

Q1 2013 Economic Outlook Survey Results

Economy Stumbles; Businesses Press On

The U.S. economy stalled in the fourth quarter of 2012, with real GDP advancing at an anemic 0.1% annualized rate in Q4. Coupled with the looming federal sequestration cuts, it is not surprising that confidence in the near-term national outlook soured somewhat in our latest survey.

However, as has become a pattern, respondents continue to buck the economic headwinds and anticipate further modest gains in business performance. By a 4-to-1 margin, mid-sized companies expect unit sales to increase, rather than decrease, over the first half of 2013. Commercial real estate firms expect rents to rise, rather than fall, by a 4-to-1 margin.

Hiring plans are a wild card—while 31% of respondents plan to add workers during the first half of 2013, nearly as many (27%) say they plan to postpone hiring due to concerns over fiscal policy uncertainty. Fully one-third (33%) expect to delay or curtail capital spending for similar reasons.

Still, despite heightened worries about Washington gridlock, the fact that so many firms remain cautiously optimistic about their own business prospects is encouraging. As the drag from sequestration cuts and higher payroll taxes eases later this year, business momentum should gradually accelerate.

Middle Market Highlights

- Just 37% of Middle Market firms (sales \$5-\$500 million) expect U.S. economic growth to accelerate over the next six months—well below the 52% reading a year ago. Meanwhile, one in five (22%) expect growth to slow, a jump from 6% in Q1 2012.
- In contrast, 50% expect their unit sales to improve over the next six months, while just 13% expect sales to decline (versus 46% and 16% in our July 2012 survey).
- Hiring plans remain positive, pointing to further labor market momentum. Nearly one third (31%) of respondents expect to add workers over the next six months (versus 27% in the July 2012 poll), while only 6% expect to reduce payroll (on par with the last survey).

Sequestration Concerns

- The hiring pace would be much stronger if fiscal policy uncertainty were reduced. 27% of all respondents say they are delaying hiring due to uncertainty surrounding the debate on raising the federal debt ceiling and sequestration. One in three firms (32%) plan to postpone cap-ex spending for the same reasons.

"Will uncertainty surrounding the debate on raising the federal debt ceiling and sequestration have any impact on your 2013 hiring or capital expenditure plans?"

Middle Market and Commercial Real Estate Firms

	Hiring Plans	Capital Expenditure Plans
Postpone All	8%	6%
Postpone Some	19%	27%
Total Postpone	27%	33%
Accelerate Some	0%	1%
NET Postpone	27%	32%
No Impact	73%	66%

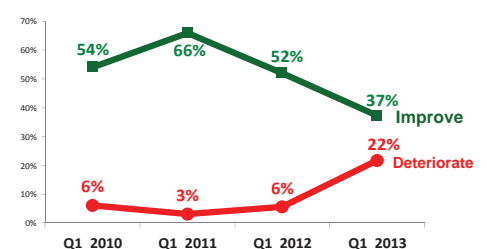
Regional Differences

- Roughly half of metro NYC (53%) and Mid-Atlantic (50%) firms expect their regional economies to outperform the U.S. during the first half of 2013—versus just 29% of Upstate New York and 28% of Pennsylvania respondents.

Commercial Real Estate

- 40% say the U.S. economy has improved over the past six months, well above the 25% reading in July. Just 11% say the national economy has worsened. Expectations remain positive, with almost half (46%) expecting improvement vs. 16% seeing slower growth.
- Over half (55%) expect CRE fundamentals to improve through mid-year, up from 40% in July. Only 4% expect conditions to weaken, well below the 9% reading in the prior survey.
- 29% expect occupancy rates to increase over the next six months (27% in July 2012). 17% expect occupancy to fall (vs. 20% previously).
- Despite cautious views on occupancy, 46% expect rental rates to rise over the next six months, up from 40% in the July 2012 poll. Only 8% expect rents to fall (vs. 9% in the prior poll).

"How do you expect the national economy to perform over the next six months?"
Middle Market Companies

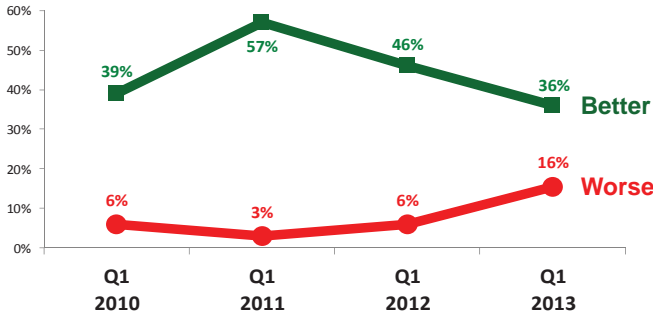


“How would you rate the current state of the U.S. economy compared to six months ago?”

Middle Market Companies

Entering 2013 on a Subdued Note

While still positive on net, optimism has waned significantly since the 2011 high water mark



“Did uncertainty surrounding the so-called ‘Fiscal Cliff’ negotiations have any impact on your 2012 hiring or capital expenditure plans?”

Middle Market and CRE Companies

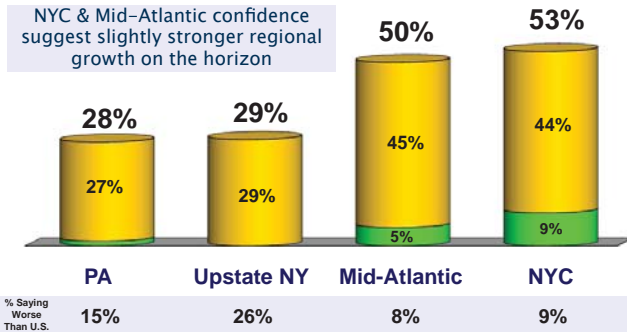
	Hiring Plans	Capital Expenditure Plans
Postpone All	9%	10%
Postpone Some	15%	23%
Total Postpone	24%	33%
Accelerate Some	1%	2%
NET Postpone	23%	31%
No Impact	76%	66%

“How do you expect the economy in your metro area to perform relative to the U.S. over the first half of 2013?”

Middle Market Companies

Substantially Better (Green) Moderately Better (Yellow)

NYC & Mid-Atlantic confidence suggest slightly stronger regional growth on the horizon

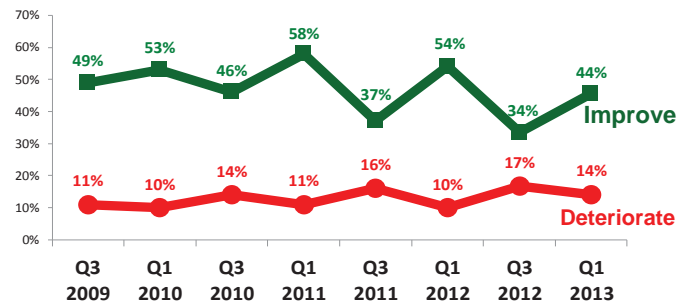


“What are your expectations for your own industry over the next six months?”

Middle Market Companies

Industry Expectations Improve Slightly

After dipping to post-recession lows in mid-2012, near-term expectations are again consistent with prior survey readings

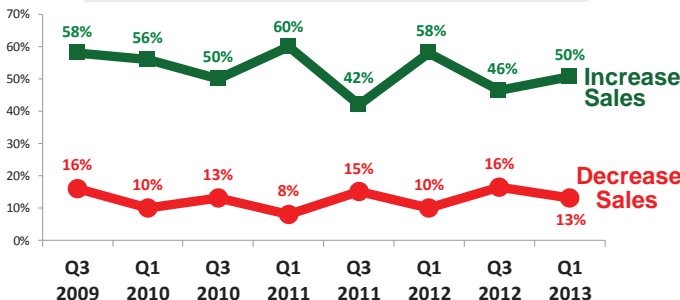


“Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?”

Middle Market Companies

Sales Outlook Consistent with Past Surveys

Mid-sized firms continue to expect moderate sales growth during the first half of 2013

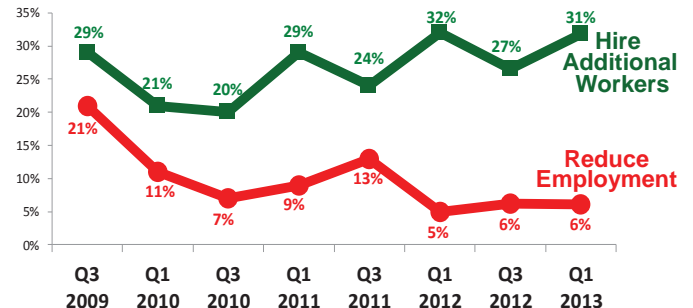


“Which of the following best describes your firm’s employment plans over the next six months?”

Middle Market Companies

Hiring Plans Remain Positive

Despite worries about the U.S. economy, a net of 25% of mid-sized firms plan to add additional workers over the next six months

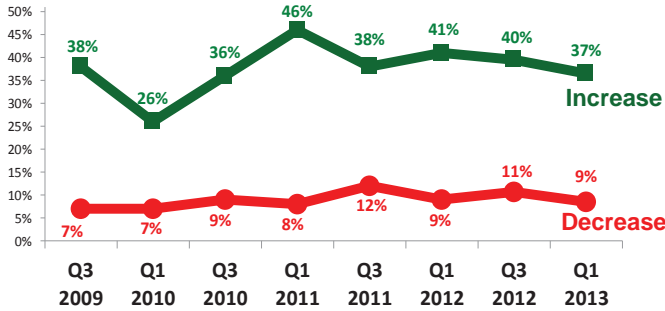


“Which of the following best describes your firm’s capital equipment spending plans over the next six months?”

Middle Market Companies

Capex Plans Still Positive

Near-term investment spending should continue to rise, although at a slightly slower pace than in 2012

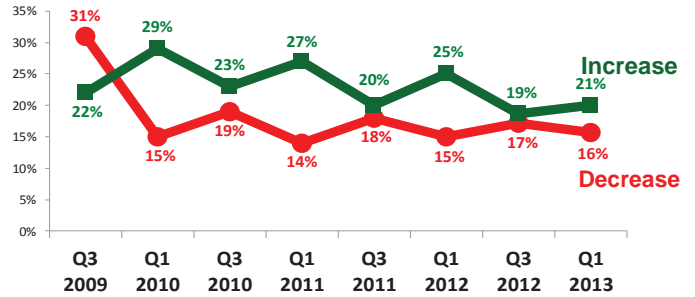


“Looking ahead six months, how do you expect your inventory levels to change?”

Middle Market Companies

Stable Inventory Management

Respondents have carefully managed inventory levels throughout the recovery

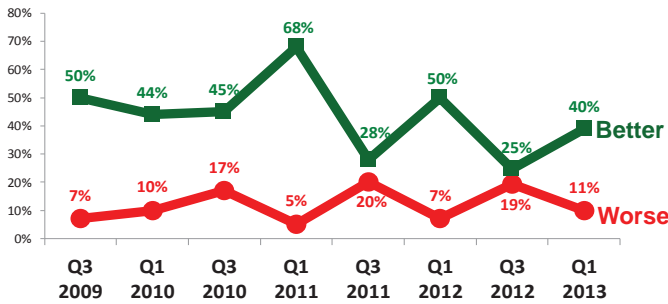


“How would you rate the current state of the U.S. economy compared to six months ago?”

Commercial Real Estate Companies

Modest Economic Progress

While 4-in-10 firms said the national economy improved in the second half of 2012, nearly half (49%) saw no change

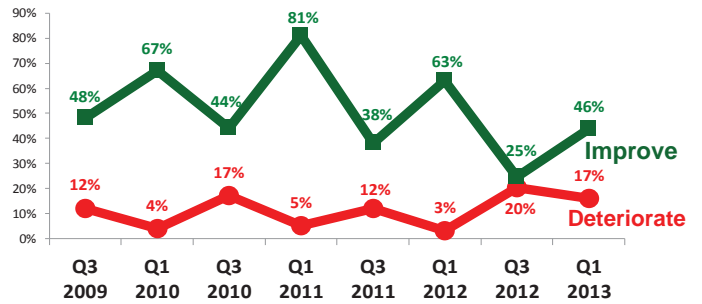


“How do you expect the national economy to perform over the next six months?”

Commercial Real Estate Companies

Slightly Firmer Near-Term Outlook

Confidence bounced back from the prior survey reading, but trails comparable levels at the start of 2011 and 2012

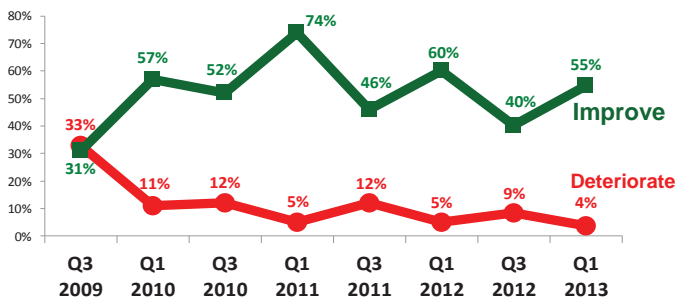


“What are your expectations for your own industry over the next six months?”

Commercial Real Estate Companies

Industry Outlook Strengthens

Expectations for CRE industry performance rose in January; very few respondents expect deterioration

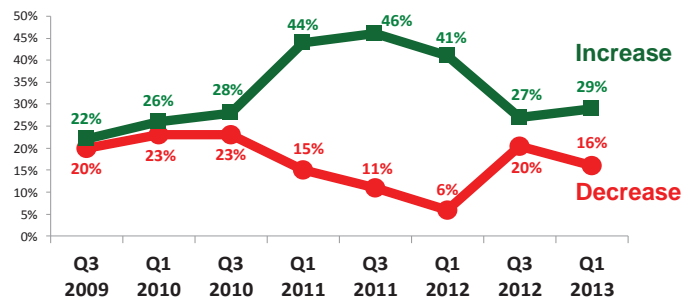


“Looking ahead six months, how do you expect your occupancy rates to change from their current levels?”

Commercial Real Estate Companies

Lease-up Outlook Improves Slightly

Expectations rebounded slightly in the latest survey, but continue to be relatively soft versus 2011 and early 2012 readings

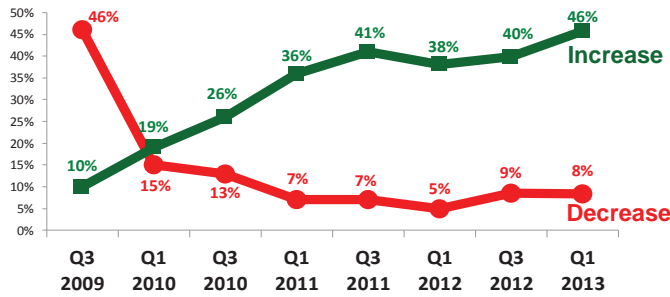


“Adjusting for normal seasonal ups and downs, what do you expect to happen to rental rates during the next six months?”

Commercial Real Estate Companies

Rental Rate Expectations Remain Positive

Despite concerns about sluggish tenant demand, CRE investors expect rental rates to move higher

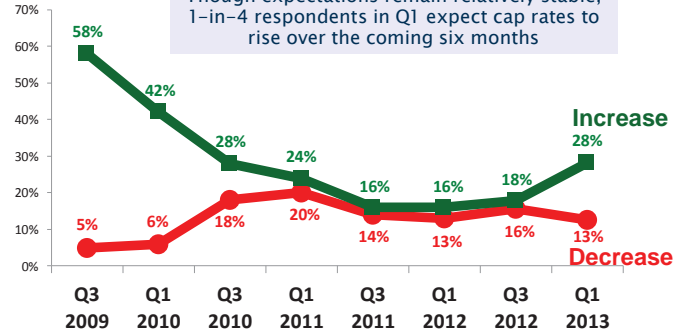


“What are your expectations for cap rates over the next six months?”

Commercial Real Estate Companies

Cap Rates to Tick Upward

Though expectations remain relatively stable, 1-in-4 respondents in Q1 expect cap rates to rise over the coming six months

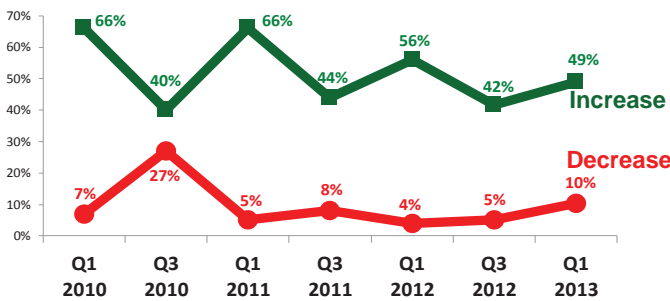


“What are your expectations for the volume of commercial real estate transactions nationally over the next six months?”

Commercial Real Estate Companies

Transaction Activity Remains Steady

CRE respondents expect modest gains in sales transactions over the first half of 2013

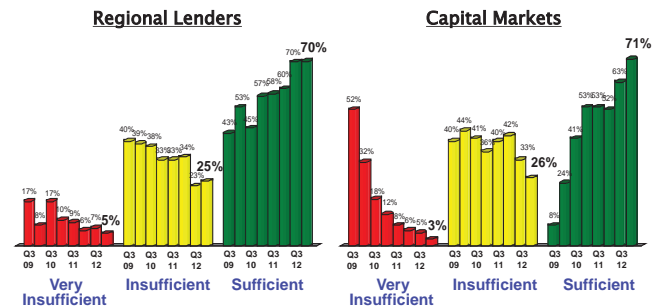


“How do you feel about the availability of CRE financing from the following sources over the next six months?”

Commercial Real Estate Companies

CRE Credit Flow Continues to Improve

A majority of CRE investors have access to sufficient financing, with a jump in capital market availability over the prior survey



ABOUT M&T: M&T Bank Corporation (NYSE: MTB.com), founded in 1856, is one of the top 20 independent commercial bank holding companies in the nation, with \$83 billion in assets, over 700 branch offices, and more than 14,000 employees throughout New York, Maryland, Pennsylvania, Washington, D.C., Virginia, West Virginia, New Jersey, Florida, Delaware and Toronto, Canada.

SURVEY METHODOLOGY: An Internet survey was conducted by M&T during January and February 2013 among senior managers and owners of privately held businesses located throughout the Bank’s geographic footprint. A total of 431 responses were received, consisting of 334 middle market enterprises (annual sales \$5 million to \$1 billion) and 97 commercial real estate investors/lessors. M&T has conducted the survey since mid-2009

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For additional information about survey results, please contact:

Gary Keith

VP - Regional Economist

Commercial Planning & Analysis

(716) 848-4725

gkeith@mtb.com



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