

# Michigan Future Business Index December 2018

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# MFBI Summary: December 2018

## 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 Q4 2018 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 468 business executives from Michigan companies with 500 or fewer employees, conducted November 4 through 30, 2018. Given the sample size of 468, the margin of error is  $\pm 4.5$  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

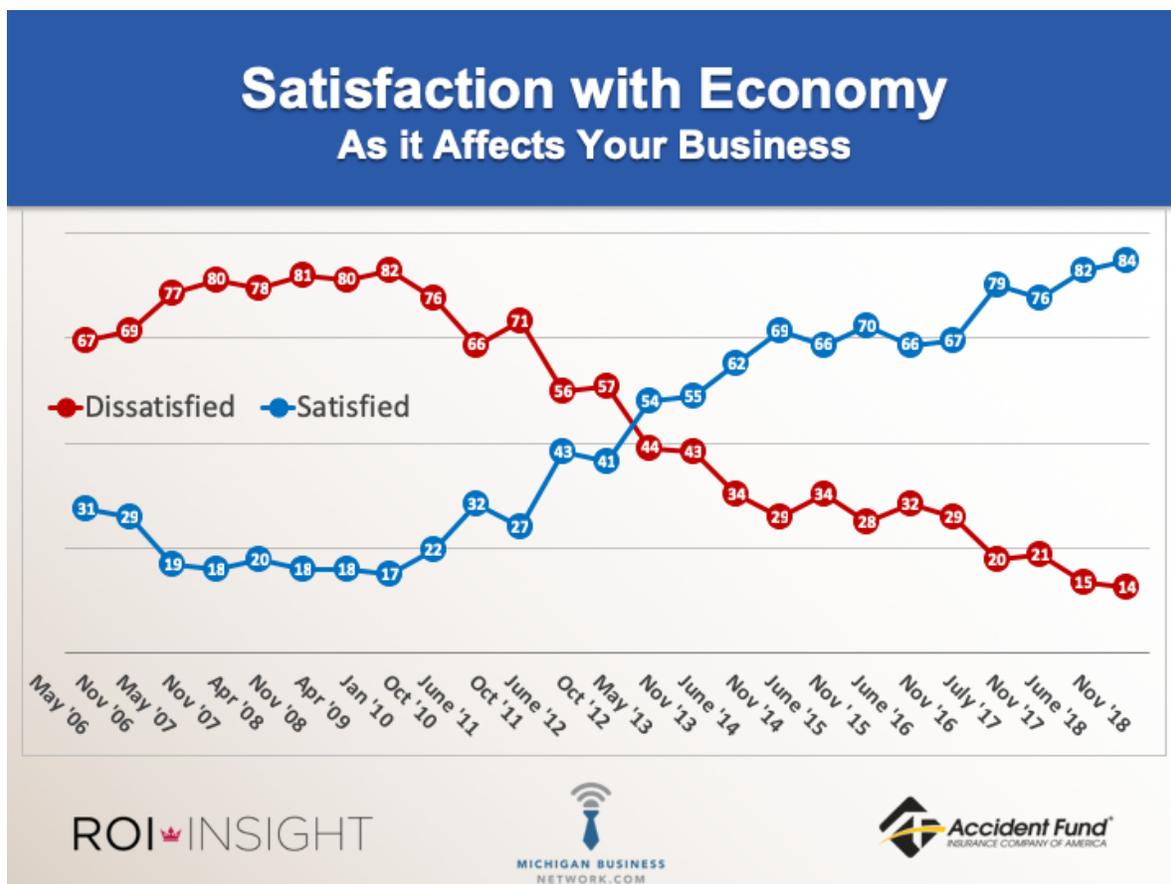
- Positive perceptions of the state business economy have reached an all-time high, but we see slight uncertainty building in future sales and profits projections.
  - More than one-third of respondents say the new tariffs on goods from various countries are having a negative impact on their business, while fewer indicate a positive benefit from the recently passed tax cuts.
  - Increased investments in hiring and wages, added to the increasing challenges of finding and retaining customers, may indicate a potential strain on future growth.
- Future hiring and wage increase projections are at an all-time high.
  - Ironically, acquiring new talent remains the greatest challenge to doing business in Michigan.
- While the indicators remain strong, the growing challenges of high health care costs, finding customers and wage inflation may put future growth at risk.

# Business Climate in Michigan

## Assessing The State Economy and Business Market

- **Satisfaction with the economy again hits another all-time positive record**

- More than eight-in-ten (84%) are satisfied: 57.8% “somewhat satisfied” and 26.5% “very satisfied”
  - Of interest: Since June, intensity (very satisfied) shrunk from 30% to 27%
- Fourteen percent (14%) say they are dissatisfied with the economy – only 3% “very dissatisfied”
- Satisfaction is strongest in the West Michigan (89%) and Metro Detroit (86%) markets.



# Current Business Assessment

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

- **Respondents indicated growth in wages, hiring and sales, while profits and capital investments remained flat**

- **Wage** growth is up ten points from Q4 2017.

- From 36% to 46%
- Retail/Food/Personal services were most likely to raise wages (59%), followed by manufacturing and construction (53%).

- **Hiring** is up eight points from Q4 2017.

- From 20% to 28%
- Insurance and finance sectors hired the most (30%).

- **Sales** are up four points from Q4 2017.

- From 45% to 49%
- Insurance and finance sectors saw the most growth in sales (59%).

- **Profits have stayed basically flat since 2016, with a few spikes**

- From 31% in Q4 2017 to 32% now
- Insurance and finance sectors saw were most likely to see profit increases (41%).

- **Investments** in equipment stay flat, compared to Q4 2017

- No change from 25%
- Manufacturing and construction were more likely to invest more in equipment (32%).

# Current Business Assessment

## Challenges and Benefits of Doing Business In Michigan

### Greatest Challenges To Business

- **“Acquiring & Retaining Talent”** are still the greatest challenges to doing business, reaching a new high point of 39% — up from 22% in Q4 2017
  - **“Acquiring talent” (31%) is more challenging than “Retaining” (8%)**
- **“Finding/Retaining Customers”** increases to 26% — up from 20% in Q4 2017
- **“Cost of Health Insurance”** up ten points to 14% from 4% in Q4 2017
- **“Wage Inflation”** is on the board at 6%

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### Top Reasons for Optimism

- **“Economy”** 13% - down 1 from Q4 2017
- **“Business growth”** 12% - down 2 Q4 2017
- **“My customers”** 12% - up 3 from Q4 2017
- **“Business is good”** 6% - no change from Q4 2017
- **“Demand for products/services”** 5% - down 2 from Q4 2017
- **“Great staff”** 5% - down from 1 from Q4 2017
- **“More opportunities”** 5% - unchanged from Q4 2017
- **“Sales and profits are up”** 4% - down 5 from Q4 2017
- **“Political Change/Hope For Reform”** 4% - unchanged

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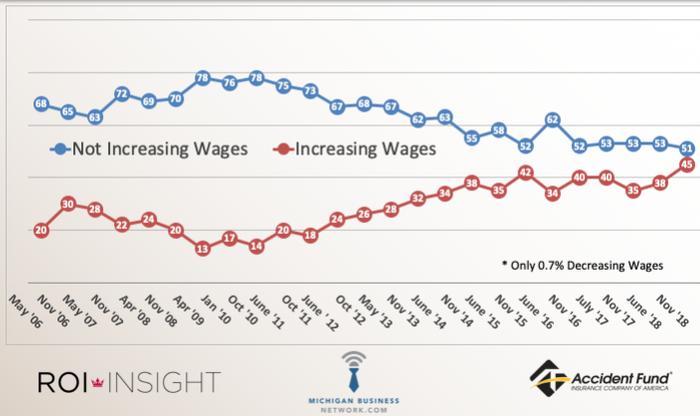
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# Future Business Forecast

## Sales and Profit Projections Slow, Hiring and Wage Projections at All-Time High

- **Wages Up:** Forty-five percent (45%) expect to increase wages at their business, which is **up ten points** from Q4 2017 (35%). A majority (50%) plan to keep wages the same and fewer than one percent (0.07%) will decrease wages.
  - Those in the Manufacturing and Construction industries (53%) Child Care services (52%) are most likely to project increased wages.
- **Hiring Up:** Thirty-one percent (41%) expect to hire more employees in the next six months, **up ten points** from Q4 2017. Those reporting possible layoffs have decreased two points from Q4 2017, now at 4 percent. Fifty-three percent (53%) say they will maintain the same number of employees, down seven points from Q4 2017.
  - Those in the Metro Detroit (47%) and Northern Lower Michigan regions (44%) and those in Child Care (52%) and Construction and Manufacturing (46%) are most likely to project increased hiring.
- **Profits Down:** Forty-nine percent (49%) expect an increase in profits, which is **down four points** from Q4 2017.
  - Those in Child Care services (67%) and Insurance and Finance industries (64%) are most likely to project increased profits.
- **Sales Down:** Fifty-eight percent (58%) expect an increase in sales in the next six months, which is **down ten points** from June (68%).
  - Those in the Lansing (61%) and West Michigan (58%) markets and those in Child Care (67%) Manufacturing or Construction (66%) are most likely to project increased sales.
- **Investments Up:** (62%) plan to invest in employee education or training, **up a whopping 17 points** from Q4 2017. Fifty-five percent (55%) now plan to invest in advertising for their business, **up five points** from Q4 2017. Twenty-eight percent (28%) will invest in in new office equipment, **up four points** from Q4 2017. Sixty-two percent
- **Business Expansion:** Thirty-nine percent (39%) expect to expand their business with a new product or service, **up nine points** from Q4 2017.

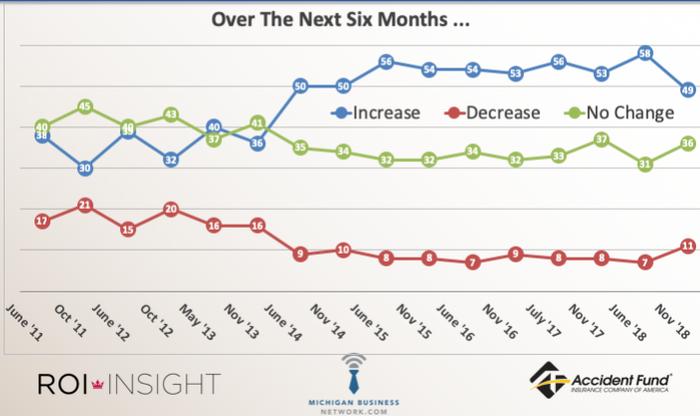
## Projected Wage Increases Hit High



## Projected Hiring Trends



## Projected Profits



## Projected Sales



# Future Business Forecast

## Perceptions of Labor Availability Improves

### **Hiring Challenges**

- Fewer than half (49%) of respondents believe their access to qualified personnel is either “only fair” (35%) or “poor” (14%), **four percent lower** than Q4 2017. Nearly the same percentage (47%) rate their access is either “pretty good” (37%) or “excellent” (10%), **up 11 points** from Q4 2017. This is a significant improvement in the candidate pool, possibly because employers are increasing wages, enticing more people to reenter the labor market and improve their skills.
- Fifty-two percent (52%) are having difficulty filling open positions, which is unchanged from Q4 2017.
  - Among those actively searching for talent, 64% are having difficulty filling jobs, which is **down three points** from Q4 2017.
  - Sixty percent (60%) of those hiring say the lack of qualified applicants is the primary challenge, **up two points** from Q4 2017..
  - The open positions either remain open (48%), current employees are trained for the open position (13%), they are networking (11%) or they are hiring temps (7%).

# Conclusions

## Despite Growing Uncertainty, State Business Market Optimism Hits Record High

More than three-quarters (78%) believe Michigan is a pretty good (55%) or excellent (23%) market for their business, showing a five point increase of those saying “excellent” since Q4 2017. Also, even more believe state taxes here are mostly (60%) to very (10%) fair, both up more than five points since Q4 2017. This shows that Michigan small business owners are extremely happy with regulatory and taxation structure for doing business in Michigan. Given this data, the growing uncertainty that was uncovered and discussed earlier in this report can likely be attributed to the trade, taxation and regulatory battles happening in Washington D.C.

- With so much change in both Lansing and Washington, it will be critical to see how tax and regulatory policy will help or hinder business growth.
- How will the new administration in Michigan impact growth?

## Things To Watch

- While all indicators are strong, there are signs of a possible downturn, with lower projections for sales and profits. Hiring, wages and marketing are primary challenges.
- Where does this stratospheric economic satisfaction trend go from here? In June, we indicated that the bubble is at risk of bursting. That risk remains.
- Washington D.C: More than one-third (34%) say the new tariffs have had negative impact on their business. Fewer (32%) say the tax cuts have had a positive impact. Tariffs are creating a drag on the Michigan business economy.

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