



LEE COUNTY BUSINESS CLIMATE SURVEY REPORT

Fourth Quarter, 2016

Prepared in partnership with:



and

The Regional Economic Research Institute • Florida Gulf Coast University

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Report Information

This report is conducted quarterly by the Horizon Council of Lee County, Florida, and Florida Gulf Coast University's Regional Economic Research Institute. This work would not be possible without considerable cooperation from the Horizon Council's Chairs, the RERI's student researchers, and the Lee County Economic Development Council.

The Regional Economic Research Institute studies, analyzes and reports on the regional economy encompassing Collier, Lee, Charlotte, Hendry, and Glades counties. Established in 2005, it serves as a public service and economic development unit of the Lutgert College of Business' Dean's Office and strives to connect Southwest Florida to the resources of Florida Gulf Coast University.

The Institute's Business Climate Survey group specializes in sampling design and analysis, including program evaluation, policy research, and needs assessment. The Business Climate Survey group involves FGCU students in every stage of survey development, allowing them to develop professional skills and networks that add value to their degrees and, by extension, to their future employers.

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INTRODUCTION

The Lee County Business Climate Survey Report, published in partnership between the Horizon Council and Florida Gulf Coast University, provides primary research to the business community, elected officials, and other concerned citizens in an effort to gauge the state of Lee County's economy over time as well as impressions and concerns about it in the future.



Since the beginning of this partnership, the BCS has been comprised of three areas of focus. The first area—encompassed in the first seven questions of the survey—focuses on Lee County business executives' impressions of economic conditions and trends with respect to hiring and investment. The second area has been the calculation of an *Executive Business Climate Index*. This EBCI provides a summary number which will allow one to quickly gauge whether the business climate in Lee County is improving or declining. Finally, the third area is comprised of various questions that change from survey to survey. In the past, these "Special Topics" have focused on areas such as business executives' concerns about interest rates and access to capital, firms' demand for critical occupations and their ability to find workers within those occupations, the cost of doing business in Lee County, and even concern for employee wellness and wellness programs.

The BCS also allows respondents to voice concerns, kudos, and criticisms of Lee County's economic environment. Every effort is made to include these comments in each survey.

The Horizon Council FGCU Business Climate Survey is administered, written, and published by the staff and students working with the Regional Economic Research Institute in the Lutgert College of Business. We very much welcome your comments and suggestions regarding the report, including suggestions for Special Topics questions for future editions.

This survey would not have been possible without the many busy business owners and executives who took the time to respond to it. I also thank John Boland, Glen Salyer, and their colleagues at the Lee County Economic Development Office; Robert Beatty, Dean of Lutgert College of Business at FGCU; Russell Schropp, Chair of the Horizon Council's Business Issues Taskforce; and Michael Quaintance of Keiser University. CareerSource Southwest Florida's James Wall and Peg Elmore continued to provide valuable input and advice.

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EXECUTIVE SUMMARY

The Executive Business Climate Survey provides a view of the local economy that is based on responses from senior executives from a range of industries across the county. An invitation to complete the internet survey was sent to 560 executives and business owners in Lee County. Ninety-two executives completed the survey from October 25, 2016, through November 8, 2016. Four reminders were sent during the survey period.

This survey provides a key economic indicator for Lee County, the *Executive Business Climate Index*. This index value is computed each quarter and released to the public as a way to provide an established economic indicator on the state of the local economy. The index is computed using the two questions concerning the current and future economic conditions and a third question concerning the expected industry economic conditions. The index is an average of the responses, with substantially better equal to 100, moderately better equal to 75, same equal to 50, moderately worse equal to 25 and substantially worse equal to zero. The index value can range from 0 to 100.

The results from the fourth quarter survey reflect a two-point increase from the third quarter 2016 measure, with the index rising from 61 to 63. The increase marks the first time the measure has improved since the fourth quarter 2015.

The current survey's Special Topics section focuses on prospects for business expansion in Lee County. Other findings of the Business Climate Survey for the fourth quarter of 2016 include:

- 60 percent of executives stated that the current economic conditions have improved over last year, while 33 percent stated that they were the same;
- 51 percent of the executives expect the economy to improve over the next year, and 41 percent stated that the economy would stay the same;
- 47 percent of the executives stated that the current economic conditions for their industry have improved over last year, while 40 percent stated that economic conditions remained approximately the same.
- 51 percent of executives expect economic conditions for their industry to improve over the next year;
- 40 percent of executives had increased employment over the last year, while 8 percent had reduced employment;
- 39 percent of executives expect to increase employment at their companies during the next year, while 58 percent of executives plan to remain at the same level;
- 46 percent of companies expect to increase investment next year while 4 percent expect to reduce investment levels;
- 35 percent of executives believe that the next three months are a good time for their business to expand, while 39 percent believe that it is not a good time to expand.
- 55 percent of executives stated that sales prospects were the most important reason for their expansion outlook, and 39 percent indicated that economic conditions were the most important reason.
- 44 percent of executives believe that net earnings during their last quarter year were higher than the same quarter during 2015, while 20 percent said net earnings were lower.
- 78 percent of executives said sales volumes were the most important reason for their firms earning performance during the last calendar quarter.
- 52 percent of executives stated their dollar sales volume during the last calendar quarter was higher than the previous quarter, while 21 percent stated their dollar sales volume was lower.
- 44 percent of executives expect the real volume of goods and services sold will be higher during the next three months, while 12 percent believe the amount will be lower.
- 30 percent of executives said selling prices were higher when compared to three months ago.
- 19 percent of executives indicated they had enough qualified applicants for job openings, while 48 percent said there were few qualified applicants.
- 41 percent of executives stated they had job openings they were unable to fill.
- 23 percent of executives said the single most important problem for their firm was uncertainty about the future, while 22 percent indicated regulation and compliance as the most important reason.

I. RECURRING QUESTIONS

Each quarter, the Horizon Council FGCU Business Climate Survey polls Lee County’s business leaders about the state of the economy in Lee County. These seven questions are designed to provide a snapshot of short-term trends and perceptions regarding the state of the local economy, employment, and capital investment. Asking the same recurring questions allows for a side-by-side comparison of the economy during each quarter. The results from these questions for the fourth quarter of 2016 can be found in Figures 1 through 7 below.

Figure 1 reports that 60 percent of surveyed executives indicated that economic conditions in Lee County were moderately or substantially better compared to a year ago. This was an increase from the third quarter 2016 measure of 53 percent, but marks a decline from the fourth quarter 2015 measure of 77 percent. Despite the gain from the previous quarter, these results indicate that local business owners and executives are generally less pleased with the direction of the local economy over the past year.

Figure 1: Current Economic Condition

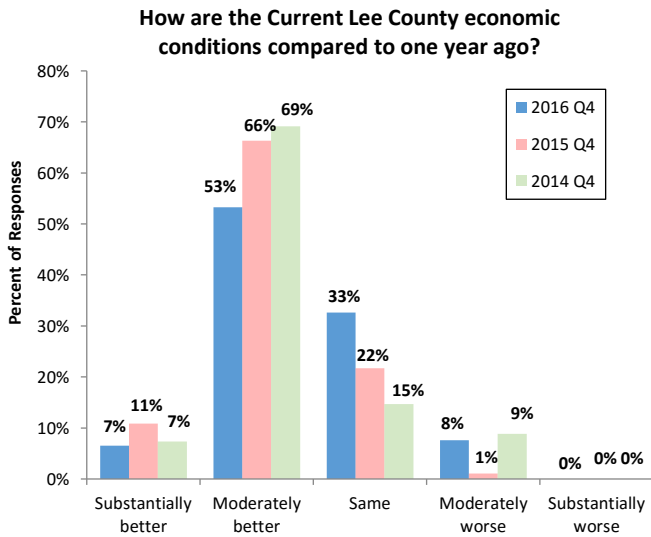


Figure 2 tracks business leaders’ perceptions about economic conditions going into the next year. The survey found that 51 percent of executives indicated they expect economic conditions in Lee County to be moderately or substantially better in the next year. This is a slight decrease from the 2016 third quarter reported figure of 52 percent and a decline from the fourth quarter 2015 report, which found that 80 percent of surveyed executives expected conditions in Lee County to be better in the next year.

Figure 2: Future Economic Condition

What are your expectations for the Lee County one year ahead?

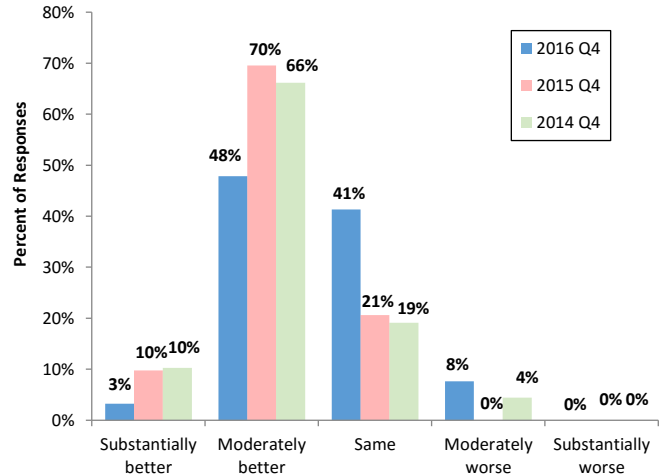


Figure 3 reports on executives’ perceptions about their particular industry and is more narrowly focused. The survey found that 47 percent of surveyed executives believed current conditions in their industry were better compared to a year ago. This marks an increase from the 45 percent recorded in the third quarter 2016, but a decrease from the 69 percent reported a year ago on the fourth quarter 2015 report.

Figure 3: Current Industry Condition

What are the current conditions in your industry in Lee County compared to one year ago?

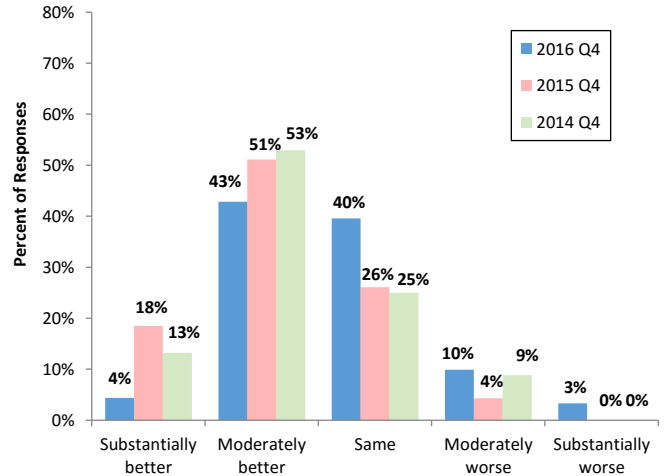
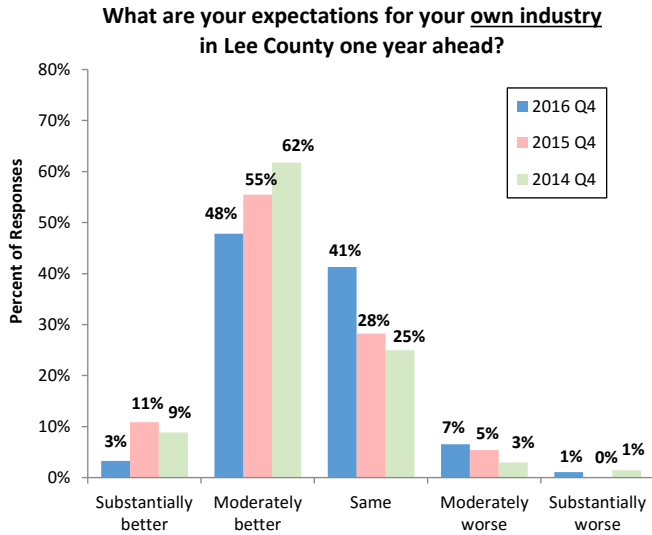


Figure 4 reports that 51 percent of surveyed executives expect conditions in their industry to be moderately or substantially better in the next year. This is a an increase from the 2016 third quarter report, which reported that 45 percent of surveyed executives expect conditions in their industry to be better in the next year, but a decrease from the 2015 fourth quarter report,

which reported that 66 percent of surveyed executives expect conditions in their industry to be better in the next year.

Figure 4: Future Industry Condition



Figures 5 and 6 focus on employment. Figure 5 reports that 40 percent of executives have moderately or substantially increased employment over the last year. This is an increase from the 2016 third quarter report, which reported that 37 percent of surveyed executives have increased employment over the past year, but a decline from the 2015 fourth quarter report, which reported that 57 percent of surveyed executives have increased employment over the past year.

Figure 5: Current Hiring Trend

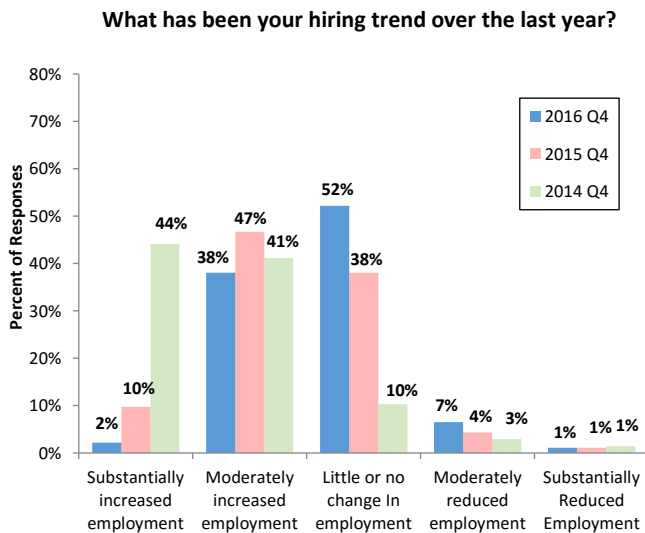
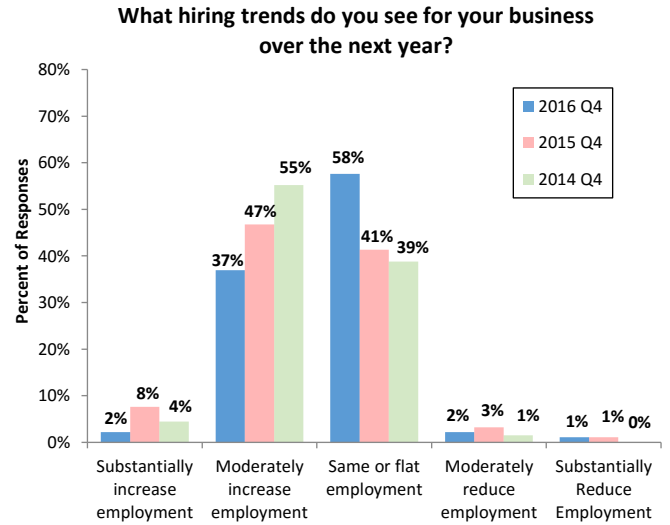


Figure 6 reports that 40 percent of surveyed executives expect to moderately or substantially increase employment over the next year. This is an increase from the 2016 third quarter report, which reported that 32 percent of surveyed executives expect to increase employment over the next year, and a decline from the 2015 fourth quarter report, which reported

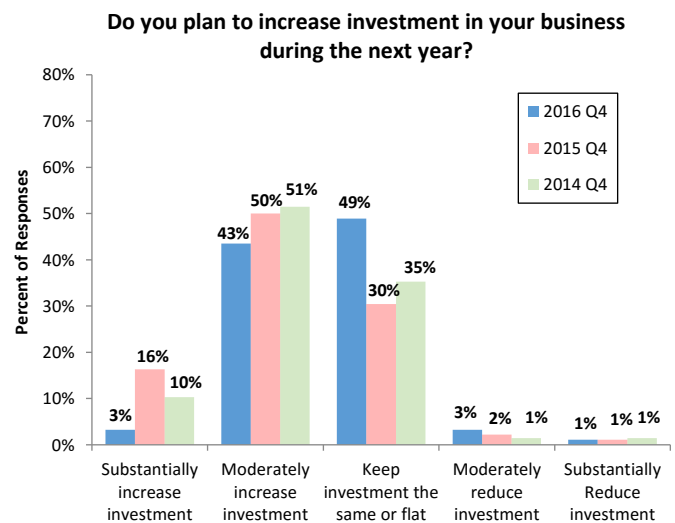
that 57 percent of surveyed executives expect to increase employment over the next year.

Figure 6: Future Hiring Trend



Finally, Figure 7 focuses on capital investment. It reports that 46 percent of surveyed executives expect to moderately or substantially increase investment over the next year. This was a decrease from the 2016 third quarter report, which reported that 49 percent of surveyed executives expect to increase investment over the next year, and a decline from the fourth quarter report from 2015, which reported that 66 percent of surveyed executives expect to increase investment over the next year.

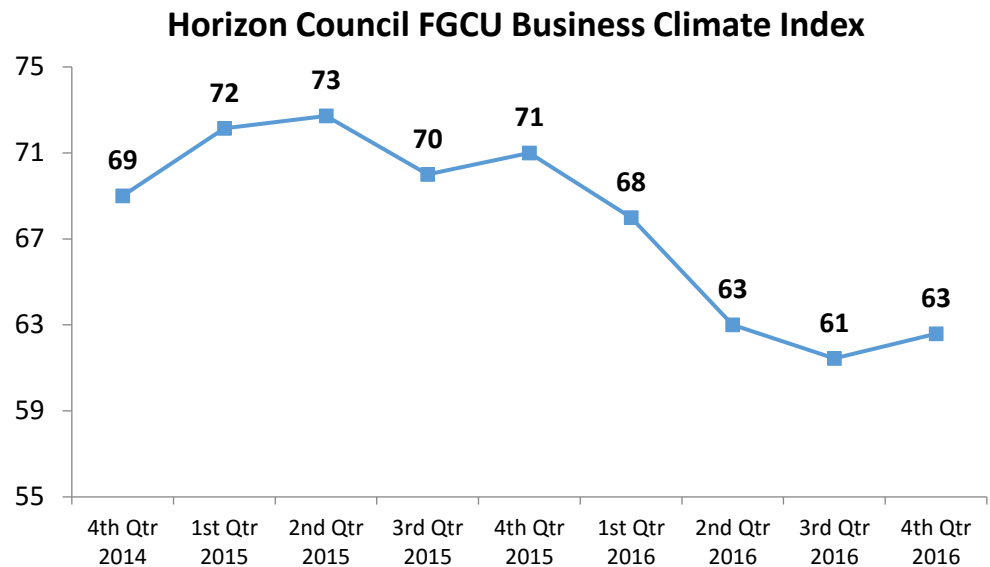
Figure 7: Future Investment Trend



Results from previous quarters' surveys going back to 2012 can be found on FGCU's Regional Economic Research Institute's web site, at fgcu.edu/cob/reri. For charts depicting historical trends for recurring questions, see Appendix A below.

II. THE EXECUTIVE BUSINESS CLIMATE INDEX

One of the key features of this survey is the calculation of an *Executive Business Climate Index*. Each quarter, this index value of the current business climate in Lee County is computed and released to the public as a way to provide an economic indicator allowing one to quickly gauge whether the business climate in Lee County is improving or declining. The EBCI is computed using the two questions concerning the current and future economic conditions (reported in Figures 1 and 2) a third question concerning the expected industry economic conditions (reported in Figure 4). The index is an average of the responses, with substantially better equal to 100, moderately better equal to 75, same equal to 50, moderately worse equal to 25 and substantially worse equal to zero. The index value can range from 0 to 100.



The results from the fourth quarter survey reflect an increase from the third quarter 2016 result, with the index increasing from 61 to 63. Despite the increase, the index remains below a 74 to 69 band that persisted for two years until the first quarter 2016.



III. SPECIAL TOPICS

Each Executive Business Climate Survey contains a set of questions not asked on a recurring basis. These special topic questions highlight on areas of importance to the economic development of our region with the intention of accessing the business community’s input and feedback to development officials, industry agents, and government officials.

The present survey focused on prospects for business expansion in Lee County. Results from these questions are reported in figures 8 through 17.

Figure 8: Business Expansion

Do you think the next three months will be a good time for your business to expand?

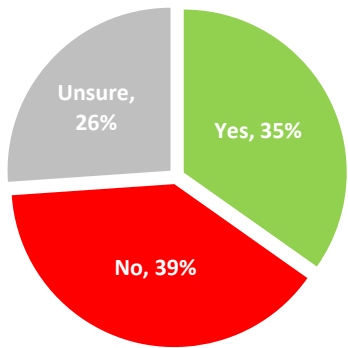


Figure 8 considers firms’ expansion plans within the next three months. Thirty-five percent of business executives reported that the next three months would be a good time for their business to expand, while 39 percent believed it would not be a good time. Twenty-six percent of business executives reported that they were unsure if the next three months would be a good time to expand.

Figure 9: Reason for Business Expansion

What is the most important reason for your expansion outlook? Please choose one:

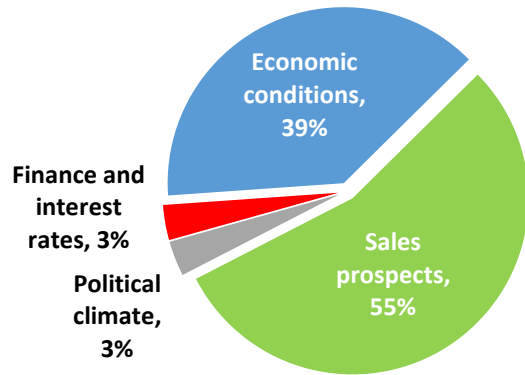


Figure 9 focuses on the most important reason for business expansion. Fifty-five percent of all business executives said sales prospects were the most important reason for expansion, 39 percent reported economic conditions as the main reason for expansion, three percent said finance and interest rates, and three percent said the political climate.

Figure 10: Net Earnings over Past Year

Were your net earnings or “income” (after taxes) from your business during the last calendar quarter higher, lower, or about the same as they were for the same quarter of 2015?

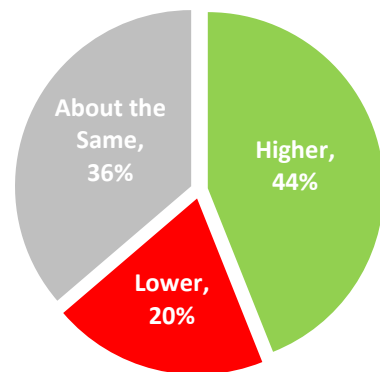


Figure 10 focuses on the net earnings over the past year for businesses. Forty-four percent of all business executives reported that their net earnings were higher during the last calendar quarter when compared to the same quarter from 2015. Furthermore, 20 percent reported that their net earnings were lower from the previous year, and 36 percent reported that net earnings were about the same from the previous year.

Figure 11: Reason for Earning Performance

What do you think is the most important reason for your firm's earning performance during the last calendar quarter?

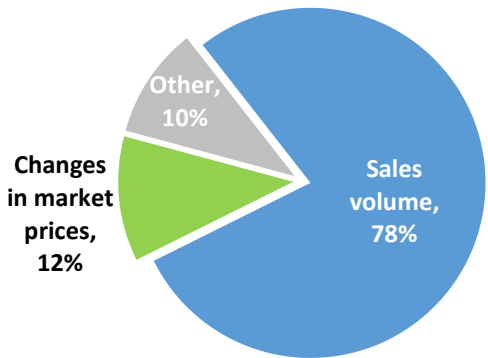


Figure 11 focuses on the reasons for earning performances over the past calendar quarter. Seventy-eight percent of business executives reported that sales volume was the most important reason for the firm's earning performance over the last calendar quarter, 12 percent reported changes in market prices as the main reason, and 10 percent reported some other as the most important reason. No executives indicated changes in costs as the main reason.

Figure 12: Dollar Sales Volumes

During the last calendar quarter, was your dollar sales volume higher, lower, or about the same as it was for the quarter before?

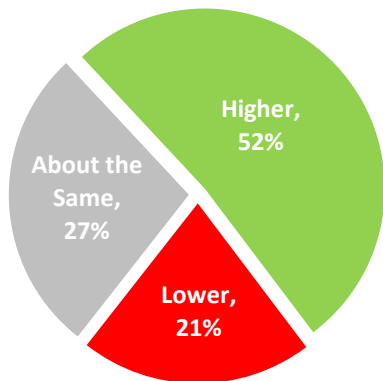


Figure 12 focuses on the change in dollar sales volume for the last calendar quarter. Fifty-two percent of all business executives indicated that their dollar sales volumes were higher when compared to the previous quarter and 21 percent reported that their dollar sales volumes were lower. Twenty-seven percent said that their dollar sales volumes were about the same from the previous quarter.

Figure 13: Real Volume of Goods

Overall, what do you expect to happen to real volume (number of units) of goods and/or services that you will sell during the next three months?

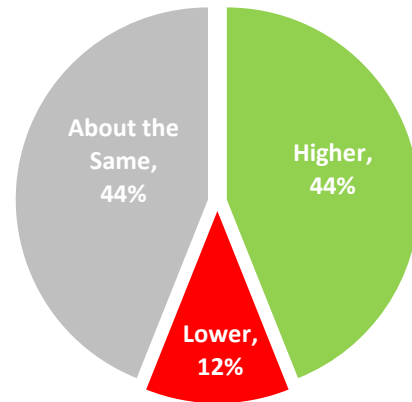


Figure 13 focuses on the real volume of goods that a firm will sell in the next three months. Forty-four percent of all business owners expect that the real volume of goods sold will be higher during the next three months, while 12 percent believe the real volume of goods sold will be lower. Forty-four percent believe the real volume of goods sold will be about the same over the next three months.

Figure 14: Average Selling Prices

How are your average selling prices compared to three months ago?

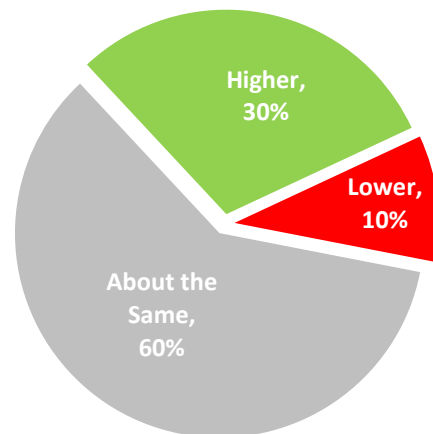


Figure 14 focuses on average selling prices. Thirty percent of all business executives believe that average selling prices will be higher than three months ago, while 10 percent believe average selling prices will be lower. Sixty percent of all business executives believe that their average selling prices will be about the same.

Figure 15: Qualified Applicants

If you have filled or attempted to fill any job openings in the past three months, how many qualified applicants were there for the position(s)?

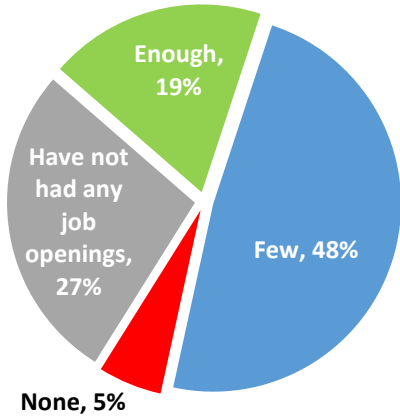


Figure 15 focuses on the number of qualified applicants available for job openings. Nineteen percent of all business executives reported that they get enough qualified candidates for job openings, 48 percent said that they get only a few qualified candidates, and five percent said they do not get any qualified candidates. No executives indicated that they had more qualified candidates than needed. Twenty-seven percent of business executives said they did not have any job openings over the past three months.

Figure 16: Job Openings

Does your firm currently have job openings that it is unable to fill?

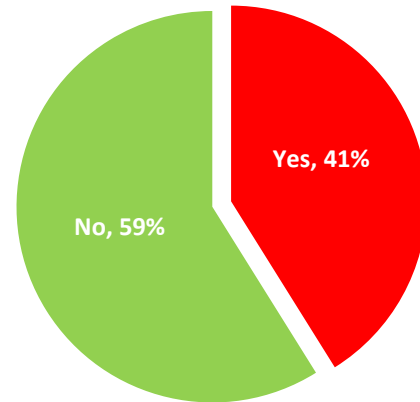


Figure 16 focuses on whether a firm has job openings it is unable to fill. Forty-one percent of all business executives reported that they do have a job opening they are unable to fill, while 59 percent said they do not have a job opening they are unable to fill.

Figure 17: Important Problems

What is the single most important problem your firm faces today?

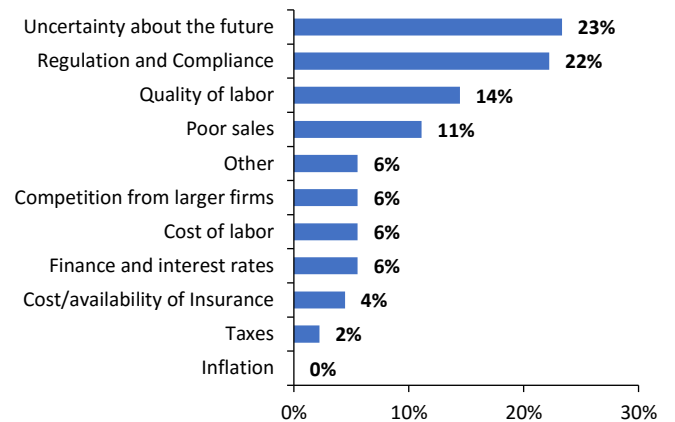


Figure 17 focuses on the single most important problem firms face today. Twenty-three percent of all business executives said uncertainty about the future as the most important problem their firm faces, 22 percent said regulation and compliance, 14 percent reported quality of labor, and 11 percent said poor sales.

IV. COMMENTS, SUGGESTIONS, AND RECOMMENDATIONS

The comments indicated that executives were concerned with the national and international economy as it relates to local activity, as well as some general comments of the workforce. There are concerns and comments about:

- Public Infrastructure
- Government Regulation
- Public Education
- Property Values
- Labor Market
- Technological Advances

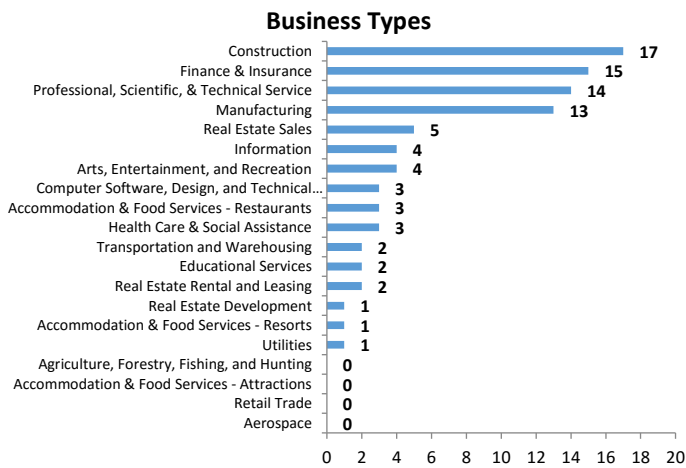
Executive responses to this question are found in Appendix B.

V. COMPANY CHARACTERISTICS

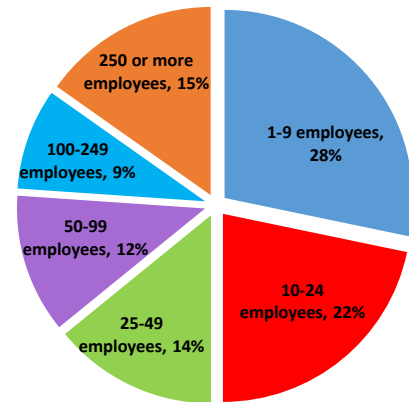
Each executive provided information about his or her firm, including:

- Business Type;
- Number of Employees;
- Company Location; and
- Geographic Client Base.

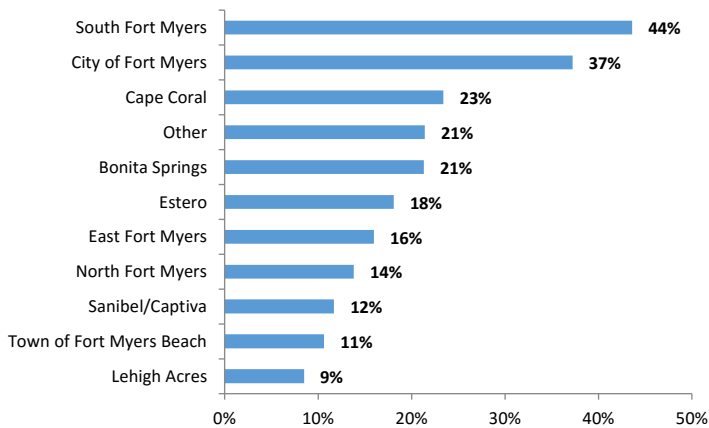
The following figures provide an overview of general characteristics of the responding companies.



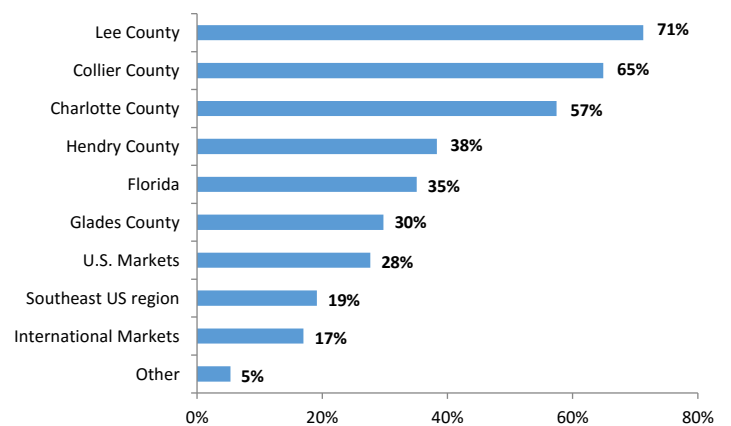
Employee Size of Firms Responding to Survey



Geographic Locations of Business Respondents



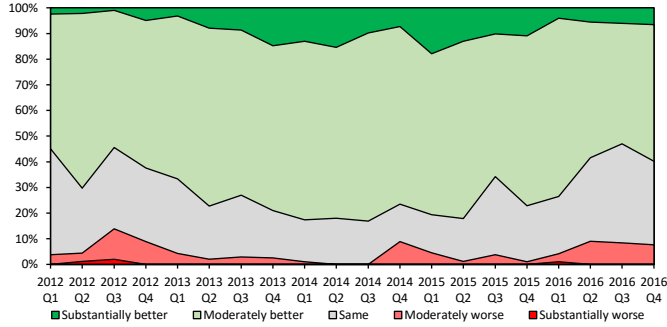
Geographic Client Base of Lee County Firms



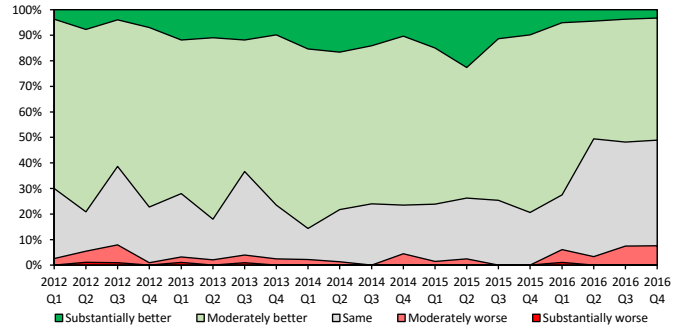
APPENDIX A. HISTORICAL TRENDS OF RECURRING QUESTIONS

Historical trends of the seven recurring questions asked in each Executive Business Climate Survey can be found in this section.

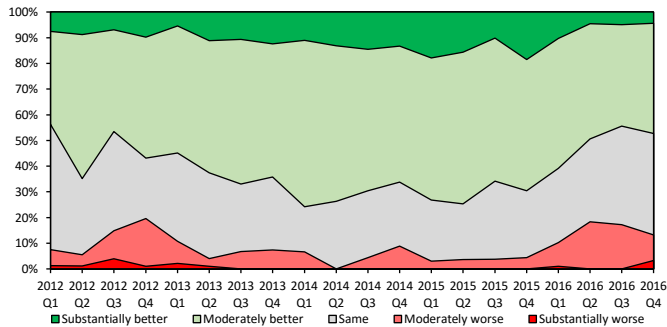
How are the current Lee County economic conditions compared to a year ago?



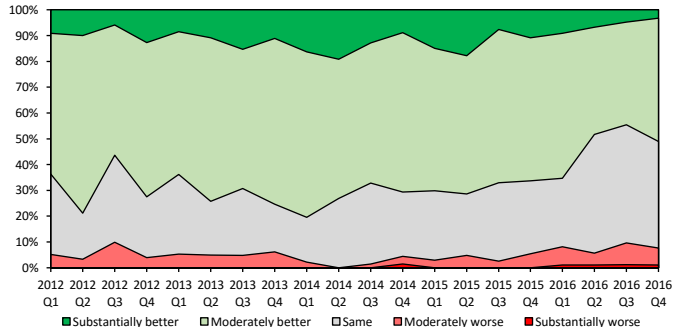
What are your expectations for the Lee County economy one year ahead?



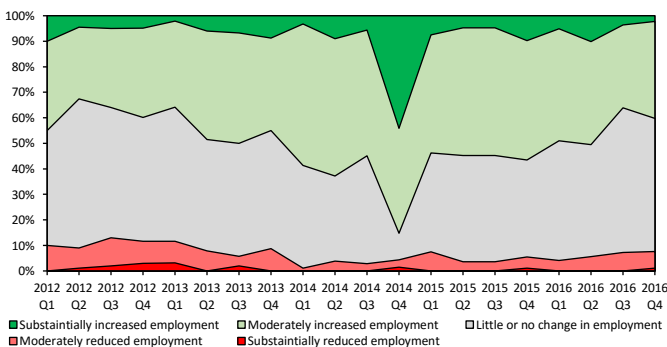
What are the current conditions in your industry in Lee County compared to one year ago?



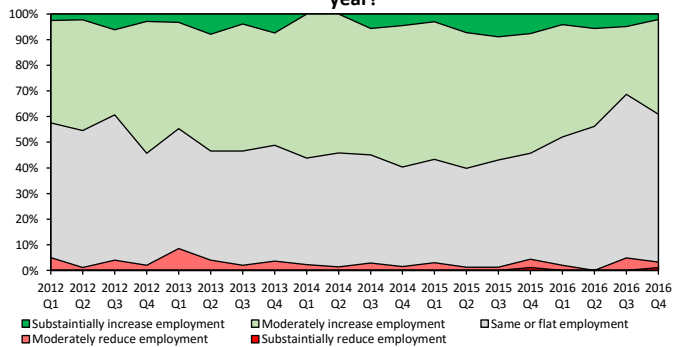
What are your expectations for your own industry in Lee County one year ahead?



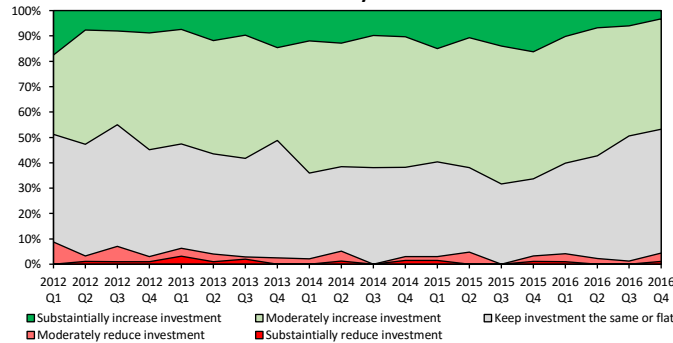
What has been your hiring trend over the last year?



What hiring trends do you see for your business over the next year?



Do you plan to increase investment in your business during the next year?



APPENDIX B. FULL COMMENTS, SUGGESTIONS, AND RECOMMENDATIONS

This list includes specific responses from the executives for the following question:

Please indicate any other comments, suggestions, or recommendations you would like to make regarding the regional economy or your business.

1. Business taxes do not support business growth -- between real estate taxes and tangible tax we are being penalized for buying new equipment and trying to grow our business to hire more employees.
2. I continue to be very concerned with Lee County's lack of attention to infrastructure development. Recent news has indicated that our population could double in the next 25 years and the current state of Lee County infrastructure can barely handle the populace that we have now. To continue to hold impact fees down and then state that there is no money for infrastructure, is a contradiction in logic. It's simply a matter of time that all the development and growth that is supposedly resulting from the lowered impact fees strangles the roads that the reduced impact fees were unable to expand. When that happens, no one will want to live here and then progress and growth is halted and no amount of reduced impact fees will be able to revive it.
3. Removal of political considerations from the permitting processes.
4. There seems to need to be more of a focus on local education mostly in terms of public schools in the K-12 segment as we are hearing more frequently that our school system is a liability in terms of being able to attract educated professionals to our area.
5. Client base is shrinking. Market opportunities are not as robust.
6. Our experience with the local economy in 2015 and the first half of 2016 was fast paced and we hired 2 new professional staff members. Based on our historical data (relative to our company) we are seeing a slowdown going into the second half of 2016. It is possible that it is a general cool down mixed with the elections.
7. While we see the next quarter as flat or lower than last year, we do expect stronger revenues in subsequent quarters throughout 2017.
8. In my industry, I believe rates are a big factor for people buying property. The inventory is limited and the user/investor buyers are getting slim. The CAP rates are relatively low due to the pricing which means the income in such assets are not increasing. The office market is stagnant. Buildings trading at 4-7% is a sign of aggressive pricing, but very little increase in lease prices/net income. The REO side of the business is slowing greatly and the values have gone up as the bank seems to hold onto the asset and not very flexible in the pricing. On the other side it seems the buyers are still looking for 2010 pricing. Buy the value if you are going to buy at all.
9. Global fuel prices remaining low have pushed down the market prices for all commodities, including but not limited to grains and metals. This disincentives further investment, and on the short term encourages the stockpiling of non-perishable commodities until higher prices return. When one's business is dependent on transporting such commodities such as recycled metal, those global fuel pressures become felt in the form of reduced units being moved. It tends to drive a feast or famine cycle for the business segment and ultimately leads to higher prices to make up for reduced unit sales. The lesson here is that global economic health is vital to our regional economy.
10. Technical advances and the continued migration of my "clients" to the internet is killing my business.
11. We see wage inflation. Our good employees are being hired away at higher wages
12. For county public works projects, if there are locally owned engineering firms qualified to do the projects give them preference during the selection process. Larger out of town firms place a satellite office in Lee and Collier Counties, with the work being sent out of town and income not benefiting our local economy!!
13. Lee county infrastructure is becoming problematic. While other counties such as Collier are pro-active in building roadways, Lee County is reactive. And further, Lee County government continues to say there are no monies for the infrastructure improvements, yet impact fees remain at recession levels. Ultimately people will quit building buildings and moving to Lee County if they cannot travel about the area. Regardless if the impact fees are low.
14. Remember the value and importance of strong domestic manufacturing.

15. Poor Sales, increased costs of doing business, regulation and compliance as well as increased competition result in an uncertain future as it relates to growth and reinvestment. It has been a tougher year than last year for sure. The forecast doesn't bode well for our industry getting better. The FLSA changes to wage and hour are chief among the compliance, cost and burdensome oversight the new law will require of us.
16. Quality of skill labor continues to be a challenge.
17. Lee County government, specifically code and building enforcement is still very difficult to work with and hinders my business from making quality investments and improvements in my facility.