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St. Cloud Area Quarterly Business Report Vol. 20, No. 1

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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.

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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.



INSIDE

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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 repository.stcloudstate.edu/scqbr

Future closure of Electrolux clouds local outlook

The St. Cloud area economic outlook has been clouded by the announced future mass layoff of workers at the St. Cloud Electrolux plant. The planned closing of this manufacturing facility is estimated to cause a job loss of 860 workers by the end of 2019.

While respondents to the St. Cloud Area Business Outlook Survey express concern about the economic impact of the upcoming plant closing, the future outlook of surveyed businesses is strong as we enter a time of the year in which the area economy typically enjoys seasonal strength.

Revised employment data suggest the area labor market was not as strong as we originally indicated in the second half of 2017. For example, we initially reported year-over-year overall employment growth of 1.6 percent in October 2017. This annualized employment growth was recently revised downward to 0.4 percent over this time period.

Among other things, the twelve-month growth in the

mining/logging/construction sector was originally reported to be 9.2 percent in October 2017. This number is now reported to be only 0.5 percent over this same time period.

With the reminder that local employment data are subject to rather large annual revisions, we note that year-over-year overall employment growth slowed to 0.2 percent for the year ending January 2018. The manufacturing, education/health, wholesale trade, mining/logging/construction and government sectors led local job growth, while the retail trade, professional & business services, and leisure/hospitality sectors' employment contracted. The St. Cloud Index of Leading Economic Indicators rose 0.3 percent over the last quarter.

Surveyed firms indicate strong expected future employment, increased future prices received, and considerable expected difficulty attracting qualified workers over the next six months.

KEY TAKEAWAYS

1 Private sector payroll employment in the St. Cloud area fell by 0.1 percent from one year earlier in the 12 months through January 2018. Service providing industries (which account for 80.6 percent of local payrolls) are estimated to have shed 0.3 percent of their jobs over the past year. The unemployment rate in the St. Cloud area in January fell to 4.5 percent from 5.4 percent a year ago. Note that this is the lowest January unemployment rate since 2000. The labor force rose by 2.8 percent in the St. Cloud area over the past year.

2 Employment in the health and educational sector grew by 3.1 percent over the year ending January 2018. As has been noted in previous reports, this sector now accounts for 20.6 percent of area employment (in January 2000, this sector only accounted for 14 percent of local jobs). Local mining/logging/construction sector (most of this sector is construction locally) annual employment rose 1.9 percent and job growth in the wholesale trade sector was 2.1 percent at an annual pace. Manufacturing employment is estimated to have increased by 2.7 percent over the last twelve months and government sector jobs rose by 2.6 percent. We will be keeping an eye on the local manufacturing sector in the coming months. With 15,405 people currently employed in the manufacturing sector (this represents 14.3 percent of local employment), this number is certain to come under pressure as the announced closing of Electrolux approaches in 2019. Sectors experiencing job gains represented about two-thirds of area employment over the past year. Of particular note, job loss occurred in retail trade (which contracted by 4.6 percent), professional & business services (which declined 6.9 percent) and leisure/hospitality (which shed 2.4 percent of its jobs). Taken together, these three sectors account for nearly 28 percent of area jobs.

3 The St. Cloud Index of Leading Economic Indicators rose 0.32 percent in the November 2017 to January 2018 period as two of the series' four indicators were largely unchanged. There were increases in professional employment and in new business incorporations. The St. Cloud I3 Stock Price Index



Employees walk to the parking lot Jan. 30 at Electrolux in St. Cloud. The St. Cloud facility, which manufactures Frigidaire upright freezers, will continue production through 2019 then close. JASON WACHTER, JWACHTER@STCLOUDTIMES.COM

New St. Cloud Index of Leading Economic Indicators



Key survey results

Diffusion index (% increase — % decrease)

Feb. '17 Nov. '17 Feb. '18



rose 5.1 percent during the quarter, and is up 15.7 percent over the last 12 months to January. The S&P 500 has risen 24.8 percent in the same 12 months. The index lost -3.8 percent in February 2018.

4 The future outlook of those area businesses responding to the St. Cloud Area Business Outlook Survey is strong. Sixty-four percent of surveyed firms expect an increase in business activity over the next six months, while only 5 percent expect decreased activity. Fifty-six percent of surveyed firms expect to expand payrolls by August and 41 percent anticipate higher employee compensation. Most readings from the future outlook survey are stronger than one year ago, with particularly strong performance of the employment, capital expenditures, prices received, and worker shortage indexes. Fifty-one percent of surveyed firms expect increased future difficulty attracting qualified workers by August.

5 Fifty-four percent of surveyed firms report they expect "no effect" of the future closing of the Electrolux plant. Another one-quarter of firms anticipate a "small negative effect" and 14 percent think it will have a "small positive effect" on their firm (these firms typically expect it to become easier to find qualified workers when the layoffs occur). Sixty percent of surveyed firms expect to be favorably impacted by the new federal tax program (the Tax Cuts and Jobs Act of 2017) that was passed at the end of 2017. Most of the firms that expect to be favorably impacted by this legislation see it as having either a large or medium favorable impact. Another 22 percent of firms anticipate "no impact" and 5 percent think the tax program will have a "small negative impact".

Impact of Electrolux in St. Cloud

Note to readers: The following passage originally appeared in the July 2005 St. Cloud Area Quarterly Business Report. To access the report, please go to the SCSU Repository at repository.stcloudstate.edu/scqbr/6/

There have been several pauses in production recently at the Electrolux Home Products plant in St. Cloud, including April 11-15 and May 9-13. During the second pause, the plant announced there would be 130 employees laid off as of May 23.

There is a significant risk that these are portents of a permanent shutdown. With the help of Brigid Tuck, program manager of the Minnesota Economic Development Center (MEDC) at St. Cloud State University, we looked at the impact of a possible closure.

Electrolux's financial performance in its North American appliance group deteriorated in the first quarter of 2005. According to its first-quarter financial statement released April 20, this deterioration

was because of "substantially higher prices for materials which were only partly offset by price increases and an improved product mix. Income also was negatively impacted by costs referring to the ongoing transfer of (refrigerator) production to Mexico."

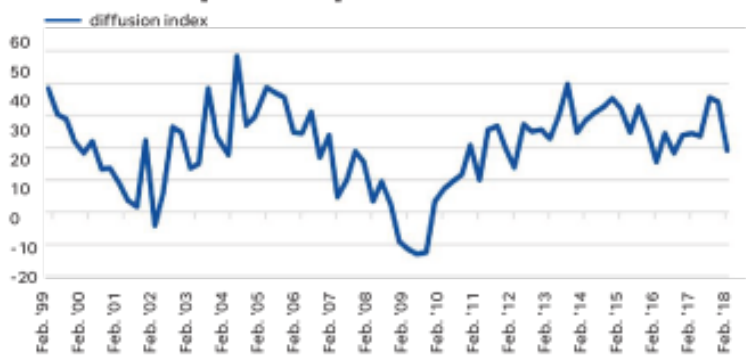
The company also is suffering from a decline in the U.S. dollar versus its Swedish home currency. Appliance sales were

See PLANT, Page 61

SURVEY RESULTS: STANDARD QUESTIONS

Survey results for standard questions

Current capital expenditures



Current Activity

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 63 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. Note that the sample of local firms surveyed was expanded this quarter. We separately analyzed the new firms' responses and found little difference between their economic outlook and that of our traditional sample of surveyed firms.

Some of the current activity indexes found in Table 1 are weaker than was reported last quarter (which is a normal seasonal effect), but, in nearly all cases, the diffusion index numbers from this table are stronger than one year ago. A diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter. For any given item, a positive index usually indicates expanding activity, while a negative index implies declining conditions. Indexes on level of business activity, employment, employee compensation, prices received, national business activity and difficulty attracting qualified workers all compare favorably to one year ago. The reading on current length of workweek is little changed from last quarter, but the capital expenditures is markedly lower than in February 2017. We do note that the six-month ahead outlook for capital expenditures was relatively weak in our August 2017 survey, so this observation of current capital expenditures (which is now six months later) comes as no surprise. The accompanying chart illustrates this quarter's drop in the current capital expenditures index.

The diffusion index on national business activity remains elevated this quarter. At 31.7, this index reading is the highest since August 2014. Likewise, the diffusion index for current prices received is the second highest recorded value since mid-2005 (a time at which local firms appear to have had more pricing power). Labor costs also rose in the past quarter. As can be seen in the accompanying chart, the current employee compensation index was only this high one other time — in March 1999. Sixty percent of surveyed firms paid

higher wages, salaries, and fringe benefits this quarter and no firms decreased employee compensation.

Finally, the diffusion index on current worker shortages remains at historically high levels. As we noted in last quarter's report, the last time we saw these kinds of local worker shortages was in 2000. For example, in January 2000, the local unemployment rate was 4.2 percent (readers should note that the data from the Minnesota Department of Employment and Economic Development are not seasonally adjusted, so the local January unemployment rate is always higher than during other months) which is very similar to the reported January 2018 unemployment rate of 4.5 percent. We will keep our eyes on this index. As labor market conditions begin to loosen with recent job losses at Capital One and Sears — and as the mass layoffs at Electrolux approach — we expect to see local firms have less difficulty attracting qualified workers in coming quarters.

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

- ☒ The closing of the RR Donnelley plant in Long Prairie is a huge hit to the Long Prairie economy. We are planning to hire many of their displaced employees.

- ☒ Need to figure out how to enhance the St. Cloud school district from a so-so district to match the other area districts so people want to live in the St. Cloud School district in lieu of other surrounding ones. The so-so district is really killing the selling prices of homes in the district or not being able to sell at all. In the next 10 years or so there will be so many more than \$350,000.00 valued homes that will sell only if they are priced at pennies on the dollar of cost. A big hit for the sellers and the housing industry.

- ☒ We had larger than budgeted revenue growth in 2017, except in areas impacted by poor crop prices (southwestern MN).

- ☒ Lack of work force.

- ☒ Consolidation in the local business community is resulting in a migration from local leadership to regional/national leadership which will put pressure on using national vendors versus local vendors.

- ☒ The Federal government is finally moving in the right direction on reducing regulation and making the US a better place to do business in an increasingly global world. At some point, maybe even the state of Minnesota will "get it" so we don't lose another Electrolux.

- ☒ Lack of a work force in our

Table 1: Current business conditions

St. Cloud Area Business Outlook Survey summary, February 2018	February 2018 vs. three months ago				November 2017 diffusion index ³	February 2017 diffusion index ³
	Percentage decrease	No change	Percentage increase	Diffusion index ²		
What is your evaluation of:						
Level of business activity for your company	25.4	34.9	39.7	14.3	27.7	2.3
Number of employees on your company's payroll	22.2	46.0	31.7	9.5	19.2	4.5
Length of the workweek for your employees	19.0	69.8	11.1	-7.9	17.0	-4.4
Capital expenditures (equipment, machinery, structures, etc.) by your company	6.3	68.3	25.4	19.1	34.1	24.5
Employee compensation (wages and benefits) by your company	0	39.7	60.3	60.3	31.9	37.8
Prices received for your company's products	1.6	61.9	30.2	28.6	17.0	11.2
National business activity	0	52.4	31.7	31.7	25.5	15.5
Your company's difficulty attracting qualified workers	1.6	50.8	46.0	44.4	44.7	24.4

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

Source: SCSU School of Public Affairs Research Institute

Table 2: Future business conditions

St. Cloud Area Business Outlook Survey summary, February 2018	Six months from now vs. February 2018				November 2017 diffusion index ³	February 2017 diffusion index ³
	Percentage decrease	No change	Percentage increase	Diffusion index ²		
What is your evaluation of:						
Level of business activity for your company	4.8	28.6	63.5	58.7	40.4	57.8
Number of employees on your company's payroll	4.8	34.9	55.6	50.8	31.9	37.3
Length of the workweek for your employees	4.8	65.1	27.0	22.2	10.6	22.2
Capital expenditures (equipment, machinery, structures, etc.) by your company	1.6	54.0	41.3	39.7	19.1	22.3
Employee compensation (wages and benefits) by your company	0	38.1	58.7	58.7	63.8	68.9
Prices received for your company's products	0	54.0	38.1	38.1	27.6	22.2
National business activity	1.6	42.9	38.1	36.5	34.0	35.6
Your company's difficulty attracting qualified workers	1.6	42.9	50.8	49.2	36.2	26.4

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

Source: SCSU School of Public Affairs Research Institute

area looking for work.

- ☒ It's all about quality labor availability (or lack thereof). The situation is the worst I've ever seen. Growth is hostage to available labor. Earnings are increasingly hostage to available labor. The best thing the GSDC could do today is work to help connect industry to the secondary education system. The high schools seem unwilling or unable to work with industry to create direct paths to the workforce. Relief has to come from somewhere; where else will it come from?

- ☒ We believe 2018 will be a good year for our industry.

- ☒ Uncertainty about continuous insurance or medical coverage due to progressively weakening Obamacare without a credible alternative being proposed.

- ☒ Please recognize that most businesses in St. Cloud and in Minnesota are very small — less than 20 employees. It's different than a business with 900 employees.

- ☒ Our facility is being impacted by the lack of quality material to process. As a result, our facility is struggling and is in trouble to survive.

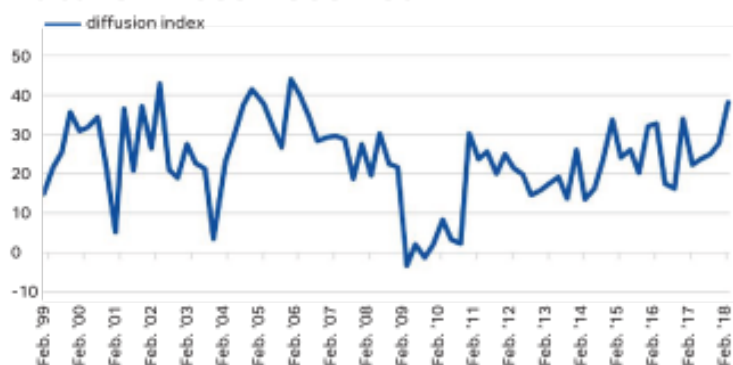
- ☒ There needs to be a greater focus on providing a well-trained (labor) force for businesses to continue to grow.

- ☒ We are a seasonal business, manufacturing from 4/1 – 11/30.

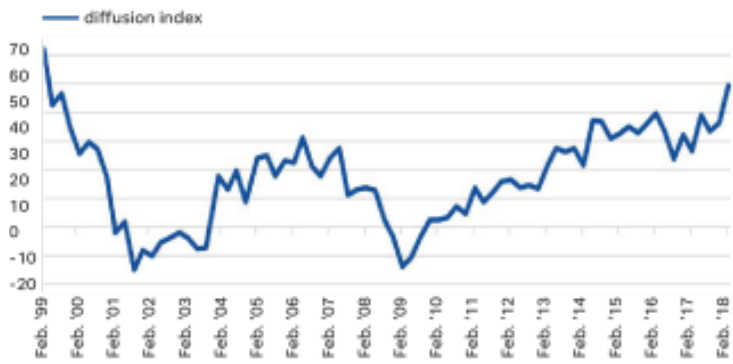
Future outlook

Table 2 reports the future outlook of area businesses. With the exception of the index on future employee compensation — the six-month ahead outlook is improved from last quarter (which is a normal seasonal effect). In addition, the future outlook in most categories compares favorably with the results from February 2017. With 64 percent of surveyed businesses expecting improved overall business activity by August, the area economic outlook remains solid. The future employment index (see accompanying figure) is the highest value recorded in twelve years. If there is a silver lining in the announced future closing of Electrolux, it is that workers are entering a labor market that has a considerable number of employment opportunities. Of course, we are unable to foresee what labor market conditions will look like when the plant closes at the end of 2019. As we note elsewhere in this report (and in "The Economic Impact of the Future Closure of Electrolux" study to

Future Prices Received



Future Difficulty Attracting Qualified Workers



be released on March 22), the prospect of several hundred people entering the local unemployment rolls all at once will create a total economic impact (direct, indirect, and induced) on the local economy that will only sort itself out over months and years.

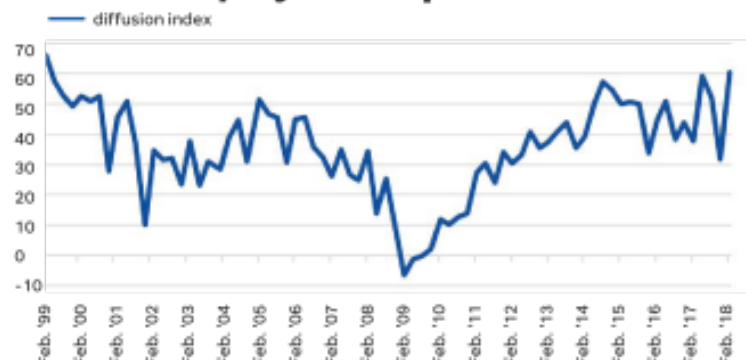
Thirty-eight percent of surveyed firms expect prices received to increase by August and none of the 63 firms expect future prices to fall. As we have noted over the past year, the future prices received index continues to slowly inch up. As can be seen in the accompanying chart, the last time this index was this high was in February 2006. It is interesting to note that the index on future employee compensation, while still elevated at 58.7, is actually lower than it was in February 2017 when it recorded a reading of 68.9.

Any weakness found in the current capital expenditures index in Table 1 is expected to be reversed by August. The index value on future capital expenditures is the highest we have seen in twelve years. In addition, the national business activity outlook remains solid. Thirty-eight percent of surveyed firms expect stronger national business activity over the next six months, while only one

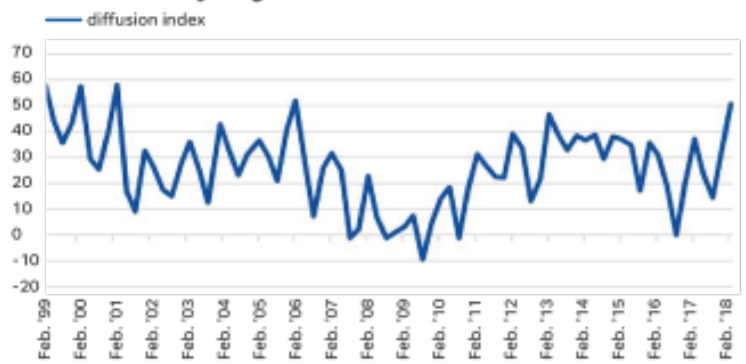
firm expects weaker national activity. It should be noted that all surveys were received prior to President Trump's recent decision to apply tariffs on imported steel and aluminum. As has been widely discussed in the media, the direct impact of these new trade restrictions is likely to be a slowing of economic growth, which will be magnified if this triggers a global trade war.

As with Table 1, worker shortages are expected to persist into the future. Fifty-one percent expect it to be more difficult to attract qualified workers by August. As can be seen in the accompanying chart, the future index on attracting qualified workers was last this high in March 1999. We have always noted that the cyclical pattern of this index has closely tracked overall economic performance (visual inspection of this index suggests the downturns coincide with a slowing of economic growth, and the negative readings are associated with local recessions). So, the way in which our surveyed businesses have historically responded to this question suggests a strong future outlook — despite the looming prospect of job loss for 860 Electrolux workers.

Current employee compensation



Future employment



SURVEY RESULTS: SPECIAL QUESTIONS

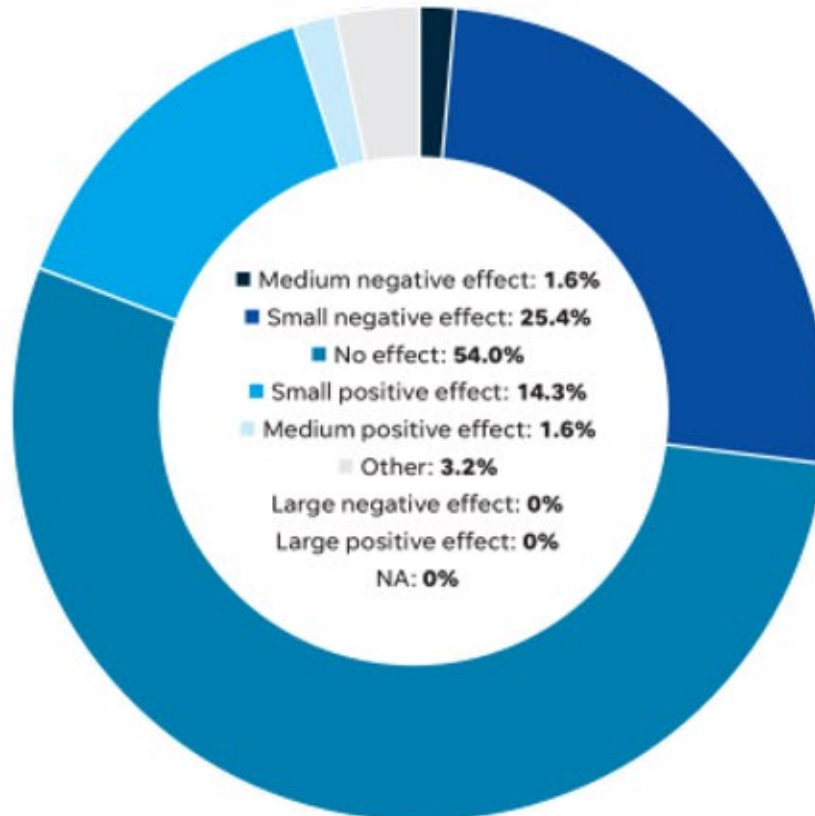
SPECIAL QUESTION 1: THE EFFECT OF THE FUTURE CLOSING OF ELECTROLUX ON AREA COMPANIES

To what extent do you expect the announced future closing of the Electrolux production facility in St. Cloud to affect your company?

An earlier section of this report discussed the recently announced future closing of Electrolux and its impact on its 860 workers and the community. In *The Economic Impact of the Future Closure of Electrolux* (to be released March 22), we highlight the estimated quantitative (including direct, indirect, and induced) effects of the plant closing. Some of the other effects — the prospect of structural unemployment, the increased demand for job retraining, the shock to the area labor market of hundreds of people suddenly experiencing unemployment, the loss of productive activity on a valuable commercial parcel, etc. — are among the many additional impacts that will be felt in the community. We were interested in the extent to which our surveyed businesses expect to be affected by the plant closing. Given that this future mass layoff has the potential to be the most adverse local economic shock since the January 2002 announcement that Fingerhut was to close, we expected area businesses to be concerned about the considerable impact (albeit indirect) that this event will have on their company. The Electrolux supply chain is far reaching (we provide a sample of the companies in the supply chain in our upcoming study), and many Minnesota companies will experience a loss of sales when the plant closes. Other businesses — retailers, restaurants, realtors, financial service firms, health care providers, transportation companies, etc. — will likewise feel an induced impact associated with the reduced incomes of laid off workers. Of course, those firms that are looking for workers to fill job vacancies may enjoy a positive impact of

Special Question 1

To what extent do you expect the announced future closing of the Electrolux production facility in St. Cloud to affect your company?



an expanded labor pool. With these issues in mind, we asked firms:

TO WHAT EXTENT DO YOU EXPECT THE ANNOUNCED FUTURE CLOSING OF THE ELECTROLUX PRODUCTION FACILITY IN ST. CLOUD TO AFFECT YOUR COMPANY?

Fifty-four percent of surveyed firms answered “no effect” to this question. Another 14 percent of firms indicated this will have a “small positive effect” on their company. One firm indicated it will have a “medium positive effect”. No firms believe the impact will be large (ei-

ther positive or negative). One quarter of survey respondents note this will have a “small negative effect” and one firm believes it will have a “medium negative effect”.

Firms’ written responses to this question are revealing:

- We may find workers available who have factory experience and can operate equipment.

- Increased activity to assist dislocated workers.

- Unfortunate.

- We are also concerned when a large employer leaves the area. That being said, we believe that we will be able to hire some qualified workers who will be displaced.

- A little late to comment on it now. Our civic leaders should have been on top of this a long time ago. They need to do a way better job on being proactive. I knew this was going to happen two years ago.

- The key question is whether the jobs lost will be absorbed into our low unemployment economy.

- I also own a manufacturing facility and it could provide an option for employees for that facility.

- Less higher paying jobs to buy products, houses, etc.

- Electrolux was a good customer of ours for many years, so we are sorry to lose their business.

- Larger number of people will be unemployed all at once.

- The payroll coming out of Electrolux will be very difficult to replace and will have many ripple effects throughout the St. Cloud community.

See QUESTION 1, Page 41

SPECIAL QUESTION 2: IMPACT OF NEW FEDERAL TAX LAW

How does your company expect to be impacted by the new federal tax program (the Tax Cuts and Jobs Act of 2017) that was signed into law in late 2017?

In the final days of 2017, Congress passed (and the president signed into law) a sweeping new tax reform that, among other things, lowered the corporate tax rate from 35 percent to 20 percent. Other features of the Tax Cuts and Jobs Act of 2017 is a lowering of the tax rate faced by small businesses and the immediate expensing of new equipment purchases. Of course, an additional feature of the new tax program is a reduction in personal marginal income tax rates that has recently begun to increase disposable incomes of U.S. households. While a detailed discussion of the various features of this legislation is beyond the scope of this report, most observers appear to believe that the short-term impact of this tax act will be to provide a modest stimulus to the U.S. economy. The long-run effect of these tax cuts is less certain, given that the federal budget deficit will increase. Of course, not all surveyed firms are incorporated and may not stand to benefit from the corporate tax cut, however, we thought it timely to ask firms to indicate the extent to which the new tax program will be expected to impact their company. We do note that one additional thing we will be watching for in the current Minnesota legislative session will be for the state tax structure to be adjusted to bring it into compliance with the new federal law. We asked:

How does your company expect to be impacted by the new federal tax program (the Tax Cuts and Jobs Act of 2017) that was signed into law in late 2017?

A majority of surveyed firms (more than 60 percent) expect to be favorably impacted by the new tax law. Thirteen

percent expect a large favorable impact and another 27 percent anticipate a medium favorable impact. Twenty-one percent of survey respondents indicated “small favorable impact” and 22 percent answered “no expected impact”. Three firms (4.8 percent) expect a “small unfavorable impact” of the tax legislation. Comments to this special question include:

- I’m a C-Corp.
- Not sure as of now.
- The real answer is not accurately known.

- Great deal for all Americans especially if the state follows the same.

- The removal of the moving deduction credit could affect us.

- Lower corporate tax rates and accelerated write offs will help, but, unless the MN legislature does something about income tax rates, the impact of the loss of the write off will make it more difficult to recruit professionals and hasten the departure of those retiring somewhere else.

- The immediate impact may be favorable, but I am more concerned about the long-term impact on our national economy and deficit.

- Allows us to compensate our employees more without raising our rates to do so.

- The changes will spur more consulting opportunities with clients.

- The lower tax rate will help with the costs of increases in wages and other benefits.

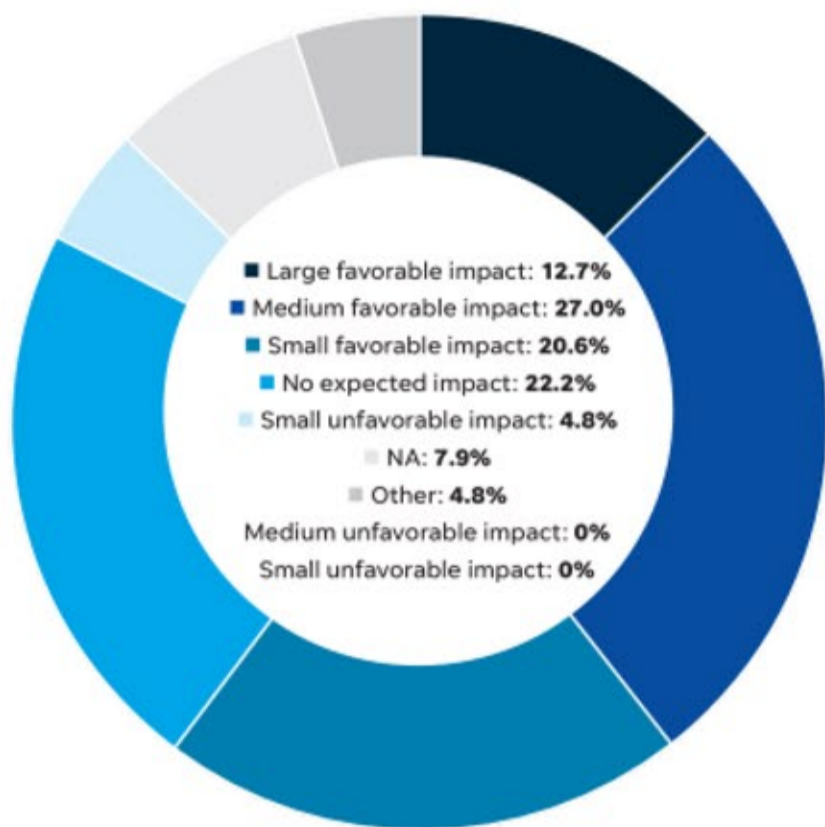
- This is the best legislation ever passed. It will make us more competitive, our customers will have more to

See QUESTION 2, Page 41

SURVEY RESULTS: SPECIAL QUESTIONS

Special Question 2

How does your company expect to be impacted by the new federal tax program (the Tax Cuts and Jobs Act of 2017) that was signed into law in late 2017?



Question 2

Continued from Page 31

spend and our employees will have larger profit sharing checks. This is a huge win for America.

■ Great for my company, not so great for me. If they would do away with the double taxation with C-corps that would help.

■ The tax reform will allow us to move some capital expenditures forward that we had been holding back on. We will also be able to increase some wages to attract additional staff.

■ Tax savings will be used for expansion. We just added a (piece of equipment) that will allow us to expand our sales by 50%.

■ As a smaller business, this tax cut enables my company the ability to put the benefits back into my employees and products.

■ We've already seen an uptick in spending on the part of our larger trucking companies and construction companies.

■ Positive due to asset purchases becoming expenseable; not a huge change due to being an S-corp.

■ Added regulation and potential increase in taxes from our reporting of "unrelated business income".

■ I am not sure yet. Still sorting it out to see how the formula changes.

■ Too early for me to know.

■ Not certain.

■ It will make it easier for companies to invest and grow. The state will need to get on board with other states if they want to attract companies.

■ Certain past credits used disallowed.

■ We are an S corp. Not sure how it will impact us.

■ Tax savings that can be reinvested in company.

We do note that one additional thing we will be watching for in the current Minnesota legislative session will be for the state tax structure to be adjusted to bring it into compliance with the new federal law.

Question 1

Continued from Page 31

It will be bad for our area but really won't affect us too much other than some smaller businesses that count on them for sales.

■ Union shop? vs. Right to Work? nothing to go into the old building once it is empty.

■ I believe this workforce will be drawn into many other businesses that are looking to fill their staffing needs.

■ The economic impact to the community for all businesses.

■ Not good for the community as a whole with the impact of job loss unless that workforce can be absorbed by another larger employer quickly.

■ There may be some workers we could hire.

■ Was difficulty with dealing with immigrant and union workforce part of the reasoning for moving? If so, how can this be addressed?

■ Negative that we may lose some business with them; positive that we may gain workforce opportunities.

■ Job loss for the community.

■ More workers for those of us who are hiring.

■ Depends on the effect on other

businesses.

■ Future/other productive use of the plant — will it be listed for sale? I'm sure commercial realtors are looking for buyers.

■ The only potential effect for my company is that there may be people available to fill positions. It's unfortunate for the employees, however, it appears there are jobs available — I could use 1 or 2.

■ I am not sure it is appropriate for our company to take a stand without all of the facts surrounding this issue.

■ Decent jobs for relatively low skilled employees are not that plentiful.

■ Will not directly affect us.

■ It may be possible to fill the positions that are vacant now.

■ Loss of local jobs.

■ I have concern on the larger economic impact of job loss in our community. Pilgrim's Pride, Capital One, Electrolux....

■ None that directly impact our business.

■ Some employees will likely find work in other communities. Some employees will likely pull back and spend less, even in a new job. Losing 900 jobs and the likelihood the facility may sit empty for 12-24 months will hurt the local economy.

■ None.

WHAT THE DATA MEAN

Data revisions change the story

Table 3: Employment Trends

	ST. CLOUD		MINNESOTA		TWIN CITIES	
	2003-'18 long term	Jan. '17-Jan. '18 growth rate	2003-'18 long term	Jan. '17-Jan. '18 growth rate	2003-'18 long term	Jan. '17-Jan. '18 growth rate
Total non-agricultural	0.9%	0.2%	0.7%	0.7%	0.8%	0.7%
Total private	1.0%	-0.1%	0.8%	0.5%	0.9%	0.4%
GOODS PRODUCING	0.1%	2.5%	-0.5%	0.9%	-0.5%	0.5%
Mining/logging/construction	1.9%	1.9%	-0.1%	3.5%	-0.5%	0.6%
Manufacturing	-0.5%	2.7%	-0.6%	0.0%	-0.5%	0.4%
SERVICE PROVIDING	1.1%	-0.3%	0.9%	0.7%	1.0%	0.7%
Trade/trans/utilities	0.5%	-2.5%	0.2%	0.5%	0.2%	0.7%
Wholesale trade	1.4%	2.1%	0.3%	1.2%	0.1%	0.4%
Retail trade	-0.2%	-4.6%	-0.1%	0.1%	0.0%	0.8%
Trans/ware/utilities	1.8%	-0.4%	0.9%	0.9%	0.7%	0.7%
Information	-2.9%	-3.7%	-1.5%	-1.3%	-1.5%	-1.8%
Financial activities	1.9%	0.8%	0.4%	-0.9%	0.5%	0.6%
Professional and business services	1.0%	-6.9%	1.6%	0.5%	1.5%	-1.1%
Education and health	3.1%	3.1%	2.6%	1.6%	3.0%	1.7%
Leisure and hospitality	0.6%	-2.4%	1.0%	-0.5%	1.3%	0.0%
Other services (excluding gov't.)	-0.1%	1.5%	-0.2%	-0.4%	0.5%	1.8%
Government	0.7%	2.6%	0.3%	1.8%	0.3%	2.4%
Federal	3.2%	4.4%	-0.4%	0.2%	-0.3%	0.0%
State	0.8%	4.4%	1.2%	3.5%	0.5%	5.1%
Local	0.2%	1.4%	0.1%	1.4%	0.3%	1.7%

As we have seen in previous March issues of the St. Cloud Area Quarterly Business Report, the annual revision of payroll employment data, as shown in Table 3, has reduced the gains we have previously reported. These revisions come from more complete data compiled from unemployment insurance records versus the survey methods used in the other 11 months. DEED reported on March 8, "both the annual revisions to previously released estimates and the January numbers, reveal a much weaker [state] economy than previously thought. Annual job gains are now at a post-recessionary low, and we lag the nation across all components of the private sector. And our labor force growth over the past year is a fraction of what was previously estimated."

As DEED noted above, these downward revisions are not unique to the St.

As DEED noted above, these downward revisions are not unique to the St. Cloud area. Statewide, the revisions removed 13,954 jobs from total employment in December 2017, with 4,721 in construction and another 3,540 in manufacturing.

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Table 3 shows that total employment rose 0.2 percent in the 12 months to January 2018. The revisions happened in the second half of 2017, such that growth

in the 12 months to October 2017 was 0.4 percent compared to the 1.6 percent we reported last quarter. Construction employment growth was revised sharply downward as well, with growth now at 1.9 percent through January 2018. Last quarter's reported figure of 9.2 percent has been revised down to 0.5 percent. Nevertheless, construction is still the

Table 4: Other Economic Indicators

	2018	2017	Percentage change
St. Cloud MSA Labor Force January (Minnesota DEED)	113,244	110,195	2.8%
St. Cloud MSA Civilian Employment # January (Minnesota DEED)	108,108	104,252	3.7%
St. Cloud MSA Unemployment Rate* January (Minnesota DEED)	4.5%	5.4%	NA
Minnesota Unemployment Rate* January (Minnesota DEED)	4.0%	4.7%	NA
Mpls-St. Paul Unemployment Rate* January (Minnesota DEED)	3.4%	4.2%	NA
St. Cloud Area New Unemployment Insurance Claims November-January Average (Minnesota DEED)	1,201.3	1,266.3	-5.1%
St. Cloud Times Help Wanted ad lineage* November-January Average	2419.7	2,117.9	14.2%
St. Cloud City Residential Building Permit Valuation in thousands, Nov.-Jan. Average (City of St. Cloud)	1,170.88	732.5	59.8%
St. Cloud 13 Stock Price Index end-January (SCSU) Nov. 16, 1994 = 100	930.69	804.66	15.7%
New St. Cloud Index of Leading Economic Indicators January (SCSU) October 2001 = 100	103.1	102.7	0.3%

* data from October 2015 simulated to match historical pattern (see box nearby)

fastest-growing sector in the state.

The local manufacturing sector added 2.7 percent in the last 12 months. Education and health were again strong. Retail employment fell, perhaps reflecting the loss of jobs at the recently-closed Sears.

While payroll employment levels were revised down, Table 4 shows unemployment fell to 4.5 percent in January 2018 from 5.4 percent a year earlier. This is despite a substantial increase in the size of our labor force, which rose by 2.8 percent over the last 12 months. While payroll employment measures the number of workers in St. Cloud area firms, the employment of those living in St. Cloud shown in Table 4 rose by 3.7 percent. This means that there has been an increase in the number of workers

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WHAT THE DATA MEAN

Data

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living in St. Cloud but working outside of the metro area. The labor supply challenges of greater Minnesota affect our area in this way.

Other data from Table 4 are generally good news. Help wanted advertising was up, as was the value of residential building permits in the city of St. Cloud, over the last three months. New unemployment insurance claims fell 5.1 percent.

The St. Cloud 13 Stock Price Index rose 5.1 percent for the quarter, led by gains to Bluestem Group, General Growth Properties and C.H. Robinson. Eight of the 13 stocks rose in the quarter. The largest loser was Newell Brands, a consumer goods conglomerate that in-

Table 5: Elements of new St. Cloud Index of Leading Economic Indicators

Changes from November 2017 to January 2018	Contributions to LEI
New claims for unemployment insurance	0.00%
Professional employment	0.22%
New business incorporation	0.10%
Help-wanted advertising in St. Cloud Times	0.00%
TOTAL	0.32%

cludes Stearns Manufacturing (which was bought by Coleman in 2008.) The firm recently announced it was selling off some assets.

Two of the four components in the St. Cloud Area Leading Economic Indicators index (LEI) showed gains in the quarter, as shown in Table 5. Professional and business employment,

which includes temporary workers, contributed 0.22 percent to a total gain in the LEI of 0.32 percent. An increase in new business incorporations accounted for the remainder. New claims for unemployment insurance and help-wanted advertising were unchanged in the LEI this quarter.

Despite downward revisions to labor

market data, the St. Cloud economy continues to experience reasonably good growth and business optimism. The largest issue in this area continues to be constraints to labor supply that are hampering businesses around the country. The National Federation of Independent Businesses, a small- and medium-business lobbying group that does monthly surveys of their members, shows that labor quality is now the most-cited problem faced by businesses (one year ago, taxes and regulatory environment were considered to be larger problems than labor quality). The entry of Costco into this market will initially stimulate the local construction industry and will later create new employment opportunities in the retail sector. Electrolux, in the meantime, will be a drag on growth in the next year. But so far the local economy shows few signs of slowing down.

Plant

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down 6.5 percent in North America, and overall inventories grew 45 percent faster in the first quarter of 2005 as in 2004. It is evaluating closures in Sweden and Italy – production of one Swedish plant has moved to Hungary – and Electrolux continues to spend money on moving refrigerator production in North America to a plant in Mexico.

When a significant manufacturer slows production, it also begins to reduce its demands on providers of inputs or other business services. Many of the inputs received by Electrolux come from outside the local area, but based on an input-output model maintained by MEDC, we believe about 31 percent of the value in Electrolux's output would be accounted for by local production. Some of these are provided or induced from the rest of the area economy, including everything from warehousing and transportation to the caterer that parks a truck in front of the plant for employees' breaks. Those groups are also adversely affected by the slowdown in production.

A Reflection in Time: Electrolux in 2005

In May 2005, the St. Cloud Area Quarterly Business Report included an estimate of the impact of then-announced layoffs at the Electrolux facility in St. Cloud. The facility had approximately 1,480 employees at that time. The announced closure of the plant in 2019 will directly impact 860 workers. In 2005 we estimated the impact of layoffs of 130 employees, as well as the impact of a closure of the plant at that time. At the upcoming Quarterly Business Report Review program (scheduled for Thursday, March 22, from 7:30 am- 9:30 am at SCSU's Atwood Memorial Center Cascade Room; register for the free program at <https://tickets.sctimes.com>) we will be releasing a new joint study – The Economic Impact of the Future Closure of Electrolux – conducted by SCSU's School of Public Affairs Research Institute and researchers at University of Minnesota Extension that will estimate the quantitative economic impact of the plant closing in 2019.

The layoff of 130 employees from the plant likely generates 80 job losses elsewhere in the economy. Here is the breakdown of losses by sector:

- Wholesale trade: 20.
- Manufacturing (minus Electrolux): 15.
- Transportation and warehousing: 10.
- Professional and technical services: 6.
- Retail trade: 5.
- Administrative and waster service: 5.
- All others: 19.

In all, 210 jobs lost results in a decrease in area employment (or a rise in local area unemployment) of more than 0.2 percent.

In April, new claims for unemployment insurance rose 75 percent in the four-county area, largely fueled by a rise in claims from manufacturing workers. Claims more than doubled in Benton and Stearns counties.

In the worst-case scenario of a closure, the remaining 1,350 employees at Electrolux would become unemployed. The total loss to the St. Cloud economy of this hypothetical scenario is estimated by MEDC to be 2,178 jobs, including 200 in wholesale trade, 100 in the transportation sector and another 100 in the retail and restaurant

sector (combined). To put this in context, it would wipe out the gains made in employment since the bottom of the St. Cloud-area recession in late summer 2003.

The impact on the area economy would be significant. An Electrolux closure would reduce area output by more than \$90 million. Besides jobs, this would likely slow growth of the retail corridor on the west end of St. Cloud and into Waite Park. It would reduce the level of local area government revenues, as tax receipts would be slowed. Finally, home sales would likely slow, perhaps decreasing residential construction and property values.

This scenario is, of course, speculation on our part. And it should be noted that the impact of a shutdown would not be felt all at once. The Fingerhut closure took about 18 months to be fully felt, and certain parts of the economy (such as the housing market) did not seem adversely affected. Nevertheless, as one of us (Banaian) noted in March at the SCSU Center for Economic Education's Economic Outlook, Electrolux is a dark cloud on what would otherwise seem a relatively bright forecast. May's layoff announcements should be viewed as clouds intensifying.