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Small Retailers Express Greatest Concerns About Impact of Federal Minimum Wage Hike

-Outlook rebounds among all small businesses for sales, profits and hiring amid stable interest rates and lower energy prices compared to six months ago-

PITTSBURGH, April 5 /PRNewswire-FirstCall/ -- As Congress considers the first federal minimum wage increase in 10 years, most small business owners across the United States foresee minimal impact on their business except retailers who expect to raise prices and reduce hiring, according to the semiannual PNC Economic Outlook survey.

(Photo: <http://www.newscom.com/cgi-bin/prnh/20070405/NETH003>)

Amid stable interest rates and lower energy prices, down from last year's highs, the overall views, meanwhile, of small and mid-sized business owners reflected a boost in expectations for their sales, profits and hiring of new employees during the next six months.

"Despite lingering concerns about higher energy prices and interest rates, small business owners are more positive on the near-term outlook for their businesses and the U.S. economy. This is additional evidence supporting our view of a 'soft landing' for the U.S. economy even in the midst of growing problems with subprime mortgage delinquencies," said Stuart Hoffman, chief economist of The PNC Financial Services Group, Inc. (NYSE: PNC).

Currently, both the U.S. Senate and House of Representatives have voted to increase the federal minimum wage from \$5.15 to \$7.25 an hour. The issues in debate include \$8.3 billion in proposed tax breaks for small businesses in the Senate version.

Among business owners in all industry sectors, three out of four (76 percent) report the federal minimum wage hike will have little or no impact on their business within the first six months of enactment. The primary reason, PNC's survey found, is that 72 percent already meet higher state minimum wage requirements.

In contrast, 35 percent of retail and wholesale business owners say the federal minimum wage hike would "greatly or somewhat adversely impact" their business within its first six months. Among the concerned owners in these two industry sectors, the impact would be felt by customers and employees alike: 34 percent of these owners would raise selling prices and 29 percent would reduce hiring.

The survey was conducted for PNC between January and March by Harris Interactive, a global market research and consulting firm, with responses from 1,258 business owners and

senior decision makers. This survey, done every six months since 2003, gauges the mood and sentiment among business owners about business expectations, economic factors and other issues.

Expectations On the Rise ...

Overall, the outlook among U.S. business owners for sales, profits, hiring and investments for the next six months significantly rebounded to the highs reached in PNC's survey one year ago, after a small decline last Autumn.

"There is a positive lift in business owners' optimism and business expectations from last Autumn, which is consistent with market indicators showing stable interest rates and a decline in energy prices from last year's highs," Hoffman said.

- Sales: 65 percent expect increases during the next six months, compared to 58 percent last Autumn and 67 percent a year ago.
- Profits: More than half (54 percent) expect profits to increase. This compares to 49 percent last Autumn and 54 percent a year ago.
- Hiring: One out of three (32 percent) plan to increase hiring of full-time employees compared to 25 percent last Autumn and 32 percent a year ago.

When it comes to investing in their own business, three out of four (76 percent) have plans for capital spending during the next six months, up from 70 percent last Autumn. Technology equipment, cited by 24 percent of business owners, is most likely to receive the largest spending increase over the next six months with "other types" of business equipment (14 percent) and physical plant (10 percent) a distant second and third, respectively.

... But Tempered by Concerns

Among a list of five choices, higher energy prices remain the dominant concern for business owners with 31 percent citing a hike as having the greatest impact on their business over the next six months. This is significantly down from 50 percent last Autumn. Indeed, energy prices have risen since our survey was concluded in early March. The likelihood of interest rate increases rose to the second greatest concern (24 percent), even as they have stabilized over the past six months.

Consistent with their more upbeat outlook for their own business prospects, business owners are more optimistic about the U.S. economy. Compared to 11 percent last Autumn, a measurably higher 16 percent are now optimistic (rating 8 to 10 on a scale of 1-10) about the next six months.

Reduced Cost Pressures

A significantly lower 61 percent expect to pay higher prices to suppliers, down from 67 percent in both 2006 surveys. An even lower percentage (55 percent) of manufacturers report they expect suppliers' prices to rise. These results likely reflect declines in prices for energy and other basic materials, Hoffman noted.

For prices charged to customers, a stable 39 percent plan to pass along some portion of higher costs in the form of higher selling prices to customers. Of those who plan to raise prices, nearly one-quarter (24 percent) report that business growth and favorable market conditions will allow it.

For complete details of the national and regional survey results, visit <http://www.pnc.com/eos>.

The PNC Economic Outlook survey was conducted by telephone within the United States among 1,041 owners or senior decision-makers of small and mid-sized businesses with annual revenues of \$100,000 to \$250 million. The results given in this release are based on interviews with 528 businesses nationally, while the remaining 730 interviews were conducted among businesses within PNC's primary region. Quotas were established by company revenue using the Dun & Bradstreet population. The sample was drawn to include a representative sampling of businesses by region and industry. Sampling error for the national results is +/- 4.3 percentage points. Sampling error for the various sub-samples would be higher and vary.

Harris Interactive is the 12th largest and fastest-growing market research firm in the world. The company provides innovative research, insights and strategic advice to help its clients make more confident decisions, which lead to measurable and enduring improvements in performance. Harris Interactive is widely known for The Harris Poll, one of the longest running, independent opinion polls and for pioneering online market research methods. More information may be obtained at <http://www.harrisinteractive.com>.

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