



FINANCIAL FEED ^{2023.5}

Combating Inflation

Money management strategies to weather the storm

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Dubuque Bank and Trust operates with local autonomy, and our bankers are devoted to gaining an in-depth understanding of each client's financial relationship. This level of commitment enables us to provide banking services that feel more like an extension of your family, rather than just a partner. Our unparalleled dedication to the client experience is reinforced by our parent company, HTLF.

Our unique model empowers our geographically diverse group of banks with cutting-edge technology, efficiency, and strength, while our local bank brands provide commercial, small business, and consumer banking services. Our deep local roots and longstanding connections enable us to offer a personalized touch that you won't find at larger banks. In partnering with HTLF, we provide our clients with a full range of products and services from treasury management services to lending solutions, we have the expertise and resources to compete at any level.

We remain committed to our mission of enriching lives one client, employee and community at a time and look forward to continuing to be the bank you can always depend on.

03 Executive Summary	ECONOMIC TRENDS Several factors caused growth to slow coming into 2023. Lingering Covid disruptions, rising energy prices, and continued supply issues made it difficult for many middle-market firms to expand.
04 Macroeconomic Conditions	
06 Significant Challenges in 2023 and Beyond	MIDDLE MARKET & SMALL BUSINESS CHALLENGES Survey results from HTLF clients and findings from other research have identified inflation, labor shortages, and labor costs as their three most significant challenges in 2023.
08 Combating Inflation	TACTICS TO COMBAT INFLATION Inflation has been at the top of everyone's mind. Business owners felt the sting of increased prices, higher energy costs, and diminishing sales as many Americans kept their cards and cash in their wallets. With inflation persisting into 2023 business leaders must take action today to reduce the impact of inflation on their finances.
12 Labor Force / Labor Cost Challenges	
15 Local Market	LABOR FORCE CHALLENGES There's a "now hiring" sign in every window. Business leaders around the country might be optimistic regarding cooling inflation, but they remain pessimistic about maintaining their workforce. What role does 'quiet quitting' play in this puzzle? And how will curbing employee burnout lead to increased productivity?

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Businesses across the U.S. displayed a great deal of resilience over the last fifteen months as they overcame various post Covid challenges. Many challenges from 2022 have spilled over into 2023 and new obstacles have left some business leaders uneasy. As the Fed continues to wrestle with inflation and the labor war carries on, having a reliable financial partner on your team to provide counsel and help guide decision-making will allow you to manage with confidence. In compiling survey results from our clients and reviewing reliable sources, we've created the Financial Feed to provide you with valuable insights to help you conquer potential challenges and capitalize on opportunities.

A Message from Drew Townsend

Financial partners you can count on to help you achieve growth goals

American business leaders have gone through a lot over the past few years. Between the Covid-19 pandemic, supply chain disruptions, the Russo-Ukrainian war, inflation, and shortages in every sector, it's incredible how resilient American business owners have shown themselves to be.

They must be ready to carry that same resilience into 2023.

Dubuque Bank and Trust sourced data from business leaders across the country to determine where they stand as 2023 unfolds. What are some of their biggest challenges—and what best practices can they employ to thrive in the new year?

Data shows that inflation, labor shortages, and rising labor costs ranked highest among 2023's looming challenges. Last year saw surging economic optimism as we moved out of the pandemic and back toward a sense of normalcy. Their ability to tackle supply chain issues while pivoting towards significant change—such as adopting remote and hybrid work models at a moment's notice—certainly paid off.

Despite economic challenges, middle-market businesses have been able to adjust and cope with the numerous

post-Covid issues. To support our clients in making informed decisions, we have gathered reliable data to outline the macro and local economic conditions.

This report will unpack how business leaders can face these challenges head-on while preparing themselves for a potential slowdown. Middle-market research shows sustained growth among these firms, despite ongoing macroeconomic pressures.

Our clients displayed an unprecedented ability to grow through hardship. Their flexibility through uncertain times helped them remain confident in their businesses, a confidence we promise to parallel as we move through 2023. As your trusted financial partner you can count on, we will continue to provide counsel and help you overcome challenges in 2023 and beyond.



Drew Townsend is President and CEO of Dubuque Bank and Trust. Drew has 30 years of local banking experience and leadership across our organization. He has previously served in leadership roles including President and CEO, Chief Credit Officer and Head of Commercial Banking. Drew brings experience, passion and dedication to delivering Strength, Insight and Growth to our clients and community.

Drew Townsend
President & CEO

Macroeconomic Conditions

Business leaders express confidence despite signs of a potential slowdown

About 200,000 middle-market businesses in the U.S. encompass one-third of the private-sector GDP. They also employ some 48 million people. They proved their resilience during the 2007-2010 Global Financial Crisis (GFC), creating 2.2 million jobs across all major industries.

Ranging from private and public entities to family-owned firms, the significance of these companies to the national economy is impossible to ignore.

National Center for the Middle Market (NCMM) reported¹ middle market companies of all sizes and across all industry segments experienced growth of 10% or more for both revenue and employment. Despite economic pressures, overall confidence levels are on the rebound after dipping in 2022.

According to the Federal Reserve District Summary of Commentary on Current Economic Conditions², economic activity remained flat with interest rates and inflation continuing to weigh on economic activity causing respondents uncertainty or increased pessimism about the outlook. Capital Economics supports these feelings with their prediction of a mild³ recession this year, as aggressive interest rate hikes impact consumption and investment. On the brightside they also predict inflation to fall back more rapidly than the Fed anticipates, with rate cuts being a possibility in late 2023.

Regardless, middle market owners must remain cautious, as nationwide confidence in long-term expansion isn't as high as in 2022. Don't slam on the brakes, but stay wary of your gas pedal.

SOURCES

¹ *National Center for the Middle Market: Year-End 2022 Middle Market Indicator*

² *Federal Reserve District: Beige Book.*

³ *Capital Economics: Global Economic Outlook.*

Unemployment Rate

In percent, seasonally adjusted.

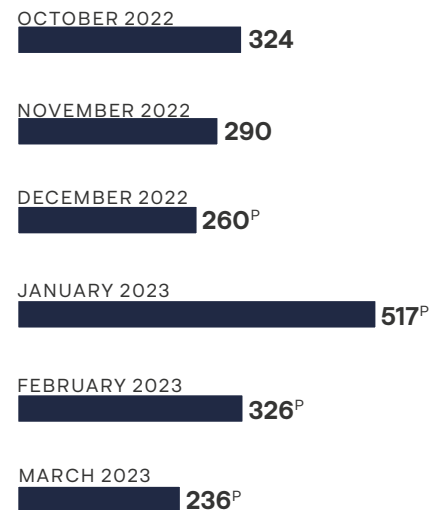


Source: U.S. Bureau of Labor Statistics <https://www.bls.gov/eag/eag.us.htm>

Change in Payroll Employment

Number of jobs, in thousands, seasonally adjusted

^PPreliminary

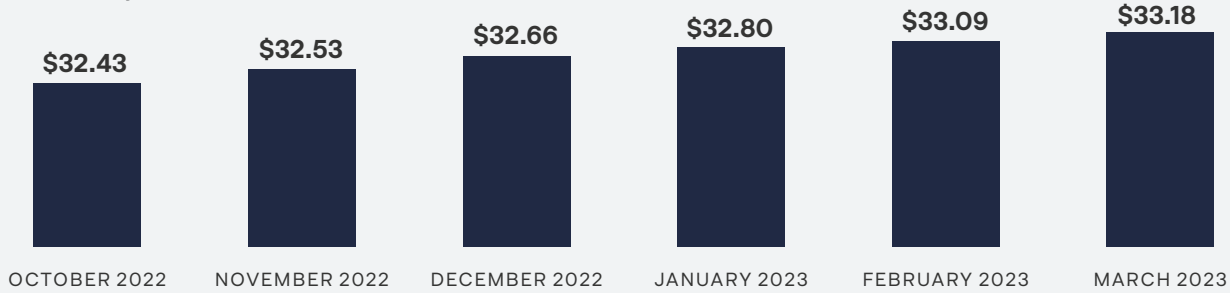


Source: U.S. Bureau of Labor Statistics <https://www.bls.gov/eag/eag.us.htm>

Average Hourly Earnings

Average Hourly Earnings for all employees on private nonfarm payrolls

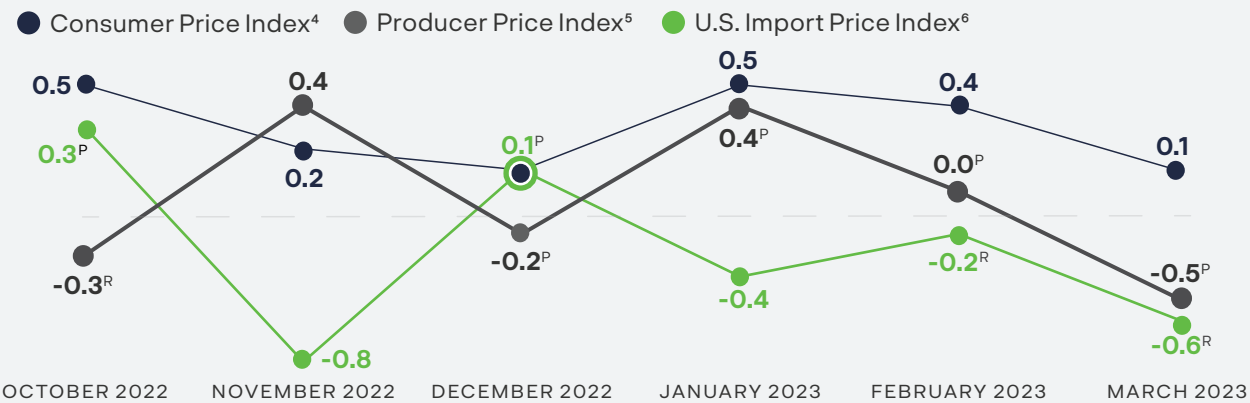
^P Preliminary



Source: U.S. Bureau of Labor Statistics <https://www.bls.gov/eag/eag.us.htm>

Consumer, Producer and U.S. Import Price Index

⁴ All items, U.S. city average, all urban consumers, 1982-84=100, 1-month percent change, seasonally adjusted. ⁵ Final Demand, 1-month percent change, seasonally adjusted. ⁶ All imports, 1-month percent change, not seasonally adjusted ^P Preliminary ^R Revised



Source: U.S. Bureau of Labor Statistics <https://www.bls.gov/eag/eag.us.htm>

“Depending on client size and needs, we meet with clients at a minimum annually to discuss their business, changes in the industry and assure the bank is helping them meet their business goal through efficiency and financial process improvements. Often, we will perform a business process review centered around accounts receivable and payable to help uncover gaps and/or opportunities for improvements. Examples are fraud protection tools, cash flow improvement based on industry/ peer data, or automation/ efficiency processes based on available technology and tools. This strategic analysis helps clients to maximize their cash, create efficiencies, and understand/ reduce payment risks.

-DREW TOWNSEND



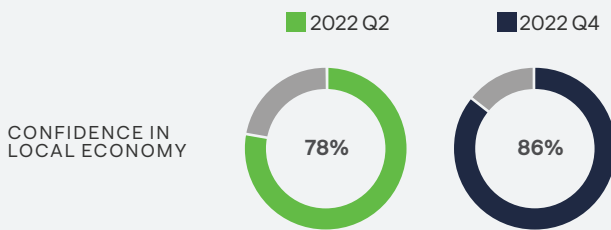
Middle Market and Small Businesses' Most Significant Challenges in 2023 and Beyond

HTLF clients survey results found that, as of Q4 2022, most mid-sized and small business owners cited inflation, labor shortages, labor costs, and supply chain issues as their most significant challenges.

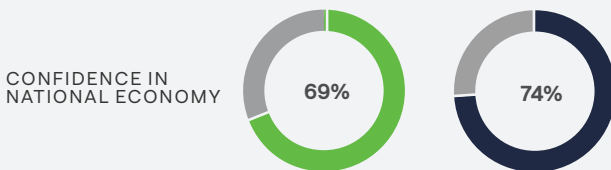
HTLF's client base aligns with broader mid-market trends, making the survey a relevant general indicator. Meanwhile, the National Center for the Middle Market reports economic confidence levels are bouncing back after the dipping in 2022. Consider the following findings from NCMM's Year-End 2022 middle market indicator survey.

Confidence in Economy

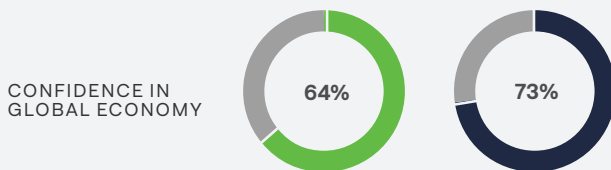
NCMM's Middle Market Indicator: Year-End 2022



86% of middle market leaders expressed confidence in their local economy, compared to 78% in the second quarter of 2022.



74% said they felt confident in the national economy, compared to 69% in the second quarter of 2022.

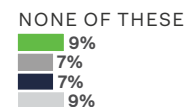
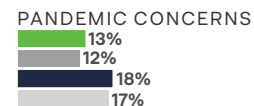
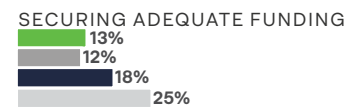
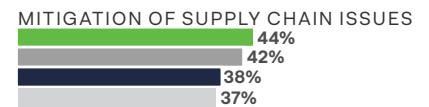
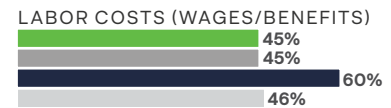
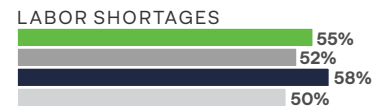


There was an increase with 73% middle market leaders expressing confidence compared to 64% in the second quarter of 2022.

Most Significant Challenges

Quarterly Trend

- HTLF Overall Q1 2022 (359)
- HTLF Overall Q2 2022 (201)
- HTLF Overall Q3 2022 (257)
- HTLF Overall Q4 2022 (163)



"We do believe that these items will continue to serve as challenges in 2023. In regard to the labor market, the following factors are contributing to a tight labor market: an aging population, lack of population growth, and a very low unemployment rate. Due to these factors, we believe there will be continued pressure on the labor market as well as a heavy concentration of manufacturing and labor roles which continue to have staffing struggles due to business growth and population dynamics. The labor force issues has continue to affect inflation as employers are having to raise wages to compete for talent. This combined with higher costs from suppliers and other factors have all contributed to strong inflation pressure."

— DREW TOWNSEND



Nick Patrum is the Commercial Team Lead for Dubuque Bank and Trust.

With nearly 12 years of experience in commercial banking at DB&T, he assists commercial and middle market companies with their growth strategies by providing tailored financial solutions, including lending, treasury and payment solutions, and other commercial banking services. Nick has served his community in a number of capacities, including serving on the boards of the Carnegie Stout Public Library Foundation, Dubuque Main Street and Dubuque County Early Childhood.

Nick Patrum
Commercial Team Lead

THE LABOR TALENT WAR

The U.S. labor market appears headed for some turbulence. Reflecting an expected slowdown in economic growth, as of February of 2023, the Congressional Budget Office⁴ projects unemployment to rise from 3.6 percent in Q4 of 2022 to 5.1 percent by the end of 2023, averaging 4.7 percent for 2023 as a whole.

Yet, at the same time, intense competition for employment talent continues to impact the U.S. labor landscape: despite projected job losses, the market continues to favor those looking for work. As Forbes puts it, the “Labor Talent War” is intensifying, leading to a talent shock in 2023 that companies must also prepare to face. To attract and retain the talent they need, employers must be ready to mold their working environment to fit the new world. This includes

job flexibility, workplace diversity, and authentic leadership.

Leaders need to re-skill and upskill their workforce to meet the demands of the Fourth Industrial Revolution. These steps include hiring new employees, using low- and no-code software, and creating a culture of continuous learning. The pandemic caused many people to reevaluate their careers, resulting in mass resignations across many sectors.

FINANCIAL INSTABILITY

Although many are predicting a decrease in inflation, businesses should consider preparing for many economies to stagnate or shrink.

According to NCMM’s Year-End Middle Market Indicator, economic factors such as inflation, higher interest rates, and possible slowdown may be influencing the reduction in appetites for investment.

The International Monetary Fund⁵ supports the notion of financial instability and possible recession with global growth forecast to slow from 3.2 percent in 2022 to 2.7 percent in 2023.

⁴[*Congressional Budget Office: The Economic Outlook for 2023 to 2033 in 16 Charts*](#)

⁵[*International Monetary Fund: World Economic Outlook Report October 2022*](#)

COMBATING

INFLATION

Money management strategies to weather the storm

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Congressional Budget Office states the Feds preferred measure of inflation - personal consumption expenditures (PCE) is projected to remain above the Federal Reserve's long-term goal of 2 percent through 2024⁴.

PCE is a measure of the spending on goods and services by people in the United States. The Congressional Budget Office predicts inflation to slow gradually with a PCE price index of 3.3 percent in 2023 and 2.4 percent in 2024⁴. Of course this is largely attributed to the Federal Reserve's interest rate hikes, which present new growth challenges for business owners.

But despite the Fed's efforts to tamp inflation, many signs are pointing toward a slowdown in 2023, making a recession possible—if not probable. If this is true, business leaders must prepare ahead of time. Steps might include—erring on the side of caution; expecting slumping sales, tightening budgets, and experiencing increased difficulty securing capital.

To combat inflation, companies must clearly understand how and where they spend their money.

This requires end-to-end spending visibility by business process, function, and cost category. Business leaders can leverage forecasting and budgeting tools to obtain detailed insights into spending patterns. Cut back on spending by renegotiating contracts with suppliers, reducing inventory levels, and streamlining processes for more efficiency.

With inflation carrying into 2023, owners must take action now to reduce the impact of inflation. With the right strategies and financial partners, you can do more than survive the inflation storm—you can thrive.

Begin with a full evaluation of your company's financial health. Understand that net income and operating profit margins are both important indicators of your company's financial standing.

Your net income reflects profit value after deducting company expenses, while operating profit margins indicate earnings before interest and taxes, serving as a sound basis for measuring cost management and sales generation. Itemizing assets and liabilities help paint a clearer picture of a firm's current debt and financial health.

“As rates continue to rise, having a working capital strategy is essential and is more important than ever. In the past, a company's working capital strategies focused on their ability to free up cash to pay down a company's borrowing position or to help fund expansion efforts, now there are plenty of investment opportunities for their cash to earn meaningful dollars for their company. Client-focused process reviews have provided effective ways to deep dive into their processes and determine what gaps or bottleneck exist and have allowed us to take a consultative approach to recommend ways to minimize their days receivable with their customer base and/or to extend their days payable with their suppliers. This strategic approach helps clients to maximize their cash, create efficiencies, and even reduce payment risks.

— NICK PATRUM

To weather inflation in 2023, companies must focus on scalable growth and thoughtful reinvestment programs.

Find ways to increase purchasing and pricing capabilities while minimizing reliance on volatile labor markets and maximizing top-line revenue while maintaining high employee retention rates.

Detailed spending visibility is essential to establishing end-to-end spending transparency. Differentiate between necessary and frivolous spending and re-align costs with strategy.

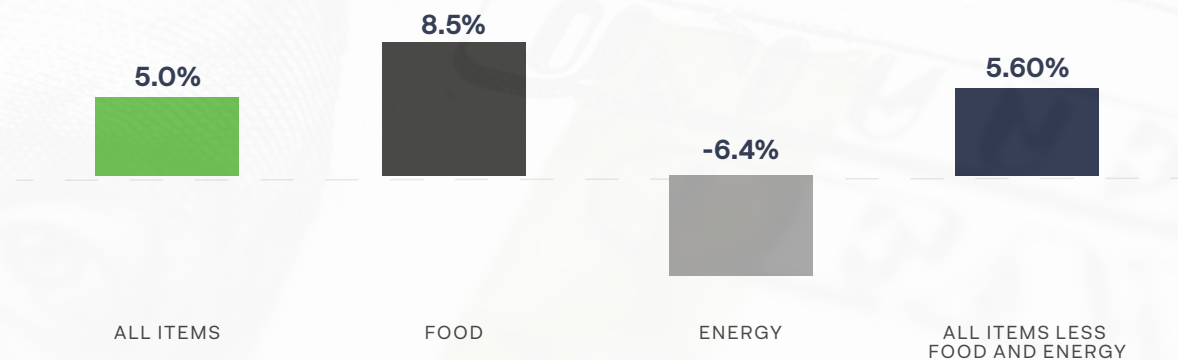
According to Deloitte survey data⁶, 39% of chief financial officers expect the American economy to enter a period of “stagflation”—the intersection of high inflation and

economic stagnation. Furthermore, 46% of those surveyed expect a recession in 2023.

As business owners battle the ‘two-headed stagflation monster’—as The Economist⁶ puts it—some may consider passing increased costs onto the customer. For example, in 2022, McDonald’s raised the price of cheeseburgers in the UK for the first time in nearly 15 years. This tactic is risky, though: most customers react poorly to visibly higher prices. Essential goods and trusted brands can pull it off, but non-essentials and new businesses will struggle.

⁶ <https://www.economist.com/the-world-ahead/2022/11/18/companies-must-battle-the-beast-of-stagflation>

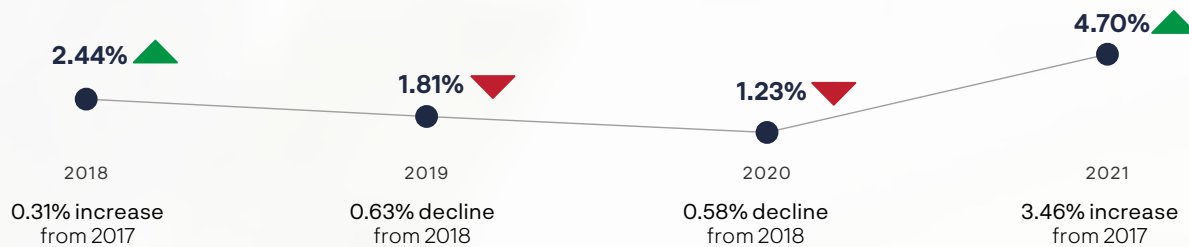
12-month percentage change, Consumer Price Index, selected categories, March 2023, not seasonally adjusted



Source: <https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category.htm>

Inflation measured by Consumer Price Index

Reflects the annual percentage change in the cost to the average consumer acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.



The Battle For Talent

Leaders are reexamining how they retain and recruit talent

Despite rising forecasts for unemployment, labor shortages continue to plague business owners of all shapes and sizes. Most experts concur that 2023 will bring some degree of economic downturn—they can't agree on the extent. Regarding labor forces, let's look to the past to see if it can shape the future.

The Global Financial Crisis at the end of the 2000s led to many employers cutting back their labor forces to stay alive. Fewer workers meant those still employed had to pick up the slack, which led to burnout and disengagement. When the economy recovered, some companies had difficulty hiring people back. Research from Korn Ferry⁷ found similar patterns in the first few months of pandemic lockdowns.

Gallup finds, quiet quitters make up at least 50% of the U.S. workforce⁸. Defined as making the conscious choice to avoid work beyond one's job description or simply doing the bare minimum to remain employed, if not addresses quiet quitting can hurt your business.

According to Sally McKibbin, a career coach with Indeed, 'quiet quitting' refers to the shift away from the hustle culture that prevailed pre-Covid⁹. Quiet quitters aim to set more boundaries between their professional and personal lives. Burnout that may lead to quiet quitting mainly concerns Gen Z

workers, who are more likely to experience this than previous generations due to their high levels of ambition and expectations for success.

Many business leaders began paying attention to the growing quiet quitting trend when data on productivity showed sharp and unexpected drops in 2022¹⁰.

⁷ <https://hrexecutive.com/whats-in-store-for-talent-acquisition-in-2023/>

⁸ <https://www.gallup.com/workplace/398306/quiet-quitting-real.aspx>

⁹ <https://www.myob.com/au/blog/quiet-quitting-and-maintaining-workplace-morale/>

¹⁰ https://www.piie.com/blogs/realtime-economics/record-us-productivity-slump-first-half-2022-risks-higher-inflation-and?utm_source=npr_newsletter&utm_medium=email&utm_content=20220909&utm_term=7224424&utm_campaign=money&utm_id=5861281&utm_orgid=88&utm_att1=

Fastest Growing Professions Overall

2021-31 Projected Growth

NURSE PRACTITIONERS



WIND TURBINE SERVICE TECHNICIANS



USHERS, LOBBY ATTENDANTS, AND TICKET TAKERS



MOTION PICTURE PROJECTIONISTS



COOKS, RESTAURANT

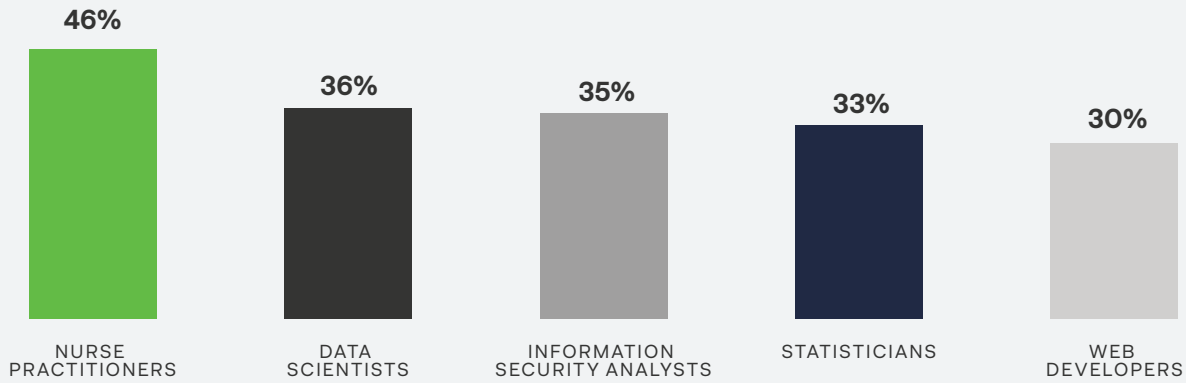


Source: U.S. Bureau of Labor Statistics <https://www.bls.gov/emp/>



Fastest Growing Occupations, Bachelor's Degree or Higher Required

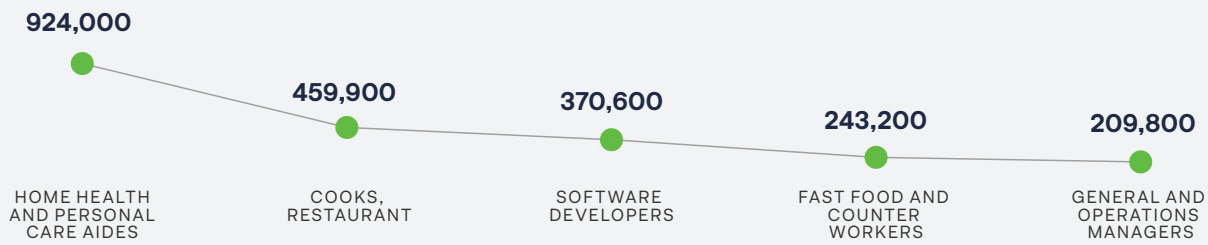
2021-31, Projected



Source: U.S. Bureau of Labor Statistics <https://www.bls.gov/emp/>

Occupations with Most New Jobs

2021-31, Projected



Source: U.S. Bureau of Labor Statistics <https://www.bls.gov/emp/>



Traditionalist leaders quickly pinned it on remote work. BlackRock CEO Larry Fink called for requiring his employees to return in-office, blaming remote workers for declines in productivity¹¹.

Data from 2020 and 2021 proves those traditionalists wrong¹². Productivity jumped in Q2 2020 as offices shut down and employees worked from home. This trend continued through Q4 2021 and only dropped when return-to-office policies became popular in early 2022.

As we look ahead, talent acquisition experts believe data, tools, and culture are the keys to combating labor shortages and rising costs.

- ▶ **Data:** Talent acquisition leaders recognize the importance of attracting candidates from diverse and nontraditional backgrounds. Furthermore, 95% of CEOs consider diversity, equity, and inclusion (DEI) a top priority¹³. Conduct an in-depth analysis of your hiring process to see how your data aligns with current trends.
- ▶ **Tools:** Approximately 75% of recruitment professionals utilize technology to optimize their recruitment process¹⁴. Beyond conventional applicant tracking systems, research indicates that recruiters are leveraging automation and AI software for screening, scheduling, and interviewing applicants.
- ▶ **Culture:** According to INSEAD research, 45% of participants indicated that camaraderie and collaboration have declined since the onset of the pandemic¹⁵. Another survey found that 34% of new hires who quit within the first 90 days did so because of unsatisfactory work cultures¹⁶.

Talent acquisition teams can significantly improve employee retention by conveying the company's

culture to potential hires during the interview process. They can quickly identify candidates who can work well remotely by asking the right questions while aligning with the company's core values.

What happens when both challenges collide—when inflation and the labor market clash in the perfect storm? At a recent press conference, Federal Reserve Chair Jerome Powell discussed current interest rate hikes and their goal of lowering inflation. He noted the unbalanced labor market and anticipated that unemployment could reach 4.4% by the end of 2023, potentially leading to 1.3 million job losses¹⁷. He acknowledged that this was a possible outcome—but not a certainty.

Professional forecasters share this sentiment and expect the unemployment rate to increase to 4.3% in the third quarter and 4.4% in the fourth quarter of 2023¹⁸. This will likely result in fewer job openings, pointing to a labor market near equilibrium. As such, labor costs should decelerate significantly.

Research indicates that when the unemployment rate approaches its equilibrium level, the Employment Cost Index (ECI) growth tends to decrease to approximately 3%¹⁹. In the two decades before the Covid-19 pandemic, average Personal Consumption Expenditures (PCE) inflation was 0.8 percentage points lower than ECI growth. An ECI growth rate close to 3% would be consistent with a PCE inflation rate of around 2%.

Should the market downturn in 2023, businesses must take a more measured approach to re-sizing their workforce. Have your talent acquisition team prepare for the worst-, average-, and best-case scenarios to prepare for whatever lies ahead. The eventual recovery goes hand-in-hand with the downturn, so ensure you're focusing on both equally.

¹¹ <https://www.foxbusiness.com/markets/blackrock-ceo-larry-fink-discusses-inflation-esg-investing-energy-sector>

¹² <https://www.bls.gov/charts/productivity-and-costs/nonfarm-business-sector-indexes.htm>

¹³ <https://www.summitleadership.com/whitepaper-talent-management-challenges/>

¹⁴ <https://employvision.com/top-5-ways-technology-is-changing-the-way-we-find-talent/>

¹⁵ <https://knowledge.insead.edu/leadership-organisations/great-covid-driven-teamwork-divide>

¹⁶ <https://www.jobvite.com/wp-content/uploads/2022/03/JSN-2022-3-25.pdf>

¹⁷ <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf>

¹⁸ <https://www.piie.com/blogs/realtime-economics/us-workers-wage-gains-2023-are-likely-exceed-inflation>

¹⁹ <https://www.piie.com/publications/working-papers/low-inflation-bends-phillips-curve>

Iowa Economy

Thriving with an innovative and collaborative business ecosystem

Despite being in the middle of the pack Iowa is positioned for growth. Many states in the Sunbelt and Intermountain western region are experiencing key growth which in most cases has resulted in a higher cost of living making entry costs for new businesses higher. Lower cost of living and opportunities can help attract talent and businesses to Iowa and further help position the state for growth. Iowa is well known for its agricultural production, manufacturing, and technology industries. The state's economy is driven by a diverse range of industries and has been affected by both headwinds and tailwinds in recent years.

With a low unemployment rate, many employers in Iowa are struggling to fill open positions. Industries most impacted by labor shortages are manufacturing and construction. Job growth remains strong, according to the Iowa Workforce Development²⁰ 34,200 more positions were added to payrolls in 2022 with multiple sectors experiencing growth over the year including manufacturing with the addition of 7,600 jobs.

Other countries are reducing their imports of U.S. products could cause tighter profit margins for farmers in 2023. Factors such as global inflation, economic uncertainty, ongoing war in Ukraine and tensions with China continue to disrupt trade flows. In spite of these challenges, some commodities actually experienced an increase in export value including corn and soybeans.

The technology industry is also a key driver in the Iowa economy. This sector is growing with companies including IBM Microsoft, Google, and Facebook establishing data centers in Iowa. According to the Iowa Area Development Group²¹, Iowa's three major cities have been named Top 10 cities for data center locations, and the technology industry employs over 76,000 workers and accounts for nearly \$10.7 billion of the state's GDP. The Iowa Area Development Group continues to be an ally for technology companies looking to enter the market.

Another industry with a significant influence on the Iowa economy is manufacturing. Iowa is home to 4,100 manufacturers that produce everything from food products to medical devices to aerospace products and construction machinery. Access to a solid transportation network including air,

Iowa is home to 4,100 manufacturers that produce everything from food products to medical devices to aerospace products and construction machinery. Access to a solid transportation network including air, water, and rail is just one characteristic that makes Iowa a great place for manufacturing. The combination of a talented workforce and business-friendly government policies continues to attract manufacturing businesses.

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Throughout the trials and tribulations of the post-pandemic economy, Iowa has remained strong. Continuing to overcome these obstacles will further position the state for tremendous growth in the future. Dubuque Bank & Trust is proud to partner with incredible businesses that make Iowa a great place to live, work, and play.

²⁰ [Iowa Workforce Development: Iowa's Unemployment Rate Remains at 3.1 percent in December, Capping Strong Year of Recovery](#)

²¹ [Iowa Area Development Group: Information & Communications Technology](#)

