

OPTIMISM STILL SPRINGS THIS FALL FOR MICHIGAN SMALL AND MID-SIZE BUSINESS OWNERS

ANALYSIS BY

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Michigan's economy will see slower growth in 2020 as job creation cools.

Labor force participation in the state accelerated into the second half of 2019, but hiring trends have not kept up with that shift.

The resulting workforce surplus should keep wage inflation pressures from accelerating further, after having outpaced the national average since mid-2018.

Michigan's economic growth looks set to weaken somewhat in 2020. The state will likely be hit disproportionately by a manufacturing-centered slowdown impacting much of the nation. Michigan's payroll job growth already slowed to 0.4 percent in year-over-year terms in June, July and August, the slowest since May 2010.

Michigan continues to rely heavily on the auto industry, particularly in Metro Detroit. Auto sales are expected to dip slightly in 2020, but projections remain relatively strong, despite the trade war with China and the recent UAW strike of General Motors.

The housing market throughout the state will remain robust, with high prices and low inventory.

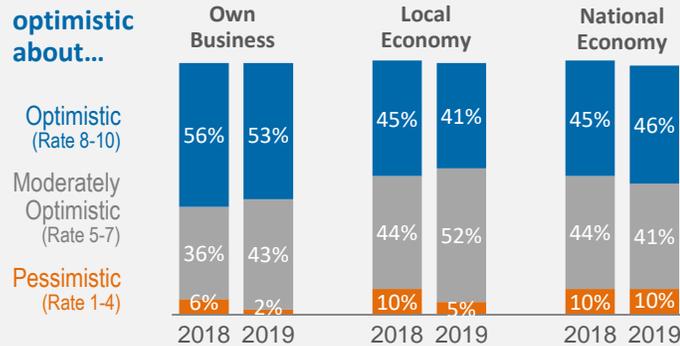
Small & mid-sized business owners in Michigan – many of whom have dealt with the restraints of a tight labor market for several years – can feel comfortable carrying their optimism regarding economic prospects into 2020, as slower national growth will not be compounded by rising labor costs.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Michigan vs. United States: Nationally, four out of 10 (39%) are optimistic about the national economy and more (55%) are optimistic about their own company's prospects.

Despite pricing pressures and tariff concerns, measures of optimism are approaching the record-setting highs measured in fall 2018, according to the latest PNC survey of Michigan small and mid-size business owners and executives. Optimism for Michigan business leaders' own company is particularly strong at 53 percent, the second highest level, other than the survey high recorded a year ago (56%) for the eight-year survey.

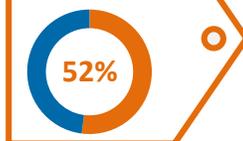
Percent optimistic about...



Michigan business leaders' views about their local economy are positive with optimism reaching 41 percent, a level second only to the record high (45%) set a year ago. Nearly half (46%) of respondents describe their outlook for the national economy as highly optimistic, a new record high for the Michigan survey.

Nearly half (48%) of Michigan small and mid-size business leaders expect their company's sales to increase, compared to more than six out of 10 (62%) in fall 2018, and the spring 2018 record high (63%). An equal share (48%) expect their profits to increase, unchanged from fall 2018. Respondent expectations for the next six months shifted from growth to stability regarding the business's need for financing (81% vs. 66% in fall 2018), total cash flow (53% vs. 39% in fall 2018), capital spending (64% vs. 49% in fall 2018) and cost of employee health care coverage (60% vs. 45% in fall 2018). Business leaders' own personal retirement savings has also shifted from growth to stability (76% vs. 57% in fall 2018).

Supplier Price Increase



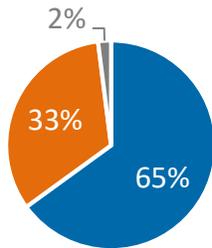
Michigan vs. United States: Nationally, more than half (53%) anticipate paying higher prices to suppliers over the next six months. Four out of 10 (42%) expect to increase prices to customers.

PRICE PROMOTION

More than half (53%) of Michigan small and mid-size business owners and executives anticipate paying higher prices to suppliers over the next six months, compared to 59 percent a year ago.

More than four in 10 (42%) of respondents expect to raise prices that they charge their customers compared to 44 percent in fall 2018. Among businesses that expect to raise prices, nearly six in 10 (58%) anticipate increases of 3 percent or more (70% in fall 2018). Their reasons for price increases include rising non-labor costs (37%), favorable market conditions that support such actions (31%) and rising labor costs (23%). Trade tariffs are also expected to increase both supplier prices and prices respondents charge their own customers (please see Tariff Toll section on the next page).

Retaining/Attracting Employees



- Have taken action
- Not taken action
- Don't know/Refused

FINDERS KEEPERS

More than two in 10 (21%) Michigan small and mid-size business leaders plan to increase the number of full-time employees within the next six months, while those expecting to reduce the number of full-time employees remains at five percent, little changed from three percent in fall 2018.

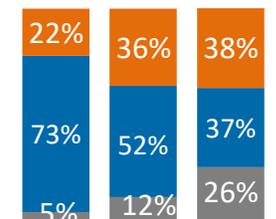
More than half (52%) say it's harder to find qualified employees than it was six months to a year ago, up from 42 percent in fall 2018. More than a third (36%) have increased wages/salaries (43% in fall 2018). In addition, nearly three in 10 (29%) have allowed more flexible work arrangements, 21 percent have offered or increased bonuses and 19 percent have increased benefits.

RECESSION IMPRESSIONS

What is the likelihood of recession? Nearly three-quarters (73%) of Michigan small and mid-size business leaders say a recession is unlikely and 22 percent say it is likely before the end of 2019. But there is a shift in the outlook for a recession in 2020, with the gap in outlook narrowing: 52 percent believe it is unlikely, while 36 percent believe it is likely. Looking further out, optimism wanes, with only 37 percent believing a recession is unlikely in 2021.

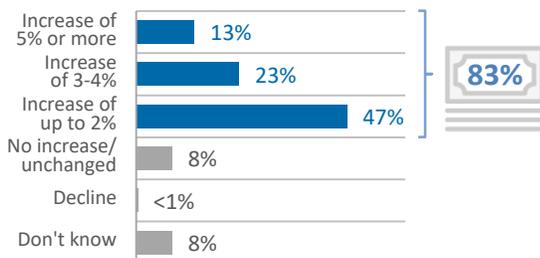
Likelihood of Recession by Year

- Recession likely
- Recession unlikely
- Unsure/Refused



Recession in Year 2019 2020 2021

Expectations for Consumer Prices in Next 12 Months



INFLATION CONSTERNATION

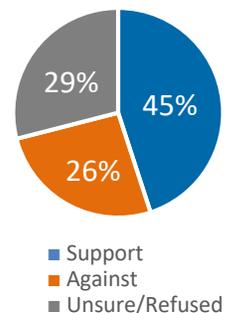
Expectations for consumer prices are important indicators of future inflation, and 83 percent of respondents expect these prices to go up over the next 12 months. Nearly half (47%) expect an increase up to two percent, a greater share than fall 2018 (30%). The portion of Michigan business leaders expecting inflation of three percent or more is 36 percent (48 percent in fall 2018), with 23 percent expecting three- to four-percent inflation and 13 percent anticipating five percent or higher.

TARIFF TOLL

Michigan small and mid-size business leaders continue to be divided on the impact of increased U.S. tariffs on goods from other countries, even if other countries retaliate with increased tariffs on U.S. goods/services. Levels of support edged upward from fall 2018 with nearly half (45%) in support (36% in fall 2018), more than a quarter (26%) against (33% in fall 2018) and nearly three in 10 (28%) uncertain (27% in fall 2018).

Michigan business leaders are split on their expectation regarding the impact of the U.S. tariff policy on supplier prices with nearly four in 10 (39%) expecting an increase, nearly half who do not expect an increase (49%) and more than one in 10 (11%) who don't know or feel it is too early to tell. Fewer (34%) anticipate passing on price increases to customers. More than half (52%) believe tariffs will have no impact on their company's sales; however, those who expect an impact are split. Two in 10 expect an increase in sales and 11 percent expect sales to drop.

Increased Tariffs



The vast majority of respondents (86%) have made no changes to their business in response to tariffs. Among the nine percent who have made changes, two percent made new investments or hired and seven percent delayed or cancelled investments or hiring as a result of tariff negotiations.