January 2011

Macomb Business Climate Survey

Conducted and Compiled by

Oakland University

In collaboration with

The Macomb Chamber Alliance

Leadership Macomb

The Macomb County Department of Planning & Economic Development

MACOMB BUSINESS CLIMATE SURVEY – JANUARY 2011

Introduction

We are pleased to have been asked to coordinate this third Business Climate Survey for Macomb County and we are grateful to the **Macomb Chamber Alliance**, **Leadership Macomb**, and the **County's Department of Planning and Economic Development** for their guidance and support at every step of this initiative.

The purpose of this project is to provide leaders and decision makers in both the public and private sectors with useful and reliable information about business conditions – information that can be used to guide future planning and policy development. The results of the survey can also be used to measure progress toward improving the business climate over the next several years and to assist in identifying opportunities for economic growth and development.

This study was conducted during the first three weeks of December 2010 using a web-based survey methodology. Invitations to participate in the survey were emailed to members of the seven chambers of commerce located in Macomb County as well as to recipients of the County's eBusiness newsletter. Graduates of Leadership Macomb were also invited to participate. Since there was some overlap in these mailing lists, people were asked to respond only once to the survey. Adjusting for duplication, it is estimated that more than 3,000 separate business leaders living and working in Macomb County were invited to participate in the survey. Exactly 526 surveys were completed, which provides a meaningful data set for analysis and interpretation.

If the results of these climate surveys prove to be helpful in charting a course for improving the business climate in Macomb County, we will continue working with our partner organizations to repeat this survey on a regular basis.

The report that follows presents an analysis and interpretation of the responses along with some conclusions and recommendations. A summary of the responses for each survey question and a list of the verbatim responses and/or customized cross tabulations of the data can be obtained by contacting the authors at 586-263-6242.

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Findings and Forecasts

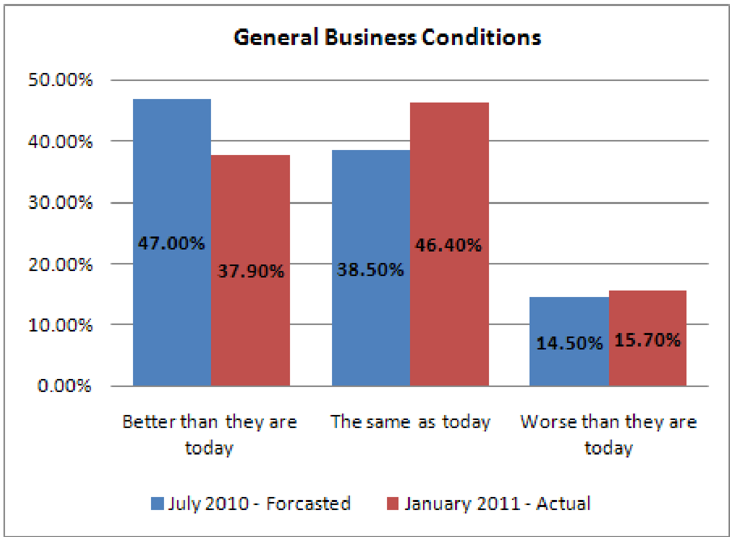
Forecasting Reliability

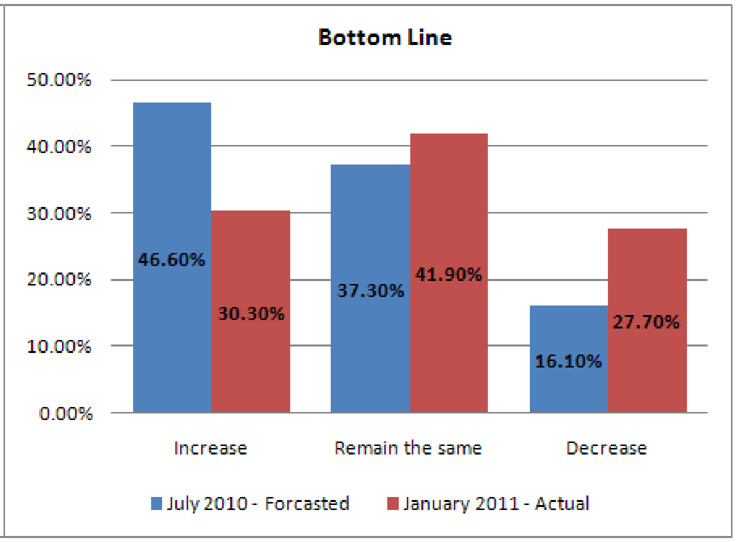
Participants in the first Business Climate Survey in December of 2009 were asked to project the expected change over the next six months in levels of employment, rates of pay, fringe benefits, and their "bottom line." Participants in the second survey in June of 2010 were asked about their actual experience in these same four categories during the previous six months. This paring of questions provided a basis for assessing the accuracy of participant forecasts. While the respondents to the two surveys may have differed, they all came from the same survey population, so the averages of their responses allows for some comparability. The table and chart below compare the projected changes with the changes actually experienced in four key business activities surveyed.

Six Month Changes	Projected	Experienced
Increase in Number of Employees	19.0%	21.5%
Increase in Rate of Pay	13.6%	11.6%
Increase in Fringe Benefits	6.7%	6.7%
Increase in the Bottom Line	39.6%	37.6%

These responses showed that the respondents were quite accurate in projecting the future trends in these four categories. As a result, survey responses in these areas can be useful as a forecasting tool. In essence, the strong correlation validates that the business leaders who participate in the survey have a tendency to be pragmatic in their responses and have a good understanding of the prospects for the near-term future of their organizations.

At the same time, when it comes to projecting general business conditions, the responses to this third survey showed that projections from the summer of 2010 turned out to be too optimistic as the charts below indicate. It appears that the recovery in Macomb County has been progressing more slowly than originally anticipated.

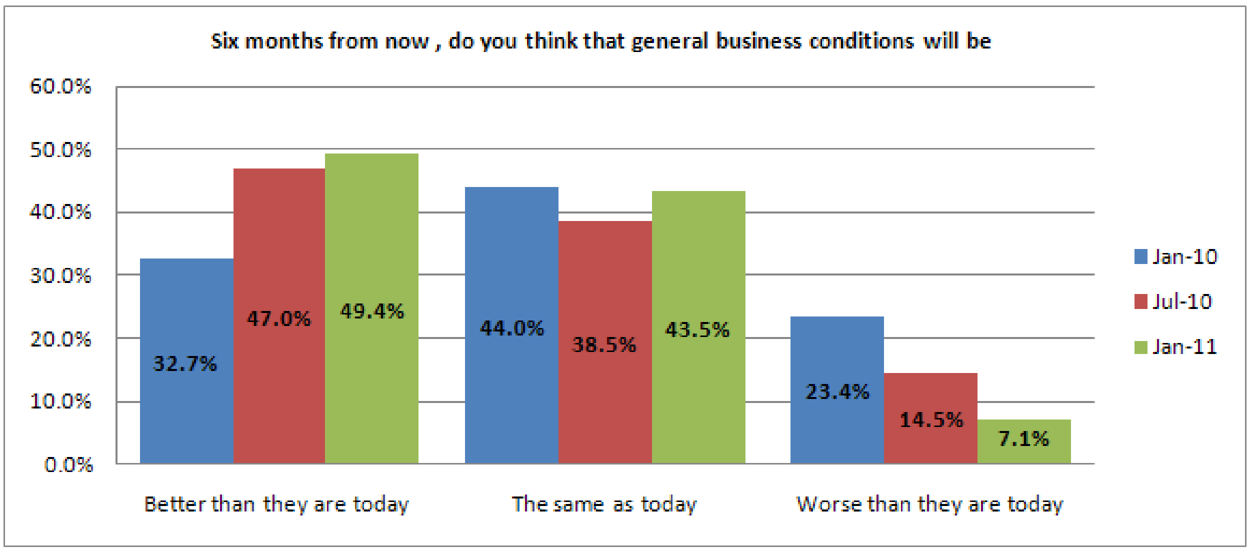




Macomb County Business Forecast for 2011

Business Optimism Continues to Grow

Nearly half (49.4%) of the respondents to the current survey believed that general business conditions will improve during the next six months. That compares to 47% who felt that way during the July 2010 survey and only 32.7% who forecasted an improvement a year ago. Maybe more importantly, while nearly a quarter (23.4%) of respondents a year ago believed that business conditions would worsen, that number has declined to just 7.1% today. Clearly, the majority of Macomb County business leaders believe the worst is over, but it is important to remember that the respondents turned out to be overly optimistic six months ago.



Sales Growth Has Been Uneven, but Forecasts Are Optimistic

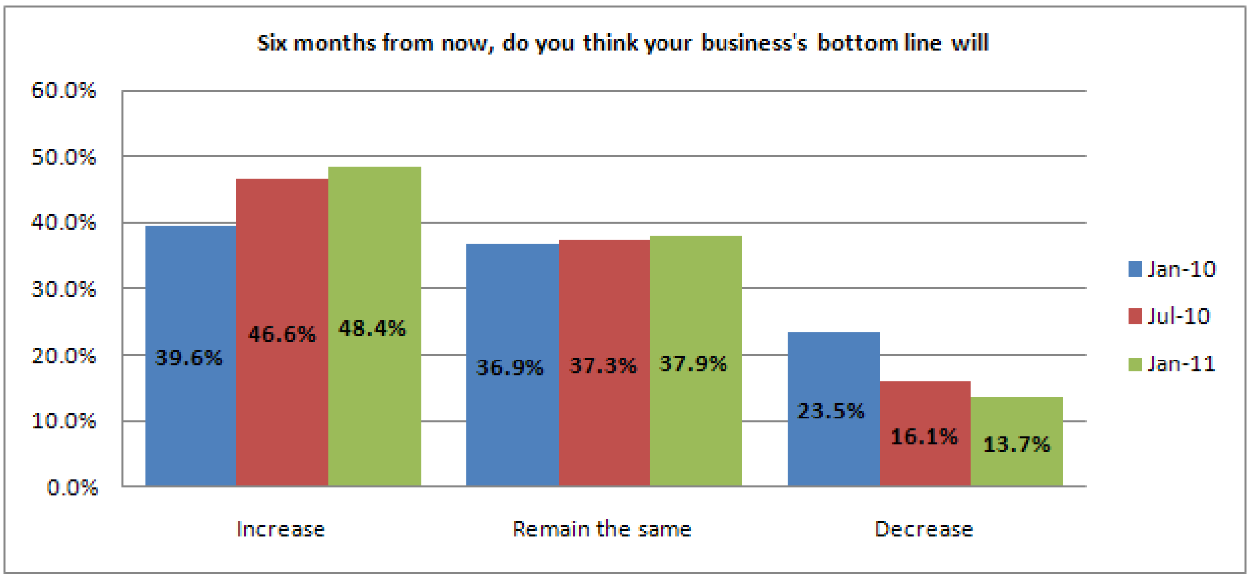
Businesses were equally divided on how their sales or gross revenue for the current quarter compared to the same quarter last year. 36.8% reported an increase over the prior year, 32.8% indicated they were about the same as last year, and 30.4% experienced a lower level than last year. The good news is that nearly half (48.0%) believed that their sales or gross revenue will be higher in the same quarter next year while only 14.0% projected a decline.

Selling Prices Should Remain Stable

Just over 70% of the respondents indicated that selling prices for their products or services six months from today should remain about the same as they are today. This is similar to the responses given in the last two surveys (67.3% and 65.7%). But unlike the last two surveys, some upward bias was also reported as 22.5% indicated that their selling prices will be higher six months from today. Improving economic conditions seem to be allowing some opportunity for higher prices, which in turn could drive increased profitability and the beginning of price inflation.

The "Bottom Line" Will Continue to Improve

While less than a third (30.3%) of the respondents reported an increase in their "bottom line" compared to six months ago, nearly half (48.4%) projected that their "bottom line" would be higher six months from now. Equally important, the percentage of respondents expecting their "bottom line" to decline over the next six months continues to drop – from 23.5% in January of 2010 to 16.1% in July of 2010 to just 13.7% today.



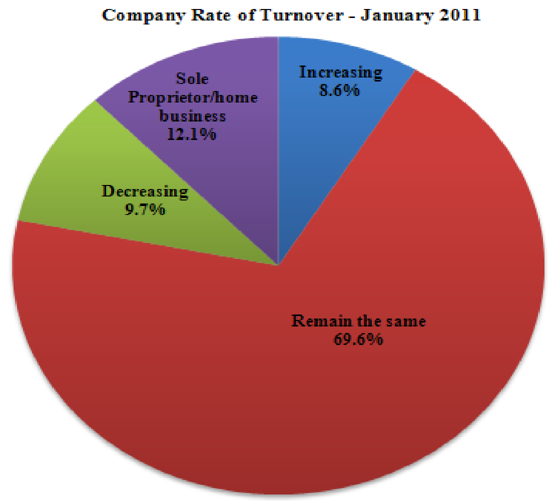
Employment Growth Will Be Modest and Current Workers are Staying Put

Despite growing optimism, improving sales and some ability to raise selling prices, business leaders remain cautious about hiring. Only 29.4% indicated that they expect to have more employees a year from now than they do today. Fully one-half (50.7%) see employment levels remaining stable, while one in ten believe that their employee ranks will be lower a year from now. There is considerable variation in employment forecasts by industry type, with private sector projecting growth while public sector expects declines.
There were three other significant survey findings related to employment:

- Where increased hiring was projected, respondents reported that new jobs were far more likely to be filled by new hires than by recalling workers from layoff. Less than 10% said they would be recalling employees from layoff.

- Workers seem to be holding on to the jobs they have as only 8.6% of respondents indicated that employee turnover was increasing.

- The vast majority of employers (86.4%) said they did not have any job openings that they were unable to fill. As in the past two surveys, sales positions were mentioned most frequently as job openings that were difficult to fill along with lesser skilled service workers. Positions for IT workers and skilled technicians were mentioned more frequently than in prior surveys.

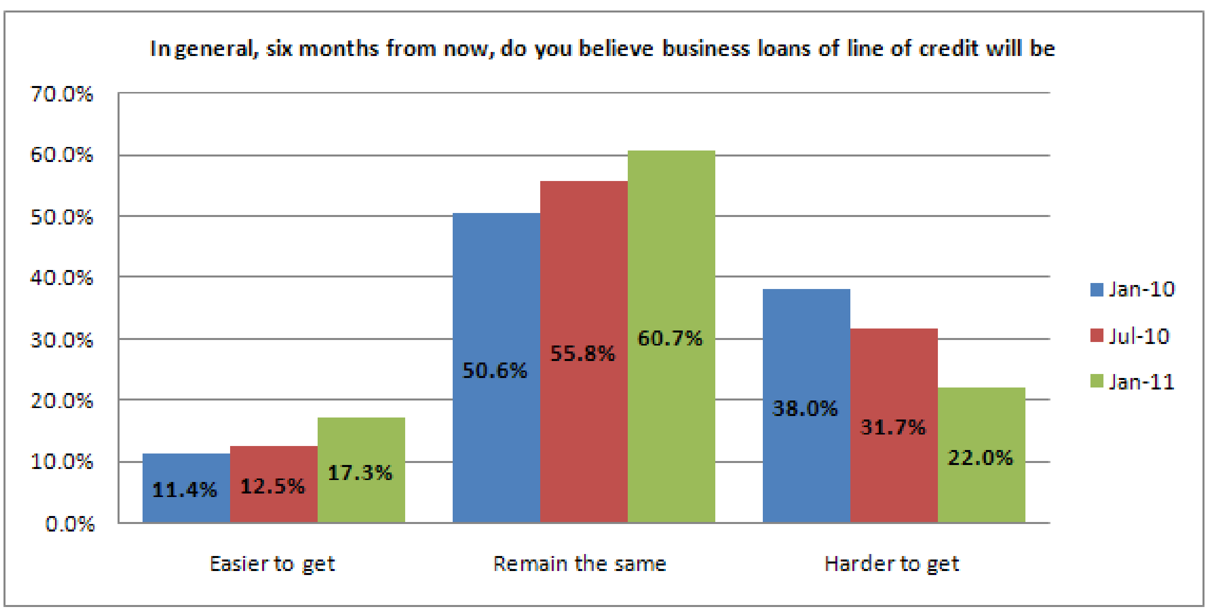


Pay Rates and Fringe Benefits Are Unlikely to Improve

Only 13.2% of respondents said that their typical rates of pay for their employees would be higher six months from today and just 6.8% projected that fringe benefits would be better than today. The good news for workers may be that pay reductions are essentially over as just 6.6% of respondents said that the typical rates of pay would be lower six months from today. At the same time, workers' costs for fringe benefits may be going up as 42.1% of respondents said that employees will be asked to assume a greater share of the cost of their fringe benefits.

Access to Business Loans and Lines of Credit Remains a Concern

Only 5.6% of respondents believed that access to business loans or lines of credit was easier today than six months ago, while 43.9% felt it was more difficult. Asked how they felt credit conditions would be six months from today, 6 in 10 believed things would remain the same and 22% felt credit conditions would become even more difficult.



Capital Expenditures Will Be Limited

Just over 60% of the respondents indicated that they had no plans to make major capital expenditures during 2011. Of those that did plan to make capital investments, replacing existing equipment ranked first (19.8%) followed by renovating existing facilities (14.1%) and major technology investments (10.7%). The chart below gives a more complete picture of plans for capital spending by Macomb County Businesses.

30. Is your business planning to make any major capital expenditures during the next year? If yes, please check all that apply. Create Chart Download

	Response Percent	Response Count
NO major capital expenditures are planned	60.5%	266
YES - acquisition of new facilities	7.0%	31
YES - expansion of existing facilities	7.5%	33
YES - renovation of existing facilities	14.1%	62
YES - replacement of existing equipment	19.8%	87
YES - major technology investment	10.7%	47

Findings from Cross-Tabulations

The survey methodology allows for cross-tabulations of data across several categories of inquiry. Among other things, this permitted the researchers to identify variation of responses based upon differences in 1) business size as measured by the number of employees, 2) business type as determined by industry category, and 3) stage of business development. Noteworthy differences are summarized below along with supporting data.

1. Smaller businesses are more optimistic than their larger counterparts

10. Six months from now, do you think that conditions for YOUR PARTICULAR BUSINESS will be Create Chart Download

	Including yourself, how many employees (both full and part-time) does your business have during its busiest season?					
	Less than 10	10-50	51-100	101-500	Greater than 500	Response Totals
Better than they are today?	**51.9% (70)**	**45.9% (56)**	**54.8% (23)**	21.0% (13)	32.7% (18)	43.3% (180)
About the same as today?	41.5% (56)	**45.9% (56)**	33.3% (14)	**54.8% (34)**	**43.6% (24)**	**44.2% (184)**
Worse than they are today?	6.7% (9)	8.2% (10)	11.9% (5)	24.2% (15)	23.6% (13)	12.5% (52)

2. Smaller businesses are forecasting greater sales growth while the largest businesses are the least optimistic

12. Do you think that sales or gross revenue for the same quarter next year will be Create Chart Download

	Including yourself, how many employees (both full and part-time) does your business have during its busiest season?					
	Less than 10	10-50	51-100	101-500	Greater than 500	Response Totals
Higher than this year?	**52.6% (71)**	**44.4% (52)**	**53.5% (23)**	33.3% (19)	32.7% (16)	**45.1% (181)**
About the same as this year?	38.5% (52)	**44.4% (52)**	27.9% (12)	**40.4% (23)**	**36.7% (18)**	39.2% (157)
Lower than this year?	8.9% (12)	11.1% (13)	18.6% (8)	26.3% (15)	30.6% (15)	15.7% (63)

3. Smaller businesses are more likely to increase employment over the next year

17. By this time next year, will the total number of employees for your business

Create Chart Download

	Including yourself, how many employees (both full and part-time) does your business have during its busiest season?					
	Less than 10	10-50	51-100	101-500	Greater than 500	Response Totals
Increase?	36.1% (48)	38.3% (44)	32.6% (14)	24.1% (14)	16.3% (8)	32.2% (128)
Remain about the same?	**54.9% (73)**	**56.5% (65)**	**58.1% (25)**	**46.6% (27)**	**59.2% (29)**	**55.0% (219)**
Decrease?	6.8% (9)	5.2% (6)	9.3% (4)	29.3% (17)	24.5% (12)	12.1% (48)

4. Manufacturing and financial services firms are the most optimistic about business conditions during the first half for 2011 while municipal and governmental organizations expect continued decline

10. Six months from now, do you think that conditions for YOUR PARTICULAR BUSINESS will be

Create Chart Download

	The U.S. Census Bureau groups and reports on businesses by various categories. Please identify the category below that best describes your primary business activity (choose only one).					
	Manufacturing, Assembly, Prototyping & Machining	Retail, Wholesale, Warehousing & Distribution	Health Care, Social Assistance & Human Services	Banking, Insurance, Investment & Financial Services	Municipal & Governmental Services	Response Totals
Better than they are today?	**49.0% (25)**	21.4% (6)	39.6% (19)	**48.2% (27)**	22.2% (10)	38.2% (87)
About the same as today?	**49.0% (25)**	**64.3% (18)**	**43.8% (21)**	39.3% (22)	37.8% (17)	**45.2% (103)**
Worse than they are today?	2.0% (1)	14.3% (4)	16.7% (8)	12.5% (7)	**40.0% (18)**	16.7% (38)

5. **Sales and revenue growth is projected to return to many private sector industries during 2011 while two-thirds of public sector organizations brace for declines**

12. Do you think that sales or gross revenue for the same quarter next year will be Create Chart Download

	The U.S. Census Bureau groups and reports on businesses by various categories. Please identify the category below that best describes your primary business activity (choose only one).					
	Manufacturing, Assembly, Prototyping & Machining	Retail, Wholesale, Warehousing & Distribution	Health Care, Social Assistance & Human Services	Banking, Insurance, Investment & Financial Services	Municipal & Governmental Services	Response Totals
Higher than this year?	**52.9% (27)**	**48.1% (13)**	38.3% (18)	**50.0% (28)**	14.3% (5)	**42.1% (91)**
About the same as this year?	41.2% (21)	44.4% (12)	**46.8% (22)**	33.9% (19)	22.9% (8)	38.0% (82)
Lower than this year?	5.9% (3)	7.4% (2)	14.9% (7)	16.1% (9)	**62.9% (22)**	19.9% (43)

6. **More than half of manufacturing firms project employment growth in 2011 while 50% of public sector organizations project fewer employees a year from now**

17. By this time next year, will the total number of employees for your business Create Chart Download

	The U.S. Census Bureau groups and reports on businesses by various categories. Please identify the category below that best describes your primary business activity (choose only one).					
	Manufacturing, Assembly, Prototyping & Machining	Retail, Wholesale, Warehousing & Distribution	Health Care, Social Assistance & Human Services	Banking, Insurance, Investment & Financial Services	Municipal & Governmental Services	Response Totals
Increase?	**54.0% (27)**	21.4% (6)	31.3% (15)	40.0% (20)	0.0% (0)	31.2% (68)
Remain about the same?	42.0% (21)	**64.3% (18)**	**56.3% (27)**	**48.0% (24)**	47.6% (20)	**50.5% (110)**
Decrease?	0.0% (0)	3.6% (1)	10.4% (5)	6.0% (3)	**50.0% (21)**	13.8% (30)
Sole proprietor/home business	4.0% (2)	10.7% (3)	2.1% (1)	6.0% (3)	2.4% (1)	4.6% (10)

Second Stage Companies

The Michigan Small Business and Technology Development Center defines a "second stage" company as one in a growth mode that has between 9-99 employees and $750,000 or more in sales. A growth mode can involve expanding the scope of business activities to new geographic areas, offering new products, pursuing new markets and/or finding new groups of customers to serve. These companies are often seen as a key to economic revitalization . Respondents were asked to self-identify whether they met this definition and survey cross-tabulations demonstrated that they have indeed outperformed their counterparts during the past year.

Second Stage companies experienced better sales and revenue growth in 2010

11. Compared to the same quarter last year, are your sales or gross revenue for the current quarter Create Chart Download

	Yes	No	Response Totals
Higher than last year?	**47.6% (70)**	31.6% (96)	**36.8% (166)**
About the same as last year?	29.9% (44)	**34.2% (104)**	32.8% (148)
Lower than last year?	22.4% (33)	**34.2% (104)**	30.4% (137)

Second Stage companies experienced better employment growth in 2010

16. Compared to this time last year, did the total number of employees for your business Create Chart Download

	Yes	No	Response Totals
Increase?	**41.0% (59)**	16.9% (52)	24.6% (111)
Remain about the same?	36.8% (53)	**41.6% (128)**	**40.0% (181)**
Decrease?	22.2% (32)	25.6% (79)	24.6% (111)
Sole proprietor/home business	0.0% (0)	15.9% (49)	10.8% (49)

Perceptions of Recent Legislation and Election Outcomes

Respondents were asked to express their views on the business impact of two pieces of federal legislation and the outcomes of the November 2010 election. The responses showed that there is still a high degree of uncertainty among business leaders about all of these issues. The one thing that did stand out was that just under half of the respondents believed that the outcome of the November election at the state level should be helpful to their businesses. The responses to these five legislation and election related questions are summarized below.

31. How do you think the recently enacted NATIONAL HEALTH CARE REFORM plan will impact your business? Create Chart Download

	Response Percent	Response Count
It will have little impact on my business	20.1%	89
It should be helpful to my business	4.5%	20
It will likely be harmful to my business	33.0%	146
I am not yet able to determine the impact on my business	**42.4%**	**188**

32. How do you think the recently enacted NATIONAL FINANCIAL REGULATION REFORM plan will impact your business? Create Chart Download

	Response Percent	Response Count
It will have little impact on my business	22.6%	99
It should be helpful to my business	4.1%	18
It will likely be harmful to my business	16.4%	72
I am not yet able to determine the impact on my business	**56.8%**	**249**

33. How do you think the outcome of the recent election at the FEDERAL LEVEL will impact your business?

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	Response Percent	Response Count
It will have little impact on my business	18.0%	79
It should be helpful to my business	31.7%	139
It will likely be harmful to my business	8.7%	38
I am not yet able to determine the impact on my business	**41.7%**	**183**

34. How do you think the outcome of the recent election at the STATE LEVEL will impact your business?

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	Response Percent	Response Count
It will have little impact on my business	11.1%	49
It should be helpful to my business	**45.1%**	**199**
It will likely be harmful to my business	8.2%	36
I am not yet able to determine the impact on my business	35.6%	157

35. How do you think the outcome of the recent election in MACOMB COUNTY will impact your business?

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	Response Percent	Response Count
It will have little impact on my business	24.6%	108
It should be helpful to my business	29.6%	130
It will likely be harmful to my business	1.6%	7
I am not yet able to determine the impact on my business	**44.2%**	**194**

Target Industries Identified in the July 2010 Survey

The findings from the July 2010 Climate Survey showing business leaders perceptions of the target industries that might lead the way in revitalizing the local economy or might provide new targets of opportunity for area businesses bear repeating here. The chart below shows the range and average ratings for each of the industry types listed in the survey. The top ranked industries continue to hold the greatest promise for economic development within the county.

Using a rating scale of 1-5 (one being the lowest and five being the highest), please rate the following industries for their potential to help revitalize Macomb County's economy.							
Answer Options	**Lowest (1)**	**(2)**	**(3)**	**(4)**	**Highest (5)**	**Rating Average**	**Response Count**
Defense	16	40	81	114	180	3.93	431
Health Care	28	34	109	146	116	3.67	433
Advanced Manufacturing	17	50	115	133	114	3.65	429
Information Technology	15	68	141	127	74	3.42	425
Alternative Energy (Solar/Wind/Water)	54	59	105	108	102	3.34	428
Engineering and Professional Services	22	61	154	133	56	3.33	426
Financial Services	53	120	165	59	22	2.71	419
Green Technology	53	64	129	113	65	3.17	424
Education and Training	35	74	155	105	52	3.15	421
Automotive	54	94	131	79	70	3.04	428
Entertainment and Production Companies	71	99	129	86	40	2.82	425
Construction	58	126	121	64	42	2.77	411
Travel and Tourism	100	135	116	44	27	2.44	422
Other (please specify)							9
						answered question	438
						skipped question	27

A follow up question then asked the participants to identify which of those particular industries their business may plan to target for new business opportunities within the next six months to a year. More than one response was permitted.

Many businesses will benefit from growth in any industry, but are there any particular industries which your company plans to target for new business		
Answer Options	**Response Percent**	**Response Count**
No particular target industry	41.5%	172
Defense	22.0%	91
Health Care	21.7%	90
Advanced Manufacturing	15.9%	66
Automotive	15.9%	66
Alternative Energy (Solar/Wind/Water)	14.5%	60
Green Technology	13.0%	54
Engineering and Professional Services	12.8%	53
Construction	12.1%	50
Education and Training	10.9%	45
Entertainment and Production Companies	9.2%	38
Information Technology	8.2%	34
Financial Services	7.0%	29
Travel and Tourism	6.5%	27
Other (please specify)		25
	answered question	**414**
	skipped question	**51**

Summary and Recommendations

The 526 responses to the third Macomb County Business Climate survey demonstrate that for most private sector firms, optimism about business conditions continues to grow, sales and profits are expected to improve, employment is likely to move up slowly, wages and benefits are likely to remain stable, employees will be asked to assume more benefit costs, limited capital investments are being planned, and access to credit is still a concern. At the same time, most public sector organizations are bracing for declines across the board. The unevenness of these forecasts and expectations is a cause for continued economic concern within the County. In key sectors such as manufacturing and financial services, the recovery is apparent yet fragile. The revenue declines facing public sector will be unprecedented. As a result, the County must continue to place a high priority on economic development and business support initiatives, even if they are at the expense of other discretionary services.

Recommendations

- Defense, Health Care, Advanced Manufacturing, and Information Technology are perceived to offer the best opportunities for economic revitalization within the County and the region. These should remain "Target Industries" for the County's economic development efforts.

- There is evidence that "second stage" companies do in fact experience better sales and employment growth than other firms. More attention should be given to identifying and nurturing the expansion needs of these companies.

- Prior climate surveys have shown that Macomb businesses have a definite preference for buying locally, with nearly 80% saying they give that special consideration. Collaborative public-private initiatives should be explored that could help to retain and enhance that purchasing practice.

- The County, in cooperation with local communities, should reexamine and reaffirm its target industry programs in order to achieve a greater "alignment of purpose" for economic development and revitalization initiatives.

- While continuing the "hunt" for emerging industries and employers, policy leaders should more warmly embrace the concept of "economic gardening" being advocated by the Small Business Association of Michigan (SBAM). Helping grow the businesses already located in the County is likely to have a greater long-term payoff.

- The borrowing needs of County businesses have to be addressed. The recent closure of five area community banks and the threat of more in 2011 do not bode well for local lending, especially for smaller firms.

- Since local business leaders are not projecting a significant increase in hiring, unemployment levels are likely to remain well above historic rates during 2011.

Programs and benefits to assist the unemployed will remain an essential component for maintaining the County's economic and housing stability.

- Small and mid-sized firms may not have the capacity to interpret the business implications of the numerous federal regulations and programs being legislated. County government, in collaboration with the region's professional service firms, should provide an ongoing series of seminars and workshop to help business leaders better understand the impact of these changes.

- The reorganization of County government following under the leadership of the first County Executive should give economic development and business advocacy a high priority within its new structure.

- Macomb County must identify its "economic uniqueness" within the region and then stake a claim to specific related industries and develop collaborative centers of excellence to support their growth and development.

Reminder: A summary of the responses for each survey question and a list of the verbatim responses and/or customized cross tabulations of the data can be obtained by contacting the authors at 586-263-6242.

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