

# CURRENT ECONOMIC CONDITIONS IN MINNESOTA

February 14, 2024

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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

- National growth healthy; Minnesota positive, slower
- Construction & real estate (esp. residential) hit hard
- Still lots (and *lots*) of challenges
  - Inflation, interest rates
  - Labor! Labor! Labor!
    - Job demand & job growth slower, but steady
    - Long-term challenges remain
- Forecast: Slower, *maybe*
- Interactive survey: Help inform *each other* on how *this group views the economy*
- *Lots of data, but fast-moving; will share PPT*



## LOGIN FOR INTERACTIVE SURVEY

- ***Find out how your peers 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***





**FIRST, FROM 30,000 FT**

# GROSS DOMESTIC PRODUCT

Real GDP = total output,  
adjusted for inflation

Q4, 2023: **3.3 percent** (1<sup>st</sup> est)

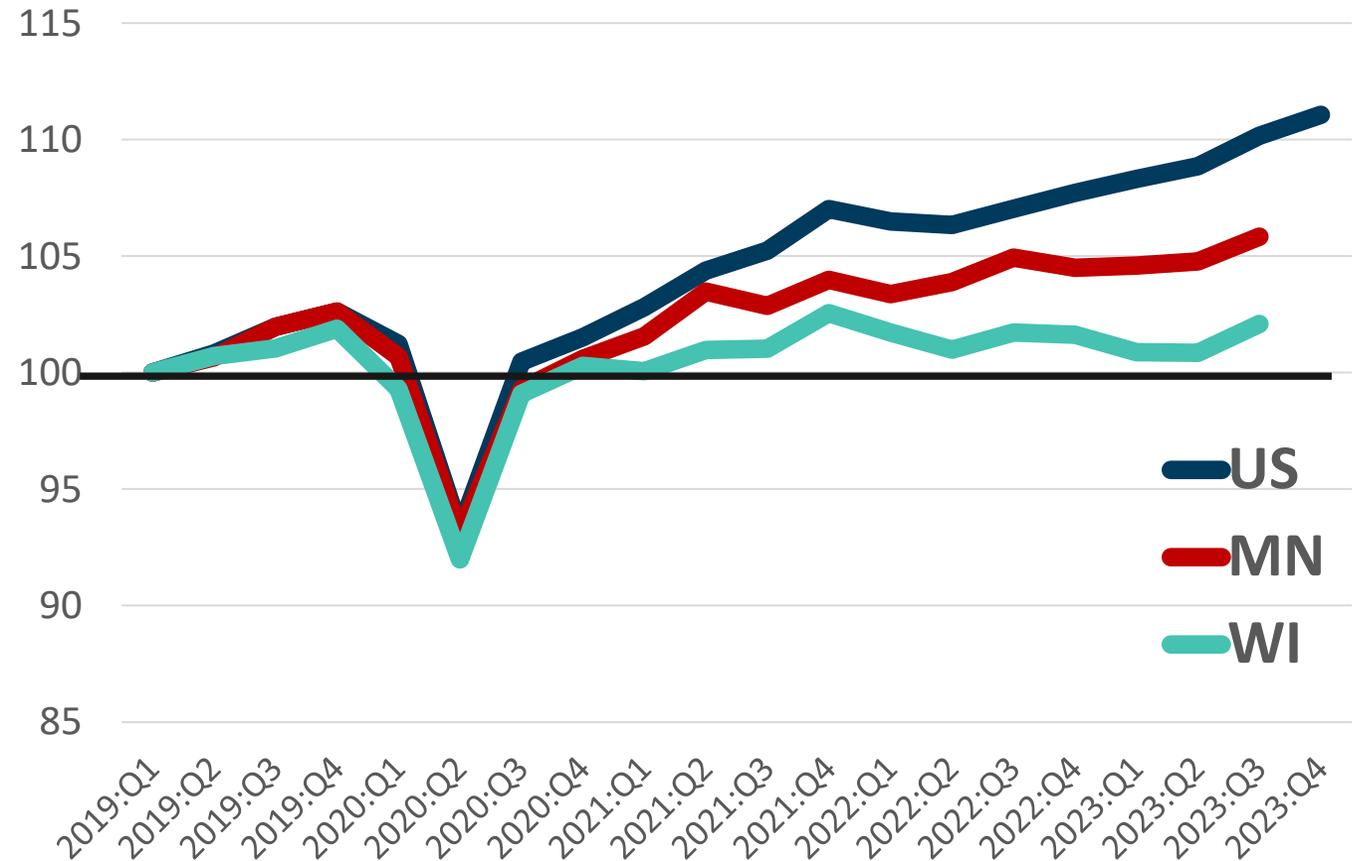
Last four Qs: **3.1% growth**

Minnesota seeing same  
directional trend, but lower

Future GDP getting revised  
higher and lower (*more later*)

## Real gross domestic product

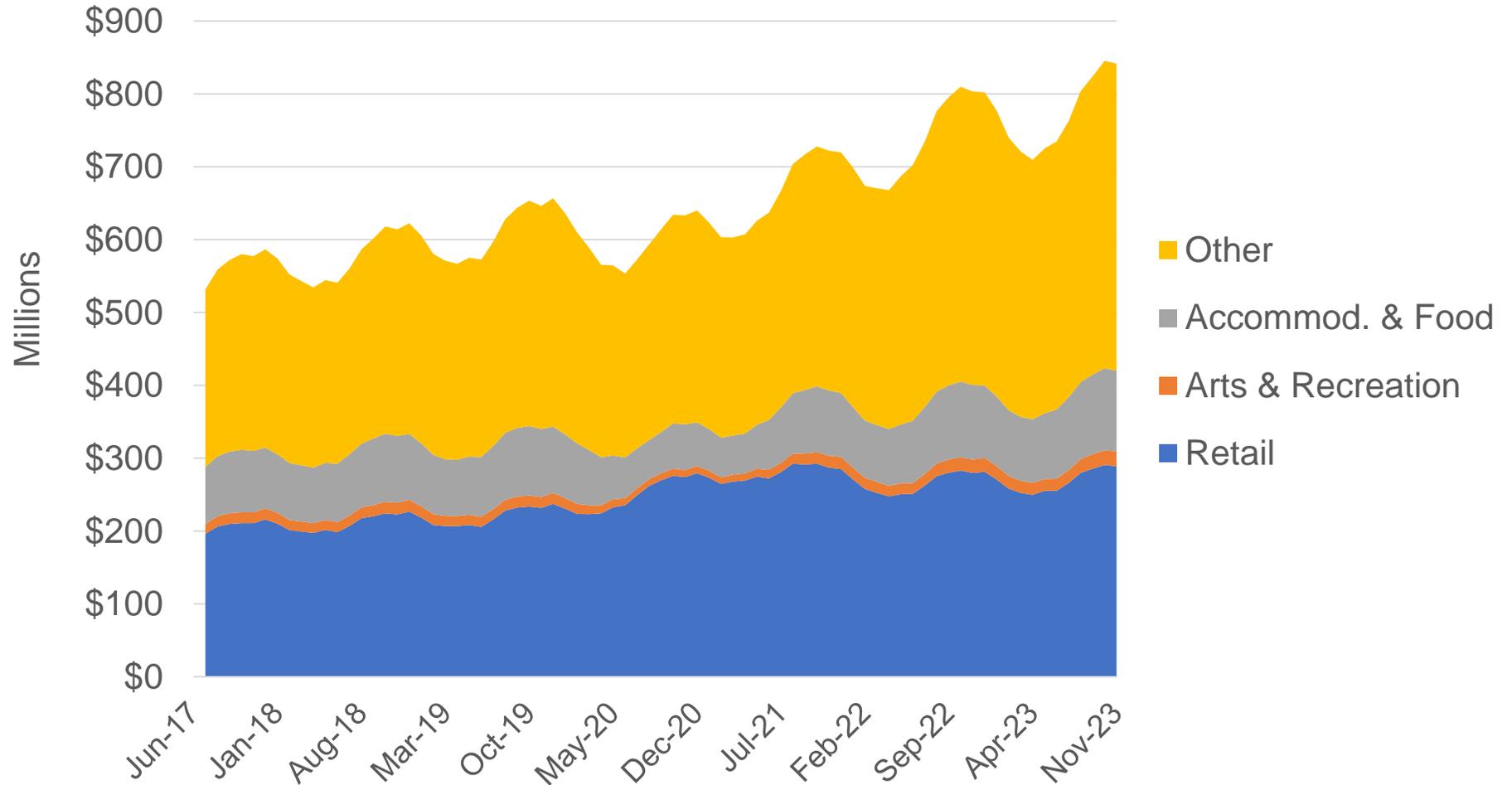
Q1 2019 = 100



# MINNESOTA SALES TAXES

## Minnesota sales tax receipts

Rolling monthly average of previous 6 months



**Consumer-led recovery continues**

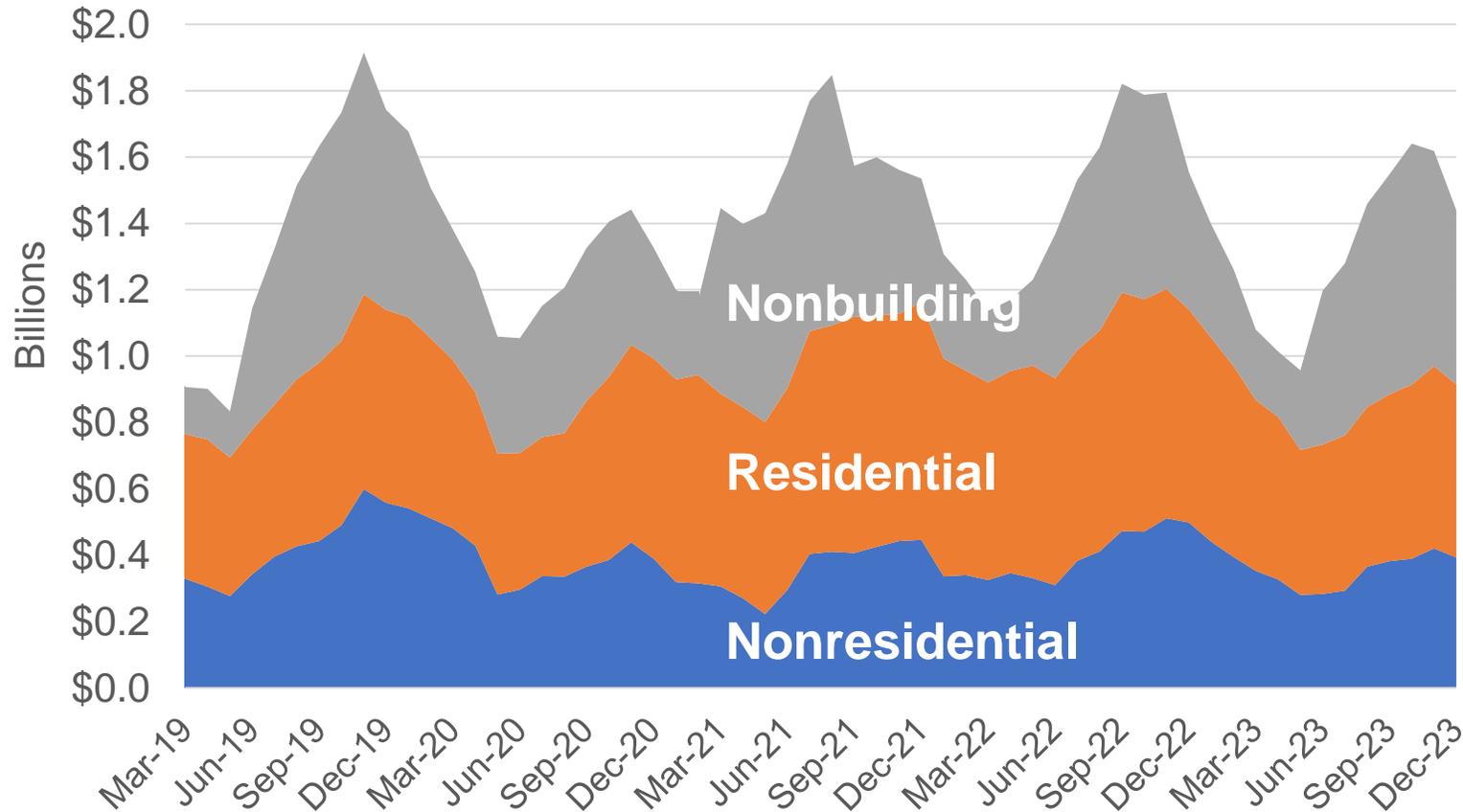
**Oct & Nov retail sales taxes 6-8% higher (yoy)**



# NEW CONSTRUCTION STARTS

## Value of construction starts: Minnesota

6-month rolling average



**Total value of construction starts, 2022 vs 2023:**

**Residential: -10%**

**Nonresidential: -23%**

**Nonbuilding: +10%**

Source: Dodge Data & Analytics

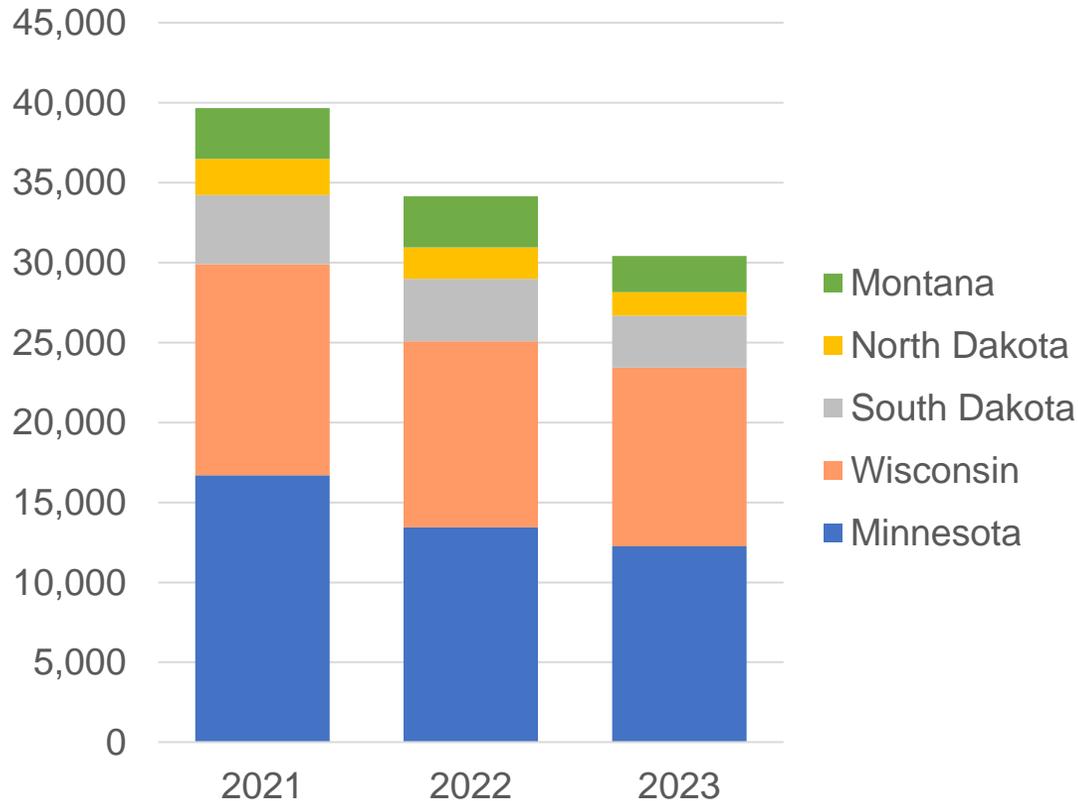


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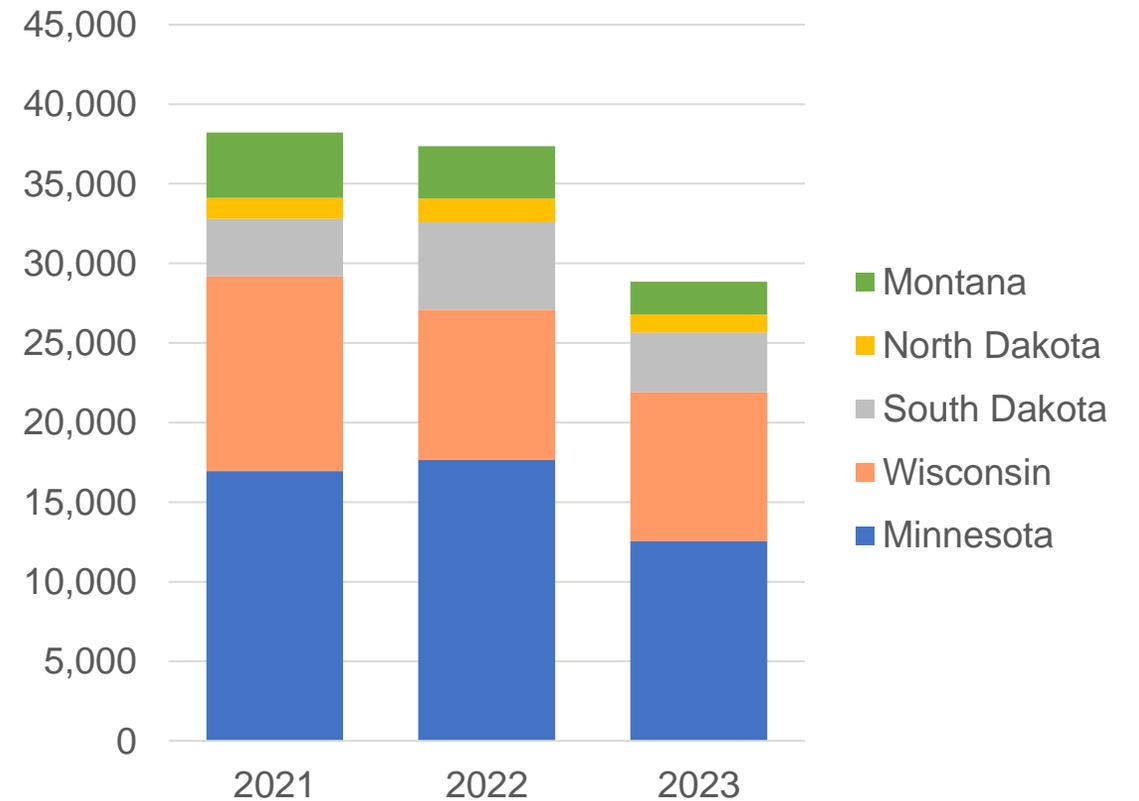
# HOUSING PERMIT DATA – NINTH DISTRICT

- Stair-step slide in single-family since peak, some evidence of possible bottom
- More dramatic fall-off for multi-family in 2023, evidence of continued slowness

## Single-family permits

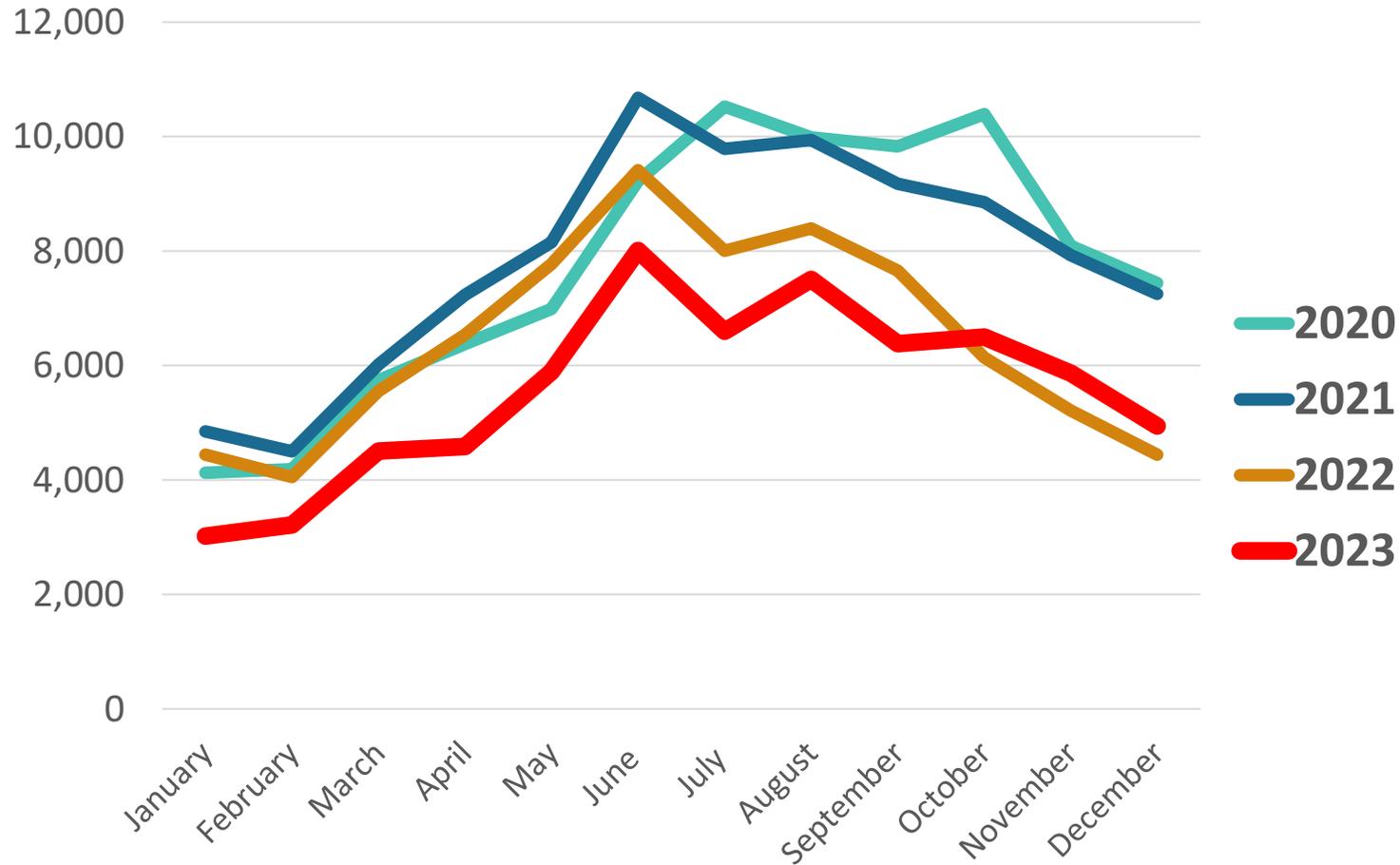


## Multi-family permits



# RESIDENTIAL REAL ESTATE

## Closed home sales in Minnesota



**Single-family home sales slow; feeling for the bottom**

**Sales “growth” since September, but low bar**

**Dearth of homes-for-sale putting floor under prices**





**WHAT ARE BUSINESSES SAYING?**

# MINNEAPOLIS FED SURVEYS

## General Business Survey

- Survey recently closed
- FREE webinar for results
- February 23, 9am
- Register at:  
[www.minneapolisfed.org](http://www.minneapolisfed.org)
  
- Teaser? Firms seeing some tough sledding, but optimistic



## Regional Economic Conditions: General Business

Event on February 23, 2024



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**WHAT ABOUT AT YOUR BUSINESS,  
AND AMONG YOUR BUSINESS  
CONTACTS?**

**SURVEY TIME!**

## RECENT BUSINESS: For this time of year, how would you describe recent revenue and general business activity at your company?





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# CHALLENGES

**WHAT'S THE BIGGEST  
CHALLENGE AT YOUR COMPANY?**

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



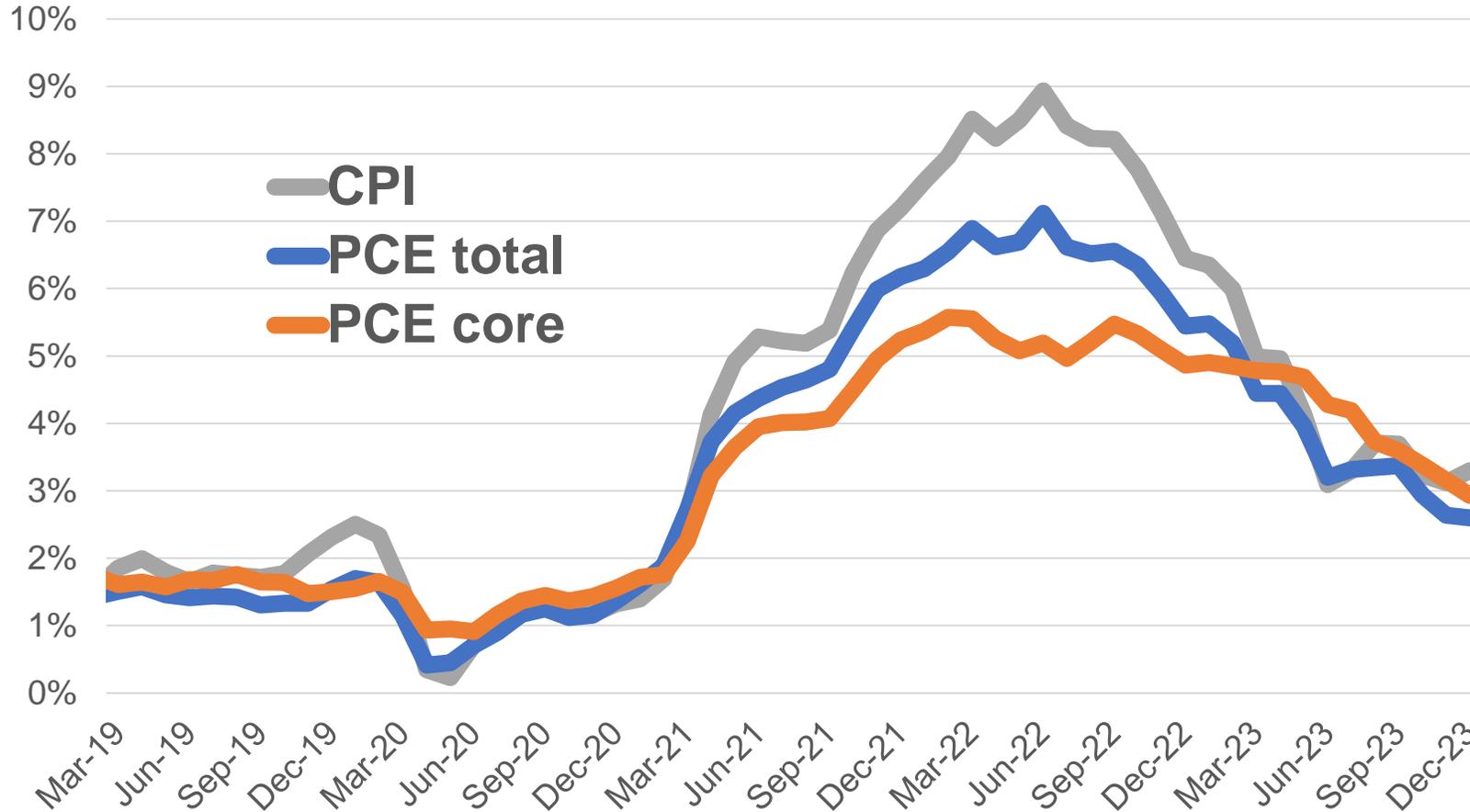


**A DEEPER LOOK AT  
INFLATION**

# INFLATION – TWO MEASURES

## Inflation indexes

12-month percent change, chained index



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

**Inflation trend improving, but work left to get to Fed's 2% target**

Source: Bureau of Economic Analysis



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# INFLATION: NOT ALL GOODS & SERVICES CREATED EQUAL

## *Inflation for goods:*

Durables showing continued stubbornness

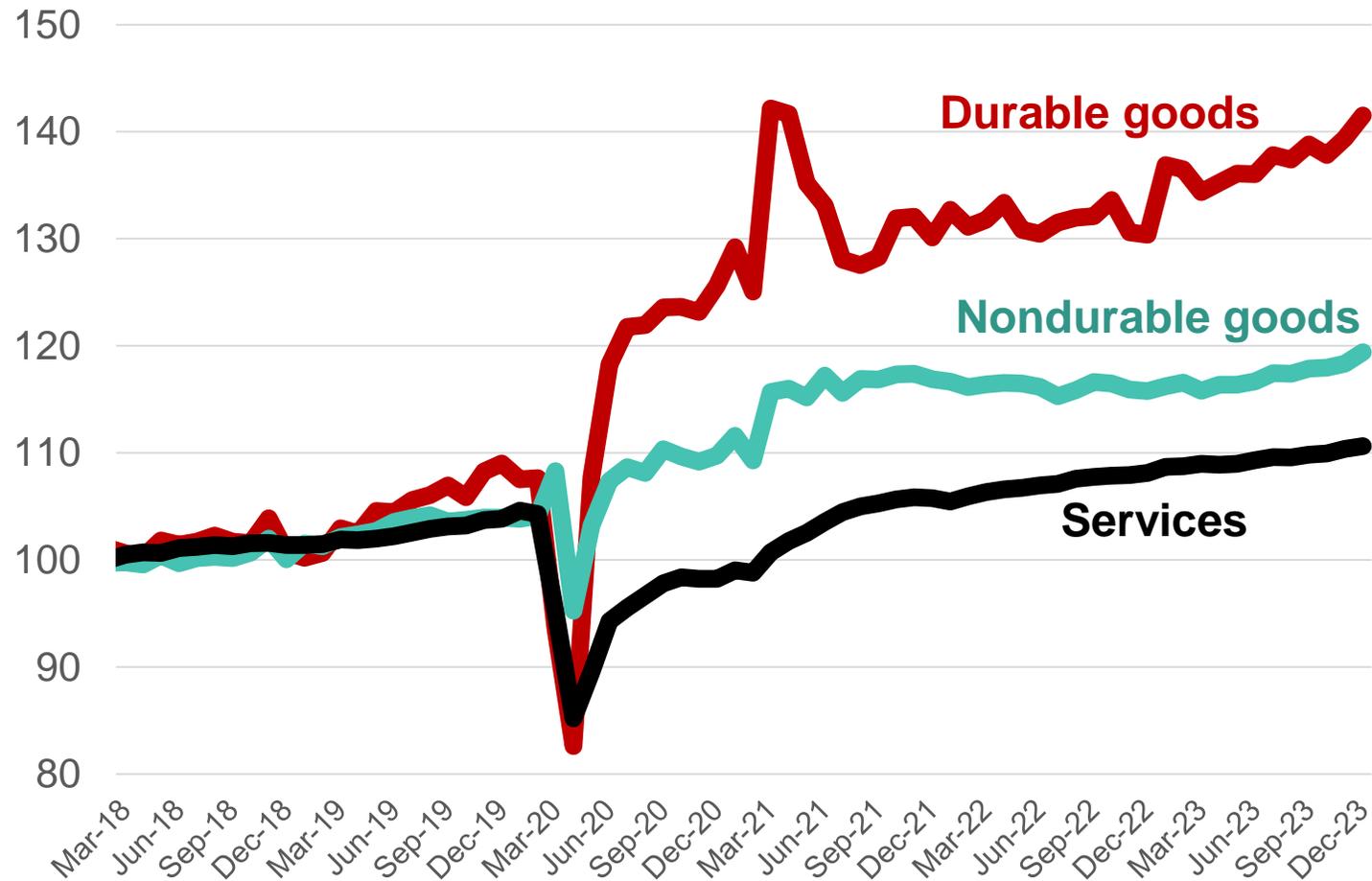
## *Inflation for services:*

Moderate, and stable

## Personal Consumption Expenditures Index

Index Jan. 2018=100

Monthly, Seasonally Adjusted Annual Rate



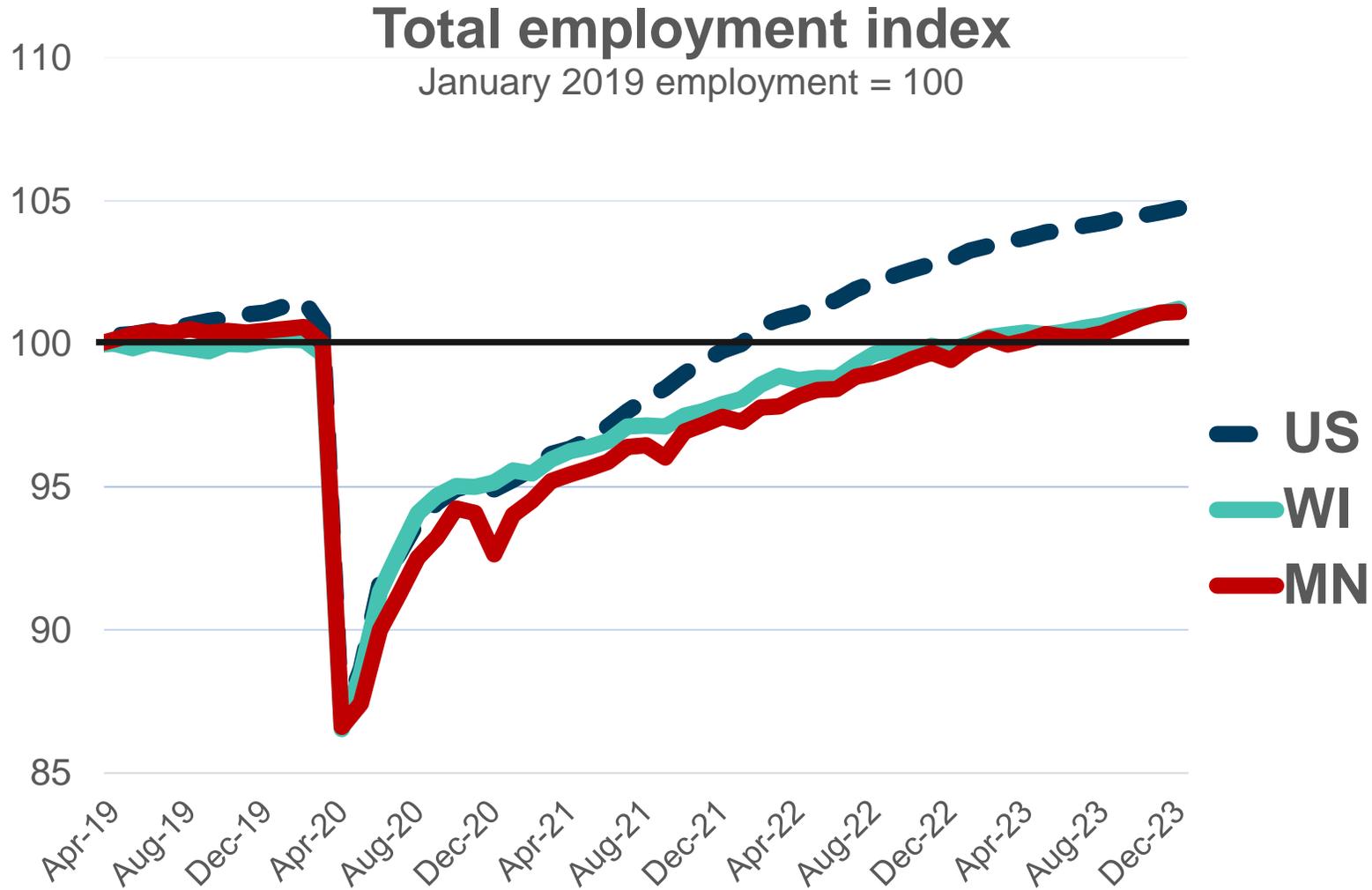


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# EMPLOYMENT & LABOR MARKETS

## FIRST, BIG PICTURE

# TOTAL EMPLOYMENT



US job growth holding up surprisingly well

MN also growing, but much flatter; similar to pre-pandemic trend

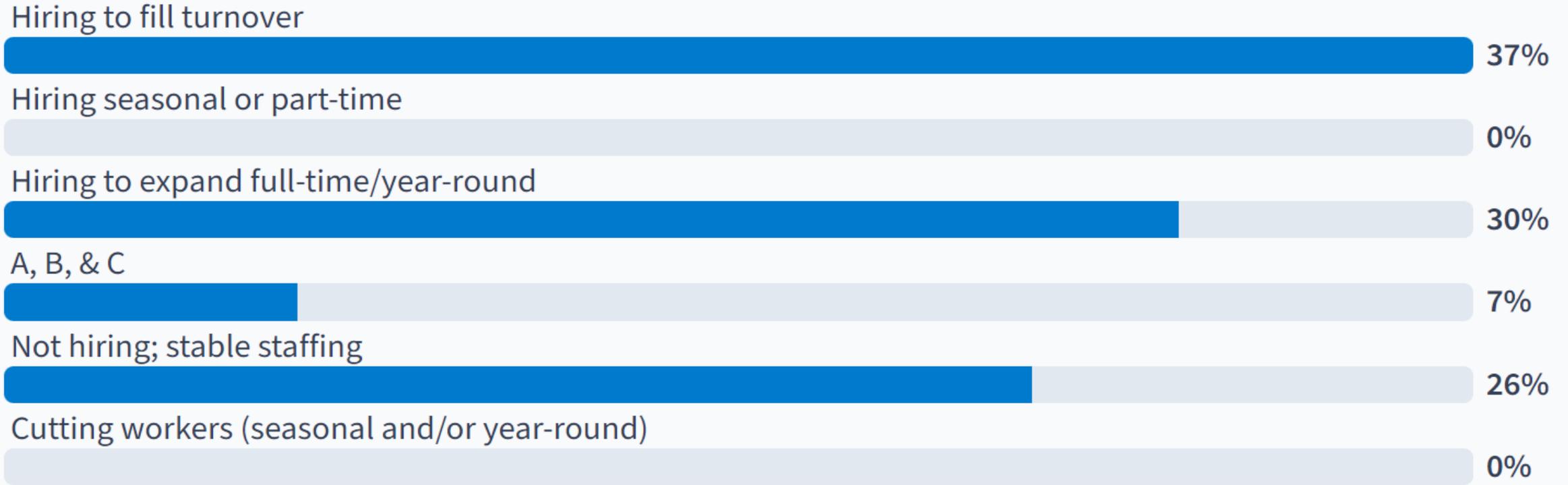
Why? Stay tuned





**PEELING THE ONION**  
**OF EMPLOYMENT AND LABOR**  
**MARKETS**

## LABOR: What BEST describes current hiring demand at your company?

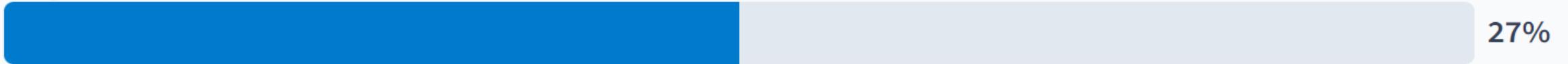


## LABOR AVAILABILITY: If hiring, how would you describe your company's ability to find labor?

Not difficult; good labor availability



Slightly difficult



Moderately difficult

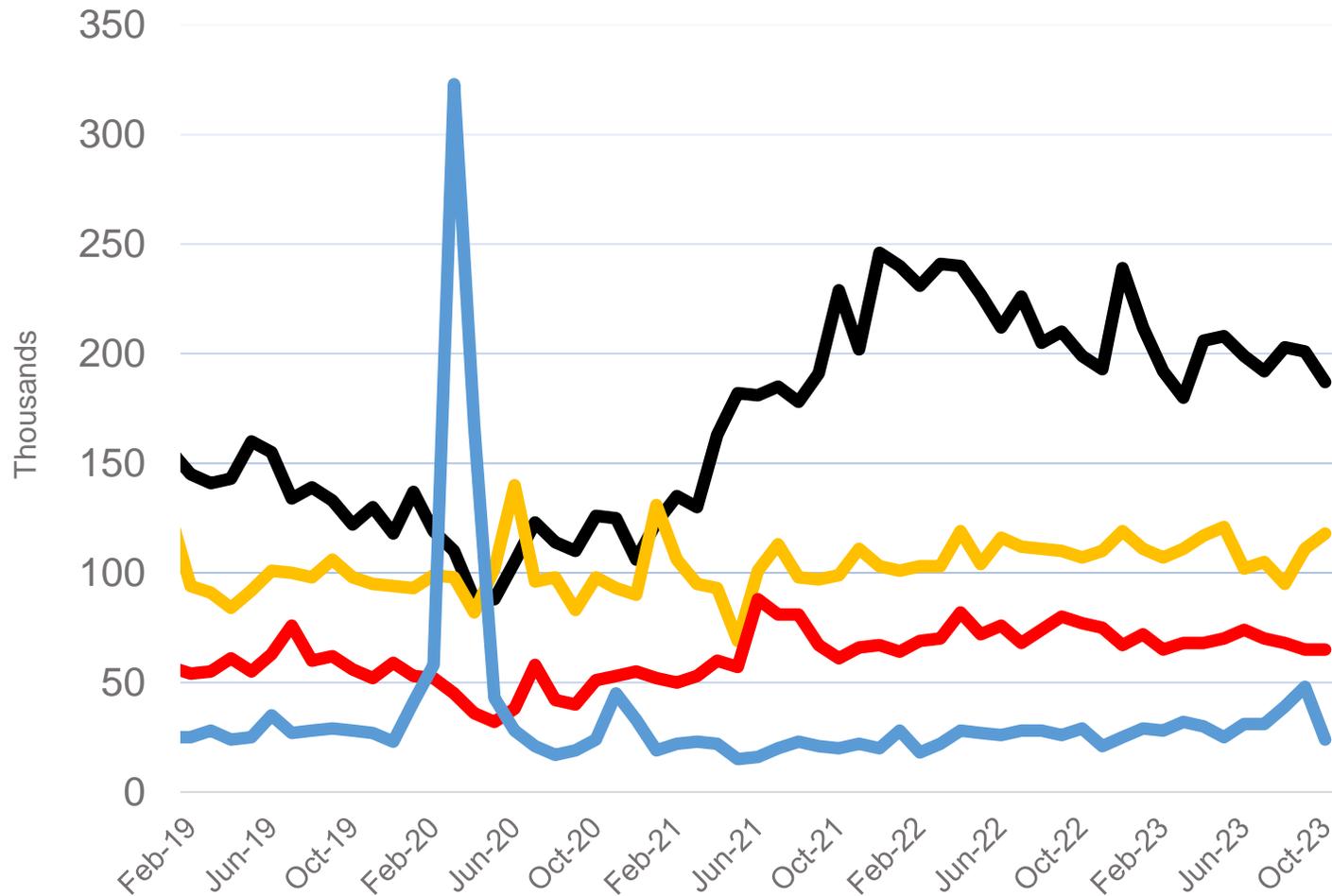


Very difficult; poor labor availability



# MINNESOTA LABOR MARKETS (ALL JOBS)

## Minnesota labor market: A summary



**Job openings**: Hiring demand softened, still strong

**Hires**: Much flatter

**Voluntary quits**: Stabilizing, but at higher levels

**Layoffs**: Generally in check

**Overall**: Stabilizing, but still lots of job vacancies

**Lack of labor supply = Missed economic growth**





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# WHY LABOR FORCE GROWTH IS IMPORTANT



# 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

For last 2 decades,  
annual productivity  
above 2% *only*  
during or following  
recessions &  
pandemics!

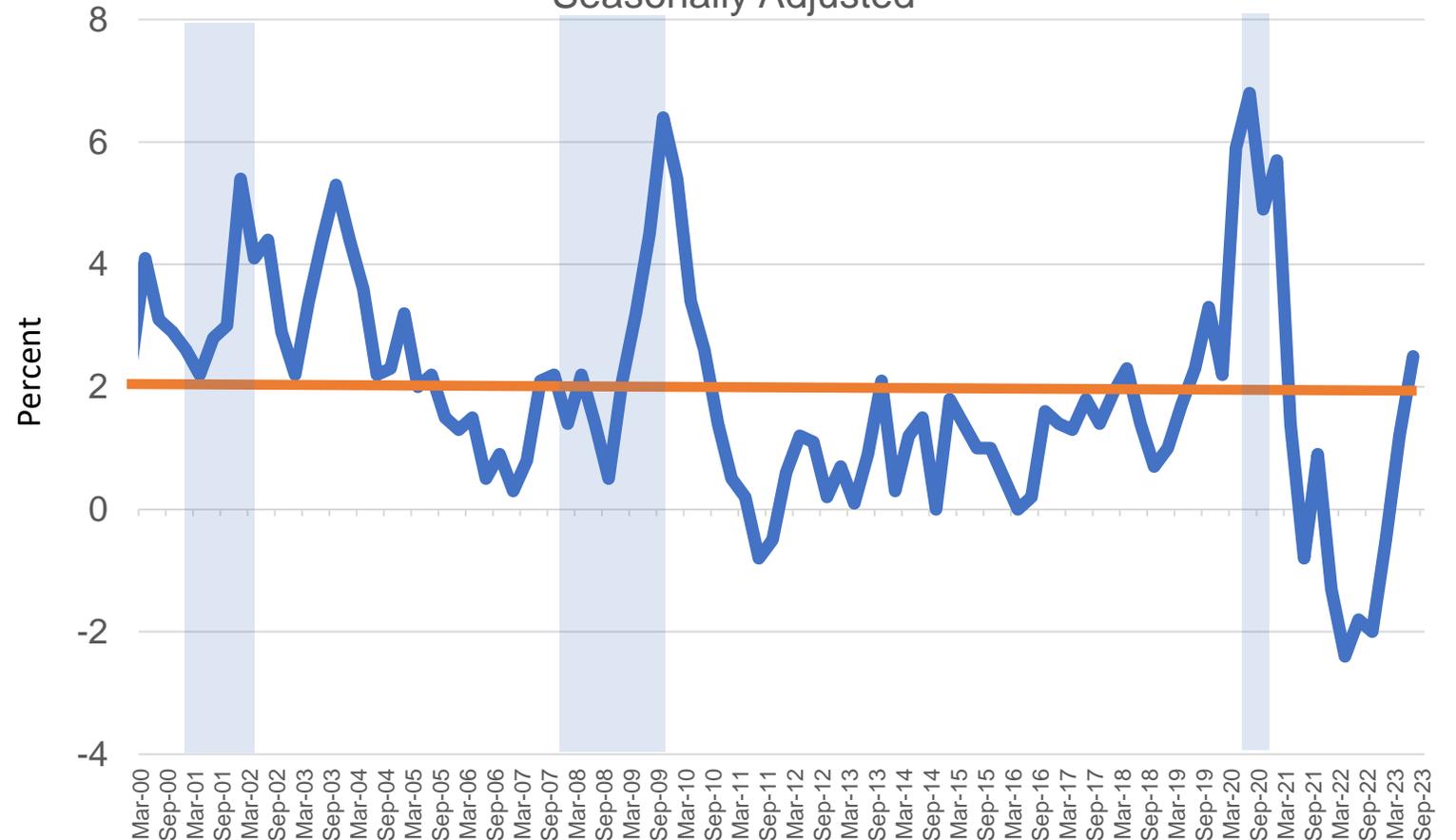
Is productivity burst  
around the corner?

The last 20 years  
suggests “no”

## Labor Productivity (Output per Hour)

All Workers, Annualized quarterly rate

Seasonally Adjusted



Source: Bureau of Labor Statistics



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## ECONOMIC GROWTH 101

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

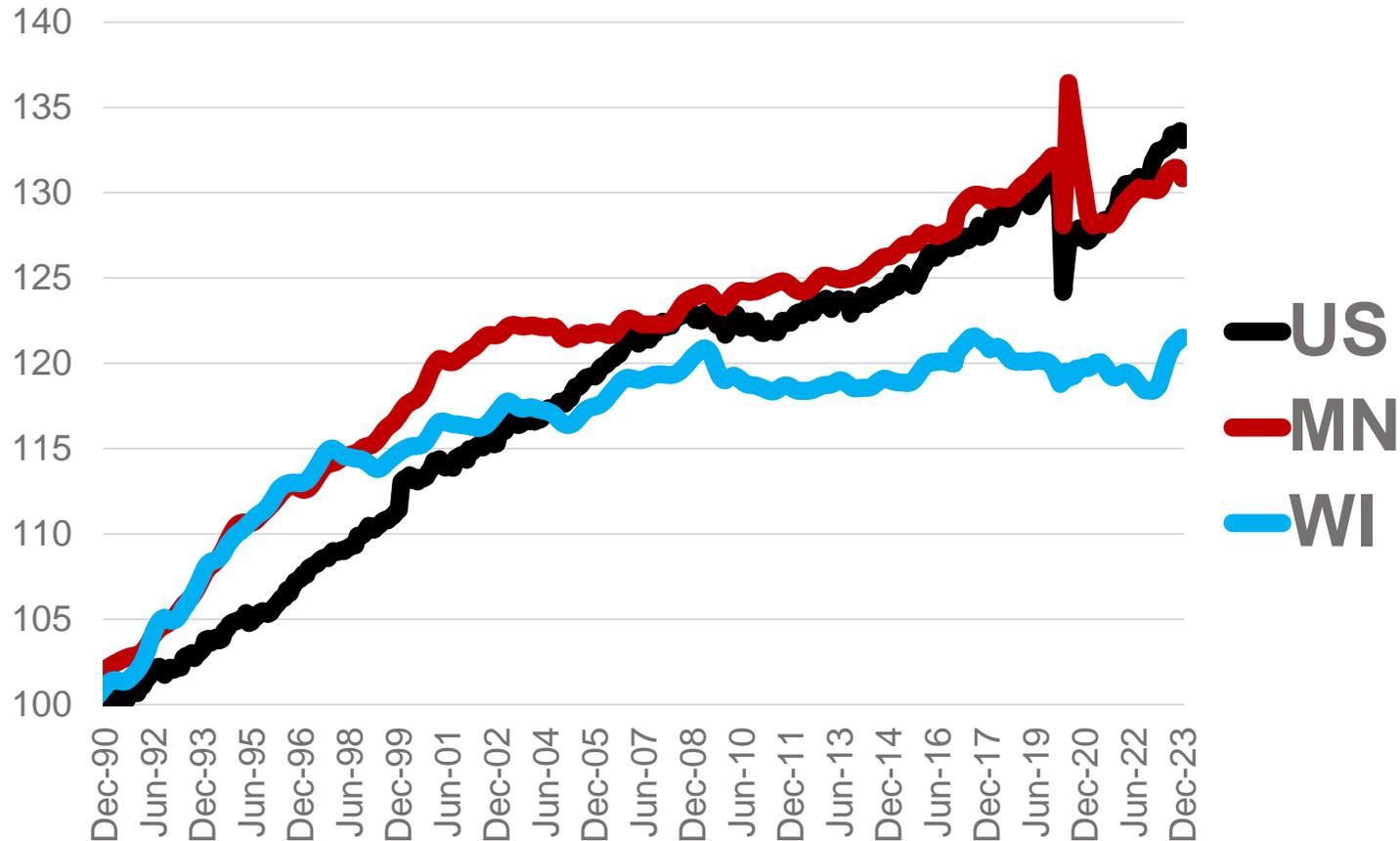
- Increase productivity
- Increase the number of workers
  - “Create” or attract more workers
    - natural increase
    - migration
  - Convince more people to work, & work more



# LABOR FORCE GROWTH SLOWING

## Labor force index

January 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 rate has slowed dramatically since 2000**

**Why?**

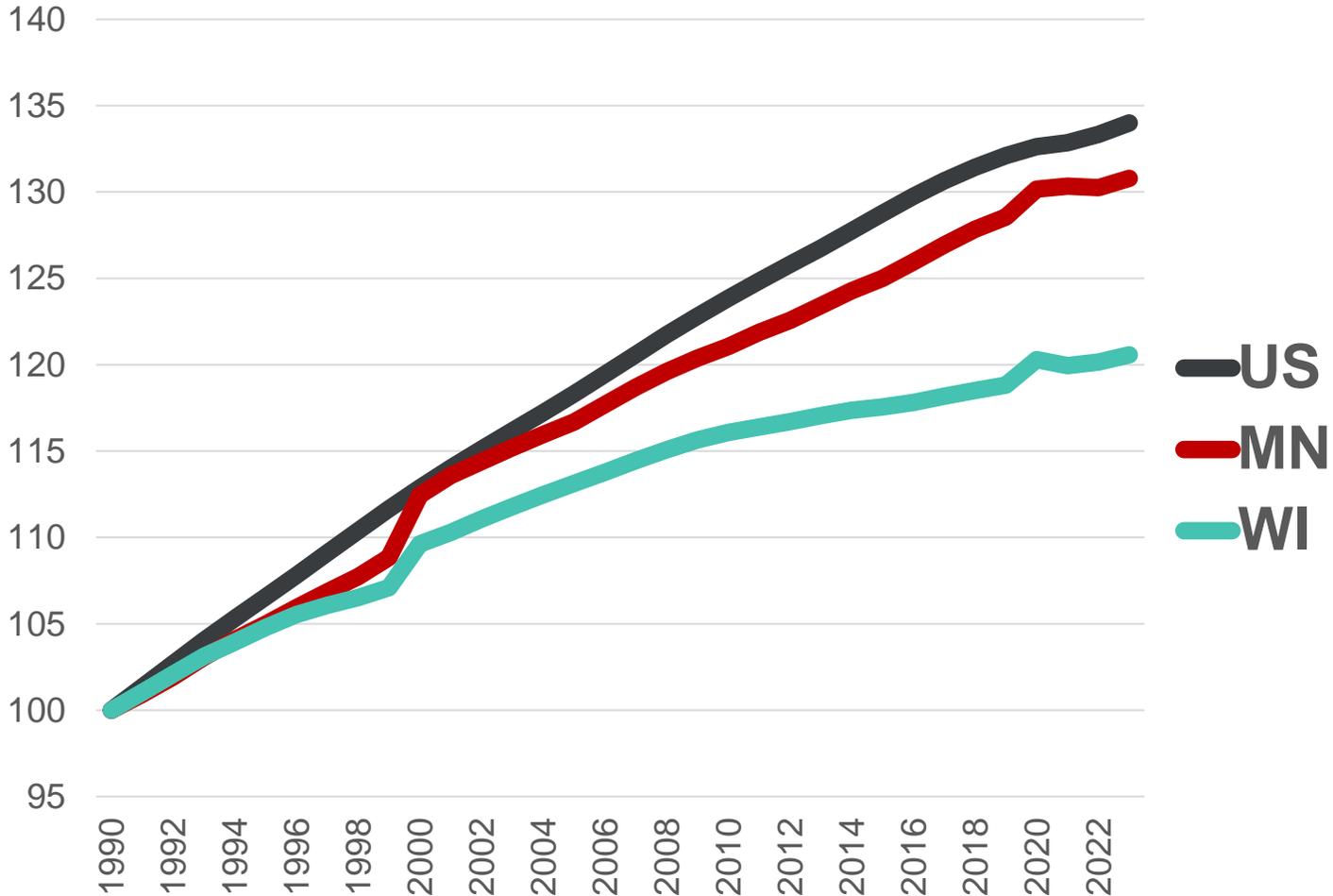
- Slowing population growth
- Lower labor force participation

• Source: Bureau of Labor Statistics



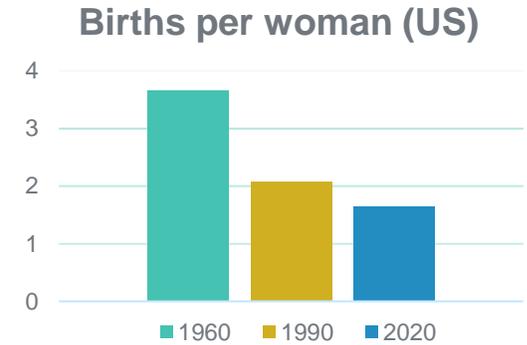
# POPULATION GROWTH

Population growth index  
1990 population = 100



## Slow population growth

### Reason #1: Declining fertility



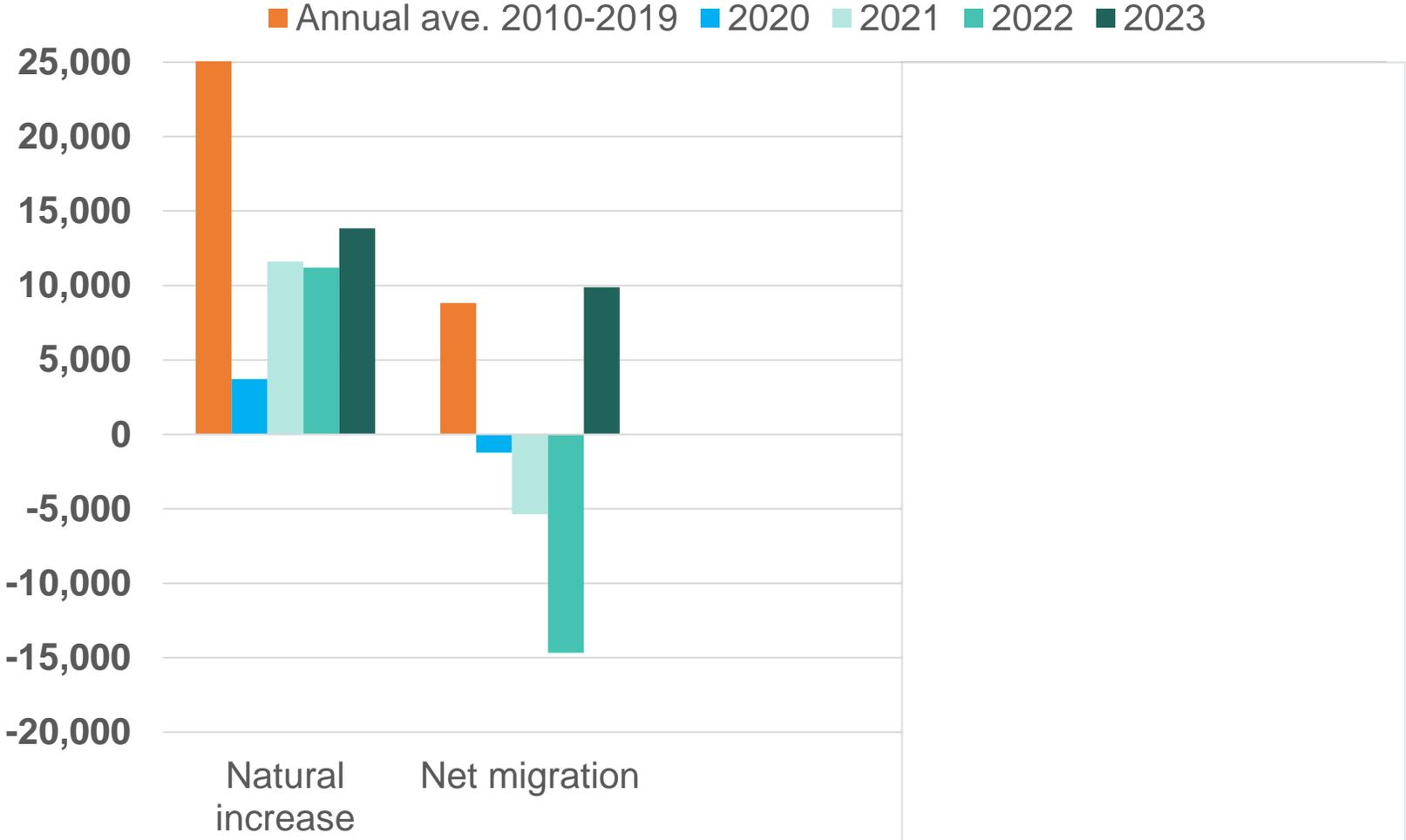
### Reason #2: Lower net migration

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

2020 to 2023: **about 20k total**

# COMPONENTS OF POPULATION CHANGE

## Components of population change

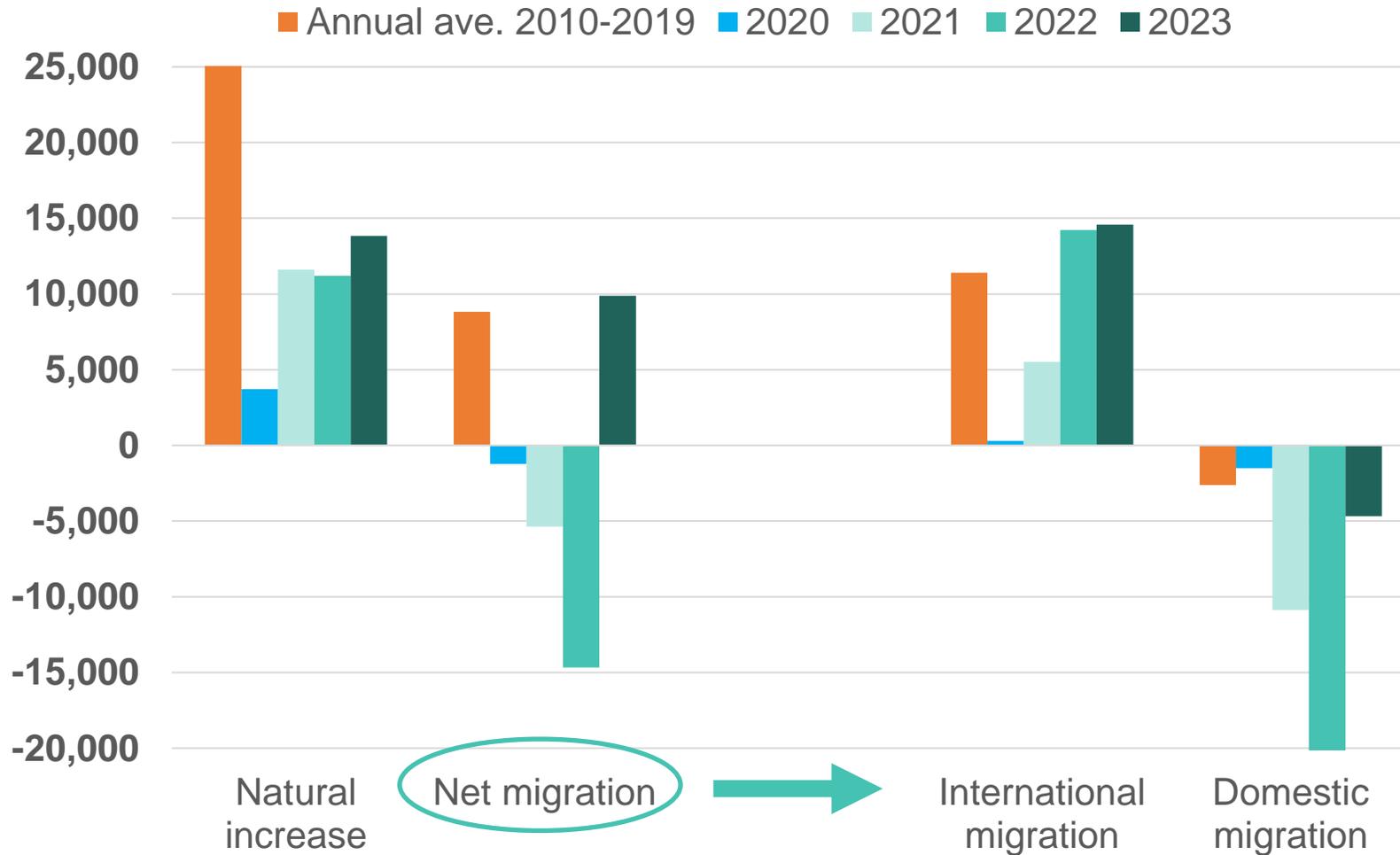


**Natural increase:**  
Average from 2010-2019 cut in half

**Net migration:** from positive to negative, and now positive again

# COMPONENTS OF POPULATION CHANGE

## Components of population change



**Average natural increase:** Average from 2010-2019 cut in half

**Net migration:** from positive to negative, and now positive again

**International migration:** Silver lining

**Domestic migration:** Getting worse





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# LABOR FORCE PARTICIPATION

## FIRST, A QUICK QUIZ

# True or false: Nobody wants to work anymore

True



False



# LABOR FORCE PARTICIPATION

## The hidden problem: Labor force participation

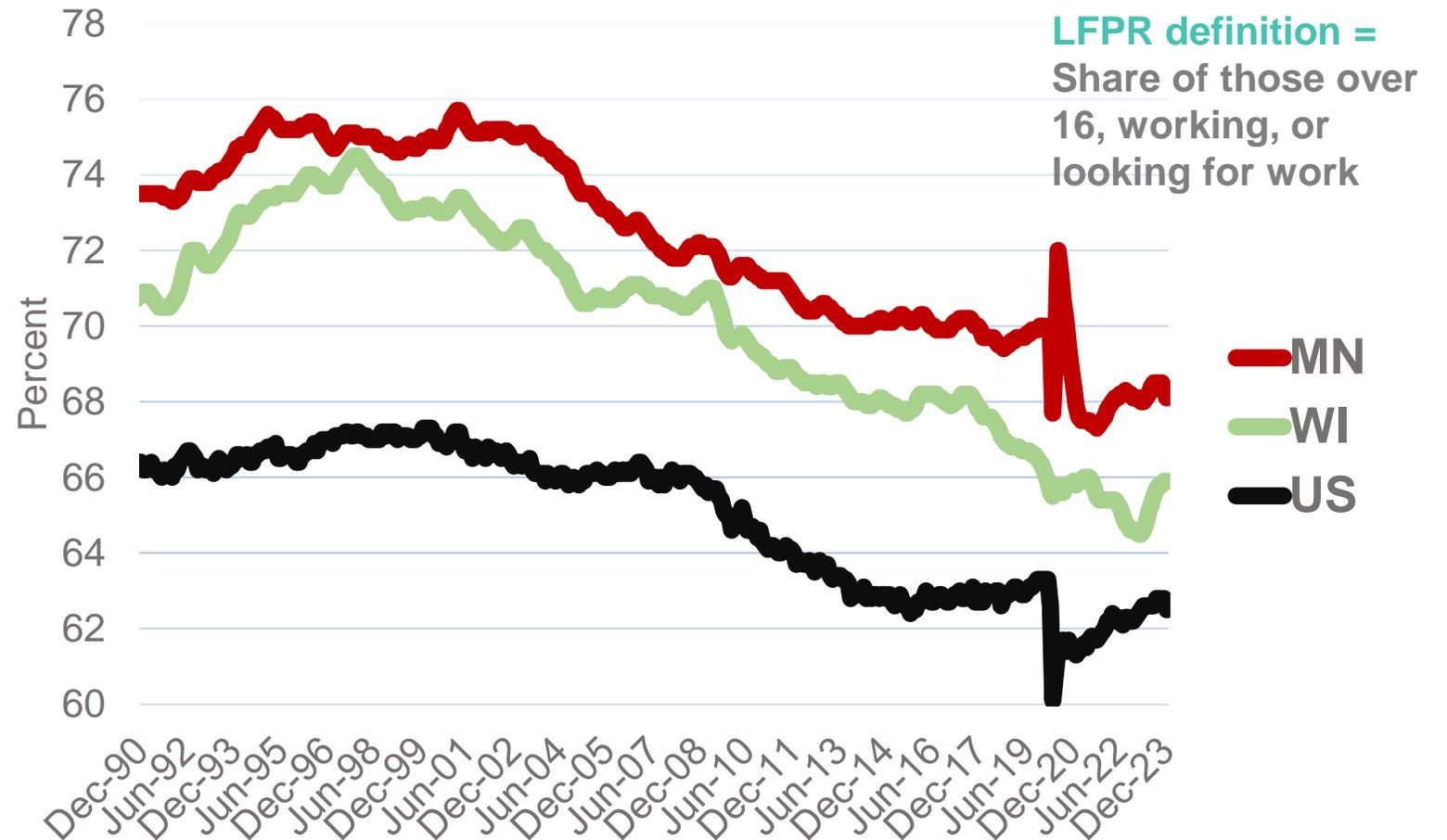
LFP rates in decline  
since about 2000

Started to level out ...  
then pandemic hit

MN & (esp.) WI rates not  
rebounding like US

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

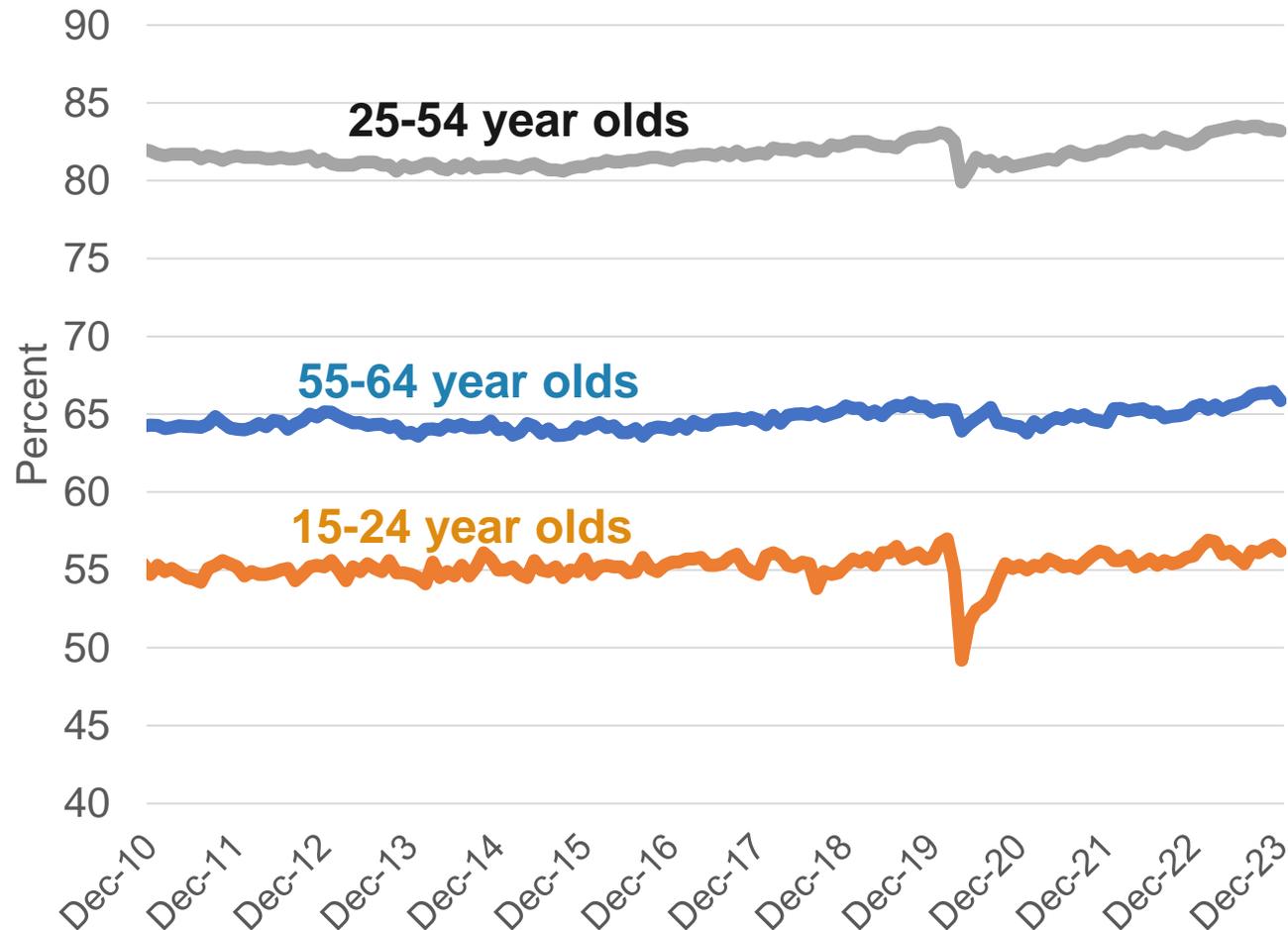
## Labor force participation rate



# LABOR FORCE PARTICIPATION, CONT.

## U.S. labor force participation rate

By age group, seasonally adjusted



*Nobody* wants to work anymore? That's not obvious from the data

*65+ workers want to work less = BIG change*

## LFP, 65 and over, no disability

Not seasonally adjusted





## OTHER FACTORS FOR AFFECTING LABOR FORCE GROWTH

- Growing entrepreneurship & gig work (we think); makes for *more bosses, fewer workers for hire*
- Unavailable and/or expensive child care
- Elephant in the break room?
  - “No one wants to work” = whisper-speak for “everyone is on government assistance”
  - **Fact: Enrollment in most govt. asst. programs is flat/down over the last decade**



# GOVERNMENT PROGRAM ENROLLMENTS

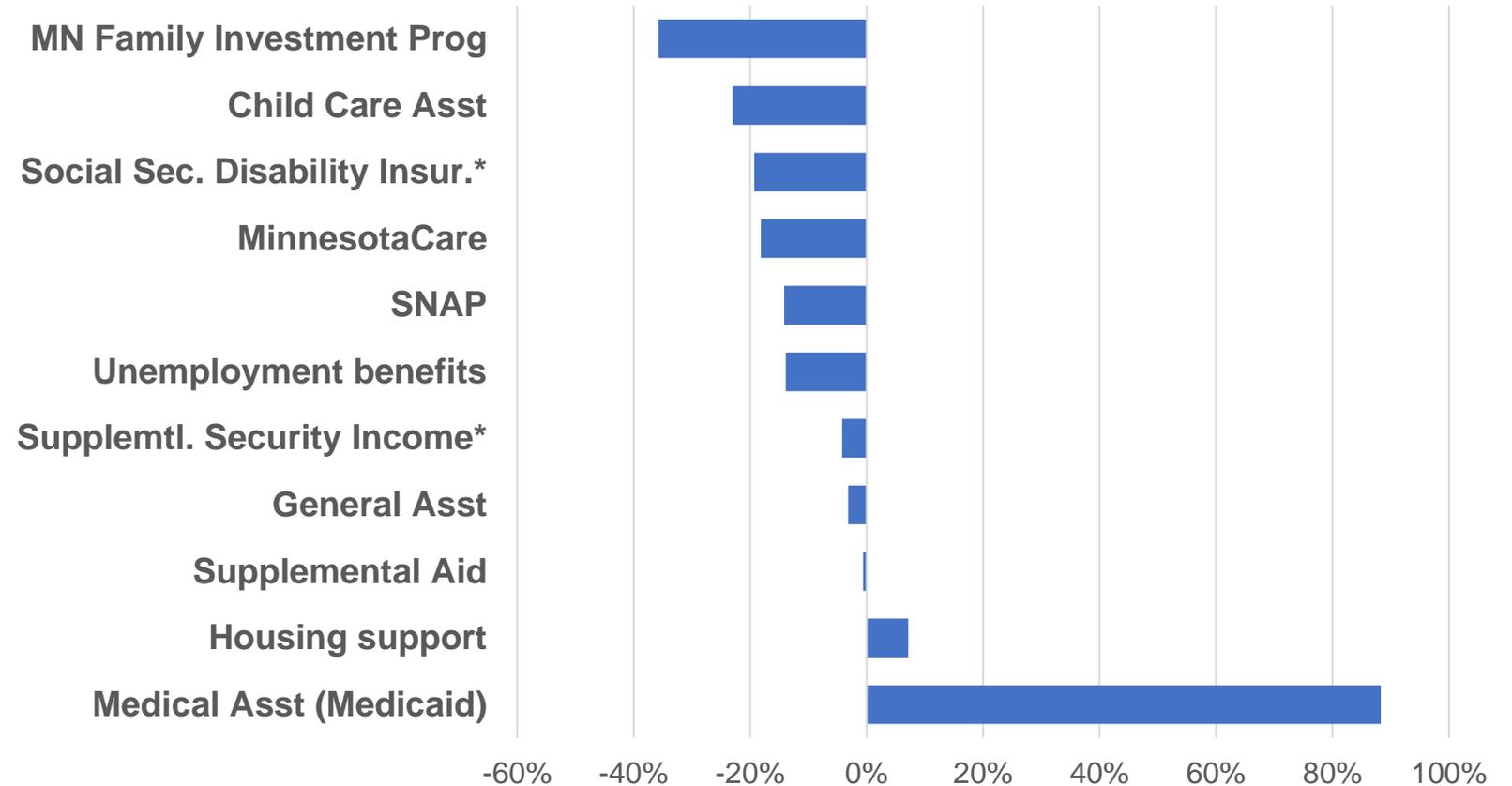
Majority of public asst programs = LOWER

## A word about Medicaid:

- 60% of expenditures go for poor elderly & disabled
- 70% of covered able-bodied adults on Medicaid work full-time
- Most work at small firms & industries *that do not offer health care*
- Many families face loss of healthcare by working, or working/earning more

## Change in MN program enrollments, 2013 to 2023

Beneficiaries, households or persons, as measured by program



\* Data only through 2022





## A PEOPLE PROBLEM & A WORD ABOUT IMMIGRATION

- Economic growth requires increases in productivity, labor force size, and/or labor force participation rate
  - Productivity not trending higher (at least persistently)
  - LFPR unlikely to jump higher quickly; among those not working, or working part-time, most do so voluntarily
- **What about immigration? Simple labor force math**
  - **Whether you believe in more or less immigration, it will influence economic growth accordingly. *Start there.***



# EMPLOYMENT GROWTH, BY RACE

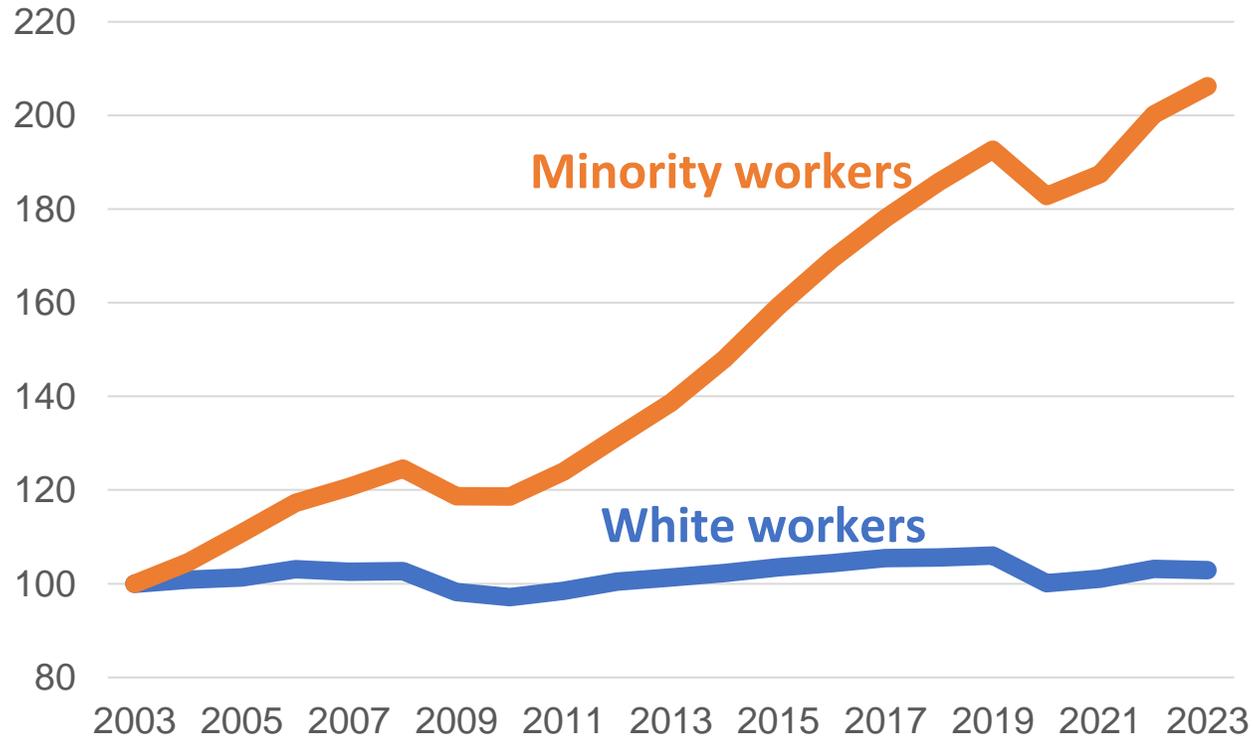
Only (realistic) strategy for Minnesota's labor force to grow faster than current trend:

Be more attractive more black and brown workers; domestic & international

**FULL. STOP.**

## Minnesota worker index

Annual employees on payroll, by race  
2003 employment = 100



**Numerical growth 2003 to 2023**

**Minority workers: 214,000 (> 100%)**

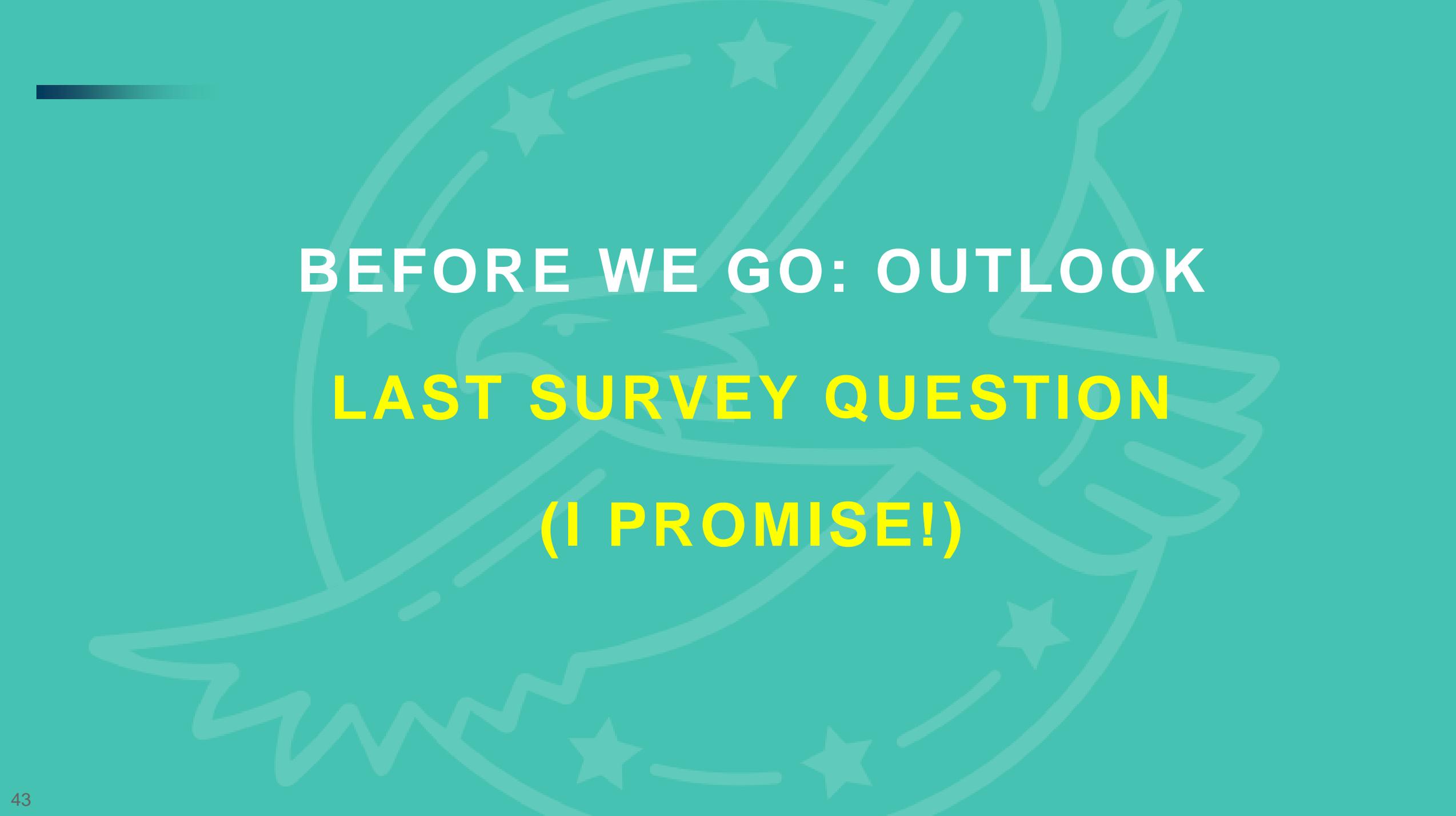
**White workers: 57,000 (< 3%)**



## SO WHAT'S YOUR POINT, RON?

- Myriad reasons why labor supply is constrained
- Fundamentally there's not enough people growth
- From that base, can we:
  - Attract more people?
  - Create incentives for more people already here to work, and/or work more?
- **Framing: Is this an obstacle or an opportunity?**
  - How do we problem-solve for everyone's benefit?
- **Employers and workers already adjusting**, but can we accelerate? What role government policy?
  - Investment is likely the most productive route





**BEFORE WE GO: OUTLOOK**  
**LAST SURVEY QUESTION**  
**(I PROMISE!)**

# OUTLOOK: What is your outlook for the next 6 months?

(A) Very pessimistic



(B) Somewhat pessimistic



(C) Flat/neutral



(D) Somewhat optimistic



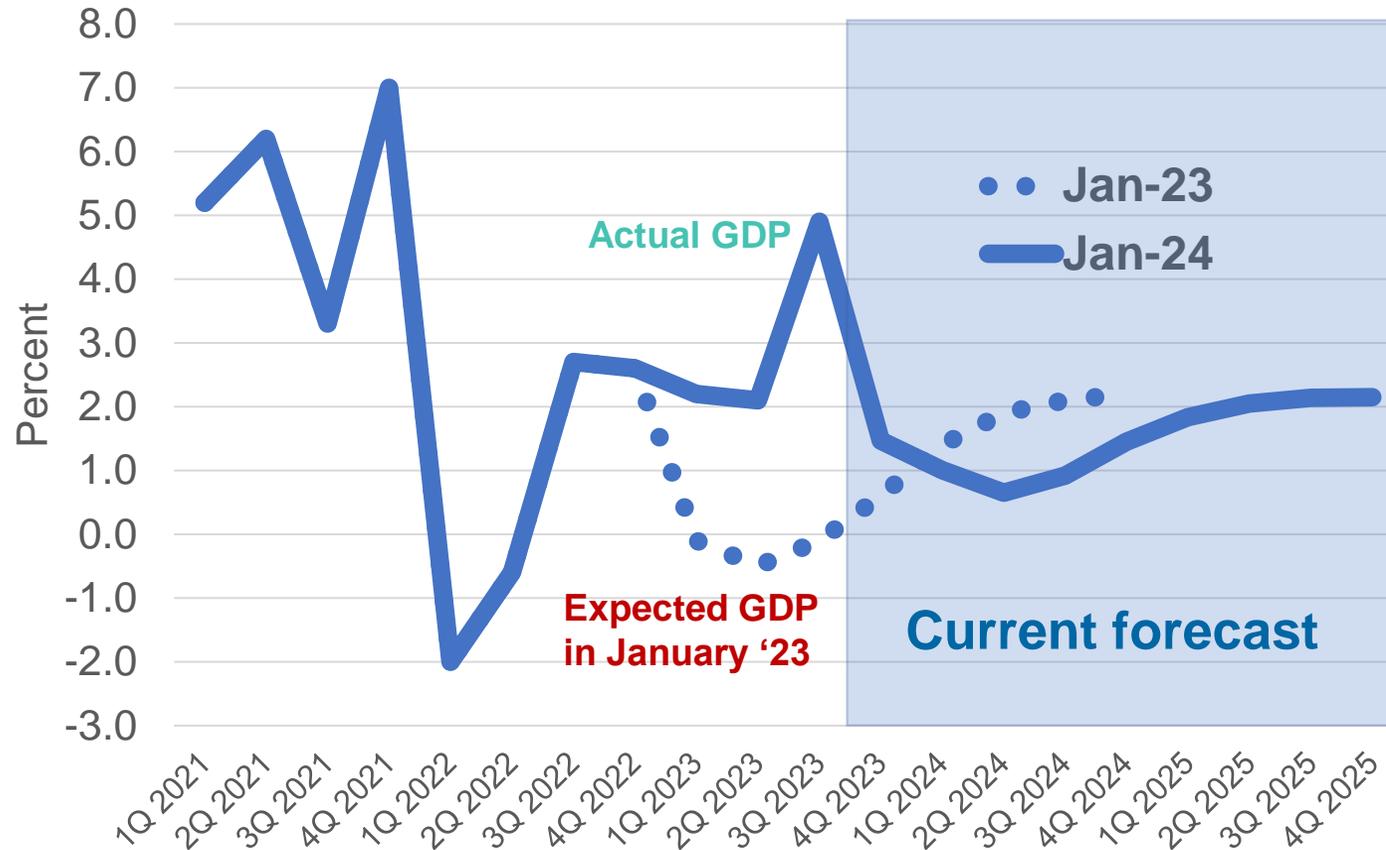
(E) Very optimistic



# PRIVATE GDP FORECASTS: BLUE CHIP

## Blue Chip consensus forecasts for GDP

Forecasts in January 2023 vs January 2024



Private forecasts  
*consistently* wrong

Recent forecasts  
expect some slowing

Chart hides a lot of  
variation among  
forecasters

Source: Blue Chip Financial Forecasts®, CCH Incorporated

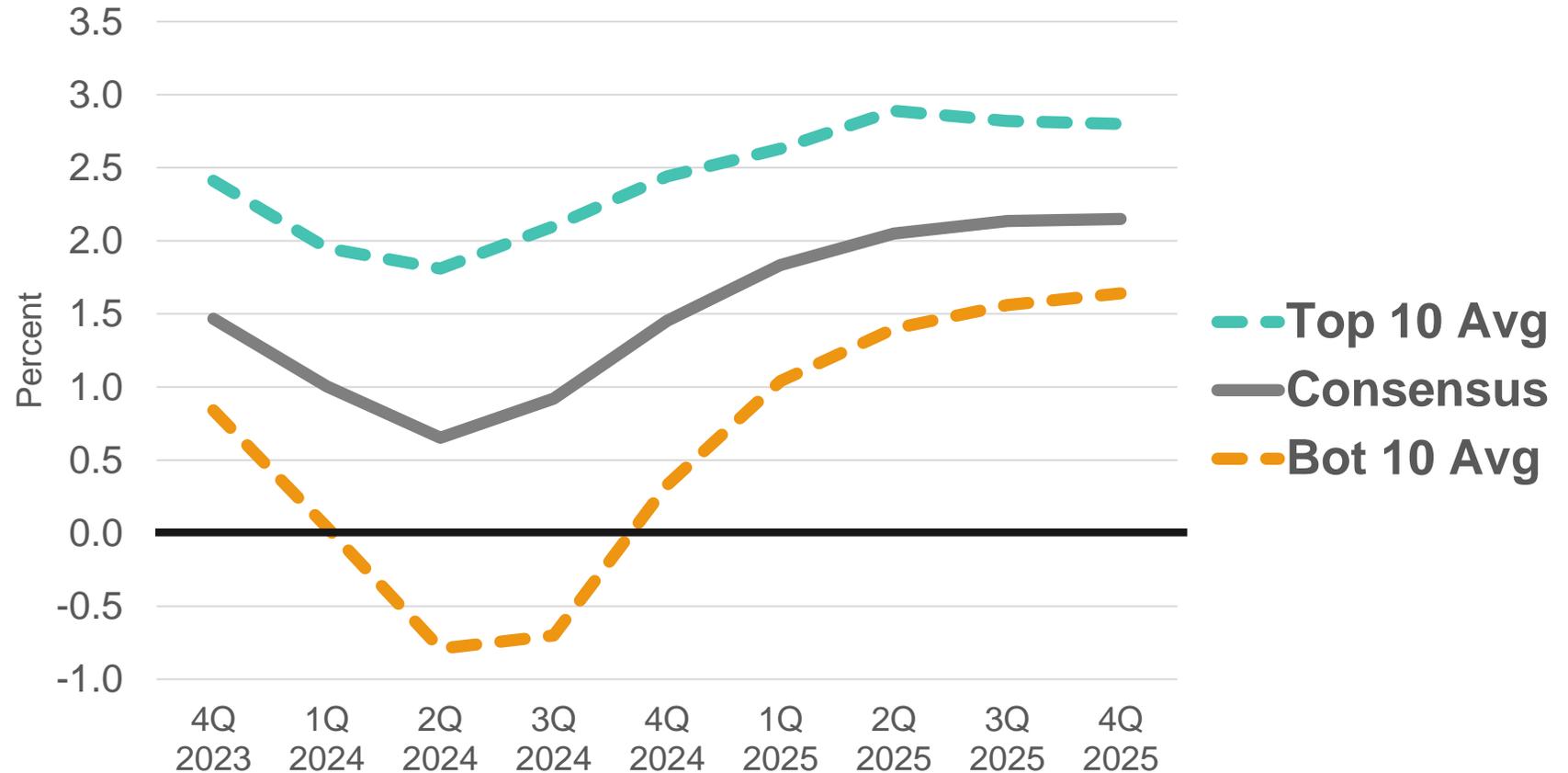


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# FUTURE GDP: PRIVATE FORECASTERS

## Blue Chip forecasts for future GDP Consensus, Top 10 and Bottom 10

*Direction*  
tends to be  
agreed on, but  
the *degree of*  
*change* sees  
wide variation



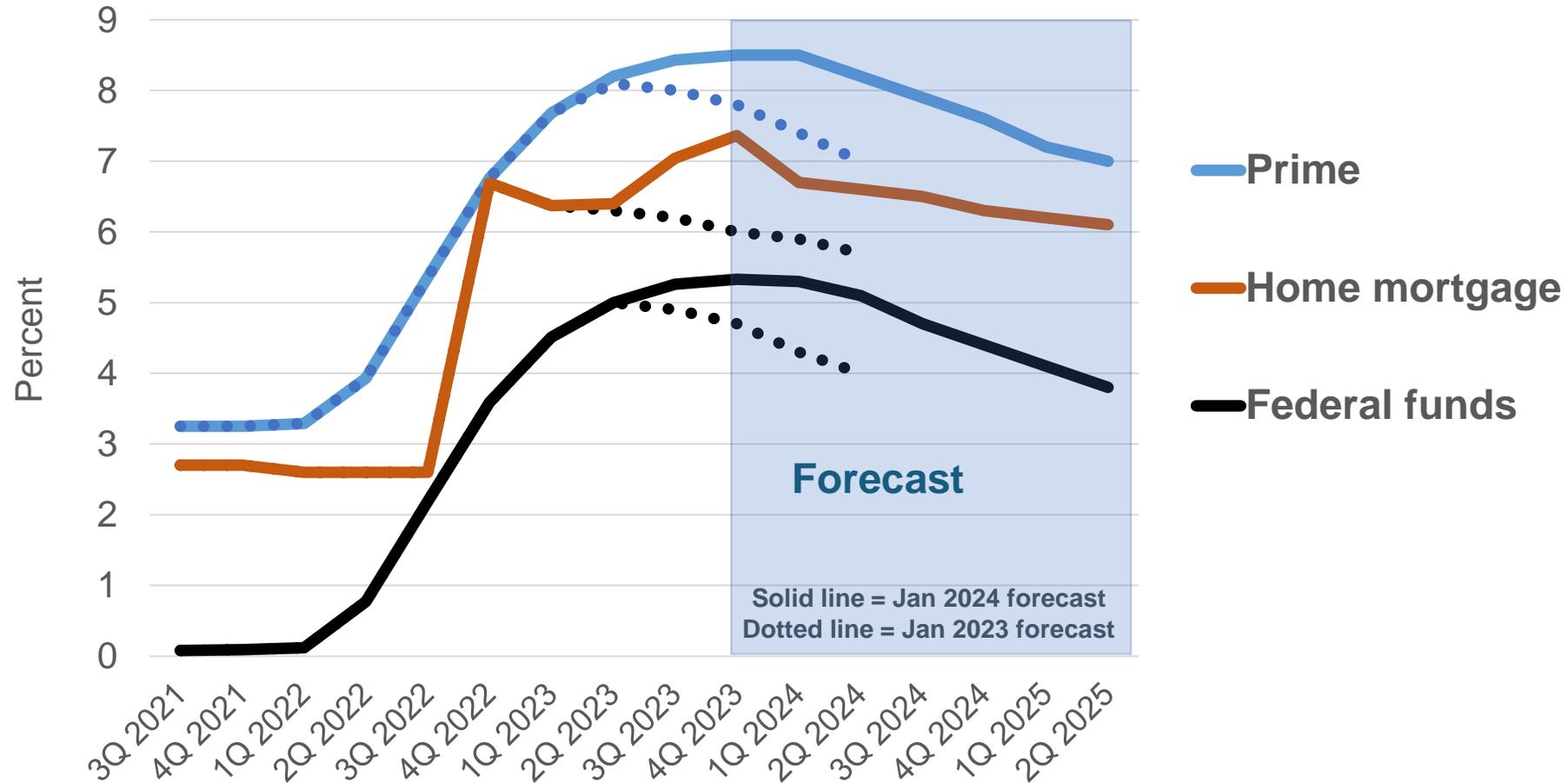
# INTEREST RATE FORECAST

Solid line =  
current/Jan. 2024  
forecast

Dotted line =  
January 2023  
forecast

Most credit  
vehicles expected  
to remain higher  
for longer

## Consensus forecast for interest rates

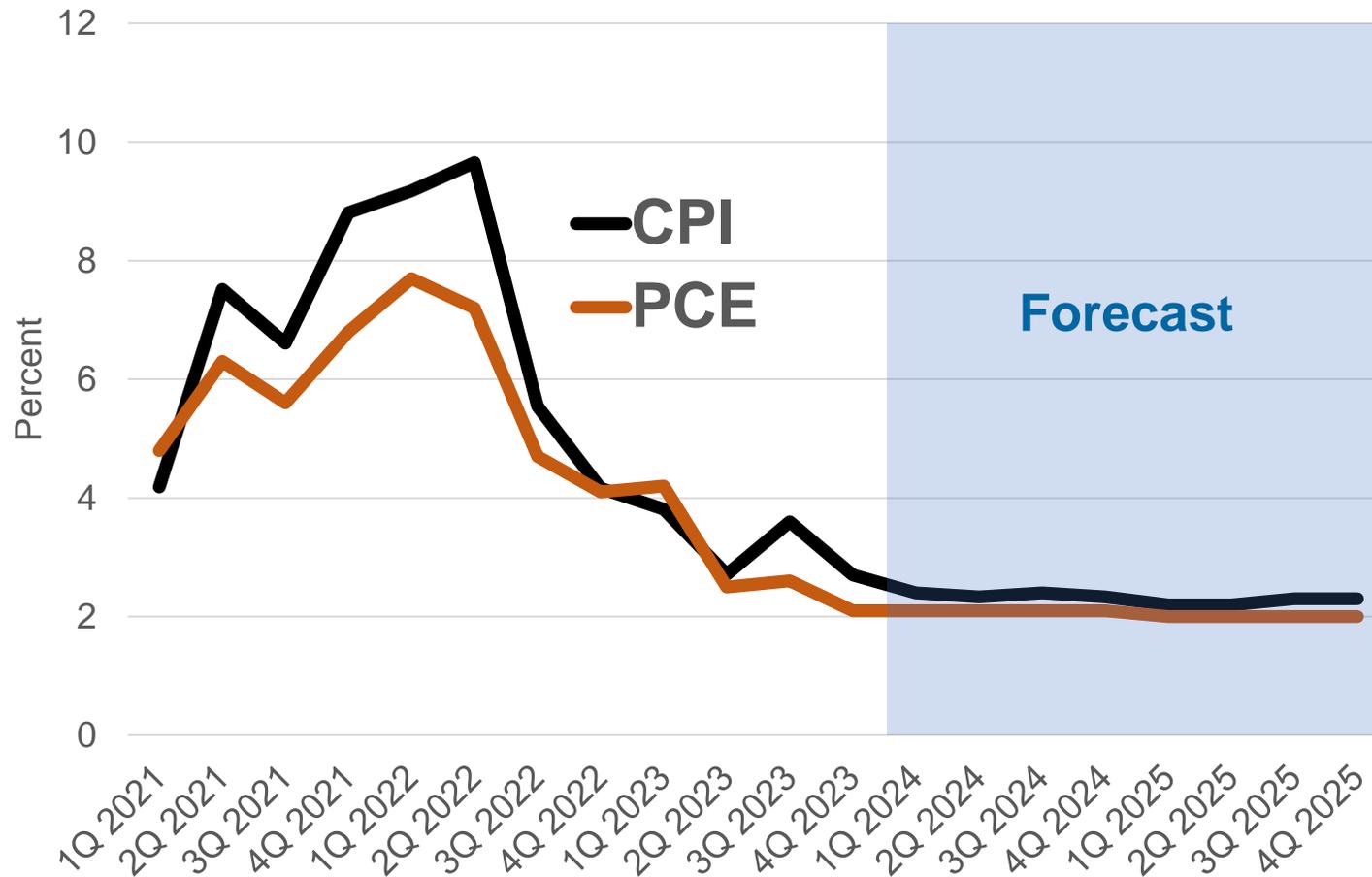


Source: Blue Chip Financial Forecasts®, CCH Incorporated

# OUTLOOK FOR INFLATION

## CPI and PCE forecasts

Consumer Price Index and Personal Consumption Expenditures index



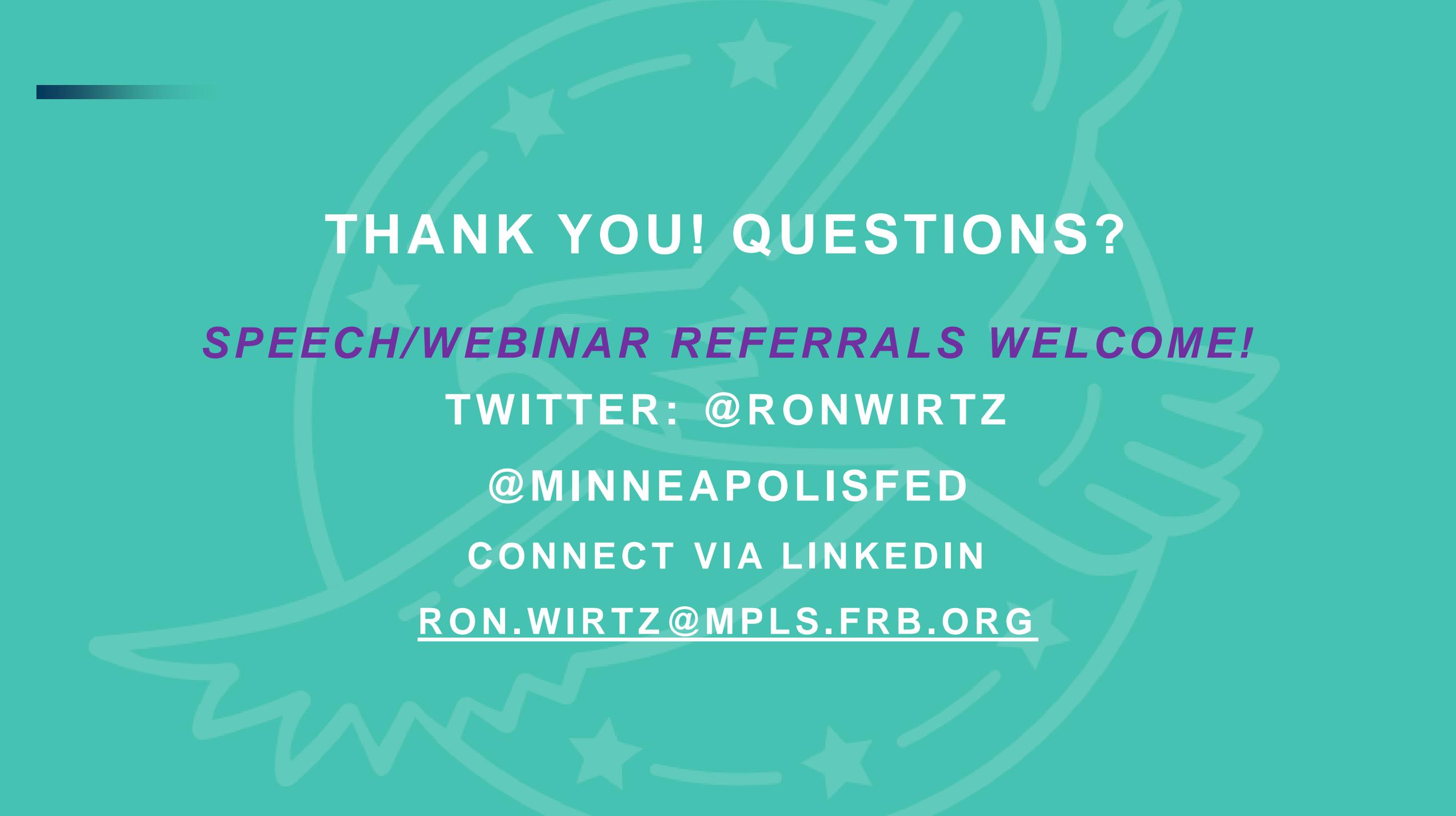
Despite large GDP revisions, path of long-term inflation expectations by middle of 2024 mostly unchanged

General agreement that overall inflation headed back to Fed's 2% target

Source: Blue Chip Financial Forecasts®, CCH Incorporated



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**THANK YOU! QUESTIONS?**

***SPEECH/WEBINAR REFERRALS WELCOME!***

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