NABE
National Association for Business Economics

Business Conditions Survey

January 2020

NABE Panel Reports a Rosier View of GDP Growth, As Outlook Brightens for Sales, Employment, and Wages

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The January 2020 NABE Business Conditions Survey report presents the responses of 97 NABE members to a survey conducted December 23, 2019 – January 8, 2020, on business conditions in their firms or industries, and reflects fourth-quarter results and the near-term outlook.

COMMENTS: "Respondents to the January 2020 NABE Business Conditions Survey are more bullish about economic growth over the coming 12 months than they were in October," said **NABE President Constance Hunter, CBE,** chief economist, KPMG. "As in the October 2019 survey, about two-thirds of respondents expect inflation-adjusted gross domestic product (real GDP) to increase by 1.1% to 2.0% over the next four quarters. But the share expecting stronger growth jumped from 20% of respondents in October to 31% in the current survey." *(continued on next page)*

This NABE survey provides insights into these questions:

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COMMENTS: *(continued from page 1)*

"For the first time in a decade, there are as many respondents reporting decreases as increases in employment at their firms than in the previous three months," added NABE Business Conditions **Survey Chair Megan Greene,** senior fellow, Harvard Kennedy School. "However, this may have been due to difficulty finding workers rather than a pullback in demand. There was a significant increase in the percentage of firms reporting shortages of unskilled labor, while nearly half reports shortages of skilled labor.

"Roughly half of respondents reports that their firms raised wages and salaries in the past three months, while an even larger share—62%—expects their firms will increase pay in the coming quarter. Similarly, more respondents in this survey than in the October survey report they expect increases in their firms' short-term sales, profit margins, and selling prices. While most respondents suggest their firms have not felt much impact from the tariffs and countermeasures over the past year," continued Greene, "respondents from goods-producing firms report their companies have experienced negative sales and higher costs."

HIGHLIGHTS

- **The panel's consensus outlook for the U.S. economy, as measured by year-over-year growth in inflation-adjusted gross domestic product (real GDP), remains positive, and, in fact has improved since the October survey.** A majority of panelists (67%) still expects growth of 1.1% to 2.0% over the coming year, but a larger share of respondents than in October—30% compared to 20%—expects growth of 2.1% to 3.0%. An additional 1% of respondents now expects growth of 3.0% to 4.0%.

- **The Net Rising Index (NRI) for sales—the percentage of panelists reporting rising sales minus the percentage reporting falling sales—fell for a third consecutive quarter to 15, the lowest reading in nearly four years, and a notable departure from the highest reading of 37 in April 2019.** The NRI for anticipated sales increases over the next three months rebounded from October's decline, advancing 10 points to 30.

- **For the first time in a decade, as many respondents report a decrease as report an increase in employment at their firms in the previous three months.** While respondents from the finance, insurance, real estate (FIRE) sector, on balance, report employment increases (resulting in an NRI of 29), NRIs are negative for the services (-5), goods-producing (-18) and transportation, utilities, information, and communications (TUIC) (-20) sectors.

- **As was the case in October, equal shares of respondents report rising and falling profit margins at their firms in the fourth quarter of 2019.** The NRI for profit margins is unchanged at 0, slightly lower than a year ago, when it was 3. Looking ahead, expectations for profit margin increases are widespread among the four industry sectors. Overall, the forward-looking NRI for profit margins increased 19 points to 20 in January. The goods-producing sector registered a 42-point improvement—from an NRI of -6 in October to 36 in January. The NRI for expected profit margins is 22 for the services sector, 14 for the FIRE sector, and 0 for the TUIC sector.

- **The NRI for prices charged increased to 8 from 3 in the October survey, as a smaller share of respondents report their firms reduced prices (12% in the current survey compared to 16% in October), while the share raising prices held steady at 20%.** However, 33% of goods-producing firms cut prices. Expectations for price increases at respondents' firms are more widespread than they were in October. The NRI for expected prices charged in the next three months jumped from 14 to 26. Respondents from goods-producing firms are the most optimistic looking forward, with 60% of those survey participants expecting increases.

- **Materials cost increases continued to be more common than decreases at respondents' firms, resulting in an NRI of 24, almost identical to the reading of 25 in October.** Increases were distributed similarly across sectors, with NRIs ranging only from 21 to 30. Expectations, though, are the highest since January 2019, with an NRI of 33.

- **Wage and salary growth at respondents' firms rebounded in the fourth quarter of 2019, reversing a slowdown observed in the previous two quarters.** The NRI for wages and salaries increased to 52, up 22 points from October. A majority of respondents (62%) expects wages and salaries to rise over the next three months. The forward-looking NRI for wage costs is 62, up 18 points from the October survey.

- **There is a notable increase in the share of respondents reporting shortages of unskilled labor shortages—from 11% in October to 18% in the current survey—marking a new high for this labor-input.** The percentage of respondents reporting skilled labor shortages held steady at 43% in January 2020, and remains below the January 2019 peak of 53%. In contrast, 43% of panelists report no shortages of labor, capital goods, or other inputs at their firms.

- **Most survey respondents report their firms have taken one or more steps to address difficulties in staffing.** Raising wages remains the most common action to address staffing difficulties, cited by 47% of respondents. Training internal staff for promotion is cited by 44% of all respondents. Investing in labor-saving processes has become more common, with the share of respondents citing this step rising to 36% in January 2020 from 34% in October 2019, and 22% in January 2019.

- **High-skill positions remain the most difficult to staff, although the share of firms reporting such difficulty has declined.** In January, 75% of respondents cite difficulty hiring for high-skill positions, down from 82% in October. A different trend is emerging for mid- and low-skill labor shortages: the share of respondents reporting difficulty filling mid-skill positions rose to 55% in January, up from 45% in October. Difficulty filling low-skilled positions rose to 26% in January, up from 17% in October.

- **The NRI for capital spending at firms edged up to 18 from 17 in the fourth quarter of 2019, but remains at its second-lowest level since 2016.** Respondents from the goods-producing and TUIC sectors report large declines in capital spending at their firms, although the forward-looking NRI for capital spending in the goods-producing sector rebounded. There was an uptick in the percentage of respondents reporting an increase in capital spending on equipment and information technology at their firms—from 30% in October to 36% in January—as well as spending on structures.

- **Sixty-one percent of respondents report that tariffs and/or countermeasures did not impact their business in 2019.** There are substantial differences among sectors: about three-fourths of FIRE (76%) and services sector (75%) respondents report no impact, compared to 50% of TUIC and 12% of goods-producing respondents. For those respondents indicating that tariffs *have* had an impact on their business, 20% cite negative sales—including 41% of those from goods-producing firms. The second-most cited impact is higher costs, noted by 19% of respondents—also led by those from goods-producing firms at 59%.

- **Sixty-three percent of respondents do not expect significant impacts on their 2020 sales outlook from the latest developments in international trade.** Forty-three percent of respondents are taking a "neutral position" and 20% expect "no impact" on their sales outlook for 2020. Fifteen percent of respondents expect a positive, and 15% expect a negative impact on their sales outlook for 2020.

- **A majority (54%) of respondents views the Federal Open Market Committee's easing of the Fed funds policy rate as favorable for business conditions in 2020.** On the other hand, 34% of respondents anticipate no impact, and 6% of respondents view the policy as unfavorable.

- **Thirty-eight percent of respondents expect "no significant impact" on their firms in 2020 from "cyber" developments, such as e-commerce, "cloud" services, artificial intelligence, machine learning, or autonomous equipment.** Twenty-six percent of respondents expect sales to increase, and 23% expect lower costs. Some panelists foresee a negative impact from cyber developments: 10% expect higher costs, 4% anticipate decreased market share, and 3% expect decreased sales.

DETAILED RESULTS

Sales

The Net Rising Index (NRI) for sales—the percentage of panelists reporting rising sales minus the percentage reporting falling sales—remains positive, but declined for a third consecutive quarter to 15—the lowest reading in nearly four years, and a notable departure from the highest reading of 37 in April 2019. The drop in the fourth-quarter sales NRI reading was driven by a 10-point increase in the percentage of respondents reporting falling sales. Both the goods-producing and TUIC sector NRIs slid further into negative territory, while the NRIs for the FIRE and services sectors remain generally unchanged at 52 and 24, respectively.

The NRI for anticipated sales increases over the next three months is 30, rebounding 10 points from October's reading. Panelists from the FIRE sector are the most optimistic about prospects for sales growth going into 2020, while the least optimistic respondents are from the TUIC sector.

Percent of total respondents (97) reporting that over the past 3 months, their companies' product or services sales, adjusted for inflation, have been:

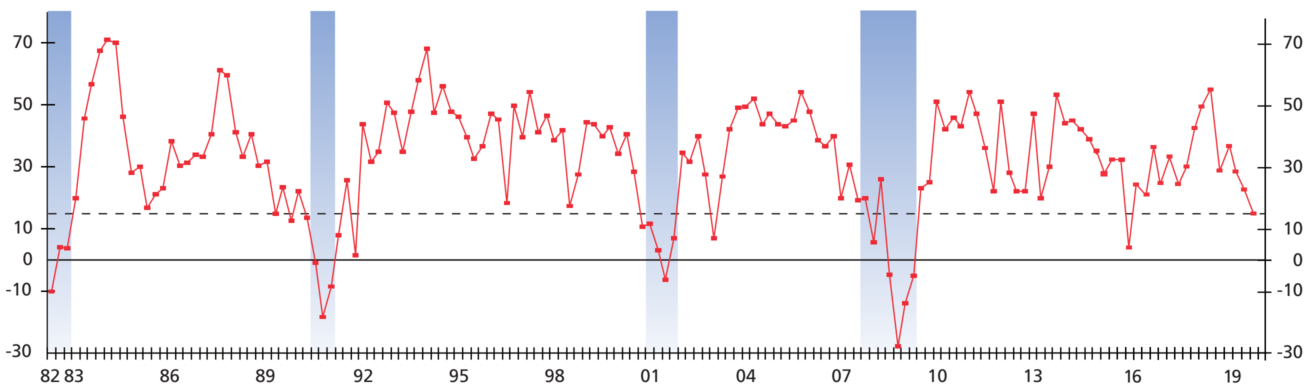
Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**42**	**31**	**27**	**15**	
October '19	39	43	17	22	
July '19	46	35	19	28	
April '19	51	35	14	37	
January '19	47	36	17	29	
By Sector—January '20					*No. responding*
Goods-producing	29	18	53	-24	*17*
TUIC	10	30	60	-50	*10*
FIRE	60	32	8	52	*25*
Services	44	36	20	24	*45*

Note: In this and all tables, percentages may not sum to 100% due to rounding.

Expected next 3 months—percent of total respondents (92)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**42**	**46**	**12**	**30**	
October '19	38	44	18	20	
July '19	46	44	10	35	
April '19	57	41	3	54	
January '19	40	46	14	26	
By Sector—January '20					*No. responding*
Goods-producing	35	35	29	6	*17*
TUIC	20	60	20	0	*10*
FIRE	50	42	8	42	*24*
Services	46	49	5	41	*41*

Figure 1 – Sales Net Rising Index



Note: In this and all figures, shaded areas represent recessions.
Dashed line indicates current NRI.

Profits

As was the case in October, equal shares of respondents report rising and falling profit margins at their firms in the fourth quarter of 2019 (Q4 2019). The NRI for profit margins is unchanged at 0, slightly lower than a year ago when it was 3. The shares of respondents reporting both rising profit margins and falling margins increased from 19% in October to 22% in January. The goods-producing industry has the lowest profit margin NRI at -29, but that is still a two-point improvement from the sector's NRI in October. The FIRE sector is the only sector registering a positive profit margin NRI at 19, rising 19 points from October. Profit margin NRIs for the TUIC and service sectors deteriorated, both registering 0 in January.

Looking ahead three months, expected profit margin increases are widespread across the four industry sectors. Overall, the NRI for profit margin expectations increased 19 points from October to 20 in January. The goods-producing sector registered a 42-point increase in its forward-looking NRI, from -6 in October to 36 in January.

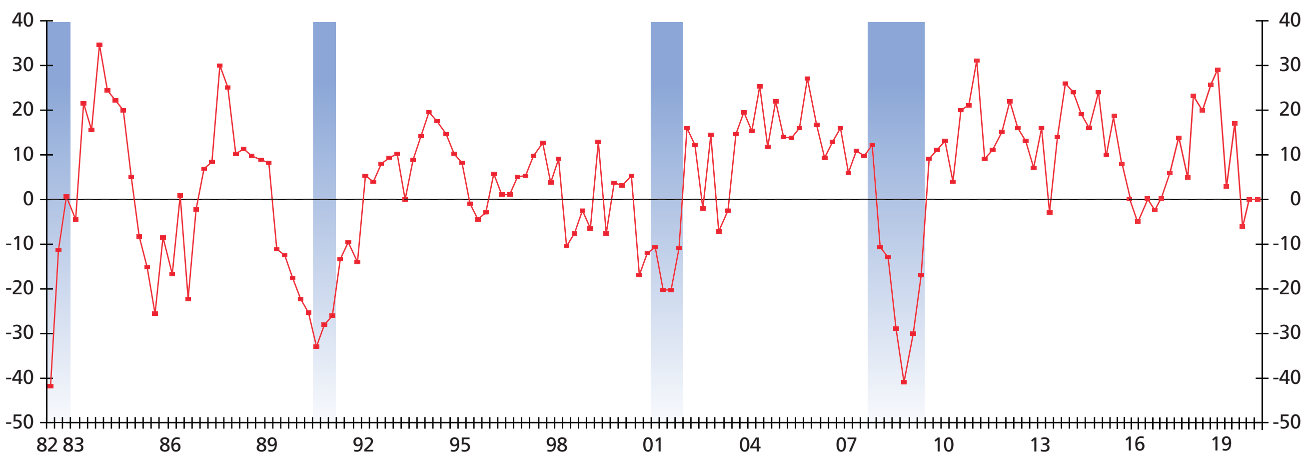
Percent of total respondents (85) reporting that over the past 3 months, their companies' profit margins have been:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**22**	**55**	**22**	**0**	
October '19	19	61	19	0	
July '19	18	58	24	-6	
April '19	32	53	15	17	
January '19	23	56	20	3	
By Sector—January '20					*No. responding*
Goods-producing	14	43	43	-29	*14*
TUIC	20	60	20	0	*10*
FIRE	38	43	19	19	*21*
Services	18	65	18	0	*40*

Expected next 3 months—percent of total respondents (82)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**29**	**61**	**10**	**20**	
October '19	18	65	17	1	
July '19	22	64	15	7	
April '19	27	62	11	16	
January '19	14	67	18	-4	
By Sector—January '20					*No. responding*
Goods-producing	43	50	7	36	*14*
TUIC	20	60	20	0	*10*
FIRE	29	57	14	14	*21*
Services	27	68	5	22	*37*

Figure 2 – Profit Margins Net Rising Index



Prices Charged

As in October, 20% of respondents report rising prices at their firms during the previous quarter, but the NRI rose from 3 to 8, as fewer firms reported falling prices. There are differences across the four sectors: 33% of goods producers report declines (resulting in an NRI of -7), while services firms report no declines (resulting in an NRI of 16). FIRE respondents indicated falling prices, on balance, in October 2019 (NRI of -22), but the sector has an NRI of +4 in the current survey.

Expectations for price increases at respondents' firms are more widespread than they were in October. The NRI for expected prices charged in the next three months jumped from 14 to 26, with 6% more respondents expecting increases and 6% fewer respondents expecting decreases than in October. In contrast, fewer than 25% of respondents in the other sectors expect their firms to raise prices in the next three months.

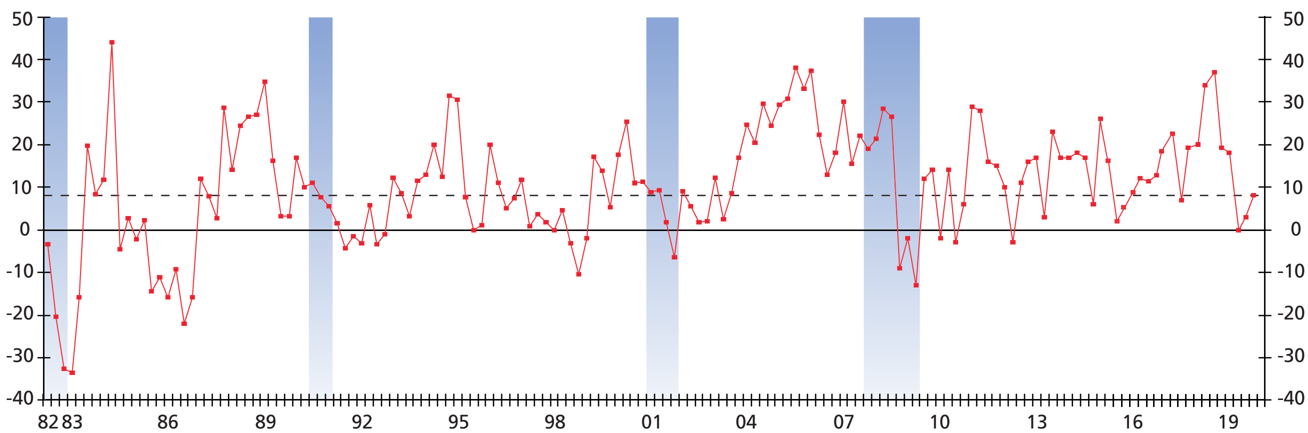
Percent of total respondents (92) reporting that over the past 3 months prices charged by their firms have been:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**20**	**68**	**12**	**8**	
October '19	20	64	16	3	
July '19	17	65	17	0	
April '19	27	64	9	18	
January '19	26	67	7	19	
By Sector—January '20					*No. responding*
Goods-producing	27	40	33	-7	*15*
TUIC	20	60	20	0	*10*
FIRE	22	61	17	4	*23*
Services	16	84	0	16	*44*

Expected next 3 months—percent of total respondents (85)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**28**	**69**	**2**	**26**	
October '19	22	71	8	14	
July '19	25	66	9	16	
April '19	25	70	5	21	
January '19	33	61	5	28	
By Sector—January '20					*No. responding*
Goods-producing	60	33	7	53	*15*
TUIC	20	80	0	20	*10*
FIRE	20	75	5	15	*20*
Services	23	78	0	23	*40*

Figure 3 – Prices Charged Net Rising Index



Materials Costs

Materials costs rose at respondents' firms during Q4 2019, marking a 15th consecutive quarter of higher costs, and registering an NRI of 24—almost identical to the reading of 25 in October. Materials cost increases are distributed similarly across sectors, with NRIs ranging only from 21 to 30.

Expectations for near-term materials cost increases are the most widespread since January 2019, and the forward-looking NRI is 33. NRIs for anticipated materials costs are positive for all four sectors, and range from 23 in services to 50 for goods producers.

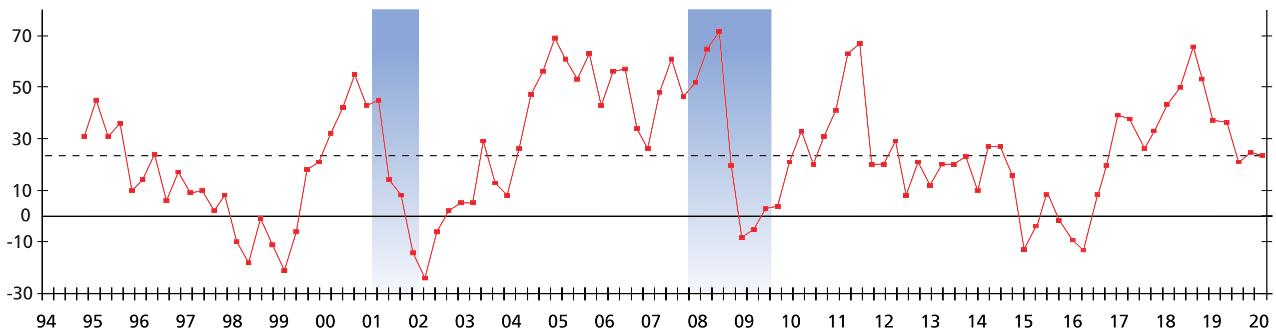
Percent of total respondents (70) reporting that the materials costs at their firms over the past 3 months have been generally:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**31**	**61**	**7**	**24**	
October '19	32	62	7	25	
July '19	30	62	8	21	
April '19	39	59	2	36	
January '19	44	50	6	37	
By Sector—January '20					*No. responding*
Goods-producing	36	50	14	21	*14*
TUIC	40	50	10	30	*10*
FIRE	35	59	6	29	*17*
Services	24	72	3	21	*29*

Expected costs in next 3 months—percent of total respondents (66)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**36**	**61**	**3**	**33**	
October '19	29	67	4	25	
July '19	33	60	7	27	
April '19	33	61	6	27	
January '19	47	51	3	44	
By Sector—January '20					*No. responding*
Goods-producing	57	36	7	50	*14*
TUIC	40	60	0	40	*10*
FIRE	31	69	0	31	*16*
Services	27	69	4	23	*26*

Figure 4 – Materials Costs Net Rising Index



Wages

Wage and salary growth at respondents' firms rebounded in Q4 2019, mostly reversing a slowdown observed in the previous two quarters. At 52, the NRI for Q4 2019 is far above the 30 in Q3 2019 and the 44 in Q2 2019, and is approaching the 2018 average (55). In the current survey, 48% of respondents report no change in wages and salaries over the previous three months, while 52% indicate an increase. No respondent indicates there were decreasing wages and salaries at their firms. While gains were broad-based across sectors, the largest gain was in the FIRE sector, where the NRI rose to 71 in Q4 2019 from 27 in Q3 2019.

The NRI for wage gains over the next three months is 62—the highest reading of 2019. The forward-looking NRIs at the sectoral level all accelerated in the current survey. The biggest gain is in the FIRE sector, where the NRI rose to 74—almost doubling its prior reading of 38.

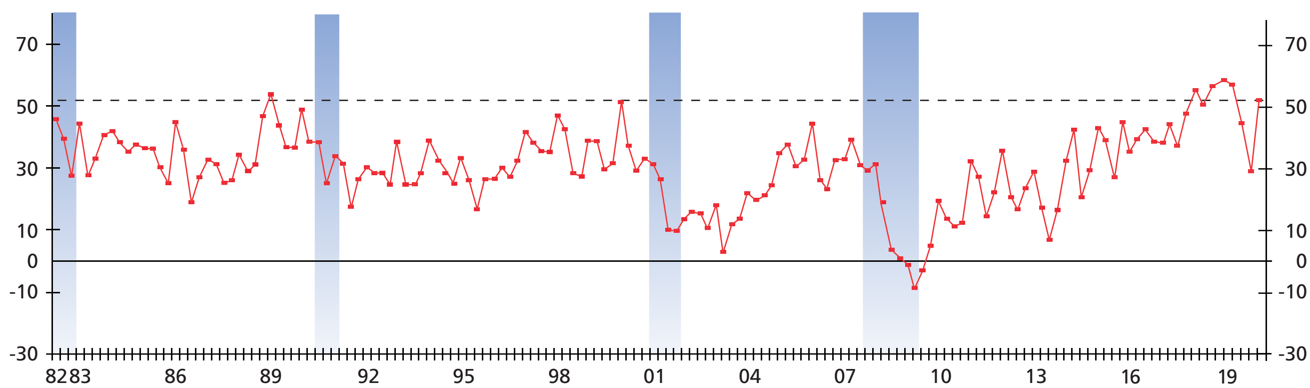
Percent of total respondents (88) reporting that in the past 3 months their firms' wages and salaries have been:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**52**	**48**	**0**	**52**	
October '19	34	61	4	30	
July '19	47	50	3	44	
April '19	59	39	2	57	
January '19	58	42	0	58	
By Sector—January '20					*No. responding*
Goods-producing	64	36	0	64	*14*
TUIC	20	80	0	20	*10*
FIRE	71	29	0	71	*24*
Services	45	55	0	45	*40*

Expected wage costs in next 3 months—percent of total respondents (84)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**62**	**38**	**0**	**62**	
October '19	46	53	1	44	
July '19	47	51	2	45	
April '19	61	37	2	59	
January '19	75	24	1	74	
By Sector—January '20					*No. responding*
Goods-producing	64	36	0	64	*14*
TUIC	50	50	0	50	*10*
FIRE	74	26	0	74	*23*
Services	57	43	0	57	*37*

Figure 5 – Wages Net Rising Index



Employment

Hiring at respondents' firms, on net, was flat in Q4 2019, resulting in an NRI of 0. This is the first time since Q4 2009 that the NRI has been that low, although it has been declining for the past two quarters—from 24 in Q2 2019 to 8 in Q3 2019. Three sectors have negative NRIs: services (-5), goods-producing (-18), and TUIC (-20). In contrast, the NRI for the FIRE sector is 29. Overall, the decline in the NRI is somewhat surprising given that payroll employment growth—as reported by the Bureau of Labor Statistics—remains strong and even accelerated in Q4 2019. This result may indicate that respondents' firms participating in NABE's survey are having difficulty finding qualified workers.

Difficulty finding workers would be consistent with the NRI for hiring plans, which accelerated in Q4 2019. The forward-looking NRI rose from 11 in October to 17. This gain includes positive NRIs for the services (28) and FIRE (22) sectors, 0 for the TUIC sector, but negative for the goods-producing (-6) sector.

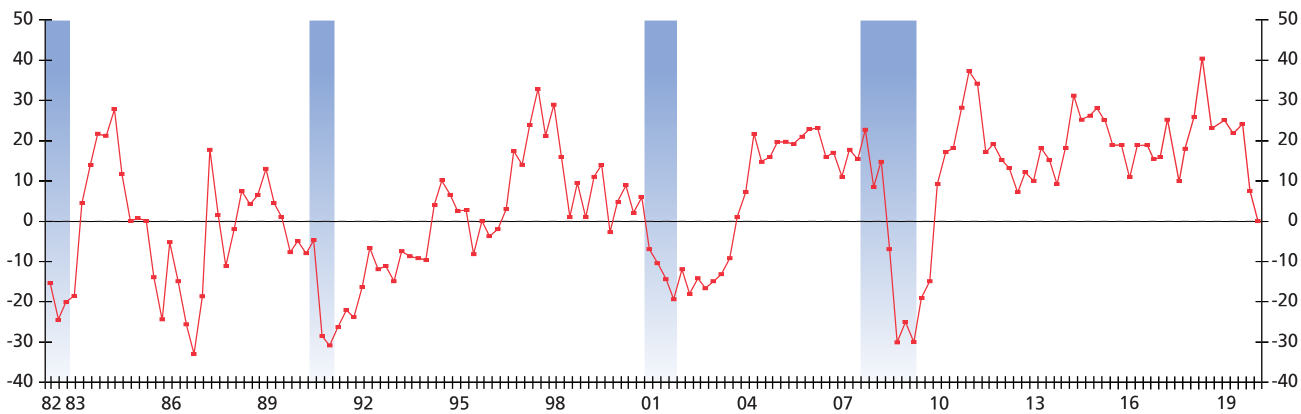
Percent of total respondents (95) reporting that over the past 3 months employment at their firms has been:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**18**	**64**	**18**	**0**	
October '19	20	69	11	8	
July '19	34	57	9	24	
April '19	28	65	6	22	
January '19	35	55	10	25	
By Sector—January '20					*No. responding*
Goods-producing	18	47	35	-18	*17*
TUIC	10	60	30	-20	*10*
FIRE	33	63	4	29	*24*
Services	11	73	16	-5	*44*

Expected next 3 months—percent of total respondents (90)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**27**	**63**	**10**	**17**	
October '19	19	72	9	11	
July '19	32	60	7	25	
April '19	34	62	4	30	
January '19	35	56	9	25	
By Sector—January '20					*No. responding*
Goods-producing	18	59	24	-6	*17*
TUIC	10	80	10	0	*10*
FIRE	30	61	9	22	*23*
Services	33	63	5	28	*40*

Figure 6 – Employment Net Rising Index



Capital Spending

The NRI for capital spending rose slightly, from 17 in October to 18 in January, albeit still at its second-lowest level since 2016. The percentage of respondents who report capital spending at their firms has been falling over the last year increased from 6% in the April and July surveys to 14% in the current survey.

The NRI for the goods-producing sector continued to decline sharply—from 73 in April 2019 to 40 in July of last year, and to -19 in the current survey. The NRI for the TUIC sector also declined notably, from 30 in July 2019 to -10 in January 2020. On the other hand, the NRI for services rebounded from 6 in October to 26, close to its reading of 33 last July.

The forward-looking NRI for capital spending also continued to decline—from 42 in July to 21—its lowest reading since January of 2019. But while the NRI for TUIC fell to -30 from 0 in Q3 2019, the NRI for the goods-producing sector bounced back to 25 from 0 in Q3 2019, suggesting that, on balance, goods-producing respondents are more optimistic about capital spending going forward than in the previous survey.

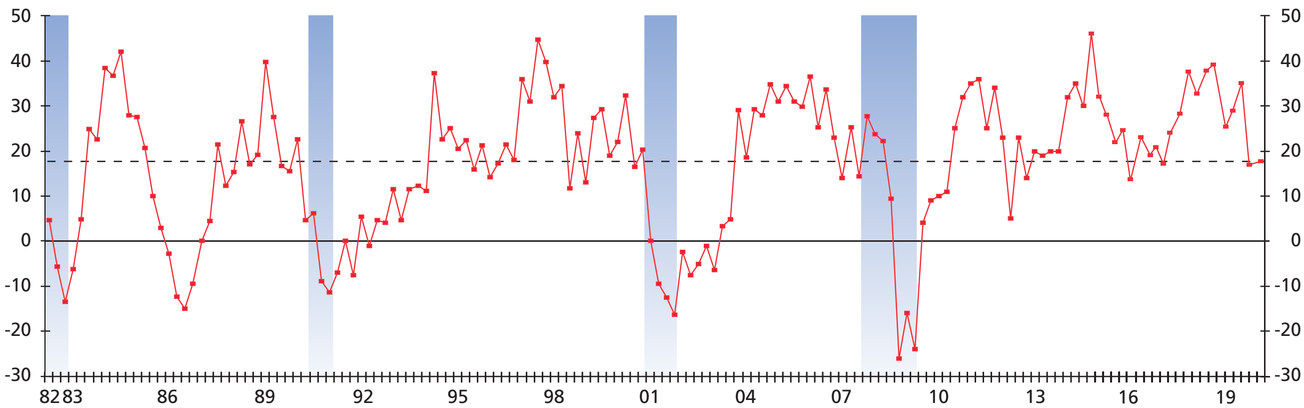
Percent of total reporting (88) that over the past 3 months, their firms' capital spending has been:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**32**	**55**	**14**	**18**	
October '19	29	59	12	17	
July '19	42	52	6	35	
April '19	35	59	6	29	
January '19	35	56	9	26	
By Sector—January '20					*No. responding*
Goods-producing	19	44	38	-19	*16*
TUIC	30	30	40	-10	*10*
FIRE	43	57	0	43	*23*
Services	31	64	5	26	*39*

Expected next 3 months—percent of total reporting (84)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**31**	**60**	**10**	**21**	
October '19	38	49	14	24	
July '19	48	46	6	42	
April '19	37	59	4	32	
January '19	30	59	11	20	
By Sector—January '20					*No. responding*
Goods-producing	38	50	13	25	*16*
TUIC	10	50	40	-30	*10*
FIRE	32	68	0	32	*22*
Services	33	61	6	28	*36*

Figure 7 – Capital Spending Net Rising Index



Equipment, Information, and Communications Technology Capital Spending

The NRI for equipment, information, and communications technology capital spending increased from 22 in the October survey to 27 in January. By sector, the goods producers' NRI jumped from 7 to 17, and the NRI for the services sector rose from 11 to 21. The NRIs for both the TUIC and FIRE sectors, however, declined slightly—with the index for TUIC firms declining from 33 to 30, and the NRI for FIRE sector firms slipping from 44 to 43.

January's forward-looking NRI for equipment and IT spending is down to 28 (compared with 44 last July and 30 in October). The forward-looking NRI for the goods-producing sector rose from 0 in October 2019 to 31 in January, the index for TUIC firms increased from 0 to 10, while the NRI for the services sector rose from 31 to 25. The forward-looking NRI for FIRE sector firms declined from 50 to 41.

Percent of total reporting (84) that over the past 3 months their firms' capital spending on equipment, information, and communications technology has been:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**36**	**56**	**8**	**27**	
October '19	30	62	8	22	
July '19	48	49	3	45	
April '19	39	57	4	35	
January '19	51	44	5	45	
By Sector—January '20					*No. responding*
Goods-producing	33	50	17	17	*12*
TUIC	40	50	10	30	*10*
FIRE	48	48	4	43	*23*
Services	28	64	8	21	*39*

Expected next 3 months—percent of total reporting (81)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**35**	**59**	**6**	**28**	
October '19	38	53	9	30	
July '19	50	44	6	44	
April '19	37	59	4	33	
January '19	39	55	6	33	
By Sector—January '20					*No. responding*
Goods-producing	38	54	8	31	*13*
TUIC	20	70	10	10	*10*
FIRE	45	50	5	41	*22*
Services	31	64	6	25	*36*

Structures Capital Spending

The NRI for capital spending on structures at respondents' firms ticked up from 2 in October to 6 in January. The NRI for capital spending on structures has remained below 10 for over a year. The NRI for the services sector rose from -17 to 5 and for the FIRE sector from 20 to 25. The goods-producing NRI declined from 0 in October to -8 in January; it had been as high as 67 in January of last year. The NRI for the TUIC sector also declined—from 20 in October to -11 in January.

The NRI for capital spending on structures for the next three months fell, from 10 to 5—marking a second consecutive survey in which the outlook has declined. The NRI for the TUIC sector—which had the highest forward-looking NRI of 44 in October—fell to -22 in the January survey. The FIRE sector NRI declined from 25 in October to 0 in January. The NRI for the goods-producing sector, however, rose from -8 to 18, and the index for the services sector recovered from negative territory—rising from -9 to 16.

Percent of total reporting (63) that over the past 3 months their firms' capital spending on structures has been:

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**27**	**52**	**21**	**6**	
October '19	23	56	21	2	
July '19	22	64	14	8	
April '19	24	59	17	8	
January '19	23	63	14	9	
By Sector—January '20					*No. responding*
Goods-producing	25	42	33	-8	*12*
TUIC	22	44	33	-11	*9*
FIRE	40	45	15	25	*20*
Services	18	68	14	5	*22*

Expected next 3 months—percent of total reporting (58)

Survey Month	Rising	Unchanged	Falling	NRI	
January '20	**21**	**64**	**16**	**5**	
October '19	25	59	16	10	
July '19	29	58	13	16	
April '19	23	69	9	14	
January '19	22	64	14	9	
By Sector—January '20					*No. responding*
Goods-producing	36	45	18	18	*11*
TUIC	11	56	33	-22	*9*
FIRE	16	68	16	0	*19*
Services	21	74	5	16	*19*

Shortages

The percentage of respondents reporting shortages of unskilled labor increased to 18% from 11% in October, marking a new high for this labor-input. The share of respondents reporting skilled labor shortages held steady at 43% in January 2020, consistent with results in the previous two surveys, and below the 53% peak in January 2019. Forty-three percent of panelists report no shortages at their firms—up from the low of 34% in April 2019, but below the 47% peak reported in the July 2018 survey.

Percent of total (97) reporting shortages at their firms over the past 3 months:

Type of input	January '20	October '19	July '19	April '19	January '19
Skilled labor	**43**	43	47	52	53
Unskilled labor	**18**	11	9	13	13
Intermediate inputs	**1**	4	3	3	5
Raw material inputs	**2**	1	2	2	1
Capital goods	**0**	0	1	1	0
No shortages	**43**	41	38	34	37
Don't Know	**9**	12	16	11	8

Note: Columns sum to more than 100% if respondents listed multiple shortages.

GDP Forecast Underpinning Current Planning

On the whole, respondents are more optimistic about the outlook for real GDP growth than they were three months ago. For the 12 months ending in the fourth quarter of 2020, nearly one-third (31%) of respondents expects real GDP of 2.1%-3% (30% of respondents) or more (1% of respondents). In the October survey, only 20% of respondents expected real GDP growth of 2.1%-3% from the third quarter of 2019 to the third quarter of 2020. Only 2% of respondents expect GDP to grow by less than 1%, down from 11% in October and the smallest share of respondents expecting a less-than-1% GDP growth rate over the past year. As in October, about two-thirds of respondents expect growth between 1.1% and 2%.

Percent of total (94) reporting that real GDP will grow from the fourth quarter of 2019 to the fourth quarter of 2020 by:

	0.0% or less	0.1% to 1.0%	1.1% to 2.0%	2.1% to 3.0%	3.1% to 4.0%	>4.0%
January '20	**0**	**2**	**67**	**30**	**1**	**0**
October '19	0	11	69	20	0	0
July '19	0	4	48	46	2	0
April '19	0	4	43	50	3	0
January '19	1	4	28	64	3	0

Note: The surveys differ in the time period covered by the GDP forecast question. For example, the January 2020 survey asked panelists to forecast real GDP growth from the fourth quarter of 2019 to the fourth quarter of 2020. The October 2019 survey asked panelists to forecast real GDP growth from the third quarter of 2019 to the third quarter of 2020.

Special Questions

1. The U.S. unemployment rate has been at or below 4% since April 2018, suggesting tightness in labor markets. Has your firm taken any steps to address difficulties in staffing? *(Mark all that apply.)*

Most survey respondents report that their firms have taken one or more steps to address difficulties in staffing. Raising wages remains the most common action to address this difficulty and is cited by 47% of respondents, up slightly from 43% in October. Sixty percent of respondents in the FIRE sector and 56% of respondents from the goods-producing sector report raising wages. Training internal staff for promotion is the second-most popular action, cited by 44% of all respondents, and particularly popular among respondents in the FIRE (60%) and goods-producing sectors (50%). Thirty-six percent of respondents indicate their firms were investing in labor-saving processes, up from 34% in October and 22% in January 2019. This method was increasingly employed by firms in the services sector (27%, up from 20% in October and 6% in January 2019). Twenty percent of panelists indicate no difficulties in hiring, and 20% report no open positions.

Sector	*No. responding*	Raised wages	Paid retention bonuses	Paid referral and/or hiring bonuses	Lowered work requirements for position	Trained internal staff for promotion	Invested in labor-saving processes	No open positions	No difficulties experienced	Other
Goods-producing	**16**	56%	31%	56%	25%	50%	50%	13%	13%	13%
TUIC	**9**	44	0	11	11	22	33	0	33	11
FIRE	**25**	60	8	32	16	60	44	12	12	0
Services	**44**	36	5	11	7	36	27	32	25	7
All respondents	***94***	*47%*	*10%*	*24%*	*13%*	*44%*	*36%*	*20%*	*20%*	*6%*

Note: Totals may sum to more than 100% if respondents entered more than one response.

2. If your firm is experiencing difficulties in hiring, which type of positions are challenging to fill? *(Mark all that apply; SKIP if not applicable.)*

For those respondents reporting difficulties in hiring, high-skill positions remain the most difficult to staff, as reported by 75% of respondents. However, this represents a slight abatement, down from 82% reporting difficulties filling high-skill positions in October 2019 and 89% in July. The share of respondents reporting their firms had difficulty filling mid-skill positions increased to 55%, compared to 45% in October and 41% in July. Twenty-six percent of respondents report difficulties hiring low-skill workers, up from 17% in the previous survey. Nearly half (46%) of respondents from goods-producing firms reports difficulties hiring low-skill positions. Low-skill positions are defined as those requiring a high school diploma or less with minimal work experience, mid-skill positions as those requiring some college or technical schooling and/or equivalent work experience, and high-skill positions as those requiring a college degree or higher and/or equivalent work experience.

Sector	*No. responding*	Low-skill positions (require high school diploma or less and minimal work experience)	Mid-skill positions (require some college or technical schooling or equivalent work experience)	High-skill positions (require college degree or higher or equivalent work experience)
Goods-producing	**13**	46%	69%	69%
TUIC	**4**	25	100	50
FIRE	**16**	25	56	75
Services	**20**	15	35	85
All respondents	***53***	*26%*	*55%*	*75%*

Note: Totals may sum to more than 100% if respondents entered more than one response.

Please answer the following questions on tariff impacts with respect to your respondent firm:

3. How has your company been impacted by the U.S. tariffs (and countermeasures by the U.S. trading partners) during the past year? *(Mark all that apply.)*

Sixty-one percent of respondents report their firms felt no impact from tariffs or countermeasures in 2019, although this is mainly skewed towards the FIRE (76% reported no impact) and services (75%) sectors, while only 12% of goods-producing firms felt no impact. For goods-producing firms, 41% of respondents from that sector indicate that tariffs and countermeasures negatively impacted their firms' sales (compared with 20% of *all* respondents regardless of sector), and 59% from goods producers report that costs were higher (compared with 19% of all responses).

Sector	*No. responding*	Negative sales	Positive sales	Higher selling prices	Lower selling prices	Higher costs	Lower costs	None of the above	Other
Goods-producing	**17**	41%	18%	29%	18%	59%	0%	12%	6%
TUIC	**10**	50	0	0	0	20	0	50	0
FIRE	**25**	12	0	4	0	12	0	76	4
Services	**44**	9	7	0	2	7	0	75	7
All respondents	***96***	***20%***	***6%***	***6%***	***4%***	***19%***	***0%***	***61%***	***5%***

Note: Totals may sum to more than 100% if respondents entered more than one response.

4. What impact have the latest developments regarding U.S. trade agreements and tariffs (including countermeasures by U.S. trading partners) had on your company's sales outlook for 2020? *(Select one.)*

Sixty-three percent of respondents do not expect significant impacts from U.S. trade agreements and tariffs on their organizations' 2020 sales outlook—with 43% of respondents taking a "neutral position" and 20% expecting "no-impact." Of those respondents who *do* anticipate any real impacts, their views are equally split: 15% expect a positive impact and 15% expect a negative impact on their firms' sales outlook for 2020. Among the sectors, 30% of TUIC firms anticipate a negative impact, and 18% of goods-producing and service firms expect a positive impact.

Sector	*No. responding*	Positive	Negative	Neutral	No impact	Don't know/ Unsure/ NA
Goods-producing	**17**	18%	12%	53%	12%	6%
TUIC	**10**	10	30	10	50	0
FIRE	**24**	8	13	13	58	8
Services	**45**	18	13	13	44	11
All respondents	***96***	***15%***	***15%***	***20%***	***43%***	***8%***

Note: Totals may sum to more than 100% if respondents entered more than one response.

5. How does the Federal Open Market Committee's easing of the Fed funds policy rate in 2019 impact expectations for business conditions at your firm in 2020? *(Select one.)*

More than half of all respondents (54%) have favorable expectations about business conditions in 2020 due to easing monetary policy in 2019, up from 35% in October. Respondents from TUIC (80%) and FIRE (56%) sector firms view the Fed's easing most favorably, while 34% of all respondents anticipate no impact, compared with 50% in October. Only 6% of respondents view the policy as unfavorable, down from 10% in October.

Sector	*No. responding*	Favorably	Unfavorably	No change	Don't know/ Unsure/ NA
Goods-producing	**17**	47%	0%	47%	6%
TUIC	**10**	80	0	10	10
FIRE	**25**	56	20	16	8
Services	**45**	49	2	44	4
All respondents	***97***	*54%*	*6%*	*34%*	*6%*

Note: Totals may sum to more than 100% if respondents entered more than one response.

6. What impacts do you expect "cyber" developments (e.g., e-commerce, "cloud" services, artificial intelligence, machine learning, autonomous equipment) to have on your firm in 2020? *(Mark all that apply.)*

A new question on expected impacts from "cyber" developments was introduced in the survey in January 2020. A plurality of respondents (38%) cites "no significant impact," led by those in the FIRE sector (48%). The second-most common response is "increased sales" at 26%, led by service sector respondents (31%). The third-most common response (23%) is "lower costs," led by respondents from TUIC sector firms (44%). Some respondents also suggest potentially negative impacts: 10% cite higher costs, 4% cite decreased market share, and 3% expect decreased sales.

Sector	*No. responding*	Increased sales	Decreased sales	Increased market share	Decreased market share	Increased employment	Decreased employment	Lower costs	Higher costs	No significant impact	Don't know/ NA	Other
Goods-producing	**17**	24%	0%	6%	0%	0%	0%	24%	12%	41%	24%	12%
TUIC	**9**	11	11	0	0	0	0	44	0	11	22	11
FIRE	**25**	24	8	20	8	8	8	20	16	48	0	4
Services	**45**	31	0	16	4	11	0	20	9	36	11	2
All respondents	***96***	*26%*	*3%*	*14%*	*4%*	*7%*	*2%*	*23%*	*10%*	*38%*	*11%*	*5%*

Note: Totals may sum to more than 100% if respondents entered more than one response.

SURVEY PARTICIPATION AND DEFINITIONS

All survey panelists are NABE members who work for private-sector firms or industry trade associations. Panelists are classified into industry NAICS codes and then grouped into four sectors as follows: goods-producing; transportation, utilities, information, communications (TUIC); finance, insurance, real estate (FIRE); and services. Industry groupings, beginning with the January 2007 survey, are as follows:

- **Goods-producing:** NAICS 11 Agriculture, forestry, fishing, hunting; 21 Mining; 23 Construction; 31-33 Manufacturing.
- **Transportation, Utilities, Information, Communications (TUIC):** NAICS 22 Utilities; 48-49 Transportation & warehousing; 51 Information–publishing, software, broadcasting, Internet publishing and providers, telecommunications, etc.
- **Finance, Insurance, Real Estate (FIRE):** NAICS 52 Finance and insurance—credit intermediation, including commercial and savings banks, credit unions, mortgage bankers; securities and other financial investments, trust, pension funds; health insurance and other insurance; 53 Real estate, rental, leasing.
- **Services:** NAICS 42 Wholesale trade; 44-45 Retail trade; 54 Professional, scientific, technical services; 62 Health care services; 56 Administrative, support, waste management & remediation services; 71 Art, entertainment, recreation; 72 Accommodations & food service; 81 Other services.

The charts and many of the tables display a **Net Rising Index (NRI),** a diffusion index calculated as the percent of responses reporting rising results minus the percent reporting falling results. Thus, the index has a possible range of +100 (all positive responses) to -100 (all negative), with 0 indicating an equal mix. All results shown are rounded to the nearest whole percentage; thus, details may not add to 100 and the NRI may not match the difference in rounded components. Shaded areas on charts indicate recessions.

A total of 97 panelists responded to the survey; the number of panelists responding to each question is included in the tables. Twelve percent of the panelists were from single-person firms; 21% from firms with 2-10 employees; 14% from firms with 11-100 employees; 12% from firms with 101-1,000 employees; and 40% from firms with more than 1,000 employees.

The NABE Business Conditions Survey—formerly the NABE Industry Survey—has been conducted quarterly since 1982. This survey is one of three administered by NABE; the others are the quarterly NABE Outlook and the semiannual NABE Economic Policy Survey. Founded in 1959, the National Association for Business Economics is the professional association for people who use economics in their work. **Megan Greene,** Harvard Kennedy School (Survey Chair); **Selma Hepp,** Compass / Pacific Union International; **Patrick Jankowski,** Greater Houston Partnership; **Lester Jones,** National Beer Wholesalers Association; **Jim Diffley, CBE,** IHS Markit; **Tim Mullaly,** FedEx; **Holly Wade,** NFIB; and **Ken Simonson,** Associated General Contractors of America, conducted the analysis for this report.

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