

Business leaders expect increased economic growth in 2014

By TOBIAS MADDEN
Regional Economist

"I am generally optimistic about economic prospects," commented a Minnesota utility respondent to the *fedgazette's* annual business conditions poll of 321 business leaders conducted in November. Optimism is at a seven-year high as the Ninth District economy picks up steam.

Business leaders across the Ninth District are optimistic for their local economies. This optimism stems from expectations of increased sales and investment for their own companies in 2014. Firms also expect to raise prices and increase wages. More broadly, business leaders believe that housing starts, business investment and employment will rise in their local communities. They also see slightly higher inflation and moderate growth at the national level. Tempering this optimism are concerns about regulation, hiring, obtaining workers and health care.

Companies expect continued growth in 2014

Respondents were upbeat regarding future sales and employment (see Chart 1). More retailers and manufacturers expect gains in sales than other industry sectors. In addition, 48 percent of all respondents anticipate raising prices in 2014, compared with 17 percent who see their prices dropping. Almost half of retailers expect to increase prices, but 41 percent of agricultural producers envision declines in commodities prices.

Almost 70 percent of business leaders also saw higher productivity last year, a trend that should continue, as overall capital investment is expected to increase. However, capital spending plans are mixed across sectors as manufacturing and other financial firms plan to increase capital investment, while agricultural producers plan decreased investment. The boom in the oil areas may also be a factor in capital investment. "Oil and gas investments are red hot," commented a North Dakota respondent.

Meanwhile, more respondents expect their firms to increase hiring full-

time employees than decrease. This is evident among all industry sectors, but varies across geographic areas. Firms from Montana and the Dakotas have the highest indication of positive hiring, while respondents from the Upper Peninsula of Michigan and greater Minnesota expect decreases in hiring.

Respondents indicated that they may have an easier time financing capital expenditures because more are reporting improved access to credit over the past three months. Seventeen percent of respondents indicated that access to bank credit has improved some or improved a lot versus 7 percent who noted deteriorating conditions. This improvement occurred across almost all industry sectors and throughout the district.

District businesses face some challenges. More than three-quarters of the respondents said that complying with government regulation was a challenge or serious challenge. In addition, 57 percent said that securing workers was a challenge. This labor concern varied across the district, with a high of 83 percent of the respondents from North Dakota and a low of 48 percent from the Minneapolis-St. Paul area reporting difficulty.

The Affordable Care Act is also a concern for businesses. A majority of respondents are considering sharing more of the insurance costs with employees. In addition, 11 percent said they already have shifted to more part-time workers, and 10 percent plan to shift to more part-time workers within the next two years.

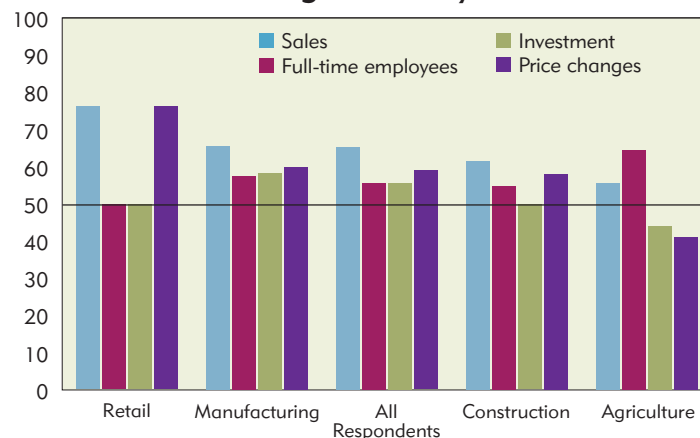
Moderate state, modest U.S. growth expected

Respondents' optimism about their state economies shot up compared with last year. Optimism is prevalent across the district and is strongest in Montana, the Dakotas and greater Minnesota (see Charts 2 and 3). "Due to the Bakken oilfield, our state and region are experiencing unprecedented prosperity," commented a North Dakota transportation respondent.

Respondents generally expect increased employment, business investment and consumer spending. Respondents from Montana and North

Chart 1

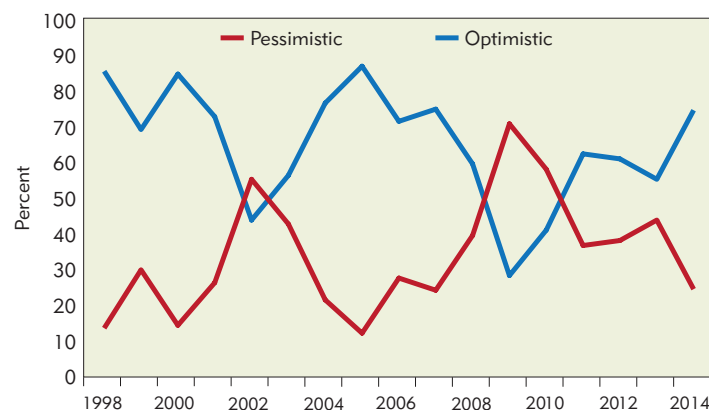
With regard to your own company, how do you see operations changing during the next year?*



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

Chart 2

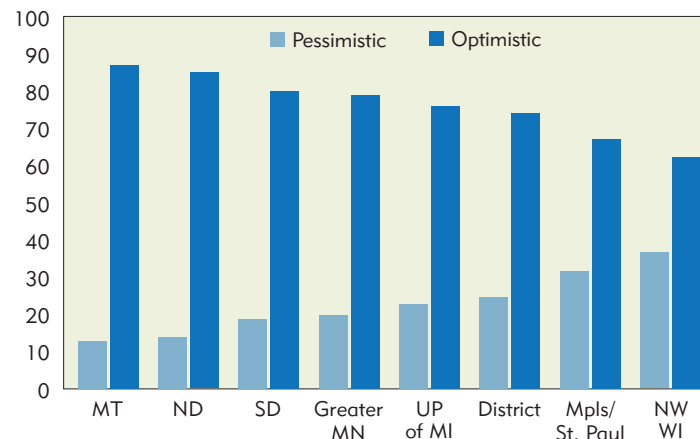
Overall, what is your outlook for your community's economy in the next 12 months?



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

Chart 3

Overall, what is your outlook for your community's economy in the next 12 months?



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