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# St. Cloud Area Quarterly Business Report, Vol. 18, No. 2

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# Quarterly Business Report

Every three months two St. Cloud State University economists analyze the latest business and worker data as well as the results from a survey of local business leaders. The result is the St. Cloud Area Quarterly Business Report. It has been published four times a year since 1999.

**ABOUT THE AUTHORS**



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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.

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ST. CLOUD STATE UNIVERSITY.

## Inside

» May future business activity survey index shows strength: **Page 2**

» Area businesses have mixed views about impact of November presidential election: **Page 5**

» Local employment numbers remain solid: **Page 6**

**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>

**KEY TAKEAWAYS**

# IMPROVED ECONOMIC OUTLOOK BOOSTS FIRMS

St. Cloud area firms remain optimistic about future economic conditions as business activity appears to have improved in recent months. With employment growing at 1.5 percent over the past 12 months, the area continues to demonstrate its ability to create jobs. Construction, retail trade, transportation and warehousing, professional and business services, and educa-

tional and health sectors led the area in employment growth while manufacturing, leisure and hospitality, and information industries shed jobs. The leading economic indicator series stabilized in the last quarter. Area firms expect less wage and price pressures and continued difficulty attracting qualified workers over the next six months.

**1** Overall employment in the St. Cloud area rose by 1.5 percent from one year earlier in the 12 months through April 2016. Private sector employment (which represents 85.2 percent of area workers) also increased by 1.5 percent over this same period. More than 1,600 people were added to area payrolls in April compared with one year earlier. At 3.7 percent, the April unemployment rate in the St. Cloud area was unchanged from one year ago. The local labor force increased by 2,002 people.

**2** Manufacturing employment declined 1.3 percent over the year ending April 2016. There are now 14,912 manufacturing jobs in the St. Cloud area versus 17,956 in April 2000. This sector accounts for only 13.7 percent of all local jobs, as opposed to 19 percent of local jobs at the beginning of 2000. Employment in the local mining/logging/construction sector (most of this sector is construction, locally) jumped by 7 percent. Transportation/warehousing/utilities employment rose 5.4 percent. Professional and business services job growth was 5.2 percent, and the educational and health sector added 3.5 percent more jobs over the year ending April 2016. The educational and health sector now accounts for 20.3 percent of area employment.

**3** The St. Cloud Index of Leading Economic rose by 0.06 percent in the February-April 2016 period. Help-wanted advertising and new business incorporations contributed to the increase. Professional and business sector employment detracted from it, while initial claims for unemployment insurance did not influence the index. The estimated probability of local area recession in the next four to six months is nearly zero.

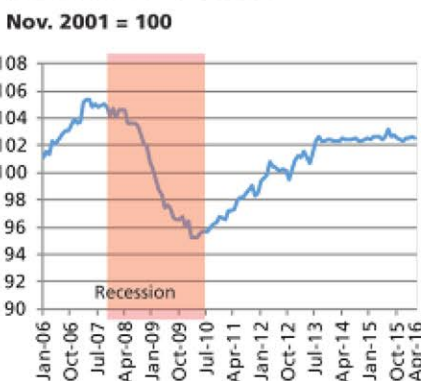
**4** The future outlook of area businesses remains strong. Fifty-three percent of firms participating in the St. Cloud Area Business Outlook Survey expect an increase in business activity, and 26 percent expect to expand payrolls. Only forty-four percent of firms anticipate paying higher wages, and 19 percent expect to be able to increase prices. One-third of surveyed firms expect an improvement in future national business activity, and the index on expected difficulty attracting qualified workers re-



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Jonathan Brenny, from left, Jesse Godzala, and Sam Lieser talk about the new 2,100-square-foot Godzala/Brenny office they're soon to open at 22 Benton Drive N in Sauk Rapids. Employment in the industry sector that includes construction increased 7 percent in the year ending April 30 in the St. Cloud area.

**St. Cloud Index of Leading Economic Indicators**



**Key survey results**



mains elevated. Forty-two percent of firms experienced improved business activity over the recent three months, and only 14 experienced reduced business activity. Local capital spending improved, hiring increased, and the length of the workweek expanded at area firms.

**5** More than one-third of surveyed firms report "somewhat" of an increased difficulty with workers quitting over the last six months. Most firms experienced

either little or no difficulty with increased quit rates. More than half of surveyed local firms expect to be unfavorably impacted by a possible increase in minimum wage in Minneapolis to \$15 per hour. One-third of firms think this unfavorable impact would be either moderate or large. Forty percent of firms indicate this would have no impact on them. Area firms have mixed views about how the outcome of November's presidential election will impact their business.

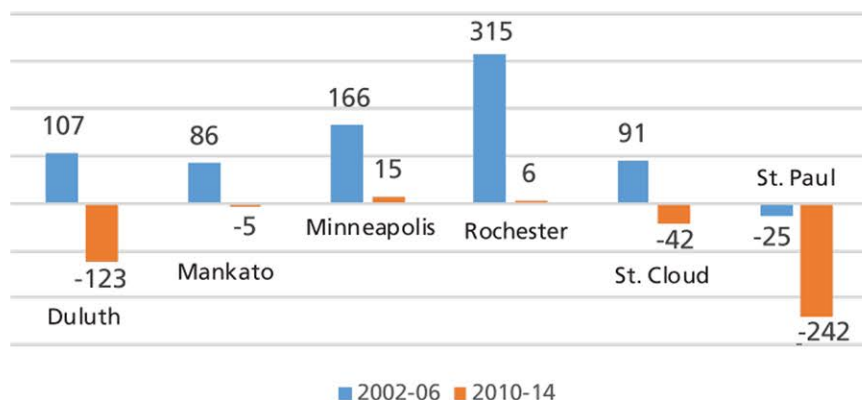
## WITH FEWER NEW FIRMS IN ST. CLOUD, DO JOBS SUFFER?

Part of our research into what appears to be a productivity slowdown in St. Cloud, discussed in our previous two issues, focused on human and physical capital. This time we discuss the role of entrepreneurship.

A research and advocacy group in Silicon Valley published a study last month in which they found that 125 counties in the U.S. accounted for half of new firms formed in the 1990s, but in the latest recovery, from 2010-14, half of all new firm formation occurred in just 20 counties. None of those 20 counties was in Minnesota. We thought it would be interesting to look at the data for Minnesota metropolitan statistical areas since 2000.

In the expansion of 2002-06, five out of six large Minnesota cities that we

### Change in number of business establishments in 6 Minn. cities



See **JOBS**, Page 71

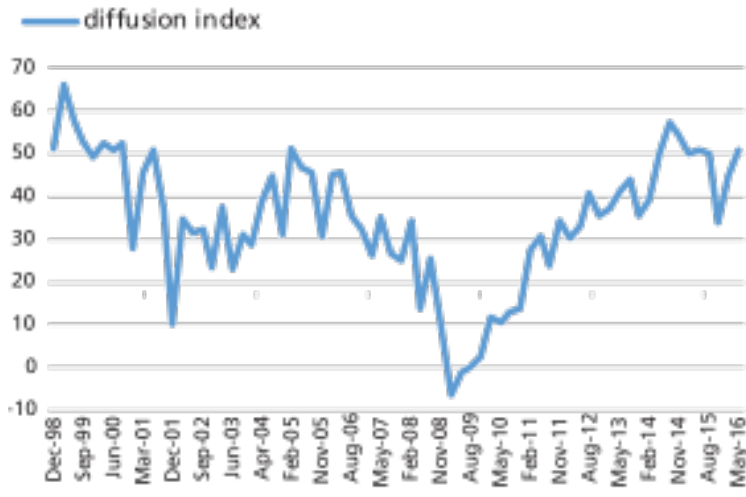
■ 2002-06 ■ 2010-14



# SURVEY RESULTS: STANDARD QUESTIONS

## SURVEY RESULTS FOR STANDARD QUESTIONS

### Current employee compensation



### Table 1 - Current business conditions

	May 2016 vs. 3 months ago			Diffusion Index	Feb. '16 Diffusion Index	May '15 Diffusion Index
	Decrease %	No change %	Increase %			
<b>What is your evaluation of:</b>						
Level of business activity for your company	14.0	43.9	42.1	28.1	-5.1	52.2
Number of employees on your company's payroll	8.8	59.6	32.1	23.3	8.7	33.4
Length of the work week for your employees	7.0	75.4	17.5	10.5	-3.5	23.2
Capital expenditures (equipment, machinery, structures)	5.3	64.9	29.8	24.5	15.5	24.6
Employee compensation (wages and benefits)	0	49.1	50.9	50.9	44.8	50.7
Prices received for your company's products	5.3	71.9	22.8	17.5	15.5	29.0
National business activity	14.0	52.6	22.8	8.8	10.4	27.5
Your company's difficulty attracting qualified workers	1.8	61.4	31.6	29.8	27.6	36.3

**Notes:**  
Reported numbers are percentages of businesses surveyed. Rows may not sum to 100 because of "not applicable" and omitted responses. 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: SCSU School of Public Affairs Research Institute

### CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 57 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 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 are stronger than three months ago (which is a normal seasonal effect) but are generally weaker than those tallied in last May's survey.

For example, while this quarter's diffusion index on current business activity is a marked improvement on its negative reading last quarter, the current value of 28.1 is well below the 52.2 number recorded one year ago. This measure is the lowest recorded in our spring survey since May 2009 (when we were mired in a deep local recession). Consistent with what we see with the leading economic indicators series, the current period has been one of fairly sluggish local growth — a theme that has been witnessed in the national data as well.

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.

The current-employment and average-hours-worked indexes are also improved from last quarter but weaker than one year ago. The capital expenditures index is likewise improved from February, but unchanged from one year ago. As can be seen in the accompanying chart, after declining in 2014-15, the employee compensation index continues to drift upward. Fifty-one percent of surveyed firms report higher wages and salaries over the past three months, and no firms decreased wages.

The area labor shortage continues. Thirty-two percent of surveyed firms experienced increased worker shortages this quarter, and only one firm reported that it was less difficult attracting qualified workers. The prices-received index was slightly improved from one quarter ago, but is well below what was tallied in the May 2015 survey. Seventy-two percent of surveyed firms report no change in prices

received over the past three months.

Finally, firms' perceptions of national business activity continued to weaken over the recent quarter. As can be seen in the accompanying graph, the national business activity index has been sliding since peaking in mid-2014.

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

» Interest rate increases will dramatically affect our profitability.

» The ongoing challenge with hiring is primarily a result of people not wanting to work. There is way too much "free" money/aid available. Potential employees come right out and say "why would I want to work this hard, or 40 hours a week when if I only work 20 hours a week, I can get medical assistance, housing assistance, food assistance, etc. The "free" government money is ruining the desire to work.

» The way people buy is changing at an accelerated pace. They increasingly don't want or feel a need to talk to anybody.

» Health care is a huge issue and will continue to be so. With costs skyrocketing for health care, wages increasing and more social costs such as mandated paid time off for family reasons, it will be more and more difficult for smaller companies to be profitable.

» Obamacare.

» Attracting workers with good work ethic.

» Regulatory rulemaking is radically increasing costs.

» I'm considering mentoring a potential buyer to take over the business. In order to be successful (in my business), you need a business and/or banking background plus 30 months of on-the-job work experience plus four-year degree in business.

### FUTURE OUTLOOK

Table 2 reports the future outlook for area businesses. The six-month-ahead local outlook remains strong. Half of the categories in the table are improved from last quarter and several index values are only marginally lower than they were one year ago.

The index on future overall business activity is 4.9 points lower than it was last May, but is well above where it stood in the spring of 2008-09, when the local economy was struggling.

As indicated throughout this report, the fundamental outlook of surveyed firms is solid, but not spectacular. Fifty-three percent of firms expect increased activity in six months, and only 5 percent expect conditions to worsen. This is a strong reading for an economy

### Table 2 - Future business conditions

	6 months from now vs. May 2016			Diffusion Index	Feb/ '16 Diffusion Index	May '15 Diffusion Index
	Decrease %	No change %	Increase %			
<b>What is your evaluation of:</b>						
Level of business activity for your company	5.3	40.4	52.6	47.3	44.9	52.2
Number of employees on your company's payroll	7.1	64.9	26.3	19.2	31.0	34.8
Length of the work week for your employees	1.8	77.2	19.3	17.5	13.8	17.4
Capital expenditures (equipment, machinery, structures)	5.3	59.6	33.3	28.0	22.5	31.9
Employee compensation (wages and benefits)	0	54.4	43.9	43.9	60.3	58.0
Prices received for your company's products	1.8	77.2	19.3	17.5	32.8	26.1
National business activity	5.3	50.9	33.3	28.0	18.9	24.7
Your company's difficulty attracting qualified workers	0	61.4	33.3	33.3	39.7	34.8

**Notes:**  
Reported numbers are percentages of businesses surveyed. Rows may not sum to 100 because of "not applicable" and omitted responses. 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: SCSU School of Public Affairs Research Institute

that is in a maturing expansion. Similar to what is seen in the St. Cloud Index of Leading Economic Indicators, the future business activity index has been positive, but sideways, over the past three years. Indeed, the quarter-to-quarter variation of the index has moderated as overall economic uncertainty has waned.

The future employment index is 19.2, which is well below the number reported one year ago. Sixty-five percent of surveyed firms expect no change in payrolls by November. With an April unemployment rate of 3.7 percent, rising job vacancies in Central Minnesota, and continued difficulty attracting qualified workers (see below), area firms are probably scaling back on their expected hiring.

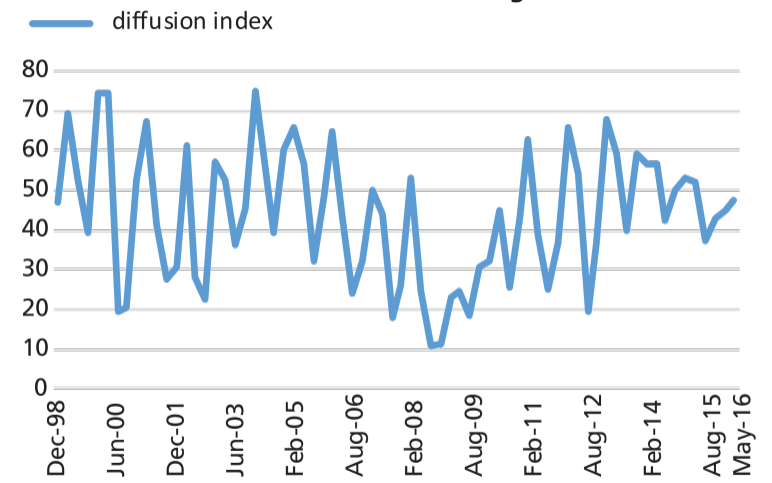
On a more positive note, the area labor force expanded by more than 2,000 people over the past year, and this influx of workers into the St. Cloud area could help relieve some of the strains of worker shortages. The length of the workweek index is little changed from one year ago, and the planned capital expenditures index is only slightly lower than in May 2015.

Future pricing conditions appear to have weakened. For example, the index on employee compensation is at its lowest level in four years. Only 44 percent of surveyed firms expect to pay higher wages in November. One year ago, 51 percent of responding firms were planning to pay rising wages.

The future-prices-received index (see accompanying graph) also dropped this quarter. At 17.5, this index is at its lowest in two years. After a sluggish first half of the year, IHS Economics — the forecasting service used by the state of Minnesota — expects the national economy to grow at a 2.8 percent annualized rate in the second half of 2016. This forecast is consistent with the responses of surveyed local firms, who expect future national business activity to improve.

Finally, the index on expected difficulty attracting qualified workers continues to be elevated (see accompanying chart). One-third of surveyed firms are expecting more difficulty attracting qualified workers by November, and no firms expect these difficulties to decrease.

### Future business activity



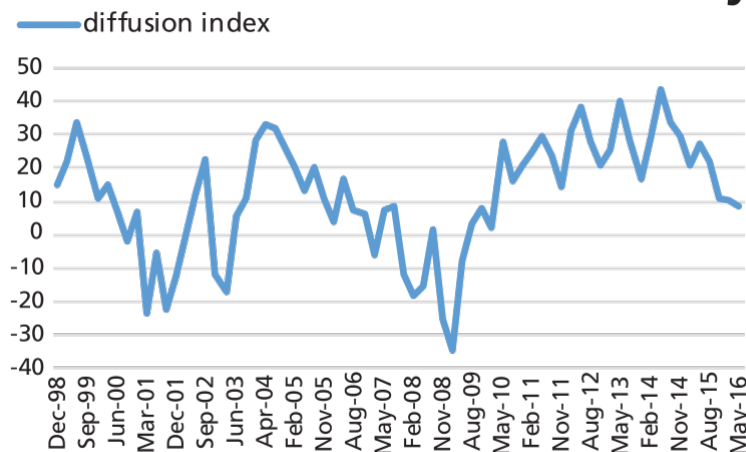
### Future prices received



### Future difficulty attracting qualified workers



### Current national business activity



The area labor force expanded by more than 2,000 people over the past year, and this influx of workers into the St. Cloud area could help relieve some of the strains of worker shortages.



# SURVEY RESULTS: SPECIAL QUESTIONS

## SPECIAL QUESTION 1: INCREASED DIFFICULTY WITH WORKERS QUITTING

## TO WHAT EXTENT HAS YOUR BUSINESS EXPERIENCED INCREASED DIFFICULTY WITH WORKERS QUITTING OVER THE PAST SIX MONTHS?

We have recently heard stories of area firms experiencing increased difficulty with workers quitting. Since we have never before asked a question about worker quit rates, we thought it would be interesting to see the extent to which our surveyed firms were experiencing growing challenges with workers quitting.

There is no timely regional data that helps inform this question, but the Bureau of Labor Statistics does administer the JOLTS survey that, among other things, is used to measure national worker quit rates. As seen in the accompanying figure, national quit rates seem to follow a cyclical pattern.

As economic performance has improved, national worker quit rates have increased. At a value of 2.1 in March 2016, these rates have now returned to pre-recession levels.

We asked area firms the following question:

**To what extent has your business experienced increased difficulty with workers quitting over the past six months?**

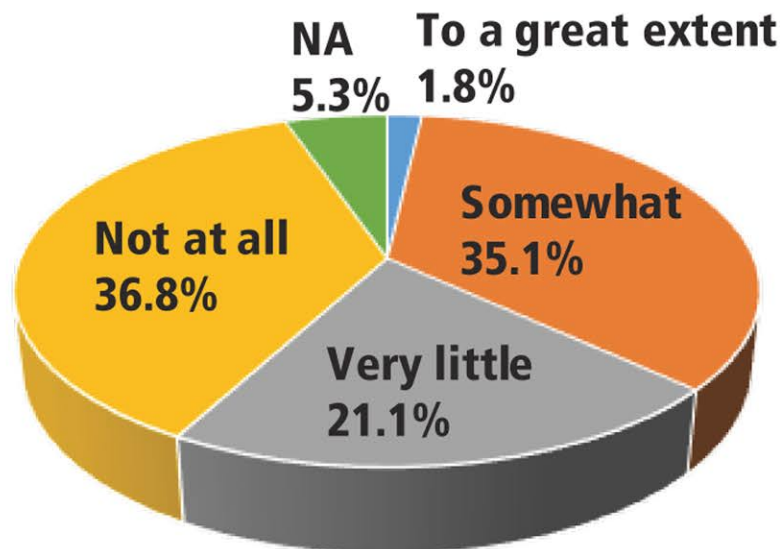
The results seem to indicate no general problem with increased quit rates in the St. Cloud area. While 35.1 percent of firms report “somewhat” increased difficulty with worker quit rates, this is probably to be expected at this stage of the local expansion. Twenty-one percent of firms responded “very little” or “not at all” to this question.

Comments on this question include:

» If the government continues to support them, they lose the will to work.

### Special Question 1

To what extent has your business experienced increased difficulty with workers quitting over the last six months?



» Only had one employee who left and that was the good news.

» Our turnover is virtually zero.

» We've experienced some “pirating” where a new business has actively recruited our workforce.

» More and more are leaving for more money.

» As business has slowed down slightly, we are taking the opportunity to weed out some of the new hires from

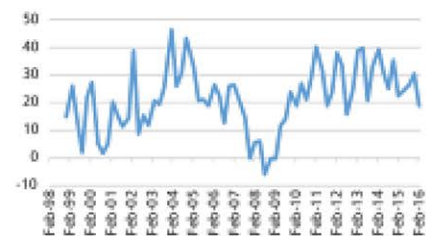
last year that have not been performing well.

» Needed to increase the compensation to keep them around but they stay.

» We've got loyal employees — we treat them like owners.

» We have had less of an issue with the staff we want to keep, but several underperformers have left. It is challenging getting people with skills and Spanish bilingual.

### Job openings and labor turnover



Source: Bureau of Labor Statistics

» Our long-term staff is very stable. It seems that the new staff has a tougher time adjusting to a new environment, especially one that expects productivity, which results in them leaving to find easier positions.

» More opportunities available, less loyalty.

» Negative turnover is fairly unusual for us, but we spend a lot of time upfront on the hiring process, and on culture development and that helps a great deal with employee retention.

» Since we are a non-union company, we lost a few employees to the union trades.

» We have never really had much of a problem with employees quitting. If they do, it seems to be right away, when they figure out they don't like the job.

» In the past we competed within our industry for employees. Now we compete against the benefits that are available for not working full time (40 hours).

» Nothing out of the ordinary.



# SURVEY RESULTS: SPECIAL QUESTIONS

## SPECIAL QUESTION 2:

### THE LOCAL EFFECT OF A POSSIBLE INCREASE IN MINNEAPOLIS' MINIMUM WAGE

#### MINNEAPOLIS HAS RECENTLY COMMISSIONED A STUDY TO EXAMINE AN INCREASE IN ITS MINIMUM WAGE TO \$15 PER HOUR. CONSIDERING BOTH DIRECT AND INDIRECT EFFECTS, TO WHAT EXTENT WOULD A \$15 MINIMUM WAGE IN MINNEAPOLIS IMPACT YOUR FIRM?

Like Seattle, San Francisco and Los Angeles, the city of Minneapolis is studying the possibility of increasing its minimum wage to \$15 an hour.

While supporters of an increased minimum wage have secured a sufficient number of signatures to include a possible hike in the minimum wage on the November ballot, the legality of a minimum wage hike in Minneapolis is unclear. In the coming weeks, the city attorney is expected to issue an opinion on whether the city has the legal right to increase the minimum wage. A hike to \$15 would be a substantial increase from the state's current \$9 minimum wage (the minimum wage goes to \$9.50 an hour on Aug. 1).

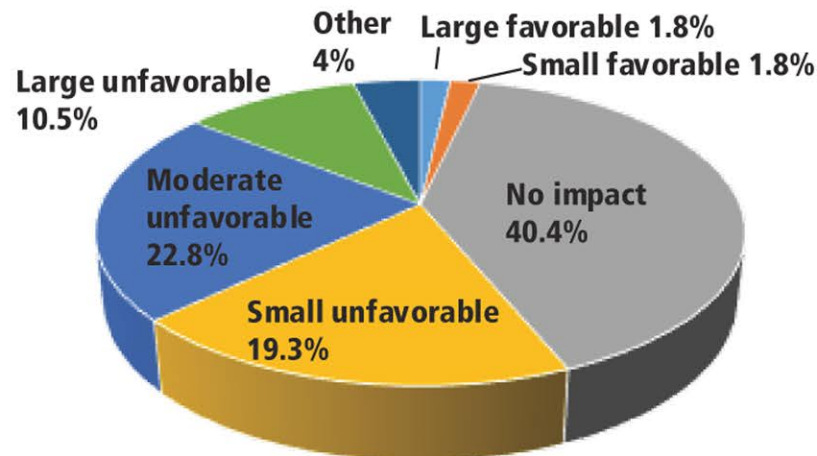
While any such increase will be confined to Minneapolis, we were interested in how area businesses feel they may be affected (either directly or indirectly) by an increase in the minimum wage in the state's largest city. We asked:

**Minneapolis has recently commissioned a study to examine an increase in its minimum wage to \$15 per hour. Considering both direct and indirect effects, to what extent would a \$15 minimum wage in Minneapolis impact your firm?**

While 40 percent of businesses responded "no impact," we do note that more than half of surveyed local businesses expect to be unfavorably impacted if the Minneapolis minimum wage increases to \$15 an hour. One-third of survey respondents thought

#### Special Question 2

Minneapolis has recently commissioned a study to examine an increase in its minimum wage to \$15 per hour. Considering both direct and indirect effects, to what extent would a \$15 minimum wage in Minneapolis impact your firm?



the unfavorable impact would be moderate or large.

We were interested to see how local businesses thought they might be affected. For example, we were curious to see if they were concerned that increased worker mobility might lead to a reduction in the supply of local entry-level workers. We were also wondering if they thought this might dampen the desire of young workers to invest in higher education.

The written comments are instructive. Some firms see no impact since they consider us to be in a different labor market than Minneapolis. Other firms already pay their workers more than \$15. However, many firms provide varied reasons in expressing their concern about a \$15 minimum wage in Minneapolis. Comments include:

» We have some employees who will be impacted and this will have an unfavorable impact.

» Other than paying more to eat out when visiting Minneapolis, we do not see any direct impact to our business. Our wages are above that, as are the wages of all the Minneapolis-based businesses we deal with.

» Minneapolis wages don't greatly affect our area.

» We moved to \$9.50 before the deadline and it turns out we still are behind the local area in wages.

» Different market.

» Raising the rate will not solve anything — it will only increase the cost of living and the net effect will be 0.

» A \$15 minimum wage would result in some employees looking for opportunities in the Minneapolis market and thus it would reduce the work force even further. The real issue is finding people that "want" to work.

» As the minimum wage increases so must the standard pay everyone receives as well. Where will it end before nobody can afford to buy anything?

» Our lowest wage is that high already.

» Most minimum wage jobs are in service-related businesses. Increases in minimum wage levels will mostly be spent on services/non-durable goods by those receiving the higher minimum wages. The pricing of the services/non-durable products provided by the minimum wage workers will have to go up to pay for higher minimum wages. The

See WAGE, Page 7



## SURVEY RESULTS: SPECIAL QUESTIONS

### SPECIAL QUESTION 3:

# THE IMPACT OF THE NOVEMBER PRESIDENTIAL ELECTION ON LOCAL FIRMS

## PLEASE COMMENT ON THE EXTENT TO WHICH YOUR FIRM THINKS THE OUTCOME OF THE NOVEMBER PRESIDENTIAL ELECTION WILL IMPACT YOUR COMPANY.

Once every four years, we have the opportunity to find out from area firms how they think the outcome of the upcoming presidential election will impact their business. We have typically asked open-ended questions to solicit written comments to such items. In the responses, we note many area firms that are very concerned about the outcome of the election and a large number of firms that expect no impact. We will let the responses tell the story. We asked:

**Please comment on the extent to which your firm thinks the outcome of the November presidential election will impact your company.**

Written responses to this item include:

- » If it affects new residential housing, it affects our business.
- » To the extent that consumer confidence is impacted negatively it will impact our company.
- » We would love to have a crystal ball. This one is beyond our predictions.
- » The effect will be long term — not immediate — effect will be minimal.
- » If Trump wins we all win as he will get the economy back on track.
- » Minimal other than the six to nine months leading up to the election are always lower business activity levels. It doesn't matter as much about who is elected, it just matters that the election is over.
- » Substantial impact. We need change to get things back to government as to what it was intended for back when it started. Not all the additional programs that are in place now.
- » Significant negative impact if Democrats stay in charge — business is very weak. We need lower taxes to stimulate business development.

» Both candidates have low levels of integrity, are smart and have lots of energy — a very dangerous combination.

- » At this point not sure.
- » Same old fraternity. More taxes, more entitlements, etc., etc., work more, pay more. Work less or not at all and the government will take care of you.
- » Very little since the Clinton administration is not expected to be any worse for business than the current Obama. Trump may have an impact since 15 percent of our staff is Spanish bilingual.
- » At this point both candidates have been evaluated and "vetted" by stock market analysts and I anticipate very few "surprises."
- » The impact to our firm almost always begins to be felt about three to six months prior to the election.
- » To be seen.
- » If we have four to eight more years of the same, we will bring expansion to a halt.
- » Not sure, doesn't look positive.
- » Neither candidate looks very good.
- » Every election in the last dozen years has had some impact. The difficulty is that you don't know what until after the fact. This uncertainty leaves a lot of normal investment on the sideline. I think we will be fine, regardless.
- » No effect.
- » No impact.
- » It's going to be disastrous no matter who wins.
- » Minimal impact
- » Little to none. The day after the election we still need to get out of bed and go to the "salt mine"!
- » Our business is heavily impacted by government regulations, mostly in a negative way.

Elections do matter!

- » The uncertainty right now is holding our industry back. We see businesses holding back on expansion and employee relocation.
- » I don't think anything will change. Our government seems content with what they are doing while complaining that they are not.
- » Trump would be a disaster.
- » I am not really sure. Any impact will take a long time to trickle to us.
- » I doubt that the election will have an impact at all.
- » Democrat — not good. Republican — OK.
- » If conservatives win, we will increase investment in equipment. If liberals win, we would be very cautious before we make any new investments in equipment because of their bias against business and their lack of having any business sense.
- » Owners will be more likely to proceed with pent-up demand once the election is over. We seldom experience a busy year during presidential elections.
- » Won't impact my business.
- » This is a wildcard question. I think regardless of the outcome, business will uptick as the large amount of uncertainty dissipates.
- » Unknown. Very frightening!
- » No impact.
- » Uncertain. I'm disappointed in both sides. They reduced Social Security options after paying in for 40-plus years. They continue to spend money they don't have on a variety of worthless programs. ... Dodd-Frank will stay in place under the Democrats (which will be good for our business). Republicans will likely do away with parts of Dodd-Frank (which will not be good for business) but more robust economy means (improved business).



## WHAT THE DATA MEAN

Table 3- Employment trends

	St. Cloud		Minnesota		Twin Cities	
	2001-'16 long-term	4/15-4/16 growth	2001-'16 long-term	4/15-4/16 growth	2001-'16 long-term	4/15-4/16 growth
	trend	rate	trend	rate	trend	rate
Total non-agricultural	0.8%	1.5%	0.5%	1.1%	0.5%	1.5%
Total private	0.8%	1.5%	0.5%	1.3%	0.6%	1.6%
GOODS PRODUCING	-0.1%	1.0%	-1.0%	0.7%	-1.0%	0.5%
Mining/Logging/Construction	3.1%	7.0%	0.0%	0.9%	-0.5%	0.2%
Manufacturing	-1.1%	-1.3%	-1.3%	0.6%	-1.3%	0.6%
SERVICE PROVIDING	1.0%	1.6%	0.8%	1.2%	0.8%	1.7%
Trade/trans/utilities	0.1%	2.4%	-0.1%	0.9%	-0.3%	0.7%
Wholesale trade	1.0%	-.09%	-0.1%	-2.0%	-0.1%	0.2%
Retail trade	-0.7%	2.8%	-0.1%	2.6%	-0.1%	2.4%
Trans/ware/utilities	1.8%	5.4%	-0.3%	0.0%	-1.0%	-3.0%
Information	-1.9%	-2.1%	-2.3%	-2.9%	-2.0%	-0.4%
Financial activities	2.0%	0.7%	0.6%	1.5%	0.5%	1.3%
Professional, business services	1.5%	5.2%	0.9%	0.8%	0.8%	0.8%
Education & health	2.8%	3.5%	3.0%	3.5%	3.5%	3.7%
Leisure & hospitality	0.7%	-5.3%	1.0%	1.1%	1.4%	3.2%
Other services (excl. govt)	-0.1%	-1.8%	-0.2%	0.1%	0.5%	2.0%
Government	0.7%	1.3%	0.1%	-0.2%	0.3%	0.7%
Federal	2.4%	1.1%	-0.5%	-.03%	-0.3%	1.0%
State	0.8%	1.9%	0.8%	-1.4%	0.6%	-0.6%
Local	0.3%	1.0%	0.0%	0.2%	0.2%	1.2%

## LOCAL EMPLOYMENT NUMBERS REMAIN SOLID

We see in Table 3 that employment in the St. Cloud area rose 1.5 percent in the 12 months ending April 30. Retail trade grew strongly around the state as well as in St. Cloud, as did the education and health sectors. There was strength in the professional and business services sector (which includes the all-important temporary help services firms), transportation/warehousing/utilities and construction in St. Cloud which was not found elsewhere. Manufacturing sector employment fell in St. Cloud by 1.3 percent in the 12 months ending in April while rising elsewhere in the state.

The manufacturing sector accounts for only 13.7 percent of all local jobs, as opposed to 19 percent of local jobs at the beginning of 2000. The educational and health sector now accounts for 20.3 percent of area employment, demonstrating the commanding position this sector now holds in the local economy.

Employment of St. Cloud-area residents rose 1.8 percent, consistent with an identical growth in the area labor force. As seen in Table 4, the unemployment rate held at 3.7 percent in April, identical to year-ago levels. This compares favorably to a slight rise versus a year ago elsewhere in the state and in the Twin Cities.

In slightly negative news, unemployment insurance claims rose slightly in the February-April period versus year-ago levels, while help-wanted advertising

at the St. Cloud Times fell dramatically. We have some concerns about the comparability of the data on help-wanted ads. The Conference Board recently reported that online help-wanted advertising in Minnesota has trended upward since June 2015.

Consistent with the increase in construction employment mentioned above, there was a strong increase in residential building permit valuations in the city of St. Cloud from year-ago levels. However, most of the gain is accounted for by a large apartment building in the city this spring.

The St. Cloud Index of Leading Economic Indicators grew slightly in the February-April 2016 period and is flat year over year, as it has been for the last two and a half years. As seen in Table 5, two of the four indicators — new business incorporations and help-wanted advertising — contributed positively to the index in the last quarter. Lower professional and business services employment subtracted from the index.

The concerns over the direction of the economy we had earlier in this year have now lessened considerably. Business leaders were more positive than before and remain so. Clearly, firms are expressing uncertainty about the regulatory and political climate that will come after the November elections, but it appears clear sailing until then.

TABLE 4 - Other economic indicators

	2015	2016	Percent change
St. Cloud MSA Labor Force April (MN Workforce Center)	110,120	112,212	1.8%
St. Cloud MSA Civilian Employment # April (MN Workforce Center)	106,184	108,107	1.8%
St. Cloud MSA Unemployment Rate* April (MN Workforce Center)	3.7%	3.7%	NA
Minnesota Unemployment Rate* April (MN Workforce Center)	3.6%	3.8%	NA
Mpls-St. Paul Unemployment Rate* April (MN Workforce Center)	3.3%	3.4%	NA
St. Cloud Area New Unemployment Insurance Claims February-April Average (MN Workforce Center)	787.7	847.7	7.6%
St. Cloud Times Help Wanted Ad Linage February- April Average	2,084	964	-53.8%
City of St. Cloud Residential Building Permit Valuation in thousands, February-April Average (City of St. Cloud)	\$1,605.3	\$3,778	135.3%
St. Cloud Index of Leading Economic Indicators April (SCSU) October 2001 = 100	102.6	102.6	0%

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

NA - Not applicable

Table 5 - Elements of new St. Cloud Index of LEI

	Contributions
Changes from February to April 2016	to LEI
New claims for unemployment insurance	0%
Professional employment	-.04%
New business incorporations	.04%
Help-wanted advertising in St. Cloud Times	.07%
<b>Total</b>	<b>.06%</b>



# WHAT THE DATA MEAN

## Jobs

From Page 1

sampled had an increase in the number of establishments (which is one physical space, not necessarily one firm or company). The St. Cloud area added 91 establishments in that period. However, in the 2010-14 expansion, only two cities increased in the number of establishments, and both of these were virtually flat. This mirrors national studies that show the rate of new business formation. The Kaufmann Foundation Index of Startup Activity ranked Minnesota 47th in 2015.

Why does this matter? There is some debate among economists on whether new firms are more innovative than existing ones. We break down the number of jobs created in the two five-year windows (2002-06 and 2010-14) in two categories: those created when a new firm opened or and those coming from expansion of an existing business. We also break down the number of jobs lost between firms

### Sources of job gains and losses, Minnesota

	Gains		Losses	
	Openings	Expansions	Closings	Contractions
2002-06	447,851	855,717	423,545	807,933
2010-14	289,167	818,623	260,450	647,409
% change	-35.4%	-4.3%	-38.5%	-19.9%

### Sources of job gains and losses, St. Cloud MSA

	Gains		Losses	
	Openings	Expansions	Closings	Contractions
2002-06	14,426	29,834	13,090	26,615
2010-14	8,414	29,491	7,090	23,656
% change	-41.7%	-1.1%	-45.8%	-11.1%

closing and firms reducing size but remaining open.

Two interesting patterns emerge. First, the rate at which we are gaining jobs from new firms or losing jobs because of failing firms is dramatically lower in the 2010-14 expansion than the earlier one. This is further evidence of the lack of “churn” in the economy as workers move from firms with failing business models to firms with new, potentially innovative business models. This lack of churn seems more pronounced for St. Cloud than for the state overall.

Second, the rate of expansion

of existing firms in adding workers is not very different between the two five-year periods. What has caused the increase in employment in the area appears more to be existing firms retaining workers (less job separation from business contractions.) Coupled with our reports on the lack of qualified workers, this may be evidence of labor hoarding by firms who fear they cannot replace the workers they have with workers that could be more productive. This could help explain our recent notice of higher employment and lagging productivity in St. Cloud over the last several years.

## Learn more at QBR Review on Thursday

TIMES STAFF REPORT

Learn more about Central Minnesota's economic condition and what the St. Cloud Area Quarterly Business Report means for your decision-making by attending QBR Review from 7:30-9 a.m. Thursday, June 16, at the Sauk Rapids Government Center, 250 Summit Ave. N.

From 7:30-8 a.m., network with other business leaders. The presentation lasts from 8-9 a.m.

QBR co-author King Banaian will speak about current economic conditions and the outlook for the St. Cloud area. Banaian is dean of the St. Cloud State University School of Public Affairs and report co-author.

The event is part of a series tied to the quarterly reports. It is sponsored by Great River Federal Credit Union in collaboration with Times Media,



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King Banaian, dean of the St. Cloud State University School of Public Affairs, speaks at the St. Cloud Area Quarterly Business Report Review & Regional Outlook Thursday in Sauk Rapids.

St. Cloud State University and the Greater St. Cloud Development Corp.

To make a reservation for this free event, go to <http://bit.ly/24tB8yX>.

## Wage

From Page 4

higher-priced items will then crowd out expenditures of durable goods by non-minimum wage earners and thereby reduce demand for our products. Alternatively, business owners will figure out ways to reduce the number of minimum wage earners they employ, which will soften the overall impact.

» All of our employees make over \$15 an hour.

» A \$15 an hour minimum would create an extension to St. Cloud where employees would expect the same. This

would be cost-prohibitive for us and we would need to staff up in our other offices to mitigate the wage inflation.

» If Minneapolis goes to \$15, the entire state will under the current governor's administration. It is for that reason we are starting the move to be at that level now, so we won't have a shock to our system when it happens. The sad part is, as mentioned above, we aren't getting \$15 per hour of productivity out of the moving labor force.

» Pay increases would drive cost of business up.

» We would have a hard time training young people.

» Would create wage compression in entry-level posi-

tions and would reduce hiring as we would push to implement more automation and robotics. We currently benchmark our entry level jobs at \$2 an hour over minimum wage, and overall those positions are a small percentage. I can understand a \$15 minimum in high-cost areas like California and New York, but here in St. Cloud, many of those jobs will go away.

» Although we start our workers at that wage, we'll have to raise our wages to compete with “easier” jobs.

» Average factory wage is over \$20 per hour.

» This will cause the cost of unskilled labor to go up for us. In our business passing this

increased cost on to the customer is next to impossible.

» The sick leave requirements they are looking at could have significant impact

» Minimum wage is a training wage, not a life-support wage.

» If Minneapolis enacts a proposal, there would be pressure to have the state enact an increase also. If the minimum wage went to \$15, we would discontinue offering paid internships and summer employment to students. We sponsor five-six positions annually that pay in the \$11-\$12 an hour range.

» No immediate impact, but the pressure for \$15 per hour would certainly grow in the

local area.

» Honestly, I wish people would stop spending so much time on minimum wage laws. Its true impact in real dollars affects so few people in the work force.

» Can't afford to pay high school part-time workers \$15. They don't deserve that much money.

» (No impact) — unless the rest of the state follows suit.

» Little effect if in Minneapolis area. Very favorable impact if in St. Cloud area.

» \$15 per hour is reasonable for good quality help!

» All jobs (at our company) would be above \$15 (per hour).

» No employees at minimum wage.