

# PNC Economic Outlook Survey: Small Business Owners Expect Growth in Hiring and Sales; Planning To Exercise Pricing Power To Counter Rising Business Costs

-- Healthcare and tax reform top Social Security among national issues --

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Nationwide expectations of rising sales are prompting a growing number of small- and mid-sized business owners to make plans to increase hiring and raise salaries, according to the biannual PNC Economic Outlook, commissioned by The PNC Financial Services Group, Inc. (NYS: PNC).

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While optimistic about their outlook for sales, profits and hiring during the first half of 2005, business owners said they do plan to exercise pricing power to counter rising costs for supplies, health care and higher interest rates. In another survey highlight regarding federal legislative issues, respondents rated healthcare reform as the most preferred issue to be addressed this year, followed by tax reform, budget deficit reduction and Social Security reform.

The PNC Economic Outlook survey was conducted in late January through early March with responses from approximately 1,600 business owners and executives nationwide. The survey, conducted every six months since Spring 2003, gauges their mood and sentiment about business expectations and issues.

"The most recent PNC Economic Outlook national survey results indicate the economy remains on a path of steady growth," said Stuart Hoffman, chief economist for PNC. "Owners are feeling bullish about their own business performance based on their ability to manage through external factors such as rising expenses for energy, interest, health care and materials, which also represents a precursor to rising inflationary pressures."

## Survey's Key Findings

Conducted by Harris Interactive Inc., a global market research firm, the survey reveals the following results:

**Owners' Outlook for Business Performance:** The outlook on sales, profits and hiring during the first half of 2005 has reached its highest level since the survey began in March 2003.

- Sales: 70 percent expect increases (up 17 percent from last fall), 23 percent expect no change (down 13 percent), and 5 percent expect decreases (down 5 percent).
- Profits: 59 percent expect increases (up 7 percent from last fall), 30 percent expect no change (down 6 percent), and 10 percent expect decreases (down 1 percent).

- Hiring: 33 percent expect increases (up 8 percent from last fall), 63 percent expect no change (down 6 percent), and 4 percent expect decreases (down 2 percent). At the same time, 62 percent said they expected to increase employee salaries. Compared to one year ago, only 21 percent expected to add full-time personnel and 50 percent said they would give pay raises.

"These new results show that more business owners are finally feeling confident enough to make plans to hire more employees to support the anticipated growth in consumer demand and sales," said Jeffrey Schmidt, who oversees PNC's small business banking division. "Rising healthcare costs remain a big concern, but business owners are not going to let this issue prevent them any longer from adding personnel and paying bigger salaries to retain and attract employees in a tightening labor market."

Owners' Outlook for the Economy: Lingering concerns about issues that could negatively impact their business caused a small dip in the survey respondents' outlook for the U.S. economy as a whole. In the newest results, the issues expected to have the greatest negative impact on their company's performance are rated as follows: likelihood of interest rate hikes (26 percent), cost/availability of health insurance (24 percent), higher energy prices (18 percent) and possibility of higher inflation (17 percent).

- U.S. Economy: 20 percent are optimistic (rating 8-10 on a scale of 1 to 10) and 61 percent are moderately optimistic (rating 5-7) about the national economy through June. This compares to last fall when 30 percent were optimistic and 53 percent were moderately optimistic.  
- Local Economy: 26 percent are optimistic (rating 8-10 on a scale of 1 to 10) about their area economy and 54 percent are moderately optimistic (rating 5-7). This is the same as last fall when 26 percent were optimistic and 54 percent were moderately optimistic.

The owners' dip in optimism about the prospects for the U.S. economy is influenced by their escalating concerns about costs of doing business. The majority, however, plan to pass along some portion of these cost hikes to their customers via higher prices.

- Supplier Charges: 67 percent expect increases - up 13 percent from last fall. Meanwhile, 28 percent expect no change (down 9 percent), and 3 percent expect decreases (unchanged).  
- Healthcare Costs: 71 percent expect increases (up 20 percent from last fall), 23 percent expect no change (down 14 percent), and 3 percent expect decreases (up 2 percent).  
- Prices Charged Customers: 50 percent expect increases (up 16 percent from last fall), 45 percent expect no change (down 11 percent), and 4 percent expect decreases (down 2 percent).

Owners' Outlook on National Issues: Business leaders rated healthcare reform first (32 percent) followed by tax reduction (29 percent) then budget deficit reduction (19 percent) as the most preferred U.S. legislative issues they want addressed this year.

- Social Security reform: Just 14 percent rated this issue as a top priority among the list of federal issues. While it is not viewed as a top priority, the proposal most favored by survey respondents was partial privatization (49 percent) followed by reducing benefits for higher income retirees (36 percent) and raising the retirement age (22 percent). Fourteen percent said to keep the system as it is.

All respondents in the PNC Economic Outlook survey were owners or senior decision makers in their respective businesses. Harris Interactive Inc. conducted 1,671 telephone surveys with 501 businesses nationally and 1,234 businesses within PNC Bank's primary region. The margin of error for the overall results is +/- 3 percent and the margin of error for the national results is +/-5 percent.

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