The Minnesota Economy and COVID-19
Minnesota Was Already Nearly Stagnant Prior to the Pandemic

We now expect the U.S. economy to contract more than 5% (not annualized) over the next two quarters, the deepest peak-to-trough decline in real GDP in the post-war era, while we expect the global economy will contract more than 2% in 2020, the worst on record. That said, the U.S. economy built up relatively few structural imbalances during the 10-year plus expansion that preceded this downturn. Moreover, the Fed and Congress have reacted unusually rapidly and implemented well-targeted stimulus measures that will keep credit flowing to businesses and households and cushion the economic blow from what it otherwise would have been.

Predicated on the assumption that the outbreak does not return later this year, the U.S. economy should begin to recover once the spread of COVID-19 is brought under control. Minnesota’s economy will largely move in line with the nation. Employment growth across the state was already approaching zero even before huge portions of the economy shut down, and it faces structural labor force issues which will likely limit the strength of the bounce-back in nonfarm employment.

The first data available since the COVID-19 pandemic accelerated across the United States in mid-March are staggering. During the week ended March 21, Minnesotans filed 116,000 jobless claims, up 2,900% from just 4,000 the prior week (on a not seasonally adjusted basis). The country as a whole saw a 1,150% increase. Such comparisons are difficult as states have reported varying degrees of difficulty coping with the sheer volume of persons filing for unemployment benefits. The nation and Minnesota will continue to see unprecedented job losses over the coming weeks. Typically a very tight labor market—one of the defining features of the Minnesota economy this expansion—would make employers more hesitant to lay off workers. But the coordinated shutdown over the past couple weeks has been anything but typical and, unfortunately, many employers were unable to hold onto staff in the face of such a deep and abrupt plunge in sales.

Figure 1

Minnesota Nonfarm Employment
Year-over-Year Percent Change of 3-MMA

Figure 2

Minnesota Initial Jobless Claims
Thousands

Source: U.S. Department of Labor and Wells Fargo Securities

Special Commentary

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Job Growth Was Near Zero Even Before COVID-19

The annual benchmark employment revisions, which are incorporated every year into the January data release, showed that Minnesota job growth was stronger than initially reported over the second half of 2018 and in 2019. Average annual job growth in 2018 was revised up to 0.9% (from 0.7% previously reported), while the 2019 average was also revised up, to 0.5% (from 0.3%). The unemployment rate was revised down modestly, while the labor force participation rate was revised up modestly. This is all good news, but it is old news. Even with the upward revisions, Minnesota employment growth lagged the national rate by a wide margin, and it was clearly decelerating, even before the COVID-19 shock. Minnesota’s older population and high labor force participation rate make it difficult to add jobs as fast as the nation.

Most of Minnesota’s major urban areas saw employment increase last year, led by Rochester (+0.9% average annual gain), Mankato (+0.7%), Minneapolis-St. Paul (+0.6%) and St. Cloud (+0.5%). Duluth was the exception at -0.4%. Sectors seeing upwardly revised employment figures included education & health services, business & professional services, information and manufacturing. Leisure & hospitality, which had been the clear leader in earlier reports, was revised down significantly. This sector is perhaps at the most risk due to widespread closures of bars, restaurants, movie theaters and all sorts of other venues that involve crowds and face-to-face interaction. Perhaps one mitigating factor is the fact that COVID-19 emerged in the winter, when many Minnesota businesses are already experiencing lower business volumes. We would hope that the warmer months, when the state’s leisure & hospitality sector sees most of its business, will coincide with a weakening of the virus and the gradual lifting of stay-at-home orders and social distancing protocols.

We also now have February employment data, which showed employment fell by 4,500 across the state and is now only 2,000 jobs above the level from February 2019. This predates any material COVID-19 disruptions. Even the March employment data will not show much effect. The survey was conducted during the week of March 12, and Governor Tim Walz did not order customer-facing businesses to close until March 17. Minnesota also waited a bit to order people to stay at home. That will go into effect at midnight on March 27 and extend to April 10 at the earliest. It joins 21 other states, covering more than 50% of the U.S. population, which have imposed such orders.

Jobless claims data will provide a much more timely indication on just how harshly the COVID-19 related shutdowns will impact the economy. In an overall sense, we expect job losses to exceed what occurred during the Great Recession, although we expect the duration of job losses to be considerably shorter. With restaurants, hotels and most entertainment shuttered, unemployment in these sectors, which account for around 10% of Minnesota’s nonfarm employment, will be massive. Retailers have also slashed their payrolls. Job losses in manufacturing and construction, which typically bear the brunt of job losses during a recession, look to be less affected than during a typical downturn.

Figure 3

Source: U.S. Department of Labor and Wells Fargo Securities
**Minnesota Economy and COVID-19**

**WELLS FARGO SECURITIES, LLC**

**ECONOMICS GROUP**

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**Minnesota Employment Growth**

*Year-over-Year Percent Change of 3-MMA*

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**Minnesota Unemployment & Labor Force**

*Unemployment Rate; Thousands, Seasonally Adjusted*

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**Minnesota Manufacturing Employment Growth**

*Year-over-Year Percent Change*

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**Minnesota Office Employment Growth**

*Year-over-Year Percent Change*

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**Minnesota Employment Growth By Industry**

*Year-over-Year Percent Change of 3-MMA*

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**Labor Force Participation Rate**

*3-Month Moving Averages, Seasonally Adjusted*

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Source: U.S. Department of Labor and Wells Fargo Securities
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