

PENNSYLVANIA SMALL AND MID-SIZE BUSINESS OWNER OPTIMISM HITS HISTORIC HIGH

ANALYSIS BY
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Optimism for Pennsylvania small and mid-sized business owners about the national economy, their local economies and their own companies has risen to record highs from the spring, according to our fall 2018 survey. Hiring expectations are holding.

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 Pennsylvania's economy continues to grow at a moderate pace and matched the pace of national job growth. Labor force declines persisted, continuing to raise the possibility that the state's employers may face upward wage pressures. Manufacturers, builders and transportation firms raised prices to cover increased costs. The state also saw slightly weaker construction activity as rising prices somewhat cooled demand.

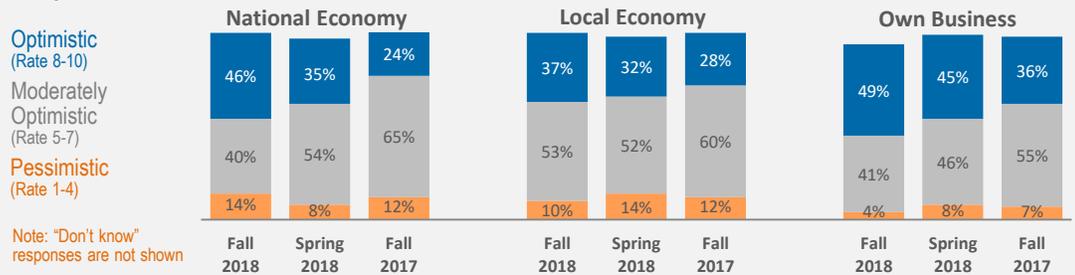
With support from tax cuts and an increase in federal spending, U.S. economic growth will remain solid into next year and the labor market will continue to improve. Interest rates will move higher over the next year as the Federal Open Market Committee gradually raises the federal funds rate to prevent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

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimism is running at historic highs in all categories evaluated by PNC in the 12th year of a semi-annual survey of small- and mid-size business owners and executives in Pennsylvania. Just under half (46%) of respondents describe their outlook for the national economy as optimistic, a significant increase compared to spring 2018 (35%). Similarly, nearly half (49%) are optimistic about their own companies, marking another new high for PNC Bank's survey.

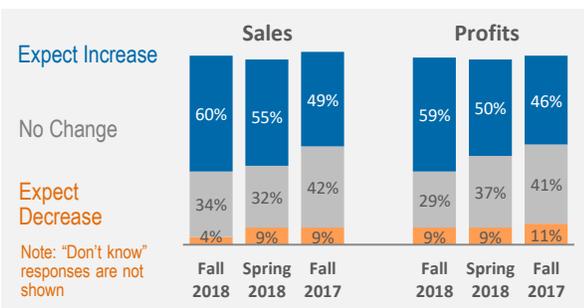
Pennsylvania vs. United States: Nationally, four in 10 are optimistic about the national (40%) and local (39%) economy and more (51%) are optimistic about their own company's prospects.

% Optimistic about the...



Six in 10 business leaders expect increased sales, a significant increase from fall 2017 (49%). Expectations for increased profits are the highest in the history of the survey in Pennsylvania (59%).

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

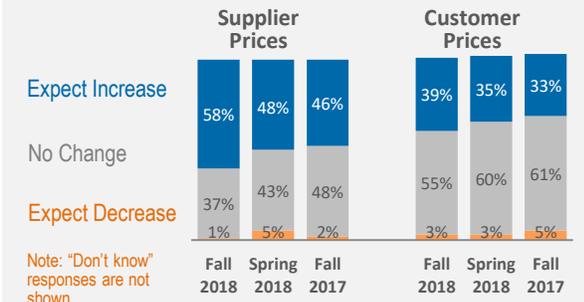


Price Check

The number of Pennsylvania business leaders forecasting rising prices in the next six months gained momentum. More than half (58%) anticipate suppliers charging more while 39 percent plan to charge their customers more. Both increased since the spring, and supplier prices jumped significantly compared to one year ago (46% rising supplier prices; 33% 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.

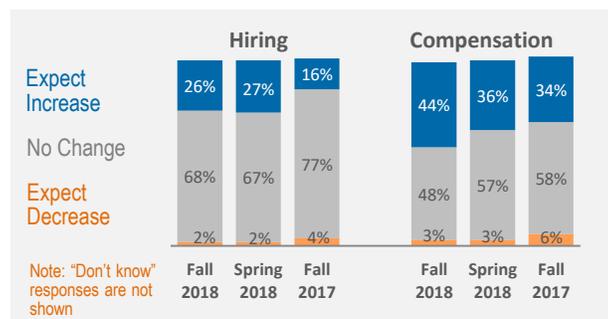
Expectations for U.S. consumer prices and inflation jumped significantly. Eighty-eight percent of business leaders expect higher consumer prices, up from 69 percent in spring 2018.

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



Waging Workers

The number of Pennsylvania small and mid-size business leaders expecting to increase wages has risen nearly to the survey high (45% in fall 2015). Forty-four percent expect to increase wages (vs. 36% in spring 2018), while the number planning to decrease workers' wages is just three percent. Among those business leaders planning to decrease or maintain wages, two-thirds (65%) point to wages that are already competitive for their industry and see no issues with employee turnover at current wages as deciding factors.



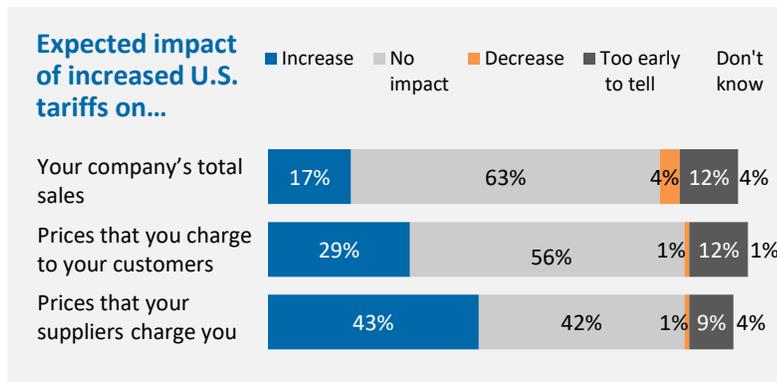
One in four Pennsylvania business leaders (26%) plan to add full-time employees in the next six months, just below the survey record high of 30 percent (spring 2007); those expecting to reduce the number of full-time and part-time employees are at record lows (2% and 1% respectively). Thirty-eight percent cite business growth as the key driver of hiring, twenty-four percent say they are employing temporary employees for short term needs. Forty-two percent of businesses looking to hire more workers report it is harder to find qualified candidates, citing lack of skills (29%) or lack of dependability or inability to pass screening requirements (24%); fourteen percent report not having enough applicants. Two-thirds (68%) of business leaders expect no change in hiring full-time employees in the next six months, citing a lack of business growth, doing more work using automation or outsourcing, and difficulty in finding workers with the right skills.

Bonus Round

With the labor market continuing to tighten, nearly three quarters (74%) of Pennsylvania business leaders say they already have taken one or more actions to retain existing or attract new employees: increasing wages/salaries (47%), boosting benefits (25%) and offering or increasing bonuses (22%). Over one in four (27%) have allowed more flexible work arrangements, and seven percent have relaxed hiring standards.

The Three Faces of Tariffs

Nearly three in 10 (29%) Pennsylvania business leaders report currently selling or buying items/services from other countries to some extent. However, only five 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, 38 percent are in support (32% in spring 2017) and 27 percent are opposed (30% in spring 2017); more than a third of business leaders (35%) are uncertain.



As a result, over four out of 10 (43%) anticipate paying higher prices to suppliers. Nearly three out of 10 business leaders (29%) expect to increase prices they charge their customers should the United States impose increased tariffs on other countries' goods, but over half (56%) expect no impact. Over six in 10 (63%) Pennsylvania business leaders do not expect any impact on company sales, with 17 percent anticipating increased sales. Only four 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 25 percent (vs. 20% in spring 2018); 35 percent are familiar with the new tax law, but uncertain how it will affect their business, dropping from 44 percent in spring 2018. One in three business leaders (35%) view the potential impact to their bottom line as positive (37% in spring 2018). A third (33%) feel it is too early to tell or simply do not know. Eighty-two percent of business leaders have not made or do not expect to make any changes to their businesses as a result of tax reform, similar to 79 percent in spring 2018. Just 12 percent have made or anticipate making changes in response to the tax plan.