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# **Metro Milwaukee Business Outlook Survey Third-Quarter, 2020**

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## Metro Milwaukee Business Outlook Survey, Third-Quarter, 2020

The lingering effects of COVID-19 have dampened Metro Milwaukee companies' expectations of third-quarter business activity, according to a new business outlook survey conducted by the Metropolitan Milwaukee Association of Commerce (MMAC.) The survey of Milwaukee-area businesses shows that most expect third-quarter sales, profit and employment to fall from year-ago levels.

Still, 70% of businesses in the survey indicated that they remain completely viable under current economic conditions, with an additional 15% suggesting they would be viable under current economic conditions for more than 12 months.

“Growth expectations for local businesses dropped sharply from earlier levels as the effects of COVID-19 closures took their full measure,” said Bret Mayborne, the MMAC’s economic research director. “On the positive side, a significant percentage of companies felt that business would be back to normal in either 2020’s third or fourth quarter. But the largest number predicted calendar year 2021 as the likely date when normal activity levels would be reached. And the majority of companies in the survey expect to weather the storm.”

Sales expectations declined sharply for 2020’s third quarter. A majority of those surveyed (55%) expect real sales declines in 2020’s third quarter (vs. year-ago levels) while 23% forecast increases. Twenty-three percent see no change. In the first quarter of 2020, 69% of those surveyed saw year-over-year sales increases while only 14% saw declines.

Likewise, there was a sharp decline in optimism about profits. Among surveyed companies, 24% expect third-quarter profit increases vs. year-ago levels compared to the 68% who forecast gains in the year’s first quarter. Currently 55% of companies see third-quarter profit decreases (vs. 2019’s third quarter) while 21% see no change.

The employment effects of COVID-19 shutdowns were sharp and swift. Among local businesses surveyed, 31% indicated that they had laid-off/furloughed workers in 2020’s second quarter vs. 69% who did not. Of those that did use layoffs, 50% answered that they would rehire those laid-off while roughly one-third (32%) did not have plans to rehire. Eighteen percent were unsure.

Actions taken as a result of COVID-19 strongly affected the overall job picture in the metro area. Employment fell by 111,200 in the March to April period due to COVID-19 shutdowns, a record decline. In the intervening period, the local economy has recovered 43,300 jobs, but remains significantly below pre-COVID-19 levels with unemployment rates at double-digit levels.

The negative job trend is likely to continue into the third quarter, with 41% of businesses surveyed projecting third-quarter job decreases and 24% forecasting increases. Thirty-five percent see no change. Survey results mark a large shift from earlier expectations. In the first quarter of 2020, only 13% of those surveyed expected employment declines while nearly half saw increases (47%.)

Differences between manufacturers and non-manufacturers on third-quarter job prospects were small. By size, large (100 or more employees) employers were significantly less likely to see third-quarter job increases than small employers (4% see increases for large employers vs. 33% for small employers.)

Employers see little pressure on future wage and salary levels. Per-employee wages and salaries are expected to increase at an average rate of only 0.2% over the next twelve months, down from the 3.1% annual increase forecast six months ago.

### **Calendar Year 2020 Expectations**

Expectations for 2020 as a whole closely match third-quarter forecasts. The largest number of companies (58%) project calendar year real sales declines in 2020 (vs. 2019 levels) while 23% expect sales gains. This runs counter to the large majority of businesses (78%) who started 2020 expecting sales increases vs. only 9% seeing declines.

Similar expectations were expressed on profit levels. Only 28% of businesses predict profit increases in 2020, vs. the 75% who opened 2020 with such expectations. Currently the largest number (59%) see profit declines for the year while the remaining 13% predict no change.

Regarding jobs, employers are more likely to predict calendar year job declines than any other possibility. Forty-one percent of those surveyed see employment decreases in their local operations for 2020 as a whole. Conversely, only 24% forecast an annual job increase. The remaining 35% see no change in 2020 job levels (over 2019). The year opened with strong job growth expectations when 61% of businesses projected job growth for the full year.

Capital spending plans pointed downward. Companies seeing capital spending decreases (56%) in 2020 outnumber those predicting increases (13%) by over a four to one margin. Thirty-one percent see no change in capital spending plans. Those currently expecting 2020 increases rank significantly under the percentage who forecast such gains at the beginning of 2020 (13% now vs. 51% respectively.)

National consumer price inflation over 2020's first half totaled 1.2% on a year-over-year basis. Milwaukee area businesses do not see a notable acceleration in this rate. Currently a majority of businesses surveyed (61%) see annual inflation of 2% or less. Another 27% expect inflation of 3% to 5%. Only 8% see annual inflation of 6% or higher. On the other end of the scale 4% of those surveyed see price deflation for the year (price declines.)

There may be some positive signs as to how businesses expect to weather the storm for the remainder of 2020 and beyond. On the question of continuing business viability, fully 70% of those surveyed indicated that they were completely viable regarding future business operations with an additional 15% suggesting they would be viable for more than 12 months. Twelve percent indicated their business viability may be in question over the next one to 12 months.

Ultimately, regarding when surveyed business see activity getting back to normal, opinions were mixed. Twenty percent of those surveyed felt that normal business activity either already has returned to normal or would return to normal in 2020's third quarter. An additional 23% indicated normal activity would return in the fourth quarter, thus a full 43% felt a return to normal was likely by year's end. The largest percent, 45%, felt the return to normal was likely in 2021, while 8% indicated it would likely happen sometime beyond 2021.

The Business Outlook Survey, conducted by the MMAC, contains responses from 71 Milwaukee area firms.

**MMAC's Third-Quarter 2020 Business Outlook Survey\***

	Firms Expecting a:	Employers by Size		Employers by Industry		TOTAL
		Large	Small (1)	Manuf.	Non-Manuf.	
<b>2020 Forecast</b>						
Change in the dollar volume of <b>Sales</b> (net of inflationary effects) expected by 71 Milwaukee area firms for the entire year of 2020 vs. the entire year of 2019:	RISE :	13%	27%	15%	25%	23%
	DECLINE :	74%	50%	65%	55%	58%
	NO CHANGE :	13%	23%	20%	20%	20%
Change in dollar volume of <b>Profits</b> expected by 71 Milwaukee area firms for the entire year of 2020 vs. the entire year of 2019:	RISE :	13%	35%	20%	31%	28%
	DECLINE :	65%	56%	70%	55%	59%
	NO CHANGE :	22%	8%	10%	14%	13%
Change in the dollar volume of <b>Capital Expenditures</b> expected by 71 Milwaukee area firms for the entire year of 2020 vs. the entire year of 2019:	RISE :	4%	17%	10%	14%	13%
	DECLINE :	70%	50%	45%	61%	56%
	NO CHANGE :	26%	33%	45%	25%	31%
Rate of <b>Inflation</b> expected to affect 71 Milwaukee area operations for the entire year of 2020:	DEFLATION	4%	4%	5%	4%	4%
	0-2% INFLATION :	65%	58%	75%	55%	61%
	3-5% INFLATION :	22%	29%	15%	31%	27%
	6-9% INFLATION :	4%	4%	0%	6%	4%
	10% or more :	4%	4%	5%	4%	4%
Change in the level of <b>Total Employment</b> expected by 71 Milwaukee area firms for the entire year of 2020 vs. 2019:	RISE :	9%	31%	10%	29%	24%
	DECLINE :	70%	27%	50%	37%	41%
	NO CHANGE :	22%	42%	40%	33%	35%
<b>2020 Third Quarter (Compared to Previous Quarter)</b>						
Change in dollar volume of <b>Sales</b> (net of inflationary effects) expected by 71 Milwaukee area firms for 3rd quarter 2020 vs. 2nd quarter 2020:	RISE :	43%	56%	60%	49%	52%
	DECLINE :	48%	27%	35%	33%	34%
	NO CHANGE :	9%	17%	5%	18%	14%
<b>2020 Third Quarter (Compared to Same Quarter One Year Ago)</b>						
Change in dollar volume of <b>Sales</b> (net of inflationary effects) expected by 71 Milwaukee area firms for the 3rd quarter 2020 vs. 3rd quarter 2019:	RISE :	13%	27%	25%	22%	23%
	DECLINE:	70%	48%	60%	53%	55%
	NO CHANGE :	17%	25%	15%	25%	23%
Change in the dollar volume of <b>Profits</b> expected by 71 Milwaukee firms for the 3rd quarter 2020 vs. 3rd quarter of 2019:	RISE :	13%	29%	25%	24%	24%
	DECLINE :	65%	50%	55%	55%	55%
	NO CHANGE :	22%	21%	20%	22%	21%
Change in the level of <b>Total Employment</b> expected by 71 Milwaukee area firms for the 3rd quarter 2020 vs. 3rd quarter 2019:	RISE :	4%	33%	20%	25%	24%
	DECLINE :	70%	27%	50%	37%	41%
	NO CHANGE :	26%	40%	30%	37%	35%
Change in the per person, employee <b>Wages &amp; Salaries</b> expected in the next 12 months:	AVERAGE :	0.3%	0.2%	-0.2%	0.4%	0.2%

**MMAC's Third-Quarter 2020 Business Outlook Survey\***

	Firms Expecting a:	Employers by Size		Employers by Industry		TOTAL
		Large	Small (1)	Manuf.	Non-Manuf.	
<b>Additional Questions Related to the COVID-19 Crisis</b>						
When do you expect normal business activity for your operation to resume?	2020's third quarter	9%	25%	15%	22%	20%
	2020's fourth quarter	26%	21%	35%	18%	23%
	Sometime in 2021	39%	48%	25%	53%	45%
	Somewhere beyond 2021	22%	2%	20%	4%	8%
	Other	4%	4%	5%	4%	4%
Under current circumstances, how long do you feel you can remain a viable business?	Are completely viable	83%	65%	65%	73%	70%
	1 to 3 months	0%	2%	0%	2%	1%
	3 to 6 months	0%	4%	0%	4%	3%
	6 to 12 months	0%	13%	5%	10%	8%
	More than 12 months	17%	15%	25%	12%	15%
	Other	0%	2%	5%	0%	1%
Did you layoff/furlough workers in the 2nd quarter of 2020?	YES	48%	23%	45%	25%	31%
	NO	52%	77%	55%	75%	69%
If you laid off or furloughed workers, do you expect to rehire those workers?	YES	36%	64%	44%	54%	50%
	NO	36%	27%	22%	38%	32%
	UNSURE	27%	9%	33%	8%	18%

\* Percentages may not sum to 100 due to rounding.

(1) Employment of less than 100 people.

Note: Number of businesses reporting in sub-categories is small, thus differences between categories may not be meaningful