

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

#### ANALYSIS BY

**Stuart Hoffman**

PNC Senior Economic Advisor

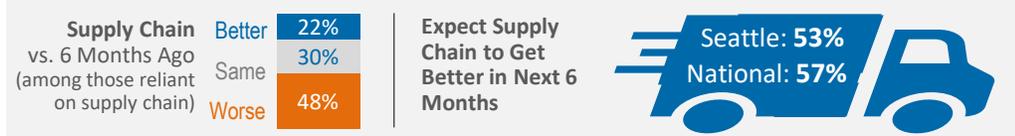
The U.S. economy will continue to expand in 2022 despite many challenges, including the Ukraine crisis. Consumer spending growth will remain the key driver. This is a positive national economic backdrop for continued economic growth in the Seattle metro area economy. The Seattle economy will also benefit from strong business investment in tech as companies nationwide look to make their workforce more productive. Owners of the region's small businesses are more positive than their nationwide counterparts for gains in sales, employee compensation and profits in the coming six months.

Seattle metro small businesses expect rising prices to be a drag on consumers, and labor shortages and ongoing supply-chain disruptions will limit firms' abilities to increase output in the near term. Only 22% report an improvement in their supply chain disruptions and 48% said those problems were worse compared to six months ago. Meanwhile, 53% of Seattle small business expect an improvement in the next six months compared to 57% nationally. As a result, nearly half of Seattle small businesses expect to raise their selling prices in the next six months with 41% expecting to hike prices by at least 5%.

The U.S. labor market will continue its recovery this year, with employment returning to its pre-pandemic level in mid-2022. The Seattle labor market is also very competitive with 38% of small local firms reporting a loss of staff since the start of the pandemic and 92% reporting this had a negative impact on their business. Also, 18% report it is hard to find qualified employees. Still, 16% will be hiring new employees in the next six months, although this is lower than their nationwide counterparts.

#### SUPPLY CHAIN CONCERNING BUT EXPECTED TO EASE

Business owners were surveyed during January and February, before events in Ukraine unfolded. Sales and supply chain issues top the list of concerns for Seattle small and mid-sized business owners over the last six months but they see supply chain pressures easing by mid-year. In the meantime, inflation pressures are expected to continue to impact these business owners, with a nearly half (48%) 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, nearly half (48%) of owners who rely on a supply chain said timeliness had worsened in the previous six months. More than a third (37%) of businesses that rely on inventory are faced with the challenge of not having enough supply to meet expected demand. However, more than half (53%) expect the timeliness of their supply chain issues to improve in the next six months.

#### RIISING PRICES ON MINDS OF BUSINESS OWNERS

Nearly half (48%) of Seattle businesses expect to increase the prices in the next six months, with 41% expecting hikes of 5% or more. Less than one in 10 (6%) 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 three in 10 hiking them by 5% or more.

Expect to Increase Prices by...



Among the 48% expecting to increase their prices, more than half (55%) are doing so because they are attempting to keep up with rising non-labor costs, compared with 63% nationally.

#### OPTIMISM TEMPERED, BUT STILL HIGH

Seattle business leader expectations about their own companies remain strong with nearly half (47%) feeling highly optimistic, while the number pessimistic is low (5%).



Their outlook for the local and national economy is more cautious: 29% are highly optimistic and 10% are pessimistic about their local economy; and 24% are highly optimistic about the national economy while 17% are pessimistic.

## WORKER TURNOVER, HIRING HAVING AN IMPACT

Employee  
Departure  
Since Start of  
Pandemic

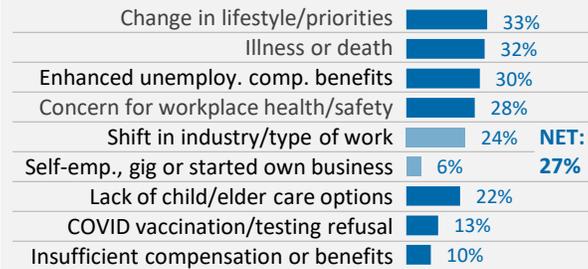


Nearly four in 10 (38%) Seattle business owners report losing staff since the start of the pandemic; 92% of those say this has had a negative impact on their business.

### Impact of Staff Shortages on Business



### Reasons Behind Employee Departures



Top reasons employers provide for employee departures are changes in lifestyle or priorities (33%), illness or death (32%), enhanced unemployment compensation benefits (30%) and worker concerns over health or safety (28%). More than a quarter (27%) say workers have shifted their profession either by moving to other industries or types of work (24%) starting their own business (6%). Other reasons cited for departures include, lack of childcare or eldercare options (22%), refusal to comply with COVID vaccine or testing requirements (13%) and insufficient compensation or benefits (10%).

Harder to Hire  
Qualified  
Employees

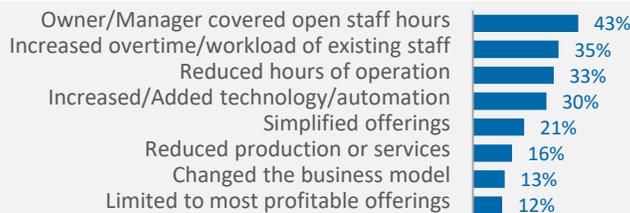


Some Seattle business owners also identified hiring qualified workers as a continuing challenge. Among businesses that have employees, nearly two in 10 (18%) say it's become harder to hire qualified personnel, compared to 26% nationally.

Nearly three in four (73%) 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 (43%) and allowing more flexible work arrangements (38%); a third (32%) increased wages or salaries.

### Actions Taken

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



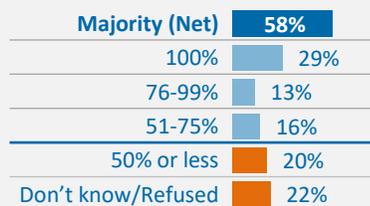
Among those who are having difficulty finding workers or faced shortages in the last six months, more than four in 10 report owners or managers covering shifts (43%) or increased workload for existing employees (35%). Additionally, business owners reduced hours of operation (33%).

## COVID-19 VACCINE BOOSTERISM

### Booster Actions



### % of Workers Boosted



Nearly six in 10 Seattle business owners (58%) say a majority of their workforce has a COVID-19 booster vaccination. The same portion (58%) have taken some action to encourage employee boosters either through a requirement (22%), assistance and/or education (22%), restrictions for those who choose not to receive the booster (19%) or incentives (16%).

## BUSINESS ADAPTATION AND TRANSFORMATION

Seattle 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 (96%) have made at least one type of change (policies, processes, operations or use of technology). Nearly nine in 10 of those making changes (88%) expect one or more of them to be permanent.

### Business Adaptation

Permanent Change among those who made a change

