

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

ANALYSIS BY PNC Economists

Our spring 2018 survey shows that small- and mid-sized business owners in Pennsylvania are optimistic about the prospects for the national economy, their local economies and their own companies. Hiring expectations are also higher, as 27 percent of surveyed Pennsylvania business owners plan to add full-time staff, up substantially from the fall survey.

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Pennsylvania's economy improved in 2017 to match the national pace of job growth. Labor force declines persisted, though, so if the state's employers continue hiring, they may face upward wage pressures in order to attract the skills and experiences they require. Transportation and utilities, as well as leisure and hospitality services, saw some of the strongest hiring trends. This suggests that in-state consumer demand as well as demand for goods and services being shipped out of the state can keep Pennsylvania's economy stable in the near term.

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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.

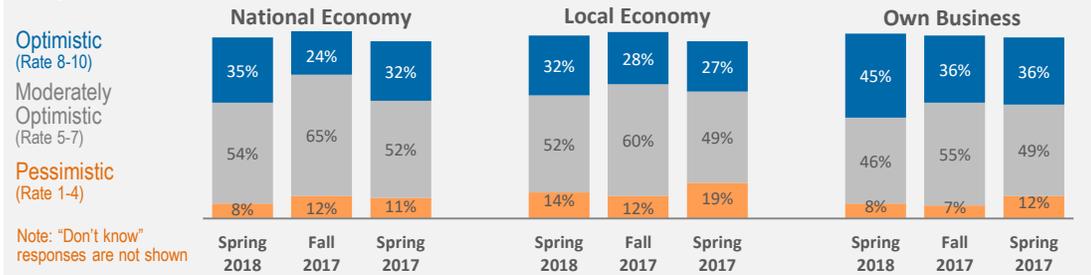
KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimistic Outlook

PA 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 running at historic highs in all categories evaluated by PNC in the 12th year of a semi-annual survey of small- and mid-size business owners and executives in Pennsylvania. More than a third (35%) of respondents describe their outlook for the national economy as optimistic in spring 2018, a significant increase compared to the fall 2017 survey (24%). Those with a pessimistic outlook dropped to a historic low (8%). More than four in 10 Pennsylvania business leaders (45%) are optimistic about their own companies, marking another new high for PNC's survey.

% Optimistic about the...



Wage Watchers: Back in the Fast Lane

Hiring and compensation registered some of the largest increases 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. However, more than a third (36%) of Pennsylvania business leaders anticipate an increase in employee compensation in the next six months, an increase from 26% in spring 2017. This is good news for the workforce in the state.

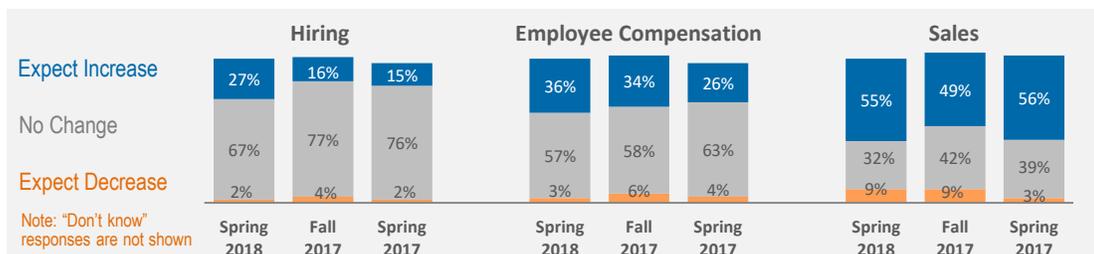
More than a quarter (27%) expect to add full-time staff (a significant increase from 16% in fall 2017), and 16 percent note plans to hire part-time staff, similar to fall 2017 (18%).

PA 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)

More than half (55%) of Pennsylvania small- and mid-size business leaders anticipate increased sales during the next six months, up from the fall (49%). Half of respondents expect increased profits, little changed from 46 percent in fall 2017.

Pennsylvania business leaders also anticipate rising prices and inflation. Nearly half (48%) expect their own suppliers to charge higher prices (up from 39% in spring 2017). More than a third expect to charge their own customers higher prices (35%, up from 27% in spring 2017), citing attempts to keep up with rising non-labor costs as the primary reason. Seven in 10 (69%) of those surveyed anticipate higher inflation in the coming year, compared to 74 percent in fall 2017.

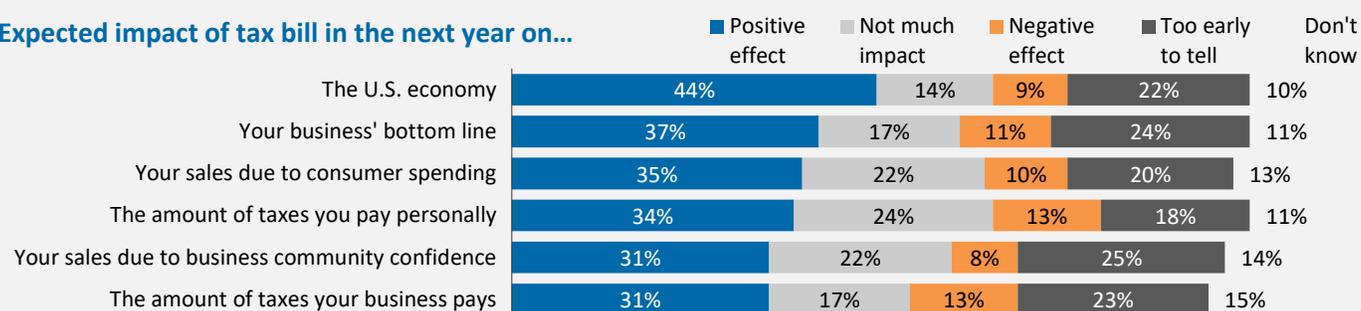


Tax Reform: Verdict Still Out

A significant majority (64%) of the Pennsylvania business leaders surveyed are familiar with the details of the Tax Cuts and Jobs Act of 2017 (federal tax reform), but only 20 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, eight in 10 (79%) 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 (37%) than a negative (11%) or neutral (17%) impact. When it comes to paying **taxes**, more business leaders expect a positive than negative impact. More than three in 10 (31%) anticipate a major or moderate positive effect on their business taxes and more than a third (34%) anticipate a major or moderate positive effect on their personal taxes. More than three in 10 business owners and executives in Pennsylvania are optimistic about a positive impact of the new tax legislation on **sales** due to consumer spending (35%) and business confidence (31%). More respondents expect the U.S. economy to benefit (44%) from the tax legislation than their own business' bottom line (37%).

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



Good Vibrations

Across-the-board record optimism is reflected by the 79 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 (31%) and joy (5%). This is a significant increase from the fall of 2016 (pre-election) when 58 percent of respondents reported positive emotions. One in 10 are feeling fear; the number feeling anger or despair remains in the single digits.

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 69 percent not planning to hire, three in 10 (29%) respondents cite lack of business growth as the primary reason; 17 percent say they cannot find the right skilled workers. Of the Pennsylvania business leaders surveyed who do not anticipate raising wages (61%), two-thirds (65%) feel their current levels of compensation are sufficient and do not impact their ability to hire or retain employees, up from fall 2017 (59%).

Growing Painless

More than half of Pennsylvania business leaders (53%) expect demand for their company's products or services to increase in the next six months, up from 47 percent in fall 2017. While half report a good balance between the volume of business and their capacity to handle that volume, 21 percent report having more work than they can handle without adding some capacity.

When asked about the main investment needed to meet demand, more than six in 10 respondents (63%) would add employees. However, only just over a quarter (27%) report plans to hire full-time employees in the next six months. Other investments to support growth include adding or upgrading equipment (32%) and adding space or real estate (14%); only eight percent note the acquisition of another organization.