

SMALL BUSINESS OPTIMISM HITS RECORD HIGH, GAINING MOMENTUM FROM VACCINES AND ADAPTED PANDEMIC OPERATIONS

ANALYSIS BY

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Although the economic recovery from the Viral Recession is continuing, growth has slowed from its initial torrid pace. Underlying demand remains strong due to increasing vaccinations and very high household savings after stimulus payments earlier in 2021. But the Delta variant has weighed on the recovery in consumer spending on services, and supply-chain problems and labor shortages have made it more difficult for businesses to increase output to meet stronger demand. The recent end to special pandemic-related unemployment insurance programs also will be a headwind to consumer spending through year end.

The recovery is incomplete. Real GDP has returned to its pre-pandemic level, but even with very strong job growth, employment is still 5 million below its pre-recession peak. Unemployment remains elevated at 5.2%, well above its pre-pandemic low of 3.5%, and this understates the problem given that millions of Americans have left the labor force since the pandemic began.

Although growth over the next couple of years will be slower than during the initial stages of the recovery, the U.S. economy will continue to improve. Contributing to the progress: The pandemic will recede as more people are vaccinated; potential workers will return to the labor force with the expiration of pandemic unemployment insurance benefits; and the return to in-person schooling will provide parents with more flexibility. Businesses will increase output as supply-chain problems gradually improve. The Federal Reserve will continue to provide support for the recovery through very low interest rates for another couple of years.

COVID-19 VACCINATION EFFORTS MAKE AN IMPACT

Business owners are feeling optimistic about the near-term future of their businesses amid increasing vaccination rates, and those who report that more than three-quarters of their workforce has been vaccinated are the most positive about their business outlook. This includes expectations for higher demand, sales and profits than companies reporting a lower rate of employee vaccination, according to PNC's semi-annual national small business survey.

EXPECT INCREASE IN NEXT SIX MONTHS IN: DEMAND SALES PROFITS

| | | | |
|--|------------|------------|------------|
| Companies reporting more than 3/4 of workers vaccinated | 71% | 77% | 66% |
| Companies reporting 3/4 or fewer workers vaccinated | 59% | 63% | 45% |

VACCINES ARE TOP-OF-MIND FOR BUSINESS OWNERS

VACCINATION ACTIONS

| | |
|-------------------------|------------|
| Any Action (Net) | 79% |
| Require | 48% |
| Assist/Educate | 44% |
| Incentivize | 26% |
| Restrict | 24% |

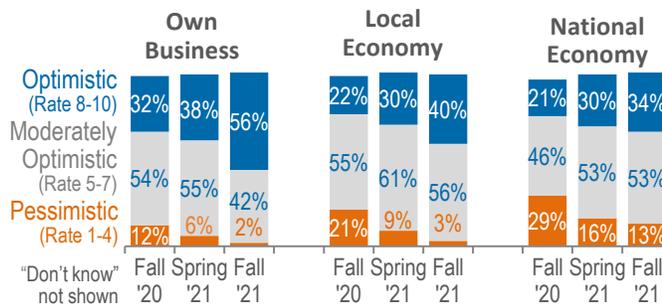
Eight in 10 businesses have taken action to encourage employee vaccination. Nearly half are requiring employee vaccinations and more than four in 10 are providing assistance or education about vaccination. One in four are incentivizing employees to vaccinate and a similar portion are restricting employees who choose not to be vaccinated.

% OF WORKERS VACCINATED

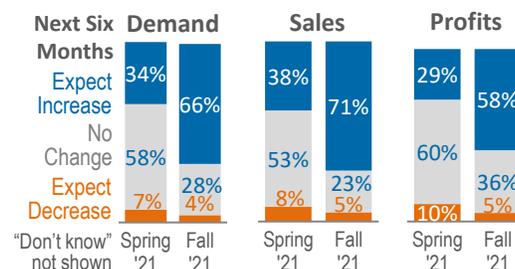
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|-----------------------|------------|
| Majority (Net) | 78% |
| 100% | 43% |
| 76-99% | 20% |
| 51-75% | 15% |
| 50% or less | 12% |
| Don't know/Refused | 10% |

Those efforts may well be making an impact: more than three-quarters estimate that a majority of their employees have been vaccinated.

BUSINESS OWNER OPTIMISM AND THE LOOK AHEAD



More than half of surveyed business leaders are optimistic about prospects for their own company, up from 38% last spring. Optimism about the local economy increased to 40% from 30% six months ago.



Two-thirds expect an increase in demand for their company's products or services and seven in 10 expect a sales increase, both measures the highest in the survey's 19-year history. Nearly six in 10 expect a profit increase in the next six months, double the level from spring.

HARD TO HIRE



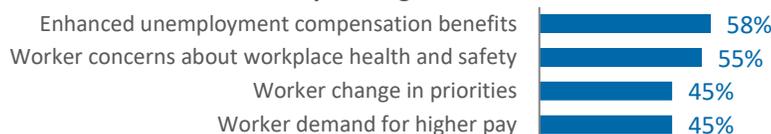
Despite the optimism among business owners, challenges remain. While more employers hope to hire – and hiring expectations have returned to pre-pandemic levels – many businesses are struggling to find employees. Labor availability is the most frequently-mentioned concern, topping sales and supply chain worries that were reported as more prominent earlier in the year.

Top actions businesses are taking to retain or attract new employees include offering increased wages or salaries (46%), implementing employee health or safety improvements (46%) and allowing more flexible work arrangements (44%).

Difficulty Finding Workers

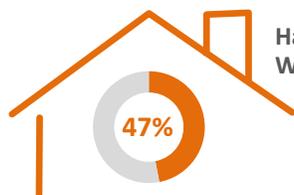


Reason for Difficulty Finding Workers



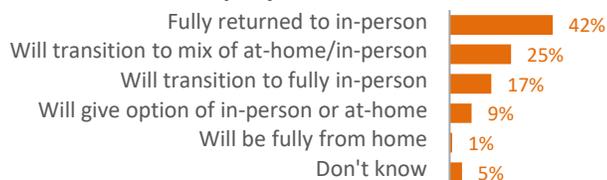
Of the one-third of businesses having difficulty finding workers, more than half say the cause is enhanced unemployment compensation benefits, a similar portion cite worker concerns about workplace health and safety, 45% say workers' priorities have changed and the same portion say workers are demanding higher pay.

DIFFERENT OPERATING ENVIRONMENT



Had Employees Shift to Remote Work Due to the Pandemic

Company's Work-From-Home Situation



The nature of how many businesses operate has undergone permanent changes since the pandemic. Nearly half had employees shift to remote work due to the pandemic.

Among those who shifted to remote work, more than four in 10 have returned fully to in-person work, with another 17% expecting to transition workers back eventually. A quarter say they will transition to a mix of virtual and in-person work, while another one in 10 will allow employees to choose where they work.

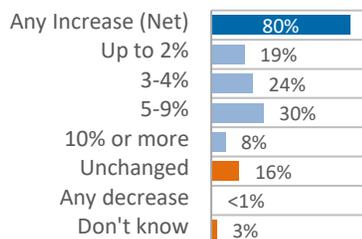
PRICING EXPECTATIONS AND INFLATION CONCERN



Expect to Increase Customer Prices

Inflation is now a greater concern, as price hikes are expected to keep up with higher input and labor costs. A survey high 54% of business owners expect to increase their prices.

Expectations for Consumer Prices in Next 12 Months



More than a third (36%) expect to boost prices 5% or more, with favorable market conditions the reason cited by more than four in 10 (42%). One in three (33%) cite higher non-labor costs and one in four (25%) say they are keeping up with higher labor costs. Non-labor costs are a more prominent factor in the manufacturing (45%) and construction (42%) sectors.

Some of the pricing pressures are coming from anticipated supplier price increases: nearly half (46%) expect supplier price increases, little changed from spring (43%). Expectations for supplier price increases are higher among the manufacturing, wholesale/retail and construction sectors. These pricing dynamics have led to higher inflation expectations. Eight in 10 expect increased consumer prices this year, and 38% expect a jump of 5% or more, a survey high.