

Industry Confidence Grows Following Brief Dip

Optimism has returned to the security industry, just in time for the run-up to the fall events.

After dipping just below the threshold that indicates broad confidence in the sector in the May-June survey, the July-August SIA Security Market Index regained lost ground and is now roughly at the same level it reached following this year's successful ISC West.

"The global digital transformation happening in our industry is opening up a ton of opportunities as we shift to more enterprise software and subsequent mainstream market," one survey respondent said in explaining the increasingly positive outlook.

More than three-quarters of respondents rated current business conditions for their company as "excellent" or "good," with one-fourth reporting the highest rating. Only 6 percent said they are experiencing

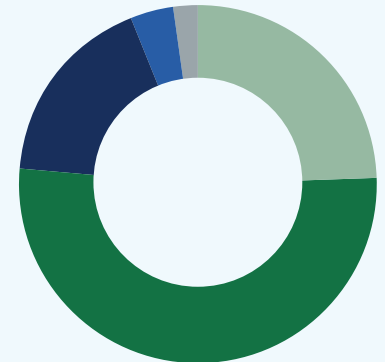
"fair" or "poor" conditions, while 18 percent characterized them as "average."

Some respondents cited negative factors, including budget cutting by customers. "Businesses are slow to fund initiatives that introduce new technology, even though they all share [that] they have experienced the problems we detect," one respondent wrote. Another pointed to weaknesses in customer backlog, new project bookings and deferred projects.

The possibility of a recession continues to shape some forecasts, although one respondent noted that this could increase the demand for security products and services: "As the economy slows, there is always an uptick in criminal activity. We are experiencing that now."

Overall, though, more comments were positive than negative, with some people pointing to government projects increasing, along with more demand in the

August 2023 Overall Rating of Current Business Conditions of Company



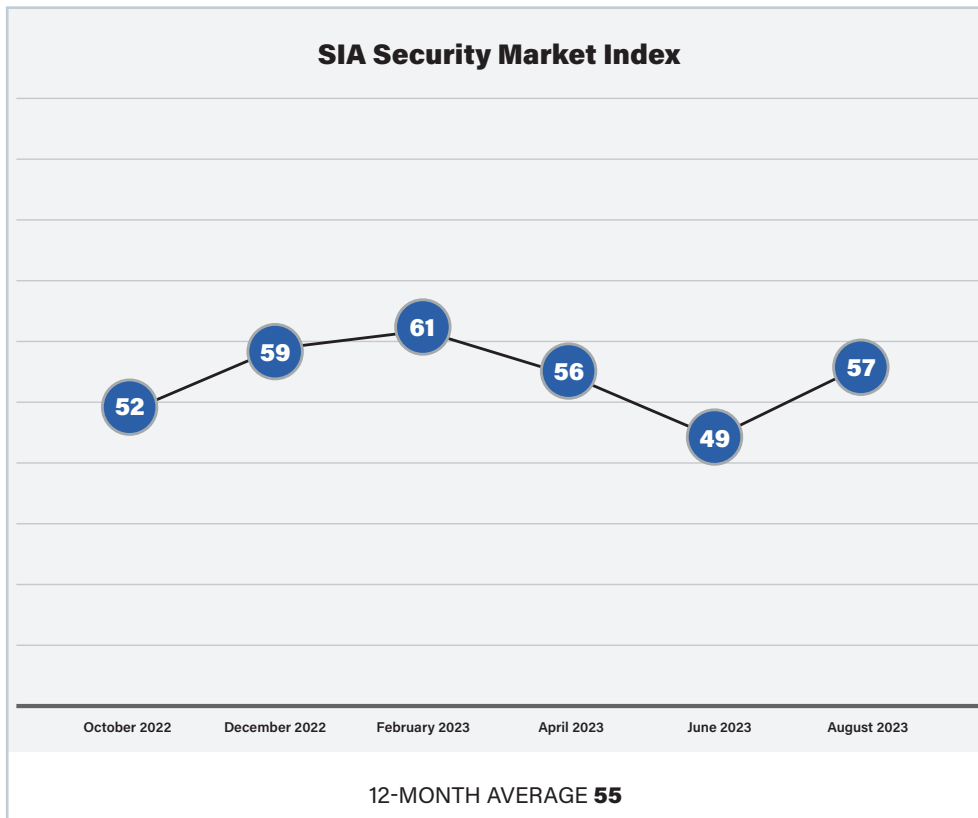
- Excellent: **25%**
- Good: **53%**
- Average: **18%**
- Fair: **4%**
- Poor: **2%**

Source: SIA Security Market Index, August 2023

This month, 78% of security professionals rated current business conditions as "excellent," or "good," 18% said conditions were "average," 4% said they were "fair" and 2% said conditions were "poor." Positive sentiments were up 1 percentage point from the last survey.

education and warehouse verticals.

"We are excited to see the growing optimism in the security industry as we prepare for Securing New Ground, ISC East and other events," SIA Chair James Rothstein said. "The year started off strong with a great ISC West and the industry is now poised to accelerate through Q3 and into Q4."



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Companies Increasing Investments as Confidence, Demand Rises

When asked how they felt about their business's outlook during the next three months, one SIA Security Market Index survey participant replied with a single – punctuated – word: “Optimistic!”

That sentiment appears to be widely shared, as 86 percent of respondents said that they expect conditions to get either “much better” (28 percent) or “a little better” (58 percent) for their organizations in the coming 90 days. This is up significantly from the 78 percent who had a positive short-term outlook in the previous index. Only 4 percent foresee a decline, while 11 percent expect things to stay about the same.

“We are seeing an increase in demand, now project managing the delivery is the challenge,” one respondent said.

And companies are putting their dollars where their expectations are. Seventy-one percent of respondents reported that they plan to increase spending or

activity on product and service sales, a 7 percentage point increase from the previous report. One respondent attributed this to “adding a number of new subscription services to help dealers add RMR to their bottom line.”

Increases in the number of employees or hours worked are expected by 65 percent of respondents, a 9 percentage point jump from May-June. Companies, however, continue to report difficulty in finding enough qualified employees to meet customers' needs. One survey participant observed, “We are tracking an increasing demand and have work to deliver, so, without hiring, we will be working longer hours.”

Spending or activity increases are expected in product production by 58 percent of survey participants, up 16 percentage points from May-June, while 52 percent of respondents noted upcoming boosts to marketing efforts, an increase of 11 percentage points from two months ago.

Percent of Respondents Saying They Will Increase Activity or Dollars in

AUGUST 2023

Product/Service Sales: **71% Increase**
 Employees/Hours: **65% Increase**
 Product Production: **58% Increase**
 Marketing: **52% Increase**

JUNE 2023

Product/Service Sales: **64% Increase**
 Employees/Hours: **56% Increase**
 Capital Equip Spend: **40% Increase**

APRIL 2023

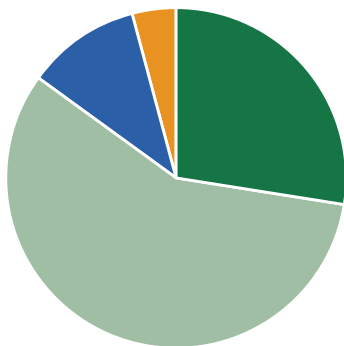
Product/Service Sales: **74% Increase**
 Employees/Hours: **65% Increase**
 Capital Equip Spend: **34% Increase**

Source: SIA Security Market Index, August 2023

Compared to two months ago, a higher percentage of respondents are planning to increase sales, labor, production and marketing.

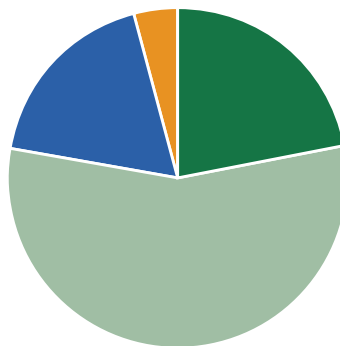
Expected Business Conditions for Companies in Next Three Months

AUGUST 2023



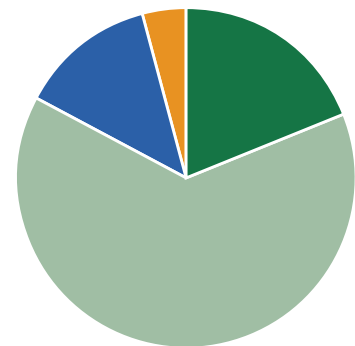
- Much Better - **28%**
- A Little Better - **58%**
- No Change - **11%**
- A Little Worse - **4%**
- Much Worse - **0%**

JUNE 2023



- Much Better - **22%**
- A Little Better - **56%**
- No Change - **18%**
- A Little Worse - **4%**
- Much Worse - **0%**

APRIL 2023



- Much Better - **19%**
- A Little Better - **64%**
- No Change - **13%**
- A Little Worse - **4%**
- Much Worse - **0%**

Source: SIA Security Market Index, June 2023

Looking ahead, 86% of security leaders believe that business conditions will improve by some degree over the next three months, with 11% predicting no change, and 4% expecting conditions to become worse. This is an 8 percentage point increase from the May-June report in those predicting better conditions.

Economic Indicators Appear Positive, Recession Fears Abate

The U.S. economy continues to defy expectations by growing amid inflation and recession fears.

Gross domestic product (GDP) expanded at a 2.4 percent annualized rate during the second quarter, according to the Bureau of Economic Analysis. This was up from 2 percent during the first quarter.

"The leading contributors to the increase were housing and utilities, health care, financial services and insurance, and transportation services," the bureau reported. "Within goods, the increase was led by recreational goods and vehicles as well as gasoline and other energy goods."

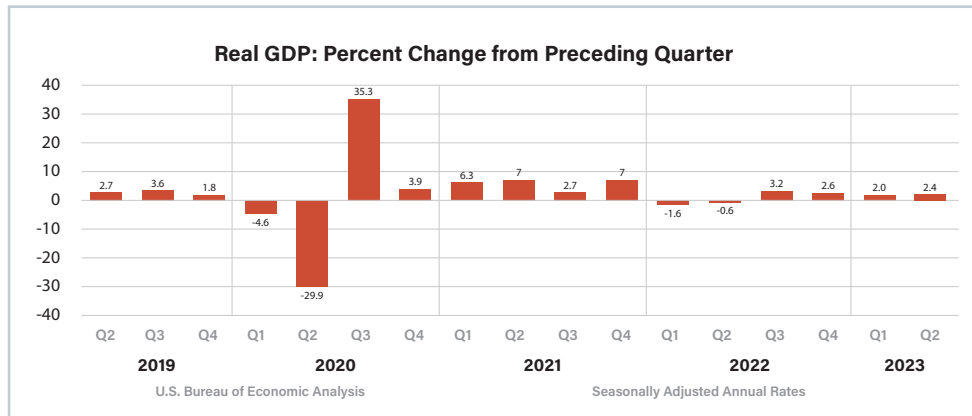
The economy added 187,000 jobs in July, the Bureau of Labor Statistics reported, and the unemployment rate remained near its lowest point since 1969 at 3.5 percent. The rate has been under 4 percent since March 2022.

The bureau also reported that year-over-year inflation, which reached a recent peak of 9.1 percent in June 2022 then declined for 12 months in a row, hit 3 percent in June 2023, before inching up to 3.2 percent in July.

Notwithstanding the slowdown in inflation, the Federal Reserve increased interest rates by a quarter-point in July, pushing them to their highest level in more than 22 years. The previous month, it left rates unchanged following 10 straight hikes.

In announcing the rate increase, the Fed observed that "economic activity has been expanding at a moderate pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain."

Even with inflation nearing the central bank's target of 2 percent, Fed Chair Jerome Powell said, "It's certainly possible that we will raise [the Federal Funds Rate] again at the September meeting, if the data warranted." He added, though, that, "I would also say it's possible that we would choose to hold steady and we're going to be making careful assessments, as I said, meeting by meeting."



Real GDP increased at an annual rate of 2.4 percent in the second quarter of 2023, compared to 2.0 percent in the first quarter. The acceleration in GDP in the second quarter primarily reflected an upturn in private inventory investment and an acceleration in nonresidential fixed investment. Source: Bureau of Economic Analysis

Powell noted that the bank's analysts are "no longer forecasting a recession."

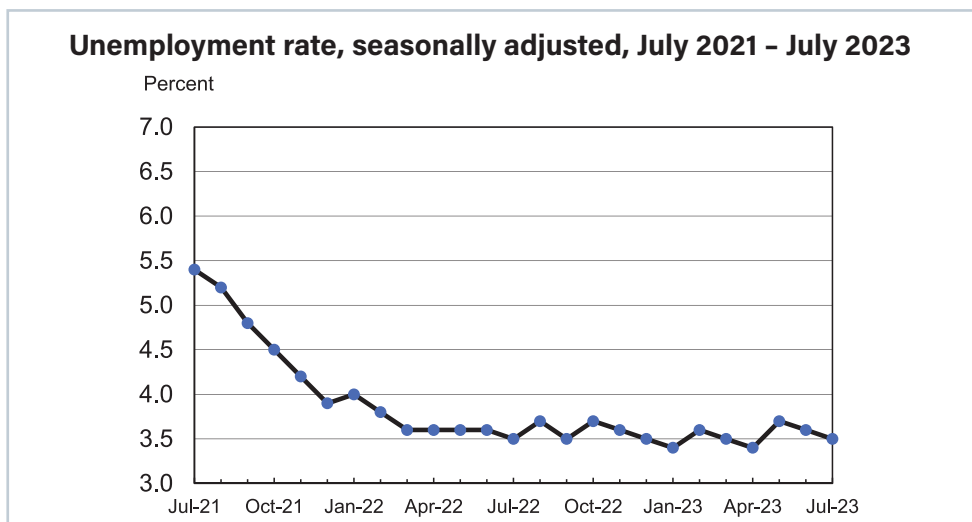
The Conference Board's Consumer Confidence Index now stands at its highest level since July 2021 following back-to-back monthly gains. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, and Expectations Index, based on consumers' short-term outlook for income, business and labor market conditions, also improved.

"Expectations for the next six months improved materially, reflecting greater confidence about future business conditions and job availability," The Conference Board's chief economist said. "This likely reveals consumers' belief

that labor market conditions will remain favorable. ... Recession expectations remained below their recent peak, suggesting fears of a recession have eased relative to earlier this year"

Several other private sector economic indicators are also showing signs of more positive outlooks:

- Chief Executive CEO Confidence Index (August) ▲
- Institute for Supply Management Purchasing Managers Index (July) ▲
- National Association of Realtors Existing Home Sales (June) ▼
- The Conference Board Consumer Confidence Index (July) ▲
- University of Michigan Index of Consumer Sentiment (July) ▲



The unemployment rate was 3.5% in July, changing little since March 2022. Source: Bureau of Labor Statistics

Concerns About Economy Still Predominate

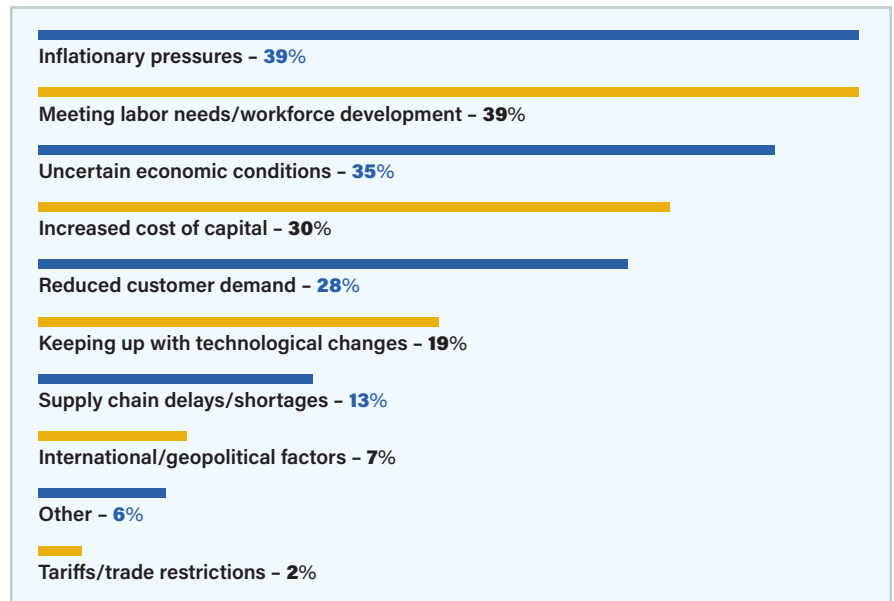
Despite several indicators turning positive in recent months, concerns about the overall economy are still prevalent in the security industry.

When asked what are the biggest challenges their business is currently facing (with the selection of more than one choice allowed), nearly four in 10 cited "inflationary pressures" and the same number pointed to "meeting labor needs/workforce development." These were followed by "uncertain economic conditions" at 35 percent, "increased cost of capital" at 30 percent and "reduced customer demand" at 28 percent.

Supply chain challenges appear to be easing, as only 13 percent of survey participants saw them as a major concern, making it the third-lowest out of nine choices (not including the "other" category). Only "international/geopolitical factors" (7 percent) and "tariffs/trade restrictions" (2 percent) rated lower.

"Other" choices identified by respondents included "legacy mindsets," "new company or brand entering a mature market," and "long sales cycles."

What are the biggest challenges your business is currently facing?



Speakers and attendees discussed the U.S. economy, security industry challenges and other issues at the recent SIA Government Summit. Image source: SIA



SIA Government Summit attendees network during the event reception. Image source: SIA

Behind the SIA Security Market Index

The Security Market Index, a bi-monthly survey and report, measures overall industry confidence in addition to specifics by executives' product and service focus. A select group of top leaders, representing the SIA membership, is surveyed throughout the month of publication via a series of emails with a link to an online and confidential questionnaire.

Respondents can add comments to most recurring questions. When comments are referenced in this report, they are not attributed to any specific individuals or member firms.

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