

Q1 2016 Economic Outlook Survey Results

Economic Pessimism on the Rise Despite Continued Strength in Business Fundamentals

The latest poll shows that mid-sized firms are concerned about financial volatility and signs of a weakening U.S. economy, but continue to hire, invest, and grow revenue at rates consistent with the expansion norm.

Only 1-in-4 middle market companies expect national economic conditions to improve over the next six months, versus 30% who expect conditions to deteriorate. Commercial real estate (CRE) firms were similarly pessimistic, with a net 3% forecasting that the economy will downshift.

Conversely, company sales growth expectations declined only modestly, with a net 35% expecting unit sales to increase, down from a net 47% a year ago. Despite concerns about an international economic slowdown, a net 15% of respondents have increased their revenue forecasts in the past few months.

Plans for capital expenditures were unchanged, hinting at underlying strength in business confidence. Hiring expectations also remained fairly positive, with a net 27% planning to add new employees.

The latest survey feedback suggests that while economic sentiment may have stumbled early in the year, for the most part, mid-sized companies remain cautiously optimistic about their own business prospects.

Middle Market Highlights

- 17% of Middle Market firms (sales \$10-\$500 million) feel the economy has improved over the past six months, down significantly from the 54% reading a year ago. 29% say the U.S. economy has weakened, up from only 4% a year ago.
- 24% of respondents expect U.S. economic growth to accelerate over the next six months, while 30% expect the economy to slow.
- Unit sales expectations declined modestly, with a net 35% expecting sales to accelerate in the next six months, compared to 47% last year.
- Capital spending plans were largely unchanged, with a net 35% expecting to increase capital expenditures.
- Hiring expectations remain steady, with 31% of respondents planning to hire additional employees in the next six months, versus only 4% that plan to reduce employment levels.
- Low energy prices are expected to be a boon for most firms, with a net 36% expecting low prices to have a positive impact on their businesses.

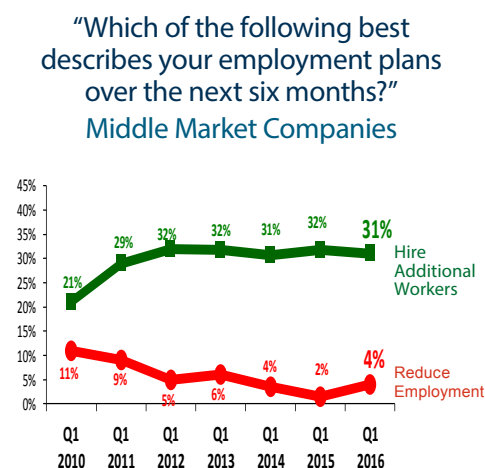


Regional Differences

- 54% of metro NYC firms expect their regional economy to outperform the U.S. during the second half of 2015—versus 46% for the Mid-Atlantic, 32% of Pennsylvania and 26% of Upstate NY respondents.

Commercial Real Estate

- 19% say the U.S. economy has improved over the past six months, down from 59% a year ago. 17% say the economy has decelerated, up from only 5% a year ago.
- 24% of CRE firms expect the national economy to improve in the next six months, down from 69% a year ago. Some respondents noted concern over the uncertain path of fiscal and monetary policy.
- Expectations for CRE industry performance declined, with a net 23% expecting conditions to improve, versus a 61% reading in Q1 2015.
- Cap rates and occupancy rates are both expected to rise moderately.
- 42% of respondents expect rental rates to rise, down from 54% in Q1 2015. 10% expect rental rates to fall.

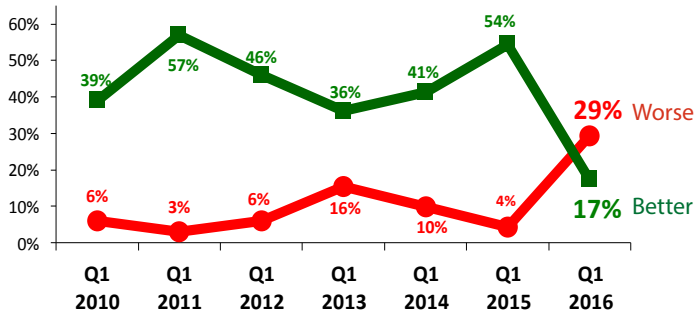


“How would you rate the current state of the U.S. economy compared to six months ago?”

Middle Market Companies

Respondents See a Downshift in the Economy

Despite a solid job market, low interest rates, and positive consumer spending, perceptions of an economic slowdown have increased

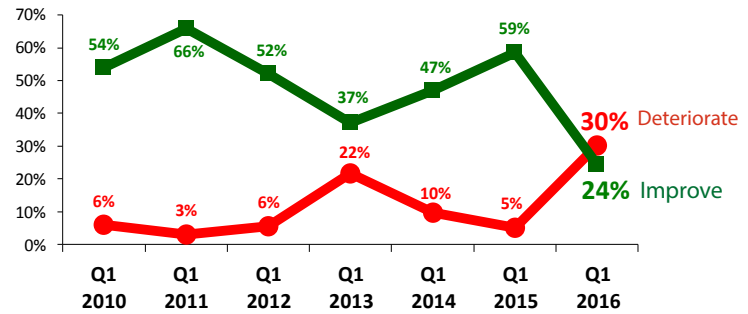


“How do you expect the national economy to perform over the next six months?”

Middle Market Companies

Near-Term Outlook Shows Similar Retrenchment

The percentage of respondents expecting the economy to slow moves above those expecting better growth for the first time since the federal government shutdown of Q3 2012

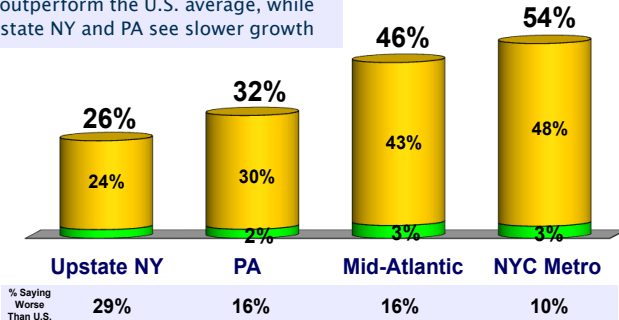


“How do you expect the economy in your metro area to perform relative to the U.S. over the first half of 2016?”

Middle Market Companies

Substantially Better Moderately Better

The Mid-Atlantic and NYC regions expect to outperform the U.S. average, while Upstate NY and PA see slower growth

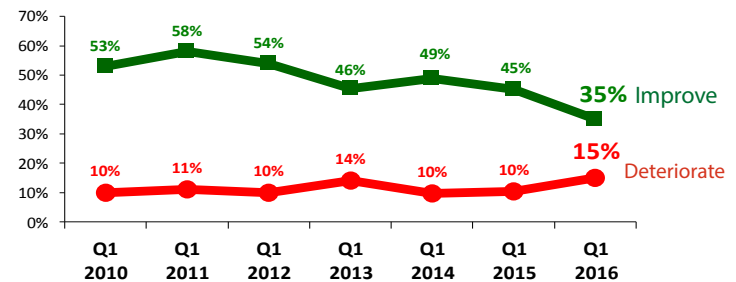


“What are your expectations for your own industry over the next six months?”

Middle Market Companies

Expectations Moderate But Remain Positive

Survey respondents expect conditions in their own industry to improve in 2016 by more than a 2-to-1 margin

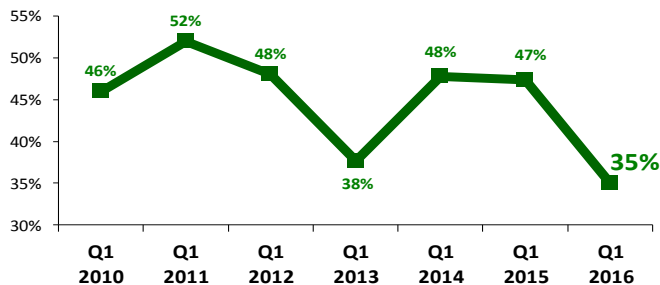


“Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?”

Net Percentage Expecting Higher Unit Sales

Sales Expectations Downshift But Remain Positive

Half (50%) of all respondents project moderate sales growth through the first half of 2016 vs. 15% that see weaker revenue performance

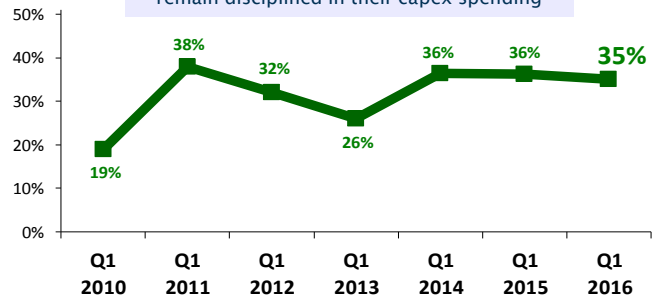


“Which of the following best describes your firm’s capital equipment spending plans over the next six months?”

Net Percentage Increasing Capex Spending

Business Investment Plans Stay Consistent With Recent Readings

Despite softer near-term revenue growth, firms remain disciplined in their capex spending



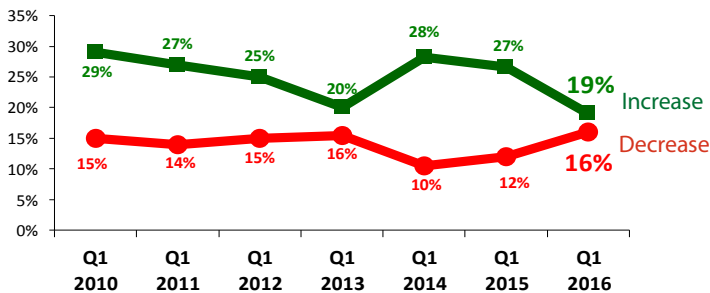
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“Looking ahead six months, how do you expect your inventory levels to change?”

Middle Market Companies

Inventory Correction is Fully Underway

Respondents expect to pare inventory stockpiles during the first half of 2016

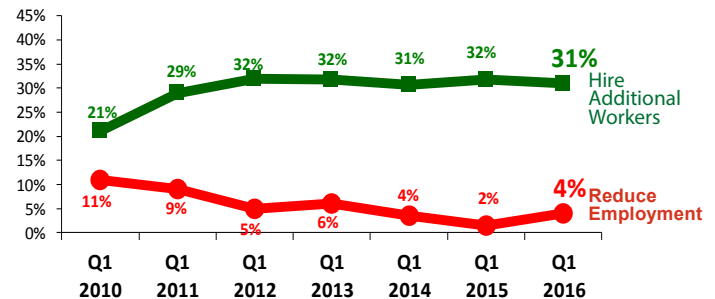


“Which of the following best describes your firm’s employment plans over the next six months?”

Middle Market Companies

Hiring Pace Remains Steady

Respondent concerns about an economic slowdown have not had a noticeable effect on plans for payroll expansion

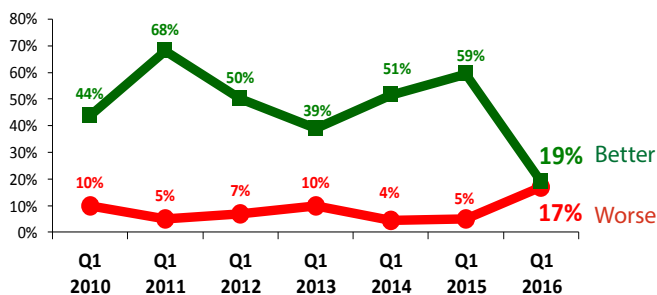


“How would you rate the current state of the U.S. economy compared to six months ago?”

Commercial Real Estate Companies

CRE Respondents See Economic Slowdown

Only 1-in-5 say the economy has improved, well below prior survey readings

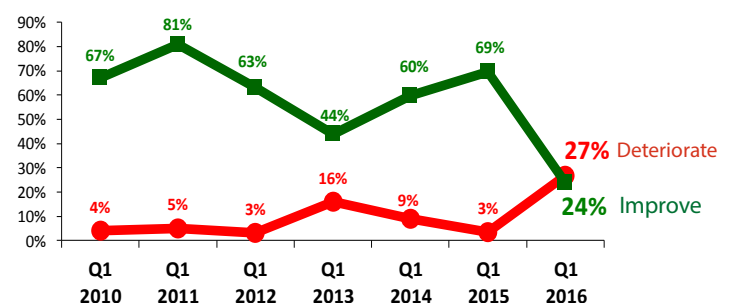


“How do you expect the national economy to perform over the next six months?”

Commercial Real Estate Companies

Near-Term Expectations Soften as Well

CRE respondents are evenly divided about the outlook for economic growth over the next six months

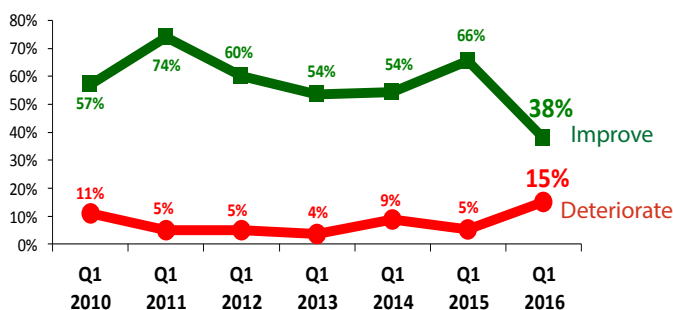


“What are your expectations for your own industry over the next six months?”

Commercial Real Estate Companies

Industry Outlook Worsens But Remains Positive

While expectations have slipped from year ago readings, a net 23% of respondents still expect conditions to improve

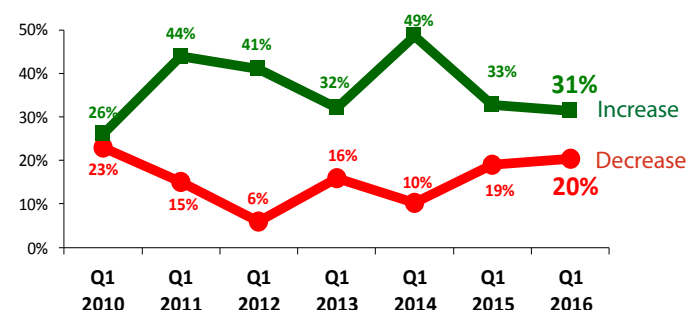


“Looking ahead six months, how do you expect your occupancy rates to change from their current levels?”

Commercial Real Estate Companies

Lease-Up Expectations Largely Unchanged

A net 11% of respondents expect occupancy rates to rise, while nearly half expect rates to remain flat



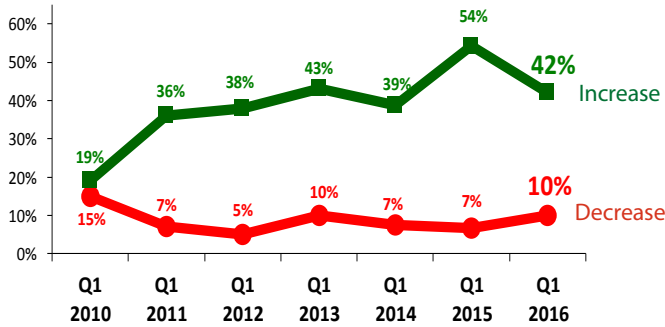
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“Adjusting for normal seasonal ups and downs, what do you expect to happen to rental rates during the next six months?”

Commercial Real Estate Companies

Rental Rate Forecasts Moderate After 2015 Spike

Expectations have dipped from year ago readings but remain in line with the historical survey norm

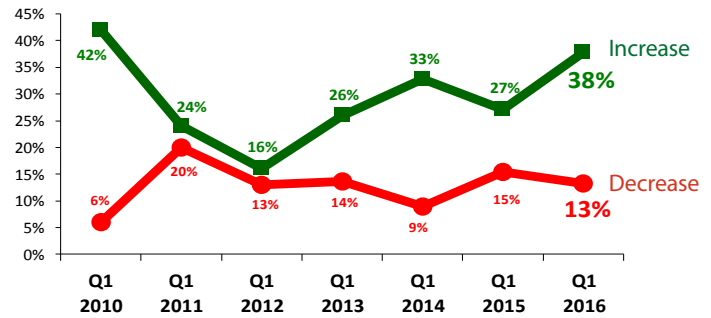


“What are your expectations for cap rates over the next six months?”

Commercial Real Estate Companies

Cap Rate Expectations Rise to Post-Recession High

Rising real estate prices and a moderating rental rate outlook have put upward pressure on cap rates

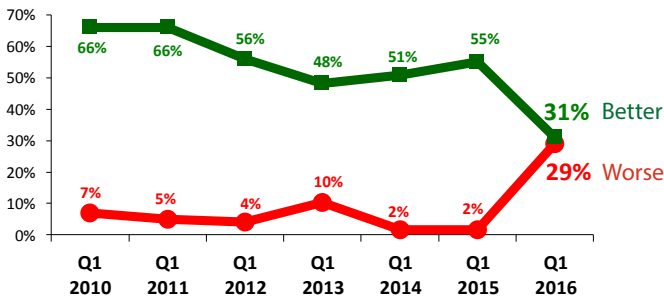


“What are your expectations for the volume of commercial real estate transactions nationally over the next six months?”

Commercial Real Estate Companies

Transaction Volume Outlook Declines Significantly

Only a net 2% of respondents expect sales activity to increase in the near-term versus 53% twelve months ago.

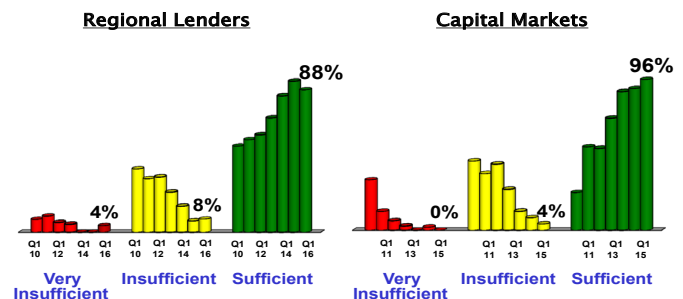


“How do you feel about the availability of CRE financing from the following sources over the next six months?”

Commercial Real Estate Companies

CRE Credit Easily Accessible For Most CRE Firms

Most CRE investors have sufficient access to financing, with both regional lenders and capital markets operating well

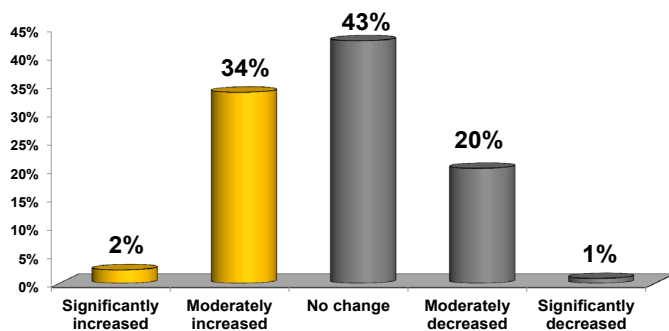


“In the past few months, how have your forecasts for total revenue in 2016 changed?”

All Survey Respondents

Revenue Forecasts Remain Positive

A net 15% of respondents have increased revenue forecasts in the past few months despite financial market turmoil and slow international growth

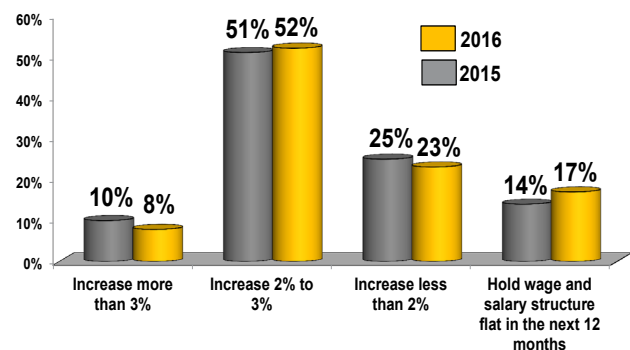


“In general, what are your plans for managing employee wage and salary increases over the next year?”

All Survey Respondents

Wage Pressure Remains in Line With Recent Readings

60% of respondents plan to increase wages and salaries by at least 2%, on par with year-ago feedback



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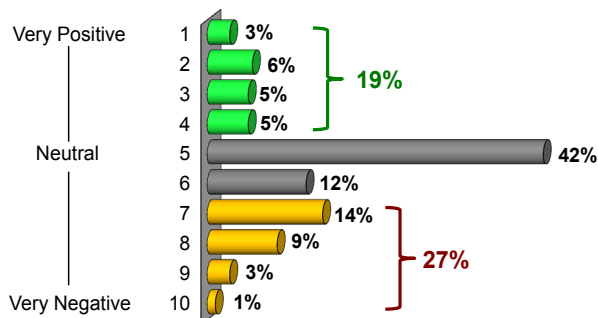
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“On a scale of 1 to 10, what impact do you expect slow international economic growth to have on your business in 2016?”

All Survey Respondents

Global Economic Headwinds Expected to be Modest

One in four respondents expect sluggish global growth to negatively impact their business in the coming year

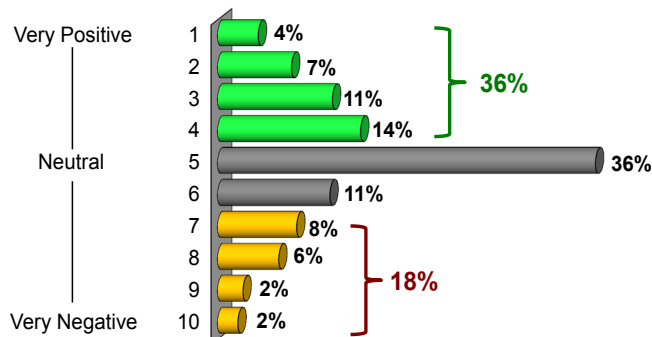


“On a scale of 1 to 10, what impact do you expect the strong U.S. dollar to have on your business in 2016?”

All Survey Respondents

Mixed Impact From Strong Dollar

Manufacturers are more likely to cite the strong dollar as a business concern, while service providers tend to see it as a modest positive

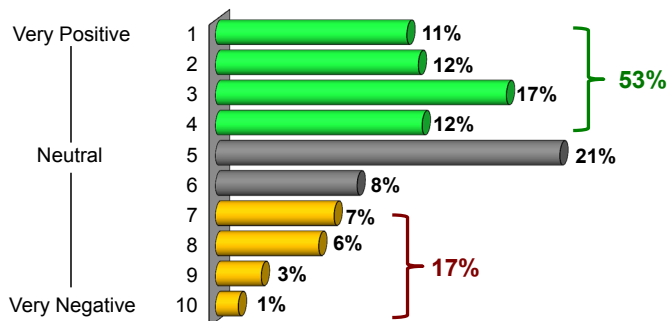


“On a scale of 1 to 10, what impact do you expect low energy prices and the commodity glut to have on your business in 2016?”

All Survey Respondents

Lower Input Prices Benefit Most Respondents

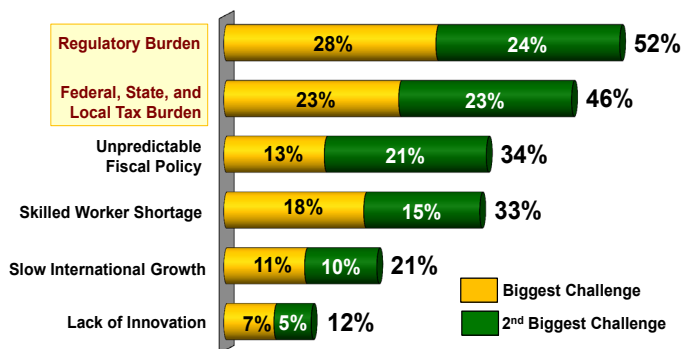
By a 3-to-1 margin, respondents expect low energy and commodity prices to be a positive for their business



“What do you think are the biggest challenges to U.S. economic growth over the next five years?”

All Survey Respondents

Gov't Policies Seen as Largest Obstacle to Long-Run Growth
Most see slow international growth and lack of innovation as minor concerns



ABOUT M&T: Founded in 1856, M&T Bank Corporation (www.mtb.com) is one of the 20 largest U.S. commercial bank holding companies, with more than \$120 billion of assets and more than 800 branch offices in New York, Pennsylvania, New Jersey, Maryland, Delaware, Virginia, West Virginia and Washington, D.C.

SURVEY METHODOLOGY: An Internet survey was conducted by M&T during January and February 2016 among senior managers and owners of mid-sized businesses located throughout the Bank's geographic footprint. A total of 467 responses were received, consisting of 395 Middle Market enterprises (annual sales \$10 million to \$500 million) and 72 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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