

Middle Market Business Pulse

October 2016 Report



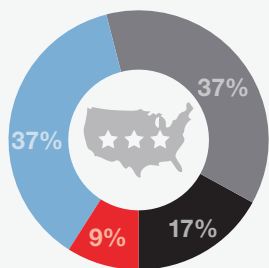
Executive summary

According to the latest KeyBank Commercial Banking Business Pulse survey, the upcoming presidential election is creating a level of uncertainty among middle market businesses. When asked, 83% of respondents said the election is having an impact on their company's financial performance outlook.

Expansion remains a focus for those surveyed, with almost two-thirds saying that they are likely to expand by adding new employees or making a significant capital investment, though excess manufacturing capacity is having an effect. Reflecting on economic outlook, respondents showed continued confidence in the overall economy and their own companies, but are less sure about performance at the state and national level compared to last quarter.

Impact of election on company outlook

■ High impact ■ Moderate impact ■ Low impact ■ No impact



83%
believe the elections are impacting their company's financial outlook

Substantial changes expected after the elections

Affordable Care Act.....51%

National debt.....	41%	Military spending.....	26%
Immigration policies/enforcement.....	37%	Congressional budgetary practices.....	25%
U.S. foreign policy/relations.....	33%	Unemployment rate	23%
Minimum wage.....	30%	Domestic oil exploration policies.....	19%
Foreign trade or tariff regulations.....	28%	Family Medical Leave Act.....	18%
U.S. infrastructure spending/projects	27%	None of the above.....	10%

Finding 1

Many middle market business leaders are watching the Presidential and Congressional elections carefully to gauge their impact.

83% of those surveyed believe the elections are having an impact on their business. The top issue expected to change, according to 51 percent of middle market business leaders in the survey, is the Affordable Care Act, which could be altered or repealed with a change of power. Other leading concerns in the current election economy include the national debt, immigration policies, U.S. foreign relations and the minimum wage.



This year's voter discontent suggests the election could provide a challenging environment for equities.

– **Bruce McCain, Chief Investment Strategist, Key Private Bank**

Finding 1 (continued)

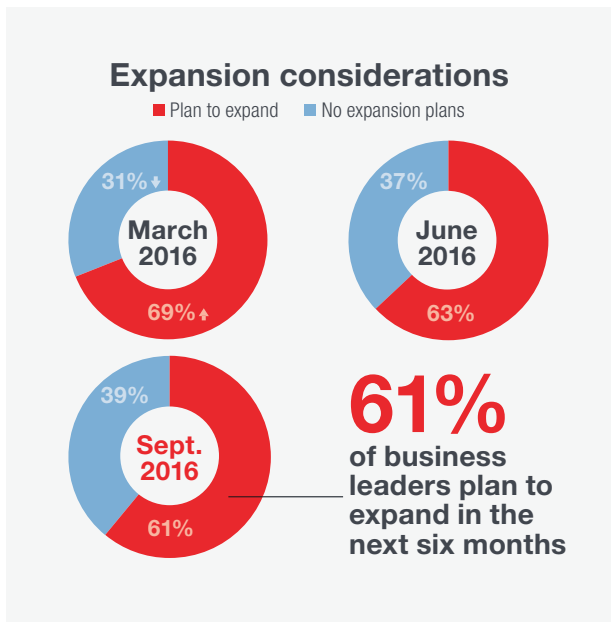
Predicting how the election will affect business and the economy is impossible, but there is no doubt that a change in elected officials causes uncertainty in leading economic indicators. Key Private Bank Chief Investment Strategist Bruce McCain wrote recently about the election and what the decision will mean for the markets on Forbes.com. Read his report [here](#).

Finding 2

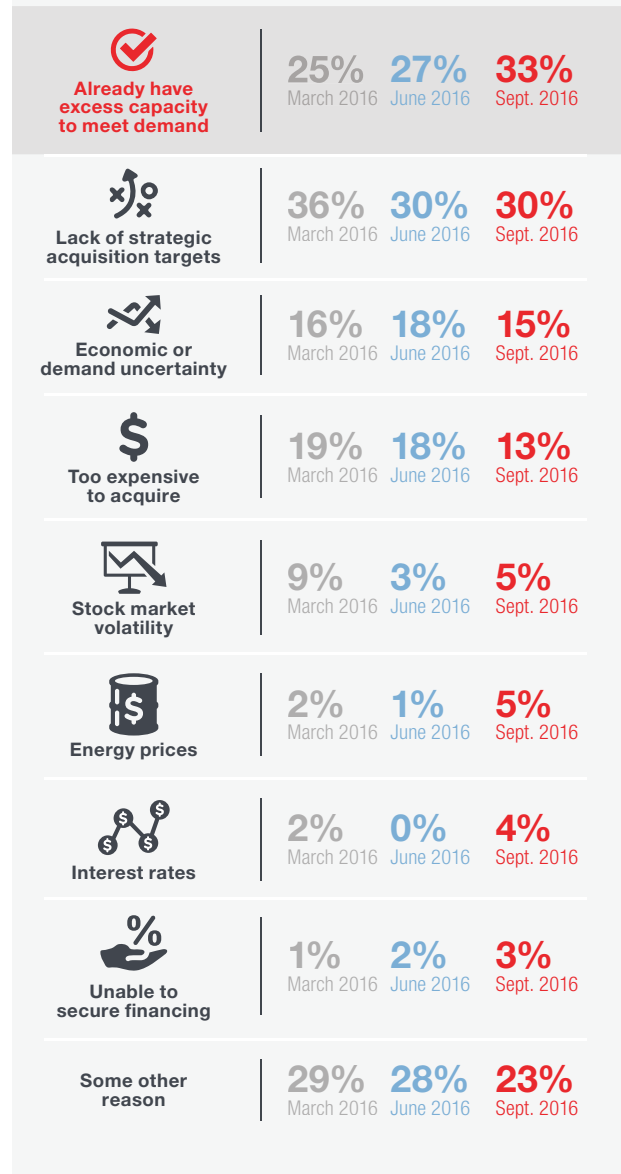
Expansion is still viewed as likely by many, but excess capacity is keeping some from making acquisitions.

The survey shows that more than 60 percent of leaders are likely to expand, with almost two-thirds of that number doing so by adding more employees in the next six months. Other ways to expand cited include making significant equipment purchases and expanding or renovating current facilities. These figures have remained consistent throughout 2016.

Those not considering an acquisition in the next six months say equally that it is because they already have excess capacity to meet demand and there are no good strategic acquisition targets for their particular businesses. There is also concern over economic uncertainty and the high company valuations.



Reasons for not completing an acquisition in the next 6 months



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Growth has been much slower over the course of this economic cycle than it has been in the past. Low capacity utilization rates have generated intense competition, limited profitability and discouraged investment spending.

– Bruce McCain, Chief Investment Strategist, Key Private Bank



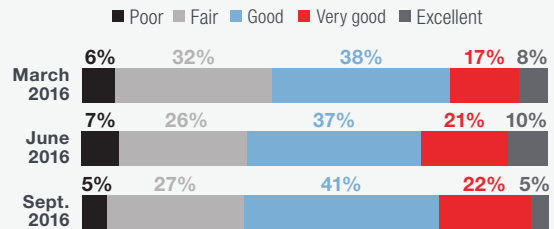
Finding 3

Company leaders remain positive about overall economic prospects in the next 12 months.

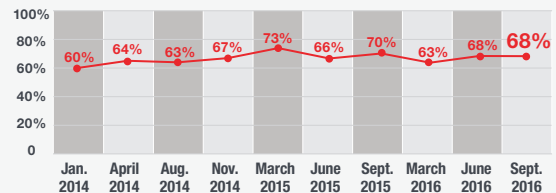
This quarter's survey shows that middle market business leaders are still feeling confident about the U.S. economy, with 68% yet again feeling good, very good, or excellent.

Similar to the last report, respondents indicate an even more positive view of the performance of their own companies as they look ahead—two-thirds characterize the overall outlook as very good or excellent. When it comes to the outlook for their individual states, however, the optimism drops about 10 points compared to last quarter.

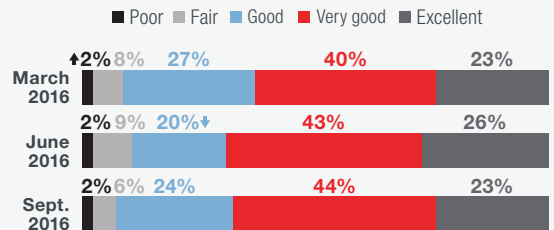
Overall U.S. economic outlook (Next 12 months)



12-month U.S. economic outlook (Good to excellent)



Company-level economic outlook (Next 12 months)



Let's talk about your business.

For more information on KeyBank's middle market capabilities, contact a regional executive listed below.

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