

# Michigan Future Business Index December 2016

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# MFBI Summary: December 2016

Optimism is the fuel that feeds a bullish business market; not enough optimism and the business economy slows. The latest Michigan Future Business Index (MFBI) data show that optimism among Michigan's small businesses is holding strong and keeping Michigan businesses' perceptions of the economy positive. That optimism is fueling their projections for sales and profit increases, as well as boosting investments in human capital.

This optimism is not unbridled, however. The issues reigning in further investments are the limited availability of qualified workers and the steadily increasing weight of the Affordable Care Act/Obamacare and other regulations on their bottom line. Nevertheless, the latest MFBI shows that the recent election has increased hope for regulatory reform to loosen the grip of government mandates like the ACA. Here are some of the additional significant findings.

- Since profits hit a record high one year ago, a plurality of businesses say they continue to hold steady. Nearly one-third (31%) say profits continue to rise.
- After seeing a slight retraction in sales in June, sales have rebounded now, with a plurality (43%) saying that sales have increased over the past six months. All other indicators (hiring, wages, investments) have reached a plateau after a year of largely positive numbers.
- Expectations for their bottom line are holding steady, while there are indications that employee healthcare benefit adjustments may be forthcoming to improve profitability.
- Projections for sales remain in record territory, with more than six in ten (62%) saying they expect increased sales in the next six months. Projections for future profits are also in the same rarified space, with a majority (53%) expecting an increase.
- The primary challenges to doing business remain: finding qualified talent and finding new customers.
  - To solve the talent challenge, businesses continue to move existing employees into new roles or train less qualified new hires. The challenge of finding new customers is a business opportunity for lead generation consultants.

- ACA regulation compliance is also climbing the list of top challenges, now tied for third place. Concern over other government regulations is close behind, and when combined with the ACA challenges, government overreach moves up to second place as to challenges to doing business. In addition, **5 in 10 small businesses say they will either reduce health insurance benefits, require employees to pay more, or not provide them at all in the next six months.**
- What is fueling optimism? Growing businesses. Growth continues to hold the top spot when respondents are asked to provide reasons for optimism. In addition, about 4 in 10 say they are expanding by either adding a new business location or a new product or service to their offerings. Many also point to an improving economy, their great staff, their great and in-demand products/services and a renewed hope for regulatory reform.
- More positive findings:
  - Sixty-seven percent (67%) are satisfied with the state economy as it affects their business.
  - Sixty-eight percent (68%) rate Michigan favorably as a market for their goods and services (49% pretty good and 20% excellent) — holding steady over the past year.
  - Sixty-five percent (65%) say Michigan's tax system is fair to their business (57% mostly fair and 9% very fair) — also holding steady over the past year.

# About the MFBI

The Michigan Future Business Index (MFBI), commissioned semi-annually by Accident Fund Insurance Company of America, 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 future shifts in the market. Thanks to the participation of these business leaders, we are able to amplify the voice of small business in Michigan and provide data to guide business advocacy organizations and policymakers, setting the agenda to help Michigan businesses prosper.

## Methodology

- ROI Insight, a Michigan-based market research company, conducted the November/December 2016 MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan throughout November, 2016.
- The mixed-mode survey included telephone and web interviews with 415 business executives from Michigan companies with 500 or fewer employees. Given the sample size of 636, the margin of error can be reliably set at  $\pm 4.7$  percent or less within a 95 percent degree of confidence.
- The survey gleans business owners' assessment 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.

# Business Climate in Michigan

## Assessing The State Economy and Business Market

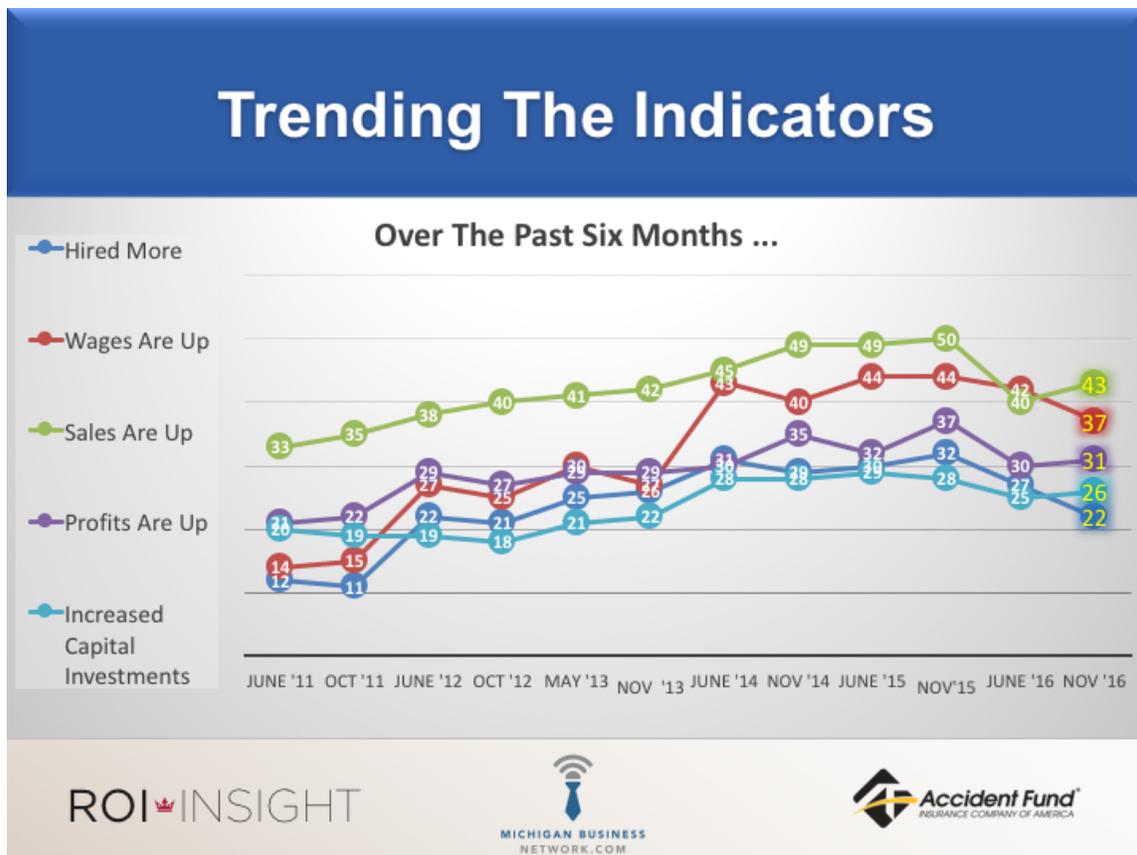
- More than two-thirds (67%) of respondents are satisfied with Michigan's economy as it affects their business, which has stayed above 66% since November of 2014. Satisfaction is highest in the Lansing market and West Michigan.
- Nearly 7 in 10 (68%) rate Michigan positively for being a good market for their goods and services. Twenty percent rate it as excellent, up five points from June.
- Sixty-five percent rate Michigan's tax system as fair (57% mostly fair and 9% very fair), staying consistently high for nearly two years.



# Current Business Assessment

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

- Sales growth has rebounded since a short retreat in June, back up to 43% reporting increased sales.
- Wages, hiring, profits and investments indicators are all holding strong, with pluralities reporting that they are unchanged after a period of growth.



# Current Business Assessment

## Challenges and Benefits of Doing Business In Michigan

### Challenges

- **Keeping and attracting qualified employees** continues to be perceived as the greatest challenge to doing business in Michigan. While it is in the number one spot, the percentage of respondents reporting it continues to drop. Sixteen percent (16%) report it as their greatest challenge, dropping from 18% in June and 22% in December.
- **Finding new customers** is the second most significant business challenge, up two points from 8% in June to 10% now.
- The **economy** (7%), **ACA/healthcare** (7%), and **government regulations/government interference** (6%) round out the top five challenges to doing business. If you add the ACA and regulatory concerns together, government overreach worries jump into second place, closely rivaling the top spot.

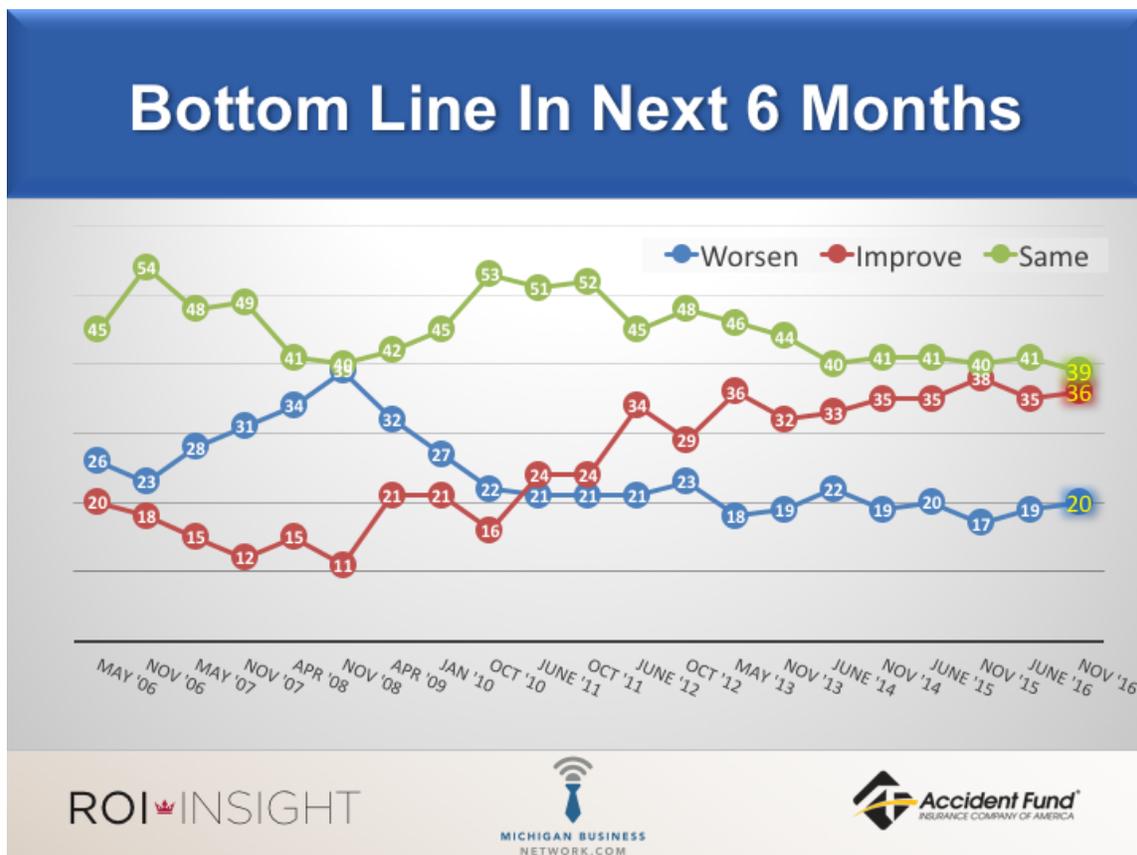
### Benefits

- **Business growth** continues to be perceived as the greatest benefit of doing business in Michigan, moving up one point from June to 15% now.
- An **improving economy** comes in at 10% as the second most significant benefit.
- A **great staff** (8%), **having a great product/service** and **product/service demand** are tied at 6%, while **hope for regulatory relief** comes in at 5%.

# Future Business Forecast

## Profit Margin Projections: Next Six Months

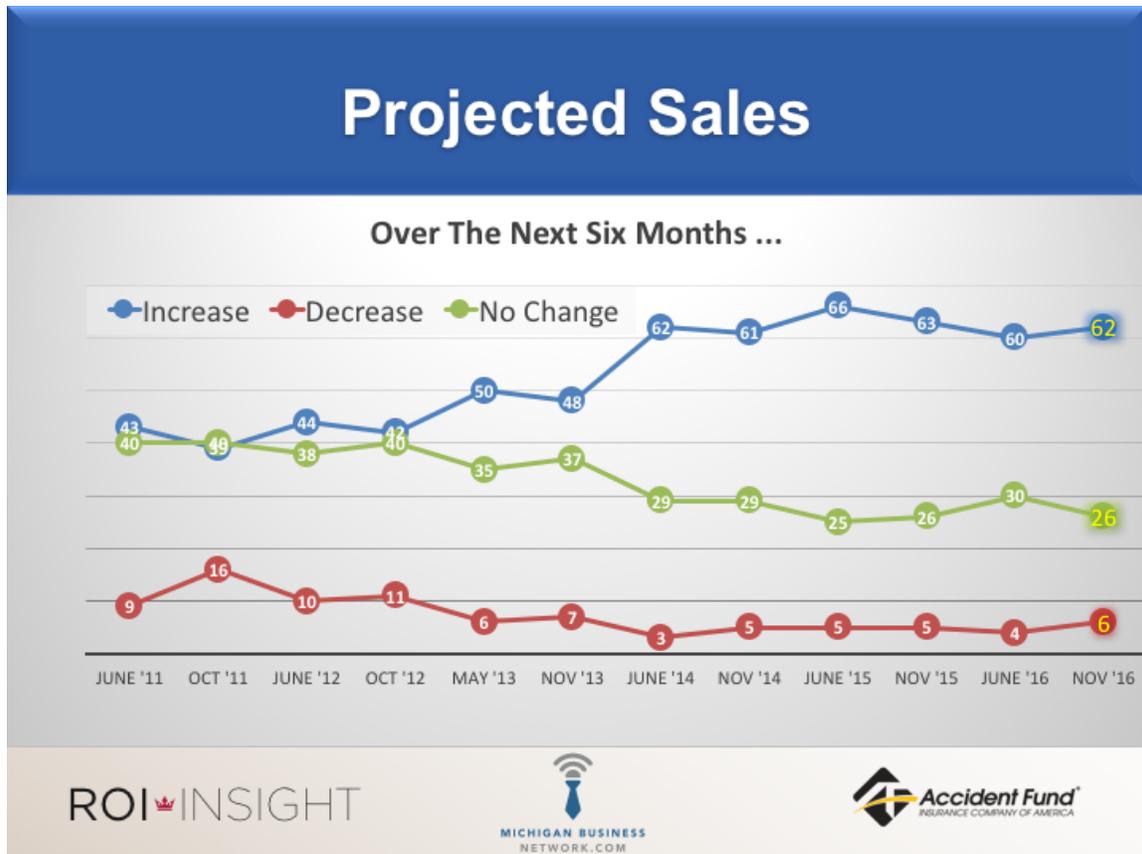
- Keeping in mind that one year ago the percentage of respondents projecting a positive bottom line reached a high point at 38%, the result in the most recent MFBI is only 2% lower (36%). Slightly more (39%) say profit margins are holding steady.
- Two-in-ten (20%) expect a worsening bottom line.
- Optimism remains strongest in the Lansing market and among those in the construction and manufacturing sectors.



# Future Business Forecast

## Sales Projections: Next Six Months

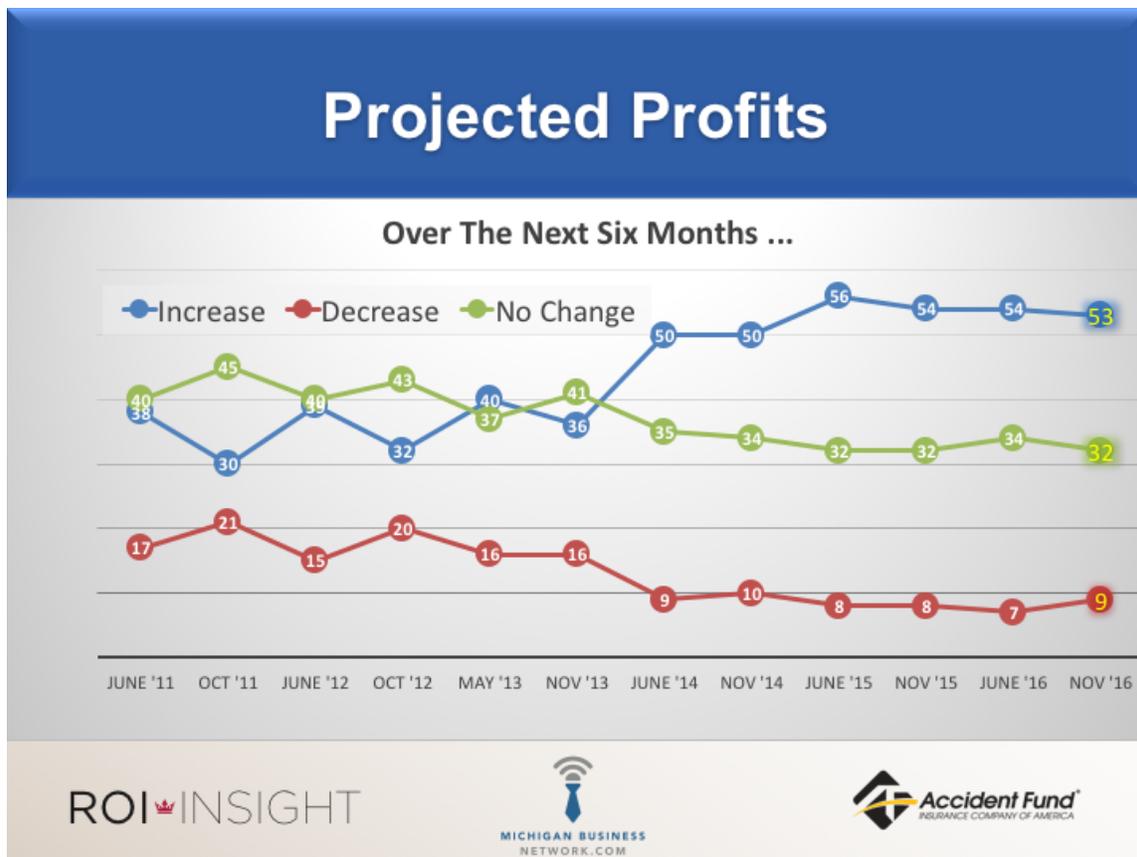
- Expectations for sales improve again:
  - More than six-in-ten (62%) say sales will increase in the next six months.
  - Expectations for decreases in sales remains at its lowest point (4%) for over a year.
- Expectations for increased sales are highest in Lansing (74%) and Metro Detroit (67%).



# Future Business Forecast

## Profits Projections: Next Six Months

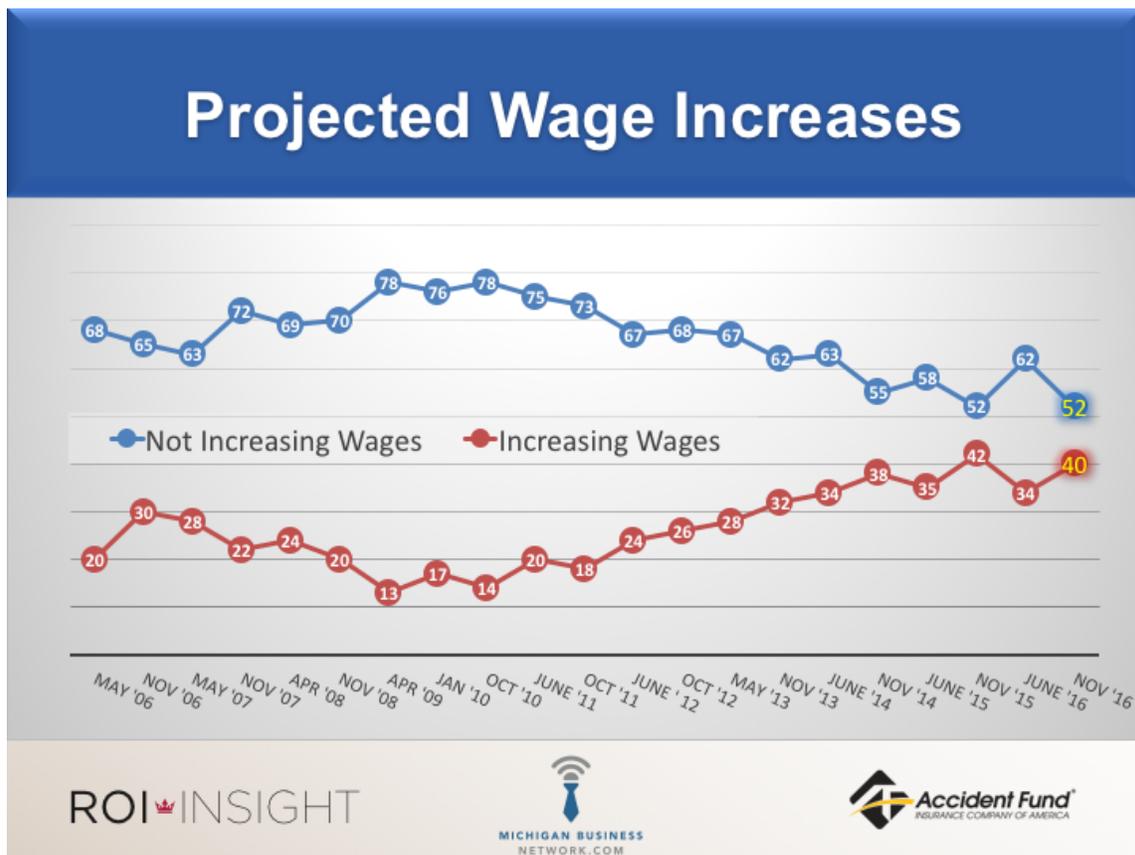
- Expectations for profits hold onto earlier gains.
  - A majority (53%) say profits will improve in the next six months.
  - Expectations for shrinking profits (9%) remains in single digits.
- Expectations for increased profits are highest in the Lansing market (64%) and Metro Detroit (54%).



# Future Business Forecast

## Wages: Next Six Months

- A majority (52%) continues to say they are keeping wages the same over the next six months, while 4 in 10 (40%) say they will increase wages. Less than 1% say they plan to decrease wages.
  - The percentage of those planning wage increases is within two points of the record set one year ago.
- Projections for wage increases are strongest in the business services and manufacturing/construction sectors. Also, those in the Lansing and West Michigan markets are most likely to increase wages.



# Future Business Forecast

## Hiring: Next Six Months

- Hiring projections are strong.
  - Nearly 4 in 10 (39%) say they plan to hire in the next six months, nearly the a record high (40%) set one year ago.
  - A majority (55%) continue to say they will maintain existing staff levels.
  - Once again, that puts projected layoffs at 4 percent or lower, which has stayed that low for nearly two years now.
- The demand for workers is strongest in the childcare/domestic services, business/professional services and financial sectors. Demand is also strongest in Metro Detroit (43%), West Michigan (42%) and Lansing (41%).



## Future Business Forecast

### Hiring Challenges Remain, Healthcare Benefits Likely Cut

#### ***Hiring***

- A slim plurality (48%) of respondents continue to believe their access to qualified personnel is either “only fair” (33%) or “poor” (15%). Forty-six percent (46%) rate their access is either “pretty good” (35%) or “excellent” (11%). Once again, the negative responses outweigh the positive, indicating a continued need for qualified talent.
- Those having difficulty filling open positions is back up to 47% from 45% in June.
  - Among those actively searching for talent, 63% are having difficulty filling jobs, which is equal to last December.
  - 61% of those hiring say the lack of qualified applicants is the primary challenge,
  - The open positions either remain open or employees are training lesser-qualified candidates.
- A slim plurality (48%) of respondents continue to believe their access to qualified personnel is either “only fair” (33%) or “poor” (15%). Forty-six percent (46%) rate their access is either “pretty good” (35%) or “excellent” (11%). Once again, the negative responses outweigh the positive, indicating a continued need for qualified talent.

#### ***Healthcare***

- Five in ten (50%) small businesses say they will either reduce healthcare benefits, increase employee premiums or not provide healthcare benefits at all to employees. In addition to their growing concerns about the ACA and the challenges it adds to their ability to run a profitable business, this indicates that small businesses may not be waiting for the government to fix the ACA.

## Conclusions

### Small Businesses Enjoy Continued Growth For The Time Being

- Business growth continues to fuel optimism and investment. However, after several years of recovery and the new challenges facing small business, the next six months could be critical in determining how long this recovery will last.

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