

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

#### ANALYSIS BY PNC Economists

Our spring 2018 survey shows that small- and mid-sized business owners in Indiana have steady optimism about the prospects for the national economy, their local economies and their own companies. Hiring expectations will remain flat.

Indiana's unemployment fell to 3.2 percent in the first quarter of 2018, which is exceptionally low compared to the national average. This may pose an obstacle for employers looking to hire as the state is experiencing a tight labor market. Leisure and hospitality services declined in 2017, which indicates consumers are not spending. Manufacturing, transportation and utilities were weaker than recent years' trends.

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.

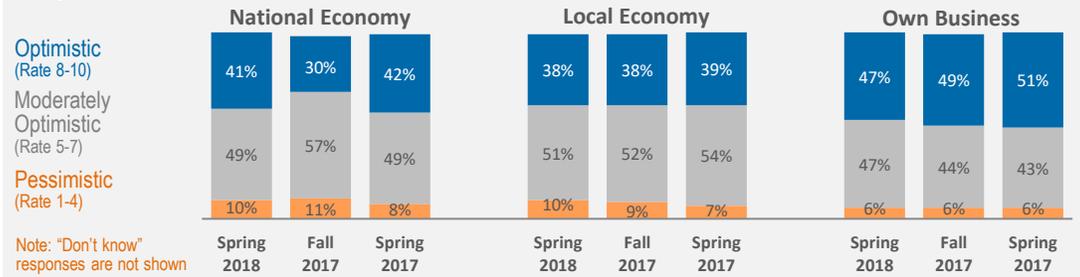
#### KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

##### Optimistic Outlook

**Indiana 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 eighth year of a semi-annual survey of small- and mid-size business owners and executives in Indiana. Four in 10 respondents (41%) describe their outlook for the national economy as optimistic in spring 2018, up from fall 2017 (30%). Nearly half (47%) are optimistic about their own companies, just below the survey high (51%) from spring 2017.

##### % Optimistic about the...



##### Wage Watchers

Hiring and compensation expectations increased compared to spring 2017, but are down slightly from the 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. Four in 10 (39%) Indiana business leaders anticipate an increase in employee compensation in the next six months, similar to the historic high in fall 2017 (41%). This is good news for the region's workforce.

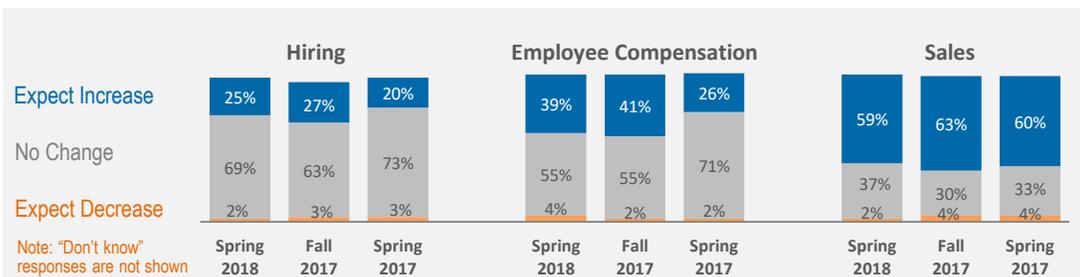
A quarter expect to add full-time staff (27% in fall 2017) and 24 percent note plans to hire part-time staff, up significantly from fall 2017 (14%).

**Indiana 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.

##### Money (That's What I Want)

Six in 10 (59%) Indiana small- and mid-size business leaders anticipate increased sales during the next six months. This is a slight change from the fall (63%), which was a high for PNC's survey. Six in 10 (59%) expect increased profits, similar to 61% in fall 2017.

Fewer Indiana business leaders anticipate rising prices and inflation. Four in 10 (41%) expect their own suppliers to charge higher prices (compared to 48% in fall 2017). A quarter of Indiana business leaders expect to charge their own customers higher prices (27%, down significantly from 36% in fall 2017), citing the need to keep up with rising labor costs as the primary reason. Three-quarters (73%) of those surveyed anticipate higher inflation in the coming year, down slightly from fall 2017 (77%).

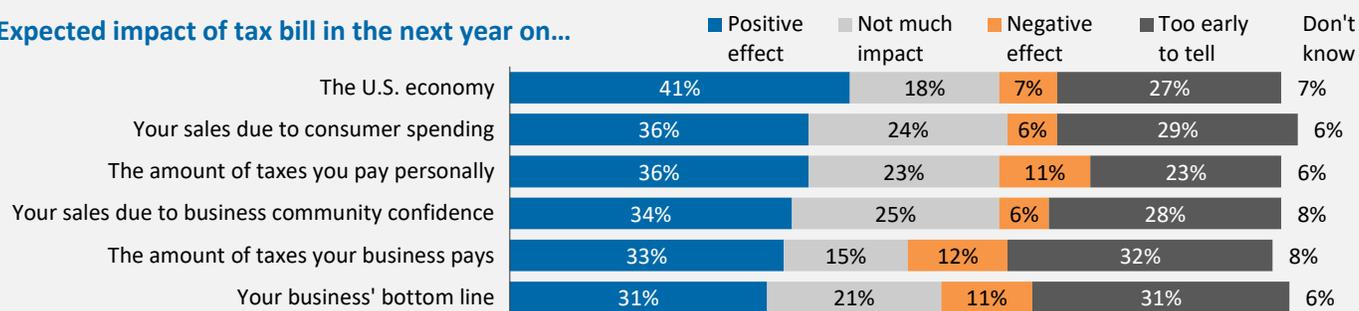


### Tax Reform: Verdict Still Out

A significant majority (68%) of the Indiana business leaders surveyed are familiar with the details of the Tax Cuts and Jobs Act of 2017 (federal tax reform), but only 21 percent report understanding the specific effects on their business. For all tax reform questions, at least two in 10 respondents (23%) note it is too early to tell the impact. As a result, nearly three-quarters (73%) 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 (31%) than a negative (11%) or neutral (21%) impact. When it comes to paying **taxes**, more business leaders expect a positive than negative impact. A third (33%) anticipate a major or moderate positive effect on their business taxes and more than a third (36%) anticipate a major or moderate positive effect on their personal taxes. More than a third of business owners and executives in Indiana are optimistic about a positive impact of the new tax legislation on **sales** due to consumer spending (36%) and business confidence (34%). More respondents expect the U.S. economy to benefit (41%) from the tax legislation than their own business' bottom line (31%).

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



### Good Vibrations

Across-the-board record optimism is reflected by the 88 percent of all respondents who selected a positive emotion to describe how they feel about the business climate during the next six months: hope (49%), enthusiasm (36%) and joy (4%). This is a significant increase from the fall of 2016 (pre-election) when 66 percent of respondents reported positive emotions. The number feeling fear, despair or anger remains in the single digits.

### Help (Really) Wanted

More than four in 10 (43%) 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 71 percent of respondents not planning to hire, lack of growth for their business was the primary reason (28%), up significantly from fall 2017 (14%). Of the Indiana business leaders surveyed who do not anticipate raising wages (59%), nearly three-quarters (73%) feel their current levels of compensation are sufficient and do not impact their ability to hire or retain employees.

### Growing Painless

More than half of Indiana business leaders (54%) expect demand for their company's products or services to increase in the next six months, similar to 55 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, a similar number (38%) report having existing capacity to handle more business easily.

When asked about the main investment needed to meet demand, two-thirds (65%) of respondents would add employees. However, only a quarter (25%) report plans to hire full-time employees in the next six months. Other investments to support growth include adding or upgrading equipment (40%) and adding space or real estate (19%); only 12 percent note the acquisition of another organization.