

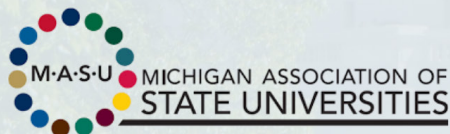
17TH ANNUAL

2021 MICHIGAN ENTREPRENEURSHIP SCORE CARD

FALL EDITION

How does Michigan Compare to other
entrepreneurial leaders?

DTE
Foundation



MICHIGAN CELEBRATES SMALL BUSINESS

ACKNOWLEDGMENTS

Prepared in partnership with GrowthEconomics, Inc., and ROI – Research on Investment, Canada

The 2021 – Seventeenth Fall Edition was authored by an SBAM in-house team of Brian Calley supported in research and analysis by Dr. Graham Toft, President of GrowthEconomics Inc. and Dr. Nadine Jeserich, VP of Analytics of Research on Investment.

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The inaugural edition of the Entrepreneurship Score Card was created and produced in 2004-05 by the Small Business Foundation of Michigan. The Small Business Foundation of Michigan merged with Great Lakes Entrepreneur's Quest in 2014 to form MiQuest. In 2018 MiQuest became Michigan Celebrates Small Business. Michigan Celebrates Small Business (MCSB) is on the forefront of championing small business and fostering the entrepreneurial spirit in Michigan. The MCSB's role is to serve as a catalyst for creating an entrepreneurial culture while inspiring the next generation of entrepreneurs.

Michigan Celebrates Small Business is grateful for the generous sponsors and supporters who help underwrite the production and distribution of the Michigan Entrepreneurship Score Card each year.

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Michigan Association of State Universities

The Michigan Association of State Universities serves as the coordinating board for Michigan's 15 public universities, providing advocacy and fostering policy to maximize the collective value these institutions provide in serving the public interest and the State of Michigan. Each year, Michigan's public universities serve nearly 290,000 students, providing excellent undergraduate and graduate education, internationally renowned research, and services to Michigan's employers, government leaders, non-profit organizations and citizens. Learn more at www.masu.org.

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We love where you live - The Michigan Municipal League is dedicated to making Michigan's communities better by thoughtfully innovating programs, energetically connecting ideas and people, actively serving members with resources and services, and passionately inspiring positive change for Michigan's greatest centers of potential: its communities.

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MSHDA's mission is to enhance economic and community vitality through housing and historic preservation activities. By forging creative and collaborative partnerships, sharing knowledge and targeting resources, our investments help build a strong and vibrant Michigan and a better quality of life for the residents we serve.

Small Business Association of Michigan

The Small Business Association of Michigan is the only statewide and state-based association that focuses solely on serving the needs of Michigan's small business community. We have been successfully serving small businesses like yours in all 83 counties of Michigan since 1969. We're located in Lansing, just one block from the Capitol.

Our mission is the success of Michigan's small businesses. We do this through:

- Advocating for small business
- Bringing business owners together to share knowledge
- Creating collaboration and partnerships
- Delivering group buying power

Our 28,000+ members are as diverse as Michigan's economy. From accountants to appliance stores, manufacturers to medical, and restaurants to retailers, what unites the SBAM membership is the spirit of entrepreneurship. A spirit that drove you to start and continue to operate your own business because you believe you can do something better than anyone else is doing it!

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BOLSTERING BUSINESSES

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EXECUTIVE SUMMARY

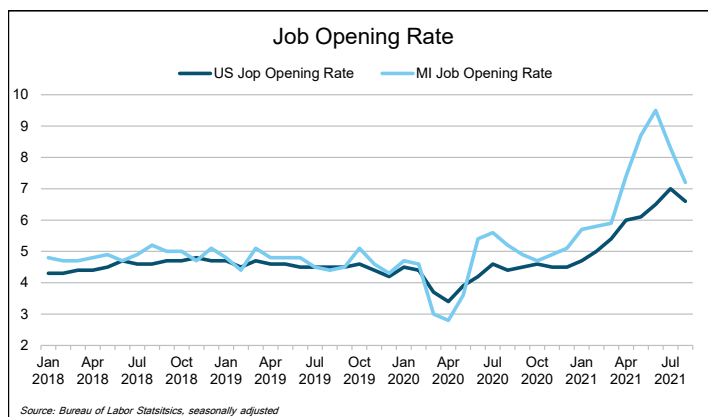
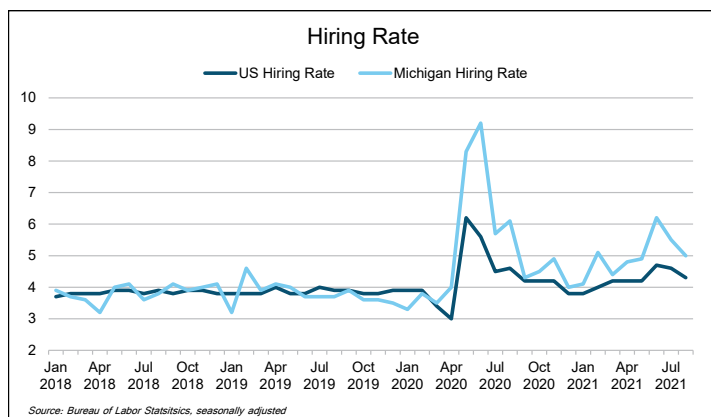
This is the 17th Entrepreneurship Score Card Report, but is unique in its focus and scope, which reflects the challenges of assessing the condition of the entrepreneurial economy in such a dynamic and unpredictable environment. This report seeks to identify what helped and what hindered Michigan's economic rehabilitation in addition to what our prospects are for a full and robust recovery. Chapter 3 compares Michigan's performance to eight peer states, four from the midwest (Illinois, Indiana, Ohio and Wisconsin) and four from State Entrepreneurial Leaders (Georgia, Maryland, North Carolina and Washington State).

In 2021 the Score Card has been produced in two editions: Spring and Fall. With many years of annual Score Card experience, SBAM has become familiar with the peaks and valleys of the Michigan economy, but none have been quite so disruptive as the valley we found ourselves in during 2020. To best understand this impact, it was decided to produce an alternative Score Card for 2021. To do so we needed to better understand what might lie ahead for second stage companies as well as what we can learn from past major economic recoveries. For the purposes of this discussion "second stage" companies refer to businesses that are beyond the start-up phase, but still small by employment and revenue standards.

How is the Michigan Economy doing in 2021?

While today's fast-recovering national economy is highly complex, there are clear indications of Michigan improvement in 2021. Growth is back but not yet back to business as usual. The Commerce Economic Activity Index reports eight months in a row of improved GDP into 2021. The State Coincidence Index of the Philadelphia Reserve Bank shows Michigan improving at an average pace as compared to a majority of states in 2021.

Before the COVID recession of February - April 2020, Michigan's hiring rate had been slightly below the U.S. for several years (see graph below). But its hiring rate has been robust since April 2020. The state's job opening rate has also been at or above the U.S. rate, especially since June 2020. However, August 2021 numbers have dropped notably in job opening and hiring rates (seasonally adjusted).



The topline economic statistics do not tell the whole story.

While Michigan's economy is recovering overall from the pandemic, the recovery is uneven and many industries dominated by smaller businesses are still struggling. Also, even as we headed into the pandemic the spring 2021 Score Card reported Michigan's Entrepreneurial Climate, Change and Vitality indexes all showed deterioration.

The nature of this pandemic and the government restrictions implemented as a result of the pandemic had a much larger impact on smaller businesses as compared to industries dominated by larger businesses. Changing consumer habits drove more customers to giant online retailers, long-term closures of offices decimated small retail stores and restaurants in downtown business districts, and many sit-down restaurants, entertainment related businesses and event venues closed for good under the weight of government restrictions.

Opportunity Insights Economic Tracker shows Michigan lagging the nation in both the number of small businesses open and the loss in revenue experienced by small businesses. Additionally, while personal consumption expenditures on goods have fully recovered above pre-pandemic levels, personal consumption expenditures on services remain below pre-pandemic levels. The service industry is dominated by small businesses, including entertainment and recreation services.

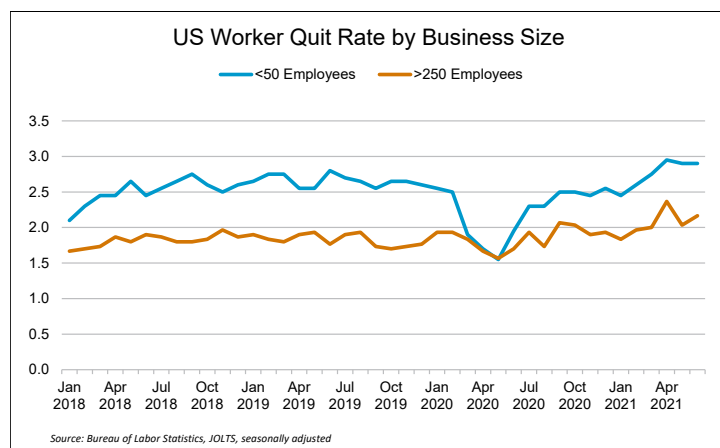
Federal spending made a huge difference in the beginning of the recovery, but now poses real, long-term challenges.

In the earliest days of the pandemic, we saw employment and all economic activities plunge to unprecedented levels nearly overnight. Still, personal incomes, consumer spending and employment all gained back significant ground by summer of 2020. The federal response came in many forms and clearly played an important role following the onset of the pandemic.

But now, as the economy continues to reopen, employers are reporting significant hardships in staffing their businesses to fully reopen. Supplemental unemployment payments have been discontinued, so there is more incentive to get back to work. By September, the size of the Michigan workforce did show some signs of modest gains.

Additionally, price inflation has started to make its way into several areas of the economy, posing new challenges to small businesses seeking to recover.

The graph to the right from the Bureau of Labor Statistics (BLS) Job Openings and Labor Turnover Survey (JOLTS) program shows how dramatically the quit rate (the percentage of those voluntarily leaving) dropped for small business at the peak of the pandemic recession in April 2020. Employees did not want to leave for fear of being without a job. That trend has since reversed and the quit rate now exceeds pre-pandemic levels.



In the early stages of recovery there are objective reasons to be optimistic and cautious.

The spring edition of this report examined the last two recessions to better understand how the Michigan entrepreneurial economy performs in the immediate time periods following the recessions.

The number of small businesses and employment tend to fall through recessions and for approximately 12 months beyond the recession end. If the previous recessions are any indication, we can then expect an abrupt turnaround, driven by a combination of the ramp-up of existing businesses, the revitalization of businesses laid dormant by the recession, and new start-ups. This fast growth typically occurs for about two years.

The five-year survival rate of new businesses typically declines through recessions and often a year beyond before it picks up. For Michigan, this survival rate turned up strongly about 18 months after the end of the Great Recession, coinciding with strong state performance in this Score Card's three Entrepreneurial Indices through 2016. This is great news considering the unexpected explosion of new business filings we have seen during this pandemic.

Still, while there is pent-up demand and more disposable income from federal stimulus payments and benefits, small businesses are facing workforce shortages that have limited their growth and recovery opportunities. Additionally, rising costs are squeezing margins of small businesses and supply chain disruptions are presenting new challenges to the overall recovery.

INTRODUCTION

When the Score Card was first conceived 17 years ago, Michigan was in the midst of a long-term economic slow-down. The Small Business Association of Michigan (SBAM) set an ambitious goal to start the long and difficult climb of becoming a “Top Ten” state for entrepreneurs. But to get there, we had to understand how Michigan performed against other states in a variety of areas.

At the time, SBAM had no ready reference with which to know how well its entrepreneurial economy was doing; no comprehensive data reference to determine progress. So, we set about to design and publish annual progress. The resultant Score Card is now recognized nationally as one of the most complete assessments of a state’s ‘state of small business and entrepreneurship’.

Small Business Outlook in a Post-COVID Recovery

SBAM has become familiar with many ups and downs of the Michigan economy but none quite so disruptive as the one we now find ourselves in. We realized we must come up with an alternative Score Card for 2021. But to do so we needed to better understand what might lie ahead. To do this we have taken two approaches: First, what are economic forecasters and business strategists saying about the U.S. economy in 2021 and 2022? And second, what we can learn from past major economic recoveries?

For most economists, the following five factors will contribute to accelerated growth to varying degrees:

- Pent-up demand from households putting their savings to work - savings accumulated over a 2020-2021 prior to ‘stay-at-home’ and 12 months and continuing work-from-home. The U.S. savings rate clocked 20% in January, a rare occurrence, remaining high at 9.4% in June.
- Accelerated spending boosted by stimulus from the American Rescue Plan (ARP) and now, child tax payments.
- A pandemic expected to be waning by late 2021.
- A friendly/accommodating Federal Reserve, keeping interest rates low through 2024.
- Breakthroughs in technology and work organization that have been on hold over the pandemic, along with new work-from-home arrangements discovered during the recession.

Some forecasts sound too good to be true, while others are cautionary due to COVID-19 variants. Michigan leaders, policymakers and small business owners would do well to be ready for what could be a highly charged growth economy, into 2022.

The past recoveries are no guarantee of small business take-off but...

Over the years SBAM has performed in-depth exploration of the Michigan entrepreneurial economy, and much has been learned about how Michigan small businesses respond to a variety of factors.

The recession recoveries of 2001 and 2007-2009 show similar stories. The causes and circumstances of these two recessions were quite different, yet the path Michigan small business tracked during and after each recession was similar. Is a similar COVID recession path likely? We don’t know yet, but based on past recession recoveries, the 2021-2022 COVID recession recovery poses promising growth rates for Michigan small business and entrepreneurial dynamism.

The spring edition of the Score Card concluded the following:

- If the last two recessions are a guide, the worst of small business losses may be over for Michigan in 2021. According to the [National Bureau of Economic Research](#), the official recession record keeper, the COVID recession lasted just two months, ending April 2020. However, economic, workforce and small business adjustments therefrom remain ongoing. Based on previous trends, Michigan would do well to prepare itself for another small business take-off.

- Over these previous recessions Michigan has moved up and down at about the same pace as the U.S. The challenge for state leaders and policymakers is to spur early small-scale enterprise (SSE) business growth at minimum to keep pace with the U.S. They should be on the ready with appropriate growth-focused policies and programs.
- We do not know for sure that this path will replicate under all recession conditions. And remember, the COVID recession is no 'garden variety' recession. Therefore, we cannot say the post-COVID recovery will play out the same in 2021-2022 as in the previous two recessions, but we can say this path deserves careful watch supported by more regular data collection.
- An implication for longer-term small business survival rates is that survival rates in these early two years of recovery is critical for overall state business growth. A widely-held rule of thumb is that within five years more than half of new businesses fail. Increasing survival success is particularly critical under tough or fast-changing economic conditions. The challenge for state leaders and policymakers is to implement programs and policies that increase the likelihood of survival in these two years.
- The most available data through 2020 shows Michigan following a decline along with other states but at a faster rate than the top performing state between 2014 and 2019. However, 2020 data shows a notable uptick in five-year survival rates in Michigan.

Small Business Recovery May Be Slower

On job openings and hiring, how are small businesses doing relative to larger businesses? Michigan data is unavailable as of yet, but national data points to larger business doing better at the rate of job openings and the rate of hiring over spring/summer.

Job Opening Rates, Small vs Larger Businesses

The graph to the right shows that for the U.S., larger businesses are doing better than smaller ones on job openings.

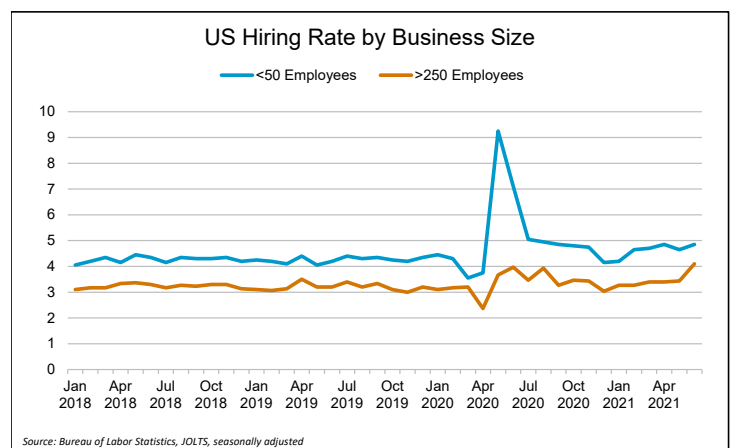
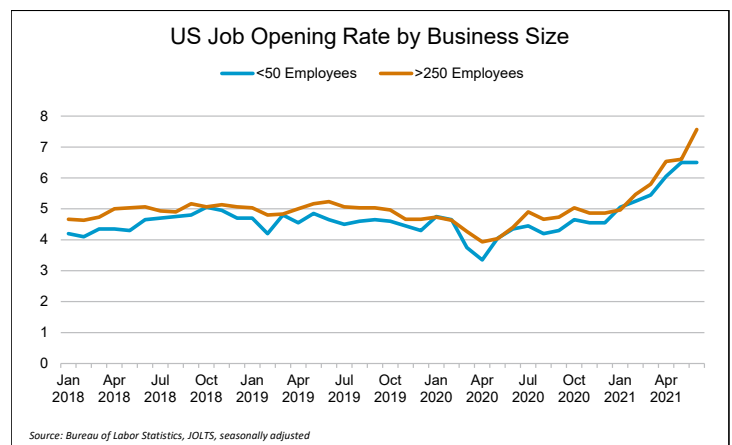
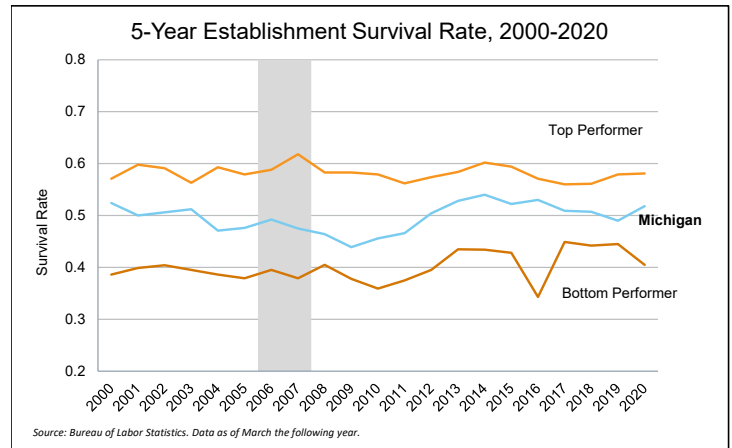
Hiring Rates: Small vs Larger Businesses

The graph below on the right shows recent uptick in the hiring rate is more pronounced for larger businesses.

Inflation Concerns

The purpose of including this topic in the fall edition of the Score Card is to draw attention to inflation because it deserves a close look over the next six months.

When the spring 2021 Score Card was released, signs of inflation were beginning to appear. At that time the Federal Reserve Bank was confident that inflation was transitory and likely only affecting particular sectors of the economy. Since then, Chairman Jay Powell has



recognized that inflation has become more widespread and stickier than expected. His recent statements alert that inflation may well be with us for longer than originally anticipated. Controversy surrounds as to when inflation might ease but many economists and investment analysts are now projecting today's supply-demand imbalances are expected to normalize well into 2022. The 12-month inflation trend is pointing to an annualized rate at or above the Federal Reserve target of 2%. Data on inflation's impact on Michigan's small business is not yet readily available - we'll have to wait for the 2022 spring report, but inflation's small business impact is becoming apparent from national surveys.

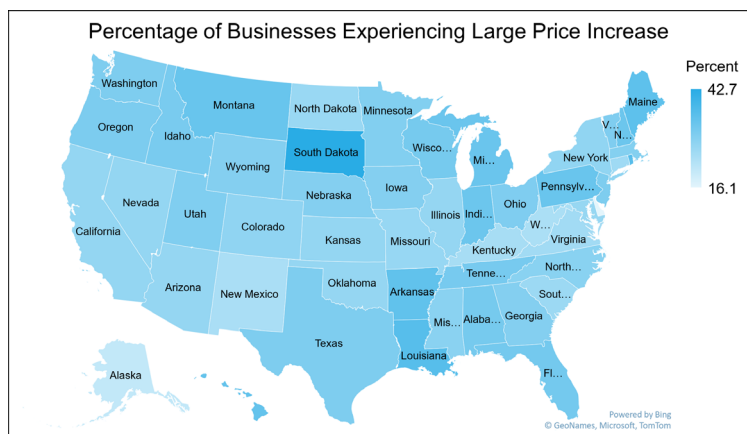
- The National Federation of Independent Businesses (NFIB) reports a significant jump in 'prices and labor compensation' in its monthly Small Business Economic Trends. For August 2021, out of 10 problems facing business, inflation ranked third most important, surpassed only by quality of labor and taxes. It ranked tenth one year ago. To quote:

Then there's inflation. Not a problem as long as firms can pass rising input costs (including wages) on to customers in higher selling prices. But if consumers become price-shy, then profits will be squeezed and firms will have to adjust costs quickly, including labor costs. With no government income supports, consumer spending will slow, making the fourth quarter the slowest growth quarter in 2021.

- The Bank of America Small Business Semi-Annual report observed small business concerns over commodity prices increasing from 42% in fall 2020 to 59% in spring 2021.
- Goldman Sachs' 10,000 Small Businesses, June 1-2, 2021 survey reports 82% of small businesses concerned about inflation, while 83% have seen an increase in operating costs the past few months.

Future focus will be on small business shortages and delays in needed supplies, rising labor costs and unpredictable pricing power.

Close to a third of the nation's small businesses (29.4%) have experienced large/severe price increases compared to before March 2020, according to the Census Bureau Small Business Pulse Survey, at of the end of September 2021. Another 40.7% of the nation's small businesses have experienced moderate price increases. In Michigan, small businesses have experienced even more hardship, with 33.5% experiencing large/severe price increases and 41.8% facing moderate price increase compared to pre-pandemic levels.



Source: US Census Bureau, Small Business Pulse Survey

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CHAPTER 1: UPDATE SNAPSHOT OF THE MICHIGAN BUSINESS ECONOMY

Key Takeaways:

- The Michigan business economy has been improving throughout 2021. It is keeping pace with a majority of states. Michigan is 94% 'back-to-normal' (pre-pandemic norm). Consumer spending is 15.9% above that of January 2020, and monthly sales tax collections are up so far in 2021. Commercial and industrial electricity use has been increasing throughout 2021. August job postings are up 3% over the prior month and 14% over the same time last year.
- However, spring Score Card expectations for a rapid recovery in summer/fall have been muted by the national outbreak of the COVID Delta variant and anticipated future variants.
- Manufacturing supply chain disruptions continue and Michigan export data so far for 2021 show monthly declines from last year.
- The Michigan small business story has become less clear since spring. Overall small business work hours are only 4.4% below pre-pandemic (U.S. -11.6%). However, according to CNN/Moody's Analytics (drawing from [Homebase.com](https://www.homebase.com)) as of July, 2021, 19% of Michigan small businesses closed as a result of the pandemic. If one focuses on open businesses according to [Opportunity Insights Economic Tracker](#), their percent change from pre-pandemic conditions is -53.2% for Michigan compared to the US -47.8% as of June 30th, 2021. Furthermore, trends show this metric continuing to worsen into 2021, and congruent with data trends on closing businesses from [Homebase.com](https://www.homebase.com).
- The very strong uptick in filings for new Michigan businesses in the second half of 2020 continued into 2021, while softening a little in July and August of 2021.

See Chapter 3 for the workforce impact of this recession on small business.

In short the Comerica Outlook for Michigan is a 'throttled back' third quarter of this year, then a strong increase in state GDP 'by late this year and early next year as production catches up to demand'.

1. Introduction

The spring Score Card observed that Michigan's economy was gaining back significant ground. Relatively quick recoveries in certain industries, such as manufacturing and construction, had resulted in stronger topline economic performances in many categories. However, Michigan's recovery had not been even. Today, several industries still face extraordinary challenges until the pandemic fully recedes.

The Score Card always pays attention to the overall condition of the Michigan economy because in general, small business growth does better when the Michigan economy is growing as a whole. In the early part of 2021, the Michigan economy was looking up relative to the depths of the recession. However, the advent of the Delta variant of the COVID virus has dampened the outlook considerably and other future variants pose additional risks.

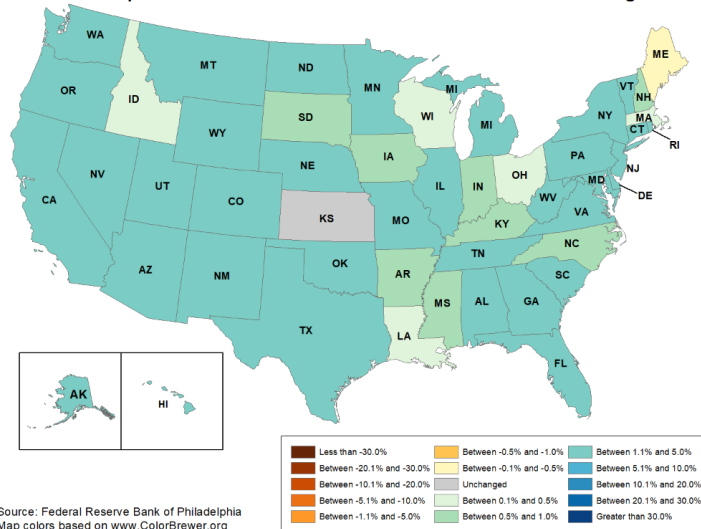
Still, we know that the actions of state and federal governments have had a significant impact on the direction of the economy as a whole and on specific industries and regions to substantially different degrees. This fall report updates the state of economic recovery and identifies the challenges and risks that lie ahead.

2. Overall Recovery

[Coincident Index, October 2021 \(September data\)](#), a widely recognized measure of near-term state economic growth from the Federal Reserve Bank of Philadelphia.

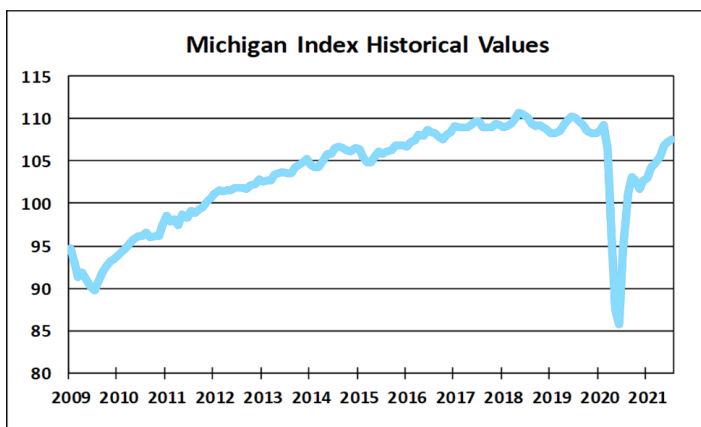
- The Coincident Index for Michigan between August 2021 - September 2021 went up by 0.6%, compared to 0.4% for the U.S.
- State GDP holding steady over summer 2021 along with a majority of states at or between 1.1% and 5.0% 3-month change. Slight slippage since February 2021.

September 2021 State Coincident Indexes: Three-Month Change



Comerica Economic Activity Index, July 2021

- Index posted eighth consecutive monthly gain.
- Improved conditions in Michigan as vaccine distribution ramped up, along with massive fiscal stimulus including very low interest rates.
- The current surge in COVID cases across the U.S. is pushing back expectations for renormalizing consumer and business activity this fall/winter.
- "Our Michigan Economic Activity Index increased by 0.3% in July for its eighth consecutive monthly gain. The index is within striking distance of its pre-COVID level of 109.2 from February 2020. We expect it to get there before the end of the year pending increased output by automakers."



INDEX CATEGORIES

Positive	Negative
House prices	
UI Claims	Industrial Electricity Demand
Hotel Occupancy	
Light Vehicle Production	State Sales Tax Revenue
Total State Trade	

- Comerica Michigan Outlook, August 2021: "Expect state GDP to be throttled back through the third quarter of this year, and then increase strongly late this year and early next year as production catches up to demand."
- Looking for moderate manufacturing conditions in the state through the remainder of this year, primarily due to supply chain disruptions. However, "we expect supply chain disruptions to gradually ease through the fall, but not disappear, as COVID impairs both U.S. and global production and distribution." "Michigan case counts remain below the spring peak, but we expect to see them rise in the coming weeks".
- Michigan's unemployment rate will potentially tighten to pre-pandemic levels by the end of 2022. Expect demand for automobiles and other durable goods to surge in 2022. The adoption of new vehicle technology will likely result in reduced labor demand among vehicle manufacturers.

- “The outlook for labor force growth in the state is held in check by weak overall population growth.” The results of the 2020 Census confirm net out-migration for the state over the previous 10 years (23,453 more people moved out of the state than moved into the state). “In addition to net outward migration, Michigan’s relatively older population implies a lower birth rate going forward.”
- The net result will be little growth in the labor force over the long term. “Strong business investment will be needed to keep output growing in a labor constrained environment.”

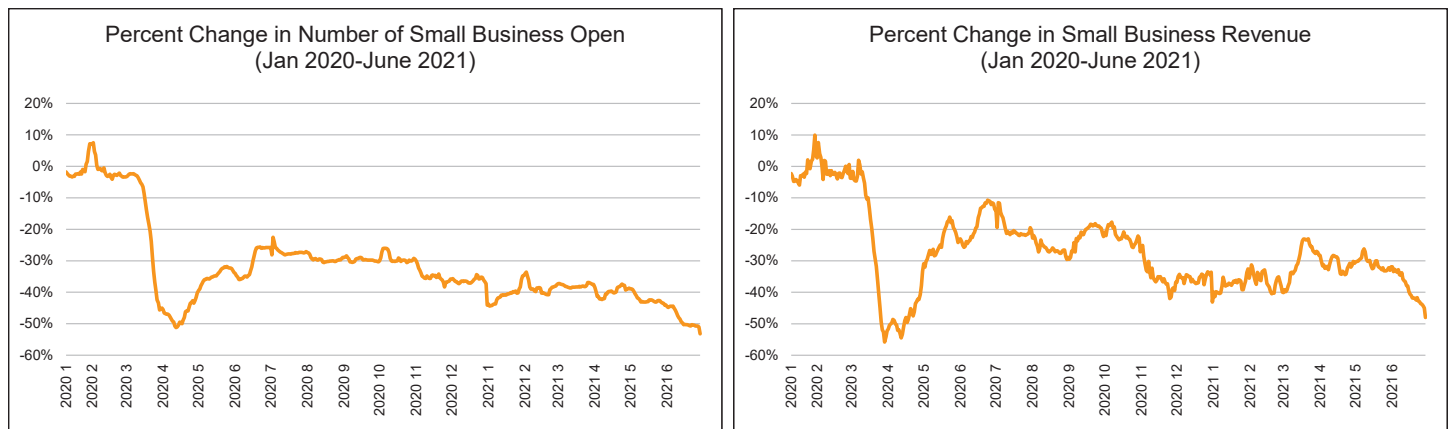
3. Small Business Trends and Recovery

Earlier extended closures and restrictions have impacted small businesses much more substantially than larger businesses. The makeup of the most restricted business sectors (restaurants, entertainment, bars, movie theaters, bowling centers, banquet facilities, etc.) are largely comprised of small businesses.

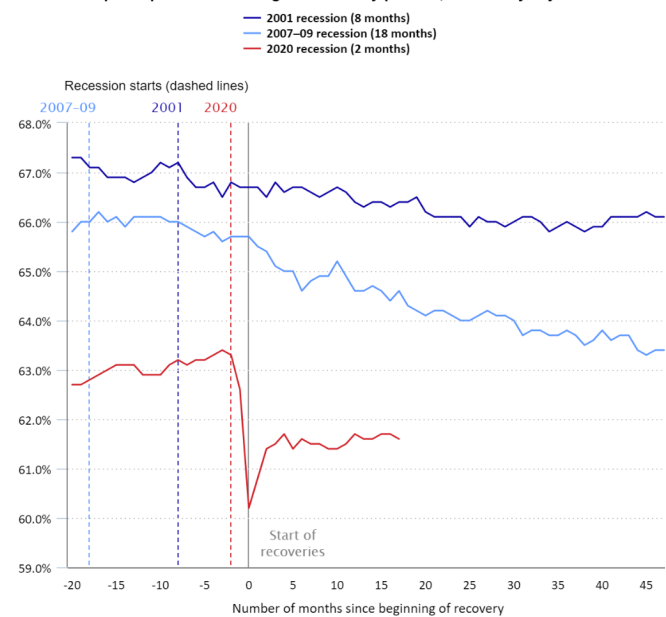
- State specific data from tracktherecovery.org shows Michigan “small businesses open” lagging far behind pre-pandemic levels. While this is generally true nationwide, the disparity is more acute here in Michigan (-53.2%) as compared to the US (-47.8%) as of June 30th, 2021. Furthermore, trends show that this index has continued to worsen into 2021. This decline could be steepening beginning May 2021 (intelligence congruent with closings data from <https://joinhomebase.com/data/state/MI/>.)

As of June 30, 2021, [Opportunity Insights Economic Tracker](#) shows small business revenue down 43%, which is further evidence of the uneven nature of the U.S. recovery. Much like the small business open index, the small business revenue index is more acute in the state of Michigan (-48%) as compared to the US (-42.5%) as a whole.

Note: this data has been under review since June 2021, and what has been presented is the most up-to-date information we have.



Labor force participation rate during recessionary periods, seasonally adjusted



Click legend items to change data display. Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

4. Unemployment and Labor Force Participation

Nationally, the Labor Force Participation Rate is slowly recovering from the extraordinary reduction in the Spring of 2020. Similarly, the unemployment rate has clearly improved but that rate somewhat overstates the true recovery when you consider how many people exited the labor force and have not returned.

Michigan Unemployment Rate

- Unemployment Rate 6.1% (prel.) - October 2021
- WARN notices YTD = 13 (Employers of 100 workers or more covered by Unemployment Insurance giving advance notice of plant closings or mass layoffs).
- Michigan's unemployment rate remains stubbornly high compared to the US and pre-pandemic levels.

5. Job Postings

Job postings rebounded quickly in late spring and early summer, slowing over summer. Michigan job postings show a healthy uptick beginning July. Job postings significantly lag pre-pandemic levels both nationally and in Michigan.

6. Small Business Applications

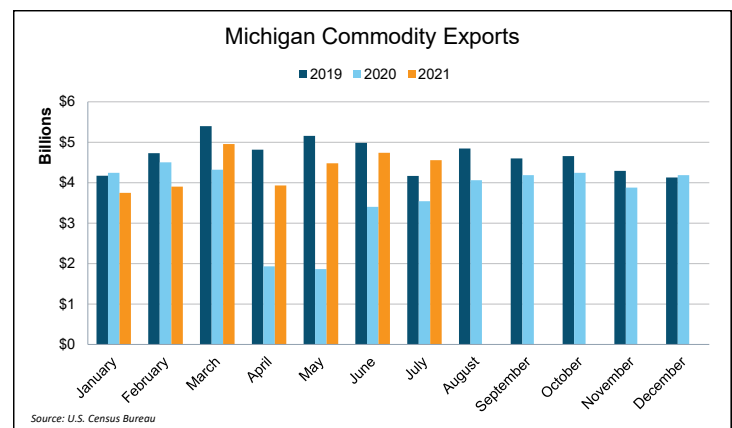
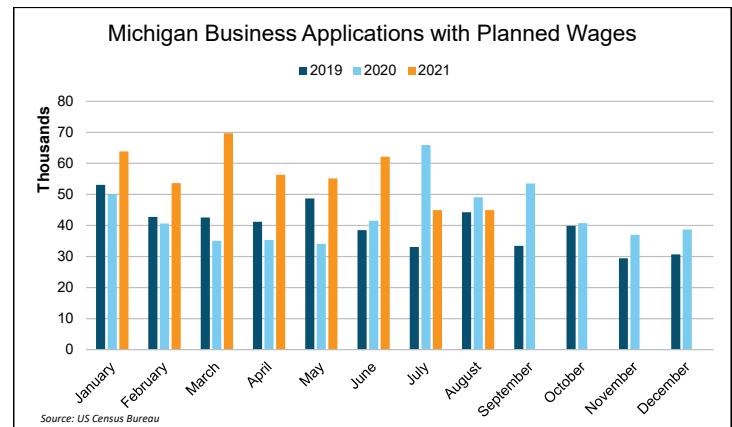
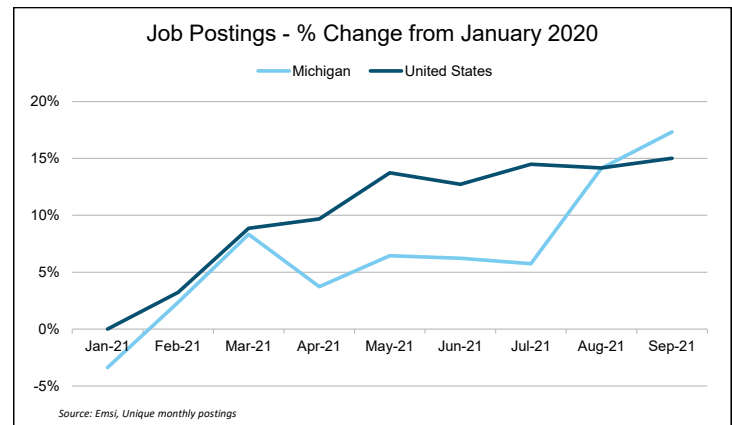
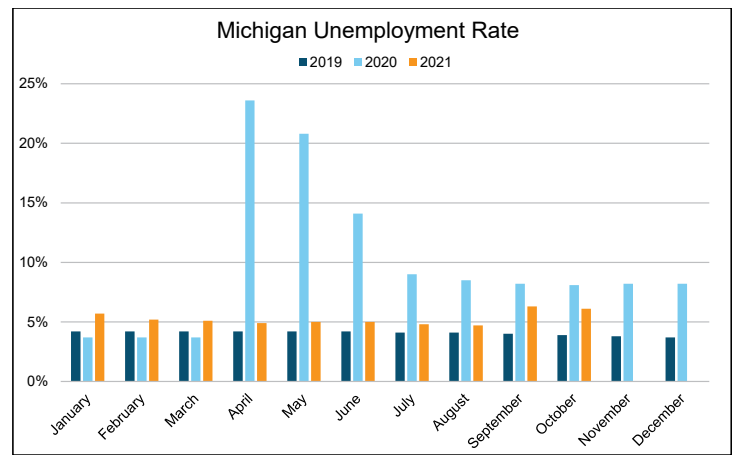
One surprising and hopeful statistic is the substantial increase in business startups indicated by the number of new business filings during the pandemic and into 2021. This trend has occurred in Michigan and nationally but has been particularly strong in Michigan, while softening a little in July and August, 2021.

There are many conceivable reasons for the surge in new business startups during this time. During difficult economic times, the relative risk of an individual starting a new business may be lower because other employment opportunities may have evaporated. As the pandemic disrupts business and so many other aspects of life, it would not be a surprise to see entrepreneurs meet those disruptions with innovations advanced through new businesses. More remote work may be leading to an increase in independent contractors. It is also possible that people might be starting side businesses because a more flexible remote work schedule makes it feasible.

It will take some time to understand the drivers and long-term sustainability of these new enterprises, but it is clear that a significant increase in entrepreneurship has occurred during this pandemic and is continuing.

7. Exports

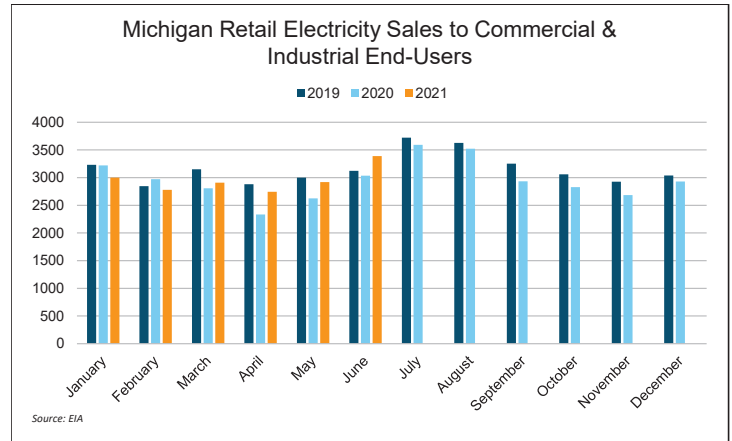
- Beginning in February 2020, exports were lower than 2019 and continued each month until December 2020 where they were a tad above 2019.
- Exports looked sluggish in the first half of 2021; July is the first month where values surpassed 2019 levels.



- While exports have long been an important part of Michigan's economy (given global manufacturing supply chains) the lack of a clear recovery of exports is an indication that pandemic-related trade interruptions are not yet overcome.

8. Commercial and Industry Electricity Use

Beginning March 2020, business electricity use was lower every month compared with 2019. This is not surprising given how many business sectors remained closed or substantially reduced through the beginning of 2021. Since March 2021 electricity use had exceeded that of the same month in 2020, a strong sign the state's economy has been picking up in 2021.



Our Mission is the Success of Michigan's Small Businesses

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- Advocating for small business
- Bringing business owners together to share knowledge
- Creating collaboration and partnerships
- Delivering group buying power

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CHAPTER 2: MICHIGAN VS. COMPARATOR STATES



Becoming a “Top 10 State” for Entrepreneurialism

In the early 2000’s, the Small Business Association of Michigan (SBAM) had the ambitious goal **for Michigan to be counted among the “Top Ten” entrepreneurial states of the U.S.**

Yet, at that time there was no method to define and measure how well Michigan’s entrepreneurial economy was actually performing relative to other states. The **Michigan Entrepreneurship Score Card** was developed to provide a well-researched and data-rich tool to objectively assess Michigan’s entrepreneurial economy, and to compare it to other states. Over the past 17 years¹ the Score Card has become recognized as an independent way for Michigan’s leaders to annually check up on: “How well is Michigan’s entrepreneurial economy doing?”

The Score Card has led to many insights over the last decade and half. One insight is that Michigan still has a long way to go for its entrepreneurial economy to be routinely counted among the “Top Ten.”

Michigan’s entrepreneurial uptrend over the past 17 years has been real. Over the past 11 years, the Score Card data clearly shows that Michigan’s Entrepreneurial Climate, Change and Vitality rankings have gone from the “Bottom Ten” states to the middle of the pack.

Importantly, between 2009 and 2014/2016, Michigan also underwent dramatic improvements in Entrepreneurial Climate, Change and Vitality, driven in large part by the quality and availability of its workforce. However, Michigan has not been able to keep the Climate, Change and Vitality gains it made.

So, progress has been made. Yet, Michigan’s entrepreneurial economy has been basically stuck in the middle rankings for the past five years. Can we now use the Score Card data to shed light on what the leading entrepreneurial economy states have been doing this year, and can their stories of progress give Michigan leaders pointers as to how to do better over the next ten years?

¹ The Score Card data base offers a unique starting point for benchmarking analysis. It comprises 15 years of continuous data on all states organized by 140 metrics. These data are refreshed annually incorporating newly released current and back-data. The data set is adjusted to accommodate changes in data definitions and data collections that occur from time to time thereby offering a truly ‘living’ data set.

2021 Six State Entrepreneurial Leaders (SELS)

In looking for other states that Michigan might learn from, we are interested in states that meet three criteria:

- Their 2019/2020 full year data rankings are in the Top 15 states as Entrepreneurial Challengers
- Over the past ten years, they underwent dramatic improvements in Entrepreneurial Change from Bottom Ten rankings to Top Ten rankings
- Their economies are roughly similar to Michigan's in size and make up, and they do not have hard-to-repeat factors like the fossil fuel reserves of Texas.

In a first scan of the Score Card data in the 2020 we identified six states as worthy of learning more about: Colorado, Georgia, Maryland, North Carolina, Tennessee, and Utah.

Each of these states moved up noticeably in the Entrepreneurial Change Index between 2010 and 2018. 2010 was chosen as the start year because after the Great Recession of 2007-2009 state economies were severely disrupted in many different ways but by 2010 nearly all states had settled into a business expansion mode.

We chose to focus on the Entrepreneurial Change Index because it is a good measure of the direction and magnitude of entrepreneurial/small business growth. This is important because if Michigan is to become a Top Ten entrepreneurial state, then the direction and magnitude of its entrepreneurial/small business growth will have to improve. In our analysis for this 2021 Score Card we found Tennessee slipping and Washington State gaining.

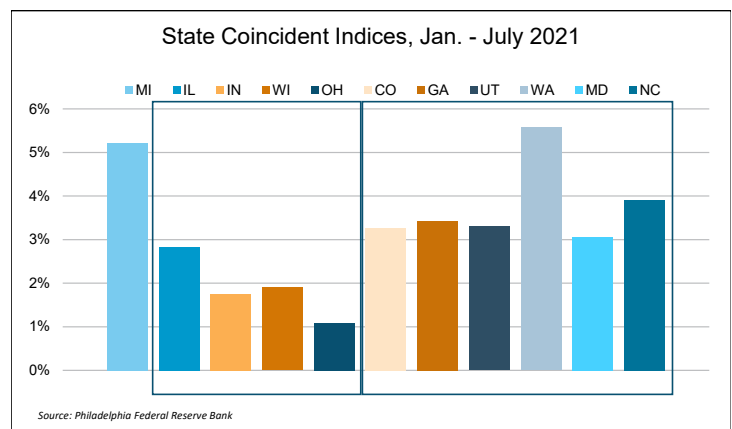
The top State Entrepreneurial Leaders in 2021 are: CO, GA, MD, NC, UT, and WA

The purpose of this chapter is to check the pulse of these six states in 2021, plus how Michigan's Midwest neighbors have been doing (IL, IN, OH, and WI). We use only metrics that give us very near term intelligence. Most importantly we want to know which states deserve more in-depth policy and program examination over the next six months.

Overall, how are the Comparator State Economies doing in 2021?

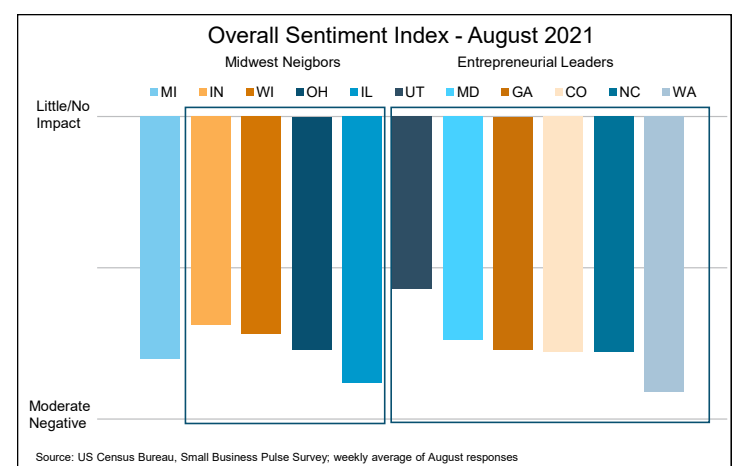
The metric used to the right is the State Coincident index, released monthly by the Philadelphia Federal Reserve. It has been long tested and widely used - tracking four monthly releases: nonfarm payroll employment, average hours worked in manufacturing by production workers, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).

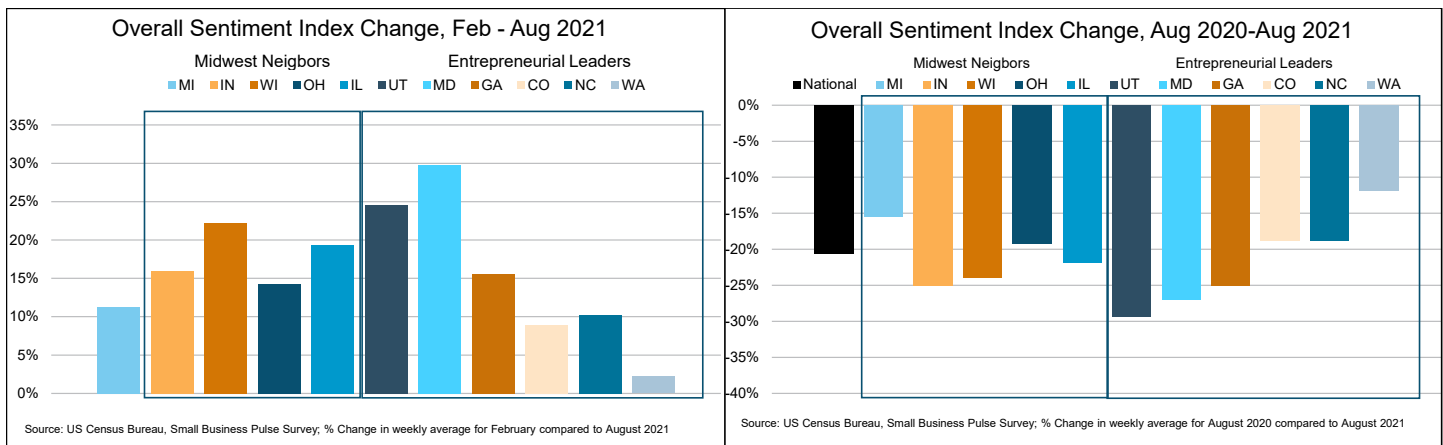
Finding: So far in 2021 the Michigan economy is doing better than Midwest counterparts and as well as or better than the State Entrepreneurial Leaders



What is the Overall Sentiment Among Small Businesses in 2021?

The Census Small Business Pulse Survey is an innovative and experimental means by which the Bureau of the Census is weekly tracking the opinions of the small business community across the nation. It attempts to measure the effect of changing business conditions as consequence of the pandemic recession of 2020. The Sentiment Index is a combination of small business opinions of operating conditions, market challenges and expected recovery.





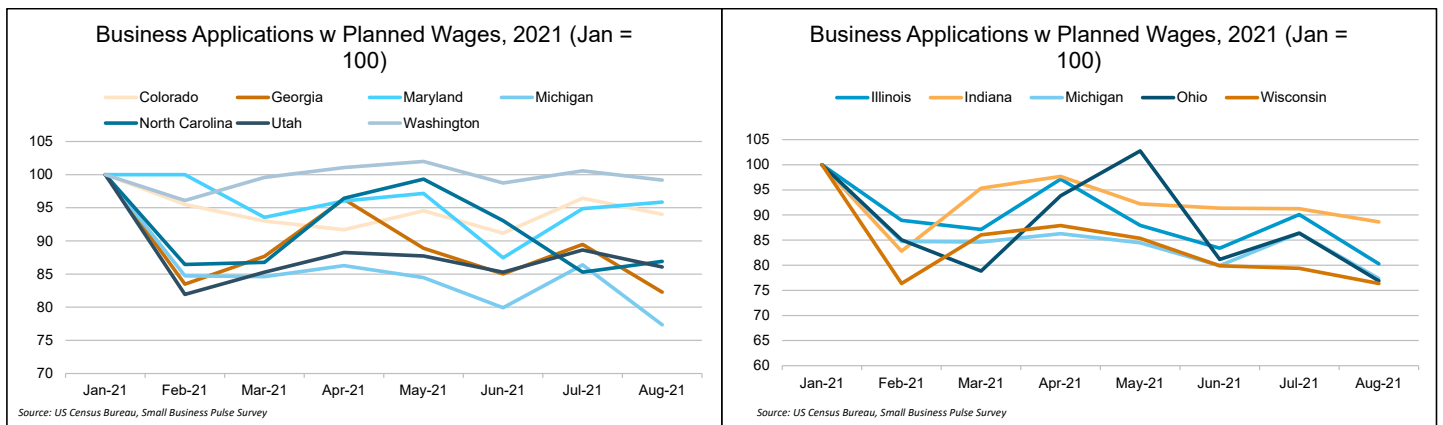
Finding: Leading states for positive sentiment in 2021 are Indiana, Maryland and Utah

What Does Business Start-Up Activity Look Like Across the Comparators?

We can now obtain monthly data on new business applications and formation from The Business Formation Statistics (BFS), "an experimental data product of the U.S. Census Bureau developed in research collaboration with economists affiliated with Board of Governors of the Federal Reserve System, Federal Reserve Bank of Atlanta, University of Maryland, and University of Notre Dame."

For this analysis we use the category "business applications with planned wages" as those new starts with intentions to set up operations and employ. These data are available monthly at the national, regional and state levels.

Finding for Midwest States: Monthly small business filings have been declining nationally through 2021. Michigan's decline has been more so than that of Midwest counterparts. **Indiana** has been showing the least decline in 2021.



Finding for State Entrepreneurial Leaders: The national decline in small business filings is also evident among State Entrepreneurial Leaders but all have been declining less than Michigan. States with least decline from January to August 2021 are Washington, Maryland and Colorado.

How 'Business Friendly' are the Comparator States?

"The Thumbtack Small Business Friendliness Survey is an annual survey of small business owners on the operational and policy challenges they face. Information collected from the survey is used to provide policymakers and researchers valuable information on the small business economy and how to better create vibrant local economies." 2021 marks the tenth annual release of this report. "More than 3,600 small business owners in the home maintenance and construction industries as well as events, lessons and business services evaluated federal, state and local governments. This is the largest continuous study of small business perceptions of local government policy in the U.S."

Here are summary Thumbtack scores for 2021:

Overall on Small Business Friendliness

"In general how would you rate your state's support of small business owners?"

Midwest

State	Grade
Michigan	F
Illinois	D+
Indiana	D+
Wisconsin	C-
Ohio	D

State Entrepreneurial Leaders (SELs)

State	Grade
Colorado	D
Georgia	A-
Maryland	A-
North Carolina	C+
Utah	C
Washington	B

Source: Thumbtack Survey, 2021

Finding: Michigan and Midwest states rate generally poor Small Business Friendliness, The State Entrepreneurial Leaders do better, especially **Georgia, Maryland** and **Washington State**.

On Regulation

"How unfriendly or friendly is your state government with regard to the following regulations?" (includes employment, labor and hiring regulations, tax code and tax-related regulations and licensing forms, requirements and fees)."

Finding: On regulation **Indiana** stands out among the Midwest states, followed by three SELs: **Georgia, Maryland** and **Colorado**.

Conclusion

This chapter is intended to flag for Michigan those states to pay close attention to as 'entrepreneurial states'. These data suggest more detailed examination of policies and programs in the following states will likely prove fruitful: Indiana, Georgia and Maryland with supplemental focus on Colorado and Washington State.

Small Business Regulatory Friendliness

State	Grade
Indiana	A+
Maryland	A-
Colorado	B+
Georgia	B+
Michigan	B
Ohio	B
North Carolina	B-
Washington	C+
Wisconsin	C
Utah	C-
Illinois	D

CHAPTER 3: THE WORKFORCE CHALLENGE

A feature of the Score Card is to obtain the latest near-term information on pressing issues facing Michigan entrepreneurs and small businesses. One such issue is hiring and workforce quality and availability. This chapter seeks to compare Michigan with the peer states identified in Chapter 2 (specifically, four Midwest states and four entrepreneurial leaders).

Here is what we know about the Michigan small business workforce challenge in 2021:

- Workforce has become the top challenge facing small business today.
- Small business job trends compared to 12 months ago (Aug 2020 to Aug 2021) put Michigan in the middle of its peers; 29.7% of Michigan small businesses as of September saw their employment still below pre-pandemic (March 2020) levels, with only three states faring better (MD, GA, OH).
- The 2021 Thumbtack survey of small business owners shows a positive perception of Michigan state and local government regulation with respect to employment and training but a continued challenge in hiring with the most recent weekly results from the Small Business Pulse Survey put Michigan still ahead of most of its Midwest competitors but behind Illinois and all of its entrepreneurial state comparators. Hiring of entry level and part-time/casual workers appears to be a severe problem.

National 2021 Surveys/Reports

Workforce has become the number one challenge facing small businesses today.

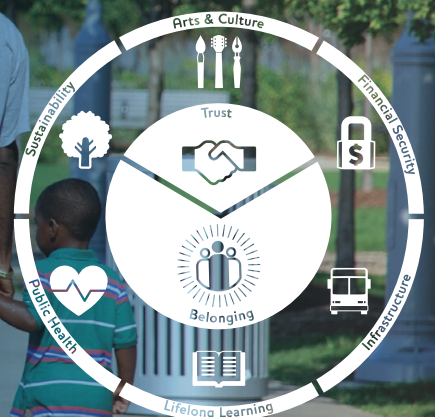
The National Federation for Independent Businesses (NFIB) August monthly report, Small Business Economic Trends, finds out of ten major problems facing business, quality of labor ranked first by far with cost of labor landing sixth on the list. To quote:

*Small businesses continue to struggle to find workers to fill open positions. Forty-nine percent (seasonally adjusted) of all owners reported job openings they could not fill in the current period, up 3 points from June and **a record high reading**. Unfilled job openings have remained far **above the 48-year historical average** of 22 percent. Forty-three percent have openings for skilled workers (up 3 points) and 25 percent have openings for unskilled labor (up 3 points) ... Finding qualified employees remains a problem. Fifty-seven percent (93 percent of those hiring or trying to hire) of owners reported few or no “qualified” applicants for the positions they were trying to fill in July (up 1 point). Where there are open positions, labor quality remains a significant problem. 31% of owners reported few qualified applicants for their open positions (down 1 point) and 26 percent reported none (up 2 points), a **48-year record high**.*

NOW IS THE RIGHT TIME TO RETHINK ALL WE DO

Our focus on building community wealth is driven by successful communities that are growing, and in the process, are making their states more prosperous.

Community wealth building encourages innovations that will assist our communities—large and small—to grow, become stronger, and transform into even better places for their residents, businesses, and visitors.



The Goldman Sachs 10,000 Small Business Survey, June 2021 finds "Small businesses are ready to rehire but its proving difficult to find qualified workers." Three reasons dominated:

- 62% - limited labor supply/labor availability
- 58% - unemployment benefits too generous
- 42% - high labor costs

The latest Bank of America Small Business Owner Report with results from March - May 2021, finds a 'Competition for Talent': "More than two-in-five entrepreneurs tried to hire during the pandemic, with many having difficulties finding qualified candidates to fill open positions."

Michigan Data using Paychex, Thumbtack and Small Business Pulse data

It remains difficult to obtain near term small business employment data at the state level. This Score Card Draws upon data from Paychex, Thumbtack and Census Small Business Pulse.

1. The Small Business Jobs Index from Paychex:

Using aggregated payroll information from a subset of Paychex clients (monthly Small Business Wage Report) one can estimate state hourly and weekly earnings, as well as weekly hours worked.

"The Small Business Jobs Index reports the level of and changes in employment growth, while the wage data reports earnings and hours and their associated growth rates. These factors both relate to the overall health of small businesses. The Small Business Jobs Index tracks small business employment trends. The index number is **scaled to 100 during 2004**. If the index trends down it is a sign of a decrease in small business employment. If the index trends up, it is a sign of increase in employment. Values above 100 indicate performance above pre-recession 2004 levels."

	WA	NC	IN	WI	MI	IL	MD	OH	GA
Jobs Index	99.35	101.85	101.47	99.75	98.43	98.79	97.64	97.97	-
12m change	9.24%	8.80%	6.60%	5.77%	4.57%	3.56%	3.34%	2.35%	-

Source: Paychex

Findings:

- Michigan is in the middle of the pack in terms of small business job index change from 12 months ago (August 2020-2021)
- Only two states are back at 2004 small business job levels - North Carolina and Indiana

2. Michigan Small Business Employment

From the Census Bureau Small Business Pulse Survey as of the week of September 13, almost 30% of small businesses in Michigan experienced a moderate to large decrease in employment compared to pre-pandemic (March 2020) levels. This means the state's percentage decrease in employment is similar to most of its peers. However, Michigan was the second worst in share of small businesses with a large job loss. Georgia and Maryland experienced the least decrease.

	Moderate decrease in employment compared to pre-pandemic levels	Large decrease in employment	Moderate to Large decrease in employment (sum)
GA	20.5%	6.3%	26.8%
MD	20.6%	7.2%	27.8%
OH	20.9%	8.3%	29.2%
MI	20.4%	9.3%	29.7%
WA	22.2%	7.5%	29.7%
IL	22.8%	7.8%	30.6%
IN	25.3%	6.2%	31.5%
NC	21.3%	10.2%	31.5%
WI	24.0%	7.5%	31.5%

Source: US Census Bureau, Small Business Pulse Survey, Relative to March 2020

3. Hiring

The Small Business Pulse Survey of the week of September 13 this year finds Michigan small businesses facing a greater challenge in hiring than many of its peer states.

	MD	IL	NC	GA	WA	MI	OH	IN	WI
Percent of small businesses with difficulty in hiring	30.8%	33.6%	34.8%	34.9%	35.0%	36.1%	36.1%	36.9%	40.9%

Source: US Census Bureau, Small Business Pulse Survey

This is corroborated by the Thumbtack Small Business survey of 2021, where small businesses rank the state an F in terms of the ease of hiring, along with Indiana and Wisconsin. However, overall in terms of government policies supporting the workforce and hiring Michigan ranked Michigan B+.

Ease of Hiring	
State	Grade
Georgia	B
Illinois	C-
Indiana	F
Maryland	C-
Michigan	F
North Carolina	B
Ohio	D+
Washington	A
Wisconsin	F

Employment, Labor & Hiring	
State	Grade
Georgia	A
Illinois	C-
Indiana	A+
Maryland	B+
Michigan	B+
North Carolina	B+
Ohio	A
Washington	B-
Wisconsin	C-

Source: Thumbtack Small Business Survey 2021

4. Earnings

The Paychex Small Business Wage report, reports a 3-month annualized change in hourly earnings and weekly hours worked as of August. It places Michigan slightly above the middle of its peers, though all states have been experiencing declining work hours over the summer months.

	3 Month Change in Hourly Earnings	3 Month Change in Weekly Hours Worked
OH	6.0%	-1.0%
NC	5.4%	-2.0%
IN	5.3%	-1.2%
MI	4.7%	-1.2%
GA	4.6%	-2.8%
IL	3.7%	-0.1%
MD	3.7%	-2.2%
WA	3.3%	-1.4%
WI	3.0%	-1.8%

Source: Paychex; annualized data

5. Policy Responses: Training and Networking

The Thumbtack Small Business survey of 2021, ranked Michigan at A+ in terms of state and local government supporting workforce training and networking. Michigan places above many of its peers. Georgia and Maryland are on a par and Indiana not far behind. As noted above in terms of government policies supporting the workforce and hiring Michigan ranked Michigan B+. However, Michigan is struggling with ease of hiring.

There does appear to be a disconnect between the difficulty in hiring new workers, where Michigan ranks very low and state and local program support for hiring where Michigan ranks much higher. This appears to apply particularly in the hiring entry level jobs, both full and part-time. The hiring system, along with state support programs, is working better for mid and senior level workers. However, just at a time when consumer demand is ramping up, many small businesses are having great difficulty filling positions, especially those needing seasonal, entry level, or part-time workers. Small businesses are reporting substantial changes in wages, benefits, flexible work schedules, and remote work opportunities to attract and retain workers. Still, workforce shortages are persistent and present in most industries.

Training & Networking Programs

State	Grade
Georgia	A+
Illinois	C-
Indiana	A
Maryland	A+
Michigan	A+
North Carolina	C
Ohio	C+
Washington	C+
Wisconsin	B-

Source: Thumbtack Small Business Survey 2021

CONCLUSION

The topline economic recovery is solid

There are clear indications of economic improvement in Michigan, but it is not business as usual. This year we've seen eight months in a row of improved GDP. The State Coincidence Index of the Philadelphia Reserve Bank shows Michigan improving similar to national averages in 2021.

Through early 2020, Michigan's hiring rate had been slightly below the U.S. for several years. But the state's hiring rate has recovered well since April 2020, and the state's job opening rate has also been at or above the U. S. rate.

Small businesses are not experiencing the same rate of recovery

The topline economic statistics mask the significant struggles in the recovery of small businesses. Many industries dominated by smaller businesses are far from pre-pandemic levels.

The nature of this pandemic and the government restrictions implemented as a result had a much larger impact on smaller businesses as compared to industries dominated by larger businesses. Additionally, changing consumer habits were accelerated by the pandemic and led to several changes. More consumers turned to large online retailers. Long-term closures of offices decimated small retail and restaurants in downtown business districts. Many sit-down restaurants, entertainment related businesses and convention/reception venues closed for good under the weight of government restrictions.

Michigan is still experiencing more small business closures and revenue loss compared to other states

While it is impossible to know how many small businesses closed their doors for good, [Opportunity Insights Economic Tracker](#) shows Michigan lagging the nation in both the percentage of small businesses open and the loss in revenue experienced by small businesses. Personal consumption expenditures on services remain below pre-pandemic levels, even as expenditures on goods have fully recovered. The service industry is dominated by small businesses.

Staffing shortages and rising costs are holding small businesses back

As the economy continues to reopen, employers are reporting significant hardships with rising costs and staffing shortages. Supplemental unemployment payments were discontinued in early September, and since then, the size of the Michigan workforce has shown some signs of modest gains. Additionally, price inflation has started to make its way into several areas of the economy, posing new challenges to small businesses seeking to recover. These rising costs are squeezing the margins of small businesses and supply chain disruptions are presenting new challenges to maintaining consistent operations and meeting demand.

Some reason for optimism and caution

In the early stages of recovery there are objective reasons to be optimistic and cautious. In 2021, Michigan is recovering well compared to some of our midwestern neighbors. However, we are lagging our top comparator entrepreneurial states in some key metrics, as noted in Chapter 3.

An examination of previous recessions shows that while the number of small businesses and employment tends to fall through recessions and for approximately 12 months beyond the recession end, that decline is typically followed by a few years of fast growth. The five-year survival rate of new businesses often picks up around the same time. This is great news considering the unexpected explosion of new business filings we have seen during this pandemic.

Still, while history predicts that we are entering a period where we could see fast growth in our entrepreneurial economy with pent up demand and more disposable income, small businesses are facing inflation, workforce shortages, and supply chain challenges that are limiting their growth and recovery opportunities.



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