



# North Dakota Business Conditions and Climate Survey 2022

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Prepared by the Sheila and Robert Challey Institute for Global Innovation and Growth for the Greater North Dakota Chamber

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## Executive Summary

The North Dakota Business Conditions and Climate Survey aims to gain insight into the current business conditions, expectations, and plans of North Dakota businesses; factors that positively and negatively affect business performance in the state of North Dakota; and changes in regulation and other policies that could enable improved economic performance in North Dakota.

The 2022 survey was conducted by the Sheila and Robert Challey Institute for Global Innovation and Growth at North Dakota State University, in partnership with the Greater North Dakota Chamber. The survey was distributed electronically by the Greater North Dakota Chamber to its members, members of local and regional chambers of commerce, and various industry groups. The survey was completed by 217 businesses between May 17, 2022, and August 5, 2022. The margin of error for this survey is +/- 7%.

### Key Findings

- ❖ We heard from businesses representing a wide variety of industries in North Dakota. Top industries include: professional and business services; manufacturing; finance, insurance, and real estate; construction; energy; health care and social assistance; and retail trade.
- ❖ North Dakota businesses are experiencing significant increases in business activity, new orders, employment, employee workweeks, prices, employee compensation, backlogs of orders, and delays in receiving orders from suppliers. These mirror national trends.
- ❖ Many businesses are optimistic about their organization's performance in the upcoming year. More than half plan to invest in plant and equipment, with a majority of those planning to expand overall operations (53%).
- ❖ Businesses highlighted a number of positive factors from North Dakota's business climate that contribute to their success. The most common factors included being a right-to-work-state (53%), low taxes (43%), high-quality education (38%), low costs of unemployment and workers' compensation insurance (33-36%), and high-quality infrastructure (29%).
- ❖ The number one factor holding back performance, according to businesses, is difficulty attracting and retaining qualified workers (62%). Other negative factors include high healthcare costs (37%) and a lack of access to affordable and high-quality childcare (30%).
- ❖ Most businesses said North Dakota has a good business climate (95%); policymakers have created and passed legislation that allows businesses to succeed (87%); and North Dakota has adequate infrastructure for business success (83%).
- ❖ We asked respondents to list the number one barrier preventing North Dakota from reaching its economic potential. Based on open-ended responses, 60 percent identified an inability to attract workers. Nearly 20 percent suggested government barriers at all levels, identifying regulatory overreach and spending, energy policy, and a lack of working together. Other responses included a "thinking small" mindset, lack of economic diversity, infrastructure needs, inflation, and limited access to capital.

Overall, the results of this survey suggest North Dakota's business conditions and climate are doing well, with some notable areas for improvement. Businesses across industries share an optimistic outlook for the upcoming year, and firms overwhelmingly believe North Dakota has a good business climate. However, many businesses listed an inability to attract and retain qualified workers, high healthcare costs, and a lack of access to affordable childcare as holding back their organization's performance. These results can serve as a first step in identifying the barriers that are preventing the state from reaching its economic potential.

## **Introduction**

The North Dakota Business Conditions and Climate Survey aims to gain insight into the current business conditions, expectations, and plans of North Dakota businesses; factors that positively and negatively affect business performance in the state of North Dakota; and changes in regulation and other policies that could enable improved economic performance in North Dakota.

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The report is divided into three sections. The first provides a description of businesses responding to the survey, including their industry, size, age, target market, and reason for starting operations in North Dakota. The second provides a comparison of current business activity to last year at the same time and examines business expectations and plans for investment/divestment. The third section summarizes perceptions about the business climate in North Dakota, factors positively and negatively affecting performance, and the most important thing preventing North Dakota from reaching its economic potential.

### **Business Participants**

Figure 1 shows the reported industries of firms responding to the survey. In comparison to firms by industry from the 2019 Small Business Profile (U.S. Small Business Administration), some industries that appear to be overrepresented in the survey include: professional and business services, manufacturing, information and technology, and energy. Industries that appear to be underrepresented in the survey include: other services, real estate, retail trade, and construction. However, the industries are defined somewhat differently in Small Business Profiles, and there may be some inconsistency in how firms self-identify into different industries. For example, it may be difficult to tell whether a particular business should be classified as professional and business services, information and technology, or other services.

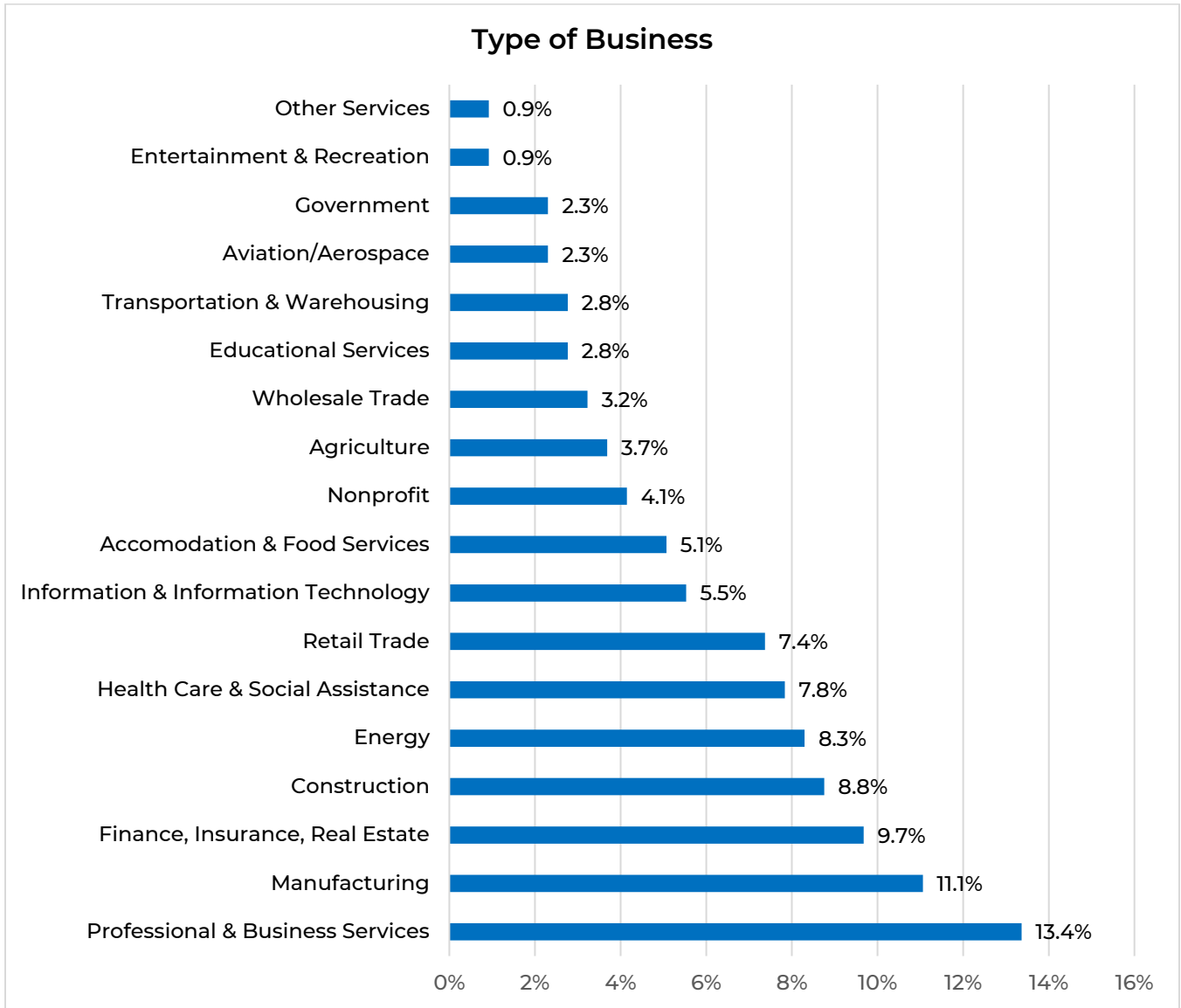


Figure 1: Composition of firms by industry (217 responses)

Figure 2 shows the regions where survey respondents operate in North Dakota, using regional definitions from the North Dakota Association of Counties. As the figure shows, the number of regional locations (365) is larger than the number of businesses responding to the survey (217) since many businesses operate in more than one region.

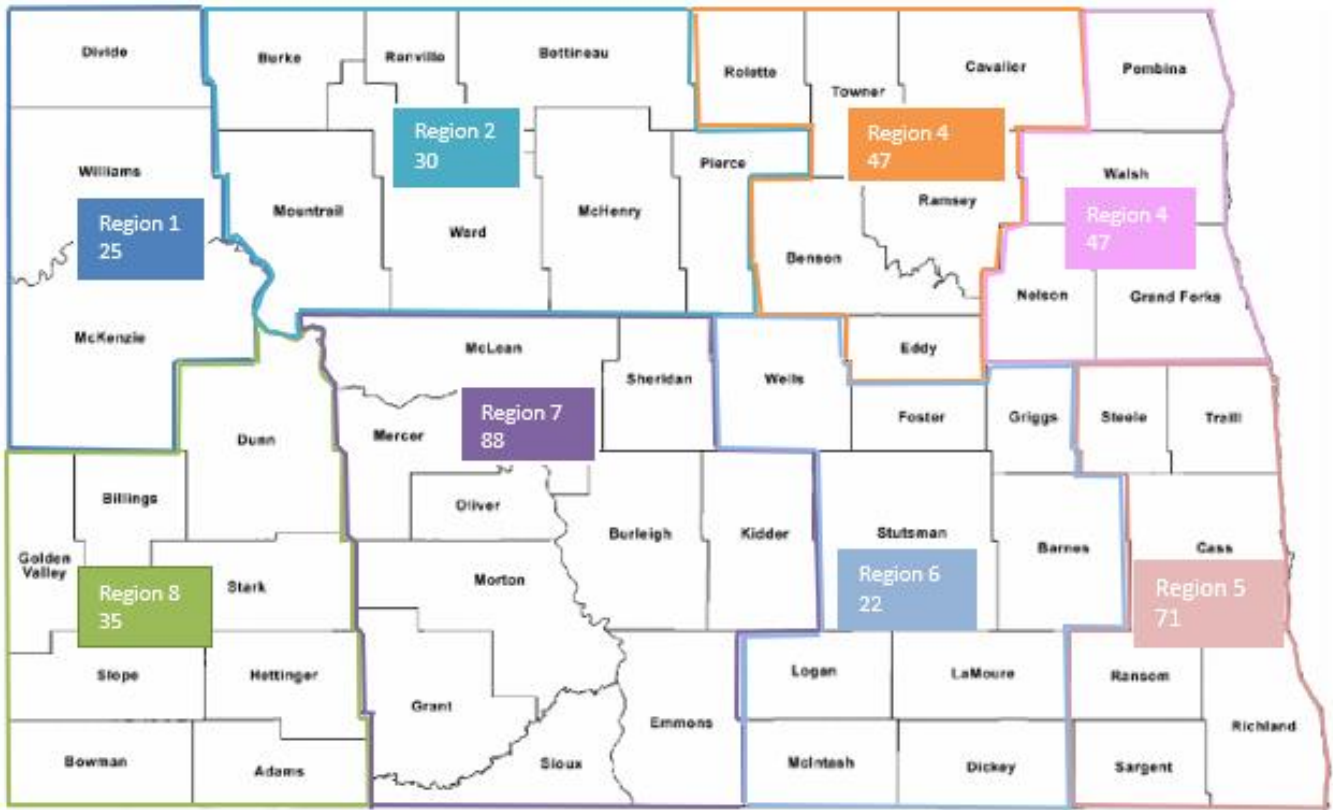


Figure 2: Regions where survey respondents operate

As shown in Figure 3, more than half of the firms responding to the survey have 20 or fewer employees, and two-thirds have 50 or fewer employees. In comparison to the 2019 Small Business Profile, the survey has an overrepresentation of large firms.

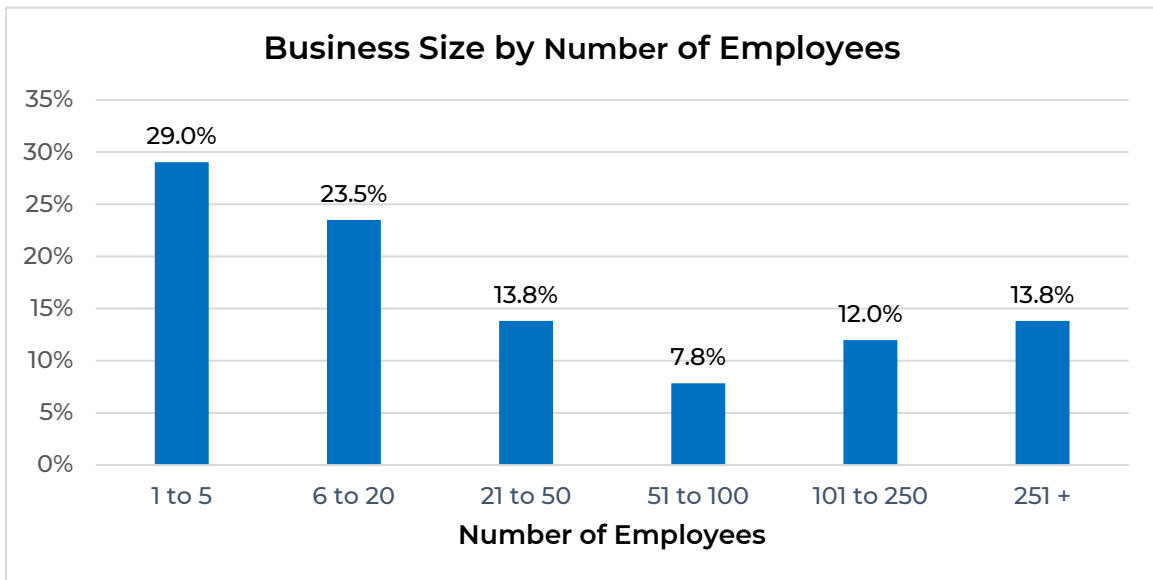


Figure 3: Percent of firms in different size categories (217 responses)

Figure 4 shows the age of firms responding to the survey. Of the 184 businesses that responded to this question, nearly a quarter have been operating for fewer than 10 years. More than 60 percent of responding firms are under 50 years old.

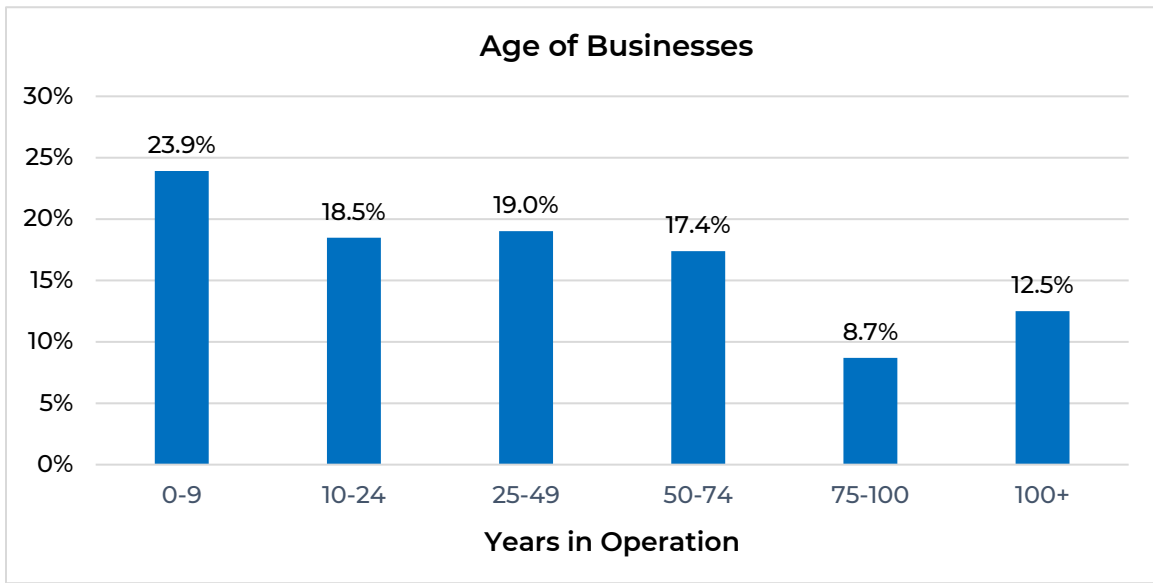


Figure 4: Number of years firms have operated (184 responses)

Figure 5 shows the primary target markets for businesses responding to the survey. As the figure shows, more than half serve local or North Dakota markets, and more than 75 percent serve local, North Dakota, or Midwest markets.

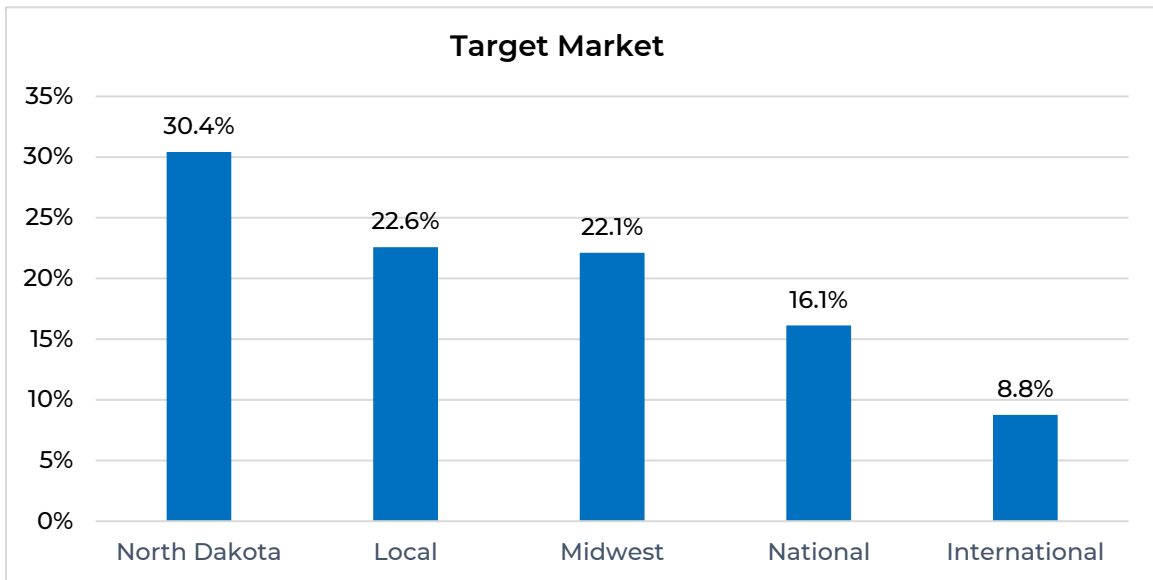


Figure 5: Target market for survey respondents (217 responses)

Figures 6 and 7 show how and why business operations began in North Dakota. As Figure 6 shows, most of the businesses were founded in North Dakota, with a small percentage expanding operations to North Dakota or moving from elsewhere. Figure 7 shows the two most common reasons for starting operations in North Dakota are because the founder (or family) is from North Dakota; and to access North Dakota resources and markets.

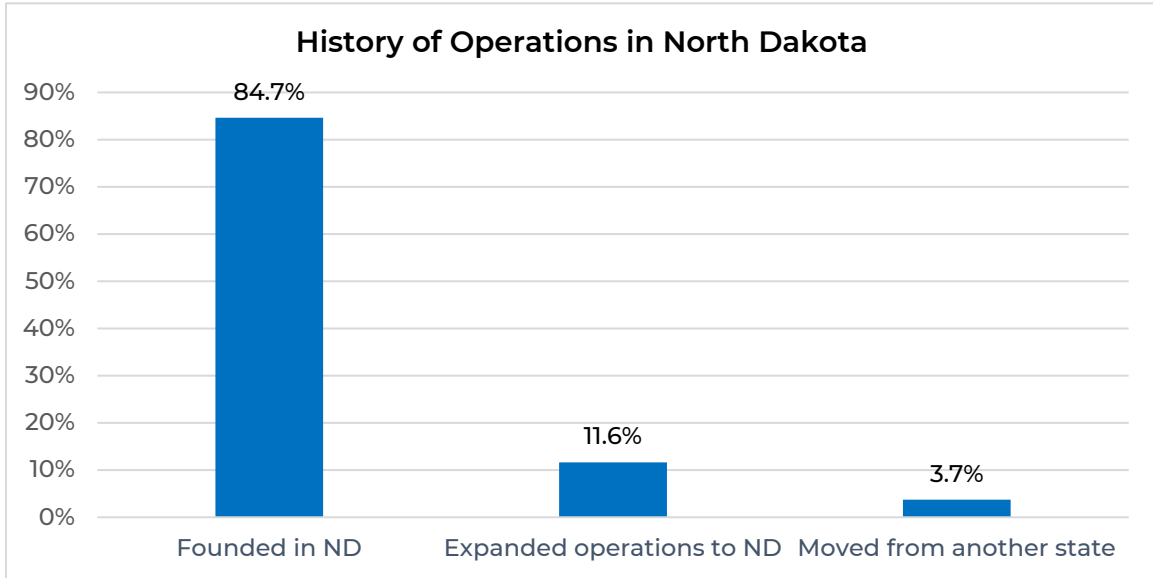


Figure 6: How did business operations start in North Dakota? (215 responses)

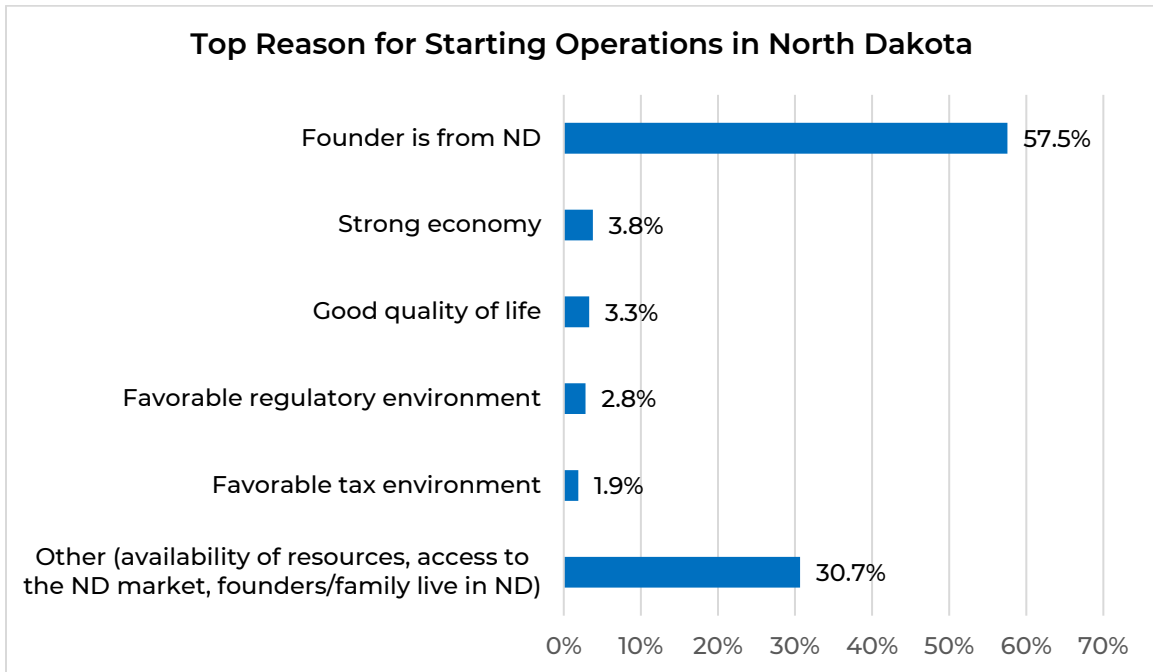


Figure 7: What was the reason for starting operations in North Dakota? (212 responses)



## **Current Business Conditions and Expectations**

In order to gain insight into the business conditions experienced by North Dakota firms, we asked respondents to compare current business activity, new orders, prices, and a number of other activity indicators to the same time one year ago. Table 1 shows the percent of respondents that reported an increase, staying the same, or a decrease for each of the business activity indicators.

In addition, the table shows a diffusion index. Diffusion indexes are used by a number of organizations, including the Conference Board, Institute for Supply Management, and the Federal Reserve, to measure changes in economic activity over time. There are a number of different ways that diffusion indexes can be calculated. In this report, we apply the simplest form, which is used by the Federal Reserve Bank of Richmond. It is calculated as the percent of businesses reporting increases minus the percent reporting decreases. A positive number indicates increasing activity, while a negative number indicates decreasing activity.

As shown in Table 1, North Dakota businesses report significant increases in business activity, new orders, employment, employee workweeks, prices, employee compensation, backlogs of orders, and delays in receiving orders from suppliers. Although the diffusion index shows an increase in profitability and a decrease in inventories, the indexes are not large enough to represent a meaningful change. Overall, changes in North Dakota business activity mirror national economic trends.



<b>Table 1: Business Activity in Comparison to Last Year at this Time</b>					
<b>Indicator</b>	<b>Percent Increased</b>	<b>Percent Stable</b>	<b>Percent Decreased</b>	<b>Diffusion Index</b>	<b>Direction</b>
<b>Business activity</b>	58	26	16	42	Increase*
<b>New orders</b>	58	30	12	46	Increase*
<b>Profitability</b>	39	31	30	9	Increase
<b>Employment</b>	41	43	16	25	Increase*
<b>Length of employee workweek</b>	16	79	6	10	Increase*
<b>Prices of your products/services</b>	69	30	1	68	Increase*
<b>Prices you pay your suppliers for products/services</b>	93	7	0.5	92.5	Increase*
<b>Employee compensation</b>	87	12	0.5	86.5	Increase*
<b>Backlog of your customers' orders</b>	43	49	9	34	Increase*
<b>Delays in receiving orders from suppliers</b>	79	18	3	76	Increase*
<b>Inventories</b>	25	49	26	-1	Decrease
Diffusion Index = Percent Increased – Percent Decreased. A positive number suggests an overall increase in the indicator, while a negative number suggests a decrease. *statistically significantly different from zero at the 95% level.					

Figure 8 shows nearly two-thirds of firms believe their business will perform better in the upcoming year than the previous year. Although the national economy shrank for the first two quarters in 2022, North Dakota businesses' optimistic outlook is consistent with recent forecasts. The North Dakota Economic Outlook report, published by the Center for the Study of Public Choice and Private Enterprise at North Dakota State University, forecasts continued growth for the North Dakota economy despite a possible national recession.

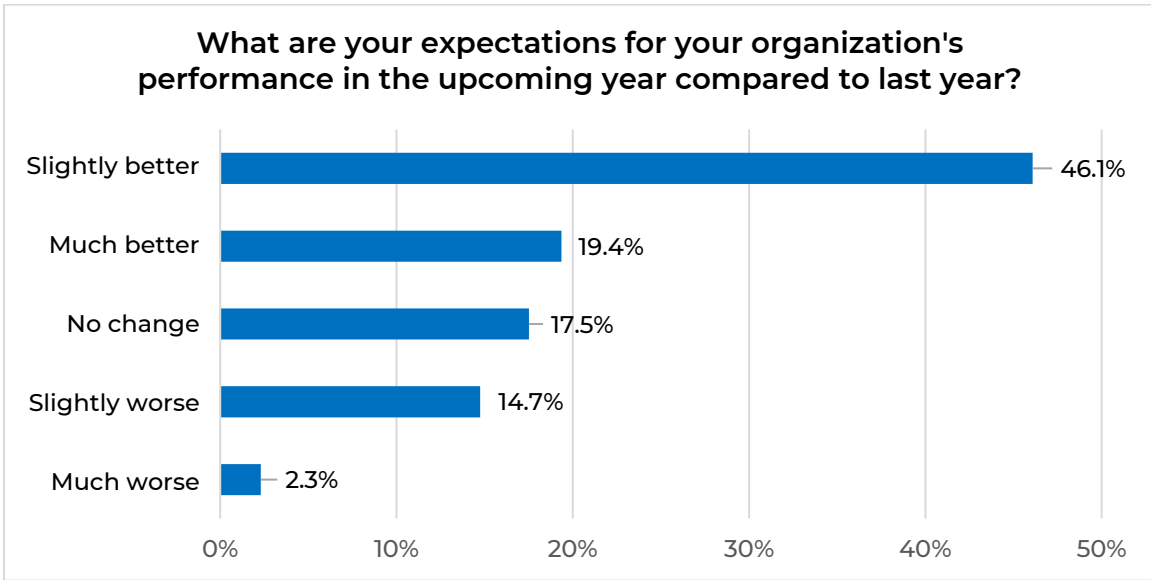


Figure 8: Expectations for performance (217 responses)

In addition to measuring expectations for the coming year, we asked firms about their plans to invest in plant and equipment. As Figure 9 shows, half of respondents plan to invest in plant and equipment in North Dakota in the next year. Moreover, as Figure 10 shows, the top reason firms plan to invest is to expand overall operations. Combined, these numbers suggest a positive outlook by these firms.

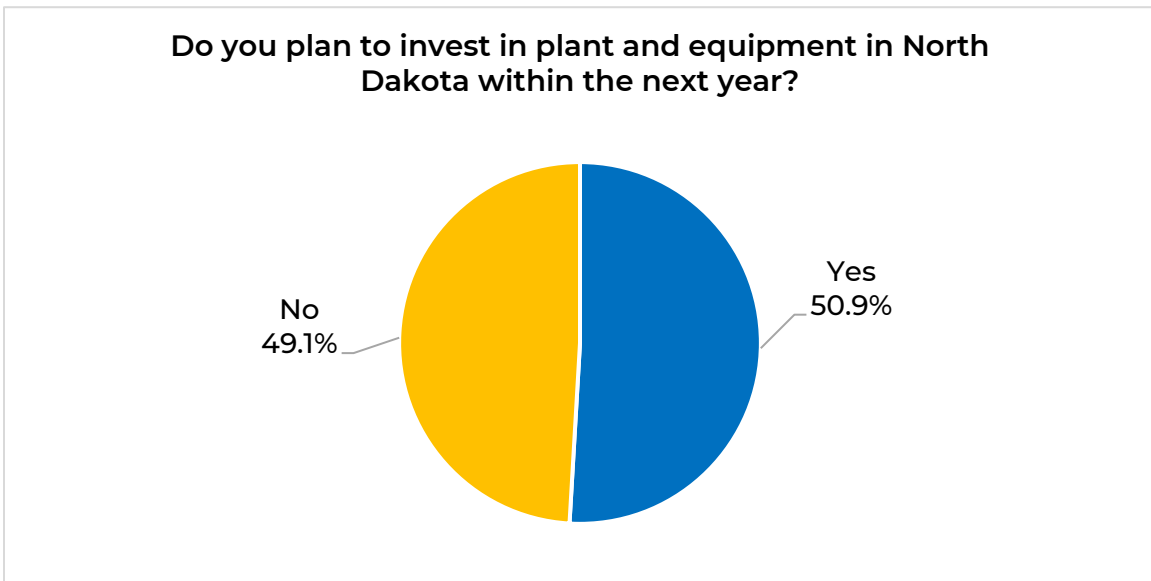


Figure 9: Percent of survey respondents planning to invest (216 responses)

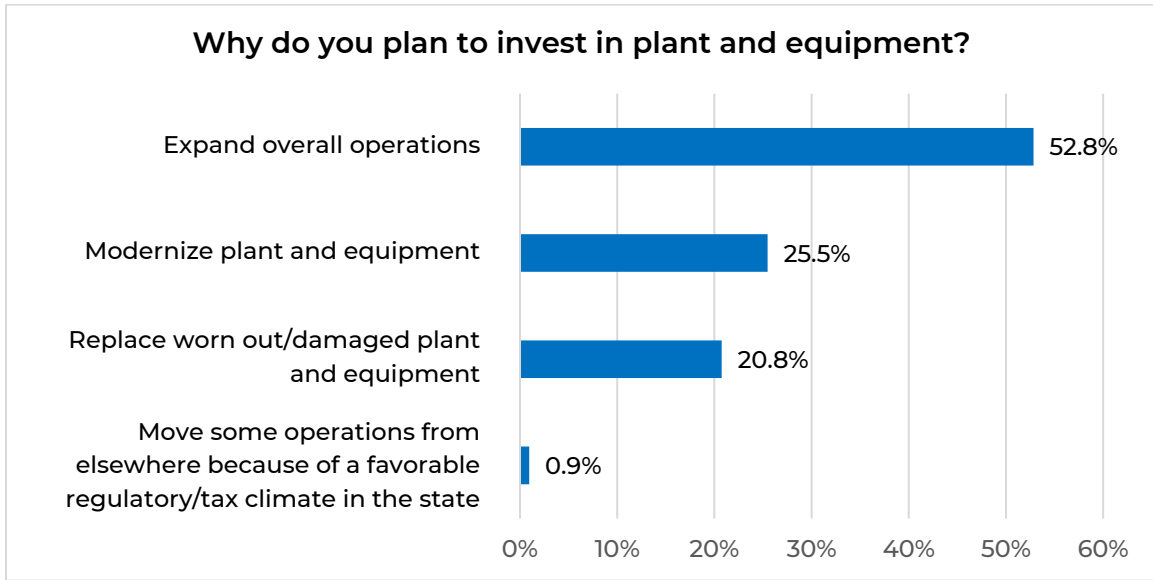


Figure 10: Reason for investing in plant and equipment (106 responses)

Figure 11 shows firms' plans to divest of plant and equipment in North Dakota within the next year. As Figure 11 shows, only five percent of respondents plan to divest of equipment. Figure 12 shows the top reasons these firms plan to divest, with only nine firms responding to this question (suggesting this figure should be viewed with caution).

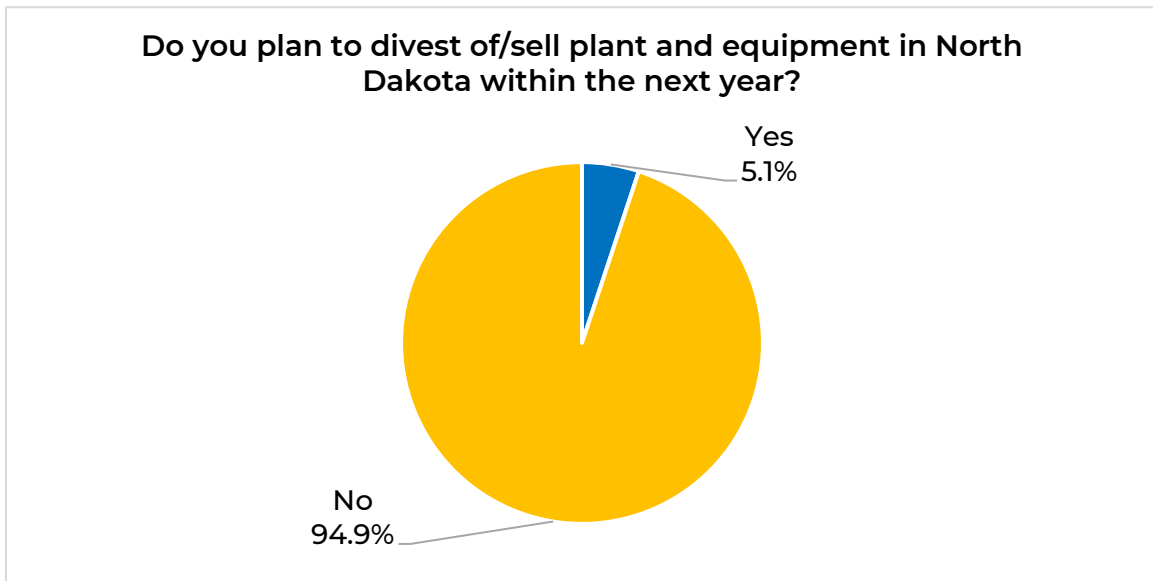


Figure 11: Percent of survey respondents planning to divest (216 responses)

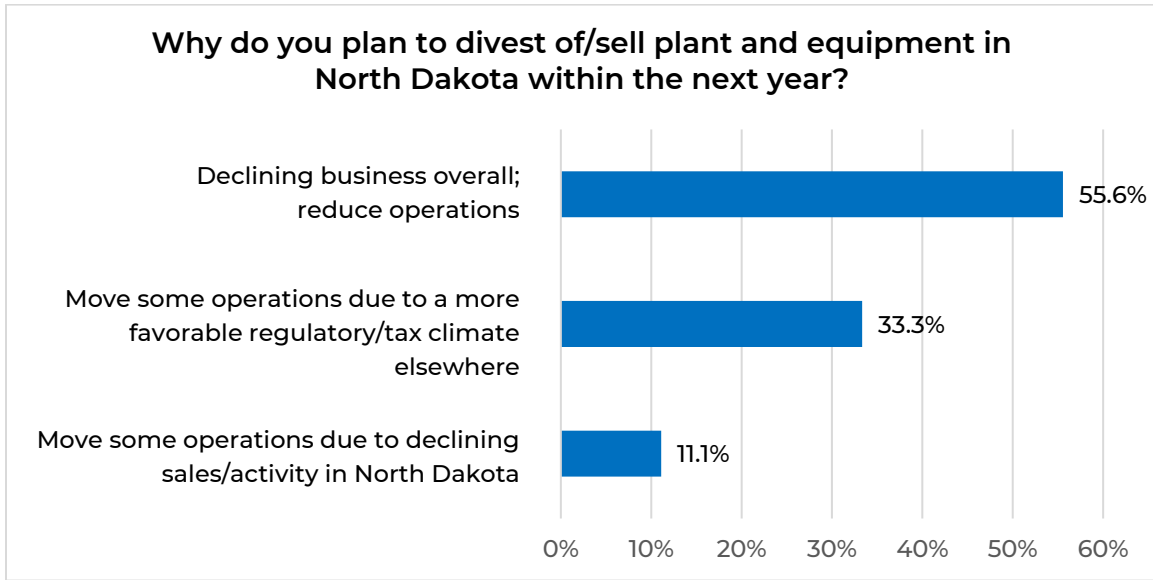


Figure 12: Reason for divesting of plant and equipment (11 businesses plan to divest; 9 responses)

### North Dakota Business Climate

The remainder of this report assesses North Dakota’s overall business climate according to firms operating within the state. We asked firms about the environmental and institutional factors that are contributing to or hindering their success. We also asked businesses to identify the change that would help their business the most and the number one factor preventing North Dakota from reaching its economic potential. One advantage to this approach is that it helps identify strengths and barriers as observed by the business community.

The survey identified key areas of the North Dakota regulatory and business climate that could affect business success. Figure 13 shows the most common factors identified as positively affecting performance. The figure shows more than half of respondents said North Dakota’s status as a right-to-work state contributes to their success. Other positive factors highlighted include: low taxes, high-quality education, low costs of unemployment and workers’ compensation insurance, and high-quality infrastructure. About one-fifth of all respondents also listed flexible energy regulations, low startup and filing costs for business, and access to capital as being important to success.

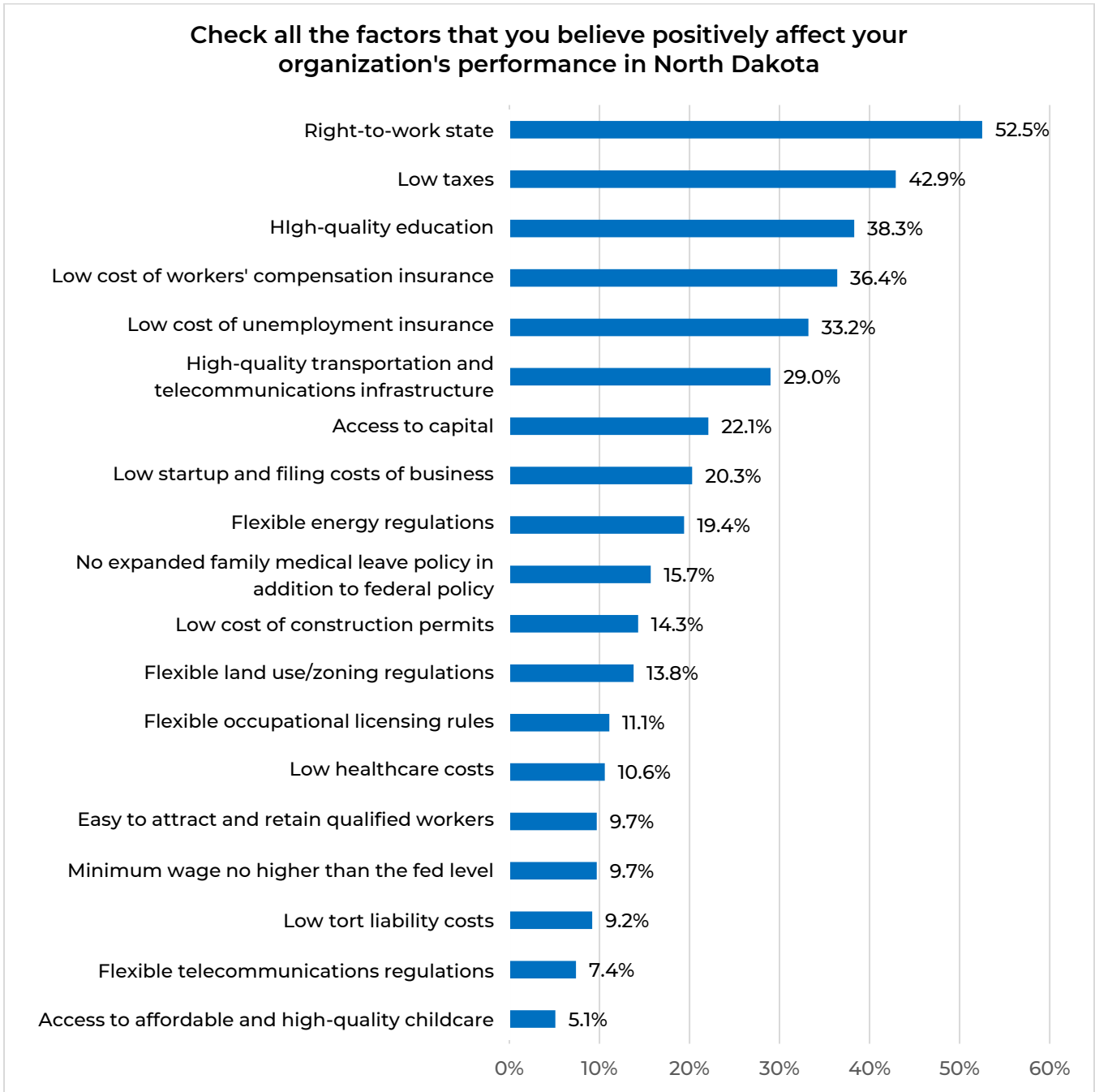


Figure 13: Factors that positively contribute to business success in North Dakota (217 respondents)

Figure 14 presents the most common factors identified as negatively affecting performance. The figure shows three key areas frequently listed as negatively affecting performance: 1) difficulty attracting and retaining qualified workers (60 percent), high healthcare costs (37 percent), and lack of access to affordable and high-quality childcare (30 percent).

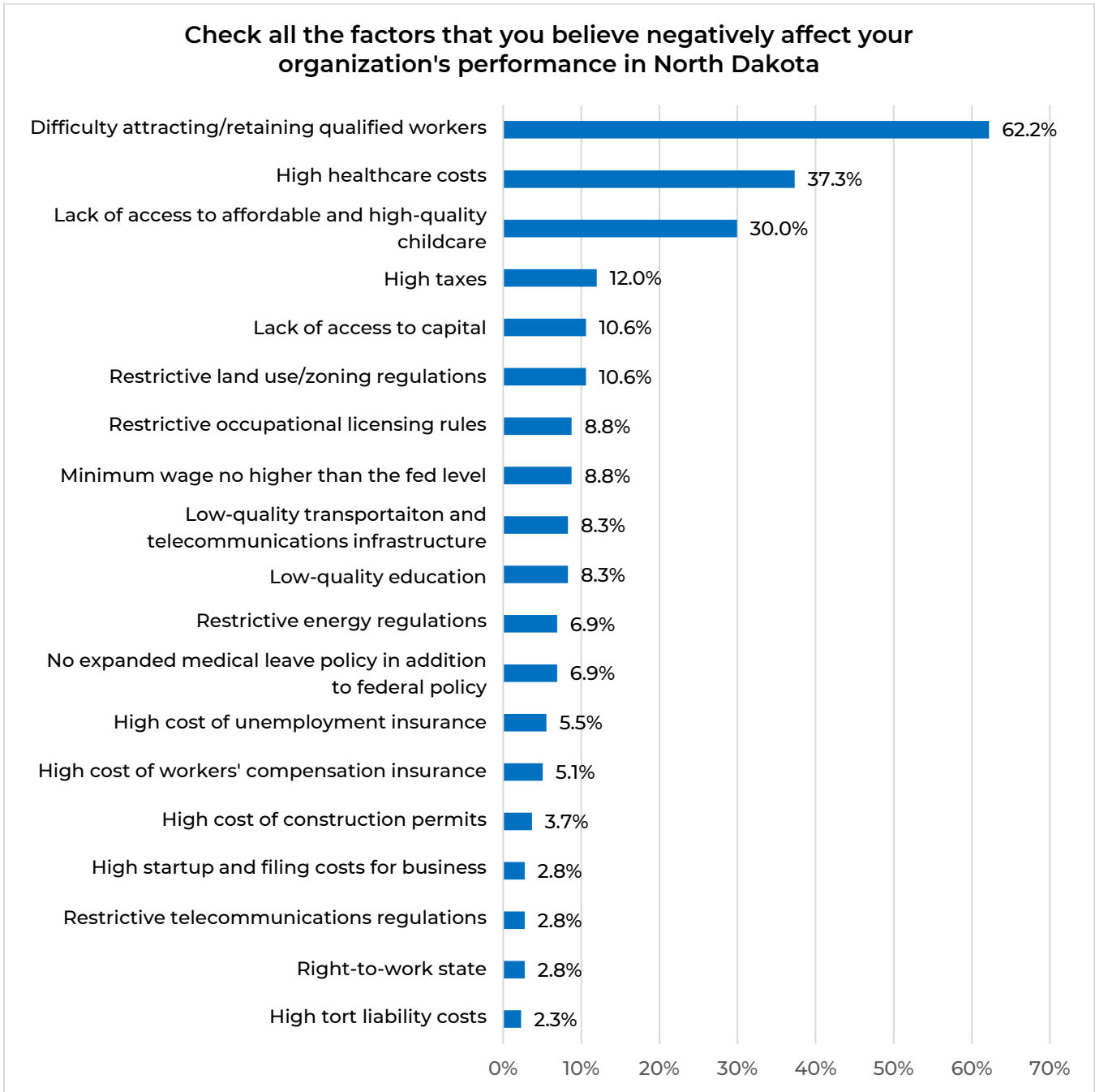


Figure 14: Factors that negatively contribute to business success in North Dakota (217 respondents)

Figure 15 shows the changes businesses believe would have the greatest positive impact on growth or performance. The top four changes listed by respondents are: 1) training/workforce development (24 percent); 2) addressing/improving childcare for the workforce (17 percent); 3) other items such as attracting out-of-state workers, providing trade education, and less government (12.5 percent); and 4) reduced healthcare costs (10 percent). Reducing taxes, improving access to capital, and improved amenities were also listed by about six percent of respondents.

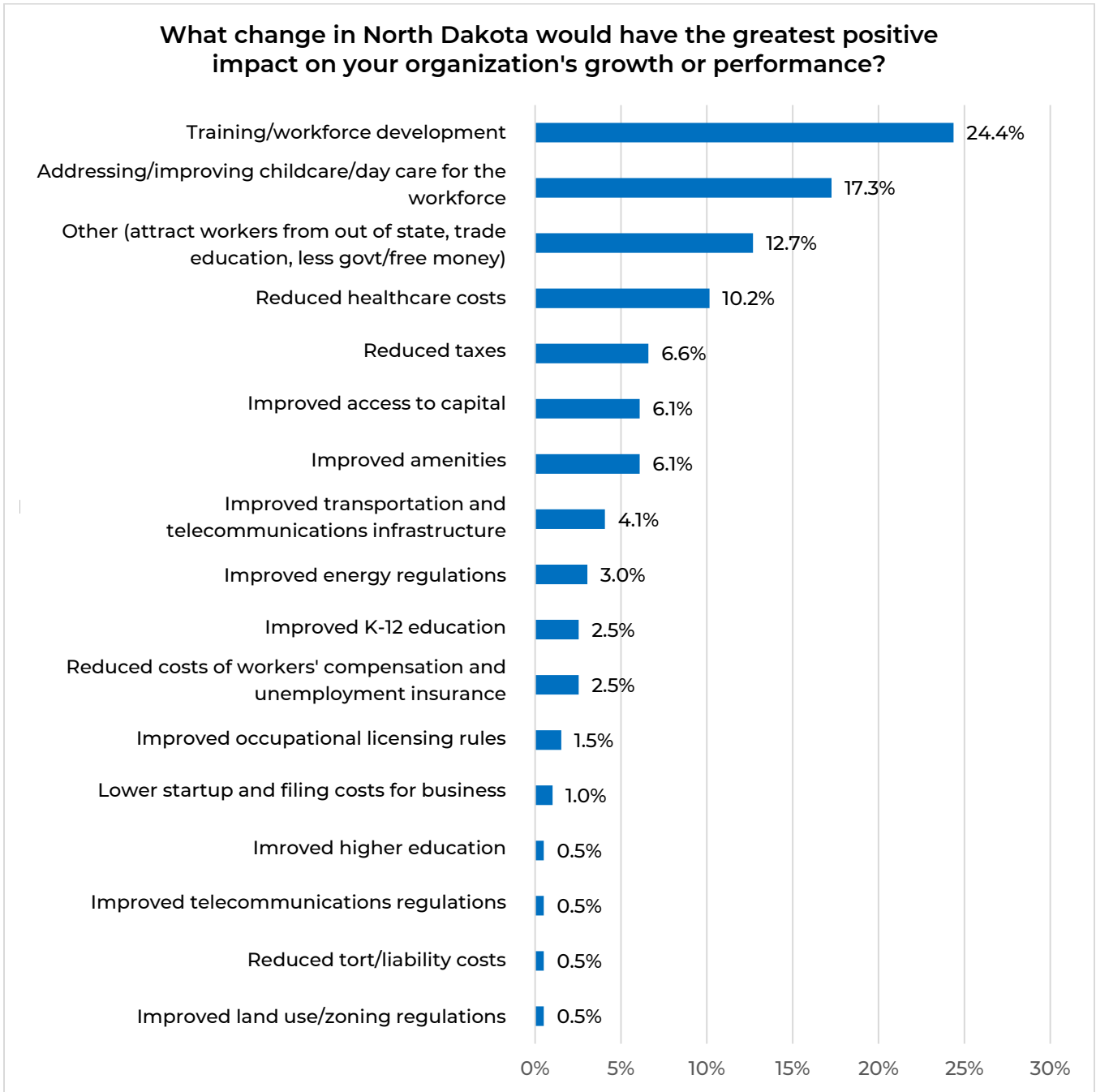


Figure 15: Factors that would have the greatest positive impact on growth or performance (197 responses)

Figure 16 shows how firms view the North Dakota business climate in comparison to other states. Of the firms who operate in multiple states, most believe North Dakota has a better regulatory and business climate than other states where they operate.



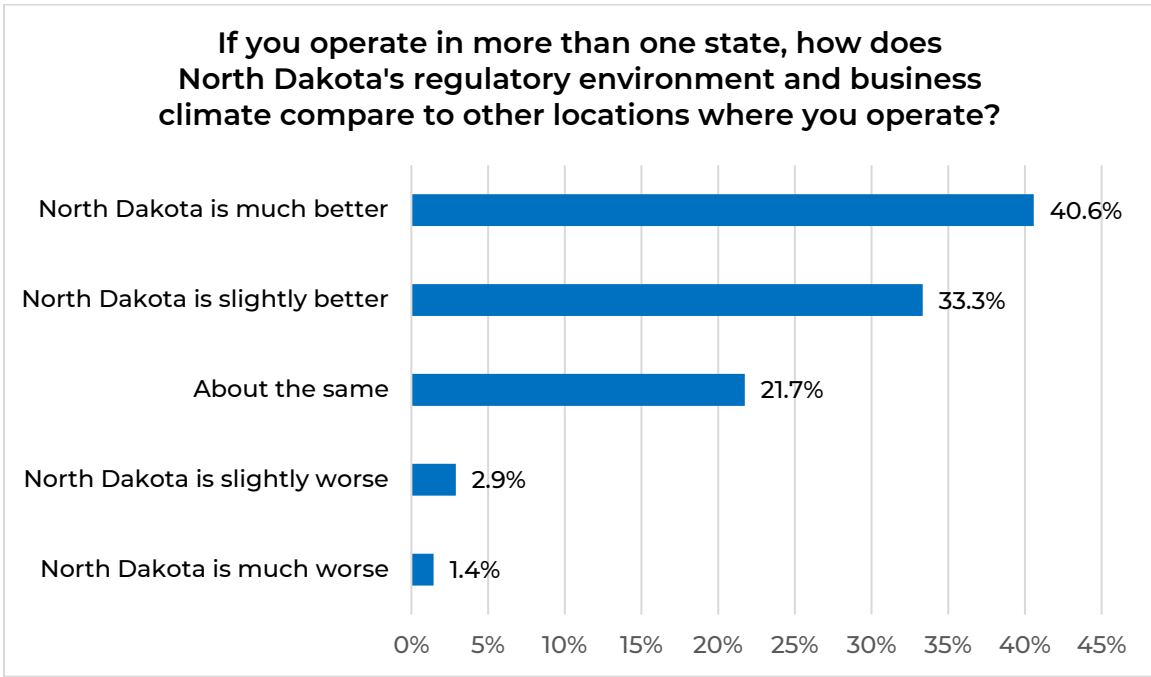


Figure 16: How does North Dakota's regulatory/business climate compare to other places where you operate? (69 responses)

Figures 17-19 summarize survey questions regarding North Dakota's overall business climate. As Figure 17 shows, nearly all respondents believe North Dakota has a good business climate. Figure 18 shows most firms believe North Dakota policymakers have created an environment that allows businesses to succeed. Finally, most businesses say North Dakota has adequate infrastructure for their success, as shown in Figure 19.

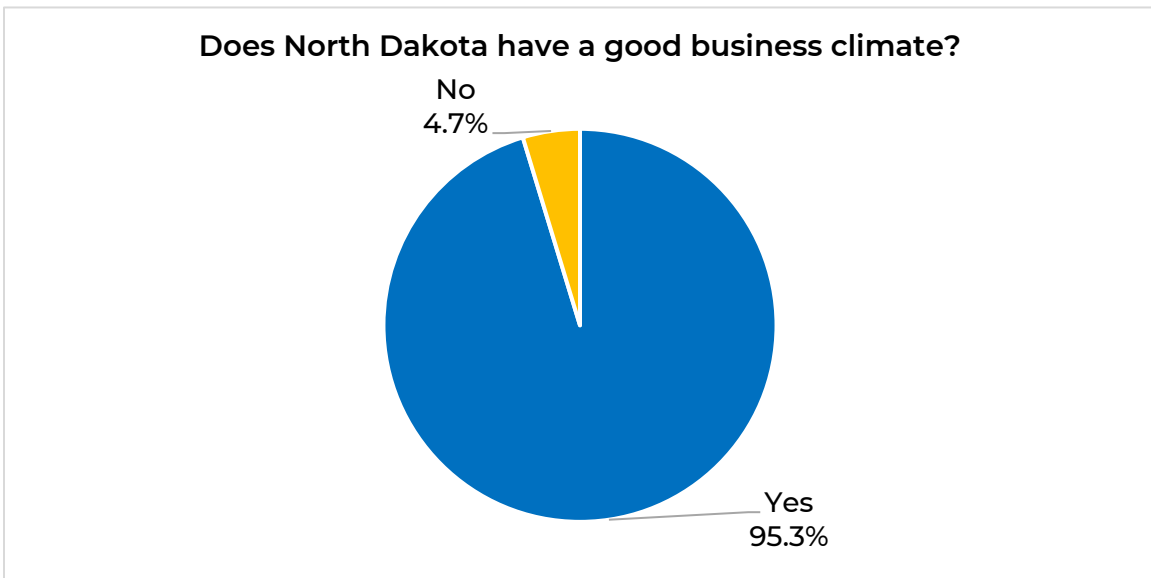


Figure 17: Rating North Dakota's business climate overall (217 responses)

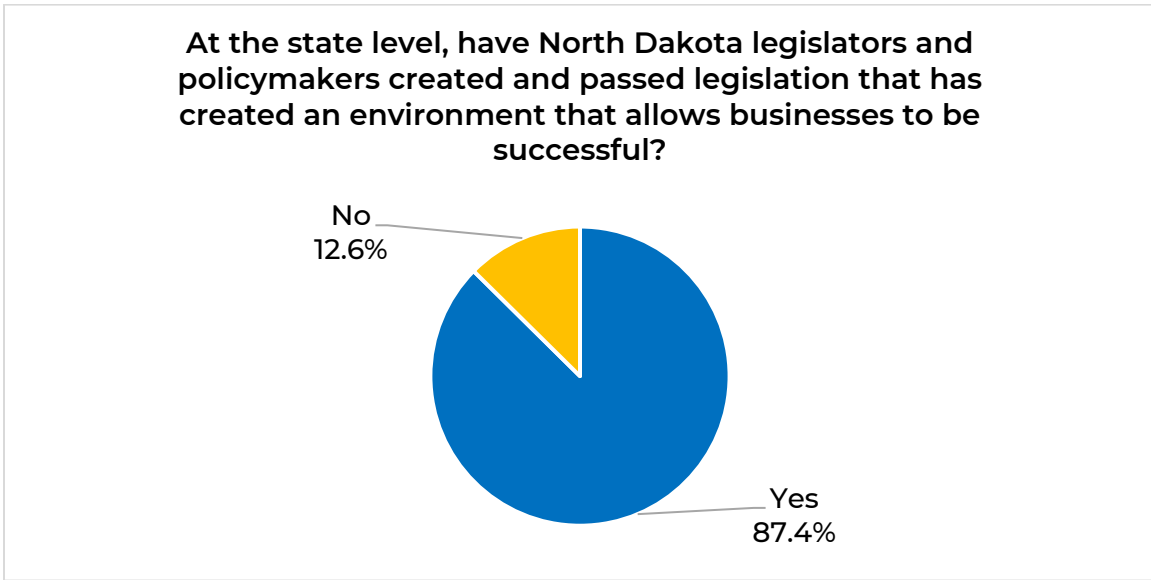


Figure 18: Have North Dakota policymakers created a supportive business climate? (217 responses)

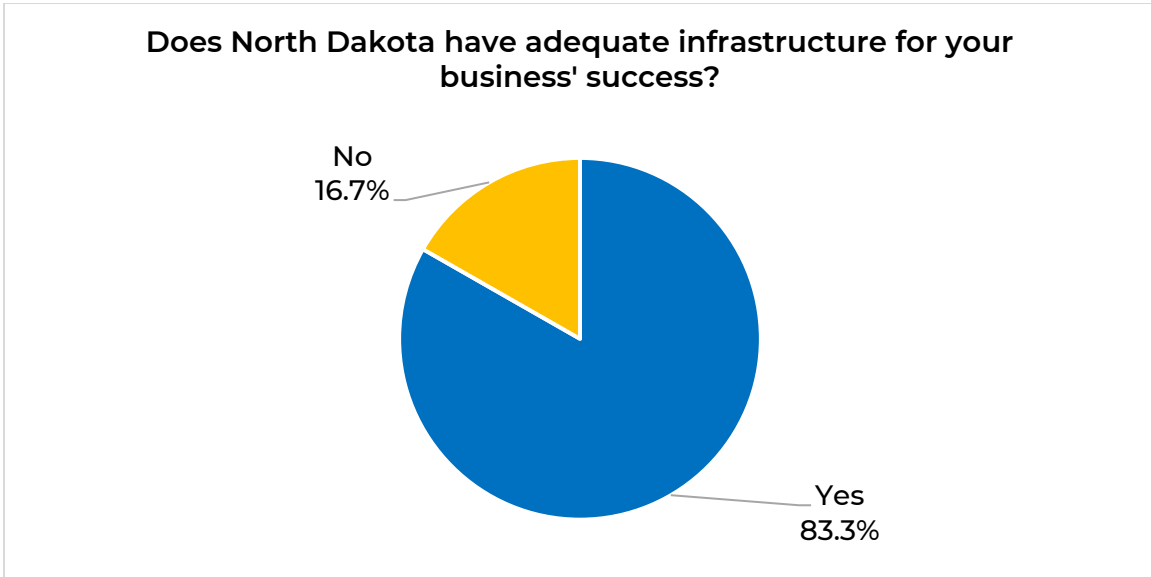


Figure 19: Is North Dakota infrastructure adequate for your business' success? (217 responses)

As is shown in Figure 20, when survey respondents were given three options as being most important to their current business success (attracting/retaining workers, business climate, infrastructure investment) 58 percent of survey respondents listed attracting and retaining qualified workers as the most important factor, 27 percent listed a good business climate, and 15 percent listed smart infrastructure investments.

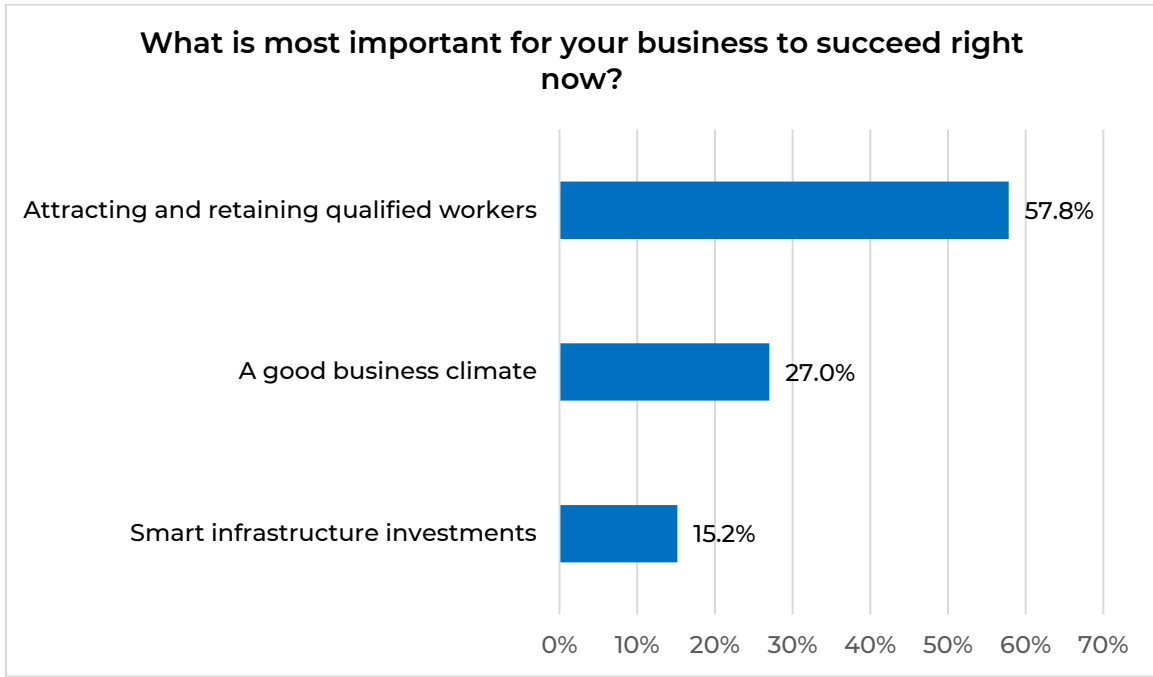


Figure 20: What is most important for your business success now? (211 responses)

The survey concluded with an effort to better understand perceived regulatory/business climate issues by North Dakota firms. We asked respondents to list the number one factor they believe is preventing North Dakota from reaching its economic potential. Although we received a wide range of responses, nine common themes emerged. These categories are displayed in Table 2. The most common response is an inability to attract workers, with various suggestions given such as improving amenities, promoting the state’s economic advantages, and improving childcare. Next is government barriers, including complaints about state and federal policies, government overreach, and a lack of working together. Other themes received 10 or fewer responses. These include: a mindset that limits progress; lack of economic diversity and an overreliance on commodities; infrastructure needs; inflation and high fuel prices; inability to access capital; other miscellaneous issues; and nothing.

<b>Table 2: Summary of text answers to the question (173 responses):</b> <i>In your opinion, what is the number one thing preventing North Dakota from reaching its economic potential?</i>	
<b>Inability to Attract Workers (total)</b>	<b>104</b>
General	81
Lack of amenities	5
Climate	5
Lack of promotion of the state’s advantages	3
Lack of housing	3
Lack of childcare	3
Other: workers’ inability to pass drug test, low wages, costs of health insurance, inability to attract diverse businesses/employees	4
<b>Government (total)</b>	<b>32</b>
State government	8
Federal government	6
Government overreach, regulation, spending	5
Federal energy policy	5
General	2
Other: lack of cooperation between state and county, high property taxes, lack of investment in small business/towns, impediments to animal agriculture, anti-corporate farming law	6
<b>Mindset (total)</b>	<b>10</b>
No thinking outside the box, “good enough mindset,” think small, lack of vision, fear of change	10
<b>Lack of Economic Diversity (total)</b>	<b>6</b>
Over reliance on commodities, need more value added, need more new types of business	6
<b>Need Infrastructure (total)</b>	<b>5</b>
Regulations preventing infrastructure investment, need broadband infrastructure, need for infrastructure loans	5
<b>Inflation/Fuel Prices (total)</b>	<b>4</b>
<b>Lack of Access to Capital (total)</b>	<b>4</b>
<b>Other (total)</b>	<b>6</b>
Other: lack of consistent water supply for agriculture, education, concentration of wealth and power, not sure	6
<b>Nothing (total)</b>	<b>2</b>

## **Conclusion**

The results of this survey suggest economic conditions in the state are positive overall, especially compared to last year. Moreover, businesses have an optimistic outlook for the year ahead.

Businesses have a positive view of North Dakota's business climate. Nonetheless, important challenges exist surrounding attracting a qualified workforce, providing adequate childcare to support North Dakota's workforce, high healthcare costs, and government barriers. Although North Dakota businesses have experienced a good deal of success, these insights can serve as a first step in identifying barriers preventing the state from reaching its economic potential.