

MILWAUKEE BUSINESS OWNERS REMAIN OPTIMISTIC ABOUT ECONOMY ACCORDING TO PNC SURVEY

ANALYSIS BY PNC CHIEF ECONOMIST Gus Faucher

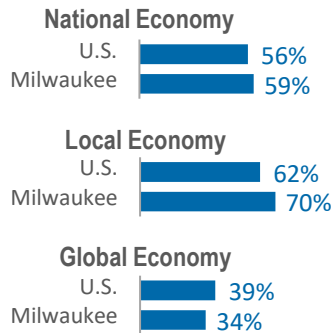
The Milwaukee area economy is soft heading toward the end of 2024, with employment down slightly over the past year, and still more than 2% below its pre-pandemic peak. The area's important manufacturing industry continues to struggle, with job losses over the past couple of years as high interest rates remain a drag. Professional/business services has also been shedding jobs over the past two years, although the area's important healthcare industry has been expanding.

Even with job losses the Milwaukee area unemployment rate is just slightly above 3% and is well below the national rate. A lack of available workers is holding the area back; the labor force in Milwaukee, the number of people working or looking for work, is still down by about 5,000 (0.5%) from its pre-pandemic level. In part because of a contracting labor force, hiring plans for Milwaukee area businesses are far below the national average according to PNC's survey. Despite this, however, optimism about the national economy, the local economy, and their own businesses is somewhat higher among Milwaukee-area small and mid-sized business owners than it is nationally.

Economic activity should pick up somewhat in Milwaukee in 2025. The national economy and local manufacturers will benefit from lower interest rates as the Federal Reserve eases monetary policy in response to slowing inflation and a softening national labor market. But the area's contracting labor force will limit the rebound, and Milwaukee will continue to lag the U.S. economy. Very weak population growth will remain a drag on consumer industries and the local housing market.

MAJORITY OPTIMISTIC ABOUT THE NATIONAL ECONOMY

Highly Optimistic about:
(Rate 8-10 on 10pt. Scale)



PNC's latest semi-annual survey of small and mid-sized businesses finds Milwaukee business owner optimism similar to national levels which remain high, lending support to PNC's forecast of a soft landing for the U.S. economy.

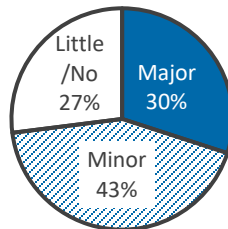
A majority (59%) of Milwaukee business owners are highly optimistic about the national economy, similar to the national level (56%) which is just above last spring (55%) and up significantly from a year ago (34%). Seven in 10 Milwaukee owners are optimistic about their local economy, compared to 62% nationally. A third (34%) are optimistic about the global economy, similar to owners nationally (39%).

Eight in 10 (79%) Milwaukee owners are optimistic about the prospects for their own business, compared to three-quarters of owners nationally (76%). This measure is consistent with levels six months (79%) and a year ago (77%), but significantly higher than the survey's historical average of 39%.

**Highly Optimistic about
Own Business**
(Rate 8-10 on 10pt. Scale)



U.S. Economy's Impact on Own Business



And while recession concerns have crept into the economic rhetoric, only three in 10 Milwaukee 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 (27%). Nationally, 33% of owners consider the impact major, 43% minor and 24% say the U.S. economy has little or no impact on the business.

OWNERS EXPECT AN INCREASE IN DEMAND IN THE NEXT SIX MONTHS

Over half (53%) of Milwaukee businesses expect an increase in demand for their products or services in the next six months. Two thirds (64%) of U.S. businesses expect demand to rise, up from last spring (56%), matching the level from a year ago.

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



To meet demand, nearly half (45%) of Milwaukee owners expect the level of inventory to increase in the next six months. National owners recorded a survey-high 41% expecting an increase in inventory, up from 34% last spring and similar to 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



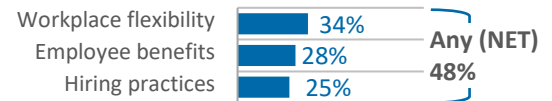
Harder to Hire Qualified Employees
 vs. six months to a year ago, among those hiring



One in 10 Milwaukee business owners expect to increase the number of full-time employees in the next six months, compared to nearly two in 10 (18%) nationally. But three in 10 (29%) businesses that regularly hire employees are finding it is harder to hire qualified candidates. Across the U.S. more than a third (35%) are finding hiring more difficult.

Nearly half (48%) of Milwaukee employers have plans to make investments or improvements in their human resources practices in the coming year, compared to 52% nationally, which was up from 43% last spring. A third (34%, 35% U.S.) are focusing on workplace flexibility, nearly three in 10 (28%, 27% U.S.) on employee benefits and a quarter (25%, 29% U.S.) on hiring practices.

Planned Human Resources Investments or Improvements
 in next year



Expect Employee Compensation to Increase
 in next six months



Expect Increase in Employee Health Care Costs
 in next six months



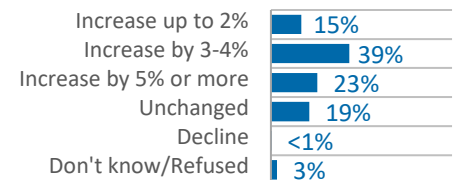
Over a third (35%) of Milwaukee owners expect an increase in employee compensation in the next six months. The reading is similar to the portion nationally (37%) which was up from last spring (31%) and comparable to a year ago (33%). Three in 10 (31%) in Milwaukee and 37% nationwide anticipate rising employee health care costs in the same timeframe. The national level is up from spring (28%) and more than double the reading from last fall (15%).

REBOUNDED INFLATION FEARS

Less than a quarter (23%) of Milwaukee owners expect U.S. consumer prices to increase by 5% or more in the next year. Nationally, over four in 10 (42%) owners have the same expectation, a survey high. Inflationary factors dominate concerns when it comes to risks to the business for the next six months. Half of Milwaukee businesses are feeling the impact of inflation in supplier prices (50%, 58% U.S.), while four in 10 (42%, 48% U.S.) are experiencing inflationary pressures from employee compensation.



Consumer Price Expectation
 in next year



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 six in 10 (63%) Milwaukee owners are at least moderately concerned about the risk U.S. political uncertainty poses to their business. Two-thirds (68%) of U.S. owners have the same concern, up significantly from six months ago (45%).



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



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



NEED FOR FINANCING

There's a growing appetite amongst business owners for financing and new loans. A survey high 29% of business owners across the U.S. anticipate requesting a new loan or line of credit in the next six months. Over a third (37%) of Milwaukee owners are likely to seek credit in the same timeframe. Three in 10 Milwaukee owners expect capital spending to increase in the next six months. The same portion expect capital spending to go up nationally, a significant jump from 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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