

# CURRENT CONDITIONS IN THE MINNESOTA ECONOMY

February 2, 2022

**Ron Wirtz**

Regional Outreach Director



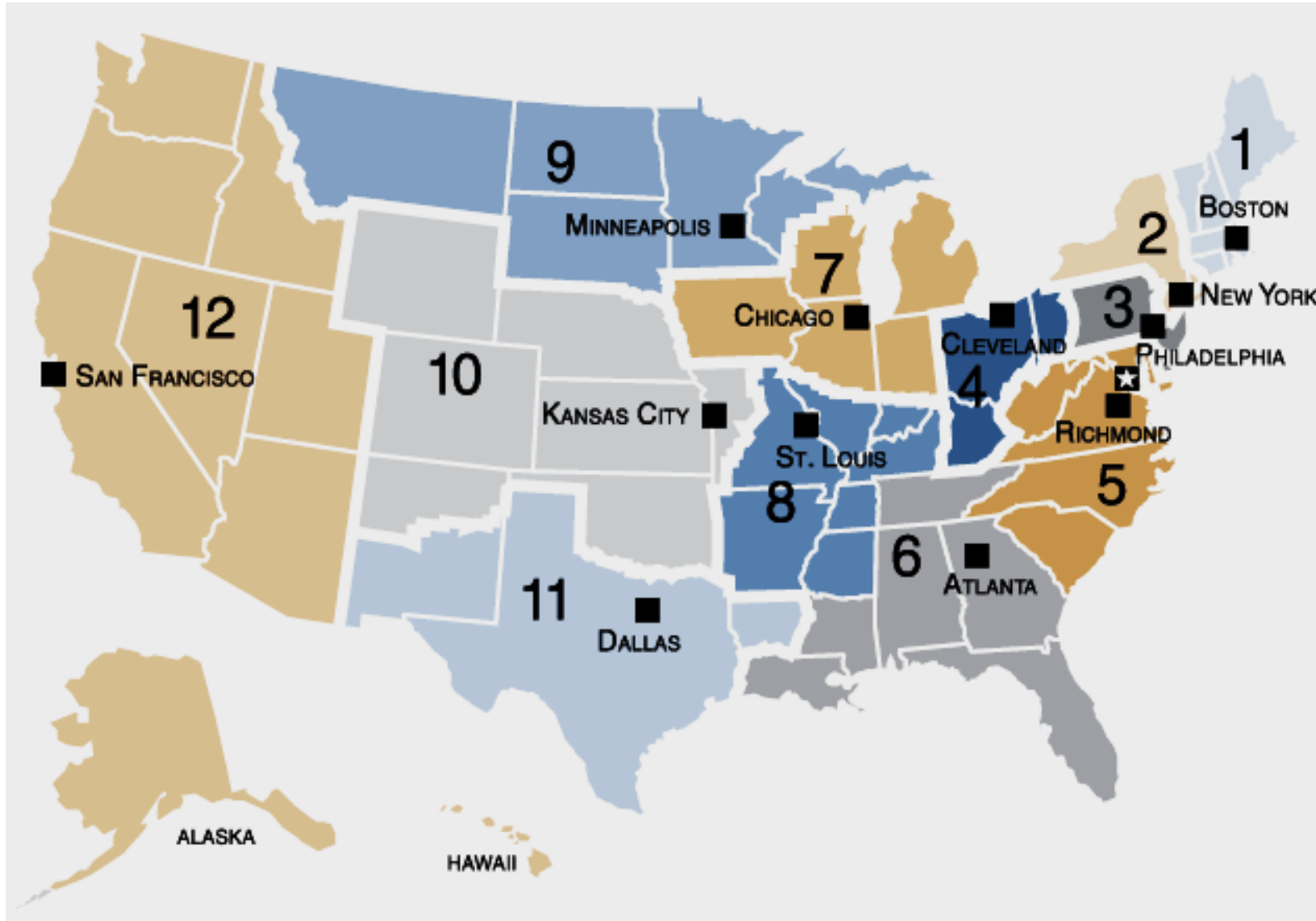
FEDERAL RESERVE BANK  
OF MINNEAPOLIS

# 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.



# FEDERAL RESERVE SYSTEM: QUICK PRIMER



## Federal Reserve: Main functions

### Supervise & regulate banks

- Mostly bank holding cos. (the biggies)

### Offer financial services

- Oversee the nation's payment and settlement system
- Lender of last resort

### Set monetary policy

- Interest rates, via FOMC
- Monetary policy = "dual mandate"
  - 1) stable prices
  - 2) maximum employment



# TODAY'S TALK

- **Current state of the economy**
  - **Macro and micro**
  - **Firms & workers**
- **Overall:**
  - **Demand still solid, including in construction**
  - **But *lots* of challenges meeting that demand**
  - **Omicron = disruption, uncertainty & volatility**
- **Interactive survey (interspersed – so get your phone!)**
- ***Fast-paced, lots of data. Happy to share PPT***



## LOGIN FOR INTERACTIVE SURVEY

- *Let the Minneapolis Fed 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*





***MEASURING THE ECONOMY:  
THE BIG PICTURE***

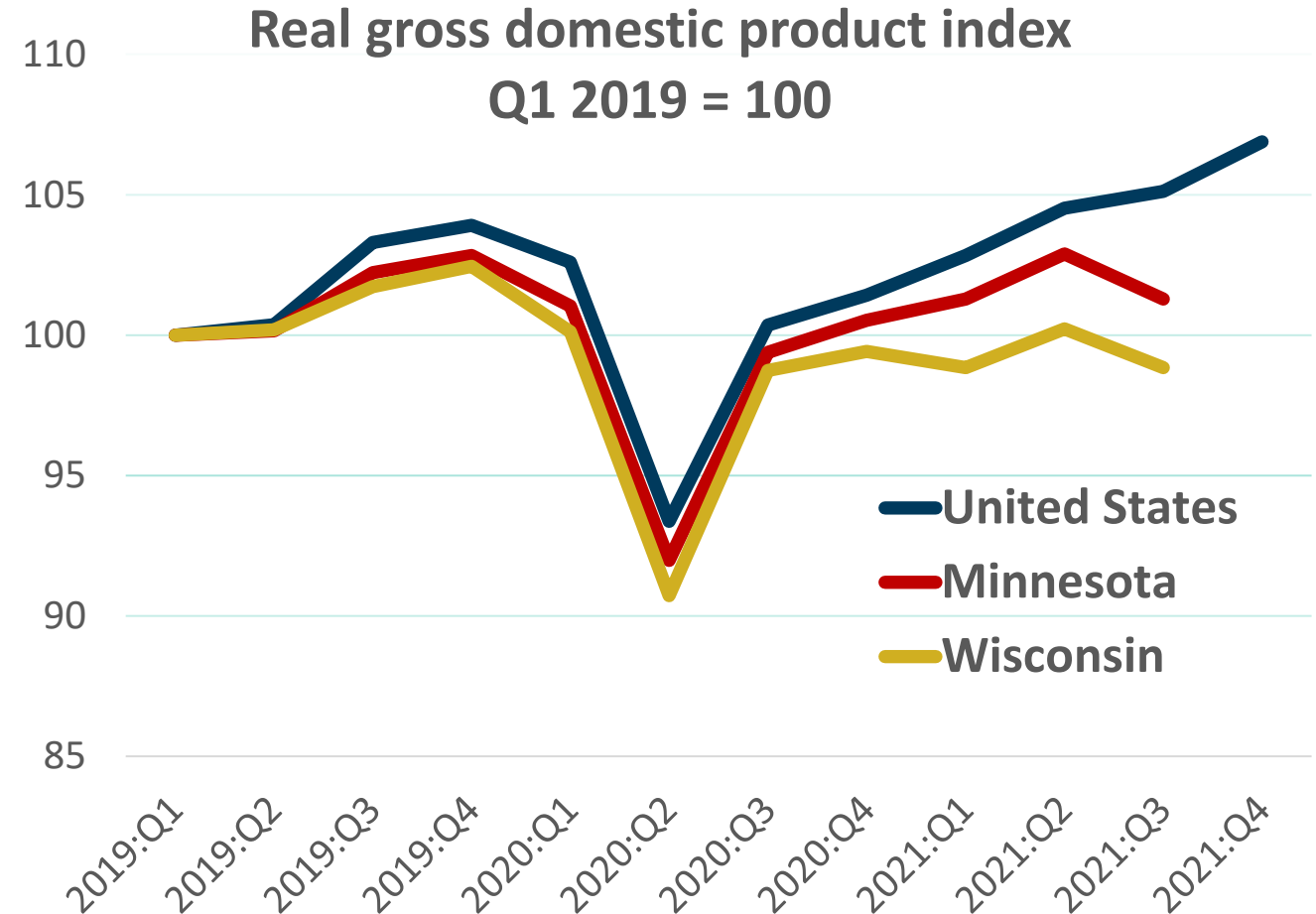
# GROSS DOMESTIC PRODUCT

Real GDP = total output, adjusted for inflation

US and MN GDP back to pre-pandemic levels by Q2 2021

Q3 ... US grew just 2% (annualized rate) and Minnesota GDP *fell*

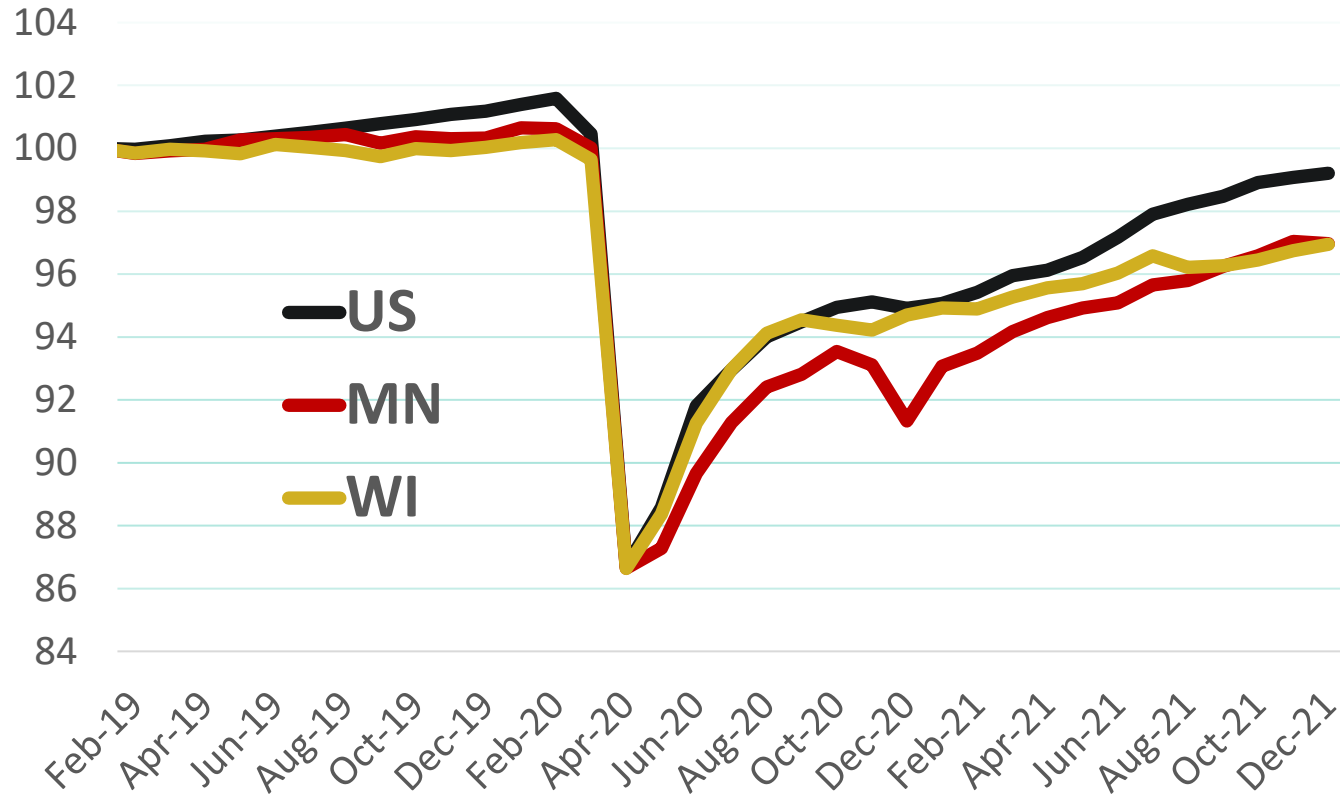
Q4: Very strong bounce at national level (5.7% annualized rate)



# TOTAL EMPLOYMENT

## Total employment index

January 2019 employment = 100



**Jobs are recovering  
... but trajectory is  
very flat**

**Still well below pre-  
pandemic levels,  
and MN lagging US  
by considerable  
margin**

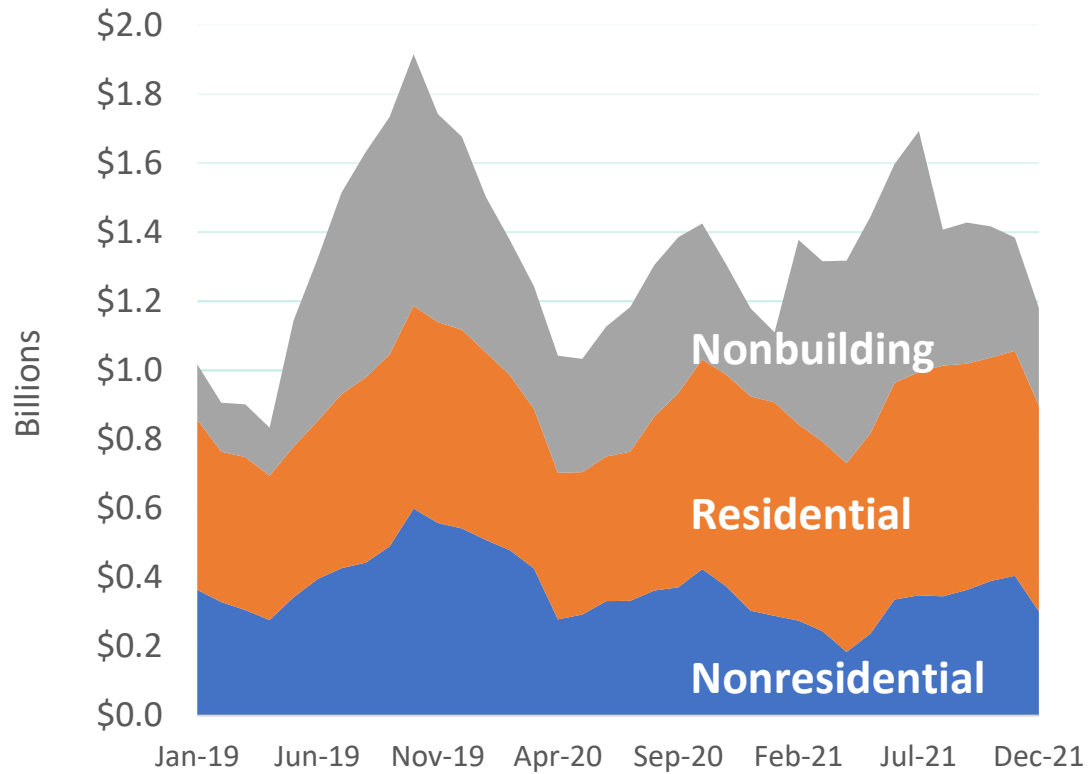


# CONSTRUCTION ACTIVITY

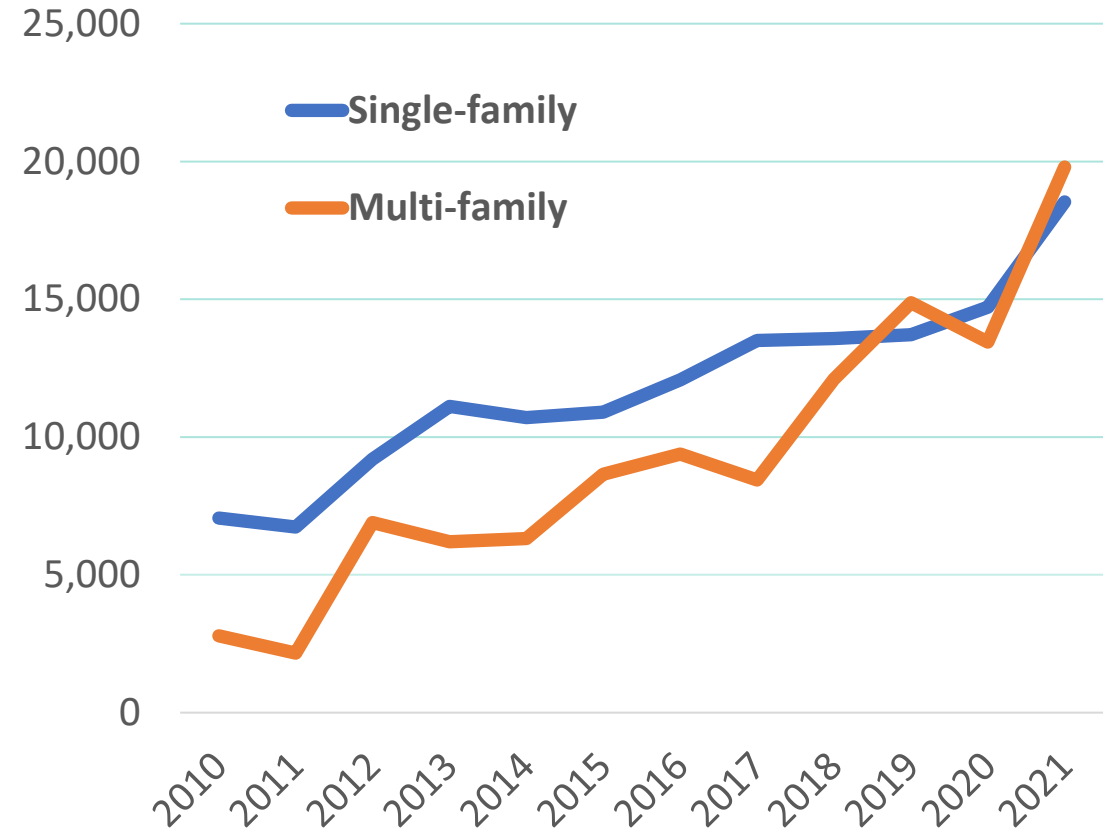
## Construction holding up despite challenges

### Value of construction starts in Minnesota

6-month rolling average

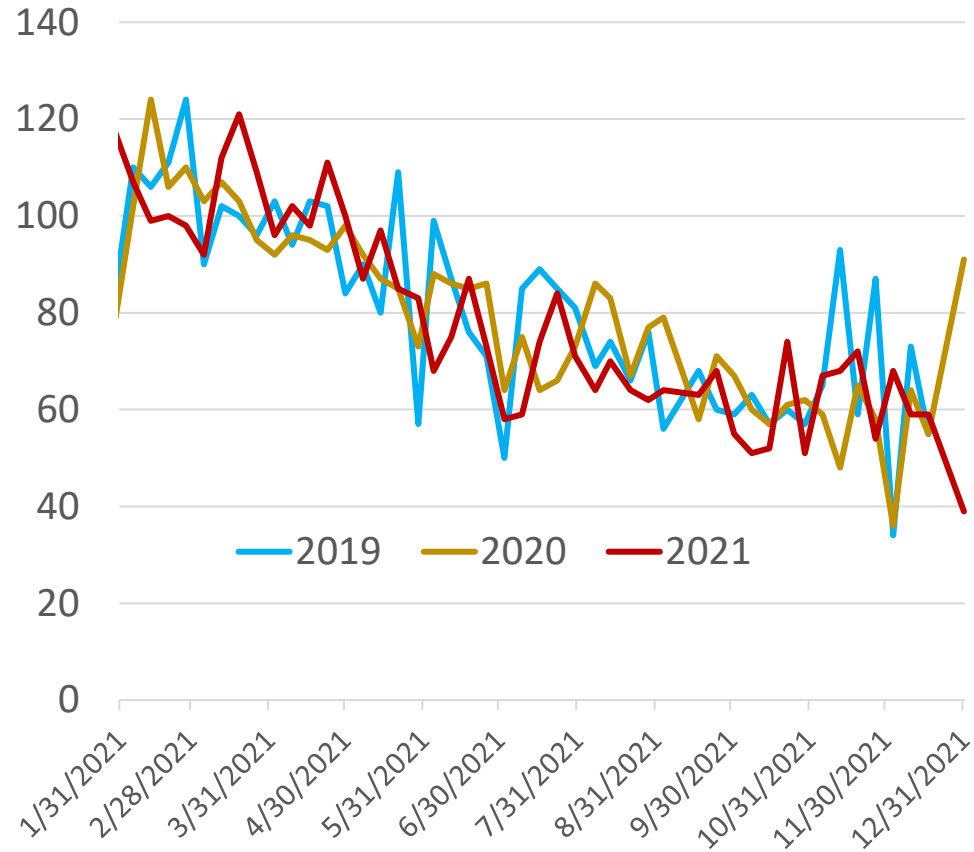


### Minnesota housing permits

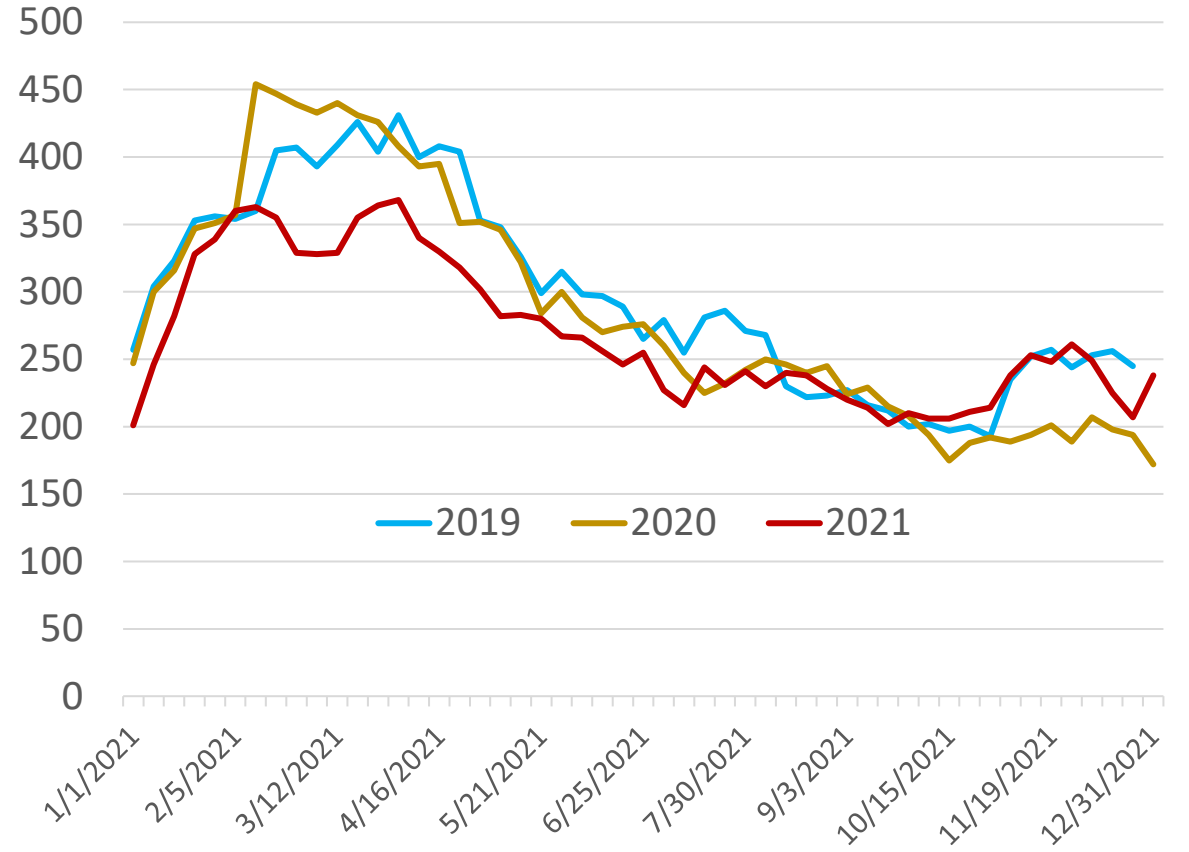


# CONSTRUCTION PROJECT TRACKING: MBEX

## New projects received



## Active projects



Source: Minnesota Builders Exchange



FEDERAL RESERVE BANK OF MINNEAPOLIS



**DRILLING DOWN INTO THE  
RECOVERY:**

***LET'S START WITH YOU!***

# RECENT BUSINESS: How would you describe revenue and other business activity in 2022 so far compared with the same period last year?

Much higher

Somewhat higher

Little or no change, but at GOOD levels

Little or no change, but at POOR levels

Somewhat lower

Much lower



## MINNEAPOLIS FED: PANDEMIC SURVEYS

- New surveys to gauge real-time conditions – who’s hurting, who’s recovering in Ninth District
- **Quarterly construction survey**
  - Conducted Nov. 15-22, 2021
  - 225 responses, mostly in Twin Cities and Greater Minnesota
  - Partner model: Construction orgs send survey to members
  - **MCC a new partner!**
    - **Look for new survey in mid-February**



# RECENT AND FUTURE REVENUE

Positive revenue growth, especially year-over-year

In comments, some suggest that revenue growth comes from higher input costs

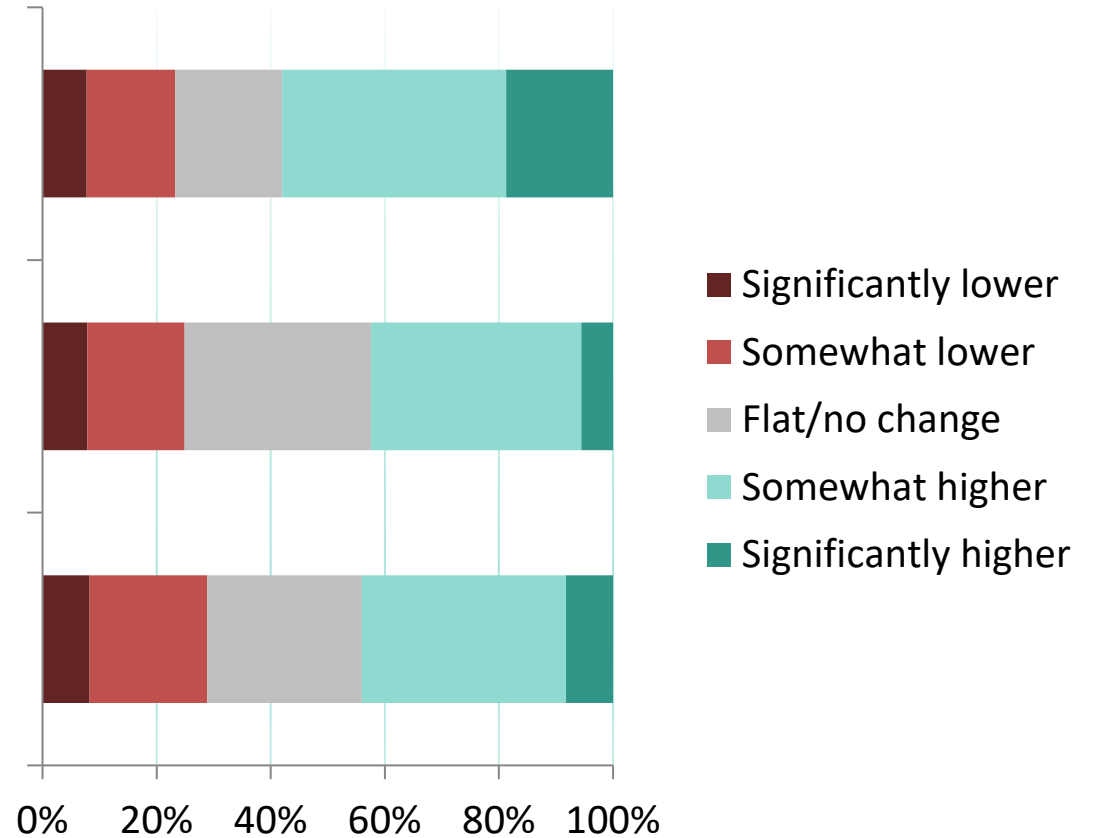
Outlook moderately upbeat

## Recent revenue trends over last 3 months compared with:

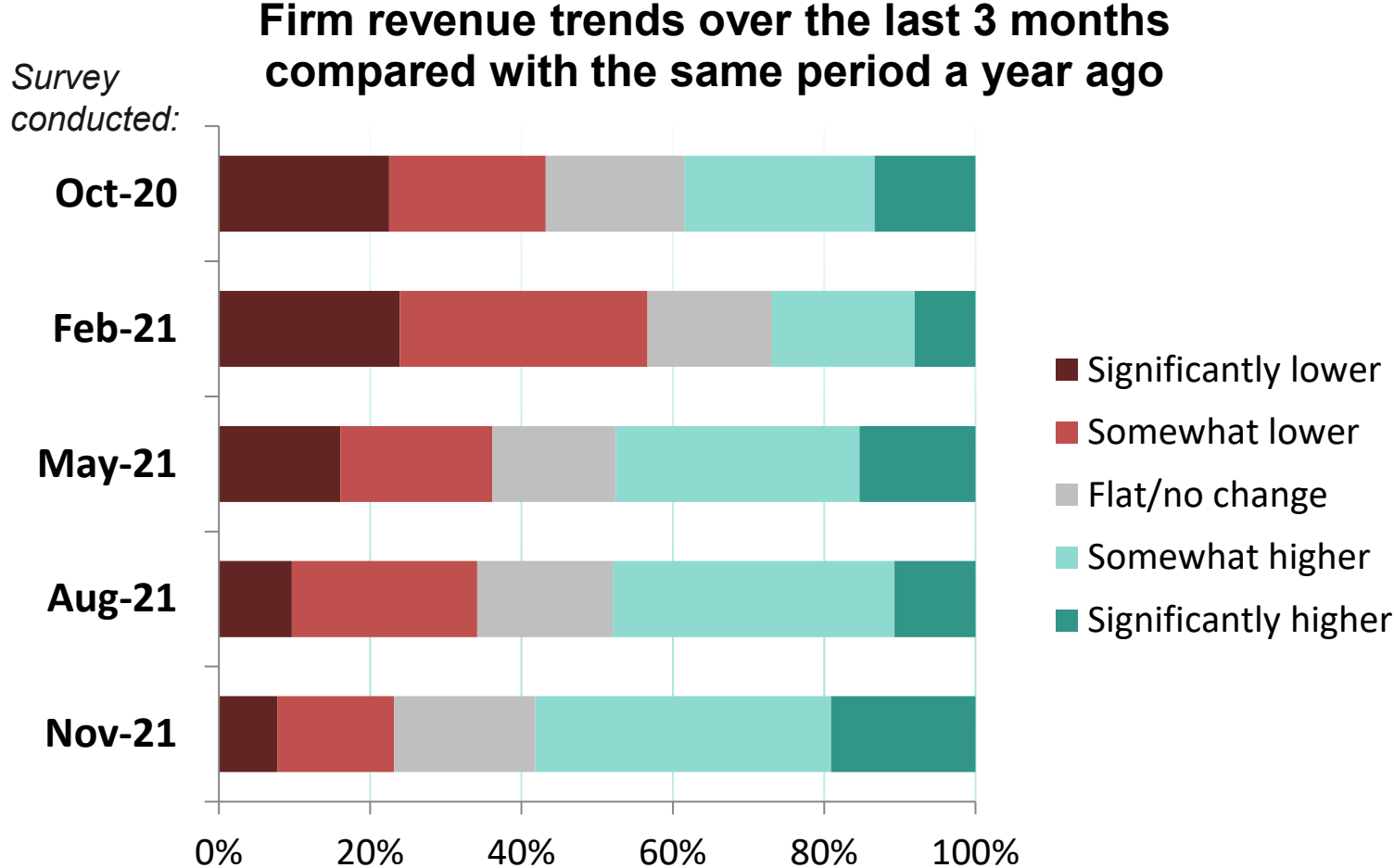
The same period a year ago

Previous 3-month period

Expectations for coming three months compared with same period last year



# REVENUE TRENDS, OVER TIME



“Repeated cross sections” offers additional insights; interpret cautiously

Revenue trends improving steadily

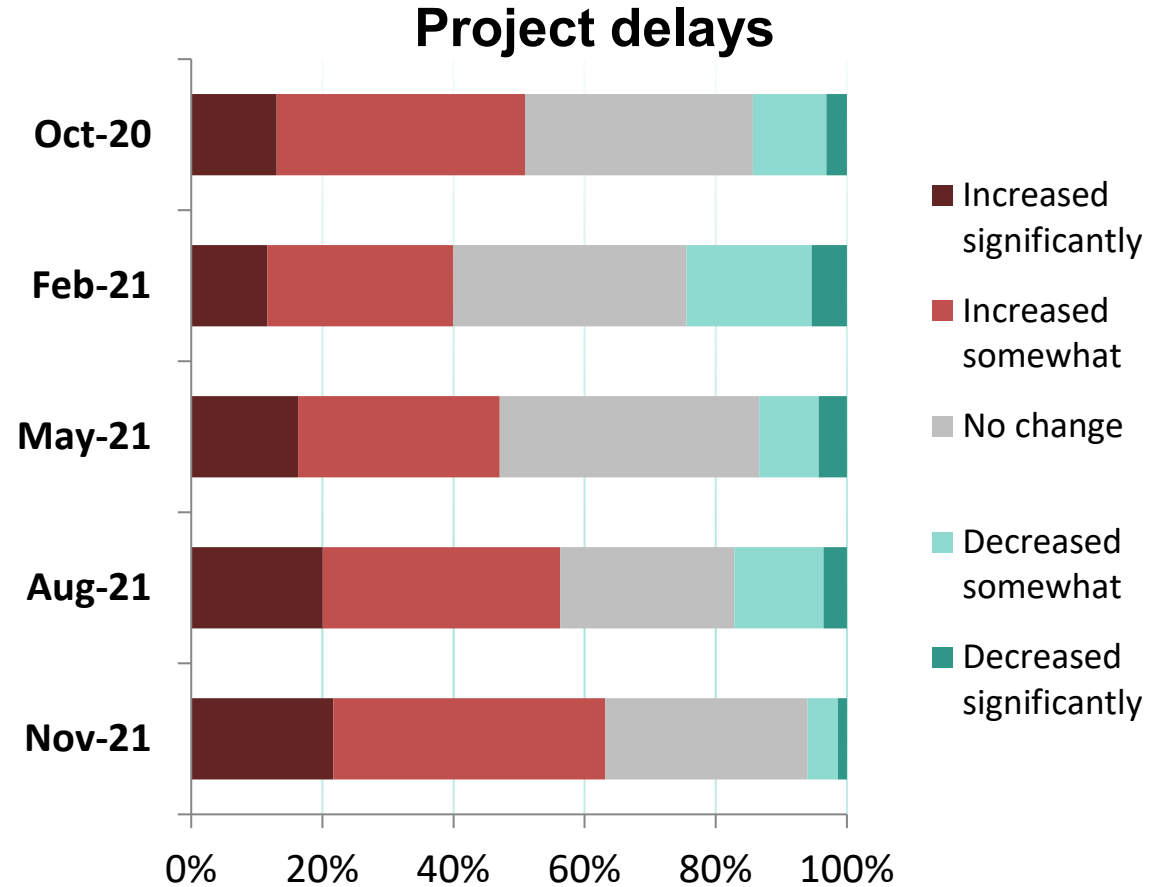
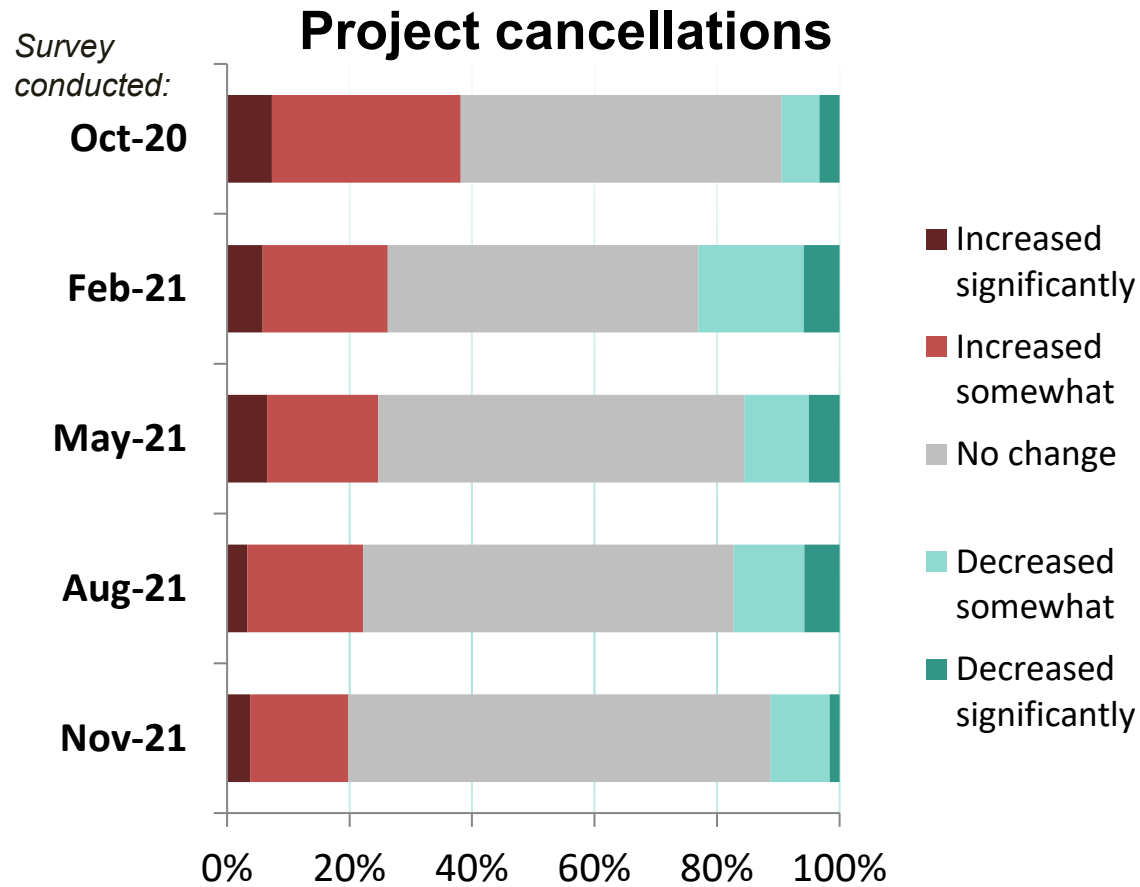
However, trend in rising revenues also follows the trend in higher input costs

Source: Minneapolis Fed, Construction Survey, November 2021



# CANCELLATIONS & DELAYS, OVER TIME

Cancellations net-negative, but improving; delays steadily worsening

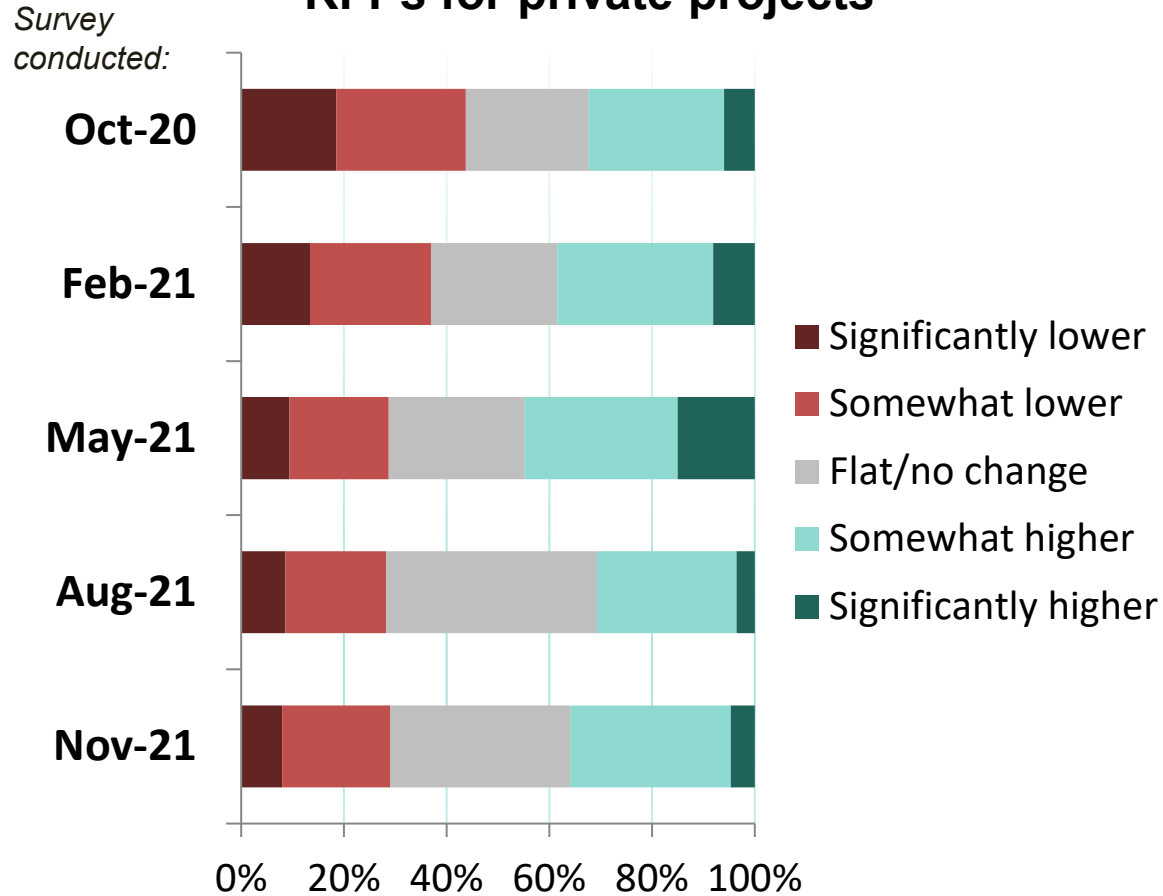




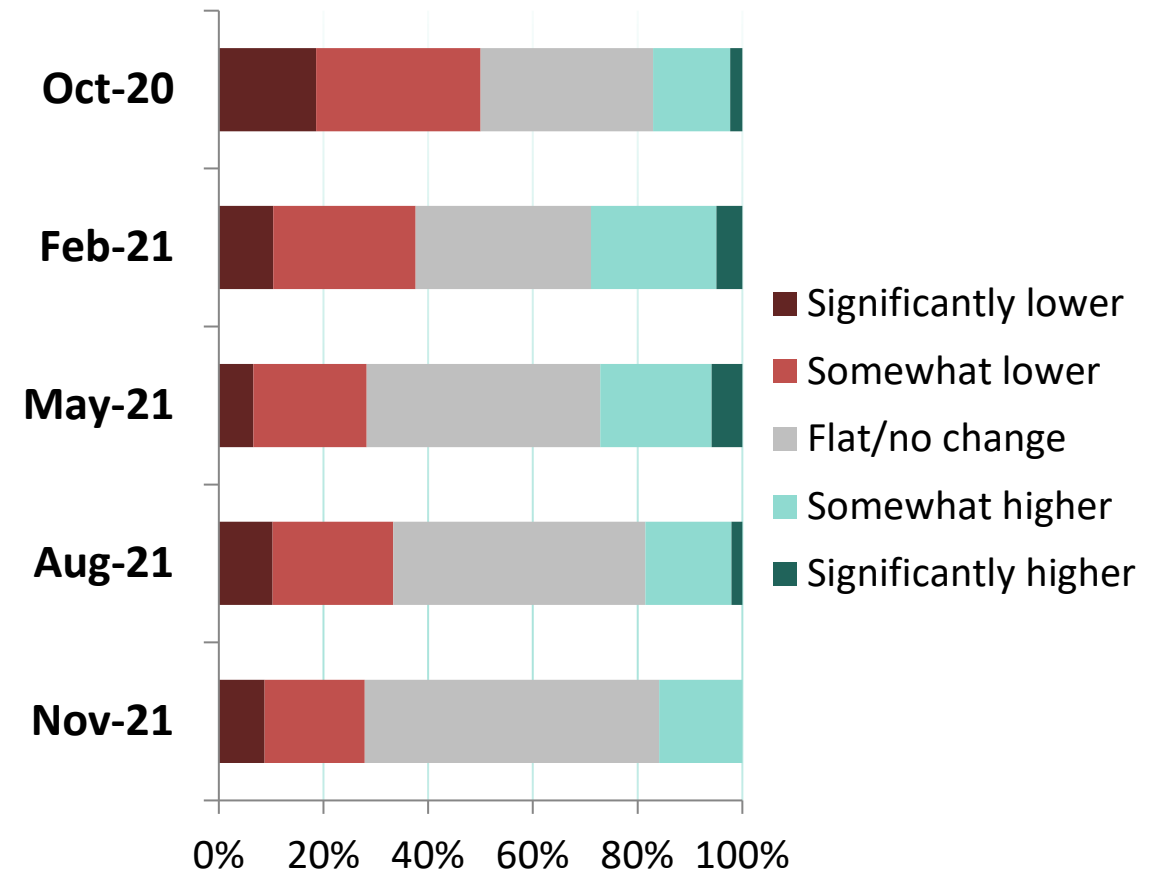
# REQUEST FOR PROPOSALS: PANDEMIC TREND

Overall RFP trend not particularly strong, or particularly weak

## RFPs for private projects



## RFPs for public projects



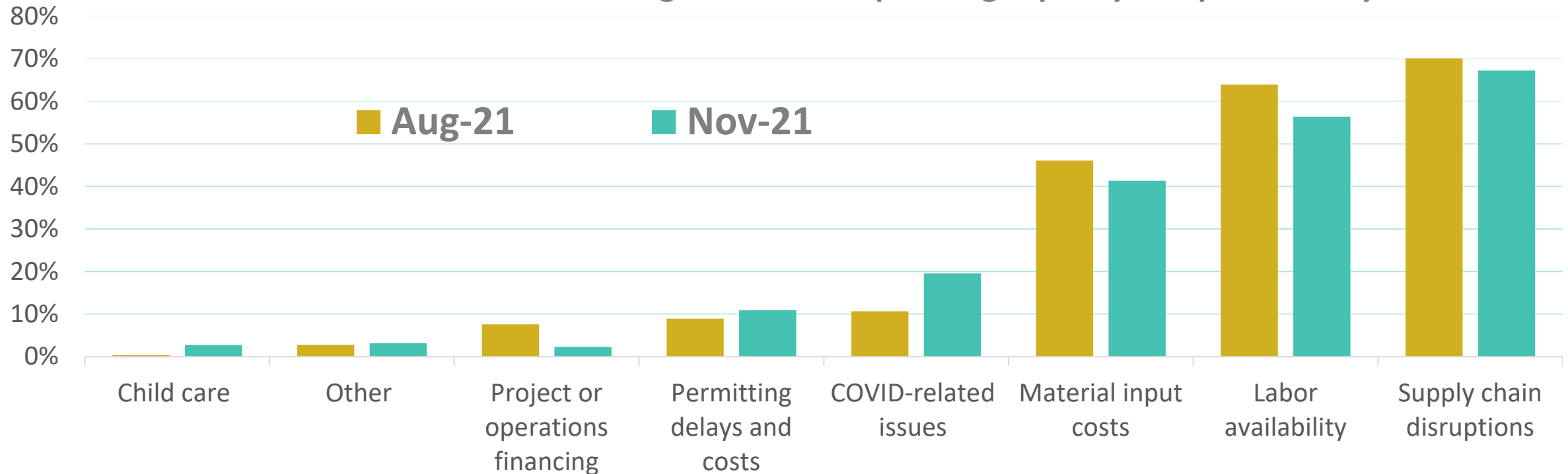
A large, light teal graphic of an eagle with its wings spread, set against a teal background. The eagle is surrounded by a circular border containing several five-pointed stars. The word "CHALLENGES" is centered over the eagle's chest.

# CHALLENGES

# CHALLENGES TO OPERATIONS

- Three BIG challenges: Supply chain, lack of labor, high costs
- Covid less a direct concern, but rising and very much in the background

Pick TWO: Greatest challenge to current operating capacity and productivity



Source: Minneapolis Fed, Construction Survey, November 2021



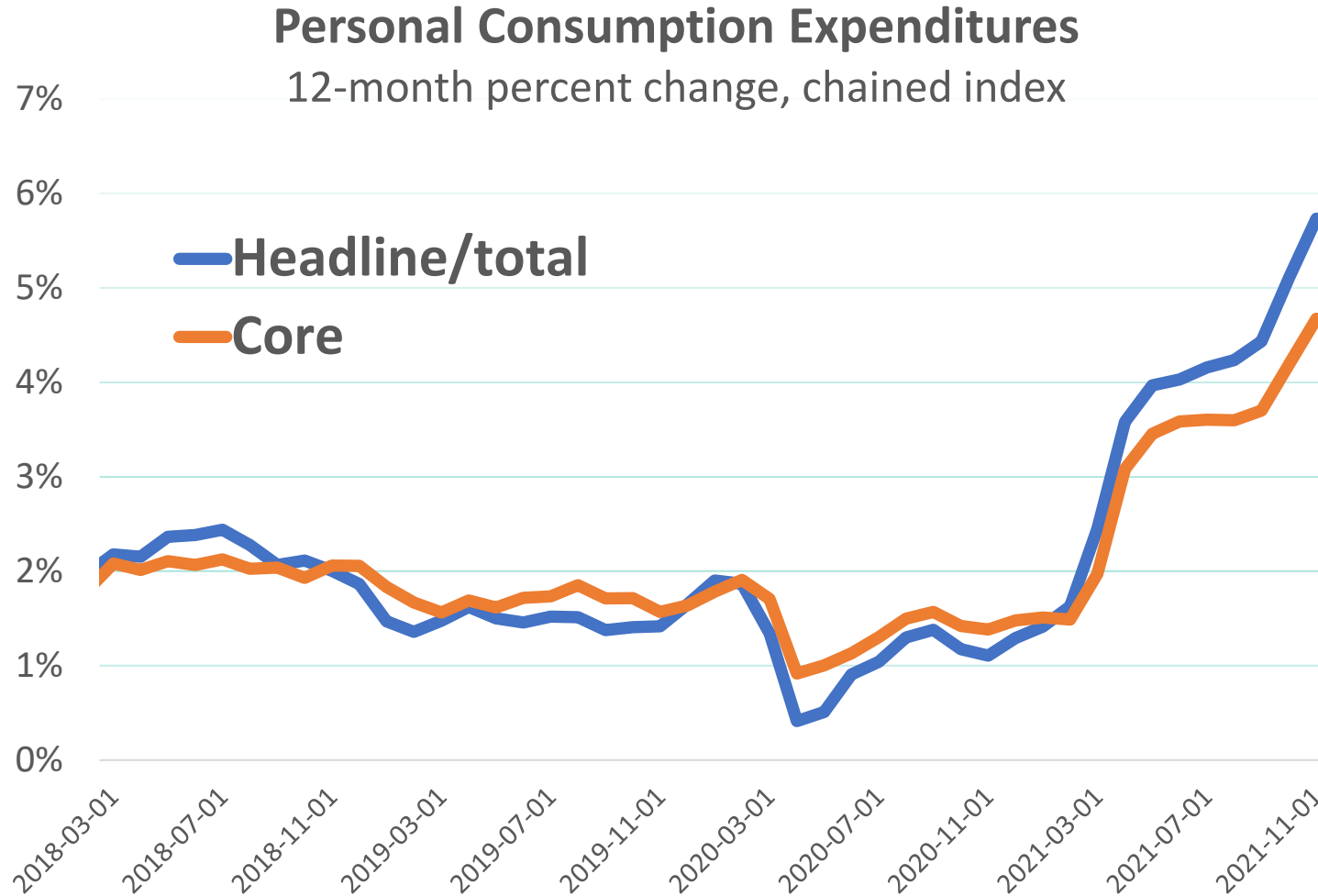
FEDERAL RESERVE BANK OF MINNEAPOLIS

## CHALLENGE #1: SUPPLY CHAINS

- Persistently strong demand for goods = low inventories
- Producers trying to meet *new* demand *and* rebuild inventory
- Producers having problems sourcing some materials for products due to strong demand, AND
- Labor constraints – present *before* pandemic, and worsening during pandemic – make global/domestic production and delivery more complicated
- **Lesson:** Hyper-efficient, global supply chain is vulnerable in pandemics; *a thousand tiny chokepoints*
- Covid surges prevent repair; once/if under control, fewer people out of work (= better production), and consumers should rotate back to more services (and fewer goods)



# CHALLENGE #2: INFLATION



**PCE: Preferred Fed inflation measure (allows for substitution)**

**Consumer Price Index: Higher than PCE**

**Producer Price Index (wholesale)**

**In general, wholesale prices have risen significantly, and more costs being passed through to retail prices**



# INFLATION: NOT ALL GOODS & SERVICES CREATED EQUAL

## Personal Consumption Expenditures Index

Index Feb 2020=100

Monthly, Seasonally Adjusted Annual Rate



Inflation driven by pandemic shift away from services and into goods (esp. durables), which subsequently created shortages

Inflation for services very modest overall

If (if) Covid relents, expect rebalancing of demand toward more services

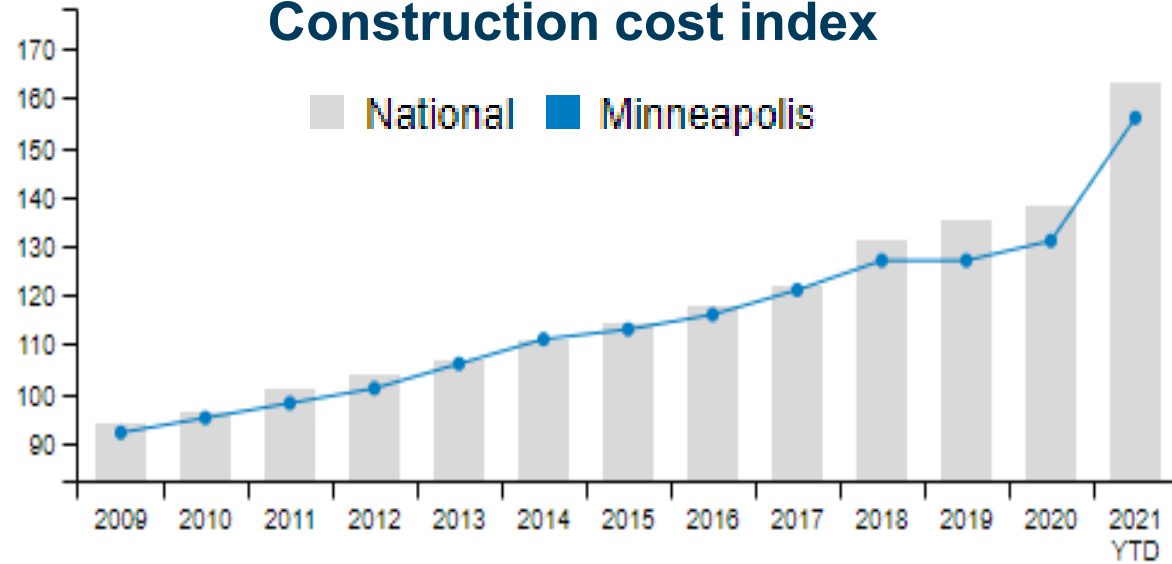
Source: Bureau of Economic Analysis



FEDERAL RESERVE BANK OF MINNEAPOLIS

# RISING PRICES IN CONSTRUCTION

## Construction cost index

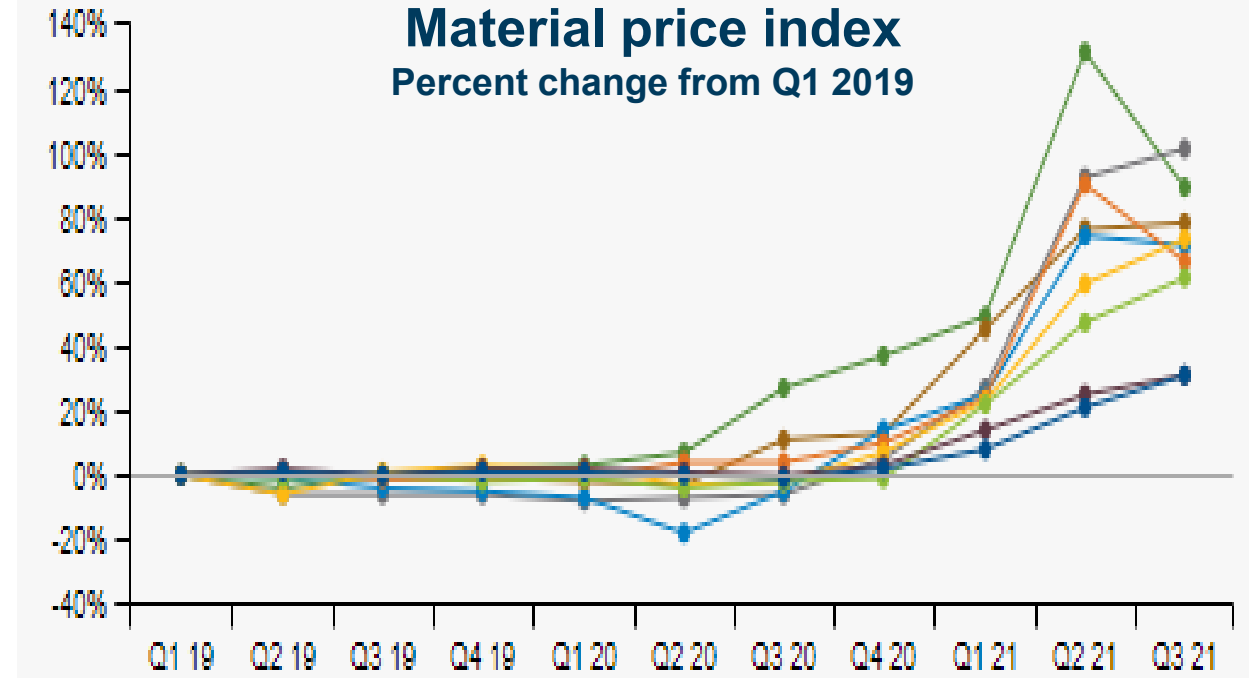


**Inflation hitting construction sector hard**

**More of those costs also being passed on to customers**

## Material price index

Percent change from Q1 2019



- Lumber
- Copper Pipe
- PVC Pipe
- Copper Wire
- Plywood
- Conduit
- Steel Pipe
- Structural Steel
- Reinforcing Materials

Source: Mortenson Construction Cost Index, Third Quarter 2021

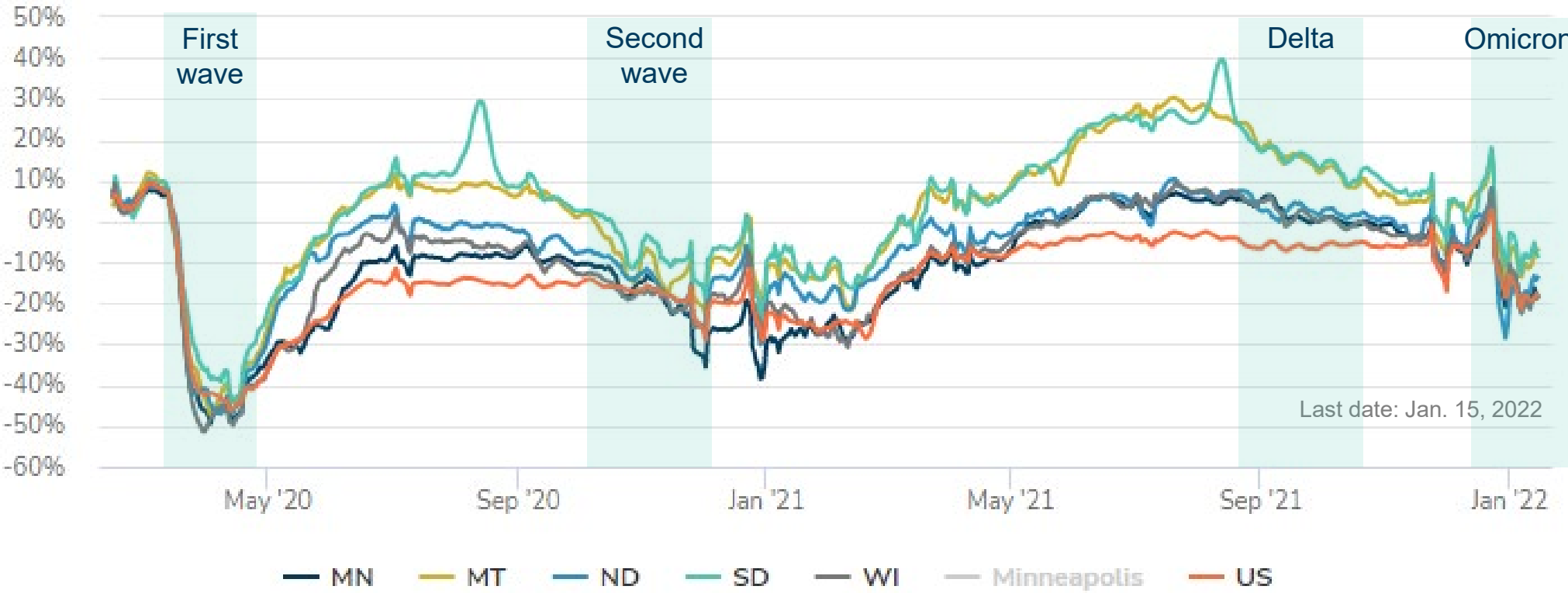


# DON'T FORGET COVID: CONSUMER ACTIVITY/MOBILITY

## Google Consumer Mobility Reports

### Retail and recreation

Percent change from Jan-Feb 2020, seven-day rolling average





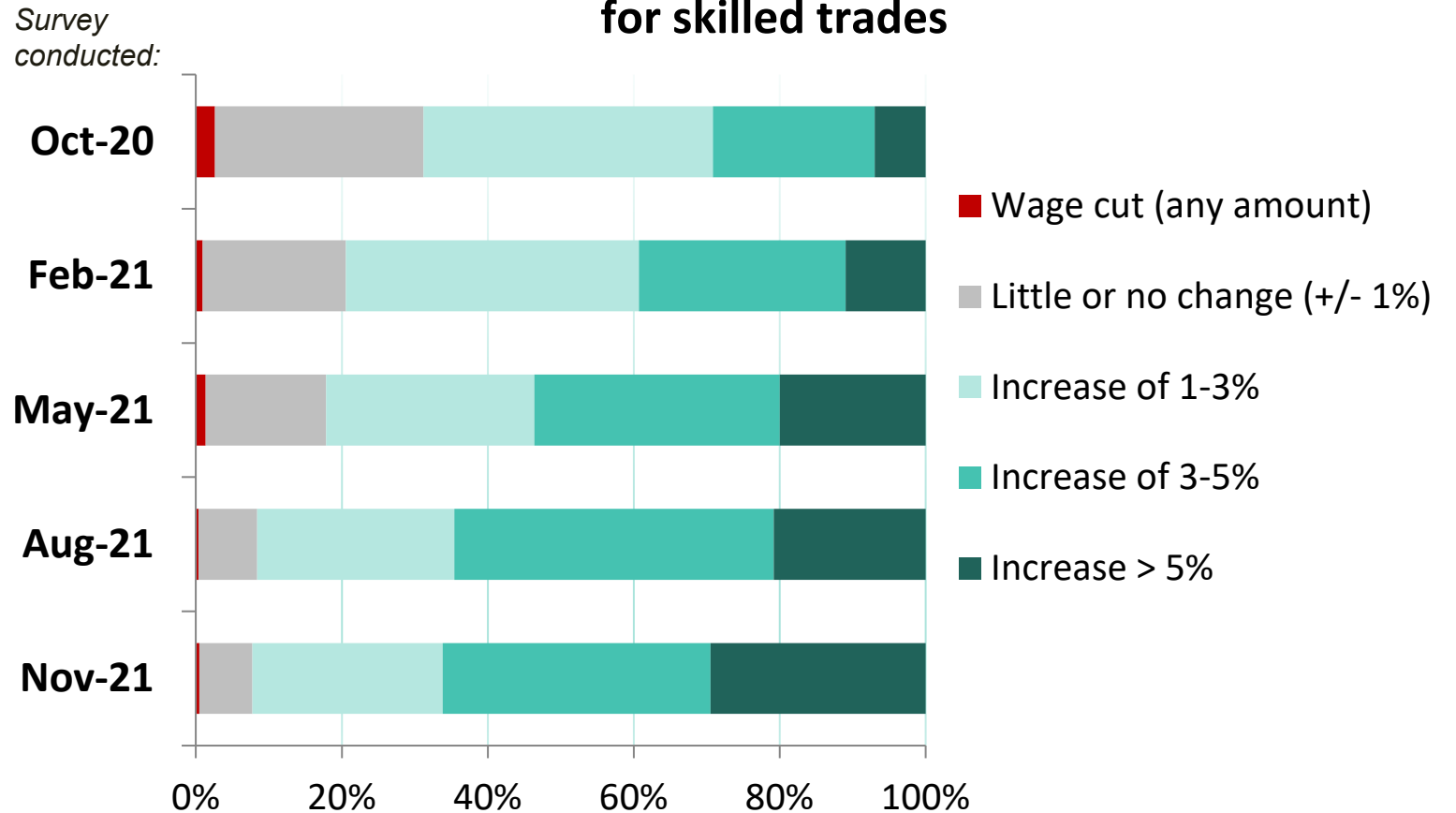
# ADDITIONAL CHALLENGE: WAGES RISING

More firms giving raises, and bigger raises, over time

Almost 2/3 of construction firms gave raises of 3% or more

Recent union contracts suggest 4-5%

### Wage increase expected over the coming 12 months for skilled trades



Source: Minneapolis Fed, Construction Survey, November 2021



**PIVOTING TO LABOR DEMAND  
SURVEY TIME!**

# WORKFORCE: What best describes AVERAGE HIRING DEMAND at your firm ?

Hiring to fill turnover (only)

Hiring new seasonal and/or part-time positions

Hiring new permanent, full-time staff

All of the above

Not hiring, but stable staffing levels

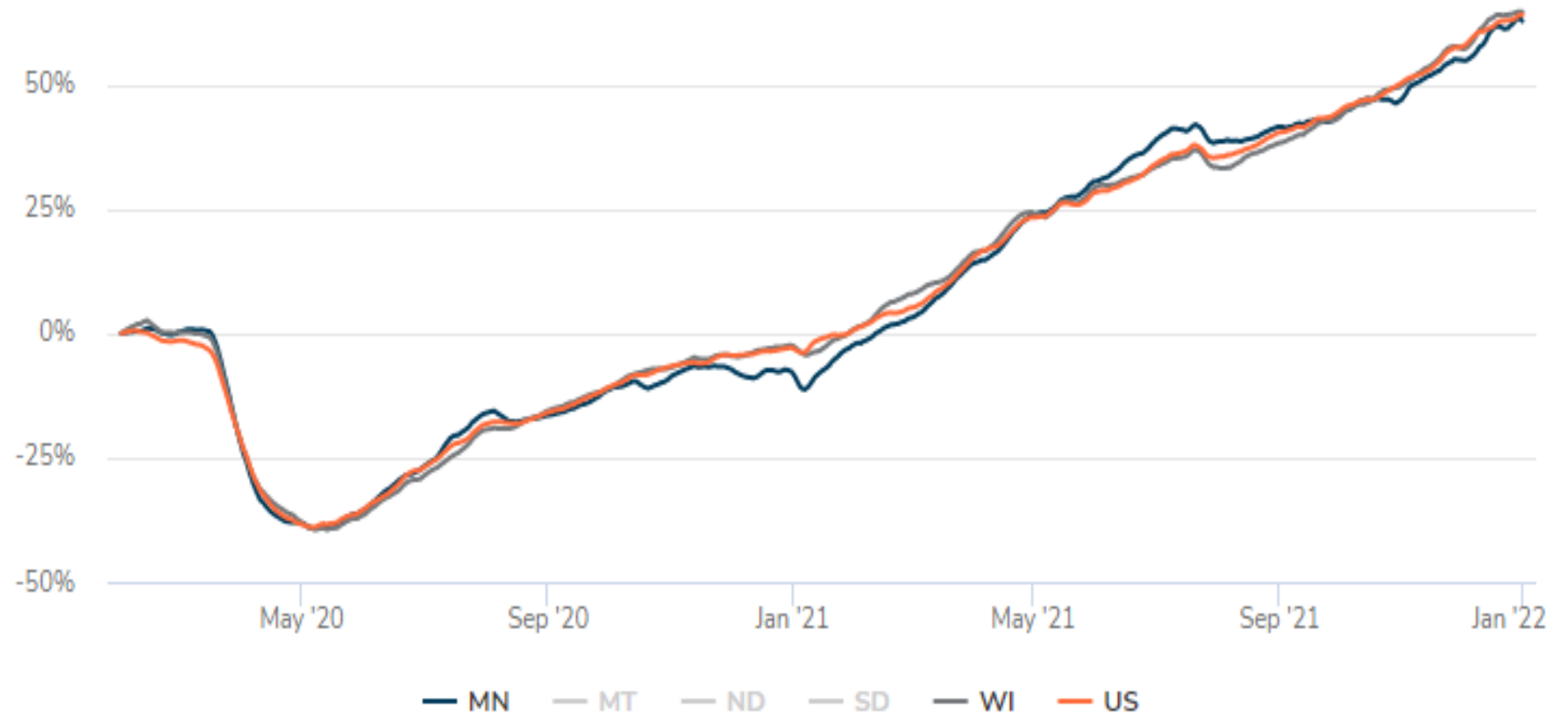
Cutting net workforce/headcount

# HIRING DEMAND

Job postings have recovered, and then some; now well above pre-pandemic levels

## Change in online job postings

Relative to Feb 1st, 2020, 7-day moving average SA



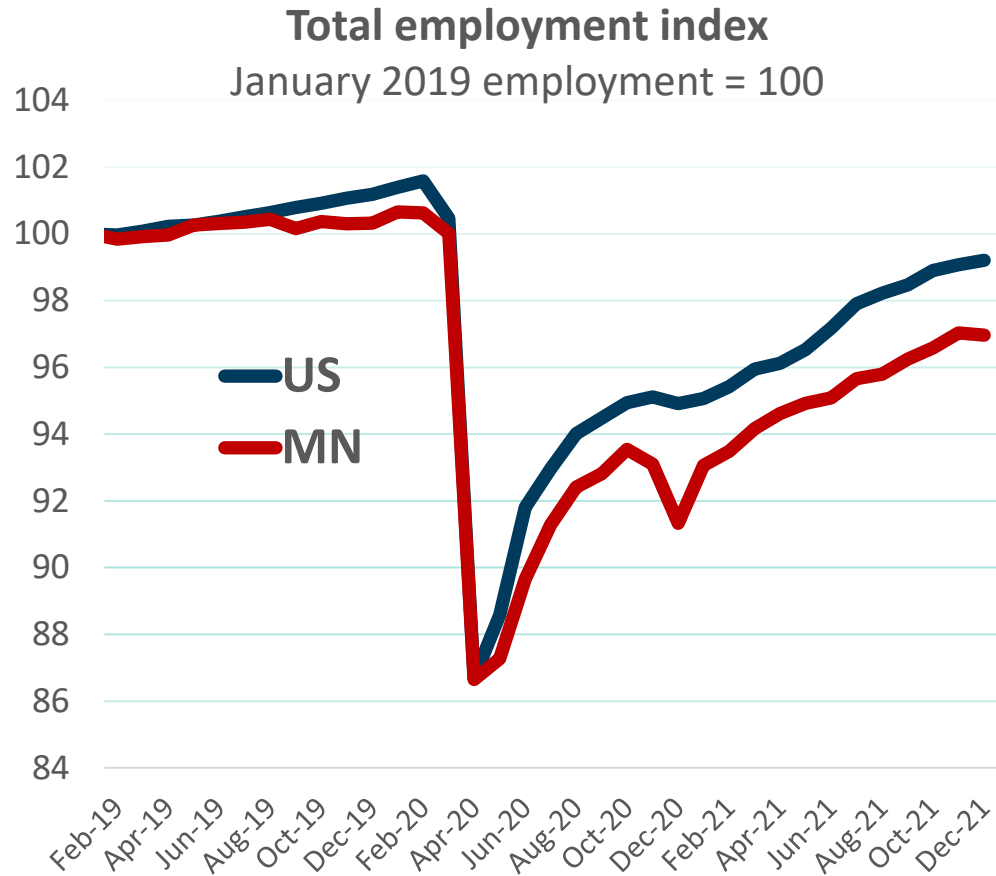
Source: Indeed



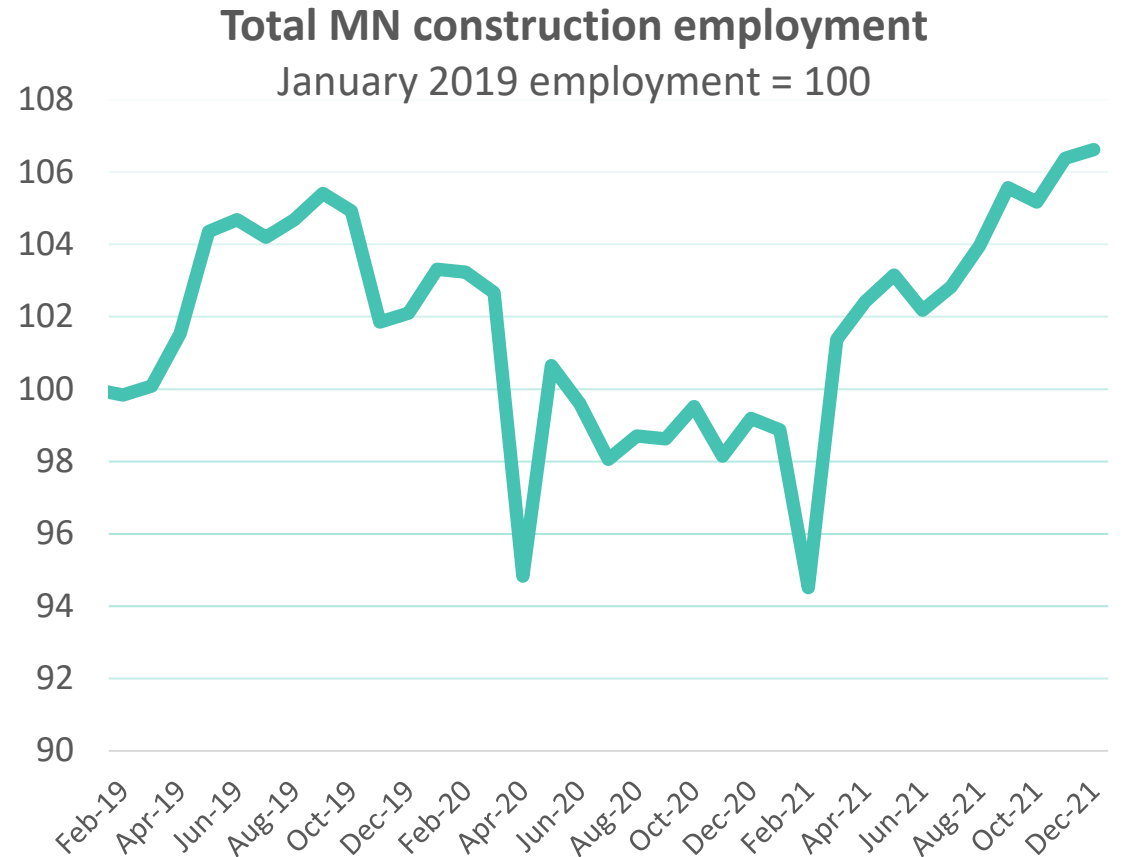
FEDERAL RESERVE BANK OF MINNEAPOLIS

# TOTAL EMPLOYMENT

- Lots of job openings  $\neq$  fast employment growth
- Job growth in construction above pre-pandemic levels



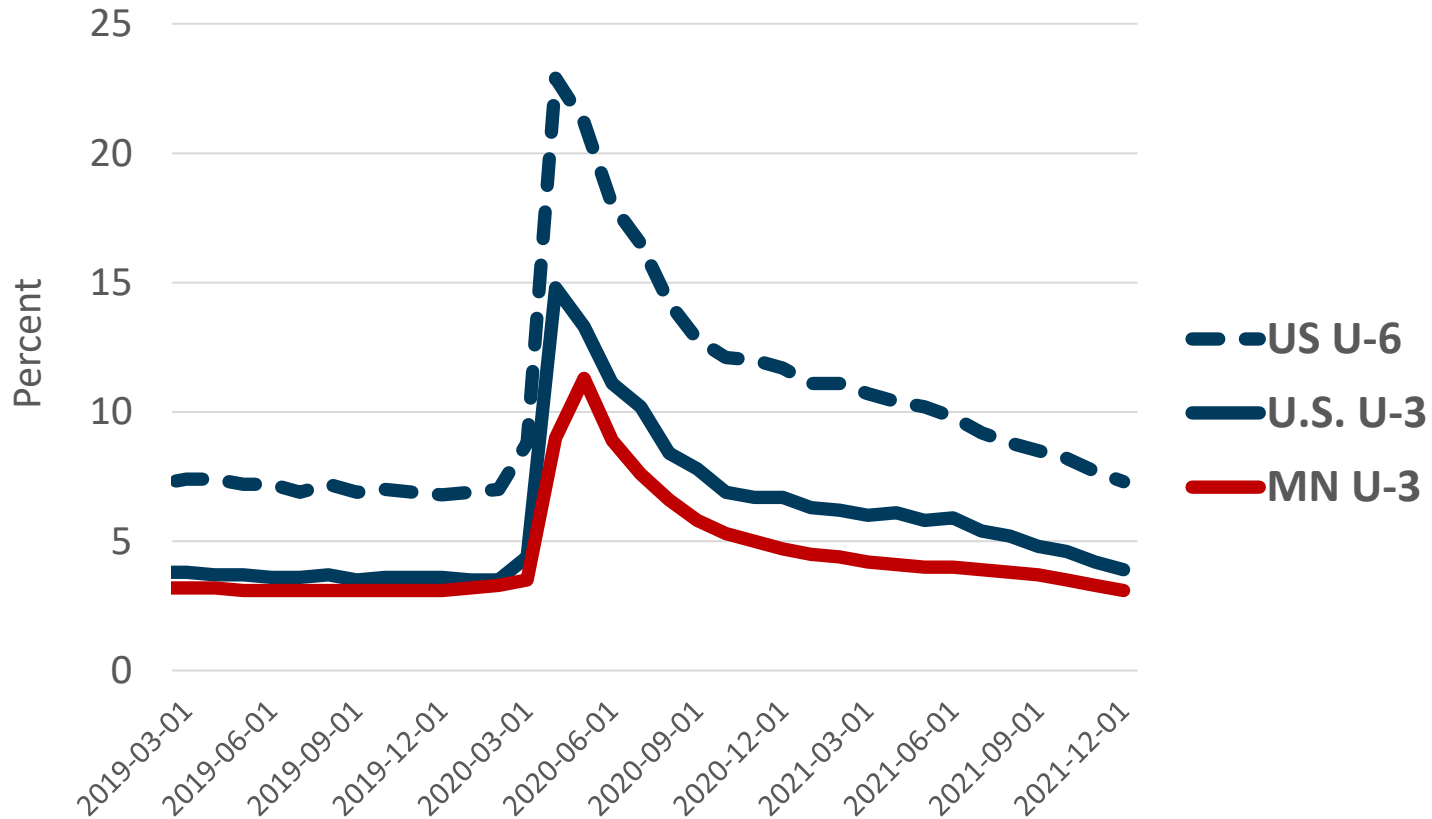
Source: Bureau of Labor Statistics



FEDERAL RESERVE BANK OF MINNEAPOLIS

# UNEMPLOYMENT

## Unemployment: Good news and bad news



**U-3 rate = 'official' rate**

**Unemployment down significantly, but not for everyone**

**Black unemployment still 7 percent!**

**U-6 rate = real-world labor slack; still elevated**

Source: Bureau of Labor Statistics

U-6 measure = Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.



FEDERAL RESERVE BANK OF MINNEAPOLIS



---

**LABOR SUPPLY**

**FIRST, SURVEY TIME!**

# LABOR AVAILABILITY: How would you describe your firms' ability to find labor if hiring?

Not difficult; good labor availability

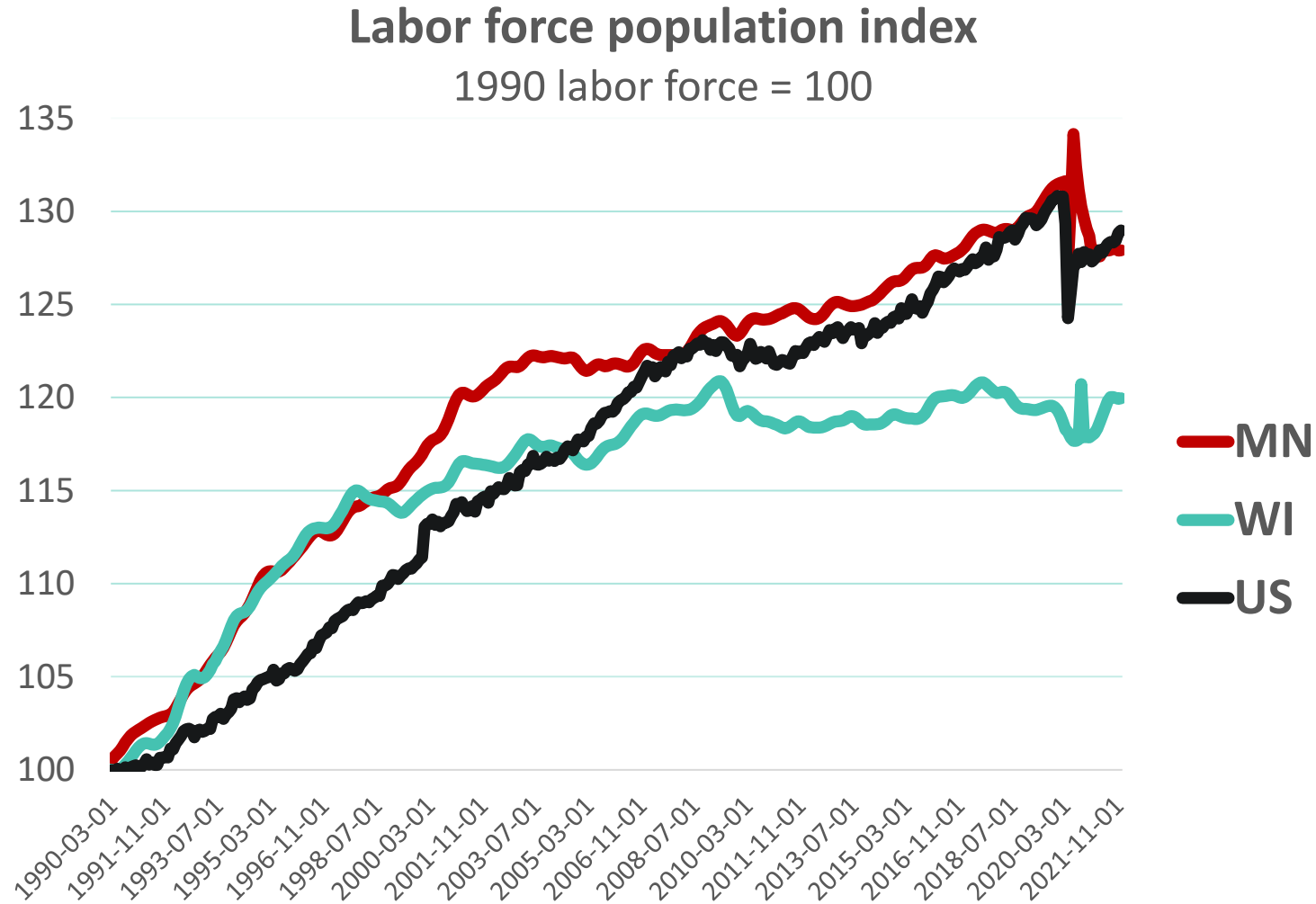
Slightly difficult

Moderately difficult

Very difficult; very poor labor availability



# LABOR FORCE POPULATION: SLOWING



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

**Labor force slowed dramatically in MN since 2000**

- Slowing population growth
- Lower labor force participation

**Problem worsened in pandemic**

• Source: Bureau of Labor Statistics



# LABOR FORCE PARTICIPATION

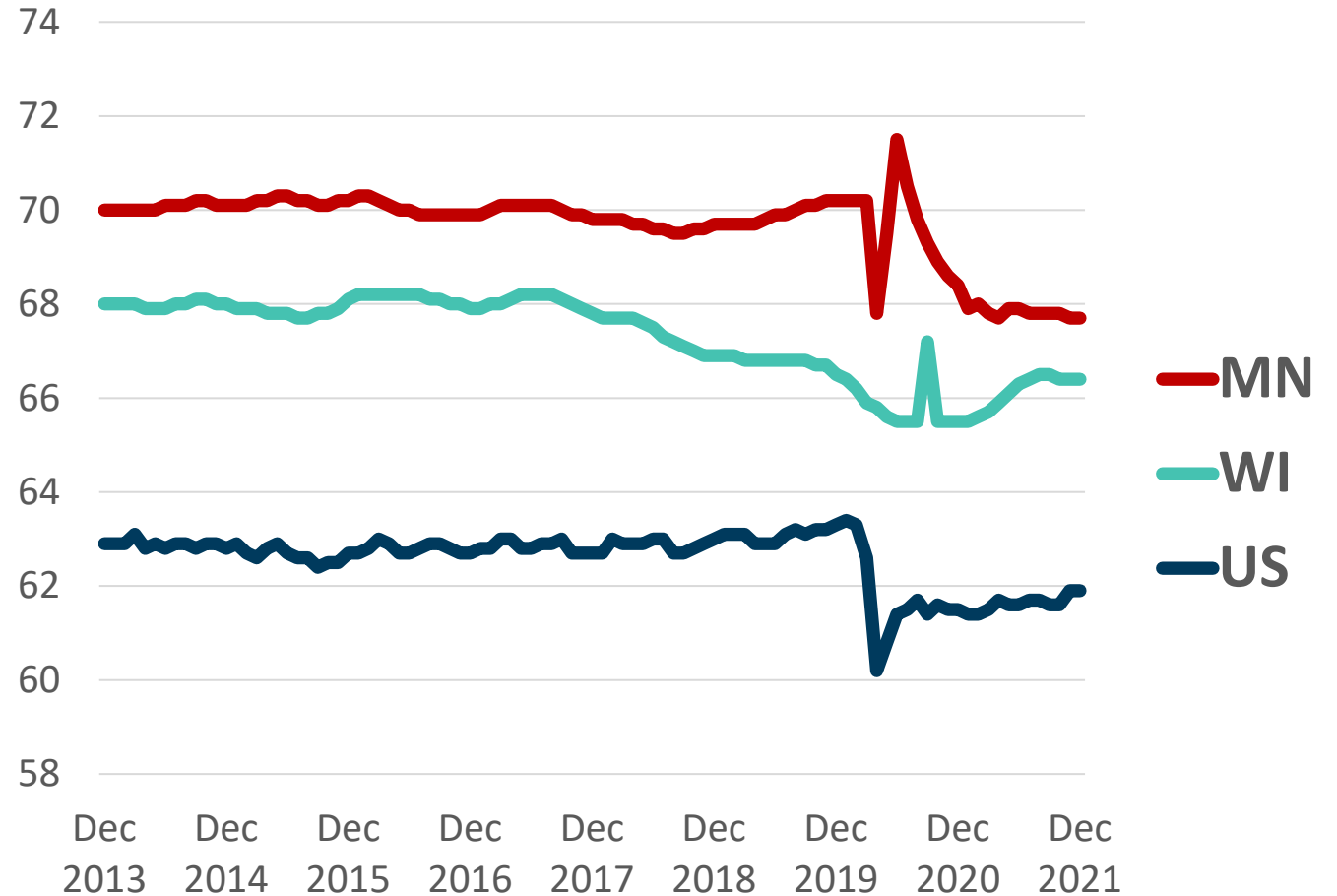
LFP definition = Share of those over 16, working, or looking for work

LFP rates in decline since late 1990s

Finally started to pivot higher ... and then pandemic hit

Little evidence of LFP returning to pre-pandemic levels soon

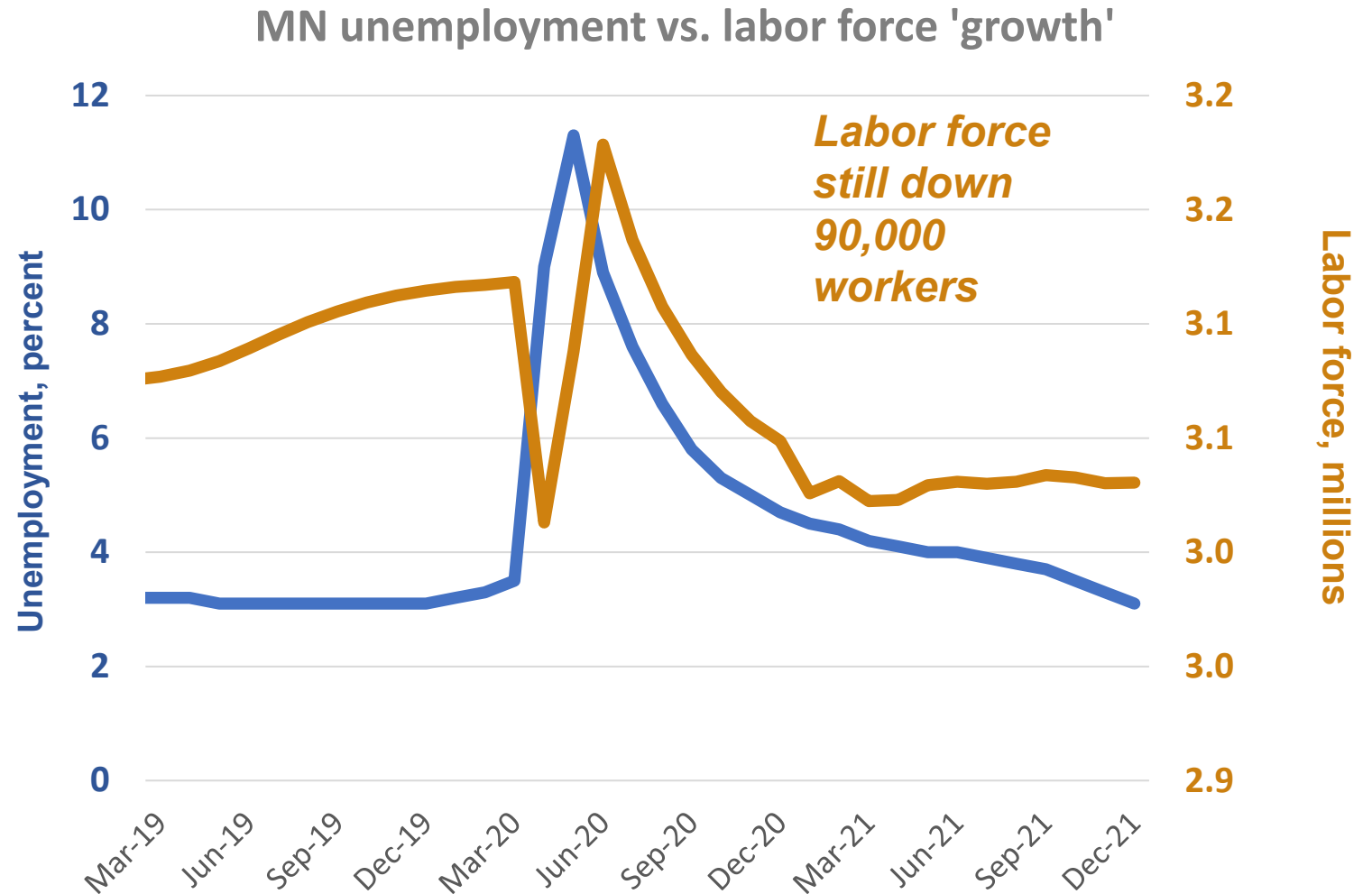
## Labor force participation rate



# LABOR FORCE, CONT.

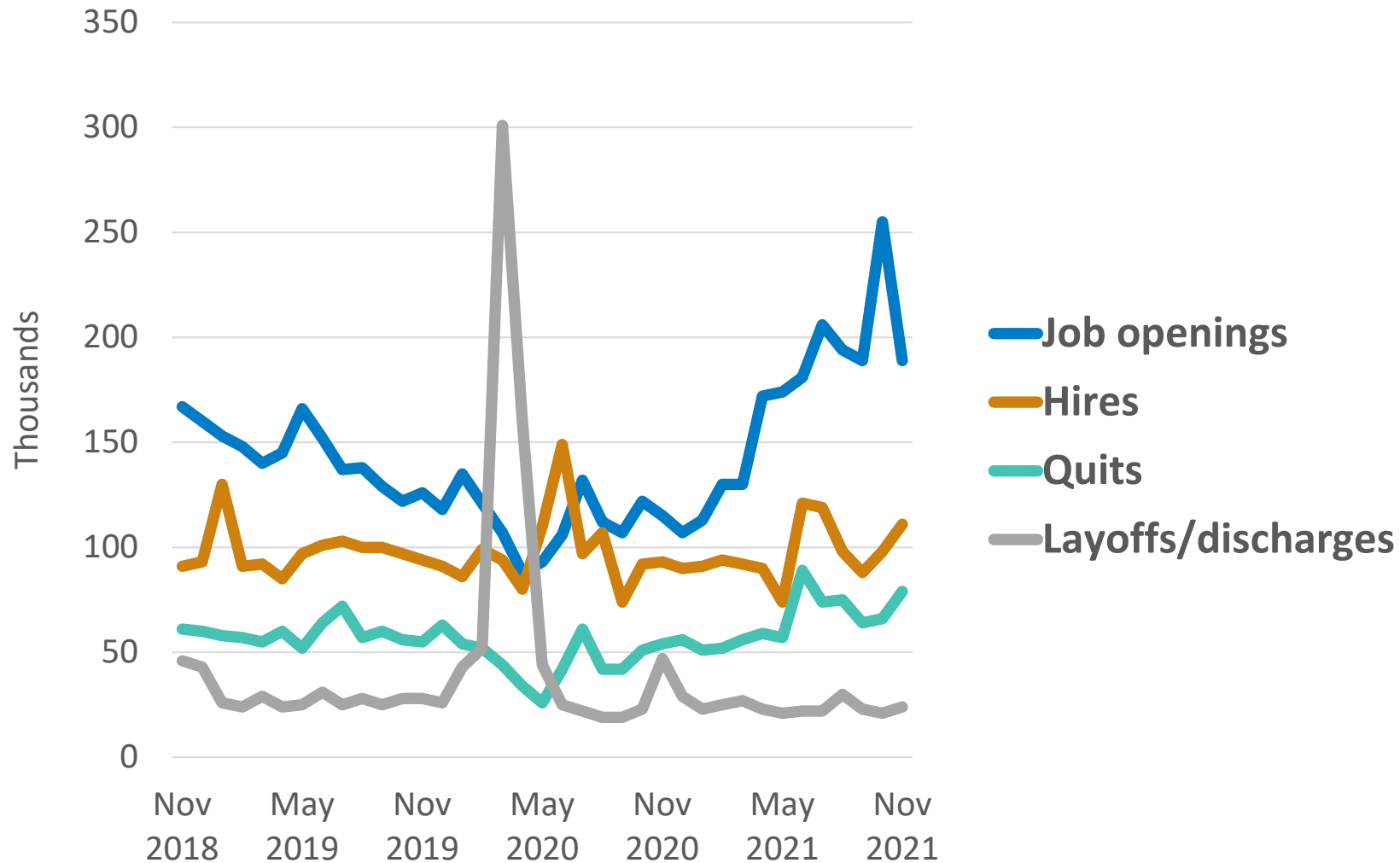
Unemployment rates fell dramatically at the same time that the labor force size *declined*

Much of the decrease in unemployment has stemmed *from people leaving the labor force entirely – not working, not looking* – maybe temporarily, maybe not



# JOB OPENINGS AND LABOR TURNOVER SURVEY

Minnesota labor market: Demand & supply



Hiring demand up strongly

Actual hires much flatter

*Voluntary quits rising*

Layoffs low & stable

= Record-high job vacancies





**SO WHAT DO YOU THINK?**

**WHY ARE SO MANY JOBS GOING  
UNFILLED?**

**WORD CLOUD: In 1-3 words, what is the biggest factor keeping workers from taking available jobs? (For more than 1 word, use hyphens: I-don't-know)**

# TODAY'S LABOR FORCE NARRATIVE

*From surveys and other outreach*

- “Nobody wants to work any more; workers are lazy; Government benefits are too generous”
- These things likely true to some extent
- But it's also a lazy, too-simple generalization; likely fits only small share of non-working population
- Misses much more complicated labor picture
  - Research shows most people want to work, but finding and accepting preferred work faces a lot of friction
- By over-generalizing, we're misdiagnosing real problems and overlooking real solutions





## WORKER EXPERIENCE INITIATIVE

- Federal Reserve has always tracked the economy
- Typically done via firms
  - Firms – esp. large ones – offer good insights on aggregate activity, as well as insights across geography, industry, etc.
- But firm-centric view is very one-sided, esp. regarding labor market environments







## WORKER EXPERIENCE INITIATIVE

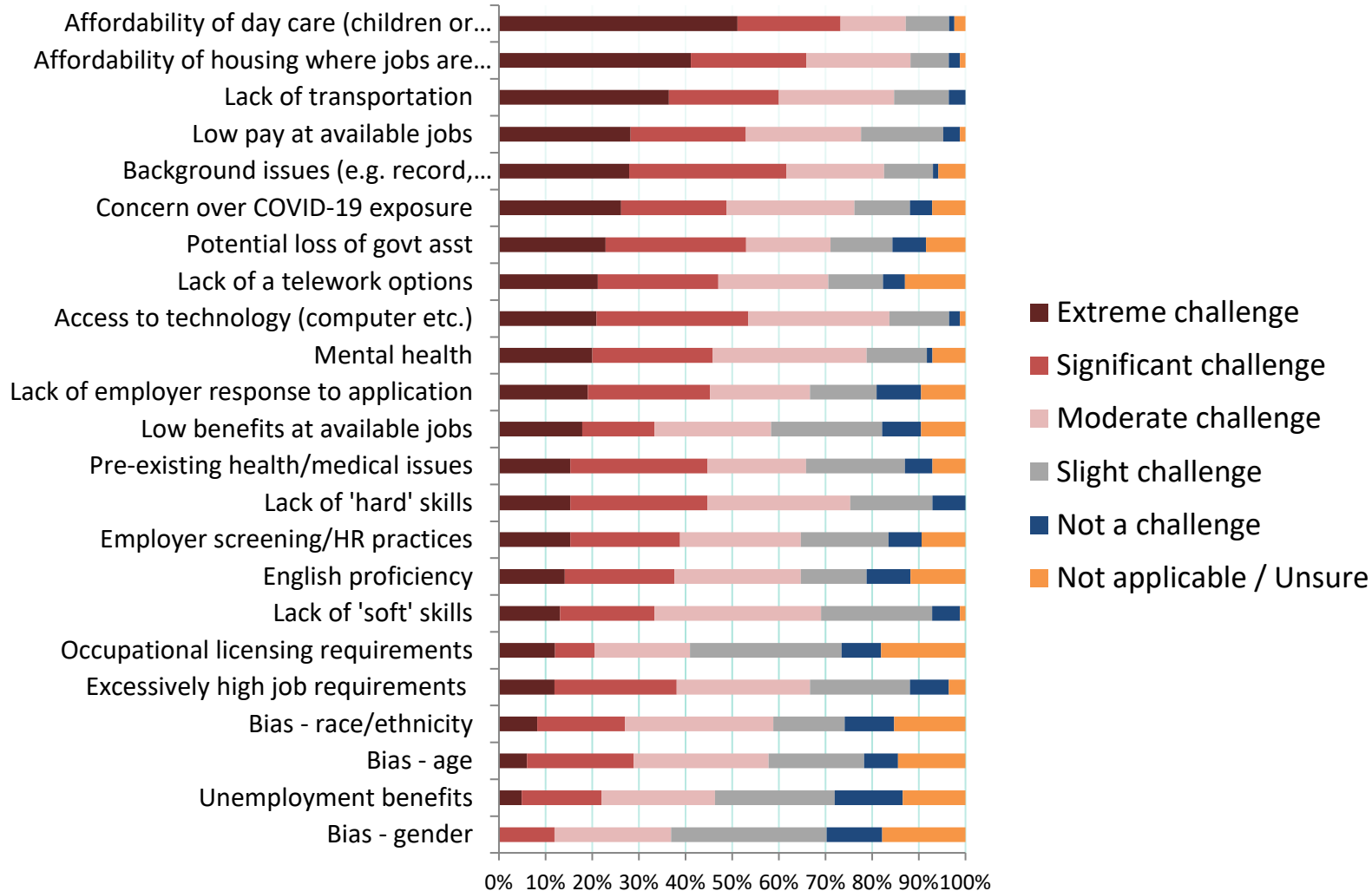
- New effort: Understand current labor market from worker point of view, esp. those dislocated, underemployed, marginally attached and disenfranchised
- **WHY?** Labor force participation arguably the single most important factor in long-term economic growth
  - Starting with intermediaries – organizations that provide job-search services
  - 6 surveys in last 6 months
  - October 2021: Minnesota Employment Services Coalition; survey of staff with that work with job seekers



# THE FLIP SIDE OF LABOR AVAILABILITY: WORKER VIEW

## Perceptions of job obstacles faced by job seekers

Survey of staff, Minnesota Employment Services Coalition



Multitude of potential obstacles to labor force participation

Some worker-based

Some employer-based

Some related to economic environment, government policy

Source: Minneapolis Fed, October 2021



FEDERAL RESERVE BANK OF MINNEAPOLIS

# LABOR AVAILABILITY: WORKER VIEW

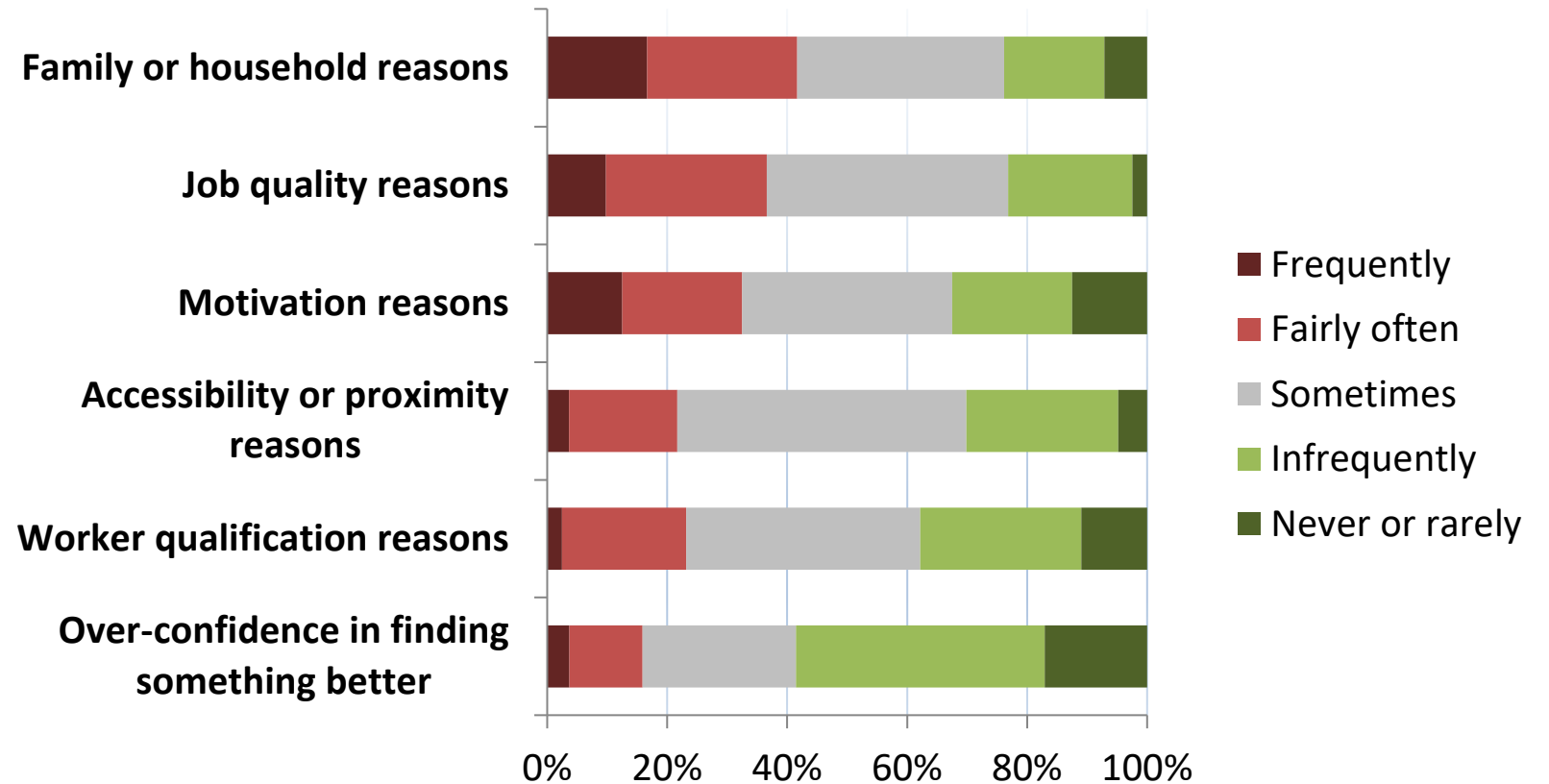
Lots of friction when it comes to job-matching

Businesses tend to point to external sources, esp. worker motivation

Workers communicate something different

Motivation *is* an issue, but there are significantly more “other” issues

In general, why (or for what reasons) are job-seekers turning down available jobs?



Source: Minneapolis Fed, October 2021

## WHY DOES THIS MATTER?

- It matters because of fundamental labor shift
- Past: Labor surplus meant you could be choosy, screening *out* job applicants to find *best fit*
- Present: Labor shortage means workers have leverage, and we have to treat obstacles that many face from a problem-solving POV *if we want more to work*
  - Would you treat a supply chain problem any different?
- Clearly already happening (e.g. wages rising, remote work, greater flexibility), esp. among some firms. But is it happening fast enough?





**ECONOMIC OUTLOOK**  
**YOU FIRST! SURVEY TIME!**

# OUTLOOK: What is the overall outlook at your firm over the next six months, and (if appropriate) among external clients?

Very pessimistic

Somewhat pessimistic

Flat/neutral

Somewhat optimistic

Very optimistic

Don't know



## FINAL THOUGHTS

- **Good news: There still appears to be healthy demand**
- **Bad news: Challenge fatigue**
  - **Supply chain problems, higher prices, and labor constraints**
  - **Covid/Omicron makes repair difficult**
  - **Labor force participation arguably biggest driver of long-term growth**
    - **Most difficult to solve (people = complexity)**
    - **Offers best opportunity for widespread growth**





## LAST THING ... I PROMISE

Look for survey from MCC on conditions in construction sector in mid-February

Results released (tentatively)

- **Friday, March 4, 9:00 to 9:30am – FREE**







---

**THANK YOU! QUESTIONS?**

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

**TWITTER: @RONWIRTZ**

**@MINNEAPOLISFED**

**CONNECT VIA LINKEDIN**

**[RON.WIRTZ@MPLS.FRB.ORG](mailto:RON.WIRTZ@MPLS.FRB.ORG)**

**GOOD LUCK NAVIGATING CHALLENGING CONDITIONS**