

BUSINESS ENGAGEMENT SURVEY RESULTS FOR Q4 2023

The purpose of the Business Engagement Survey (BES) of North Carolina business leaders is to measure trends, challenges, and opportunities in the business community across North Carolina. The survey is sent via email quarterly to business leaders throughout the state. The survey asks business leaders to assess local and state business conditions in North Carolina. Researchers use the data to monitor perceived business needs, trends, and overall feelings about local, state, and national economies across the state.

This report covers the fourth quarter of 2023 (October, November, and December). During this period, business leaders completed 484 surveys across all of North Carolina's 100 counties. Nine (9) topics were covered in the survey and include perceptions of issues related to workforce, digital transformation, technology, housing, childcare and education, healthcare, infrastructure (transportation, logistics, and energy), supply chain, and financial needs. Measures of general business conditions and concerns/challenges were also collected through open-ended questions.

The nine topics are defined in brief as follows:

WORKFORCE: The ability of my business to hire and retain employees and to access skills training.

DIGITAL TRANSFORMATION: The ability of my business to utilize current technology and adopt new technology.

TECHNOLOGY: The ability of my business and my employees to access basic technology like high-speed internet service.

HOUSING: The ability of my employees to access quality, affordable housing.

CHILDCARE and K - 12 EDUCATION: The ability of my employees to access reliable and affordable childcare and quality education.

HEALTHCARE: The ability of my employees to access reliable and affordable quality healthcare.

INFRASTRUCTURE: The ability of my employees to access reliable and affordable *transportation*; the ability of my business to access *energy*; ability to access transport *logistics*.

SUPPLY CHAIN: The reliability and costs associated with my business's supply chain.

FINANCIAL NEEDS: The ability of my business to access financing and tax incentives.

Overall results are reported across North Carolina for twenty-one major industry groups and for eight prosperity zones. Both categories are discussed in more detail in the following sections.

Industries in North Carolina

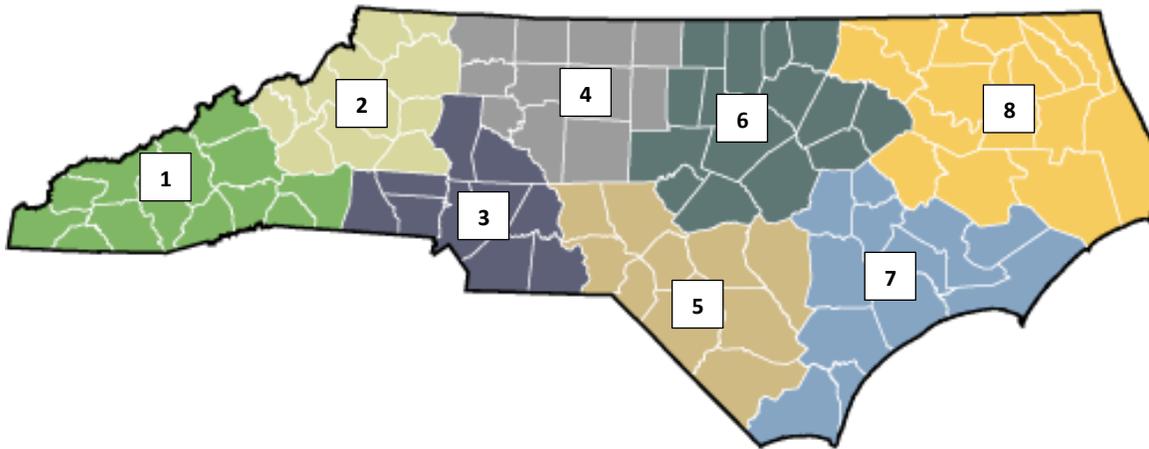
Major industries in North Carolina can be broadly defined by the categories of manufacturing, finance, education, research, tourism/hospitality, food production-related industries, logistics, healthcare, and federal/state/local government. This report compares the main survey topics across the top industries by response. The top eleven industries to respond to the survey were construction, manufacturing, wholesale trade, retail, transportation, finance, professional/scientific/technology, education, healthcare/social services, arts/entertainment/recreation, and local government. These eleven industries were used as the unit of analysis for industry because of their relative size of representation in the respondent data.

Prosperity Zones in North Carolina

The State of North Carolina administers and oversees eight regions known as Prosperity Zones. In addition to the overview and comparisons of business-related topics by industry, this report also provides an overview of survey insights from the eight Prosperity Zones in North Carolina. The map below provides a geographical depiction of how the Zone are organized.

Map of North Carolina Prosperity Zones (See the map key below)

Source: <https://www.commerce.nc.gov/about-us/nc-prosperity-zones#ne>



Zone 1 – Western Prosperity Zone

Zone 2 – Northwestern Prosperity Zone

Zone 3 – Southwestern Prosperity Zone

Zone 4 - Piedmont Triad (Central) Prosperity Zone

Zone 5 – Sandhills (South Central) Prosperity Zone

Zone 6 – North Central Prosperity Zone

Zone 7 – Southeast Prosperity Zone

Zone 8 – Northeast Prosperity Zone

Zone 1: The Western Zone is comprised of Buncombe, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, Macon, Madison, Polk, Rutherford, Swain, and Transylvania counties.

Zone 2: The Northwestern Zone is comprised of Alexander, Alleghany, Ashe, Avery, Burke, Caldwell, Catawba, McDowell, Mitchell, Watauga, Wilkes, and Yancey counties.

Zone 3: The Southwestern Zone is comprised of Anson, Cabarrus, Cleveland, Gaston, Iredell, Lincoln, Mecklenburg, Rowan, Stanly, and Union counties.

Zone 4: The Piedmont Triad Zone is comprised of Alamance, Caswell, Davidson, Davie, Forsyth, Guilford, Randolph, Rockingham, Stokes, Surry, and Yadkin counties.

Zone 5: The Sandhills Zone is comprised of Bladen, Columbus, Cumberland, Hoke, Montgomery, Moore, Richmond, Robeson, Sampson, and Scotland counties.

Zone 6: The North Central Zone is comprised of Chatham, Durham, Edgecomb, Franklin, Granville, Harnett, Johnston, Lee, Nash, Orange, Person, Vance, Wake, Warren, and Wilson counties.

Zone 7: The Southeast Zone is comprised of Brunswick, Carteret, Craven, Duplin, Greene, Jones, Lenoir, New Hanover, Onslow, Pamlico, Pender, and Wayne counties.

Zone 8: The Northeast Zone is comprised of Beaufort, Bertie, Camden, Chowen, Currituck, Dare, Gates, Halifax, Hertford, Hyde, Martin, Northampton, Pasquotank, Perquimans, Pitt, Tyrrell, and Washington counties.

NORTH CAROLINA OVERALL

In the fourth quarter, 2023, 484 complete survey respondents from businesses across North Carolina reported the most important issues, based on the questions in the survey related to the nine primary topics. Respondents reported the topics of workforce, digital transformation, and supply chain as the three most important areas facing business leaders. Respondents reported that the three topics with the least concern were financial needs, infrastructure, and childcare and K-12 education.

Quantitative Data: Topic Specific by Industry and Zone - General

The data representing perceptions of improvement, decline, or no change, or IDN/C, from the previous 90 days yielded results that diverged somewhat from greatest concern-least concern questions and results.

Specifically, when the IDN/C data was analyzed by industry, the areas of improvement from the previous 90 days were workforce, digital transformation, childcare, education, transportation and energy (two of the three components of the infrastructure), and financial needs. All other topics were perceived as no-change, except for logistics (a third component of infrastructure) and supply chain which were both reported as areas of decline.

When the IDN/C data was analyzed by prosperity zone, the results were very similar to the industry analysis, but with technology showing improvement and financial needs showing unchanged.

One explanation for why the overall results analysis found concerns for workforce and digital transformation, while the specific industry prosperity zone analysis found improvement for both could be related to the scale of improvement. In essence, despite improvement in both topics, respondents feel that more improvement is necessary because the starting point is significantly lower than the other topics, the expectations for both topics are that they should be at a much higher level, or some combination of these two perceptions.

Graphic representations of the results can be found on the following pages.

Overview of State-wide Trend Results for Q4 2023 – By Industry

Measured by comparison of “...TODAY compared to 90 DAYS AGO..”

| | IMPROVED | UNCHANGED | DECLINED |
|------------------------|----------|-----------|----------|
| Workforce | ✓ | | |
| Digital Transformation | ✓ | | |
| Technology | | ✓ | |
| Housing | | ✓ | |
| Childcare | ✓ | | |
| K-12 Education | ✓ | | |
| Healthcare | | ✓ | |
| Transportation | ✓ | | |
| Energy | ✓ | | |
| Logistics | | | ✓ |
| Supply Chain | | | ✓ |
| Financial Needs | ✓ | | |

Overview of State-wide Trend Results for Q4 2023 – By Prosperity Zone

Measured by comparison of “...TODAY compared to 90 DAYS AGO..”

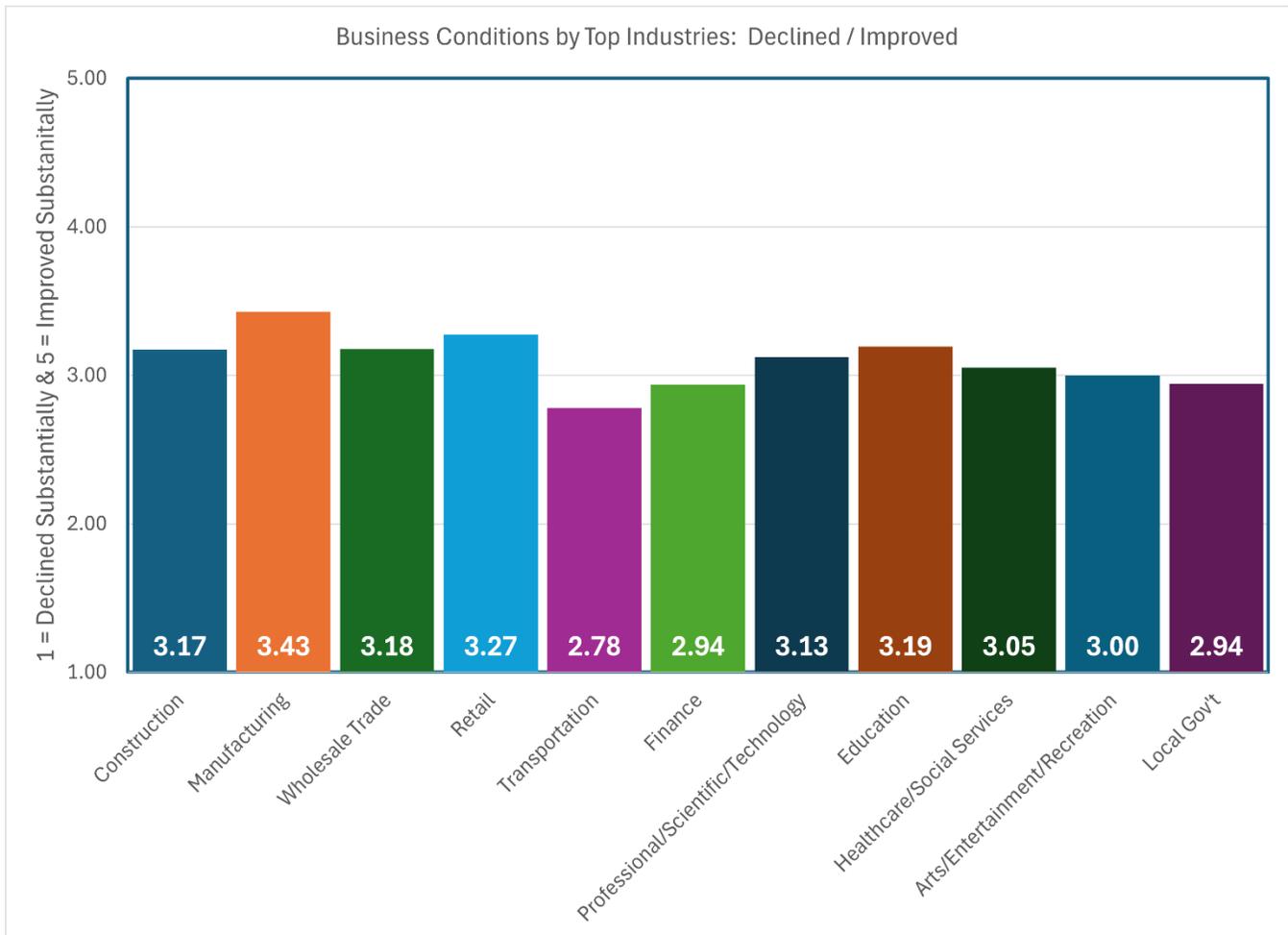
| | IMPROVED | UNCHANGED | DECLINED |
|------------------------|----------|-----------|----------|
| Workforce | ✓ | | |
| Digital Transformation | ✓ | | |
| Technology | ✓ | | |
| Housing | | ✓ | |
| Childcare | ✓ | | |
| K-12 Education | ✓ | | |
| Healthcare | | ✓ | |
| Transportation | ✓ | | |
| Energy | ✓ | | |
| Logistics | | | ✓ |
| Supply Chain | | | ✓ |
| Financial Needs | | ✓ | |

Quantitative Data: Overall Business Conditions - Top Industry and Zone Specific

Two general survey questions were posed to the respondents related to perceptions of overall business conditions since the beginning of Q4 to the end of Q4, 2023, and general optimism for the next three to six months in the future.

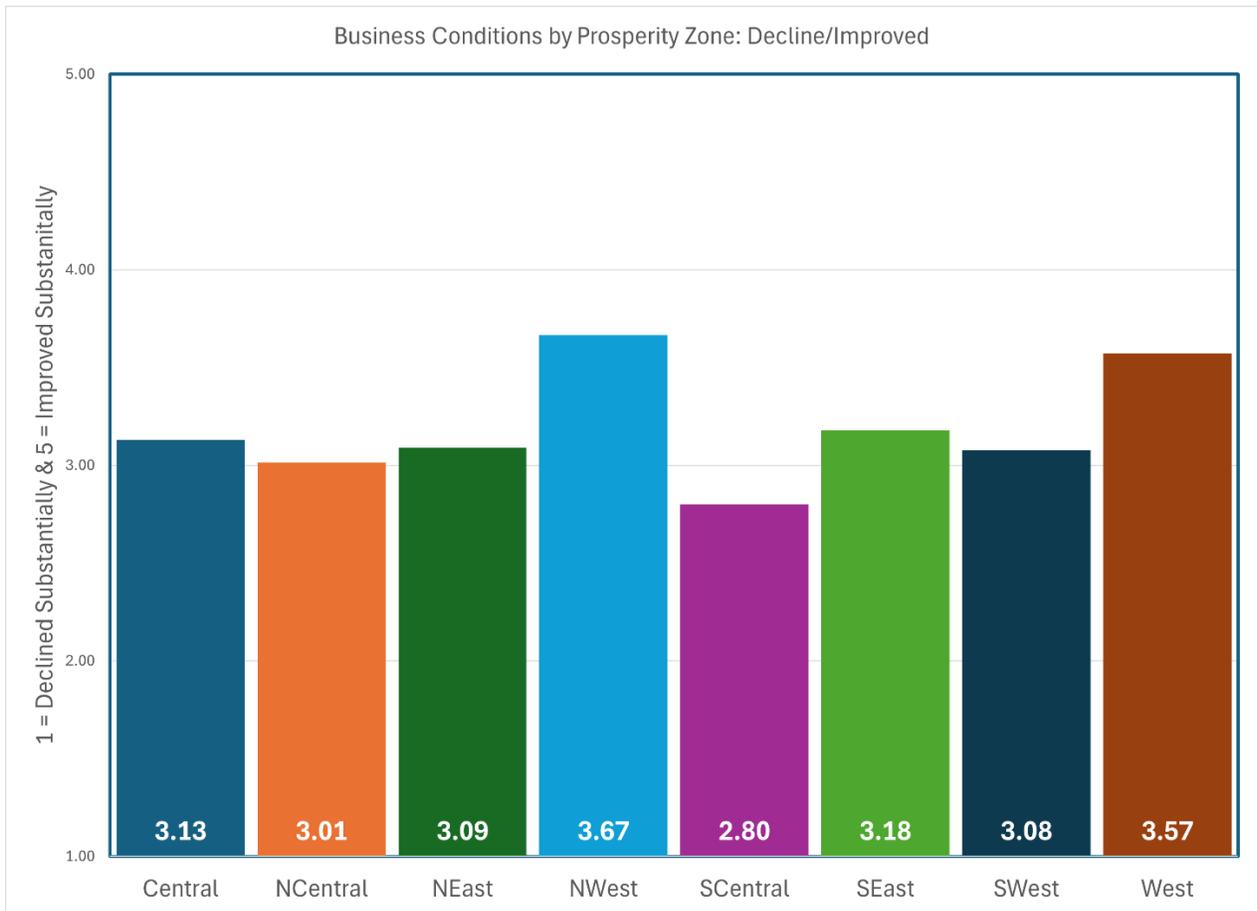
The **first** question is “Thinking about the OVERALL conditions of your business TODAY compared to 90 DAYS AGO (Last Quarter), conditions have:” with 5-point scale from DECLINED SUBSTANTIALLY to IMPROVED SUBSTANTIALLY. Across **all** respondents, the data showed near equal improvement and decline (declined 27.4% and improved 21.4 %) with the majority of respondents answering no change (51.2%).

The results by the respondents in the top industries, are as follows:



The results by top industries indicate that business conditions improved substantially for manufacturing and retail, while conditions declined substantially for transportation. All other industries indicate slight improvement or decline, but not significantly.

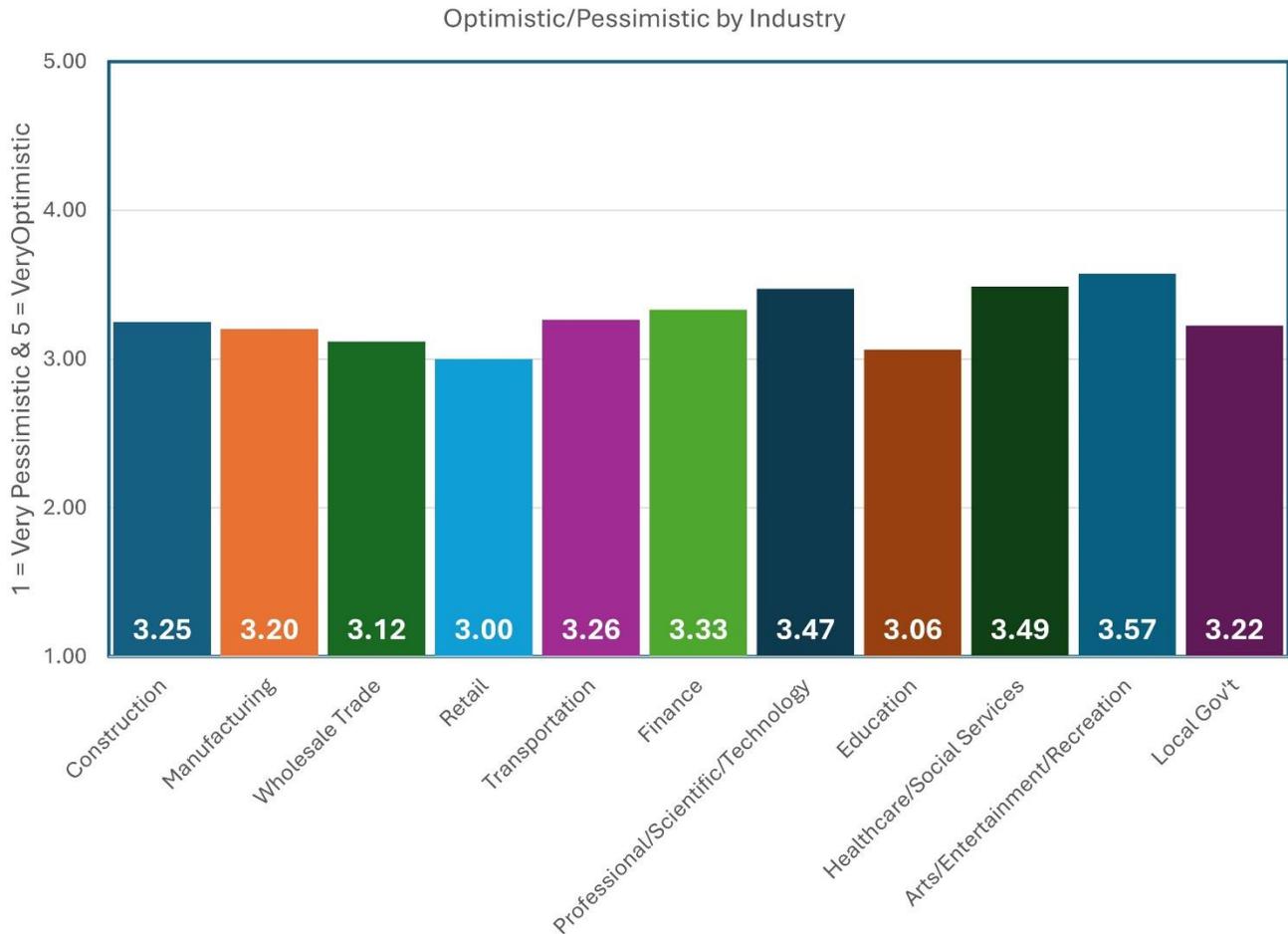
The results by the respondents in prosperity zones, are as follows:



The results by prosperity zone indicate that business conditions improved substantially for the Northwest and West zones, while conditions declined for the SouthCentral zone. All other zones indicate slight improvement. Overall, all but one zone indicated improvement, which suggests Q4 was strong for business across the State. One reason could be end-of-year seasonal sales boosted conditions coupled with the continued trend of population influx into North Carolina.

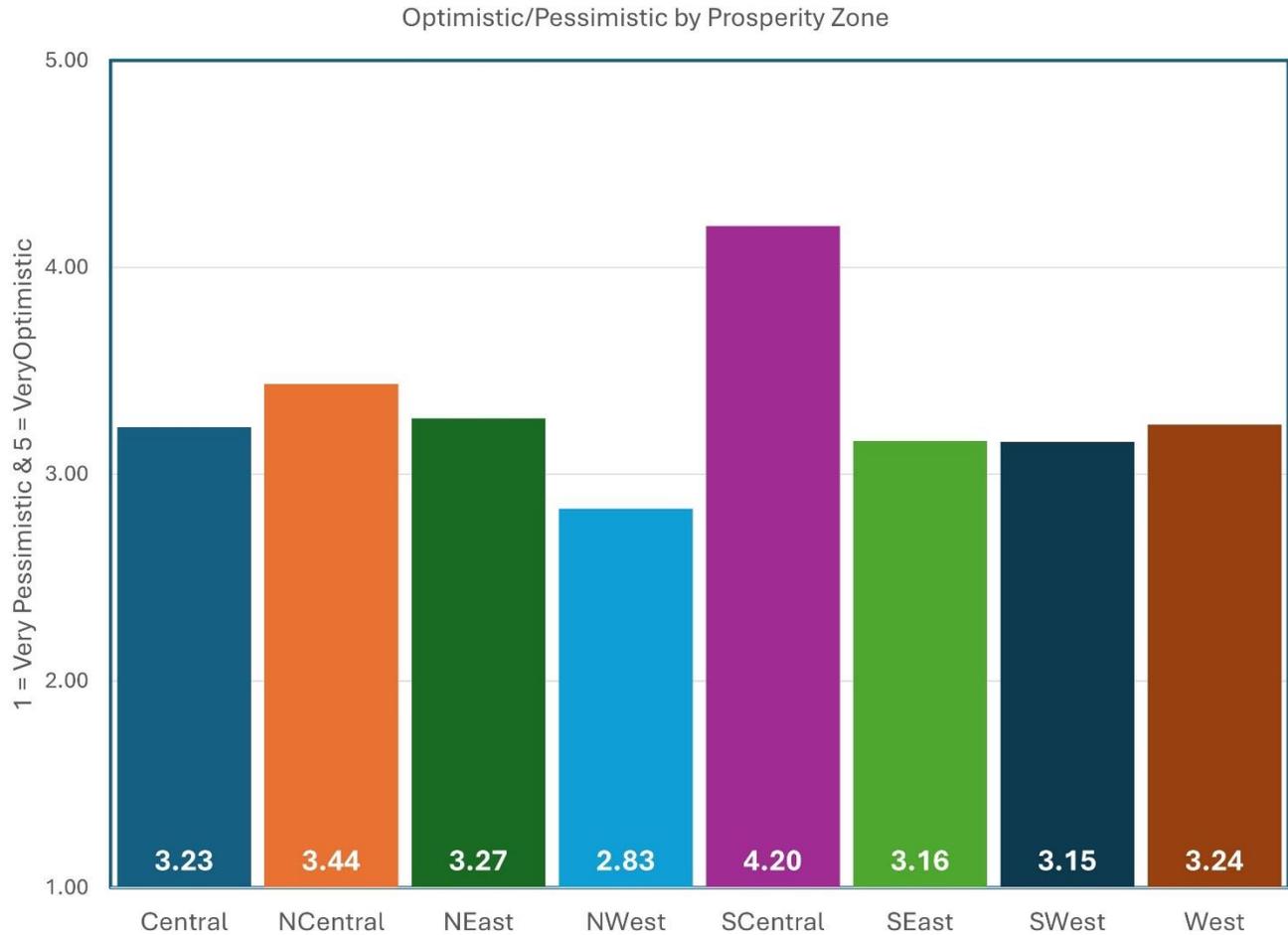
The **second** qualitative question is “Please select the statement that BEST DESCRIBES how optimistic or pessimistic you are that business conditions for your company will improve in the next 3 to 6 months” with a 5-point scale from VERY PESSIMISTIC to VERY OPTIMISTIC. Across **all** respondents, the data showed nearly half of the respondents are optimistic about the future (pessimistic 23.9%; neither pessimistic or optimistic 28.8%; optimistic 47.3 %).

The results by the respondents in the top industries, are as follows:



The results by top industries indicate that despite some industries stating that business conditions declined over Q4, respondents are more optimistic about the future than not. This suggests the optimism may transcend current economic issues, even with the seasonal slow-down of economic activity that typically corresponds to the first three to four months of the year.

The results by the respondents in the prosperity zones, are as follows:



The results by prosperity zone indicate an overall all optimism by respondents across the different prosperity zones except the Northwest zone. This is counterintuitive to the data from the Northwest zone that showed significant improvement over Q4 and may be explained by more tempered expectations for the future, given a robust end of year.

Qualitative Data

Two open-ended questions were posed to respondents to obtain a more granular level insight and to triangulate the data to see how the quantitative and qualitative data compare. A review of responses to the open-ended questions helps provide context to the quarterly results.

The first open-ended question was linked to the immediately preceding ranking question. The ranking question asked participants to compare their current overall business conditions to 90 days previous (results are in the previous section). The open-ended question asked :

“Please tell us WHY you feel the conditions have either IMPROVED or DECLINED, and please SUGGEST any specific forms of support or resources that could help your business.”

The DECLINED responses can be placed into three broad categories including macroeconomic issues, state-level issues, and the perception that economic conditions have not returned to pre-COVID levels.

The primary **macroeconomic issues** were related to inflation (prices, COGS, interest rates), but also included supply chain issues and some hiring challenges. Quotes related to macroeconomic issues:

“Inflation is very high. companies including the one I work for are laying people off. Stock market is very low.” – Northeast Zone, Finance/Insurance Industry

“Demand drop for products produced, in cyclical business, mostly due to supply chain issues with OEM customers.” – North Central Zone, Manufacturing Industry

The primary **state-level issues** were related to resources and challenges with the State government. Quotes related to state-level issues:

“Too many incentives to companies who move here. Not enough support for existing businesses that were started here. Loss of local banking institutions. Bringing in large employers but no workforce to support them. All of the lessons learned from COVID around the importance of small business on our economy have been forgotten.” – Piedmont Triad Zone, Local Government Industry

“The noticeable service/production drop in production from our state government agencies is terrible.” – North Central Zone, Services Industry

The IMPROVED responses can be placed into two broad categories including increases in consumer confidence and the improving economy.

Quotes related to increases in **consumer confidence**:

“Inflation has come down a little and people are feeling a little more comfortable spending.” – North Central Zone, Construction Industry

“Demand for our services are rising.” – Southwestern Zone, Health Care Industry

Quotes related to increases in **improving economy**:

“Interest rates working through the economy have slowed the growth rate but have also markedly decreased inflation. This has improved profit margins.” Southeast Zone, Construction Industry.

“Sales are up!” – Southeast Zone, Finance and Insurance Industry.

“Merchandise is flowing more freely helping to increase sales.” North Central, Retail Industry.

The second open-ended question was a general question to capture any other comments the respondents might have about the North Carolina business environment. The open-ended question asked:

“Please tell us any other comments or concerns you have about the current business environment in North Carolina in terms of challenges or opportunities for your business.”

Quotes related to other comments related to challenges/opportunities:

“We are a CPG company so more people moving to the state means more mouths to feed and growing opportunity for us as a business. However, we have to balance growth with demand and financing. Overall state of the nation is more worrisome to me than the current business environment in NC.” – North Central Zone, Manufacturing Industry.

“Fortunately, I'm blessed to have a set of services and products that are needed. As long as we stay focused on what we do best, service and sales, we will continue to grow. We sell globally. 95% in the US, 5% ROW.” – Southwestern Zone, Health Care Industry.

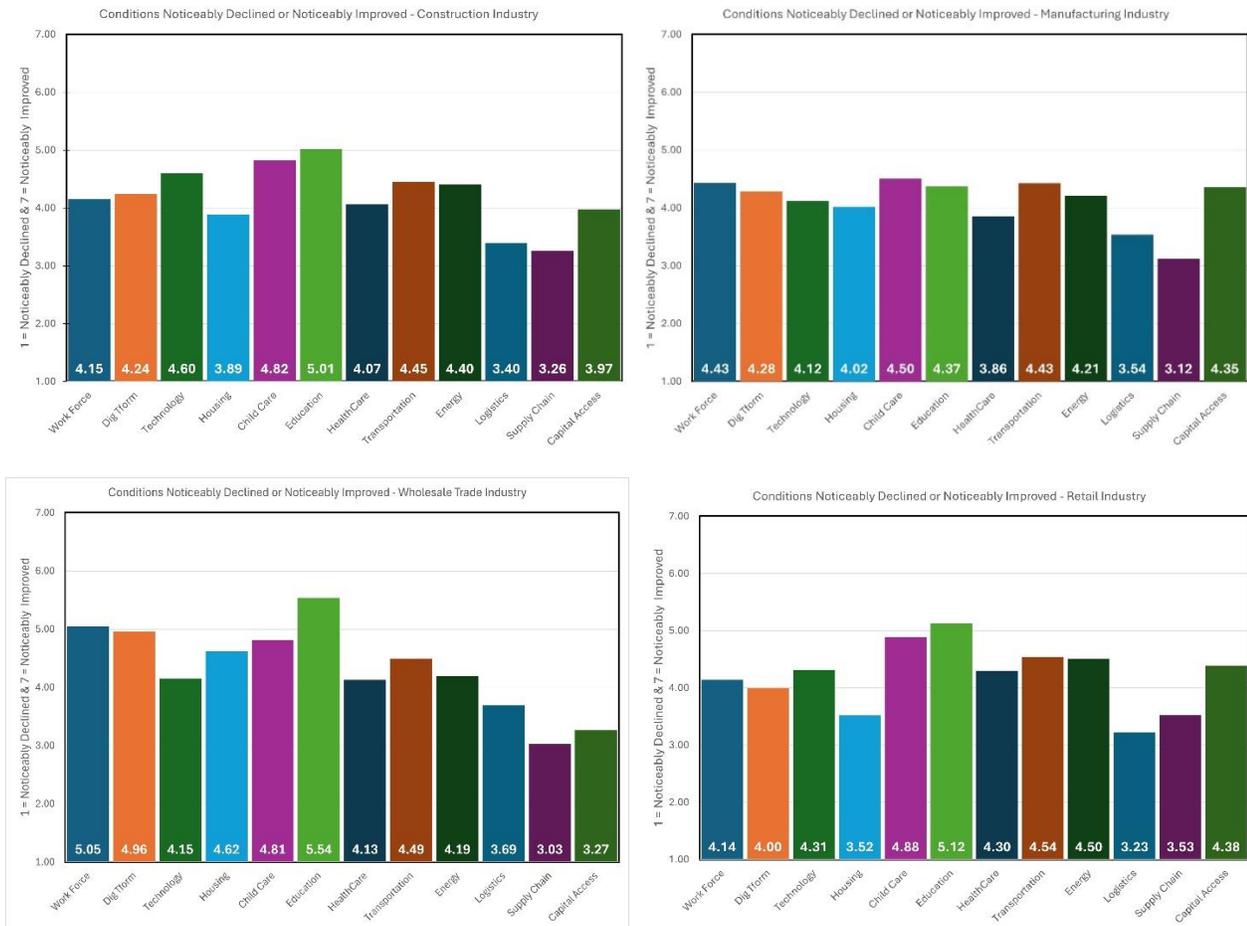
“We are challenged (by) capital increase and workforce development every day. We are looking for more incentive on advanced manufacturing from (the) State of NC.” – Piedmont Triad Zone, Manufacturing Industry.

INDUSTRY AND PROSPERITY ZONE SPECIFIC

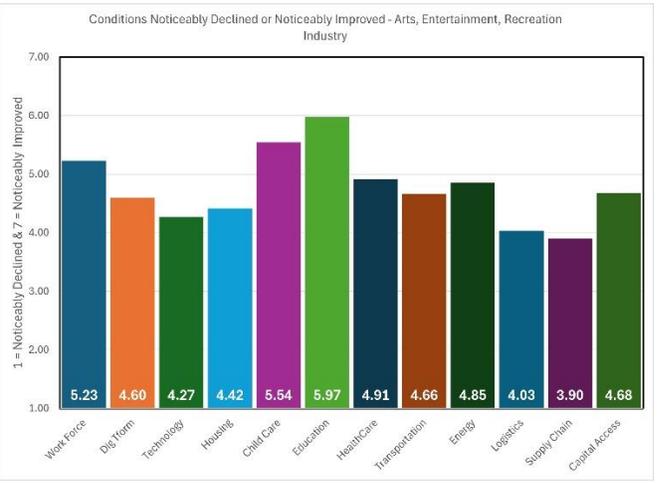
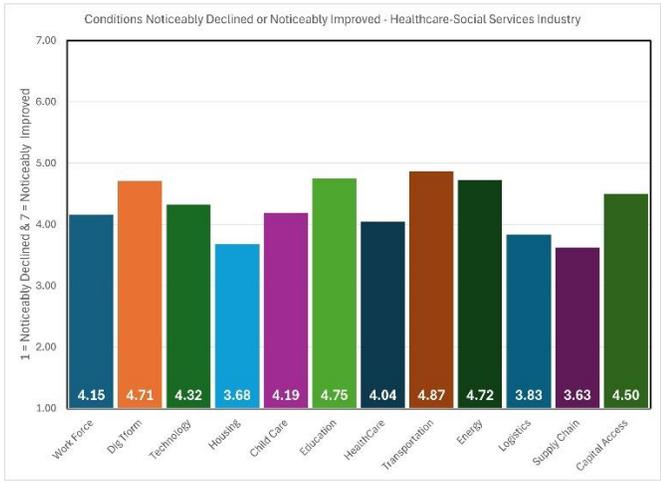
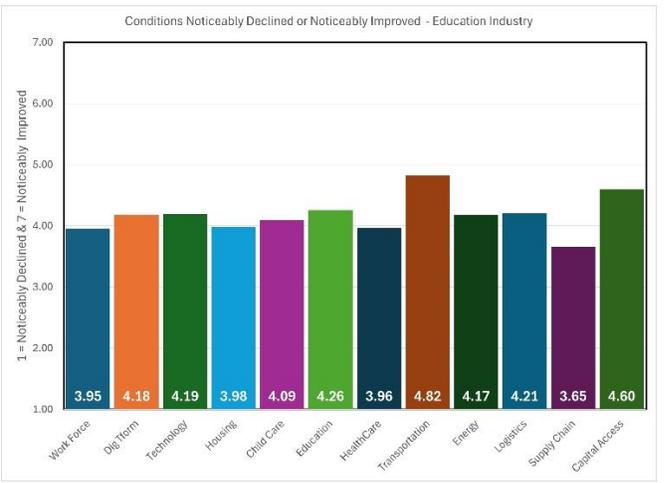
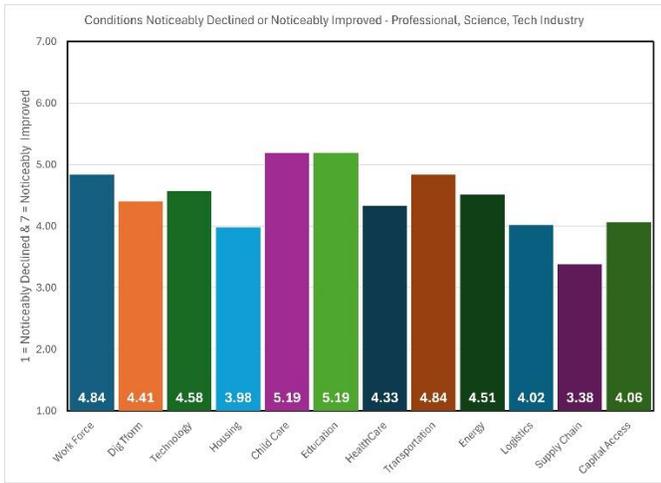
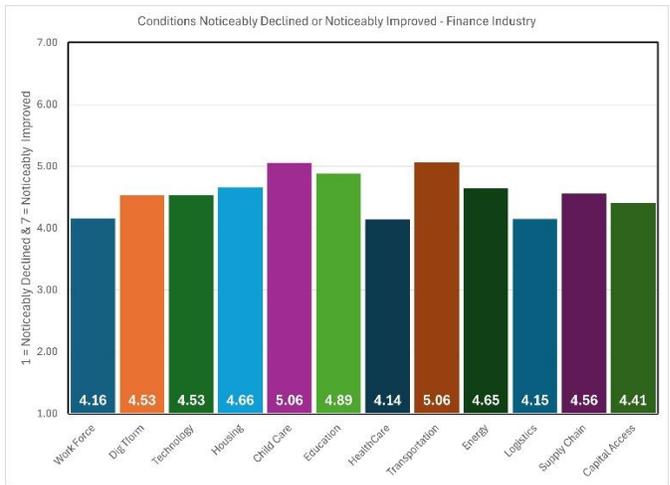
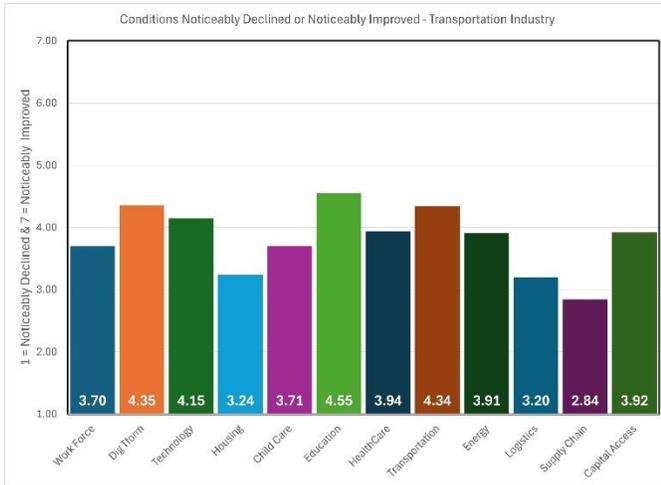
Respondents ranked each of the nine main topics on a 7-point Likert scales (NOTICEABLY DECLINED TO NOTICEABLY IMPROVED), comparing current business conditions to 90 days previous (one quarter). For Q4, this was comparing conditions from October 1 to December 31. The results were analyzed by industry and by prosperity zone.

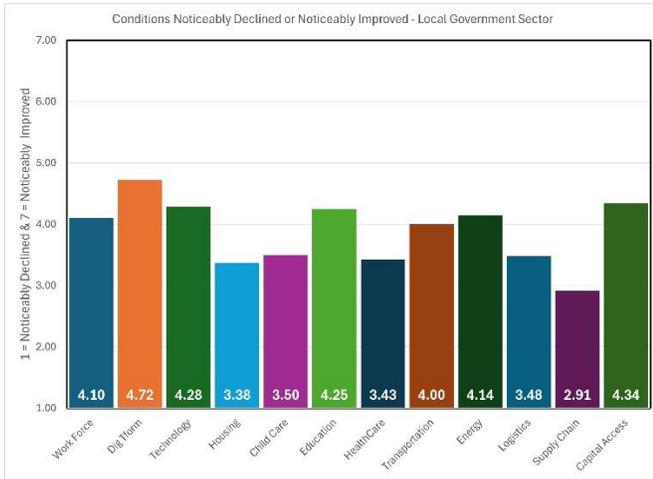
Data analysis of each topic by industry was based on the unit of analysis of the top eleven, including construction, manufacturing, wholesale trade, retail, transportation, finance, professional/scientific/technology, education, healthcare/social services, arts/entertainment/recreation, and local government.

How Survey Participants – By Industry - Ranked the Relative Importance of Each Topic.

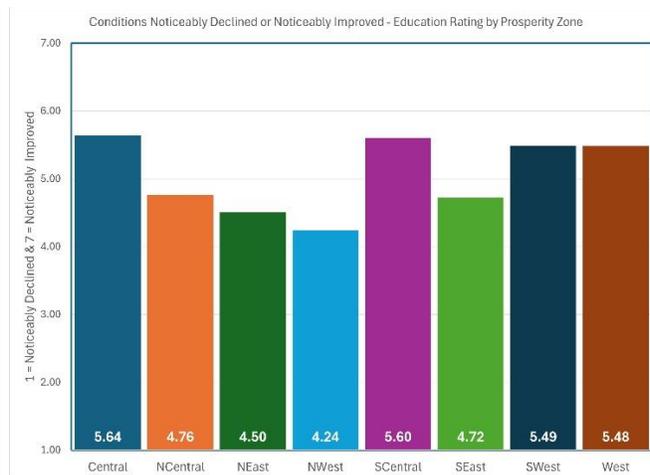
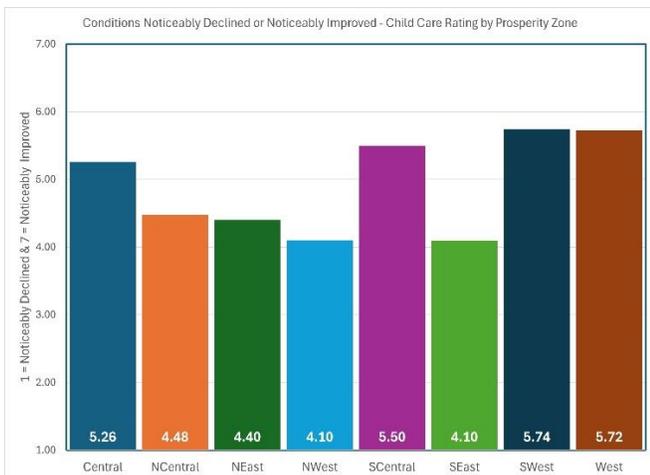
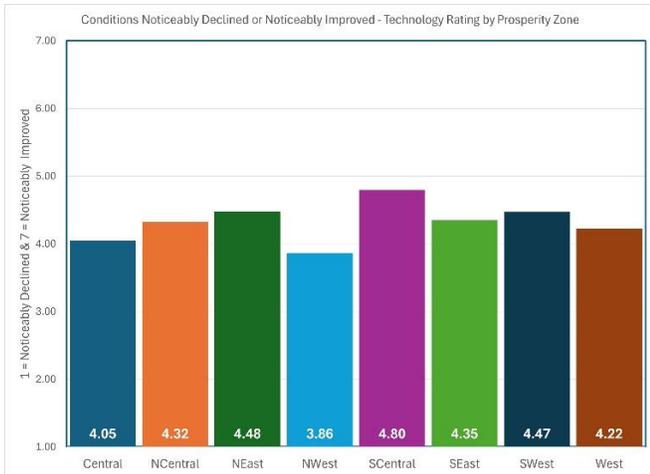
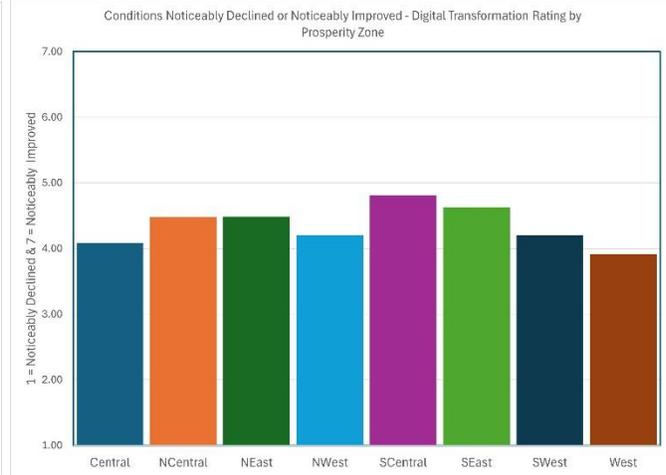
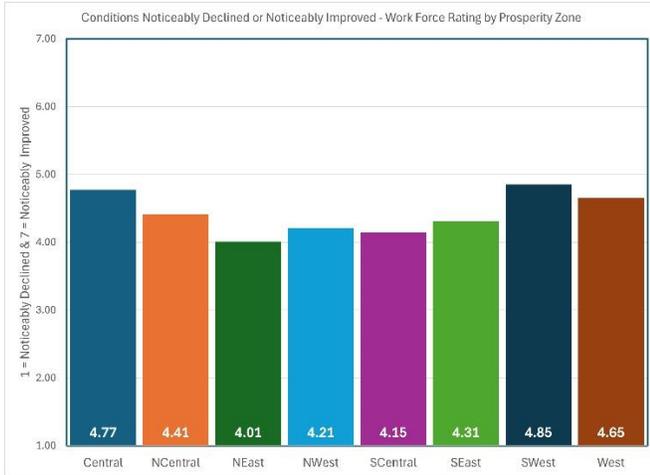


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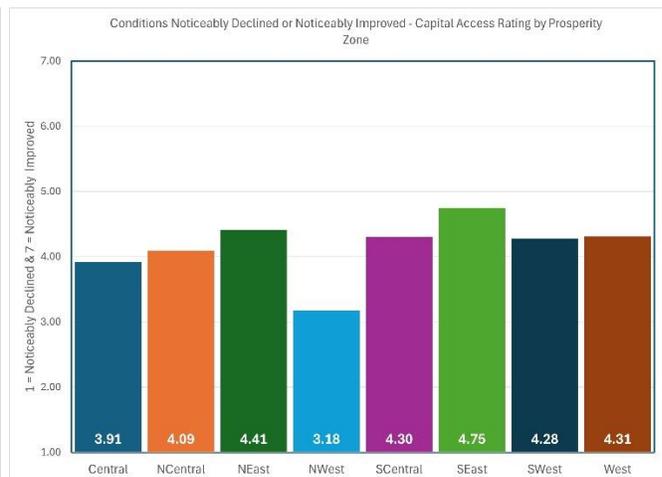
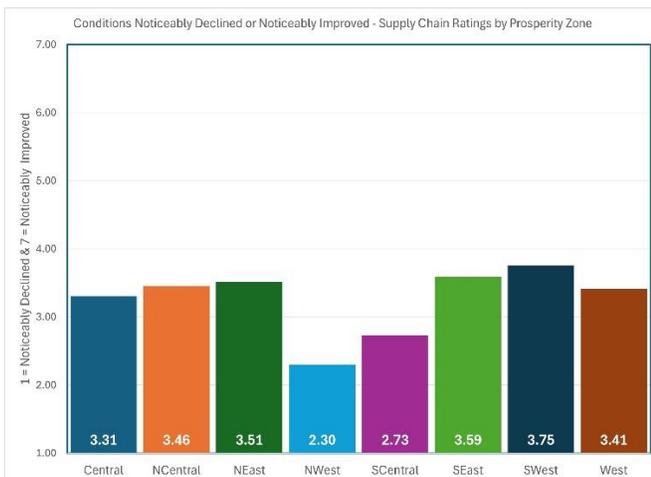
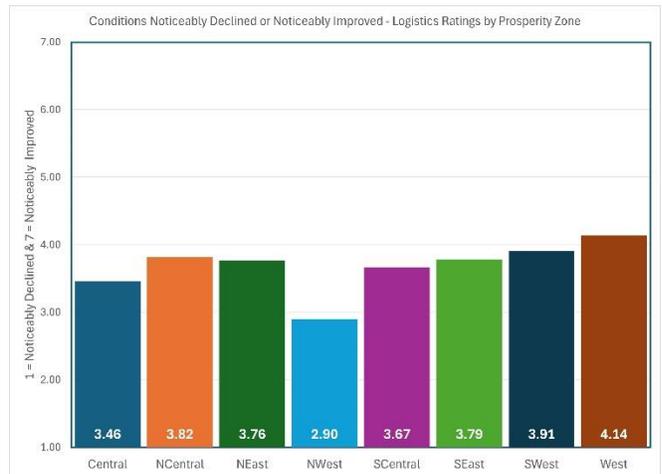
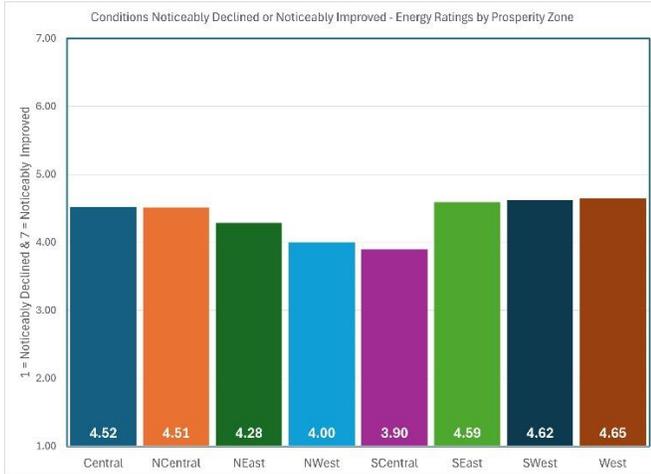
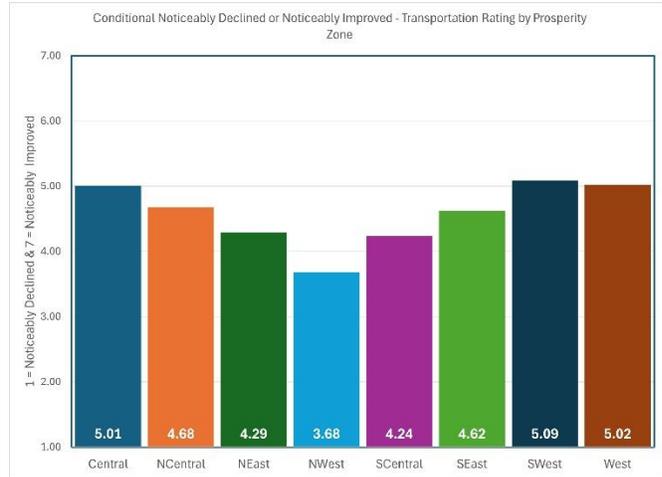




How Survey Participants Ranked the Relative Importance of Each Topic – By Zone



Business Engagement Survey – Q4/2023



Conclusions:

The data indicates that overall business conditions in North Carolina in Q4 2023, as perceived by the survey respondents, improved to some degree. Most respondents also felt optimistic about the future (next 3 to 6 months). More granular analysis indicates that despite improvements, many respondents continue to have concerns about macroeconomic issues, primarily continued relatively high inflation, interest rates, and COGS, and supply chain and logistics-related issues.