

# THE PNC ECONOMIC OUTLOOK

Survey of Small & Middle-Market Business Owners

October 2010

## New Jersey Business Owners' Outlook Remains Pessimistic Amid Doubts about U.S. Economy

Our Autumn 2010 survey of small and mid-sized business owners in New Jersey shows a lingering high level of concern about the national and local economies even as they reported a slight increase in optimism about their own company's prospects. Despite the recent National Bureau of Economic Research declaration that the "Great Recession" ended in June 2009, business owners still feel very cautious about the prospects for economic recovery. Owners across all industries are waiting for more customers, sales and clarity from Washington, D.C., on the implementation of recent and pending legislation and regulations. PNC's economists are not among the "double dippers" as these findings support their forecast that the U.S. economy's ongoing "half-speed" recovery, which began at mid-year 2009, will be sustained in 2010 and pick up momentum in 2011.

New Jersey's lingering pessimism is not surprising. The state has lagged behind the U.S. in private-sector job growth. While the U.S. has averaged 95,000 private-sector jobs per month with no decline in any month in 2010, New Jersey saw declining private-sector employment in January, March and May. The new survey findings are consistent with only modest job gains at small firms in New Jersey over the next six months, which is significant because small firms do the lion's share of hiring. The PNC survey, which began in 2003, gauges the mood and sentiment among small and mid-sized business owners, who represent the grassroots of the American economy.

## **Key Findings**

The modest recovery in the New Jersey economy is reflected in a broadly stable outlook for small and mid-sized business owners, according to PNC's Autumn 2010 survey findings:

- Less Pessimistic About Own Company: About a quarter of business owners (27%) are pessimistic about their own company's prospects during the next six months, compared to 28% in Spring. Less than one-fifth (16%) are optimistic, similar to 15% last Spring.
- Top Challenges: Weak sales top their list as the most important challenge (47%). Government policy uncertainty and taxes tied for second (13%).
- Hiring Outlook Remains Cautious: Only 8% expect to hire fulltime employees during the next six months, not significantly different from Spring 2010 and Autumn 2009 results.
- Capital Spending On the Rise: Nearly six in 10 (58%) plan to increase capital spending compared to 50% in Spring and 44% from one year ago. Technology equipment spending leads the list of priorities.

### **Business Owners' Expectations for Their Business** Trending and for the next six months Sales **Profits** Hiring Expect Increase 39% 36% Expect to 30% 40% Remain the 32% 36% Same 33% Expect Decrease 10/09 4/10 10/10 10/09 4/10 10/10

 Sales, Profits and Jobs: Business owners are more pessimistic about their outlook for sales and profits over the next six months. Owners report a profit squeeze from higher costs and little pricing power. The cautious outlook for hiring of full-time employees (8%) is unchanged since Autumn 2009.

#### Owners' Outlook on U.S. and Local Economy Trending and for the next six months Local Economy National Economy Optimistic (Rate 8-10) 31% 31% 31% Moderately 47% Optimistic 49% 49% (Rate 5-7) 63% 61% 48% 42% Pessimistic (Rate 1-4) 10/09 10/10 4/10 10/10 10/09 4/10

- Gloomy About U.S. Economy: Disappointingly, almost seven in 10 (66%) up from Spring are pessimistic about the U.S. economy's prospects during the next six months.
- Less Gloomy About Local Economy: The sentiment is less pessimistic about the local economy. Half (48%) are pessimistic about their local region's prospects during the next six months but only 4% are optimistic. This is significantly less pessimistic than in Spring (63%).
- Own Business vs. U.S. Recovery: More owners report noticeable improvement in their own business performance. About one out of seven (14%) say their business was never hurt or has already improved. 30% now expect their business to noticeably improve within one year while 51% say improvement is more than a year away. New Jersey business owners are even more pessimistic about the U.S. economy. The overwhelming majority (96%) say the U.S. economy has not begun to noticeably improve. One-fifth (20%) expect noticeable improvement within the next 12 months in gloomy contrast to 75% who feel the start of a U.S. recovery is more than one year away.
- Fiscal Stimulus Impact: 1½ years after passage of the American Recovery and Reinvestment Act of 2009, nearly nine in 10 (86%) feel they have yet to benefit from this Federal stimulus program, the same result as in the Spring. Only one in seven (14%) say their business has received some benefit, including only 2% who say a significant benefit.
- HIRE Act for Small Businesses: Only 11% report already hiring or planning to hire qualified workers in response to the tax credit offered by the HIRE Act passed by Congress this past Spring.

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