

SMALL AND MID-SIZED BUSINESS OWNERS HIT RECORD LEVELS OF OPTIMISM DESPITE LOWER PROFIT EXPECTATIONS, INFLATION CONCERNS

ANALYSIS BY PNC CHIEF ECONOMIST Gus Faucher

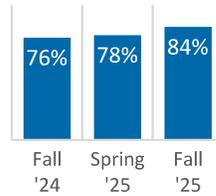
U.S. economic growth has slowed, as tariffs and the uncertainty surrounding them are drags, but are among the best in the more than 20-year history of the survey. Despite concerns about inflation, weaker profit growth, and softening demand, small and mid-sized businesses reported record-high optimism about the outlook for their own companies, and the national, global, and their local economies. Although job growth has softened in 2025 the unemployment rate remains low. Inflation is still above the Federal Reserve’s 2% objective, but is down dramatically from a few years ago. Wages are rising more quickly than prices and consumer spending continues to increase.

PNC expects softer but still-positive economic growth in the second half of 2025 and into 2026. Tariffs—taxes on imported goods—are at their highest levels in a century. Higher prices for goods will weigh on consumer demand and business investment. And the uncertainty surrounding the tariffs—how long they will last, and their applicability to different countries and goods are also a drag. In addition, easing job and wage gains are weighing on growth in incomes and consumer spending, and households need to rebuild their savings. But a still-low unemployment rate, continued wage gains, and solid growth in business investment should help the U.S. economy avoid a near-term recession. The One Big Beautiful Bill and its tax cuts will provide a boost to growth in late 2025 and in 2026. And the Federal Reserve is preparing to cut the federal funds rate, its key short-term policy interest rate, later this year. Interest rates remain higher than they were a few years ago, but Fed rate cuts in the fall and winter should support demand for business investment and consumer spending on big-ticket items and help prevent a recession. The unemployment rate will increase slightly over the next year, but will remain historically low.

Risks to the outlook are largely to the downside. A tariff-driven surge in inflation could lead to a pullback in consumer spending, and could deter the Fed from cutting interest rates. Slower growth in the labor force due to restricted immigration could weigh on job gains. But there are upside risks as well, from tax cuts, reduced regulations, and business investment spending on artificial intelligence.

SURVEY-HIGH 84% OPTIMISTIC ABOUT OWN BUSINESS PROSPECTS

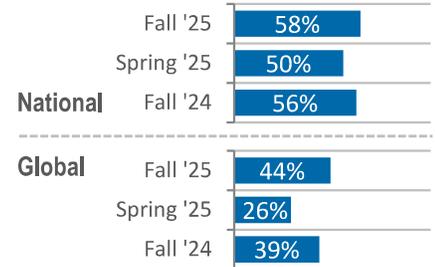
Highly Optimistic about Own Business
(Rate 8-10 on 10pt. Scale)



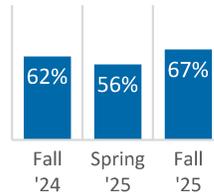
Despite concerns over inflation, supplier price increases, soft demand and slower profit growth, PNC’s latest semi-annual survey of small and mid-sized business owners found a 23-year record-high share of business owners (84%) optimistic about the prospects for their own business. The semi-annual survey, which concluded Aug. 5, shows those numbers trending upward from the spring (78%) and last fall (76%).

In another survey record high, 58% of business owners are optimistic about the national economy, up from last spring (50%) and near the level recorded last fall (56%). Looking globally, another survey high of 44% of businesses are optimistic, with newer business owners (those with less than 10 years of tenure) being the most optimistic about the global economy.

Highly Optimistic about Economy:
(Rate 8-10 on 10pt. Scale)



Highly Optimistic about Local Economy
(Rate 8-10 on 10pt. Scale)



Business leaders are similarly positive about their local economy, with a survey-high two-thirds (67%) optimistic, up from six months ago (56%) and near the level recorded a year ago (62%).

BUSINESS RISKS AND RECESSION CONCERN

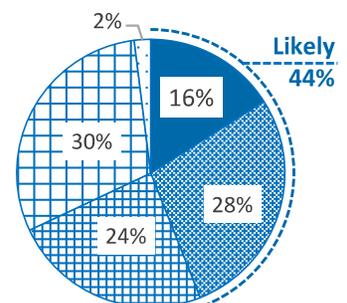


The top potential risk owners foresee for their business over the next six months is inflation, with 46% stating they are extremely concerned.

More than four in 10 (44%) believe a recession in the next 12 months is likely, with 16% considering it “extremely likely,” and 28% feeling it is “somewhat likely.”

Likelihood of Recession
in next 12 months

- Extremely likely
- ▒ Somewhat likely
- ▒ Somewhat unlikely
- Not at all likely
- Don't know



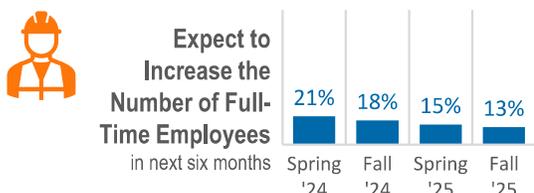
DEMAND AND PROFIT EXPECTATIONS COOL



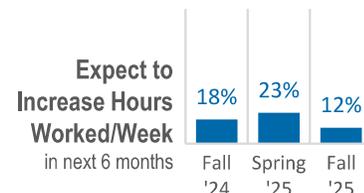
A majority (58%) of business leaders expect demand for their products or services to increase, but fewer than a year ago (64%). Less than half (48%) expect their profits to increase in the next six months, a fall from 57% measured both last spring and a year ago.



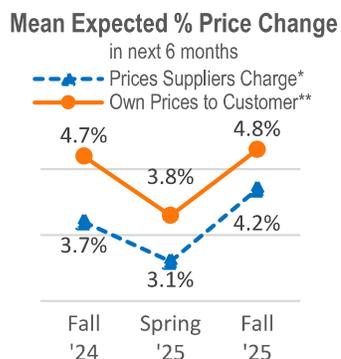
FEWER EXPECT TO EXPAND WORKFORCE



Just 13% expect to increase the number of full-time employees in the business, the lowest level since Fall 2023, dropping from a peak in the spring of 2024 (21%) and down from 18% a year ago. A similar portion (12%) expect to increase the number of hours worked per week, down from last spring (23%) and last fall (18%).



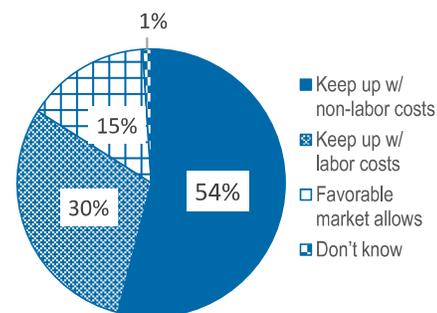
LABOR NOT DRIVING PRICE HIKES



Nearly six in 10 owners (58%) expect prices they charge to their customers to increase in the next six months. Among businesses expecting to increase customer prices, the mean percentage is 4.8%, up from 3.8% last spring and similar to 4.7% from a year ago.

A majority (54%) of business owners attribute customer price hikes to keeping up with non-labor costs, up sharply compared to six months (35%) and a year ago (37%). Fewer (30%) say they are increasing prices to keep up with labor costs, while half as many (15%) are doing so because increasing business and favorable market conditions allow it.

Reason for Expecting to Increase Prices
in next six months, among those who expect to increase



Of those expecting: *suppliers to raise prices; ** to raise customer prices

TAKING STOCK AMID SUPPLY CHAIN CHALLENGES

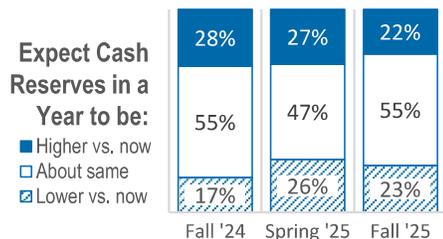


Overall, inventory expectations have remained steady with over half (56%) expecting the level to stay the same, little changed from both six months and a year ago (52%). Nearly half of business owners (48%) are currently facing a supply chain challenge. The same portion (48%) of businesses say higher tariffs in 2025 led to supplier price increases in 2025; few (1%) believe tariffs decreased supplier prices.

Expect Level of Inventory in the Business to Stay the Same
in next six months



CASH CRUNCH



Less than a quarter (23%) of business owners are expecting their cash reserves to be lower next year than they are now, up significantly from 17% a year ago. The same portion (23%) expect to increase capital spending in the next six months, similar to the level last spring (21%) but down from a year ago (30%).

Expect to Increase Capital Spending
in next six months

