9-14-2014

St. Cloud Area Quarterly Business Report, Vol. 16, No. 3

King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu

Richard A. MacDonald
St. Cloud State University, macdonald@stcloudstate.edu

St. Cloud Area Quarterly Business Report

St. Cloud Times

VOL. 16, ISSUE 3 · SUNDAY, SEPT. 14, 2014

KEY SECTORS DRIVE RAPID LOCAL GROWTH

PRICE PRESSURES REPORTED; QUADGRAPHICS CLOSURE, FLAT LEADING INDICATORS PROMPT CAUTION

ABOUT THE AUTHORS

KING BANAIAN
School of Public Affairs,
St. Cloud State University,
320-308-4797

RICH MACDONALD
School of Public Affairs Research Institute,
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.

COLLABORATING PUBLISHERS

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

School of Public Affairs Research Institute
St. Cloud State University

EXECUTIVE SUMMARY

A surge in job growth in key sectors of the St. Cloud-area economy highlights strong local economic performance during the past three months. Difficulty attracting qualified workers continues to be a chief area of concern for local firms as almost 40 percent of surveyed companies report increased worker shortages during that time. While this strain on the labor market is helping put upward pressure on wages and prices, it also might help absorb the 280 jobs lost in the recent closure of the St. Cloud QuadGraphics plant.

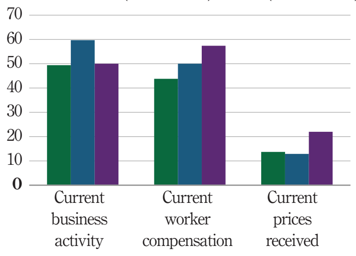
Local job creation expanded at a 2.8 percent pace over the year ending in July — well above its annual average of 0.7 percent during the past 15 years. Job growth in the local private sector (which accounts for 87 percent of area employment) was even stronger, with a 3.5 percent annualized rate of gains. An all-time high of 104,447 workers were employed in the St. Cloud area in July — almost 3,000 more than one year ago. The July unemployment rate in St. Cloud was 4.2 percent, a favorable improvement from 5.1 percent one year earlier and the lowest July unemployment rate since 2006.

ST. CLOUD INDEX OF LEADING ECONOMIC INDICATORS

Private sector employment gains in the St. Cloud area were led by a strong surge in the local professional/business services, educational/health, construction and leisure/hospitality sectors. Note that these four sectors of the local economy account for more than 43 percent of area jobs. The construction sector (which contains mining and logging employment) experienced 15.3 percent year-over-year job growth in July. Annualized jobs gains of 6.7 percent were observed in both the professional and business services and the educational/health sectors, while leisure/hospitality added jobs at a 4 percent annual pace. Job losses occurred in area manufacturing, information and financial activities sectors. The area government sector also shed 1.6 percent of its jobs over the past year.

The new St. Cloud Index of Leading Economic Indicators was virtually unchanged in the most recent quarter and rose 0.3 percent over the last year. Three of four indicators in the index were positive. The new St. Cloud Probability of Recession Index was virtually zero in July, indicating no recession expected for the rest of 2014.

KEY RESULTS OF SURVEY



Sixty percent of 68 surveyed firms experienced improved business activity during the past three months, while only 10 percent reported decreased activity. Thirty-eight percent of firms indicate increased difficulty attracting qualified workers, while 57 percent report paying higher wages and 28 percent are receiving higher prices than one quarter ago.

Survey results of the future outlook continue to be optimistic. Fifty-nine percent of firms expect increased business activity by February, and 16 percent expect activity to fall. Given seasonal patterns of activity for surveyed firms, this is a particularly strong performance in the August survey of future business conditions. Forty percent of firms expect to add workers to their payroll over the next six months, but 37 percent of firms expect worker shortages to get worse over the coming months.

In this quarter's special questions, area firms were asked to elaborate on the nature of the labor shortages they are experiencing. Fifty-nine percent indicate they have recently experienced either worker shortages or a skills mismatch. Fifty-two percent of firms report that the skills needed for a majority of their job openings require some college or technical school experience (but not a college degree). Sixteen percent of respondents indicate the majority of their job openings require a college degree (or higher) while one-quarter of surveyed firms require only a high school degree for most of their job openings. Among the strategies employed to address labor shortages and skills mismatches, area firms have most actively undertaken increased recruitment efforts, provided additional training to existing staff, increased wages and expanded recruitment outside of the region.

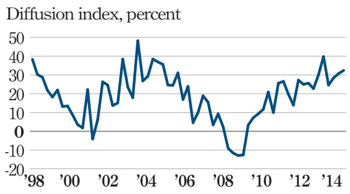
THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 68 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 show continued improvement from earlier periods. This quarter's diffusion index on current business activity (its current value is 50) is the highest ever recorded in the August survey. While the index is somewhat below last quarter's current business activity reading, this is a normal seasonal occurrence. Note that the August 2014 value of the current business activity index is much higher than it was in the recessionary periods of August 2008 (when it equaled

CURRENT CAPITAL EXPENDITURES



17.9) and in August 2009 (26.4). 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.

As noted in the executive summary, area labor market conditions continue to be strong. The index on employment is somewhat lower than last quarter (a normal seasonal occurrence), but is far above its historical average value in August. The average hours worked index is the highest ever recorded in the August survey. Capital spending by area firms appears to have increased during the

See QBR, Page 2I

TABLE 1-CURRENT BUSINESS CONDITIONS

What is your evaluation of:	August 2014 vs. three months ago: Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	May 2014 Diffusion Index[3]
Level of business activity for your company	10.3	29.4	60.3	50	59.7
Number of employees on your company's payroll	8.8	52.9	38.2	29.4	37.2
Length of the workweek for your employees	7.4	57.4	33.8	26.4	27.4
Capital expenditures (equipment, machinery, structures, etc.) by your company	4.4	58.8	36.8	32.4	30.7
Employee compensation (wages and benefits) by your company	0	42.6	57.4	57.4	50
Prices received for your company's products	5.9	64.7	27.9	22	12.9
National business activity	5.9	41.2	39.7	33.8	43.6
Your company's difficulty attracting qualified workers	1.5	57.4	38.2	36.7	40.3

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.

Sources: St. Cloud State University Department of Economics and School of Public Affairs Research Institute

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 1I

TABLE 2-FUTURE BUSINESS CONDITIONS

	Six months from now vs. August 2014				
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	May 2014 Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	16.2	22.1	58.8	42.6	56.5
Number of employees on your company's payroll	10.3	47.1	39.7	29.4	38.7
Length of the workweek for your employees	16.2	64.7	14.7	-1.5	12.9
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.9	54.4	36.8	30.9	21
Employee compensation (wages and benefits) by your company	0	42.6	54.4	54.4	43.5
Prices received for your company's products	2.9	66.2	26.5	23.6	16.2
National business activity	8.8	38.2	33.8	25	30.7
Your company's difficulty attracting qualified workers	0	54.4	36.8	36.8	37.1

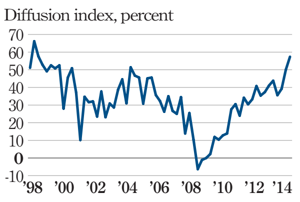
Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index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

Sources: St. Cloud State University Department of Economics and School of Public Affairs Research Institute

past three months. Thirty-seven percent of firms report an increase in capital formation, and only 4 percent (representing three surveyed firms) reduced capital expenditures. As can be seen in the accompanying chart, the current capital expenditures index has slowly inched upward since bottoming out in May 2009. Interest rates continue to be favorable and various national reports indicate enhanced credit availability, so we expect to see this series continue to show strength as long as economic activity remains strong and until interest rates begin to rise. (Interest rate futures markets suggest financial market participants expect the Federal Reserve to begin raising its short-term interest rate target in May or June).

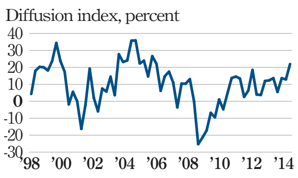
After an annualized decline of 2.1 percent in this year's first quarter (perhaps due to extreme weather), national output rebounded to a revised 4.2 percent growth rate in the second quarter. Forty percent of surveyed businesses think national business activity increased in the past three months, and only 6 percent think national activity was weaker. With continued improvement in local economic performance, it is no surprise that area firms are reporting growing pressure on labor costs. As noted in Table 1, 38 percent of firms report increased current difficulty attracting qualified workers, and only one firm found it less difficult to attract qualified workers than three months ago. As can be seen in the accompanying chart, this has translated into rising employee compensation at area firms. Fifty-seven percent of firms report increased employee compensation in the recent quarter, and no firms paid reduced wages and salaries. The index number on this item is the highest it has been in 15 years.

CURRENT EMPLOYEE COMPENSATION



Without a rise in prices, increased employee compensation can put a strain on profit margins. While it has been difficult for area firms to pass on price increases since the end of the Great Recession, it does appear these increases are starting to occur. The current prices received index continues to rise and, as can be seen in the accompanying chart, this index is at its highest level since August 2006. We will continue to monitor the extent to which local price increases reflect an improvement in pricing power by area firms versus the more general inflationary pressures that don't improve margins. Despite aggressive monetary policy actions in recent years, financial market participants continue to expect long-term annualized inflation rates to remain close to the Federal Reserve's stated objective of 2 percent inflation.

CURRENT PRICES RECEIVED



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

» Competitors that have gone out of business since 2009.

» Need to get the technical schools to teach trade classes later in the day or half days and online to allow the students to work and learn at the same time.

» Obamacare is hurting us!

» Finding people willing to work is our largest problem at this time.

» Health care.

» I think we need to adjust our starting wage to reflect current conditions in the area. If you can start at many burger places for $9.50, we need to be similar.

» The labor shortage for production and semi-skilled workers is having a negative impact on our current business, and is a major concern as we assess growth opportunities. We have the capital and markets. It is too easy for people to stay on unemployment benefits.

» Sales tax is making us noncompetitive in certain situations.

» Regulation and litigation have increased dramatically over the last several years (the costs that are associated in dealing with both).

» I personally feel that younger people feel they can do better in easier jobs; construction, even with good wages, is a tougher job.

» Health care costs continue to rise disproportionally.

» Health insurance increases and how to deal with these increases?

» Both St. Cloud and Stearns County plan significant tax increases for social services, which means more taxes. Add this to the half percent sales tax for non-essential luxury items — some of which will lose money for years to come — and a lack of funding for road repair sounds like a disaster coming at us at record speed. Quit spending money we don't have.

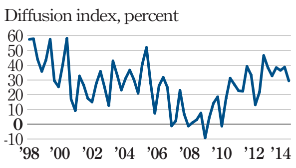
» One point of contention: We just added our third new machine in the past few years, and all are European built. I have had to WASTE several thousand dollars each time to have an independent engineering firm certify the equipment's UL compliance. I have spoken with all three machine manufacturers, and of the HUNDREDS of machines they have sold in the U.S., this is a requirement unique to St. Cloud. (The inspector) may (or may not) be correct in his technical interpretation of the legal requirement, but either way it is wasteful regulation run amok.

» Companies not understanding how quickly good talent is moving. Recognizing current workforce members have a choice to stay or move.

FUTURE OUTLOOK

Table 2 reports the future outlook for area businesses. Given strong current conditions, it is no surprise that the six-month outlook remains solid. While the index on future overall business activity is considerably lower than was reported last quarter (this is a normal seasonal effect), the value of 42.6 is the highest ever recorded in the August survey. Fifty-nine percent of surveyed firms expect increased activity in six months, and only 16 percent of firms expect conditions to worsen. However, as can be seen from the accompanying chart, this projected gain in local business activity is expected to occur with slower additions to area employment. While 40 percent of surveyed businesses expect future employment to rise, 10 percent of firms expect to reduce payrolls. This translates to a future employment diffusion index of 29.4, the lowest value recorded on this survey item since November 2012. In written comments, surveyed firms continue to express concerns about the lack of available workers — suggesting expected higher future business activity will have to arise from greater use of capital and/or increased worker productivity.

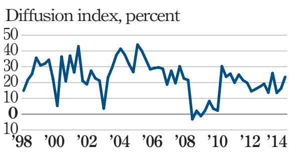
FUTURE EMPLOYMENT



The survey item that asks area firms about future length of the workweek is always seasonally weak in August, so it is no surprise that this item declined from last quarter's reported value of 12.9. Still, the diffusion index on future length of workweek turned negative for the first time since August 2010, so this is worth keeping an eye on. Thirty-seven percent of surveyed firms expect to add to the capital stock over the next six months, and only 6 percent of firms plan to reduce capital purchases.

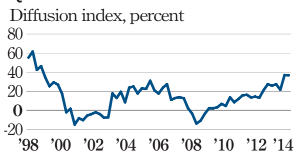
As noted in the previous section of this report, area firms are experiencing increasing wage pressures. This trend is expected to continue into February. Fifty-four percent of firms expect to pay higher employee compensation over the next six months, and no firms expect lower wages and salaries. Along with higher labor costs, 26.5 percent of surveyed firms expect to receive higher prices for their products in six months' time. As can be seen in the accompanying chart, the future prices received index, at a value of 23.6 is almost at its highest reading over the past three years. Indeed, the value of this index is the highest recorded in August since 2006 but well below that experienced in the mid-2000s.

FUTURE PRICES RECEIVED



National business activity is expected to be strong over the next several months. This quarter's future national business activity index is the highest ever recorded in the August survey. Finally, the area labor shortage is expected to continue into the first couple of months of 2015. Thirty-seven percent of surveyed firms expect increased difficulty attracting qualified workers over the next six months, and no firms expect the worker shortage to diminish. As was noted in last quarter's St. Cloud Area Quarterly Business Report, the future difficulty attracting qualified workers index remains higher than at any time since the late 1990s (see accompanying chart).

FUTURE DIFFICULTY ATTRACTING QUALIFIED WORKERS



SPECIAL QUESTIONS

The last time area business leaders reported concerns about worker shortages similar to those described above was 15 years ago. Since that time, the area economy has experienced two recessions. As we have noted in prior editions of the QBR, these area recessions can be seen in the survey data we collect on area firms' difficulty attracting qualified workers. In the previous chart, the diffusion index decreases (and turns negative) during those periods in which the local economy was in recession. The economic effects of the Great Recession have been well documented — they included significantly less difficulty attracting qualified workers — and it is always wise to remind ourselves of the 2001-03 local recession. The national recession that began in March 2001 was extended locally by the January 2002 announced closing of Fingerhut. One impact of the recession and Fingerhut closure was it eliminated any local worker shortage. The increased availability of workers became very important when other area firms firms — ING Direct (now Capital One 360) is an example — began to expand very rapidly in the early to mid-2000s.

If there is a silver lining for those skilled workers who have lost their jobs at QuadGraphics, it is that they are entering a labor market that is seeking skilled workers. While skills utilized in the printing industry may not be directly transferable to the types of jobs that are being offered by area firms, those displaced employees with a good work ethic and strong soft skills might find job opportunities in this tight labor market. In their written responses to the St. Cloud Area Business Outlook Survey, area firms frustrated by a shortage of workers have consistently commented about some of the actions they have taken to find qualified workers. These actions

See QBR, Page 3I

QuadGraphics closure shows workers' needs for training

QuadGraphics announced June 18 that it would close operations at its St. Cloud plant in late August. The plant, originally opened in 1938 as Volkmuth Printing, had been acquired by QuadGraphics as part of the bankruptcy sale of World Color (previously Quebecor World) in 2010. The plant had 450 workers at the time of the World Color bankruptcy in 2008, 360 workers when QuadGraphics bought it two years later, and 280 workers when QuadGraphics announced its closing. Even at that size, it was the second-largest printing company in the region that as recently as 2000 had 40 printing firms with more than 3,000 employees.

On Aug. 1, the University of Minnesota Extension Service, St. Cloud State University School of Public Affairs Research Institute, and the Stearns-Benton Employment and Training Council, with cooperation from the Greater St. Cloud Development Corp., provided the St. Cloud community with information about the impact of this closing. The analysis did not try to study details of QuadGraphics' operations but used news reports, average industry data and public statements to infer the size of the firm.

The analysis showed that the total impact of the closing of a printing firm the size of QuadGraphics would be the loss of 475 jobs, $24.6 million in labor income and $72.7 million in lost output to the area economy. This is about 0.5 percent of area employment, 0.4 percent of labor income, and 0.9 percent of area output. This means that the closing of a printing plant of QuadGraphics' size would mean 83 jobs would be lost through less business volume for area firms that did business with the plant, and another 112 jobs lost because those workers at QuadGraphics would lose income. Warehousing would be an example of the former type of spillover effect from QuadGraphics' closing; food and service industry jobs would be an example of the latter.

SBETC provided information on a survey done by the Minnesota Department of Employment and Economic Development of QuadGraphics workers. More than 70 percent of workers participated in the survey. This produced some very interesting results about these workers:

» This was a very mature and experienced workforce, with 100 workers reporting 25 or more years with the firm and 99 workers age 50 or older. Many requested help with interviewing, networking and job application skills, perhaps because they had not looked for work in many years.

» There were 22 workers who reported earning overtime recently. QuadGraphics was not closed due to lack of work but due to the purchaser looking for cost savings.

» Most displaced workers wanted full-time employment. Only five already had found another job, and another five had decided to retire or leave the workforce. A relatively small handful was interested in self-employment.

» Of these, 70 workers were willing to attend full-time training, and another 50 part-time. Many require income while training such that they would work part-time and train part-time (82 reported they only wanted training programs of fewer than six months). Yet 53 did not know whether training would be helpful to them. While they recognize that they need job skills — particularly computer skills — many also said they needed career counseling.

Among the interesting comments made at the public meeting, it was clear that while QuadGraphics wanted to retain its workers until the plant had fully closed in August, the company was nevertheless approached by area employers to learn about access to displaced workers. So, as indicated in the responses to this quarter's St. Cloud Area Business Outlook Survey, area firms are actively trying to recruit employees (and are paying higher wages, salaries and benefits) in an attempt to address the local shortage of qualified workers.

Training issues may be the greater impediment. Many workers do not know what skills are needed; others may be concerned that the skills they invest in will become obsolete quickly in a rapidly changing economy. A graphic designer older than age 50 was most likely trained for print; nowadays they will need to be able to design for the Web, but even there the skills needed are constantly changing. A split schedule that gives the worker 20 hours of training a week, for example, might not work for an employer who has needs for 40 hours of work each week. The job shortage story is real, and along with it will come creative solutions to meet the needs of both workers and firms.[1]

[1] Subsequent to the Aug. 1 public meeting, Stearns Benton Employment and Training Council announced it had received a $604,500 grant from the rapid response program at Minnesota DEED to help train displaced QuadGraphics workers over the next two years.

QBR

From Page 2I

have included enhanced recruitment efforts, retraining existing employees and paying higher wages and benefits.

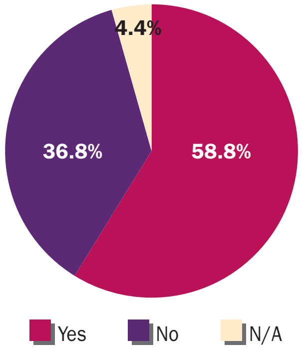
The Federal Reserve Bank of Philadelphia publishes a monthly Business Outlook Survey in which results of a monthly survey of manufacturers in the Philadelphia Federal Reserve district are analyzed. In addition to items that are very similar to our quarterly questions (our survey was originally patterned after the Fed survey), this survey asks special questions on issues of current interest to surveyed firms. In May, the special questions asked participating manufacturing firms in the Philadelphia Federal Reserve district to consider issues related to worker shortages. While our sample includes firms of all types (not just manufacturers), we thought it might be interesting to see how St. Cloud-area firms' experiences with worker shortages compared. While we didn't ask the same exact questions as those in the Business Outlook Survey, the questions are sufficiently similar to make comparisons of survey results.

Our first special question asked:

"Has your firm (recently) experienced any significant labor shortages or mismatch between labor skill requirements and labor supply?"

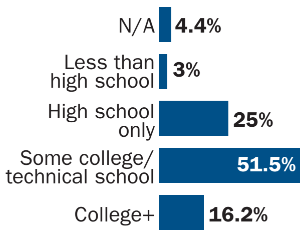
This question is, of course, similar to the question we ask each quarter about firms' difficulty attracting qualified workers, but it extends the inquiry to possible skill mismatch. Fifty-nine percent of firms we surveyed answered "yes" to this question. By comparison, 32.9 percent of firms in the Philadelphia Fed survey reported significant labor shortages, 45.7 percent experienced skill mismatches, and 32.8 percent noted job vacancies of three or more months. While not strictly comparable, these results suggest St. Cloud-area labor shortages are worse than those in the Philadelphia Federal Reserve district.

HAS YOUR FIRM (RECENTLY) EXPERIENCED ANY SIGNIFICANT LABOR SHORTAGES OR MISMATCH BETWEEN LABOR SKILL REQUIREMENTS AND LABOR SUPPLY?



One potential answer to worker shortages and skill mismatch is to educate and/or train workers. While a four-year college degree can be a valuable investment in the human capital of future workers, the majority of the job openings at surveyed firms have skill requirements that require less than a completed college degree. This isn't the first time that we have heard of a mismatch in education/training of the workforce and skill demands of employers. At St. Cloud State University's 2013 Winter Institute, Steve Hine, research director of the Minnesota Employment and Economic Development Labor Market Information Office, described a statewide workforce that appeared to be overqualified for available job postings. While we took note of his arguments, this is the first time that this issue has been discussed in the QBR. To consider the level of educational attainment associated with skill requirements of surveyed firms in the St. Cloud area, our second special question asked:

"What skill requirements are associated with the majority of your key job openings?"



Fifty-two percent of area firms require some college\technical school for the majority of their key job openings. This is almost exactly what was reported in the Philadelphia Fed survey (where 53 percent of firms identified this category of skill requirements). Because our sample includes firms that are not in the manufacturing sector, it is not surprising that the share of firms indicating "college +" is higher in the St. Cloud area than in the third Federal Reserve district. Sixteen percent of area firms responding to this quarter's survey indicate a college degree or more required for a majority of their key openings, while only 7.6 percent of firms in the Philadelphia-area survey report "college +" skill requirements. This is an interesting result, as 18.8 percent of the area labor force had a bachelor's degree or higher, according to the census. This is a topic we intend to explore more fully in upcoming issues of the St. Cloud Area Quarterly Business Report. While one-third of Philadelphia-area manufacturers require no more than a high school degree for the majority of their job openings, only one-quarter of our local sample report high school as the highest level of educational attainment needed. Few firms in each sample think skills below a high school degree are satisfactory.

Recruitment, training, education, labor compensation and adjusting production are all potentially actions that firms facing labor shortages and/or skill mismatches might take. To identify those actions undertaken by area firms to address skills shortages, we asked

"What actions has your firm taken to address skill shortages?" (Check as many actions as apply.)

Many firms have taken more than one action to address skills mismatches. Similar to the Philadelphia Fed survey, the most popular of these actions is an increase in recruitment efforts (which is cited by 62 percent of local survey respondents — 65.7 percent of firms surveyed in the Philadelphia study cited this). The second most popular local response was "provide additional training to existing staff," which was identified by one-half of local survey respondents (this result is also similar to the Fed survey, in which 55.7 percent of firms have taken this action).

Forty-seven percent of local firms have increased wages and 32 percent have expanded recruitment efforts outside of the area to address skills shortages. A less popular local action has been to "partner with educational institution to align curriculum with talent needs." While this was a less popular local action (16 percent of firms have done this), it was considerably more important for the firms in the Federal Reserve study (where 38.6 percent have created such partnerships). This result is a reminder that the two studies are not perfectly comparable, because only manufacturing firms are surveyed by the Fed.

Fifteen percent of local firms have increased

WHAT ACTIONS HAS YOUR FIRM TAKEN TO ADDRESS SKILL SHORTAGES? (PLEASE CIRCLE AS MANY ACTIONS AS APPLY)

employee benefits to address skills shortfalls and 12 percent have increased recruitment incentives. Only two firms (representing 2.9 percent) have decreased production because of skills shortages. Four firms responded "other" and provided the following explanations:

» "(A trade organization with which we work) has education week for college seniors in agriculture and economics."

» "We are using more contract services."

» "Lower our hiring standards."

» "More advertising."

In this quarter's final special question, we asked area firms to comment on their previous responses. Written comments on special questions 1-3 include:

» It's becoming more and more difficult to find competent people willing to work.

» Looking to slow up — nearing retirement. Need trained (professional) with certified license and experience.

» None at the moment. Considering the creation of an apprenticeship program.

» We recently increased wages to keep employees from looking elsewhere.

» We have not had turnover but have had to increase benefits to retain current employees.

» Our industry across the nation is experiencing the aging of its mainline workers and we are finding that younger people are not attracted to the work done in our industry. As a whole, our industry is undertaking an educational/mentoring approach on this situation now.

» Our employee base requires a level of experience in the industry. It has been hard to attract new employees with experience or that have the willingness to travel to our customer sites.

» Many got out of our industry so now there is a shortage of skilled workers, and more baby boomers are retiring so that creates a problem finding the highly skilled workers as well.

» This is the largest issue we are facing today.

» Difficult attracting people who want to work. We've had people start in the last three months who quit within a week. Didn't like getting up at 6:30 a.m. Another stated the job was too hard — this after two days of work.

» We need people who want to work in a factory

See QBR, Page 4I

QBR

From Page 3I

and have the trade skills to do welding and fabrication of equipment.

» We are back to our usual problem of finding individuals to fill both our entry-level laborers and skilled trades positions. I remember before the Great Recession that we couldn't wait for the downturn in the economy so that we could cut loose some of our weaker employees. We're now wishing we had some (but not all) of those employees back with us!

» It seems our starting wage is becoming too low in the area to attract employees. We are currently evaluating changes but that takes a long time.

» We experience difficulty recruiting both engineers and technicians. So the demand is both four-year college trained and tech college trained.

» We are looking at developing and implementing our own training program to meet our specific needs for skilled labor.

» Lack of staffing is currently a critical issue, despite recruitment efforts.

» We have an adequate supply of workers for our needs.

» It is very difficult to recruit motivated and qualified workers. With that in mind, we will probably downsize our business with fewer employees.

» Labor remains a problem as less people are inclined to enter our type of work.

» We have had very good success in finding qualified employees.

» There is a shortage of technicians.

» Minnesota minimum wage is too high — we have high school part-timers earning too much.

» We are seeking to fill two management positions and have expanded our search area to attract qualified candidates.

» We rely heavily on the use of temp labor for seasonal and short-term increases in business, and the quality of the local temp labor pool has hit an all-time low. Simply horrible. For the first time ever we may have to turn down work instead of using temps to accomplish it.

» The only hires we have had in St. Cloud have been back office … operations positions. We filled these positions by hiring local experienced people that were commuting to the Twin Cities.

» Local businesses have increased need for our services, recruitment activities have doubled, referral bonuses have increased.

TABLE 3 - EMPLOYMENT TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	July '13-July '14 rate of change	July '14 employment share	15-year trend rate of change	July '13-July '14 rate of change	July '14 employment share	15-year trend rate of change	July '13-July '14 rate of change	July '14 employment share
Total nonagricultural	0.7%	2.8%	100%	0.3%	2.6%	100%	0.4%	2.5%	100%
Total private	0.7%	3.5%	87.1%	0.3%	1.8%	87.6%	0.4%	2%	86.1%
Goods producing	-0.4%	3.6%	21%	-1.5%	2.9%	14.2%	-1.2%	4.3%	15.9%
Construction/natural resources	1.9%	15.3%	6.3%	-1.5%	-0.1%	3.7%	-0.2%	7.4%	4.6%
Manufacturing	-1.2%	-0.7%	14.7%	-1.5%	4%	10.4%	-1.5%	3.1%	11.3%
Service providing	1.1%	2.6%	79%	0.7%	2.5%	85.8%	0.7%	2.1%	84.1%
Trade/transportation/utilities	-0.5%	1%	19.8%	-0.6%	-0.6%	17.4%	-0.3%	1.1%	18.2%
Wholesale trade	0.6%	1.3%	4.1%	-0.3%	-1.3%	4.5%	0.3%	2.1%	4.8%
Retail trade	-1.1%	1%	12.5%	-0.4%	-0.3%	9.6%	-0.3%	0.8%	10.2%
Trans./warehouse/utilities	0.6%	0.6%	3.2%	-1.4%	-0.5%	3.3%	-0.8%	0.8%	3.2%
Information	-1.7%	-4.9%	1.6%	-1.8%	-1.4%	2.1%	-1.9%	-0.7%	1.9%
Financial activities	1.8%	-0.5%	4.4%	0.5%	1.4%	7.9%	0.6%	-0.6%	6.4%
Professional, business services	2.2%	6.7%	8.9%	0.4%	2.6%	15.6%	0.7%	3.3%	12.7%
Education & health	3.3%	6.7%	19.1%	3.3%	3.3%	16.3%	2.9%	1.9%	17.3%
Leisure & hospitality	1.3%	4%	8.8%	1.3%	3.4%	9.9%	0.9%	1.7%	9.5%
Other services (excluding govt.)	-0.1%	1.6%	3.5%	0.5%	-1%	4.2%	0.2%	-0.7%	4.1%
Government	0.6%	-1.6%	12.9%	0.3%	8.3%	12.4%	0.3%	5.7%	13.9%
Federal government	1.8%	-2.5%	2%	-1.3%	0.1%	1.1%	-1.3%	1.1%	1.1%
State government	1%	0.4%	3.3%	0.7%	-0.3%	3.4%	0.9%	-2.4%	3.3%
Local government	0.2%	-2.2%	7.6%	0.4%	13.8%	7.9%	0.3%	9.4%	9.6%

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.

TABLE 4 - OTHER ECONOMIC INDICATORS

	2013	2014	Percent change
St. Cloud MSA labor force July (Minnesota Workforce Center)	107,902	109,285	1.3%
St. Cloud MSA civilian employment # July (Minnesota Workforce Center)	102,443	104,701	2.2%
St. Cloud MSA unemployment rate* July (Minnesota Workforce Center)	5.1%	4.2%	N/A
Minnesota unemployment rate* July (Minnesota Workforce Center)	5%	4.3%	N/A
Minneapolis-St. Paul unemployment rate* July (Minnesota Workforce Center)	5%	4.2%	N/A
St. Cloud-area new unemployment insurance claims May-July average (Minnesota Workforce Center)	712	653.3	-8.2%
St. Cloud Times help-wanted ad linage May-July average	2,363	2,144.7	-9.2%
St. Cloud MSA residential building permit valuation In thousands, May-July average (U.S. Department of Commerce)	8,589	8,829.7	2.8%
St. Cloud index of leading economic indicators July (St. Cloud State University)**	102.3	102.6	0.3%

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

Great jobs data, but some turbulence expected

Despite robust economic growth elsewhere, the St. Cloud area lost 0.7 percent of manufacturing jobs over the last 12 months to July 2014, as shown in Table 3. This contrasts to the performance of the manufacturing sector in the rest of the state, which grew at a 3 percent pace. The Quad-Graphics layoffs will start to show up in the coming months, which will put further downward pressure on local manufacturing employment.

Yet even that was not enough to dent an increase in non-agricultural employment of 2.8 percent, and a 3.5 percent gain in the private sector. Once again expansion in professional and business services as well as educational and health services sectors lead the way, each growing 6.7 percent in the last year. Leisure and hospitality sector employment was up 4 percent. All three of these local sectors significantly outperformed the same sectors in the Twin Cities.

Elsewhere, construction employment was up sharply. Wholesale and retail trade grew less dramatically but still

See QBR, Page 5I

QBR

From Page 4I

outperformed their 15-year trends. Unlike other parts of the state, public employment in the St. Cloud area fell, particularly for the federal and local governments.

Table 4 shows the civilian labor force rose 1.3 percent over the year ending July 2014, while employment of St. Cloud-area residents (this includes those who have jobs outside of the area) rose 2.2 percent. The St. Cloud-area unemployment rate therefore fell to 4.2 percent in July 2014 — a 0.9 percent decline from one year earlier and the lowest July reading since 2006. Similar declines were seen elsewhere in Minnesota.

Elsewhere, help wanted linage in the St. Cloud Times declined 9.2 percent. Some decline in this number is normal as employers seek other means of recruiting workers. The Conference Board reported that Minnesota as a whole gained 4,400 online job ads in July, led by a "rise in health care practitioners and technical occupations and office and administrative support occupations." Some of these are certainly in St. Cloud. Still, this nonetheless bears watching.

The rebound in construction spending continued in the last year but at a slower pace, gaining 2.8 percent in permit valuations over the last 12 months. We note that the share of these permits that are in multi-unit housing (versus single-family homes) has declined. The St. Cloud Area Index of Leading Economic Indicators (LEI) was virtually unchanged in the last quarter but rose 0.3 percent in the last year. As can be seen on the first page of this report, our LEI have gone largely sideways since fall of last year after a 40-month advance.

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

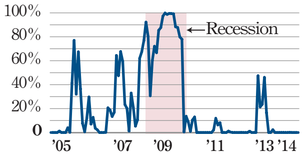
Changes from April to July 2014	Contribution to LEI
New claims for unemployment insurance	0.04%
Professional employment	0.04%
New business incorporations	-0.17%
Help-wanted advertising in St. Cloud Times	0.09%
Total	0

Different elements of the LEI have moved up and down within the last year. As seen in Table 5, three of the four indicators moved up, with only new business incorporations declining in the last quarter. There have been substantial fluctuations in these data in the last year, so we do not take any one indicator as being definitive. And with such strong survey results from area businesses, we are not at this time concerned about the sideways movement in the LEI.

One reason for ongoing optimism is the continued strong performance of the St. Cloud Probability of Recession Index, which continues to show a negligible probability of recession for the remainder of 2014. This index includes a survey measure from the Minnesota Business Conditions Index, which showed strong job growth from the manufacturing sector. Even with that, cautioned professor Ernie Goss of Creighton University, "average weekly wage growth for workers in the state over the past year expanded at an anemic 1.2 percent, well below the rate of inflation."

PROBABILITY OF RECESSION INDEX

Four-six months ahead



One last factor that would cause some concern is the recent decline in farm income due to falling commodity prices. As seen nearby, the price received for corn in Minnesota has fallen almost in half in the past two years, with most of the decline in the past 12 months. Farm income is more than 5 percent of area personal income, so a decline in commodity prices also will have impact on St. Cloud's economy.

CORN PRICE RECEIVED

Per bushel in Minnesota

We of course do not wish to dampen the enthusiasm shown by the respondents to our survey. Employment and price gains would suggest the area is experiencing a sustained increase in demand for goods and services provided by local firms, which would be the first time in several years one could say this. Yet with an employer-employee mismatch, and some turbulence from the printing and agricultural industry, we would be remiss if we did not say that smooth sailing today may be followed by choppier waters tomorrow.

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 Dec. 14.