

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

ANALYSIS BY
Kurt Rankin
PNC Economist

Pennsylvania's economy enjoyed stable conditions in 2019, and should continue to do so into 2020.

The state's unemployment rate will remain near its newly-set record low – below 4 percent – with job creation and labor force growth roughly equal to one another, keeping labor markets in balance.

Wage growth has not been strong at any point during the national recovery and expansion since 2010, trailing the national average throughout.

So, inflation pressure is unlikely to be the stumbling block for Pennsylvania's steady economic performance.

In Pennsylvania the sector that experienced the largest gain in jobs over the past year was in education and health services. The tight labor market continues to be an issue for small business owners in Pennsylvania with more than half of the state's small business owners saying it's harder to find qualified employees. This isn't helped by the fact that Pennsylvania has one of the slowest growing populations in the country.

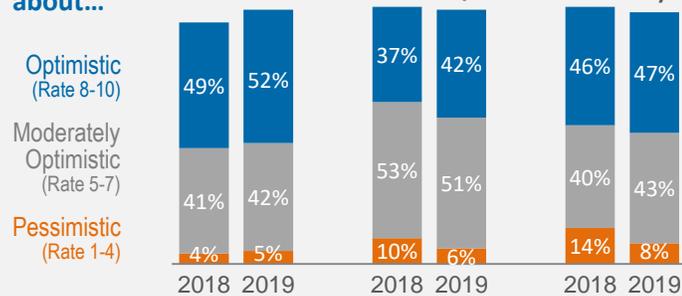
Small & mid-sized business owners may be marginally less optimistic than they were in 2018, but this may well be the result of a lack of out-performance more than it is an expectation of worsening near-term conditions.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Pennsylvania 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 hit new highs, surpassing the record highs measured in fall 2018, according to the latest PNC survey of Pennsylvania small and mid-size business owners and executives. Optimism for Pennsylvania business leaders' own company is particularly strong at 52 percent, having edged up from the record high recorded a year ago (49%).

Percent optimistic about...



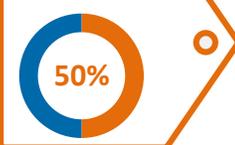
Pennsylvania business leaders' views about their local economy are positive with optimism reaching 42 percent, a new record-high for the 13-year survey. Nearly half (47%) of respondents describe their outlook for the national economy as highly optimistic, also a new record high for the Pennsylvania survey.

Nearly half (48%) of Pennsylvania small and mid-size business leaders expect their company's sales to increase compared to six out of 10 in fall 2018, and the spring 2007 record high 65 percent. Nearly four in 10 (38%), expect their profits to increase, a drop from the record high measured in fall 2018 (59%). Respondent expectations for the next six months shifted from growth to stability regarding employee compensation (63% vs. 48% in fall 2018).

PROFIT EXPECTATION



Supplier Price Increase



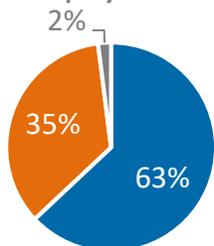
Pennsylvania vs. United States: Nationally, more than half (53%) anticipate paying higher prices to suppliers over the next six months. Four out of 10 (42%) expect to increase prices to customers.

PRICE PROMOTION

Half of Pennsylvania small and mid-size business owners and executives anticipate paying higher prices to suppliers over the next six months, compared to 58 percent a year ago.

More than a third (36%) of respondents expect to raise prices that they charge their customers compared to 39 percent in fall 2018. Among businesses that expect to raise prices, more than half (53%) anticipate increases of 3 percent or more (58% in fall 2018). Their reasons for price increases include rising non-labor costs (40%), favorable market conditions that support such actions (38%) and rising labor costs (22%). 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

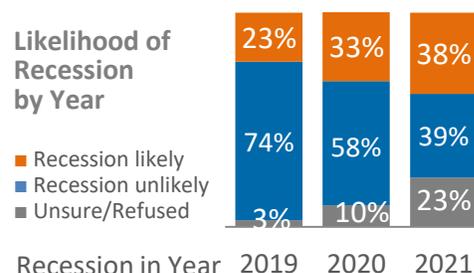
Fifteen percent of Pennsylvania small and mid-size business leaders plan to increase the number of full-time employees within the next six months, down from 26 percent in fall 2018 and a shift from growth to stability (79% expect no change up from 68% in fall 2018). Those expecting the number of full-time employees to decrease remains at two percent, tying the Pennsylvania survey low last recorded in fall 2018.

More than half (51%) say it's harder to find qualified employees than it was six months to a year ago, up from 39 percent in fall 2018. Nearly half (46%) have increased wages/salaries, little changed from 44 percent in fall 2018. In addition, 27 percent have allowed more flexible work arrangements, 22 percent have offered or increased bonuses, and 21 percent have increased benefits.

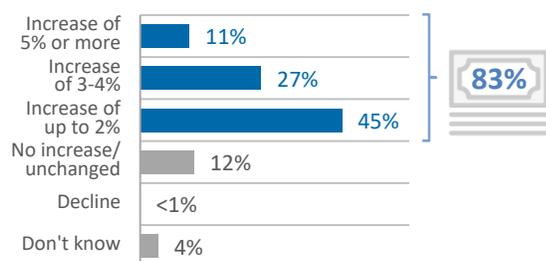
RECESSION IMPRESSIONS

What is the likelihood of recession? Nearly three-quarters (74%) of Pennsylvania small and mid-size business leaders say a recession is unlikely and 23 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 33 percent believe it is likely. Looking further out, optimism wanes, with only 39 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 83 percent of respondents expect these prices to go up over the next 12 months. The share of Pennsylvania business leaders expecting inflation of three percent or more is 38 percent (41% in fall 2018), with 27 percent expecting three- to four-percent inflation and 11 percent anticipating five percent or higher.

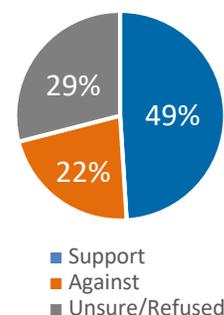
TARIFF TOLL

Pennsylvania 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 nearly half (49%) in support (38% in fall 2018), more than two in 10 (22%) against (27% in fall 2018) and nearly three in 10 (29%) uncertain (35% in fall 2018).

Pennsylvania business leaders are split on their expectation regarding the impact of the U.S. tariff policy on supplier prices with four in 10 expecting an increase, a similar number who do not expect an increase (44%) and nearly two in 10 (17%) who don't know or feel it is too early to tell. Fewer (26%) anticipate passing on price increases to customers. Six in 10 (61%) 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 one in 10 expect sales to drop. The one in 10 who expect sales to drop edged up from four percent who were expecting a sales drop in fall 2018.

The vast majority of respondents (91%) have made no changes to their business in response to tariffs. Among the seven percent who have made changes, five percent made new investments or hired and three percent delayed or cancelled investments or hiring as a result of tariff negotiations.

Increased Tariffs



The PNC Financial Services Group, Inc. (NYSE: PNC) is one of the largest diversified financial services organizations in the United States, organized around its customers and communities for strong relationships and local delivery of retail and business banking, including a full range of lending products; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-based lending; wealth management and asset management. METHODOLOGY: Artemis Strategy Group conducted the telephone survey from 7/1/2019 to 8/23/2019, among small and mid-sized businesses. 150 interviews were conducted in Pennsylvania. Sampling error for the nationwide results is +/- 4.4% at the 95% confidence level. DISCLAIMER: This report was prepared for general information purposes only and is not intended as specific advice or recommendations. Any reliance upon this information is solely and exclusively at your own risk. NOTE: The sum of percentages may not add to the total due to rounding.