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Cautious Small Business Owners Expect Lift in Sales and Profits Amid Flat Hiring Outlook

Owners Yet to See Boost from Federal Stimulus, Foresee Major Pain from Health Care Reform, PNC Survey Finds

PITTSBURGH, Oct. 1 /PRNewswire-FirstCall/ -- Six out of 10 U.S. small and mid-sized business owners are considering belt-tightening actions with their labor forces during the next six months amid cautious optimism about their sales and profits and little hope for a boost from the federal stimulus program any time soon, according to the PNC Economic Outlook survey's newest findings.

(Photo: <http://www.newscom.com/cgi-bin/prnh/20091001/NE84789>)

The fall findings in the biannual PNC survey, which began in 2003, provide insights into how the nation's business owners view the U.S. economy's recent recovery. They are evenly split (50 percent pessimistic vs. 48 percent optimistic) about the prospects of the U.S. economy during the next six months. This compares to the record-high 71 percent who were pessimistic last spring.

"With this decline in pessimism, it could be said that going down less is the new 'up'," said Stuart Hoffman, chief economist for The PNC Financial Services Group, Inc. (NYSE: PNC). "These new findings support PNC's forecast that the U.S. economy has started a moderate U-shaped recovery that will continue throughout at least 2010."

Mixed Views: Sales, Profits, Hiring

The small business survey, which gauges the mood and sentiment of the bedrock of the American economy, found one-quarter (25 percent) are pessimistic about their own company's prospects -- versus 36 percent in the spring. The results also revealed the following insights into owners' outlook for the next six months:

- Better sales and profits: One likely key driver of the cautious optimism is improving sales expectations, as four in 10 expect sales to increase compared to 26 percent in the spring. One out of three expects profits to rise compared to 21 percent in the spring.
- Holding down labor costs: There has only been a slight change, however, in expectation for full-time employees. As was the case in the spring, most (64 percent) expect their number of full-time employees to remain the same compared to 65 percent in the spring. Only 17 percent foresee hiring compared to 12 percent last spring. More than half are taking actions to manage labor costs led by reductions in employees' hours and temporary layoffs.
- Lack of investments: Capital spending plans remain weak. About half (52 percent) have no plans for capital spending compared to 43 percent last

spring.

- Pricing power short-circuited: Only 22 percent -- similar to the 19 percent last spring -- plan to raise prices since few think market conditions will allow a price hike.

Casting Doubts: Recovery, Stimulus, Health Care Reform

Business owners remain cautious in their expectations for the U.S. economy with an overwhelming 96 percent saying it has not begun to improve. About half (49 percent) feel the economic recovery is more than a year away compared to 65 percent last spring.

Eight out of 10 feel they have yet to benefit from the federal stimulus program. Only one in five (20 percent) say they have received any benefit. A much smaller 2 percent have received a "significant" benefit.

As the health care reform debate continues in Washington, business owners are skeptical. Nearly six out of 10 (57 percent) say reform will have a negative effect on their business compared to 16 percent who expect a positive effect.

An online media kit containing national and regional survey results is available on PNC's website at <http://www.pnc.com/go/presskits>.

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Methodology

The PNC Economic Outlook survey was conducted between July 21 and Aug. 26 by telephone within the United States among 1,451 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 515 businesses nationally, while the remaining 936 interviews were conducted among businesses within the states of Florida, Illinois, New Jersey, Ohio and Pennsylvania. Sampling error for the national results is +/- 4.0 percentage points at the 95 percent confidence level.

The survey was conducted by Artemis Strategy Group (www.ArtemisSG.com), a communications strategy research firm specializing in brand positioning and policy issues. The firm, headquartered in Washington D.C., provides communications research and consulting to a range of public and private sector clients.

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