



SURVEY OF MINNESOTA BUSINESS SERVICES FIRMS

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Minnesota's Business Services Firms Expect Moderate Growth For 2010

Minnesota firms that provide business services (such as advertisers, accountants, computer and public relations consultants), are somewhat optimistic about the coming year, with about 74 percent expecting increasing or stable sales over the next four quarters.

The survey also questioned businesses about credit conditions. About 23 percent noted they had experienced tightened access to credit, while over 70 percent reported their access to bank credit had not changed over the previous three months.

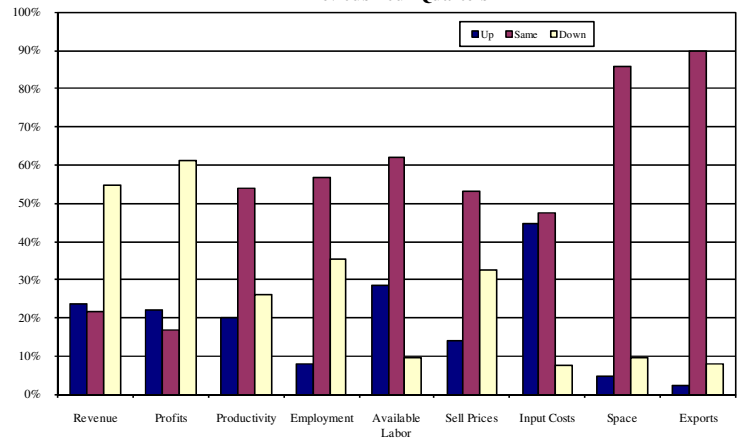
These results come from a random sample survey of Minnesota business services firms conducted in May and June by the Minnesota Department of Employment and Economic Development (DEED) and the Federal Reserve Bank of Minneapolis. Business services firms support the activities of other companies across the state and their performance is an indicator of overall business conditions in Minnesota.

Business Services Firms - The Past Year

The past year was rather bleak for most business service firms as over half reported declines in revenue. An even larger percentage reported declines in profits as input costs increased for about 45 percent of respondents.

Employment levels were stable for 57 percent of these firms and 35 percent reported declines. Wages fell or remained the same for 56 percent of the respondent's employees but 30 percent reported wage increases of 1 to 5 percent, and another 14 percent had increases greater than 5 percent.

Economic Performance for Minnesota's Business Services Firms - Previous Four Quarters

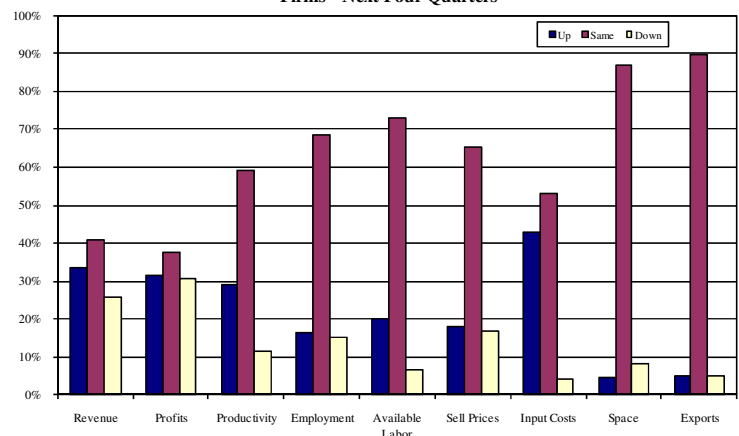


Business Services Firms - The Next Year

Minnesota's business service firms expect mild expansion for the coming year as slightly higher percentages of respondents foresee productivity and sales revenue increasing as compared to a year ago.

With diffusion indices hovering around 50 or above, these firms are slightly more optimistic about the coming year than they were a year ago.

Outlook on Economic Performance for Minnesota's Business Services Firms - Next Four Quarters



However, input costs are expected increase which could, potentially, dampen growth.

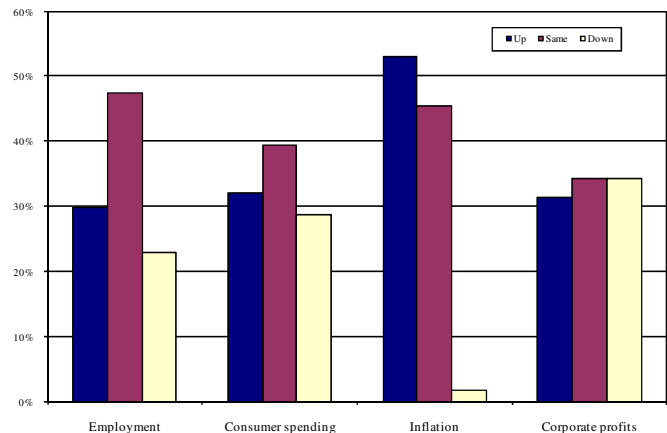
About 68 percent report employment levels are not likely to change, suggesting the labor market will continue to be challenging for those looking for work. Similarly, wages are likely to decrease or remain the same for about 56 percent of business services firms, similar to what was reported a year ago.

Outlook on the State Economy

For the first time since the early 2007 survey, business services firms are relatively optimistic concerning the overall state economy. With diffusion indices just above 50, these firms feel

consumer spending and employment are likely to expand and corporate profits to stabilize. This is a far cry from the bleak outlook respondents portrayed last year.

Outlook on State Economic Indicators - Next Four Quarters



Survey of Minnesota Business Services Firms, 2010

How did your location perform during the last four quarters compared to the previous four quarters?				Diffusion	Diffusion		
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Index* 2010	Index* 2009		
Sales revenue	24%	22%	55%	34	41		
Profits	22%	17%	61%	30	34		
Productivity	20%	54%	26%	47	49		
Employment level	8%	57%	35%	36	42		
Labor availability	29%	62%	10%	60	68		
Selling prices	14%	53%	33%	41	45		
Input costs	45%	47%	8%	69	73		
Space occupied (square footage)	5%	86%	10%	48	49		
Exports (sales for foreign clients)	2%	90%	8%	47	47		
	<u>Decrease</u>	<u>0%</u>	<u>1-2%</u>	<u>3-5%</u>	<u>6-9%</u>	<u>>10%</u>	
Wages per worker	13%	43%	11%	19%	4%	10%	
Benefits per worker	12%	58%	9%	6%	4%	10%	
How do you expect your location to perform during the next four quarters?				Diffusion	Diffusion		
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Index* 2010	Index* 2009		
Sales revenue	33%	41%	26%	54	49		
Profits	32%	38%	31%	50	45		
Productivity	29%	59%	12%	59	54		
Employment level	16%	68%	15%	51	45		
Labor availability	20%	73%	7%	57	63		
Selling prices	18%	65%	17%	51	49		
Input costs	43%	53%	4%	69	65		
Space occupied (square footage)	5%	87%	8%	48	48		
Exports (sales for foreign clients)	5%	90%	5%	50	47		
	<u>Decrease</u>	<u>0%</u>	<u>1-2%</u>	<u>3-5%</u>	<u>6-9%</u>	<u>>10%</u>	
Wages per worker	6%	50%	18%	21%	1%	4%	
Benefits per worker	7%	64%	12%	9%	4%	4%	
What is your outlook on the following state economic indicators during the next four quarters:				Diffusion	Diffusion		
	<u>Up</u>	<u>Same</u>	<u>Down</u>	Index* 2010	Index* 2009		
Employment	30%	47%	23%	53	37		
Consumer spending	32%	39%	29%	52	38		
Inflation	53%	45%	2%	76	76		
Corporate profits	32%	34%	34%	49	30		
Has your company's access to bank credit changed over the past three months?	<u>Deteriorated a lot</u>	<u>Deteriorated some</u>	<u>Improved a lot</u>	<u>Improved some</u>	<u>No Change</u>	<u>Not Applicable</u>	
	9%	14%	0.4%	2%	57%	16%	
In what areas, if any, has tighter credit affected your firm's future plans? (check all that apply)				Inventory			
	<u>Hiring</u>	<u>Capital Expenditures</u>	<u>Expansion</u>	<u>Levels</u>			
	21%	31%	25%	8%			

*A diffusion index greater than 50 indicates expansion, less than 50 indicates contraction.

Notes: Based on responses from 248 Minnesota services businesses, for a response rate of 20.7 percent. The sampling error is plus or minus 6.2 percentage points at the 95 percent confidence level. Percentages may not add to 100 percent due to rounding.

Prepared by Analysis and Evaluation, Minnesota Department of Employment and Economic Development, June 2010.