

### PNC SURVEY REFLECTS SMALL BUSINESS OWNER OPTIMISM BUT WITH EYE ON INFLATION, RECESSION WORRIES

**ANALYSIS BY**  
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#### 49% HIGHLY OPTIMISTIC ABOUT OWN BUSINESS IN NEAR TERM

Economic growth has slowed in the fall of 2022 as the Federal Reserve raises interest rates to combat high inflation, but the U.S. is not in recession. In particular, the labor market is in excellent shape, with very strong job growth, employment back to its pre-pandemic level, and the unemployment rate near its lowest level in more than 50 years. Consumers continue to increase their spending with solid job and wage gains despite high inflation.

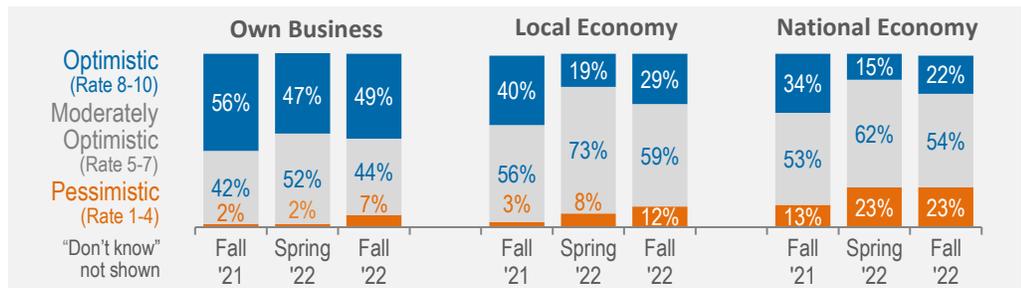
But significant challenges remain. Inflation has slowed somewhat in recent months but is still near the highest it has been in 40 years, making businesses and households anxious. The labor market is extremely tight, making it difficult for firms to find workers and pushing up wages and business costs.

The Federal Reserve has aggressively tightened monetary policy, pushing up interest rates to cool off economic growth and slow inflation. Higher interest rates are already starting to weigh on the economy, most notably on the housing market. The Fed will continue to raise interest rates in the months ahead, leading to a further slowing in growth into 2023.

The central bank has a very difficult task: it must raise interest rates enough to bring down inflation, but not by so much that the economy tips into recession. PNC's baseline forecast is that the Fed can slow inflation to its 2% objective over the next couple of years without a recession. But recession risks are much higher now than they were in early 2022, and the U.S. economy remains vulnerable to external shocks.

Small and mid-size business owners and executives have an optimistic outlook about the near-term future of their businesses as they ride out inflationary pressures, supply chain disruptions and political and geopolitical uncertainties related to the national and local economies, according to the latest PNC semi-annual Economic Outlook survey.

The survey, now in its 20th year and concluded Aug. 8, showed that business leader expectations about their own companies remain strong with nearly half (49%) feeling highly optimistic – similar to the spring survey – while the share of those feeling pessimistic has risen to 7% from a historic low of 2% in spring.



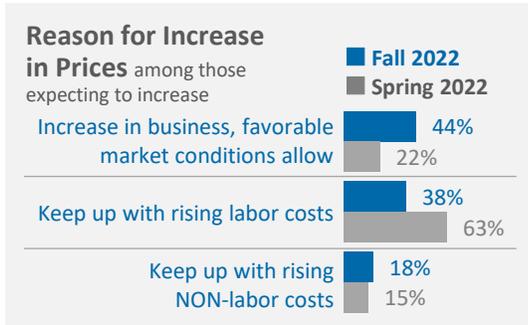
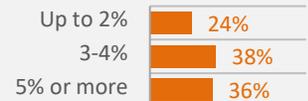
The outlook for the national and local economies has improved slightly since the spring but remains lower than last fall. More than a fifth (22%) are highly optimistic about the national economy while 23% are pessimistic; more than one-half (54%) are moderately optimistic.

#### HIKING PRICES AND COPING WITH INFLATION

Concerns about inflation and the impact of price hikes on their businesses remain top of mind among owners and executives. Price increases are in the works among nearly two-thirds (63%) of businesses – a survey high. Of the businesses expecting to raise their own prices to their customers, more than a third (36%) expect to raise them by 5% or more in the next six months.



**Own Company Price Increase**  
 among those expecting to increase, "don't know" not shown



The primary rationale for price hikes has shifted from an effort to keep up with rising non-labor costs (38% vs. 63% last spring) to favorable market conditions (44% vs. 22% last spring). Fewer than a fifth (18%) point to rising labor costs. Price pressures on their businesses, and elevated supplier costs and capital spending also are factors.

In addition to increasing prices for their own goods and services, seven in 10 (69%) have indicated they are making other adjustments to address higher inflation, including increasing efficiency, cutting costs and managing cash flow.

## SUPPLY CHAIN DISRUPTIONS

Supply chain disruptions continue to be a concern for business owners and have affected nearly half (47%) of those relying on a supply chain.

To address these issues, many businesses are using a range of strategies including broadening the base of suppliers (33%) and stockpiling inventory (27%). Less common ways businesses are coping with supply chain disruptions or delays include price hikes (20%), shifting sale or delivery commitments (17%) and creating exclusive supplier relationships (14%).

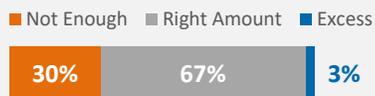
**Experienced Issues Accessing Materials, Products or Services**  
in past year, among those with suppliers



**Top Responses to Supplier Issues**  
actions taken or planned in next 6 months, among those with suppliers



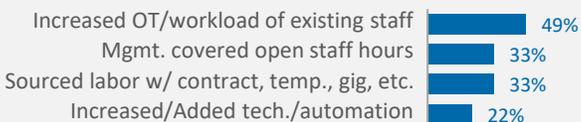
**Inventory to Meet Expected Demand**  
next 6 months, among those with inventory



Three in 10 relying on inventory in their supply chain are coming up short. Despite all of this, owners remain hopeful: four in 10 expect supply chain timeliness to get better in the next six months.

## ADJUSTING TO STAFF SHORTAGES

**Top Actions Taken in Response to Staffing Challenges**  
among those with staffing/hiring challenges now or past 6 months



Fewer businesses face staff shortages, but they are still a challenge for four in 10 (41% vs. 61% last spring) and hiring continues to be difficult for many. Businesses have found ways to adapt, such as shifting workloads. Half (49%) have increased overtime or workloads for existing employees and a third (33%) have relied on owners or managers to cover staff hours. One third report sourcing labor through alternative sources such as temporary or gig workers, and more than two in 10 (22%) have increased or added new technology or automation to cope.

## RAISES ON THE RISE

Four in 10 expect to increase employee compensation, up from 30% in spring. Expectations for compensation increases are highest in the manufacturing sector (53%) compared to 39% for service, 36% for wholesale/retail and 35% for the construction sector. Nearly a quarter (23%) expect to continue or increase signing, retention or other bonuses in the next six months.

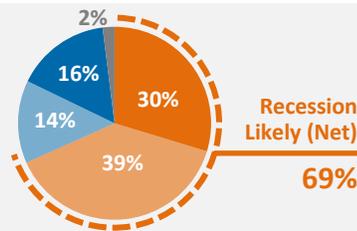
**Expect Increase in Employee Compensation**  
next 6 months



## RECESSIONARY FEARS

**Likelihood of a Recession**  
In next 12 months

- Very likely
- Somewhat likely
- Somewhat unlikely
- Not at all likely
- Don't know

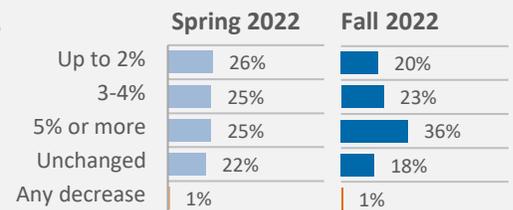


Business owners are expressing concerns that a recession is on the horizon. Almost seven in 10 (69%) fear a recession is likely in the next 12 months. Three in 10 believe the likelihood of a recession in the next 12 months is very likely.

## EXPECTATIONS FOR CONSUMER PRICES

Aside from any pricing changes they expect to make in their own business, more than a third (36%) of all owners and leaders expect to see consumer prices in the economy, overall, increase by 5% or more in the next 12 months. This price change expectation is an increase from one in four last spring.

**Consumer Price Expectation**  
in next 12 months, "don't know" not shown



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