

12-15-2013

St. Cloud Area Quarterly Business Report, Vol. 15, No. 4

King Banaian

St. Cloud State University, kbananaian@stcloudstate.edu

Richard A. MacDonald

St. Cloud State University, macdonald@stcloudstate.edu

Follow this and additional works at: <http://repository.stcloudstate.edu/scqbr>



Part of the [Business Commons](#), and the [Economics Commons](#)

Recommended Citation

Banaian, King and MacDonald, Richard A., "St. Cloud Area Quarterly Business Report, Vol. 15, No. 4" (2013). *St. Cloud Area Quarterly Business Report*. Paper 60.

<http://repository.stcloudstate.edu/scqbr/60>

This Newsletter is brought to you for free and open access by the Journals and Newsletters at The Repository at St. Cloud State University. It has been accepted for inclusion in St. Cloud Area Quarterly Business Report by an authorized administrator of The Repository at St. Cloud State University. For more information, please contact kewing@stcloudstate.edu.

Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

St. Cloud Times

VOL. 15, ISSUE 4 • SUNDAY, DEC. 15, 2013

TIGHT LABOR MARKET SIGNALS GROWTH

WAGE AND PRICE INCREASES EXPECTED

ABOUT THE AUTHORS



KING BANAIAN

Department of Economics,
St. Cloud State University,
320-308-4797



RICH MACDONALD

Department of Economics,
St. Cloud State University,
320-308-4781

King Banaian specializes in analyzing data and writing about it in the second portion of this report. 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.

EXECUTIVE SUMMARY

Economic activity in the St. Cloud area is expected to continue to strengthen in the coming months. Local job creation expanded at a 2.2 percent pace over the year ending in October, a pace that was well above its average of 1 percent annualized growth over the past 15 years. The outlook of area firms that participated in this quarter's St. Cloud Area Business Outlook Survey is as strong as it has ever been at this time of year. The current reading of the St. Cloud Index of Leading Economic Indicators is largely unchanged, and the local Probability of Recession Index indicator is at its lowest level in years.

Employment gains in the St. Cloud area were fairly broad-based through October, with strong growth recorded in the local construction sector as well as in the education and health sector. While manufacturing employment declined over the year ending in October, comments by area manufacturers suggest that some of this decline may be due to inability to fill positions with skilled workers. As we have noted in recent reports, local employment has surpassed its prerecession levels. Indeed, measured employment of 105,366 in October was the highest level of local employment ever recorded. By comparison, consider that total employment was 99,496 in the St. Cloud area during the recessionary period of October 2009. Since that time, local employment has increased by almost 6,000 jobs. As always, we urge caution in interpreting local employment numbers because they are subject to substantial annual revisions in the first quarter of next year.

ST. CLOUD INDEX OF LEADING ECONOMIC INDICATORS

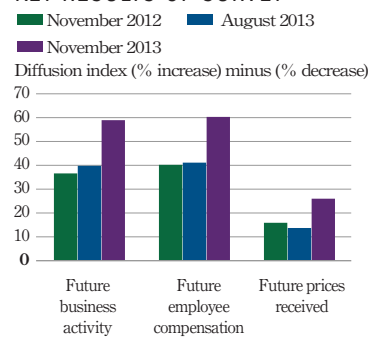


The October unemployment rate in St. Cloud was 3.9 percent. While this figure may have been adversely affected by the federal government shutdown in October, this is still the best October reading that we have seen since 2007. We expect November's local unemployment rate to confirm strong local labor market conditions. At the moment, the local labor force appears to be growing modestly. While we remain concerned about longer-run trends in local labor force participation rates (as well as reports of skilled worker shortages), for now the increased employment and reduced unemployment that we are seeing in the data are a welcome sight in comparison to local conditions four years ago.

The St. Cloud Index of Leading Economic Indicators was mostly unchanged in the latest quarter. Two of four indicators in the index were negative; a third was positive and the last one was a zero. The St. Cloud Probability of Recession Index stood at 19.3 percent in October, the lowest reading since 2011.

Forty-seven percent of 73 surveyed firms experienced improved business activity during the past three months, while only 16 percent reported decreased activity. This is somewhat weaker than what was reported one year ago, but is still a strong reading for this time of year. Survey responses

KEY RESULTS OF SURVEY



on employee compensation are unchanged from one year ago (when they were the highest ever recorded in the November survey) and the item measuring difficulty attracting qualified workers remains elevated. This is further evidence of labor market tightening in the St. Cloud area.

Survey results of the future outlook continue to be very optimistic. The overall future business outlook is the best number ever recorded in November. Sixty-nine percent of firms expect increased business activity by May 2014, and only 10 percent expect activity to fall. In addition, the index on the expected future difficulty attracting qualified workers has basically returned to its level in the late 1990s and early 2000s (a time when firms routinely reported worker shortages). This quarter's survey suggests area firms are beginning to expect increased pricing power over the next six months. While any increase in prices received will be a welcome relief from expected higher labor costs (60 percent of surveyed firms expect employee compensation to rise over the next six months), this also may suggest some general inflationary pressures that could begin to appear.

In this quarter's first special

question, we asked area firms to indicate the extent to which they felt the repeal of new sales taxes on business-to-business transactions is a priority in the upcoming legislative session in St. Paul. Eight percent of firms indicate that it is their highest legislative priority, and 34 percent consider it a high priority. Only 10 percent of firms indicate it is not a priority, and 12 percent consider it a low priority.

In the second special question, businesses were asked to report on factors that are restraining hiring at their firms. This question was previously asked in May 2011 (at a time when we were in the midst of a "jobless recovery"). Forty-three percent of firms indicate hiring is restrained because they cannot find workers with the required skills (in May 2011, only 4 percent of firms indicated this was restraining hiring). Thirty-four percent of firms report uncertainty about government policies is restraining hiring, and 26 percent have held back on hiring because of uncertainty about health insurance costs. Hiring is being restrained by 22 percent of firms who indicate low sales growth, while 21 percent of surveyed firms report no sources of restraint.

In this quarter's final special question, we asked area firms to indicate the extent of their concerns about declining labor force participation rates over the next several years. Almost one-quarter of firms have either not considered it or are unconcerned. Eighteen percent are slightly concerned, and 37 percent are moderately concerned. Only 16 percent of firms consider this a great concern, and less than 3 percent indicate this is their greatest concern.

COLLABORATING PUBLISHERS

ST. CLOUD STATE UNIVERSITY
Center for Economic Education
Department of Economics
School of Public Affairs

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

THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses

are from 73 area businesses that returned the recent mailing in time to be included in the report. Participating firms are representative of the di-

verse collection of businesses in the St. Cloud area. They include retail, manufacturing, construction, financial, health services and government en-

terprises, both small and large. Survey responses are strictly confidential. Written and oral

Continued on Page 2E

TABLE 1-CURRENT BUSINESS CONDITIONS

	November 2013 vs. three months ago			Diffusion Index ³	August 2013 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	16.4	35.6	46.6	30.2	49.4
Number of employees on your company's payroll	17.8	47.9	34.2	16.4	26
Length of the workweek for your employees	8.2	67.1	23.3	15.1	24.7
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.5	58.7	30.1	24.6	39.8
Employee compensation (wages and benefits) by your company	0	64.4	35.6	35.6	43.8
Prices received for your company's products	4.1	83.6	9.6	5.5	13.7
National business activity	6.8	57.5	23.3	16.5	28.7
Your company's difficulty attracting qualified workers	1.4	72.6	23.3	21.9	27.4

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/>

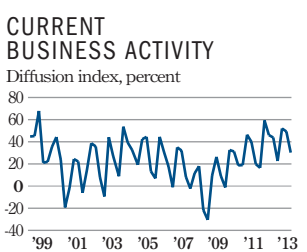
QBR

From Page 1E

comments have not been attributed to individual firms.

Survey responses from Table 1 are a little weaker than experienced one year ago. Compared with the same period one year ago, state taxes are higher for many firms and the federal government continues to be a drag on the private sector (the federal government furlough, continuing concerns about health care regulations, unsettled debates regarding long-run budget policy, etc. have probably affected surveyed firms). In addition, one year ago, some firms were pushing more activity into the fourth quarter in anticipation of higher taxes. It is therefore no surprise that the results in Table 1 are somewhat worse than observed one year ago.

Indeed, the index on national business activity is at its lowest level in two years (see the second chart in this section). Still, most of the indexes on current business conditions remain well above the lows reached during the most recent local recession. As can be seen in the accompanying chart, this quarter's diffusion index on current business activity (its current value is 30.2) is well above the -21.6 value recorded during the recession five years ago. 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.



Likewise, the current employment index is little changed from one year ago, as is the index on current employee compensation. Firms report continued difficulty in increasing prices over the past quarter. The rapid rise in capital expenditures reported last quarter (when the index was 39.8) moderated this quarter. Thirty percent of surveyed firms report increased capital spending over the past three months, while 6 percent cut back on capital expenditures.

Area firms continue to report difficulty attracting qualified workers, although the index on this item is slightly down from last quarter. Finally,

TABLE 2-FUTURE BUSINESS CONDITIONS

What is your evaluation of:	Six months from now vs. November 2013				August 2013
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³
Level of business activity for your company	9.6	20.5	68.5	58.9	39.8
Number of employees on your company's payroll	8.2	43.8	46.6	38.4	32.8
Length of the workweek for your employees	15.1	64.4	16.4	1.3	3.1
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.5	61.6	30.1	24.6	27.4
Employee compensation (wages and benefits) by your company	0	38.4	60.3	60.3	41.1
Prices received for your company's products	1.4	68.5	27.4	26	13.7
National business activity	6.8	41.1	39.7	32.9	20.6
Your company's difficulty attracting qualified workers	0	69.9	27.4	27.4	26

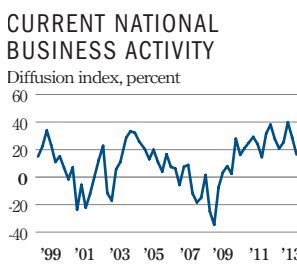
Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index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

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

ABOUT THE DIFFUSION INDEX

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

while surveyed firms may have been somewhat hesitant to add workers over the last three months, area firms had an unseasonably large increase in length of the workweek for their employees. The index on length of workweek is often negative in the November survey, so a value of 15.1 is a surprising reading for this item.



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

- We're seeing a "small turn" in the economic outlook and hope it means more companies and organizations are interested in (our services).
- It took us three months to fill a part-time role and have had less than 10 applicants.
- Much of the increase (reported in the survey) is due to a (recent) merger.
- The federal government is spending the U.S. into poverty and revaluation. If the Obama administration and EPA would open up the pipeline construction for natural gas and crude oil from the Bakken, it would create millions of new jobs and great

wealth for the U.S. Geologists currently report 700-1,000 years of crude oil in the Bakken.

- Continued regulatory requirements and increased regulatory interface across all facets of business are creating so much non-value-added hassle that one starts to really question why one doesn't just give up and go work for the government instead.
- Government harassment is increasing. I have had more OSHA, workers comp and sales tax audits the past three years than the prior 20.
- The unknown of how "Obamacare" will affect our employees??
- Health care reform is having a positive influence from the standpoint of all the materials that are now required to be distributed by insurance companies. We are producing and distributing some of those documents, which is fueling growth for us.
- We have seasonal volume, so answers to questions 1 and 2 are impacted by normal company sales patterns. First quarter '14 will be budgeted higher than last first quarter.
- Policymakers in St. Paul, especially Gov. Dayton, better wake up to (the) negative impact their tax and regulations are having on Minnesota businesses. They are making it much harder for us to compete in a national market.
- Competition from a city-sponsored fitness center is inappropriate — there are already too many fitness centers in the St. Cloud area.
- Interest rates creeping up on loans will (hurt) purchasing a home of any type, and not allow small business to operate or expand. We may be on the uptick in the economy, but it is very fragile because margins are so thin in the construction industry. Any small thing like interest hikes can really affect any growth.
- General uncertainty

inhibits decisions.

- The Affordable Care Act will impact the cost of benefits to our company (and ultimately) by a total of \$280,000 in our 2014 fiscal year. Adjustments will be made in other areas to achieve our profit goals.
- The main concern is still the future costs of health care.
- Health care changes have forced us to lessen our health care offerings to our employees' families. We don't like that.
- We continue to see agriculture as a relatively strong sector and we are benefiting from investments and capital spending by Central Minnesota farmers.
- As always, the government seems to think everyone can keep paying higher taxes to give out to nonworkers. If most people would stop and think everyone passes the taxes and other costs to do business on to their individual customers. So basically only the government ends up with the money to squander away on their pet projects to buy another term in office.
- Over-regulation (e.g. Dodd/Frank) that has done nothing but increase our cost materially.
- Health care, taxes, uncertainty — our elected officials should model how to work TOGETHER for the benefit of those they represent!

FUTURE OUTLOOK

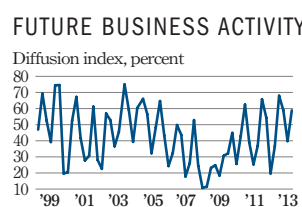
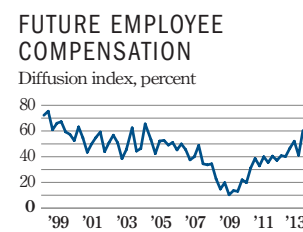


Table 2 reports the future outlook for area businesses. The index on future overall business activity is (by far) the highest ever recorded in the November Future Business Conditions survey. Sixty-nine percent of surveyed firms

expect increased activity in six months, and only 10 percent of firms expect conditions to worsen. Note that this item is always seasonally stronger than is recorded in the survey conducted in August.



As was the case last quarter, the items in Table 2 that report on the local labor market outlook are particularly strong. Businesses expect to see improved employment, better employee compensation and more difficulty attracting qualified workers over the next six months. Indeed, the index on employee compensation (see accompanying chart) is the highest it has been in almost 10 years. No firms expect to decrease employee compensation — wages and benefits — over the next six months, while 60 percent of surveyed firms expect labor costs to rise. This quarter's survey also finds a significant jump in the prices-received index (see the final chart in this section). Twenty-seven percent of firms expect to increase prices by May 2014, and only one firm plans to reduce prices. This is the highest value recorded in the prices-received index in three years. It is unclear whether higher expected prices are due to increased labor costs, an improvement of local firms' pricing power, or from general inflationary conditions, so we will be keeping a close eye on this index in future surveys.



SPECIAL QUESTIONS

Among the more contentious changes in tax law from the 2013 Minnesota legislative session was a sales tax on business-to-business transactions that targeted services performed on business equipment and machines, telecommunications purchases, and storage and warehousing operations.

Those Minnesota companies that have been adversely affected by the new tax have been joined by a diverse group of opinion leaders in calling for a repeal of the tax in the upcoming legislative session. Among other things, these businesses argue that the tax places them at a competitive disadvantage with companies that offer similar services in states that don't face this tax. The tax on warehouse and storage services (there are approximately 850 jobs that fit into this category in the St. Cloud area, and there are potential indirect effects of the tax as well) is of particular interest given that it is scheduled to begin on April 1, 2014. Various groups have suggested the tax will cause job loss in Minnesota, and debate on this tax is certain to be on the agenda of the 2014 legislative session in St. Paul. We were curious what area businesses thought about efforts to repeal this tax, so we asked:

QUESTION 1
"To what extent do business feel the repeal of new sales taxes on business-to-business transactions is a priority of the 2014 Minnesota legislative session?"

Only 8 percent of surveyed firms indicate that repeal of these taxes is their highest legislative priority, but 34 percent identify this as a high priority. Another 29 percent of area businesses believe this is a medium priority. Only 22

Continued on Page 3E

LOCAL AREA INCOME, GDP IMPROVES SHARPLY IN 2012

The Bureau of Economic Analysis released 2012 figures for personal income in the St. Cloud area in November, which showed a second straight strong year. Personal income was \$7.19 billion in 2012. Personal income rose 3 percent on the year adjusted for inflation, with a 3.9 percent increase in earnings by St. Cloud-area residents. On a per capita basis, real personal income stood at \$35,616 (in 2009 dollars) a 2.7 percent gain over 2011.

The gains came in part from the agricultural sector of Stearns and Benton counties, which rose from \$159.2 million in 2011 to \$251.2 million in 2012. But real wages were up 3.2 percent, partially offset by declines in employer contributions to retirement savings. Sole propri-

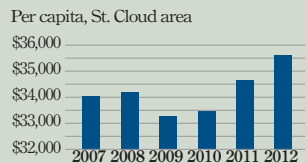
etors earned 5.9 percent more income in 2012 than 2011.

2012 marks the first year that earnings of St. Cloud residents exceeded their levels before the Great Recession of 2008. Income had risen in the area in part due to transfer payments from government; while declining in 2012, per capita transfer receipts were \$6,540 or 27.7 percent above their level in 2007. Real per capita net earnings were only 0.7 percent above their 2007 level.

With better performance appearing to be the case in 2013, we expect these data to show substantial improvement when we revisit them next year.

More about the local economy was learned last September when BEA released

PERSONAL INCOME



information on local area gross domestic product. Whereas personal income tells us about earnings for local residents, GDP tells us about production of area businesses.

2012 local area real (inflation-adjusted) GDP totaled \$6.93 billion. This represented a strong 4 percent gain over 2011. Of the total, 26.5 percent was the production of manufactured goods, construction building, mining and agriculture. 10.9 percent of the total was contained in durable goods

manufacturing, a reflection of the cyclicity of the St. Cloud economy (durable goods consumption is one of the most sensitive areas for economic fluctuations.)

Overall, while manufacturing contains less than 15 percent of area employment, it creates 17 percent of area production. This in part is reflected in the higher wages paid to manufacturing workers.

The service sector accounted for 62.3 percent of area production, of which 12.2 percent of the total was in the area of health and hospital services. The region is a leader in the provision of health services to areas west of the Twin Cities. Public sector production accounted for the remaining 11.3 percent. The retail sector, de-

spite holding near 13 percent of employment in the region, was responsible for 9 percent of area production.

Using production and income data allows us to confirm what we saw in the employment data nine months ago: 2012 was a strong year for the St. Cloud economy. The results in fact are stronger than we had believed before. We caution that, while we do not know personal income figures for 2013 yet for the St. Cloud area, state personal income for the first half of 2013 slowed to a 2.2 percent annual growth rate from 4.6 percent in the first half of 2012.

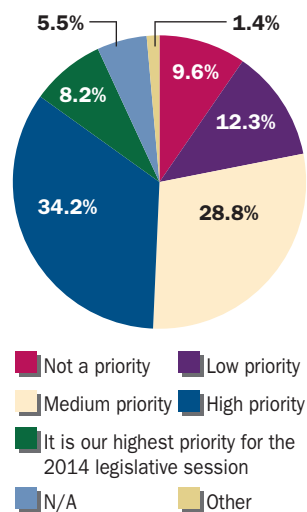
We will have to wait on more data before being able to say 2013 will be as strong as 2012.

QBR

From Page 2E

percent of surveyed firms think this is not a priority or is a low priority. Written comments identify the concerns of area firms, although several businesses indicate that they are unaffected by the taxes.

TO WHAT EXTENT DOES YOUR BUSINESS FEEL THE REPEAL OF NEW SALES TAXES ON BUSINESS-TO-BUSINESS TRANSACTIONS IS A PRIORITY OF THE 2014 MINNESOTA LEGISLATIVE SESSION?



These comments include:

- Fargo, N.D., is making Moorhead and St. Cloud look like startup cities. Fargo will be the major financial center of the Midwest by 2035-2050.

- We are having trouble attracting business because of high taxes — don't need more.

- Not everyone in the Legislature cares about tax reform.

- Downward profit pressure on impacted companies will possibly negatively impact hiring and profit-sharing contributions, which impacts the growth in the profit-sharing plans (for which

we offer services).

- This is just one of many items that need repeal to give Minnesota a business climate that will encourage growth within its borders instead of chasing Minnesota business across its borders.

- Although it doesn't have a big effect on our business, anytime the legislators have a chance to repeal taxes I think they should.

- As much as I dislike additional taxes and believe them to be punitive in the long run, the B2B taxes aren't the biggest obstacle we currently face.

- I don't see it applying to my business.

- While we are not involved with charging the new sales tax, we are impacted by its effect on our business customers.

- This is not as high of a priority as the challenges we are having around staffing and the market wages increasing.

- We are an exempt nonprofit and the newly enacted taxes do not affect us.

- The home office is in Georgia, and I don't get into this.

- Minnesota is already the fourth-worst state for taxes. Our estate tax is out of line. The increase in personal income tax is making it harder to reinvest in the business to stay competitive. Minnesota is heading the wrong direction in its anti-business attitude from St. Paul.

- Doesn't affect us much.

- Raises costs, and our margins are too slim to handle the increase.

- It does not currently affect this business.

- When will it end? Businesses will just pass the cost on to the custom-

er. We have to start cutting government spending.

- Any type of tax such as this one affects everyone, not just businesses. It will affect consumers as well, just like all taxes do. Needs to be repealed.

- More efficient to collect taxes elsewhere.

- Sales tax increases the cost of acquiring services. It's just called something else. If we are to maintain the "price" to our clients, the only way to accomplish that is to reduce the direct labor cost.

- As a national supplier, we compete against other companies in different states and this puts us at a distinct disadvantage.

- The cumulative effect of higher taxes is having an impact of profitability. The increase in costs associated with managing these new taxes is compounding the problem.

- I assume you're referring to "warehouse" sales tax? While we are not directly affected, this tax is unique to Minnesota and poor tax policy.

- Not sure what effect, if any, it really has on us.

- It does not affect us directly, but it does for some of our clients and the economy as a whole. A stupid tax.

- We already pay taxes, an additional tax would be a negative impact on business growth.

- I don't know much about it.

In May 2011, the St. Cloud economy was in a slow recovery that was characterized by tepid job growth. The July 2011 St. Cloud Area Quarterly Business Report was titled "Fragile Recovery Continues" with a subtitle referring to a "Mixed Labor Market." At the time, there were similar

concerns across the U.S. (these concerns persist to this day for many areas of the country), so we decided to ask area businesses the same questions that had been posed of manufacturers in the Philadelphia Federal Reserve district.

These questions were aimed to identify factors that were leading to job creation in those companies that were expanding payrolls as well as factors that were restraining hiring in firms that had not added workers.

While we no longer feel it necessary to ask area firms to identify factors that are influential in their plans to increase employment, we did wish to find out what factors, if any, might be restraining hiring at area firms. Thus, we asked:

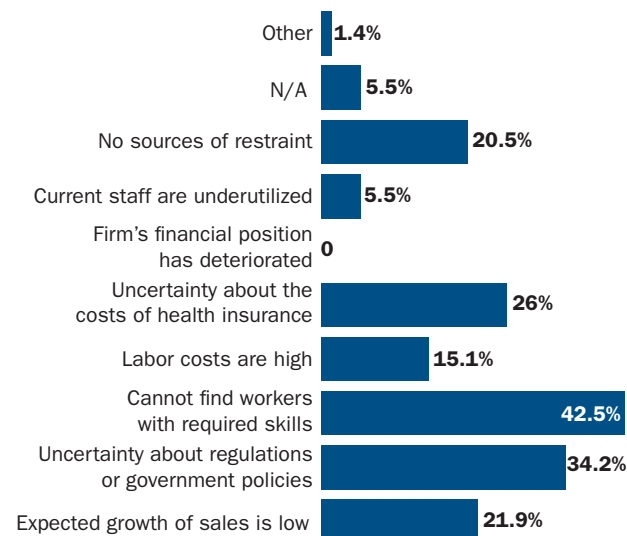
QUESTION 2

"Which of the following factors, if any, are currently restraining hiring by your firm?"

Because the survey questions asked 30 months ago were framed differently than this quarter's question, we have to be careful in making strict comparisons. Nevertheless, a (much) larger share of local firms (43 percent) currently indicate an inability to find skilled workers as a key factor restraining hiring. When we asked this question in May 2011, only 4 percent of firms cited this as a factor restraining hiring. This result is consistent with evidence we have reported in recent issues of the QBR. There appears to be a growing local labor shortage, which has the effect of constraining long-term potential growth in the St. Cloud area.

In 2011, 21 percent of firms indicated that hiring was restrained be-

WHICH OF THE FOLLOWING FACTORS, IF ANY, ARE CURRENTLY INFLUENTIAL IN RESTRAINING HIRING BY YOUR FIRM?



cause the "firm's financial position had deteriorated." No firms cited this in this quarter's survey. Likewise, 48 percent of firms indicated weak sales growth as a factor restraining hiring in May 2011. Thirty months later, only 22 percent of firms cite low sales growth as a factor slowing job creation. Finally, about one-third of firms cite uncertainty about regulations or government policies as restraining hiring, and 26 percent say uncertainty about costs of health insurance is a concern. In May 2011, a larger share (44 percent) of firms thought regulation was holding back hiring, but only 17 percent cited health insurance as a factor restraining hiring.

Written responses include:

- We are open to new programs and grant opportunities.

- Excessive federal government regulations.

- For certain positions it is difficult to find talent in the region. Specifically fraud prevention and IT talent plus mid-level banking talent.

- We will be again

looking to expand in spring of 2014 if we perform well in the first quarter.

- Finding young workers with a work ethic is difficult, and they do not show up consistently for work. It will take years to retrain the skills that are retiring.

- It remains difficult to find experienced people for positions outside of the Twin Cities, and labor costs are high for experienced positions we fill within our Twin Cities market.

- "Obamacare" scares business people. Would one expect government can run health care when they can't even make a website work?

- We've had a difficult time finding qualified trade workers in our line of business.

- Auto techs are hard to find.

- The continuing problem of a skills gap.

- We are having challenges finding people that actually want to work or work at the wage we have been paying. Government programs have made it too easy for people not to work and

QBR

From Page 3E

earn a decent living.
 • We have low-skill, entry level (jobs) but have a hard time keeping a full staff. Not many applicants.

• It is hard to find enough workers for production. I think the unemployment (benefits programs) reduce incentives to work.

• We have fewer than 50 employees and have no restrictions on hiring — we are able to hire as needed.

• The medical device tax, and cuts in Medicare reimbursement, along with increased health insurance, all as a result of the Affordable Care Act, negatively affect our business.

• With the continued mandated regulations, it is very difficult to decide whether to hire employees or just contract labor out. It's very risky at this time.

• Uncertainty fosters inaction.

• With the added investment in infrastructure, equipment and technology, our company is positioned for growth. I don't see any reason why the growth won't happen unless something drastic happens.

• We could hire many people if we could find them. This is true of unskilled labor also.

• Our business is not growing. We seem to be continually bombarded with new government regulations that drive up costs and make it more difficult to do business.

• We always slow down somewhat in the winter months

• Too much uncertainty. Patchwork budgets, constant infighting. Nothing gets done. Not

TABLE 3 - EMPLOYMENT TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	October '12-October '13 rate of change	October '13 employment share	15-year trend rate of change	October '12-October '13 rate of change	October '13 employment share	15-year trend rate of change	October '12-October '13 rate of change	October '13 employment share
Total nonagricultural	1%	2.2%	100%	0.6%	2.4%	100%	0.5%	1.8%	100%
Total private	1%	2.6%	84.7%	0.6%	2.6%	86.7%	0.6%	2%	85%
Goods producing	0.2%	3.2%	20.2%	-1.3%	3.5%	13.8%	-1.4%	0.8%	15%
Construction/natural resources	2.5%	15.3%	5.8%	-0.1%	10.7%	3.8%	-0.3%	3.5%	4.2%
Manufacturing	-0.5%	-1%	14.4%	-1.7%	1%	10%	-1.7%	-0.2%	10.9%
Service providing	1.2%	1.9%	79.8%	0.9%	2.2%	86.2%	0.9%	2%	85%
Trade/transportation/utilities	-0.2%	3.2%	20.3%	-0.3%	1.8%	17.6%	-0.1%	2.7%	18.5%
Wholesale trade	1.4%	2.7%	4.1%	-0.1%	0.1%	4.4%	0.3%	2.3%	4.7%
Retail trade	-0.9%	3%	12.7%	-0.2%	2.2%	9.6%	-0.2%	2.4%	10.3%
Trans./warehouse/utilities	1.4%	4.3%	3.5%	-0.9%	3.1%	3.5%	-0.3%	4.1%	3.4%
Information	-1.6%	-1.1%	1.6%	-0.9%	0.1%	2.1%	-0.9%	1.7%	2%
Financial activities	1.6%	0.6%	4.2%	0.5%	0.2%	7.7%	0.6%	1.2%	6.4%
Professional & business service	3%	0.8%	7.9%	0.8%	1.7%	15.4%	1%	2.1%	12.4%
Education & health	3.2%	5%	19.2%	3.6%	5.1%	16.6%	3.2%	2.9%	17.7%
Leisure & hospitality	1%	-0.4%	8.2%	1.5%	3.5%	9.2%	1.1%	2.5%	8.9%
Other services (excluding govt.)	-0.3%	-2.1%	3.2%	0.8%	-0.3%	4.2%	0.4%	0	4.1%
Government	1%	0	15.3%	0.4%	1.3%	13.3%	0.4%	0.6%	15%
Federal government	1.5%	-4.3%	1.9%	-0.9%	-3.3%	1.1%	-0.6%	-2.4%	1.1%
State government	1.4%	-0.2%	4.7%	0.5%	-0.7%	3.7%	1%	0.3%	3.6%
Local government	0.7%	1.1%	8.7%	0.6%	2.8%	8.5%	0.3%	1%	10.3%

Note: Long-term trend growth rate is the compounded average employment growth rate in the specified period.
 Sources: Minnesota Department of Employment and Economic Development and author calculations.

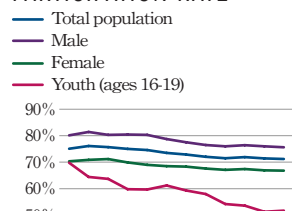
confident enough to gamble on expansion.

• Health care cost impact is NOT helping my clients grow their business and labor pool.

• Navigating the medical maze has been ridiculous.

A couple of months ago, we were struck by the following graph found on the website at the Minnesota Department of Employment and Economic Development.

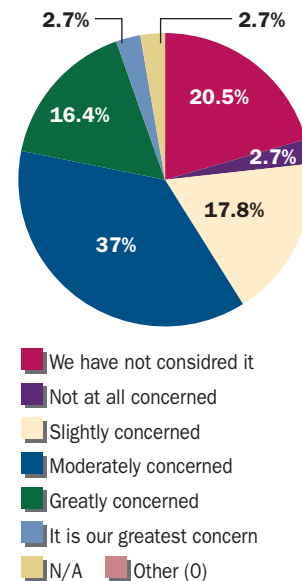
LABOR FORCE PARTICIPATION RATE



The chart shows an unsettling trend of declining overall labor

force participation (this is calculated as the size of the labor force divided by the population of those 16 and older). This is expected as the labor force ages and a larger share of baby boomers reach retirement age, but the rapid decline in youth labor force participation is a surprise. Over the years, area firms have anecdotally expressed concerns about their inability to replace retiring workers, but until now, we have not specifically surveyed them on concerns regarding declining local labor force participation rates. While we don't have data for the St. Cloud area, to the extent that statewide trends are reflected in Central Minnesota, the decline in labor force participation should be of increasing concern for area firms. We asked:

QUESTION 3 "To what extent is your firm concerned about declining local labor force participation rates over the next several years?"



NOTE: Numbers may not add up to 100 due to rounding.

This does not appear

to be of great concern to area firms. Less than 20 percent of firms indicate they are greatly concerned (or that this is their greatest concern). Forty-one percent of firms have either not considered this, are not at all concerned, or are slightly concerned. Better coordination of efforts among local schools, regional colleges and universities, area employment and training offices, public officials, economic development agencies and area businesses in addressing future workforce issues is likely to be a growing priority in Central Minnesota in the coming years.

Firm comments include:

• We are VERY concerned. The best people are close to retirement or retiring, upcoming workers are not skilled in

problem-solving and self-motivation on a job, and come with high expectations of salary. There are few people who will work for what we can afford to pay. Our lowest paid employee makes \$12 per hour. Either prices need to escalate, or we need to let more minorities in and give them the jobs. Unemployment is too lucrative for people and they prefer unemployment.

• 35,000 college students takes some pressure off.

• We can't afford for America to lose its work ethic that made us great.

• Average age of a craft worker is in their mid-50s and that experience is hard to replace.

• If the rate of retirement for baby boomers increases faster than expected, the

QBR

From Page 4E

replacement pool of experienced (workers) is too small to fill the gap.

- This has been a concern for quite some time. High schoolers are not pursuing any trade careers. Not that a college education is a bad thing, but too many career counselors are pushing kids to something easier.

- Less concerned about the general declining rate, and more concerned about the larger decline in certain “trade skills” and certain “skilled” positions.

- Not sure?

- Not sure what this means.

- We are primarily a “service provider” and thus having a solid workforce is a requirement to stay in business. Given the challenges we currently have in recruiting employees, we believe it is only going to get worse, which in turn increases our risk for loss of business and becomes a clear impediment to growth.

- We have an aging workforce and are concerned about succession planning.

- When the construction industry took a hit with the recession, many of the workforce in this area decided to train or do something else. It is going to be very difficult to recruit new people back to the industry. I am sure it left a sour taste in many workers’ mouth. Hopefully we can overcome that in the future???

- This is a public sector concern as well.

- We feel we are going to need more workers, and fewer are going to be available.

- I feel the declining

TABLE 4 - OTHER ECONOMIC INDICATORS

	2012	2013	Percent change
St. Cloud MSA labor force October (DEED)	108,434	108,842	0.4%
St. Cloud MSA civilian employment # October (DEED)	103,259	104,578	1.3%
St. Cloud MSA unemployment rate* October (DEED)	4.8%	3.9%	N/A
Minnesota unemployment rate* October (DEED)	5%	4.1%	N/A
Minneapolis-St. Paul unemployment rate* October (DEED)	5%	4.1%	N/A
St. Cloud-area new unemployment insurance claims Aug.-Oct. average (DEED)	802	727	-9.4%
St. Cloud Times help-wanted ad linage Aug.-Oct. average	2,239	2,285	2.1%
St. Cloud MSA residential building permit valuation In thousands, Aug.-Oct. average (U.S. Department of Commerce)	7,101.3	10,338.67	45.6%
St. Cloud index of leading economic indicators October (St. Cloud State University)**	103.1	109.5	6.2%

NOTE: July 2013 LEI estimated under experimental program. See text.

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

N/A - Not applicable

labor force participation will lead to labor shortages because of lack of potential employees with marketable skills and experience.

- We feel that the trades are losing interest in young people as most of them appear to be lazy or can get handouts and very few choose to do construction and maybe look to tech and retail jobs.

The data shown in Table 3 reflect the strong labor market of both St. Cloud and the Twin Cities. Total employment in St. Cloud grew a healthy 2.2 percent in the 12 months to October 2013, with private sector growth even more robust at 2.6 percent. Leading the way was the construction sector, which rebounded strongly with 15 percent growth in the last year. (Our data for construction includes mining and logging employment, but these are a very tiny part of the data.) Growth of construction in Minneapolis

and St. Paul was greater than 10 percent. Data in Table 4 also confirm that the construction business in the St. Cloud area has expanded in 2013.

Elsewhere in St. Cloud, the continued expansion of the health and education sector of the economy dominated other increases, with a 5 percent gain in the last 12 months to October 2013. Wholesale and retail trade sectors grew faster than the overall economy, as did the transportation and warehousing sector. Meanwhile, the manufacturing sector lost 1 percent of its employment over the last year, and the information sector lost 1.1 percent. Public sector employment was flat.

As seen in Table 4, the unemployment rate in St. Cloud fell below 4 percent in October for the first time since November 2007. The unemployment rate in St. Cloud is quite seasonal, so we do not expect it to remain below 4 percent for very

long, but this is nonetheless good news. Labor force growth has been slow, which may constrain employment gains going forward. St. Cloud has an unemployment rate below those of the state and of the Twin Cities, a position it lost during the Great Recession but had before it.

Residential building permits in the area increased to an average of \$10.3 million per month in the August-October period this year, compared with \$7.1 million per month last year. This sharp increase in construction activity confirms the increase in construction employment seen in Table 3. Elsewhere, help wanted linage rates were flat versus a year ago (though down on a seasonally adjusted basis from this summer).

Two of the four components of the St. Cloud Area Index of Leading Economic Indicators were down in the quarter, including help-wanted

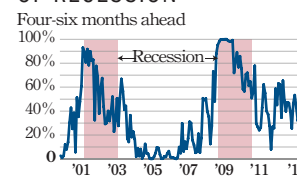
TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from July to October	Contribution to LEI
Help-wanted advertising in St. Cloud Times	-1.69%
Hours worked	-0.53%
New business incorporations	-0.01%
New claims for unemployment insurance	0.95%
Total	-1.28%

linage and hours worked in manufacturing. But new claims for unemployment insurance fell substantially, a positive sign as shown in Table 5. New business incorporations were virtually identical to the previous quarter.

The most recent St. Cloud Area Probability of Recession Index dropped below 20 percent for the first time since 2011. This measure includes information on the state economy as well as the elements of the leading indicator index. Most recent information about the Minnesota economy showed some softening from a very strong summer, but the Minnesota Business Conditions Index produced by Creighton University still shows “above-neutral” growth. Stronger growth among durable goods manufacturers was reported along with rising construction activity. Both these factors are positive for St. Cloud as well.

PROBABILITY OF RECESSION



Our expectations are guided by a robust national economy that seems to have survived the partial government shutdown in October without a pause in the recovery. National pri-

vate employment as reported by the payroll processing firm ADP was up over 200,000 workers for November. The Bureau of Labor Statistics then reported the national unemployment rate for November at 7 percent.

Third-quarter GDP was revised to a very strong 3.6 percent growth, though almost half the gain was an increase in inventories. While we read stories of slow retail sales for the holiday season, remember that the nature of shopping is changing, moving more online. This makes comparisons of store sales data difficult even for the same store of the same company (most of them have online presences). If the inventories of the third quarter are bought in this fourth quarter, future growth should be strong.

Production data has been very strong in the U.S. economy of late as well, and earnings and income have moved moderately higher. Overall, then, the state and national environment are conducive to a continuation of our local area economy’s expansion into 2014.

IN THE NEXT QBR

Participating businesses can look for the next St. Cloud Area Business Outlook Survey in February. The next St. Cloud Area Quarterly Business Report will appear in the St. Cloud Times in March.