

20th Annual **SCORE CARD**

2024

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Acknowledgements

The Michigan Entrepreneurship Score Card 2024 – Twentieth Annual Edition was authored by Brian Calley with research and analysis by Dr. Graham Toft, President of Growth Economics Inc. and Dr. Nadine Jeserich, ROI – Research on Investment, Canada.

The Michigan Entrepreneurship Score Card analytics and methodology were developed in 2004 by Dr. Graham Toft, President, Growth Economics Inc. and Dr. Nadine Jeserich, ROI–Research on Investment, Canada.

Design and printing was provided by the Small Business Association of Michigan.

The Michigan Entrepreneurship Score Card 2024 – Twentieth Annual Edition is published by SBAM Foundation.

ABOUT THE SBAM FOUNDATION

It will focus its work on:

- Research and publications in connection with entrepreneurship
- Training and education on entrepreneurship including those that benefit disadvantaged individuals and economically challenged communities
- In-depth analysis of the entrepreneurial environment in Michigan via the Michigan Entrepreneurship Score Card

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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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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, and delivering group buying power.

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Twenty Years of the Michigan Entrepreneurship Score Card

This edition of the Michigan Entrepreneurship Score Card marks twenty years of its annual publication. This milestone gives us an opportunity to review, analyze, and measure how Michigan and our entrepreneurial environment has changed over the last two decades.

When the first Score Card was published, Michigan was in the midst of a long-term economic slowdown. The Small Business Association of Michigan set an ambitious goal to start the long and difficult climb of becoming a “Top Ten” state for entrepreneurs. To get there, we had to understand how Michigan performed against other states in a variety of dimensions. 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. We set about to design and publish annual progress (or lack thereof). The Score Card has become one of the most complete and comprehensive assessments of each state and how well the entrepreneurial economy is performing.

ENTREPRENEURIAL ECONOMY

The “entrepreneurial economy” refers collectively to sole proprietorships as well as small and mid-sized for-profit businesses. This segment is known for its dynamism – lots of establishments forming, merging, surviving, failing, expanding, contracting, moving, and growing. Research continues to confirm that around 50% of net new jobs are created by this segment of the economy.

Michigan’s entrepreneurial economy is complex. It is important to capture the many nuances and dimensions of the entrepreneurial economy and their rate of change. No single measure or metric will work. Understanding how Michigan’s entrepreneurial future is positioned relative to the entrepreneurial economies of other states is even more challenging.

OPPORTUNITIES FOR BREAKAWAY ECONOMIC GROWTH

Like all our annual reports to date, this twentieth edition’s primary focus is to uncover where Michigan stands in relation to its competitor and comparator states in the context of an ever-changing national and global economy. **The Score Card is not a policy document, but rather a fact-finding exercise that uncovers strategic choices and highlights promising opportunities for breakaway economic growth. Michigan’s policy makers can learn from the business cycles of growth and recession and use the Score Card as a measuring stick to evaluate how well Michigan is performing for small businesses.**

Despite the economic uncertainties and constant changes faced by Michigan and the US, one consistent finding from past Score Card reports is the indispensable role small businesses play in both good and bad economic times. The severe but short 2020 COVID Recession is in the rearview. The post-recession economy is spurred by pent-up demand and from households putting pandemic savings to work. Michigan and the US saw significant new business start-ups during and in the immediate aftermath of the pandemic, with existing businesses reinvesting at a remarkable pace, especially given the actions taken by the Federal Reserve to combat inflation over the last two years.

The bottom line from this report is that since 2020 the Michigan economy has not shown its usual post-recession exuberance and has slipped in position relative to its Midwestern neighbors.

CHAPTER ONE

10 KEY TAKEAWAYS

10 KEY TAKEAWAYS OVER 20 YEARS

1. The business cycle dominates the ebbs and flows of Michigan small business activity and vitality.

The ‘pro-cyclical’ nature of Michigan’s economy is predictable due to its industrial base and trade flows. This can result in deeper troughs and higher peaks in the state’s GDP rhythm. An important question for state leaders and policy makers is “how do we capitalize on the upswings and mitigate the down turns?”

2. Over the last 20 years, Michigan gained, then lost, a leadership position in net new jobs from business expansions.

This graph on the following page illustrates net job gains from business expansions minus job losses from job contractions. Twenty years ago, Michigan’s performance (blue line) closely mirrored that of the lowest performing state (grey line). Between 2011 and 2019, Michigan saw substantial improvement and then plateaued, closely tracking the best performing state in the US (orange line). Then the 2020 COVID Recession hit hard. Michigan’s performance shows a pronounced separation from the top performing state and continues to track downward toward the lowest performing state.

3. There is a very close correlation between the entrepreneurial economy and the broader state economy.

If a state’s overall economy is doing well, its small business sector will do well, and vice versa. The Score Card has been focused on how entrepreneurialism drives growth in the expansion phase of business cycles. Second-stage businesses have played a leadership role

in economic growth. Consequently, over the last 20 years, second-stage businesses have been one focus of the Score Card.

Traditionally, “second stage” businesses have been defined as having 10-99 employees and over \$1 million in annual revenues. While such definitions are crucial for statistical measurements, we believe a more nuanced definition should be embraced by policy makers looking to create an environment of success around this exciting segment of growth oriented small businesses.

Second stage businesses are well beyond the “start-up phase” having achieved overall stability, profitability, and sustainability. They are typically focused on scale and market expansion in addition to economies of scale and improved profitability.

4. Michigan had already lost significant ground in per capita income compared to other states by the time the first edition of the Score Card was released.

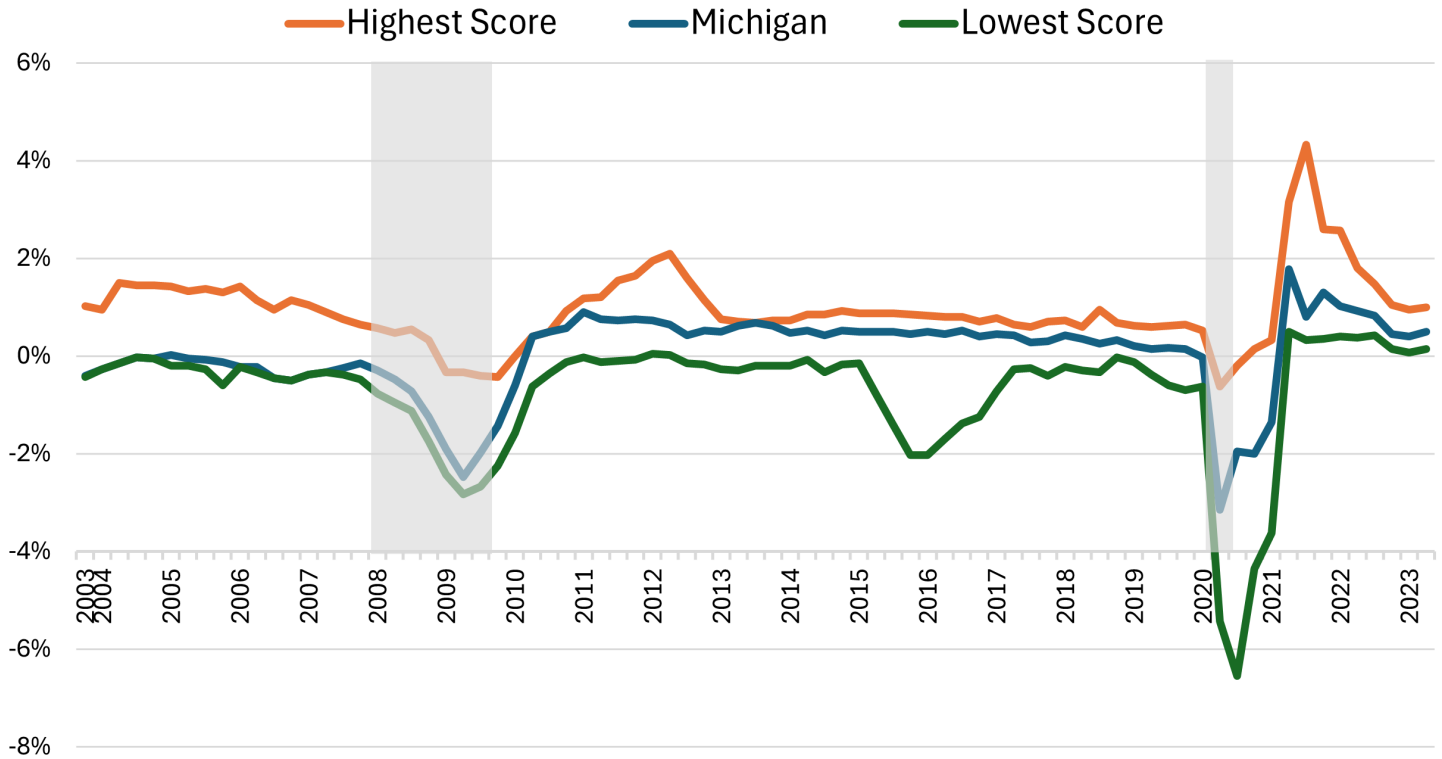
Michigan Future reported a decline in the state’s per capita income, ranking Michigan 20th among the states in 2001, noting the state’s per capita income had grown 12% slower than the national average since 1969.

5. The per capita income gap between Michigan and the rest of the nation has grown.

	2002			2022		
	MI	US	DIFF	MI	US	DIFF
Per capita income	\$30,595	\$31,801	-\$1,206	\$57,038	\$65,470	-\$8,432

Source: Bureau of Economic Analysis; not inflation adjusted

Net Job Gains from Expansions-Contractions, 2003-Q2.2023



Source: Bureau of Labor Statistics. Business Employment Dynamics. 4-Quarter moving average.

6. The 2012-2018 period was noteworthy for Michigan Small Business growth and vitality – but that progress has faded since the pandemic.

The early years of Score Card releases showed slow but encouraging improvements in Michigan's competitive position. Then, from 2012 to 2018, the Score Card found Michigan's Small Business economy turning around as part of a broader business cycle uptake. By 2017, Michigan's improvement looked resilient. However, our standing relative to other states has deteriorated since the pandemic.

7. New business formations, especially in the early stages of the business cycle, drive job growth and diversify the economic base of our state.

A closer examination of the net jobs graph in the second key takeaway illustrates how important the early post-recession business uptake can be. It also illustrates how the best performing state has a longer job expansion period – about one year longer. During this time, new entrants in the form of startups and first stage businesses are a major source of job growth. They serve as the building blocks for a more vibrant and diversified economic base over the remainder of the business cycle and beyond.

8. Small business survival data is a bright spot.

The Score Card has consistently highlighted the 5-year business survival rate as a useful indicator of entrepreneurial success and a warning sign when the entrepreneurial economy is dragging. Since the mid-2010s, Michigan's business survival rate not only improved but moved closer to the best performing state, Massachusetts.

9. Small business growth is our most substantial job creation engine.

Michigan's small businesses are a powerful and foundational employment base. In 2023, more than 53,404 Second Stage employer establishments in Michigan accounted for 1.4 million private sector jobs, representing 37% of Michigan's private sector employment. When combined with earlier stage businesses, small businesses accounted for 51% of private sector jobs. Notably, of the 129,146 net jobs added to the Michigan economy in the past 20 years, 59% have been created by first and second stage businesses combined.

10. Workforce – a strength and a weakness.

Michigan continues to rank in the Top 10 across R&D and high-tech workforce metrics. This is a critical economic competitive advantage for Michigan's entrepreneurs in a post COVID economy. This contributes to high R&D spending in Michigan, although we have seen some slippage in recent years. Notably, Michigan's physical science and engineering workers, as a percent of all workers, has ranked among the nation's best in recent years. The state is also strong in skilled trades, technicians, and technologists.

However, over the last 20 years, Michigan has experienced a decline in the number of workers of prime working age (ages 25-54), a trend that will most likely persist and worsen in the coming decades.

From 2004 to 2023, overall labor force participation (a measure of the percent of working-age adults either employed or actively seeking employment) declined by approximately 4%. Michigan's situation is more acute than many other states – consistently in the bottom half. On a positive note, while 2023 levels have exceeded 2021 and 2022, the state still only ranks 33rd.

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.



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CHAPTER TWO

SMALL BUSINESSES: THEN AND NOW

SUMMARY

A lot can change over 20 years. This report traditionally focuses on recent trends, but with such a rich body of work spanning two decades, it is time to take a step back and consider the way the small business economy has changed since the Score Card was first published.

To put small business growth rates in perspective, a quick review of changes in the Michigan economy can help. From 2003 to 2023, Michigan’s population hardly budged (-0.04%), while its labor force participation rate declined 4%. On a positive note, state output and real GDP increased by 8-9%. While a shrinking workforce is one of our biggest challenges, over the last twenty years the state’s productivity has improved from higher output achieved with fewer workers.

Small businesses have made a substantial contribution to productivity gains and job growth over the last twenty years. They have also created impressive payroll and average wage growth. The small business value proposition to Michigan is compelling:

- The fastest growing businesses by size category has been the very small (1-9 employees), which have increased in number over 30% in the past 20 years.
- Sole proprietors have become more prevalent and job growth in the 1-9 and 10-99 employee categories have increased faster than larger businesses by 4.4% and 4.1% respectively.
- Perhaps most notable is the total payroll growth of businesses with 1-9 employees, which stands at 103%, and average weekly wage growth at 95%, nearly double the increases of large businesses.
- The income growth of Michigan sole

proprietors has improved the past 10 years and is now outpacing the U.S.

Small Businesses themselves have experienced important changes in ownership demographics:

- Michigan business ownership by women (regardless of business size) now surpasses the US rate.
- The minority and veteran shares have also improved, but have not yet reached the US level.

AN IMPERFECT DEFINITION

The U.S. Small Business Administration defines ‘small business’ as a private enterprise employing up to 500 employees. As discussed briefly in Chapter 1, defining and classifying small businesses is difficult due to the number of relevant factors involved. For the purposes of this Score Card, we have deferred to the definitional work of the Edward Lowe Foundation and others. Under this methodology, small businesses are segregated into four business “stages” based on employee count.

These definitions are by no means perfect, but objective classifications are necessary for research, business statistics, and public administration. In the real-world businesses present a continuum by size, industry, owner’s desire to grow, legal structure, role of employees in indecision-making, etc. This shorthand definition by size has remained the most widely used over time:

Entrepreneurial Business Stage	# of Employees
Self-Employed	No employees; single or few owners
Stage 1	Businesses with 2-9 employees
Stage 2	Businesses with 10-99 employees
Stage 3	Businesses with 100-499 employees
Large Business	Greater than 500 employees

Traditionally, the Score Card focuses on private, for-profit enterprises with fewer than 100 employees (self-employed, stage 1 and stage 2). Businesses of these sizes are known for their dynamism.

20 YEAR PERSPECTIVE

Over the past twenty years, Michigan’s real GDP growth has been estimated in the range of 8.4% to 9.3%. This is an achievement in productivity given our population did not grow. It is instructive to know which businesses (categorized by size) have been and are creating new jobs, payroll, and wage growth.

According to the Quarterly Census of Employment and Wages (QCEW), 305,254 employer businesses in Michigan were responsible for more than 3.7 million jobs in 2023.

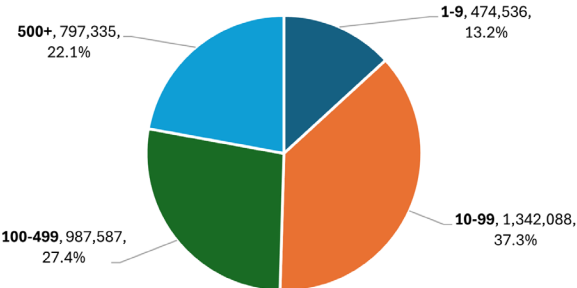
Of all businesses with employees:

- 80.6% of establishments had 1-9 employees
- 17.5% had 10-99 employees
- 1.7% had 100-499 employees
- 0.2% more than 500 employees

These proportions are quite similar to national norms which stand at 80.4%, 18%, 1.5%, and 0.2%, respectively.

While small businesses with 1-9 employees represent the bulk of Michigan businesses, looking at total employment counts by stage is perhaps more relevant when measuring broad economic impact. Small businesses shine here too, as the following pie chart illustrates. Please note that this chart represents the proportion of employment provided by the private sector and does not include sole proprietor businesses with no employees. The bottom line is that small businesses provide the most jobs – especially those with 10-99 employees.

Number and Percent of Michigan Private Sector Jobs by Business Size, 2023 (excl. self-employed)



Source: US Bureau of Labor Statistics, QCEW

While we appreciate and celebrate how important small businesses are to the Michigan economy, when comparing the Michigan growth rate in the number of establishments to the national average, Michigan fell short. The number of Michigan businesses with 1-9 employees has increased substantially over the past twenty years by 31% and far exceeded the Michigan growth rate of any other category. But the national growth rate in every category over the same 20-year time period far exceeded that of Michigan.

It is worth noting that establishment growth in the 1-9 employee category feeds each level above it. Michigan likely underperformed the 10-99, 100-499 and 500+ levels because it first fell short in the creation of businesses with 1-9 employees.

Establishment Growth 2003-2023	Michigan	US
1-9	31.0%	52.3%
10-99	3.9%	24.1%
100-499	2.6%	18.4%
500+	3.7%	14.8%
Source: QCEW		

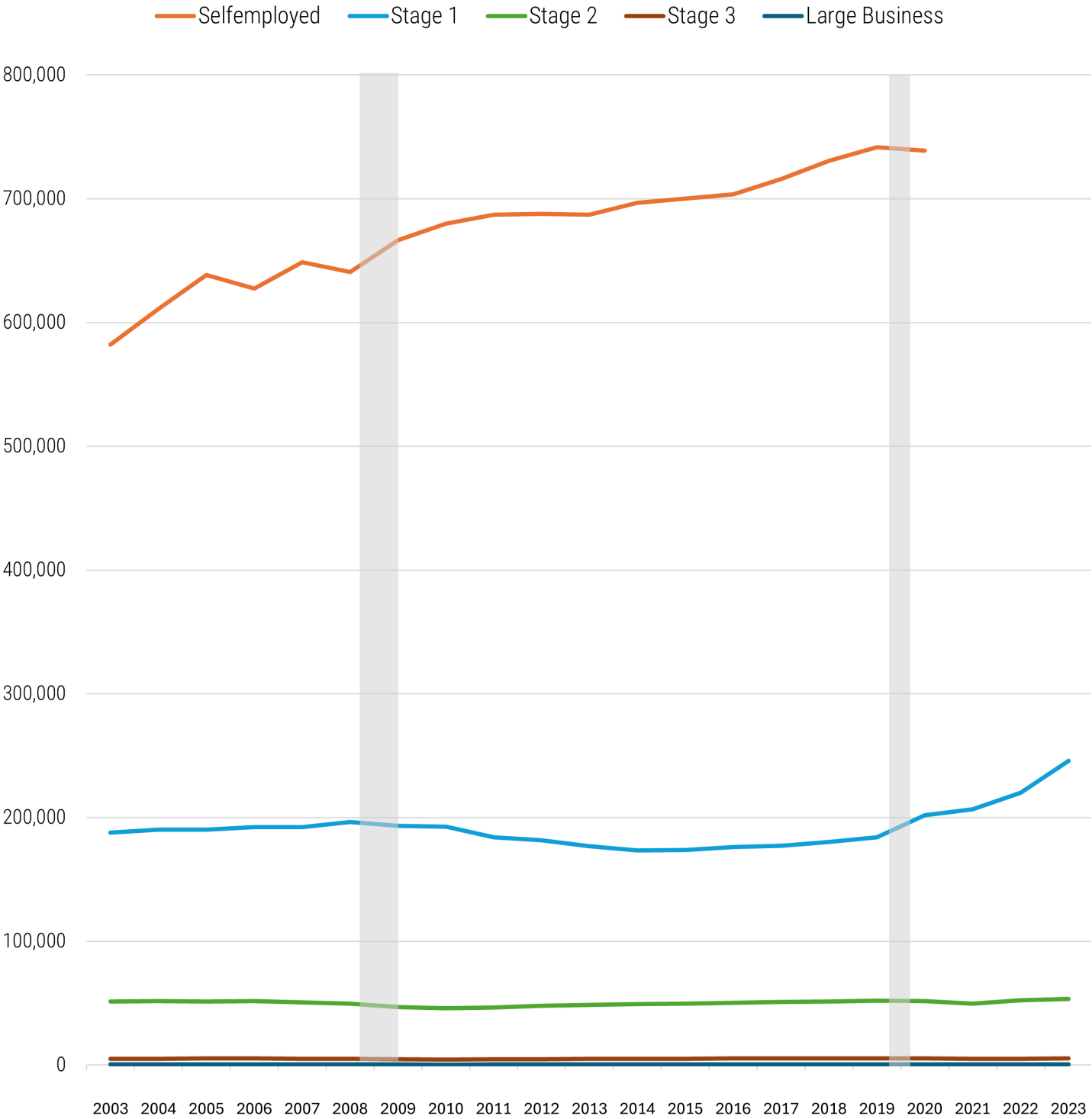
A CLOSER LOOK AT WHERE WE HAD GROWTH

In the last 20 years, the self-employment and stage 1 businesses have grown in number by 33% and 31%, respectively, far outpacing growth in the number of stage 2, stage 3 and large

businesses. The trend of self-employment points to fundamental changes in how very early stage 'solo-preneurs' are responding to a changing economy. These businesses might be part-time,

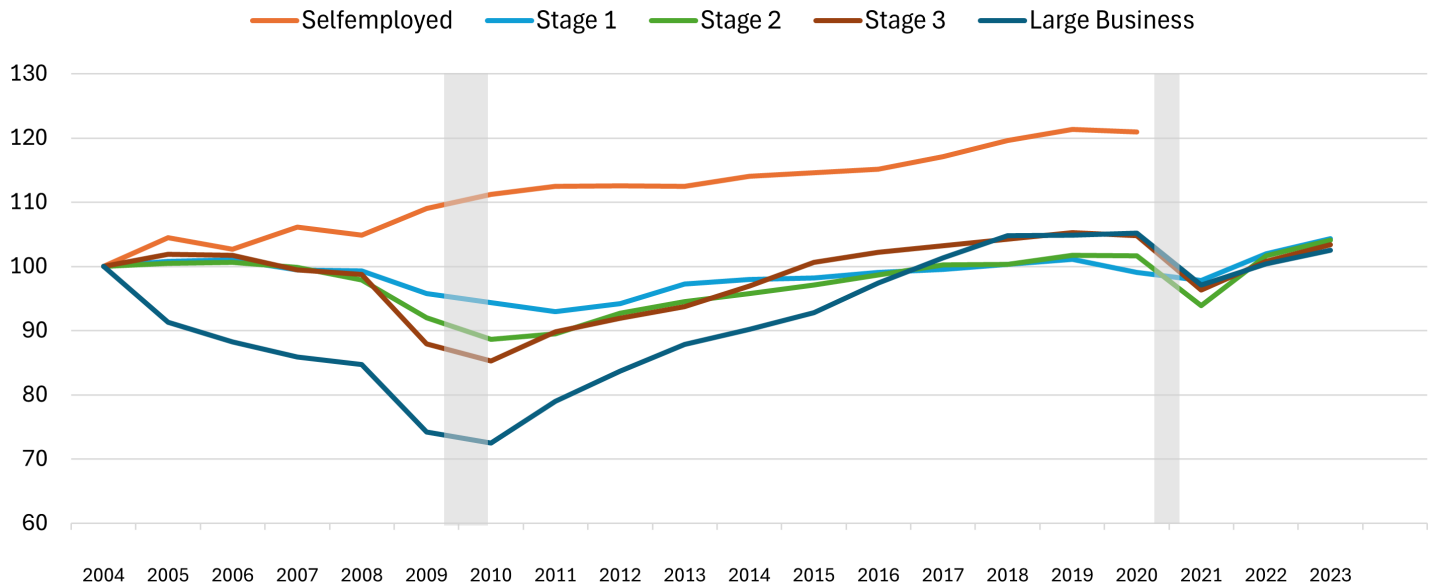
flexible, trial and error, and/or add-ons to more permanent employee positions held by start-up business owners.

Michigan Establishment Count by Business Size, 2004-2023



Source: Bureau of Labor Statistics, QCEW; US Census Bureau Nonemployer Statistics

Michigan Employment by Business Size, 2004-2023 (2004=100)



Source: Bureau of Labor Statistics, QCEW; US Census Bureau Nonemployer Statistics

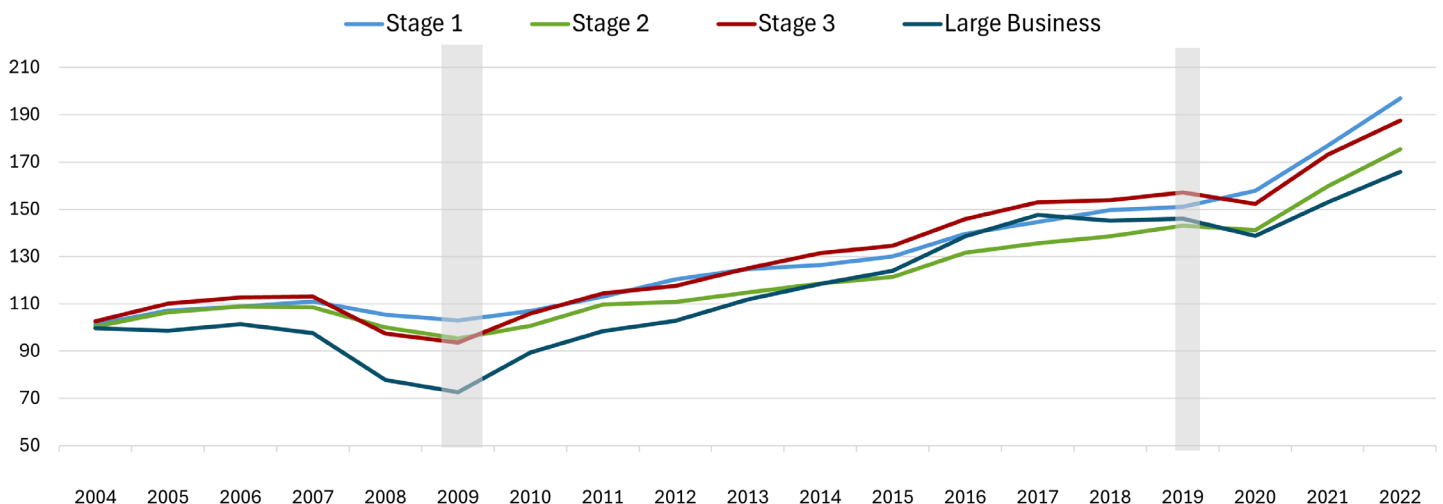
NUMBER OF EMPLOYEES

Self-employment growth has truly been an outlier when compared to every other category. Employment growth rates for stage 1, stage 2 and stage 3 businesses and large businesses have been substantially lower and similar over the past twenty years, typically in the 3-4 % range. It is worth noting that large and medium sized businesses experienced the largest percentage of job losses during the Great Recession.

PAYROLL GROWTH

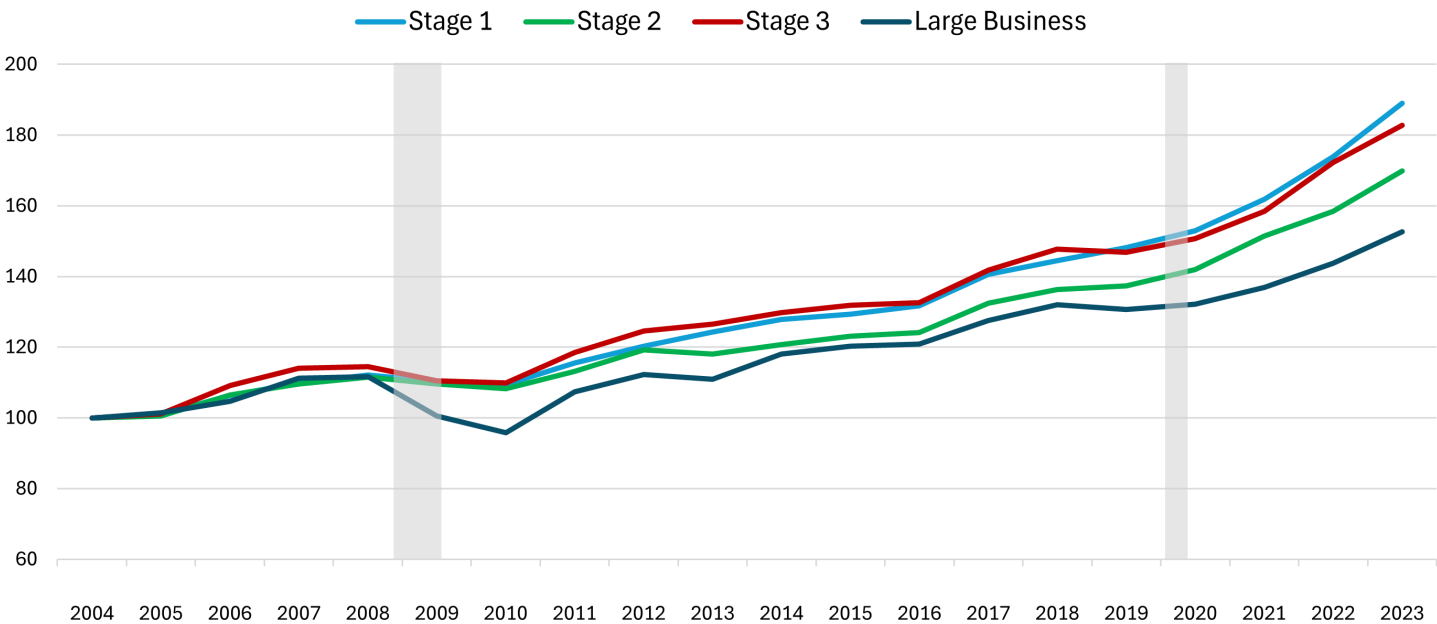
The total payroll growth for stage 1 businesses noticeably exceeded that of every other category, doubling in twenty years. Large businesses (those with over 500 employees) had the largest decline during the Great Recession and had the smallest overall percentage of payroll increase between 2004 and 2023.

Michigan Payroll by Business Size, 2004-2023 (2004=100)



Source: Bureau of Labor Statistics, QCEW

Michigan Average Weekly Wage by Business Size, 2004-2023 (2004=100)



Source: Bureau of Labor Statistics, QCEW

WEEKLY WAGE GROWTH

Similar to the payroll growth metric, average weekly wage growth of stage 1 business nearly doubled and noticeably exceeded that of stage 2 and 3 businesses, as well as large businesses.

Quick Reference Table of Data Used in the Preceding Line Graphs

	Then (2003)	Now (2023)	20 yr. change
MI Population	10,041,152	10,037,261	-0.04% (U.S. 16.8%)
MI Real GDP estimates			+8.4-9.3 %
BUSINESSES			
Self-Employment	582,296	738,884 (2020)	33%
Stage 1 Business Establishments (1-9 empl)	187,725	245,912	31.0%
Stage 2 Business Establishments (10-99 empl)	51,411	53,404	3.9%
Stage 3 Business Establishments (100-499 empl)	5,182	5,316	2.6%

	Then (2003)	Now (2023)	20 yr. change
Large Business Establishments (500+ empl)	600	622	3.7%
EMPLOYMENT			
Stage 1 Business Employment	475,536	496,217	4.4%
Stage 2 Business Employment	1,342,088	1,396,995	4.1%
Stage 3 Business Employment	987,507	1,021,044	3.4%
Large Business Employment	797,336	817,358	2.5%
PAYROLL			
Stage 1 Payroll	\$3,608,718	\$7,334,831	103.3%
Stage 2 Payroll	\$11,101,587	\$20,123,855	81.3%
Stage 3 Payroll	\$9,533,219	\$18,252,029	91.5%
Large Business Payroll	\$11,598,817	\$18,214,360	57.0%
WEEKLY WAGES			
Stage 1 Business Weekly Wages	\$588	\$1,143	94.5%
Stage 2 Business Weekly Wages	\$633	\$1,105	74.4%
Stage 3 Business Weekly Wages	\$745	\$1,386	86.0%
Large Business Weekly Wages	\$1,064	\$1,674	57.4%
Source: US Bureau of Labor Statistics, QCEW, US Census Bureau, Non-employer Statistics			

A LOOK AT PERFORMANCE THOUGH BUSINESS CYCLES

Since the first Score Card Report in 2004, we have experienced two recessions – one very long and deep, the other, very short and deep. Businesses with 10-99 employees and above appear to follow similar patterns. Their job creation begins to slow 1-2 years before a recession, then the recession hits with substantial job losses, followed by an exuberant recovery for 1-2 years. For stage 2 businesses, the post-recession upturn can be particularly strong, as shown by the spike in the stage 2 line in 2022. Surprisingly, this pattern is not nearly so evident with stage 1 businesses, who drop more mildly into the recessionary trough, followed by a subdued upturn in the post-recession recovery phase.

It is noteworthy that during and immediately after recessions, there is often an uptick in new business starts. We believe that this is, in part, because some of those who lose their jobs and choose to start new businesses. As the business cycle progresses, some stage 1 businesses ramp up to become stage 2 businesses, while others falter or dissolve as founders are

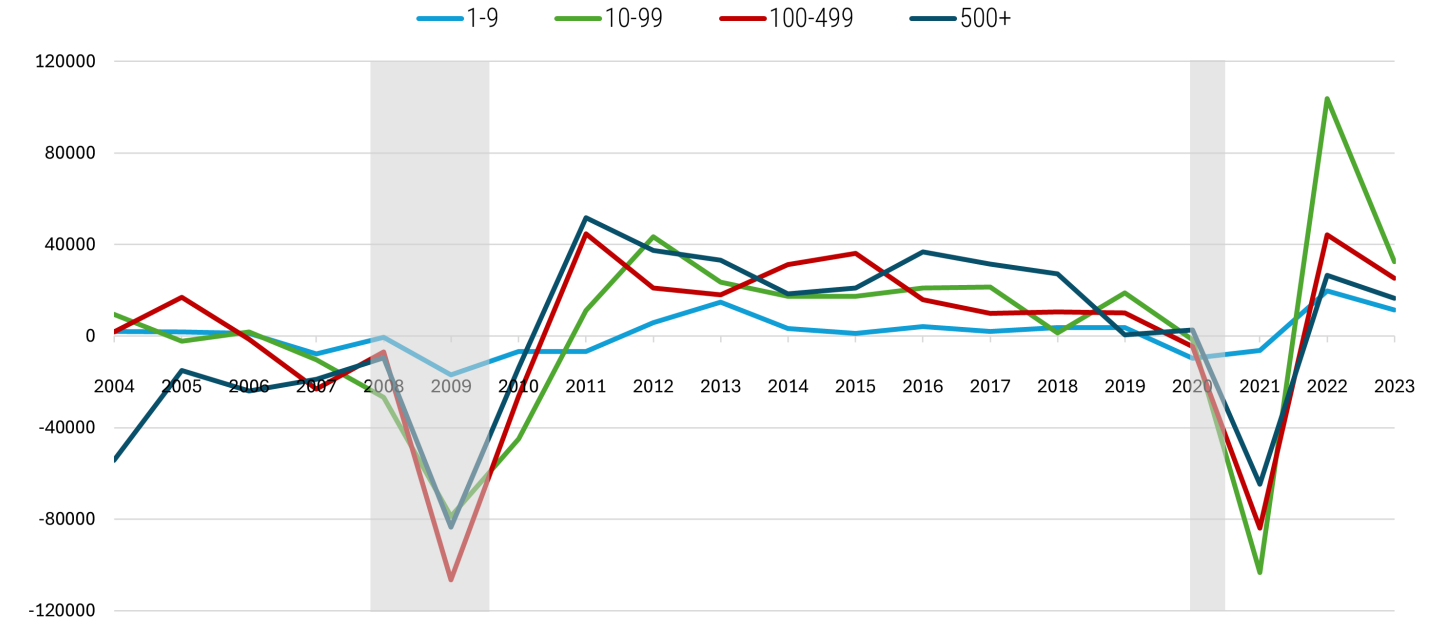
absorbed back into mainstream employment. As the business cycle continues to mature, these newly successful, stage 2 companies add to job creation. Given expected volatility in the business cycle going forward, successful states will likely employ strategies that support various small businesses in various stages.

BUSINESS OWNERSHIP SHARES BY DEMOGRAPHIC GROUPS IN MI & THE U.S.
(Includes businesses with fewer than 500 employees)

Total employment, 2021 ¹	3,768,321
Total annual payroll, 2021 (\$1,000) ¹	216,772,518
Total employment, percent change, 2020-2021 ¹	-5.8%
Total nonemployer establishments, 2020 (self-employment)	738,884
All employer firms, Reference year , 2021	164,416
Men-owned employer firms, 2021 ²	105,778
Women-owned employer firms, 2021 ²	32,012
Minority-owned employer firms, 2021 ²	15,234
Nonminority-owned employer firms, 2021 ²	139,579
Veteran-owned employer firms, 2021 ²	6,306
Nonveteran-owned employer firms, 2021 ²	147,079

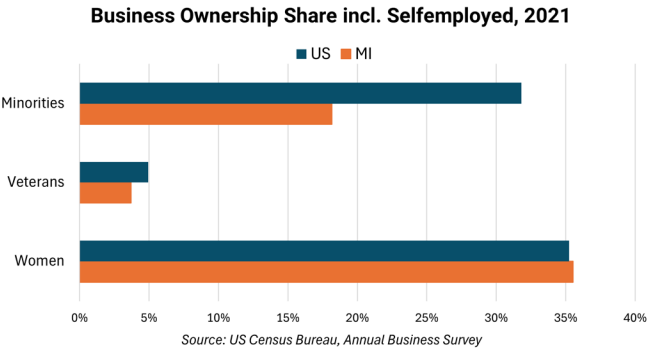
Sources: (1) US Census Bureau, Statistics of US Businesses, (2) US Census Bureau, Annual Business Survey

Michigan Private Incremental Job Gains/Losses by Business Size



Source: US Bureau of Labor Statistics, QCEW

Comparing Michigan to the US, fewer minorities and veterans own businesses. Michigan’s rate of women owned businesses slightly exceeds that of the US.



MAKING UP GROUND IN DIVERSITY

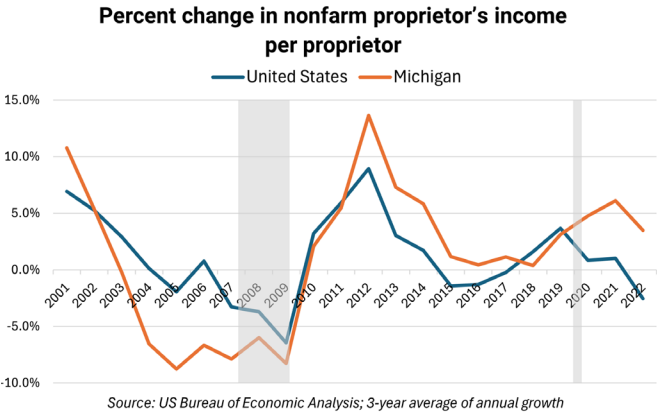
While Michigan is less diverse in business ownership than the US as a whole, the state has become more diverse over the last 20 years. The share of minority and women-owned businesses increased considerably between 2002 and 2021. This data includes all businesses, regardless of size.

Share in Total Firms	2002	2021
Minority Businesses	10.5%	18.2%
Women-owned	29.6%	35.5%
Veteran-owned (employer firms, nonemployer firms)	3.0%, 3.1%	4.9%, 3.5%

Source: US Census Bureau, Survey of Business Owners 2002, Annual Business Survey 2022, Nonemployer Statistics 2020

SOLE PROPRIETOR INCOME

A healthy entrepreneurial economy is one with a strong presence of sole proprietors. This metric captures earnings from self-employment, i.e. how monetarily rewarding ownership can be. The data below shows the rate at which income per proprietor grew or contracted annually, averaged over three years. As shown graphically and as reported in the annual Score Cards, 2010 to 2013 was a time of healthy uptick for sole proprietors. Overall, Michigan underperformed the US average for roughly the first decade and were on par with the US in 2010 and 2011. Michigan sole proprietors have mostly outperformed the US since 2011, except for 2018 and 2019.



SMALL BUSINESS GROWTH (OR CONTRACTION) BY INDUSTRY

The growth rates in the number of businesses varied widely by both stage and industry. This is perhaps one of the most revealing picture of how varied the experience of small businesses has been over the last 20 years, depending on industry and size.

While the wide variation of experiences makes it hard to make general statements about performance, small businesses with 1-9 employees in most industries grew more than others in terms of the number of establishments. Normally, this would bode well for future growth of stage 2 businesses, but in most industries, this has not yet come to fruition.

The retail, construction, manufacturing, and wholesale industries all have fewer establishments overall.

Change in Firms by Industry 2003-2021

NAICS	1-9	10-99	100-499	All Firms
Retail Trade	0.0%	-29.6%	-22.2%	-14.9%
Health Care and Social Assistance	6.7%	4.6%	-7.3%	11.6%
Other Services (except Public Administration)	6.9%	-22.6%	-19.4%	-8.0%
Professional, Scientific, and Technical Services	18.7%	-6.5%	-10.6%	-1.8%
Accommodation and Food Services	40.1%	14.1%	16.6%	8.8%
Construction	1.3%	-18.6%	43.7%	-22.4%
Administrative and Support and Waste Management and Remediation Services	53.2%	-13.4%	-41.2%	15.7%
Finance and Insurance	9.9%	-24.2%	18.4%	-9.0%
Manufacturing	-8.7%	-22.0%	-6.6%	-18.2%
Wholesale Trade	-18.1%	-22.6%	4.8%	-18.2%
Real Estate and Rental and Leasing	18.2%	-23.8%	55.5%	1.8%
Transportation and Warehousing	18.2%	-23.8%	55.5%	1.8%

Source: US Census Bureau, Statistics of US Businesses

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ENERGIZING IMPACT

Entrepreneurs and small businesses make a large impact in our communities. That's why the DTE Foundation is proud to support the Small Business Association of Michigan in its mission to serve small businesses and their owners who help create a thriving future. We're grateful for our partners who drive progress and opportunity for a brighter tomorrow.

DTE
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CHAPTER THREE

MICHIGAN'S CHANGING ECONOMY: 2004-2024

In Chapter 2, we took a close look at how small businesses have changed in the 20 years since the Score Card was first published. To get a complete picture, we must also consider that small businesses are operating in a substantially different environment as Michigan's economy has undergone meaningful changes during that time. This chapter highlights four consequential factors.

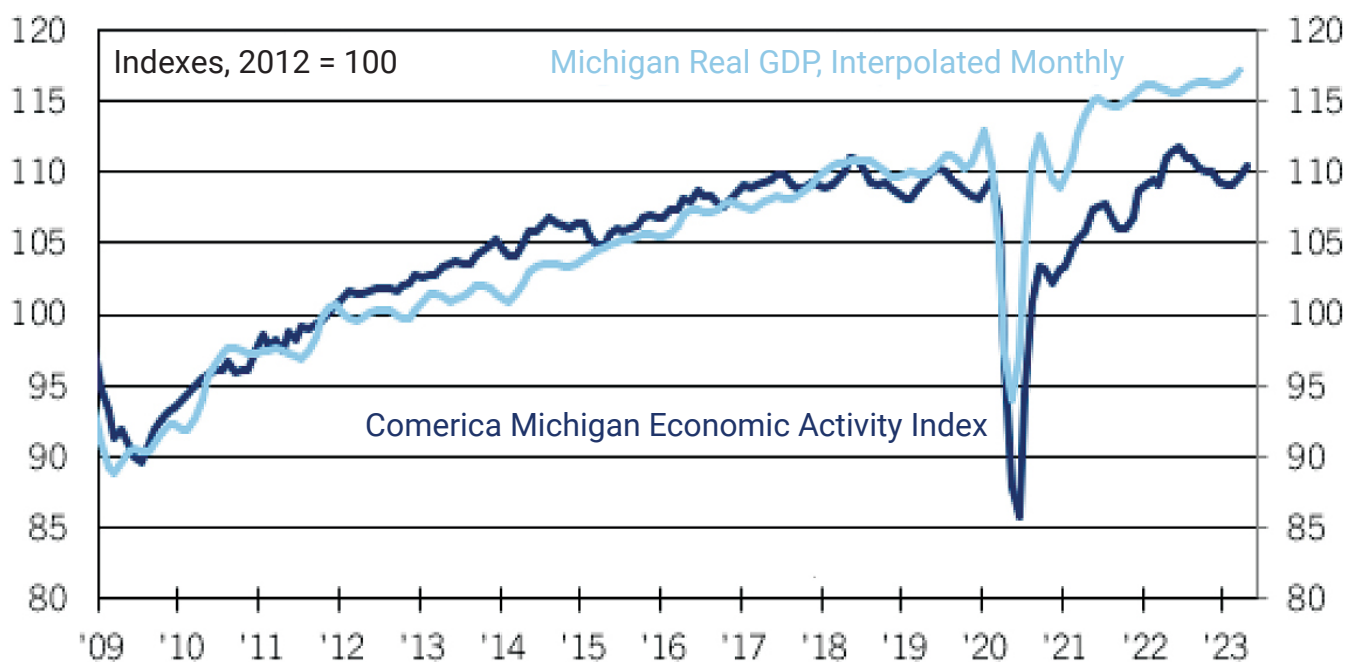
1. Changing economic competitiveness
2. Changing labor force
3. Changing exports
4. Changing housing, work from home and quality of life

1. CHANGING ECONOMIC COMPETITIVENESS: THE MICHIGAN ECONOMIC INDEXES, 2004-2024

1.1 Comerica's Michigan Economic Activity Index, 2004-24 — Real GDP shows upward Economic Progress; while the Economic Activity Index has levelled off since 2018.

The Comerica Michigan Economic Activity Index is a monthly composite indicator of state economic activity. Because it uses data released about one quarter earlier than real GDP, it provides an advance view. The long-term real GDP path shows a generally linear trend since 2009, though the activity index has levelled off since 2018. (The index is comprised of nine components: Nonfarm payroll employment, continuing claims for unemployment insurance,

Michigan Index and Michigan Real GDP



Sources: Comerica Economics, Bureau of Economic Analysis

housing starts, house prices, industrial electricity sales, foreign trade, enplanements, hotel occupancy, and state fiscal revenues. All data are seasonally adjusted.)

Bye and large, over the past two decades, Michigan has grown in line with the US economy. Notably, periods of severe economic disruption, the Great Recession of 2007-09 and the COVID Recession of 2020, inflicted significant damage to the state's economic condition. As shown in Chapter 3, entrepreneurial vigor after these events has played a significant part in the state's recovery. The 2021 Score Card noted Michigan's economy gained significant lost ground after the COVID Recession of 2020. Relatively quick recoveries in certain industries, such as manufacturing and construction, resulted in stronger topline economic performances in many categories in 2021-22. However, Michigan's recovery has not been even. Several industries still face extraordinary challenges that will likely continue as the pandemic aftermath slowly recedes.

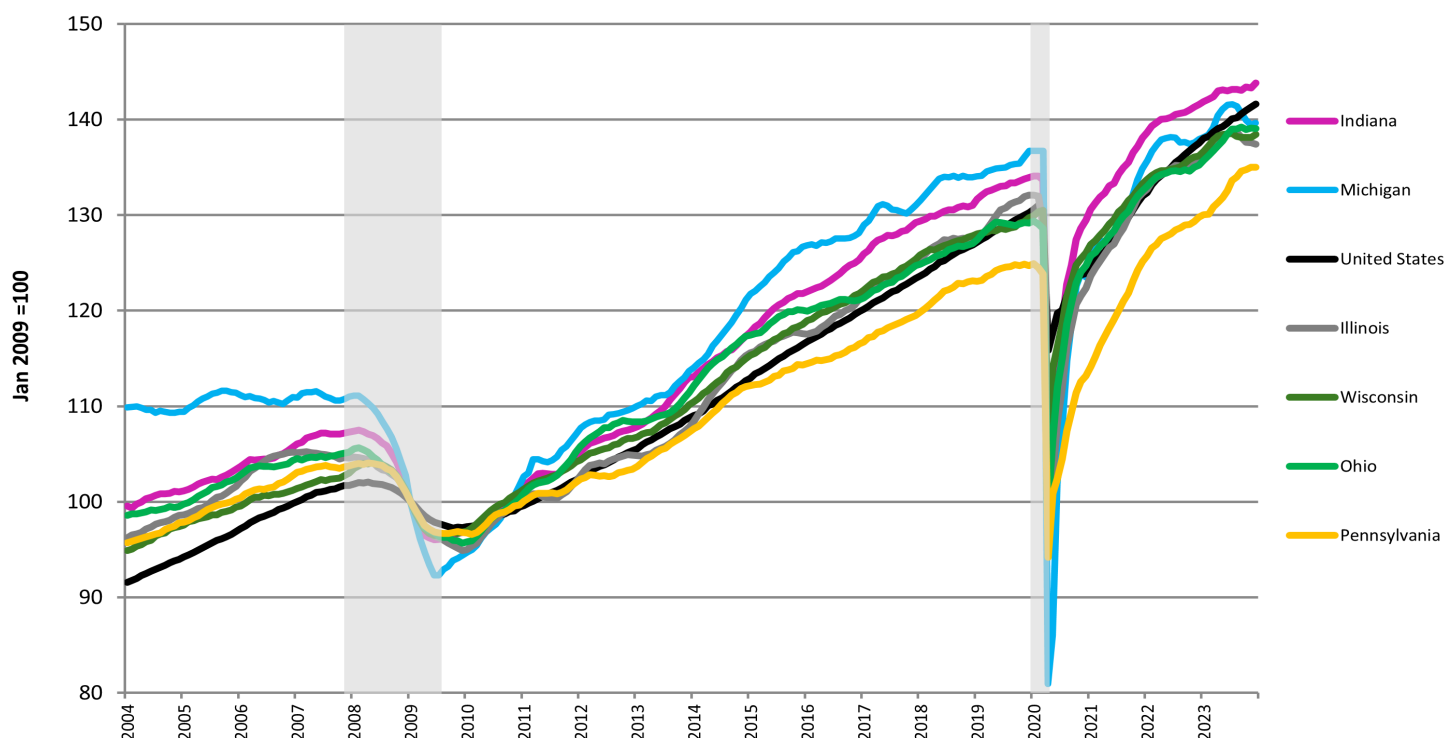
According to Comerica's economists, 2024's growth path will likely be more of the same:

"Michigan's economy is anticipated to grow by 1.4% in 2024, slightly below last year's growth, and in line with national economic growth. High interest rates and inflation, as well as negative spillovers from the national and global economies are expected to weigh on the Great Lake State's economy in 2024. The auto sector will be a bright spot as production catches up after the UAW strike and as supply chains normalize further." (Comerica Bank Insights, Michigan's State Economic Outlook 2024, Dec. 7, 2023, Bill Adams and Waran Bhahirethan)

1.2 The Federal Reserve Coincident Index: Midwest Economic Leader

The Coincident Index, from the Federal Reserve Bank of Philadelphia, is a widely recognized measure of near-time state economic growth and as a long-term trend indicator. Its composite score uses four monthly reported state-level variables: nonfarm payroll employment, average

Industrial Midwest Coincident Index, Jan. 2004 - Dec. 2023



Source: Federal Reserve Bank of Philadelphia

hours worked in manufacturing by production workers, the unemployment rate, and wage and salary disbursements deflated by the consumer price index. The trend for each state's index is set to match each state's long-term GDP growth so they can be compared one with the other.

For the past two decades, Michigan has been the economic growth leader among the industrial Midwest states. However, in recent years, Indiana has overtaken Michigan's position. Slippage in competitive position is further indicated when comparing Michigan's performance to that of the US average.

1.3 Employment Growth over 20 Years

A key contributor to GDP growth is changes in levels of employment — the actual number of people working in Michigan from year to year. Indeed, increases in new private sector employment is a critical driver of Michigan's GDP growth.

Between early 2010 and early 2014, Michigan's employment rate growth markedly exceeded that of the US and rest of the Midwest. Between late 2015 and late 2016, there were signs of acceleration. However, Michigan job growth slowed down again

in 2017-18. Michigan employment was severely impacted by the COVID Recession and while it recovered dramatically in 2021, by 2022-23 it quickly lost steam again.

1.4 Changing Competitiveness: 'Best States for Small Business' Rankings 2023-24 State

The slippage in Michigan's economic competitiveness relative to the Midwest states observed in Sections 1.2 and 1.3 is corroborated by recent 'Best States for Business/Small Business' rankings:

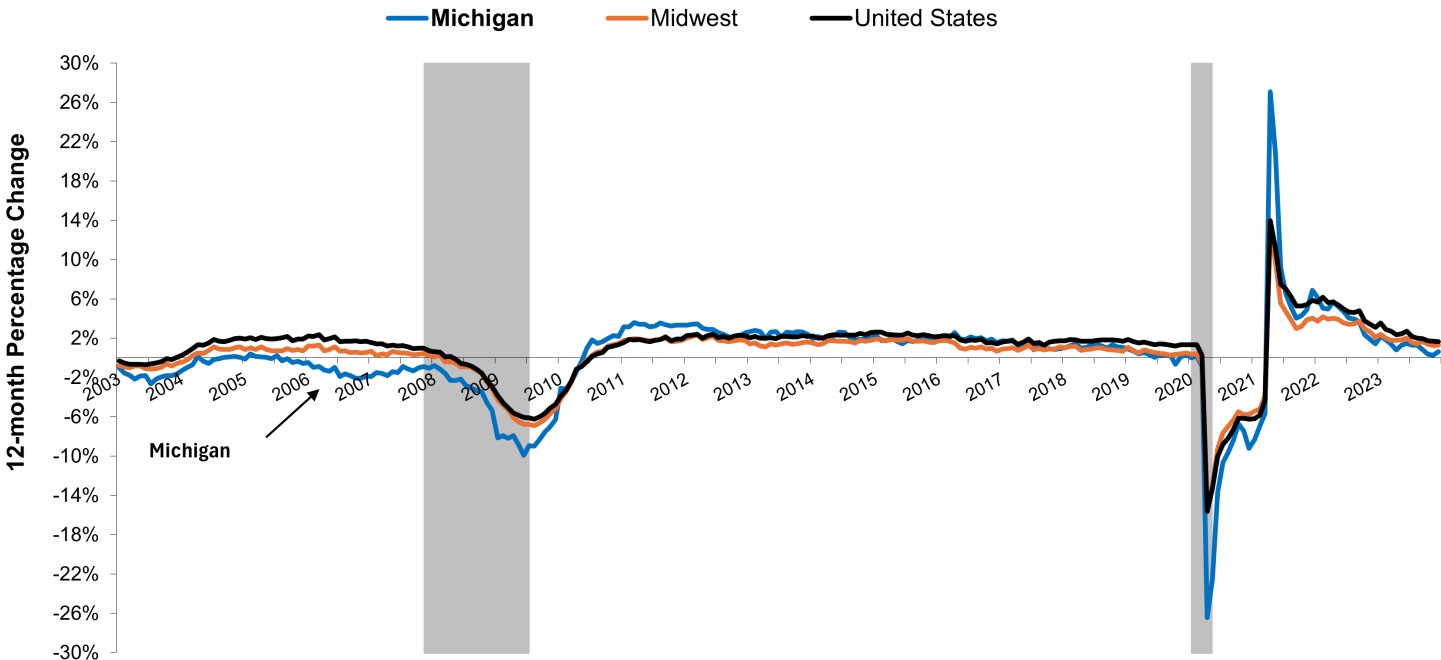
Forbes: 'Best States to Start a Business', 2024: IN rank 2; MI rank 40; OH rank 4

Plaky by cake.com: 'Best States to Start a Small Business', 2023: IN rank 19; MI rank 35; OH rank 30

Lendio: 'Best States for Small Business', 2023: IN rank 17; MI rank 20; OH rank 3

While audience, purpose, methodologies and data bases across these rankings vary considerably, all show Indiana and Ohio ranked higher than Michigan in 2023-24.

Private Annual Employment Growth, Jan. 2003 - Dec. 2023 (prel.)



Source: Bureau of Labor Statistics, Current Employment Statistics. Not seasonally adjusted.

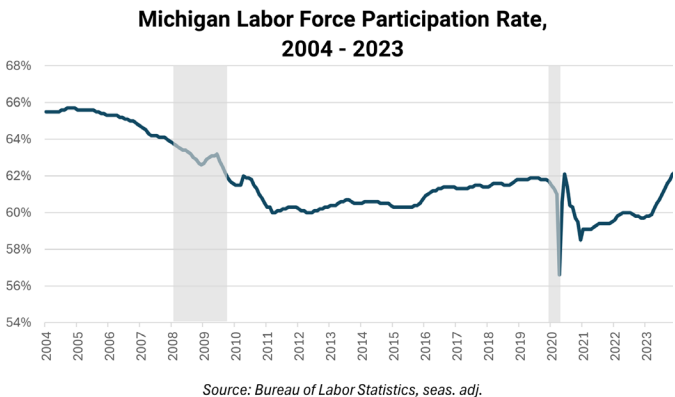
2. THE CHANGING LABOR FORCE

In 2023, total employment in Michigan stood at 4,678,901 with an unemployment rate of 7.1%. By 2023, total employment had increased to 4,812,421, with an unemployment rate of 3.9%. Comparatively, the US employment rate was 5.7% in 2003 and 3.7% in 2023.

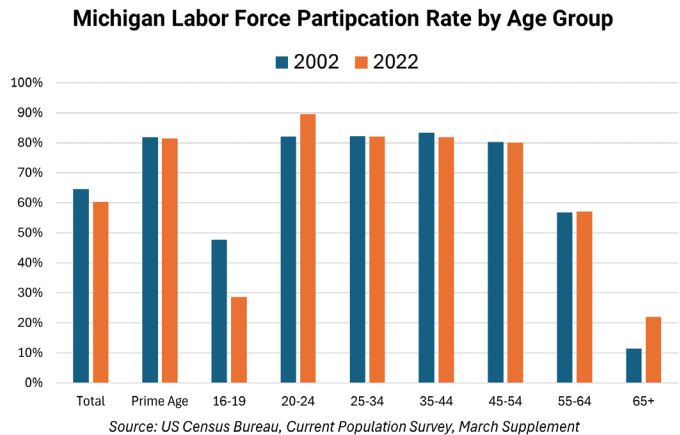
From 2003 to 2023, Michigan businesses have faced the challenge of a decline in the percentage of workers of prime working age (ages 25-44) as a portion of the population, experiencing a 2.7% drop.

Small business owners are increasingly aware that workers from different and varied demographics must be recruited and retained. These include older and younger workers, women returning to the workforce after the COVID years, increased minority participation, and immigrants, both domestic and foreign.

Not surprisingly, the mismatch between job creation and labor supply shows up in labor force participation. From 2004 to 2023, labor force participation (a measure of the percent of working age adults either working or looking for work) declined by 3 percentage points, exacerbated by the COVID Recession, as shown in the graph below. Across all states, Michigan's situation is more acute than many other states, nearing the bottom 15 states. On a positive note, 2023 levels have exceeded those of 2021 and 2022.



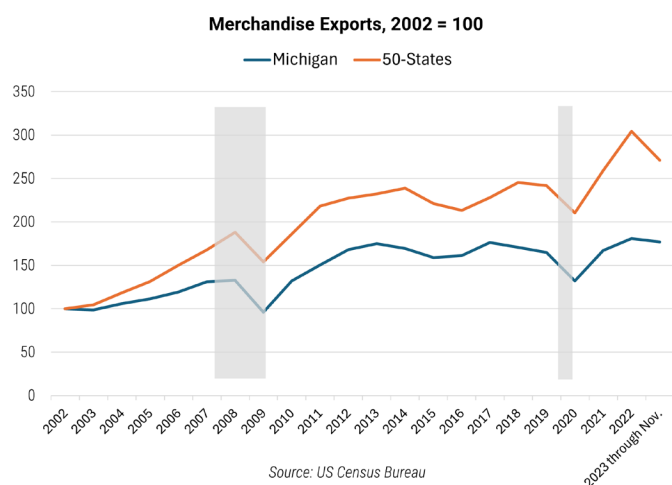
From a two-decade perspective, labor force participation by age has changed significantly. The chart below paints a Michigan workforce picture very different from twenty years ago. Labor force participation in the 16 to 19 age group dropped sharply, while the 20-24 age group increased 7 percentage points. The critical 'prime working age' group (age 25-54) saw a 1% drop and the 65+ age group labor force participation increased.



Nationally, the labor force participation rate is slowly recovering from an extraordinary reduction in spring 2020. Similarly, the unemployment rate has clearly improved but the rate somewhat overstates the true recovery when you consider how many people exited the labor force and have not returned.

3. CHANGING EXPORTS

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 either pandemic-related trade interruptions are not yet fully overcome, or some changes are permanent in nature. Michigan exports had promising momentum coming out of 2021, but progress has slowed and stalled in 2023, with sluggish spring and November exports. Over the past 20 years, Michigan's merchandise exports have failed to keep pace with the US average.



between the workplace and home become blurred. The shift to remote work received a major boost from the pandemic. So much so, some workers today are reluctant to return to the traditional office full-time. Enabled by mobility advancements in computing and communications, remote work accelerated significantly throughout the pandemic. As reported in the 2021 Score Card, Michigan ranked mid-range for 'remote work'.

Rising housing costs continue to impede home ownership, an attribute Michigan historically ranks very well. The Michigan State Housing Development Authority reports a shift in single family homes from home ownership to rentals, with the share of renters living in single family homes increasing by 12.5%. Further, "about 50% of Michigan's renters and 25% of its homeowners pay too much for housing". These trends, which were seldom a concern for small business owners in the past, may now impact employee recruitment and retention strategies.

4. CHANGING HOUSING, WORKING FROM HOME AND 'GREAT PLACE TO LIVE'

The Score Card has long made the connection between housing, mobility, community 'sense of place' and entrepreneurship. Quality communities are a breeding ground for the entrepreneurial spirit. Often, a home or garage is where new businesses start. Boundaries

GROW YOUR IDEA IN COLLEGE

Where do budding entrepreneurs learn skills, take their first risk, and build a network for life? At one of Michigan's 15 public universities.





Your best way home.



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CHAPTER FOUR

ENTREPRENEURIAL TREND WATCH INDICATORS

Most annual statistics are dated by the time they are available – especially when broken down into a 50-state comparison where it can take a few years to accumulate reliable and comprehensive data. The Trend Watch Indicators Chapter of the Score Card uses the most current business growth/expansion data, mostly from the Bureau of Economic Analysis, to present a more near-term picture of Michigan's status and progress. We provide these data relative to high and low state performances. Most of the data has a three- to four-quarter lag, so the graphs below are through Q2 2023.

Overall, the story from these data is a cautionary one:

- Michigan generally tracks halfway or better between the best performing state and the lowest performing state.
- The Michigan entrepreneurial economy appears to rebound swiftly after recessions (e.g. Great Recession of 2007-09; COVID Recession of 2020). For example, while many Michigan small businesses were severely set back by the 2020 recession, several metrics below provide a strong indication that the pandemic has not overly dampened entrepreneurship in Michigan.
- However, this post-recession boost tends to subside relatively quickly and Michigan shifts back to moderate entrepreneurial performance.
- The rate of improvement in Michigan's post-recession entrepreneurial economy is slowing. Yet, there is an overall stronger entrepreneurial economy today than when this Score Card report was first published, and dynamism across established small businesses today is particularly encouraging.

20 YEARS OF TREND WATCH INDICATORS (TWI'S) 2004-24

Trend Watch Indicator #1: Michigan small business counts have been 10% lower this past decade compared to before the Great Recession.

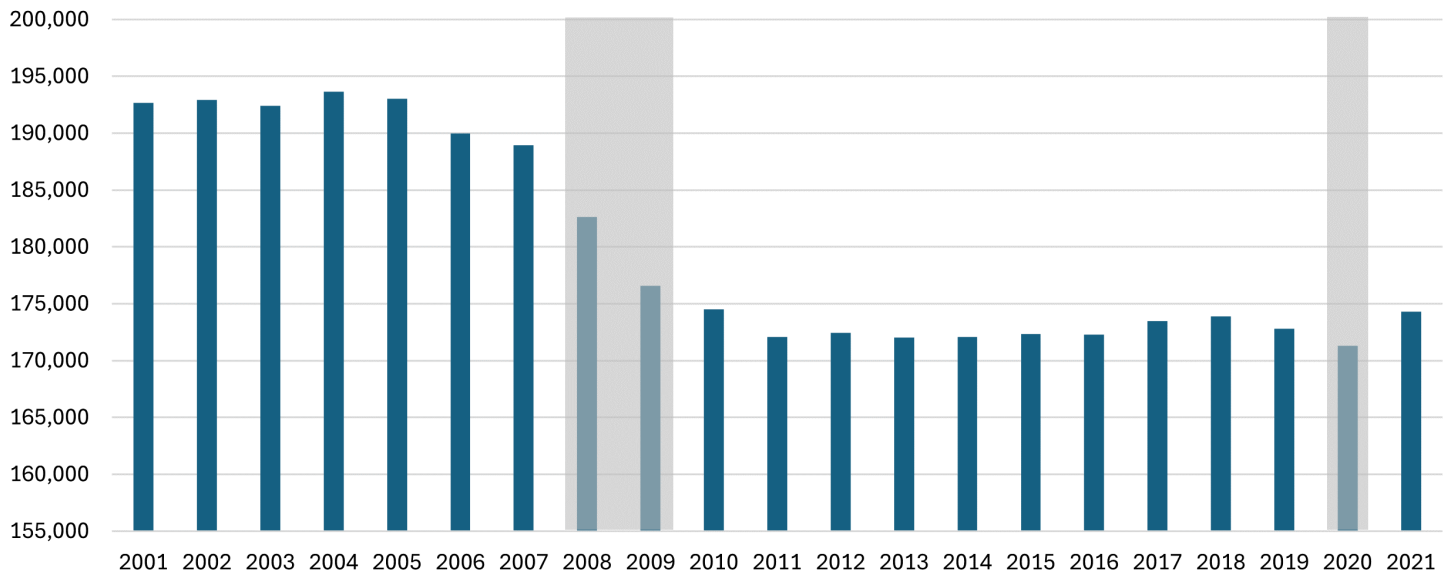
The number of Michigan small business establishments (0 to 99 employment) fell off dramatically from 2004 to 2010. Since then, it has remained relatively steady at a lower count through 2020. The COVID Recession drop in 2020 was temporary with 2021 counts of 174,323 now back close to the levels of 2010 (174,522 count). Nevertheless, the overall trend shows major setbacks due to recessions, followed by modest recoveries. In this metric in particular, Michigan never fully recovered from the Great Recession.

Graph on the following page. Shaded areas represent years when Michigan experienced a recession.

Trend Watch Indicator #2: Michigan's private establishment formation rate has experienced significant ups and downs over the last 20 years. The trend since 2021 shows reason for concern.

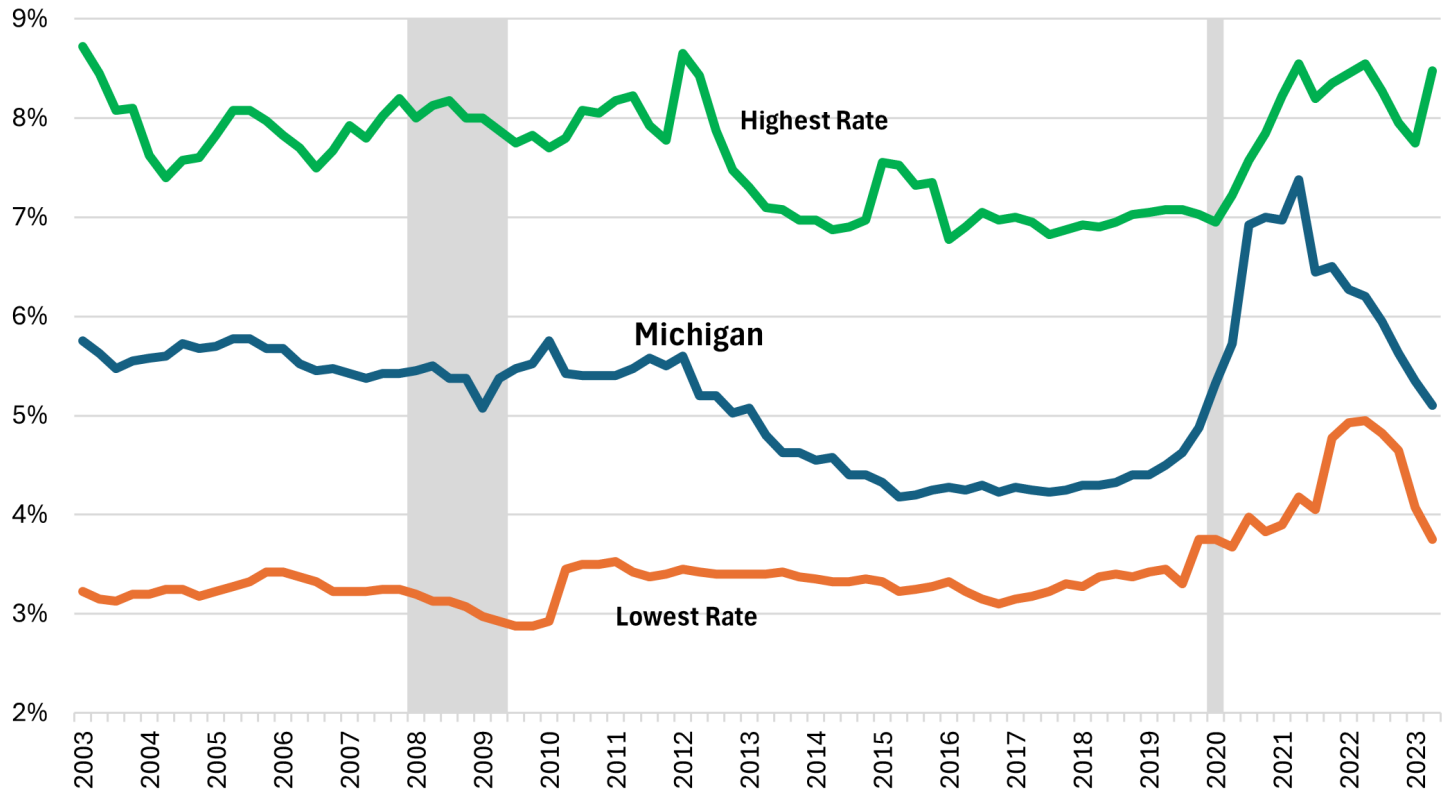
The formation of new businesses is vital to any state's entrepreneurial economy. Michigan's private establishment formation rate shows the quarterly rate of new business creation as a percentage of all businesses. It is important to note that improved retention and survival rates of existing small businesses can push this metric down for positive reasons. From 2012 to 2015, Michigan, along with the top performing states, showed a significant trend decline, followed by stabilization through late 2018. Michigan's trendline generally tracked with top performing states until 2021. Since then, Michigan has dramatically shifted more toward lower performing states.

Michigan Business Establishments 0-99 Employees, 2001-2021



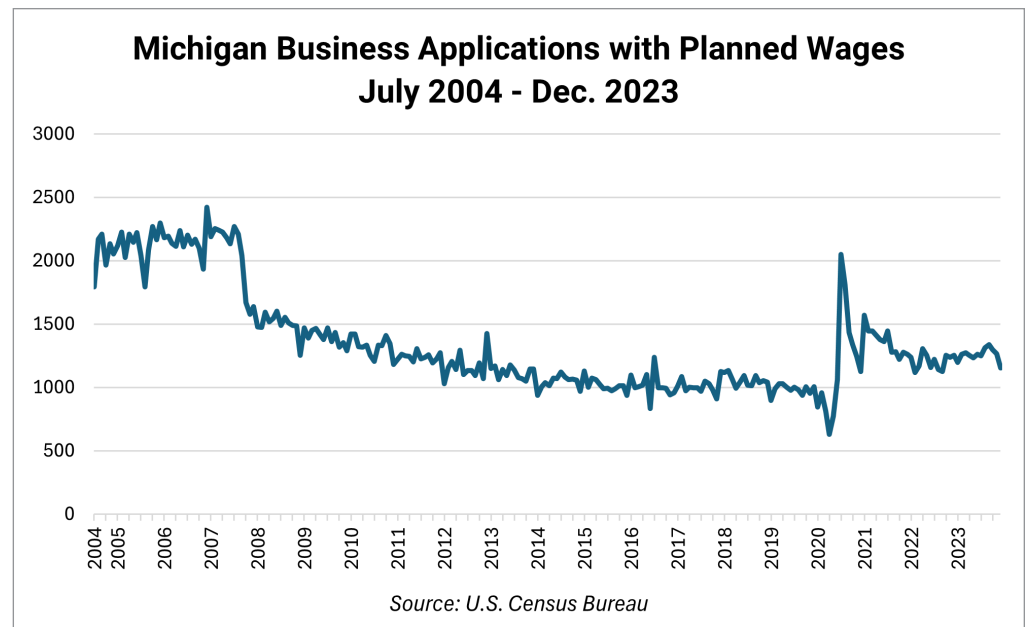
Source: US Census Bureau, SUSB

Private Establishment Formation Rate, 2003 - Q2.2023

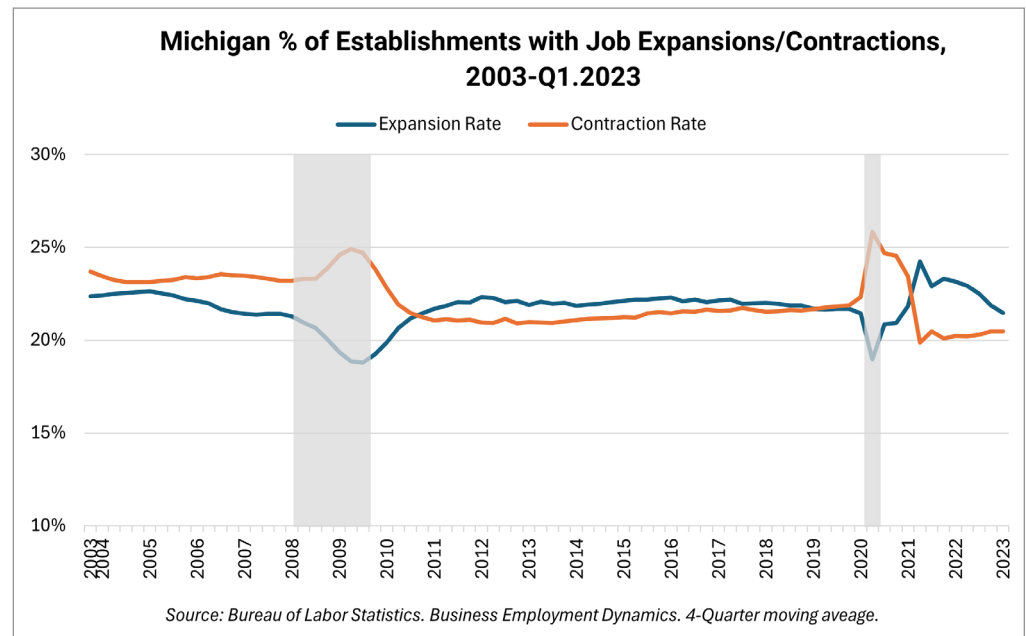


Source: Bureau of Labor Statistics, Business Employment Dynamics. 4-Quarter moving average.

Trend Watch Indicator #3: Small business applications with planned wages (businesses with employees) leveled out following a long-term decline that started with the Great Recession. The post pandemic recession bounce was significant, though is starting to show signs of settling back to levels more similar to pre-pandemic levels.



Trend Watch Indicator #4: Net jobs from business expansions versus business contractions is an insightful way to look at existing business performance. After recessions, the net jobs rates invariably narrow and crossover. After the last recession, contraction rates appear to have stabilized at a 20-year low, though expansions have cooled during that same time period.



One of the most conspicuous signs of a dynamic and strong business economy is a business expansion rate outperforming the contraction rate, with expansion and contraction rates measured in terms of net jobs.

Michigan's expansion rate of existing business surpassed the contraction rate in Q3 2010 and remained above it through mid-2019. After the

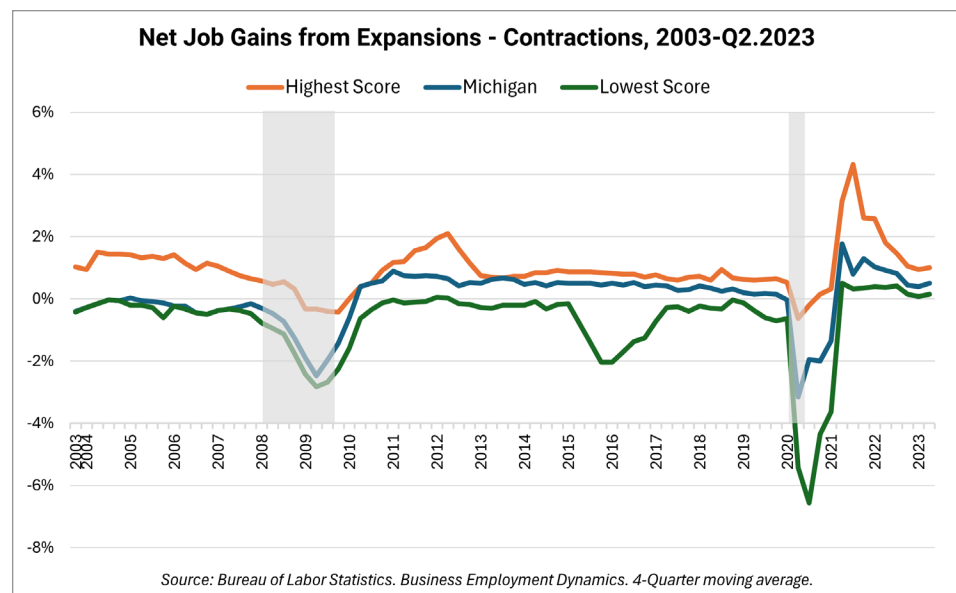
COVID Recession, Michigan business expansion surged. It has remained notably higher than the contraction rate throughout Q2 2022. However, there was a notable decline in the job expansion rate in Q3 2022 and Q1 2023, consistent with previous indicators showing fewer businesses expanding and less net job creation during this period.

Trend Watch Indicator #5: Net jobs from expansions minus contractions is an alternate way of looking at the same data from TWI #4. This indicator surged in Michigan after recessions, then lost momentum.

This metric is an aggregate indicator of the degree to which existing businesses are taking on risks. In general, a higher rate implies a stronger entrepreneurial economy, wherein businesses are growing and expanding.

Since Q1 2022, the share of existing Michigan businesses creating jobs has slowed down, leading to a decrease in Michigan's net job contribution rate. Following the COVID Recession of 2020, Michigan's performance was strong initially,

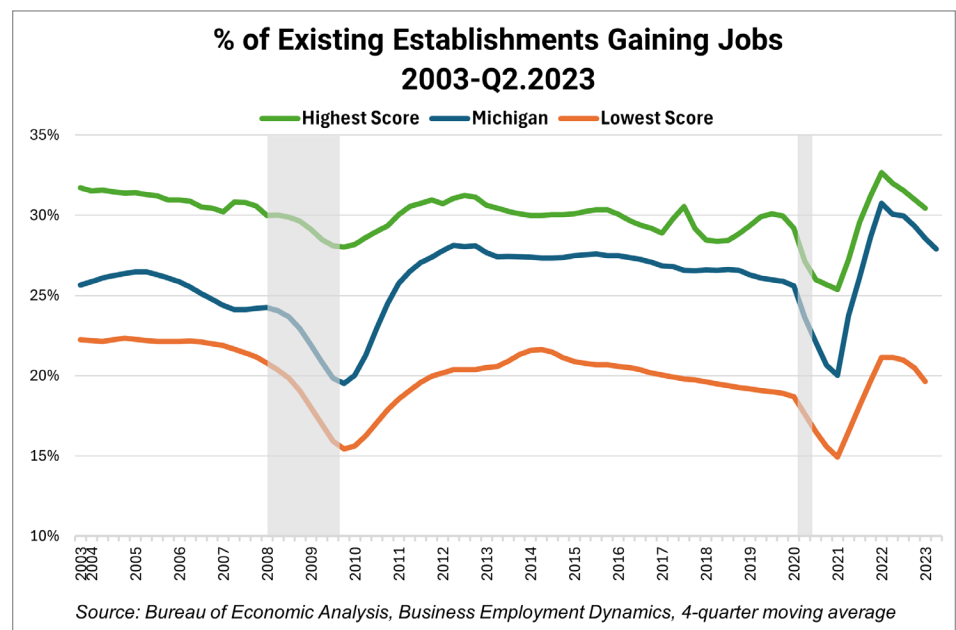
closely aligning with the highest scoring state and typically remaining in the top 20 post COVID. Overall, states have moved closer together in their performance in the past two quarters of the data but Michigan has slipped to rank 33 in Q1 2023.



Trend Watch Indicator #6: High breadth of job creation surges after recessions, then loses momentum but with Michigan remaining competitive.

The percent of businesses (large and small) creating jobs in any quarter is a good measure of the job-creating dynamism within a state's economy. In good times, one usually finds at least 25% of existing businesses creating net new jobs in any quarter. The graph below shows the percentage of establishments creating jobs by quarter, with Michigan bounded by the highest and lowest-performing states.

Following the rapid improvement starting in 2010 after the Great Recession, Michigan's job-creating engine plateaued in late 2012. Since then, Michigan has generally tracked similarly to the highest performing states when experiencing



ups and downs. Following the economic shock of 2020, Michigan rebounded into Q1 2022, however, there has been a decline since that peak. Nonetheless, Michigan still has one of its highest shares of existing establishments gaining jobs over the past 20 years, consistently ranking in the top 10 of all states over the past 6 quarters.

CHAPTER FIVE

BUSINESS DYNAMISM

SMALL BUSINESS DYNAMISM OVER BUSINESS CYCLES

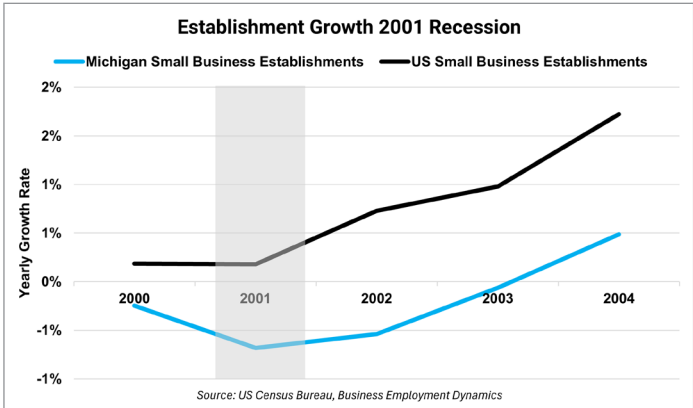
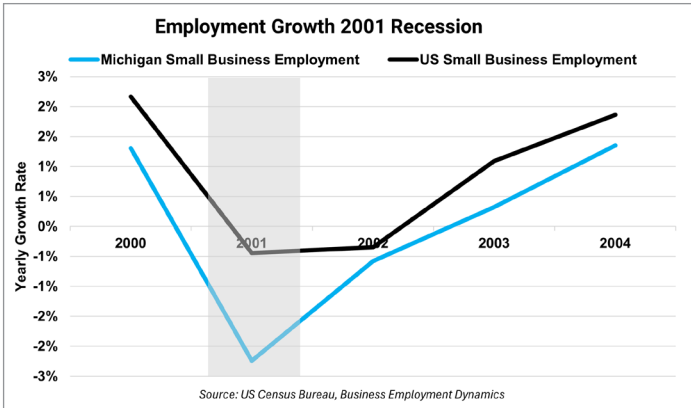
With years of annual Score Card experience, SBAM has become familiar with the peaks and valleys of the Michigan economy. These historical results could provide valuable insight into opportunities and threats ahead. The graphs below provide a snapshot of small business decline and growth in both numbers of establishments and employment before and after the last three recessions. The graphs are for all businesses with 1-99 employees.

Michigan’s Small Business Employment and Establishment Growth in the Past Three Recessions

The recession recoveries of 2001, 2007-09 and 2020 tell similar stories. The causes and circumstances of these three recessions were quite different, yet the path Michigan small business tracked during and after each recession was similar, as shown below.

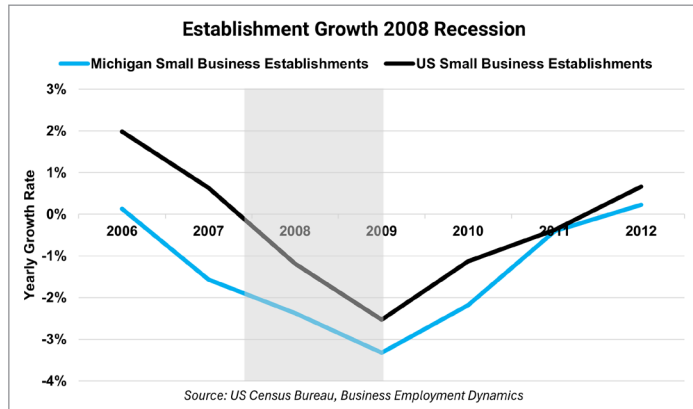
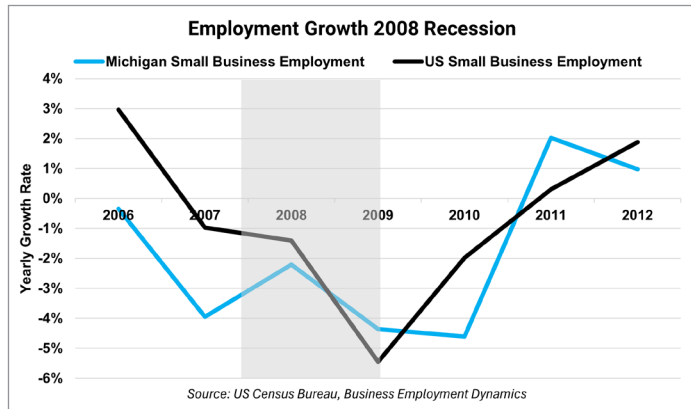
Establishment and Employment Small Business Trends, 2000-04

(recession = shaded area)

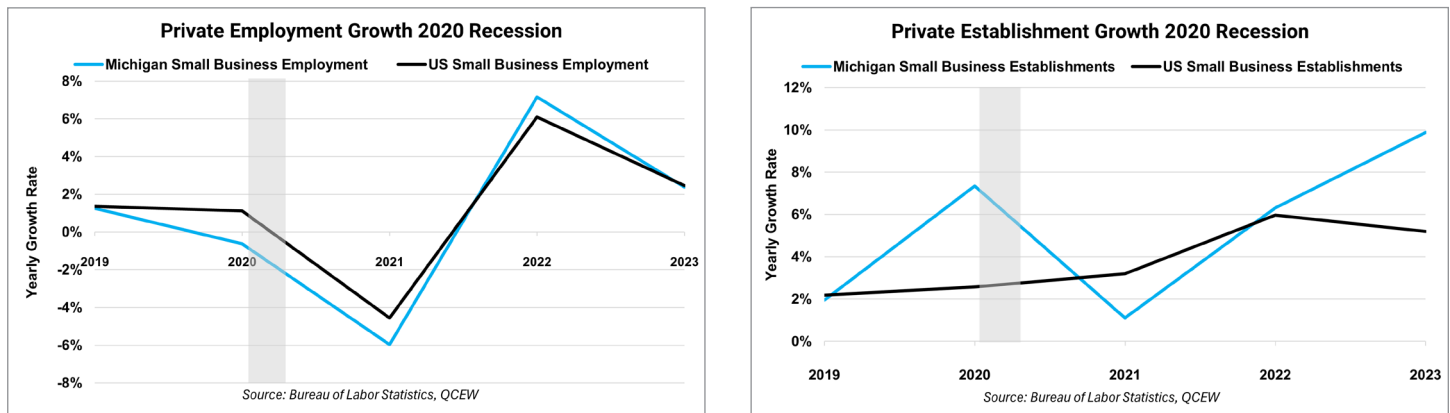


Establishment and employment trends, 2006-12

(recession = shaded area)

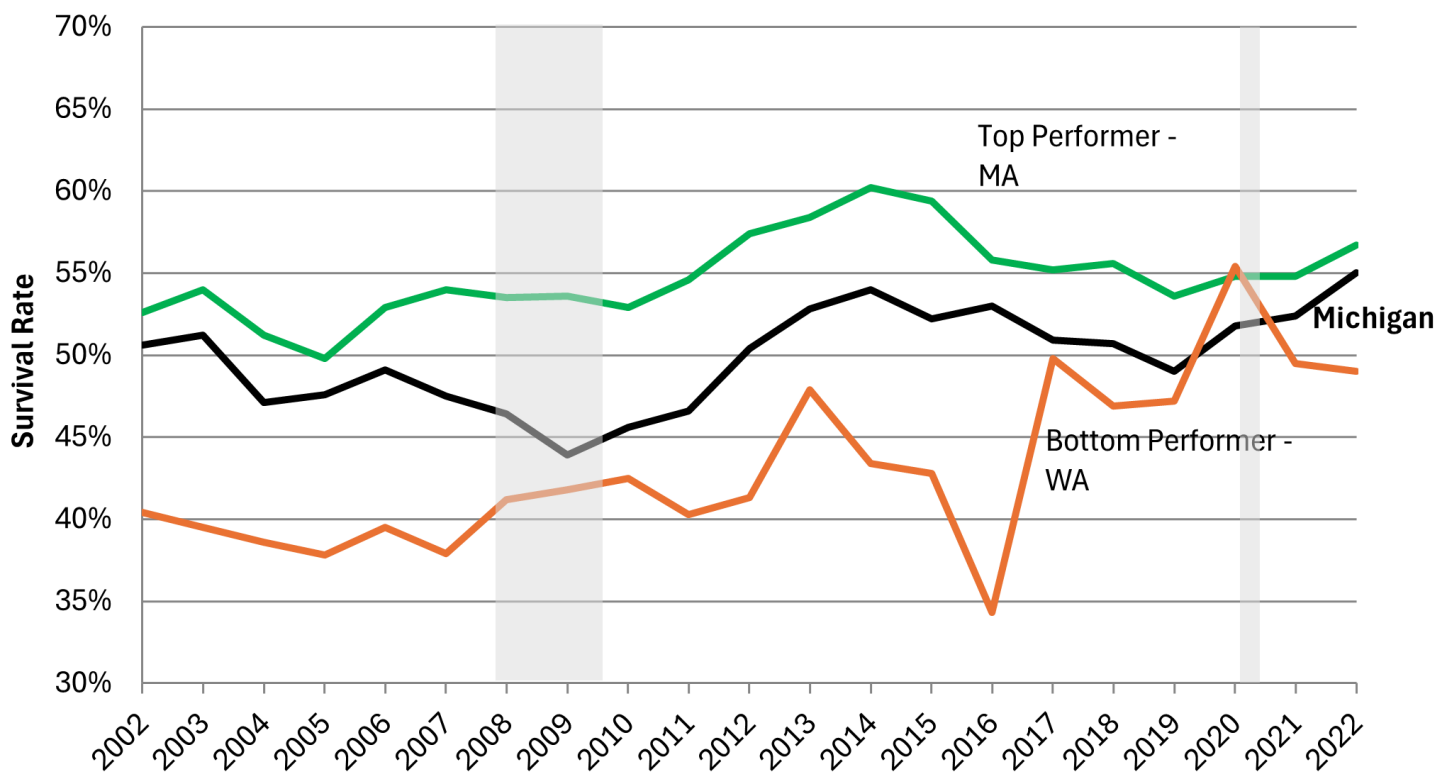


Establishment and employment trends, 2019-2021 (recession = shaded area)



(Note: Business Employment Dynamics data is not yet available for 2021-23. BLS data from QCEW is used as a substitute)

5-Year Establishment Survival Rate, 2002-2022 (All Michigan Businesses, All Sizes)



Source: Bureau of Labor Statistics. Data as of March the following year.

KEY FINDINGS OVER BUSINESS CYCLES

The 2001, 2007-09 and 2020 recessions paint similar pathways:

- Small business counts and employment both declined through the recession and sometimes for up to a year beyond.
- Then an abrupt turnaround occurs. This is a combination of a ramp up of existing businesses and a surge in new start-ups.
- Fast growth ensues in both the number of small businesses and their employment, typically for at least the subsequent 2 years.

SMALL BUSINESS DYNAMISM AS SHOWN BY FIVE YEAR SURVIVAL RATES

A widely held rule of thumb is that within 5 years, more than half of new businesses fail. Increasing survival success is particularly critical under tough or fast-changing economic conditions. An implication for longer term small business survival rates is that survival rates in the early two years of economic recovery are critical for overall state business growth.

Business survival rates over the previous three recessions

The following data is for all Michigan businesses regardless of size.

The 5-year survival rate is calculated as the number of establishments started in the beginning period that remain open for 5 years, divided by the number of establishments that started in beginning period. For Michigan, it has been above 50% since the Great Recession (2007-09) and improving from 2019.

KEY FINDINGS ON SURVIVAL RATES

The 2001, 2007-09 and 2020 recessions paint similar pathways:

- The 5-year establishment survival rate usually declines before recessions, followed by an uptick through recessions and takes off after. It declines or levels off in the later years of the business cycle.
- For Michigan, its survival rate exhibited a strong upturn approximately 1½ years after the end of the Great Recession, coinciding with strong small business performance shown in the Score Card's three Entrepreneurial Indices from 2013 to 2016.
- Recently the difference in 5-year survival rates between states have noticeably narrowed. Over the past three years, Michigan has been tracking closer to the top performer, Massachusetts.

CHAPTER SIX

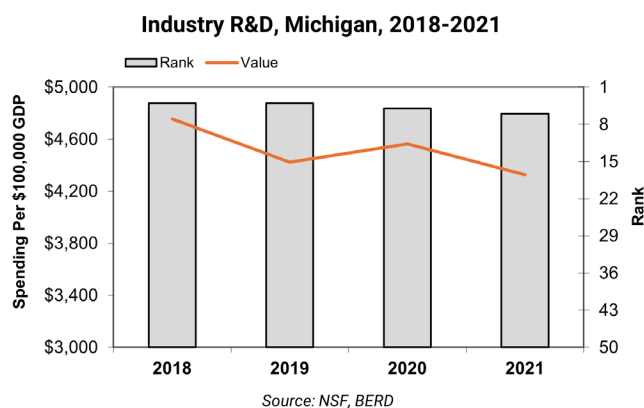
LOOKING FORWARD: CRITICAL FOUNDATIONS FOR ENTREPRENEURIAL SUCCESS

Critical Foundations for Entrepreneurial Success (CFES) is a way to profile Michigan's position as "an entrepreneurial state" moving forward. Our selection of the CFES categories stems from preparing state entrepreneurial score cards for 20 years and our review of economic growth literature. Below, for each CFES, we have selected one or two key metrics that highlight Michigan's current situation.

This methodology is far from perfect and will be refined over time, but we have concluded this is a starting point to map a state's entrepreneurial economy profile post-COVID. We trust it serves as a call for more in-depth analysis.

1. PRIVATE SECTOR INNOVATION: RESEARCH AND DEVELOPMENT

Michigan has historically had a strong R&D base. Previous Score Cards have shown that Michigan continues to rank in the Top 10 in numerous R&D and high-tech workforce metrics. This is a critical economic competitive advantage for Michigan's entrepreneurs. The chart below shows how Industry R&D spending in Michigan has maintained a top ranking but has seen continuous slippage in values and a small decline in ranking from rank 4 to a current rank 6.

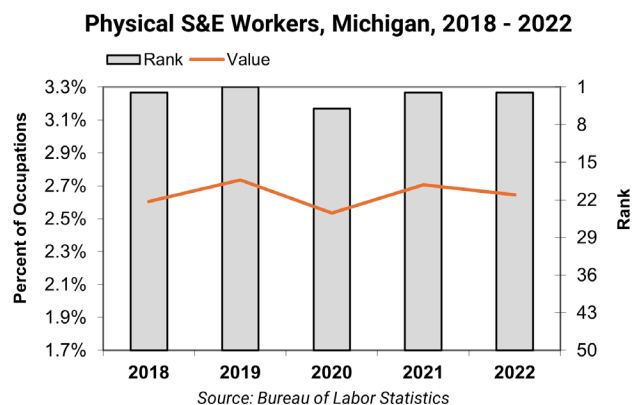


Michigan's strong position is in part because our state's public and private sectors invest heavily, relative to most other states, in several key areas that are critical to future technology-led entrepreneurial growth, including:

- R&D (both university-based and industry-based)
- Innovation (measured in patents per worker)
- STEM educated workers pre- and post-BS
- STEM and related 'knowledge' credentialing programs
- Excellence in graduate programs
- High tech employment (both mfg. and services high-tech)

2. TECHNOLOGY WORKFORCE: METRICS — PHYSICAL SCIENCE AND ENGINEERING WORKERS; TECHNOLOGY AND TECHNICIAN WORKERS

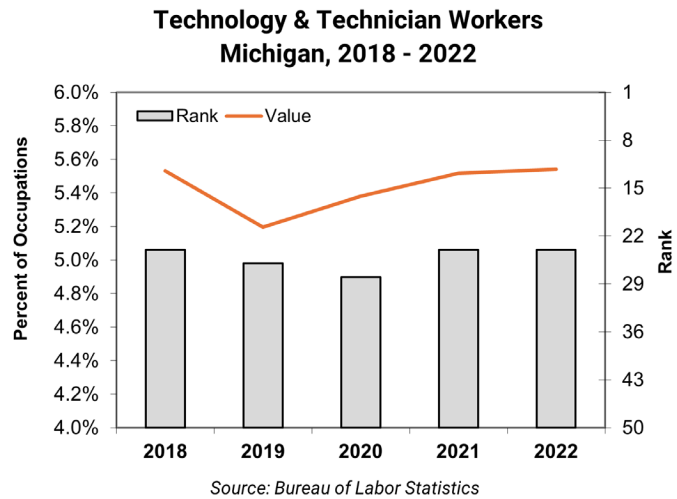
Information, knowledge, and ideas are critical assets for success in the innovation economy. Having a strong technology-oriented human capital base will be a necessity in the post-COVID economy. The graphs demonstrate that Michigan can capitalize on respective strong human capital assets as means to economic progress.



As shown in the graph on the previous page, over the last five years, Michigan's Physical Science and Engineering workers, as a percent of all workers, has ranked first or second except for 2020.

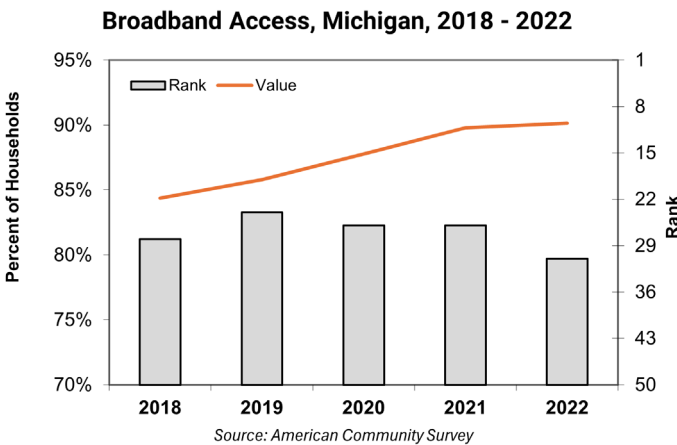
Many mistakenly focus exclusively on bachelor's degree attainment as a measure of a state's human capital quality. In fact, some of the most critical occupations for industry success lie in the often fast-growing mid-level categories like skilled trades, technicians, and technologists. Michigan experienced a decline in Technology and Technician workers between 2017 and 2019, and further slippage in rank despite rising numbers in 2020.

In the graph below, 2021 and 2022 shows a comeback back to a pre-pandemic rank of 24. Any weakening of this talent pool raises talent supply risks for Michigan's many future tech and non-tech growth companies.



3. DIGITIZATION /BROADBAND: METRIC – POPULATION WITH 1+ GB INTERNET SPEED

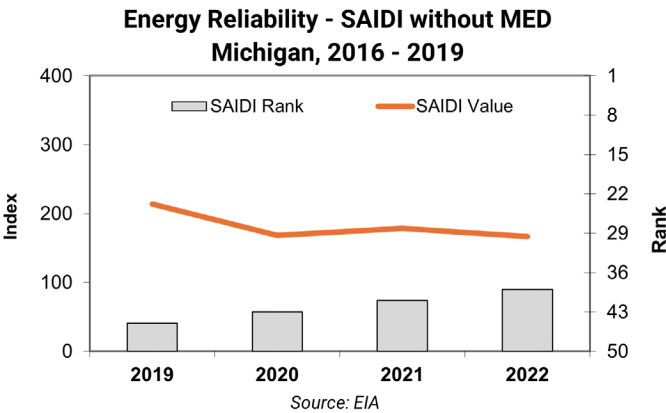
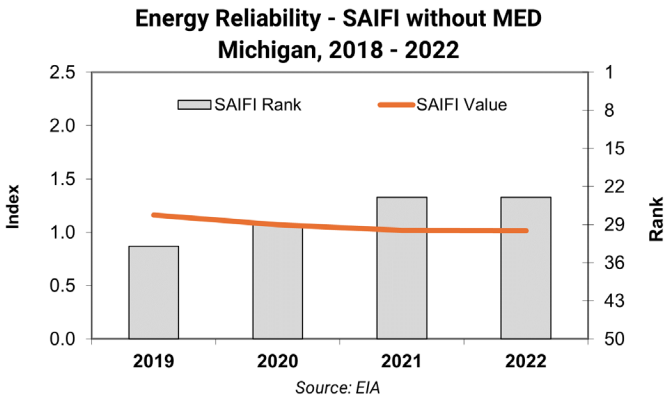
Earlier Score Cards have reported that, relative to other states, Michigan's below par highways, broadband, and air access, are hindering Michigan's entrepreneurial and broader business sectors. Important building blocks of the innovation economy and technology-based economic development not only include traditional/public works infrastructure but also "virtual" infrastructure, information highways, and IT services. The ability to connect and communicate directly relates to the innovative and entrepreneurial capacity of a state. The metric of the percentage of household with a broadband internet subscription serves as a shorthand measure to show Michigan's connectivity. While there has been improvement, Michigan's ranking has slipped since 2019, dropping from 24th to 31st in 2022 compared to other states' performances.



These data are from the American community survey measure for percent of households with broadband internet subscriptions.

4. ELECTRIFICATION (HIGH RELIABILITY): METRICS — SYSTEM AVERAGE INTERRUPTION FREQUENCY AND SYSTEM AVERAGE INTERRUPTION DURATION

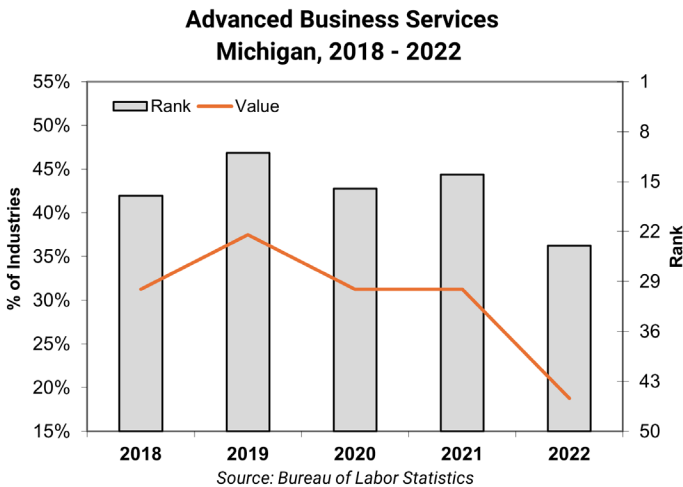
In an information technology world, reliable power distribution has become an increasingly important consideration in business attraction and retention. With the expansion of artificial intelligence, advanced logistics and remote work, the electricity fundamental is not only supply but also reliability. Electrical reliability can be tracked with two charts. First, the System Average Interruption Frequency (SAIFI) Index across all utility providers, which represents the average number of interruptions per customer. The second is SAIDI, System Average Interruption Duration Index, commonly measured as the total time duration of interruptions for the average customer across the state electric system during a predefined period. Both measures are widely used in the industry.



Note re MED: MED is an abbreviation for ‘excluding major event days’. These are low frequency high impact events like major storms.

5. ADVANCED BUSINESS SERVICES: METRIC – PERCENT OF ADVANCED BUSINESS SERVICES

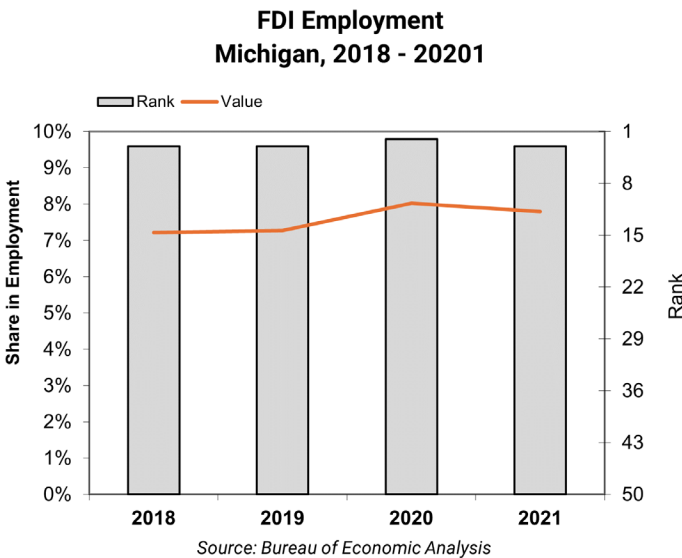
Advanced economies are characterized by the degree to which specialty small/mid-size businesses provide specialized ‘producer services’ to support complex production processes. Their lines of businesses range from specialized tech-intensive financial services (fintech) to frontier research labs to computer and cloud support. These businesses meet the needs of local/in-state larger business clients, as well as those out of state.



A key CFES metric in this regard is the concentration and diversity of Advanced Business Services. This is measured as the percent of 16 different advanced business service categories that show a location quotient above one, i.e., that have a higher job concentration in Michigan than what is typical for the nation. As shown in the graph above, this number is decreasing in Michigan, although until 2022, the state was able to hold on to a top 20 ranking, slipping to rank 24 in 2022. Overall, these data indicate Michigan can still offer a solid advanced business services environment compared to many other states.

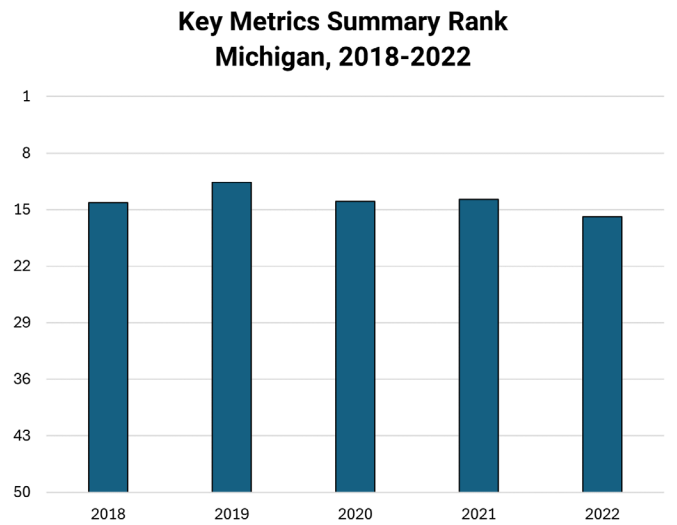
6. INTERNATIONALIZATION: METRIC – WORKFORCE SHARE FROM FOREIGN DIRECT INVESTMENT

International business is a catalyst for growth. While global trade has softened in recent years, the world’s economy becomes increasingly interdependent. The impact is not just increased trade. Large multinational firms locate production facilities across the globe including foreign direct investment (FDI) in Michigan. Foreign investment can be an important source of well-paying jobs. The chart below illustrates a measurement of the share of employment in foreign-owned firms as a percentage of total employment. There have been year-to-year increases in the percentage of workers in Michigan who work for bank and non-bank foreign-majority-owned companies with a slight slippage in 2021. However, Michigan still ranks in the top five U.S. states.



Composite of all eight CFES Metrics

The aggregated scores of all eight CFES Metrics above provide a composite ‘Summary Index’ as shown below. Michigan’s index has been steady at around 14 in most years, reaching a higher rank of 12 in 2018 and a slightly lower rank of 16 in 2022.





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