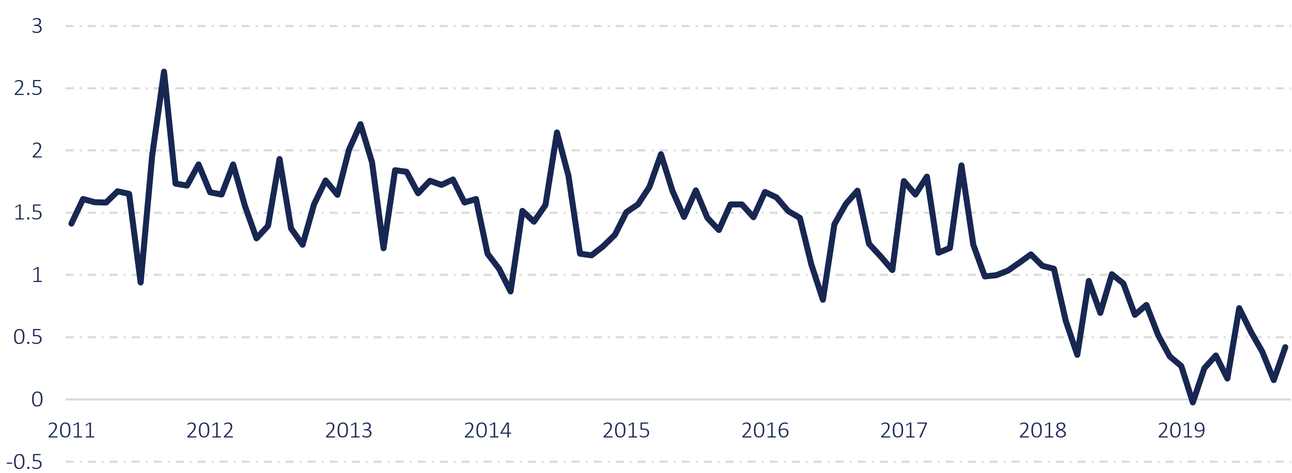
Grow Minnesota! Partnership Overview

Each year the Grow Minnesota! Partnership conducts in-depth, confidential visits with leaders and owners of 700-1,000 Minnesota businesses to learn about what drives their growth and what they need to stay and grow in Minnesota. The partnership – consisting of more than 90 local chambers and economic development organizations – visits with businesses of all industries, sizes and regions of the state. While this is not intended to be a scientific, representative survey of the entire Minnesota business community, it does yield meaningful insights that can help business leaders, policymakers and other stakeholders understand the complex factors shaping our state's current and future economic performance. We thank our dedicated local partners and contributors for supporting this critical effort to retain and grow Minnesota businesses. Most of all, we thank the business leaders who took the time to share about their company and discuss how we can work together to grow Minnesota's economy.

Key Findings from 2018-2019 Program Year

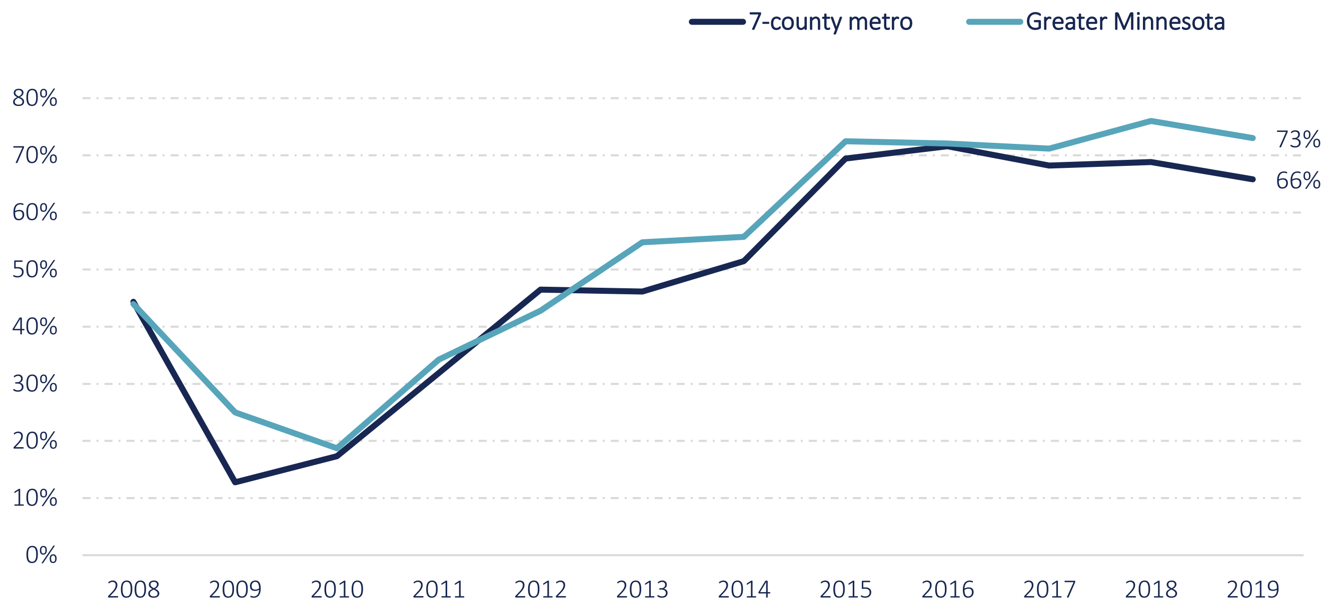
A look back at Minnesota's economic activity over the past 12 months reveals two broad observations: 1) Our economy has remained more stable and resilient than one might expect given fears of a possible recession looming and the uncertainty surrounding tariffs and trade deals with China and our North American neighbors; 2) while overall demand and business confidence has remained steady, job growth has slowed to a crawl as businesses face significant challenges finding and retaining workers. As of October, Minnesota's job growth rate fell to 42nd among all states, increasing at an annual rate of only 0.3%.

Total non-farm employment: % change from previous year



Source: Current Employment Statistics, DEED, 2019

Percentage of businesses reporting difficulty finding workers



Source: Grow Minnesota! Partnership, 2019

Behind these larger trends, visits with nearly 900 Minnesota businesses show a more varied and interesting look at what's happening in the factories, farms, offices, health care facilities, retail stores and distribution centers that make up our private-sector economy.

Here are several key insights gained from our conversations over the past year:

1. **Innovation remains a bright spot with new technologies and products enhancing businesses' competitiveness.** New technologies like Artificial Intelligence (AI), machine learning, and Internet-of-Things (IoT) are shaping industries across our economy in ways that are only starting to be realized. These changes present both a challenge and an opportunity for companies to provide more value-added products and services to their customers, improve efficiency and worker safety, and tap into new markets.

2. **Industries tied to construction, professional services and regional/national consumer markets reported the strongest growth.** This aligns with the state's employment data which show that construction employment grew at 3.2% over the past year, trailing only leisure and hospitality as the second-fastest growing sector.

3. **Industries tied to agriculture, senior care/senior living and legacy products (e.g. forestry products, publishing, telecommunications) struggled in the face of low prices, wage pressures, changes in market demand and various policy impacts.** For example, one agricultural producer in western Minnesota reported that commodity prices had dropped below the cost of production, causing them to lose money on every new shipment they sell. On top of that, they struggled to find skilled workers to maintain the automated equipment they had recently installed, and had difficulty filling entry-level jobs due to lack of child care and transportation availability in their community. This type of multilayered set of challenges was characteristic of many businesses we talked to in commodity-based sectors.

4. **The manufacturing sector largely held on despite fears of a sectoral downturn.** While some firms reported weaker overall demand and negative impacts from tariffs, others continued to see steady or even rapid growth as they implement new technologies and bring new products to market. Minnesota manufacturers also make up a key part of the supply chain for OEMs of agricultural equipment, power sports vehicles, medical devices, food products, aerospace products, building materials and more. Suppliers reported that their overall performance is largely tied to the industries they serve, though other factors like hiring challenges, regulations and costs of doing business play a significant role.

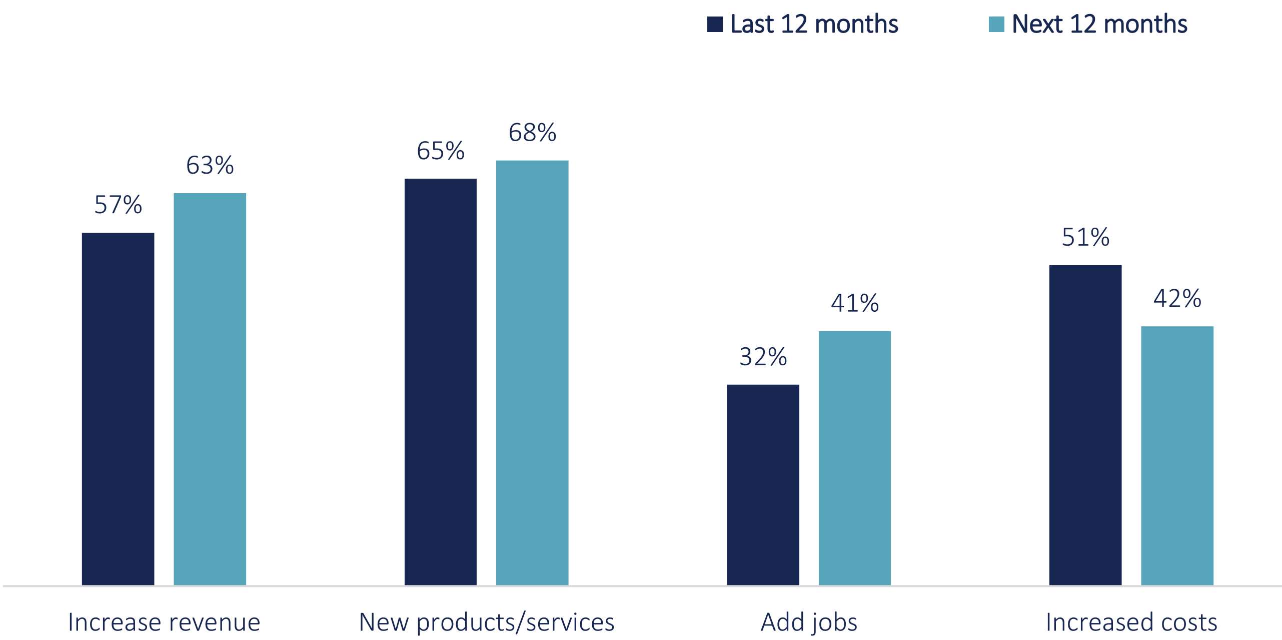
5. **Tariffs and trade uncertainty, along with slower global growth, appear to be impacting exports with the state's total export growth declining for the first time in 10 consecutive quarters.** Tariffs seem to be having an uneven impact on Minnesota businesses so far. Some businesses are taking urgent steps to move supply chains out of China and find alternative markets for their products; and others are finding ways to avoid direct cost increases or pass those increases along to customers.

6. **While some health care providers – particularly senior care facilities – are facing challenges, hospitals and clinics are investing heavily in new facilities, renovations and expansion of services.** Many of these investments are taking place in Greater Minnesota communities, boosting local construction, engineering and related services.

7. **Businesses reported navigating multiple layers of cost-drivers from shipping and supplies to wages and health insurance to state-imposed business costs and federal tariffs.** One professional services firm shared that its company's

health care premiums increased 34% as it crossed the 50-employee threshold. This cost increase significantly impacts its ability to invest in employee wages to attract top talent and expand into new markets.

8. **Despite various challenges and uncertainties, businesses remain fairly optimistic about their outlook for 2020.** Sixty-three percent of businesses visited in Q2 and Q3 of 2019 projected increased revenue growth in the coming year compared with 57% that reported revenue growth over the past year. Similarly, 41% said they plan to add workers in the next year compared to the 32% that added workers in the past year.



Taken from responses in Q2 and Q3 2019 to show more recent results

Source: Grow Minnesota! Partnership, 2019