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# St. Cloud Area Quarterly Business Report Vol. 21 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.

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#### INSIDE

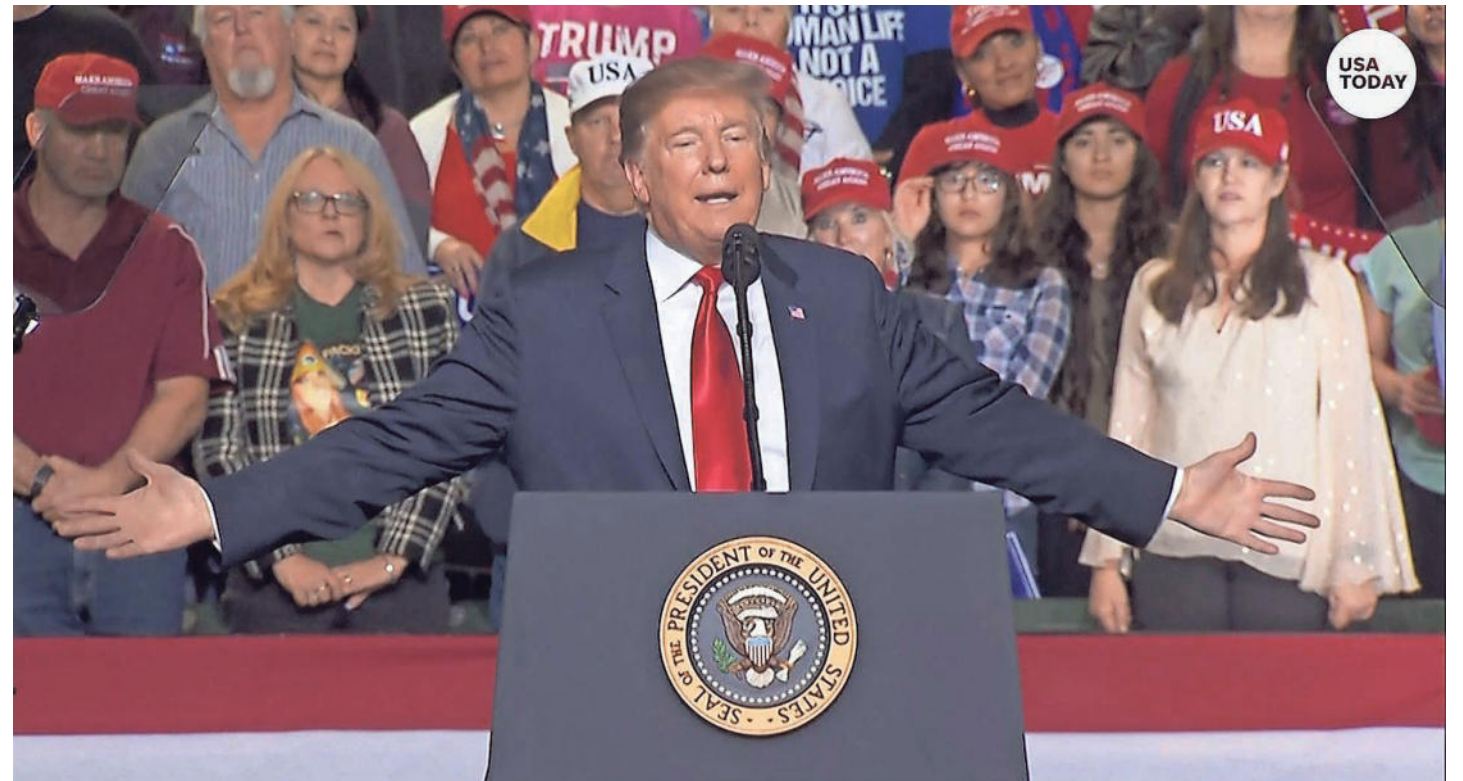
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#### ONLINE

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 <http://repository.stcloudstate.edu/scqbr>



Shutdown deal done, 'in principle' AP

## Steady growth continues; firms report modest fear of local recession in 2020

The St. Cloud area economy continued to create employment over the year ending January 2019 and surveyed firms express little concern that the area economy will enter recession this year.

With year over year job growth of 1.4 percent, St. Cloud was the state's second best performing metropolitan area in creating jobs over the past year, lagging only Rochester. The construction, manufacturing, educational/health, and wholesale trade sectors of the local economy led the way in employment gains, while the retail trade, professional & business services, and leisure/hospitality sectors shed jobs.

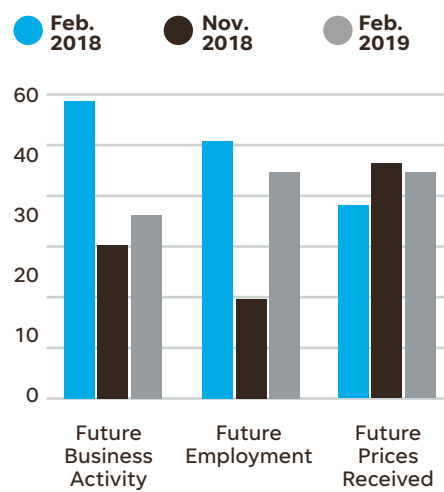
The future outlook of surveyed firms is solid, and the St. Cloud Index of Leading Economic Indicators (though down from a high earlier in 2018) points to continued growth over the next several months.

Despite ongoing concerns about U.S. trade policy, signals from the bond market that raise the fear of potential national recession, and the looming future closure of Electrolux, the local economy appears to be poised to grow through the summer of 2019.

Area firms do appear to be more concerned about the possibility of local recession in 2020. One-third of surveyed firms believe the probability of local recession in 2020 is 50 percent or higher. By comparison, only 13 percent of firms think there is a 50 percent or higher chance of local recession this year.

For the second consecutive quarter, nearly half of surveyed firms expect increased prices received over the next six months. In a special question, few firms report being unfavorably impacted by the 35-day federal government shut-

#### Key results of survey



down that lasted throughout most of January 2019. Fifty-seven percent of firms indicate the shutdown had "no impact" on their company, while 32 percent reported a "small unfavorable impact."

#### KEY TAKEAWAYS

1. Private sector payroll employment in the St. Cloud area rose 1.5 percent from one year earlier in the 12 months through January 2019. The unemployment rate in the St. Cloud area in January rose to 4.8 percent from 4.5 percent one year ago. This uptick in the local unemployment rate could have resulted from temporarily furloughed workers during the recent federal government shutdown. We will be able to confirm this once the February local unemployment rate data are released. Associated with the rise in the local unem-

ployment rate is a 0.9 percent year-over-year reduction in the local labor force. While the decline in the local labor force is unlikely to have resulted from the shutdown, it does have the effect, everything else equal, of increasing the unemployment rate (since the labor force is in the denominator of the unemployment rate calculation).

2. Employment in the manufacturing sector grew by 2.5 percent over the year ending January 2019. This sector accounts for 14.1 percent of jobs in the St. Cloud area. Annual local job growth in the mining/logging/construction (most of these jobs represent the construction industry) sector surged by 19.1 percent and wholesale trade employment rose 2.6 percent. The area educational/health sector created 4.4 percent additional jobs over the year ending January 2019. Sectors experiencing job gains represented approximately 58 percent of area employment over the past year. Local sectors that experienced year over year job losses include retail trade (which shed 4.2 percent of its workers), information, professional/business services, leisure/hospitality, and federal government.

3. The new St. Cloud Index of Leading Economic Indicators rose 1.6 percent in the November-January quarter and is up 2.4 percent from a year ago. The St. Cloud 13 Stock Price Index fell 1.3 percent over the three months ending January 31, 2019, with a strong January trimming a much larger drop at the end of 2018. Over this same period, the S & P

See **GROWTH**, Page 51

## What is a local recession?

Most economics teachers refer to national economies when talking about recession. In our special questions in this issue of the St. Cloud Area Quarterly Business Report, we have asked local businesses to estimate the probability of a "local recession" rather than a "recession." What, one may ask, is the differ-

ence?

The "national economy" consists of many local ones, and these local ones have unique features in terms of labor force skills and industrial concentrations. When some outside shock occurs, some economies will react more sharply than others. During the Great Recession,

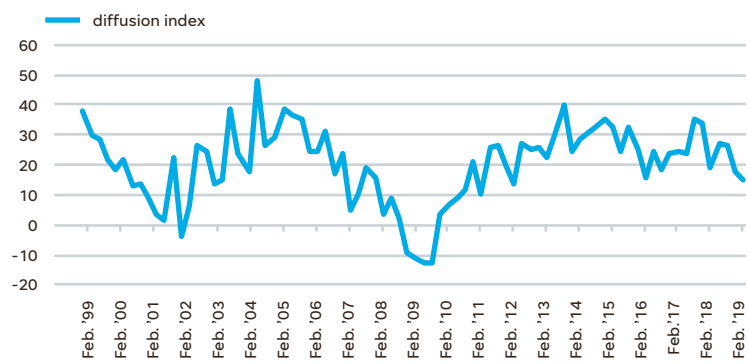
shocks to the housing market struck areas which had large growth in real estate prices – Arizona, California and Nevada, for example – more than those that did not. In addition, places that produced goods that were in greater compe-

See **RECESSION**, Page 61



# SURVEY RESULTS FOR STANDARD QUESTIONS

## Current capital expenditures



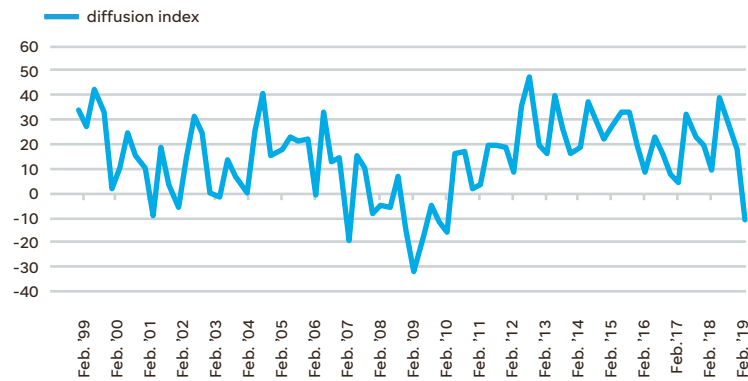
### Current Activity

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 47 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.

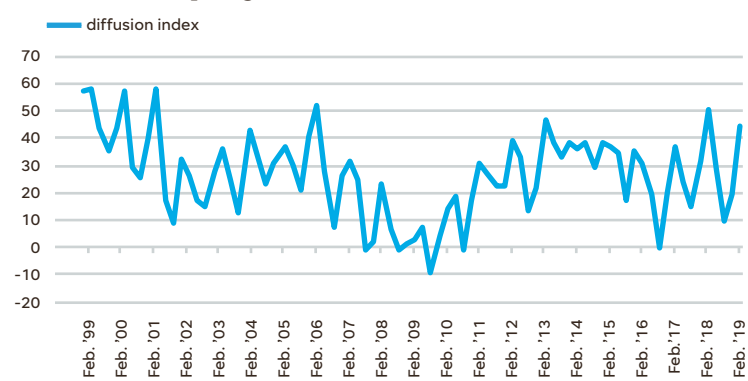
All of the current activity indexes found in Table 1 are weaker than was reported one year ago and most index values are also lower than last quarter (which is a normal seasonal occurrence). A diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter. For any given item, a positive index usually indicates expanding activity, while a negative index implies declining conditions. The index on current business activity is only slightly positive and, as can be seen in the accompanying chart, the current employment index is negative for the first time since February 2010. While employment levels at surveyed firms is expected to pick up over the next several months (see Table 2), it does appear the labor market weakened in February relative to normal conditions. The index value on current length of workweek is the lowest recorded since February 2010.

The diffusion index on employee compensation is the second highest ever recorded in the February survey, as 53 percent of firms report higher wages and benefits over the past three months (and no firms indicate a decrease in employee compensation). The number of firms reporting increased difficulty attracting qualified workers over the past quarter is substantial but declining, and the current reading is the lowest recorded in two years. Overall, the four labor market survey indicators found in Table 1 show a mixed performance of the area's labor market — wages appear to be rising and firms appear to be having less concern meeting their labor demands.

## Current employment



## Future employment



While firm responses in Table 2 indicate an expectation of being paid higher prices in the future, the current prices received index in Table 1 is actually the lowest value recorded since February 2017. The current national business activity index recorded its lowest value in nearly three years this quarter. Finally, the accompanying chart shows the performance of the current capital expenditures index over the past 20 years. Readers will note the cyclical movements of this index, with pronounced declines during the recessionary periods of 2001-2002 as well as 2008-2010. Recessions are characterized by low business investment. While this quarter's current capital expenditures index is still positive, its value is the lowest recorded since February 2012. This index has now declined over the past four quarters and is well below its recent peak of 39.8 in August 2013. We don't think that the pattern of the current capital expenditures index suggests local recessionary conditions will appear any time soon, but the recent trend on this survey item is well worth watching in future quarters.

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

- Interesting times, maintaining a positive focus is needed for increased success in 2019. We have a solid plan, implementing currently.

- For the foreseeable future, it's all about labor, labor, labor... Short of a recession, I don't see what else will re-calibrate the current labor market.

- Weather, labor force, regulations.

- Obamacare.

- Health care is always evolving and payment mechanisms changing. 2020 presidential elections could have significant impact on our business.

- I'm moving into retirement in 2019....

- Farm income (has been suppressed). (It) has been a factor in the past, (but is) no factor over the last three years. They need to fix this. New construction will slow. Materials (prices) have increased 30-50%. Growth will stop.

- Tariffs — China, other countries...lesser exports, cost of merchandise on the increase.

- The tariff stalemate has been an impact on my manu-

## Table 1: Current business conditions

St. Cloud Area Business Outlook Survey summary, February 2019

What is your evaluation of:	February 2019 vs. three months ago				November 2018 diffusion index <sup>3</sup>	February 2018 diffusion index <sup>3</sup>
	Percentage decrease	No change	Percentage increase	Diffusion index <sup>2</sup>		
Level of business activity for your company	34.0	29.8	36.2	2.2	30.3	14.3
Number of employees on your company's payroll	31.9	46.8	21.3	-10.6	17.9	9.5
Length of the workweek for your employees	25.5	63.8	8.5	-17.0	3.5	-7.9
Capital expenditures (equipment, machinery, structures, etc.) by your company	10.6	63.8	25.5	14.9	17.9	19.1
Employee compensation (wages and benefits) by your company	0	46.8	53.2	53.2	35.7	60.3
Prices received for your company's products	6.4	63.8	27.7	21.3	25.0	28.6
National business activity	14.9	51.1	25.5	10.6	28.5	31.7
Your company's difficulty attracting qualified workers	4.3	61.7	31.9	27.6	35.7	44.4

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 2019

What is your evaluation of:	Six months from now vs. February 2019				November 2018 diffusion index <sup>3</sup>	February 2018 diffusion index <sup>3</sup>
	Percentage decrease	No change	Percentage increase	Diffusion index <sup>2</sup>		
Level of business activity for your company	17.0	23.4	53.2	36.2	30.3	58.7
Number of employees on your company's payroll	2.1	42.6	46.8	44.7	19.6	50.8
Length of the workweek for your employees	10.6	55.3	27.7	17.1	-7.2	22.2
Capital expenditures (equipment, machinery, structures, etc.) by your company	6.4	55.3	31.9	25.5	28.5	39.7
Employee compensation (wages and benefits) by your company	0	36.2	57.4	57.4	53.6	58.7
Prices received for your company's products	4.3	38.3	48.9	44.6	46.4	38.1
National business activity	10.6	46.4	29.8	19.2	16.1	36.5
Your company's difficulty attracting qualified workers	2.1	63.8	27.7	25.6	26.7	49.2

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

facturing operation. Our customers have been waiting for this to get resolved to see which direction they turn to next.

- Increasing interest rates.

- The area needs to figure out how to attract businesses that pay higher wages to support their families and then in turn make enough to buy our services. The St. Cloud school district needs to figure out how to get better to attract families to live in St. Cloud and not outlying areas...

- The lack of bus service on NE Lincoln Ave seriously affected us during the recent cold spell. As a production facility, we need people to produce. And, if those people can't get to work, both the staff and the company suffer.

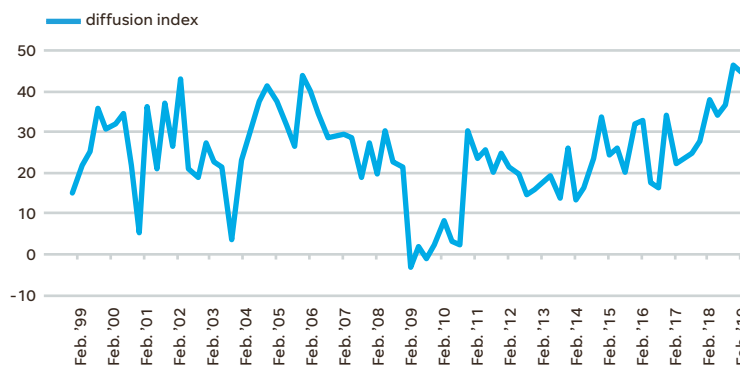
- Medicare cuts.

### Future Outlook

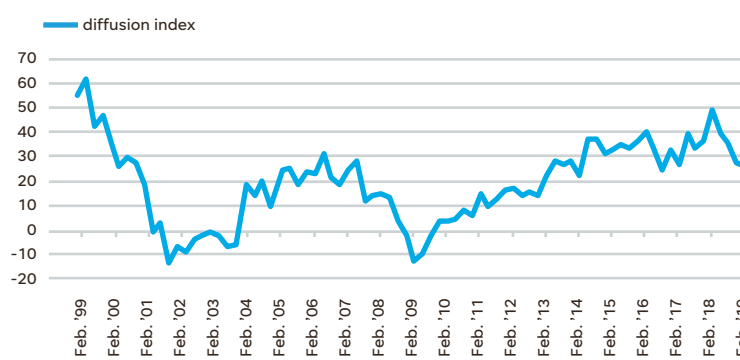
The future business conditions survey responses found in Table 2 are somewhat weaker than is typically found in the February survey, but they still represent a solid outlook for the area. While local business leaders were more optimistic about future business conditions one year ago, this quarter's survey suggests steady growth should continue through August 2019. For example, the future business activity index registered a reading of 58.7 one year ago (which was a particularly high reading for an economy in its 8th year of expansion). At a level of 36.2, this quarter's future business activity index was considerably lower. However, 53 percent of surveyed firms still expect to expand activity over the next 6 months and relatively few firms expect activity to decline. Likewise, the diffusion index on the level of employment was higher one year ago, but, with a value of 44.7, it is one of the highest values recorded over the past several years. Forty-seven percent of surveyed firms expect to expand payrolls over the next six months and only one firm anticipates declining employment. The accompanying chart shows that the future employment index is at a strong level — one that is consistent with a healthy economy. We also note that two other labor market indicators — future length of workweek and future employee compensation also performed well in this quarter's survey.

The relative weakness we saw in the current capital expenditures index in Table 1 seems to not be a problem with

## Future prices received



## Future difficulty attracting qualified workers



future capital expenditures. Nearly one-third of surveyed firms expect to expand capital purchases over the next six months and only 3 firms plan to cut back on capital spending. There is also little concern with future national business activity. Thirty percent of survey respondents expect national activity to be higher in August 2019 and another 47 percent see it as unchanged. Relatively few firms (11 percent) expect national activity to decline over the next six months. Whatever the weakness local businesses experienced the last few months, their outlook for the future is stronger.

This report has once again emphasized the extent to which area firms are expecting to receive higher prices in the future. The diffusion index on future prices received in Table 2 is the second highest level recorded in the 20-year history of the local survey — only last quarter's future prices received index recorded a higher value. As was noted last quarter, not even during the high-flying years of 2004-2005 did as many area businesses expect price increases. We note that the exact nature of expected higher future prices received is unknown. It might be because firms' costs are increasing or, alternatively, local firms may have gained more pricing pow-

er and improved profit margins. Regardless, this survey item further highlights the importance of paying attention to area pricing data in the coming months (see accompanying chart).

Finally, as we have noted on several occasions in the St. Cloud Area Quarterly Business Report, the future difficulty attracting qualified workers diffusion index has typically followed a cyclical pattern that resembles the path of economic activity experienced in the overall economy. We have traditionally kept a close eye on this chart, since the expected future labor shortages implied by this index seem to signal the future economic performance of the local economy. Similar to last quarter, the accompanying chart suggests that this index is now starting to decline as it has fallen for five consecutive quarters. As can be seen in the chart, this index has typically followed a cyclical pattern (with no apparent seasonal variation), so the recent downward path of this index hints at a recent slowing of local business conditions compared to the elevated levels of one year ago. We do note that the index values found in the accompanying chart are still way above what was observed during the recessionary periods of 2001-2002 and 2008-2010.



## Special Question



### SPECIAL QUESTION 1

# The probability of local recession in 2019

At this year's Winter Institute, Federal Reserve Bank of St. Louis President (and SCSU grad) Jim Bullard made three key observations about the US economy. First, he was unconcerned about unanticipatedly high inflation rates since it appeared that the marketplace expected future annual inflation rates to be below the Fed's two percent target. Second, tight labor markets are not currently creating inflationary wage pressures. These first two observations suggest the Fed doesn't need to be in any particular hurry to hike its interest rate targets. Third, he expressed concern about an inverted yield curve, a situation in which interest rates in the market for short-term U.S. Treasury securities are higher than the yields on longer-term securities. This is



Bullard

an unusual situation and often happens before national recessions. The yield curve in the U.S. Treasuries market has now flattened out and while not strictly inverted, it is easy to see how this would be a concern for Federal Reserve policymakers. With this observation in mind, and with the ongoing concern about local retail store closings and the looming closure of Electrolux, we decided to ask area businesses about the likelihood of local recession in both 2019 and 2020. While a discussion of what a local recession looks like appears elsewhere in this report, we note that recessions usually take the form of declining output, reduced employment, an increase in unemployment, a loss of sales, a reduction of industrial production, lower incomes, etc. Most national observers think the U.S. will continue to experience economic growth throughout 2019 (albeit at

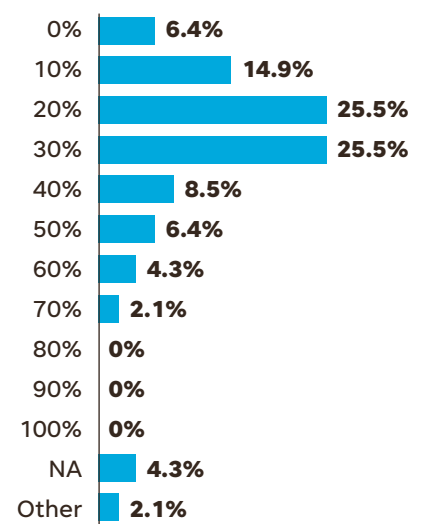
a slower rate than was observed in 2018), although there has been some concern about economic weakness in 2020. So, we asked area businesses the following question:

#### WHAT DOES YOUR COMPANY FEEL IS THE PROBABILITY THAT THE LOCAL ECONOMY WILL ENTER RECESSION IN 2019?

Only 12.8 percent of respondents feel the probability of a local recession this year is 50 percent or higher. The most common responses were "20 percent" and "30 percent", which were each chosen by 26 percent of the sample. Of those who answered this question, the median response was "20 percent." Only three firms think the probability of local recession this year is zero percent and no firms feel the probability is 80 percent or above.

#### Special Question 1

What does your company feel is the probability that the local economy will enter recession in 2019?



### SPECIAL QUESTION 2

# The probability of local recession in 2020

The second special question is virtually the same as the previous question, with the exception that it asks about the probability of local recession next year. We asked:

#### WHAT DOES YOUR COMPANY FEEL IS THE PROBABILITY THAT THE LOCAL ECONOMY WILL BE IN RECESSION IN 2020?

Area firms are a little more concerned about the possibility of local recession next year than they are about recession occurring in 2019. Thirty-four percent of responding firms think there is at least a 50 percent probability of local recession next year. Only one firm thinks the probability is zero percent and no firms think there is a 100 percent probability. The most common response to this item is "30 percent" and the median response of those who answered the question is also 30 percent.

Written comments to special questions 2 and 3 include:

- Fundamentals of the economy are strong. Our customers are all expanding.
- It severely impacts our business activity heavily in a negative way.
- We anticipate a slight recession, so we are scrutinizing new loan deals differently.
- I think it's a really small chance maybe as we get closer to the 2020 election it can depend on who's in the race.
- Only a guess.
- Our industry outlook is positive and we're more impacted by slightly more macro factors.
- With divided government, not much will pass so most likely they won't be able to screw things up.
- I believe we could see a mild recession in 2020 - 2021.
- A recession is always a concern. Hopefully it's not as long and deep as the 08-09 recession.
- Increasing interest rates.
- It is always on the radar because of the increased costs of government regulations, the lack of higher paying jobs in this area to buy our services, and the increase in people needing aid. The work force can only support so much aid.

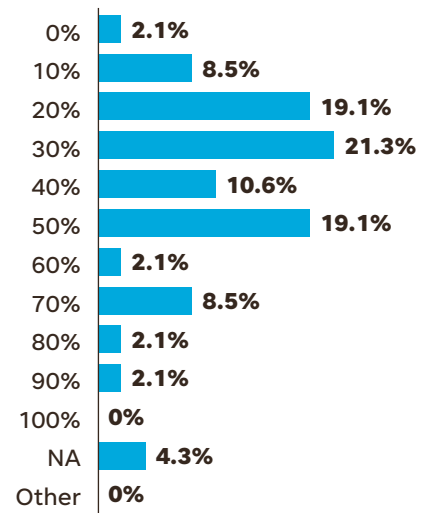
**"With divided government, not much will pass so most likely they won't be able to screw things up."**

- Since we are a national/international supplier, a global recession would affect us much more than a local recession would. However, if it was local only, the opportunity to hire more qualified individuals is sure enticing.
- May actually help free up workers, we can grow through a recession.
- We expect it, but feel the impact will be less than most recessions in slowing local economy or its duration.
- Very difficult to predict. So many factors will influence this. The election year cycle will factor into people and business confidence levels. It will be a bitter election. Let's hope that if there is a recession that it is painless as possible and short, short, short.
- We are very diversified with few large vulnerable employers.
- Feds are screwing things up — farmers have not had good farm sales going on 3 years.
- Always concerned with Medicare and Medicaid cuts.
- The cost of new single-family housing will drop 5-10% because of lower lumber costs. The higher interest rates have lowered housing prices by 7-10% in the St. Cloud metro area. Sartell is a good example, 3/2018 vs. 9/2018. The farm economy is struggling with low commodity prices, milk prices, and higher interest on operating loans. The Chinese trade war may be coming to an end which will be good for the farm sector. In addition, the African Swine Flu has hurt the Chinese hog industry which may be a boost to the US hog industry.
- Health insurance is a major concern as premiums rise and decrease disposable income. The farm economy impacts us plus the dollar stores moving in are hurting main street businesses.

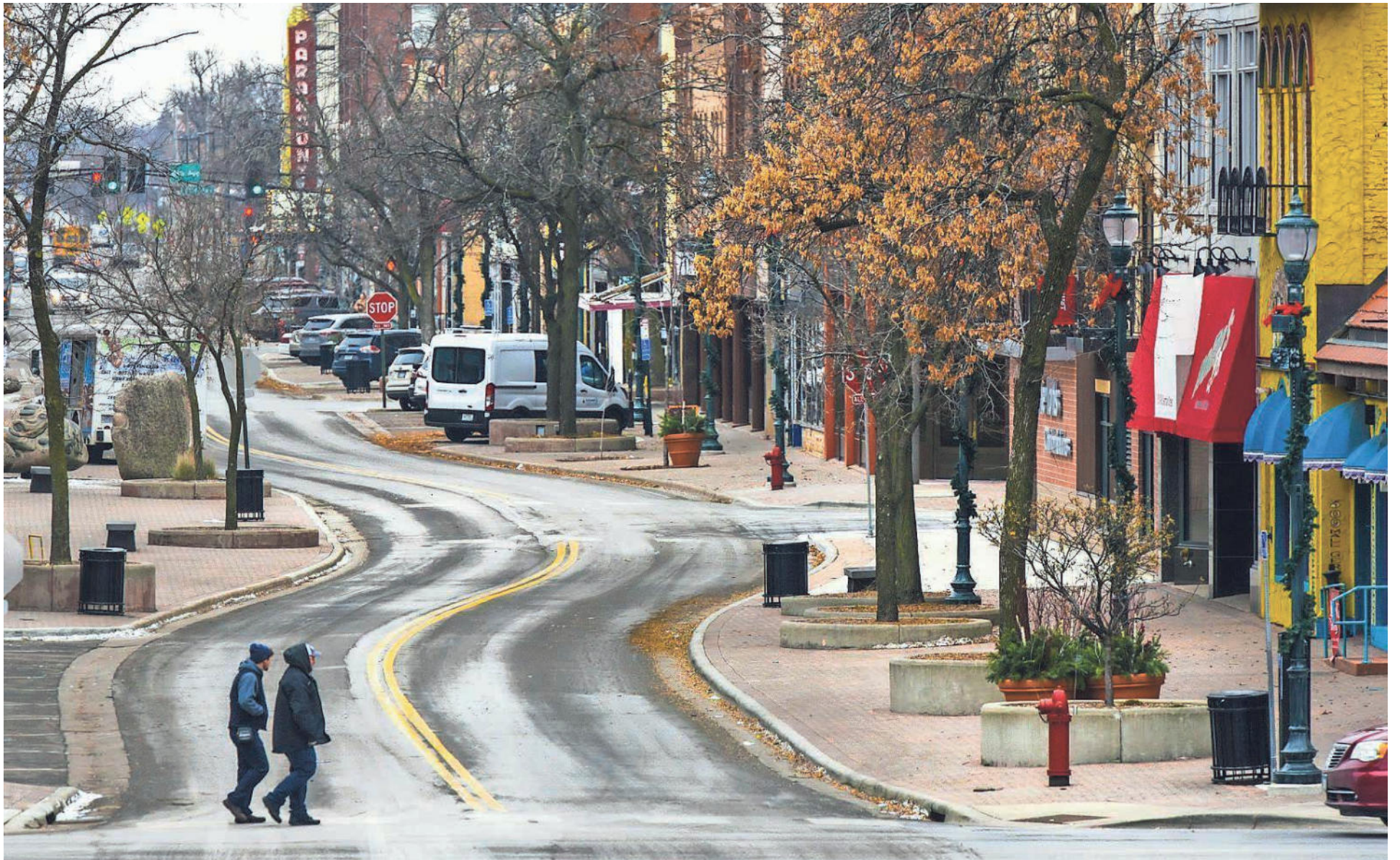
- Employment is very good. Margins have been squeezed with higher costs. Some correction possible.
- We are dependent on the construction industry and are concerned with any slowdowns or declines in building.
- I am particularly concerned about the potentially negative effect a broad economic slowdown could have on an already stressed local ag-economy.
- Tariffs limiting agricultural exports and hurting the ag economy.
- Slowdown in employment, Electrolux shutting down along with other retail outlets. (We) already are feeling a recession in (our sector) with lower prices hurting revenue stream.
- Local sales (are a) minor part of our business. No workers. May improve hiring for us.
- A drop in local commercial construction is a concern.

#### Special Question 2

What does your company feel is the probability that the local economy will be in recession in 2020?







Businesses along West St. Germain Street on Monday, Nov. 19, in downtown St. Cloud. Jason Wachter, [jwachter@stcloudtimes.com](mailto:jwachter@stcloudtimes.com) Businesses along West St. Germain street Monday, Nov. 19, in downtown St. Cloud. JASON WACHTER, JWACHTER@STCLOUDT

# Strong manufacturing and construction buoy economy

Total non-agricultural employment in the St. Cloud area rose 1.4 percent in the twelve months through January 2019, as seen in Table 3. This was faster than any region in the state except Rochester. Growth was centered on the goods-producing sectors of the local economy, with construction employment rising 19.1 percent over the period. The January construction number is particularly strong, perhaps reflecting the increased activity associated with two major projects in the area that are able to continue through the winter – Costco and Technical High School.

Most service-sector industries in the St. Cloud area saw declines in employment over the 12 month period. The education and health sector grew once more, accelerating above its long-run average while the opposite trend happened elsewhere in the state. The information sector and retail trade both declined in the period. Leisure and hospitality employment declined in St. Cloud while growing elsewhere. This despite reports that 2018 food and beverage tax and hotel/motel tax revenue both rose in 2018 (though January 2019 hotel/motel receipts were down slightly).

Household employment data are shown in Table 4. The 0.9 percent drop in the labor force for the St. Cloud Metropolitan

Statistical Area is matched by a 2.1 percent drop for Duluth and a 3.2 percent drop for Mankato, while the Twin Cities was virtually flat and Rochester's labor force grew 1.8 percent. These data are somewhat volatile and subject to revision, but it will be a year before we know about these January data. The Minnesota Department of Employment and Economic Development's (DEED) alternative measures of unemployment do not show any impact of the federal government shutdown on reported labor force statistics at the state level, so we do not know how to explain this unexpected drop.

Despite strong construction employment growth, residential building permits valuations were down in the City of St. Cloud. Unemployment insurance claims over the quarter fell by 9.8%, reflecting the tight labor market conditions in the region. Our new St. Cloud Index of Leading Economic Indicators rose 2.4 percent in the last year.

The St. Cloud 13 Stock Price Index marked a decline of 15.6 percent over the 12 months to January 31, 2019. As one can see from the nearby graph, the index dropped precipitously over the last quarter but then recovered in early 2019. In the last quarter (through January 31) 5 stocks rose and 8 declined. The largest gainer was Newell Brands and the largest loser was New Flyer.

**Table 3: Employment Trends**

	ST. CLOUD		MINNESOTA		TWIN CITIES	
	2004-'19 long term	Jan. '18-Jan. '19 growth rate	2004-'19 long term	Jan. '18-Jan. '19 growth rate	2004-'19 long term	Jan. '18-Jan. '19 growth rate
Total non-agricultural	1.0%	1.4%	0.8%	0.3%	0.9%	0.0%
Total private	1.0%	1.5%	0.8%	0.3%	0.9%	0.1%
GOODS PRODUCING	0.3%	6.9%	-0.2%	2.3%	-0.2%	1.2%
Mining/logging/construction	2.9%	19.1%	0.4%	8.2%	-0.1%	2.0%
Manufacturing	-0.5%	2.5%	-0.4%	0.2%	-0.2%	0.9%
SERVICE PROVIDING	1.2%	0.1%	0.9%	-0.1%	1.1%	-0.2%
Trad/trans/utilities	0.6%	-1.7%	0.2%	-0.1%	0.4%	1.1%
Wholesale trade	1.7%	2.6%	0.3%	0.3%	0.2%	1.1%
Retail trade	-0.3%	-4.2%	0.0%	0.0%	0.2%	0.9%
Trans/ware/utilities	2.8%	1.2%	1.1%	-0.6%	1.1%	1.6%
Information	-2.6%	-9.0%	-1.5%	-2.1%	-1.2%	-1.9%
Financial activities	1.8%	-0.5%	0.5%	0.9%	0.5%	1.0%
Professional, business services	1.1%	-1.7%	1.5%	-1.3%	1.5%	-2.1%
Education and health	3.1%	4.4%	2.5%	0.1%	2.7%	-0.5%
Leisure and hospitality	0.2%	-2.6%	1.2%	1.4%	1.4%	1.2%
Other services (excluding gov't.)	-0.5%	-0.6%	-0.3%	-0.6%	0.1%	-0.3%
Government	0.7%	0.7%	0.2%	-0.2%	0.1%	-0.7%
Federal	2.5%	-4.3%	-0.4%	-2.2%	-0.3%	-1.6%
State	0.5%	-0.4%	0.9%	-0.2%	-0.1%	0.3%
Local	0.3%	2.6%	0.1%	0.0%	0.2%	-1.0%

The return on the St. Cloud 13 demonstrates some concern for the state of the local economy. Including reinvested dividends, the total return on a portfolio that had one share of each stock in the St. Cloud 13 would have gained an investor 3 percent from January 1, 2017 to February 28, 2019. In comparison, investing in a mutual fund indexed to the S&P 500 would have returned 26.5 percent; investing in a fund indexed to the Dow Jones Industrial Average

See **ECONOMY**, Page 61

## Leading indicator elements and their direction of impact

St. Cloud Economy through 2nd Quarter, 2019

Variable	Impact on leading indicators
Current conditions (from survey)	<b>DOWN</b> ▼
Future conditions (from survey)	<b>UP</b> ▲
Unemployment insurance claims	<b>LITTLE CHANGE</b> —
New incorporations	<b>UP</b> ▲
Professional Employment	<b>DOWN</b> ▼
St. Cloud 13 Stock Price Index	<b>DOWN</b> ▼

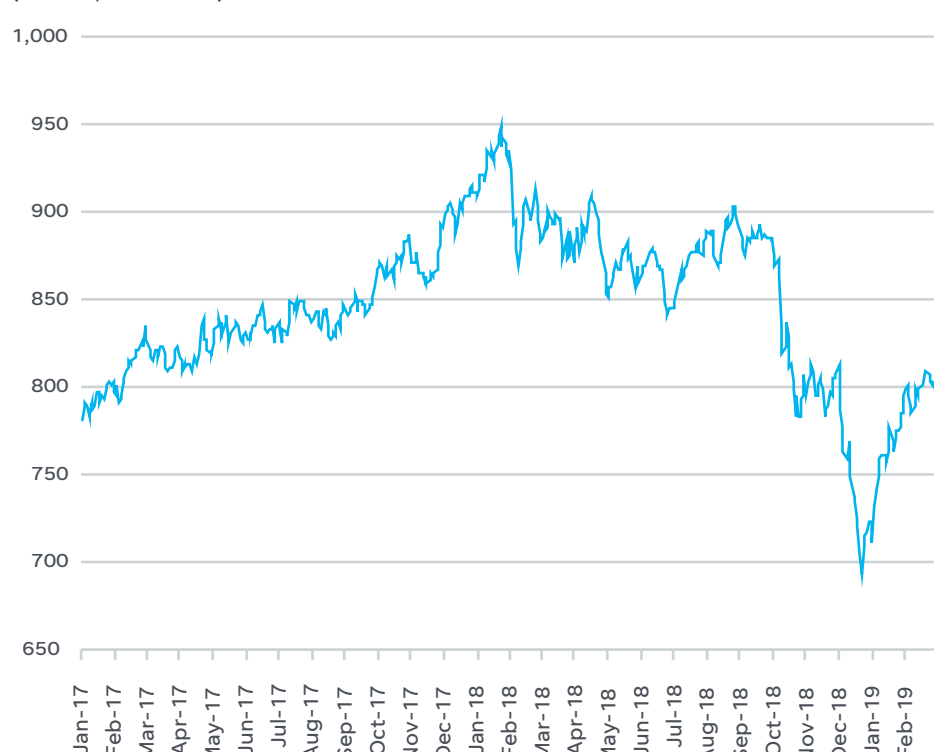
**Table 4: Other Economic Indicators**

	2019	2018	Percentage change
St. Cloud MSA Labor Force January (Minnesota DEED)	112,623	113,622	-0.9%
St. Cloud MSA Civilian Employment # January (Minnesota DEED)	107,256	108,465	-1.1%
St. Cloud MSA Unemployment Rate* January (Minnesota DEED)	4.8%	4.5%	NA
Minnesota Unemployment Rate* January (Minnesota DEED)	4.3%	3.9%	NA
Mpls-St. Paul Unemployment Rate* January (Minnesota DEED)	3.6%	3.4%	NA
St. Cloud Area New Unemployment Insurance Claims Nov.-Jan. average (Minnesota DEED)	1,083.7	1,201.3	-9.8%
St. Cloud 13 Stock Price Index end-Jan. (SCSU), Nov. 16, 1994 = 100	785.82	930.69	-15.6%
St. Cloud City Residential Building Permit Valuation in thousands, Nov.-Jan. Average (City of St. Cloud)	869.15	1,170.88	-25.8%
New St. Cloud Index of Leading Economic Indicators First Quarter (SCSU) 2012-13 = 100	113.0	110.3	2.4%

MSA = St. Cloud Metropolitan Area, comprised of Stearns and Benton counties. # The employment numbers here are based on household estimates, not the employer payroll estimates in Table 3; \* Not seasonally adjusted; NA Not applicable or not available.

**St. Cloud 13 Stock Price Index**

(Nov. 16, 1994 = 100)





# Special Question

## SPECIAL QUESTION 3

# Local effect of the government shutdown

### THE EFFECT OF THE FEDERAL GOVERNMENT SHUTDOWN ON AREA BUSINESSES

On December 22, 2018, a partial federal government shutdown began as Congress and the administration experienced disagreements over federal budget priorities, among other things. The shutdown spanned 35 days — ending January 25, 2019 — over which time several federal government workers and government contractors were furloughed. A possible second shutdown that might have influenced survey respondents never materialized. Anecdotal evidence suggests the shutdown had relatively little impact on the performance of the overall economy (we do note that the White House Council of Economic Advisors estimated a reduction of GDP in this year's first quarter of approximately 0.5 percent as a result of the federal government shutdown), but we were interested in the extent to which local firms were impacted. We asked:

### HOW HAS THE FEDERAL GOVERNMENT SHUTDOWN IMPACTED YOUR BUSINESS?

Fifty-seven percent of survey respondents selected “no impact” and another 32 percent indicated “small unfavorable impact.” Six percent of firms experienced a “medium unfavorable impact” and one firm had a “large unfavorable impact” from the government shutdown. We asked businesses to comment on their response. These comments include:

- Delay getting mortgage loans approved — consumer and business (SBA office closed).
- Accessing services to do our work was stalled as we awaited the government reopening.
- We were unable to do SBA loans during the shutdown.
- Nothing has really changed at our firm.
- No effect.
- We did not feel any impact.
- Centers for Medicare & Medicaid office slowed getting questions answered.

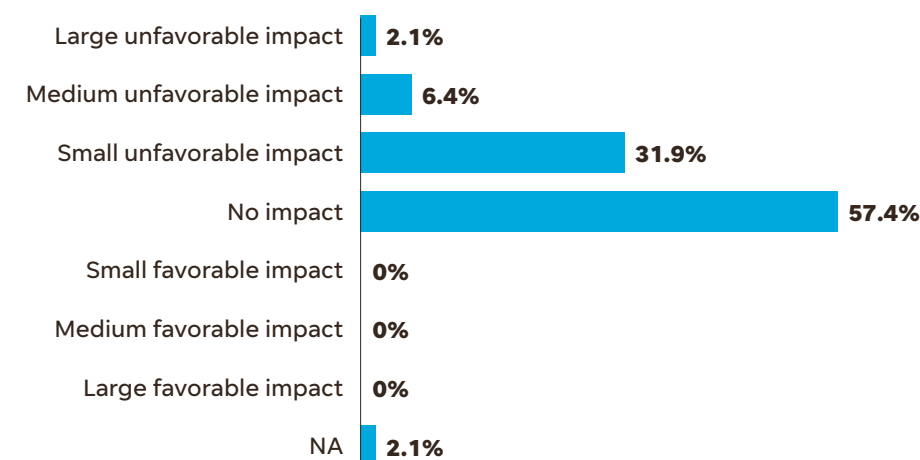


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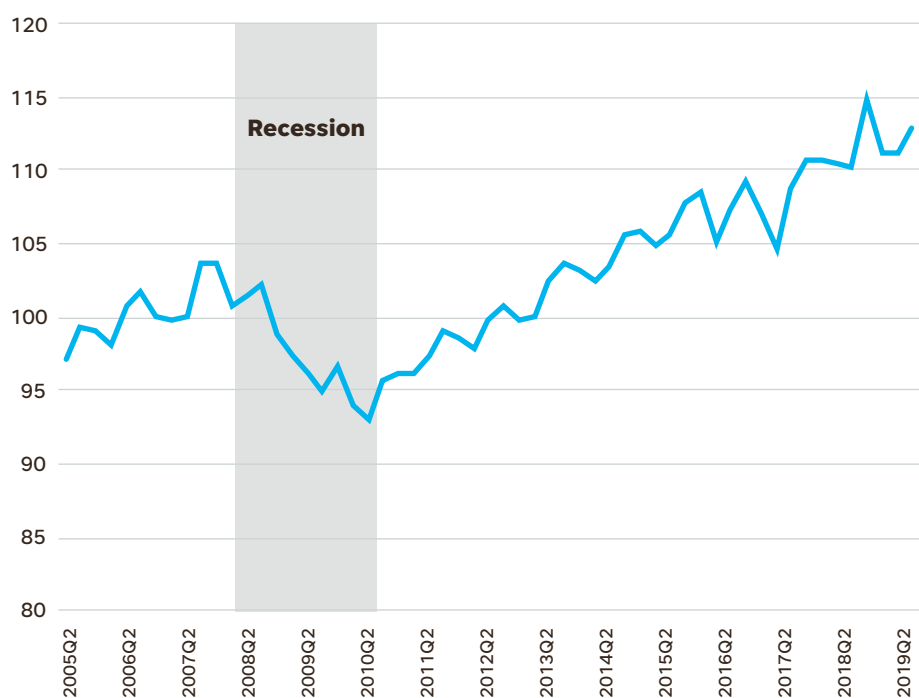
- Our business continued to expand at a normal pace. We don't work with government enterprises.
- Makes one wonder when 800,000 federal workers are not working and there is little to no effect on most people or businesses.
- Overblown.
- I am sure it has had a residual effect on all businesses because of the unknown.
- The political scene, no matter what side you are on, is a dangerous one.
- Small impact due to some government agencies closed, polar vortex/winter storms had a bigger effect.
- Some grant funding had potential to be delayed, but never was.
- Our SBA financing has been delayed, causing cash flow issues.
- People very nervous to spend large \$.
- Difficult to measure. More shutdowns will cause many problems to our ability to deliver services.

### Special Question 3

How has the federal government shutdown impacted your business?



### Leading Economic Indicators, St. Cloud (2012-13 = 100)



## Growth

Continued from Page 11

500 fell 0.3 percent. The future outlook of those area businesses responding to the St. Cloud Area Business Outlook Survey was solid, although it was weaker than one year ago. Fifty-three percent of surveyed firms expect an increase in business activity over the next six months, but 17 percent expect decreased activity. These are the weakest numbers we have seen in the February future business activity index since February 2010. Forty-seven percent of surveyed firms expect to expand payrolls by August and 57 percent anticipate higher employee compensation. Similar to last quarter, 49 percent of surveyed firms anticipate higher prices received by August 2019 and only two firms think prices will be lower. This is the second highest value ever recorded on this survey item. The area worker shortage is expected to continue, al-

though it does appear to be moderating. Fifty-seven percent of surveyed firms indicate the recent federal government shutdown had “no impact” on their company. Thirty-two percent of firms experienced a “small unfavorable impact” of the shutdown. No firms were favorably impacted. When asked the probability that the local economy will enter recession in 2019, 26 percent of surveyed firms indicate a 20 percent probability and another 26 percent think the probability is 30 percent. No firms think the probability of local recession is higher than 80 percent this year and three firms feel there is a zero chance of a 2019 local recession. Nineteen percent of firms expect there is a 20 percent chance of local recession in 2020 and another 21 percent think the probability is 30 percent. Eleven percent of firms think the probability of local recession in 2020 is 40 percent, and another 19 percent assign a 50 percent probability to the likelihood of a local recession next year. On balance, surveyed firms expect a greater likelihood of local recession in 2020 than in 2019.

# Recession

Continued from Page 11

tion from China saw slower wage growth and did not recover as rapidly after the Great Recession as other places.

To see a local recession which hit St. Cloud but did not affect other places we offer this graph below of seasonally-adjusted employment growth rates since 1989 for both St. Cloud and the State of Minnesota. Recessions would be characterized by a drop in employment (a negative growth rate). The Great Recession is easy to see, along with the national recessions in 1990-91 and 2001. But one sees a short drop in employment in late 1996 and a drop in early 2018 that are not duplicated in the state data.

The earlier period includes a June 1996 layoff of 200 workers at the then-Frigidaire (now Electrolux) plant which is scheduled for future closing. Overall, Stearns County saw 1,757 initial claims for unemployment insurance from mass layoff initial claims in that period, more than triple the amount of the previous year and more than 4 times the amount in 1997.

The data show the concentration of reduced employment in the manufacturing sector. As we have noted previously, the St. Cloud economy also includes firms who produce transportation equipment. Shocks to the transportation equipment sector could also be an area where local recessions can happen without impacting a larger economy such as the State of Minnesota.

Local recessions, however, do not last long without a statewide or national recession. Labor mobility means that unemployed workers locally can find jobs elsewhere, and a healthy state economy can absorb them. Neither the 1996 episode nor the more recent bout of labor demand weakness has endured though the recent slowing of the Minnesota economy could make us less resilient should another local market shock occur.

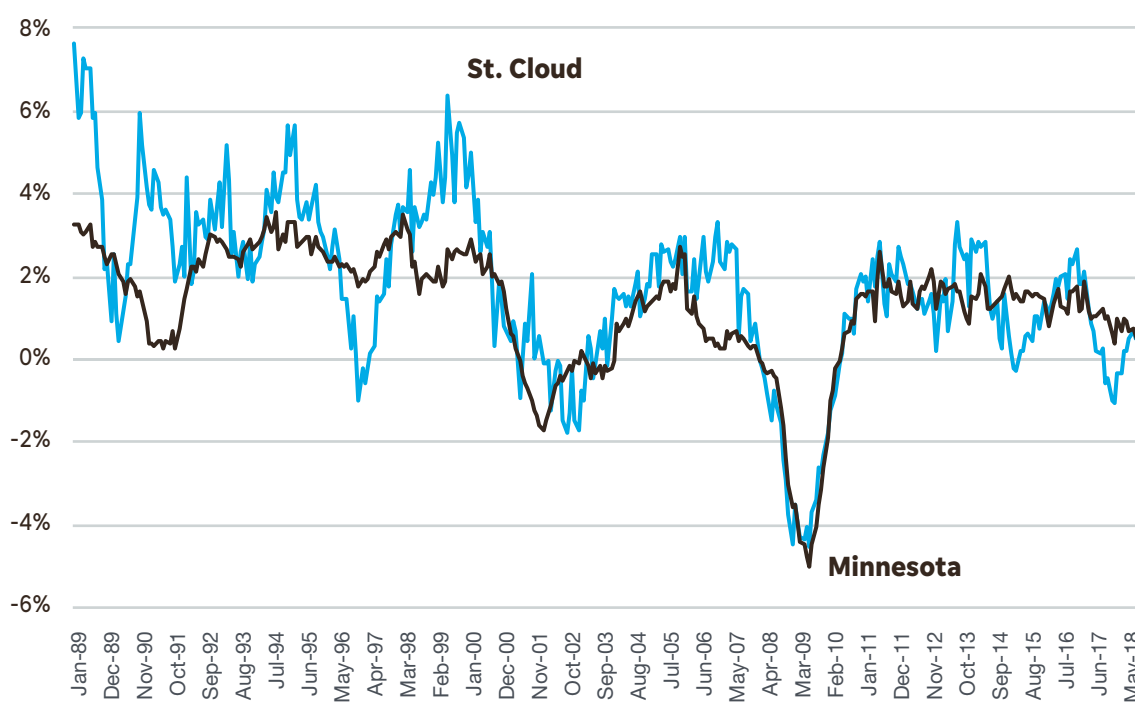


Recessions would be characterized by a drop in employment (a negative growth rate)

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## Nonfarm employment

12-month change in nonfarm employment, St. Cloud and State of Minnesota, 1989-2019



## Economy

Continued from Page 41

would have returned 36.1 percent. Lower returns imply lower profitability of firms that are invested in our area, which has implications for productivity and employment.

It is worth noting that the sectors of the U.S. stock market that have grown in the US in 2018 are largely in health care, utilities, and firms producing discretionary goods (the last sector only grew 0.8 percent in 2018). The sectors represented in the St. Cloud 13 do not include health care firms nor utilities. We recognize that we are not necessarily comparing indexes that measure the same kinds of firms.

We changed our leading economic indicator series within the last year as we continue to find the production of data that measure local economies changing. The latest iteration did not give us an effective way to tell our readers how the various components impact the series because we are using a different, mixed data frequency method that combines quarterly survey data with monthly measurements from a variety of sources; this method does not allow us to define the magnitude of changes as we did previously. In Table 5 we are now able to at least tell you the direction of change for the next period if not the magnitude.

### New business incorporations and future conditions reported in the St. Cloud Area Quarterly Business Outlook Survey bode well for the area economy in the first half of 2019.

While the 12-month change in the leading indicators series looks good, the three most recent figures are below the peak in the leading indicators series reached in the first quarter of 2018. New business incorporations and future conditions reported in the St. Cloud Area Quarterly Business Outlook Survey bode well for the area economy in the first half of 2019. However, the decline in the St. Cloud 13 Stock Price Index, professional and business support sector employment, and weak responses on current conditions in the Survey weighed on the index in the most recent quarters. Unemployment insurance claims were barely changed for the period we use to estimate leading indicators.

The local economy has experienced a solid 2018 as the expansion that started in 2010 starts to reach record lengths. Despite some disappointing readings from the local economy in the recent quarter, 2019 starts with momentum buoyed by the optimism of area firms. However, the data support caution for the road ahead.