Economic Optimism Abounds in Michigan

Middle market businesses report a fairly positive outlook for 2015—but, the outlook for the national economy is especially high in Michigan, where 78 percent of business leaders have an optimistic outlook about the national economy (compared with 68 percent of leaders overall) and none expressed pessimism toward the national economy. The same is true for their outlook on the local economy.

And while optimism towards the global economy fell year over year—from 32 percent in 2014 to 22 percent this year—optimism about the global economy is slightly higher among Michigan business leaders (just 19 percent of leaders overall share this optimism).

What is your outlook on the following for the next 12 months?

(Percent of Responses)

GLOBAL ECONOMY

<table>
<thead>
<tr>
<th>Percent</th>
<th>MI 2014</th>
<th>MI 2015</th>
<th>ALL 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pessimistic</td>
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<td>23</td>
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NATIONAL ECONOMY

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<tr>
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<td>68</td>
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LOCAL ECONOMY

<table>
<thead>
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<th>Percent</th>
<th>MI 2014</th>
<th>MI 2015</th>
<th>ALL 2015</th>
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<tbody>
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<tr>
<td>Optimistic</td>
<td>68</td>
<td>77</td>
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What are the top 3 most significant challenges facing your business in 2015?
(Percent of Responses)

- Revenue/sales growth: 59% (MI 2014), 52% (MI 2015), 63% (All 2015)
- Limited supply of talent: 38% (MI 2014), 50% (MI 2015), 35% (All 2015)
- Managing labor costs: 18% (MI 2014), 36% (MI 2015), 34% (All 2015)
- Uncertainty of economic conditions: 37% (MI 2014), 35% (MI 2015), 35% (All 2015)
- Regulatory requirements: 28% (MI 2014), 29% (MI 2015), 33% (All 2015)
- U.S. competition: 24% (MI 2014), 24% (MI 2015), 14% (All 2015)
- Cost of commodities: 25% (MI 2014), 25% (MI 2015)
- Foreign competition: 11% (MI 2014), 14% (MI 2015), 13% (All 2015)
- Availability of capital/credit: 17% (MI 2014), 11% (MI 2015), 11% (All 2015)
- Taxes: 23% (MI 2014), 20% (MI 2015), 10% (All 2015)
- Lack of consumer confidence: 10% (MI 2014), 0% (MI 2015), 6% (All 2015)

**TOP BUSINESS CHALLENGES SHIFT IN MICHIGAN**

While revenue and/or sales growth remains a top challenge for Michigan business owners—52 percent of business leaders surveyed cited this as one of their top three challenges—concerns surrounding a limited supply of talent increased significantly from 2014 (from 38 percent last year to 50 percent this year). Other business challenges that experienced a significant year-over-year change:

- Managing labor costs (36 percent, up 18 percent from 2014)
- U.S. competition (24 percent, up 10 percent from 2014)
- Taxes (10 percent, down 13 percent from 2014)

**HIRING EXPECTATIONS ARE HIGH, BUT FINDING TALENT IS A CHALLENGE**

Although the limited supply of talent is a top business challenge in 2015—50 percent of respondents are extremely or very concerned with finding employees that have the right skill set—plans for increasing full-time and part-time personnel are higher than the national average.

Plans to increase part-time personnel increased significantly year over year, from 14 percent last year to 34 percent in 2015.
This increase in hiring expectations can be primarily attributed to:
• Expected sales growth (87 percent)
• An overworked workforce (47 percent)
• The need for skills not possessed by the current workforce (37 percent)

Positions that require technical and/or trade skills remain the most difficult to fill (48 percent of business leaders cite this as a skill that’s absent from the current pool of job applicants), followed by engineering positions (40 percent) and managerial skills (28 percent). The need for communication skills (22 percent, up 6 percent from last year), machinists (20 percent, up 5 percent from last year) and IT and/or programming (18 percent, up 8 percent from last year) all increased this year.

The most common steps Michigan businesses are taking to address the talent shortage are developing in-house training programs (67 percent) and offering higher wages (59 percent).

**Currency Risk a Top Concern for Global Businesses**

Although optimism about the global economy is down among Michigan middle market companies, global activity remains higher than the national average—68 percent of Michigan businesses are globally active, versus 57 percent overall. However, among businesses with no current global activity, only 6 percent of Michigan executives predict that their businesses will go global within the next three years, a significant drop from last year, when 17 percent of executives expected their companies to go global.

Currency risk remains the top concern for international businesses across the nation, but Michigan business leaders express more concern than the average executive—67 percent of those surveyed in Michigan named currency risk as a top concern, versus 50 percent overall.
Other top international concerns include:
- Managing international supply chains (43 percent)
- Doubts about the growth expectations for emerging markets (24 percent) and developed markets (22 percent)
- Managing business rules, regulations and/or risk in Europe (21 percent), Asia Pacific (18 percent) and Latin America (16 percent)

**GROWTH PLANS EXPAND IN 2015**

This year, Michigan businesses are focusing their plans for growth on:
- Attracting new customers (56 percent, up 5 percent from 2014)
- Expanding and/or diversifying offerings (52 percent, up 6 percent from 2014)
- Up-selling and/or cross-selling (46 percent, up 3 percent from 2014)
- Making acquisitions (18 percent, up 8 percent from 2014)

Conversely, growth strategies that are getting less focus this year include:
- Expanding US markets (41 percent, down 5 percent from 2014)
- Expanding global markets (21 percent, down 10 percent from 2014)
- Adopting new channels (4 percent, down 5 percent from 2014)

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