



SURVEY OF MINNESOTA BUSINESS SERVICES FIRMS

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Minnesota Business Services Firms Expect Moderate Growth in the Coming Year

Minnesota firms that provide business services (such as advertisers, accountants, computer and public relations consultants), foresee moderate growth over the coming months, although they are clearly cautious as input prices rise. 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. The survey also found that about two thirds of the firms expect increases in employee wages over the next year, although employment levels are likely to remain flat. Business services firms support the activities of other companies across the state and their performance is an indicator of overall business conditions in Minnesota.

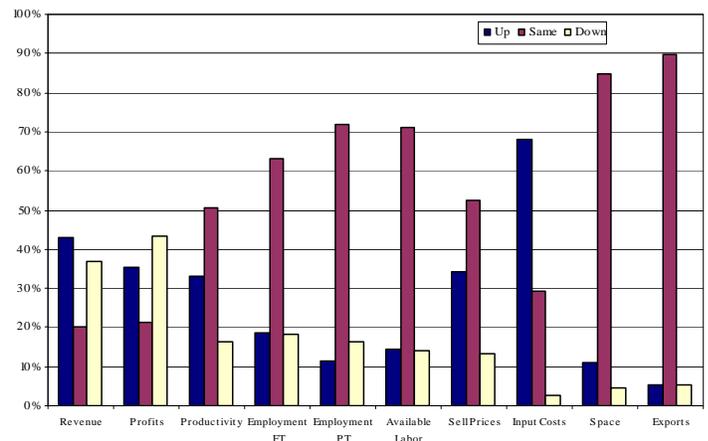
The survey also questioned businesses about credit conditions and retirees. Just over a quarter noted they had experienced revenue and capital expenditure declines due to changes in the credit market, although the majority were unaffected. Meanwhile, about forty percent of firms indicated retiring workers would not be fully replaced.

Business Services Firms - The Past Year

The past year produced mixed results for Minnesota's business services firms. While some struggled to increase profits, over half performed well. Meanwhile, workers were not greatly impacted by the challenging conditions. Input costs rose for the large majority of firms – over two thirds reported increases. Revenue dipped for some, but increased for others as selling prices

and productivity grew slightly overall. Firms were not hiring many new workers, but wages did not decline and even grew at over half the establishments.

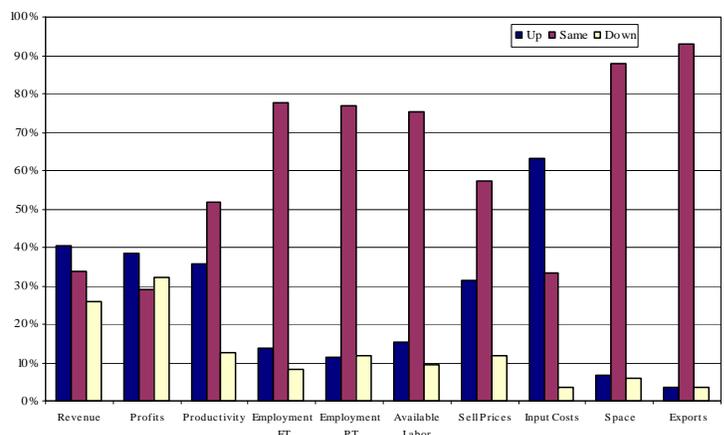
Economic Performance for Minnesota's Business Services Firms - Previous Four Quarters



Business Services Firms - The Next Year

Indicators for the coming year suggest moderate growth - the diffusion indices for most categories exceeded 50, suggesting expansion. Revenue and profit levels, although mixed, are expected to improve somewhat.

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



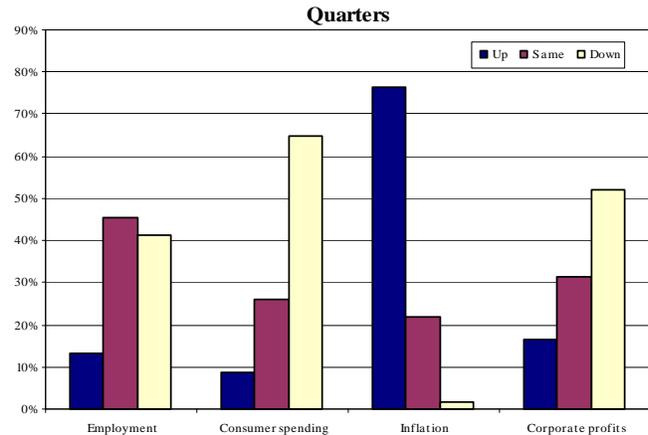
There appears to be optimism that businesses can offset the upward trend in input costs. The majority of firms expect those costs to continue to rise, but in response, report they are likely to keep their selling prices flat – or continue increasing them - and improve their productivity in order to boost revenue and profits.

corporate profits and employment are expected to remain sluggish or decrease.

Outlook on the State Economy

In spite of mild optimism for their own activity over the next year, business services firms in Minnesota have a bleak outlook for the overall state economy. A majority expect inflation to rise and consumer spending to decline, while

Outlook on State Economic Indicators - Next Four



Survey of Minnesota Business Services Firms, 2008

How did your location perform during the last four quarters compared to the previous four quarters?	Diffusion			Diffusion Index*		
	Up	Same	Down	2008	2007	
Sales revenue	43%	20%	37%	53	63	
Profits	35%	21%	43%	46	60	
Productivity	33%	51%	16%	58	62	
Employment level - full time workers	19%	63%	18%	50	na	
Employment level - part time workers	12%	72%	17%	48	na	
Labor availability	15%	71%	14%	50	45	
Selling prices	34%	53%	13%	61	60	
Input costs	68%	29%	3%	83	77	
Space occupied (square footage)	11%	85%	4%	53	53	
Exports (sales for foreign clients)	5%	90%	5%	50	52	
	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	5%	28%	14%	43%	5%	4%
Benefits per worker	6%	45%	12%	20%	10%	8%
How do you expect your location to perform during the next four quarters?	Diffusion			Diffusion Index*		
	Up	Same	Down	2008	2007	
Sales revenue	40%	34%	26%	57	67	
Profits	39%	29%	32%	53	62	
Productivity	36%	52%	13%	62	64	
Employment level - full time workers	14%	78%	8%	53	na	
Employment level - part time workers	11%	77%	12%	50	na	
Labor availability	15%	75%	9%	53	50	
Selling prices	31%	57%	12%	60	61	
Input costs	63%	33%	4%	80	74	
Space occupied (square footage)	7%	88%	6%	50	52	
Exports (sales for foreign clients)	4%	93%	4%	50	54	
	Decrease	0%	1-2%	3-5%	6-9%	>10%
Wages per worker	3%	35%	18%	37%	3%	3%
Benefits per worker	6%	48%	14%	20%	8%	5%
What is your outlook on the following state economic indicators during the next four quarters	Diffusion			Diffusion Index*		
	Up	Same	Down	2008	2007	
Employment	13%	46%	41%	36	53	
Consumer spending	9%	26%	65%	22	44	
Inflation	77%	22%	1%	88	77	
Corporate profits	17%	31%	52%	32	54	
How have recent credit conditions affected your location?	Up	Same	Down			
Revenue	3%	70%	27%			
Capital expenditures	6%	67%	27%			
Employment	2%	81%	16%			
Over the next five years, as employees in your organization retire, do you plan to:						
Replace them one for one	52%					
Replace them but less than one for one	17%					
Replace them more than one for one	6%					
Not replace them	25%					

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

Notes: Based on responses from 275 Minnesota services businesses, for a response rate of 22.9 percent. The sampling error is plus or minus 5.8 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 2008.