

Michigan Future Business Index June 2016

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Produced by:

ROI[®]INSIGHT

MFBI Summary: June 2016

Small businesses remain largely positive about their prospects for doing business in Michigan. While projections of growth have slowed since December 2015, overall sales and profits remain strong with little sign of decline.

- In December of 2015 respondents said the second half of last year was the most profitable in the history of the MFBI. They now say that profits have largely stayed steady. Very few say things are moving in the wrong direction.
- Sales, hiring and wages have all held steady since December. While plans for new hires and higher wages have ticked downward slightly, very few say they are planning layoffs or wage cuts.
- **We see a significant improvement in business leaders' assessment of the labor pool in Michigan.** A majority (51%) now give it a positive rating of either “pretty good” (41%) or “excellent” (10%). That’s a five point improvement since December 2015.
- The primary challenges to doing business remain: finding qualified talent and managing growth.
 - To solve the talent challenge, businesses continue to move existing employees into new roles or train less qualified new hires. Managing growth, while a positive challenge, continues to climb.
- Following suit, the number one reason for small business optimism is growth, ahead of mentions of an improving economy and celebratory proclamations of their great staffs (most likely among those who aren’t experiencing the hiring challenges of their colleagues).
- More positive findings:
 - Sixty-eight percent of respondents rate Michigan favorably as a market for their goods and services (53% pretty good and 15% excellent). That’s up three percentage points from June 2015.
 - Sixty-five percent say Michigan’s tax system is fair to their business (59% mostly fair and 6% very fair). That’s up four percentage points from June 2015.

About the MFBI

The Michigan Future Business Index (MFBI), commissioned semi-annually by Accident Fund Insurance Company of America, surveys owners of small- to mid-sized businesses in Michigan. The MFBI provides business leaders a forum to offer their perspectives and opinions on various topics regarding the business climate in Michigan, and how that climate affects their own business.

While results are only a snapshot in time, the decade of MFBI trend data provides historical record of Michigan's small- to mid-sized business leaders' perceptions and perspectives. It also allows us to forecast future changes in the market. Thanks to the participation of these business leaders, we are able to amplify the voice of small business in Michigan and provide data to guide business advocacy organizations and policymakers, setting the agenda to help Michigan businesses prosper.

Methodology

- ROI Insight, a Michigan-based market research company, conducted the June 2016 MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan between May 3 and June 3, 2016.
- The mixed-mode survey included telephone and web interviews with 636 business executives from Michigan companies with 500 or fewer employees. Given the sample size of 636, the margin of error can be reliably set at ± 3.9 percent or less within a 95 percent degree of confidence.
- The survey gleans business owners' assessment of business performance over the previous six months and their projections for the next six months. In addition, the survey collects various perceptions and personal accounts of their experience conducting business in Michigan.

Business Climate in Michigan

Assessing The State Economy and Business Market

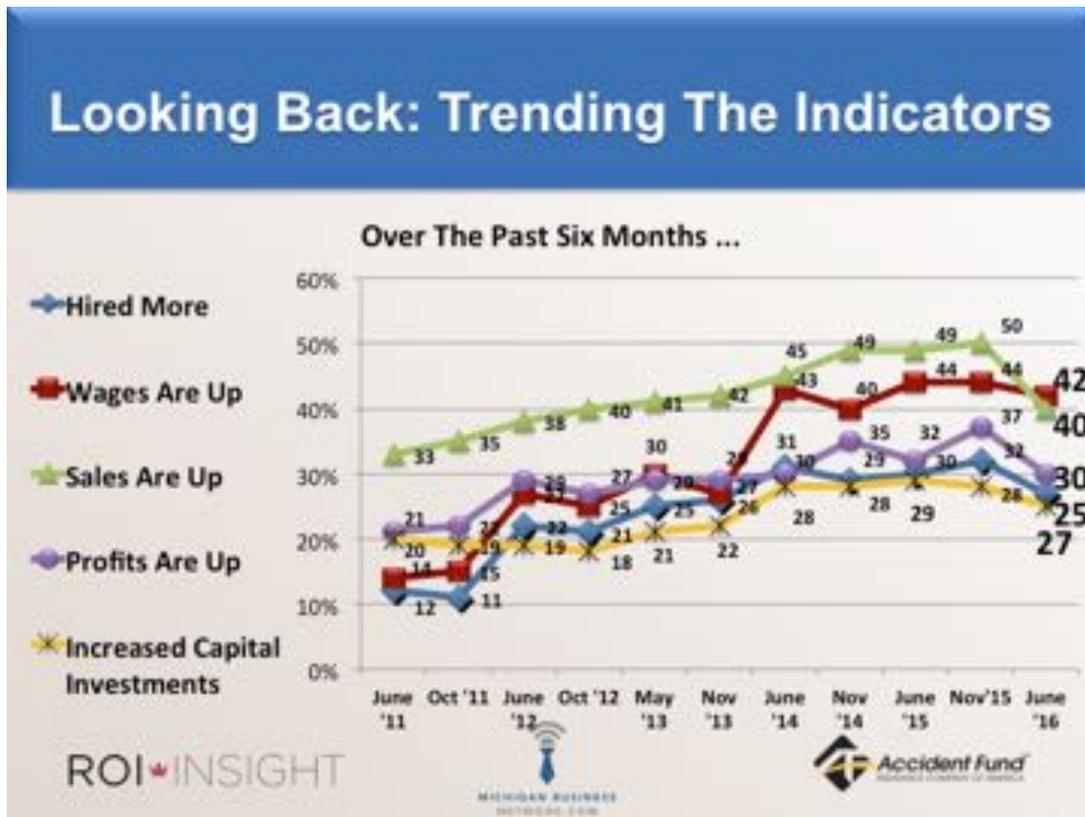
- Two-thirds (66%) of respondents are satisfied with Michigan’s economy as it affects their business. That is equal to June of 2015. Only 32 percent say they are dissatisfied with the state economy. Satisfaction is highest in Northern Lower Michigan, likely because of the strong rebound in tourism.
- Nearly 7 in 10 (68%) rate Michigan positively for being a good market for their goods and services. Fifteen percent rate it as excellent.
- Sixty-five percent rate Michigan’s tax system as fair. That remains equal to December 2015 and four percentage points higher than it was in June 2015.



Current Business Assessment

Past 6 Months: Profits, Sales, Wages, Hiring and Investments

- While growth in sales and profits isn't as strong as it was in December, it is not declining, but holding steady.
- After hitting new record highs in December, all growth indicators have slowed.
- Most of those saying that sales, profits, wages and hiring aren't going up indicate that they are holding steady, not declining.
- Though still largely positive, the record optimism shown around the holiday season has been tempered by the realities of doing business, which is a pattern often seen in a growing economy.



Current Business Assessment

Challenges and Benefits of Doing Business In Michigan

Challenges

- Once again, **keeping and attracting qualified employees** is perceived as the greatest challenge to doing business in Michigan, however dropping slightly from 22% in December to 18% now. It is still 2 points higher than it was last June.
- **Managing growth** remains the second most significant business challenge, up one point from 11% in December 2015 to 12% now.
- The **economy** (10%), **government regulations** (7%), and **finding new customers** (8%) round out the top five challenges to doing business.

Benefits

- **Business growth** is perceived as the greatest benefit of doing business in Michigan, holding steady at 14% since June of 2015.
- An **improving economy** continues to climb (from 10% in December to 12% now) as the second most significant benefit.
- A **great staff** (10%), **increasing opportunities** (7%), and **demand for their products/services** (5%) round out the top five benefits of doing business in Michigan.

Future Business Forecast

Profit Margin Projections: Next Six Months

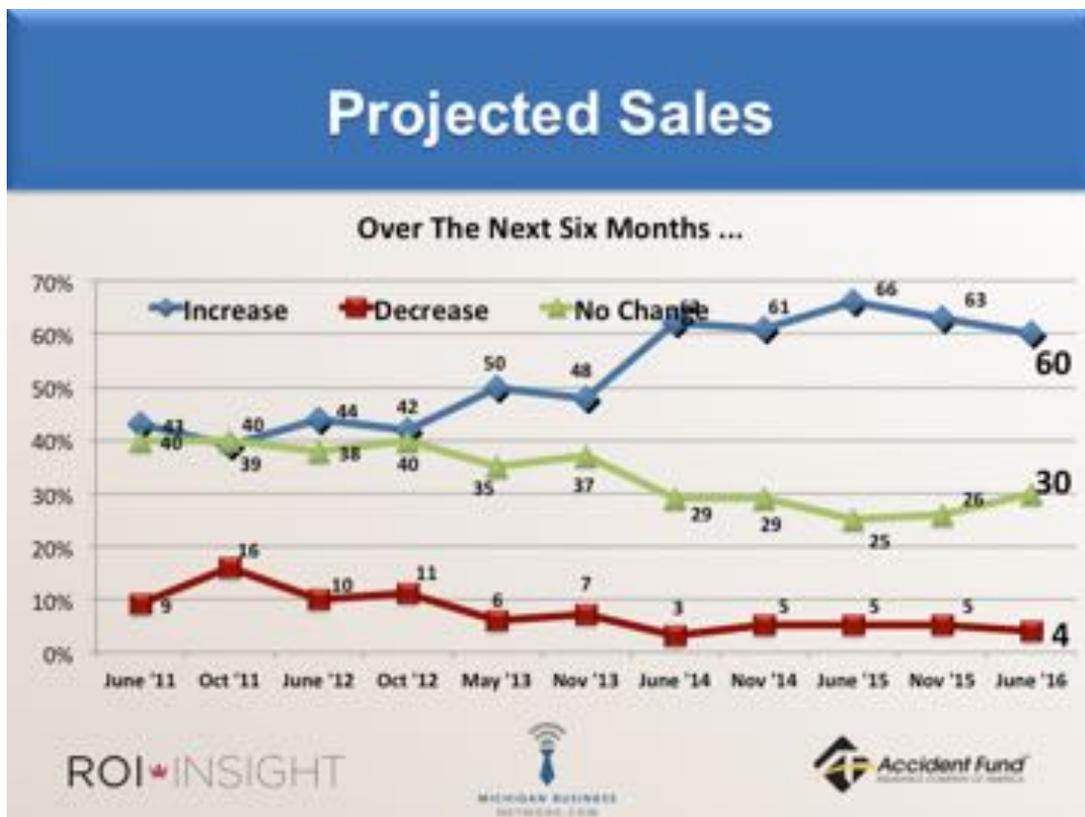
- It is important to remember that in December 2015, projections for a positive bottom line set a new apex with nearly a plurality (38%) saying they expected an improved bottom line.
- While this latest June MFBI shows a slight retraction in optimism for an improved bottom line — down three points when compared to December — it falls within the margin of error and remains strong.
 - More than one-third (35%) expect an improved bottom line over the next six months.
 - Fewer than two-in-ten (19%) expect a worsening bottom line.
 - More than four-in-ten (41%) believe their profit margins will hold steady.
 - Optimism remains strongest among new businesses, those in the Lansing market and those in the business services sector.



Future Business Forecast

Sales Projections: Next Six Months

- Expectations for sales holding steady and strong.
 - Six-in-ten (60%) say sales will increase in the next six months.
 - Expectations for decreases in sales (4%) continue to drop to new lows.
- Expectations for increased sales are highest in West Michigan (66%) and Northern Lower Michigan (65%).



Future Business Forecast

Profits Projections: Next Six Months

- Expectations for profits also remaining strong.
 - A majority (54%) say profits will improve in the next six months.
 - Expectations for decreases in profits (7%) also drop to new lows.
- Expectations for increased profits are highest in Mid-Michigan (61%) and West Michigan (56%).



Future Business Forecast

Wages: Next Six Months

- More than six-in-ten (61%) say they are keeping wages the same over the next six months, while more than one-third (34%) say they will increase wages. Only 1% say they plan to decrease wages.
 - Again, it is important to remember that those planning wage increases reached a new high-water mark in the December 2015 MFBI. This latest survey shows that they plan to hold those higher wages steady over the next six months.
- Projections for wage increases are strongest in healthcare (37%) and manufacturing/construction (37%) sectors.



Future Business Forecast

Hiring: Next Six Months

- Hiring projections remain positive.
 - More than one-third (34%) now say they plan to hire in the next six months, down from a record high (40%) in December 2015.
 - However, a majority (57%) are now saying they will maintain existing staff levels, which is up from 53 percent in December.
 - Projected layoffs continue to tick slightly lower (to 3.8%), remaining at 4 percent or lower for over a year.
- The demand for workers is strongest in the business and professional services (42%) sector.



Future Business Forecast

Hiring Challenges Remain, But Talent Pool Improving

- A majority (51%) of respondents now believe their access to qualified personnel is either “pretty good” (41%) or “excellent” (10%). This is a five-point jump from last December and signs of an improving labor market.
- Those having difficulty filling open positions is down to 45 percent from 49 percent in December.
 - This is also two-points lower than last June.
 - However, it’s still 30 points higher than it was only five years ago.
 - 56% of those actively searching for talent are having difficulty, which is down from 63% in December.
 - 65% of those hiring say the lack of qualified applicants is the primary challenge, which is four points lower than last June.
- How are businesses meeting this challenge? The open positions either remain open, they are filled with less-qualified candidates or they are existing employees are retrained and promoted.

Conclusions

Small Businesses Enjoying Slow, Steady Growth

- After setting record projections for profit margins and sales in the December 2015 MFBI, business leaders are now slightly more tempered but still enjoying a steady market for their products and services. While growth has slowed slightly, there is no noticeable concern for a declining market at this time.
- A majority believes Michigan is a good place to do business, and now a majority believes it’s also a good place to find qualified talent.
- With this positive news, managing growth continues to provide a significant challenge to small businesses in Michigan. But as we have said the past, this is a nice problem to have.

The MFBI, conducted biannually since 2006, would not be possible without the combined efforts of the following organizations:

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