REGIONAL ECONOMIC CONDITIONS IN THE NINTH DISTRICT

GENERAL BUSINESS SURVEY

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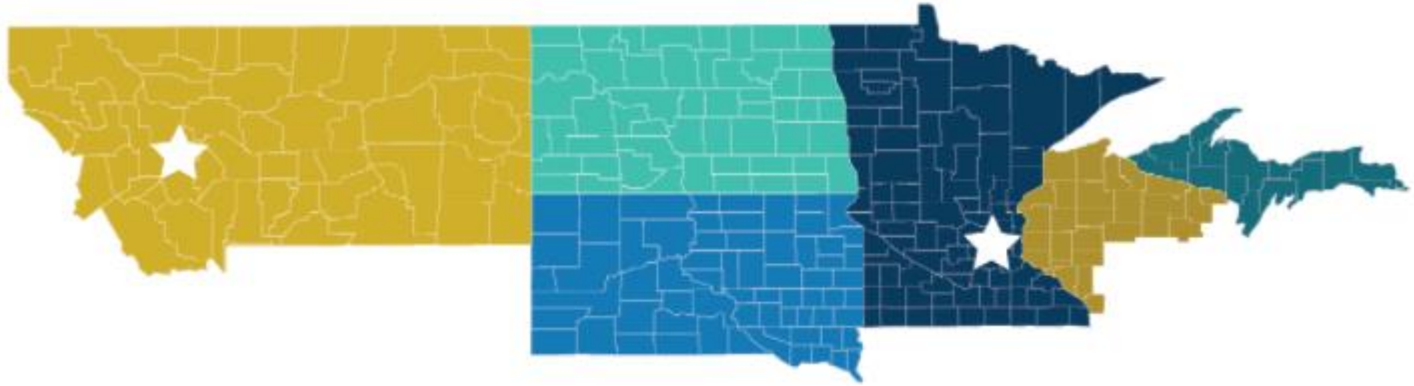
FEDERAL RESERVE BANK OF MINNEAPOLIS

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

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TODAY'S FOCUS

GENERAL BUSINESS SURVEY

- Conducted July 10 to July 24, 2023
- 555 responses from across the Ninth District.
- Shout out to South Dakota and Greater Minnesota 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 mixed revenue and lower profit trends overall
- Profit trends remains negative
- Large firms continue to outperform smaller firms, but gaps narrowed
- Demand for workers continues, but appears to be moderating
- Higher interest rates now biggest concern; inflation still a concern, but moderating
- Labor availability getting better, but still poor; wage pressure remains quite strong
- Outlook: Overall sentiment is modestly positive

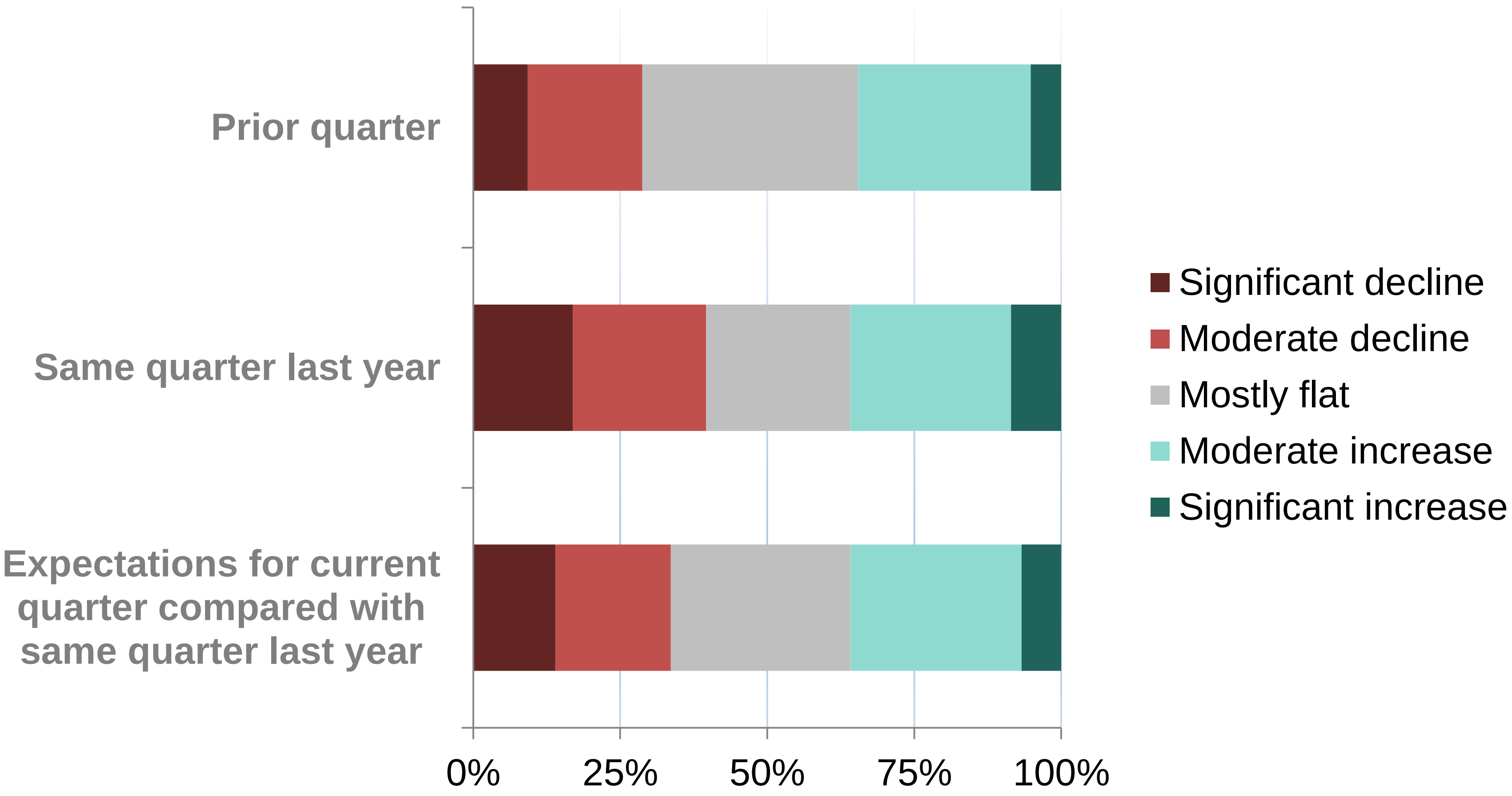
RECENT REVENUE & PROFIT TRENDS

RECENT AND FUTURE REVENUE

Revenues flat, barbell-like overall, including outlook for coming quarter

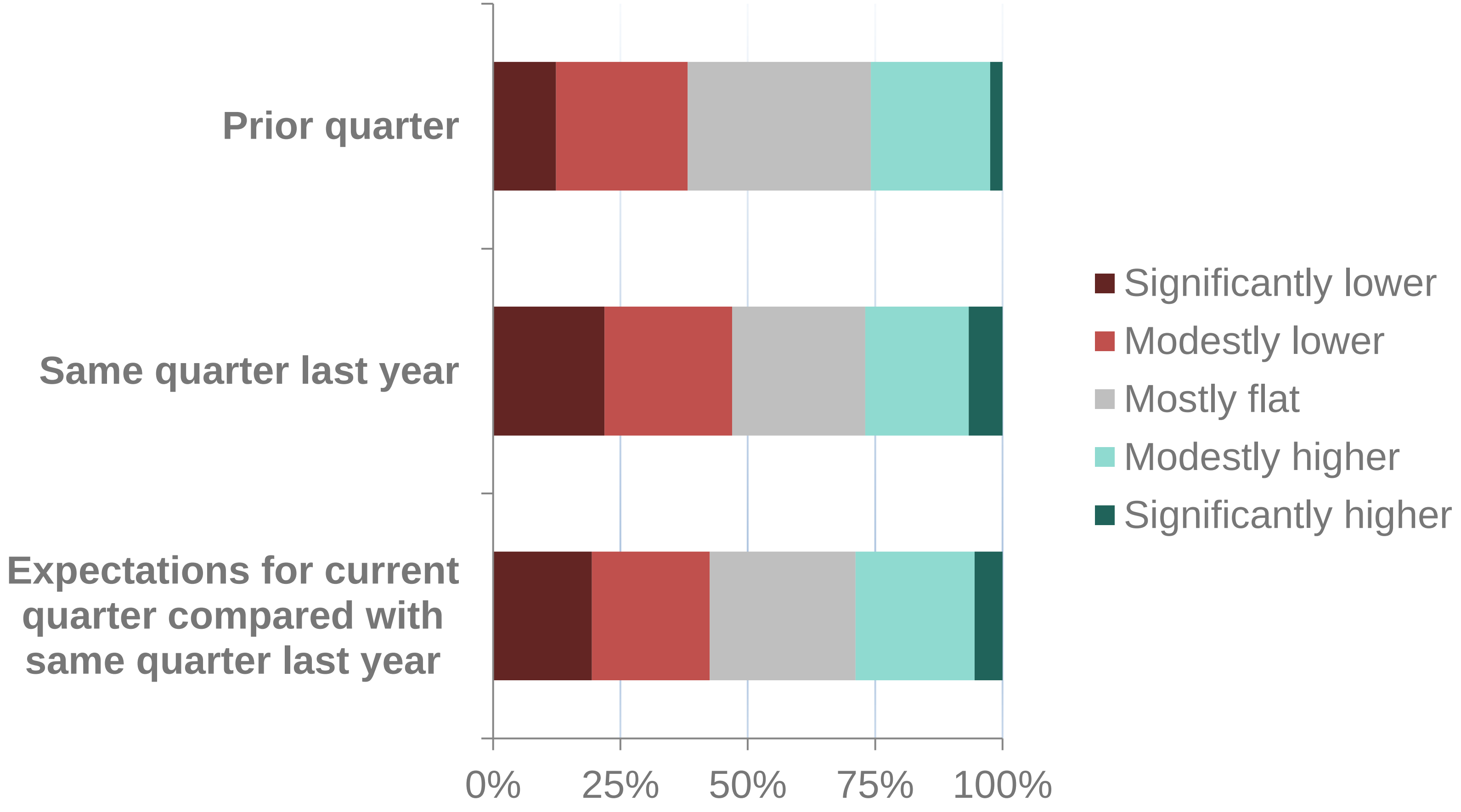
Some compositional factors also likely influencing overall sentiment (*more on this in a bit*)

Recent quarterly revenue compared with...:



PROFITS DECLINED

Recent quarterly profits compared with ...



Profit trend remains negative across the board

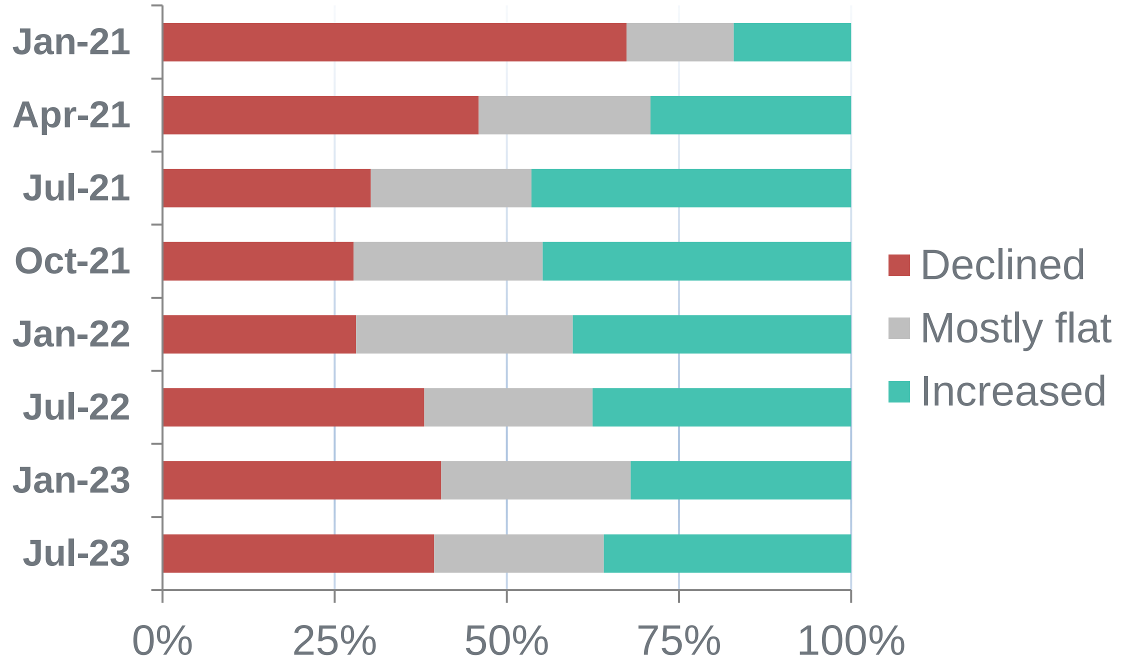
Mostly unchanged from January survey

DIGGING INTO REVENUE TRENDS

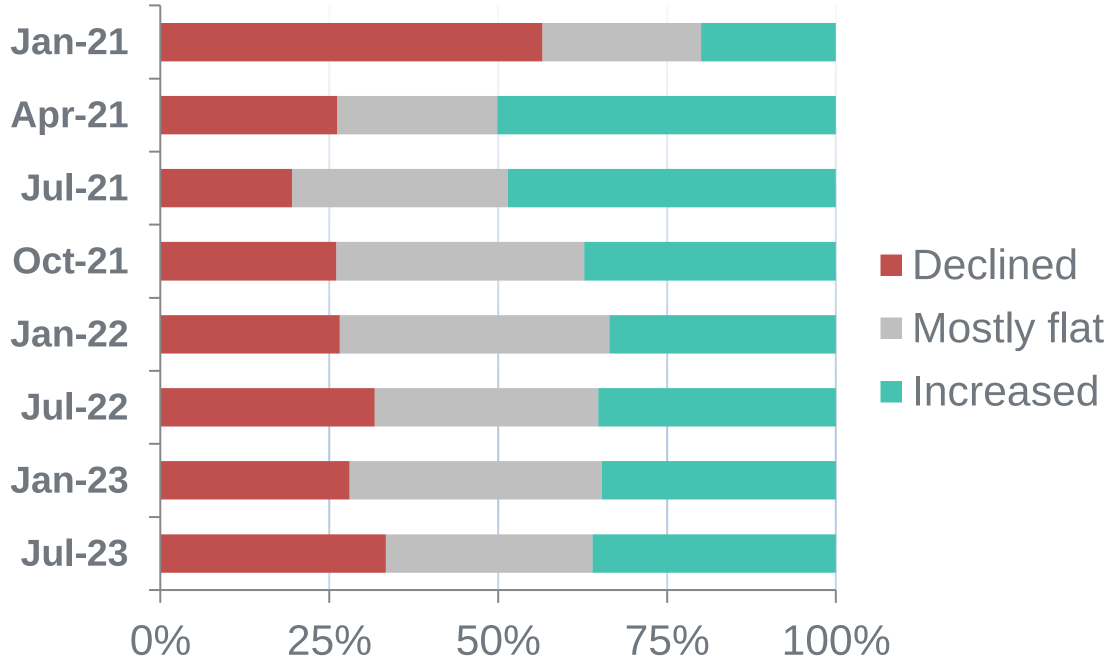
Y-O-Y SURVEY COMPARISON

- **Recent year-over-year comparisons mostly flat**
- **Trend is stable, if unimpressive, during inflation and higher rate environment**

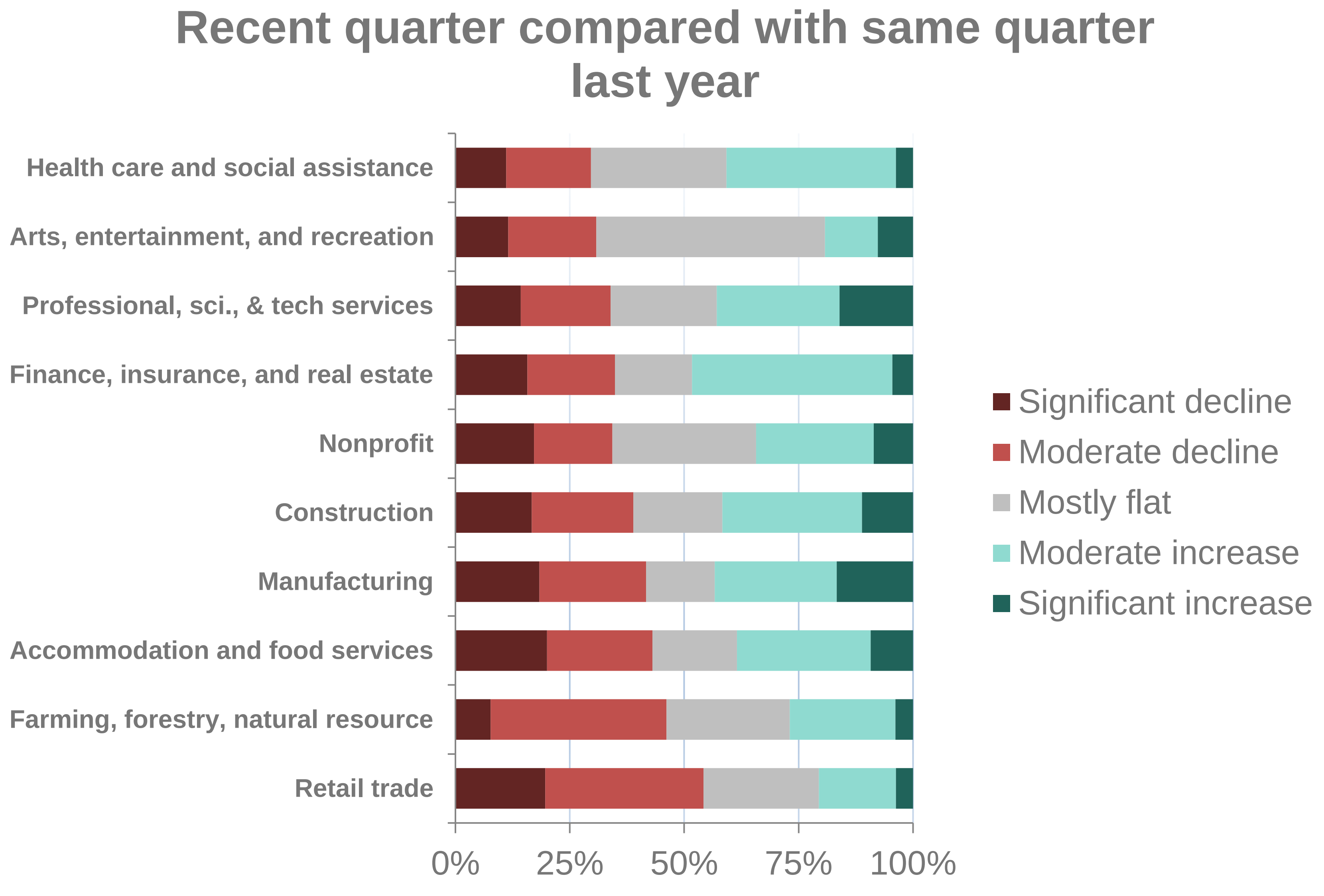
Current: Most recent quarter revenue compared to year earlier



Future: Expected revenue next quarter compared with last year



REVENUE TRENDS, BY SECTOR



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

Retail had a strong response (100+), especially in SD

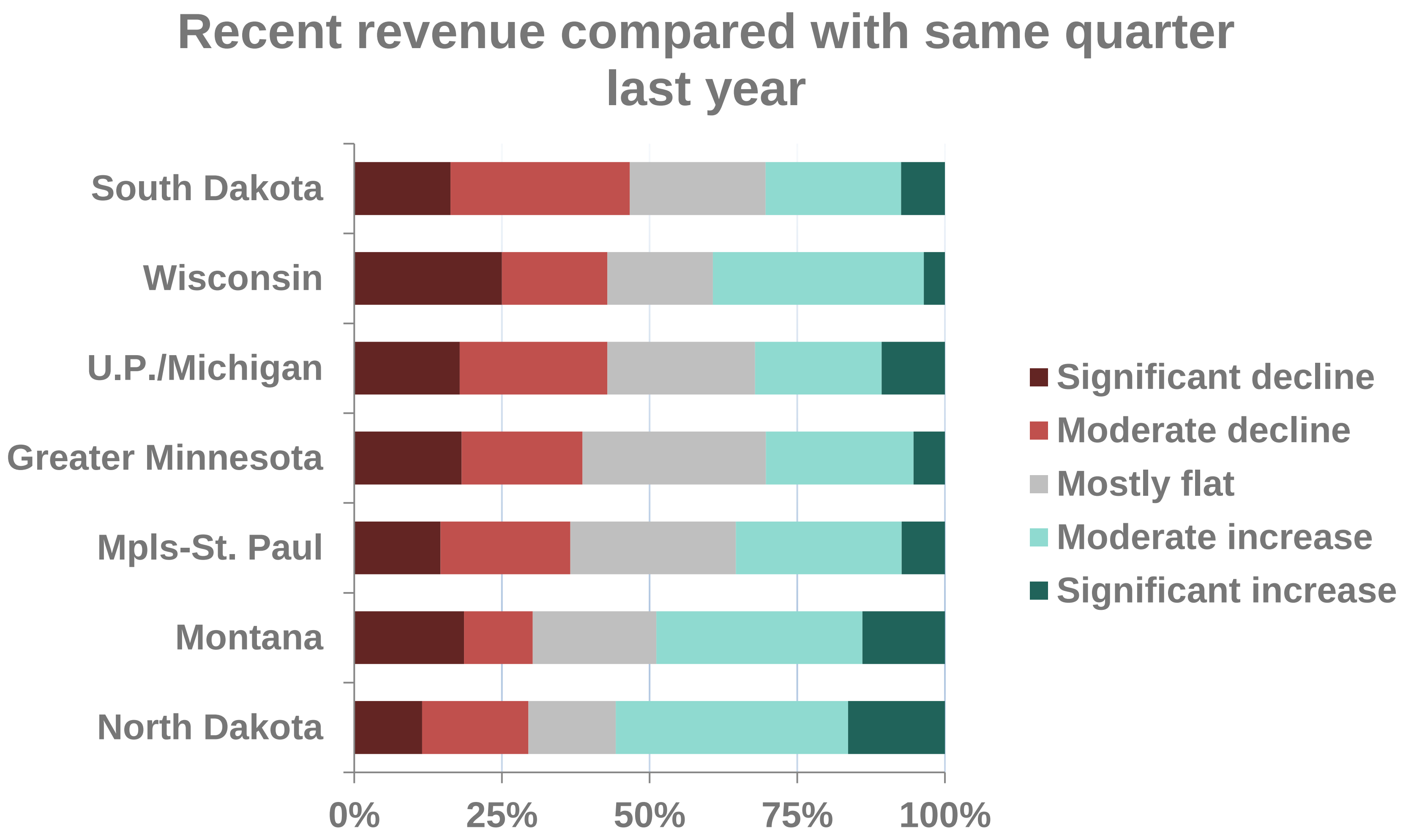
Sector slowed; larger share of sample pulls overall results lower

Retail & accommodation-food competing against a strong 2022 summer

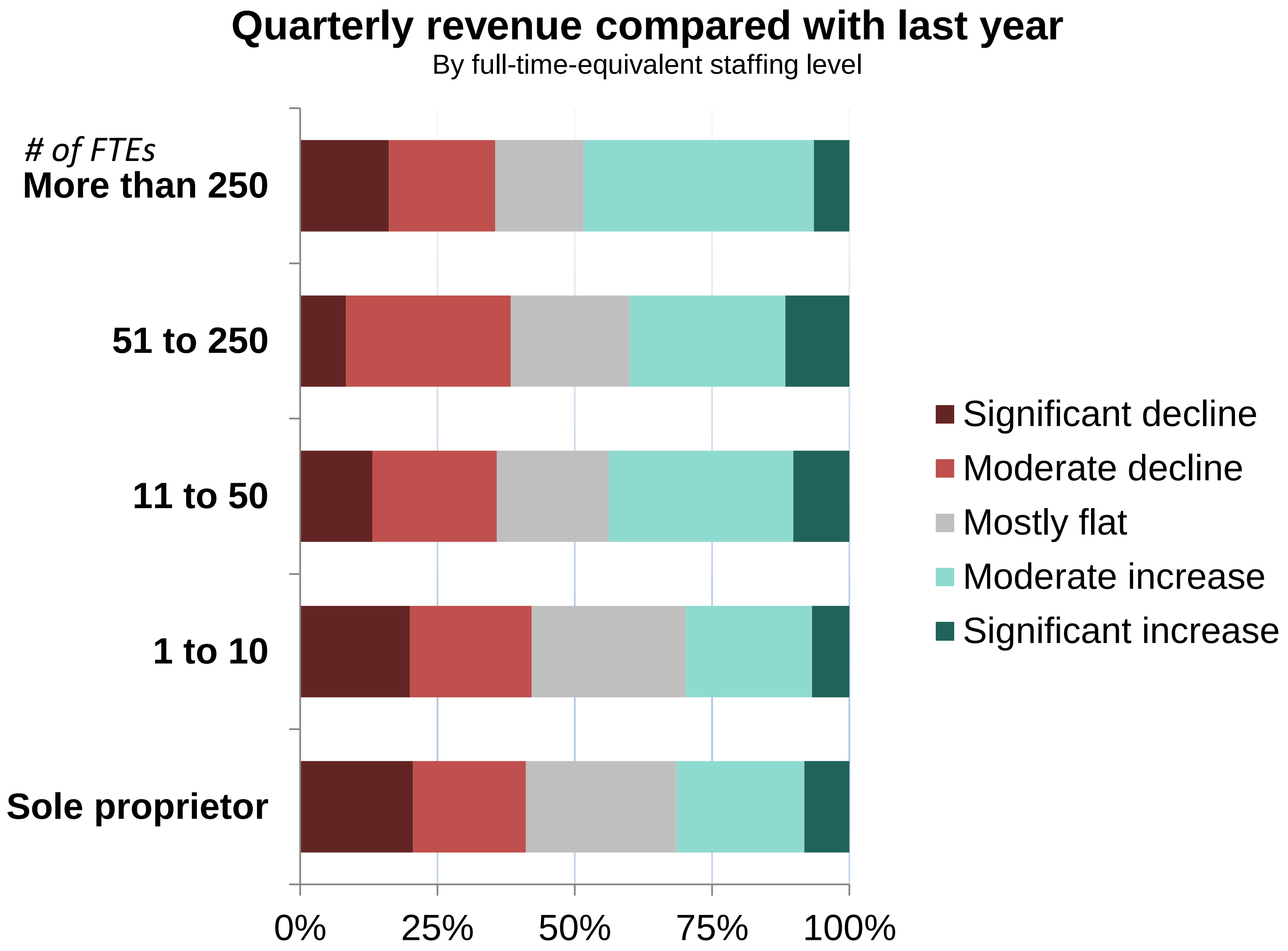
REVENUE TRENDS, BY STATE

Responses by state are fairly idiosyncratic, so interpret with caution

e.g.: South Dakota respondents heavily weighted in retail & accommodation/food service (which were comparatively slower)



REVENUES BY FIRM SIZE



Larger firms faring only modestly better in revenues

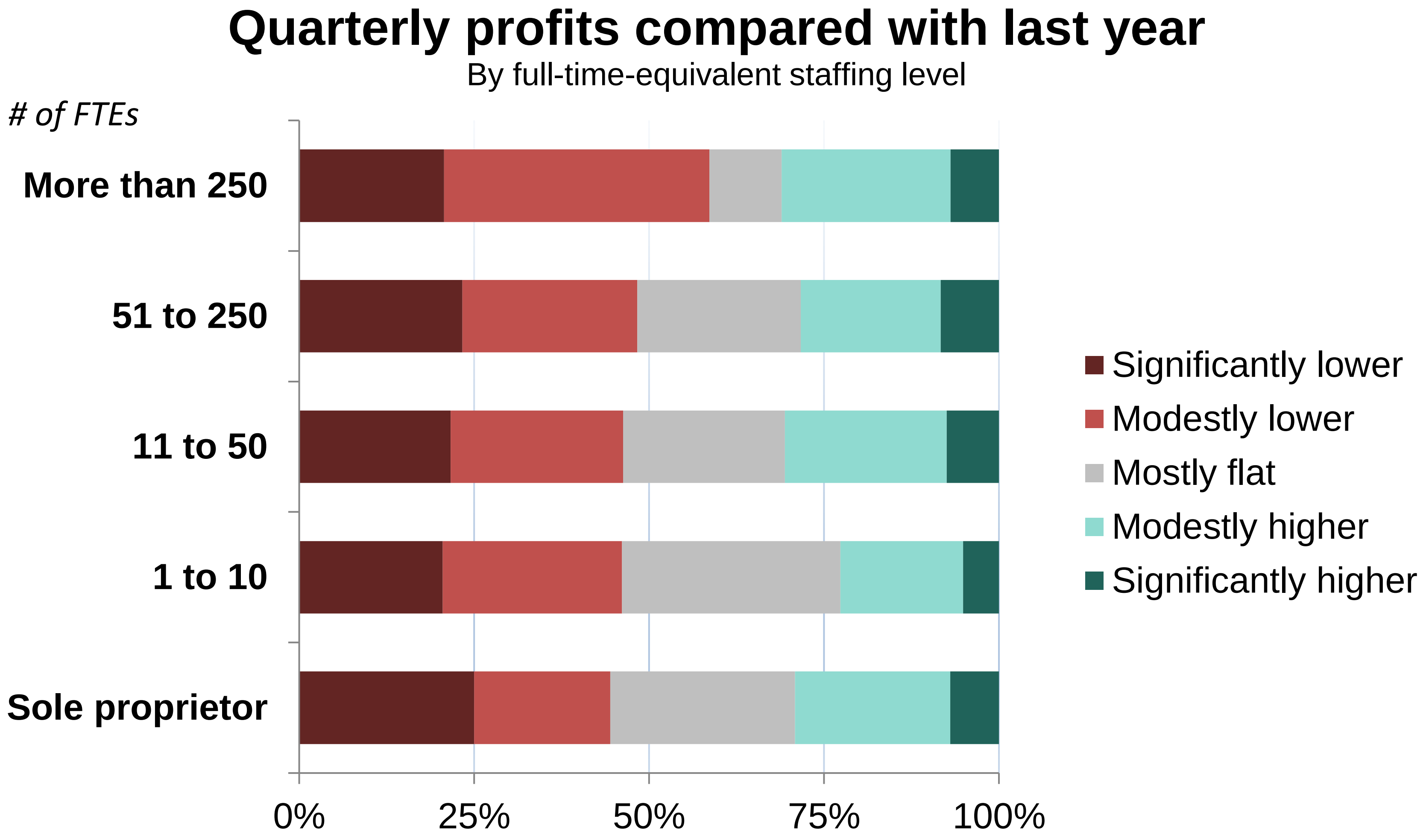
Given outsized role in economy, that’s also why we’re seeing net output growth

PROFITS BY FIRM SIZE

Profits broadly negative

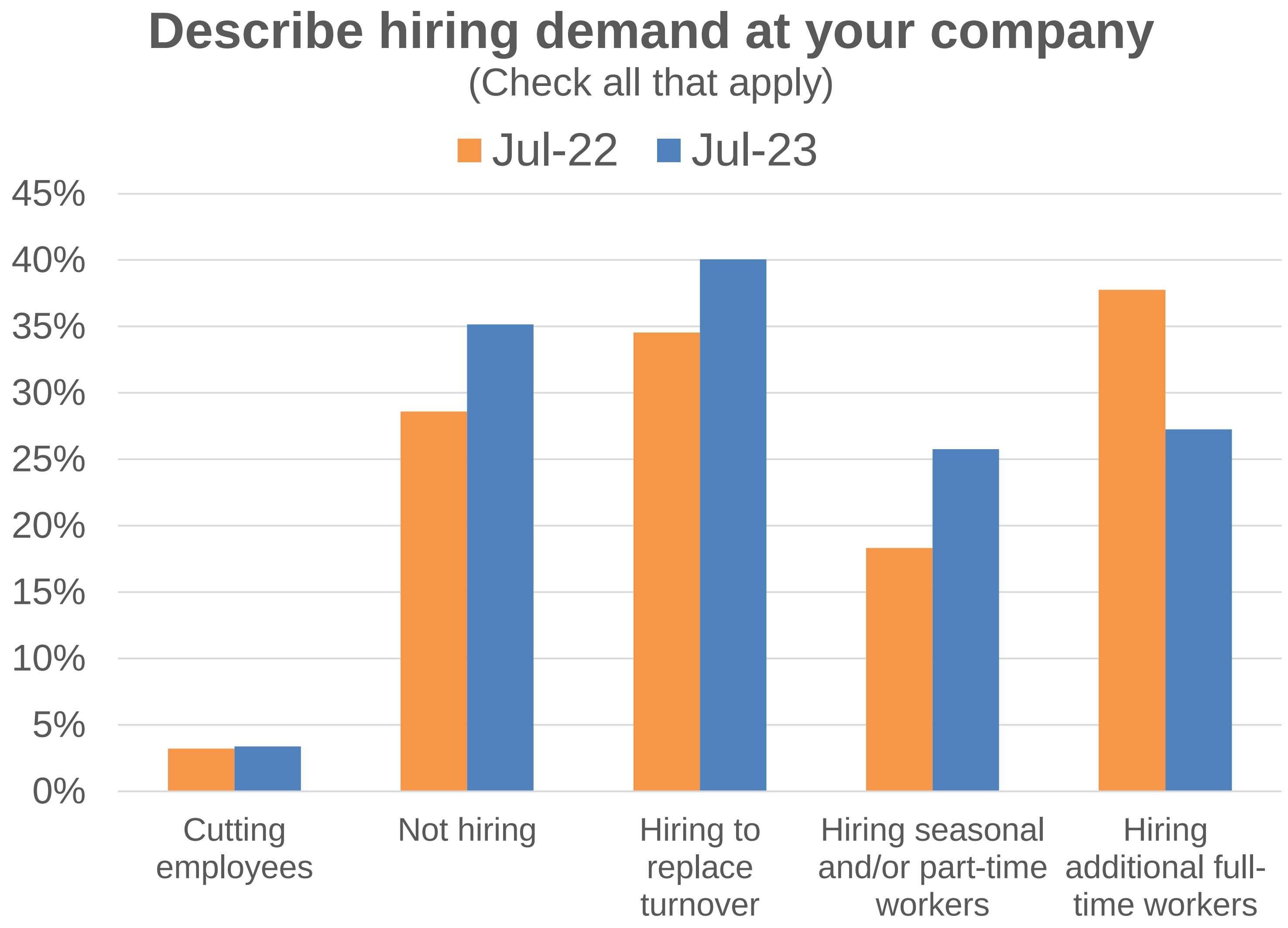
Flip-flops revenue trend – larger firms a bit more likely to report falling profits

Trend might have ‘comparative’ component (e.g. large firms saw big profits earlier in pandemic)



WORKFORCE & WAGE TRENDS

LABOR DEMAND



Most firms still hiring in some capacity

BUT: Notable shift lower (yoy) for those hiring more full-time workers

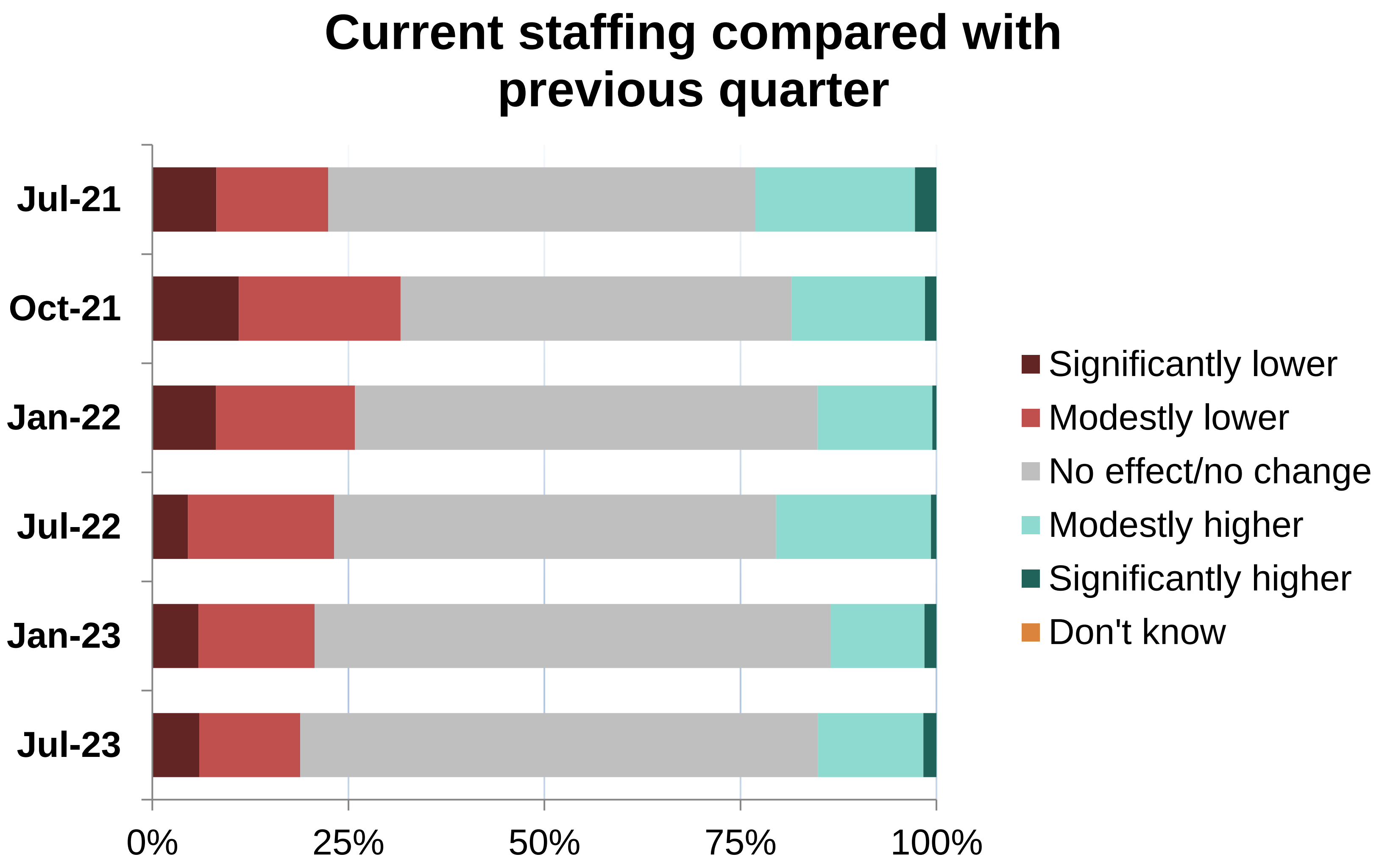
Hiring related to turnover:

- **Jan ’22: 25%**
- **July ’22: 35%**
- **July ’23: 40%**

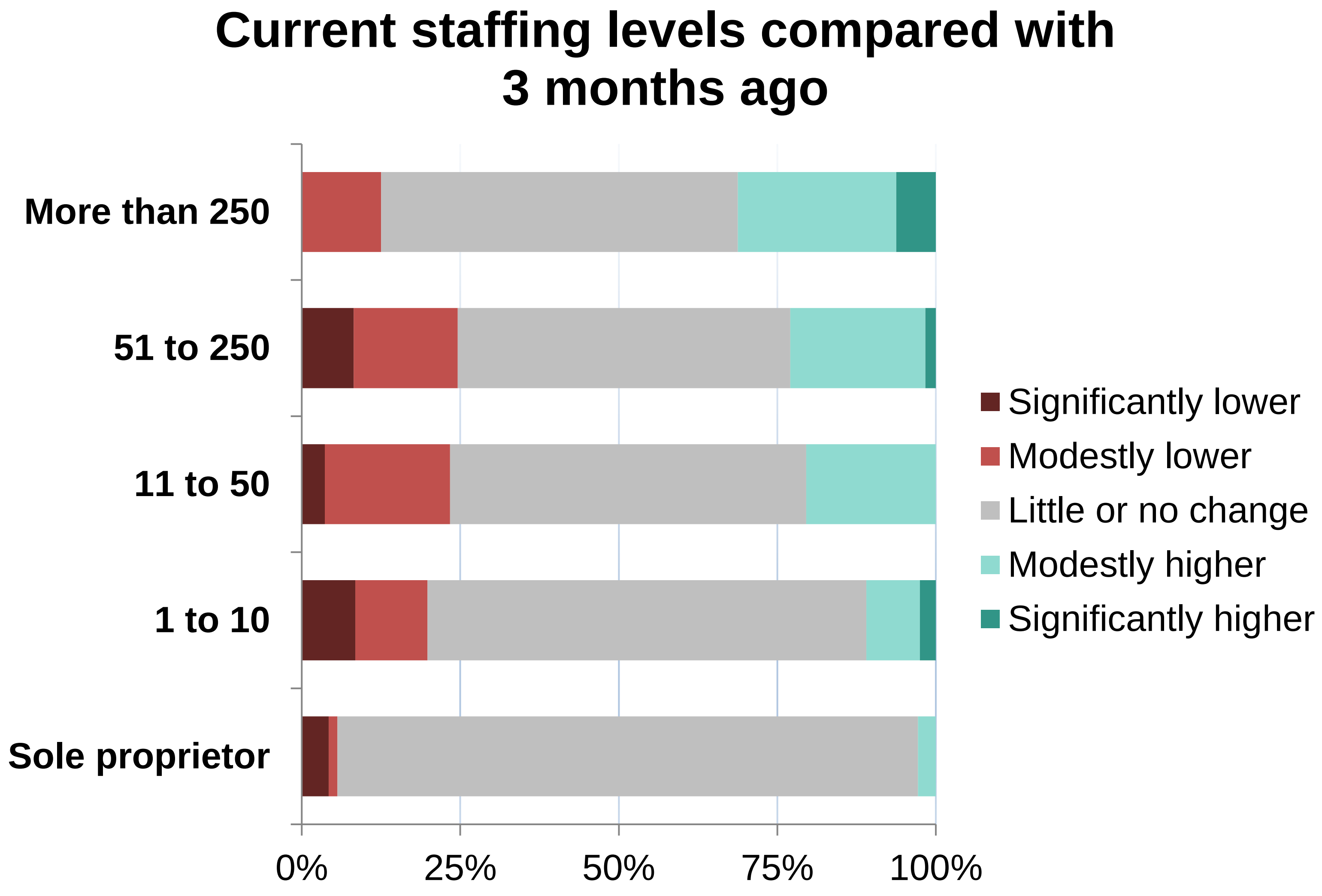
STAFFING CHANGES: FIRMS *LOSING* WORKERS?

More firms persistently reporting modestly *lower* staffing levels

How do we square that with steadily *rising* total employment?



LARGE FIRMS RESPONSIBLE FOR RISING EMPLOYMENT



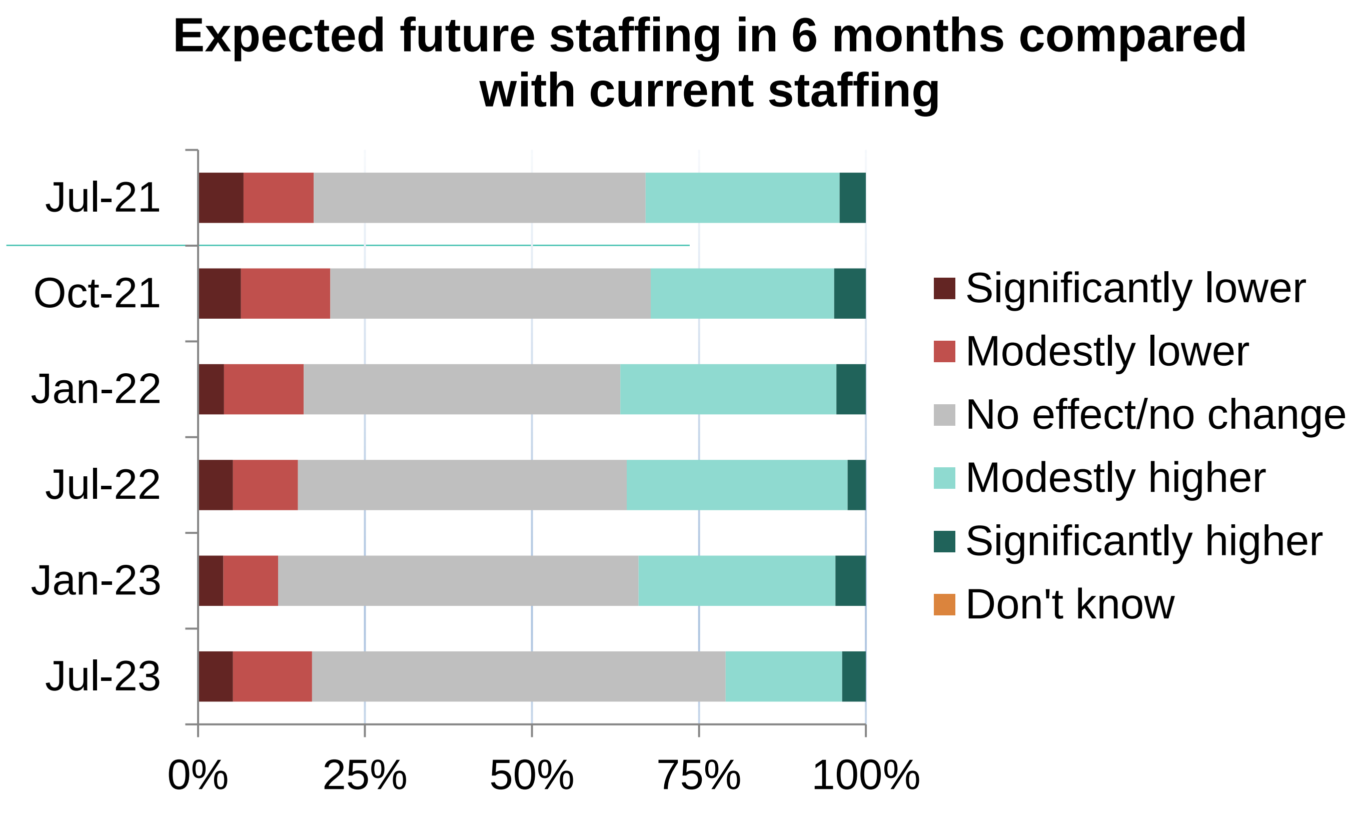
Large firms responsible for outsized share of overall employment

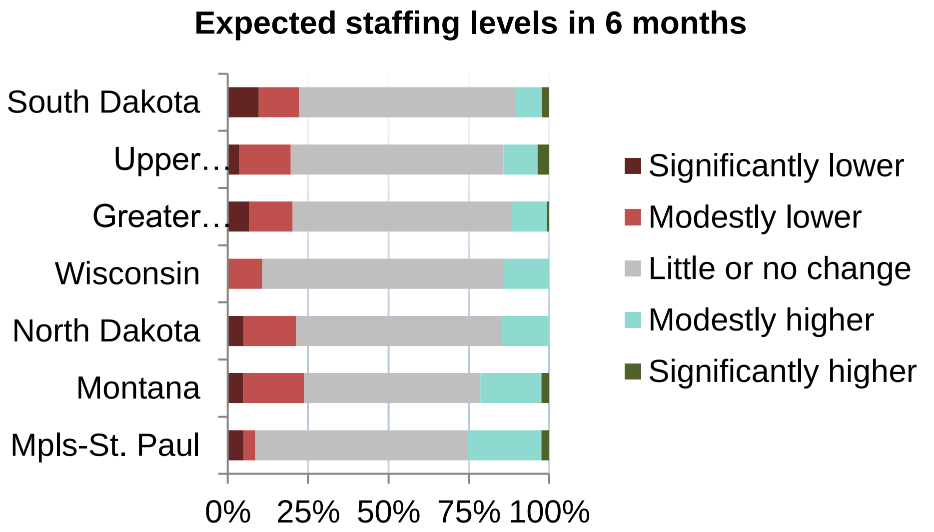
Only large firms reported net increases in staffing levels

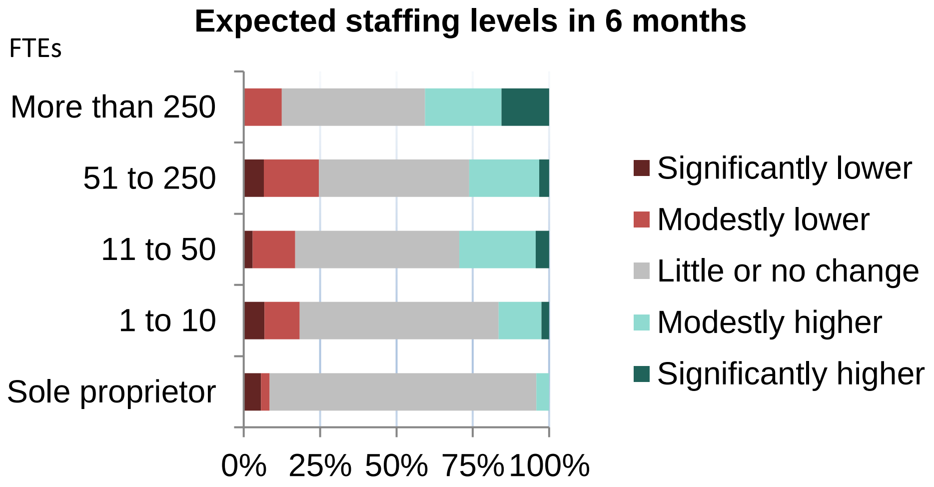
Suggests real hiring difficulty for small firms

FUTURE STAFFING: SLOWING, *MAYBE*

Pullback in hiring *could* be due, in part, to compositional effects in sample (high numbers in retail, accommodation-food)

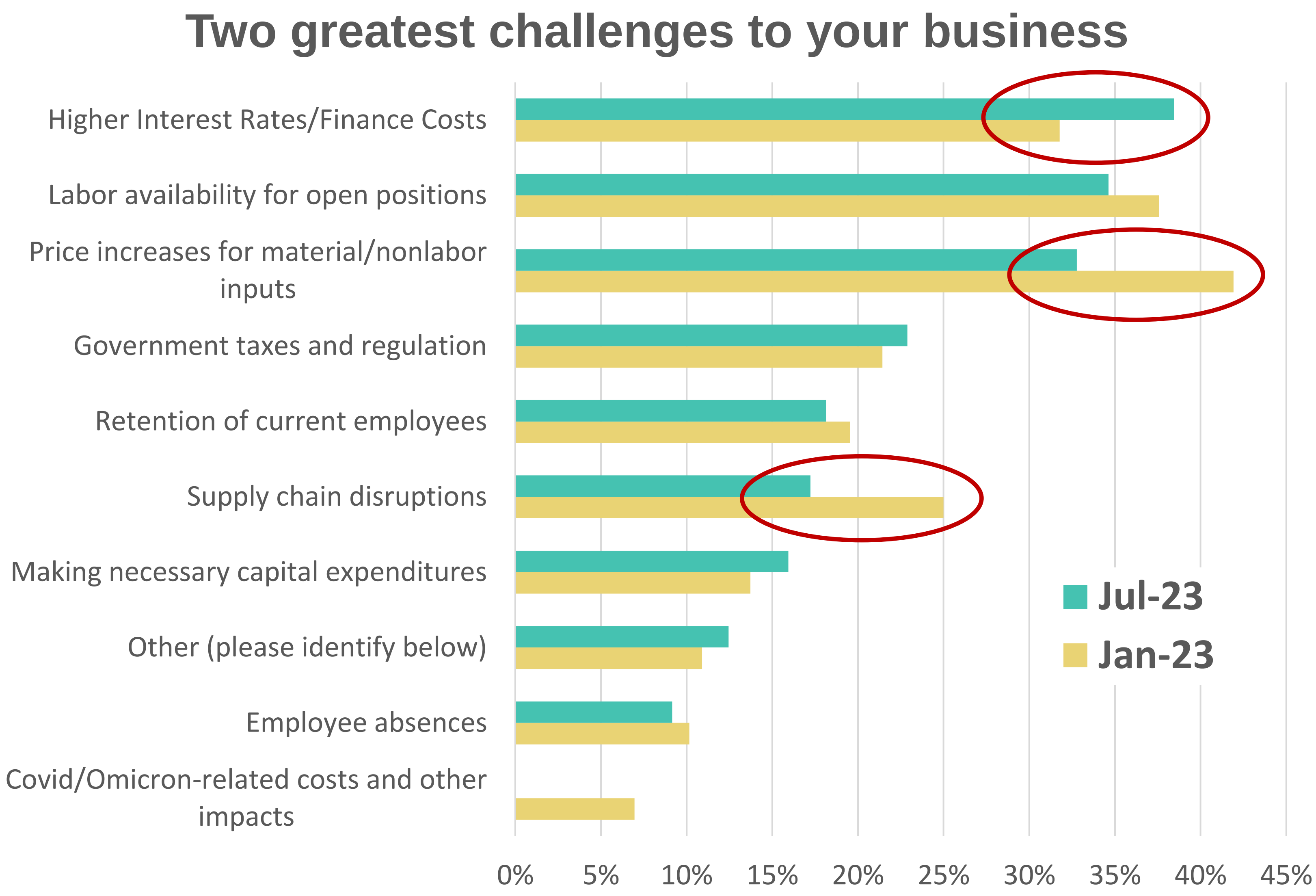






CHALLENGES & OTHER METRICS

CHALLENGES TO OPERATIONS

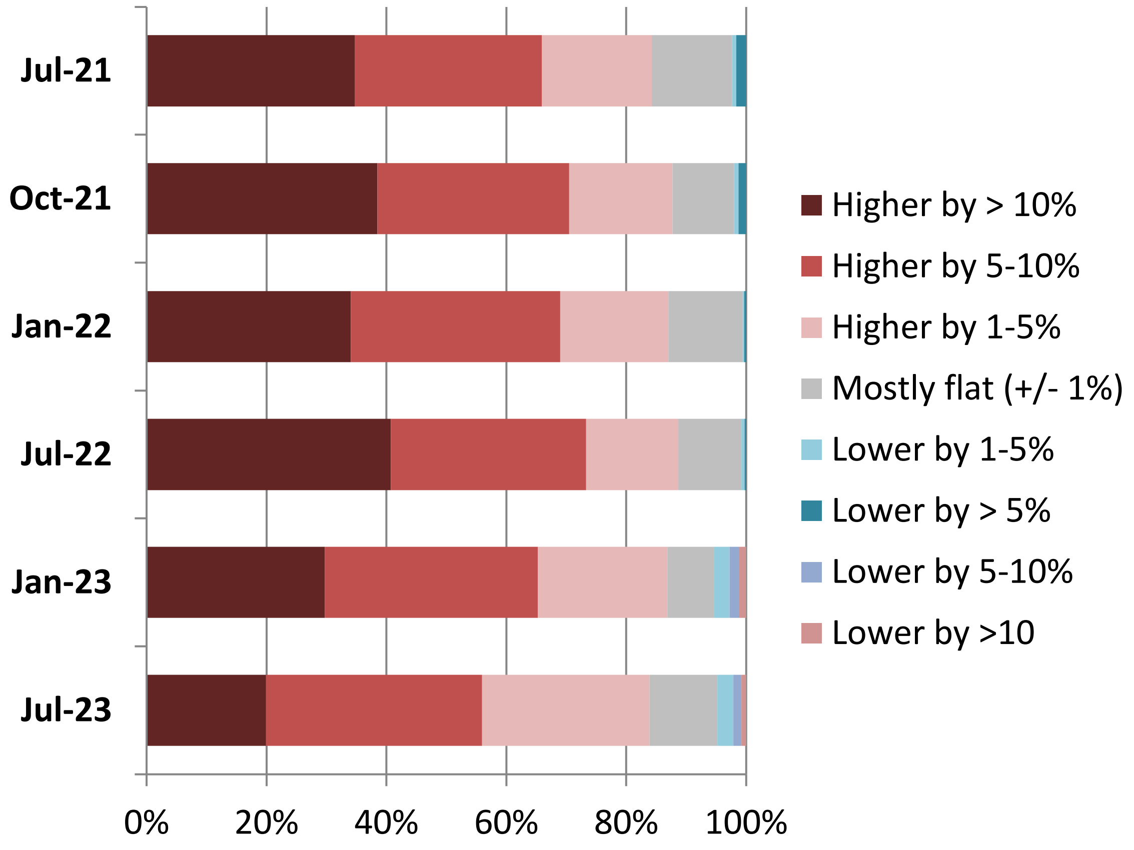


Shifting challenges

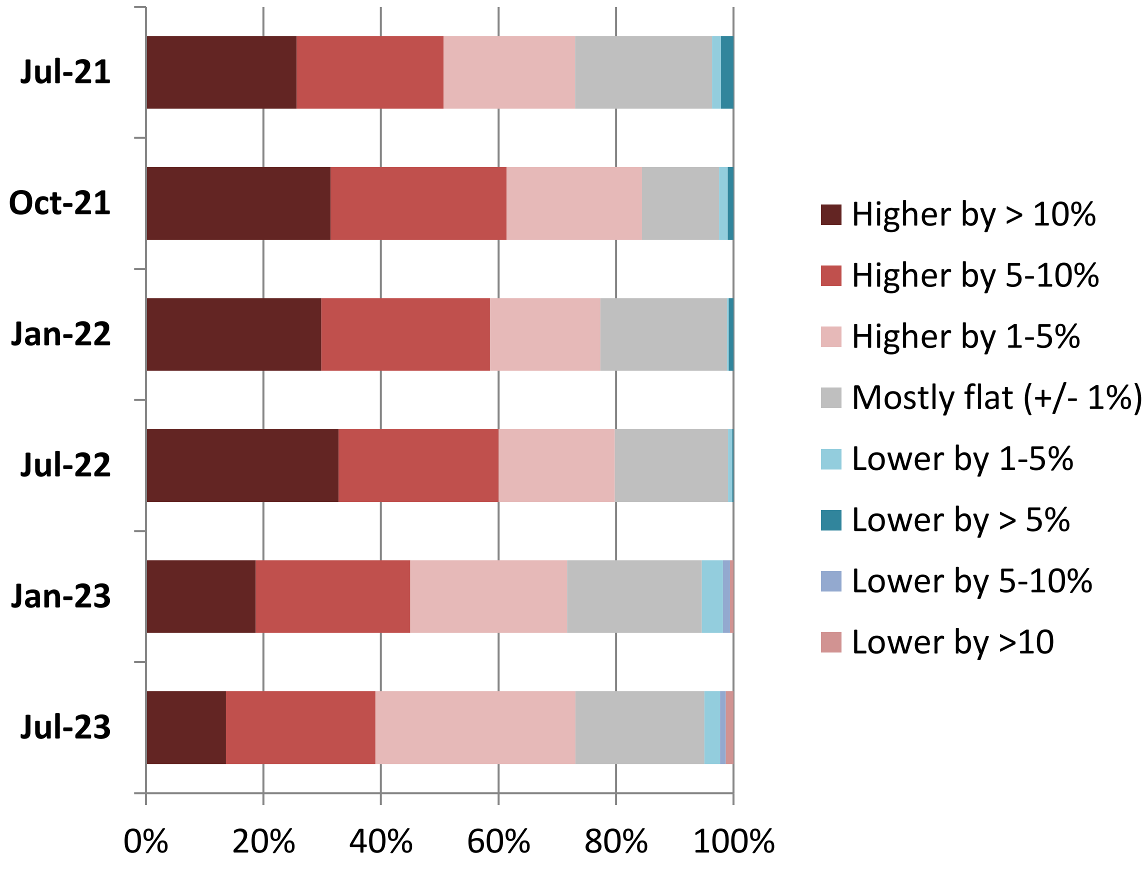
- Higher interest rates now the top concern
- Labor tightness persists
- Inflation concerns improved
- Supply chain concerns continue to ebb

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

Non-labor input prices (wholesale)



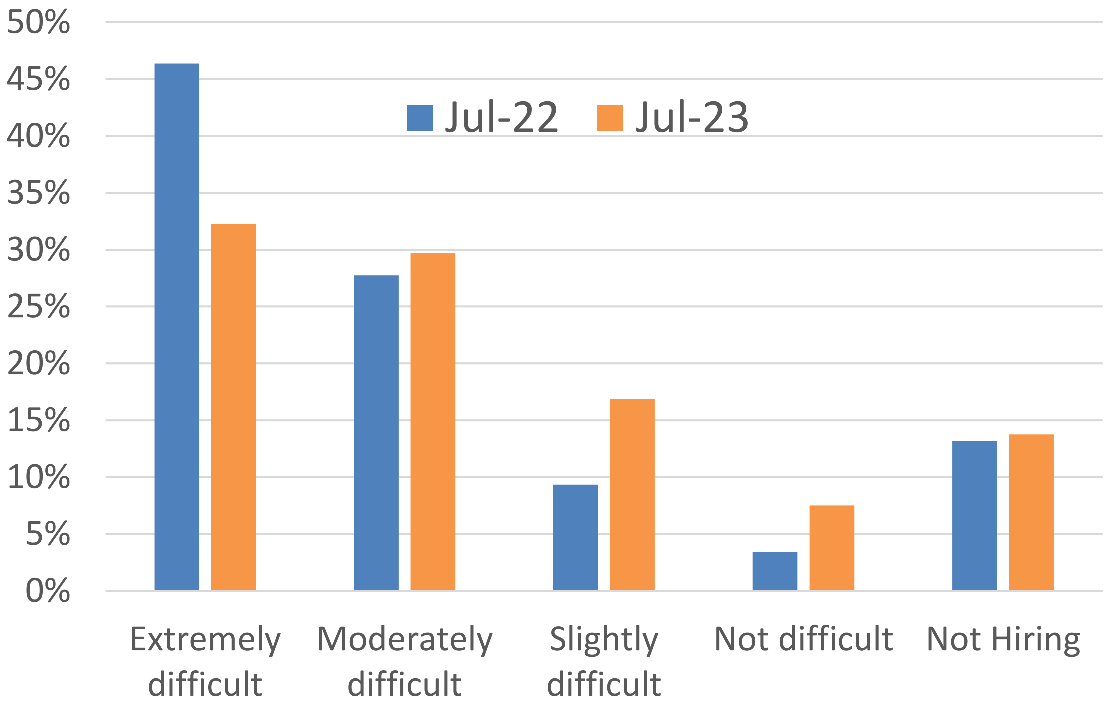
Final prices to customers (retail)



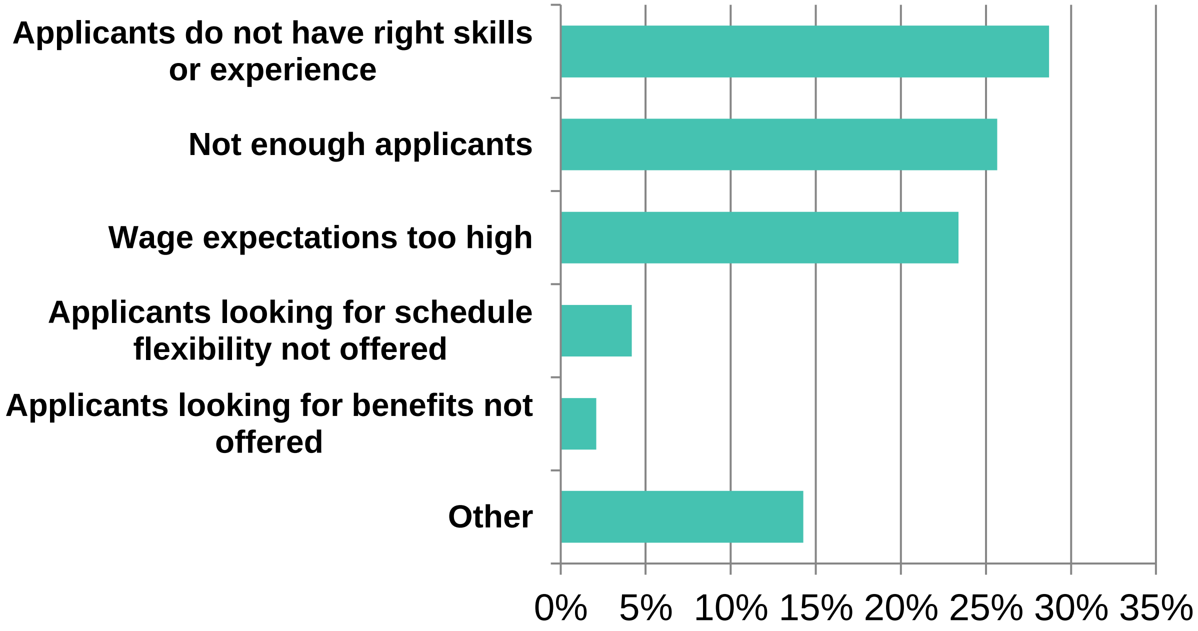
LABOR AVAILABILITY

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

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



Hiring: Biggest challenge in finding new employees



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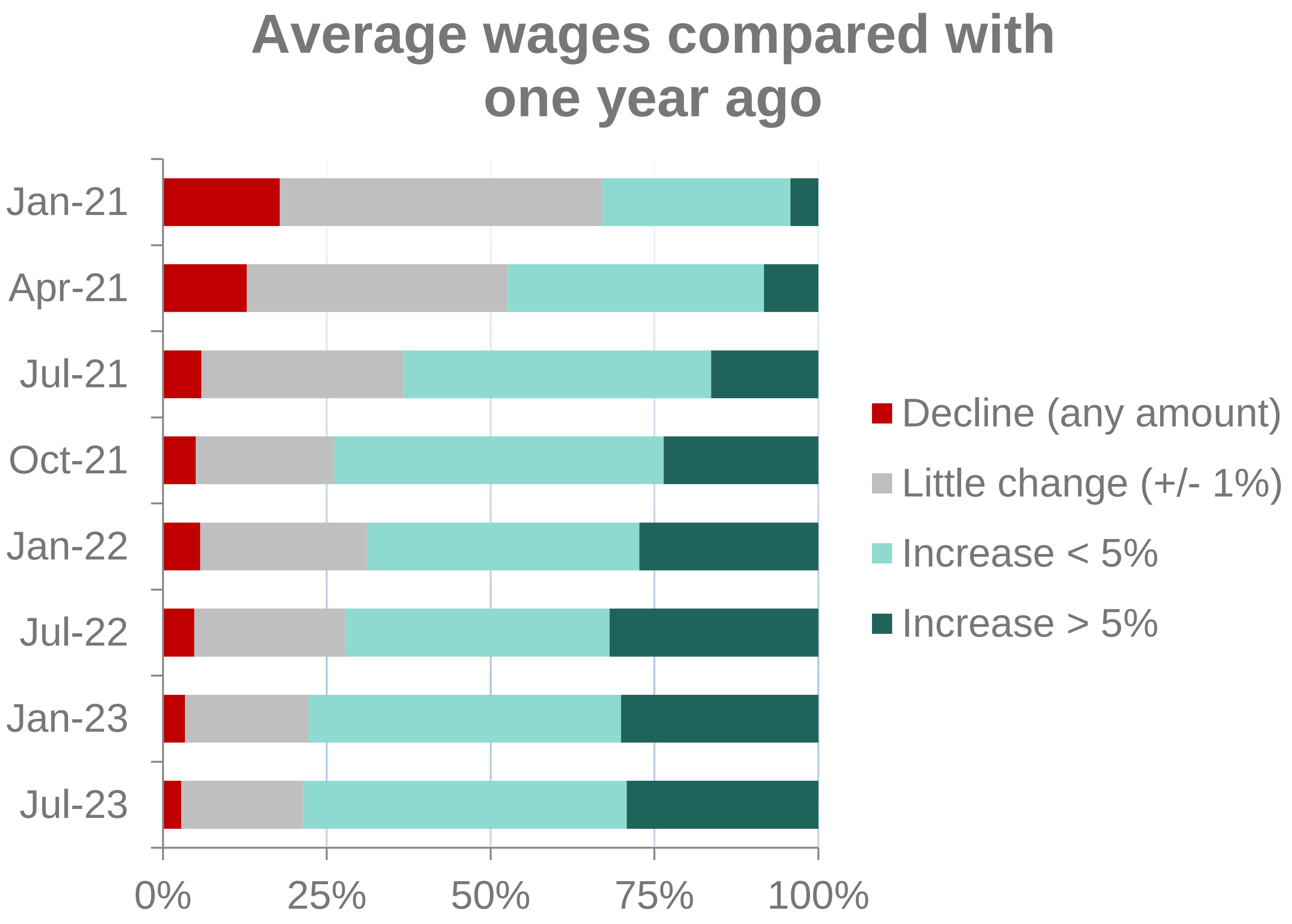
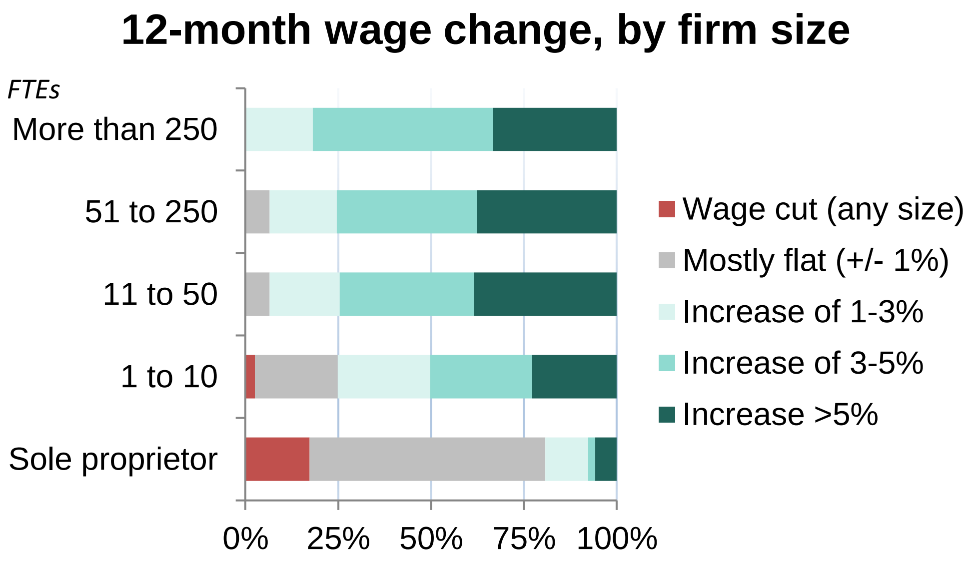
WAGE PRESSURE STILL STRONG



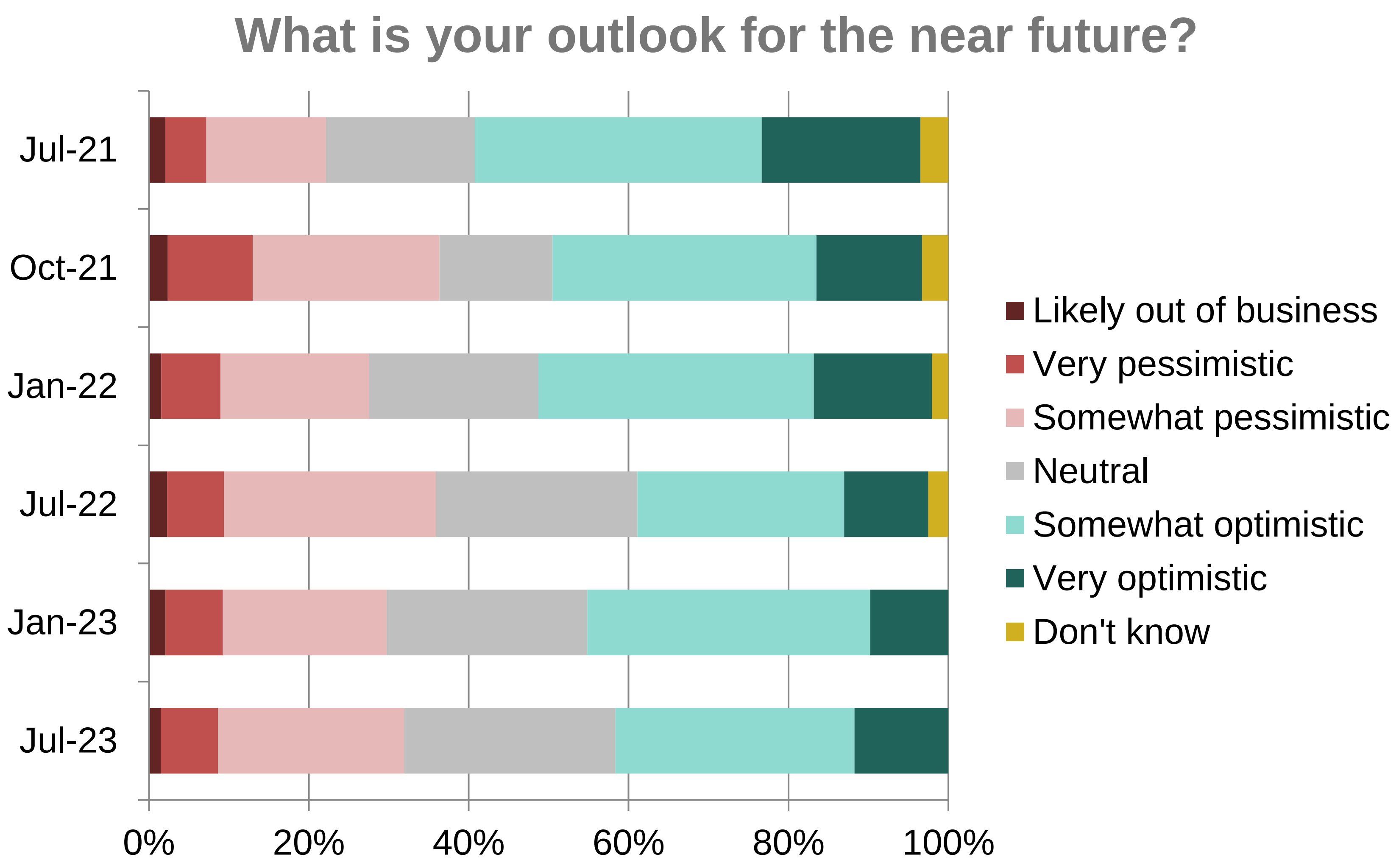
Wage growth stabilizing, but at high levels

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



OUTLOOK

OUTLOOK: SLIGHTLY IMPROVED, POSITIVE



Compared w/ last summer, outlook marginally better and moderately optimistic

FINAL THOUGHTS

- Revenues were mixed among all respondents, and firms continued to see profits decline
- Hiring demand remains solid but has pulled back
- Inflation continued to decline modestly, and more so at retail level; bigger concern now is higher interest rates and financing costs
- Labor availability still a problem, but improving
- Wage pressure has plateaued at pretty high levels
- Outlook is net positive
- Overall, while results are hardly stellar, there is a certain amount of *stability* in what firms reported

OTHER BUSINESS SURVEYS

- Hospitality & tourism: In the field now
- Construction: November
- General Business (this one): January
- Monthly business pulse survey

WANT TO BECOME A SURVEY PARTNER?

SCAN TO LEARN MORE:

THANK YOU!

QUESTIONS?