

Welcome

Thank you for joining us.

The program will begin at 8:00 am.



DEMOGRAPHIC AND ECONOMIC TRENDS IN THE 15-COUNTY REGION



Ben Palmquist

Bureau of Business and Economic Research Labovitz School of Business and Economics, UMD



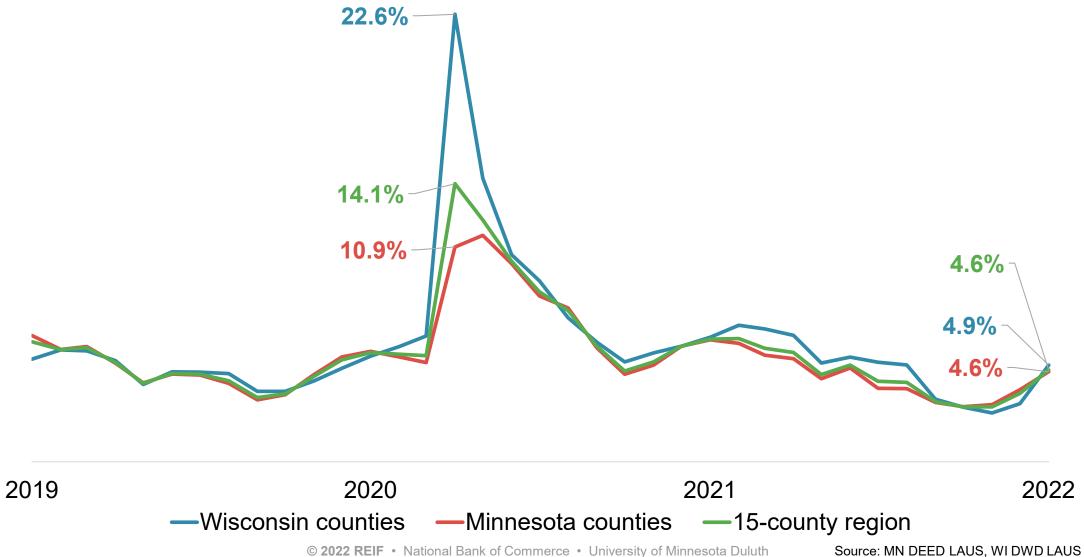


OBJECTIVES

- 15-County Unemployment Rate
- Labor Force Participation Rate
- National, State, and MSA GDP
- Industry Performance

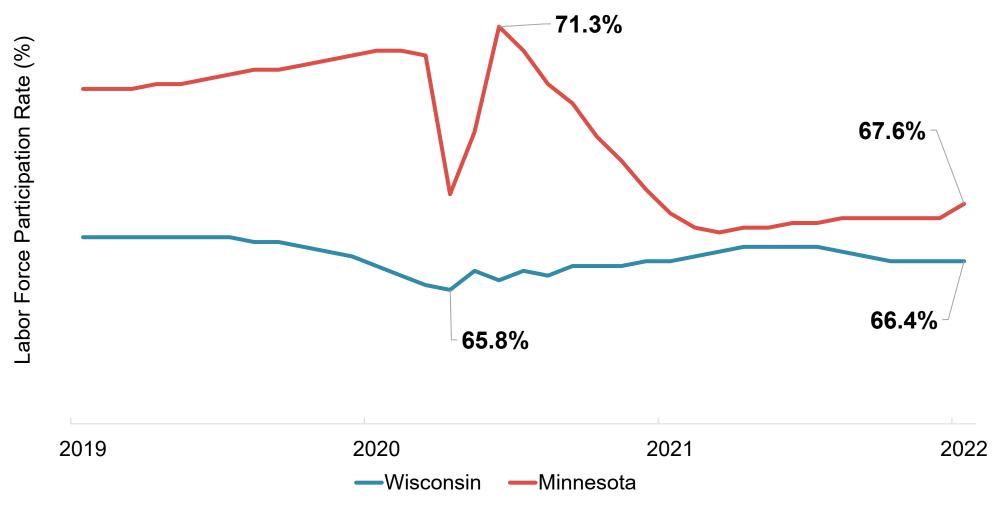


15-COUNTY UNEMPLOYMENT RATE



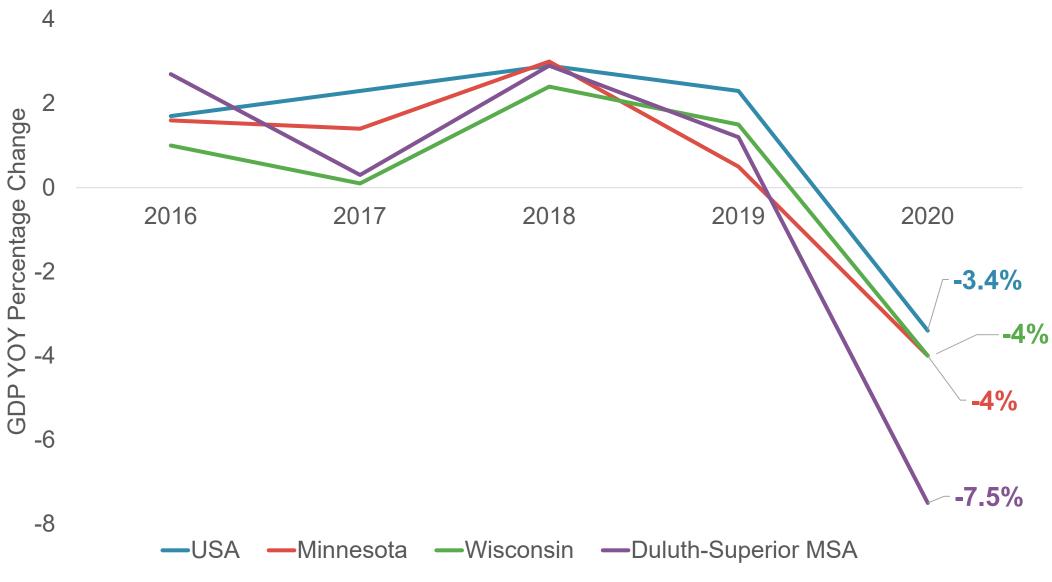


LABOR FORCE PARTICIPATION RATE





GDP PERCENTAGE CHANGE





EMPLOYMENT GROWTH (2020-21)

Sector	2021 Jobs	2020 - 2021 Change	2020 - 2021 % Change
Leisure and Hospitality	21,272	850	4%
Natural Resources and Mining	4,139	142	4%
Professional and Business Services	12,818	286	2%
Construction	12,309	256	2%
Trade, Transportation, and Utilities	37,606	367	1%
Other Services	10,523	72	1%
Manufacturing	15,098	38	0%
Education and Health Services	43,473	-80	0%
Financial Activities	7,642	-73	-1%
Government	41,319	-633	-2%
Information	1,641	-73	-4%

Source: EMSI



SUMMARY OF FINDINGS

- 15-County Unemployment Rate: 4.6%
- Labor Force Participation Rate: 67.6% (MN) 66.4% (WI)
- National, State, and MSA GDP: -7.5% change from 2019-2020
- 15-County Industry Data: Strongest growth since 2020 in
 - Leisure and hospitality
 - Natural resources and mining
 - Professional and business services

CONSUMER CONFIDENCE INDICATORS



Grant Garding

University of Wisconsin-Superior



STUDENTS & DATA COLLECTION

Spring 2022: 13 UW-Superior Student Researchers

Data Collection Time: January-March 2022

Data Collection Format:

Phone Survey of Random Public

Email Survey of Random Public

Email Survey of Past REIF Participants

CONSUMER CONFIDENCE INDICATORS

Index of Consumer Sentiments (ICS)

Consumer outlook on personal finances, business conditions and consumption spending

Index of Current Conditions (ICC)

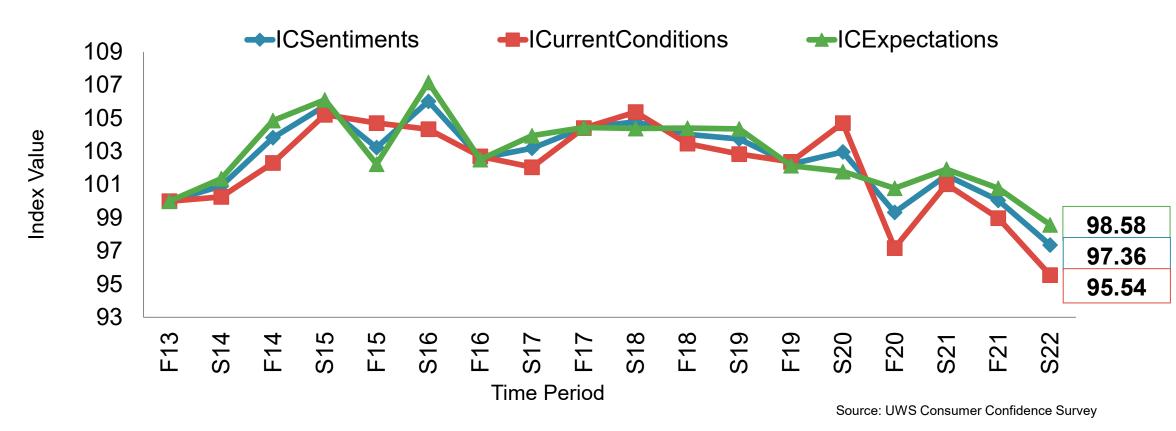
Gauges current state of the economy

Index of Consumer Expectations (ICE)

Projects future economic and financial conditions

CONSUMER CONFIDENCE INDICATORS

SAMPLE SIZE: 142



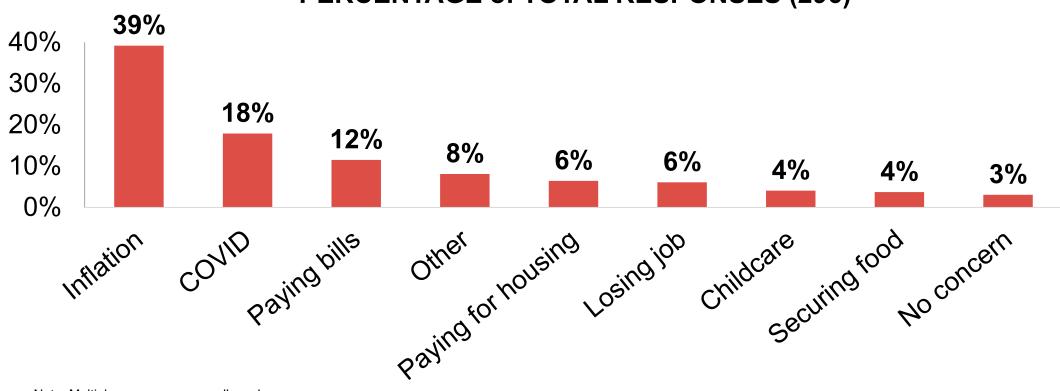
REIF REGION vs. NATIONAL CONSUMER SENTIMATE CHANGE

Indices	REIF Spring 2021-22 (percentage change)	National Feb. 2021-22 (percentage change)
Index of Consumer Sentiments (ICS)	-6.08	-18.23
Index of Current Conditions (ICC)	-11.33	-20.88
Index of Consumer Expectations (ICE)	-2.40	-15.98

Sources: UWS Consumer Confidence Survey & Survey of Consumers by University of Michigan

REIF REGION: CURRENT CONCERNS OF HOUSEHOLDS

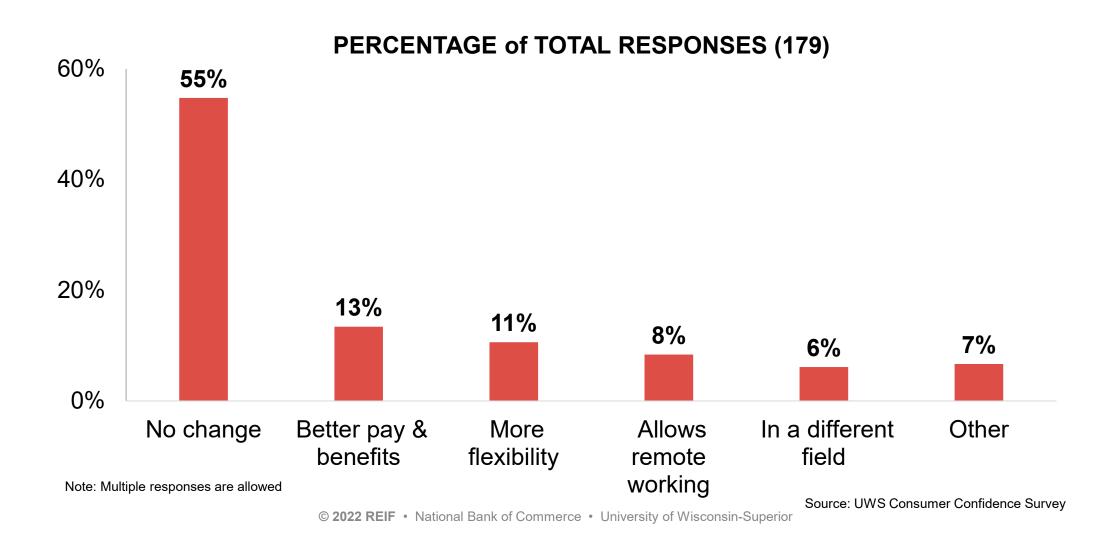
PERCENTAGE of TOTAL RESPONSES (296)



Note: Multiple responses were allowed

Source: UWS Consumer Confidence Survey

REIF REGION: CURRENT JOB CHANGES BY HOUSEHOLDS



SUMMARY OF CONSUMER SURVEY

Consumer Confidence Indicators

- Consumer confidence in the REIF region is still very low and yet to be back to the pre-pandemic level
- Consumers are deeply worried about the current state of the regional economy

REIF Region and Current Economy

- Top two concerns are inflation and COVID exposure
- Majority do not plan to change their jobs

REGIONAL EQUITY INDEX



Augusto Vladusic

University of Wisconsin-Superior



EQUITY PERFORMANCE ANALYSIS

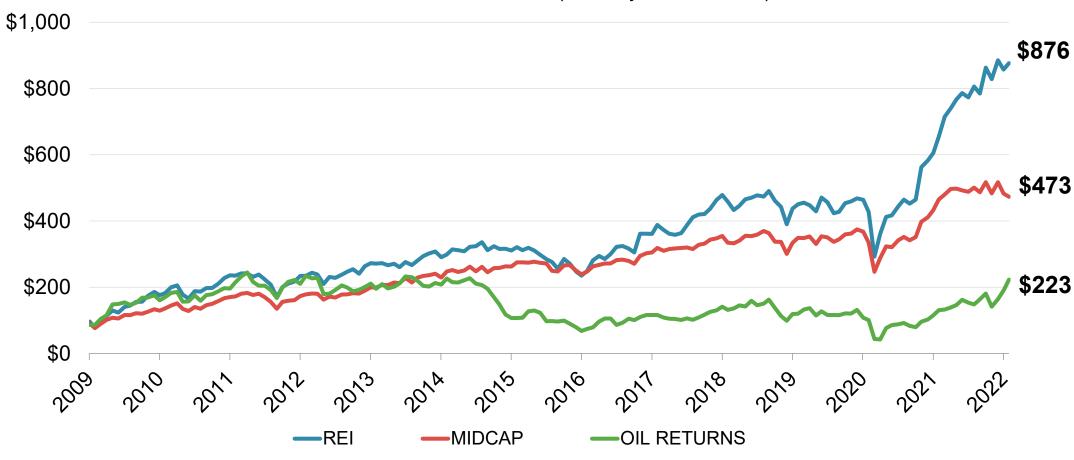
STOCKS OF LOCAL INTEREST

- Allete
- Armstrong World Industries
- Calumet
- Canadian National Railway
- Cenovus Energy
- Charter Communications
- Cliffs Natural Resources

- Enbridge Energy Partners
- Louisiana-Pacific
- Marriott International
- Morgan Stanley
- Polymet
- UnitedHealth Group
- US Steel
- Walmart

GROWTH OF \$100

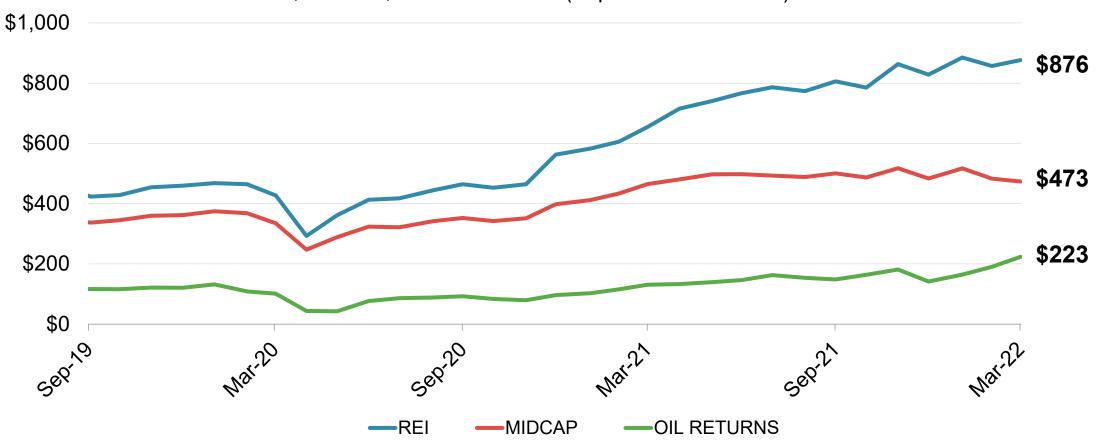
REI, MIDCAP, AND OIL Futures (January 2009 to date)



Source: UW-Superior REI Analysis using Yahoo Finance data

GROWTH OF \$100

REI, MIDCAP, AND OIL Futures (Sep. 2019 - Mar. 2022)



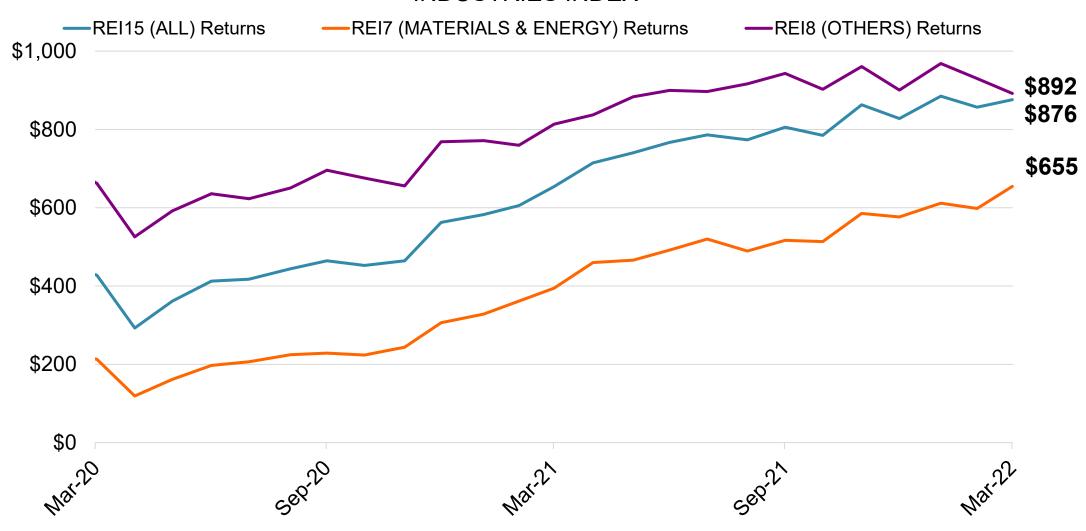
Source: UW-Superior REI Analysis using Yahoo Finance data

REIF FIRMS: BY SECTOR & INDUSTRY

Sector	REIF Firm (s)	
Materials (4)	Cliffs Natural Resources	
	Louisiana-Pacific	
	Polymet	
	United States Steel	
	Calumet	
Energy (3)	Enbridge	
	Cenovus	
Consumer Cyclical (2)	Walmart	
	Marriott International	
Utilities (1)	Allete	
Basic Materials (1)	Armstrong World Industries	
Industrials (1)	Canadian National Railway	
Communications (1)	Charter Communications	
Financials (1)	Morgan Stanley	
Health Care (1)	UnitedHealth Group	

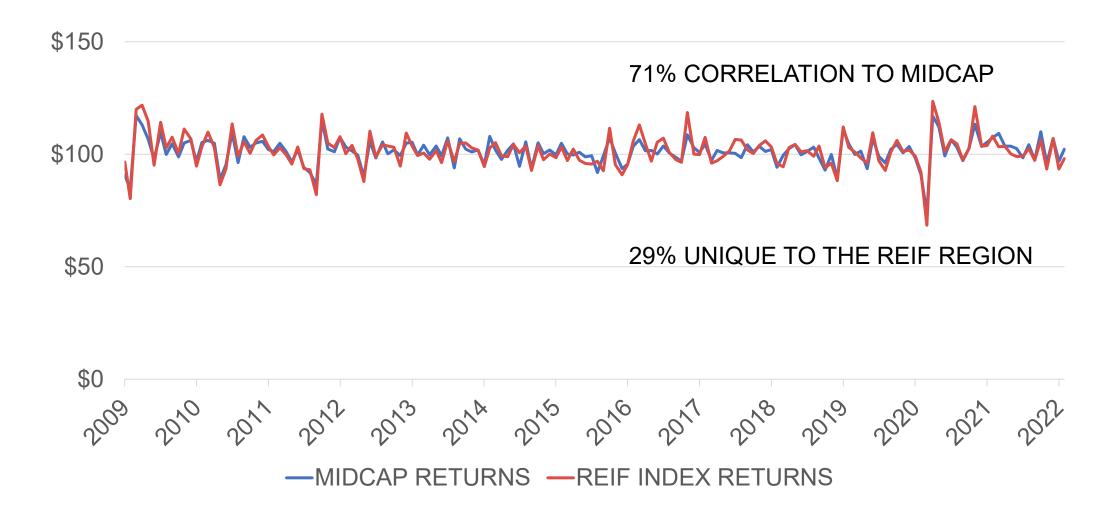
GROWTH OF \$100

REIF INDEX, REIF MATERIALS & ENERGY INDEX, AND REIF OTHER INDUSTRIES INDEX



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REIF AND MID-CAP CORRELATION



SUMMARY OF FINDINGS

ANALYST OPINIONS

MORNINGSTAR®

- P/E RATIO
 - Prices lower than the industry standard but the gap is closing
- FORWARD EARNINGS
 - Expected to increase
- SHORT RATIO
 - Index average decrease to 2.58

VALUELINE®

- PERFORMANCE
 - Slightly outperform the market
- SAFETY
 - Slightly above average
- TECHNICAL
 - Slightly outperform
- PRICE STABILITY
 - Slightly outperform
- PRICE GROWTH
 - Exact Average

ADDITIONAL FINDINGS

OVERALL IMPLICATIONS

- REI vs S&P MID CAP 400: REI is expected to outperform
- Investor sentiment is optimistic as indicated by the short interest ratio of 2.58 for the REIF Index
- Economic diversification of the REIF region could be initiated by supporting the technological and green energy sectors
- Regression analysis shows more price volatility, but higher returns

BUSINESS CONFIDENCE INDICATORS



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ge

Omar Bensouda

Accounting, Finance and Economics Department
The College of St. Scholastica



OVERVIEW

Business Sectors Represented

Leisure and Hospitality	18
Professional and Business Services	16
Trade, Transport and Utilities	15
Financial Activities	6
Education and Health Services	5
Other Sectors	22

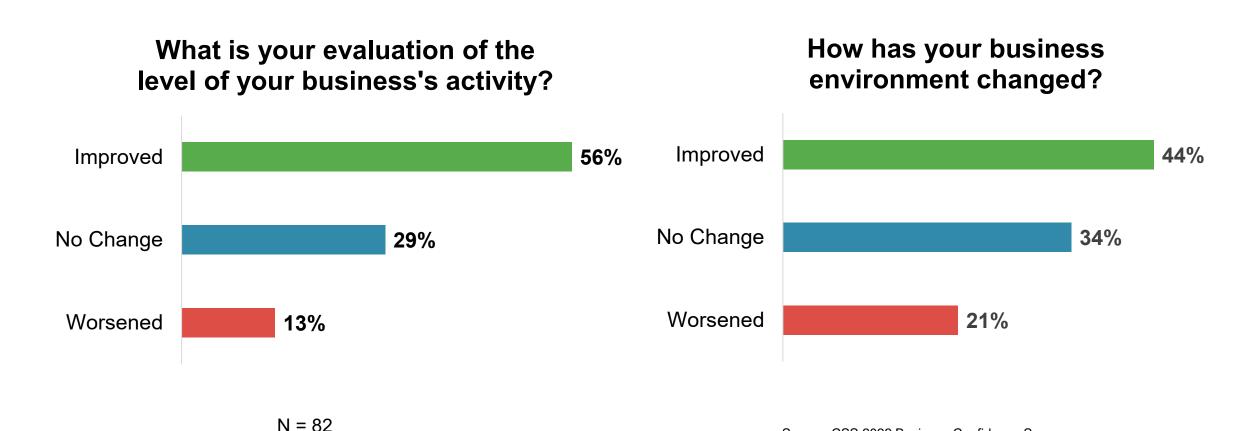
N=82

Number of Employees

1 to 19	48
20 to 99	15
100 or more	19

GENERAL BUSINESS CONDITIONS

Previous Six Months

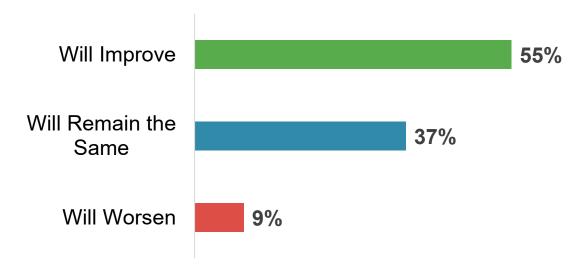


Source: CSS 2022 Business Confidence Survey

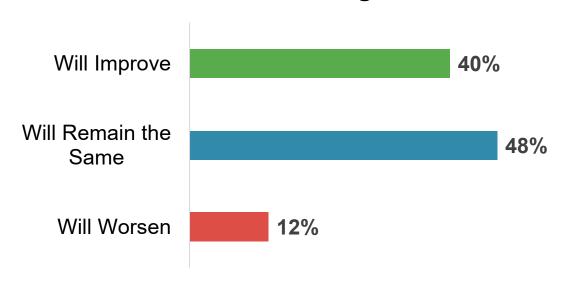
GENERAL BUSINESS CONDITIONS

Next Six Months

What is your outlook for your business's activity?



How will your business environment change?



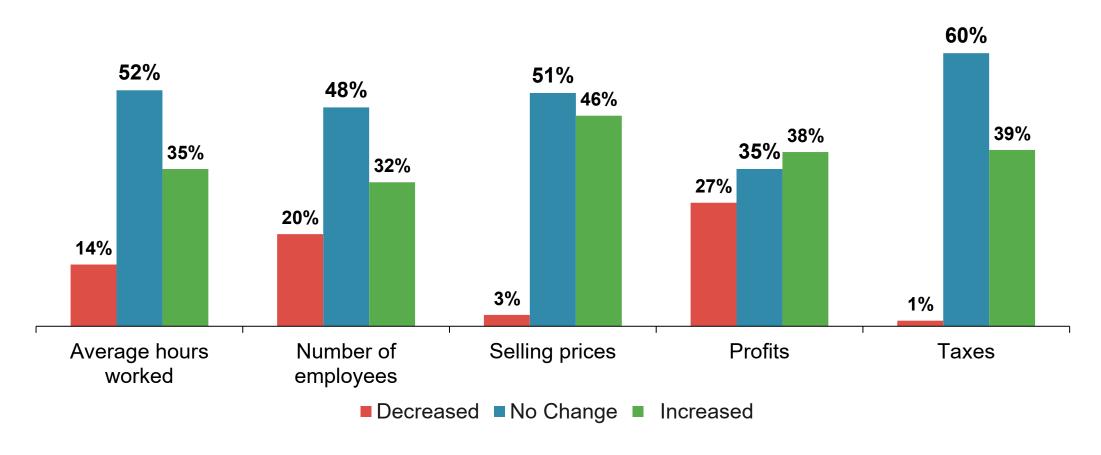
N = 82

Source: CSS 2022 Business Confidence Survey

SPECIFIC CONFIDENCE INDICATORS

Previous Six Months

By Percentage of Respondents

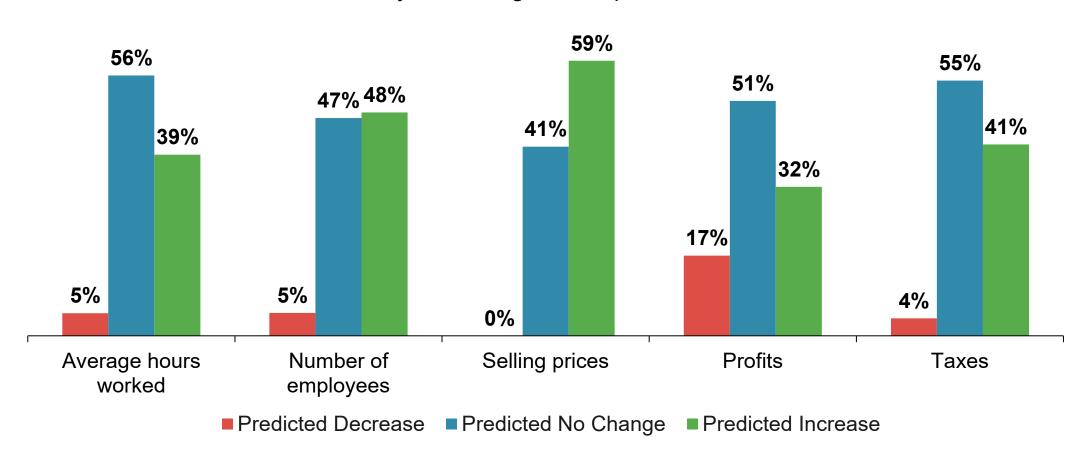


N=82

SPECIFIC CONFIDENCE INDICATORS

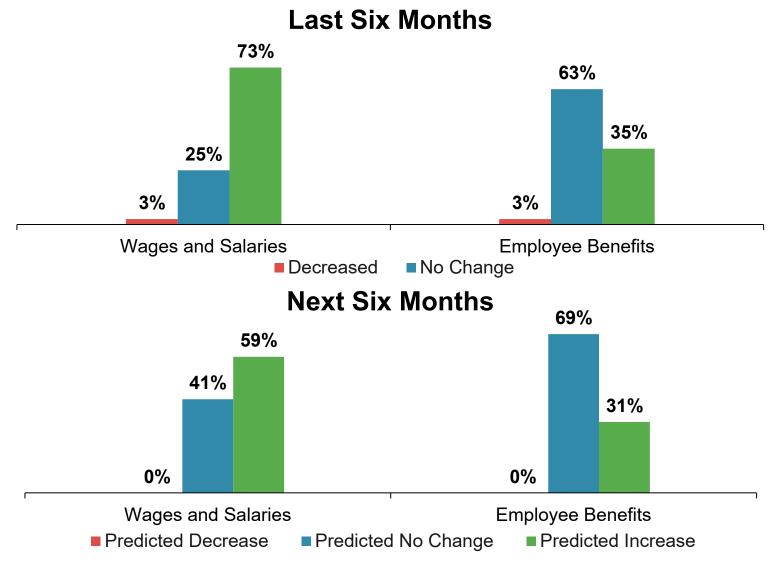
Next Six Months

By Percentage of Respondents



N=82

CHANGES IN WAGES AND BENEFITS



SUMMARY OF FINDINGS

Business Confidence Survey

Business Conditions

Last Six Months

- Conditions and business activity are continuing to reflect improvement
- Strong increase in profits, but also increases in selling prices
- Increased work hours without similar increases in number of employees

Next Six Months

Continued expectation of positive outlook and increasing prices

Limiting Factors and Hiring

Shortage of qualified labor and labor costs are the biggest limiting factors for growth

- Employers almost universally seeing salary increases
- Smaller increases in employee benefits

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Ron Wirtz

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& CHALLENGES, AND THE ROLE OF LABOR FORCE IN FUTURE GROWTH

Regional Economic Indicators Forum Duluth, Minn.

April 5, 2022

Ron Wirtz

Regional Outreach Director

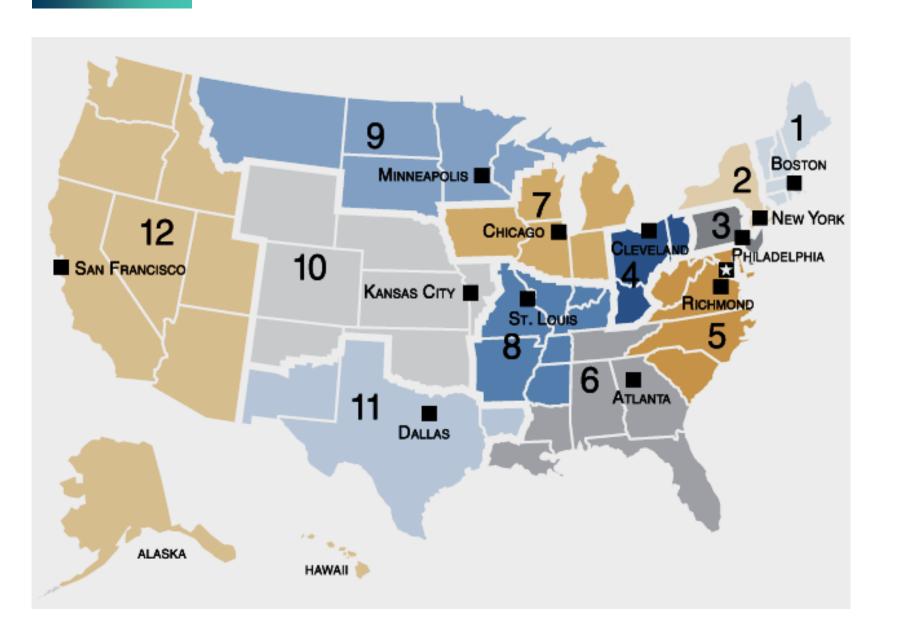


DISCLAIMER

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 biggees)

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





- Current state of the economy
 - Demand overall remains healthy, for now
 - Duluth playing catch-up, but making up ground
 - But lots of challenges
 - Rising prices, supply chains, Russia, labor force
 - Covid/variants = 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 <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
 - Do <u>not</u> hit the hypertext link in pop-up box



MEASURING THE ECONOMY: THE BIG PICTURE

GROSS DOMESTIC PRODUCT

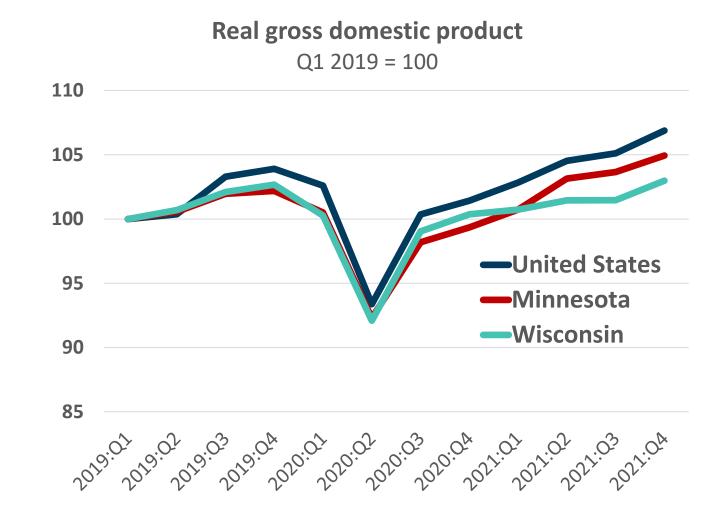
Real GDP = total output, adjusted for inflation

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

Q3 2021: Pause/slower

Q4 2021: Very strong bounce

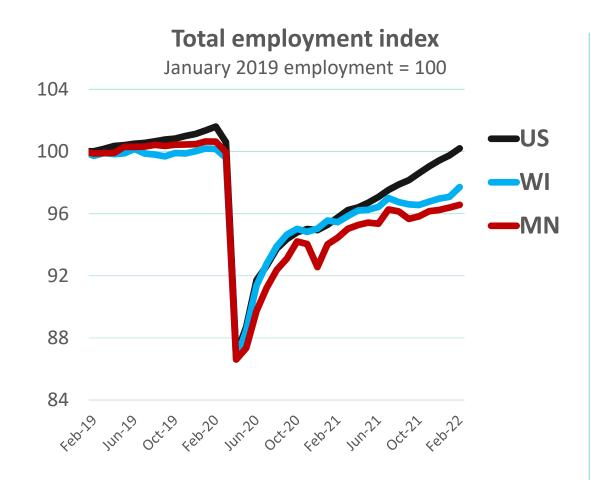
Duluth? GDP figure available only for 2020; drop of about 8%

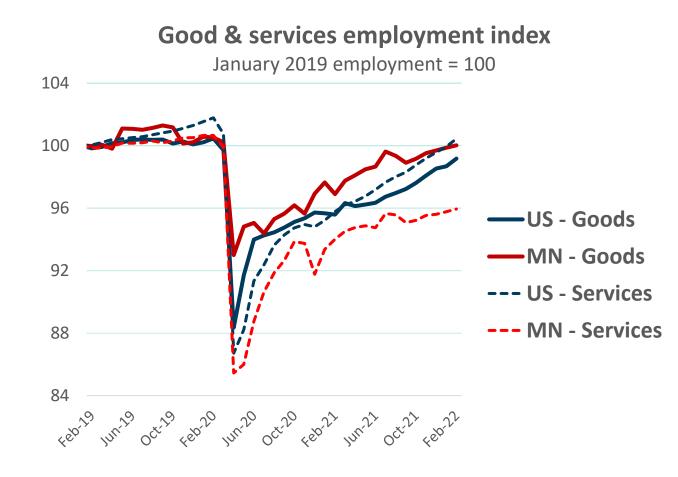




TOTAL EMPLOYMENT

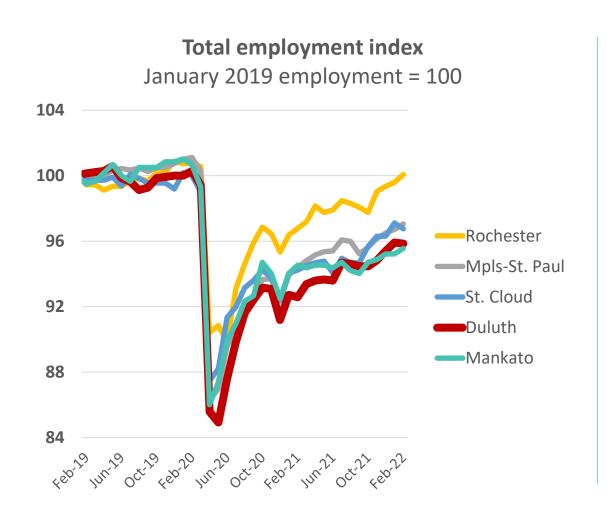
Jobs are recovering ... but MN still 120,000 jobs short of pre-pandemic levels

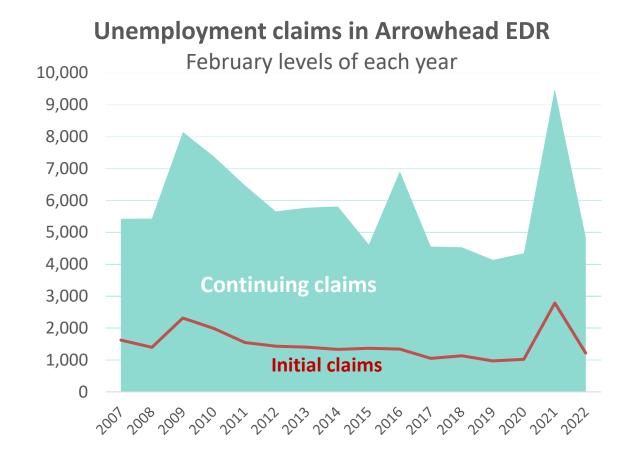




MN METRO EMPLOYMENT, ARROWHEAD UI CLAIMS

Duluth trailing modestly on jobs rebound; UI levels in Arrowhead region mostly back to normal

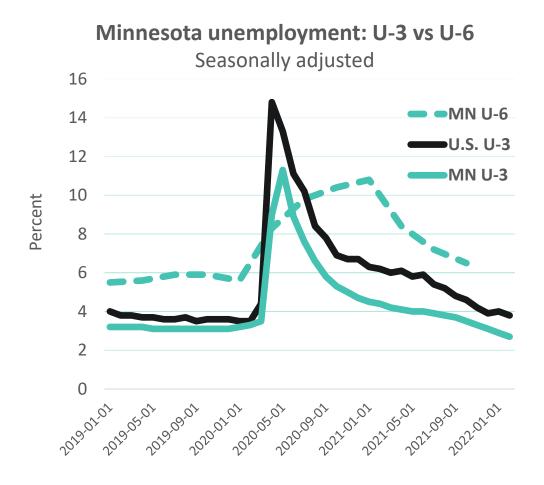


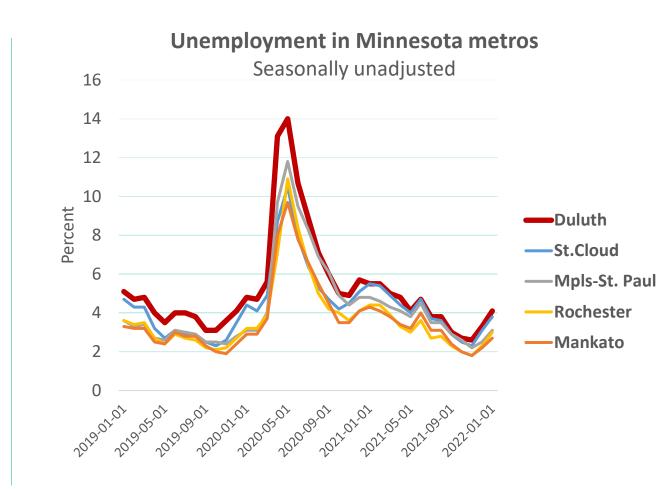




UNEMPLOYMENT

Unemployment down significantly; real-world labor slack (U-6) still elevated





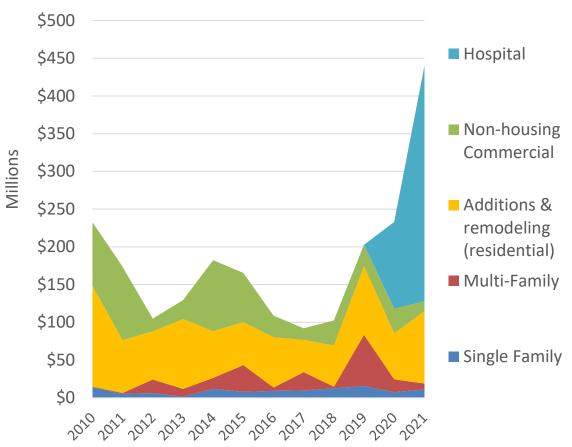
U-6 measure = Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.



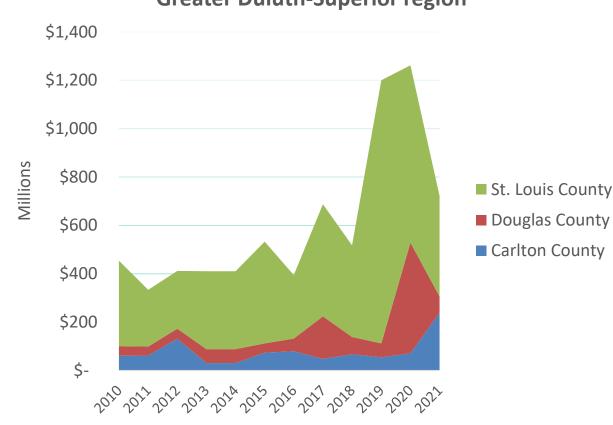
CONSTRUCTION ACTIVITY

Construction strong! Thank you, hospital! Nearby counties also seeing growth



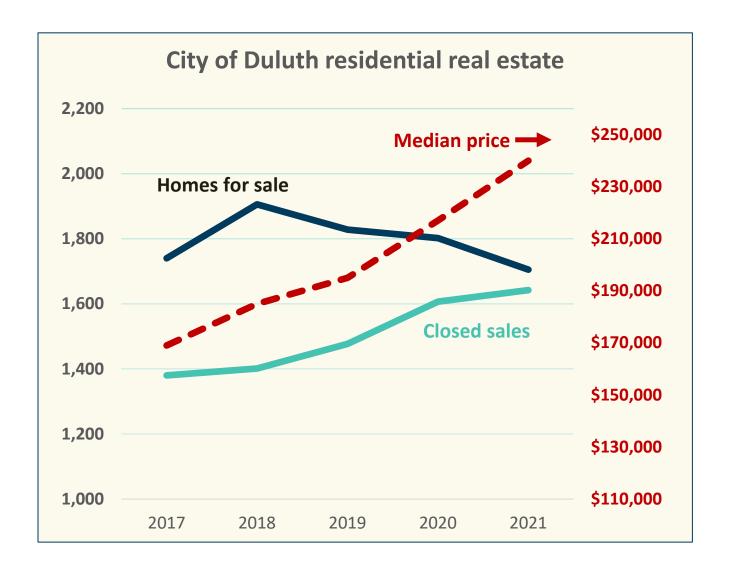


Value of new construction starts in Greater Duluth-Superior region





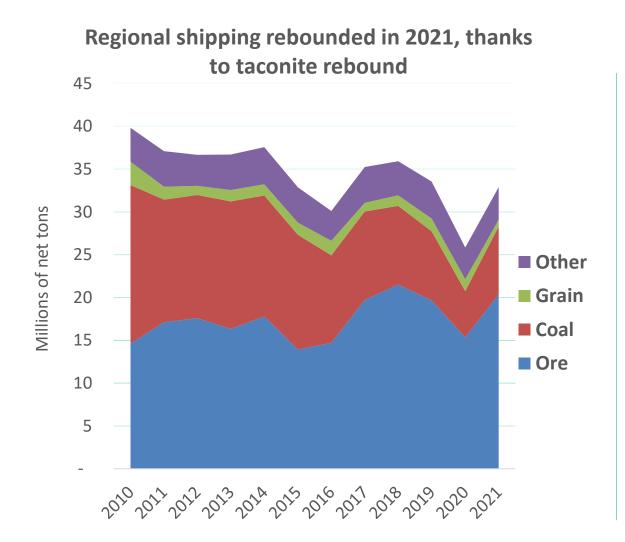
RESIDENTIAL REAL ESTATE

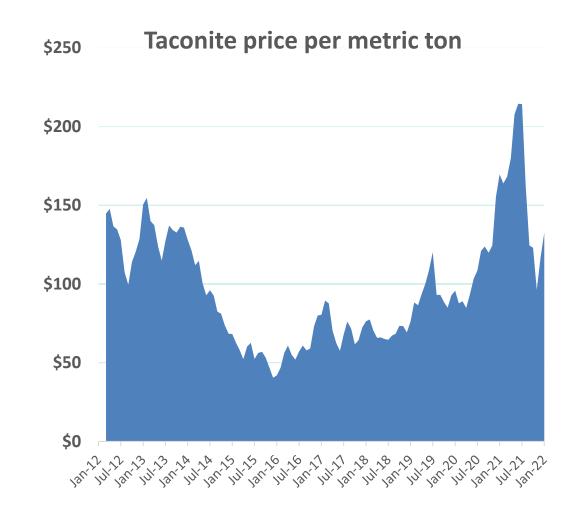


Like markets
across Minnesota
and U.S.,
residential real
estate marked by
strong demand,
low inventories
and rapidly rising
prices



SHIPPING & TACONITE REBOUNDS

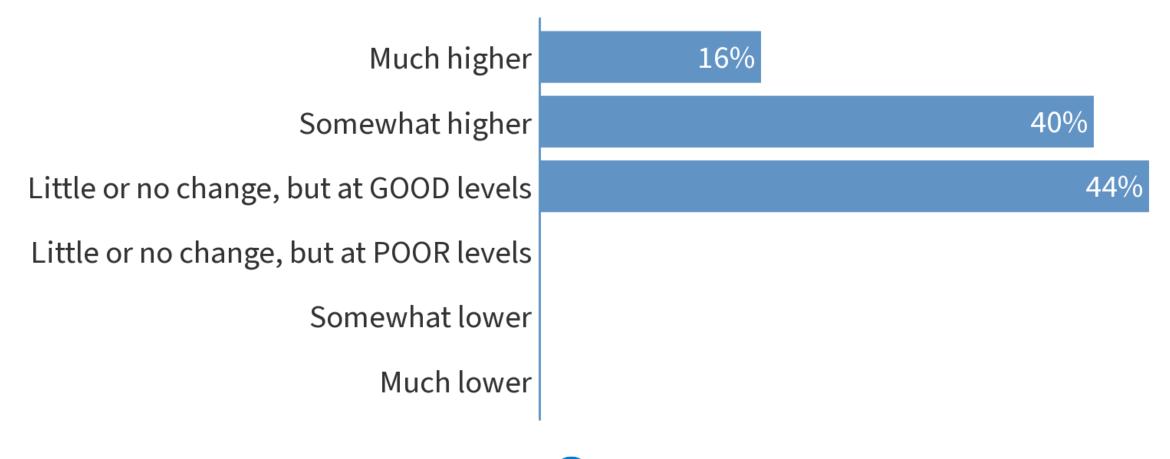






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RECENT BUSINESS: Please describe revenue/sales in Q1 2022 (Jan-Feb-March) compared with the same period last year?





TOURISM & HOSPITALITY

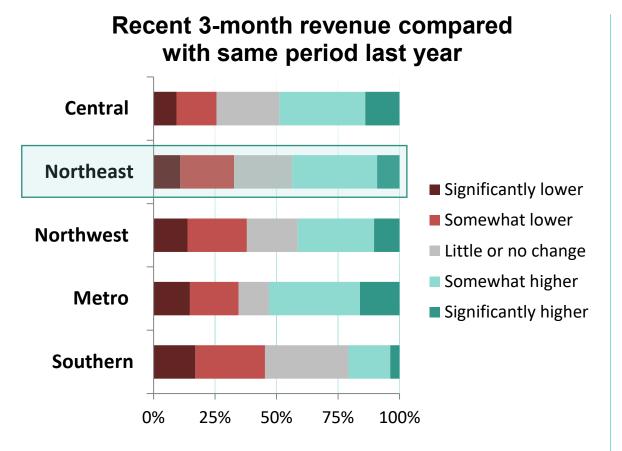
MINNEAPOLIS FED: PANDEMIC SURVEYS

- New surveys to gauge real-time conditions who's recovering and who's not in the Ninth District
- Quarterly hospitality & tourism survey
 - Partnership with Explore Minnesota and Hospitality Minnesota
 - Most recent: late February 2021

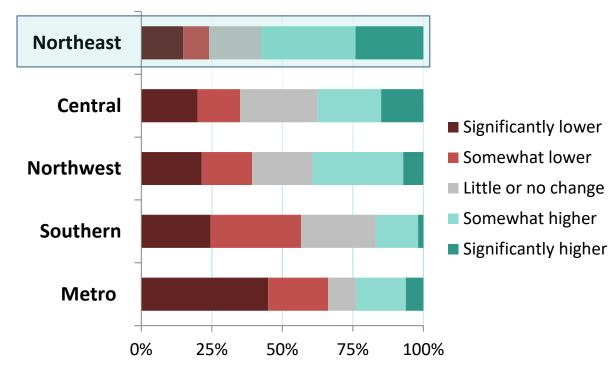


REVENUE TRENDS FOR TOURISM BUSINESSES

Business improving modestly; Northeast mostly over the 'Covid hump'



Recent 3-month revenue compared with 2019 period (pre-pandemic)

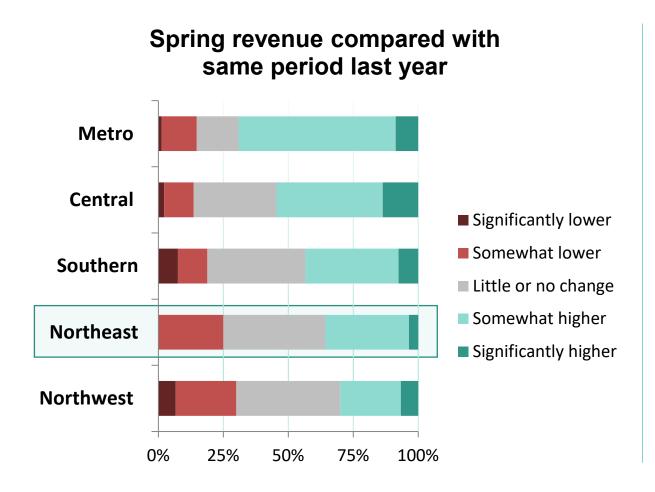




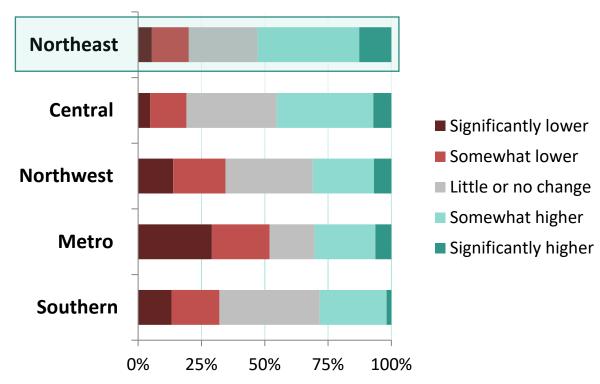


REVENUE TRENDS FOR TOURISM, CONT.

Northeast expecting modest revenue gains in Spring, but from much stronger overall position



Spring revenue compared with same period in 2019 (pre-pandemic)





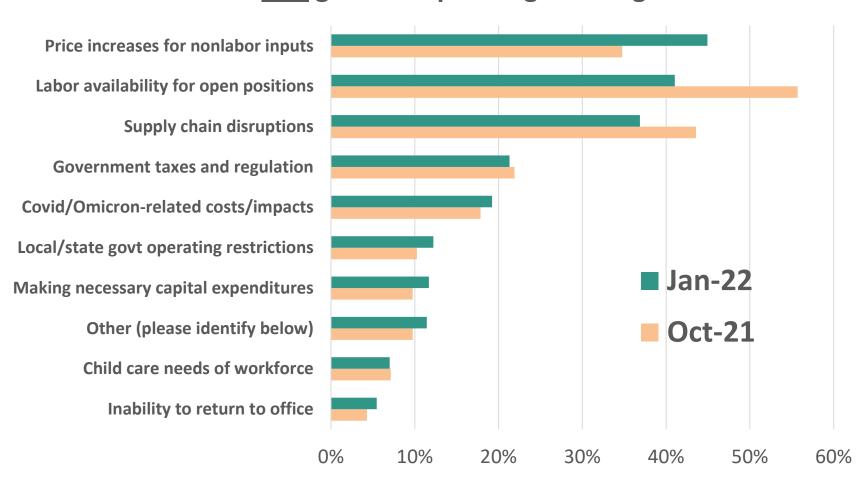


CHALLENGES

CHALLENGES TO OPERATIONS

Minneapolis Fed General Business Survey

What are two greatest operating challenges?



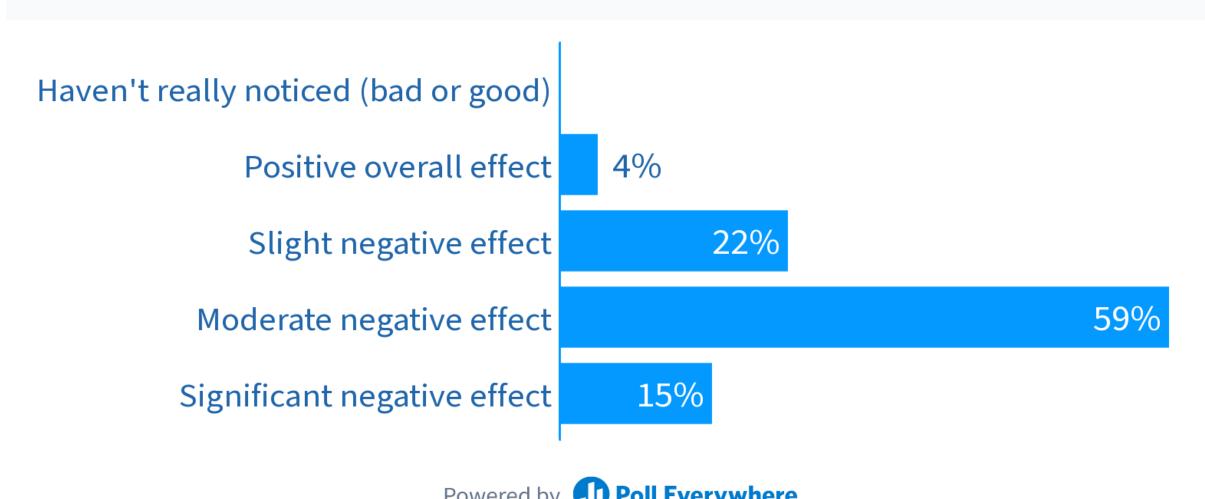
Compared with October survey:

- Inflation concerns worsened
- Labor availability& supply chainimproved



TELL US ABOUT INFLATION'S IMPACT ON YOUR HOUSEHOLD

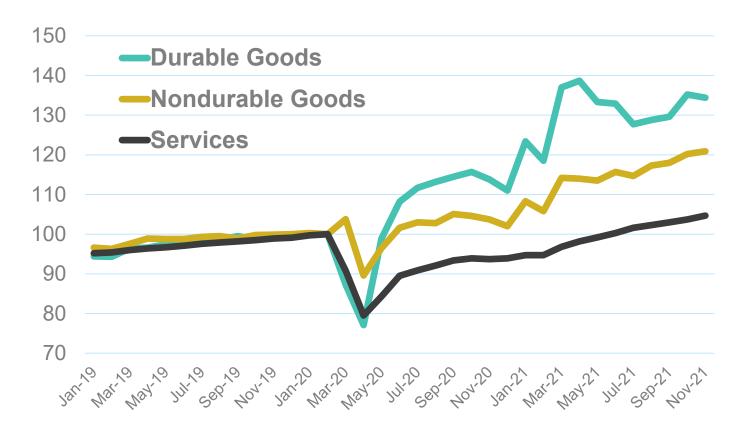
What impact has higher inflation/prices had on you and your household?



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, worsened by supply chain problems

Inflation for services very modest overall

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







NEEL KASHKARI'S TAKE ON INFLATION AND THE FED'S RECENT MOVE

- "When inflation accelerated last year, I argued that it was likely due to transitory factors which would soon pass. That hasn't happened."
- Google: "Kashkari inflation Medium" (great read)
- Increase in workers has not relieved pressure on supply chains and wages as expected
- Covid continues to be global disruptor, despite vaccines
- But most important: High consumer demand from stimulus has not moderated as expected (that's sort of good news)
- Sustained demand from rising disposable income
- Fed increased rates by 25 basis points at March FOMC, and projecting six more increases in 2022





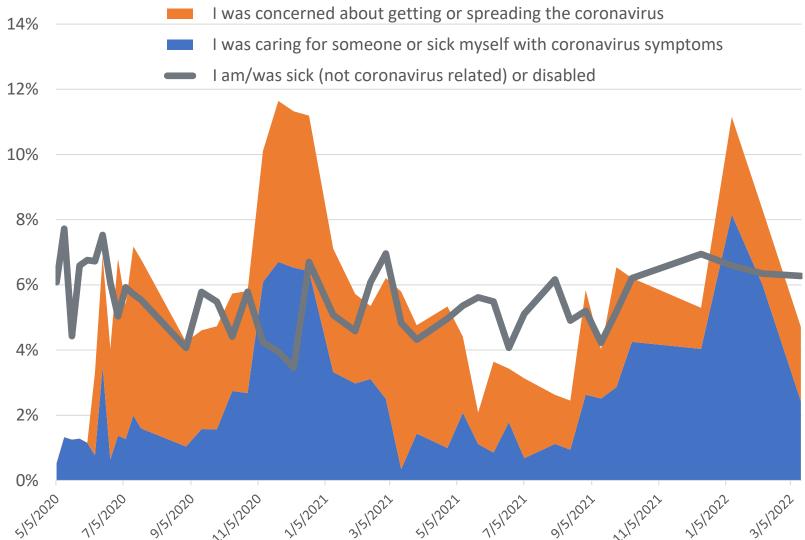
CHALLENGE: SUPPLY CHAINS

- Supply-induced shortages compound high demand
- Pandemic shift toward goods = created low inventories
- Producers trying to meet new demand and rebuild inventory
 - Producers having problems sourcing some materials for their products (= delays and higher costs), AND
 - Producers facing labor constraints in production and delivery
 - Present before pandemic, & made worse during
- **Lesson:** Hyper-efficient, global supply chain is vulnerable in a pandemic; *shortage by a thousand tiny chokepoints*
- Covid surges prevent repair of supply chains and return to previous consumer buying habits (more services)



COVID'S IMPACT ON WORKFORCE/STAFFING

Census household survey: Reason for not working



Controlling surges
= fewer people out
of work = better
production &
transport, <u>and</u>
consumer rotation
back to more
services (and
fewer goods)

Source: Household Pulse Survey,

Census Bureau

Note: Survey and resulting data are

still in experimental phase





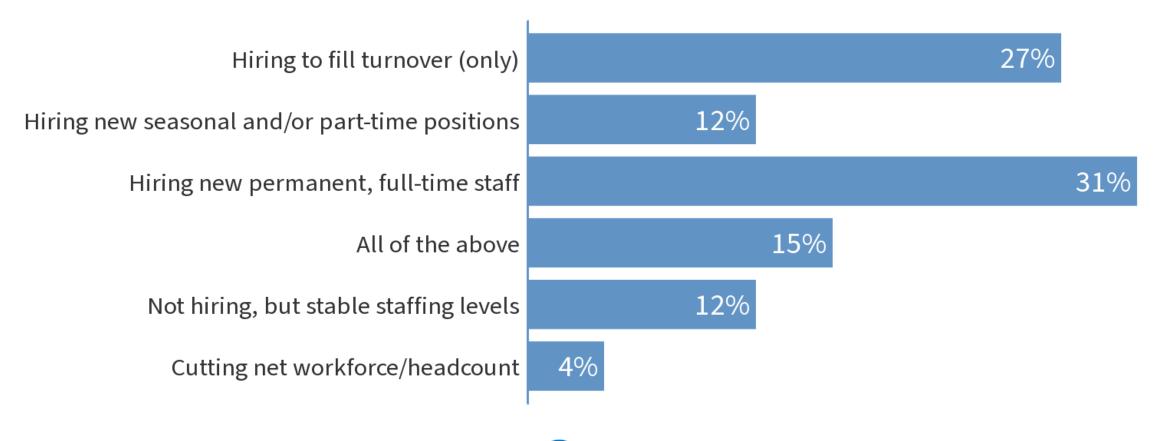
- Direct trade effects to businesses are likely small;
 Ukraine and Russia are not big trade partners with U.S.
 - Top three U.S. trade partners: China, Mexico, Canada;
 Russia not among top 30; Ukraine not in top 50
- However, the war having notable effects on energy and ag markets; worsens existing inflationary pressures for everyone and everywhere
- Overall: war in Ukraine introduces more uncertainty;
 uncertainty = caution = slower growth



THE LONGEST CHALLENGE: LABOR MARKETS

UP FIRST: LABOR DEMAND
SURVEY TIME!

WORKFORCE: What best describes OVERALL HIRING DEMAND at your firm?

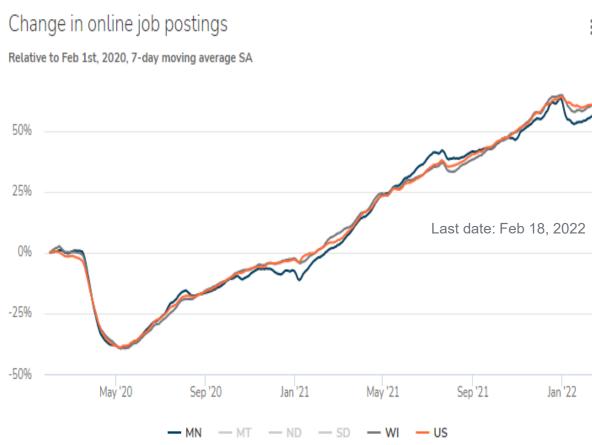




HIRING DEMAND: VERY STRONG

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





Source: Indeed



Source: MN DEED

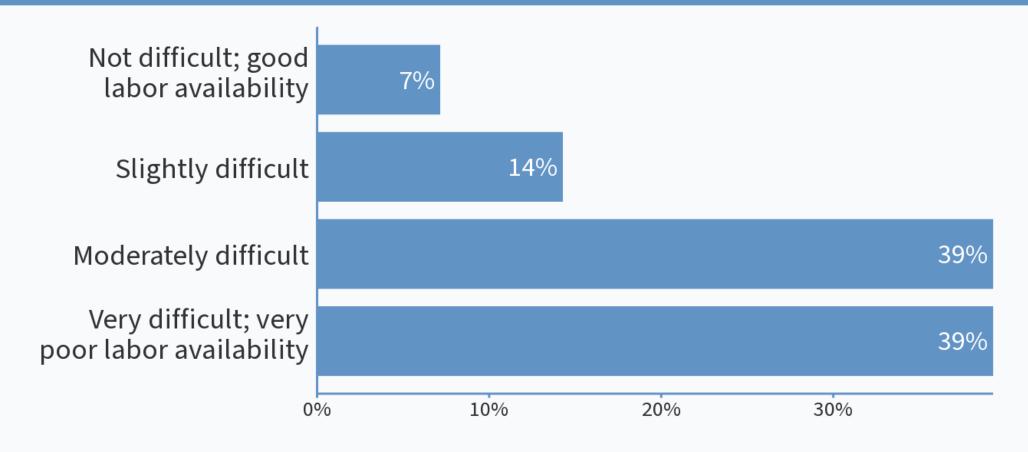
Lots of job openings # fast employment growth

SO LET'S TALK ABOUT LABOR SUPPLY

FIRST, SURVEY!

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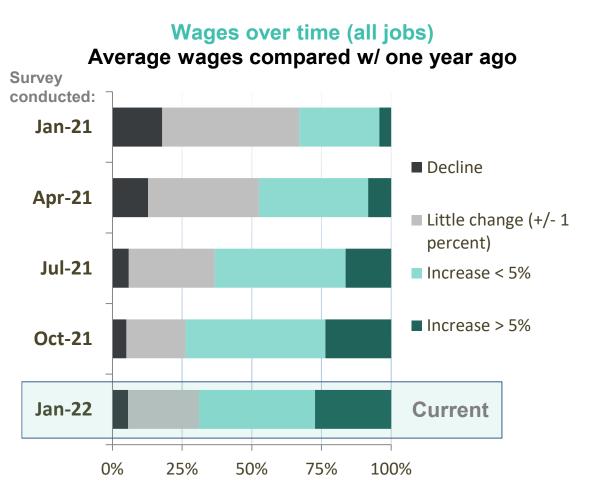
LABOR AVAILABILITY: How would you describe your firms' ability to find labor if hiring?

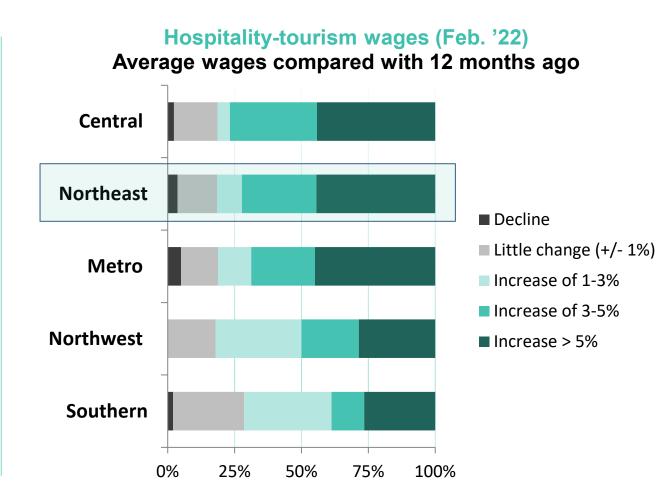




WAGES ARE RISING

More firms are raising wages, and many giving bigger raises



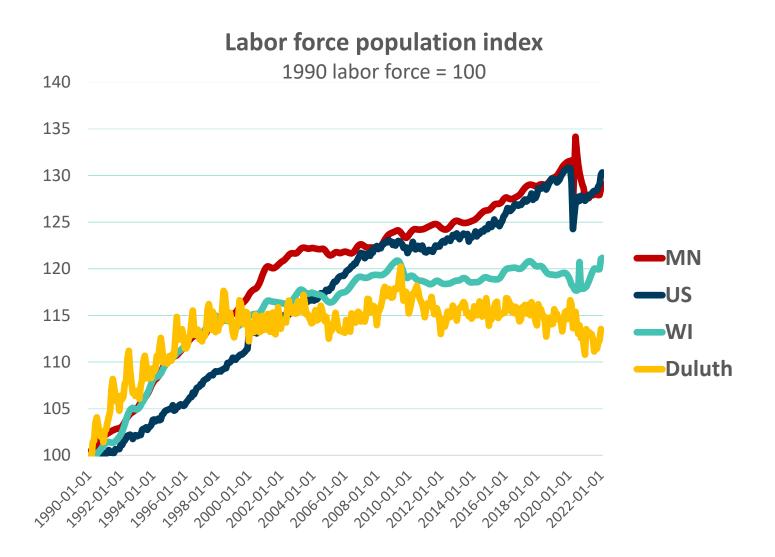






SO WHY IS LABOR SUPPLY SO TIGHT?

LABOR FORCE POPULATION: SLOWING



Labor force population: 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

Problem worsened in pandemic: Population growth in MN in 2021 was literally flat

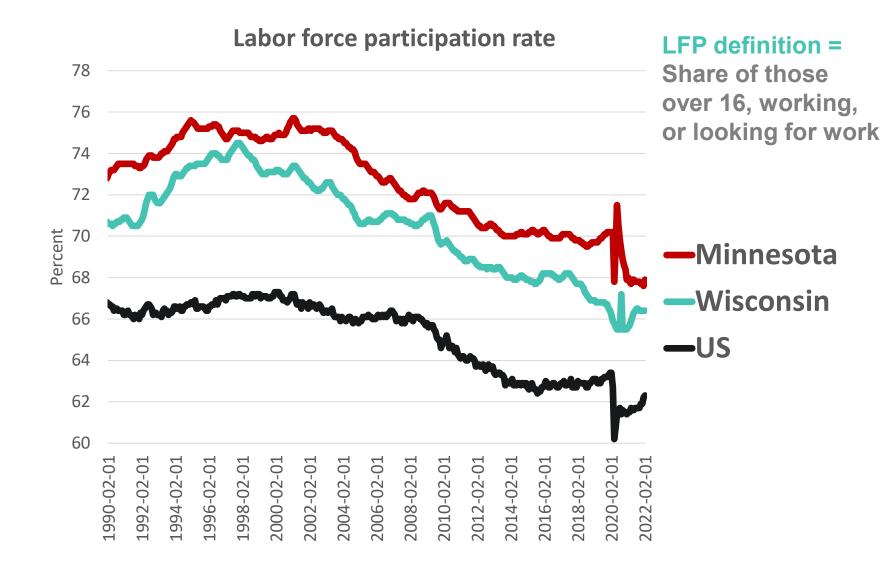


LABOR FORCE PARTICIPATION

LFP rates in decline since late 1990s

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

Little evidence of LFP returning to prepandemic levels soon

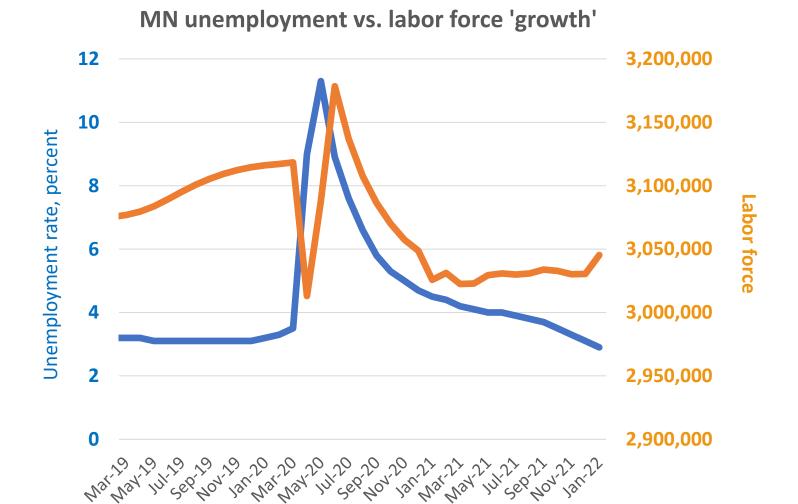




LABOR FORCE, CONT.

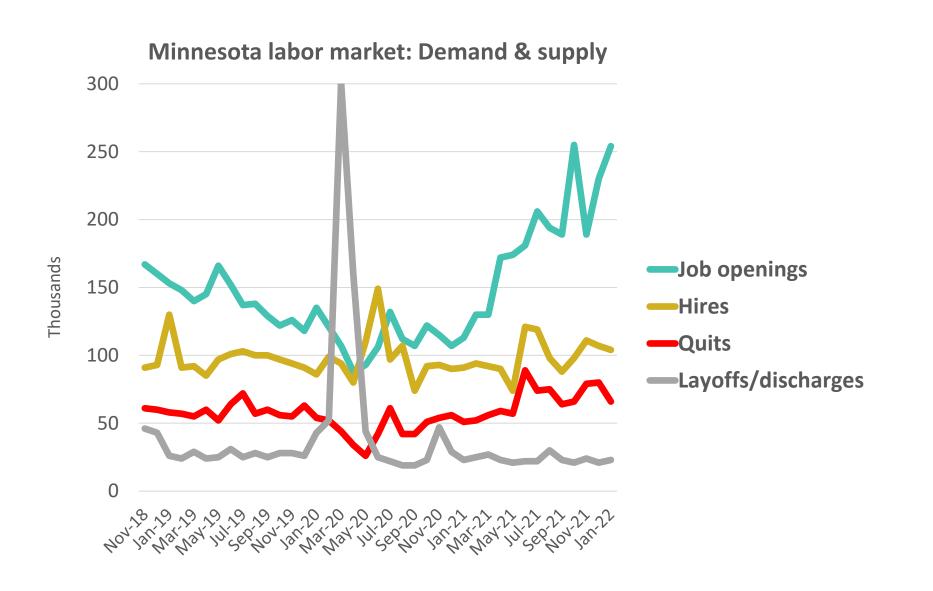
Unemployment rate fell dramatically at the same time that labor force size declined

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



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?

F

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
 - Research shows most people want to work
 - Misses much more complicated labor picture
 - Job-matching faces lots of obstacles and friction
 - By over-generalizing, we're misdiagnosing real problems and overlooking solutions & opportunities



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





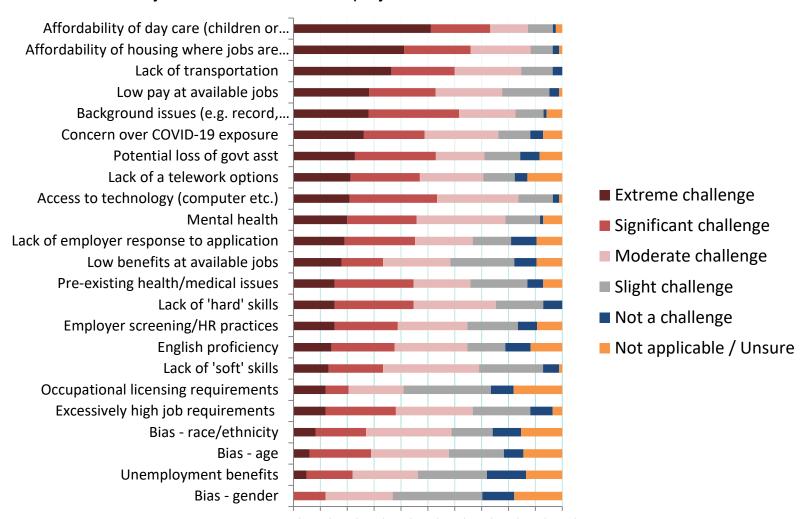
WORKER EXPERIENCE INITIATIVE

- New effort: Understand current labor market from <u>worker</u> 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 12 months some "starter themes" are beginning to appear

THE FLIP SIDE OF LABOR AVAILABILITY: WORKER VIEW

Perceptions of job obstacles faced by job seekers

Survey of staff, Minnesota Employment Services Coalition, October 2021



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





WHY DOES THIS MATTER? FUNDAMENTAL SHIFT

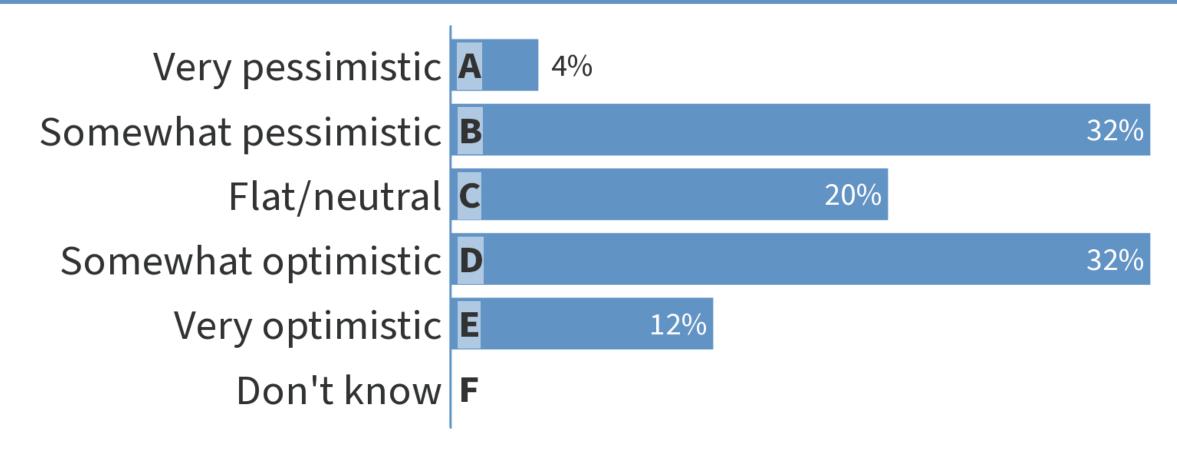
- In the past: Labor <u>surplus</u> meant employers could be choosey, screening out job applicants to find best fit among many
- Present: Labor <u>shortage</u> means <u>workers have leverage</u>, and we have to treat obstacles that workers face from a problemsolving POV if we want more people to work
- Clearly already happening (e.g. higher wages). Will it continue?
- Requires a paradigm shift in how we think about labor/workers:
 - Historical values & beliefs around labor and workers have been shaped in a labor surplus environment
 - Employers: Labor is a cost center; high expectations of labor
 - Workers: 'lucky to have a job'
 - Labor markets have always rested on market leverage, which resides more with workers now
- We can decide to do nothing, keep status quo; but then we have accept slower job growth and slower economic growth



FINALLY, PLEASE SHARE YOUR ECONOMIC OUTLOOK

F

OUTLOOK: What is the overall outlook at your firm over the next six months?







FINAL THOUGHTS

- Good news: There still appears to be healthy demand
- Bad news: Challenge fatigue
 - Supply chain, inflation, labor, Russia
 - Covid/Omicron makes repair difficult
 - And now higher interest rates!
 - Labor force participation = long-term growth
 - Difficult to solve; job matching tough for both sides
 - Hiring is hard, and so is job search!
 - Offers best opportunity for widespread growth
- GOOD LUCK in a very challenging environment



THANK YOU! QUESTIONS?

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