

# **Modest Optimism as Labor Shortages Persist into Next Year**

Business services firms anticipate modest gains in revenue, profits, productivity, and employment over the coming year. While labor availability is expected to improve slightly, limited worker supply will likely continue driving wages upward.

These results come from a random sample of Minnesota businesses service firms conducted from May through July 2025, by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank in Minneapolis.

The survey inquired about the previous four quarters—rather than the calendar year—as well as expectations for the coming four quarters.

**Business Services Firms: Past Four Quarters**.

Economic performance for the previous four quarters is analyzed using diffusion indexes. Values above 50 indicate expansion and below 50, contraction.

Diffusion indexes for revenue (57), profits (48), and productivity (54) were unchanged from the previous year. Although revenue and productivity remained in expansion territory (above 50), profits stayed below the threshold (48), indicating continued contraction.

Sixty percent of respondents experienced unchanged conditions from the tight employment level the year before, resulting in a diffusion index of 49, or contraction. Similarly, 66% reported no change in labor availability, with the diffusion index remaining in contraction at 45—indicating persistent labor supply constraints. Nearly 70% of respondents faced higher input costs, resulting in a diffusion index of 84. (Table 1-A, Chart 1).

**Business Services Firms: Next Four Quarters**
Minnesota business services firms enter the year with cautious optimism, as diffusion indexes point to modest gains in revenue, profits, productivity and employment compared to economic performance from the previous four quarters.

The labor availability index, while still in contraction at 49, has ticked up from last year’s performance of 45. This small gain comes with a price. To secure the talent needed, 59% of respondents plan to raise wages by at least 3% (Table 1‑A and B, Chart 1).

\*Values above 50 indicate expansion. Below 50, contraction. The index is computed by taking the percentage of responses that indicated “Up”
 and half of the respondents that indicated “Same.”

 **Outlook On The State Economy: Next Year**

Minnesota business services firms have a pessimistic outlook for the overall economy in the next four quarters. Respondents are particularly concerned with consumer spending as half expect a decline, resulting in a diffusion index of 32, the lowest of all indexes for the economy. Forty-one percent anticipate a decline in corporate profits, yielding a diffusion index of 39, signaling continuing reduction in profits. As one graphic design firm commented: “*People are starting to feel money tightening, which means my in-person sales for the holiday season will be lower while supply costs have been going up, which means income/profits will be down.”*

Employment is expected to continue in contraction, with a diffusion index of 46. Additionally, expectations for inflation increased with an index of 77. (Chart 2, Table 1.C)

\*Values above 50 indicate expansion. Below 50, contraction. The index is computed by taking the percentage of responses that indicated “Up”
 and half of the respondents that indicated “Same.”

**Table 1: Minnesota 2025 Business Services Firms Condition Survey Results1**

| 1. **Business indicators in the last four quarters**
 | **Up** | **Same** | **Down** | **Diffusion Index (2)** |
| --- | --- | --- | --- | --- |
| Sales revenue | 42% | 30% | 29% | 57 |
| Profits | 31% | 33% | 36% | 48 |
| Productivity | 29% | 50% | 21% | 54 |
| Employment level | 19% | 60% | 21% | 49 |
| Labor availability | 12% | 66% | 22% | 45 |
| Selling prices | 47% | 46% | 7% | 70 |
| Input costs | 68% | 31% | 2% | 84 |
| Space occupied (square footage)Exports (sales for foreign clients) | 10%6% | 85%89% | 6%5% | 5351 |

| Labor indicators in the last four quarters | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 3% | 20% | 11% | 49% | 12% | 5% |
| Benefits per worker | 2% | 33% | 6% | 24% | 23% | 12% |

| 1. Expected business indicators during the next four quarters
 | Up | Same | Down | Diffusion Index(2) |
| --- | --- | --- | --- | --- |
| Sales revenue | 36% | 43% | 21% | 58 |
| Profits | 30% | 42% | 28% | 51 |
| Productivity | 27% | 61% | 12% | 58 |
| Employment level | 24% | 66% | 10% | 57 |
| Labor availability | 12% | 73% | 15% | 49 |
| Selling pricesInput costs | 37%52% | 56%45% | 7%3% | 6575 |
| Space occupied (square footage) | 6% | 88% | 6% | 50 |
| Exports (sales for foreign clients) | 6% | 91% | 3% | 52 |

| Expected labor indicators during the next four quarters | Decrease | 0% | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 2% | 26% | 14% | 50% | 6% | 3% |
| Benefits per worker | 0% | 36% | 11% | 28% | 17% | 8% |

| 1. Outlook on the following state economic indicators during the next four quarters
 | Up | Same | Down | Diffusion Index(2) |
| --- | --- | --- | --- | --- |
| Employment | 15% | 62% | 24% | 46 |
| Consumer spending | 14% | 36% | 50% | 32 |
| Inflation | 63% | 27% | 10% | 77 |
| Corporate profits | 18% | 41% | 41% | 39 |
| Mergers and acquisitions | 32% | 54% | 14% | 59 |

| 1. Credit conditionsin the last four quarters
 | Higher Interest rates | No Changes | Increased Hiring | IncreasedCapital Expenditures | DecreasedHiring | Decreased Capital Expend. | NoDiff.accessing credit | Difficultiesaccessing credit |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Percent | 35% | 49% | 5% | 7% | 13% | 15% | 19% | 6% |

(1)Based on responses from 222 Minnesota business service firms. From those, 160 were usable surveys for an adjusted response rate of 13%.
Percentages might not add to 100% due to rounding.
(2) A diffusion index greater than 50 indicates expansion, lower than 50 indicates contraction.

**Special Question - Workforce Dynamics Since the Start of 2025**

This year the survey also explored changes in workforce dynamics since the start of 2025. More than 40% of respondents reported a decline in the supply of qualified applicants, reflecting ongoing labor shortages. Accordingly, 58% noted increased wage demands, and 60% indicated they are expanding the use of automation and AI. (Table 2)

|  |  |  |  |
| --- | --- | --- | --- |
| **Expected impact** | **Up** | **Same** | **Down** |
| Number of open positions | 29% | 58% | 13% |
| Number of qualified applicants | 15% | 44% | 41% |
| Wage demands | 58% | 38% | 3% |
| Remote work demands | 40% | 53% | 8% |
| Benefit demands | 40% | 59% | 1% |
| Employees turnover | 22% | 63% | 16% |
| Automation/AI usage | 60% | 37% | 3% |

Note: Percentages exclude respondents that indicated N/A.

**Business Ownership**Only 5% of respondents identified the ownership of their business as veterans, with 6% as minorities and 30% as women.

|  |  |
| --- | --- |
| **Ownership** | **Percent** |
| None of the above | 55% |
| Woman-owned | 30% |
| Prefer not to answer | 9% |
| Minority-owned | 6% |
| Veteran-owned | 5% |

\*Percentages do not add to 100% due to multiple choice selection.

**Comments**Respondents were asked to provide additional comments. They indicated an increase in AI in the near future, concerns about tariffs, lower consumer spending, and the need for apprentice programs and qualified workers willing to work in-person. Examples of comments are provided below:

Increased use of AI:

* *“Labor is easier to find. AI will replace a lot of labor in the next 3-5 years.”*

Concern about tariffs:

* *“Tariffs affect my input costs while reducing my export of higher value goods. Uncertainty about tariffs is very disruptive.”*
* *“Tariffs and the turmoil caused by the current federal administration impact my clients directly. Some are*

*close to closing.”*

Lower consumer spending, lower profits:

* *People are starting to feel money tightening, which means my in-person sales for the holiday season will*

*be lower while supply costs have been going up, which means income/profits will be down.*

Need for apprentice programs and qualified employees:

* *Apprentice programs needed. Too many young, educated people think they are so important with no*

*credibility.*

* *I have been looking for licensed employees for over two years that are willing to work in the office – impossible to find!*