

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

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Our fall 2017 survey shows that small and mid-sized business owners in Florida 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.

Florida remains one of the faster-growing regions in PNC's footprint, but job growth is expected to cool in 2017. Rising disposable income nationwide and the state's deep international ties will boost local tourism and growth potential. Hurricane repairs and support from FEMA will likely boost infrastructure spending, lifting the region's economy. Strong immigration and the healing housing market will also support home construction and help home prices rise. Longer term, Florida's economy will continue to be above average due to relatively low business costs, strong demographic and tourism trends.

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.

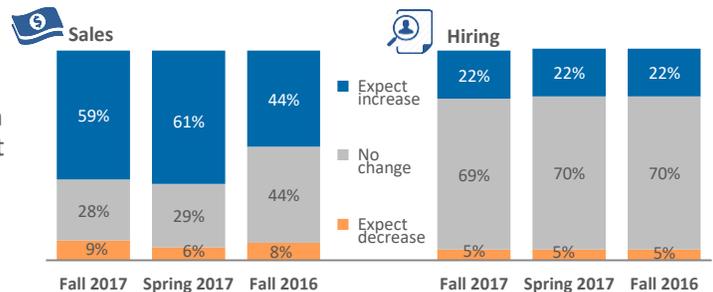
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Two Steps Forward, One Step Back

Six in 10 (59%) Florida business owners and leaders anticipate increases in sales during the next six months, similar to spring 2017. The same number (59%) expect profit increases, up from 52% last spring and 48% in fall 2016.

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

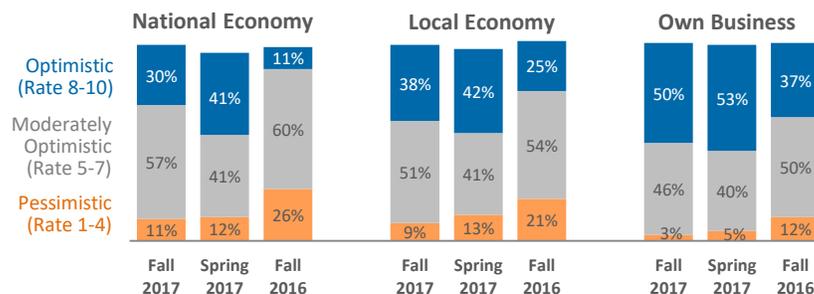
Hiring expectations are positive overall. Two in 10 (22%) expect to increase the number of full-time employees and just 5% plan a reduction, unchanged from last spring and fall. Owners cite business growth and the economy as drivers of staffing growth.



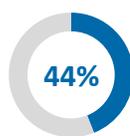
The Power of Positive Thinking

After last spring's record high levels of optimism in the eight-year history of PNC's survey in Florida, 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 30% from 41%, while the share with a moderately optimistic outlook rose to 57% from 41%. Just 11% of business owners and leaders (similar to 12% in spring 2017) expressed pessimism, an all-time survey low.

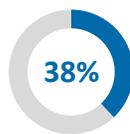
% Optimistic about the...



Florida 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 33% feeling enthusiastic. Eleven percent expressed fear while the number feeling despair or anger remains in the single digits.



Certainly Uncertain About Policy: Nearly four in 10 (38%) 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 27% are unsure. One-third 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. Fourteen percent anticipate a negative impact, while 39% are unsure and 13% anticipate no effect, comparable to spring 2017.

Under Pressure: Nearly one-third (32%) 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 (50%), overall lack of applicants (14%) and candidates requiring higher compensation than the business owner can afford (5%). When offered as responses for the first time in the survey's history, 7% cited issues with candidates' abilities to pass required controlled substance screening and 3% cited issues with candidates' abilities to pass a required background check.

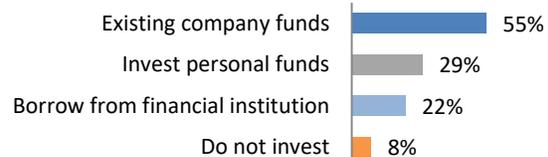
Wage Watchers: The proportion of employers who anticipate increasing employee compensation continues to be relatively high, with 36% expecting to increase, up from 24% in the spring and 22% in fall 2016. Among the majority (60%) who do not anticipate increasing pay, most believe the compensation they provide is sufficient – either asserting that the current compensation level isn't affecting hiring or retention (29%), or that the pay is competitive for the industry (24%).

More Money, No Problems?

Two in 10 (19%) business owners surveyed anticipate taking out a new loan or line of credit in the next six months, compared to 12% in spring 2016. 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 (13% vs. 9% in spring and 13% in fall 2016).

Nearly six in 10 (58%) respondents report their business has taken out a loan at some point and two in 10 (21%) have done so in the last two years.

Main Source of Funding for Capital Investments



PNC Insight



A quarter of Florida business owners face a barrier when it comes to cyber security



More than one in 10 (12%) business leaders reported being the victim of an information security breach – similar to 10% in fall 2016. More than eight out of 10 (84%) take at least one security measure, similar to fall 2016 (85%). However, significantly more business leaders report taking action in several areas:

- 70% use a firewall and encrypting information
- 67% use antivirus and antispyware
- 51% work with banks or card processors to maintain anti-fraud services
- 42% educate employees about cybersecurity and hold them accountable
- 39% 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.