



# MICHIGAN FUTURE BUSINESS INDEX June 2012

## FINDINGS REPORT

*Michigan's small to medium-sized businesses see opportunities for growth, while economic optimism gains momentum. The atmosphere is right for significant economic growth in Michigan through increases in sales, hiring and business investments over the coming year.*

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## INTRODUCTION

Conducted semi-annually since 2006 by Accident Fund Insurance Company of American, headquartered in Lansing, Michigan, the Michigan Future Business Index (MFBI) surveys owners of small to medium-sized businesses in Michigan, to provide a business perspective of economic conditions in the state. The survey also measures business owners' expectations for future economic and business sector growth. Results provide data to track trends and offer insights into the small to medium-sized business sector's contribution to regional and statewide economic prosperity.

Lansing, Michigan-based Marketing Resource Group, Inc. (MRG) conducted the MFBI survey in partnership with the Accident Fund Insurance Company of America and the Michigan Business Network. MRG is a Michigan-owned public affairs and public opinion research consulting firm that advises corporate, association, education, and coalition interests. The Michigan Business Network provides perspective on business and industry developments across Michigan.

## METHODOLOGY

- MRG conducted the 2012 MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan between May 22 and June 4, 2012.
- The mixed-method survey included telephone and web interviews with 864 randomly selected Michigan business leaders of companies with 500 employees or fewer. It has a margin of error of  $\pm 3.3$  percent within a 95 percent degree of confidence.
- Thirty-six percent (n=312) of the sampled respondents were randomly selected from the Lansing tri-county region (including Clinton, Eaton and Ingham Counties) and the remaining respondents were randomly selected from businesses across the state.
- 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 regarding doing business in Michigan.

## MFBI CONCLUSIONS: JUNE 2012

In October of 2011, the MFBI showed signs of a slight pullback in optimism, given the fragility of the economy. Survey findings then also pointed to a potential resurgence in the recovery, if indicators began to improve. This latest May / June survey finds that small to medium-sized businesses throughout Michigan may be seeing the positive signs needed to rekindle that optimism.

While national business surveys show that a restrictive and uncertain business climate is limiting business growth and economic recovery nationally, many business owners in Michigan believe that the state's recovery is gaining momentum.

This survey shows across the board improvement regarding sales, profits, hiring and wages, with indications that further growth is expected in the coming months. Considering the rebound of Michigan's auto sector, it is not surprising that growth in these areas is strongest in the Metro Detroit region.

Furthermore, satisfaction in the Michigan economy is trending upward and nearly reaching positive territory for the first time since the MFBI started in 2006. The outlook for future business has been mostly positive for three consecutive surveys, and projections for profit margins continue to improve.

The next challenge for businesses in the developing recovery will be to help develop a highly skilled workforce. According to this survey as compared to previous data, the lack of qualified workers in Michigan continues to be a growing concern for business owners.

**While the economy remains fragile, this survey shows that small business owners are starting to believe Michigan is turning the corner. The question now is whether or not the labor pool will provide the skilled workers needed to sustain the recovery.**

## FINDINGS

### **ECONOMIC SATISFACTION REBOUNDS IN RECORD FASHION CONTINUING TO FOLLOW A POSITIVE TREND— AFTER A BRIEF STALL**

The June 2012 MFBI survey shows that leaders of small to medium-sized businesses across Michigan believe the state’s economy is moving in the right direction. While a majority of respondents remain dissatisfied with economic conditions, that level of dissatisfaction is the lowest it has been since this survey started in 2006, while those saying they are satisfied with the economy are now at 43 percent. That represents a 32-point jump in net satisfaction since October 2011.

#### Highlights

- Continuing the trends that started to turn positive back in October of 2010, respondents’ level of satisfaction is now higher than at any time since the MFBI survey started 2006.



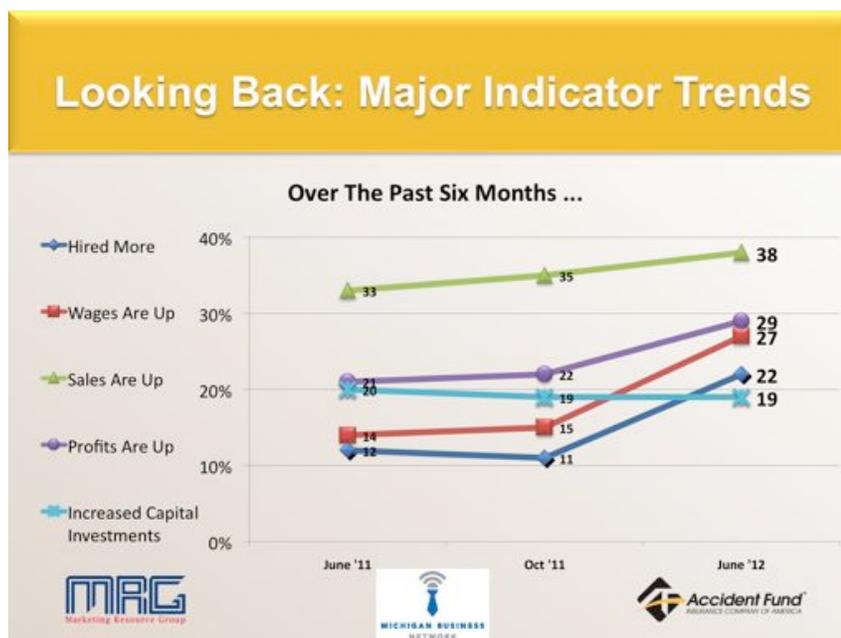
### **HIRING, WAGES, INVESTMENTS AND PROFITS ARE CLIMBING ESPECIALLY IN METRO DETROIT**

When respondents were asked to assess the performance of their business operations over the previous six months, the results show that most of the performance indicators (sales, profits, hiring, wages, investments) have improved since October.

## Highlights

The percentage of businesses that have hired more employees has doubled since October 2011. Twenty-two (22) percent now say that they've hired more employees over the past six months. In October, that percentage was eleven (11) percent.

- Following previous trends, new **hiring** is strong in West Michigan (25%). That's up ten points since October. However Metro Detroit has experienced the strongest increase in new hires, now also at twenty-five (25) percent. That's a 14-point jump since October, showing the impact of a rebounding auto sector.
- The percentage of businesses that have increased **wages** for employees has jumped by 12 percent since October. More than one in four (27%) said they increased employee wages in the last six months. In October, that percentage was only fifteen (15) percent.
- Twenty-nine (29) percent said **profits** had increased in the last six months – a seven-point increase since October 2011.
  - Most of the profitability improvements in the last six months were experienced in Metro Detroit (35%) and West Michigan (34%).
- Thirty-eight (38) percent of business owners reported in this survey that **sales** had increased over the previous six months. That is a three-point increase from the June survey, when 35 percent reported that sales had increased.
- Nineteen (19) percent of respondents said their **major investments** in facilities and equipment had increased in the past six months. This is the only indicator that has not yet moved upward, suggesting that businesses are using new revenue to invest in qualified personnel, but continuing to limit capital investments.



## GROWTH EXPECTATIONS INCH UPWARD AS OPTIMISM BUILDS

When respondents were asked to give their expectations for the next six months, Michigan’s small business leaders indicate that they are starting to unbridle their optimism — or at least bridle their pessimism. After the positive trends briefly stalled in October 2011, they’ve regained momentum with some reaching record territory.

### Highlights

- Fifty-two (52) percent say that their outlook for business over the next six months is good, with 16 percent saying “very good.” Twenty-one (21) percent said the outlook is bad, with only five percent saying “very bad.” Since October 2011, that’s a ten-point drop among those who said things are looking “very bad.” That also sets a new record low for that number.



- Forty-four (44) percent of respondents say they expect **sales** to increase in the next six months. That’s a five percent increase from October, but only a one percent increase from last June. The percentage of those who believe sales will decrease has dropped from sixteen (16) percent in October to ten (10) percent now.
  - Nearly half (49%) of the respondents in the Metro Detroit region believe sales will increase in the next six months.



- Thirty-nine (39) percent now say they believe **profits** will increase in the next six months, up nine points from October and roughly back to where it was last June 2011.
  - Profits expectations are rosier in Metro Detroit, where 44 percent believe they will see increases this year.
- However, when asked about their expectations for their business' bottom line (expenses compared to profits), their optimism is much more positive. Thirty-four percent now believe their bottom line will improve, compared to twenty-four last October 2011.



## JOB MARKET OPENING UP, QUALIFIED WORKERS IN HIGH DEMAND

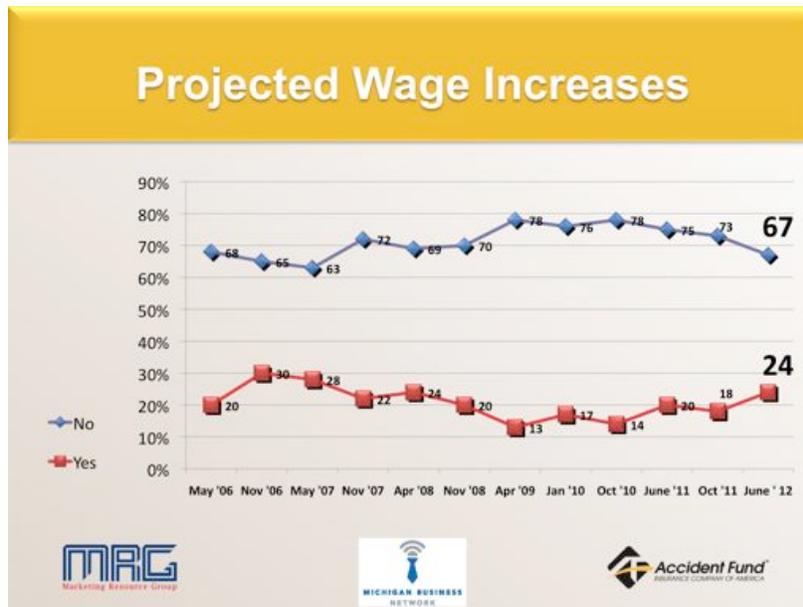
### Highlights

- There has been a significant increase in respondents who say that they plan to **hire** more employees in the next six months, now 25 percent from 15 percent in October 2011 – an eleven-point swing – while the percentage of those who say they will not hire more has dropped from 80 to 68 percent.
  - The outlook for new hires is strongest in the Saginaw / Flint / Bay City region (31%), the Detroit Metro region (30%), and the West Michigan region (28%).



- However, respondents are finding that it is getting harder to fill those new positions, given that 37 percent give Michigan a poor (11 percent) or only fair (26 percent) grade. That’s up from 30 percent in October 2011. This change may be higher because more employers are now hiring.
  - In addition, 52 percent of those who have tried to fill positions over the last year have had difficulties filling those positions.
    - Among those, eight in ten said the reason for those difficulties was because they couldn’t find qualified applicants. A plurality of them (35 percent) stopped searching, while others required additional help to find qualified personnel.
- The outlook for increased **wages** is also improving. Nearly one quarter (24 percent) of all respondents to this survey indicated that they plan to increase wages for their employees within the next six months. That’s up from 18 percent in October 2011 and four percent higher than it was last June 2011.

- Employers in the Lansing region are least likely to increase wages for workers, with only 17 percent there indicating they'd do so.



- Nineteen (19) percent expect to **invest** in office equipment in the next six months, which has stayed static since last June 2011. And forty-eight (48) percent say they will invest in advertising – a seven-percent increase since last June 2011. Internet advertising is now preferred by 63 percent of respondents – a jump of 19 percent since October 2011 – with direct mail coming in second at 41 percent and newspaper ads coming in third at 28 percent.

### BUSINESSES SEE REASONS TO BE ENCOURAGED

#### *BUSINESSES: MARKET IS BETTER & TAX STRUCTURE IS NOW SEEN AS FAIR*

Perceptions of Michigan’s business market continue to improve, while a majority of business owners statewide now believe the business tax structure is fair.

### Highlights

- A plurality (41 percent) of small business owners in this survey says that Michigan is a “pretty good” market for goods and services. That’s up from 37 percent in October 2011. The rating of “only fair” has also increased from 33 percent in October to 38 percent now. The percentage of those giving it a “poor” rating has dropped from 17 percent in October to 13 percent now. And the “excellent” rating has decreased from 12 percent in October to eight percent now. Overall the ratings are showing moderate but consistent signs of improvement.
- Fifty-two (52) percent now rate Michigan’s business tax system as “fair” – up nine points

from October 2011 – while only 36 percent now say it's unfair. The unfair rating is down six points from October 2011 and a full 17 points from 2010.

- A plurality (40 percent) said they are encouraged when thinking about their business ten years down the road. Fifteen percent said they are “very encouraged.” Thirty-six (36) percent said they are concerned, with 18 percent saying “very concerned.” Twenty-three (23) percent said they are still uncertain about the future of their business.
  - Business owners in the Lansing region are most likely to feel optimistic about future business, with 42 percent feeling encouraged there.

### **GREATEST CHALLENGES TO BUSINESS IN MICHIGAN: FINDING QUALIFIED WORKERS, REGULATIONS, AND CASH FLOW**

This survey shows business owners' concerns over finding customers for their products and services are waning – from 31 percent in October 2011 to nine percent now. Meanwhile, their concerns are now centered over finding and keeping qualified employees (12 percent), expanding government regulations (11 percent), and shrinking cash flow with fewer financing options (11 percent).

### **REASONS FOR OPTIMISM: BUSINESS GROWTH AND THE RECOVERING ECONOMY**

Twelve (12) percent of respondents cited their plans for growing their business as the reason for their optimism for the future. This is confirmed by the data that show 35 percent of the respondents indicating that they plan to expand their product or service offerings in the coming year. That's an increase of 12 percent since October 2011. In addition, 11 percent cite the turnaround of the Michigan economy as the main reason for their optimism, followed by their confidence in their own product/service (7 percent) and their confidence in their employees (7 percent).