

# Minnesota Business Services Firms Expect Unchanged Conditions for 2018

Minnesota business service firms (such as engineers, accountants and architects) expect mostly unchanged levels for labor availability, employment and productivity in 2018. They also anticipate growth for sales revenue.

These results come from a random sample of Minnesota businesses service firms conducted in May and June 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 reported mostly unchanged conditions. Sixty-eight percent experienced unchanged selling prices and 64 percent reported constant employment levels. Additionally, 65 percent indicated no changes in labor availability. Sales revenue had the best performance among indicators with 48 percent of firms reporting growth. Unchanged conditions were confirmed by diffusion indices, most of which were comparable or slightly lower to those from the previous year.

Business Services Firms-The Coming Year
Minnesota business services firms expect mostly unchanged or improved conditions for the coming year. Seventy-three percent anticipate unchanged employment level and 68 expect stable labor availability.

Respondents are optimistic about sales revenue with nearly half of respondents expecting an increase and 45 percent anticipate growth in profits. Table 1 shows results for all indicators.

Outlook on the State Economy

Minnesota business services firms expect mostly stable or improved conditions. Fifty-five percent expect no changes in employment levels while 52 percent anticipate unchanged conditions for mergers and acquisitions. Forty-eight percent anticipate stable consumer spending. Participants were enthusiastic about corporate profits with nearly half expecting an increase. Nonetheless, 63 percent expect an increase in inflation.

A new question asked about impact of changes in federal tax legislation. The large majority of respondents reported no changes in employment (83 percent), capital expenditure and wages (72 percent), customer demand (68 percent) and profits (66 percent).

Table 1. Minnesota 2018 Manufacturing Business Condition Survey Results1

| **Business indicators in the last 4 quarters:** | **Up** | **Same** | **Down** | **Diffusion Index 2018(2)** | **Diffusion Index 2017(2)** |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 48% | 33% | 20% | 64 | 61 |
| Profits | 45% | 30% | 25% | 60 | 57 |
| Productivity | 34% | 52% | 14% | 60 | 59 |
| Employment level | 22% | 64% | 14% | 54 | 52 |
| Labor availability | 9% | 65% | 27% | 41 | 41 |
| Selling Prices | 28% | 68% | 4% | 62 | 59 |
| Input Costs | 52% | 47% | 2% | 75 | 73 |
| Space occupied (Square footage)Exports (sales for foreign clients) | 8%2% | 87%95% | 5%3% | 5150 | 5049 |

| Labor indicators in the last 4 quarters | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 4% | 27% | 24% | 37% | 5% | 4% |
| Benefits per worker | 3% | 47% | 17% | 21% | 6% | 7% |

| Expected business indicators during the next four quarters | Up | Same | Down | Diffusion Index 2018(2) | Diffusion Index 2017(2) |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 49% | 40% | 12% | 69 | 68 |
| Profits | 45% | 41% | 14% | 66 | 62 |
| Productivity | 34% | 60% | 6% | 64 | 64 |
| Employment level | 22% | 73% | 5% | 58 | 57 |
| Labor availability | 7% | 68% | 25% | 41 | 44 |
| Selling pricesInput Cost | 30%43% | 65%54% | 5%3% | 6370 | 6070 |
| Space occupied (Square footage) | 10% | 86% | 4% | 53 | 50 |
| Exports (sales for foreign clients) | 2% | 94% | 3% | 50 | 49 |

| Expected labor indicators in 2018, compared to 2017: | Decrease | 0 | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 3% | 32% | 23% | 37% | 3% | 3% |
| Benefits per worker | 2% | 45% | 21% | 23% | 5% | 4% |

| Expected outlook on the following state economic indicators during the next year:  | Up | Same | Down | Diffusion Index 2018(2) | Diffusion Index 2017(2) |
| --- | --- | --- | --- | --- | --- |
| Employment | 37% | 55% | 8% | 64 | 67 |
| Consumer spending | 45% | 48% | 8% | 69 | 64 |
| Inflation | 63% | 35% | 2% | 80 | 79 |
| Corporate profits | 49% | 41% | 10% | 69 | 64 |
| Mergers and Acquisitions | 45% | 52% | 3% | 71 | 69 |

| Have changes in credit conditions in the last4 quarters affected your firm?: |  No Changes |  Increased Hiring | IncreasedCapital Expenditures | DecreasedHiring | Decreased Capital Expenditure |
| --- | --- | --- | --- | --- | --- |
|  | 86% | 4% | 5% | 0% | 5% |

| How have recent changes in the federal tax legislation affected the following?: | Up |   Same | Down | No Effect | EmptyColumn  |
| --- | --- | --- | --- | --- | --- |
| Employment | 10% | 50% | 7% | 33% |  |
| Wages | 21% | 40% | 7% | 32% |  |
| Capital Expenditure | 17% | 39% | 11% | 33% |  |
| Profits | 23% | 37% | 12% | 29% |  |
| Customer demand | 23% | 38% | 9% | 30% |  |

1. Based on responses from 236 Minnesota manufacturing businesses, for a response rate of 19.7 percent. The sampling error is plus or minus 6.32 percent at a 95 percent confidence level. Percentages might not add to 100 percent due to rounding.
2. A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.
3. Percentages might not add to 100 percent due to rounding.

Prepared by the Policy Office, Minnesota Department of Employment and Economic Development, June 2018.