Steady Business Confidence Closes Q1

Opportunity for small businesses in San Diego better now than five years ago

This month’s Silvergate Bank-sponsored Business Forecast shows no change to the Business Outlook Index’s (BOI) steady optimism. The BOI remains stable at a solid 23.7, exactly its lifetime average. This Forecast also marks the end of the first quarter of 2017 with the quarterly BOI at 24.8. This is a marked improvement over the previous three quarters, which topped at 18, and the best since the second quarter of 2015.

The strength displayed this month is nearly uniform across the county. Last month, firms headquartered in the City of San Diego out-paced those outside it. Now, companies in both areas are equally optimistic, as are coastal and inland firms. The one lagging region is East County, where businesses report a BOI of only 15.

Looking at the various industry sectors, development and construction companies are showing robust optimism with an impressive BOI of 51. The sector is hiring, as most say they will be adding employees over the next three months and none surveyed express plans to lay off personnel. Not surprisingly, this dovetails with an increased sense of optimism related to business conditions. Development firms overwhelmingly believe conditions will improve in the coming months. In contrast, firms that see an increasing minimum wage as their emerging challenge – that applies to one-third of those in the hospitality and restaurant space – are sour on business conditions in their industry. More of them are anticipating conditions to deteriorate rather than improve.
Forty-three percent in the business community say they are faced with some new challenge this month and competition is an increasing challenge. More competition can be a healthy sign for the local economy, but the percentage of businesses tapping that as their main challenge shot from 3 percent in the previous quarter to 7 percent currently. Retail companies are the ones most likely to point to challenges stemming from competition, with 26 percent saying their main hurdle comes from within their economic segment. New challenges coming from government dipped, as only 15 percent point to those issues compared to 25 percent in the prior quarter. Challenges related to the minimum wage increase have held steady, affecting 5 percent.

With national Small Business Week coming up at the beginning of May, this installment digs deeper into the opportunities and challenges facing small businesses. When asked about the challenges impacting small businesses, slightly more than half in the business community see the government as the single biggest problem for small businesses. Government regulations, taxes, or fees rise to the top, as 31 percent cite this and another 20 percent think minimum wage increases – a form of government regulations – are small businesses’ most serious challenge. Those in the hospitality/restaurant sector are far more sensitive to the increasing wage issue, as 56 percent of them say it’s the biggest challenge for small firms. Business people involved in retail also often sense that minimum wage increases are the bane of small businesses.

The cost of healthcare (11 percent) and lack of access to capital (10 percent) are also substantial issues. Staffing and competition both garner 8 percent as important challenges. The rest of the options we asked about, which include poor marketing, a bad economy, and insurance costs, are rarely seen as serious impediments for small businesses.

When asked about the growth opportunities the present climate affords small businesses, the results are somewhat upbeat. Forty-one percent assess the situation as better for small firms now than it was five years ago and only 18 percent say the opposite.

Responses, however, vary tremendously by industry and by whether the businessperson currently has challenges before them. Hotels and restaurants, a group that has endured a rough ride over the last year, are clearly at odds with the sense that the trend has improved. Those who see government-related challenges affecting their business are also much less likely to see a silver lining on the last half decade. Forty percent of those businesspeople say things have deteriorated for small business. The optimism discussed previously with construction/development firms holds here too as nearly 80 percent say growth prospects for small businesses have improved.
About the Business Forecast
The San Diego County Business Forecast, sponsored by Silvergate Bank, is a scientific look at where our region’s economy is headed. The survey for this month’s installment was fielded March 17-31, 2017 by Competitive Edge Research & Communication using responses from 200 randomly-selected members of the San Diego, East County, Alpine, Escondido, Lakeside, Vista, Santee, Encinitas and National City Chambers of Commerce. One-third of the members were invited to complete the survey online. Those members who initially did not respond were invited to complete the survey over the phone.

The Business Outlook Index™ (BOI) is comprised of four self-reported assessments regarding the next three months: Will a respondent’s business increase or decrease its number of employees, experience an increase or a decrease in revenue, increase or decrease the number of hours its employees work, and experience an improvement or a worsening of business conditions. For each assessment, definite and positive responses are scored 100, probable and positive responses are scored 50, neutral responses are scored 0, probable and negative responses are scored -50 and definite and negative responses are scored -100. The scores are summed and divided by 4 to get a range for the BOI of -100 to +100, with zero being a neutral outlook. Visit http://sdchamber.org/businessforecast to see past Business Forecasts.

About Silvergate Bank, Business Banking Redefined
For over 25 years, as a San Diego based community bank, Silvergate provides a rewarding banking experience where the client’s needs always come first. Our business banking experts listen to needs and work to provide customized solutions to support your company’s growth and profit objectives. Our bankers are committed to superior responsiveness, local decision making, and the agility that allows our clients to choose the way they want to bank with us. To learn more, visit www.silvergatebank.com or contact Dino D’Auria at ddauria@silvergatebank.com.

About The San Diego Regional Chamber
The San Diego Regional Chamber is the hub for connections and collaboration among the regional business community, and uses that clout to advocate for public policies and candidates that support economic growth and the creation of jobs for all businesses. As the largest Chamber on the West Coast, representing approximately 2,500 businesses and an estimated 300,000 jobs, the San Diego Regional Chamber is fighting to make San Diego the most business-friendly region in California. For more information, please visit SDChamber.org or call 619-544-1300.