

June 2014

Michigan Future Business Index

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Summary of Findings

- **Michigan's small to mid-sized businesses remain optimistic on the state economy and future business in Michigan.**
 - A growing number of businesses expect profits, sales, wages and number of jobs to increase over the next six months.

- **Businesses are increasingly concerned about finding skilled workers to fill open positions.**
 - Some are dealing with this by investing in employee training.

Table of Contents

- Introduction.....6
- Methods7
- Summary8
- Findings9
 - Current Business Assessment9
 - Economic Satisfaction.....9
 - Economic Indicators10
 - Challenges to Doing Business in Michigan11
 - Future Business Forecast.....12
 - Profit Margins.....12
 - Projected Sales and Profits13
 - Employee Healthcare and Benefits14
 - Wages15
 - Hiring Trends.....16
- Continued Optimism for Future Business17

Introduction

The Michigan Future Business Index (MFBI), commissioned semi-annually by Accident Fund Insurance Company of America and the Michigan Business Network, surveys owners of small to medium-sized businesses in Michigan and provides 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.

Phoenix Innovate conducts the MFBI survey in partnership with the Accident Fund Insurance Company of America and the Michigan Business Network. Phoenix Innovate is a Michigan-based marketing services and survey research firm that advises corporate, association, education and coalition interests. The Michigan Business Network provides perspectives on business and industry developments across Michigan.

Methods

- Phoenix Innovate conducted the June 2014 MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan between May 15 and June 4, 2014.
- The mixed-mode survey included telephone and web interviews with 611 business executives from Michigan companies with 500 employees or fewer. It has a margin of error of ± 4 percent within a 95 percent degree of confidence.
- 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 Summary : June 2014

Michigan's small to medium-sized business owners are continuing to reinvest in their businesses and build upon the recent progress they've made. This is stimulating bold optimism for future economic opportunities. They have gained additional confidence in Michigan's economy and in their abilities to grow in the near future. The June 2014 survey also shows good signs for Michigan workers and those looking for work. Continuing the upward trend since October 2011, more business leaders have raised wages and hired more employees since the last survey.

The data indicate that while they are optimistic about business in Michigan, business leaders continue to struggle to attract and keep skilled employees. This was the primary challenge a year ago, but relinquished the top spot to concerns over the Affordable Care Act last November. Attracting skilled workers has risen again to the top of the list. The survey indicates that this challenge has caused business leaders to modify their hiring strategies. For some businesses, this means current employees work overtime until a suitable candidate is found; others are hiring candidates that meet basic requirements and investing in training. Ultimately, this means businesses invest in training employees for the skills they need to fill short-term needs, but they desire more effort at the state level to make Michigan a more attractive market for skilled laborers and recent graduates.

While concerns over health care have slipped back into a secondary position, they remain significant. Business leaders are worried about the effect that increasing healthcare costs will have on their bottom lines. They plan to deal with the changes by either absorbing the costs or increasing employee premiums.

Still, Michigan's small to medium-sized business leaders are more optimistic about the future today than they have been over the past eight years, thanks to an improved business climate and signs of a strengthening economy. They expect to continue growing at current rates and overcoming the challenges that stem from a still-recovering economy. In addition to sales and profit growth expectations, business leaders remain steadfast in continuing to embolden their workforce and reward their workers with higher wages. Michigan's small to medium-sized businesses are poised to make significant gains and grow the state economy in the near future, assuming the recovery continues.

Current Business Assessment : Economic Satisfaction

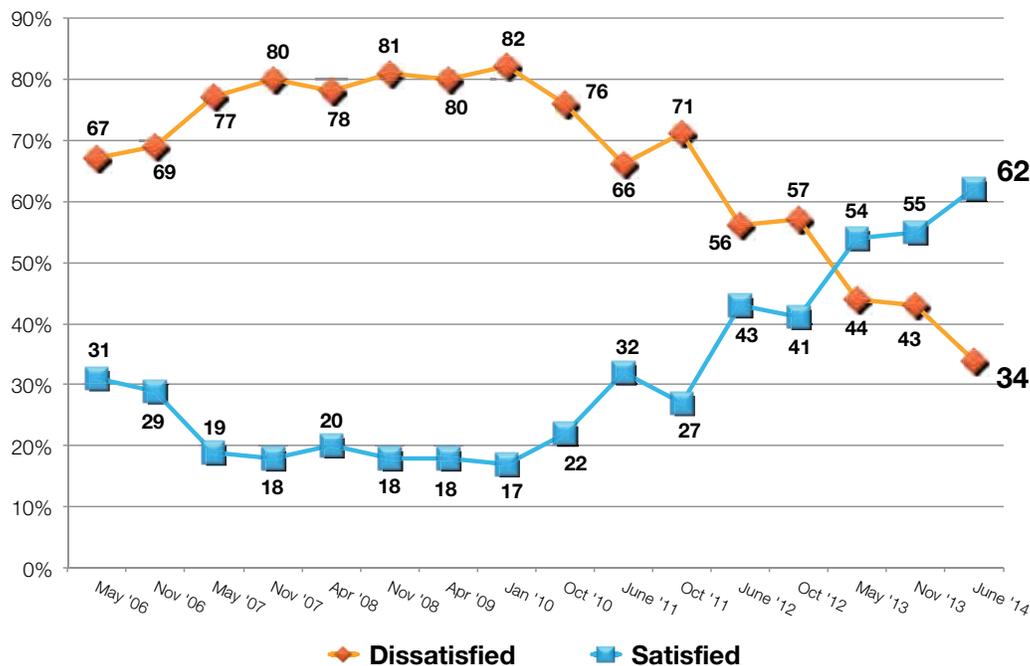
Highlights

- Business leaders' satisfaction with Michigan's economy continues to improve
- The majority of business leaders:
 - Rate Michigan as a good market for their goods and services
 - Believe Michigan's tax system is fair to small businesses

Business leaders' satisfaction with the state economy continues to improve. For the third time in MFBI survey history, satisfaction (62%) outpaced dissatisfaction (34%) with Michigan's economy, jumping 7 points since the previous survey. This marks a continuation of the consistent upward climb in satisfaction since January of 2010.

Additionally, perceptions of Michigan's business and consumer markets continue to improve. Sixty (60) percent of respondents say Michigan is a good market for their goods or services. Forty-eight (48) percent says it's a "pretty good" market, and 12% say it's "excellent," which is a two-point increase since November 2013. Thirty-four (34) percent rate it as "only fair," and only 6% say it's "poor" (down from 9% in November). The majority of business leaders (64%) also believe Michigan's tax system is fair, up seven points from six months ago. Only 28% say it's unfair, down one point in that same amount of time.

Figure 1: Satisfaction with Michigan Economy



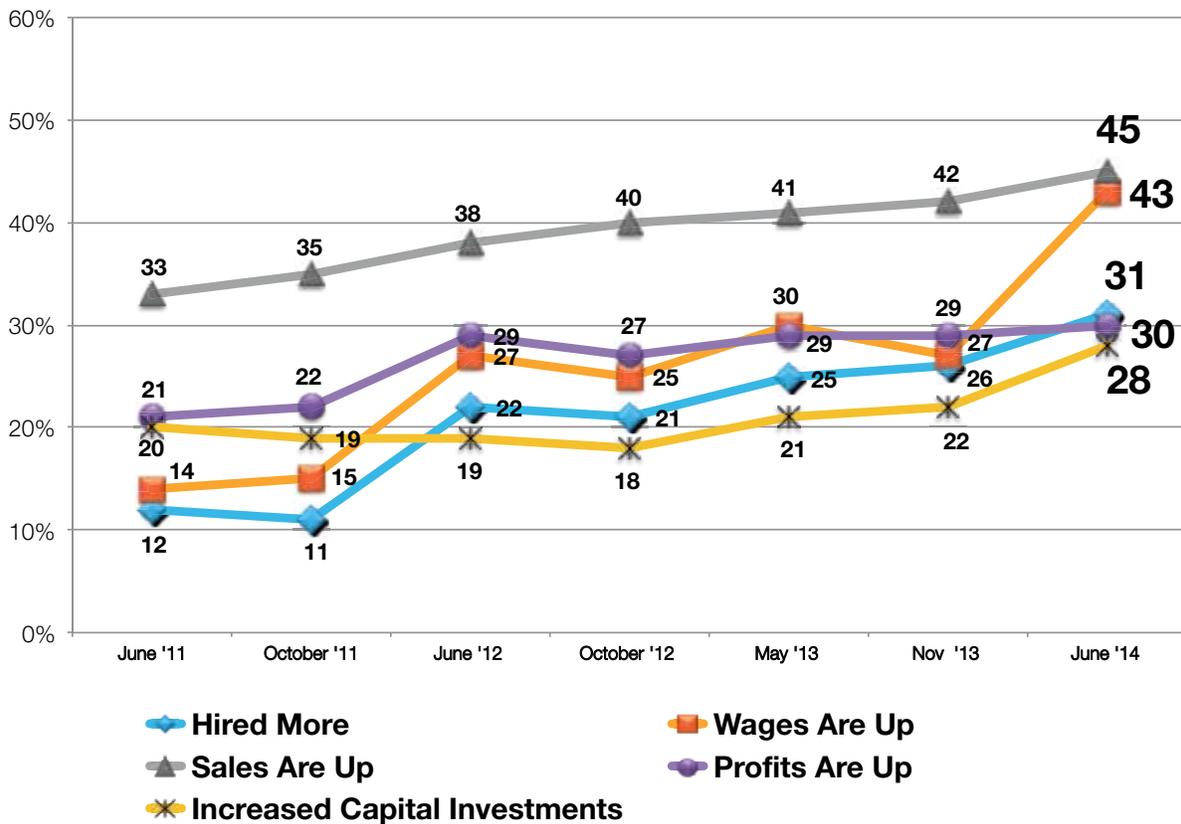
Current Business Assessment : Economic Indicators

Highlights

- All major economic indicators saw gains in past six months
- Percentage of business leaders reporting new hires reaches a historical high

There was an increase in all major economic indicators in the six months since the November 2013 MFBI survey: many say that new hires, wages, profits and capital investments have increased in that time. The largest jump is among those who say wages have increased over the past six months – 43%, up from just 27% six months ago. There is also more good news for the workforce: the number of businesses reporting new hires rose four points since the last survey, reaching a new historical high for the MFBI.

Figure 2: Economic Indicator Trends



Current Business Assessment : Challenges to doing business in Michigan

Highlights

- Finding and attracting qualified talent is the biggest challenge to business
- Healthcare fell from the foremost concern in November 2013 to the second biggest issue during this survey

Aside from the wealth of optimistic data in this survey, small businesses continue to have concerns about the challenges of doing business in this state. The most pervasive issue, reported by 17% of respondents, is finding and attracting qualified talent to fill open positions. Some believe this lack of talent is largely attributed to applicants' skill sets and tax collection and apportionment priorities at the state level. One respondent says that in addition to the shortage of applicants with the skills required for positions, *"the level of dependability and commitment in the majority of those who are applying for the jobs does not even begin to meet the most basic requirements"* for the job openings. Others take a different approach. One respondent believes that *"Michigan has systematically underfunded schools, municipalities and infrastructure to the point that young people and talented people are unlikely to make Michigan their first choice to live and locate their families."* This opinion points to larger systemic issues related to the state's economic and working conditions. Regardless of how this concern is manifested, the result is many business leaders having an unmet need for well-qualified employees.

The second most prevalent challenge small businesses face is uncertainty related to healthcare. In November, this was respondents' number one concern, and although it has slipped into second place (with 10% saying it tops their lists), it is still a major consideration for business leaders. One respondent says the *"Affordable Health Care and the Health Exchange system is creating more and more taxes each month for less and less actual paid services. More money out of the pockets of participants and less services paid by the insurance."* There is still uncertainty about how the Affordable Care Act will affect small businesses. On page 9 we will discuss how Michigan's small businesses are dealing with this uncertainty.

Other top concerns include government regulations and interference (9%); expanding, managing growth and finding new business (9%); and concerns over the state of the economy (8%).

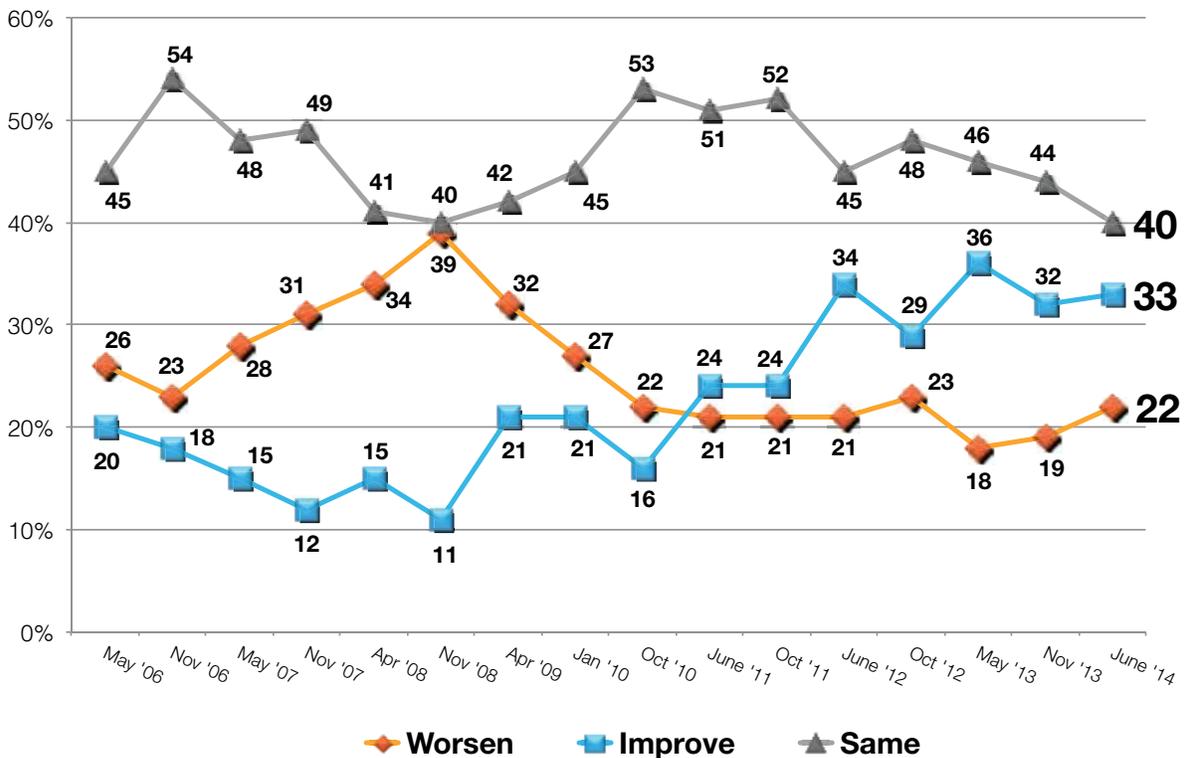
Future Business Forecast : Profit Margins

Highlights

- Optimism for improved profit margins is holding steady and continues to outpace pessimism
- Slight increase in pessimism may be attributed to regulatory changes through the Affordable Care Act

One third (33%) of Michigan’s business leaders remain optimistic about their bottom lines for the next six months. This number has been holding steady over the past two years and continues to outpace pessimism. Optimism is most notable in companies with 50 to 250 employees, where 40% of respondents thought their bottom lines would improve over the next six months. Still, 22% of respondents are pessimistic about their bottom lines in the near future, up from 18% six months ago. Given respondents’ comments about financial burdens brought about by health care regulatory policy, the increase in uncertainty over the past year may be attributed to the Affordable Care Act.

Figure 3: Projected Profit Margins



Future Business Forecast : Project Sales and Profits

Highlights

- Largest increase in optimism about sales and profits in MFBI history
- Pessimism about sales and profits drops to all-time low

The June 2014 MFBI reveals the steepest increase yet in optimistic expectations for sales and profits over the next six months. Sixty-two (62) percent of respondents expect sales to increase, up fourteen points from November 2013. There was also a fourteen-point jump in the number of people who expect profits to increase, from 36% in November to 50% today. Furthermore, expectations for declined sales (3%) and profits (9%) both dropped to single digits.

Figure 4: Projected Sales

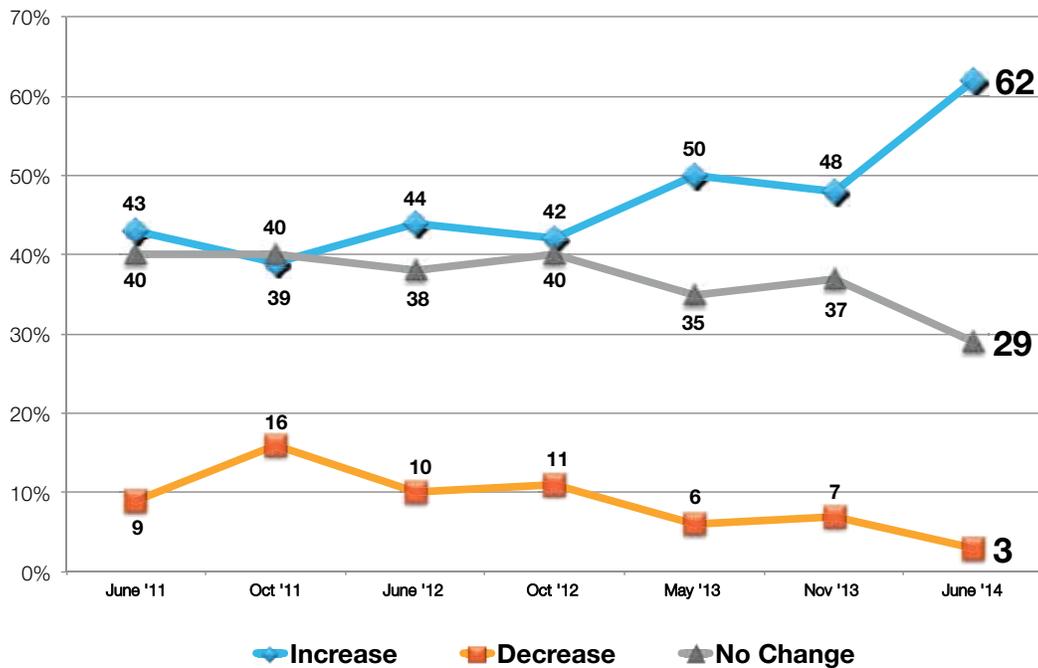
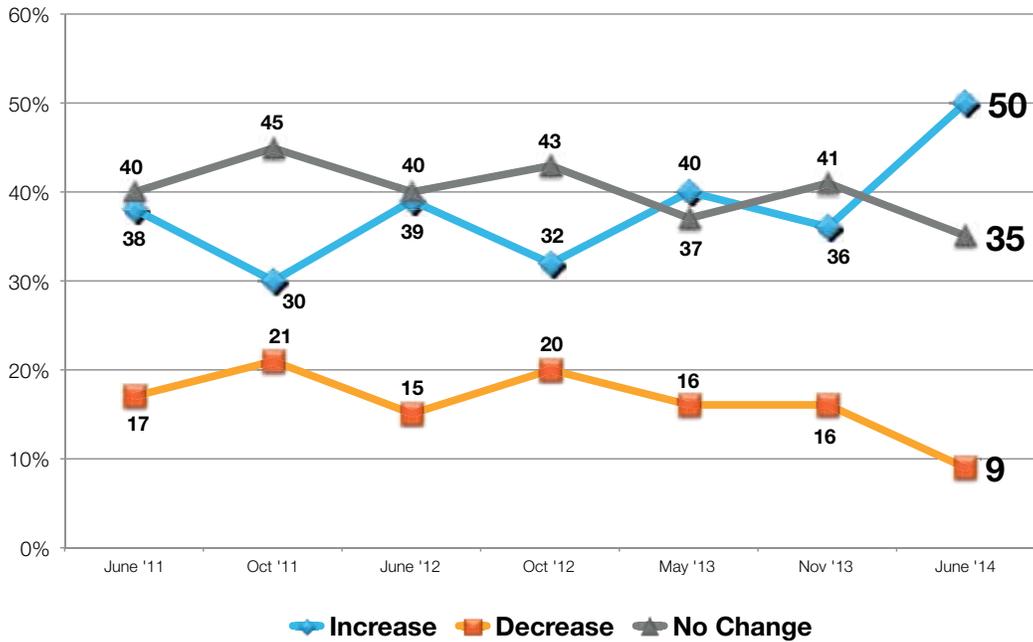


Figure 5: Projected Profits



Future Business Forecast : Employee Healthcare and Benefits

Highlights

- Businesses that offer healthcare to employees are planning to:
 - Absorb the costs
 - Increase employee premiums

The businesses that offer health benefits to their employees are generally dealing with changes in healthcare costs in one of two ways: 37% say they will absorb the costs, and 34% say they will increase employee premiums. Another 11% say they will decrease employee premiums, while 18% do not expect any healthcare cost increases.

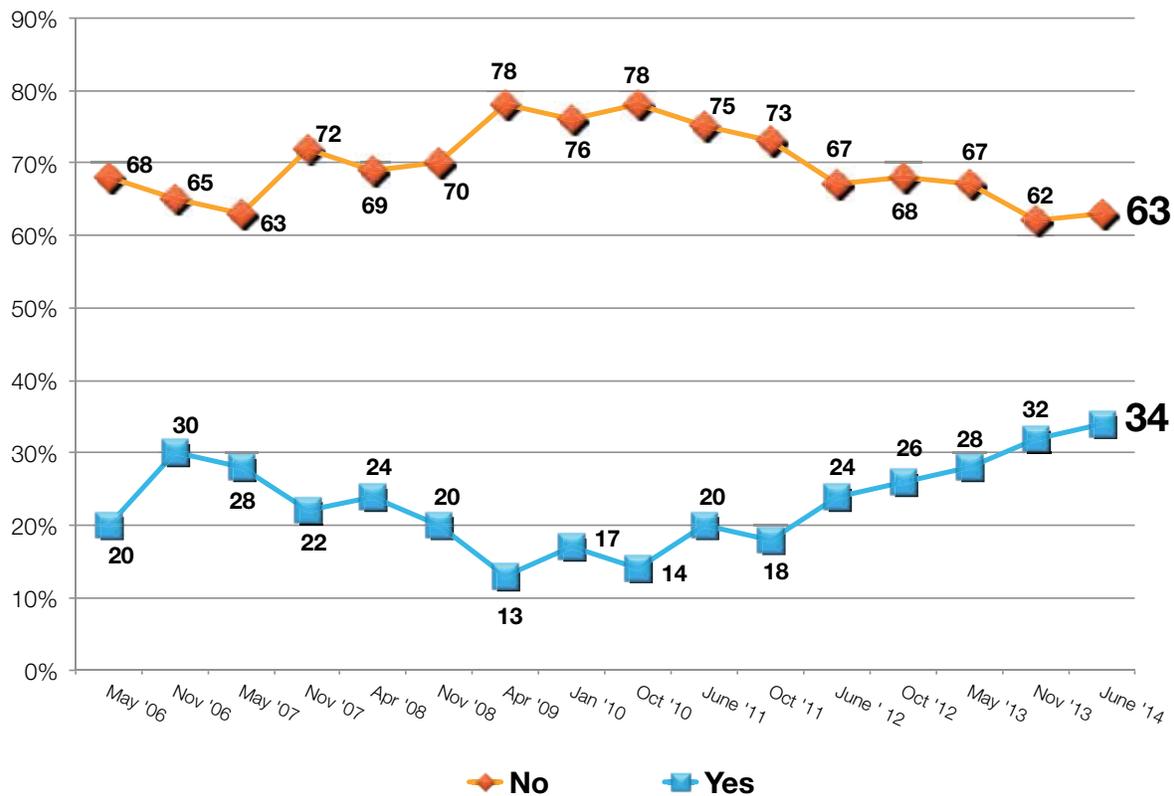
Future Business Forecast : Wages

Highlights

- One third of respondents plan to increase wages in the next six months
- Construction and manufacturing jobs are most likely industries to see wage increases

Wages continue to rise: 34% now say they expect to increase wages, up two points from November 2013. This continues an upward trend that dates back to October 2010. The most prevalent changes in skilled laborers' wages will be in the construction and manufacturing sectors, where 36% of business leaders say they will increase employee wages.

Figure 6: Projected Wage Increases



Future Business Forecast : Hiring Trends

Highlights

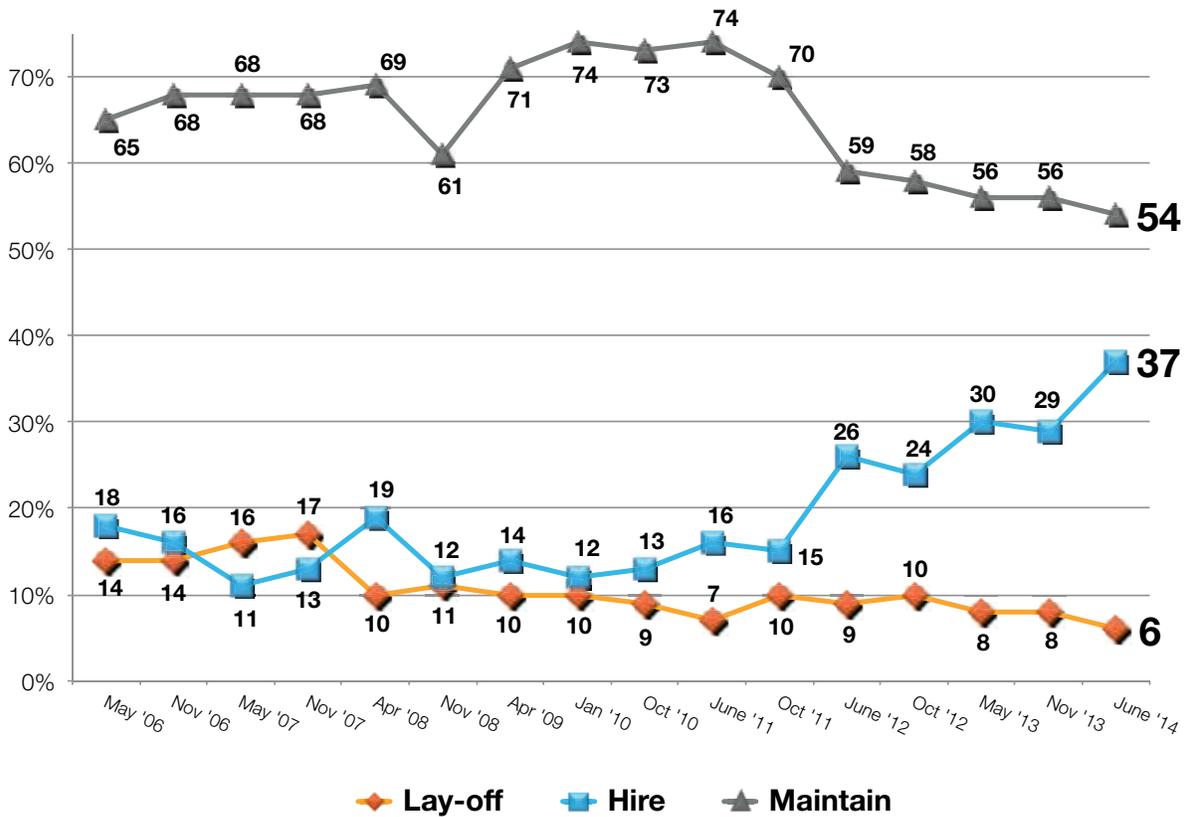
- The margin between new hires and layoffs continues to widen
- Number of businesses planning to hire at all-time high, while those planning to layoff at all-time low
- Demand for jobs highest in the following sectors:
 - Insurance and finance
 - Manufacturing and construction
- Nearly half of all businesses have difficulty filling open jobs

The number of respondents planning to hire additional employees in the next six months has risen to 37%, a new record and an eight-point change from November 2013. This continues the considerable upward trend from the lowest point, 13%, in January 2010. New job opportunities are most abundant in Northern Michigan and the Upper Peninsula (where 47% plan to hire new employees), but also strong in all regions with the exception of Flint, Bay City and Saginaw (where only 21% of businesses plan to make new hires). Only 6% of respondents expect layoffs in the next six months, a new low for the history of the MFBI study. The demand for skilled workers is highest in the insurance and financial sectors (48%) and manufacturing and construction sectors (45%).

Another new MFBI record was also set: nearly half (49%) of all businesses now say they've had difficulty filling open positions. This number is up from only 15% in October 2011. When we look at only respondents who are currently hiring, that number climbs to 60%. As previously discussed, many respondents say a top challenge to doing business is finding qualified applicants. Business leaders are divided on their access to qualified personnel: 52% says it's "pretty good" (41%) to "excellent" (11%), but almost half rate it "only fair" (32%) to "poor" (13%).

Each business handles this challenge differently. Some simply wait it out until finding qualified applicants. Others say they are shifting current employees' responsibilities: one respondent says his company is "*promoting from within and hiring new at a lower entry level.*" But the most pervasive trend is to invest in employee training. Sixty-five (65) percent of respondents say they are doing so, up from 60% in November. One respondent explains, "*We are developing an in-house training program to meet these needs. We hire less-skilled people for lower wages, then invest in their training to develop them over time.*"

Figure 7: Projected Hiring Trends



Continued Optimism for Future Business

The data show that business leaders are generally happy with Michigan as a market for their goods and services with renewed optimism about what the future holds. The number one reason business leaders are optimistic (17% of respondents) is because they see the opportunities for business growth. One respondent stated, *“I am most optimistic about the attention that is being paid to the small business arena and hoping that it will bring opportunities to my firm.”*

Many respondents (11% of the sample) are optimistic because they see signs of the economy improving: *“People have discretionary income to spend [and] aren’t cutting back as far on the necessities.”* Signs of an improved economy fuel optimism for many.

Finally, the third most prevalent reason business leaders are optimistic about the future is having a great staff in place. As one respondent put it, *“We have bright innovative people to power our future.”*

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Secretary of Finance