ANALYSIS BY
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North Carolina small business owners remain optimistic about near-term prospects, and in fact are more optimistic than small business owners in the rest of the country. The North Carolina economy continues to expand in the fall of 2019, although the state’s job growth has slowed from above the national average throughout most of the current economic expansion to close to the national average in 2019. North Carolina benefits from a diverse industrial base, low business costs, transportation linkages, and strong population growth. Transportation and distribution industries are leading growth in the state, with contributions from consumer industries like healthcare and leisure/hospitality services. The state’s important financial services industry continues to grow, supported by an expanding national economy.

However, North Carolina manufacturing employment has dipped this year, in part because of slower global economic growth and trade tensions between the U.S. and its major trading partners. The unemployment rate has moved a bit higher this year, and is now above the national average, but that is primarily due to stronger labor force growth and in-migration. This increase in labor market slack will give businesses room to expand; 45 percent of North Carolina survey respondents say it is more difficult to find qualified employees than it was 6 months to a year ago. With its close ties to the national economy, the North Carolina expansion should continue into 2020 as the U.S. economy continues to grow. Solid consumer conditions and Federal Reserve rate cuts will more than offset the drag from the global economy.

Despite pricing pressures and tariff concerns, measures of optimism are at or near the record-setting highs measured in spring 2018, according to the latest PNC survey of North Carolina small and mid-size business owners and executives. Optimism for North Carolina business leaders’ own company is particularly strong at 53 percent, compared to 50 percent a year ago and marks a new record high in the eighth year of the survey.

Half of North Carolina small and mid-size business leaders expect their company’s sales to increase, a drop from nearly two-thirds (65%) in fall 2018 and the spring 2018 record high (66%). More than four in 10 (44%) expect their profits to increase, down from fall 2018 (60%) and the survey high recorded in spring 2018 (70%). Respondent expectations for the next six months shifted from growth to stability regarding the business’s cash flow (50% vs. 35% in fall 2018) and employee compensation (70% vs. 52% in fall 2018).

North Carolina business leaders’ views about their local economy are positive with optimism reaching 43 percent, also a new record-high for the survey. Four in 10 (43%) describe their outlook for the national economy as highly optimistic, little changed compared to a year ago (46%) and near the spring 2018 record high (48%).

More than a third (34%) of respondents expect to raise prices that they charge their customers edging down from 46 percent in fall 2018. Among businesses that expect to raise prices, six in 10 (61%) anticipate increases of 3 percent or more little changed from six in 10 a year ago. Their reasons for price increases include favorable market conditions that support such actions (45%), rising labor costs (24%) and rising non-labor costs (23%). Trade tariffs are also expected to increase both supplier prices and prices respondents charge their own customers (please see Tariff Toll section on the next page).
FINDERS KEEPERS

Eleven percent of North Carolina small and mid-size business leaders plan to increase the number of full-time employees within the next six months, while those expecting to reduce the number of full-time employees edged up to five percent, from two percent in fall 2018.

More than four in 10 (45%), little changed from fall 2018 (44%), say it’s harder to find qualified employees than it was six months to a year ago, with more than a third (37%) having increased wages/salaries, compared to 42 percent in fall 2018. In addition, nearly a quarter (24%) have allowed more flexible work arrangements, 16 percent have increased benefits and 13 percent have offered or increased bonuses.

RECESSION IMPRESSIONS

What is the likelihood of recession? Nearly seven in 10 (69%) North Carolina small and mid-size business leaders say a recession is unlikely and 26 percent say it is likely before the end of 2019. But there is a shift in the outlook for a recession in 2020, with the gap in outlook narrowing: 55 percent believe it is unlikely, while 35 percent believe it is likely. Looking further out, optimism wanes, with only 39 percent believing a recession is unlikely in 2021.

INFLATION CONSTERNATION

Expectations for consumer prices are important indicators of future inflation, and 76 percent of respondents expect these prices to go up over the next 12 months. The share of North Carolina business leaders expecting inflation of three percent or more is 39 percent (42% in fall 2018), with 28 percent expecting three- to four-percent inflation and 11 percent anticipating five percent or higher.

TARIFF TOLL

North Carolina small and mid-size business leaders continue to be divided on the impact of increased U.S. tariffs on goods from other countries, even if other countries retaliate with increased tariffs on U.S. goods/services. Levels of support edged upward from fall 2018 with half (50%) in support (44% in fall 2018), nearly a quarter (24%) against (29% in fall 2018) and a quarter uncertain (27% in fall 2018).

North Carolina business leaders are split on their expectation regarding the impact of the U.S. tariff policy on supplier prices with nearly four in 10 (39%) expecting an increase, more than four in 10 who do not expect an increase (45%) and nearly two in 10 (16%) who don’t know or feel it is too early to tell. Fewer (29%) anticipate passing on price increases to customers. Nearly six in 10 (58%) believe tariffs will have no impact on their company’s sales; however, those who expect an impact are split. Seventeen percent expect an increase in sales and eight percent expect sales to drop.

The vast majority of respondents (96%) have made no changes to their business in response to tariffs. Among the three percent who have made changes, one percent made new investments or hired while two percent delayed or cancelled investments or hiring as a result of tariff negotiations.

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