

State of the Upper (& upper-Upper) Peninsula economy

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February 8, 2017



FEDERAL RESERVE BANK *of* MINNEAPOLIS



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Today's talk: Three sections

- **Light primer on Federal Reserve System**
- **A look at economic performance in the Upper Peninsula, including local counties**
- **Tell the Fed: *How's your business or organization doing?***



Part 1: The Federal Reserve System

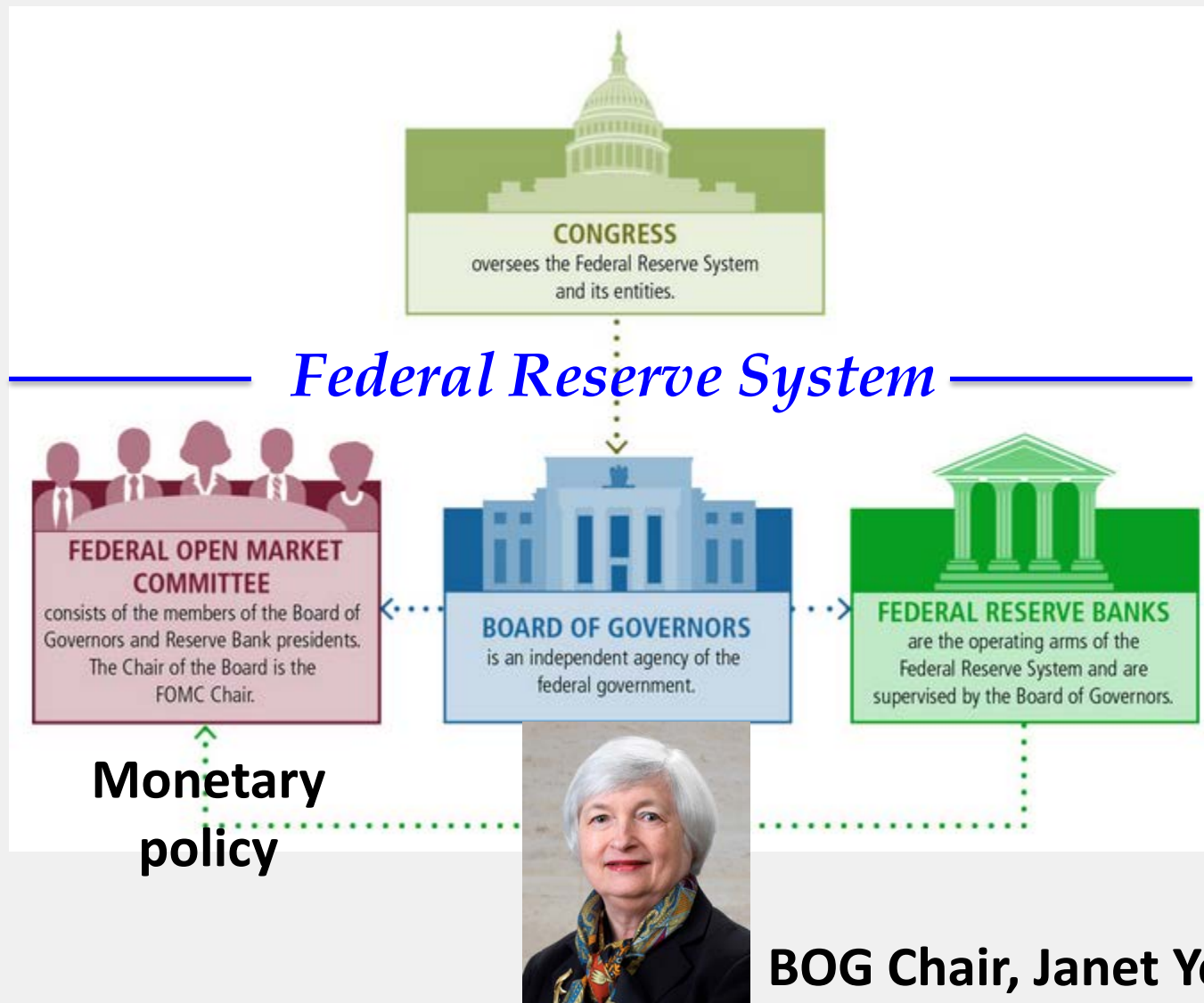
- Central bank of the U.S.
- Established by act of Congress in 1913

What exactly is a central bank?

- Provides financial & banking services for country's government and commercial banking system
- Implements monetary policy and maintains currency



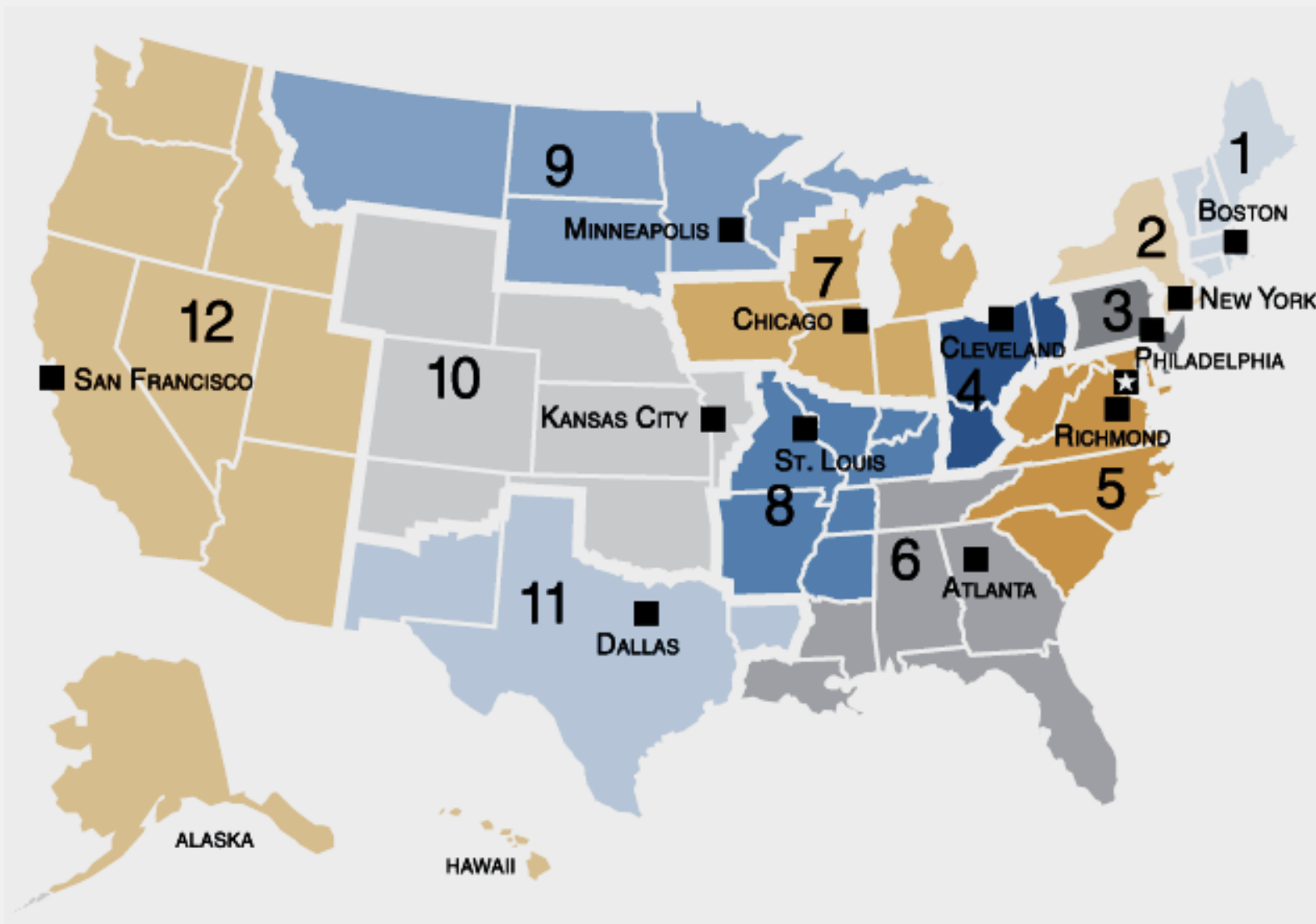
Federal Reserve Structure



12 “District” banks carry out operating duties of Federal Reserve



The Federal Reserve System = distributed power





Federal Reserve System governance

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 now unfilled
- **Private:** District Bank presidents are appointed by Bank boards of directors, who rep. private business
- **FOMC** = BOG + NY Fed + 4 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
- No tax dollars: 90% of Federal Reserve income derived from interest on U.S. government securities acquired in open market operations done to achieve monetary policy objectives; remainder is largely bank fees
- After expenses, Federal Reserve turns the rest of its earnings over to the U.S. Treasury
 - 2005 = \$21 billion
 - 2016 = \$92 billion



Main responsibilities of the Fed

➤ Supervise and regulate banks

- Mainly bank holding companies (own 1+ banks)
 - JPMorgan, Wells Fargo, Goldman Sachs, Citigroup

➤ 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

- Most familiar tool is interest rates (via FOMC)
- "Dual mandate"
 - 1) stable prices, 2) maximum employment



Minneapolis Fed's Ninth District



Our job is to supervise banks and offer financial services in this territory, and understand this regional economy, especially its metro markets, for the purposes of setting monetary policy



Part 2: “The state of the Upper Peninsula economy”

Implied question:

*Is the U.P. economy
good or bad?*

Answer: “Yes”



Complex topic:

- Objective measures
- Subjective framing

“Answer” depends on subjective choices

- The metrics selected
- Their *relative* performance (e.g., peer comparisons and other contexts)
- and the timeframe chosen



My goal: Help inform your opinion of the U.P. economy, via:

- a variety of performance metrics
- tabulated over various timeframes
- using different economic contexts and comparisons

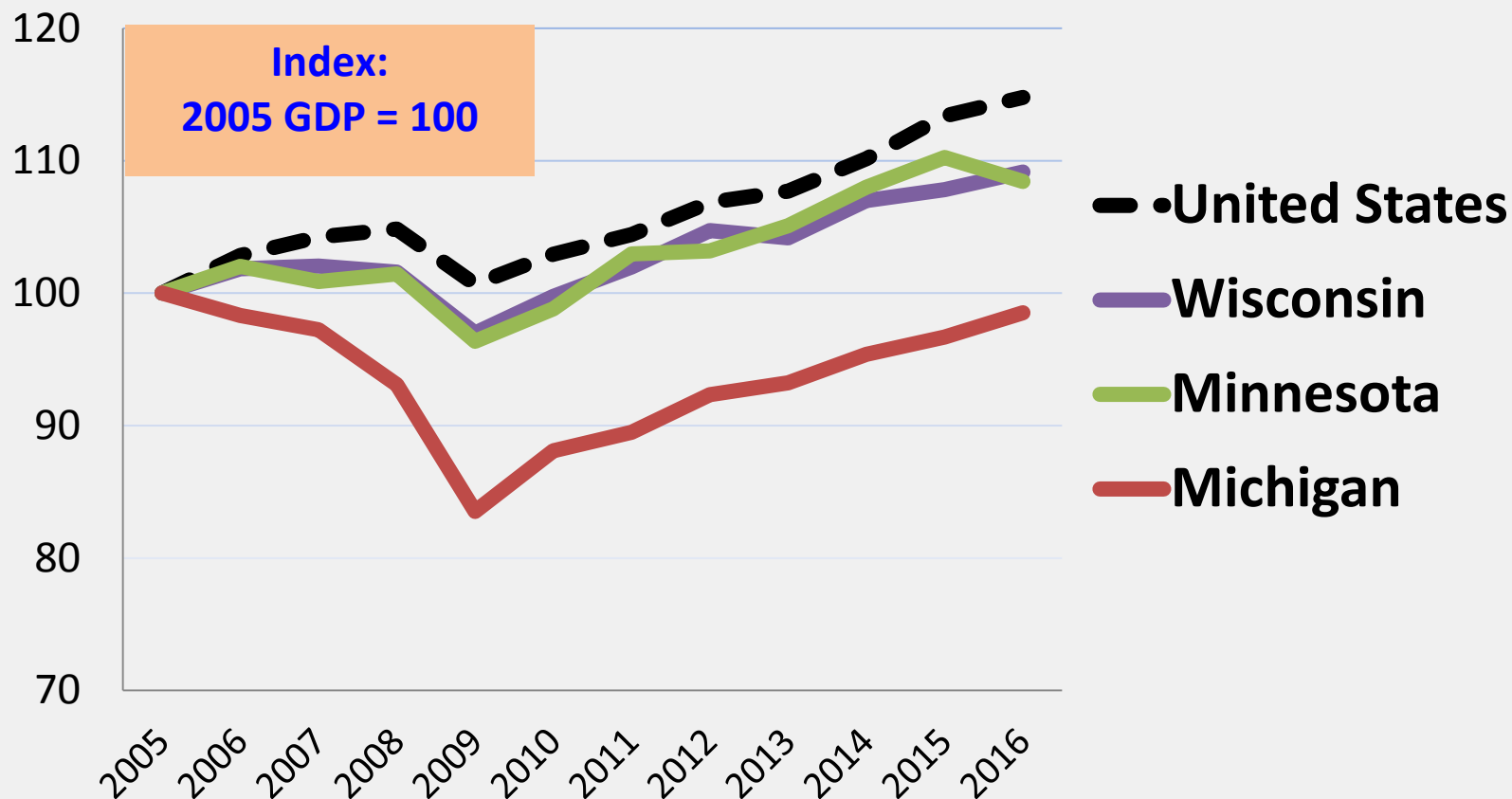
...On to the charts!



The big picture: GDP index

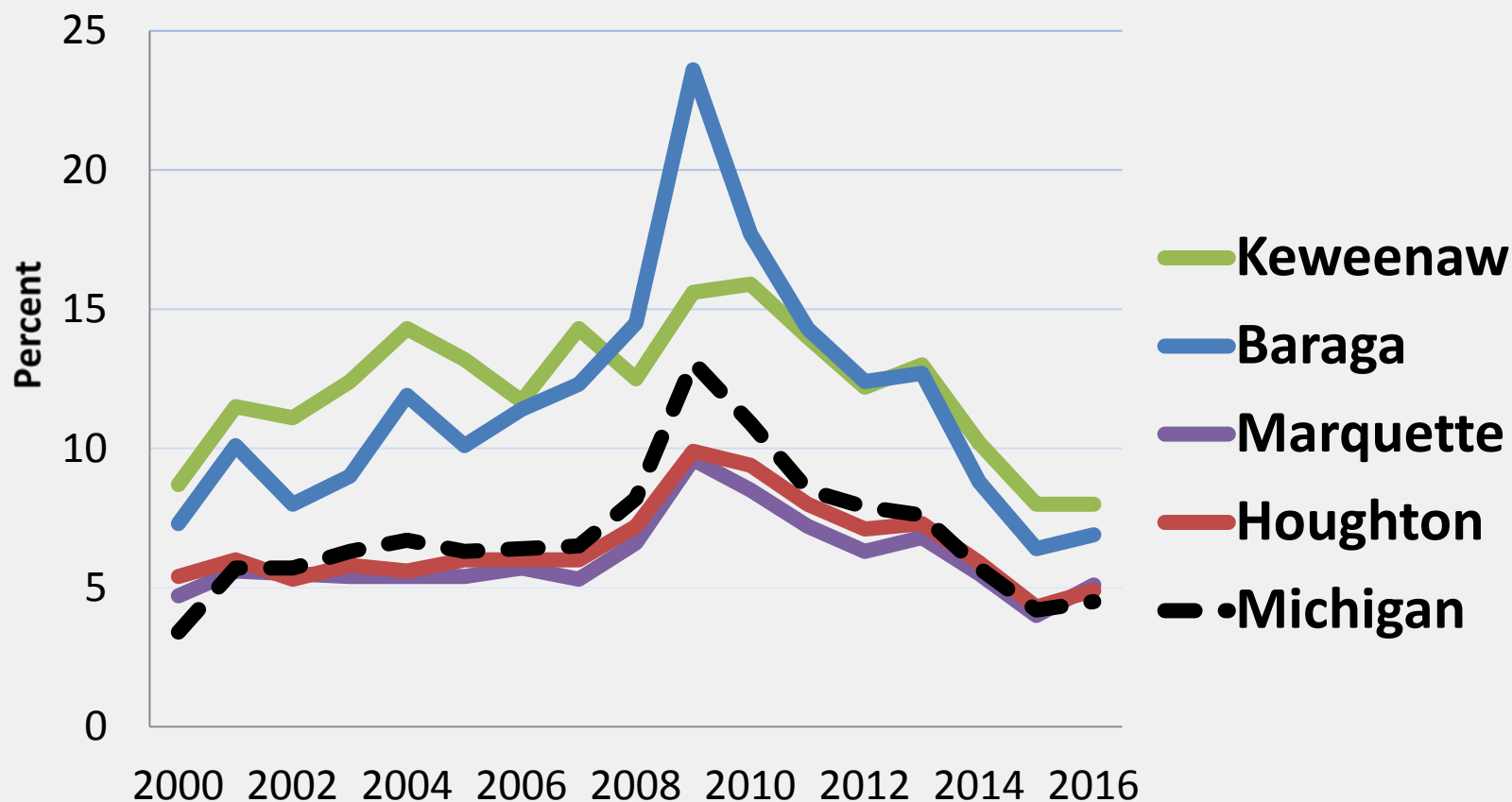
Michigan output growing, but lagging

2nd quarter of each year



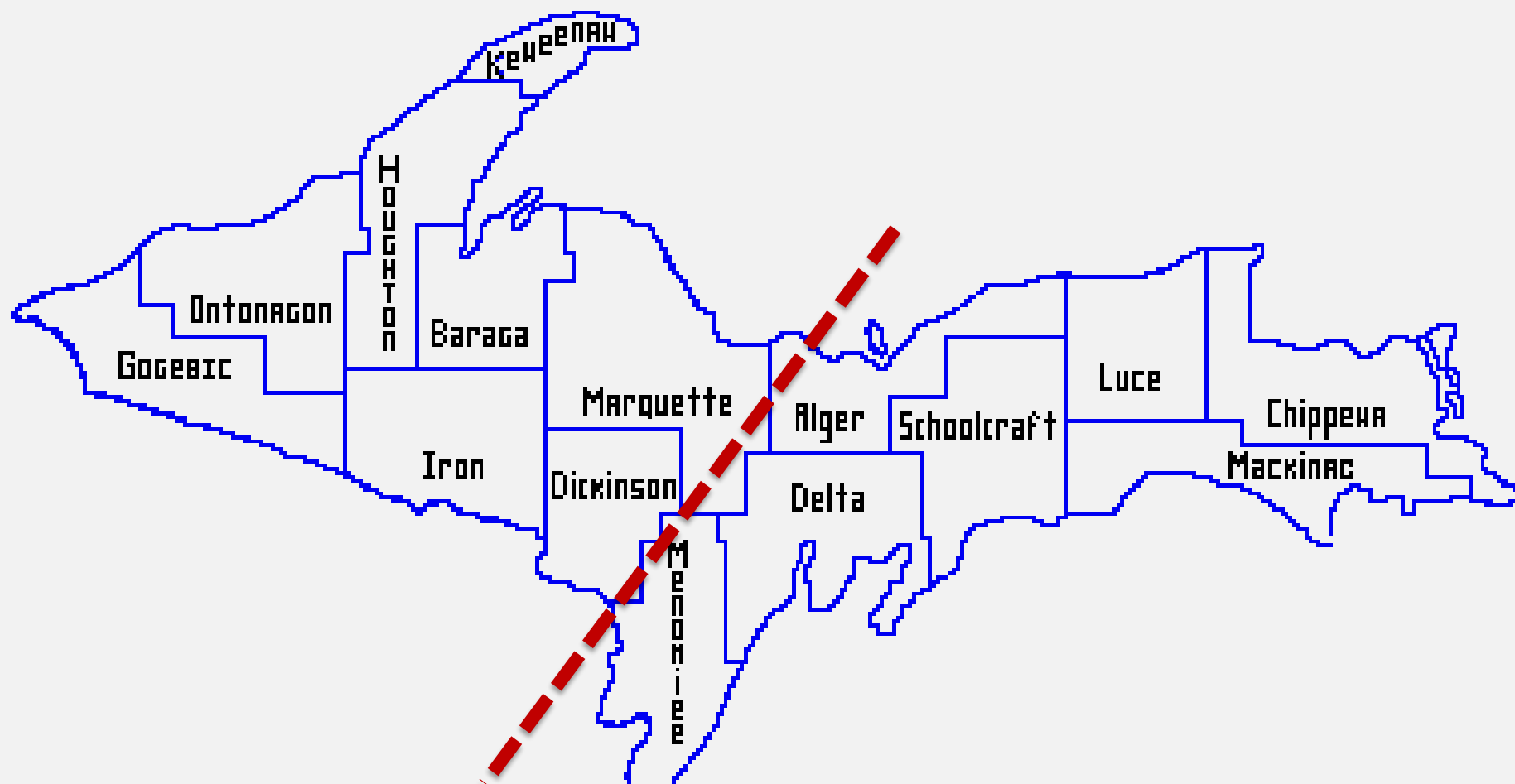


Unemployment dropping; U.P. higher, but below pre-recession



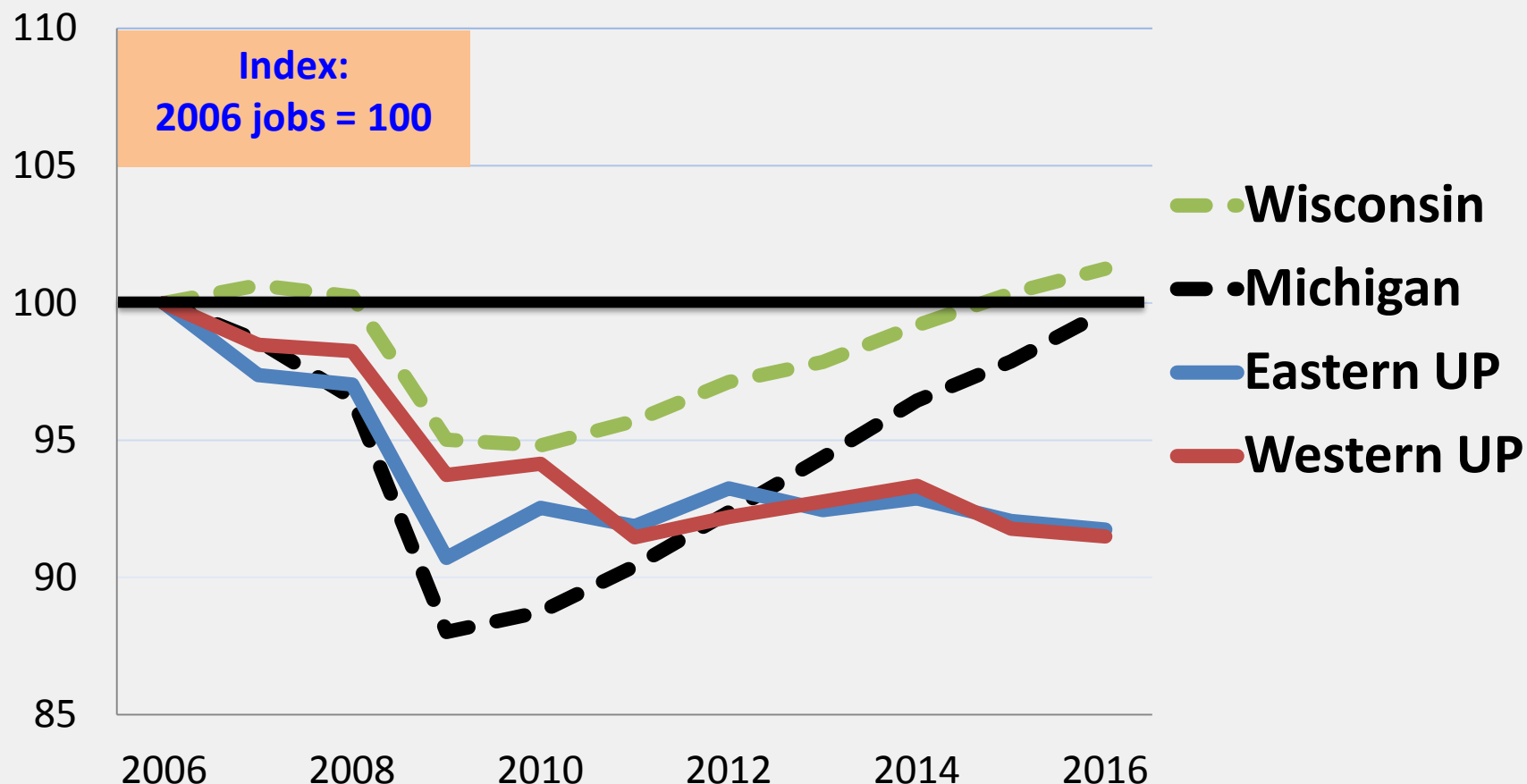
VS.

East





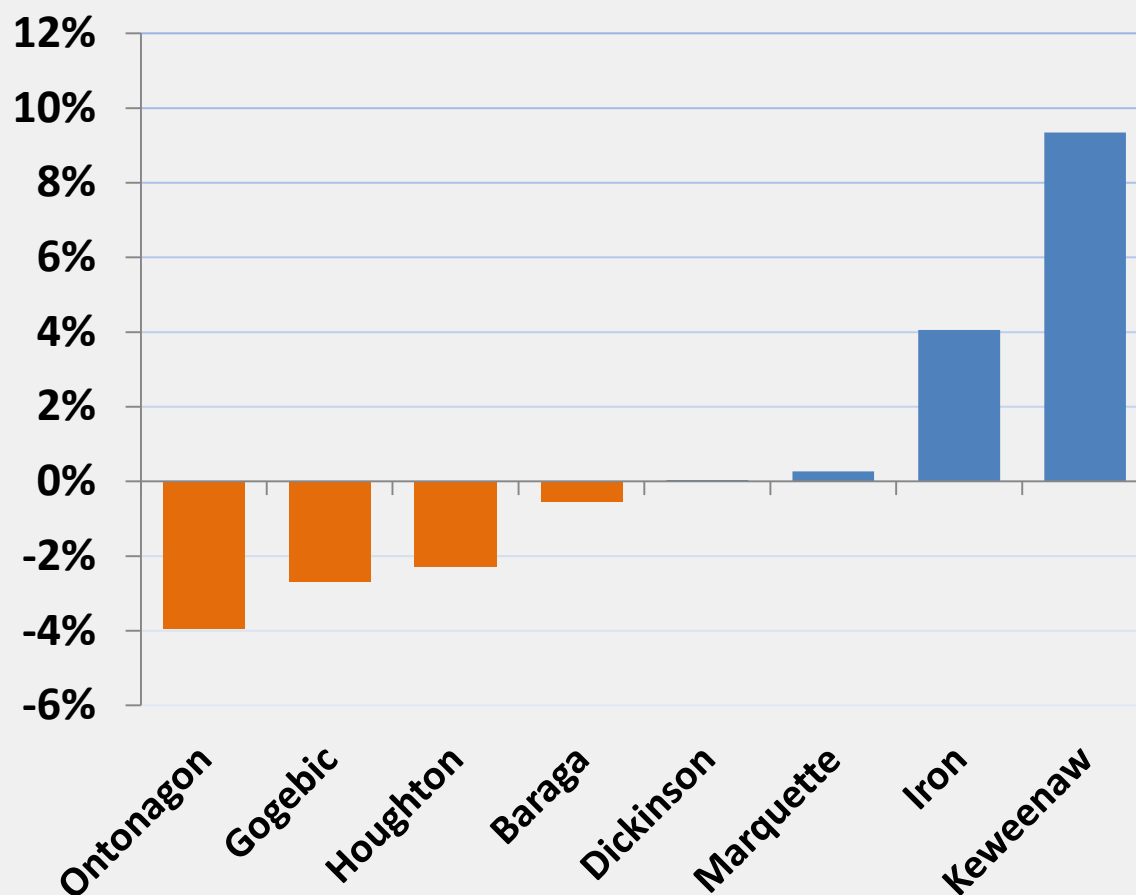
Job growth in East & West U.P. regions lagging Michigan, Wisconsin





Jobs in the last year: A lot of variation in Western U.P.

Employment change, June 2015 to June 2016

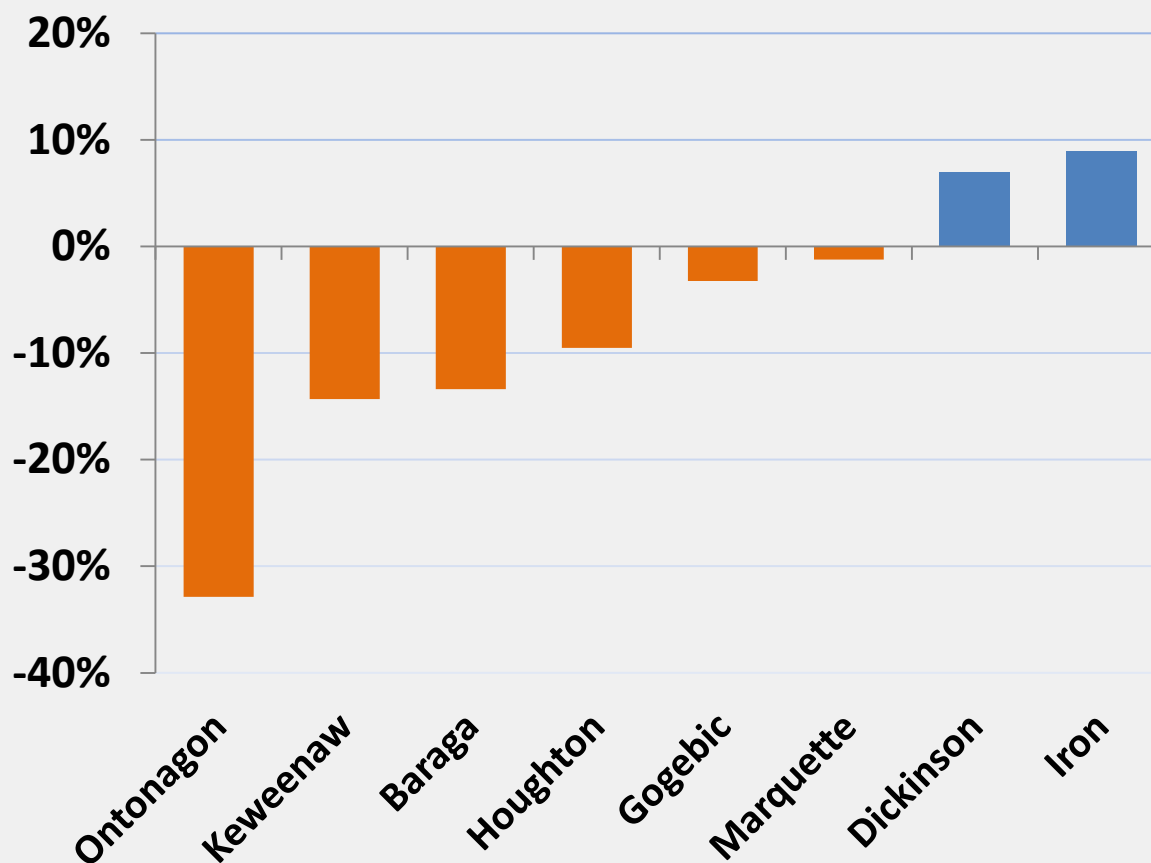




Job growth during recovery

Western U.P. mostly down

Employment change, June 2009 to June 2016





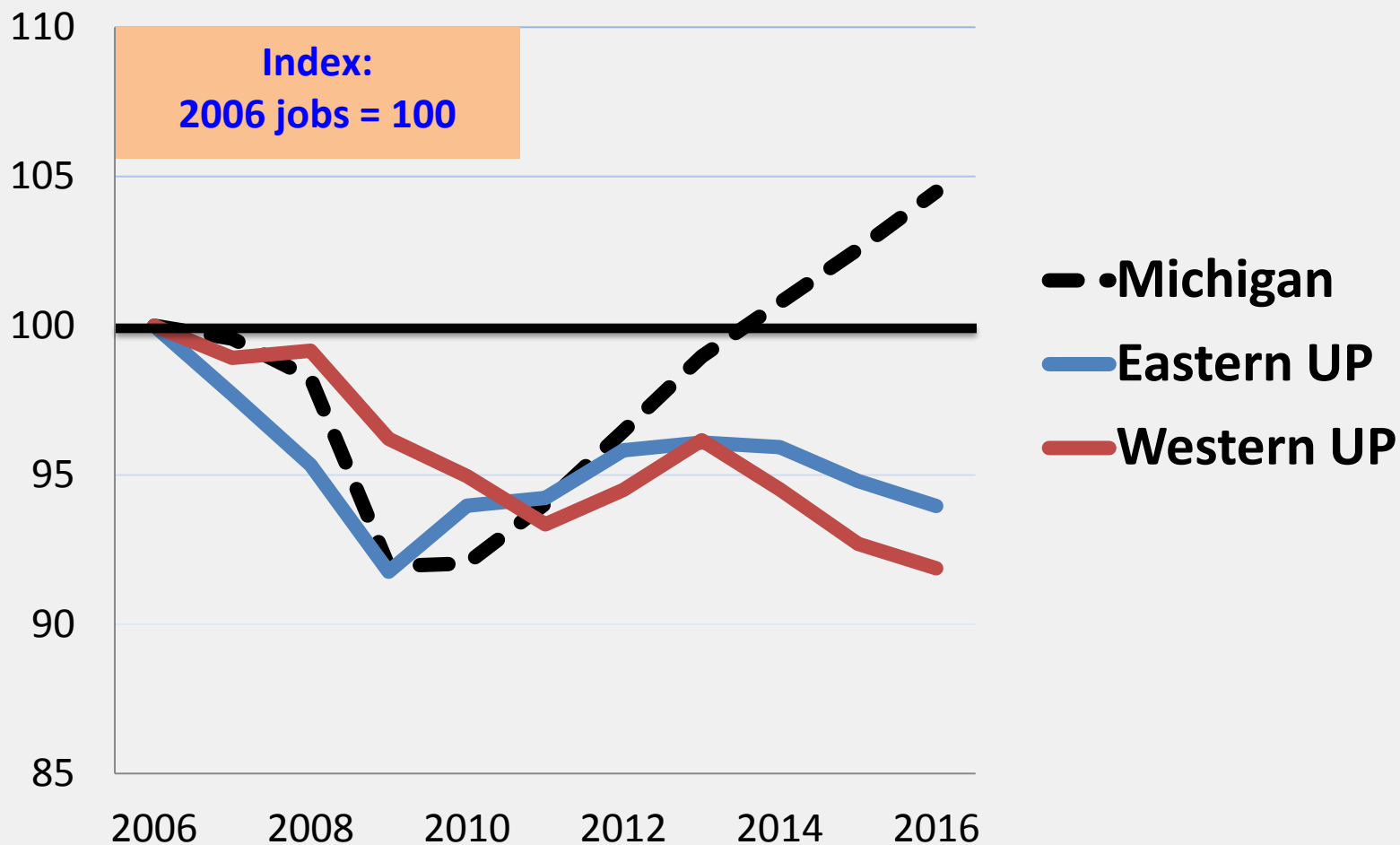
A closer look at jobs

- **Goods producing**
 - Construction
 - Manufacturing
 - Natural resources & mining
- **Service producing (*everything else*)**
 - Retail & wholesale trade
 - Utilities
 - Information
 - Financial activities
 - Professional & business services
 - Health care & education
 - Leisure & hospitality
 - Government



Service jobs lagging significantly in U.P.

Employment growth in services-providing sectors, June 2006 to June 2016

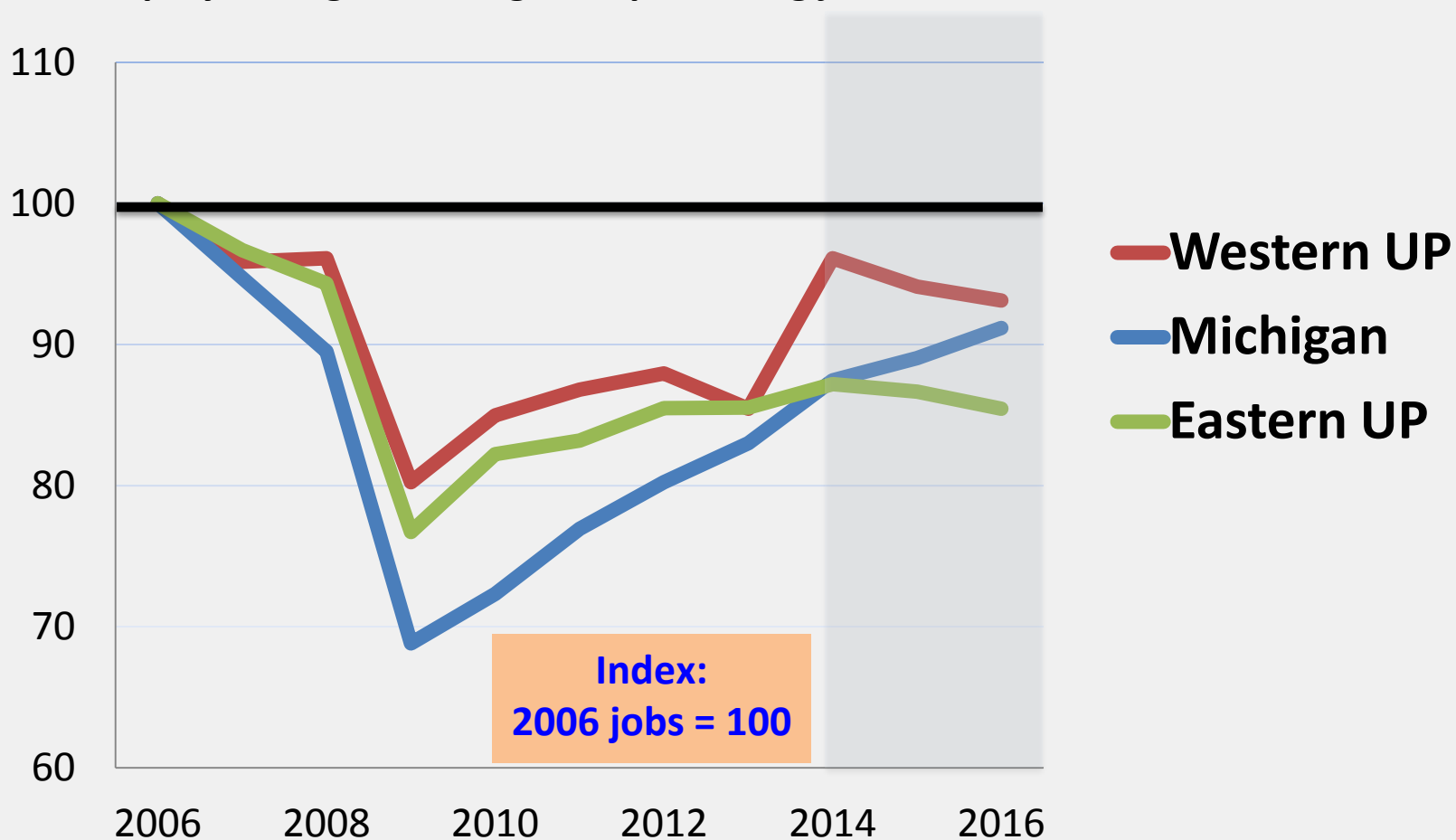


Source: Bureau of Labor Statistics



Goods-producing jobs below pre-recession levels, sagging in U.P.

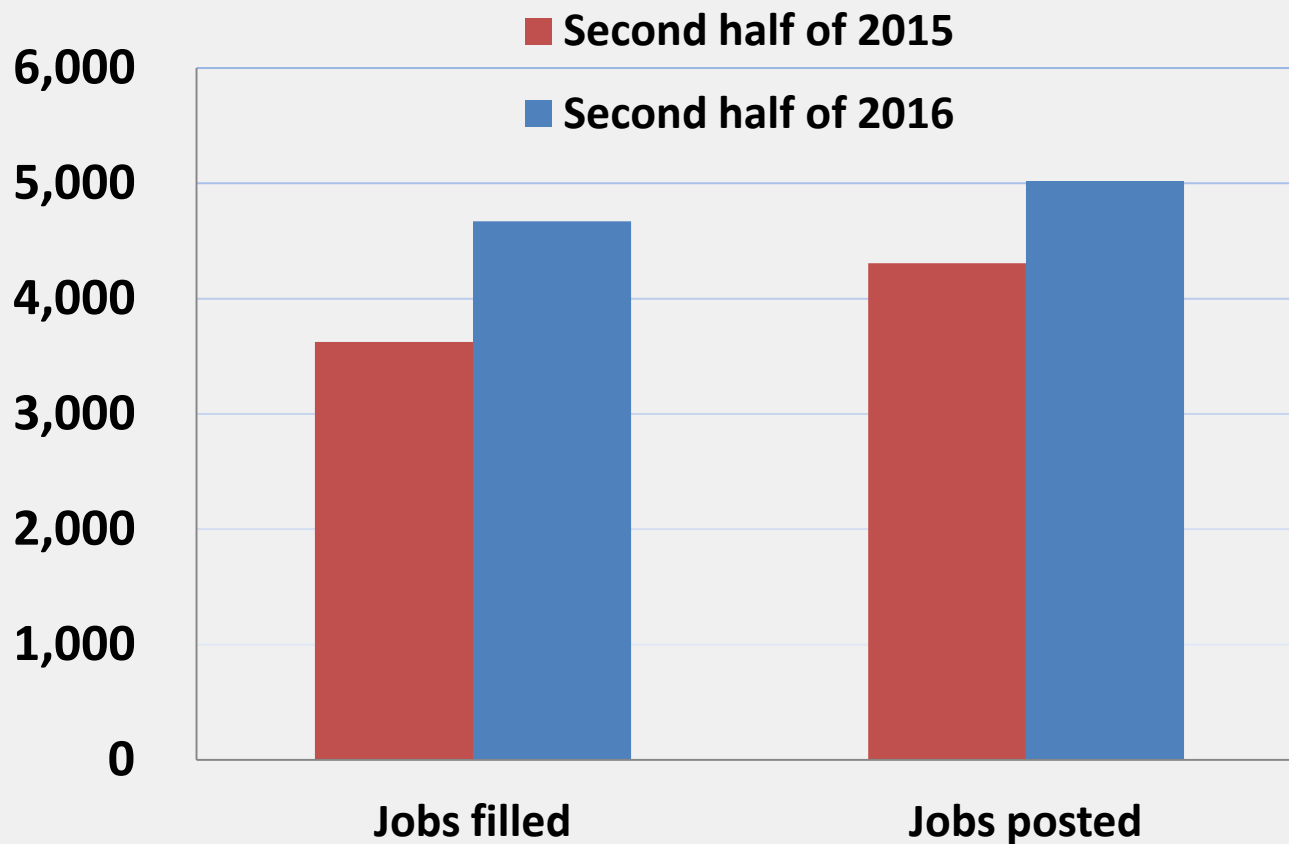
Employment growth in goods-producing jobs, June 2006 to June 2016





Job demand is *up*

U.P. jobs posted and filled, as tracked by Michigan Works

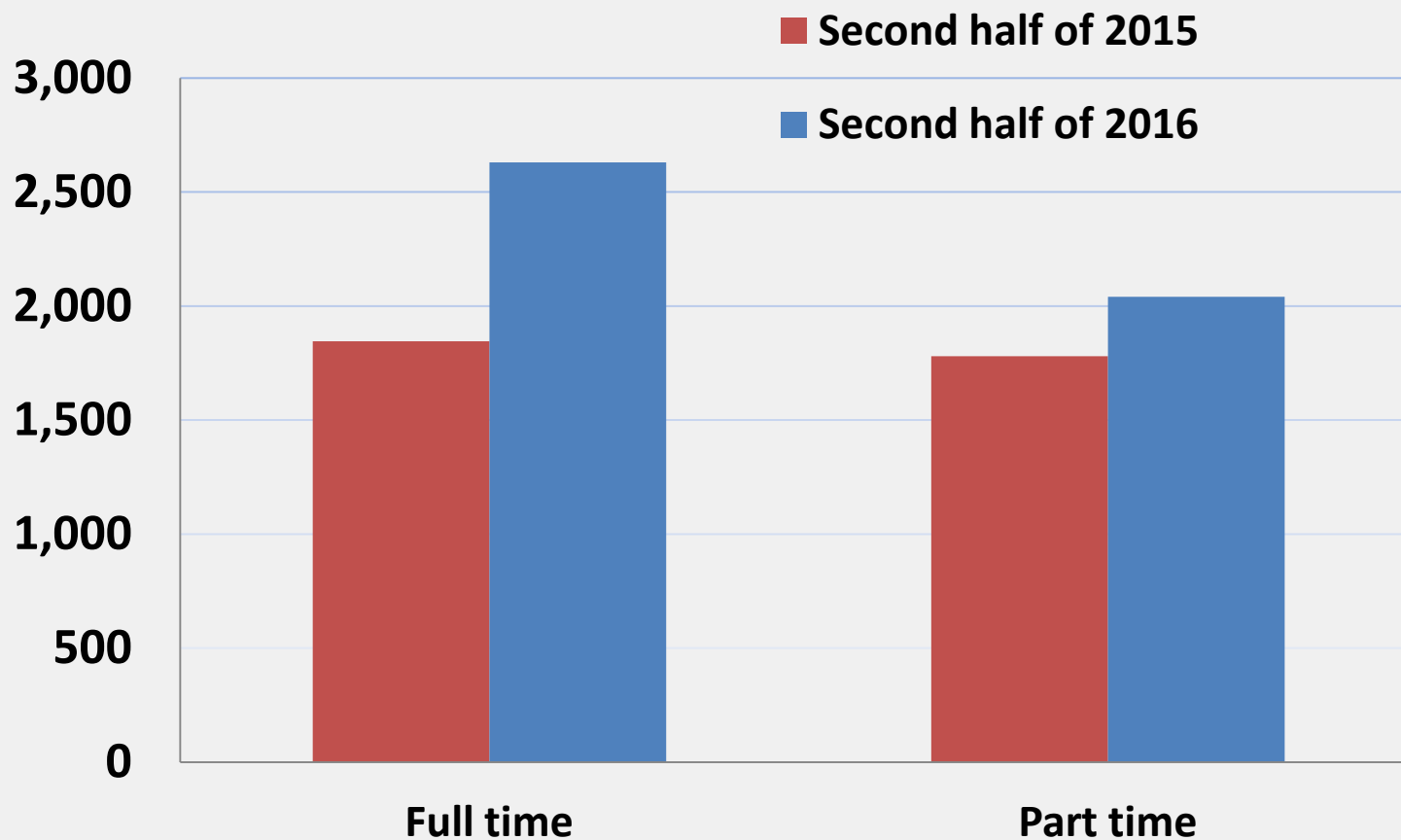


Source: Michigan Works



More filled jobs are full-time

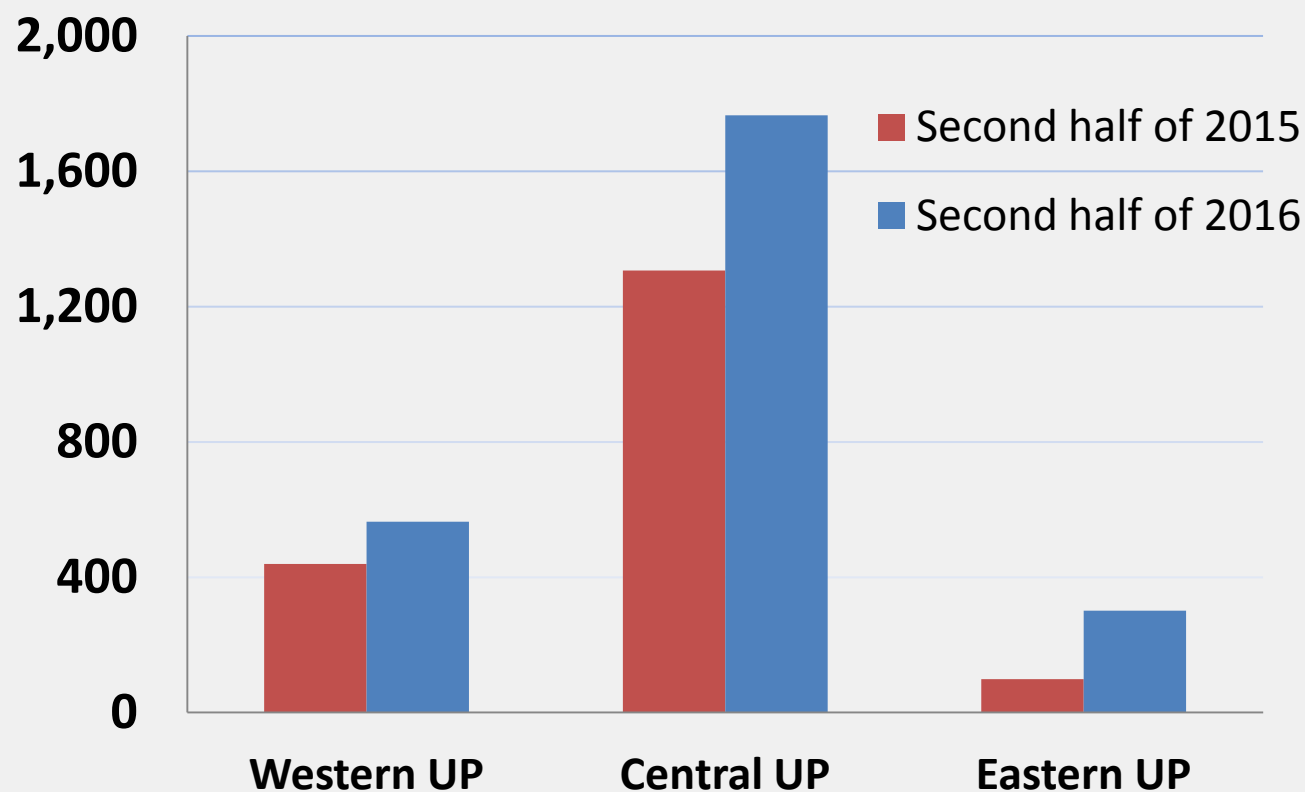
Jobs tracked by Michigan Works



Source: Michigan Works



Filled jobs: Most in Central UP, but full-time trend similar across regions



Source: Michigan Works



Overall ... lower unemployment ...

... good hiring demand of late

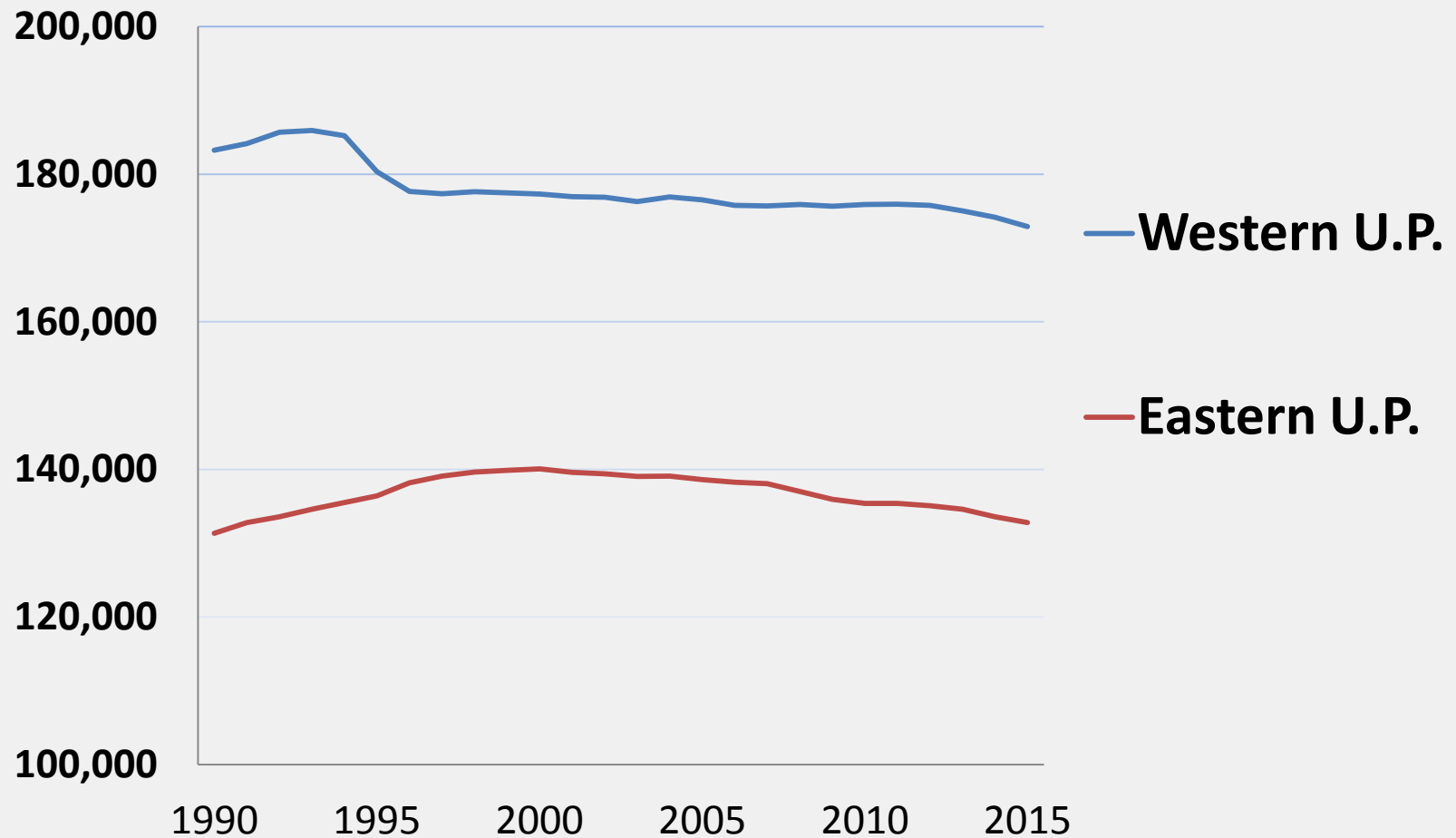
= *slow* job growth?

What's going on?

Look for clues in labor supply



Population continues to slide

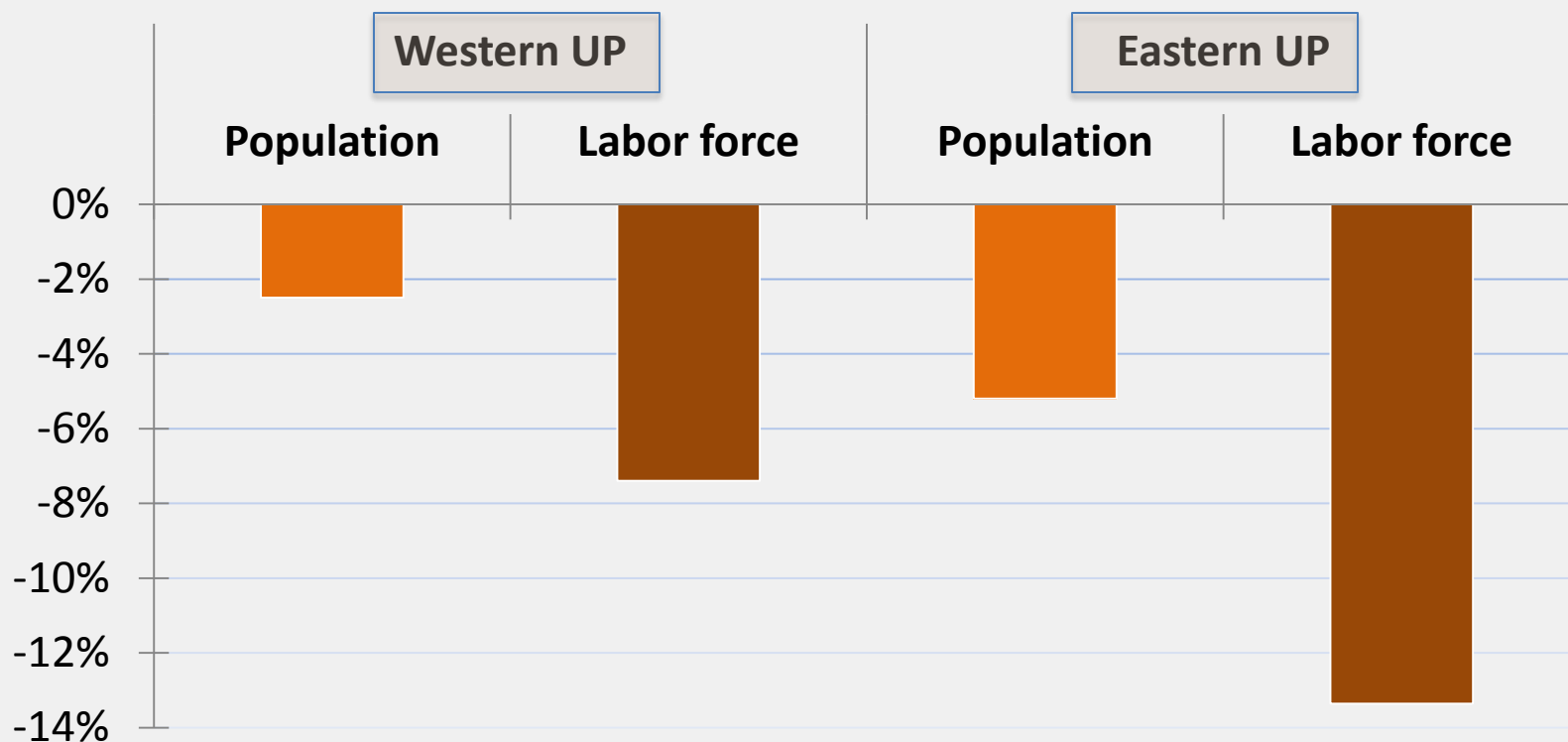


Source: Bureau of Economic Analysis



Population dropping, but labor force dropping faster

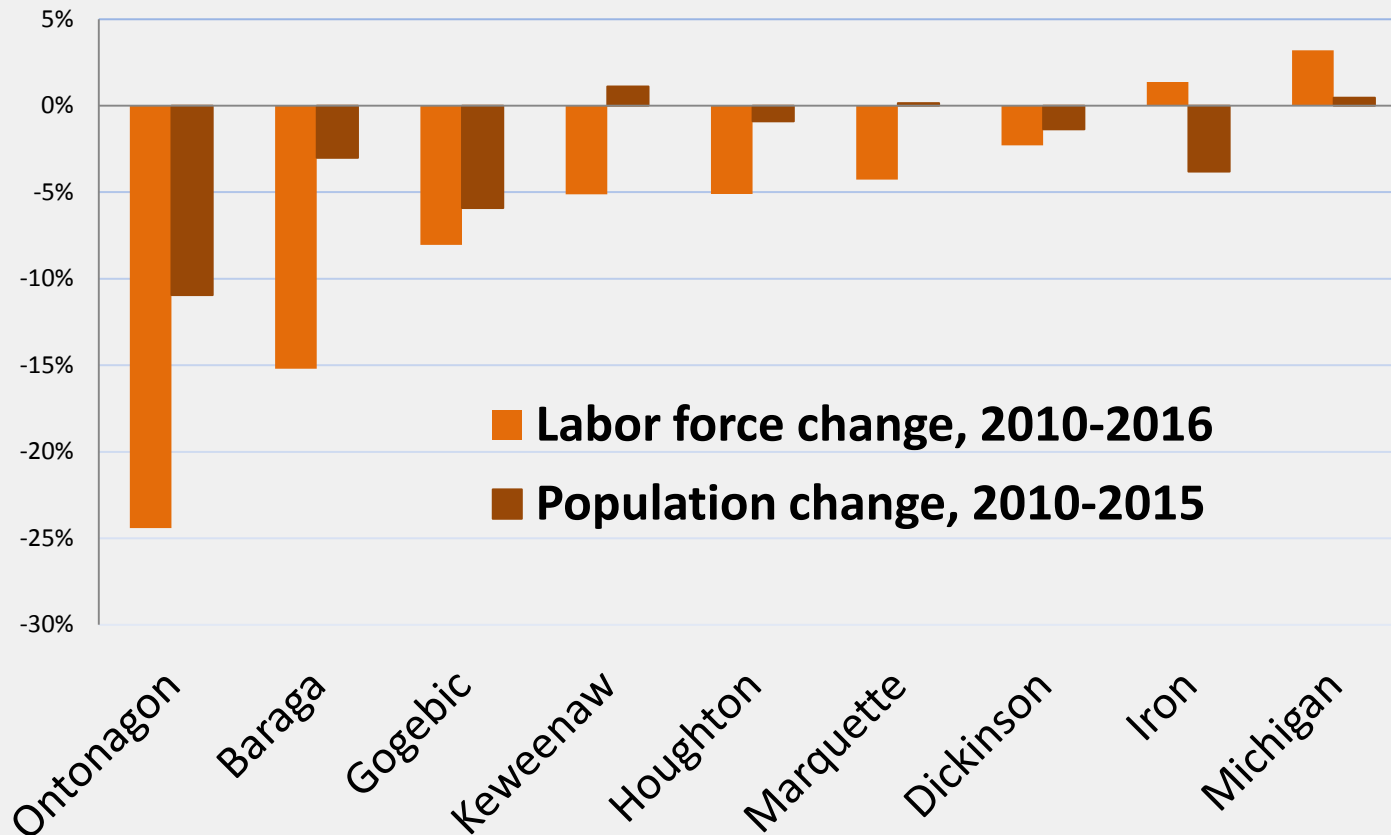
Percent change, 2000 to 2015



Source: Bureau of Economic Analysis



Few counties escape the sagging labor force trend



Source: Bureau of Labor Statistics



Labor force participation rate down, maybe headed up?

November of each year



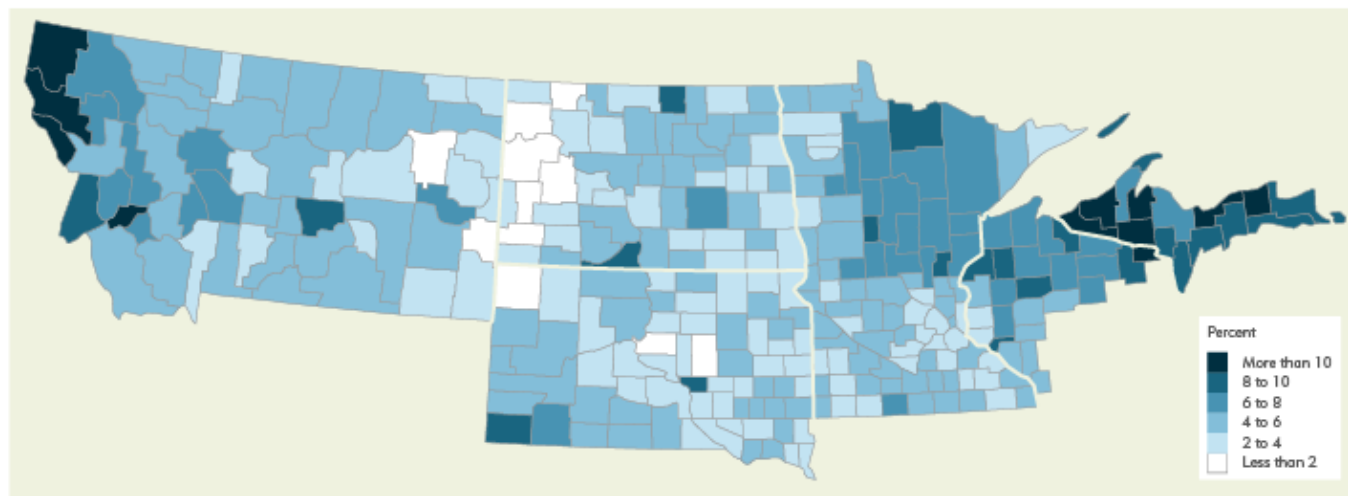


Labor force participation influenced by disability, which is higher, and growing faster, in the U.P. and other northern regions.

Map 1

SSDI more concentrated in northern regions

SSDI worker recipients as a percent of labor force, by county, 2013

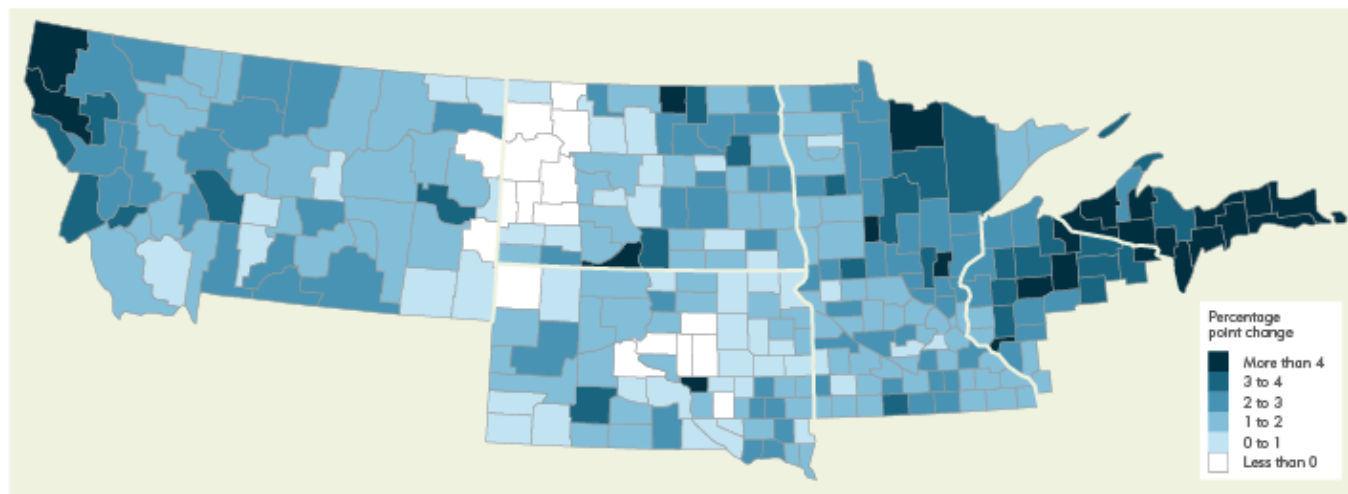


Source: Social Security Administration and Bureau of Labor Statistics

Map 2

SSDI growth higher in Upper Peninsula, northern Minnesota and Wisconsin

Change in SSDI worker recipients as a percent of labor force, by county, 2000 to 2013



Source: Social Security Administration and Bureau of Labor Statistics



Disability highly correlated with unemployment

303 Ninth District counties

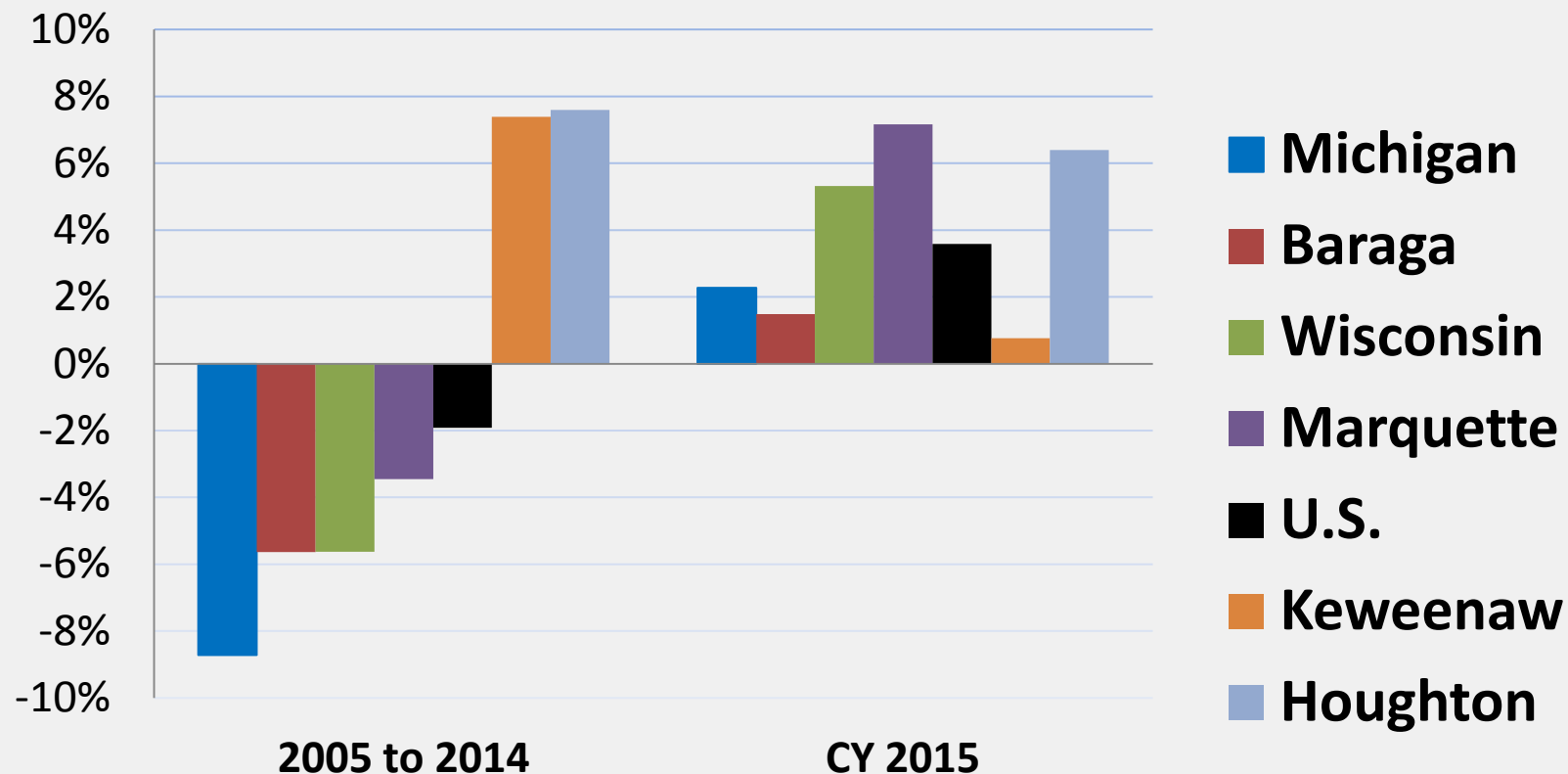


Source: Estimates based on data from the Social Security Administration and the Bureau of Labor Statistics



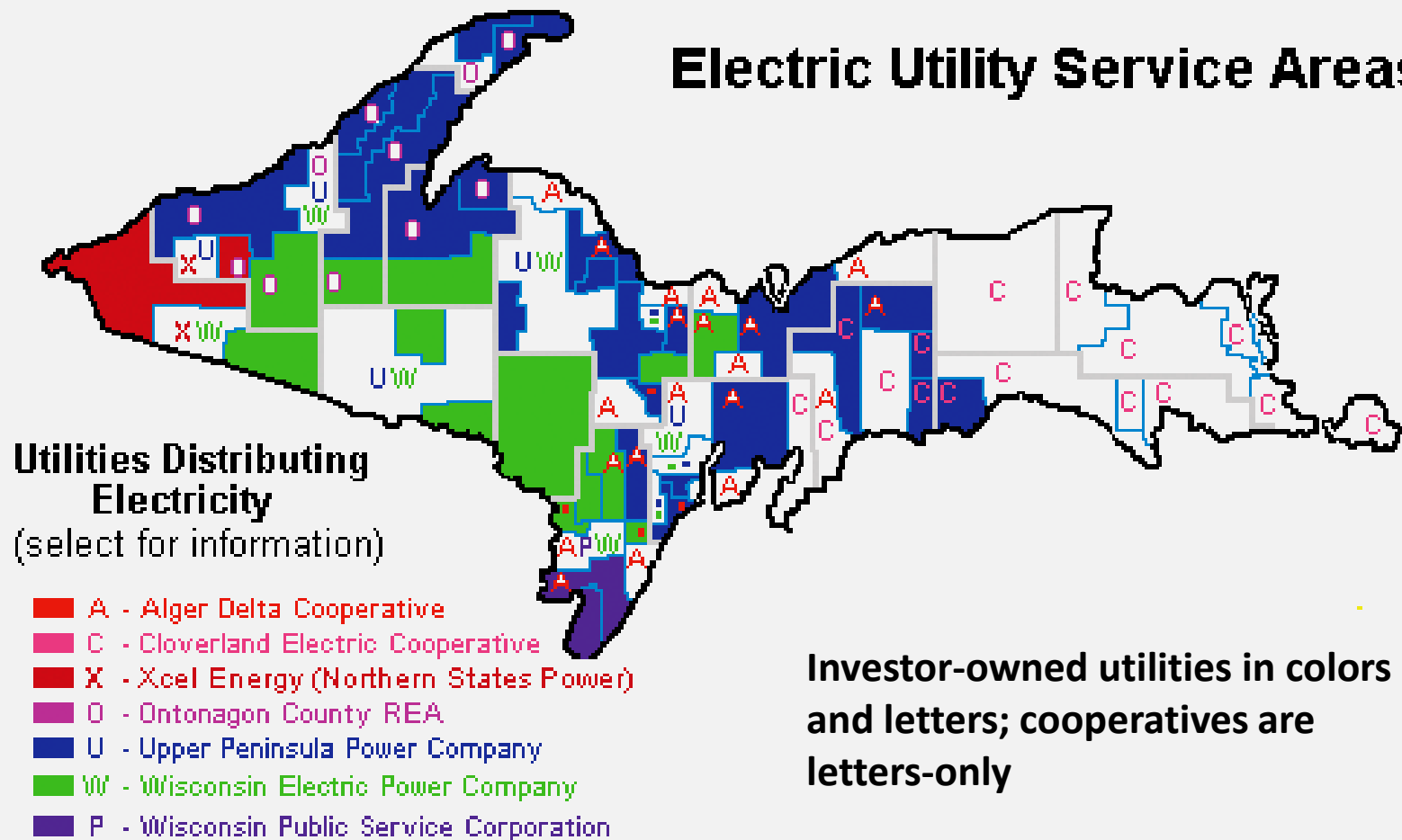
Maybe the best news of all: Income

Real median income: Sluggish, but making the turn?





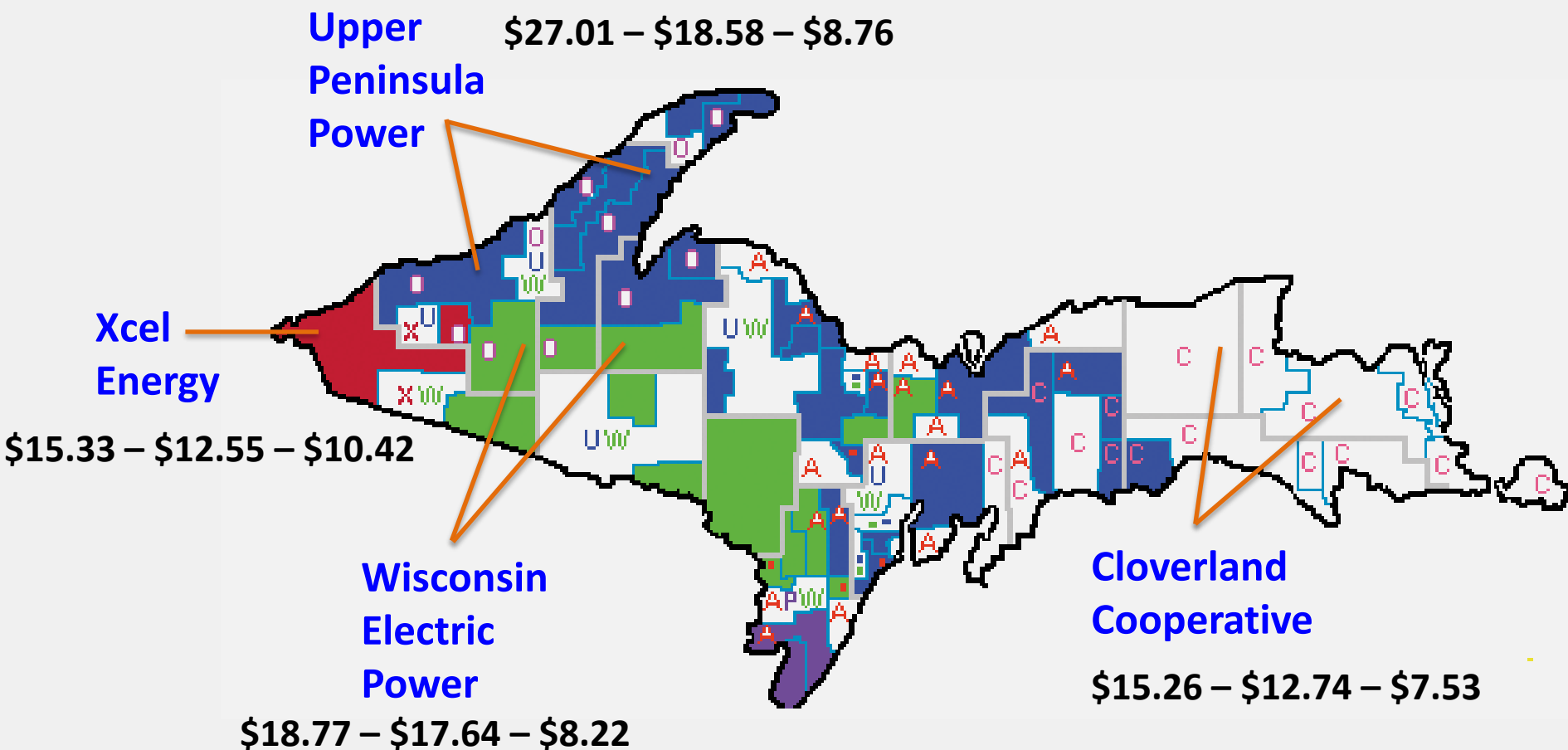
Electric Utility Service Areas





January 2017 power rates

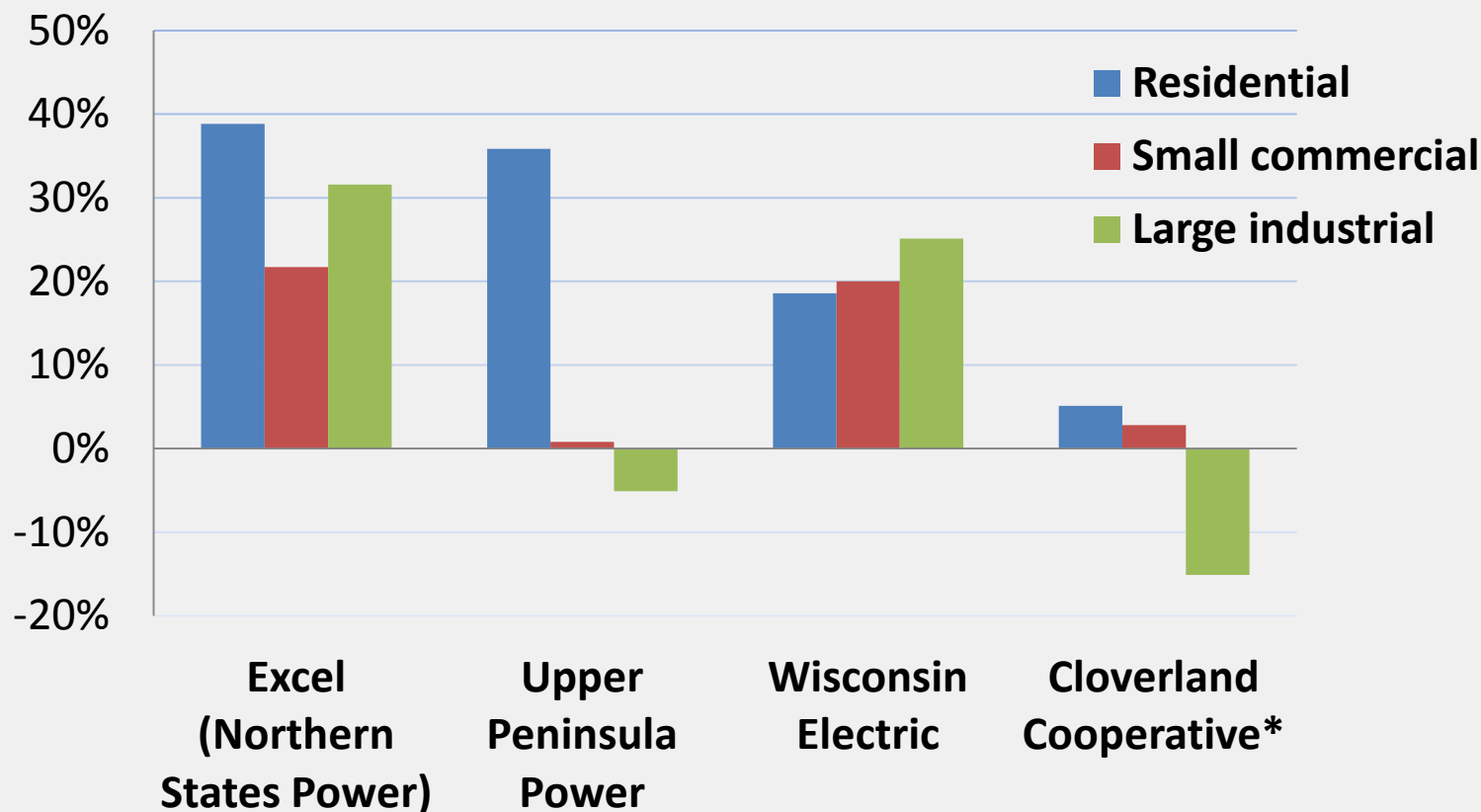
Residential – small commercial – large industrial





Power (price) surge

Change in power rates, 2010 to 2017*



*January rates each year; Cloverland industrial measure is for Edison Sault Legacy users, which are the only 50,000 kilowatt consumers

Source: Michigan Public Service Commission Utility Rate Book; compiled by the Regulated Energy Division



U.P. Take Aways

- U.P. economy slow by comparison to others, but upbeat/optimistic
- Unemployment higher than elsewhere, but improving & below pre-recession
- Job *demand* appears solid, but job *growth* slow
- Population and labor force growth both declining; labor force participation rate down significantly, but might be on rise



Take-aways cont.

- **Disability and other factors are obstacles to a strong rebound in labor force participation**
- **Median income is down, but might finally be rising, esp. for lower-income households**
- **High power cost an impediment to business & population growth, but doesn't mean power is mispriced.**



Part 3: Tell the Fed ...

**What's happening at
your firm?**

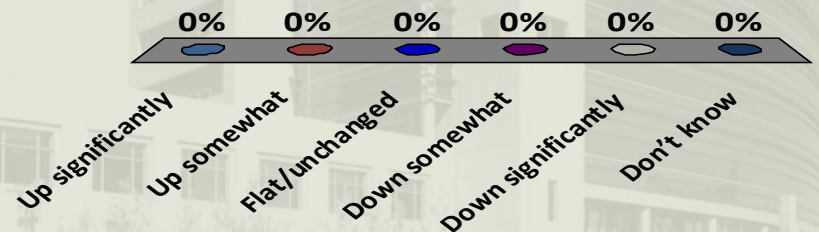
The Minneapolis Fed wants to know!

Find survey remotes on tables.



Q1: How was 2016 revenue/sales at your firm compared with 2015?

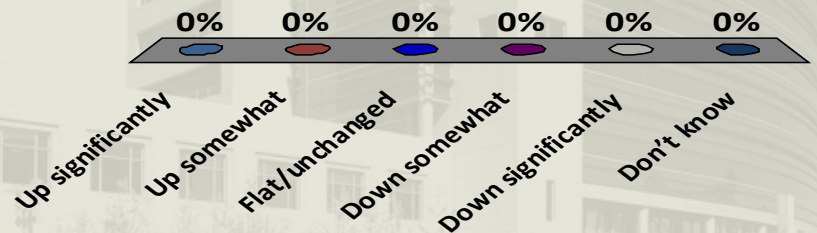
1. Up significantly
2. Up somewhat
3. Flat/unchanged
4. Down somewhat
5. Down significantly
6. Don't know





Q2: How has business activity been at your firm in the last 2 months compared with this period a year ago?

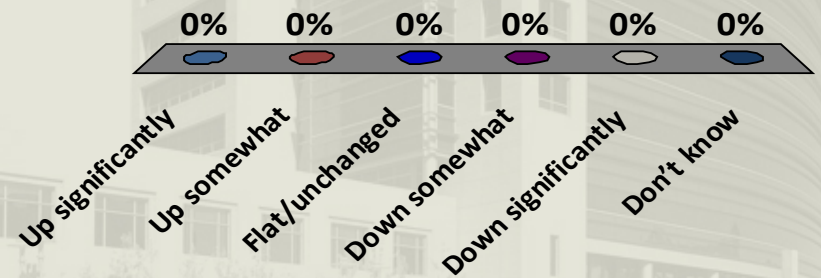
1. Up significantly
2. Up somewhat
3. Flat/unchanged
4. Down somewhat
5. Down significantly
6. Don't know





Q3: What is your firm's revenue/sales outlook for 2017 compared with 2016?

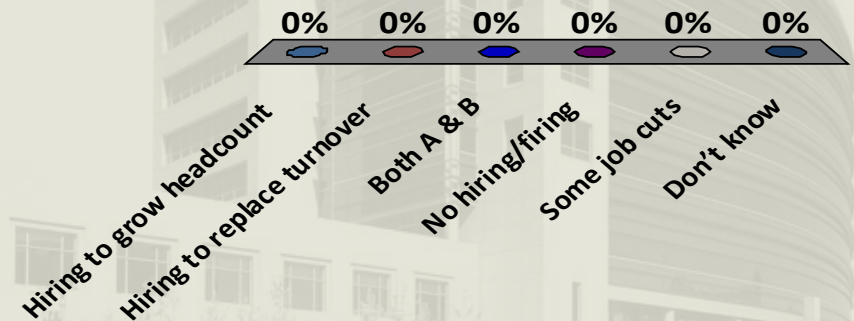
1. Up significantly
2. Up somewhat
3. Flat/unchanged
4. Down somewhat
5. Down significantly
6. Don't know





Q4: Describe current hiring activity at your firm or organization.

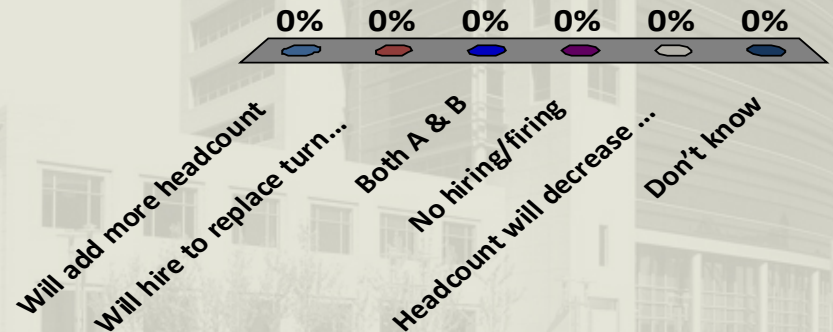
1. Hiring to grow headcount
2. Hiring to replace turnover
3. Both A & B
4. No hiring/firing
5. Some job cuts
6. Don't know





Q5: Describe the overall employment outlook for 2017 at your firm.

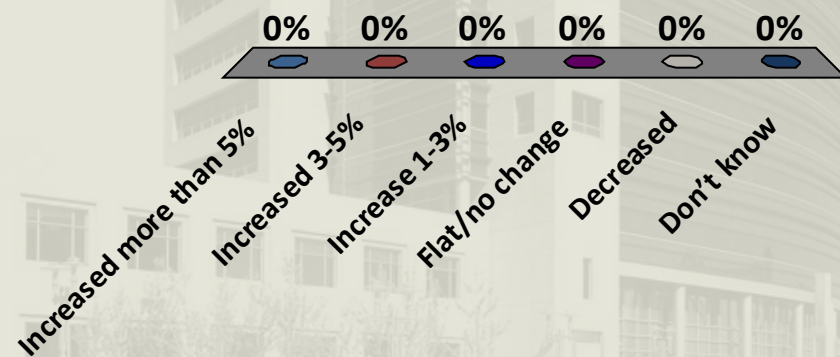
1. Will add more headcount
2. Will hire to replace turnover
3. Both A & B
4. No hiring/firing
5. Headcount will decrease (includes attrition)
6. Don't know





Q6: What happened to average wages at your firm in 2016?

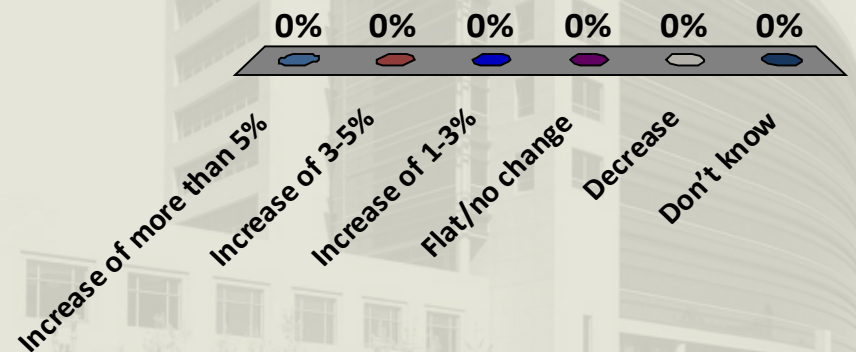
- A. Increased more than 5%
- B. Increased 3-5%
- C. Increase 1-3%
- D. Flat/no change
- E. Decreased
- F. Don't know





Q7: What are your firm's expectations for wages in 2017?

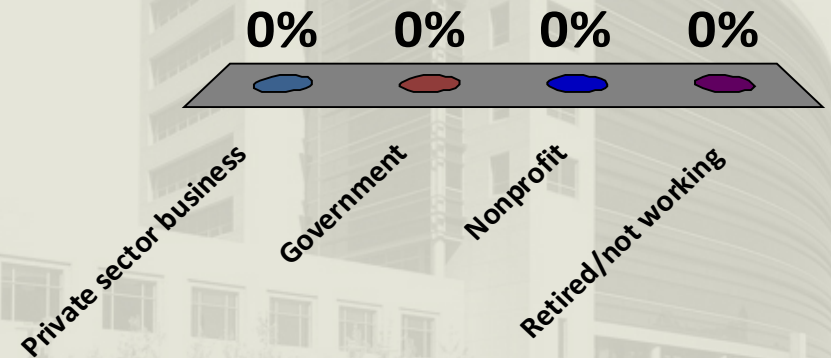
- A. Increase of more than 5%
- B. Increase of 3-5%
- C. Increase of 1-3%
- D. Flat/no change
- E. Decrease
- F. Don't know





Q8: What type of organization do you represent?

1. Private sector business
2. Government
3. Nonprofit
4. Retired/not working





Thank you!

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