UNDERSTANDING CURRENT BUSINESS TRENDS AND CHALLENGES IN MINNESOTA'S ECONOMY

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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

- National growth pretty steady
- MN generally slower
- Employment still bright spot, but definitely softening
- Plenty of challenges ... Inflation, interest rates
- Labor!!! Labor!? Labor??? ...
- Forecast: Slow-ish (maybe?)
- <u>Interactive survey</u>: Help inform each other on how this group views the economy
- Lots of data, but fast-moving; will share PPT





- Are you interested in what your peers think about the economy? Then (please) participate
- Give your opinion, so you can receive others'
- Step 1: Get your phone
- Step 2: Send text to <u>22333</u>
- Step 3: Text the word minneapolis
- Step 4: <u>Hit 'send</u>'; watch for message
- Step 5: <u>Stay in text mode</u> for survey;
 all responses to questions are via text





GROSS DOMESTIC PRODUCT

Real GDP = total output, adjusted for inflation

US (annualized quarterly rate)

Q4 2024 - 2.3%

Q3 2024 - 3.0%

Q2 2024 - 3.1%

Q1 2024 - 1.6%

2024: 2.5% growth

Ave. GDP 2000-2023 = 2.1%

Minnesota: Slower

Q3: 2.0%

Q2: 1.3%

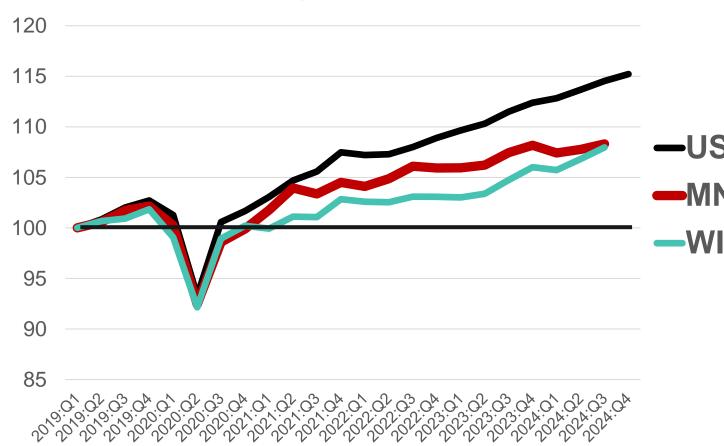
Q1: -2.8%

Near-term forecast (US) = 2%

Source: Bureau of Economic Analysis

Real gross domestic product index

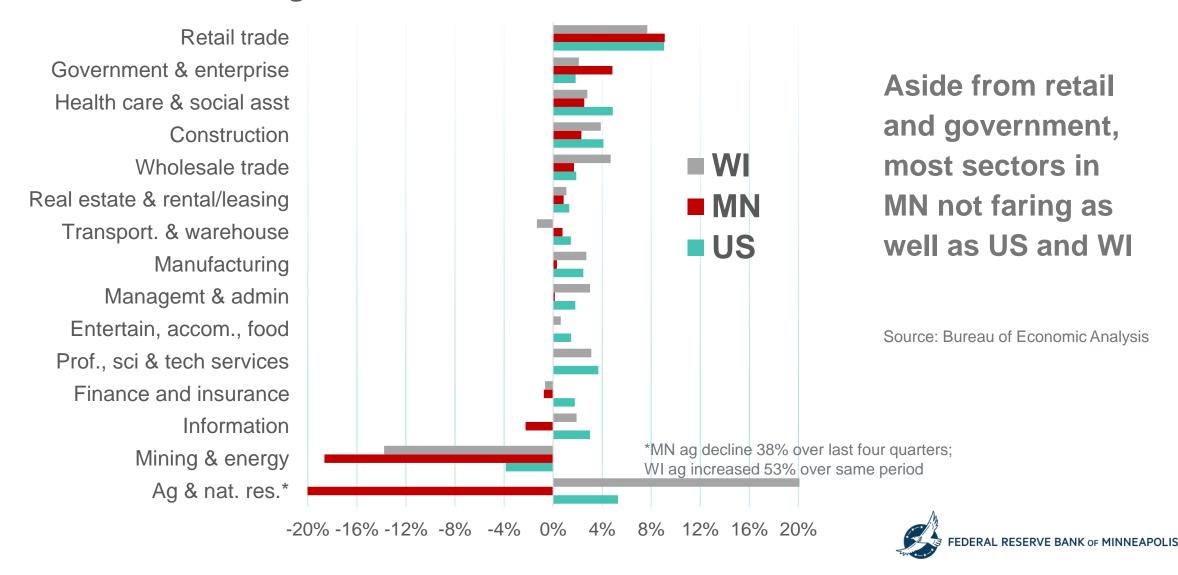
 $Q1\ 2019 = 100$





GDP SECTORAL GROWTH

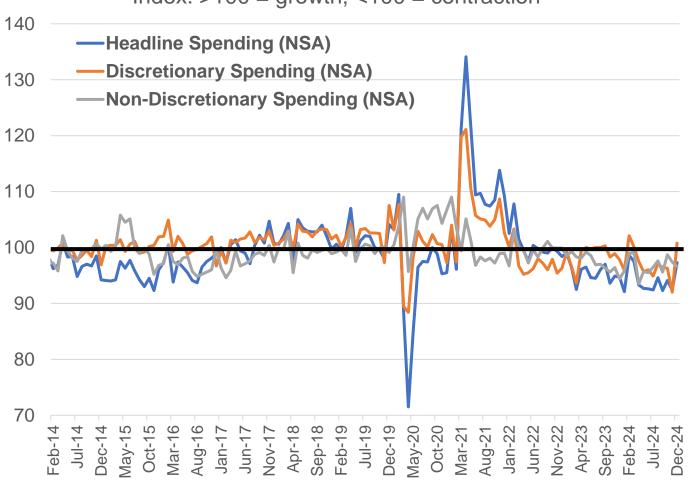
MN sectoral growth: Q3 2023 to Q3 2024



VISA SPENDING MOMENTUM INDEX (SMI)

Visa Spending Momentum Index

Ninth District, not seasonally adjusted Index: >100 = growth; <100 = contraction



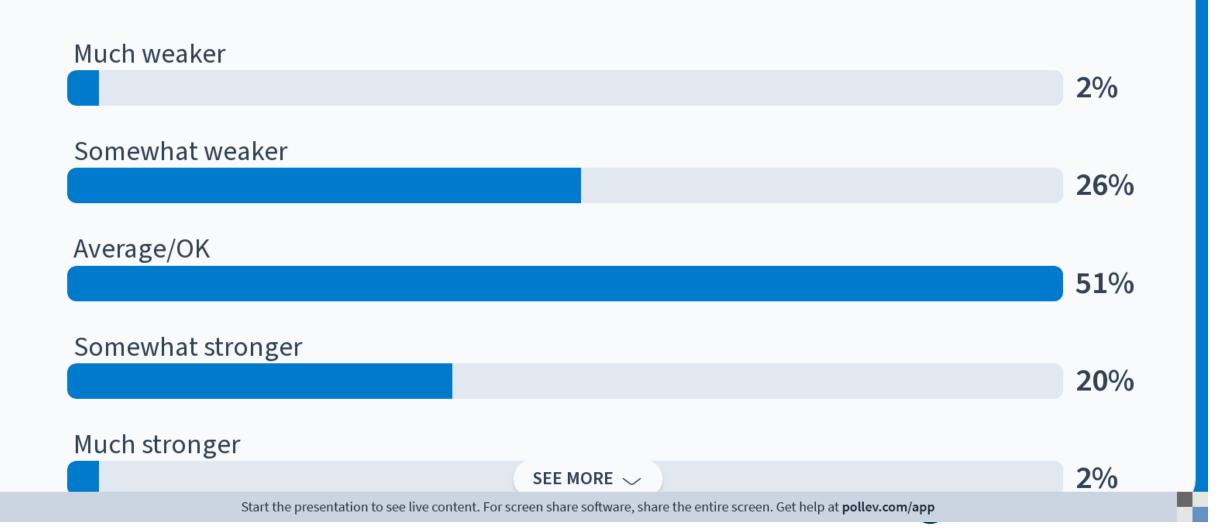
Measures YOY change in consumer spending, including share of consumers increasing or decreasing spending

Visa SMI suggests that spending in the MpIs Fed's Ninth District has been softening for some time; but also shows uptick at end of 2024

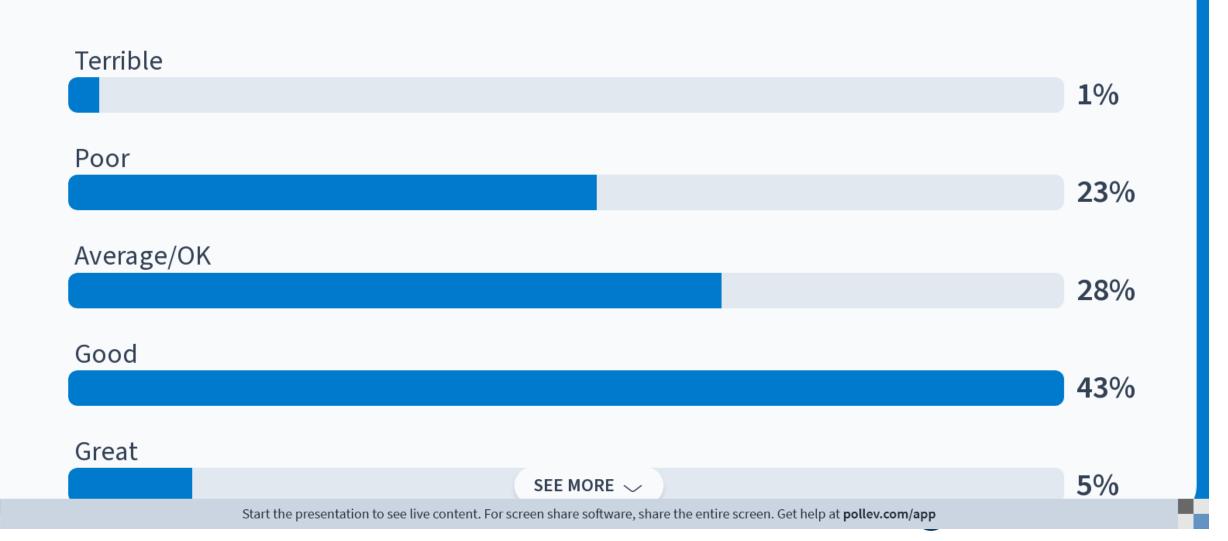


WHAT ABOUT AT YOUR COMPANY? SURVEY TIME

HOLIDAY BUSINESS: How would you describe the 2024 holiday shopping season compared with 2023 holiday season?



RECENT BUSINESS: How would you describe business activity so far this year compared with start of 2024?

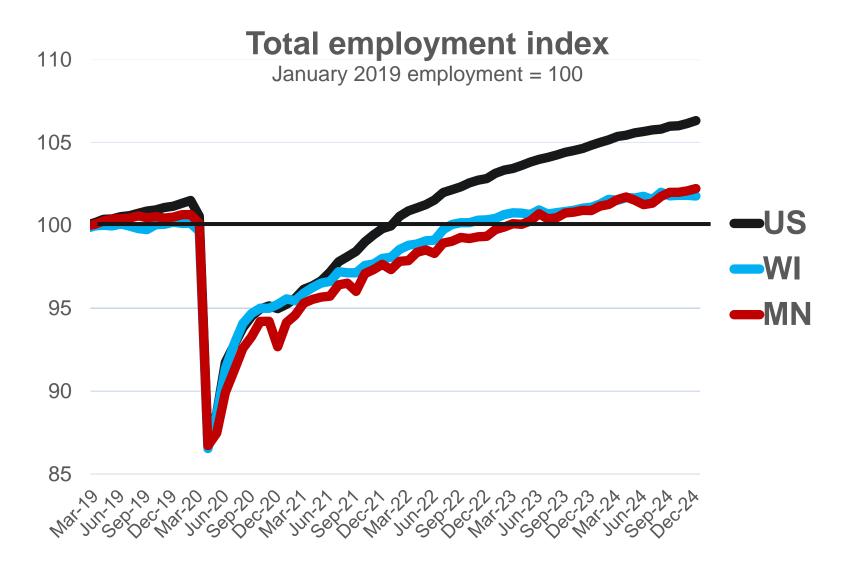


How would you describe vacancy rates at your properties (if applicable)?





TOTAL EMPLOYMENT



US job growth overall healthy

BUT showing signs slowing

Minnesota?

Much flatter overall

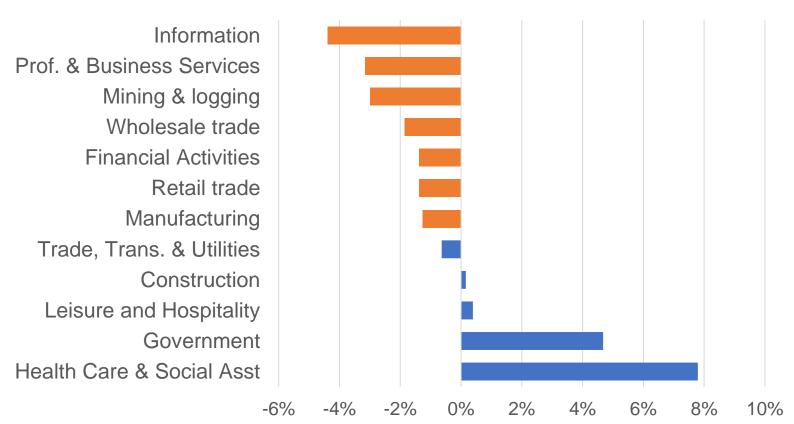
Why? Complicated, but stay tuned



MINNESOTA SECTORAL EMPLOYMENT

Change in total employment, last 12 months

Dec 2023 to Dec 2024



Health care and government driving employment growth

Most other sectors (even growing retail sector) seeing some retrenchment

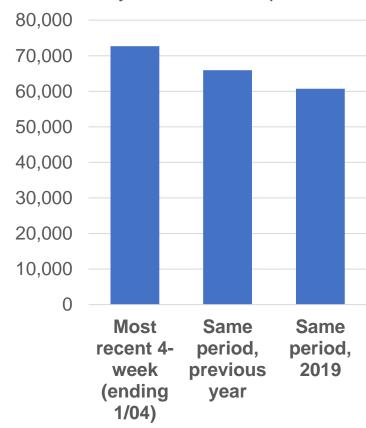


MINNESOTA UNEMPLOYMENT INSURANCE CLAIMS

Total unemployment initial claims 4-week period 35,000 30,000 25,000 20,000 15,000 10,000 5,000 Most Same Same recent 4period, period, week previous 2019 (ending year 1/11)

Total unemployment continuing claims

Weekly ave., 4-week period



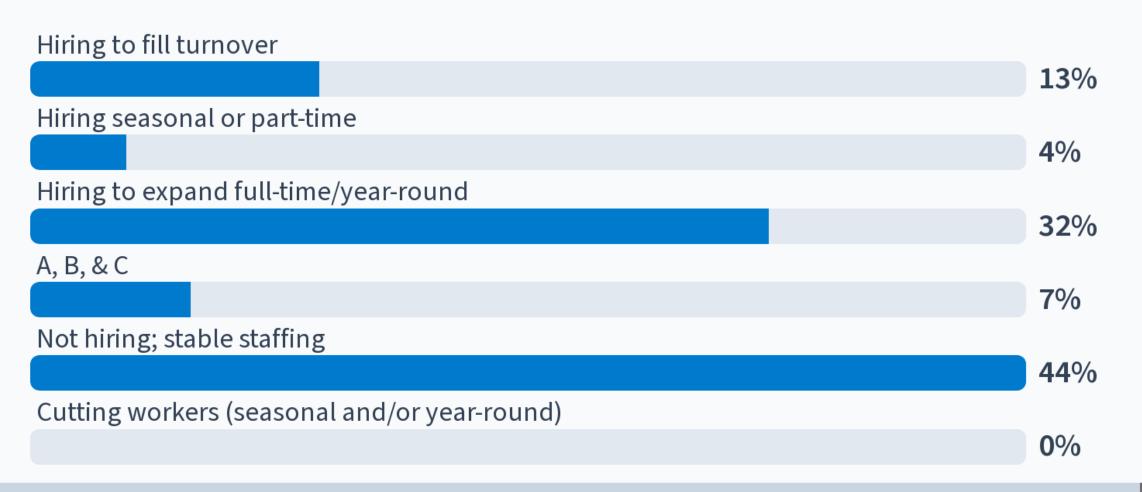
Both initial claims and continuing claims (those receiving benefits) have ticked higher compared with last year and prepandemic levels



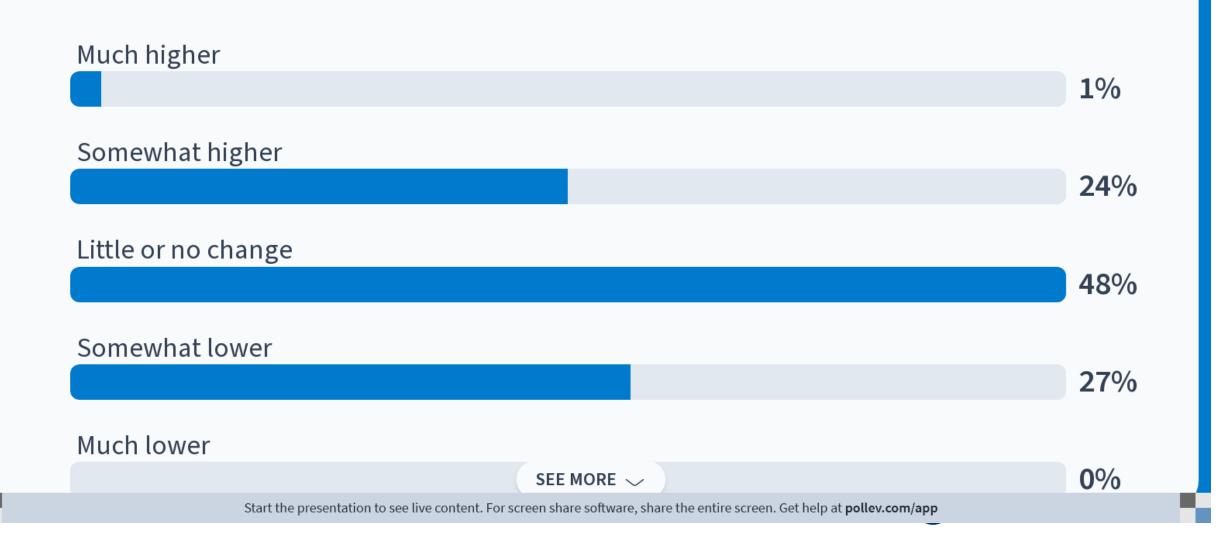
WHAT ABOUT LABOR DEMAND AT YOUR COMPANY?

SURVEY TIME

LABOR: What BEST generally describes current hiring demand among your tenants OR at your company?



How does current demand for workers compare to this time last year?



LABOR AVAILABILITY: If hiring, how would you describe your company's ability to find labor?

Not difficult; good labor availability

25%

Slightly difficult

33%

Moderately difficult

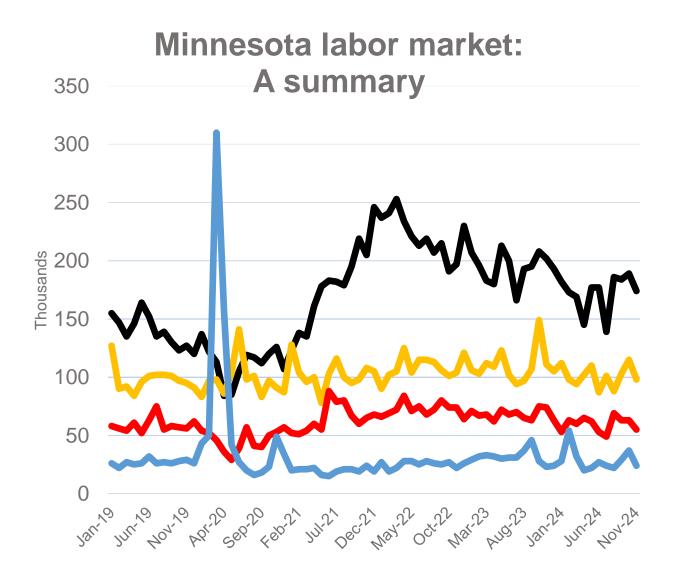
25%

Very difficult; poor labor availability

SEE MORE \checkmark

17%

MINNESOTA LABOR MARKET: JOLTS



Job openings: Hiring demand softened before recent uptick

Hires: Generally stable and positive, but a bit slower

Voluntary quits: Easing

<u>Layoffs</u>: Low, with some volatility, and edging higher

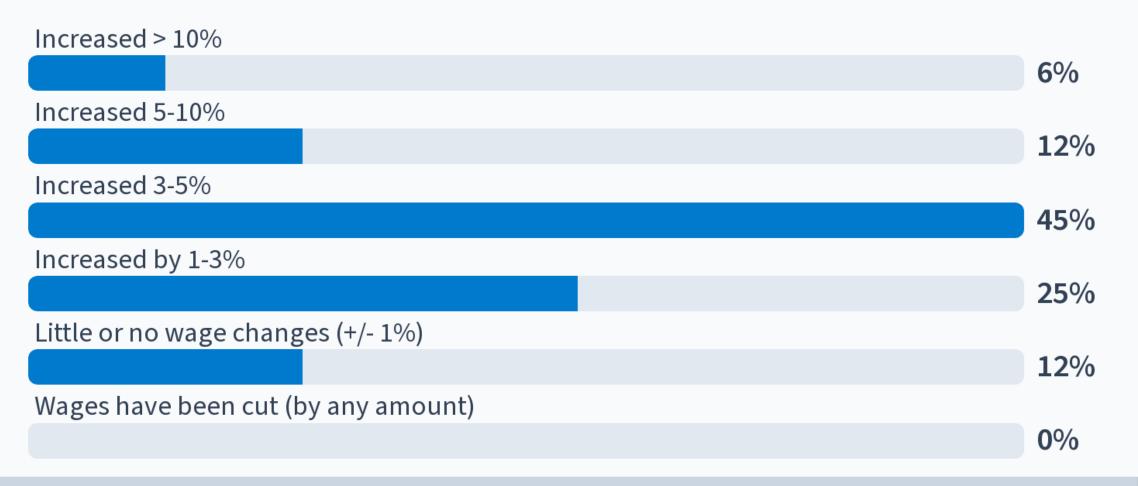
Overall: Still healthy, but definitely softer

Source: BLS, Job Openings & Labor Turnover Survey

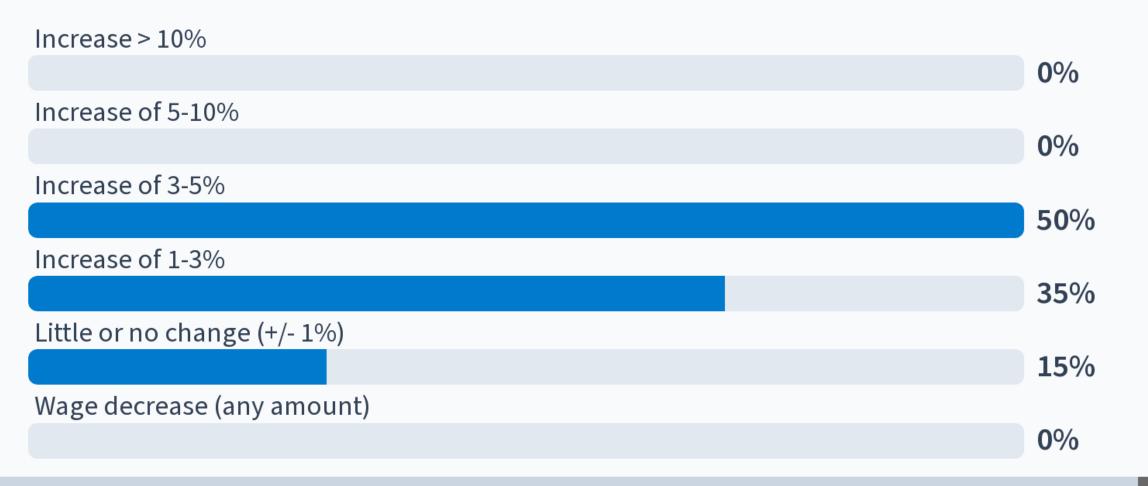


IS A SOFTER EMPLOYMENT MARKET AFFECTING WAGES?

RECENT WAGES: What's happened to average wages at your company/organization over the past 12 months?



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



WHAT ARE BUSINESSES SAYING?

MINNEAPOLIS FED SURVEYS

MINNEAPOLIS FED SURVEYS

General Business Survey:

Currently in field

Results released Feb 25, 9am-9:30

To sign-up for webinar:





Regional Economic Conditions: General Business

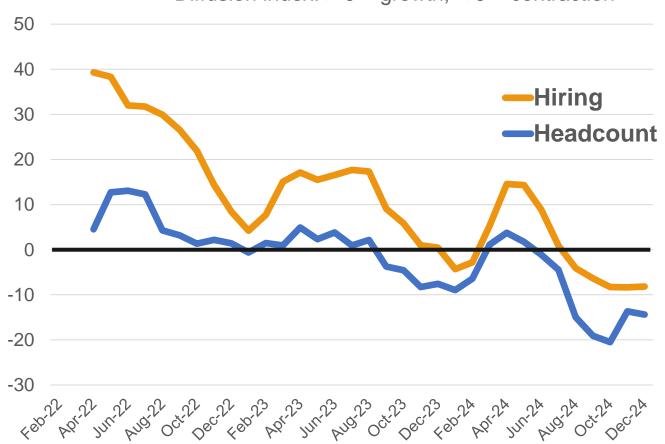
Event on February 25, 2025



MINNEAPOLIS FED BUSINESS PULSE SURVEY

Net share of business contacts reporting month-over-month growth

Diffusion index: > 0 = growth; < 0 = contraction



Minneapolis Fed's monthly 'pulse' survey also shows labor slowing





THE FED NEEDS YOU!

No one "likes" surveys

But our surveys <u>help you</u> (and lots of others)!

Be a regular contact for the Minneapolis Fed!

2-minute commitment 3-4 times a year





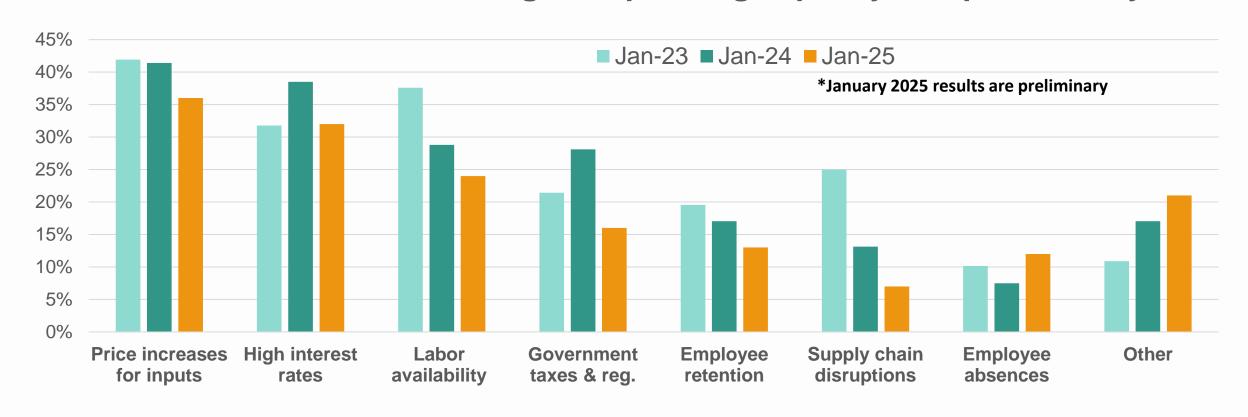
NEXT: CHALLENGES

WORD CLOUD: In 1-3 words, what is the biggest challenge for your company/organization? For more than 1 word, use hyphens (I-don't-know); multiple responses OK

quitting depressed-office-occupancy uncertainty regulations cohesiveness high-costs goods policies new-construction no-snow resources pay government and the contract of the c leadership-development quitting entitlement lower-profit qualified-talent home orking labor hiring construction seasonality unlead talent interest-rates competition occupancy vacancy development finding-qualified-labor high support labor place bankrupt-tenants employees lower-deal-volume less available-space-for-lease

CHALLENGES: INFLATION STILL BIG CONCERN

Minneapolis Fed General Business Survey Pick two: Greatest challenge to operating capacity and productivity





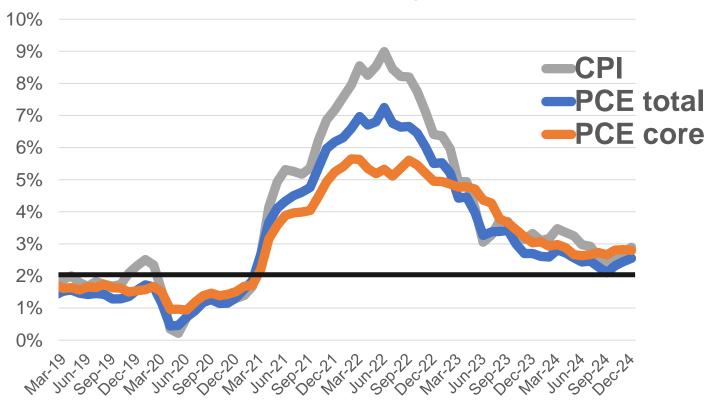
MORE ON INFLATION

INFLATION - TWO MEASURES

Inflation indexes

Consumer Price Index vs Personal Consumption Expenditures

12-month percent change, chained index



Trending ... slowly ... to 2% target

More recent (and small) price hiccups have paused rate cuts



MORE ON INFLATION

Not all things equal with inflation

Durables: Persistent, and jumpy of late

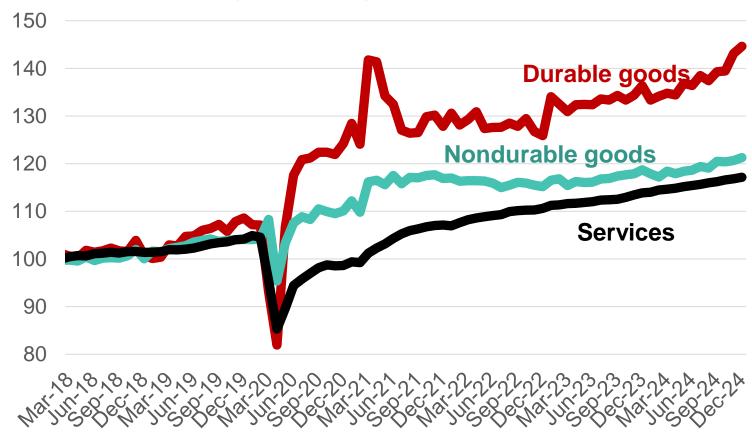
Nondurables: Steady as she goes

Services: Biggest part of economy, steadily increasing (yoy 2.9%)

Housing, insurancehealth care biggestcurrent factors

Personal Consumption Expenditures Index

Index Jan. 2018=100 Monthly, Seasonally Adjusted Annual Rate







RECENT MONETARY POLICY ACTIONS

Federal Reserve's dual mandate for monetary policy:

- Stable prices
- Maximum employment

FOMC: 100 basis pts cut since Sept (50, 25, 25); held steady in recent January FOMC meeting

Why?

- Substantial progress on inflation
- Labor market has softened (= rate cutes)
- Inflation trend recently stalled a bit; now communicating fewer rate cuts in 2025 than previously forecast



WHERE TO FROM HERE? ARE LABOR MARKETS LIKELY TO REMAIN SOFT(ER)?

LONG-TERM LABOR FORCE TRENDS

ECONOMIC GROWTH 101

Only a few basic ways to grow a business (and by extension, a state or national economy)

Increase productivity



US LABOR PRODUCTIVITY

Strong productivity = 2%

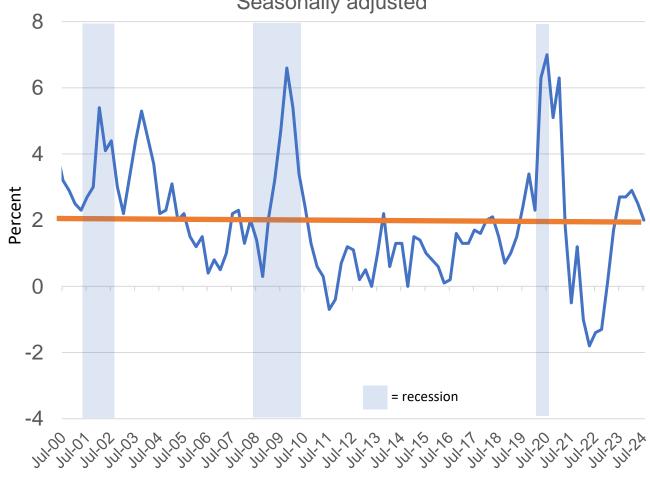
Annual productivity at or above 2% occurs most frequently around recessions & pandemics!

Is sustained, aboveaverage productivity around the corner?

The last 20 years suggests "no"

Labor Productivity (Output per Hour)

All Workers, annualized quarterly rate Seasonally adjusted







Only a few basic ways to grow a business (and by extension, a state or national economy)

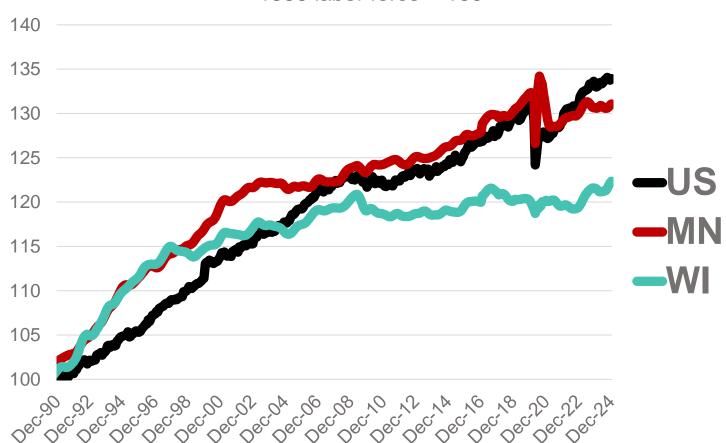
- Increase productivity
- Increase # of workers via several paths
 - Natural increase (have more 'future' workers)
 - Migration from other places
 - Convince more people in a given place to work, & work more



LABOR FORCE GROWTH SLOWING

Labor force index

1990 labor force = 100



Labor force: Those 16-and-over employed or unemployed and looking (counted only once regardless of jobs held)

Labor force growth has slowed dramatically since 2000

Why?

- Slowing population growth
 - Fewer births, rising deaths
 - More outmigration (Boomers)
 - International immigration keeps it from worsening
- Lower labor force participation



LABOR FORCE PARTICIPATION

LFP rates in decline since about 2000

Big hit with pandemic

MN & WI rates not rebounding like US

Much of long-term decline was predictable (aging Boomers); postpandemic lag was not

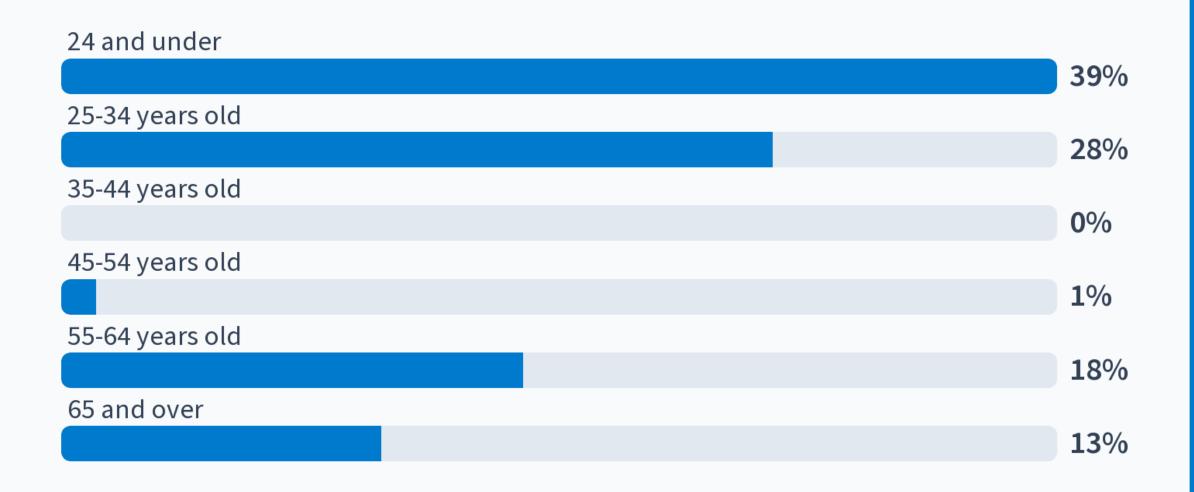
Labor force participation rate



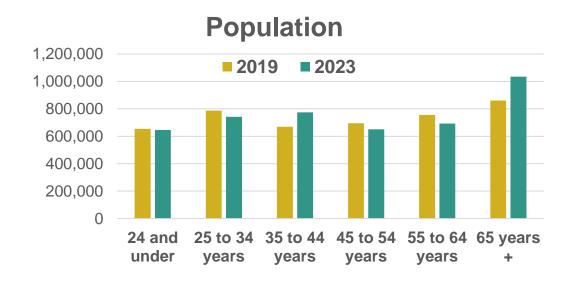


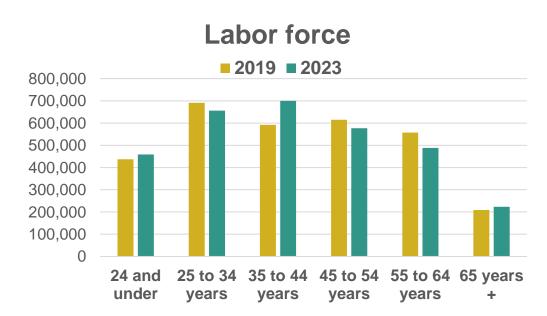
POP QUIZ – TRUE OR FALSE: NOBODY WANTS TO WORK ANYMORE?

Which age group has seen a decline in work participation?



MINNESOTA TRENDS

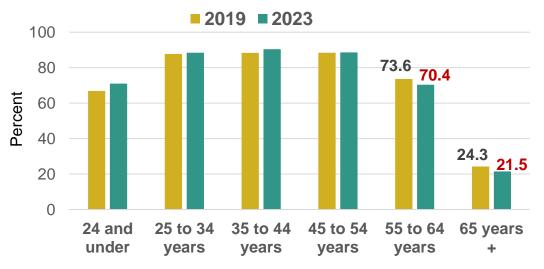




Short-term population & labor force changes by age group due largely to aging itself into next age group

Changes in labor force participation is more social and economic

Labor force participation





Source: MN DEED analysis of BLS data

WHAT ABOUT IMMIGRATION? A FRAMEWORK



ROUTES FOR COMING TO (OR STAYING IN) THE US

- Permanent Resident Card (green card)
 - Only group US government officially calls "immigrants," bc they are here legally and semi-permanently
- Temporary work visas
- Protected, temporary/in-limbo status
- Undocumented / unauthorized
- Each has different relationship to labor market and employment





PERMANENT RESIDENT (GREEN CARD)

- Legal resident, good for 10 years
- Multiple categories
- Family based (largest category)
- "EBs" Employment-based, five categories of "extraordinary ability" (aka Einstein cards)
- Other smaller categories offer protection or opportunity to "special" immigrants
 - Includes individual refugee and asylum seekers
 - Different than group protections (more in a bit)
- # caps on most; current cap of about 900,000
- But no limits on immediate family, boosts total #s



PERMANENT STATUS

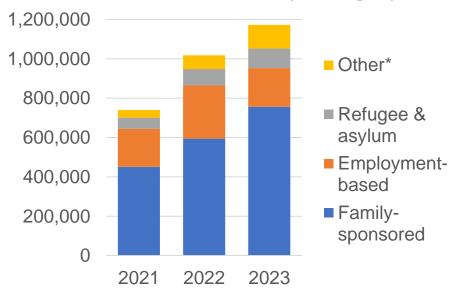
U.S. green cards Persons obtaining lawful permanent resident status

1820 to 2023 2,000,000 **U.S.** population 1,800,000 1910: 92 mil 2000: 282 mil 1,600,000 2023: 335 mil 1,400,000 1,200,000 1,000,000 800,000 600,000 400,000 200,000 1863 1883 1903 1923 1943 1963 1983 2003 2023

Awarding more green cards now than early in pandemic

Population-adjusted basis: Similar to trend since 2000

Green card holders, by category

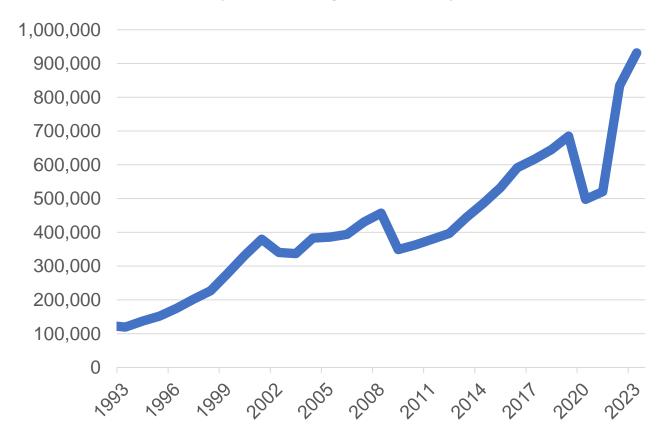




TEMPORARY WORK VISAS

Total annual temporary work visas

('non-immigrant' visas)



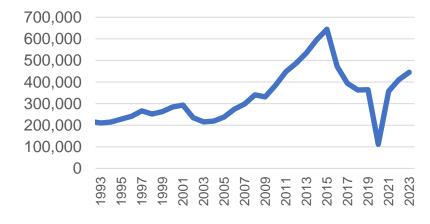
Source: Report of the Visa Office, various years Includes visa types E, H, L, O, Q, R, TN

Temporary work visas: Authorization to work for 3 years

Can lead to green card, but waits are long and \$\$\$

Does *not* include other temporary visas that *allow* for work but do not *require* employment (fiancé, student, exchange, others)

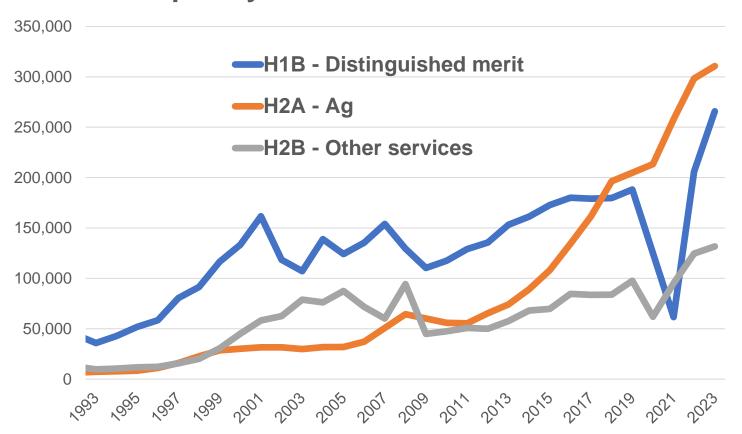
International students (4 yr)





TEMPORARY WORK VISAS (US TOTALS)

Temporary work visas: The "H" visas



"H" visas are workhorse of non-immigrant visas

H2A (ag) visas: 300,000 = 10% of crop farm labor force

40-45% ag workforce estimated to be undocumented foreign-born workers (= 4x H2A)

Source: Department of Homeland Security





PROTECTED/IN-LIMBO STATUS

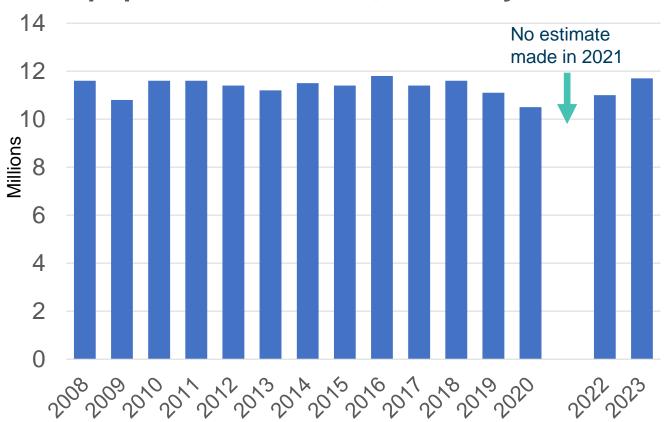
Allows entry for certain groups; protects from deportation; does *not* offer any legal/immigration status

- Deferred Action for Childhood Arrivals (DACA):
 Children of undocumented immigrants; authorizes work;
 does not provide a pathway to citizenship or legal status
 - Estimated at 460,000
- Humanitarian parole protection: Allows for entry, but doesn't authorize work; currently 400k, from 30k in 2021
- Temporary Protected Status: Group protections for those fleeing conflict or other situations; authorizes work
 - Est. 863,000 180k-340k each from El Salvador,
 Haiti, Venezuela; # has doubled since 2019



UNDOCUMENTED

Estimates of total undocumented population in the US; various years



Estimates come from surveys with *lots* of assumptions

Border traffic – and related enforcements – higher of late

Labor force participation rate: Estimated to be 65%; that's higher than workforce overall, and higher-still than "born here" population

5% (+/-) of US workforce

Estimated to be much higher in certain sectors (ag, construction, buildings & grounds, food processing)





LABOR FORCE & IMMIGRATION: A FRAMEWORK

- Economic growth requires increases in productivity, labor force size, and/or labor force participation rate
 - Productivity not trending persistently higher
 - Population and labor force growth ebbing
 - LFP rate down, unlikely to jump higher quickly
- What role immigration? First, there are other, very legitimate debates to have about immigration and noneconomic issues (e.g., border security, humanitarian aid)
 - These overlap but are different than debate related to broader economy, labor and economic growth
- For the economy, it's simple math: Whether you believe in allowing more or fewer people into U.S., via many channels, this "flow" will influence labor force size and economic growth accordingly. Start there.



BEFORE WE GO: WHAT'S YOUR OUTLOOK?

OUTLOOK: What is the outlook for your business or organization over the next 6 months?



FUTURE FACTORS A QUICK LOOK AT TARIFFS

IMPORTS & POSSIBLE TARIFF IMPACTS

Share of IMPORTS by top trading partners

Based on total value of imports (YTD- November 2024)

	Minnesota	Montana	North Dakota	South Dakota	Wisconsin
Canada	36.23	91.76	64.86	37.95	16.14
China	16.33	1.27	3.58	15.29	16.27
Mexico	7.76	1.58	5.56	5.98	15.42
Vietnam	7.1	0.26	0.32	2.08	6.86
Germany	4.03	0.89	2.83	4.02	6.55
Ireland	3.67	0.02	0.17	0.28	8.94
Italy	1.44	0.79	0.83	3.38	2.54
South Korea	0.59	0.17	4.92	0.71	1.14
Brazil	0.56	0.07	0.23	15.09	0.29

Source: U.S. Census Bureau



EXPORTS & POSSIBLE TARIFF IMPACTS

Share of EXPORTS to top trading partners

Based on total value of exports (YTD- November 2024)

Minnesota	Montana	North Dakota	South Dakota	Wisconsin
28.28	37.12	69.64	45.34	29.1
16.04	2.94	12.68	20.03	15.95
7.51	3.64	0.66	7.24	5.63
3.9	6.92	0.56	3.75	2.25
2.96	0.14	0.01	0.27	0.76
2.75	10.3	0.34	1.54	2.52
2.58	4.39	1.08	1.91	2.82
2.49	0.94	0.71	1.78	4.23
2.15	0.79	4.34	1.62	2.94
2.15	0.79	4.34	1.62	2.94
	28.28 16.04 7.51 3.9 2.96 2.75 2.58 2.49 2.15	28.28 37.12 16.04 2.94 7.51 3.64 3.9 6.92 2.96 0.14 2.75 10.3 2.58 4.39 2.49 0.94 2.15 0.79	MinnesotaMontanaDakota28.2837.1269.6416.042.9412.687.513.640.663.96.920.562.960.140.012.7510.30.342.584.391.082.490.940.712.150.794.34	MinnesotaMontanaDakotaDakota28.2837.1269.6445.3416.042.9412.6820.037.513.640.667.243.96.920.563.752.960.140.010.272.7510.30.341.542.584.391.081.912.490.940.711.782.150.794.341.62

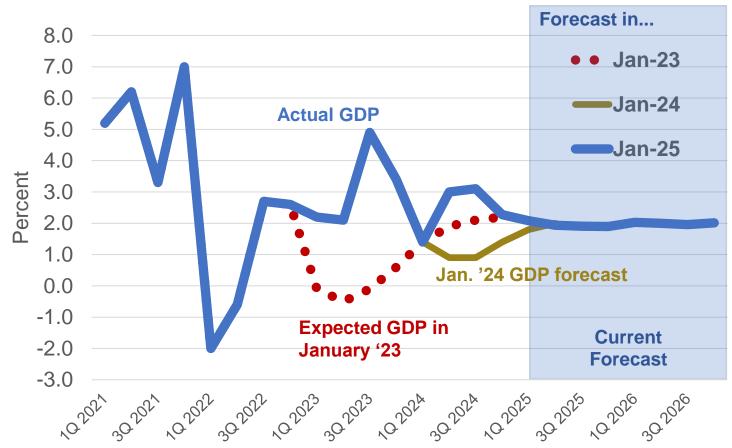
Source: U.S. Census Bureau

PRIVATE FORECASTS (BUYER BEWARE!)

PRIVATE GDP FORECASTS: BLUE CHIP

Blue Chip consensus forecasts for GDP January '23 & '24 vs January 2025

(Consensus of 48 private forecasts)



Private forecasts
consistently wrong

Near-term forecast = slow

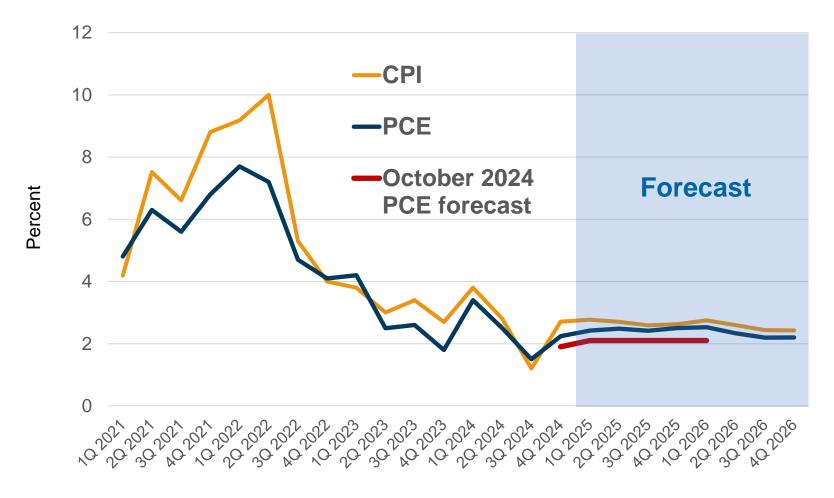
2% through 2026



OUTLOOK FOR INFLATION

CPI and PCE forecasts in January 2025

Consumer Price Index and Personal Consumption Expenditures index



Private-market forecasts have shifted their PCE & CPI expectations 40 bps higher since October

Whether or not that happens, the point is that things can (and have) shifted (+/-) on short notice

Wish all businesses luck – and stability – in 2025!



THANK YOU! QUESTIONS?

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