THE PNC ECONOMIC OUTLOOK

Survey of Small & Middle-Market Business Owners

## Main Street vs. Wall Street: U.S. Small Business Owners Indicate Less Angst About Credit Availability And Housing Market Issues

The well-publicized anxiety on Wall Street about credit availability and the housing market is not yet translating into the same degree of concern along Main Street among the nation's small and mid-sized business owners, according to the PNC Economic Outlook survey. This survey, conducted every six months since April 2003, gauges the mood and sentiment among small business owners who represent the bedrock of the American economy.

Steady interest rates and lower energy prices contributed to their stable outlook for sales and profits during the next six months compared to last Spring's survey. Their outlook is more positive compared to one year ago. Plans for hiring full-time employees, however, are down slightly from the Spring and on par with a year ago.

## **Key Findings**

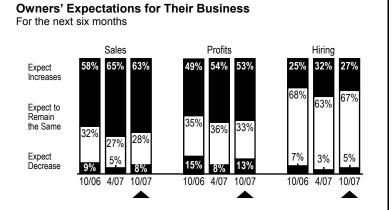
PNC

Wall Street's credit squeeze and housing slump are not yet raising the same concerns among small business owners, according to PNC's findings:



Credit Availability: Nearly nine out of 10 (87%) owners who need credit say availability is the same or easier compared to three months ago, while only 13% said it is more difficult now to obtain credit. At the same time, plans for capital spending have

steadily increased from PNC's last two surveys with technology remaining the top priority.



- · Stable Business Outlook: Reflecting stable interest rates and lower energy prices, owners' expectations for sales and profits are on par with the Spring results and higher than one year ago. With hiring, however, 27% expect an increase during the next six months compared to 32% in Spring and 25% last Autumn.
- Investing In Their Own Business: Four out of five (80%) plan to make investments in their business, up from 70% last Autumn. Technology equipment, mentioned by 26% of business owners, is most likely to receive the largest spending increase over the next six months, with other types of business equipment (14%) a distant second, followed by physical plant and employee training (each at 10%).
- Continued Cost Pressures: Nearly two out of three (64%) expect to pay higher prices to suppliers, little changed from our two previous surveys. These results likely reflect limited declines in energy and other raw material prices. Over half (51%) expect an increase in employee compensation and healthcare costs (60%), little changed from 54% and 57%, respectively, a year ago.

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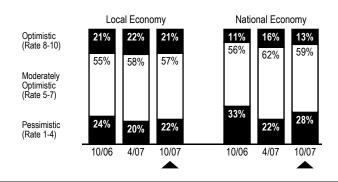
House Prices: Their tempered view on the housing market is evident by the four out of 10 (43%) who expect local house prices to decline during the next 6-12 months, while one-third (34%) expect prices to be flat. One out of four (23%) expect local prices to rise. Of those who expect a decline in house prices, less than a quarter (22%) expect it will adversely impact their sales and profits.

Prices Charged to Customers: A stable 40% plan to pass along some portion of their higher costs in the form of higher selling prices to customers. Of those who plan to raise prices, nearly one-fifth (21%) report favorable market conditions will allow it while three-quarters (77%) are attempting to preserve profit margins.

## **Owners' Outlook on the Economy**

U.S. and local outlook for the next six months

- Attitude About Local Economy: Compared to the U.S. economy, business owners are relatively more positive about their local economy with 21% optimistic (rating 8 to 10 on a scale of 1 to 10) and 22% pessimistic (rating 1 to 4). This is little changed from their local outlook in our past two surveys.
- Attitude About U.S. Economy: Compared to last Spring, a lower number (13%) are optimistic while a significantly higher number (28%) are pessimistic about the U.S. economy.
- Lingering Concerns: Among a list of five choices, higher energy prices remain the top concern for business owners, but to a lesser extent than in our past two surveys. 29% said a rise in energy prices would have the areatest impact on their business over the next six months compared to 31% in the Spring and 50% last Autumn. The likelihood of interest rate increases was the second greatest concern (21%), even as rates stabilized over the past six months.



The PNC Financial Services Group, Inc. (NYSE: PNC) is one of the nation's largest diversified financial services organizations providing retail and business banking; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-based lending; wealth management and global fund services. METHODOLOGY: Harris Interactive Inc., a global market research firm, conducted the telephone survey between late July and mid-August among small and mid-sized businesses. 610 interviews were conducted nationally and 734 within PNC Bank's primary region. All respondents were owners or senior decision-makers in their respective businesses. Sampling error for the nationwide results is +/-4.0 percentage points. Study released October 2007. DISCLAIMER: This report was prepared for general information purposes only and is not intended as specific advice or recommendations. Any reliance upon this information is solely and exclusively at your own risk.