ST. CLOUD AREA
# QUARTERLY BUSINESS REPORT

St. Cloud Times

VOL. 14, ISSUE 3 · SUNDAY, SEPT. 16, 2012

# LABOR SURGE POINTS TO STRONG GROWTH

## EFFECT OF VERSO CLOSING REMAINS UNCERTAIN

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King Banaian specializes in analyzing data and writing about it in the second portion of this report. In addition to his work as an economics professor, he serves in the Minnesota House of Representatives. Rich MacDonald collects and analyzes responses to the St. Cloud Area Business Outlook Survey, covered in an early portion of the report. Only MacDonald has access to the confidential list of surveyed businesses and the returned surveys. Questions about the survey can be directed to him. Special questions asked in the survey may at times deal with public policy but do not reflect a political agenda of either of the authors.

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Greater St. Cloud Development Corp.
320-253-1424

### EXECUTIVE SUMMARY

Favorable survey responses from area business leaders combined with a large increase in area employment indicates the area economy grew at an historically rapid pace since the last edition of the St. Cloud Area Quarterly Business Report was published in June. While the current rate of local job creation is unlikely to be sustained over the next several months, the area private sector looks to have fully recovered from any lingering cyclical woes.

Local employment grew by 3.5 percent over the year ending July 2012. The pace of local private sector job creation was 4.2 percent over this same period. The government sector shed jobs at a 0.8 percent rate over the past year. By contrast, Minnesota private sector job growth was just 1.3 percent from July 2011 to July 2012. Total private sector employment in St. Cloud is now just a few hundred jobs short of what was observed in July 2007 (when area employment was at a seasonal peak). While experience has taught us that these numbers are subject to substantial revision when more information becomes available to state labor market officials, a return to pre-recession employment levels is a most welcome sign of expanding economic activity in the St. Cloud area.

Professional and business service employment growth led the local job gains at an annualized pace of 8.4 percent. This was followed by the leisure and hospitality, education and health, and transportation

ST. CLOUD INDEX OF LEADING ECONOMIC INDICATORS

and warehousing sectors of the local economy. Each of these sectors experienced year-over-year job growth in excess of 5 percent. Together, these rapid growth sectors now account for 39.6 percent of local employment. By contrast, these four sectors accounted for only 33 percent of area employment 10 years ago (and 29.3 percent 20 years ago).

The July 2012 local unemployment rate was 5.8 percent, a reduction from the 6.6 percent jobless rate recorded one year earlier. By comparison, the area unemployment rate was 7.9 percent in the recessionary month of July 2009.

The six-month moving average of the St. Cloud Index of Leading Economic Indicators rose sharply last quarter (see accompanying graph), achieving levels unseen since before the recession. In addition, the Probability of Recession Index continued to decline in the most recent quarter, falling to levels indicating only a minimal possibility of recession in the next four to six months.

Fifty-eight percent of 76 surveyed firms experienced improved activity during the past three months, while only 12 percent reported decreased activity. This is the strongest

KEY RESULTS OF SURVEY

performance ever recorded in our August survey of current business activity. Matching the strong employment gains highlighted above, area business leaders report very strong current employment numbers — 54 percent of firms indicate increased employment over the last three months and only 7 percent had a decrease in payrolls. Indeed, the index on current employment is the highest ever recorded in the 14 years that we have been administering the survey. Area firms also report increasing employee compensation. Forty-one percent of surveyed firms increased employee compensation last quarter and no firms reduced wages and salaries. This is the best performance on this survey item since May 2006.

Given the historically strong improvements in the level of local activity during the past three months, it is no surprise that area firms expect only moderate gains over the next six months. Forty-one percent of firms expect improved conditions during the next six months while 21 percent expect weaker conditions by February 2013. These results reflect the normal seasonal slowdown in the winter months, although they are somewhat weaker than the future business activity numbers recorded in the last two August surveys.

Likewise, area employment gains are expected to moderate during the next six months. While the index on expected future employment is much higher than in the recessionary years of 2008-10, survey results do suggest an expected slowdown in job creation during the next six months. It should be noted that firms expect employee compensation to remain strong through the winter months — the survey response on this item is the highest recorded in almost five years. Finally, expected future prices received and national business activity also remain weaker than we have seen since the end of the local recession.

In special questions, we asked survey respondents to indicate the extent to which they expect the closing of Verso to affect their company. Only one firm expects this to have a "large negative effect," while 12 percent of firms anticipate a "medium negative effect." Thirty-six percent of surveyed firms expect a "small negative effect," and 42 percent of businesses expect to be unaffected by Verso's closing. Where displaced Verso workers will find jobs is unclear from the survey. Seventy percent of surveyed business leaders do not expect to hire

## THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

Verso workers, and only 13 percent expect to hire one to five displaced workers. No surveyed firm expects to hire more than five workers from Verso.

### CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 76 area businesses that returned the recent mailing in time to be included in the report. Participating firms are representative of the diverse collection of businesses in the St. Cloud area. They include retail, manufacturing, construction, financial, health services and government enterprises both small and large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Survey responses from

Table 1 follow the recent pattern of strong findings in the Current Business Conditions survey. While it is normal to see some drop-off in the summer numbers (the spring

See QBR, Page 2F

TABLE 1-CURRENT BUSINESS CONDITIONS

| | August 2012 vs. three months ago | | | | May 2012 |
|---|---|---|---|---|---|
| | Decrease (%) | No Change (%) | Increase (%) | Diffusion Index[3] | Diffusion Index[3] |
| What is your evaluation of: | | | | | |
| Level of business activity for your company | 11.8 | 30.3 | 57.9 | 46.1 | 59.3 |
| Number of employees on your company's payroll | 6.6 | 38.2 | 53.9 | 47.3 | 35.8 |
| Length of the workweek for your employees | 3.9 | 65.8 | 27.6 | 23.7 | 24.7 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 5.3 | 61.8 | 30.3 | 25 | 27.2 |
| Employee compensation (wages and benefits) by your company | 0 | 59.2 | 40.8 | 40.8 | 33.3 |
| Prices received for your company's products | 9.2 | 73.7 | 13.2 | 4 | 18.5 |
| National business activity | 9.2 | 42.1 | 36.8 | 27.6 | 38.2 |
| Your company's difficulty attracting qualified workers | 7.9 | 67.1 | 21.1 | 13.2 | 19.8 |

Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.

Source: St. Cloud State University Center for Economic Education, Department of Economics and School of Public Affairs

### MORE ONLINE

The St. Cloud Area Quarterly Business Report has been produced four times each year since January 1999. Electronic access to all past editions of the QBR is available at http://repository.stcloudstate.edu/scqbr/

# QBR

From Page 1F

survey always shows the strongest current activity), this quarter's results are the best we have seen in recent years. The diffusion index on current business activity is 46.1, the highest ever recorded in the August survey. A diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter. For any given item, a positive index usually indicates expanding activity, while a negative index implies declining conditions.

CURRENT BUSINESS ACTIVITY

At a value of 47.3, the current employment index is the highest ever recorded. This supports the evidence found elsewhere in this edition of the QBR highlighting historically strong local labor market performance. Other labor indicators found in Table 1 are also very favorable. Index values on length of workweek and difficulty attracting qualified workers are all at very high levels, and the index on employee compensation is the highest recorded in more than six years. Combined with the labor market data discussed elsewhere in this report (such as surging local private sector employment and a declining local unemployment rate), these results confirm the strong improvements in the local labor market that we have noted over the past several months.

CURRENT EMPLOYMENT

The capital expenditures and national business activity indexes remain steady. These indexes have leveled out at values that reflect post-recession expansion of the local economy. The one sign of weakness in Table 1 is found in the prices-received item. At a value of 4.0, area businesses continue to struggle with pricing power. While this index was repeatedly negative during the most recent local recession, firms continue to find it difficult to raise prices.

The good news is that inflation remains tame, and, at least for now, firms appear to be able to keep steady profit margins. Over time, however, if employee compensation continues to rise, area firms will need to be able to increase prices in order to avert an erosion of margins. The prices-received index has never shown a seasonal pattern, so it is instructive to look back at a period when this index sustained healthier values. From spring 2004 through summer 2007, the current prices-received index fell below double digits on only one occasion. A full and sustained recovery of the local economy would seem to depend on this item returning to what was experienced during this earlier period.

CURRENT EMPLOYEE COMPENSATION

As always, firms were asked to report any factors that are affecting their business. These comments include:

» Election will have a significant impact on our business. Tax rules WILL change but not sure how at this point. Change in the tax rules is virtually certain.

» Concerns among our customers for the increasing level of government regulations and uncertainty about how this trend will play out in the future, beyond the presidential, national and state elections.

» Overall business activity has increased over last year.

» We are seeing the impact of the (North Dakota) oil expansion. Hiring is more difficult and wages are rising here.

» Trouble finding skilled labor to fill various positions.

» We are having an extremely hard time finding general laborers and skilled tradespeople. I believe that the demand in North Dakota has taken the majority of the construction workers away from this area.

» Retail businesses are dying. Working on a small conference center to replace retail.

» Raw material price decreases combined with decreased worldwide demand for (our product) — impacted significantly by China — is causing price and margin erosion in (our) industry. We see no relief from this in the coming six-12 months.

» Our company is based on residential construction. We have yet to see a recovery of business activity levels prior to the (collapse of) the housing market.

» Gov. Dayton's Health Insurance Exchange. Wants to eliminate agents/brokers — the very people that assist businesses and individuals.

» Highly restrictive minority contracting rules for public projects.

» We have been notified in the last 10 days that our biggest customer has lost a contract that will negatively affect our sales by about 35-40 percent.

» We continue to have problems recruiting employees with the skills that we need.

» Manufacturing uncertainty, impact from upcoming elections, some businesses are holding until after election for growth I am told.

» I feel that if we are to get things going again we need less government regulation and a huge change in Washington on both sides. The elected officials forgot why we sent them there, not to control us but to help our country go forward.

» We are having a very strong year so far in spite of the weak economy.

» Unsettled situation (in) Europe and the inability of Congress to get anything done. Small business and their employees are still very concerned about the future and unwilling to take on new debt.

» New government regulations that are fee-based.

» Increased government interference. We have had more OSHA, state sales tax, state unemployment tax audits the last three years then the previous 20. They are extremely money hungry.

» Gas prices still affect our business. Customers have cut back on the amount they spend on projects due to the fluctuating gas prices. Unemployment continues to be a drain, no new jobs for those unemployed. Now there will be more unemployed in our area with the closing of the Verso Paper mill, through no fault of their own. Hopefully something can be done with the empty plant to generate jobs. Our unemployment insurance has not decreased and will not decrease until companies are able to hire more people and those folks with jobs begin paying taxes so we all can supplement the programs funded by the (state and federal governments).

» Our business is primarily political in nature; consequently, after the elections our business will be down considerably.

» Many of our customers are waiting for the election to make large/long-range decisions. Over the top (regulations) are killing business.

» Decrease in business six months from now is due to seasonality of the real estate business.

» Overall economy and funding for school districts, etc. needs to be improved.

## FUTURE OUTLOOK

Table 2 reports the outlook for area businesses. The index on future overall business activity reflects normal seasonal weakness. However, at a value of 19.7, this index is below the 25.3 and 25.6 results recorded in August 2011 and August 2010, respectively. This small decline in seasonal expected future business activity could simply reflect anticipated moderate growth in response to current conditions that are exceptionally strong — the historically rapid pace of current activity will be hard to sustain over an extended period. Likewise, the index on future employment is weaker than reported one year ago (when it was 22.7), but is certainly improved from negative values recorded in every August survey from 2007-2010.

FUTURE EMPLOYMENT

With the exception of the future employee compensation item (which, at a value of 40.8 is the highest reading since November 2007), the other future index values from Table 2 are either level or somewhat weaker than recent surveys. For example, the expected future capital expenditures index has remained relatively flat for the past 11 quarters and the anticipated difficulty attracting qualified workers item has remained steady for nearly two years. National business activity does show signs of expected softening by February 2013. This is not surprising, given the considerable uncertainty surrounding the November elections, the fear that the U.S. economy might confront a "fiscal cliff" at the beginning of the new year, continued weakness in Europe, and recent concerns about slowing of the Chinese economy.

Finally, consistent with the discussion of Table 1 found in the previous section, the future prices-received index continues to show signs of gradual softening. As shown in the accompanying chart, this index has declined each quarter for the past year, as the expected pricing outlook has deteriorated for area firms. While we are far from returning to the weakness of this series that was experienced in the most recent local recession, this is a trend that is worth watching in future installments of the St. Cloud Area Business Outlook Survey.

FUTURE PRICES RECEIVED

## SPECIAL QUESTIONS

On Aug. 2, Verso company officials announced they were closing the 105-year-old paper mill. Estimating rebuilding costs into the tens of millions of dollars and citing ongoing challenges in the paper industry, the company was unable to recover from the devastation that resulted from the tragic explosion and fire that occurred in late May. Two hundred and fifty-nine local Verso employees will ultimately lose their jobs. More than 425 employees of the paper mill will have lost their jobs since December 2011 (when Verso cut employment by 175 workers). The loss of jobs at Verso is likely to be the largest single negative event to hit the area economy since the closing of Fingerhut's St. Cloud distribution center, which was announced in January 2002. [1]

See QBR, Page 3F

### ABOUT THE DIFFUSION INDEX

The diffusion index represents the percentage of survey respondents who indicated an increase minus the percentage indicating a decrease.

TABLE 2-FUTURE BUSINESS CONDITIONS

| | Six months from now vs. August 2012 | | | | May 2012 |
|---|---|---|---|---|---|
| | Decrease (%) | No Change (%) | Increase (%) | Diffusion Index[3] | Diffusion Index[3] |
| What is your evaluation of: | | | | | |
| Level of business activity for your company | 21.1 | 34.2 | 40.8 | 19.7 | 54.3 |
| Number of employees on your company's payroll | 19.7 | 44.7 | 32.9 | 13.2 | 33.4 |
| Length of the workweek for your employees | 13.2 | 71.1 | 13.2 | 0 | 13.6 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 7.9 | 63.2 | 25 | 17.1 | 21 |
| Employee compensation (wages and benefits) by your company | 0 | 57.9 | 40.8 | 40.8 | 37.1 |
| Prices received for your company's products | 6.6 | 68.4 | 21.1 | 14.5 | 19.8 |
| National business activity | 10.5 | 50 | 26.3 | 15.8 | 33.4 |
| Your company's difficulty attracting qualified workers | 3.9 | 72.4 | 18.4 | 14.5 | 13.6 |

Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.

Source: St. Cloud State University Center for Economic Education, Department of Economics and School of Public Affairs

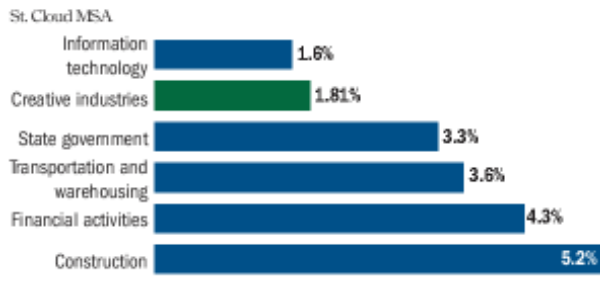
[1] While it is hard to determine exactly how many jobs were lost at Fingerhut, the winter 2002 St. Cloud Area Quarterly Business Report noted that at the time of the announcement, about 2,670 people were employed at Fingerhut's St. Cloud facility. Workforce reductions at Fingerhut took place into 2003. It is useful to note that February 2002 (before any job loss at Fingerhut likely occurred) private sector employment in the St. Cloud area was 80,163. Twelve months later, in February 2003, area private employment stood at 78,788 — a decline of 1,375 jobs.

# THE IMPACT OF THE CREATIVE INDUSTRY IN ST. CLOUD

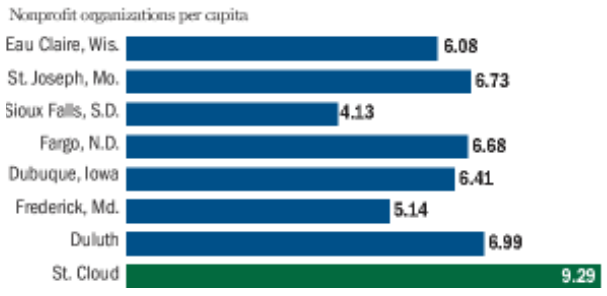
The ArtWORKS Initiative has recently participated in a survey (conducted by Americans for the Arts) of the size of the creative sector in St. Cloud. Using a combination of primary (survey) and secondary data, ArtWORKS hopes to show how much the arts are a key part of the community's economy. One of us helped with gathering these data, and we thought the data were surprising enough to share with our audience here.

Creative workers are scattered around the various categories of employment in the local economy (including firms we survey in the QBR). While many of these workers are in leisure and retail, there are others in manufacturing, such as music recording and instrument production, jewelry and art goods, or professional services from radio broadcast to architects and interior designers.

CREATIVE INDUSTRY EMPLOYMENT SHARE




PERFORMING ARTS AND EVENTS




In all, 1,811 workers in St. Cloud were found to be in one of these creative professions, thus making up about 1.8 percent of our workforce. The creative sector is therefore a little larger than our IT sector, and about half the size of St. Cloud's transportation and warehousing sector. It also has about a 50 percent larger employment share than the state average. St. Cloud's creative sector also plays a larger employment role than six comparable counties in other states.

We examined in some detail four broad areas of arts activity, resources, local cultural character and competitiveness. While not all the data has been released by the national organization, we know several things already about the creative sector in St. Cloud. One, as shown by a nearby graph, is that the performing arts and events brought in by St. Cloud nonprofits are quite high compared with our comparable set of counties. In comparison, the visual arts in St. Cloud still seem to be lagging comparable counties. There is some benefit, perhaps, from having a large number of degrees in the arts offered by the institutions of higher education in the area.

As more data are made available, we may learn more about why the creative industries of St. Cloud have grown the way they have. Repeated observations will help, as we examine the impact of the infusion of money through the Legacy Amendment to the nonprofit arts sector. But the creative industries are more than nonprofit arts, and they influence the entire Central Minnesota economy in ways we are only beginning to understand.

# QBR

From Page 2F

The impact of Verso's closing will be felt throughout the community. The greatest impact will, of course, be on the displaced Verso workers. These workers will be entering a labor market that has undergone significant structural change over the past 20 years. Nearly 80 percent of local jobs are now in service-providing industries. Twenty years ago (in July 1992), 19.1 percent of area workers were employed in manufacturing — the corresponding percentage in July 2012 was 15.2.

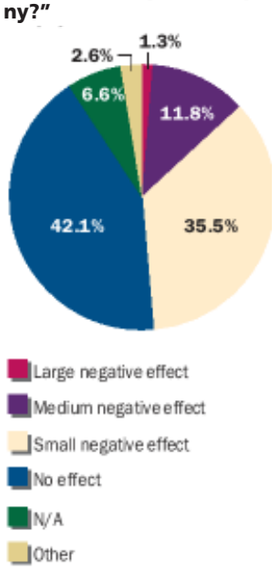
The 15-year trend employment growth rate in area manufacturing is -0.2 percent. This suggests displaced Verso workers will find it very challenging to find employment in area manufacturing firms. [2] While company officials consistently pointed to their highly skilled workforce, should these skills prove difficult to transfer to service providing occupations, the prospect of lengthy structural unemployment cannot be ruled out. Fortunately, worker retraining efforts appear to be in place due to Verso's certification of its employees qualifying for assistance under the 1974 Trade Act.

If jobs are ultimately found in the area manufacturing sector by displaced Verso workers, they are unlikely to be at the wage scale that these workers have come to expect. While specific employee compensation information at Verso is confidential, one can make a "back-of-the-envelope" calculation of the firm's wage scale given information available from the Minnesota Department of Employment and Economic Development and its Quarterly Census of Employment and Wages. Average weekly wages at Sartell manufacturing facilities (there were eight such establishments employing 989 people) in the third quarter of 2011 (before workforce reduction at Verso) were $1,238. If we imagine that this figure represents the wage scale at Verso (using publicly available employment figures, more than 40 percent of manufacturing employees in Sartell in the third quarter of 2011 were employed at Verso, so this is likely to be a reasonable calculation), then the difference in average weekly earnings in manufacturing elsewhere in the area becomes apparent. For example, average weekly earnings in the manufacturing sector in St. Cloud were much lower — $885 — during this same time period. Across the river, in Sauk Rapids, average weekly earnings in manufacturing were $842. Weekly earnings in manufacturing in these two areas are only approximately two-thirds of what is earned in Sartell.

Indirect effects and induced effects of the plant closing will also be felt throughout the area (and indeed throughout the state, where, among other things, the logging industry is expected to be deeply affected by the closing of the paper mill). These indirect and induced effects take the form of reduced income and employment at logging firms, food service establishments, electric generating facilities, wholesale and retail trade businesses, health care facilities, etc. While a study of the quantitative impact on employment and income that is likely to result from the closing of Verso is beyond the scope of this report, we nevertheless wanted to get a sense of the negative effects the plant closing is expected to have on our surveyed companies. While these results are qualitative in nature, they do suggest that a number of area firms will at least feel a small or medium negative effect from Verso's permanent shutdown.

### QUESTION 1

**We asked: "To what extent do you expect the closing of the Verso paper mill to affect your company?"**




Nearly half of surveyed firms expect to be unaffected or did not offer a response. Of those firms that do expect to be affected, 36 percent anticipate a "small negative effect" and 12 percent expect a "medium negative effect." Only one firm expects a "large negative effect."

**Written comments include:**

» We performed a significant amount of service work at Verso.

» While this may provide some potential employees, there may also be a general negative impact to the local economy.

» We did a small amount of work for the mill so we will lose that directly. I think the bigger problem is the perception that the closure causes to the overall business climate in the area. It is one more loss of jobs and the total effect has to be mounting.

» It is never good to lose employment.

» We have no business involvement with Verso or their suppliers.

» Most of the Verso employees were highly paid, which does not reflect the St.Cloud area overall.

» May affect companies I do business with as the employees at Verso may have less disposable income to use in the community.

» While we will not be directly impacted, there will likely (be) a slowdown in spending and economic activity in Sartell.

» We did maintenance work for (the) mill.

» Clients may have home loans that (they) will have difficulty in paying until they find a new job.

» More people without work will skip (using our services) and delay purchases.

» With more people unemployed or underemployed, less building will occur.

» Small effect on company at this time, but it could …

» Is difficult to measure. I think it will impact the local economy but not sure about impact on my business.

» Losing that number of good jobs will have an impact on the local housing market.

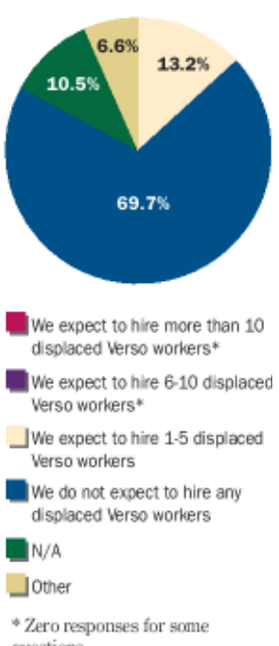
» 25-30 percent of Minnesota loggers are out of work because of the shutdown.

» To the extent that local business will be hurt, it may trickle (down) to us too.

We also wanted to know if area firms expected to hire displaced Verso workers (and, if so, how many workers they expected to hire).

### QUESTION 2

**We asked: "Since December 2011, more than 425 employees of the Verso paper mill have lost their jobs. To what extent do you expect your company is likely to hire displaced workers from Verso?"**




The responses are not very encouraging — 70 percent of surveyed firms do not expect to hire any displaced workers. Thirteen percent of firms (10 firms in total) expect to hire between one and five displaced Verso workers. No surveyed firm expected to hire more than 5 unemployed workers.

**Written comments include:**

» We may hire a few if qualified for open positions.

» We anticipate an office job and a maintenance job opening.

» I wish I could hire some, but we just hired two new people and need one more with experience.

» Our business requires higher level education in engineering and surveying. We have hired some former workers of Frigidaire after they went to the tech school and made a career change. If the workers from Verso make the same career change they would be employee candidates.

» Due to the training involved, this might be a challenge?

» Their skills do not fit our needs.

» Doubt that most would be interested due to pay rates available.

» Their industry is different than ours.

» It is likely that we will assist some workers in doing their financial planning for the future.

» We would hire them today but they seem to be waiting until they either use their unemployment up or want to see what other benefits may come their way from the state.

» We can't match the wages and benefits they had being union. I don't believe they'd start at

See QBR, Page 4F

[2] As the QBR was being prepared for publication, the German company Geringhoff announced it was investing in a new St. Cloud manufacturing facility that is expected to employ 100 people.

# QBR

From Page 3F

entry level and work up. We hired one @ $16 per hour and he left after 45 days — make that much on unemployment.

» If we are in need of employees, consideration would be given because of the closure.

» Not qualified for what we do. Pay too high too.

» Wages we would offer are much lower than current salaries at Verso.

» Unsure — we haven't tracked previous employment.

Finally, we were curious to see if area business leaders had any creative ideas for the future use of the Verso site. Gov. Mark Dayton is expected to convene a task force that will explore the various options. This process is in its early stages as Verso officials work through insurance-related matters (along with the need to secure the facility before winter sets in), but we expect to see work coming from the task force in the coming months. For the most part, it appears that area business leaders believe another paper mill or a power plant are the best future options for the Verso site.

**QUESTION 3**

**We asked: "Gov. Dayton is expected to convene a task force to, among other things, look at options for the future use of the Verso mill site. What suggestions do you have for the future use of this site?"**

**Comments include:**

» Some form of energy producer due to unique location and use of dam.

## TABLE 3 - EMPLOYMENT TRENDS

| | St. Cloud (Stearns and Benton) | | | 13-county Twin Cities area | | | Minnesota | | |
|---|---|---|---|---|---|---|---|---|---|
| | 15-year trend rate of change | July '11-July '12 rate of change | July '12 employment share | 15-year trend rate of change | July '11-July '12 rate of change | July '12 employment share | 15-year trend rate of change | July '11-July '12 rate of change | July '12 employment share |
| Total nonagricultural | 1.3% | 3.5% | 100.0% | 0.5% | 1.9% | 100.0% | 0.6% | 2.1% | 100.0% |
| Total private | 1.4% | 4.2% | 86.4% | 0.6% | 1.2% | 87.6% | 0.6% | 1.3% | 85.8% |
| Goods producing | 0.1% | 1.4% | 20.4% | -1.5% | -0.7% | 13.7% | -1.2% | 2.2% | 15.6% |
| Construction/natural resources | 1.3% | 1.8% | 5.2% | -0.9% | -5.7% | 3.3% | -0.1% | 3.8% | 4.2% |
| Manufacturing | -0.2% | 1.3% | 15.2% | -1.7% | 0.9% | 10.4% | -1.6% | 1.6% | 11.5% |
| Service providing | 1.7% | 4.1% | 79.6% | 0.9% | 2.3% | 86.3% | 1.0% | 2.1% | 84.4% |
| Trade/transportation/utilities | 0.2% | 4.2% | 20.8% | -0.3% | -0.1% | 17.9% | -0.1% | -0.2% | 18.3% |
| Wholesale trade | 1.0% | 4.3% | 4.0% | -0.1% | 0.8% | 4.7% | 0.1% | 1.2% | 4.7% |
| Retail trade | -0.5% | 3.8% | 13.2% | -0.1% | 0.3% | 9.9% | -0.2% | -0.3% | 10.4% |
| Trans./warehouse/utilities | 2.4% | 5.6% | 3.6% | -0.9% | -2.7% | 3.4% | -0.2% | -1.9% | 3.2% |
| Information | -1.6% | 2.6% | 1.6% | -1.1% | -1.1% | 2.2% | -1.1% | 1.8% | 2.0% |
| Financial activities | 1.8% | 3.9% | 4.3% | 0.8% | 0.7% | 8.0% | 0.9% | 1.4% | 6.5% |
| Professional & business service | 4.6% | 8.4% | 9.2% | 1.0% | 5.7% | 15.9% | 1.2% | 5.3% | 12.7% |
| Education & health | 3.7% | 5.3% | 17.8% | 3.4% | 2.7% | 16.0% | 3.3% | 2.3% | 17.3% |
| Leisure & hospitality | 1.7% | 6.0% | 9.0% | 1.1% | -2.1% | 9.4% | 0.7% | -3.6% | 9.1% |
| Other services (excluding govt.) | -0.1% | 1.9% | 3.4% | 1.1% | 1.5% | 4.5% | 0.6% | 0.4% | 4.3% |
| Government | 1.2% | -0.8% | 13.6% | 0.4% | 7.0% | 12.4% | 0.4% | 7.5% | 14.2% |
| Federal government | 1.8% | -1.2% | 2.1% | -0.6% | -3.2% | 1.2% | -0.5% | -2.9% | 1.2% |
| State government | 1.6% | -3.0% | 3.3% | 1.1% | 25.8% | 3.6% | 1.3% | 28.2% | 3.4% |
| Local government | 1.0% | 0.2% | 8.3% | 0.2% | 1.4% | 7.6% | 0.3% | 2.8% | 9.6% |

Note: Long-term trend growth rate is the compounded average employment growth rate in the specified period.

Source: Minnesota Department of Employment and Economic Development and author calculations.

» Hydro power generation. A task force should be convened to look at options for redevelopment or demolition. The structure will become a significant negative element in the community if it is allowed sit idle, empty and neglected.

» Maintain its current use as much as possible.

» Create another business such as power plant or paper mill — need to have a business not a park.

» I don't believe there are any industrial businesses that would relocate to a landlocked site in the middle of a city. Tear the entire complex down and redevelop as a riverfront retail shopping complex. Not that the area needs another retail mall but it would be a unique site.

» I'd like to see a manufacturing company take advantage of the opportunity to locate in an affordable building with qualified workers in the area.

» Smaller non-union company to purchase plant.

» Alternative fuel production?

» Keep it industrial if possible. But I expect, a candidate will be difficult to find and there will be pressure to make it commercial or other.

» I highly suggest that government let private industry take over. If there is a potential to revitalize the property and there is a value, private investors will make it happen.

» This will be interesting. The Ford plant in St. Paul is also available and it would have similar power possibilities.

» No idea. Difficult to convert paper mills to other industries without starting over.

» Find a business that will benefit from resources available NOW. Move like it's still on fire for the sake of our Central Minnesota area.

» I feel it will be very difficult to find a buyer for the building as it's made for paper manufacturing and had been for sale for over 2 years already.

» I thought that Rep. Bachmann's suggestion of a hydro electric power generating site was interesting. I am not sure if it is possible however.

» Hydro electric plant, state training facility for manufacturing.

» Protect the hydro dam and continue to harvest the power. Beyond that lets get outside our comfort zone and explore the unexpected.

» Power generation

» (Smoke and) mirrors — it's a paper mill and it's a dying industry. Emails, electronic filing, etc.

» The environmental issues are a biggie. This is going to take awhile.

» Manufacturer that can utilize the hydro electric plant.

» None at this time. It would be extremely expensive to convert to another use.

» Business development — water … and rail options.

» Electrical power plant.

» Alternative fuel production such as biomass fuels.

» The best option would be for another company to re-open a paper mill.

» A tri-city community center — St. Cloud, Sartell, and Sauk Rapids.

» Hopefully a similar company can start up the mill again.

» A power plant. But ultimately the issues related to clean up and environment will impact the future use of this space. That could be a nightmare.

» Another paper mill.

» 1) Hydro electric generation; 2) Pantown motors — electric and compression air car factory; 3) Valve, wind tower, and blade manufacturing plant.

» Another printing plant.

» Verso will never

See QBR, Page 5F

# QBR

From Page 4F

allow another paper mill to operate in that spot.

» Hydroelectric plant sounds like an option. Unfortunately, Sartell is not growing as much in this location so may be hard to attract a business there unless they need the water.

» Power plant.

## AT LAST, THE DATA POINT IN 1 DIRECTION

The employment situation in St. Cloud, from any angle, has moved sharply positive in recent months. Payroll data in Table 3 show overall employment growth of 3.5 percent in St. Cloud in the last 12 months to July 2012. Private sector employment rose 4.2 percent, a level unseen since February 2007 (and then only for one month — the last sustained period of over 4 percent growth was in 1998-2000.) The growth was widespread, from wholesale and retail trade and transportation to professional business services, health care and education, and leisure and hospitality. Manufacturing employment in the St. Cloud area lagged growth in the service-providing industries. It is worth noting that unlike statewide data, where public sector employment influenced by the 2011 state shutdown skewed July numbers, there was no such effect in St. Cloud.

Household employment data in Table 4 show a similar story. The labor force grew a healthy 2.4 percent in the 12 months to July 2012, and civilian employment grew 3.2 percent. The unemployment rate of 5.8 percent in July 2012 is the lowest July reading since 2008. (Note that household data are not seasonally adjusted.) To have the unemployment rate in July virtually unchanged when the labor force grew 2,390 workers in that month is quite remarkable. That these data confirm the results of the payroll employment figures in Table 3 should bring some confidence to the robustness of this data set.

Most of the remaining data in Table 4 are also positive. Initial claims for unemployment insurance over the last year to July 2012 fell almost 19 percent. The impact of the decision to permanently shutter Verso will be noticed more in the upcoming months. Construction employment (in Table 3) and the value of building permits (in Table 4) indicate some rebound in that sector. Homes seem more likely to be single-family in these data. Help-wanted data fell over the same period, but within the last quarter help-wanted linage has picked up substantially after hitting a hard patch earlier in 2012. That hard patch in 2011 accounts for most of the decline in the St. Cloud Area Index of Leading Economic Indicators, which fell 0.5 percent over the last 12 months.

The shorter term picture has been more positive, as shown in Table 5. All four elements of the St. Cloud Area Index of Leading Economic Indicators moved positive, two of them by significant amounts. New claims for unemployment insurance and help-wanted advertising accounted for nearly all of the change in this series. We cannot find a three-month period with a larger change in the leading index.

We have noted previously that the St. Cloud Area Probability of Recession Index has been stubbornly high over the last two years. In the latest reading we find the probability retracing the low it reached in late 2010 (when we felt the economy had in fact ended its recession) and in the middle months of 2011. A declining reading from Creighton University's measure of business conditions for Minnesota kept the probability higher. A comparable series from the Philadelphia Federal Reserve, on the other hand, continues to rise to new highs, so we might wish to discount the Creighton finding and expect the probability index to decline further in future months.

### TABLE 4 - OTHER ECONOMIC INDICATORS

| | 2011 | 2012 | Percent change |
|---|---|---|---|
| St. Cloud MSA labor force<br>July (DEED) | 108,098 | 110,710 | 2.4% |
| St. Cloud MSA civilian employment #<br>July (DEED) | 100,978 | 104,242 | 3.2% |
| St. Cloud MSA unemployment rate*<br>July (DEED) | 6.6% | 5.8% | N/A |
| Minnesota unemployment rate*<br>July (DEED) | 6.9% | 5.9% | N/A |
| Minneapolis-St. Paul unemployment rate*<br>July (DEED) | 7.0% | 5.9% | N/A |
| St. Cloud-area new unemployment insurance claims<br>May-July average (DEED) | 1,095 | 887.7 | -18.9% |
| St. Cloud Times help-wanted ad linage<br>May-July average | 3,128 | 2,599.7 | -16.9% |
| St. Cloud MSA residential building permit valuation<br>In thousands, May-July average (U.S. Department of Commerce) | 3,900 | 5,857 | 50.2% |
| St. Cloud index of leading economic indicators<br>July (St. Cloud State University)** | 103.2 | 102.7 | -0.5% |

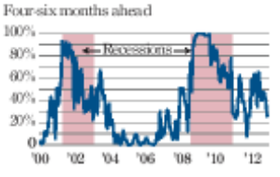
MSA = St. Cloud Metropolitan Statistical Area, composed of Stearns and Benton counties.
# - The employment numbers here are based on household estimates, not the employer payroll estimate in Table 3.
* - Not seasonally adjusted
**- October 2001=100
NA - Not applicable

### TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

| Changes from May-July 2012 | Contribution to LEI |
|---|---|
| Help-wanted advertising in St. Cloud Times | 3.93% |
| Hours worked | 0.19% |
| New business incorporations | 0.01% |
| New claims for unemployment insurance | 2.13% |
| Total | 6.26% |

### PROBABILITY OF RECESSION

Four-six months ahead




This recovery in St. Cloud has been anything but straight up. We have experienced, on a seasonally adjusted basis[3], two dips in the road towards expansion. One occurs between July and September of 2011, which one might conclude is because of the federal debt ceiling debate of that same time, or perhaps an echo of the state shutdown. Neither story would explain the second dip beginning January this year until May, where employment fell back to the November 2011 level. Employment then shot past the January high to a seasonally adjusted 87,260 jobs in July. As the nearby graph shows, this does not return us to the levels of the expansion of 2005-07; we are still a thousand jobs away from that. But if expansion means to grow from the previous peak, we can say that the economy of St. Cloud appears ready to reach that level soon.

### PRIVATE EMPLOYMENT IN ST. CLOUD

Seasonally adjusted

It is in that context that any of the storm clouds that concern our readers — Verso, continued pressure on public sector employment levels, international competition — should be viewed. For the longest of times in this recovery the hiring rate has been stuck at recessionary levels, making it hard for workers who separated from jobs (both voluntarily and involuntarily) to find a new one. While we do not have direct data on job finding rates, the data presented here suggest workers are entering and re-entering the labor force and are finding jobs. Minnesota DEED recently reported second-quarter job vacancies in greater Minnesota had reached their highest levels since 2004. It would appear, then, that St. Cloud is better positioned to deal with the job dislocations facing us now than in the last several years.

[3] Seasonal adjustments are done by the authors, using the Census X-12 methodology. Data available upon request.

## IN THE NEXT QBR

Participating businesses can look for the next St. Cloud Area Business Outlook Survey in November. The next St. Cloud Area Quarterly Business Report will appear in the St. Cloud Times on Sunday, Dec. 16.