

Michigan Future Business Index July 2017

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ROI⁺INSIGHT

MFBI Summary: July 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 Summer 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 608 business executives from Michigan companies with 500 or fewer employees throughout July 2017. Given the sample size of 608, the margin of error can be reliably set at ± 4 percent or less within a 95 percent degree of confidence.

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- 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

With record optimism in the state economy and the projections for further increases in profits, Michigan's small- to mid-sized business leaders are planning increased investment into their businesses through wage increases and equipment updates. In fact, the percentage of those reporting wage increases over the past six months has hit an all-time high for the MFBI. This is significant, given the reports of wage stagnation across the rest of the country.

In addition, other key indicators (sales and hiring) have stayed in positive territory with no significant slippage from record territory over the last 12 to 18 months.

The challenges to doing business continue to center around qualified worker availability. The needs for qualified workers continues to be a significant challenge. While this is concerning as it continues to cause a potential drag on growth, it is also a positive sign that small business in Michigan continues to grow regardless.

In spite of the challenges, the reasons for optimism are clear: business is growing and opportunities are abundant. Michigan is leading the way as a role model for the rest of the country.

On a less positive note: one of the most striking findings from this survey has to do with health care benefits. It's clear that the ACA has had a profound effect on whether small businesses will offer health care benefits to their employees in the future. A record 43 percent of Michigan small businesses now say they do not offer health care benefits to their employees. That number has more than doubled over the past year.

Business Climate in Michigan

Assessing The State Economy and Business Market

- **Seventy-nine percent (79%) say they are satisfied with the economy, a new record for the MFBI. That is up from 66% one year ago.**
- Seventy-three percent (73%) rate Michigan as either “pretty good” (54%) or “excellent” (18%) as a market for their goods or services. That is up from 68% in June of last year.
- Sixty-six percent (66%) rate Michigan’s tax system as either “mostly fair” (61%) or “very fair” (5%). That is up only one point from last June.



Current Business Assessment

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

- **Forty-six percent (46%) report an increase in wages at their business, up from 42% one year ago and setting a new record for the MFBI.**
 - Wage increases are more prevalent in the Lansing region (52%) and less so in Northern Lower Michigan (40%).
 - Wages are going up most significantly in the Manufacturing and Construction fields (59%).
- The percentage of those reporting an increase in sales has increased to 48% from 40% one year ago, nearly reaching the record level of 50% set in November of 2015.
 - Sales increases are more prevalent in the Lansing region (53%) and less so in the Saginaw/Flint/Bay City region (44%).
 - Sales increases are most significant in the Manufacturing and Construction fields (59%).
- Thirty-four percent (34%) report an increase in profits, up from 30% one year ago.
 - Those in the Saginaw/Bay City/Flint region are most likely to report profit increases (42%).
 - Retail and Food Service industries are most likely to report profit gains (39%).
- Twenty-five percent (25%) report an increase in hiring, nearly equal to one year ago (27%). Only 2% report a decrease in their number of employees.
 - Those in the Lansing region are most likely to report hiring increases (29%)
 - Manufacturing and Construction industries are most likely to report hiring increases (39%).
- The percentage of those reporting an increase in capital investments is up slightly from 25% one year ago to 27% now.
 - Those in Northern Lower Michigan are most likely to be investing in their business (31%).
 - Manufacturing and Construction industries are most likely to report capital investment increases (35%).

Current Business Assessment

Challenges and Benefits of Doing Business In Michigan

Biggest Challenges To Doing Business

- Keeping/attracting good employees: 25%, up seven points from 18% last June
- Expanding/growth: 9%, down from 12% last June
- Finding/retaining customers: 7%, down from 8% last June
- ACA/Healthcare: 7%, up from 4% last June (continues to climb)
- The economy: 6%, down from 10% last June
- Cash flow: 6%, up from 3% last June

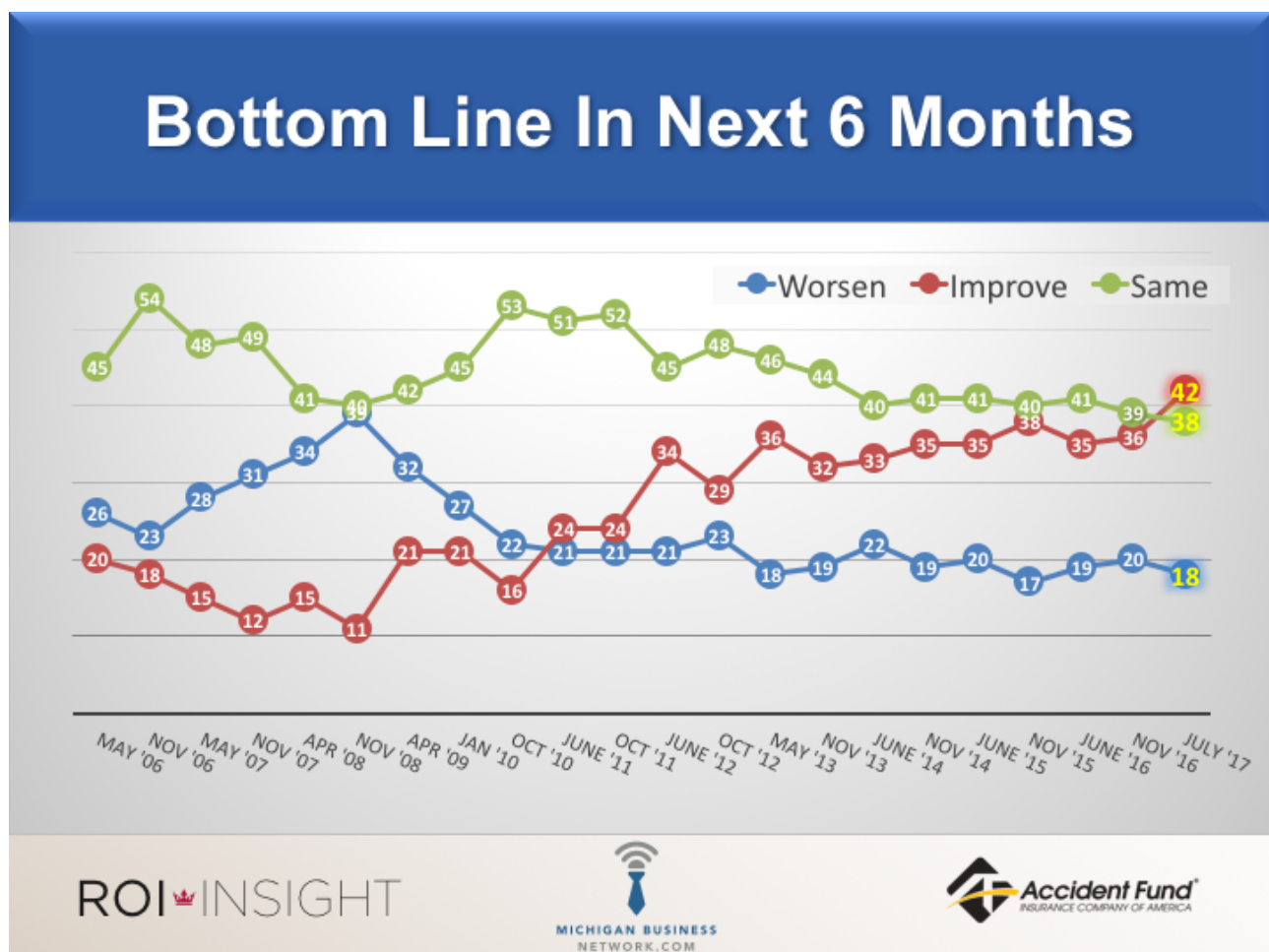
Benefits of Doing Business in Michigan (Reasons for Optimism)

- Business growth: 12%, down from 14% last June
- The growing economy: 12%, unchanged from last June
- Customers (new/loyal): 11%, unchanged from last June
- Staff: 6%, down from 10% last June
- Business is good: 6%, up from 5% last June
- More opportunities, collaborations: 5%, down from 7% last June.

Future Business Forecast

Profit Margin Projections: Next Six Months

- **The percentage of those expecting an improved bottom line in the next six months has hit a new record for the MFBI.** Forty-two percent (42%) now expect their bottom line to improve. That is seven points higher than last June (35%) and the highest that number has been since the MFBI began. Only 18% expect a worsening bottom line, while 38% expect it to stay the same, the lowest that number has ever been.
- Those in the Lansing region (48%) and in the retail sector (42%) are most likely to expect an improved bottom line.



Future Business Forecast

All Projections Holding Steadily Positive

- **Profits:** Fifty-six percent (56%) expect an increase in profits, back up to the record level optimism set in June of 2015.
 - Those in the Saginaw/Flint/Bay City and Metro Detroit regions (56%) and those in Business and Professional Services (62%) are most likely to project increased profits.
- **Wages:** Forty percent (40%) expect to increase wages at their business, holding steady since last December and up six points from last June (34%).
 - Those in the Saginaw/Flint/Bay City region (46%) and those in Construction and Manufacturing (46%) are most likely to project increased wages.
- **Sales:** Sixty-one percent (61%) expect an increase in sales in the next six months, nearly unchanged since last June (60%).
 - Those in the Lansing region (73%) and those in Construction and Manufacturing (70%) are most likely to project increased sales.
- **Hiring:** Thirty-four percent (34%) expect to hire more employees in the next six months, equal to last June. Those reporting possible layoffs are holding steady at only 4%, unchanged since June of 2015.
 - Those in the Lansing and Metro Detroit regions (38%) and those in Construction and Manufacturing (46%) are most likely to project increased hiring.
- **Investments:** Fifty-six percent (56%) now plan to invest in advertising for their business, which is up six points from 50% last June. Twenty-nine percent (29%) will invest in new office equipment, up from 27% last June. Thirty-five percent (35%) expect to expand their business with a new product or service, up from 32% last June.

Future Business Forecast

Hiring Challenges Remain, Health Care Benefits Cut

Hiring Challenges

- Now a slim majority (51%) of respondents believe their access to qualified personnel is either “only fair” (35%) or “poor” (16%). Forty-one percent (41%) rate their access is either “pretty good” (33%) or “excellent” (8%). 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 back up to 50%, up three points from December (47%) and five points from last June (45%).
 - Among those actively searching for talent, 65% are having difficulty filling jobs, which is two points higher than December.
 - 65% of those hiring say the lack of qualified applicants is the primary challenge, up four points from December
 - 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 43% of respondents now say they do not offer healthcare benefits to their employees. That percentage has more than doubled since June of 2015 (19%) and June of 2016 (18%).

Conclusions

Growth and Investment Are The Key Expectations

Optimism continues to blossom in Michigan's recovering business market. Michigan businesses are leading the way in increasing employee wages, compared to the stagnant wages being reported throughout the rest of the country. Michigan small businesses are also seeing a significant improvement in their bottom lines, showing opportunity for further investment.

While challenges remain, small business are creating their own solutions. Regarding the challenge of finding qualified candidates to fill open positions, training and retraining of less qualified individuals remains the preferred strategy. In dealing with the challenges of the Affordable Care Act, the solution appears to be the elimination of health care benefits for employees.

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

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