

### North Carolina 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 North Carolina 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.

Growth is the dominant trend in North Carolina in terms of jobs, income and population. Rising wages are boosting consumer spending. Education, healthcare and financial services are the strongest economic drivers. The pace of job growth exceeds the national rate and will continue to fuel consumer optimism.

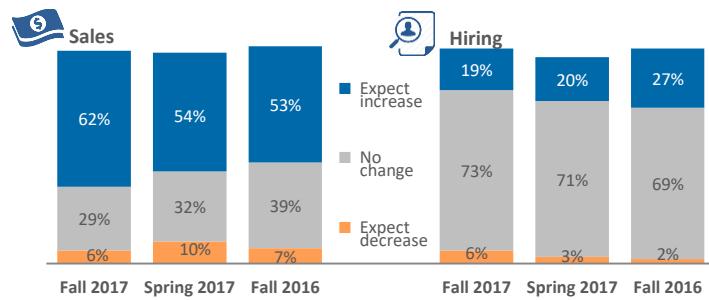
Continued near-term economic growth, combined with further improvement in the labor market and a pickup in inflation, will support additional increases in the federal funds rate from the Federal Open Market Committee at the end of 2017 and in 2018.

#### KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

##### Two Steps Forward, One Step Back

Six in 10 (62%) North Carolina business owners and leaders anticipate increases in sales during the next six months, up from 54% in spring 2017. Half expect profit increases, an uptick from fall 2016, but a slight drop from the post-election high last spring.

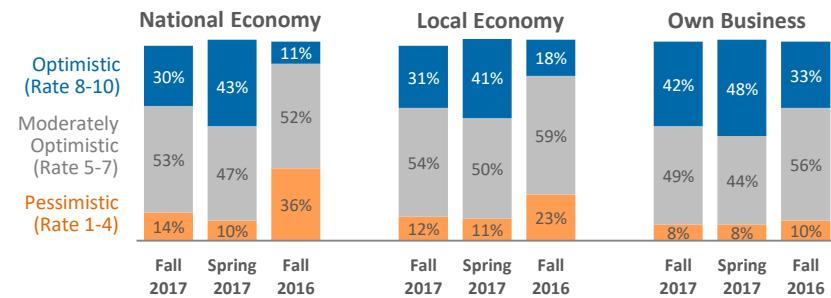
Hiring expectations are positive, overall. Two in 10 (19%) expect to increase the number of full-time employees. Six percent plan a reduction, double the share from last spring. Owners cite business growth and investment as drivers of staffing growth.



##### The Power of Positive Thinking

After last spring's record high levels of optimism in the five-year history of PNC's survey in North Carolina, 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 43%, while the share with a moderately optimistic outlook rose to 53% from 47%. Fourteen percent of business owners and leaders (up from 10% in spring 2017) expressed pessimism, still close to an all-time low.

##### % Optimistic about the...



**North Carolina 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 (47%) of respondents expressed hope about the business climate, with another 32% feeling enthusiastic. The number feeling fear, despair or anger remains in the single digits.

47%

**Certainly Uncertain About Policy:** Nearly four in 10 (39%) of those surveyed expect major policy changes from the new administration and Congress within the next six months that will affect their business, while 31% say none are expected and 29% 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, a significant decrease from 42% in spring. Sixteen percent anticipate a negative impact, while 39% are unsure and 14% anticipate no effect.

39%

**Under Pressure:** More than one-third (37%) 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 (41%), overall lack of applicants (21%) and candidates requiring higher compensation than the business owner can afford (9%). When offered as a response for the first time in the survey's history, 5% 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 28% expecting to increase, below the 39% in the spring and 35% in fall 2016. Among the majority (68%) 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 (40%), or that the pay is competitive for the industry (30%).

## PNC Insight

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



Eight percent of business leaders reported being the victim of an information security breach – compared to 11% in fall 2016. Nine out of 10 (91%) take at least one security measure, similar to fall 2016 (87%). However, significantly more business leaders report taking action in several areas:

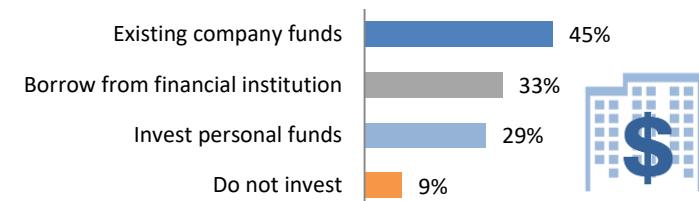
- 73% use antivirus and antispyware
- 68% use a firewall and encrypting information
- 59% work with banks or card processors to maintain anti-fraud services
- 50% educate employees about cybersecurity and hold them accountable
- 49% protect all pages on public-facing websites, not just checkout and sign-up pages

## More Money, No Problems?

Fifteen percent of 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 (9%) is only slightly above the 6% in spring and remains significantly lower than fall 2016 (17%).

More than six in 10 (63%) respondents report their business has taken out a loan at some point and 23% have done so in the last two years.

## Main Source of Funding for Capital Investments



## 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.