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ST. CLOUD AREA
Quarterly Business Report

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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

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

Area firms remain optimistic despite mounting uncertainty

Despite heightened uncertainty from recent retail store closings, looming national tariff policies and the future closure of Electrolux, area firms continue to report strong optimism about future business activity.

Area firms reported continuing difficulty attracting qualified workers, which appears to be restraining local employment growth. Local employment grew at a tepid 0.4 percent rate over the year ending April 2018 as worker shortages limit firms' growth potential. The manufacturing, education/health, wholesale trade, and transportation/warehousing/utilities sectors led local job growth, while the retail trade, mining/logging/construction, and leisure/hospitality sectors' employment contracted.

A new St. Cloud Index of Leading Economic Indicators is unveiled this quarter (see accompanying chart). The index increased 3.2 percent in April, pointing to continuing local economic growth over the next several months. Surveyed firms indicate strong current employment activity and improving national business conditions. Firms also report an increase in prices received.

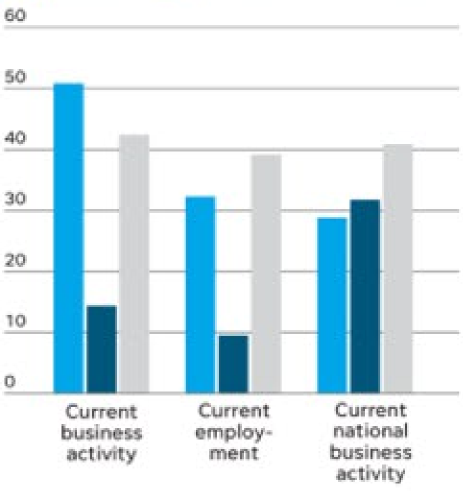
Employees leave Electrolux and cross 33rd Avenue North Monday, June 4, during an afternoon shift change in St. Cloud. JASON WACHTER, JWACHTER@STCLOUDTIMES.COM

KEY TAKEAWAYS

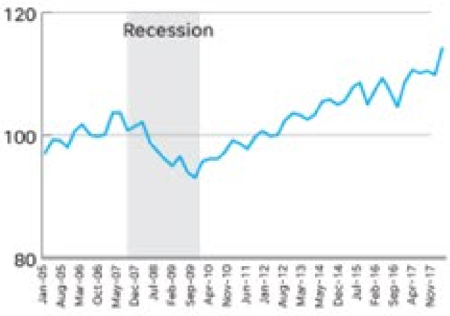
1 Private sector payroll employment in the St. Cloud area rose by 0.2 percent from one year earlier in the 12 months through April 2018. Service providing industries (which account for 80.2 percent of local payrolls) are estimated to have had no employment change over the past year. This is largely attributed to a year-over-year decline in employment in the retail trade and leisure/hospitality sectors of the local economy. Employment in these two sectors contracted by 4.2 percent and 9.5 percent, respectively, over the year ending April 2018. Combined, these two sectors account for nearly 20 percent of local jobs. The unemployment rate in the St. Cloud area in April fell to 3.3 percent from 3.7 percent a year ago. This is the lowest April unemployment rate since 2000. The labor force rose by 3 percent in the St. Cloud area over the past year.

2 Employment in the health and educational sector grew by 3.3 percent over the year ending April 2018. As has been noted in previous reports, this sector now accounts for 20.5 percent of area employment (versus 13.9 percent in April 2000). Annual local job growth in the wholesale trade sector was 3 percent and manufacturing employment is estimated to have increased by 3.8 percent over the last twelve months (we note the irony that Electrolux has been hiring workers in recent weeks in an effort to reach increased production goals). Job growth in the transportation/warehousing/utilities sector was 4.2 percent and government sector employment rose by 1.9 percent over the past year. Sectors experiencing job gains represented nearly 69 percent of area employment over the past year. In addition to the loss of jobs in the retail trade and leisure/hospitality sectors that are referenced above, the mining/logging/construction sector (most of this sector is construction locally) shed 1.7 percent of its jobs over the past year. This had recently been one of the fastest growing local sectors, so we will keep an eye on these numbers in the coming months.

Key results of survey



NEW ST. CLOUD AREA INDEX OF LEADING ECONOMIC INDICATORS (2012-13 = 100)



3 The new St. Cloud Index of Leading Economic Indicators rose 3.2 percent in April and the St. Cloud 13 Stock Price Index fell 6.2 percent over the three months ending April 30, 2018. Over this same period, the S & P 500 fell 1.9 percent.

4 The future outlook of those area businesses responding to the St. Cloud Area Business Outlook Survey is solid. Fifty-one percent of surveyed firms expect an increase in business activity over the next six months, while only 12 percent expect decreased activity. Forty-one percent of surveyed firms expect to expand payrolls by November and 56 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, national business activity, prices received and worker shortage indexes. Forty-two percent of surveyed firms expect increased difficulty attracting qualified workers by November.

5 Forty-one percent of surveyed firms expect to be either directly or indirectly unfavorably impacted by the imposition of tariffs by the Trump administration. Another 41 percent expect "no effect" of the tariffs and only 9 percent of firms think this will favorably impact them. In a second special question, 70 percent of surveyed firms expect "neither net gain nor loss" from an expansion of the Northstar Corridor Commuter Rail service from Big Lake to St. Cloud. Seventeen percent of firms expect to receive a net gain from the expansion of this service, while seven percent would expect a net loss. In this quarter's final special question, we asked area firms to express their concerns about the recent wave of store closings to hit the St. Cloud area. Forty-five percent of firms express a small concern and 36 percent have a medium concern. This is a large concern for 14 percent of surveyed companies.

Regional centers and retail trade

Crossroads Center, once built as the third largest enclosed mall in the state, has long been an emblem of the significant retail sector of the St. Cloud economy. Meanwhile Herberger's has been an anchor of downtown St. Cloud, though its local ownership left the area years ago. The closing of Sears at the mall and the bankruptcy and liquidation of Herberger's parent company has led some in the area to join the national chorus bemoaning the death of retail.

The list of retail store closings just in the last three years with a presence in St. Cloud would include (in roughly chronological order): Radio Shack; Hancock Fabrics; Aeropostale; The Limited; Gander Mountain; Toys "R" Us; BonTon; Claire's. Not every store that has closed has been due to bankruptcy — while Sears has closed both the mall store and its Kmart subsidiary store in the area, the firm is still functioning.

The number of workers in retail, though, has been in decline for a long time. As shown in the graph on Page 6, the number of workers employed in the retail sector peaked in the late 1990s,

See RETAIL, Page 6I

Survey Results for Standard Questions

Current employment

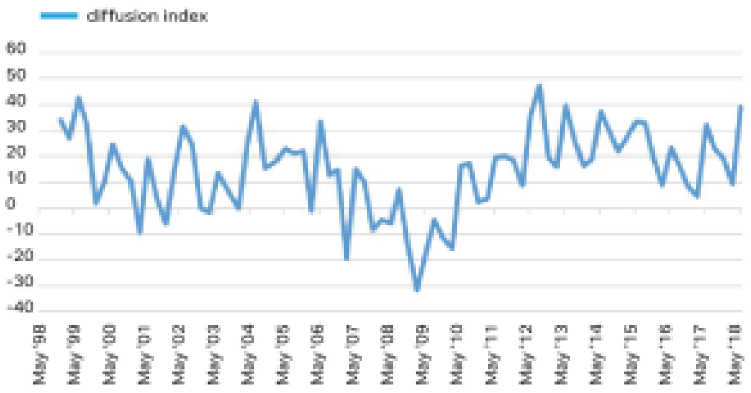


Table 1: Current business conditions

St. Cloud Area Business Outlook Survey summary, May 2018

What is your evaluation of:	May 2018 vs. three months ago: Percentage decrease	No change	Percentage increase	Diffusion index[3]	Feb. 2018 diffusion index[3]	May 2017 diffusion index[3]
Level of business activity for your company	8.5	40.7	50.8	42.3	14.3	50.8
Number of employees on your company's payroll	8.5	44.1	47.5	39.0	9.5	32.2
Length of the workweek for your employees	1.7	74.6	23.7	22	-7.9	25.4
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.4	66.1	30.5	27.1	19.1	23.7
Employee compensation (wages and benefits) by your company	0	40.7	59.3	59.3	60.3	59.3
Prices received for your company's products	6.8	55.9	35.6	28.8	28.6	23.7
National business activity	0	47.5	40.7	40.7	31.7	28.8
Your company's difficulty attracting qualified workers	6.8	47.5	45.8	39.0	44.7	28.8

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, May 2018

What is your evaluation of:	Six months from now vs. May 2018: Percentage decrease	No change	Percentage increase	Diffusion index[3]	Feb. 2018 diffusion index[3]	May 2017 diffusion index[3]
Level of business activity for your company	11.9	32.2	50.8	38.9	58.7	45.7
Number of employees on your company's payroll	11.9	45.8	40.7	28.8	50.8	23.7
Length of the workweek for your employees	11.9	66.1	20.3	8.4	22.2	11.8
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.4	61.0	32.2	28.6	39.7	18.6
Employee compensation (wages and benefits) by your company	0	42.4	55.9	55.9	58.7	45.8
Prices received for your company's products	1.7	57.6	35.6	33.9	38.1	23.7
National business activity	1.7	45.8	37.3	35.6	36.5	28.8
Your company's difficulty attracting qualified workers	3.4	50.8	42.2	39.0	49.2	39.0

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

Current activity

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 59 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.

Many of the current activity indexes found in Table 1 are stronger than was reported last quarter (which is a normal seasonal effect), and, in most cases, the diffusion index numbers from this table are also 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 employment, capital expenditures, prices received, national business activity and difficulty attracting qualified workers all compare favorably to one year ago. The readings on current length of workweek and overall business activity are lower than one year ago and the index on employee compensation is unchanged from May 2017.

Note that those survey components whose index is lower than one year ago are still at very healthy levels. The local economy continues to turn in a strong performance. The accompanying chart helps illustrate this point. The current employment index is at a 5-year high.

While the diffusion index on current business activity is lower than one year ago, it should be noted that 51 percent of surveyed firms reported improved conditions in May and only 8.5 percent (representing 5 firms) experienced decreased activity. Likewise, only one firm (1.7 percent) had a shorter workweek in May and 23.7 percent had increased average hours worked. Capital expenditures (which were surprisingly weak last quarter) rebounded in May as 30.5 percent of firms report increased spending on structures, equipment, and machinery. The diffusion index on current prices received remains elevated. The current quarter reading on this item (see chart) is the second highest recorded value since mid-2005. Labor costs remain high. Nearly sixty percent of surveyed firms report higher employee compensation and no firms paid lower wages, salaries, and benefits.

As shown in the third chart, the diffusion index on national business activity obtained an historically high level this quarter. At a value of 40.7, this index has only been higher one other time (in May 2014). Finally, the diffusion index on current worker shortages remains elevated. While the index pulled back a little from the values observed over the past three quarters, it is clear that area firms are continuing to have considerable difficulty finding workers. As we have noted in recent reports, the last time we saw these kinds of local worker shortages was in 2000. Economic theory would suggest a loosening of local labor markets as the impact of closures/layoffs at Herberger's, Sears, Capital One, Brothers and DB Searles are felt and as the future mass layoff at Electrolux approaches. But, so far there is little evidence that these events are impacting local labor shortages.

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

▮ Democrats and Republicans PAC funds, special interests.

▮ Government regulation is out of control and too many people without skin in the game trying to tell companies how they should be run.

▮ The delay of the arrival of spring has impacted construction with delays. We expect it to be a busy year but it will be compacted into a smaller time frame.

▮ Increases in real estate taxes is a real problem and the school referendums seem to never end. The new Tech HS is going to cost me about $5,000 a year. They market the concept on an average cost per homeowner but ignore the business impact. For me it's taxation without representation as I live outside the area.

▮ Increased fees in all aspects of government. They say we will get a reduction in taxes which may happen, but then all fees go up more than the tax breaks. Need to streamline the system that gives people free benefits that actually don't need them or are abusing the system. I believe there are more non-working people than working people now. How is that sustainable?

▮ General increase in economic activity has been positive for us as our customers carry manufactured goods.

▮ As usual, the uneven playing field of medical insurance premiums.

▮ The conversion of paper documents to an electronic delivery option is having a significant negative impact.

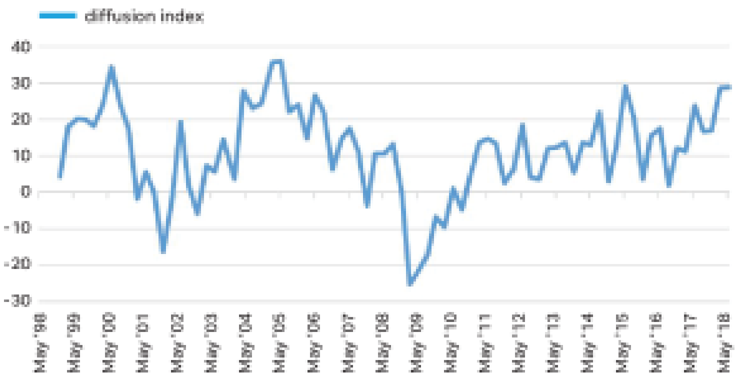
▮ Negative news is not helpful in any economy. A balance with positive initiatives, growth and results makes a difference with my clients and my business.

▮ Seasonal slowdown for us right now. Fall and winter holidays (are our) biggest times.

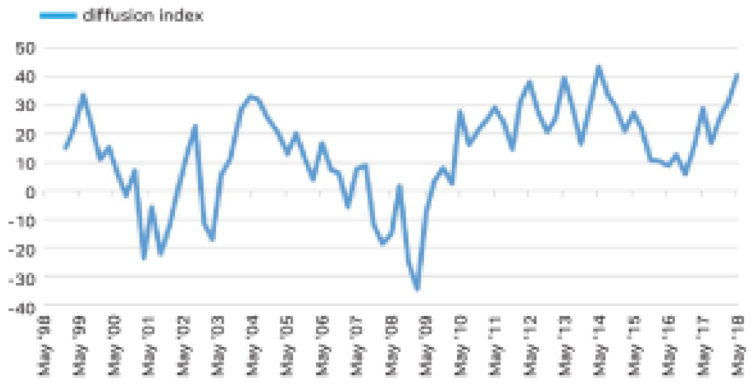
▮ A 40 percent shortage of (specialized workers in my field) is becoming a reality nationwide as the number of retiring (specialists) increases.

▮ Cuts to Medicare and Medicaid; yet still pushing people out of hospitals.

Current prices received



Current national business activity



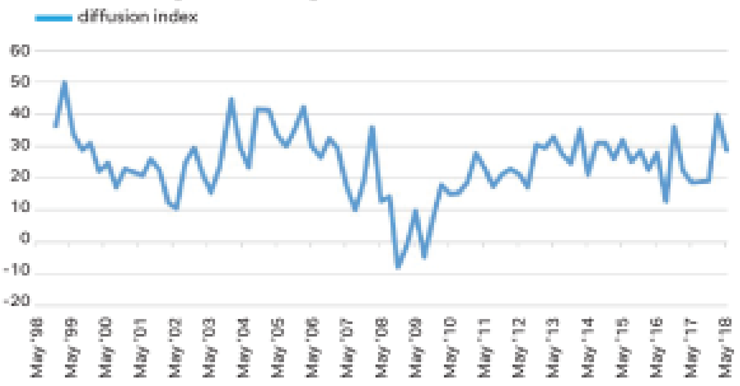
Future outlook

Table 2 reports the future outlook of area businesses. While all of the reported diffusion indexes are lower than last quarter, this is a normal seasonal effect. A more relevant comparison is to one year ago, and most of this quarter's index values are improved from May 2017. While the six-month ahead overall business activity index is lower than was recorded one year ago, there are still 50.8 percent of firms anticipating increased activity by November (and only 11.9 percent expecting decreased activity). The future employment index remains elevated, as 40.7 percent of surveyed firms expect to add to payrolls by November.

While this quarter's future capital expenditures index is lower than that which was observed last quarter (at which time the future capital expenditures index reached a twelve-year high), this quarter's reading is still above where it was one year ago (see accompanying chart). Despite rising future interest rates, nearly one-third of surveyed firms expect to increase capital expenditures over the next six months. Perhaps some of this planned capital expenditure is to substitute for more costly (and less plentiful) labor. Fifty-six percent of firms expect higher future labor costs (no firms expect these costs to fall). In addition, worker shortages are expected to persist over the next six months. The future difficulty attracting qualified workers index is the second highest recorded since the late 1990s (see chart).

Thirty-six percent of surveyed firms expect to increase prices by November (only one firm expects lower future prices). Likewise, 37 percent of firms expect improved national business activity over the next six months (with one firm anticipating weaker future national conditions). Despite the increasing likelihood that a global trade war could be touched off by the tit-for-tat trade posturing that is currently being practiced by the U.S. and its trading partners, area firms seem to be surprisingly optimistic about future national business conditions.

Future capital expenditures



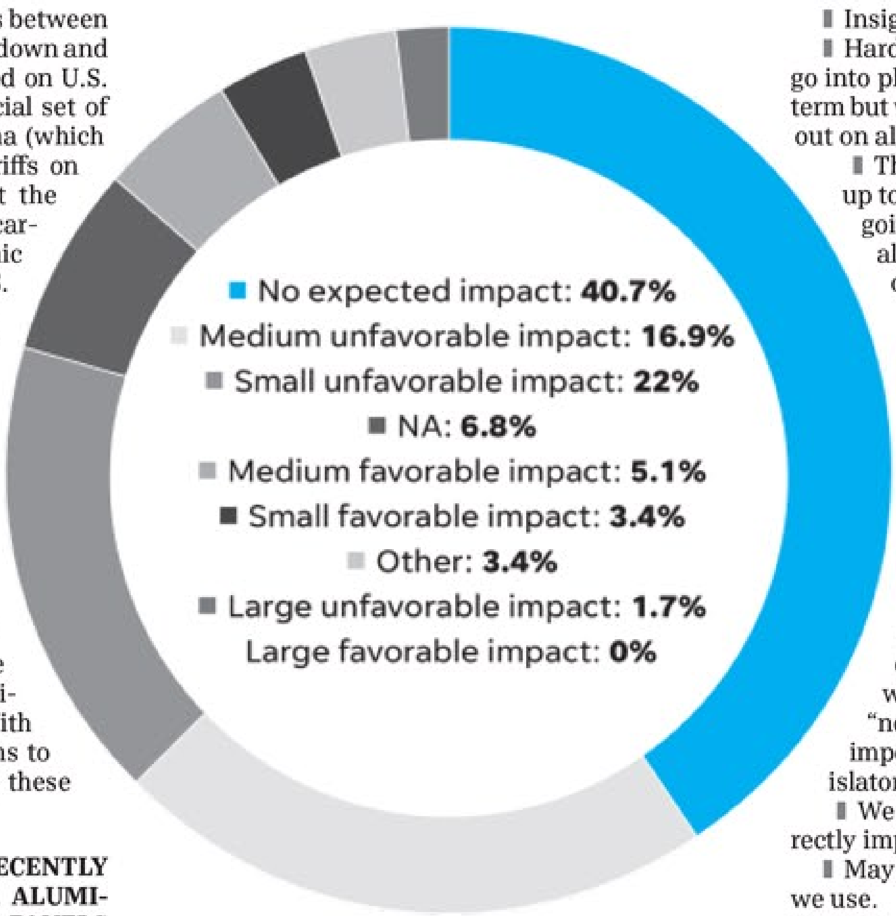
Future difficulty attracting qualified workers

While this quarter's future capital expenditures index is lower than that which was observed last quarter (at which time the future capital expenditures index reached a twelve-year high), this quarter's reading is still above where it was one year ago.

Special Questions

SPECIAL QUESTION 1: THE IMPACT OF TARIFFS ON LOCAL COMPANIES

As we were writing this report, trade talks between the U.S. and its trading partners had broken down and steel and aluminum tariffs were being levied on U.S. trade partners around the globe and a special set of directed tariffs were being imposed on China (which had identified $50 billion of retaliatory tariffs on U.S. goods). Most economists believe that the willingness of the Trump administration to carry out its trade threats imperils the economic progress that has been enjoyed in the U.S. (and around the globe) in recent years. By driving up input prices, reducing global demand for goods against which retaliatory tariffs and other trade restrictions have been imposed, triggering inflationary concerns, creating inefficiencies in the allocation of resources, etc., a global trade war will likely lower U.S. (and world) growth, disrupt global supply chains, and increase the probability of recession. Given the effect these trade restrictions can have on a broad range of prices and resource allocations, there are very few participants in the world economy who will not at least be indirectly impacted by a global trade war. With these concerns in mind, we asked area firms to consider how they might be impacted by these trade policies. We asked:



THE TRUMP ADMINISTRATION HAS RECENTLY LEVIED TARIFFS ON IMPORTED STEEL, ALUMINUM, WASHING MACHINES, AND SOLAR PANELS AND HAS PROPOSED TARIFFS ON A LARGE RANGE OF CHINESE GOODS. CONSIDERING BOTH THE DIRECT AND INDIRECT IMPACT OF THESE TRADE RESTRICTIONS (INCLUDING THE ACTUAL AND POTENTIAL IMPLEMENTATION OF RETALIATORY TARIFFS BY U.S. TRADE PARTNERS), HOW DO YOU EXPECT YOUR COMPANY TO BE IMPACTED BY THESE TRADE POLICIES?

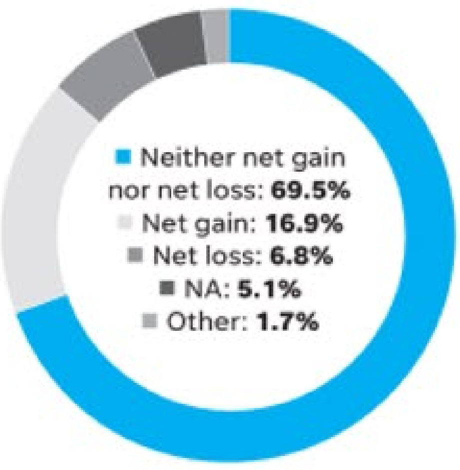
Nearly 41 percent of participants of surveyed firms indicate the trade restrictions will have "no expected impact," while 5.1 percent of firms (this represents 3 firms) expect a "medium favorable impact" and another 3.4 percent think this will have a "small favorable impact." Nearly 41 percent of surveyed firms expect to be harmed in some way by these trade policies. Twenty-two percent of respondents think this will have a "small unfavorable impact" and another 16.9 percent think this will cause a "medium unfavorable impact." One firm thinks the unfavorable impact will be large. Firms' written responses to this question are as follows:

- Other...Unknown at this time.
- Other...Huge impact. Don't know if good or bad.
- Depends if you are buying or selling. It sure will cause business to handle more money. Watch for inflation.
- We want American Steel for our projects.
- I don't know how this will impact my business yet but I do feel that the business climate is definitely going in the right direction.
- Most of our international trade partners are European and Japanese. Not expected to have much impact.
- We have already seen the cost of goods increase. The feeling in our industry is that companies are being opportunistic. Even though costs have not actually risen yet, they have imposed price increases.
- We ship thousands of packages to a multitude of foreign countries daily. At this time, we haven't seen a negative impact on the shipments, but depending on the reactions from around the world, it could have a significant impact on our shipments.
- Insignificant impact to our business segment.
- Hard to say what will happen if the tariffs actually go into place. I believe it will have some impact short term but will all settle down once everything is worked out on all sides.
- The costs of steel and aluminum have risen by up to 30% with the "proposed" tariffs. We are not going to be able to pass all of these increases along in our pricing so it will have some effect on our profits.
- The industries we deal with who are affected by this are very strong and we expect to stay strong.
- Nobody talks about the tariffs on American products that ship into China.
- Our company is primarily a technology and paper distribution company, so minimal impact.
- It's about time! Hopefully these tariffs will spread into other goods where the playing field is not level. We have to pay tariffs, fees and taxes which exceed 50% to sell our finished products into China and India while the reciprocal arrangement they have "negotiated" is less than 10% - this is a joke. The importers have controlled our lobbyists and legislators too long.
- We supply services to local companies, not directly impacted.
- May increase the cost of materials and products we use.
- The tariffs resulted in immediate increases in the raw materials we use for the manufacturing of our equipment. This will impact profits and raise our prices to our customers and potentially decrease orders due to high cost of acquisition. In addition the tariffs will restrict supply and lead to added price increases and challenges with availability of materials. The US is not capable of supplying all of the needs of industry and imports are a very large part of the mix.
- (Materials) pricing impact.
- We expect significant increases in construction costs.
- A lot of imported products sold.
- (No expected impact) at this time in the short run. A long drawn out tariff war would become a problem in the long run.
- We use steel bonding to package our products, which is increasing in cost. All of the components of our manufacturing equipment are made of steel, so any expenditures have increased in cost.
- We expect some negative impact on the ag-economy which may indirectly hurt us as we are, primarily, an ag (service provider).

SPECIAL QUESTION 2: HOW AN EXPANSION OF NORTHSTAR COMMUTER RAIL SERVICE TO ST. CLOUD WOULD AFFECT LOCAL COMPANIES

During the recent Minnesota legislative session, St. Cloud area Representative Jim Knoblach and Senator Jerry Relph once again proposed a bill that would extend Northstar Corridor Commuter Rail service to St. Cloud. Over the years, Rep. Knoblach has been persistent in his efforts to affordably bring the commuter rail service to his hometown. His bill, which once again did not get signed into law, would have directed the Minnesota Department of Transportation to enter into negotiations with BNSF officials to extend the rail line to St. Cloud. The Northstar commuter rail service has now been operating between Big Lake and Minneapolis since 2009. It has never been linked by rail to St. Cloud (the initial proposal was for the service to go all the way to Rice), but bus service is offered that connects St. Cloud to Big Lake. Had Rep. Knoblach's bill become law, the St. Cloud area would have had a rail service that would have expanded transportation options for area commuters. This will now have to wait at least one more year.

This issue has been around for many years. In the April 2007 St. Cloud Area Quarterly Business Report (at a time when the Northstar line was being built), we asked area business leaders how they thought their company would be impacted by an extension of Northstar to St. Cloud (and Rice). At that time, 69 percent of firms believed their company would not be impacted, but 22.7 percent thought they would experience a net gain by the addition of the service. No firms thought they would experience a net loss from the expanded service. With this in mind, and since the expansion of the Northstar service was once again in the news during this legislative session, we decided to once again ask the following question:



DO YOU THINK YOUR COMPANY WOULD EXPERIENCE A NET GAIN, NET LOSS, OR NEITHER, FROM AN EXPANSION OF THE NORTHSTAR COMMUTER RAIL SERVICE TO ST. CLOUD?

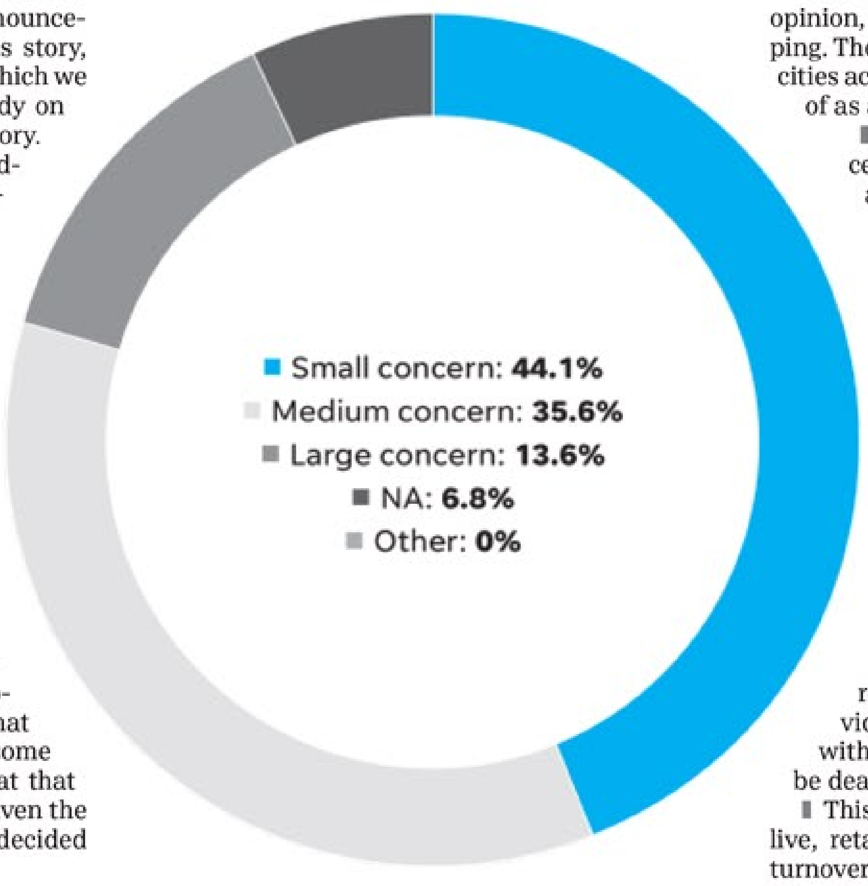
Once again, a majority of surveyed firms (69.5 percent) responded "neither net gain nor net loss." Seventeen percent of survey respondents indicated this would be a "net gain" and 7 percent indicated it would be a "net loss." The responses are very similar to what we found in 2007, but it looks like there are now fewer firms who see the advantages of the Northstar extension and a few firms that think they would experience a net loss. Comments to this special question include:

- I don't believe it will have any effect on us.
- Could potentially be a commuting option for employees which could open up job markets for us.
- We are very regionalized and bringing additional people from outside the area will not benefit our company.
- 70% of our business and 95% of our sales growth is outside of Minnesota.
- It would be a convenience but not helpful for our type of business at this time. Hope it happens.
- We sell tires — more trains is not a good thing for us!
- Based on our location, the Northstar link is not convenient for employees or customers. We are on I-94.
- Doesn't impact our company.
- Expansion of the Northstar Rail service increases our pool of potential employees, increases opportunities for trailing spouses and makes STC a better place to live, which helps in recruiting and retention of talent in our local area.
- More people available for positions in our community perhaps.
- I have not been convinced of benefit vs. cost.
- I don't know of any employees that use the train for commuting to St. Cloud or travel to the (Twin Cities). We are on the west side of town and access from the east side to work would be challenging.

Special Questions

SPECIAL QUESTION 3: CONCERN ABOUT THE RECENT WAVE OF STORE CLOSINGS

We are sure readers will agree that the biggest local business news story this year has been the announcement of the future closing of Electrolux. This story, which we covered in the March QBR (and for which we released an emergency economic impact study on March 22, see http://repository.stcloudstate.edu/sopari_ses/2/), has overshadowed some other announcements that have altered the retail and hospitality landscape in the St. Cloud area. In recent months, several local establishments have announced their closing. Included on this list is Herberger's, Sears, DB Searles, and Brothers. We note there was a similar wave of retail closings during the winter season in 2014-15 (among these store closings were Big Lots, Toys "R" Us, and several stores in Crossroads Center). At that time, we were not particularly concerned about the store closings, since we saw it as a natural outcome of a dynamic modern market economy. The way customers now engage in the retail experience has fundamentally changed and this affects legacy establishments that have historically relied on brick and mortar operations. In the March 2015 QBR, we noted that about 2/3 of surveyed businesses expressed some degree of concerns about the store closings at that time. Given the recent store closings — and given the potential impact on downtown St. Cloud — we decided to ask this question again. We asked:



TO WHAT EXTENT IS YOUR FIRM CONCERNED ABOUT THE RECENT WAVE OF STORE CLOSINGS (HERBERGER'S, DB SEARLES, BROTHERS, SEARS, ETC.) IN THE ST. CLOUD AREA?

The way customers now engage in the retail experience has fundamentally changed and this affects legacy establishments that have historically relied on brick and mortar operations.

Forty-four percent of respondents expressed a "small concern" for these store closings and another 36 percent indicated "medium concern." Fourteen percent of respondents have a "large concern" about the closings. Written comments include:

- Retail is having some issues, will miss them when going shopping, but only went one or two times a year anyway. We still have enough bars to service us so they won't be missed.
- I can't speak for the eating establishments which may have been due to bad management. The retail stores however will be the norm in the next decade as the online retail business forces the brick and mortar stores to close because of lack of business. Lack of employment and loss of property tax revenue will be a huge concern.
- Downtown St. Cloud is becoming an inner city ghetto.
- This will impact the city and surrounding communities who come to shop in St. Cloud. It is also a loss of jobs for our St. Cloud residents.
- It is always tough to see businesses close and it sends a negative message about the area.
- This has been coming for a long time and in my opinion, will continue happening with online shopping. The only equalizing factor is it is happening in all cities across the nation, so St. Cloud won't be thought of as a poor location to live in.
- Zero impact on a business level — more concerned from a personal lifestyle perspective. I am part of the problem as I shop almost 100% online.
- Some leave and some will fill the spots. It's bad for some but opportunity for others. All a balance.
- None of these closings are a surprise. People choosing to use Amazon for many of their purchases are killing the big box retailers. As for companies like Brothers and DB Searles, this is just the beginning as people are demanding a starting wage of up to $15 per hour — we will see more of these happening as the economics simply do not work.
- A number of the store closings are businesses that have been struggling for some period of time and the closure is more related to the level of product and service provided (or lack of). Retail stores are competing with online options, which is something having to be dealt with nationally, not just in St. Cloud
- This is normal change regardless of where you live, retail is shrinking and restaurants have larger turnover than other businesses. The question is what will replace them. This may be a net gain over time.
- Layoffs and closures are not positive for a community although it adds to employees available, it can be tough helping them find a new, better position.
- Economy changing and businesses impacted by higher costs and lack of pricing power.
- The closings are not healthy for the community and there are fewer options for consumers.
- Most (of these firms were customers) of ours.
- ......retail — more and more people purchasing online. Need to pay for bricks and mortar.
- Some of this is a correction in the market. Some is by choice.
- Concerned on the impact of the downtown area.
- Concerned about decreased competition.
- I think the economy is changing rapidly. These closings are natural in light of e-commerce and decision making preferences.
- Retail is changing. There will be fewer, stronger stores — both brick and mortar and online.
- Always hate to see businesses close!
- We do not do any business with any large, national retailers so these closures have had no direct impact.

What the Results Mean

Table 3: Employment Trends

	ST. CLOUD		MINNESOTA		TWIN CITIES	
	2003-'18 long term	Apr. '17-Apr. '18 growth rate	2003-'18 long term	Apr. '17-Apr. '18 growth rate	2003-'18 long term	Apr. '17-Apr. '18 growth rate
Total non-agricultural	1.0%	0.4%	0.7%	0.4%	0.8%	0.7%
Total private	1.0%	0.2%	0.8%	0.2%	0.9%	0.4%
GOODS PRODUCING	0.2%	2.2%	-0.4%	0.7%	-0.4%	0.2%
Mining/logging/construction	2.0%	-1.7%	-0.1%	-1.4%	-0.4%	-3.2%
Manufacturing	-0.4%	3.8%	-0.5%	1.5%	-0.3%	1.5%
SERVICE PROVIDING	1.2%	0.0%	0.9%	0.4%	1.0%	0.8%
Trade/trans/utilities	0.6%	-1.2%	0.2%	0.2%	0.3%	0.8%
Wholesale trade	1.4%	3.0%	0.3%	1.1%	0.3%	1.7%
Retail trade	0.0%	-4.2%	-0.1%	-0.6%	0.1%	0.2%
Trans/ware/utilities	1.9%	4.2%	1.0%	1.4%	0.7%	1.0%
Information	-2.6%	-3.7%	-1.6%	-1.6%	-1.6%	-2.0%
Financial activities	1.6%	-1.1%	0.4%	0.5%	0.4%	1.3%
Professional and business services	1.5%	1.7%	1.5%	-0.4%	1.5%	-1.1%
Education and health	3.0%	3.3%	2.5%	1.1%	3.0%	1.7%
Leisure and hospitality	0.1%	-9.5%	1.0%	-1.3%	1.4%	0.0%
Other services (excluding gov't.)	0.1%	2.4%	-0.1%	-0.3%	0.5%	1.6%
Government	0.7%	1.9%	0.2%	1.5%	0.1%	2.4%
Federal	3.2%	3.6%	-0.4%	-0.1%	-0.4%	-0.1%
State	0.5%	1.8%	0.9%	3.3%	-0.1%	4.5%
Local	0.2%	1.5%	0.0%	1.0%	0.2%	1.9%

Table 4: Other Economic Indicators

	2018	2017	Percentage change
St. Cloud MSA Labor Force April (MN Workforce Center)	114, 483	111,110	3.0%
St. Cloud MSA Civilian Employment # April (MN Workforce Center)	110,686	106,946	3.5%
St. Cloud MSA Unemployment Rate* April (MN Workforce Center)	3.3%	3.7%	NA
Minnesota Unemployment Rate* April (MN Workforce Center)	3.1%	3.4%	NA
Mpls-St. Paul Unemployment Rate* April (MN Workforce Center)	2.7%	3.3%	NA
St. Cloud Area New Unemployment Insurance Claims February-April Average (MN Workforce Center)	552.7	607	-9.0%
St. Cloud Times Help Wanted Ad Linage* February-April Average	2,412	2,279	5.8%
St. Cloud City Residential Building Permit Valuation in thousands, Feb.-April Average (City of St. Cloud)	1,699.5	1,980.2	-14.2%
New St. Cloud Index of Leading Economic Indicators April (SCSU) 2012-13 = 100	114.2	110.6	3.2%

Employment growth constrained, but positive signs remain

Table 3 shows that employment in the St. Cloud area rose 0.4 percent in the year to April 2018, equal to employment growth for the state as a whole. Minneapolis-St. Paul employment rose 0.7 percent over the same period. These slower rates are explained in part by the late spring (which slowed construction employment), but also by retail trade employment, which declined 4.2 percent in the St. Cloud area, with a much smaller decline elsewhere in the state. Retail employment actually rose slightly in Minneapolis-St. Paul. Leisure and hospitality employment fell 9.5 percent in the year to April 2018 in St. Cloud as recent restaurant closures such as Brothers and D.B. Searles appear in the data.

On the positive side, manufacturing employment rose 3.8 percent year-over-year despite the announcement early this year of Electrolux closing in 2019. Transportation, warehousing and utilities employment rose 4.2 percent and wholesale trade rose 3 percent. Altogether these sectors indicate strong growth in goods production (outside of construction) and related industries. The education and health sector continued the strong growth that has made it the backbone of the St. Cloud economy, growing 3.3 percent over the last 12 months.

> **Manufacturing employment rose 3.8 percent year-over-year despite the announcement early this year of Electrolux closing in 2019.**

These observations are confirmed by the data in Table 4. Area household employment grew a strong 3.5 percent in the last 12 months. These are residents of the St. Cloud area who may be working outside of the region. The labor force grew 3 percent, which is welcome news to a business community that is struggling to find qualified workers. While the unemployment rate in the St. Cloud region is higher than is observed for the state and the Twin Cities, new entrants and re-entrants into the labor force are allowing the area to grow its labor market.

Initial claims for unemployment insurance continue to fall, indicating businesses are keeping their workers in place. Help-wanted advertising grew 5.8 percent. The only negative in Table 4, the valuation of building permits pulled for new residential construction in St. Cloud, can be explained by the poor weather of March and April.

We have had several elements of our leading economic indicator series that have changed over the years. Recent changes to both the help wanted advertising data and in measuring hours worked in manufacturing complicated the most recent changes we made in 2009. At the same time, developments in economic analysis have allowed us to consider the inclusion of parts of the St. Cloud Area Business Outlook Survey along with our monthly indicators. This gives us a richer data set to use than we have had in the past.

Thanks to SCSU School of Public Affairs Research Institute graduate assistant Natalie Hughes, who has overseen a major overhaul of the St. Cloud Index of Leading Economic Indicators (LEI), we are now able to release a new LEI model. The monthly contributors to our model are: initial claims for unemployment insurance, new business incorporations, professional and business services employment and monthly returns on the St. Cloud 13 Stock Price Index. The quarterly contributors from the survey are the diffusion indices for: future expected capital expenditures; future expected diffi-

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What the Results Mean

Retail

Continued from Page 1I

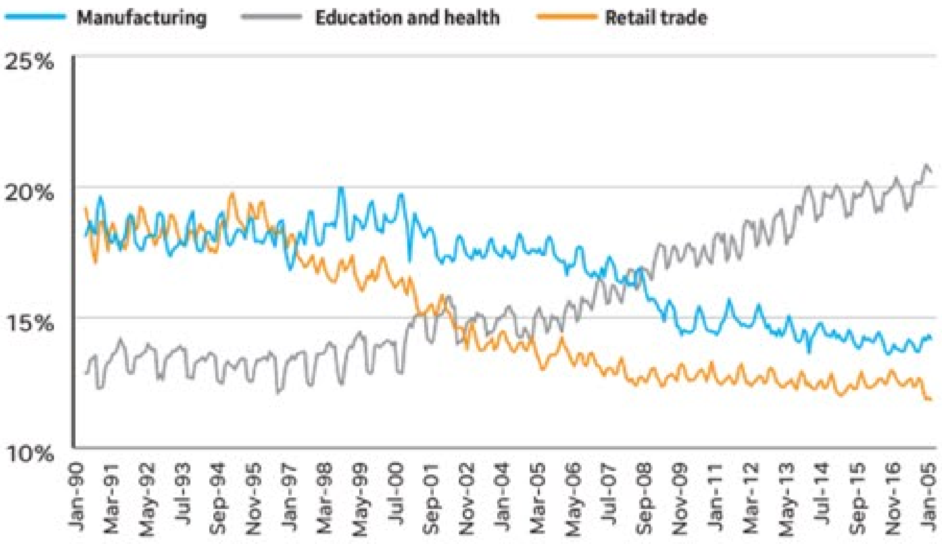
peaking in the holiday season at the end of 1999 with 16,755 workers in the sector, 3,655 more than working today. Nationwide, the brick-and-mortar retail share of total employment peaked in the late 1980s, so St. Cloud was perhaps a bit late to the trend but cannot fight it completely.

Considered relative to the size of the St. Cloud labor market and trends in the manufacturing sector, the retail shift has been happening for 20 years and is more than the storied decline of manufacturing. On the next graph you see the share of workers in each of three sectors — retail trade, manufacturing, and health and education. One takeaway from the graph is common: The health and education sector is gaining labor market share relative to the other two. The uncommon story is that the share of workers in retail has fallen more than in manufacturing. And that decline happens before the explosion of e-commerce.

A recent study by Moody's Analytics contends over half the variation in retail

Share of St. Cloud MSA employment by sector

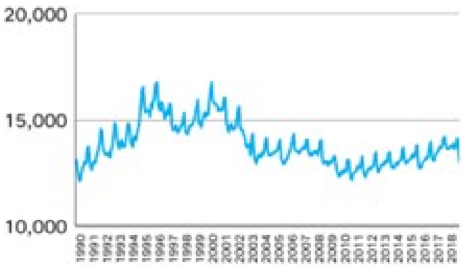
(1990-2000, Source: Minnesota DEED)



employment is explained by population growth. Population in the St. Cloud MSA rose 15.7 percent since 1999 while employment in retail fell by 21.8 percent. But a regional center like St. Cloud draws many from outside of our Metropolitan Statistical Area (MSA). Taking the larger Central Minnesota Planning Area (which includes 13 counties, basically representing all of the counties along Highway 23 from Willmar to Hinckley), growth of population was a much slower 4.3 percent.

However, there have been offsets. While the department store may be declining, both small specialty stores and

Retail trade employment, St. Cloud MSA (1990-2018)



online retailers need warehousing. The number of workers in the warehouse and transportation sector in St. Cloud rose 77 percent between 1990 and today. And department stores are replaced by superstores and warehouse clubs, such as the new Costco coming to St. Cloud. Over half of convenience store chains added stores last year, as noticed locally with the proliferation of Kwik Trip along with the presence of Dollar General, Dollar Tree, ALDI and Five Below.

In short, retail is moving to low-price outlets. Perhaps the death of retail at the hands of online is a premature prognosis and instead reflects a slower-growing population that wants less general department stores and more bargains.

Employment

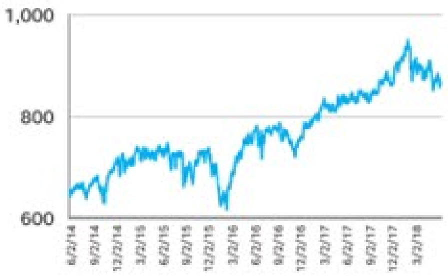
Continued from Page 5I

culty attracting qualified workers; future expected employee compensation; current business activity; current employee compensation; current capital expenditures; current national business activity; and current prices received. The new leading economic indicators index is seasonally adjusted to show the overall trend of employment for the region. The new LEI shows a strong gain of 3.2 percent expected in area employment over the next six months.

The St. Cloud 13 Stock Price Index fell 6.2 percent over the three months ending April 30, 2018. The S&P 500 index fell 1.9 percent over the same period.

ST. CLOUD 13 STOCK PRICE INDEX

(NOVEMBER 1994 = 100)



Five stocks rose, and 8 stocks fell. The largest loser was Electrolux's U.S. tracking stock, which fell 25.1 percent, while MDU Resources Group was the largest gainer, adding 7.5 percent.

We would be highly surprised, therefore, if there was any slowdown of economic growth in St. Cloud in the second half of 2018. Business optimism remains strong, area labor markets are growing for St. Cloud area residents (more than for area businesses) and are expected to continue. Recent news that Minnesota's labor market is now larger than Wisconsin's indicates greater participation of area residents, which is positive for income and household formation. Recent risks in the stock market seem driven by national events, and closure of highly visible, large department stores may be offset with newer, more focused retailers in the future. And recent data on the size of St. Cloud area firms' payroll causes us to wonder if growth will be constrained by a lack of labor (greater participation will only get you so far). You can find a dark cloud if you look hard enough, but we see lots of blue sky around them.

Business optimism remains strong, area labor markets are growing for St. Cloud area residents (more than for area businesses) and are expected to continue. Recent news that Minnesota's labor market is now larger than Wisconsin's indicates greater participation of area residents, which is positive for income and household formation.