

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

**ANALYSIS BY**

**Gus Faucher**

PNC Chief Economist

The economy continues to recover from the Viral Recession, but it is still a long road back. With an unprecedented contraction in economic activity in the first half of 2020, employment fell by 22 million between February and April and the unemployment rate jumped to 14.8%, the highest since the Great Depression. Economic activity has improved, with the economy adding more than 12 million jobs since May and unemployment fell to 6.3% in January 2021. But there are still 10 million fewer jobs than there were before the pandemic and the unemployment rate is far above its pre-recession level of 3.5%. After strong initial job gains in the spring and summer, job growth slowed in late 2020 and early 2021 as coronavirus cases surged, consumers stayed home and states re-imposed restrictions.

Stimulus efforts from the federal government have provided support. The Paycheck Protection Program has allowed many struggling small businesses to stay open and payments to households have supported a rebound in consumer spending. At the same time the Federal Reserve has pushed interest rates lower, contributing to a strong housing market and a bounce back in business investment.

After a soft first quarter, economic growth should be very good through the rest of 2021 and into 2022. Vaccine distribution, better weather, falling coronavirus caseloads, continued federal stimulus efforts, and historically low interest rates will support near-term economic growth. The recovery in the job market will be slower and unemployment will remain well above its pre-pandemic level in 2021 and 2022.

#### 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 semi-annual national survey of small business owners.

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

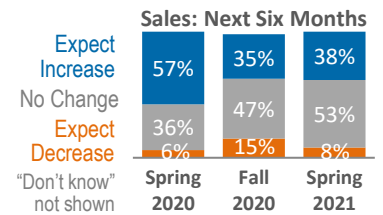
#### VACCINATION PLANS

<b>Any Action (NET)</b>	<b>76%</b>
Require	48%
Assist/Educate	33%
Incentivize	22%

Almost half (45%) expect the growing availability of vaccinations to have a positive impact on their sales.

#### FEELING SQUEEZED

A combination of higher operating costs and the anticipation of stable sales suggests small businesses will start feeling even more of a “squeeze” in their operations than they already are experiencing.



Almost half are facing challenges to stay in business and nearly one in four (24%) say they can only continue to operate in the current economic conditions for up to a year.

At the same time, business owners report that price hikes may be in store. Four in 10 indicate that they plan to increase prices in the next six months, up from three in 10 last fall.

#### MOST LAYOFFS CONSIDERED TEMPORARY

Nearly one in four (24%) businesses reduced their workforce last year and while most are not anticipated to be permanent layoffs, rehiring will be a slow process. Of those who cut workers in the past year, more than eight in 10 (82%) consider it temporary or a furlough. Over two-thirds (69%) said the cut impacted 25% or less of their workforce.

However, the survey measured a record-low proportion of businesses expecting to increase the number of full-time employees (7%) in the next six months, down from one in 10 (11%) last fall and two in 10 (20%) in spring 2020, just prior to the start of the pandemic in the U.S.

#### SURVEY-LOW HIRING EXPECTATIONS

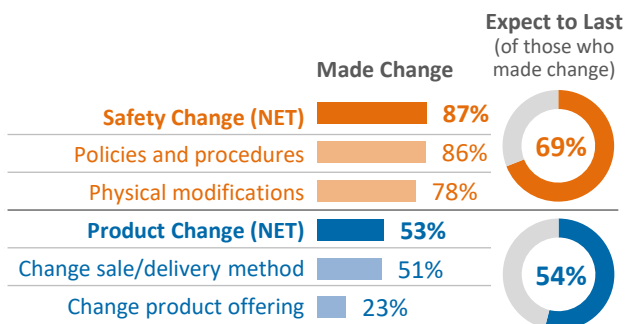


## MANY ADAPTATIONS EXPECTED TO LAST

Nine in 10 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.

Half of business leaders made product-related changes, either in the way they sell or deliver products or services or what they offer.

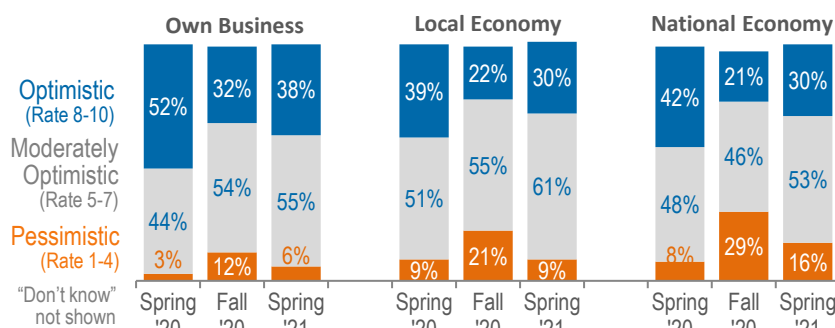
The majority of those making safety or product adaptations expect they will be permanent.



One exception to the permanent adaptations is the shift by nearly half of businesses to working from home, in response to the pandemic. Only a fraction (15%) of the businesses who adopted work-from-home practices last year anticipate the change to be long-lasting, with six in 10 (59%) expecting it will be temporary, and a quarter (26%) uncertain how long it will last.

## LEFT BEHIND

Small business owners are not yet feeling part of the broader economic recovery. Their optimism about the U.S. economy and their local economies is growing, but slower-growing when it comes to their own business. All three measures of optimism remain significantly below levels recorded a year ago, just prior to the start of the pandemic.

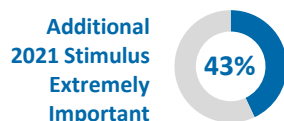


## PPP REMAINS CRITICAL FOR SURVIVAL

More than four in 10 businesses (43%) received Paycheck Protection Program (PPP) funding in 2020; another 6% applied but did not receive the funding, while the remainder of businesses did not apply. Three-quarters of those who received a PPP loan considered it extremely important.

More than two-thirds (68%) of recipients have already applied for loan forgiveness; about one in 10 (8%) 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 of business leaders (56%) report increased use of one or more business technologies since the COVID-19 crisis began. Three in 10 have increased technology to improve workforce productivity. Nearly 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.

