

SQUEEZED BY INFLATION, AUSTIN SMALL AND MID-SIZED BUSINESS OWNERS EXPECT TO RAISE PRICES; SUPPLY CHAIN DISRUPTIONS TO EASE

ANALYSIS BY

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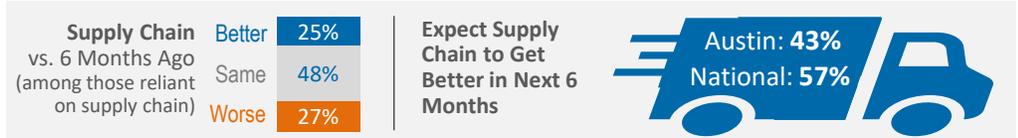
The Austin metro area economy is experiencing a remarkable recovery from the recession caused by the COVID-19 pandemic. The number of jobs in Austin was 3% higher than pre-pandemic levels to close out 2021, among the 20 strongest recoveries to date, and Austin is by far the largest metropolitan statistical area earning the distinction. Small business owners in the Austin market area are justified in their confidence regarding the near-term outlook, with consumer demand strong and labor supply growth accelerating, entering 2022. That being said, Austin faces headwinds along with the rest of the country, with the uncertainty surrounding the conflict in Ukraine.

Consumer price inflation is of concern across the U.S., and Austin's wage growth is beginning to respond to the challenge. With labor force growth in the area at one of the strongest paces in the nation, upward pressure on wages in Austin ramped up in the final months of 2021 after languishing near flatline growth through mid-year, even as other large Texas markets such as Dallas were seeing wage gains in line with inflation.

Slower-growing wages may have been of benefit to business owners during the early stages of recovery as they battled rising costs on all fronts. Austin's small business community will see significant competition for labor resources in the months ahead now that local wage trends are moving higher in earnest.

SUPPLY CHAIN CONCERNING BUT EXPECTED TO EASE

Business owners were surveyed during January and February, before events in Ukraine unfolded. Supply chain issues top the list of concerns for Austin small and mid-sized business owners over the last six months but they see those pressures easing by mid-year. In the meantime, inflation pressures are expected to continue to impact these business owners, with more than four in 10 (42%) planning to further raise their own prices in the near term, according to the latest PNC semi-annual Economic Outlook survey of small and mid-size business owners and executives.



In January and February, more than a quarter (27%) of owners who rely on a supply chain said timeliness had worsened in the previous six months. The same portion (27%) of businesses that rely on inventory are faced with the challenge of not having enough supply to meet expected demand. However, more than four in 10 (43%) expect the timeliness of their supply chain issues to improve in the next six months.

RISING PRICES ON MINDS OF BUSINESS OWNERS

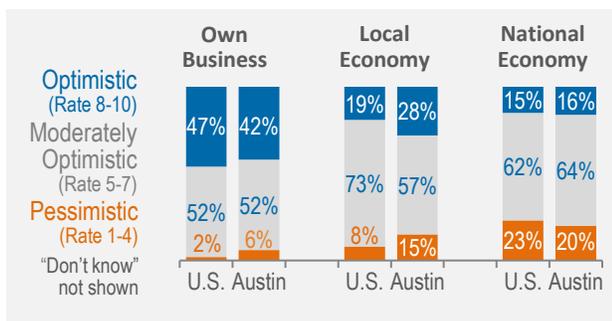
More than four in 10 (42%) Austin businesses expect to increase the prices in the next six months, with 42% expecting hikes of 5% or more. Nearly one in 10 (6%) of those expecting to increase prices plan to raise them by at least 10%, compared to 16% nationally. Nearly three in 10 (28%) say their prices have already gone up in the past six months, with four in 10 (41%) hiking them by 5% or more.

Among the 47% expecting to increase their prices, nearly half (47%) are doing so because they are attempting to keep up with rising non-labor costs, compared with 63% nationally.



OPTIMISM TEMPERED, BUT STILL HIGH

Austin business leader expectations about their own companies remain strong with more than four in 10 (42%) feeling highly optimistic, while the number pessimistic is low (6%).



Their outlook for the local and national economy is more cautious: 28% are highly optimistic and 15% are pessimistic about their local economy; and 16% are highly optimistic about the national economy while 20% are pessimistic.

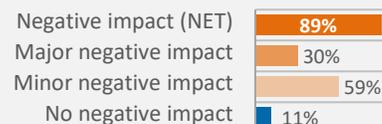
WORKER TURNOVER, HIRING HAVING AN IMPACT

Employee
Departure
Since Start of
Pandemic



A quarter (24%) of Austin business owners report losing staff since the start of the pandemic; 89% of those say this has had a negative impact on their business.

Impact of Staff Shortages on Business



Reasons Behind Employee Departures



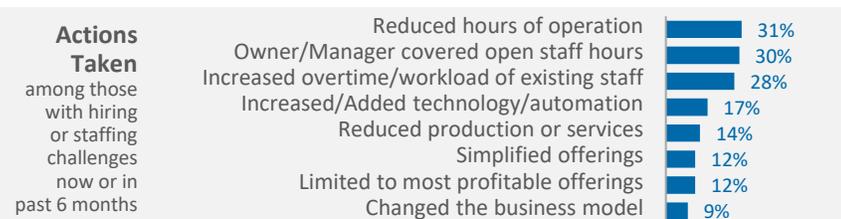
Top reasons employers provide for employee departures are worker concerns over health or safety (61%), changes in lifestyle or priorities (44%) and illness or death (29%). A third (34%) say workers have shifted their profession either by moving to other industries or types of work (25%) starting their own business (16%). Other reasons cited for departures include lack of childcare or eldercare options (24%), enhanced unemployment compensation benefits (23%), too many hours or being overworked (14%) and refusal to comply with COVID vaccine or testing requirements (10%).

Harder to Hire
Qualified
Employees



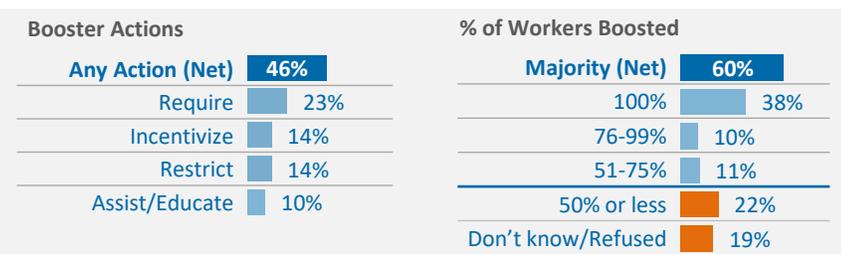
Some Austin business owners also identified hiring qualified workers as a continuing challenge. Among businesses that have employees, more than one in 10 (14%) say it's become harder to hire qualified personnel, compared to 26% nationally.

Seven in 10 (69%) businesses have responded to recruiting challenges with strategies for attracting and retaining employees, most notably through improved work conditions such as implementing employee health or safety improvements (36%) and allowing more flexible work arrangements (32%); a third (32%) increased wages or salaries.



Among those who are having difficulty finding workers or faced shortages in the last six months, three in 10 report owners reducing hours of operations (31%) or report that owners or managers are covering shifts (30%). Additionally, business owners increased the workload for existing employees (28%).

COVID-19 VACCINE BOOSTERISM



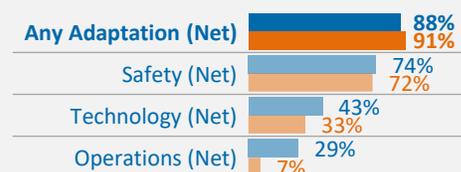
Six in 10 Austin business owners say a majority of their workforce has a COVID-19 booster vaccination. Nearly half (46%) have taken some action to encourage employee boosters either through a requirement (23%), incentives (14%), restrictions for those who choose not to receive the booster (14%) or assistance and/or education (10%).

BUSINESS ADAPTATION AND TRANSFORMATION

Austin small and mid-sized businesses have made dramatic and lasting changes to adapt to the pandemic environment, particularly when it comes to employee safety and utilization of new technology. Nearly nine in 10 (88%) have made at least one type of change (policies, processes, operations or use of technology). Nine in 10 of those making changes (91%) expect one or more of them to be permanent.

Business Adaptation

Permanent Change among those who made a change



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