

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

ANALYSIS BY PNC Economists

Our spring 2018 survey shows that small- and mid-sized business owners in Greater Washington are more optimistic about the prospects for the national economy, their local economies and their own companies than in fall 2017. Hiring expectations are also on the upswing.

Nearly 60 percent of small business owners in Washington expect to see increased sales over the next six months. Reduced federal budgetary restraints and a well-educated workforce will benefit many of the regions employers. New federal budget legislation with an increase in defense spending could also be a boon to the region's economy.

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.

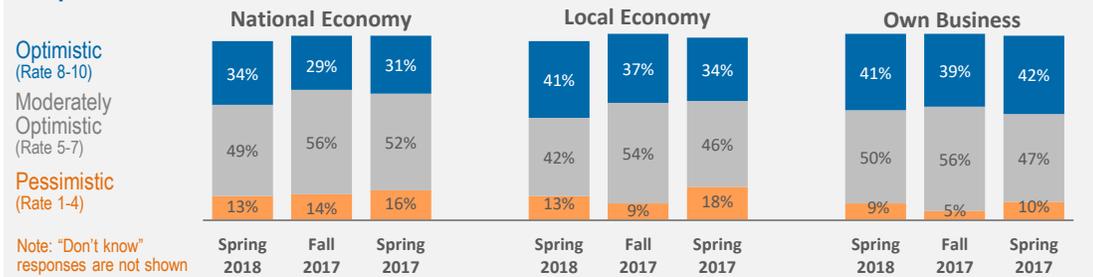
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimistic Outlook

D.C. 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 increased across all categories evaluated by PNC in the fifth year of a semi-annual survey of small- and mid-size business owners and executives in greater Washington. One-third of respondents (34%) describe their outlook for the national economy as optimistic in spring 2018, up from fall 2017 (29%). Those with a pessimistic outlook dropped to a historic low (13%). Four in 10 (41%) are optimistic about their own companies, similar to the previous high (42%) in spring 2017.

% Optimistic about the...



Wage Watchers: Back in the Fast Lane

Hiring and compensation expectations increased compared to spring 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. Higher wage expectations from fall continue this spring with four in 10 (39%) greater Washington business leaders anticipating an increase in employee compensation in the next six months, a slight increase compared to fall 2017 (35%). This is good news for the region's workforce.

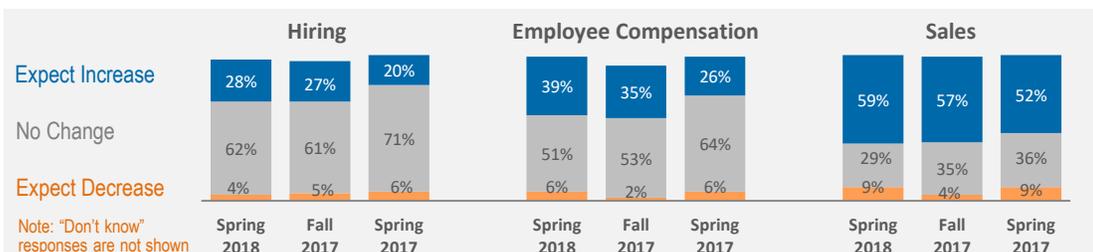
More than a quarter (28%) expect to add full-time staff (27% in fall 2017) and 23 percent note plans to hire part-time staff, up significantly from fall 2017 (14%).

Money (That's What I Want)

Six in 10 (59%) greater Washington small- and mid-size business leaders anticipate increased sales during the next six months, little changed from the fall (57%). Half (53%, unchanged from fall 2017) expect increased profits.

Greater Washington business leaders also anticipate rising prices and inflation. Four in 10 (43%) expect their own suppliers to charge higher prices (up significantly from 30% in fall 2017). A third expect to charge their own customers higher prices (33%, up significantly from 20% in fall 2017), citing increasing business and favorable market conditions as the primary reasons. Six in 10 (62%) of those surveyed anticipate higher inflation in the coming year, down from fall 2017 (67%).

D.C. 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.

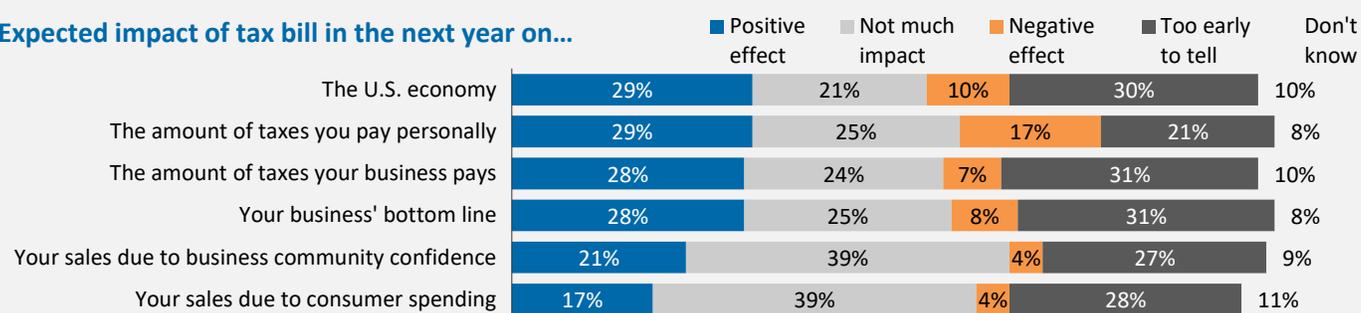


Tax Reform: Verdict Still Out

A significant majority (64%) of the greater Washington business leaders surveyed are familiar with the details of the Tax Cuts and Jobs Act of 2017 (federal tax reform), but only 24 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, nearly eight in 10 (78%) 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 (28%) than a negative (8%) or neutral (25%) impact. When it comes to paying **taxes**, more business leaders expect a positive than negative impact. Nearly three in 10 (28%) anticipate a major or moderate positive effect on their business taxes and a similar number (29%) anticipate a major or moderate positive effect on their personal taxes. More than one in six business owners and executives in greater Washington are optimistic about a positive impact of the new tax legislation on **sales** due to consumer spending (17%) and business confidence (21%). A similar number of respondents expect their own business' bottom line (28%) and the U.S. economy (29%) to benefit from the tax legislation.

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



Good Vibrations

Across-the-board record optimism is reflected by the 83 percent of all respondents who selected a positive emotion to describe how they feel about the business climate during the next six months: hope (48%), enthusiasm (30%) and joy (5%). This is a significant increase from the fall of 2016 (pre-election) when 71 percent of respondents reported positive emotions. The number feeling fear, despair or anger remains in the single digits.

Help (Really) Wanted

Three in 10 (30%) 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 66 percent not planning to hire, lack of growth for their business was the primary reason, similar to fall 2017 (24%). Of the greater Washington business leaders surveyed who do not anticipate raising wages (57%), six in 10 (59%) feel their current levels of compensation are sufficient and do not impact their ability to hire or retain employees, down from fall 2017 (68%).

Growing Painless

More than half of greater Washington business leaders (57%) expect demand for their company's products or services to increase in the next six months, similar to 55 percent in fall 2017. While nearly half (46%) report a good balance between the volume of business and their capacity to handle that volume, over one in three (35%) report having existing capacity to handle more business easily.

When asked about the main investment needed to meet demand, more than half (55%) of respondents would add employees. However, only 28 percent report plans to hire full-time employees in the next six months. Other investments to support growth include adding or upgrading equipment (34%) and bringing in contractors (20%); only nine percent note the acquisition of another organization.