

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

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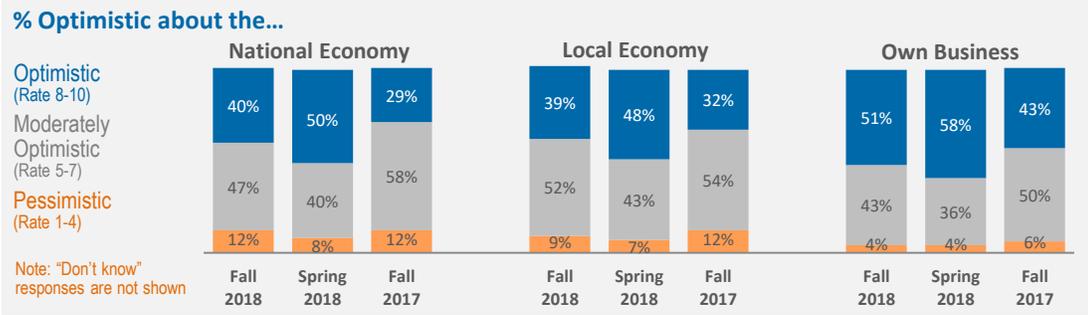
Optimism for small and mid-sized business owners about the national economy, their local economies, and their own companies, is still near record highs, although it has slipped slightly since the spring, according to our fall 2018 survey. Hiring expectations are also near a record high.

Small businesses are a key source of economic activity and employment, and owners' perceptions can be a good indicator of what's to come. The overall findings from our semiannual survey, which began in 2003, confirm that the current U.S. economic expansion, now more than nine years and the second-longest in U.S. history, will continue into 2019.

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 (50%) chilled slightly this fall (40%), but remains well above fall 2017 (29%), according to PNC Bank's semiannual survey of small and middle-market business owners and executives. Four out of 10 business leaders described their outlook for the national economy as optimistic, the second-highest ranking in the 15-year survey. Those with a pessimistic outlook increased to 12 percent this fall from the historic low of eight percent in the spring. Similarly, half (51%) are optimistic regarding their own businesses for the next six months, a drop from the historic high of 58 percent in spring 2018. Pessimism remains at a historic low of four percent.



Nearly two-thirds (64%) of business leaders expect increased sales, dropping marginally from spring 2018 (69%). Expectations for increased profits are the second-highest on record (59%), only outpaced in spring 2018 (64%). Businesses anticipating a decrease in profits remain at a historic low (6%).



#### Price Check

The number of business leaders forecasting rising prices in the next six months gained momentum. More than half (53%) anticipate suppliers charging more; 45 percent plan to charge their customers more. Both increased since the spring, and have jumped significantly compared to one year ago (41% rising supplier prices; 29% charging their customers more). Increasing business, favorable market conditions and rising labor costs are among the key drivers of higher prices. Only three percent of businesses anticipate lowering prices.

Of those planning to raise prices that they charge customers, close to half (45%) anticipate a one- to two- percent hike; nearly a quarter (23%) anticipate a five percent or more increase. Expectations for U.S. consumer prices and inflation jumped significantly. Eighty-one percent of business leaders expect higher consumer prices, up from 67 percent in spring 2018.



## Waging Workers

The number of small and mid-size business leaders expecting wages and hiring to increase remains near the record highs reported in spring 2018. Forty-six percent expect to increase wages (vs. 49% in spring 2018), while the number planning to decrease workers' wages remains at a survey low of two percent. Among those business leaders planning to decrease or maintain wages, nearly three-fourths (74%) 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 business leaders (31%) plan to add full-time employees in the next six months, very close to the survey record high of 33 percent (spring 2005); those expecting to reduce the number of full-time and part-time employees fell to record lows (2% and 3% respectively). Nearly half (49%) cite business growth as the key driver of hiring. Of note, 41 percent of manufacturers plan to hire full-time employees, outpacing all other segments. Half (52%) of businesses looking to hire more workers report it is harder to find qualified candidates, citing lack of skills (31%) and job-related experience (17%); twenty-three percent report not having enough applicants. Two-thirds (65%) of business leaders expect no change in hiring full-time employees in the next six months, citing reasons including a lack of business growth, doing more work using automation or outsourcing, and difficulty in finding the workers with the right skills.

## Bonus Round

With the labor market continuing to tighten, eight in 10 (82%) business leaders across all industry sectors say they already have taken one or more actions to retain existing or to attract new employees: increasing wages/salaries (44%), offering or increasing bonuses (24%) and boosting benefits (24%). Over one in four (28%) have allowed more flexible work arrangements, and one in ten have relaxed hiring standards.

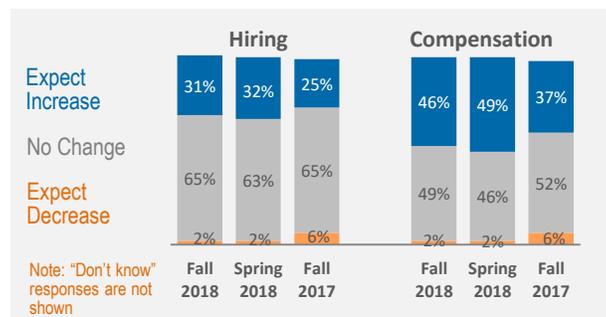
## The Three Faces of Tariffs

Four out of 10 (41%) respondents report currently selling or buying items/services from other countries to some extent. The percentages are significantly higher for manufacturers (59%) and wholesalers/retailers (47%). However, only eight percent of all respondents 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, 41 percent are in support (33% in spring 2017) and 31 percent are opposed (32% in spring 2017); more than a quarter of business leaders (27%) are uncertain.

As a result, four out of 10 anticipate paying higher prices to suppliers. Three out of 10 business leaders (31%) expect to increase prices they charge their customers should the United States impose increased tariffs on other countries' goods, but nearly half (47%) expect no impact. Nearly half of business leaders (48%) do not expect any impact on company sales, with 18 percent anticipating increased sales. Only eight 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 increased slightly to 32 percent (vs. 27% in spring 2018); 35 percent are familiar with the new tax law, but uncertain how it will affect their business, dropping from 45 percent in spring 2018. Significantly fewer business leaders (34%) view the potential impact to their bottom line as positive (43% in spring 2018). A third (32%) still feel it is too early to tell or simply do not know. Seventy-five percent of business leaders have not made or do not expect to make any changes to their businesses as a result of tax reform, jumping from 61 percent in spring 2018. Just 15 percent have made or anticipate making changes in response to the tax plan; of those who have or expect to make changes, four out of ten have planned or plan to raise wages for current workers (42%) and have hired or expect to hire more employees (39%). More than half (54%) note they have invested or plan to invest more in the business.



### Expected impact of increased U.S. tariffs on...

