Q1 2015 Economic Outlook Survey Results

After Three Years of Sluggish Expansion, Firms See Growth **Begin To Accelerate**

Most mid-sized companies expect the noticeably improved pace of economic growth seen in the second half of last year to continue in 2015.

A net 54% of middle market respondents expect economic conditions to improve in 2015, well above the 37% differential registered a year ago. Among commercial real estate (CRE) firms, 69% expect conditions to improve, the strongest reading since 2011.

Expectations regarding sales growth, capital expenditures, and inventory changes are on par with readings from Q1 2014.

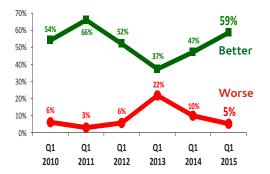
The labor market continues to tighten with a net 30% of companies planning to hire new employees. Employers are increasingly running into talent shortages, with nearly half of respondents saying it is more difficult to hire qualified employees than it was a year ago. Many companies intend to address these shortages by expanding recruitment and training efforts, but a notable 1-in-3 also plan to increase compensation.

Overall, the latest survey results are generally positive and indicate that the economy should continue to expand at a brisk clip in 2015.

Middle Market **Highlights**

- 54% of Middle Market firms (sales \$10-\$500 million) feel the economy has improved over the past six months—up from 41% a year ago. Only 4% say the U.S. economy has deteriorated, down from 10% in Q1
- 59% of respondents expect U.S. economic growth to accelerate over the next six months, the highest reading since the start of 2011.
- Unit sales expectations remain steady, with a net 47% expecting sales to accelerate in the net six months.
- Firms continue to invest in their businesses, with a net 36% planning to increase capital spending in 2015.
- Hiring expectations remain strong, with 32% of respondents planning to hire additional employees in the next six months, versus just 2% that plan to lay off workers.
- Employers are increasingly struggling to identify and hire well-qualified workers, with 45% of respondents saying that it is more difficult to acquire talent than it was a year ago.

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



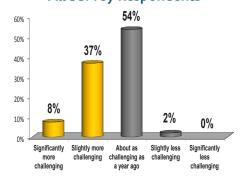
Regional Differences

 50% of Mid-Atlantic firms and 48% of metro NYC firms expect their regional economy to out-perform the U.S. during the first half of 2015—versus 37% of Pennsylvania and 29% of Upstate NY respondents.

Commercial Real Estate

- 59% say the U.S. economy has improved over the past six months, up from 51% a year ago. Just 5% say the national economy has worsened, on par with the Q1 2014 reading. Expectations remain very positive, with a net 69% expecting conditions to further improve in 2015.
- CRE fundamentals are widely expected to improve, with nearly two-thirds of respondents expecting industry activity to accelerate in the first half of 2015.
- Cap rates and occupancy rates are both expected to rise, but at a slower pace than in 2014.
- A majority of respondents expect rental rates to rise, with 54% of respondents forecasting an increase versus to only 7% expecting a decline.

"Relative to a year ago, how challenging is it to identify and successfully hire well-qualified workers?" All Survey Respondents





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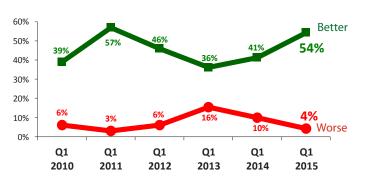
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"How would you rate the current state of the U.S. economy compared to six months ago?"

Middle Market Companies

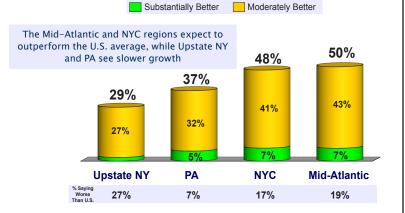
Respondents See Signficant Improvement

A strengthening job market, low interest rates, and rising consumer spending have been key to the recent uptick in growth



"How do you expect the economy in your metro area to perform relative to the U.S. over the first half of 2015?"

Middle Market Companies

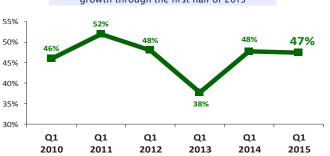


"Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?"

Net Percentage Expecting Higher Unit Sales

Sales Expectations Hold Steady Most firms continue to project moderate sales

Most firms continue to project moderate sale growth through the first half of 2015

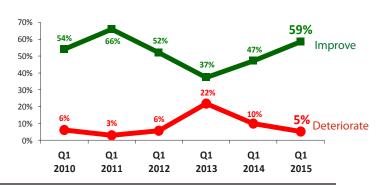


"How do you expect the national economy to perform over the next six months?"

Middle Market Companies

Near-Term Outlook Shows Similar Improvement

More than half of respondents expect steady growth to continue through the first half of 2015



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

Middle Market Companies

Industry Expectations Remain Stable

By a 4-to-1 margin, survey respondents expect conditions in their own industry to improve in 2015

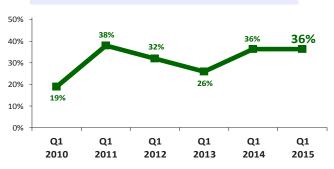


"Which of the following best describes your firm's capital equipment spending plans over the next six months?"

Net Percentage Increasing Capex Spending

Capex Plans Stay Positive

Firms feel future consumer demand is strong enough to warrant additional investments in their businesses

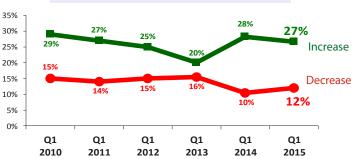


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"Looking ahead six months, how do you expect your inventory levels to change?"

Middle Market Companies

Inventory Outlook Largely Unchanged 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?"

Middle Market Companies

Layoffs Reach All-Time Survey Low Exceptionally few respondents plan to lay off workers,



"How would you rate the current state of the U.S. economy compared to six months ago?" **Commercial Real Estate Companies**

CRE Respondents See Similar Improvement

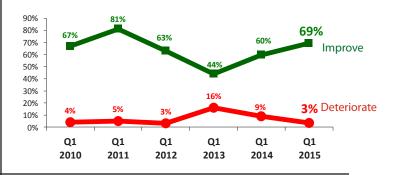
A solid majority of CRE respondents feel the economy has improved over the past six months, with the highest reading since 2011



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

Commercial Real Estate Companies

Near-Term Outlook Strengthens As Well CRE respondents are generally optimistic about the 2015 outlook



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

Commercial Real Estate Companies

Solid Industry Outlook Through First Half Of 2015 Expectations for CRE industry performance are up from a year ago, with very few respondents expecting deterioration



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

Commercial Real Estate Companies

Lease-Up Activity Expectations Moderate After a spike in Q1 2014, respondents expect a more modest rise in occupancy rates in 2015



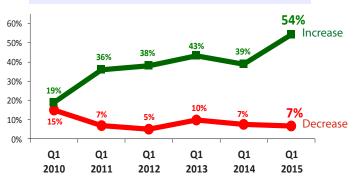
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"Adjusting for normal seasonal ups and downs, what do you expect to happen to rental rates during the next six months?"

Commercial Real Estate Companies

Rental Rate Expectations Increase Significantly A net 47% of CRE respondents expect rental rates to rise in 2015, an all-time survey high



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

Commercial Real Estate Companies

Cap Rate Expectations Decline Slightly

After a jump in cap rate expectations in 2014, respondents now expect rates to continue growing, but at a slower pace.



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

Commercial Real Estate Companies

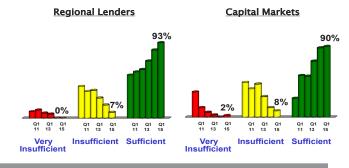
Transactions Volume Still Growing Steadily Nearly all CRE respondents expect transaction volumes to move upward or remain unchanged



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

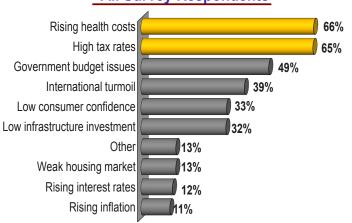
Commercial Real Estate Companies

CRE Firms Continue To Have Easy Access To Credit Most CRE investors have access to sufficient financing, with both regional lenders and capital markets operating well



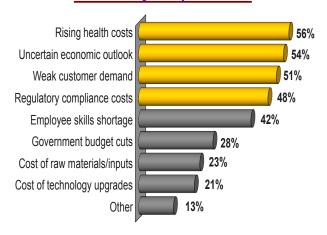
"Which of the following are among the three greatest obstacles to growth in the United States?"

All Survey Respondents



"Which of the following are among the three greatest obstacles to growth for your company?"

All Survey Respondents

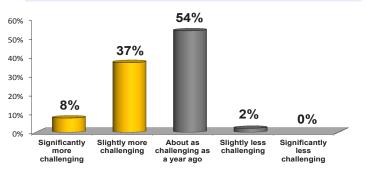


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"Relative to a year ago, how challenging is it to identify and successfully hire well-qualified workers?"

All Survey Respondents

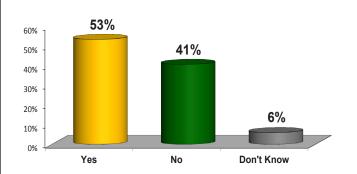
Acquiring Talent Is Becoming More Challenging 45% of survey respondents said that finding qualified new hires is more difficult than a year ago, a direct result of the tightening labor market.



"Are you experiencing difficulty finding qualified job applicants to fill open position?"

All Survey Respondents

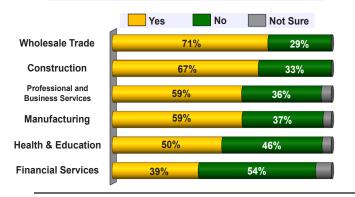
Talent Shortages Causing Companies To Delay Hiring More than half of respondents are struggling to find qualified workers



"Are you experiencing difficulty finding qualified job applicants to fill open position?"

Middle Market Companies

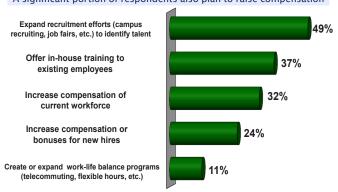
Skilled Worker Shortage Varies By Industry Wholesalers and construction firms are struggling the most



"What solutions will you employ in 2015 to address talent shortages?"

All Survey Respondents

External Recruitment and Internal Training Seen As Key A significant portion of respondents also plan to raise compensation



ABOUT M&T: M&T Bank Corporation (www.mtb.com) is one of the 20 largest U.S. commercial bank holding companies, with more than \$96 billion of assets and more than 650 branch offices in New York, Pennsylvania, Maryland, Delaware, Virginia, West Virginia and Washington, D.C.

SURVEY METHODOLOGY: An Internet survey was conducted by M&T during January and February 2015 among senior managers and owners of mid-sized businesses located throughout the Bank's geographic footprint. A total of 405 responses were received, consisting of 340 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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