

Economic Outlook Survey Q3 2018

Business Optimism Remains Positive Despite Uncertainty Over Trade Policy

Mid-sized companies remain upbeat about the near-term outlook according to our latest poll, suggesting further improvement in national economic performance over the remainder of 2018.

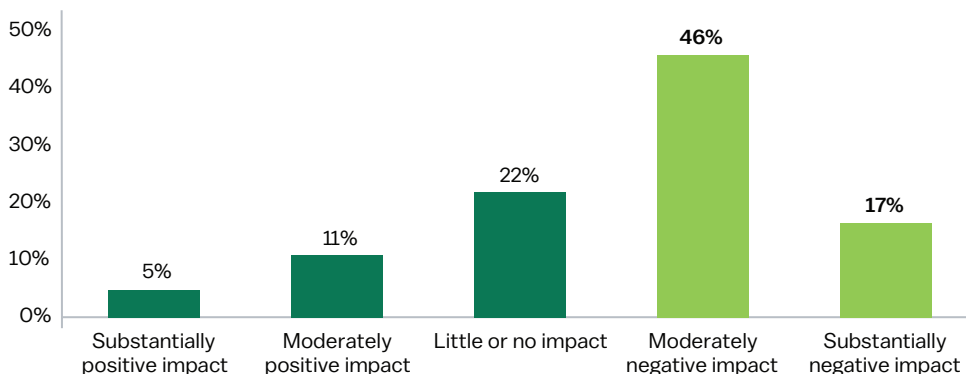
- Over half (52%) of Middle Market respondents expect the U.S. economy to perform well over the next six months, while 22% see slower growth ahead.
- Company sales and capital investment plans were largely unchanged, while hiring intentions remain robust. A net 32% of mid-sized respondents plan to add employees by year-end, although tight labor markets are making it difficult for many firms to find qualified applicants to fill new positions.
- Commercial Real Estate firms are similarly optimistic about the broader economy, but are less positive about the CRE industry itself. Just one-in-three respondents expect industry conditions to improve, while 15% see slower activity through year-end.

Nearly two-thirds of respondents indicate that newly imposed tariffs on foreign goods would have a negative impact on the U.S. economy. However, respondents were more sanguine about the impact of such tariffs on their own business, with only 25% experiencing a negative impact.

What impact do you think newly imposed tariffs on foreign imports would have on the U.S. economy?

WIDESPREAD CONCERN ABOUT POTENTIAL IMPACT OF NEW TARIFFS

More than 6-in-10 respondents believe that new tariffs on imports would have a negative impact on the domestic economy.



63%

expect newly imposed tariffs on foreign imports to have a negative impact on the U.S. economy

77%

of respondents report difficulty attracting and hiring qualified applicants for positions at their company

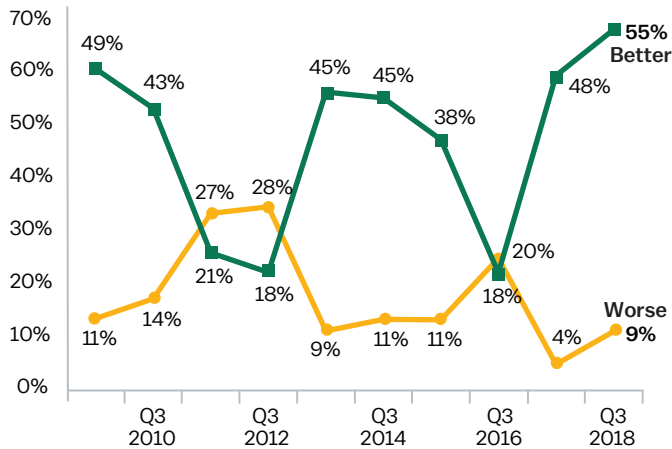
32%

expect to increase hiring, compared to 34% a year earlier

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

MIDDLE MARKET COMPANIES

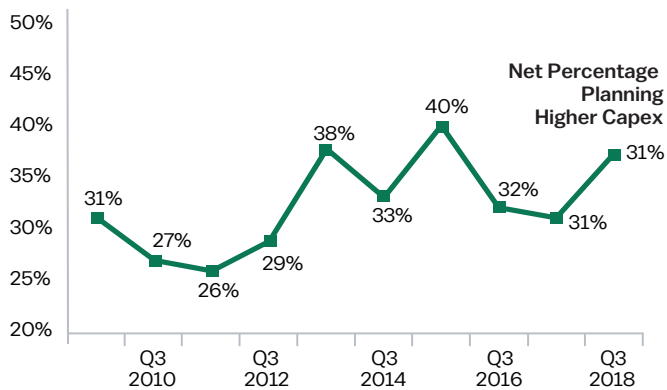
Economic Optimism Remains High: Positive sentiment among Middle Market firms reflects the continued strong performance of the domestic economy.



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

MIDDLE MARKET COMPANIES

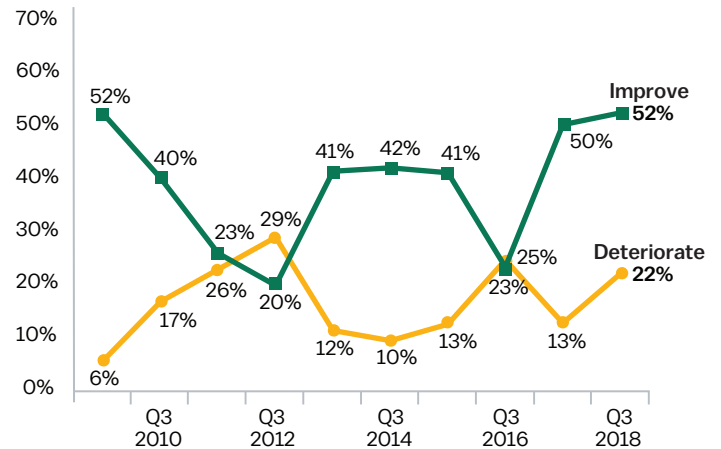
Capital Spending Plans Rise Slightly: Despite the tailwind of tax reform, capex plans have risen only modestly from a year ago.



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

MIDDLE MARKET COMPANIES

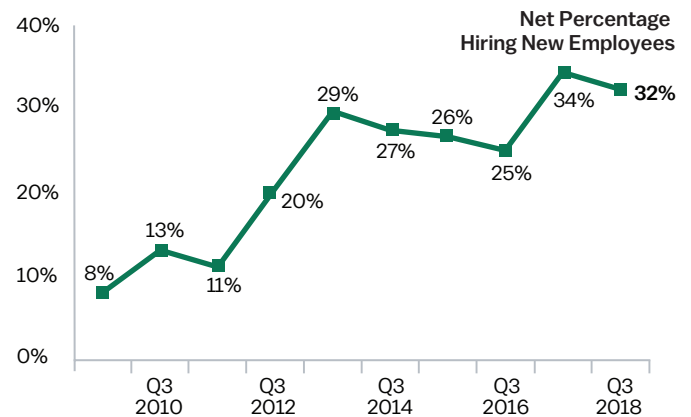
Near-Term Outlook Remains Strong: While a somewhat higher proportion of firms are concerned about a potential slowdown, most respondents expect continued economic progress.



What best describes your firm's employment plans over the next six months?

MIDDLE MARKET COMPANIES

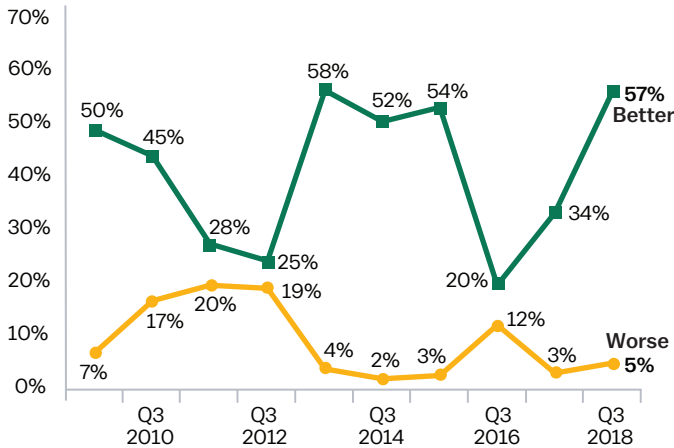
Labor Demand Remains Robust: A tight labor market will continue to put pressure on wages, especially for skilled employees.



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

COMMERCIAL REAL ESTATE

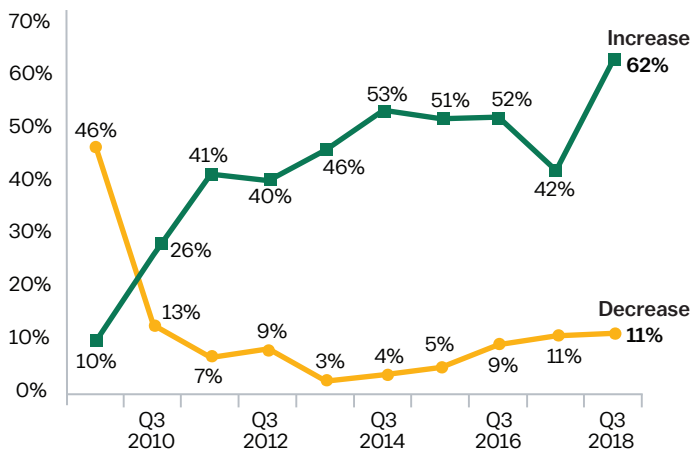
Commercial Real Estate Firms See Similar Improvement: CRE firms' perception of economic conditions has significantly improved since 2016.



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

COMMERCIAL REAL ESTATE

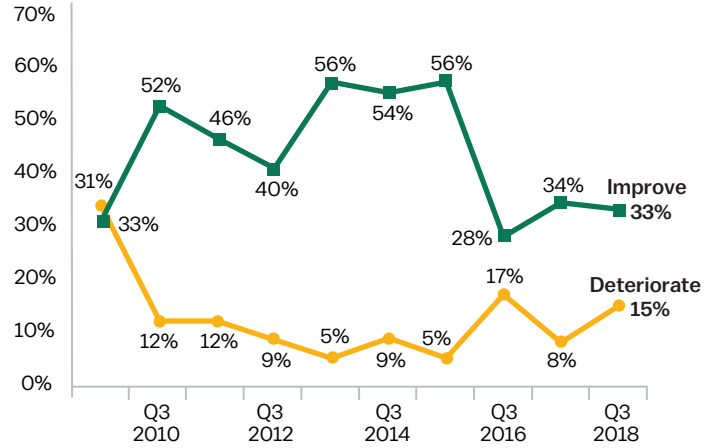
Rental Rate Expectations Continue to Rise: Nearly a decade into the current cycle, CRE firms are still optimistic about the direction of rents.



How do you expect the Commercial Real Estate industry to perform over the next six months?

COMMERCIAL REAL ESTATE

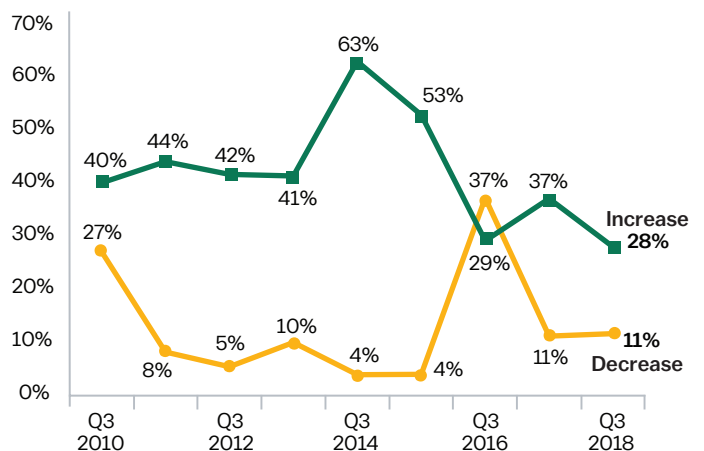
CRE Industry Growth Remains Tepid: Impact of tariffs on construction costs may be helping to depress sentiment.



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

COMMERCIAL REAL ESTATE

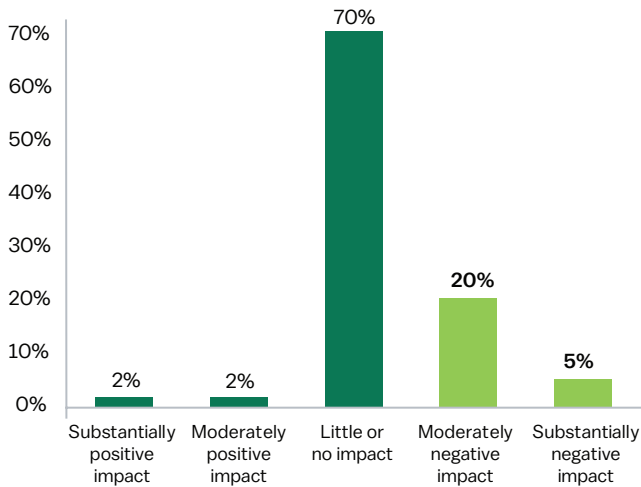
Transaction Volume Remains Sluggish: Sales remain well below the level of three years ago, reflecting the current stage of the credit cycle and some concern about overvaluations.



What impact has uncertainty over U.S. trade policy had on your business?

ALL RESPONDENTS

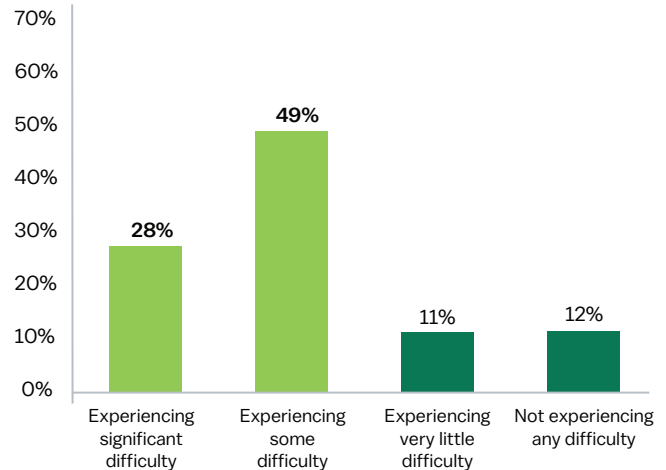
Tariffs Viewed Less Severely at Firm Level: While tariffs were widely viewed as a negative for the U.S. economy, most respondents did not anticipate a direct negative impact on their own businesses.



To what degree are you experiencing difficulty hiring qualified replacements for workers who have retired or left your company?

ALL RESPONDENTS

Employee Recruitment Increasingly a Major Headwind: More than 2-in-3 firms reported material difficult finding qualified applicants, reflecting the tight labor market conditions in most areas of the country.



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SURVEY METHODOLOGY: An Internet survey was conducted by M&T during July and August 2018 among senior managers and owners of mid-sized businesses located throughout the Bank’s geographic footprint. A total of 471 responses were received, consisting of 410 Middle Market enterprises (annual sales \$10 million to \$500 million) and 61 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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