

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

**ANALYSIS BY**  
**Bill Adams**  
 PNC Economist

Optimism for Ohio small and mid-sized business owners about the national economy is at a survey record high, although optimism about the local economy and their own business has slipped slightly since the spring, according to our fall 2018 survey.

Ohio's economy continues to grow at a solid pace. The statewide unemployment rate ticked up slightly, but is still near its lowest since the Great Recession, and average hourly earnings growth is keeping pace with the US average rate of 2.5-3 percent. State GDP mirrors the national growth rate in the post-crisis recovery after lagging the country during the first decade of this century. Ohio continues to have a lower cost of living and a slower growth in home prices, but average prices of home sales across the state are above pre-downturn levels.

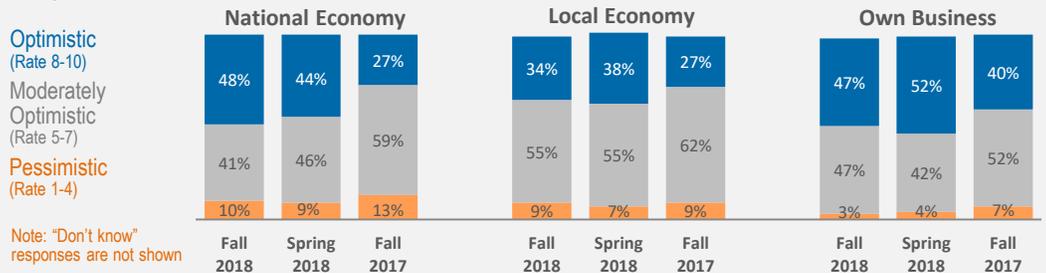
With support from tax cuts and an increase in federal spending, U.S. economic growth will remain solid into next year and the labor market will continue to improve. Interest rates will move higher over the next year as the Federal Open Market Committee gradually raises the federal funds rate to prevent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

#### KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Historic optimism about company prospects from the spring (52%) chilled slightly this fall (47%), but remains well above fall 2017 (40%), according to PNC Bank's semiannual survey of small and middle-market business owners and executives in Ohio. At the same time, nearly half (48%) described their outlook for the national economy as optimistic, the highest ranking in the 10-year survey. One in three (34%) are optimistic regarding the local economy for the next six months, compared to 38 percent in spring 2018.

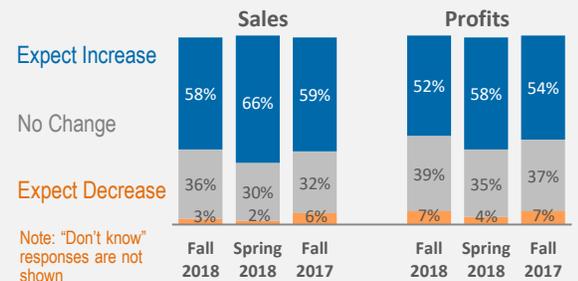
**Ohio vs. United States:** Nationally, four in 10 are optimistic about the national (40%) and local (39%) economy and more (51%) are optimistic about their own company's prospects.

#### % Optimistic about the...



Fifty-eight percent of business leaders expect increased sales, dropping marginally from the record high in spring 2018 (66%). Just over half (52%) expect increased profits, down slightly from spring 2018 (58%).

**Ohio vs. United States:** Nationally, 64 percent expect increased sales and 59 percent expect increased profits.



#### Price Check

The number of Ohio business leaders forecasting rising prices in the next six months gained momentum. More than half (54%) anticipate suppliers charging more, a significant jump from spring 2018 (38%). Thirty-six percent plan to charge their customers more, similar to spring 2018 (35%). Rising non-labor costs, increasing business and favorable market conditions are among the key drivers of higher prices. Only one percent of businesses anticipate lowering prices.

Expectations for U.S. consumer prices and inflation jumped significantly. Eighty-four percent of business leaders expect higher consumer prices, up from 72 percent in spring 2018.

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



## Waging Workers

The number of Ohio small and mid-size business leaders expecting to increase wages remains near the record high reported in spring 2018. Thirty-eight percent expect to increase wages (vs. 40% in spring 2018), while the number planning to decrease workers' wages remains low at five 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.



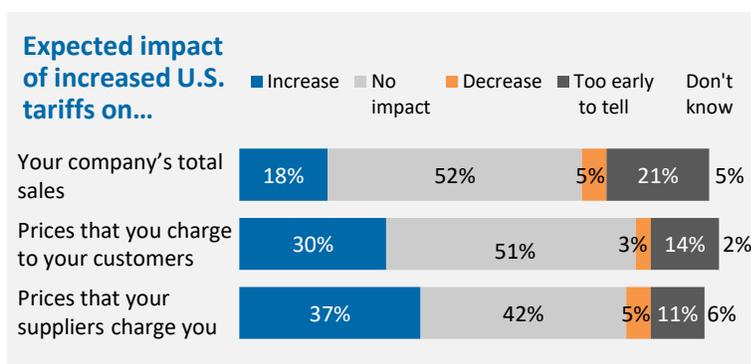
One in four Ohio business leaders (24%) plan to add full-time employees in the next six months, a drop from the survey high of 32 percent in spring 2018; just three percent expect to reduce the number of full-time employees. Half cite business growth as the key driver of hiring. Three in 10 businesses looking to hire more workers report it is harder to find qualified candidates, citing lack of skills (24%) or lack of dependability or inability to pass screening requirements (27%); eighteen percent report not having enough applicants. Seven in 10 Ohio business leaders expect no change in hiring full-time employees in the next six months, citing reasons including a lack of business growth, difficulty in finding workers with the right skills and doing more work using automation or outsourcing.

## Bonus Round

With the labor market continuing to tighten, over two-thirds (69%) of Ohio business leaders say they already have taken one or more actions to retain existing or attract new employees: increasing wages/salaries (36%), offering or increasing bonuses (21%) and boosting benefits (18%). Over one in four (29%) have allowed more flexible work arrangements, and fourteen percent have relaxed hiring standards.

## The Three Faces of Tariffs

Nearly three in 10 (29%) Ohio business leaders report currently selling or buying items/services from other countries to some extent. However, only three 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, 32 percent are in support (35% in spring 2017) and 30 percent are opposed (33% in spring 2017); more than a third of business leaders (36%) are uncertain.



As a result, 37 percent anticipate paying higher prices to suppliers. Three out of 10 Ohio business leaders expect to increase prices they charge their customers should the United States impose increased tariffs on other countries' goods, but half (51%) expect no impact. Half of Ohio business leaders (52%) do not expect any impact on company sales, with 18 percent anticipating increased sales. Only five 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 23 percent (vs. 27% in spring 2018); 35 percent are familiar with the new tax law, but uncertain how it will affect their business, compared to 42 percent in spring 2018. Significantly fewer Ohio business leaders (24%) view the potential impact to their bottom line as positive (36% in spring 2018). Nearly half (48%) feel it is too early to tell or simply do not know, an increase from 35% in the spring. Eighty-six 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 71 percent in spring 2018. Just seven percent have made or anticipate making changes in response to the tax plan.