2017 Business Pulse Survey Reveals Continued Optimism

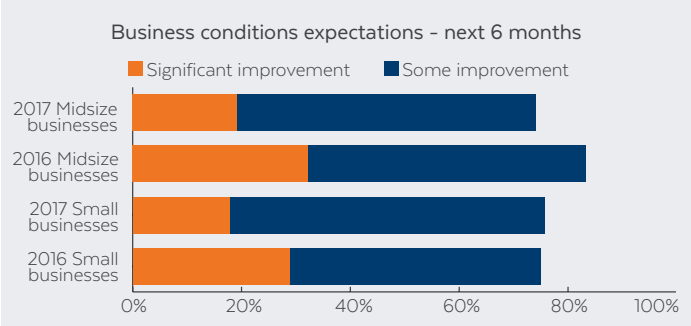
Business leaders are confident about business conditions, the economy

Small businesses: Annual revenue between $2 million and $9.99 million

Midsize businesses: Annual revenue between $10 million and $150 million

As the seven-year economic expansion continues, optimism persists among small and midsize business leaders. About three-quarters of executives feel their firms are currently strong and expect business conditions to improve over the next six months, according to a nationwide survey conducted by SunTrust in the first quarter of 2017.

The current reading is a slight pullback from 2016, when 80 percent of business leaders felt their companies were strong. Expectations about future business conditions have declined slightly. Although leaders at small businesses have the same overall level of confidence in improving business conditions as last year, leaders at midsize businesses are less certain. Compared with last year, more businesses (both small and midsize) expect business conditions to improve only "somewhat" rather than "significantly."

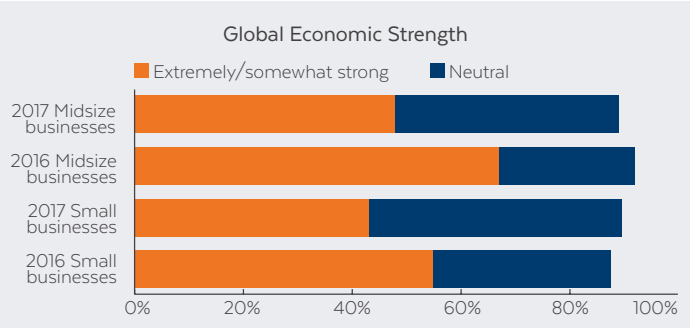


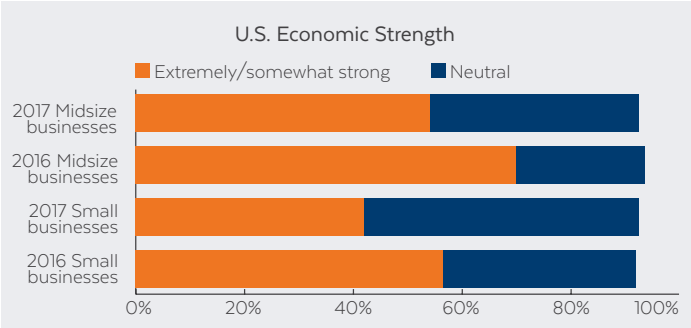
Overall, the survey found executives at small and midsize firms are feeling slightly more cautious this year. A more neutral outlook on the economy and uncertainty regarding the new administration are raising businesses' stress levels. Still, executives remain focused on increasing profitability and generating organic growth, particularly through innovation. As they turn to the future, leaders at both small and midsize businesses also feel confident they'll meet their five-year goals.

A Cautiously Optimistic Economic Outlook

Taking a closer look at the data reveals a more nuanced picture of the shifts in sentiment. Perceptions of current economic strength at all levels—from global to national to local—have shifted from highly positive to neutral. Slightly more than 40 percent of small businesses rate the global and domestic economies as strong, whereas more than half rated all as strong last year.

For midsize businesses, similar shifts have occurred. In 2016, about two-thirds of these companies rated the global economy as strong, and 70 percent rated the U.S. economy as strong. This year, those numbers are closer to the halfway point: 48 percent rate the global economy as strong, and 54 percent describe the U.S. economy that way.





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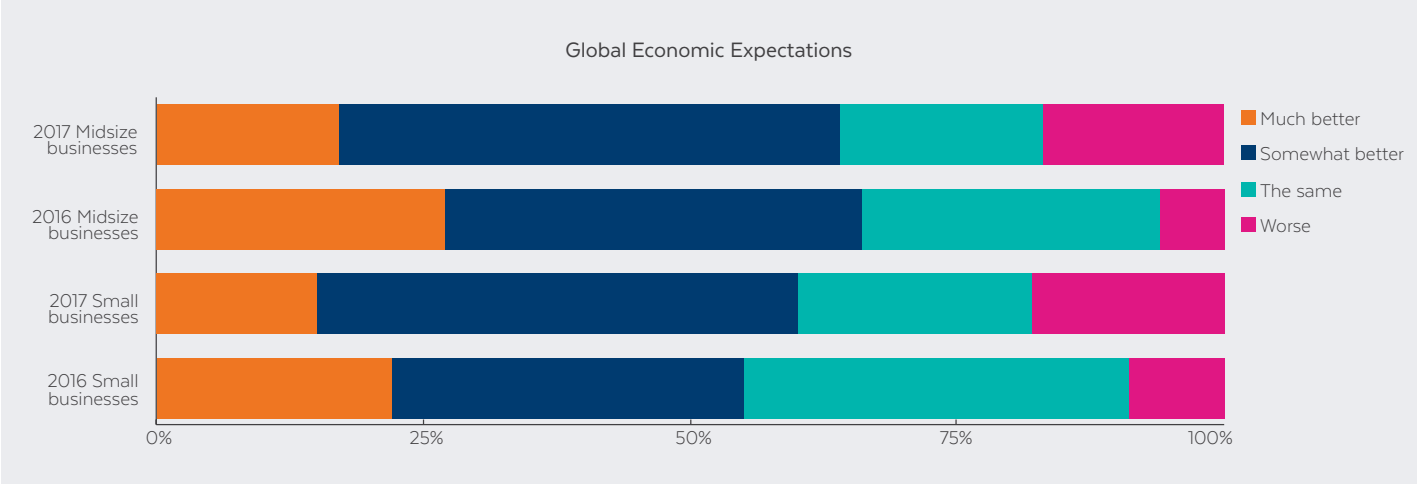
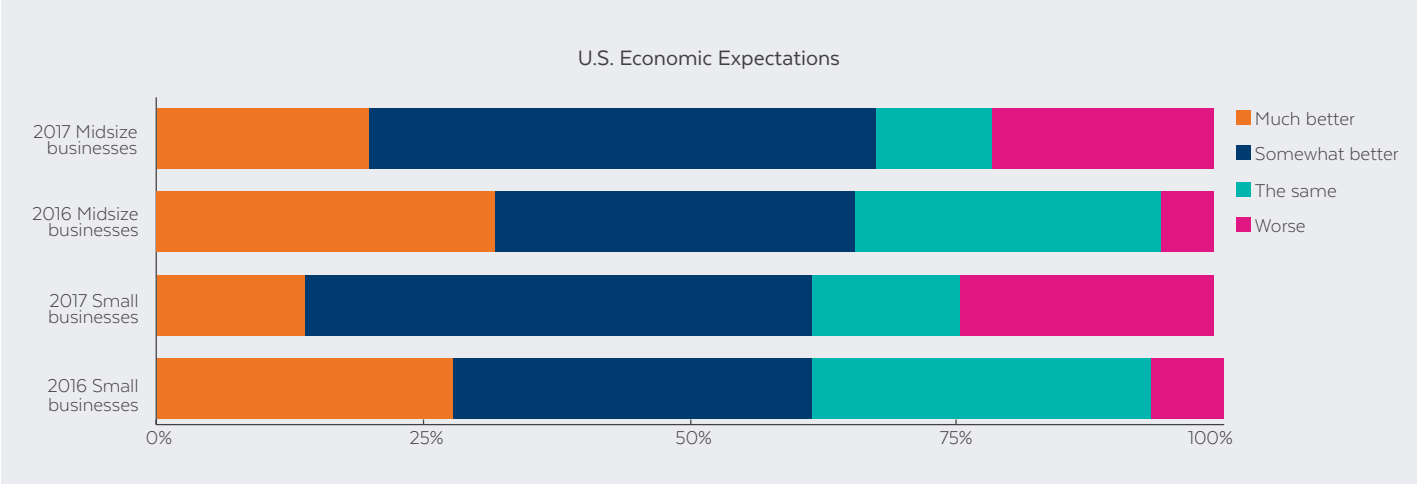
When asked how they foresee the global economy performing in the next six months, 60 percent of small businesses said they expect either some or significant improvement, up from 55 percent last year. For midsize businesses, 64 percent expect improvement, a tick down from 66 percent last year. A closer look reveals a positive, but not enthusiastic, outlook. In 2016, 22 percent of small businesses expected *significant* improvement in the global economy. In 2017, 15 percent do. For midsize businesses, the share expecting significant improvement fell from 27 percent to 17 percent.



Expectations for the U.S. economy also shifted. In both 2016 and 2017, 62 percent of small businesses anticipated some or significant improvement. For midsize businesses, the share expecting improvement declined slightly, from 70 percent to 68 percent. Beliefs that improvement would be much better declined substantially.



For some executives, reservations about the economic outlook have given way to skepticism. Negative expectations for global and domestic economic conditions grew: 18 percent of small and 17 percent of midsize businesses foresee the global economy being in worse shape in six months than it is now. Last year, just 9 percent of small and 6 percent of midsize businesses predicted negative global economic outlooks. For the domestic economy, 24 percent of small and 21 percent of midsize businesses reported negative expectations, compared with just 7 percent and 5 percent last year, respectively.

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Uncertainty Is Increasing Business Stress Levels

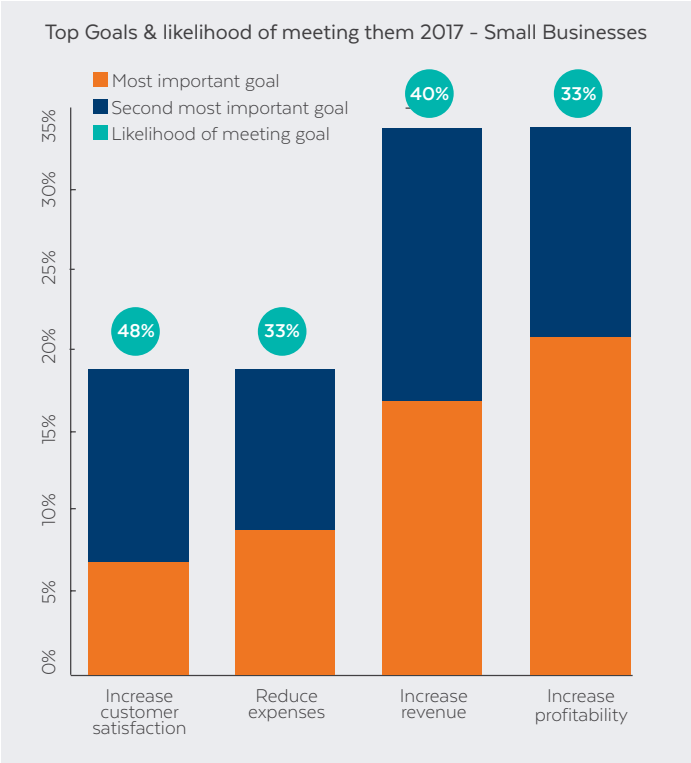
Economic uncertainty isn't all that's weighing on executives' minds. Some leaders are also concerned about the effect the new administration will have on business. Although about two-thirds of business leaders believe the new administration will have a positive impact on their firms, 24 percent of both small and midsize businesses expect the impact to be negative.

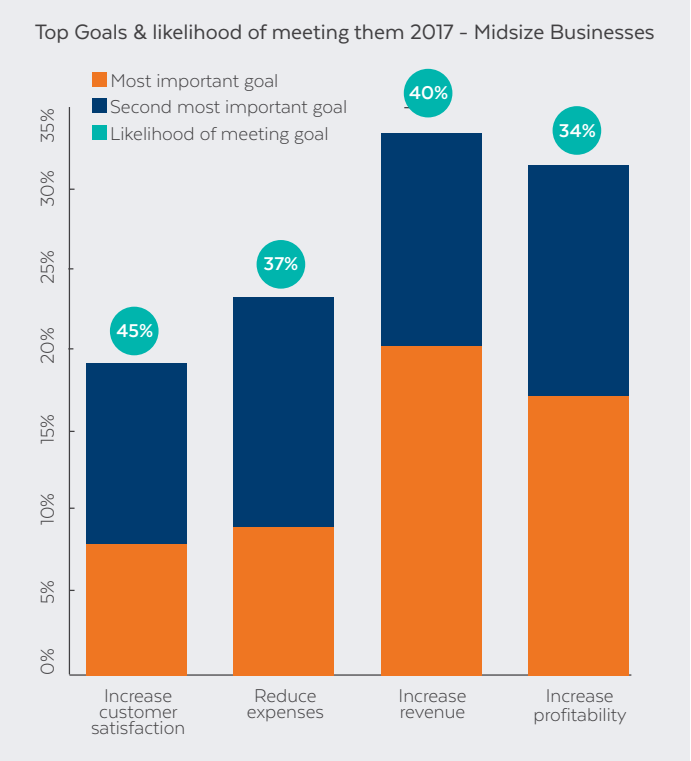
These trends are manifesting in increased business stress levels: Half of small business leaders feel somewhat or extremely stressed about their firms, compared with 36 percent last year. Forty-five percent of midsize business leaders reported feeling somewhat or extremely stressed, compared with 34 percent last year. These stress levels also surpass those from 2015, but they're not yet as high as they were in 2014, when 56 percent of both small and midsize businesses felt stressed.

Amid this uncertainty, business leaders are paying particular attention to factors they expect to present obstacles as the year unfolds. A potentially unstable economy was the biggest concern for both small and midsize firms, followed by increasing operating costs and evolving government regulations. Other concerns include increased competition, changes in healthcare laws, changes in tax structure and the impacts of emerging technology.

Business Goals: Expectations for a Strong 2017 Remain

With an eye on these potential obstacles, executives are reassessing their goals for 2017 and their likelihood of reaching them, and again appear cautiously optimistic. For both small and midsize businesses, increasing revenues and profitability are key, with about a third of executives naming these goals as either the most important or second most important for the year. Reducing expenses is also a priority, with about one-fifth of leaders listing it among their top goals for the year.





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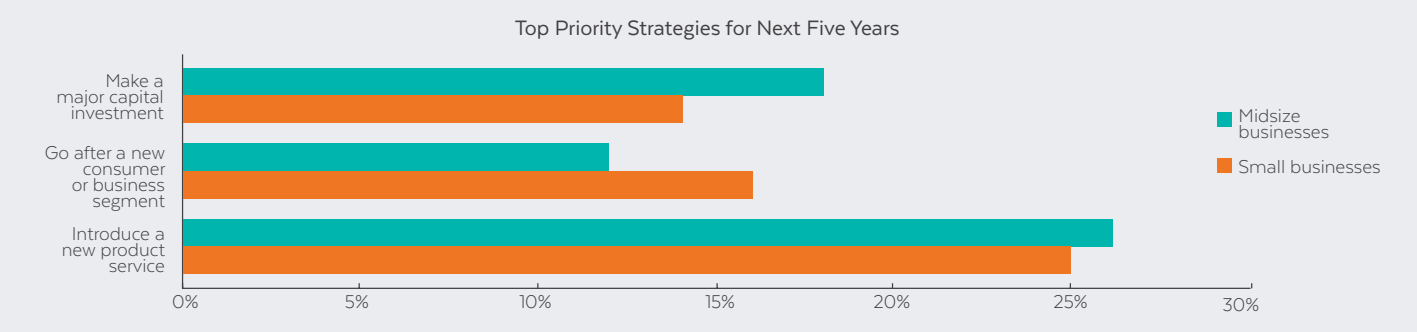
Setting and adhering to goals do not always make for a smooth process. Time constraints are often cited as a major obstacle to planning, but other, potentially more difficult to overcome factors are also at play. For example, 21 percent of small and 25 percent of midsize businesses said competing priorities and departmental conflicts frustrate the planning process. Furthermore, 20 percent of small and 19 percent of midsize businesses indicated departments don't agree on the necessity of setting goals or the frequency of reviewing them. Despite these challenges, more than three-quarters of small and midsize business executives feel prepared to meet their goals.

Sharpening the Focus on Organic Growth in Five-year Plans

At the heart of businesses' plans is organic growth: nearly half of executives (49 percent) cited this strategy as a primary focus for the next five years. Another popular strategy is growing the busines through an acquisition or merger.

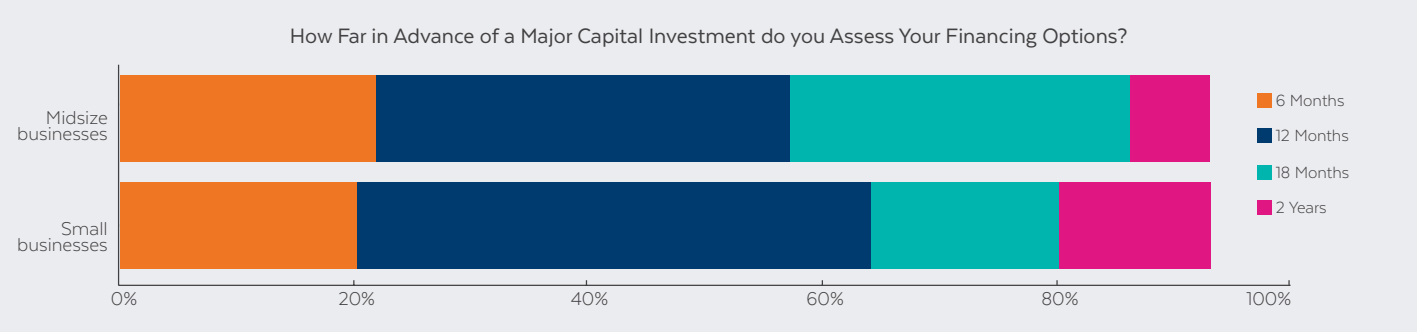
To facilitate growth, innovation is a top priority: about one-quarter of all businesses said they plan to grow by introducing a new product or service. Reaching a new set of customers (whether consumers or other businesses) also appeals to executives. Furthermore, a modest percentage of businesses consider making a major capital investment a top priority for their companies in the next five years.



Although most executives expressed no major concerns about accomplishing their strategies, some acknowledged they're looking to manage specific risks. For example, both small and midsize companies looking to innovate a new product or service are working to ensure they hire and retain the right employees. Small businesses preparing for a major capital investment are concerned about securing financing and potential investment losses. Midsize businesses with similar plans, however, are focusing on hiring and retaining key employees and managing the overall costs of the expansion.

Funding Future Growth

Financing strategies are an essential part of companies' plans. The majority of businesses evaluate financing options six months to a year before making a capital investment, and some businesses take additional time. In fact, 16 percent of small and 29 percent of midsize businesses evaluate their financing options 18 months in advance of such an investment.



To finance their five-year strategies, 30 percent of small and 36 percent of midsize businesses plan to use cash on hand, and 29 percent of small and 26 percent of midsize businesses plan to reduce costs. Almost a quarter of businesses (23 percent of small and 24 percent of midsize) expect to borrow from a bank. Although executives appear confident about their ability to get funding—with about three-quarters rating access to capital as extremely or somewhat easy—these ratings have also softened. Last year, 81 percent of total businesses rated access to capital as extremely or somewhat easy. It's a recurring theme: Executives feel confident about 2017 but also slightly more cautious than they felt about 2016.

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SunTrust Business Pulse Survey for 2017; SunTrust Business Pulse Survey for 2016; SunTrust Business Pulse Survey for 2015; SunTrust Business Pulse Survey for 2014

Note on Survey Data: SunTrust conducted 510 total online interviews (255 with businesses with revenue between $2M-$9,99M and 255 with revenue between $10-$150M) nationwide from January 4, 2017 to January 16, 2017.

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