LOCAL ECONOMIC OUTLOOK IMPROVES

After a quarter in which local firms’ future outlook weakened considerably, the area economy appears to have rebounded modestly in recent months.

Despite some anecdotal evidence of recent regional layoffs, quantitative and qualitative indicators of local economic performance point to improved future conditions in the St. Cloud area. Even though the St. Cloud area labor force was reported to have declined over the past 12 months, area payroll employment (this is obtained from a different source of data than the labor force measures) grew at a 1.3 percent annual rate.

Construction, retail trade and educational and health sectors once again led the area in employment growth, while manufacturing, transportation, warehousing and utilities, leisure and hospitality and local government sectors shed jobs. The leading economic indicator series rose by 0.28 percent in the last quarter.

Surveyed firms were more optimistic about future business activity than they were last quarter. Compared to one year ago, the future outlook is only slightly lower (although the future employment outlook weakened again in this quarter’s survey). Area firms expect to see rising wages and prices over the next six months, and planned capital expenditures are at their highest level since February 2006.

FOOD PRODUCTION IN ST. CLOUD AND THE PURCHASE OF GNP

Despite its reputation for granite quarries and railroad cars, food production has long been a staple of St. Cloud manufacturing. Four mills sit on the Mississippi and Sauk Rivers, manufacturing extensively refined white flour. Tobacco rolling was found at one point in the area as well, although a 1963 to 1987 production decline, but by a reduction in overall manufacturing employment. Thirty-eight percent of surveyed firms expect increased capital expenditures in the next six months. By contrast, the survey results on expected employment are the lowest November numbers we have seen since 2010. The outlook for national business activity is substantially improved from last quarter, although it is considerably weaker than one year ago (note that numbers were revised downward after the November collection). Results from the survey on current business conditions were mixed compared to last quarter and to the same quarter last year. While the current business activity index is considerably higher than in November 2015, surveyed employment conditions appear weaker.

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CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 51 area businesses that returned the recent survey, which was included in the report. Participating firms are representatives of the diverse collection of businesses in the St. Cloud area. They include retail, manufacturing, construction, finance, health services and government enterprises both large and small. Survey responses are strictly confidential, and oral comments have not been attributed to individual firms.

The current business activity index (see accompanying chart in Table 1) is higher than it was three months ago, and it is a normal occurrence—August survey responses are typically much stronger than those found in the November survey. It is also considerably higher than the May 2015 reading. We conjectured that last quarter’s weak survey results could have been an outlier related to a highly contentious national election. The results on this item help support this argument.

On the other hand, Table 1 index values on current employment and length of the workweek are marginally weaker than last quarter. This is also normal seasonal observation in the full year of data. As shown in the accompanying chart, the diffusion index on current employment has slowly drifted downward since August 2013. This coincided with increased tightness in the area labor market. Local firms continue to report worker shortages, which appears to be constraining regional employment growth. Thirty-six percent of surveyed firms report that increased difficulty attracting qualified workers is a current quarter issue. Few firms indicate an easing of labor market conditions. A positive index is indicative of an activity, while a negative index represents declining conditions.

HIGH COSTS

The accompanying chart shows that wage and price pressures appear to be somewhat higher than they were last quarter (and last November). We have seen recent weekly wages around the current level.

Local labor costs could be passed through in higher prices. Thirty-eight percent of surveyed firms expect prices received over the next six months. As can be seen in the accompanying chart, the future prices received index has bounced back from unusually low levels over the past two months. A strong increase in national business activity improved from last quarter, but it is still well below last year’s reading.

As previously noted, there is considerable uncertainty about the policy course that will be set by the new administration. It is hard to foresee future national business activity. We expect a clear picture of federal economic policy initiatives to emerge in the first half of 2017.

Table 2 reports the future outlook for area businesses and industries. It covers two topics: the performance last quarter, the six-month horizon and much in this quarter’s survey. While the index on future overall business activity is marginally lower than the year ago index, it is still much higher than the all-time low recorded in November 2008. With 50 percent of surveyed firms expecting increased future business activity, the economic outlook remains strong through May 2017 as we also note that the recession probability index is essentially zero this quarter.

As was seen in Table 1, the future employment index has decreased from its value last November. The last time this index recorded its lower number in the fall survey was November 2010. As noted above, the tightening labor market may be causing area firms to scale back on future hiring plans. The length of the current week survey has remained largely neutral through the last two quarters. Seventy-two percent of surveyed firms expect no change in the length of the workweek over the next six months. As can be seen in the accompanying chart, the future capital expenditures index has jumped to its highest level in 10 years. Thirty-eight percent of surveyed firms plan to increase their purchases of equipment, machinery and structures over the next six months. There is also considerable expected pressure on labor costs over the next six months. The percentage of surveyed firms expect to increase labor compensation to be higher by May 2017, and we thus anticipate a decline in wages and salaries. We have to go back to fall 2004 to find a higher reading on this index.

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SURVEY RESULTS: SPECIAL QUESTIONS

SPECIAL QUESTION 1: PRIORITIES FOR THE 2017 LEGISLATIVE SESSION IN ST. PAUL

Over the years, we have found it interesting to track area businesses’ priorities in the state Legislature. At times, area businesses have been most concerned with job creation. At other times, the overall tax burden has weighed most heavily on area firms. In recent years, survey respondents have indicated that health care reform was their top legislative priority. Since we have asked area firms about their legislative priorities in November 2005, November 2011, and again in November 2014, we have a baseline to which to compare this quarter’s results of this special question. We asked firms to “select all that apply” to the question:

WHICH OF THE FOLLOWING DOES YOUR BUSINESS FEEL IS A PRIORITY OF THE 2017 LEGISLATIVE SESSION IN ST. PAUL?

Ninety percent of survey respondents selected “health care reform,” and 64 percent indicated “tax burden” was a legislative priority. Nearly one-third of firms selected both “transportation policy” and “job creation.” There was considerably lower interest in educational funding (both K-12 and higher ed), energy policy, and environmental legislation. Over the years, while health care reform has always been an important legislative priority for area firms, it has never before been selected by such a high percentage of the survey sample. For example, in 2006, 67 percent of firms chose health care reform; in 2011, 47 percent of firms chose this item. And 62 percent of survey respondents chose “health care reform” in the November 2014 survey.

The stories surrounding health care reform are highlighted by President-elect Trump’s campaign promise to eliminate the Affordable Care Act and accelerating costs of health insurance in the state health exchange. Closer to home, area firms have consistently reported unsustainably large increases in their employee health insurance premiums. Area firms are looking for relief from burgeoning health care costs in the 90th Minnesota Legislature.

“Tax burden” has consistently proven to be an important legislative priority for area businesses. It is worth noting that in 2005, only 46 percent of surveyed firms selected “tax burden” as a legislative priority. By 2011, 62 percent of firms were concerned about the tax burden, although this percentage moderated to 56 percent three years later.

“Job creation” has been the most variable legislative priority over the years. In 2005 (when we were at local full employment), only 26 percent of respondents thought this was a priority. But, by 2011 (when we were recovering from the Great Recession), 62 percent of firms highlighted job creation as a legislative priority. This number has slowly declined (it was 40 percent in 2014) since that time.

While transportation policy, energy policy, and K-12 education policy have at times been popular legislative priorities, these choices have clearly waned in the most recent survey. The message is clear: area businesses want the Legislature to focus on “health care reform.”

Other priorities mentioned by surveyed firms include:• Safety – we are in the mall and the attack in September hurt our business. • Reduce regulatory requirements for all of the above. • Regulatory reform. • Early education.

Over the years, while health care reform has always been an important legislative priority for area firms, it has never before been selected by such a high percentage of the survey sample.
WHICH ONE OF THE LEGISLATIVE PRIORITIES LISTED HERE DOES YOUR COMPANY FEEL IS MOST IMPORTANT?

While surveyed firms were invited to identify a range of legislative priorities in this quarter's first special question, we asked them to choose the most important priority in Special Question 2. Given that 90 percent of firms selected “health care reform” in the first question, it is no surprise that “health care reform” was selected by the majority of surveyed firms. “Tax burden” ran a distant second as the highest legislative priority. A few firms selected some of the other options as their top legislative priority.

We asked survey respondents the following question:

WHICH ONE OF THE LEGISLATIVE PRIORITIES LISTED HERE DOES YOUR COMPANY FEEL IS MOST IMPORTANT? Fifty-two percent of firms chose “health care reform” as the top legislative priority and 10 percent selected “tax burden.”

“Transportation policy” was the third most popular selection, with 9 percent of respondents. In the three other times we asked this question, “health care reform” did not exceed 30 percent of respondents. This makes the business priority a key decision point for health-care reform and area firms’ overriding priority in the upcoming legislative session.

Written comments include:

Reducing regulatory burdens for all of the above.

Health care costs are killing small businesses.

Regulatory reform.

The state tax policy is not a competitive environment for business and is driving retired individuals to move to states with lower taxes.

Comparison of our transportation highways is a major issue.

Infrastructure investment is critical.

Today and in the future.

Health care costs and over-regulation is not working well to grow any small business.

Health care insurance is our second largest expense.

The cost of health care could potentially result in businesses not being able to afford to stay in business.

Minnesota must reform its corporate tax policy to create jobs instead of business leaving our state because of the incredible tax burden.

Health care costs are causing our employees to try to find other work with benefits.

The regulatory burdens are the issue in terms of reforms and business that has to be reviewed for reduction in all categories. People work for money.

Businesses have to make money to pay people. Regulations strangling businesses, which has a trickle-down effect on employment and the ability to pay taxes.

A high percentage of our business comes from K-12. Most residents in school districts want to support schools but don’t want taxes to increase. A tax increase (or continuation) is the only way a district can fund projects and therefore, many maintenance and improvement projects get delayed — costing more down the road.

The current health care situation in Minnesota is a mess. This needs to be a top priority.

Projecting over the next five years will have to give up something.

The health care marketplace is a mess. With the election of Republicans in Washington, I expect the state will look to the federal government for solutions.

The health care marketplace is a mess. With the election of Republicans in Washington, I expect the state will also seek to change the federal entitlement system that cannot be sustained.

We need to be sure and provide work so people can support their families.

The increases are just too high for my employees.

The health care premium increase will be a major burden for everyone. Both employers and employees.

The legislators need to get this under control.

300 percent increase in six years is killing us.

Big increases.

Jobs and the economy = that’s what it’s about!

Tax burden — small business tax reform needs to happen.

Health insurance costs are out of control!

Transportation — current plans need significant updating.

Health insurance costs are increasing at ratios that are not sustainable for employers and their employees.

Health care reform — too much paperwork and high premiums.

K-12 education financing — we need an educated population.

Health care — even more insurance.

We need more people working with better pay and spending ability.

Early education.

GNP

Continued from Page 11

unlike the 19th century, the 21st century Stearns County has a strong industry cluster in livestock processing, one that in fact has gotten stronger over time. But like any other manufacturing sector we can think of, it has found ways to produce more with less labor. Employment in the livestock processing industry cluster has fallen from 2,161 in 2003 to 1,880 in 2014. That company’s back-up cluster has fallen from 2,161 in 2003 to 1,880 in 2014, while that cluster remains in the top 2 percent of all U.S. counties.

Stearns County has a strong industry that expands the market for GNP’s ground is in pork production, while GNP is in chicken production. It may well be that the second sale is a better fit for the company’s strengths (Pilgrim’s Pride is also a chicken producer) that connects farming to processor to retailer to kitchen — has been a big motivator of activating like these two purchases of GNP which has led to lower prices and a wider range of chicken products.

We would expect any merger of two firms in the same industry to lead to cost savings, leading to some layoffs. It seems more likely that this will occur in back-office operations than on the production line. But this is a strong industry, within the 31. Credit area, has been for a very long time, and it seems unlikely to go away any time soon.
SURVEY RESULTS: SPECIAL QUESTIONS

SPECIAL QUESTION 3: WHAT IS IMPACT OF ELECTION RESULTS?

Last May we asked firms to comment on how they expected to be impacted by the outcome of the presidential election. As a follow up, we decided to ask firms a similar question in the November survey. We waited until the election results were known before we sent out this quarter’s survey and then asked a broader question of area businesses:

**HOW DO YOU EXPECT YOUR BUSINESS TO BE IMPACTED BY THE OUTCOME OF THE NOVEMBER LOCAL, STATE AND FEDERAL ELECTIONS?**

We note that the interesting responses received in the May survey included several responses that suggested the election itself was creating undesirable uncertainty at area firms. At that time, several firms appeared indifferent to the election outcome — they just wanted it over. Now, six months later, the election outcome is known, as we let firms’ written responses tell the story.

Written responses to this item include:

- Hopefully positive due to the change in the control of House and Senate.
- I expect changes to ACA and less burdensome regulations. Also, a more pro-business tax policy.
- I think it will be positive.
- Cautiously optimistic. Lower corporate taxes, less painful regulation on small banks and business will be good things. Messing up international trade, could be a negative.
- With election over business can return to normal and companies can stop delaying projects based on beliefs that whoever is President will change the world.
- I don’t have a clue.
- Very positive!!
- Good question, time will tell.
- Both state and federal business tax policy should change to favor business so jobs can be created.
- Need new overtime laws to be overturned — unaffordable and unnecessary. Prefer to see no new light rail — cost is too high and need highway work instead. Do something about ridiculous health care costs.
- I expect business to get better on a national basis and for businesses to continue to move to areas of the country that have lower burdens on them.
- I don’t know? I DON’T KNOW?
- With some of the local referendums being passed we will see an increase in construction activity state and Fed is usually not a direct factor.
- Who knows! I hope the gridlock positions by many politicians will lessen.
- Undertaken.
- Significant either way — hopefully a victory and reduction in regulations.
- I think it will be a positive impact — less regulation, reduced taxes.
- Too early to tell.
- I suppose we will see a slowdown until confidence is established.
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- With election over business can return to normal and companies can stop delaying projects based on beliefs that whoever is President will change the world.
- I don’t have a clue.
- I think we will be very pleased as the last eight years have not been good. We finally will have a chance to get things on track and move forward.
- No change.
- I think it will be a positive impact — less regulation, reduced taxes.
- I DON’T KNOW?
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Payroll employment rose 1.8 percent in the St. Cloud area for the 12 months ending October 2016, exactly 2,000 additional jobs over that time. Of those added jobs, 1,826 came from the construction, health and education sectors of the economy. At 7,871 jobs in August, construction employment has risen 53.7 percent since August 2010. This surge is mainly responsible for the higher readings for employment growth in St. Cloud versus the rest of the state and the Twin Cities over the last year.

Manufacturing lost 2.9 percent of employment over the last year. Retail trade added jobs at a 2.9 percent rate. All other categories moved at insignificant rates over the year. The unemployment rate rose slightly in the St. Cloud area over the last year, as seen in Table 4. The St. Cloud area labor force fell by 1 percent, and household employment fell by 1.2 percent. (Household employment is the number of people living in St. Cloud area that have jobs no matter where those people live.) The contrast between Tables 3 and 4 in terms of employment are quite interesting. The drop in labor force has been experienced around the state over the last several months. It could be the data are preliminary and will square up later, or it could be that more people are working two or more jobs. It could also be that more workers are coming into the St. Cloud area to work from neighboring counties.

Construction, Education, and Health Care Lead the Way

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WHAT THE DATA MEAN

LEARN MORE AT QBR REVIEW ON THURSDAY

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, Dec. 15, at Resource Training & Solutions, 137-23rd St. S., Sartell.

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 the sixth in a series of presentations tied to each quarterly report. It is sponsored by Great River Federal Credit Union in collaboration with Times Media, St. Cloud State University, and the Greater St. Cloud Development Corp.

To make a reservation for this free event, go to http://bit.ly/2qT8T7.

Economy

Continued from Page 6

one employment agency the increase in drop-ins of recently laid-off workers has increased. That can happen without a filing of a claim for unemployment insurance immediately, for example if there is severance pay.

The St. Cloud Area Index of Leading Economic Indicators (LEI) rose 0.29 percent in the quarter. Three of the four indicators moved positively, while the fourth — initial claims for unemployment insurance — was virtually flat for the quarter. The long period of lateral movement in LEI that started in 2014 has continued, as seen in the graph on Page 1.

We noted from the survey results last quarter that there appeared to be some uncertainty shown in the responses about future hiring and capital investment. While we do not always display our St. Cloud Recession Probability Index, we do still maintain that model.

The recession probability rose to nearly 58 percent in late spring of this year, as seen in the nearby graph, but then fell to zero and has stayed there through summer and into fall.

We hypothesized in our last report that local businesses were waiting for a clearer signal on the future from the elections. They now have a new president that was not widely expected to win, and undivided legislatures at both the federal and state levels. Clear signals will need to be sent by new leaders, but the reaction of stock and bond markets indicates that a better economy is expected. The base from which we are working in St. Cloud seems a solid base for what may come.

A note on help wanted advertising

Earlier this year we noticed that reported help-wanted advertising linage in the St. Cloud Times was significantly below expected levels. We have long thought that online advertising would cause some slippage in this number, and our measure we use in building the St. Cloud Index of Leading Economic Indicators (LEI) allows for a downward trend in print advertising. The drop we saw, however, was far out of proportion to what we expected and does not match other anecdotal information we received. We have simulated the movements in this series using an overall measure of help-wanted advertising from Wanted Analytics instead. The numbers in Table 4 for help-wanted advertising therefore are synthetic numbers, not those reported to us. They are also used in building LEI, but we have made no other changes in the weighting of the indicators for now.