THANK YOU TO PARTNERS (AND SURVEY TAKERS!)

- Minneapolis Fed partners with chambers of commerce, government agencies and other business/workforce organizations to distribute survey to businesses across the Ninth District.

- One of largest, regular surveys of business conditions among 12 Reserve District Banks.
Conducted July 10 to July 24, 2023
555 responses from across the Ninth District.
Shout out to South Dakota and Greater Minnesota businesses and partners!
Continued balance by firm size and sector
Results are a snapshot
  • Not a scientifically sampled survey
  • Interpret cautiously
QUICK TAKE-AWAYS

- Most recent 3-month period saw mixed revenue and lower profit trends overall
- Profit trends remains negative
- Large firms continue to outperform smaller firms, but gaps narrowed
- Demand for workers continues, but appears to be moderating
- Higher interest rates now biggest concern; inflation still a concern, but moderating
- Labor availability getting better, but still poor; wage pressure remains quite strong
- Outlook: Overall sentiment is modestly positive
Revenues flat, barbell-like overall, including outlook for coming quarter

Some compositional factors also likely influencing overall sentiment (*more on this in a bit*)
PROFITS DECLINED

Recent quarterly profits compared with...

- Prior quarter
- Same quarter last year
- Expectations for current quarter compared with same quarter last year

Profit trend remains negative across the board
Mostly unchanged from January survey

### Prior quarter
- Significantly lower: 0%
- Modestly lower: 25%
- Mostly flat: 50%
- Modestly higher: 75%
- Significantly higher: 100%

### Same quarter last year
- Significantly lower: 0%
- Modestly lower: 25%
- Mostly flat: 50%
- Modestly higher: 75%
- Significantly higher: 100%

### Expectations for current quarter compared with same quarter last year
- Significantly lower: 0%
- Modestly lower: 25%
- Mostly flat: 50%
- Modestly higher: 75%
- Significantly higher: 100%
DIGGING INTO REVENUE TRENDS
Y-O-Y SURVEY COMPARISON

- Recent year-over-year comparisons mostly flat
- Trend is stable, if unimpressive, during inflation and higher rate environment
Retail had a strong response (100+), especially in SD.

Sector slowed; larger share of sample pulls overall results lower.

Retail & accommodation-food competing against a strong 2022 summer.
Responses by state are fairly idiosyncratic, so interpret with caution.

Examples:
- South Dakota respondents heavily weighted in retail and accommodation/food service (which were comparatively slower)
- North Dakota
- Montana
- U.P./Michigan
- Greater Minnesota
- Mpls-St. Paul
- South Dakota

[Bar chart showing recent revenue compared with the same quarter last year for different states.]

- **South Dakota:**
  - Significant decline
  - Moderate decline
  - Mostly flat
  - Moderate increase
  - Significant increase

- **Wisconsin:**
  - Significant decline
  - Moderate decline
  - Mostly flat
  - Moderate increase
  - Significant increase

- **U.P./Michigan:**
  - Significant decline
  - Moderate decline
  - Mostly flat
  - Moderate increase
  - Significant increase

- **Greater Minnesota:**
  - Significant decline
  - Moderate decline
  - Mostly flat
  - Moderate increase
  - Significant increase

- **Mpls-St. Paul:**
  - Significant decline
  - Moderate decline
  - Mostly flat
  - Moderate increase
  - Significant increase

- **Montana:**
  - Significant decline
  - Moderate decline
  - Mostly flat
  - Moderate increase
  - Significant increase

- **North Dakota:**
  - Significant decline
  - Moderate decline
  - Mostly flat
  - Moderate increase
  - Significant increase
Larger firms faring only modestly better in revenues

Given outsized role in economy, that’s also why we’re seeing net output growth
Profits broadly negative

Flip-flops revenue trend – larger firms a bit more likely to report falling profits

Trend might have ‘comparative’ component (e.g. large firms saw big profits earlier in pandemic)
WORKFORCE & WAGE TRENDS
LABOR DEMAND

Most firms still hiring in some capacity

BUT: Notable shift lower (yoy) for those hiring more full-time workers

Hiring related to turnover:
- Jan ’22: 25%
- July ’22: 35%
- July ’23: 40%

Describe hiring demand at your company
(Check all that apply)

- Cutting employees
- Not hiring
- Hiring to replace turnover
- Hiring seasonal and/or part-time workers
- Hiring additional full-time workers

Graph showing hiring demand for July 2022 and July 2023.
More firms persistently reporting modestly lower staffing levels

How do we square that with steadily rising total employment?
LARGE FIRMS RESPONSIBLE FOR RISING EMPLOYMENT

Large firms responsible for outsized share of overall employment

Only large firms reported net increases in staffing levels

Suggests real hiring difficulty for small firms

Current staffing levels compared with 3 months ago

- More than 250
  - Significantly lower: 0%
  - Modestly lower: 25%
  - Little or no change: 50%
  - Modestly higher: 75%
  - Significantly higher: 100%

- 51 to 250
  - Significantly lower: 0%
  - Modestly lower: 0%
  - Little or no change: 50%
  - Modestly higher: 25%
  - Significantly higher: 25%

- 11 to 50
  - Significantly lower: 0%
  - Modestly lower: 0%
  - Little or no change: 50%
  - Modestly higher: 75%
  - Significantly higher: 0%

- 1 to 10
  - Significantly lower: 0%
  - Modestly lower: 0%
  - Little or no change: 75%
  - Modestly higher: 25%
  - Significantly higher: 0%

- Sole proprietor
  - Significantly lower: 0%
  - Modestly lower: 0%
  - Little or no change: 25%
  - Modestly higher: 50%
  - Significantly higher: 25%
Pullback in hiring could be due, in part, to compositional effects in sample (high numbers in retail, accommodation-food).

Expected future staffing in 6 months compared with current staffing:

- Significantly lower
- Modestly lower
- No effect/no change
- Modestly higher
- Significantly higher
- Don't know
CHALLENGES & OTHER METRICS
CHALLENGES TO OPERATIONS

Two greatest challenges to your business

Higher Interest Rates/Finance Costs
Labor availability for open positions
Price increases for material/nonlabor inputs
Government taxes and regulation
Retention of current employees
Supply chain disruptions
Making necessary capital expenditures
Other (please identify below)
Employee absences
Covid/Omicron-related costs and other impacts

Shifting challenges

- Higher interest rates now the top concern
- Labor tightness persists
- Inflation concerns improved
- Supply chain concerns continue to ebb
Wholesale and retail inflation improving, slowly, esp. at retail level

Non-labor input prices (wholesale)

- Higher by > 10%
- Higher by 5-10%
- Higher by 1-5%
- Mostly flat (+/- 1%)
- Lower by 1-5%
- Lower by > 5%
- Lower by 5-10%
- Lower by >10

Final prices to customers (retail)

- Higher by > 10%
- Higher by 5-10%
- Higher by 1-5%
- Mostly flat (+/- 1%)
- Lower by 1-5%
- Lower by > 5%
- Lower by 5-10%
- Lower by >10
LABOR AVAILABILITY

• Labor availability improving, still difficult
• Firms most often cite skill mismatches, low volume of applicants, & high wage expectations

If hiring, how easy is it to find necessary labor?

- Extremely difficult: 45% (Jul-22) vs. 35% (Jul-23)
- Moderately difficult: 30% (Jul-22) vs. 25% (Jul-23)
- Slightly difficult: 10% (Jul-22) vs. 10% (Jul-23)
- Not difficult: 5% (Jul-22) vs. 5% (Jul-23)
- Not Hiring: 10% (Jul-22) vs. 10% (Jul-23)

Hiring: Biggest challenge in finding new employees

- Applicants do not have right skills or experience: 35% (Jul-22) vs. 30% (Jul-23)
- Not enough applicants: 30% (Jul-22) vs. 25% (Jul-23)
- Wage expectations too high: 25% (Jul-22) vs. 20% (Jul-23)
- Applicants looking for schedule flexibility not offered: 5% (Jul-22) vs. 5% (Jul-23)
- Applicants looking for benefits not offered: 5% (Jul-22) vs. 5% (Jul-23)
- Other: 5% (Jul-22) vs. 5% (Jul-23)
WAGE PRESSURE STILL STRONG

Wage growth stabilizing, but at high levels
Larger firms more likely to give raises, and to give bigger raises

Average wages compared with one year ago

12-month wage change, by firm size
OUTLOOK
OUTLOOK: SLIGHTLY IMPROVED, POSITIVE

Compared with last summer, outlook marginally better and moderately optimistic.

What is your outlook for the near future?

- Likely out of business
- Very pessimistic
- Somewhat pessimistic
- Neutral
- Somewhat optimistic
- Very optimistic
- Don’t know
FINAL THOUGHTS

- Revenues were mixed among all respondents, and firms continued to see profits decline.
- Hiring demand remains solid but has pulled back.
- Inflation continued to decline modestly, and more so at retail level; bigger concern now is higher interest rates and financing costs.
- Labor availability still a problem, but improving.
- Wage pressure has plateaued at pretty high levels.
- Outlook is net positive.
- Overall, while results are hardly stellar, there is a certain amount of *stability* in what firms reported.
OTHER BUSINESS SURVEYS

- Hospitality & tourism: In the field now
- Construction: November
- General Business (this one): January
- Monthly business pulse survey
WANT TO BECOME A SURVEY PARTNER?
SCAN TO LEARN MORE:
THANK YOU!

QUESTIONS?