

### SQUEEZED BY INFLATION, SAN DIEGO SMALL AND MID-SIZED BUSINESS OWNERS EXPECT TO RAISE PRICES; SUPPLY CHAIN DISRUPTIONS TO EASE

#### ANALYSIS BY

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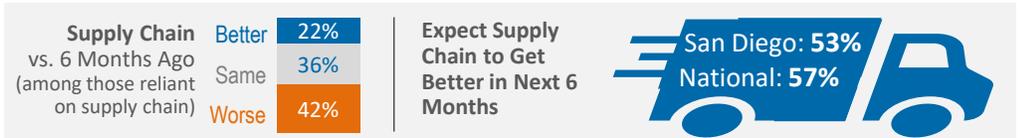
The U.S. economy will continue to expand in 2022 despite many challenges including the Ukraine crisis. Consumer spending growth will remain the key driver. This is a positive national backdrop for continued economic growth in the San Diego metro area economy given the area's many tourism-dependent businesses. Owners of the region's small businesses are equally as positive as their nationwide counterparts for gains in sales, hiring and profits in the coming six months.

San Diego metro small businesses expect rising prices to be a drag on consumers, and labor shortages and ongoing supply-chain disruptions will limit firms' abilities to increase output in the near term. Only 22% report an improvement in their supply chain disruptions and 42% said those problems were worse compared to six months ago. Meanwhile, 53% of San Diego small businesses expect an improvement in the next six months compared to 57% nationally. As a result, nearly half of San Diego small businesses expect to raise their selling prices in the next six months, with 35% expecting to hike prices by at least 5%.

The U.S. labor market will continue its recovery this year, with employment returning to its pre-pandemic level in mid-2022. The San Diego labor market is also very competitive, with 35% of small local firms reporting a loss of staff since the start of the pandemic and 83% reporting this had a negative impact on their business. One in four report it being hard to find qualified employees. Still, 18% will be hiring new employees in the next six months. This is very close to their nationwide counterparts.

#### SUPPLY CHAIN CONCERNING BUT EXPECTED TO EASE

Business owners were surveyed during January and February, before events in Ukraine unfolded. Sales and supply chain issues top the list of concerns for San Diego small and mid-sized business owners over the last six months but they see supply chain pressures easing by mid-year. In the meantime, inflation pressures are expected to continue to impact these business owners, with nearly half (48%) planning to further raise their own prices in the near term, according to the latest PNC semi-annual Economic Outlook survey of small and mid-size business owners and executives.



In January and February, over four in 10 (42%) owners who rely on a supply chain said timeliness had worsened in the previous six months. More than a third (37%) of businesses that rely on inventory are faced with the challenge of not having enough supply to meet expected demand. However, more than half (53%) expect the timeliness of their supply chain issues to improve in the next six months.

#### RISING PRICES ON MINDS OF BUSINESS OWNERS

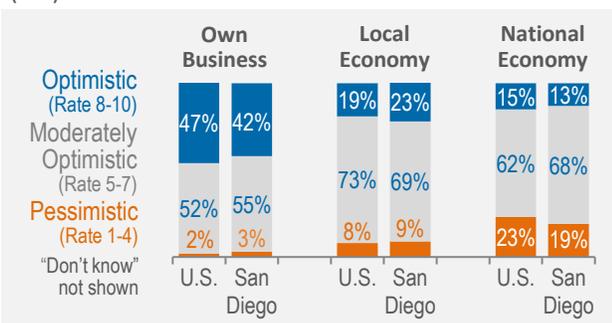
Nearly half (48%) of San Diego businesses expect to increase the prices they charge in the next six months, with 35% expecting hikes of 5% or more. More than one in 10 (14%) of those expecting to increase prices plan to raise them by at least 10%, similar to the portion nationally (16%). More than a third (36%) say their prices have already gone up in the past six months, with a quarter (24%) hiking them by 5% or more.



Among the 48% expecting to increase their prices, six in 10 are doing so because they are attempting to keep up with rising non-labor costs, compared with 63% nationally.

#### OPTIMISM TEMPERED, BUT STILL HIGH

San Diego business leader expectations about their own companies remain strong with more than four in 10 (42%) feeling highly optimistic, while the number pessimistic is low (3%).



Their outlook for the local and national economy is more cautious: 23% are highly optimistic and 9% are pessimistic about their local economy; and 13% are highly optimistic about the national economy while 19% are pessimistic.

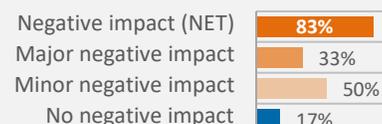
## WORKER TURNOVER, HIRING HAVING AN IMPACT

Employee  
Departure  
Since Start of  
Pandemic



More than a third (35%) of San Diego business owners report losing staff since the start of the pandemic; 83% of those say this has had a negative impact on their business.

### Impact of Staff Shortages on Business



### Reasons Behind Employee Departures



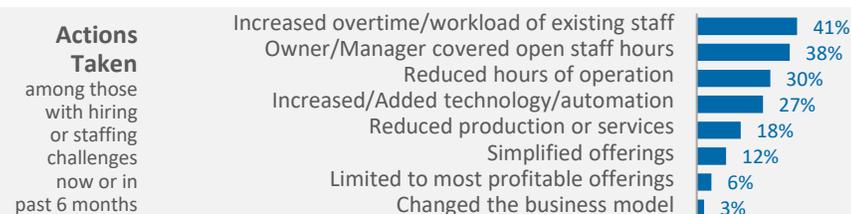
Top reasons employers offer for employee departures are worker concerns over health or safety (47%), illness or death (43%) and changes in lifestyle or priorities (43%). More than a third (35%) say workers have shifted their profession either by moving to other industries or types of work (27%) or through self-employment/gig work or starting their own business (12%). Other reasons cited for departures include enhanced unemployment compensation benefits (33%), refusal to comply with COVID vaccine or testing requirements (20%) and lack of childcare or eldercare options (17%).

Harder to Hire  
Qualified  
Employees



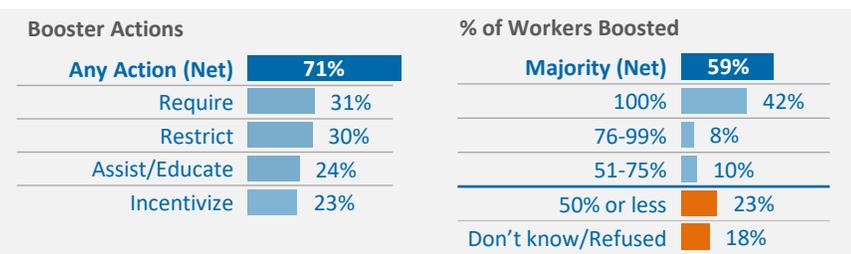
Some San Diego business owners also identified hiring qualified workers as a continuing challenge. Among businesses that have employees, more than a quarter (27%) say it's become harder to hire qualified personnel, little different compared to the portion nationally (26%).

Three-quarters (75%) of businesses have responded to recruiting challenges with strategies for attracting and retaining employees, most notably through improved work conditions such as implementing employee health or safety improvements (45%) and allowing more flexible work arrangements (43%); a third (33%) increased wages or salaries.



Among those who are having difficulty finding workers or faced shortages in the last six months, four in 10 have increased workload for existing employees (41%), or report owners or managers covering shifts (38%). Additionally, business owners reduced hours of operation (30%).

## COVID-19 VACCINE BOOSTERISM



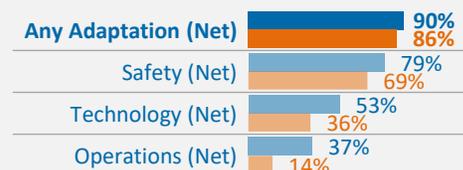
Six in 10 San Diego business owners (59%) say a majority of their workforce has a COVID-19 booster vaccination. Seven in 10 (71%) have taken some action to encourage employee boosters either through a requirement (31%), restrictions for those who choose not to receive the booster (30%), assistance and/or education (24%) or incentives (23%).

## BUSINESS ADAPTATION AND TRANSFORMATION

San Diego small and mid-sized businesses have made dramatic and lasting changes to adapt to the pandemic environment, particularly when it comes to employee safety and utilization of new technology. Nine in 10 (90%) have made at least one type of change (policies, processes, operations or use of technology). Nearly nine in 10 (86%) of those making changes (86%) expect one or more of them to be permanent.

### Business Adaptation

Permanent Change among those who made a change



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