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).

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).

"If you plan to hire additional workers, which of the following types of hires do you plan to make?"

All Survey Respondents

```
<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time</td>
<td>75%</td>
</tr>
<tr>
<td>Part-time</td>
<td>17%</td>
</tr>
<tr>
<td>Contract</td>
<td>11%</td>
</tr>
<tr>
<td>Temp/Agency</td>
<td>8%</td>
</tr>
</tbody>
</table>
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"What educational requirements are associated with the majority of job openings?"

All Survey Respondents

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<table>
<thead>
<tr>
<th>Education Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than High School</td>
<td>41%</td>
</tr>
<tr>
<td>High School Only</td>
<td>30%</td>
</tr>
<tr>
<td>Associates Degree or Technical School</td>
<td>25%</td>
</tr>
<tr>
<td>Bachelor’s Degree or Higher</td>
<td>3%</td>
</tr>
</tbody>
</table>
```
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.

Capex Plans Hold Steady

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

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.

Industry Expectations Hold Steady

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

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.

Net Percentage Increasing Capex Spending

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**

<table>
<thead>
<tr>
<th></th>
<th>Hire Additional Workers</th>
<th>Reduce Employment Levels</th>
<th>NET, Hire Additional Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pennsylvania</td>
<td>38%</td>
<td>2%</td>
<td>+36</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>30%</td>
<td>1%</td>
<td>+29</td>
</tr>
<tr>
<td>Upstate NY</td>
<td>28%</td>
<td>5%</td>
<td>+23</td>
</tr>
<tr>
<td>New York City</td>
<td>22%</td>
<td>0%</td>
<td>+22</td>
</tr>
</tbody>
</table>

“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**

Companies Look to Add Full-Time Employees
By a significant margin, survey respondents plan to hire full-time employees, rather than utilize part-time or temporary workers
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?

<table>
<thead>
<tr>
<th>Region</th>
<th>Less than High School</th>
<th>High School Only</th>
<th>Associates Degree or Technical School</th>
<th>Bachelor’s Degree or Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYC</td>
<td>30%</td>
<td>25%</td>
<td>41%</td>
<td>63%</td>
</tr>
<tr>
<td>Upstate NY</td>
<td>35%</td>
<td>25%</td>
<td>40%</td>
<td>59%</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>40%</td>
<td>25%</td>
<td>35%</td>
<td>57%</td>
</tr>
<tr>
<td>PA</td>
<td>45%</td>
<td>25%</td>
<td>35%</td>
<td>41%</td>
</tr>
</tbody>
</table>

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?”

<table>
<thead>
<tr>
<th>Difficulty Finding</th>
<th>Yes</th>
<th>No</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>54%</td>
<td>39%</td>
<td>7%</td>
</tr>
</tbody>
</table>

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?”

<table>
<thead>
<tr>
<th>Mismatch</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mismatch</td>
<td>41%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Mismatch between job requirements and applicant skills accounts for much of the difficulty in finding qualified employees

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 $91 billion in assets, over 750 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 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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