Economic Conditions in Minnesota

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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.

minneapolisfed.org

Set up

- Federal Reserve background
- Short term economic outlook
  - Agricultural conditions
- Long-term trends
- Labor market issues

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The Federal Reserve System

- **Central bank of the U.S. (est. 1913 by Congress)**
- **Quasi-public yet independent; has both public and private components**

  - **Public:** U.S. President appoints Board of Governors
    - 7 members, 14-yr terms; two positions currently unfilled
  - **Private:** District Bank presidents are appointed by Bank boards of directors, who are private business people
    - **FOMC** = BOG + 5 (rotating) District presidents
  - **Independent:** Monetary policy decisions not approved by executive or legislative branches

Public & private, cont.

- There are congressional mandates and annual reporting requirements, but no Congressional appropriations

- <u>No tax dollars:</u> 90% of Federal Reserve income derived from interest on U.S. government securities acquired in open market operations; remainder is largely bank fees

- After expenses, Federal Reserve turns the rest of its earnings over to the U.S. Treasury

  - 2005 = $21 billion
  - 2015 = $98 billion

Main responsibilities of the Fed

➢ Supervise and regulate banks

- **Bank holding companies (own 1+ banks)**
  - ➢ JPMorgan, Wells Fargo, Goldman Sachs, Citigroup
- **State member banks**

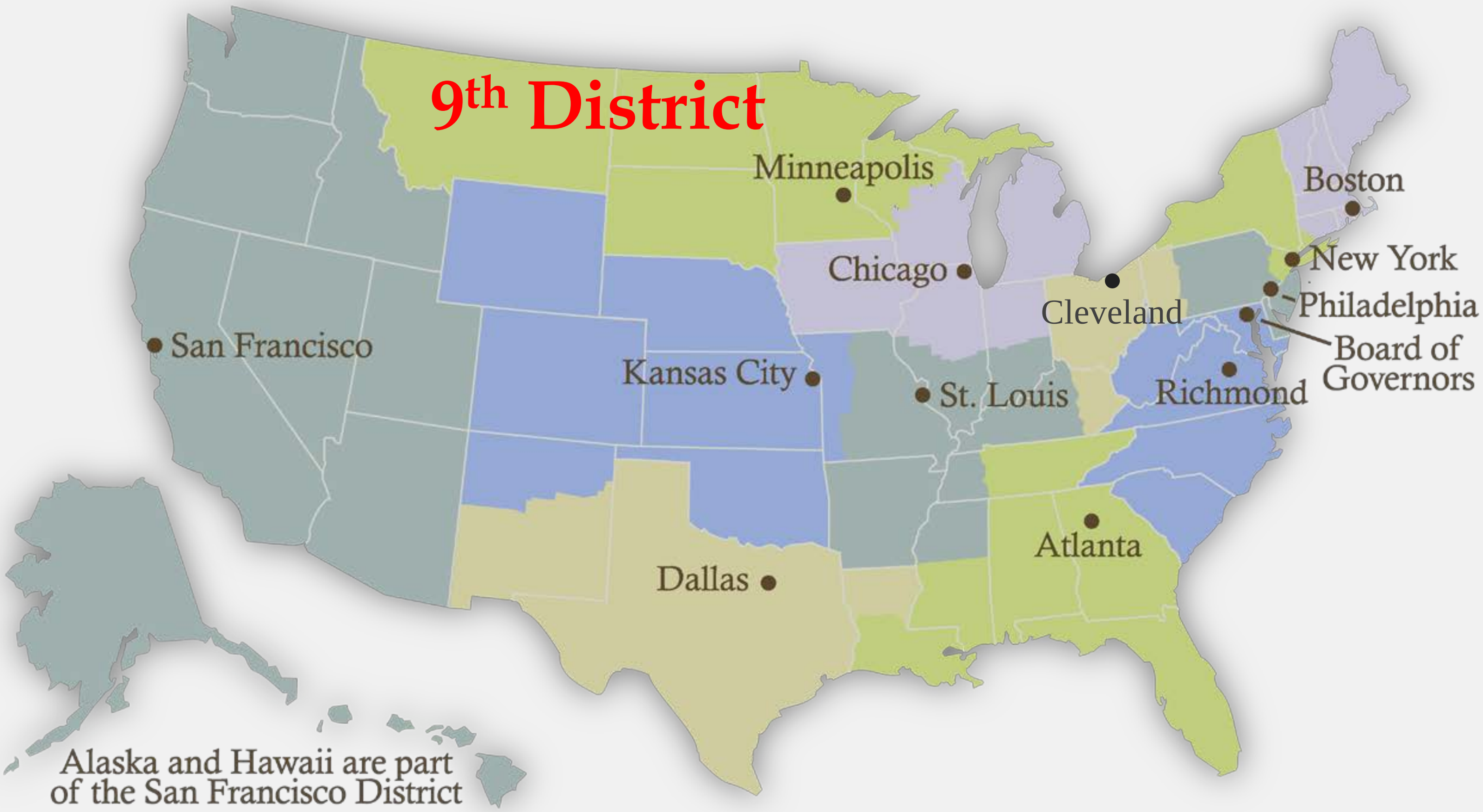
➢ Offer financial services

- **Manage (‘clear’) financial payments between parties**
- Help banks meet short-term, high-demand for cash
- “Lender of last resort”

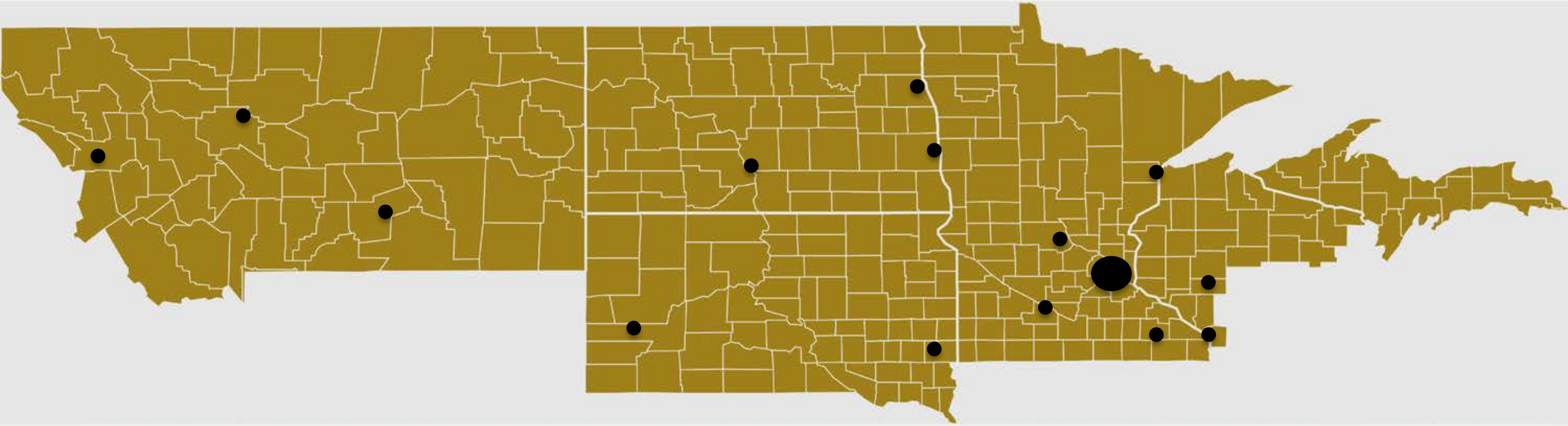
➢ Set monetary policy

- **“Dual mandate” of stable prices, max employment**
  - ➢ Setting interest rates via FOMC

The Federal Reserve Districts



Minneapolis Fed's **Ninth District**



Our job is to understand this regional economy, especially its metropolitan markets

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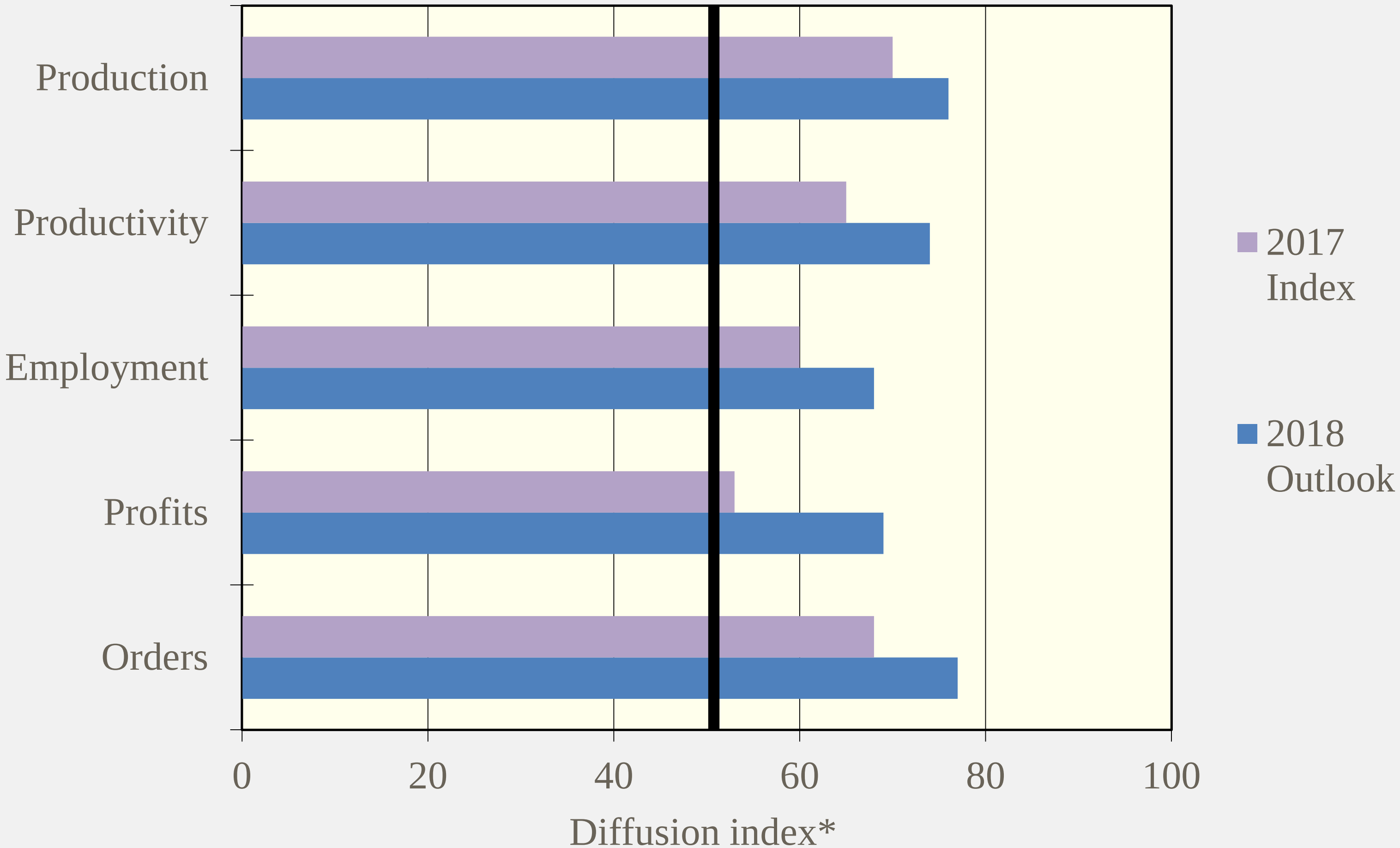
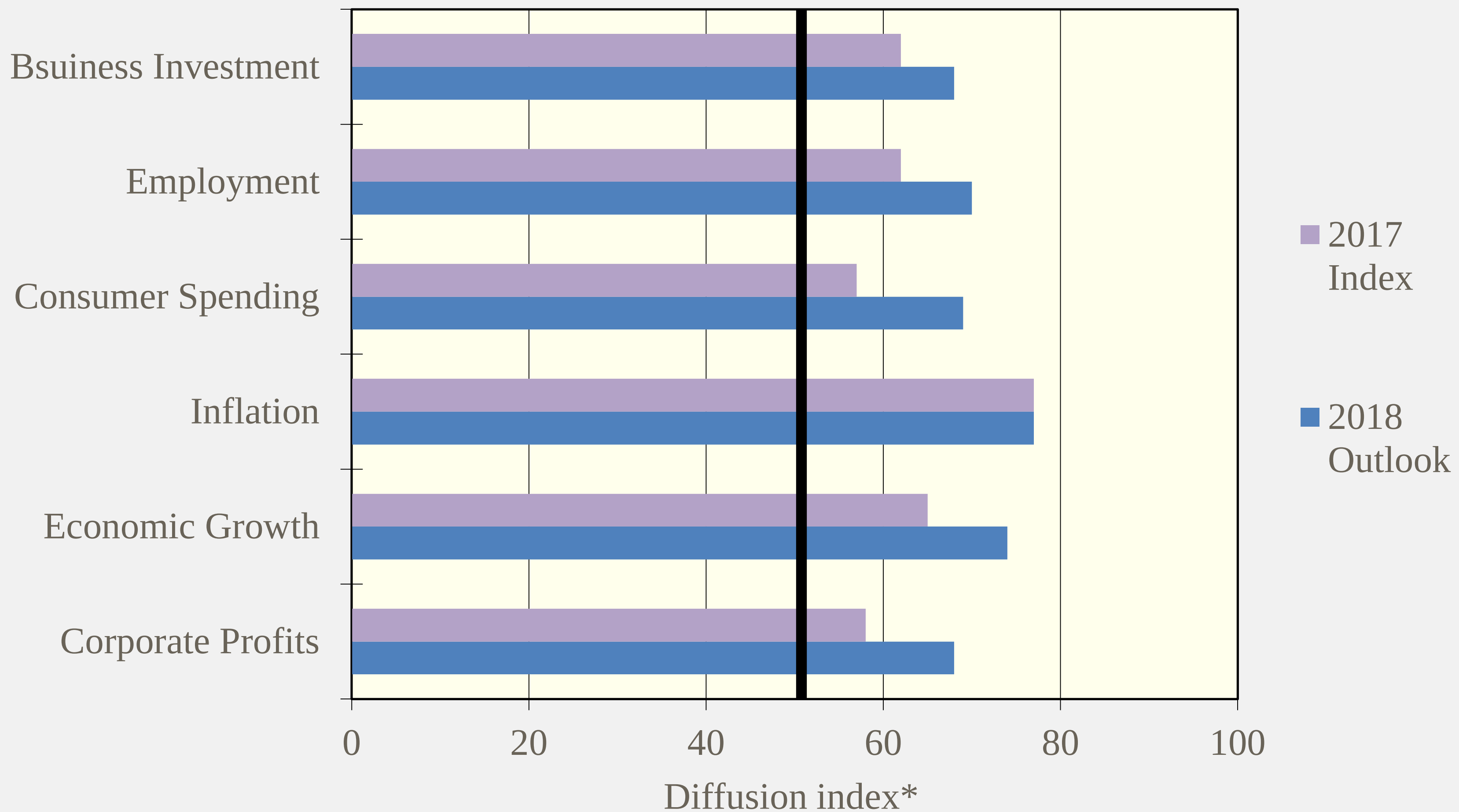
Manufacturing survey indicates faster growth expected in 2018



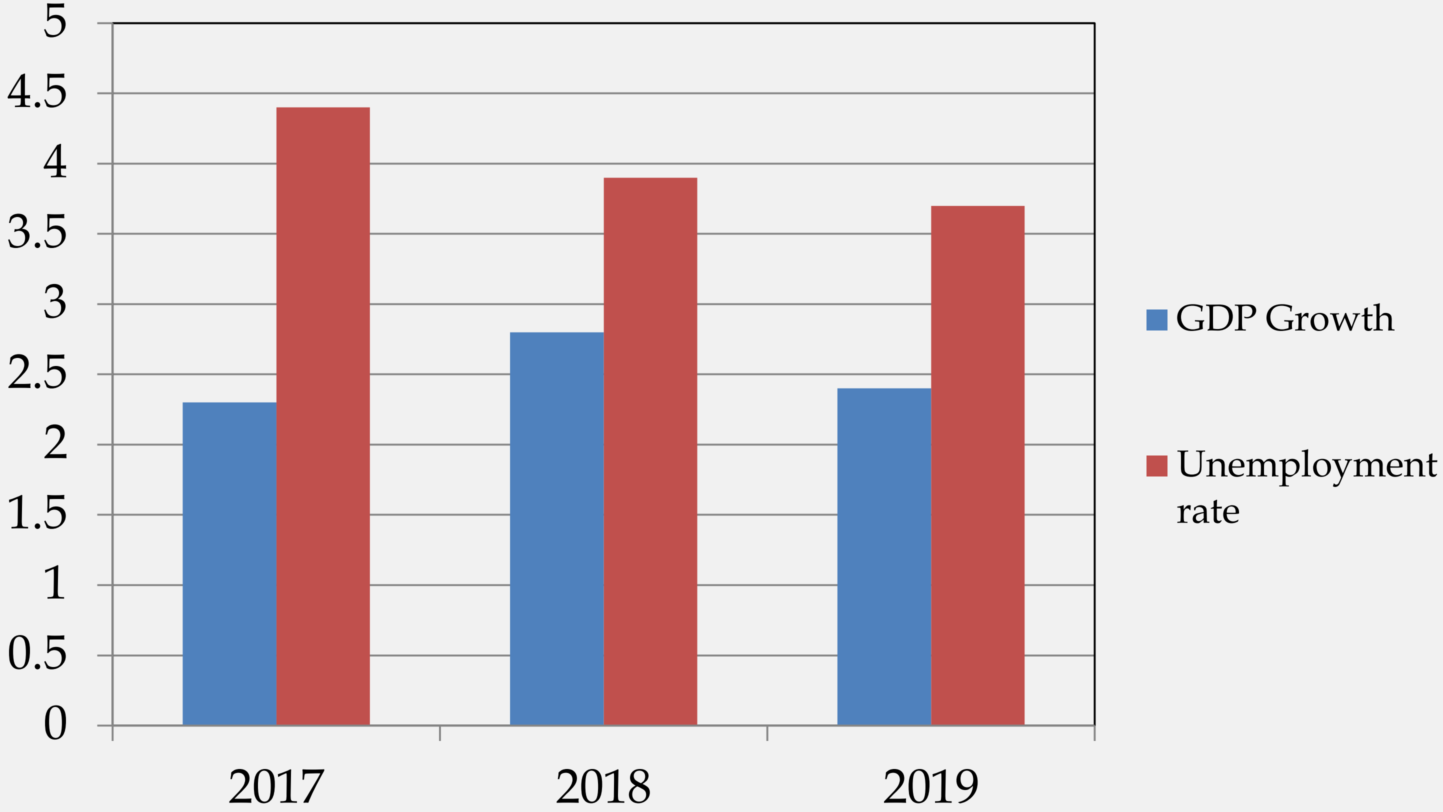
*Index number above 50 indicates expansion.
Index number below 50 indicates contraction.

Firms also expect overall economic growth



*Index number above 50 indicates expansion.
Index number below 50 indicates contraction.

National Outlook (50 Forecasters)



Source: Blue Chip Economic Indicators

Survey says…
Farm incomes, spending are down

How did the following compare in the fourth quarter of 2017 to a year earlier?
(Percent of Ninth District respondents)

	Increased	Unchanged	Decreased
Farm Income	7.1%	27.1%	66.7%
Household Spending	4.3%	50%	45.7%
Capital Spending	1.4%	19.7%	78.9%

Source: Federal Reserve Bank of Minneapolis, Agricultural Credit Conditions Survey
Third quarter (October) 2017

Outlook is for more of the same

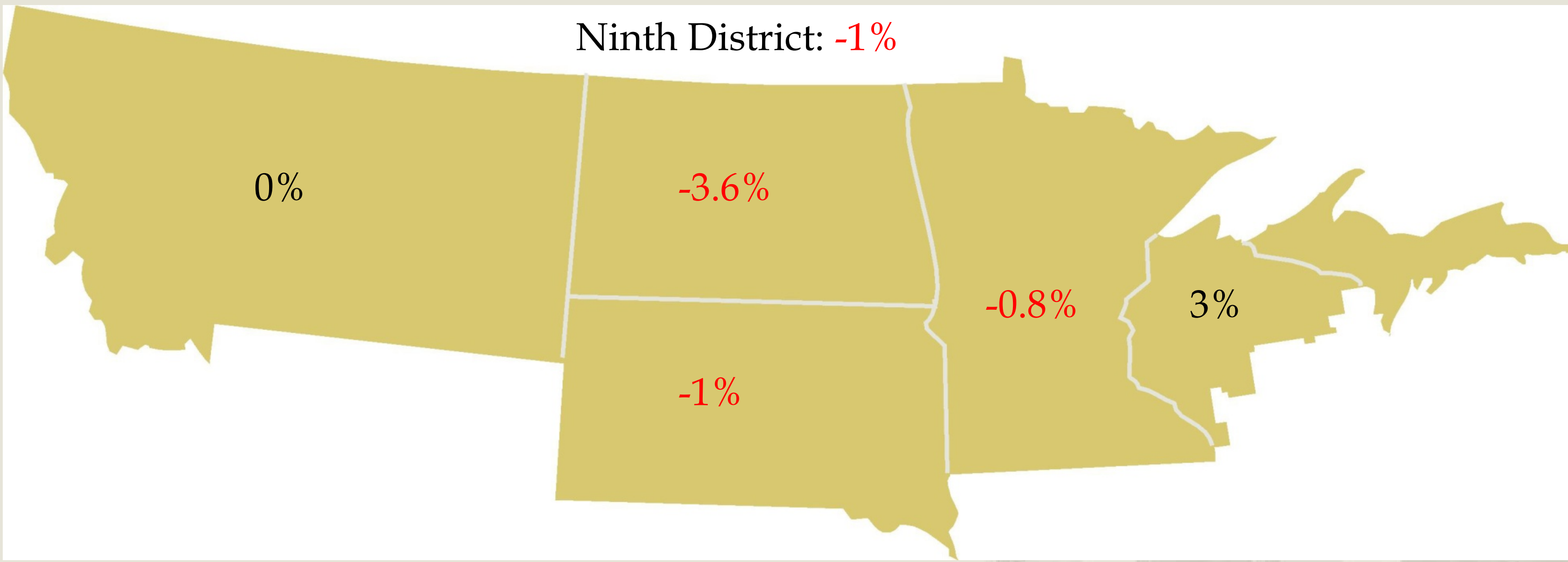
How do you expect the following to change in in the first quarter of 2018 compared to a year earlier?
(Percent of Ninth District respondents)

	Increased	Unchanged	Decreased
Farm Income	6%	43.3%	50.8%
Household Spending	1.5%	55.1%	43.5%
Capital Spending	0%	33.8%	66.2%

Source: Federal Reserve Bank of Minneapolis, Agricultural Credit Conditions Survey Third quarter (October) 2017

Farmland prices still falling…

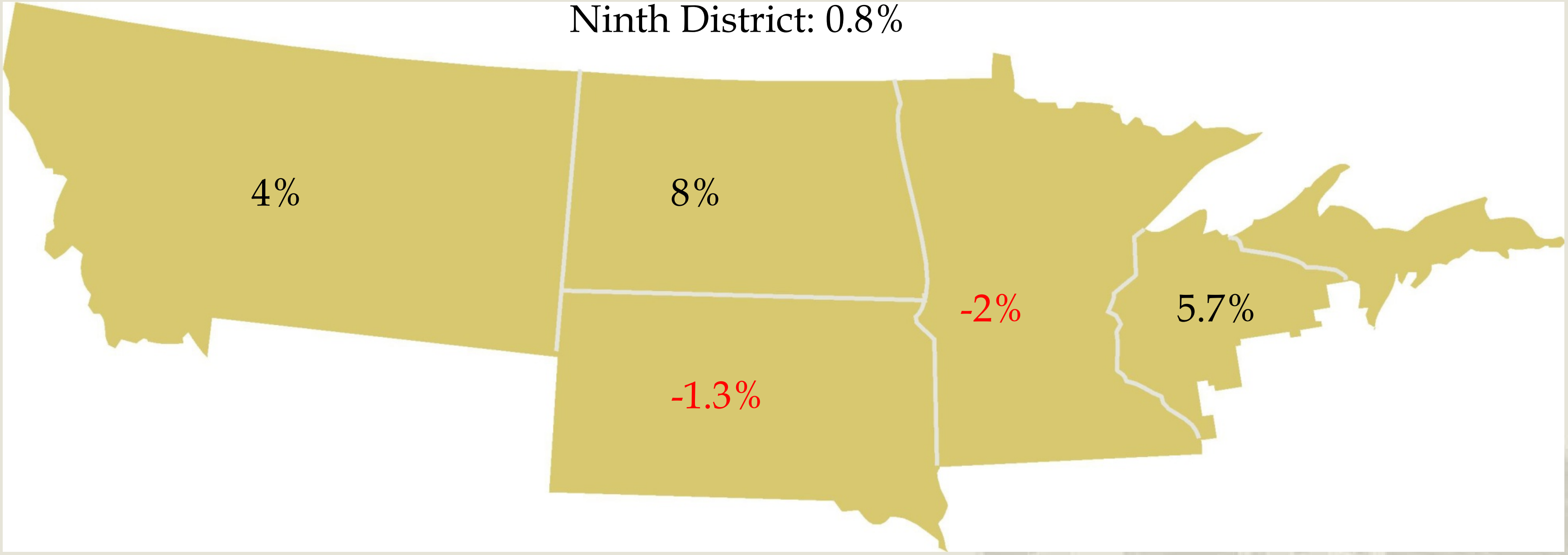
Average change in price of non-irrigated farmland, 2016Q4-2017Q4



Source: Federal Reserve Bank of Minneapolis, Agricultural Credit Conditions Survey

…but rents are more stable

Average change in cash rents for non-irrigated farmland, 2016Q4-2017Q4



Source: Federal Reserve Bank of Minneapolis, Agricultural Credit Conditions Survey

Crop prices persistently low

Average farm prices				
	2014/2015	2015/2016	Estimated 2016/2017	Projected 2017/2018
(Current $ per bushel)				
Corn	3.70	3.61	3.36	3.05-3.55
Soybean	10.10	8.95	9.47	8.90-9.70
Wheat	5.99	4.89	3.89	4.55-4.65
U.S. Department of Agriculture, estimates as of February 2018				

Animal products a little more stable

Average farm prices				
	2015	2016	Estimated 2017	Projected 2018
(Current $ per cwt)				
All Milk	17.13	16.30	17.63	15.70-16.40
Steers	148.12	120.86	121.52	116-123
Hogs	50.23	46.16	50.48	47-49
U.S. Department of Agriculture, estimates as of February 2018				

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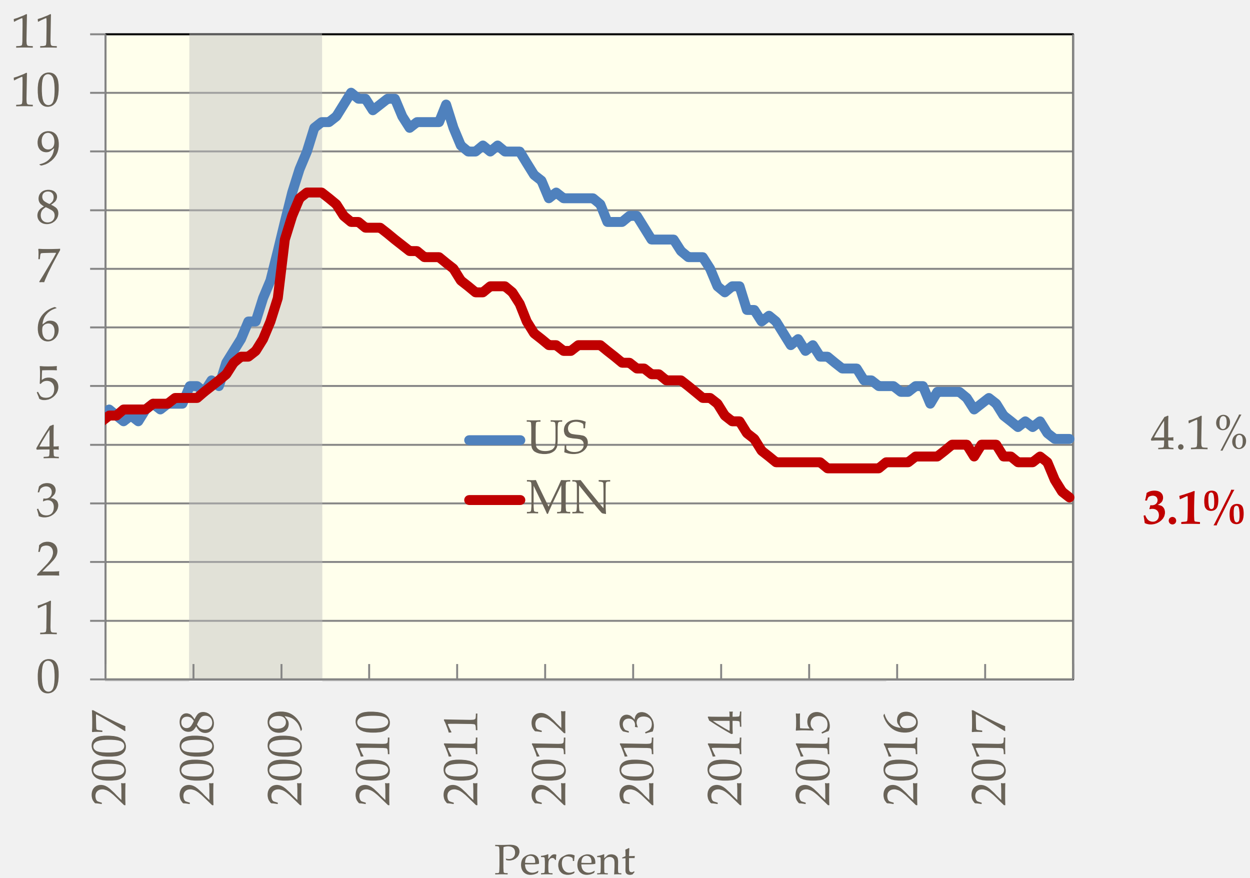
Minnesota's unemployment rate below prerecession levels

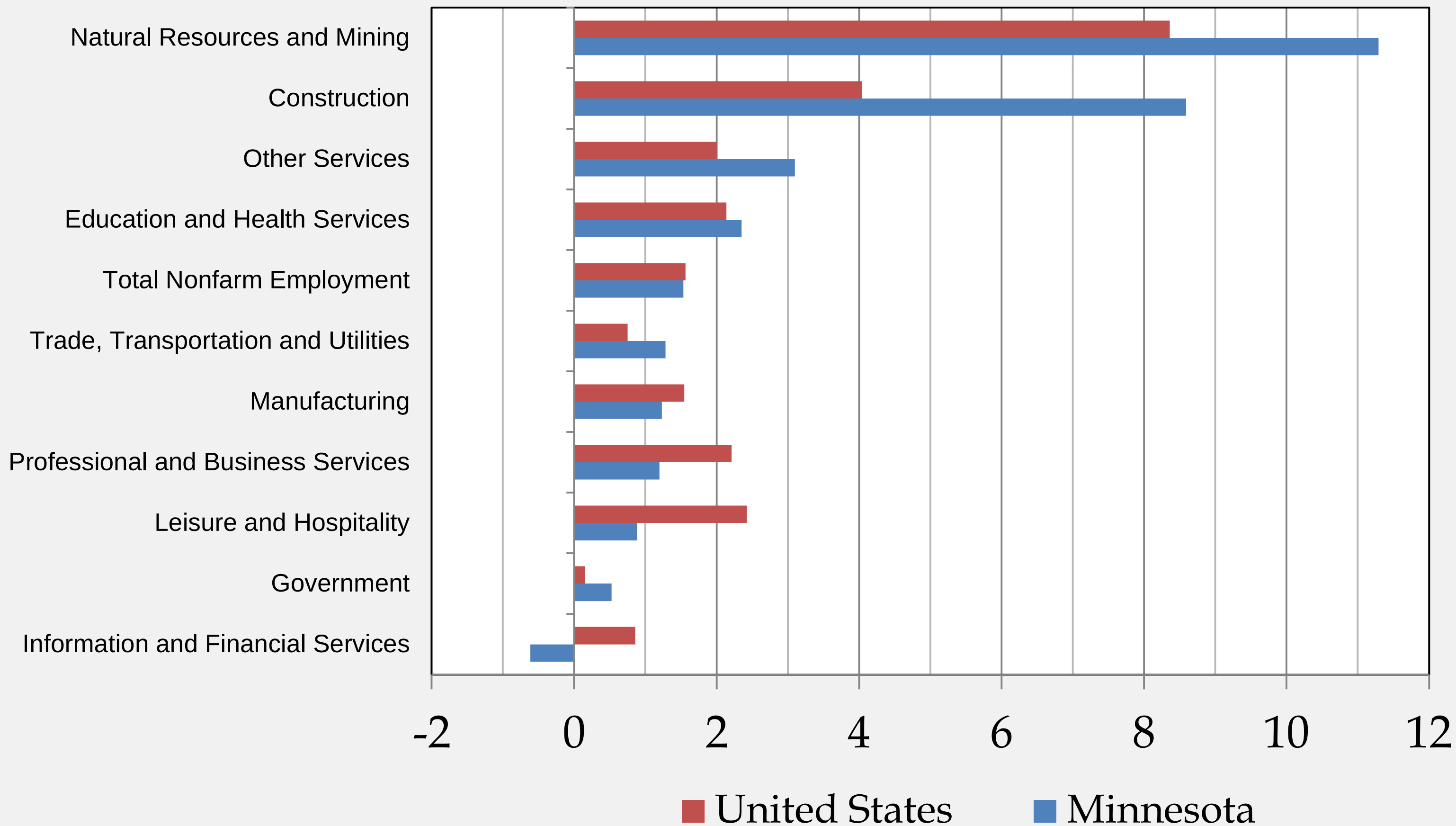
December 2017



Source: Bureau of Labor Statistics

Minnesota employment gains in most sectors, Roughly similar to U.S.

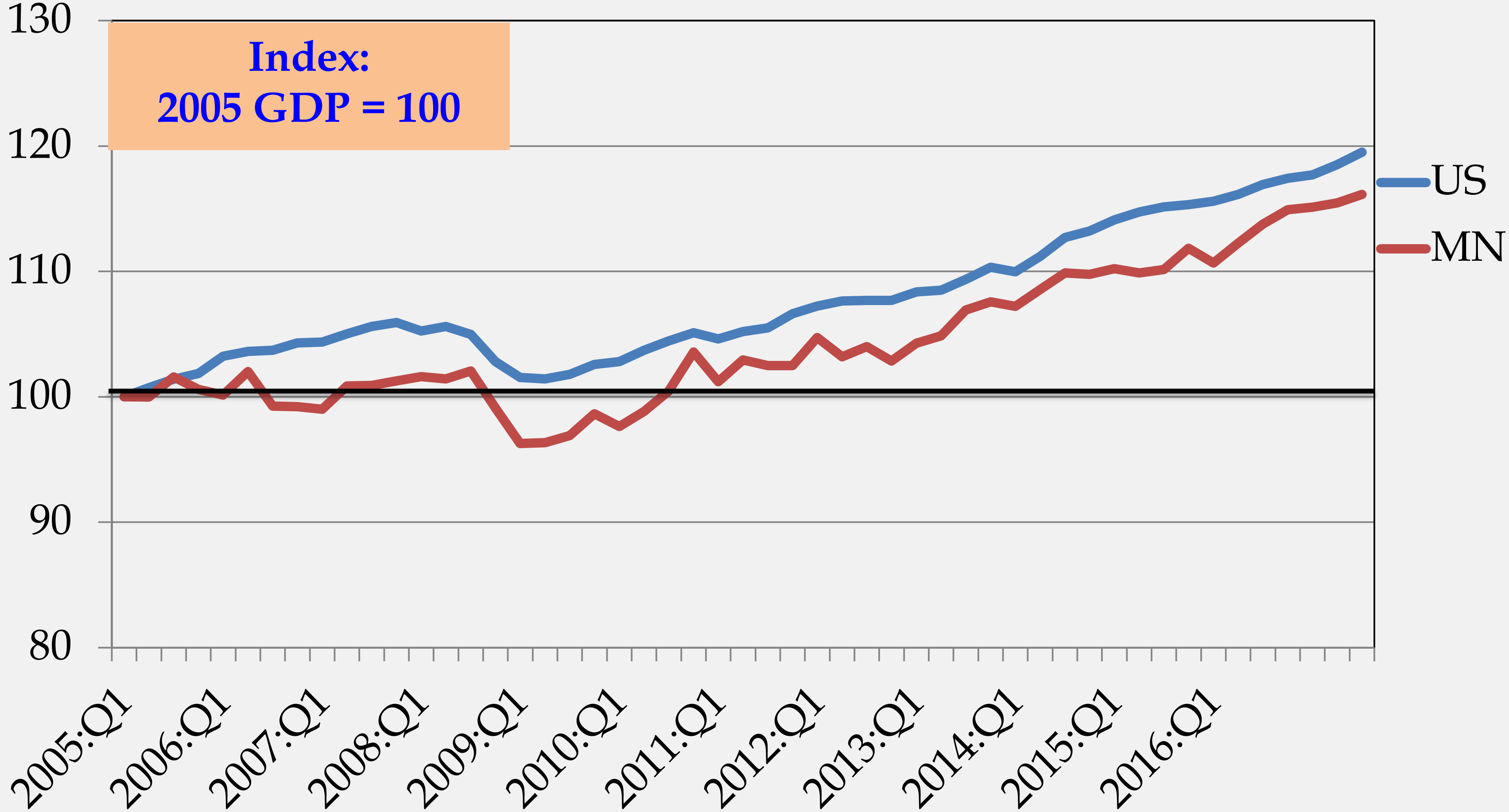
Nonfarm employment, percent change from a year earlier, December 2017



Source: Bureau of Labor Statistics

Index of real GDP: Minnesota vs. US

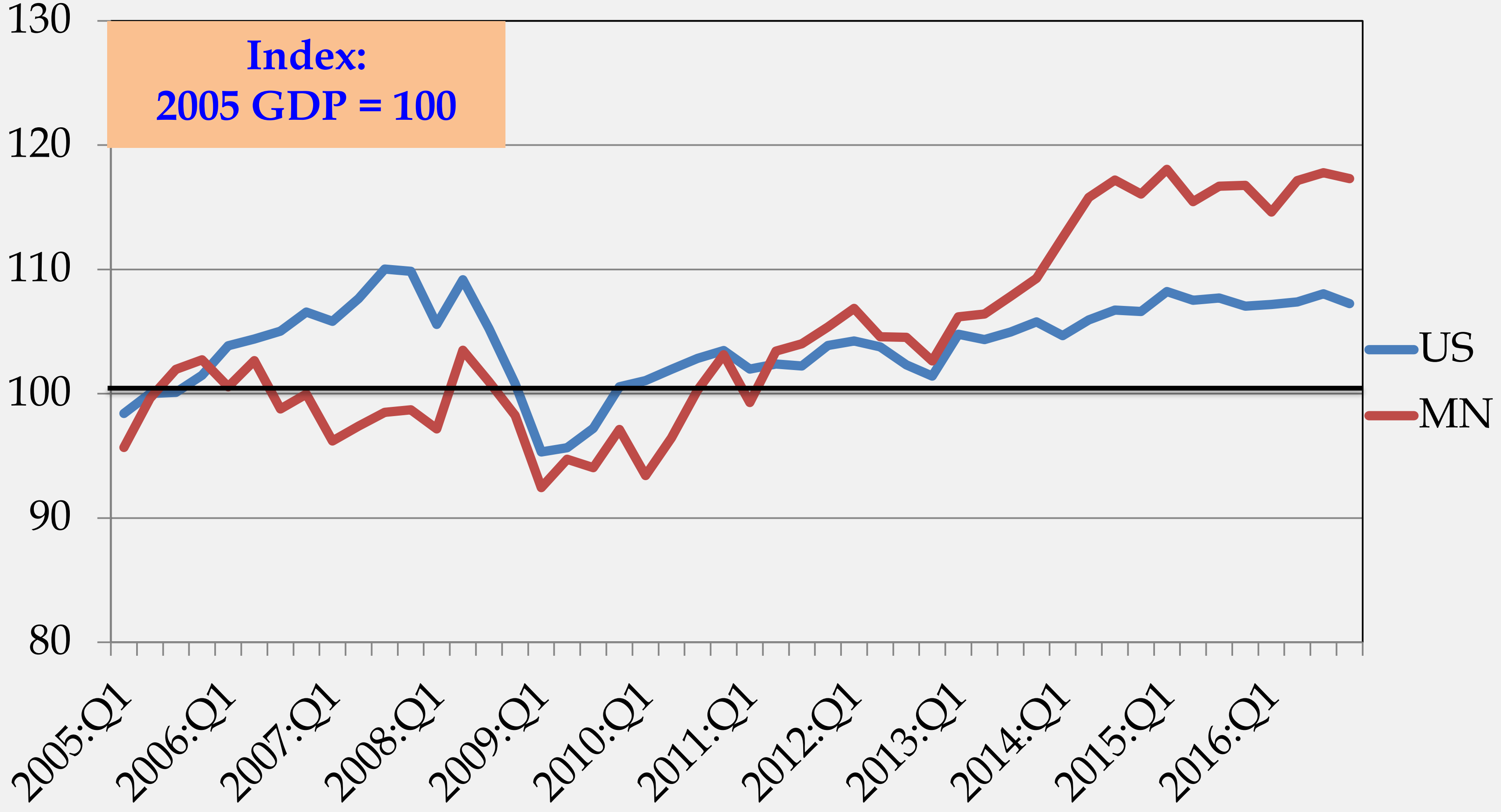
Slow overall; MN narrowed gap since recession



Source: Bureau of Economic Analysis

Index of real manufacturing GDP

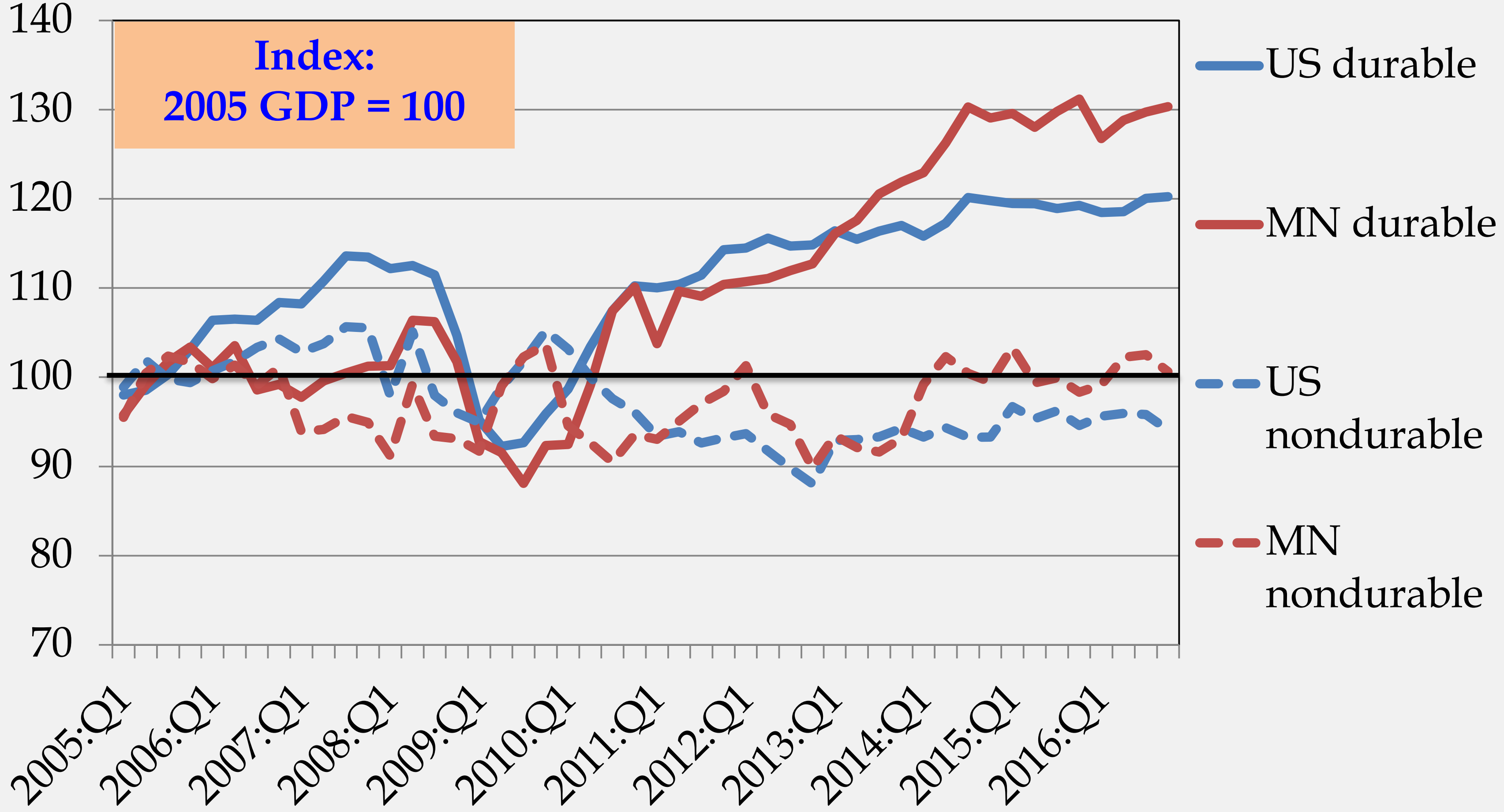
MN Manufacturing rising faster



Source: Bureau of Economic Analysis

Durable vs nondurable goods manufacturing

Both categories stronger in MN

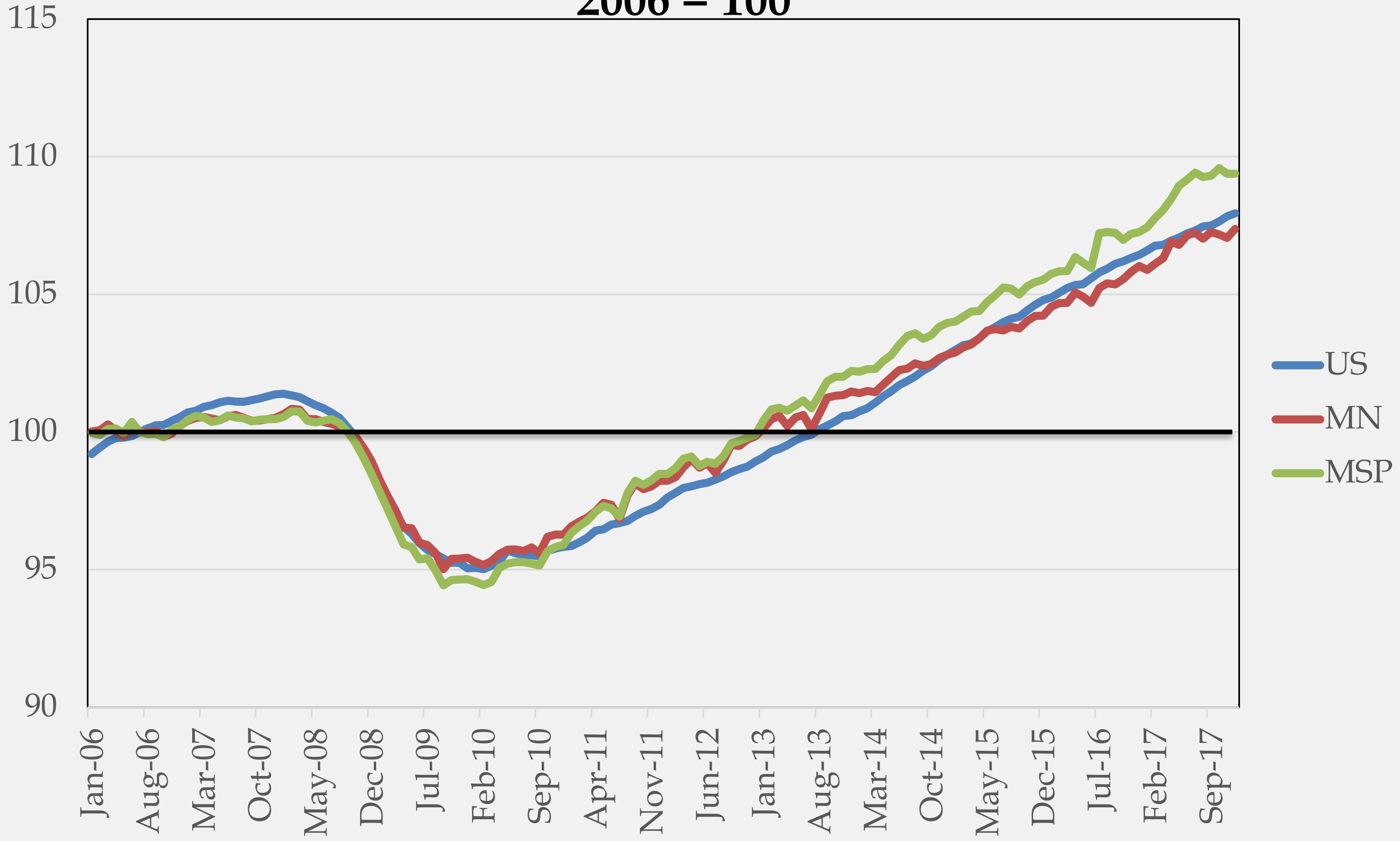


Source: Bureau of Economic Analysis

Employment index

Job growth stronger during recovery, slow overall

2006 = 100

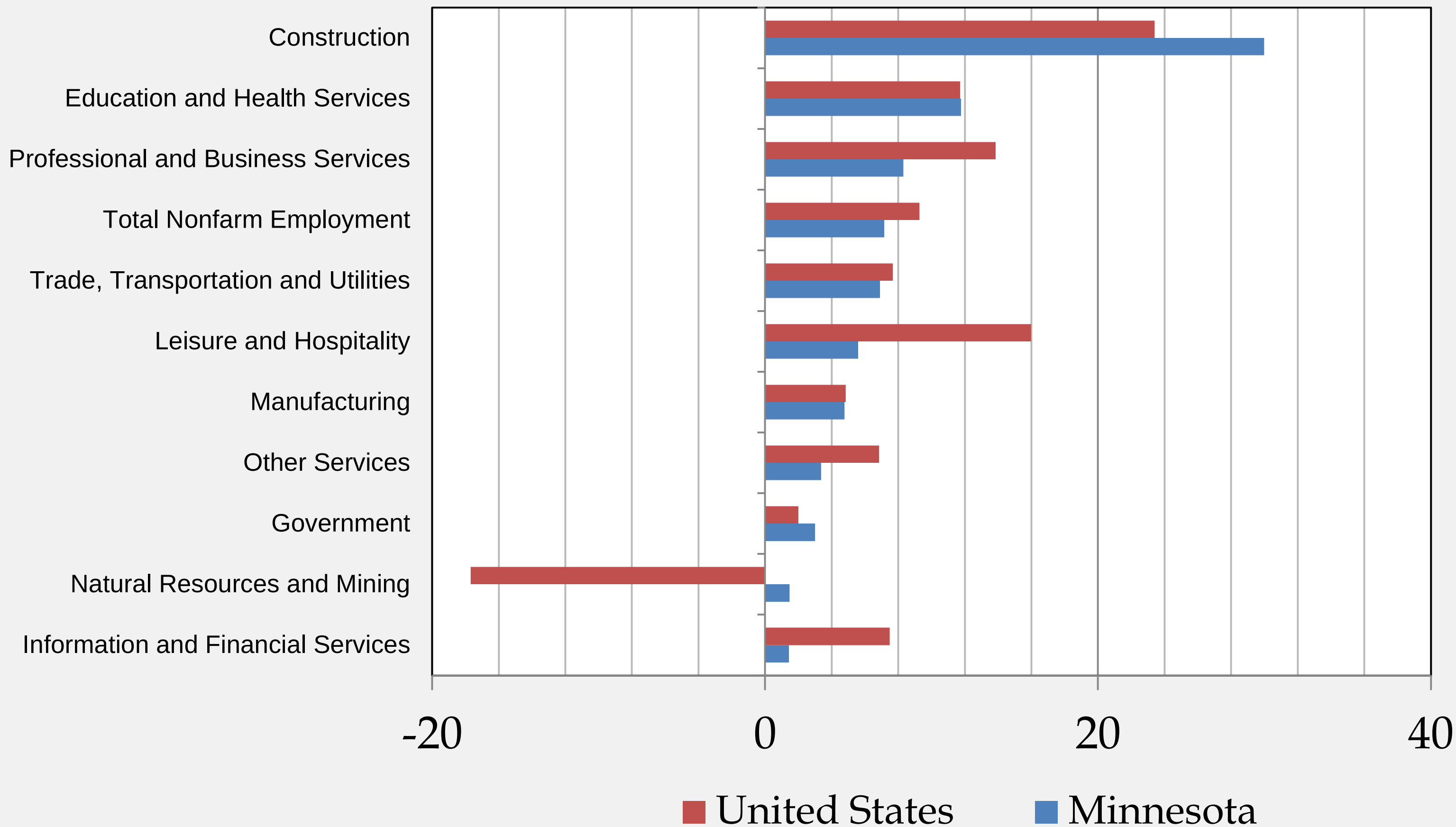


Source: Bureau of Labor Statistics

Employment by sector

In recovery, job growth widespread

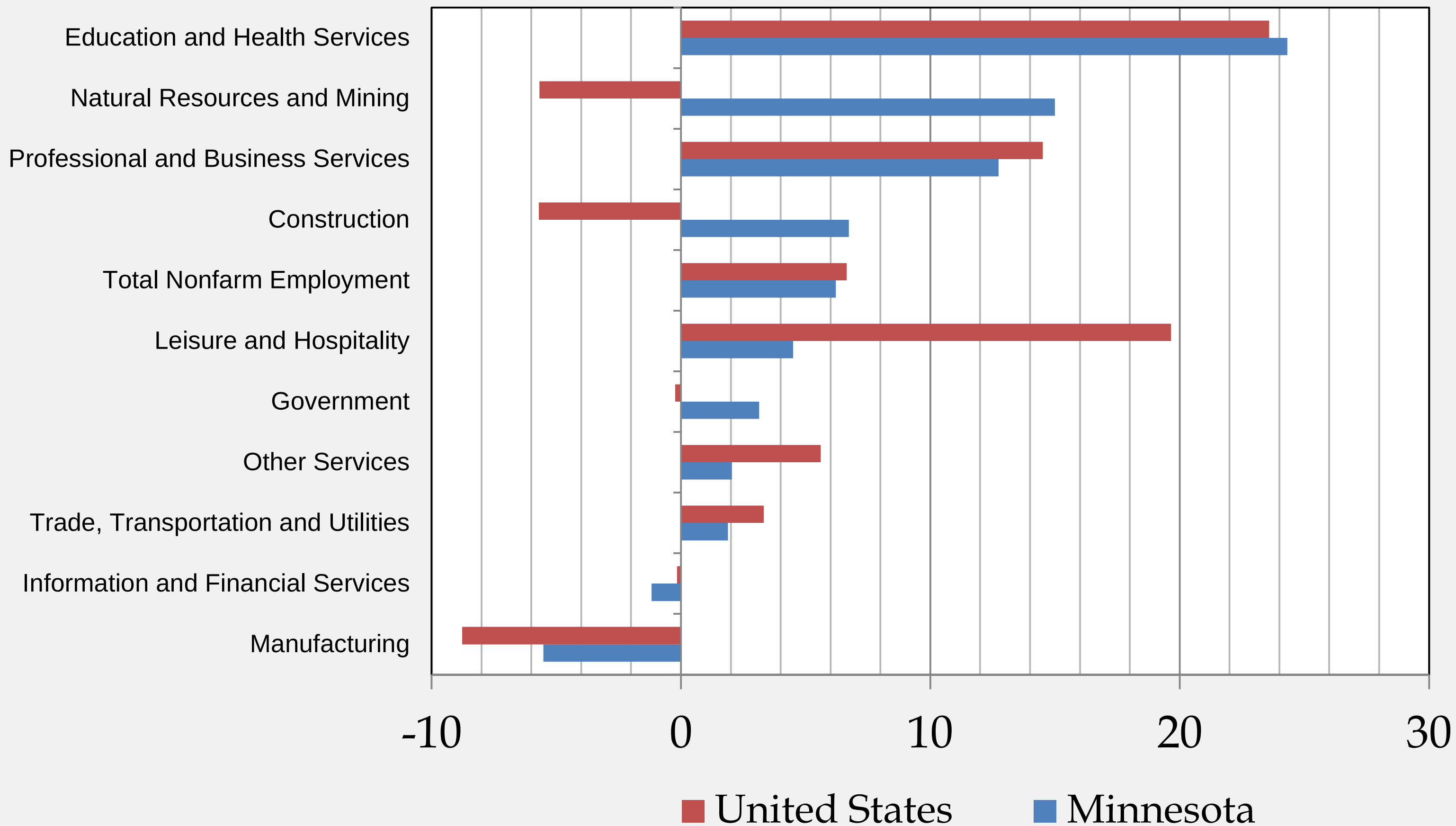
Percent change, December 2012 to December 2017



Source: Bureau of Labor Statistics, QCEW

Job growth, 2007 to 2017

Some sectors < pre-recession levels

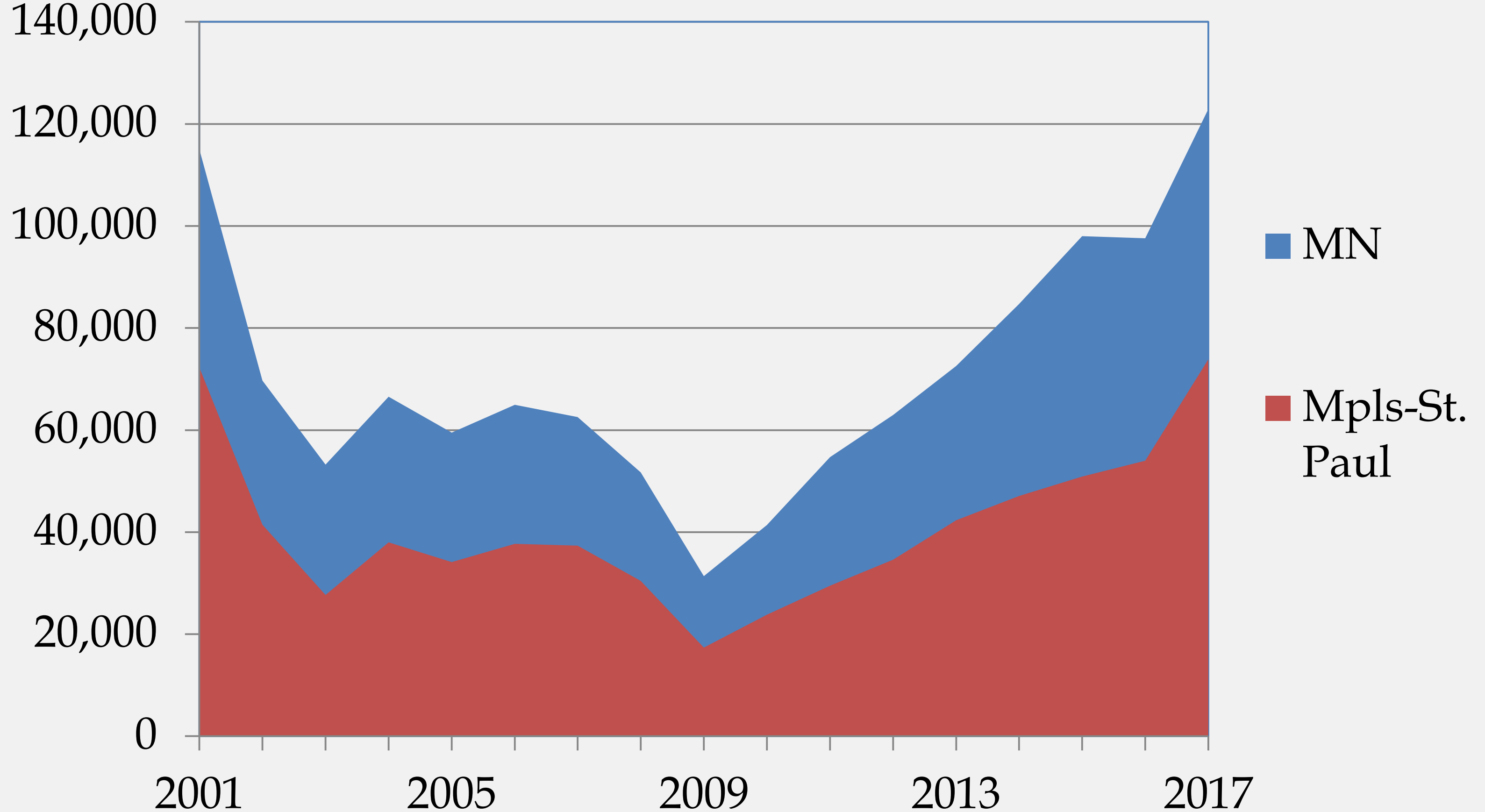


Source: Bureau of Labor Statistics, QCEW

Job demand is up

Employer job vacancies are high

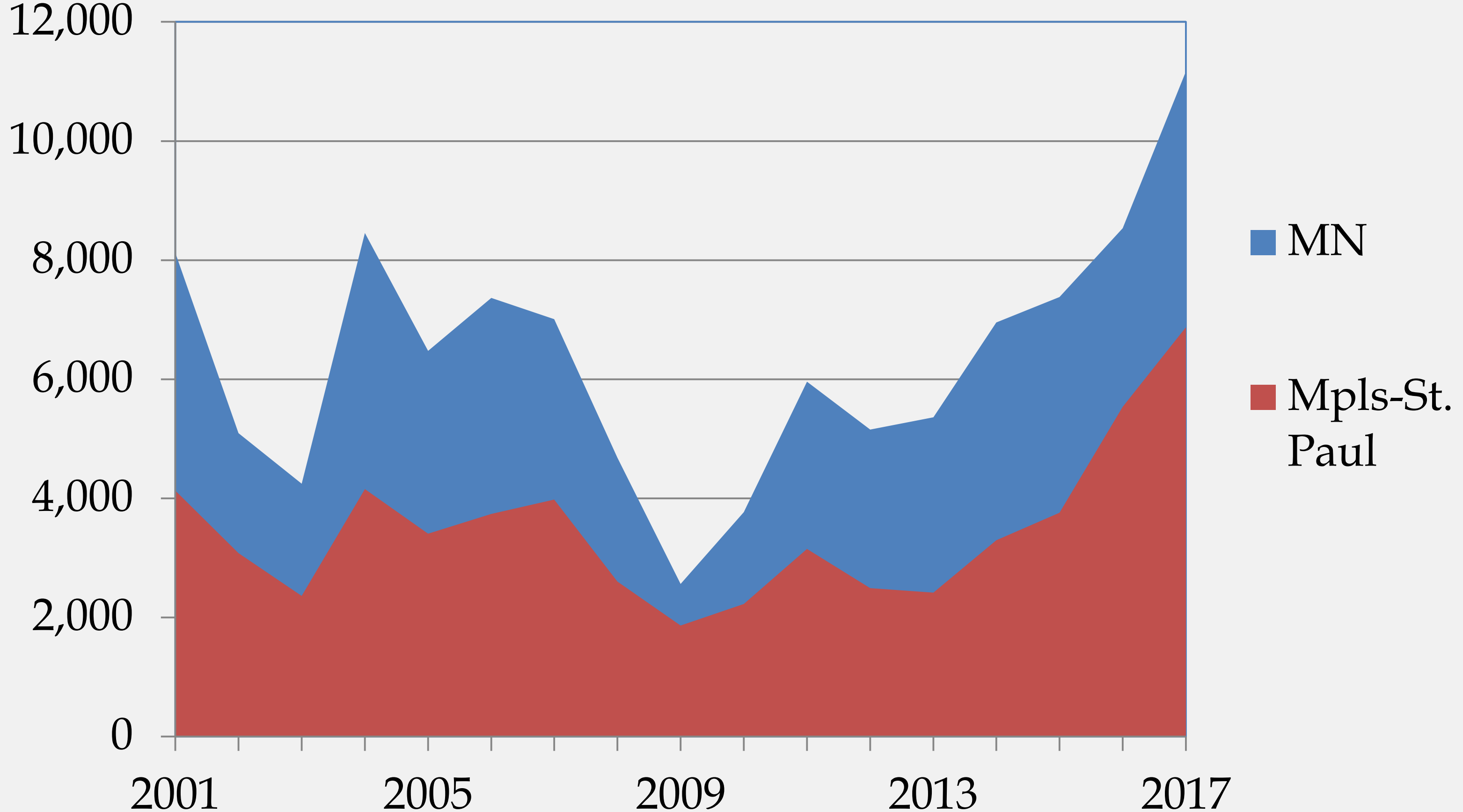
Annual, 2nd quarter



Source: Minnesota Dept. of Employment an Economic Development

Manufacturing vacancies surging

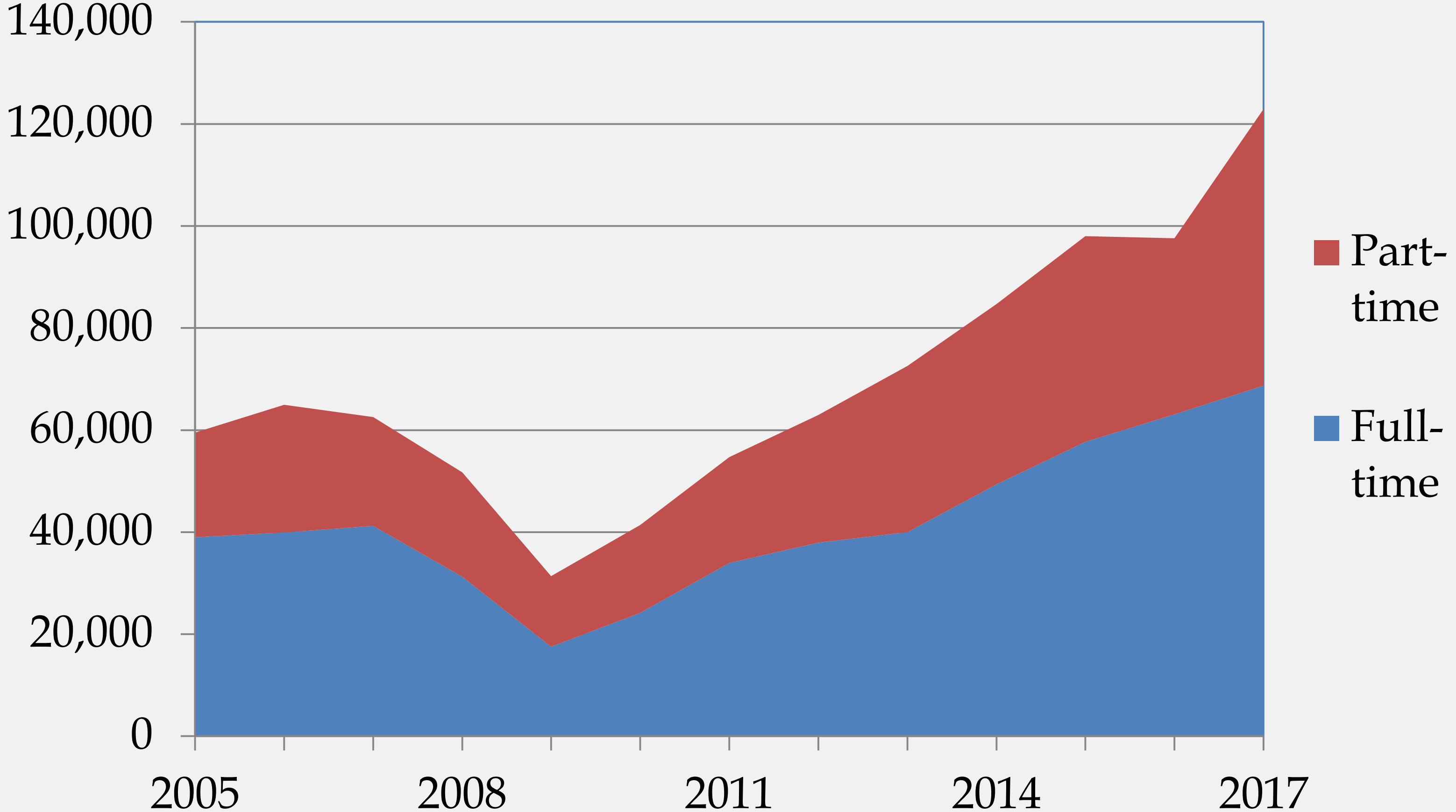
Annual, 2nd quarter



Source: Minnesota Dept. of Employment an Economic Development

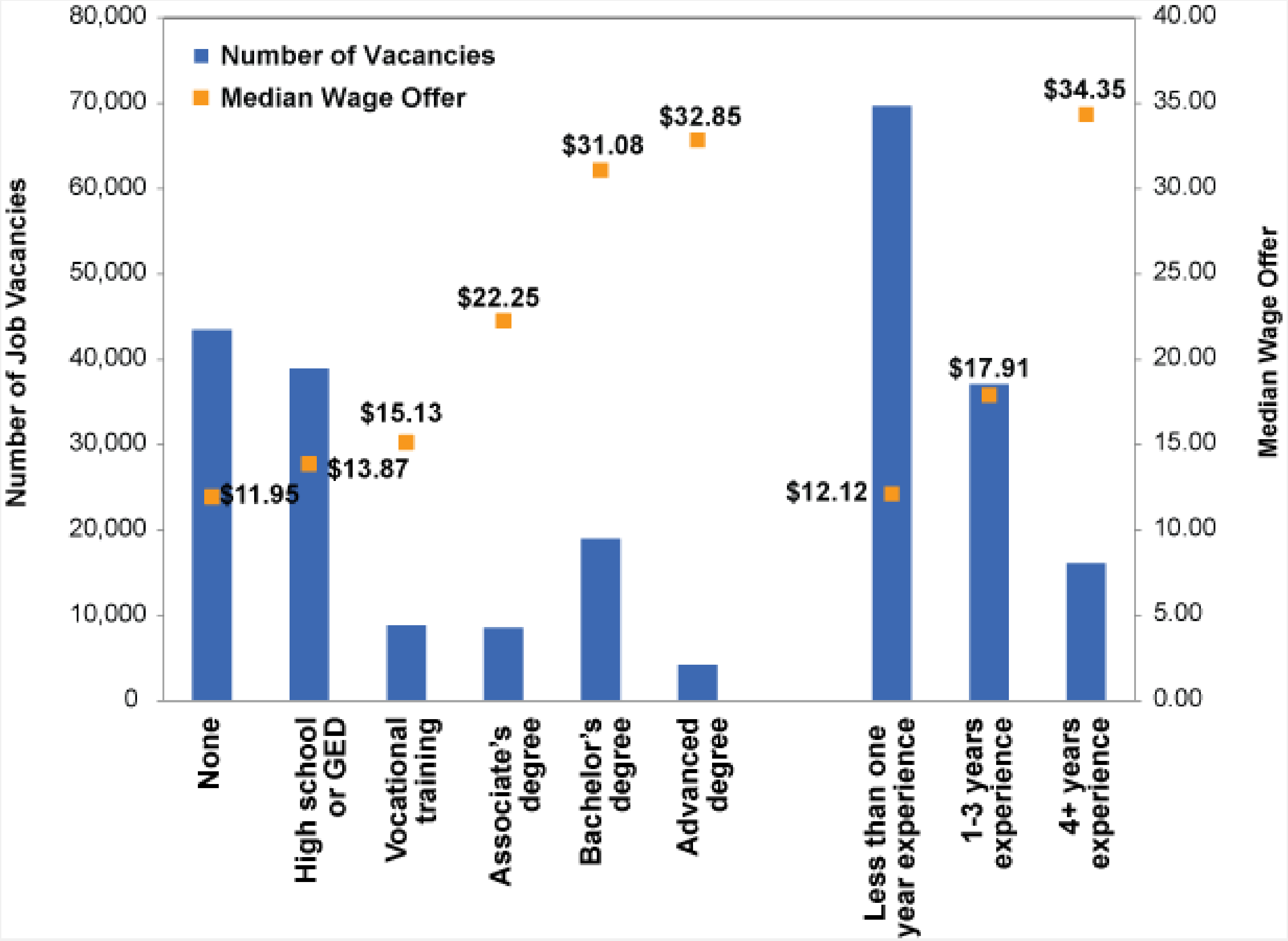
Part-time job vacancies growing

Annual, 2nd quarter



Source: Minnesota Dept. of Employment an Economic Development

More jobs in lower-paying fields



Source: Minnesota Dept. of Employment an Economic Development

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Overall … very low unemployment …

… strong hiring *demand*

= *slow* job growth?

What's going on?

Look for clues in labor supply

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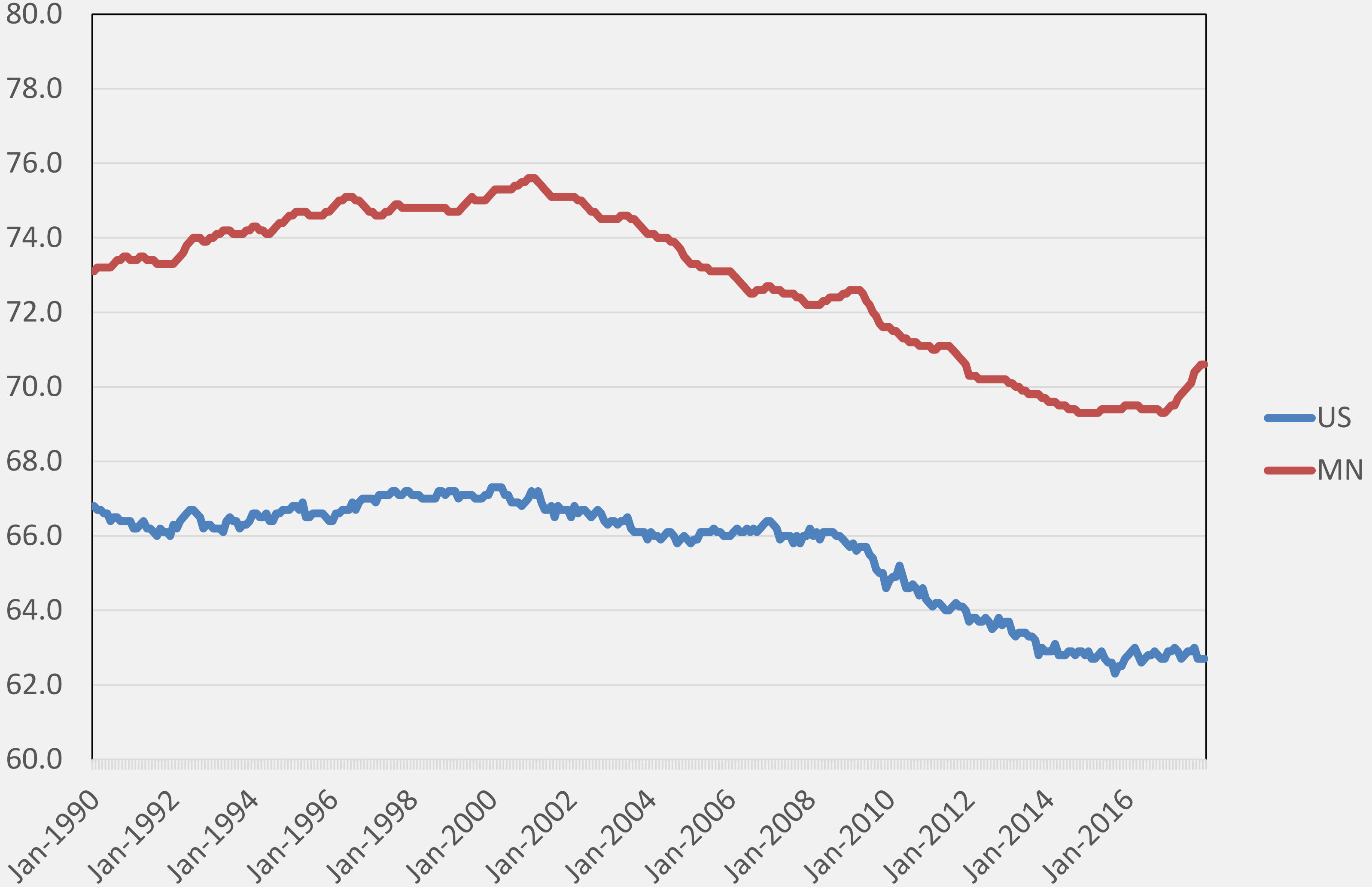
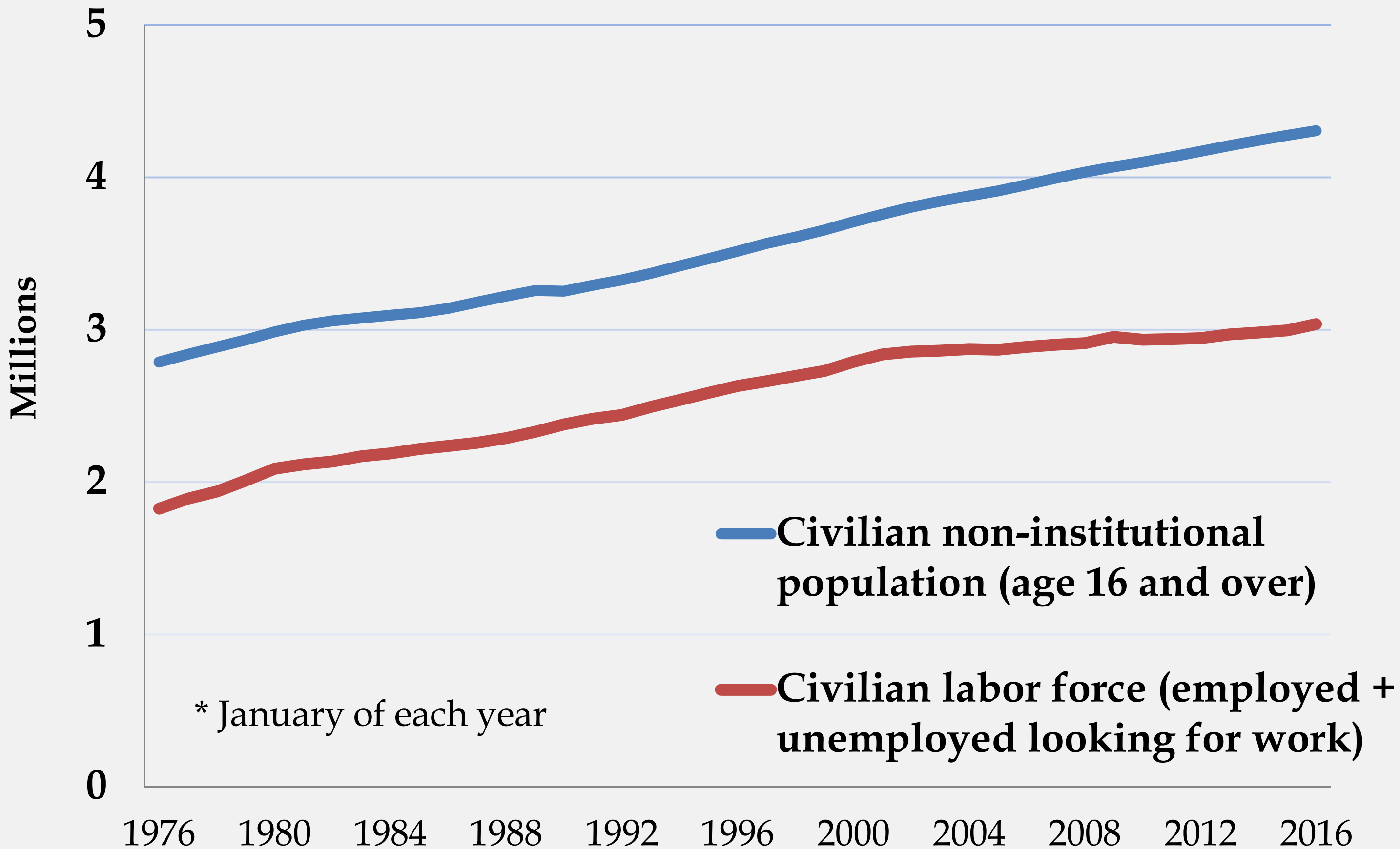
Labor force participation rate

Minnesota rate rebounds, finally



Source: Bureau of Labor Statistics

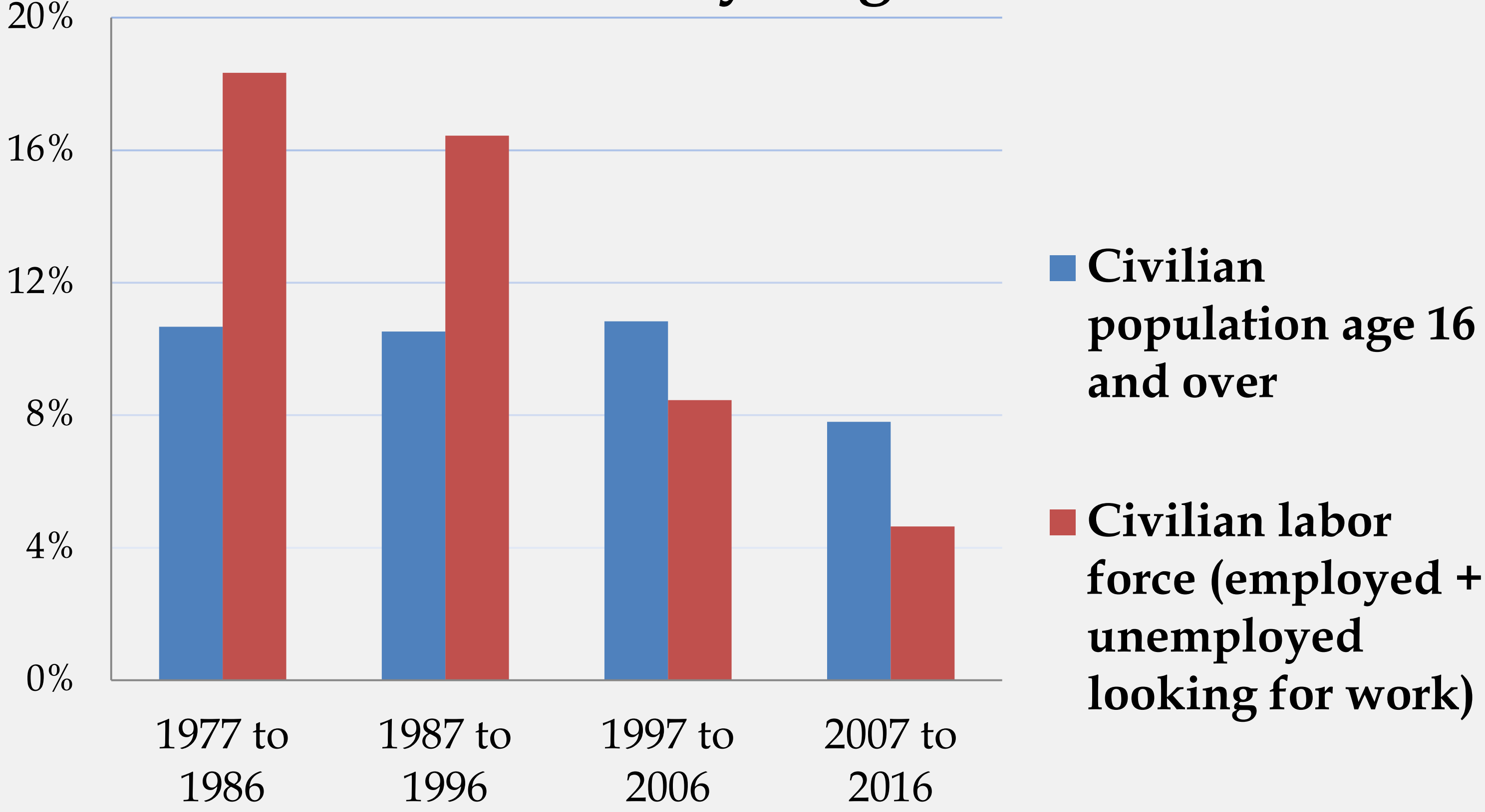
Minnesota's population and (esp.) labor force growth are slowing



Source: Bureau of Labor Statistics

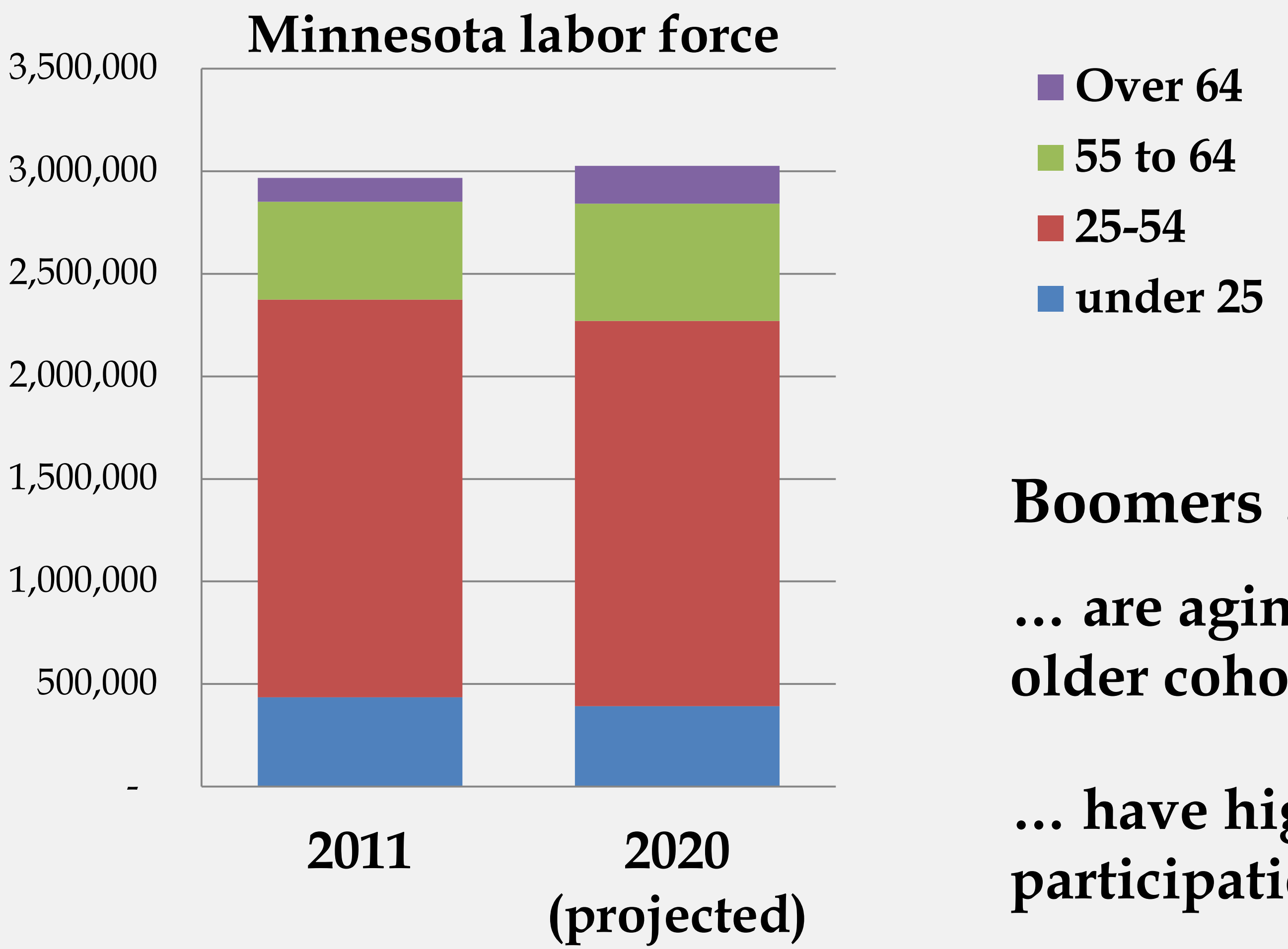
Slowing, decade by decade

Minnesota 10-year growth rates



Source: Bureau of Labor Statistics; U.S. Census

Labor growth from older workers



Boomers …

… are aging into older cohort groups

… have higher labor participation rate

Source: Minnesota State Demographic Center

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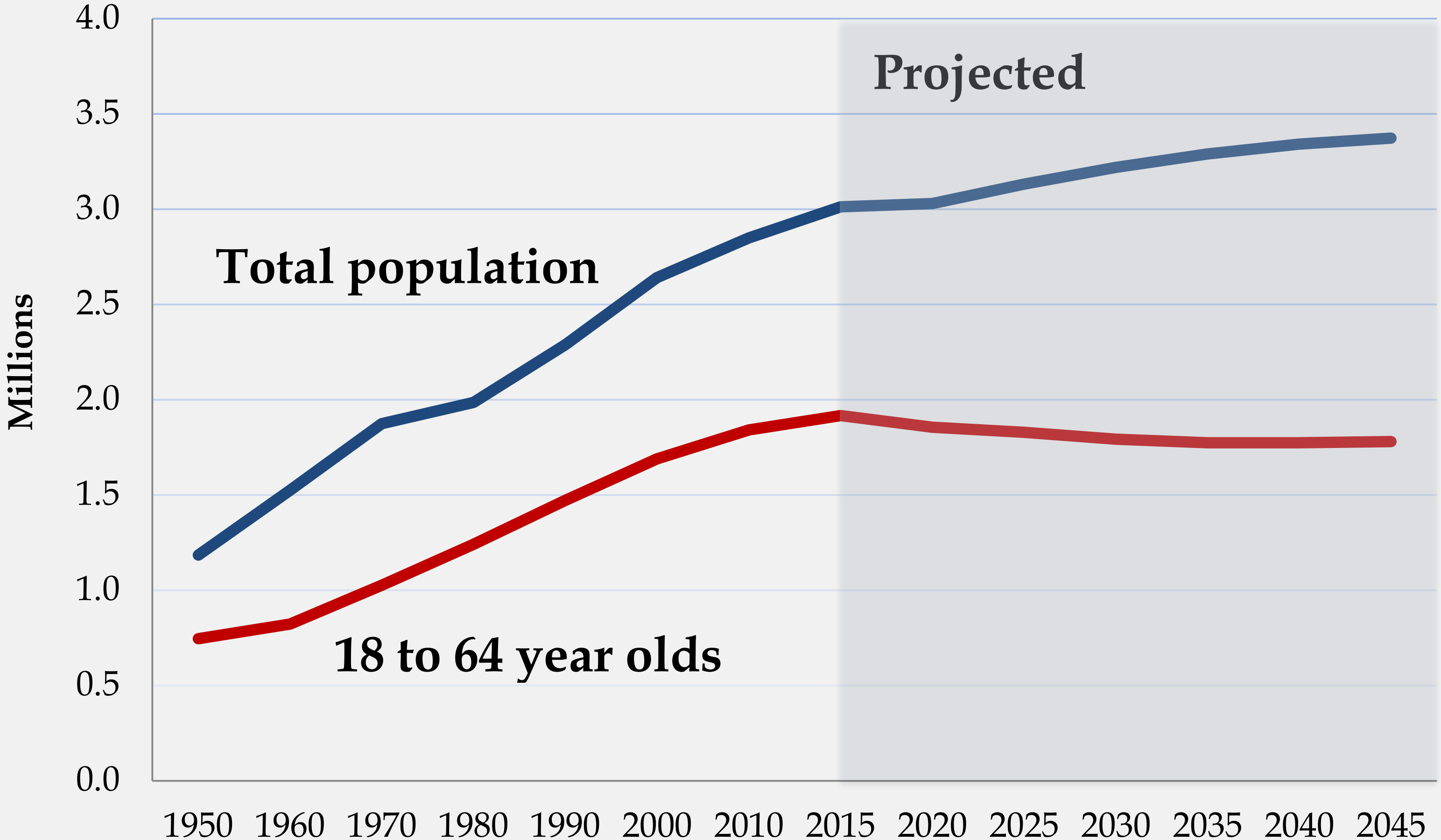
Twin Cities workforce

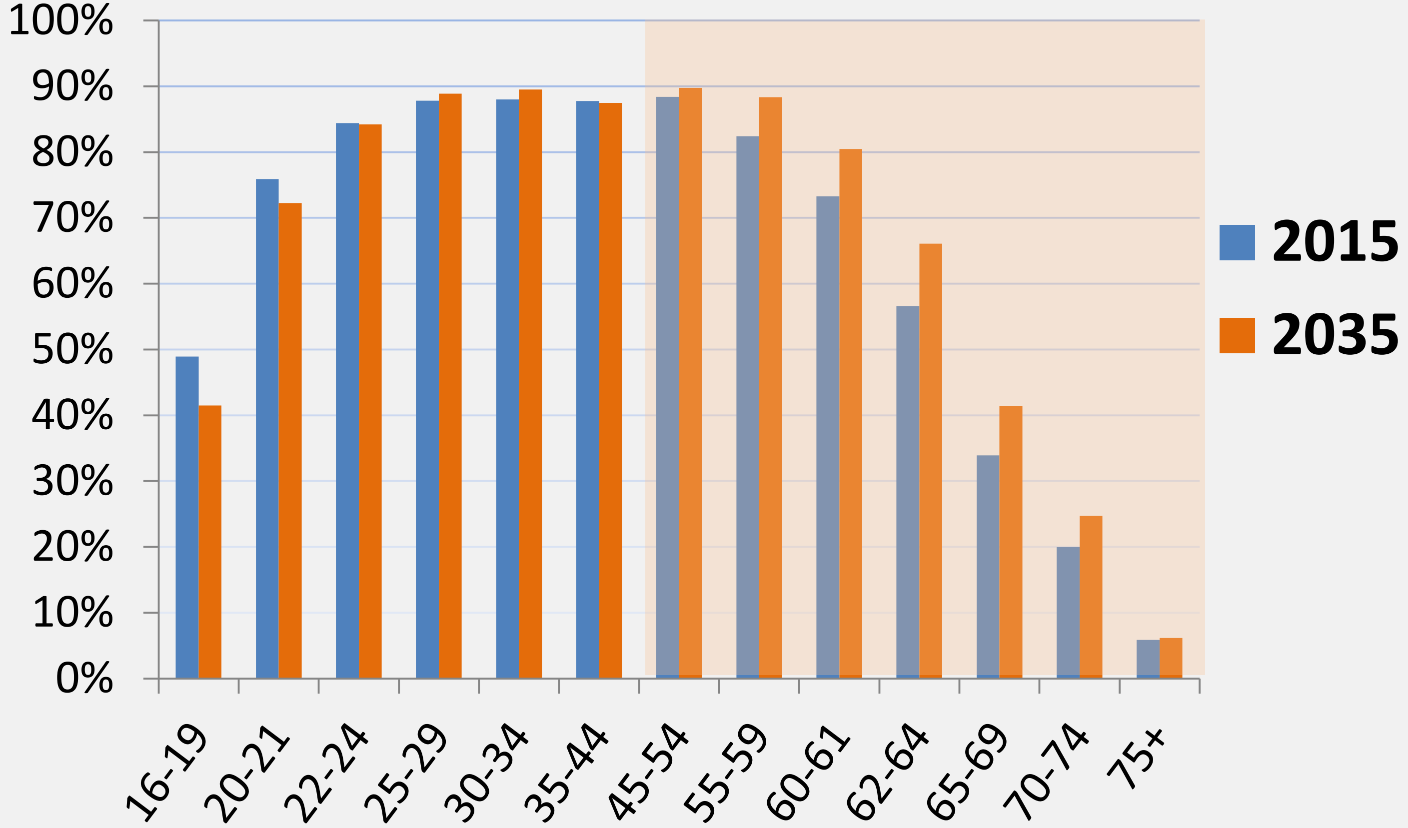
More people, not more workers



Source: Minnesota Compass

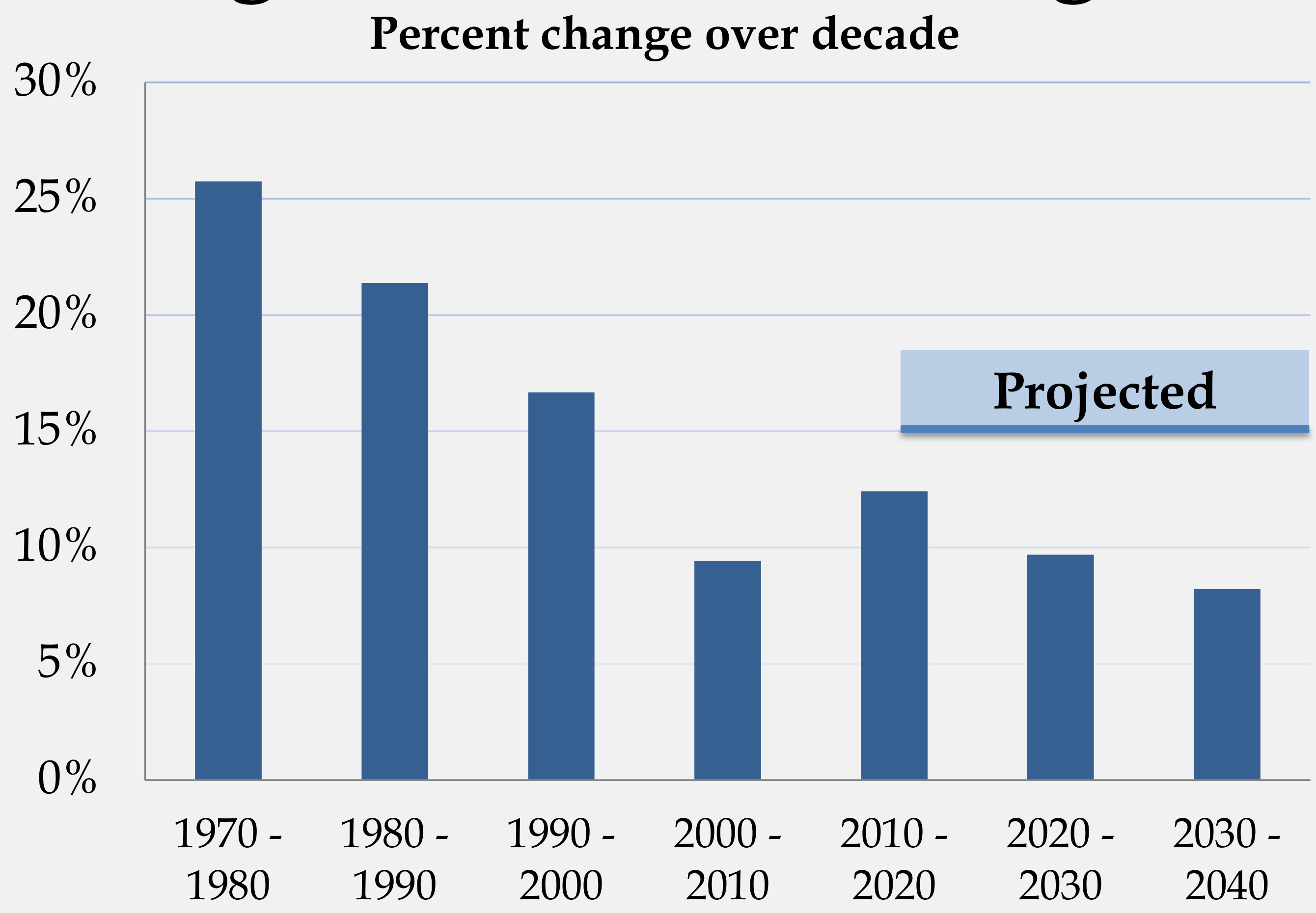
Participation growth expected mostly among older workers

Labor participation by age, 2015 vs. 2035



Source: Minnesota State Demographic Center

Twin Cities household growth also slowing



Source: Metropolitan Council

What's <u>your</u> outlook for the Minnesota economy?

The Minneapolis Fed wants to know!

Industry contacts – YOU – inform us about current economic conditions.

If interested …

- **Give me a card before you leave**
- **Send me an email:**

Joseph.mahon@mpls.frb.org

Thank you!

Questions?

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