Q3 2015 Economic Outlook Survey Results

Outlook Remains Postive Amid Concerns About Impending Federal Reserve Rate Hike

The latest poll shows that mid-sized firms remain optimistic about near-term growth, with companies focused on domestic economic strength rather than international turmoil.

A net 28% of middle market companies expect economic conditions to improve over the next six months, on par with the 32% differential recorded last year. Commerical real estate (CRE) firms were more optimistic, with a net 41% expecting conditions to improve.

Sales growth expectations moved higher, while capital expenditure forecasts were largely unchanged. Talent shortages continue to bedevil hiring managers, with three out of four firms reporting difficulty finding qualified applicants.

On net, firms have seen little impact from the recent rise in the value of the dollar, with 71% saying their businesses have not been affected by the greenback's appreciation.

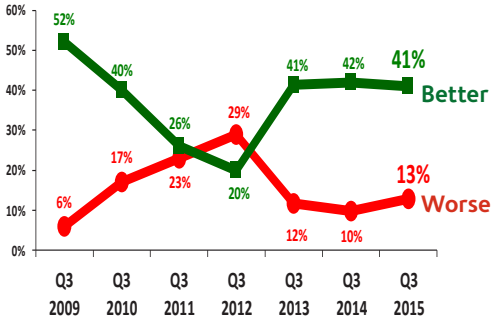
However, concerns about a presumptive Federal Reserve interest rate hike later this year may be clouding the business horizon, with a majority of respondents saying tighter monetary policy will be a negative for U.S. economic growth.

Middle Market Highlights

- 38% of Middle Market firms (sales $10-$500 million) feel the economy has improved over the past six months, down slightly from the 45% reading a year ago. 11% say the U.S. economy weakened, unchanged from the Q3 2014 reading.
- 41% of respondents expect U.S. economic growth to accelerate over the next six months, while 13% expect the economy to deteriorate.
- Unit sales expectations improved considerably, with a net 46% expecting sales to accelerate in the next six months compared to 39% last year.
- Capital spending plans ticked up slightly, with a net 40% planning to increase capital expenditures.
- Hiring expectations remain steady, with 29% of respondents planning to hire additional employees in the next six months, versus only 3% that plan to reduce employment levels.
- Finding replacements for retiring workers is a challenge for many companies, with 74% of respondents struggling to find qualified applicants.

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

Middle Market Companies



Regional Differences

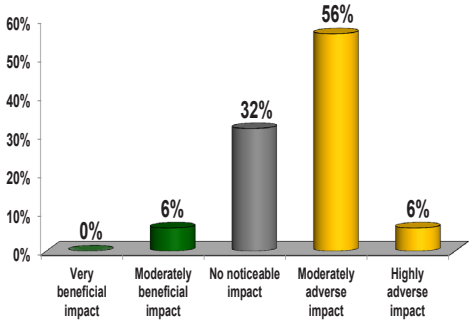
- 52% of metro NYC firms expect their regional economy to out-perform the U.S. during the second half of 2015—versus 40% for the Mid-Atlantic, 37% of Pennsylvania and 30% of Upstate NY respondents.

Commercial Real Estate

- 54% say the U.S. economy has improved over the past six months, up from 52% a year ago. Only 3% say the national economy has worsened, on par with year-ago levels.
- 47% of CRE firms expect the national economy to improve in the next six months, down from 60% a year ago. Some respondents voiced concern over whether the U.S. economy is ready for higher interest rates.
- Expectations for the CRE industry remained steady, with 54% of respondents expecting improvement.
- Cap rates and occupancy rates are both expected to rise modestly.
- 56% of respondents expect rental rates to rise in the near-term, on par with readings from the past two years.

"If the Federal Reserve begins to hike short-term interest rates in late-2015, what sort of impact do you expect this action would have on economic growth?"

All Survey Respondents



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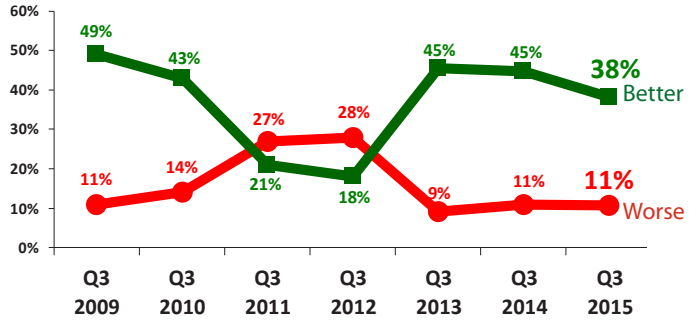
"How would you rate the current state of the U.S. economy compared to six months ago?"

Middle Market Companies

National Economy Continues to Improve at Moderate Pace

Growth perceptions remain in line with 2013–14 readings

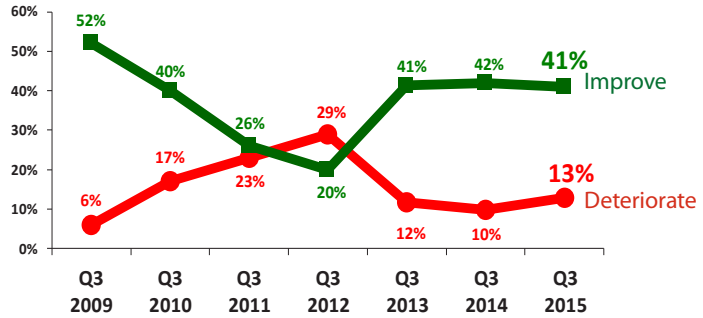


"How do you expect the national economy to perform over the next six months?"

Middle Market Companies

Near-Term Outlook Remains Positive

Most firms are unfazed by fallout from the Greek crisis or the prospect of a slowdown in China's growth

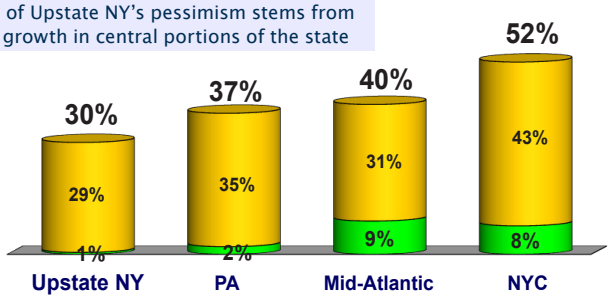


"How do you expect the economy in your metro area to perform relative to the U.S. over the second half of 2015?"

All Survey Respondents

Substantially Better | Moderately Better

The Greater NYC region is the most optimistic; much of Upstate NY's pessimism stems from slow growth in central portions of the state



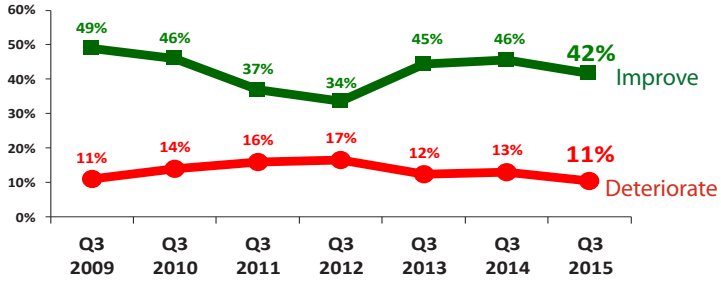
% Saying Worse Than U.S.	28%	17%	12%	6%

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

Middle Market Companies

Industry Expectations Steady

Only 1-in-10 firms expect conditions to weaken over the remainder of 2015

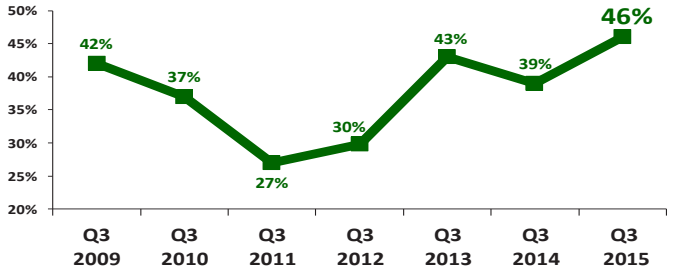


"Adjusting for normal seasonal ups and downs in your business cycle, what do you expect to happen to the real volume (number of units) of goods and services that you will sell during the next six months?"

Net Percentage Expecting Higher Unit Sales

Sales Expectations Move Considerably Higher

A net 46% of respondents expect unit sales gains, the highest reading since 2009 and a positive sign for growth

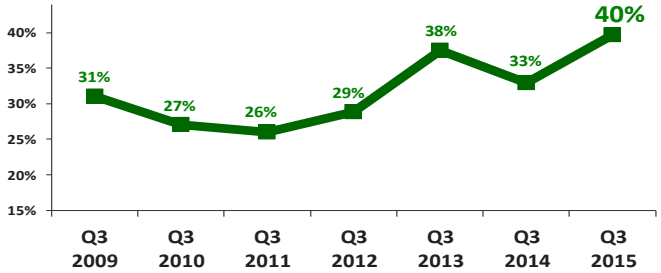


"Which of the following best describes your firm's capital equipment spending plans over the next six months?"

Net Percentage Increasing Capex Spending

Capex Plans Rise From a Year Ago

On net 4-in-10 firms plan to increase capital spending, a good omen for business activity during the second half of the year



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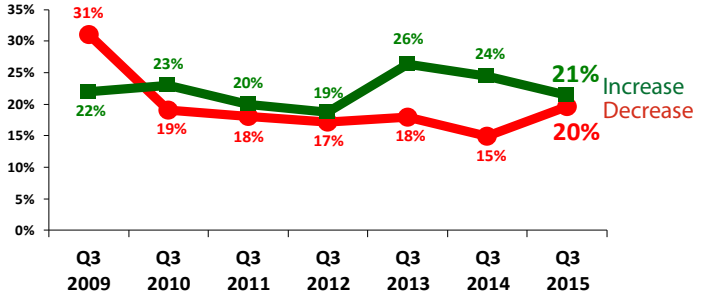
"Looking ahead six months, how do you expect your inventory levels to change?"

Middle Market Companies

Inventory Investment Moderates Slightly

Net stocks expected to be largely unchanged after two years of buildup

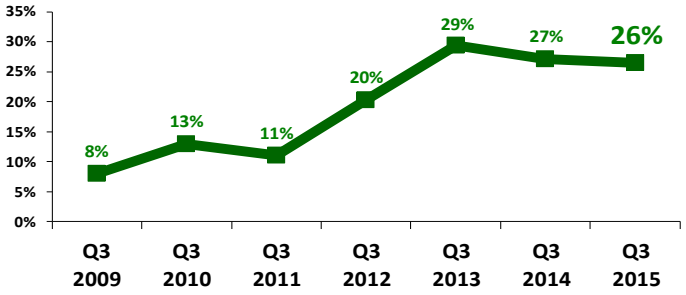


"Which of the following best describes your firm's employment plans over the next six months?"

Net Percentage Hiring New Employees

Hiring Activity Remains Stable

A net 26% of firms plan to hire additional workers, foreshadowing continued improvement in the labor market

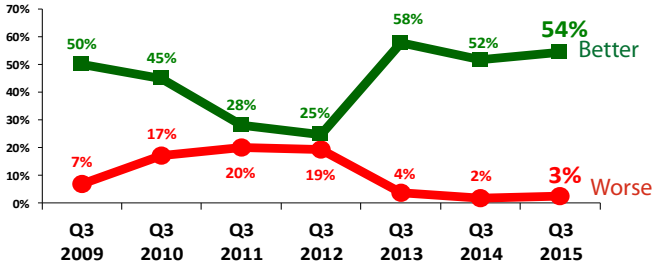


"How would you rate the current state of the U.S. economy compared to six months ago?"

Commercial Real Estate Companies

CRE Respondents Report Continued Improvement...

More than half of CRE firms said that the U.S. economy had improved since the start of 2015, on par with year-ago levels

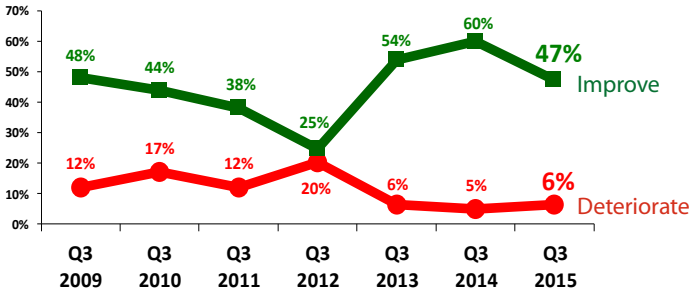


"How do you expect the national economy to perform over the next six months?"

Commercial Real Estate Companies

...Although the Near-Term Outlook Weakens

CRE firms are less optimistic about future economic growth than a year ago, with some respondents voicing concerns over rising interest rates

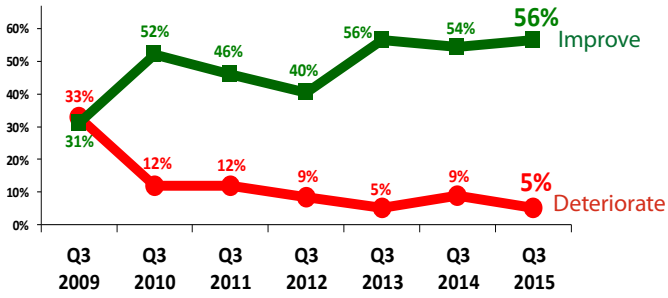


"What are your expectations for your own industry over the next six months?"

Commercial Real Estate Companies

Industry Expectations Remain Steady

Many commercial real estate firms expect growth in their industry to outperform the broader economy

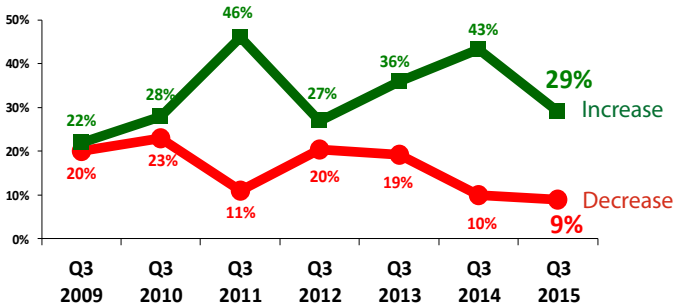


"Looking ahead six months, how do you expect your occupancy rates to change from their current levels?"

Commercial Real Estate Companies

Little Change Expected in Lease-Up Activity

More than 6-in-10 respondents expect occupancy rates to remain steady for the rest of 2015



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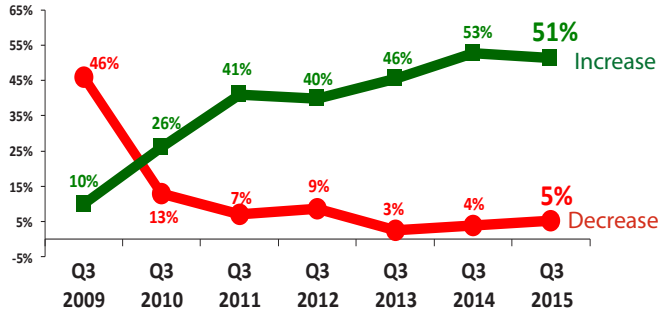
"Adjusting for normal seasonal ups and downs, what do you expect to happen to rental rates during the next six months?"

Commercial Real Estate Companies

Rental Rate Outlook Remains Positive

A net 46% of CRE firms expect rates to rise in the next six

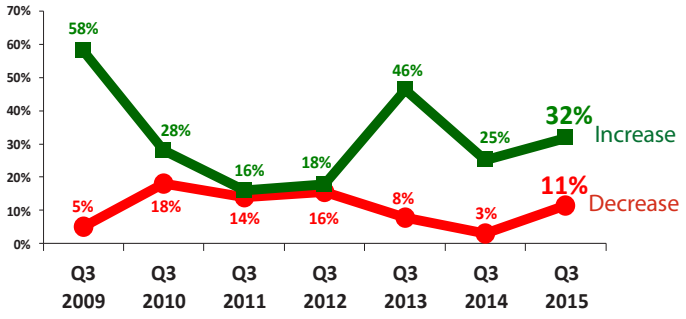


"What are your expectations for cap rates over the next six months?"

Commercial Real Estate Companies

Cap Rate Expectations Diverge

Relative to a year ago, more firms expect cap rates to change, although respondents differ on the direction they will move

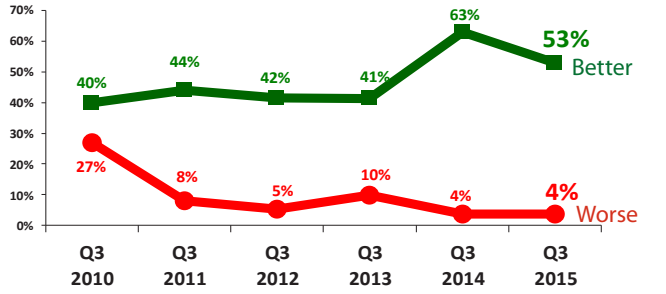


"What are your expectations for the volume of commercial real estate transactions nationally over the next six months?"

Commercial Real Estate Companies

Activity Remains Strong But Cools From Torrid 2014 Pace

More than half of CRE respondents expect transaction volume to rise, trailing the 2014 reading but well above the average of the past five years

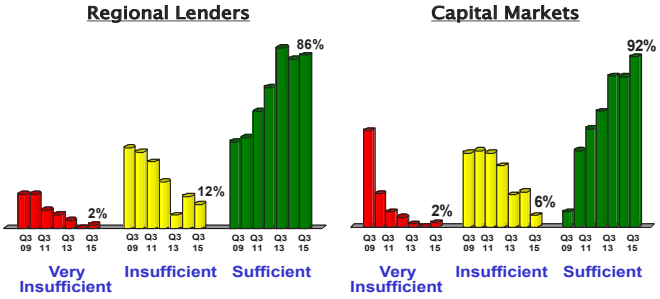


"How do you feel about the availability of CRE financing from the following sources over the next six months?"

Commercial Real Estate Companies

CRE Credit Remains Widely Accessible

Nearly all CRE investors have access to sufficient financing, with both capital markets and regional lenders performing well

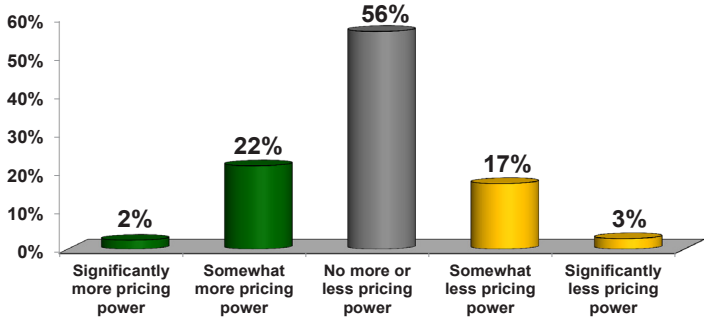


"In general, how much pricing power do you feel your firm has relative to a year ago?"

All Survey Respondents

Pricing Power Remains On Par With Year Ago

Most firms report little change in their ability to set prices despite heightened M&A activity in recent years

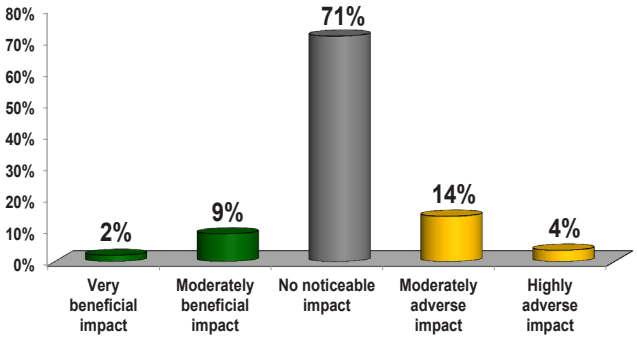


"What impact do you expect the recent rise in the value of the U.S. dollar to have on your business in the next 12 months?

All Survey Respondents

Most Firms Unperturbed by Rising Dollar

Nearly three-quarters see no effect from the strengthening of the dollar, while just 1-in-5 expect a negative impact



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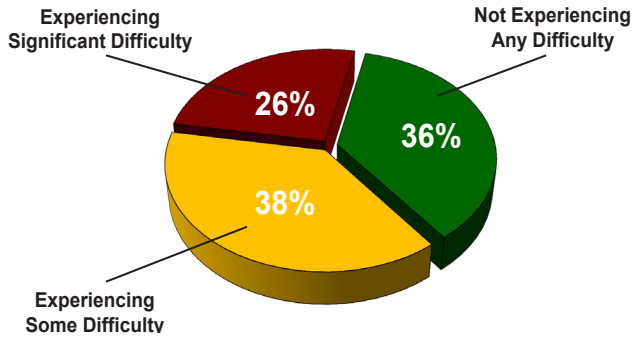
"To what degree are you experiencing difficulty hiring qualified replacements for retiring workers?"

All Survey Respondents

Replacing Retiring Workers Becoming More Difficult

Nearly three-fourths of respondents are experiencing trouble finding qualified new workers

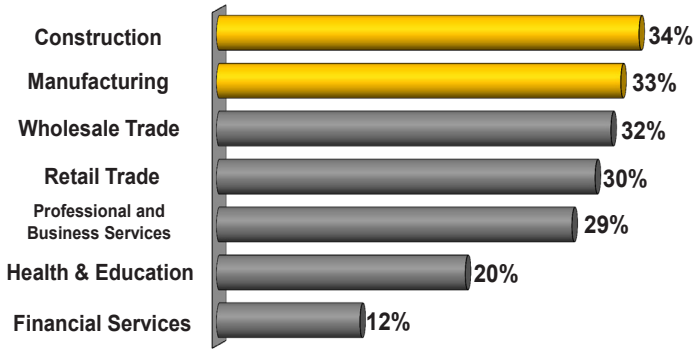


Percentage of firms experiencing significant difficulty hiring qualified replacements for retiring workers

Middle Market Companies

Finding New Workers a Major Challenge in Some Industries

After a shop drop in industry employment following the recession, firms are now struggling to hire workers with manufacturing or construction skills

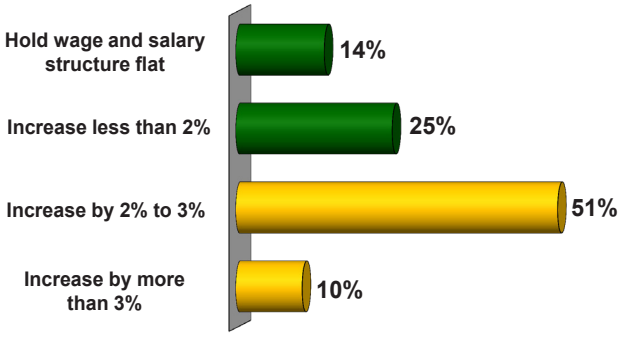


"In general, what are your plans for managing employee wage and salary increases over the next year?"

All Survey Respondents

Wage Pressures May Be Slowly Building

More than 6-in-10 firms plan to hike compensation by at least 2% as competition for talented workers heats up

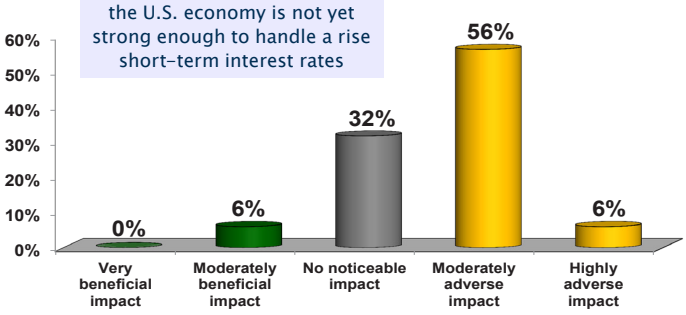


"If the Federal Reserve begins to hike short-term interest rates in late-2015, what sort of impact do you think this action would have on economic growth?"

All Survey Respondents

Majority Concerned About Potential Rate Hike

Many firms are concerned that the U.S. economy is not yet strong enough to handle a rise short-term interest rates



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 $97 billion of assets and more than 650 branch offices in New York, Pennsylvania, Maryland, Delaware, Virginia, West Virginia and Washington, D.C.

SURVEY METHODOLOGY: An Internet survey was conducted by M&T during July and August 2015 among senior managers and owners of mid-sized businesses located throughout the Bank's geographic footprint. A total of 488 responses were received, consisting of 409 Middle Market enterprises (annual sales $10 million to $500 million) and 79 Commercial Real Estate investors/lessors. M&T has conducted the survey since mid-2009.

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