

GREATER WASHINGTON SMALL AND MID-SIZE BUSINESS OWNERS FEEL A SLIGHT CHILL IN THE AIR

ANALYSIS BY
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Optimism for greater Washington small and mid-sized business owners about the national economy is near a record high, although it has slipped slightly since the spring, according to our fall 2018 survey. Optimism about the local economy and their own companies are at survey record highs.

After a slowing in 2017, job growth in greater Washington has moved back above the national average, and should remain there in 2019 thanks to significant increases in defense and agency contracting spending; federal spending makes up nearly 30 percent of the region's economy. However, the elimination of a scheduled 2.1 percent pay raise for federal workers will cut nearly \$900 million from the regional economy.

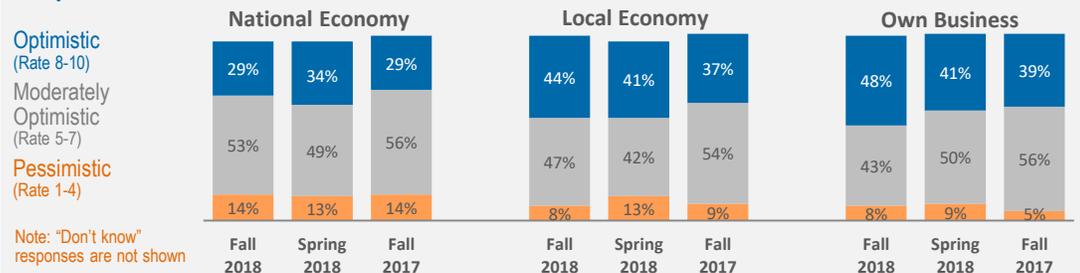
With support from tax cuts and an increase in federal spending, U.S. economic growth will remain solid into next year and the labor market will continue to improve. Interest rates will move higher over the next year as the Federal Open Market Committee gradually raises the federal funds rate to prevent the economy from overheating.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Historic optimism about the national economy from the spring (34%) chilled slightly this fall (29%), but remains consistent with fall 2017 (29%), according to PNC Bank's semiannual survey of small and middle-market business owners and executives in greater Washington. Nearly three in 10 (29%) business leaders described their outlook for the national economy as optimistic. Nearly half (48%) are optimistic regarding their own businesses for the next six months, an increase from 41 percent in spring 2018.

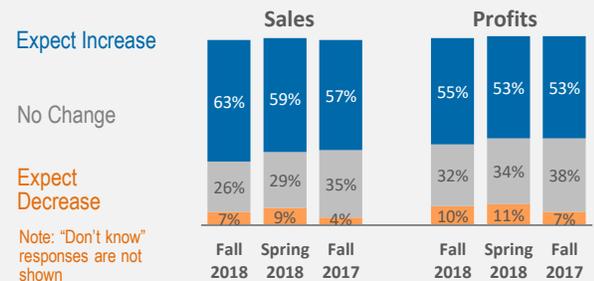
D.C. vs. United States: Nationally, four in 10 are optimistic about the national (40%) and local (39%) economy and more (51%) are optimistic about their own company's prospects.

% Optimistic about the...



Over half (55%) of business leaders expect increased profits, similar to spring 2018 (53%). Expectations for increased sales are the highest on record (63%), up slightly from spring 2018 (59%).

D.C. vs. United States: Nationally, 64 percent expect increased sales and 59 percent expect increased profits.

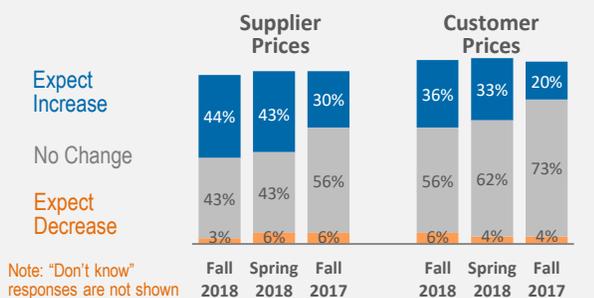


Price Check

The number of greater Washington business leaders forecasting rising prices in the next six months gained momentum. Forty-four percent anticipate suppliers charging more; 36 percent plan to charge their customers more. Both increased slightly since the spring, but jumped significantly compared to one year ago (30% rising supplier prices; 20% charging their customers more). Rising non-labor costs, rising labor costs and increasing business are among the key drivers of higher prices. Only three percent of businesses anticipate lowering prices.

Expectations for U.S. consumer prices and inflation jumped significantly. Three-quarters (77%) of business leaders expect higher consumer prices, up from 62 percent in spring 2018.

D.C. vs. United States: Nationally, 53 percent expect increased supplier prices and 45 percent expect to charge their customers more.



Waging Workers

Greater Washington small and mid-size business leaders' expectations for wages remain at the record high reported in spring 2018. Thirty-nine percent expect to increase wages, while the number planning to decrease workers' wages is three percent. Among those business leaders planning to decrease or maintain wages, more than two-thirds (67%) point to wages that are already competitive for their industry and see no issues with employee turnover at current wages as deciding factors.



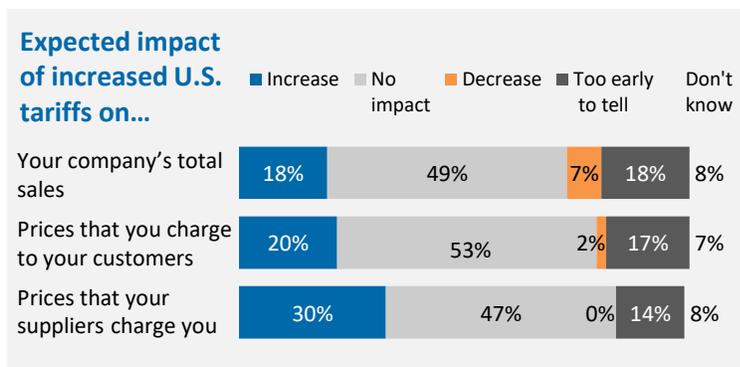
Nearly one-third of greater Washington business leaders (31%) plan to add full-time employees in the next six months, very close to the survey record high of 33 percent (fall 2015); just three percent expect to reduce the number of full-time employees. More than four in 10 (43%) cite business growth as the key driver of hiring. Nearly four in 10 (39%) businesses looking to hire more workers report it is harder to find qualified candidates, citing lack of skills (24%), lack of dependability or inability to pass screening requirements (15%) or unaffordable compensation demands (11%); twenty-four percent report not having enough applicants. Nearly two-thirds (64%) of business leaders expect no change in hiring full-time employees in the next six months, citing reasons including a lack of business or economic growth, difficulty in finding the workers with the right skills and doing more work using automation or outsourcing.

Bonus Round

With the labor market continuing to tighten, three-quarters of greater Washington business leaders say they already have taken one or more actions to retain existing or to attract new employees: increasing wages/salaries (44%), boosting benefits (25%) and offering or increasing bonuses (20%). Nearly three in 10 (29%) have allowed more flexible work arrangements and one in ten have relaxed hiring standards.

The Three Faces of Tariffs

Nearly three out of 10 (29%) greater Washington business leaders report currently selling or buying items/services from other countries to some extent. However, only four percent characterize the volume of that trade as "large." When asked to pick sides on increasing U.S. tariffs on other countries' goods based upon what's best for their own business, 22 percent are in support (27% in spring 2017) and 45 percent are opposed (34% in spring 2017); three in 10 business leaders (31%) are uncertain.



As a result, three out of 10 anticipate paying higher prices to suppliers. Two out of 10 business leaders expect to increase prices they charge their customers should the United States impose increased tariffs on other countries' goods, but more than half (53%) expect no impact. Half of business leaders (49%) do not expect any impact on company sales, with 18 percent anticipating increased sales. Only seven percent forecast decreased sales as a result of increased U.S. tariffs on goods from other countries.

Taxed Out

Familiarity with the impact of the federal Tax Cuts and Jobs Act of 2017 on business is 28 percent (vs. 24% in spring 2018); 29 percent are familiar with the new tax law, but uncertain how it will affect their business, dropping from 39 percent in spring 2018. Nearly three in 10 business leaders (29%) view the potential impact to their bottom line as positive (28% in spring 2018). Nearly four in 10 (38%) still feel it is too early to tell or simply do not know. Seventy-eight percent of business leaders have not made or do not expect to make any changes to their businesses as a result of tax reform, unchanged from spring 2018. Just one in 10 have made or anticipate making changes in response to the tax plan.