

## BUSINESS OWNERS REMAIN OPTIMISTIC ABOUT ECONOMY ACCORDING TO PNC SURVEY

### ANALYSIS BY PNC CHIEF ECONOMIST Gus Faucher

The U.S. economy remains in good shape in the Fall of 2024, although growth is easing. This is consistent with the results from PNC's Survey of Small & Middle-Market Business Owners, which are very positive, but not quite as strong as the results from six months and a year ago. Inflation continues to slow toward the Federal Reserve's 2% objective, but job growth has eased this year and unemployment has gradually increased. Still, wages are rising more quickly than inflation and consumer spending continues to rise.

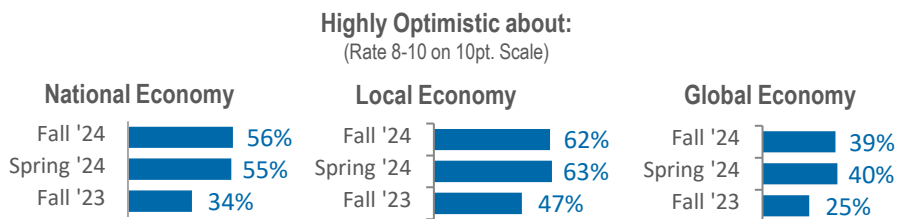
PNC expects softer but still-positive economic growth into 2025. High interest rates remain a drag, particularly for industries like manufacturing and housing; easing job and wage gains are weighing on growth in incomes and consumer spending; and households need to rebuild their savings. But a still-solid labor market and solid growth in business investment, along with federal government spending on infrastructure, will help the U.S. economy avoid a near-term recession.

Weaker growth in wages and housing costs will lead to a further slowing in inflation into 2025; this view is more optimistic than the survey results, with business owners expecting higher inflation in the near term. PNC expects inflation to be down to the Federal Reserve's 2% objective by mid-2025. With inflation easing and the labor market softening the Federal Open Market Committee will gradually reduce the federal funds rate through the rest of this year and into 2025; lower rates will also support continued economic expansion. With slower growth the unemployment rate will remain above 4% in the near term, reducing inflationary wage pressures from the job market, but still historically low.

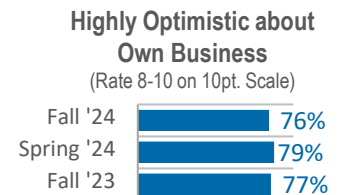
### SURVEY HIGH OPTIMISM ABOUT THE NATIONAL ECONOMY

PNC's latest semi-annual survey of small and mid-sized businesses, which concluded Aug. 6, indicates that business owner optimism remains high, lending support to PNC's forecast of a soft landing for the U.S. economy.

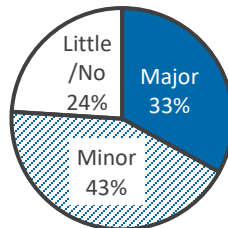
A majority (56%) of business owners are highly optimistic about the national economy, inching above 55% last spring, and up significantly from 34% a year ago. Six in 10 (62%) are optimistic about their local economy. Global economic optimism (39%) is little changed from four in 10 last spring.



Three-quarters (76%) are optimistic about the prospects for their own business, consistent with the measure six months (79%) and a year ago (77%), but significantly higher than the survey's historical average optimism of 39%.



### U.S. Economy's Impact on Own Business



And while recession concerns have crept into the economic rhetoric, only one-third (33%) of business owners think the impact of the U.S. economy on their own business is major, with the majority feeling the impact is either minor (43%) or of little or no impact (24%). There are no significant differences in the level of recession concern by region, or across revenue or industry categories.

### OWNERS EXPECT AN INCREASE IN DEMAND IN THE NEXT SIX MONTHS

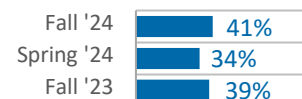
Nearly two-thirds (64%) of businesses expect an increase in demand for their products or services in the next six months, up sharply from 56% last spring and matching expectations from a year ago.

#### Expect Increase in Demand for Company's Products or Services in next six months



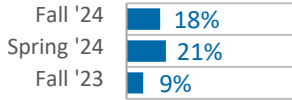
To meet demand, a survey-high four in 10 (41%) owners expect the level of inventory to increase in the next six months, up from 34% last spring and similar to the level last fall (39%).

#### Expect the Level of Inventory in the Business to Increase in next six months

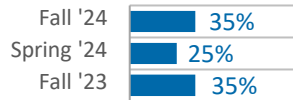


**WORKFORCE WOES**

**Expect to Increase the Number of Full-Time Employees**  
in next six months



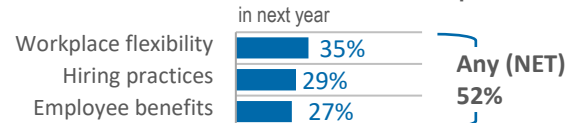
**Harder to Hire Qualified Employees**  
vs. six months to a year ago, among those hiring



Nearly two in 10 (18%) business owners expect to increase the number of full-time employees in the next six months. But more than a third (35%) of businesses that regularly hire employees are finding it is harder to hire qualified candidates, a return to 2023 levels following a respite last spring.

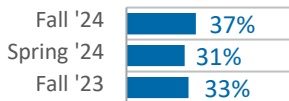
A majority (52%) of employers have plans to make investments or improvements in their human resources practices in the coming year, an increase from 43% last spring. More than a third (35%) are focusing on workplace flexibility, three in 10 (29%) on hiring practices and more than a quarter (27%) on employee benefits.

**Planned Human Resources Investments or Improvements**

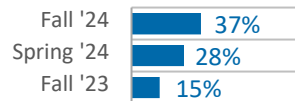


Nearly four in 10 (37%) business owners expect an increase in employee compensation in the next six months, up from last spring (31%) and comparable to a year ago (33%). A similar portion (37%) anticipate rising employee health care costs in the same timeframe, up from (28%) spring and more than double the reading from last fall (15%).

**Expect Employee Compensation to Increase**  
in next six months



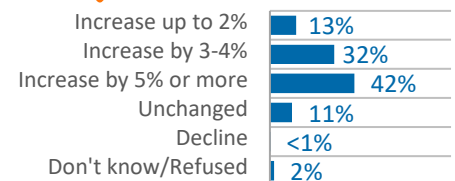
**Expect Increase in Employee Health Care Costs**  
in next six months



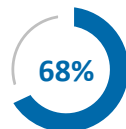
**REBOUNDED INFLATION FEARS**

Over four in 10 (42%) owners expect U.S. consumer prices to increase by 5% or more in the next year, a record high for the survey. Inflationary factors also dominate concerns when it comes to risks to the business for the next six months. A majority of businesses are feeling the impact of inflation in supplier prices (58%), while nearly half (48%) are experiencing inflationary pressures from employee compensation.

**Consumer Price Expectation**  
in next year



**Moderate or Extreme Concern about U.S. Political Uncertainty**  
in next six months



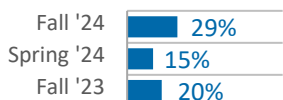
**CONCERN ABOUT U.S. POLITICAL UNCERTAINTY ON THE RISE**

As the 2024 U.S. Presidential Election draws closer, concern about the impact on business is building. More than two-thirds (68%) of owners are at least moderately concerned about the risk U. S. political uncertainty poses to their business, up significantly from six months ago (45%).

**NEED FOR FINANCING**

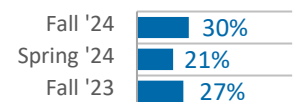


**Definitely or Probably will Request a New Loan/Line of Credit**  
in next six months



There's a growing appetite amongst business owners for financing and new loans. A survey high 29% of business owners anticipate requesting a new loan or line of credit in the next six months. Three in 10 expect capital spending to increase in the next six months, a significant jump from last spring (21%). Top areas for planned investments or improvements are human resource practices, products/services and technology.

**Expect Capital Spending to Increase**  
in next six months



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