

Q3 2016 Economic Outlook Survey Results

Economic Anxiety Rises Amid Election Year Uncertainty

The latest survey results suggest that mid-sized companies are growing more worried about the economic outlook, but remain cautiously optimistic about their own business prospects.

For the first time since the federal budget battles of Q3 2012, the share of middle market companies expecting the economy to slow (25%) moved above the percentage projecting better growth (23%). Commercial real estate (CRE) firms were also downbeat, particularly with regard to the pace of future property sales.

Despite concerns about the macro outlook, however, business operating plans remain mostly positive. A net 25% of mid-sized firms expect to increase employment by year-end, while a net 32% plan to hike capital spending—readings only modestly below year-ago levels.

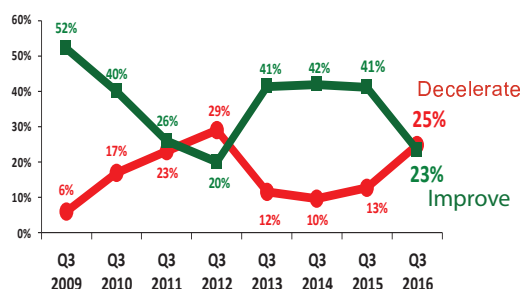
This dichotomy may be tied to worries about the presidential election, which 1-in-3 firms report is negatively affecting their business plans. Similarly, 33% say concern about potential Federal Reserve rate hikes is weighing on business planning.

The latest survey feedback suggests that even though sentiment is growing more gloomy, business fundamentals remain resilient. As such, economic growth should continue to slowly advance over the remainder of 2016, despite headwinds from political and interest rate uncertainty.

Middle Market Highlights

- 18% of Middle Market firms (sales \$10-\$500 million) feel the economy has improved over the past six months, down significantly from the 38% reading a year ago. 20% say the U.S. economy has weakened, almost double the year-ago reading.
- 23% expect the U.S. economy to accelerate over the next six months, while 25% foresee a slowdown in economic activity.
- Unit sales growth declined but remains positive, with a net 25% expecting sales to increase in the next six months, versus 46% last year.
- Capital investment plans dipped slightly, with a net 32% planning to hike capex vs. 40% a year ago.
- Hiring expectations were largely unchanged, with a net 25% of firms planning to hire new employees in the next six months, compared to a net 26% a year earlier.
- Many respondents voiced concern about the election, with 34% saying the outcome could have a negative impact on their business.

"How do you expect the national economy to perform over the next six months?"
Middle Market Companies



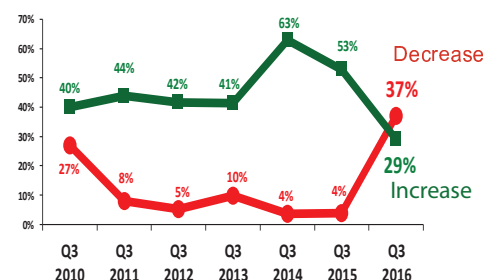
Regional Challenges

- 49% of firms cite municipal or state taxes and regulation as the biggest challenge facing their local economy. A shortage of qualified job applicants is another major headwind.

Commercial Real Estate

- 20% say the U.S. economy has improved over the past six months, down from 54% a year ago. 12% say the economy has decelerated, up from 3% in last year's survey.
- 20% of CRE firms expect the national economy to improve in the next six months, down from 47% a year ago.
- Expectations for CRE industry performance declined, with a net 11% expecting conditions to improve, versus a net 51% reading in Q3 2015.
- The outlook for rental rates was little changed, with 52% expecting rates to rise and 9% expecting rates to fall.
- Expectations for CRE transaction volume declined sharply, with 37% expecting sales activity to decrease, versus just 4% a year earlier.

"What are your expectations for the volume of CRE transactions nationally over the next six months?"
Commercial Real Estate Firms

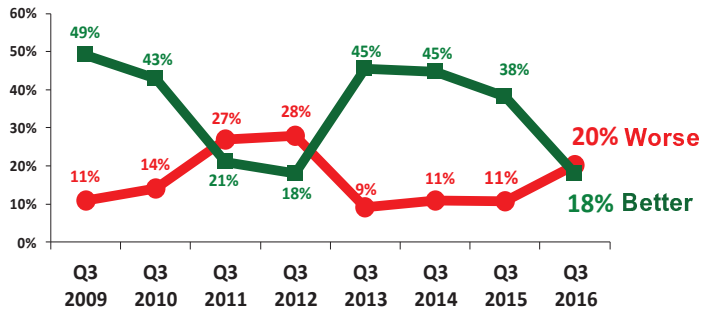


“How would you rate the current state of the U.S. economy compared to six months ago?”

Middle Market Companies

Business Sentiment Becomes More Downbeat

Sluggish GDP growth and rising international / political uncertainty appear to be weighing on assessment of current economic conditions

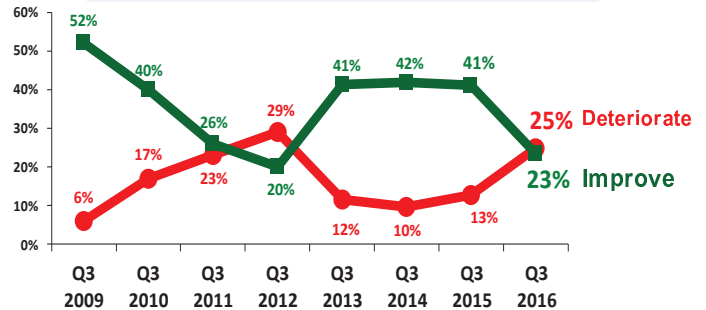


“How do you expect the national economy to perform over the next six months?”

Middle Market Companies

Near-Term Outlook is Equally Murky

The percentage of respondents who anticipate slower growth moves above those foreseeing a pick up for the first time since the federal budget battle in Q3 2012

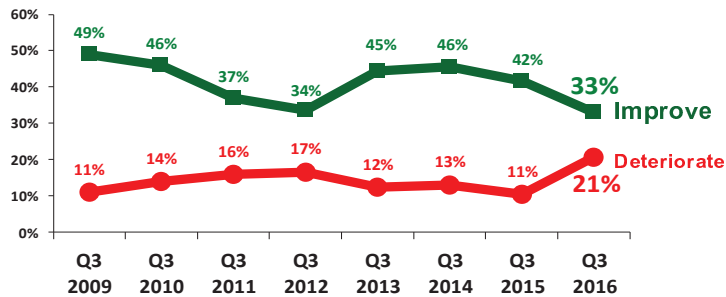


“What are your expectations for your own industry over the next six months?”

Middle Market Companies

Industry Expectations Moderately Decline

1-in-5 firms expect industry conditions to deteriorate over the next six months, nearly twice the level one year ago

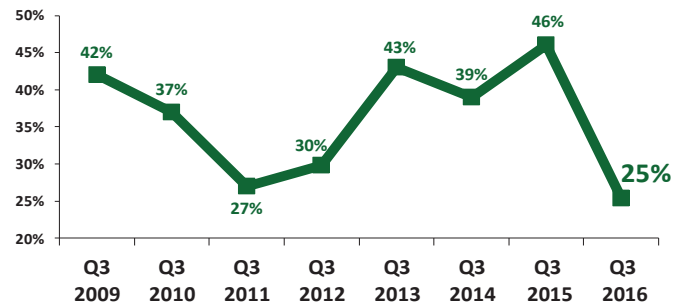


“Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?”

Net Percentage Expecting Higher Unit Sales

Sales Outlook Downshifts Significantly

42% expect unit sales to increase over the next six months while 17% anticipate a drop in sales volume

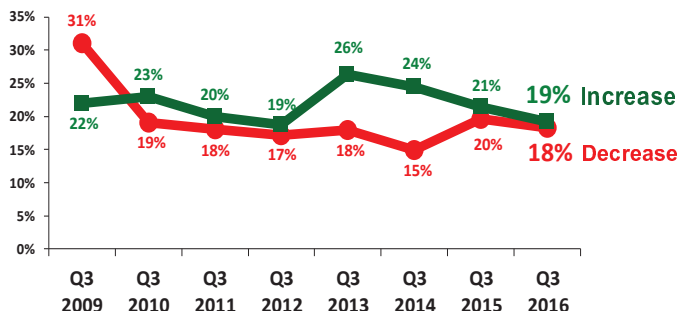


“Looking ahead six months, how do you expect your inventory levels to change?”

Middle Market Companies

Inventory Investment Plans Remain Steady

Net stockpiles are expected to remain largely unchanged after a buildup in 2013 and 2014

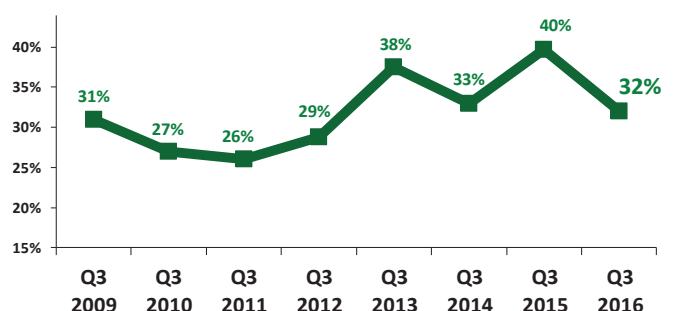


“Which of the following best describes your firm’s capital equipment spending plans over the next six months?”

Net Percentage Increasing Capital Expenditures

Capex Plans Continue to Hold Up Reasonably Well

On net, 3-in-10 firms plan to increase capital spending, down from a year earlier but still well above 2009-12 readings

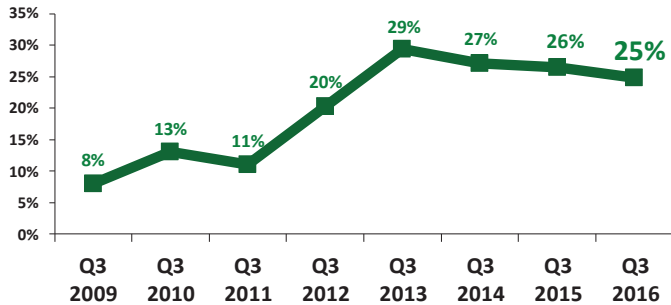


“Which of the following best describes your firm's employment plans over the next six months?”

Net Percentage Hiring New Employees

Hiring Plans Remain Largely Unchanged

A net 25% of respondents plan to hire additional workers, on par with recent survey readings

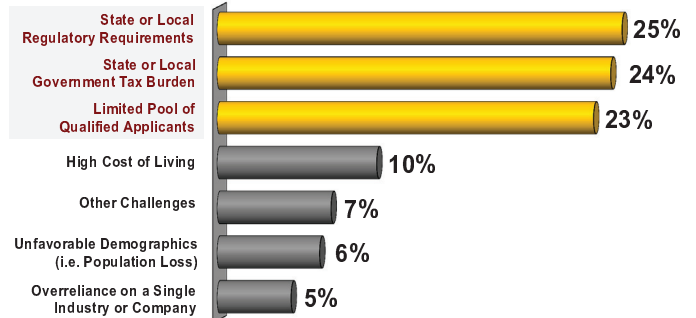


“What do you think is the biggest challenge facing your regional economy?”

All Survey Respondents

Top Concerns: State and Local Taxes, Regulation

While taxes and state / municipal regulation top the list, many firms are also struggling to find qualified applicants to fill open positions

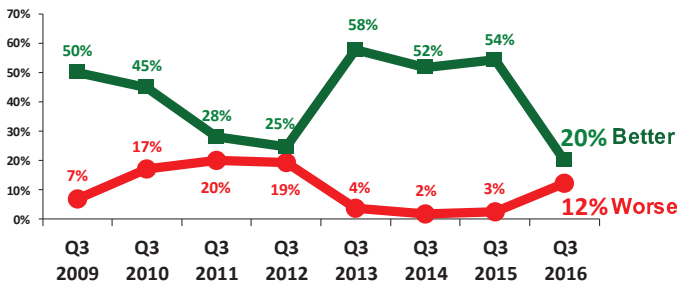


“How would you rate the current state of the U.S. economy compared to six months ago?”

Commercial Real Estate Companies

CRE Investor Sentiment Shifts Sharply Lower

Only 1-in-5 say the U.S. economy has improved, down significantly from 54% who saw improvement a year ago

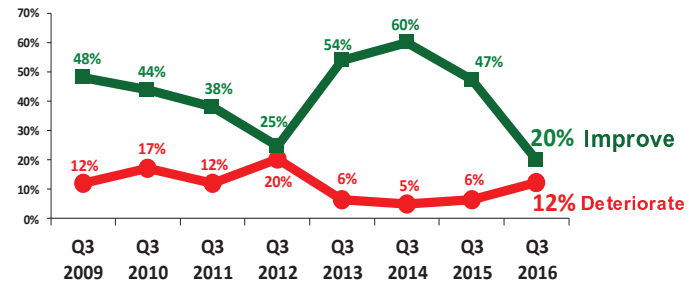


“How do you expect the national economy to perform over the next six months?”

Commercial Real Estate Companies

Near-Term Outlook Deteriorates As Well

Only 20% expect economic conditions to improve over the next six months, down from 47% in 2015 and 60% in 2014

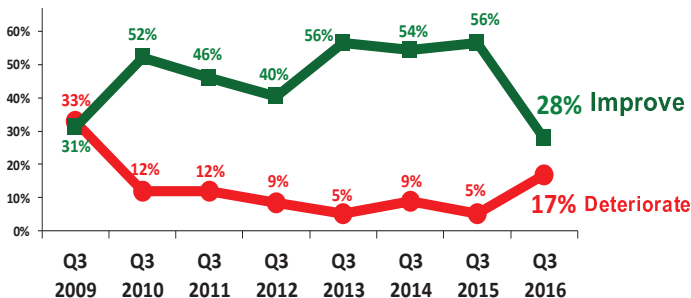


“What are your expectations for your own industry over the next six months?”

Commercial Real Estate Companies

CRE Expectations Hit the Brakes

While industry conditions are expected to remain positive on net, firms are far less bullish than a year earlier

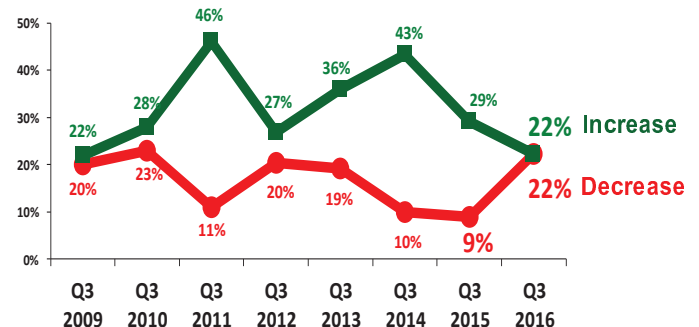


“Looking ahead six months, how do you expect your occupancy rates to change from their current levels?”

Commercial Real Estate Companies

Lease-Up Expectations Sharply Moderate

Respondents are evenly split on the direction of occupancy rates, reflecting increasingly negative sentiment on the near-term outlook

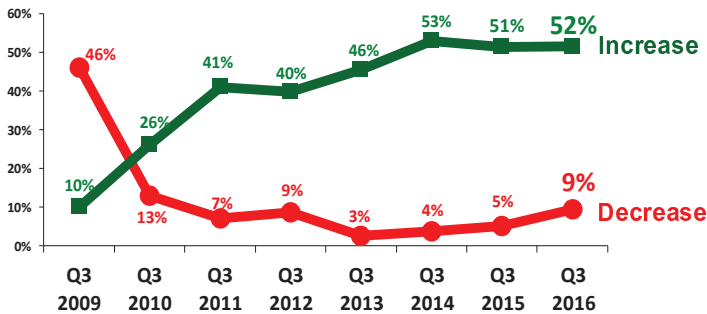


“Adjusting for normal seasonal ups and downs, what do you expect to happen to rental rates during the next six months?”

Commercial Real Estate Companies

Rental Rate Outlook Remains Positive

Despite low expectations for lease-up activity, most CRE investors think that rental rates will continue to rise

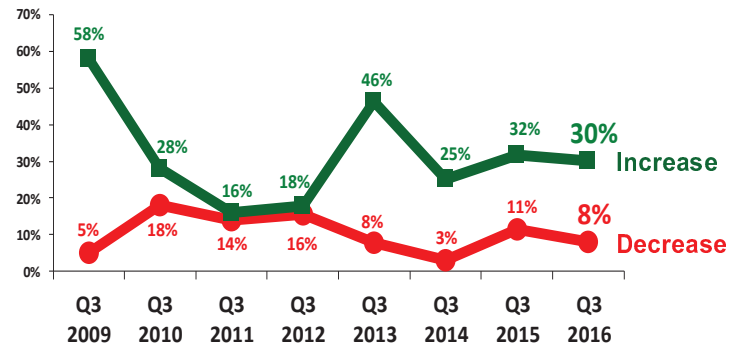


“What are your expectations for cap rates over the next six months?”

Commercial Real Estate Companies

Cap Rate Expectations Largely Unchanged

A net 22% think that cap rates will increase

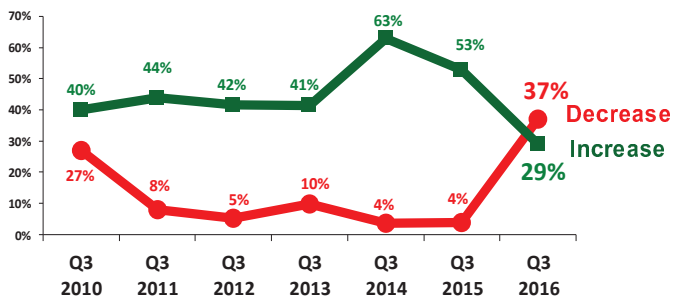


“What are your expectations for the volume of commercial real estate transactions nationally over the next six months?”

Commercial Real Estate Companies

Transaction Volume Forecasts Decline Significantly

Property sales expectations have dramatically downshifted from a year ago, with a plurality of respondents saying activity will decline

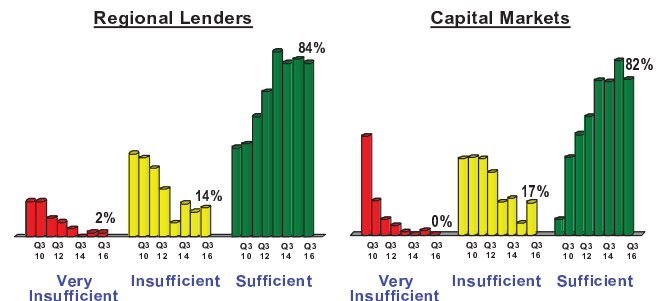


“How do you feel about the availability of CRE financing from the following sources over the next six months?”

Commercial Real Estate Companies

CRE Credit Remains Easily Accessible

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

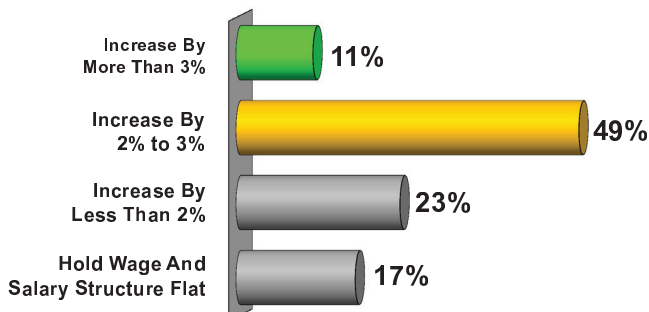


“Relative to a year ago, how have your plans for employee compensation increases changed?”

All Survey Respondents

Compensation Growth Plans Vary Widely

60% expect to increase employee compensation by at least 2%, including 11% who plan hikes of 3% or more

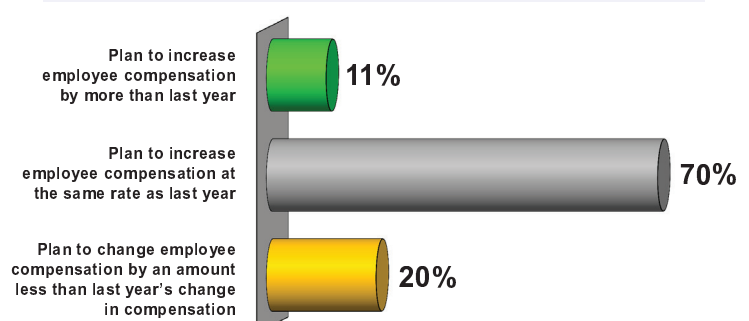


“Relative to a year ago, how have your plans for employee compensation increases changed?”

All Survey Respondents

Wage Increases Forecast to be Slightly Lower Than in 2015

11% plan to hike compensation by more than last year, while 20% anticipate keeping pay hikes below year-ago levels

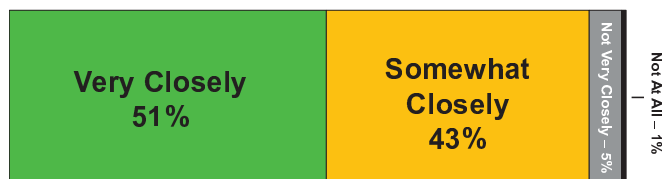


“How closely are you following the 2016 presidential elections?”

All Survey Respondents

Keeping a Very Close Eye on the Presidential Election

Nearly 95% are closely following the presidential election, including more than half who are paying very close attention

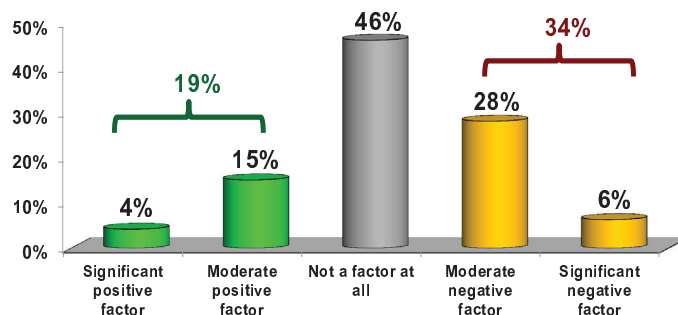


“To what extent are the possible outcomes of the upcoming 2016 presidential election a factor in your company’s business plans over the next 12 months?”

All Survey Respondents

Election Worries Are Creating a Moderate Drag

34% of respondents say that election uncertainties are having a negative impact on their business planning, topping the 19% who say it is a positive factor for their business

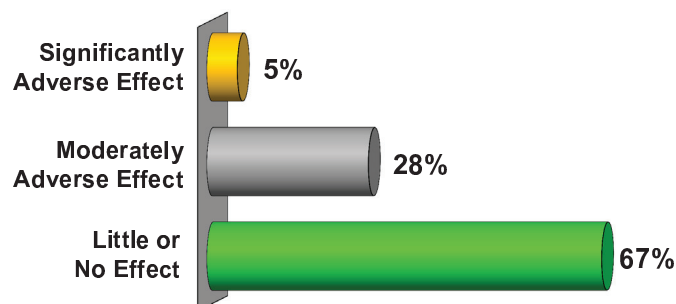


“To what degree is uncertainty surrounding the Federal Reserve’s future monetary policy decisions affecting your business planning over the remainder of 2016?”

All Survey Respondents

“Fed Watch” Continues

1-in-3 firms are concerned about the impact of future rate increases

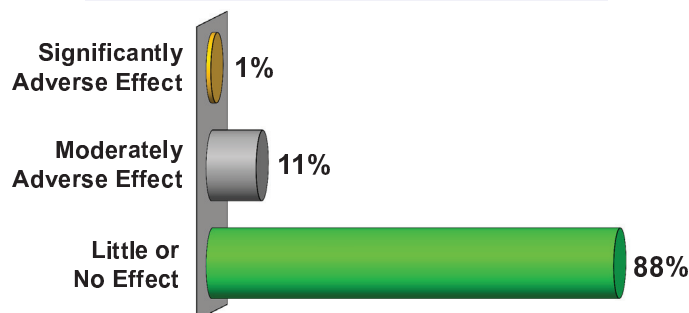


“To what degree is uncertainty surrounding the United Kingdom’s decision to leave the European Union (“Brexit”) affecting your business planning over the remainder of 2016?”

All Survey Respondents

Most Companies See “Brexit” as a Non-Issue

Just 12% feel that Great Britain’s exit from the European Union is adversely impacting their business planning



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 July and August 2016 among senior managers and owners of mid-sized businesses located throughout the Bank’s geographic footprint. A total of 288 responses were received, consisting of 223 Middle Market enterprises (annual sales \$10 million to \$500 million) and 65 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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