

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

ANALYSIS BY PNC Economists

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

In Atlanta, nearly 30 percent of owners and executives expect to add full-time employees, (compared to 24% in fall 2017). There are also signs that wages may be accelerating this spring with almost half (45%) of Atlanta business leaders anticipating an increase in employee compensation in the next six months (compared to 35% in fall 2017). This is the highest rate for wage increases in the history of PNC's Atlanta 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.

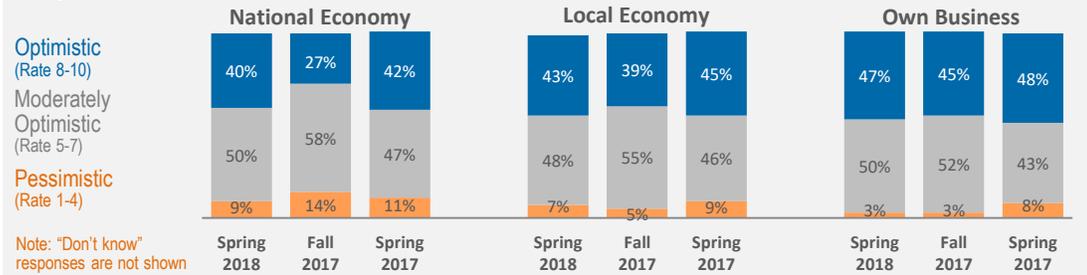
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimism Overdrive

Atlanta 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 seventh year of a semi-annual survey of small- and mid-size business owners and executives in Atlanta. Four in 10 respondents describe their outlook for the national economy as optimistic in spring 2018, a significant increase compared to the fall 2017 survey (27%). Those with a pessimistic outlook dropped to a historic low (9%). Nearly half (47%) are optimistic about their own companies, similar to the previous high (48%) in spring 2017.

% 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 almost half (45%) of Atlanta business leaders anticipating an increase in employee compensation in the next six months (compared to 35% in fall 2017). This is the highest rate for wage increases in the history of PNC's Atlanta survey and good news for the region's workforce.

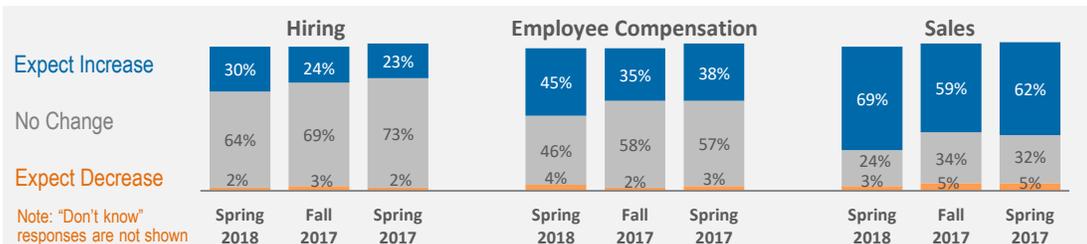
Three in 10 expect to add full-time staff (24% in fall 2017) and 27 percent note plans to hire part-time staff, up from fall 2017 (18%).

Money (That's What I Want)

Nearly seven out of 10 (69%) Atlanta small- and mid-size business leaders anticipate increased sales during the next six months, an increase from the fall (59%). Six in 10 (59%) expect increased profits, nearing the prior high (61%) set in spring 2015.

Atlanta business leaders' price and inflation expectations are relatively unchanged. One-third (36%) expect their own suppliers to charge higher prices (compared to 39% in fall 2017). Three in 10 expect to charge their own customers higher prices (31%, compared to 28% in fall 2017), citing increasing business and favorable market conditions as the primary reasons. Two-thirds (67%) of those surveyed anticipate higher inflation in the coming year, dropping significantly from fall 2017 (81%).

Atlanta 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.

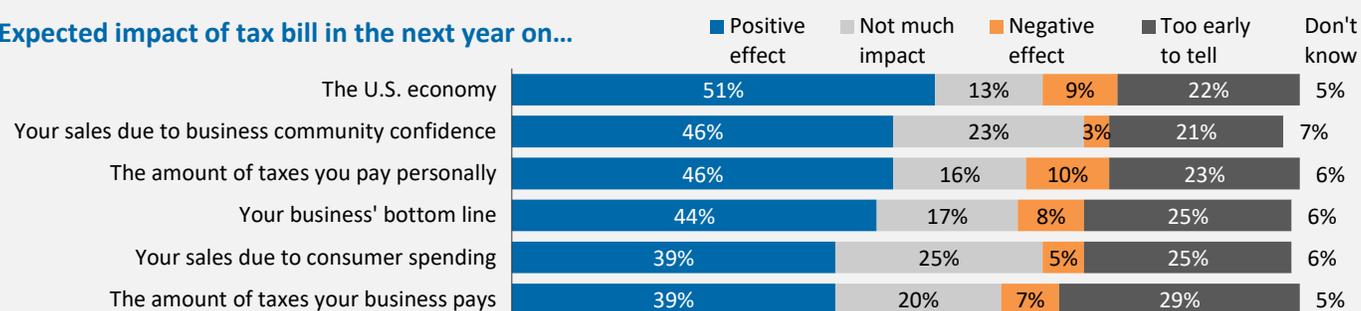


Tax Reform: Verdict Still Out

A significant majority (63%) of the Atlanta business leaders surveyed are familiar with the details of the Tax Cuts and Jobs Act of 2017 (federal tax reform), but only 23 percent report understanding the specific effects on their business. For all tax reform questions, at least two in 10 respondents (21%) note it is too early to tell the impact. As a result, three-quarters 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 (44%) than a negative (8%) or neutral (17%) impact. When it comes to paying **taxes**, more business leaders expect a positive than negative impact. Four in 10 (39%) anticipate a major or moderate positive effect on their business taxes and 46 percent anticipate a major or moderate positive effect on their personal taxes. Four in 10 business owners and executives in Atlanta are optimistic about a positive impact of the new tax legislation on **sales** due to consumer spending (39%) and business confidence (46%). More respondents expect the U.S. economy to benefit (51%) from the tax legislation than their own business' bottom line (44%).

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: enthusiasm (47%), hope (34%) and joy (8%). This is a significant increase from the fall of 2017 when 80 percent of respondents reported positive emotions. The number feeling fear or despair remains in the single digits; none express anger.

Help (Really) Wanted

One-third (35%) 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 67 percent not planning to hire, 16 percent attribute the lack of hiring to less confidence about the effect of government policies, a significant increase compared to three percent in fall 2017. Of the Atlanta business leaders surveyed who do not anticipate raising wages (50%), more than half (55%) feel their current levels of compensation are sufficient and do not impact their ability to hire or retain employees, down significantly from fall 2017 (70%).

Growing Painless

Two-thirds of Atlanta business leaders (66%) expect demand for their company's products or services to increase in the next six months, up from 52 percent in fall 2017. While half (50%) 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 (62%) would add employees. However, only three in 10 (30%) report plans to hire full-time employees in the next six months. Other investments to support growth include adding or upgrading equipment (44%), bringing in contractors (25%) and adding space or real estate (21%); only nine percent note the acquisition of another organization.