

Q3 2013 Economic Outlook Survey Results

The Near-Term Outlook Brightens

The economy finally appears to have established some modest momentum, after being sidetracked the previous two summers by intense Washington debate over the debt ceiling and sequestration. Middle Market firms are growing more optimistic, with the percentage indicating the economy has improved topping those who see deterioration by a 5-to-1 margin. The spread is even wider among Commercial Real Estate (CRE) firms, with 58% reporting improvement versus just 4% indicating weaker conditions.

Mid-sized companies appear to be cautiously acting on their near-term outlook. Fully one-third plan to add workers over the next six months—the highest reading in the survey’s four year history—and nearly half (46%) expect to modestly increase capital spending, up from 36% in January. CRE firms remain similarly upbeat, with 46% expecting rental rates to rise versus just 3% anticipating a decrease.

The key takeaway is that absent the drag from fiscal policy uncertainty, recovery from the Great Recession has become more tangible. While numerous challenges remain, including still-elevated unemployment and weak hourly earnings growth, the outlook for the economy is becoming more positive.

Middle Market Highlights

- Nearly half (45%) of Middle Market firms (sales \$10-\$500 million) feel the economy has improved over the past six months—up from 18% a year ago. Meanwhile, about one in ten (9%) say the U.S. economy has deteriorated, a step down from 28% in Q1 2013.
- 41% expect U.S. economic growth to accelerate over the next six months, well above the 20% reading one year earlier.
- Over half (54%) expect their unit sales to improve over the next six months, while just 11% expect sales to decline (versus 50% and 13% in our January 2013 survey).
- Hiring plans remain positive, pointing to further labor market momentum. One third (33%) of respondents expect to add workers over the next six months (on par with the last survey), while only 4% expect to reduce payroll (versus 6% in January 2013).
- Most survey respondents expect an increase in demand for the remainder of 2013 (61% of middle market and 65% of CRE). Recent increases in business capital expenses and local economic growth are the primary factors underlying their confidence.

Regional Differences

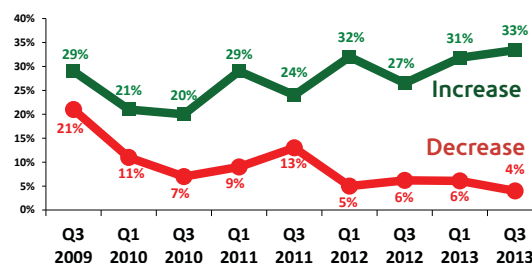
- Nearly two thirds of metro NYC firms (65%) expect their regional economy to out-perform the U.S. during the second half of 2013—versus just 48% of Mid-Atlantic, 29% of Upstate New York and 28% of Pennsylvania respondents.

Commercial Real Estate

- 58% say the U.S. economy has improved over the past six months, well above the 40% reading in January. Just 4% say the national economy has worsened. Expectations remain positive, with more than half (55%) anticipating improvement vs. 6% seeing slower growth.
- 58% expect CRE fundamentals to improve through mid-year, up from 55% in January. Only 5% expect conditions to weaken, slightly above the 4% reading in the prior survey.
- 36% expect occupancy rates to increase over the next six months (29% in January 2012). 19% expect occupancy to fall (vs. 17% previously).
- Alongside the occupancy rate optimism, 46% expect rental rates to rise over the next six months versus just 3% that expect rents to fall (vs. 8% in January 2012).

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

Middle Market



“For the remainder of 2013, what are your expectations for the demand for your products and services?”

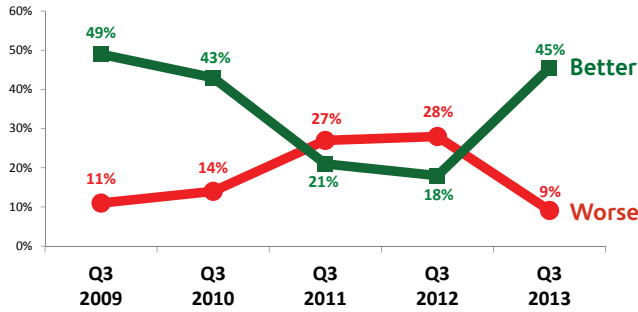
	Middle Market	Commercial Real Estate
Significant Increase	5%	3%
Moderate Increase	17%	11%
Slight Increase	39%	51%
No Change	28%	28%
Slight Decrease	9%	7%
Moderate Decrease	2%	0%
Significant Decrease	0%	0%
Net Increase	50%	58%

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

Middle Market Companies

Mid-Year Lulls Come to an End

After two consecutive summers of depressed business confidence due to fiscal policy uncertainty, the Q3 2013 results broke the trend, suggesting that economic fundamentals are improving

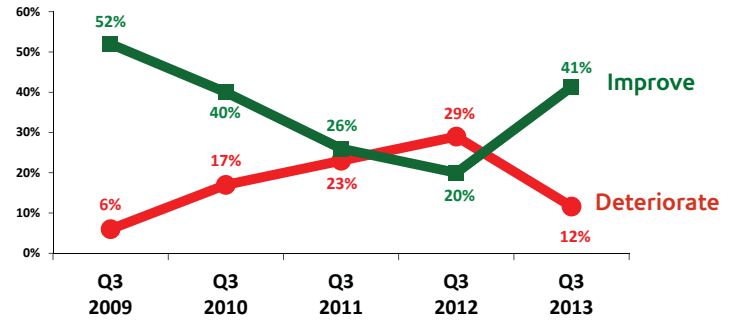


“How do you expect the national economy to perform over the next six months?”

Middle Market Companies

Near-Term Outlook Grows Brighter

Similarly, 4-in-10 respondents now expect further improvement in the U.S. economy, sharply above the year-ago reading



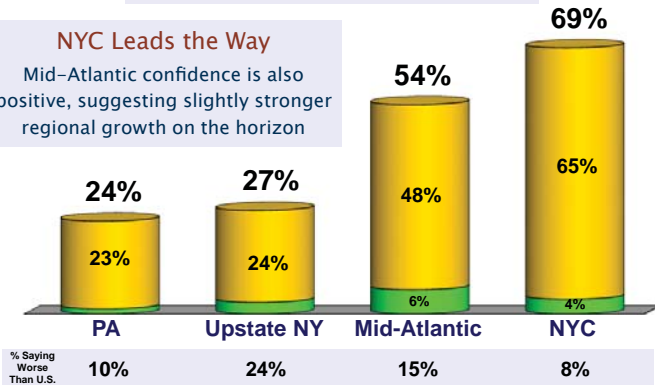
“How do you expect the economy in your metro area to perform relative to the U.S. over the second half of 2013?”

Middle Market Companies

Substantially Better Moderately Better

NYC Leads the Way

Mid-Atlantic confidence is also positive, suggesting slightly stronger regional growth on the horizon

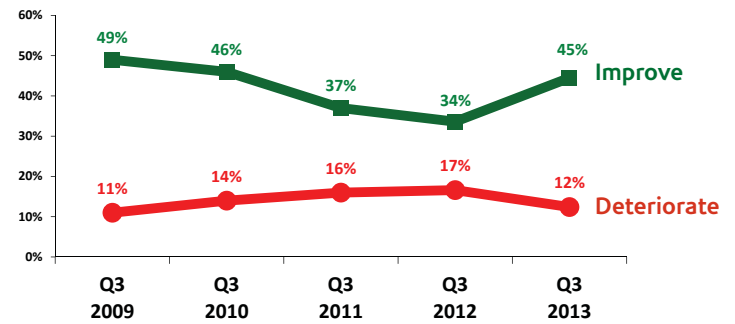


“What are your expectations for your own industry over the next six months?”

Middle Market Companies

Industry Outlook Bounces Back

After hitting a post-recession low in 2012, expectations have returned to healthier levels

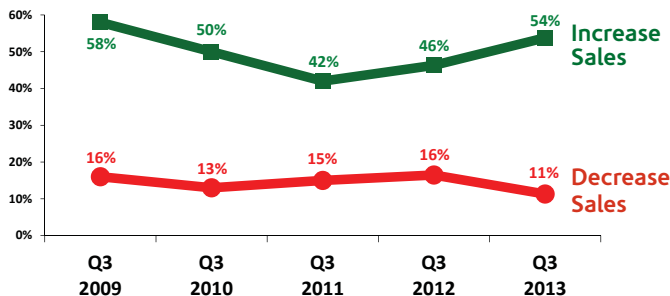


“Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?”

Middle Market Companies

Sales Expectations Modestly Improve

More than half of firms expect unit sales to increase during the second half of 2013

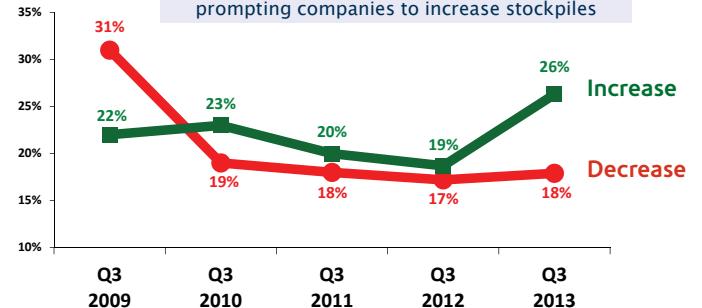


“Looking ahead six months, how do you expect your inventory levels to change?”

Middle Market Companies

Positive Outlook for Inventory Build

After several years of tight inventory management, improved sales expectations appear to be prompting companies to increase stockpiles

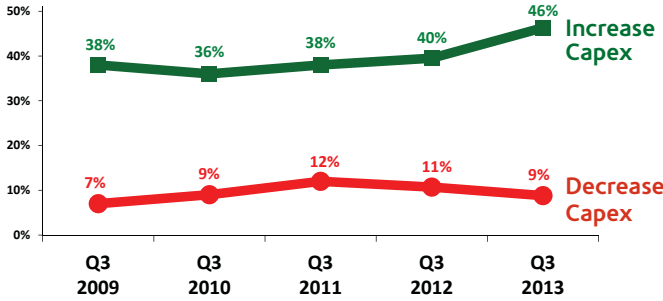


“Which of the following best describes your firm’s capital equipment spending plans over the next six months?”

Middle Market Companies

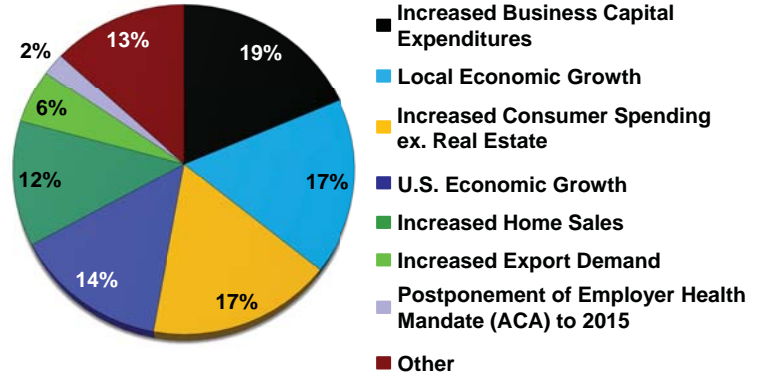
Capex Plans Grow Firmer

Near-term investment spending should be positive, with a noticeable jump from year-ago expectations



“If you expect underlying demand to increase over the remainder of 2013, to what factors do you attribute the improvement?”

Middle Market Companies

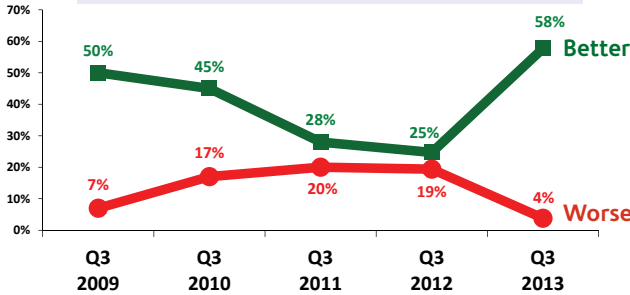


“How would you rate the current state of the U.S. economy compared to six months ago?”

Commercial Real Estate Companies

CRE Respondents See Improvement

A solid majority of CRE respondents feel the economy has improved over the past six months—the second highest reading in our survey’s history

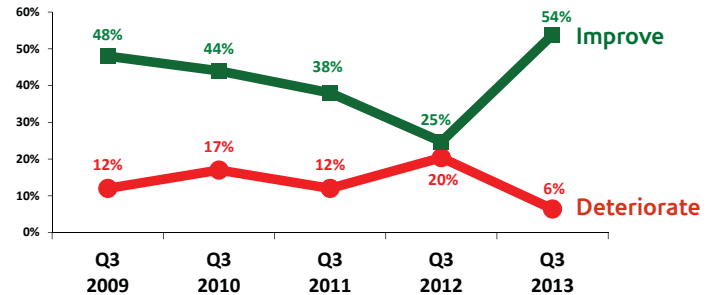


“How do you expect the national economy to perform over the next six months?”

Commercial Real Estate Companies

Near-Term Outlook Strengthens

CRE respondents continue to grow more optimistic about the economic outlook, with those expecting improvement eclipsing 50%

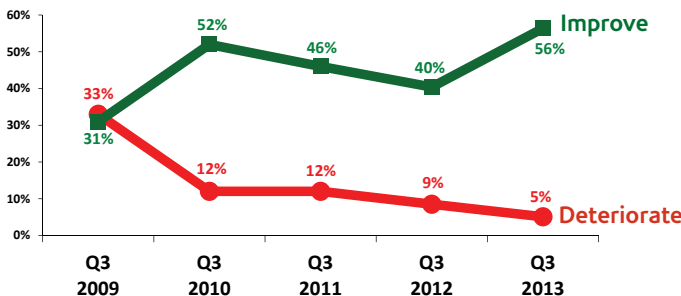


“What are your expectations for your own industry over the next six months?”

Commercial Real Estate Companies

Industry Outlook Strengthens

Expectations for CRE industry performance continue to rise, while very few respondents expect deterioration

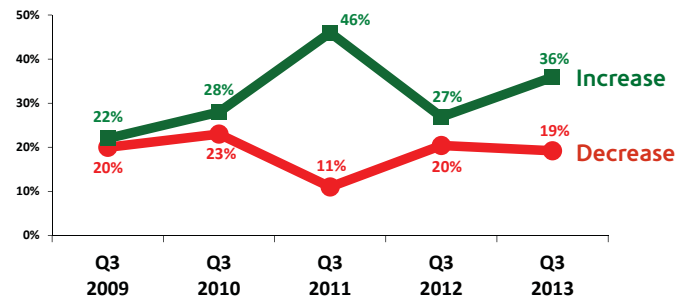


“Looking ahead six months, how do you expect your occupancy rates to change from their current levels?”

Commercial Real Estate Companies

Lease-up Activity Regains Momentum

Respondents have grown more upbeat about occupancy over the last year

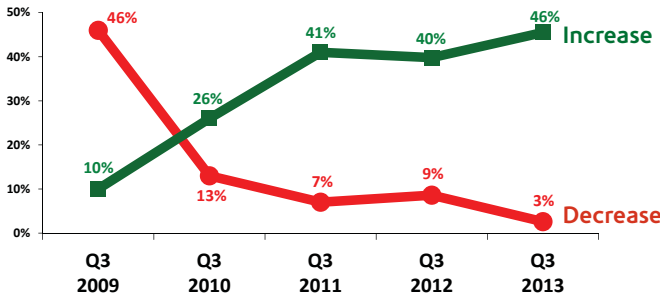


“Adjusting for normal seasonal ups and downs, what do you expect to happen to rental rates during the next six months?”

Commercial Real Estate Companies

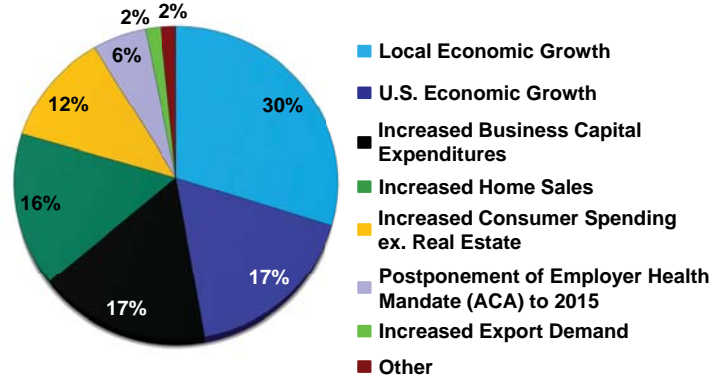
Rental Rate Outlook is Bright

Though most respondents foresee no change, optimism about rental rate increases is at a four-year high



“If you expect underlying demand to increase over the remainder of 2013, to what factors do you attribute the improvement?”

Commercial Real Estate Companies

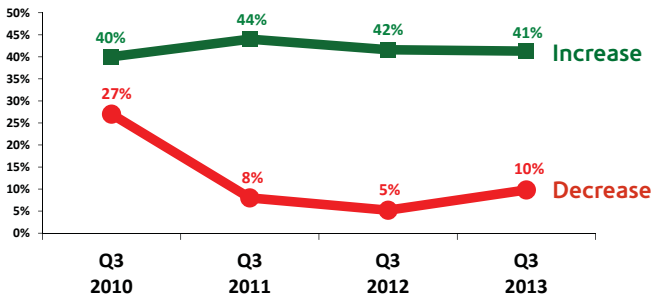


“What are your expectations for the volume of commercial real estate transactions nationally over the next six months?”

Commercial Real Estate Companies

Transaction Volume Remains Steady

CRE respondents expect transaction volume to remain positive

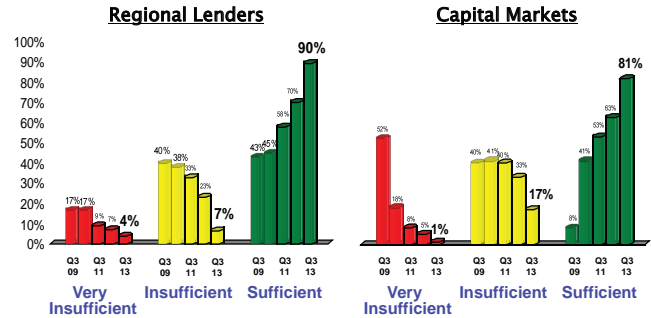


“How do you feel about the availability of CRE financing from the following sources over the next six months?”

Commercial Real Estate Companies

CRE Credit Flow Continues to Improve

A large majority of CRE investors have access to sufficient financing, with a big jump in availability from regional lenders



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 725 branch offices, and more than 15,000 employees throughout New York, Pennsylvania, Maryland, Delaware, Virginia, West Virginia, New Jersey, Florida, Washington D.C., and Ontario, Canada.

SURVEY METHODOLOGY: An Internet survey was conducted by M&T during July and August 2013 among senior managers and owners of privately held businesses located throughout the Bank’s geographic footprint. A total of 413 responses were received, consisting of 333 Middle Market enterprises (annual sales \$10 million to \$500 million) and 80 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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