



THE PNC ECONOMIC OUTLOOK

Survey of Small & Middle-Market Business Owners

March 2023

PNC SURVEY SHOWS MICHIGAN SMALL BUSINESS OWNERS SEE BRIGHT FUTURES FOR THEIR OWN BUSINESS

ANALYSIS BY PNC SENIOR ECONOMIST KURT RANKIN

Michigan’s labor shortage appears to be putting its small businesses at a disadvantage and directly contributing to the state’s survey findings of less optimism for the future among business owners as compared to the national average. Small business owners must compete for labor resources against larger firms but often with limited financial resources. The current shortage of workers across all industries in Michigan compounds that difficulty given that wages continue to surge.

In addition, PNC expects the Federal Reserve to further tighten monetary policy through the first half of 2023 as it continues its efforts to fully extinguish inflationary pressures. This means that small businesses in Michigan will continue to face higher borrowing costs, both for new loans and when rolling over existing debt.

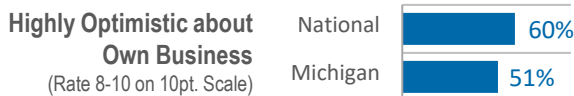
The Fed’s goal is to cool consumer demand – the primary driver of inflation since households emerged from pandemic restrictions. To achieve this, the Fed will necessarily

be undercutting business revenue, which will impact small business owners first and hardest.

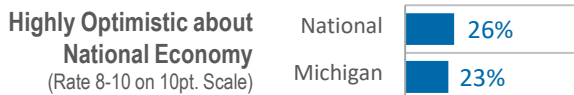
As the U.S. economy inches closer to a mild recession, which PNC expects in the second half of the year, Michigan’s small business community will have to be that much more vigilant in managing costs and passing on price hikes given its current labor market disadvantages and the lingering supply chain issues facing the state’s large manufacturing base.

OVER HALF HIGHLY OPTIMISTIC ABOUT OWN BUSINESS IN NEAR TERM

Based on the results of PNC’s latest semi-annual survey of small and mid-sized businesses, which concluded February 21, resilient Michigan business owners appear to be defying predictions of an economic downturn later this year.



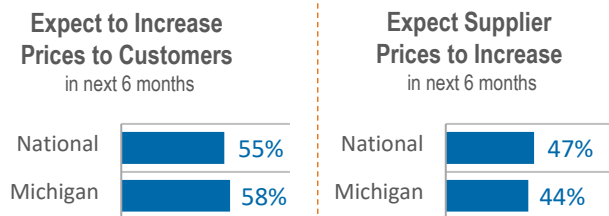
A majority (51%) of Michigan business leaders feel highly optimistic about the prospects for their own company in the next six months despite remaining cautious about the national economy (23% highly optimistic vs. 26% nationwide) and their local economy (27% highly optimistic vs. 30% nationwide). The gap between Michigan business leaders’ optimism for their company versus the broader U.S. economy is 28 percentage points, indicating a strong divide between the prospects for their own business and expectations for the broader economy.



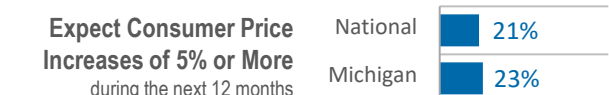
The survey also revealed that Michigan business leaders are expecting a better business environment with nearly two-thirds (63%) expressing belief that business conditions in the U.S. will improve in the next six months, matching the portion nationwide.

A majority of Michigan business leaders (55% vs. 58% nationwide) expect to see sales increases in the next six months. Amid these positive expectations, seven in 10 (69%) are very confident about the future success of their business.

PRICING PRESSURES EASE

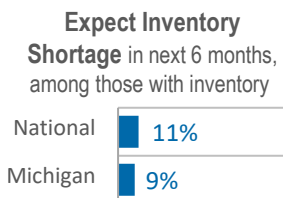
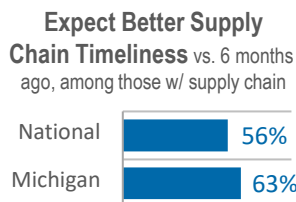


Michigan business leader pricing expectations closely align with national measures which are down from levels recorded last fall. Nearly six in 10 (58%) Michigan business leaders expect to increase prices in the next six months, similar to the national level (55%) which declined since last fall (63%). In addition, over four in 10 (44%) anticipate supplier price increases in the next six months compared to 47% nationally which dropped from 53% six months ago.



Nearly a quarter (23%) of Michigan businesses owners expect consumer price increases of 5% or higher in the U.S. economy, overall, similar to two in 10 (21%) nationally which is down from over one-third (36%) last fall.

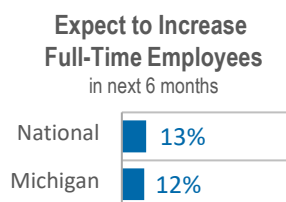
SUPPLY CHAIN CONCERNS DECLINE



Nearly two-thirds (63%) of Michigan businesses with a supply chain expect the timeliness to improve in the next six months, compared to 56% of businesses nationwide. One in 10 (9%) of those who carry inventory are coming up short, similar to the portion of businesses nationally (11%), which is down from 30% last fall and 28% a year ago.

Supply chain disruptions remain a top worry for two in 10 (19%) Michigan business owners, just ahead of profitability, which is also a key concern for 15% of Michigan business owners. Nationally, the two in 10 (18%) businesses with supply chain concern is down from one-quarter last fall and three in 10 (31%) a year ago, and now at the same level as those concerned about material cost (18%).

HIRING BARRIERS



More than one in 10 (12%) Michigan business owners expect to increase their number of full-time employees over the next six months, similar to the portion measured nationwide (13%) which is down from two in 10 (21%) last fall and a year ago (20%). Fewer than one in 10 (8%) Michigan businesses expect to increase the number of part-time employees over the same timeframe, compared to 15% of businesses nationally.



Among Michigan businesses actively hiring employees, four in 10 (39%) say it's become harder to hire qualified candidates over the past six months, compared with 36% of businesses nationwide.

Among Michigan business leaders experiencing difficulty in hiring qualified candidates:

- **30%** say candidates lack job-related skills or experience (22% nationally)
- **29%** say they have a lack of applicants (47% nationally)
- **20%** say compensation required is higher than the business can afford to pay (19% nationally)

QUEST FOR CREDIT

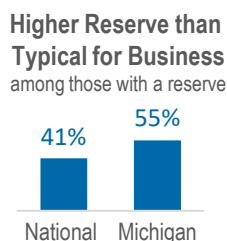
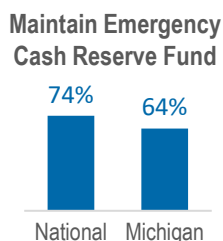


One-quarter of Michigan business owners expect to request a loan or line of credit in the next six months, compared to 17% of business owners across the U.S. which is up from 6% last fall.

Among the more than seven in 10 (72%) Michigan business leaders unlikely to seek credit:

- **78%** say they have no need for funds (77% nationally)
- **34%** are hesitant to take on debt (25% nationally)
- **20%** feel the cost of credit is too high (16% nationally)
- **10%** have concern about loan processes or ability of the business to qualify (8% nationally)

PREPARING FOR CASH FLOW ISSUES



Nearly two-thirds (64%) of Michigan businesses are currently maintaining an emergency cash reserve fund, compared with three-quarters (74%) nationwide. Among the Michigan businesses with an emergency reserve, more than half (55%) say it is higher than what is typical for their company, compared to four in 10 (41%) nationally. Three in 10 Michigan business leaders with a reserve consider the amount to be about average, compared to half of businesses across the U.S. with a reserve.