

Michigan 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 Michigan 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.

Michigan's economy will continue to recover for the remainder of 2017. Strong job growth spanning a broad base of industries will allow the region to continue its upward climb. Long term, universities, health care and alternative energy research can help provide stability. Auto sales will bounce back through the rest of the year and into 2018, in part from replacement of vehicles damaged by hurricanes. Home prices will continue to grow at a sustainable pace, which will instill confidence in consumers.

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.

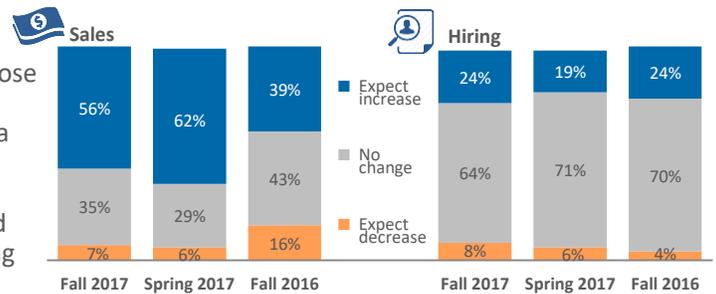
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Two Steps Forward, One Step Back

More than half of Michigan business owners and leaders anticipate increases in sales during the next six months, a slight drop from the post-election high last spring, but well above last fall. Half (51%) expect profit increases, an uptick from 46% in spring and 38% last fall.

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

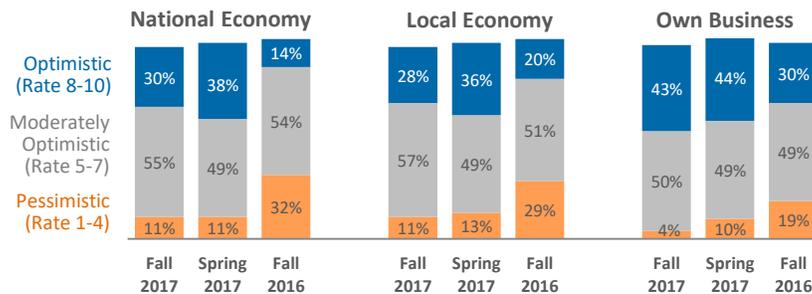
Hiring expectations are positive, overall. Nearly one-quarter of those surveyed expect to increase the number of full-time employees, a slight improvement over spring. Eight percent plan a reduction. Owners cite business growth and the economy as drivers of staffing growth.



The Power of Positive Thinking

After last spring's record high levels of optimism in the five-year history of PNC's survey in Michigan, 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 38%, while the share with a moderately optimistic outlook rose to 55% from 49%. Just 11% of business owners and leaders (unchanged from spring 2017) expressed pessimism, still at an all-time low.

% Optimistic about the...



Michigan 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, four in 10 (42%) respondents expressed hope about the business climate, with another 33% feeling enthusiastic. The number feeling fear, despair or anger remains in the single digits.



Certainly Uncertain About Policy: One-third of those surveyed expect major policy changes from the new administration and Congress within the next six months that will affect their business, while 40% say none are expected and 25% are unsure. Three in 10 (31%) 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. Fifteen percent anticipate a negative impact, while 42% are unsure and 11% anticipate no effect, little changed from spring 2017.

More Money, No Problems?

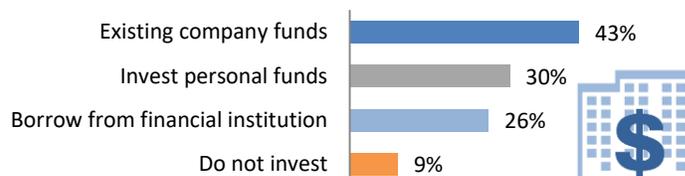
Under Pressure: More than one-third (36%) of survey respondents said it's harder to hire qualified employees than it was six months to a year ago, up from 26% in spring 2017. Cited as the top challenges in hiring were inadequate skills and experience (42%), overall lack of applicants (24%) and candidates requiring higher compensation than the business owner can afford (8%). In response to a question asked for the first time, 4% cited issues with candidates' abilities to pass required controlled substance screening.

Wage Watchers: The proportion of employers who anticipate increasing employee compensation continues to be relatively high, with 42% expecting to increase, well above the 30% in the spring and 25% from fall 2016. Among the majority (54%) 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 (36%), or that the pay is competitive for the industry (26%).

Only 16% of business owners surveyed anticipate taking out a new loan or line of credit in the next six months, unchanged from 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% vs. 7% in spring and 8% in fall 2016).

Two-thirds (66%) of respondents report their business has taken out a loan at some point and one-quarter (26%) have done so in the last two years.

Main Source of Funding for Capital Investments



PNC Insight

One-third of Michigan business owners face a barrier when it comes to cyber security



One in 10 (11%) business leaders reported being the victim of an information security breach – similar to 9% in fall 2016. Nine out of 10 (92%) take at least one security measure, up from 85% in fall 2016. Significantly more business leaders report taking action in several areas:

- 79% use antivirus and antispyware
- 73% use a firewall and encrypting information
- 63% work with banks or card processors to maintain anti-fraud services
- 54% protect all pages on public-facing websites, not just checkout and sign-up pages
- 53% 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.