

July, 2014

Business Optimism Plateaus

3rd Quarter 2014

Business executives in SE MI continue to have a positive economic outlook. Values for all components of the Business Confidence Index, except capital expenditure expectations, are substantially above the neutral level of 50 and the neutral range of 42 to 58. The overall Index is 63.4, a decline of 1.9 points from Q2 2014—which is not significant.

Capital expenditures decreased 7.3 points to 54.9, a neutral level from the previous positive outlook. Respondents believe that capital expenditures at their firms will continue at the second quarter level (significantly above the first quarter 2014 level) and not continue to grow.

In contrast, sales, profits and hiring will continue to grow at the same rate as forecasted last quarter since their indexes were statistically the same as they were in the second quarter. This is especially important in the labor market as SE Michigan struggles to narrow the gap between the local and national unemployment rates.

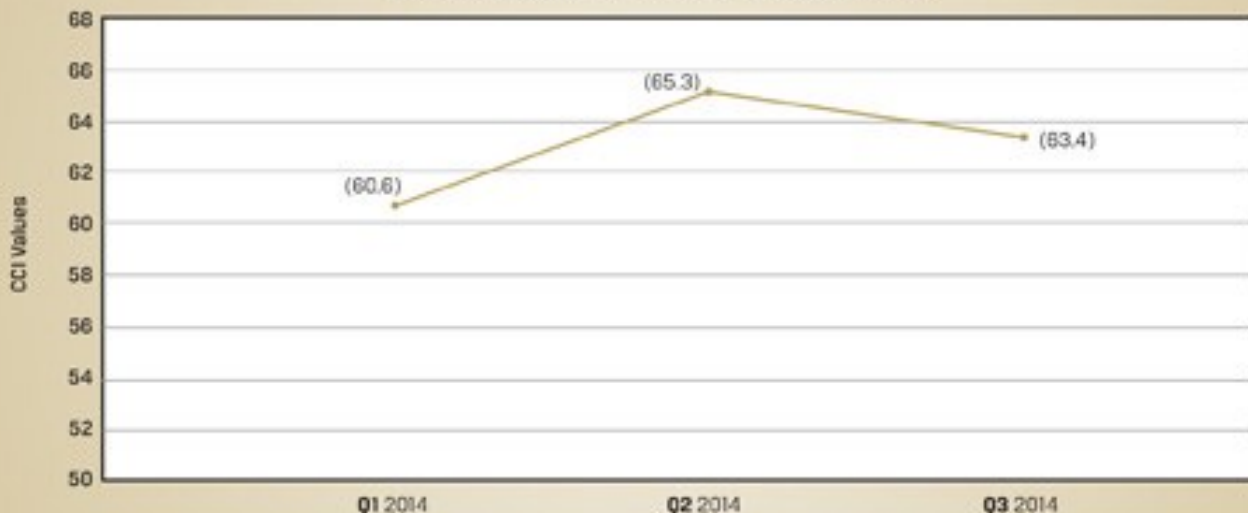
The figure below shows the time trend of the composite index since its conception. It shows that business executives believe that the local economy will continue to grow at the same rate next quarter after an increase in forecasted growth for the second quarter.

2014 Third Quarter Index Values

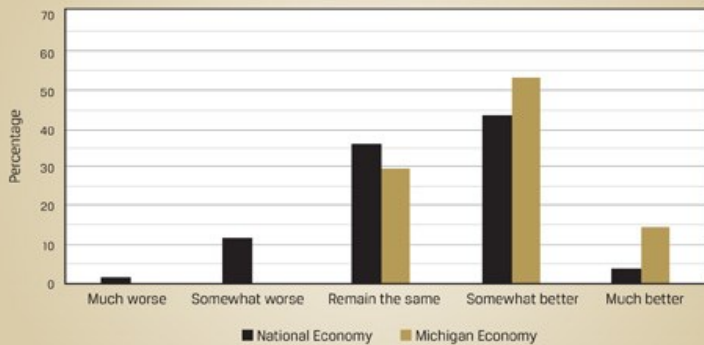
| | Q3 | Change From Q2 |
|---|-------------|----------------|
| National Economic Outlook | 62.2 | 3.2 |
| Michigan Economic Outlook | 67.7 | -3.5 |
| Sales Expectations | 66.5 | -4.2 |
| Profits Expectations | 64.6 | -2.4 |
| Hiring Expectations | 64.6 | 3.2 |
| Capital Expenditures Expectations | 54.9 | -7.3 |
| Southeast Michigan Business Confidence | 63.4 | -1.9 |

*Index above 50 indicates positive outlook
Index below 50 indicates negative outlook*

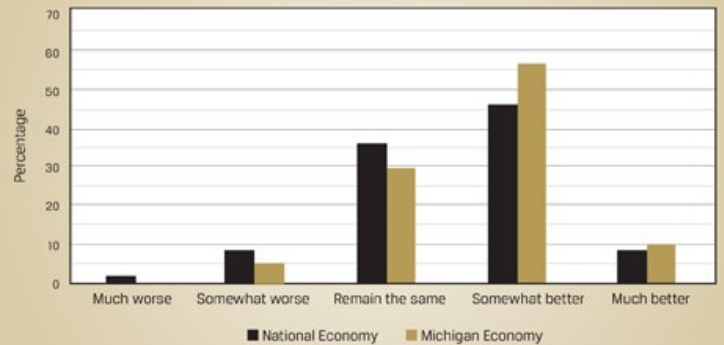
Business Confidence Index Trend



Business Confidence Q2: National vs. Michigan



Business Confidence Q3: National vs. Michigan



National vs. Michigan Economic Outlook

The gap between the Michigan and National economic outlook narrowed in this quarter's forecast. The difference of 5.5 points in favor of Michigan was significantly less than the 12.2 points in favor of Michigan last quarter. This decrease suggests that respondents believe that the local economy will no longer grow faster than the US economy.

The two charts above reflect the change that has taken place between the second and third quarter view of the Michigan and National economy. For Michigan there was a marked reduction in the percentage of respondents who thought the economy would be "Much better" and a marked increase in those that thought it would be "Somewhat worse." In contrast, for the National economy the exact opposite was found. This resulted in an insignificant difference in the two indexes for this quarter.

About the Index

The SE MI Business Confidence Index is forward-looking, measuring economic expectations for the upcoming quarter gathered from a broad group of business executives across the Southeastern Michigan region. It is part of the SE MI Economic Outlook project (<http://www.oakland.edu/business/economic-outlook>).

The survey is disseminated to businesses who first register as participants. Registration is open to all businesses in Southeastern Michigan. For classification and verification, the registration asks for company information regarding business type, employment size, and revenues. If you are interested in registering as a participant in order to receive invitations to complete our quarterly survey, you can do so at http://oaklandbusiness.qualtrics.com/SE/?SID=SV_0kMKM3rmqwf4vxH.

We would like to thank the 41 business leaders who completed the survey during the first two weeks of June. As the survey expands to include more participants, further analysis is planned to include breakdowns by individual industries and business characteristics, as well as to look at trends over time. The next survey will be the first two weeks of September 2014.

Respondent Characteristics

| Annual Sales | Percent | % Michigan Sales | Percent |
|-------------------------|----------|--------------------|---------|
| Less than \$1 million | 12% | 0% to 10% | 20% |
| \$1 to \$9 million | 27% | 11% to 25% | 17% |
| \$10 to \$49 million | 10% | 26% to 50% | 15% |
| \$50 to 100 million | 0% | 51% to 75% | 5% |
| More than \$100 million | 37% | 76% to 100% | 29% |
| Undisclosed | 15% | Undisclosed | 15% |
| Employment Size | Industry | | |
| 0 - 19 | 34% | Manf. & Transp. | 22% |
| 20 - 99 | 20% | Sales | 4% |
| 100 - 499 | 15% | Financial Services | 20% |
| 500 - 1000 | 5% | Prof. Services | 36% |
| More than 1000 | 22% | Other Services | 16% |