

INDIANA SMALL AND MID-SIZE BUSINESS OWNER OPTIMISM HITS HISTORIC HIGH

ANALYSIS BY
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Optimism for Indiana small and mid-sized business owners about the national economy, their local economies and their own companies has risen to record highs from the spring, according to our fall 2018 survey. Hiring and sales expectations are also at a survey record high.

Indiana continues to enjoy job growth, especially in its metro areas, as the unemployment rate continues to fall to an all-time low since the late 1990s. Indiana's manufacturing continues to grow at a healthy pace, but higher tariffs are causing uncertainty in some sectors. Housing demand remains high in metro areas, driving prices higher amidst a low inventory. Despite strong economic recovery growth coupled with an increase in residential housing permits in metro areas, the housing industry has not fully recovered. New housing building activity is half of what it was prior to the housing market bubble.

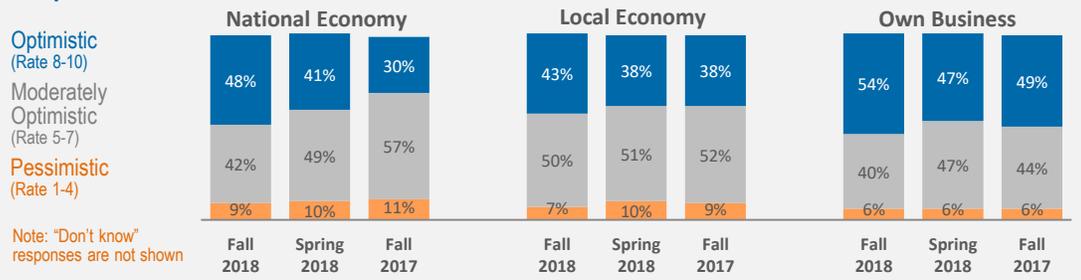
With support from tax cuts and an increase in federal spending, U.S. economic growth will remain solid into next year and the labor market will continue to improve. Interest rates will move higher over the next year as the Federal Open Market Committee gradually raises the federal funds rate to prevent the economy from overheating.

KEY FINDINGS: OUTLOOK FOR NEXT SIX MONTHS

Optimism is running at historic highs in all categories evaluated by PNC in the ninth year of a semi-annual survey of small and mid-size business owners and executives in Indiana. Just under half (48%) of respondents describe their outlook for the national economy as optimistic, compared to 41 percent in spring 2018. Over half (54%) are optimistic about their own companies, marking another new high for PNC Bank's survey.

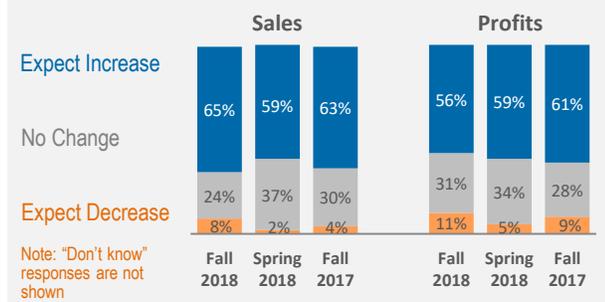
Indiana vs. United States: Nationally, four in 10 are optimistic about the national (40%) and local (39%) economy and more (51%) are optimistic about their own company's prospects.

% Optimistic about the...



Expectations for increased sales are the highest on record for the survey (65%). Over half (56%) of business leaders expect increased profits, dropping marginally from spring 2018 (59%) and fall 2017 (61%).

Indiana vs. United States: Nationally, 64 percent expect increased sales and 59 percent expect increased profits.

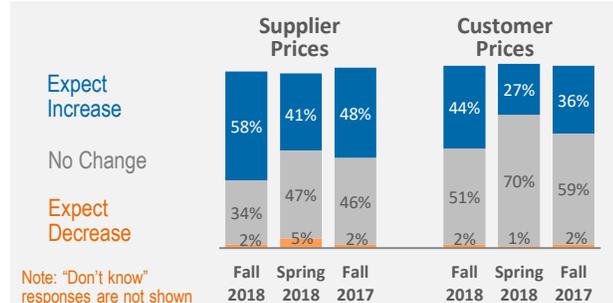


Price Check

The number of Indiana business leaders forecasting rising prices in the next six months gained momentum. More than half (58%) anticipate suppliers charging more; 44 percent plan to charge their customers more. Both increased significantly since the spring (41% rising supplier prices; 27% charging their customers more). Increasing business, favorable market conditions and rising non-labor costs are among the key drivers of higher prices. Only two percent of businesses anticipate lowering prices.

Expectations for U.S. consumer prices and inflation are on the rise. Seventy-eight percent of business leaders expect higher consumer prices, up from 73 percent in spring 2018.

Indiana vs. United States: Nationally, 53 percent expect increased supplier prices and 45 percent expect to charge their customers more.



Waging Workers

The number of Indiana small and mid-size business leaders expecting to increase wages and hiring is at a survey high. Forty-one percent expect to increase wages (vs. 39% in spring 2018), while the number planning to decrease workers' wages is just one percent. Among those business leaders planning to decrease or maintain wages, 69 percent point to wages that are already competitive for their industry and see no issues with employee turnover at current wages as deciding factors.



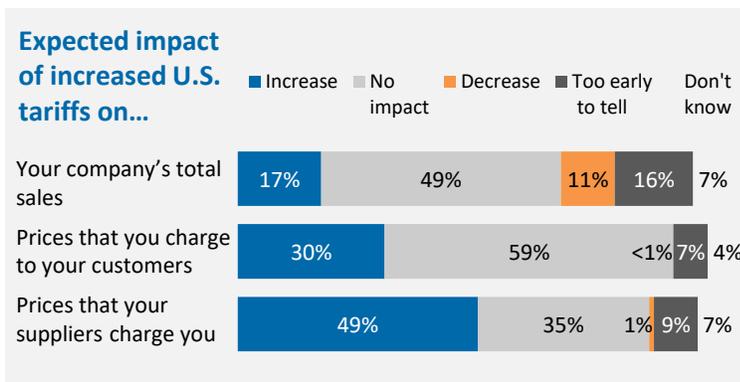
More than a quarter of Indiana business leaders (28%) plan to add full-time employees in the next six months, a record high for the Indiana survey; just 3% expect to reduce the number of full-time employees. Nearly half (49%) cite business growth as the key driver of hiring. More than half (54%) of businesses looking to hire more workers report it is harder to find qualified candidates, citing lack of skills (37%), lack of dependability or inability to pass screening requirements (22%) or lack of job experience (16%); two in 10 report not having enough applicants. Two-thirds (64%) of business leaders expect no change in hiring full-time employees in the next six months, citing reasons including difficulty in finding the workers with the right skills, a lack of business growth and doing more work using automation or outsourcing.

Bonus Round

With the labor market continuing to tighten, seven in 10 (71%) Indiana business leaders say they already have taken one or more actions to retain existing or to attract new employees: increasing wages/salaries (36%), boosting benefits (21%), and offering or increasing bonuses (18%). Over one in four (28%) have allowed more flexible work arrangements and six percent have relaxed hiring standards.

The Three Faces of Tariffs

More than a quarter (28%) of Indiana business leaders report currently selling or buying items/services from other countries to some extent. However, only six percent characterize the volume of that trade as "large." When asked to pick sides on increasing U.S. tariffs on other countries' goods based upon what's best for their own business, 44 percent are in support (43% in spring 2017) and 20 percent are opposed (24% in spring 2017); nearly a third of business leaders (32%) are uncertain.



As a result, nearly half (49%) anticipate paying higher prices to suppliers. Three out of 10 business leaders expect to increase prices they charge their customers should the United States impose increased tariffs on other countries' goods, but nearly six in 10 (59%) expect no impact. Nearly half of business leaders (49%) do not expect any impact on company sales, with 17 percent anticipating increased sales. Only one in 10 (11%) forecast decreased sales as a result of increased U.S. tariffs on goods from other countries.

Taxed Out

Familiarity with the impact of the federal Tax Cuts and Jobs Act of 2017 on business increased slightly to 29 percent (vs. 21% in spring 2018); 31 percent are familiar with the new tax law, but uncertain how it will affect their business, dropping significantly from 47 percent in spring 2018. One in three business leaders (35%) view the potential impact to their bottom line as positive (31% in spring 2018). Nearly four in 10 (39%) still feel it is too early to tell or simply do not know. Eighty-six percent of business leaders have not made or do not expect to make any changes to their businesses as a result of tax reform, up significantly from 73 percent in spring 2018. Just seven percent have made or anticipate making changes in response to the tax plan.