

# Q3 2014 Economic Outlook Survey Results

## Firms Continue to See Growth on Horizon

Rebounding from the significant GDP contraction in Q1, mid-sized firms remain optimistic about their near-term business prospects.

A net 34% anticipate modest gains in national economic activity in the coming six months, on par with the reading a year ago. The margin was even wider among Commercial Real Estate (CRE) firms, with a net 55% expecting improved conditions, somewhat above the 51% spread in Q3 2013, and significantly above the 5% differential in Q3 2012.

Both unit sales and investment in equipment and software are expected to increase modestly over the next six months.

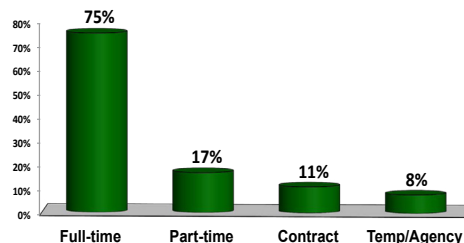
The regional labor market continues to strengthen with a net 27% of respondents planning to hire new employees. Three-quarters (75%) of hiring firms plan to add full-time employees, who tend to have a larger spending multiplier. However, more than half of firms (54%) are experiencing difficulty finding qualified employees, delaying efforts to fill open positions.

The latest survey feedback is broadly positive, suggesting conditions should continue to improve in the second half of 2014.

## Middle Market Highlights

- 45% of Middle Market firms (sales \$10-\$500 million) feel the economy has improved over the past six months—unchanged from a year ago. Meanwhile, 11% say the U.S. economy has deteriorated, a slight increase from 9% in Q3 2013.
- 42% of respondents expect U.S. economic growth to accelerate over the next six months, down from 47% in Q1 but on par with the 41% reading a year ago.
- Over half (53%) expect their unit sales to improve over the next six months, while 14% expect sales to decline (versus 54% and 11% in our Q3 2013 survey).
- Hiring plans remain healthy, pointing to continued labor market momentum. Nearly one-third (31%) of respondents expect to add workers over the next six months, while only 4% expect to reduce payroll, on par with recent survey readings.
- Capital expenditures on equipment and software are also on the rise. 42% expect to increase cap-ex spending, while just 8% plan to reduce such outlays (versus 46% and 9% a year ago).

**“If you plan to hire additional workers, which of the following types of hires do you plan to make?”**  
All Survey Respondents



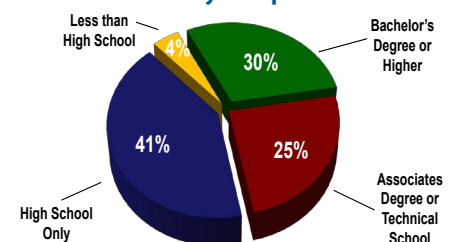
## Regional Differences

- 44% of Mid-Atlantic firms and 39% of PA firms expect their regional economy to out-perform the U.S. during the second half of 2014—versus 29% of Upstate New York and 27% of NYC respondents.

## Commercial Real Estate

- 52% say the U.S. economy has improved over the past six months, below the 58% reading a year ago but in line with the Q1 2014 reading. Only 2% say the national economy has worsened. Expectations remain positive, with 60% anticipating improvement vs. just 5% seeing slower growth.
- 54% expect CRE fundamentals to improve through year-end, while 9% expect conditions to weaken, unchanged from Q1 2014 and closely in line with responses since Q1 2013.
- 43% expect occupancy rates to increase over the next six months, up from 36% a year ago. 10% expect occupancy to fall (vs. 19% last year).
- The outlook for rents continues to improve, with 53% expecting a moderate rise in rates over the next six months versus just 5% that expect rents to fall (vs. 3% in July 2013).

**“What educational requirements are associated with the majority of job openings?”**  
All Survey Respondents

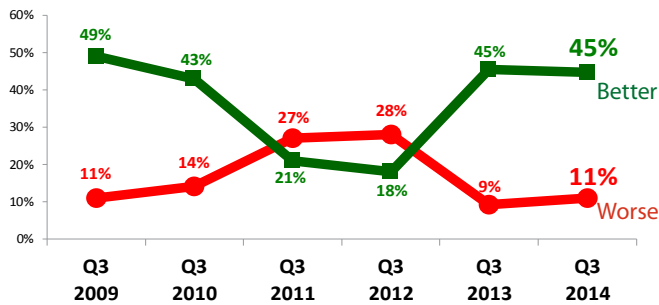


## “How would you rate the current state of the U.S. economy compared to six months ago?”

### Middle Market Companies

#### Economic Momentum Remains Positive

After confidence was negatively impacted by two consecutive summers of federal budget discord in 2011 and 2012, sentiment has rebounded as companies see improvement in national economic fundamentals

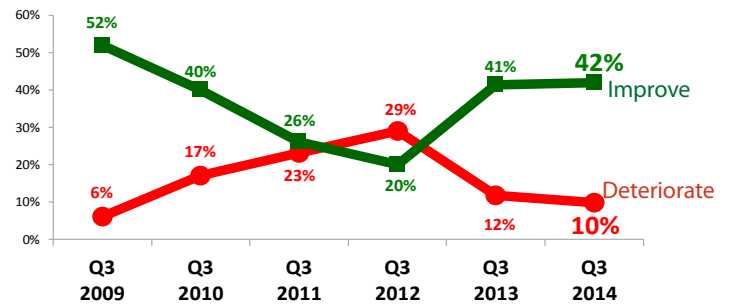


## “How do you expect the national economy to perform over the next six months?”

### Middle Market Companies

#### Near-Term Outlook Shows Similar Improvement

Expectations remain similar to a year ago: by a 4-to-1 margin, respondents expect the economy to show near-term improvement

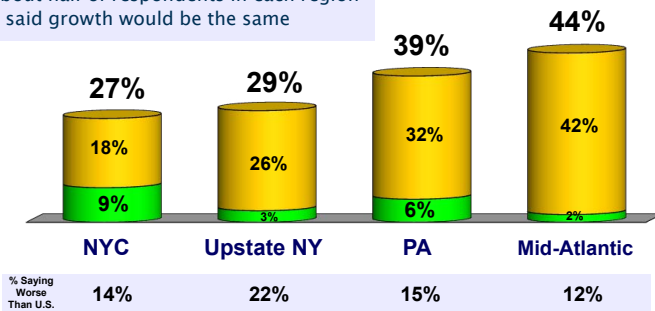


## “How do you expect the economy in your metro area to perform relative to the U.S. over the second half of 2014?”

### Middle Market Companies

Substantially Better Moderately Better

Mid-Atlantic companies are the most optimistic, while about half of respondents in each region said growth would be the same

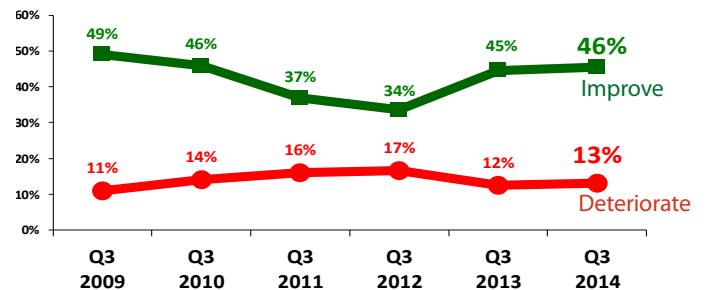


## “What are your expectations for your own industry over the next six months?”

### Middle Market Companies

#### Industry Expectations Hold Steady

A net one-third of respondents expect the performance of their industry to improve through year end

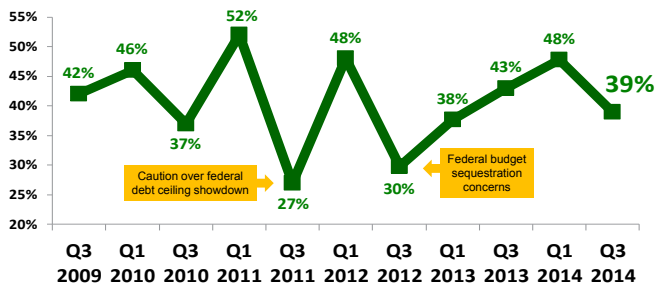


## “Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?”

### Net Percentage Expecting Higher Unit Sales

#### Sales Expectations Ease a Bit, But Remain Positive

While down slightly from the start of 2014, nearly 4-in-10 firms expect unit sales to increase during the next two quarters

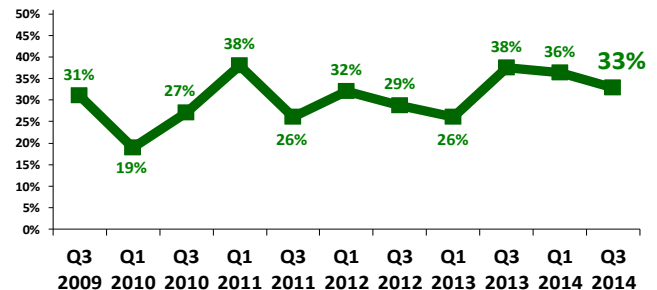


## “Which of the following best describes your firm’s capital equipment spending plans over the next six months?”

### Net Percentage Increasing Capex Spending

#### Capex Plans Hold Steady

Although down marginally from a year ago, net capex remains near the survey average

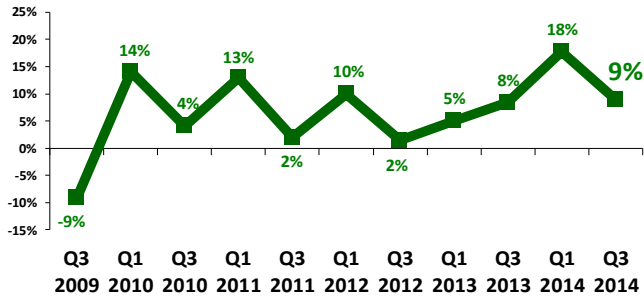


## “Looking ahead six months, how do you expect your inventory levels to change?”

### Net Percentage Increasing Inventories

#### Inventory Levels Remain Well Managed

Respondents have carefully managed inventory levels throughout the recovery

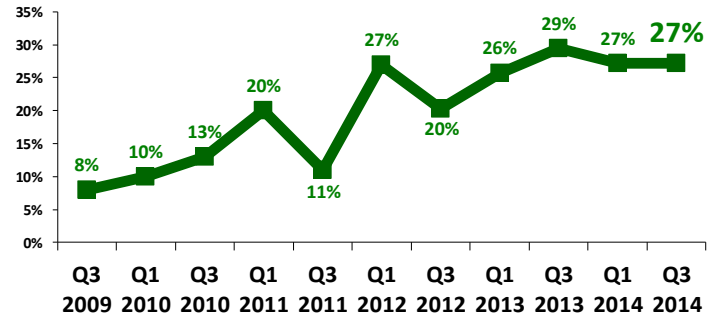


## “Which of the following best describes your firm’s employment plans over the next six months?”

### Net Percentage Increasing Employment

#### Hiring Plans Grow Stronger

A net of 27% of respondents plan to increase employment, just below our survey’s all-time high, and a good sign for the economy

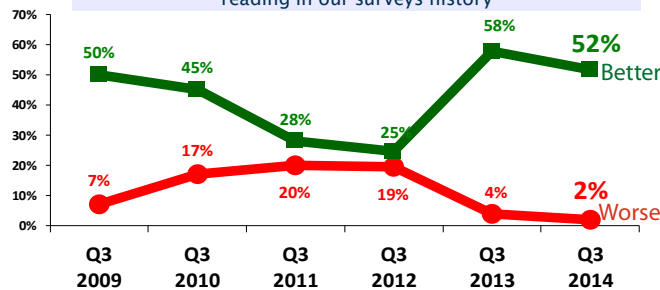


## “How would you rate the current state of the U.S. economy compared to six months ago?”

### Commercial Real Estate Companies

#### CRE Respondents See Further Improvement

A solid majority of respondents feel the economy has improved over the past six months, with the third highest reading in our surveys history

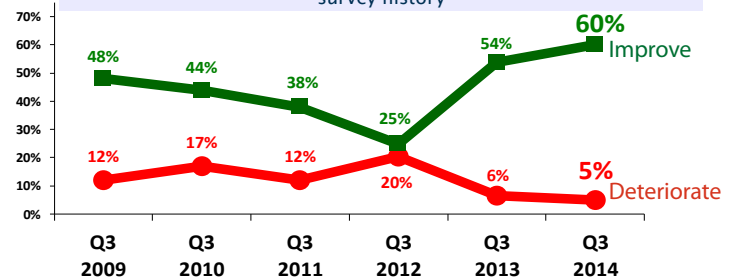


## “How do you expect the national economy to perform over the next six months?”

### Commercial Real Estate Companies

#### Near-Term Outlook Strengthens

CRE firms remain optimistic about the near-term outlook, with those expecting improvement reaching the highest level in survey history

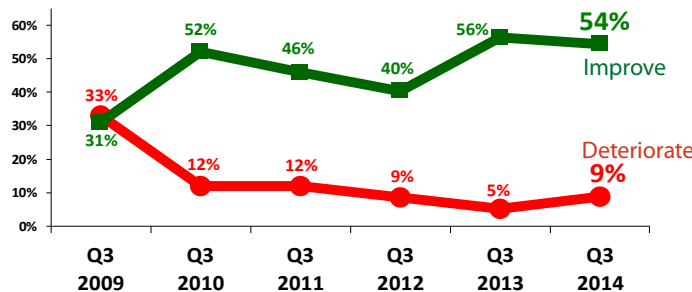


## “What are your expectations for your own industry over the next six months?”

### Commercial Real Estate Companies

#### Solid Industry Outlook Through Year-End

Expectations for CRE industry performance remain positive

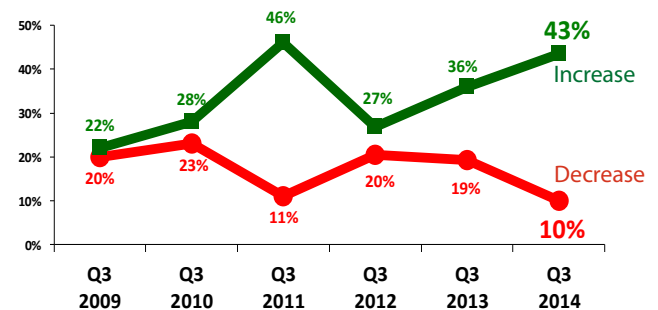


## “Looking ahead six months, how do you expect your occupancy rates to change from their current levels?”

### Commercial Real Estate Companies

#### Lease-Up Activity Expected to Improve

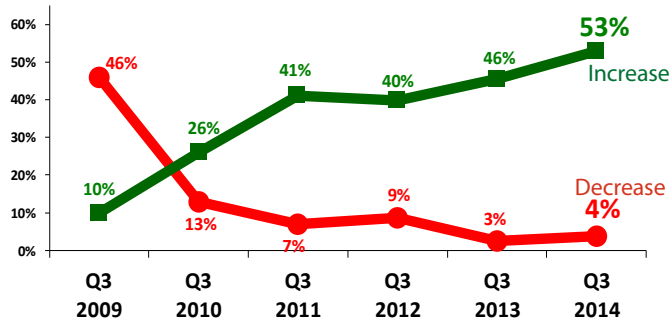
Respondents remain upbeat about leasing activity



“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

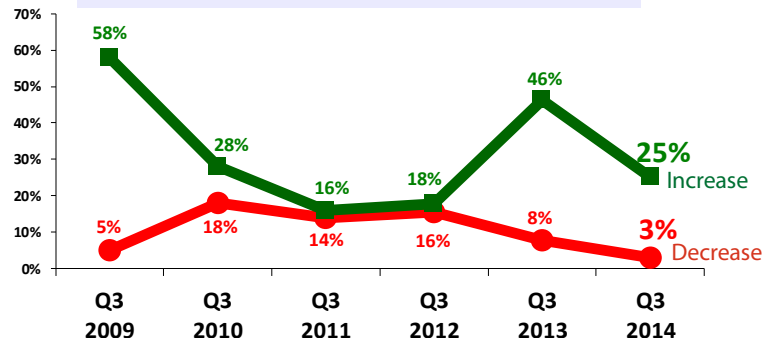
**Rental Rate Outlook Continues to Brighten**  
Optimism on rental rate growth is at an all-time survey high



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

## Commercial Real Estate Companies

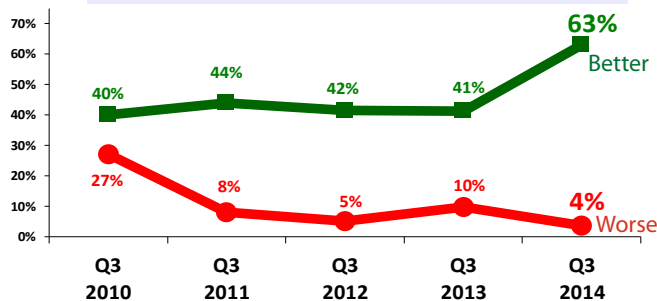
**Cap Rate Expectations Stabilize**  
After a spike in expectations a year ago, most respondents now expect modest growth in cap rates



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

## Commercial Real Estate Companies

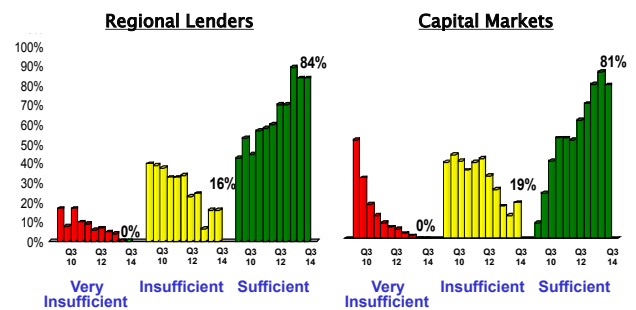
**Transactions Volume Moving Into Higher Gear**  
More than six-in-ten respondents expect transaction volume to pick up over the remainder of 2014, well above prior year readings



“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**  
Nearly all CRE investors have access to sufficient financing, with both regional lenders and capital markets operating well



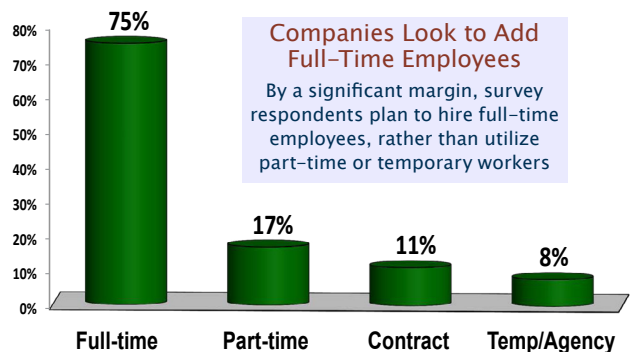
“Which of the following best describes your firm’s employment plans over the next six months?”

## All Survey Respondents

	Hire Additional Workers	Reduce Employment Levels	NET, Hire Additional Workers
Pennsylvania	38%	2%	+36
Mid-Atlantic	30%	1%	+29
Upstate NY	28%	5%	+23
New York City	22%	0%	+22

“If you plan to hire additional workers over the remainder of 2014, which of the following types of hires do you plan to make?”

## All Survey Respondents

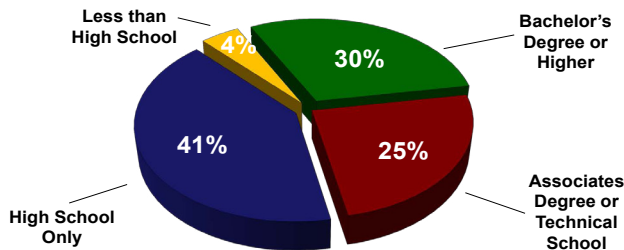


## “What educational requirements are associated with the majority of your current job openings?”

### All Survey Respondents

#### Nearly Half of Openings Do Not Require College Degree

Those that do require a degree are closely split between Associate's/ Technical and Bachelor's or Higher

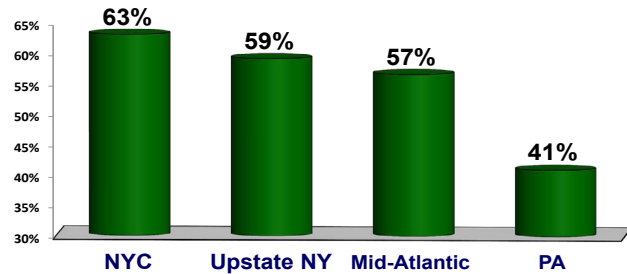


## What percentage of your current job openings require some form of higher education?

### All Survey Respondents

#### Pennsylvania Lags Behind

While Upstate NY, NYC, and Mid-Atlantic companies are creating high-skill, high-paying jobs, Pennsylvania companies primarily look to hire high school graduates

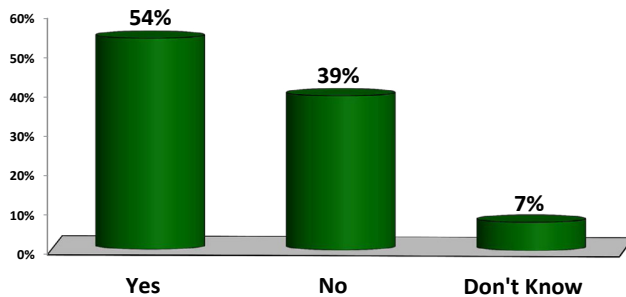


## “Are you experiencing difficulty finding qualified job applicants to fill open positions?”

### All Survey Respondents

#### Firms Struggle to Find Qualified Applicants

Additionally, over half (52%) say that difficulty finding eligible candidates is delaying efforts to fill open positions

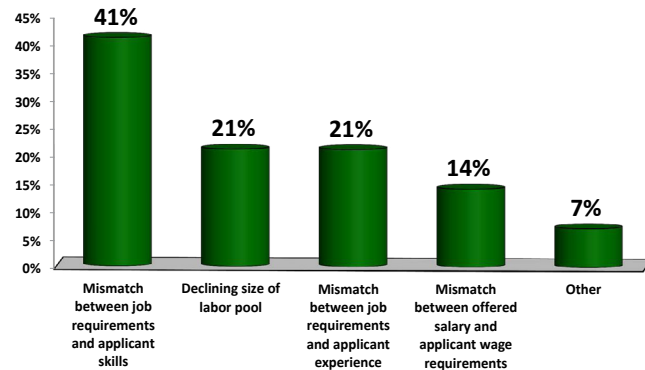


## “Which factors are most responsible for hiring difficulty?”

### All Survey Respondents

#### Structural Unemployment Appears Significant

Mismatches between skills/experience and job requirements account for much of the difficulty in finding qualified employees



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**SURVEY METHODOLOGY:** An Internet survey was conducted by M&T during July and August 2014 among senior managers and owners of privately held businesses located throughout the Bank's geographic footprint. A total of 401 responses were received, consisting of 341 Middle Market enterprises (annual sales \$10 million to \$500 million) and 60 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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