

OPTIMISM STILL SPRINGS THIS FALL FOR BALTIMORE SMALL AND MID-SIZE BUSINESS OWNERS

ANALYSIS BY

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PNC's initial survey of small and mid-sized business owners in the Baltimore metro area show a moderate degree of optimism about the U.S economy and their own business prospects in the next six months.

A new rail tunnel project and additional 50-foot-depth berthing will help the Port of Baltimore build on a record-setting 2018. CSX is once again committed to sharing the cost of the rail tunnel after backing out in late 2017, pledging \$91 million on top of the state's \$147 million commitment.

Port officials estimate the expanded tunnel will vastly increase the number of containers that move through the port.

The jobless rate has ticked higher, though this is due to robust workforce gains rather than softer demand for labor.

The metro's labor force is rising at its fastest rate of the expansion as higher pay lures job seekers— hourly earnings have found another gear and are closing in on the Maryland average.

Robust gains in healthcare, long a bright spot in the metro area's economy, will drive the labor market on the back of an aging and growing population and massive expansion projects at nationally renowned hospitals.

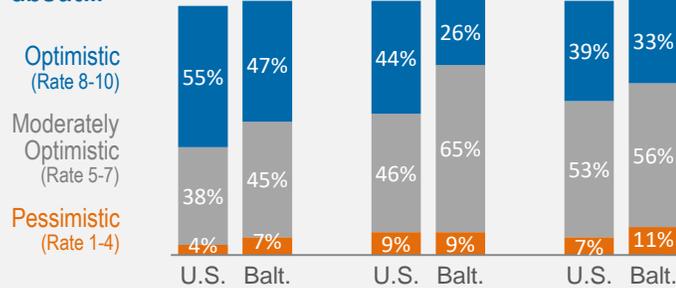
Anchored by the U.S. Cyber Command and National Security Agency, business/professional services will be a strong secondary growth driver. Thanks to gains in computer systems design and related services, high tech now accounts for a higher share of jobs in metro area than in the nation.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Baltimore vs. United States: Nationally, four out of 10 (39%) are optimistic about the national economy and more (55%) are optimistic about their own company's prospects.

Despite pricing pressures and tariff concerns, most measures of optimism are high, according to the first PNC survey of Baltimore small and mid-size business owners and executives. Optimism for Baltimore business leaders' own company is strong with nearly half (47%) highly optimistic, compared to the national survey (55%) which is near the record high from spring 2017 (56%).

Percent optimistic about...



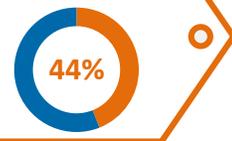
Baltimore business leaders' views about their local economy are positive with more than a quarter (26%) who are highly optimistic, although lower than the national survey (44%). A third describe their outlook for the national economy as highly optimistic, similar to the national outlook for the U.S. (39%).

More than half (54%) of Baltimore small and mid-size business leaders expect their company's sales to increase, but lower than the national share (63%). More than half (53%) expect their profits to increase, similar to 52 percent for the national survey. Respondent expectations are as or more stable compared to the national survey regarding the business's capital spending (61% vs. 60% nationally), the cost of employee health care (57% vs. 54% nationally) and employee compensation (56% vs. 54% nationally).

EXPECT PROFIT INCREASE



Supplier Price Increase



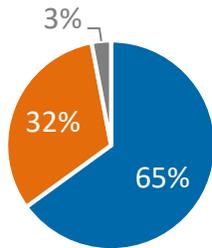
Baltimore vs. United States: Nationally, more than half (53%) anticipate paying higher prices to suppliers over the next six months. Four out of 10 (42%) expect to increase prices to customers.

PRICE PROMOTION

More than four in 10 (44%) Baltimore small and mid-size business owners and executives anticipate paying higher prices to suppliers over the next six months, compared to 53 percent nationally.

More than four in 10 (44%) respondents expect to raise prices that they charge their customers compared to 42 percent of respondents in the national survey. Among businesses that expect to raise prices, seven in 10 anticipate increases of 3 percent or more (63% nationally). Their reasons for price increases include favorable market conditions that support such actions (35%), rising labor costs (31%) and rising non-labor costs (28%). Trade tariffs are also expected to increase both supplier prices and prices respondents charge their own customers (please see Tariff Toll section on the next page).

Retaining/Attracting Employees



- Have taken action
- Not taken action
- Don't know/Refused

FINDERS KEEPERS

Two in 10 Baltimore small and mid-size business leaders plan to increase the number of full-time employees within the next six months, compared to 33 percent for the U.S. Only one percent expect to reduce the number of full-time employees, similar to the three percent share in the national survey.

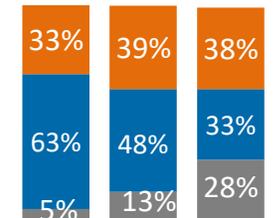
More than four in 10 (42% vs. 47% nationally) say it's harder to find qualified employees than it was six months to a year ago, with nearly four in 10 (38%) having increased wages/salaries, compared to 54 percent for the U.S. In addition, more than a quarter (26%) have allowed more flexible work arrangements. More than two in 10 (22%) have offered or increased bonuses and a similar share (21%) increased benefits.

RECESSION IMPRESSIONS

What is the likelihood of recession? Nearly two-thirds (63%) of Baltimore small and mid-size business leaders say a recession is unlikely and 33 percent say it is likely before the end of 2019. But there is a shift in the outlook for a recession in 2020, with the gap in outlook narrowing: 48 percent believe it is unlikely, while 39 percent believe it is likely. Looking further out, optimism wanes, with only a third believing a recession is unlikely in 2021.

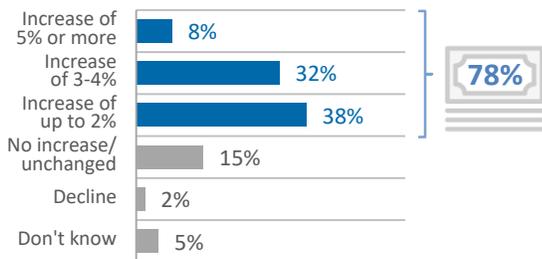
Likelihood of Recession by Year

- Recession likely
- Recession unlikely
- Unsure/Refused



Recession in Year 2019 2020 2021

Expectations for Consumer Prices in Next 12 Months



INFLATION CONSTERNATION

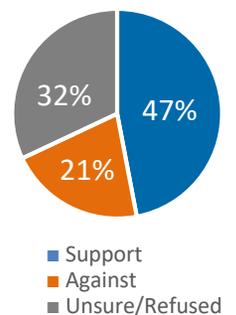
Expectations for consumer prices are important indicators of future inflation, and 78 percent of respondents expect these prices to go up over the next 12 months. The share of Baltimore business leaders expecting inflation of three percent or more is four in 10 compared to 43 percent nationally, with nearly a third (32%) expecting three- to four-percent inflation and eight percent anticipating five percent or higher.

TARIFF TOLL

Baltimore small and mid-size business leaders are divided on the impact of increased U.S. tariffs on goods from other countries, even if other countries retaliate with increased tariffs on U.S. goods/services. Levels of support include nearly half (47%) in support (42% nationally), more than two in 10 (21%) against (33% nationally) and more than three in 10 (31%) uncertain (24% nationally).

Baltimore business leaders are split on their expectation regarding the impact of the U.S. tariff policy on supplier prices with nearly a third (32%) expecting an increase, more than half (51%) who do not expect an increase and nearly two in 10 (17%) who don't know or feel it is too early to tell. Fewer, nearly a quarter (24%) anticipate passing on price increases to customers. Nearly two-thirds (65%) believe tariffs will have no impact on their company's sales; however, those who expect an impact are split. Fourteen percent expect an increase in sales and fewer, three percent, expect sales to drop. Nationally, a similar number (17%) expect sales to increase while a larger share nationally, 13 percent, expect sales to drop.

Increased Tariffs



The vast majority of respondents (94%) have made no changes to their business in response to tariffs. Among the four percent who have made changes, one percent made new investments or hired and three percent to delayed or cancelled investments or hiring as a result of tariff negotiations.