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PNC SURVEY SHOWS SMALL BUSINESS OWNERS OPTIMISTIC DESPITE INFLATION, RECESSION WORRIES

- About half (49%) of small and mid-sized business owners are highly optimistic about the near-term prospects for their own businesses.
- Almost two-thirds (63%) are expecting to raise prices in the next six months.
- Almost seven in 10 (69%) envision a recession in the next 12 months.
- Nearly half (47%) of those who rely on supply chain say it remains a problem.

PITTSBURGH, Sept. 8, 2022 /PRNewswire/ -- Small and mid-size business owners and executives have an optimistic outlook about the near-term future of their businesses as they ride out inflationary pressures, supply chain disruptions and political and geopolitical uncertainties related to the national and local economies, according to the latest PNC semi-annual Economic Outlook survey.

The survey, now in its 20th year and concluded Aug. 8, showed that business leader expectations about their own companies remain strong with nearly half (49%) feeling highly optimistic – similar to the spring survey – while the share of those feeling pessimistic has risen to 7% from a historic low of 2% in spring.

Concerns about inflation and the impact of price hikes on their businesses remain top of mind among owners and executives. Continued price increases are in the works among nearly two-thirds (63%) of businesses – a survey high. Of the businesses expecting to raise their prices, more than a third (36%) expect to raise consumer prices by 5% or more over the next year, up from one in four last spring and nearly returning to the historical high of 38% a year ago.

The primary rationale for price hikes has shifted from an effort to keep up with rising non-labor costs (38% vs. 63% last spring) to favorable market conditions (44% vs. 22% last spring). Fewer than a fifth (18%) point to rising labor costs. Price pressures on their businesses, and elevated supplier costs and capital spending also are factors.

In addition to increasing prices for their own goods and services, seven in 10 (69%) have indicated they are making other adjustments to address higher inflation, including increasing efficiency, cutting costs or managing cash flow.

Further, business owners are expressing concerns that a recession is on the horizon. Almost seven in 10 (69%) fear a recession is likely in the next 12 months.

"This survey demonstrates that business owners see conditions as generally still solid despite concerns over high inflation. The business leaders surveyed are indicating that they are now increasing prices because they can, rather than because they have to. This reflects

continued strong demand across the economy, despite higher interest rates," said PNC Chief Economist Gus Faucher.

"There has been much discussion and debate about the probability of a recession in the near-term and business owners clearly are considering this possibility," Faucher said. "While PNC views the likelihood of recession as low in the near term, we believe there is an elevated 45% probability of recession over the next two years."

Supply chain disruptions also continue to be a concern for business owners and have affected nearly half (47%) of those relying on a supply chain. To address these issues, many businesses are using a range of strategies including broadening the base of suppliers (33%) and stockpiling inventory (27%). Less common ways businesses are coping with supply chain disruptions or delays include price hikes (20%), shifting sale or delivery commitments (17%) and creating exclusive supplier relationships (14%). Three in 10 relying on inventory in their supply chain are coming up short. Despite all of this, owners remain hopeful: four in 10 expect supply chain timeliness to get better in the next six months.

Other key survey findings include:

- **Optimism Tempered:** The outlook for the national and local economies has improved slightly over spring, but remains lower than last fall. More than a fifth (22%) are highly optimistic about the national economy while 23% are pessimistic; more than one-half (54%) are moderately optimistic.
- **Adjusting to Staff Shortages:** Fewer business owners face staff shortages, but they are still a challenge for four in 10 (41% vs. 61% last spring) and hiring continues to be difficult for many. Businesses have found ways to adapt, such as shifting workloads. Half (49%) have increased overtime or workloads for existing employees and a third (33%) have relied on owners or managers to cover staff hours. One third report sourcing labor through alternative sources such as temporary or gig workers and more than two in 10 (22%) have increased or added new technology or automation to cope.
- **Raises on the Rise:** Four in 10 expect to increase employee compensation, up from 30% in spring. Expectations for compensation increases are highest in the manufacturing sector (53%) compared to 39% for service, 36% for wholesale/retail and 35% for the construction sector.

Full national and regional survey results are available at pnc.mediaroom.com.

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Methodology

The PNC Economic Outlook survey was conducted by telephone from 7/5/2022 to 8/8/2022, among small and mid-sized businesses with self-reported revenue of \$100,000 to \$250 million. 500 interviews were conducted nationally. Sampling error for the nationwide results is +/- 4.4% at the 95% confidence level. The survey was conducted by Artemis Strategy Group (www.ArtemisSG.com), a communications strategy research firm specializing in

brand positioning and policy issues. The firm, headquartered in Washington D.C., provides communications research and consulting to a range of public and private sector clients.

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