



Accident FundSM Michigan Future Business Index



ACCIDENT FUND INSURANCE COMPANY OF AMERICA
2011 MICHIGAN FUTURE BUSINESS INDEX

EXECUTIVE REPORT

Michigan small businesses see slight growth, and begin a turn toward optimism about future growth.

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INTRODUCTION

Conducted semi-annually since 2006 by Lansing, Michigan-headquartered Accident Fund Insurance Company of American, the Michigan Future 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.

The 2011 Michigan Future Business Index survey was conducted by Marketing Resource Group, Inc. in partnership with the Greater Lansing Business Monthly. Marketing Resource Group is a Michigan-owned public affairs and public opinion research consulting firm that advises corporate, association, education, and coalition interests.

METHODOLOGY

- Marketing Resource Group, Inc. (MRG) conducted the statewide 2011 Future Business Index survey of small to mid-size business owners and managers across Michigan between June 10 and 16, 2011.
- The telephone survey of 600 randomly selected Michigan businesses has a margin of error of ± 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). The remaining respondents were randomly selected from a database of businesses across the state.
- The survey gleaned business owners' assessment of business performance over the previous six months and asked for their predictions 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

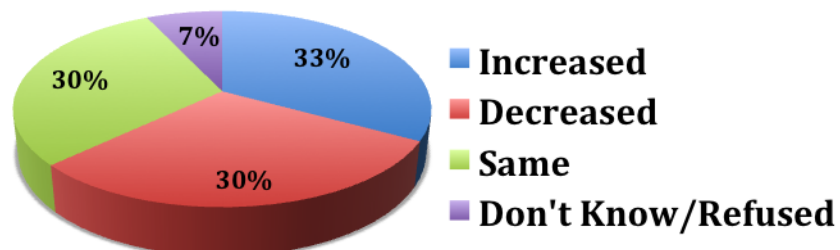
ONLY SLIGHT GROWTH SEEN OVER THE LAST SIX MONTHS INCREASED INVESTMENTS IN EQUIPMENT AND WAGES

The June 2011 Future Business Index survey of 600 small business owners across the state asked them to assess the performance of their business operations over the previous six months. The responses showed flat trends to only marginal growth when compared to the findings of the last Index survey conducted in October 2010.

Highlights

- The most significant increases, when compared to the October survey, are seen in investments plowed back into businesses. Twenty (20) percent of respondents said their major investments in facilities and equipment had increased in the past six months. By contrast, in October 2010, only twelve (12) percent said that they had boosted investments.
- Fourteen (14) percent said they increased employee wages. That's a significant improvement from October 2010, when only ten (10) percent said they had given wage hikes to employees.
- Twelve (12) percent said they increased the number of employees – only a slight improvement from ten (10) percent in October 2010.
 - Most of the hiring happened in the Grand Rapids area, where twenty (20) percent of respondents said they hired more employees.
- Twenty-one (21) percent said profits had increased in the last six months – virtually the same as October 2010, when 20 percent said that profits had gone up.
- Thirty-three (33) percent of small business owners reported in June 2011 that sales had increased over the previous six months. That result is virtually unchanged since October 2010, when 34 percent reported that they had sales increases.

Sales Over Last Six Months



Slight Growth cont...

- Grand Rapids saw the most growth, where 44 percent of respondents said sales increased.
- Only 20 percent said the profitability of their business has increased over the past six months, while 32 percent said it decreased. A plurality (42 percent) said it stayed about the same.
 - Profitability was weakest in Lansing (18 percent said increased) and outstate (15 percent increased).

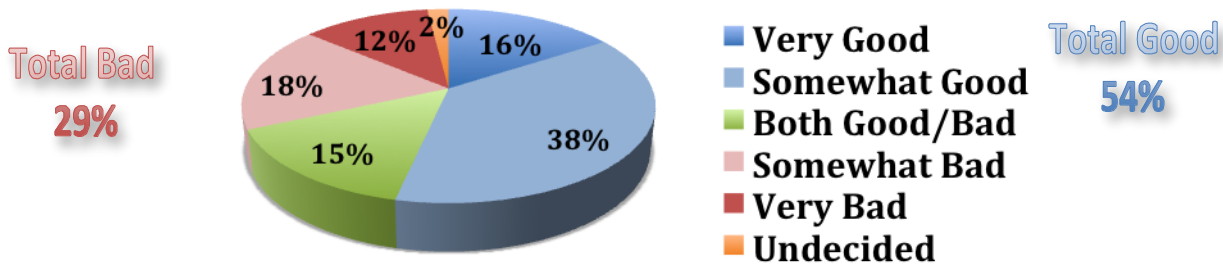
MORE GROWTH EXPECTED OVER THE NEXT SIX MONTHS
EXPECTED INCREASES IN SALES, PROFITS, HIRING AND WAGES

After asking small business owners how their business had performed over the previous six months, respondents were asked to look down the road and predict performance in the next six months. There is evidence that the fog of pessimism is starting to lift, if only slightly, compared to October of 2010, and business owners' attitudes are slightly turning toward optimism.

Highlights

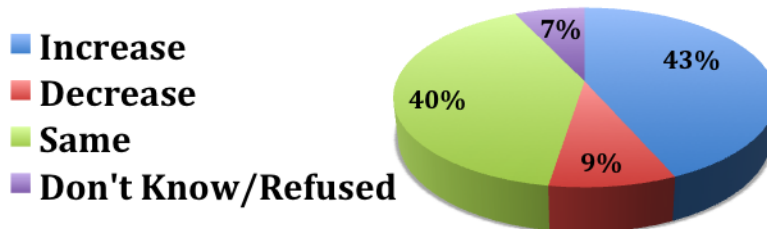
- A majority (54 percent) says that the business outlook for the next six months is good, with 38 percent saying "somewhat good." Only twenty-nine (29) percent said the outlook is bad. Most of those (18 percent) fell in the "somewhat bad" category.

Business Outlook For Next Six Months



- Forty-three (43) percent of small business owners said they expect sales to increase in the next six months (through December 2011). That's a nine percent increase from October 2010, when only 32 percent said they expected sales to increase.

Expected Sales Over Next Six Months



- Thirty-eight (38) percent said they expect profits to increase – a six percent improvement from October 2010, when thirty-two (32) percent said profits would rise.
 - Grand Rapids and Metro Detroit are most bullish about the future when it comes to sales and profits expectations.
- Sixteen (16) percent plan to hire more employees in the next six months, while twenty (20) percent plan to increase wages.
 - In Grand Rapids, 20 percent plan to hire more workers.
 - In Lansing, 23 percent plan to increase wages.
- While a plurality (48 percent) say they expect employee benefits to stay the same, 43 percent say they don't offer benefits.
- While only eighteen (18) percent expect to invest in office equipment in the next six months, forty-one (41) percent say they will invest in advertising. A plurality (49 percent) say advertising dollars will be allocated to newspapers, while Internet advertising comes in second at thirty-four (34) percent.

DOING BUSINESS IN MICHIGAN *RESPONDENTS ARE LESS CYNICAL, BUT NOT YET EXUBERANT*

While business owners' are still pessimistic about Michigan as a place to do business, we see some improvement.

Highlights

- Fifty-one (51) 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 (40) percent rated Michigan's tax system as unfair regarding the way it affects their business, which is down from fifty-three (53) percent in October. It's possible that the new business tax reform package passed by Gov. Snyder and state lawmakers in early 2011 has improved perceptions of Michigan's business tax structure.

GREATEST CHALLENGES TO DOING BUSINESS IN MICHIGAN *EVERYTHING LINKED TO THE POOR ECONOMY*

More than one in four (28 percent) cite finding new customers as their greatest challenge to their business over the last year. Tied for second place at eleven (11) percent are cash flow and financing problems, and general comments about the poor economy. The price of gasoline comes in fourth at four percent. In follow up questions respondents infer that they believe the economy will improve over the next year, spurring new customer growth and improving cash flow.

Given the substantial increase in health care costs over recent years, it is surprising that only one percent of respondents said health care was their greatest challenge

REASONS FOR OPTIMISM *CUSTOMERS!*

Seventeen (17) percent of respondents cited the acquisition of new customers or holding on to existing customers as the reason for optimism about their businesses. Twelve (12) percent said they believe they have a good product or service, and 10 percent believe the economy is starting to improve. Of those who are optimistic, nearly one in three (32 percent) point to recently increased profits or an expanded customer base.

**MOST GIVE STATE LEGISLATURE FAILING GRADES
FOR ITS SPENDING PRIORITIES
*BELIEVE EDUCATION SHOULD COME FIRST***

- Forty-five (45) percent say the Michigan Legislature is doing a poor job of setting spending priorities for state government, while thirty-one (31) percent give the Legislature a rating of only fair. That's 76 percent giving the Legislature a negative rating, while only 16 percent give lawmakers a positive rating
- When asked which area of state government should receive first priority for funding, 42 percent said they believe education should be first and foremost.

CONCLUSIONS

In October 2010, business owners expressed concern about a number of potential problems coming down the road in 2011 – challenges that they thought would significantly impact their ability to sell their products and services, provide employee benefits, and make a profit.

Based on this most recent survey, those concerns have at least subsided somewhat and optimism is on the rebound.

Responses indicate that consumers are again beginning to buy Michigan products and services, and owners are taking steps toward reinvesting in their businesses and employees. Recent regional economic data confirm the results of this survey that show that the Grand Rapids area continues to enjoy most of the economic growth in the state, and it tends to show that optimism remains strong in that region for the coming months.

From a public policy standpoint, the new Governor and Legislature have quelled previous business owners' consternation over budget, tax and regulatory reform – and the perceived impact those reforms would have on their bottom line. With the recent restructure of the tax code by Michigan lawmakers and their fervor for balancing the state's books, job providers indicate that things are beginning to move in the right direction in the state and they voice the idea there's reason to believe that Michigan is once again open for business.