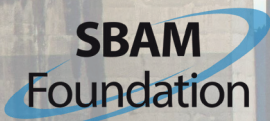


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ABOUT THE SBAM FOUNDATION

We will focus 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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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. 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.

Inside the 2026 Score Card

- 6 **EXECUTIVE SUMMARY**
- 7 CHAPTER ONE:
A COMPREHENSIVE PROFILE OF MICHIGAN'S SMALL BUSINESSES
- 19 CHAPTER TWO:
DIRECTION OF MICHIGAN'S ENTREPRENEURIAL ECONOMY
- 24 CHAPTER THREE:
BROAD MICHIGAN ECONOMIC SNAPSHOT
- 37 CHAPTER FOUR:
RISING BUSINESS COSTS
- 43 CHAPTER FIVE:
WORKFORCE AND CAPACITY CONSTRAINTS

Executive Summary

Michigan's small business economy remains stable, but it is not keeping pace.

Small businesses anchor the state's economy. They account for a majority of private sector employment and an increasing share of payroll. That base remains strong. Michigan has a large base of small businesses, high rates of business survival, and many firms that continue to grow and hire.

The data shows a clear shift in direction. Momentum in the entrepreneurial economy has weakened. New business formation has declined from its post-pandemic peak. Business expansion has slowed, and in recent periods, contraction has increased. Michigan is no longer gaining ground relative to other states and, in some measures, has fallen near the bottom.

The broader economy reinforces this pattern. Michigan has recovered from recent economic shocks and is operating at a steady pace. However, it is not separating from regional peers and continues to face structural constraints, including slow population growth, modest productivity gains, and limited labor force participation.

This pattern points to a broader challenge. Michigan's small business economy is strong at the base, but weaker in the pipeline. The state is not producing enough new employer businesses or moving enough firms into larger stages of growth to sustain long-term economic expansion.

The environment for small businesses has become more constrained.

Costs have increased across key areas, including labor, energy, and health care. These pressures limit hiring, expansion, and investment decisions. While financial conditions remain stable overall, margins are under pressure.

Workforce constraints further limit growth. The supply of available workers is constrained by demographic trends, participation rates, and skills mismatches. Even when demand is present, businesses cannot expand without the workforce to support it.

These conditions describe an economy that is stable, but not advancing fast enough to improve its competitive position.

Michigan's challenge is not a lack of business activity. It is a lack of sustained momentum. Strengthening new business formation, supporting expansion into larger stages, and addressing cost and workforce constraints will be central to improving long-term economic performance.

CHAPTER ONE

A COMPREHENSIVE PROFILE OF MICHIGAN'S SMALL BUSINESSES

Small businesses anchor Michigan's economy. They are not a niche part of the economy. They account for a majority of private sector employment and an increasing share of payroll, making them central to Michigan's economic performance.

The structure of Michigan's small business economy is changing. The state has a large and growing base of very small businesses and self-employed individuals. It is not producing enough new employer businesses or moving enough firms into larger stages of growth to keep pace with the national economy.

This chapter provides a comprehensive view of Michigan's small business system. It shows where the state is strong, where it falls behind, and how different parts of the system connect.

UNDERSTANDING THE FULL BUSINESS BASE

Michigan's small business economy includes more than employer firms. It spans a range of business types that form a connected system.

In Michigan:

- 163,461 individuals owned employer firms¹
- 313,568 employer establishments operated across the state²
- 815,013 self-employed businesses generated income without employees¹

Sources: ¹ US Census Bureau, Annual Business Survey, 2023; ² Bureau of Labor Statistics, 2025

These measures capture different aspects of the economy. Employer firms reflect ownership. Establishments represent operating locations with payroll employment. Self-employed businesses represent a large and diverse segment of independent economic activity.

Together, they form the business base.



This figure shows the relative scale of each segment, highlighting the size of the self-employed economy alongside employer businesses.

THE SMALL BUSINESS ECONOMY OPERATES AS A CONTINUUM

Michigan's business structure is a continuum.

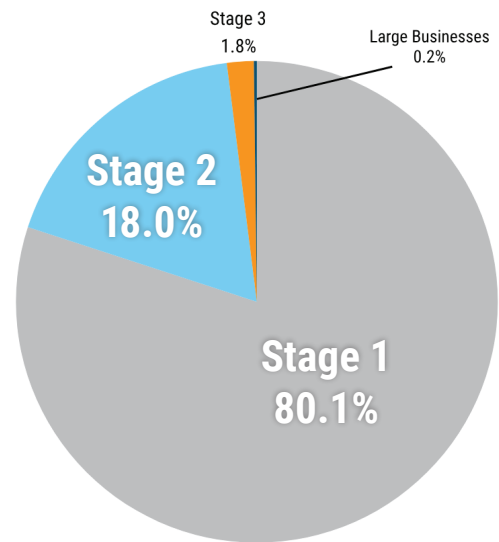
- Self-employed businesses operate without employees
- Stage 1 businesses employ 1 to 9 workers
- Stage 2 businesses employ 10 to 99 workers
- Stage 3 businesses employ 100 to 499 workers
- Large businesses employ 500 or more workers



Most businesses begin small. Some grow into larger employers. Others remain intentionally small but continue to generate income and provide services.

Distribution of Employer Establishments by Size, Michigan

Stage 1	242,115	80.1%
Stage 2	54,419	18.0%
Stage 3	5,315	1.8%
Large Businesses	593	0.2%



Source: Bureau of Labor Statistics, QCEW

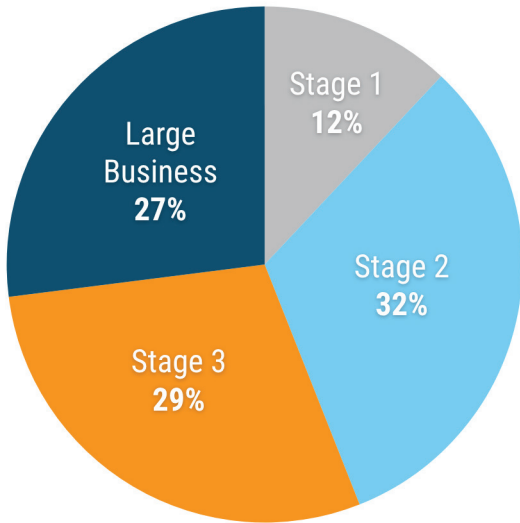
This figure shows the concentration of the employer businesses in each stage. This progression is critical because growth at one stage supports the next.

Nearly all employer establishments in the state are small, with 99.8 percent employing fewer than 500 workers. Stage 1 businesses alone account for over 80 percent of all employer establishments.

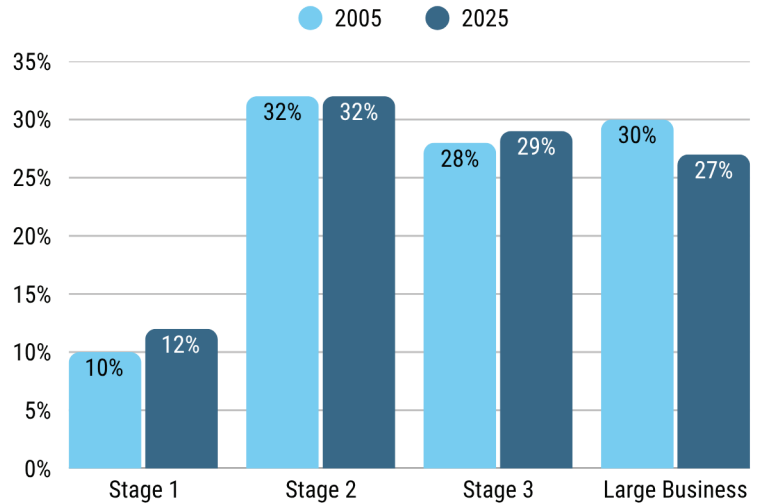
SMALL BUSINESSES NOW ACCOUNT FOR A LARGER SHARE OF PAYROLL

Small and midsize enterprises account for a larger share of Michigan’s private sector payroll than large businesses.

2025 Payroll Share by Business Size



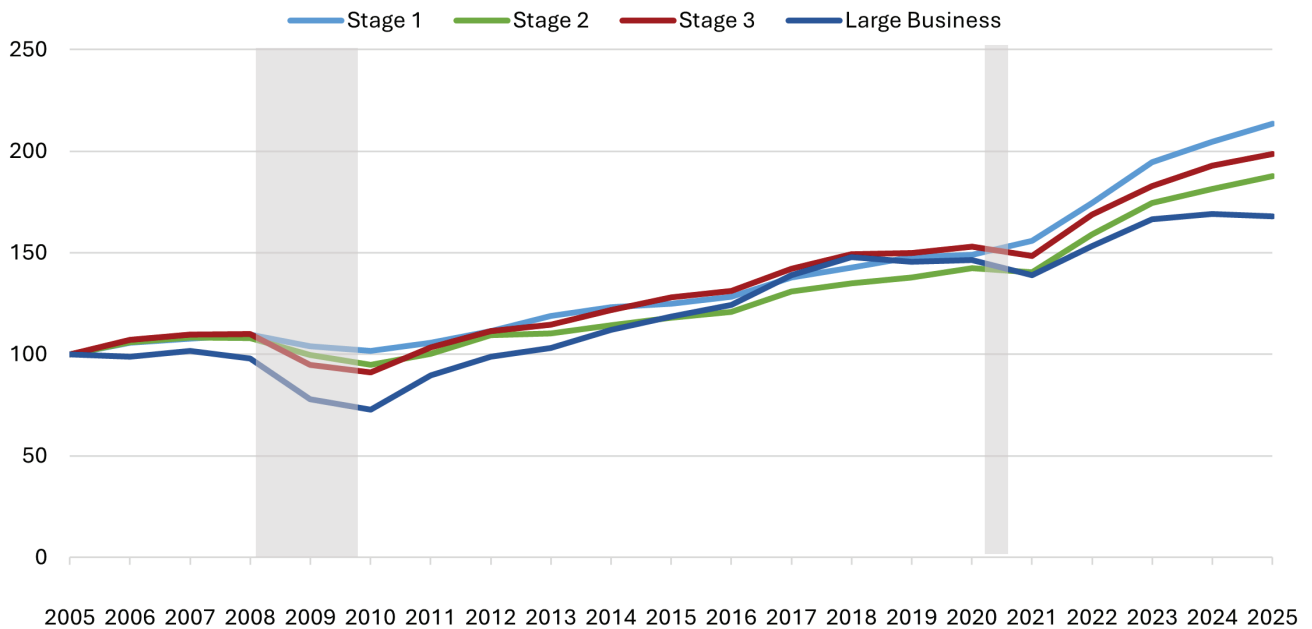
Payroll Share by Business Size Over Time, 2005-2025



Source: U.S. Bureau of Labor Statistics QCEW

This represents a structural shift. More of Michigan’s economic activity is now tied to smaller, more locally rooted businesses, often operating with fewer resources and narrower margins.

Payroll Share by Business Size, Michigan, 2005-2025



Source: Bureau of Labor Statistics, QCEW

Payroll is shifting toward small and midsize enterprises over time.

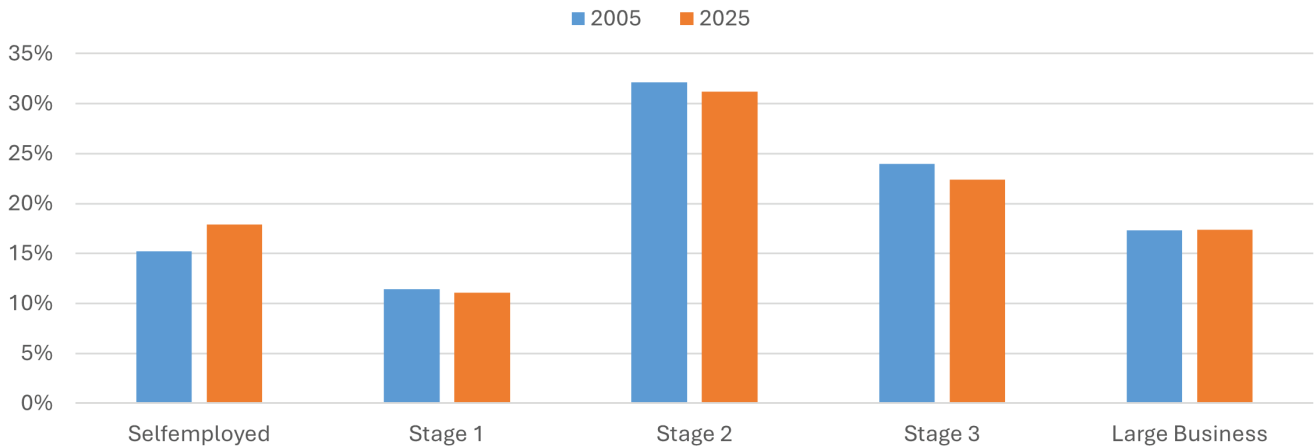
When smaller firms account for a larger share of payroll, changes in costs, labor availability, and business conditions have broader economic effects.

A STRONG BASE, BUT A WEAKER PIPELINE

New and early-stage businesses form the front of the entrepreneurial pipeline.

When formation and early growth are strong, more firms are positioned to expand into larger employers. When formation and early growth weaken, the pipeline narrows.

Employment Share by Business Size, Michigan, 2005-2025



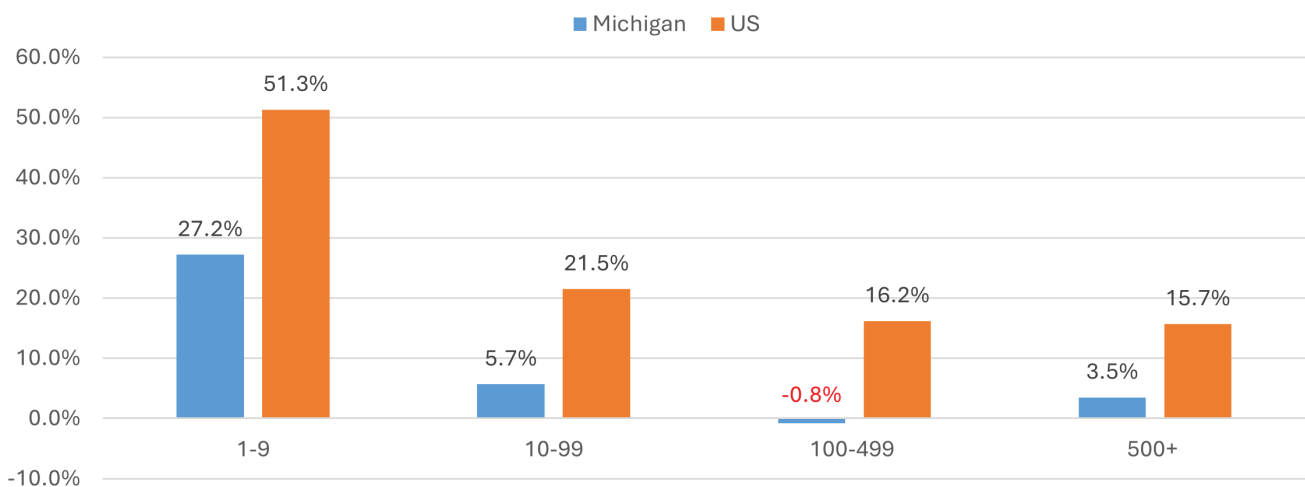
Source: Bureau of Labor Statistics, QCEW

Self-employment is becoming increasingly important in Michigan. This is a clear strength. It shows that Michigan has a wide foundation of business activity.

GROWTH IS NOT KEEPING PACE WITH THE NATION

The base is strong, but the pace of growth is not.

Establishment Growth by Size, Michigan vs U.S., 2005-2025



Source: Bureau of Labor Statistics, QCEW

While Michigan is adding small businesses, its rate of growth lags far behind the nation.

Over the past twenty years:

- Stage 1 establishments grew, but at roughly half the national rate
- Stage 2 and Stage 3 growth lagged further behind
- Large business growth was limited

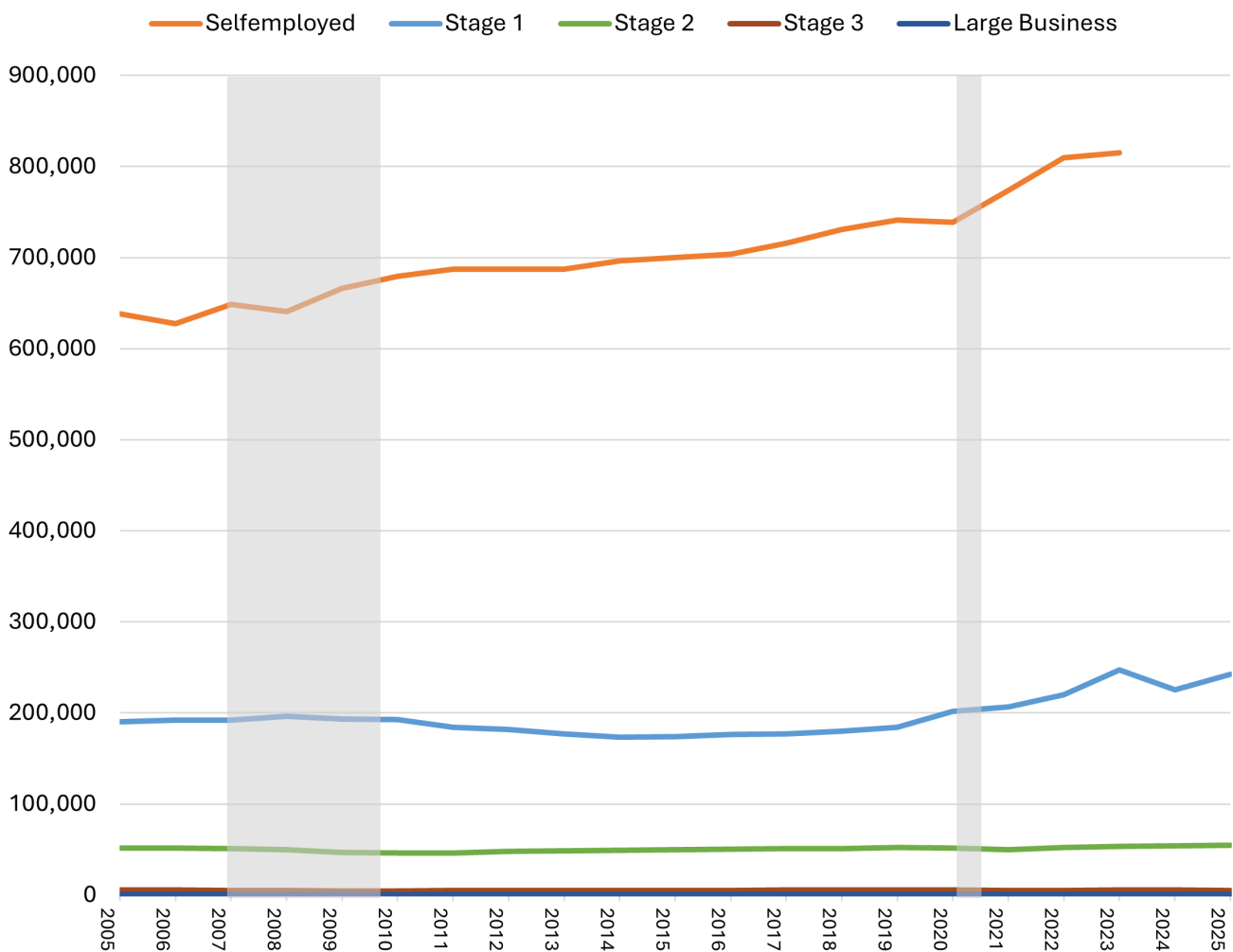
This gap is critical because early-stage businesses are the entry point into the employing economy.

MICHIGAN'S BUSINESS BASE IS STRONG AT THE SMALLEST END

Michigan has a large and growing base of very small businesses.

At the same time, self-employment has grown significantly.

Private Establishment Counts Over Time, Michigan, 2005-2025



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

This figure shows the decline during the Great Recession and the slower recovery in employer establishments.

Michigan's data shows:

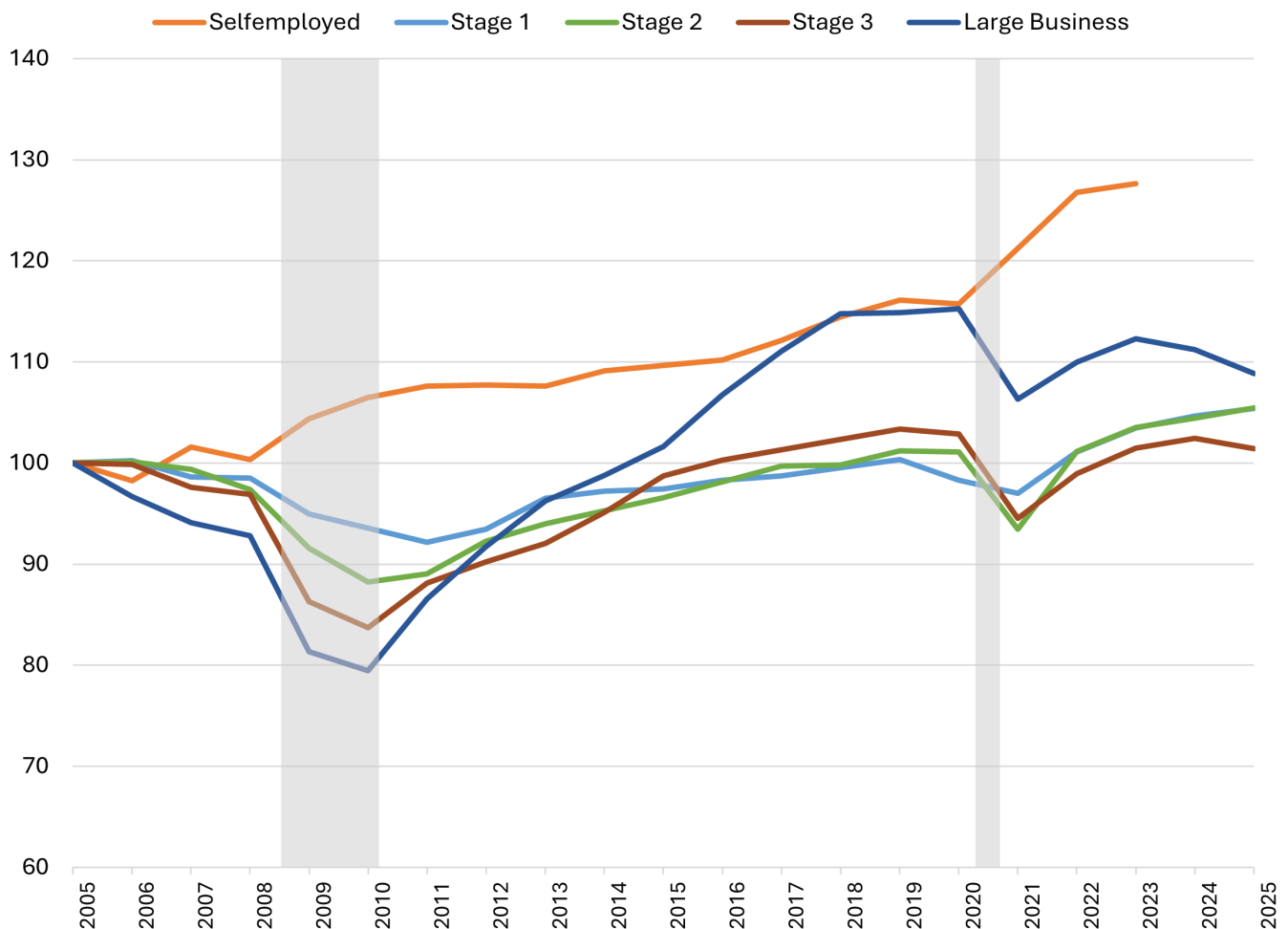
- A large number of small businesses
- Slower growth in new employer establishments
- Limited movement into larger stages

Michigan is not generating enough upward movement within the system.

SELF-EMPLOYMENT HAS BECOME A MAJOR PART OF THE ECONOMY

Self-employment is one of the most significant trends in Michigan's small business economy.

Self-Employment Growth vs Employer Establishment Growth, 2005-2025



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

This figure compares the growth of self-employment to employer business growth over time.

Over the past two decades:

- Self-employment has increased substantially
- Employment tied to self-employment has grown by nearly 30 percent

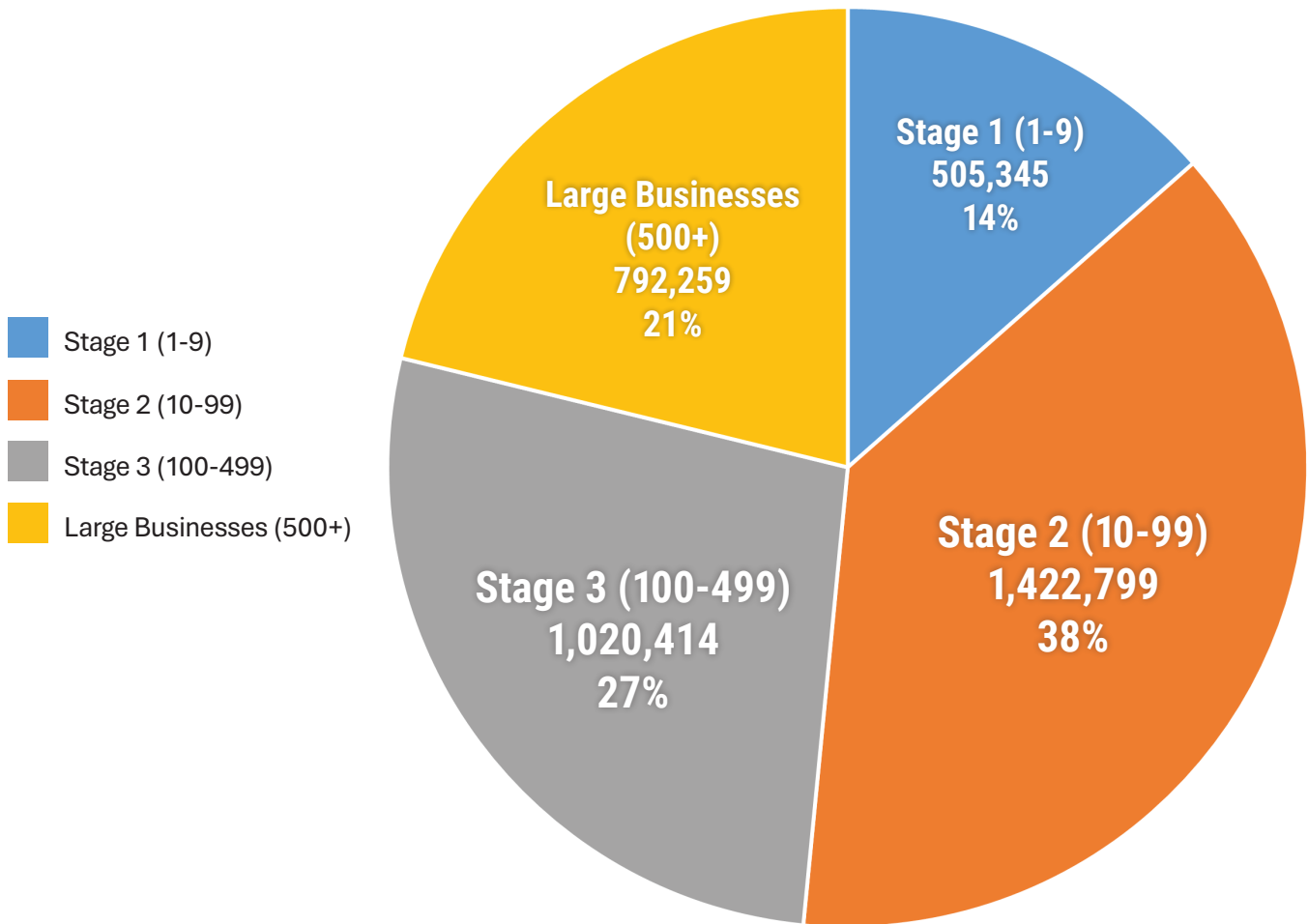
This shows a shift in how people work and generate income.

Growth in self-employment has not translated into proportional growth in employer establishments.

STAGE 2 BUSINESSES REMAIN CENTRAL TO JOB CREATION

While the smallest businesses dominate in number, employment is concentrated in Stage 2 and Stage 3 firms.

Number and Percent of Michigan Private Sector Jobs by Business Size, 2025 (excluding self employed)



Source: US Bureau of Labor Statistics, QCEW

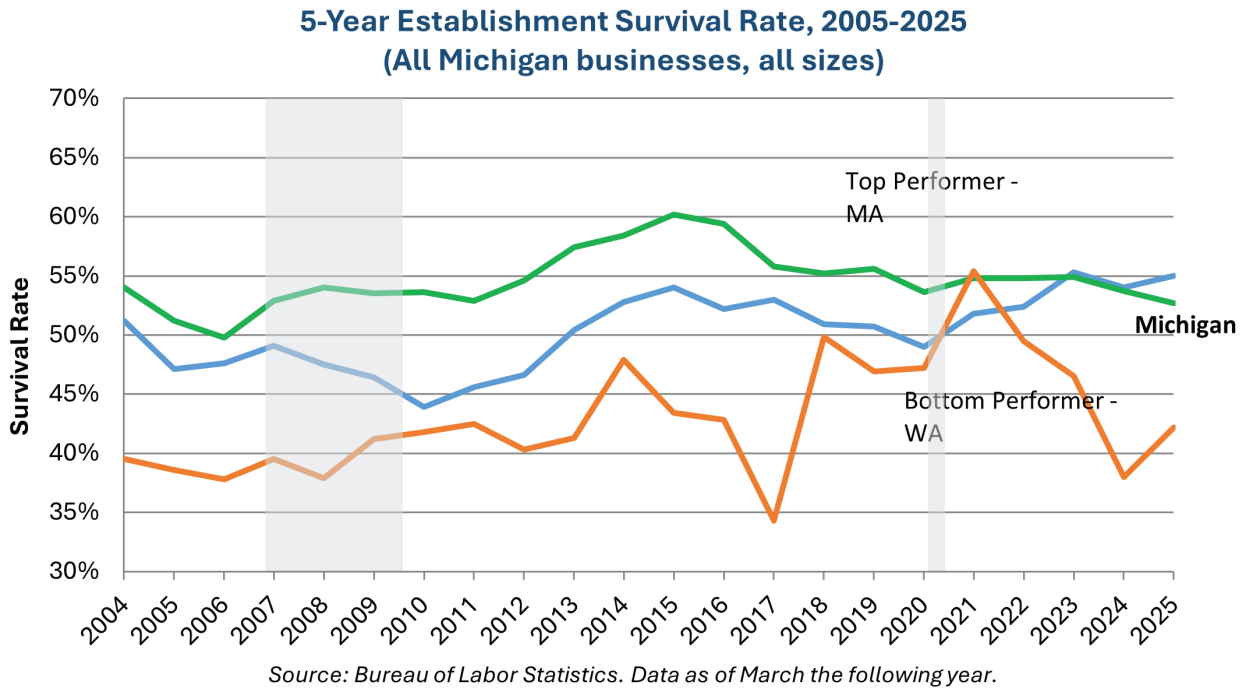
This pie chart shows the distribution of employment across business size categories.

Stage 2 businesses play a central role. They represent a key transition point between small firms and larger employers.

Michigan's slower growth in Stage 2 establishments shows that the state is not fully capturing this opportunity.

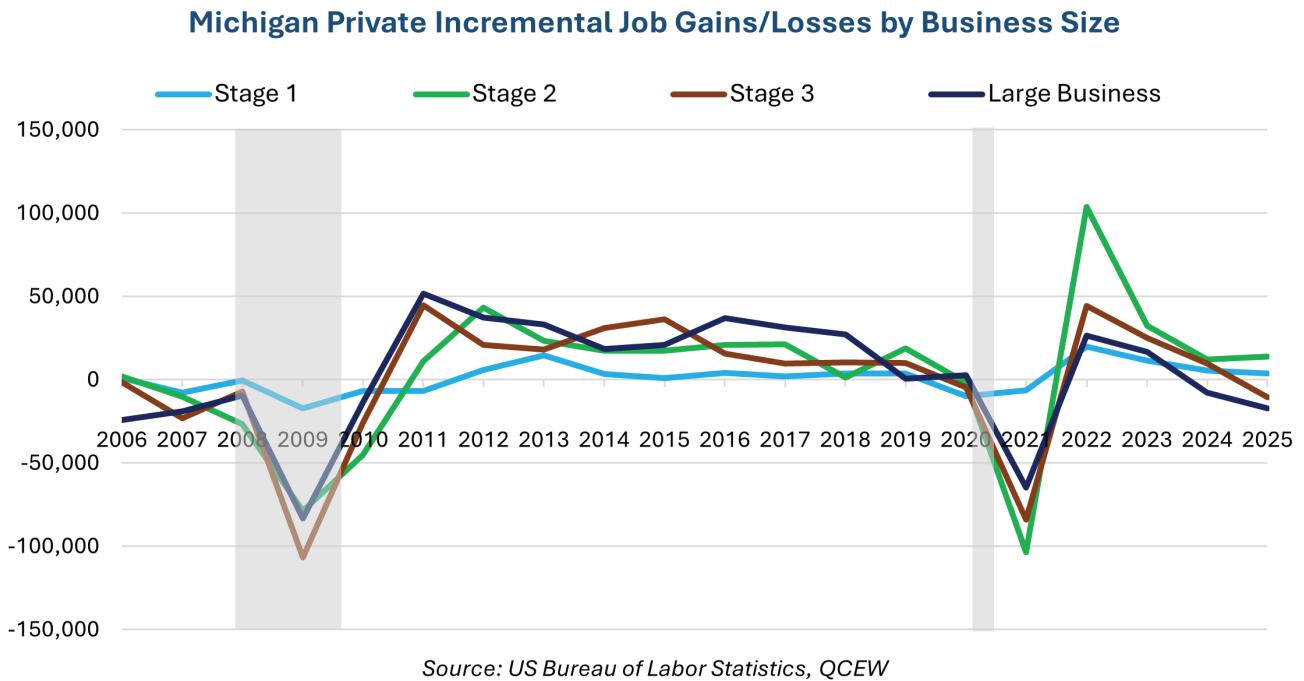
STABILITY IS A STRENGTH, BUT IT DOES NOT REPLACE GROWTH

Michigan performs well on measures of business stability.



This line graph shows Michigan ranking among the top states in the percentage of businesses that survive past the first 5 years.

Stage 1 businesses tend to provide a steady employment base.



Smaller firms experience less volatility in employment during economic cycles.

OWNERSHIP TRENDS SHOW PROGRESS, WITH GAPS REMAINING

Business ownership in Michigan has become more diverse over time.

Michigan Business Ownership by Demographic

SHARE OF TOTAL FIRMS	2002	2023	2023 Demographic as a Share of MI Population
Minority	10.5%	20.2%	27%
Women-owned	29.6%	37.2%	50.4%
Veteran-owned (employer firms only)	3%	3.8%	5.4%

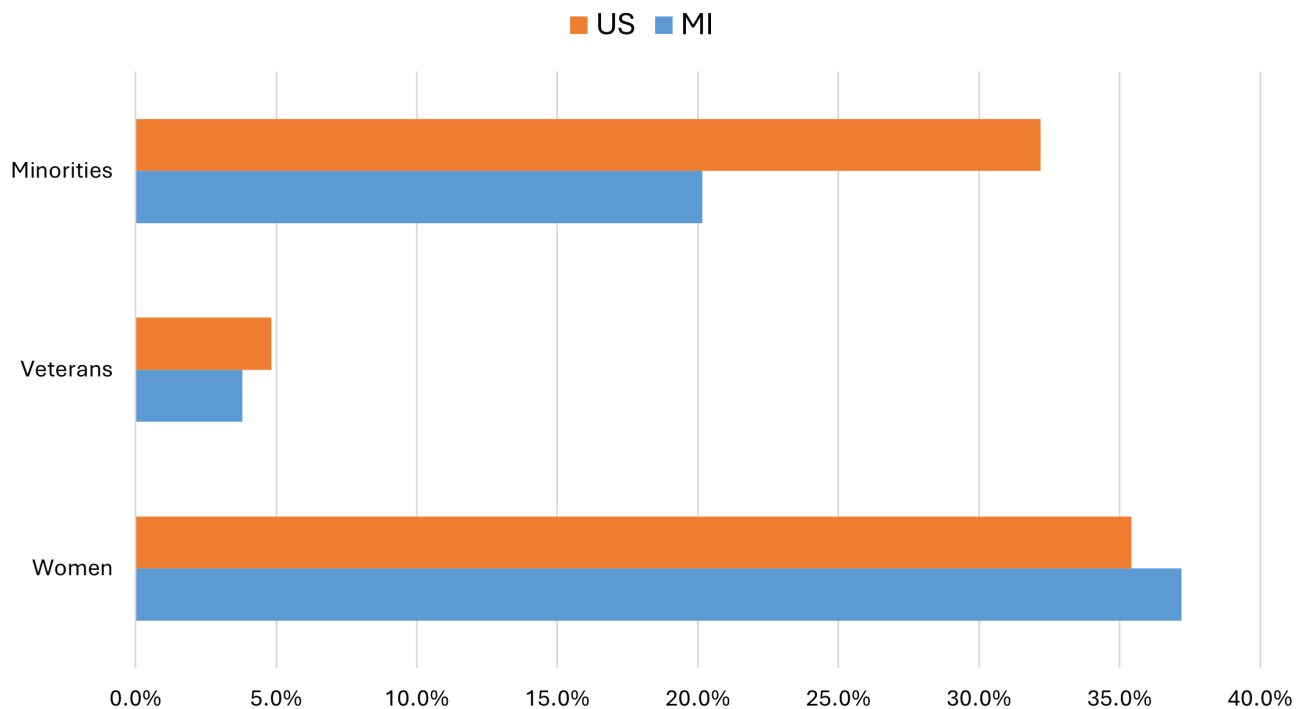
Source: US Census Bureau, Survey of Business Owners 2002, Annual Business Survey 2023, Nonemployer Statistics 2023; US Census Bureau Population Estimates

This table shows changes in ownership shares across demographic groups over time.

Women-owned businesses have increased and approach national levels.

Minority owned businesses have grown but still lag national benchmarks.

Business Ownership Share incl. Self-employed, 2023



Source: US Census Bureau, Annual Business Survey

This bar graph shows the percent of business ownership in Michigan compared to national trends.

Self employment remains a more common entry point for many groups.

Michigan Business Ownership, Employer Firms vs Self Employed

	Employer Firms	Percent of Total Employer Firm	Self Employed	Percent of Total Self Employed
Total	163,461	100%	815,013	100%
Women	33,872	21%	357,000	44%
Men	106,308	65%	426,000	52%
Minority	17,154	10%	196,000	24%
Non-minority	136,284	83%	604,000	74%
Veteran	6,148	4%	31,000	4%
Non-Veteran	146,531	90%	768,000	94%

Sources: US Census Bureau, Annual Business Survey, Nonemployer Statistics by Demographics, 2023

Women-owned and minority-owned businesses are more likely to be self-employed than employer-owned.

These trends show progress but also differences in access to growth opportunities.



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INDUSTRY PATTERNS REINFORCE THE SAME STORY

Growth patterns vary by industry, but the overall structure remains consistent.

Employer Firm Growth by Industry and Stage

2003-2022	1 to 9	10 to 99	100 to 499	All Firms
Forestry, Fishing, Hunting, and Agriculture Support	25%	8%	43%	1%
Mining	-18%	-18%	-29%	-30%
Utilities	37%	-27%	63%	5%
Construction	3%	-14%	38%	-21%
Manufacturing	-10%	-21%	-1%	-19%
Wholesale Trade	-20%	-23%	8%	-25%
Retail Trade	-3%	-25%	-23%	-18%
Transportation and Warehousing	107%	35%	22%	51%
Information	55%	-13%	-6%	15%
Finance and Insurance	13%	-28%	13%	-6%
Real Estate and Rental and Leasing	20%	-20%	23%	-4%
Professional, Scientific, and Technical Services	19%	-4%	-2%	-2%
Management of Companies and Enterprises	25%	-15%	-2%	-4%
Administrative and Support and Waste Management	56%	-9%	-40%	2%
Educational Services	61%	10%	1%	23%
Health Care and Social Assistance	7%	11%	8%	0%
Arts, Entertainment, and Recreation	48%	-6%	-3%	-2%
Accommodation and Food Services	34%	26%	-16%	10%
Other Services (except Public Administration)	7%	-20%	-2%	-7%

Source: US Census Bureau, Statistics of US Businesses

This table reveals stronger growth in Stage 1 firms across industries, with more limited growth in larger stages.

Michigan is producing and sustaining small businesses, but fewer firms are scaling into larger employers.

CONCLUSION: A STRONG FOUNDATION, BUT LIMITED UPWARD MOVEMENT

Michigan's small business economy has a strong foundation.

The state has:

- A large and growing base of small businesses
- Increasing importance in payroll and employment
- Strong business survival and stability

At the same time, the system is not producing enough upward movement.

- Growth in employer establishments lags the nation
- The pipeline into larger stages is limited
- Fewer firms are scaling into the businesses that drive long-term job growth

This combination defines Michigan's position. The foundation is strong, but the system is not advancing at the pace needed to improve its competitive standing.

The next chapter examines how these conditions appear in the entrepreneurial economy, where recent data shows weakening momentum in business formation and expansion.

CHAPTER TWO

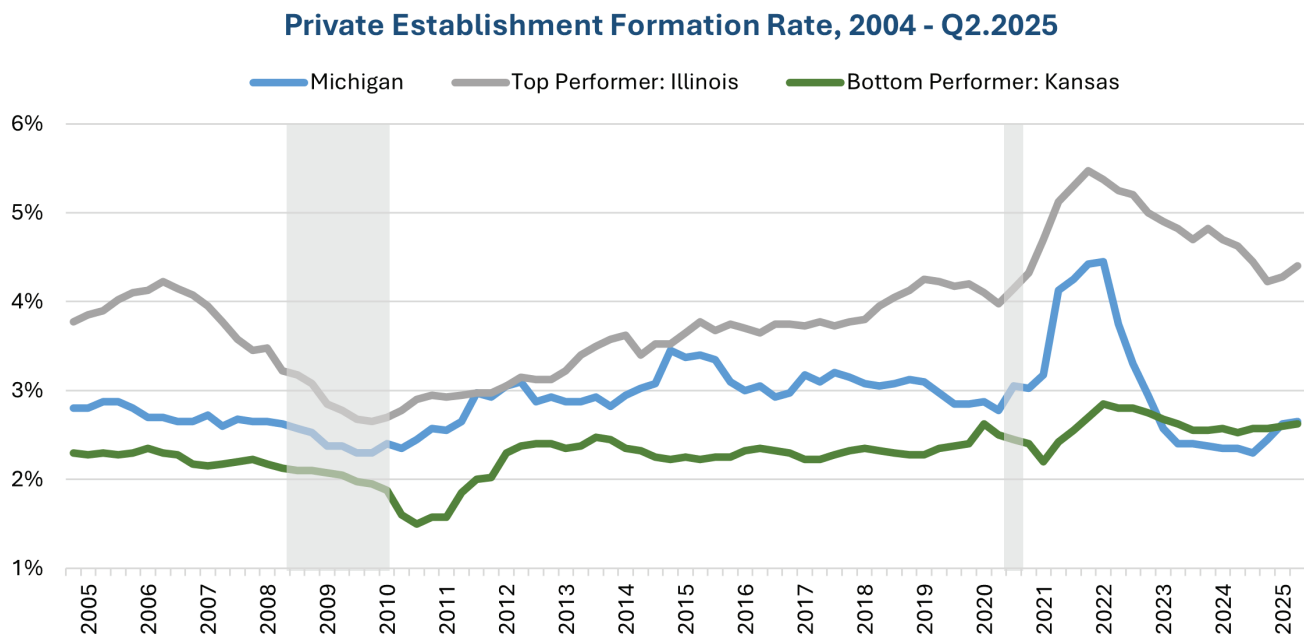
DIRECTION OF MICHIGAN'S ENTREPRENEURIAL ECONOMY

Michigan's entrepreneurial economy remains stable, but it is no longer keeping pace. Recent data shows weakening momentum in both new business formation and business expansion. The foundation remains intact, but the direction is becoming less favorable.

This creates a tension between stability and growth. Michigan's entrepreneurial economy is stable, but it is not advancing at the rate needed to strengthen its long-term competitive position.

Michigan's entrepreneurial economy tends to improve quickly following economic shocks. This was true after the Great Recession and again after the COVID-19 recession. Business expansion activity increased, and new business formation surged across most states.

The more recent data shows that this recovery phase has lost momentum.



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

Michigan had strong post-pandemic increases in business formation, but it was followed by a sharper decline beginning in 2022 compared to both high- and low-performing states.

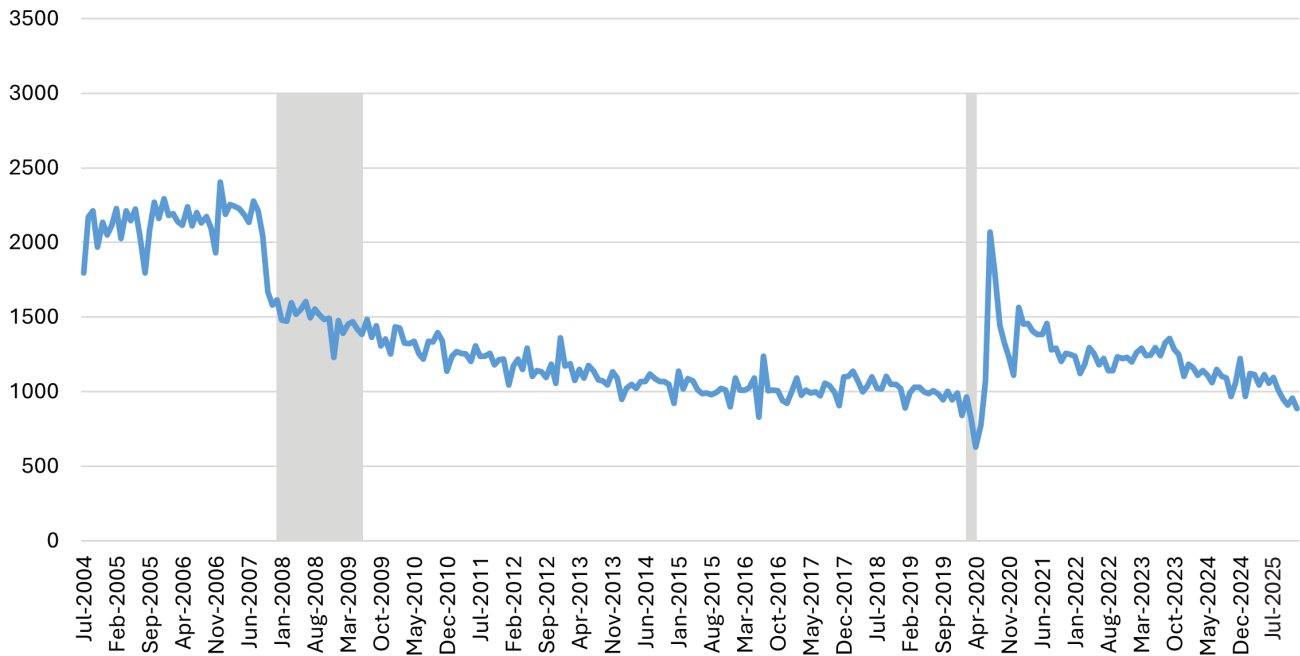
After the post-pandemic surge, business formation rates began to decline in 2022. While this decline has occurred nationally, Michigan's drop has been more pronounced. Recent quarters show some signs of stabilization, but the overall trend reflects weaker momentum than earlier in the recovery.

As of mid-2025, Michigan ranks near the bottom among states in new business formation. Rankings can shift from year to year, but this position reflects a meaningful loss of ground during a critical period of recovery.

NEW BUSINESS FORMATION HAS LEVELED OFF, RAISING QUESTIONS ABOUT THE PIPELINE

New business applications with planned wages provide another view of entrepreneurial activity, focusing on businesses that intend to hire employees.

Michigan Business Applications with Planned Wages, 2004 - 2025



Source: US Census Bureau, Business Formation Statistics

There was a sharp increase in new business applications among businesses with planned wages following the pandemic. Subsequently, Michigan has returned to levels closer to historical norms.

Following a sharp increase in 2020 and 2021, new business applications have leveled off and, in recent periods, declined. Current levels are closer to those seen before the pandemic.

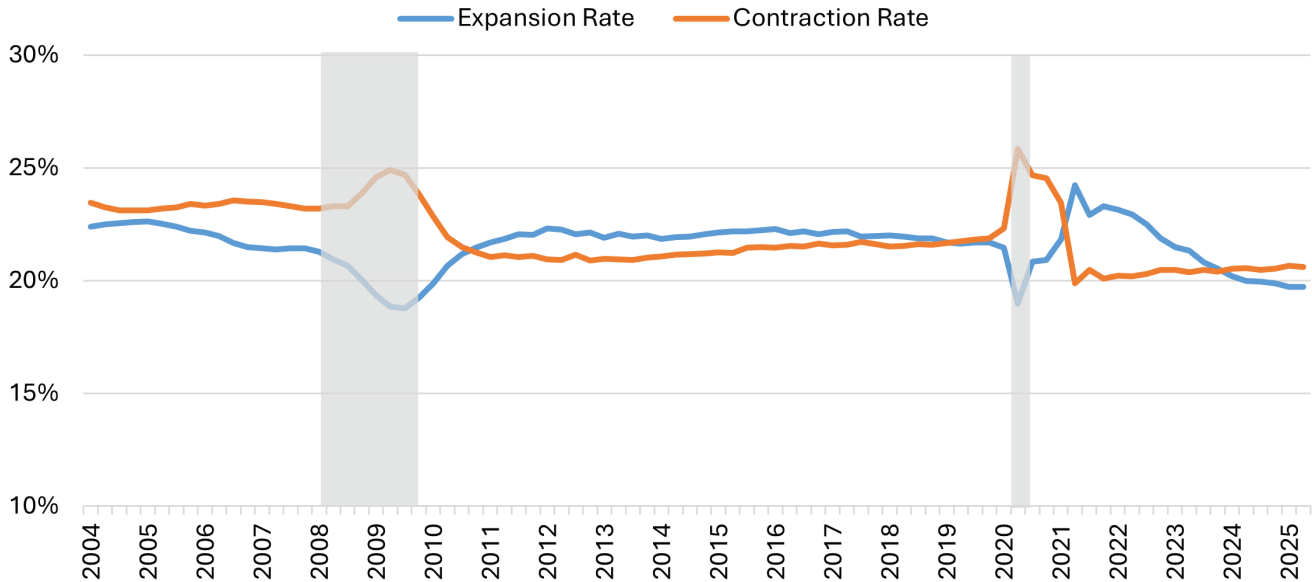
This does not indicate a collapse in entrepreneurial activity. However, it does raise an important question. The issue is not the level of activity, but the direction. The recent trend suggests that the surge in new business formation has not been sustained.

Because early-stage business formation is the entry point into the broader entrepreneurial system, slower formation directly affects the pipeline of firms that can grow into larger employers.

BUSINESS EXPANSION IS SLOWING WHILE CONTRACTION IS INCREASING

Beyond formation, the behavior of existing businesses provides insight into the overall direction of the entrepreneurial economy.

Michigan Percent of Establishments with Job Expansions / Contractions, 2004-2025



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

This line graph demonstrates the relationship between expansion and contraction activities, with expansion rates recently falling below contraction rates as a percentage of total private sector jobs in Michigan.

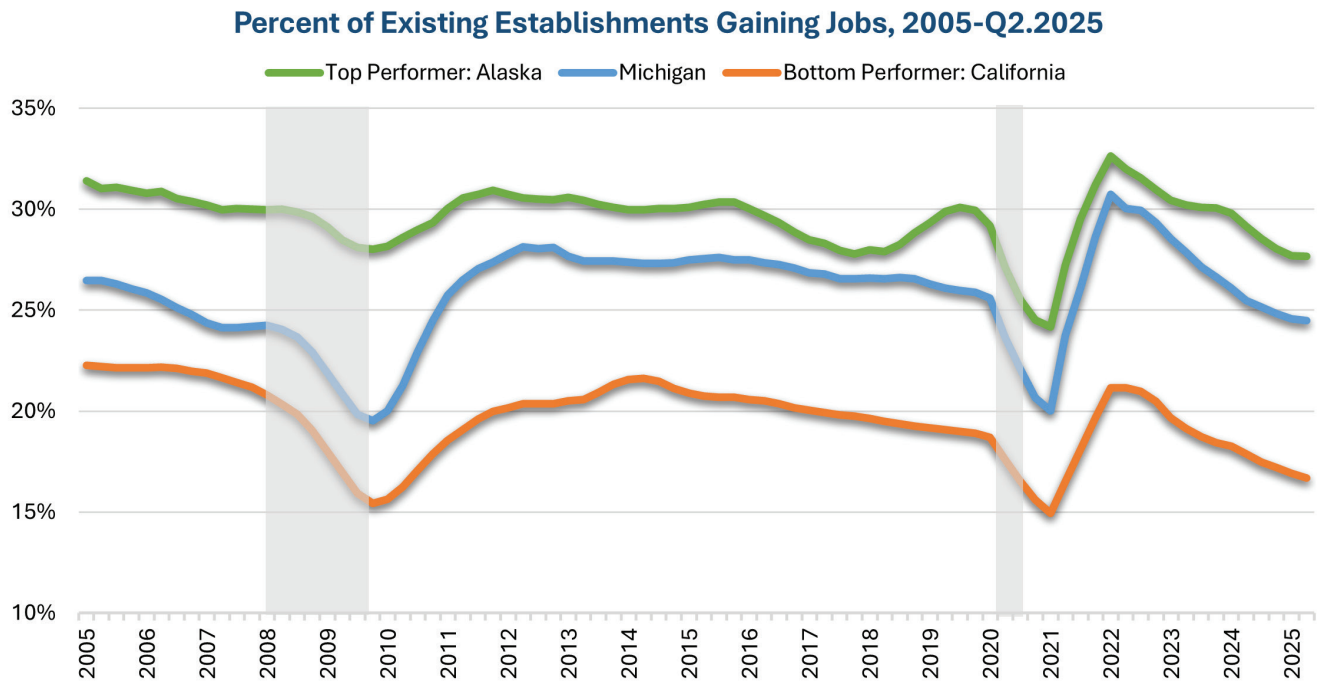
Following both the Great Recession and the COVID-19 recession, business expansion activity outpaced contraction. This is a typical feature of recovery periods.

But expansion rates have declined steadily since 2022, while contraction rates have increased modestly. As of 2025, expansion activity has fallen below contraction activity.

This change is significant. A healthy and growing entrepreneurial economy typically shows more businesses expanding than contracting. When that relationship reverses, it signals a loss of momentum.

THE BREADTH OF JOB CREATION REMAINS A STRENGTH

Not all indicators are moving in the same direction.



Source: Bureau of Economic Analysis, Business Employment Dynamics, 4-quarter moving average

This line graph shows that Michigan continues to rank among higher-performing states in the share of businesses creating jobs as a percentage of all businesses.

Michigan continues to perform relatively well in the share of existing businesses that are adding jobs. Over the past two decades, the state has often ranked among the higher-performing states on this measure.

This indicates that many established businesses remain active and capable of growth. Even as overall momentum has slowed, a substantial share of firms continues to expand.

This is an important strength. It reflects a base of businesses that are stable and engaged in the economy.

STRONG SURVIVAL AND STABILITY, BUT A WEAKER GROWTH PIPELINE

Michigan performs well on measures of business survival. Five-year establishment survival rates rank among the strongest in the country.

On its own, this is a positive signal. Businesses that survive contribute to employment stability and local economic continuity.

However, survival must be considered alongside formation and growth.

The same period that shows strong survival also shows weaker new business formation and slower movement of firms into larger stages. Fewer businesses are entering the system, and fewer are scaling up.

This suggests that strong survival may reflect stability, but it may also reflect a slower pace of change within the entrepreneurial economy.

A healthy system requires both durability and renewal. Michigan's data shows strength in durability, but weaker performance in renewal.

CONCLUSION: STABILITY WITHOUT SUFFICIENT MOMENTUM

Michigan's entrepreneurial economy demonstrates clear strengths in survival and system stability. Five-year establishment survival rates rank among the strongest in the nation, supporting employment continuity and local economic resilience. Established businesses continue to create jobs, and the overall economic structure remains intact. On its own, this durability is a positive signal.

However, sustainability and growth are not the same. The same period marked by strong survival also reveals weakening momentum across several indicators that underpin long-term competitiveness:

Recent trends show:

- Business formation has declined from its post-pandemic peak
- Expansion activity has weakened
- Contraction activity has increased
- The pipeline into larger stages of business growth remains limited

At the same time, important stabilizing forces persist, as Michigan continues to see:

- Strong survival rates among existing firms
- Job creation driven by established businesses
- An entrepreneurial system that has not experienced systemic decline

Together, these conditions describe an economy that is holding ground but not advancing. Michigan frequently falls between the highest- and lowest-performing states—indicative of stability, but not leadership. Gains achieved during recovery periods have not translated into sustained improvements in new business formation or firm expansion.

This creates a central challenge. Stability without sufficient renewal limits momentum. Without stronger formation and a healthier pipeline into larger stages of growth, Michigan risks maintaining its current position rather than improving it. The next chapter examines the broader economic environment in which the system operates.

CHAPTER THREE

BROAD MICHIGAN ECONOMIC SNAPSHOT

Michigan's economy is stable, but it is not gaining ground.

Recent data shows an economy operating at a steady pace, with no immediate signs of sharp decline. Michigan is not keeping up with stronger-performing states, and several key indicators show limits to future growth.

This creates a mixed picture. The economy continues to function well in many areas, but underlying constraints are becoming more apparent. These constraints shape the environment in which small businesses operate and explain why momentum in the entrepreneurial economy has weakened.

A STABLE ECONOMY OPERATING WITHIN CLEAR LIMITS

Forecasts from the University of Michigan describe an economy that has moved beyond the volatility of recent years and is now operating at a steady pace. Growth is expected to continue through 2027, but at a modest rate.

This outlook reflects a balance between stability and constraint.

There is no expectation of a sharp downturn. The state's capacity for growth is limited by structural factors, including slow population growth and an aging workforce.

Several risks could further moderate growth in the near term:

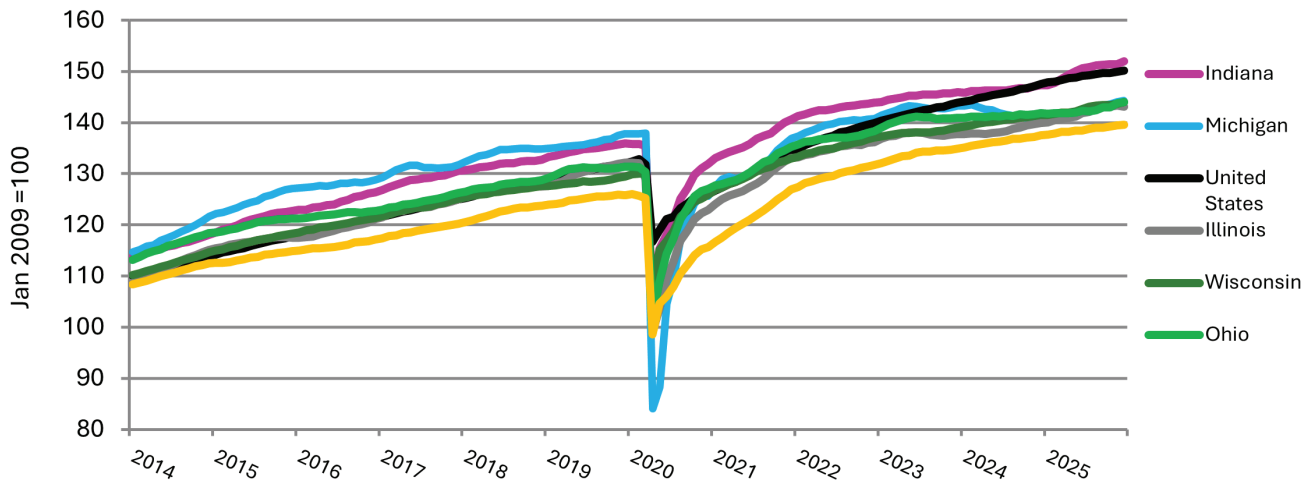
- Slowing payroll growth and a gradual increase in unemployment
- Flat real disposable income following several strong years
- Weakness in cyclical industries, including manufacturing
- Continued uncertainty in the automotive sector tied to federal policy

These conditions do not point to a contracting economy. They point to an economy operating within a narrower range of outcomes.

MICHIGAN IS NO LONGER LEADING ITS REGIONAL PEERS

Michigan's position can be understood by comparing its performance to nearby states.

Industrial Midwest Coincident Index, 2014 - Dec. 2025



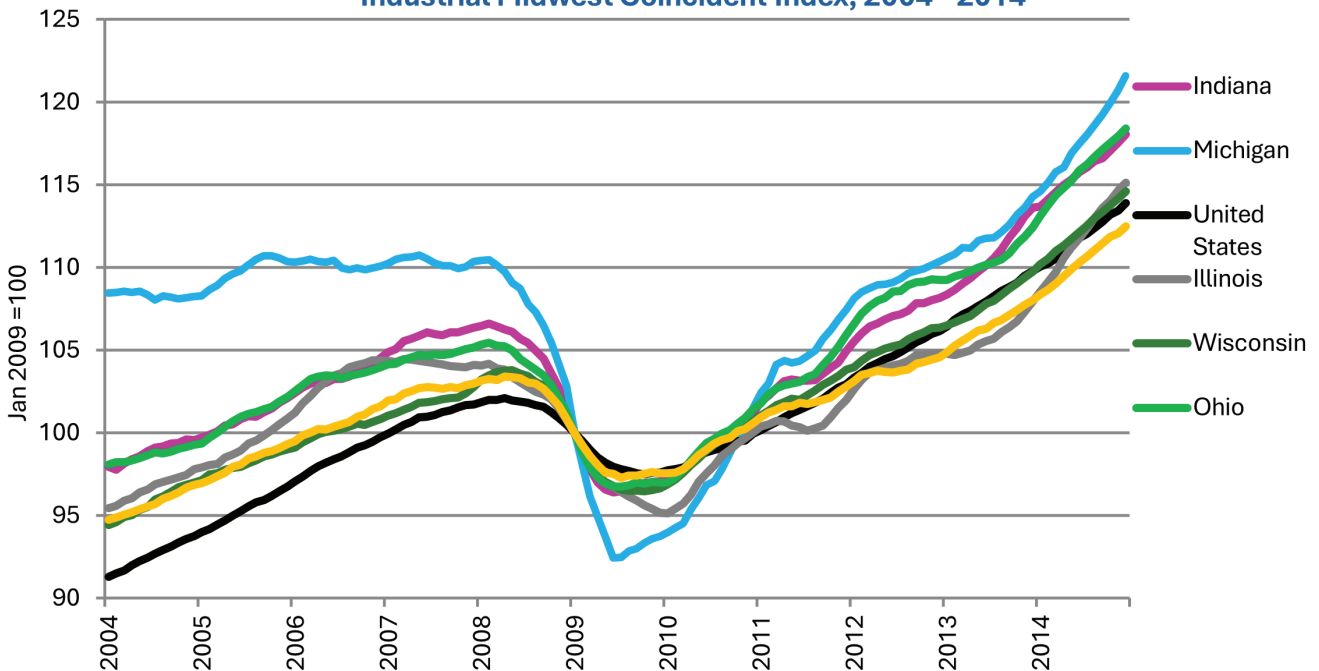
Source: Federal Reserve Bank of Philadelphia

Michigan's recovery from the pandemic alongside peer states is illustrated here, with Michigan trailing Indiana and the national average in recent years.

Michigan recovered from the pandemic, but it has not reestablished a leading position in the Midwest. Indiana moved ahead during the recovery and has maintained that position, while Michigan has remained closer to the middle of the regional group.

This contrasts with Michigan's experience following the Great Recession.

Industrial Midwest Coincident Index, 2004 - 2014



Source: Federal Reserve Bank of Philadelphia

Between 2004 and 2014 Michigan declined sharply during the Great Recession followed by a strong recovery that restored its position among leading Midwest states.

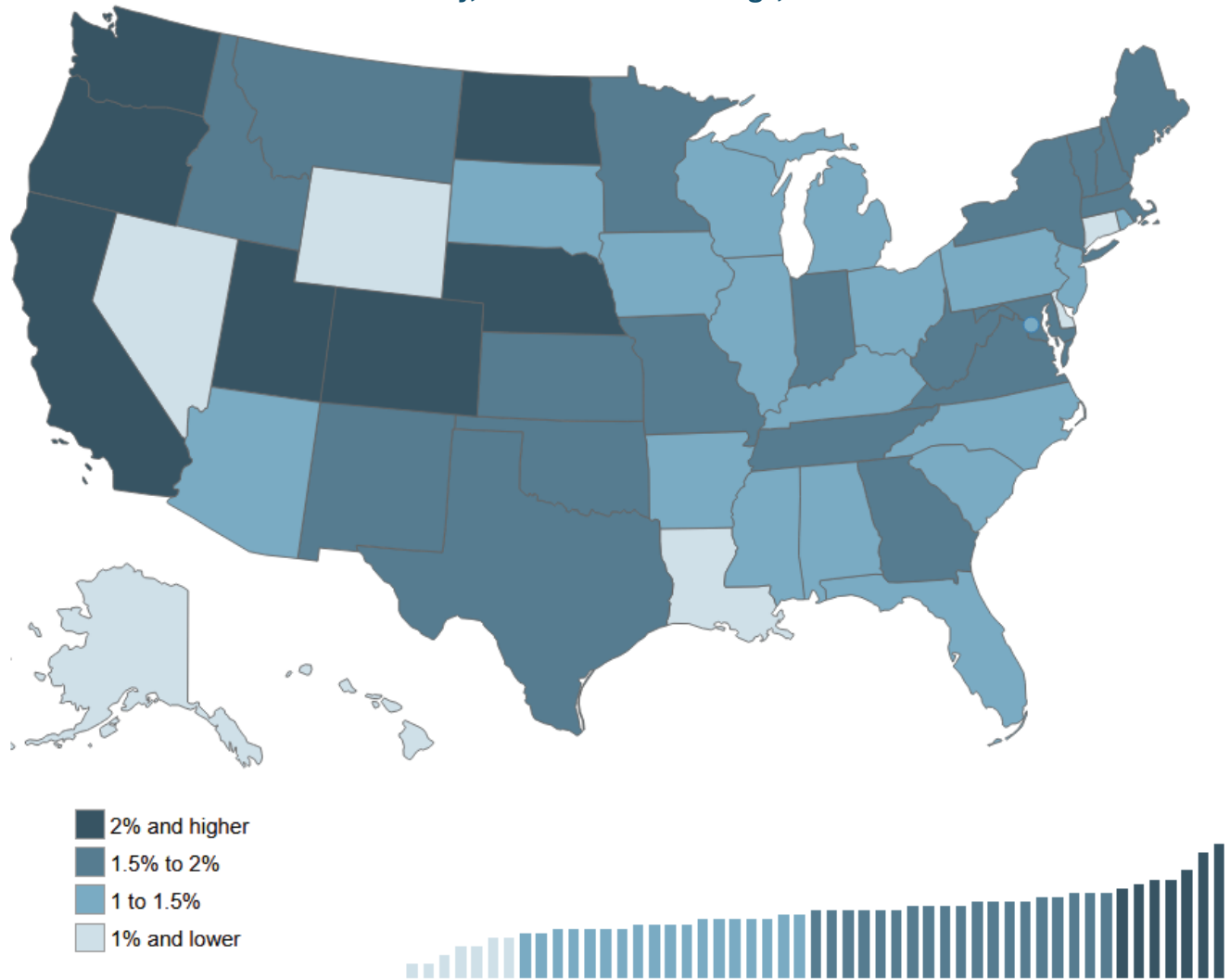
After the Great Recession, Michigan rebounded strongly and regained ground relative to its peers. The current cycle has not produced the same outcome.

Michigan is growing, but it is not separating itself from the region.

PRODUCTIVITY AND OUTPUT GROWTH REMAIN MODEST

Long-term economic performance depends on productivity growth. Productivity determines how much output is generated per worker and supports both wage growth and business expansion.

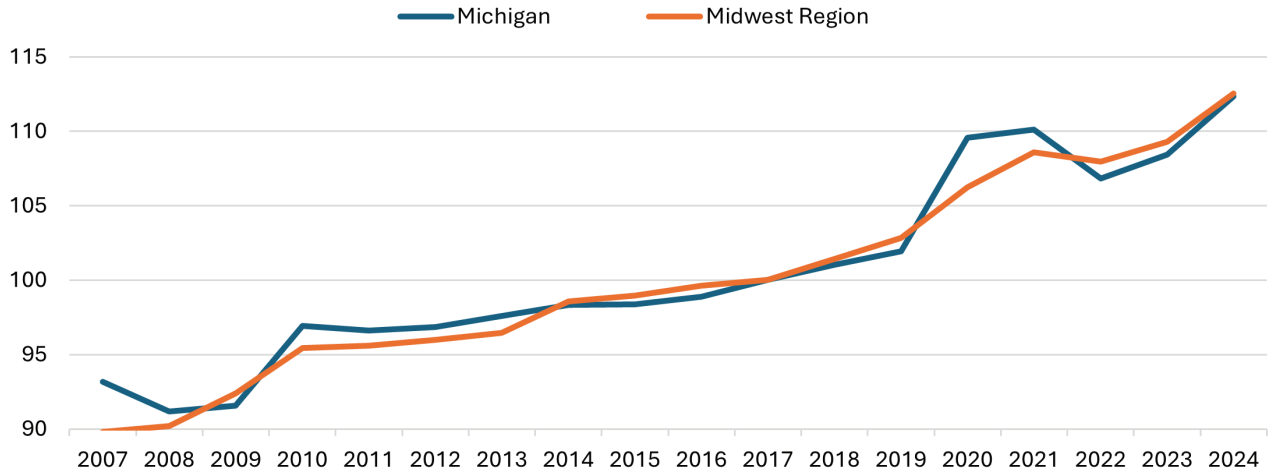
Productivity, Annual Percent Change, 2007-2024



This map shows Michigan’s productivity growth relative to other states, with the state ranking below stronger-performing regions.

Michigan does not rank among the top-performing states in productivity growth over the long run. This reinforces a pattern of moderate, but not leading economic performance.

Labor Productivity Index (2017=100)



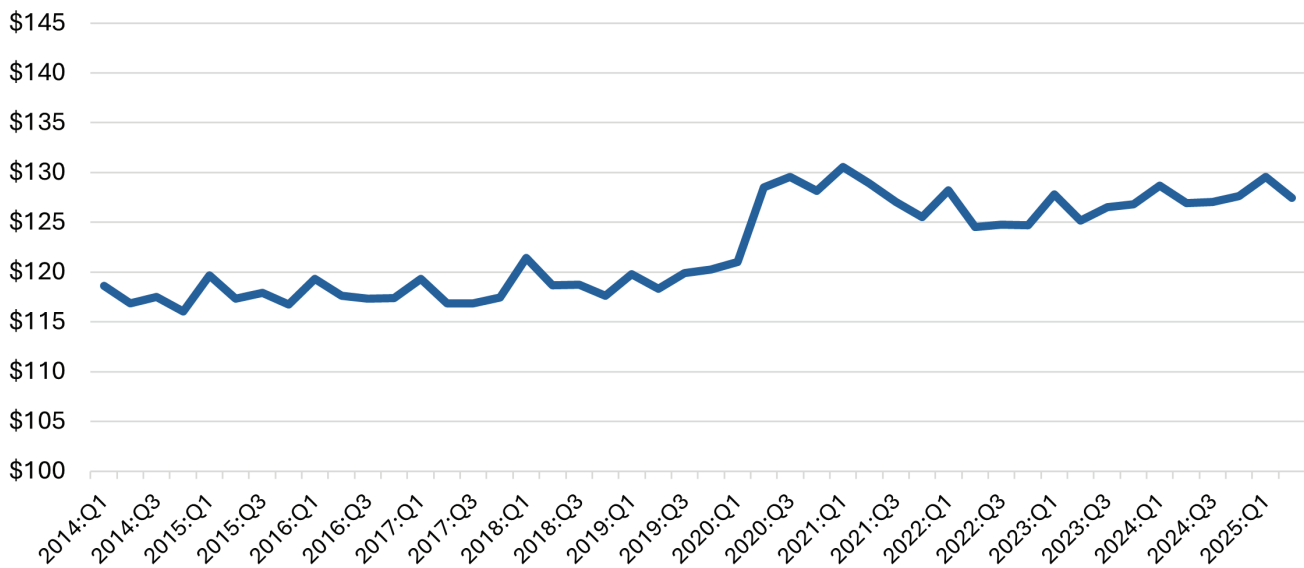
Source: Bureau of Labor Statistics

Michigan's productivity tracks closely with the broader Midwest rather than diverging into a higher growth path.

More recent data shows some improvement, particularly after 2020. However, Michigan continues to move in line with regional peers rather than establishing a stronger trajectory.

Real GDP per worker provides another view of this pattern.

Michigan Quarterly Real GDP per Worker, 2014-Q2:2025 (millions)



Source: Bureau of Economic Analysis

This figure shows a rise in output per worker following the pandemic, followed by a leveling off in recent years.

Output per worker increased sharply during the pandemic period but has since stabilized. The lack of continued growth shows that productivity gains have not been sustained.

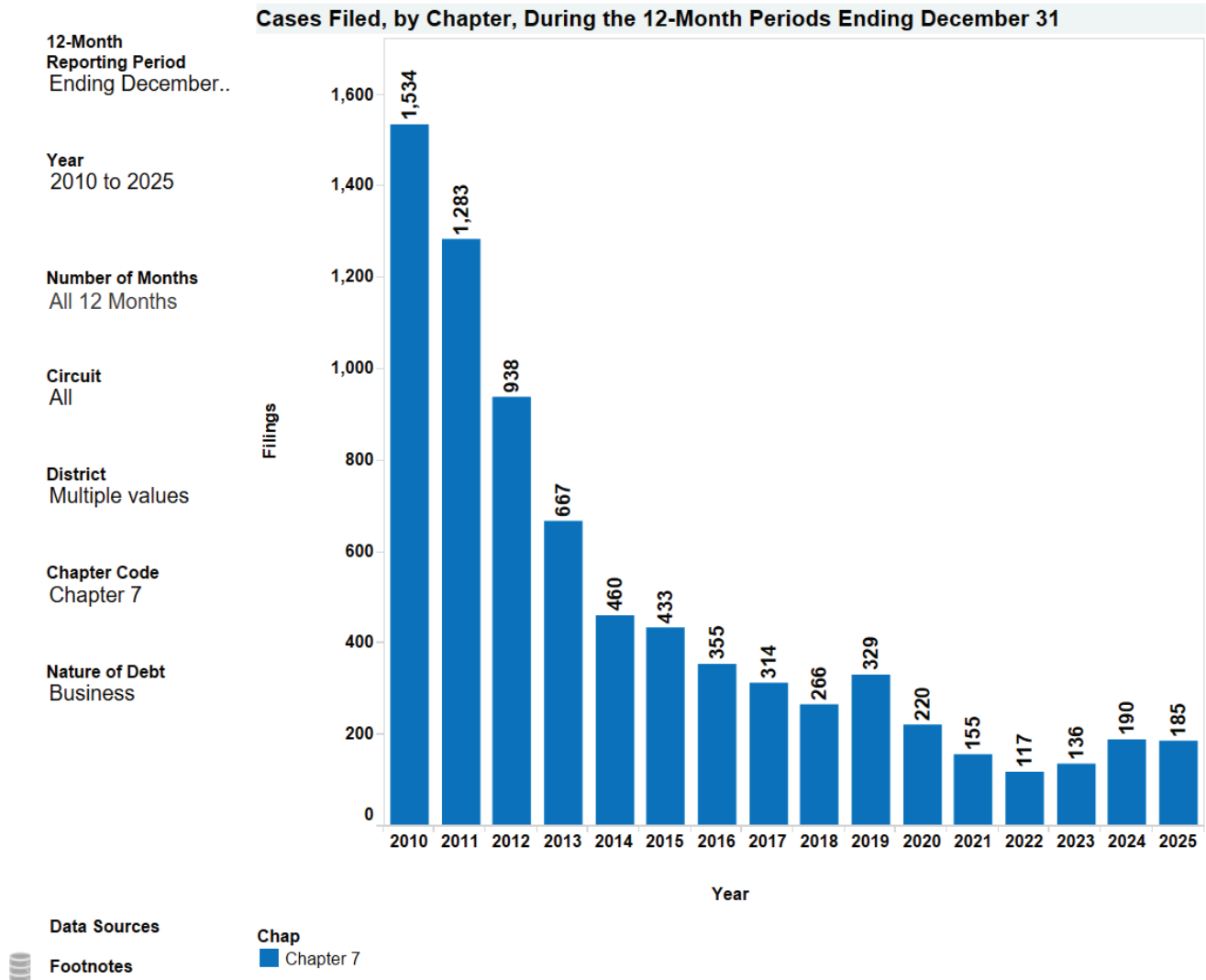
Over a longer period, Michigan's share of total U.S. GDP has declined, reinforcing that the state is not keeping pace with national growth.

BUSINESS CONDITIONS SHOW STABILITY, WITH EARLY SIGNS OF SOFTENING

Several indicators suggest that conditions for existing businesses remain stable, though recent trends point to some softening.

Business bankruptcies remain low compared to historical levels.

Chapter 7 Bankruptcy Cases Filed, Michigan

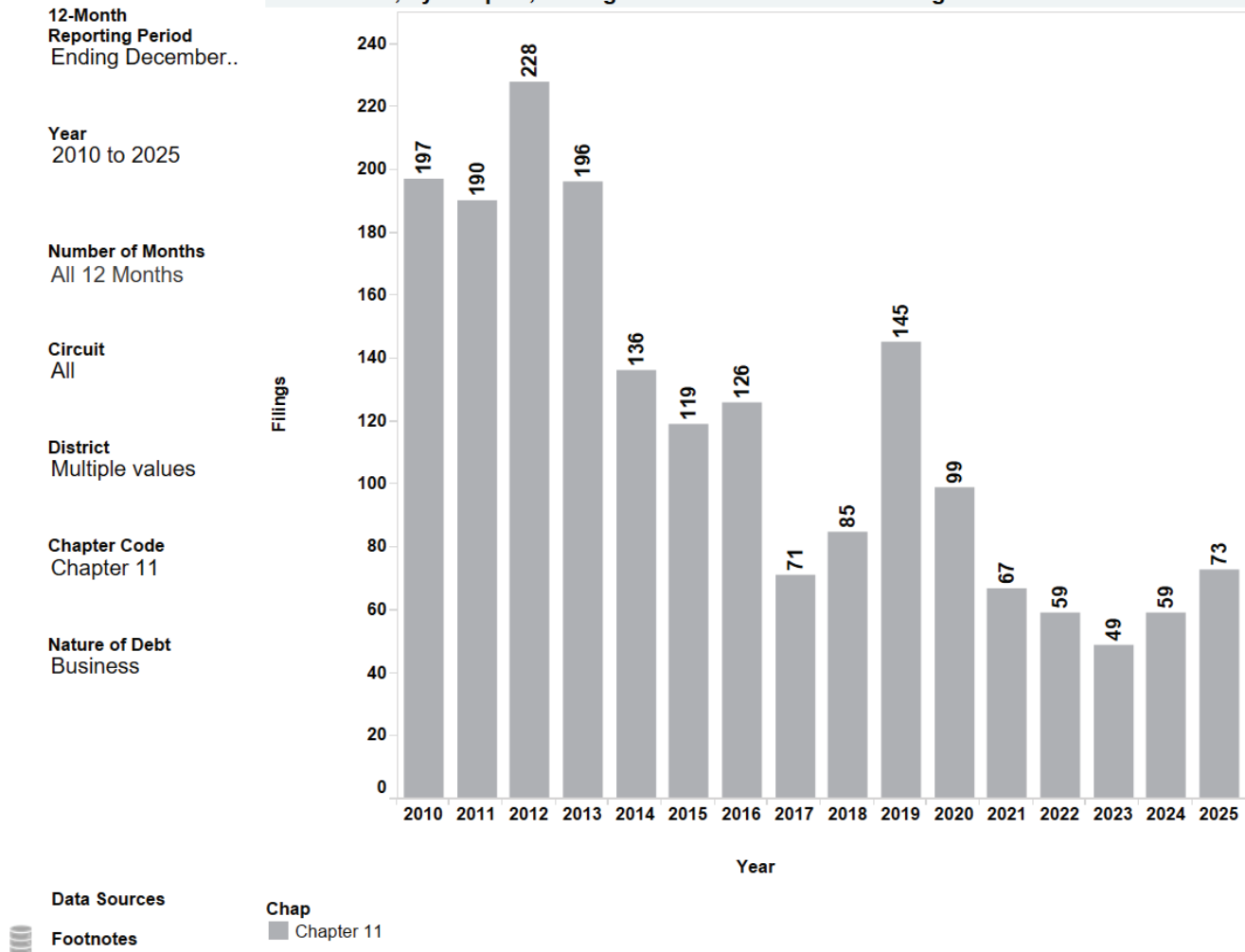


Source: US Bankruptcy Courts, 12 month reporting period ending September 30th, 2024

Michigan has experienced a long-term decline in chapter 7 bankruptcies, with a modest increase in recent years.

Chapter 11 Bankruptcy Cases Filed, Michigan

Cases Filed, by Chapter, During the 12-Month Periods Ending December 31

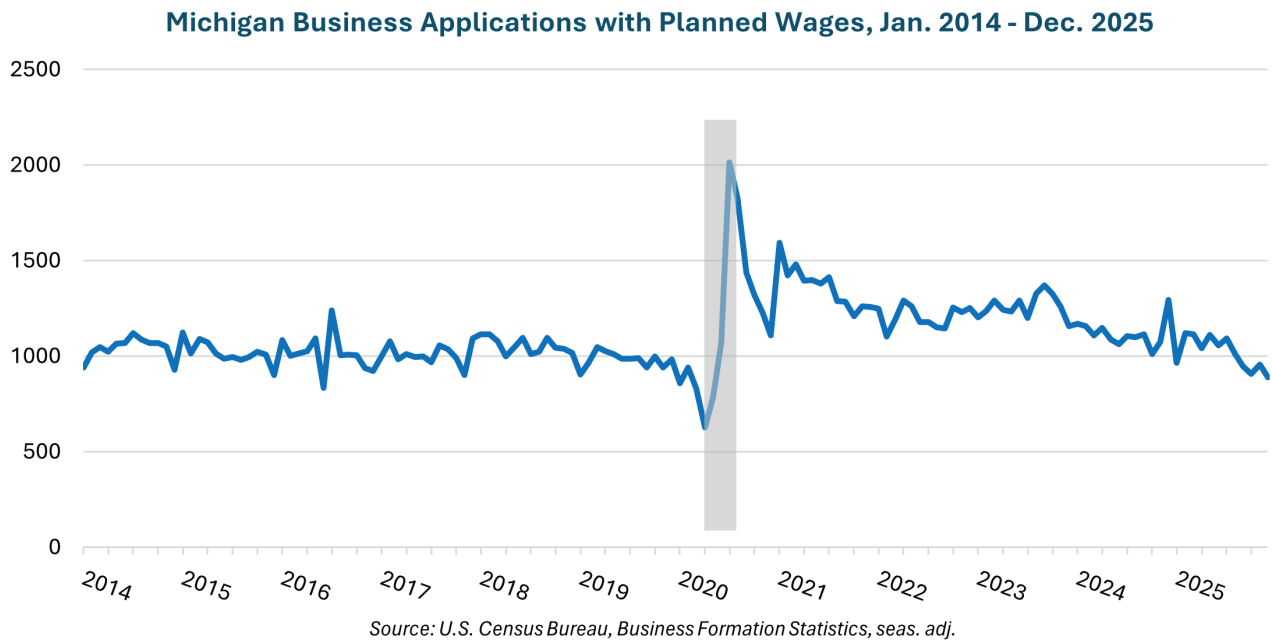


Source: US Bankruptcy Courts, 12 month reporting period ending September 30th, 2024

Chapter 11 bankruptcy filings in Michigan are low with slightly increasing levels of business restructuring activity in recent years.

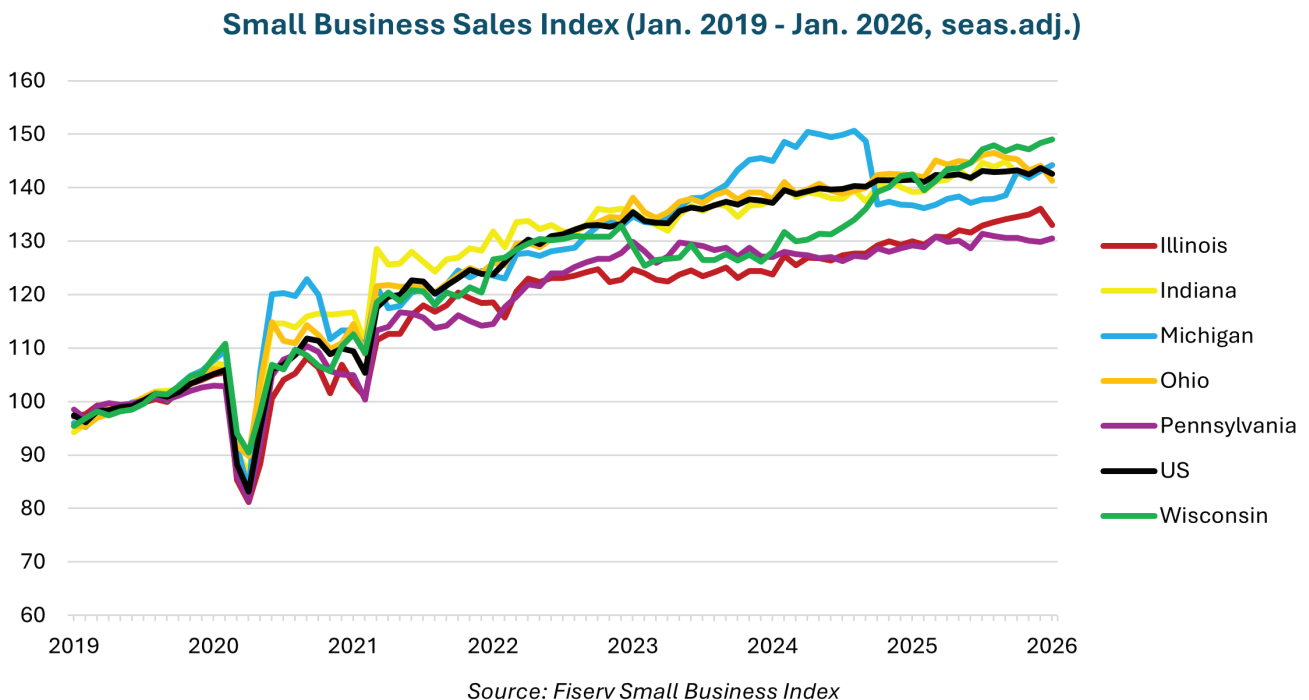
These trends indicate that widespread financial distress is not present. Increases from recent lows are worth monitoring.

Business formation has cooled following the post-pandemic surge.



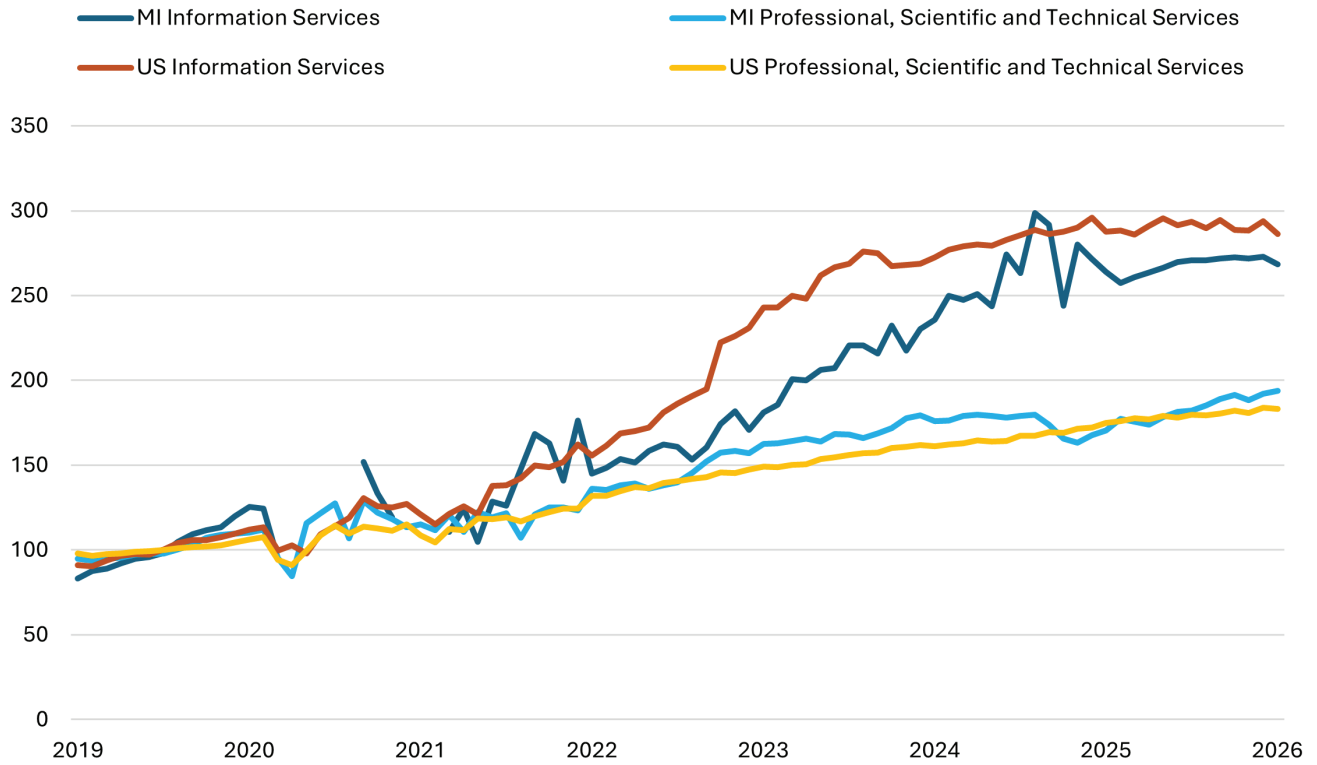
This figure shows a peak in 2021 followed by a leveling off and decline beginning in 2023.

Sales performance provides a mixed view.



Michigan is tracking closely with peer states in overall sales activity.

Michigan Sales Index: Information Services and Professional, Scientific and Technical Services



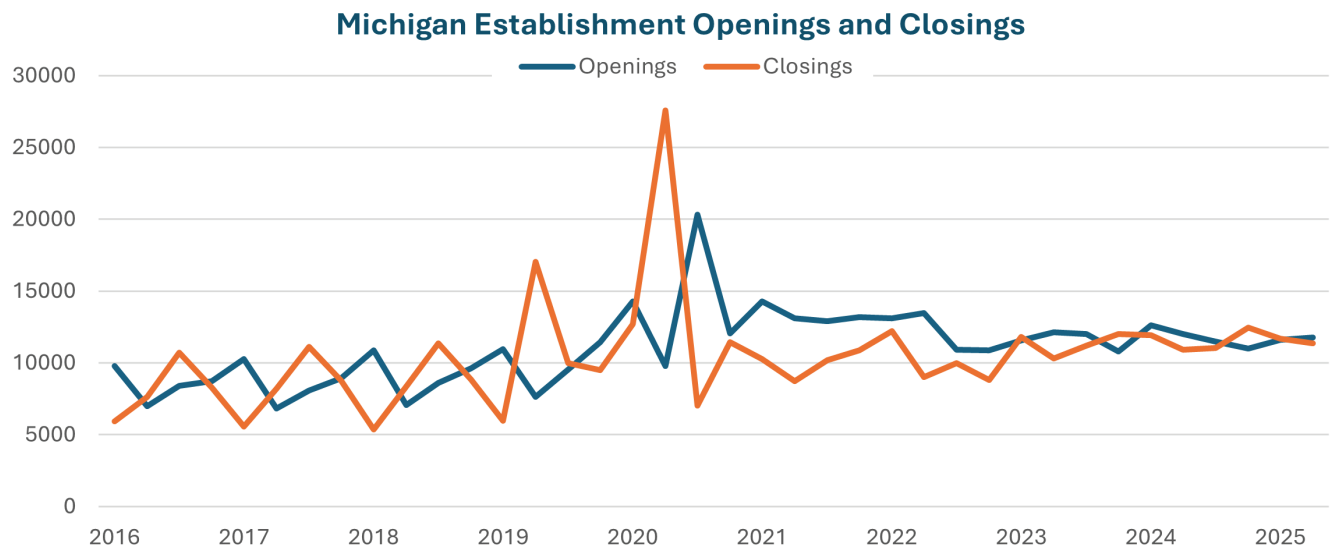
Source: Fiserv

Michigan has slightly stronger performance in Professional Scientific and Technical Services, as compared to the nation, but weaker performance in Information Services. These categories are indicators of Michigan’s economic performance in high-value, knowledge-based sectors.

These indicators show an economy that continues to function, but without strong forward momentum.

OPENINGS, CLOSINGS, AND LABOR MARKET SIGNALS POINT TO A NARROWING MARGIN

A broader view of business activity comes from establishment openings and closings.



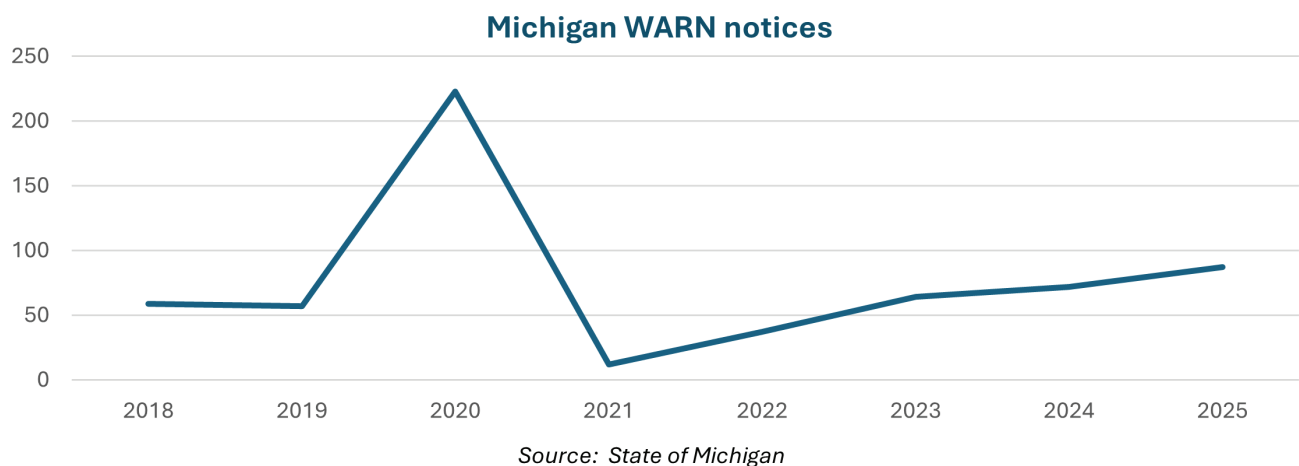
Source: Bureau of Labor Statistics. OCEW. seas. adi.

Business closings are on the rise and openings are declining in recent years, narrowing the gap between the two.

The most recent data shows more closings than openings. This marks a shift from earlier periods when openings consistently exceeded closings.

Labor market indicators show a similar pattern of stability with emerging constraints.

Michigan's unemployment rate in December 2025 is relatively low at 5.0%, though slightly above the national average of 4.4%. At the same time, WARN notices have increased from recent lows.

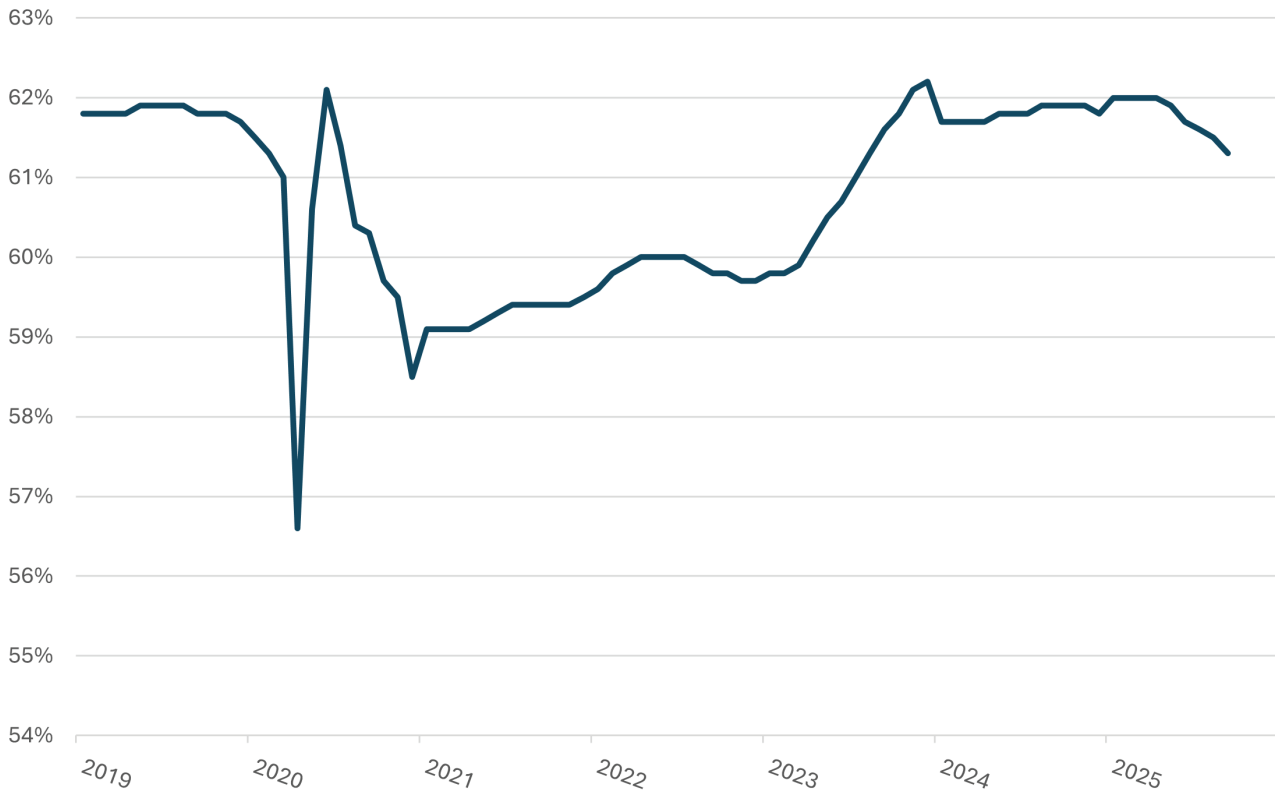


Source: State of Michigan

Large layoff notices have increased compared to pre-pandemic levels, though far below the spike seen in 2020.

Labor force participation remains a longer-term concern.

Michigan Labor Force Participation Rate, 2019 - Dec. 2025 (prel.)



Source: Bureau of Labor Statistics, seas. adj.

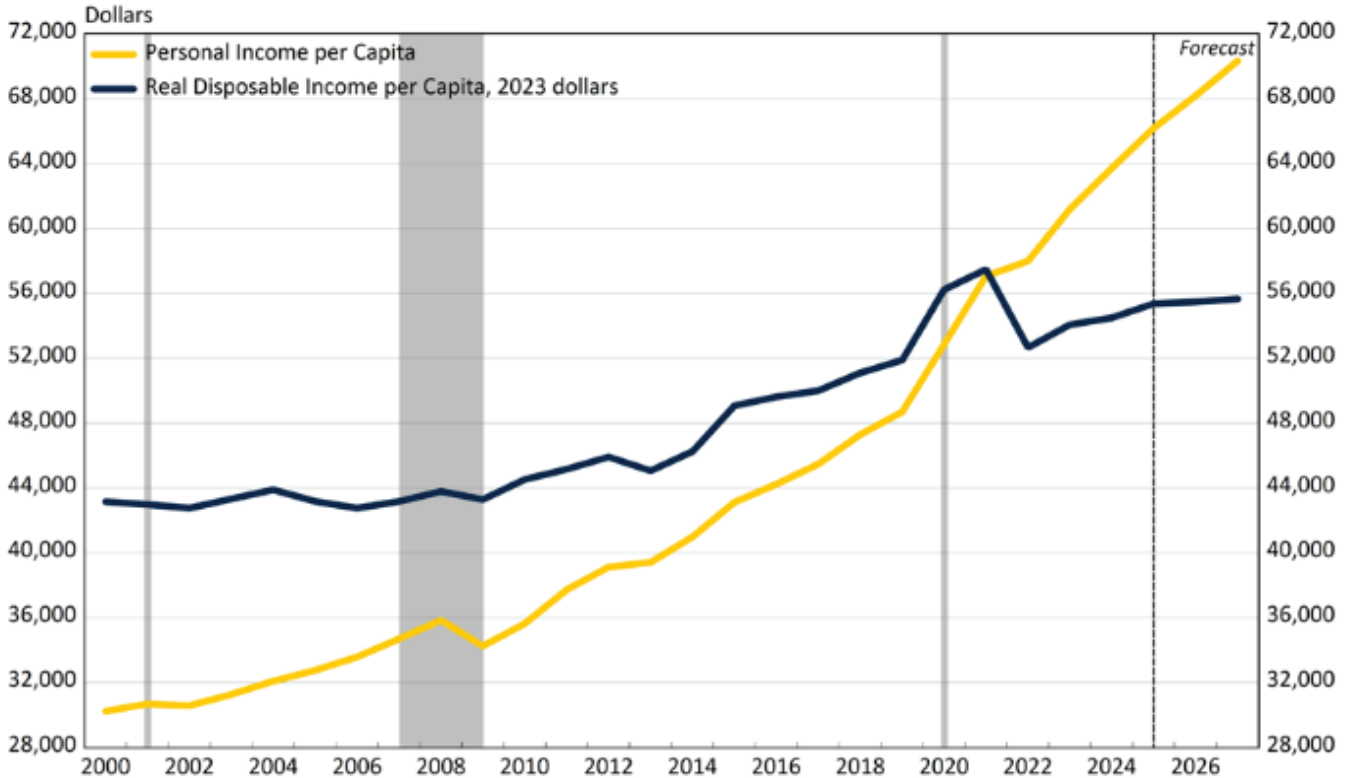
This figure shows Labor Force Participation declining in 2020, recovering by late 2023, and then declining below pre-pandemic levels in 2025.

Michigan continues to rank in the lower tier nationally in labor force participation, reflecting ongoing constraints in workforce availability.

HOUSEHOLD AND POPULATION TRENDS REINFORCE LONG-TERM CONSTRAINTS

Household income and wealth provide additional context for economic performance.

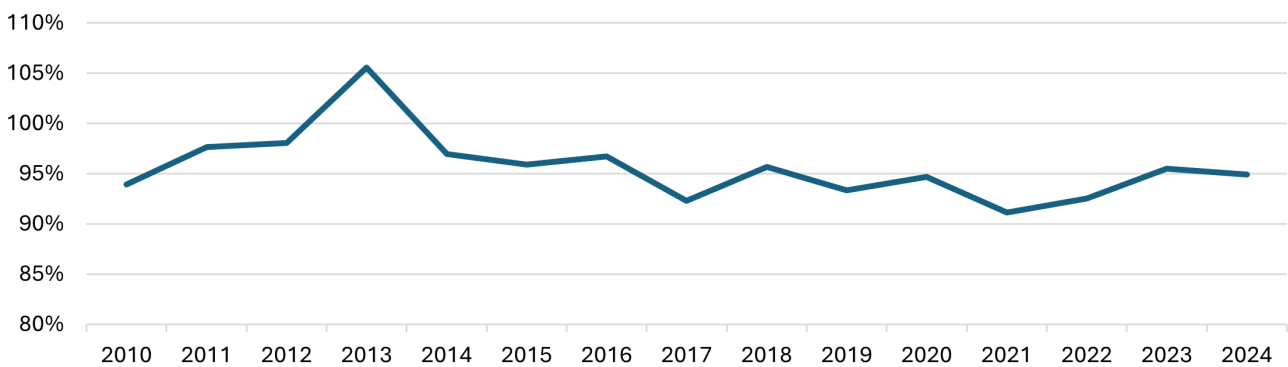
Michigan Personal Income and Real Disposable Income. 2000-2027



Source: University of Michigan, Michigan Economic Outlook 2026-2027, November 2025, Jacob T. Burton, Gabriel M. Ehrlich, Donald R. Grimes, and Michael R. McWilliams

There has been strong nominal growth in income following the pandemic. However, when adjusted for inflation and compared to national benchmarks, Michigan has lost ground.

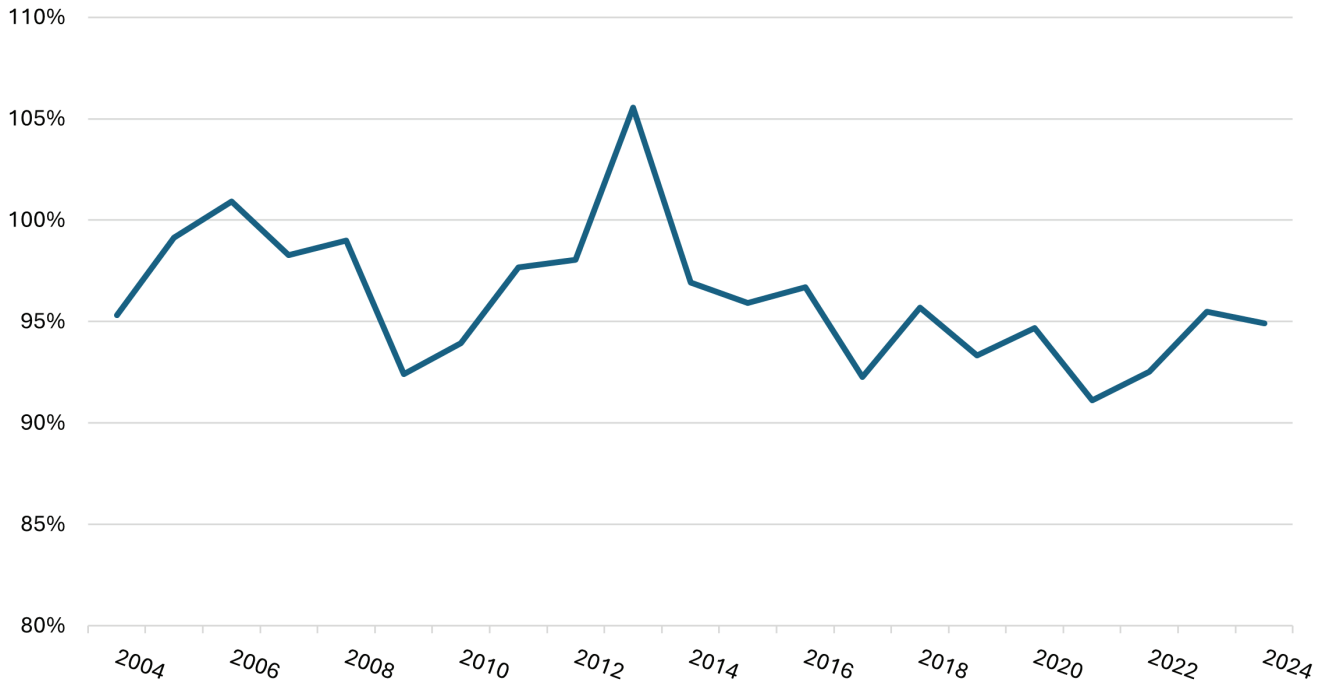
Michigan Median Household Income as % of US, not inflation adjusted



Source: American Community Survey

Michigan's income relative to the U.S. has declined from earlier peaks. The following chart shows a similar pattern when adjusted for inflation.

Michigan Real Median Household Income as % of US (2024 dollars)



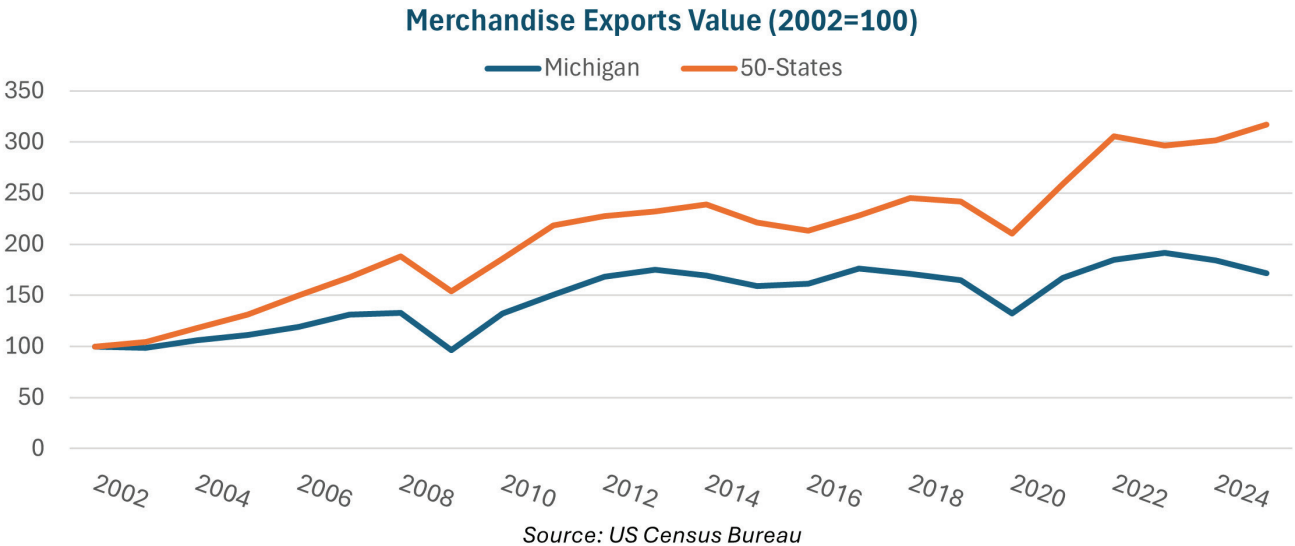
Median household net worth has also declined relative to the national average, reinforcing this trend.

Median Household Net Worth as % of U.S.

	Michigan	U.S.	Share of U.S.
2018	91,870	97,680	94.05%
2023	167,000	191,000	87.40%

Source: Median Value of Assets for Households, <https://www.census.gov/topics/income-poverty/wealth/data/tables.html>

Exports, another key component of Michigan’s economy, have weakened in recent years.



Growth has slowed compared to national trends and recent declines following the pandemic recovery.

Population trends further reinforce these constraints. Growth has been modest over the long term, with recent increases driven largely by international migration offsetting domestic outmigration.

Population Trends

Population Growth	Michigan	U.S.
2010-2025	2.5%	10.5%
2024-2025	0.3%	0.5%

Source: U.S. Census Bureau

Michigan remains a large state by population, but its slower growth limits its economic expansion relative to faster-growing states.

CONCLUSION: A STABLE ECONOMY WITH LIMITED FORWARD MOMENTUM

Michigan’s economy is stable, but it is not gaining ground.

The state has recovered from recent economic shocks and continues to function without signs of widespread distress. At the same time, it is not keeping pace with stronger-performing states, and several indicators point to limits on future growth.

This combination of stability and constraint defines the current environment for small businesses.

The following chapters examine the factors that help explain this pattern, including rising business costs and constraints in the workforce.

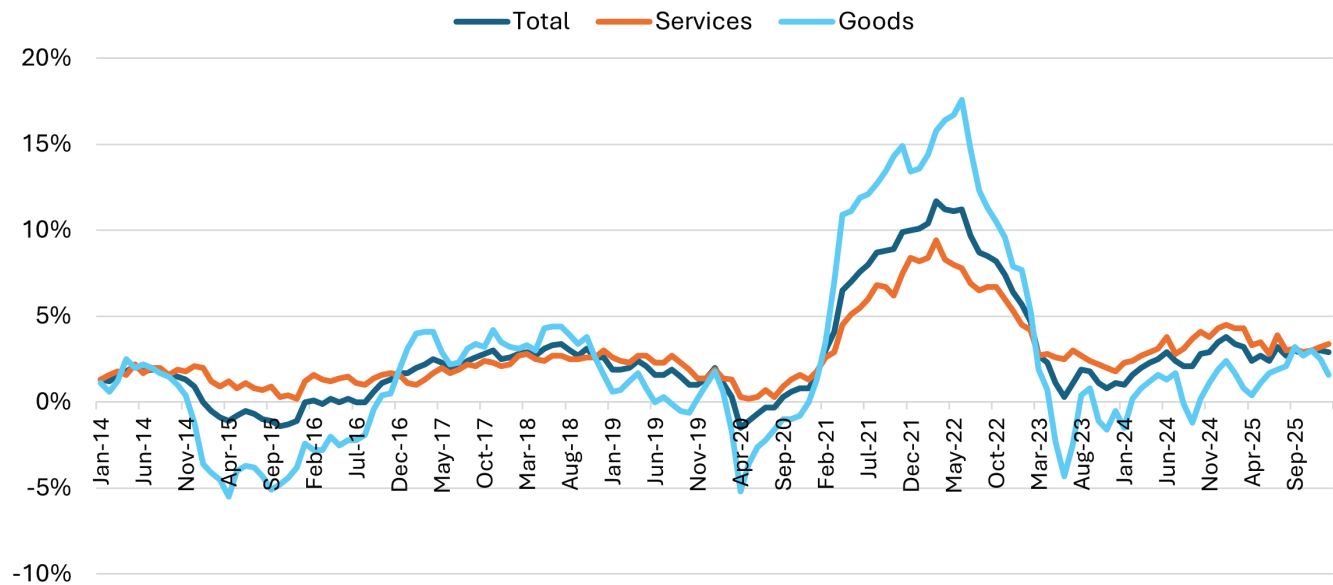
CHAPTER FOUR

RIISING BUSINESS COSTS

INPUT COSTS REMAIN ELEVATED DESPITE EASING INFLATION

Inflation has slowed, but business costs remain high relative to pre-pandemic levels.

**Producer Price Index for Final Demand, 12-m % Change
2014 - Jan. 2026**



Source: Bureau of Labor Statistics, not seas. adj.

Input costs increased sharply between 2021 and 2023 but the rate of change slowed in recent periods.

The Producer Price Index shows that input costs increased sharply from 2021 through early 2023. The rate of increase has slowed, but overall cost levels remain elevated.

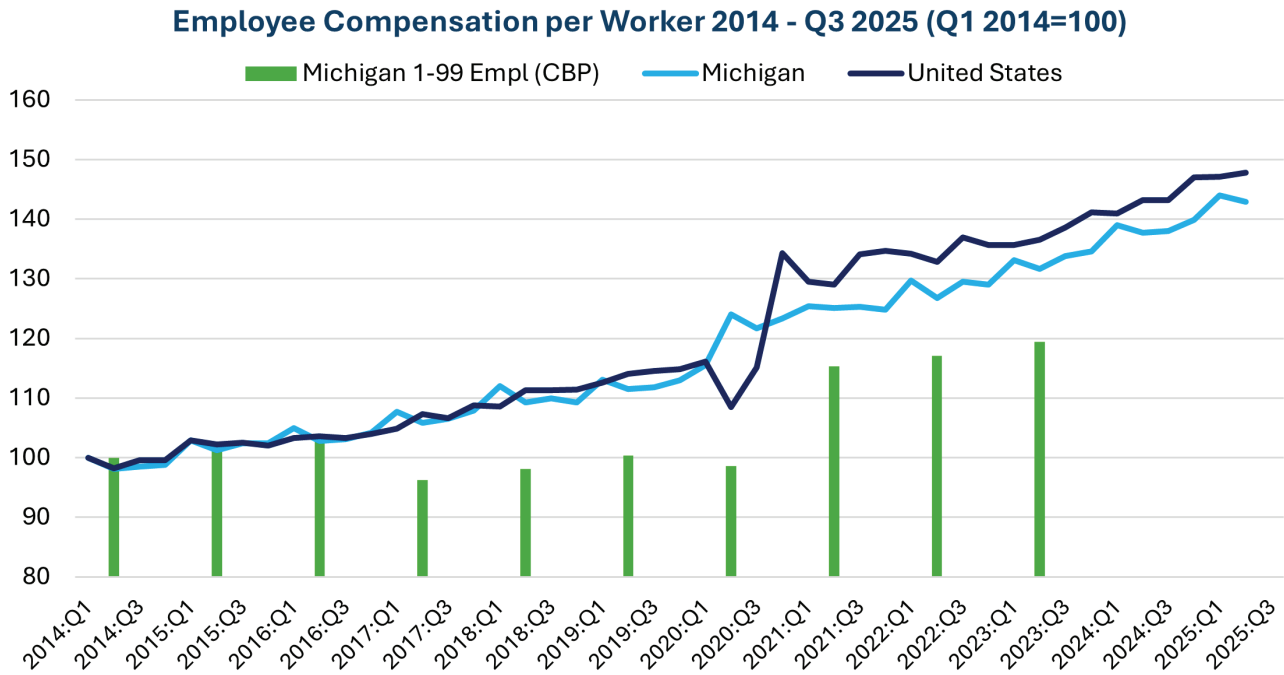
The pattern differs by sector:

- Goods-producing industries experienced sharp increases followed by some recent relief
- Service-producing industries have seen more sustained cost increases

For many small businesses, especially those in services, cost pressures have not eased in a meaningful way.

LABOR COSTS CONTINUE TO RISE

Labor remains one of the largest and most persistent cost pressures.



Source: US Bureau of Economic Analysis, seas. adj.; US Census Bureau, County Business Pattern; Bureau of Labor Statistics, QCEW

Labor costs have risen over time, with Michigan tracking close to national trends in recent years.

Over the past decade, employee compensation has increased steadily. After the pandemic, labor cost growth accelerated and remains elevated.

For small businesses, compensation per worker has risen to levels comparable with the broader economy. This shows a tighter labor market and increased competition for workers.

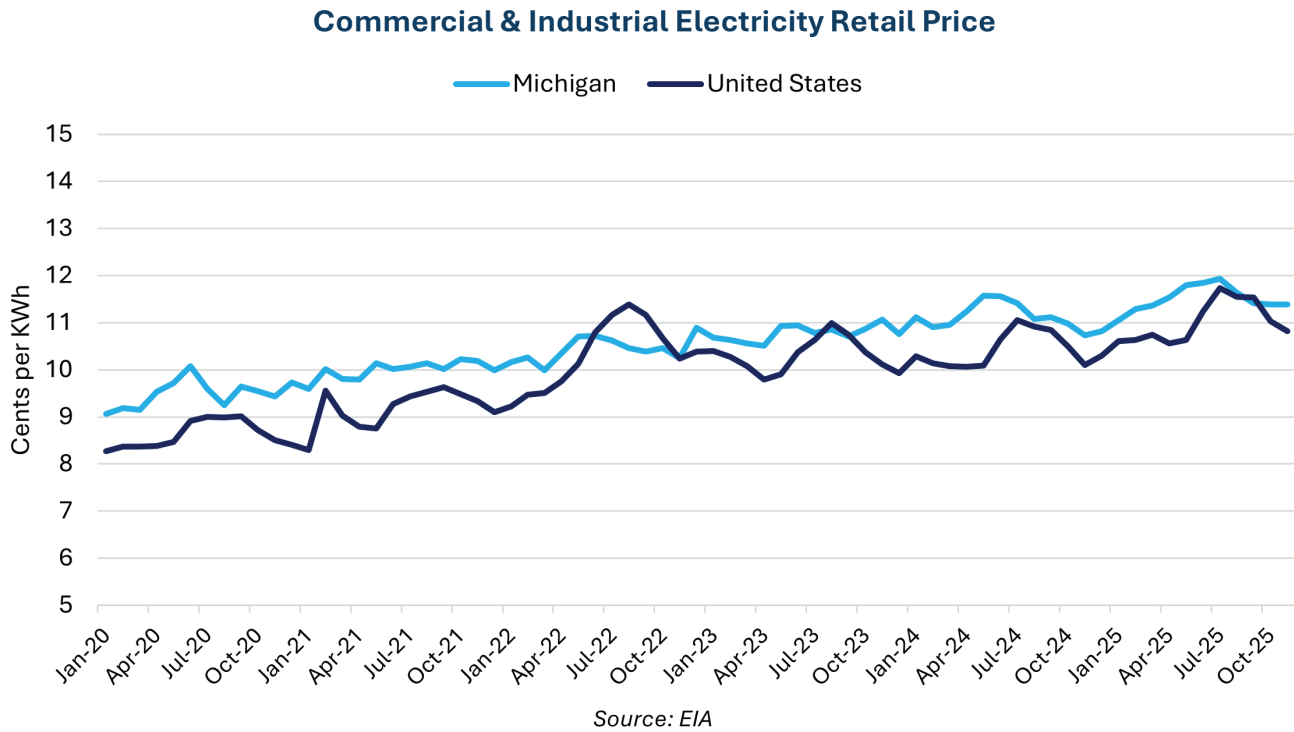
Higher labor costs affect more than payroll. They influence:

- Hiring decisions
- Staffing levels
- Pricing strategies
- Investment in expansion

When labor costs rise faster than productivity, businesses often respond by slowing hiring or delaying growth plans.

ENERGY COSTS REMAIN A COMPETITIVE FACTOR

Energy costs are an ongoing concern, particularly for businesses with high usage.



Michigan's electricity prices have remained above the national average despite recent declines.

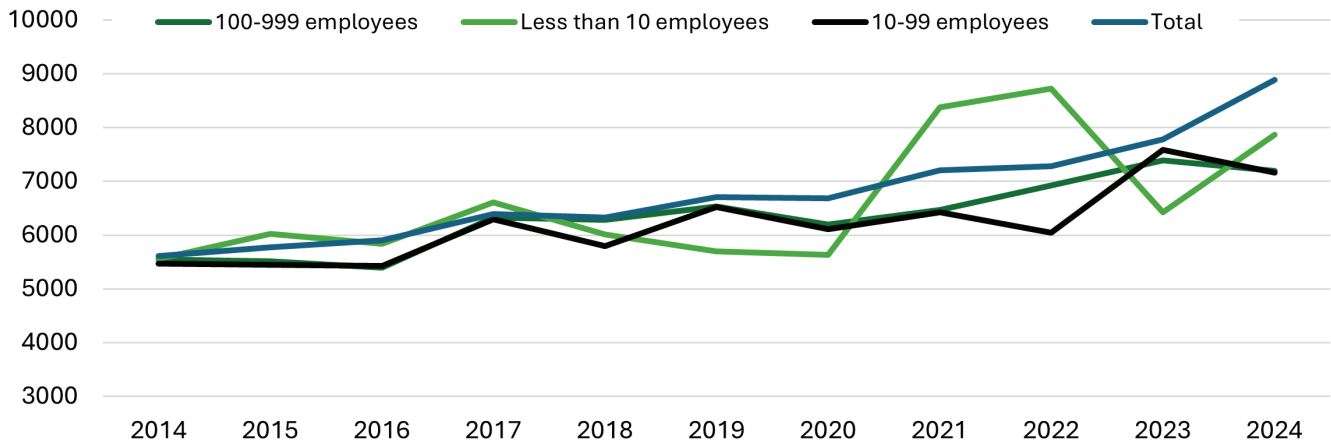
Electricity prices in Michigan remain above the national average, even after some recent decreases. For businesses that rely heavily on energy, including manufacturing, logistics, and certain service sectors, this creates an additional cost disadvantage relative to other states.

Reliable and affordable energy is increasingly important in a technology-driven economy, where digital infrastructure and data usage continue to expand.

HEALTH CARE COSTS CONTINUE TO INCREASE

Health care costs remain one of the most frequently cited challenges for small businesses.

Avg Healthcare Premiums per Enrolled Employee, Michigan



Source: AHRQ

This figure shows long-term increases in employer health care costs, with greater variability among smaller firms.

Health insurance premiums have increased steadily over time. For the smallest businesses, costs are more volatile and often more difficult to manage.

Recent declines in some categories likely reflect changes in coverage rather than reductions in underlying costs.

For small employers, rising health care costs can affect:

- Hiring decisions
- Benefit offerings
- Wage growth
- Overall financial stability

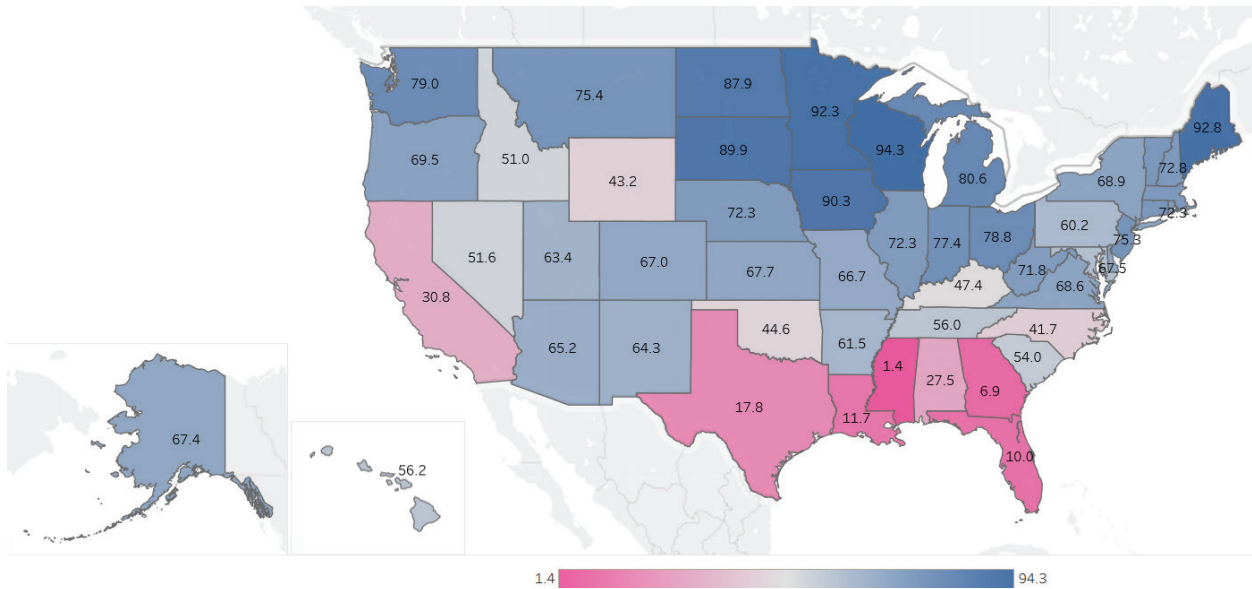
GROW YOUR IDEA IN COLLEGE

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



FINANCIAL CONDITIONS REMAIN STRONG, BUT UNEVEN ACROSS SECTORS

Despite these pressures, some indicators point to continued financial stability.



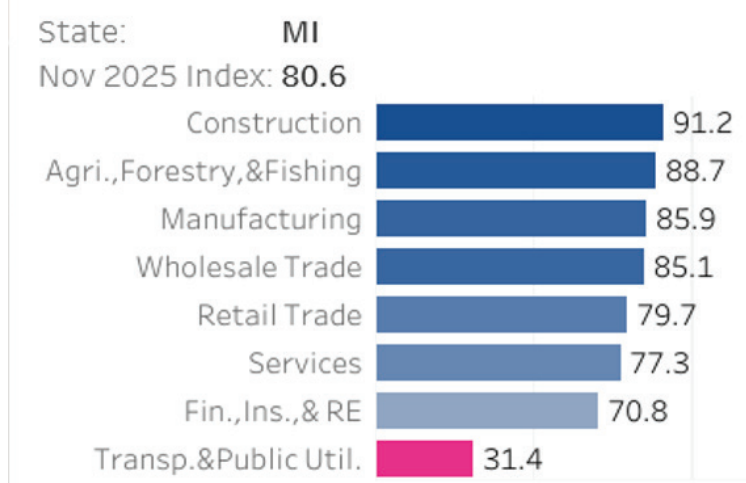
Source: Experian Small Business Index, November 2025

Michigan scores well above the national average, indicating strong credit access and low delinquency rates.

Michigan’s high score on the Experian Small Business Index reflects:

- Strong credit conditions
- Low delinquency rates
- Overall financial stability

However, this strength is not uniform across all sectors. Some industries, including construction, agriculture, manufacturing, and wholesale trade, have performed well. Others, such as transportation and utilities, have lagged.



Source: Experian Small Business Index, November 2025

This variation suggests that while the overall system remains stable, cost pressures are affecting sectors differently.

CONCLUSION: COST PRESSURES ARE LIMITING GROWTH

Michigan's small business sector remains stable, but rising costs are increasingly shaping business decisions and limiting growth. Increases in input costs, labor expenses, energy prices, and health care costs do not affect all businesses equally, yet they influence behavior across the entrepreneurial system. When costs rise, businesses adjust by slowing hiring, delaying expansion, reducing investment, or increasing prices where possible. These responses do not always appear immediately in headline economic indicators, but they accumulate over time and constrain the pace of growth.

The limited forward momentum of the economy documented in Chapter 3 reflects this more constrained environment. Financial conditions remain strong in aggregate, and the data does not point to widespread distress. Instead, it shows growing pressure on margins and a system where growth increasingly depends on stronger revenue, higher productivity, or both. The next chapter examines another key constraint reinforcing this pattern: the availability and composition of the workforce.

CHAPTER FIVE

WORKFORCE AND CAPACITY CONSTRAINTS

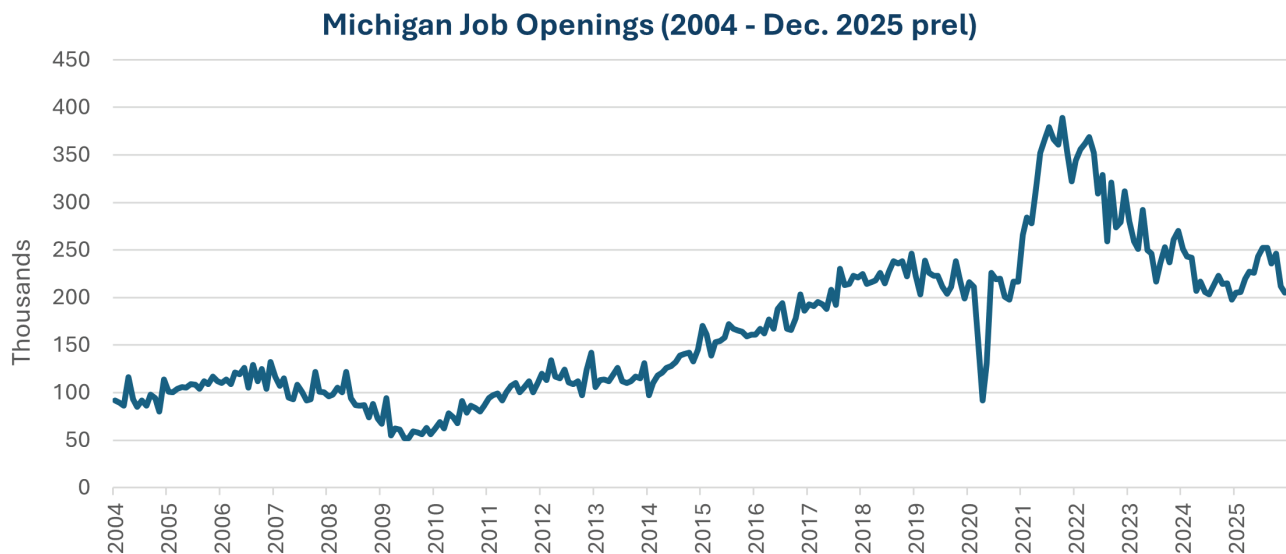
Michigan's economy is constrained not only by costs, but by the availability and composition of its workforce.

Employers across the state continue to report difficulty finding workers with the skills needed to grow. While labor market conditions have improved from their most acute levels, underlying constraints remain. Population growth is modest, labor force participation is limited, and demographic trends are reducing the supply of available workers.

These conditions place a ceiling on economic growth. Even when demand is present, businesses cannot expand without the workforce to support it.

LABOR SUPPLY IS NOT KEEPING PACE WITH LONG-TERM DEMAND

Michigan's labor market has adjusted following recent economic shocks, but the balance between supply and demand remains tight.



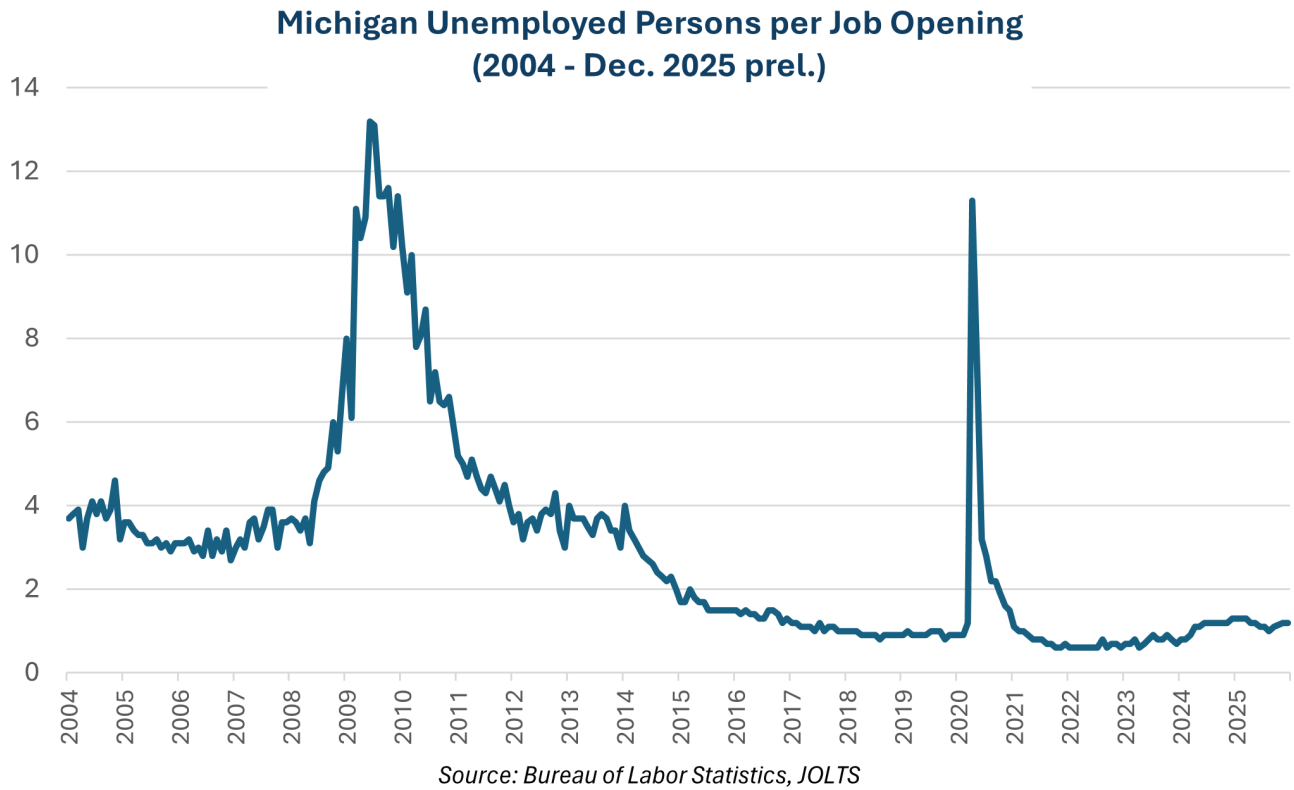
Source: Bureau of Labor Statistics, JOLTS, seas. adj.

Job openings increased significantly after the pandemic and have since declined. At the same time, unemployment has remained relatively low.

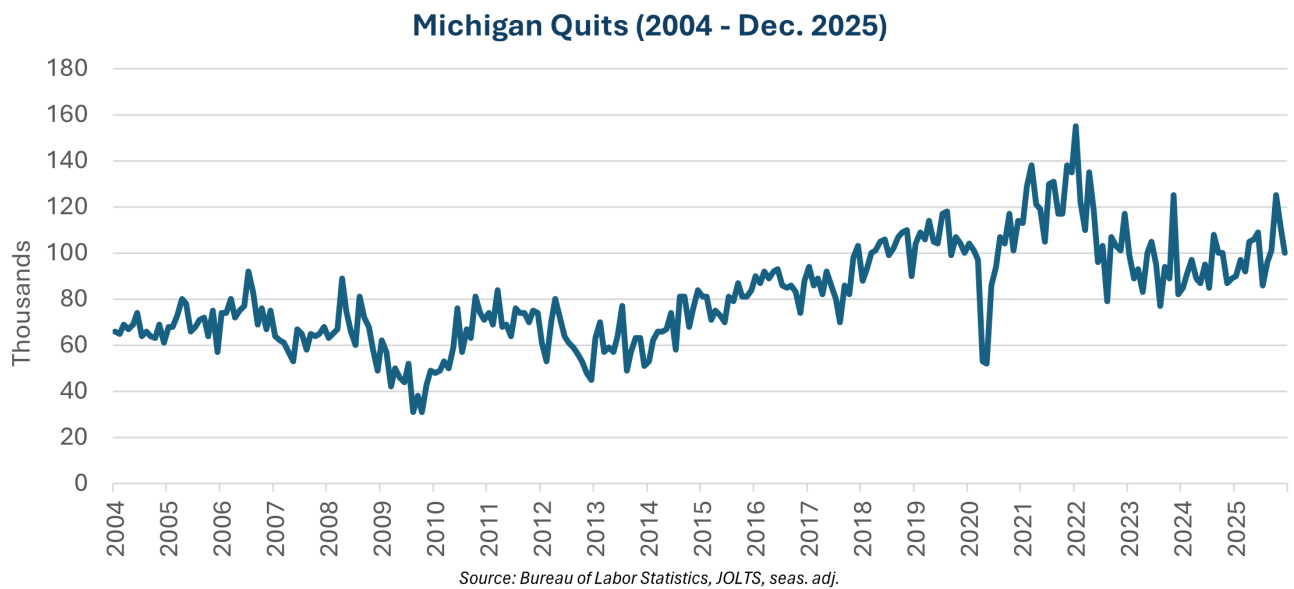
This combination suggests that the labor market has moved into a more stable position, but not one with excess capacity. Businesses are still competing for a limited pool of workers, even as demand has softened.

LABOR MARKET DYNAMICS HAVE SHIFTED

Additional indicators show changes in how the labor market is functioning.



Unemployment remains low while job openings decline.



Michigan has experienced a decline in job switching compared to post-pandemic highs.

In the years following the pandemic, rising job openings, declining unemployment, and increasing quit rates reflected a highly dynamic labor market.

More recent data shows a shift:

- Job openings have declined
- Quit rates have fallen
- Workers are less likely to change jobs

This indicates a labor market that is becoming less dynamic. Businesses are hiring more cautiously, and workers are holding on to existing jobs.

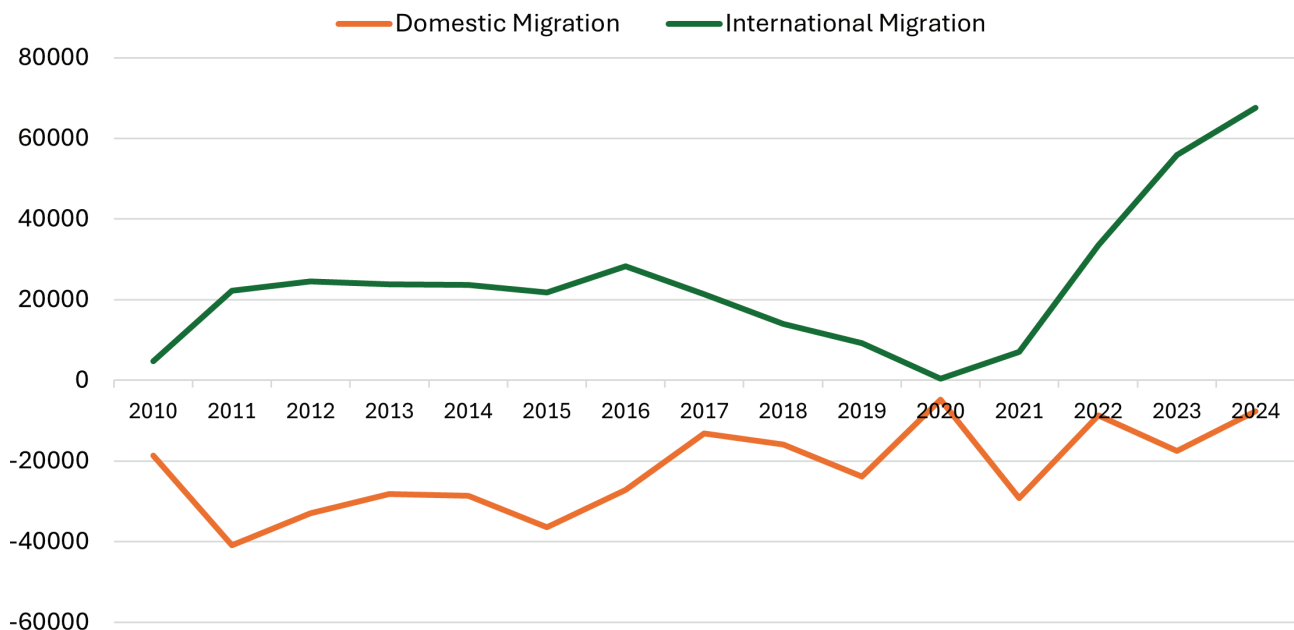
POPULATION GROWTH AND DEMOGRAPHICS LIMIT WORKFORCE EXPANSION

Long-term workforce constraints are driven by population trends.

Michigan's population growth has been modest, with recent increases largely driven by international migration. At the same time, demographic trends are reducing the size of the available workforce.

- Birth rates have declined, and deaths have exceeded births in recent years
- The working-age population has grown slowly
- Retirements are reducing the number of experienced workers

Annual International and Domestic Migration for Michigan, 2010-2024



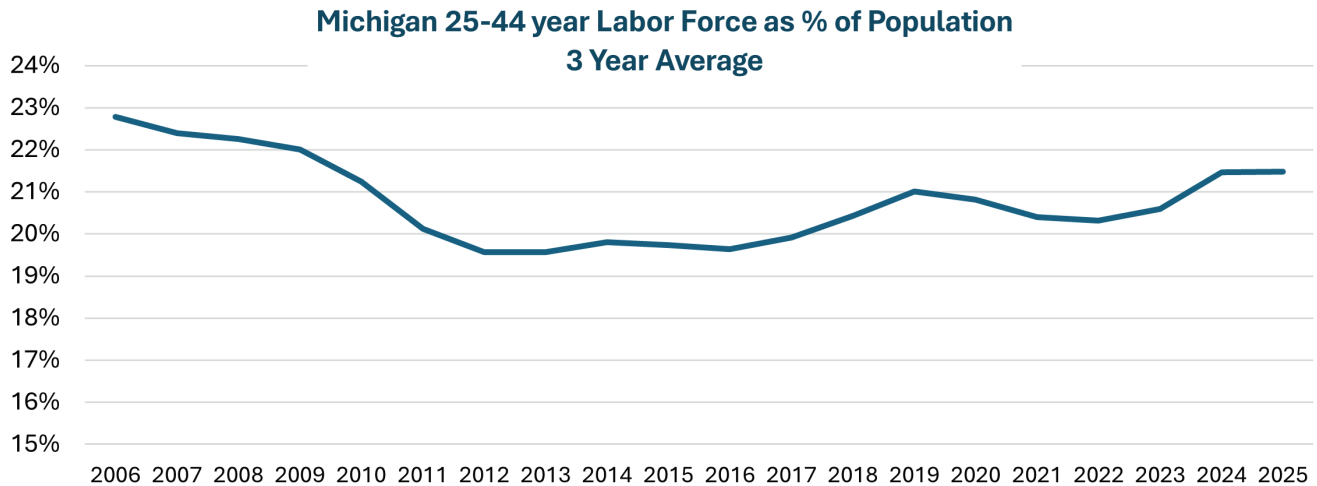
Source: US Census Bureau

This figure shows the balance between natural change, domestic migration, and international migration.

These trends limit the state's ability to expand its labor force. Without stronger population growth, workforce growth will remain constrained.

LABOR FORCE PARTICIPATION REMAINS A CONSTRAINT

Labor force participation is a key measure of how many people are working or actively seeking work. The following figure shows a decline during the pandemic, partial recovery, and recent flattening.



Source: US Census Bureau, Current Population Survey, 3-year average

Michigan's labor force participation rate has improved from pandemic lows but remains below earlier levels and below many other states.

Participation varies across groups:

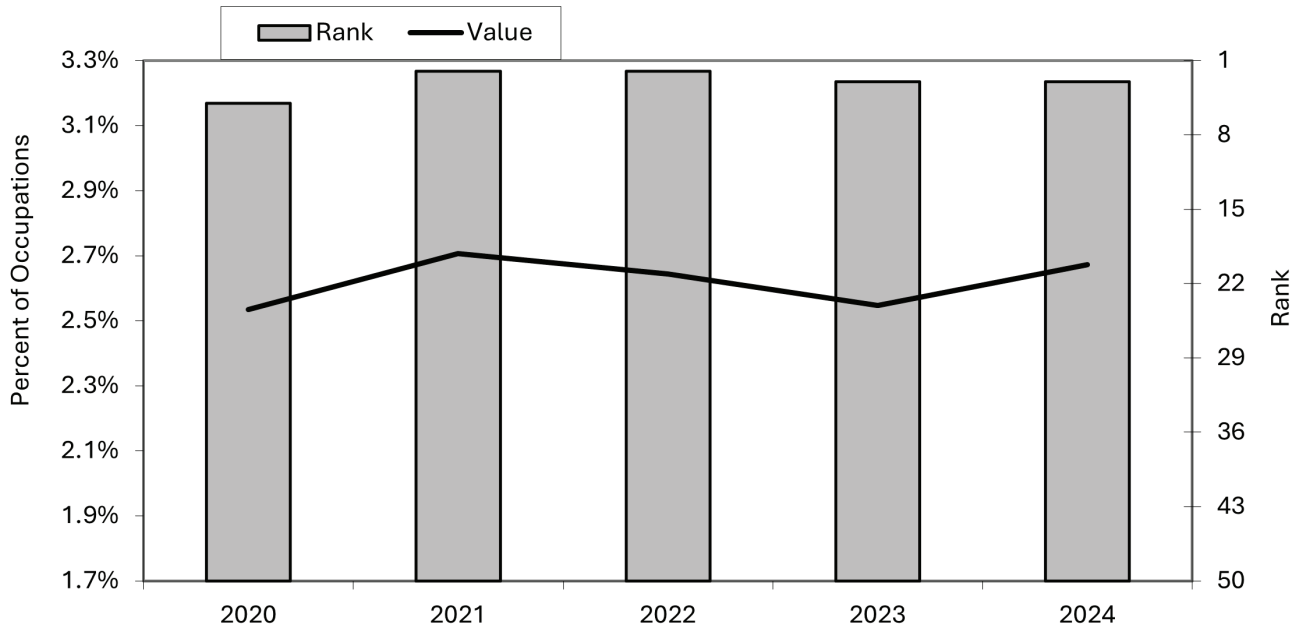
- Younger workers are entering the workforce later
- Older workers are remaining employed longer
- Male participation has declined over time
- Female participation has remained relatively stable

These patterns reflect structural changes in how people engage with work and contribute to the overall constraint on labor supply.

SKILLS AND WORKFORCE COMPOSITION ARE CHANGING

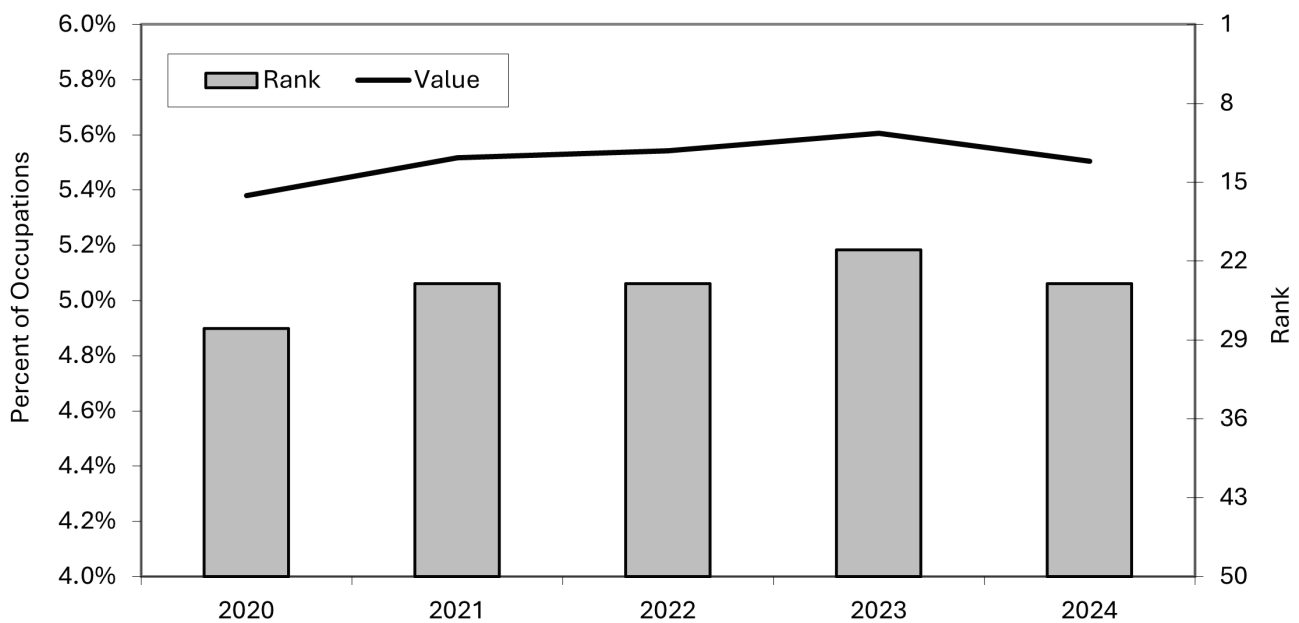
Workforce challenges are not limited to the number of workers; skill composition is also shifting. Employers report difficulty finding workers with the training and experience needed for available jobs. This includes both highly educated workers and those in skilled trades and technical roles.

Physical Science and Engineering Workers, Michigan, 2020 - 2024



Source: Bureau of Labor Statistics

Technology and Technician Workers, Michigan, 2020 - 2024



Source: Bureau of Labor Statistics

These figures show changes in participation rates by education level.

At the same time:

- More highly educated individuals are not participating in the labor force
- Demand for mid-level technical skills continues to grow

This mismatch affects business decisions. When the right skills are not available, expansion becomes more difficult, even when demand exists.

IMMIGRATION AND MOBILITY INFLUENCE WORKFORCE AVAILABILITY

Migration plays a role in shaping Michigan’s workforce.

International immigration has increased in recent years and contributes to workforce growth, particularly among highly educated workers.

	2004	2024
Foreign born with BA+ as percent of total population	0.8%	2.4%
Percent of those with BA+ that were foreign born	4.6%	9.2%

This table shows the growing share of highly educated foreign-born residents.

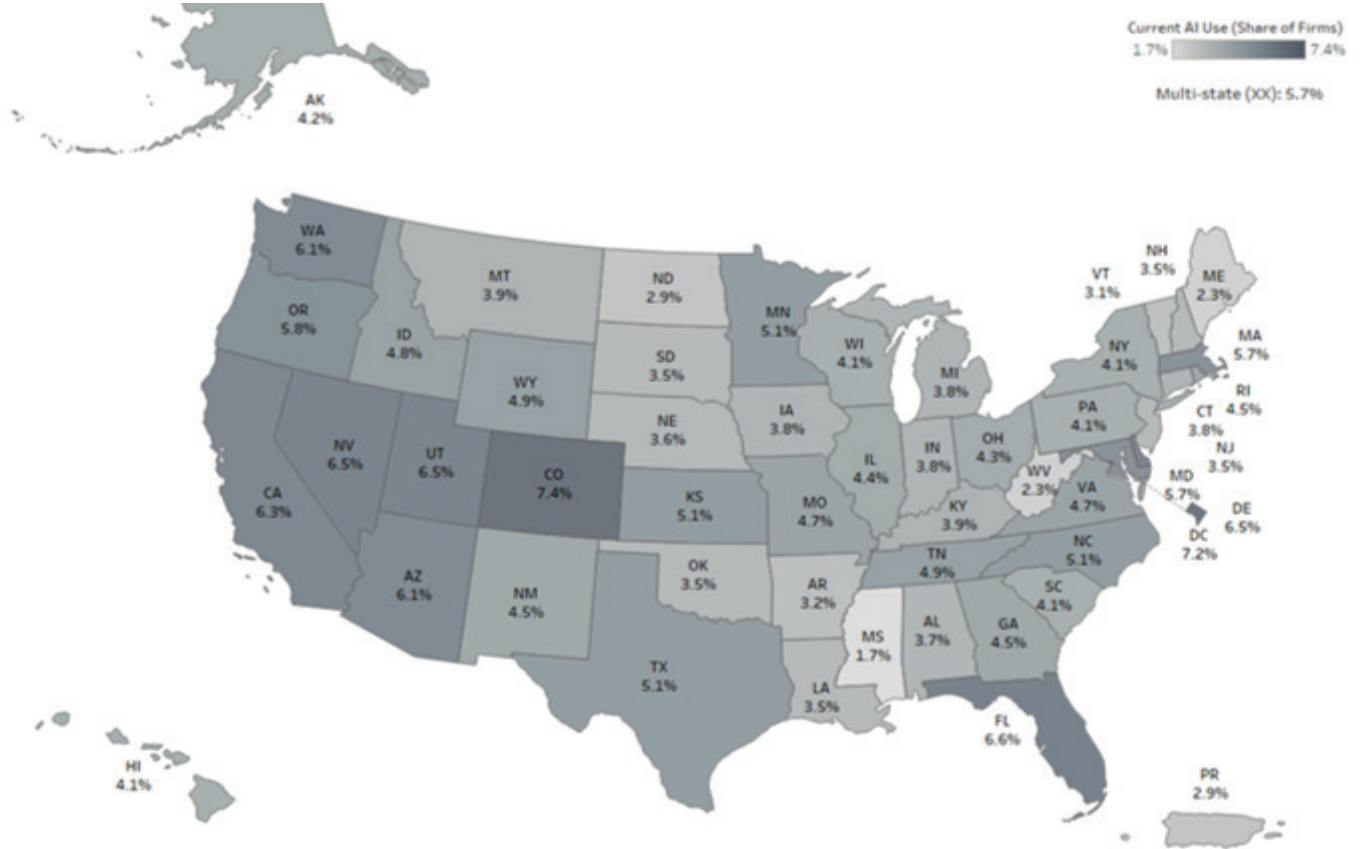
At the same time, Michigan experienced domestic outmigration over the last 20 years.

Migration patterns influence both the size and composition of the workforce. In a slow-growth state, even small changes in migration can have meaningful effects.

TECHNOLOGY AND PRODUCTIVITY WILL SHAPE FUTURE CAPACITY

Workforce constraints increase the importance of productivity.

New technologies, including automation and artificial intelligence, have the potential to change how work is performed and how businesses grow.



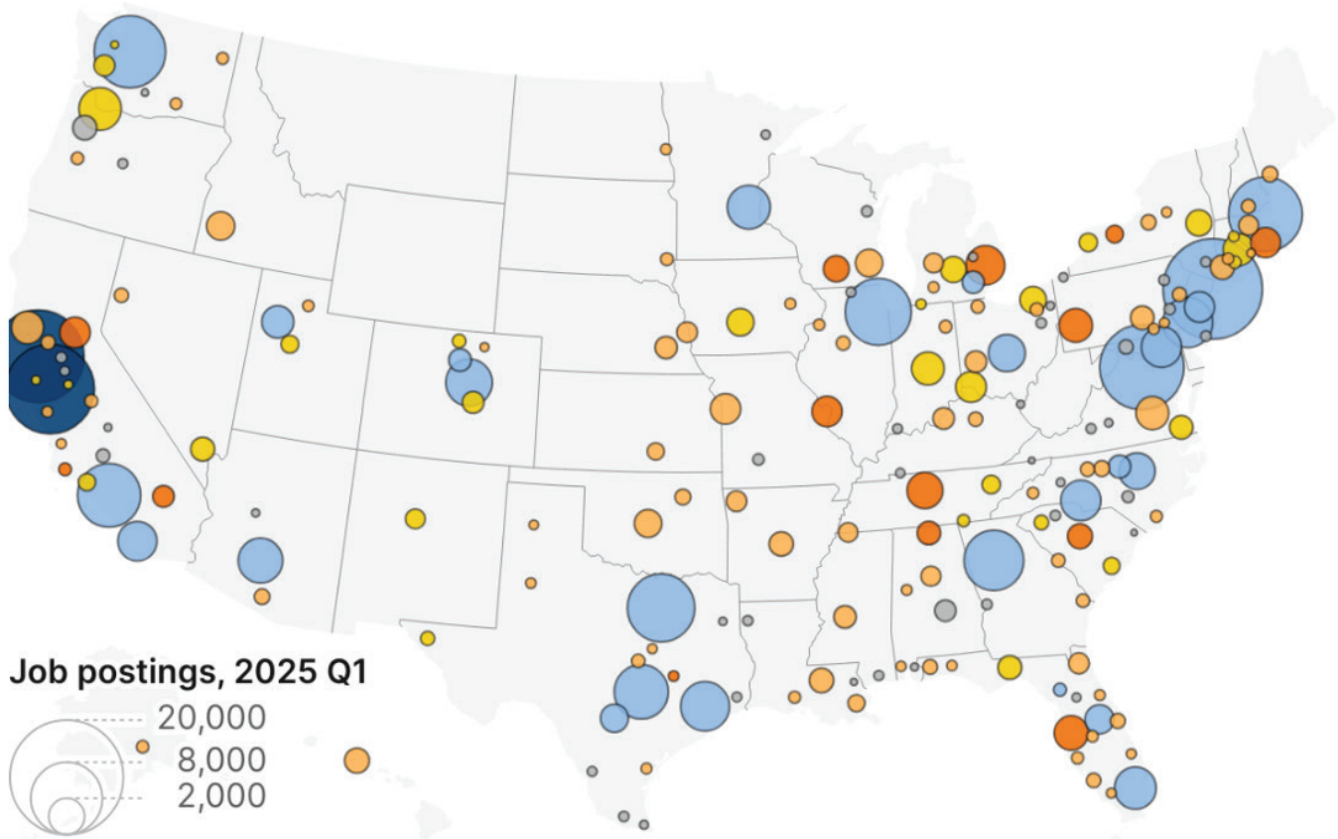
Source: Business Trends and Outlook Survey (BTOS) Census.gov, 2023-24, “Current AI Use” refers to a business responding “yes” to using AI in producing goods or services during the two-week period prior to data collection.

The map illustrates Michigan’s standing, ranked 37th among all states regarding AI-related job activity and adoption.

Emerging AI clusters are forming in areas such as Ann Arbor and Southeast Michigan. At the same time, adoption of new technologies varies, and the overall level of AI use remains below leading states.

AI cluster type

■ Superstars
 ■ Star Hubs
 ■ Emerging Centers
 ■ Focused Movers
 ■ Nascent Adopters
 ■ Others



Source: Brookings' analysis of job posting data from Lightcast.



Here we see Michigan's AI clusters in Q1 2025, highlighting Ann Arbor as a top national AI hub and Detroit-Warren-Dearborn as an emerging center.

Technology can offset workforce constraints by increasing productivity. Realizing that potential depends on investment, workforce training, and the ability of businesses to adopt new tools.

WORKFORCE CONSTRAINTS ARE LIMITING GROWTH

Workforce conditions affect business decisions in ways that are similar to cost pressures.

When labor is limited:

- Hiring becomes more difficult
- Expansion may be delayed
- Existing workers take on more responsibilities
- Productivity improvements become more important

These effects are not always immediate, but they shape how quickly businesses can grow.

The data in earlier chapters shows slowing momentum in the entrepreneurial economy. Workforce constraints are a contributing factor.

CONCLUSION: WORKFORCE LIMITS DEFINE THE CEILING FOR GROWTH

Michigan's workforce is a defining constraint on economic growth.

Labor supply is limited by population trends and participation rates. Skills mismatches affect hiring and expansion. Migration patterns influence both the size and composition of the workforce.

These conditions do not prevent growth, but they limit how fast it occurs.

Addressing workforce constraints will be necessary to support stronger business formation, expansion, and long-term economic performance.

Score Card Conclusion

Michigan's small business economy remains strong, but it faces persistent challenges that limit growth.

This combination of stability and constraint shows the areas where intervention may be most effective.

Rising costs, workforce constraints, and slow formation of new businesses all contribute to the limited pace of growth.

Policymakers and business leaders can use these insights to target policies and programs that address these constraints.

The data presented in this report provides a framework for understanding where the state is strong, where it is vulnerable, and how targeted actions can support sustained growth and economic resilience.



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