

## Confidence in business conditions remains lukewarm

### Pessimism about Congress intensifies

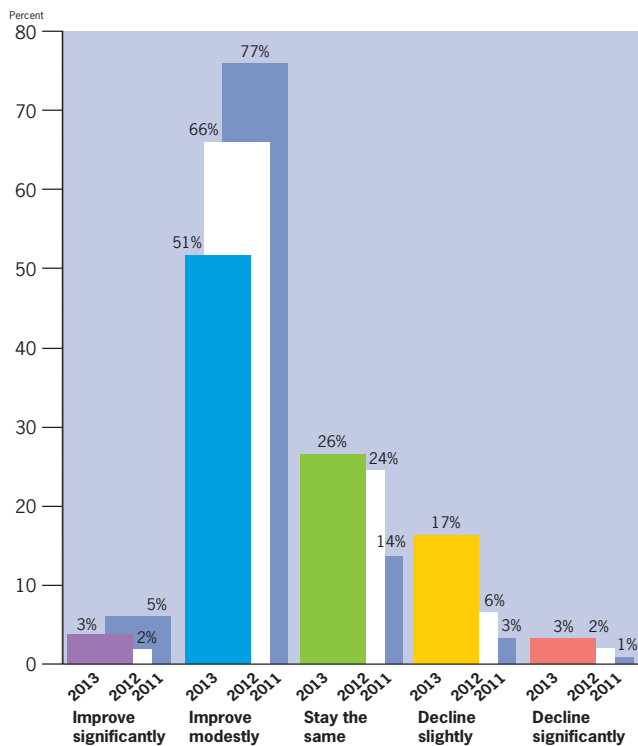
Do you expect U.S. business conditions to improve this year? Based on our 2013 Business Outlook Survey, 54 percent of business owners and executives expect improvements in U.S. business conditions, compared to 68 percent in 2012 and 82 percent two years ago. There is just slightly greater optimism about the business conditions at their own companies. Sixty-two percent expect business conditions in their own organizations to improve, compared to 70 percent in 2012 and 75 percent in 2011.

Not surprisingly, there isn't much confidence in Congress. For example, only 20 percent of the 550 respondents are cautiously optimistic about business conditions since Congress passed legislation to avoid the fiscal cliff. As one respondent noted, "Congress has not made good decisions

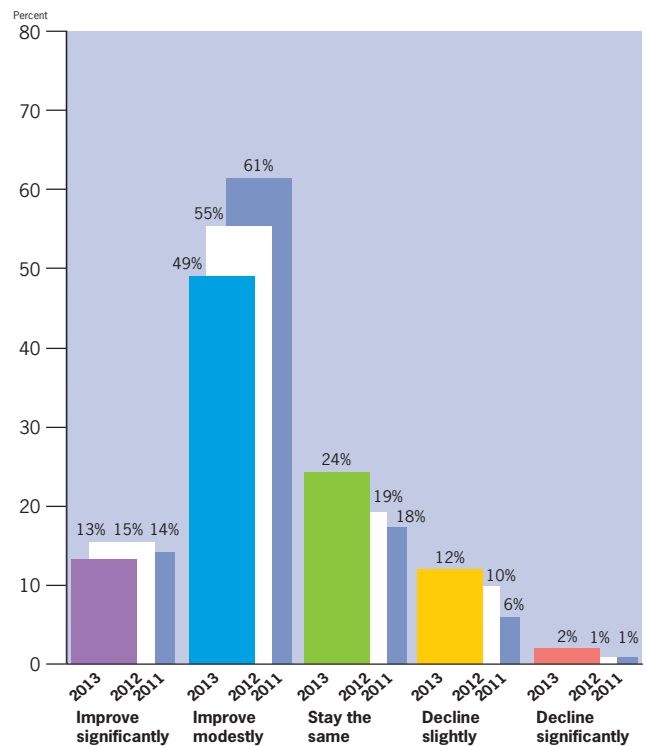
for quite some time now, and the teetering on the fiscal cliff was a prime example." Furthermore, 62 percent are pessimistic about whether Congress will raise the debt ceiling and make meaningful spending cuts this year. One of the business executives explains his pessimism with these comments: "Congress must cut expenses. Period. But I seriously doubt they have the guts to execute it. Failure to do so puts the country and our businesses at risk..."

The 11-question survey was conducted with clients and friends of the firm from January 7 to 29, 2013. Many of the survey participants are located in the states of Ohio, Illinois, Michigan, and Florida – the states where McDonald Hopkins has offices.

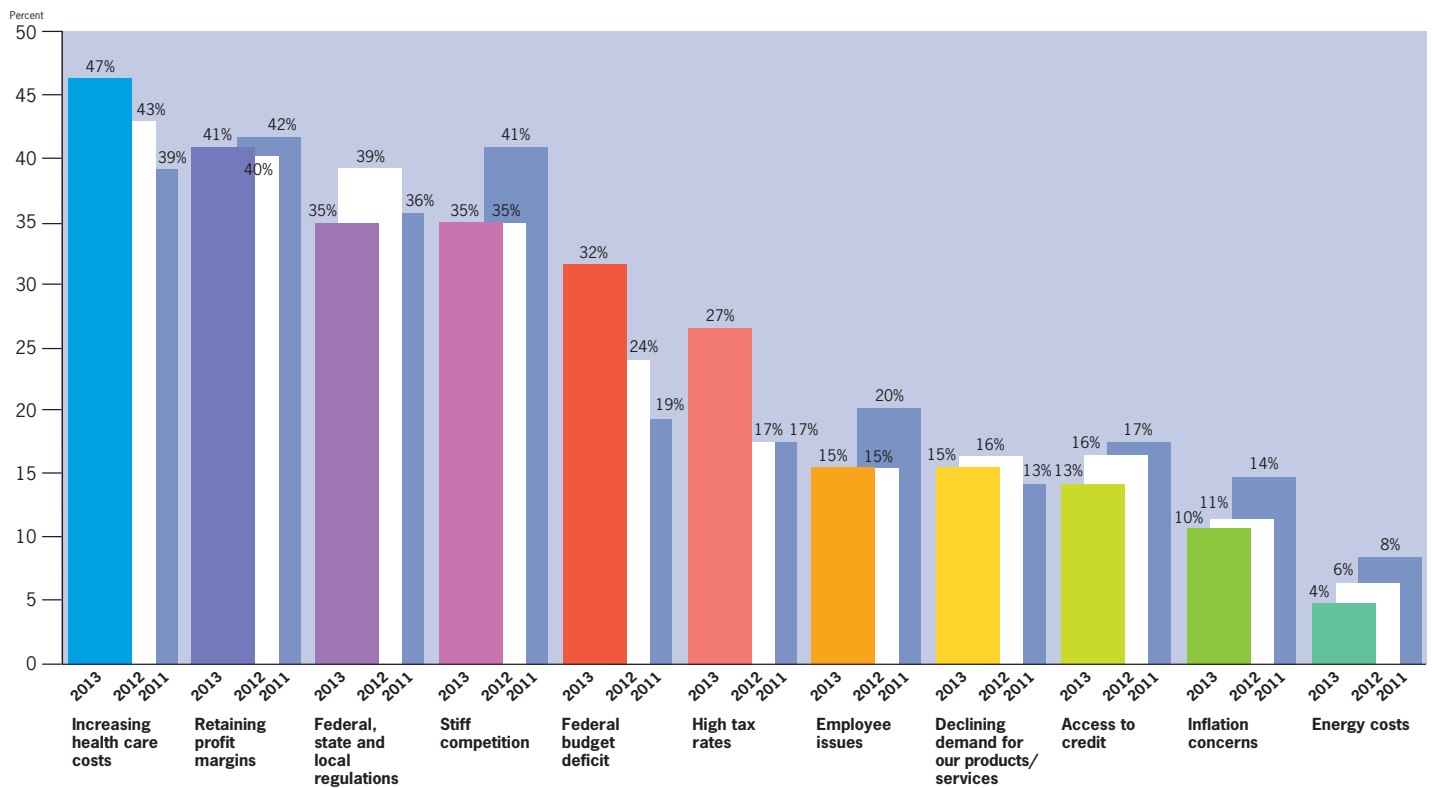
### Do you expect business conditions in the U.S. to:



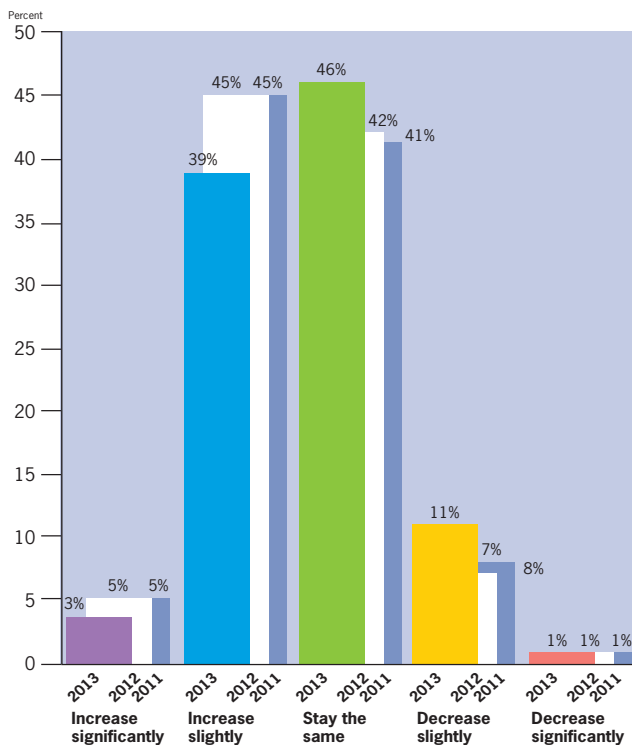
### Do you expect business conditions in your organization to:



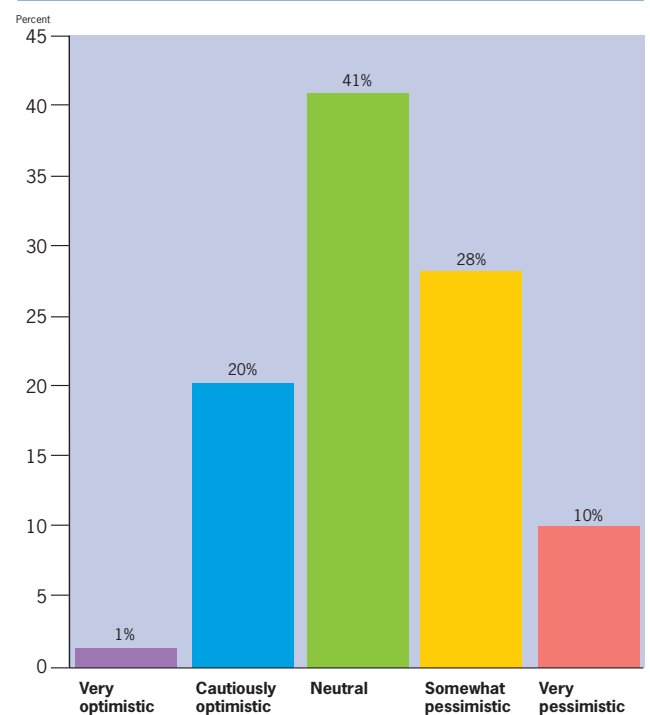
## What do you believe are the three greatest challenges facing your organization?



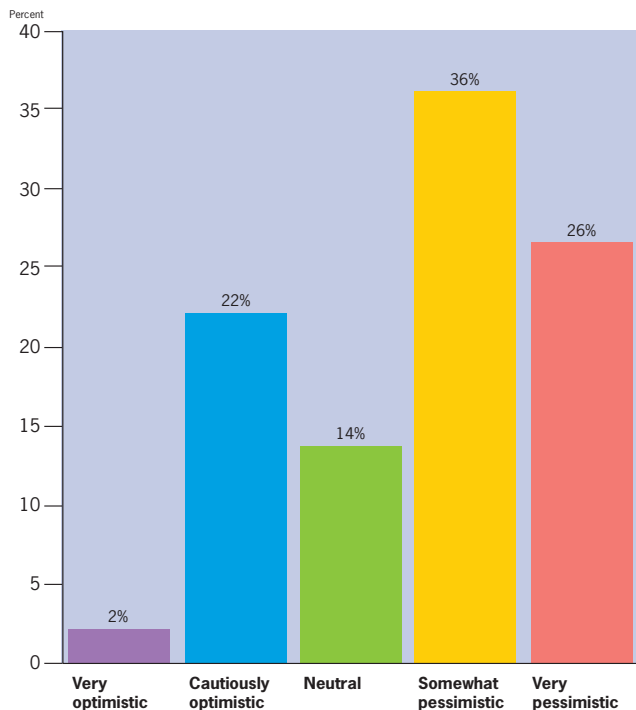
## Is your organization likely to increase or decrease its number of employees?



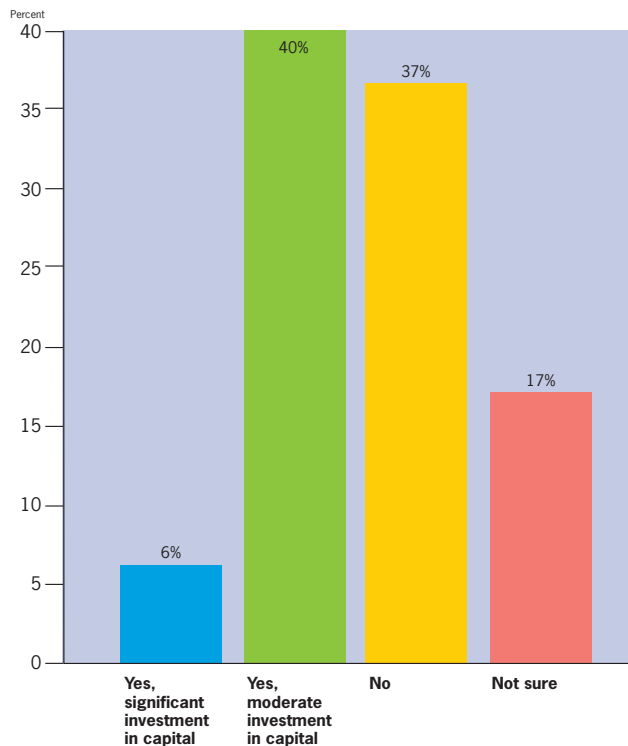
## Are you more optimistic about business conditions since Congress passed legislation to avoid the fiscal cliff?



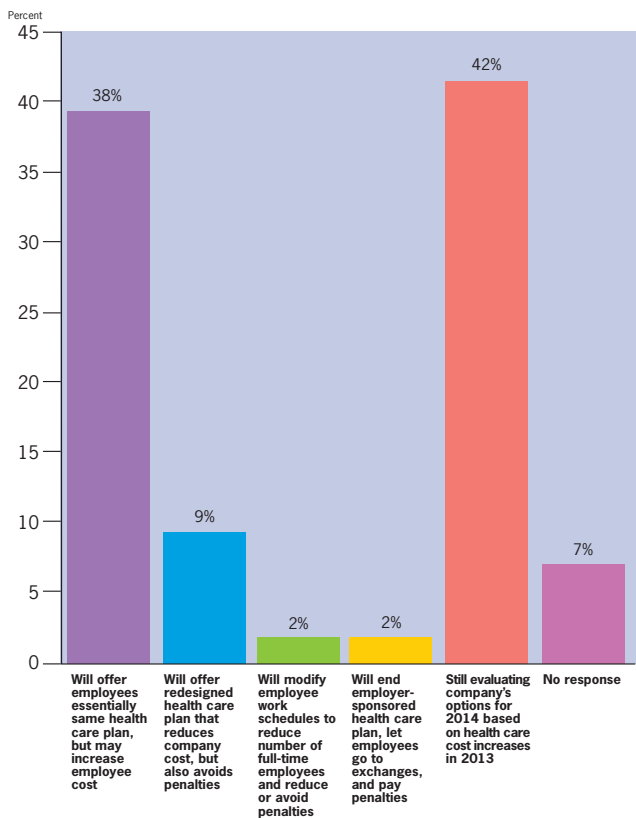
## Are you optimistic that Congress will raise the debt ceiling and make meaningful spending cuts this year?



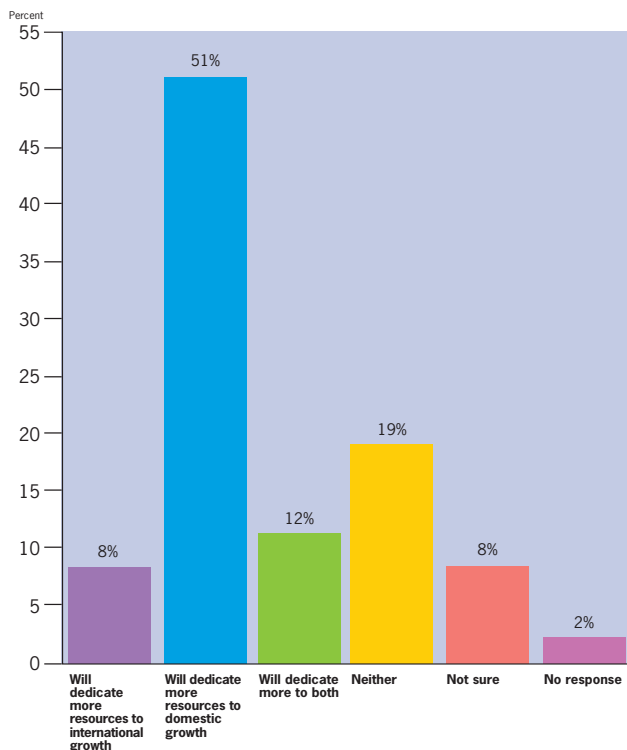
## Is your business planning to invest in capital in 2013?



## How do you expect health care reform to affect your company's employee health care plan in 2014?



## In 2013, are your plans to dedicate more resources to international growth or more to domestic growth?



## 2013 Business Outlook Survey Report: A sampling of comments

- I think that most businesses in the U.S. are stagnated by an uncertain economy due to unknown factors like the federal deficit, tax rates, healthcare costs and the cost of doing business. Until these issues become clearer, business owners will be very cautious when it comes to expanding their business and taking risks.
- Customers are very cautious with placing orders on a long term basis as a result of uncertain economic outlook. This results in difficulty for us to staff appropriately to ensure we can meet customer demand when it occurs.
- Customers are under a lot of pricing pressure from their customers, which results in many changes in suppliers throughout the year and then short lead time from lengthy quoting processes causing the need for more surge capacity. We are competing with foreign companies that do not have government or regulatory requirements of U.S. companies.
- High commodity prices in the food and agriculture sector.
- Decreased reimbursement for medical services we provide from government, commercial insurance and individuals.
- From a Physician Practice perspective, our biggest challenge will be the increased administrative cost to comply with healthcare legislative and regulatory requirements, while at the same time realizing a decrease in reimbursement from both government (Medicare & Medicaid) and commercial (United, BCBS, Aetna, etc.) payors. The situation will ultimately become unsustainable for many practices who cannot continue to spend the money to comply with new healthcare regulations, retain good employees and stay current with the latest technology (which is also expensive). Unfortunately, everyone wants access to the latest and greatest technology and equipment, but nobody seems to stop to wonder who pays for everything. Very few understand the business side of being a physician practice.
- 2013 will be a duplicate of '12 or slightly better. My concern for long-term economic growth is the lack of serious attention to our country's debt and ever-increasing deficits. I have no confidence that either will be addressed in a meaningful manner ever.
- Congress has not made good decisions for quite some time now, and the teetering on the cliff was a prime example. They have been up against the debt issue twice already and have not done anything meaningful about it yet, so I am not optimistic that they will be able get over their politics and get down to economic reality. I am fearful of the path our government is leading us down.
- Expectations that the 2nd half of the year will show above average growth, provided the political climate does not have a negative impact on the economy.
- If Washington can provide certainty and end the 3-6 month band-aid policy fixes, the business environment will improve. We have positive job and GDP growth, but some economists that I have read attribute a lost opportunity to grow both - the lost opportunity is directly tied to Washington's dysfunction.
- The debt ceiling will be raised but I am 100% sure that almost no spending cuts will take place. We will see small spending cuts but nothing near "meaningful" or helpful to our nation's love of over spending.
- Our lawmakers and president will need to make difficult choices to reduce debt and control spending as many businesses have done over the past few years. The handouts will need to slow or halt (not Social Security retirement but all else) and the current entitlement mentality which has been built over years must stop. If no meaningful movement on these topics, we are prolonging the pain. Interest rate increases and inflation will be at our doorstep and these factors will impact how business is conducted (access to credit, debt services versus reinvestment). Overall spending, consumer and business, will continue to be flat or down, though we have opportunities to provide additional services and improve margins.
- We are optimistic about 2013 mainly due to the fact we procured several large projects in the late third quarter which we will begin in early spring. Without these projects, our outlook would be much more pessimistic. With this large work load on our books, we can be more selective on the balance of work we go after to finish our year. With this in mind, we are aiming high for record sales, but with a cautious overtone.
- Large cap companies have a lot of capital on the sidelines and are waiting to see how well the U.S. Government manages the spending side of the 'fiscal cliff'. I am cautiously optimistic that prudent spending cuts and policies will help create the much needed stability that will open up spending in the economy.
- The health care accreditation space will continue to grow and should provide continued opportunities for our organization. However, we must carefully watch the implementation of the Health Reform law, and new exchanges that will begin to roll out. Their efficient and well-coordinated implementation will be extremely important to avoid disrupting the health care market.
- Companies gradually starting to invest in their businesses. Congressional dysfunction continues to cloud the decision making process at many companies. A comprehensive, long term solution to budget deficits and tax reform is needed to embolden to invest for future growth.
- Our business in food packaging is extremely strong due to new product introductions and the space being in growth mode. My biggest concern is raising the debt ceiling and NOT reducing spending by any significant amount, which is what I think will happen. Longer term, with this administration, I see devaluation of dollar, inflation and high interest rates... potentially sending us back to recessionary conditions or worse.
- We are overall optimistic about the economy. However, we feel that the economy is chugging along on its own. No REAL changes have taken place with regards to the banks and the unemployment numbers are still unacceptable. In no part is it due to acts of congress; we feel that congress is a side show and that the U.S. economy is and will remain to be consumer driven with little effect by legislation. Until substantial reform is enacted the economy will stay in this cycle.
- We're cautiously optimistic, though many of our clients remain very concerned about the ongoing challenges in Europe, the uncertainty around health care costs and overall macro economy of the United States.
- Headwinds include the recession in Europe, rising taxes in the U.S., the U.S. Federal government deficit, and a President who understands neither economics nor business. These headwinds will be partially mitigated by continued easing by the Federal Reserve.
- Overall do not see any significant upside to existing businesses. Exploring new opportunities to exploit existing competencies and resources to generate growth in revenue and earnings. Our current lines of business have little market power to stimulate demand (i.e., through tactics such as a price decrease) so we must concentrate on having adequate capabilities when called upon while simultaneously aggressively managing costs to be ready for any increase in demand.

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