Business Optimism Buoyed by Tax Reform and Solid Economic Growth

This quarter’s survey results suggest that mid-sized companies remain upbeat about the near-term outlook for their business and the economy, driven in part by tailwinds from federal tax reform legislation.

- 29% of firms plan to increase capital expenditures as a direct result of the tax cut package, and 25% plan to increase worker wage rates. At least 1-in-10 plan to hire additional workers, provide employee bonuses, or increase payouts to shareholders as a result of tax reform.
- 70% of middle market firms say the national economy has improved over the past six months, the highest reading since the recession and well above the 44% score one year ago.
- On net, 35% of respondents plan to increase hiring, up from 26% a year earlier. However, an increasingly tight labor market will likely make it challenging for firms to acquire and retain top talent.

In terms of legislative priorities, respondents were most interested in seeing Congress make another attempt at healthcare reform, while an infrastructure bill and regulatory rollbacks were also cited as important priorities.

What actions do you expect to take as a direct result of the recently passed tax reform law?

**ALL RESPONDENTS**

Tax Savings Going to Capital Expenditures and Employee Pay: In contrast to announcements by many public companies to return excess capital to shareholders, only 13% of Middle Market and CRE firm plan to increase dividends or payouts.
How would you rate the current state of the U.S. economy compared to six months ago?

**MIDDLE MARKET COMPANIES**

*Economic Optimism Continues to Rise:* Business sentiment hit a post-recession high in Q1, driven by solid economic growth and passage of federal tax cut legislation.

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

**MIDDLE MARKET COMPANIES**


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

**MIDDLE MARKET COMPANIES**

*Capital Spending Plans Hold Steady:* Benefits from federal tax cut legislation may offset natural drag from rising interest rates.

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What best describes your firm’s employment plans over the next six months?

**MIDDLE MARKET COMPANIES**

*Hiring Forecasts Reach Post-Recession High:* A tightening labor market may force firms to raise wages to attract and retain talent, especially for skilled employees.

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

COMMERCIAL REAL ESTATE
Commercial Real Estate Firms Have Similar Outlook:
Similar to their Middle Market counterparts, CRE respondents have noticed meaningful improvement in the economy over the last two years.

How do you expect the Commercial Real Estate industry to perform over the next six months?

COMMERCIAL REAL ESTATE
CRE Industry Growth Remains Tepid: While CRE firms are optimistic about the economy overall, they remain somewhat reserved about the performance of their own industry.

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

COMMERCIAL REAL ESTATE
Cap Rate Outlook Remains Positive: Property valuations may be more attractive as price increases level off after years of appreciation.

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

COMMERCIAL REAL ESTATE
Transaction Volume Improves, But Remains Below 2010-15 Norm: Sales activity expected to modestly improve, reflecting tighter credit conditions and worries about over-valuations in some markets.
Since passage of the tax reform law, to what extent have you modified your sales (revenue) expectations for 2018?

**ALL RESPONDENTS**

**Most Firms Expect Little Revenue Impact From Tax Cuts:** While 3-in-10 anticipate a boost to top-line sales revenue.

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Since passage of the tax reform law, to what extent have you modified your capital investment plans for 2018?

**ALL RESPONDENTS**

**Tax Reform Likely to Boost Capital Expenditure Activity:** Roughly 1-in-3 firms expect to channel tax savings into capital spending.

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What potential legislation would have the most positive impact on your business in 2018?

**ALL RESPONDENTS**

**Healthcare Reform, Infrastructure Spending and Regulatory Relief Are Top Priorities:** In contrast, few firms are interested in immigration reform, changes to the welfare system or renegotiating existing trade agreements.

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<td>Healthcare Reform</td>
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<td>Increased Infrastructure Spending</td>
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<td>Reduction in Regulatory Requirements</td>
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<td>Renegotiation of Trade Agreements</td>
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<td>Immigration Reform</td>
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<td>Welfare Reform</td>
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**SURVEY METHODOLOGY:** An Internet survey was conducted by M&T during January and February 2018 among senior managers and owners of mid-sized businesses located throughout the Bank’s geographic footprint. A total of 249 responses were received, consisting of 211 Middle Market enterprises (annual sales $10 million to $500 million) and 38 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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