

Greater Washington 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 greater Washington 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.

Job growth in greater Washington will continue to outpace the national average throughout the remainder of 2017 and 2018. Reduced federal budgetary restraints and a well-educated workforce will benefit many of the region's employers, help increase wages and improve the regional housing market. Pressure to cut federal business taxes, boost infrastructure spending and increase defense spending could also be a boon to the region's economy.

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.

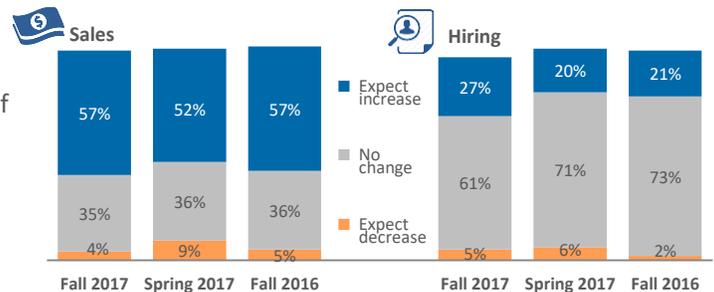
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Upbeat Sales, Profit and Hiring Expectations

Nearly six in 10 greater Washington business owners and leaders anticipate increases in sales during the next six months, a slight uptick from spring 2017. More than half (53%) expect profit increases, a significant increase from 40% in the spring and similar to fall 2016.

Hiring expectations are positive, overall. More than one-quarter expect to increase the number of full-time employees, an increase over last spring. Just 5% plan a reduction. Owners cite business growth and confidence in the effect of government policies as drivers of staffing growth.

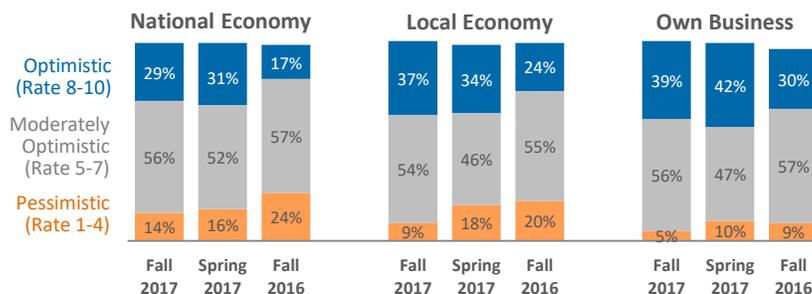
D.C. vs. U.S.: Nationally, 54% expect sales and 51% expect profits to increase, while 25% expect hiring to go up.



The Power of Positive Thinking

After last spring's record high levels of optimism in the three-year history of PNC's survey in greater Washington, 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 shifted slightly to 29% from 31%, while the share with a moderately optimistic outlook rose to 56% from 52%. Just 14% of business owners and leaders expressed pessimism, an all-time low.

% Optimistic about the...



D.C. 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, almost half (48%) of respondents expressed hope about the business climate, with another 29% feeling enthusiastic. One in 10 feel fear while those feeling despair or anger remain in the single digits.



Certainly Uncertain About Policy: Nearly half (45%) of those surveyed expect major policy changes from the new administration and Congress within the next six months that will affect their business, while 35% say none are expected and 20% are unsure. Two-thirds (32%) say they expect the policies of the new administration and Congress to have a positive impact on their business during the next year if they were to go into effect, a significant increase from 21% last spring. Twenty percent anticipate a negative impact, while 40% are unsure and 9% anticipate no effect.

More Money, No Problems?

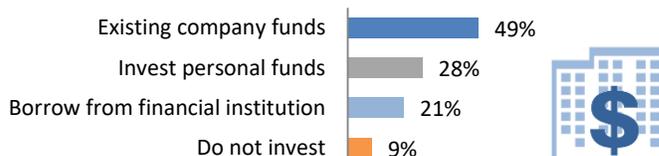
Under Pressure: More than one-quarter (27%) of survey respondents said it's harder to hire qualified employees than it was six months to a year ago. Cited as the top challenges in hiring were inadequate skills and experience (44%), overall lack of applicants (19%) and candidates requiring higher compensation than the business owner can afford (8%). When offered as a response for the first time in the survey's history, 6% cited issues with candidates' abilities to pass a required background check.

Wage Watchers: The proportion of employers who anticipate increasing employee compensation continues to be relatively high, with 35% expecting to increase, well above the 26% in the spring and in fall 2016. Among the majority (56%) who do not anticipate increasing pay, most believe the compensation they provide is sufficient – either asserting that the pay is competitive for the industry (39%), or that their current compensation level isn't affecting hiring or retention (29%).

Two in 10 business owners surveyed anticipate taking out a new loan or line of credit in the next six months, up from 15% 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 (16% vs. 15% in spring and 13% in fall 2016).

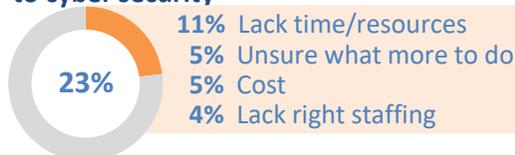
Two-thirds (65%) of respondents report their business has taken out a loan at some point and nearly one-quarter (23%) have done so in the last two years.

Main Source of Funding for Capital Investments



PNC Insight

Nearly one-quarter of greater Washington business owners face a barrier when it comes to cyber security



One in 10 (9%) business leaders reported being the victim of an information security breach – similar to 12% in fall 2016. Nine out of 10 (91%) take at least one security measure, up from 83% in fall 2016. Significantly more business leaders report taking action in several areas:

- 71% use antivirus and antispyware
- 70% use a firewall and encrypting information
- 57% work with banks or card processors to maintain anti-fraud services
- 56% educate employees about cybersecurity and hold them accountable
- 48% protect all pages on public-facing websites, not just checkout and sign-up pages

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.