CURRENT BUSINESS CONDITIONS IN MINNESOTA

March 1, 2023

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FEDERAL RESERVE BANK OF MINNEAPOLIS

DISCLAIMER

The views expressed here are the presenter's and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

TODAY'S TALK

- Current state of the economy
- Demand holding overall, including in retail; construction and real estate seeing biggest (-) effects
- Job demand/job growth surprisingly strong
- Lots (and *lots)* of challenges
  - Inflation, interest rates, supply chain
  - Labor force availability/LF participation
- Forecast? Half-empty, half-full
- *Interactive survey: You'll inform each other on how the group sees the economy*
- *Lots of data, but fast-moving. Will share PPT*

MY HOPE IS FOR DATA TO FEEL LIKE THIS TODAY…

MY DATA HOPE FOR TODAY …

LOGIN FOR INTERACTIVE SURVEY

- ***Let the Minneapolis Fed – and peers! – know how you view current economic conditions!***
- ***Immediate, real-time results***
- ***Step 1: Get your phone***
- ***Step 2: Send text to 22333***
- ***Step 3: Text the word minneapolis***
- ***Step 4: Hit 'send'; watch for message***
- ***Step 5: Stay in text mode for survey; all responses to questions are via text***
  - ***Do not hit the hypertext link in pop-up box***

ON WITH THE DATA SHOW:

FIRST FROM 30,000 FEET

GROSS DOMESTIC PRODUCT

Real GDP = total output, adjusted for inflation

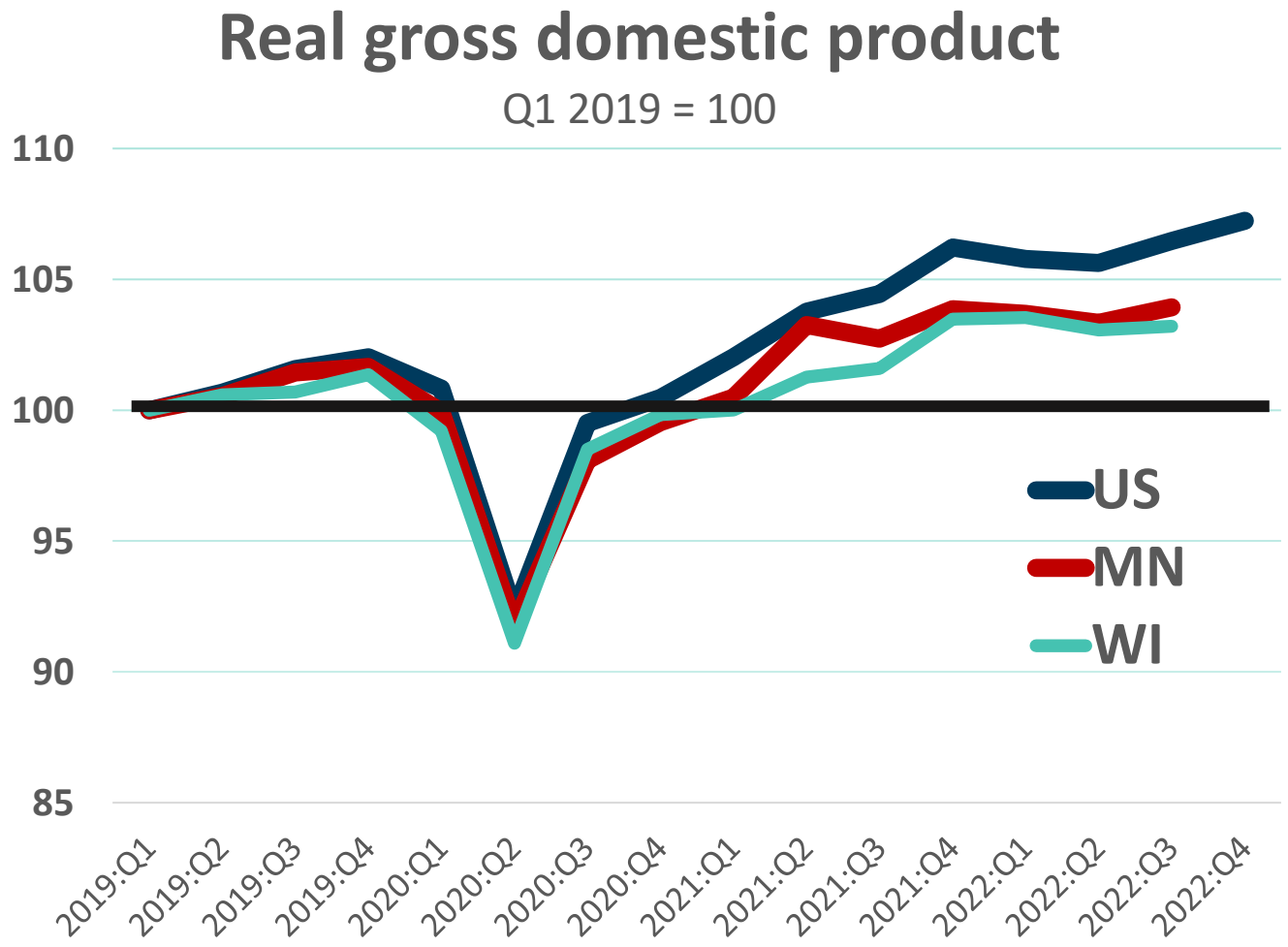
Q1 & Q2, 2022: Negative for US, MN & WI

Q3: +3.2 percent

MN Q3 = 2%

WI Q3 = 0.5%

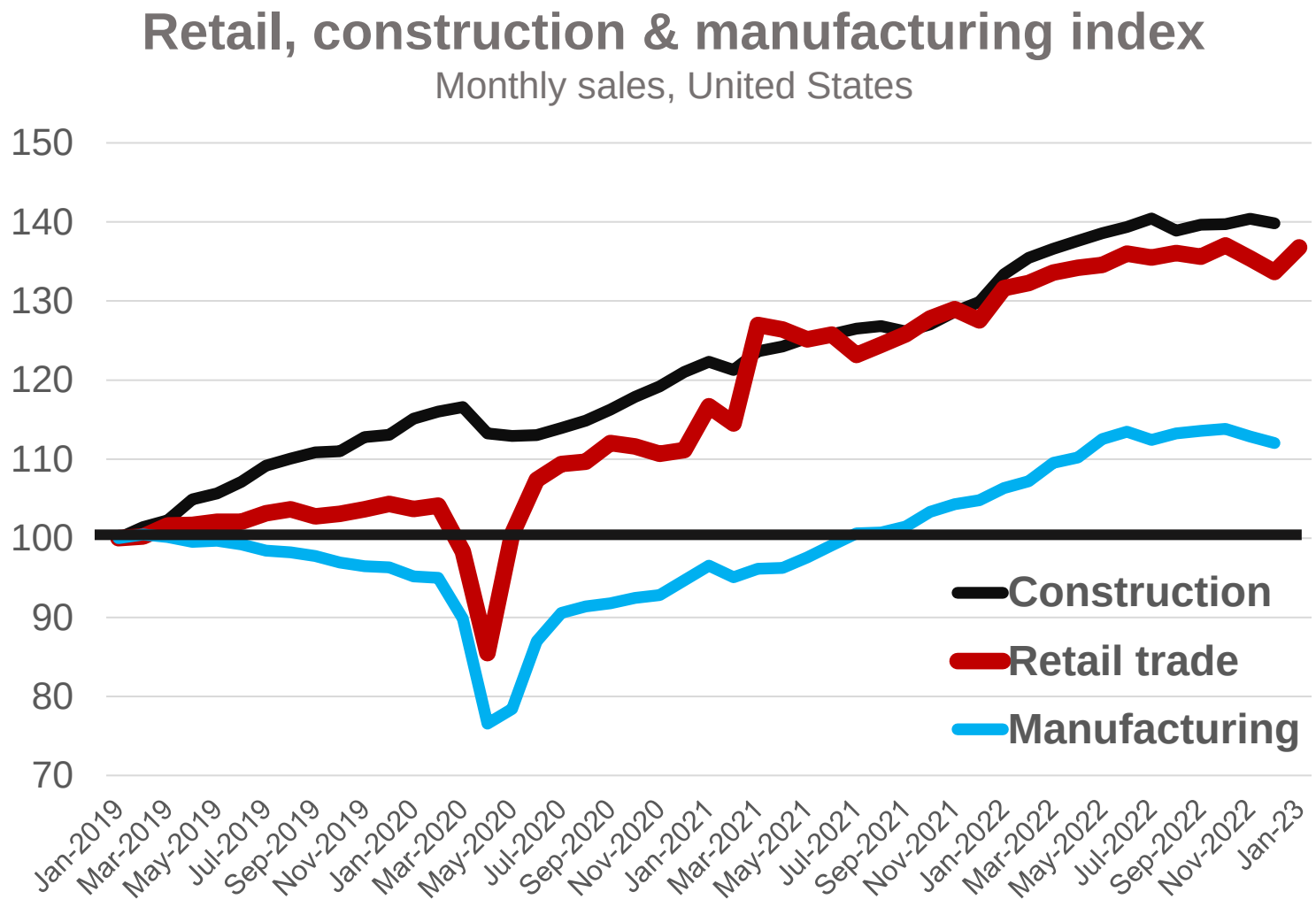
Q4: US +2.7%



Source: Bureau of Economic Analysis

SECTORAL ACTIVITY

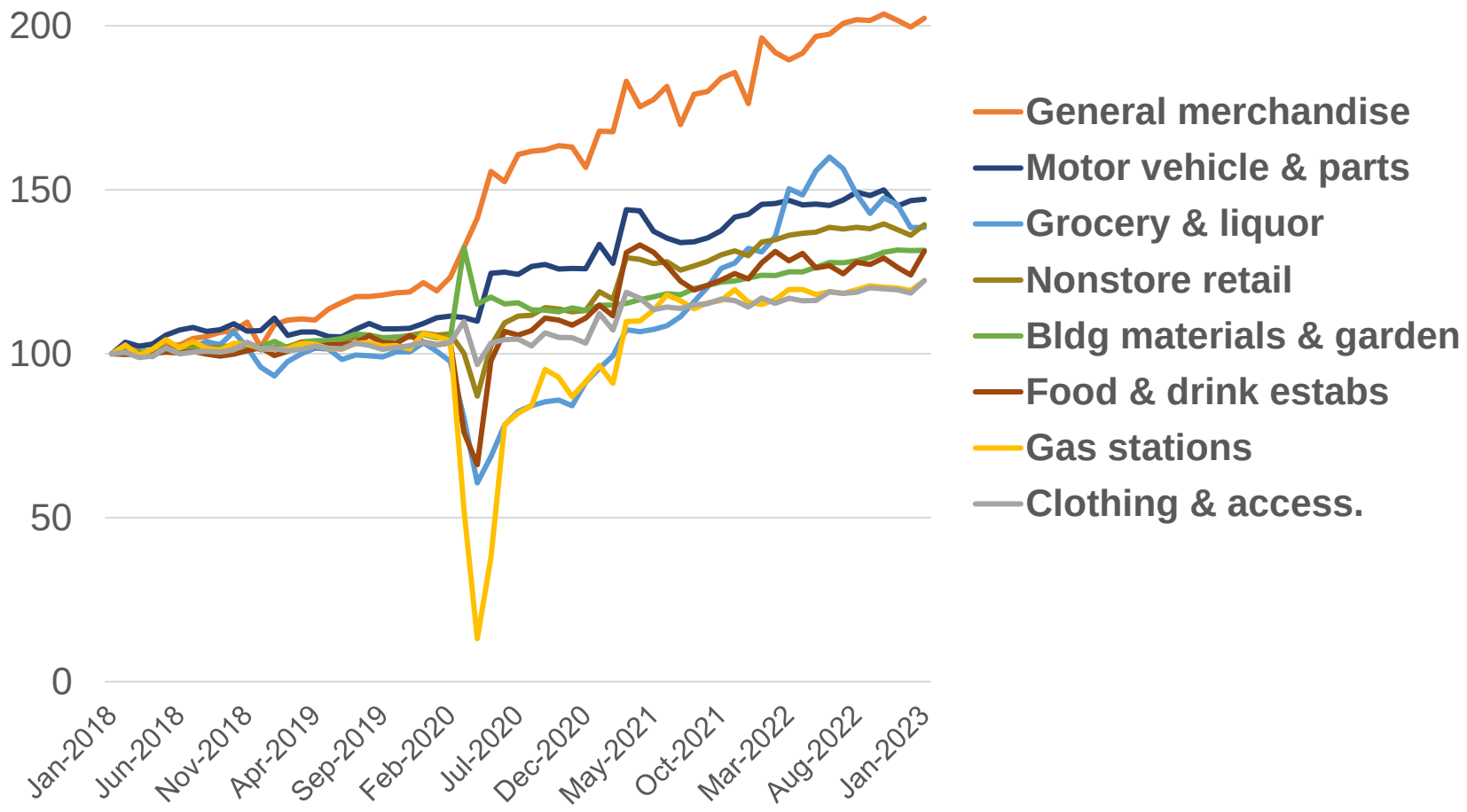
Retail activity has slowed somewhat recently, and in a relative sense, but has remained high overall



RETAIL CATEGORIES

US retail index, by category

US monthly sales
January 2019 sale = 100



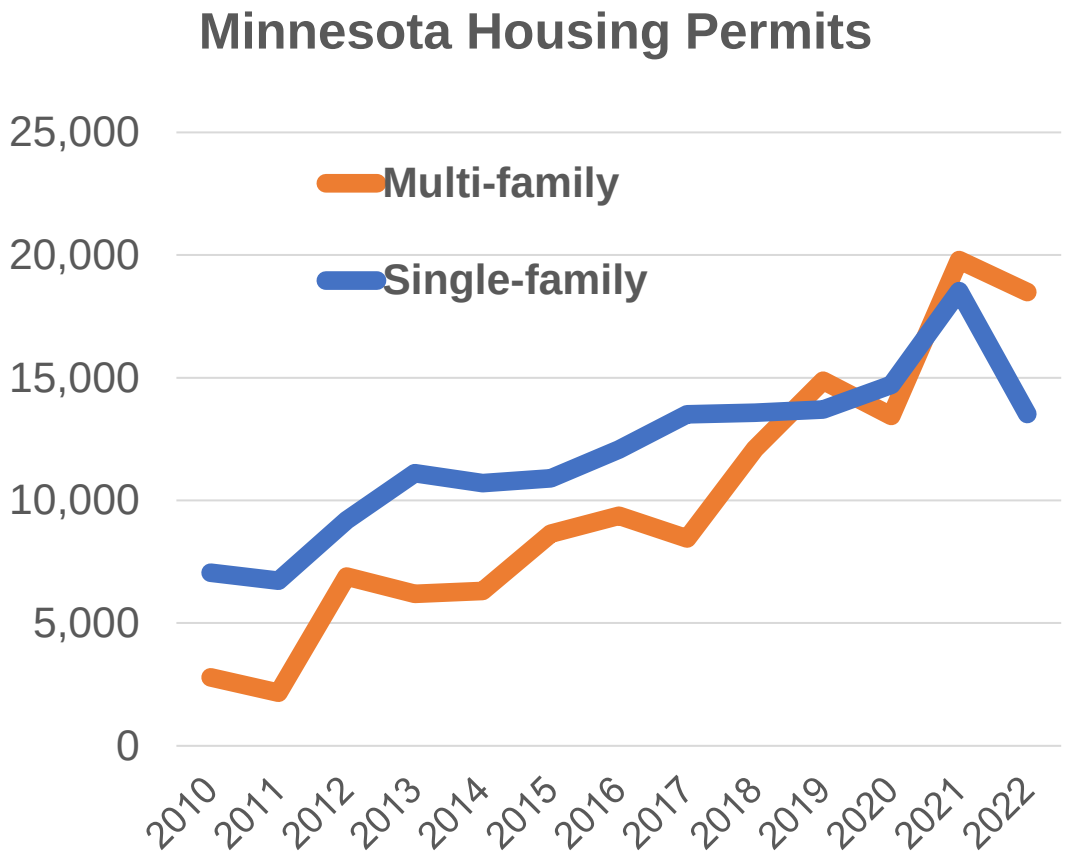
Every category in positive territory, some more than others

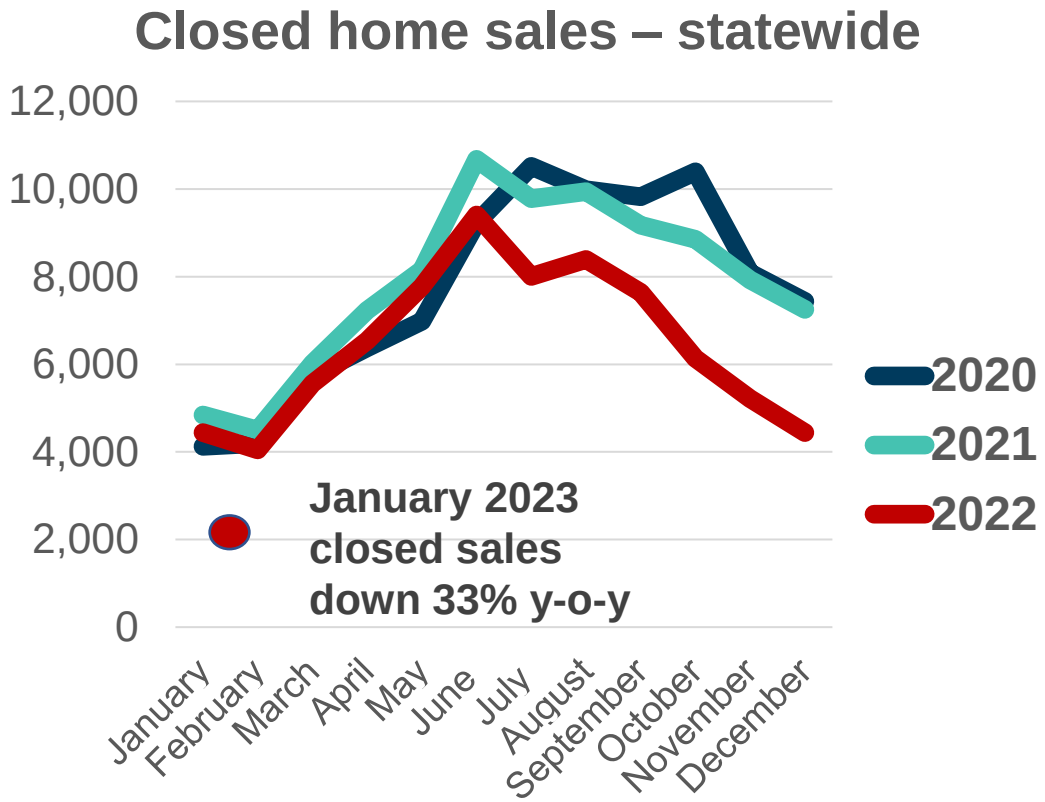
Clothing & accessories category more modest

General merch stores doing extremely well; grocery falling after explosive growth

MINNESOTA CONSTRUCTION ACTIVITY

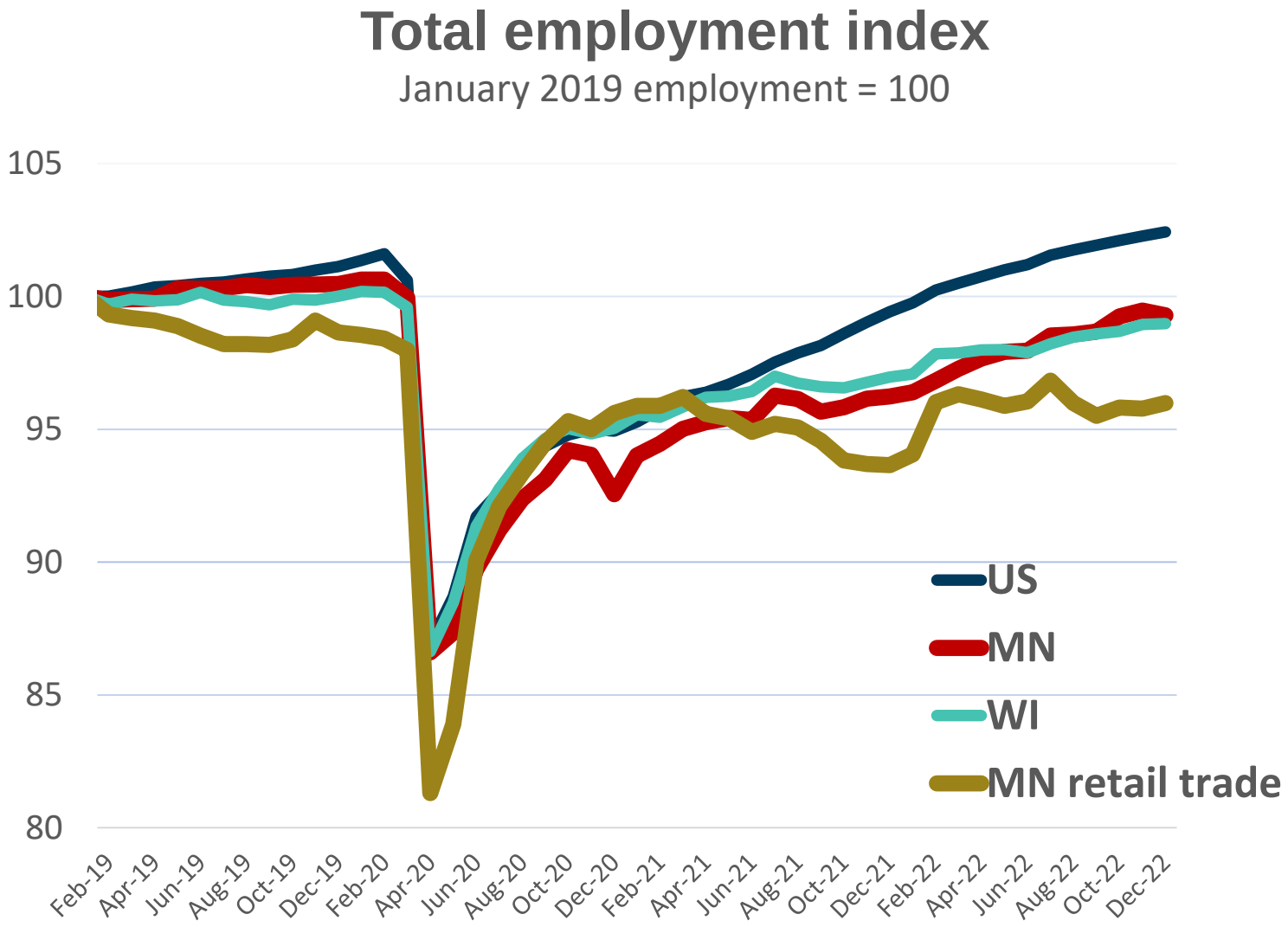
- New housing seeing pullback
- Single-family home sales stalling, and not at bottom yet





Source: Dodge Data & Analytics; Housing & Urban Development, Census Bureau

TOTAL EMPLOYMENT



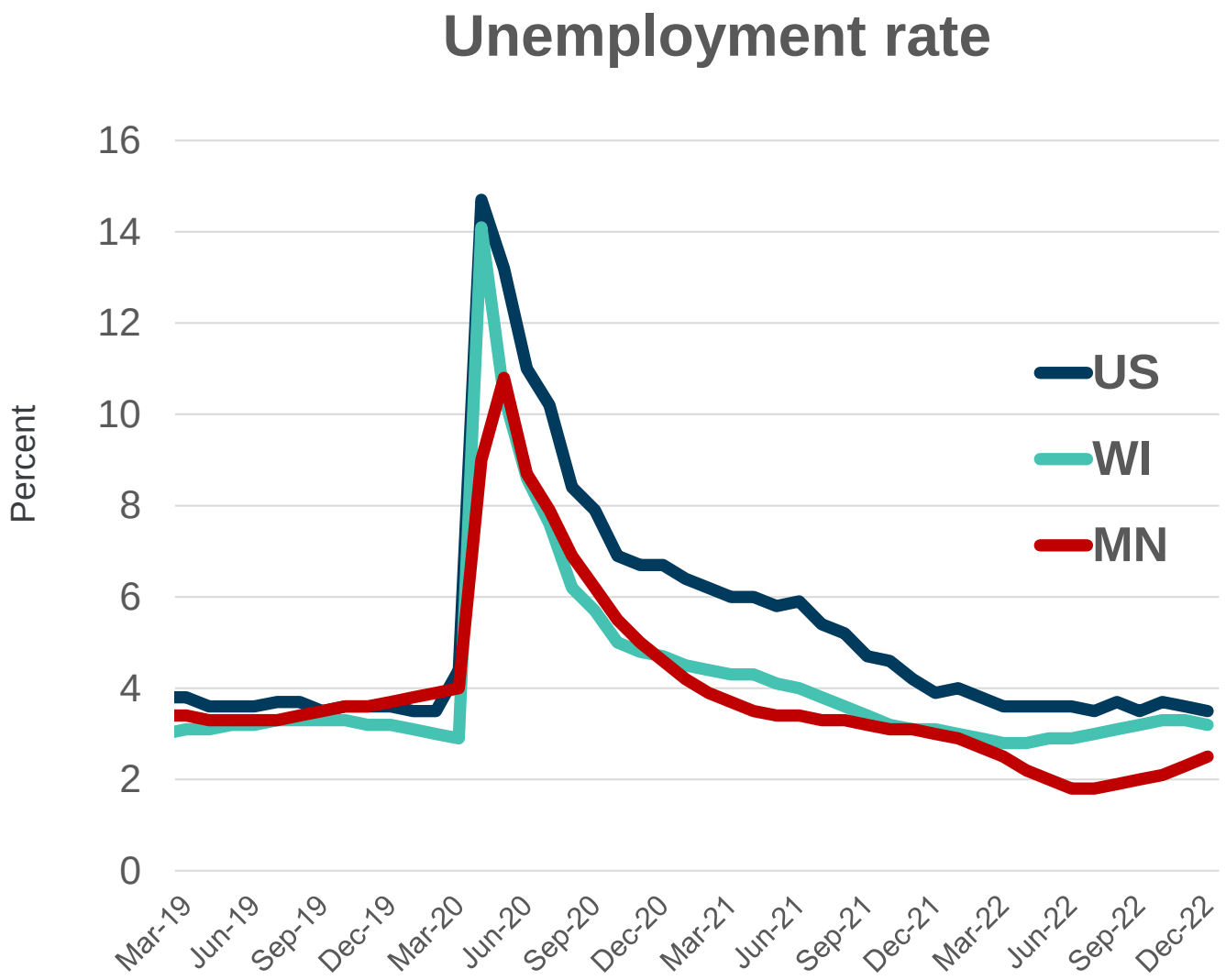
Source: Bureau of Labor Statistics

Overall job growth holding up; 500,000+ in January

MN also growing, but flatter trajectory; still below 2019 levels

Retail trade experiencing a different trend than overall economy

UNEMPLOYMENT



U-3 rate = 'official' rate well below pre-pandemic in MN

Recent hyper-low UI rate *might* be misleading; 2.5% rate more in line with UI trend

Not everyone benefitting; US Black and Native American unemployment still around 6%

Source: Bureau of Labor Statistics

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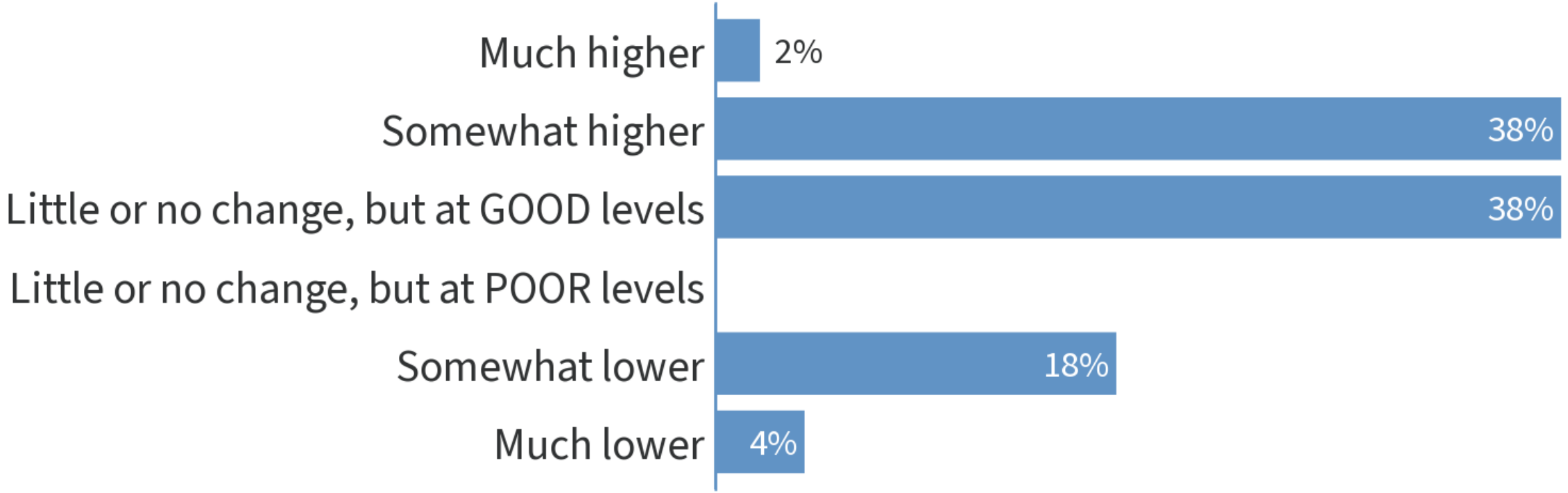
SURVEY TIME

HOW IS BUSINESS ACTIVITY AT YOUR COMPANY?

RECENT BUSINESS: How has shopping/consumer activity been so far in 2023 (January to now) compared with the same period last year?



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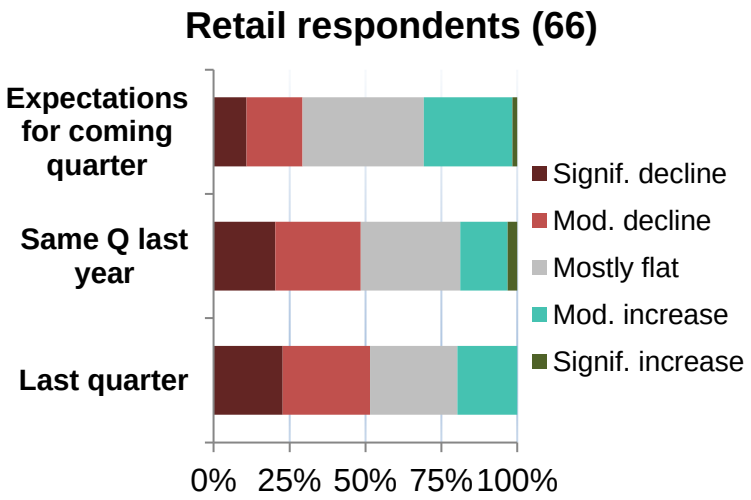
MINNEAPOLIS FED'S
GENERAL BUSINESS SURVEY

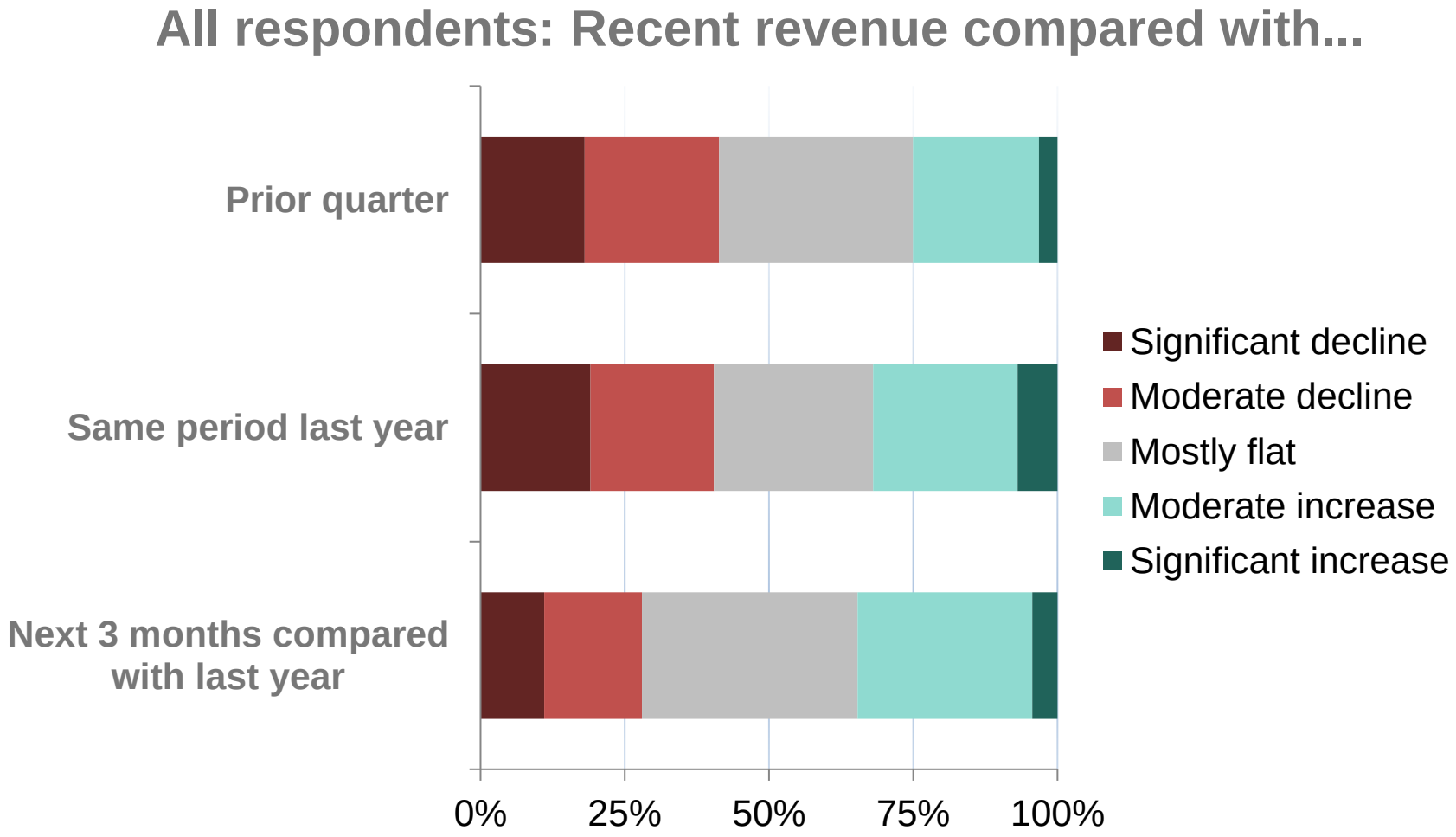
- Bi-annual survey of firms in six-state region
  - Conducted with the help of dozens of partners, who distribute to members/contacts
- Most recent survey: Closed early February
- Total responses: 535 across 6 states
- Results are a snapshot: Not a scientifically sampled survey
- *Please interpret results carefully*

RECENT AND FUTURE REVENUE

Revenues down, both quarter-over-quarter and year-over-year

Some optimism: Revenues expected to flip positive over coming 3 months





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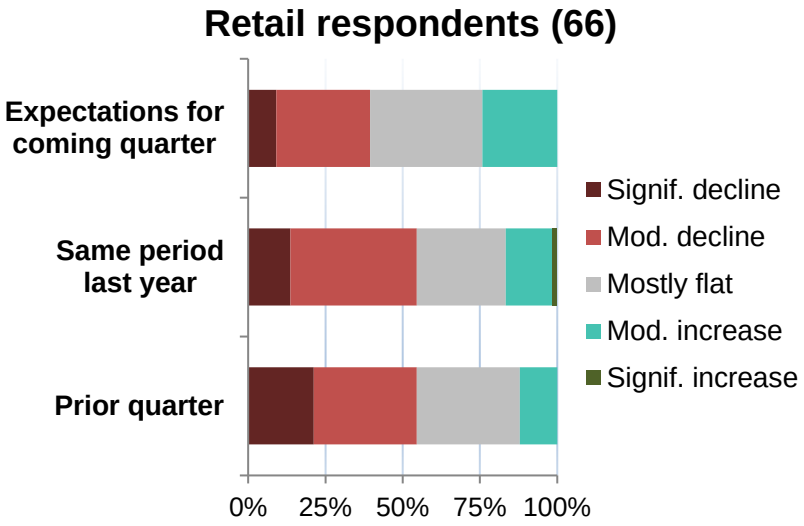
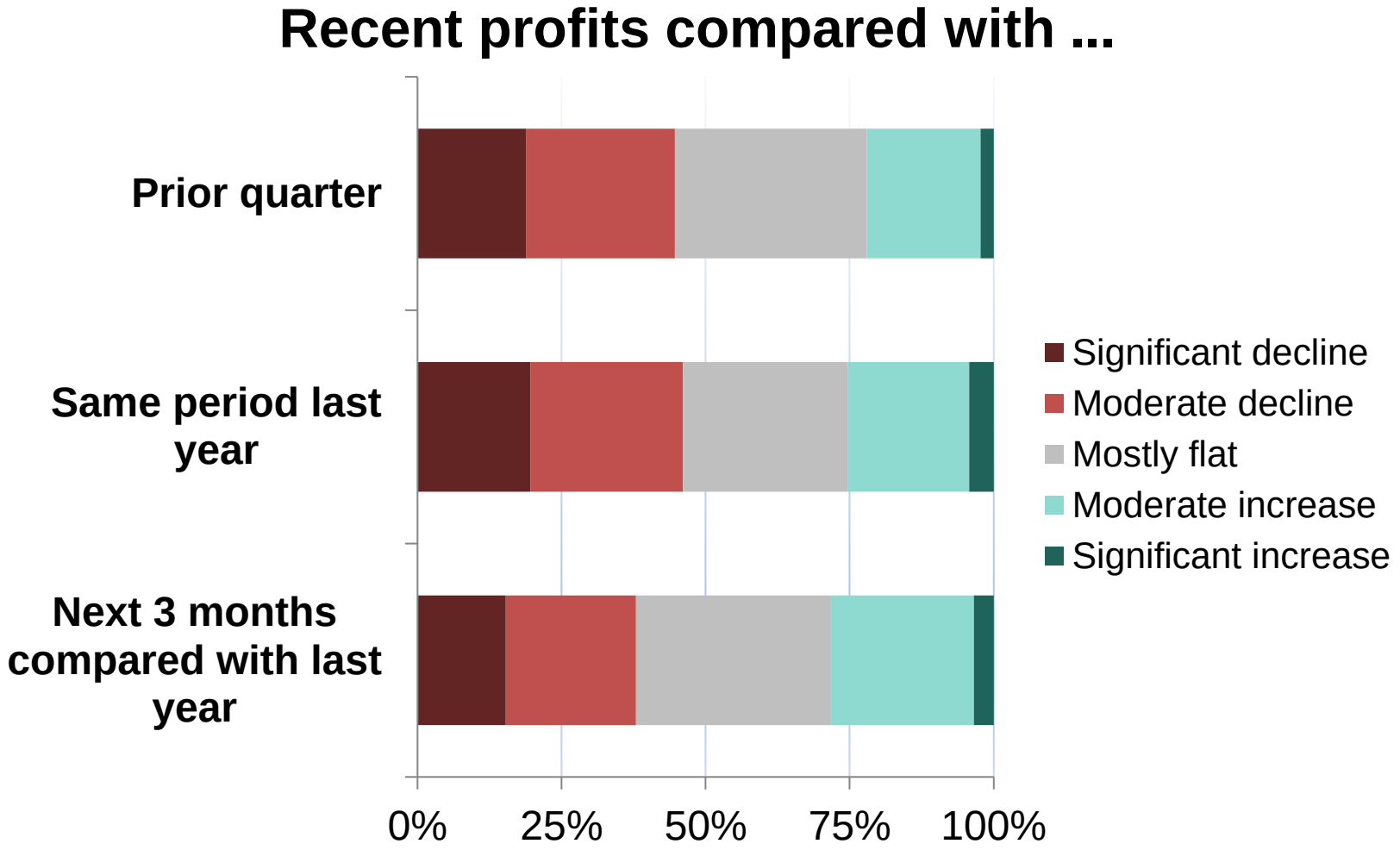
PROFITS DECLINED

Recent profits down, both q-o-q & y-o-y

Small improvement expected in coming quarter, but still net-negative





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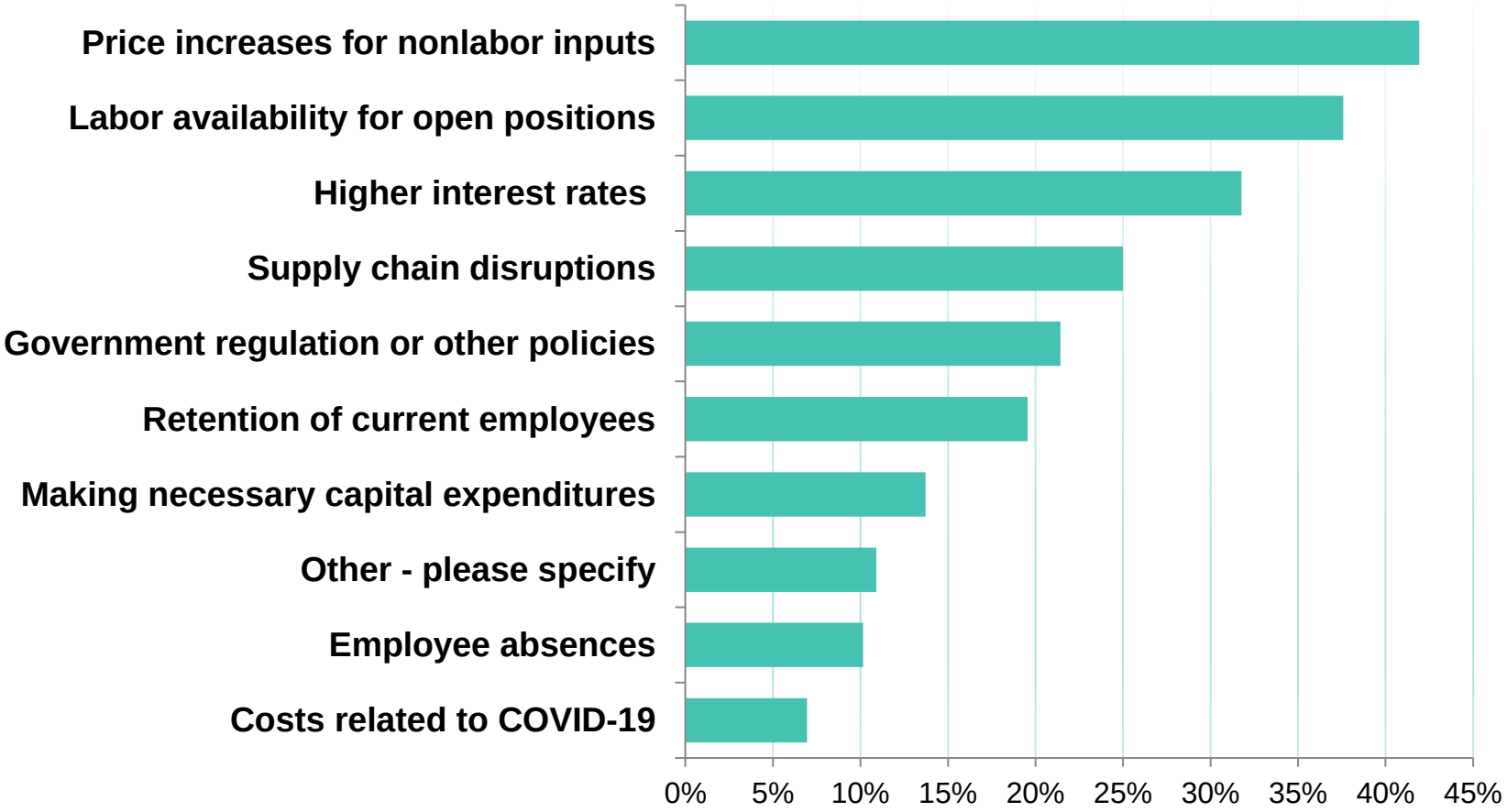
CHALLENGES

CHALLENGES TO OPERATIONS

Two greatest challenges to your business?



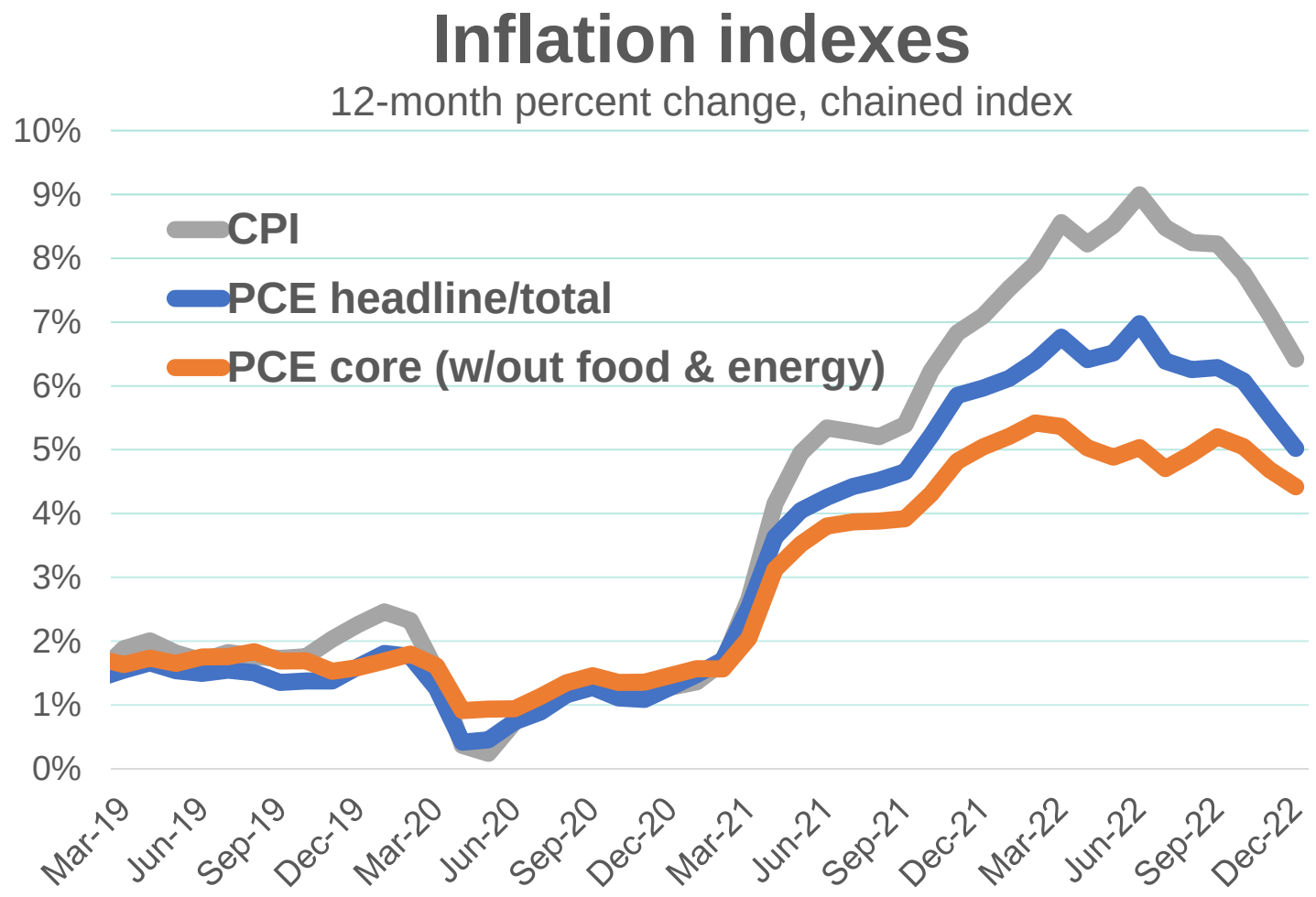
Some shifting & flattening of response

- Inflation is #1 concern
- Labor tightness persists
- Higher interest rates leaps into Top 3
- Supply chain concerns ebbed, but not necessarily because of big improvements

A DEEPER LOOK:

FIRST, INFLATION

INFLATION – TWO MEASURES



Consumer Price Index (CPI)

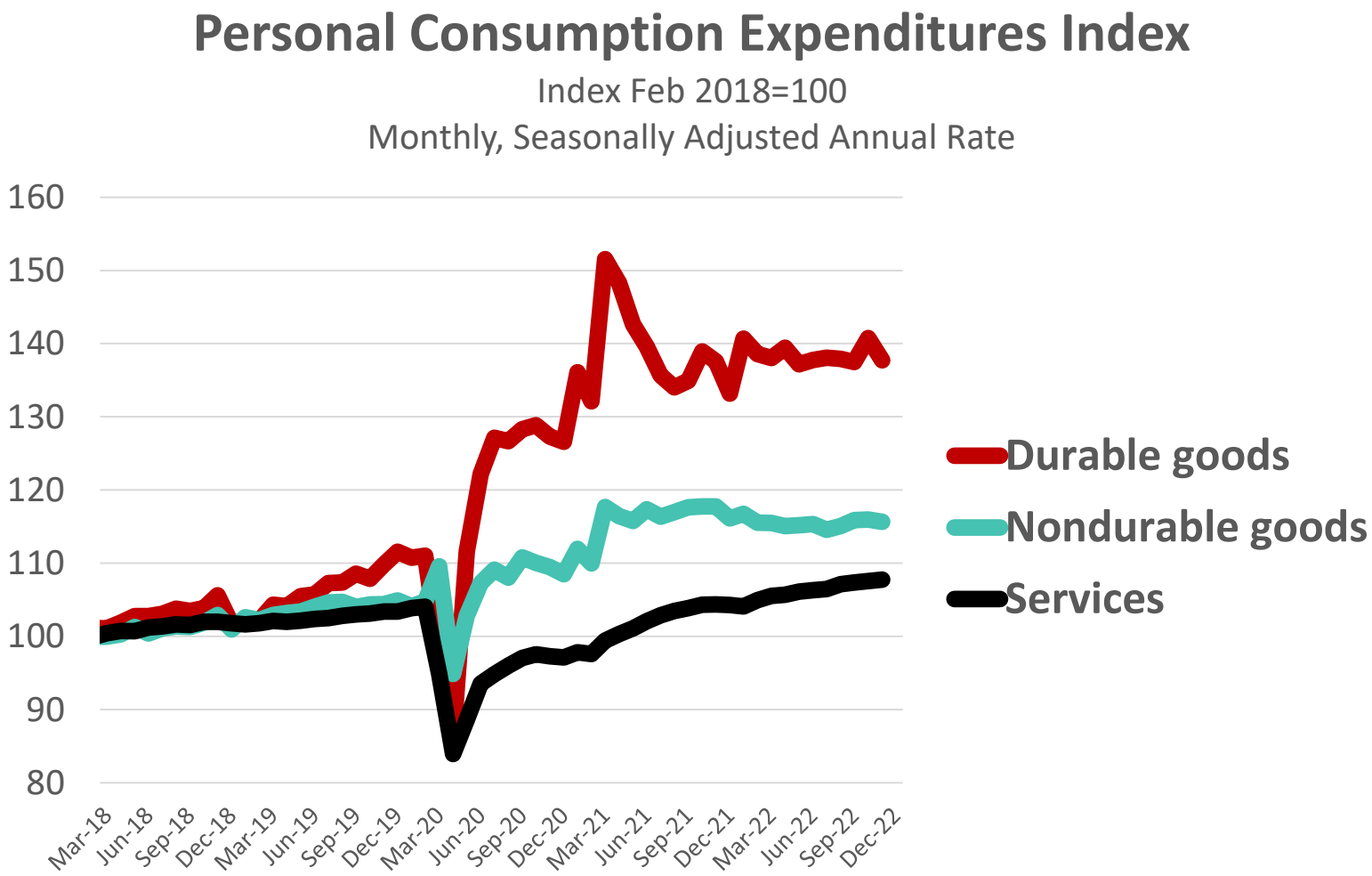
vs.

Personal Consumption Expenditure (PCE)

Is it important? Why?

Source: Bureau of Economic Analysis

INFLATION: NOT ALL GOODS & SERVICES CREATED EQUAL



Source: Bureau of Economic Analysis

Pandemic → shift to goods (esp. durables)

= Shortages

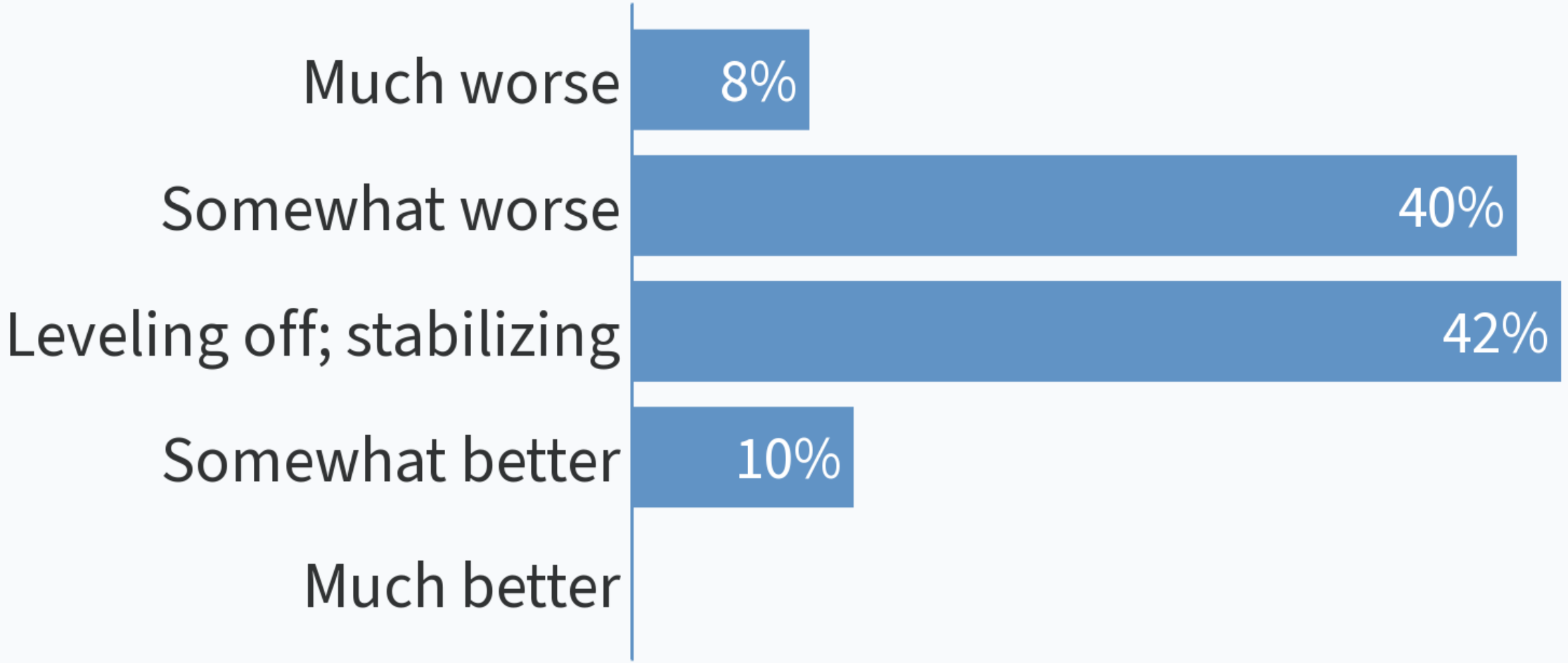
→ Compounded by supply chain problems (covid's impact on labor)

Slow rebalancing of demand back to services

Inflation for services:
Moderate, but growing

Inflation for goods:
High but stabilizing

WHOLESALE INFLATION: Over the last couple of months, what's the general direction of pricing from vendors?



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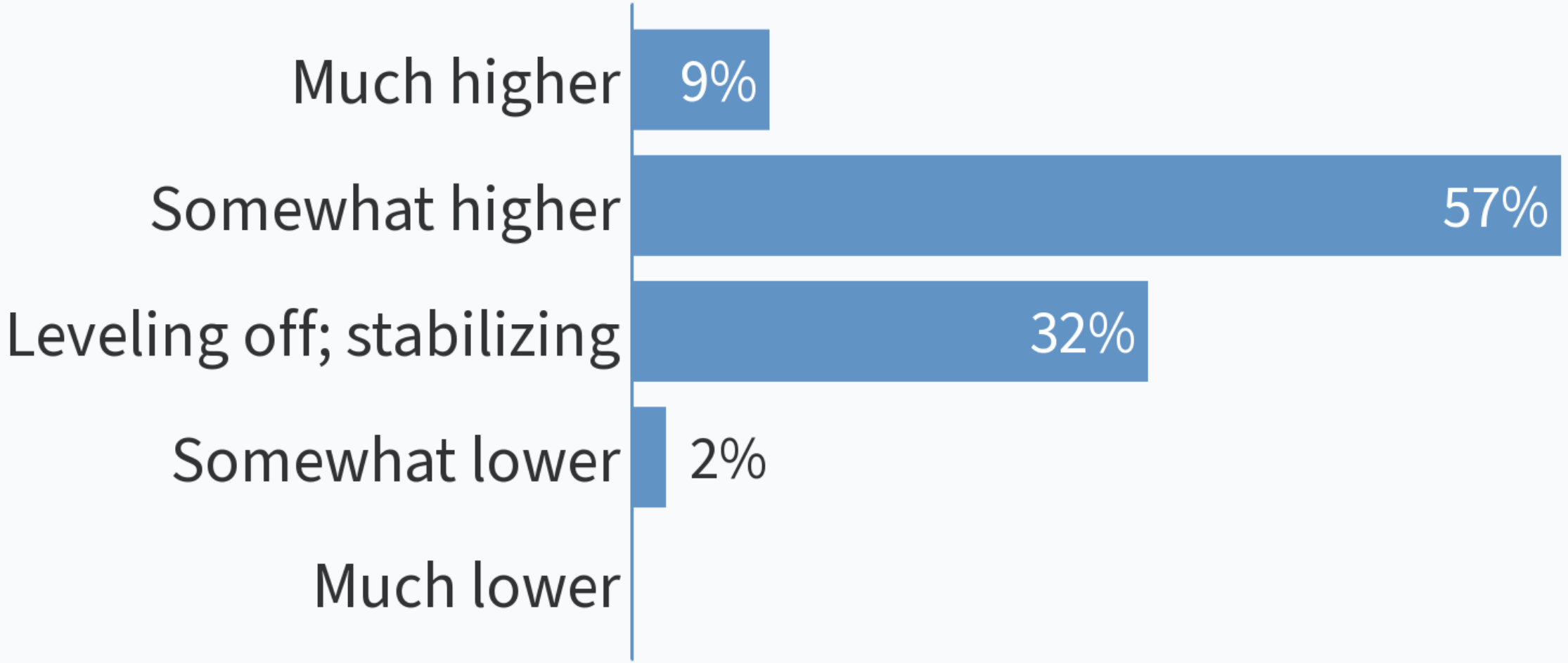
RETAIL INFLATION: Over the last couple of months, what's the general direction of store pricing to retail customers?



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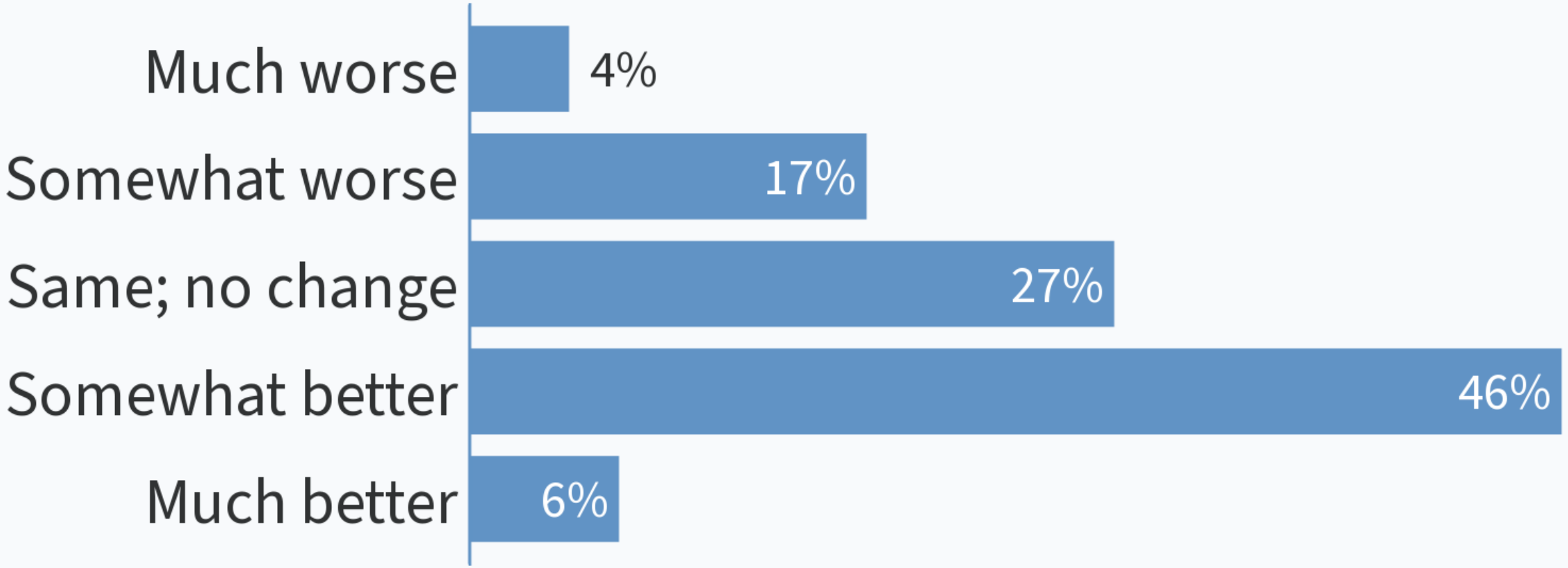
SUPPLY CHAINS: Over the last month or two, what's the general direction of supply chains and your ability to get critical supplies?



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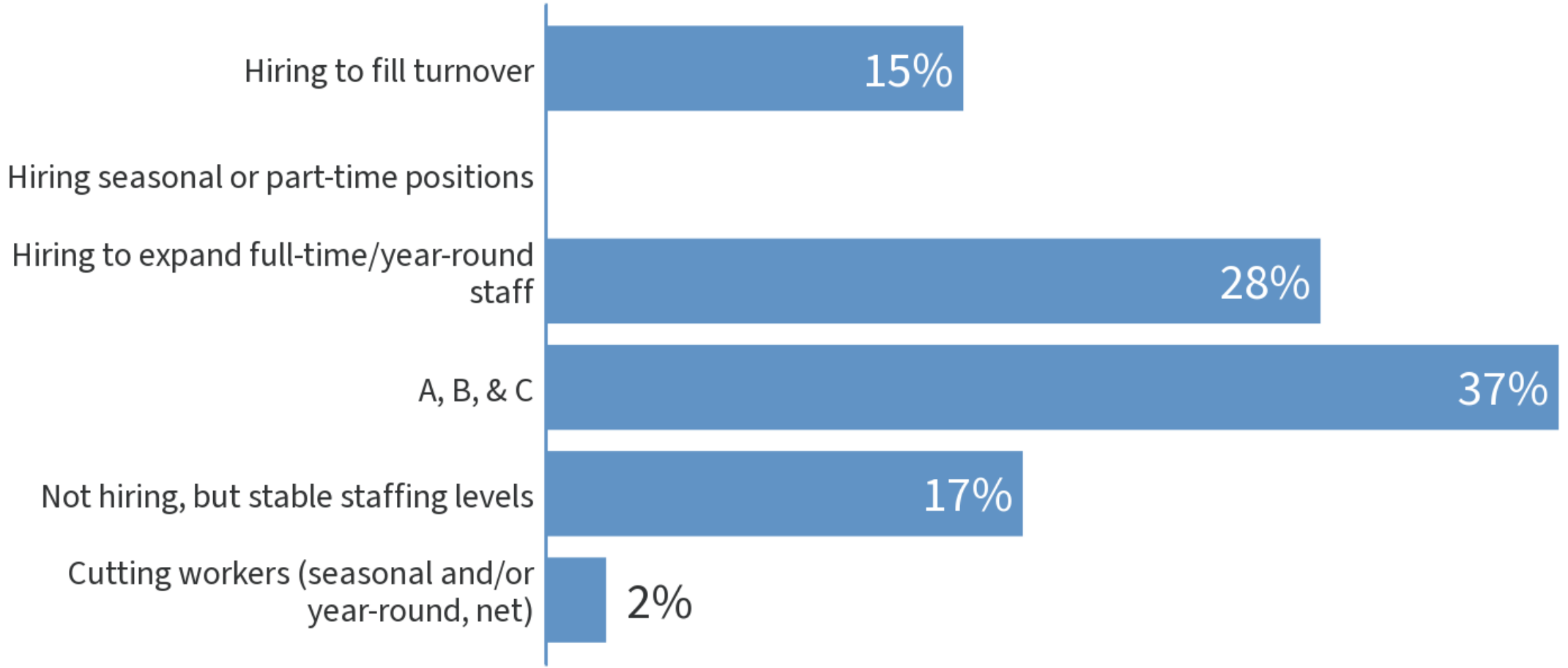
LABOR MARKETS & HIRING DEMAND

LABOR: What best describes hiring/labor demand at your company, or among your tenants?



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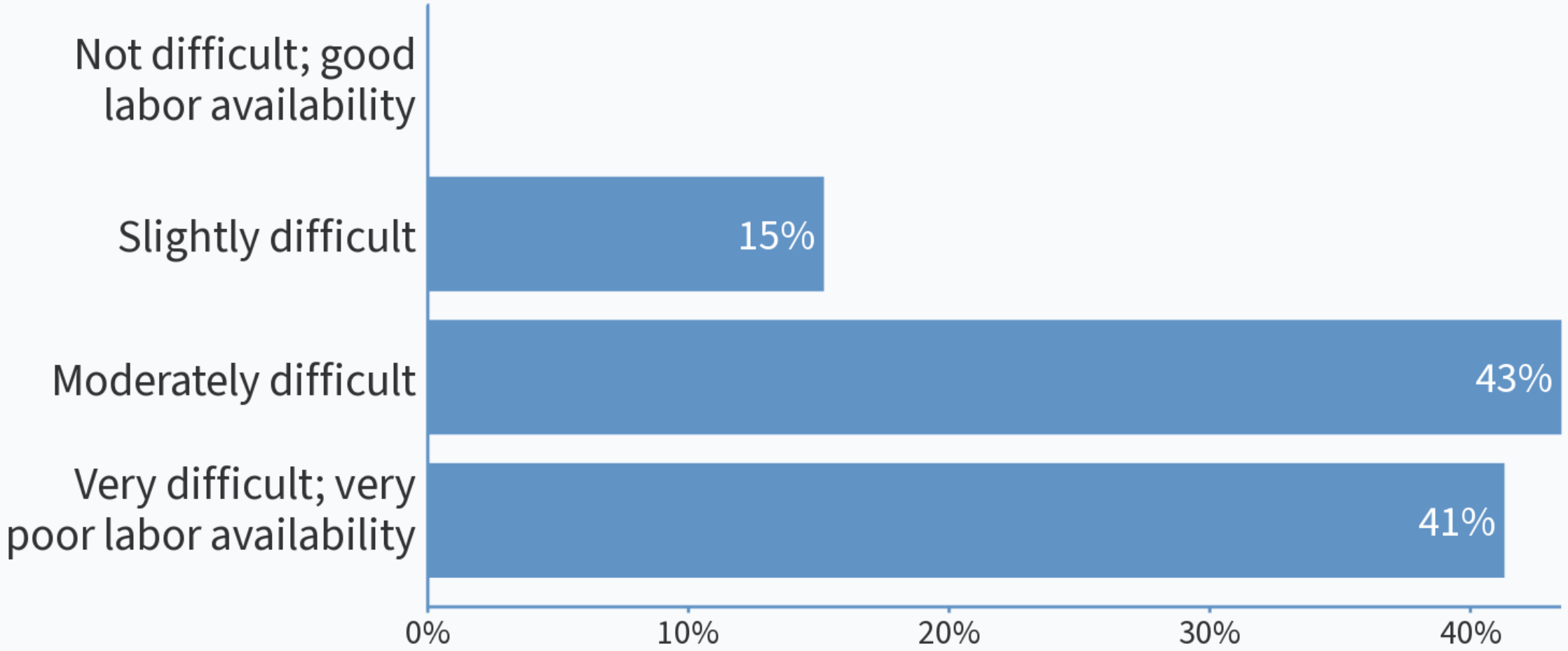
LABOR AVAILABILITY: If hiring, how would you describe ability to find and hire necessary labor?



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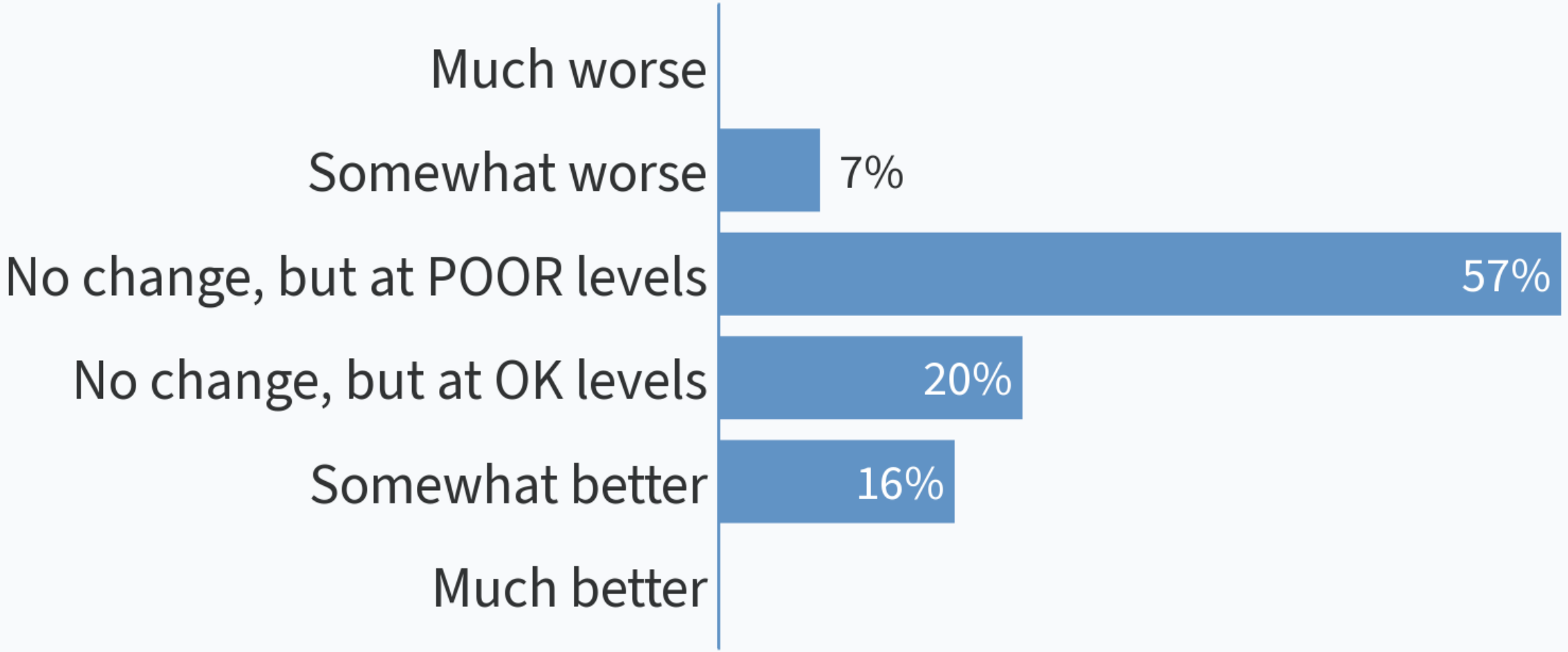
How would you describe current labor availability compared with 6 months ago?



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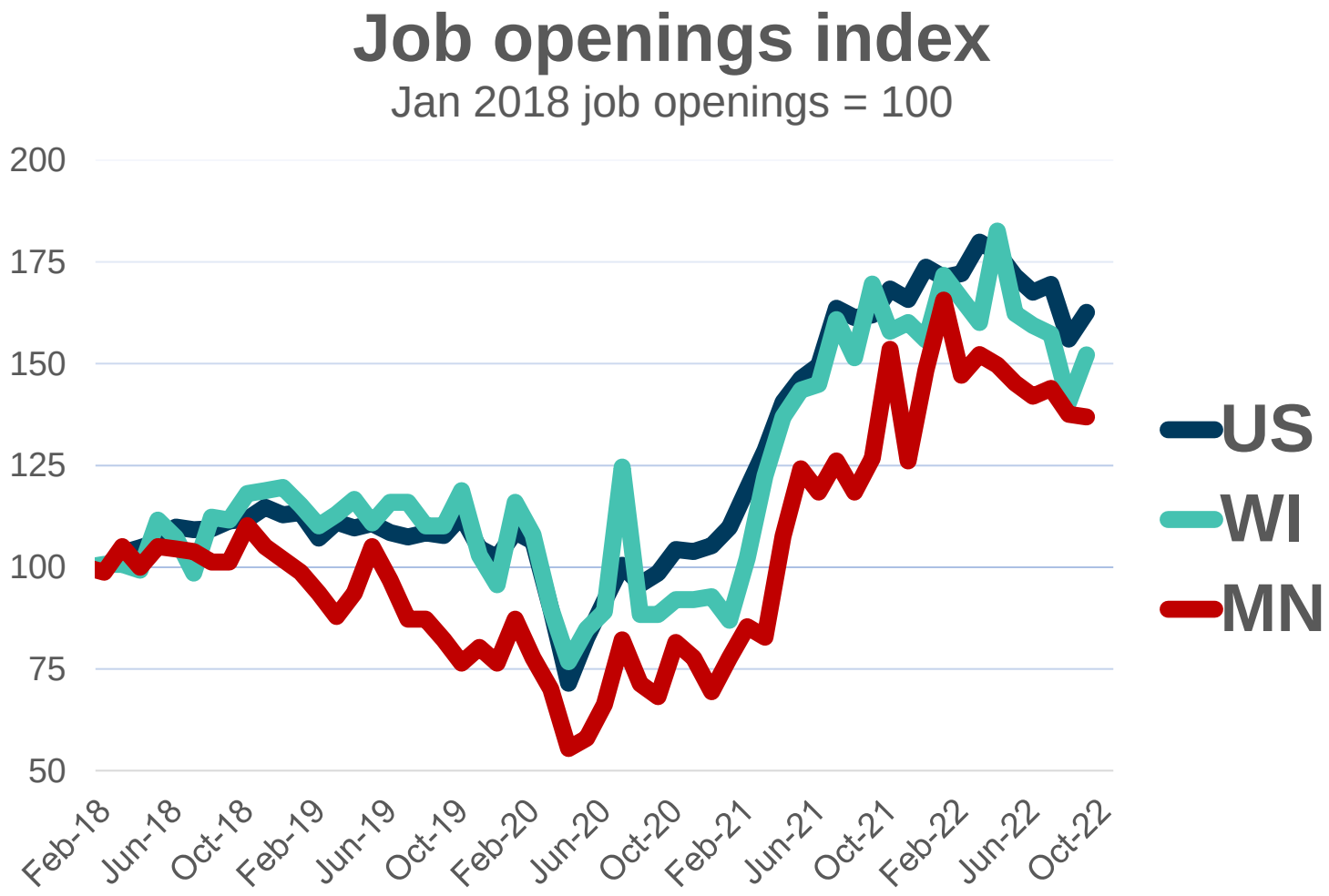
HIRING DEMAND: STILL STRONG

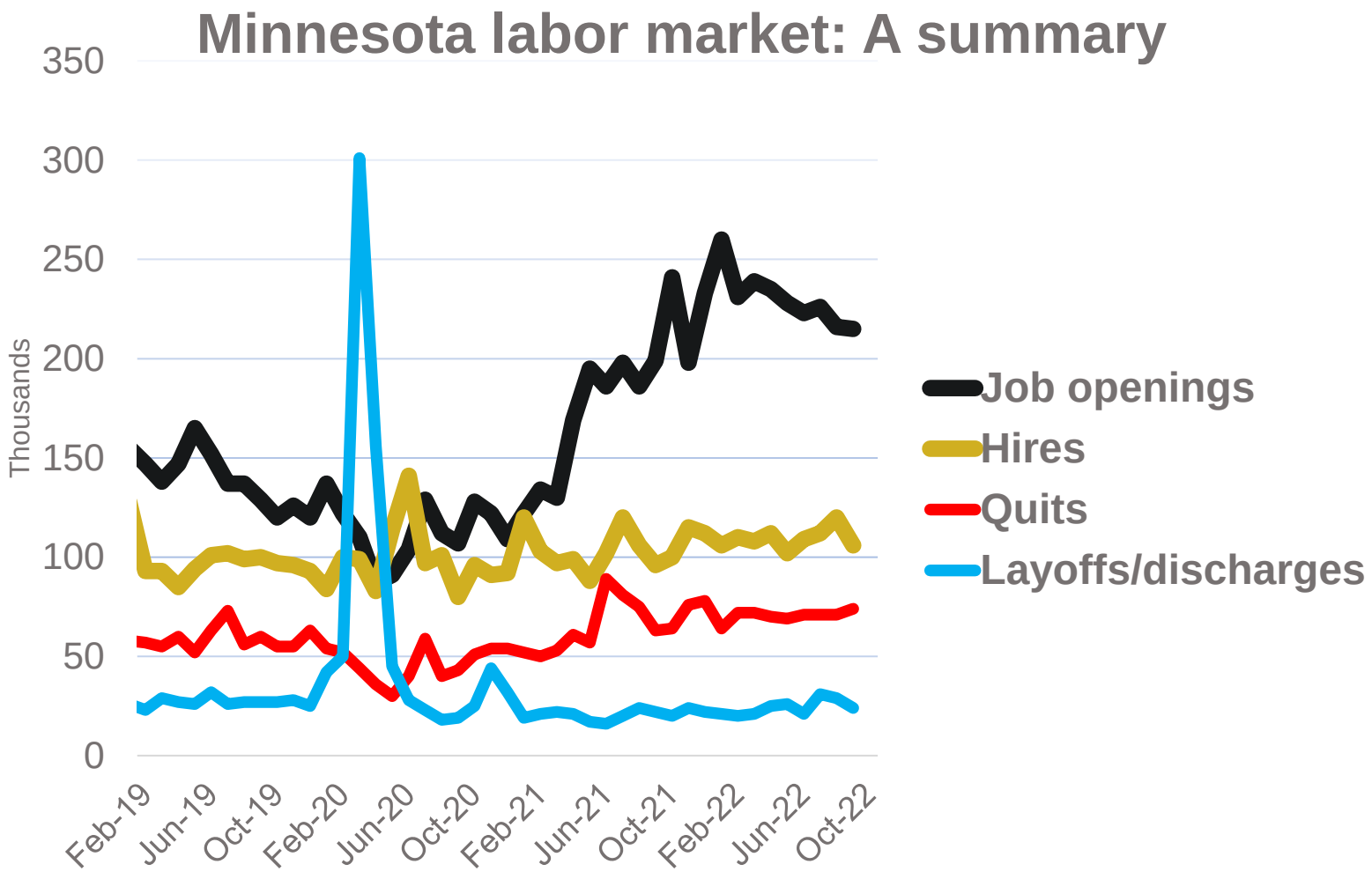


Source: Bureau of Labor Statistics

Job openings have recovered strongly

Recently giving back some gains (esp. MN), *but still comfortably above pre-pandemic levels*

JOB OPENINGS AND LABOR TURNOVER SURVEY



Hiring *demand* softening, but still strong

Actual hires much flatter

Voluntary quits high, stabilizing

Layoffs low & generally stable

= High job vacancies

= Missed economic growth

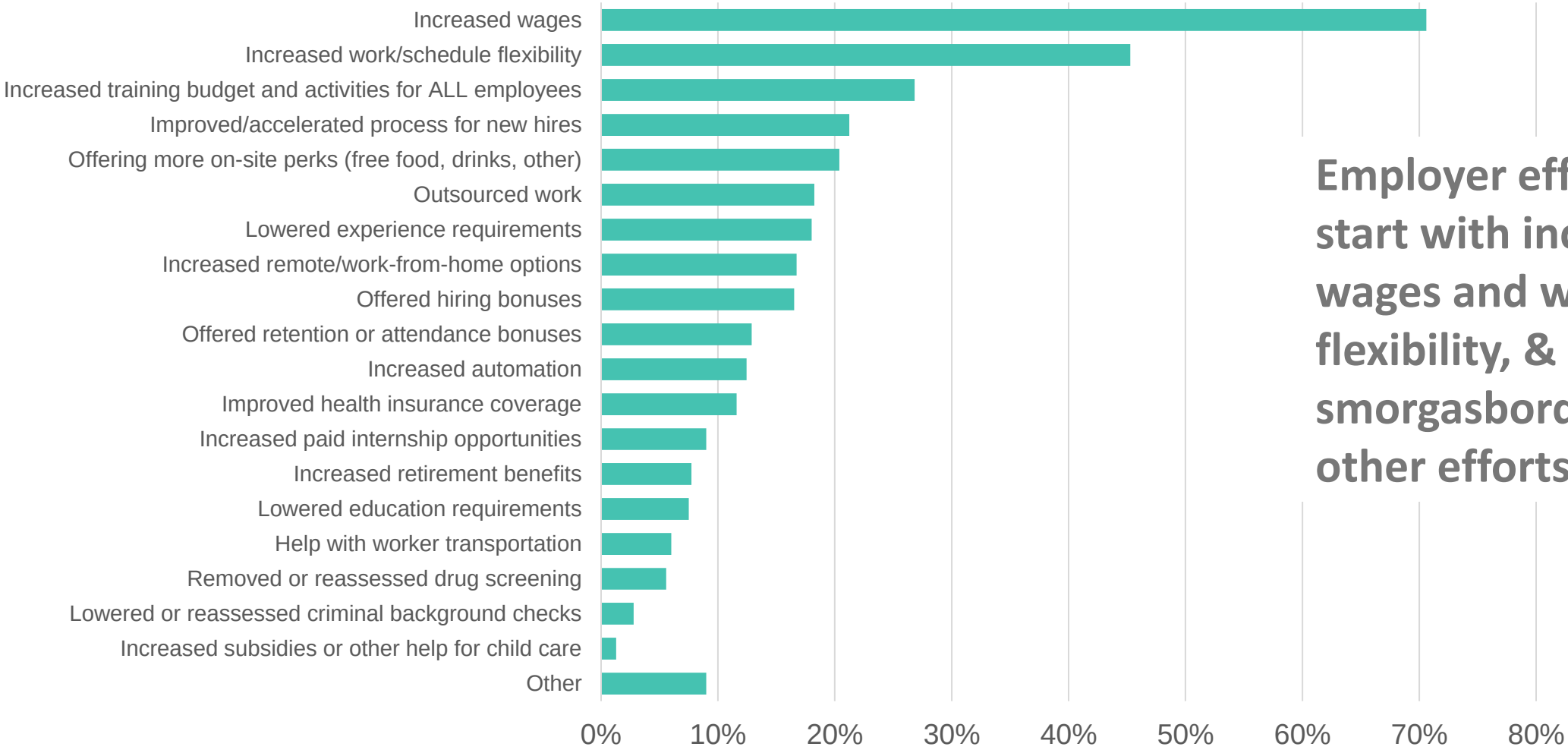
Source: Bureau of Labor Statistics

EMPLOYER RESPONSES TO TIGHT LABOR

EMPLOYER RESPONSES TO LABOR NEEDS

Employer labor efforts – General Business Survey

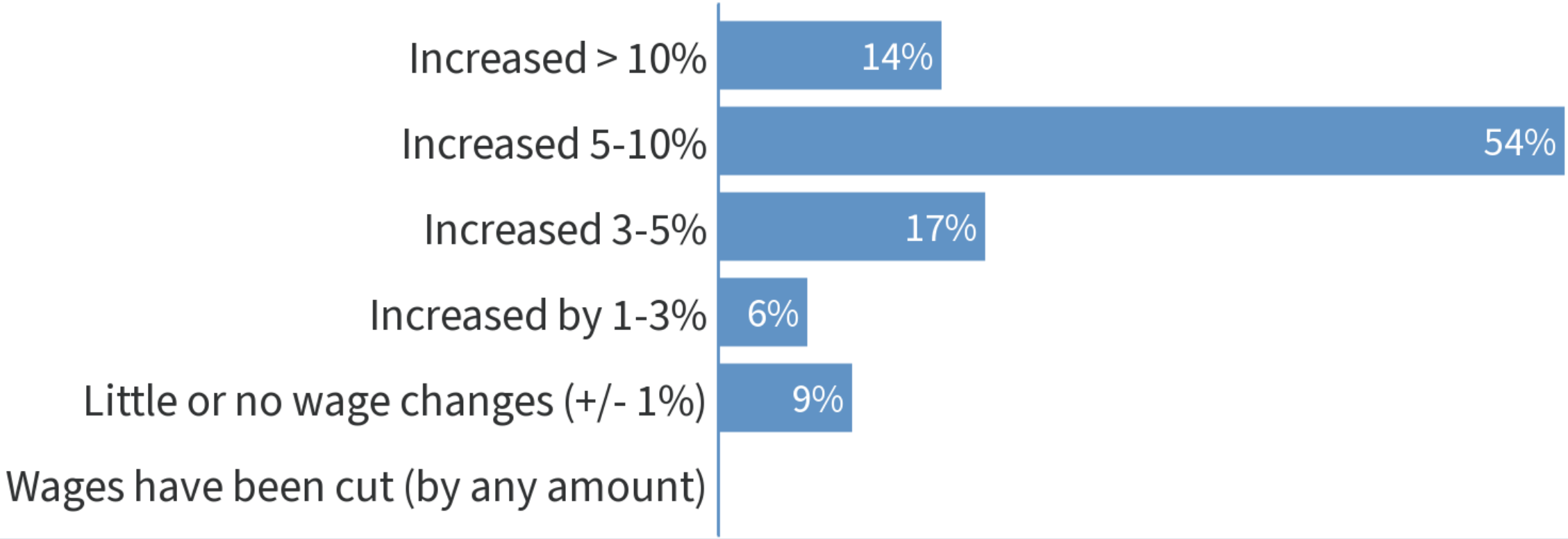
What has your company done in the last six months to address labor needs? (Check all that apply)



Employer efforts start with increased wages and work flexibility, & then a smorgasbord of other efforts

Source: Minneapolis Fed, General Business Survey, January 2023 (preliminary)

RECENT WAGES: What's happened to average wages at your company, or among tenants, over the past 12 months?



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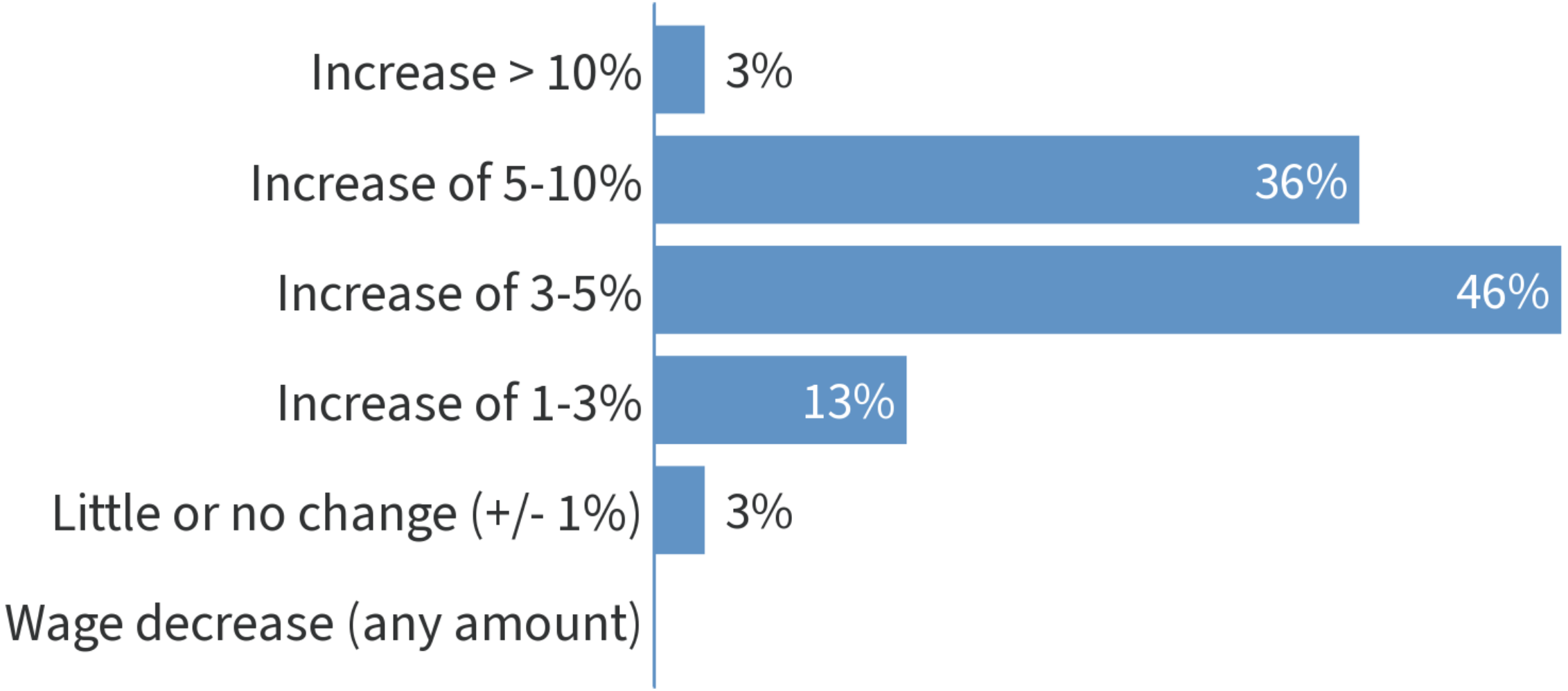
FUTURE WAGES: What changes do you expect to average wages over the coming 12 months?



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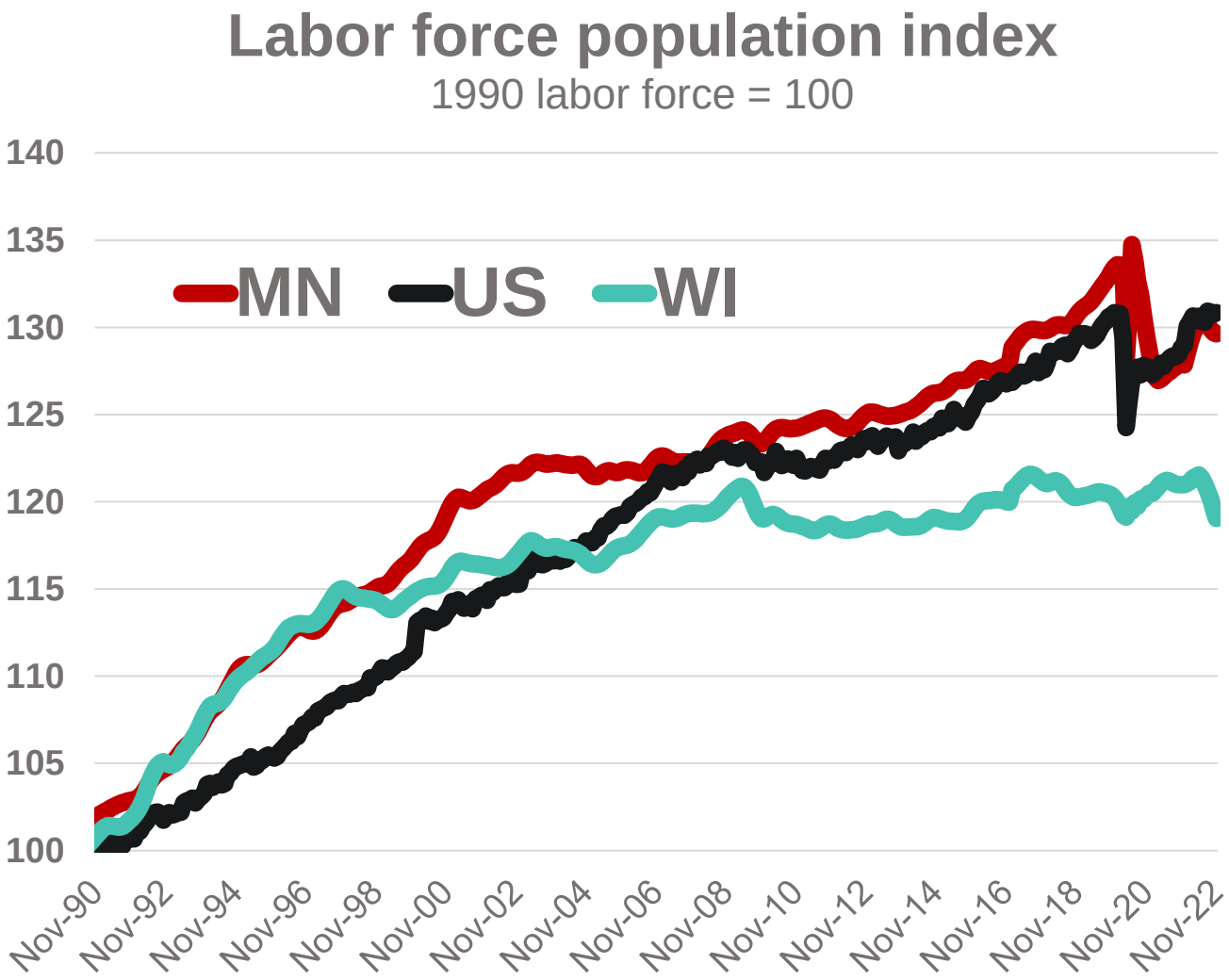
BUT WHY IS THE LABOR MARKET SO TIGHT?

FIRST, A FEW LABOR SUPPLY FUNDAMENTALS

LABOR FORCE GROWTH SLOWING



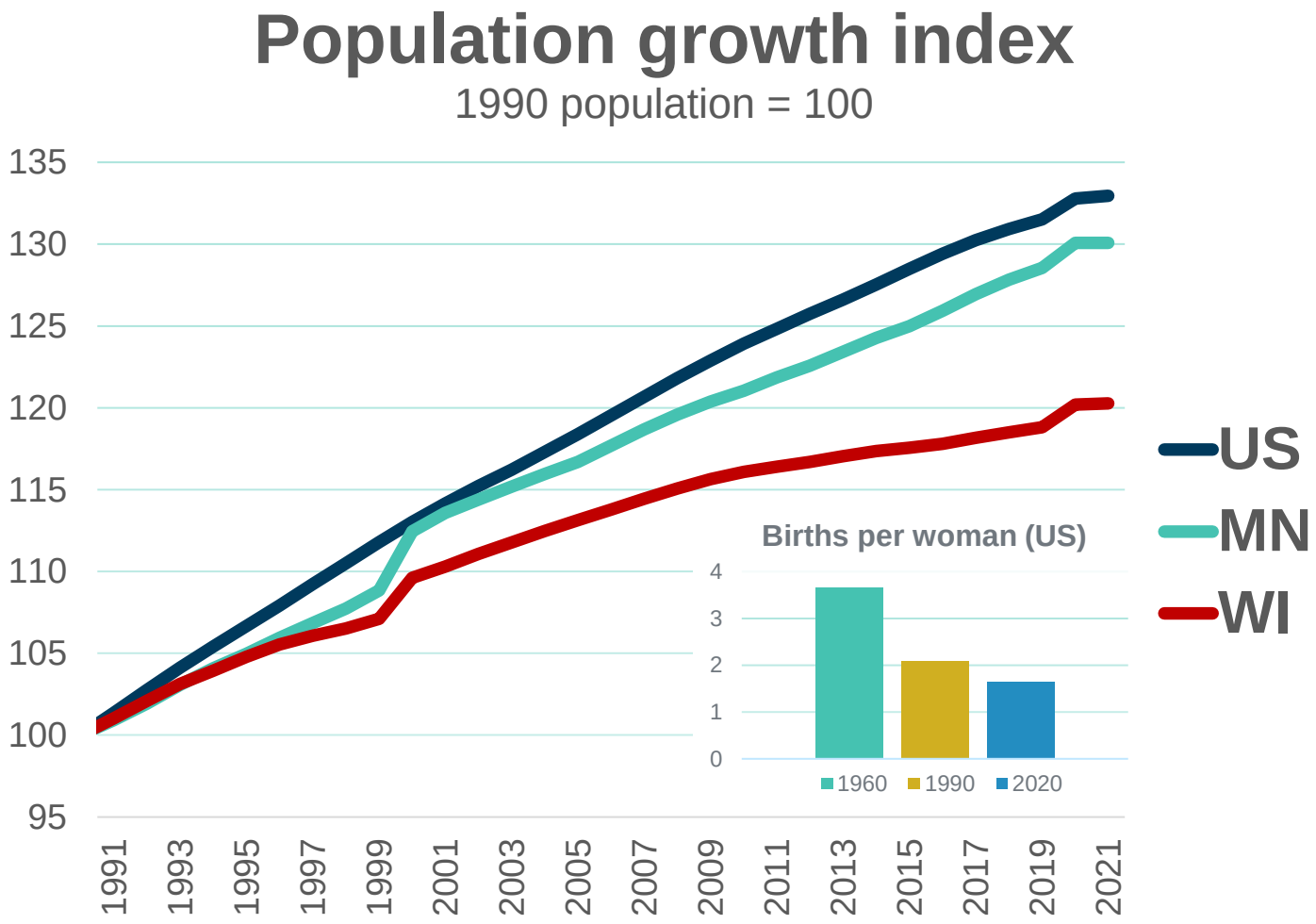
• Source: Bureau of Labor Statistics

Labor force: Those employed or unemployed and looking (counted only once regardless of jobs held)

Labor force growth slowed dramatically since 2000

- Slowing population growth
- Lower labor force participation

POPULATION GROWTH



Slow population growth

- Declining fertility
- Lower immigration & net out-migration

Minnesota – aver. **30-40k** in annual population growth

2021: 225

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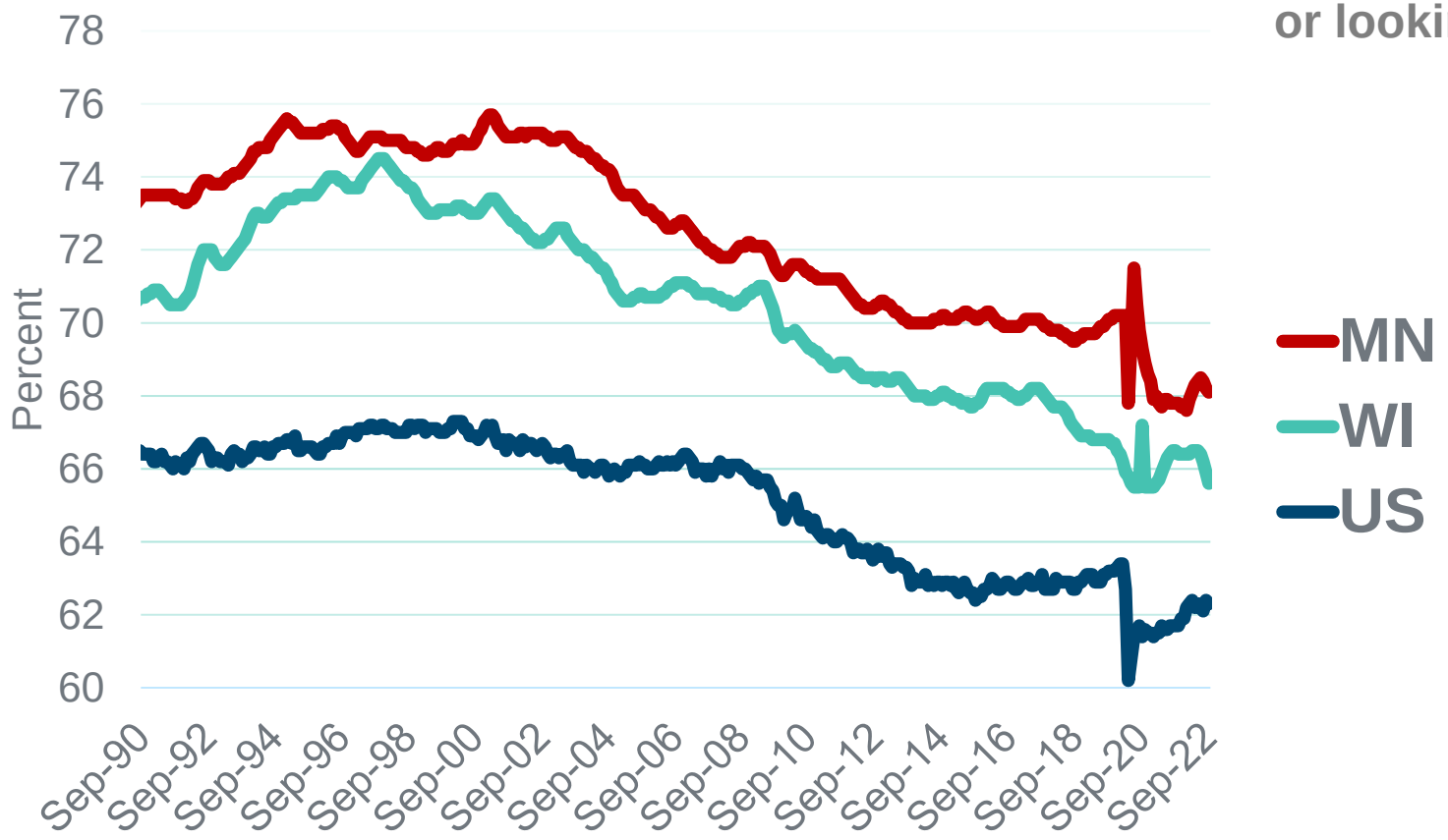
LABOR FORCE PARTICIPATION

LFP rates in decline since late 1990s

Finally started to pivot higher … and then pandemic hit

Minnesota not rebounding as quickly as US rate



LFP definition = Share of those over 16, working, or looking for work

Source: Bureau of Labor Statistics

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BUT WHY IS LABOR FORCE PARTICIPATION DOWN?

FIRST, YOU TELL ME

WORD CLOUD: In 1-3 words, why do you think workers are not returning? (For more than 1 word, use hyphens -- "I-don't-know"; multiple responses allowed)

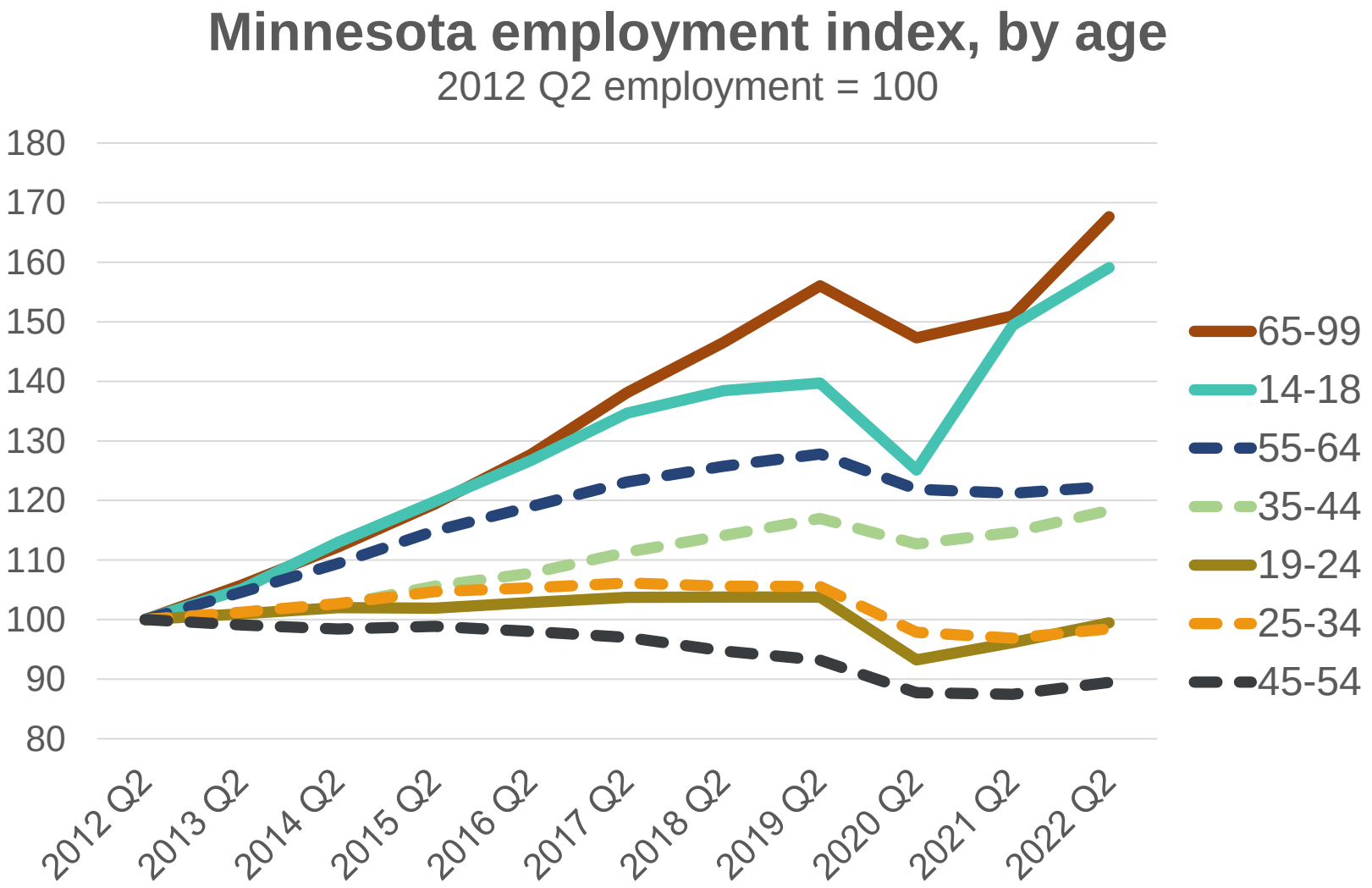
Start the presentation to see live content. For screen share software, share the entire screen. Get help at **pollev.com/app**

SO WHY IS LABOR FORCE PARTICIPATION NOT RECOVERING?

Myriad reasons

- Retirements – Baby Boomers
- Pandemic re-evaluation of work
  - More are leaving labor force at all ages, and for different reasons
- Entrepreneurship & gig work (maybe)
- Lots of obstacles in job matching
  - Personal (e.g. low skills)
  - Employers (e.g. low pay)
  - Environment where job matching takes place (e.g., availability/affordability of child care)

EMPLOYMENT FALLING ACROSS AGE GROUPS



The ONLY group that has seen LFP increase over 2019 is *teenagers* (!)

Some big age groups (45-54) seeing negative trend well before pandemic

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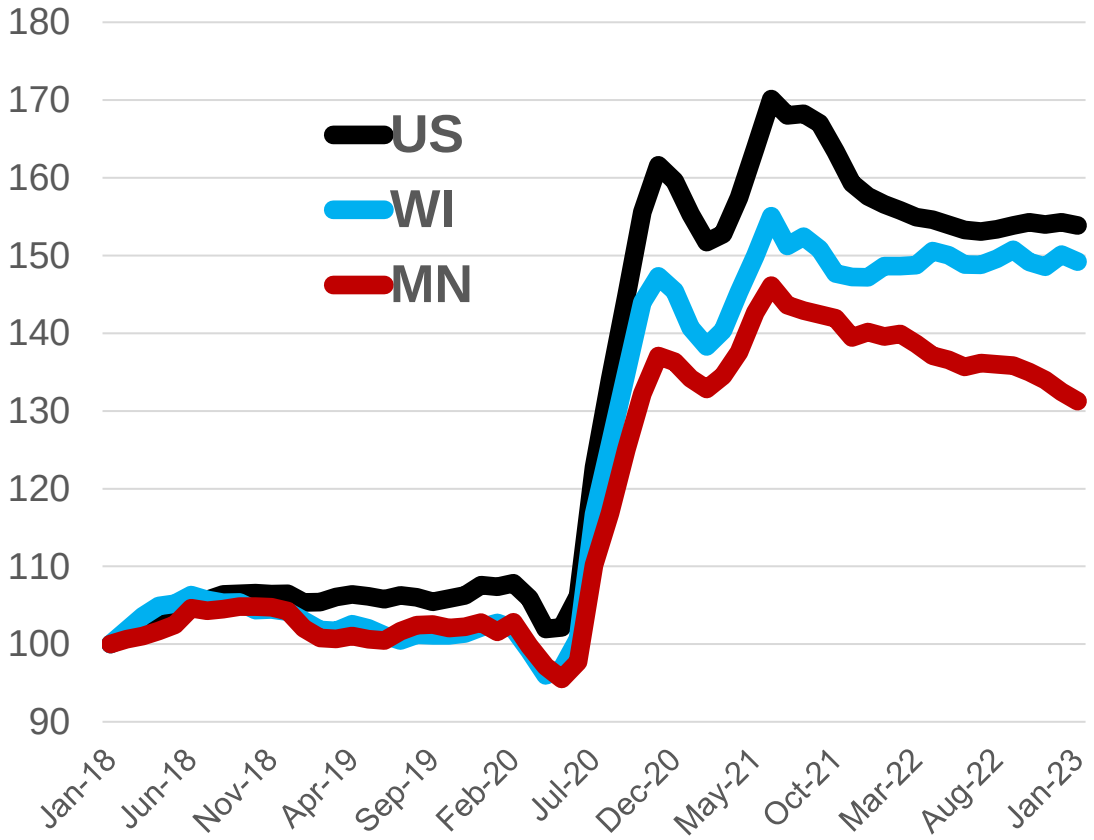
GIG ECONOMY? MAYBE, MAYBE NOT

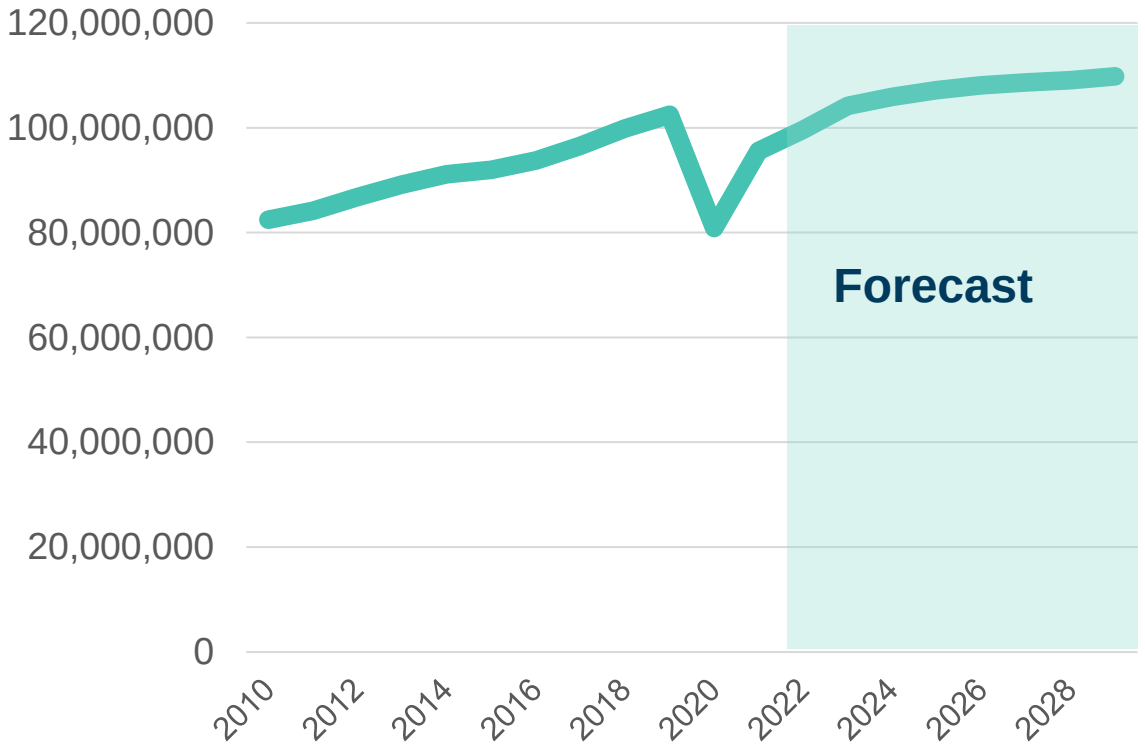
There is evidence supporting & negating idea of growing gig economy

New business applications index

January 2018 applications = 100



Gig by IRS standards = 1099-MISC



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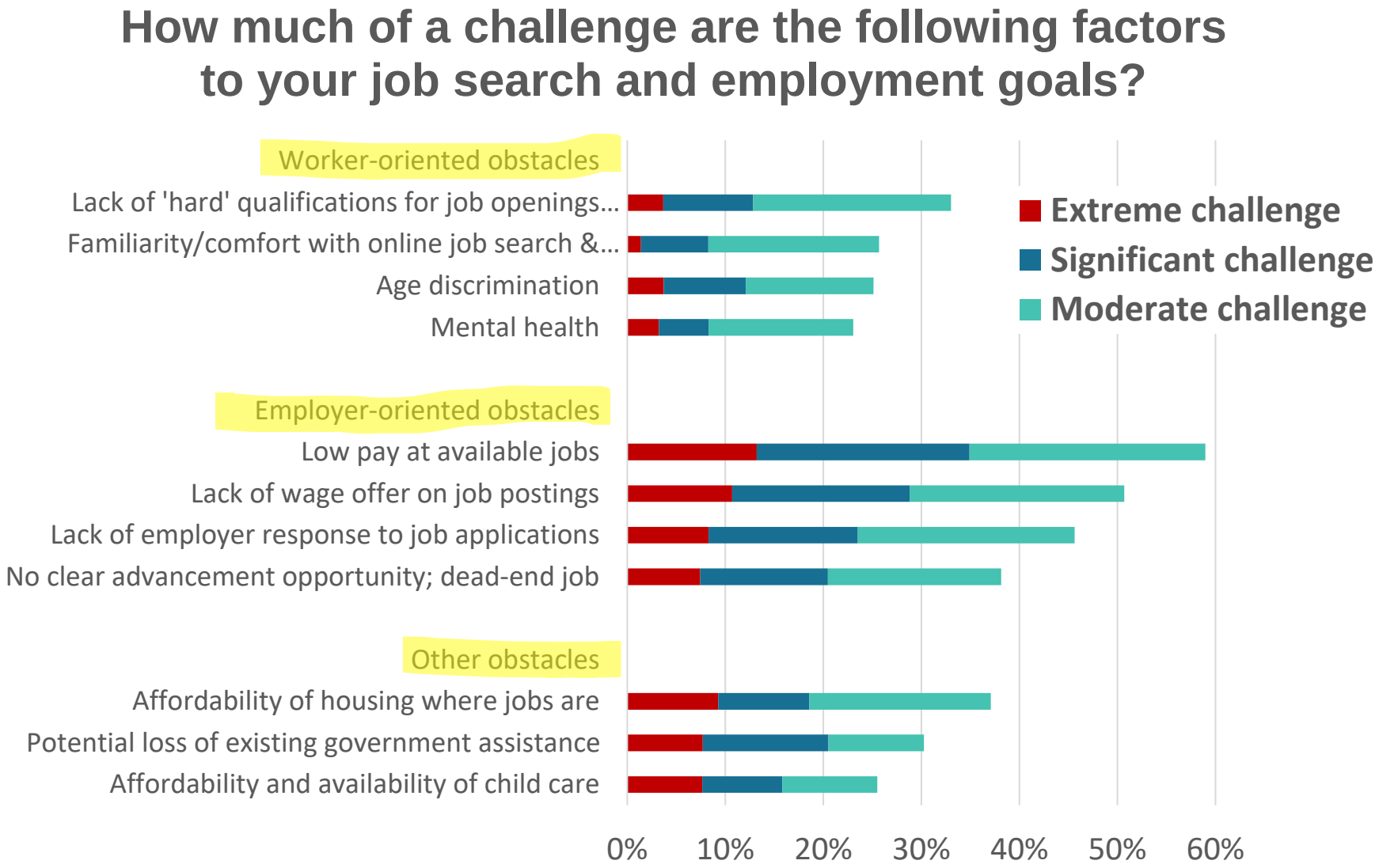
WHAT DO *JOB SEEKERS* SAY ABOUT JOB MARKET?



There are *a lot* of potential frictions in matching job seekers and job openings, and employers have to own some of them

Source: Minneapolis Fed Worker Experience Survey, 221 job seeker respondents, November 2022

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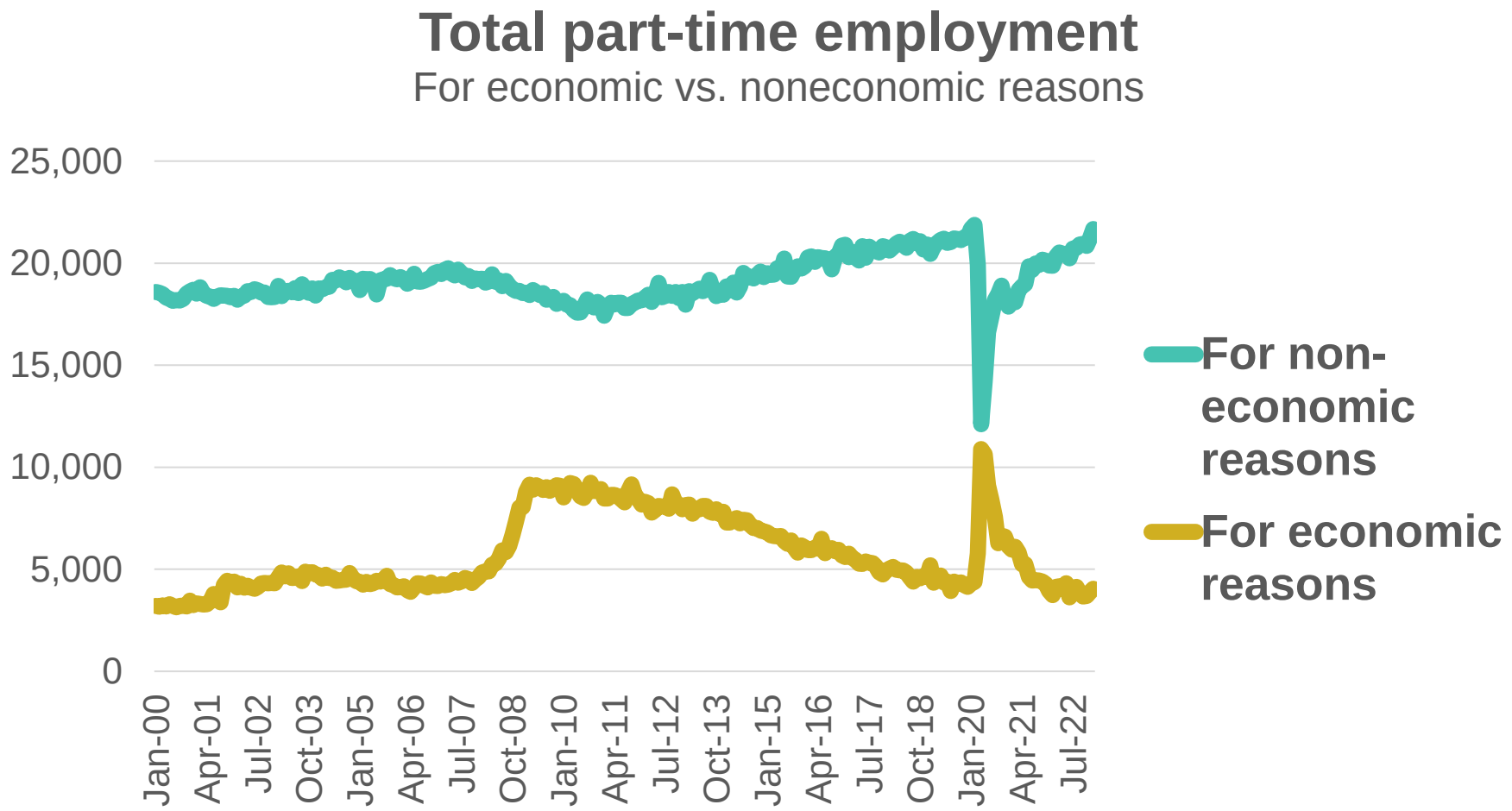
PART-TIME OFFERS INSIGHT TO LABOR CHOICES

Large majority of those working part-time do so voluntarily, *and growing*

Non-economic reasons (voluntary): Either do not want or are not available to work full-time for various reasons (child care, health problems, choice)

Economic reasons (involuntary): slack work or inability to find full-time work



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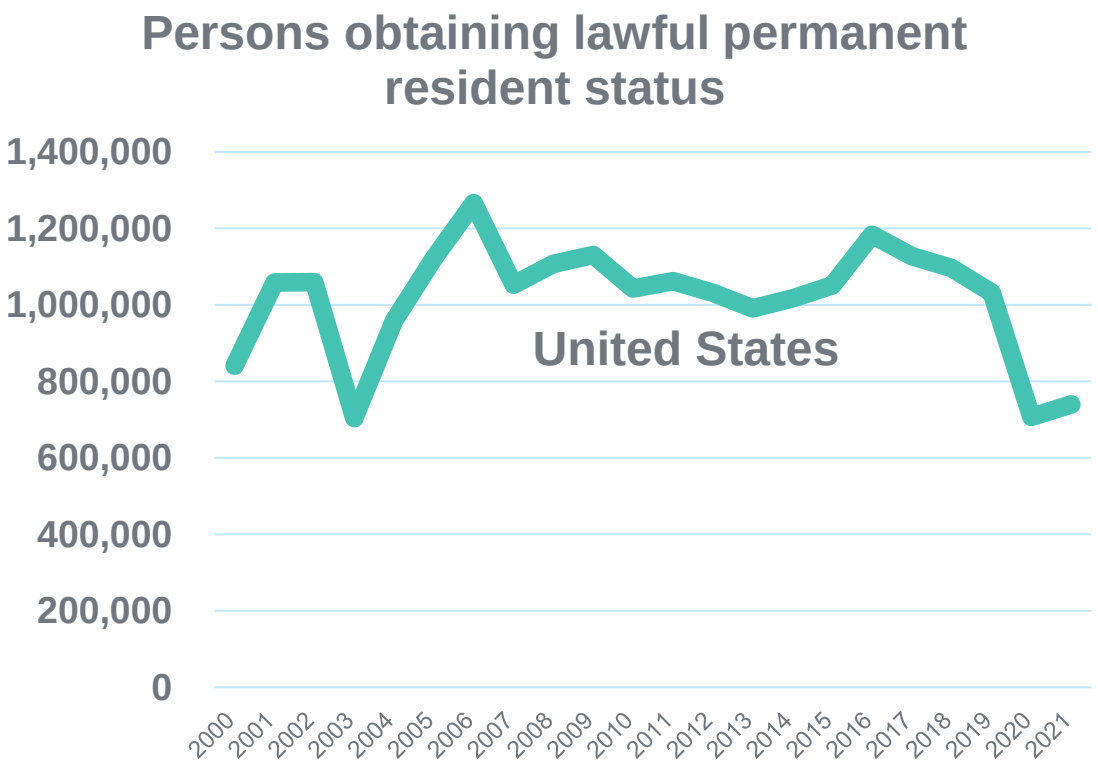
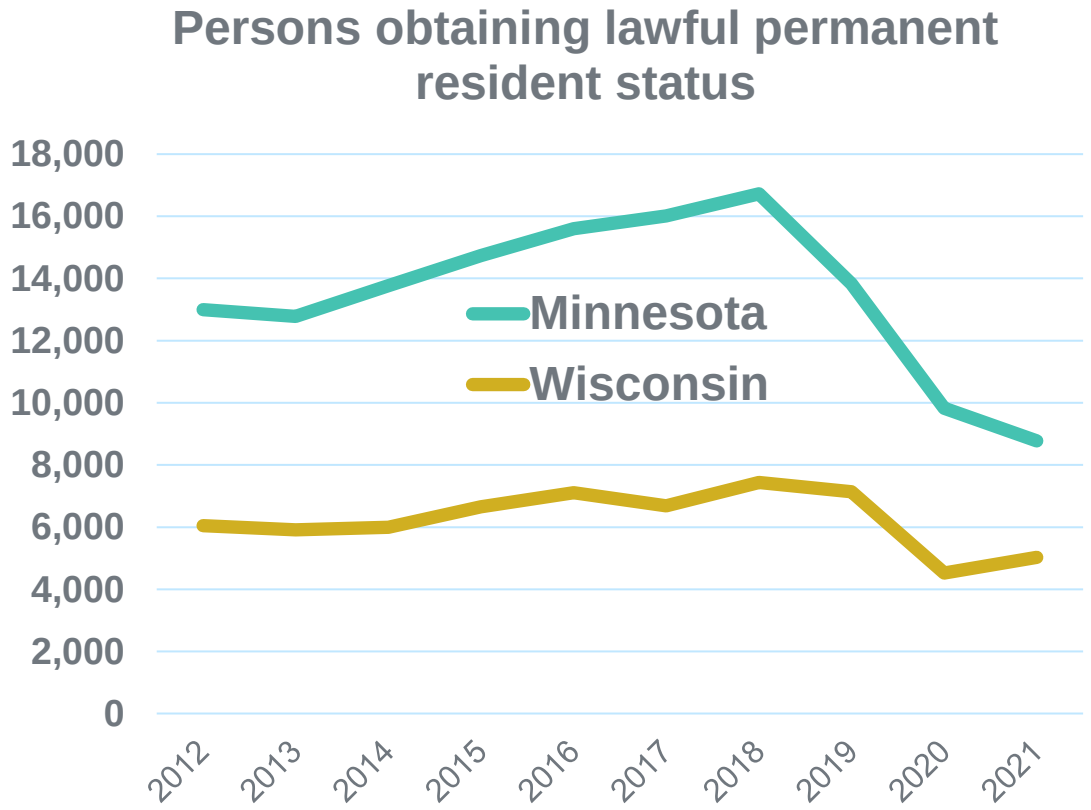
OTHER FACTORS

IMMIGRATION

- Pandemic had clear impact, but downward trend already in place
- Second half of 2021 and early 2022 estimates suggest #s are rising



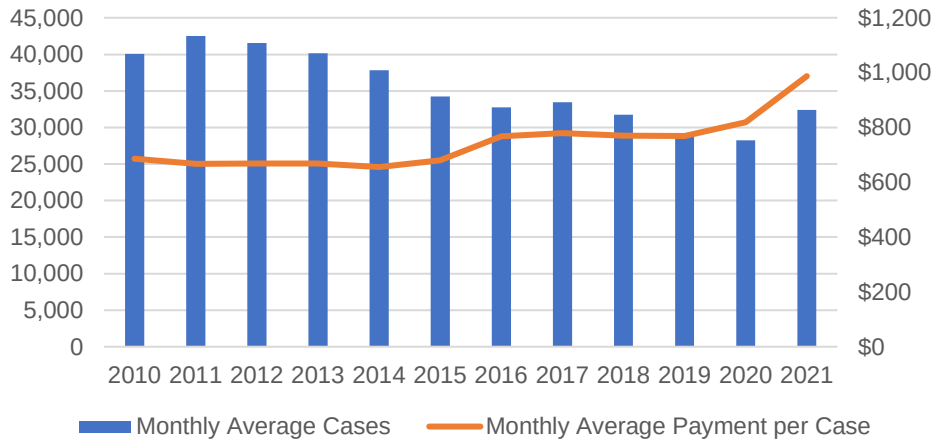


Source: U.S. Department of Homeland Security

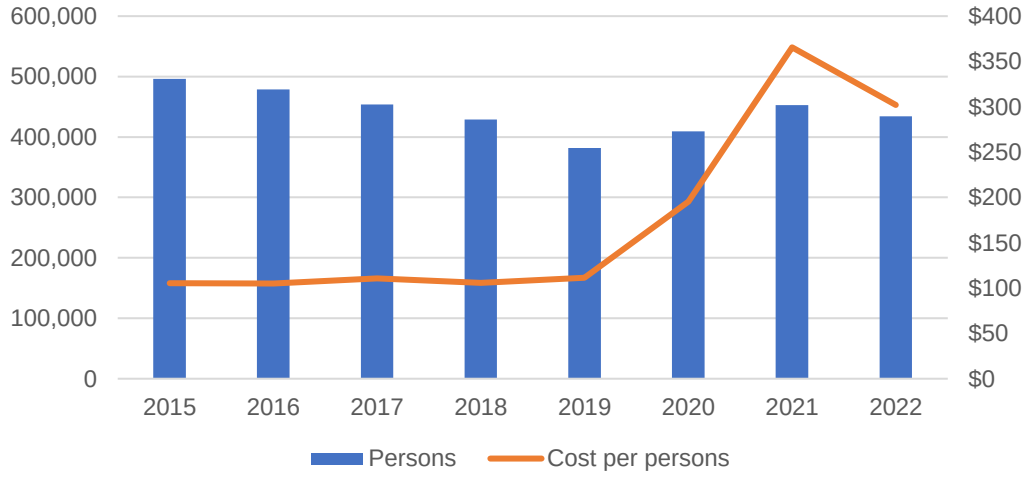
TOO MUCH PUBLIC ASSISTANCE?

Minnesota Family Investment Program

Assistance for low-income families with children (cases)

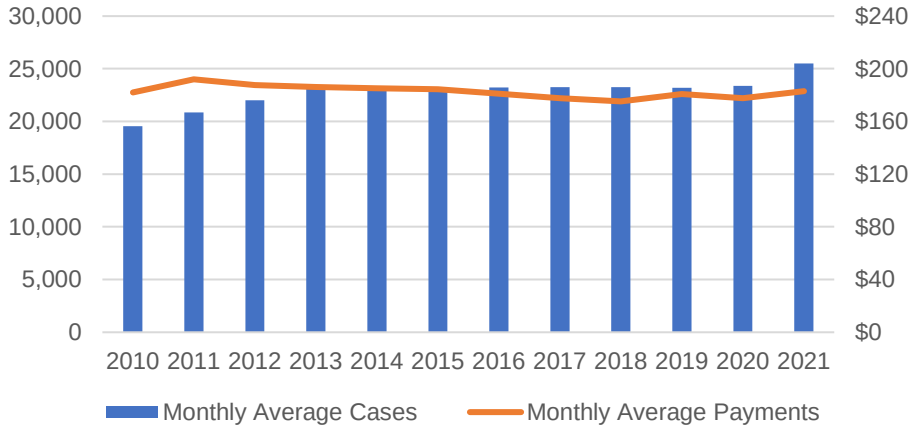


SNAP (food) benefits in Minnesota



General Assistance

Assistance for people without children



Public housing in Minnesota

Public housing, Housing Choice Vouchers, Section 8

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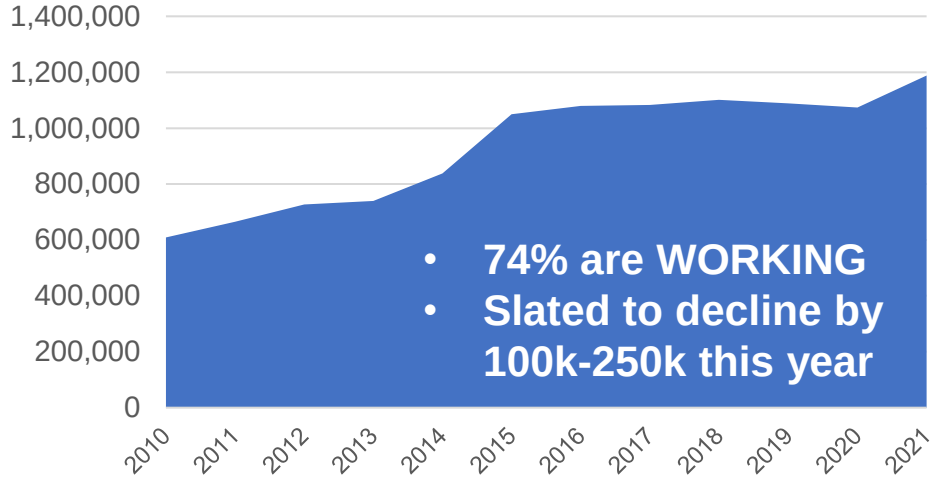
Source: Minnesota Department of Human Services, US Dept. of Housing and Urban Development

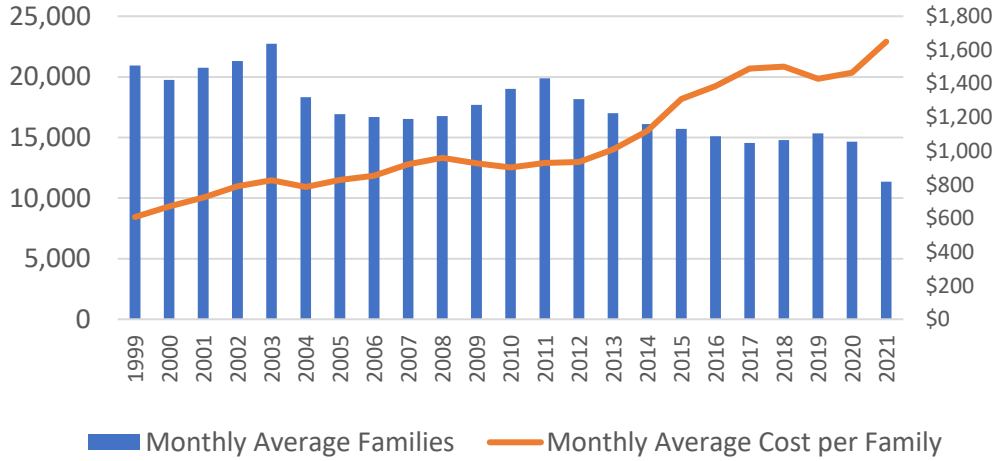
OTHER INTERESTING TRENDS

Source: Minnesota Department of Human Services, Social Security Administration

Medical Assistance (state Medicaid)

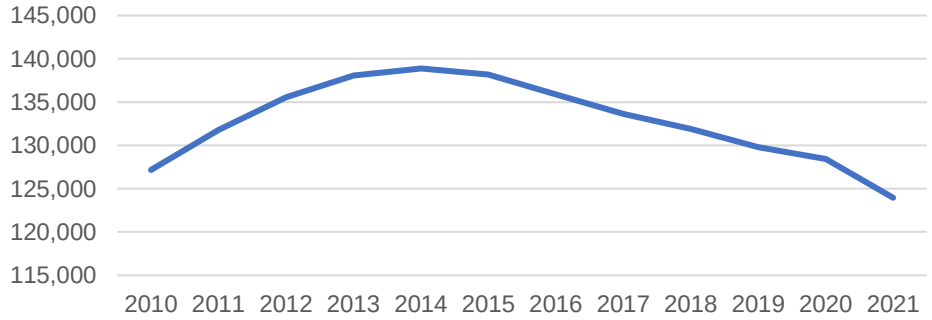


Child care assistance

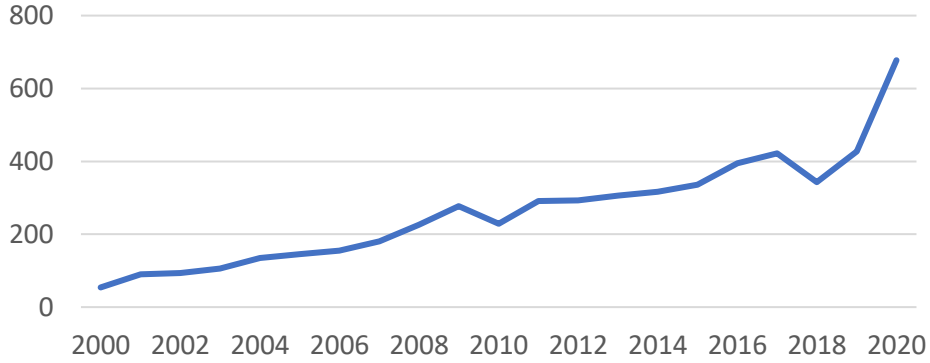


MN work disability beneficiaries

Annual SSDI beneficiaries



Annual overdose deaths in MN



Also:

- **Unemployment below pre-pandemic means fewer on unemployment insurance than 2019**
- **Most assistance enrollments flat, but state has ADDED about 400,000 more people since 2010**

FEDERAL RESERVE BANK OF MINNEAPOLIS

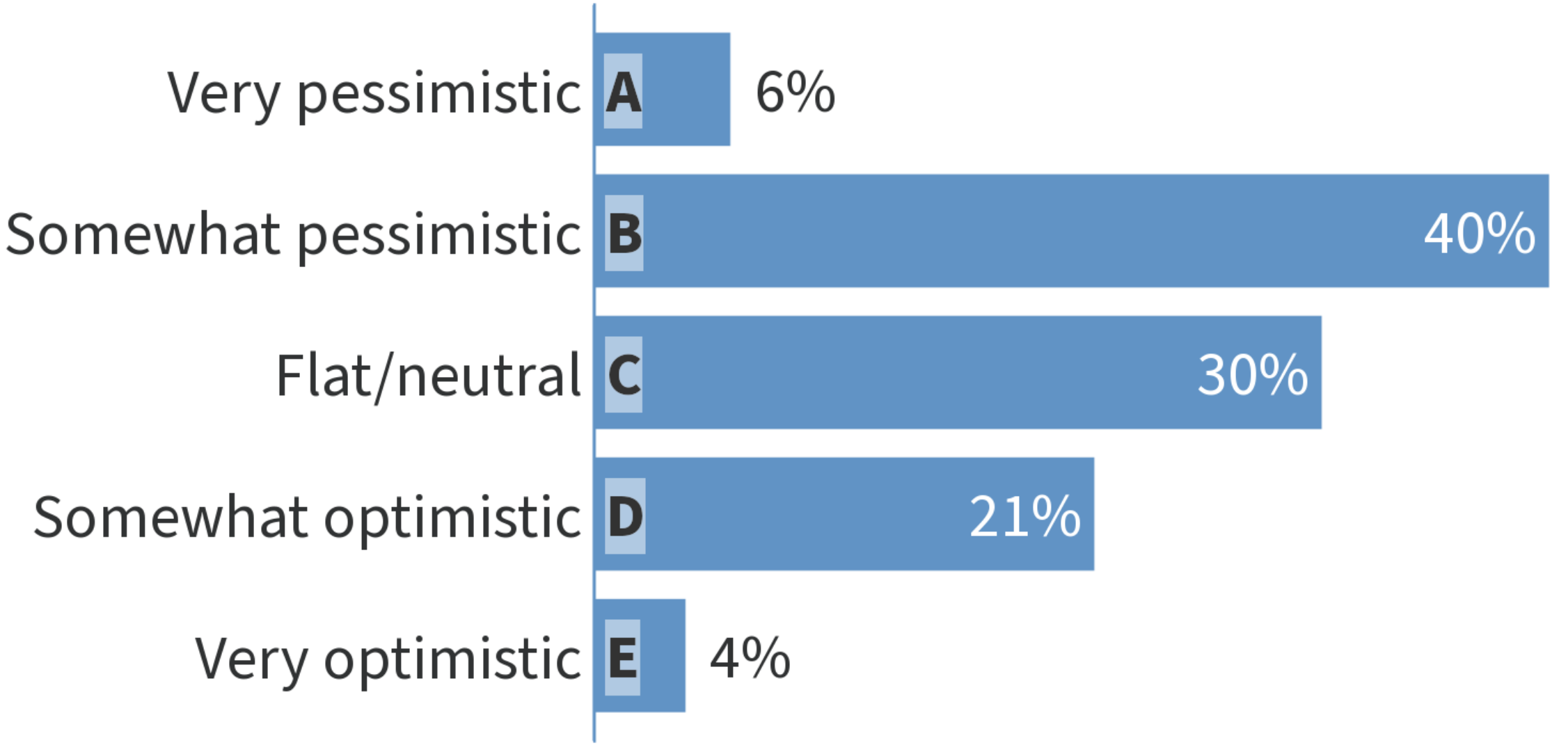
SO WHAT'S YOUR POINT, RON?

- Myriad reasons why labor supply is constrained
  - *Lower labor force by a thousand cuts*
- It's about market leverage, and leverage currently lies with labor supply, and that's likely to continue for some time
- IF we want labor supply to increase, must treat obstacles from a problem-solving perspective
- Require new thinking/paradigms and *investment*

BEFORE WE GO: OUTLOOK

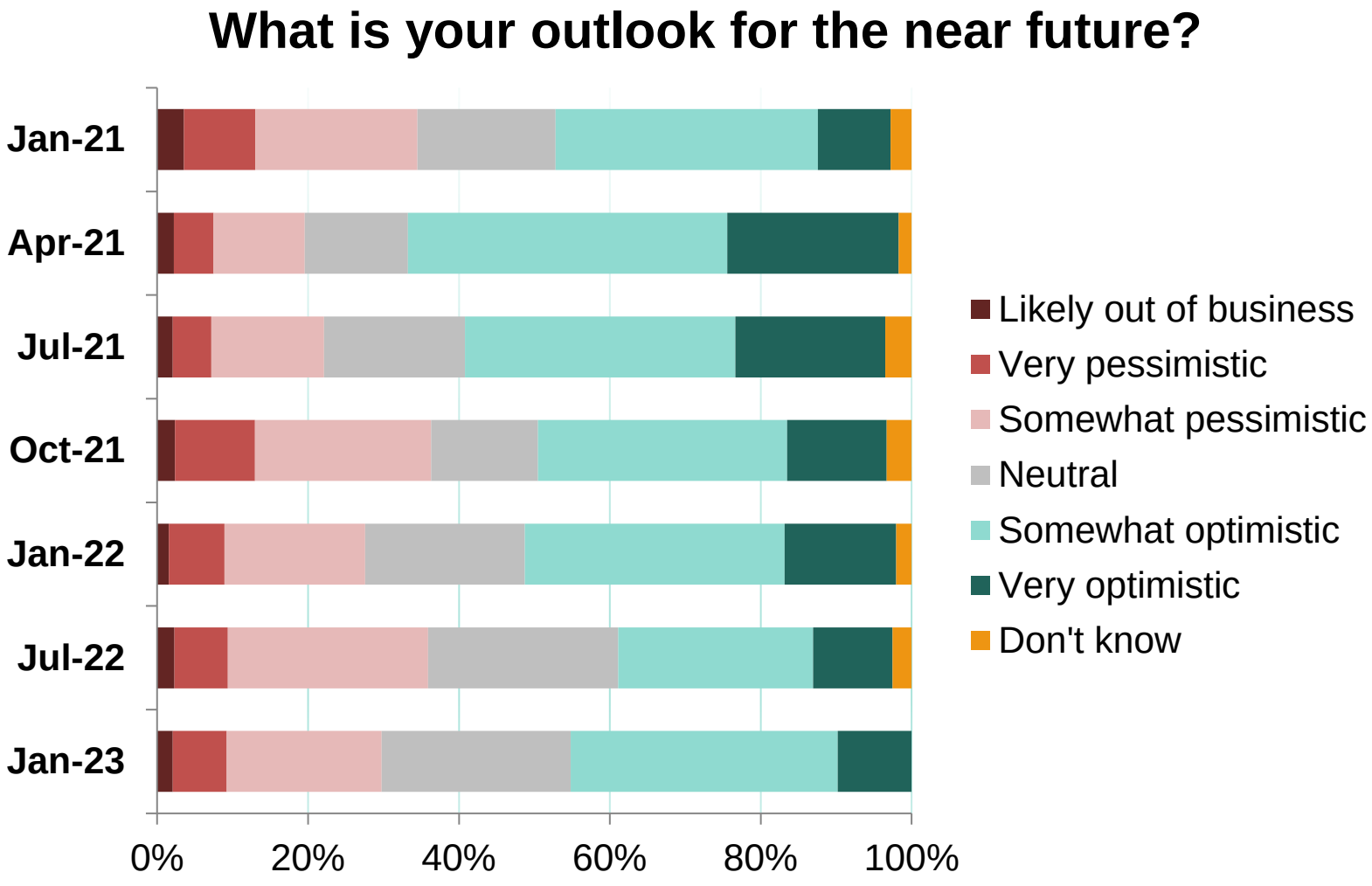
YOU FIRST!

OUTLOOK: What is your outlook for the next three months?



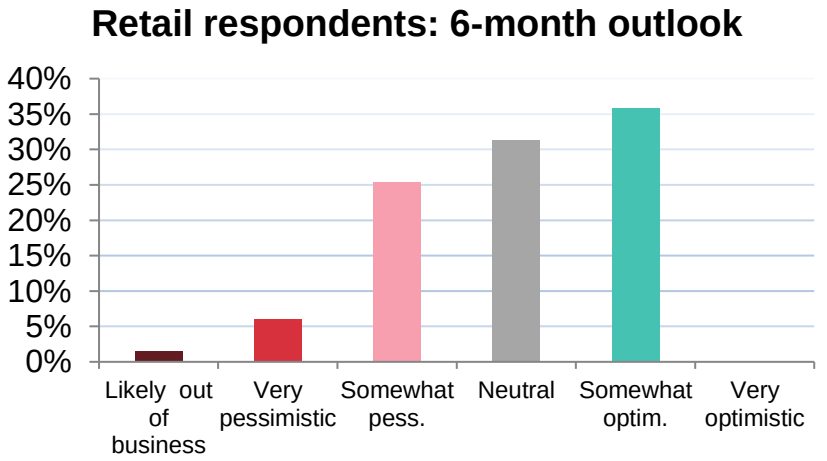
Start the presentation to see live content. For screen share software, share the entire screen. Get help at **pollev.com/app**

OUTLOOK: IMPROVED, POSITIVE



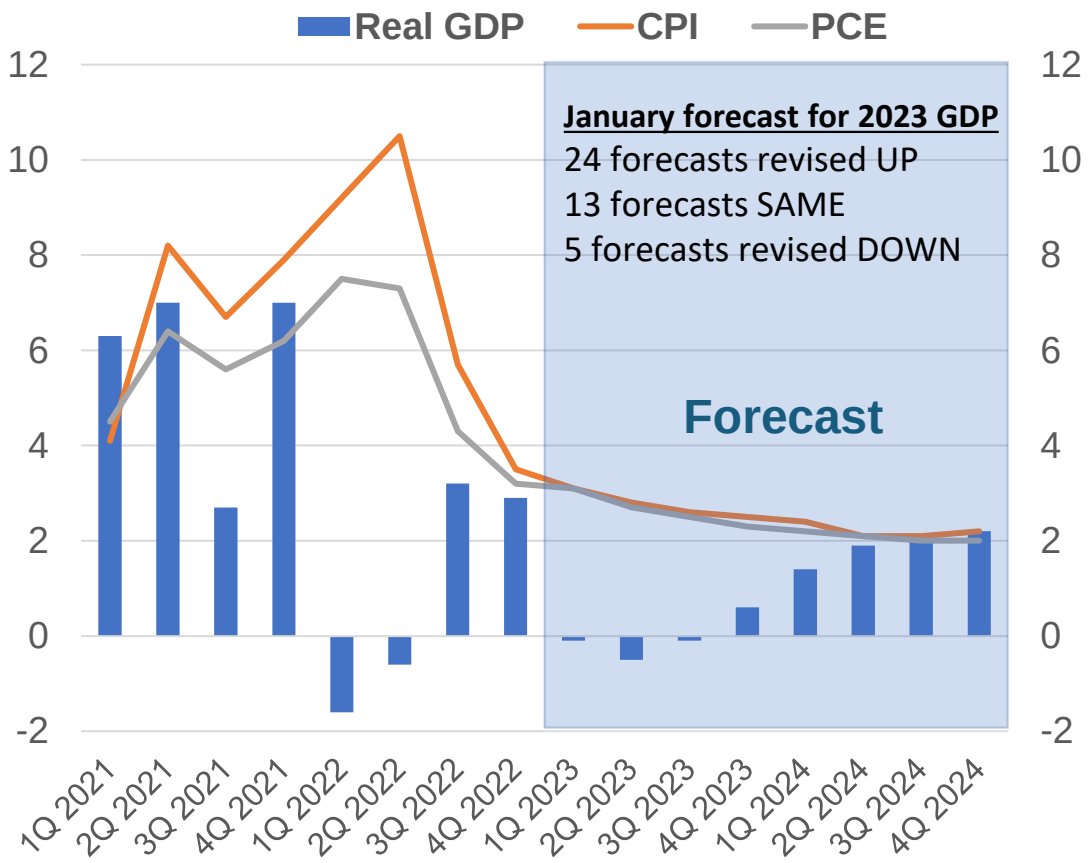
Small improvement over July survey, & moderately optimistic

Possible seasonality; coming of spring and higher activity in some sectors

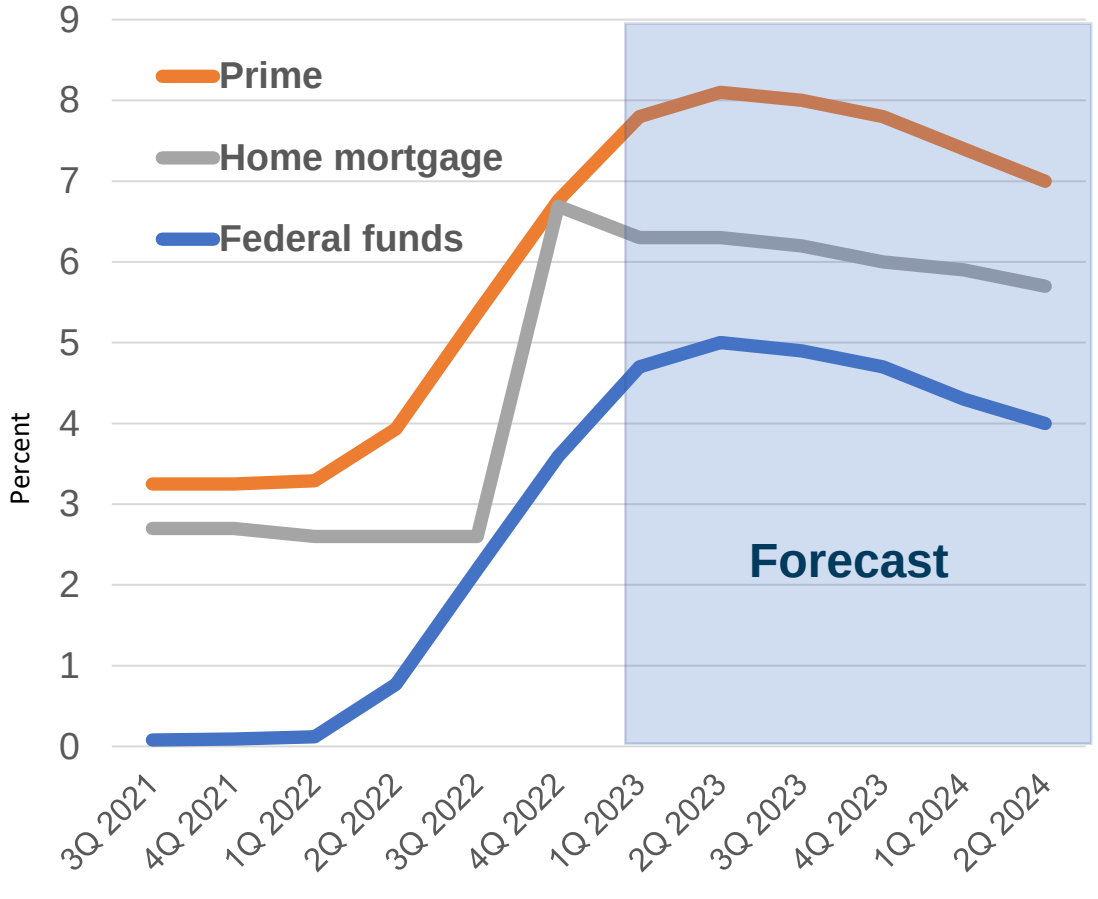


PRIVATE FORECASTERS' OUTLOOK

Blue Chip consensus forecasts for GDP & inflation



Concensus forecast for GDP and interest rates



Source: Blue Chip Financial Forecasts®, CCH Incorporated

FINAL THOUGHTS

- Growth is likely to be modest, at best, in the near term, with obvious potential to the downside
- Construction and real estate taking the brunt of higher interest rates
- Challenges are many, and obvious
- Labor arguably most important long-term factor for growth, but also difficult/complex to address
- There *is* room for optimism
  - Persistent job growth
  - Private markets believe inflation *will* be reined in
  - Business resilience: Constantly tested since March 2020, and constantly overcoming

THANK YOU! QUESTIONS?

SPEECH/WEBINAR REFERRALS WELCOME!

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