Hiring Plans Steady As Business Owners Sour On U.S. Economy

More than 40 percent pessimistic about U.S. economy; most since 2012

- One in four plan to hire more employees - same as six months ago

- Most are unhappy with presidential nominee candidates' plans for business

- PNC's chief economist says potential for recession remains very low

PITTSBURGH, March 31, 2016 /PRNewswire/ -- Small and mid-sized business owners are cautious about the next six months amid greater pessimism about the economy given the stock market volatility and presidential election rhetoric, according to the latest PNC Economic Outlook Survey findings.

The spring findings of PNC's biannual telephone survey, which began in 2003, reveal that 43 percent are pessimistic about the U.S. economy, the most since 2012, and up from 33 percent in the fall. Meanwhile, 30 percent are pessimistic about their local economy, which is the highest since 2013.

Yet one in four (24 percent) plan to hire additional employees during the next six months, similar to the 26 percent last fall and 22 percent a year ago. The bright spot is that 43 percent of manufacturing firms plan to hire, which is up from 26 percent six months ago.

PNC's survey findings show a positive trend over the past five years among small and mid-sized business owners when it comes to making money. Nearly half (45 percent) expect profits to increase during the next six months while 41 percent expect the bottom line to remain the same. Only 12 percent expect a decrease, the lowest since 2006. In terms of sales, 51 percent expect an increase compared to 52 percent in the fall.

"Business owners' mood may have been impacted by the stock market volatility and presidential campaign rhetoric since the start of the year," said PNC's Chief Economist Stuart Hoffman. "But their cautious optimism about sales, profits and hiring represents solid fundamentals for the economy. These findings are far from a warning sign of recession from small business owners."

Hoffman estimates the probability of a U.S. recession in 2016 is only about 20 percent. He added that the overall survey results reinforce the fundamentals are solid for the U.S. economy and supports PNC's forecast for real GDP growth of 2.0 percent this year, slightly slower from the 2015 pace.

Financing Needs Remain Limited

Although expectations for business prospects are promising, loan and credit demand continue on a slow path upward. Eight out of 10 owners (83 percent) say they will not pursue new loans or lines of credit in the next six months while 14 percent will. Asked if the prospect of rising interest rates would impact pursuit of a

loan, 76 percent said it wouldn't.

Other key findings include:

- **Presidential Matters:** More than half (53 percent) said they were not satisfied the potential presidential candidates were addressing the key issues for business owners.
- **Fewer Pay Raises on the Way:** 34 percent expect to increase employees' pay compared to 42 percent in the fall, which was the most since 2007.
- **Shortage of Skilled Workers:** Three in 10 say it is harder to find qualified employees compared to 6-12 months ago. The biggest hiring challenge is that candidates don't have the technical skills specific to the business, i.e., computer applications, tools or machinery.
- **Further Decline in Pricing Pressure:** Nearly three in 10 (29 percent) plan to charge higher prices, on par with (28 percent) in the fall. For prices charged by suppliers, 44 percent expect price hikes compared to 50 percent six months ago. Seventy-seven percent expect consumer prices to rise this year, partly reflecting the sharp drop in energy prices.
- **Healthcare Cost Impact:** Asked about the Affordable Care Act, 78 percent say it had no effect on their 2015 hiring and a similar number (82 percent) don't expect impact this year. Most (56 percent) said insurance premiums increased in 2015 – and nearly half said they went up 10 percent or more. Looking ahead to 2016, 40 percent expect costs to increase, down from 49 percent in the fall.
- **Housing Prices Continue to Rise:** Most (57 percent) expect prices to rise in their local market in the next 6-12 months, on par with 58 percent in the fall.

An online media kit containing national and regional survey results is available on PNC's website at www.pnc.com/pncpresskits.

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Methodology

The PNC Economic Outlook survey was conducted between January 21 to March 8, 2016, by telephone within the United States among 1,867 owners or senior decision-makers of small and mid-sized businesses with annual revenues of $100,000 to $250 million. The results given in this release are based on interviews with 502 businesses nationally, while the remaining interviews were conducted among businesses within the states of Alabama, Florida, Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio and Pennsylvania plus Washington, D.C. Sampling error for the national results is +/- 4.4 percent at the 95 percent confidence level. The survey was conducted by Artemis Strategy Group (www.ArtemisSG.com), a communications strategy research firm specializing in brand positioning and policy issues. The firm, headquartered in Washington D.C., provides communications research and consulting to a range of public and private sector clients.

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