

## The State of the Economy: October 30, 2009 A Monthly Update from Greater Twin Cities United Way

Following is a compilation of economic news from local and national sources, along with primary data from United Way 2-1-1™. Please contact Elizabeth A. Peterson, Ph.D., Director of Research & Planning, with questions or comments at 612-340-7429 or [peterson1@unitedwaytwincities.org](mailto:peterson1@unitedwaytwincities.org).

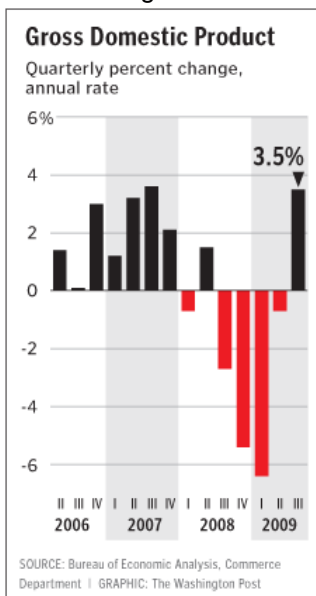
### **Local**

- ◆ The Minnesota unemployment rate dropped to 7.3% in September from 8.0% in August. State economist Tom Stinson expressed concern that the large decline could be due in part to a statistical anomaly. The state unemployment rate is now 2.5% lower than the national rate of 9.8%. (ST)
- ◆ Laid-off Minnesotans are no longer eligible to collect up to 79 weeks of unemployment benefits. The maximum period has been cut to 72 weeks because of the state's improved unemployment rate. The change could ultimately affect about 170,000 individuals. (ST)
- ◆ About 1,000 Minnesotans are reaching the end of their unemployment benefits each week, and state officials expect the number to spike around Christmas. (AP)
- ◆ The Federal Reserve Beige Book report for the Minneapolis District indicated economic activity was steady in September and early October. Manufacturing, energy, mining, and residential real estate saw moderate increases. Agriculture, consumer spending, and tourism were mixed; activity in services was flat. Construction and commercial real estate saw decreases. Labor markets remained weak. Wage increases were modest, and overall prices were generally unchanged. (Fed)
- ◆ Minnesota's manufacturing sector is slowly improving. In September's manufacturing survey, the Business Conditions Index was 55.4, down from 58.0 in August. Economists were not overly concerned about the drop since any reading above 50 signals growth. Over the past year, Minnesota employers have cut 40,100 manufacturing jobs. (ST)
- ◆ Regulators report that 71 of Minnesota's banks (22% of the total) are on an internal watch list, up from 65 in the spring of this year. (PP)
- ◆ A recent report found local downtown vacancy rates of 19.6% for the Twin Cities overall. St. Paul's vacancy rate stands at 25% while the vacancy rate for Minneapolis was 18.1%. (ST)
- ◆ Residential housing permits issued in the Twin Cities rose 5% in September compared to September 2008. (ST)
- ◆ Foreclosure inventory in the Twin Cities is down 60% from last year. There are now 1,960 foreclosed properties on the market compared to 4,886 in September 2008. (MAAR)
- ◆ The median sales price for homes in the third quarter was \$174,000. The median price for lender-mediated sales was \$125,000 while that for traditional sales was \$207,500. (MAAR)
- ◆ More than one-third (38%) of the home sales in the Twin Cities were lender mediated in the third quarter, compared to 31% in third quarter 2008 and 9% in third quarter 2007. (MAAR)
- ◆ Home prices in the Twin Cities were up 3.2% in August compared to July, one of the strongest showings in the country. (PP)
- ◆ Apartment vacancy rates in the Twin Cities rose to 6.4% in the third quarter, up from 4.1% in the same quarter a year ago. Average rent was \$908, down about 2% from the third quarter 2008. Job loss is the primary reason for the increasing vacancy rate—which is expected to increase further this winter. As a result of the troubled economy, many renters are downsizing or doubling up, while younger renters are moving back in with parents. (PP)
- ◆ In the Midwest, 15% of newly homeless people have become homeless because of foreclosure. While most of these were low-income renters whose landlords stopped making their mortgage payments, there has also been an increase in the number of former homeowners showing up in shelters. Three years ago, foreclosure was rarely a factor in becoming homeless. (NYT)

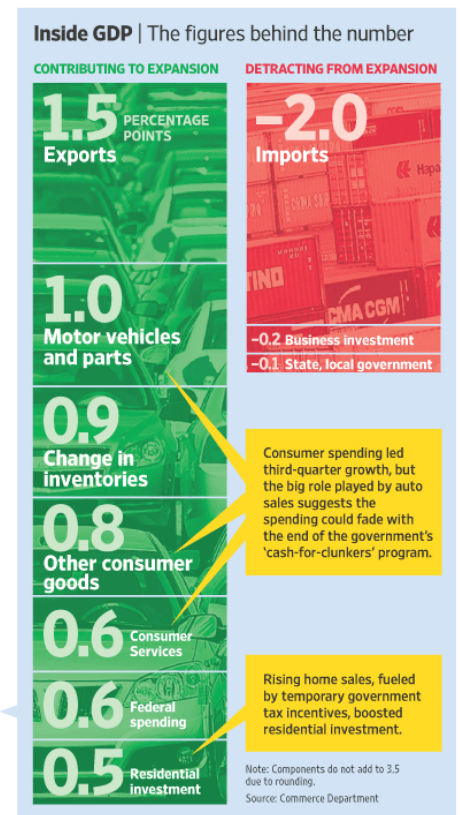
- ◆ Homeless shelters continue to operate at full capacity and often to over capacity. The Dorothy Day Center in St. Paul sheltered 4,731 people in September 2005. That increased to 6,298 in September 2008 and further increased to 6,651 in September 2009. (ST)
- ◆ The federal government has granted Minnesota and a few other states the authority to take food assistance calls (food stamps) over the phone. So far 176,000 Minnesotans have received food stamp assistance this year. After increasing by 1-2% annually over the last decade, the number of people receiving food stamps in Minnesota jumped 30% from August 2008 to August 2009. Currently approximately 8.5% of Minnesota households are using food stamps, up from 5.6% in 2008. Nearly 1 in 10 (9.4%) Minnesota households were eligible for food stamps in 2008. (MPR/ST)
- ◆ Requests from women throughout the metro area for protection orders are increasing. Hennepin County is on track for a 19% increase this year over last, and Ramsey County is seeing a 9% increase. Dakota County has reported a sharp rise in criminal violations of protection orders this year—they have already logged 191 violations compared to 133 in all of 2008. According to Hennepin County, the increase in requests for orders of protection has been accompanied by a decline in the divorce rate. They speculate that rates of violence are increasing among couples who have postponed divorce for economic reasons. (ST)

### National

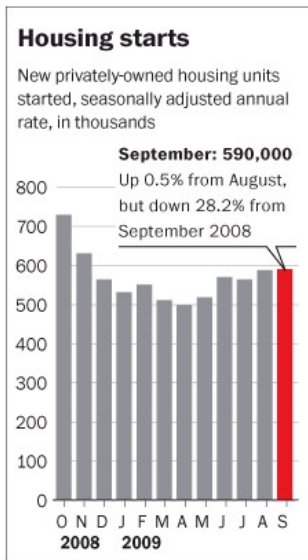
- ◆ The Gross Domestic Product grew 3.5% in the third quarter, a strong indicator that the U.S. is emerging from the recession. However, 2.2% of that 3.5% is related to vehicle purchases and residential construction—both supported by government monetary policy and stimulus efforts, leading many economists to believe that the growth will be short-lived. (WP/WSJ)
- ◆ The national unemployment rate increased to 9.8% in September, up from 9.7% in August. When discouraged workers and involuntary part-time workers are included, the unemployment rate stands at 17%, up from 16.8% in August. (BLS)
- ◆ Inflation remains low: The price index for gross domestic purchases, a broad measure of prices paid for goods and services, increased at an annual rate of 1.6% in the third quarter. Excluding volatile food and energy prices, the inflation index rose 0.5% in the third quarter. (NYT)
- ◆ The service sector grew in September for the first time in 13 months. The Institute for Supply Management reported that its service index hit 50.9 in September, up from 48.4 in August. Analysts had expected a reading of 50. A reading above 50 indicates expansion, while a reading below 50 indicates contraction. (ST)



- ◆ The Consumer Price Index rose 0.2% in September. Consumers paid less for food but slightly more for energy, gasoline, and clothing. Overall, prices in September were 1.3% lower than a year earlier. Housing costs, which make up a substantial portion of the CPI, fell 0.3% in September, reflecting rising residential vacancies and cheaper hotel rates across the country. The small increase matched economists' expectations. (NYT)
- ◆ Same store sales in September rose modestly—0.1%, but it was the first year-over-year increase since July 2008. Many are viewing this as the start of a retail recovery. (ST)
- ◆ Consumer spending dropped in September by 0.5%—the first decline in five months. The drop was in line with expectations. (NYT)



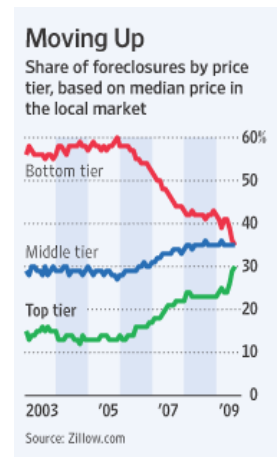
- ◆ Consumer confidence dropped in October and came in well below analysts' expectations. The Conference Board's index of consumer confidence fell to 47.7 in October from 53.4 in September. Economists were expecting a reading of 53.1. A reading of 90 indicates the economy is on solid footing, while a reading of 100+ indicates growth. Shoppers' sentiments about the state of the economy are the gloomiest they've been in nearly three decades. (PP)
- ◆ Consumers continued to pay down debt in August, reducing credit card debt for the 11<sup>th</sup> consecutive month. Revolving credit debt dropped by an annual rate of 13.1% in August. (WP)
- ◆ Output at factories, mines, and utilities rose for the third straight month in September: Industrial production rose 0.7%, far above the 0.2% increase that was expected. (AP)
- ◆ Personal income remained flat in September after rising 0.1% in August, matching economists' expectations. (NYT)
- ◆ Real disposable income fell 0.1% in September. Despite the fall in income, people saved more money, increasing the savings rate from 2.8% in August to 3.3% in September. (NYT)



SOURCES: Census Bureau, Department of Housing and Urban Development | GRAPHIC: The Washington Post

- ◆ Housing starts grew 0.5% in September compared with August, to a seasonally adjusted 590,000 annual rate. This was below the expected rate of 615,000 and down 28% from the same period last year. (WP)
- ◆ Applications for building permits, a sign of future activity, fell 1.2% in September. (WP)
- ◆ Existing home sales increased by 9.4% in September—the largest monthly increase in 26 years. The median price was \$174,900, down nearly 9% from \$191,200 a year earlier, and also lower than August's median price of \$177,300. (AP)
- ◆ Sales of new homes dropped unexpectedly in September: Sales fell 3.6% to a seasonally adjusted annual rate of 402,000 from a (downwardly revised) 417,000 in August. Economists had expected a pace of 440,000. The median sale price of \$204,800 was down 9.1% from \$225,200 a year ago, but up 2.5% from \$199,900 in August. (AP)
- ◆ Foreclosures increased by 5% in the third quarter as more than 925,000 homeowners received a foreclosure filing. (WP)
- ◆ There were 340,000 foreclosure filings in September—down 4% from August but an increase of 29% from September 2008. Banks repossessed nearly 88,000 homes in September, up from about 76,000 one month prior. (WP)

- ◆ Recent data suggest that foreclosures are increasing in the more expensive housing markets. About 30% of foreclosures in June involved homes in the top third of local housing values—up from 16% when the foreclosure crisis began three years ago. In contrast, the bottom one-third of housing markets (by home value) now account for 35% of foreclosures, down from 55% in 2006. (WSJ)
- ◆ More people are ending up homeless through foreclosure. Three years ago, foreclosure was rarely a factor in how people became homeless. But in the last year, an average of 10% of homeless people have lost their homes to foreclosure. (NYT)
- ◆ Health care costs are expected to increase 10% next year for employees, to an average of \$4,023 in premiums and out-of-pocket expenses. (WSJ)
- ◆ The number of people claiming jobless benefits for the first time remains high, averaging a seasonally adjusted 530,000. Initial claims need to fall below 450,000 to signal that employers are adding jobs. (PP)
- ◆ Employers have cut a net total of 7.2 million jobs during the current economic downturn. (ST)
- ◆ The recession has contributed to military enlistment rates: High unemployment and larger signing bonuses are credited with helping the U.S. military meet its annual recruiting goals for the first time since it became an all-volunteer force in 1973. The quality of recruits has also improved: 95% of army soldiers have a high school diploma, up from 83% in 2008, and fewer felons and overweight applicants enlisted. (T)



## **Company Information**

### **Layoffs**

- ◆ Wilder Foundation announced plans to eliminate 260 employee positions—about 40% of its staff—and several programs. The \$5.4 million in cuts amounts to a 35% reduction in its annual budget. (PP)
- ◆ Target has laid off 85 employees—8% of its corporate marketing staff—from its downtown Minneapolis headquarters. (ST)
- ◆ Blue Cross Blue Shield of Minnesota recently laid off 100 people, primarily from its information technology department. (ST)

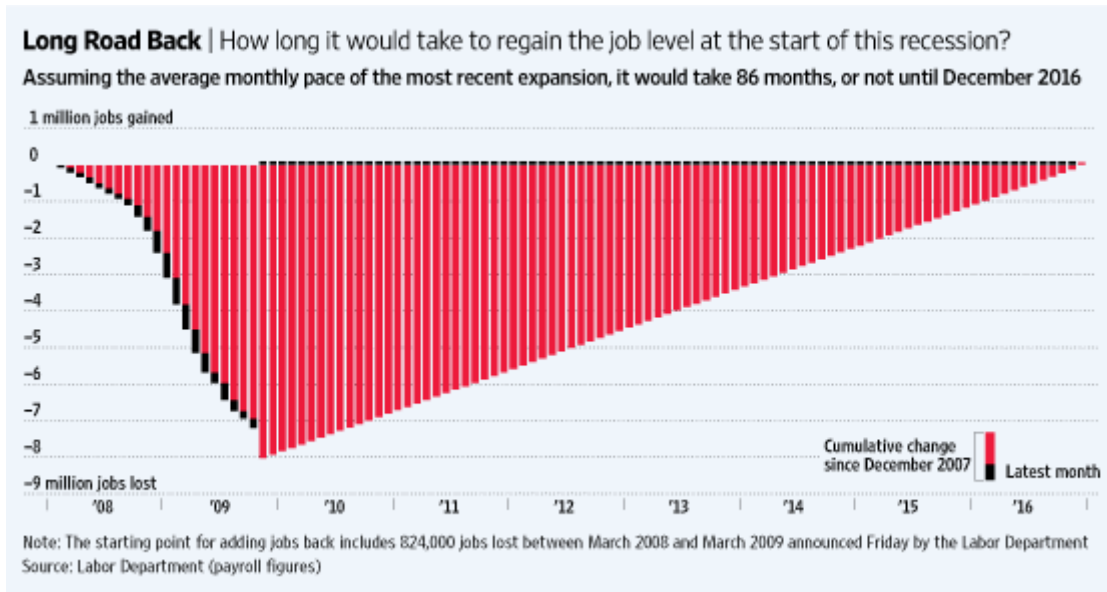
### **Other Company Information**

- ◆ Arctic Cat reported earnings of 81 cents per share, exceeding analysts' forecast of 62 cents per share. Stock shares increased 14%. (ST)
- ◆ Xcel Energy, Minnesota's largest utility, reported a quarterly profit of \$219.8 million—down from \$221.7 million for the same quarter in the previous year. The lower profits were tied to cooler weather, but were partially offset by rate increases in Minnesota, Colorado, Texas, New Mexico, and Wisconsin. Xcel officials report they expect to ask Minnesota regulators for a natural gas rate increase next year, though the size of the increase has not yet been decided. (PP)
- ◆ Proctor & Gamble, Colgate-Palmolive, and Kellogg all gave upbeat third-quarter results and anticipate even stronger outlooks for next year. (ST)
- ◆ Google recorded its highest profit ever in the third quarter of 2009. The company earned \$1.64 billion, a 27% increase from a year prior. (WP)
- ◆ Wells Fargo, the nation's eighth largest issuer of credit cards, is planning to raise interest rates by 3 percentage points on the vast majority of its nearly 6 million credit card customers. The higher rates will go into effect November 30—one day before Congress wants to enact new rules that put strict limits on rate increases on existing credit card accounts. (ST)

### **Forecasts**

- ◆ More than 80% of economists believe the recession is over and an expansion has begun, but they expect the recovery will be slow as worries over unemployment and high federal debt persist. (ST)
- ◆ Some economists expect consumer spending to slow sharply in the 4<sup>th</sup> quarter, resulting in a lower quarterly GDP of 1.5% to close out the year. Analysts are not ruling out the possibility of a double-dip recession. (ST)
- ◆ The National Association for Business Economics expects growth to slow to 2.4% in the 4<sup>th</sup> quarter, and show a small increase to 2.5% in the first quarter of 2010. (PP)
- ◆ Analysts warn that the road ahead will remain challenging, as excessive debt and high unemployment weigh on the economy. The economy needs to grow faster than 4% annually to reduce the unemployment rate. (PP)
- ◆ Economists believe that the housing market is bottoming out and expect home prices to stabilize in late 2010. (AP)
- ◆ Some economists expect the unemployment rate to reach 10.5% next year, resulting in additional housing foreclosures and a further decline in housing prices. (AP)
- ◆ The jobless rate is projected to hit 10% by December of this year, dropping no further than to 9.4% by the end of 2010. The economy is forecast to add about 200,000 jobs over the next 12 months. (WSJ)

- ◆ The labor market will take years to return to its prerecession levels. On average, economists don't expect unemployment to fall below 6% until at least 2013. Unemployment is expected to peak at 10.2% in February. (WSJ)



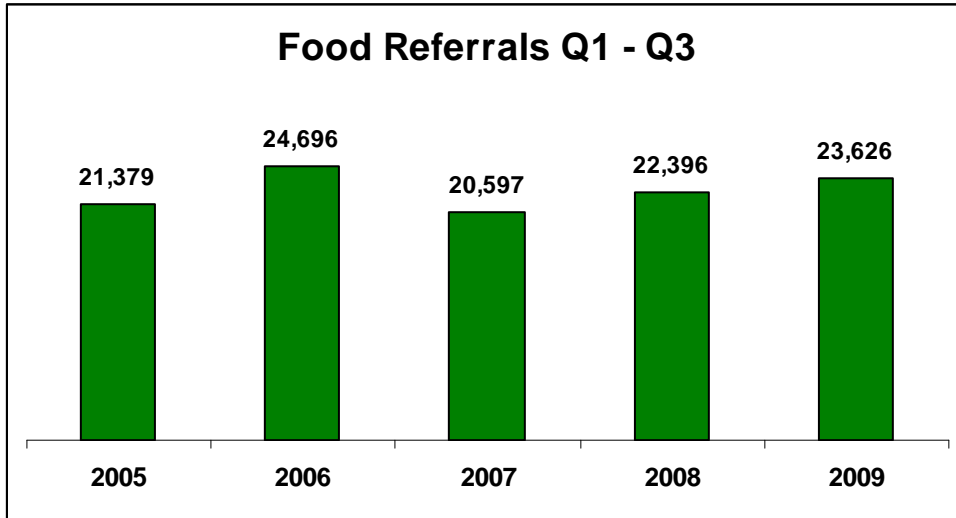
Source: Wall Street Journal

- ◆ Economists expect growth to top 2.5% at a seasonally adjusted annual rate through 2010. (WSJ)
- ◆ Economists generally are not concerned about inflation. The consumer price index isn't expected to exceed 2% through 2010. (WSJ)
- ◆ Nearly three-quarters of economists polled say the government will have to raise taxes on the middle class at some point over the next six years. (WSJ)

Sources: *Star Tribune* (ST); *Pioneer Press* (PP); *Minneapolis St. Paul Business Journal* (MSPBJ); MinnPost.com (MNP); Housing Link (HL); Hunger Solutions (HS); *Chronicle of Philanthropy* (CP); Minneapolis Area Association of Realtors (MAAR); *Washington Post* (WP); CNNMoney.com (CNN); *New York Times* (NYT); *Wall Street Journal* (WSJ); Minnesota Department of Employment and Economic Development (DEED); U.S. Department of Labor, Bureau of Labor Statistics (BLS); Federal Reserve Bank (Fed); U.S. News and World Report (USN); *Economist* (E); Moody's Economy.com (M); Associated Press (AP); Bloomberg.com (B); Minnesota Public Radio (MPR); Research Alert (RA); Los Angeles Times (LA); Reuters (R); Mortgage Bankers Association (MBA); *USA Today* (USA); Conference Board (CF), *Time Magazine* (T)

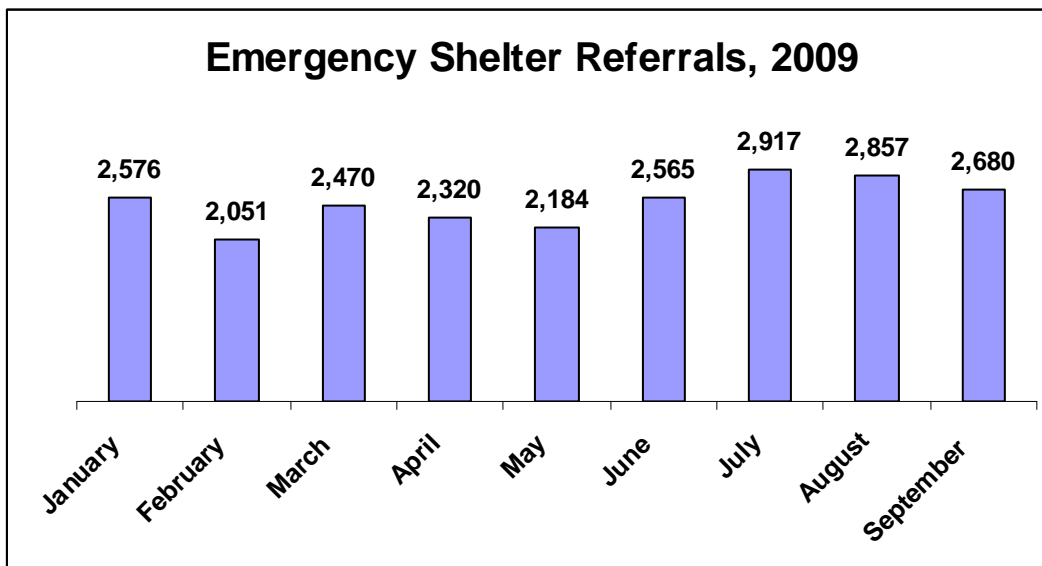
**2-1-1 Data (through September 2009)**

Requests for emergency food have been high throughout 2009. Looking at the first three quarters, food referrals were 6% higher in 2009 than the average for 2005 through 2008. More than 8,800 emergency food referrals were made in the third quarter of 2009.



Source: United Way 2-1-1.

Requests for emergency shelter have been similarly high throughout the year. More than 2,000 households have been referred to emergency shelter every month throughout 2009. Nearly 3,000 households were referred in the month of July.



Source: United Way 2-1-1