

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

ANALYSIS BY

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The economy in the Border Texas market area is making strides toward normalcy entering 2022. Total jobs across the market area remain down somewhat relative to pre-pandemic levels, but the pace of hiring was near the state and national averages to close out 2021. Only the Laredo metropolitan statistical area is significantly below its pre-pandemic labor force size, but Border Texas small business owners continue to face slow labor supply growth. Competition for labor resources will be a headwind for the market area's job creators at least through mid-year.

Job creation in leisure and hospitality services was one of the Border Texas market area's strongest economic contributors in the second half of 2021. But employment in the sector, as is the case across most of the U.S., remains well below its pre-pandemic level. Small business owners of restaurants and other in-person service operations should have fewer pandemic-related hurdles to clear in the coming months, but rapidly rising wages in response to limited labor resources are a new persistent challenge.

Elevated consumer price inflation will linger throughout the rest of this year, and workers in the U.S. have thus far been successful in leveraging this phenomenon into higher pay. Small business owners in the Border Texas market area will be no exception in the relentless competition to attract and retain staff this year.

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 Border Texas 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 a nearly half (47%) 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, a third (32%) of owners who rely on a supply chain said timeliness had worsened in the previous six months. A third (33%) 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

Nearly half (47%) of Border Texas businesses expect to increase the prices in the next six months, with 51% expecting hikes of 5% or more. More than one in 10 (13%) of those expecting to increase prices plan to raise them by at least 10%, compared to 16% nationally. One in three (32%) say their prices have already gone up in the past six months, with two in 10 (21%) hiking them by 5% or more.

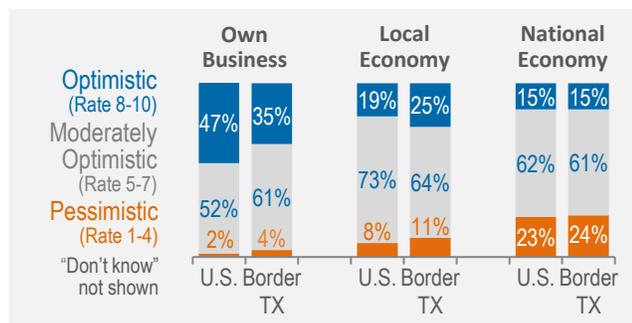
Expect to Increase Prices by...



Among the 47% expecting to increase their prices, six in 10 are doing so because they are attempting to keep up with rising non-labor costs, compared with 63% nationally.

OPTIMISM TEMPERED, BUT STILL HIGH

Border Texas business leader expectations about their own companies remain strong with more than a third (35%) feeling highly optimistic, while the number pessimistic is low (4%).



Their outlook for the local and national economy is more cautious: 25% are highly optimistic and 11% are pessimistic about their local economy; and 15% are highly optimistic about the national economy while 24% are pessimistic.

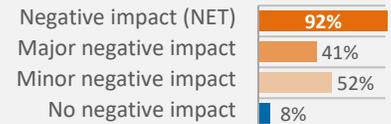
WORKER TURNOVER, HIRING HAVING AN IMPACT

Employee
Departure
Since Start of
Pandemic

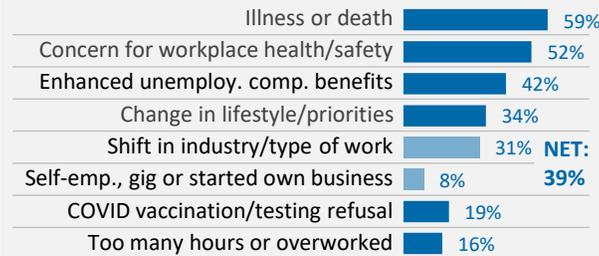


Over a quarter (27%) of Border Texas business owners report losing staff since the start of the pandemic; 92% of those say this has had a negative impact on their business.

Impact of Staff Shortages on Business



Reasons Behind Employee Departures



Top reasons employers provide for employee departures are illness or death (59%), worker concerns over health or safety (52%), enhanced unemployment compensation benefits (42%) and changes in lifestyle or priorities (34%). Four in 10 (39%) say workers have shifted their profession either by moving to other industries or types of work (31%) starting their own business (8%). Other reasons cited for departures include refusal to comply with COVID vaccine or testing requirements (19%) and too many hours or overworked (16%).

Harder to Hire
Qualified
Employees

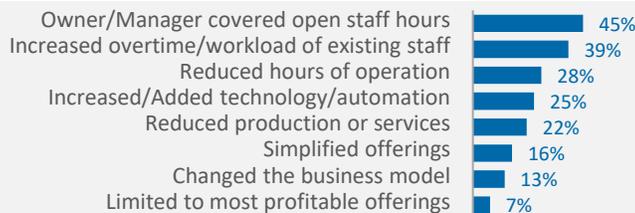


Some Border Texas business owners also identified hiring qualified workers as a continuing challenge. Among businesses that have employees, two in 10 (19%) say it's become harder to hire qualified personnel, compared to 26% nationally.

Eight in 10 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 (48%) and allowing more flexible work arrangements (40%); more than four in 10 (42%) increased wages or salaries.

Actions Taken

among those with hiring or staffing challenges now or in past 6 months



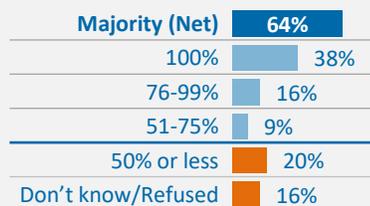
Among those who are having difficulty finding workers or faced shortages in the last six months, more than four in 10 report owners or managers covering shifts (45%) while four in 10 (39%) increased the workload for existing employees. Additionally, business owners reduced hours of operation (28%).

COVID-19 VACCINE BOOSTERISM

Booster Actions



% of Workers Boosted



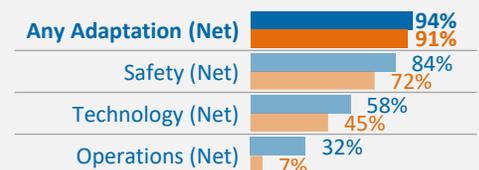
Nearly two-thirds of Border Texas business owners (64%) say a majority of their workforce has a COVID-19 booster vaccination. Nearly six in 10 (58%) have taken some action to encourage employee boosters either through a requirement (25%), incentives (23%), assistance and/or education (21%) or restrictions for those who choose not to receive the booster (15%).

BUSINESS ADAPTATION AND TRANSFORMATION

Border Texas 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 all (94%) 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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