REGIONAL ECONOMIC CONDITIONS
IN THE NINTH DISTRICT

GENERAL BUSINESS SURVEY

February 23, 2024

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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.
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 between January 16 and February 6, 2024
600+ responses from across the Ninth District
Shout out to our partners for distributing the survey!
Continued balance by firm size, sector and state
Results are a snapshot
  - Non-probability sampling
  - Interpret cautiously
QUICK TAKE-AWAYS

● Most recent 3-month period saw continued lower revenue and lower profit trends

● Smaller firms continued to see poorer results. The other bad news: The gap narrowed

● Tricky to square with fact that overall economy has been growing; however, Ninth District states have been slower than national average

● Hiring still happening, but slowing

● Inflation top concern, followed by interest rates

● Labor availability improving; wage pressure still present, but easing

● Outlook: Overall sentiment is modestly positive
RECENT REVENUE & PROFIT TRENDS
More firms seeing lower revenues

Unseasonably warm winter impacted many respondents

Some compositional factors influencing overall sentiment *(more on this in a bit)*, but probably not enough to change the overall trend

Recent quarterly revenue compared with...

- Significant decline
- Moderate decline
- Mostly flat
- Moderate increase
- Significant increase

Recent and future revenue

Expectations for current quarter compared with last year

Prior quarter

Same quarter last year

0% 25% 50% 75% 100%
Profits declined. Expectations for current quarter compared with last year.

Recent quarterly profits compared with...

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

- Significantly lower
- Modestly lower
- Mostly flat
- Modestly higher
- Significantly higher

Profits continue to fall across the board.
Revenue trend worsening, and expected to continue

Recent revenues compared with same period last year

Expectations for next quarter compared with last year

- Significant decline
- Moderate decline
- Mostly flat
- Moderate increase
- Significant increase
CAUTION TAPE:
REVENUE BY FIRM TRAITS
Responses by state are idiosyncratic; over-weighted in some sectors

Responses: State/sector

MT: FIRE = 27%

SD: retail = 33%

WI: Accommodation/food + retail = 52%

("really bad winter ")

Please interpret very, very cautiously
REVENUE TRENDS, BY SECTOR

Note: Small sample sizes for most sectors; please interpret very carefully

- Manufacturing, construction & FIRE have slowed
- Retail, accommodation & food/drink tend to be smaller businesses; more likely influenced by ‘bad’ winter

Note: Some sectors not listed due to low responses
Larger firms faring modestly better, but seeing some compression toward small firms.
Recent surveys have seen increased response; larger share of responses coming from very small firms (who have seen consistently poorer results)

10 or fewer employees
July 2022: 49%
January 2024: 61%
(still under-represents their overall share of firms in economy)
PROFITS BY FIRM SIZE

Profit trend broadly lower for smaller firms

But *improved* among larger firms (esp > 250) compared with summer survey

Does not indicate *unprofitable*, but suggests persistent margin compression *at the very least*

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**Quarterly profits compared with last year**

By full-time-equivalent staffing level

- **More than 250**
  - Significantly lower
  - Modestly lower
  - Mostly flat
  - Modestly higher
  - Significantly higher

- **51 to 250**
  - Significantly lower
  - Modestly lower
  - Mostly flat
  - Modestly higher
  - Significantly higher

- **11 to 50**
  - Significantly lower
  - Modestly lower
  - Mostly flat
  - Modestly higher
  - Significantly higher

- **1 to 10**
  - Significantly lower
  - Modestly lower
  - Mostly flat
  - Modestly higher
  - Significantly higher

- **Sole proprietor**
  - Significantly lower
  - Modestly lower
  - Mostly flat
  - Modestly higher
  - Significantly higher
WORKFORCE & WAGE TRENDS
LABOR DEMAND

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

Many firms still hiring in some capacity, but overall labor demand lower

More firms cutting or not hiring

Share hiring more full-time workers continued to erode
Overall, more firms expect future staffing will increase than decrease. However, share continues to erode, especially compared with Jan 2023 survey.
LABOR AVAILABILITY

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

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

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<thead>
<tr>
<th>Difficulty</th>
<th>Jan-23</th>
<th>Jan-24</th>
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<tbody>
<tr>
<td>Extremely difficult</td>
<td>40%</td>
<td>35%</td>
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<tr>
<td>Moderately difficult</td>
<td>30%</td>
<td>25%</td>
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<tr>
<td>Slightly difficult</td>
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<td>15%</td>
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<tr>
<td>Not difficult</td>
<td>10%</td>
<td>5%</td>
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<tr>
<td>Not Hiring</td>
<td>0%</td>
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Hiring: Biggest challenge in finding new employees?

- Applicants do not have right skills or experience
- Applicant wage demand higher than firm offer
- Not enough applications
- Applicants want benefits not available
- Applicants want schedule flexibility not available
Companies reported pulling back on many efforts to attract workers, likely because they were seeking fewer workers, and have (comparatively) less difficulty finding new employees.
WAGE PRESSURE STILL STRONG

Average wages compared w/ one year ago

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

Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Jul-22
Jan-23
Jul-23
Jan-24

Wage growth moderating
Larger firms more likely to give raises, and to give bigger raises
CHALLENGES
CHALLENGES TO OPERATIONS

Pick two: Greatest challenge to operating capacity and productivity

- Price increases for inputs
- High interest rates
- Labor availability
- Government taxes & reg.
- Capital expenditures
- Employee retention
- Supply chain disruptions
- Employee absences
- Covid-related disruption
- Other

Jan-23  Jul-23  Jan-24
CHALLENGES TO OPERATIONS

Pick two: Greatest challenge to operating capacity and productivity

- Price increases for inputs
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- Other

Jan-23 | Jul-23 | Jan-24

FEDERAL RESERVE BANK of MINNEAPOLIS
Wholesale and retail inflation improving, slowly, esp. at retail level

### Non-labor input prices (wholesale)

- **Jul-21**: Mostly flat (+/- 1%)
- **Oct-21**: Mostly flat (+/- 1%)
- **Jan-22**: Mostly flat (+/- 1%)
- **Jul-22**: Mostly flat (+/- 1%)
- **Jan-23**: Mostly flat (+/- 1%)
- **Jul-23**: Mostly flat (+/- 1%)
- **Jan-24**: Mostly flat (+/- 1%)

### Final prices to customers (retail)

- **Jul-21**: Mostly flat (+/- 1%)
- **Oct-21**: Mostly flat (+/- 1%)
- **Jan-22**: Mostly flat (+/- 1%)
- **Jul-22**: Mostly flat (+/- 1%)
- **Jan-23**: Mostly flat (+/- 1%)
- **Jul-23**: Mostly flat (+/- 1%)
- **Jan-24**: Mostly flat (+/- 1%)
Interest rates are now #2 challenge for businesses. Also asked about positive impact; not surprisingly, few are seeing positive effects (< 5%).
OUTLOOK: DECLINE, STILL POSITIVE OVERALL

This year’s outlook worsened slightly compared with other years.

*Still net positive,* despite revenue and profit trends.

Also fairly similar across firm size.

### What is your outlook for the near future?

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<th>Likely out of business</th>
<th>Very pessimistic</th>
<th>Somewhat pessimistic</th>
<th>Neutral</th>
<th>Somewhat optimistic</th>
<th>Very optimistic</th>
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Jan-24:
- 0% Likely out of business
- 20% Very pessimistic
- 40% Somewhat pessimistic
- 60% Neutral
- 80% Somewhat optimistic
- 100% Very optimistic

Jan-23:
- 0% Likely out of business
- 20% Very pessimistic
- 40% Somewhat pessimistic
- 60% Neutral
- 80% Somewhat optimistic
- 100% Very optimistic

Jan-22:
- 0% Likely out of business
- 20% Very pessimistic
- 40% Somewhat pessimistic
- 60% Neutral
- 80% Somewhat optimistic
- 100% Very optimistic
• Revenues & profits continued to slide; some (but only some) likely tied to rise in small-firm response, & impact of a very ‘bad’ winter

• Labor demand remains positive, but has slowed

• Inflation concerns still relevant for many

• Some important pressures are easing: Prices, labor availability, and wage pressure all improved

• Outlook is modestly positive; cautionary

• Overall, economic and employment growth has been slower in Ninth District than national average

• National economy is forecast to slow from strong levels, and District firms suggest a similar direction
FUTURE SURVEYS FROM THE MINNEAPOLIS FED
MINNEAPOLIS FED SURVEYS

- Monthly Ninth District Business Conditions
  - Anyone interested in being a panelist:
  - Joseph.mahon@mpls.frb.org
- Construction: April
- Hospitality & Tourism: May
- Professional Services: June
- General Business (this one): July
WANT TO BECOME A SURVEY PARTNER?

SCAN TO LEARN MORE:
THANK YOU!

QUESTIONS?