

2013

**FIRST BUSINESS
ECONOMIC FORUM**

of Northeast Wisconsin

YOUR SUCCESS COMES FIRST





Agenda

Welcoming Statement

Mickey Noone

First Business Bank - Northeast

Presentation of Survey Results

Dennis Winters,
Chief of the Office of Economic Advisors
at the Wisconsin Department of
Workforce Development

Introduction of Panelists

Mickey Noone

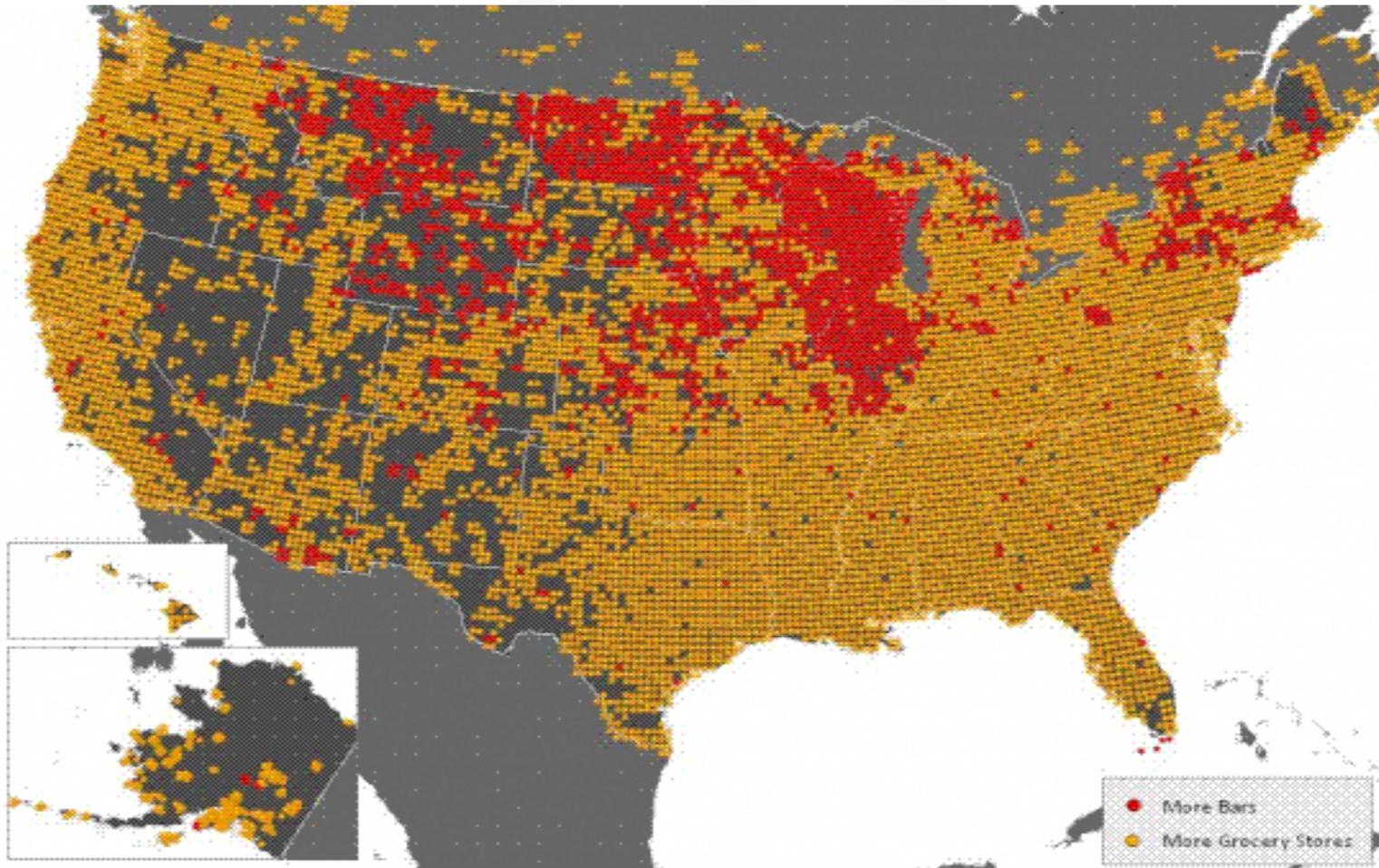
Panel Round Table and Q&A

Margaret LeBrun, Insight Magazine,
Moderator

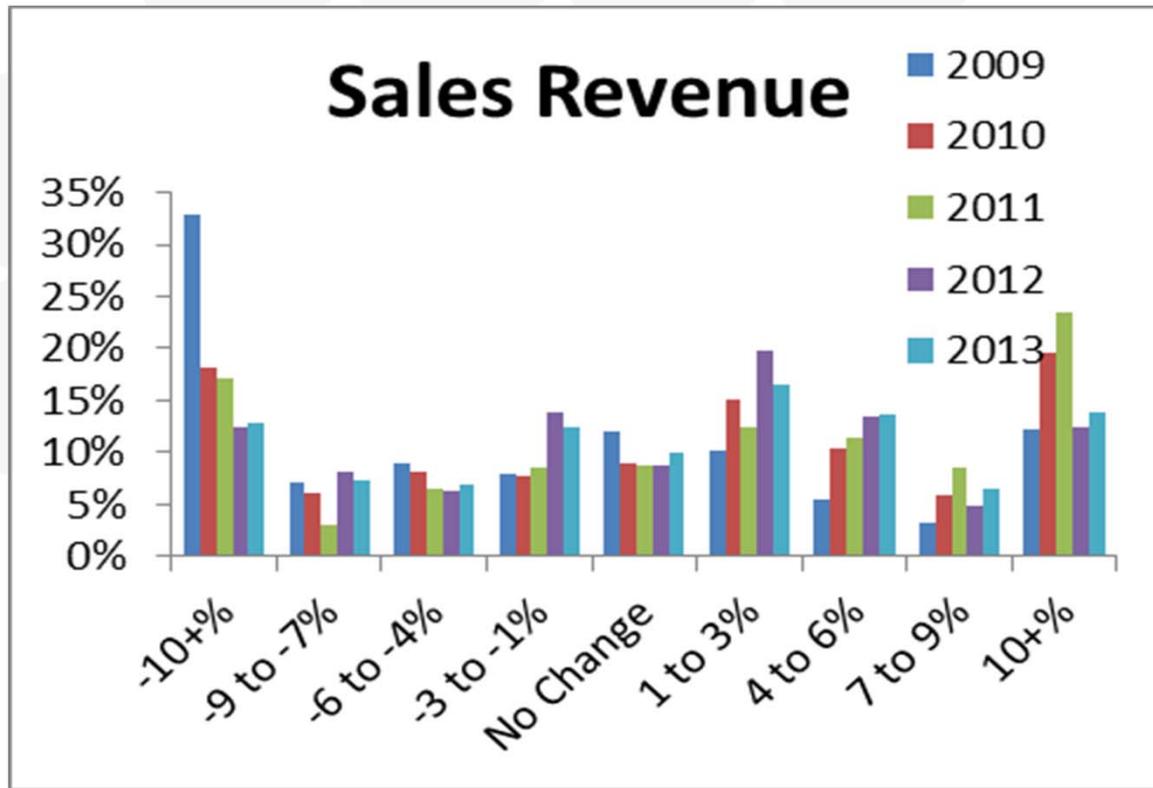
Closing

Mickey Noone

First of all, You need to understand Wisconsin's economy

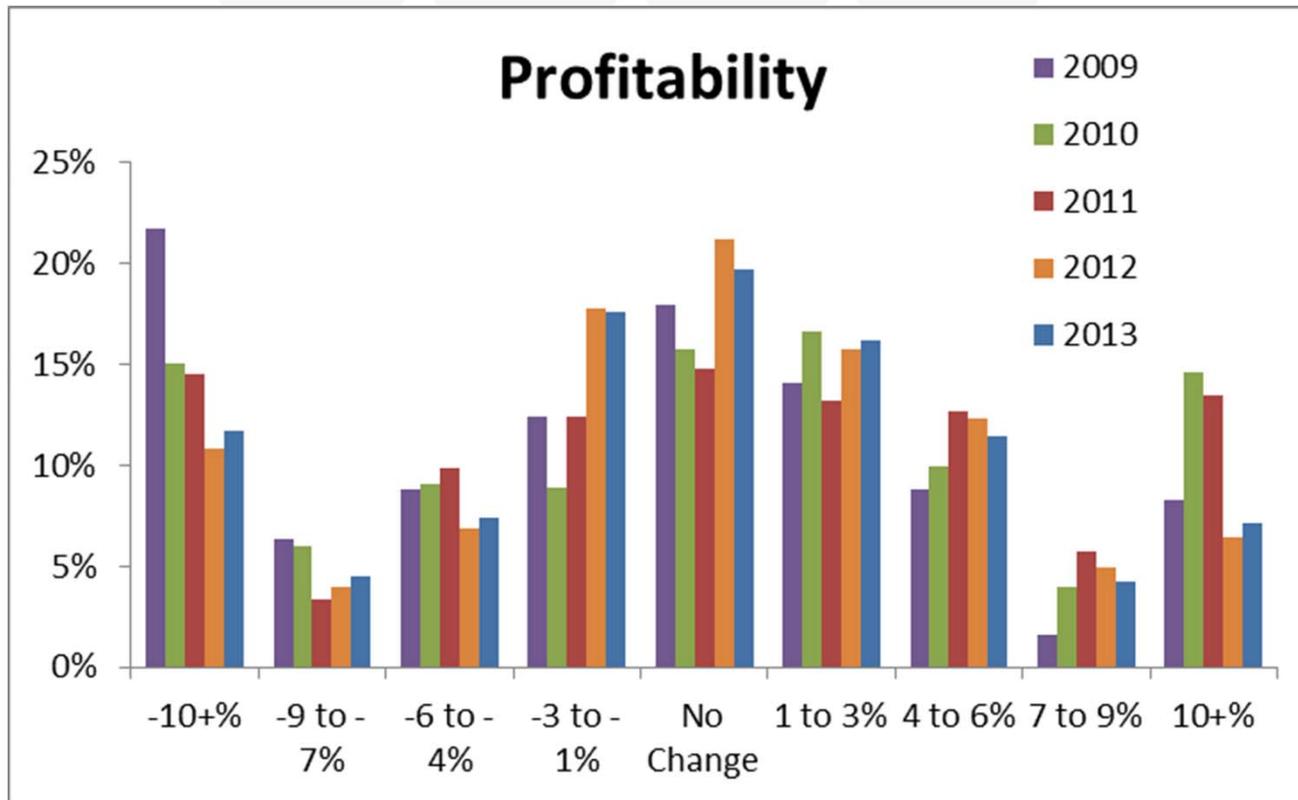


Economic Indicator #1: Sales Revenue



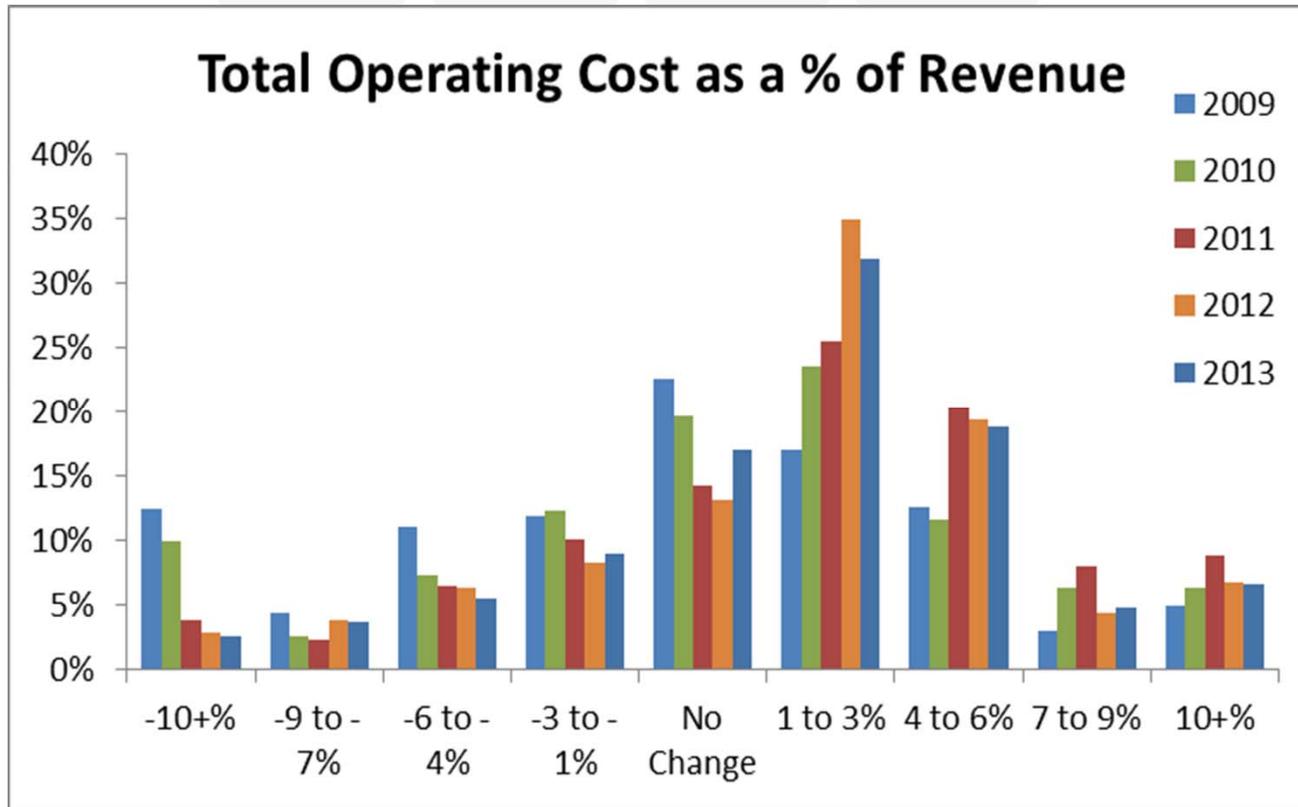
- Just 50.7% of businesses increased Revenue, breaking the upward trend begun in 2009.
- Those who reported positive change mostly experienced revenue growth of 1-3%, with slightly lower proportion seeing a growth of 4-6% and 10+%.

Economic Indicator #2: Profitability



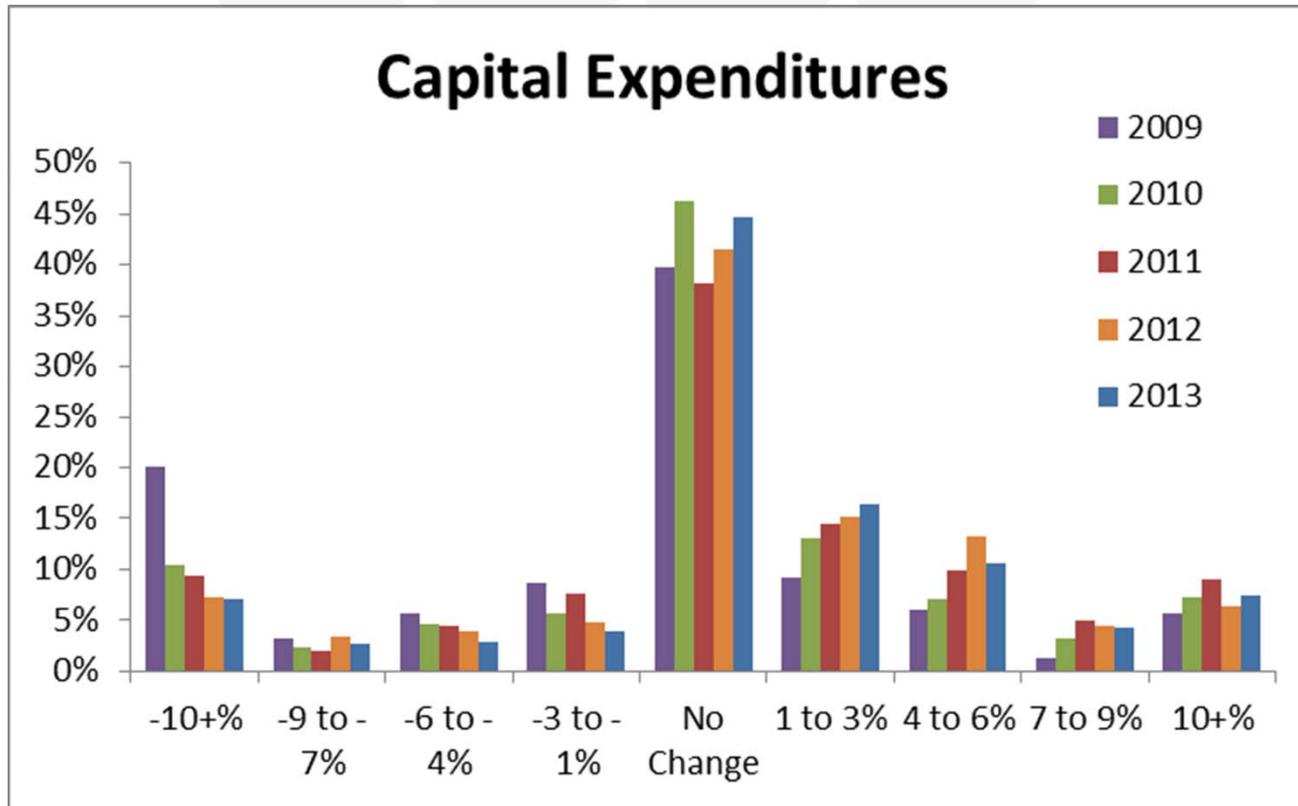
- With significantly higher proportion of businesses reporting decreased Profitability at 39.1% vs. 53.6% in 2012, and significantly lower proportion of businesses reporting increased Profitability in at 41.2 % vs. 30.6% in 2012, the performance in 2013 was worse than the spectacular performance in 2012.

Economic Indicator #3: Total Operating Cost as a % of Revenue



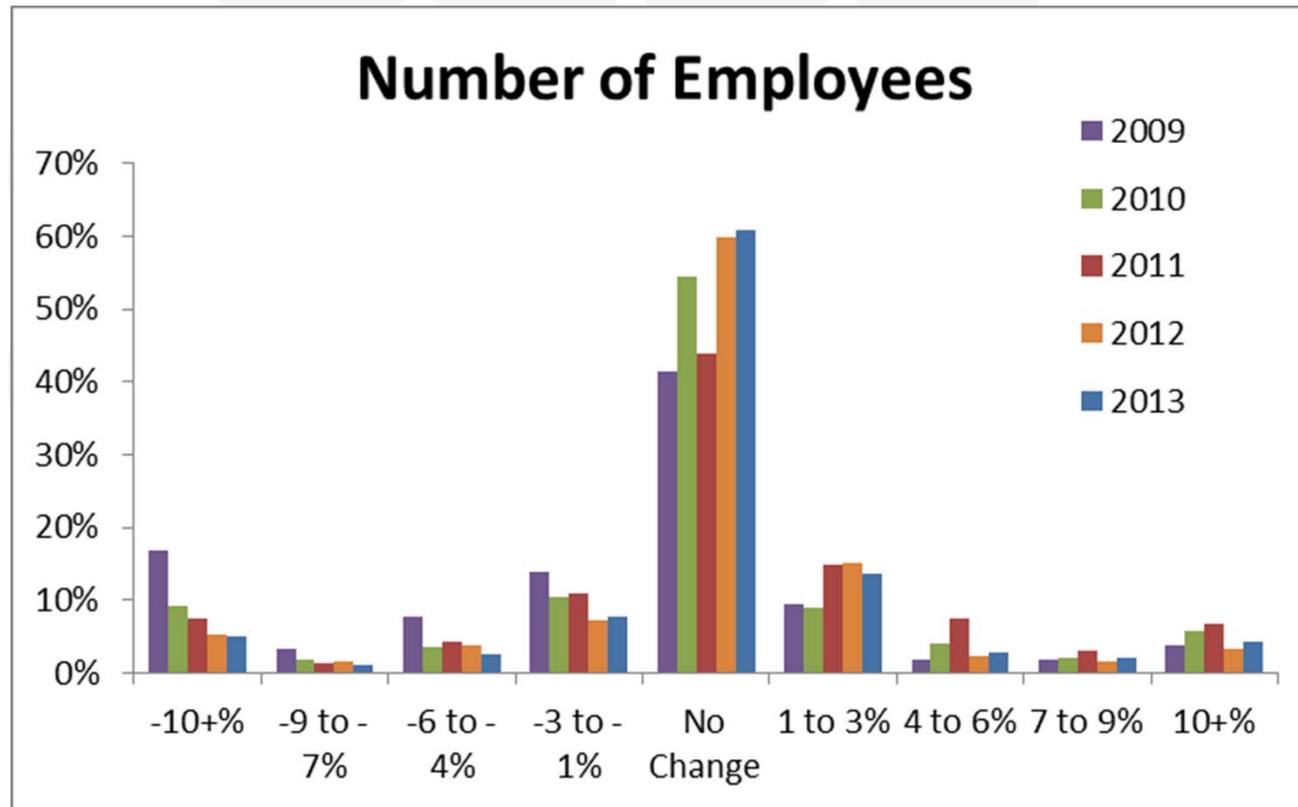
- More than half of the businesses reported increased Operating Cost.

Economic Indicator #4: Capital Expenditures



- Though overall, businesses did not report a significant change in their Capital Expenditures from last year, the percent of businesses reporting decreases in Capital Expenditures kept going down and the percent of businesses reporting increases in Capital Expenditures also slightly went down in 2013 after touching the peak since 2008.

Economic Indicator #5: Number of Employees



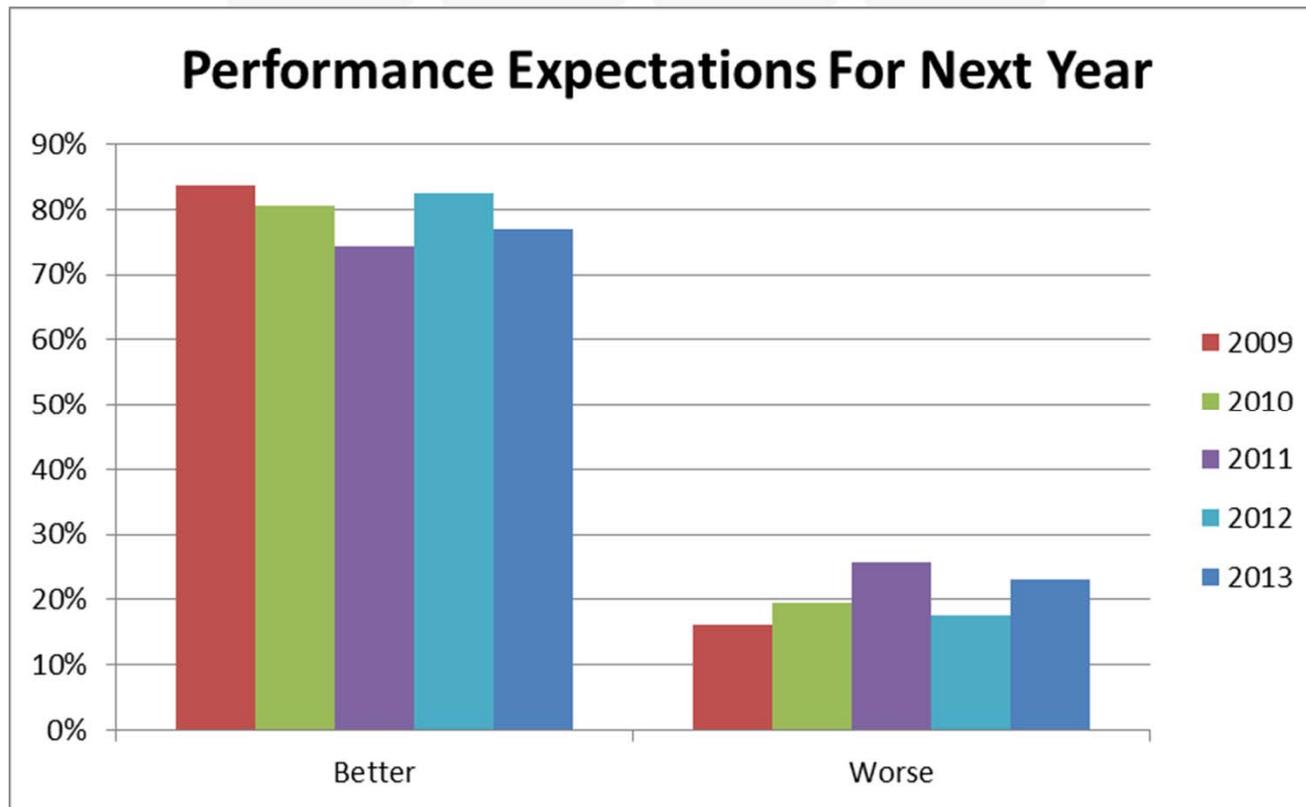
- Headcount remained fairly stable for 2013 as it did in last many years, with almost 61% of the businesses reporting no change in Number of Employees in 2013.
- 2012 saw almost 35% businesses increasing Number of Employees, the proportion was significantly lower at just 23% in 2013.

Summary of Findings – 2013

2013 was a year of new realizations:

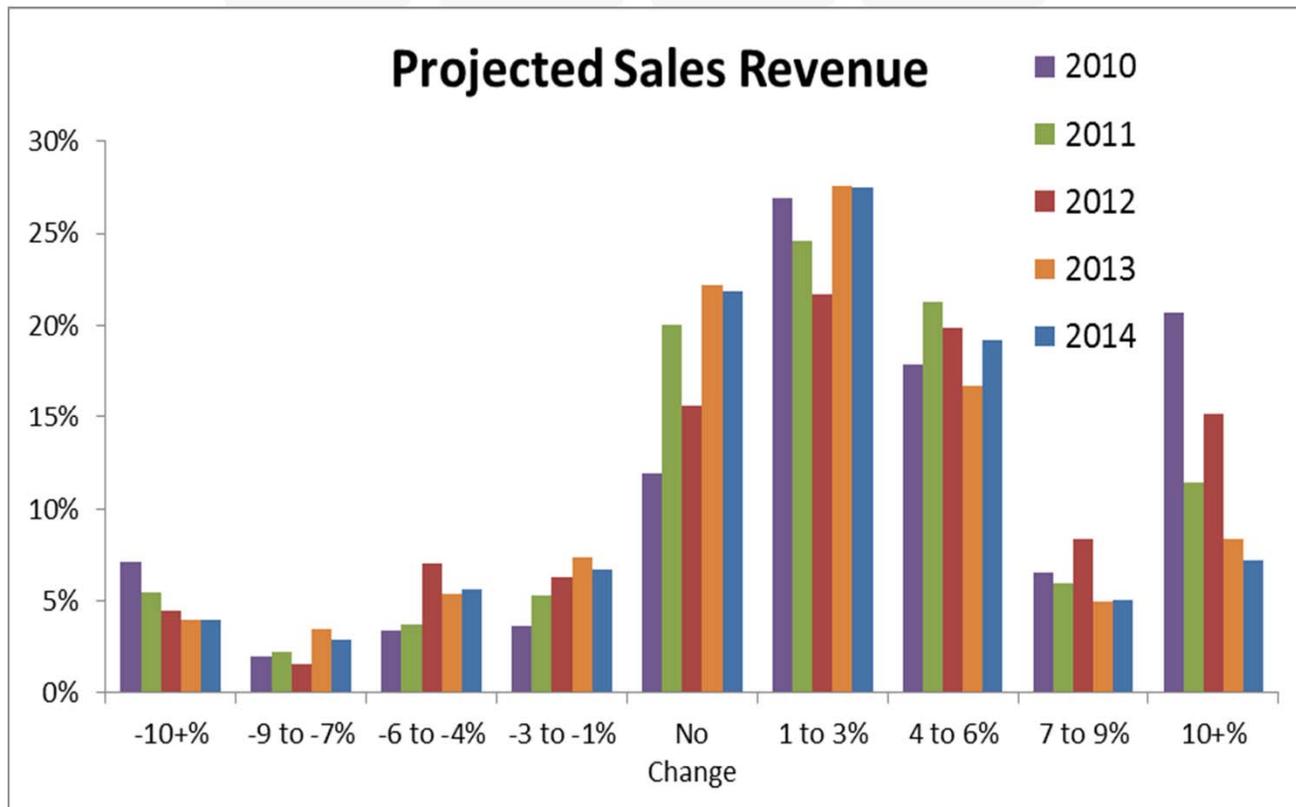
- Economic growth is below potential
 - Slowest post-war recovery on record
 - Global slump
- Government problems are far from over
 - Deficit
 - Debt
 - Sequester
- ACA is here (sort of) and nobody knows what it means

Looking Forward: 2014 Expectations



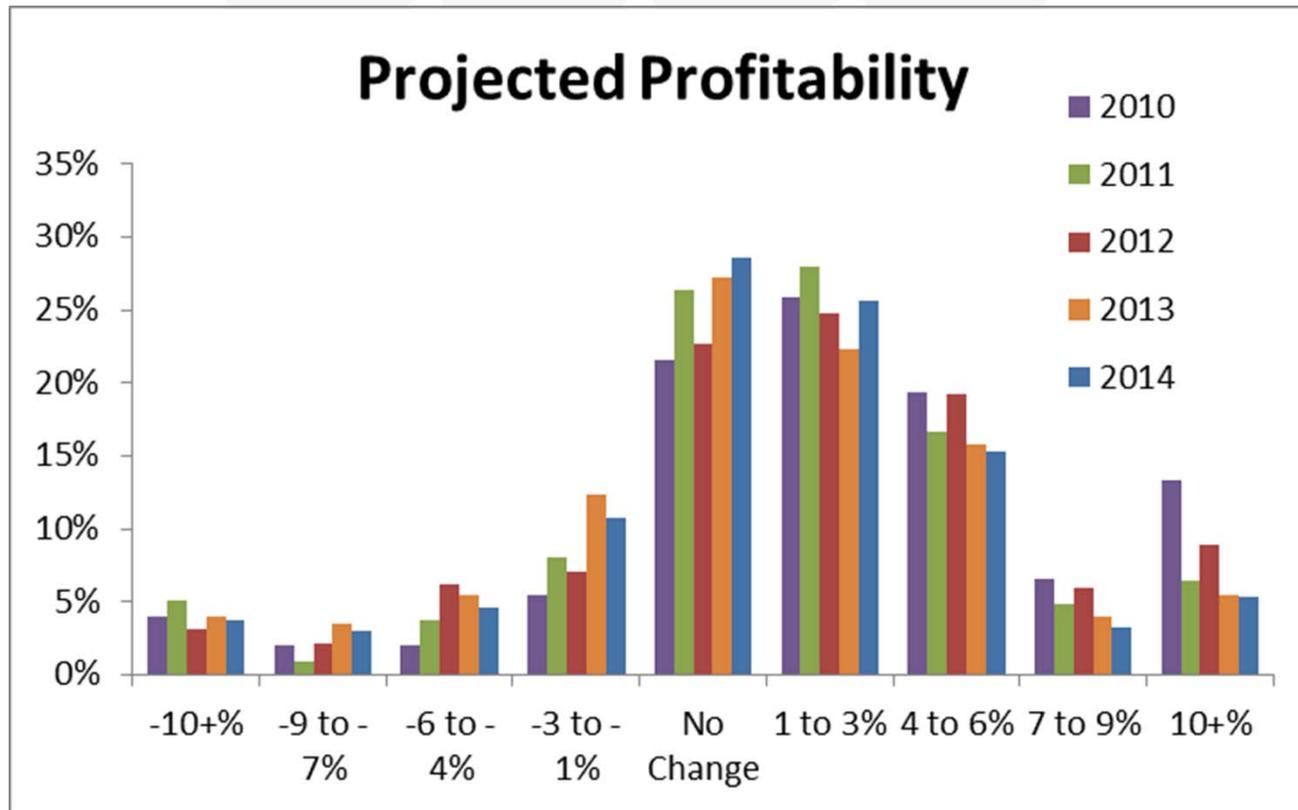
- Performance compared to expectations in 2014 was not as optimistic as it was in 2013. The percentage of businesses which performed beyond expectation went significantly down from 27.5% to 19.9%. Though not significant, the percent of businesses which performed below expectations rose from 32% to 39.4%.

Economic Predictor #1: Sales Revenue



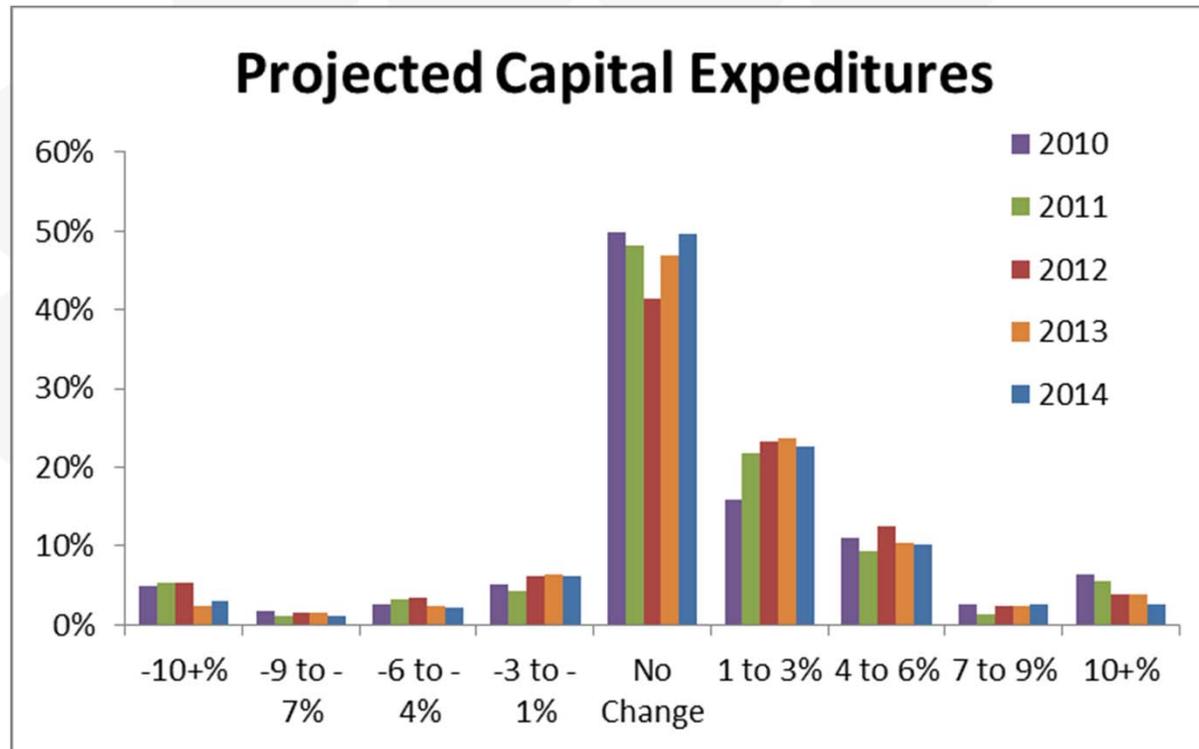
- The proportion of businesses projecting increased Revenue for 2014 is significantly lower at 58.93% against 69.38% projecting for 2013 last year.

Economic Predictor #2: Profitability



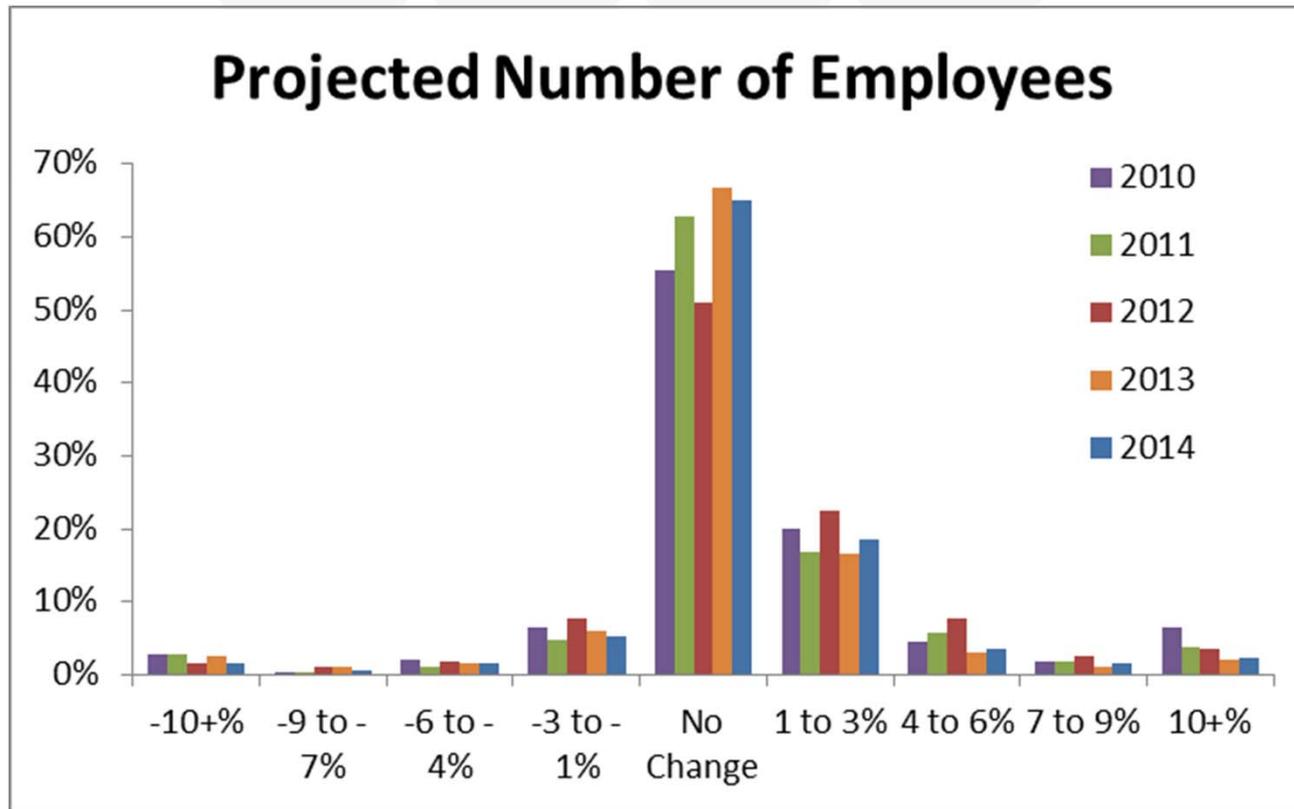
- Projections for 2014 profitability were significantly down from 2013 projections with significantly more businesses at 21.9% vs. 13.9% in 2013, projecting decreased Profitability.

Economic Predictor #4: Capital Expenditures



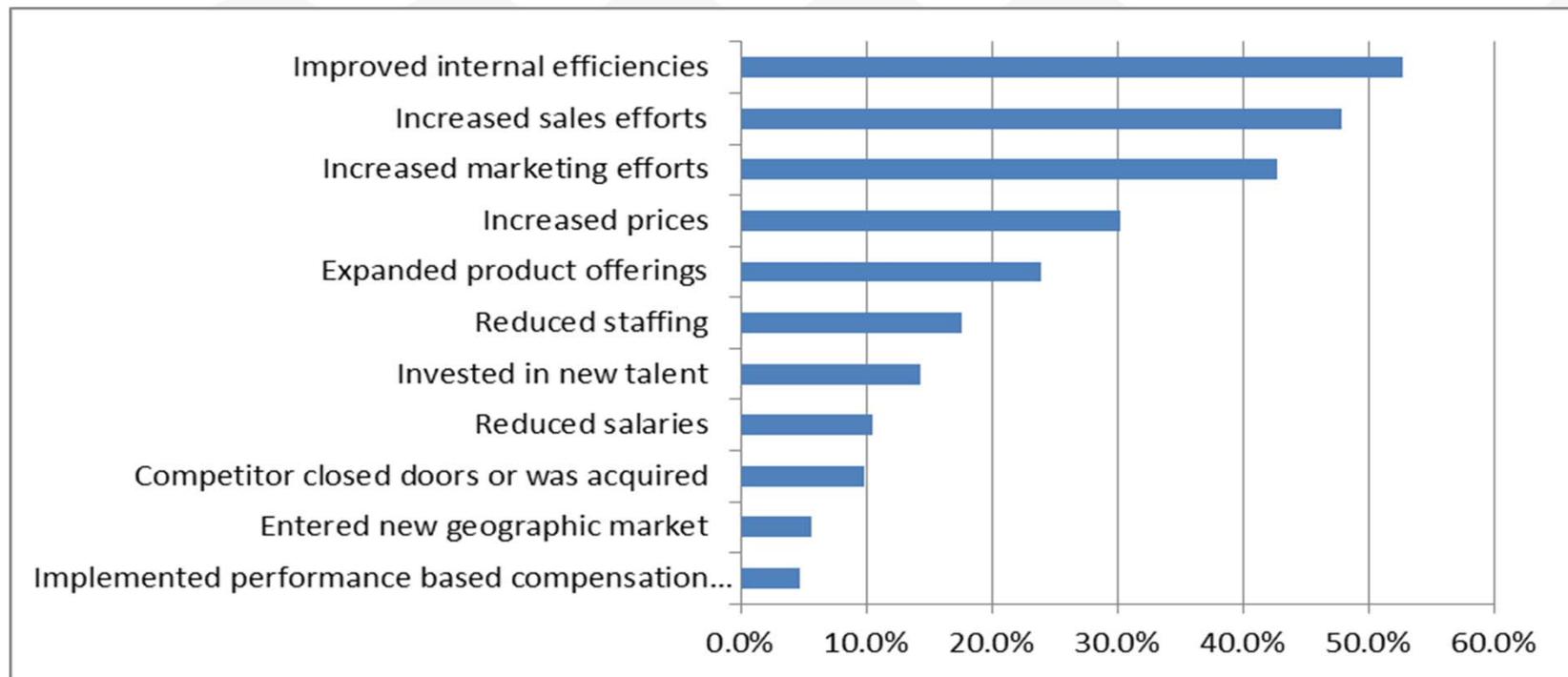
- A significant decline in the proportion of businesses projecting increase in Capital Expenditure for 2014 was noted at 38% vs. 46% last year. The proportion of businesses projecting unchanged Capital Expenditure went up significantly for 2014 at 49.6% vs. 40% for 2013, suggesting less polarized results in 2014.

Economic Predictor #5: Number of Employees



- Compared to 43% projected for 2013, only 26% of businesses are expecting Number of Employees to increase in 2014, which is the lowest projection since 2009.
- Only 9% expect to decrease the number of employees next year.

Contributions: Actions to Improve Company Performance



- The majority of businesses in Northeast region that responded to this question reported Improved Internal Efficiencies (52.7%), Increased Sales Efforts (47.9%) and Increased Marketing Efforts (42.8%) as the top three reasons for Improved Performance.

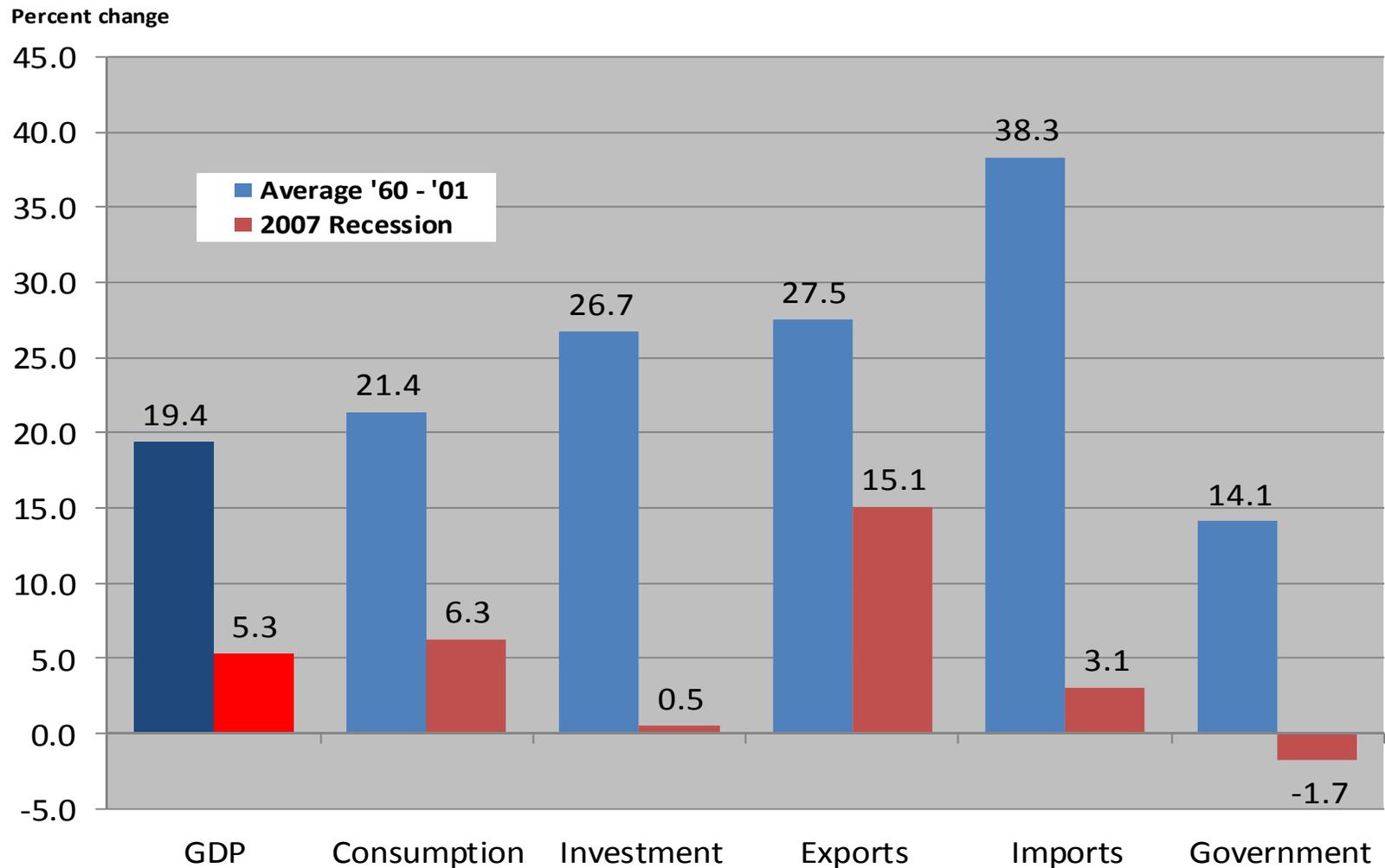
Expectations have dropped for 2014.

JUSTIFIED ?

- **Three times smitten – get a complex**
- **Realistic based on the economic outlook**

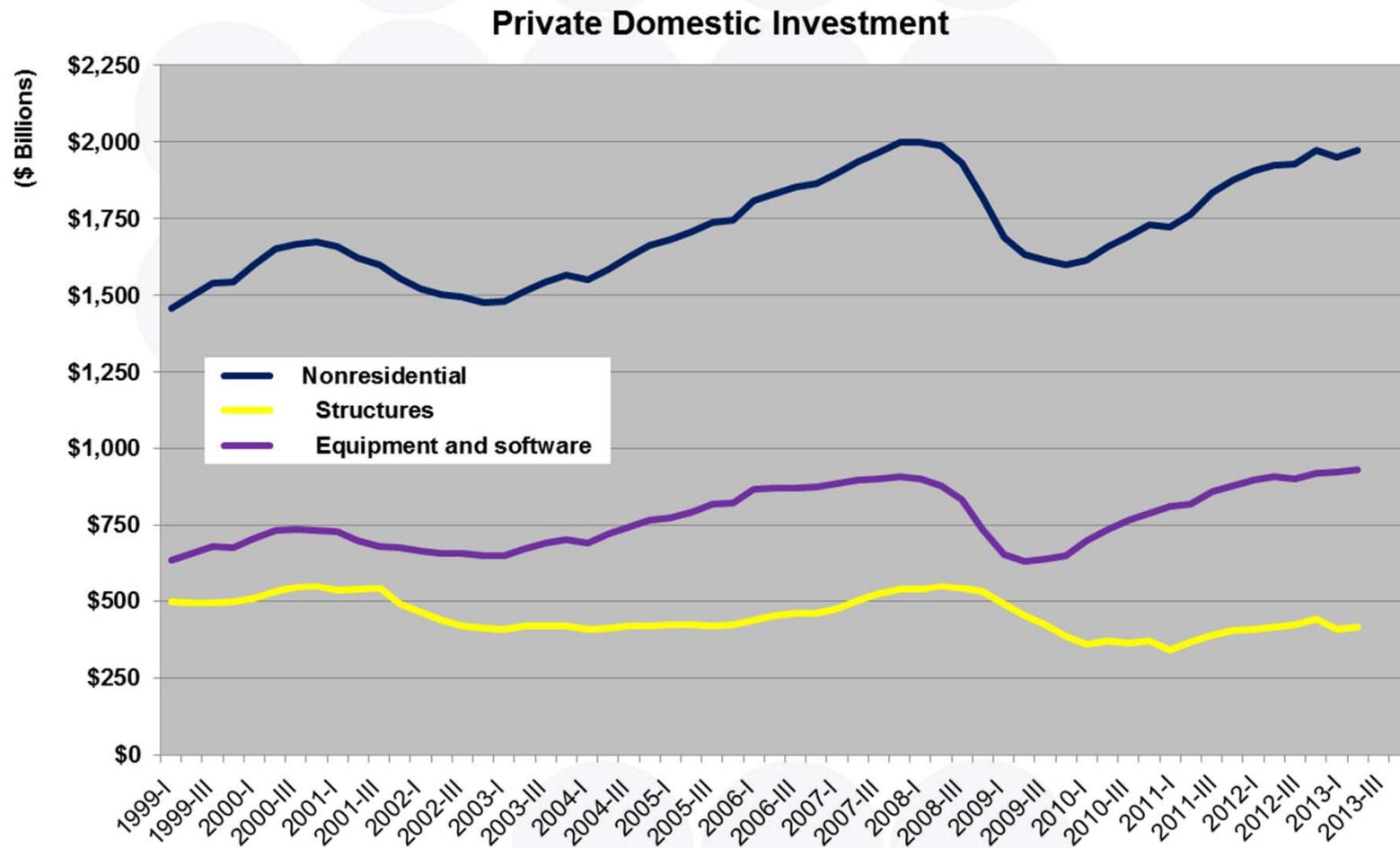
$$\mathbf{GDP = C + I + (X-M) + G}$$

RECESSION COMPARISONS LAGGING ACROSS ALL INDICATORS



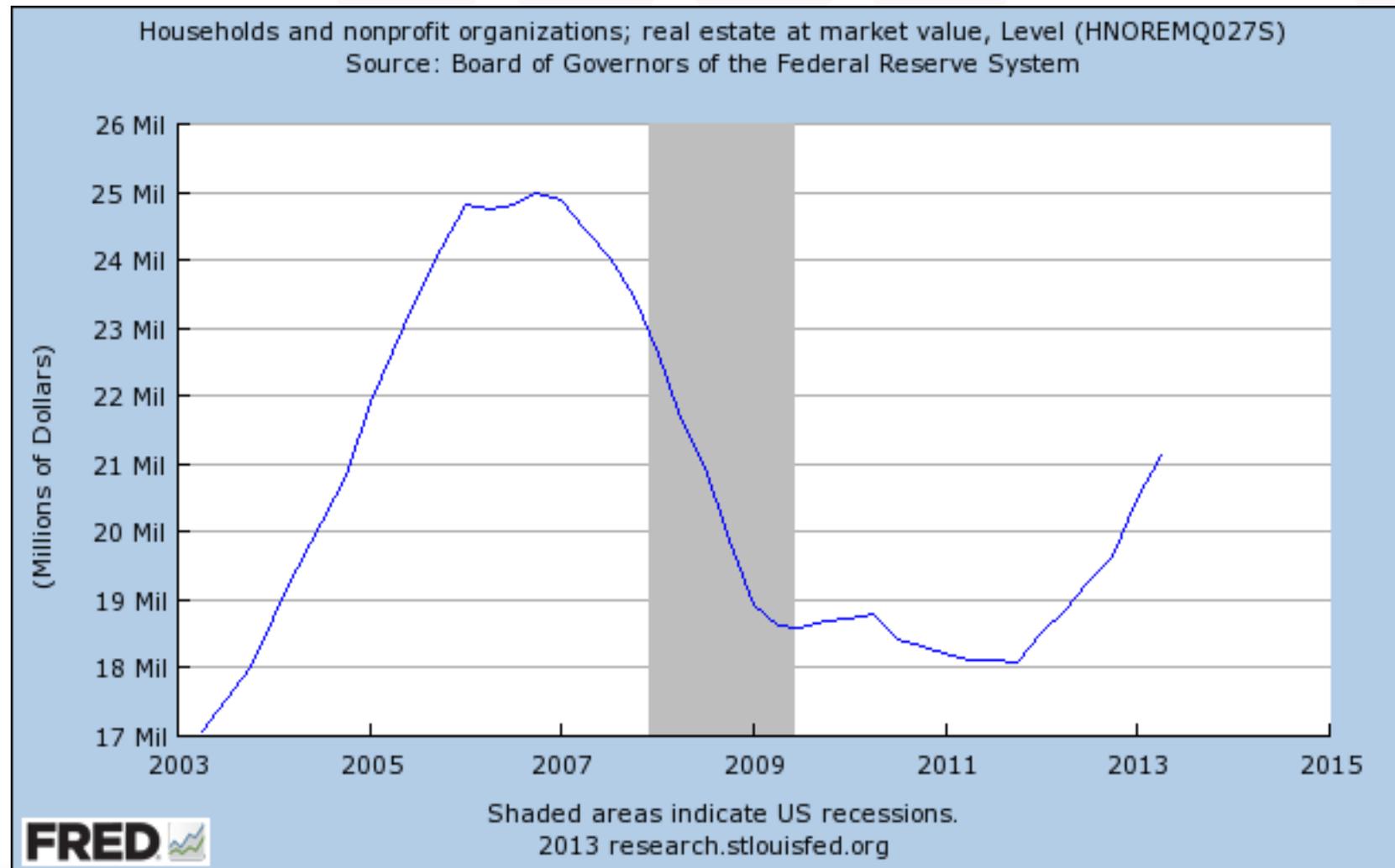
Source: William Testa, Federal Reserve Bank of Chicago

Investment Growth: Is in productivity, not expansion

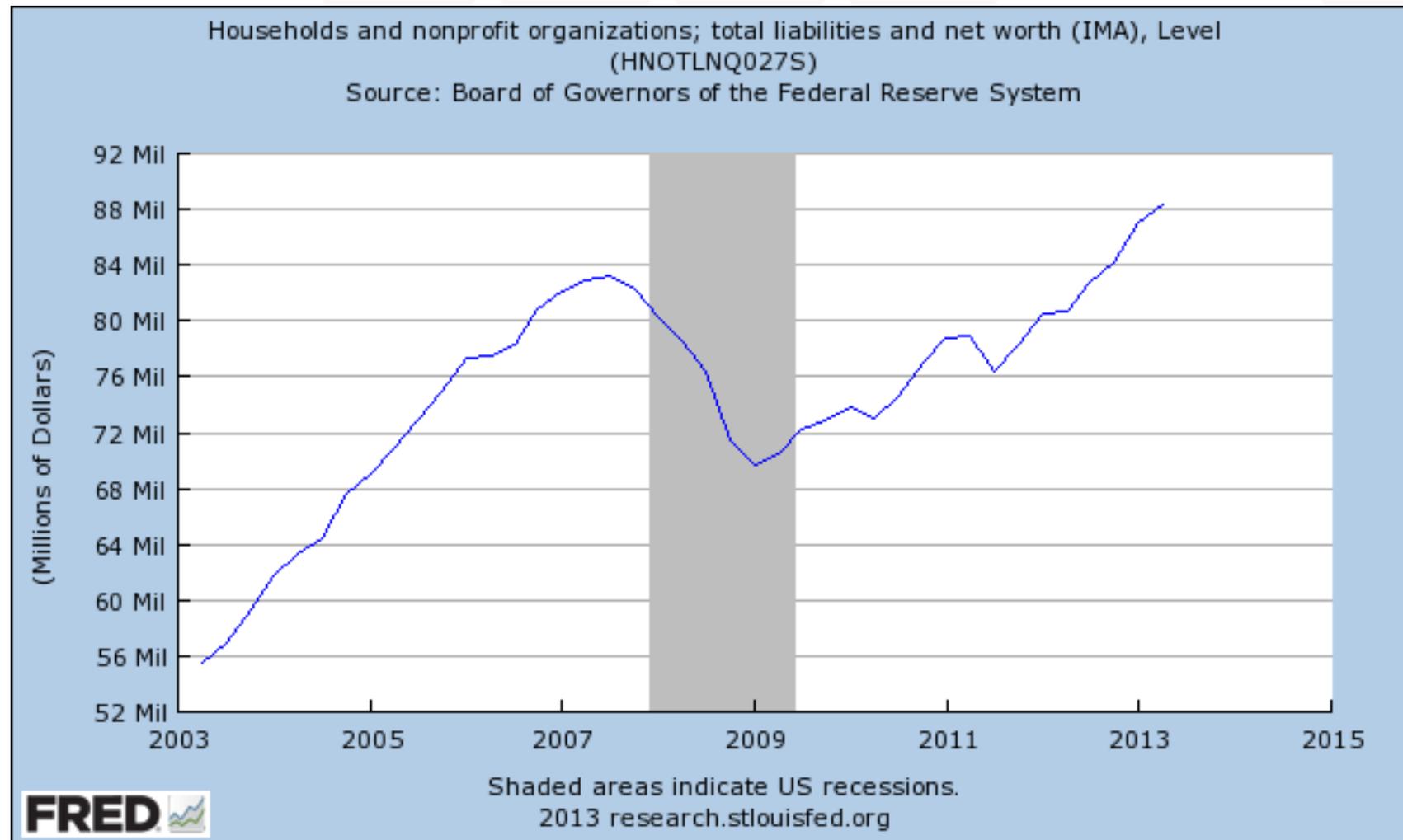


Source: BEA, OEA

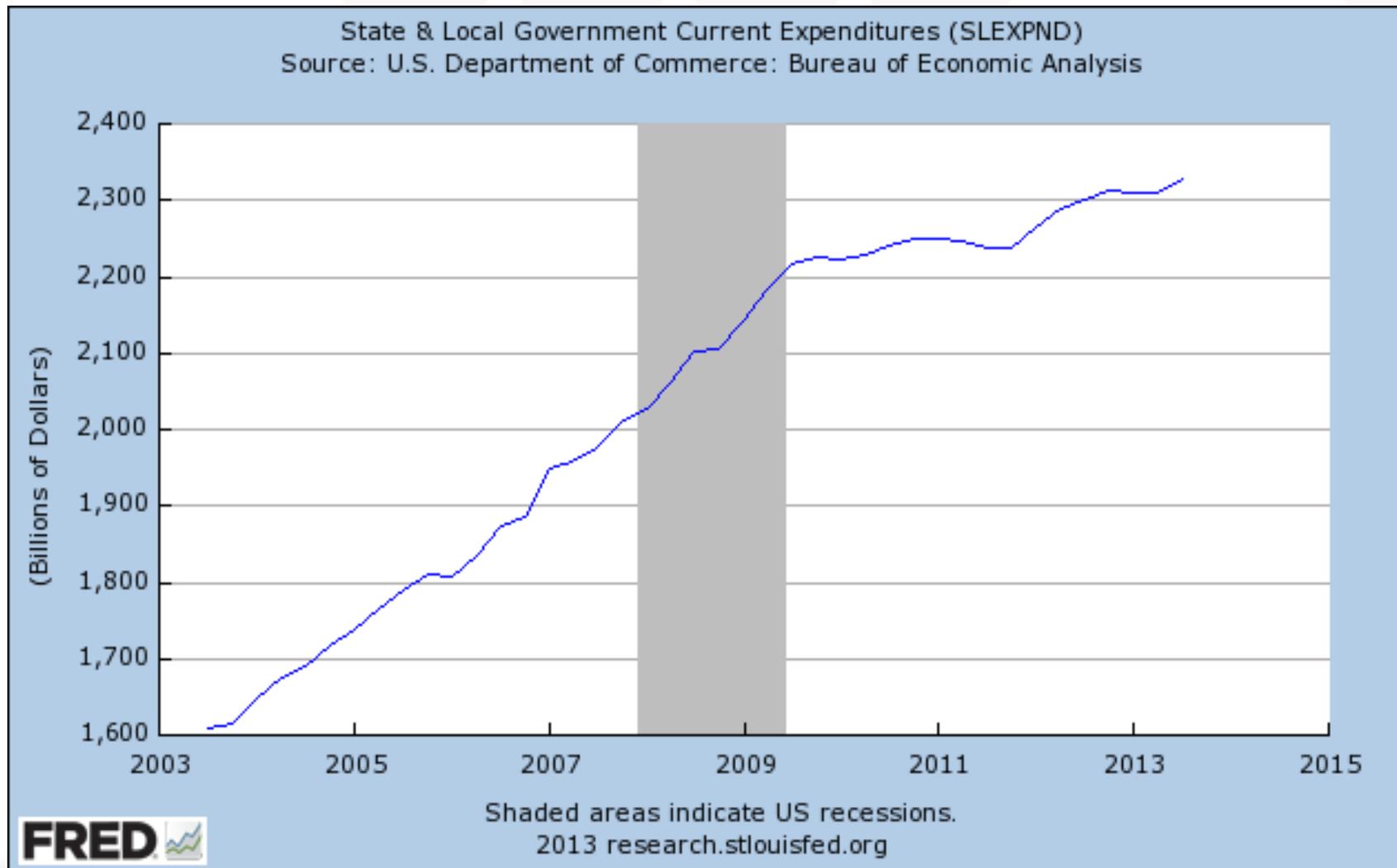
REAL ESTATE EQUITY GETTING A NICE REBOUND



SECURITIES' APPRECIATION IS GETTING US BACK OVER THE HUMP



STATE AND LOCAL SPENDING ON A NEW TRAJECTORY

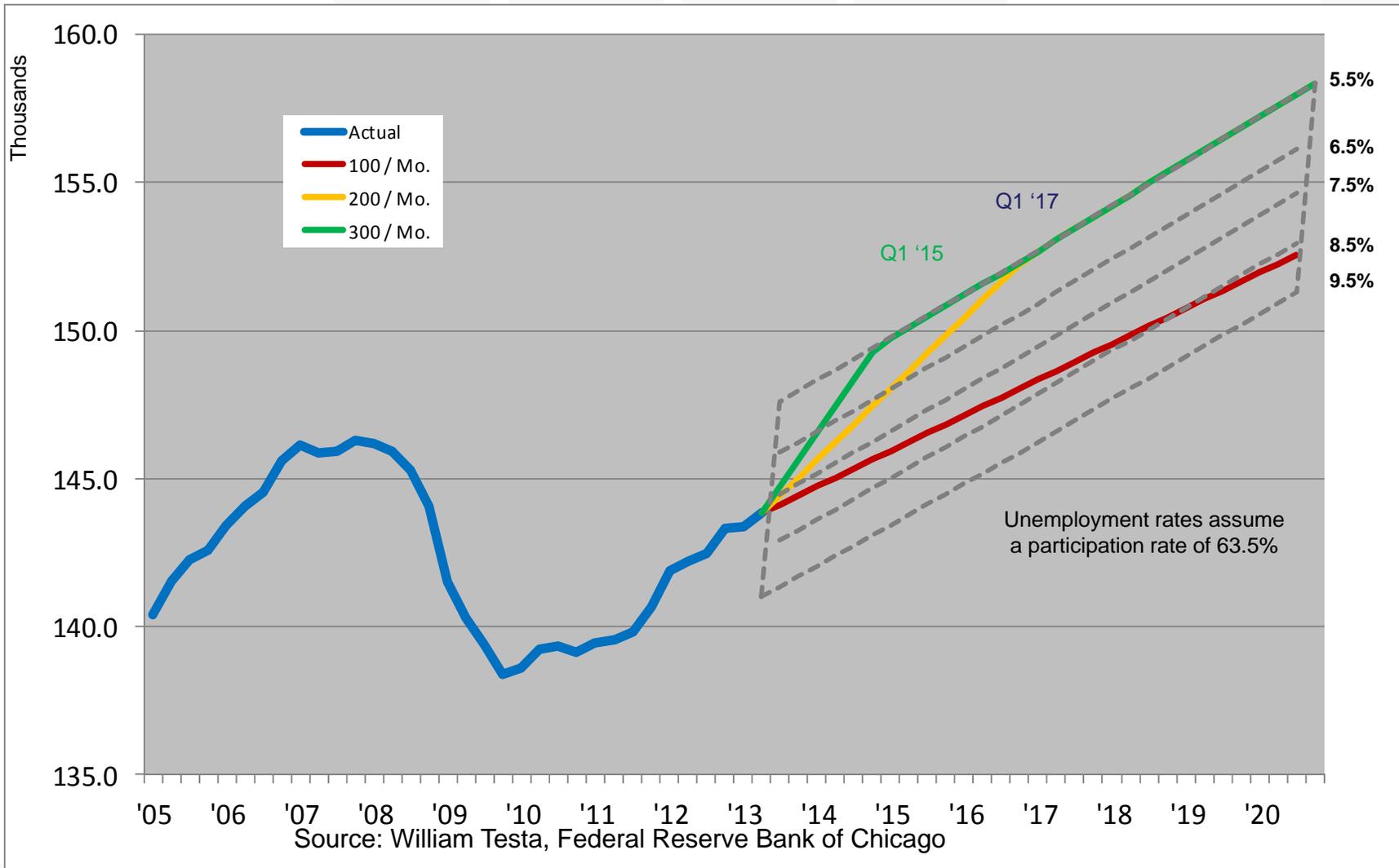


Managing Risk:

Where is the incentive to expand

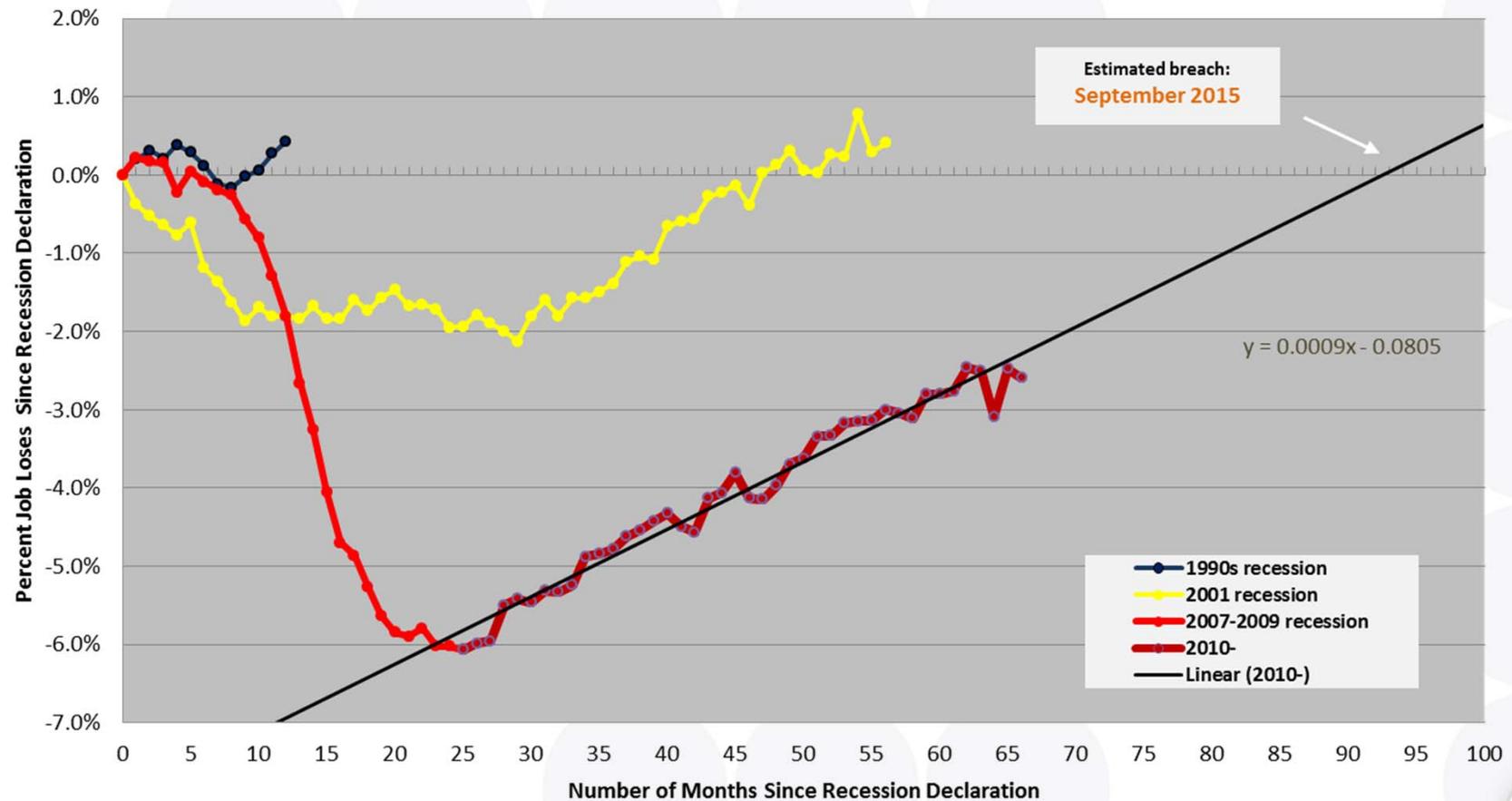


JOBS GROWTH SCENARIOS CONSTRAINTS ON ECONOMY



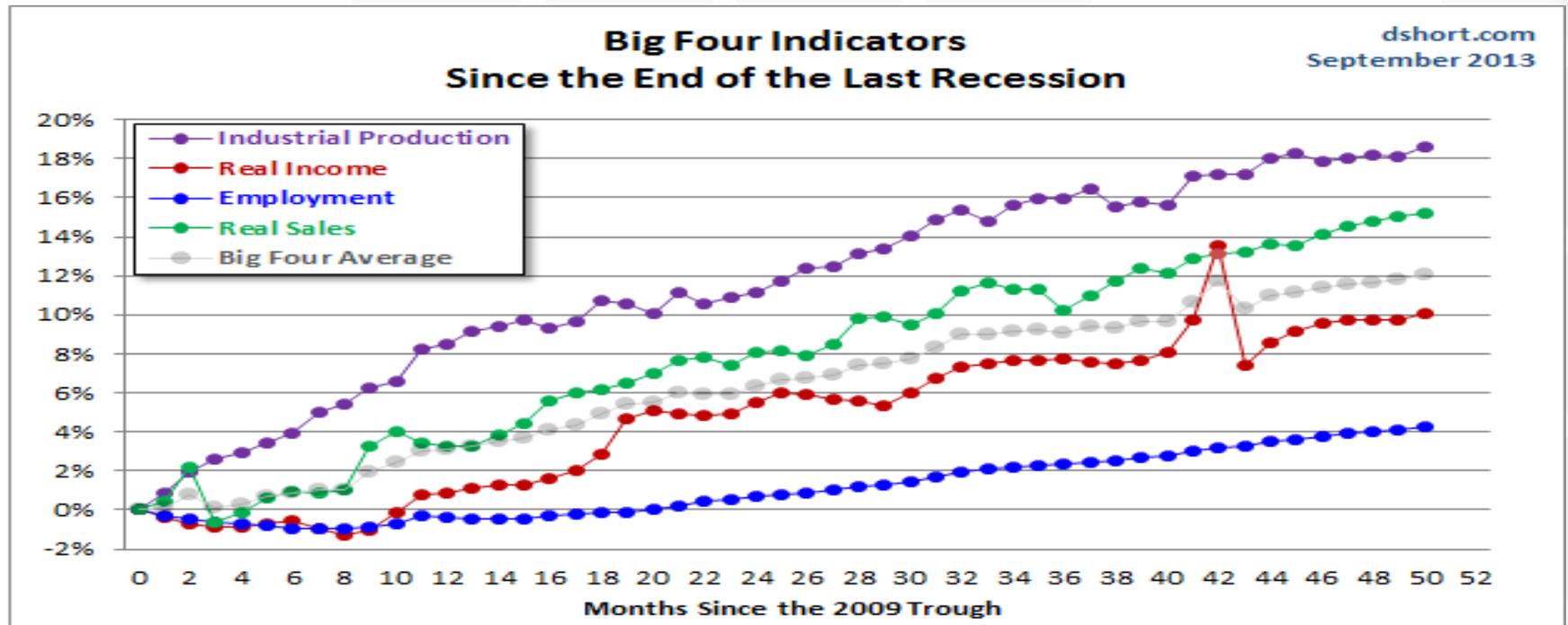
WISCONSIN JOBS RECOVERY VERSUS PREVIOUS CYCLES

Wisconsin: QCEW Total Employment Change in the Last Three Recessions
(QCEW data seasonally adjusted using the U.S. Census X12 program)



**He said,
She said.**

**HE SAID,
HEY BABE, LOOK THE ECONOMY IS GROWING NICELY**

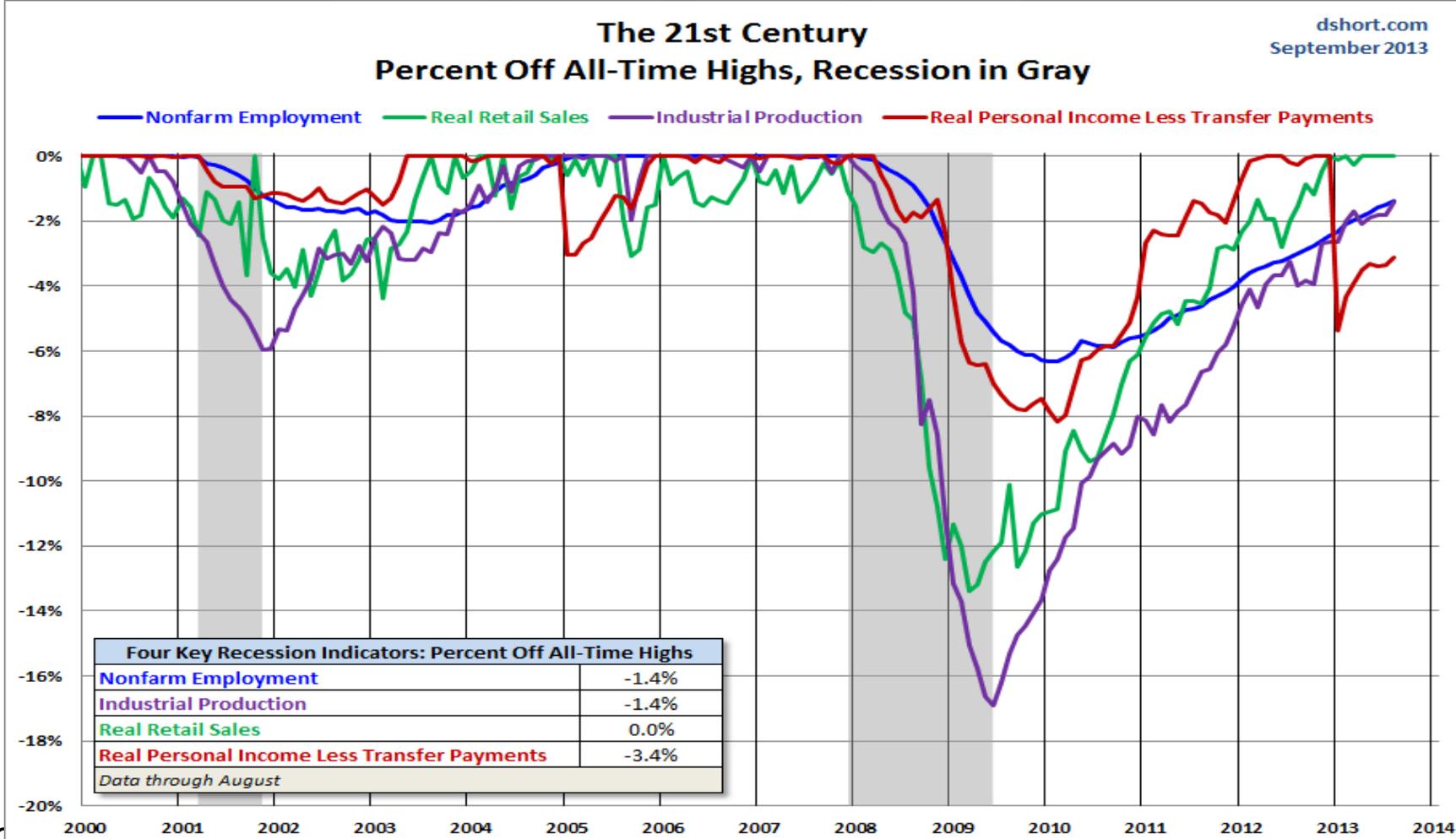


Indicator	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial Production	0.2%	-0.1%	1.3%	0.0%	0.0%	0.7%	0.3%	-0.3%	0.1%	0.1%	0.0%	0.4%
Real Income	0.2%	0.3%	1.5%	3.5%	-5.4%	1.1%	0.5%	0.4%	0.2%	-0.1%	0.0%	0.3%
Employment	0.1%	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Real Sales	0.6%	-0.2%	0.6%	0.3%	0.1%	0.4%	-0.1%	0.5%	0.3%	0.2%	0.3%	0.1%
Big Four Average*	0.3%	0.0%	0.9%	1.0%	-1.3%	0.6%	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%

* Employment is released the first week of the month, Income the last week, Industrial Production and Sales mid-month.

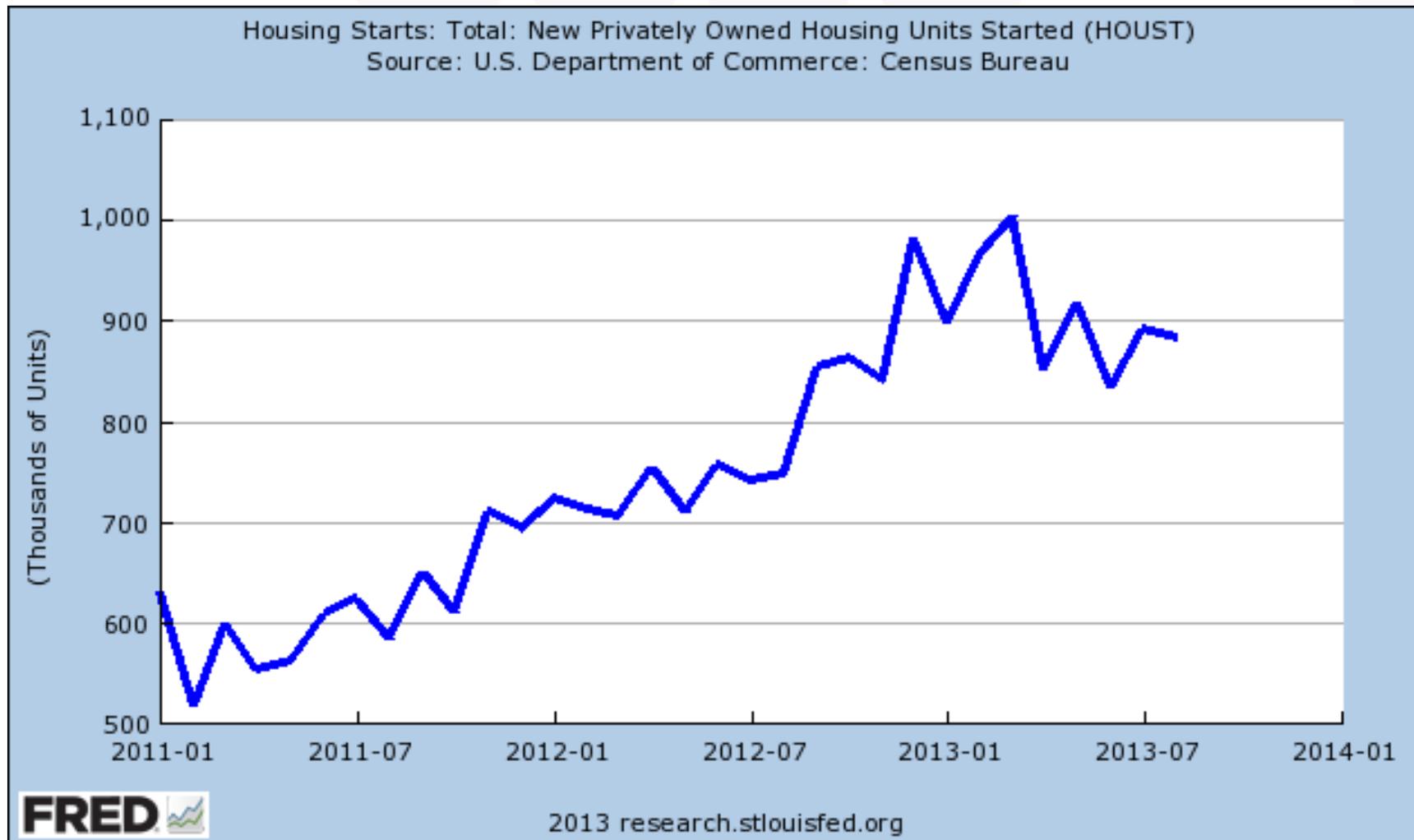
*The Big Four Average is based on four data points, the most recent in each series.

**SHE SAID,
WE STILL HAVE A WAYS TO GO, DEAR**



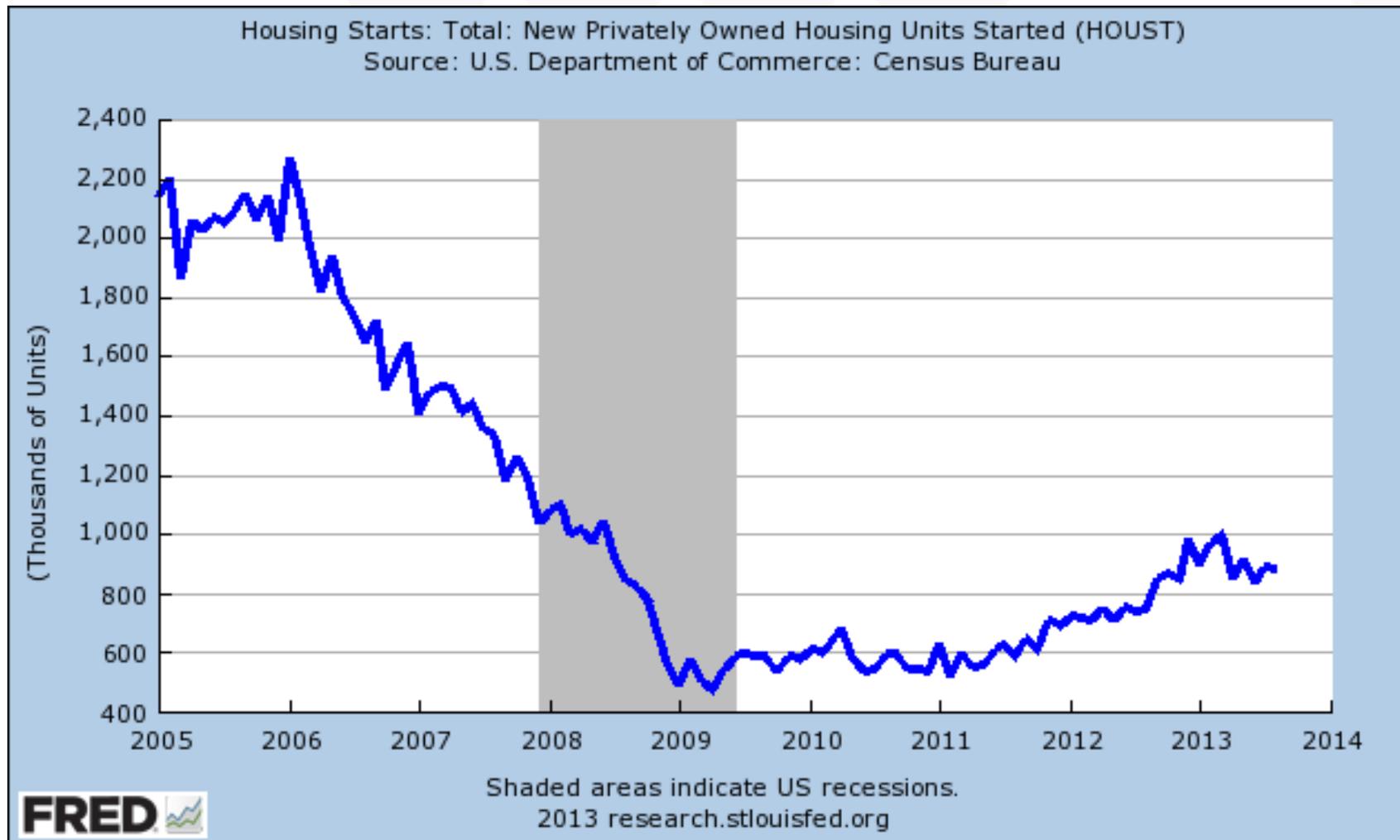
HE SAID

LOOK HONEY, HOUSING MARKET IS UP NICELY



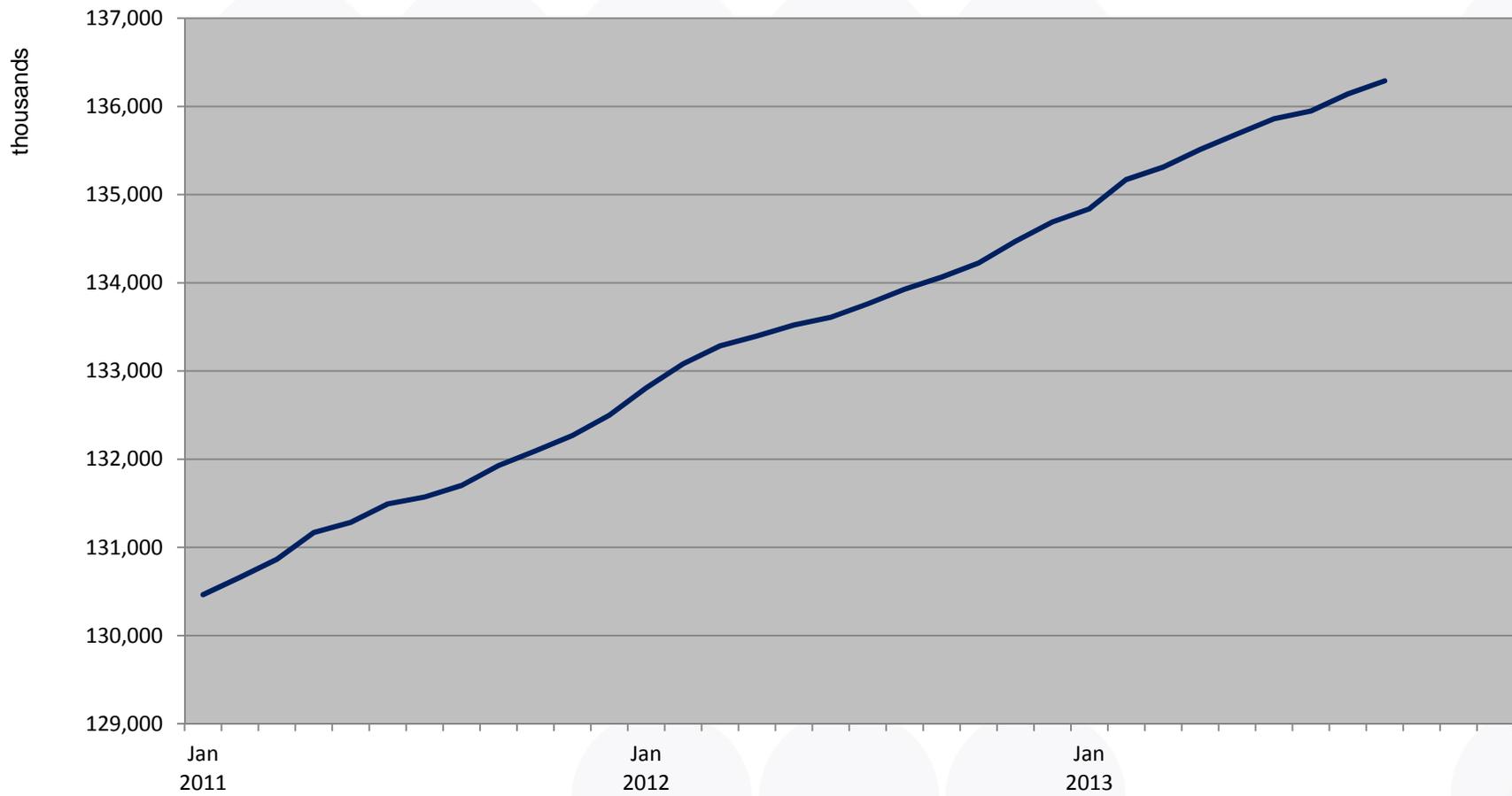
SHE SAID

SWEETHEART, WE'RE NEVER GETTING BACK THERE

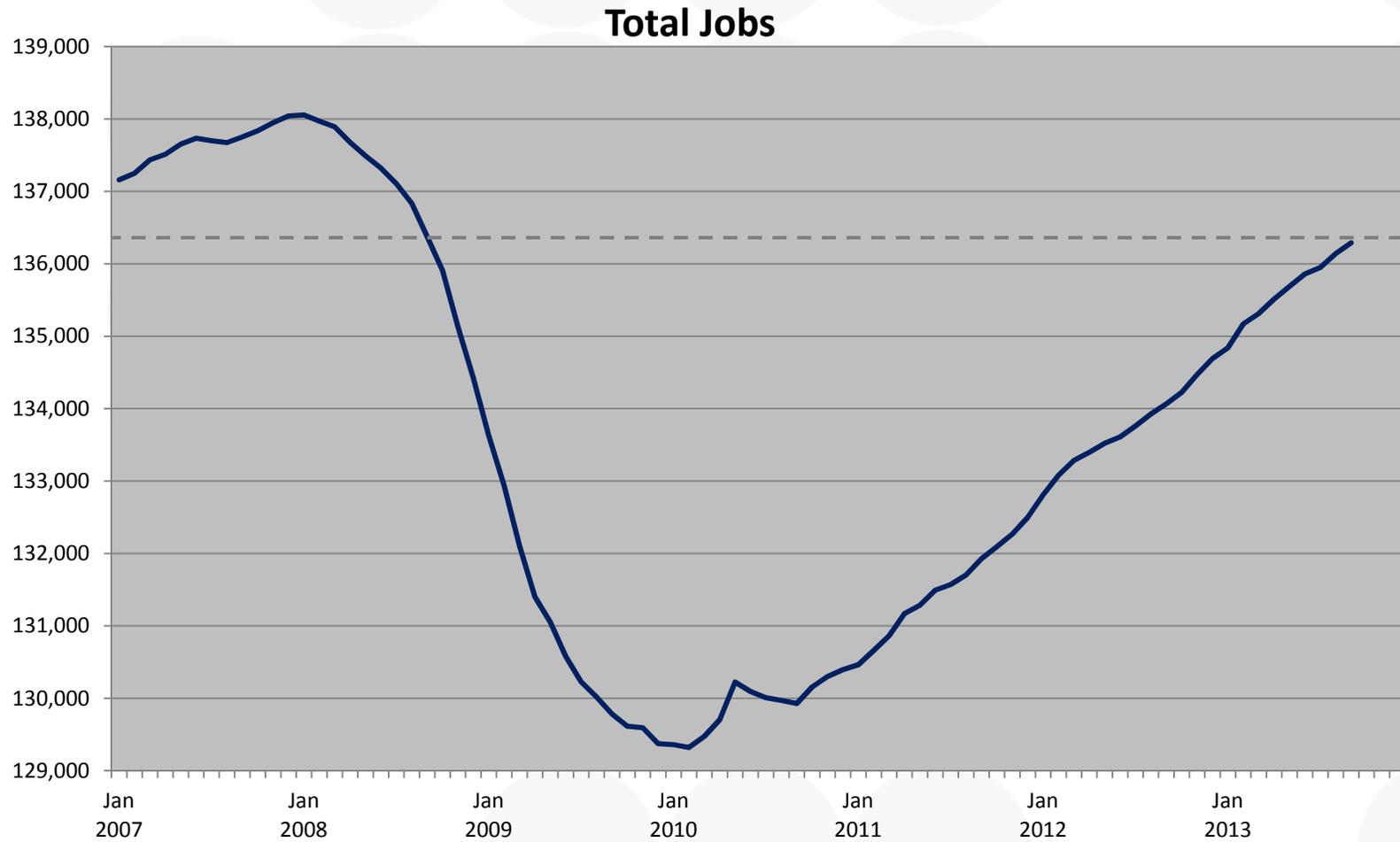


HE SAID, SUGAR, JOBS ARE CLIMBING

Total Jobs



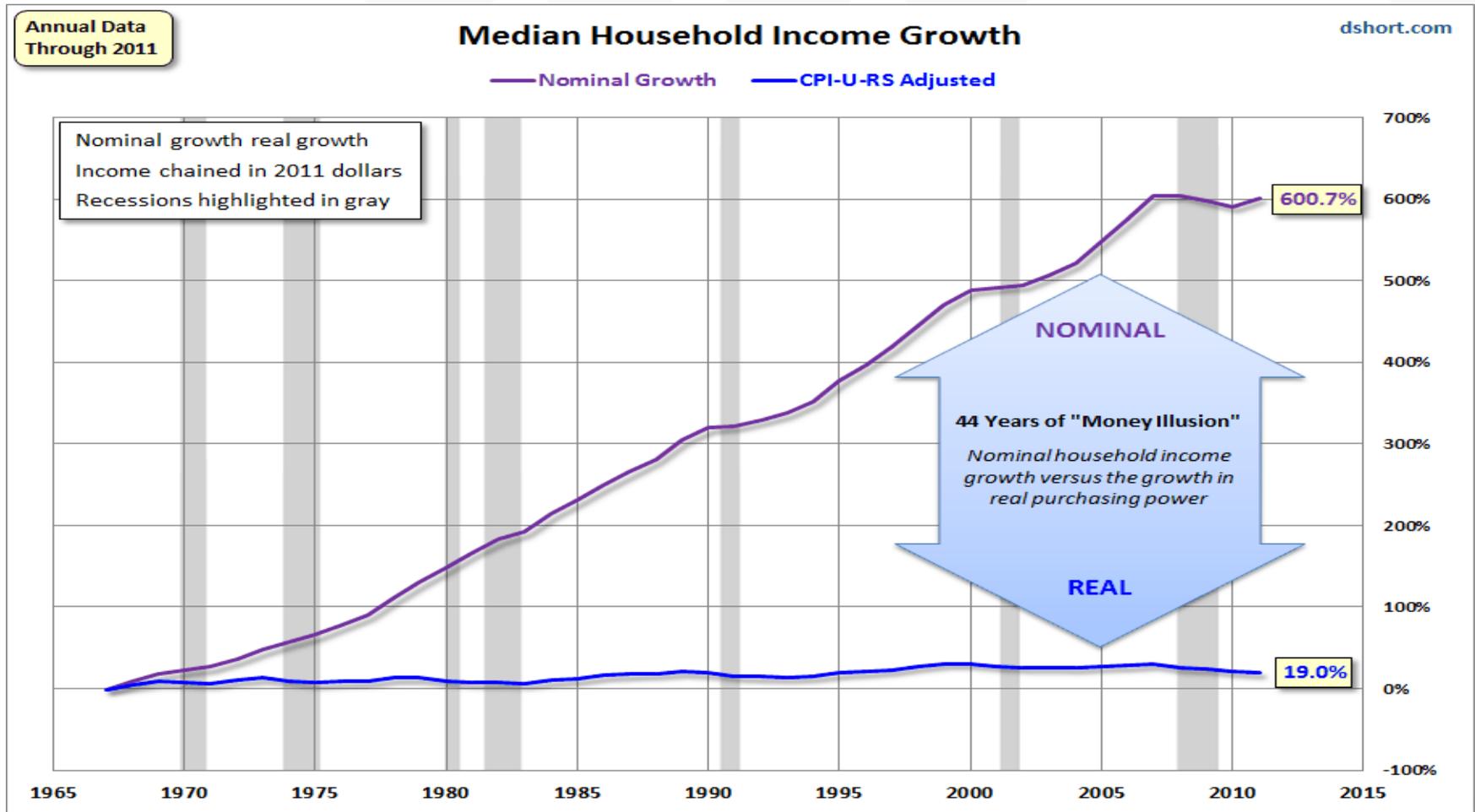
**SHE SAID,
DARLING, DON'T PISS OFF YOUR BOSS**



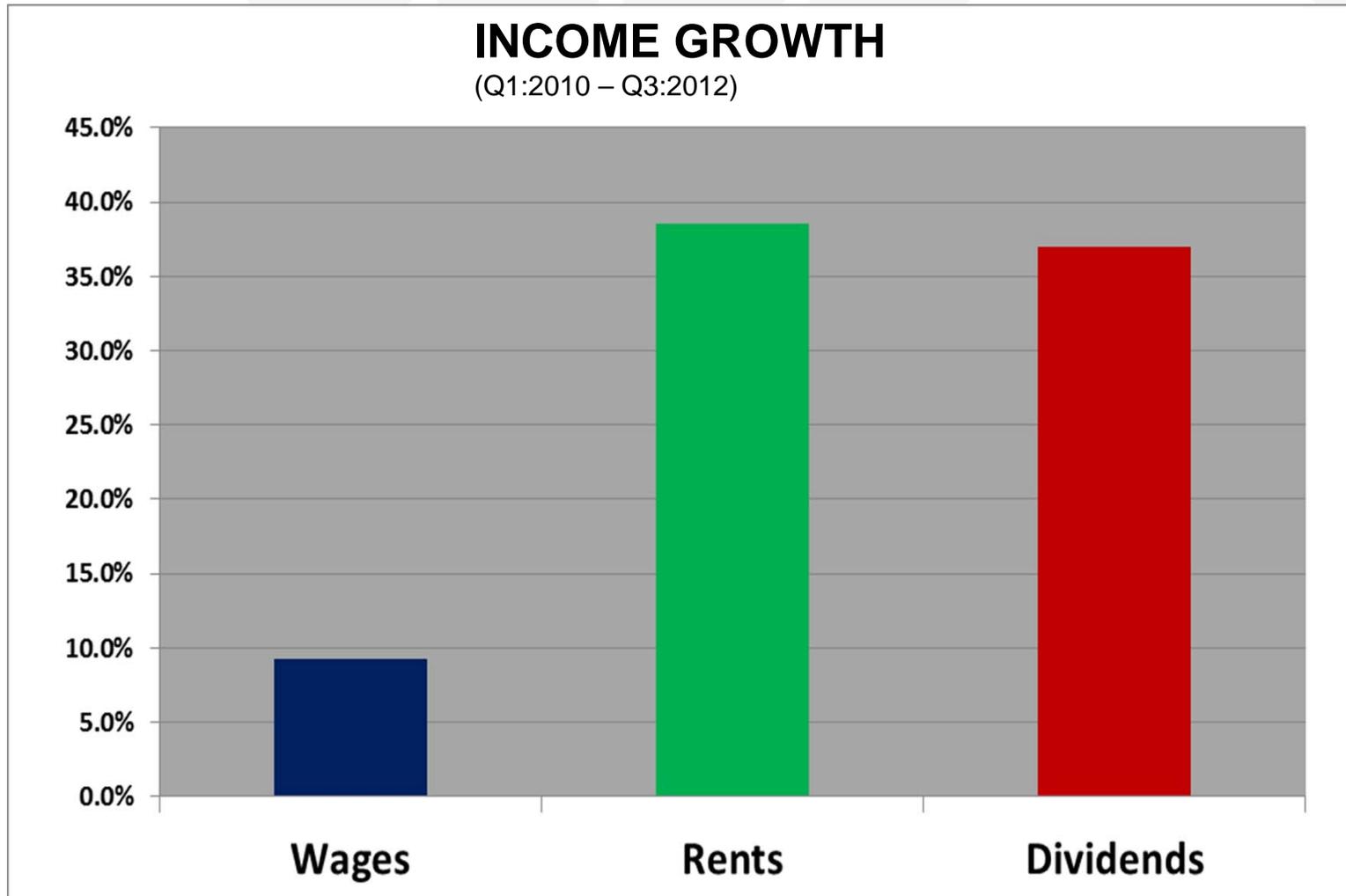
HE SAID, LOVE, THEY'RE JACKING UP WAGES EVERYWHERE

- The minimum **wage will increase** in 10 states on January 1, 2013.
- Employers to be **more generous with pay raises** next year, CNNMoney.
- An improving job market is **boosting wages**, Herald and News.
- SHRM consensus is for an average budget **increase of 3 percent**.
- Hay Group says **3 percent salary increases** in 2013.

SHE SAID, JIM, GET A GRIP



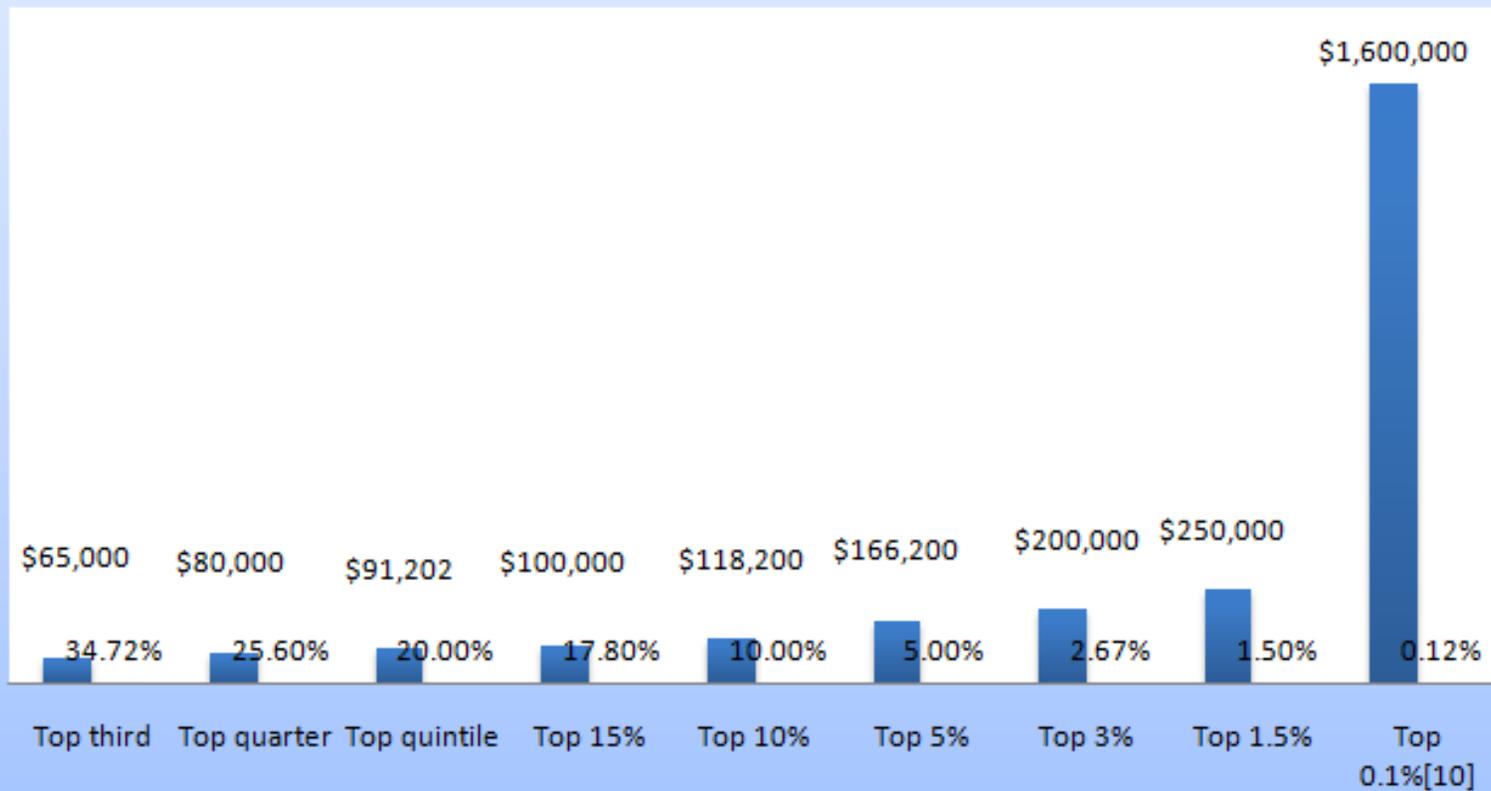
**HE SAID,
DREAMBOAT, WE'RE GONNA BE RICH**



Source: BEA, OEA

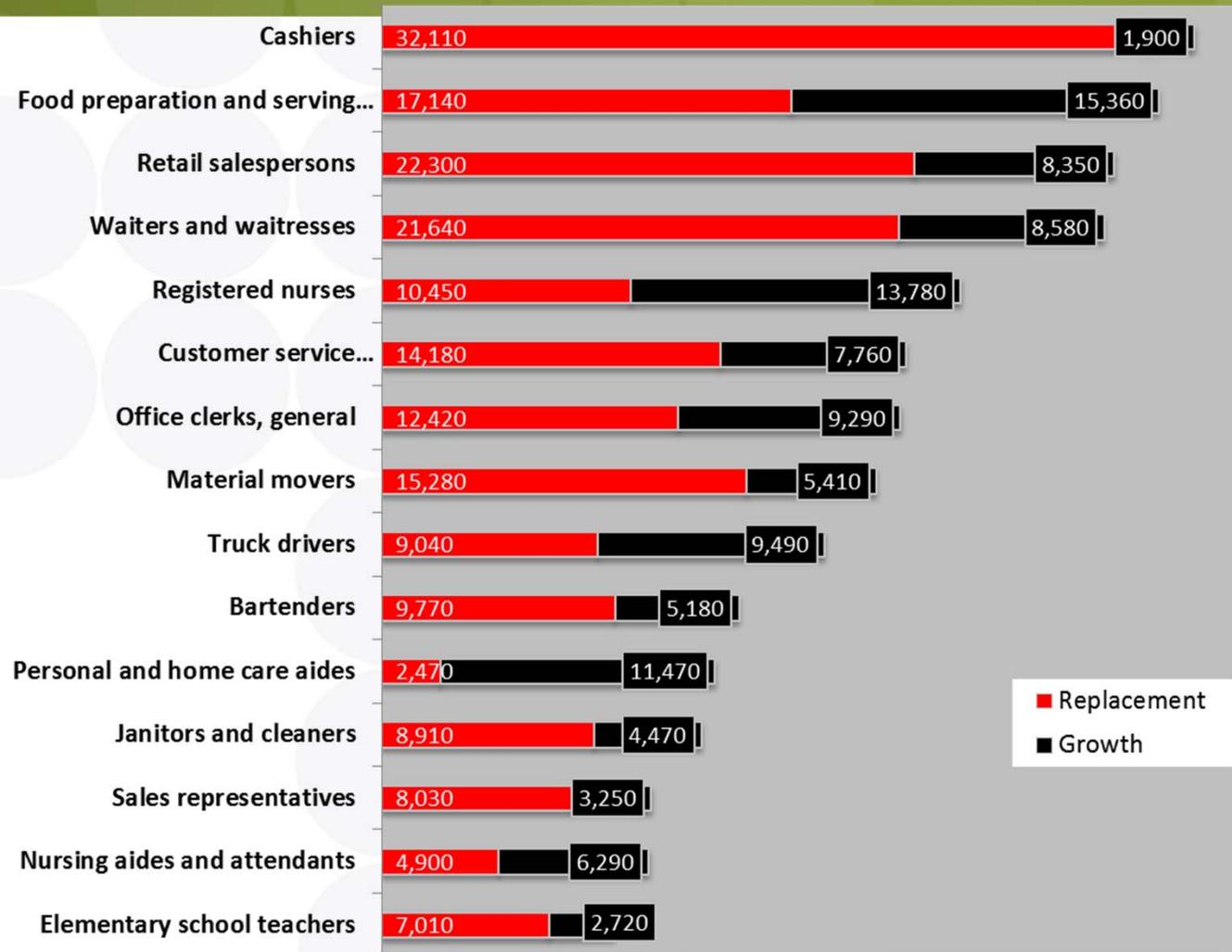
**SHE SAID,
WILL YOU WAKE UP AND SMELL THE COFFEE**

Income Distribution
www.mybudget360.com



**Who
is in
demand?**

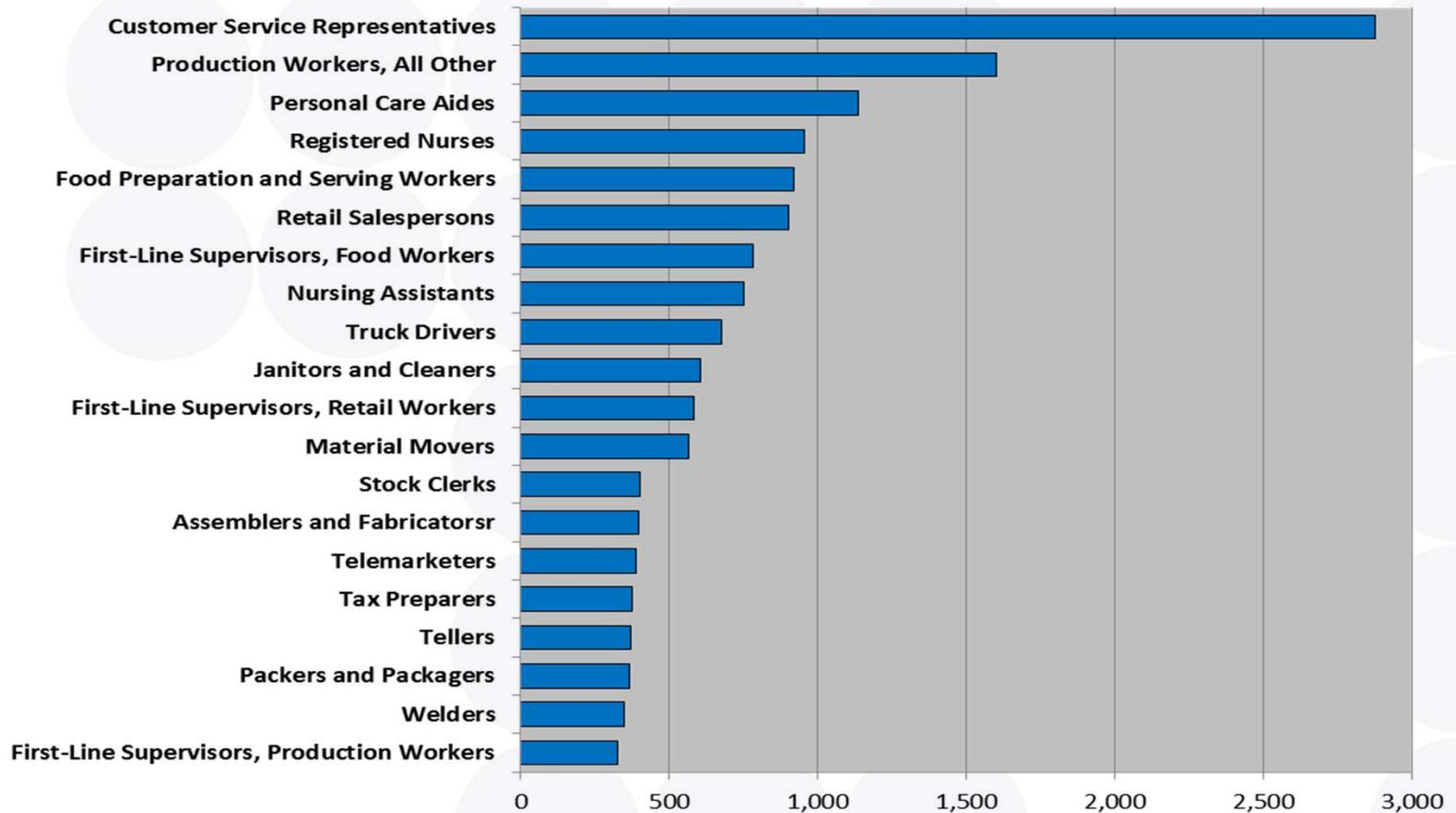
MOST JOB OPENINGS BY OCCUPATION



*Job Openings includes both turnover and new jobs that are created.

MOST JOB OPENINGS ON JOB CENTER OF WISCONSIN

Job Center of Wisconsin Openings



MOST OFTEN HEARD POSITION CHALLENGES CHARACTERISTICS

Occupation	Annual % Growth	Growth Openings	Replacement Openings	Total Openings	Typical Entry Education	Median Wage
Heavy truck drivers	1.90	9,490	9,040	18,530	H.S. diploma	\$38,300
Welders	1.50	1,840	3,010	4,850	H.S. diploma	\$37,980
Customer service representatives	1.50	7,760	14,180	21,940	H.S. diploma	\$31,430
CNC machine operators	2.20	1,310	1,020	2,330	H.S. diploma	\$35,860
Maintenance workers, machinery	0.70	180	440	620	H.S. diploma	\$39,460
Nursing aides	1.50	6,300	4,900	11,200	Postsecondary	\$25,020
Registered nurses	2.20	13,780	10,450	24,230	Associate's degree	\$62,860
Mechanical engineers	0.70	470	2,010	2,480	Bachelor's degree	\$68,340
Food preparation and serving workers	2.30	15,360	17,140	32,500	< high school	\$17,910

WHAT TRAINING TO PURSUE FIVE MAKE ALL THREE LISTS

Make all three lists	Total Openings	Typical Entry Education	Median Wage
Food preparation	32,500	< high school	\$17,910
Customer service	21,940	H.S. diploma	\$31,430
Registered nurses	24,230	AD/BS	\$62,860
Heavy truck drivers	18,530	H.S. diploma	\$38,300
Health care aides	11,200	Postsecondary	\$25,020
Make two lists			
Welders	4,850	H.S. diploma	\$37,980
Material Movers	38,900	H.S. diploma	\$23,590
Retail sales	69,030	< high school	\$20,570

Survey Background

- Survey sent to all Northeast Wisconsin businesses with one or more employees; 7,120 sent
- Those targeted: Owner, President, CEO, CFO
- 382 valid responses; 5.37% response rate
- Heavily represented by small businesses (<100 employees)
- Segmented by business type, markets served, types of customers
- **16% of respondents were engaged in manufacturing**
- Questions on eight economic indicators
- Quantitative and qualitative responses
- Margin of error .05 with 95% confidence level

Survey Response Rate

- Survey not sent to government, public sector, higher education

Northeast Wisconsin Response Rates			
	Surveys Sent	Total Received	Response Rate
2008	7500	790	10.53%
2009	6866	373	5.43%
2010	6711	457	6.81%
2011	6856	386	5.63%
2012	3888	263	6.76%
2013	7120	382	5.37%

Survey Example

- **Self selection:**
 - Target Market
 - Business classification
 - Business type: Manufacturing, Service, Retail, Technology, Other
- **Eight economic indicators:**
 - Sales revenue
 - # Employees
 - Capital expenditures
 - Operating costs
 - Profitability
 - Wages
 - Pricing
 - Capacity
- **Reasons for performance**
- **Current event question**

First Business Economic Survey of Northeast Wisconsin

You may save time by completing this survey online at www.firstbusiness.com/survey (password: fbsurveys2013). Alternatively, you can fax the completed form to 608.265.4193 or mail it to us in the enclosed envelope.

Your Target Market Dane County Milwaukee/Waukesha Northeast Wisconsin
 Wisconsin Midwest Nationwide/International

Number of Employees 1-4 5-19 20-99 100-499 500+

Business Type Manufacturing Retail Service Technology Other

Business Classification Business to Business Business to Consumer Both

Section 1: We would like to understand the changes in your business from 2012 to 2013 and the changes you forecast for 2014. Please choose the option that best describes the following factors in your organization and check the appropriate box.

	Decrease				No Change	Increase			
	10+%	7.5%	4.6%	1.3%		1.3%	4.6%	7.5%	10+%
<i>Calendar Year 2013 Compared to Calendar Year 2012</i>									
1. Sales Revenue	<input type="checkbox"/>								
2. Total Operating Costs as a % of Revenue	<input type="checkbox"/>								
3. Capital Expenditures	<input type="checkbox"/>								
4. Profitability	<input type="checkbox"/>								
5. Number of Employees	<input type="checkbox"/>								
6. Change in Wages	<input type="checkbox"/>								
7. Change in Pricing	<input type="checkbox"/>								
<i>Forecast for Calendar Year 2014 Compared to Actual Performance in Calendar Year 2013</i>									
1. Sales Revenue	<input type="checkbox"/>								
2. Total Operating Costs as a % of Revenue	<input type="checkbox"/>								
3. Capital Expenditures	<input type="checkbox"/>								
4. Profitability	<input type="checkbox"/>								
5. Number of Employees	<input type="checkbox"/>								
6. Change in Wages	<input type="checkbox"/>								
7. Change in Pricing	<input type="checkbox"/>								

Section 2: We would like to understand the issues your business is facing regarding "unused" capacity: In terms of maximum operating capacity (100%), where is your organization currently performing? (0 to 100%) _____%

Section 3: We would like to understand your business performance in 2013 compared to your expectations:

1) In terms of overall performance compared to your expectations in 2013, did you:
 Exceed Expectations Meet Expectations Perform Below Expectations

2) If you performed below expectations in 2013, to what would you attribute this lower performance (select all that apply)?
 Domestic Sales Shortfall Insufficient Cash Flow Staffing Issues
 International Sales Shortfall State Government Regulations Rising Gas Prices
 Domestic Competition Federal Gov't Regulations Slow Down in Housing Market
 International Competition Political Unrest/War Other _____
 Technology Changes Higher Operating Costs Other _____

Section 4: We would like to understand the issues your business will be facing going forward into 2014:
 1) By what percentage do you expect your expenses to change for 2014 over 2013? (e.g., -8% or +4.5%) _____%
 2) How much of that change in expenses do you expect to pass on to your customers? (e.g., all-100%, none=0%) _____%
 3) Please select the three actions that contributed most to improved company performance in 2013:
 Reduced staffing Increased sales efforts Improved internal efficiencies
 Invested in new talent Increased marketing efforts Entered new geographic market
 Reduced salaries Increased prices Competitor closed doors or was acquired
 Implemented performance based compensation plan Expanded product offerings Other _____

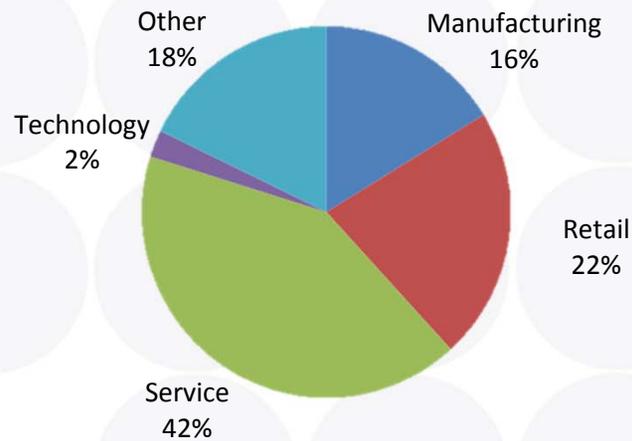
4) Do you think your business will perform better or worse overall in 2014 compared to 2013? Better Worse
 Why? _____

(Optional): To get a copy of the results, please provide your email address: _____

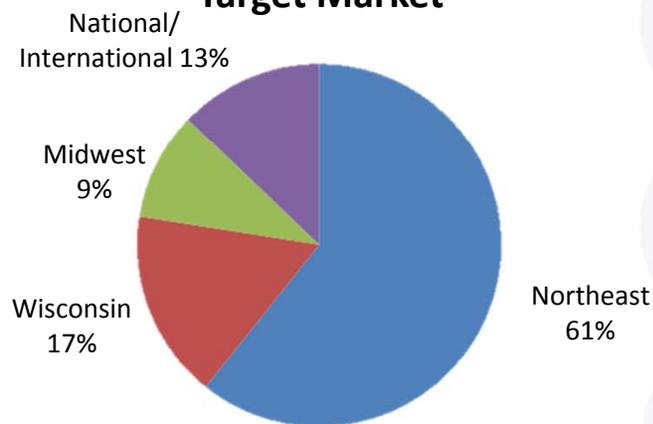
copy included in your handouts

Segmentation

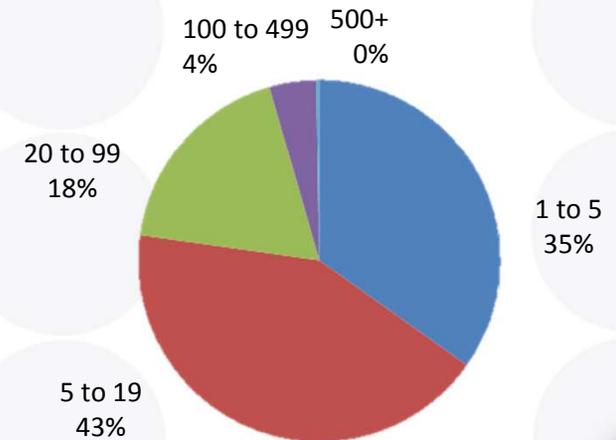
Business Type



Target Market



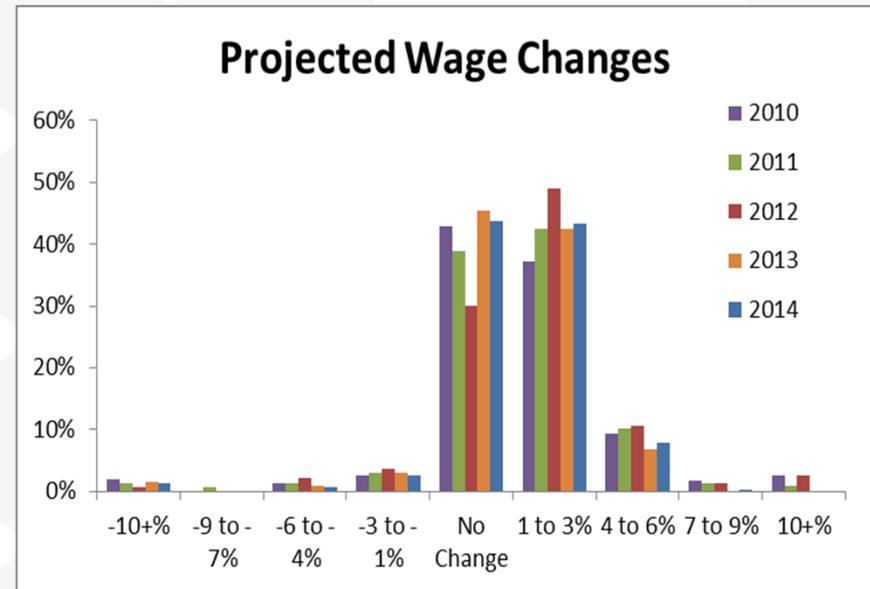
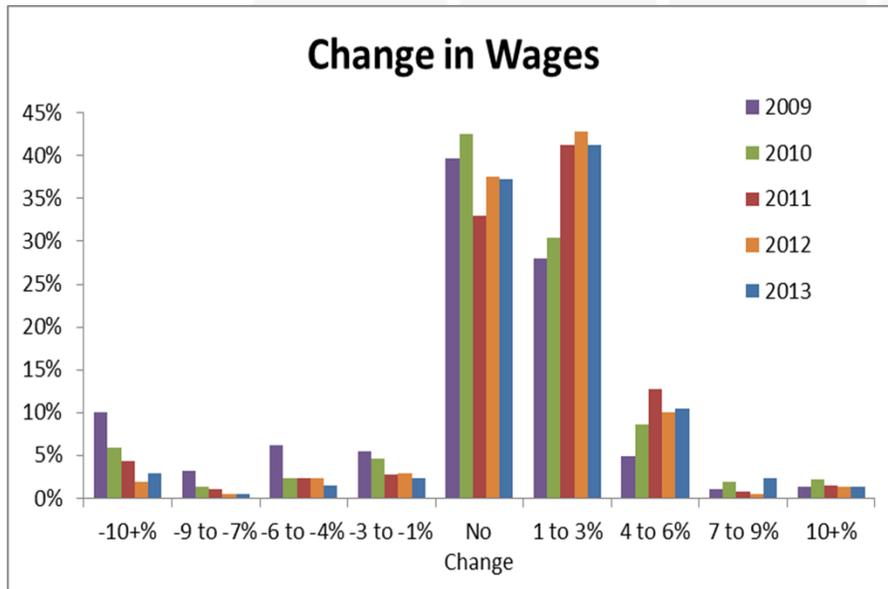
Number of Employees



Interpreting the Results

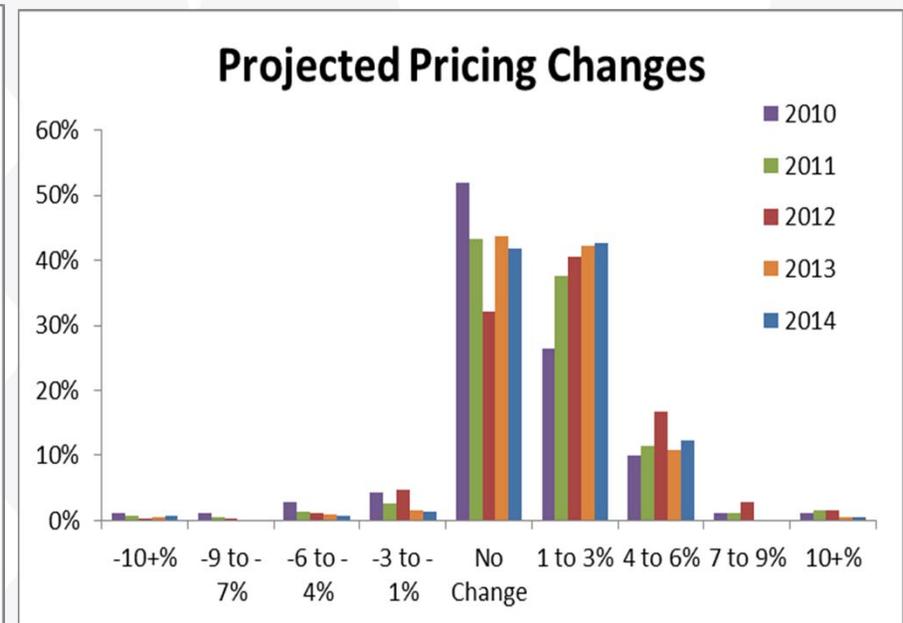
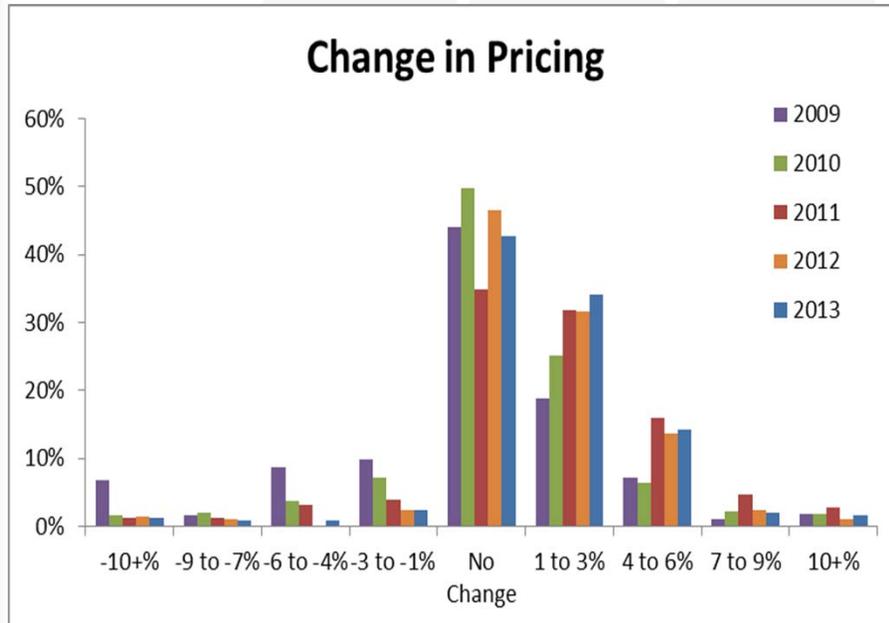
- Broad sample of business community; not cherry picked
- Self assessment by optimistic groups
- Two surveys in one:
 - Actual for 2013
 - Projection for 2014
- Survey instrument not meant to measure previous year's projections to current year actual results
- Value of statistically significance changes

Economic Indicator #6: Overall Wage Change



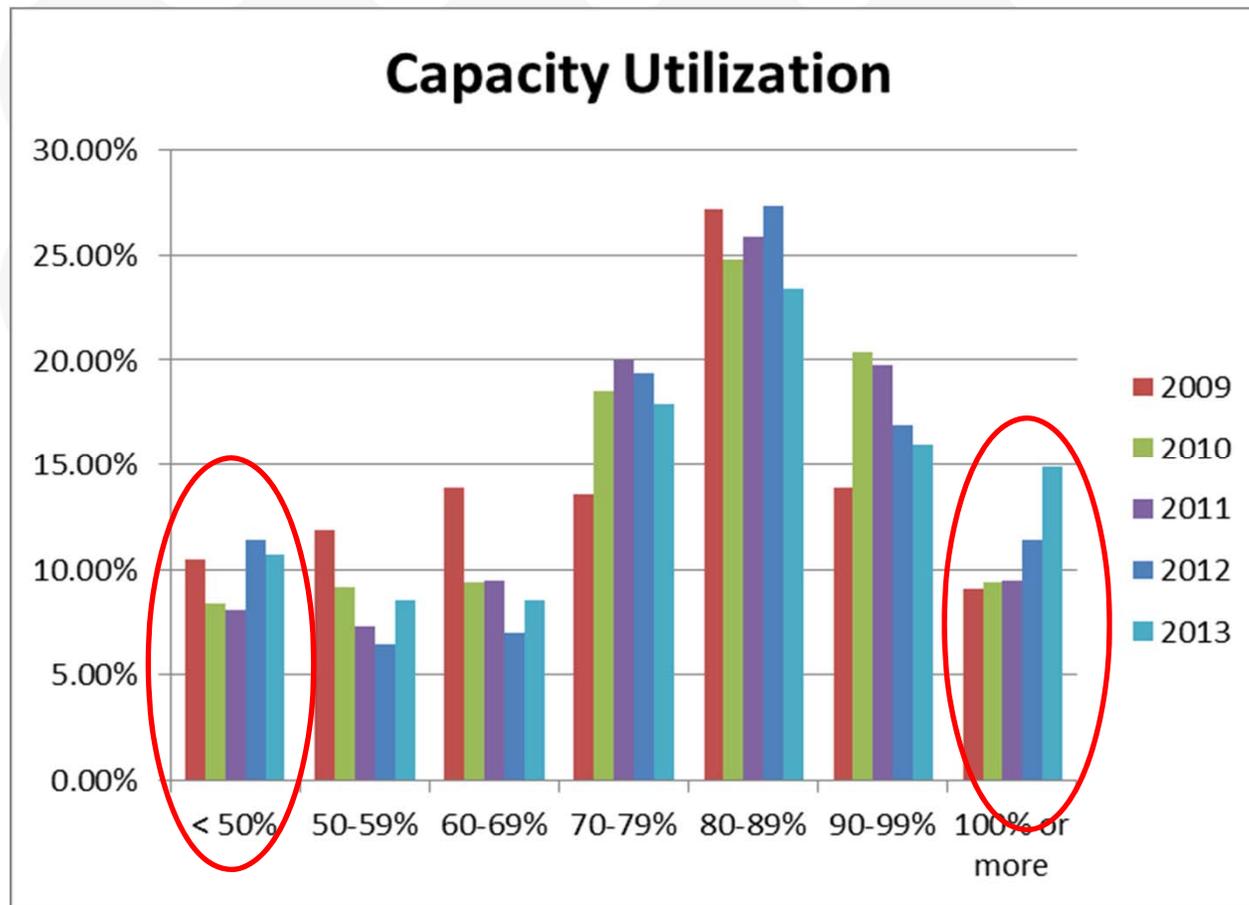
- The proportion of businesses projecting same wage level for 2014 is significantly higher at 43.77% vs. 29.67% for 2013, indicating less polarization in 2014. Not surprisingly, the proportion of businesses projecting high wage level in 2014 is significantly down from 67% last year to 51.46%.

Economic Indicator #7: Change in Pricing

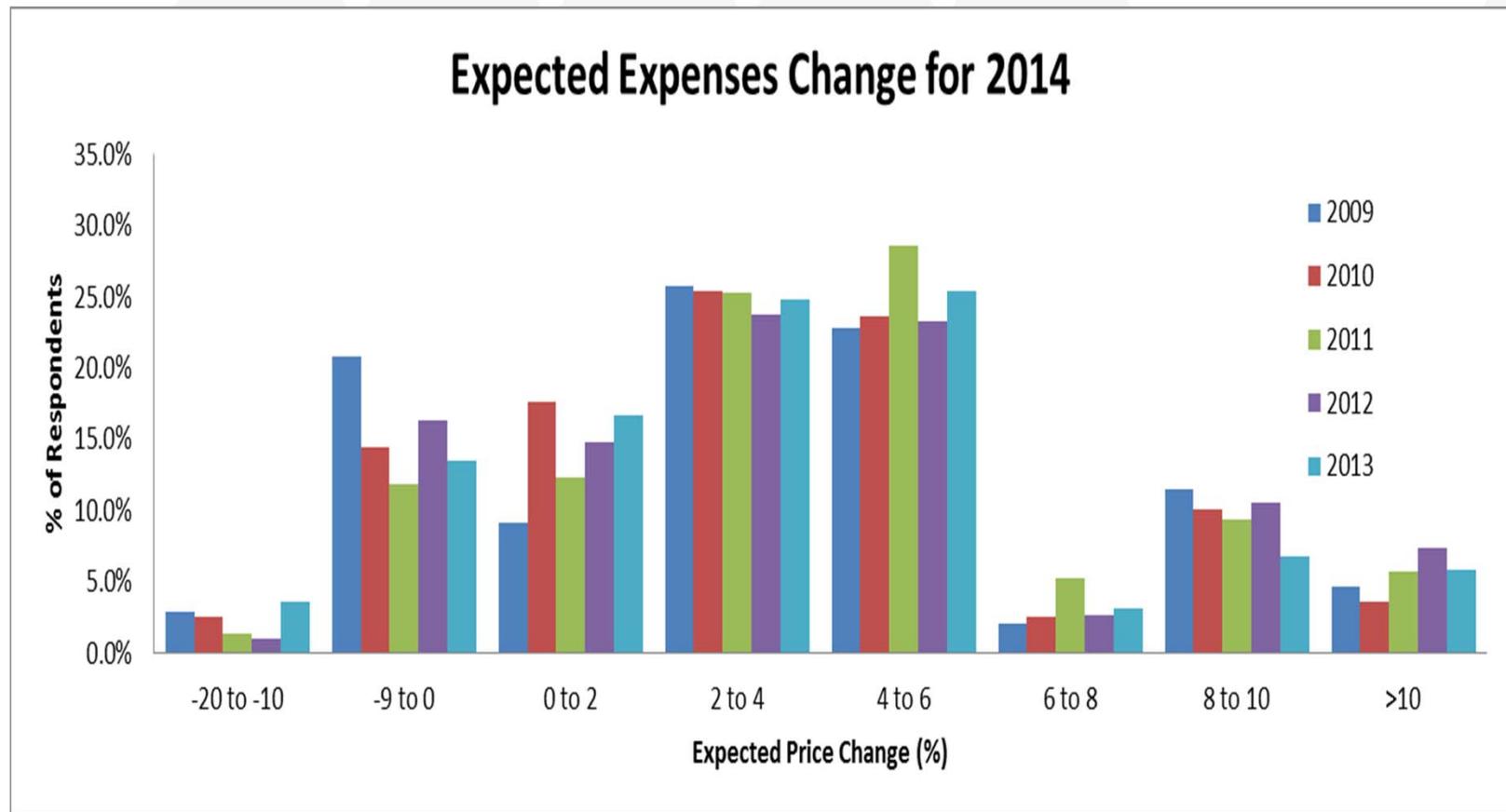


- Projections for 2014 are in line with what was projected for 2013. For 2014, 55.3% of businesses are projecting price hike, which is almost equal to the projection made for 2013. Most of the businesses are reporting either no change or slight increase in Prices.

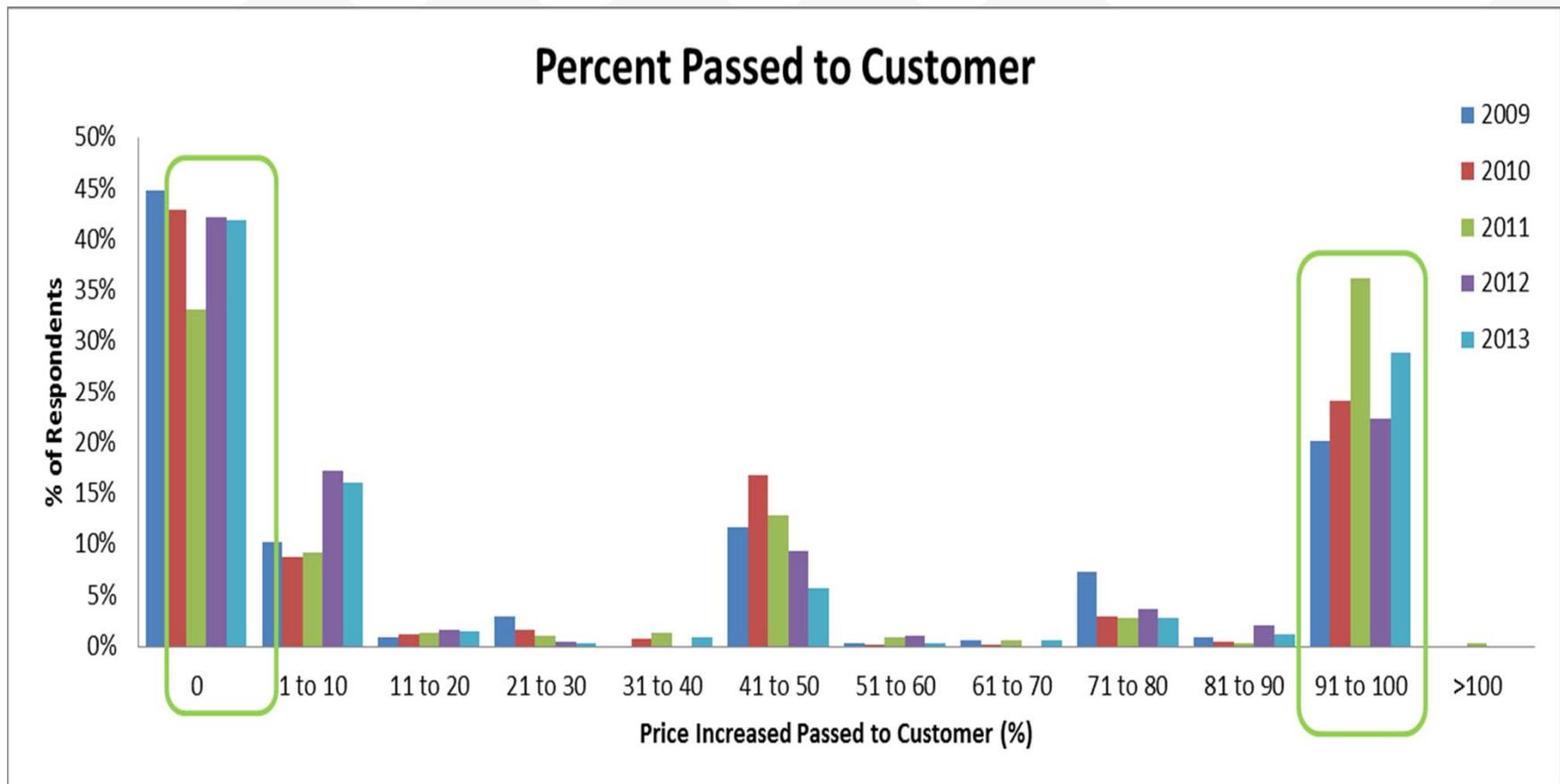
Economic Indicator #8: Operating Capacity



Looking Forward: Expected Expenses Change for 2014



Looking Forward: Expense Increase to be Passed to Customer



FirstBusiness.com

- Full reports for 2013 First Business Economic Surveys
 - Northeast Wisconsin
 - Dane County
 - Milwaukee & Waukesha Counties
- Cross Regional report available
- Prior year reports

The screenshot shows the First Business Economic Survey Results page. At the top, there is a navigation bar with links for Locations, Investor Relations, News, Reports & Events, Careers, Contact, and My Location: Milwaukee. The First Business logo is on the left, and a search bar is on the right. Below the navigation bar, there are tabs for Treasury Management, Commercial Lending, Specialized Lending, Equipment Finance, Trust & Investments, and Private Banking. The main content area has a dark purple header with the text "ECONOMIC SURVEY RESULTS" and a search bar. Below this, there are three preview cards for the survey reports. The first card is for the "Cross Regional" report, the second is for the "Northeast Wisconsin" report, and the third is for the "Dane County" report. At the bottom, there is a section for "Archives" with a dropdown menu showing "March 2013".



Panel Discussion

Craig Dickman
CEO
Breakthrough Fuels

Darwin Copeman
CEO
Jewelers Mutual Insurance

Ben Griggs
CEO
Aarrowcast, Inc.

Dennis Winters
Chief of the Office of Economic Advisors at the Wisconsin
Department of Workforce Development

Margaret LeBrun
Today's Moderator
Insight on Business