



The state of Pa.'s business climate

Summary: Business optimism in Pennsylvania continued in late 2019 and only slightly diminished from a year-earlier reading, according to the findings of the [Fall 2019 Keystone Business Climate Survey](#) by the Lincoln Institute of Public Opinion Research.

Survey respondents indicated the most significant problem facing their businesses was a lack of qualified workers with 38 percent highlighting this problem. The tight labor market poses serious difficulties as 75 percent of respondents noted they were having trouble hiring qualified employees.

This situation mirrors the latest National Federation of Independent Businesses (NFIB) survey results. “Finding qualified workers remained the top issue for owners in December, with 23 percent reporting it as their No.1 problem,” the NFIB data said. “Fifty-three percent reported hiring or trying to hire, but 94 percent of those owners reported few or no qualified applicants for the positions they were trying to fill.”

In short, the very low unemployment rate nationwide is creating difficulties for businesses.

So, why are businesses struggling to hire qualified employees? Pennsylvania survey respondents listed three crucial factors with 58 percent indicating a lack of essential skills, 31 percent noted a lack of applicants and 17 percent pointed to the failure of applicants to pass drug tests.

Lincoln Institute survey respondents also pointed to other problems affecting their business. Eighteen percent indicated excessive regulations and 13 percent mentioned high taxes as obstacles to their businesses. These findings strongly suggest a need for the state to act on tax reform and improving the regulatory environment.

On a more positive note, sales in Pennsylvania are relatively strong: Thirty-eight percent of respondents reported their sales had increased during the previous six months, 41 percent indicated sales held steady while only 15 percent claimed sales decreased during the prior six months. It's another sign of strength in Pennsylvania's economy.

While the fall 2019 survey conveyed continued business optimism, there was a drop off from the fall 2018 results. In the 2019 survey, 23 percent of respondents said business conditions were better than six months earlier, 52 percent reported they were the same and 22 percent believed they were worse. In the fall 2018 survey, the response was 39 percent better than six months earlier, 51 percent the same and only 7 percent worse.

Last year's *Policy Brief* (Vol. 19, No. 1) detailed the Lincoln Institute's fall 2018 Keystone Business Climate Survey in which business leaders attributed their business confidence to federal policies such as the 2017 tax cuts and regulatory reforms. The influence these tax cuts have on bolstering the economy are seen when survey results from fall 2019 and fall 2015 are compared. Both years represent the year leading up to the presidential election. But the difference between responses from 2019 and 2015 further underscore the positive effects tax cuts and decreased regulation have on business conditions.

When asked the question about how they foresee business conditions over the next six months, 19 percent of respondents in the fall 2019 survey thought it would be better, 50 percent the same and 26 percent worse. (The remainder had no opinion.) In the fall 2015 survey, business leaders, responding to the same question, indicated only 6 percent thought it would be better, 42 percent the same and 49 percent worse.

Phrased another way, business leaders had little optimism in the fall 2015 survey with nearly half indicating business conditions would be worse in the coming six months.

Outlook for employment also contrasted sharply between the fall 2019 and fall 2015 survey. Of the respondents in the fall 2019 survey, 25 percent look to increase jobs over the next six months while 64 percent will hold at current levels. A mere 6 percent expect to make cuts.

By contrast in the fall 2015 only 14 percent of survey respondents planned to increase employment, 67 percent would hold steady and 16 percent would reduce jobs.

Thus, in 2019, 10 percent more firms expected to add employees in the next six months compared to the 2015 survey. And in 2019, 10 percent fewer firms planned to make cuts than the 2015 survey found.

While there is always uncertainty regarding upcoming elections, business leaders now are still displaying significant confidence, largely due to a more pro-business climate resulting from federal economic policies.

The majority of business leaders—60 percent—replied the current federal administration has the national economy on the right track. Pennsylvania's business leaders note approval of the federal administration because, as discussed in a previous *Policy Brief* (Vol. 19 No. 1), they attributed their optimism to the federal tax cuts and regulatory reform measures in 2017.

Meanwhile respondents to the fall 2019 survey expressed disapproval with the state Senate (27 percent approved while 42 percent disapproved) and the state House (21 percent positive and 49 percent negative). The governor also was viewed negatively, 55 percent to 32 percent—further illustrating disappointment with state government on economic matters.

While the continued confident responses from business leaders in the fall 2019 survey are encouraging, the state’s business optimism is largely a response to federal tax cuts and regulatory reform. Tax cuts and regulatory reform at the state level along the lines of the federal policies would be of enormous help to the commonwealth’s economy.

One need only look around the country at fast-growing states to see the benefits of more pro-business and pro free-market policies.

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