COVID-19 May Be a Tipping Point for Minnesota

Employers added 8,400 new jobs during January, while the jobless rate fell to 3.2%. While hiring remains in positive territory, COVID-19 threatens to derail the state’s retail and leisure & hospitality industries.

COVID-19 Fears Overshadow Strong Monthly Payroll Gain

Minneapolis employers started off the year on a high note. Total nonfarm payrolls rose by 8,400, the strongest monthly gain since May 2018. Given that January predates the global spread of the coronavirus, these data do not capture any of the ill-effects of event cancelations, travel bans, quarantines, and a general aversion to public spaces which will surely weigh heavily on hiring in coming months. The leisure & hospitality sector will likely suffer the brunt of the impact, as airlines, hotels and restaurants reduce staff alongside the drop-off in demand. Retail trade will also be hit hard. A dramatic slowdown in travel and tourism stands to have a particularly adverse impact on the Minnesota economy. International and domestic visitors generated roughly $16 billion in gross sales statewide in 2018, which translates to just over 4% of total state GDP. While the leisure & hospitality industry is not the state’s largest employer, it still makes up 9.3% of total employment. Furthermore, it has been one of just a handful of major industries which has added to payrolls over the past year (up 1.0%), and any coming cuts in industry payrolls may have an outsized impact on overall state growth.

Similarly, the state’s retail sector may be disproportionately impacted, as the growing uncertainty surrounding the virus leads to consumers cutting back on discretionary spending. Minnesota is home to the Mall of America (the largest shopping mall in the county) not to mention the headquarters of several major retailers. Target and Best Buy both call Minneapolis home, and combined employ an estimated 10,000 in the state. Hiring in the state’s retail sector has been weak over the past few years and has contracted on a year-over-year basis for much of the past two years. Retail payrolls shed another 400 jobs in January.

Included with the monthly employment data are annual benchmark revisions to prior data, which now show employment growth of 0.5% (vs. 0.3% originally reported) during 2019. The new data paint a slightly better picture of the state’s labor market headed into the coronavirus crisis. Even with the modest upward revisions, hiring continues to be somewhat underwhelming, mostly owed to an increasingly tight labor market. During January, the unemployment rate fell to 3.2% and the labor force participation rate held at 70.3%, the second highest in the nation.

The state’s tight labor market may provide some downside protection in the event of a severe slowdown in economic growth across the state and rest of the nation. Many businesses in Minnesota may hesitate to lay off experienced workers, as the cost of finding replacement once the coronavirus subsides may be greater than the savings associated with payroll reductions. How that plays out will largely be determined by how long and how severe the COVID-19 outbreak turns out to be. Extensive shutdowns of dining, retail and entertainment venues will clearly take a toll on payroll growth but employment will likely hold up better in most other areas.

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