

Economic Outlook Survey Q1 2019

Business Optimism Declines Despite Relatively Strong Fundamentals

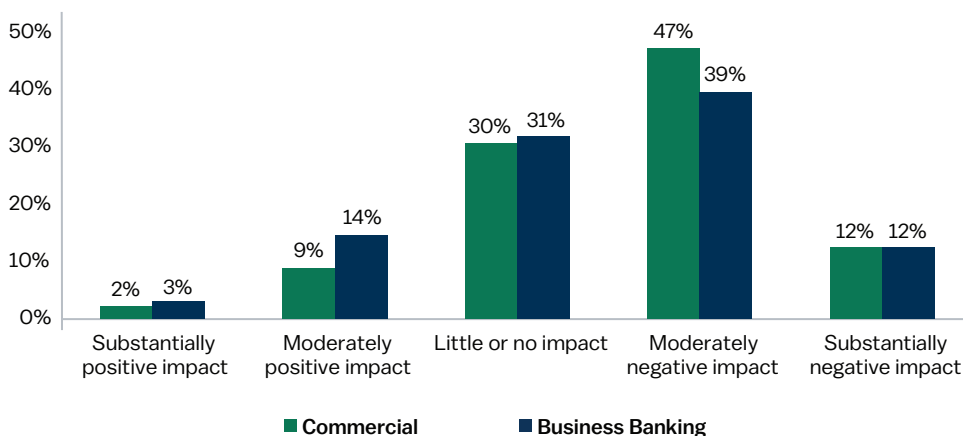
This quarter's feedback suggests that businesses have become more pessimistic about economic growth, driven by concerns around trade policy and the fading impact of the 2017 tax cut. But while overall sentiment has dipped to the lowest level since the 2016 elections, the near-term outlook remains largely in line with the longer-term post-recession norm, suggesting that business fundamentals remain largely unchanged.

- A net 17% of Middle Market firms expect the economy to improve over the next six months, down from a net 64% one year earlier. Industry expectations remain relatively positive, however, with a net 25% of firms expecting improvement through mid-year.
- Business Banking clients saw a more modest decline in sentiment, with a net 20% expecting improvement in economic growth, down from a net 41% in Q2 2018. In contrast, hiring plans were largely unchanged from a year earlier, with 33% of firms expecting to grow their workforce over the next six months.
- Tariffs and uncertainty surrounding international trade negotiations are likely depressing optimism among survey respondents. Lingering effects of the federal government shutdown also appear to have had a negative impact on business sentiment.

What impact do you think recently implemented tariffs have had on the U.S. economy?

WIDESPREAD CONCERN ABOUT POTENTIAL IMPACT OF NEW TARIFFS

A majority of respondents believe that new import tariffs would have a negative impact on the domestic economy..



17%

of firms expect U.S. trade policy to have a negative impact on 2019 export sales

33%

of respondents say they plan to hire new employees in the next six months

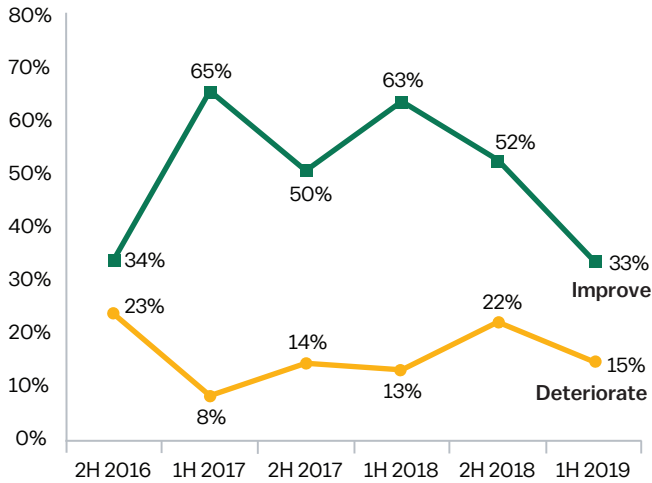
71%

report difficulty replacing workers that have left the company or retired

How do you expect the U.S. economy to perform during the next six months?

ALL RESPONDENTS

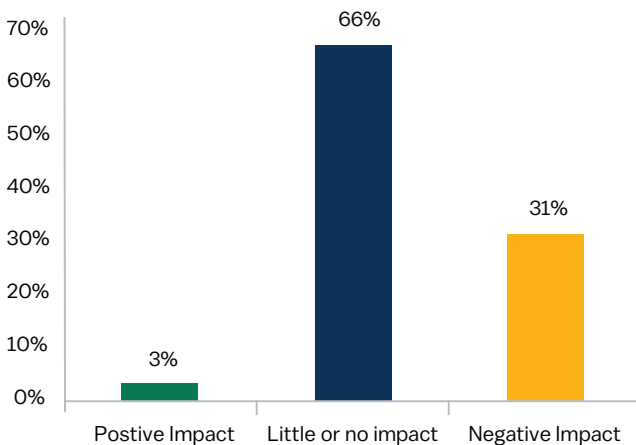
Business Sentiment Slips: Just one-in-three firms are anticipating faster economic growth; however, a majority (52%) reported no change in outlook, up from 26% in the prior survey.



To what degree has your overall economic outlook been impacted by the Federal Government shutdown?

ALL RESPONDENTS

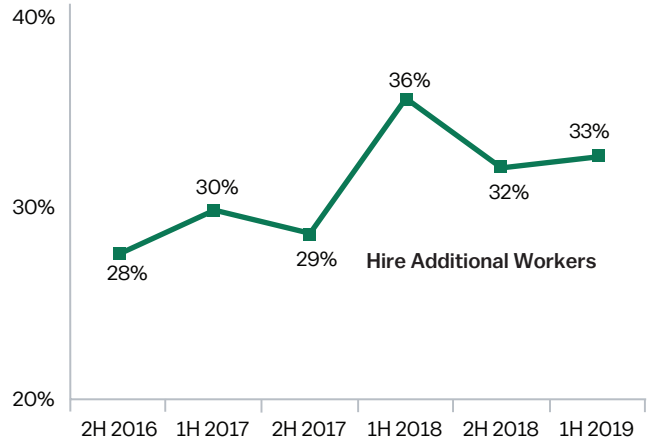
Shutdown Effects Linger: Nearly one-third of panelists felt the federal government shutdown had a negative impact on the economy.



Which of the following best describes your company's employment plans for the next six months?

ALL RESPONDENTS

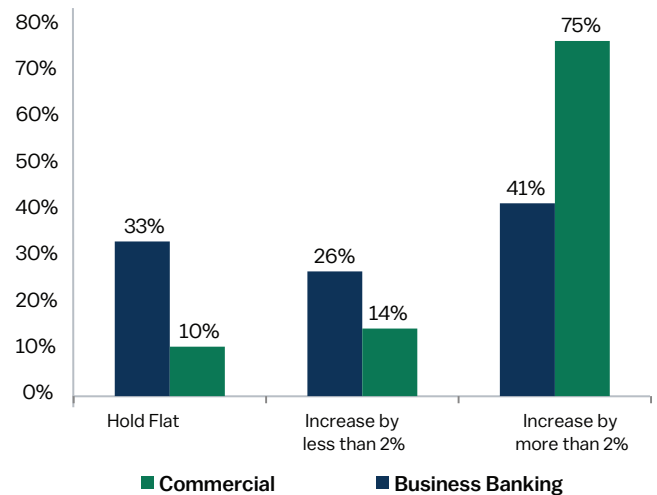
Hiring Plans Remain Consistent: One third of firms expect to add additional workers in the next six months.



In general, what are your plans for managing employee wage and salary increases over the next year?

ALL RESPONDENTS

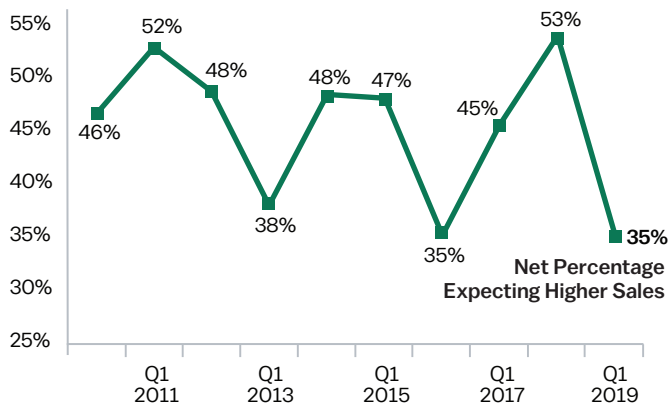
Projected Wage Growth Steady: Two-thirds of respondents expect to increase wage rates in the coming year, with 75% of mid-size companies and 41% of small firms planning hikes of more than 2%.



What do you expect to happen to the volume of goods and services that you will sell during the next six months?

MIDDLE MARKET COMPANIES

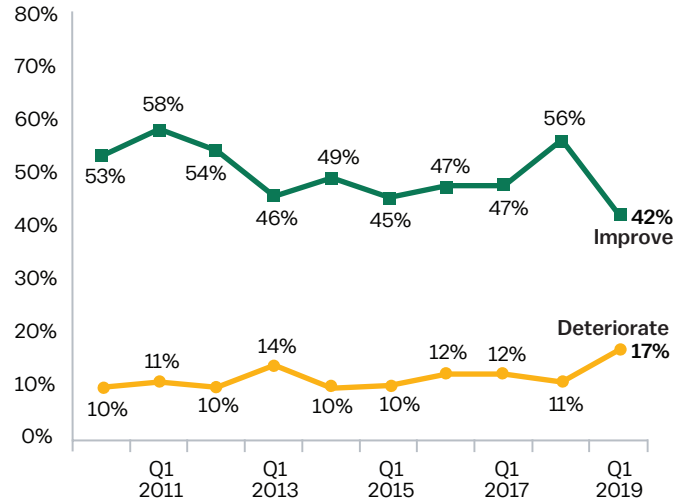
Unit Sales Expectations Decline: While still positive, expectations for sales growth have dropped meaningfully from a year earlier.



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

MIDDLE MARKET COMPANIES

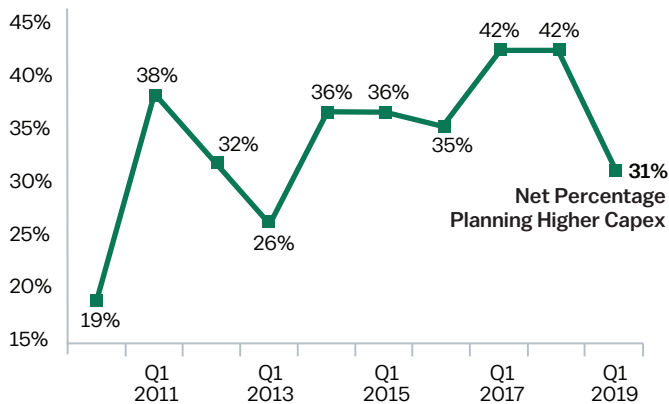
Industry Expectations Mostly Stable: Firms remain optimistic about their own industry, suggesting strong fundamentals despite the length of the economic cycle.



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

MIDDLE MARKET COMPANIES

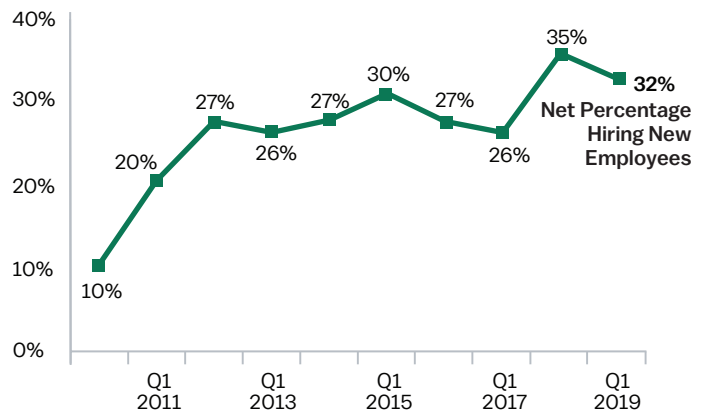
Capital Spending Slows: Capex plans are now slightly below the historical norm after several years of growth fueled by the 2017 tax cut.



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

MIDDLE MARKET COMPANIES

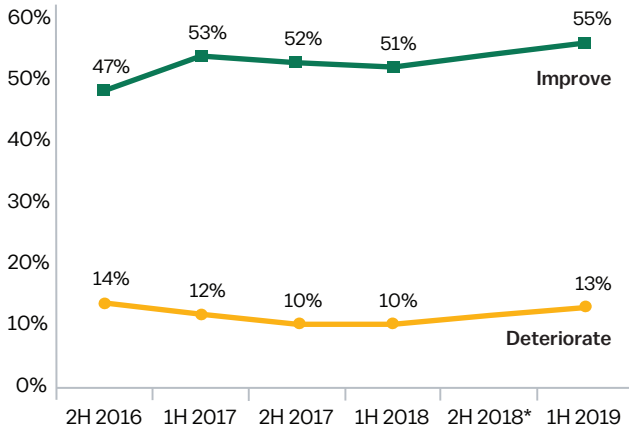
Hiring Plans Remain Strong: The historically tight labor market is making it increasingly difficult for firms to fill open positions.



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

BUSINESS BANKING COMPANIES

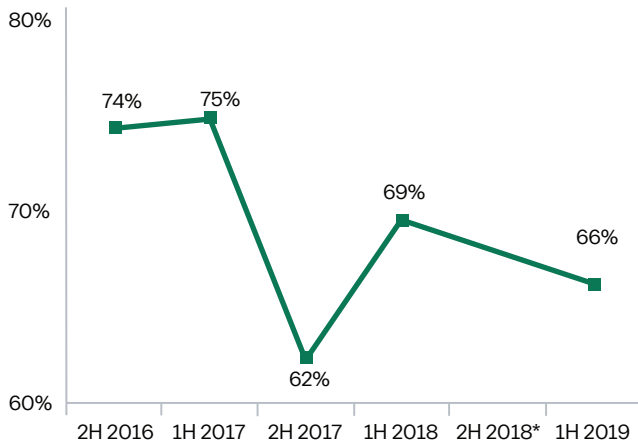
Expectations Hold Steady: Consistent with recent survey feedback, over half of small business respondents expect industry conditions to improve through mid-year, four times the percentage expecting conditions to deteriorate.



To what degree are you experiencing difficulty hiring qualified replacement of retired/workers that have left and for expansion purposes?

BUSINESS BANKING COMPANIES

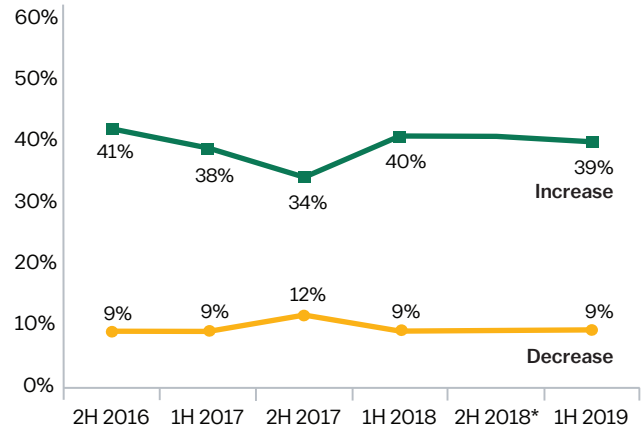
Tight Labor Markets Hamper Hiring: Two-thirds of small firms report having difficulty filling available job openings, consistent with recent survey readings.



What are your plans for capital expenditures over the next six months?

BUSINESS BANKING COMPANIES

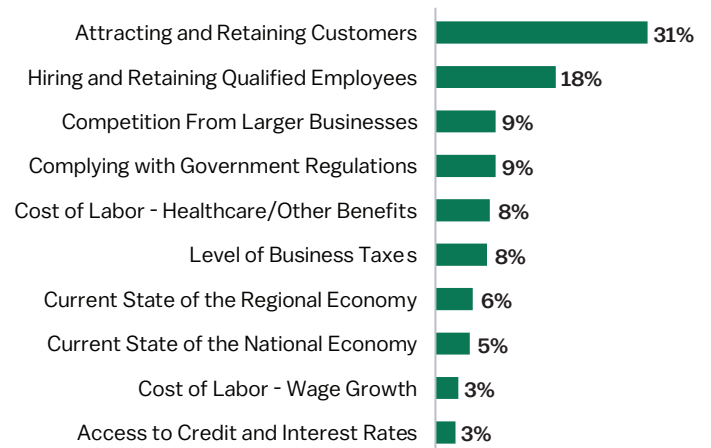
Capex Plans Remains Positive: In line with recent trends, 39% of small firms expect to hike capex during the first half of 2019 while just 9% plan to reduce spending.



Please rank the following challenges from most significant to your business to least significant to your business.

BUSINESS BANKING COMPANIES

Top Business Concerns Are Attracting and Retaining Customers, Employees: Nearly a third of small enterprises are concerned about growing their customer base, while 1-in-5 worry about meeting their workforce needs, potentially dampening business expansion plans.





ABOUT M&T: M&T Bank is a multi-state community-focused bank serving New York, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia and Washington, D.C. Founded in 1856, M&T Bank provides banking, investment, insurance and mortgage financial services to consumer, business and government clients.

SURVEY METHODOLOGY: An Internet survey was conducted by M&T during February 2019 among senior managers and owners of small to mid-sized businesses located throughout the Bank's geographic footprint. A total of 471 responses were received, consisting of 155 Middle Market enterprises (annual sales \$10 million to \$500 million), 27 Commercial Real Estate investors/lessors, and 235 Business Banking customers (annual sales <=\$10 million). M&T has conducted the survey since mid-2009.

DISCLAIMER: This newsletter has been prepared by the Business Banking and Commercial Banking Divisions of M&T Bank and is not a product of any of M&T's other affiliates, including any of its registered investment advisors. The views herein are provided for informational purposes only and may differ from those of other departments or divisions of M&T Bank and its affiliates. The information is not intended as specific advice or recommendations and should be viewed as merely representative of a broad range of possible outcomes.

* Please note that no Business Banking survey was conducted in Q4 2018.

