

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

ANALYSIS BY

Kurt Rankin

PNC Senior Economist

The winter storm that devastated Texas had an immediate but temporary impact, disrupting economic activity. Production quickly recovered and the storm and power outages will cause minimal long-term economic damage, especially because many businesses were already operating at reduced capacity because of the pandemic.

Houston's recovery is gaining traction in early 2021. Job creation accelerated throughout the final quarter of last year and has outpaced the U.S. average growth rate in every month since September. Labor force re-entry after the past year's pandemic-induced job losses was strong to close out the year, leaving the size of Houston's labor force just below year-ago levels. This compares with the U.S. labor force conditions down 2.5 percent from one year earlier and falling slightly to end 2020. As government-mandated business restrictions ease and COVID-19 vaccination efforts progress, small business owners in Houston are more optimistic than those in the rest of the nation. Federal stimulus plans that will provide direct assistance to households will support above-average consumer spending growth in Houston.

Continued housing sales gains will further support the consumer spending recovery in 2021. But unlike in many markets across the U.S., housing supply in Houston has risen along with demand, reducing the likelihood of a housing market bubble that could dampen household spending prospects. In all, Houston's economic recovery in the coming year will be built upon solid fundamentals for consumers, and local small businesses will have every opportunity to benefit from that strength, as well as contribute to it through job re-creation.

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 Houston survey of small business owners.

Three-quarters of Houston businesses with employees plan to encourage or require their workforce to vaccinate. More than four in 10 plan to require employees to get vaccinated, more than a third will provide assistance or education about vaccination. Two in 10 plan to provide incentives to vaccinate.

VACCINATION PLANS

Any Action (NET)	76%
Require	43%
Assist/Educate	36%
Incentivize	20%

More than half (53%) expect the growing availability of vaccinations to have a positive impact on their sales.

FEELING SQUEEZED

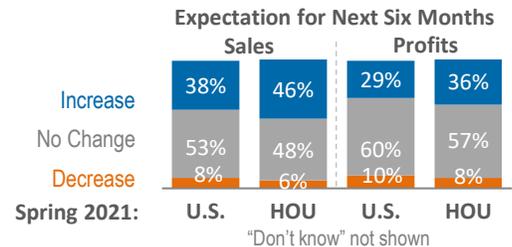
More than six in ten are facing challenges to stay in business and a quarter say they can only continue to operate in the current economic conditions for up to a year.

62%
Business is Challenged

4%
Few Owners to Raise Own Pay

At the same time, few business owners expect to increase their own compensation (4% vs. 8% nationally) or retirement savings (2% vs. 7% nationally) in the next six months.

Less than half expect sales increases combined with ongoing business challenges suggests Houston small businesses owners will start feeling a "squeeze."

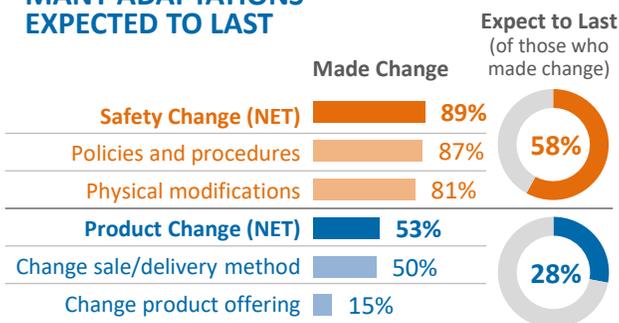


LAYOFFS LINGER AMID LOW HIRING EXPECTATIONS

Nearly two in 10 businesses (16%) reduced their workforce last year. In addition, the Houston survey measured a low proportion of businesses expecting to increase the number of full-time employees (11%) in the next six months, a level near the U.S. survey record low (7%).



MANY ADAPTATIONS EXPECTED TO LAST



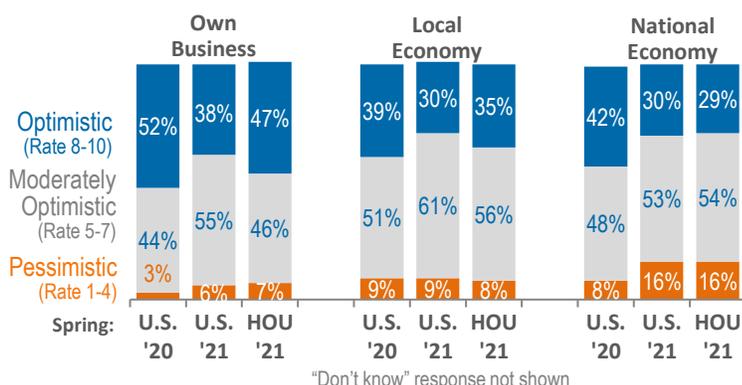
More than nine in 10 (92%) Houston business leaders report making adaptations to their business in response to COVID-19, including a vast majority implementing health and safety changes in the form of new policies and procedures or physical modifications. More than half (53%) of business leaders made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



The least likely adaptation Houston business leaders expect to become permanent is the shift to working from home, in response to the pandemic. Of the four in 10 businesses who adopted work-from-home practices last year, only a fraction (5%) anticipate the change to be long-lasting. Six in 10 expect it to be temporary and more than a third (35%) are uncertain how long it will last.

AHEAD OF THE CURVE

Houston 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 (51%) of Houston 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. Three-quarters (76%) of those who received a PPP loan considered it extremely important.



Eight in 10 recipients have already applied for loan forgiveness; few (7%) 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

More than half (56%) of Houston business leaders report increased use of one or more business technologies since the COVID-19 crisis began. Four in 10 applied new technologies to improve the sales process in the form of electronic or touchless payment systems or electronic/website-enabled sales. Almost a quarter have increased technology to improve workforce productivity.

