

# REGIONAL ECONOMIC CONDITIONS IN THE NINTH DISTRICT

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# DISCLAIMER

The views expressed here are the presenter's and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.



# REGIONAL ECONOMIC CONDITIONS

## REC webinar series from the Minneapolis Fed

- Extension of annual (January) Regional Economic Conditions Conference connecting people & research on Ninth District economy
- Surveys are connecting Minneapolis Fed to more businesses across the Ninth District
- Webinars help disseminate and discuss what businesses are telling us about current conditions





## A BIG THANK YOU TO PARTNERS

- About 50 partnering organizations across the Ninth District
  - Chambers of commerce, economic development organizations, government agencies and other business/workforce organizations
- Partners get our surveys out to their members and contact networks
- Always looking for more partners to get our surveys to more businesses





# PANDEMIC OUTREACH

- Recent survey just one of several, regular quarterly surveys
  - General business (2), construction, hospitality/tourism, & ag
- Today's focus: **General Business Survey**
  - Conducted January 16-22, 2021
  - Total responses: 1,026 from Minnesota, Dakotas, Montana, western Wisconsin and Michigan's Upper Peninsula
- Results are a snapshot
  - Not a scientifically sampled survey
  - Interpret with care







## SURVEY TAKE-AWAYS

- Q4 has been a challenge for many after bounce-back in Q3
- Size, sector, state and ownership are big factors
- While some are doing better than others, by virtually any splice of the data, there are no large groups of business with a net-positive experience in Q4
- Survey a better measure of how the *universe of firms* is doing (in general, not great) than how the overall economy is doing (better than firms overall)





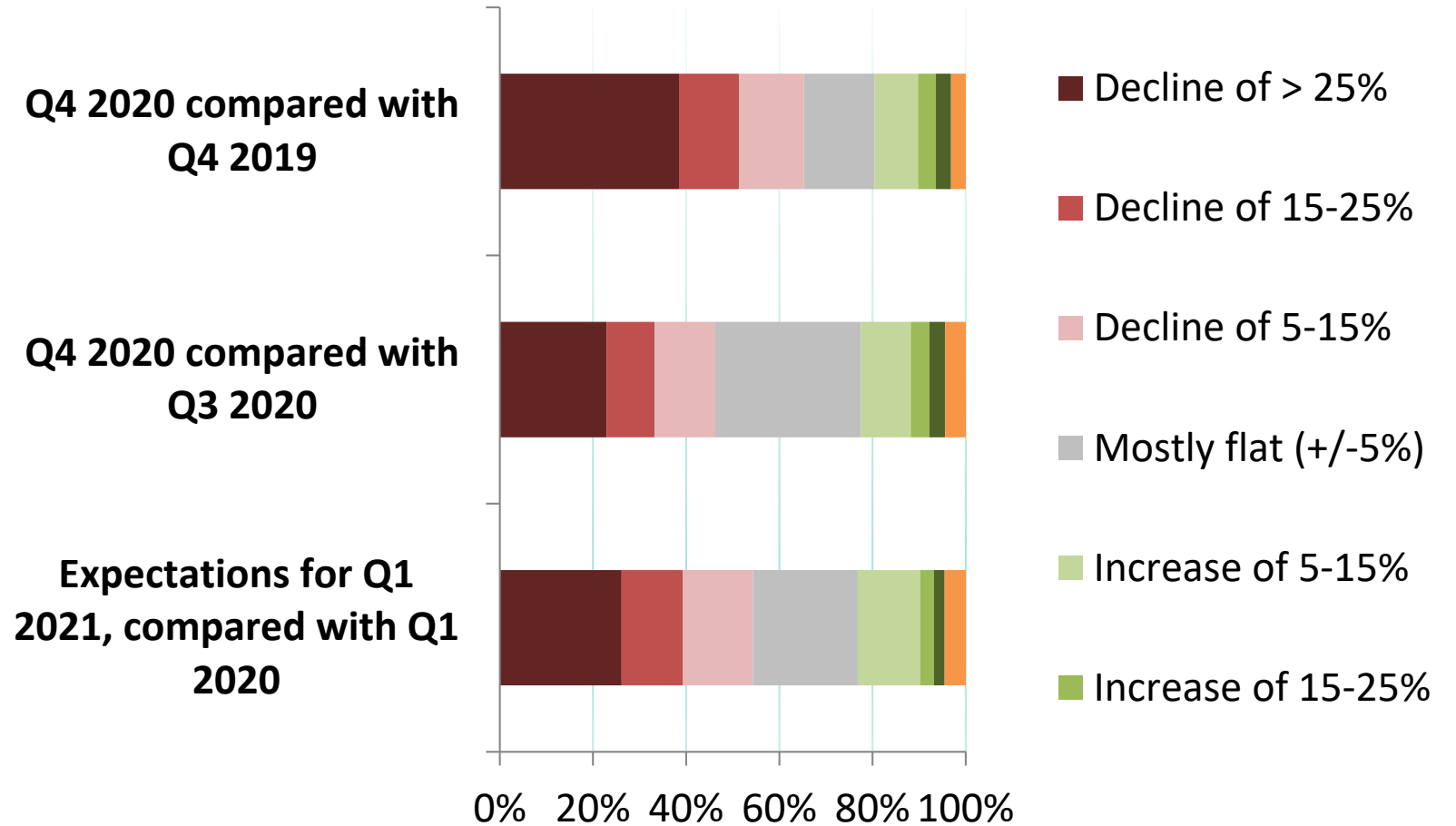
# RECENT REVENUE TRENDS

# OVERALL TREND: RECENT AND FUTURE REVENUE IMPACT

## Q4 2020 revenues, and Q1 2021 expectations

### Q4 revenues:

- Worse than last year for 2/3 of firms
- Net-negative (by a solid margin) compared with Q3
- Negative outlook for Q1

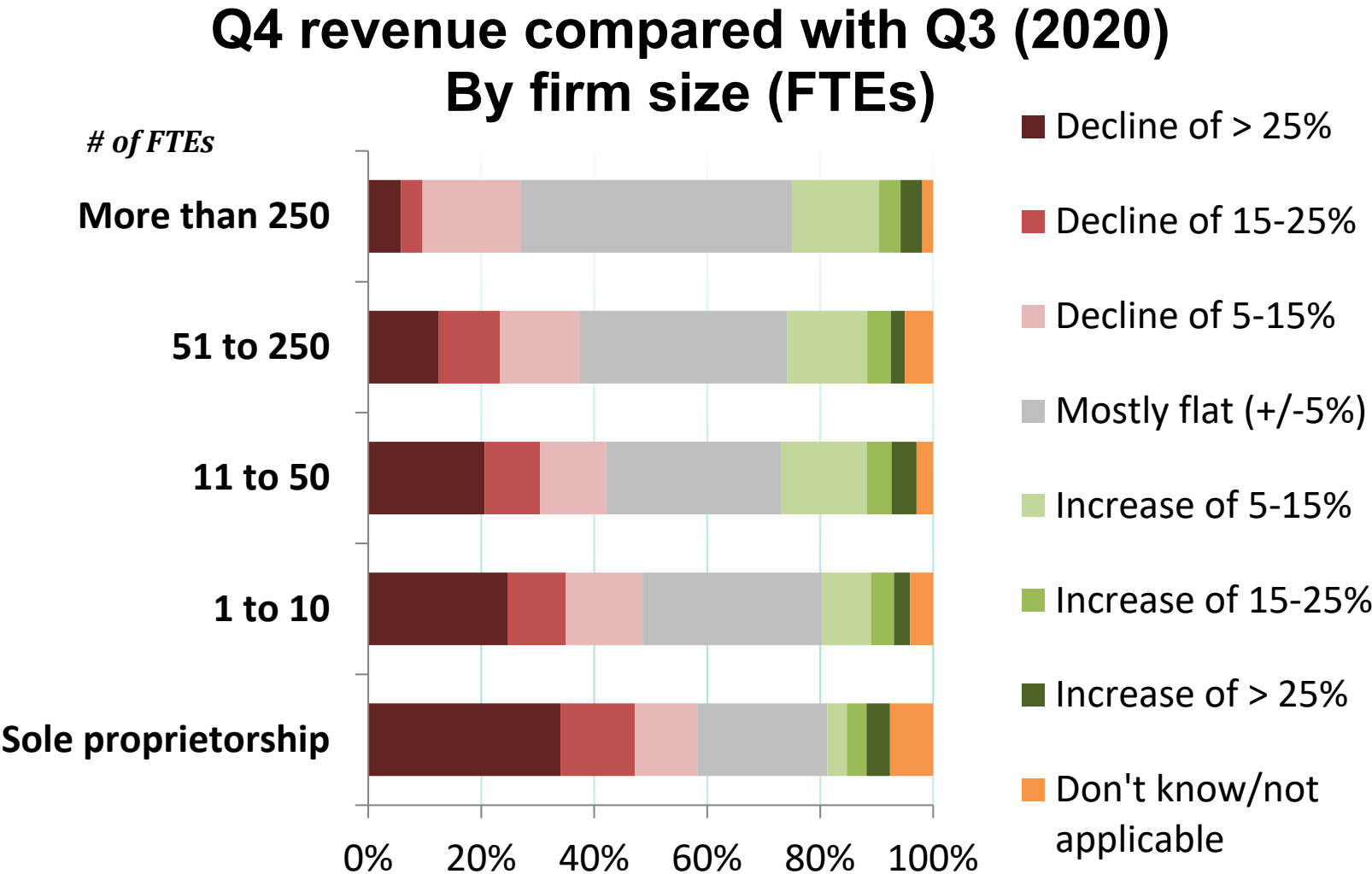




# REVENUE TRENDS, BY FIRM SIZE

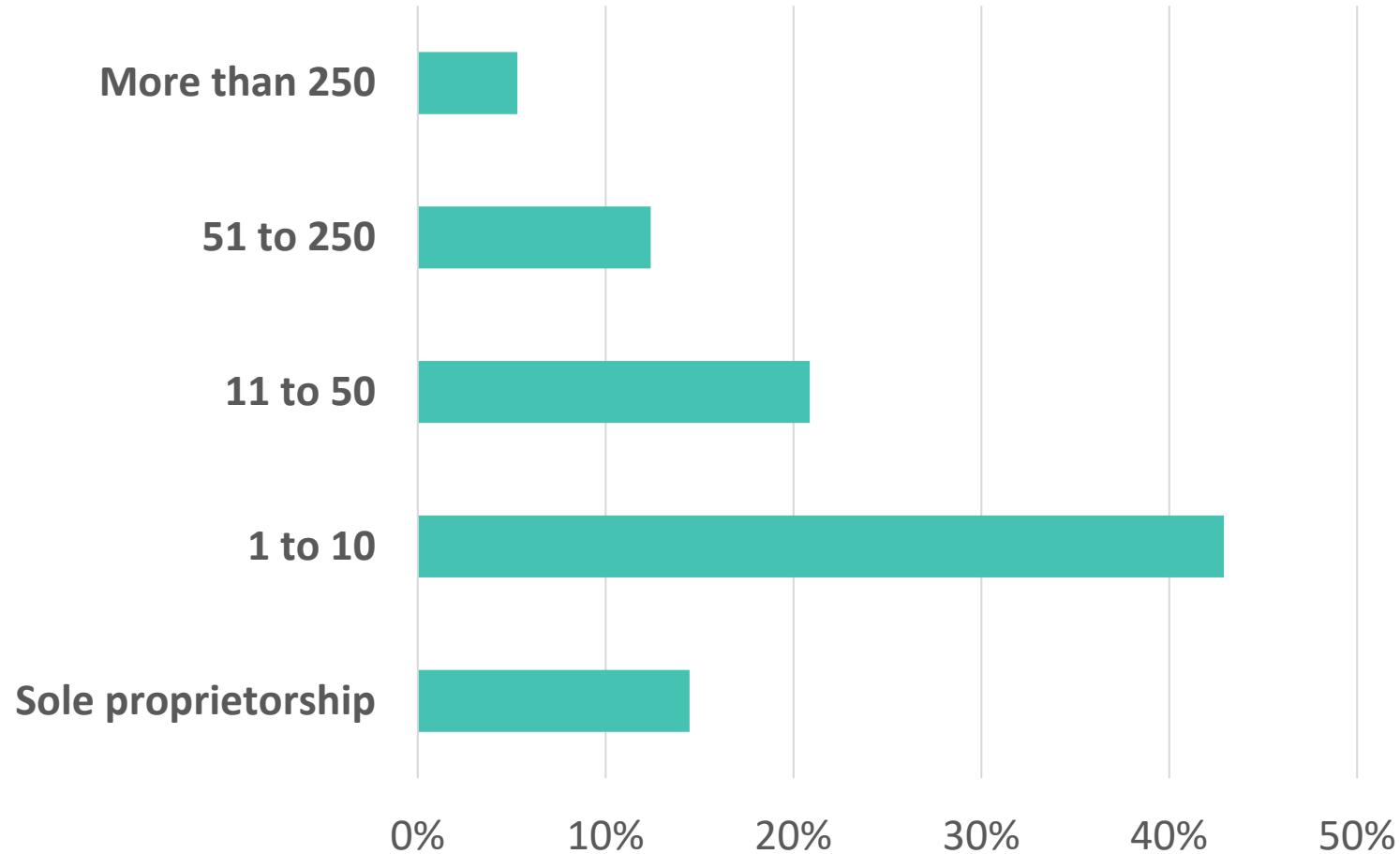
## Size matters

*The most consistent finding in survey:*  
Large firms are faring “less negatively” than small firms and (esp.) sole proprietors



# MORE ON FIRM SIZE

Share of respondents, by firm size



Respondent mix is a good representation of *firms in the economy*

But this *under-represents* the overall economy, because large firms have a much larger overall share of output, employment, etc.



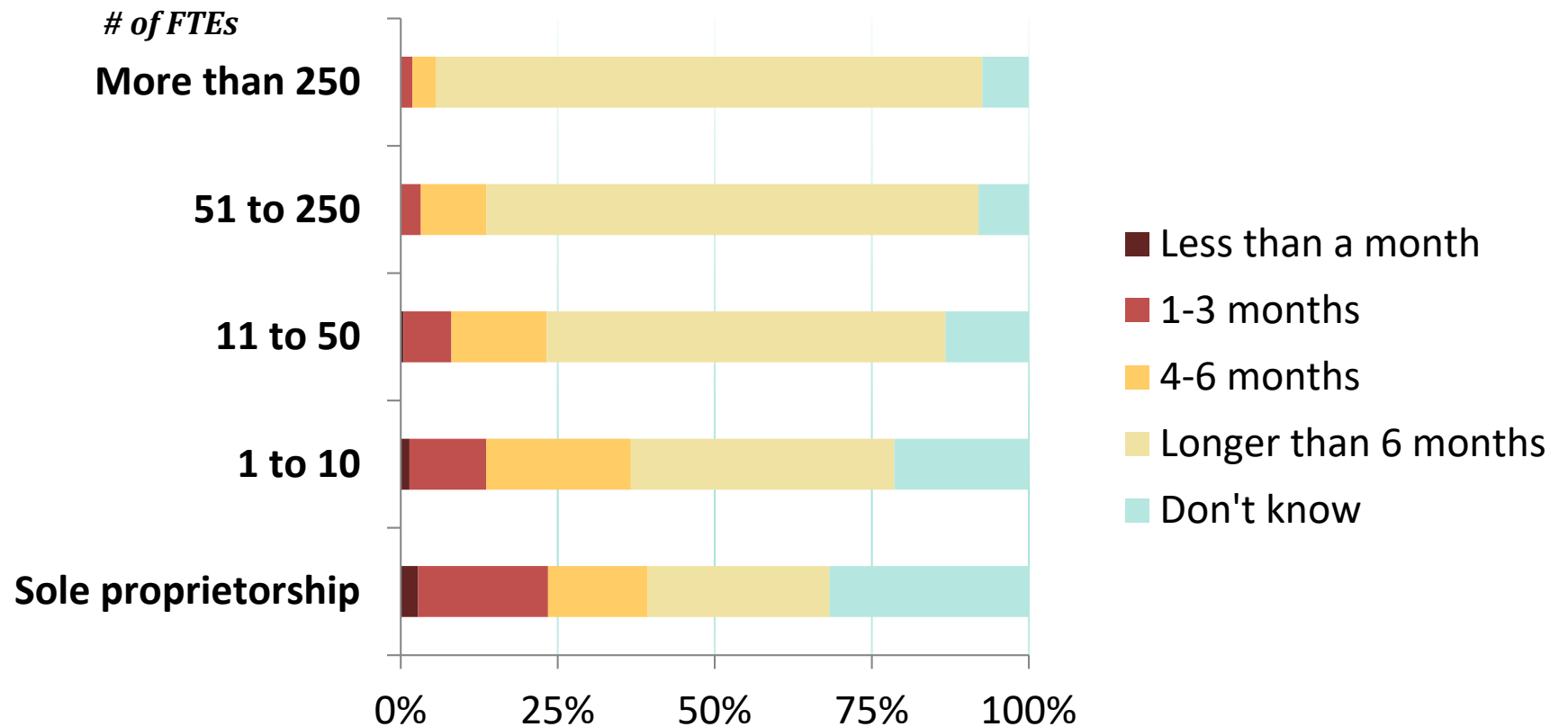
# MORE METRICS BY SIZE: SOLVENCY

Small firms MUCH more likely to report financial instability

Overall: After steady improvement, overall solvency worsened slightly:

May survey:	28%
July survey:	16%
October:	10%
January:	12%

**If current economic conditions persist, how long could your firm stay solvent?**



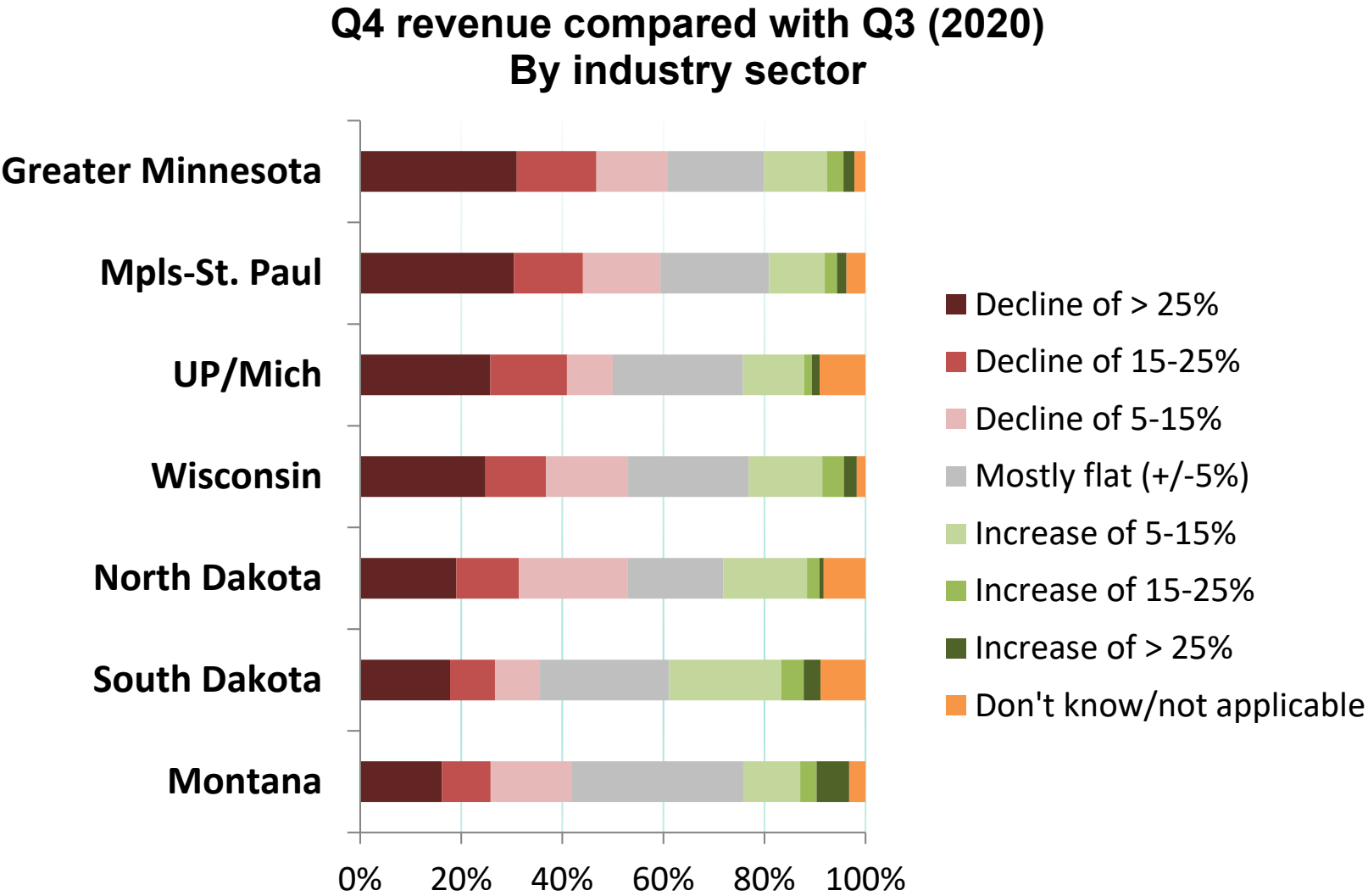
# REVENUE TRENDS, BY STATE

State results:

Geography matters, but with caveats

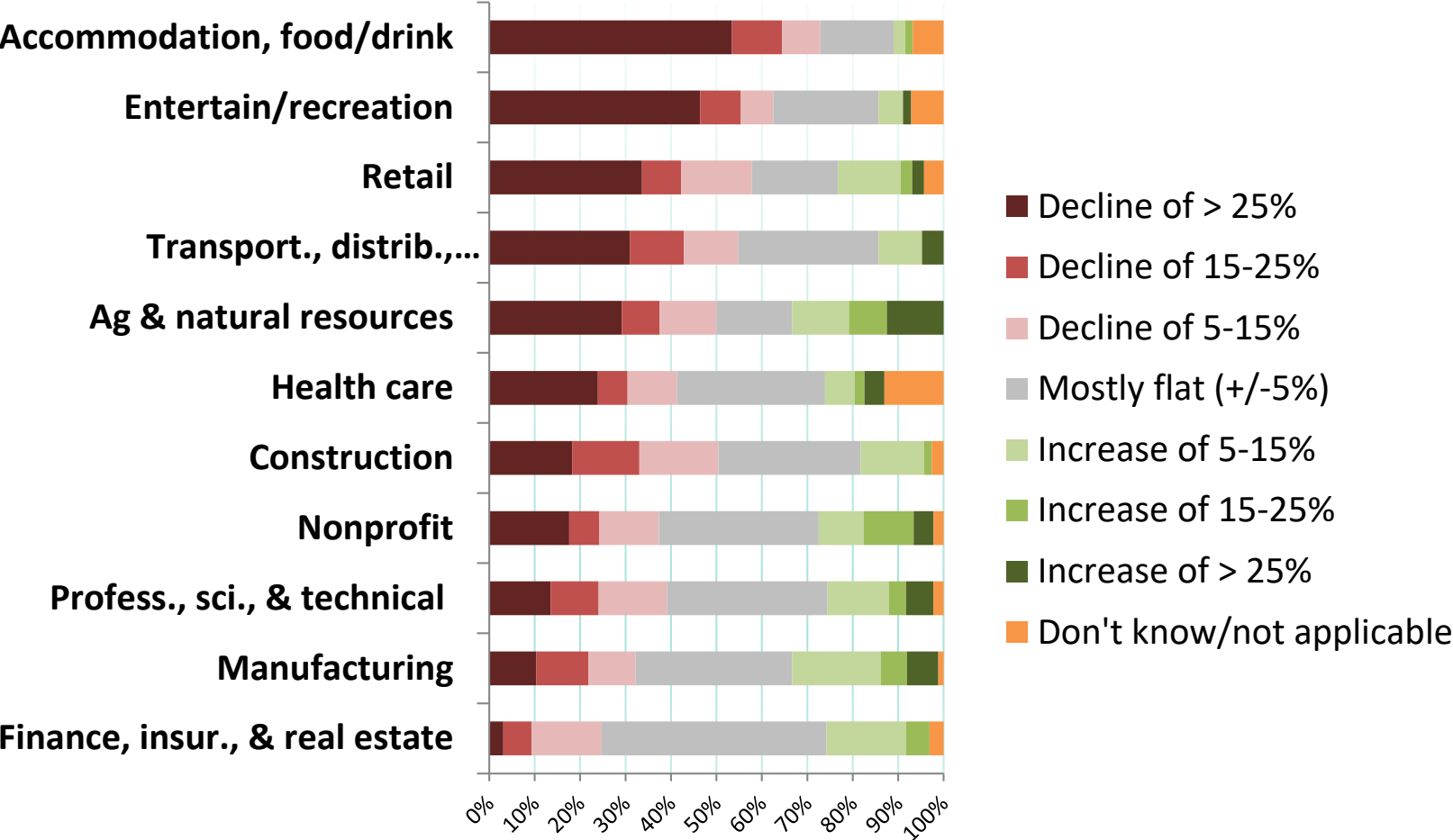
MN & UP/Mich respondents saw higher % of responses in sectors badly hurt

SD – best overall results, but much larger response from finance firms, who fared much better than other sectors



# REVENUE TRENDS, BY SECTOR

## Q4 revenue compared with Q3 (2020) By industry sector



## Sector matters

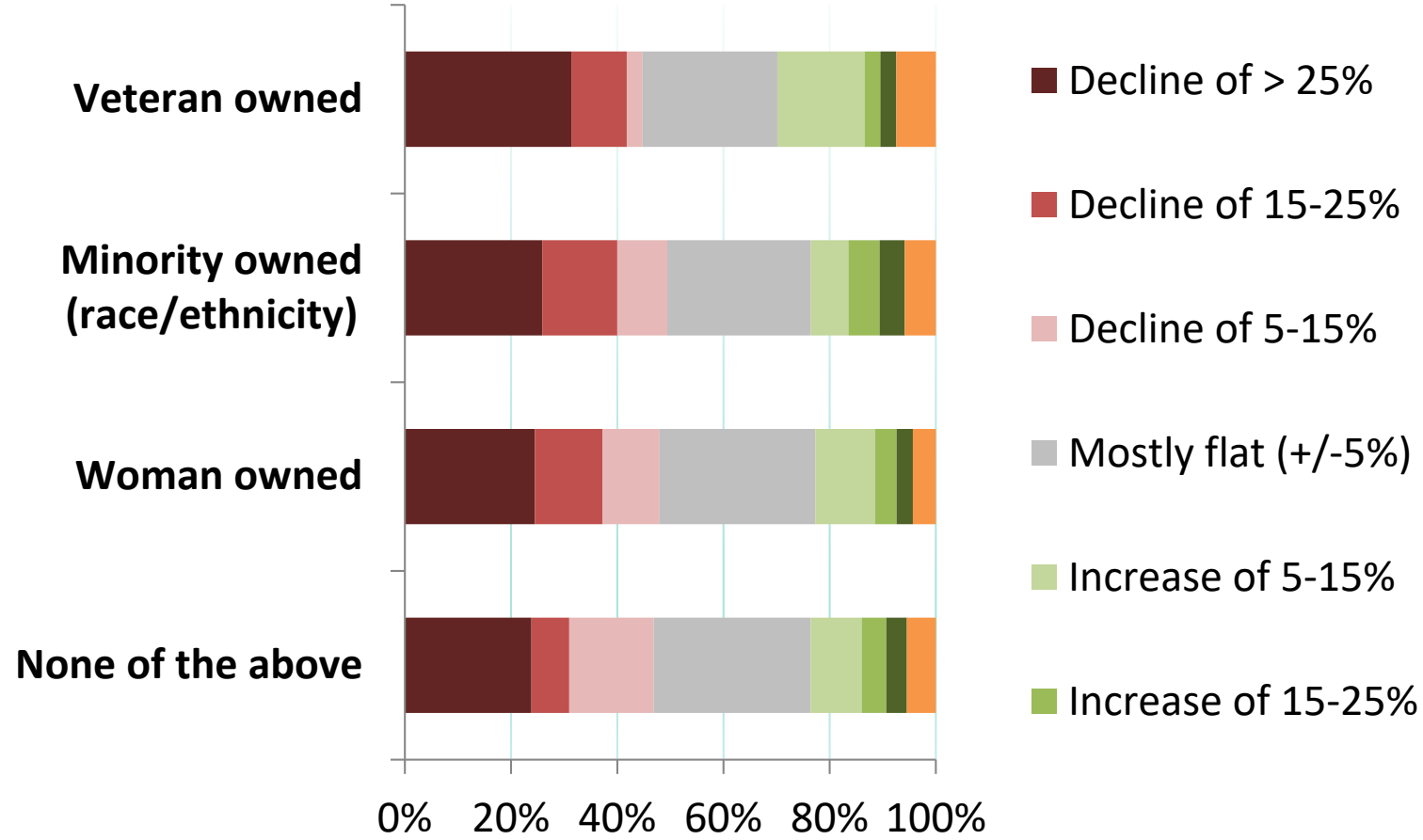
Consumer-facing,  
crowd-dependent types  
of firms  
(accommodation,  
entertainment, retail)  
continue to suffer the  
worst outcomes

# REVENUE TRENDS, BY FIRM OWNERSHIP

The revenue ‘negativity gap’ for minority-owned firms narrowed

But other measures show disparities still present

Q4 revenue compared with Q3 (2020)  
By ownership

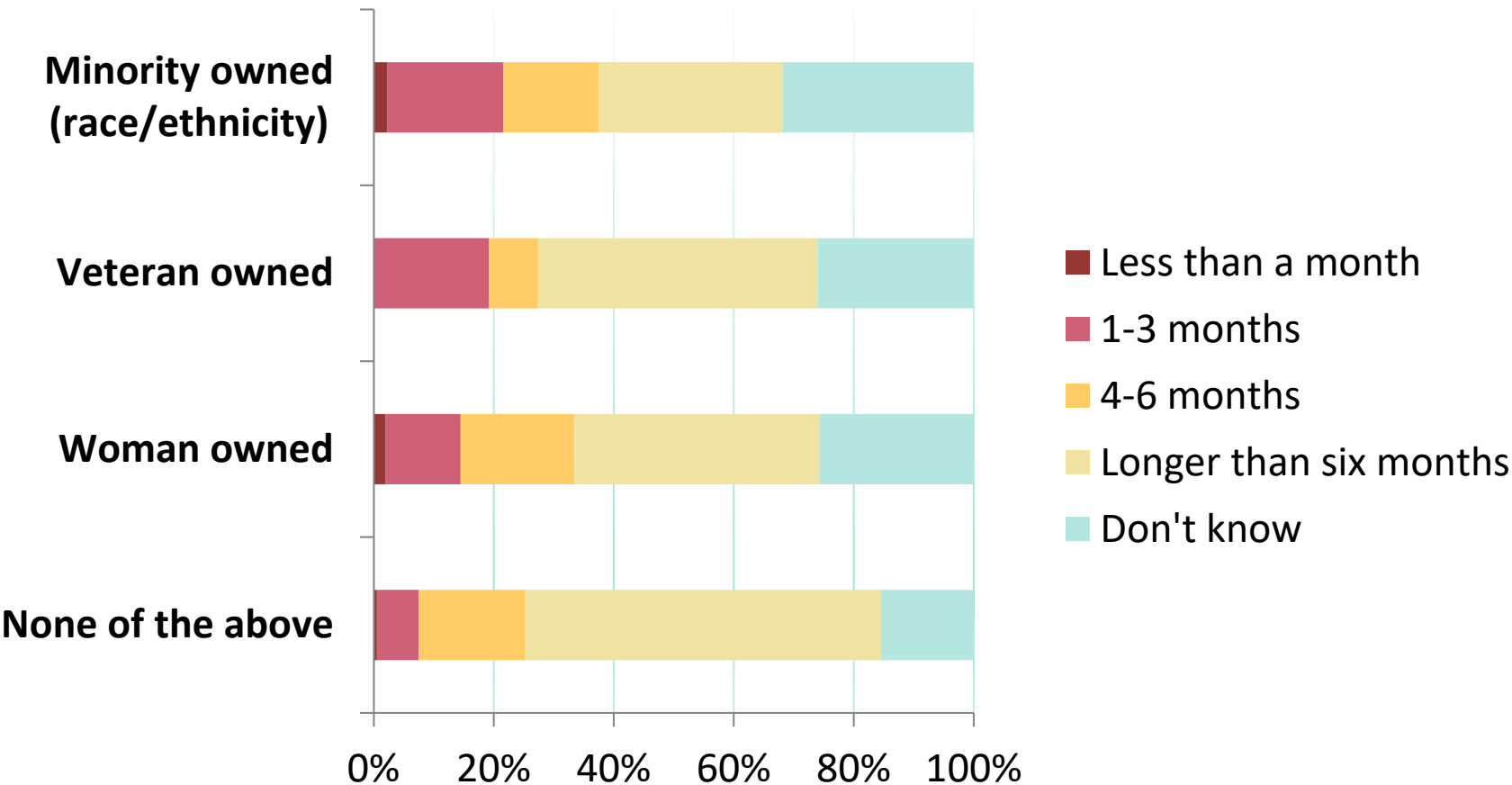


# SOLVENCY BY OWNERSHIP

Insolvency expectations for minority-owned firms *triple* that of white-owned firms

Only some of this can be explained by size factors (minority-owned firms tend to be smaller)

If current economic conditions persist, how long could your firm stay solvent?



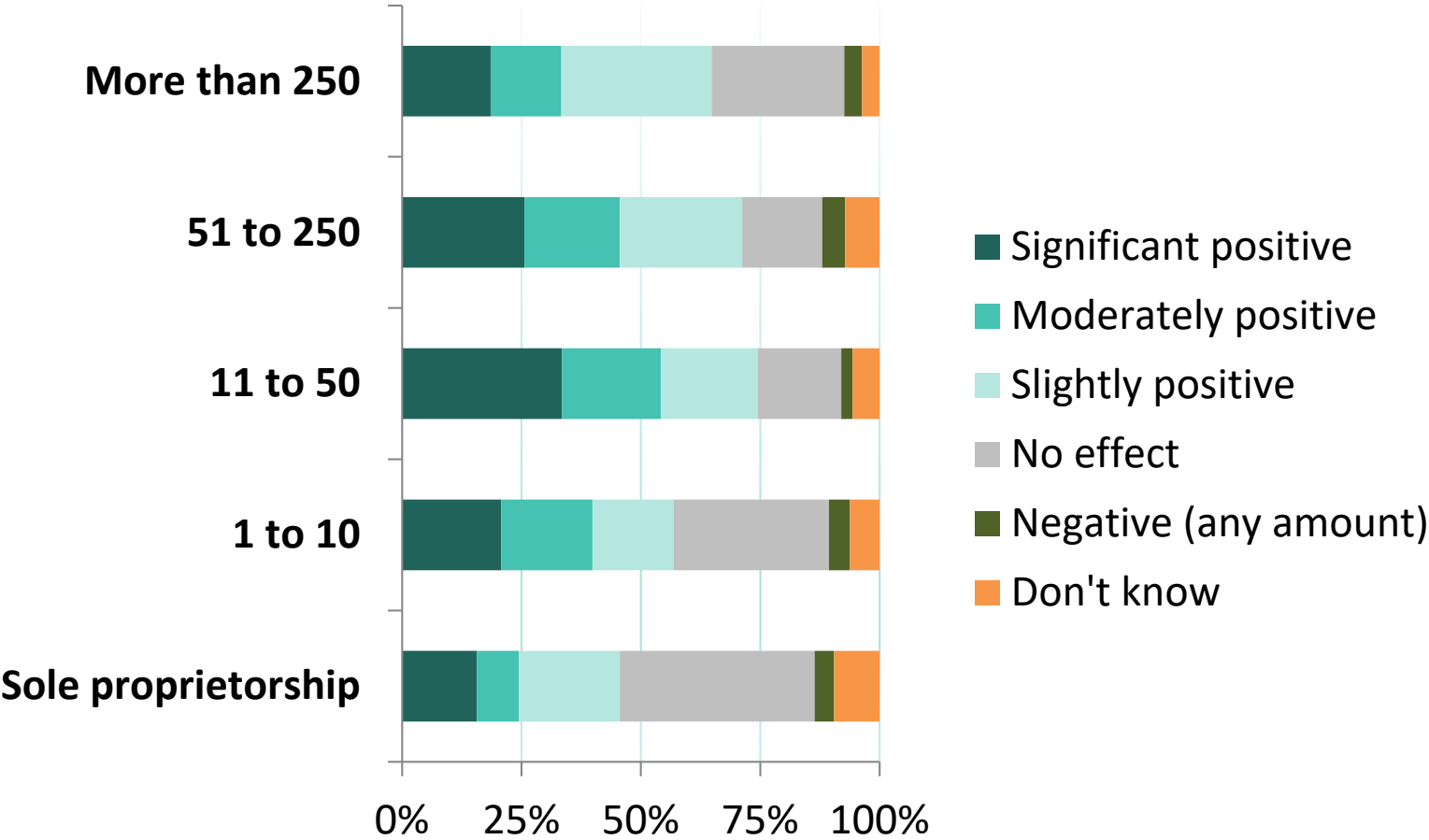




# OTHER RESULTS

# FEDERAL STIMULUS

## Net effect of federal stimulus so far, and expected to have over the next 1-2 months?



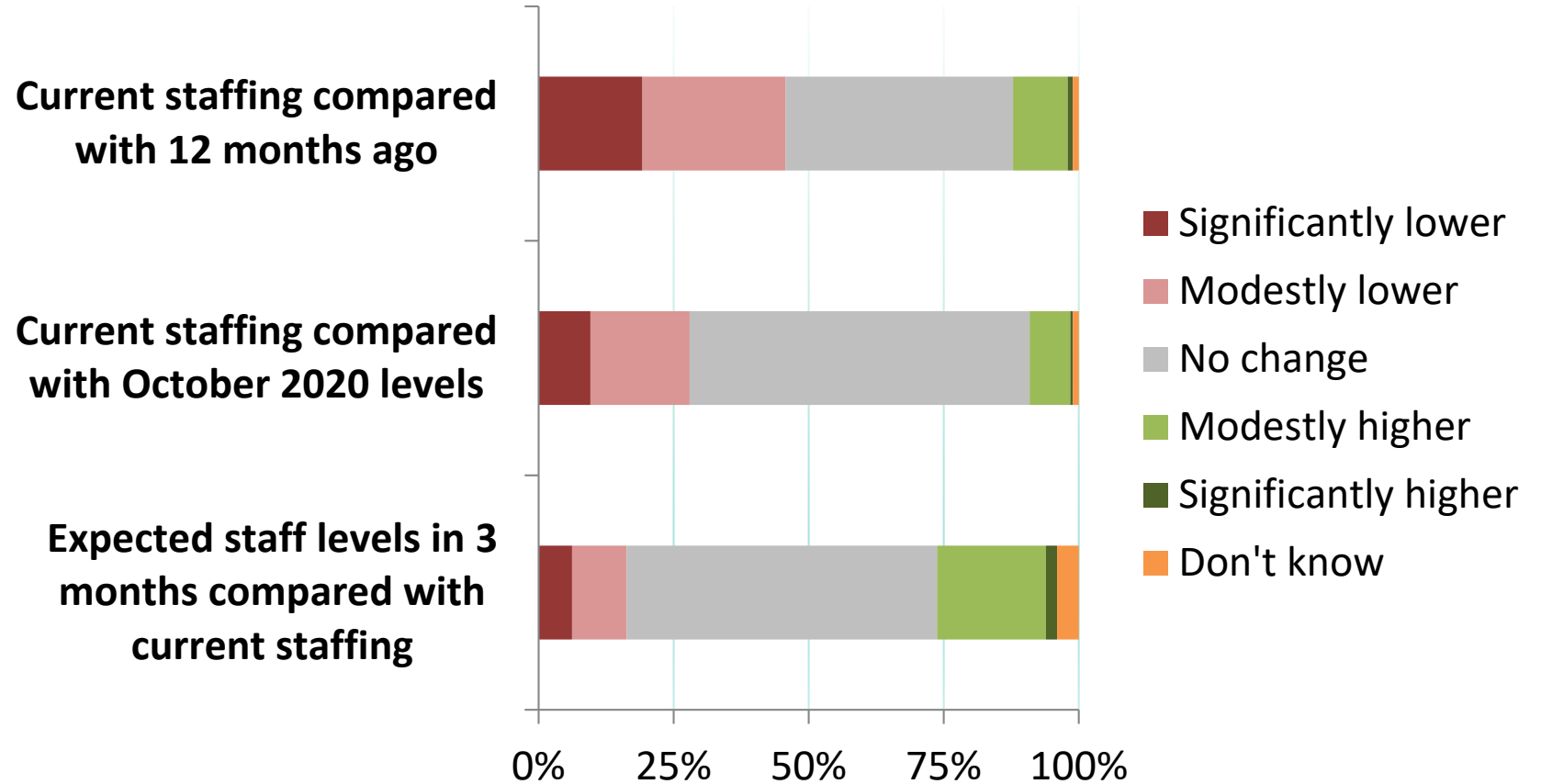
Federal stimulus has done a good job targeting the “middle” of firms, but resources not getting to smaller firms

# WORKFORCE DOWN, BUT HOPEFULLY UP

## Workforce levels:

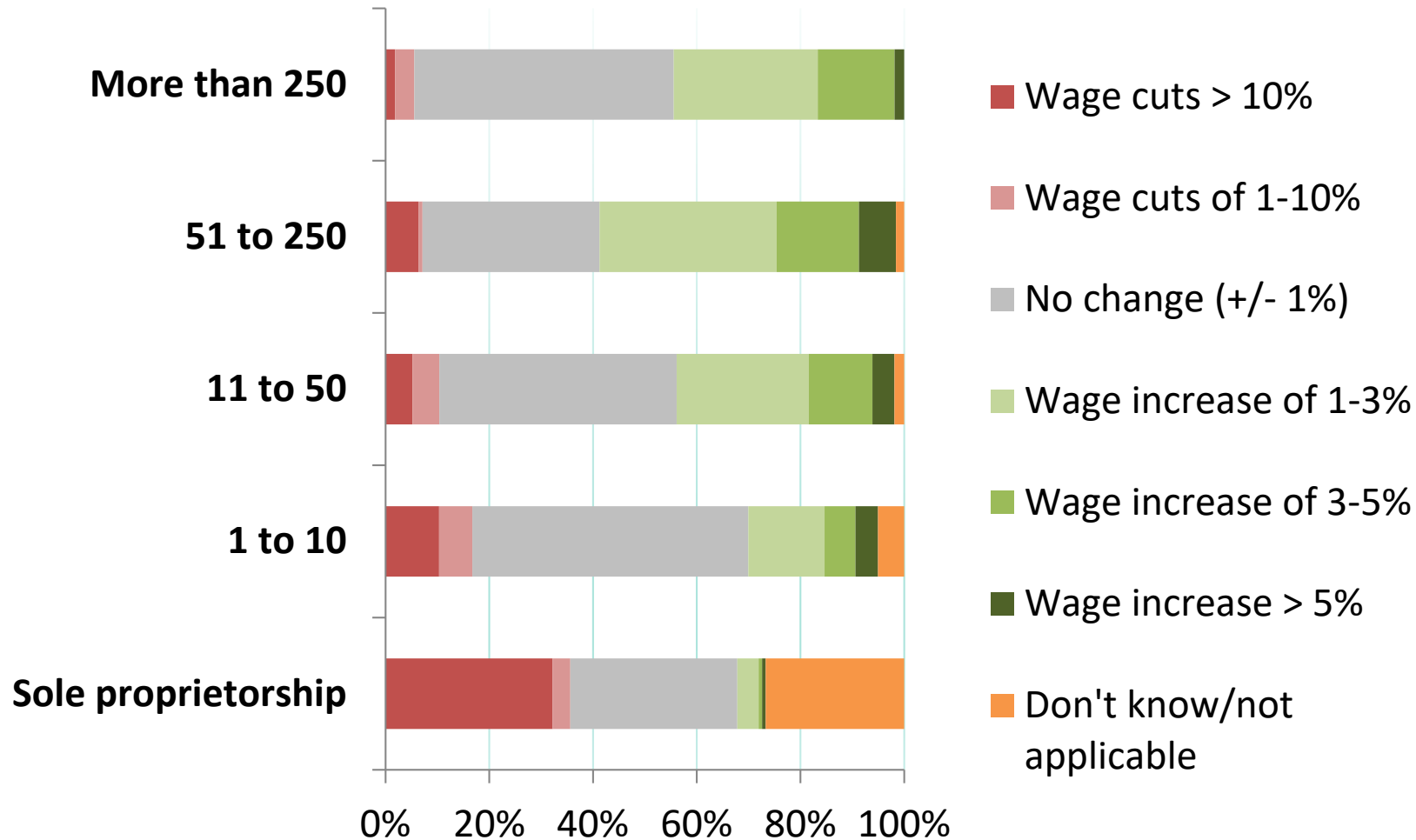
- Lower than Q4 2019 (no surprise)
- Also net-negative compared with October levels
- But short-term hiring outlook improved over October – net positive!

Please estimate current staffing levels, and expectations for the near future



# WAGES

## Current average wages compared with pre-virus levels



**Wage cuts much more likely among very small firms, and especially sole proprietors**

**Moderate wage growth expected going forward among employer firms**

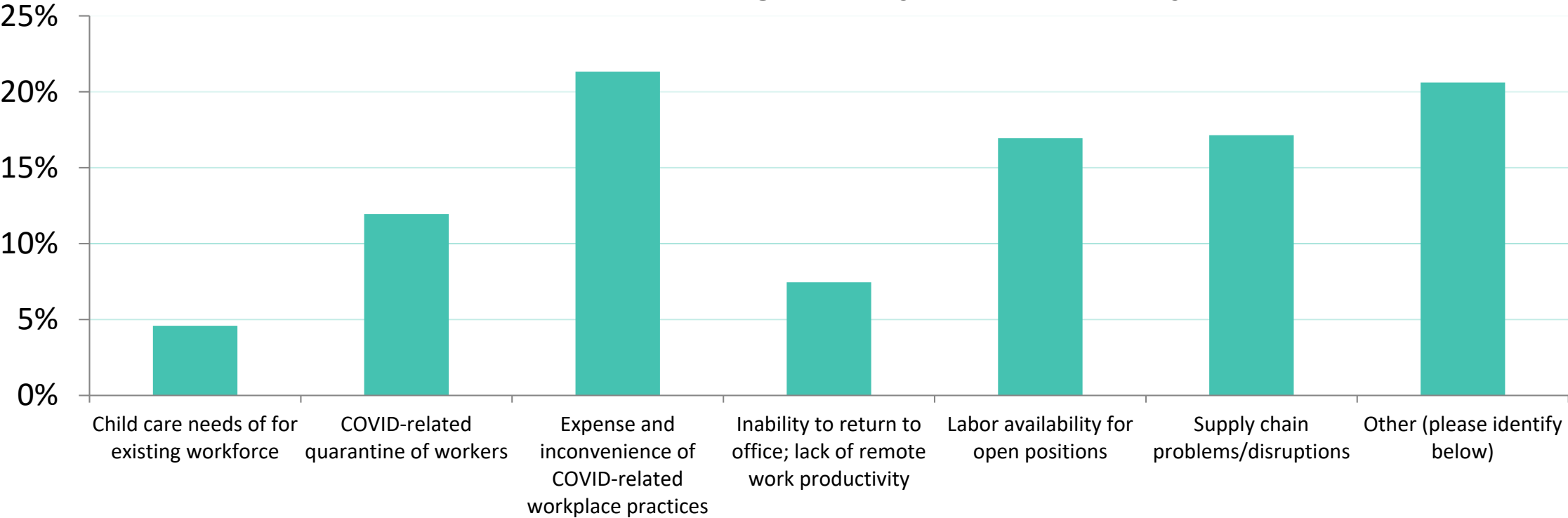


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# CHALLENGES TO OPERATIONS

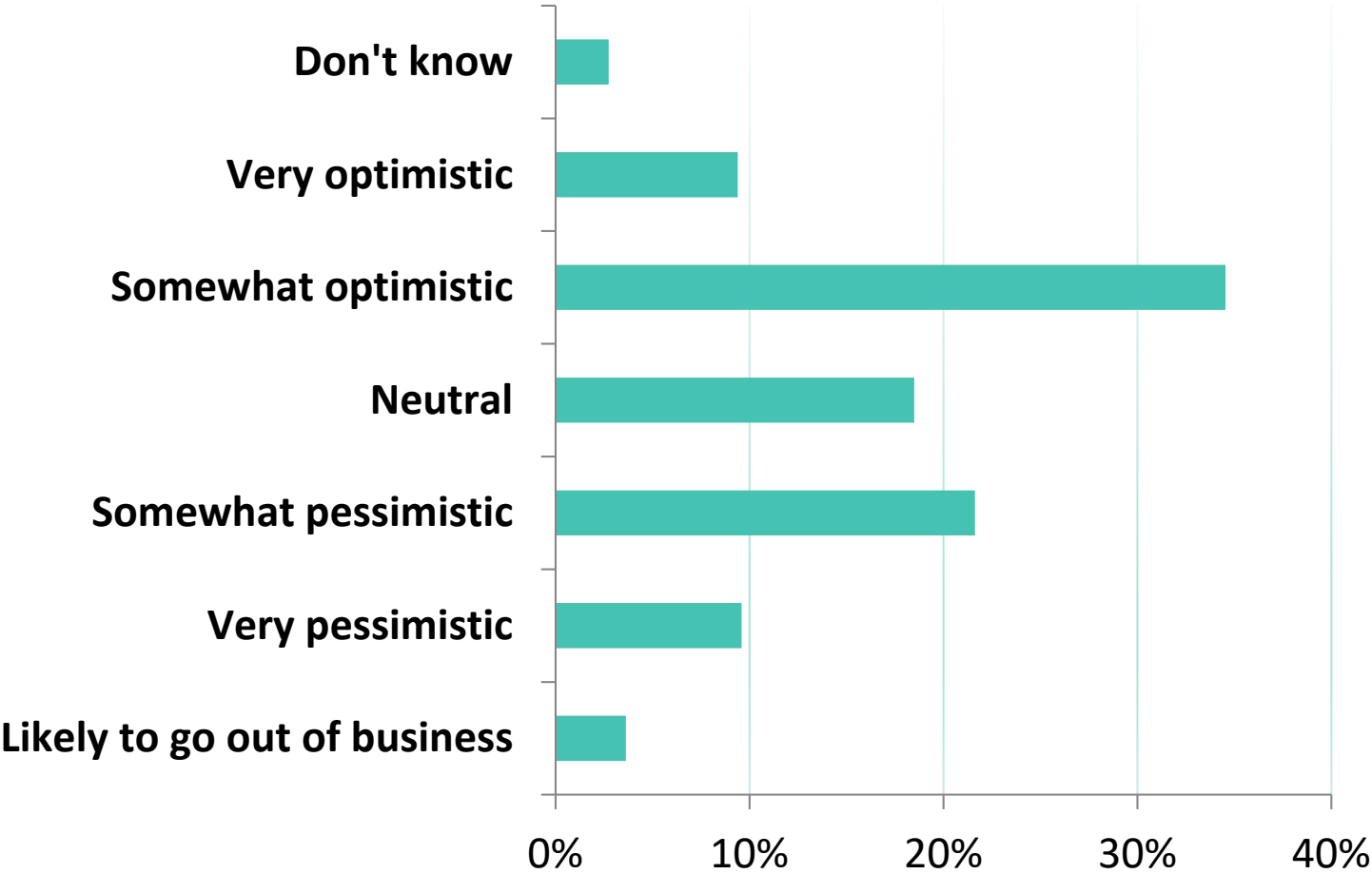
## Firms facing many additional challenges aside from slack demand

**Pick one: Aside from customer demand, what is the greatest challenge to your firm's current operating capacity and productivity?**



# OUTLOOK OFFERS SOME OPTIMISM

## What is your outlook for the first half of 2021



Despite our expectations for Q1 revenue and slightly worse financial stability, outlook was net-positive.

Also an improvement over October



## QUICK TAKE-AWAYS

- Results suggest slow Q4; a sideways step after a strong bounce-back in Q3
- Likely a response to surging infection rates in the middle of the quarter across the District
- Small firms and minority-owned firms hit hardest
- Bc large firms doing better, overall economy likely performing somewhat better than survey results
- Staffing levels soft in Q4, but look to rebound modestly (or better?) in Q1
- Insolvency fears nudged higher
- Optimism! Likely due to vaccine outlook







## **MOVING FORWARD: TRACKING THE COVID ECONOMY**

- **Continued survey work**
  - **Construction firms, Feb. 16**
  - **Hospitality & tourism (MN only), March 2**





**THANK YOU!**

**QUESTIONS?**

**Submit written questions via chat box**



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