

CHICAGO BUSINESS OWNER OPTIMISM SPIKES WHILE CONCERNS LINGER OVER HIRING, NEW PNC SURVEY SHOWS

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Chicago area growth has slowed somewhat in 2023, due to higher interest rates, although local employment is almost back to its pre-recession peak and should hit an all-time high later this year. With a diversified economy, greater Chicago is benefitting from growth in headquarters jobs, financial services, manufacturing, and travel and tourism, including air travel.

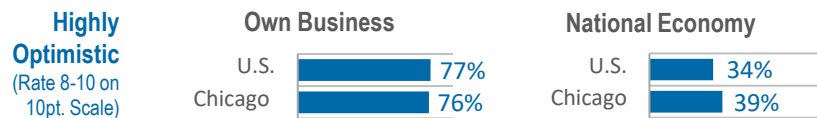
The challenge for the area's economy is not demand for workers, but a lack of supply. The labor force remains below its pre-pandemic level and in fact has contracted in the middle of 2023, making hiring a challenge. The unemployment rate in the Chicago area is below 4% in mid-2023, close to the national average and near an all-time low. Reflecting the slightly softer local recovery, PNC's survey finds that Chicago-area small and mid-sized businesses are slightly less optimistic about near-term prospects for their profits and demand compared to the rest of the nation.

PNC expects short and mild recessions for both the nation and in the metro area starting in the first half of 2024 as high interest rates remain a drag on business investment, consumer spending on manufactured goods, and housing. The area will experience mild job losses and a slight increase in the unemployment rate before the economy starts to turn around in the second half of next year as the Federal Reserve cuts interest rates and economic growth resumes. However, there is a slightly less than 50% chance that the U.S. and Chicago economies avoid a near-term recession.

76% OF CHICAGO OWNERS OPTIMISTIC ABOUT BUSINESS PROSPECTS

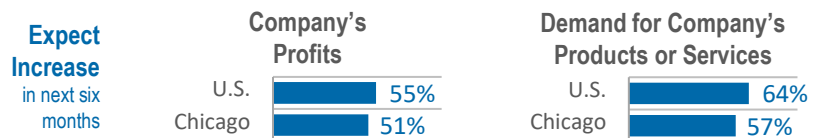
PNC's latest semi-annual survey of small and mid-sized businesses shows that Chicago business owner optimism about the outlook for their own businesses in the next six months is similar to the national measure, a 21-year high, amid strong expectations for sales, profits and demand.

Despite many economists' predictions for a shallow recession by early 2024, U.S. business leaders' hopes about their own companies have risen sharply this fall, with over three-quarters (77%) feeling highly optimistic compared to 49% last fall and 60% in spring. Chicago business leaders are similarly optimistic about their own businesses (76%).



U.S. owners' outlook for the national, local and global economy has also improved significantly over last spring and fall. Almost half (47%) are highly optimistic about the local economy, compared to 29% last fall. A third (34%) are highly optimistic about the national economy compared to 22% a year ago. Similar portions of Chicago business owners are highly optimistic about the national economy (39%) and their local economy (50%). Seven in 10 in Chicago (69%, U.S. 65%) attribute their greater optimism for their business to confidence in their ability to run it.

A majority of Chicago business owners expect an increase in profits (51%) and demand (57%) in the next six months. National profit and demand expectations are higher than a year ago with 55% expecting profits to rise (46% last fall) and 64% expecting an increase in demand (57% last fall).



HIRING ON HOLD



Nearly nine in 10 Chicago employers (87%, U.S. 90%) intend to hold steady on hiring with just 9% planning to increase their staffing and just 2% expecting layoffs. Among businesses looking to hire employees, four in 10 (41%, U.S. 35%) say it's become harder to hire qualified employees over the past six months, with national levels similar to last spring (36%) and a year ago (39%). The most common reason Chicago employers say it has become harder to hire is that there are not enough applicants overall (50%, U.S. 49%). Other reasons cited are candidates' lack of experience or skills (23%, U.S. 22%), high salary/benefit requirements (14%, U.S. 14%), and inability to meet legal/security requirements (8%, U.S. 6%).

INFLATION EXPECTATIONS

Expect to Increase Prices to Customers in next six months



As inflation has eased over the last year, so have owners' expectations on raising prices. Nationally, 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%). A majority (51%) of Chicago business leaders also expect to raise customer prices.

Favorable market conditions top the list of justifications for increasing customer prices among Chicago business owners (47%) and nationwide (38%). More than a quarter (28%) of Chicago businesses raised prices to keep up with rising labor costs compared to 32% nationally. A quarter of Chicago businesses (25%) are keeping up with rising non-labor compared to 29% of businesses nationwide.

Expect to Increase Prices to Customers by 5% or More



Nationally, 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%). Four in 10 Chicago owners plan to increase prices 5% or more and 47% are expecting to raise them 3% to 4%.

Six in 10 Chicago owners (60%, U.S. 65%) expect Fed rate hikes to have an effect on their business over the next year, including a third (34%, U.S. 31%) who anticipate rate increases will put pressure on profits.

SUPPLY CHAIN CONCERNS ABATE



Nationally, 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 of Chicago leaders who are concerned about costs is similar to the national level with a quarter of Chicago businesses most concerned about material costs and 16% most concerned about labor costs. Among Chicago business leaders, nearly two in 10 (17%) are concerned about profitability, compared to 11% nationally.

EMPLOYEE STRATEGIES

Three in 10 (30%) Chicago business leaders expect to increase employee compensation, similar to 33% nationally. More than four in 10 Chicago employers (42%, U.S. 43%) report increased compensation requirements among their workforce and a third (32%, U.S. 38%) say the need for flexible hours or remote work has increased.

Expect to Increase Employee Compensation in the next six months



Chicago employers are taking a variety of measures to attract and retain employees: 33% have changed benefit packages; 30% have standardized flexible work options and 20% have standardized their hiring, promotion or compensation practices.

FLEXIBILITY REMAINS TOP OF MIND

Flexible Work Arrangements are Important to the Business among those with employees



A majority (54%) of Chicago 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, 71% of Chicago employers, and 60% of nationally, say it helps attract and retain employees. More than a third of Chicago employers believe their policies enhance the reputation of the business (37%, U.S. 38%).

SEEKING ARTIFICIAL INTELLIGENCE

Believe Artificial Intelligence (AI) Could Be Useful to Own Business



More than a quarter (28%) of Chicago business owners believe Artificial Intelligence (AI) applications could be useful to their business compared to 33% nationally. Among those who consider AI useful, more than a third (38%, U.S. 44%) are already using AI applications, while a majority (53%, U.S. 45%) are evaluating or planning to implement applications in the next year or two.