

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

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



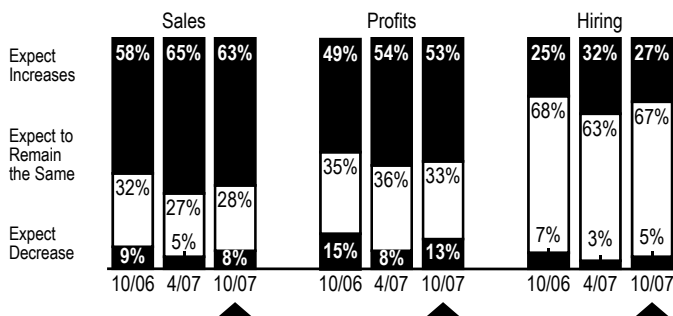
Credit Availability: Nearly nine out of 10 (87%) owners who need credit say availability is the same or easier compared to three months ago, while only 13% said it is more difficult now to obtain credit. At the same time, plans for capital spending have steadily increased from PNC's last two surveys with technology remaining the top priority.



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.

Owners' Expectations for Their Business

For the next six months



- **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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- **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 greatest 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.

