

# Q1 2017 Economic Outlook Survey Results

## Business Optimism Surges in Wake of Presidential Election

The latest survey results suggest that many mid-sized companies are looking forward to potential changes in economic policy under President Trump's new administration.

70% of middle market firms expect the economy to improve in the next six months, the highest reading since the recession. Commercial real estate (CRE) firms were also optimistic, although there were some concerns around transaction volume and overall industry outlook.

Despite newfound optimism around the direction of the economy, business fundamentals are mostly unchanged. On net, 26% of respondents plan to increase hiring, down slightly from a year earlier. A net 42% expect increase capex, while a net 45% expect to increase sales – relatively small improvements compared to the spike in optimism.

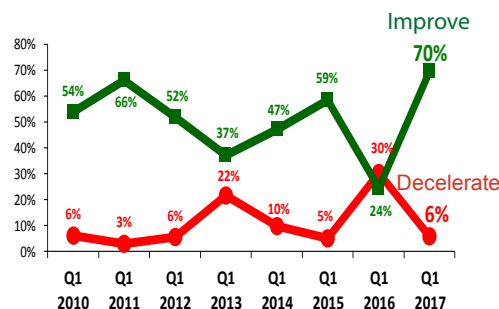
The positive response to the new administration appears to be closely related to expected changes in regulation and taxes. Healthcare costs, regulatory compliance, and taxes are viewed as the three biggest challenges for middle market firms, and all are expected to be high priority items for the new president.

The latest survey results indicate a sunnier economic outlook than in recent years, despite relatively little change in expectations for sales or hiring – firms will look for regulatory relief to drive growth in the bottom line.

## Middle Market Highlights

- 44% of Middle Market firms (sales \$10-\$500 million) feel the economy has improved over the past six months, up significantly from the 17% reading a year ago. Only 4% say the U.S. economy has weakened, well below the year-ago reading.
- 70% expect the U.S. economy to accelerate over the next six months, nearly triple the 24% reading in Q1 2016.
- Unit sales growth improved modestly, with a net 45% expecting sales to increase in the next six months, versus 35% last year.
- Capital investment plans improved, with a net 42% planning to hike capex vs. 35% a year ago.
- Hiring expectations were largely unchanged despite renewed business optimism, with a net 26% of firms planning to hire new employees.
- Healthcare costs and government regulations were cited as the biggest challenges for companies, followed by business tax rates and hiring and retaining qualified employees.

"How do you expect the national economy to perform over the next six months?"  
Middle Market Companies



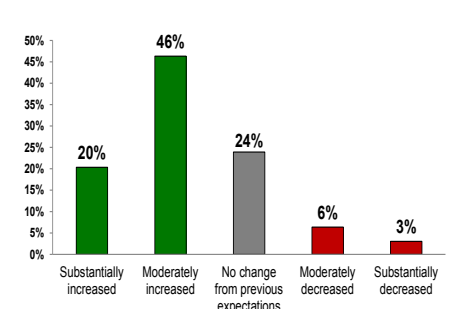
## Regional Challenges

- 64% of metro NYC firms and 54% of Mid-Atlantic firms expect their regional economies to outperform, while Upstate New York and Central Pennsylvania are more pessimistic

## Commercial Real Estate

- 54% say the U.S. economy has improved over the past six months, up from 19% a year ago. 11% say the economy has decelerated, down from 17% in last year's survey.
- 67% of CRE firms expect the national economy to improve in the next six months, up from 27% a year ago.
- Expectations for the CRE industry improved somewhat, with a net 36% expecting conditions to improve, but industry optimism remains below 2010-2015 levels
- The outlook for rental rates was somewhat more downbeat than a year ago, with 15% of respondents expecting rates to fall.
- Expectations for CRE transaction volume stabilized from a year earlier but remain below the 2010-2015 norm.

"How have your expectations for economic growth changed since the presidential election on November 8th?"  
All Survey Respondents

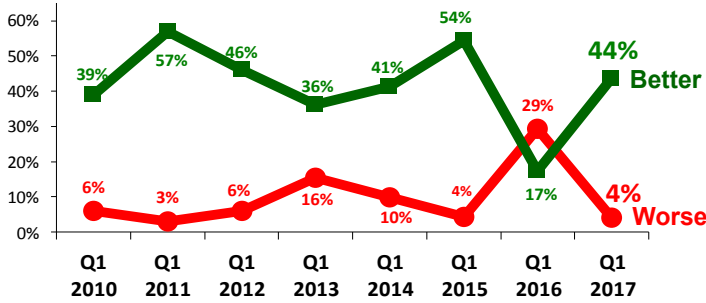


## “How would you rate the current state of the U.S. economy compared to six months ago?”

### Middle Market Companies

#### Economic Sentiment Returns to Survey Norm

Perceptions of current economic performance have markedly improved in wake of the presidential election

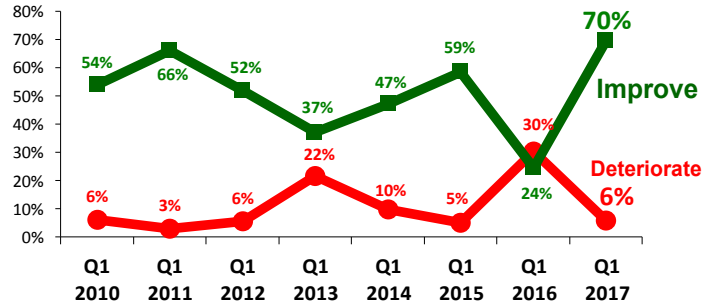


## “How do you expect the national economy to perform over the next six months?”

### Middle Market Companies

#### Near-Term Outlook Improves Significantly

Expectations of a more friendly business environment under President Trump have boosted business optimism

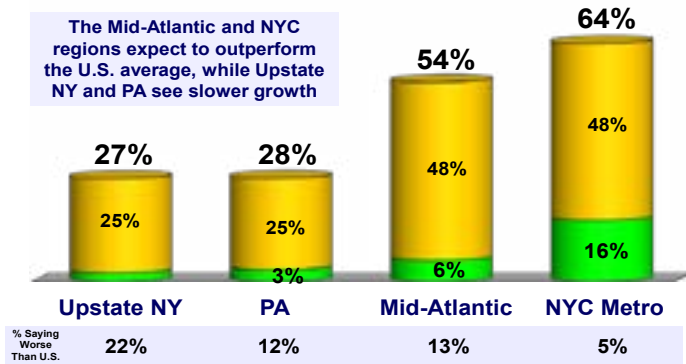


## “How do you expect the economy in your metro area to perform relative to the U.S. over the first half of 2017?”

### Middle Market Companies

Substantially Better Moderately Better

The Mid-Atlantic and NYC regions expect to outperform the U.S. average, while Upstate NY and PA see slower growth

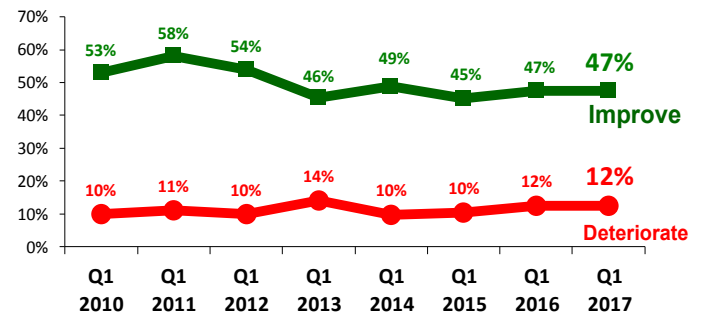


## “What are your expectations for your own industry over the next six months?”

### Middle Market Companies

#### Industry Expectations Remain Steady

Despite a large uptick in business sentiment, respondents' expectations for their own industry are unchanged

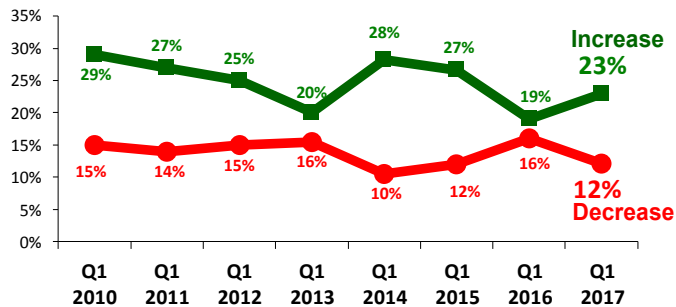


## “Looking ahead six months, how do you expect your inventory levels to change?”

### Middle Market Companies

#### Inventory Investment Rises Slightly

A net 11% of respondents expect inventory stockpiles to increase in the next six months

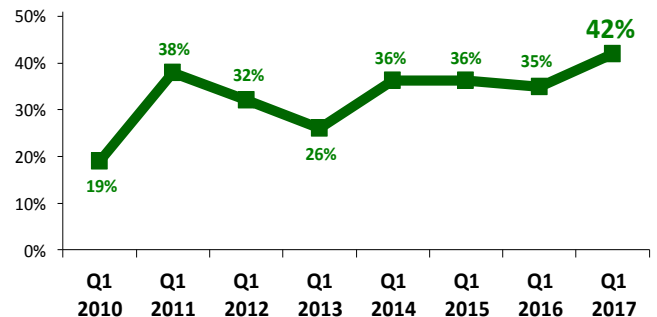


## “Which of the following best describes your firm’s capital equipment spending plans over the next six months?”

### Net Percentage Expecting Higher Capex Spending

#### Expectation of Deregulation and Lower Taxes Boost Capex

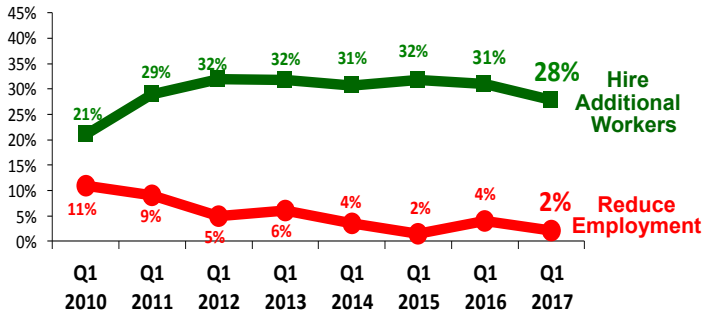
Nearly half of respondents plan to boost capital spending, while only 7% expect capex to decline in the next six months



“Which of the following best describes your firm’s employment plans over the next six months?”

### Middle Market Companies

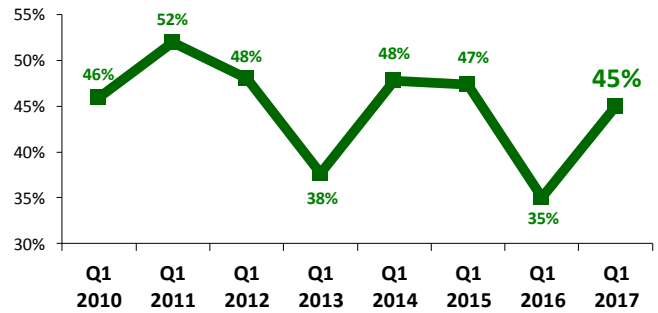
**Hiring Pace Largely Unchanged**  
Business optimism does not appear to be translating into job growth in the near-term



“Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?”

### Net Percentage Expecting Higher Unit Sales

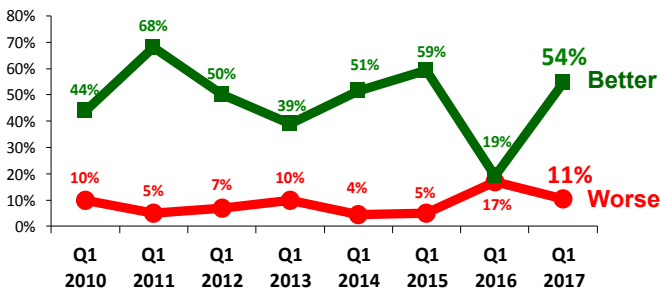
**Unit Sales Show Moderate Improvement**  
Sales expectations have not shifted nearly as much as national economic optimism



“How would you rate the current state of the U.S. economy compared to six months ago?”

### Commercial Real Estate Companies

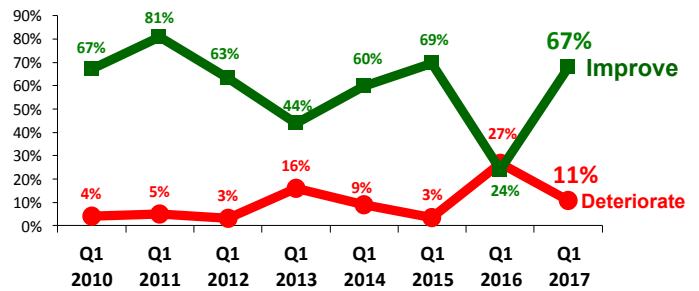
**CRE Respondents See Similar Rebound**  
More than half say the economy has improved, while only 1-in-10 feel the economy has slowed



“How do you expect the national economy to perform over the next six months?”

### Commercial Real Estate Companies

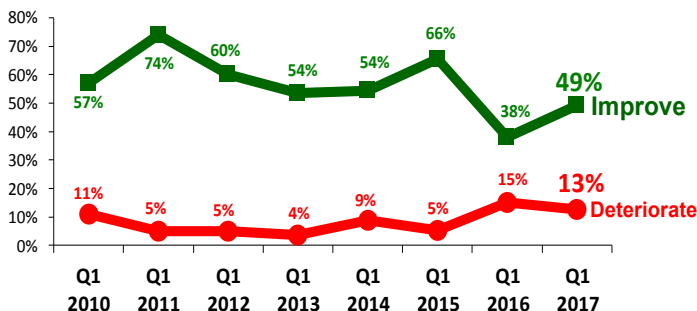
**Near-Term Expectations Improve as Well**  
Two-thirds of respondent expect the economy to accelerate during the first half of 2017



“What are your expectations for your own industry over the next six months?”

### Commercial Real Estate Companies

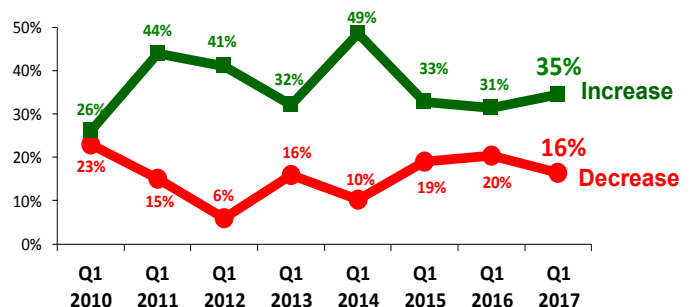
**Industry Outlook Positive But Below Prior Year Norm**  
Just under half of respondents expect CRE industry conditions to improve—up from 38% a year ago but below 2010-15 readings



“Looking ahead six months, how do you expect your occupancy rates to change from their current levels?”

### Commercial Real Estate Companies

**Lease-Up Expectations Largely Unchanged**  
A net 19% of respondents expect lease up activity to rise, while about half expect occupancy to remain flat

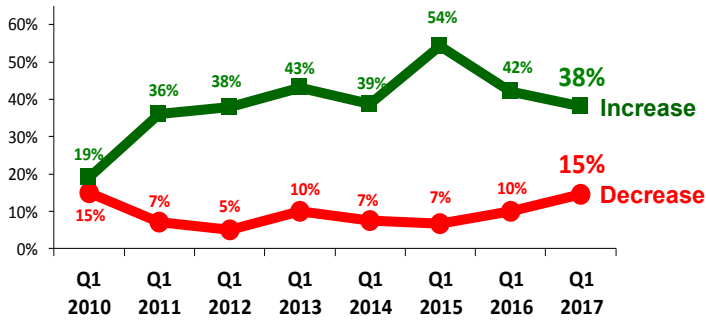


“Adjusting for normal seasonal ups and downs, what do you expect to happen to rental rates during the next six months?”

### Commercial Real Estate Companies

#### Rental Rate Forecasts Continue to Moderate

A net 23% expect rental rates to rise, down significantly from the 47% net reading two years ago

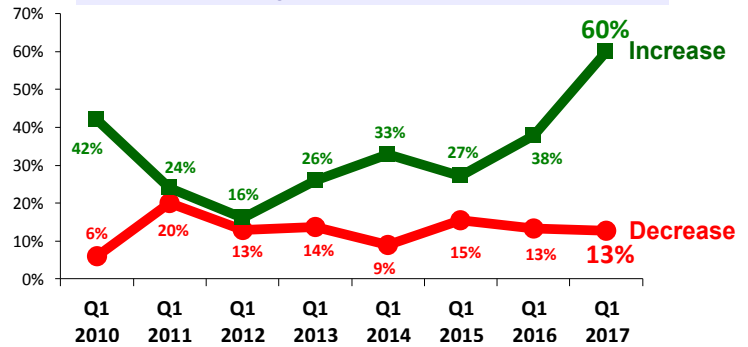


“What are your expectations for cap rates over the next six months?”

### Commercial Real Estate Companies

#### Cap Rate Expectations Rise To Post-Recession High

Rising real estate prices and expected increases in interest rates are putting upward pressure on cap rates

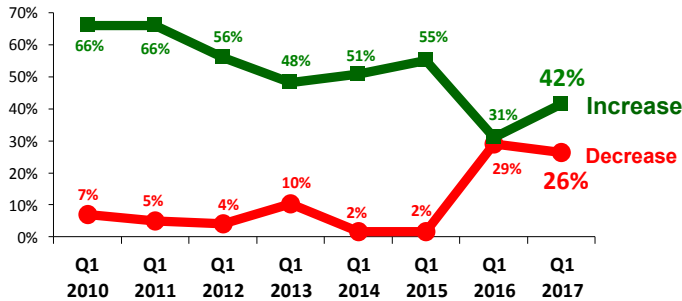


“What are your expectations for the volume of commercial real estate transactions nationally over the next six months?”

### Commercial Real Estate Companies

#### Transaction Volume Outlook Stabilizes

After a precipitous drop in 2016, expectations for transaction volume have edged up but remain below the 2010-15 norm

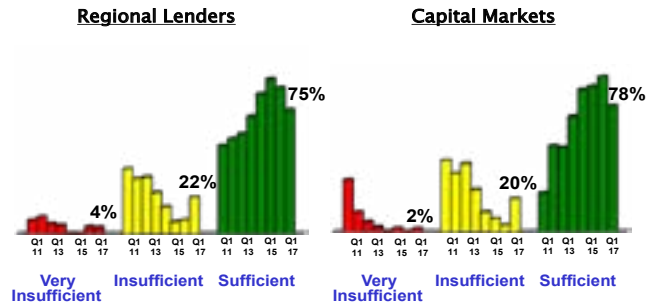


“How do you feel about the availability of CRE financing from the following sources over the next six months?”

### Commercial Real Estate Companies

#### Credit Remains Accessible For Most CRE Firms

Regulatory scrutiny has tempered some of the appetite for CRE lending, but most firms still have ample access to capital

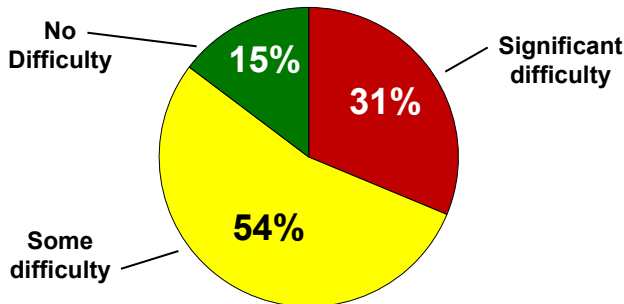


“To what degree are you experiencing difficulty finding qualified applicants to fill open positions requiring experience?”

### All Respondents

#### Experienced Labor Hard to Find as Job Market Tightens

More than 4-in-5 firms are having troubling filling positions that require prior experience, including 31% reporting significant difficulty

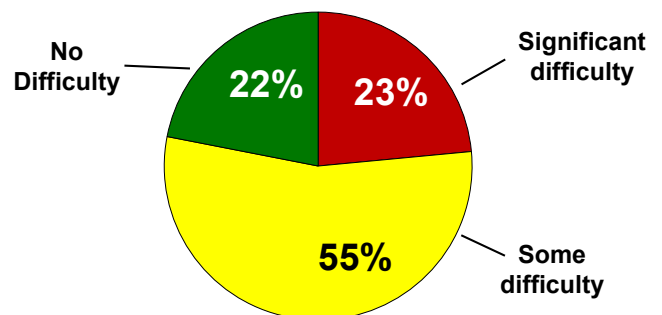


“To what degree are you experiencing difficulty finding qualified applicants to fill open entry-level positions?”

### All Respondents

#### Entry-Level Positions Also Difficult to Fill

Many firms are having trouble filling entry-level positions as the labor force participation rate has fallen



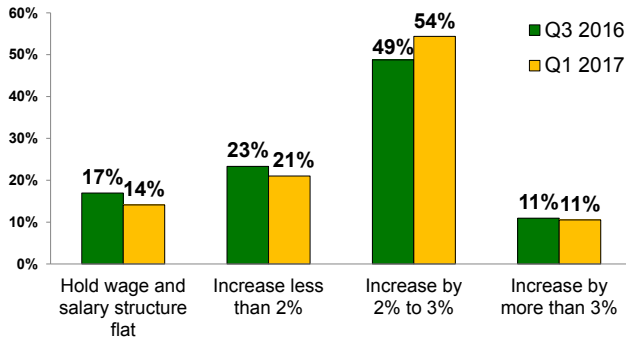


**“In general, what are your plans for managing employee wage and salary increases over the next year?”**

**All Respondents**

**Compensation Expectations Mostly Unchanged**

A slightly higher percentage of respondents plan to increase compensation by at least 2%, reflecting the tightening job market

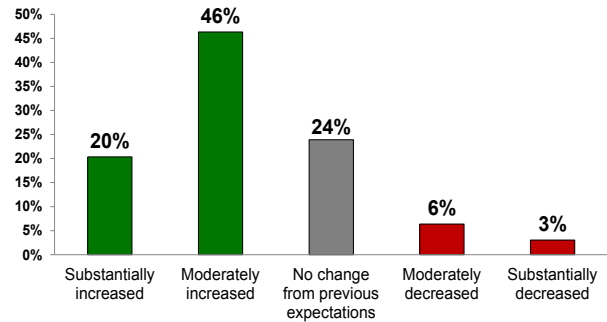


**“How have your expectations for economic growth changed since the presidential election on November 8th?”**

**All Respondents**

**Election Outcome is Key Driver For Renewed Optimism**

Roughly 2-in-3 respondents think that President Trump will deliver faster economic growth, while only 9% expect slower growth

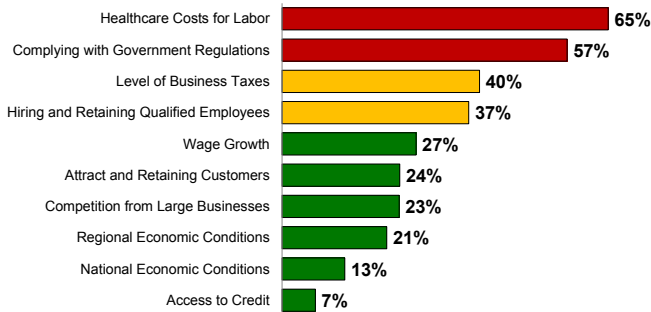


**Percent of Respondents Who Consider Issue to be a Major Challenge for Their Business**

**All Respondents**

**Healthcare Costs, Regulation Are Biggest Challenges**

Level of business taxes and finding qualified employees also viewed as significant challenges for many businesses

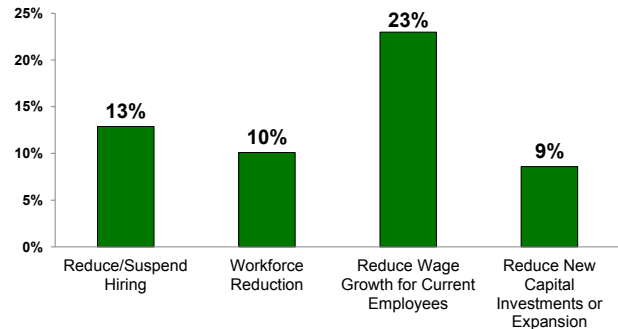


**“Which of the following actions do you expect to take in response to changes to the Affordable Care Act?”**

**All Respondents**

**Affordable Care Act Seen as Limiting Wage Growth**

Some respondents also plan to reduce headcount, suspend hiring or limit capital investments



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**SURVEY METHODOLOGY:** An Internet survey was conducted by M&T during December 2016 and January 2017 among senior managers and owners of mid-sized businesses located throughout the Bank’s geographic footprint. A total of 401 responses were received, consisting of 345 Middle Market enterprises (annual sales \$10 million to \$500 million) and 56 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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