

Michigan Future Business Index December 2017

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ROI[®]INSIGHT

MFBI Summary: December 2017

About The MFBI

The Michigan Future Business Index (MFBI), commissioned semi-annually by the Accident Fund Insurance Company of America and the Michigan Business Network, surveys owners of small- to mid-sized businesses in Michigan. The MFBI provides business leaders a forum to offer their perspectives and opinions on doing business in Michigan, the overall business climate in the state and various issues in the news.

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 potential changes in the market. Thanks to business leaders' participation, we are able to amplify the voice of small business in Michigan and provide data to guide decisions of business advocacy organizations and policymakers, setting an agenda to help Michigan businesses prosper.

Methodology

- ROI Insight, a Michigan-based market research and public opinion research company, conducted the Winter 2017 MFBI survey, primarily with owners and C-suite executives from small to medium-sized businesses across Michigan.
- The mixed-mode survey included telephone and web interviews with 400 business executives from Michigan companies with 500 or fewer employees throughout November 2017. Given the sample size of 400, the margin of error can be reliably set at ± 4.9 percent or less within a 95 percent degree of confidence.
- The survey gleans business owners' assessments 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 experiences conducting business in Michigan.

Overview

- While growth and optimism is showing signs of a slight slowdown, many small and mid-sized businesses enjoy continued strength in sales and profits.
 - There is slight growth in uncertainty regarding taxes on small business.
- Finding qualified workers remains the top challenge.
 - Retraining employees, networking and hiring temporary workers are short-term fixes at this time.
- Despite those challenges, optimism for their own growth and an improving economy continues to gain strength.

Business Climate in Michigan

Assessing The State Economy and Business Market

- **Satisfaction in the economy still in near-record positive territory**

- Over three-quarters (76%) are satisfied: 55% “somewhat satisfied” and 21% “very satisfied”
- Fewer than one quarter are dissatisfied with the economy (21%) – only 7% “very dissatisfied”
- Satisfaction remains strongest in the Bay City/Saginaw/Flint (80%) and Upper Peninsula (83%)



Current Business Assessment

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

- **All growth indicators have slowed over the past six months.**

- **Wage** growth down ten points from all-time high in June

- From 46% to 36%
- Manufacturing and construction were most likely to increase wages (47%).

- **Hiring** down five points from June

- From 25% to 20%
- Manufacturing and construction hired the most (32%).

- **Sales** growth down three points from June

- From 48% to 45%
- Manufacturing and construction saw the most growth in sales (53%).

- **Profit** growth down two points from June

- From 34% to 32%
- Manufacturing and construction and finance, insurance and real estate were most likely to see profit increases (33%).

- **Investments** in equipment down two points from June

- From 27% to 25%
- Manufacturing and construction were more likely to invest more in equipment (34%).

Current Business Assessment

Challenges and Benefits of Doing Business In Michigan

Biggest Challenges To Doing Business

- “Keeping/attracting good employees” continues to register as the greatest challenge to doing business, back up to its high point of 22%.
- “Finding New Customers” holds onto second place at 10%
- “Managing growth” up to 9% from 6% in June
- “Taxes” now a growing concern, up to 7% from 4% in June
- “Economy” holds steady at 6%
- “ACA/Healthcare/Obamacare” mentions drop back to 4% from 7% in June

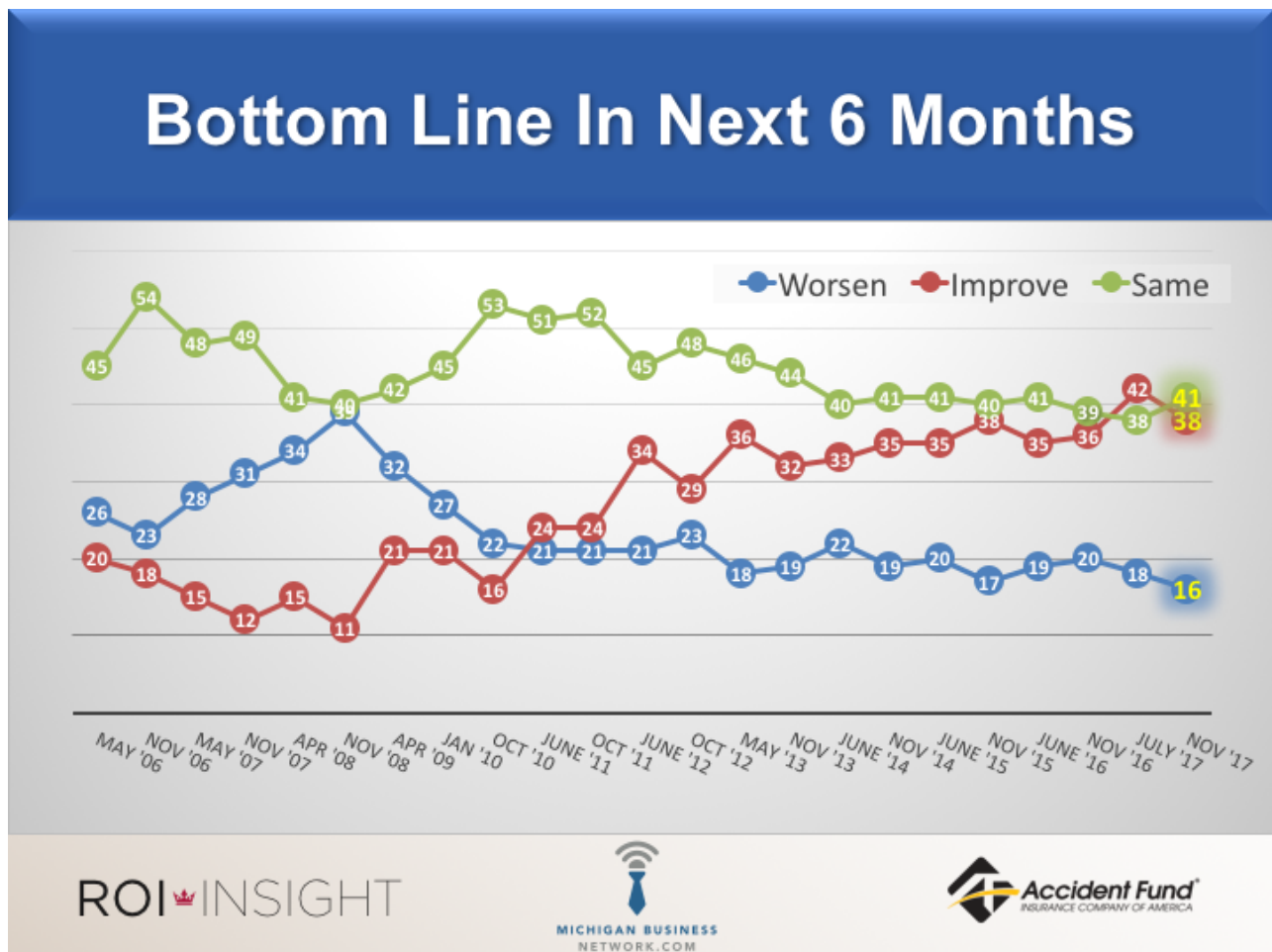
Benefits of Doing Business in Michigan (Reasons for Optimism)

- “Business growth” (14%) – up 2% from June
- “Economy is improving” (14%) – up 2% from June
- “Sales are up” (9%) – up 1%
- “Great staff” (8%) – down 2% from June
- “My customers” (8%) – down 3%
- “Demand for products/services” (5%) – no change
- “Political Change/Hope For Reform” (4%) – down 2%
- “More opportunities” (5%) – no change
- “Increased demand” (5%) – steady

Future Business Forecast

Profit Margin Projections: Next Six Months

- **After growth expectations reached an all-time high in June, a plurality (41%) now say profit margins will stay the same over the next six months.**
 - More than one-third (38%) expect an improved bottom line.
 - Fewer than one-in-five (16%) expect a worsening bottom line.
 - More than 4 in 10 (41%) say margins will remain unchanged.
 - Optimism is strongest in Metro Detroit (44%).
 - Optimism is strongest in the Finance and Insurance sectors (70%).



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Future Business Forecast

Most Projections Staying Positive, Yet Growth Expectations Slowing

- **Profits:** Fifty-three percent (53%) expect an increase in profits, which is down 3% from June.
 - Those in the Saginaw/Flint/Bay City and Metro Detroit regions (58%) and those in Insurance and Finance (73%) are most likely to project increased profits.
- **Wages:** Thirty-five percent (35%) expect to increase wages at their business, which is down 5% from June (40%). A majority (53%) plan to keep wages the same and no one (0%) will decrease wages.
 - Those in the Saginaw/Flint/Bay City region (46%) and those in Insurance and Finance (50%) are most likely to project increased wages.
- **Sales:** Fifty-seven percent (57%) expect an increase in sales in the next six months, which is down 4% from June (61%).
 - Those in the U.P. (67%) and Bay City/Saginaw/Flint (58%) and those in Insurance and Finance (67%) are most likely to project increased sales.
- **Hiring:** Thirty-one percent (31%) expect to hire more employees in the next six months, down three points from June. Those reporting possible layoffs have increased two points from June to 6%. Sixty percent (60%) say they will maintain the same number of employees, unchanged since June.
 - Those in the Lansing (42%) and U.P. regions (39%) and those in Construction and Manufacturing (44%) are most likely to project increased hiring.
- **Investments:** Fifty percent (50%) now plan to invest in advertising for their business, which is down six points from 56% in June. Twenty-four percent (24%) will invest in in new office equipment, down from 29% last June. Forty-five percent (45%) plan to invest in employee education or training.
- **Business Expansion:** Thirty percent (30%) expect to expand their business with a new product or service, down from 35% in June.

Future Business Forecast

Hiring Challenges Remain, Health Care Benefits Cut

Hiring Challenges

- Now a larger majority (53%) of respondents believe their access to qualified personnel is either “only fair” (30%) or “poor” (22%), 6% higher than June. Only thirty-six percent (36%) rate their access is either “pretty good” (27%) or “excellent” (9%). These numbers continue to stay in the negative as they have been for most of the last decade.
- Those having difficulty filling open positions is now up to 52%, up two points from June.
 - Among those actively searching for talent, 67% are having difficulty filling jobs, which is one point higher than June.
 - 58% of those hiring say the lack of qualified applicants is the primary challenge, down seven points from June.
 - The open positions either remain open, current employees are trained for the open position or they are hiring temps.

Healthcare Benefits Going Away

- A record 48% of respondents now say they do not offer healthcare benefits to their employees. That number continues to grow, up five points since June and more than doubled since June of 2016 (18%).

Conclusions

Growth Slows But Optimism Remains Strong

More than three-quarters (76%) believe Michigan is a pretty good (58%) or excellent (18%) market for their business and most believe state taxes here are mostly (54%) to very (5%) fair. Michigan small business owners are primarily happy with the economic climate in Michigan. However there are some political and policy issues on the state and federal levels that are creating some minor uncertainty among this audience.

Things To Watch

- Will future investments in hiring and wages rebound, to attract qualified employees?
- Will the current slight increase in concern over taxes continue to grow, affecting small businesses' ability to remain profitable?
- How will the decisions in Washington D.C. regarding taxes and the ACA affect the bottom line?

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