

U.S. Business Owners Remain Positive about Sales, Steady on Hiring; More Plan Pay Raises for Employees and Price Hikes for Customers

Our Autumn 2014 survey of small and mid-sized business owners shows a significant improvement in business expectations and optimism compared to one year ago and down only slightly from our Spring 2014 survey. The upbeat outlook reflected across all industries with manufacturing firms still relatively more positive than retailers/wholesalers and a further improvement among construction firms.

The new findings from the biannual PNC survey, which began in 2003, show one in five small businesses plan to add new full-time employees and nearly two in five (38%) expect to increase salaries of workers, the highest in six years. Private sector job growth, especially among small businesses that do the lion's share of hiring, is essential to sustaining the expansion.

Overall, these findings strongly support PNC economists' baseline forecast that the U.S. economic and jobs expansion will proceed at a faster pace over the next year, sustaining the spring rebound after harsh winter weather weighed on economic growth early this year. Indeed, of the 38% who say the weather had a negative impact on their business, half say their business has not fully recovered.

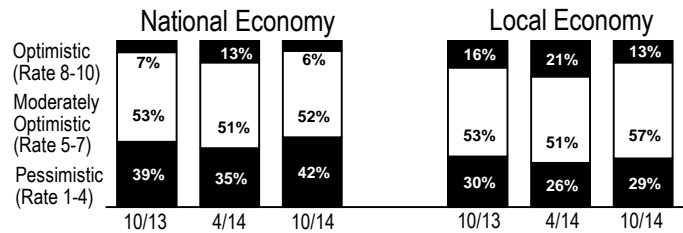
Key Findings

PNC's forecast for above-average growth for the economy and jobs in the second half of 2014 continuing into 2015 is reflected in the outlook among small business owners, according to our new findings:

- Optimistic about Own Company:** 85% are optimistic about their own company's prospects during the next six months, consistent with 87% in the Spring and up from 81% one year ago. Only 14% are pessimistic compared to 12% in Spring and 18% one year ago.
- Hiring Plans Steady:** 20% plan to add full-time employees vs. 22% in the Spring and 16% one year ago. Only 7% plan to reduce full-time staff. Of those hiring, the majority (61%) plan to add 1-5 employees, which is sizable given that nearly three-quarters of these businesses have fewer than 50 full-time employees. 80% of the owners hiring cite either business growth or investing in the future as their top reason. Among those not hiring, half (52%) need sales to increase 3% or more to add workers.
- Bigger Pay Raises:** Nearly two out of five (38%) plan to increase employees' compensation during the next six months, up significantly from only 32% in Spring and 22% one year ago. Nearly three in five (59%) plan wage hikes of at least 3%, which is up from the recent national wage trend near 2%. Meanwhile, 28% say finding qualified employees is harder than six months ago, up significantly from 20% in Autumn 2013. This is especially a problem in construction where 38% say qualified employees are harder to find than six months ago.

Outlook on U.S. and Local Economies

Trending and for the next six months

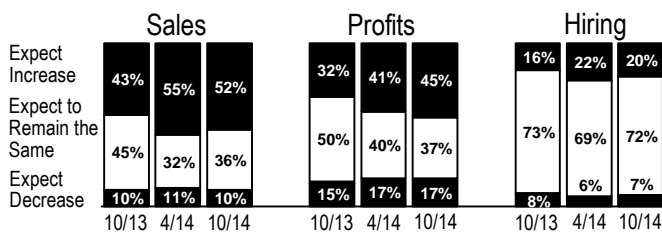


- Outlook Guarded:** Optimism about U.S. and local economic prospects during the next six months fell from Spring and is close to Autumn 2013.

- Bigger Price Hikes:** 38% plan to raise their selling prices and only 4% intend to cut their prices. Of those planning hikes, 31% plan to increase prices by 1-2% while 40% plan to increase prices by 3-4% which is above the Federal Reserve's 2% inflation goal. Thus, price inflation looks poised to speed up with nine of 10 expecting overall consumer prices to rise in the coming year. 61% of those expect prices hikes in excess of the Fed's 2% target.
- Credit Demand Low, But Availability Improving:** Nearly one in five (17%) will probably/definitely take out a new loan or line of credit in the next six months, up slightly from 15% in Spring. 21% report credit is easier to get than three months ago, compared to 17% who say it is more difficult. This is the first time since 2006 that the number saying "easier" is bigger than the number saying "more difficult."
- Healthcare Policy Confusion:** Among owners with at least 50 employees, nearly two-thirds (64%) say they are not entirely sure about how the Affordable Care Act applies to their business. About four in 10 (42%) say it will impact their business in the next six months, with most (93%) saying the impact will be negative.
- House Prices Continue Rising:** Just over half (52%) expect home prices in their local market will rise over the coming year, down from 48% in the Spring and 58% one year ago. Only 9% expect house prices to decline, about the same as in the Spring 2014 and Autumn 2013 surveys.

Owners' Expectations for Their Business

Trending and for the next six months



- Outlook Remains Positive:** are significantly higher than Autumn 2013 and close to the Spring results. Of those expecting sales and profits to increase, three of four expect sales gains of at least 3% and three of five expect profit gains of at least 3%.

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