Business Sentiments Survey 2024 Quarter 3 results

D.C. POLICY CENTER
The Alice M. Rivlin Initiative

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

The survey is distributed in January, April, July, and October to registered businesses in the District of Columbia. It inquires about businesses' recent experiences and their expectations for the local, regional, and national economies over the next six months. The third round of the survey—which was distributed for two weeks in July of 2024—also asked participants about hiring decisions and matters related to talent acquisition.

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

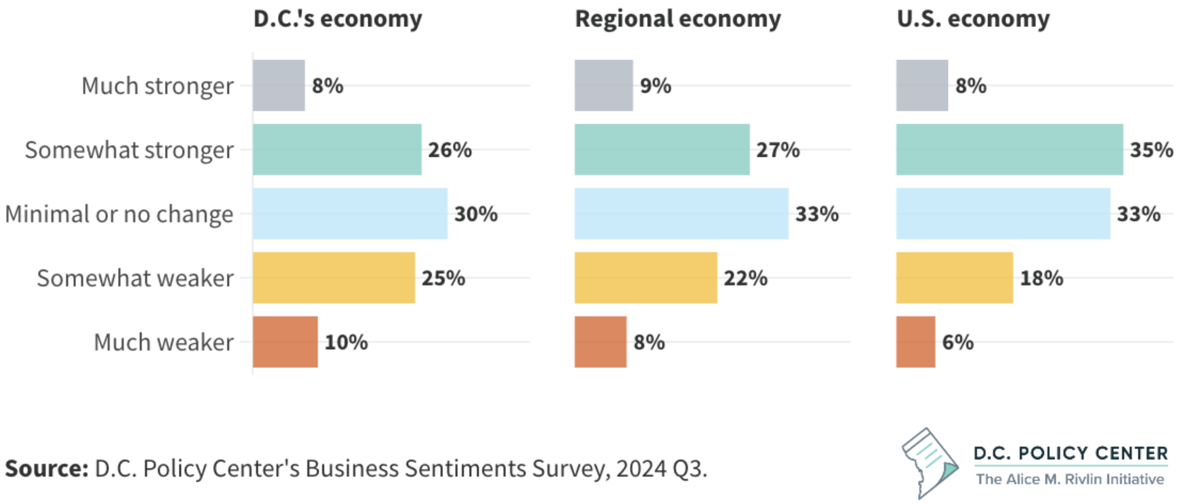
Round-three survey participants came from a variety of sectors within the D.C. region

In the third round, 214 respondents filled out the survey. Most respondents—many of whom were owners or executives—came from small, established businesses in the D.C. region. 18 percent came from the professional, scientific, and technical services sector. Other sectors with strong representation in the raw sample included the real estate sector (14 percent), the nonprofit sector (12 percent), and the restaurant sector (9 percent).[1]

Six-month expectations about the D.C. economy remain pessimistic

As in the first two rounds, respondents had a more pessimistic outlook on the D.C. economy compared to the regional and national economies. Thirty five percent of respondents expected the D.C. economy to weaken in the next six months, compared to 30 percent for the regional economy and 24 percent for the national economy. In contrast, participants were more optimistic about the national economy, with 43 percent anticipating it to be somewhat or much stronger, whereas only 34 percent expected the D.C. economy to improve.

6 month expectations of economic performance



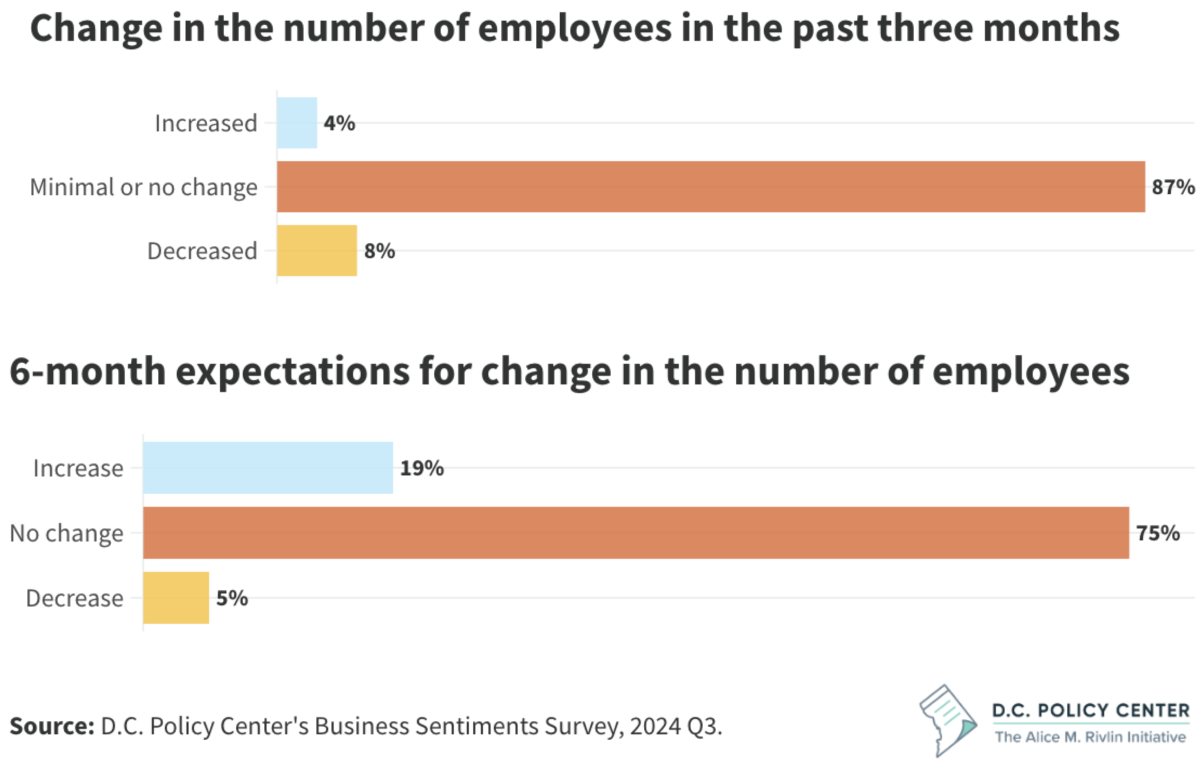
Source: D.C. Policy Center's Business Sentiments Survey, 2024 Q3.

Employment data help explain these sentiments. Between July 2023 and July 2024, nonfarm employment in the District grew by a modest 0.5 percent, and the resident unemployment rate climbed from 4.7 percent to 5.5 percent. During the same period, national nonfarm employment grew by approximately 1.6 percent, and the national unemployment rate rose from 3.5 percent to 4.3 percent.[2] These numbers underscore a troubling trend. Since the pandemic, the District's economy has underperformed relative to the national economy.

Hiring has been flat but may improve modestly over the next six months.

Considering the sluggish job growth and the pessimistic expectations for the D.C. economy, it is not surprising that 87 percent of respondents reported that the number of employees at their business did not change in the past three months. Additionally, twice as many businesses reported a decrease in employees compared to those reporting an increase.

Although a significant surge in business hiring is unlikely in the next six months, modest improvements may be on the horizon. The data show that 19 percent of businesses surveyed anticipate an increase in the number of employees over the next six months, while only 5 percent expect a decrease. For comparison, in the second round of the survey, 22 percent of respondents anticipated an increase in the number of employees, and 11 percent expected a decrease.[3] The more optimistic expectations of round-three survey respondents—as measured by the relative gap between those expecting an increase versus a decrease—provide grounds for guarded optimism.



Retaining or hiring employees became more difficult after the COVID-19 pandemic

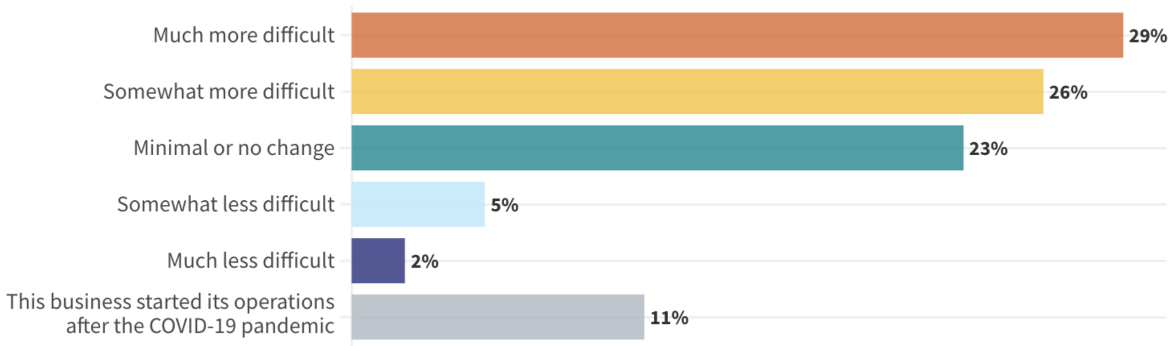
A slight majority of survey respondents (55 percent) believed that hiring or retaining employees has become somewhat or much more difficult after the COVID-19 pandemic. In contrast, only 7 percent of respondents stated that it had become somewhat or much less difficult, and 23 percent reported minimal or no change.[4]

Skill deficits and applicants' salary expectations are key challenges in hiring

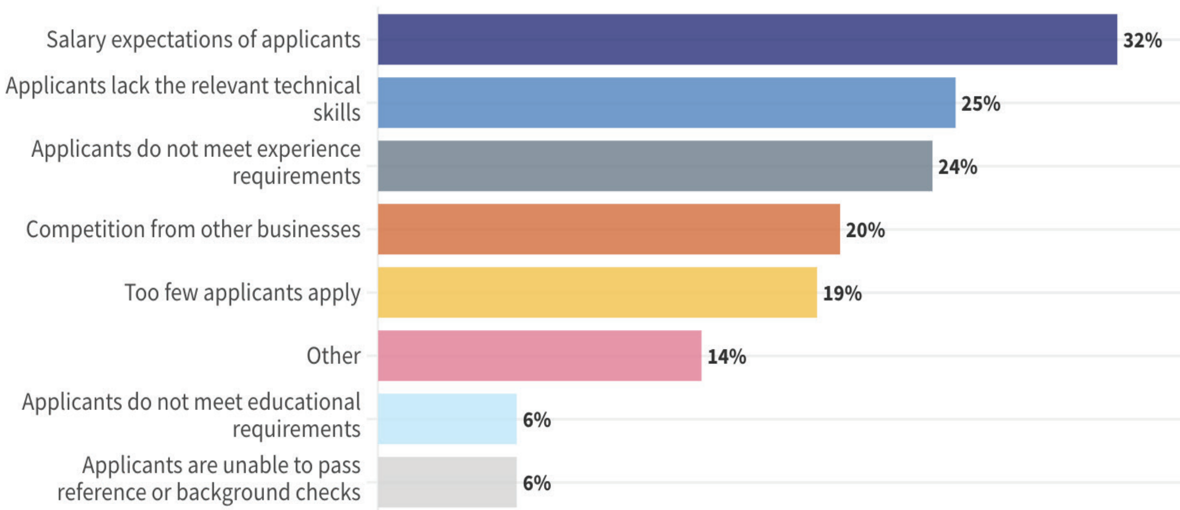
Businesses facing hiring difficulties cited two primary challenges: the salary expectations of job applicants and a lack of technical skills among candidates. Furthermore, respondents also reported struggles with having either too many inexperienced candidates or too small applicant pools.[5]

Given the stagnant job market, it is somewhat surprising that candidates' salary expectations topped the list of hiring challenges for surveyed businesses. This may be due to the recent episode of elevated inflation, which may have made job candidates more sensitive to the high cost of living in the D.C. region. Recent D.C. Policy Center research vividly highlights how the high cost of living affects the lives of essential workers: many essential workers cannot afford to reside in the District and, as a result, a majority live outside the city.

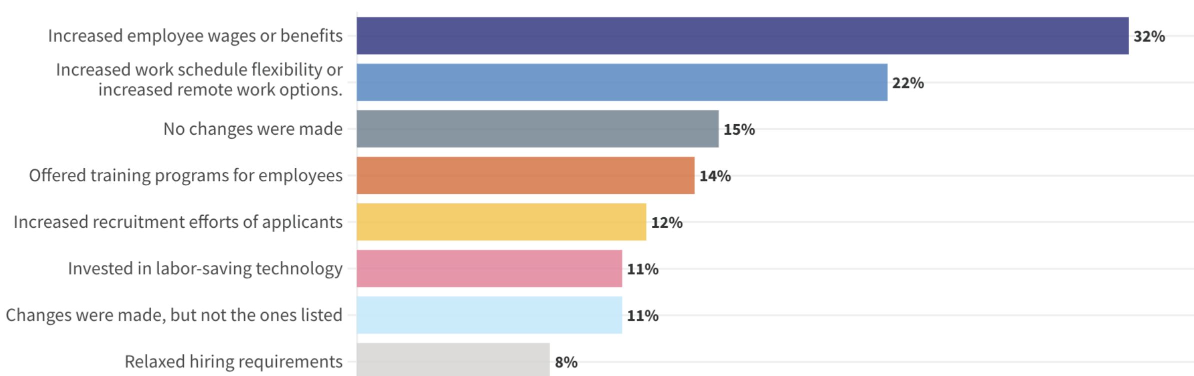
Hiring or retaining employees compared to before the pandemic (n = 145)



Hiring challenges (n = 145)



Changes made due to hiring challenges (n = 145)



Source: D.C. Policy Center's Business Sentiments Survey, 2024 Q3.

D.C. POLICY CENTER
The Alice M. Rivlin Initiative

Impact on hiring or retaining employees in the past year (n = 145)

Source: D.C. Policy Center's Business Sentiments Survey, 2024 Q3.

D.C. POLICY CENTER
The Alice M. Rivlin Initiative

Businesses report that local tax and regulatory codes exacerbate hiring difficulties

The data also indicate that many survey respondents believe local tax and regulatory environments made it harder to hire or retain employees in the past year. Specifically, 63 percent of respondents stated the local tax code made matters somewhat or much more difficult, and 61 percent held the same view of their jurisdiction's regulatory environment. Meanwhile, only about 20 percent of respondents stated that their jurisdiction's regulatory regime or tax code made talent acquisition less difficult.

Surveyed businesses have adapted by increasing employee wages or benefits

Businesses that experienced increased hiring difficulties have looked to adapt. A little less than one-third of survey respondents stated that their affiliated business increased employee wages or benefits, 22 percent increased the flexibility of employees' work schedules, and 14 percent started offering employee training programs.[6]

What do the results mean for policy?

The survey results suggest that the District would be well-served to pursue policies that reinvigorate job growth.

Reinvigorating job growth in the District may require policies that lower the costs of living—such as expanding the supply of housing so that it is affordable to all prospective residents. It is striking that even during a period of relatively slow job growth, cost-of-living considerations may be pushing potential workers out of jobs. This finding underscores the broader point that an abundance of jobs and workers is contingent on an abundance of housing, and that housing policy should be a foundational pillar of D.C.'s economic strategy.

Given that surveyed businesses reported hiring difficulties due to applicants lacking the relevant skills, creating a local talent pipeline may further boost job growth. A local talent pipeline, according to D.C. Policy Center research, would connect "the District's youth to local employers with the goal of creating long-term employment." In such a system, employers would play a significant role in equipping young people in D.C. with marketable technical skills.

APPENDIX: Guidance on interpreting the results

Survey respondents were recruited through social media, word of mouth, and email. As in the second round, many respondents came from a list of 41,000 registered agents of businesses in the District of Columbia. Using data from the Quarterly Census of Employment and Wages for the first quarter of 2024, survey responses were adjusted to reflect the industry composition of businesses in the D.C. region.

Despite these adjustments, limitations remain. The round-three response rate was likely under one percent. This response rate limits the generalizability of the results. One cannot be confident that people who did not complete the survey would have produced similar results. Given this potential bias, the survey results are better seen as sentiments of an influential group of businesses in the Washington metro region.

Endnotes

1 The weighted sample size was 213.4. For the subset of questions about hiring challenges and talent acquisition, the raw sample size was 148 and the weighted sample size was 144.7. Please see the appendix for more information.

2 Nonfarm employment for D.C. is not seasonally adjusted.

3 D.C. Policy Center's Business Sentiments Survey 2024 Q2 results.

4 A related question inquired about hiring difficulties over the past year, and the results are similar.

5 The survey question about how businesses have adapted to hiring challenges is indebted to and adapted from a question in the 2021 Small Business Credit Survey.

6 The survey question about the hiring challenges businesses have faced is indebted to and adapted from a question in the 2021 Small Business Credit Survey.