

# **Minnesota Business Services Firms Expect Recovery**

Thanks to recent COVID-19 vaccinations and business activity rebounding, Minnesota business service firms (such as engineers, accountants and architects) expect recovery. Fifty-five percent of respondents expect increase in consumer spending and 46% anticipate growth in employment.

These results come from a random sample of Minnesota businesses service firms conducted in May and June 2021, by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank in Minneapolis.

**Business Services Firms: Previous Four Quarters**
Minnesota business services firms described unchanged and declining conditions. Seventy percent reported unchanged sales prices and 65% constant employment. However, close to 50% of respondents indicated a decline in sales revenue and profits.

Contracting conditions were particularly severe for labor availability. Fifty-six percent of respondents experienced unchanged conditions, while 38% indicated a decrease. Only 6% reported an increased level, resulting in a diffusion index of 34, the lowest among all diffusion indexes for the previous four quarters, significantly below 50, suggesting contraction.

Business Services Firms: The Coming Year
Minnesota business services firms expect unchanged or improving conditions for the coming year. Sixty-five percent anticipate unchanged labor availability while 62% expect the same employment level. Furthermore, 42% of respondents expect an increase in sales revenue while 40% predict growth in profits.

 Although several diffusion indexes are above 50, indicating expansion, labor availability has the lowest (37), suggesting optimism for business services firms but with tight labor availability.

**Outlook on the State Economy**Minnesota business services firms are optimistic about the economy. Fifty-five percent expect an increase in consumer spending while 46% anticipate growth in employment.

Overall, diffusion indexes are above 50 indicating expansion, with the highest index in consumer spending (72) and the lowest in corporate profits (54). Nonetheless, business services firms are concerned about inflation. Nearly three-quarters expect an increase.

**Table 1. Minnesota 2021 Business Services Firms Condition Survey Results1**

| **Business indicators in the last 4 quarters:** | **Up** | **Same** | **Down** | **Diffusion Index 2021(2)** | **Diffusion Index 2020(2)** |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 31% | 21% | 48% | 42 | 34 |
| Profits | 27% | 25% | 48% | 40 | 33 |
| Productivity | 20% | 41% | 39% | 41 | 33 |
| Employment level | 13% | 65% | 22% | 46 | 42 |
| Labor availability | 6% | 56% | 38% | 34 | 43 |
| Selling prices | 17% | 70% | 13% | 52 | 46 |
| Input costs | 41% | 50% | 9% | 66 | 55 |
| Space occupied (square footage)Exports (sales for foreign clients) | 5%2% | 86%85% | 10%14% | 4845 | 4545 |

| Labor indicators in the last 4 quarters | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 11% | 38% | 15% | 24% | 4% | 8% |
| Benefits per worker | 8% | 57% | 14% | 11% | 5% | 5% |

| Expected business indicators during the next four quarters | Up | Same | Down | Diffusion Index 2021(2) | Diffusion Index 2020(2) |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 42% | 38% | 19% | 61 | 38 |
| Profits | 40% | 36% | 24% | 58 | 34 |
| Productivity | 35% | 51% | 14% | 61 | 40 |
| Employment level | 24% | 62% | 15% | 55 | 43 |
| Labor availability | 4% | 65% | 31% | 37 | 48 |
| Selling pricesInput costs | 35%50% | 57%48% | 8%3% | 6474 | 4656 |
| Space occupied (square footage) | 5% | 88% | 8% | 49 | 42 |
| Exports (sales for foreign clients) | 1% | 89% | 10% | 46 | 46 |

| Expected labor indicators during next four quarters: | Decrease | 0 | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 4% | 35% | 20% | 27% | 7% | 7% |
| Benefits per worker | 4% | 48% | 23% | 15% | 6% | 5% |

| Expected outlook on the following state economic indicators during the next year:  | Up | Same | Down | Diffusion Index 2021(2) | Diffusion Index 2020(2) |
| --- | --- | --- | --- | --- | --- |
| Employment | 46% | 42% | 12% | 67 | 39 |
| Consumer spending | 55% | 33% | 12% | 72 | 31 |
| Inflation | 73% | 25% | *2%* | 86 | 70 |
| Corporate profits | 33% | 42% | 25% | 54 | 34 |
| Mergers and acquisitions | 34% | 58% | 8% | 63 | 55 |

| Have changes in credit conditions in the last4 quarters affected your firm?: |  No Changes |  Increased Hiring | IncreasedCapital Expenditures | DecreasedHiring | Decreased Capital Expenditure |
| --- | --- | --- | --- | --- | --- |
|  | 78% | 9% | 11% | 7% | 9% |

**Impact of COVID-19**New questions inquired about the impact of the COVID-19 pandemic on Minnesota business services firms in the last 12 months. The pandemic had a particularly negative effect on profits and revenue, with more than 50% percent of respondents experiencing a decline. Additionally, 34% indicated reduced employee productivity.

A significant share of respondents stated that they allowed employees working from home (48%), but the percentage was lower compared to the year before (64%). Forty-five percent indicated they experienced stable employee productivity.

Forty-four percent of respondents indicated they have returned to work in-person since January 2021. Nearly 60% have not required COVID-19 vaccines for their employees during the same period. Additionally, 42% received financial assistance.

Twenty-two percent of respondents indicated that they will allow employees to telework permanently, indicating a modest impact in commuting patterns.

**Table 2. Impact of COVID-19**

| Impact of COVID-19 on Minnesota Services Firms on the last 12 months1 | Increase | No Change | Decrease | Not Applicable | Total |
| --- | --- | --- | --- | --- | --- |
| Cash availability | 22% | 45% | 32% | 1% | 100% |
| Revenue | 33% | 17% | 51% | 0% | 100% |
| Profits | 29% | 19% | 52% | 0% | 100% |
| Delays with suppliers | 36% | 36% | 10% | 18% | 100% |
| Employee furloughs  | 12% | 48% | 3% | 37% | 100% |
| Employee layoffs | 14% | 49% | 3% | 34% | 100% |
| Employees working from home | 48% | 30% | 2% | 20% | 100% |
| Employee productivity | 15% | 45% | 34% | 6% | 100% |

| Changes in your business since January 20211 | Yes | No | Not Applicable | Total |
| --- | --- | --- | --- | --- |
| Received financial assistance | 42% | 51% | 7% | 100% |
| Rehired furloughed employees | 9% | 30% | 61% | 100% |
| Requiring COVID-19 Vaccine for employees | 18% | 59% | 23% | 100% |
| Employees returning to work in-person | 44% | 19% | 37% | 100% |
| Reduce office space permanently | 10% | 66% | 24% | 100% |
| Will allow employees to telework permanently | 22% | 44% | 34% | 100% |

| Expectations toreturn to normaloperations: | 1 Month orLess | 2-3Months | 4-6Months | More than 6Months | Will Not GoBack to Normal | Already at Normal Operations | Little or NoEffect | Going OutOf Business |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 3% | 7% | 12% | 25% | 15% | 25% | 13% | 2% |

Respondents were asked to provide comments related to the impact of the pandemic on their businesses. Selected responses are provided *verbatim*, broken down by type of comment:

## Challenges Finding Workers:

 *“We are struggling to hire employees with all the pay from the state and Fed government. We need to end the added benefits so people come back to work.”*

Financial assistance:
*“We had to pay MN State income tax on our PPP loan from last year which we did not have. It is really sad that our state leaders do not understand what small business have to deal with on a daily basis. It was a slap in the face.”*

*“The PPP programs has been very helpful to the business, since clients have delayed projects and spending on outside resources.”*

Technological Challenges:
*“It was devastating. We had 2 major clients not observing masks & distancing whom we refused to visit & lost their business. The risk of meeting clients in person cost us much business ...zoom does not work well for sales & engineering meetings..”*

## Adapting A Hybrid Model

*Primarily struggling with culture shifting to fully remote, and to keep culture in place entering a hybrid model now.*

Impact on People of Color:
 *“I work mainly with the Hispanic community, many of my clients got sick with COVID-19, and many of them lost their jobs with no benefits. Fortunately, I received some help to maintain running my business […]”

“As a Diversity, Equity & Inclusion Consulting firm, while we lost 100% of business with COVID, after George Floyd murder we were able to return, continue growing in the last 2 quarters.”*

(1) Based on responses from 201 Minnesota business service firms, for a response rate of 16.8%. The sampling error is plus or minus 6.8 percent at a 95% confidence level. Percentages might not add to 100% due to rounding.
(2) A diffusion index is a statistical measure used to detect economic turning points. An index greater than 50 indicates expansion, lower than 50 indicates contraction.
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