

# **Services Firms Expect Mostly Unchanged Conditions With Challenging Labor Availability**

Minnesota business service firms expect mostly unchanged conditions with challenging labor availability and inflation concerns for the coming year. In addition to high prices for food and energy costs because of the COVID-19 pandemic, inflation has been exacerbated by the Russian invasion of Ukraine. As a result, 85% of respondents anticipate inflation, 61% unchanged employment and 43% a decrease in consumer spending and corporate profits.

These results come from a random sample of Minnesota businesses service firms conducted in May and June 2022, 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 mostly unchanged conditions. Sixty-four percent reported unchanged employment level. Close to 60% of respondents indicated unchanged productivity. Stagnant conditions were particularly clear for labor availability. Sixty percent of respondents experienced unchanged conditions, while 37% indicated a decrease. Only 4% reported an increased level, resulting in a diffusion index of 34, the lowest among all diffusion indexes, significantly below 50, suggesting contraction. Additionally, 71% of respondents indicated an increase in input cost.

**Business Services Firms: The Coming Year**
Minnesota business services firms expect mostly unchanged conditions for the coming year. Seventy-one percent anticipate unchanged employment level while 65% anticipate constant productivity. Respondents are particularly concern about labor availability with 62% expecting unchanged levels and 33% anticipating a decline, resulting in a diffusion index of 36, the lowest among all diffusion indexes significantly below 50, indicating contraction, almost identical to the diffusion index of 37 the previous year. Due to an expected tight labor availability, nearly 60% of respondents expect an increase in wages.

**Outlook on the State Economy**Minnesota business services firms expect unchanged or contracting conditions for the economy. Sixty-one percent expect unchanged employment while 43% anticipate a decrease in consumer spending and corporate profits. Additionally, 85% anticipate inflation.

With the exception of inflation, diffusion indexes are lower than in the previous year. In particular, the diffusion indexes for consumer spending and corporate profits are 39 and 38, respectively; significantly below 50, the turning point for expansion, signaling a potential decrease in economic activity.

A new question inquired about telework. Twenty-two percent of respondents indicated that they are not considering or implementing telework, almost the same percentage as those that responded they are for some employees.

**Minnesota 2022 Business Services Firms Condition Survey Results1**

| **Business indicators in the last 4 quarters:** | **Up** | **Same** | **Down** | **Diffusion Index 2022(2)** | **Diffusion Index 2021(2)** |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 45% | 29% | 26% | 60 | 42 |
| Profits | 33% | 33% | 34% | 50 | 40 |
| Productivity | 24% | 58% | 19% | 53 | 41 |
| Employment level | 17% | 64% | 19% | 49 | 46 |
| Labor availability | 4% | 60% | 37% | 34 | 34 |
| Selling prices | 47% | 49% | 4% | 72 | 52 |
| Input costs | 71% | 26% | 3% | 84 | 66 |
| Space occupied (square footage)Exports (sales for foreign clients) | 8%3% | 88%92% | 5%5% | 5249 | 4845 |

| Labor indicators in the last 4 quarters | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 7% | 25% | 5% | 36% | 16% | 11% |
| Benefits per worker | 8% | 46% | 9% | 21% | 7% | 9% |

| Expected business indicators during the next four quarters | Up | Same | Down | Diffusion Index 2022(2) | Diffusion Index 2021(2) |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 35% | 46% | 19% | 58 | 61 |
| Profits | 27% | 47% | 27% | 51 | 58 |
| Productivity | 22% | 65% | 13% | 55 | 61 |
| Employment level | 19% | 71% | 10% | 55 | 55 |
| Labor availability | 5% | 62% | 33% | 36 | 37 |
| Selling pricesInput costs | 46%70% | 46%28% | 8%2% | 6984 | 6474 |
| Space occupied (square footage) | 7% | 87% | 6% | 51 | 49 |
| Exports (sales for foreign clients) | 6% | 89% | 6% | 51 | 46 |

| Expected labor indicators during next four quarters: | Decrease | 0 | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 3% | 29% | 11% | 36% | 15% | 7% |
| Benefits per worker | 4% | 45% | 11% | 28% | 8% | 5% |

| Expected outlook on the following state economic indicators during the next year:  | Up | Same | Down | Diffusion Index 2022(2) | Diffusion Index 2021(2) |
| --- | --- | --- | --- | --- | --- |
| Employment | 22% | 61% | 18% | 53 | 67 |
| Consumer spending | 20% | 37% | 43% | 39 | 72 |
| Inflation | 85% | 15% | 1% | 93 | 86 |
| Corporate profits | 18% | 39% | 43% | 38 | 54 |
| Mergers and acquisitions | 24% | 58% | 18% | 53 | 63 |

| Have changes in credit conditions affected your firm?: | No Changes | Increased Hiring | IncreasedCapital Expenditures | DecreasedHiring | Decreased Capital Expenditure | NoDifficultiesaccessing credit | Difficultiesaccessing credit |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | 80% | 3% | 5% | 8% | 10% | 12% | 4% |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Is your business using or considering a telework mode?** | **No, everybody is back onsite full time** | **Yes,****for****some employees** | **Yes, few days****a****week** | **Notappli-cable** | **No,our workrequirespeople****onsite** | **No,we don’t****seeanysavings** | **Yes,****full-time****telework** | **No,****there****are****issues****with****telework** | **Other** | **Yes,** **for everyone** | **Yes, we** **expect****savings****with****telework****model** |
| 22% | 21% | 19% | 16% | 16% | 11% | 10% | 8% | 7% | 4% | 3% |

1) Based on responses from 224 Minnesota business service firms, for a response rate of 18.7%. Percentages might not add to 100% due to rounding.
(2) A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.
Prepared by the Economic Analysis Unit, Minnesota Department of Employment and Economic Development, June 2022.

**Business Ownership**Beginning 2022, DEED started to inquire about business ownership for business conditions surveys. Responses show that, although Minnesota business services firms have some diversity, there is still work to do. Minorities represent only 5% of the state’s business services firms but 18% of Minnesota’s population. Women represent 34% of the same type of firms but 50% of the state’s population.



Note: Percentages do not add to 100% due to multiple choice selection.

Respondents were asked to provide comments related to the overall condition of business services firms. They indicated concerns about inflation, high taxes, lack of investment and an increase in wages. Selected responses are provided *verbatim*, broken down by type of comment:

Effect of Economic Stimulus
*“The stimulus money was all that kept us in business and I hope we can stay open.”*

Increased Wages
*“We are busy, new staff are not available and when they are available, they are not affordable.”

“My profits were only up due to no owners salary. I did not take one last year in order to keep my*

*employees from going on unemployment. I gave them a raise to keep them here rather than working*

*somewhere else for more wages or going on UI”*

Inflation
*“We worked through COVID - all employees. Business is down -- inflation?”*

Economic Diversity
*“We are grateful for the diversity of industries in our regional economy and I think this helps our business (and others).”*

Low Investment
*“In my opinion, the economic outlook is flat. Companies are not investing in new models or products.*

*They are satisfied to make what they have and ride out the Economic times --taking little risks.”*