

# Minnesota Business Services Firms Expect Unchanged Conditions For the Coming Year

Minnesota business service firms (such as engineers, accountants and architects) expect mostly unchanged levels for productivity, employment, labor availability and selling prices.

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 described mostly unchanged conditions. Eight-six percent reported unchanged space occupied (square footage) and nearly 70 percent experienced stable labor availability. Additionally, 58 percent indicated no changes in employment levels. Sales revenue had the best performance among indicators with 47 percent of firms reporting growth. Unchanged conditions were confirmed by diffusion indices, most of which were comparable 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. Eighty-five percent anticipate unchanged space occupied and 79 expect constant labor availability (up from 68 percent the previous year)

Respondents are optimistic about sales revenue with 46 percent of respondents expecting an increase. Respondents were almost equally split about profits with 42 percent anticipating growth and 40 percent expecting unchanged conditions. Table 1 shows results for all indicators.

Outlook on the State Economy

Minnesota business services firms expect mostly stable conditions. Fifty-seven percent expect no changes in employment levels while 60 percent anticipate unchanged conditions for mergers and acquisitions. Additionally, 50 percent anticipate stable consumer spending. Diffusion indexes for all indicators were higher than 50 indicating expansion but were lower than indexes from the previous year suggestion slower growth.

A new question asked about employee retirement and replacement for the next two years. The large majority of respondents (45 percent) indicated they plan to replace retired employees one-for-one. Replacement less than one-for-one through higher technology (13 percent) and higher skilled workers (six percent) were less favored alternatives.

Table 1. Minnesota 2019 Manufacturing Business Condition Survey Results1

| **Business indicators in the last 4 quarters:** | **Up** | **Same** | **Down** | **Diffusion Index 2019(2)** | **Diffusion Index 2018(2)** |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 47% | 30% | 23% | 62 | 64 |
| Profits | 41% | 30% | 28% | 57 | 60 |
| Productivity | 34% | 54% | 11% | 62 | 60 |
| Employment level | 26% | 58% | 16% | 55 | 54 |
| Labor availability | 7% | 69% | 25% | 41 | 41 |
| Selling Prices | 35% | 57% | 8% | 63 | 62 |
| Input Costs | 52% | 42% | 5% | 74 | 75 |
| Space occupied (Square footage)Exports (sales for foreign clients) | 8%4% | 86%92% | 6%4% | 5150 | 5150 |

| Labor indicators in the last 4 quarters | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 5% | 22% | 16% | 45% | 8% | 4% |
| Benefits per worker | 5% | 40% | 16% | 22% | 10% | 7% |

| Expected business indicators during the next four quarters | Up | Same | Down | Diffusion Index 2019(2) | Diffusion Index 2018(2) |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 46% | 40% | 14% | 66 | 69 |
| Profits | 42% | 40% | 18% | 62 | 66 |
| Productivity | 39% | 56% | 5% | 67 | 64 |
| Employment level | 28% | 67% | 5% | 62 | 58 |
| Labor availability | 8% | 79% | 13% | 47 | 41 |
| Selling pricesInput Cost | 25%39% | 70%57% | 4%4% | 6067 | 6370 |
| Space occupied (Square footage) | 11% | 85% | 4% | 53 | 53 |
| Exports (sales for foreign clients) | 3% | 94% | 2% | 50 | 50 |

| Expected labor indicators in 2018, compared to 2017: | Decrease | 0 | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 4% | 28% | 24% | 36% | 6% | 1% |
| Benefits per worker | 5% | 40% | 19% | 26% | 5% | 5% |

| Expected outlook on the following state economic indicators during the next year:  | Up | Same | Down | Diffusion Index 2019(2) | Diffusion Index 2018(2) |
| --- | --- | --- | --- | --- | --- |
| Employment | 35% | 57% | 9% | 63 | 64 |
| Consumer spending | 31% | 50% | 18% | 56 | 69 |
| Inflation | 44% | 54% | 2% | 71 | 80 |
| Corporate profits | 38% | 45% | 18% | 60 | 69 |
| Mergers and Acquisitions | 37% | 60% | 3% | 67 | 71 |

| Have changes in credit conditions in the last4 quarters affected your firm?: |  No Changes |  Increased Hiring | IncreasedCapital Expenditures | DecreasedHiring | Decreased Capital Expenditure |
| --- | --- | --- | --- | --- | --- |
|  | 85% | 5% | 9% | 4% | 3% |

| **Over the next two years as employees retire, how are you most likely to respond?** | **Percent**  |
| --- | --- |
| Replace them one-for one | 45% |
| Less than one-for-one through higher technology | 13% |
| Less than one-for-one through higher skilled workers | 6% |
| More than one-for one | 9% |
| Not replace, eliminate positions | 8% |
| Not applicable, I work alone | 16% |
| I don’t know | 18% |

(1) Based on responses from 241 Minnesota manufacturing businesses, for a response rate of 24.1 percent. The sampling error is plus or minus 6.25 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.
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