

MORE INCLUSION FOR BETTER REGIONAL INTELLIGENCE

January 14, 2022

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Regional Outreach



FEDERAL RESERVE BANK
OF MINNEAPOLIS



SECOND PORTION OF CONFERENCE

- Discussion about inclusiveness and equity, and how it relates to the pandemic recovery
- Two panel discussions, both kicked off with brief presentations by Minneapolis Fed staff
 - Background on current Minneapolis Fed initiatives related to workers and to minority- and women-owned business enterprises (MWBEs)
 - = Context for both of the following panel discussions
 - Brief overview of pandemic recovery among MWBEs to help tee up first panel





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.



BACKGROUND ON ECONOMIC INTELLIGENCE GATHERING

- **Federal Reserve tracks current economic conditions for the purposes of setting monetary policy**
 - Dual mandate from Congress regarding monetary policy:
 - Create stable price environment
 - Maximize employment
- **Tracking current economic conditions**
 - Historically sought information from firms – esp. large firms
 - Offers a good snapshot of aggregate activity
 - Offers insights across geography and industry sectors



BACKGROUND, CONT.

- **But this large-firm approach has blind spots**
 - **Minority- & women-owned business enterprises (MWBEs)**
 - Most MWBEs tend to be smaller operations
 - **Workers**
 - Labor markets viewed mostly through eyes of firms (demand), and not workers (supply); particularly relevant given current labor force participation trends
- **More outreach specifically to these groups**
 - Outgrowth of Bank's long-running diversity & inclusion efforts, including the Bank's "Racism & the Economy" series
 - Not all efforts are "new" – but they are expanded, more intentional & public





MORE INCLUSION: THE WHY & HOW

- **Goal #1:** Make the Bank (and monetary policy) smarter about current economic conditions & who is – and is not – recovering from the pandemic
- Secondary (maybe “1a”) goal is to make the public and media more aware of these voices/stakeholders
- New “voices” now officially reflected in **Beige Book**
 - Published 8x/year in conjunction with FOMC meetings
 - Followed closely by economy watchers, including media
 - Publicly demonstrates Minneapolis Fed and System efforts to be more inclusive regarding the pandemic’s effects and recovery





Summary of Economic Activity

Economic activity in the Ninth District increased modestly since early January. Employment was flat, with rising labor demand offset by labor supply constraints. Wage and price pressures were both modest. Sources reported growth in consumer spending, residential construction and real estate, manufacturing, energy, and agriculture. Commercial real estate was mixed, and commercial construction activity declined. Conditions for minority- and women-owned businesses were difficult.

Employment and Wages

Employment was flat since the last report, though hiring demand appeared to be picking up. Job postings increased steadily across the District through the first five weeks of the year. Staffing firms also reported healthy demand in job orders but reported difficulty filling available jobs. "There are way more job orders than available workers," especially for jobs paying less than \$20 an hour, said a Minnesota staffing contact. A mid-January survey (with more than 1,000 respondents) found that nearly 30 percent of firms Districtwide had reduced staff since October, while just 8 percent added staff. However, small firms were much more likely to report staffing cuts and large firms to add staff, balancing net employment levels to some extent. Recent employment losses continued to be more prevalent in entertainment, hospitality, and retail firms, while firms adding staff were more evenly spread across sectors, led by finance and manufacturing.

Wage pressures were modest overall, but stronger in some sectors seeing higher labor demand. Construction firms reported the strongest wage pressure, followed by finance and manufacturing firms. Wage pressures in many other sectors were soft but were expected to increase modestly over the coming year. Staffing firms consistently reported growing wage pressures due to healthy hiring demand but persistent lack of interested workers.

Worker Experience

Despite increased job openings, labor supply constraints contributed to a continued disconnect between workers and opportunities. Multiple workforce contacts noted greater demand for employees to fill 12-hour and/or rotating shifts. But prospective employees continued to find these shifts unattractive for a variety of reasons—family care responsibilities, remote learning in many school districts, fears of infection—that have increased the relative cost of work and imposed limits on flexibility. Other contacts noted that transportation remained a hurdle for low-wage workers. A staffing contact reported that there was less migration of laid-off hospitality workers to opportunities in fields like manufacturing than they expected. A job service contact suggested that some of the inertia may be due to employers providing false hope that workers will be called back to their previous jobs. Some contacts said the prospective continuation of enhanced unemployment benefits created a disincentive to return to work; however, others noted that the closure of workforce offices also eliminated a high-touch opportunity to push job openings and other services to the unemployed when applying for or collecting benefits.

Prices

Price pressures increased moderately since the last report. According to the January survey of District businesses, half of respondents reported that prices for

final goods and services were unchanged compared with pre-pandemic levels, but more than a third reported that nonlabor input prices were up by more than 5 percent. Contacts in manufacturing reported greater ability to pass on increases in costs for transportation and certain other inputs to customers. Retail fuel prices in District states have increased briskly since the previous report. Prices received by farmers increased in December from a year earlier for corn, soybeans, wheat, chickpeas, and hogs, while prices for potatoes, dry beans, hay, milk, chickens, eggs, and cattle decreased.

Consumer Spending

Consumer spending rose moderately, likely spurred by federal stimulus to households. January gross and taxable sales both grew robustly in South Dakota. Vehicle sales were strong. A dealership in the western part of the District reported robust sales of new vehicles in December and January. Minnesota vehicle sales taxes through the first six weeks of the year were notably higher than last year. Winter and other recreational vehicle sales were also positive, held back in some cases by lack of inventory. Firms catering to outdoor recreation generally reported good traffic. However, extreme cold for an extended period in February dampened activity Districtwide. Increased sales were reported at eating and drinking establishments in Minnesota and Montana after COVID-19 infection rates fell and operating restrictions were lessened, but conditions in that sector remained difficult. Passenger activity out of the District's eight largest airports remained flat at low levels through the first seven weeks of the year.

Construction and Real Estate

Commercial construction continued to slow overall. Total active, major construction projects across the District were lower than a year earlier. A majority of contacts reported that recent revenue fell compared with both 2019 and fall of 2020, and expectations for the first quarter of this year were similar. The frequency of project delays and cancellations has potentially peaked, according to sources; however, more reported a decrease in new projects out for bid than those reporting increases. Some places, like Rapid City, S.D., and certain subsectors, like utilities, reportedly have not seen a similar slowdown. Residential construction also remained a bright spot, with contacts reporting healthy demand and January permitting activity seeing increases over last year in many locations.

Commercial real estate was mixed. Industrial property remained generally stable, with steady leasing activity and low vacancy rates in many markets. However, other

sectors like office and retail saw increases in vacancy rates and available sublease space. Residential real estate saw strong growth. January home sales grew by double digits over last year across much of the District.

Manufacturing

District manufacturing activity increased moderately since the previous report. Respondents to the Minneapolis Fed's annual survey of manufacturers indicated that orders, production, employment, profits, productivity, and investment all decreased in 2020 on average (with substantial variability among firms). Expectations for 2021 called for growth to resume, likely due to stronger activity in recent months. However, nearly half of respondents reported that they don't expect to return to pre-pandemic activity levels for six months or longer. An index of regional manufacturing activity indicated brisk expansion in North Dakota in January compared with the previous month; activity in Minnesota and South Dakota grew more moderately.

Agriculture, Energy, and Natural Resources

District agricultural conditions improved moderately since the previous report, due to continued rallies in commodity prices and to government support programs. Respondents to the Minneapolis Fed's fourth-quarter (January) survey of agricultural credit conditions reported increased farm income and capital spending compared with a year earlier, and the outlook for the next quarter was for continued growth in farm incomes. District oil and gas exploration activity increased slightly compared with the previous report. Iron ore mines continued to operate at normal capacity since a previously idled plant resumed operations in mid-December.

Minority- and Women-Owned Business Enterprises

Most minority- and women-owned business enterprises (MWBs) reported negative revenue trends compared with the same period last year and with the previous quarter. Some expected modest improvement for the first quarter of 2021. A strong majority said federal stimulus programs have helped their business to some degree; among those not benefiting, most did not either qualify or apply for assistance. Contacts noted hesitancy among immigrant business owners to apply for assistance out of concern for jeopardizing the immigration status of themselves or family members. Financial instability was high among these firms. In a survey across the District, a significantly higher share of MWBEs said they would be insolvent within three months if current economic conditions persisted compared with non-MWBEs. They were also more likely to have cut wages, for staff or for themselves. ■



GOALS OF THE NEXT TWO PANELS

- Briefly provide information about what Minneapolis Fed has learned about MWBEs and workers during the pandemic...
- ...which will tee up discussion among local experts and practitioners on the unique challenges faced by MWBEs and workers during the pandemic and related recovery
- **First up: MWBEs**





PANDEMIC SURVEYS & MWBEs

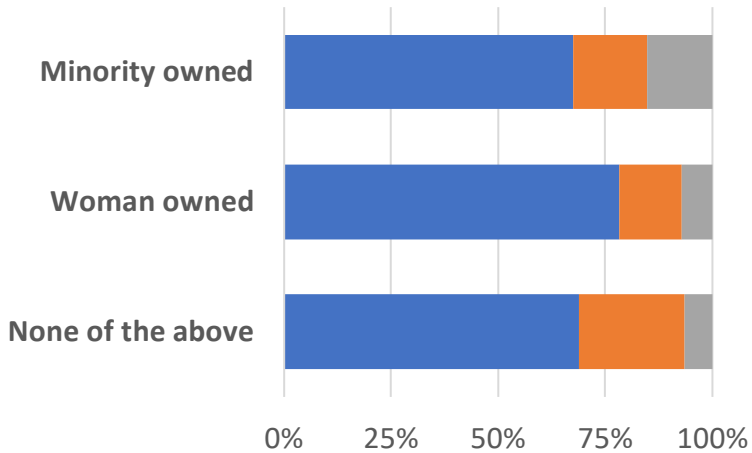
- **General Business Survey**
- Quarterly business conditions survey includes an MWBE respondent component
- Response size/share
 - Minority-owned responses – 8-12 percent
 - Woman-owned responses – 30-40 percent
- A good snapshot of conditions, but not a scientific sample; interpret cautiously
 - More of a guide for general trends than specific outcomes



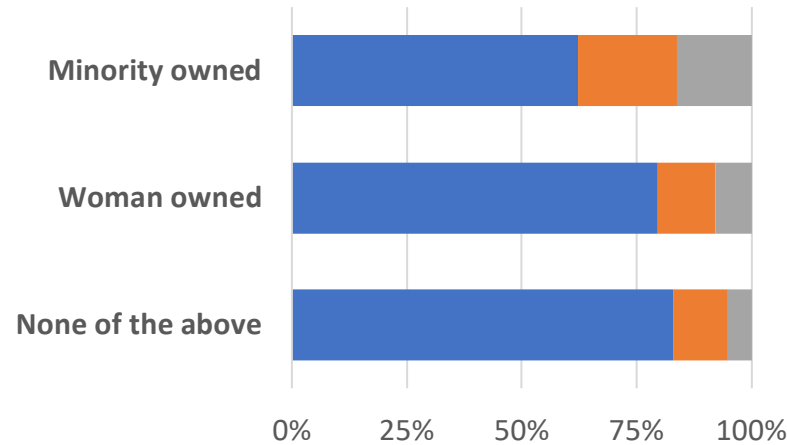
PANDEMIC AID: PPP (MAY 2020 SURVEY)

Have you applied for emergency government aid?

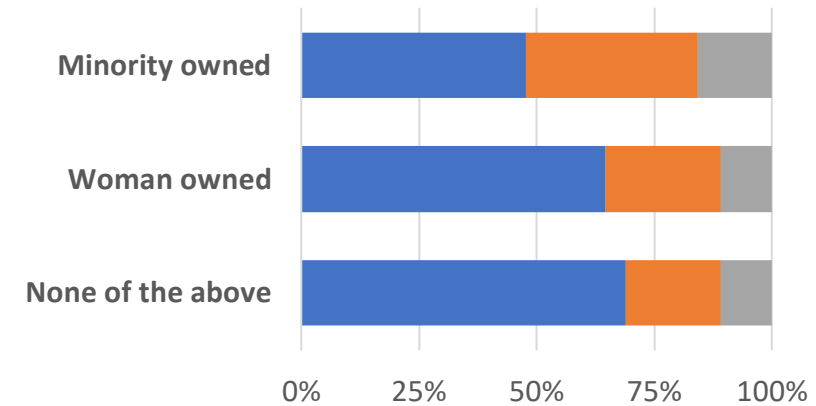
■ Yes ■ No ■ In progress; awaiting decision



Did you find a lender to accept your application(s)?



Have you received funding from emergency aid applied for?

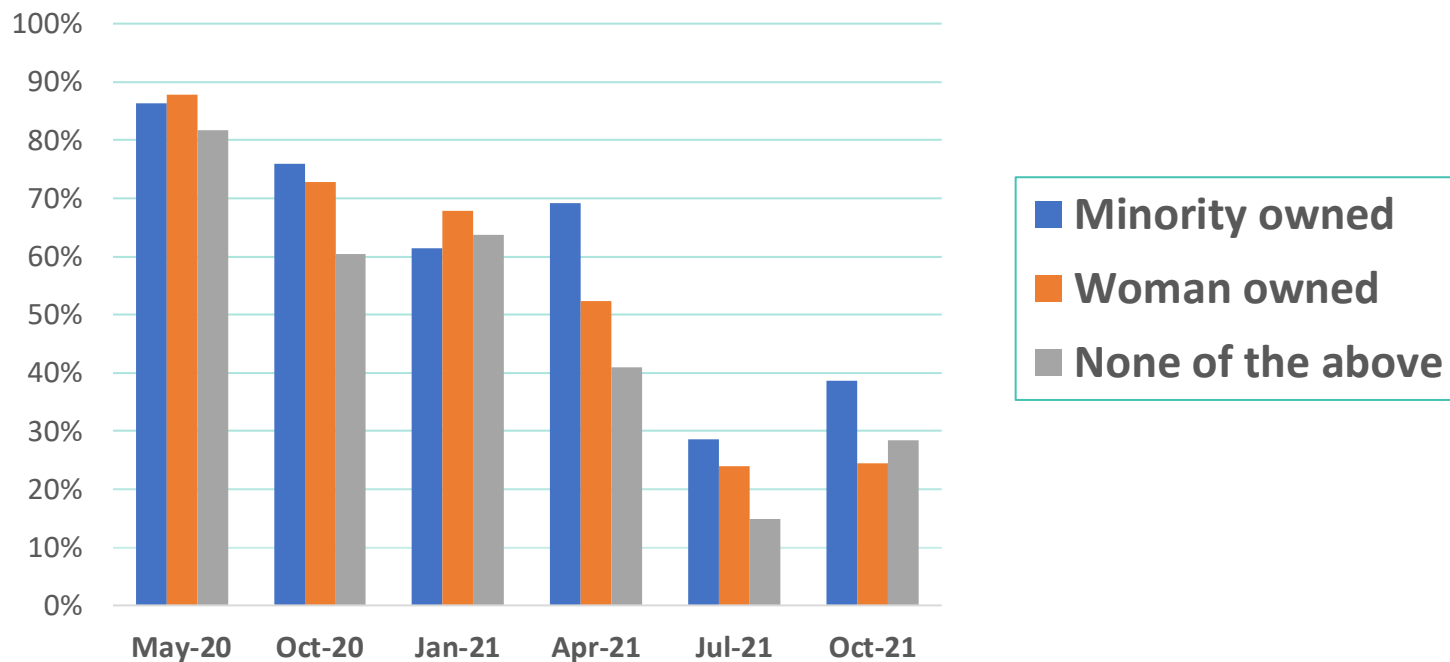


Similar shares of MWBEs applied for aid; fewer found a bank to take application, & fewer received funding

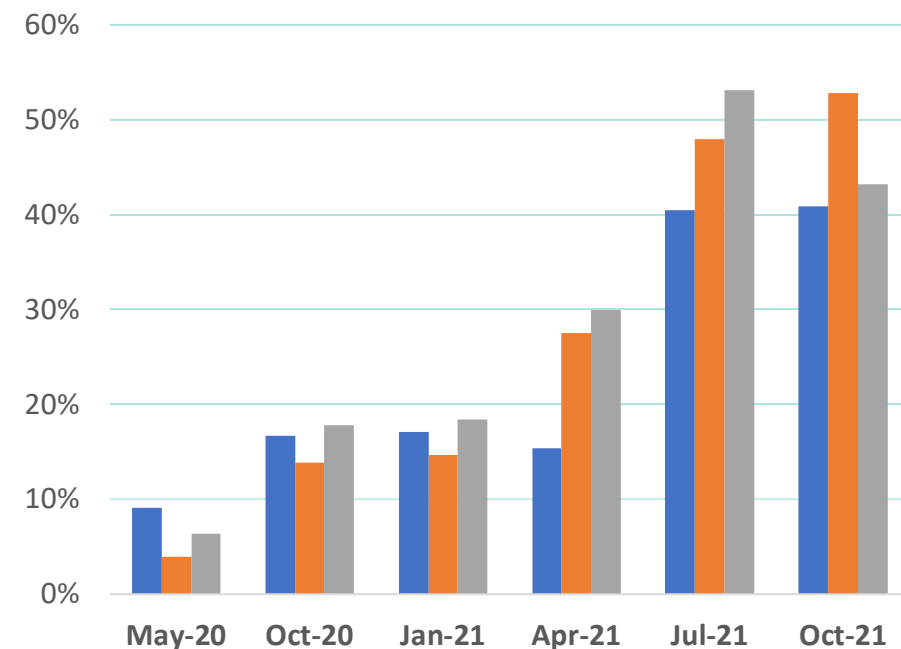


REVENUES DURING PANDEMIC (REPEATED CROSS SECTIONS)

Share of respondents reporting negative quarterly revenues (year-over-year)



Share of respondents reporting positive quarterly revenues (year-over-year)



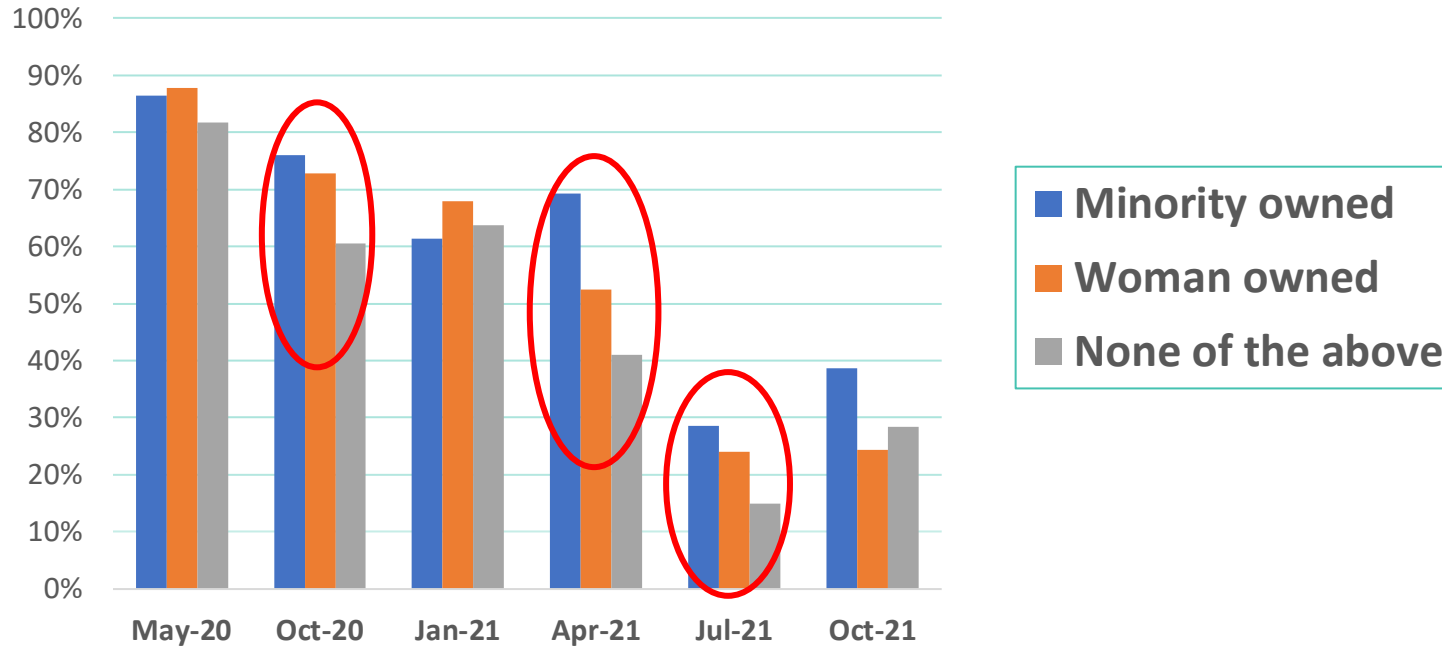
MWBEs not seeing same revenue trends, esp. during low-infection periods (Q3 2020; Q1-Q2 2021)

Respondent composition also has a role (small biz; many located in Mpls-St. Paul)

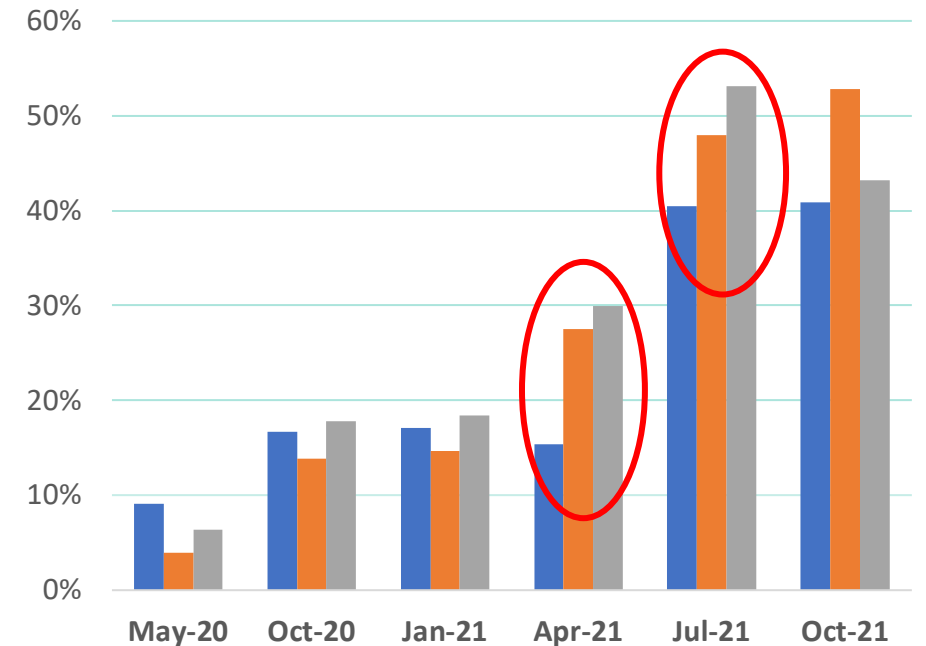


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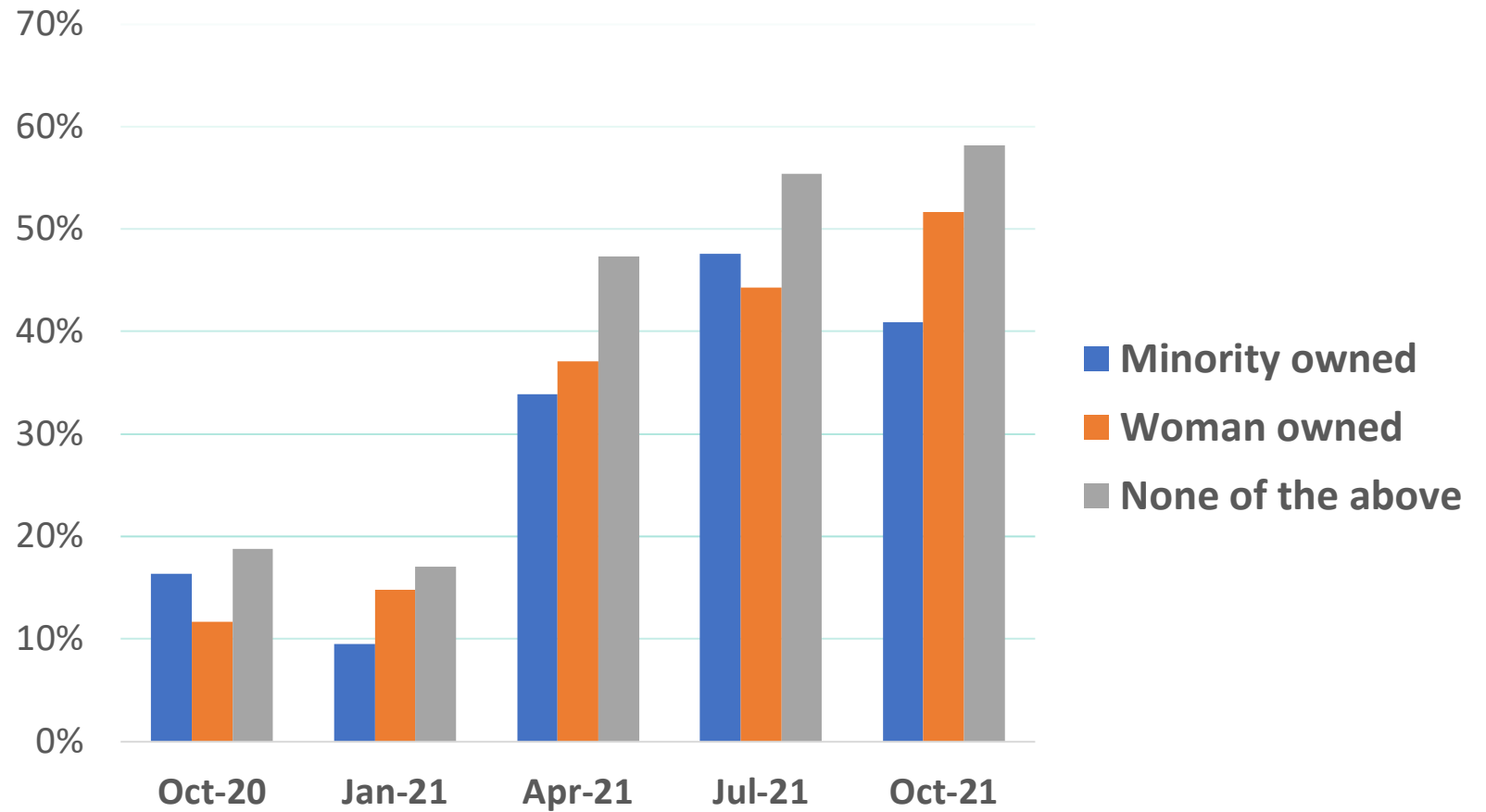


MANY CHALLENGES: LABOR AVAILABILITY

Share of respondents saying “labor availability” was among top two operational challenges

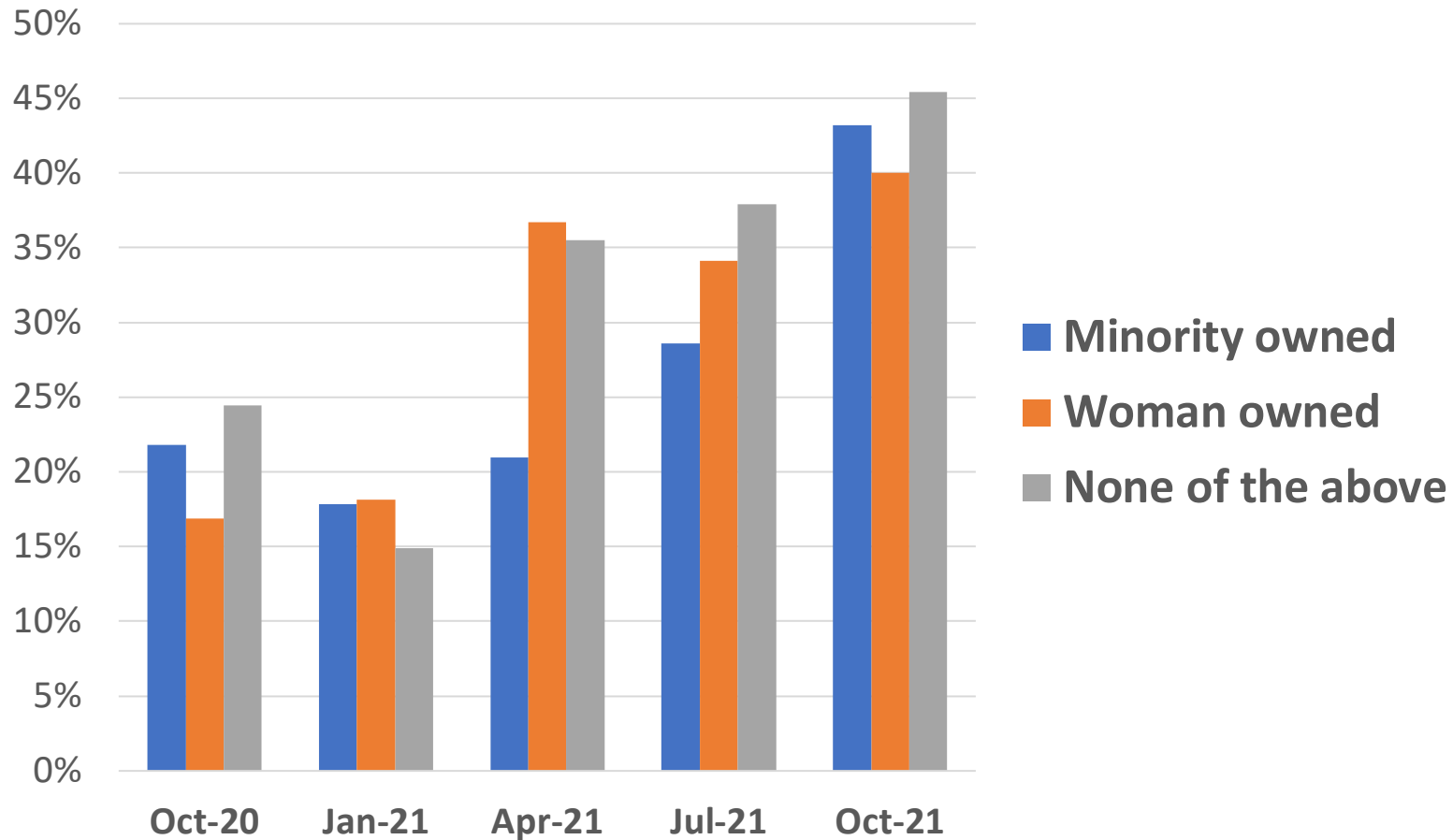
MWBEs having significant difficulties finding labor, but somewhat *less difficulty* than businesses overall

Lower revenue trends likely a factor



SUPPLY CHAIN PROBLEMS

Top two challenges: Supply chain disruptions



Through much of 2020-21, lower share of MWBEs were having supply chain problems

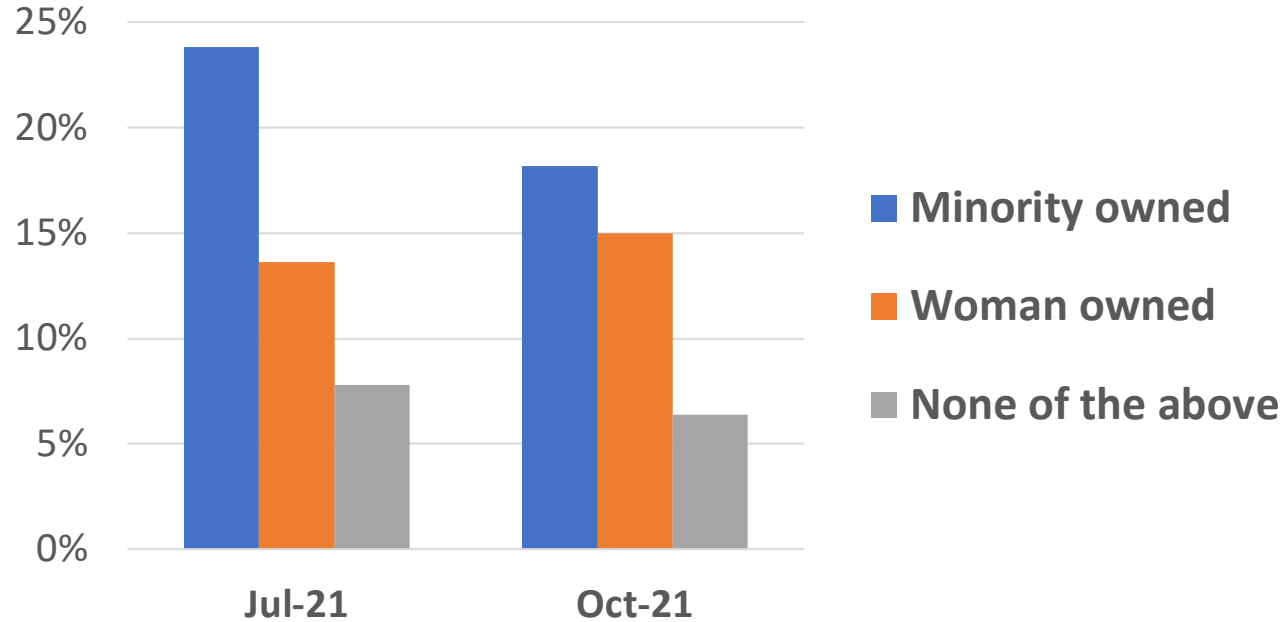
Lower revenue trends again a likely factor

However, by Q3, MWBE supply chain problems have “caught up”

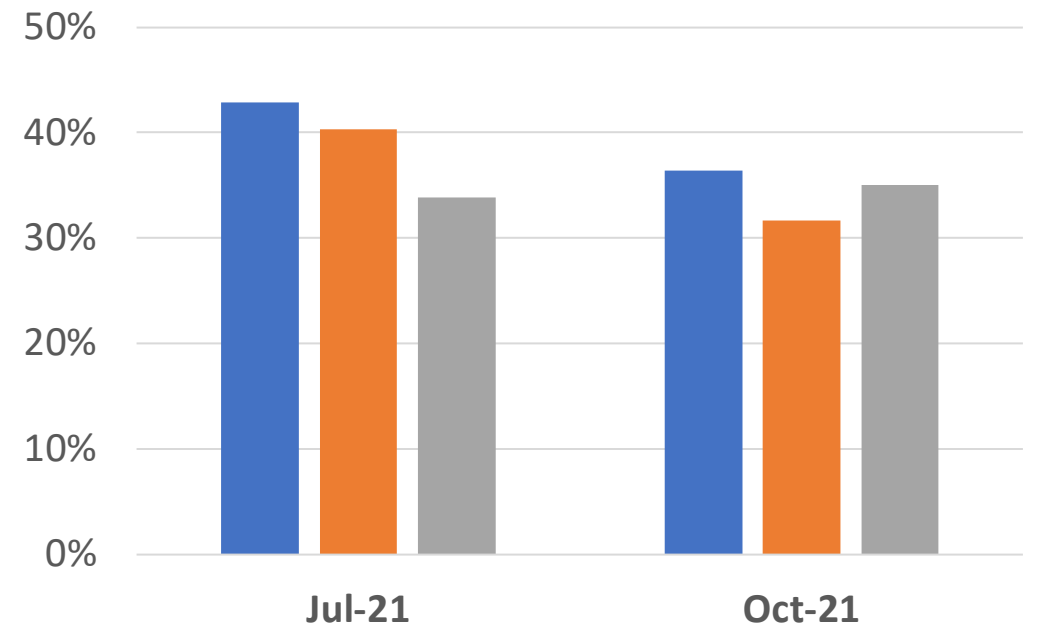


CAPEX & PRICE CHALLENGES

Top 2 biggest challenges: Making necessary capital expenditures



Top 2 biggest challenges: Price increases for material/nonlabor inputs



MWBEs seeing somewhat higher price pressures, and not keeping up on capital expenditures





In summary...

MWBE performance during the pandemic has lagged that of businesses overall, and that has lots of spillover effects

NOW, ON TO THE EXPERTS!

