MORE INCLUSION FOR BETTER REGIONAL INTELLIGENCE

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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
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 North 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 momentum 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 more job orders than qualified applicants, making it difficult 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 Citrinello had reduced staff since October, while just 6 percent added staff. However, small firms were much more likely to report staffing cuts and large firms to add staff, balancing out employment levels to some extent. Recent hiring  decreases continued to be more prevalent in entertainment, hospitality, and retail firms, while firms in manufacturing and construction reported stronger wage pressure. However, two-thirds of firms reported increases in wages. 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 the agriculture and mining sectors were still flat 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 decrease in workers and opportunities. Many workforce contacts noted greater demand for employees to fill skilled and roving positions. Hall prospective employers continued to find these workers unattractive for a variety of reasons—family, company restrictions, benefits, remote work due to the COVID-19 pandemic, and fear of the virus—that have increased the relative cost and work imposed limits on flexibility. Other contacts noted that hesitancy remained a hurdle for low-wage workers. A staffing contact reported that there were less migration of laid-off hospitality workers to opportunities in less manufacturing that they expected. A job service contact suggested that some of the costs may be due to employees providing false hope that workers will be called back to their previous jobs. Some contacts said the protracted continuation of an unaided unemployment benefits created a disincentive to return to work; however, others noted that the closures of workplaces has also eliminated a high-touch opportunity to push job openings and other services to the unemployed when applying their collecting benefits.

Prices
Pilots prices 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, while more than a third reported that nonlabor input prices were up by more than five percent. Contacts in manufacturing reported greater ability to pass on increases in costs for transportation and certain raw materials to customers. Retail food prices in District states have increased slightly since the previous report. The Minneapolis Fed received reports of increased demand from the second half of December to early January.

Consumer Spending
Consumer spending rose modestly, likely spurred by federal direct deposits in 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 total sales of new vehicles in December and January. Minnesota vehicle sales rose through the first six weeks of the year by nearly 2.5 percent, while new vehicle sales were relatively flat in the region. Vehicle sales were also positive, held back in some cases by lack of inventory. Extra catering to outdoor recreation generally remained good. Traffic, extreme cold for an extended period in February dampened activity. Distilled sales increased. Sales were reported at eating and drinking establishments in Minnesota and Montana after COVID-19 restrictions were partially eased, and operating restrictions were loosened, but conditions for that sector remained difficult. Private passenger activity continued to drop as international travelers were still absent, and domestic travel remained 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 down nearly 10 percent. A majority of contacts reported that record forecasts fell compared to both 2019 and 2020, and expectations for the first quarter of 2021 were similar. The frequency of project delays and cancellations has potentially peaked, according to sources; however, more reported a decrease in new projects for the fall forecast than those reporting increases. Some projects, like Rapid City, S.D., and Construction contacts, like others, reportedly have not seen a significant slowdown in new projects. Production and demand remained a key challenge, with contacts reporting healthy demand and January permitting activity easing slightly increased over last year in many locations.

Federal Reserve Bank of Minneapolis
District manufacturing activity increased modestly since the previous report. The Minneapolis Fed’s annual survey of manufacturers indicates that orders, production, employment, and new orders increased, while productivity, and investment all decreased in 2020 on average with substantial variability among firms.

Expectations for 2021 called for growth to return, likely due to stronger activity in recent months. However, nearly half of respondents in the District cited increased costs as a likely obstacle to growth. Expectations to pre-pandemic activity levels for six months or longer. An index of regional manufacturing activity indicated continued 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 rains and in commodity prices and to government support programs. Respondents to the Minneapolis Fed’s fourth-quarter survey (January) of agricultural credits reported increased farm income and capital loan demand 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 was unchanged from the previous report, although concern over a potential carbon cap was increasing. A large plant resumed operations in mid-December.

Minority- and Women-Owned Business Enterprises
Most minority- and women-owned business enterprises (M/WEBs) reported ongoing revenue losses compared with the same period last year and with the previous quarter. Some expected modest improvement for the first quarter of 2021. A stronger stimulus program therefore helped their businesses to some degree, among those who indicated they were more likely to use government stimulus funds. Other showed interest in information about business owners to apply for government assistance for small businesses, non-profit organizations, or other quality or apply for assistance. Contacts noted challenges among minority business owners to apply for assistance, out of concern for preserving the credit status of themselves or family members. Financial instability was high among these firms. A survey across the District, a significantly higher share for M/WEBs, they would be insolvent within three months if current economic conditions persisted compared with non-M/WEBs. They were also 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)

Similar shares of MWBEs applied for aid; fewer found a bank to take application, & fewer received funding.
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)
REVENUES DURING PANDEMIC (REPEATED CROSS SECTIONS)

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

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MANY CHALLENGES: LABOR AVAILABILITY

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

Lower revenue trends likely a factor

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

- Minority owned
- Woman owned
- None of the above
SUPPLY CHAIN PROBLEMS

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

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

Top 2 biggest challenges: Making necessary capital expenditures

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