

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 nationwide 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.

Small businesses are a key source of economic activity and employment, and owners' perceptions can be good indicators of what's to come. The overall findings from our biannual survey, which began in 2003, confirm that the U.S. economic expansion, now more than eight years old and the third-longest in U.S. history, will continue into 2018.

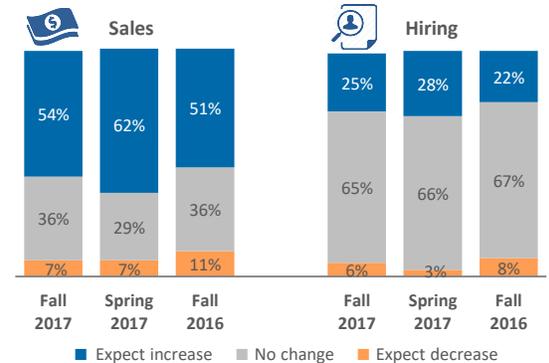
Continued near-term economic growth, combined with further improvement in the labor market and a pickup in inflation, will support additional increases in the federal funds rate from the Federal Open Market Committee at the end of 2017 and in 2018.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Two Steps Forward, One Step Back

More than half of business owners and leaders anticipate increases in sales (54%) and profits (51%) during the next six months, an uptick from fall 2016, but a slight drop from the post-election high last spring.

Hiring expectations are positive, overall. One-quarter expect to increase the number of full-time employees; however, 6% plan a reduction, double the share from last spring. Owners cite business growth and the economy as drivers of staffing growth.

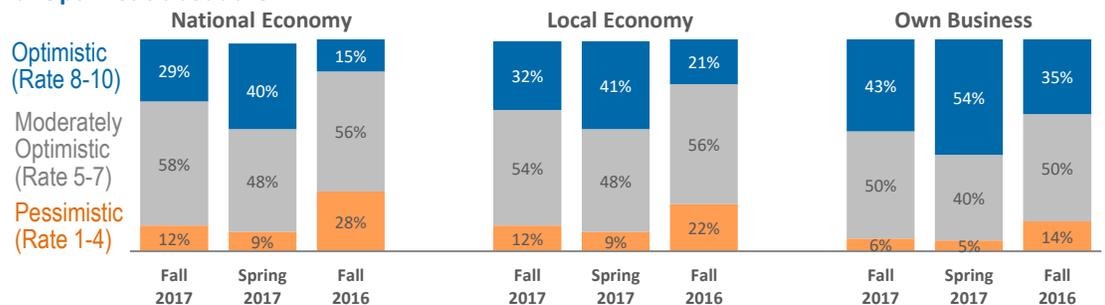


The outlook on prices charged to customers remains consistent, with 29% expecting an increase and 63% expecting no change. Capital spending expectations remain stable at 30% after a nine percentage point jump from fall 2016 to spring 2017.

The Power of Positive Thinking

After last spring's record high levels of optimism in the 15-year history of PNC's survey, 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 29% from 40%, while the share with a moderately optimistic outlook rose to 58% from 48%. Just 12% of business owners and leaders (up from 9% in spring 2017) expressed pessimism, still close to an all-time low.

% Optimistic about the...



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. The number feeling fear, despair or anger remains in the single digits.



Certainly Uncertain About Policy: More than four in 10 (42%) of those surveyed expect major policy changes from the new administration and Congress within the next six months that will affect their business, while 33% say none are expected and 23% are unsure. More than one-third (36%) 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. Thirteen percent anticipate a negative impact (a small increase over 9% in spring 2017), while 40% are unsure and 11% anticipate no effect.

Under Pressure: One in three (34%) survey respondents said it's harder to hire qualified employees than it was six months to a year ago. The top challenges in hiring cited were inadequate skills and experience (44%), overall lack of applicants (18%) and candidates requiring higher compensation than the business owner can afford. Manufacturing and construction most frequently cited hiring difficulties. 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.

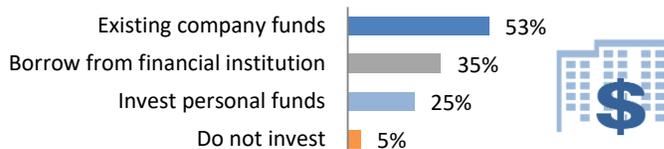
Wage Watchers: The proportion of employers who anticipate increasing employee compensation continues to be relatively high, with 37% expecting to increase, a slight dip from 41% in the spring, but still well above the 28% from fall 2016. Among the majority (58%) who do not anticipate increasing pay, most believe their provided compensation is sufficient – either asserting that their current compensation level isn't affecting hiring or retention (34%), or that the pay is competitive for the industry (32%).

More Money, No Problems?

Two in 10 (20%) business owners surveyed anticipate taking out a new loan or line of credit in the next six months, a significant increase over the 14% 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 (12% vs. 13% in spring and 14% in fall 2016).

Three out of four (73%) respondents report their business has taken out a loan at some point and one-third (32%) have done so in the last two years.

Main Source of Funding for Capital Investments



PNC Insight

More than one-third of 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 – a slight increase over 9% in fall 2016. Nearly nine out of 10 (88%) take at least one security measure, unchanged from fall 2016. However, significantly more business leaders report taking action in several areas:

- 74% use antivirus and antispyware
- 69% use a firewall and encrypting information
- 57% work with banks or card processors to maintain anti-fraud services
- 50% educate employees about cybersecurity and hold them accountable
- 50% 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.