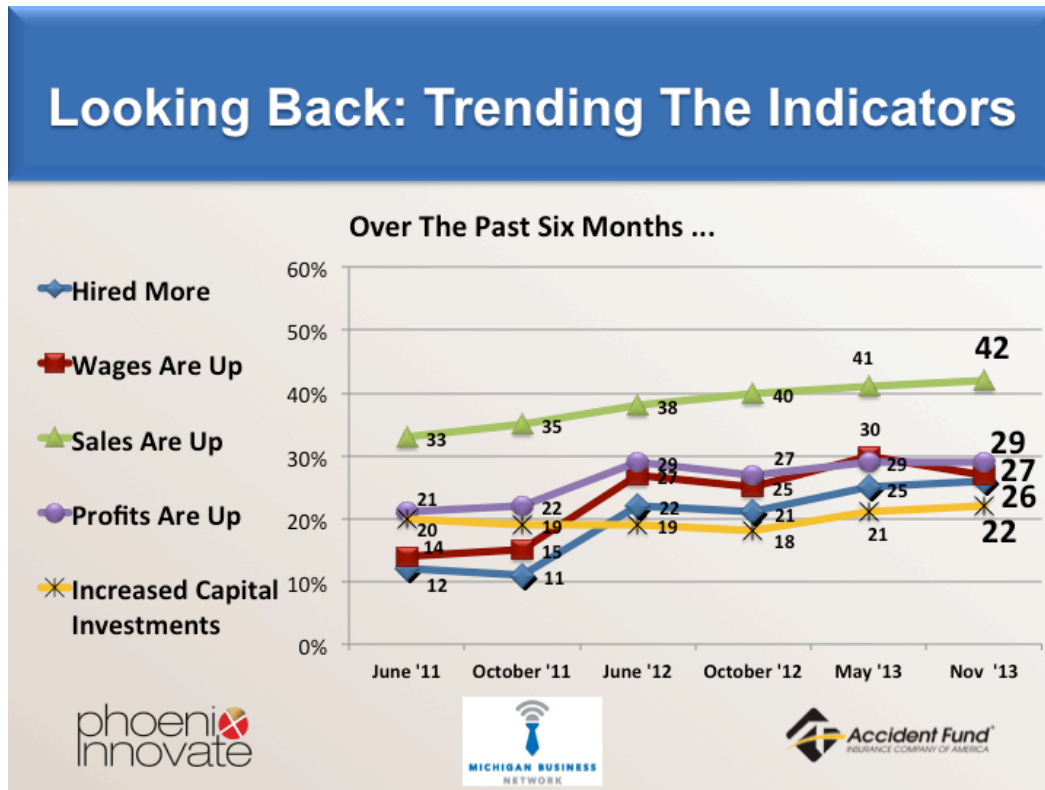


Highlights

- This survey sets another MFBI record for business leaders' satisfaction in the direction of the economy.
- Satisfaction with the economy is highest in Detroit Metro (62%) and West Michigan (60%) regions and lowest in Northern Michigan (43%).

PAST SIX-MONTH INDICATORS UNCHANGED, POSITIVE

Small and mid-size business leaders are indicating that the volatility in the market may be subsiding, with most now saying that new hires, wages, profits and capital investments have held steady since June, when we saw a flourish of positive activity. However, sales show signs of continued growth.



Highlights

- The percentage of businesses reporting **new hires** again reaches a new historical high. Twenty-six (26) percent now say they've hired more employees over the past six months, which is up 15 points since October 2011.
- While the percentage of employers who say they have **increased wages** has dropped slightly since June — from 30 to 27 percent — only four percent said they decreased wages, which is unchanged since June.
- **Profits** are holding steady, with 29 percent reporting increases — unchanged since June 2013 — and 23 percent reporting losses, representing a drop of one point since June.
- **Sales** continue to improve, with 42 percent saying they have increased over the previous six months. That is another one-point increase from the June 2012 survey and a nine-point increase since June 2011.

- **Major investments** in facilities and equipment have again increased with 22 percent now saying they've invested more in the past six months.

MOST SIGNIFICANT CHALLENGE TO DOING BUSINESS IN MICHIGAN: THE AFFORDABLE CARE ACT

- **Health care** (16%) and **government regulations** (13%) are now the top two challenges to doing business in Michigan, while **keeping and attracting talent** comes in a close third at (13%). Since June, health care concerns have increased five points and government regulations concerns have increased two points. It is clear from the verbatim comments that the Affordable Care Act is placing heightened regulatory and financial burdens on small to medium-sized businesses across Michigan. Given their comments to additional questions regarding expectations for future profits, it is likely generating uncertainty about their future bottom line as well.
- **Making a profit** (8%) and **the economy** (8%), **managing growth** (6%) and **taxes** (6%) make up the next tier of challenges to business in Michigan, according to this survey.

WITH CONCERNS OVER THE ACA'S IMPACT ON BUSINESS MOUNTING, MORE WILL REQUIRE EMPLOYEES TO SHARE HEALTH CARE COSTS

This latest MFBI survey indicates that concerns over the effects of the Affordable Care Act on business are causing employers to shift more of the health care burden onto their employees. Thirty-two (32) percent say they will require employees to pay for more of their own **health insurance premiums**. That's an increase of three percent since June 2013 and an 18 percent climb since June 2011.

Highlights

- Nineteen (19) percent say they will decrease **health care benefits** — up from 17 percent in June 2013 and 10 percent in June 2012.
 - Only twelve (12) percent say they don't expect increased health care costs over the next six months.
 - The data indicate that smaller businesses are impacted most by health care changes at this time.

THE OVERALL OUTLOOK FOR FUTURE BUSINESS REMAINS STRONG WHILE PROFIT EXPECTATIONS HAVE SLIGHTLY WEAKENED

Six out of ten (60%) respondents said that their outlook for future business is positive, which is a slight reduction from 64 percent in June 2013. While most indicators point to a rekindling of perceived business opportunities throughout the state, expectations for future profits indicate increased uncertainty.



Highlights

- Sixty (60) percent say their **outlook for business** over the next six months is good, with 21 percent saying “very good.” Only fifteen (15) percent said the outlook is bad—a drop of one point since June.
- Forty-eight (48) percent of respondents say they expect **sales** to increase in the next six months. That’s a drop of two points since June, but still six points higher than October 2012. The percentage of those who believe sales will decrease has increased by only one point since June, up to seven percent.
 - Expectations for increased sales are strongest in the Metro Detroit region.
- Expectations for increased future **profits** have decreased slightly since June, from 40 percent to 36 percent. A plurality (41%) believe profits will remain the same and sixteen (16) percent now say profits will decrease, unchanged since June.
 - Larger businesses with higher revenues are more likely to expect profit increases.

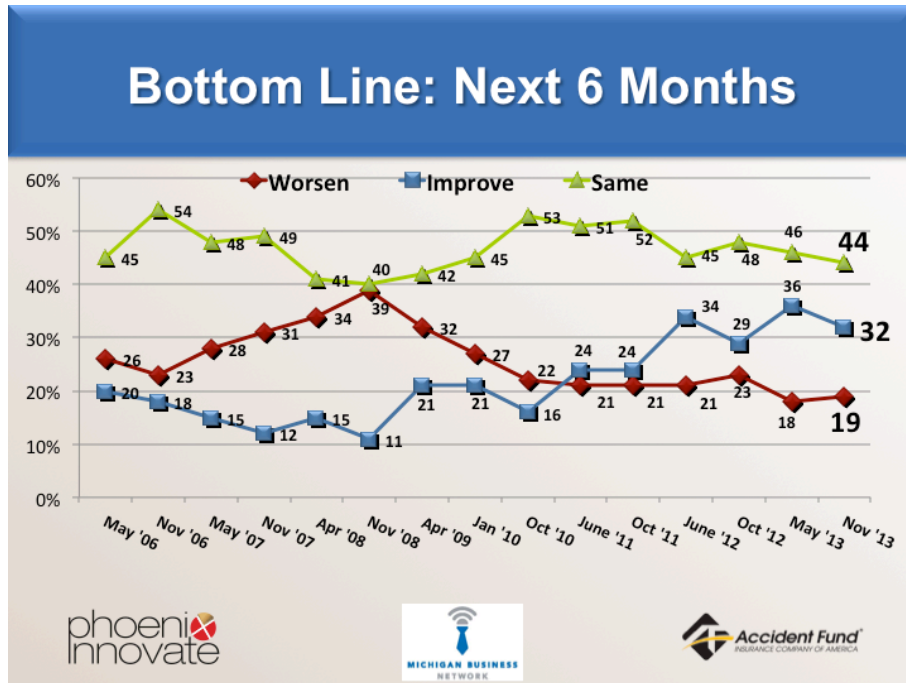
BOTTOM LINE EXPECTATIONS RETREAT SLIGHTLY WHILE UNCERTAINTY OVER BUSINESS COSTS CREEPS IN

While remaining generally positive, the percentage of those who believe their **bottom line** will improve has dropped four points since June, to 32 percent. Forty-six (46) percent believe it will

Summary of Findings

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remain the same (a drop of two points), while only 19 percent say it will worsen (an increase of one point). Five percent now say they are uncertain about their future bottom line. Given the respondents' comments about new financial burdens brought about by health care regulatory policy, this increase in uncertainty may be attributed to the ACA.



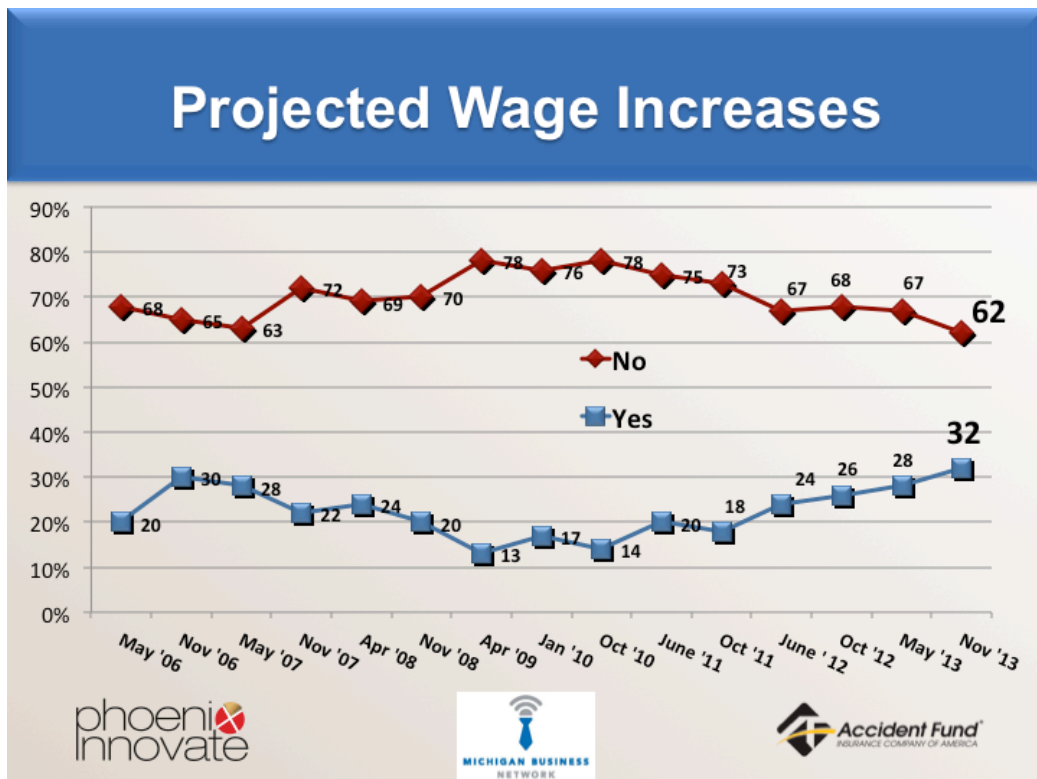
PROJECTED NEW HIRES OUTPACE PROJECTED LAYOFFS BY 21 PERCENT STILL MORE HAVING DIFFICULTY FILLING POSITIONS



Highlights

- Twenty-nine (29) percent of respondents say they plan to **hire** additional employees in the next six months, which represents little change since June (30%).
 - New job opportunities are most robust in West Michigan (33%) and Metro Detroit (32%).
 - New startup businesses (33%) and those in the manufacturing sector (35%) are most likely to be hiring.
- Respondents' perceptions of Michigan's **skilled labor pool** show signs of further deterioration since June. Eleven (11) percent now give their access to qualified personnel a "poor" rating — up one point since June — while 33 percent give it a rating of "only fair" — up four points since June. A plurality (38%) still says it's "pretty good," but only 11 percent give it an "excellent" rating — unchanged since June.
 - The percentage of businesses having difficulties filling open positions continues to climb. Forty (40) percent say they are having difficulties, representing a four-point increase since June 2013, and an eight-point increase since October 2012.
 - Among those who have had difficulties, nearly eight in ten continue to say they can't find qualified applicants to fill the open positions.

PLANNED WAGE INCREASES CONTINUE TO CLIMB



Highlights

- The outlook for increased **wages** continues to improve. Now, 32 percent of all respondents say they plan to increase wages for their employees within the next six months. That's up another four points from 28 percent in June 2013 and up 14 points from October 2011.
 - Wages are most likely to climb within the manufacturing, financial, insurance and real estate sectors.
- Sixty-one (61) percent plan to invest in **employee education or training** over the next six months. That's an increase of four (4) percent since June 2013 and an increase of 35 percent since June of 2011.
- Fifty-three (53) percent say they will invest in **advertising** — up two points since June 2013. Internet advertising continues to climb three points as the preferred advertising investment (65%) with direct mail — also climbing — coming in second at 36 percent. Magazine advertising also climbs to 26 percent.

MOST GRADE MICHIGAN FAVORABLY FOR ITS BUSINESS MARKET AND TAX STRUCTURE

Perceptions of Michigan's business and consumer markets continue to improve, while a growing majority of business owners statewide continue to say the state tax structure is fair to business.

Highlights

- Fifty-nine (59) percent of respondents give Michigan a positive rating for being a good **market for their goods or services**. A plurality (49 percent) says it's a "pretty good" and 10 percent say it's "excellent." That's a seven-point increase since October 2012. Thirty-two percent rate it as "only fair," and only nine (9) percent say "poor."
- Fifty-seven (57) percent rate Michigan's business **tax system** as "fair," up three points from October 2012. Only 29 percent now say it's unfair, down eight points from October 2012.

BUSINESS LEADERS CONTINUE TO BE MORE ENCOURAGED THAN CONCERNED WHEN THINKING ABOUT THEIR FUTURE IN MICHIGAN

- Forty-three (43) percent said they are encouraged—15 percent very encouraged—for their business ten years from now. That's a seven percent increase since October 2012. Thirty-five (35) percent said they are concerned—15 percent very concerned—a one-point drop since October 2012. Twenty-one (21) percent remain uncertain—down five points since October 2012.