

The State of the Economy: January 22, 2010 A Monthly Update from Greater Twin Cities United Way

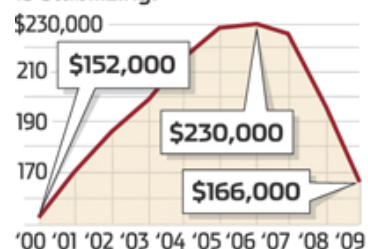
Following is a compilation of economic news from local and national sources, along with primary data from United Way 2-1-1™. Please contact Elizabeth A. Peterson, Ph.D., Director of Research & Planning, with questions or comments at 612-340-7429 or petersonl@unitedwaytwincities.org.

Local

- ◆ Minnesota's unemployment rate remained unchanged in December, at 7.4%. This is significantly lower than the national rate of 10%. (DEED)
- ◆ Employers eliminated 4,100 jobs in December. The greatest losses were in the Trade, Transportation and Utilities sector (down 3,800), followed by Construction and Financial Activities (both down 1,700). The Leisure and Hospitality sector eliminated 1,300 jobs. The largest growth was seen in the Professional and Business Services sector, which added 3,900 jobs (primarily administrative and support services, including temporary help). The Manufacturing sector added 1,000 jobs. (DEED)
- ◆ A total of 8,000 workers left the workforce in December, due to discouragement, retirement, and other reasons. (ST)
- ◆ Over the year, Minnesota lost 3% of its jobs, matching national figures. (ST)
- ◆ Minnesota's manufacturing sector is starting to gain strength, though the manufacturing index dropped to 53.5 in December from 57.1 in November. However, any reading above 50 indicates growth, while a reading below 50 indicates contraction. (ST)
- ◆ Over the past year, Minnesota manufacturers have cut 11% of their employees—approximately 36,500 jobs. (ST)
- ◆ The median price for a home in the Twin Cities averaged \$166,000 in 2009, down 15% from 2008. Prices are expected to continue to decline in 2010, though not as steeply. (PP)
- ◆ The average price for a lender-mediated home sale was \$124,000 in 2009; the average price for a traditional home sale was \$204,000. (PP)
- ◆ Twin Cities closed home sales increased by 16.7% in 2009 compared to 2008. Home sales at the lower end of the housing market (less than \$150,000) increased by 72%. (ST)
- ◆ The Twin Cities housing inventory is down 22% from a year ago. (ST)
- ◆ In the third quarter, 15.5% of Minnesota homeowners had negative equity, meaning they owe more on their homes than their homes are worth. (ST)
- ◆ Minnesota saw 21,309 bankruptcy filings in 2009, up 29% from 2008. (PP)
- ◆ Minnesota has received \$11.6 million from the federal government for heating assistance grants this winter. This is in addition to the state's regular heating assistance budget of \$143.3 million. So far the program has helped more than 113,000 Minnesota households, with grants averaging about \$600 each. The federal funds will help more than 14,000 additional households. (PP)
- ◆ An estimated 250 to 300 homeless people sleep outdoors each night in downtown Minneapolis and nearby neighborhoods. (MNP)
- ◆ The Twin Cities will receive \$37 million from the federal government to help neighborhoods that have been severely impacted by the foreclosure crisis. The funds will be directed primarily to Minneapolis, St. Paul, and Brooklyn Park. (ST)
- ◆ The Minnesota Department of Commerce, regulator of banks and credit unions in Minnesota, estimates that its watch list of banks at risk of failure is now at 90, up from 50 a year ago and 26 in June 2007. The driving force is rising losses on commercial real estate projects. The delinquency rate on commercial real estate loans made by Minnesota banks has nearly doubled over the past two years. (ST)

Retreat continues

The median sale price of a home in the 13-county Twin Cities metro area fell to levels not seen in nearly a decade. Still, some see signs the market is stabilizing.

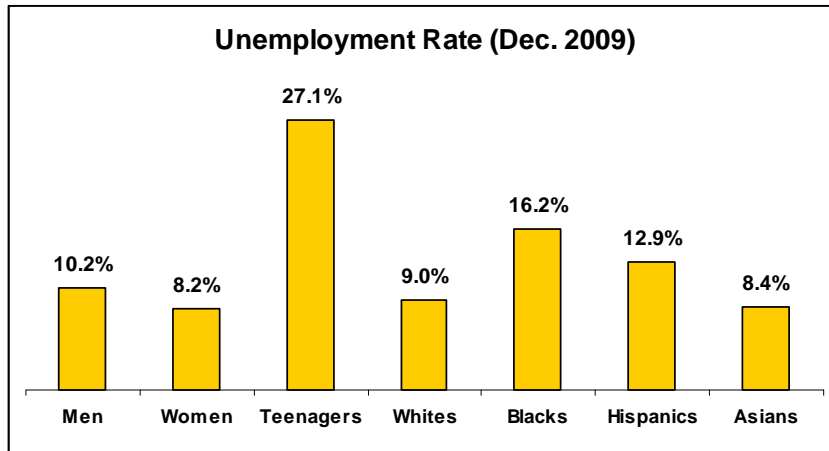
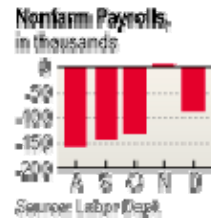


Source: Local Realtor groups

PIONEER PRESS

National

- ◆ The national unemployment rate for December was 10%, unchanged from November. The nation lost 85,000 jobs as employment fell in construction, manufacturing, and wholesale trade. (BLS)
- ◆ The December work force declined by 661,000 people, indicating that more of the jobless are giving up on their search for work. (AP)
- ◆ When discouraged workers and involuntary part-time workers are included, the unemployment rate stood at 17.3% in December, up from 17.2% in November. (BLS)
- ◆ Forty percent of unemployed individuals had been unemployed for 27 weeks or more in December 2009. This compares to 23% in December 2008. (BLS)



- ◆ Unemployment rates vary significantly by demographic group. Teenagers are experiencing the highest rates of unemployment, while women and Asians are experiencing some of the lowest rates of unemployment. (BLS)
- ◆ Of the 7.2 million jobs that have been eliminated in the last two years, 1.6 million, more than 1 in 5, were in the construction sector. (WSJ)
- ◆ There are currently more than six workers competing, on average, for each job opening.

In December 2007, when the recession began, there were 1.7 workers per job opening. (PP)

- ◆ The Institute for Supply Management reported the manufacturing index for December climbed to 55.9, up from 53.6 in November. Numbers above 50 indicate expansion while numbers below 50 indicate contraction. (ST)
- ◆ Construction activity fell for the seventh consecutive month in November, as spending on both residential and commercial projects declined. Construction spending was down 0.6%, a bigger decline than the 0.4% drop that analysts had been expecting. (AP)
- ◆ Retail sales declined 0.3% in December compared to November. Economists had anticipated a 0.5% increase. (ST)
- ◆ Overall retail sales fell 6.2% in 2009, the biggest decline on government records that go back to 1992. The only other year to see a decline in annual sales was 2008, when they dropped 0.5%. (ST)
- ◆ In the last year, wages have risen 2.2%, not enough to offset inflation. (WSJ)
- ◆ Weekly earnings have fallen in five of the past seven years. (AP)
- ◆ Inflation was relatively low in 2009, with prices rising 2.7%. But purchasing power declined due to falling wages, job losses, and higher prices for energy, medical care, and education. (ST)
- ◆ Inflation-adjusted weekly wages for 2009 were down 1.6%, the biggest decline since 1990. (ST)
- ◆ A recent survey found that 14% of companies are planning across-the-board wage freezes in 2010, compared with 30% that did so last year. (WSJ)
- ◆ A record 2.8 million households faced foreclosure in 2009, an increase of 21% from 2008. The number is expected to be even higher in 2010, as more unemployed and underemployed homeowners fall behind on their mortgages. (PP)
- ◆ In December, nearly 350,000 households received a foreclosure-related notice, up 14% from November. (PP)
- ◆ More than 3 million homes are expected to enter some phase of foreclosure in 2010. (PP)

The Wage Story

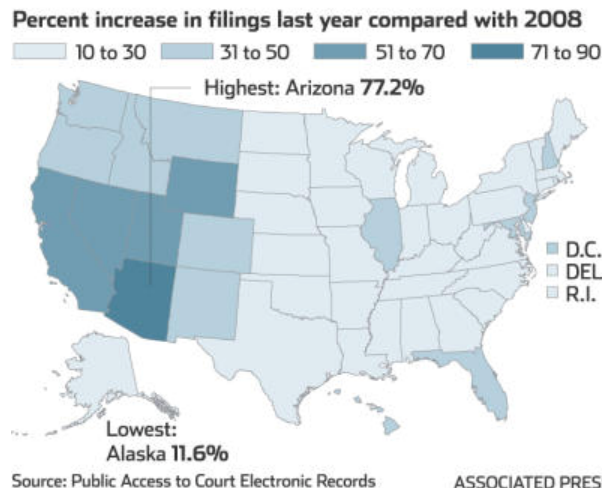
Inflation-adjusted wages have slumped during the past year, after a sharp drop in inflation boosted them in 2008.



Note: December 2009 figure is WSJ estimate

Source: Labor Department

Bankruptcy filings boomed nationwide last year compared with 2008, with state increases ranging from 11 percent to 77 percent.



- ◆ More than 1.4 million petitions for bankruptcy were filed in 2009, an increase of 32% over 2008. Arizona saw the largest increase, at 77%. (PP)
- ◆ About 6 million Americans receiving food stamps report they have no other income. This represents one of the fastest growing subgroups: recipients with no cash income. This means no welfare, no unemployment insurance, no pension, no child support, and no disability pay. The numbers were rising before the recession as tougher welfare laws went into effect, but they have increased by about 50% over the last two years. About 1 in 50 people now lives in a household with a reported income that consists of nothing but food stamps. (NYT)
- ◆ The U.S. Department of Education reported 794,617 homeless students for the 2007-2008 school year, an increase of 17% from the year before. (PP)

- ◆ Approximately two-thirds of this year's college freshman have "some" or "major" concern about their ability to pay for their education, and the number of students taking out loans (53%) is at its highest level in nine years. (NYT)
- ◆ The number of working mothers who are the sole breadwinner for their family rose last year to an all-time high. The number of stay-at-home dads has also increased, a shift of traditional gender roles driven in part by the recession. (AP)
- ◆ A recent survey conducted for The Conference Board found that only 45% of workers are satisfied with their jobs, down from 61.1% in 1987. (CB)
- ◆ According to a recent poll, nearly half of Americans are spending less time buying nonessentials, and more than half are spending less money in stores and online. They are spending more time with family and friends, gardening, cooking, reading, watching television, and engaging in other hobbies. They are also spending more time taking part in organizational, civic, and religious activities. (NYT)

Company Information

Job Eliminations and Layoffs

- ◆ Tyson foods is eliminating 480 jobs in Iowa as it shifts some of its beef and pork production to Tennessee and Texas. (ST)
- ◆ Lockheed Martin is cutting 1,200 jobs this spring as it consolidates two of its business units. Lockheed laid off 730 people last year. (WP)

Other Company Information

- ◆ TCF reported a 30% drop in fourth-quarter profits, due primarily to losses on real estate loans. It posted fourth-quarter net income of \$19.5 million, down from \$27.7 million a year prior. The bank saw strong growth in deposits and loans. (ST)
- ◆ TCF plans to end "totally free checking" accounts and plans to introduce a monthly maintenance fee on more than 1 million accounts that previously had none. The fee will go into effect early this year. (ST)
- ◆ Target Corp. reported increased sales in December, with sales in stores open at least a year up 1.8% during the five weeks ended January 2. Analysts expected a 0.2% decline. Total sales rose 5% to \$9.74 billion. (PP)
- ◆ Target is responding to the economic downturn by renovating old stores rather than opening new ones, and seeking growth in countries outside the United States. In 2010, the company will spend \$1 billion renovating 340 stores while opening fewer than 10 new ones. (ST)
- ◆ Best Buy reported a strong December as sales in stores that had been open at least a year rose 8.2%. This compares to a 6.5 drop one year earlier. Best Buy saw a 9.3% rise domestically and a 3.5% increase internationally. Total sales rose 13% to \$8.5 billion. (ST)

- ◆ Marvin Windows, located in Warroad, MN, expects 2010 to be as challenging for the company as 2009. There was no profit sharing with employees in 2009, while in 2008 Marvin distributed \$6.4 million in profits to more than 3,000 employees. Factory workers are currently working 32-hour weeks because of lower demand. (ST)
- ◆ Minnetonka-based UnitedHealth Group reported fourth-quarter profits rose 30%. Profit for the quarter was \$994 million, beating analysts' forecasts. For the full year, profits were up 28%. (ST)
- ◆ Wells Fargo reported profits of \$2.8 billion for the fourth quarter and profits of \$12.3 billion for the year. (NYT)
- ◆ Citigroup reported a loss of \$7.6 billion in the fourth quarter and an overall \$1.6 billion loss for the year, reflecting continued difficulties with bad mortgages and credit card loans. Bank employees received an average of \$94,000 in bonus pay last year, about the same as in 2008. (WP)
- ◆ J.P. Morgan Chase posted a \$11.7 billion profit for 2009. (WP)
- ◆ Goldman Sachs reported earnings of \$13.39 billion for 2009. Average pay per employee is \$498,000, up 37% from 2008. (WP)
- ◆ Xerox reported fourth-quarter earnings of \$180 million, up from \$1 million a year prior. (WSJ)
- ◆ General Electric's profits declined 19% in the fourth quarter, but still exceeded analysts' expectations. G.E. reported profits of \$3 billion in the final quarter, compared with \$3.7 billion for the same quarter a year earlier. (NYT)
- ◆ McDonald's Corp. reports its fourth-quarter earnings increased 23%. For the quarter, McDonald's reported a profit of \$1.22 billion. (WSJ)
- ◆ Harley-Davidson reported losses of \$218.7 million in the fourth quarter, a reversal from a profit of \$77.8 million a year prior. (PP)
- ◆ Google reported profits of nearly \$2 billion in the fourth quarter. Fourth-quarter revenue totaled \$6.67 billion, a 17% increase. (WP)

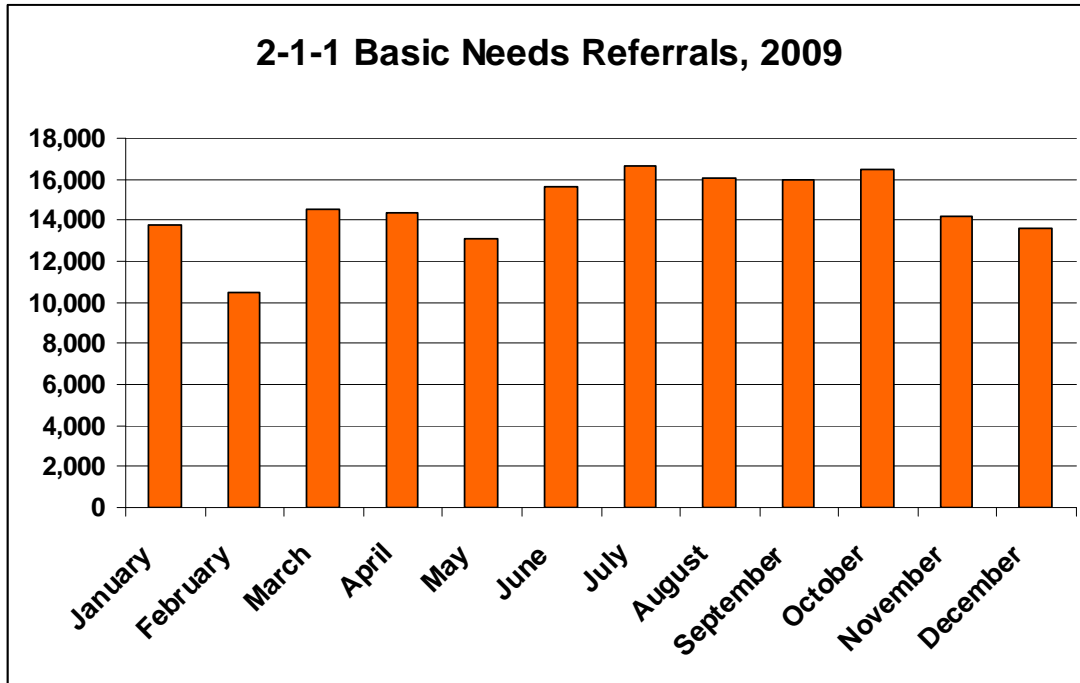
Forecasts

- ◆ Pat Paulson, a Minneapolis realtor who handles foreclosures for banks, expects historically high numbers of foreclosures for the next two years. (ST)
- ◆ Home prices are expected to drop an additional 3-5% in 2010. (ST)
- ◆ Core inflation is expected to remain low throughout 2010. (AP)
- ◆ Economists are anticipating an annual average GDP of 1.9% between 2009 and 2019. The low rate of growth is anticipated because of increased savings rates, declining use of credit, the large national debt, and a less qualified labor force. Productivity is expected to grow at 1.5% a year. (WSJ)
- ◆ The unemployment rate is expected to remain high, at 9.8% in the fourth quarter of 2010 and 8.9% in the fourth quarter of 2011. (BMW)
- ◆ Many of the jobs lost in the recession will not return, even as the economy recovers. The jobs created by the housing boom and credit markets are most likely permanently gone. This permanent loss of many jobs may keep the labor market from fully recovering for a long time. There is also a possibility that the U.S. is shifting from a consumer nation to a nation of producers, which would lead to a resurgence in technology and high-tech manufacturing jobs. (WSJ)

Sources: *Star Tribune* (ST); *Pioneer Press* (PP); *Minneapolis St. Paul Business Journal* (MSPBJ); *MinnPost.com* (MNP); *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); *Time Magazine* (T); *Conference Board*(CB); *Barron's Market Week* (BMW).

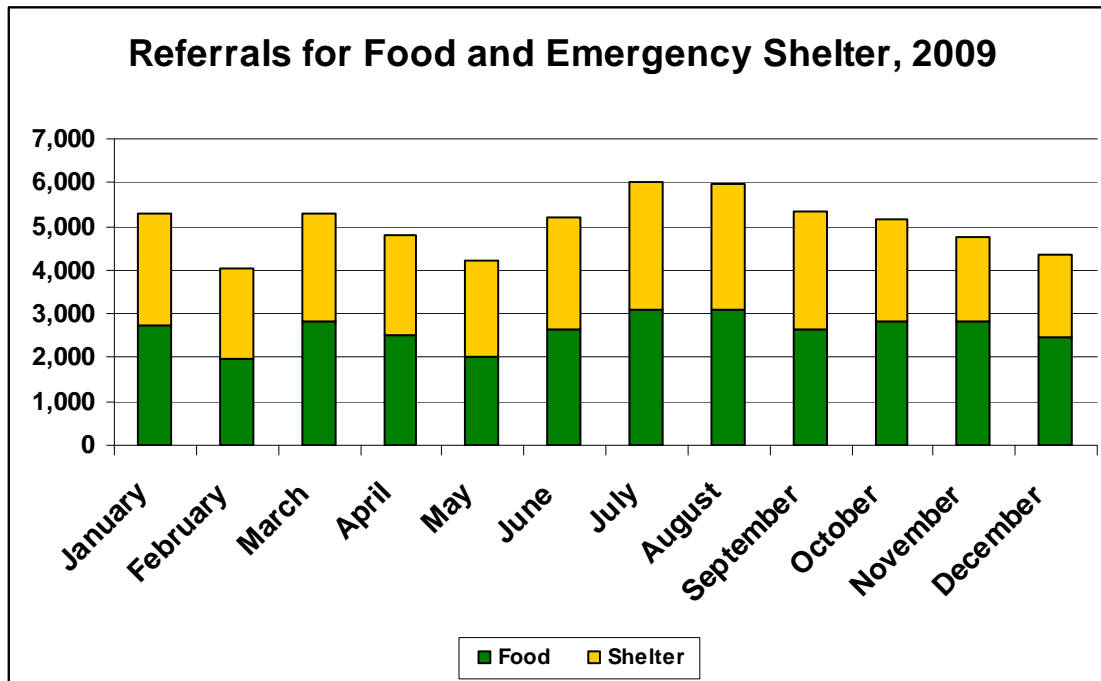
2-1-1 Data (through December 2009)

United Way 2-1-1 made nearly 175,000 referrals for basic needs in 2009. Referrals peaked in July at 16,680. No month saw fewer than 10,000 referrals for basic needs such as food, clothing, housing, and emergency shelter.



Source: United Way 2-1-1.

Requests for emergency food and shelter have been high throughout 2009, together accounting for more than one-third of the referrals for basic needs.



Source: United Way 2-1-1.