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Recession in Minnesota: Part 1 of three articles

The big question for economic recovery: Which stresses are merely cyclical and which indicate a cold, new reality?

By Sharon Schmickle | Tuesday, July 7, 2009

By kicking [a massive budget imbalance](#) two years into the future, Minnesota is betting big time on recovery from this recession — hoping that a rebound will save the state from fiscal disaster. But odds are high that some trends troubling the state are not merely cyclical.

To shed light on the odds, MinnPost will examine Minnesota's economy over the rest of this year, assessing damage region by region and looking ahead to prospects for recovery. We begin with this overview and this question: Is the recession changing Minnesota's economy?

Actually, that's a trick question. The best answer would be another question: Which Minnesota economy?

Minnesota has at least six distinct regions, which the recession has battered at different times and in different ways.

Twin Cities' financial flu

The more a region's economy resembles that of the Twin Cities, the earlier and harder it was hit, said Kyle Uphoff, who manages regional analysis for the state Department of Employment and Economic Development.

St. Cloud, for example, took a swift, sharp wallop. Construction there had boomed in recent years along with population.

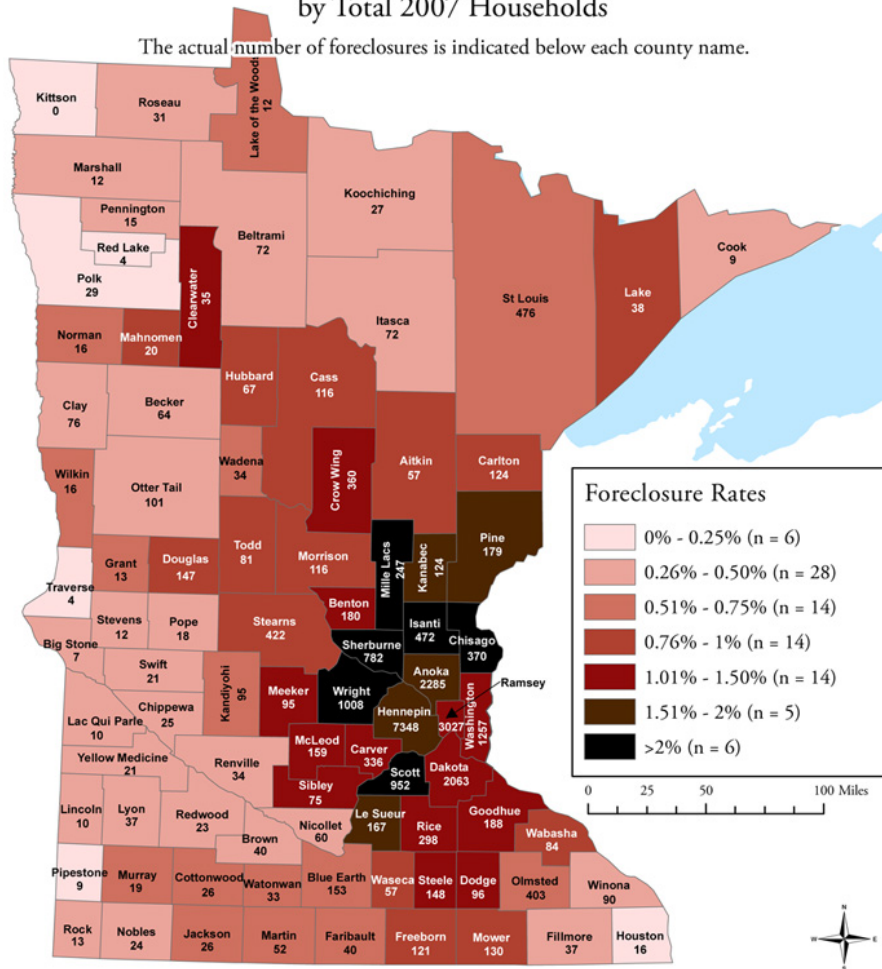
On the other side of the picture, the housing bubble that set off this recession missed much of the state outside major metro areas. Logically, so did the bubble's burst.

"If you move beyond the central region — say to northwestern and southwestern Minnesota — those two parts of the state didn't exhibit high growth before the recession and they have not exhibited heavy losses either," Uphoff said.

You can see the stark differences in this map of 2008 foreclosure rates prepared by the nonprofit HousingLink. Counties with the highest rates are clustered in and near the Twin Cities.

Minnesota Foreclosure Rates (2008)[^] by Total 2007 Households

The actual number of foreclosures is indicated below each county name.



Foreclosures in Minnesota (February 2009 Supplement)

Funded by: Greater MN Housing Fund, MN Housing, Family Housing Fund, & MN Home Ownership Center

[^] Foreclosure Rate = the number of foreclosed mortgages as a percent of total households

Data Source: County Sheriff's Sales (data collected by HousingLink & CURA)

MN State Demographic Center (2007 household estimates)



Click on chart to enlarge

With a few exceptions in chronically poor counties, the same pattern ran through mortgage delinquency rates mapped by the [Federal Reserve Bank of New York](#). Two to 5 percent of the households in counties in and around the Twin Cities were more than 90 days behind in their mortgage payments at the end of 2008, while property owners elsewhere in Minnesota were more current — especially in the state's southern and western reaches.

By another measure, the distressed financial sector also was concentrated in the Twin

Cities, where about 8 percent of the jobs were in financial activities compared with 6.7 percent for the state as a whole (including the Twin Cities, which means the concentration was even lower in Greater Minnesota).

No free pass

This is not to say the other regions got a free pass from the financial crisis. As credit dried up for mortgages, so did new construction everywhere. Jobs for carpenters, plumbers, electricians and many others were swept away in the fallout, said David Nelson of the University of Minnesota Extension Service in Mankato.

"I went to a trap range near Le Center to shoot sporting clays with a shotgun, and I was surprised to see a plumber I know running the trap," Nelson said.

"How you doing?" Nelson asked.

"Pretty good."

"How long you been working here?"

"Three weeks."

"What brings you here?"

"Got laid off."

It's the litany of hard times. And right now, it's repeated throughout Minnesota. The critical — yet unanswered — question for Minnesota is how many of the layoffs are permanent.

"I know some contractors have unhung their shingles," Nelson said. "They were sole proprietors, and they have closed their doors."

And paychecks related to construction, especially new home construction, will not return to the pre-recession levels anytime soon, said experts in every region. Whether they built houses in Worthington, Waseca or Wadena, some of those workers will need to find new skills or new uses for old skills.

The impact of that cold reality goes beyond the workers who wielded the hammers and hung the drywall. A myriad of small businesses throughout the state supplied construction contractors. Up north, they cut the timber that went into the boards that went into the houses. Further south, they delivered everything from cement for basements to asphalt for roofs.

Now, a good share of the state's uncertainty hinges on thousands of those workers who are looking for new ways to earn a paycheck.

Points of vulnerability

Manufacturing held its own initially, but eventually it too slowed down almost everywhere in the state, said Tobias Madden, a regional economist for the Federal Reserve Bank of Minneapolis.

Window makers and everyone else supplying building construction were especially hard hit. So were makers of big-ticket toys like boats and snowmobiles.

In this sense, some pockets of Greater Minnesota are suffering even more than the Twin Cities.

"It is typical to have one or two industries in a town," Madden said. "So generalities about overall manufacturing don't show town-by-town what is happening."

(In the next installment of this series, see MinnPost's report on one Minnesota town that is fighting to survive the loss of its largest employer.)

A wave of auto-industry fallout

Also vulnerable are the thousands of Minnesota workers who depend on the American auto industry — from taconite miners on the Iron Range to mechanics at small-town car dealerships.

The loss of dealerships is not going to be a ripple here and there, but "a wave riding through our economy," predicted Kurt Thompson, a loan officer for the Southwest Initiative Foundation. The 25 or more jobs a dealer typically creates can make or break a small town's fortunes.

And the state has yet to reckon with the proportions of the loss.

"We just don't know yet," Thompson said. "We don't have enough information."

Taconite's double whammy

Meanwhile, taconite mines suffered a double whammy as the car makers' slump came on top of cutbacks in steel orders from China, India and other places. Abrupt shutdowns on the Iron Range have sent unemployment numbers soaring into the double digits.

Even within regions, the vulnerabilities differ county by county, often depending on demographics.

Along lakeshores near Brainerd, for example, employment numbers don't accurately reflect changes in household incomes because so many retirees live there.

One critical question for the state's fiscal future is whether those retirees, so vital to the economies of towns like Brainerd and Bemidji, will be forced to cut spending too, whether their 401(k) accounts effectively will be "201(k)s" for some time to come.

Farmers hold a wild card

The last recession that cut this deep came in the 1980s. It permanently changed Minnesota's economy because farm land values collapsed driving many families off their farms. Small towns withered as former farmers took jobs in regional centers like Willmar and Mankato and shopped there too.

This recession is completely different.

"We don't have any evidence to tell a story of a collapse of rural real estate this time," said Steven Taff, an extension economist at the University of Minnesota whose specialties include agricultural policy and local public finance.

Thanks to record high corn prices, crop farmers surged forward last year while the rest of the state hit the ditch. Livestock farmers struggled more because they had to pay the same high prices to feed their cows and pigs. And now, low milk prices are knocking some dairy farmers out of business.

But the farmers' overall plight is nothing like the farm crisis of the 1980s.

What's good for farmers is good for their regions and for the state because they generally spread their earnings to local banks, stores and implement dealers.

Many small towns have retooled

Meanwhile, many small towns have stabilized. While their main streets are depleted, they are cashing in on village-scale charm and transforming their neighborhoods into bedroom communities for people who work in regional centers.

"People are not leaving in droves," said Ryan Pesch who serves 11 west central counties for the University of Minnesota Extension Service. "A lot of small towns have been retooling for a number of years to make themselves more attractive as places to live."

Agriculture no longer drives Minnesota's economy and it hasn't for decades. But as a sector, it is at least as important as housing and manufacturing.

"If you look at all of the things farmers buy and all of the people with jobs related to their yields, you see that a lot of folks in this state make a living and keep shoes on the kids by growing, shipping and processing food," Taff said.

Now, with new crops rising in Minnesota's fields, agriculture is a wild card in the state's recovery. And economists have no sure way to predict how the card will be played. From food choices in China to storms riding the jet stream, the fate of these crops is subject to a myriad of variables that are shaped by events outside Minnesota's borders.

Looking ahead

While the powers that be at the State Capital clearly hope that a rebounding economy will save the state from fiscal disaster a couple of years hence, this is nowhere near a safe bet,

say experts who have watched the global economic downturn force lingering, if not permanent, damage on some sectors of Minnesota's economy.

"Gov. Pawlenty and the Legislature have this belief that what goes around comes around, so you hunker down, you make an adjustment, shift here, take one-time money there and by the time we get to 2012, the economy will be humming again," said Jack Geller, former president of the Center for Rural Policy and Development in St. Peter and now at the University of Minnesota Crookston.

But odds are high that some trends troubling the state are not merely cyclical.

"What happens if what goes around doesn't come back around?" Geller asked. "I hope they are right, but I don't believe it. There may, in effect, be a new reality out there. A lot of things in the Minnesota economy have fundamentally changed."

Many Minnesota companies will rebound with the national economy, and some jobs related to housing will come back because that market has sunk so low, predicted Madden at the Minneapolis Federal Reserve. Still, the recession-driven job churn will force legions of workers to switch careers. Wrenching though that may be for individuals, Madden points out that change is an economic constant.

"In a vibrant economy, there are always industries and companies that are destroyed and replaced," Madden said. "Our economy pretty much lets the winners win and the losers lose."

Exhibit A is Minnesota's medical-device industry. It provides some of the state's best jobs today, jobs that didn't exist a generation ago.

The trick now is sorting through temporary recession-related change to identify the long-term impacts and follow the jobs accordingly.

"We always see permanent shifts happening, but it's hard to say which ones are happening now," Madden said.

One promising horizon is in renewable energy and related green jobs, said Uphoff at DEED. (See MinnPost's audio/slide-show report below on new green jobs in Morris and Starbuck.)



The state has yet to put firm numbers, though, on how many permanent jobs will come as more companies capture the wind, gasify biomass and deploy other new technologies to create and save energy.

Some of Minnesota's wind turbine manufacturers laid off workers this summer as their customers adjusted to tight financing and other recession-related problems. But new projects keep springing up statewide.

"There are a lot of groups looking at this from different angles," Uphoff said. Very broadly, the biggest hope for Greater Minnesota is to look at its strengths and build on them."