

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

ANALYSIS BY
William Adams
PNC Senior Economist

Alabama small business owners' optimistic outlook is an encouraging contrast with downbeat headlines about trade war and recession fears. Their strong expectations for sales and profit increases, as well as a larger share of small businesses raising wages, reaffirm PNC's forecast for continued national economic growth through the end of 2019 and into 2020. Survey respondents cite a tight labor market fueling plans to raise wages, which will be a key driver for the state's growth in late 2019 and into 2020.

Alabama's wage growth has outpaced the national average since 2015. This has raised the state's average hourly wages from 83 percent of the national average in mid-2015 to 87 percent in mid-2019. Two-thirds (64%) of business leaders say they are expecting to spend more on capital expenses such as health care and retirement savings to retain workers, and 4 out of 10 (44%) plan to increase wages/salaries over the next six months.

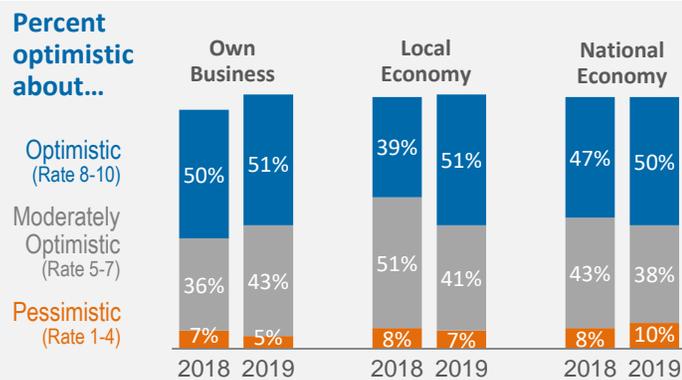
A virtuous cycle of job and wage growth, fueling more sales for local businesses, fueling more profits, hiring, and wage growth, will continue to propel Alabama's economy forward. The state's aerospace and defense industries support large numbers of stable, high-wage jobs, fueling demand of local businesses.

The outlook for businesses engaged in manufacturing supply chains is somewhat mixed, since the strength of the dollar and weak growth overseas may slow demand in the next year. But, the construction and real estate industries should see continued recovery in the near term as lower interest rates support consumer's home buying power and make construction financing more affordable.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Alabama 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, measures of optimism are approaching the record-setting highs measured in spring 2018, according to the latest PNC survey of Alabama small and mid-size business owners and executives. Optimism for Alabama business leaders' own company is particularly strong at 51 percent, little changed from one year ago (50%) and near the record high from spring 2017 (56%).



Alabama business leaders' views about their local economy are positive with optimism reaching 51 percent, a new record-high for the seven-year survey. Half of respondents describe their outlook for the national economy as highly optimistic, also a new record high for the Alabama survey.

More than half (54%) of Alabama small and mid-size business leaders expect their company's sales to increase compared to six out of 10 (61%) in fall 2018, and the spring 2018 record high (68%). More than half (56%) and a survey-record high, expect their profits to increase, little changed from fall 2018 (55%). Respondent expectations for the next six months shifted from growth to stability regarding the business's capital spending (66% vs. 53% in fall 2018), the cost of employee health care (67% vs. 46% in fall 2018) and employee compensation (69% vs. 56% in fall 2018).



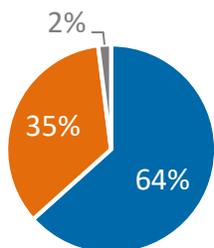
Alabama vs. United States: Nationally, more than half (53%) anticipate paying higher prices to suppliers over the next six months. Four out of 10 (42%) expect to increase prices to customers.

PRICE PROMOTION

Four out of 10 Alabama small and mid-size business owners and executives anticipate paying higher prices to suppliers over the next six months, compared to 45 percent a year ago.

More than a third (35%) of respondents expect to raise prices that they charge their customers compared to 41 percent in fall 2018. Among businesses that expect to raise prices, more than four in 10 (44%) anticipate increases of 3 percent or more (61% in fall 2018). Their reasons for price increases include favorable market conditions that support such actions (45%), rising non-labor costs (31%) and rising labor costs (19%). 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

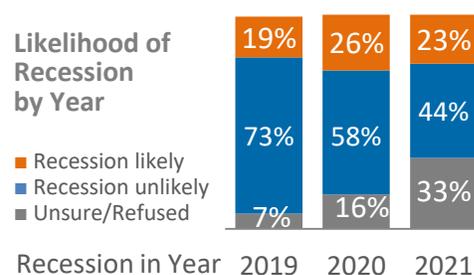
Fifteen percent of Alabama small and mid-size business leaders plan to increase the number of full-time employees within the next six months, while those expecting to reduce the number of full-time employees remains at four percent, near the Alabama survey low of two percent in fall 2018.

More than four in 10 (41% vs. 36% in fall 2018) say it's harder to find qualified employees than it was six months to a year ago, with four in 10 having increased wages/salaries (31% in fall 2018). In addition, 33 percent have allowed more flexible work arrangements, 20 percent have offered or increased bonuses, and 19 percent have increased benefits.

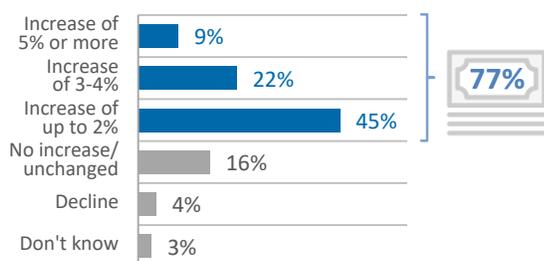
RECESSION IMPRESSIONS

What is the likelihood of recession? Nearly three-quarters (73%) of Alabama small and mid-size business leaders say a recession is unlikely and 19 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: 58 percent believe it is unlikely, while 26 percent believe it is likely. Looking further out, optimism wanes, with only 44 percent believing a recession is unlikely in 2021.

Likelihood of Recession by Year



Expectations for Consumer Prices in Next 12 Months



INFLATION CONSTERNATION

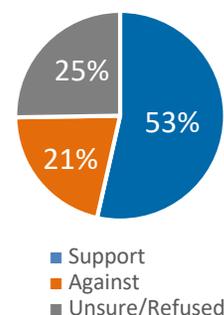
Expectations for consumer prices are important indicators of future inflation, and 77 percent of respondents expect these prices to go up over the next 12 months. The share of Alabama business leaders expecting inflation of three percent or more is 31 percent (36% in fall 2018), with 22 percent expecting three- to four-percent inflation and nine percent anticipating five percent or higher.

TARIFF TOLL

Alabama small and mid-size business leaders continue to be 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 edged upward from fall 2018 with more than half (53%) in support (43% in fall 2018), more than two in 10 (21%) against (25% in fall 2018) and nearly a quarter (24%) uncertain (29% in fall 2018).

Alabama business leaders are split on their expectation regarding the impact of the U.S. tariff policy on supplier prices with more than a third (37%) expecting an increase, a similar number who do not expect an increase (43%) and more than two in 10 (21%) who don't know or feel it is too early to tell. Fewer (31%) anticipate passing on price increases to customers. More than half (53%) believe tariffs will have no impact on their company's sales; however, those who expect an impact are split. Fifteen percent expect an increase in sales and 11 percent expect sales to drop. The 11 percent who expect sales to drop is an increase from five percent expecting a sales drop in fall 2018.

Increased Tariffs



The vast majority of respondents (92%) have made no changes to their business in response to tariffs. Among the five percent who have made changes, all made new investments or hired as opposed to delaying or cancelling investments or hiring as a result of tariff negotiations.