

# Business leaders expect solid growth for their companies in 2012

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Business leaders are optimistic about the future, as they expect sales, employment and capital investment to grow at their firms in the coming year, according to the *fedgazette's* annual business conditions poll conducted in November.

The survey's 409 respondents expect to raise prices but increase wages only moderately and are concerned about government regulation and finding qualified workers. They also reported somewhat improved credit conditions, and they expect modest growth in consumer spending, employment and business investment in their state economies. At the same time, however, business leaders anticipate fewer housing starts this year, as well as higher inflation and sluggish growth at the national level.

## Companies looking forward to 2012

Half of the business leaders surveyed expect higher sales at their companies in 2012 (see Chart 1). Respondents from the Minneapolis-St. Paul area are the most optimistic about sales growth, while respondents from the Upper Peninsula of Michigan and Montana are the least optimistic about sales.

Retailers, manufacturers and service providers expect the biggest gains in sales. The increase is due partially to expectations of higher selling prices on their products and services. Forty-four percent of the retail respondents expect to raise prices in 2012, compared with 22 percent who expect to drop prices. Agricultural producers, coming off several good years, expect decreased sales in 2012 due to lower expected commodity prices.

Business leaders also expect increased sales volumes by virtue of higher productivity last year—cited by over two-thirds of the respondents—and the expectation of rising employment and capital investment at many companies. Increases in employment are expected at firms across all district states except the U.P. and Montana, where employment estimates are flat. Respondents from all sectors also expect to increase employment, except agricultural producers, who expect to decrease employment. Investment in plant and equipment is expected to increase at firms in Minnesota, North Dakota and western Wisconsin, but decrease in

other parts of the district. Retailers, manufacturers and service firms expect to increase capital spending, while firms from other industries expect flat to lower capital expenditures.

Respondents indicated that they may have an easier time financing capital expenditures because access to credit has improved slightly over the past three months. More than one in five respondents indicated that access to bank credit has improved some or improved a lot versus 13 percent who noted deteriorating conditions. This improvement occurred across industry sectors, save for construction, and across district states with the exception of the U.P.

There are some challenges facing district businesses. More than 70 percent of the respondents said that complying with government regulation was a challenge or serious challenge. In addition, 41 percent said that securing workers was a challenge. This concern was widespread across the district, with nearly two-thirds of the respondents from North Dakota and 28 percent from the Minneapolis-St. Paul area reporting difficulty. "It's very difficult to meet the demand for knowledge workers," commented a Minnesota-based consulting firm. Several business leaders also commented that the gridlock in Washington and the European debt crisis are adding risk to the 2012 outlook.

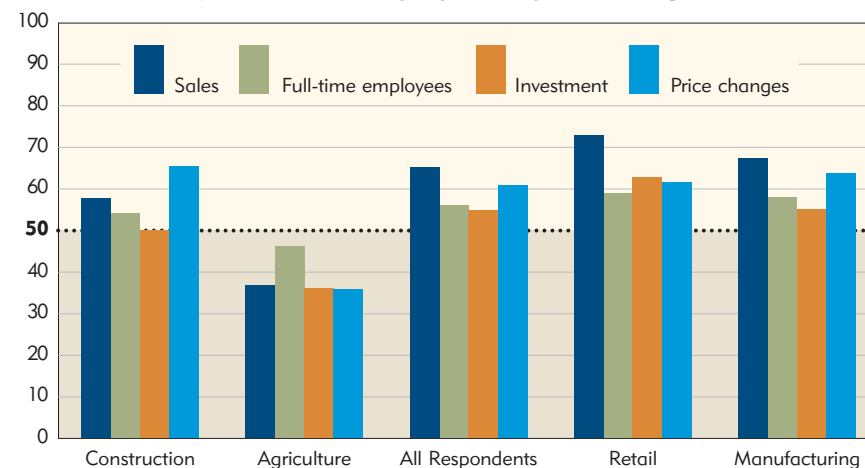
## Modest state growth, sluggish U.S. growth expected

Overall, leaders are somewhat optimistic about their economies (see Chart 2). Optimism is strong in the Dakotas, while respondents from Montana and western Wisconsin are somewhat pessimistic (see Chart 3). This optimism/pessimism also flows into the outlook for state economies.

Expectations for local communities generally followed the same pattern. Respondents from Minnesota and the Dakotas were generally positive about employment, business investment and consumer spending. Respondents from Montana, western Wisconsin and the U.P. were generally either neutral or negative. Most industry sectors were positive about their state economies, except agriculture, which was neutral or negative about employment, business investment and consumer spending.

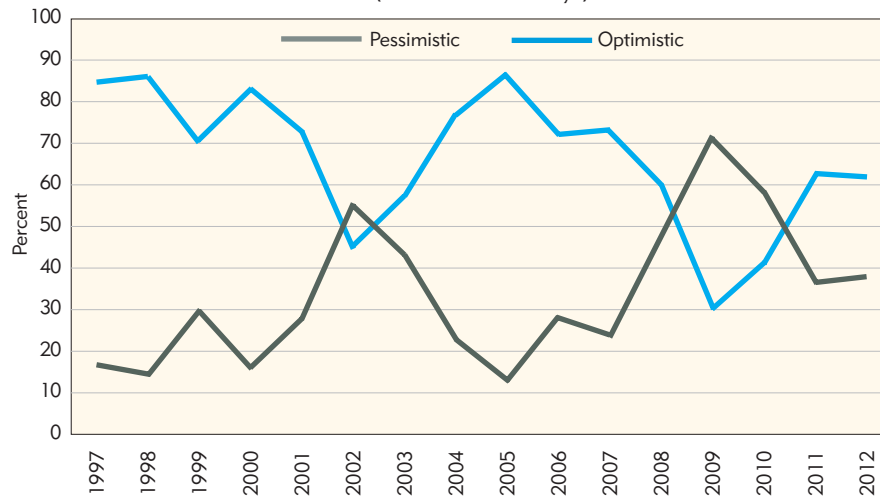
In regard to state economies, most areas of the district expect further

Chart 1 With regard to your own company, how do you see operations changing during the next year?\*



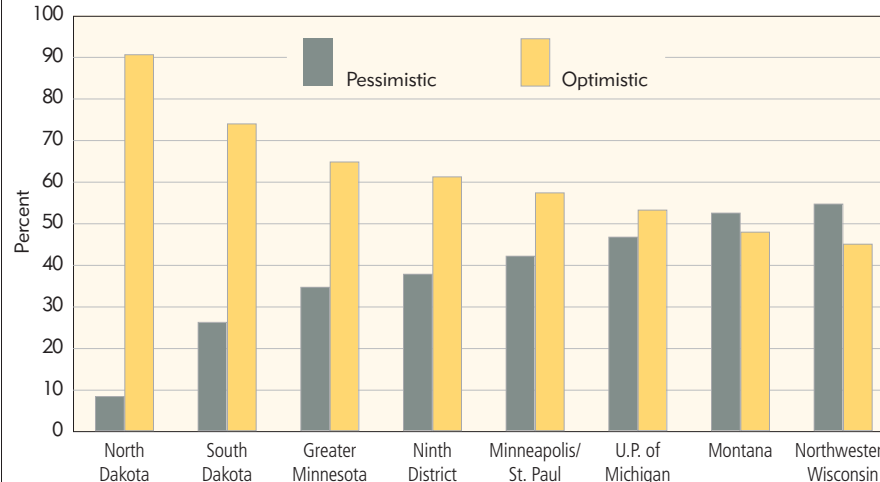
\* Above 50 indicates expansion; below 50 indicates contraction  
Source: Federal Reserve Bank of Minneapolis, annual business outlook poll

Chart 2 Overall, what is your outlook for the community's economy in the next 12 months? (1997–2012 surveys)



Source: Federal Reserve Bank of Minneapolis, annual business outlook poll

Chart 3 Overall, what is your outlook for the community's economy in the next 12 months? (District states)



Source: Federal Reserve Bank of Minneapolis, annual business outlook poll

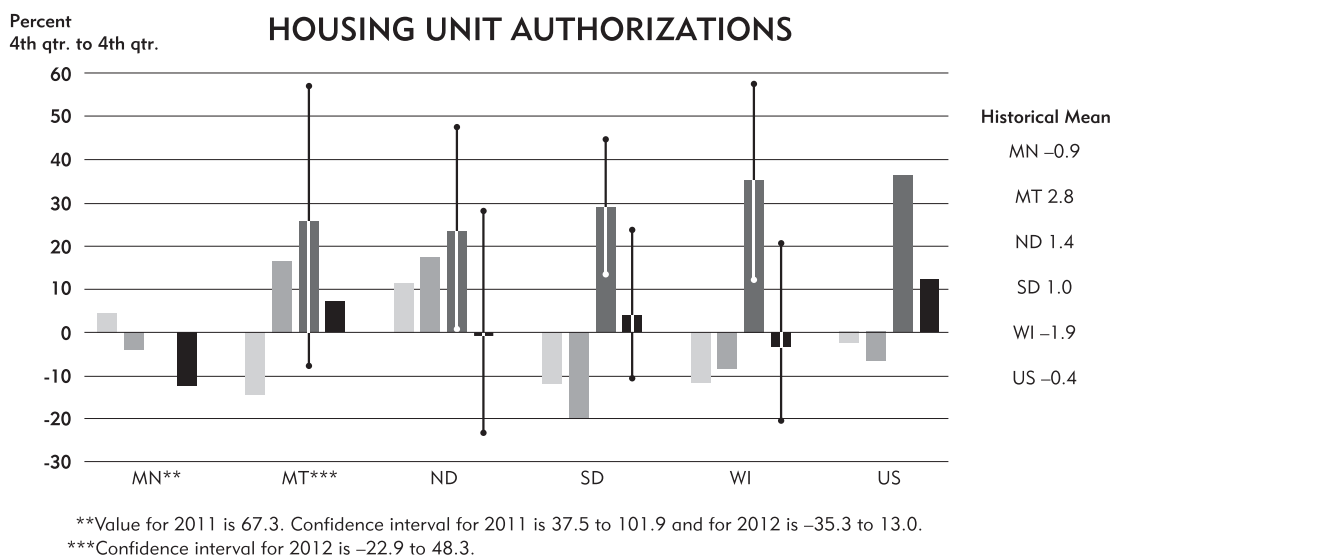
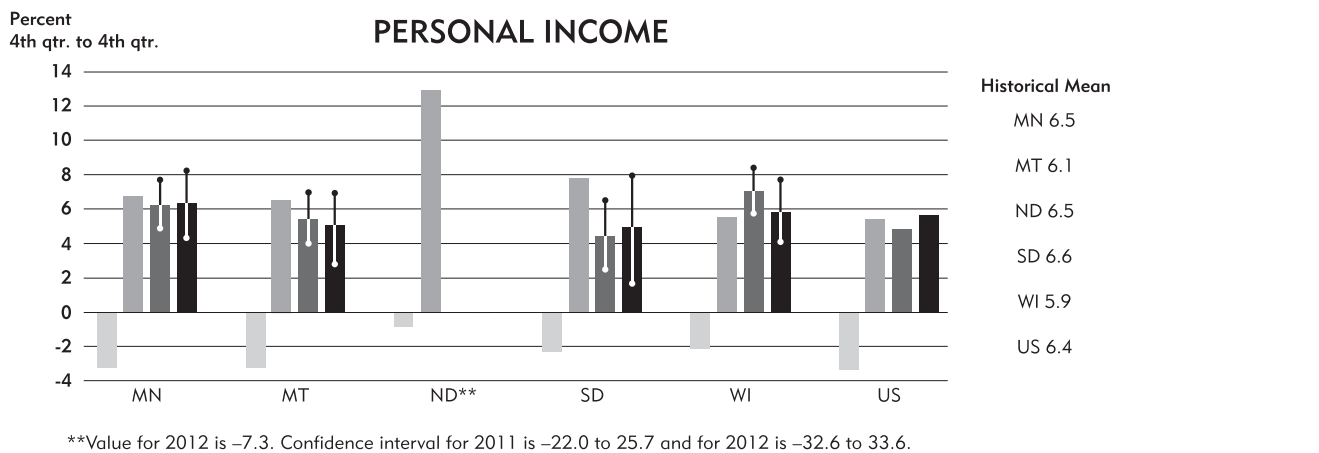
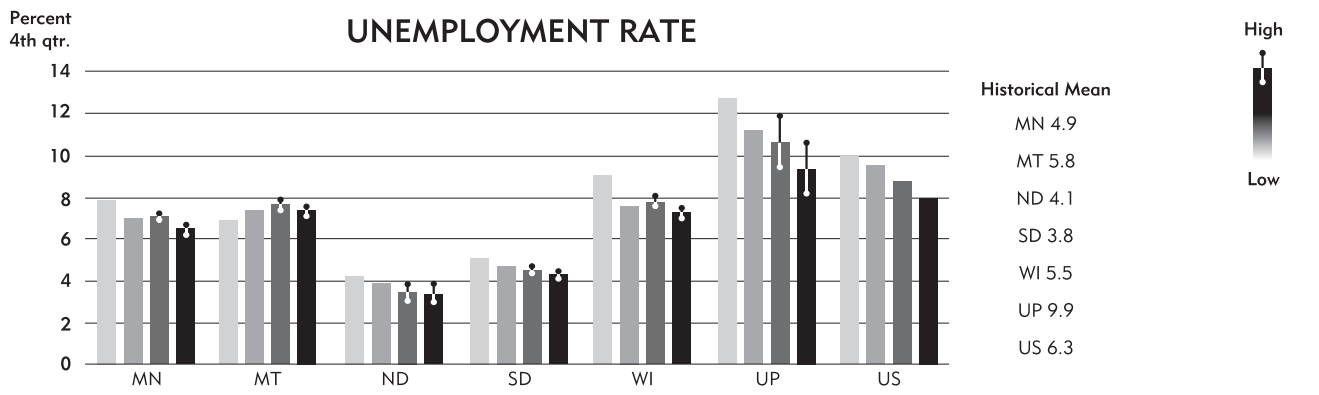
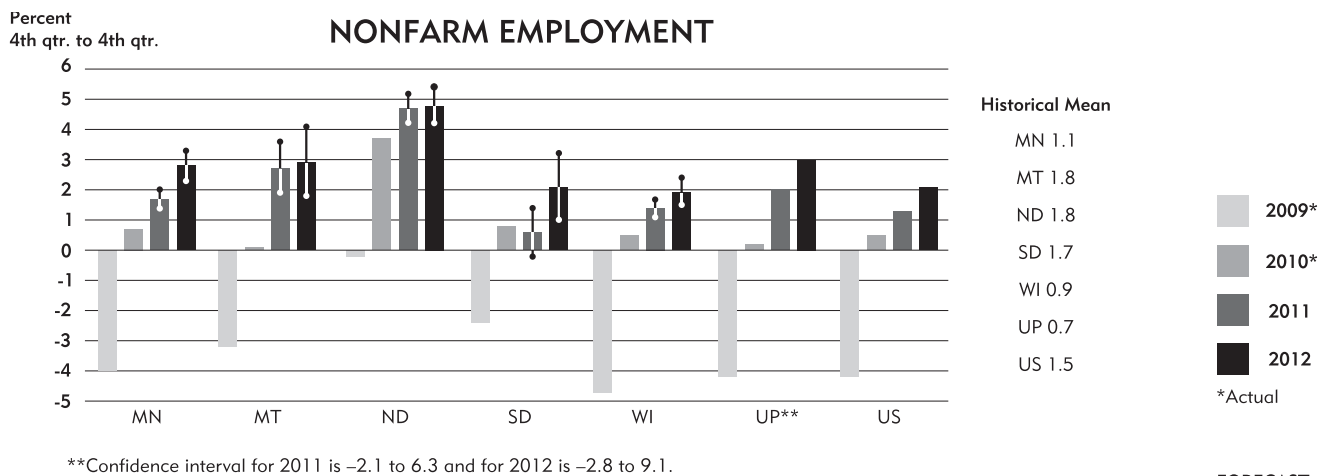
**District Forecast**

Nonfarm employment growth is expected to accelerate across the district. In 2011, employment growth exceeded historical averages in all areas of the district except South Dakota, where employment grew more slowly than its historical average. These gains followed tepid employment growth in 2010, when gains fell short of 1 percent in all areas except North Dakota, where employment grew almost 4 percent. In 2012, nonfarm employment will grow faster than in 2011 in all areas of the district and at rates that exceed historical averages. Growth rates will range from 1.9 percent in Wisconsin to 4.8 percent in North Dakota.

Unemployment rates are expected to decrease moderately. Unemployment rates remained relatively steady in 2011 compared with 2010. Somewhat larger changes included a 0.3 percentage point increase in Montana and 0.8 and 0.4 percentage point decreases, respectively, in the Upper Peninsula of Michigan and North Dakota. Unemployment rates were above historical averages in all areas of the district during 2011 except North Dakota, where the unemployment rate dropped below its historical average in 2010. In 2012, unemployment rates are expected to decrease in all areas but stay above historical averages, except in North Dakota, where the rate is predicted to remain below its historical average.

Growth in personal income is expected to remain steady. During 2011, personal income growth was positive but slower than in 2010 in all areas except Wisconsin, where the pace of personal income growth increased. In 2012, personal income growth will remain steady on balance, with modest increases in growth rates in Minnesota and South Dakota and decreases in Montana and Wisconsin. The forecast for personal income in North Dakota indicates a decrease during 2012, but this forecast is likely attributed to the volatile nature of farm income. The confidence intervals surrounding the 2011 and 2012 figures are wide for North Dakota, indicating a relatively high degree of uncertainty.

The number of housing units authorized is expected to remain subdued after some improvement in 2011. During 2011, authorizations made gains in all district states after about five to six years of declining activity. In 2012, housing units authorized are expected to grow in Montana and South Dakota, remain level in North Dakota and decrease in Minnesota and Wisconsin. Overall, authorizations will remain at historically low levels, except in North Dakota, where 2012 levels will exceed prerecession levels. Note that the confidence intervals for home building predictions span a relatively wide range, indicating a much higher degree of uncertainty compared with forecasts for employment, unemployment rate and personal income.



decreases in housing starts in 2012 compared with 2011. The only exception is North Dakota, where respondents expect flat housing activity. Respondents from the construction and manufacturing sectors were the most pessimistic. "The housing industry is the worst I have seen in over 40 years," commented a U.P. construction firm.

Expectations for wage increases are somewhat mixed. Over half foresee increases in their community of 2 percent to 3 percent, and 37 percent expect a 0 percent to 1 percent increase. Respondents in manufacturing and services expect larger wage increases, while the construction and finance, insurance and real estate sectors expect

the lowest increases in wages in their communities.

Respondents are concerned about national economic conditions. One in eight expects a recession next year, and 72 percent expect GDP growth of 1 percent to 2 percent. "I am concerned about the stagnant condition of the national economy and that it will con-

tinue into 2012," commented a Minnesota financial firm. Inflation is also a concern, as 30 percent expect CPI to increase by 4 percent or more. "Costs still trending up," commented a Minnesota manufacturer. **F**