



# THE PNC ECONOMIC OUTLOOK

Survey of Small & Middle-Market Business Owners

September 2023

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

### ANALYSIS BY

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Atlanta metro job growth has slowed somewhat in 2023, due to higher interest rates, though local employment in August 2023, was 168,000 (5.8%) above its previous peak in early-2020, just before the start of the COVID-19 pandemic. With a diversified economy, Atlanta is benefitting from growth in headquarters jobs, financial services, manufacturing, and travel and tourism, including air travel.

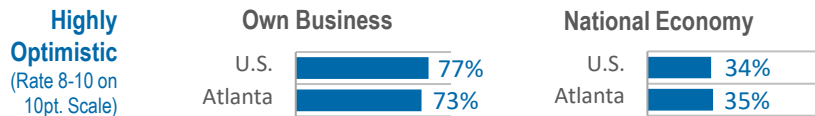
The challenge for the area's economy is not demand for workers, but a lack of supply. The labor force is 91,000 (2.8%) above its pre-pandemic peak in early-2020, making hiring a challenge. The unemployment rate in the Atlanta area was 3.1% in July 2023, below the national average and near an all-time low. PNC's survey finds that Atlanta metro small and mid-sized businesses are only 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 national and the Atlanta metro area economies starting in the first half of 2024, as high interest rates remain a drag on business investment, consumer spending on manufactured goods, and housing activity. The area likely 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.

### 73% OF ATLANTA OWNERS OPTIMISTIC ABOUT BUSINESS PROSPECTS

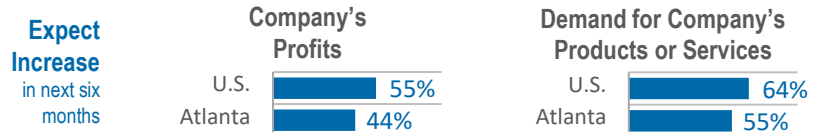
PNC's latest semi-annual survey of small and mid-sized businesses shows that Atlanta business owner optimism about the outlook for their own businesses in the next six months is similar to the national measure, a 21-year high, amid strong expectations for sales, profits and demand.

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. Atlanta business leaders are similarly optimistic about their own businesses (73%).



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 29% last fall. A third (34%) are highly optimistic about the national economy compared to 22% a year ago. Similar portions of Atlanta business owners are highly optimistic about the national economy (35%) and their local economy (48%). More than two-thirds in Atlanta (68%, U.S. 65%) attribute their greater optimism for their business to confidence in their ability to run it.

Over four in 10 (44%) Atlanta business owners expect an increase in profits and over half (55%) expect an increase in demand 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

Expect # of Full-Time Employees to Stay the Same in next six months



Harder to Hire Qualified Employees vs. six months to a year ago, among those hiring



Nearly nine in 10 Atlanta employers (86%, U.S. 90%) intend to hold steady on hiring with 13% planning to increase their staffing and just 1% expecting layoffs. Among businesses looking to hire employees, a third (33%, 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 Atlanta employers say it has become harder to hire is a lack of applicants (41%, U.S. 49%). Other reasons cited are candidates' lack of experience or skills (32%, U.S. 22%), high salary/benefit requirements (12%, U.S. 14%), and applicant inability to meet legal/security requirements (7%, 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%). Half (50%) of Atlanta business leaders also expect to raise customer prices.

Keeping up with rising non-labor costs tops the list of justifications for increasing customer prices among Atlanta business owners (39%) but is a less prominent reason nationwide (29%). More than a third (35%) of Atlanta businesses raised prices because favorable market conditions allow it, compared to 38% nationally. More than a quarter (27%) of Atlanta businesses are increasing prices to keep up with rising labor costs, while 32% are 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%). Two in 10 (21%) Atlanta owners plan to increase prices 5% or more and 45% are expecting to raise them 3% to 4%.

Over six in 10 Atlanta owners (62%, U.S. 65%) expect Fed rate hikes to have an effect on their business over the next year, including 30% (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.

Nearly two in 10 (18%) Atlanta business leaders are most concerned about product or service offerings, compared to 13% nationally. Among Atlanta business leaders, 14% are concerned about profitability, versus 11% nationwide. Cost of materials ranks third in Atlanta with 13% considering it the main concern for their business.

## EMPLOYEE STRATEGIES

Over a quarter (27%) of Atlanta business leaders expect to increase employee compensation, compared to 33% nationally. A third of Atlanta employers (33%, U.S. 43%) report increased compensation requirements among their workforce and three in 10 (30%, U.S. 38%) say the need for flexible hours or remote work has increased.

### Expect to Increase Employee Compensation in the next six months



Atlanta employers are taking a variety of measures to attract and retain employees: 35% have standardized flexible work options; 29% have changed benefit packages and 26% 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



More than half (56%) of Atlanta 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, 65% of Atlanta employers, and 60% nationally, say it helps attract and retain employees. Four in 10 Atlanta employers believe their policies enhance the reputation of the business (39%, U.S. 38%).

## SEEKING ARTIFICIAL INTELLIGENCE

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



More than two in 10 (22%) of Atlanta business owners believe Artificial Intelligence (AI) applications could be useful to their business compared to a third (33%) nationally. Among those who consider AI useful, nearly half (46%, U.S. 44%) are already using AI applications, while more than a third (37%, U.S. 45%) are evaluating or planning to implement applications in the next year or two.