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.
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.
TODAY’S FOCUS

GENERAL BUSINESS SURVEY

- Conducted January 17 to February 8, 2023
- 535 responses from across the Ninth District, with improved balance across states
- Shout out to North Dakota and South Dakota 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 revenue and profit trends continue to slow overall
● However, demand for workers continues
● Prices remain a major challenge; higher interest rates also becoming bigger concern
● Labor availability still poor, and a top concern; wage pressure remains quite strong
● Employers report many new efforts to attract labor; wage increases top the list
● Outlook improved over July survey, and overall sentiment is net positive
RECENT REVENUE & PROFIT TRENDS
Recent and Future Revenue

Revenues down, both quarter-over-quarter and year-over-year

Some optimism: Revenues expected to flip positive over coming 3 months

Recent revenue compared with...

- Prior quarter
- Same period last year
- Next 3 months compared with last year

Significant decline
Moderate decline
Mostly flat
Moderate increase
Significant increase
Recent profits declined, both q-o-q & y-o-y

Small improvement expected in coming quarter, but still net-negative

Recent profits compared with ...

- Prior quarter
- Same period last year
- Next 3 months compared with last year

Significant decline
Moderate decline
Mostly flat
Moderate increase
Significant increase

Recent profits compared with...

Next 3 months compared with last year

Significant decline
Moderate decline
Mostly flat
Moderate increase
Significant increase

Prior quarter

Same period last year

Next 3 months compared with last year
OTHER REVENUE SNAPSHOTs
BY FIRM TRAITS
During pandemic, larger firms have seen better results, and that’s continuing. Given outsized role in economy, that’s also why we’re seeing net output growth. Minority-owned firms tend to be smaller; 65% saw negative y-o-y revenue trends.
PROFITS BY FIRM SIZE

Profits similar to revenue trend, only worse (and more important)

Slightly more firms in every category saw a drop in profits
REVENUE TRENDS, BY SECTOR

FIRE taking a hit with higher interest rates & slowing activity. Some consumer areas possibly down due to very strong demand a year earlier, and recent slowing.

Manufacturing & ag performing well.

Note: small sample sizes for many sectors; please interpret carefully.
SOME GOOD NEWS!

WORKFORCE & WAGE TRENDS
Most firms hiring in some capacity!

Small pullback overall; seasonality likely plays role

Close 30% trying to expand full-time headcount; few cutting

More reporting turnover hiring
- Jan ’22: 25%
- July ’22: 35%
- Jan ’23: 39%
Overall, it looks like firms are persistently seeing falling staffing levels.

How do we square that with steadily rising total employment?
Large firms responsible for outsized share of overall employment

Only larger firms are reporting net increases in staffing levels

Suggests real hiring difficulty for small firms
The persistence of hiring optimism over time suggests that actual hiring is simply very difficult.

Expected future staffing compared with current staffing:

- **May-20**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Jul-20**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Oct-20**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Jan-21**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Apr-21**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Jul-21**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Oct-21**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Jan-22**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Jul-22**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know
- **Jan-23**: 50% Significantly lower, 25% Modestly lower, 25% Little/no change, 0% Modestly higher, 0% Significantly higher, 0% Don't know

Note: Question stopped offering “don’t know” answer option after April 2021 survey.
CHALLENGES & OTHER METRICS
CHALLENGES TO OPERATIONS

Two greatest challenges to your business?

- Price increases for nonlabor inputs
- Labor availability for open positions
- Higher interest rates
- Supply chain disruptions
- Government regulation or other policies
- Retention of current employees
- Making necessary capital expenditures
- Other - please specify
- Employee absences
- Costs related to COVID-19

Some shifting & flattening of response

- Inflation is #1 concern
- Labor tightness persists
- Higher interest rates leaps into Top 3
- Supply chain concerns ebbed, but not necessarily because of big improvements
Wholesale and retail inflation persisting, improving more at retail level
Supply chains improving, slowly, but still problematic, particularly for high-goods kinds of businesses.
LABOR AVAILABILITY IMPROVED, STILL TIGHT

Modest improvement, especially among those citing ‘extreme’ difficulty

But labor unavailability still locked in; similar to levels in Spring 2021

If hiring, how would you assess current ability to find and hire necessary labor?

- Extremely difficult
- Moderately difficult
- Slightly difficult
- Not difficult

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EMPLOYER RESPONSES TO LABOR NEEDS

what has company done in the last six months to address labor needs? (check all that apply)

- increased wages
- increased work/schedule flexibility
- increased training budget and activities for ALL...
- improved/accelerated process for new hires
- offering more on-site perks (free food, drinks, other)
- outsourced work
- lowered experience requirements
- increased remote/work-from-home options
- offered hiring bonuses
- offered retention or attendance bonuses
- increased automation
- improved health insurance coverage
- increased paid internship opportunities
- increased retirement benefits
- lowered education requirements
- help with worker transportation
- removed or reassessed drug screening
- lowered or reassessed criminal background checks
- increased subsidies or other help for child care
- increased remote/work-from-home options
- offering more on-site perks (free food, drinks, other)
- offered hiring bonuses
- offered retention or attendance bonuses
- increased automation
- improved health insurance coverage
- increased paid internship opportunities
- increased retirement benefits
- lowered education requirements
- help with worker transportation
- removed or reassessed drug screening
- lowered or reassessed criminal background checks
- increased subsidies or other help for child care
- other

employer efforts start with increased wages and work flexibility, & then a smorgasbord of other efforts

large firms more able to experiment

unknown efficacy: hard to know which efforts are most successful at improving labor attraction
WAGE PRESSURE STILL STRONG

Strong wage growth continues
Larger firms more likely to give raises, and to give bigger raises

Average wages compared w/ one year ago

- Decline
- Little change (+/- 1%)
- Increase < 5%
- Increase > 5%

12-month wage change

- Wage cut
- Mostly flat
- Increase 1-3%
- Increase 3-5%
- Increase >5%

FTEs

- More than 250
- 51 to 250
- 11 to 50
- 1 to 10
OUTLOOK IMPROVED, POSITIVE

Outlook saw small improvement over July survey, and is moderately optimistic overall.

Possible seasonality; the coming of spring and higher activity in some sectors.
FINAL THOUGHTS

- The bad: Revenues and profits both fell
- The good: Hiring demand remains strong
- Inflation curbed (only) slightly, and more so at retail level; concern rising re: interest rates
- Supply chain continues to heal, slowly
- Labor availability an ongoing challenge, compounded by wage pressure
- Outlook improved
OTHER BUSINESS SURVEYS

- Hospitality & tourism: In the field now
- Construction: mid-April
- Professional services: May
- General Business (this one): July
- Monthly pulse survey: If interested in being on panel, please contact us
- If there are business groups that would like to participate in future surveys, or might be interested in similar presentations, please contact us
  - ron.wirtz@mpls.frb.org
  - haley.chinander@mpls.frb.org
THANK YOU!

QUESTIONS?