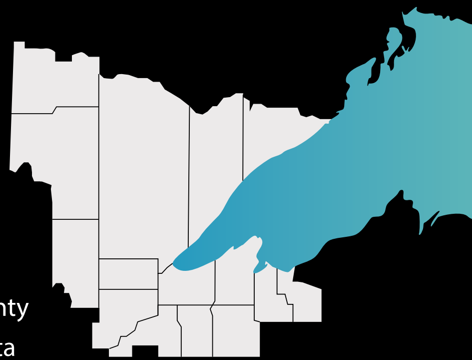
FORUM REGIONAL ECONOMIC INDICATORS

SPRING 2022

OVERVIEW

REGIONAL ECONOMIC INDICATORS FORUM



The Regional Economic Indicators Forum (REIF), sponsored by the National Bank of Commerce, focuses on the current economic performance of a 15-county region that includes Northeastern Minnesota and Northwestern Wisconsin. As part of this forum, the College of St. Scholastica (CSS), University of Minnesota Duluth (UMD) and University of Wisconsin-Superior (UWS) collect and monitor data related to county-level economic performance, business and consumer confidence, and regional stock performance.

THE GOAL OF THE FORUM IS TO

- Support our local community business owners with economic indicators and trend information which may assist various businesses in making more informed decisions.
- Collect and monitor data related to county-level economic performance, business and consumer confidence and updates on regional stock performance.
- Bring professionals, students, and business owners together for an in-person discussion about the local economy and related critical issues in a collaborative, non-political environment.

After today's event, please take the survey to give us feedback: https://bit.ly/Spring22REIF

GUEST SPEAKER

RON WIRTZ

Director of Regional Outreach, Federal Reserve Bank of Minneapolis

Ron Wirtz is a Regional Outreach Director for the Federal Reserve Bank of Minneapolis. Ron's primary responsibilities involve tracking current business conditions across the six-state Ninth Federal Reserve District, which includes northwest Wisconsin, Michigan's Upper Peninsula, Minnesota, North Dakota, South Dakota and Montana.

Among many areas of the economy, Ron pays special attention to employment and wages – which are central to the Federal Reserve's dual mandate of promoting stable prices and maximum employment – along with construction, real estate, consumer spending and tourism. Ron is a central contributor to the Beige Book, which is a report of current business conditions published by the Federal Reserve System every six weeks. Ron's work includes extensive outreach to business and community leaders, and he gives frequent speeches on economic conditions across the Ninth District.

Previous to this position, Ron was editor of the fedgazette, a regional business and economics journal published by the Minneapolis Fed. Here, he conducted in-depth research on such topics as labor markets and job growth, health care consolidation, the Bakken oil boom, income mobility, disability, public pensions, and many others.

EXECUTIVE SUMMARY

Twice each year, students from the University of Minnesota Duluth (UMD), the University of Wisconsin-Superior (UWS), and the College of St. Scholastica (CSS) join efforts to conduct research on the economic performance of the 15-county region surrounding the Twin Ports (the REIF region). This summary provides information on the results of the three schools' research, including a special focus on the economic effects of the pandemic, a glimpse into local consumer confidence, an analysis of regional stock performance, and survey results on business confidence and hiring practices.

UMD's research team analyzed recent data on the region's unemployment rate, labor force participation, gross domestic product (GDP), and industry performance in the 15-county region since the start of the COVID-19 pandemic. The unemployment rate in the 15-county region saw a dramatic spike early on in pandemic, reaching a rate of 14.1% in April 2020. Since then, rates have since returned to normal, dipping to levels below 3.0% in late 2021. Minnesota's labor force participation has seen a marked decline since June 2020, while Wisconsin's labor force participation rate has seen very little change during that same period. Finally, while almost none of the region's industries had returned to their 2019 or pre-pandemic employment levels by the end of 2021, nearly all saw employment growth from 2020 to 2021. The leisure and hospitality, mining, and professional and business services sectors saw the largest relative increases in employment during the period.

To compute and analyze consumer sentiment, the UW-Superior student research team (13 students) surveyed randomly chosen households in the 15-county REIF region as well as past REIF participants. Through telephone and email surveys, a total of 142 responses were collected during spring 2022. Using survey responses, three indices were computed: the Index of Consumer Sentiment (ICS), Index of Current Conditions (ICC), and Index of Consumer Expectations (ICE). Survey results show that compared to fall 2021, consumers have a negative sentiment (2.7% down) and a weakening outlook of the current economic state (3.5% lower), and they expect the future regional economy will slow down (2.2% worse). All three consumer indices of the REIF region are at the respective lowest levels since REIF data collection started in 2013.

A second UWS research team tracked the equity performance of companies of local interest in the 15-county region to create a Regional Equity Index (REI). The selection of the 15 firms for the Regional Equity Index (REI) is based on the firms' substantial presence in the REIF region as indicated by the number of employees hired locally or by the significance of the firms' regional activities to the REIF regional economy. Between October 2019 and October 2021, the REI showed a sharp downward turn in early 2020 due to COVID, but thereafter, it gradually recovered to reach new highs. The overall REI significantly outperformed relative to the S&P 400 during the period. Initially, the materials and energy sectors underperformed other sectors like communications, technology, healthcare, and financial services following the appearance of COVID-19. However, in the current year, the materials and energy sectors have outperformed the other sectors, reflecting that commodity prices have surged to all-time highs. According to the Value Line® short-term expectations of future performance for the next one to two quarters, most of the fifteen stocks in the REI are expected to mirror the overall stock market.

The research team at the College of St. Scholastica distributed surveys to local chambers of commerce members and other businesses to develop a better understanding of business confidence in the regional economy. In total, 82 businesses completed the survey. In a continued upturn from last spring, 56% of businesses reported improved business activity (compared with 52% in October 2021), and only 13% reported decreased activity (similar to 12% last fall). Businesses were also asked to forecast activity for the next six months based on the same criteria. Of the businesses surveyed, 55% are confident that business activity will improve in the next six months (compared to 32% last fall), and 9% expect decreases in activity (down from 15% last fall).

STUDENT PRESENTERS

Omar Bensouda is a senior at The College of St. Scholastica majoring in finance with a minor in business management, graduating in May 2022. Omar is an international student from Morocco and prior to coming to the United States, he lived in Europe and learned to speak multiple languages. Aside from his interest in finance, Omar was also a student athlete his freshman and sophomore years on the CSS soccer team. He joined the REIF team in Spring 2022.

Grant Garding is a University of Wisconsin-Superior (UWS) Economics and Finance senior and will be graduating in May 2022. At UWS, Grant is a McNair Scholar, REIF researcher, Vice President of the Economics student club and the SBE Event Planning Committee. Currently he is an intern at the Minnesota Chamber of Commerce. After graduation, Grant is interested in working as a financial or credit analyst.

Ben Palmquist is a senior majoring in Economics with a minor in Sustainable Business and Organizations at UMD. He has been working at the University of Minnesota's Bureau of Business and Economic Research since May 2021. In this position, he has worked on a number of projects on topics ranging from economic growth and development to sustainability. He graduates this spring and hopes to apply the skills he learned at UMD and the BBER to further the sustainable growth of the Twin Ports region.

Augusto Vladusic is double majoring in Economics and Business Administration (Finance Concentration) at UWS and graduating in spring 2022. He was awarded a UWS summer undergraduate research fellowship in 2021 to work on his study entitled "Education Influence on Perceived Happiness for the United States between 2005 and 2020." Augusto was born in Berkeley, California, and grew up in Buenos Aires, Argentina.

UNIVERSITY OF MINNESOTA DULUTH
IMPACT OF THE COVID-19 PANDEMIC ON ECONOMIC TRENDS

Monica Haynes, M.S., Director of the Bureau of Business and Economic Research (BBER), University of Minnesota Duluth **Student Researcher:** Ben Palmquist

To provide greater insight into the regional labor force and industry trends since the start of the COVID-19 pandemic, UMD was asked to analyze secondary data for the 15-county region. Specifically, UMD analyzed the unemployment rate for the 15 counties since 2019, changes in the labor force participation rate, gross domestic product, and the employment change in all sectors for the seven Wisconsin counties and the eight Minnesota counties.

Figure 1 shows the unemployment rate for the 15 county REIF region from 2019 through January of 2022. Wisconsin counties are shown in blue, Minnesota counties in red, and the combined 15-county region in green. In general, the eight Wisconsin counties have experienced higher unemployment rates since 2019, especially during the height of the pandemic. Rates have since returned to normal, dipping to levels below 3.0% in late 2021. While low unemployment is typically a good sign for the economy, the current low rates are tempered by high job vacancy numbers and an overall tight labor market.

Minnesota's labor force participation rate since the start of COVID-19 mirrored the national trend, while Wisconsin was the second least impacted state in the nation.

Figure 2 shows the labor force participation rate for Minnesota and Wisconsin from the beginning of 2019 through the beginning of 2022. The graph shows the effects of the pandemic, along with the recovery that began in 2021. The jagged drop and spike upwards that occurred between March and May 2020 in Minnesota was due to a misclassification by the Bureau of Labor Statistics that involved people inadvertently being counted as out of the labor force instead of unemployed. By June, the error had been caught and corrected. In the months following, Minnesota's labor force participation saw a marked decline—from 71.3% in June 2020 to 67.0% in March 2021. Meanwhile, Wisconsin's labor force participation rate has seen very little change since February of 2020. Interestingly, the decline seen in Minnesota's labor force participation rate since the start of COVID-19 mirrored the trend seen nationally, while Wisconsin was the second least impacted state in the nation, making it somewhat of an outlier.

Finally, **Figure 3** shows the percentage change in employment from 2020 to 2021 for the 11 super sectors in the 15-county region. While almost none of the eleven sectors have returned to their 2019 or pre-pandemic levels yet, most saw employment growth from 2020 to 2021. The leisure and hospitality, mining, and professional and business services sectors—in particular—saw the largest relative increases in employment between 2020 and 2021. Meanwhile, the information, government, and financial activities sectors saw the largest relative declines in employment during that period.

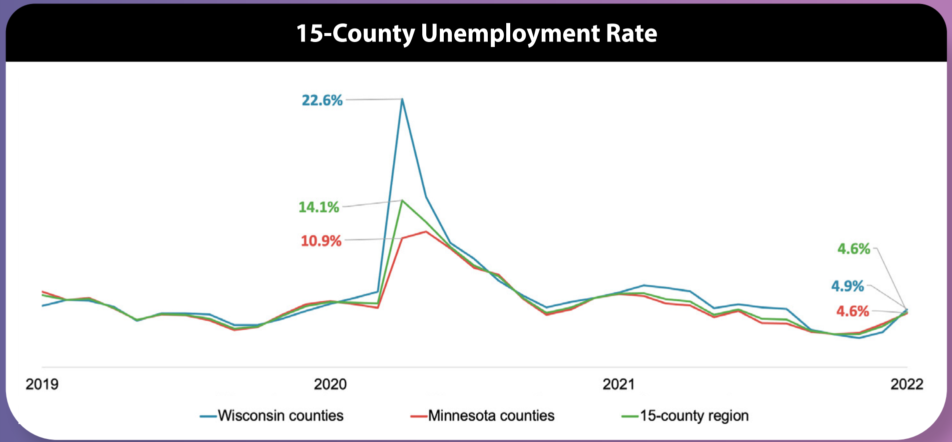


FIGURE 1. The 15 counties have made a return to pre-pandemic levels in a tight job market.
Source: MN DEED LAUS, WI DWD LAUS

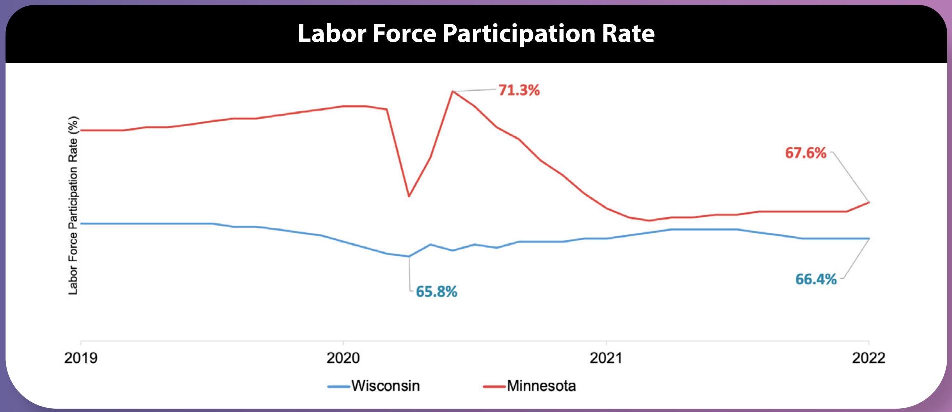


FIGURE 2. Minnesota and Wisconsin labor force participation rates weathered the pandemic differently.
Source: Bureau of Labor Statistics

Employment Growth by Sector (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%

FIGURE 3. The leisure and hospitality, mining, and professional and business services sectors saw the largest relative increases in employment between 2020 and 2021.
Source: EMSI

UNIVERSITY OF WISCONSIN - SUPERIOR
CONSUMER CONFIDENCE INDICATORS: PREDICTING THE BUSINESS CYCLE

Rubana Mahjabeen, Ph.D., Associate Professor of Economics, University of Wisconsin-Superior; Praopan Pratoomchat, Ph.D., Assistant Professor of Economics, University of Wisconsin-Superior
Student Researchers: Ryan Ballou, Arianne Daza Cortez, Grant Garding, Rika Kanemoto, Ryo Karino, Tyler Olson, Chiyono Owa, Madeline Pettit, Troy Quinn, Burhanuddin Saria, Akira Tanaka, Augusto Vladusic, and Breanna Wienen

To equip decision-makers with tools enabling them to anticipate the forthcoming fluctuations in the economy, economists developed consumer confidence indicators. The tools are highly useful even during the COVID-19 pandemic era. These are composed of three indices: the Index of Consumer Sentiment (ICS), Index of Current Conditions (ICC), and Index of Consumer Expectations (ICE). Generally speaking, the ICS measures consumer outlook on finances, business and consumption spending. The ICC measures how the consumer feels about the current state of the economy. The ICE is a leading indicator and used for business cycle forecasting, as it reflects the consumers' outlook on future economic and financial conditions. In order to construct these indicators, the University of Wisconsin-Superior student research team surveyed households in the 15-county REIF region. In spring 2022, using telephone and email surveys, randomly chosen households and previous REIF participants were surveyed. In total, 142 responses were collected in spring 2022.

For details on the methodology and survey questions CLICK HERE

REIF region three consumer confidence indices continue to be low and have reached respective lowest levels since regional data collection started in 2013.

Findings of the Consumer Survey

Data was collected from January to mid-March 2022. During this time, the regional economy was experiencing a decreasing number of COVID-19 cases and deaths but a higher price level. The results of the 15-county regional consumer confidence indices based on phone and email surveys are presented in **Figure 4.** These results show that in spring 2022, all three indices were in a downward trend. This descending movement in the regional consumer confidence is still continuing. Compared to one year ago, survey results show that the index of consumer sentiments (ICS) is 6% lower, and the index of economic expectations of the regional economy (ICE) is down 2.4%. The index of current condition is more than 11% lower than spring 2021. The falling indices are probably due to rising inflation and fear of being exposed to omicron variants. All three consumer indices of the REIF region are at the respective lowest level since REIF data collection started in 2013. Overall, it is evident that consumer confidence in the REIF region is still very low and yet to be back to the pre-pandemic level.

Compared to the national consumer confidence indicators reported by the University of Michigan, at both the national level and in the REIF region, consumer confidence has been falling since spring 2021. This is probably due to the surge in gas prices and overall rising inflation. People are less worried about unemployment and more about the impact of inflation on personal finances and spending. Consumer sentiment and outlook on the current economy are yet to be at the pre-pandemic level—for both regional and national consumers. Compared to the year-to-year changes in national consumer confidence indicators to REIF region indicators, consumer sentiment has weakened more among national consumers (18% lower) than for the REIF consumers (6% lower). However, the downturns are less when compared to fall 2021. (**Table 1**).

Consumer Confidence Indices (2013-2022)

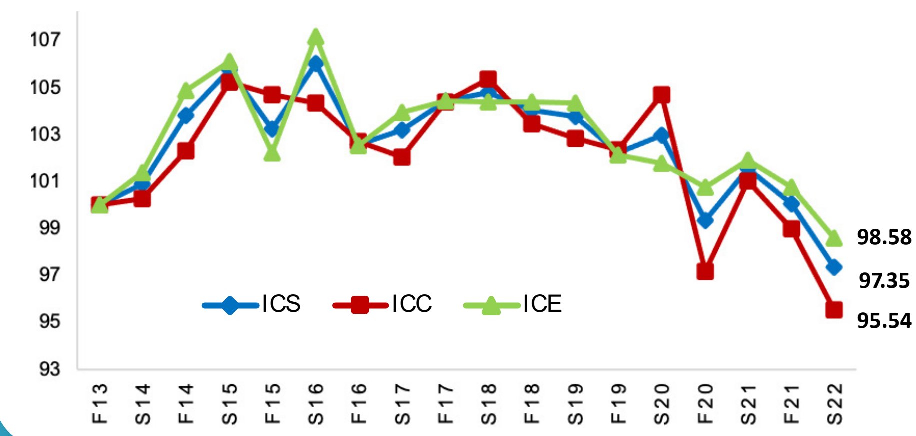


FIGURE 4. Consumer confidence in the REIF region continues to trend downward and is not yet back to the pre-pandemic level.
Source: UWS Consumer Confidence Survey

Consumer Confidence Indicators

Indicators	Year-to-Year Percentage Change in Indices: REIF Region Survey (Spring 2021-Spring 2022)	Year-to-Year Percentage Change in Indices: National Consumer Confidence Indicators (February 2021-February 2022)	Fall 2021 to Spring 2022 Percentage Change In Indices: REIF Region Survey (Fall 2021-Spring 2022)	Fall 2021 to Spring 2022 Percentage Change In Indices: National Consumer Confidence Indicators (September 2021-February 2022)
Index of Consumer Sentiment	-6.08%	-18.23%	-2.70%	-13.74%
Index of Current Conditions	-11.33%	-20.88%	-3.47%	-14.86%
Index of Consumer Expectations	-2.40%	-15.98%	-2.19%	-12.78%

TABLE 1. Consumer confidence has weakened more among the national consumers than for the consumers in the REIF region.
Source: UWS Consumer Confidence Survey & Survey of Consumers by University of Michigan

UNIVERSITY OF WISCONSIN - SUPERIOR

REGIONAL EQUITY INDEX: AN ANALYSIS OF THE EQUITY PERFORMANCE OF STOCKS OF LOCAL INTEREST

Sakib Mahmud, Ph.D., Associate Professor of Sustainable Management and Economics, University of Wisconsin-Superior; David Koslowsky, Ph.D., Assistant Professor of Finance, University of Wisconsin-Superior
Student Researchers: David Atuhairwe, Grant Garding, Lam Mai, Gergo Potz Nagy, Xander Neumann, Burhanuddin Saria, and Augusto Vladusic

The purpose of this portion of REIF research is to provide information and a financial analysis on the equity performance of companies of local interest in the fifteen REIF-region counties. The selection of the firms for the Regional Equity Index (REI) is based on the firms' substantial presence in the REIF region as indicated by the number of employees hired locally or by the significance of the firms' regional activities to the REIF regional economy. Using these selection criteria, fifteen firms are included in the index.

In the current year, the materials and energy sectors have strongly outperformed the other sectors of communications, technology, healthcare, and financial services, reflecting that commodity prices have surged to all-time highs following the appearance of COVID-19.

The findings show that the REI outperforms the benchmark index, but investors have mixed expectations for some of the stocks. Between March 2019 and March 2022, the REI showed a sharp downward turn in early 2020 due to COVID, but thereafter, it gradually recovered to reach new highs. **Figure 5** shows that the overall REI has significantly outperformed relative to the S&P 400 during the period. Comparing REI and S&P 400 values since the last report (October 1, 2021), REI compound return is up 11.63%; whereas, S&P 400 compound return is down by 2.77%. As shown in **Figure 6**, REIF companies that fall under materials and energy industry categories (REI 7) initially underperformed the rest of the industries (REI 8) like communications, industrial, health care, and financial sectors in last two years. But in this current year between November 2021 and March 2022, the REI 7 has strongly outperformed the REI 8, reflecting that commodity prices have surged to all-time highs.

According to the Value Line® short-term expectations of future performance, most of the fifteen stocks in the REI are expected to mirror the overall stock market. For the next one to two quarters, five of the index stocks are expected to outperform the market, seven are expected to mirror the market, and three are expected to underperform the market. The Morning Star® measures show that the REI's Price-to-Earnings ratio is slightly higher than in the fall 2021 report, implying that investors are expecting higher earnings growth. Of the companies that had data about the Forward Price-to-Earnings ratios, the earnings of the majority of them are expected to grow. The Short Interest ratio shows that investors have positive short-term expectations of performance for the fifteen REI index stocks. The majority of the stocks have a short interest ratio less than five, an indication that investors believe stock prices will rise for these companies. Overall, investor sentiment is bullish, as indicated by the average short interest ratio of 2.58 for the REI index stocks.

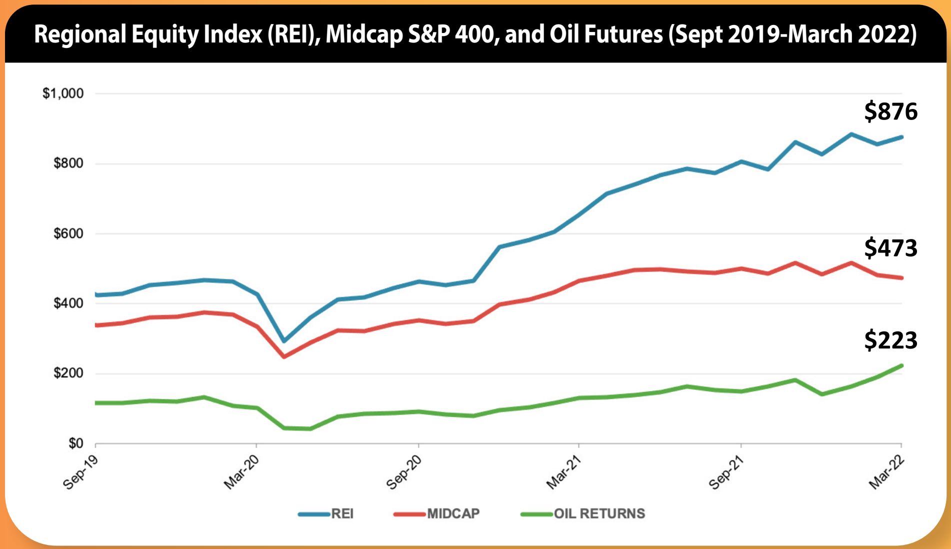


FIGURE 5. Overall REI has significantly outperformed relative to the S&P 400 since the last report (October 1, 2021). REI compound return is up 11.63%; whereas, S&P 400 compound return is down by 2.77%.
Source: UW-Superior REI Analysis using Yahoo Finance data

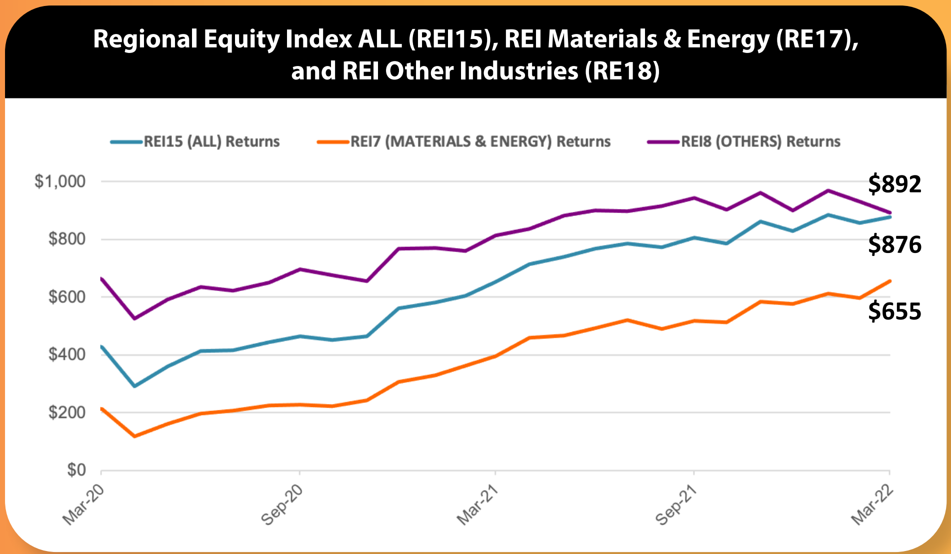


FIGURE 6. Between November 2021 and March 2022, the materials and energy sectors has strongly outperformed the other sectors communications, technology, healthcare, and financial services, reflecting that commodity prices have surged to all-time highs following the appearance of COVID-19.
Source: UW-Superior REI Analysis using Yahoo Finance data

THE COLLEGE OF ST. SCHOLASTICA
BUSINESS CONFIDENCE: A SURVEY OF REGIONAL BUSINESSES

Erica Henkel, CPA, MAcc, Assistant Professor of Finance and Economics, the College of St. Scholastica
Student Researcher: Omar Bensouda, Matthew Norgaard

The College of St. Scholastica's research team distributed business confidence surveys to regional Chambers of Commerce and various businesses and organizations located throughout the 15-county REIF region. The survey's purpose was to develop a better understanding of local businesses and their confidence in the economy. The survey asked each business to indicate their sector, number of employees, recent and projected changes in business activity, and factors inhibiting growth. In addition, the survey asked targeted questions regarding employment, salaries, and benefits.

In total, 82 businesses completed the survey. According to the results, the most common sectors were leisure and hospitality (n = 18), professional and business services (n = 16), and trade, transportation and utilities (n = 15). About sixty percent of those surveyed had fewer than 20 employees, while 23% of respondents reported 100 or more employees.

Businesses were asked to evaluate their general business activity over the previous six months. (**Figure 7**) In a slight upturn from last fall, 56% of businesses reported improved business activity (up from 52% in October 2021), and only 13% reported decreased activity (compared to 12% last fall). About 44% also reported an improved business environment, up from 36% last fall.

Businesses reported that they increased wages and salaries over the last six months and plan to continue doing so over the next six months.

After evaluating the previous six months, businesses were then asked to forecast activity for the next six months based on the same criteria. (**Figure 8**) Of those surveyed, 55% were confident that business activity will improve in the next six months (compared to 32% last fall), and only 9% expect decreases in activity (down from 15% last fall). Expectation of increasing profits continues to be positive, with 32% predicting increasing profits and only 17% expecting decreases in profits. Over half of businesses expect worker hours to stay the same in the next six months, but 39% expect increases in worker hours, which reflects continued expectations of overall growth from last fall. COVID has been bumped down to the third largest factor limiting business activity, having been overtaken by the shortage of qualified labor and cost of labor. (**Figure 9**)

Our final survey questions examined how wages and benefits are changing, given the challenging hiring environment. Surveyed businesses reported overwhelmingly that they increased wages and salaries over the last six months (73% increased wages) and plan to continue doing so over the next six months (59% planning future increases). With respect to employee benefits, over one-third (35%) have already increased benefits in the last six months, and nearly as many are planning increases (31%) in benefits in the next six months.

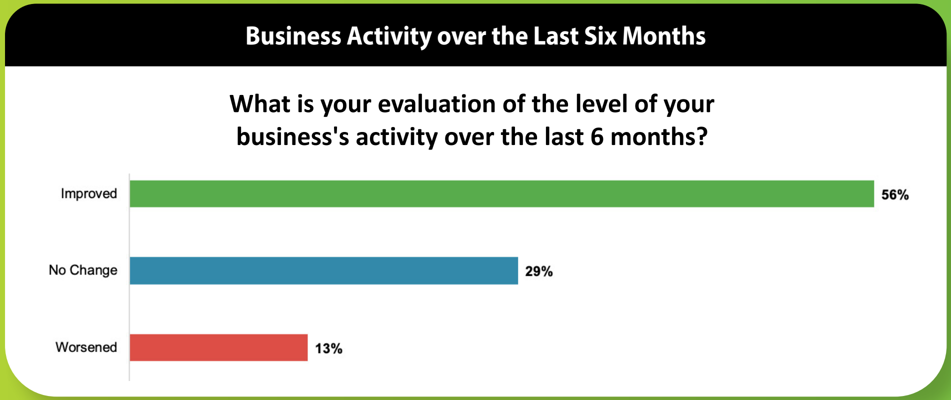


FIGURE 7. When asked about business activity levels over the last 6 months, survey responses indicated strong growth.
Source: CSS Spring 2022 Business Confidence Survey

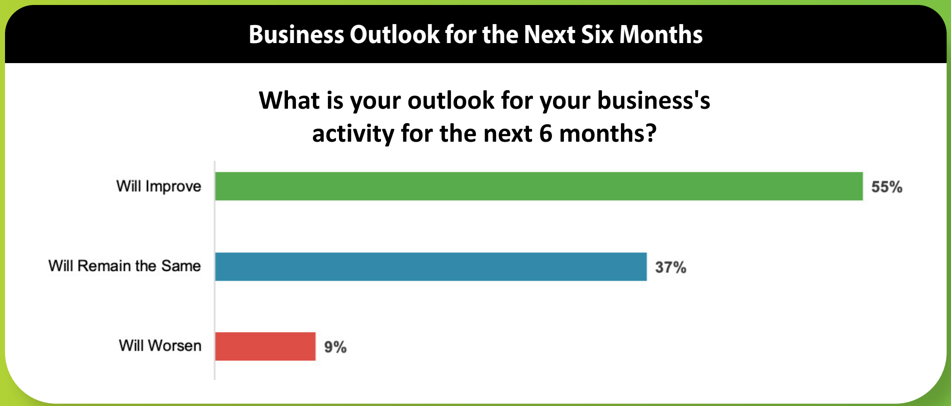


FIGURE 8. When asked about the outlook for business activity in the next 6 months, respondents expect similar or stronger activity.
Source: CSS Spring 2022 Business Confidence Survey

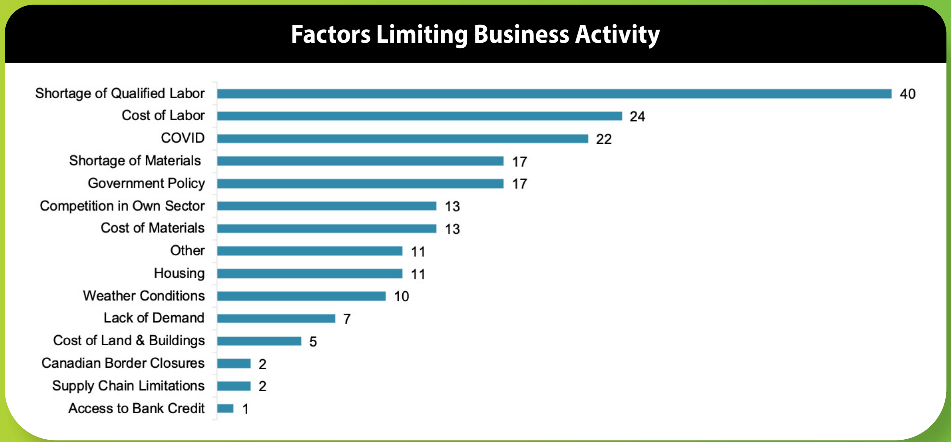


FIGURE 9. Labor shortages and cost displaced COVID as the biggest limiters of business activity. N=82, up to three selections per respondent.
Source: CSS Spring 2022 Business Confidence Survey

FALL EVENT

SAVE THE DATE
NOVEMBER 3, 2022

7:00-9:30 am

DECC IN THE HARBOR SIDE BALLROOM

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