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Optimistic Business Owners Expect Increased Sales With Limited Price Hikes

- PNC survey finds small and mid-sized business owners more optimistic about their company's prospects and U.S. economy**
- Owners more likely to raise employee wages than to hire new staff**
- Inflation pressure eases amid lower pricing pressures and energy savings**
- PNC forecasts faster paced growth and highest real GDP growth since 2004**

PITTSBURGH, April 2, 2015 /PRNewswire/ -- Small business owners nationwide are increasingly optimistic about their sales and profits amid recent benefits from lower energy prices and growing enthusiasm about the U.S. economy, according to the latest PNC Economic Outlook Survey findings.

The spring findings of PNC's biannual survey, which began in 2003, reveal that the majority (83 percent) of business owners are optimistic about their company's overall prospects while 70 percent, the most since 2007, are optimistic about the U.S. economy. Further, 57 percent expect sales to increase and 51 percent anticipate profits to climb during the next six months, the most since 2012 and 2007, respectively.

This positive outlook is fueled by lower energy prices as 55 percent say they will have a positive impact on profitability. Forty percent plan pay raises for their employees, a significant lift from 32 percent one year ago.

As expectations for supplier price increases have gone down, just three in 10 (29 percent) will raise selling prices, down from 37 percent a year ago. Of those planning hikes, 38 percent will increase by 1-2 percent, aligned with the Fed's two percent target. This correlates to falling supplier pricing expectations - 52 percent expect an increase in supplier prices compared to 62 percent six months ago - and is also aligned with the FOMC's recent small downward revision to inflation in 2015.

"As crude oil prices fell to six-year lows, both consumers and businesses experienced savings that are now reflected in business optimism," said PNC's Chief Economist Stuart Hoffman. "As inflation pressure eases, wages and consumer spending power will tick upward. In response, business owners are expecting a better 2015 which directly supports what PNC forecasts will be the fastest real GDP growth since 2004."

Hiring and Financing Needs Remain Limited

Twenty-two percent plan to add full-time employees while 72% will keep staffing the same – both similar to the fall results. Thirty-nine percent claim it has been more than two years since they last increased staff, with the average increase of 5-6 employees among that group.

Although expectations for business prospects are promising, loan and credit demand continue on a slow path upward. While the majority are not seeking outside financing, 22 percent claim they probably or definitely will take out a new loan or line of credit in the next six months compared to 17 percent in the fall. Forty percent last took out a loan or line of credit more than two years ago while 23 percent never have. Other key findings include:

- **Paying Down Debt:** Fifty-three percent say they are paying down existing debt out of operating revenue. Thirty-four percent dedicate five percent or more, 19 percent use 1-4 percent while 26 percent use none.
- **Strategic with Current Assets:** Four in 10 (43 percent) expect their cash flow to increase in the next six months. Over half (55 percent) manage cash closely and are aware of cash flow on a daily basis, and 72 percent verify that business decisions are made according to their forecasts.
- **Preparing for the Unknown:** Seven in 10 say they maintain an emergency or cash reserve fund. Of those with a fund, 39 percent estimate the amount would cover 3-6 months.
- **Mixed Views About Security:** One in 10 (9 percent) have been impacted by a security breach. Information security is a top concern for 45 percent while 54 percent are less concerned. Those concerned are most worried about customer (50 percent) and proprietary company information (30 percent).
- **Healthcare Cost Impact:** Forty-four percent believe their company's cost for employee health care will rise with 62 percent of that group expecting an increase of at least 10 percent.
- **Housing Prices Continue to Rise:** Fifty-nine percent expect prices to rise in their local market in the next 6-12 months, much higher than 52 percent six months ago and the survey's highest since the question was first asked in 2007.

An online media kit containing national and regional survey results is available on PNC's website at www.pnc.com/pncpresskits.

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Methodology

The PNC Economic Outlook survey was conducted between January 22 to March 11, 2015, by telephone within the United States among 1,858 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 500 businesses nationally, while the remaining interviews were conducted among businesses within the states of Alabama, Florida, Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio and Pennsylvania plus Washington, D.C. Sampling error for the national results is +/- 4.4 percent 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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