

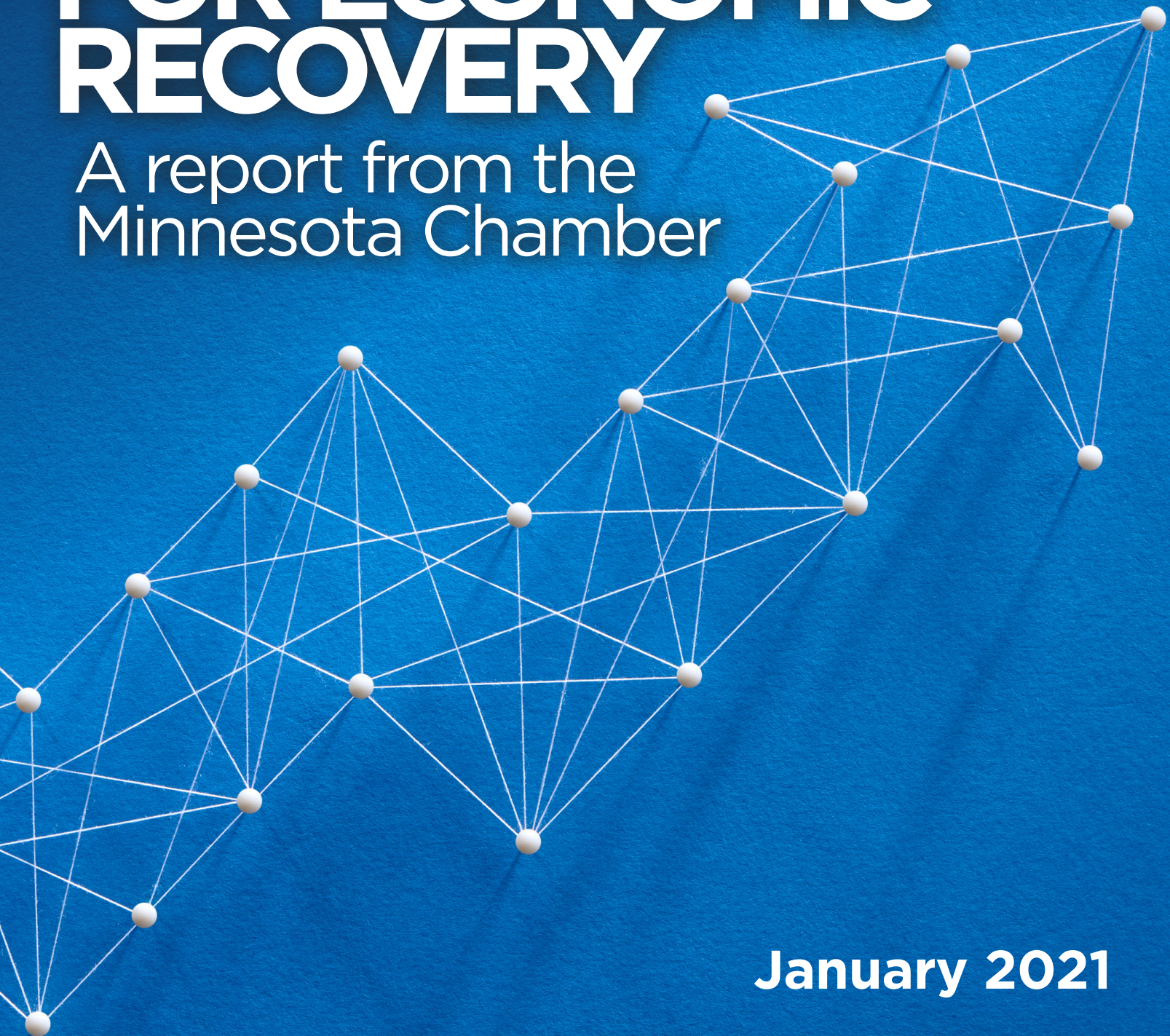
**MINNESOTA
CHAMBER OF
COMMERCE**

GROWING MINNESOTA

BLUEPRINT FOR ECONOMIC RECOVERY

A report from the
Minnesota Chamber

January 2021



Why is economic recovery important?

News of an available vaccine propelled the state – and nation – into a different phase of the pandemic. Despite ongoing shut downs, the business community is poised and ready to kick start economic recovery from the impacts of COVID-19.

This report provides data to illustrate those initial severe and unprecedented impacts of the pandemic and government interventions as well as the ongoing uncertainty and challenges. An economic imperative stands before us: We must restore livelihoods now and position the state for long-term growth.

It's possible, and it's a collective effort. Public health and economic recovery must go hand in hand. Whether you are reading this report as a private-sector employer or an elected official, you have a responsibility to move the needle forward into a period of improvement and long-term success. ■



Doug Loon
President, Minnesota Chamber of Commerce



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Economic impact of COVID-19

The 2020 recession caused by the COVID-19 pandemic rippled across the global economy with unprecedented speed and severity. Minnesota reported its first case of the novel coronavirus on March 6. Within weeks, the state experienced a statewide lockdown, and by the end of April – a mere seven weeks after the first reported case – **Minnesota had lost over 13% of its total employment and nearly 614,000 Minnesotans filed claims for unemployment insurance, marking the steepest economic downturn in over 70 years.**

Minnesota
was in
uncharted
territory.

The number of jobs that were lost between February and April was equivalent to every hotel, restaurant, corporate headquarters campus, mine, logging operation, software company, print

publisher and telecommunications business in the state vanishing overnight. Minnesota was in uncharted territory.

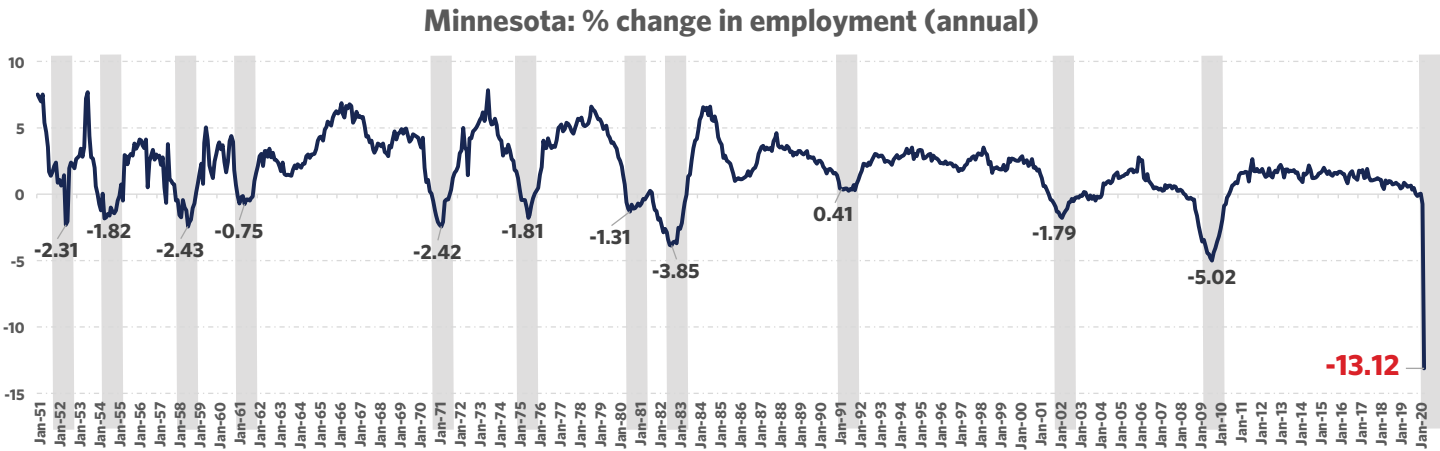
While no sector was unscathed, the pandemic-induced recession produced uneven impacts across industries and demographic groups. This economic toll was compounded by the death of George Floyd in Minneapolis, and the cultural reckoning and civil unrest that ensued resulting in destructions of businesses across the region.

- Local services, travel-oriented industries, young people and employees of color all experienced disproportionate impacts from the crisis.
- Leisure and hospitality alone lost over half of its total jobs in the spring, with industries like full service restaurants declining by nearly 75%.
- This had a particularly negative impact on regions with greater shares of activity in these hard-hit industries. For instance, unemployment rates in Northeast Minnesota’s Arrowhead region were more than double that of the

- state’s Southwest region.
- Initial unemployment insurance claims rose over 1,500% and 2,400% for Black and Hispanic workers respectively.

Minnesota’s small businesses have also shouldered a disproportionate amount of the economic burden. As the Minnesota Chamber Foundation’s Economic Recovery Dashboard shows, the number of open small businesses decreased by 40% between January and April of 2020, and small business revenue fell by over 51%. Many businesses have closed completely as a result. This is not simply a personal loss for business owners. This is a loss to the employees, their communities, the local governments and the state, in terms of commercial and economic activity. ■

April Jobs Report: Unprecedented 1-month job losses



Source: DEED, Current Employment Statistics



Recovery underway

Fortunately, the staggering job losses subsided in May of 2020, and Minnesota began its journey toward economic recovery, despite ongoing challenges. The state's unemployment rate peaked in May at 9.9% – nearly three times higher than its pre-COVID-19 levels, but still lower than the peak rate of 14.7% in the U.S. economy. It was far below the worst predictions from March. The diversity of Minnesota's economy helped Minnesota weather the economic storm better than many other states.

The summer months saw improving consumer confidence and economic conditions. Unemployment continued to fall, reaching 6% by September. Minnesota recovered 189,200 of the 387,800 jobs lost this spring, climbing to 93.3% of pre-COVID-19 employment levels.

Not surprisingly, the hardest hit sectors experienced the fastest recovery rates, as businesses began reopening and calling back furloughed employees. Leisure and hospitality cut its losses in half, going from 50% to 25% below 2019 levels by September of 2020. The number of small businesses open and small business revenue also improved considerably before flattening again by mid-summer.

Meanwhile, other industries like food processing, medical

goods and retail reached full recovery ahead of schedule and have seen slight year-over-year job gains. This again demonstrates the value of Minnesota's diverse economy, as strengths in one sector help offset losses in another.

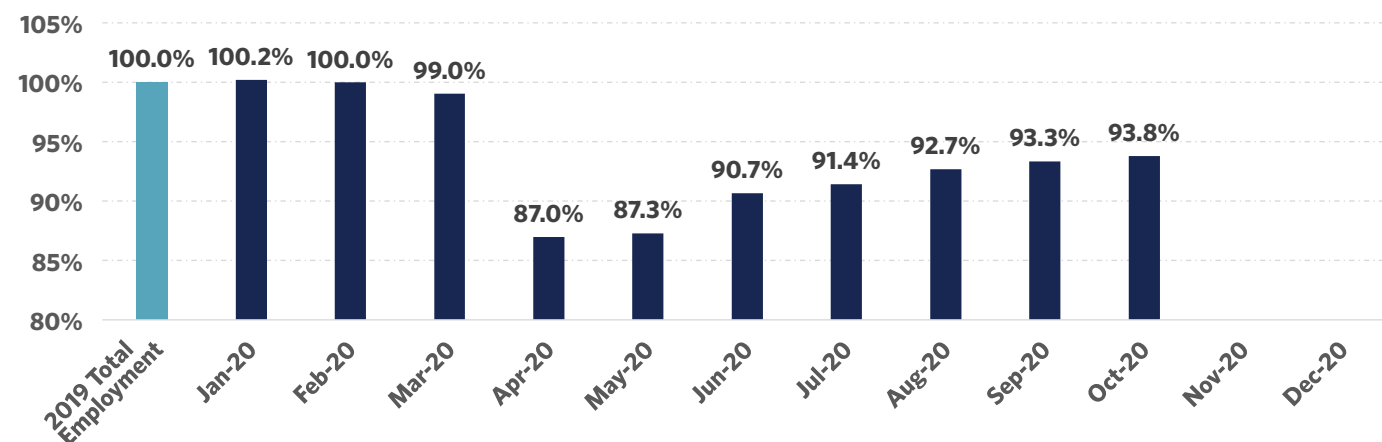
Uncertainty and challenges continue

While the early months of recovery were welcomed improvements, uncertainty and concerns remain.

By late summer, the state's economic recovery slowed and consumer activity flattened. Worse yet, the spike in COVID-19 cases in the fall and winter put the state's recovery in jeopardy.

The continued spread of the virus produces unanswered questions for Minnesota: How will businesses in food service and hospitality fare through the cold months as activities move indoors? How long can small businesses hold on at reduced capacity? Can Minnesota contain the spread of the virus and prevent further shutdowns? Can businesses capitalize on new opportunities to grow even amidst the challenging market conditions and come out stronger on the other end? These questions and others will play a crucial role until new means to combat the virus are in effect.

Minnesota Total Employment (seasonally adjusted):
Share of 2019 Annual Levels



Minnesota's Economic Imperative

Restore livelihoods now, position the state for long-term growth

COVID-19 is first and foremost a public health crisis. Protecting the lives of Minnesotans remains the paramount concern for all. Yet, failure to achieve a timely economic recovery will imperil the well-being of tens of thousands of Minnesotans as well. Public health and economic recovery must go hand in hand.

Jobless claims continue to remain well above pre-pandemic levels. Thousands of college students will enter the job market in May 2021, making decisions about where to live and start their career. And thousands of small businesses remain at risk of permanent closure. The scale and nature of these challenges require a thoughtful, pragmatic response from every segment of our society, private sector businesses and policymakers:

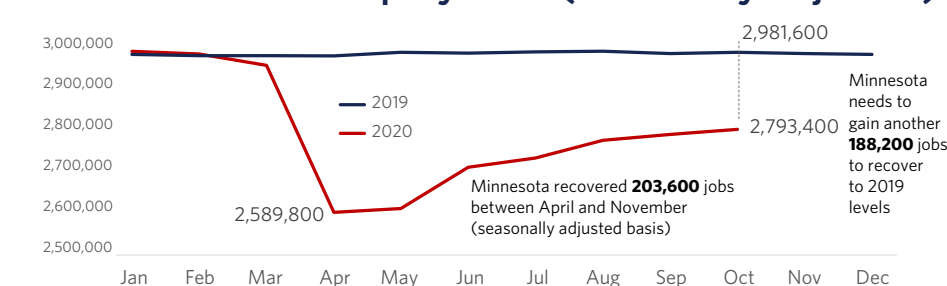
The first economic imperative is to stabilize at-risk businesses.

Their viability directly translates to economic activity, employment, community sustainability and generating revenues that benefit state and local government and the core services the public sector provides.

The second imperative is to take strategic actions to accelerate economic recovery in the short term.

Making smart investments in tax competitiveness, entrepreneurship and innovation, statewide broadband/connectivity, and child care accessibility can help spur recovery now and yield continued returns in the years to come.

Minnesota Total Employment (seasonally adjusted)



Action needed to spur Minnesota's economic recovery

Economic recovery must be the priority for the 2021 legislative session. Policymakers must intentionally help businesses remain solvent, rebuild and resume operations and help individuals who have lost their jobs find employment.

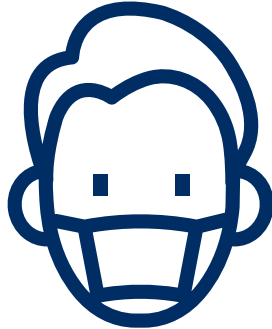
Until a vaccine is widely available, sectors of the economy may continue to operate at a reduced capacity, putting more businesses at risk of permanent closure or permanent layoffs. Permanent closures of businesses will likely result in longer-lasting unemployment. Studies of past recessions have found that people with permanent layoffs earned 17.5% less at new jobs once they found reemployment.

The primary focus must be to target relief to businesses that have been hardest hit by COVID-19 through no fault of their own, such as those in hospitality, fitness and event industries. Small and mid-sized businesses at greatest risk of closure in the immediate future should be a priority. Policies to help businesses remain viable and prevent a permanent closure will greatly speed Minnesota's economic recovery. The other imperative is to "do no harm" with additional cost burdens and mandates that will result in additional stress and costs on employers that are doing their best to keep their doors open and people employed.

Recommendations for policymakers

Stabilize existing businesses through targeted relief

Targeted relief should include the following:



Avoid additional restrictions on business operations.

Businesses have done their part to help prevent the spread of COVID-19 under restrictions since

mid-March. These restrictions have taken their toll, with a tremendous drop in their revenue or going out of business altogether. Businesses will continue to encourage and educate employees and customers on safety protocols to mitigate community spread in workplaces and consumer-facing businesses. Businesses can also act as laboratories for innovative practices and technologies to combat the spread of the virus.

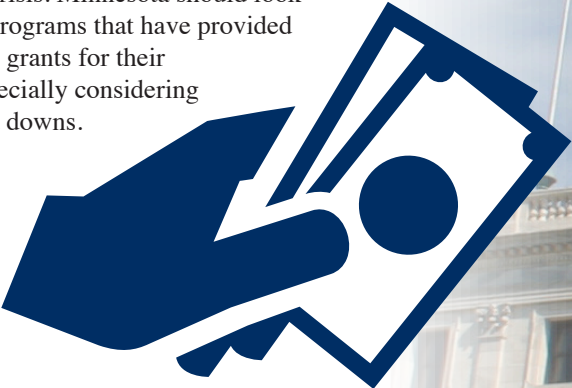
Do not raise costs and burdens on businesses that are already struggling to survive.

Additional costs and taxes will result in more closures and delay Minnesota's economic recovery. As state and local

governments grapple with budget deficits, they should not add costs to businesses. Minnesota businesses already pay taxes among the highest in the nation and businesses consistently report that high tax burdens remain a top barrier on ability to grow in Minnesota.

Help businesses with cash flow.

Additional grants will allow them to survive beyond the shutdowns. Businesses are already under financial stress and should not be forced to take on more debt for the loss of business resulting from the public health crisis. Minnesota should look to other state programs that have provided more generous grants for their businesses especially considering additional shut downs.



Lawmakers play a key role in economic recovery.



Provide additional tax relief to help with cash flow and to improve the state's competitiveness.

Tax relief can be targeted to businesses suffering from reduced revenues. It could include a delay in sales tax remittance payments and estimated tax payments; easing of federal interest cap and net operating loss changes provided in the federal CARES Act; sales tax relief for COVID-19 related purchases and abatement of property taxes. Minnesota should also allow pass-through entities the option to pay their income taxes at the entity level, thereby lowering their federal tax burden without resulting in a revenue loss for the state.



Enact COVID-19 lawsuit protections.

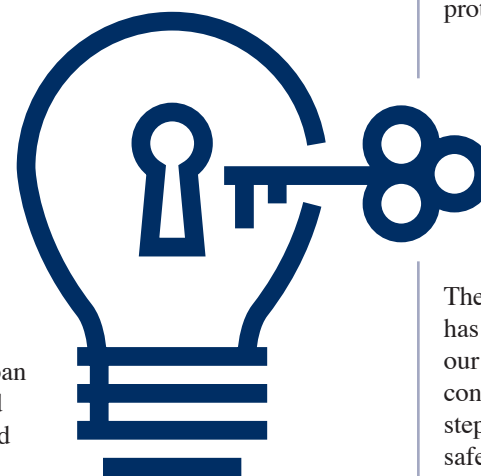
Minnesota businesses are eager to get back to work safely. Businesses are very concerned about increased litigation exposure and costs related to COVID-19. As the pandemic progresses it's clear that it is impossible to fully eliminate the possibility of exposure to the virus on a person's property and commonsense legal reforms



will help prevent unwarranted lawsuits that will impede our economic recovery. For example, providing legal protections for employers that have followed government guidance and protocols for reducing the risks of exposure to COVID-19.

Ease restrictions and/or allow flexibility on government assistance for existing loans

The current government loan and grant programs related to COVID-19 were enacted when it was thought the economic impact would be a shorter duration. There may be additional flexibility that is now required for those programs to better reflect the latest data on the duration of the pandemic and recovery.



Support the public health response to COVID-19.

The COVID-19 pandemic has upended our lives and our economy. Employers continue to take all possible steps to protect the health and safety of their employees during these unprecedented times. But state and local public health officials continue to play a critical role in halting the spread of the virus.

This includes:

- Continuing to leverage federal, state and local resources to ensure the public health infrastructure (testing, tracing, isolation/quarantine and treatment) to manage spread



without sacrificing economic well-being.

- Actively engaging the business community and employers in efforts to vaccinate. As they do with annual flu vaccines, employers play an important role in facilitating access to vaccinations and helping educate the public about the safety, efficacy, and importance of vaccination. The state must work collaboratively with industries and businesses that employ essential workers to ensure those workers' priority access to vaccinations.

Help improve health and safety of employees and increase consumer activity while preventing spread of COVID-19.

This means further easing COVID-19 restrictions and allowing office workers to return to work and providing for greater flexibility for customer-facing businesses. Economic recovery will require customer confidence spending activity to return. Without action to increase business capacity during the cold weather months, many additional businesses will be lost. Additional changes allowing for additional flexibility can be done safely to protect employee and customer health while helping prevent additional permanent loss of business. This includes maximizing the ability of schools and child care entities to bring students and children safely back for in-person, full-time instruction and care. For thousands of working Minnesotans and their employers, returning to work at full capacity is also contingent on the consistent resumption of in-person instruction and care for their children. Prioritizing teachers and child care workers will ensure our economic recovery is not further impeded by a lack of available workers. ■



Rely on economic strengths

There are several recognized strengths of Minnesota's economy that should be relied upon to spur short- and long-term growth.

Continue to focus on innovation

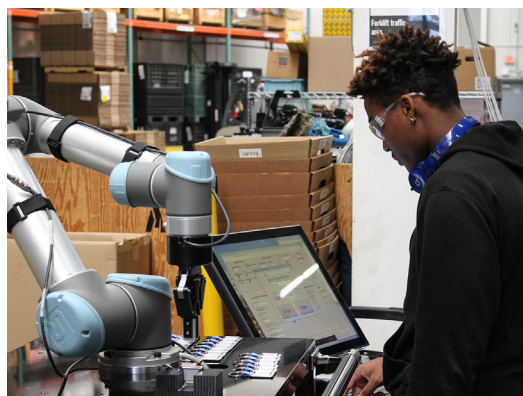
Policies to increase and encourage investments in new equipment; to fund new products and services; to fund start-ups and expansions will be critical both for Minnesota's economic recovery and for our long-term success. Minnesota is known as innovative, ranking 7th in Milken Index Technology and Science Index and 6th best in patents per capita. However, Minnesota ranks low on entrepreneurship, at 49th in the nation for the percent of the population starting a business according to the Kauffman Index. Private sector investment will be essential to help Minnesota recover from the devastating economic impacts of the COVID-19 pandemic.

In the short term, priority should be on encouraging investments in productivity and innovation, such as the following.

Retool existing economic development programs to focus on improving productivity and innovation – for example. This could be grants for robotic upgrades or technology investments to help growth of existing businesses and job retention versus old models of job creation. The guidelines for the incentives should focus on maintaining current employment levels and not result in eliminating jobs.

Reduce barriers for businesses to invest in new equipment and technologies that increase output by reducing regulatory barriers and reducing permit delays.

Leverage suppliers and resources that help businesses implement productivity and digital strategies. COVID-19 has accelerated digitalization and automation in businesses across industries and sizes. Such strategies are particularly imperative for small businesses that have lacked digital capabilities, such as e-commerce platforms. Programs like the



Chamber's MN Supplier Match shine a spotlight on the suppliers Minnesota businesses can turn to for help with their digital or automation needs. Additionally, business mentorship and peer learning programs may help smaller firms navigate such strategies.

Targeted retention strategies to the state's fastest growing firms may help spur job creation in the short term while seeding the ground for the state's future Fortune 500 companies.

Increase efforts to support start-ups and early stage businesses. New business filings have risen dramatically in 2020. Strategies to provide technical and financial assistance may pay dividends through new tax revenues, jobs, innovation, and wealth creation. Policies aimed at reducing the barrier to entrepreneurship and spurring new business investment can play an additional role.

Spur hiring and remove barriers to employment

Many businesses are hiring and many of those are reporting difficulty in hiring even in this time of inflated jobless rates. According to the Minnesota Department of Employment and Economic Development (DEED), there are 2.4 unemployed persons for each vacancy (second quarter 2020 data). This is a big turnaround from pre-pandemic where there were more job vacancies than active job seekers.

There is more work needed to help workers navigate current job opportunities and help employers find the employees they need.

Expand and better target workforce career centers and job sites to more efficiently connect workers and employers. An example is an initiative announced by DEED with their #GoodJobsNow campaign to highlight Minnesota businesses who are hiring right now for quality jobs.

Reorient workforce development programs toward the immediate needs of a post-COVID-19 response. For example, demand for IT skills may accelerate both in the short-term – as more businesses shift

to digital strategies in light of the pandemic – and in the long-term – as digital technology reshapes existing industries from food production to financial services to retail, and everything in between.



Minnesota's Economic Strengths

HIGH VALUE

Per capita income, GDP per capita and labor productivity levels.

HARD WORKING

Labor force participation and lowest unemployment rates in the United States.

EDUCATED AND SKILLED WORKFORCE

Education levels and concentrations of highly-skilled workers.

INNOVATION

High rate of patent activity.

CORPORATE HUB

Fortune 500 headquarters and industry leading firms.

DIVERSE ECONOMY

Jobs spread across major industry sectors.

INDUSTRY CLUSTERS IN KEY SECTORS

Health care and medical technology, food and agriculture, headquarters, finance and insurance and high-tech.

Ensure that public safety nets do not result in undermining incentives to participate in the labor force or put the burden of financing these programs solely on employers.

Expand programs to encourage labor force participation and hiring in underrepresented groups. Delivering on the promise of racial equity is an imperative for Minnesota businesses and essential to rebuilding a post-COVID-19 economy that improves the lives of all Minnesotans. This includes doubling down on proven strategies that connect employers to diverse talent, particularly in high-demand jobs and sectors.

Leverage new opportunities to connect individuals to job opportunities through remote work. This includes increasing access to broadband for underserved and unserved households and businesses through additional public and private investment in this much needed infrastructure. Increasing access to high-speed broadband can both spur short-term recovery and provide an essential building block to long-term development of the state's economy.

Reduce barriers to workforce participation. A critical immediate concern is child care as a shortage of available early care has the potential to impede economic recovery in many communities. Prior to the COVID-19 pandemic, Minnesota's working parents were facing a severe shortage of quality child care. Now, decreased capacity and new pandemic-related costs mean operating losses for child care providers that may result in more closures and even less available early care and education options. In direct response to COVID-19, additional funding is needed to meet the needs of low-income and essential workers and their providers. This should be one-time and targeted supplemental funding due to the pandemic and policymakers should seek to maximize the use of federal funds for this purpose. Early learning scholarships in particular help low-income children access high-quality providers. Incentives for employers should be immediately considered to support quick and innovative ways for employers to address child care issues within their own or their community's workforce.

Help local communities' foster collaboration between workforce training/education institutions and the local business sector to prepare people for jobs and skills in highest demand. ■

Looking Ahead

Understanding where our economy currently stands is key to understanding where it can go in a post-pandemic future. At the Minnesota Chamber, we look forward to working together to emerge from this period more resilient, innovative and inclusive than ever before.

Stay tuned for more economic data in the spring. The Minnesota: 2030 will be a forward-looking report focused on long-term recovery and the future of our economy and shared prosperity. ■



The Minnesota Chamber is a statewide organization representing more than 6,300 businesses of all types and sizes – and more than half a million employees – throughout Minnesota. The Chamber works tirelessly for its members; providing one-on-one business services, opportunities to grow their networks and knowledge base, and cultivating an economic environment where businesses stay and grow in our state. A business climate that allows for innovation and forward-thinking leadership will help grow the strength of Minnesota's economy for generations to come.



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