

AMID PANDEMIC, SMALL AND MID-SIZE BUSINESS OWNERS RESPOND WITH MEANINGFUL TRANSFORMATION; REMAIN RESILIENT

ANALYSIS BY
Gus Faucher
 PNC Chief Economist

The U.S. economy is in the initial stages of recovery from the Viral Recession. The coronavirus pandemic and restrictions on economic activity led to an unprecedented contraction in the spring as limitations on movement prevented consumers from spending and workers from going to their jobs, leading to huge drops in household outlays and business production, and unprecedented job losses. Economic activity has picked up since then, although it remains well below its pre-pandemic level. Federal stimulus efforts have boosted household incomes, allowing consumers to increase their spending as businesses have reopened. Highly expansionary monetary policy has pushed interest rates down to record lows, leading to a strong rebound in the housing market. With the economy recovering, job growth has been very strong; the unemployment rate fell from 14.7 percent in April to 8.4 percent in August, although this is still far above the 3.5 percent rate in early 2020.

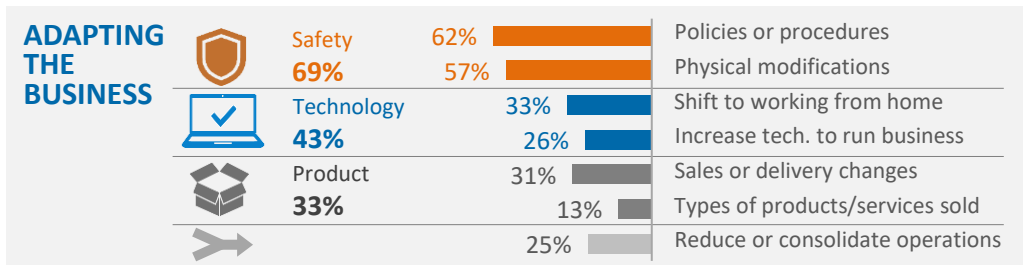
PNC expects a strong economic recovery through the rest of 2020 and into 2021. Consumers will spend more as states gradually lift restrictions, and very low interest rates will support business and household borrowing. A strong housing market will be a key driver of near-term growth. The unemployment rate will continue to fall, although job growth will slow. Risks to this outlook are weighted to the downside. These include a worsening of the pandemic and the re-imposition of stay-at-home and business closure orders, a large increase in business failures, an inability of the federal government to provide further stimulus, and uncertainty surrounding the presidential election.

KEY FINDINGS: BUSINESS LEADERS ADAPT

Amid this year’s historic coronavirus pandemic, businesses are adapting by making major changes to their operations, according to the latest PNC semi-annual survey of small and mid-size business owners and executives.

Eight in 10 (79%) report making adaptations to their business in response to COVID-19, including safety changes (69%), in the form of new policies and procedures (62%) or physical modifications (57%). One in three (33%) adopted work-from-home policies.

COVID-19 forced many to better-align products and services with consumers’ new habits. A third of business leaders (33%) made product-related changes, either in the way they sell or deliver products or services (31%) or what they offer (13%).



OPERATING IN THE COVID-19 BUSINESS ENVIRONMENT

Seven in 10 business owners (69%) report their business has been impacted by COVID-19 rules or guidelines: a majority (53%) operated with reduced capacity, more than four in 10 (43%) reduced hours of operation, and more than a quarter (28%) were closed at least part of the time since the COVID-19 crisis began in the U.S. Only four in 10 (40%) say the business is operating normally now.

Half report a decrease in sales (50%) compared to pre-COVID-19. The magnitude is large for one in four (24%) who saw sales drop by more than half; less than two in 10 (15%) report an increase. Business leaders see long-term effects of the pandemic on their business and a majority (57%) say the business environment will continue to be challenging. Three-quarters (74%) expect that the situation won’t return to normal in the next six months; two in 10 (20%) don’t ever expect a return to normalcy.



WORKFORCE REDUCTIONS

The drop in business activity over recent months forced many to take drastic measures through workforce reductions, as nearly four in 10 (38%) businesses cut workers since the start of the pandemic; though for nearly nine in 10 (87%) of those, the decrease is considered temporary or a furlough. A majority (58%) of the businesses who had temporary layoffs or furloughs have already begun to re-hire.

Expectations for the next six months compound the impact workforces have already experienced. The survey revealed record-low numbers of businesses expecting to increase hiring (11% vs. 20% in spring 2020 and 33% a year ago) and to increase employee compensation (15% vs. 37% in spring 2020 and 41% a year ago).

ADJUSTING TO COVID-19 WORKFORCE CHALLENGES



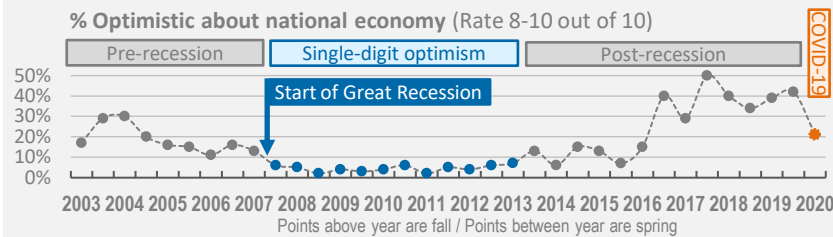
Of the businesses with employees (95%), six in 10 (60%) say their workforce has been affected by the impact of COVID-19 in ways beyond workforce reductions. Nearly four in 10 (38%) say they changed working conditions or location and a similar portion (36%) reduced the number of hours employees worked. Less than a quarter (22%) report impact of the illness or health concerns among their workforce and one in 10 (10%) say the \$600 federal unemployment benefit reduced employee motivation to return to work. A few (5%) say employee turnover increased and the same portion adjusted compensation (3% decreased, 2% increased) due to COVID-19 and related business environment changes.

CHANGING EXPECTATIONS

Sales and profit expectations for the next six months are down significantly compared to Spring 2020. Just over a third (35%) expect an increase in sales, down from nearly six in 10 (57%) six months ago. Only three in 10 (30%) expect a profit increase in the next six months, down from half (49%) last spring. A similar portion (31%) say their business can only continue to operate in the current economic conditions for up to a year.

	Sales		Profits	
Expect Increase	35%	57%	30%	49%
No Change	47%	36%	51%	43%
Expect Decrease	15%	6%	16%	8%
"Don't know" not shown	Fall 2020	Spring 2020	Fall 2020	Spring 2020

ECONOMIC HOPES DIM

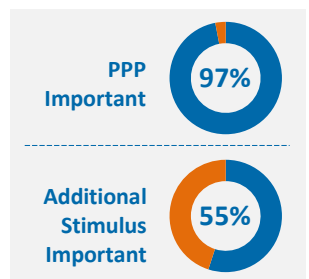


Business reaction to the COVID-19 pandemic and related economic conditions caused the steepest six-month decline in the 17-year history of the survey, dropping by half from spring 2020 to just two in 10 (21%) optimistic about the national economy. While the drop is one of the sharpest in survey history, optimism remains higher than at any time from the start of the Great Recession through 2013, when it was in the single digits.

FEDERAL PROGRAMS: A MUCH NEEDED LIFELINE

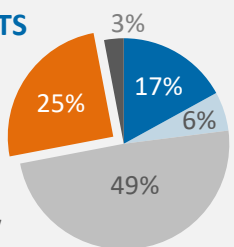
Nearly all who applied for a Paycheck Protection Program (PPP) loan consider the funding important (97%), and seven in 10 (69%) say it is extremely important. Of those who applied, nearly nine in 10 (87%) were approved. A majority (55%) say additional government stimulus funding is important for their business, with a third (32%) indicating it is extremely important.

Interest in the Federal Reserve Main Street lending program is less clear: about a third (36%) aren't interested in it and a similar portion (32%) don't know enough about it. Few say they are interested in learning more about it (11%) and even less plan to apply (4%).



SENTIMENTS SHIFT

- Enthusiasm
- Joy
- Hope
- Negative sentiment
- Don't know



Sentiment about the business climate remains predominantly positive (72%), but down significantly from last spring and a year ago (86% Spring 2020 and 86% Fall 2019). Positive sentiments are now dominated by hope rather than enthusiasm: nearly half (49%) express hope, up from more than a third (37%) in Spring 2020. Less than two in 10 (17%) are enthusiastic, a sharp decline from more than four in 10 (42%) six months ago. Overall, negative emotions are on the rise, with a quarter (25%) feeling fear, despair or anger, compared to just one in 10 (10%) feeling negative six months ago, prior to the start of the COVID-19 pandemic in the U.S.

TECHNOLOGY MATTERS



According to the survey, when asked about specific business technologies, half of business leaders (51%) report increased use of one or more of the technologies since the outbreak began. A third (33%) have increased technology to improve workforce productivity. Less than three in 10 added or increased the use of electronic or touchless payment systems (29%) or electronic/website-enabled sales (23%). Two in 10 (21%) increased electronic banking/cash flow management services or use of fraud/identity protection tools (19%).