

AMID PANDEMIC, PENNSYLVANIA SMALL AND MID-SIZE BUSINESS OWNERS RESPOND WITH MEANINGFUL TRANSFORMATION; REMAIN RESILIENT

ANALYSIS BY

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The Pennsylvania economy is the initial stages of recovery from the Viral Recession. The coronavirus pandemic and state and local limitations on economic activity led to an unprecedented contraction in the spring as restrictions on movement prevented consumers from spending and workers from going to their jobs, leading to huge drops in household outlays and business production, and unprecedented job losses. But economic activity in Pennsylvania has picked up since then, although it remains well below its pre-pandemic level. One-time stimulus payments and expanded unemployment insurance have boosted household incomes, allowing consumers to increase their spending as businesses have reopened. With the economy recovering, job growth has been very strong; the Pennsylvania unemployment rate fell from 16.1 percent in April to 10.3 percent in August, although this is still far above the 4.7 percent rate in early 2020.

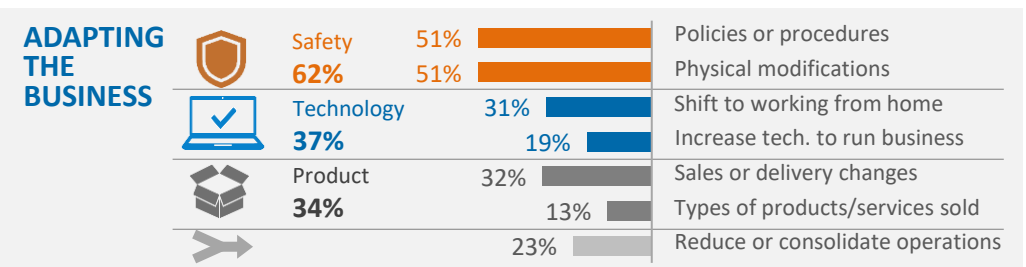
PNC expects a strong economic recovery in Pennsylvania through the rest of 2020 and into 2021. Consumers will spend more as the state continues to lift restrictions, and very low interest rates will support business and household borrowing. A strong housing market will be a key driver of near-term growth. The unemployment rate will continue to fall, although Pennsylvania job growth will slow from its current rapid pace. Risks to this outlook are weighted to the downside. These include a worsening of the pandemic and the re-imposition of stay-at-home and business closure orders, a large increase in business failures, and an inability of the federal government to provide further stimulus to households and businesses.

KEY FINDINGS: BUSINESS LEADERS ADAPT

Amid this year’s historic coronavirus pandemic, businesses are adapting by making major changes to their operations, according to the latest PNC semi-annual survey of Pennsylvania small and mid-size business owners and executives.

Three-quarters (76%) report making adaptations to their business in response to COVID-19, including safety changes (62%), in the form of new policies and procedures (51%) or physical modifications (51%). Three in 10 (31%) adopted work-from-home policies.

COVID-19 forced many to better-align products and services with consumers’ new habits. A third of business leaders (34%) made product-related changes, either in the way they sell or deliver products or services (32%) or what they offer (13%).



OPERATING IN THE COVID-19 BUSINESS ENVIRONMENT

Nearly three-quarters (73%) report their business has been impacted by COVID-19 rules or guidelines: nearly half (46%) operated with reduced capacity, four in 10 (41%) reduced hours of operation, and three in 10 (30%) were closed at least part of the time since the COVID-19 crisis began in the U.S. Only four in 10 (40%) say the business is operating normally now.

Nearly half report a decrease in sales (47%) compared to pre-COVID-19. The magnitude is large for less than two in 10 (16%) who saw sales drop by more than half; more than one in 10 (14%) report an increase. Pennsylvania business leaders see long-term effects of the pandemic on their business and a majority (58%) say the business environment will continue to be challenging. Three-quarters (76%) expect that the situation won’t return to normal in the next six months; three in 10 (31%) don’t ever expect a return to normalcy.



WORKFORCE REDUCTIONS



The drop in business activity over recent months forced many to take drastic measures through workforce reductions, as a quarter (25%) of Pennsylvania businesses cut workers since the start of the pandemic; though for more than eight in 10 (84%) of those, the decrease is considered temporary or a furlough. More than four in 10 (42%) of the businesses who had temporary layoffs or furloughs have already begun to re-hire.

Expectations for the next six months compound the impact workforces have already experienced. The survey revealed the second-lowest number of businesses in the 14-year history of the Pennsylvania survey expecting to increase hiring (8% vs. 15% a year ago) and a new low for those expecting to increase employee compensation (14% vs. 30% a year ago).

ADJUSTING TO COVID-19 WORKFORCE CHALLENGES

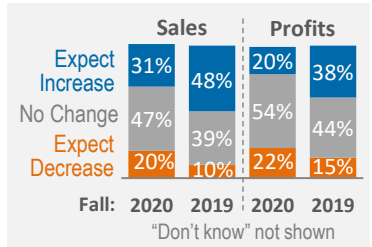


Of the Pennsylvania businesses with employees (89%), half (50%) say their workforce has been affected by the impact of COVID-19 in ways beyond workforce reductions. More than a quarter (26%) say they changed working conditions or location and a similar portion (29%) reduced the number of hours employees worked. One in 10 (11%) report impact of the illness or health concerns among their workforce and less (6%) say the \$600 federal unemployment benefit reduced employee motivation to return to work. A few (4%) say employee turnover increased and some adjusted compensation (1% decreased, none increased) due to COVID-19 and related business environment changes in Pennsylvania.

EXPECTATIONS CHANGE

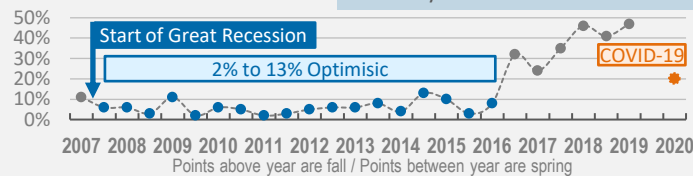
Pennsylvania vs. United States: Nationally, more than a third (35%) expect an increase in sales over the next six months. Three out of 10 (30%) anticipate rising profits.

Pennsylvania business leaders' views on sales for the next six months fell to three in 10 (31%) expecting an increase, from nearly half (48%) last fall. Two in 10 (20%) expect a profit rise in the next six months, compared to four in 10 (38%) a year ago. Three in 10 (29%) say they can only continue to operate their business in the current economic conditions for up to a year.



ECONOMIC HOPES DIM

% Optimistic about national economy (Rate 8-10 out of 10)



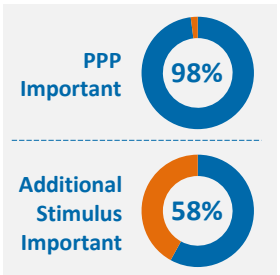
Pennsylvania vs. United States: Nationally, two out of 10 (21%) are optimistic about the national economy.

Business reaction to the COVID-19 pandemic and related economic conditions caused the steepest one-year decline in the 14-year history of the Pennsylvania survey, dropping by more than half from fall 2020 to just two in 10 (20%) optimistic about the national economy. While the drop is one of the sharpest in survey history, optimism remains higher than at any time from the start of the Great Recession until 2016, when it ranged from two to 13 percent.

FEDERAL PROGRAMS: A MUCH NEEDED LIFELINE

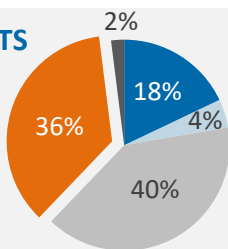
Nearly all who applied for a Paycheck Protection Program (PPP) loan consider the funding important (98%), and more than eight in 10 (83%) say it is extremely important. Of those who applied, eight in 10 (80%) were approved. A majority (58%) say additional government stimulus funding is important for their business, with more than four in 10 (42%) indicating it is extremely important.

Pennsylvania business leader interest in the Federal Reserve Main Street lending program is less clear: a majority (55%) aren't interested in it and two in 10 (20%) don't know enough about it. Few say they are interested in learning more about it (7%) and even less plan to apply (4%).



SENTIMENTS SHIFT

- Enthusiasm
- Joy
- Hope
- Negative sentiment
- Don't know



Sentiment about the business climate remains predominantly positive for Pennsylvania business leaders, but down significantly from a year ago (62% vs. 82% Fall 2019). Positive sentiments remain dominated by hope (40% vs. 46% Fall 2019). Those reporting enthusiasm declined sharply to less than two in 10 (18%) from three in 10 (31%) in Fall 2019, with few expressing joy (4%) little changed from last fall (5%). Overall, negative emotions are on the rise, with more than a third (36%) feeling fear, despair or anger, compared to just one in 10 (10%) feeling negative a year ago.

TECHNOLOGY MATTERS



According to the survey, when asked about specific business technologies, more than four in 10 Pennsylvania business leaders (42%) report increased use of one or more of the technologies since the outbreak began. More than a quarter (27%) have increased technology to improve workforce productivity. Less than a quarter added or increased the use of electronic or touchless payment systems (24%) or electronic/website-enabled sales (14%). Less than two in 10 (17%) increased electronic banking/cash flow management services or use of fraud/identity protection tools (17%).