

# Minnesota's Economic Outlook

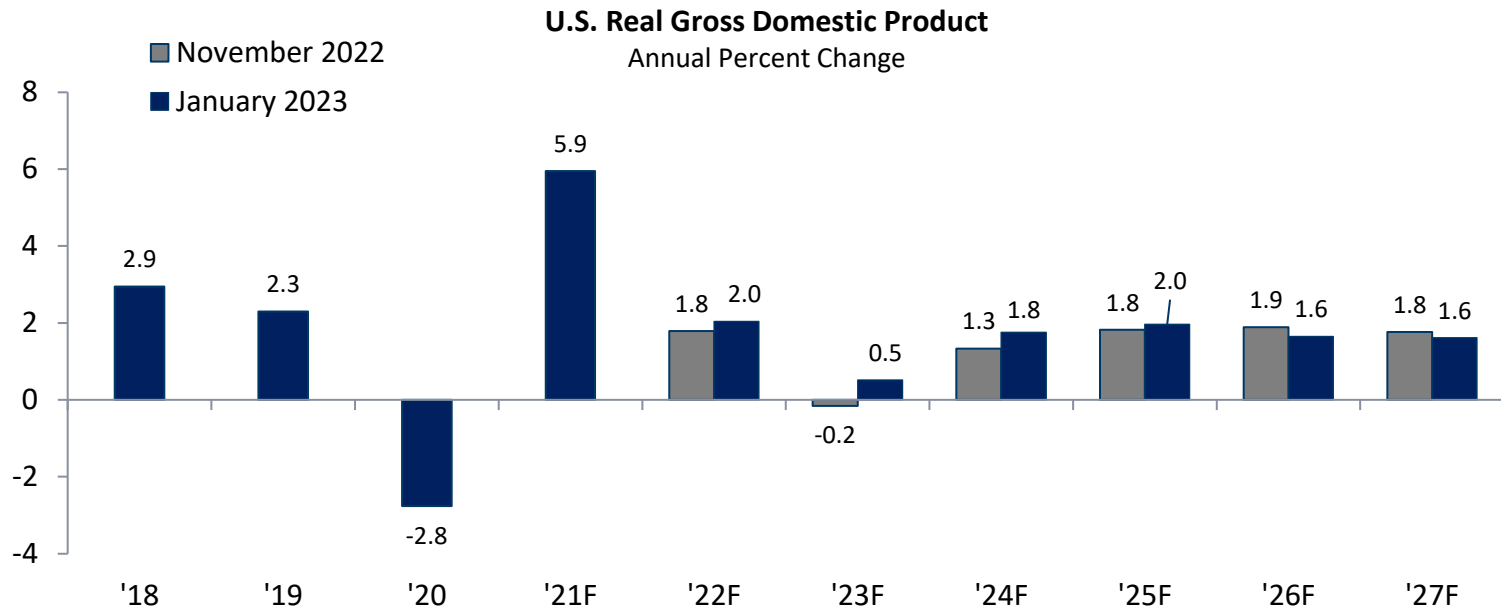
Presented by

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To The City Engineers Association of Minnesota

January 25, 2023

# Mild, investment-driven recession in U.S. economic outlook

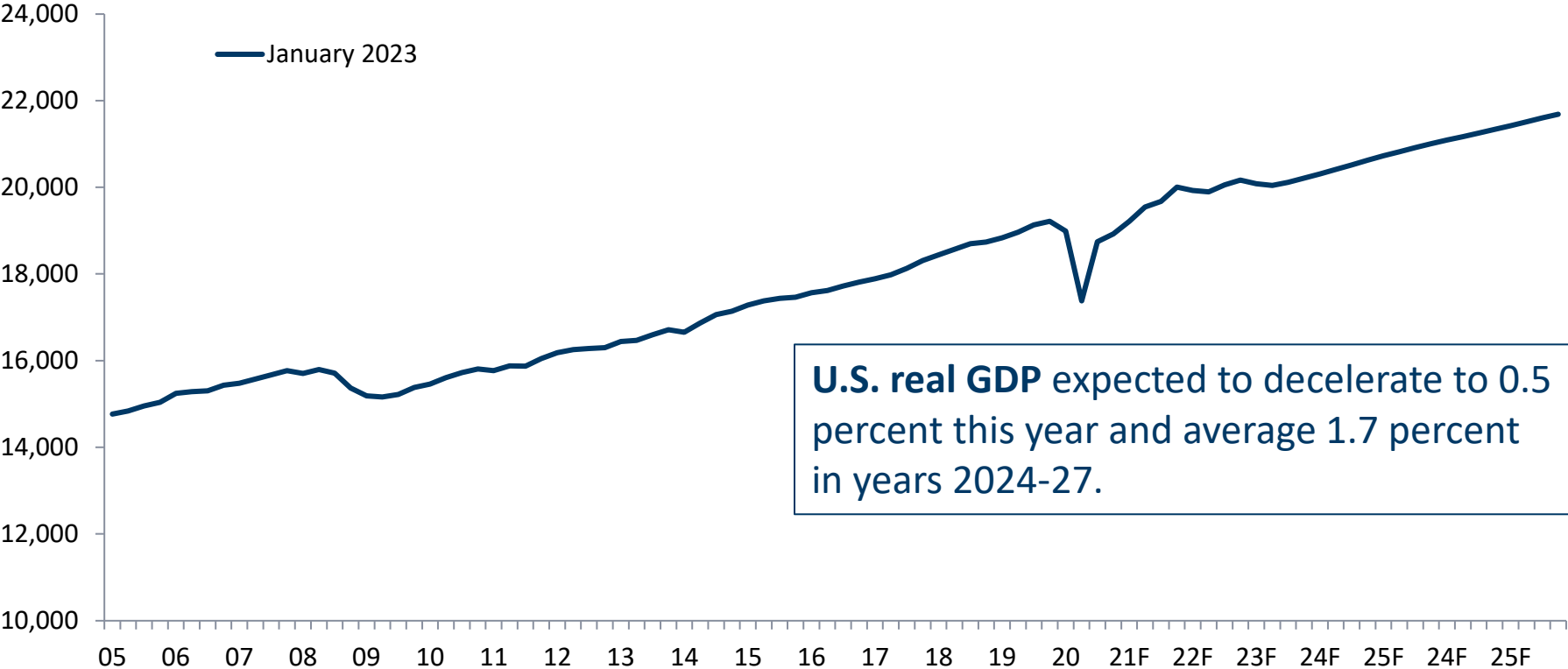


Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

The outlook for U.S. real GDP growth has improved since November. The forecast still includes a mild recession in the first half of 2023, but the starting point is now the first quarter of 2023, compared to the fourth quarter of 2022 in the November outlook. The recession arises as tighter financial conditions are expected to weaken investment in interest rate-sensitive sectors (such as housing). Annual real GDP growth is forecast to average only 1.7 percent in years 2024-27.

# Mild, investment-driven recession in U.S. economic outlook

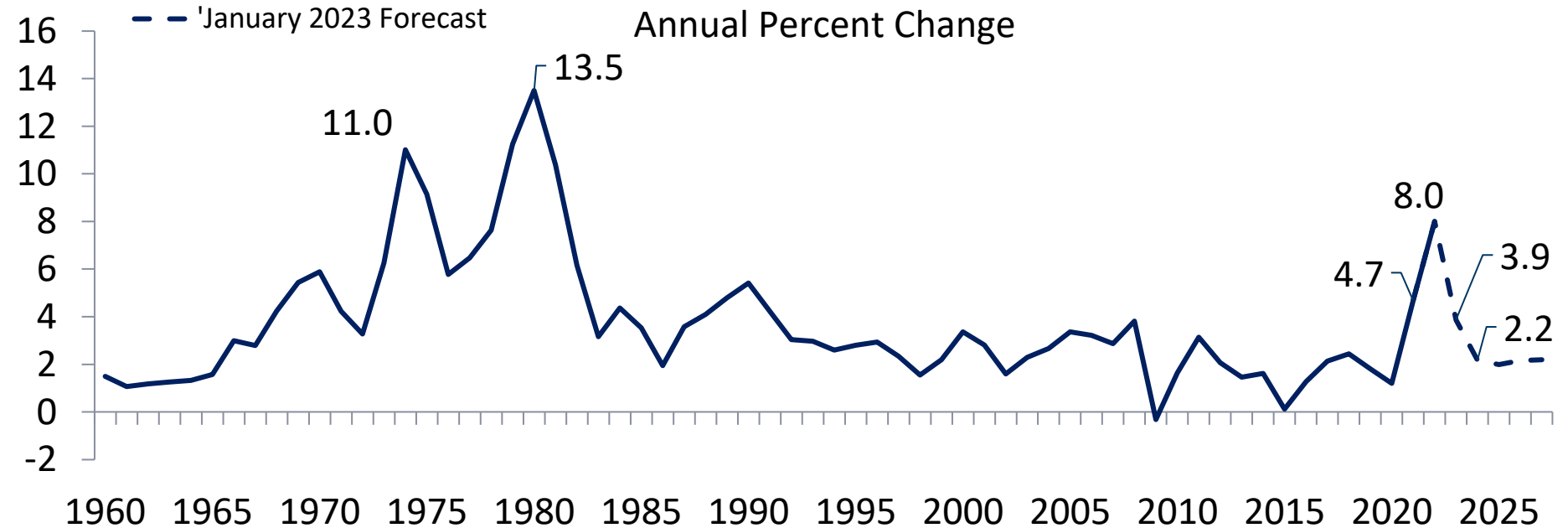
**U.S. Real Gross Domestic Product**  
(Billions, chained U.S. Dollars 2012)



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

# Inflation expected to settle beyond 2023

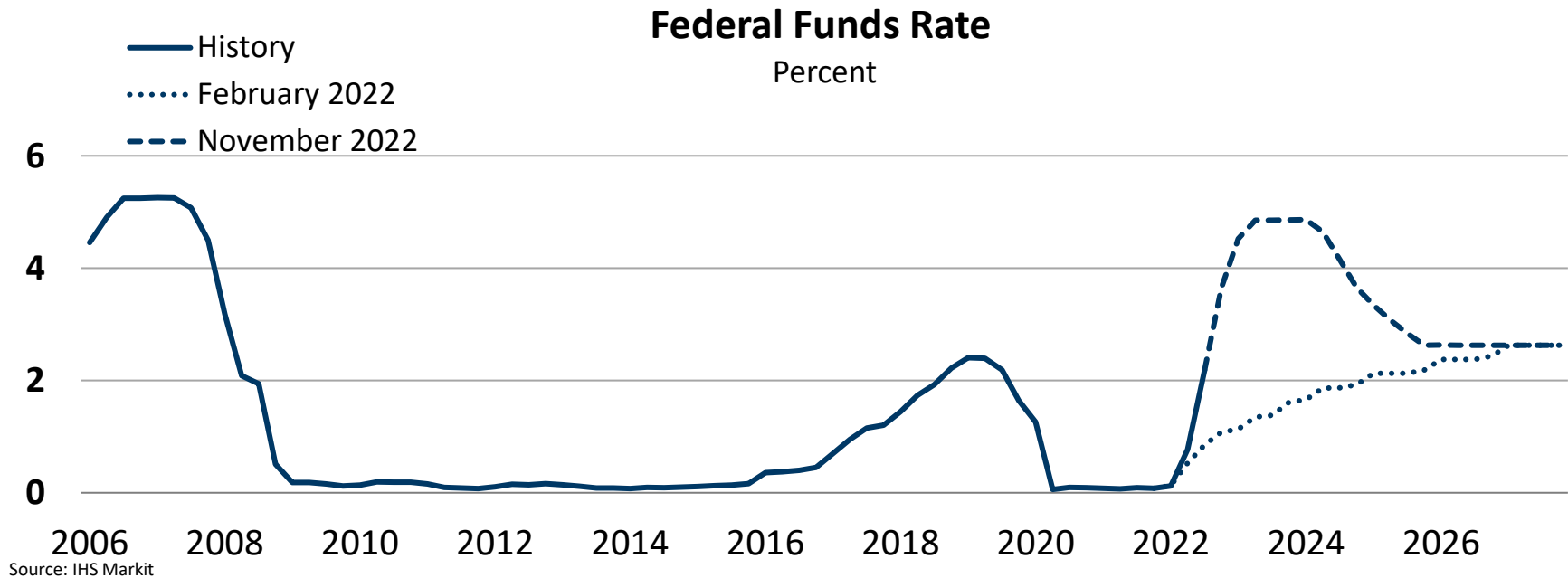
**Consumer Price Index**  
Annual Percent Change



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

Higher prices, including for food and rent, drove inflation to 8.0 percent in 2022. IHS expects slowing demand, supply-chain normalization, and the eventual softening of labor market conditions to slow inflation. They forecast CPI inflation to fall to 3.9 percent in 2023 and further to 2.2 percent in 2024. Inflation averages 2.2 percent per year in 2025-2027.

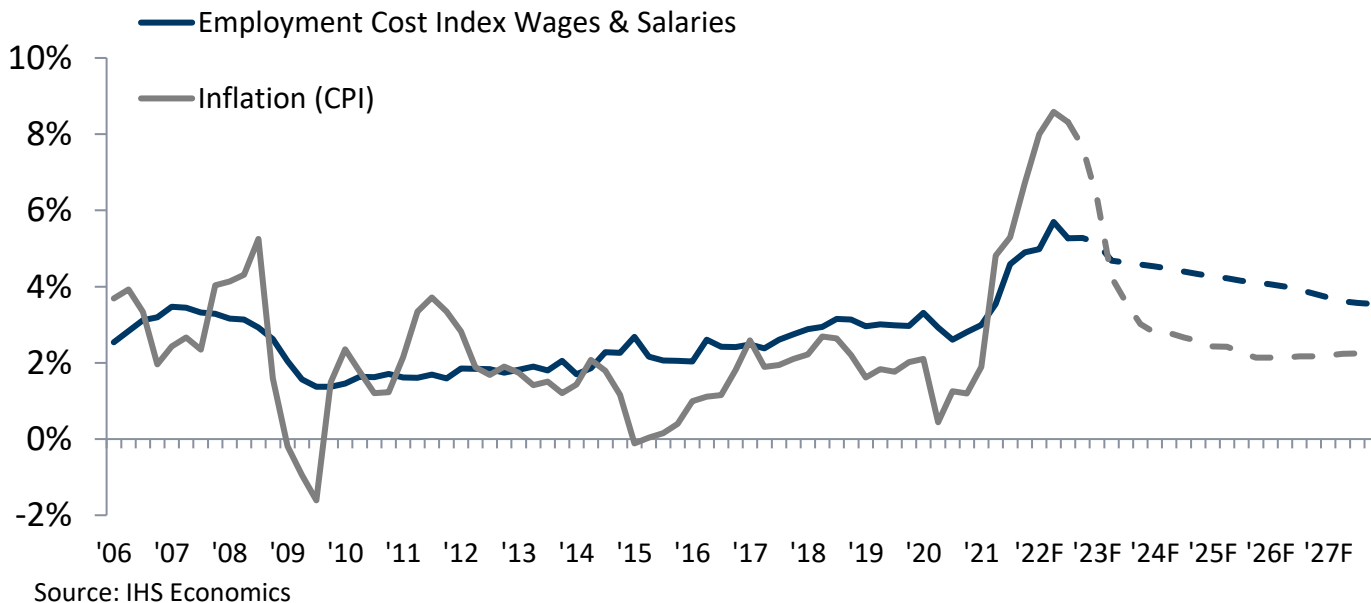
# Fed action on interest rates accelerated



In response to higher inflation, the Federal Reserve raised their policy rate seven times in 2023. IHS now expects the Fed to raise the federal funds rate to just below 5.0 percent by March 2023 and reverse course in the spring of 2024. In the November 2022 forecast, higher interest rates slow business and residential investment and raise the return on Minnesota's general fund cash balances.

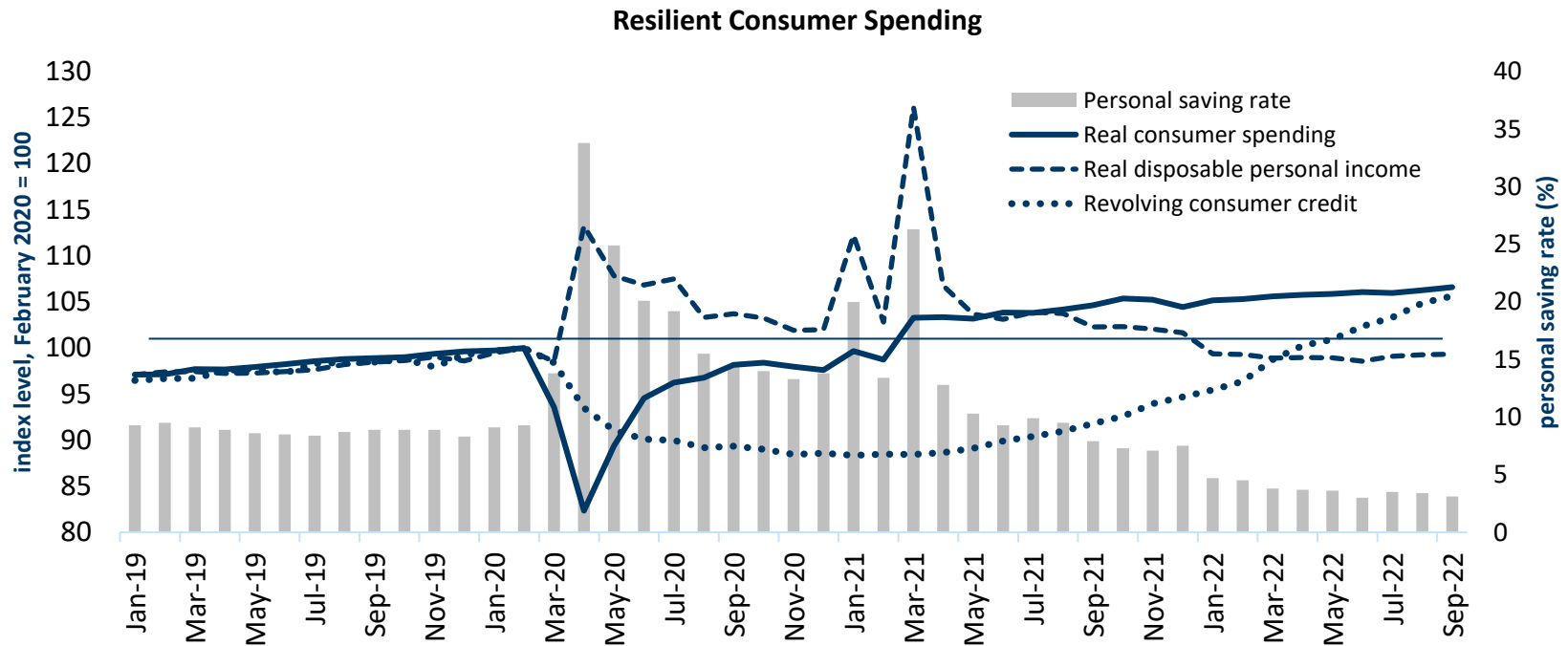
# Nominal wage growth does not outpace inflation until mid-2023

U.S. Employment Cost Index and Inflation  
Year-Over-Year Percent Change



The growth in prices as measured by the CPI has exceeded the growth in wages as measured by the ECI for the past six quarters. This suggests that by these two measures, while nominal wage growth has been strong, it has not outpaced inflation. However, IHS expects this trend will reverse and wages will again grow faster than inflation beginning in the second quarter of 2023.

# Consumer spending has been resilient



Source: U.S. Bureau of Economic Analysis (BEA), Federal Reserve

Real consumer spending grew 2.1 percent over the first nine months of 2022, despite the fact that real disposable income had decreased 2.3 percent. Revolving consumer credit increased 11.6 percent in 2022. The personal saving rate averaged 3.7 percent in 2022 after averaging an extraordinarily high 11.8 percent in 2021.

# Minnesota's industry base

Minnesota's diverse industry base generally mirrors the U.S. and is a source of economic resilience.

- Minnesota's largest employment sector is Private Education and **Healthcare Services**. This sector is primarily (88 percent) health care services employment.
- Minnesota has a **larger share of employment than the U.S.** in Private Education and Healthcare Services, Manufacturing, Wholesale Trade, and Financial Activities.

Percent of Total Non-Farm Employment by Sector  
2021 Average

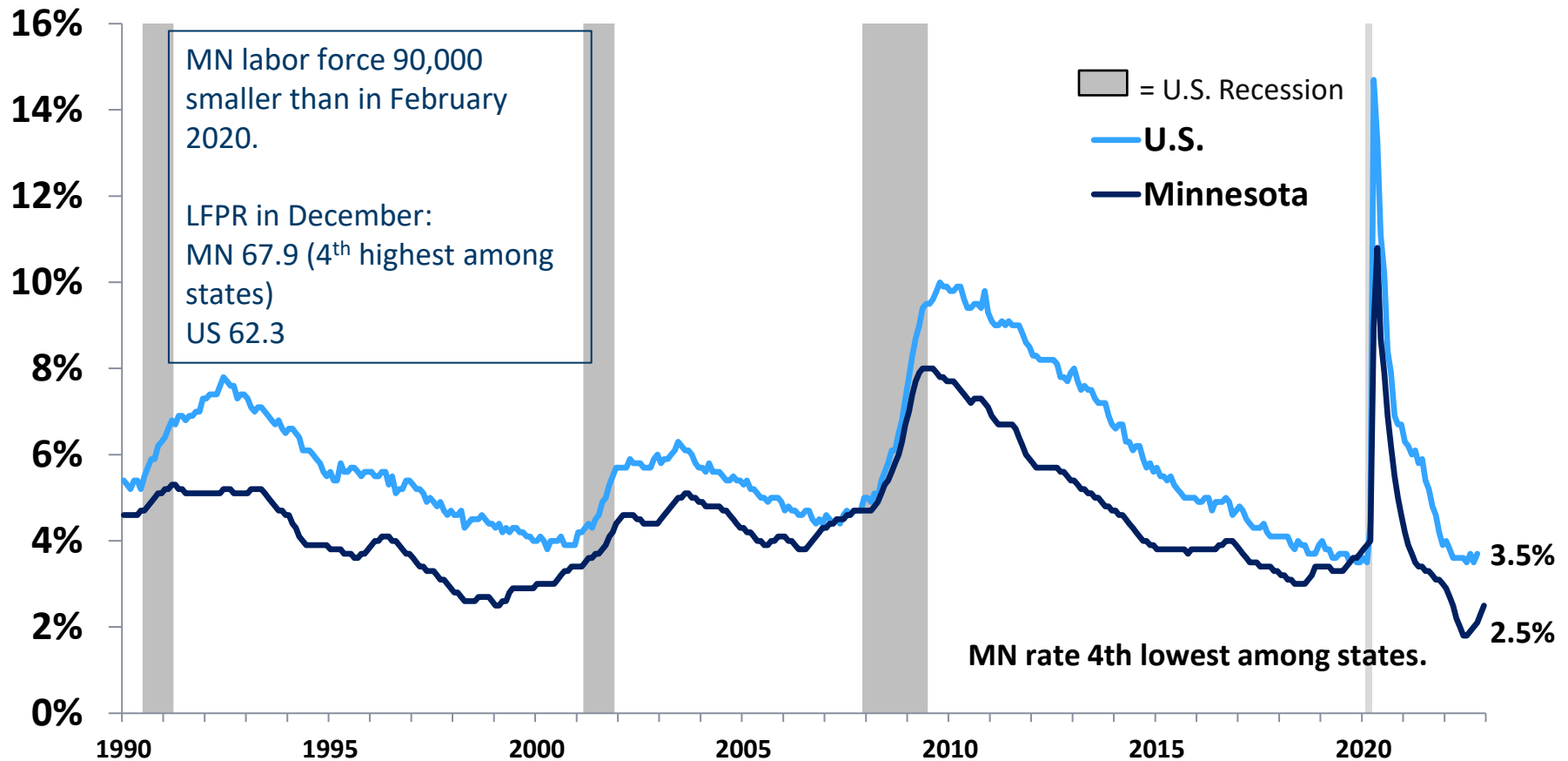




# Minnesota's labor market

## Unemployment Rate

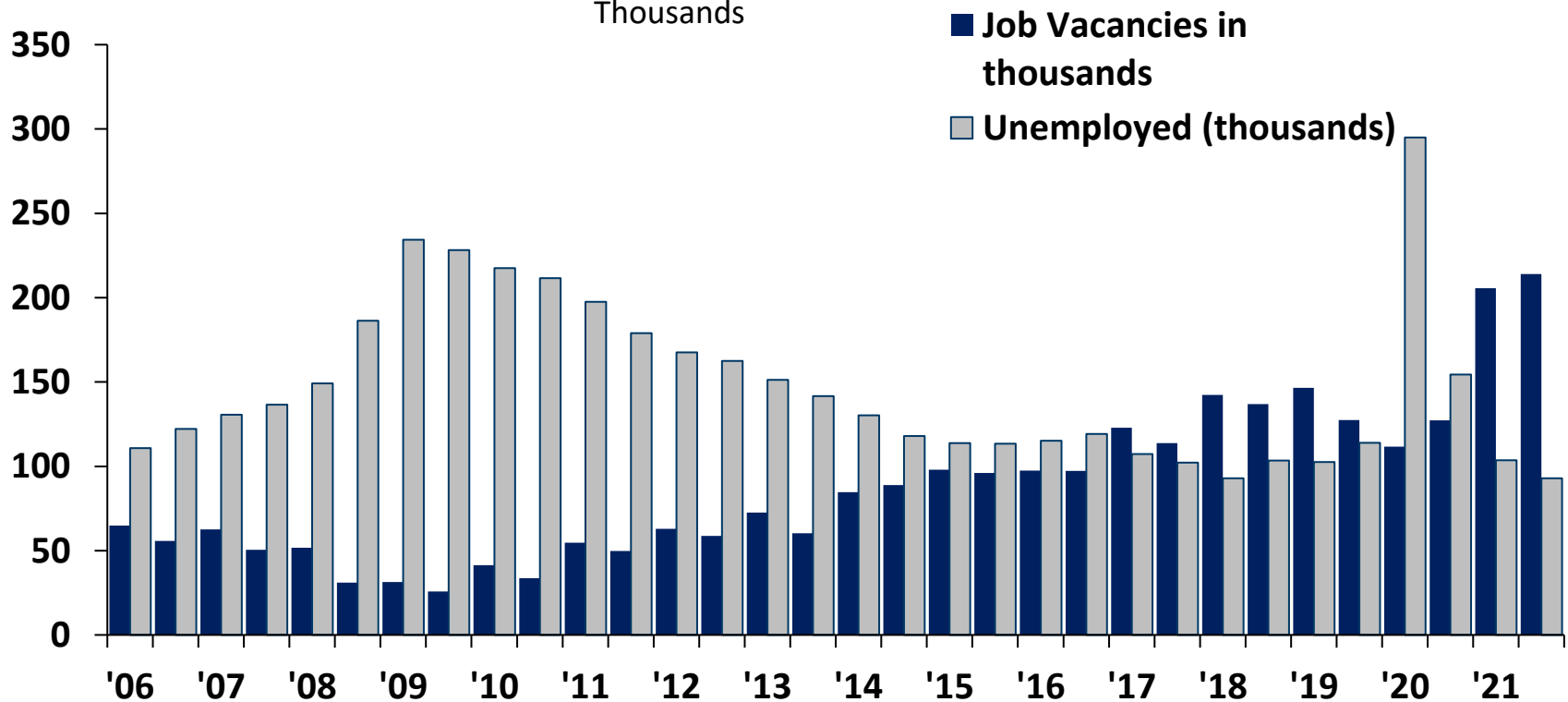
Monthly, Seasonally Adjusted, December 2022



# Strong demand for labor, low unemployment in Minnesota

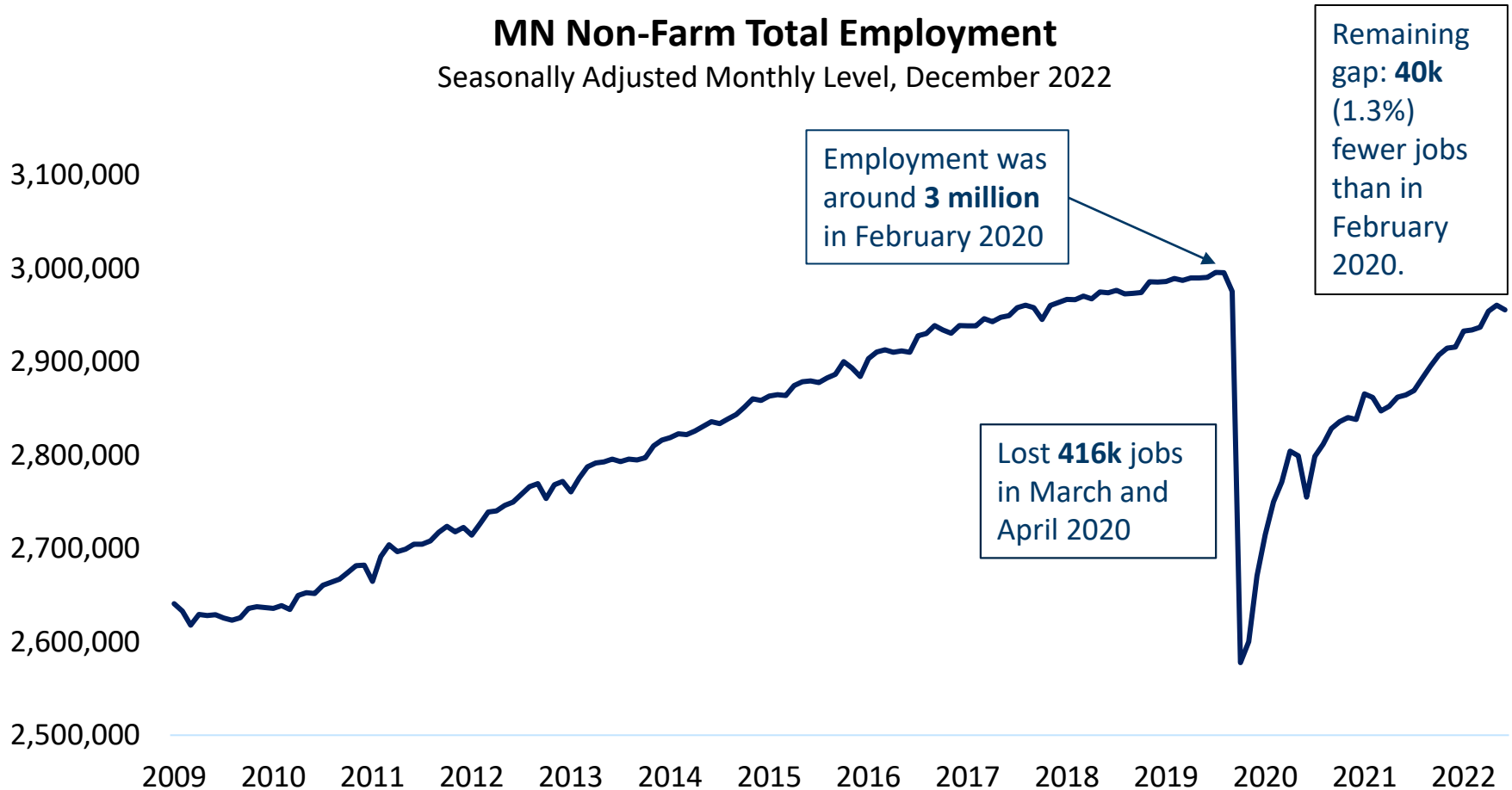
Minnesota Labor Market Indicators

Thousands



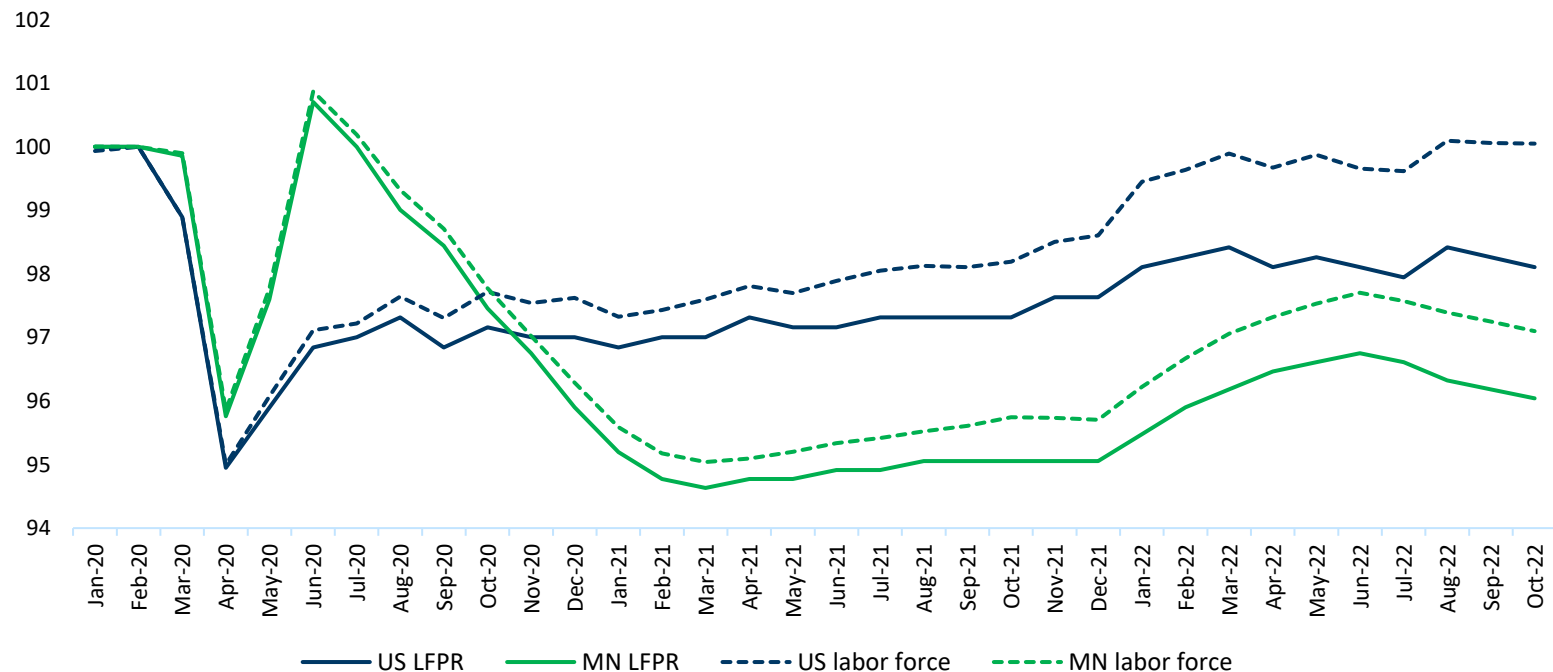
Source: MN Department of Employment and Economic Development (DEED)

# State employment recovering



# Minnesota's labor market

US vs. MN LFPR and labor force  
indexed, February 2020 = 100



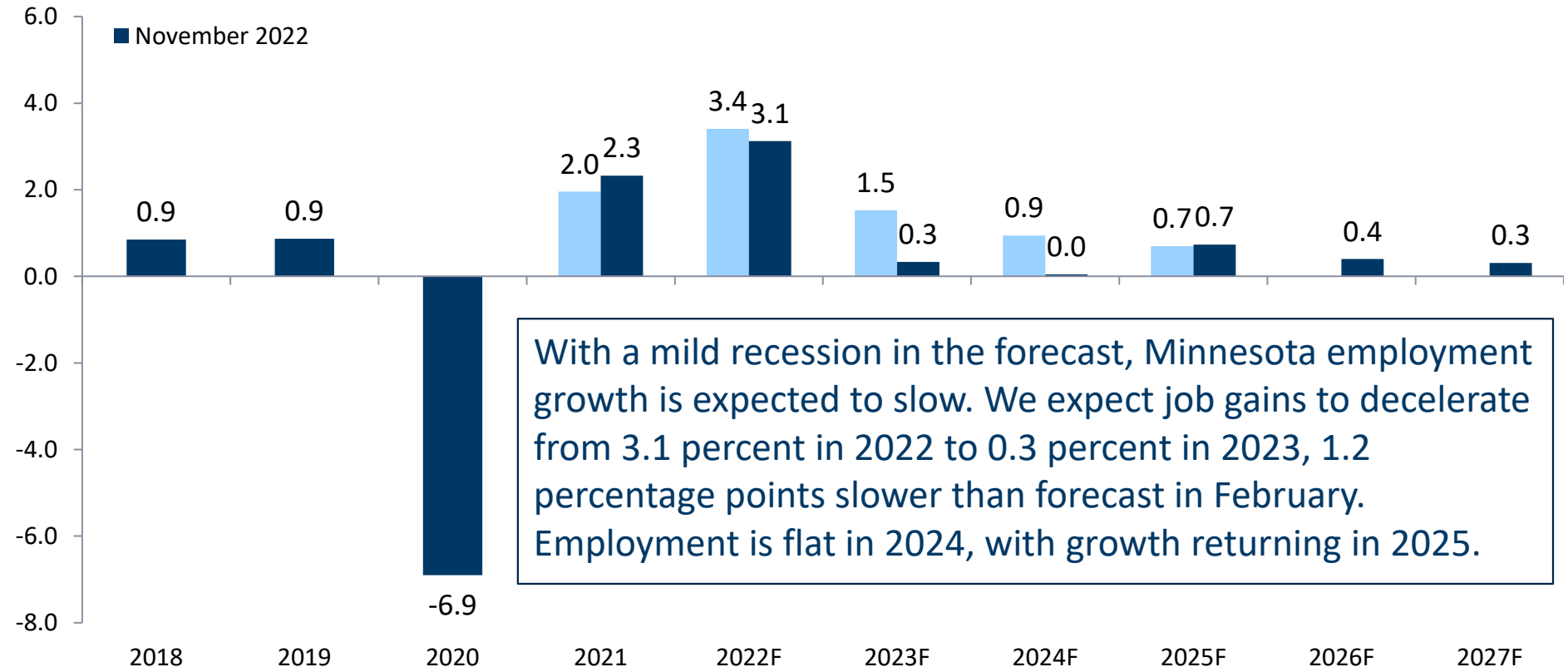
There is little slack in Minnesota's labor market compared to other parts of the country. Tight labor supply may be limiting employers' ability to add jobs. In Minnesota, both the size of the labor force and the labor force participation rate are below pre-pandemic levels.

# Minnesota employment forecast

**MN Total Non-Farm Employment**  
Annual Percent Change

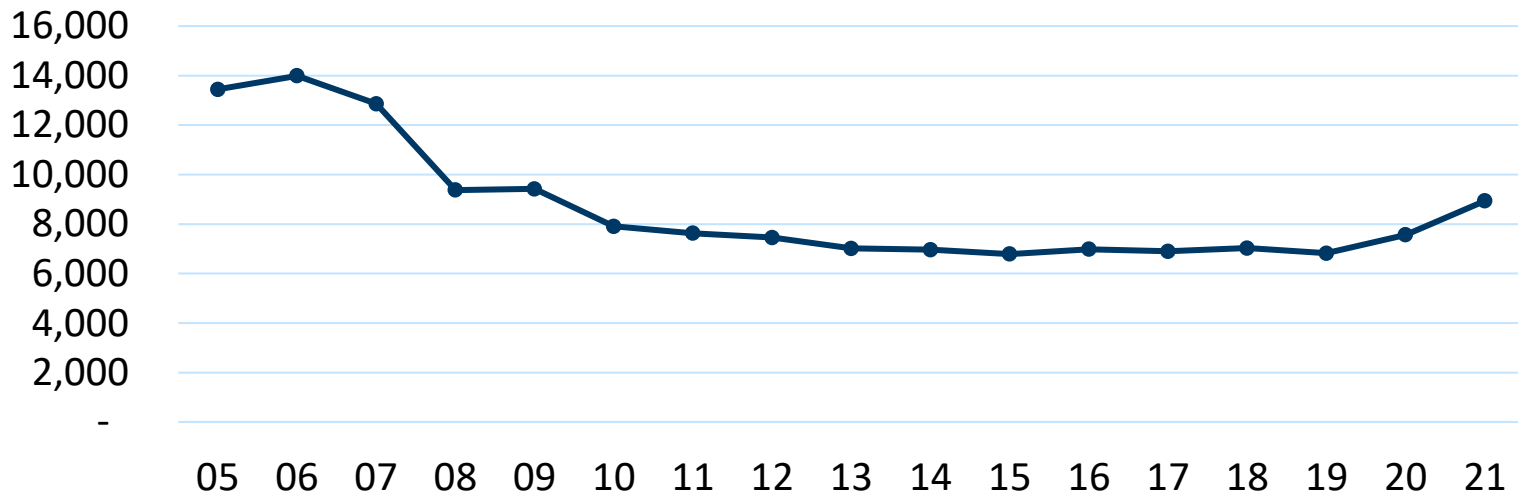
February 2022

November 2022



# Business creation has been increasing in Minnesota

## New Business Applications with Planned Wages Minnesota



Source: Census Bureau

Business applications with planned wages in Minnesota were higher in 2020 and significantly higher in 2021 than they were in the prior decade. About 7,500 applications were filed in 2020, and nearly 9,000 applications were filed in 2021, 25 percent more than the 2010-2019 annual average.