

June 2015

Michigan Future Business Index

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Summary of Findings

- **Michigan businesses project continued favorable outcomes in the next six months, despite a lackluster labor market.**
 - New record expectations for higher sales and profits.
 - Hiring talent, managing growth and attracting new customers are top-tier challenges.

- **Data suggest that the struggle to find qualified talent is creating a drag on Michigan's recovery.**
 - For the first time, a plurality of business leaders say their access to qualified personnel is either “poor” or “only fair.” This is the worst average rating ever recorded by the MFBI.
 - While still positive, future bottom-line optimism and hiring projections have slowed, presumably because of the hiring challenges.

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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 and provides business leaders a forum to offer their perspectives of economic conditions in the state.

While results are only a snapshot in time, the trend data maps out the history of successes and challenges of small- to mid-sized businesses in Michigan, and allows us to forecast future changes in the market. Thanks to the participation of these business leaders we are able to amplify their voices and provide data for business advocacy organizations and policymakers to help Michigan businesses prosper.

Methods

- Phoenix Innovate conducted the June 2015 MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan between May 18, and June 5, 2015.
- The mixed-mode survey included telephone and web interviews with 895 business executives from Michigan companies with 500 or fewer employees. It has a margin of error of ± 3.2 percent within a 95 percent degree of confidence.
- The survey gleaned business owners' assessment of business performance over the previous six months and their expectations for the next six months. In addition, the survey garnered various perceptions and personal experiences about conducting business in Michigan.

MFBI Summary: June 2015

Trends remain very positive, but skilled worker shortage could be slowing growth:

- Two-thirds of business leaders are satisfied with the state's business economy, compared to only one-third dissatisfied.
- Over the past six months, businesses have seen continued growth in sales, hiring, wages and capital investments. Profits declined, albeit slightly.
- Projections for future sales and profits continue to improve, setting new record highs.
- Projections for hiring and wages remain high, but there are signs of a potential slowdown. Whether it will continue remains to be seen.
 - The survey indicates that the shortage of qualified workers may be creating a drag on hiring and on the economy.

Examining the Trends

Expectations continue to be strong for increased profits (56%) and sales (66%) across all business sectors. These findings are the most ambitious to date. However, the positive trends for projected improvement in their bottom line and increases in hiring and wages have slowed.

The reason for this apprehensiveness appears to be linked to the significant challenges experienced with attracting new employees. Sixteen percent cite that as the number one challenge to doing business in Michigan, while 64 percent of those trying to fill a position said they've had difficulty doing so. **Sixty-nine percent of those hiring say there are not enough qualified applicants for their open jobs.**

Other top challenges to doing business in Michigan are managing growth and finding new customers. These are all positive signs of an improving economy, but without qualified workers businesses will continue to be limited in their ability to take full advantage of future opportunities.

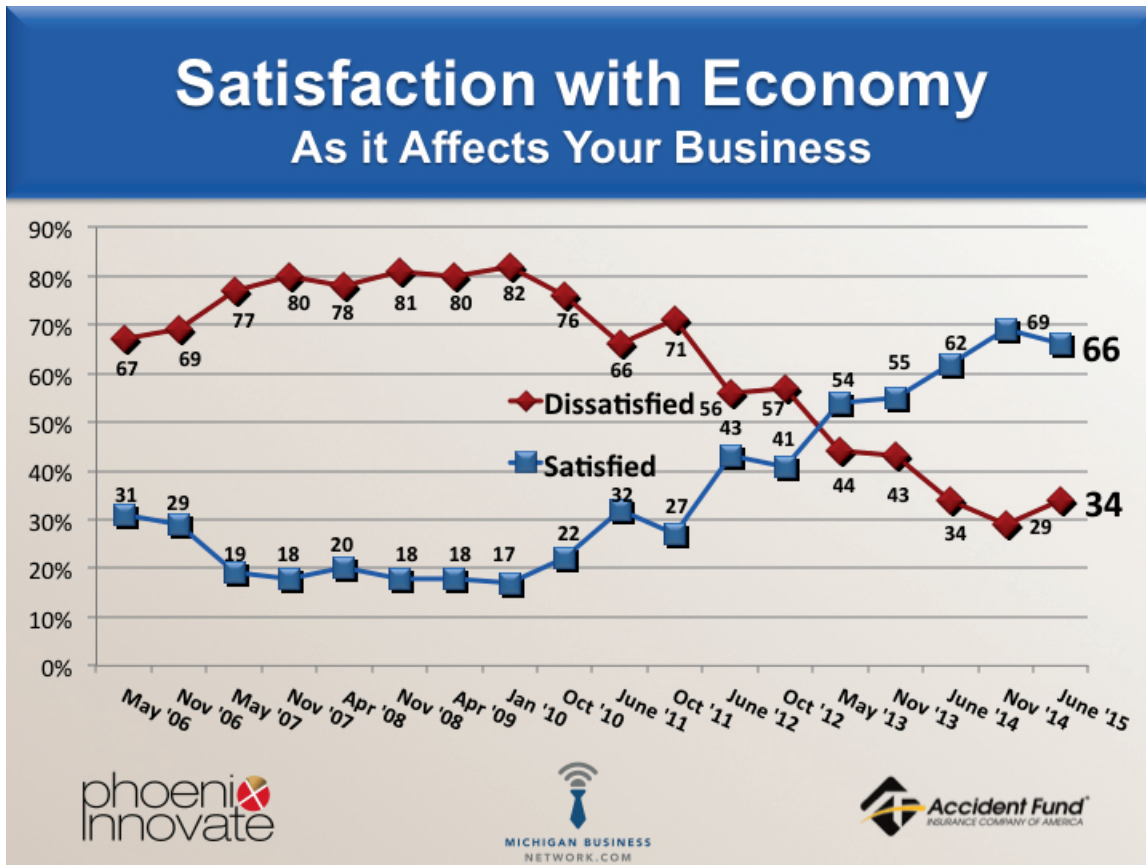
Further confirming the evidence of growth, over 40 percent of respondents now say they plan to expand their business with a new product or service, which is an increase from 36 percent in November of 2014. In addition, eight percent now say they will add a new business location in Michigan, up from six percent in November.

However, businesses are still trying to adjust to the new uncertainty with healthcare benefits. **Nearly one-third said they plan to decrease healthcare benefits or increase employee contributions and copays and another third said they don't provide healthcare benefits to their employees.**

Current Business Assessment: Economic Satisfaction

Highlights

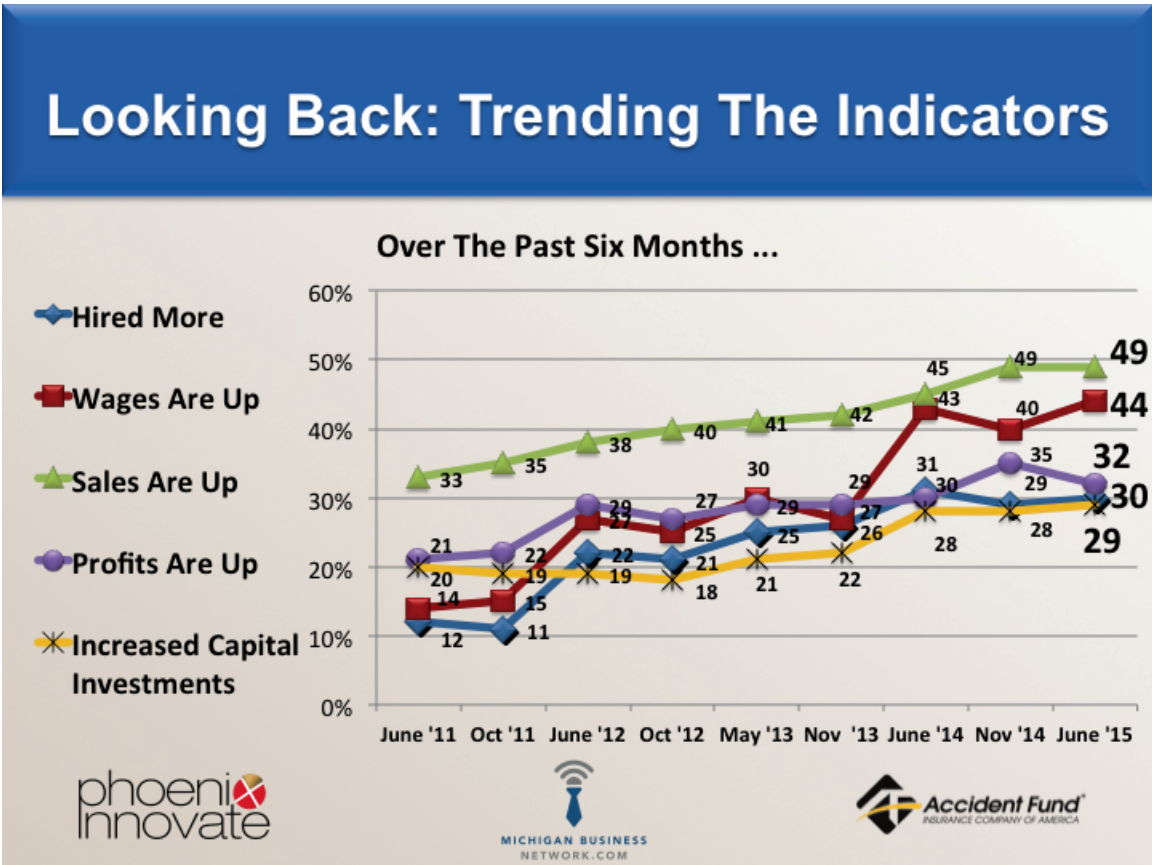
- While two-thirds of business owners say they are satisfied with the direction of the economy, their enthusiasm has slowed since the November survey when 69% were satisfied.
- Perceptions of business opportunities in Michigan are still strong, but perceptions of the state tax system have soured since November.
 - Nearly two-thirds (64%) Rate Michigan as a good market for their goods and services – no change since November 2014.
 - However, 35% would describe Michigan’s tax system as unfair (61% fair) to businesses. This is an increase of 10 percentage points since November 2014.
 - Perceptions of the state tax system are most negative in Mid-Michigan and Metro Detroit (64% unfair).



Current Business Assessment: Sales, Profits, Wages, Hiring and Investments Over The Past Six Months

Highlights

- For the most part economic indicators have held steady or increased slightly (within the margin of error) for the past six months. Only the percentage of those reporting increased profits has decreased slightly since November (from 35% to 32%).
 - Geographic Variances: sales increased most in Mid-Michigan (52%), wages have gone up most in West Michigan (48%) and hiring has increased most in Metro Detroit (33%). Assessments of profits and investments were similar across all markets statewide.
 - Business Sector Variances: Sales increased most in Insurance/Finance/Real Estate (66%), hiring has increased most in Manufacturing (42%), wages have gone up most in Manufacturing (52%) and profits have gone up most in Insurance/Finance/Real Estate (46%).



Current Business Assessment: Number One Challenge to Doing Business – Finding Qualified Talent To Fill Open Jobs

Highlights

- Finding, hiring and keeping qualified talent is once again the biggest challenge to business in Michigan, now coming in at 16% — a new record.
 - Other findings from this survey (e.g. slowing hiring and wage increases, flattening bottom line improvements) indicate that the lack of qualified talent may be creating a drag on the economic recovery.
 - Nowhere is this more evident than in the Manufacturing sector, where 25% cite this as the number one challenge to doing business.
 - It's also strongest in West Michigan (21%).

- When asked to rate their access to qualified personnel, for the first time since the start of the MFBI there are more negative responses (47%) than positive (46%).
 - Of those hiring, nearly two-thirds (64%) say they are having difficulty filling open jobs.
 - 69% say they are having those difficulties because of a lack of qualified applicants.

Future Business Forecast: Bottom Line Holding Steady, But Optimism Has Slowed

Highlights

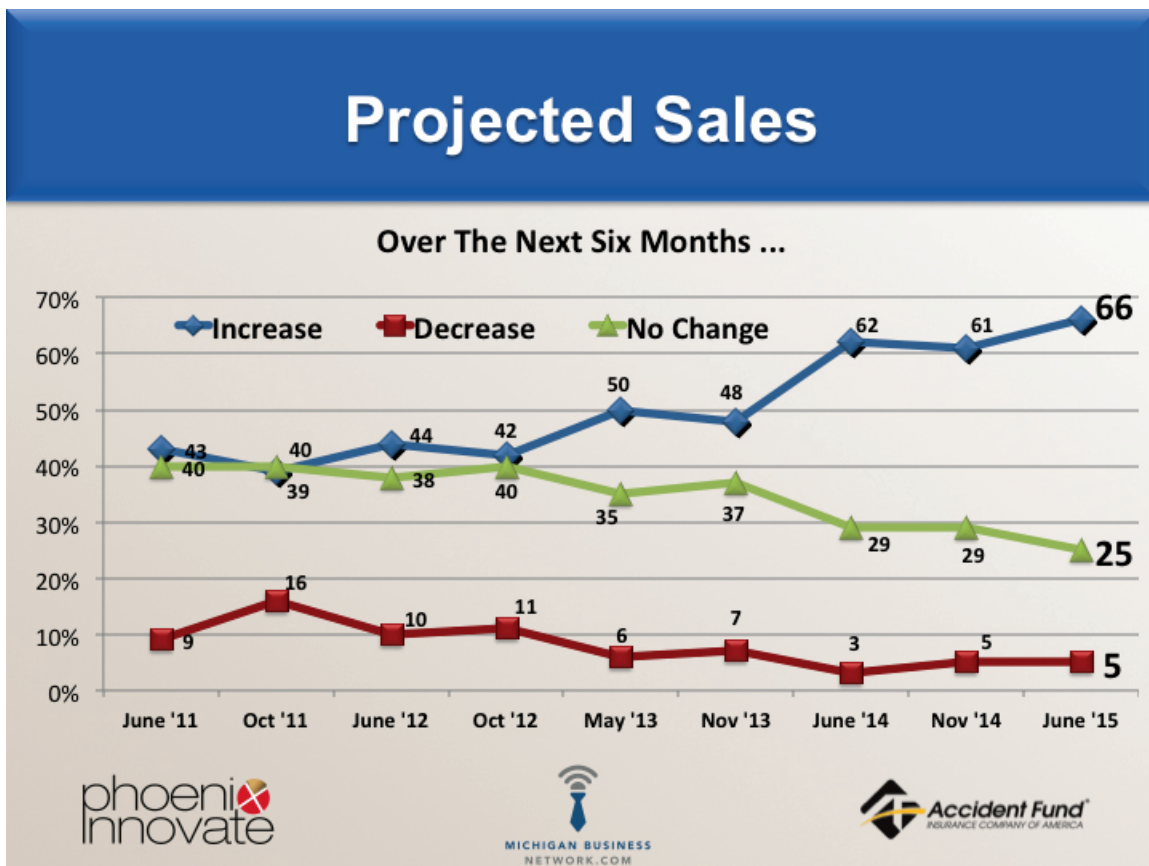
- Expectations for business respondents' future bottom line haven't changed significantly since the last MFBI survey in November 2014.
 - Expectations are most optimistic in Mid-Michigan, where 38% expect their bottom line to improve.



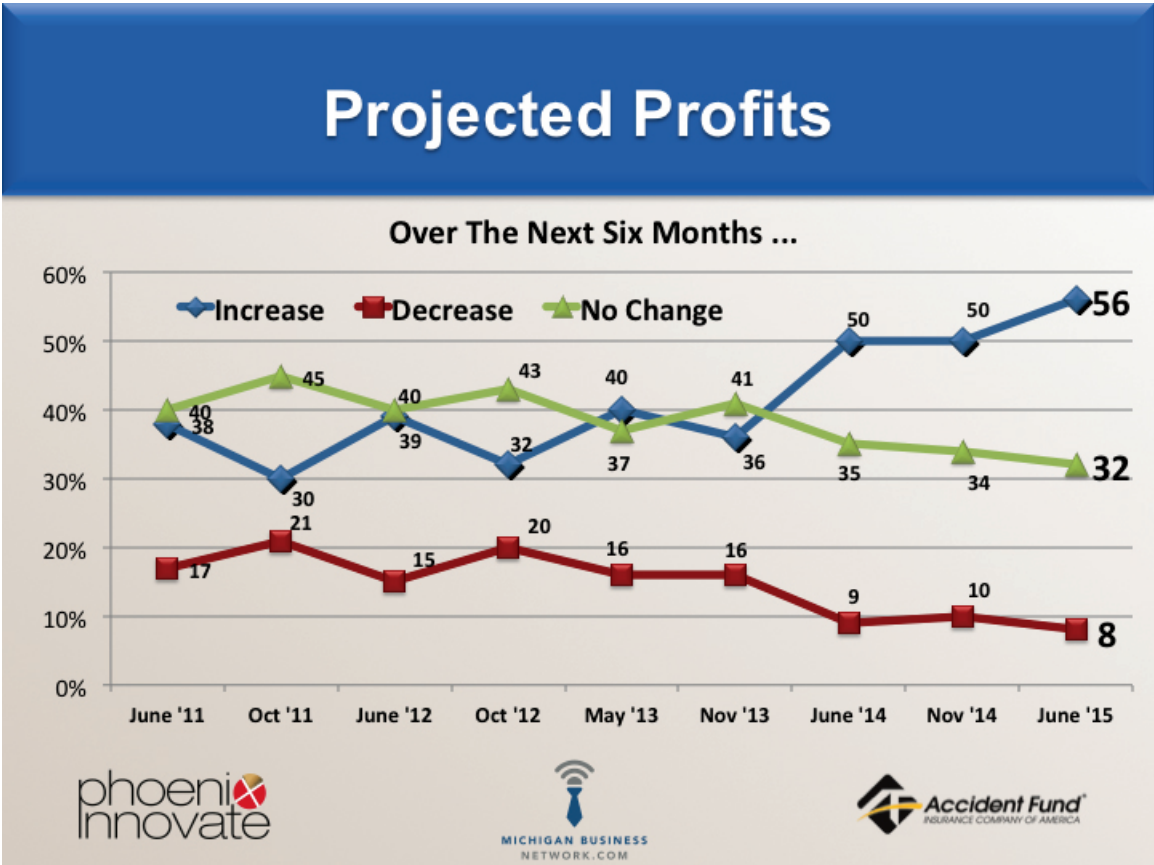
Future Business Forecast: Projections for Sales and Profits Hit New Record Highs

Highlights

- Now two-thirds (66%) believe sales will increase in the next six months, up from 61% in November and the highest that number has ever been.
 - Expectations are highest Mid-Michigan (67%) and among business services, manufacturing and finance (70%) for future sales.



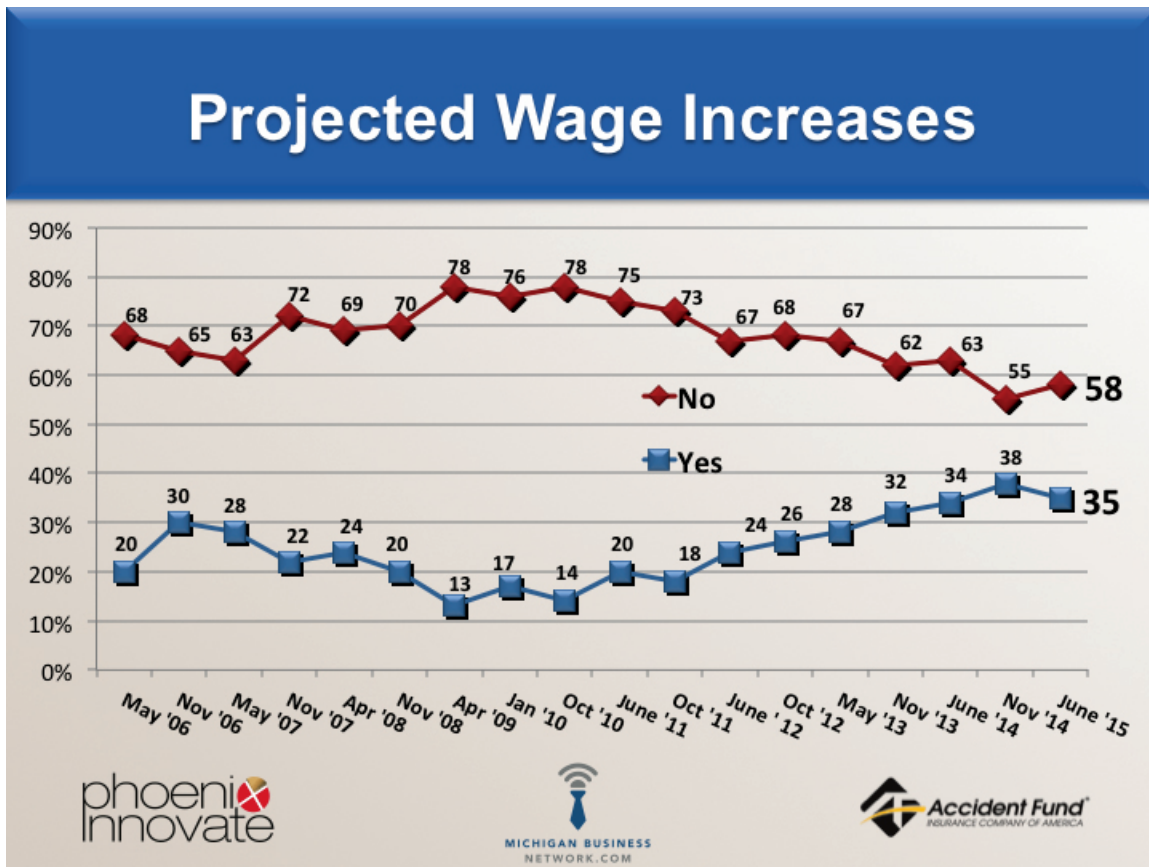
- Now a clear majority of respondents (56%) believe profits will increase in the next six months, up from 50% in November. Again, this is a new high-water mark for the MFBI.
 - Expectations for future profits are highest Saginaw/Bay City/Flint area (64%) and in the business services sector (63%).



Future Business Forecast: Hiring & Wages Holding Steady

Highlights

- 35% of respondents plan to increase wages in the next six months, which is a slight drop from 38% in November 2014, but up from one year ago (34%).
 - Projected wage increases are highest in Saginaw/Flint/Bay City (46%) and in the Manufacturing sector (44%).



- The percentage of businesses expecting to hire more workers is back to its high-water mark of last June (37%). The percentage of those expecting layoffs has dropped to an all-time low (4%).
 - Projected hiring is strongest in Metro Detroit (42%) and in the Manufacturing sector (47%).



Despite Challenges, Michigan Businesses are Growing

With businesses reporting projecting record gains in profits and sales in the next six months, the data indicate that the Michigan business economy is now recovering at a faster pace. However, that doesn't mean we are full steam ahead just yet. The much-debated shortage of qualified workers in Michigan is creating some resistance to progress, according to the latest MFBI.

Despite these challenges, businesses see much reason for optimism, as their second biggest challenge is managing growth. When asked to give reasons why they are optimistic about the future, a plurality (14%) cites their growing business. More than 40 percent of respondents say they are planning to expand their business with a new product or service, while eight percent plan to open up a new location in Michigan. These are all signs of renewed optimism for a robust business economy in Michigan.

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

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Summary of the