

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

ANALYSIS BY PNC Economists

Our spring 2018 survey shows that small- and mid-sized business owners in Ohio are optimistic about the prospects for the national economy, the local economies and their own companies. Hiring expectations are also expected to increase.

Four in 10 Ohio business leaders anticipate giving employees raises over the next six months, giving the region's workforce some great news for the year. And nearly two-thirds of business leaders surveyed anticipate increased sales over the next six months, the highest numbers ever recorded for the PNC survey.

Optimism about the local economy continues to be high. Thirty-eight percent of business owners said they are optimistic about the economy, increasing from 27 percent in our fall 2017 survey. However, 52 percent of business owners were optimistic about their own business outlook.

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.

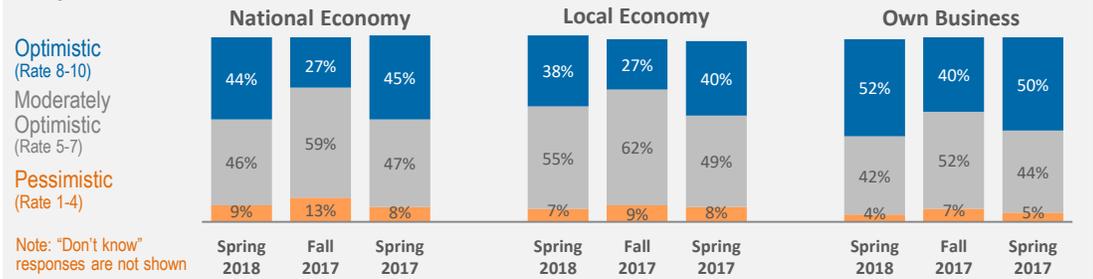
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimism Overdrive

Ohio 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 ninth year of a semi-annual survey of small- and mid-size business owners and executives in Ohio. More than four in 10 (44%) respondents describe their outlook for the national economy as optimistic in spring 2018, a significant increase compared to the fall 2017 survey (27%). More than half of Ohio business leaders (52%) are optimistic about their own companies, up significantly from spring 2017 (40%) and a new high for the Ohio survey.

% 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. Higher wage expectations from fall continue this spring with four in 10 Ohio business leaders anticipating an increase in employee compensation in the next six months (up significantly from 25% in fall 2017). This is the highest rate for wage increases in the history of PNC's Ohio survey and good news for the region's workforce.

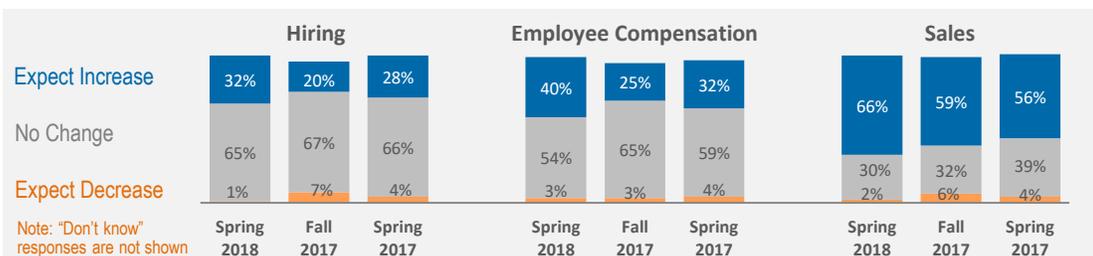
A third (32%) expect to add full-time staff (up significantly from 20% in fall 2017), and 24 percent note plans to hire part-time staff, up significantly from fall 2017 (11%).

Money (That's What I Want)

Two-thirds (66%) of Ohio small- and mid-size business leaders anticipate increased sales during the next six months, up from the fall (59%). Nearly six in 10 (58%) respondents expect increased profits, up from 54 percent in fall 2017. Both mark new highs for the Ohio survey.

Ohio business leaders' price and inflation expectations are mixed. Nearly four in 10 (38%) expect their own suppliers to charge higher prices (down from 47% in fall 2017). More than a third (35%) expect to charge their own customers higher prices (similar to 32% in fall 2017), citing increasing business and favorable market conditions as the primary reasons. More than seven in 10 (72%) of those surveyed anticipate higher inflation in the coming year, down slightly from fall 2017 (77%).

Ohio 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.

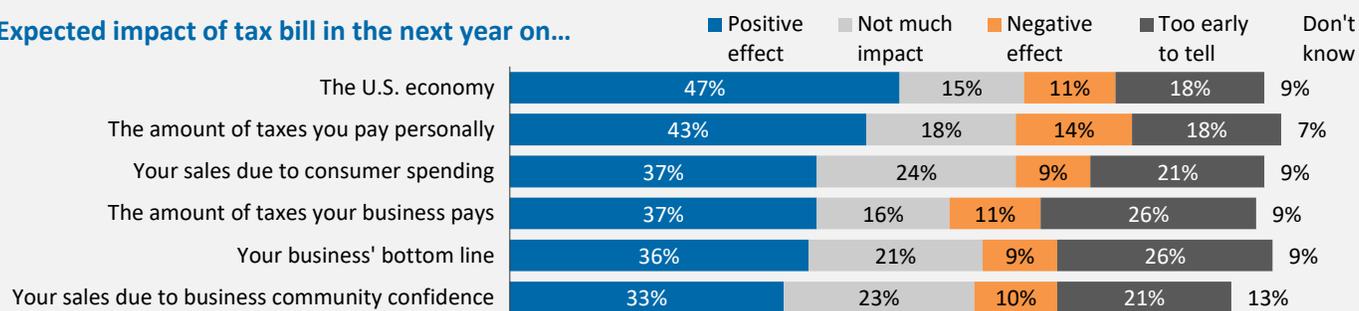


Tax Reform: Verdict Still Out

A significant majority (69%) of the Ohio business leaders surveyed are familiar with the details of the Tax Cuts and Jobs Act of 2017 (federal tax reform), but only 27 percent report understanding the specific effects on their business. For all tax reform questions, at least one in six (18%) note it is too early to tell the impact. As a result, seven in 10 (71%) 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 (36%) than a negative (9%) or neutral (21%) impact. When it comes to paying **taxes**, more business leaders expect a positive than negative impact. More than a third (37%) anticipate a major or moderate positive effect on their business taxes and more than four in 10 (43%) anticipate a major or moderate positive effect on their personal taxes. At least a third of business owners and executives in Ohio are optimistic about a positive impact of the new tax legislation on **sales** due to consumer spending (37%) and business confidence (33%). More respondents expect the U.S. economy to benefit (47%) from the tax legislation than their own business' bottom line (36%).

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



Good Vibrations

Across-the-board record optimism is reflected by the 85 percent of all respondents who selected a positive emotion to describe how they feel about the business climate during the next six months: hope (44%), enthusiasm (35%) and joy (6%). This is a significant increase from the fall of 2016 (pre-election) when 71 percent of respondents reported positive emotions. The number feeling anger or despair remains in the single digits; none express fear.

Help (Really) Wanted

More than a third (36%) 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 planning not to hire, a quarter (24%) cite the lack of business growth (23%) and a similar number (23%) say they cannot find the right skilled workers. Of the Ohio business leaders surveyed who do not anticipate raising wages (58%), two-thirds (66%) feel their current levels of compensation are sufficient and do not impact their ability to hire or retain employees, up slightly from fall 2017 (61%).

Growing Painless

Nearly six in 10 Ohio business leaders (58%) expect demand for their company's products or services to increase in the next six months, up significantly from 48 percent in fall 2017. While nearly half (48%) report a good balance between the volume of business and their capacity to handle that volume, 17 percent report having more work than they can handle without adding some capacity.

When asked about the main investment needed to meet demand, two-thirds of respondents (66%) would add employees. However, only a third (32%) report plans to hire full-time employees in the next six months. Other investments to support growth include adding or upgrading equipment (35%) and adding space or real estate (19%); only 12 percent note the acquisition of another organization.