

# Business Executives Looking to the Future with Confidence

2018 Business Pulse Survey shows a strong outlook for the global and national economy

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

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

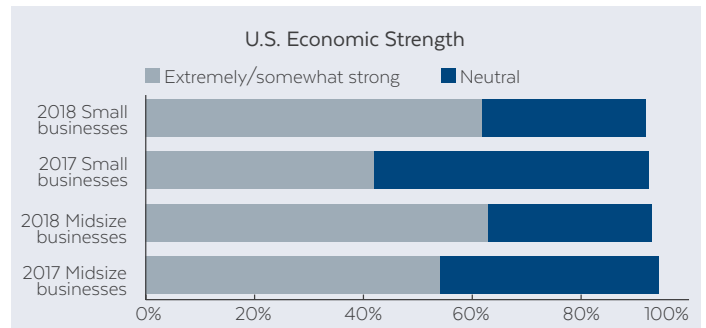
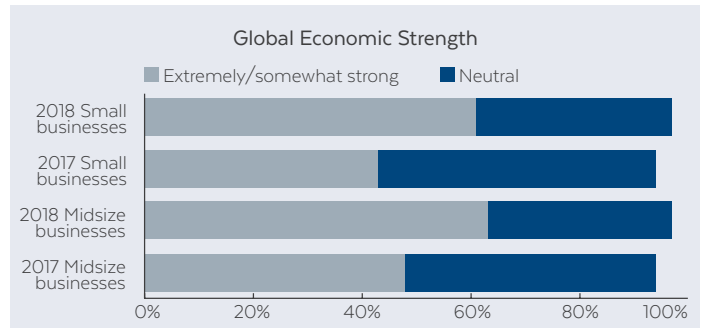
Optimism is widespread among leaders of small and midsize businesses—nearly 80 percent describe their firms as strong, and more than 70 percent believe business conditions will improve over the next six months, according to a nationwide survey conducted by SunTrust in January 2018. Business leaders also see the economy, at both the global and national level, as robust and likely to grow over the next six months. These results represent increases over last year and indicate executives' confidence is building.

With economic strength, however, comes low unemployment. Business leaders at small and midsize firms noted that employee morale and turnover could have significant impacts on their businesses this year, and many companies are making employee satisfaction a priority. In addition, executives are planning their responses to the recent tax law overhaul and considering other legislative policy changes they would like to see implemented soon.

As executives look into the future, many plan on expanding over the next five years, and feel confident doing so. These growth plans will be accomplished by entering new markets and business segments, making acquisitions and prioritizing major capital investments.

## Increased Economic Confidence

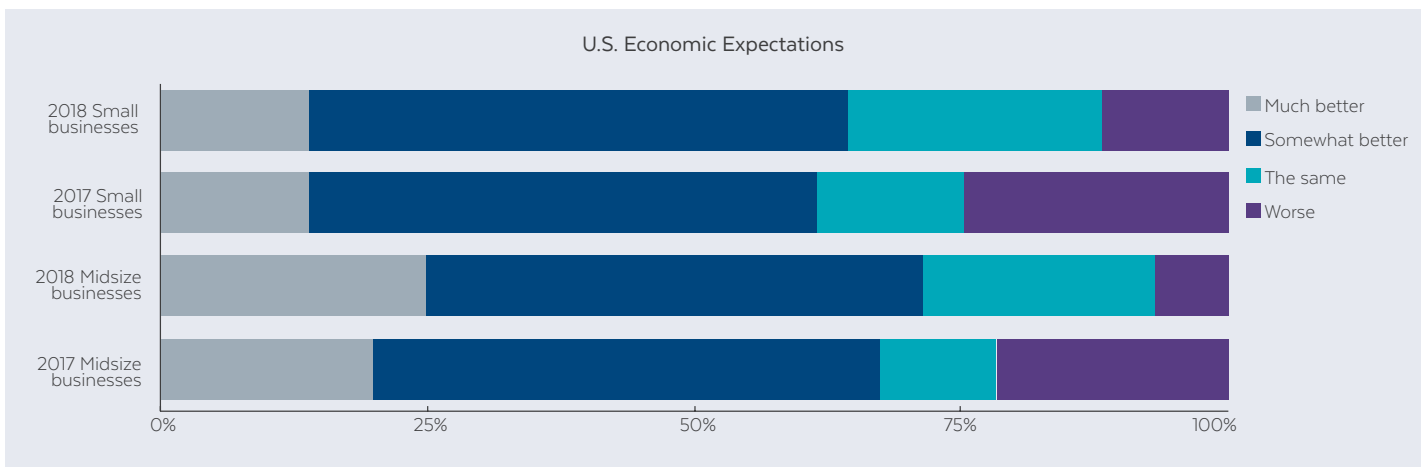
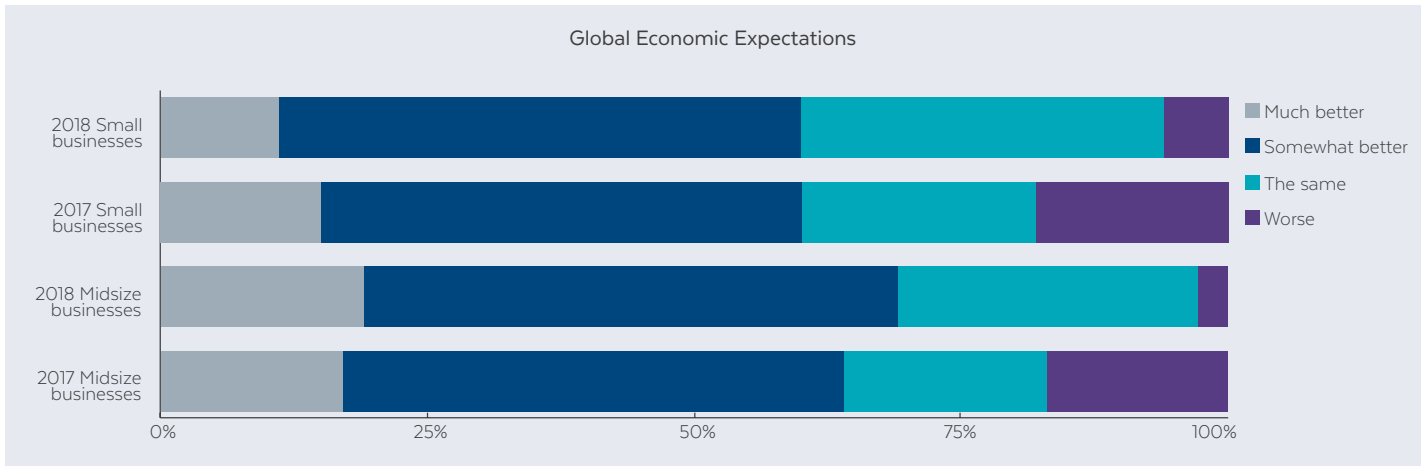
Zooming in on the survey responses shows the extent of executives' optimism, especially as compared to last year. This year, 61 percent of small and 63 percent of midsize businesses describe the global economy as extremely or somewhat strong, up from 43 percent and 48 percent, respectively, in 2017. The same trend applies to views of the U.S. economy, which 62 percent of small and 63 percent of midsize businesses see as extremely or somewhat strong. Last year, 42 percent of small and 54 percent of midsize businesses described the domestic economy in those terms.



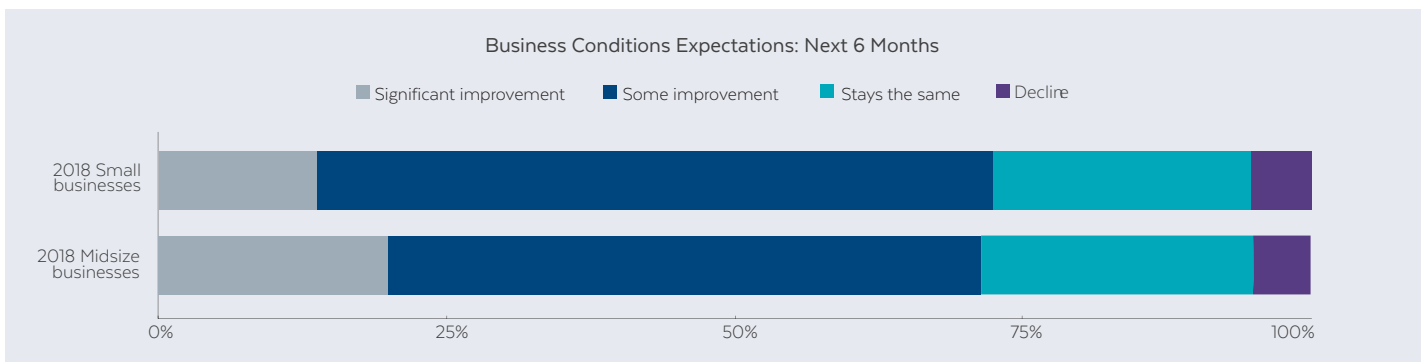
Many company leaders have shifted from feeling neutral about the global and domestic economies to feeling confident. In response to last year's survey, about half of executives (51 percent of those at small and 46 percent of those at midsize firms) rated the global economy as neutral. This year, only about a third (36 percent of small and 34 percent of midsize businesses) describe the global economy that way. The shift in opinion on the U.S. economy is similar. In 2017, 51 percent of small and 39 percent of midsize businesses rated it as neutral. This year, just 30 percent of both small and midsize businesses see the domestic economy in neutral terms.



For most business leaders, the next six months appear to offer opportunity, with 60 percent of small and 70 percent of midsize businesses expecting the global economy to be in somewhat or much better shape than it is now. Executives are even more optimistic about U.S. economic conditions: 66 percent of small and 72 percent of midsize businesses expect the economy to improve somewhat or significantly over the next six months.



It's perhaps no surprise then that 78 percent of small and 80 percent of midsize business executives rate their firms as strong. These responses represent slight upticks for both groups compared to last year, when 75 percent of small and 76 percent of midsize businesses described themselves as strong. Furthermore, 73 percent of small and 72 percent of midsize companies expect the condition of their businesses to improve over the next six months. Indeed, 14 percent of small and 20 percent of midsize companies expect their businesses to improve significantly in that time frame.

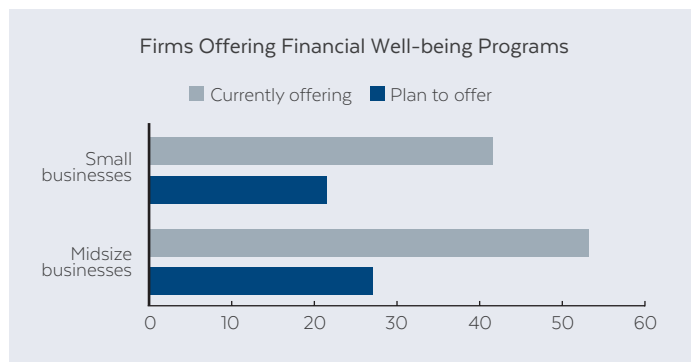


## Growth in a Tight Labor Market

With domestic unemployment continuing to hover just above 4 percent, one of the lowest levels in a decade, many executives are focusing on two key factors: staff turnover and employee morale. Half of small businesses and 57 percent of midsize businesses expect higher-than-average staff turnover to have some or a significant effect on their businesses.

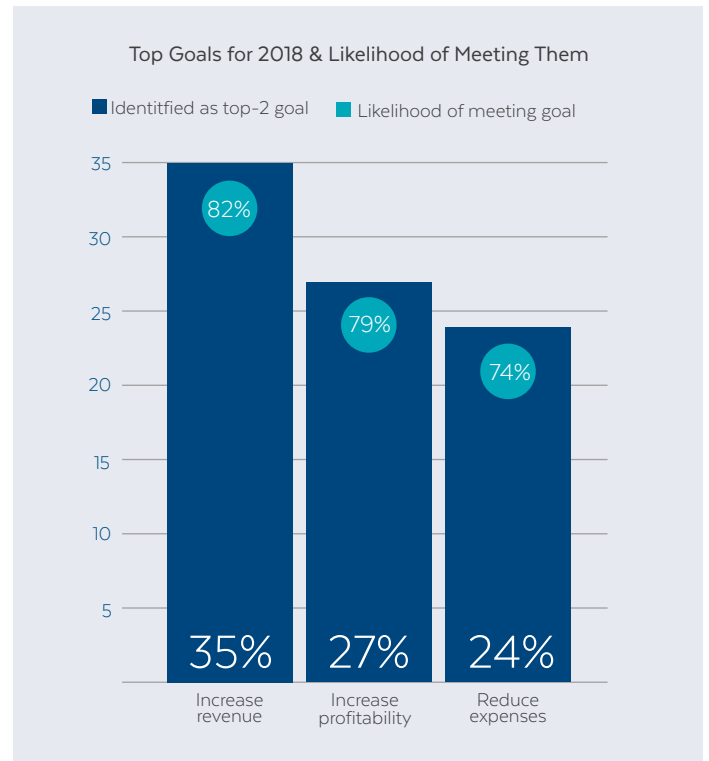
For employee morale, 59 percent of small and 60 percent of midsize companies believe it will have some or a significant impact in the coming year. Furthermore, 14 percent of small and 20 percent of midsize businesses identified difficulties associated with attracting and retaining staff as key obstacles to meeting their goals for this year.

In response, more than a quarter (26 percent) of both small and midsize businesses ranked increasing employee satisfaction as one of their top three priorities for the year. Offering programs that help employees improve their financial well-being—by providing education on saving for retirement, buying a home and other aspects of financial management—is a popular strategy to attract and retain these workers. About half of the companies surveyed (43 percent of small and 54 percent of midsize firms) already offer such programs, and among those that don't, 23 percent of small and 27 percent of midsize companies plan to start one. Fifty-eight percent of all firms cite these programs, or their plans to set them up, as a way to retain employees, and about half of all executives see them as a way to attract new employees.



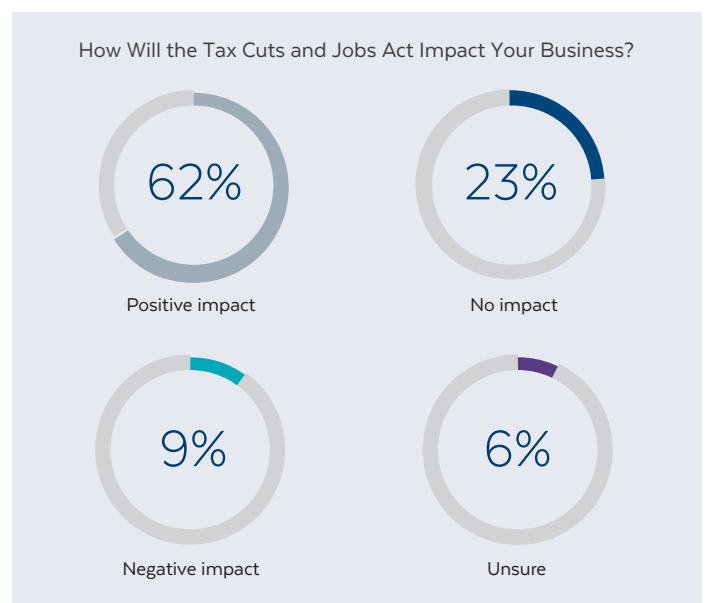
Other important goals for this year include growing revenue, increasing profitability and reducing expenses. Executives expressed high levels of confidence that they'll meet these goals: 82 percent see growing revenue as somewhat or extremely likely; 78 percent believe the same about increasing profitability, and 74 percent describe reducing expenses as somewhat or extremely likely.

Business leaders do foresee a few obstacles affecting their firms this year. In addition to staff attraction and retention, executives named an unstable economy, new or increased competition in their sector and lack of capital as significant barriers to achieving their goals.



## Leveraging Tax Savings

Business leaders are responding not just to economic conditions and low unemployment, but also to the recently passed Tax Cuts and Jobs Act, which about two-thirds (61 percent of small and 64 percent of midsize businesses) expect to have a positive impact on their businesses. About a quarter (23 percent) of all executives expect no impact from the tax code changes, and 9 percent foresee a negative effect.

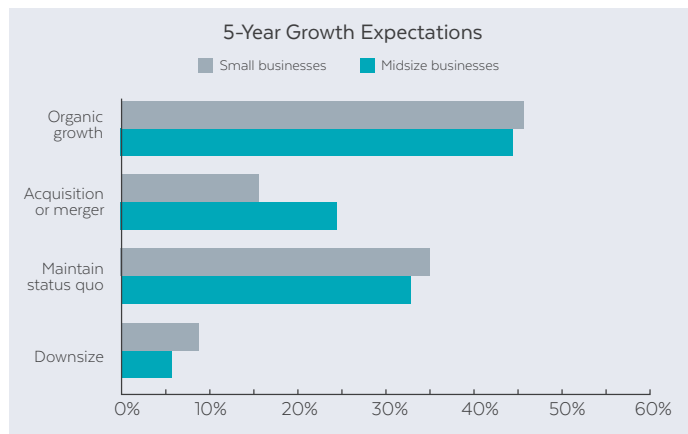


Among those companies that believe business will improve as a result of the legislation, 61 percent of small and 59 percent of midsize firms plan to invest their tax savings back into the company. More than half (53 percent of small and 50 percent of midsize businesses) plan to reward employees with bonuses, raises or other benefits. Other popular uses for tax savings include building cash reserves, hiring additional employees and paying down company debt.

Executives are also hoping for additional policy changes, with 56 percent of small and 52 percent of midsize businesses saying healthcare reform would help them. Forty percent of both business sizes would like to see reduced regulations, and 37 percent of small and 47 percent of midsize businesses say investments in infrastructure would enhance their results.

### Looking to the Future

As they look ahead, executives are anticipating expansion. Indeed, 46 percent of small and 44 percent of midsize businesses anticipate growing organically within the next five years, and 16 percent of small and 24 percent of midsize businesses anticipate growing through an acquisition or merger. About a third (31 percent) of all companies plan to maintain the status quo for themselves, and only 7 percent of small and 6 percent of midsize businesses anticipate downsizing within the next five years.



To grow, about a quarter of businesses (26 percent of small and 25 percent of midsize) named introducing a new product or service as their primary strategy for the next five years. Other paths to expansion are frequently cited. For example, 14 percent of small and 13 percent of midsize businesses are making plans to enter or expand into a new domestic market, and 14 percent of small and 11 percent of midsize firms put pursuing a new consumer or business segment at the top of their five-year priority lists.

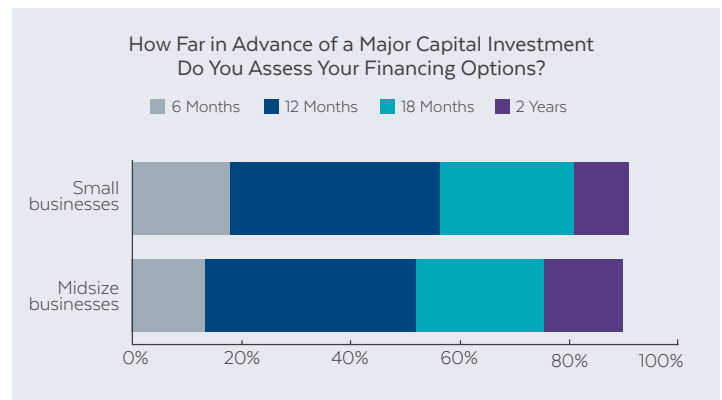
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Executives feel they are well prepared to achieve their five-year goals. Midsize companies seem only slightly more confident than their smaller counterparts: 76 percent of executives at midsize businesses said they were somewhat or completely prepared, and 72 percent of executives at small businesses said the same.

### Funding Future Growth

Companies have a variety of options in mind to fund their expansion plans. Some of the most popular financing methods include using cash on hand, reducing costs, reinvesting corporate earnings, using an existing loan or line of credit and getting a loan from a bank or a government agency, such as the Small Business Administration.

The majority of firms looking for financing start evaluating their options six months to a year before making a capital investment, but some start earlier. In fact, 41 percent of small and 46 percent of midsize businesses begin evaluating their options 18 months or more in advance. Executives' optimism about the economy and their firms extends to their views on financing. Three-quarters of small and 71 percent of midsize firms expect it to be somewhat or extremely easy to access the necessary capital to achieve their five-year goals.



Overall, the survey results indicate businesses are looking forward to this year—and the next five—as a growth opportunity. Although executives acknowledge they'll face some obstacles along the way, they are confident they'll successfully implement their plans for 2018 and beyond.