



2023 Business Barometer Report

A nationwide survey of 1,250 business owners and executives for their take on the U.S. economy, business conditions, and strategic plans.

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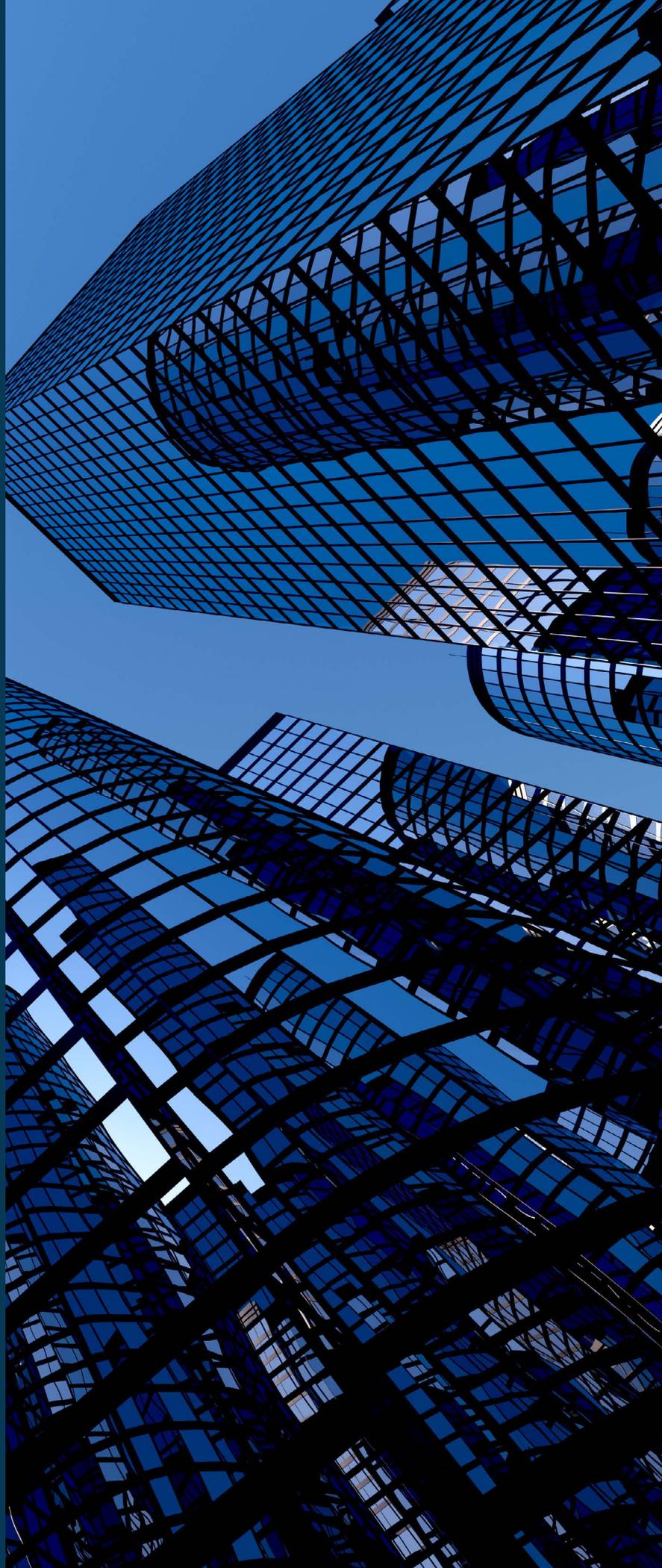
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Executive Message

Umpqua Bank is pleased to share the 2023 Business Barometer, our sixth report on America’s small and middle market businesses. This report underscores our unwavering commitment to support the growth and success of our business customers by listening closely to what is on their minds and providing actionable insights.

In the past year, businesses of all sizes have navigated accelerating inflation, rising interest rates, and looming recession concerns. This has tempered business optimism and expectations. But we do see signs of cautious optimism about the economy and strong confidence in their own prospects for the year ahead. This is even more pronounced for businesses in the West.

U.S. businesses overall remain concerned about macroeconomic pressures but are increasingly confident in their ability to stay competitive and manage components within their control.

In response to continued economic uncertainty, businesses are highly focused right now on improving their performance through operational efficiency and increasing sales. They are still focused on recruiting and retaining talent, as well as bringing supply chains closer to home. They are taking steps to improve their success in the current environment.

We also see that more businesses, especially middle market companies, appear willing to enhance their competitiveness by adding new

products and services, evolving pricing models, and embracing innovative technology, including finding opportunities for artificial intelligence.

Small and middle market businesses have demonstrated repeatedly that they can adapt and thrive, regardless of market conditions. It is this ingenuity and resilience that makes them the backbone of our economy.

Umpqua remains committed to supporting businesses of all sizes and helping them succeed. We know times and conditions change, but we are there with them every step of the way.



Tory Nixon
Commercial Bank President



Chris Merrywell
Consumer Bank President

Economic Outlook

Business leaders have a mixed mood on the state and trajectory of the economy, but there are signs of growing optimism compared to last year.

Overall, more businesses give the current economy high marks and fewer feel negatively about it than a year ago. Positivity is on an upward trend and remains higher for business leaders than U.S. consumers.¹ However, more than half of businesses rate the economy as fair or poor.

4 in 10 give the economy positive marks



6 in 10 give the economy negative marks

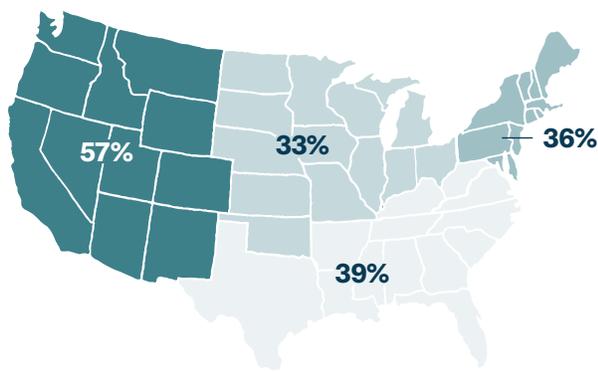


Due to rounding, totals may not equal 100%.

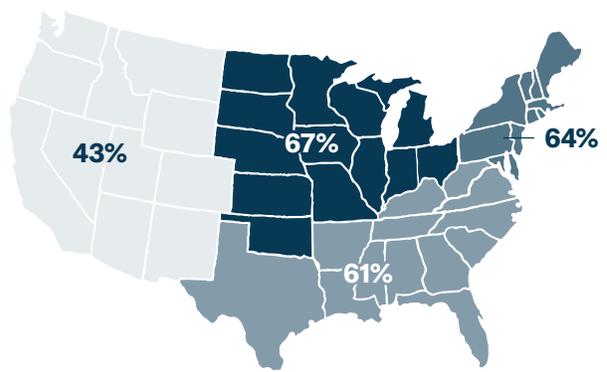
¹ Gallup, "Americans' Economic Optimism Ticks Up; Best Since Early 2022" (June 28, 2023)

Compared to other regions of the country, businesses headquartered in the West are significantly more upbeat about both the current state of the economy and where it is headed in the next 12 months. They are also far less likely to list recession as their top concern (8% in the West vs. 16% nationwide).

Regional Economic Sentiment



Rate the economy as Excellent/Good



Rate the economy as Fair/Poor



Survey data aligns very closely with what we see from our business customers across the Western U.S. They are more optimistic than a year ago and feel more confident about taking modest, growth-oriented action to improve their overall market position and long-term growth prospects.”

Richard Cabrera
Head of Middle Market Banking



Business leaders are also more optimistic in their economic expectations for the year than in 2022. Of those surveyed, 39% anticipate the economy will improve over the next 12 months, versus only 24% last year. They have hit a level of optimism not seen since 2021, when vaccine availability was growing, and gradual post-pandemic reopening was underway.

Nearly 4 in 10 expect the economy to improve over the next 12 months



Another standout is that larger employers are more optimistic than their smaller peers.

Larger employers more positive on economy

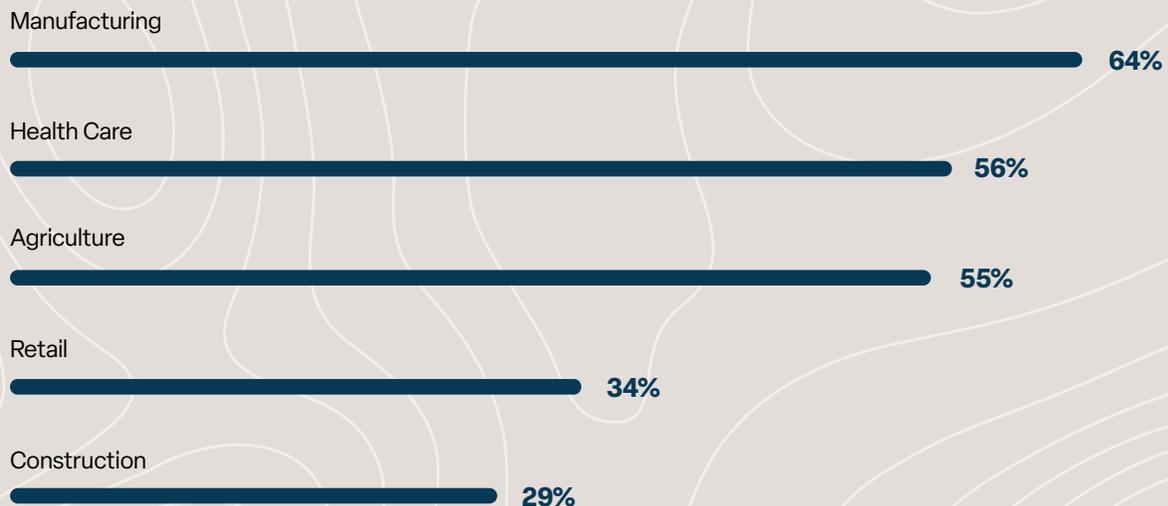
58%
500+ employees

48%
100-499 employees

38%
under 100 employees

There are also noted differences in sentiment among industries, with agricultural, health care, and manufacturing companies feeling the most optimistic about the economy's direction.

Expectations economy will improve depends on industry





While economic optimism is up, businesses remain cautious as they contend with macroeconomic concerns. Inflation, recession, and rising interest rates are top worries this year, although recruiting and retaining talent (22%) remains an issue. Concerns that ranked highly in the past, such as COVID, international conflict, and global trade relations, have declined.

Top concerns ranked



INFLATION

While the pace of inflation has slowed, businesses are still dealing with its impact. The vast majority have seen the cost of goods go up over the past year, true for the third year in a row. They also have raised their own prices, with mixed impact on their business. Across industries, most companies anticipate raising their own prices for goods and services in the year ahead.

Price increases are prevalent and persistent

85%
have seen cost of goods increase in past year

66%
have raised prices in the past year

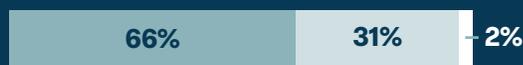
Of those that raised prices:



● Negative impact ● Neutral impact ● Positive impact

(based on sales going down, remaining the same, or increasing)

Price increases ahead for the year



● Expect to raise prices ● Keep prices stable ● Decrease

Recession

The U.S. has so far avoided a recession in 2023, but concerns linger, and business leaders are keeping a close eye on the possibility. Overall, 60% of business leaders feel a recession seems more likely than it did at the beginning of the year, and many have made plans in preparation.

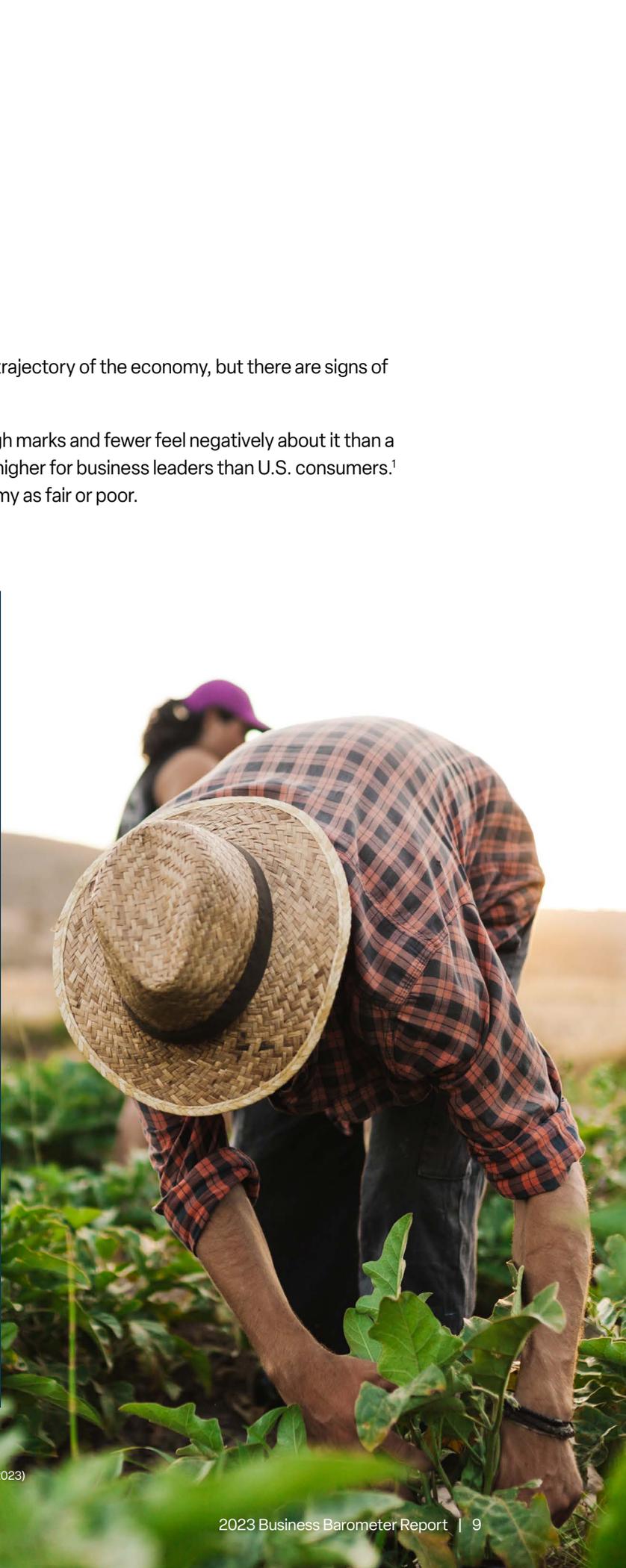
“It really depends on the industry. Some sectors are in a stronger position than a year ago, like health care or hospitality, but others are keeping a closer eye on the horizon. They are not on hard times yet, but maybe they’ve had to make cuts or are seeing some signs of slowing; they’re just a bit more on edge.”

Richard Cabrera
Head of Middle Market Banking
Umpqua Bank

Company Confidence Grows

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¹ Gallup, "Americans' Economic Optimism Ticks Up; Best Since Early 2022" (June 28, 2023)

The Year Ahead for Business

Businesses are focused on fine-tuning their own performance for the year ahead, with a focus on improved operational efficiency and financial management. They are willing to invest in equipment and people, given ongoing challenges in recruiting and retaining talent. They also showed a strong interest in technology, with willingness to spend on automation, cybersecurity, and artificial intelligence.

What leaders say is crucial to success for the year ahead

1

Growing revenue and sales

2

Improving operational efficiency

3

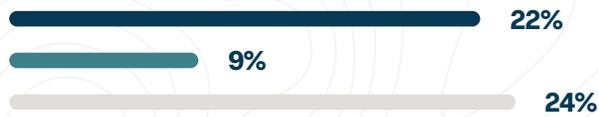
Financial management



Investing Wisely

What companies say they are most likely to invest in for the year ahead:

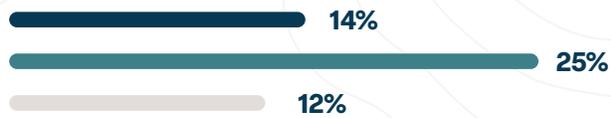
Equipment



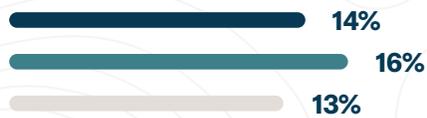
Artificial Intelligence



Automation



Recruitment and Retention



Cybersecurity



It's important for businesses to have a detailed understanding of where opportunities for enhanced efficiencies lie and make targeted investments to implement changes. Especially if margins are tight, I encourage businesses to start with the lowest-hanging fruit and work from there. In many cases, very modest investments can yield significant savings or greater productivity."

Kathryn Albright

Head of Global Payments & Deposits
Umpqua Bank

Business Priorities

What companies said they are likely to do in the year ahead:

Digitize to improve efficiency



Change products or services



Invest in financial tools to protect business



Take on debt to expand



Change pricing model



Merge with another business



Increase real estate footprint



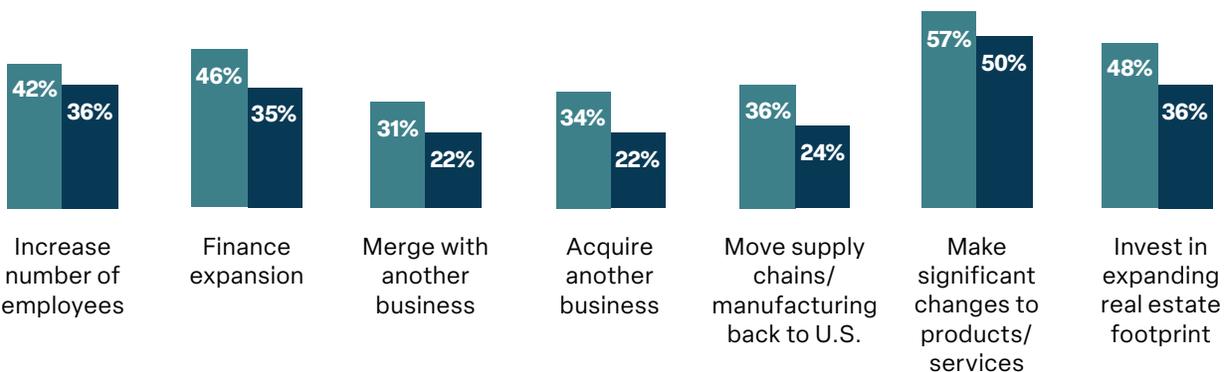
Acquire another business



● Overall ● Small Business ● Middle Market

Businesses in West Poised for Action

Optimism among businesses in the western U.S. is reflected in their plans.



● West ● Other Regions

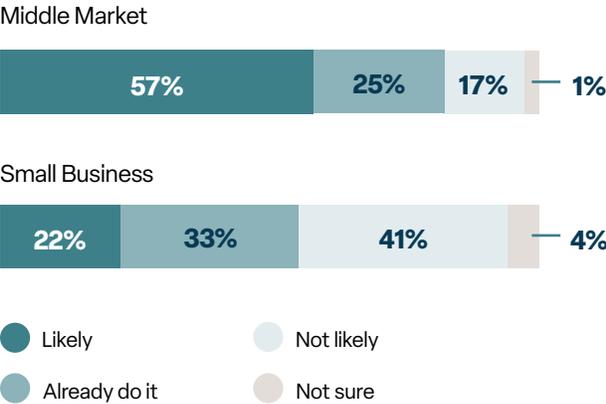
Evolving Opportunities

Businesses are adapting to recent challenges and embracing new opportunities in ways that will continue transforming how they operate and compete. They are evolving their approach to issues introduced during the pandemic and eyeing the power of emerging technology, like AI and automation.

Onshoring Eases Supply Chain Pressure

Some companies say they are looking to shorten their supply chains by bringing them back to the U.S. Onshoring has become especially popular among middle market companies, whereas many small businesses' supply chains are already located in the U.S. In the last 12 months alone, roughly 5 in 10 middle market companies brought some or more of their supply chains or manufacturing back to the U.S., a trend expected to accelerate in the year ahead.

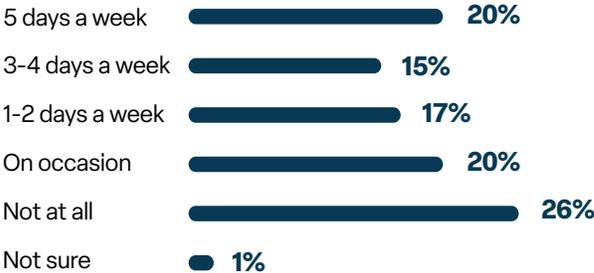
Likelihood of bringing manufacturing back into to the U.S.



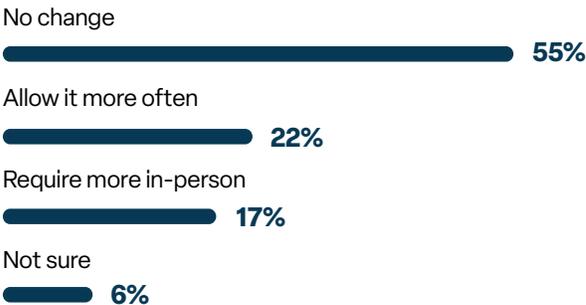
Leaning Into Hybrid Work

Remote work became the norm for many during the pandemic, and the hybrid model appears to be here to stay, particularly among middle market businesses. Most companies say they plan to keep their current policies in place or allow employees to work remotely more often.

How often companies allow remote work



Remote work policy for the year ahead



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There's a ton of innovation happening in this space right now. I'm very interested to see where that puts us in six- or 12-months' time. I think that you're going to see a lot of really cool tools that can provide a ton of not only productivity but actual incremental value."

Michael
CEO of product design company

Use of AI in your business

Middle Market



Small Business



● Opportunity ● Threat ● Not sure

Automation continues to be the top priority for investment over the next year for middle market businesses, especially within the manufacturing industry, as they focus on operational efficiency and continued dealing with labor challenges.

Technology Tools

Businesses are eager to adopt technology to help their businesses, whether it's automating internal functions or embracing the latest in artificial intelligence.

Overall, businesses tend to see the use of AI as an opportunity rather than a threat, a sentiment more common among middle market than small businesses. Many small businesses remain on the sidelines about the rapidly evolving technology.

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"Staying ahead in today's rapidly changing economy requires forward-thinking, nimble leadership that's also grounded in the current realities of today's market. As a bank, we're focused on helping businesses maximize their financial resources so they can respond quickly and creatively to both present challenges and future opportunities."

Bill Barclay
Head of Community & Business Banking
Umpqua Bank



CASE STUDY

Onshoring Supports Sustainability for Purpose-Driven Brand

Presidio Brands / Every Man Jack

Every Man Jack's business is inspired by nature, and reimagining its supply chain is helping the company become more efficient and do better for nature.

The Mill Valley, California-based company has operated for 17 years selling men's personal care and grooming products. The products are made with naturally derived ingredients and scents inspired by the outdoors, like sea salt and sandalwood.

Like many of its peers, Every Man Jack ran into supply chain problems for packaging during the pandemic and needed to shift its practices. Instead of finding a temporary solution, the company saw an opportunity.

"It shed light on how exposed supply chains were, and we wanted to come to terms with that," said Brian Hudon, Vice President of Operations at Every Man Jack, a Presidio Brands company. "We started looking at everything through a different lens, and we really wanted to improve from a sustainability standpoint."

The team began working to find new suppliers, and eventually manufacturers, based in the U.S. This helped reduce both its reliance on overseas companies and its carbon footprint. Around the same time, it began seeking its B-Corporation certification, a designation for companies that meet a set of stringent standards for social and environmental impact. The company was certified in April of 2023.

The company's onshoring shift hasn't been easy. There are a limited number of U.S. companies that produce the packaging needed, and the cost is higher than some overseas producers. It also required considerable time to find new vendors and capital outlay to establish new processes.

But now the company gets more than 90% of its packaging from North America, taking miles out of its supply chain. Hudon said the company has also reduced the number of manufacturing vendors that it uses from about twelve a year ago to four today, which has led to deeper knowledge and stronger relationships with the companies they work with. It also shifted its retail distribution to a third party, which cuts down on its footprint.

"Onshoring does take time," Hudon said. "If you look at the long-term benefits of working with suppliers, you are not spending money on freight and it's simpler. You also get the added benefit of holding less inventory on hand."

The shift to onshoring, among others it has made, has helped satisfy the company's purpose-driven goals. The changes implemented and B-Corporation certification have also led to higher employee satisfaction.

"We've been able to recruit and retain good talent because of the good work we've done," Hudon said. "It fosters a better culture."



Umpqua Bank believes that the best way forward is together. We work closely with you to understand your business, your opportunities, your plans, and your challenges. We'll find solutions to advance your goals with confidence.

**Talk to a banker
today about how we
can help.**

umpquabank.com

Survey Methodology

From July 27 to August 8, 2023, a research firm hired by Umpqua Bank surveyed 1,250 small and middle market business owners and executives. The results included 815 small and 425 middle market businesses. For this survey's purposes, small businesses are defined as those with annual revenue between \$500,000 and \$10 million, and middle market as those with annual revenue between \$10 and \$500 million. The total results were weighted by the number of employees and by region to ensure results are representative. The margin of error for this survey is +/- 2.8%.