

### WITH ARIZONA SMALL BUSINESSES PERMANENTLY CHANGED BY THE PANDEMIC, OWNERS LOOKING TO VACCINE-DRIVEN RECOVERY

**ANALYSIS BY**

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Arizona's economy is primed to rebound strongly from the 2020 recession. The labor force contracted only 0.2% in December 2020 from one year earlier, the eleventh-best state performance, and much better than the national decline of 2.4%. Arizona workers are eager to re-enter the workforce and local small businesses will not face the talent shortages feared in many states. The hardest-hit service industries remain depressed because of pandemic-induced restrictions. However, as vaccination efforts progress and businesses are permitted to operate at larger capacities, customer demand will recharge hiring efforts and justify the small business community's strong optimism: 53% of small business owners in the state were optimistic, compared with only 38% nationwide.

Federal stimulus will aid the Arizona recovery. With government assistance, those unable to return to work will be able to avoid financial distress and bankruptcy, allowing them to resume their pre-pandemic spending patterns more quickly. Only with broad-based recoveries in employment and incomes, reaching all parts of the job market, will Arizona's small businesses see revenue and growth restored to pre-pandemic levels.

The housing market will amplify the region's recovery. Strong house price appreciation reflects supply and demand dynamics and is an important driver of consumer confidence. Home values in Arizona are appreciating in lockstep with the strong national trend. With residents feeling confident enough to purchase homes even with lingering economic uncertainty, Arizona's small businesses should feel confident that consumer spending trends will support their own recoveries.

#### COVID-19 VACCINATIONS PROVIDE HOPE

Small and medium-sized business owners strongly support vaccinations for COVID-19 and plan to encourage their employees to get the shots, which are central to a return to normalcy, according to the latest PNC Arizona survey of small business owners.

More than eight in 10 Arizona businesses with employees plan to encourage or require their workforce to vaccinate. A majority plan to require employees to get vaccinated, nearly half will provide assistance or education about vaccination. More than two in 10 plan to provide incentives to vaccinate.

#### VACCINATION PLANS

<b>Any Action (NET)</b>	<b>83%</b>
Require	55%
Assist/Educate	49%
Incentivize	22%

More than half (52%) expect the growing availability of vaccinations to have a positive impact on their sales.

#### FEELING SQUEEZED

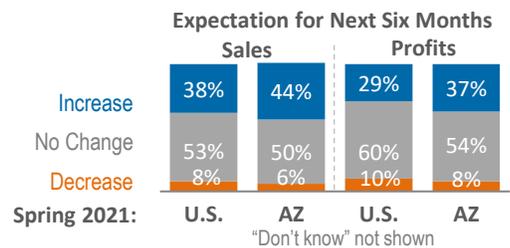
Six in ten are facing challenges to stay in business and a quarter (26%) say they can only continue to operate in the current economic conditions for up to a year.

**61%**  
Business is Challenged

**7%**  
Few Owners to Raise Own Pay

At the same time, few business owners expect to increase their own compensation (7% vs. 8% nationally) or retirement savings (5% vs. 7% nationally) in the next six months.

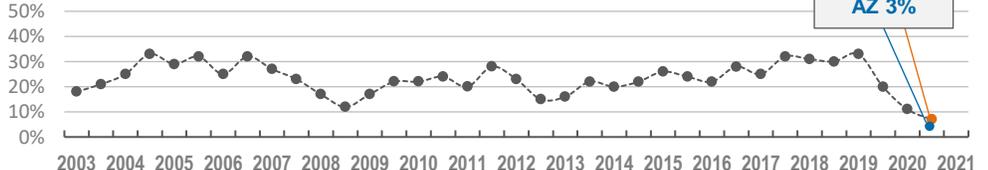
More than four in 10 expect sales increases combined with ongoing business challenges suggests Arizona small businesses owners will start feeling a "squeeze."



#### LAYOFFS LINGER AMID LOW HIRING EXPECTATIONS

Nearly two in 10 businesses (18%) reduced their workforce last year. In addition, the Arizona survey measured a low proportion of businesses expecting to increase the number of full-time employees (3%) in the next six months, a level near the U.S. survey record low (7%).

#### NATIONAL SURVEY-LOW HIRING EXPECTATIONS



## MANY ADAPTATIONS EXPECTED TO LAST



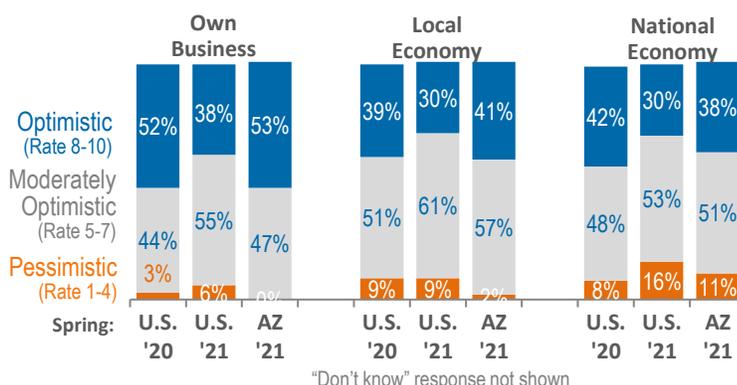
More than nine in 10 (92%) Arizona business leaders report making adaptations to their business in response to COVID-19, including a vast majority implementing health and safety changes in the form of new policies and procedures or physical modifications. More than half (53%) of business leaders made product-related changes, either in the way they sell or deliver products or services or what they offer. Two-thirds of those making safety changes and three in 10 of those making product adaptations expect they will be permanent.



One of the least likely adaptations Arizona business leaders expect to become permanent is the shift to working from home, in response to the pandemic. Of the more than four in 10 businesses who adopted work-from-home practices last year, only a fraction (10%) anticipate the change to be long-lasting. Six in 10 expect it to be temporary and three in 10 (31%) are uncertain how long it will last.

## AHEAD OF THE CURVE

Arizona small business owners' optimism about their own company is at a level higher compared to their feeling about the local and national economy. Nationwide, optimism about the national economy, local economy and business leaders' own businesses remains significantly lower than the levels recorded a year ago, just prior to the start of the pandemic.



## PPP REMAINS CRITICAL FOR SURVIVAL



Half of Arizona business leaders say they received Paycheck Protection Program (PPP) funding in 2020; another 4% applied but did not receive the funding, while the remainder of businesses did not apply. More than eight in 10 (86%) of those who received a PPP loan considered it extremely important.



Nearly eight in 10 (78%) recipients have already applied for loan forgiveness; few (5%) don't expect to apply for forgiveness.

More than four in 10 business leaders consider obtaining a new 2021 PPP loan extremely important for their business.

## TECHNOLOGY LIFELINE

Two-thirds (67%) of Arizona business leaders report increased use of one or more business technologies since the COVID-19 crisis began. Six in 10 applied new technologies to improve the sales process in the form of electronic or touchless payment systems or electronic/website-enabled sales. A third have increased technology to improve workforce productivity.

