In May 2018, we reached out to a group of Business Banking clients to obtain feedback on the current and near-term outlook for their industries and the overall economy. In this edition of the Business Economic Outlook Survey, we are happy to share a summary of those findings.

Key findings:

- The cost of labor (including hiring, healthcare, and wage growth) is the top concern of business owners. 47% of businesses ranked cost of labor as the number one challenge to their business today.
  - 69% noted encountering at least some difficulty when finding qualified, experienced applicants to fill open positions. About half of these respondents cited that applicants don’t have the necessary experience or skills required.
  - Also, 36% of business owners plan to hire additional workers in the next six months, compared to 26% in Q4 2017. 72% plan to increase wages and salaries over the next year as well.

- Confidence has risen as 57% of respondents expect the U.S. economy to improve in the next six months, climbing from 50% in Q4 2017.
  - Additionally, as a result of the recently passed tax reform law, 32% of business owners increased their expectations for sales (revenue) for 2018.

Survey highlights

How do you expect the U.S. economy to perform during the next six months?
What are your expectations for your own industry over the next six months?

- Q4 2016: 14% Deteriorate, 39% No change, 47% Improve
- Q2 2017: 12% Deteriorate, 36% No change, 53% Improve
- Q4 2017: 10% Deteriorate, 38% No change, 52% Improve
- Q2 2018: 10% Deteriorate, 39% No change, 51% Improve

What are your plans for capital expenditures over the next six months?

- Q4 2016: 9% Decrease, 50% No change, 41% Increase
- Q2 2017: 9% Decrease, 53% No change, 38% Increase
- Q4 2017: 12% Decrease, 55% No change, 34% Increase
- Q2 2018: 9% Decrease, 51% No change, 40% Increase

Which of the following best describes your company’s employment plans for the next six months?

- Q4 2016: 54% Reduce employment levels, 11% Decrease work hours of current employees, 30% Hold employment and work hours at current levels
- Q2 2017: 51% Reduce employment levels, 10% Decrease work hours of current employees, 34% Hold employment and work hours at current levels
- Q4 2017: 61% Reduce employment levels, 8% Decrease work hours of current employees, 26% Hold employment and work hours at current levels
- Q2 2018: 45% Reduce employment levels, 13% Decrease work hours of current employees, 36% Hold employment and work hours at current levels

45% of business owners plan to increase wages and salary by more than 3%, compared to 13% in Q4 2017

17% of business owners plan to hold employment and work hours at current levels, down from 61% in Q4 2017
In general, what are your plans for managing employee wage and salary increases over the next year?

<table>
<thead>
<tr>
<th>Plan Description</th>
<th>Q4 2016</th>
<th>Q2 2017</th>
<th>Q4 2017</th>
<th>Q2 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hold wage and salary structure flat</td>
<td>20%</td>
<td>29%</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>Increase by less than 2%</td>
<td>26%</td>
<td>26%</td>
<td>23%</td>
<td>21%</td>
</tr>
<tr>
<td>Increase by 2% to 3%</td>
<td>41%</td>
<td>36%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Increase by more than 3%</td>
<td>13%</td>
<td>9%</td>
<td>13%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Only 7% of business owners ranked business taxes as the #1 challenge to their business.

Please rank the top 5 challenges facing your business today.

1st: Cost of Labor (Hiring / Healthcare / Wage Growth) 47% 26% 9% 7% 11%
2nd: Competition / Attracting Customers 43% 19% 14% 9% 16%
3rd: Current State of Economy 38% 19% 20% 10% 14%
4th: Level of Business Taxes 36% 20% 18% 9% 17%
5th: Other 31% 19% 22% 13% 15%

If the following legislative changes are enacted within the next 12-18 months, what impact do you believe it will have on your business performance?

- **Major Infrastructure Investment Bill**: 6% Very Negative, 47% Somewhat Negative, 31% No Impact, 15% Somewhat Positive, 15% Very Positive
- **Healthcare Reform (i.e. American Health Care Act)**: 9% Very Negative, 17% Somewhat Negative, 31% No Impact, 28% Somewhat Positive, 15% Very Positive
- **Immigration Reform**: 6% Very Negative, 12% Somewhat Negative, 61% No Impact, 13% Somewhat Positive, 8% Very Positive
- **Renegotiated international trade agreements (TPP, NAFTA, etc.)**: 7% Very Negative, 16% Somewhat Negative, 57% No Impact, 15% Somewhat Positive, 5% Very Positive
- **Import Tariffs**: 13% Very Negative, 24% Somewhat Negative, 52% No Impact, 7% Somewhat Positive, 4% Very Positive

46% of businesses believe that the Major Infrastructure Investment Bill will have a positive impact on their business.

**Equal Housing Lender.**


SURVEY METHODOLOGY: An Internet survey was conducted by M&T during May 2018 among senior managers and owners of small to mid-sized businesses located throughout the Bank’s geographic footprint. A total of 337 responses were received.

DISCLAIMER: The survey results have been prepared by the Business Banking Division of M&T Bank and are not a product of any of M&T’s other affiliates, including any of its registered investment advisors. The views herein are provided for informational purposes only and may differ from those of other departments or divisions of M&T Bank and its affiliates. The information is not intended as specific advice or recommendations and should be viewed as merely representative of a broad range of possible outcomes.

Please note that in Q4 2017, the survey population expanded to include additional clients. Responses did not vary by customer type.

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