

Chicago Small and Mid-Size Business Leaders Curb Their Enthusiasm Somewhat, But Remain Optimistic

ANALYSIS BY
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Our fall 2017 survey shows that small and mid-sized business owners in Chicago remain highly optimistic about the prospects for their own businesses and the U.S. economy, although optimism has moderated from the historic highs of spring 2017, in the immediate aftermath of the 2016 elections.

Chicago's economy experienced another underwhelming year, but remains central North America's undisputed economic powerhouse. As the region's industrial hub, the Chicago metropolitan area could see benefits if proposed corporate and personal income tax reform spur business investment. The housing market continues to recover at a slower pace due to less demand from job creation below the national average.

Continued near-term economic growth, combined with further improvement in the labor market and a pickup in inflation, will support additional increases in the federal funds rate from the Federal Open Market Committee at the end of 2017 and in 2018.

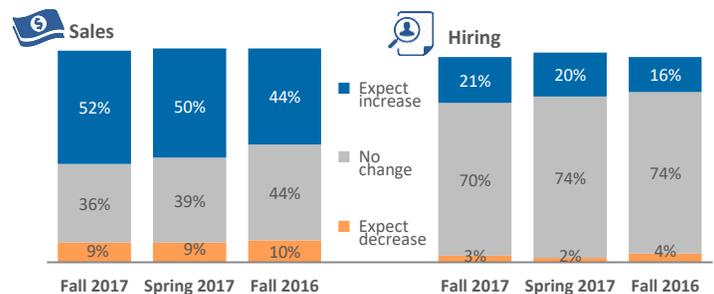
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Stable Expectations for Sales and Hiring

Half (52%) of Chicago business owners and leaders anticipate increases in sales during the next six months, comparable to spring 2017. Nearly half (45%) expect profit increases, comparable to 47% last spring and a slight uptick from 41% in fall 2016.

Chicago vs. U.S.: Nationally, 54% expect sales and 51% expect profits to increase, while 25% expect hiring to go up.

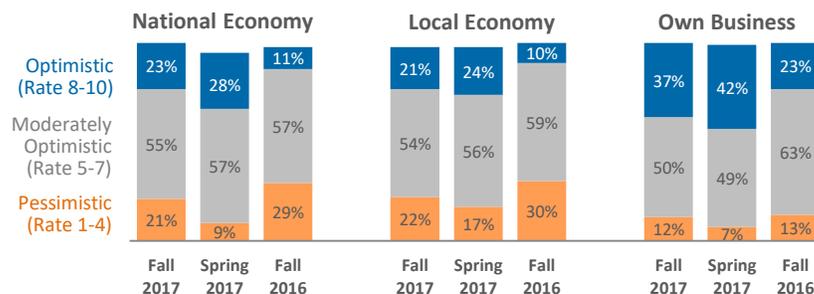
Hiring expectations are positive, overall. Two in 10 (21%) expect to increase the number of full-time employees and just 3% plan a reduction, similar to last spring. Owners cite business growth and investment as drivers of staffing growth.



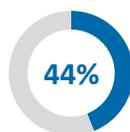
The Power of Positive Thinking

After last spring's record high levels of optimism in the five-year history of PNC's survey in Chicago, business leaders' optimism about the national and local economy, as well as their own business for the next six months, tempered slightly this fall, but still remains higher than one year ago. Of note, the share of respondents who described their outlook for the U.S. economy as strongly optimistic dropped to 23% from 28%, while the share with a moderately optimistic outlook shifted slightly to 57% from 55%. Two in 10 (21%) business owners and leaders expressed pessimism, double the number from spring 2017.

% Optimistic about the...



Chicago vs. U.S.: Nationally, 29% are optimistic about the national economy, 32% are optimistic about their local economy and 43% are optimistic about their own company's prospects.



The Tenacity of Hope: Accompanying these moderated expectations for the U.S. economy, more than four in 10 (44%) respondents expressed hope about the business climate, with another 26% feeling enthusiastic. The number feeling fear, despair or anger remains in the single digits.



Certainly Uncertain About Policy: More than a third (36%) of those surveyed expect major policy changes from the new administration and Congress within the next six months that will affect their business, while the same number say none are expected and 27% are unsure. Nearly a quarter (23%) say they expect the policies of the new administration and Congress to have a positive impact on their business over the next year if they were to go into effect, a significant increase from 15% last spring. Two in 10 (19%) anticipate a negative impact, while 41% are unsure and 17% anticipate no effect.

More Money, No Problems?

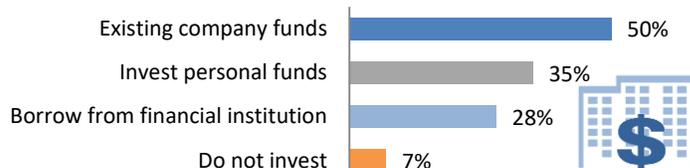
Under Pressure: Three in 10 (31%) survey respondents said it's harder to hire qualified employees than it was six months to a year ago. Cited as the top challenges in hiring were inadequate skills and experience (42%), overall lack of applicants (16%) and candidates requiring higher compensation than the business owner can afford (12%).

Wage Watchers: The proportion of employers who anticipate increasing employee compensation continues to be relatively high, with 31% expecting to increase, similar to 34% in the spring and up from 21% in fall 2016. Among the majority (65%) who do not anticipate increasing pay, most believe the compensation they provide is sufficient – either asserting that their current compensation level isn't affecting hiring or retention (41%), or that the pay is competitive for the industry (37%).

Nearly two in 10 (18%) business owners surveyed anticipate taking out a new loan or line of credit in the next six months, compared to 13% in spring 2016 (when this question was last surveyed). Most continue to say that the prospect of rising interest rates will have little impact on their decision to get a loan or line of credit. At the same time, the number expecting their business' need for financing to increase has not changed significantly (11%, unchanged from spring and 13% in fall 2016).

Two-thirds (66%) of respondents report their business has taken out a loan at some point and more than a quarter (27%) have done so in the last two years.

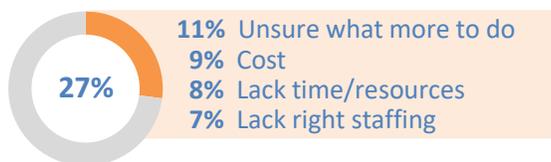
Main Source of Funding for Capital Investments



PNC Insight



More than a quarter of Chicago business owners face a barrier when it comes to cyber security



Almost one in 10 (7%) business leaders reported being the victim of an information security breach – down from 12% in fall 2016. Nine out of 10 take at least one security measure, similar to fall 2016 (89%). However, significantly more business leaders report taking action in several areas:

- 76% use antivirus and antispyware
- 67% use a firewall and encrypting information
- 58% work with banks or card processors to maintain anti-fraud services
- 49% protect all pages on public-facing websites, not just checkout and sign-up pages
- 48% educate employees about cybersecurity and hold them accountable

Waving the Red Flags

Out of 2.1 million phishing attacks in 2016, 81% were targeted at U.S. companies

Phishing attacks are just one type of cyber threat to businesses, designed to resemble legitimate email correspondence and relying on a user's inability to spot them in order to compromise computers and networks. Small and mid-size businesses have the added threat of phishing attacks designed to mimic vendors, couriers, suppliers, clients and colleagues. Employees can help to ensure that email coming from these third parties is legitimate. These seven red flags can alert users to a possible phishing attack:

- Misspellings
- Grammatical errors
- Offering fantastic prizes
- Creating a sense of urgency
- Requesting personally identifiable information (PII)
- Threatening with consequences
- Making demands



Email address spoofing also is a common tactic of phishing. For example, the user may not notice an email address has been changed from "@homelender.com" to "@home1ender.com" and may inadvertently click links and open attachments, which introduce malware.