

THE PNC ECONOMIC OUTLOOK

Survey of Small & Middle-Market Business Owners

April 2013

Michigan Business Owners' Outlook Improves, **But Remains Cautious on Hiring and Local Economy**

Our Spring 2013 survey of small and mid-sized Michigan business owners shows an improvement in business expectations and optimism compared to last Autumn ahead of the Fiscal Cliff and election uncertainty, but still more cautious than in Spring 2012. More Michigan owners report weak sales as their top challenge, followed by government regulations and taxes. These findings support PNC economists' baseline forecast that the moderate U.S. economic and jobs expansion will persist in 2013, despite higher payroll and top income tax rates, an \$85 billion cut in federal spending ("sequestration") and a recession in Europe.

The Spring 2013 findings from the biannual PNC survey, which began in 2003 and Spring 2012 for Michigan, show only one in eight small businesses intends to add full-time employees during the next six months. Private sector job growth, especially among small businesses that do the lion's share of hiring, is essential to sustaining the expansion. Only 13% expect to hire full-time employees, down from Spring 2012 (17%), while 9% plan to reduce full-time staff.

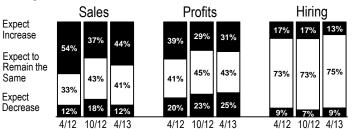
Key Findings

A continued moderate but persistent economic and jobs growth expansion in 2013 is reflected in the cautious outlook by small and mid-sized business owners in Michigan, according to PNC's new survey findings:

- Cautious about Own Company: Just two in 10 (21%) are optimistic about their own prospects during the next six months, up from 17% last Autumn and equal to the 21% one year ago. Correspondingly, just one in four (25%) are pessimistic, vs. 20% in Autumn and 22% in Spring 2012.
- Holding Off Hiring: Over one-third (37%) say they are holding back on hiring until the local economy improves and nearly two in 10 (19%) say they are waiting for a more stable global economy. Just over one-third (35%) are choosing to do more work with fewer employees.
- Better Demand Supports Price Hikes: Over one-third (36%) plan to raise and only 6% intend to cut their selling prices, signaling potential pricing pressures.
- · Housing Prices Rebound to Continue: Building on the dramatic turnaround first seen in our Autumn survey, 46% expect Michigan home prices will rise over the coming year, up from 29% in Autumn and 26% one year ago. Only 8% expect house prices to decline, down from 12% in Autumn and 19% last Spring. This expected rebound is reinforced by sizable house price gains in 2012.

Owners' Expectations for Their Business

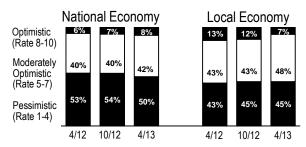
Trending and for the next six months



 Outlook is Mixed: Owners' expectations for sales are stronger than the Autumn but weaker than Spring 2012. Profits and hiring expectations are down from one year ago.

Owners' Outlook on U.S. and Local Economy

Trending and for the next six months



- More Optimistic about U.S. Economy: Optimism is up slightly and pessimism is down about U.S. economic prospects compared to the Autumn and Spring 2012 surveys.
- But not Local Economy: Sentiment about the local economy's prospects is little changed from 2012.
- Nor Global Economy...: 42% are optimistic about the global economy's prospects unchanged from 42% in Autumn 2012.
- Business Investment Plans Steady: Half (52%) plan to spend on capital investments in the next six months, vs. 54% in Autumn and 57% last Spring. Technology equipment remains the top priority, with other types of business equipment a distant second.
- Little Demand for New Loans: Just over one in seven (15%) will probably/definitely take out a new loan or line of credit in the next six months vs. 12% in Autumn and down from 25% last Spring.
- Federal Actions to Stimulate Hiring: Only two in five (40%) think the federal government could take any actions that would positively influence their hiring plans. Reduced business regulations, increased infrastructure spending and reduced total federal spending are the preferred top three actions.
- Fiscal Cliff Deal Expected to Hurt Business and Family Finances: One-third (33%) expect the American Taxpayer Relief Act to have a negative impact on their business and just under half (45%) expect the Act to have a negative impact on their own family's financial situation in 2013.

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