

MICHIGAN SMALL AND MID-SIZE BUSINESS OWNER OPTIMISM HITS HISTORIC HIGH

ANALYSIS BY
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Optimism for Michigan small and mid-sized business owners about the national economy, their local economies and their own companies has risen to record highs from the spring, according to our fall 2018 survey. Wage expectations are also near a record high.

Michigan's economy continues to rely heavily on the automotive industry, particularly in Metro Detroit. Auto sales are expected to be strong, but a trade war could significantly hurt auto sales projections. The housing market throughout the state will remain robust, with high prices and low inventory. Michigan businesses will continue to compete for skilled employees in one of the nation's tightest job markets. Overall, Michigan's economy may lose a little steam, but the outlook for the remainder of the year is stable.

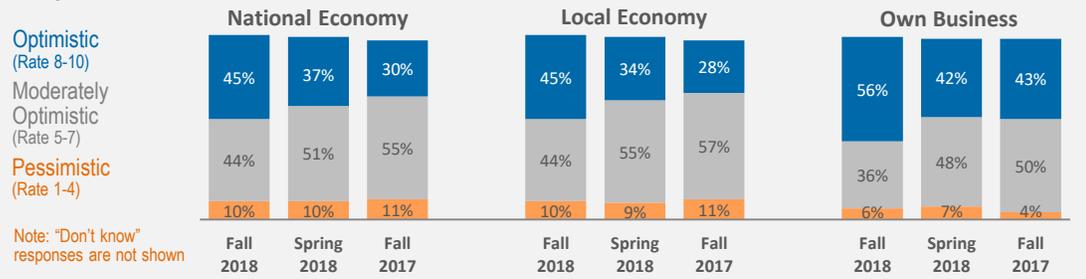
With support from tax cuts and an increase in federal spending, U.S. economic growth will remain solid into next year and the labor market will continue to improve. Interest rates will move higher over the next year as the Federal Open Market Committee gradually raises the federal funds rate to prevent the economy from overheating.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimism is running at historic highs in all categories evaluated by PNC in the seventh year of a semi-annual survey of small and mid-size business owners and executives in Michigan. Just under half (45%) of respondents describe their outlook for the national economy as optimistic, up from spring 2018 (37%). Over half (56%) are optimistic about their own companies, marking another new high for PNC's survey.

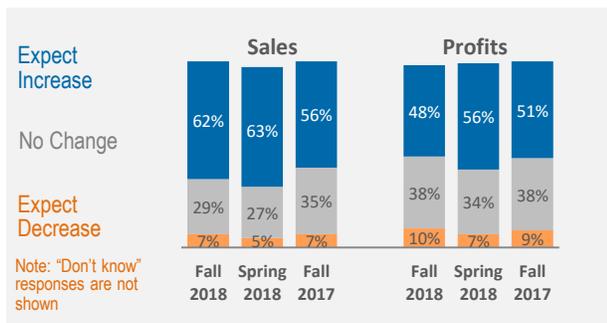
Michigan vs. United States: Nationally, four in 10 are optimistic about the national (40%) and local (39%) economy and more (51%) are optimistic about their own company's prospects.

% Optimistic about the...



Expectations for increased sales are the second-highest on record (62%), only outpaced in spring 2018 (63%). Nearly half (48%) of Michigan business leaders expect increased profits, dropping marginally from spring 2018 (56%).

Michigan vs. United States: Nationally, 64 percent expect increased sales and 59 percent expect increased profits.



Price Check

The number of Michigan business leaders forecasting rising prices in the next six months gained momentum. Nearly six in 10 (59%) anticipate suppliers charging more, a significant increase from 43 percent in spring 2018. Forty-four percent plan to charge their customers more; a slight increase since the spring and a jump compared to one year ago (35%). Keeping up with rising non-labor costs, increasing business/favorable market conditions, and rising labor costs are among the key drivers of higher prices.

Expectations for U.S. consumer prices and inflation are on the rise. Seventy-eight percent of business leaders expect higher consumer prices, up from 73 percent in spring 2018.

Michigan vs. United States: Nationally, 53 percent expect increased supplier prices and 45 percent expect to charge their customers more.



Waging Workers

Michigan small and mid-size business leaders' expectations for wages remains near the record high reported in fall 2017. Forty-one percent expect to increase wages (vs. 42% in fall 2017), while the number planning to decrease workers' wages is at a survey low of one percent. Among those business leaders planning to decrease or maintain wages, nearly two-thirds (64%) point to wages that are already competitive for their industry and see no issues with employee turnover at current wages as deciding factors.



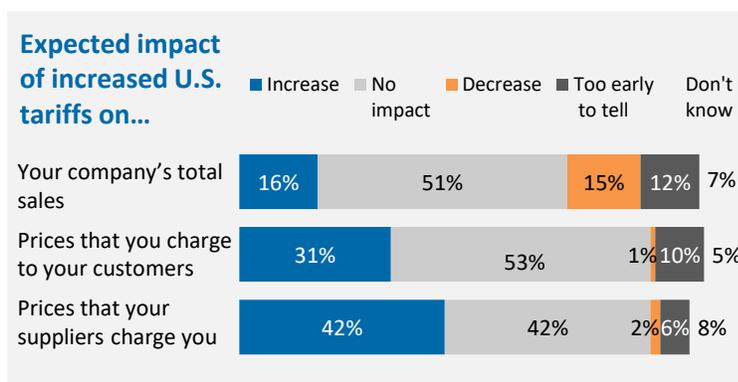
Nearly one in four Michigan business leaders (23%) plan to add full-time employees in the next six months; just three percent expect to reduce the number of full-time employees. Nearly four in 10 (39%) cite business growth as the key driver of hiring. More than half (56%) of businesses looking to hire more workers report it is harder to find qualified candidates, citing lack of skills (27%), job-related experience (13%) or lack of dependability or inability to pass screening requirements (14%); twenty-seven percent report not having enough applicants. Seven in 10 (71%) business leaders expect no change in hiring full-time employees in the next six months, citing reasons including a lack of business growth, difficulty in finding the workers with the right skills and doing more work using automation or outsourcing.

Bonus Round

With the labor market continuing to tighten, more than seven in 10 (72%) of Michigan business leaders say they already have taken one or more actions to retain existing or to attract new employees: increasing wages/salaries (43%), offering or increasing bonuses (22%) and boosting benefits (19%). Nearly three in 10 (29%) have allowed more flexible work arrangements and nearly one in 10 (9%) have relaxed hiring standards.

The Three Faces of Tariffs

More than a third (37%) of Michigan business leaders report currently selling or buying items/services from other countries to some extent. However, only five percent characterize the volume of that trade as "large." When asked to pick sides on increasing U.S. tariffs on other countries' goods based upon what's best for their own business, 36 percent are in support (39% in spring 2017) and 33 percent are opposed (30% in spring 2017); more than a quarter of business leaders (27%) are uncertain.



As a result, more than four out of 10 (42%) anticipate paying higher prices to suppliers. Three out of 10 business leaders (31%) expect to increase prices they charge their customers should the United States impose increased tariffs on other countries' goods, but more than half (53%) expect no impact. Half of business leaders (51%) do not expect any impact on company sales, with 16 percent anticipating increased sales. Fifteen percent forecast decreased sales as a result of increased U.S. tariffs on goods from other countries.

Taxed Out

Familiarity with the impact of the federal Tax Cuts and Jobs Act of 2017 on business dropped significantly to 19 percent (vs. 31% in spring 2018); 35 percent are familiar with the new tax law, but uncertain how it will affect their business, similar to 37 percent in spring 2018. Nearly three in 10 business leaders (29%) view the potential impact to their bottom line as positive (33% in spring 2018). Four in 10 still feel it is too early to tell or simply do not know. Eight in 10 of business leaders have not made or do not expect to make any changes to their businesses as a result of tax reform, jumping from 70 percent in spring 2018. Just nine percent have made or anticipate making changes in response to the tax plan.