CURRENT ECONOMIC CONDITIONS IN MINNESOTA

October 9, 2024 **Ron Wirtz** Regional Outreach Director



FEDERAL RESERVE BANK OF MINNEAPOLIS

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TODAY'S TALK

Current state of the economy

- National growth slowing, except not
- MN generally slower; surveys suggest sluggishness
- Employment remains bright spot, but softening
- Still lots (and *lots*) of challenges
 - Inflation, labor, interest rates, wages
- Forecast: Slower (*Maybe?*)
- Interactive survey: Tell us how YOU see the economy
- Lots of data, but fast-moving; will share PPT



LOGIN FOR INTERACTIVE SURVEY

- Are you interested in what your peers think about the economy? Then (please) participate
- Give, so you can receive
- 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



FIRST, LET'S HEAR FROM YOU ABOUT RECENT ACTIVITY:

SURVEY TIME!

RECENT BUSINESS: How would you describe business activity at your company or organization over the last quarter (July-Aug-Sept)?

Terrible		
	(0%
Poor		
		20%
Average/OK		
		55%
Good		
		22%
Great		
		3%

FEDERAL RESERVE BANK OF MINNEAPOLIS

NOW SOME DATA FIRST, FROM 30,000 FT

GROSS DOMESTIC PRODUCT

Real gross domestic product Q1 2019 = 100

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Real GDP = total output, adjusted for inflation

US (annualized quarterly rate) Q1, 2024 – 1.6% Q2, 2024 – 3.0%

Last four Qs: 3% growth

Minnesota: Slower

Q1: -0.8% Q2: 1.3%

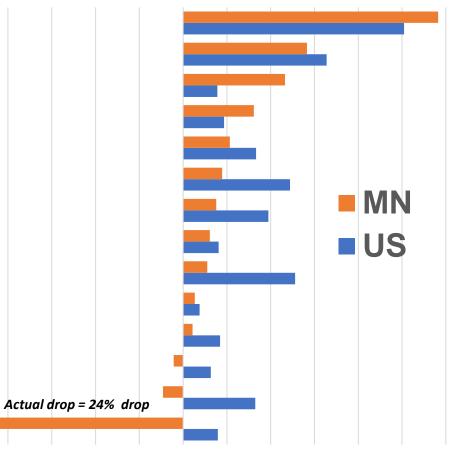
Future GDP predicted 1.5-2%



GDP BY SECTOR: LAST FOUR QUARTERS

GDP by sector: Q2 2023 to Q2 2024

Retail trade Construction Educational services Government Finance and insurance Health care and social assistance Manufacturing Real estate and rental and leasing Information Wholesale trade Leisure & hospitality Transportation and warehousing Professional, scientific, and technical... Ag & natural resources



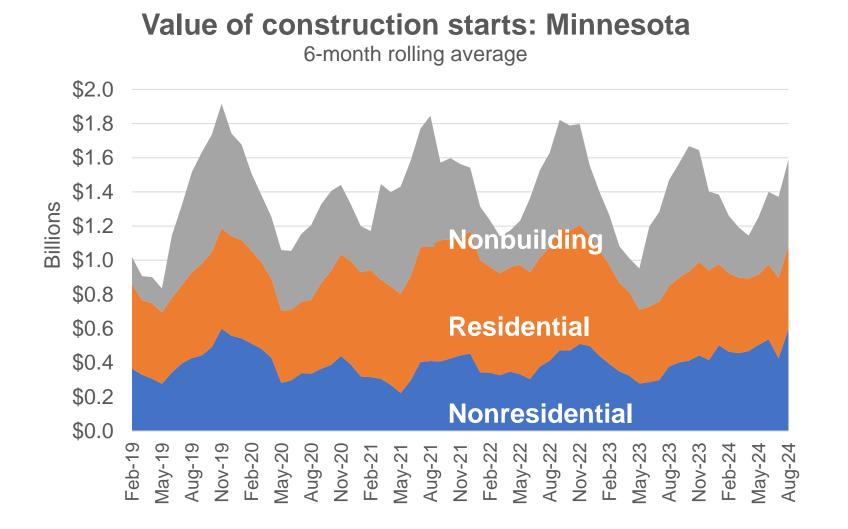
-10% -8% -6% -4% -2% 0% 2% 4% 6% 8% 10% 12%

Retail and construction seeing best GDP growth

Transportation, professional-scitech and (esp) ag seeing some difficulty



NEW CONSTRUCTION STARTS



Industry data suggests that construction seeing some rebound

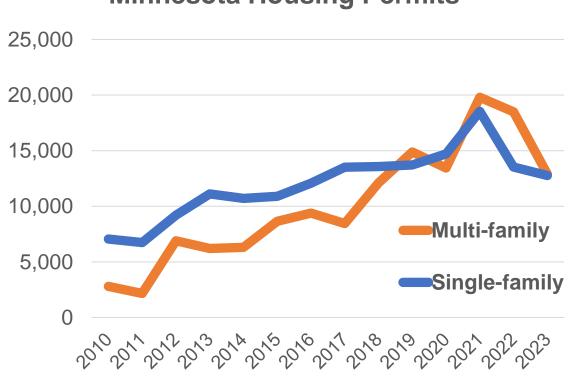
July-Aug almost 10% higher than last year

But industry contacts suggest fewer projects out for bid, more competition

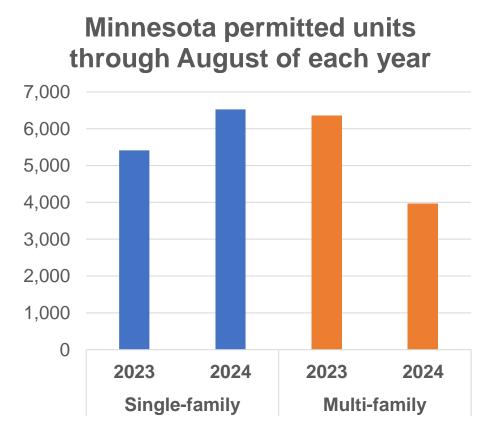


HOUSING PERMIT DATA – NINTH DISTRICT

- Housing in retreat in 2022 & 2023
- 2024: Single-family seeing some recovery; multi-family continued decline



Minnesota Housing Permits

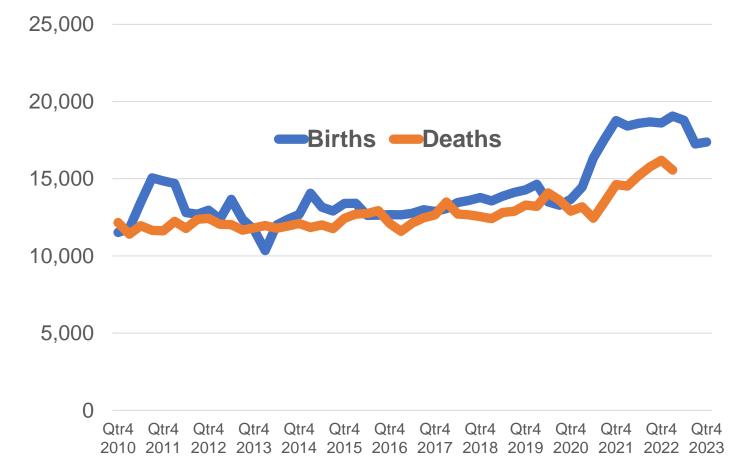




ENTREPRENEURSHIP

MN establishment births and deaths

4-quarter rolling average



Seeing more (net) start-ups, and research suggests they are fueling post-pandemic growth



WHAT ARE BUSINESSES SAYING?

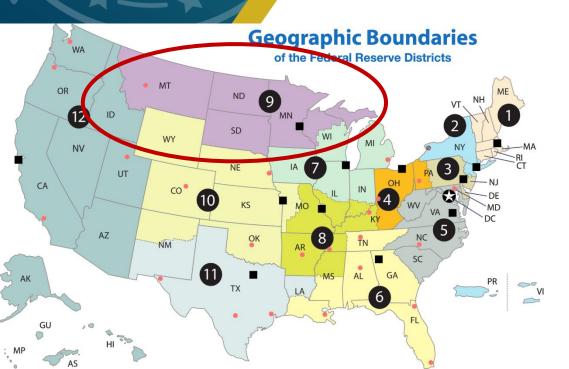


Minneapolis Fed does *a lot* of outreach to businesses for intel on real-time conditions in the Ninth District (six-state region)



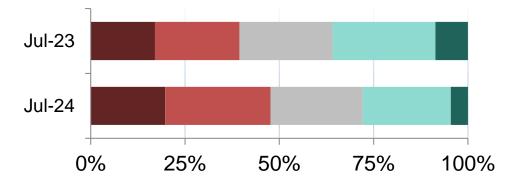
- Tourism & hospitality (August)
- Construction
- Manufacturing
- Professional services
- Monthly pulse survey





MINNEAPOLIS FED SURVEYS: TOURISM & CONSTRUCTION

General Business Survey Recent revenue compared with last year





Moderate decline

Mostly flat

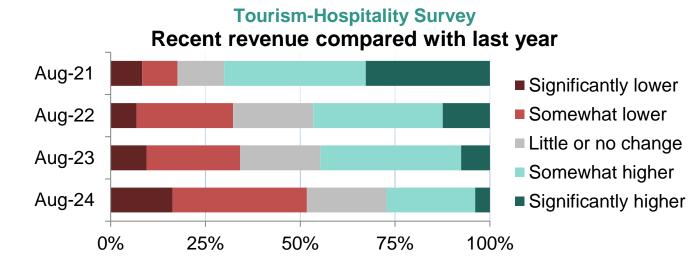
Moderate increase

Significant increase

Top: General Business

firms have seen continued revenue erosion

Bottom: Tourism & Hospitality firms had terrible winter, and a weak summer; overall outlook has declined



Source: Federal Reserve Bank of Minneapolis surveys, various years



WHAT ABOUT EMPLOYMENT?

TOTAL EMPLOYMENT

Total employment index

January 2019 employment = 100



US job growth holding up surprisingly well

MN much flatter overall

Why? Complicated, but stay tuned

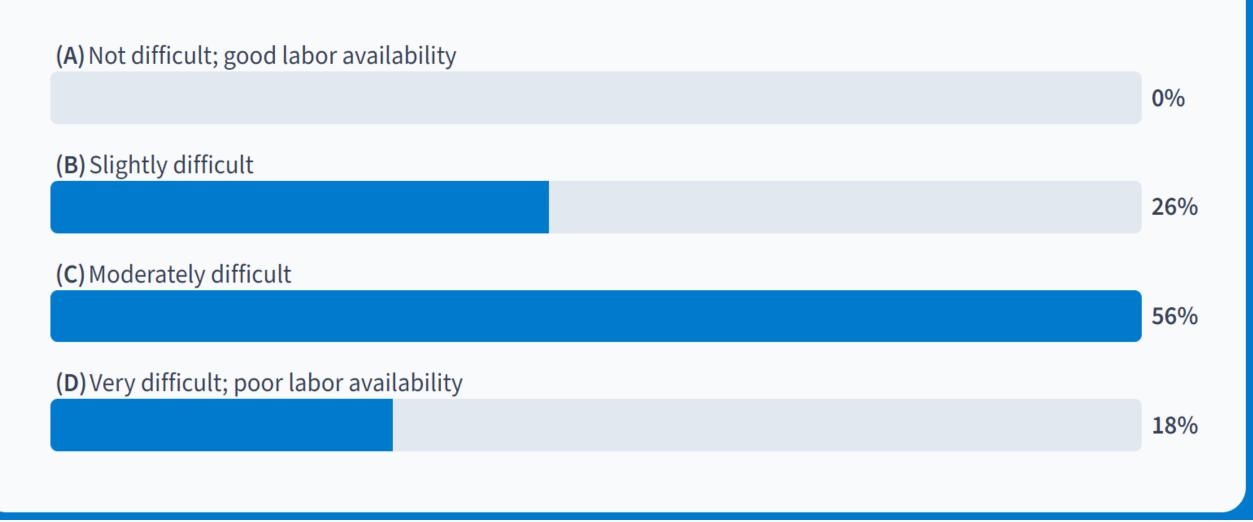


LABOR: What BEST describes current hiring demand at your organization?

Hiring to fill turnover		
	38%	
Hiring seasonal or part-time		
	0%	
Hiring to expand full-time/year-round		
	23%	
A, B, & C		
	6%	
Not hiring; stable staffing		
	32%	
Cutting workers (seasonal and/or year-round)		
	2%	

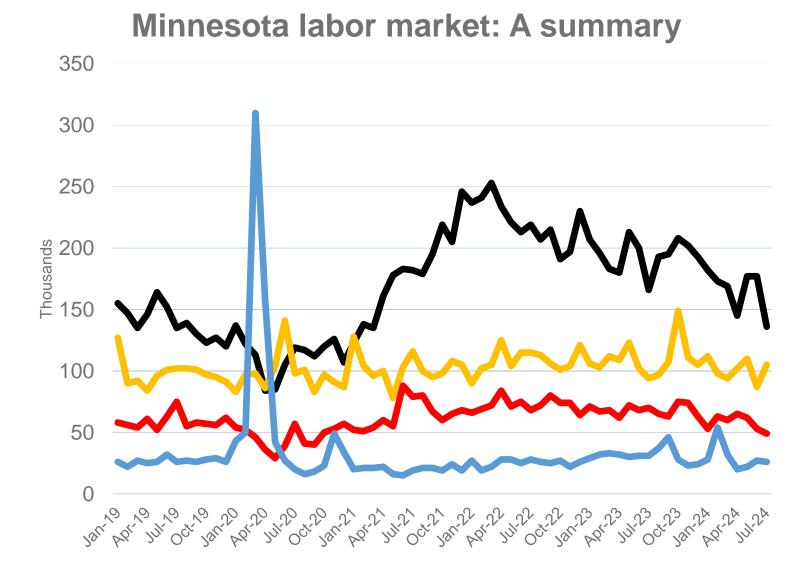


LABOR AVAILABILITY: If hiring, how would you describe your company's ability to find labor?





MINNESOTA LABOR MARKETS (ALL JOBS)



<u>Job openings</u>: Hiring demand has softened significantly

<u>Hires</u>: Generally stable, higher than pre-pandemic

<u>Voluntary quits</u>: Higher, but slowly easing

Layoffs: More volatile

<u>Overall</u>: Softening, but unlikely to *remain* soft



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

qualified-workers strategic-growth uncertainty economic-uncertainty experience uncertainty economic change liquidity clients change profits/margin turnover for the costs of th leadership income_{uncertainty/} rate reve resources environment funding ep hiring longevity regulation economic cost-of-capital management labor_{talent} employee rising economic-activity organic slow-lending

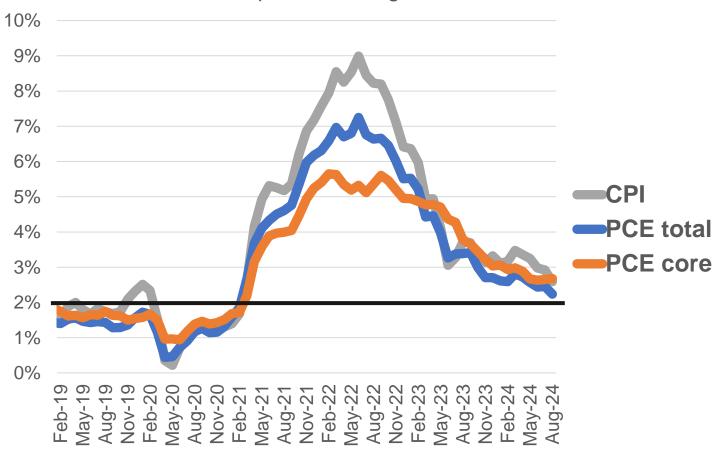
A DEEPER LOOK AT CHALLENGES

INFLATION



Inflation indexes

12-month percent change, chained index



Consumer Price Index (CPI) vs. Personal Consumption Expenditure (PCE)

What's the difference? Does it matter?



Source: Bureau of Economic Analysis

WHY DID FED CUT RATES 50 BPS?

Federal Reserve's dual mandate for monetary policy:

- Stable prices
- Maximum employment

Federal funds rate: Interest rate that banks charge each other to borrow money overnight

- Cut by 50 basis points to 4.75% to 5%. Why?
- Substantial progress on inflation
- National labor market has softened: Higher unemployment, lower employment growth, fewer job openings, falling quits
- <u>"The balance of risk has shifted"</u> (minneapolisfed.org)



LONG-TERM CHALLENGE:

LABOR FORCE GROWTH

ECONOMIC GROWTH 101

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

Increase productivity



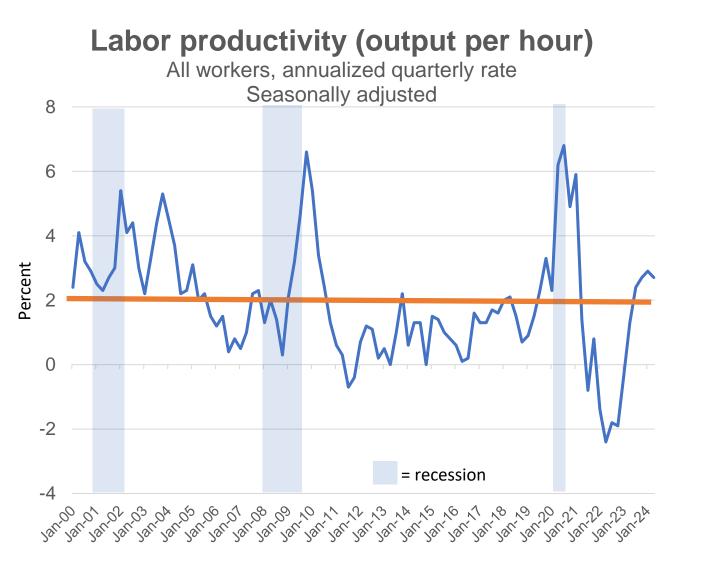
US LABOR PRODUCTIVITY

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"







ECONOMIC GROWTH 101

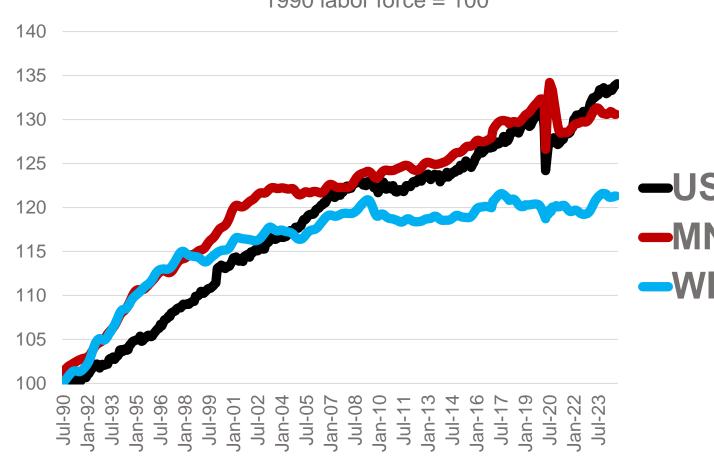
Only a few basic ways to grow a business (and by extension, a state or national economy)

- 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
- Lower labor force participation



Source: Bureau of Labor Statistics

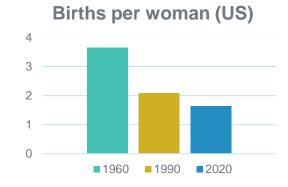
POPULATION GROWTH

Population growth index 1990 population = 100 -US -MN -WI

Slower population growth

2010 to 2020 – aver. 30k-40k in <u>annual</u> population growth in MN 2020 to 2023: 27,000 <u>total</u>

Reason #1: Declining fertility

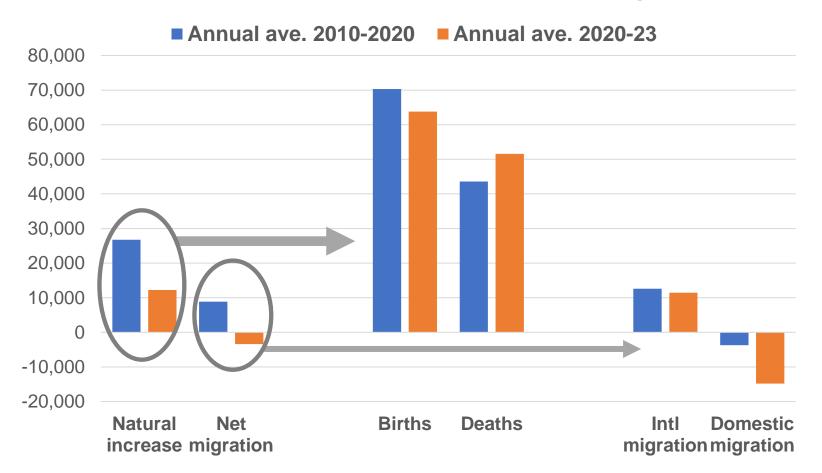


Reason #2: Lower net migration



COMPONENTS OF POPULATION CHANGE, CONT.

Components of population change in MN



Recent annual trends

Births: Falling

Deaths: Rising

International migration: Down slightly, but remains positive, and rebounding

Domestic migration: Worsening

NONE of these trends are expected to change positively in near future



LABOR FORCE PARTICIPATION

LABOR FORCE PARTICIPATION

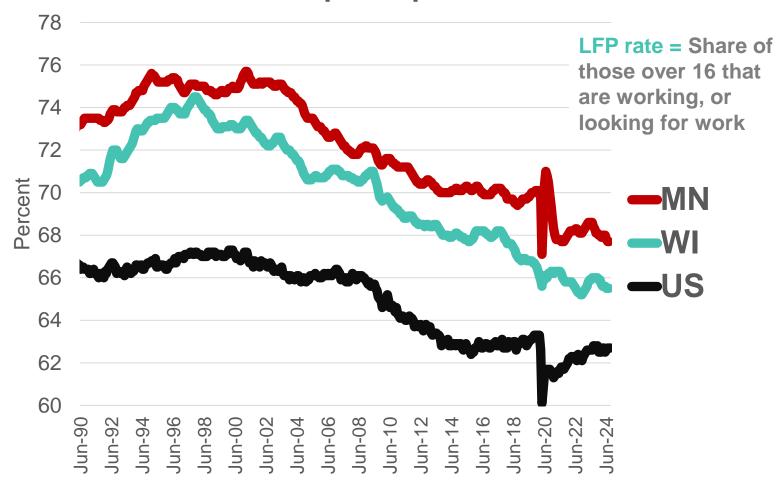
The hidden problem

LFP rates in decline since about 2000

Started to level out ... then pandemic hit

MN & WI rates not rebounding like US

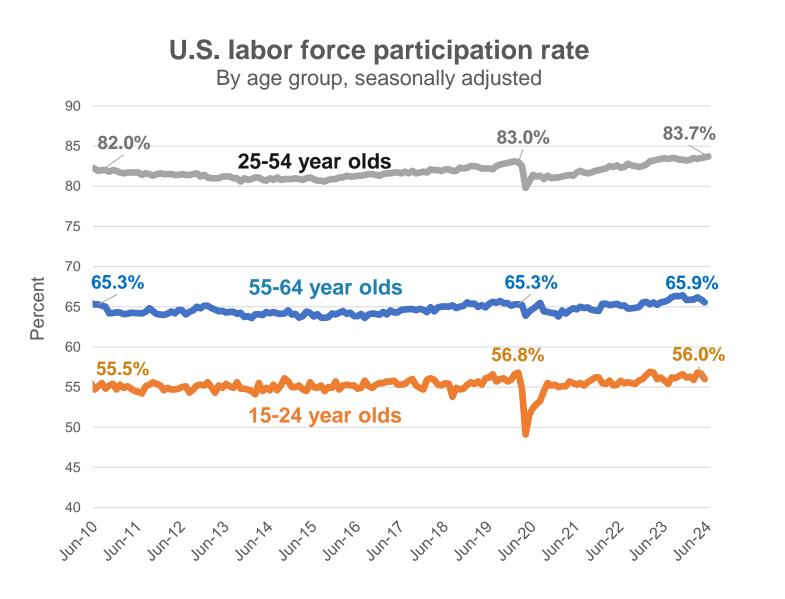
Much of long-term decline was predictable (aging Boomers); pandemic lag was not Labor force participation rate





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

LABOR FORCE PARTICIPATION, CONT.



Nobody wants to work anymore? That's <u>not</u> obvious from the data

65+ workers want to work less = that's a BIG change

LFP, 65 and over, no disability Not seasonally adjusted





SO WHAT'S YOUR POINT, RON?

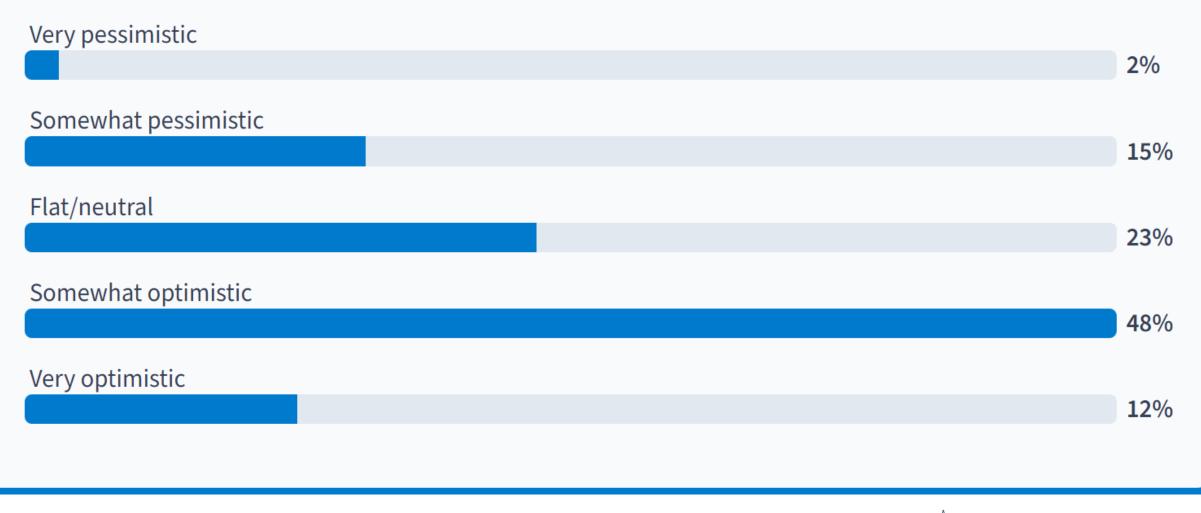
- Despite unparallelled challenges, economy continues to grow; businesses have been *extremely* resilient
- Long-term, labor supply will continue to challenge
- Fundamentally: 1) not enough *people* growth and
 2) not as many choosing to work
- From that base, can Minnesota:
 - Attract more people
 - Incentivize more people to work, & work more
- Employers and workers already adjusting, but can we accelerate? How? What role government policy?
- Framing: Is this an obstacle or an opportunity?
 - How do we problem-solve for everyone's benefit?



BEFORE WE GO:

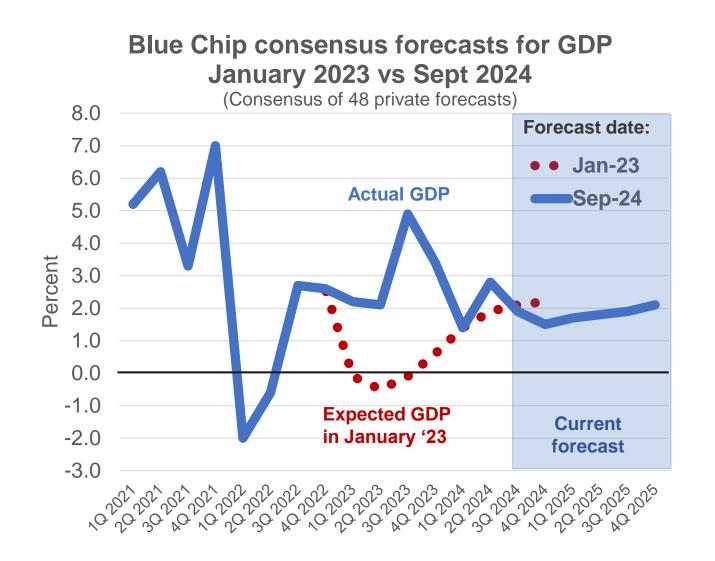
WHAT'S YOUR OUTLOOK?

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





PRIVATE GDP FORECASTS: BLUE CHIP



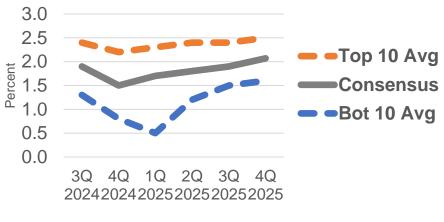
Source: Blue Chip Financial Forecasts®, CCH Incorporated

Private forecasts consistently wrong

Near-term forecast = slow; about 2% growth

Some variation among forecasts, but no forecast for "R word"

Forecast: Consensus, Top 10 & Bottom 10

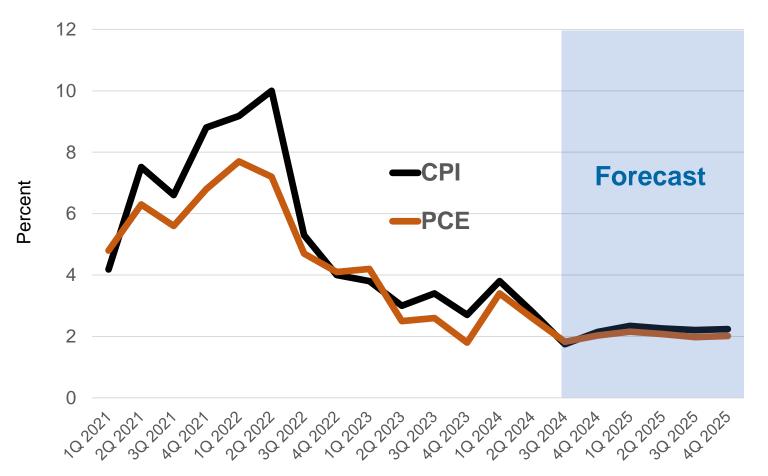




OUTLOOK FOR INFLATION

CPI and PCE forecasts

Consumer Price Index and Personal Consumption Expenditures index



Private-market forecasts largely agree that inflation will be lower, stable

Hopefully leads to a faster-growing economy for everyone

Wish all businesses luck through remainder of the year and into 2025!



Source: Blue Chip Financial Forecasts®, CCH Incorporated

THANK YOU! QUESTIONS? SPEECH/WEBINAR REFERRALS WELCOME! **TWITTER: @RONWIRTZ @MINNEAPOLISFED CONNECT VIA LINKEDIN** RON.WIRTZ@MPLS.FRB.ORG