

Introduction

For the past decade, BlumShapiro and the Connecticut Business and Industry Association (CBIA) have partnered to produce the Survey of Connecticut Businesses, which examines the economic, fiscal, and regulatory climates in which area businesses operate. This annual study takes the pulse of Connecticut's business community and anticipates conditions over the next 16 months.

Key indicators in the 2011 Survey of Connecticut Businesses point to state and national economies that are still fragile. Though hiring and profits are up, concerns about the state's competitiveness are high.

Since our last survey (conducted in the summer of 2010), the state's economic recovery showed mixed progress. Steady gains through the first quarter of 2011 eroded significantly by the beginning of the third quarter, when our questionnaire was in the field.

Relatively positive assessments of companies' own performance, expectations for profitability, and predicted job growth are tempered by deep frustration with Connecticut's overall business climate. Most respondents said they are not confident that future actions by state government will help their companies grow and invest in Connecticut.

This survey is a call for policymakers to change those perceptions by taking positive actions. The fall special General Assembly session on jobs called by Gov. Dannel P. Malloy is a good place to start.

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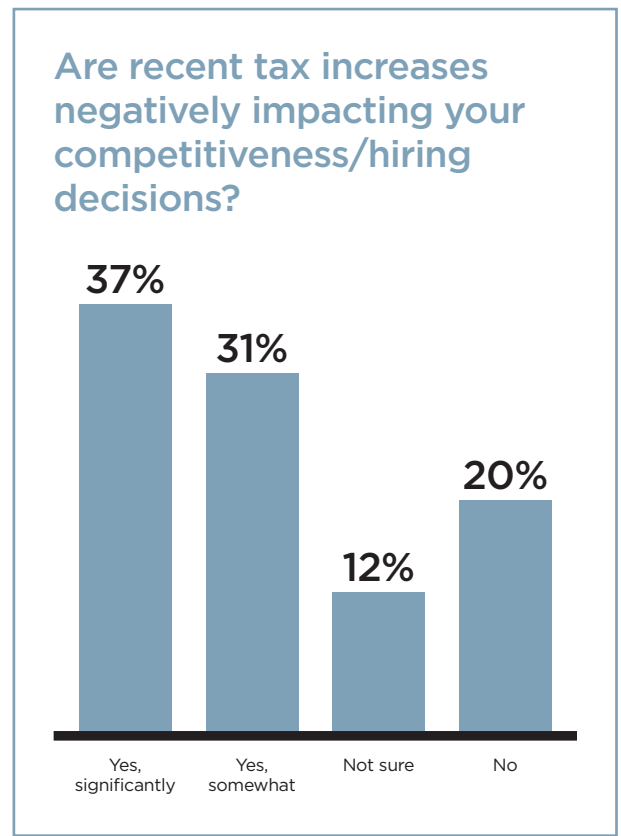
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Executive Summary

Key Findings

This year's key findings include:

- Business profitability beat expectations from the last survey; however, net loss percentages were also higher than expected.
 - By and large, expectations regarding economic conditions through the end of 2012 are good, but only very modest improvements are expected over that time.
 - More companies are planning to hire this year. Despite a state unemployment rate hovering around 9%, however, some businesses—particularly manufacturers—are having difficulty finding qualified workers.
 - Economic uncertainties at the state and national levels are of greatest concern.
 - Connecticut's traditional strengths—its quality of life, skilled workforce, and location relative to New York City and Boston—are perceived as its greatest assets.
- Seventy-five percent of Connecticut businesses have a somewhat or very negative view of the state's business climate. To blame are state taxes and fees (cited



by 36% of respondents), state government actions (25%), and the cost of doing business (24%).

- States perceived as having the most favorable business climates are predominantly in the southern, western, and midwestern regions.
- Two-thirds of businesses surveyed say Connecticut's recent tax increases, totaling nearly \$2 billion, have a direct impact on their competitiveness; another 12% are unsure.

Profit & Loss

Performance indicators this year show improvement over the previous two years.

Fifty-six percent of businesses surveyed recorded a net profit in 2010 (an increase of five percentage points over 2009), and the same expect to be profitable at the end of 2011.

While most firms are on track for growth this year, a sizable number (17%) anticipate a net loss. In fact, though 19% of companies surveyed last year anticipated a net loss in 2010, the percentage of firms actually operating on a net loss was higher—25%.

Fortunately, companies expecting to break even in 2011 (27%) outnumber those who anticipate a net loss, reversing the trend from the previous year.

For manufacturing companies, the picture is brighter.

Seventy percent of manufacturers were profitable in 2010, and 71% expect to be in 2011. While 16% recorded a net loss in 2010, only 6% expect that to be the case in 2011. Improved manufacturing performance nationwide is credited with driving business-to-business sales. A stronger global marketplace and solid export figures for Connecticut's manufacturers also are key factors.

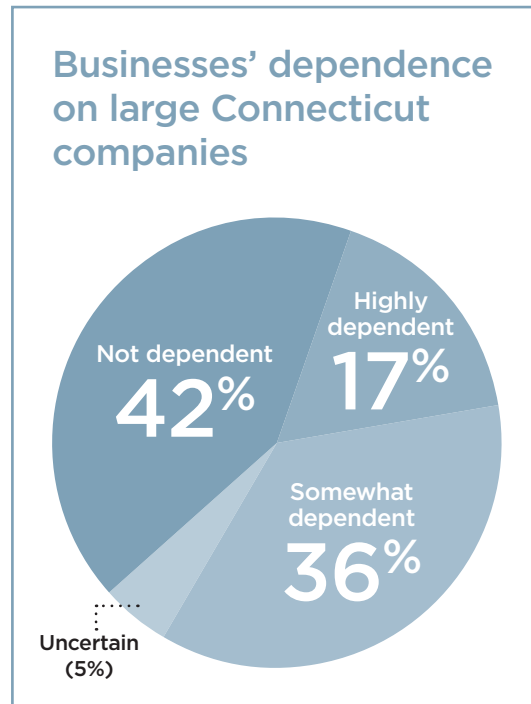
“Though our economy continues to struggle, Connecticut has a solid economic base with the potential to create much-needed jobs. It is incumbent on policymakers in the upcoming special session on jobs to forge a better relationship with the state’s business community and advance policies that inspire business confidence, strengthen our economic base, and attract new investment.”



John R. Rathgeber
President and CEO, CBIA

More than half (53%) of all businesses surveyed—regardless of size—depend on large Connecticut companies for business. This underscores the interdependence within our economy and the need for economic strategies that encourage investments by small businesses, large companies, and entrepreneurs.

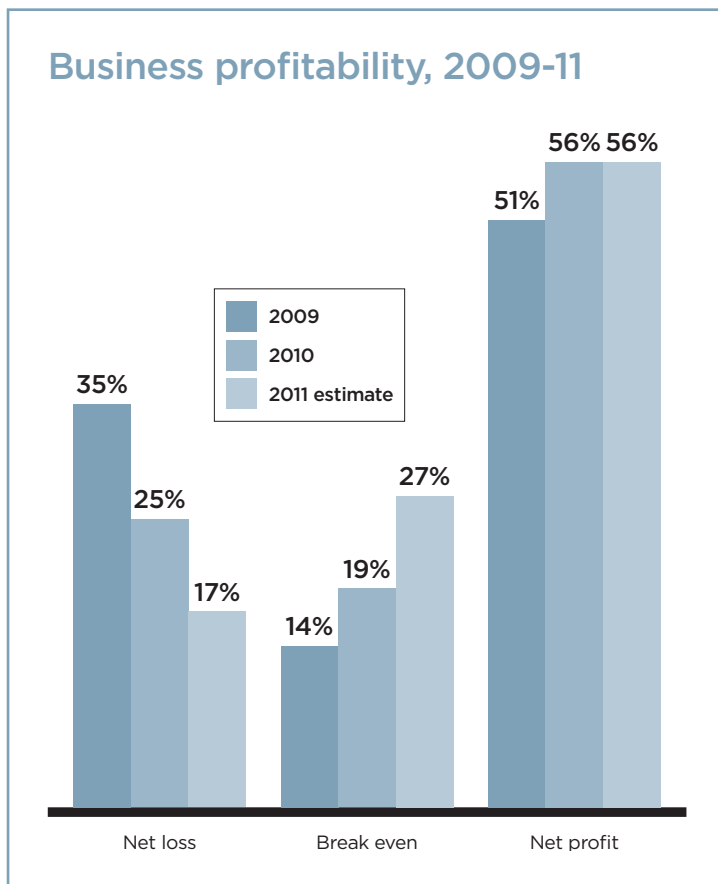
Businesses believe sustained growth will come primarily from industries that currently form the state’s economic base: manufacturing (cited by 39% of companies surveyed), technology (17%), and financial services (11%). Though much-discussed, the alternative energy and film industries were identified by only 5% and 1% of businesses, respectively, as engines for future economic growth.



Business Confidence

While this year's survey reveals continued improvement in business performance, it also uncovers serious weakness in business confidence. Only 27% of companies surveyed rate current conditions for their business as excellent or good, and roughly the same number (26%) believe conditions will be excellent or good by year's end. About half (49%) describe conditions as fair or poor, and expectations for the end of 2011 are equally bleak.

Considering that this survey was conducted two years into what is technically a recovery period, these figures reflect an economy that is still stressed.



“While there continue to be signs of optimism for an economic recovery that we began to see in 2010, tax rates in Connecticut—including this year’s across-the-board tax increases—remain a strong concern for many of Connecticut’s businesses. Business and government leaders need to continue to work together toward solutions that allow the state to remain economically viable well into the future.”



Jay M. Sattler,
CPA, MST
Partner, BlumShapiro

“In order to offset the high costs of doing business in Connecticut, companies need to continue to leverage technology to gain efficiencies and lower operating costs. With the cost of technology decreasing, more companies than ever have access to game-changing technologies for their organizations.”



Brian A. Renstrom
Partner, BlumShapiro

National economic uncertainties are the single greatest concern for 34% of respondents, followed by economic conditions in Connecticut (26%) and tax increases (17%). Those three issues top businesses' concerns for 2012 as well.

Almost half of all respondents (46%) remain negatively impacted by market volatility and economic uncertainty, compared to 41% for whom conditions stabilized since the downturn and who expect slow to moderate growth over the next year.

Only 13% already experienced some growth and expect that growth to remain strong over the next year.

Connecticut's Workforce

Second only to its proximity to high-income customers and New York and Boston's major markets (cited by 57% of respondents), Connecticut's educated workforce is seen as a major asset (50% of respondents).

Businesses are generally optimistic about hiring: 56% added or expect to add jobs in 2011, and 55% plan to hire in 2012. This is a notable increase over hiring expectations in 2010 (47% of companies) and 2009 (38%).

Nevertheless, 37% of companies surveyed are having difficulty finding qualified workers, and 37% also believe tax increases passed during the 2011 legislative session have a negative impact on their ability to add workers. Another 12% are unsure.

Considering that the state's unemployment rate lingers at 9% (95,000 of the 119,000 residents who lost their jobs in the recession have not yet found full-time work), we may

be seeing a mismatch between the jobs available and the skill sets of those who are unemployed, as well as gaps between where the unemployed live and where job opportunities exist.

An overwhelming majority of respondents (85%) worry about the state's slow population growth and outmigration of 21-to-45-year-olds. Fully 51% characterize themselves as "very concerned" about these demographic trends.

Impending retirements are adding to the problem. While fewer than a third of respondents expect any employees to retire by the end of this year, 80% anticipate retirements within the next five years. In fact, one out of every ten companies expects to lose more than 20% of its workforce to retirement by 2016.

Demand for mid-level professionals is greatest, cited by 44% of companies. Next are line workers (32%) and entry-level workers (19%).

Projected demand for 2012 follows the same trend, with 46% of respondents anticipating hiring mid-level professionals, followed by line workers (28%) and entry-level employees (15%).

Business Climate: Where Connecticut Ranks

We asked respondents to rate Connecticut and nine key neighboring and competitor states on their business-friendliness. Opinions varied widely:

- 19% of respondents ranked Connecticut best, second, or third best

"Manufacturing/distribution continues to be vital to Connecticut's economic success, and there is encouraging news in 2011. Nearly three-quarters of those manufacturers surveyed saw a net profit this year. Our legislators need to provide the proper incentives to business leaders so that they continue to invest and grow their businesses in Connecticut versus other states."



Janet M. Prisloe, CPA
Partner, BlumShapiro

“One of the areas of opportunity highlighted in this year’s survey is the leaning of state government. This would have the dual effect of reducing the size and cost of state government while also creating more opportunities for private-sector business growth and jobs.”



Susan Coleman
Ansley Chair of Finance,
University of Hartford

- 63% put Connecticut in last place, next to last, or third from last
- Virginia was viewed as best, second best, or third best by 62% of respondents
- California was ranked worst, second worst, or third worst by 74% of respondents

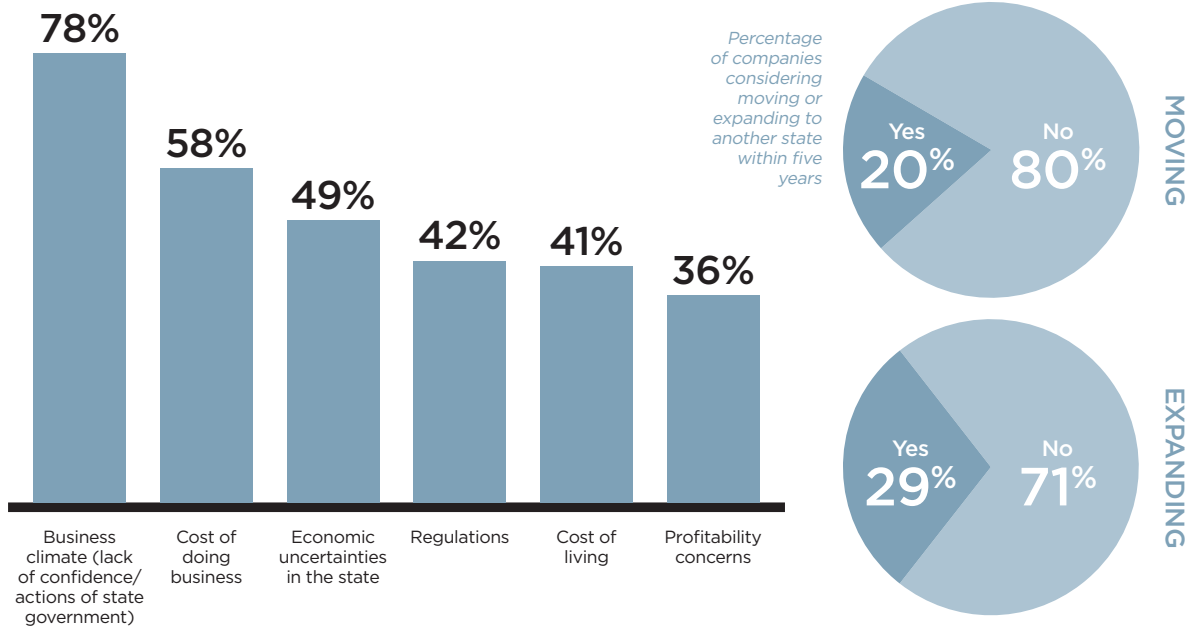
Only New York was perceived by most businesses as having a heavier regulatory burden than Connecticut. Several respondents (though not the majority) saw Massachusetts and New Jersey as having a heavier regulatory burden than Connecticut. Perceptions of southern states were substantially better.

These perceptions matter, because business leaders think carefully about where they’ll invest or expand—or move. Thirty states have attempted to recruit survey respondents’ companies for relocation and/or expansion—the most aggressive of these being Virginia, South Carolina, North Carolina, and Florida.

In the last year alone, 17% of respondents were approached by economic development teams from other states and invited to relocate or expand there. Recruiting of manufacturers is especially vigorous: 52% of Connecticut manufacturers surveyed were courted by other states in the last five years. Of those, 69% were approached in the past year alone.

A number of respondents acknowledge the possibility that they will move (20%) or expand (29%) to another state in the next five years—motivated primarily by business climate/actions of state government (78%), business costs (58%), and economic uncertainties in Connecticut (49%).

Reasons for potentially leaving/expanding outside of Connecticut



Connecticut's regulatory burden (42%) and cost of living (41%) are also significant factors.

Over two-thirds of businesses surveyed (68%) say Connecticut's recent tax hike will negatively impact their decision to add new workers, and more than three-quarters (76%) believe the increases have a direct impact on their competitiveness.

Policy Recommendations from Businesses

Only 17% of companies surveyed are optimistic that over the next five years Connecticut will overcome the problems that eroded its

business climate and will return to a vibrant, growing economy. Sixty-three percent are pessimistic, and 20% are unsure.

Business leaders have a choice about where to invest and grow. If we expect them to choose Connecticut, state policymakers need to help restore business confidence.

Clearly, they have their work cut out for them.

According to 52% of respondents, the single greatest action policymakers can take to spur long-term economic growth is to reduce the size of state government and lean its operations. Incentives for business startups, growth, and relocation (cited by 26% of

“By and large, Connecticut companies believe that other states offer a more business-friendly atmosphere. Over 90% consider the regulatory environment less onerous in North Carolina, South Carolina, Georgia, and Texas, and three-quarters are not confident our state’s government will help them grow and invest here. These perceptions make it vital that policymakers focus on ways to improve the state’s business climate or risk losing more jobs to other states.”

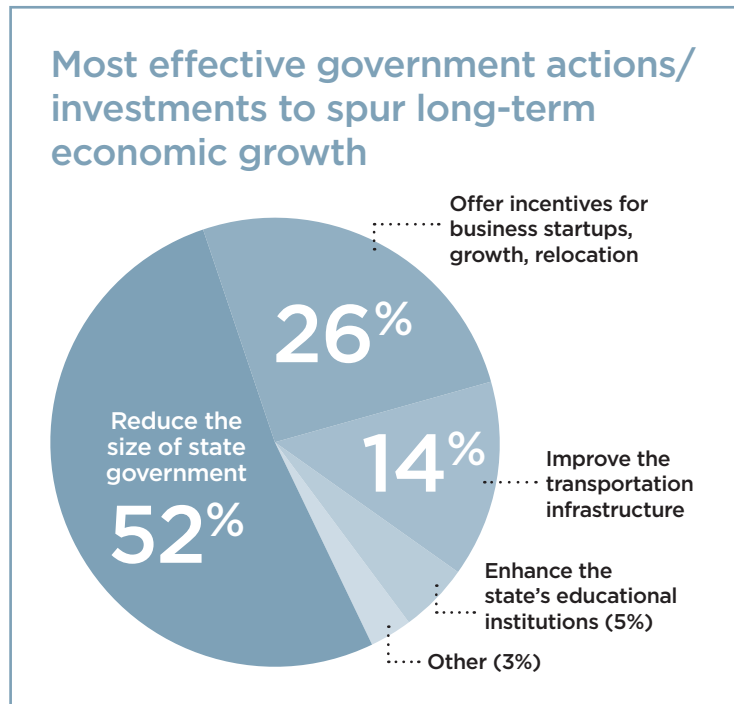


Todd Martin
 President, Todd P. Martin
 Economic Services

respondents) and improvements to the transportation infrastructure (14%) were also identified as top priorities.

Responses to an open-ended question asking how state policymakers could help Connecticut businesses grow and add workers reiterated the call to reduce the size and scope of government, taxes, and reduce costly mandates. Other suggestions included:

- Expanding and improving vocational education, including training for manufacturing careers
- Increasing flights in and out of Bradley International Airport
- Providing tax credits for every new hire
- Expanding the angel investor tax credit
- Offering incentives for business innovation or equipment purchases



- Reducing healthcare mandates and the regulatory burden on businesses
- Increasing the threshold for prevailing wage projects
- Encouraging more brownfield remediation
- Increasing access to low-interest loans or loan guarantees

Efforts are currently under way in many state agencies to streamline and ease permitting and other regulatory processes in Connecticut; it is crucial that these efforts continue. Moreover, this fall's special legislative session on jobs presents a golden opportunity for policymakers to address many of the challenges that stand in the way of job creation and retention in our state.

“The results of the latest Survey of Connecticut Businesses are a mixed bag. The good news is that Connecticut businesses have been able to generate sustained profits while maintaining healthy levels of productivity over the last year. The bad news is that business confidence faces an uphill battle brought on by political infighting in Washington, higher state and local taxes, and growing consumer uncertainty. The path of Connecticut’s overall economic growth in 2012 will clearly be a function of how well small businesses can adapt and respond to these new challenges.”



Don Klepper-Smith
Chief Economist and Director of
Research, DataCore Partners LLC

About the Survey

Methodology

The 2011 Survey of Connecticut Businesses was emailed to 5,027 businesses in late July 2011, with responses due in early August. There were 707 responses, for a return rate of 14% and a margin of error of +/- 3.75%. All figures are rounded to the nearest whole number and may not total 100%.

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About the Survey

Demographics

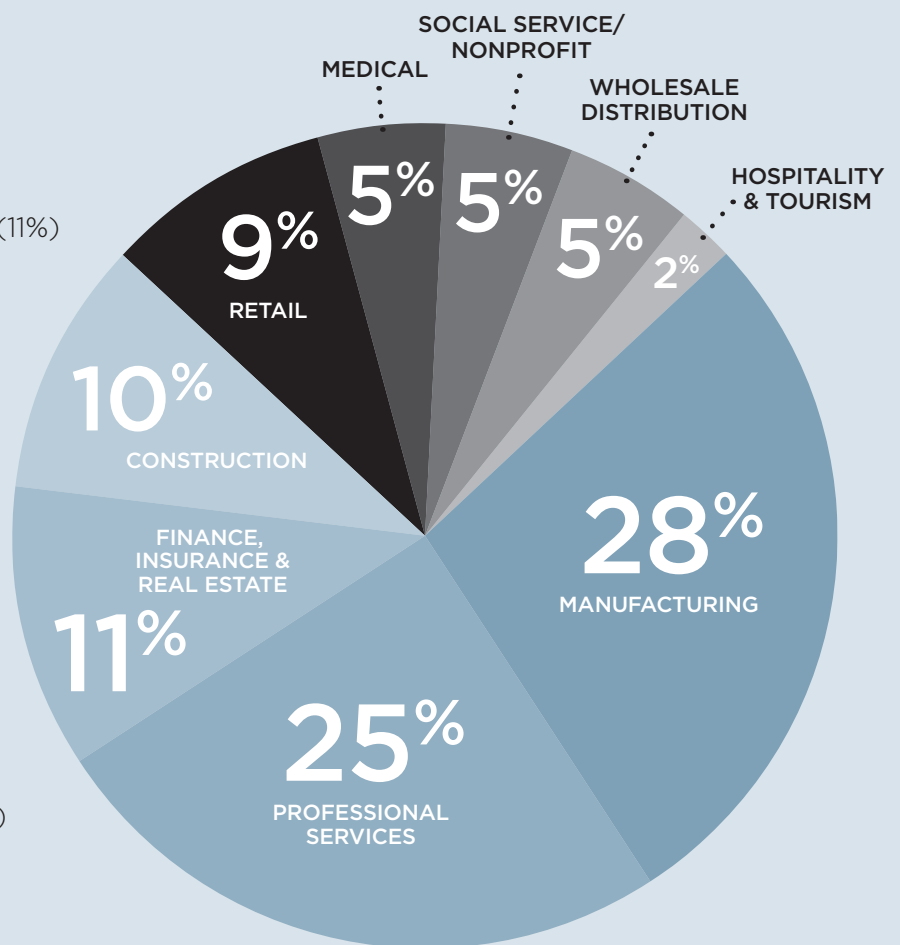
Industries represented in the survey:

- **Manufacturing** (28%)
- **Professional Services** (25%)
- **Finance, Insurance & Real Estate** (11%)
- **Construction** (10%)
- **Retail** (9%)
- **Medical** (5%)
- **Social Service/Nonprofit** (5%)
- **Wholesale Distribution** (5%)
- **Hospitality & Tourism** (2%)

Company types include:

- **Privately held** (46%)
- **Incorporated** (41%)
- **Family-owned** (40%)
- **Limited liability corporation** (19%)
- **Minority-owned** (4%)
- **Publicly held** (3%)
- **Foreign-owned** (2%)

On average, companies surveyed have been in business for 32.6 years.



About BlumShapiro

BlumShapiro is the largest regional accounting, tax and business consulting firm based in New England with offices in West Hartford and Shelton, CT, and Rockland, MA. We have nearly 300 professional and administrative staff, making us a member of the top 70 accounting firms in the United States. Our size has allowed us to develop specialized industry knowledge and dedicated staff who focus on a broad range of businesses in Manufacturing, Distribution, Healthcare, Education, Government, Non-Profit, Construction, Automotive and Retail.

BlumShapiro Has Changed the Playing Field for Professional Service Firms

We act as personal advisors to our clients, and, as such, we are personally committed to the success of each and every client we serve. We live in Connecticut, we work in Connecticut, so we are easily accessible to assist our clients in addressing the ever-changing needs of their businesses.

Because of BlumShapiro's size, focus and client service philosophy, we have successfully attracted and retained some of the best talent in the country. Our team has the national

experience and industry expertise to assist our clients in meeting their most challenging business issues.

The BlumShapiro team provides clients additional value through the continual development of turnkey solutions that address the changing needs of their businesses. We compile best practice information through the collective knowledge of our professionals and secondary resources to build state-of-the-art solutions to serve the operational and financial needs of our clients. By providing these solutions, we help our clients quickly and economically address many of the business issues and opportunities they face.

Resources Available Worldwide

BlumShapiro is an independent member of Baker Tilly International, a network of high-quality, independent accounting and advisory firms. Baker Tilly International is the 8th largest network in the world and is represented by 150 firms in 120 countries. Through our close affiliation with our member firms, we have the unique ability to seamlessly service the international requirements of our clients.

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- Corporate Compliance
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- Business Valuation
- Bankruptcy & Insolvency
- Assessing Lost Profits
- Construction Claims Analysis
- Computer Forensics

For further information on how we can assist your business, please contact:



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About CBIA

Connecticut Business & Industry Association

CBIA is Connecticut's largest business organization, with 10,000 member companies. Our public policy staff works with state government to help shape specific laws and regulations to support job creation and make Connecticut's business climate competitive. Our councils, committees, and roundtables give our members forums in which to become involved in the legislative and regulatory processes.

One of CBIA's most important functions is to provide our members with information that can help them better manage their businesses. We conduct training seminars and workshops; arrange for consulting services; and hold conferences on environmental regulations, health and safety, human resources, compensation and benefits, taxes, energy, and healthcare. Our free telephone consulting service gives members access to our experienced staff of professionals on a wide range of business topics.



Many CBIA members take advantage of our employee benefits plans, discount programs, and group purchasing opportunities. These include innovative health and dental insurance programs as well as other insurance lines, retirement plans, a COBRA continuation program, an eyewear savings plan, group energy purchasing, and member discounts on everything from packaging materials to background checks.

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