REGIONAL ECONOMIC CONDITIONS IN THE NINTH DISTRICT

GENERAL BUSINESS SURVEY

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Haley Chinander
Research Assistant

Ron Wirtz
Regional Outreach Director

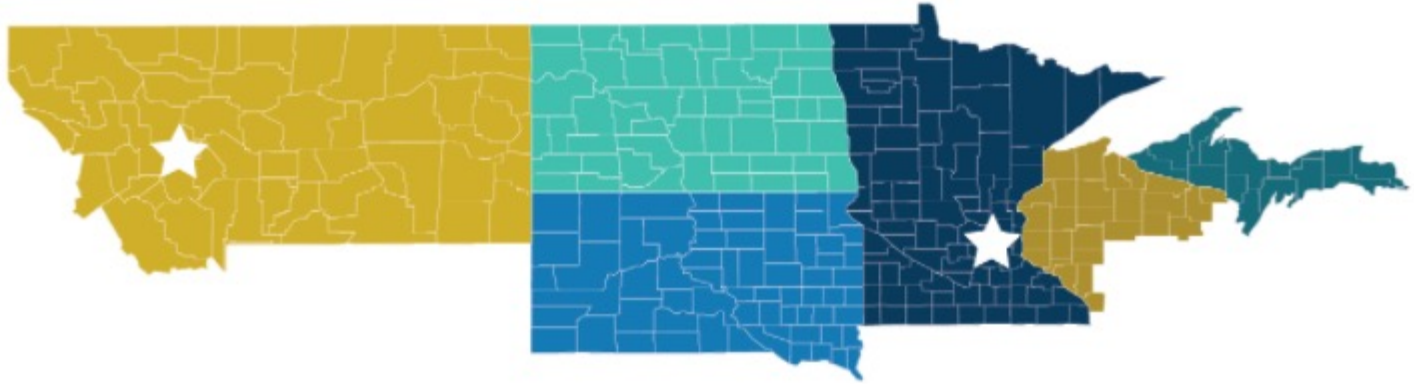
FEDERAL RESERVE BANK OF MINNEAPOLIS

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

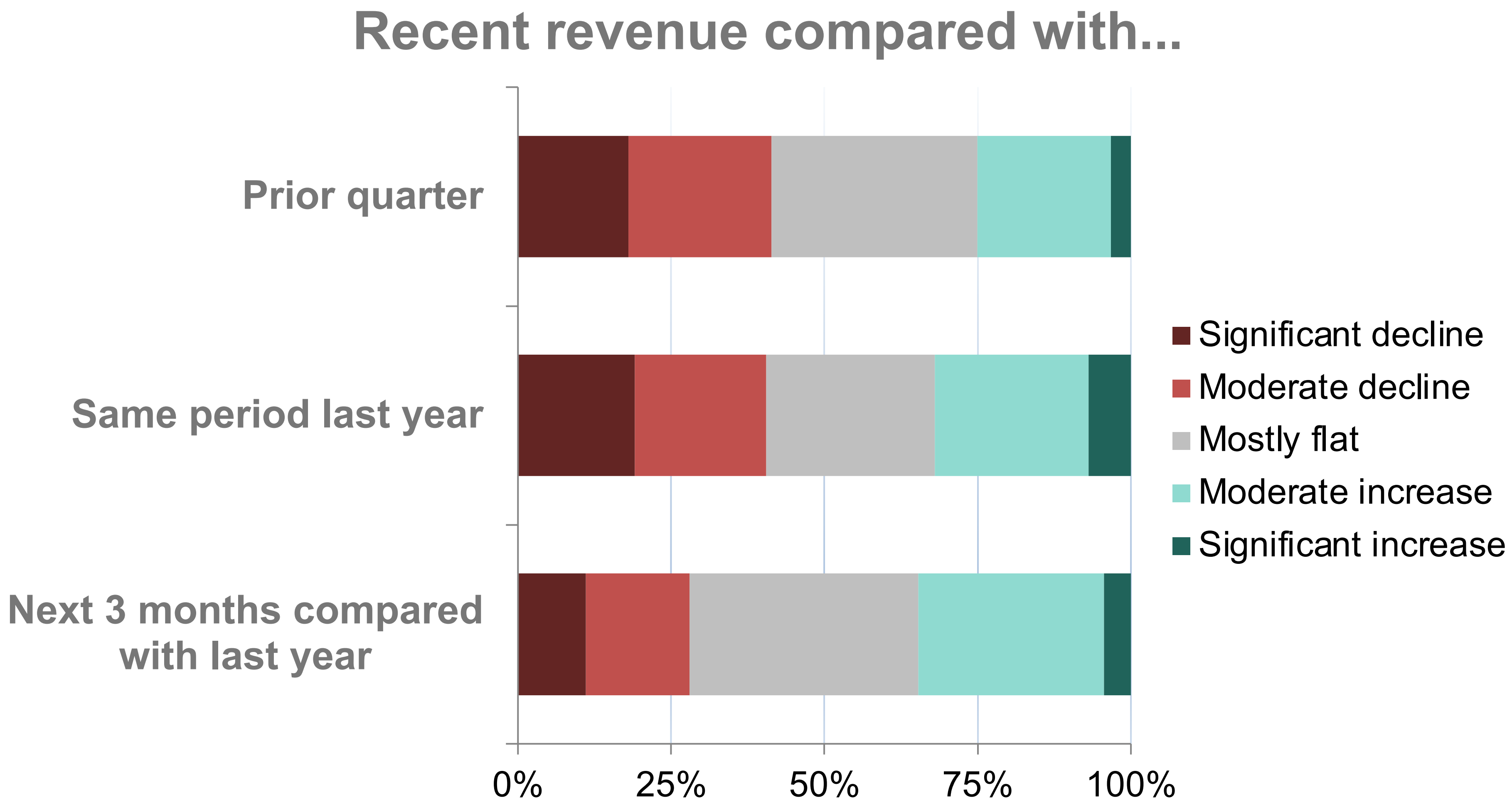
- Most recent 3-month period saw revenue and profit trends continue to slow overall
- However, demand for workers continues
- Prices remain a major challenge; higher interest rates also becoming bigger concern
- Labor availability still poor, and a top concern; wage pressure remains quite strong
- Employers 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

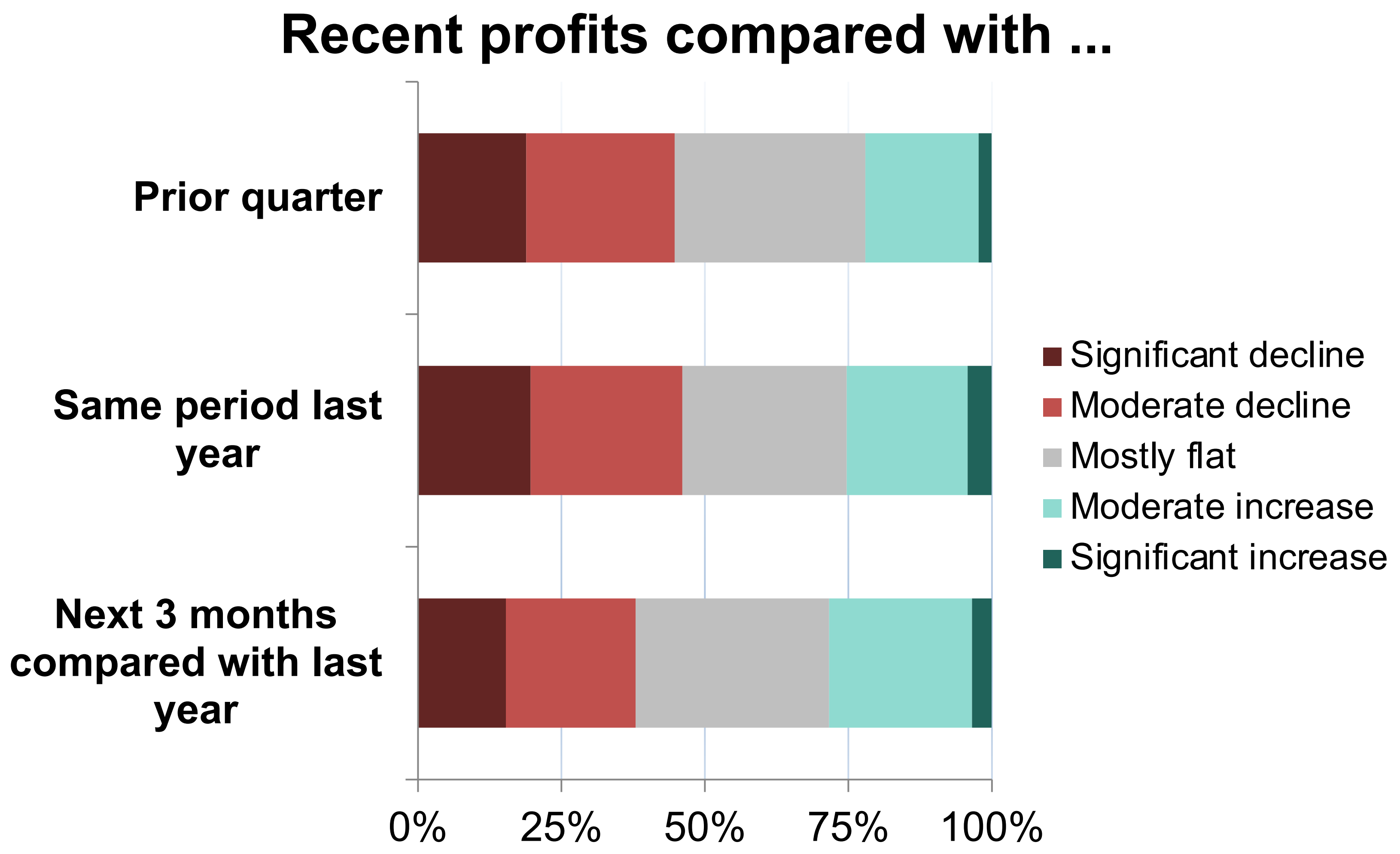
RECENT AND FUTURE REVENUE

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

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



PROFITS DECLINED



Recent profits down, both q-o-q & y-o-y

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

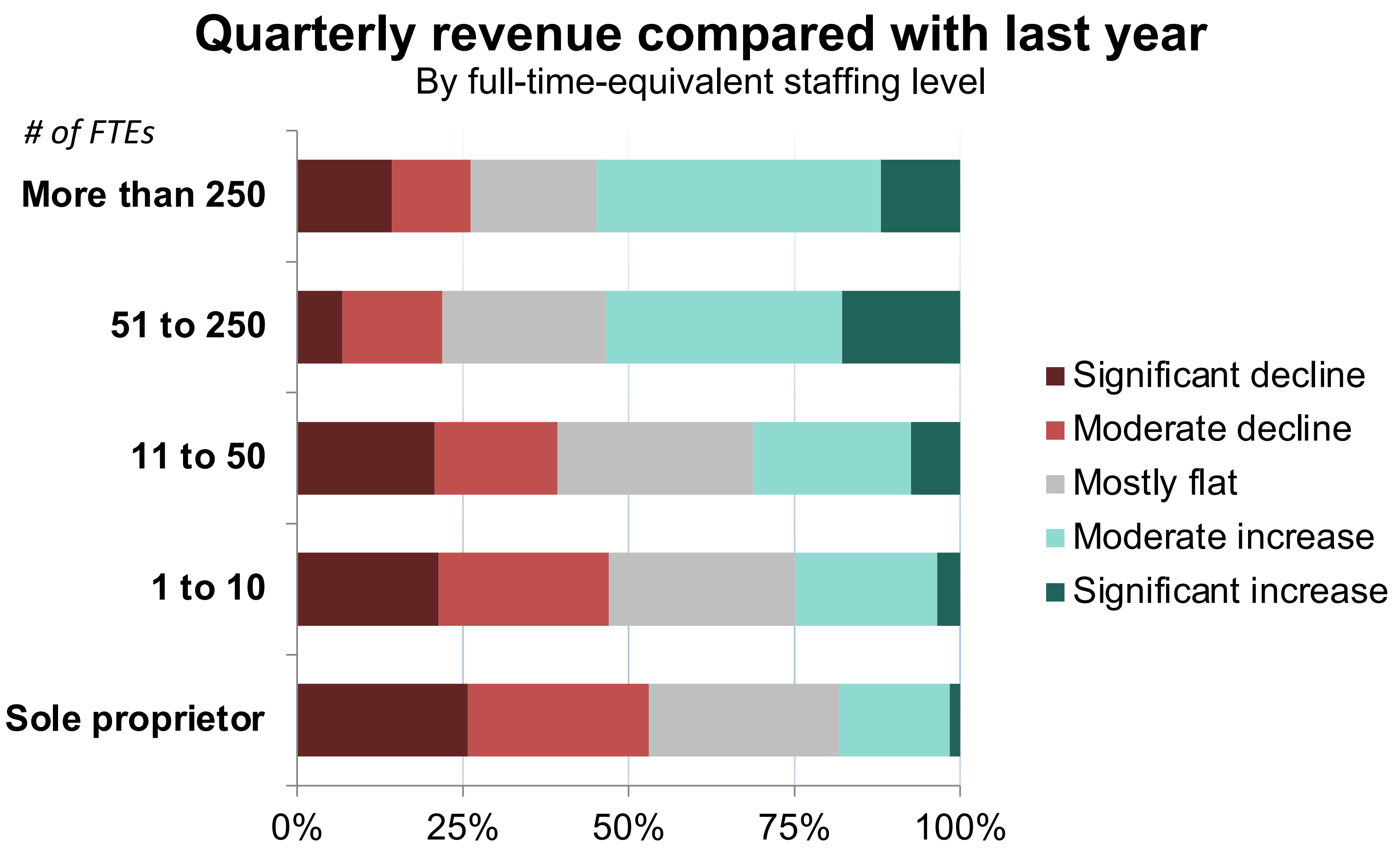
OTHER REVENUE SNAPSHOTS BY FIRM TRAITS

REVENUES BY FIRM SIZE

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

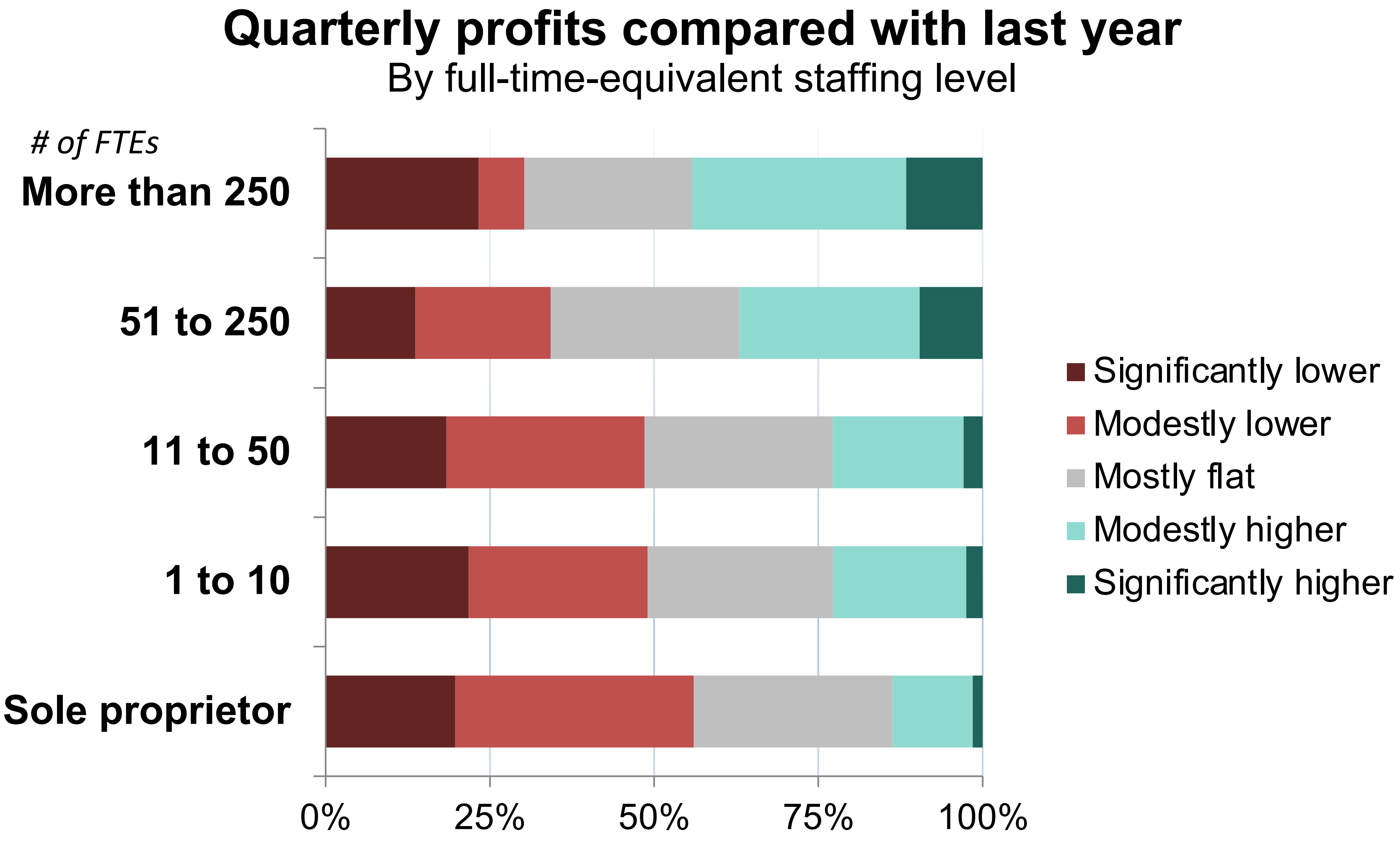
Minority-owned firms tend to be smaller; 65% saw negative y-o-y revenue trends



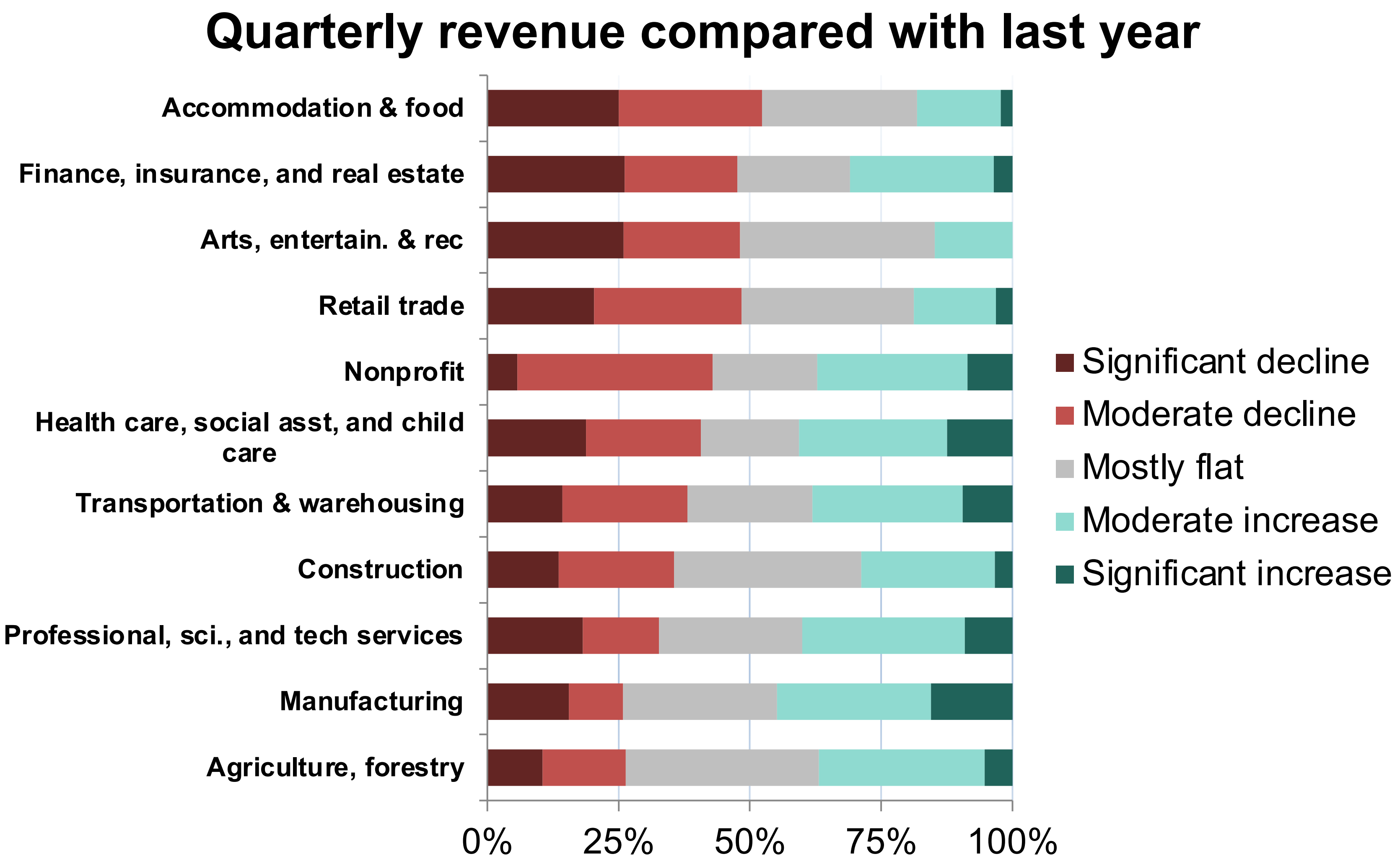
PROFITS BY FIRM SIZE

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

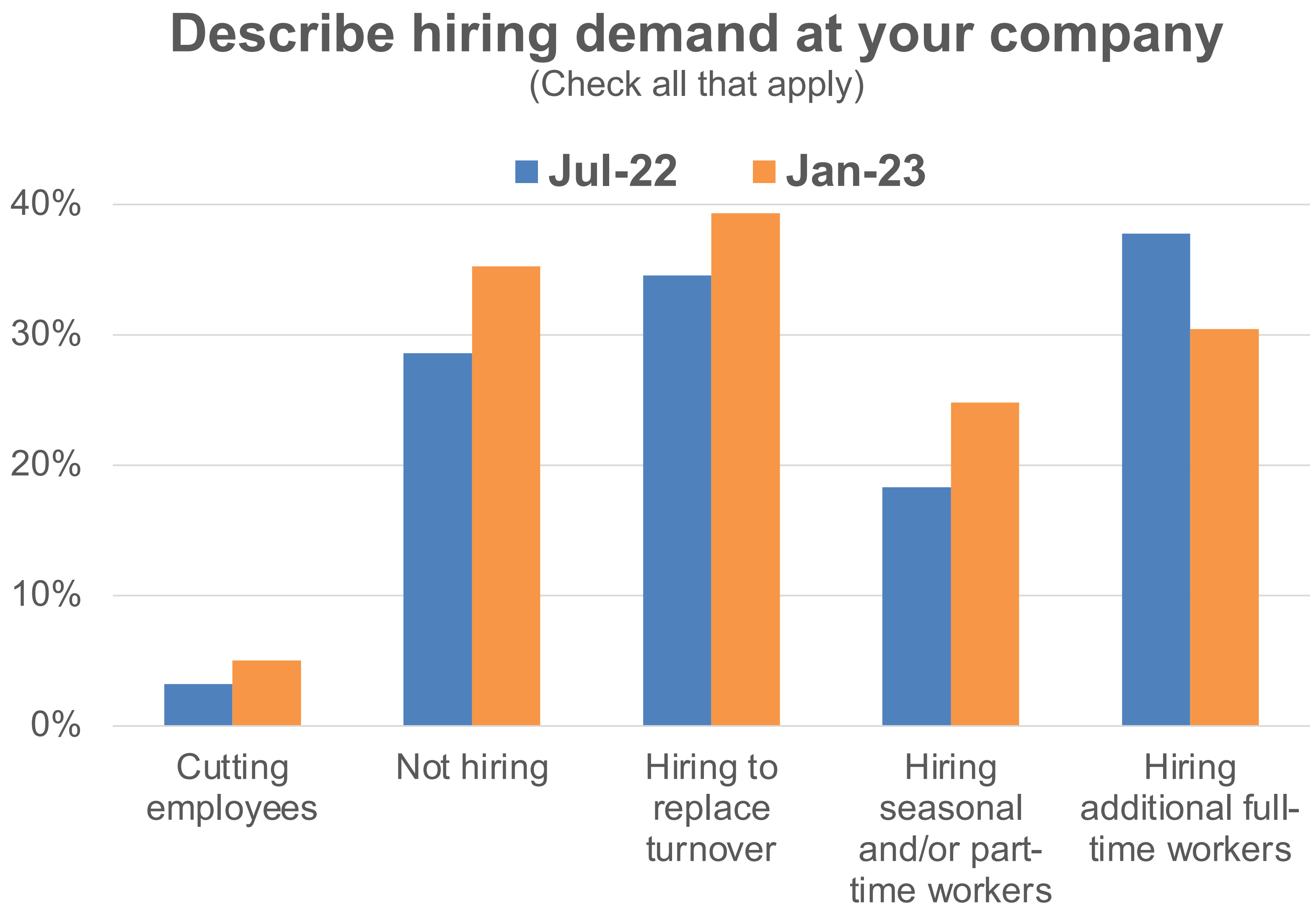
Manufacturing & ag performing well

Note: small sample sizes for many sectors; please interpret carefully

SOME GOOD NEWS!

WORKFORCE & WAGE TRENDS

LABOR DEMAND



Most firms hiring in some capacity!

Small pullback overall; seasonality likely plays role

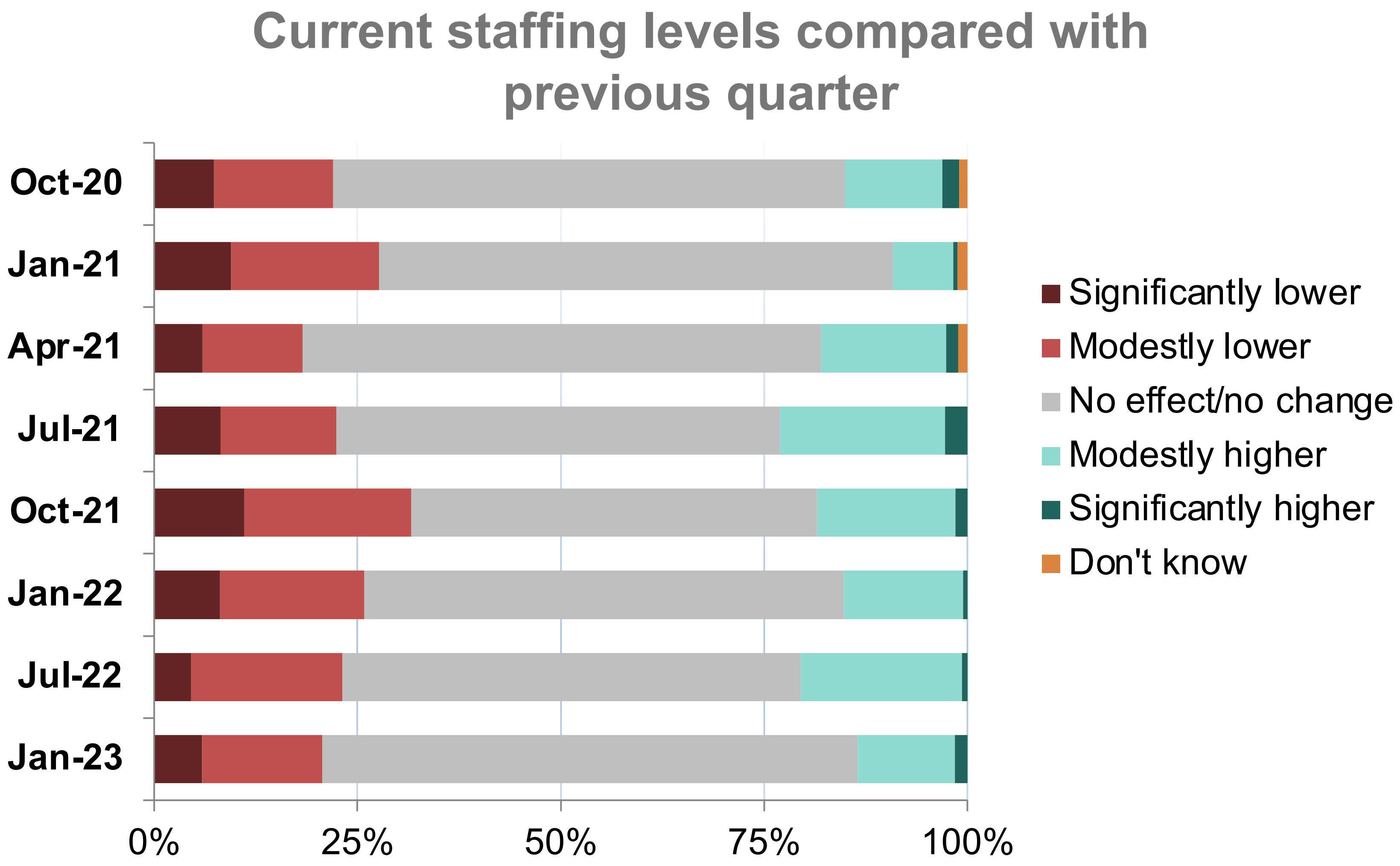
Close 30% trying to expand full-time headcount; few cutting

More reporting turnover hiring
- **Jan ’22: 25%**
- **July ’22: 35%**
- **Jan ’23: 39%**

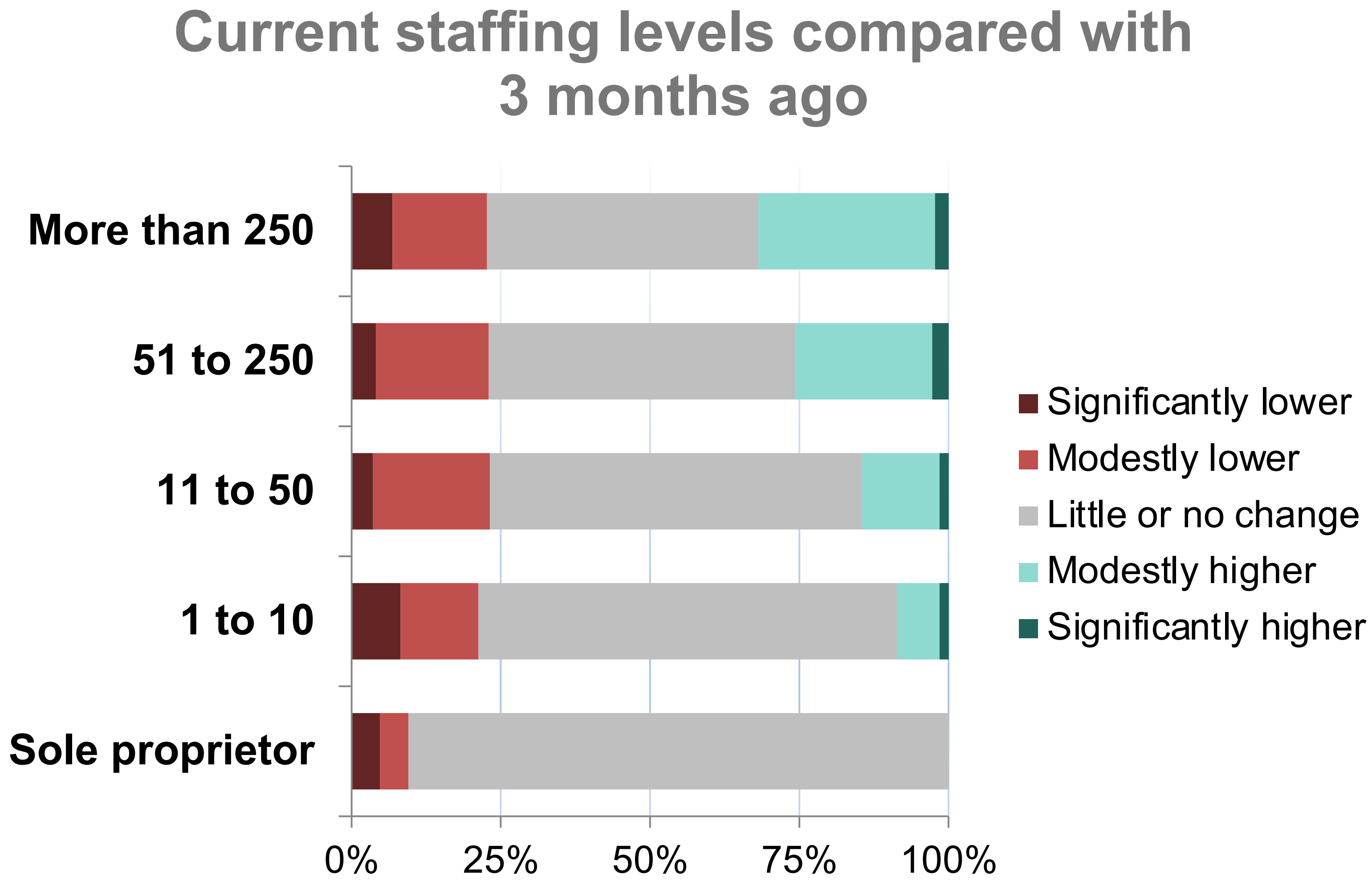
STAFFING CHANGES: FIRMS *LOSING* WORKERS?

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 RISING 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

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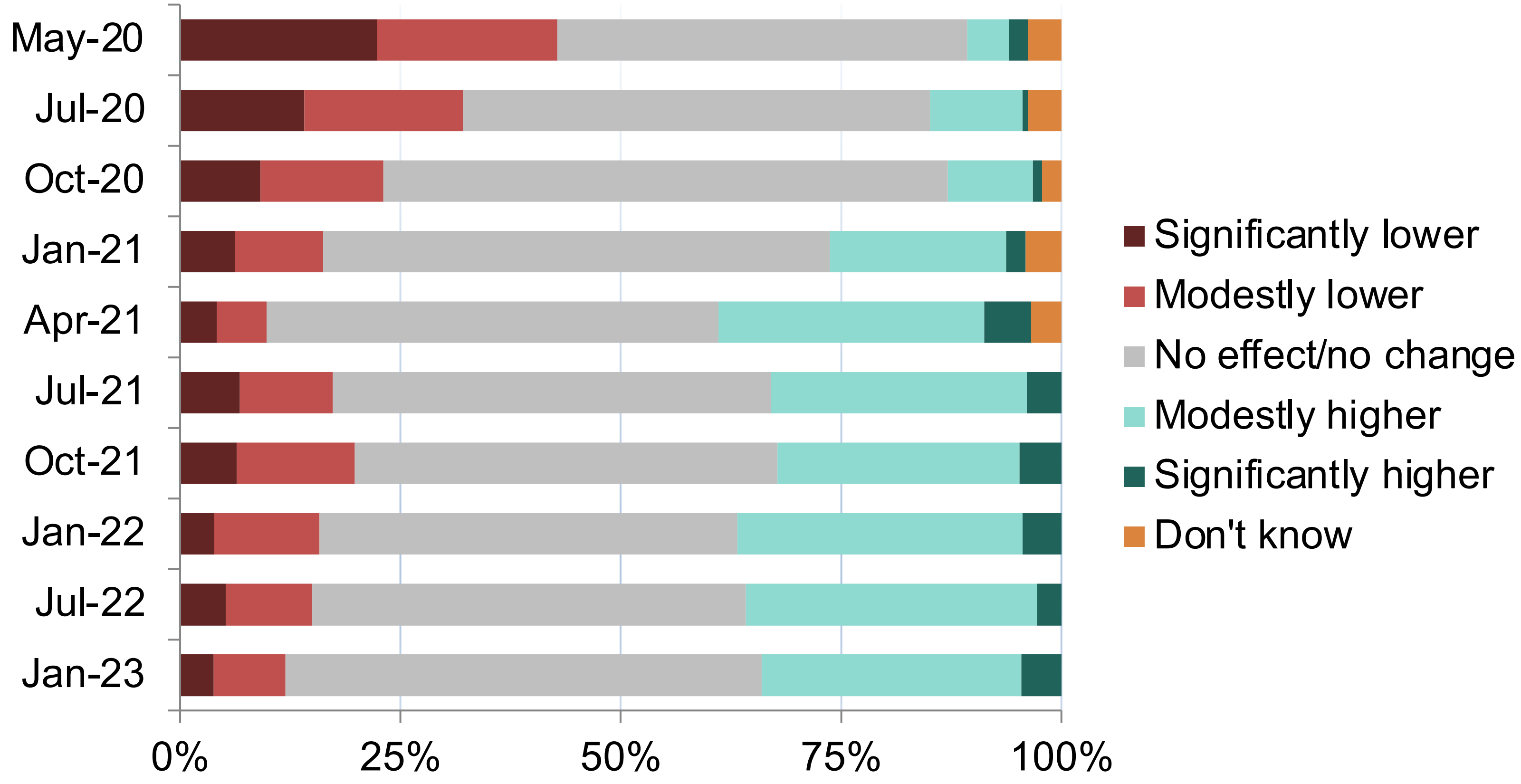
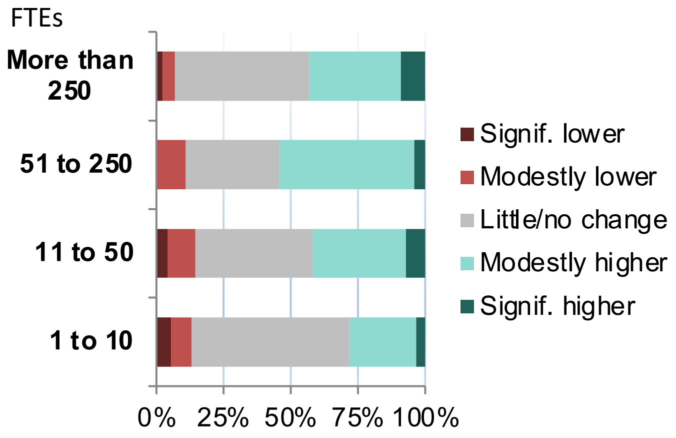
FUTURE STAFFING: HELP WANTED, *PLEASE*

The persistence of hiring *optimism* over time suggests that actual hiring is simply very difficult

Expected future staffing compared with current staffing



Expected staffing level in 6 months

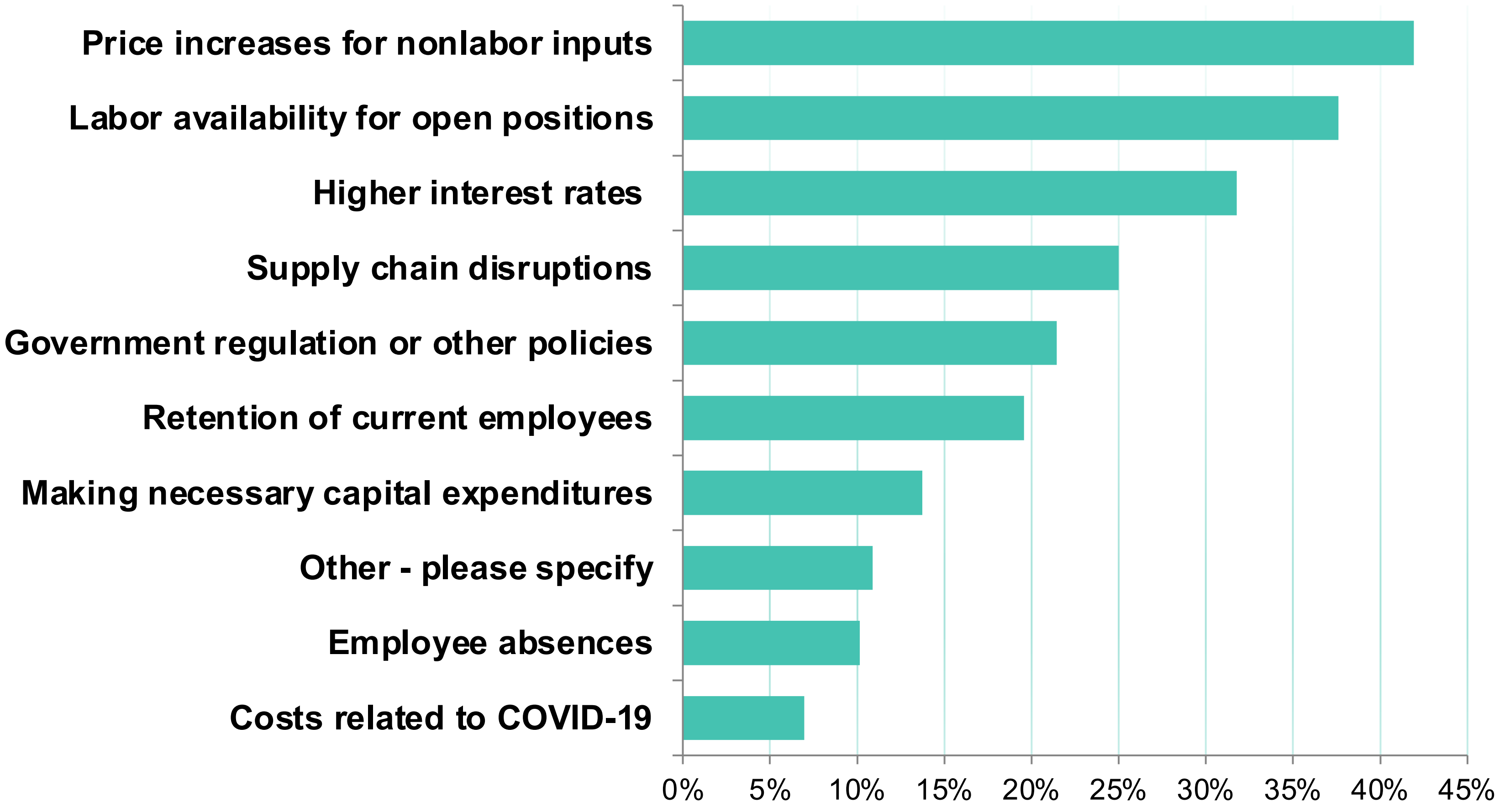


Note: Question stopped offering "don't know" answer option after April 2021 survey

CHALLENGES & OTHER METRICS

CHALLENGES TO OPERATIONS

Two greatest challenges to your business?

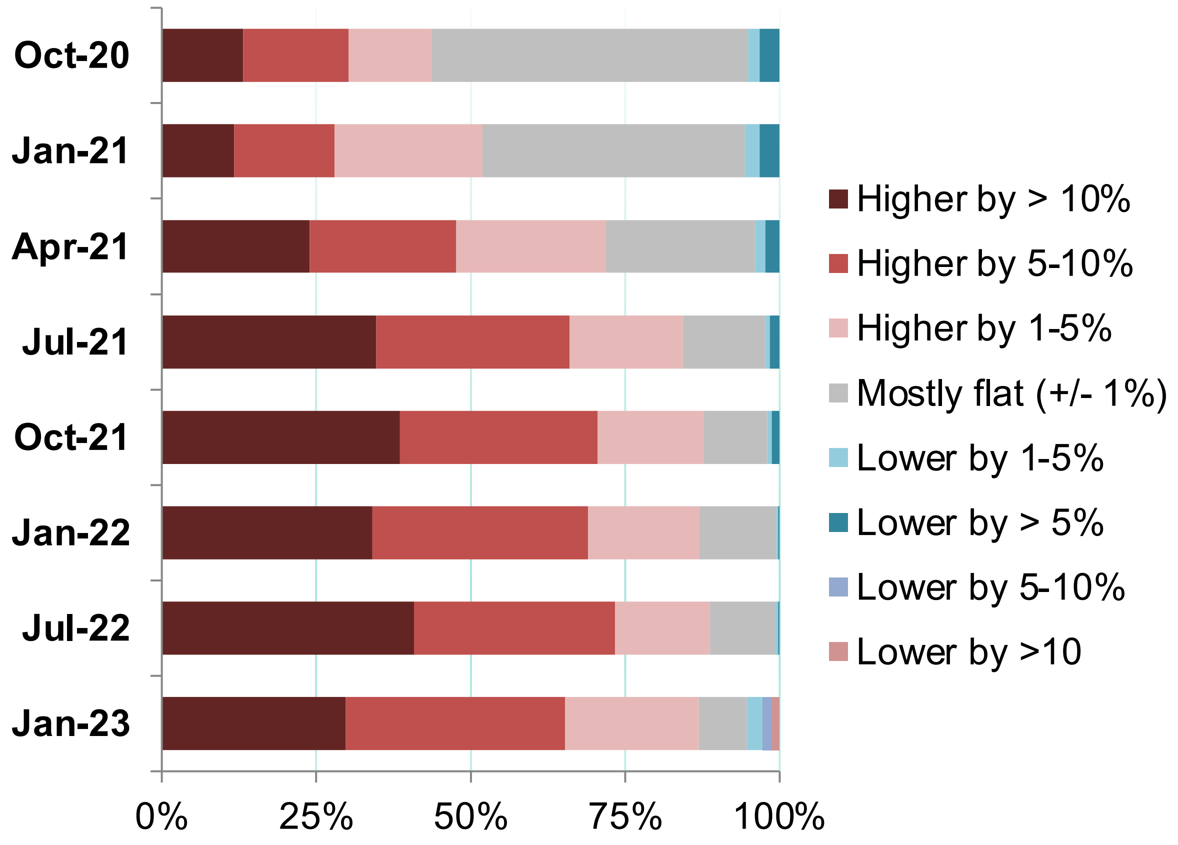


Some shifting & flattening of response

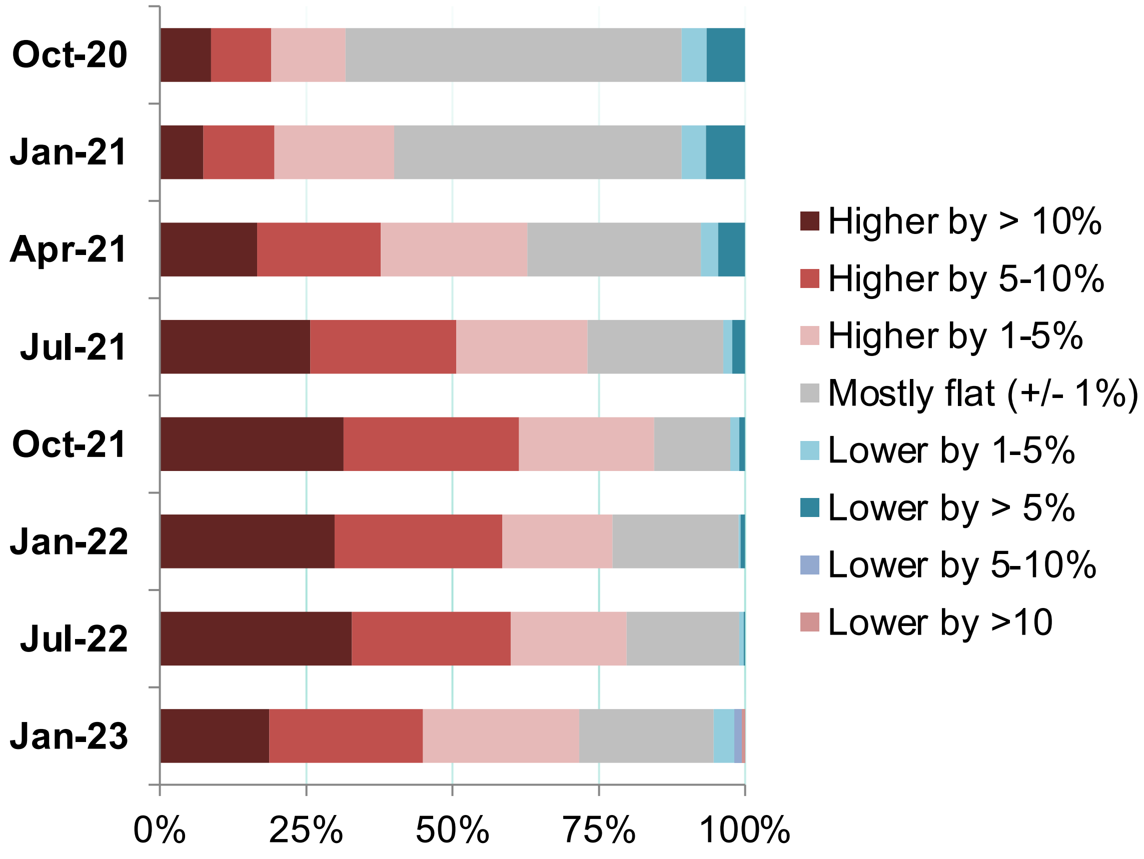
- Inflation is #1 concern
- Labor tightness persists
- Higher interest rates leaps into Top 3
- Supply chain concerns ebbed, but not necessarily because of big improvements

Wholesale and retail inflation persisting, improving more at retail level

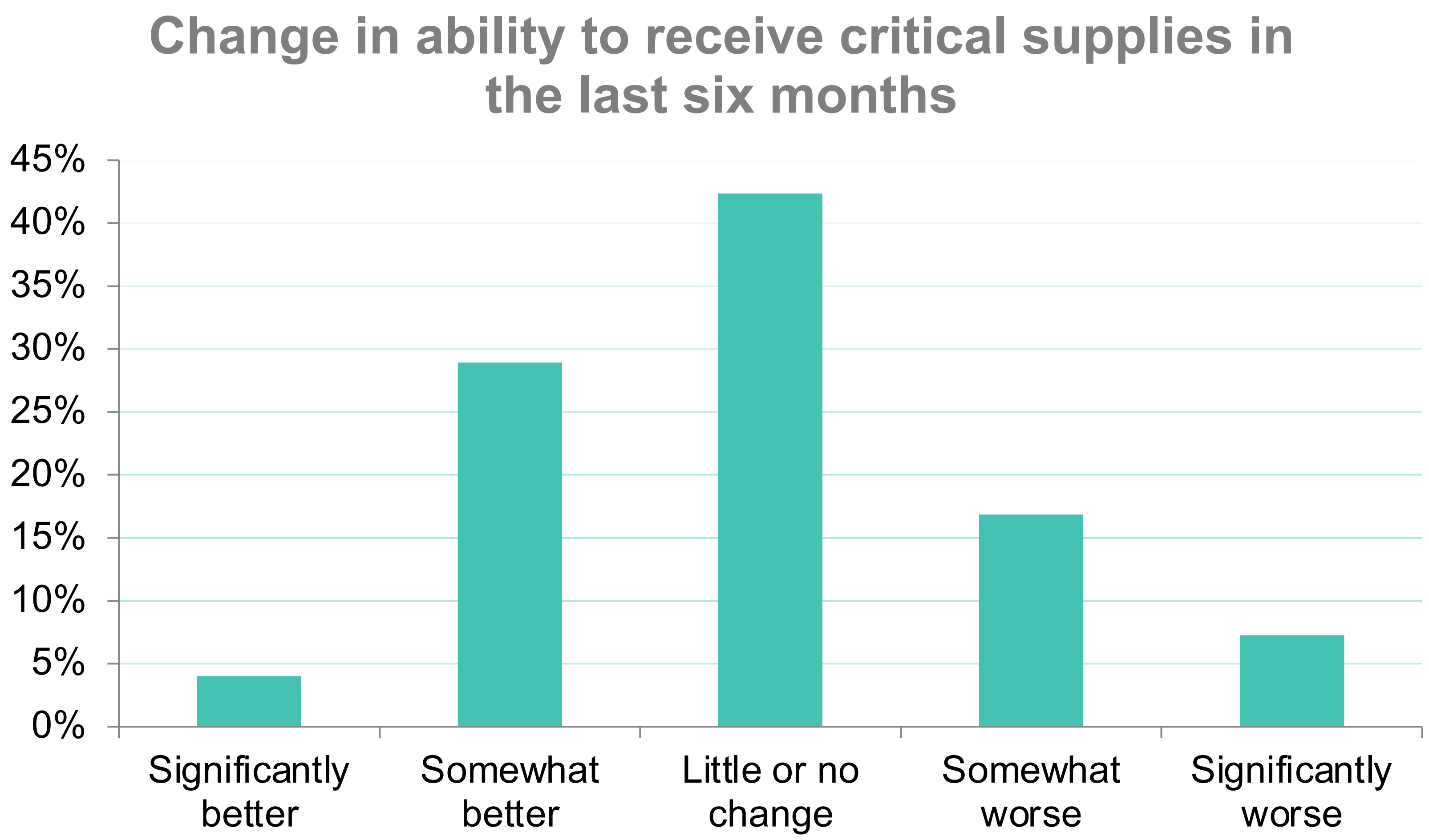
Non-labor input prices (wholesale)



Final prices to customers (retail)



SUPPLY CHAIN IMPROVING

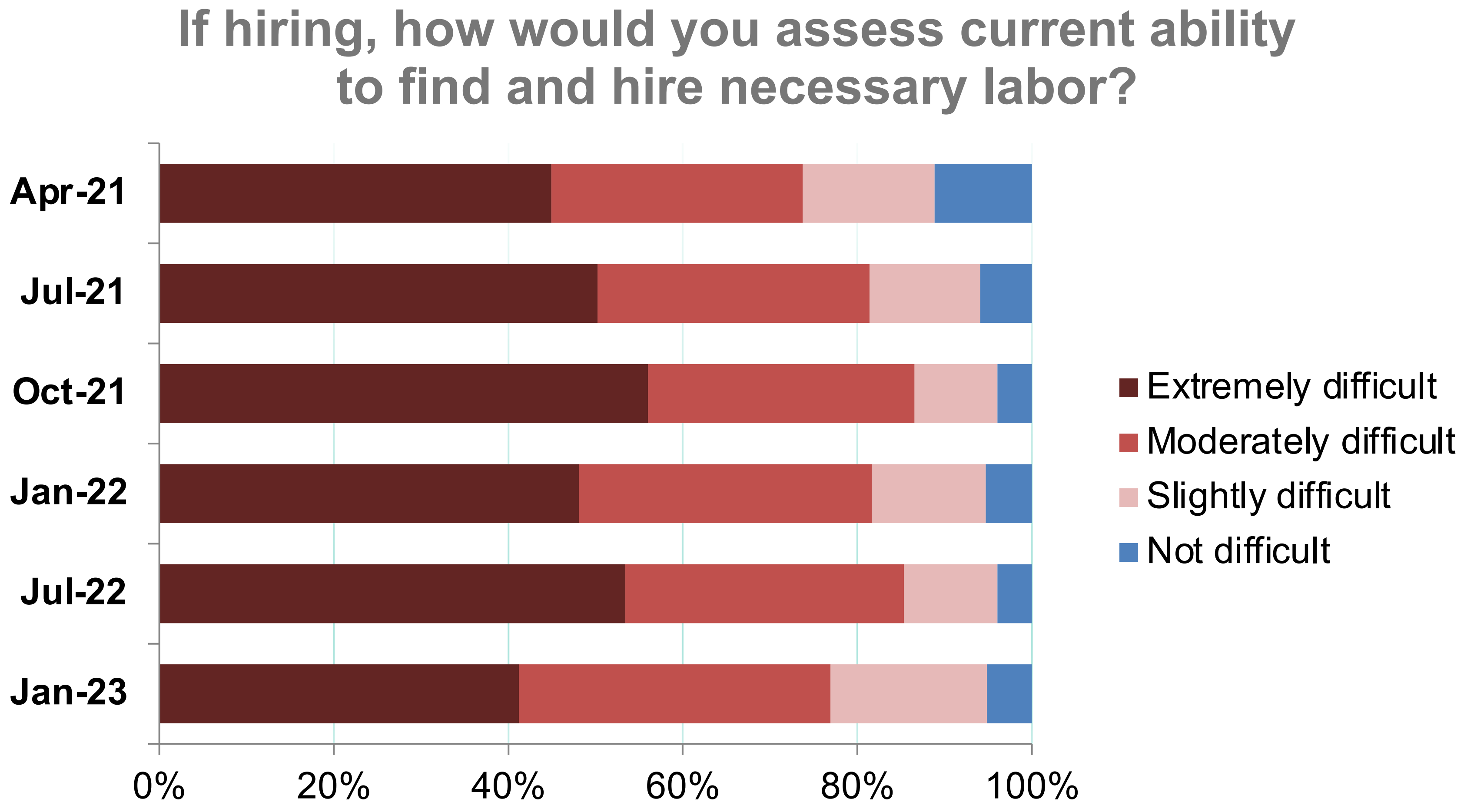


Supply chains improving, slowly, but still problematic, particularly for high-goods kinds of businesses

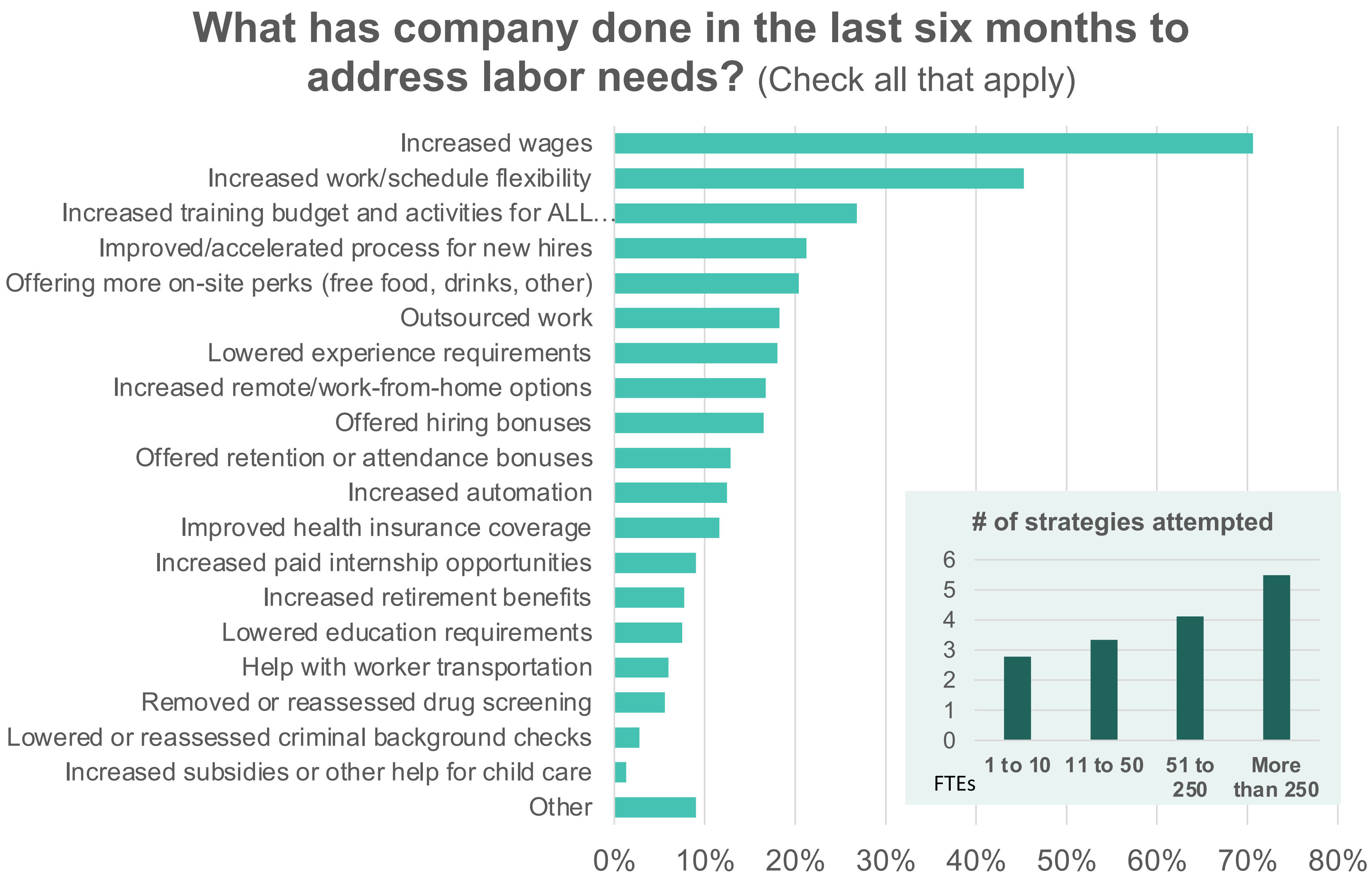
LABOR AVAILABILITY IMPROVED, STILL TIGHT

Modest improvement, especially among those citing 'extreme' difficulty

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



EMPLOYER RESPONSES TO LABOR NEEDS



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*

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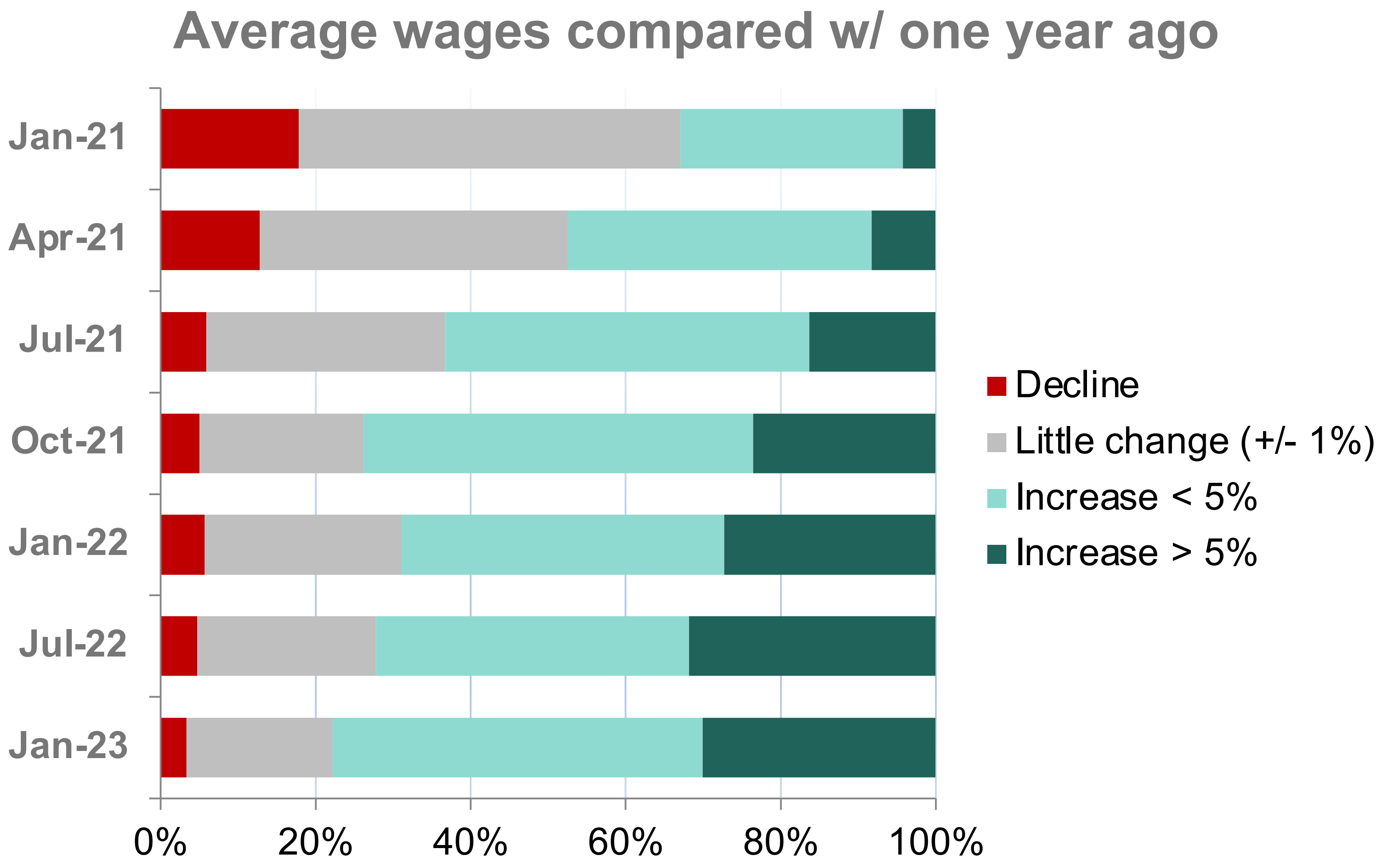
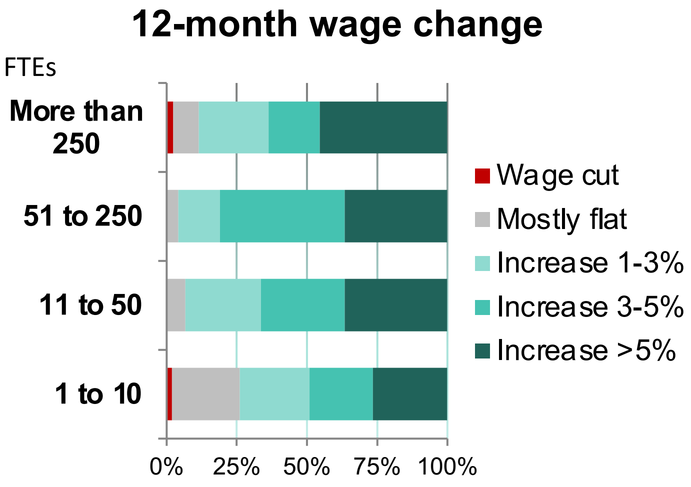
WAGE PRESSURE STILL STRONG



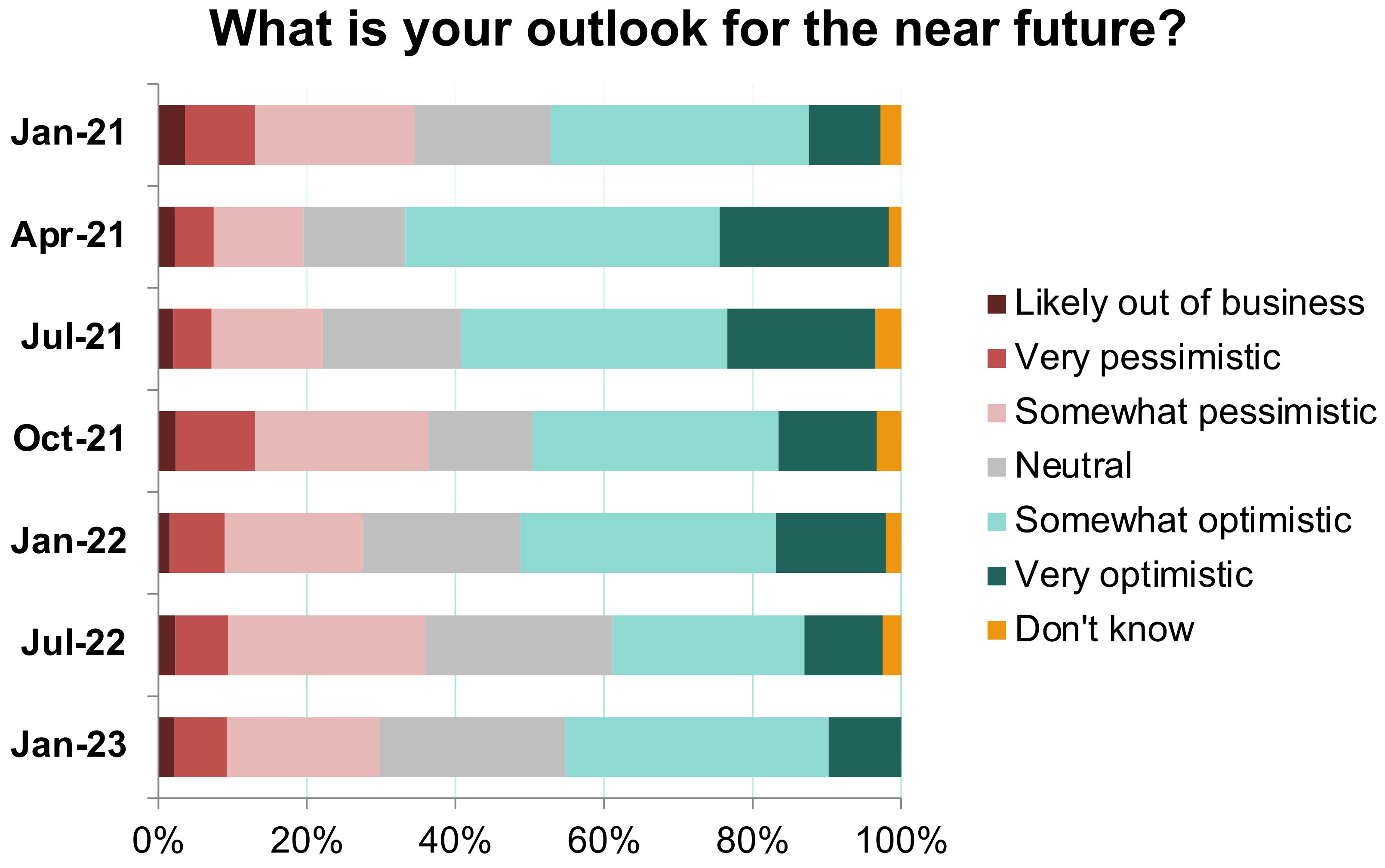
Strong wage growth continues

Larger firms more likely to give raises, and to give bigger raises



OUTLOOK

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

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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?