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PNC Survey Shows Business Owner Optimism Soars To 21-Year Record High While Hiring Concerns Linger

- 77% of surveyed small and mid-sized business owners optimistic about their business
- Despite economist expectations for recession, elevated optimism for national economy
- Almost half of respondents say there aren't enough applicants for open positions

PITTSBURGH, Sept. 7, 2023 – PNC's latest semi-annual survey of small and mid-sized businesses, which concluded Aug. 9, shows that business owner optimism about the outlook for their own business in the next six months has reached a 21-year high amid strong expectations for sales, profits and demand.

Despite PNC economists' predictions for a shallow recession starting in early 2024, business leaders' outlook about their own companies has risen sharply this fall, with over three-quarters (77%) feeling highly optimistic compared to 49% a year ago and 60% in the spring.

In addition, owners' outlooks for the national, local and global economies have also improved significantly. Almost half (47%) are highly optimistic about the local economy, compared to 29% last fall. About a third (34%) are highly optimistic about the national economy compared to 22% a year ago.

Also, profit and demand expectations are higher with 55% expecting profits to rise (compared to 46% last fall) and 64% expecting an increase in demand in the next six months (compared to 57% a year ago). Expectations for sales are similar to the spring survey, with 62% expecting an increase. Nearly two-thirds (65%) attribute their greater optimism for their business to confidence in their ability to run it.

"While the large spike in optimism among these business owners is a surprise, it can be attributed in part to the resilience that they demonstrated during the challenging years they have faced since the pandemic began," PNC Chief Economist Gus Faucher said. "Business owners who survived that demanding time are confident in their ability to run their businesses and focus on what they can control versus what they can't."

Hiring remains a challenge, however. Nine in 10 employers say they intend to hold steady on hiring with just 9% planning to increase their staffing and just 1% expecting layoffs. Among businesses looking to hire employees, one in three (35%) say it's become harder to hire qualified employees over the past six months, similar to last spring (36%) and a year ago (39%). The most common reason employers say it has become harder to hire is that there are not enough applicants overall (49%). Other reasons cited are candidates' lack of experience or skills (22%), high salary/benefit requirements (14%), and inability to meet legal/security requirements (6%).

"It is interesting to note that while hiring is a concern of business owners, half of employers have seen an increase in employee enthusiasm for their work over the past year. This means the people they already have are clearly engaged," Faucher said.

As inflation has eased over the last year, so have owners' expectations on raising prices. More than half (55%) of businesses say they expect to increase prices in the next six months, unchanged from last spring but significantly fewer than a year ago (63%).

Main justifications for increasing customer prices have shifted somewhat. Favorable market conditions top the list (38%), but a growing number identify keeping up with rising labor costs (32% vs. 21% last spring). Nearly three in 10 (29%) report raising prices to keep up with rising non-labor costs.

Fewer expect their price increases to be 5% or more as compared to last fall (25% vs. 36% in fall 2022) while 56% are expecting a more moderate raise of 3% to 4%, significantly up from a year ago (38%).

The steady drumbeat of Federal Reserve rate hikes over the past year has caught the attention of business owners. Two-thirds (65%) of respondents expect Fed rate hikes to have an effect on their business over the next year, including 31% who say they anticipate rate increases will put pressure on profits.

Other findings in the survey include:

- **Seeking Artificial Intelligence:** One in three business owners (33%) believe Artificial Intelligence (AI) applications could be useful to their business. AI relevance is highest for manufacturing businesses (47%). Among those who consider AI useful, more than four in 10 (44%) are already using AI applications, while 45% are evaluating or planning to implement applications in the next year or two.
- **Employee Strategies:** One in three business owners (33%) expect to increase employee compensation, up from 24% in the spring but fewer than last fall (40%). More than four in 10 employers (43%) report increased compensation requirements among their workforce and 38% say the need for flexible hours or remote work has increased. Employers are taking a variety of measures to attract and retain employees: 35% have standardized flexible work options; 27% have changed benefit packages and 23% have standardized their hiring, promotion or compensation practices.
- **Flexibility Remains Top of Mind:** Two-thirds (67%) of employers say flexible work arrangements are important to the business. Among those who have standardized flexible work options and consider flexible work arrangements important to their business, 60% say it helps attract and retain employees and 38% believe their policies enhance the reputation of the business.
- **Supply Chain Concerns Abate:** Business leaders' top concern for their business in the next six months has shifted from supply chain disruptions to costs. Nearly a quarter (23%) are most concerned about the cost of materials, up from 9% last fall, while 14% are most concerned about labor costs, up from 4% last fall. The portion worried about supply chain disruptions dropped to 10% from 25% last fall. More than four in 10 (43%) of construction firms say material costs are their top concern.

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 7/5/2023 to 8/9/2023, 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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