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Research

# Decision Factors for H2 2017

## Economic considerations for SMB executives

Economic outlook forecasted to stay positive through early 2018.

Focus on top talent, technology and low-cost loans in next six months.

Watch for rising inflation and cost overruns to avoid cutting into earnings.

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The outlook for small business owners and CEOs is set to remain positive in the second half of 2017, based on the views of Vistage members and respected economists. While U.S. gross domestic product continues on an upward trajectory, the sentiment of business leaders remains on a multi-year high due to President Donald Trump's plans for tax reform, deregulation and infrastructure spending.

There is scant evidence this landscape will weaken materially later this year or in early 2018. Given the likelihood of sustained growth, companies should take this opportunity to focus on microeconomic factors within their industry sector and implement strategies that boost their competitive advantage, rather than fixating on macro forces they cannot control. Hiring top talent, upgrading technology, and securing low, fixed-rate loans for capital improvement are all viable approaches.

### Confidence remains high

According to the most recent reading of the Wall Street Journal/Vistage Small Business Confidence Index, which came in at 110.9 for May 2017, respondents were significantly more confident than a year ago, when the index came in at 95.9. Readings above 100 indicate most respondents are optimistic about the economy. In fact, May's reading was virtually identical to the six-month average for the index, which covers the surveyed time span since Trump's election, says **Dr. Richard Curtin** of the **Survey Research Center** at the University of Michigan

**"Performance, not promise, is the unavoidable yardstick of small firms."**

– Dr. Richard Curtin
Survey Research Center
University of Michigan

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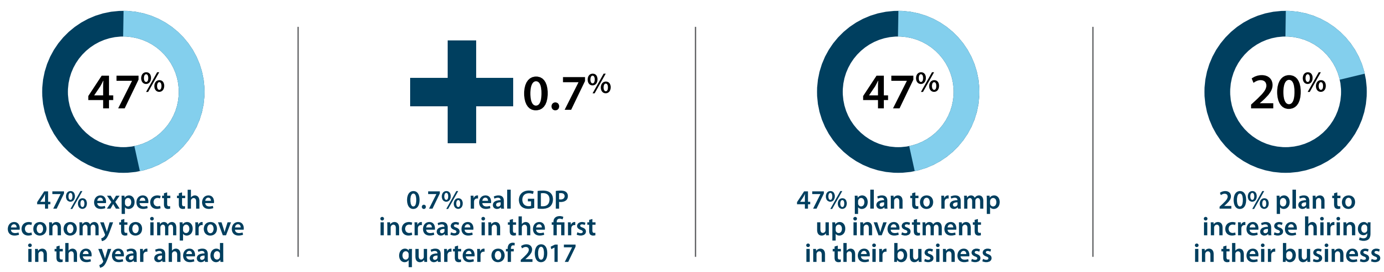
Around 47% of respondents expected the economy to improve in the year ahead, down from the 60% peak recorded in January but still far above the 20% recorded last May. About 75% of respondents expected their firms to increase revenues, and about 60% expected higher profits. In line with the past few months, 47% said they planned to boost fixed investment and 62% said they planned to hire more workers in the coming year.

This is in keeping with Commerce Department data showing real GDP increased by 0.7% in the first quarter of 2017, as well as 1Q corporate earnings results showing about 75% of companies in the S&P 500 beat the mean EPS estimate.


**"Beware the perils of profitless prosperity"**

– Brian Beaulieu
ITR Economics

Vistage confidence index survey respondents viewed the president's tax proposal favorably, with three-fourths of them citing its most beneficial aspect as reducing the maximum business tax rate to 15%. When asked how a lower tax rate would change how they operate their business, 47% said they would ramp up investment while 20% said they would increase hiring. Still, "Trump's tax reforms are unlikely be passed anytime soon," Curtin notes. "Performance, not promise, however, is the unavoidable yardstick of small firms."




## Economic opportunities

To be sure, there are several risks to avoid if possible. "Beware the perils of profitless prosperity," warns **Brian Beaulieu**, head of the research consultancy **ITR Economics**, referring to maneuvers by firms that fail to consider how rising inflation and cost overruns could eat into earnings.

Beaulieu stresses that it's extremely difficult to predict future interest rates even a couple quarters out, thanks to the intricacies of Federal Reserve decision-making and geopolitical uncertainty. Yet signals overwhelmingly suggest that the Fed will hike rates at least once more this year, if not twice.

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There are three areas Beaulieu recommends that businesses consider investing in over the next six months.

## 1: Top talent

What business leaders can predict fairly well, he says, is whether it's time to replace lackluster workers and pay up for skilled recruits who can take their firm to the next level – or whether it's wiser to replace underperformers with hardware or software that will more than pay for itself over time. Companies hesitating on this front may struggle to keep pace with competitors taking such steps.

## 2: Upgrade technology

"The cost of capital is still cheap if you need to borrow money for technology," Beaulieu says. "We should all be borrowing as much as we can now," he suggests, arguing that short-term rates tend to increase well in advance of long-term rates. "This is a signal to secure the capital before long-term rates go up in about 18 months."

## 3: Low-cost loans

On the off-chance Congress repeals the Dodd-Frank financial regulation act, acquiring loans should become easier and firms should make investing for growth even more of a priority. Dodd-Frank created agencies to prevent banks with more than $50 billion in assets from becoming too big to fail and protect consumers from predatory financial practices.

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## Concerns

One potential danger sign on the horizon concerns the high level of automobile loan delinquencies. Their frequency of failure has escalated enough to garner comparisons with mortgage defaults during the lead-up to the 2008 financial crisis. Of course the actual dollar amount of failed auto loans is meager when set against the gigantic pile of bad mortgages that triggered the Great Recession.

Nevertheless the widespread inability of borrowers to repay debts could portend bigger troubles down the line. After all, cash shortages among consumers have a way of hindering business growth sooner or later, and auto sales are a leading indicator of economic health.

Domestic firms with dealings abroad have a different complication to address: setting up alternative sources for their chains of supply and distribution. If trade negotiations between the Trump administration and foreign governments introduce tariffs, for example, does your firm have a domestic partner that can do the job for less? Or if China's debt pile gets out of hand, and its government tightens capital controls, will your firm be able to retrieve cash from local partners without too much hassle?

Beaulieu emphasizes that these problems are unlikely to emerge in 2H 2017 or the following quarter, but that good times are the best times to plan for the worst. "There are lots more things that can go well than are likely to go bad. But that doesn't mean we should believe in a fairy tale trend."

## Vistage Perspective

Over the next six to 12 months the tactical economic forecast remains strong, indicating a positive business environment for small and mid-sized business. Key triggers for growth are availability of low cost capital for investment and the growth of the work force to meet higher levels of expected demand. With access to capital flowing freely, the challenge will be talent management. While there are concerns to be watched, coupled with an always volatile political and economic world stage, the window of opportunity for growth is open now. With the potential of additional economic tailwinds of tax reform and deregulation in the next year, conditions should remain sufficiently positive to embrace a growth strategy.

## Contributors

**Brian Beaulieu, ITR Economics**

Brian Beaulieu has been an economist with ITR Economics since 1982 and its CEO since 1987. He is also Chief Economist for TEC, a global organization comprised of over 13,000 CEOs. At ITR, Brian has been engaged in applied research regarding business cycle trend analysis and the utilization of that research at a practical business level. For the past 25 years, he has been giving workshops and seminars across the US and Canada to thousands of business owners and executives.

Prior to joining ITR Economics, Brian was an economist for the US Department of Labor where he worked on the health care component of the Consumer Price Index. Brian is co-author with Alan Beaulieu of the books, "Prosperity in the Age of Decline", and "Make Your Move". He has been a Vistage member since 1998.

**Dr. Richard Curtin, Survey Research Center, University of Michigan**

Dr. Richard Curtin is a Research Professor and the Director of the Surveys of Consumers at the University of Michigan since 1976. His monthly report on consumer confidence is one of the most closely followed economic indicators, with findings from his research extensively reported in the media. His research is widely used by businesses and financial institutions as well as by federal agencies responsible for monetary and fiscal policies. Data from the Surveys of Consumers is an official component of the Index of Leading Economic Indicators. Professor Curtin has consulted with hundreds of corporations on issues related to future trends in consumer purchases.

**Joe Galvin, Vistage Research**

As Chief Research Officer for Vistage, Joe Galvin is responsible for providing Vistage members with the most current, compelling and actionable thought leadership on the strategic issues of small and midsized business. Joe is an established thought leader and analyst who has researched and presented to business leaders around the world on customer management, world-class sales performance and CRM-SFA technology.

**About Vistage Worldwide**

Vistage Worldwide is an organization designed exclusively for high-integrity CEOs and executive leaders who are looking to drive better decisions and better results for their companies. Our members — 21,000 strong in more than 17 countries — gather in trusted, confidential peer advisory boards where they tackle their toughest challenges and biggest opportunities. Leveraging the Vistage platform, our members have demonstrated the ability to refine their instincts, improve their judgment, expand their perspectives and optimize decision making. CEOs who joined Vistage grew their companies at three times the rate of the average U.S. company, according to a 2015 analysis of Dun & Bradstreet data.

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Vistage Research curates subject matter from the Vistage community and collaborates with top thought leaders to create unique content. Vistage executives access actionable, thought-provoking insights from the Wall Street Journal/ Vistage Small Business CEO Survey and Vistage CEO Confidence Index results, as well as national and local economic trends. Since it began in 2003, the Vistage CEO Confidence Index has been a proven predictor of GDP, two quarters in advance. Vistage Research provides the data and expert perspectives to help you make better decisions.

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