

BUSINESS SURVEY

Mac Gaulin | Nathan Seegert | Mu-Jeung Yang

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Executive Summary

August 2021 showed a significant slowdown in the ongoing economic boom in Utah, compared to July 2021. This decrease is likely due to increased uncertainty around the Delta variant of COVID-19 and related uncertainty in consumer demand.

Inflation risk decreased from July—fewer businesses said they raised prices in August and average price changes declined. One exception to this broad pattern is the construction industry, for which inflation increased. Our August 2021 spotlight analyzes potential “skill gaps” in the labor force. Businesses report candidates have about 80% of the basic and social skills they are looking for. These skill gaps have implications for job creation and wages: if businesses could find employees with these skills they would almost double the pace of hiring and pay these employees roughly 15% more. We also provide a spotlight on the ongoing changes in work from home, finding a potential increase in productivity due to work from home and a fluid work situation as businesses respond to new COVID-19 cases.

CURRENT BUSINESS CLIMATE

We quantify the general business climate by asking respondents to compare their current revenue and their revenue expectations over the next three months to their revenues in the same month in 2019, to account for the change since pre-pandemic “normal.” This relative revenue comparison is also useful since reported values will take seasonality into account: for example, the holiday shopping season in December. Current and expected revenues define four business cycle regions; boom, downturn, recession, and recovery. Specifically, when businesses have current and expected revenues above those of the same month in 2019, we designate them as in a boom. Similarly, when businesses have current and expected revenues below those of the same month in 2019, we designate them as in recession. In contrast, firms are classified as being in a downturn if current revenues are higher than 2019 levels, but expected revenues over the next 3 months are lower than 2019 levels. Similarly, firms reporting that their current revenues are below 2019 levels but are expecting revenues in the next 3 months to be above 2019 levels are classified as being in recovery territory.



DAVID ECCLES SCHOOL OF BUSINESS

Figure 1: Business Cycle



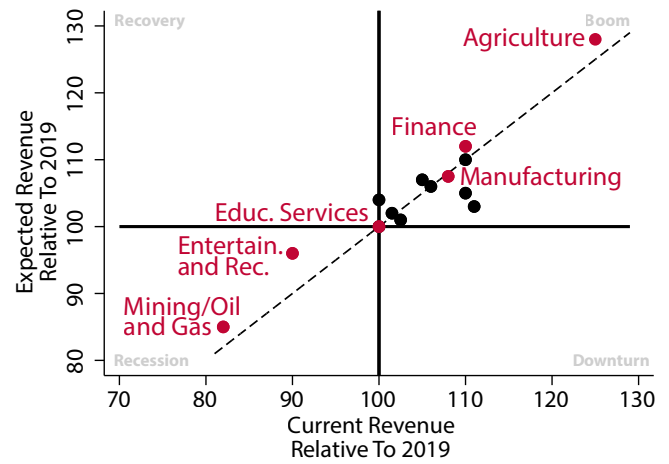
Figure 1 shows that Utah remains in the boom territory in August, though moving closer to 'stationary' (the center of the figure) relative to the past three months.

Current revenues remain higher than this time in 2019 and expectations are for revenues to remain above their 2019 levels over the next three months. **Figure 1** shows, however, that revenues are only 2-3% higher than 2019 levels, down from roughly 8% in July. Similarly, expected revenues are 2-3% higher than 2019 levels, down from roughly 8% in July.

(Note: Figure 1 presents median values to minimize the effect of outliers).

Figure 2 shows continued economic growth across industries. Finance is booming with revenues 10% higher now relative to 2019 and expected revenue growth above 10%. In August, fewer industries are above the 45 degree line (dashed black line) than in July, suggesting that fewer industries expect stronger revenue growth over the next three months than their current revenues.

Figure 2: Business Cycle by Industry



LONGER-TERM BUSINESS EXPECTATIONS

Figure 3 reports the median expected recovery over the next year by industry and in the overall economy. Businesses expect steady growth through next year. Utah businesses across all industries expect continued growth. Art, Entertainment, and Recreation firms still expect business to contract, but also expect recovery to be strong later in the year. Other industries are expecting steady growth throughout the next 12 months.

Figure 3: Longer-term Revenue Expectations

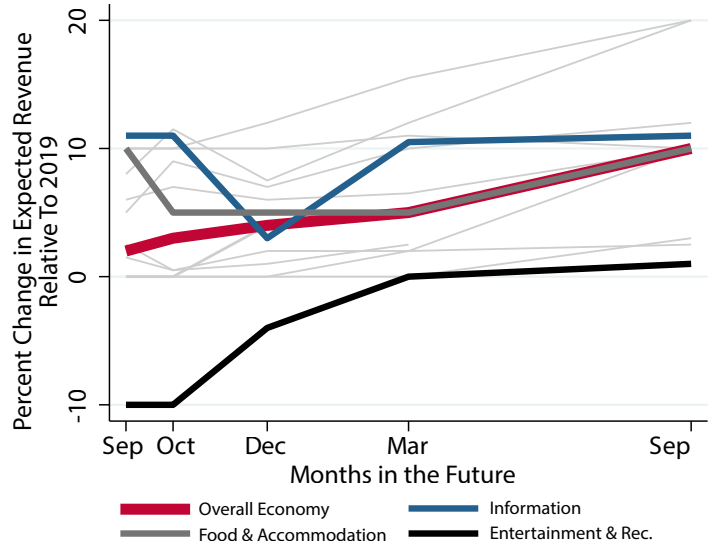
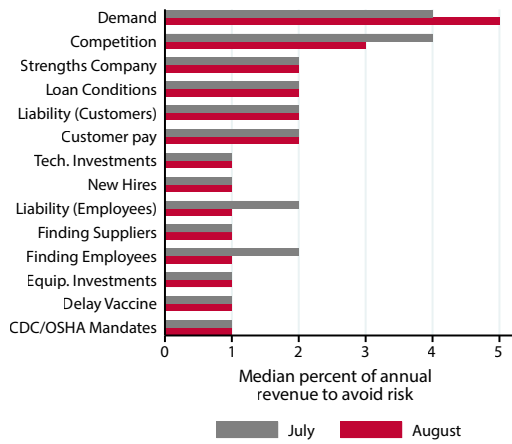


Figure 4: Risk Perceptions

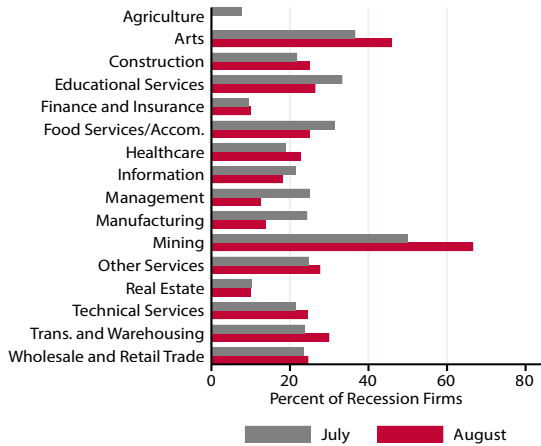


RISK PERCEPTIONS

To assess what risks Utah businesses are worrying about, we ask how much annual revenues they would be willing to give up to avoid various scenarios. A higher response indicates more risk to the firm.

Firms indicated that they find demand risk to be more costly in August relative to July, and competition risk less so. **Figure 4** reports the top concerns are uncertainty about the overall level of demand and competition. Consistent with demand risk concerns from businesses, the August 2021 Eccles Consumer Survey reported a decrease in expected spending.

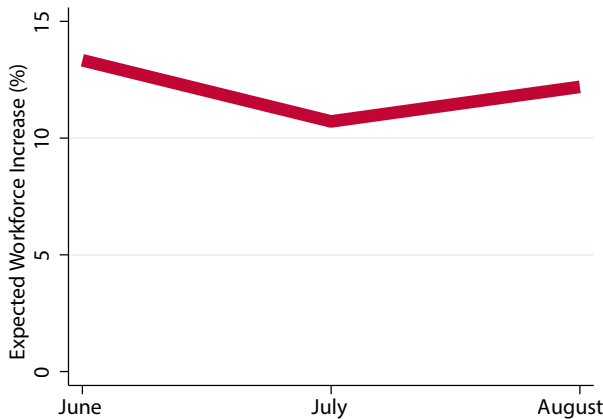
Figure 5: Slow-to-Recover Firms



SLOW TO RECOVER BUSINESSES

In **Figure 5**, we report the percentage of firms in an industry that currently have revenues below their June 2019 levels and that expect revenues to remain below the 2019 level for at least the next three months. In August, there were more “slow to recover” firms in the Arts, Mining, and Transportation & Warehousing industries. Arts is an industry that is strongly affected by increased COVID-19 cases: spending on Arts tends to decline faster as case counts rise. As a result, the low growth prospects for Arts may be an early indicator for other industries if COVID-19 case rates continue climbing.

Figure 6: Hiring Expectations



HIRING

Businesses are expecting to create more jobs in the next three months, and this job growth is higher than in July, as seen in **Figure 6**. Despite concerns over demand and uncertainty of revenues due to COVID, the labor market looks to remain tight as businesses continue to look for employees.

Figure 7: Price Changes



PRICING AND INFLATION

Businesses report waning inflation concerns in August. To track the risk of inflation for the Utah economy, we ask businesses whether they changed their average prices last month and, if so, by how much. In this setting, it is useful to keep in mind that most businesses change their prices infrequently and, therefore, also tend to set their prices even higher if they expect high future growth and/or inflation. **Figure 7** reports both the number of businesses that reported price changes, as well as the median reported price change (in percent).

We find that roughly 15% of firms report changing a price last month, which is down from July. Businesses report raising prices by an average of 7% in August, down slightly from roughly 10% in July.

Figure 8: Basic Skills

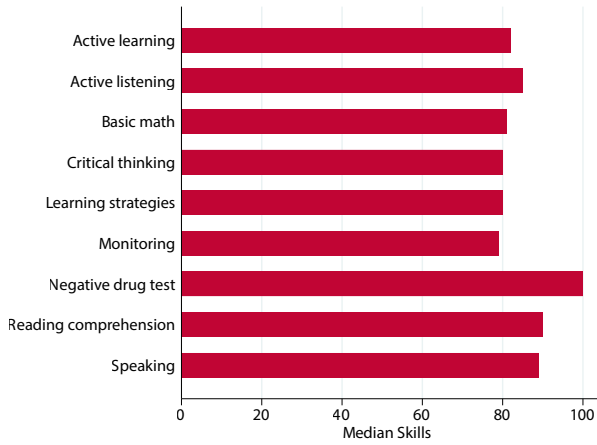
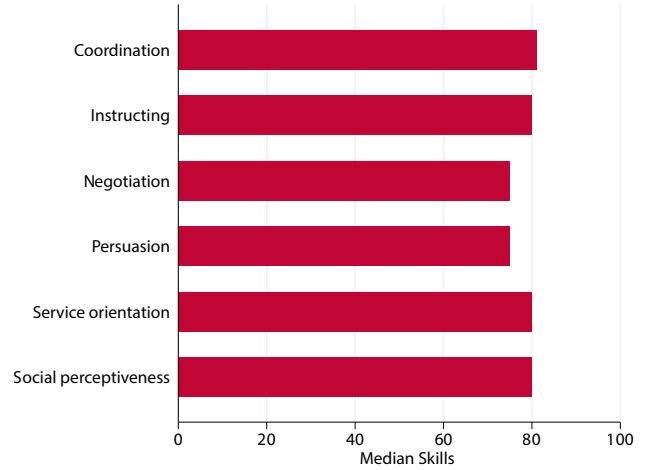


Figure 9: Social Skills



SPOTLIGHT: SKILLS

Employers are still seeking qualified candidates. In August, we asked businesses about a series of basic and social skills that they are looking for and whether they are finding employees with these skills. The basic skills we asked businesses about include:

- speaking (talking to others to convey information effectively)
- reading comprehension (understanding written sentences and paragraphs)
- basic math (using math to complete work tasks)
- active listening (giving full attention to what other people are saying, taking time to understand points being made)
- active learning (understanding the implications of new information for both current and future problems)
- critical thinking (using logic and reasoning to identify the strengths and weaknesses of alternative solution)
- learning strategies (selecting and using training methods when learning new things)
- monitoring (assessing performance of yourself and other individuals and taking corrective action)
- ability to provide a negative recreational drug test.

The social skills include:

- coordination (adjusting actions in relation to others' action)
- instructing (teaching others how to do something)
- negotiation (bringing others together and trying to reconcile differences)
- persuasion (persuading others to change their minds or behavior)
- service orientation (actively looking for ways to help people)
- social perceptiveness (being aware of others' reactions and why they react as they do)

Businesses respond that job candidates have about 80% of the basic skills they are looking for, with a few exceptions. They report no problems finding candidates with a negative drug test. They also find candidates with slightly better reading comprehension and speaking. The full results are shown in **Figure 8**. Businesses also report job candidates have about 80% the social skills they are looking for, shown in **Figure 9**.

This “skill gap” between employer needs and employee abilities has implications for job-creation and wages. Businesses report they would be willing to hire 10% more employees, relative to their current workforce, if they found candidates that had 100% of the skills they are looking for. Compared to the 12% expected hiring increased reported in **Figure 6**, this means that the pace of hiring would almost double if employers could find suitably qualified candidates! They also report that they would be willing to pay over 15% more for candidates with all of the basic skills they are looking for and 13% more for candidates with all of social skills they are looking for, as reported in **Figure 10**.

Figure 10: Skill Gaps

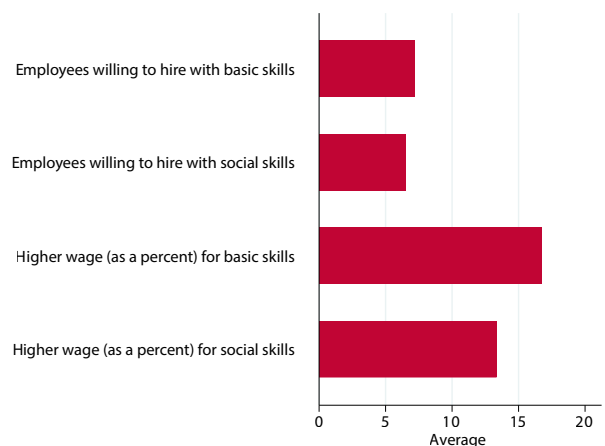
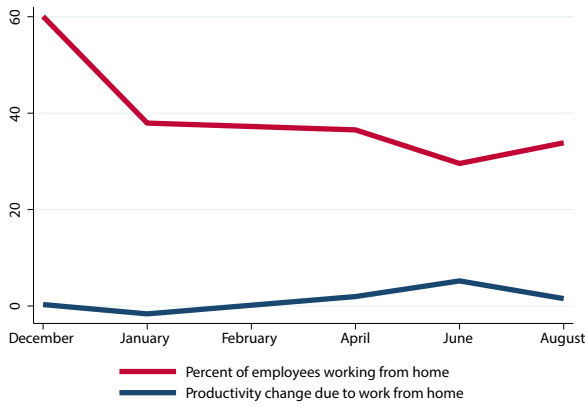


Figure 11: Work-from-Home Arrangements



SPOTLIGHT: WORK FROM HOME

Businesses shifted largely to work-from-home arrangements as COVID-19 risks increased. We asked businesses what percentage of their workforce is working from home and how productivity has changed because of work-from-home arrangements. We report these in **Figure 11**. In December 2020, businesses reported that 60% of their workforce was working from home. This percentage dropped in January and again in June to roughly 30%. In August, the percentage increased slightly to roughly 35%. This increase likely is in response to increasing case counts and added uncertainty for the fall. In December 2020, businesses reported no change in productivity due to work-from-home arrangements. Productivity began to increase, peaking around 5% in June.