

SPRING: HOPE'S ETERNAL FOR ALABAMA SMALL- AND MID-SIZE BUSINESS LEADERS

ANALYSIS BY PNC Economists

Our spring 2018 survey shows that small- and mid-sized business owners in Alabama are highly optimistic about the prospects for the national economy, their local economies and their own companies. Hiring expectations are also up considerably from fall 2017.

While expectations for pricing and inflation remain unchanged from 2017, 26 percent of Alabama's business owners are planning to hire full-time workers. This spring, four in 10 (39%) Alabama business leaders anticipate an increase in employee compensation in the next six months (compared to 32% in fall 2017). This is the highest rate for wage increases in the history of PNC's Alabama survey, and good news for the region's workforce.

With support from tax cuts and an increase in federal spending, U.S. economic growth will accelerate in 2018 and the labor market will continue to tighten. To prevent the economy from overheating, the Federal Open Market Committee will continue to gradually raise the federal funds rate throughout 2018.

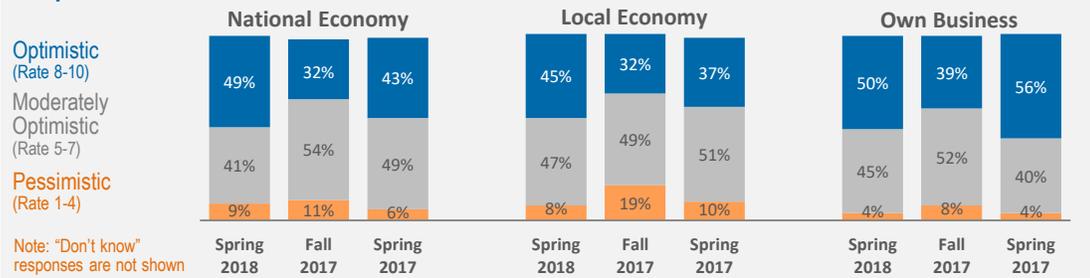
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimism Overdrive

Alabama vs. United States: Nationally, half are optimistic about the national (50%) and local (48%) economy and more (58%) are optimistic about their own company's prospects.

Optimism is high across all categories evaluated by PNC in the sixth year of a semi-annual survey of small- and mid-size business owners and executives in Alabama. Half (49%) of respondents describe their outlook for the national economy as optimistic in spring 2018, a significant increase compared to the fall 2017 survey (32%). Half are optimistic about their own companies, significantly higher than fall 2017 (39%).

% Optimistic about the...



Wage Watchers: Back in the Fast Lane

Hiring and compensation expectations increased compared to fall 2017. Nationally, wages have stayed in the slow lane while the U.S. economy zipped along in the fast lane, experiencing its second longest economic expansion ever, now in its ninth year. Finally, there are signs that wages may be accelerating this spring with four in 10 (39%) Alabama business leaders anticipating an increase in employee compensation in the next six months (compared to 32% in fall 2017). This is the highest rate for wage increases in the history of PNC's Alabama survey, and good news for the region's workforce.

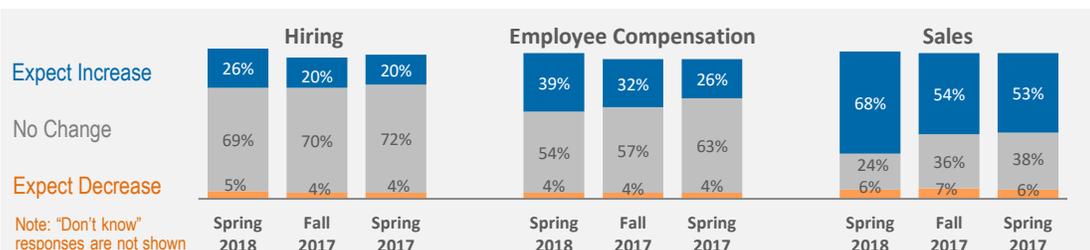
A quarter (26%) expect to add full-time staff (up from 20% in fall 2017), and two in 10 plan to hire part-time staff, up from fall 2017 (13%).

Money (That's What I Want)

Nearly seven out of 10 (68%) Alabama small- and mid-size business leaders anticipate increased sales during the next six months, an increase from the fall (54%). More than half (55%) of respondents expect increased profits, up from fall 2017 (46%). Both mark new highs for the Alabama survey.

Price and inflation expectations are relatively unchanged. Nearly four in 10 (38%) expect their own suppliers to charge higher prices (compared to 39% in fall 2017). More than a quarter expect to charge their own customers higher prices (28%, compared to 25% in fall 2017), citing the need to keep up with rising labor costs as the primary reason. Nearly two-thirds (63%) of those surveyed anticipate higher inflation in the coming year, down slightly from fall 2017 (68%).

Alabama vs. United States: Nationally, one-third (32%) expect to add full-time employees and nearly half (49%) plan to increase employee compensation. Nearly seven out of 10 (69%) expect an increase in sales.

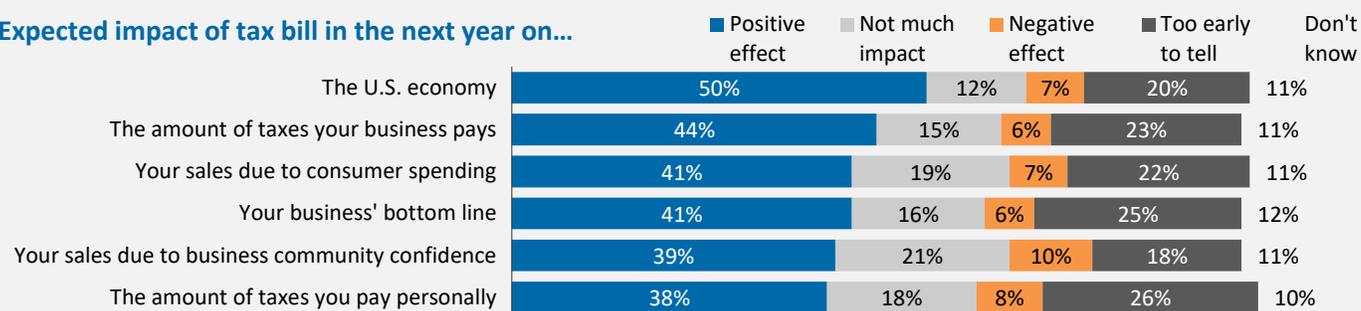


Tax Reform: Verdict Still Out

A significant majority (61%) of the Alabama business leaders surveyed are familiar with the details of the Tax Cuts and Jobs Act of 2017 (federal tax reform), but only 22 percent report understanding the specific effects on their business. For all tax reform questions, at least one in six respondents (18%) note it is too early to tell the impact. As a result, three-quarters (74%) expect to make no changes to their business in 2018 in response to the tax bill.

When it comes to their **bottom line**, more respondents anticipate that the new tax legislation will have a positive (41%) than a negative (6%) or neutral (16%) impact. When it comes to paying **taxes**, more business leaders expect a positive than negative impact. More than four in 10 (44%) anticipate a major or moderate positive effect on their business taxes and 38 percent anticipate a major or moderate positive effect on their personal taxes. Four in 10 business owners and executives in Alabama are optimistic about a positive impact of the new tax legislation on **sales** due to consumer spending (41%) and business confidence (39%). More respondents expect the U.S. economy to benefit (50%) from the tax legislation than their own business' bottom line (41%).

Expected impact of tax bill in the next year on...



Good Vibrations

Across-the-board record optimism is reflected by the 89 percent of all respondents who selected a positive emotion to describe how they feel about the business climate during the next six months: hope (41%), enthusiasm (39%) and joy (9%). This is a significant increase from the fall of 2016 (pre-election) when 62 percent of respondents reported positive emotions. The number feeling fear or despair remains in the single digits; none express anger.

Help (Really) Wanted

More than a quarter (28%) say it is harder to hire qualified employees today compared to six months ago, with the biggest challenge being lack of experience or skill. Among the 74 percent not planning to hire, two in 10 (21%) attribute the lack of growth for their business; a similar number (20%) say they cannot find the right skilled workers. Of the Alabama business leaders surveyed who do not anticipate raising wages (58%), nearly two-thirds (64%) feel their current levels of compensation are sufficient and do not impact their ability to hire or retain employees, similar to fall 2017 (63%).

Growing Painless

Six in 10 Alabama business leaders (59%) expect demand for their company's products or services to increase in the next six months, up from 50 percent in fall 2017. While four in 10 (39%) report a good balance between the volume of business and their capacity to handle that volume, 26 percent report having more work than they can handle without adding some capacity.

When asked about the main investment needed to meet demand, six in 10 respondents (61%) would add employees. However, only a quarter (26%) report plans to hire full-time employees in the next six months. Other investments to support growth include adding or upgrading equipment (38%) and adding space or real estate (19%); only eight percent note the acquisition of another organization.