

REGIONAL ECONOMIC CONDITIONS IN THE NINTH DISTRICT

GENERAL BUSINESS SURVEY

February 23, 2024

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FEDERAL RESERVE BANK
OF MINNEAPOLIS

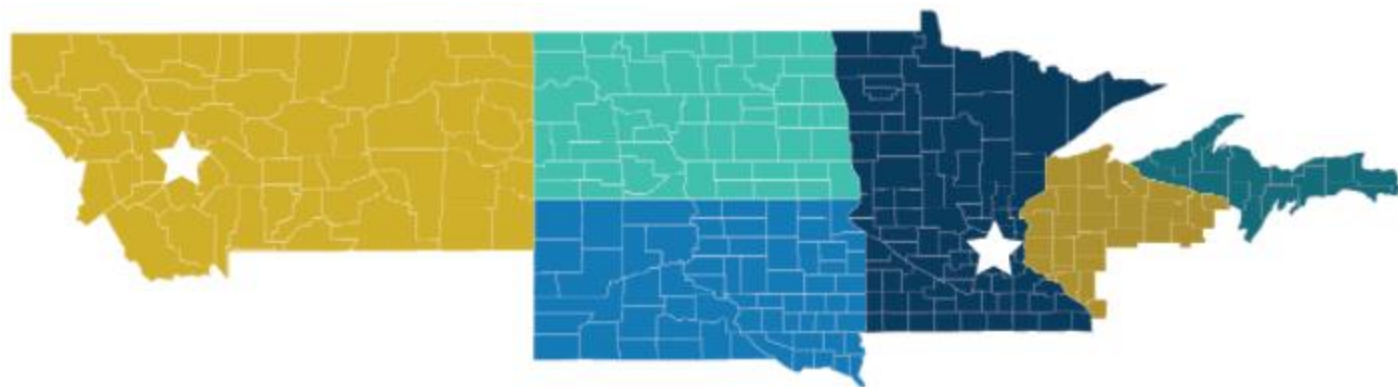
DISCLAIMER

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 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**

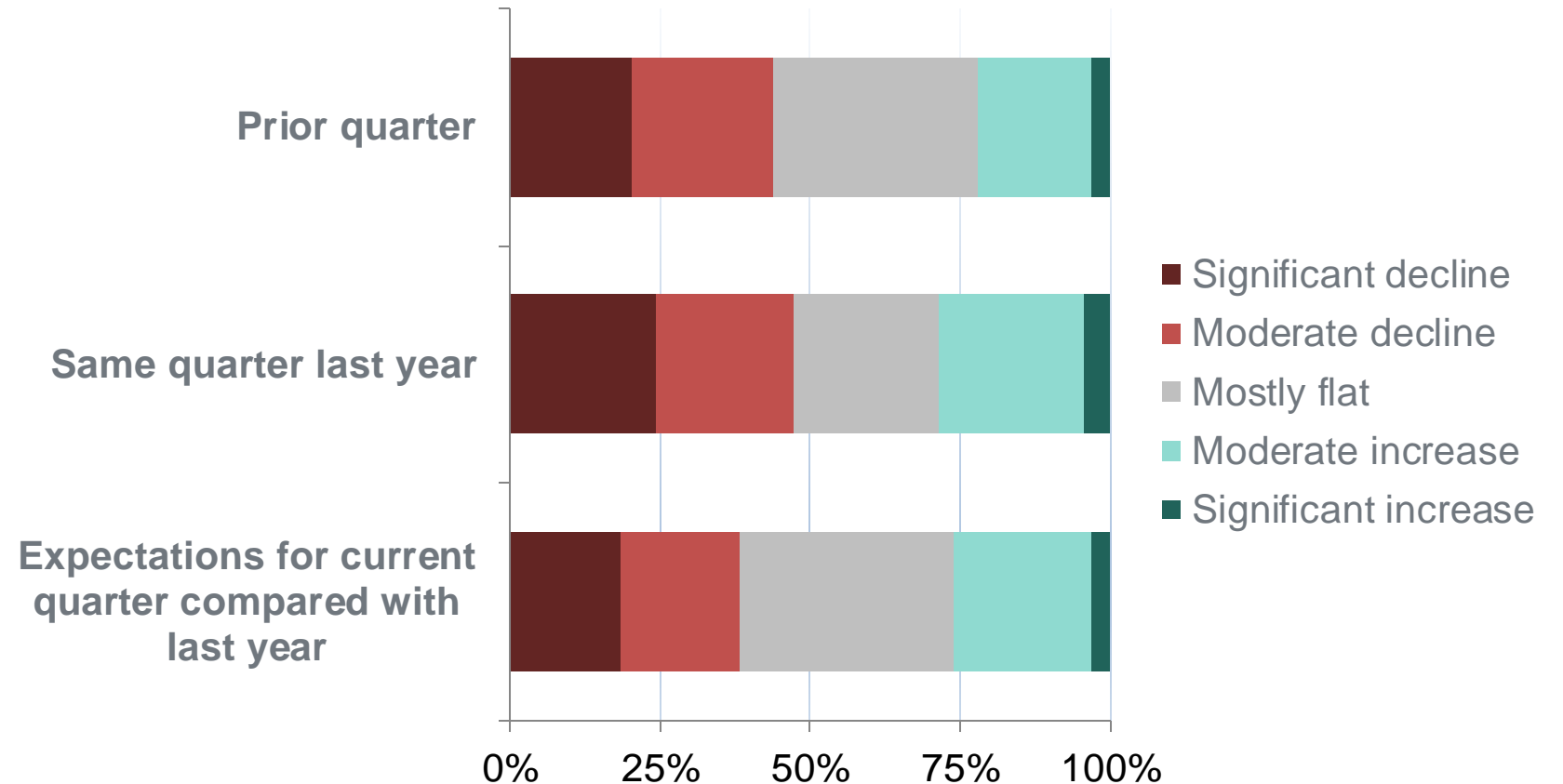
RECENT AND FUTURE REVENUE

More firms seeing lower revenues

Unseasonably warm winter impacted many respondents

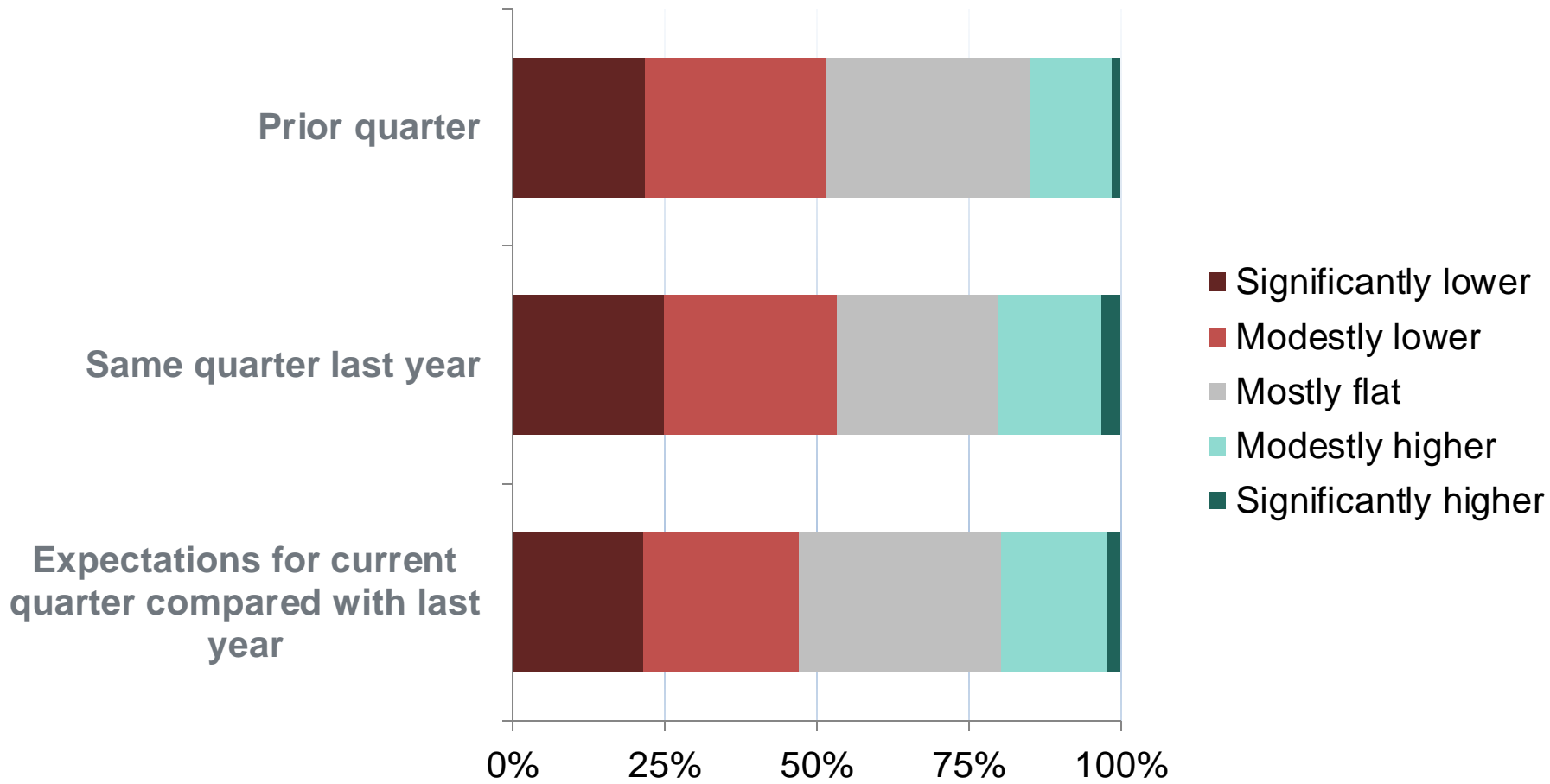
Some compositional factors influencing overall sentiment (*more on this in a bit*), but probably not enough to change the overall trend

Recent quarterly revenue compared with...:



PROFITS DECLINED

Recent quarterly profits compared with...:



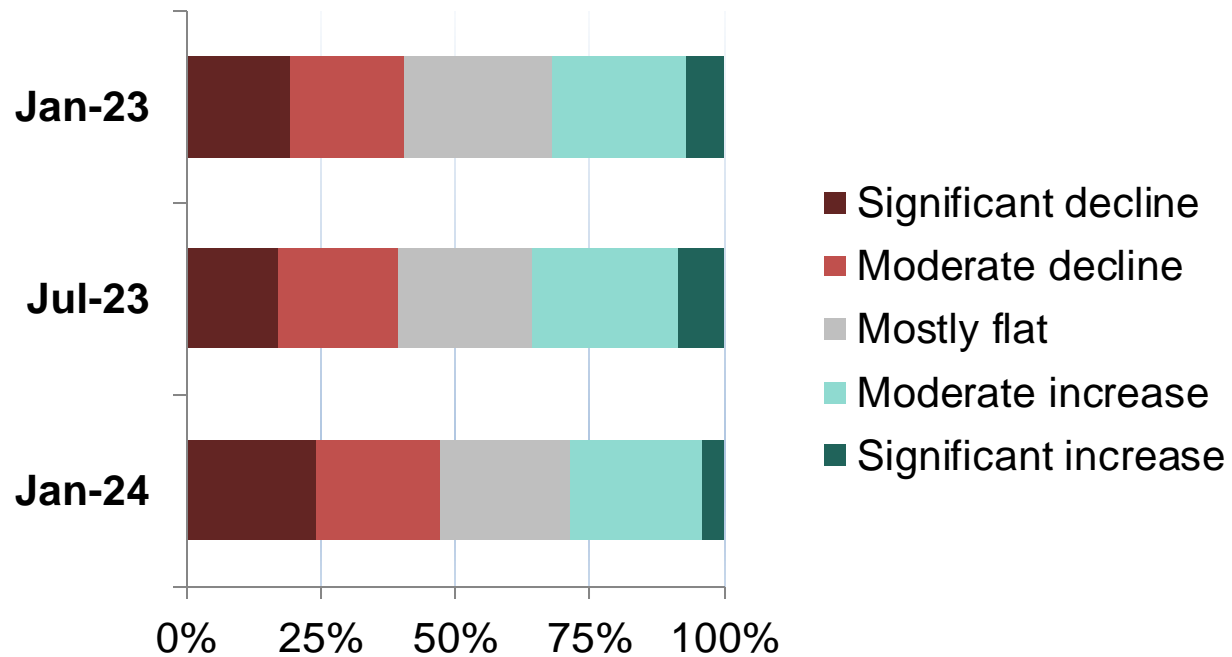
Profits continue to fall across the board



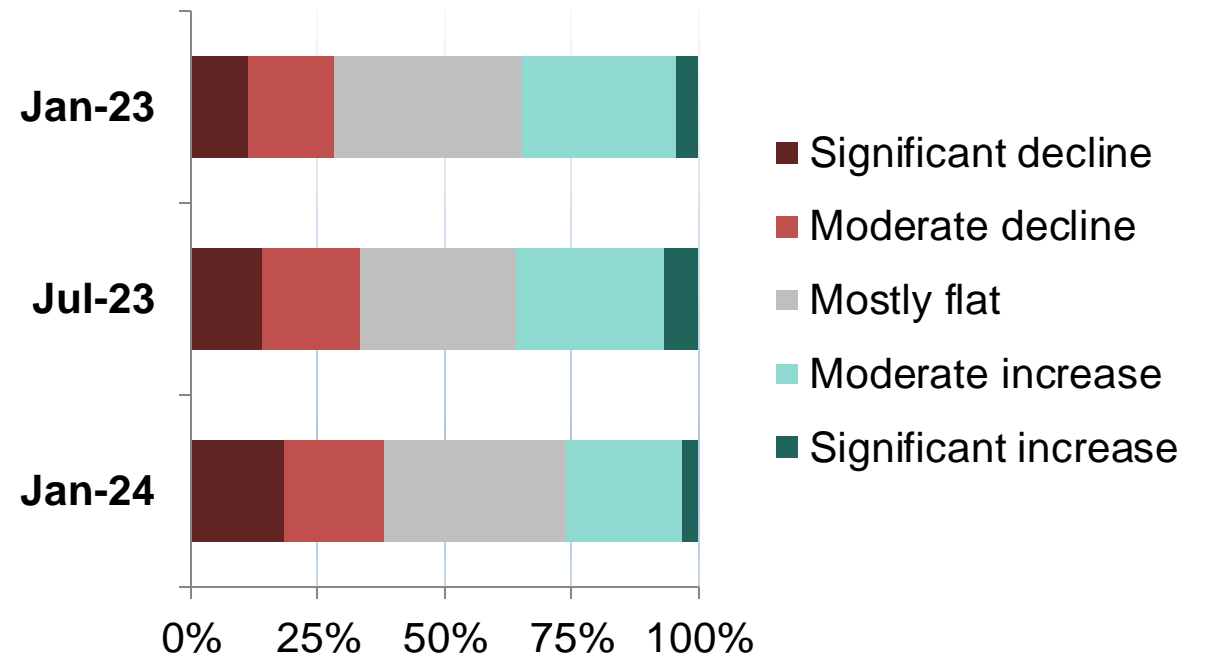
Y-O-Y SURVEY COMPARISON

Revenue trend worsening, and expected to continue

Recent revenues compared with same period last year



Expectations for next quarter compared with last year





**CAUTION TAPE:
REVENUE BY FIRM TRAITS**

REVENUE TRENDS, BY STATE

Responses by state are idiosyncratic; over-weighted in some sectors

Responses: State/sector

MT: FIRE = 27%

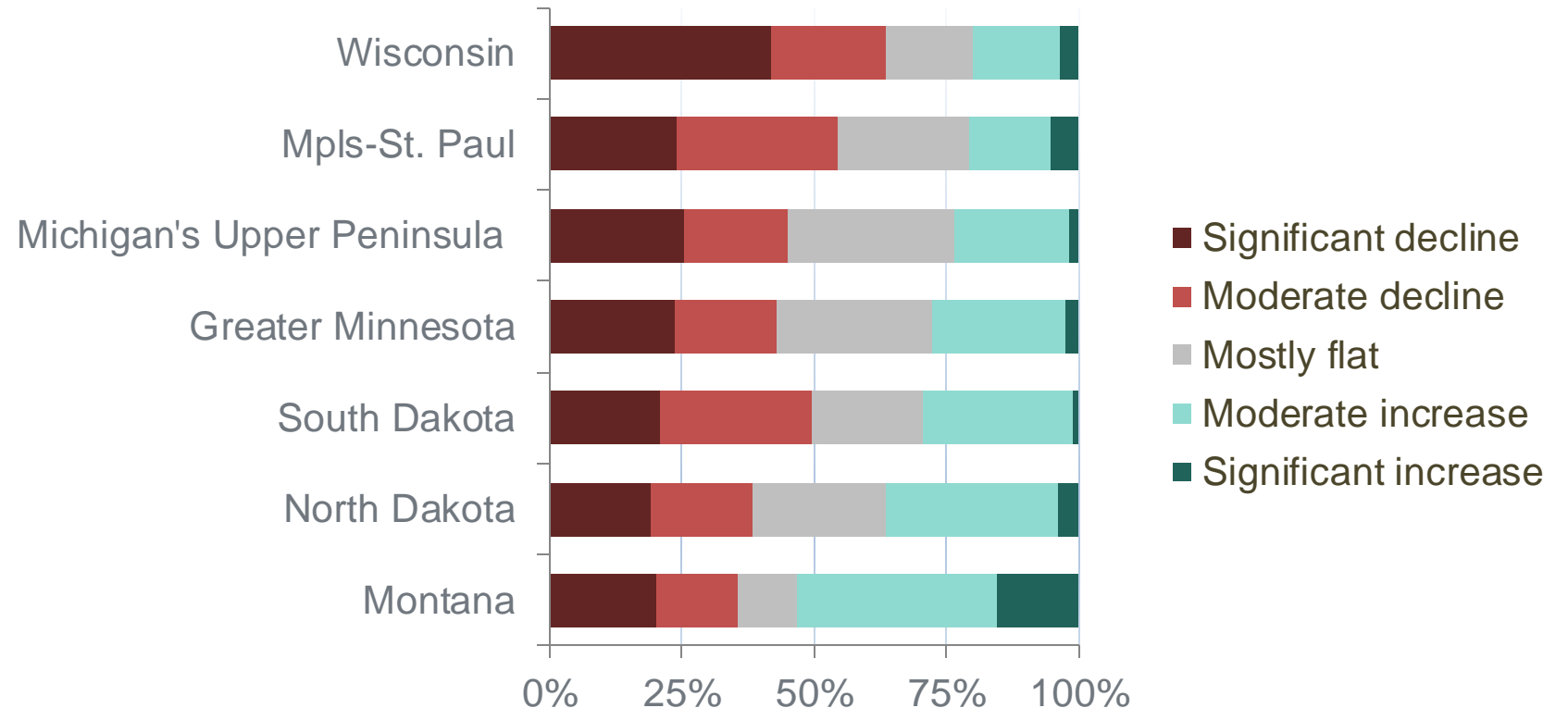
SD: retail = 33%

WI: Accommodation/food + retail = 52%

(“really bad winter ...”)

Please interpret very, very cautiously

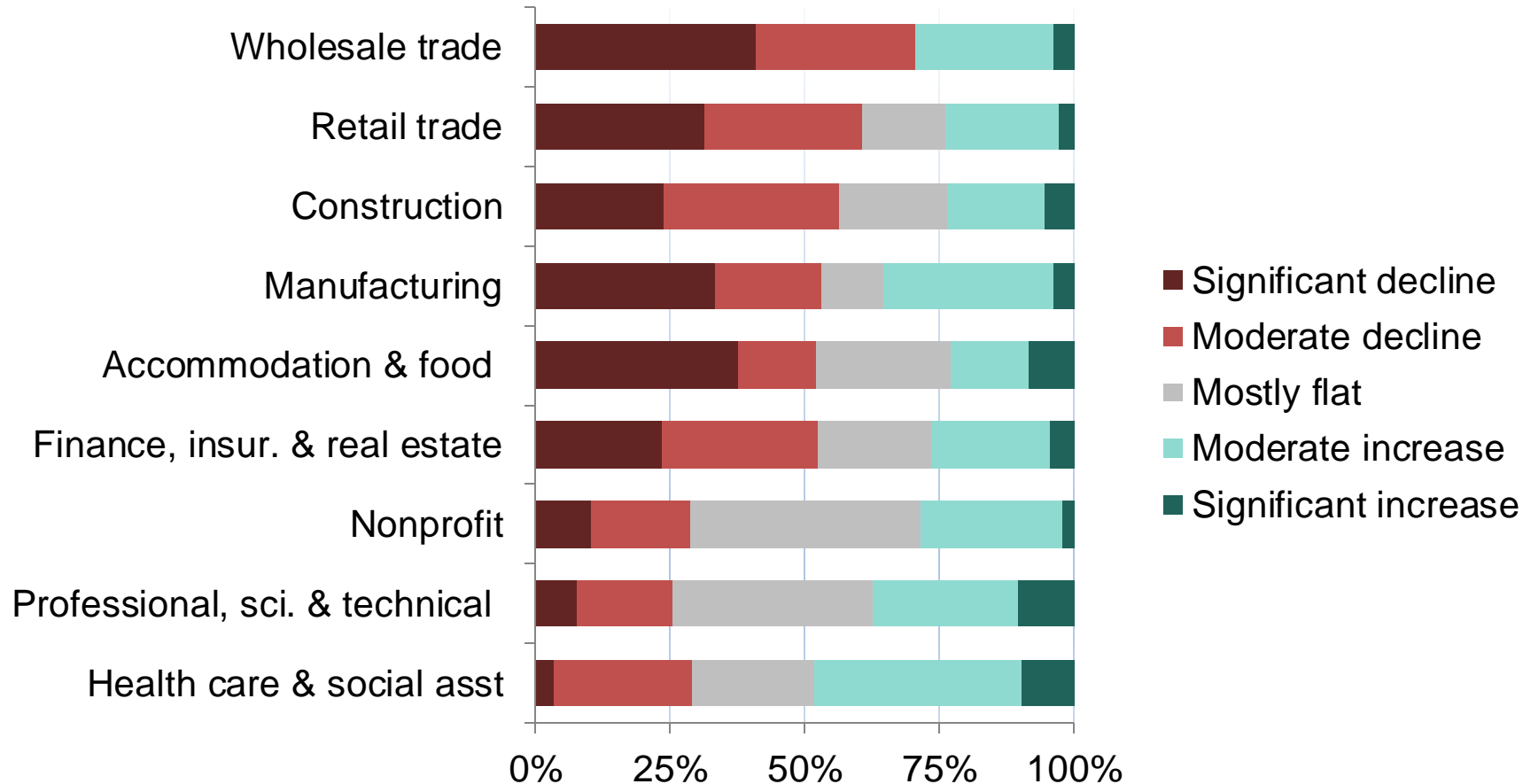
Most recent quarter compared with same quarter last year



REVENUE TRENDS, BY SECTOR

Recent revenue compared with last year

At least 25 responses



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

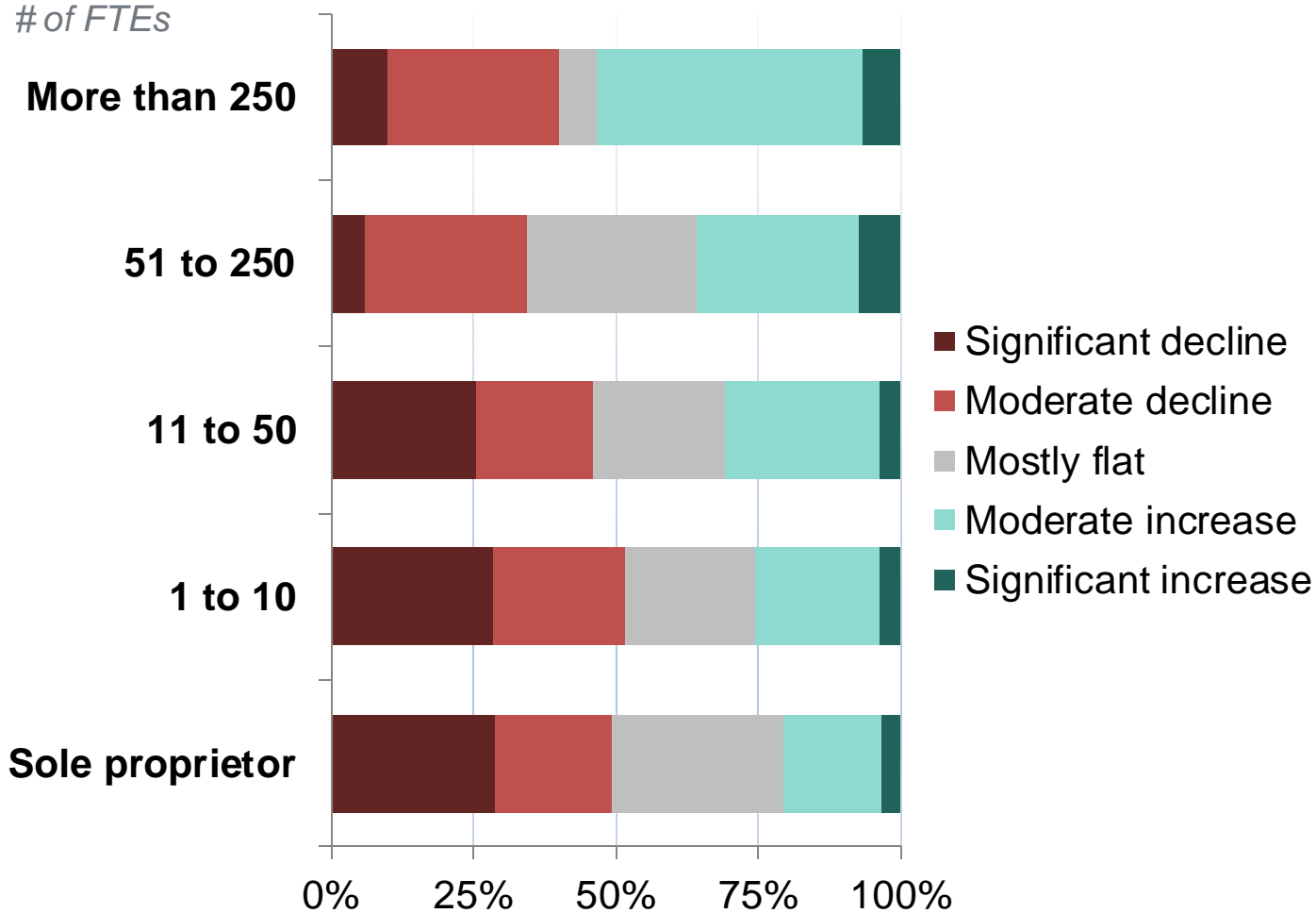


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REVENUES BY FIRM SIZE

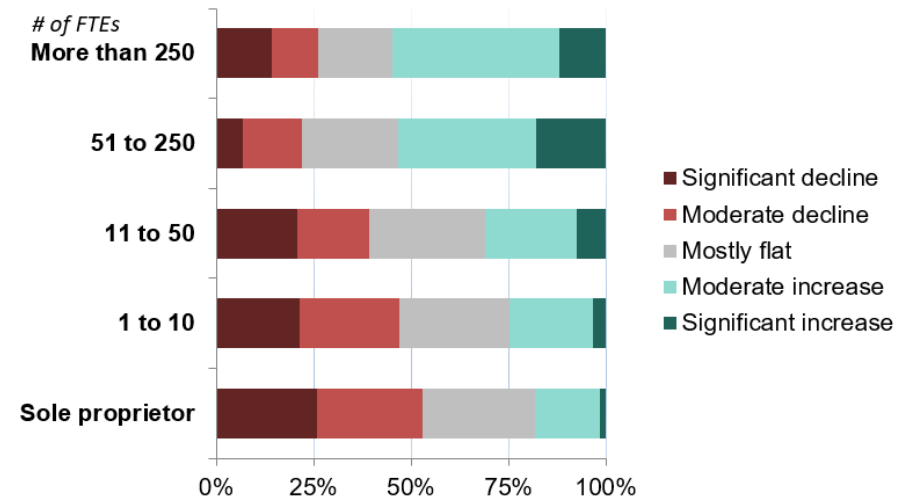
Quarterly revenue compared with last year

By full-time-equivalent staffing level



Larger firms faring modestly better, but seeing some compression toward small firms

Revenue trend by size: January 2023 survey



COMPOSITIONAL FACTOR: FIRM SIZE

Recent surveys have seen increased response; larger share of responses coming from very small firms (who have seen consistently poorer results)

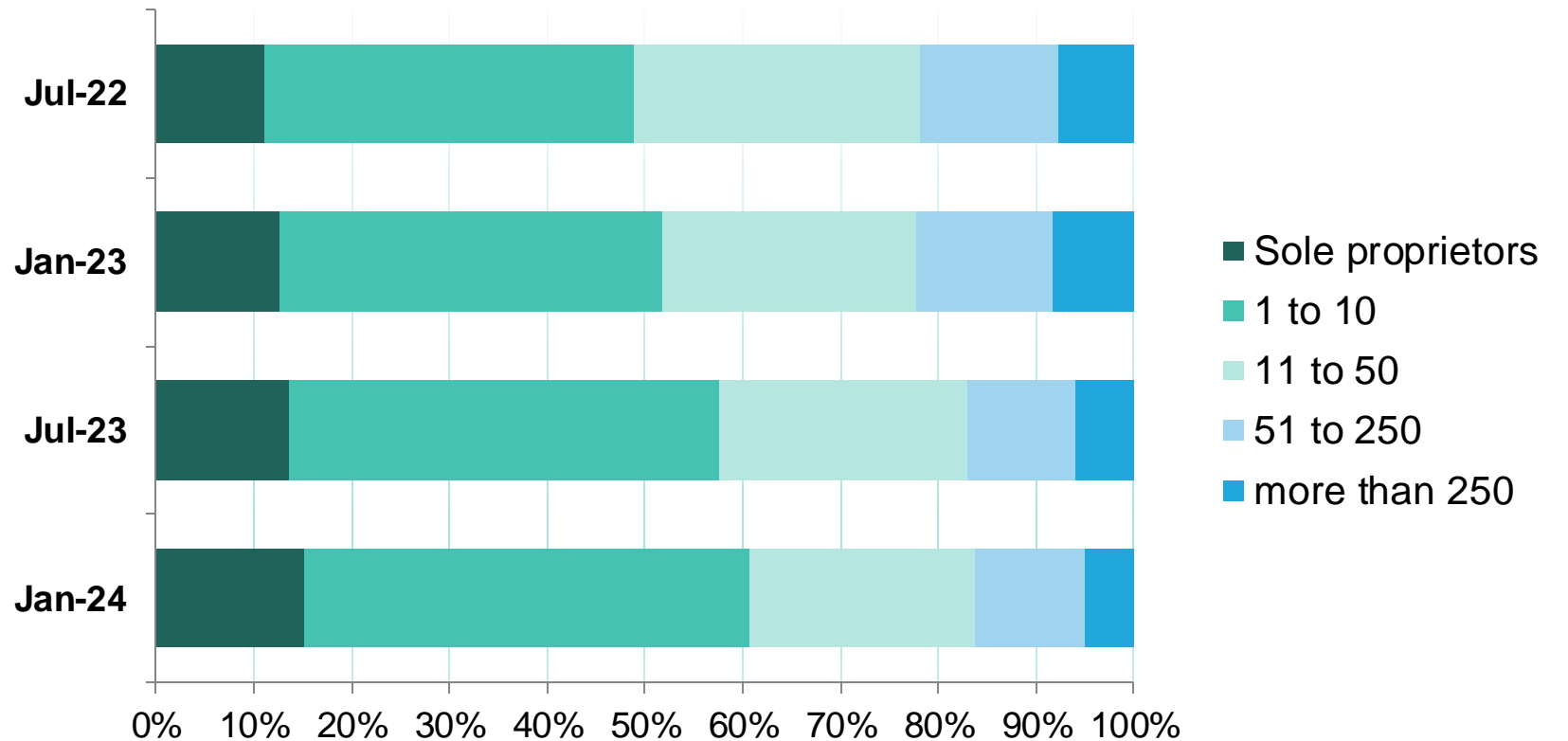
10 or fewer employees

July 2022: 49%

January 2024: 61%

(still under-represents their overall share of firms in economy)

How many full-time equivalent workers does your firm currently employ?



PROFITS BY FIRM SIZE

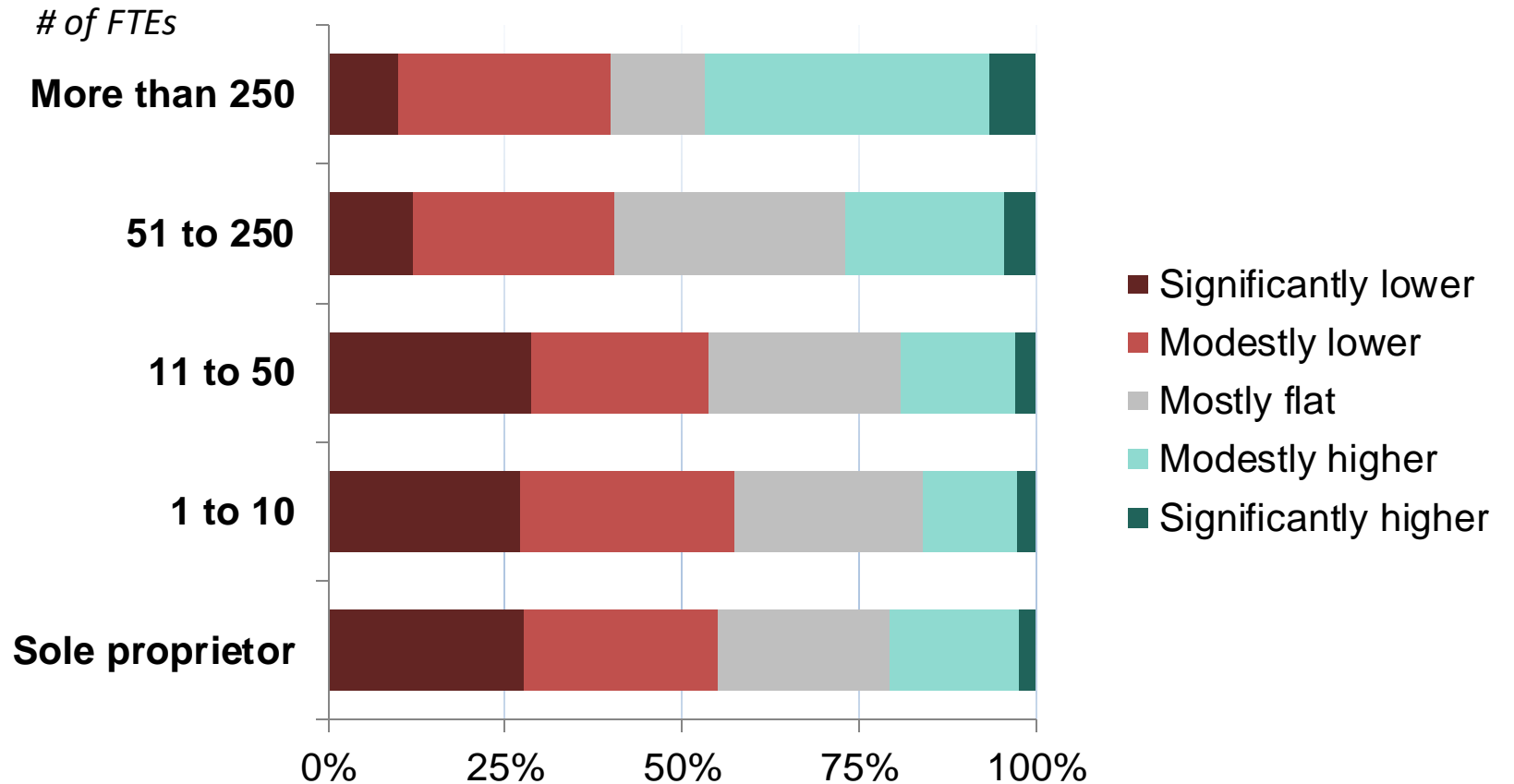
Profit trend broadly lower for smaller firms

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

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

Quarterly profits compared with last year

By full-time-equivalent staffing level





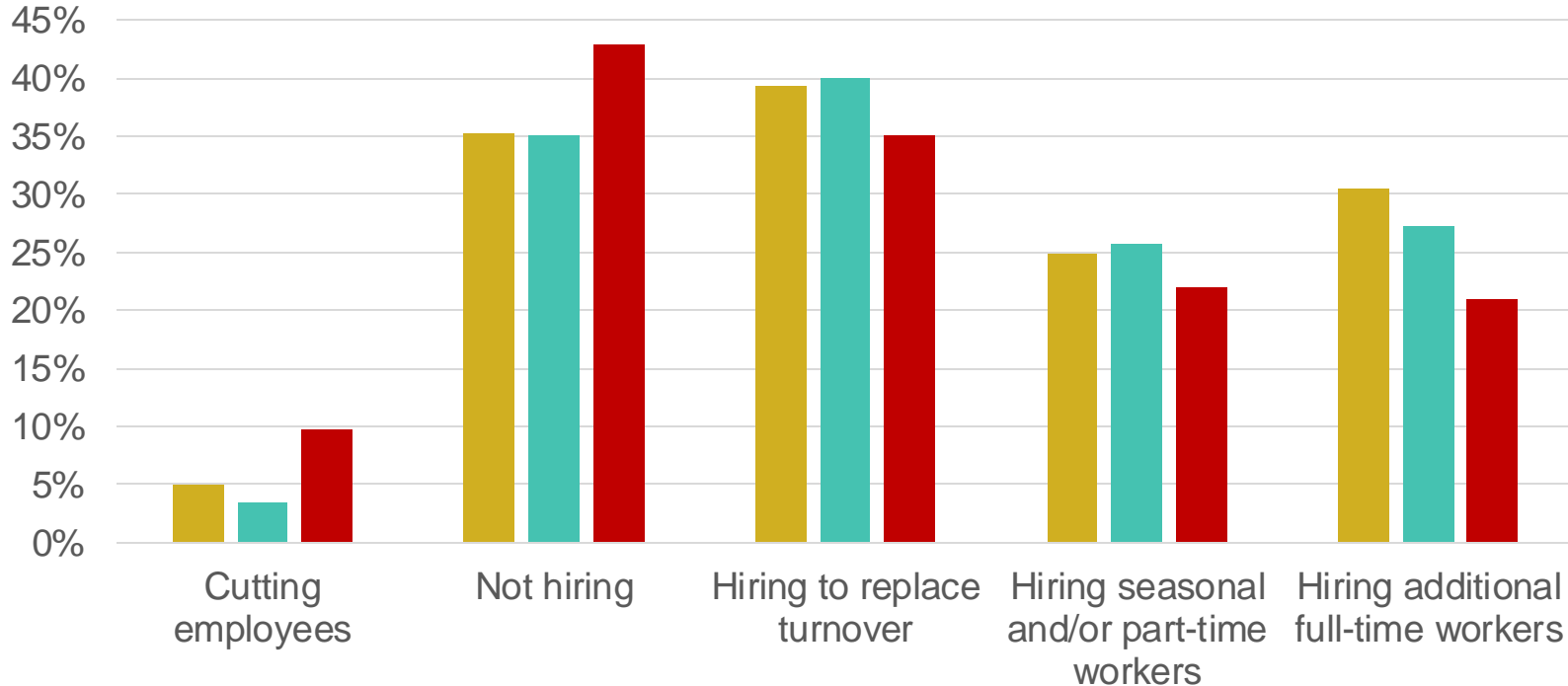
WORKFORCE & WAGE TRENDS

LABOR DEMAND

Describe hiring demand at your company

(Check all that apply)

■ Jan-23 ■ Jul-23 ■ Jan-24



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

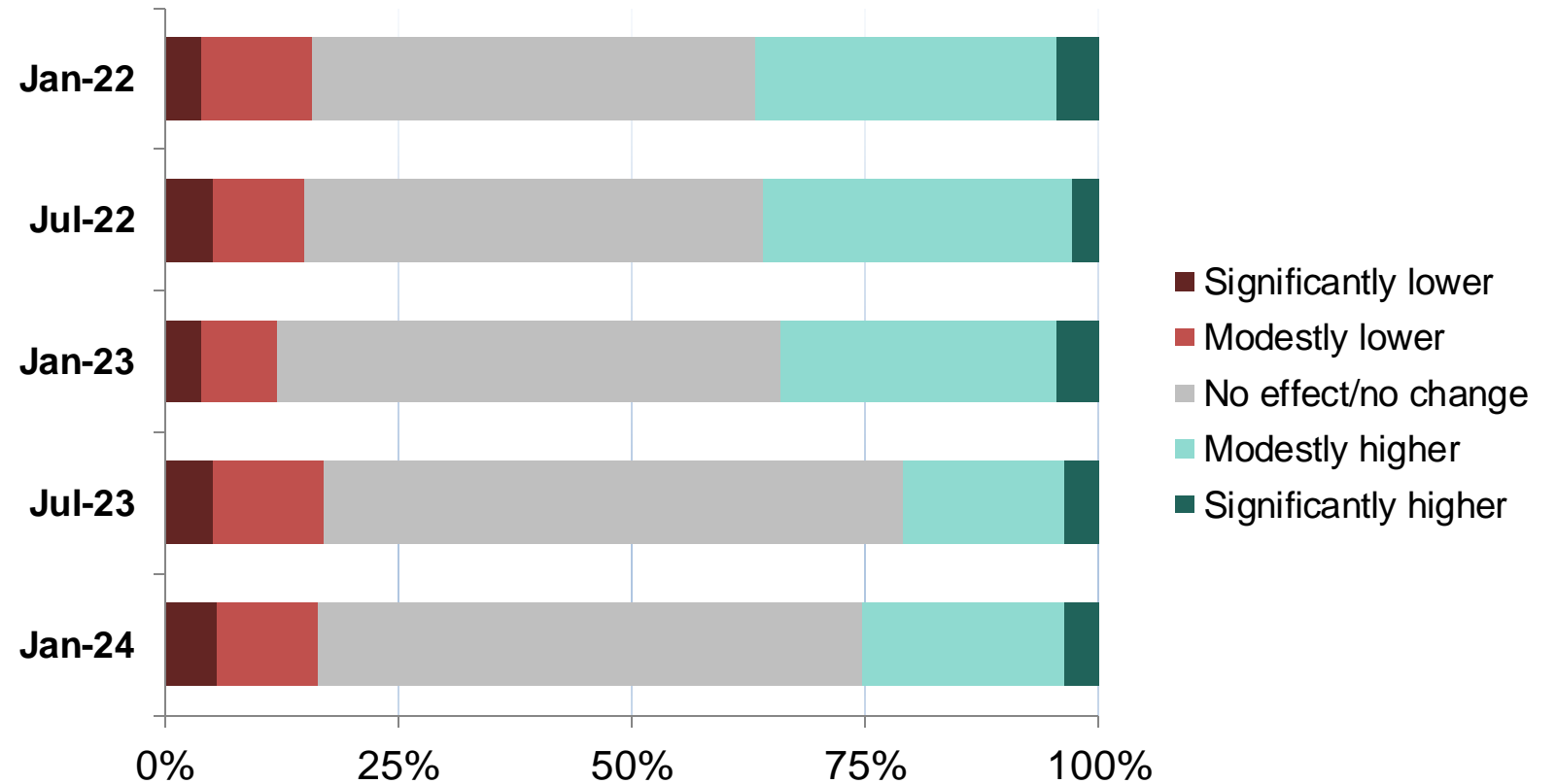


STAFFING: MIXED SIGNALS

Overall, more firms expect future staffing will increase than decrease

However, share continues to erode, especially compared with Jan 2023 survey

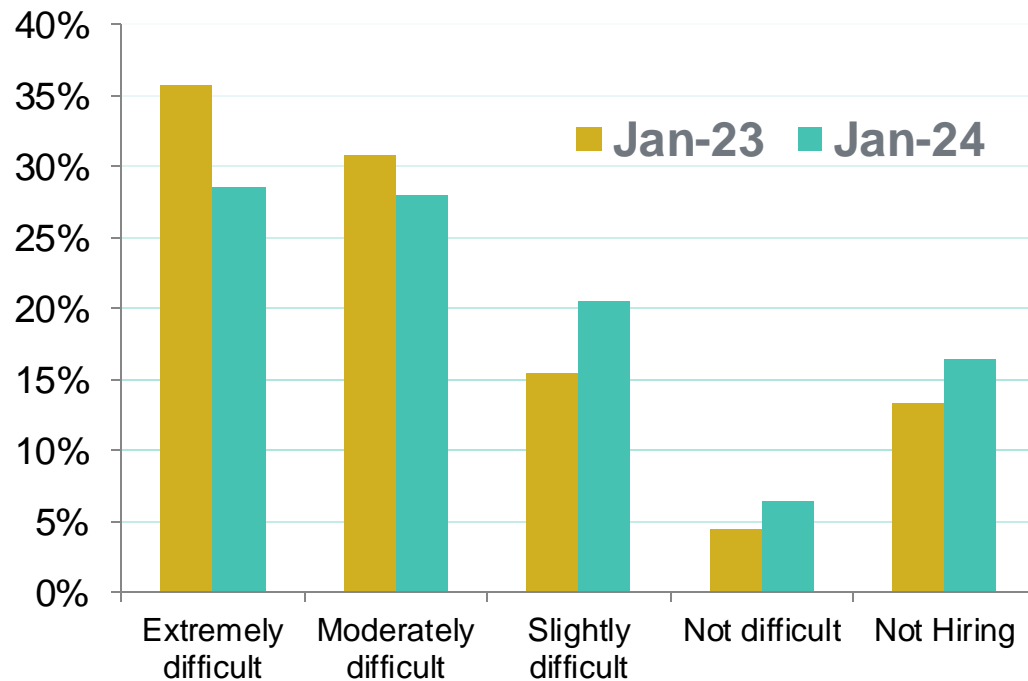
Expected future staffing in 6 months compared with current staffing



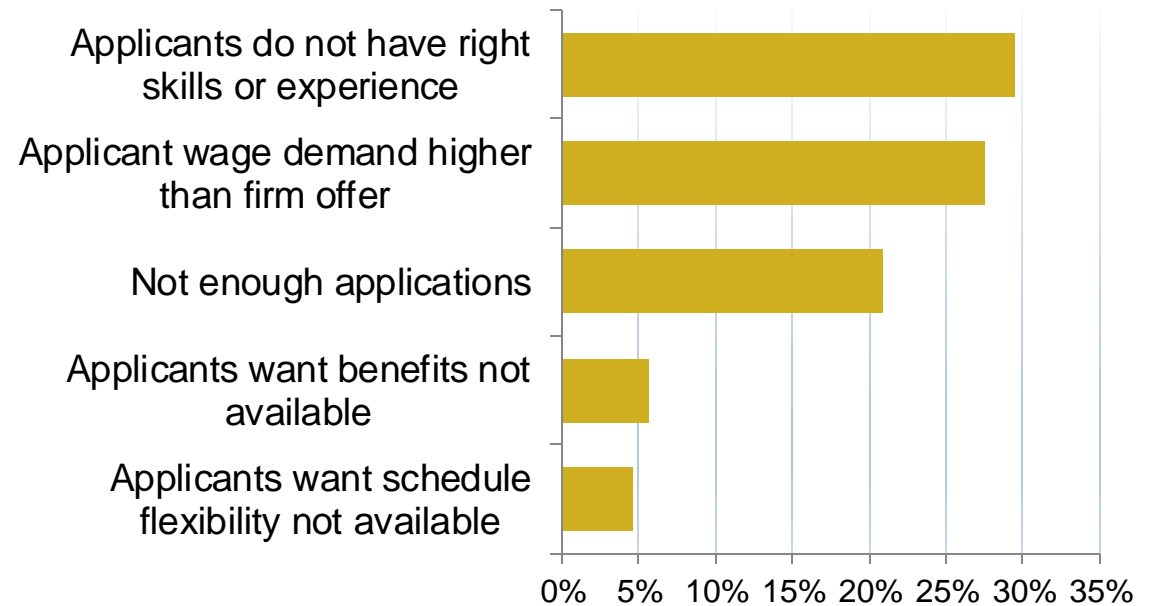
LABOR AVAILABILITY

- 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?

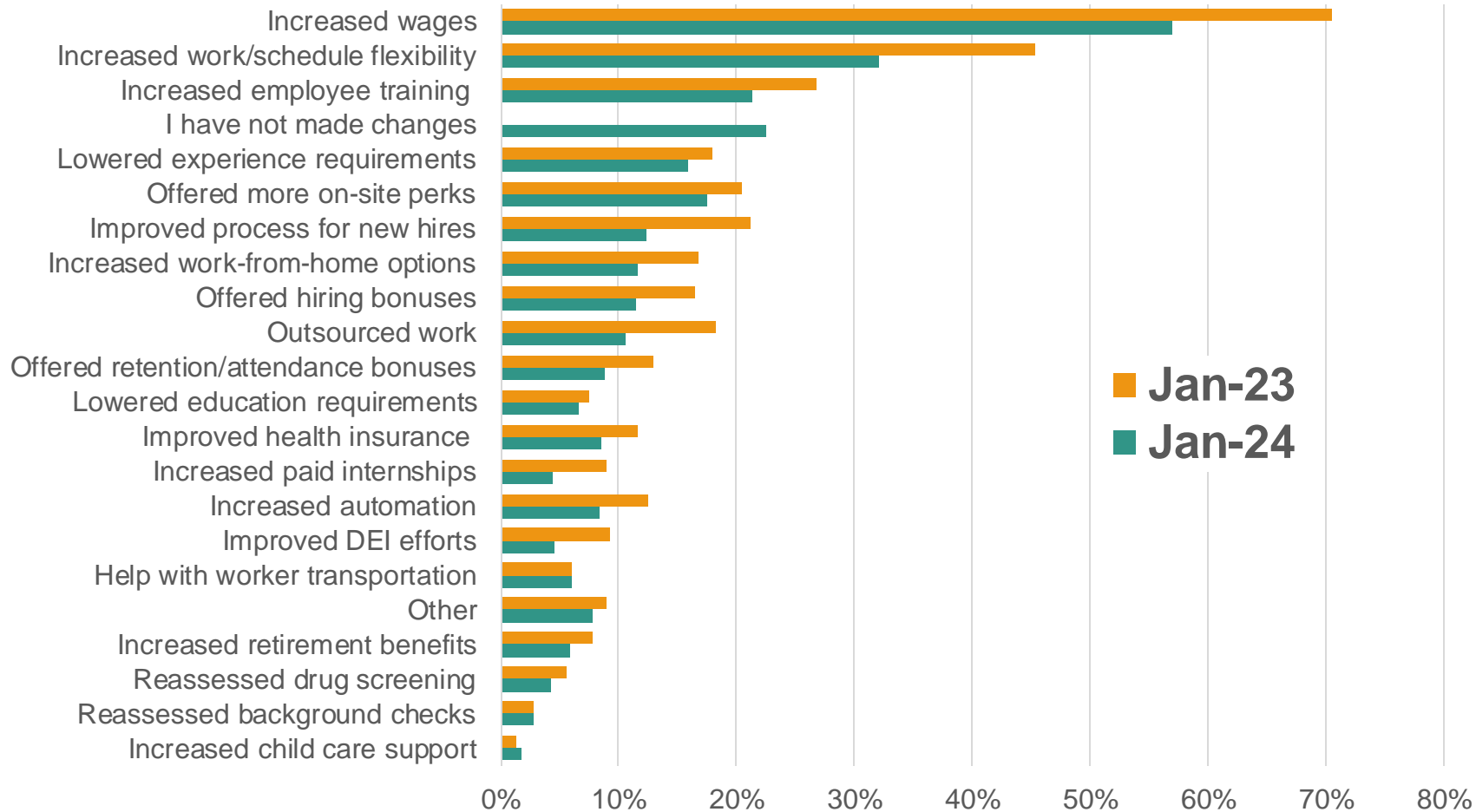


Hiring: Biggest challenge in finding new employees?



HIRING STRATEGIES

What has your company done in the last six months to address labor needs? (Check all that apply)

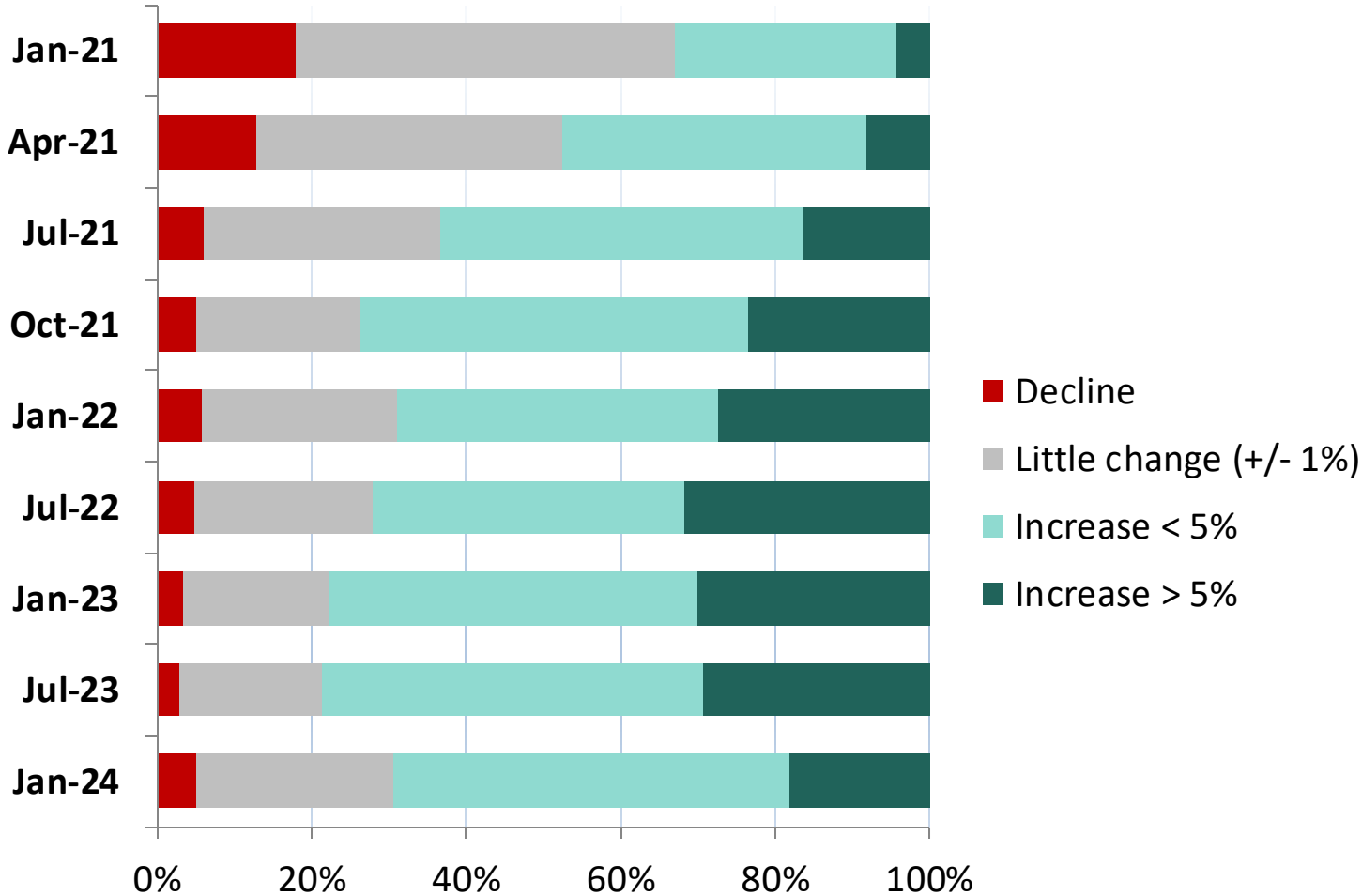


Companies reported *pulling back* on many efforts to attract workers, likely because they were seeking fewer workers, and have (comparatively) less difficulty finding new employees



WAGE PRESSURE STILL STRONG

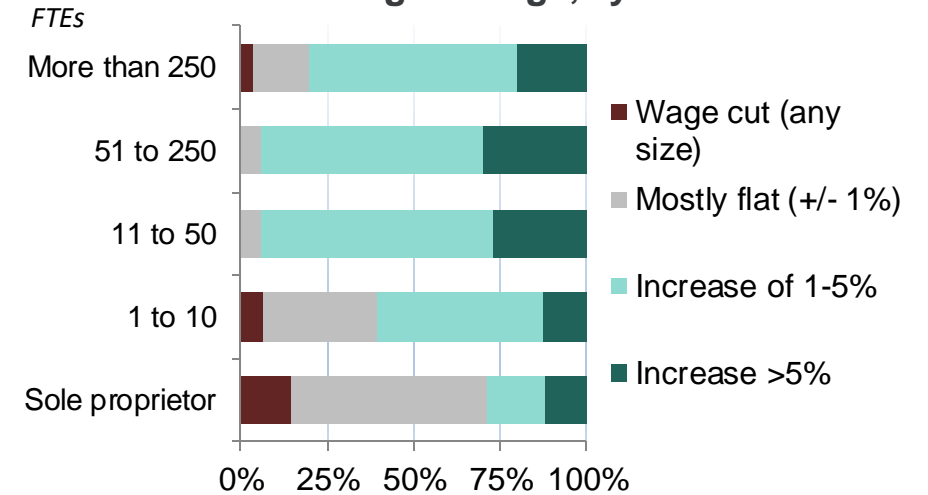
Average wages compared w/ one year ago



Wage growth moderating

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

12-months wage change, by firm size

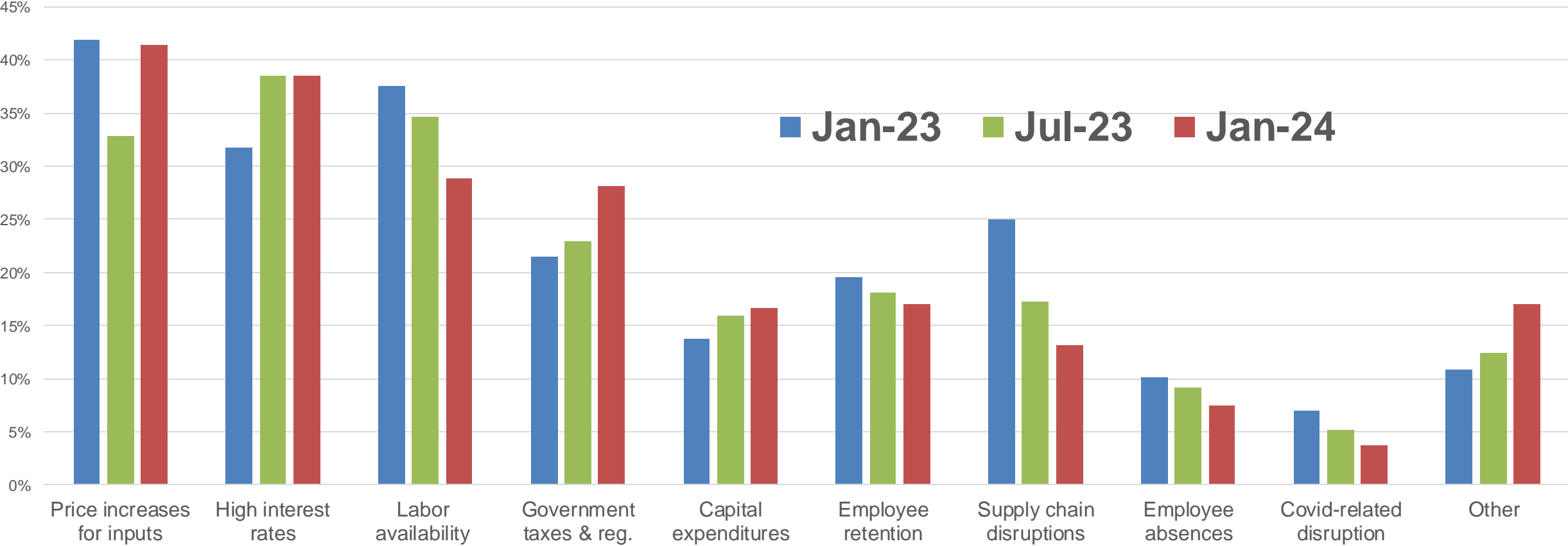


A stylized, light teal outline of an eagle with its wings spread, set against a teal background. The eagle's head is turned to the left. There are several five-pointed stars scattered around the eagle's body. In the top left corner, there is a small, dark teal horizontal bar.

CHALLENGES

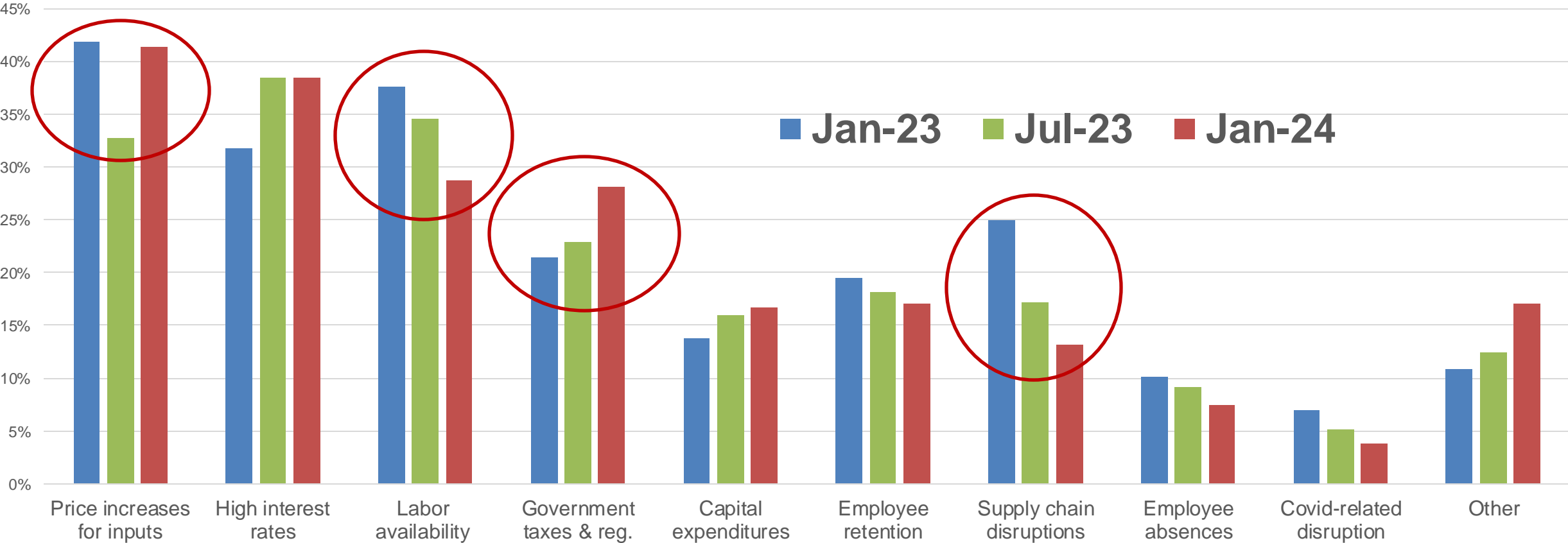
CHALLENGES TO OPERATIONS

Pick two: Greatest challenge to operating capacity and productivity



CHALLENGES TO OPERATIONS

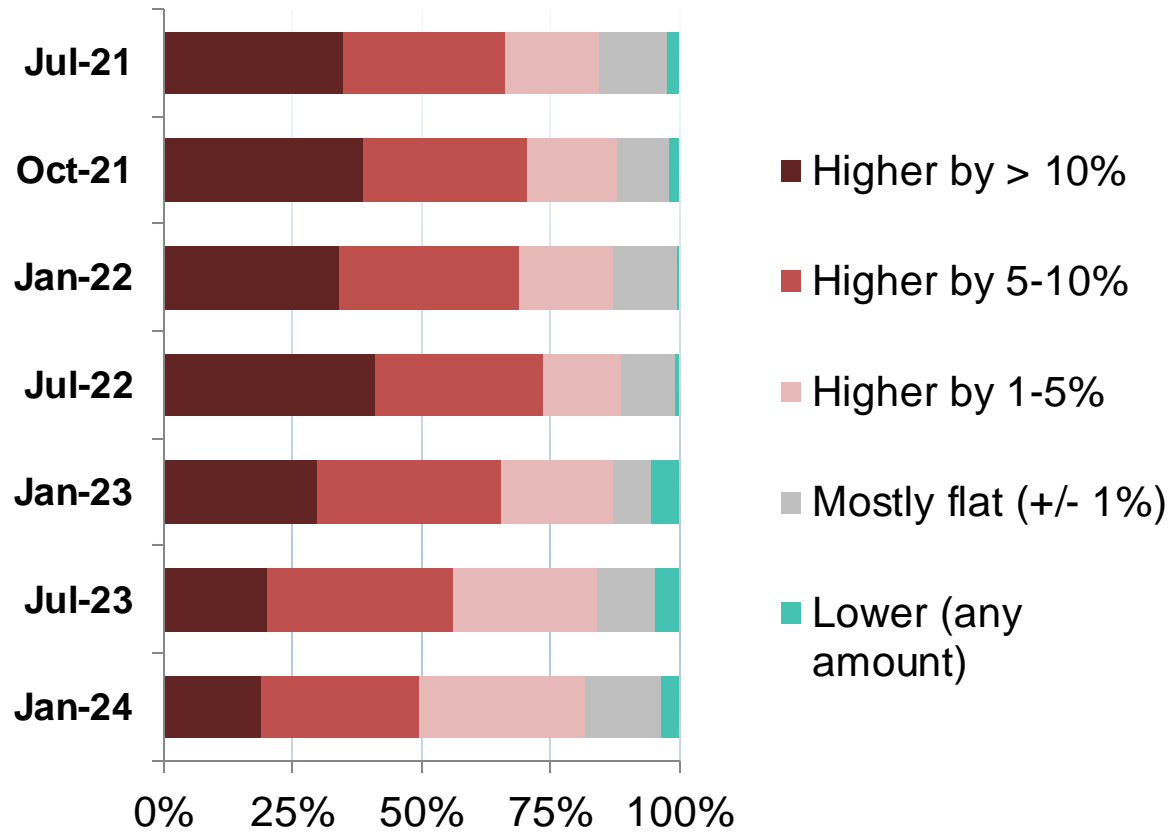
Pick two: Greatest challenge to operating capacity and productivity



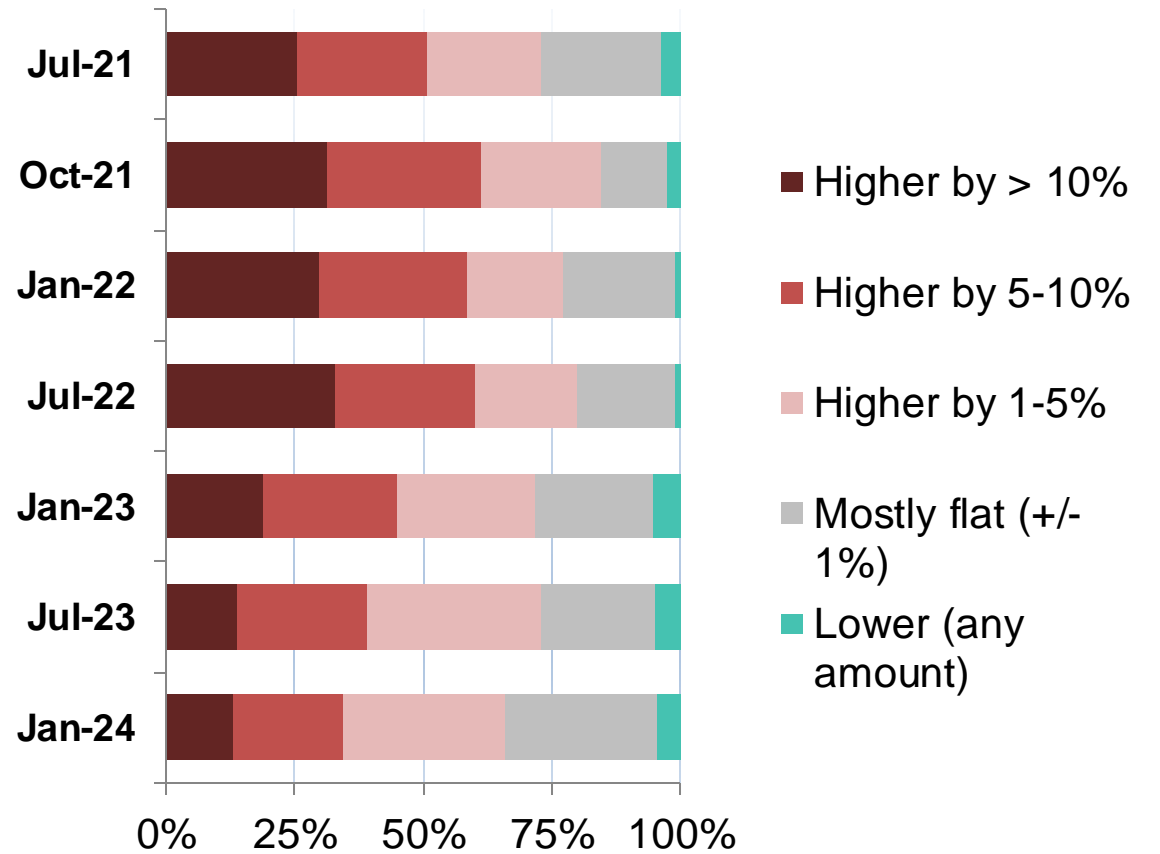
PRICES & INFLATION

Wholesale and retail inflation improving, slowly, esp. at retail level

Non-labor input prices (wholesale)

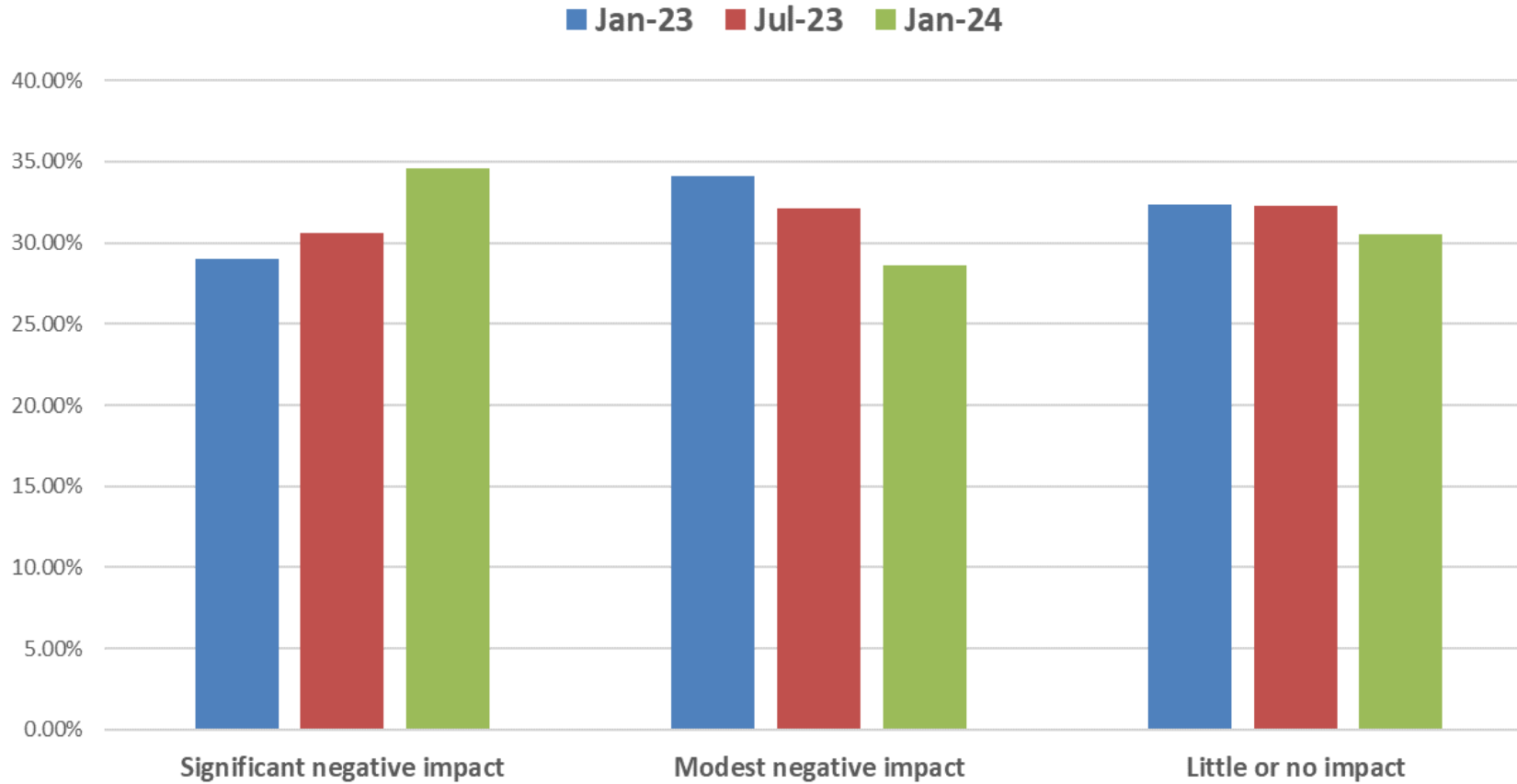


Final prices to customers (retail)



INTEREST RATES

Impact of current interest rates on your business operations



Interest rates are now #2 challenge for businesses

Also asked about positive impact; not surprisingly, few are seeing positive effects (< 5%)

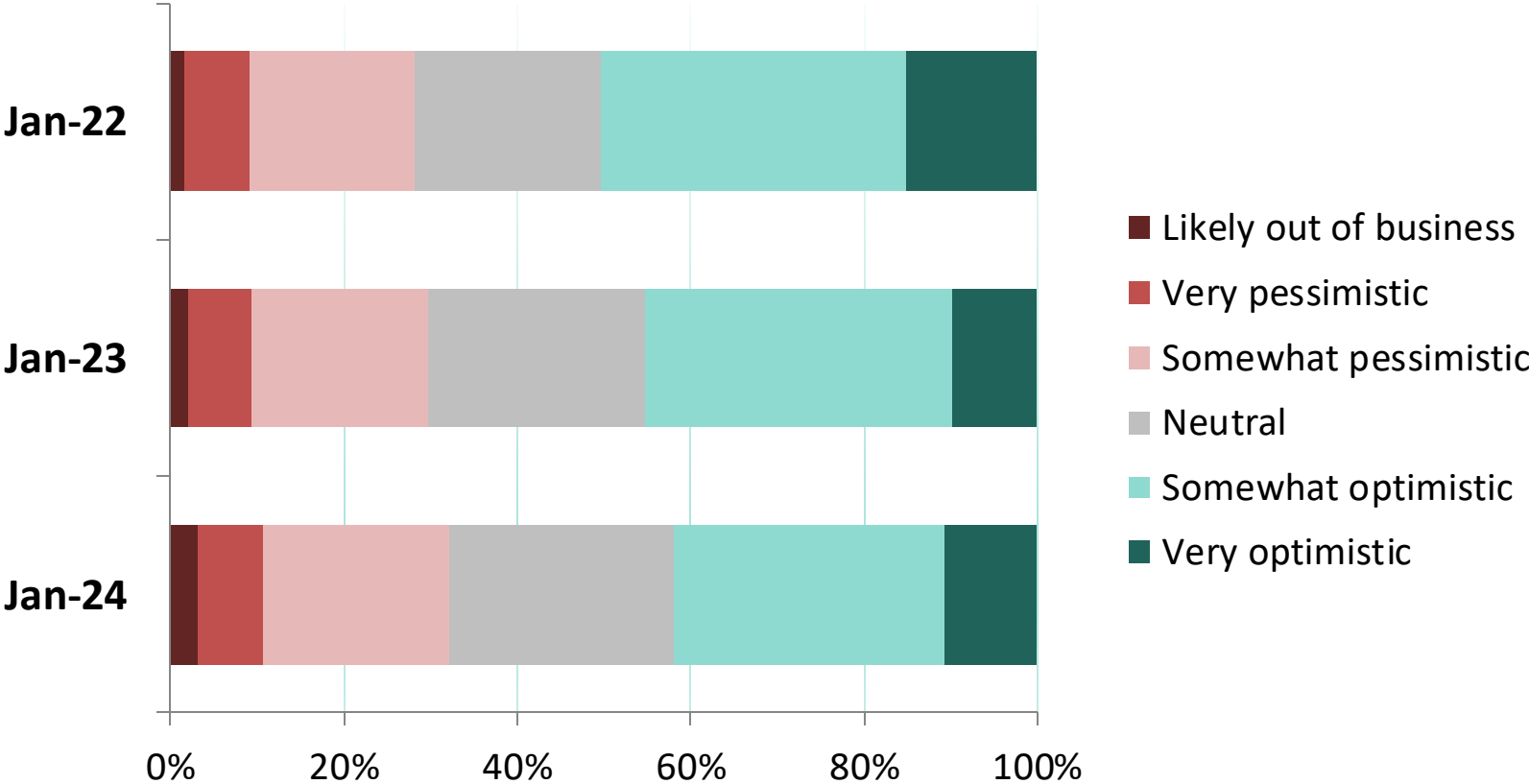


A large, faint, light teal graphic of an eagle with its wings spread, set against a teal background. The eagle is surrounded by several five-pointed stars. In the top left corner, there is a small, dark teal horizontal bar.

OUTLOOK

OUTLOOK: DECLINE, STILL POSITIVE OVERALL

What is your outlook for the near future?



This year's outlook worsened slightly compared with other years

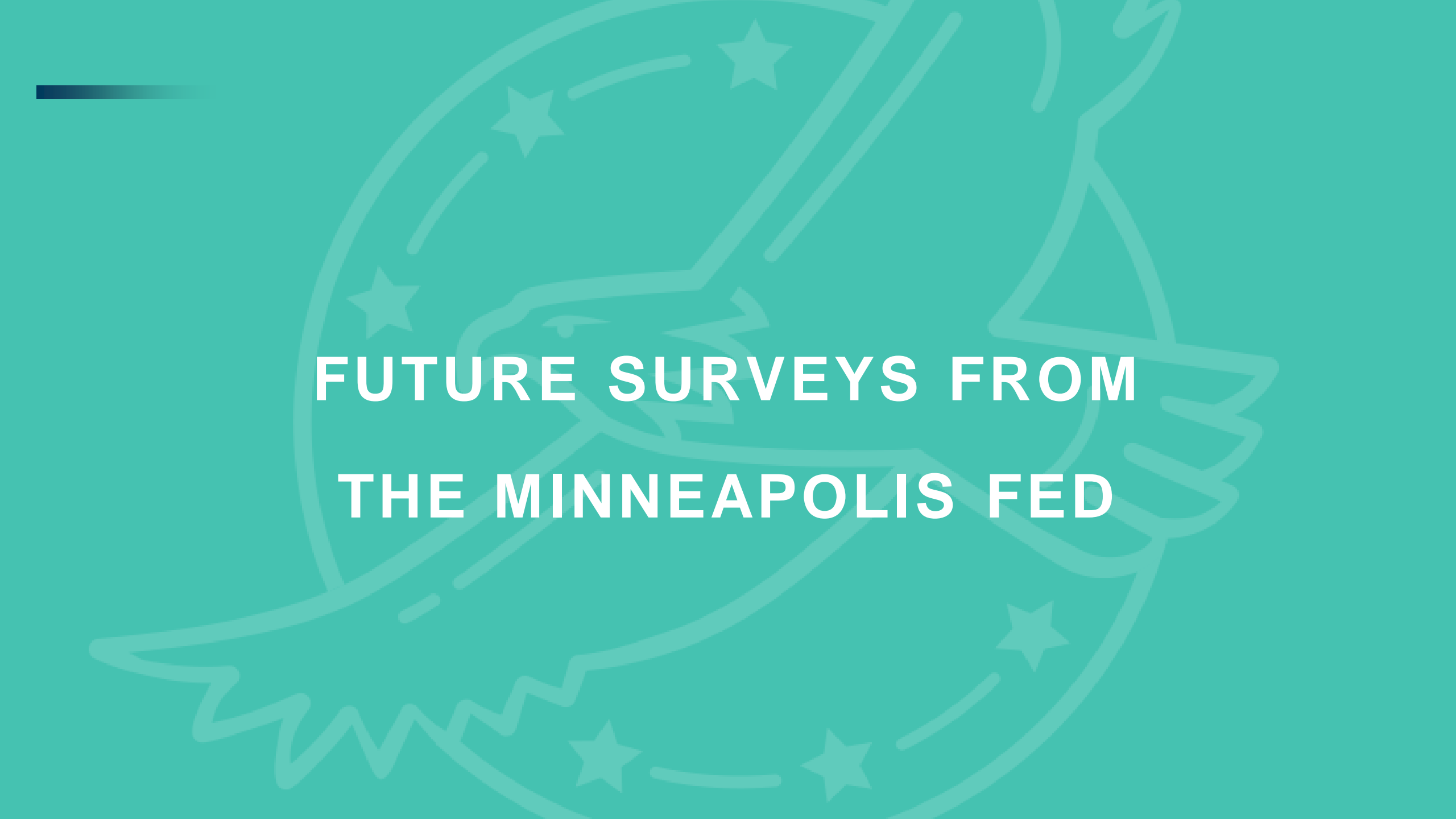
Still net positive, despite revenue and profit trends

Also fairly similar across firm size

FINAL THOUGHTS

- 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?



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