Business Sentiments Survey 2024 Quarter 2 results

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The Alice M. Rivlin Initiative

In January 2024, the D.C. Policy Center's Rivlin Initiative launched its Quarterly Business Sentiments Survey. The survey's goal is to provide systematic, comprehensive information on the business community's experiences to elected officials, the media, and the public.

Distributed in April 2024, the second round of the survey covered businesses' experiences during the first quarter of 2024 and their expectations for the latter half of the same year. Participants were asked about their expectations regarding local and national economic performance, hiring decisions, and revenue growth. Respondents were also invited to answer questions about business location decisions.

For more information about the Quarterly Business Sentiments Survey, and to particpate in the third round of the survey, opening July 15, 2024, visit https://www.dcpolicycenter.org/business-sentiments-survey/.

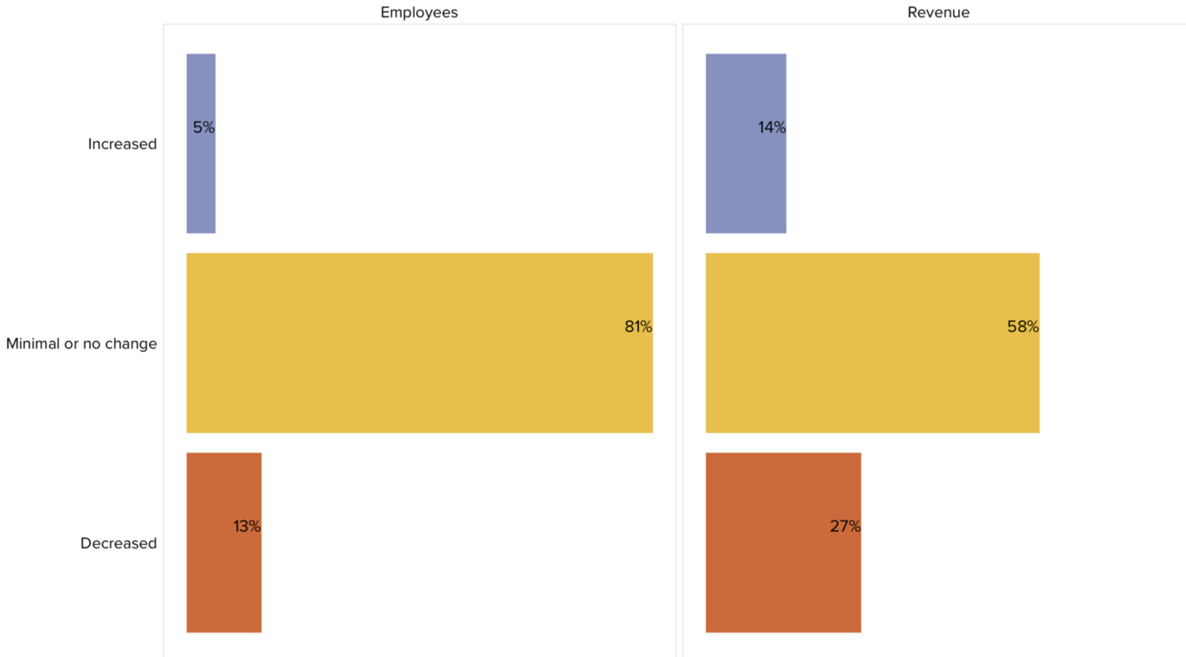
Round-two respondents better reflected the types of businesses found in the D.C. region

In the second round, we changed our recruitment strategy. In addition to actively recruiting participants, we emailed the registered agents of all actively registered corporate entities in the District of Columbia. This is a list of approximately 41,000 business establishments. The response rate from the establishments on the list was roughly 1 percent, which resulted in 411 participants completing the survey (up from 91 participantsin the first round).

Compared to the respondents of the first round, round-two respondents better reflected the types of businesses found in the D.C. region. Many of the respondents were owners or executives of smaller, yet established businesses. Businesses in the professional, scientific, and technical services sector constituted 22 percent of the survey sample. The real estate, nonprofit, and health sectors constituted 12 percent, 10 percent, and 9 percent of the sample respectively.

We weighted the responses based on the D.C. region's industry composition of businesses, using Quarterly Census of Employment and Wages industry data.[1] These weights, however, do not change the fact that non-respondents might have offered a different set of responses. This potential non-response bias limits the representativeness of the sentiments

Change in the past three months



Source: D.C. Policy Center's Business Sentiments Survey, 2024 Q2.

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expressed by survey participants. For this reason, it is best to think of the sentiments reported below as representing a more diverse yet influential subset of businesses in the D.C. region.

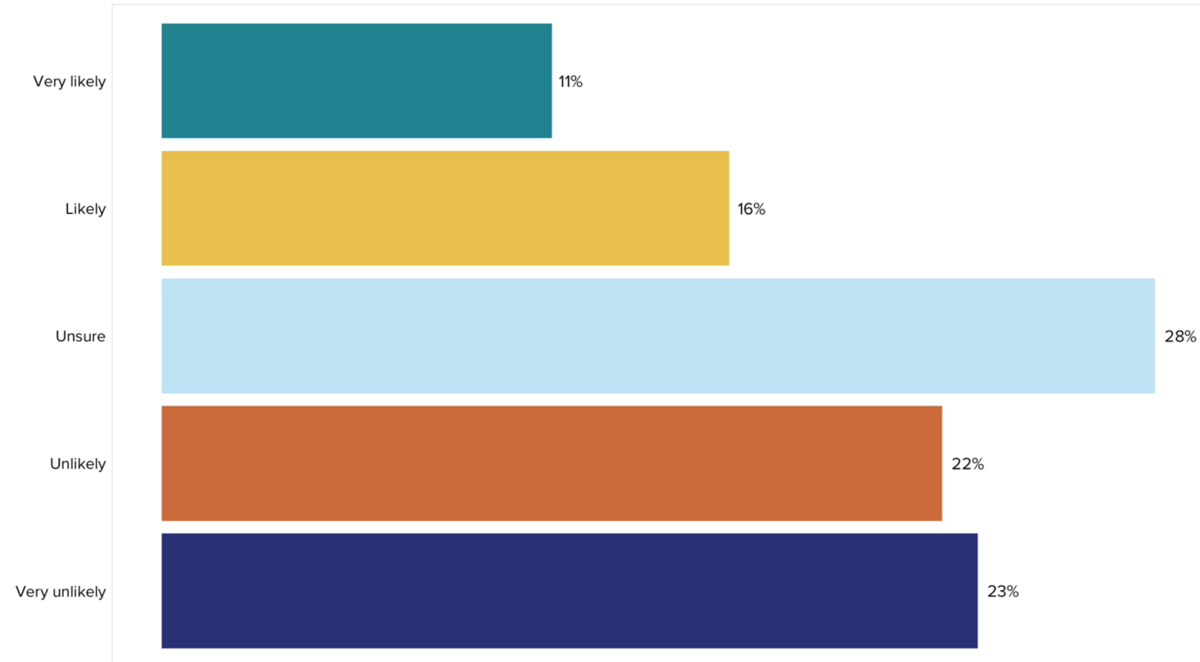
Continuity with round-one: Businesses remain in a holding pattern with respect to employment and operating revenue

Like the first round, many businesses continued to be in a holding pattern with respect to employment and operating revenue. Approximately 4 in 5 survey respondents reported that the number of employees at their business held steady in the last three months, and almost 3 in 5 respondents reported no major changes in operating revenue. The survey finding regarding the number of employees holding steady comports with BLS data that shows private sector employment remained virtually unchanged between April 2023 and April 2024. However, as in the first round, a minority of businesses—nearly 3 in 10—experienced decreased operating revenues in the past three months.

Continuity with round-one: Although D.C. continues to draw investment interest, businesses remain unlikely to invest in the D.C. region

Round-two respondents also showed little appetite for making investments in the D.C. region in the next six months. In the first round 44 percent of respondents stated that they were “unlikely” or “very unlikely” to invest in the region over the next half year, while 28 percent stated that they were “likely” or “very likely” to make such investments. In the second round, as the chart above shows, these percentages barely budged.

Chance of investing in the metro region in next 6 months



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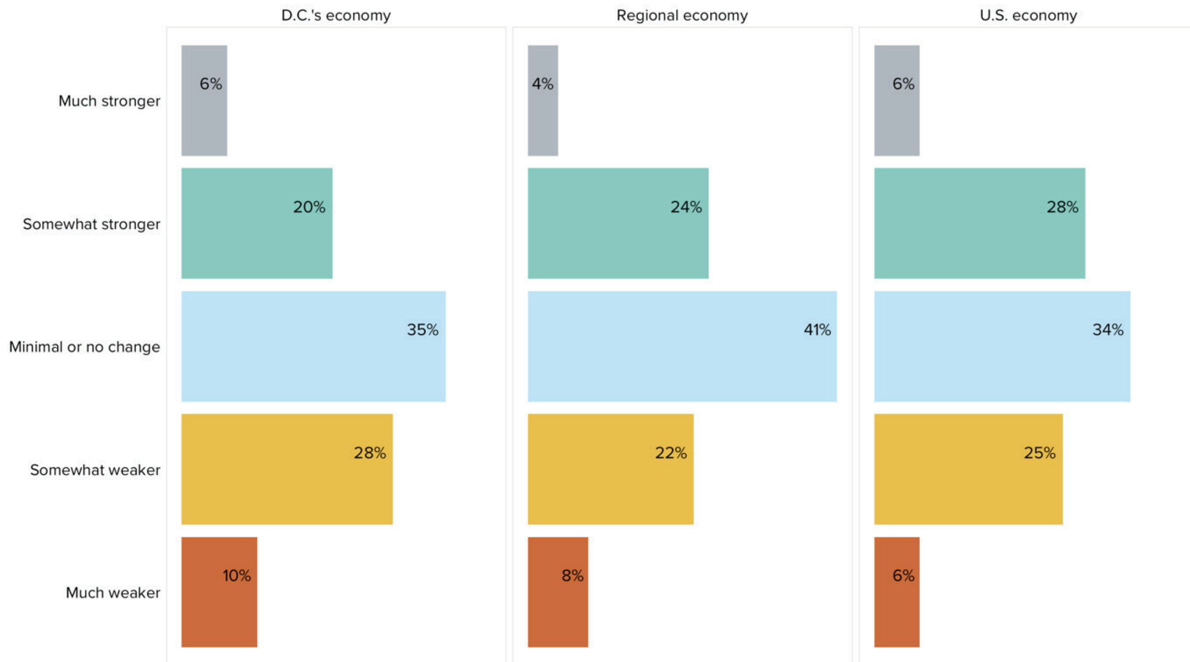
When asked about hypothetical places for potential investment in the D.C. region, businesses still favored D.C. over nearby jurisdictions. However, in many respects, the most striking result was that 23 percent of respondents reported that they would invest elsewhere in the United States but outside the D.C. region. In fact, after the District itself, investment elsewhere in the United States garnered the most interest. Among nearby jurisdictions, survey respondents registered the greatest interest in Arlington and Montgomery County.

Difference from round-one: round-two respondents hold less pessimistic expectations about the D.C. economy.

Almost 9 in 10 survey respondents report-Compared to the respondents in round one, round-two participants are less pessimistic about the D.C. economy over the next six months. 38 percent of round-two respondents expected the D.C. economy to be somewhat or much weaker, while 26 percent anticipated it to be somewhat or much stronger. In contrast, in the initial round more than 70 percent of respondents expected the D.C. economy to be somewhat or much weaker, but only 14 percent of respondents expected it to be somewhat or much stronger.

The change in expectations is likely due to the shift in the composition of businesses that responded to the survey between rounds one and two. In particular, the real estate sector makes up a smaller portion of the round-two survey sample. This point matters because respondents from the real estate sector tend to hold more pessimistic expectations about the D.C. economy. Since the COVID-19 pandemic, the sector has faced various challenges, including but

6-month expectations of economic performance



Source: D.C. Policy Center's Business Sentiments Survey, 2024 Q2.

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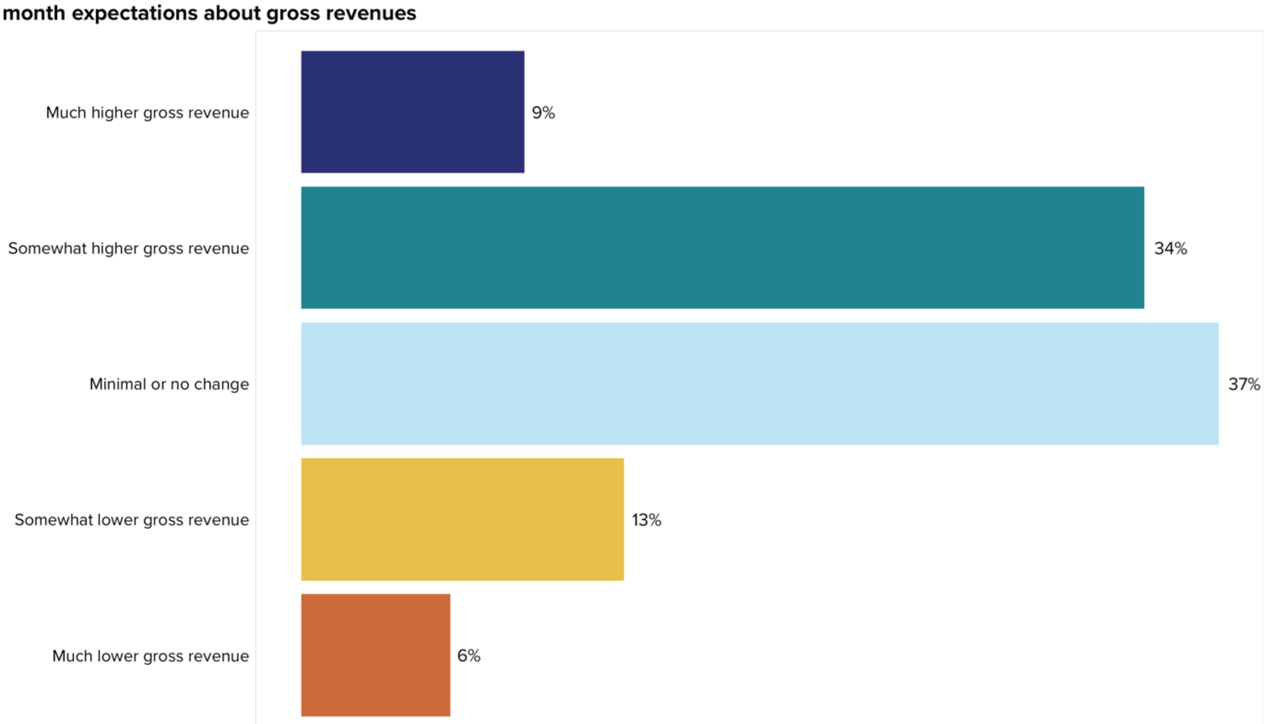
6 month expectations about gross revenues



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not limited to rising vacancy rates and lower commercial property values.

As with the first round, round-two respondents were more optimistic about the regional and national economies than the local economy. 28 percent of respondents expected the regional economy to be somewhat or much stronger in the next six months, and 34 percent of respondents had the same expectation for the national economy. But a notably lower percentage of respondents—26 percent—expected the D.C. economy to be somewhat or much stronger in the next half year. Unsurprisingly, these results are compatible with recent job data.

Difference from round-one: round-two respondents held more optimistic gross revenue expectations

In addition to holding less pessimistic expectations about the D.C. economy, round-two respondents also anticipated higher gross revenues over the next six months. For instance, 43 percent of respondents expected somewhat higher or much higher gross revenues, while only 19 percent expected revenues to be somewhat or much lower. These expectations represent a change from the inaugural round. In that round, 41 percent of respondents expected somewhat or much lower gross revenues, and only 21 percent anticipated gross revenues to be somewhat or much higher.

A jurisdiction's business climate and tax rates are key inputs in location decisions

Respondents reported that since the COVID-19 pandemic, tax rates have become a more important factor in business location decisions.[2] Economists have found that "taxes matter," but modest changes are unlikely to produce substantial changes in either direction. For instance, a 2016 study found that "if a business is especially productive in a given location, small changes in [state corporate] taxes won't have large enough impacts on profitability to make changing locations attractive." But taxes on businesses in the District of Columbia are comparatively high. Given this fact, the survey results invite the empirical question of whether businesses have become more sensitive to tax changes after the COVID-19 pandemic.

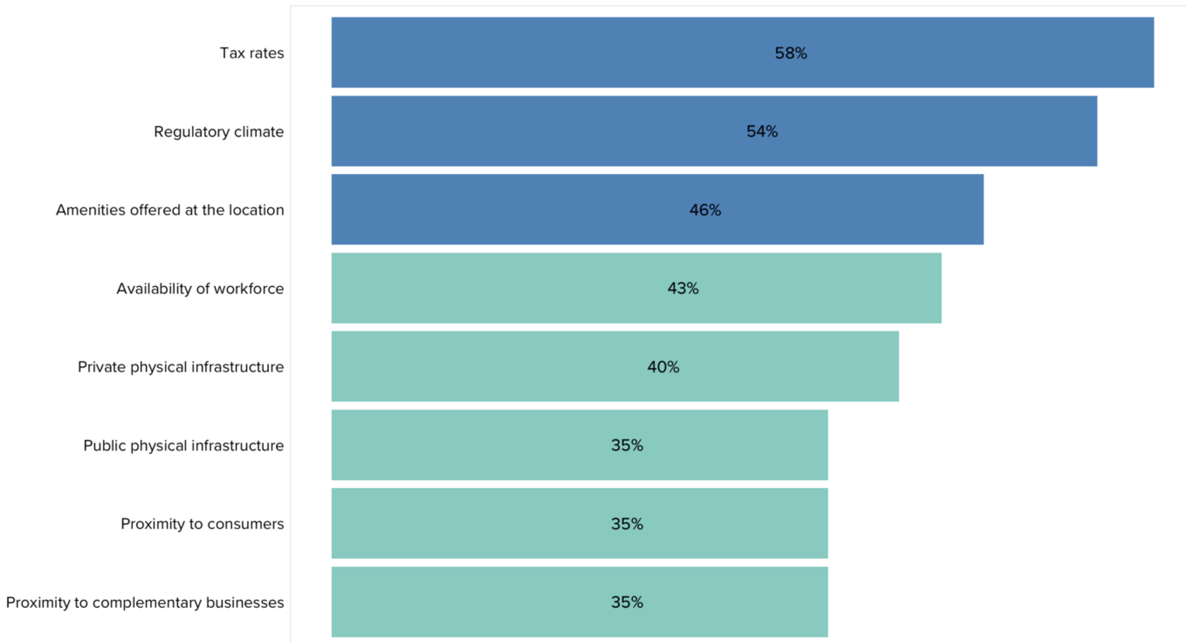
A jurisdiction's regulatory conditions also matter. The survey results indicate that the relative ease of obtaining relevant business permits or licenses is a key factor for businesses in deciding where to locate. On the other hand, the zoning laws and environmental regulations of a jurisdiction appear to be less important inputs for location decisions.

Businesses consider a jurisdiction's accessibility and appearance when deciding where to locate

Survey respondents indicated an aversion to locating in areas that had signs of blight or vacancy, and favored areas that are close to public transit and easily walkable. Given the strong preference for walkability, it is not surprising that survey respondents also deemed being close to amenities—such as restaurants and grocery stores—as a key location consideration. Being close to highways and the ability to lease a large amount of space were deemed less important factors.

Change in importance of factors before and afer the pandemic

Total percentage of 'somewhat more important' or 'much more important' responses



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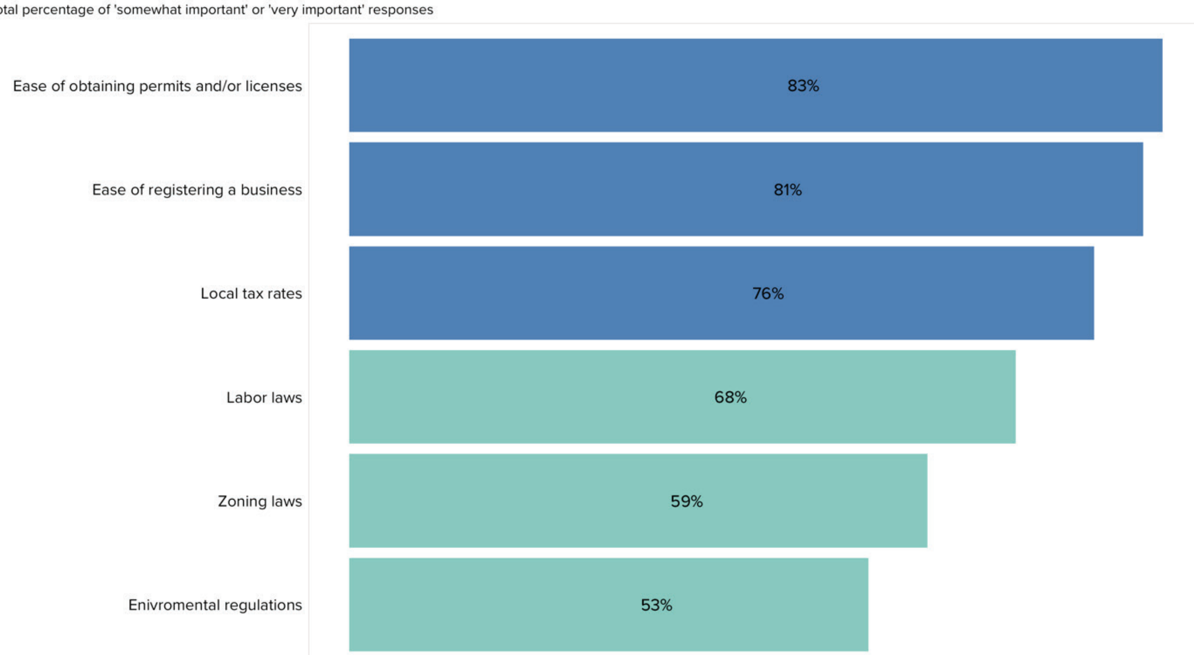
Regulatory conditions

Total percentage of 'somewhat important' or 'very important' responses



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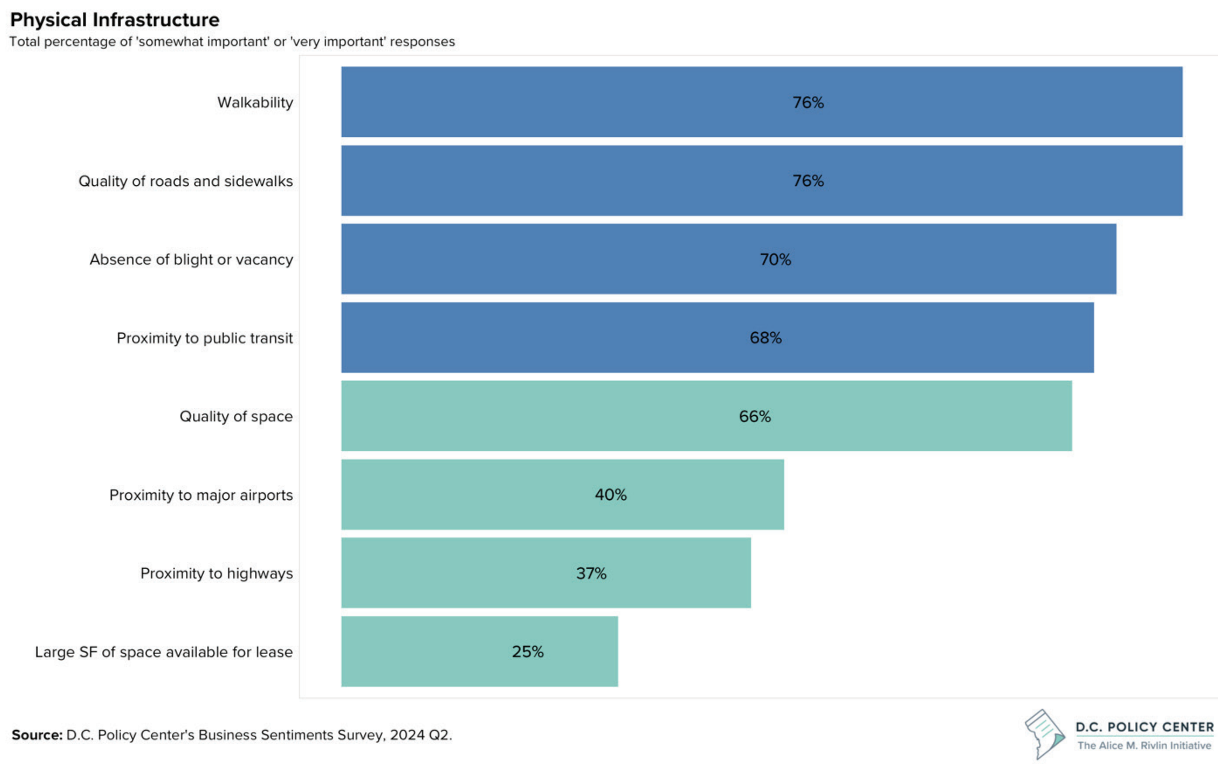

What do the round-two results mean for policy?

The second-round survey results underscore the importance of the D.C. Policy Center's past policy recommendations.

First, it is imperative that new public policies increase the attractiveness of the District for new investment. Strikingly, round-one and round-two respondents indicated they were unlikely to invest in the region anytime soon. The lack of interest in investment might reflect the fact that the District's economy has underperformed since the pandemic. Between January and March of 2024, nonfarm employment in D.C. grew by under one percent, whereas national nonfarm employment grew faster—at 2.2 percent.

Second, improving the quality of city services will enhance the city's appeal to both residents and businesses. Importantly, some of the location factors that surveyed businesses consider are under the District government's control. For instance, the quality of a city's sidewalks and its public transportation shape the city's accessibility and walkability.

Third, it is imperative that the District's regulatory environment does not impose ineffective, unnecessary, or outdated constraints on its businesses. Given this imperative, the government would be wise to periodically evaluate its regulations to ensure that they are necessary, coherent, and cost-effective. The survey results suggest that an excessively burdensome regulatory environment may deter new businesses from setting up shop in the District. One practical step that the city can take to improve its regulatory environment would be to increase the "clean hands" threshold from 100 to 2,500 dollars.

Endnotes

1 Weights were constructed using the industry and establishment count data from the third quarter of 2023. The weighted sample size was 409.3. The smaller weighted sample reflects the fact that the raw sample did not capture any businesses in the natural resources and mining industry.

2 For all questions regarding business location decisions, the raw sample size was 304. The weighted sample size was 303.2.