

## PNC SURVEY SHOWS BUSINESS OWNER OPTIMISM CONTINUES TO SOAR AMID IMPROVING ECONOMIC CONDITIONS

### ANALYSIS BY PNC CHIEF ECONOMIST Gus Faucher

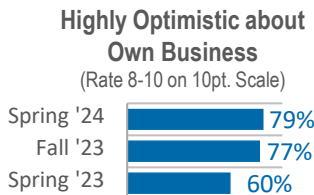
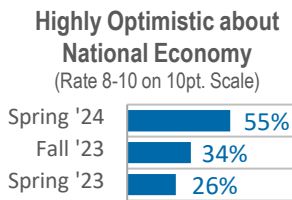
The U.S. economy is in excellent shape in early 2024, consistent with the very positive results from PNC's Survey of Small & Middle-Market Business Owners for Spring 2024. Economic growth was very strong last year, and job growth remains solid, although it slowed over the course of 2023. The unemployment rate has been below 4% for two straight years, for the first time since the late 1960s. With inflation slowing, wages are now increasing more rapidly than prices, supporting growth in consumer spending.

PNC expects softer but still-positive economic growth in 2024. High interest rates remain a drag, particularly for industries like manufacturing and housing; consumers need to rebuild their savings; and the tight labor market will limit firms' ability to increase output. But solid gains in household spending and 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 in 2024, consistent with the survey results. PNC expects inflation to be down to the Federal Reserve's 2% objective by the end of this year. With inflation slowing the Federal Open Market Committee will cut the federal funds rate a few times this year, starting in the second quarter; lower rates will also support continued economic expansion. With slower growth the unemployment rate will increase slightly over the course of 2024, reducing inflationary wage pressures from the job market, but remain near historic lows.

### A 22-YEAR HIGH IN ECONOMIC AND BUSINESS PROSPECT OPTIMISM

PNC's latest semi-annual survey of small and mid-sized businesses, which concluded Feb. 1, shows that business owner optimism about the national, global and their own local economies in the next six months has reached a 22-year high amid lessening fears of a recession.



A majority of those surveyed (55%) are highly optimistic about the national economy, rocketing higher from 34% last fall and 26% a year ago. Four in 10 (40%) are highly optimistic about the global economy, up from 25% last fall and 9% a year ago. Nearly two-thirds of business leaders (63%) are highly optimistic about their local economy, up from 47% last fall and 30% a year ago.

Optimism also runs high about their own business. Eight in 10 (79%) report that they are highly optimistic about the prospects for their own business, consistent with last fall (77%) and up substantially from a year ago (60%). Construction leads other sectors, with 85% anticipating better times ahead for their own business.

Larger revenue (\$20 million to \$250 million) business leaders express the most optimism about national, local, as well as their own businesses, while smaller revenue (\$100K to \$3 million) businesses are among the least optimistic.

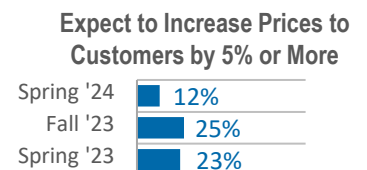
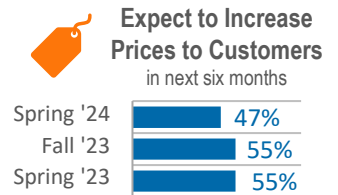
The outlook on profits for the next six months remains steady with just over half (52%) expecting an increase, midway between the levels recorded last fall (55%) and a year ago (49%). Few businesses anticipate decreases in profits (5%) or sales (5%) in the next six months.

### INFLATION PRESSURES EASE

Based on the survey results, inflation pressures appear to be lessening. Fewer than half (47%) of businesses expect to increase prices in the next six months, down from last fall and spring (55%).

Of those expecting to take that step, just over one in 10 (12%) plan to raise them by 5% or more, a drop from last fall (25%) and a year ago (23%); four in 10 (41%) expect a lower increase of 1-2%, up from last fall (19%) and last spring (32%).

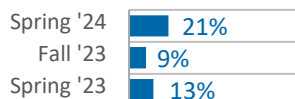
At the same time, four in 10 (40%) businesses say they expect the prices their suppliers charge to increase in the next six months, down from six months ago (49%) and last spring (47%). Four in 10 (41%) of those expecting supplier price increases only expect a modest 1-2% rise, while fewer (13%) expect an increase of 5% or more.



**EXPANDING WORKFORCES**

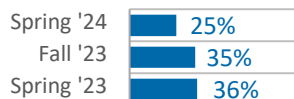
**Expect to Increase the Number of Full-Time Employees**

in next six months



**Harder to Hire Qualified Employees**

vs. six months to a year ago, among those hiring

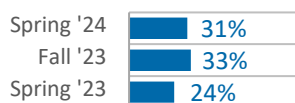


Related to employment, two in 10 (21%) expect to increase their full-time workforce in the next six months, up from 9% last fall and 13% a year ago. Three-quarters (74%) expect the number of full-time employees to remain the same, while only a small number (4%) anticipate reductions. Among businesses looking to hire employees, a quarter (25%) say it's become harder to hire qualified employees, down from last fall (35%) and a year ago (36%).

The hiring challenges employers are facing have changed little since last fall. They say the top problem is a lack of applicants overall (28%, 32% in Fall 2023), followed by candidates' lack of experience or skills (22%, unchanged from Fall 2023), and high salary/benefit or flexibility requirements (9%, 8% in Fall 2023). One shift since fall is in candidates' inability to meet legal/security requirements which rose to 9% from 5% six months ago.

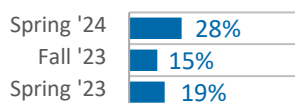
**Expect Employee Compensation to Increase**

in next six months



**Expect Increase in Employee Health Care Costs**

in next six months



Three in 10 (31%) business owners expect employee compensation to increase in the next six months, similar to last fall (33%) and up from a year ago (24%). A similar portion (28%) anticipate increasing employee health care costs in the next six months, nearly double the reading from last fall (15%) and an increase compared to a year ago (19%).

More than four in 10 (43%) employers are making plans to innovate or improve their human resources practices in the coming year. A quarter (26%) are targeting workplace flexibility, and a similar portion (24%) are focusing on employee benefits with improvement and innovation strategies. Among owners who regularly hire employees, 26% have their sights set on enhancing hiring practices.



**Planning to Make Human Resource Improvements**

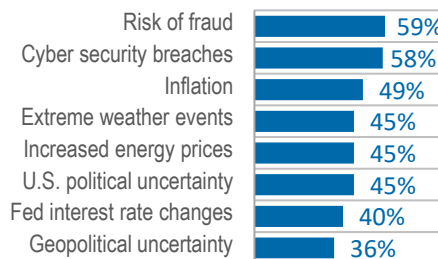
in next year, including changes to workplace flexibility, employee benefits or hiring practices



**FRAUD ALERT**

Two-thirds (66%) of owners are extremely or moderately concerned about either the risk of fraud (59%) or potential cyber security breaches (58%). Less than half are at least somewhat concerned about inflation (49%), extreme weather events (45%), increased energy prices (45%) and U.S. political uncertainty (45%). Four in 10 or fewer are concerned about the impact of Federal Reserve interest rate changes (40%) and geopolitical uncertainty (36%) on their business.

**Potential Risks to Business** extremely or moderately concerned



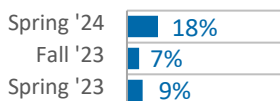
**66% NET**



**NEED FOR FINANCING**

**Expect Financing Needs to Increase**

in next six months



Nearly two in 10 (18%) owners expect their business' need for financing will increase in the next six months, up from 7% last fall and 9% a year ago. Among businesses expecting their need for financing to increase in the next six months, fewer than three in 10 (28%) say they will definitely or probably request a new loan or line of credit during that period. This suggests that a significant majority are likely to tap sources other than new loans/lines of credit to meet their upcoming financing needs.



**Definitely or Probably will Request a New Loan/Line of Credit**

in next 6 months, among those who expect their need for financing to increase



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