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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.

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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

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Coronavirus dominates area economic outlook

The St. Cloud area economic outlook is clouded by the uncertain impact of the spread of COVID-19 on the local economy.

While traditional data measures suggest overall economic fundamentals in the region remain solid, there is considerable risk of plunging into significant negative territory over the duration of the coronavirus crisis.

Much of the data analyzed in this report are from January (which is the most recently available labor market data from the Minnesota Department of Employment and Economic Development) and survey results were collected from February 20-March 13, before Gov. Walz's order to close restaurants, theaters and other leisure and hospitality businesses, so the impact of the coronavirus on the St. Cloud Area Quarterly Business Report is limited.

However, we did have the foresight to include a special question in our business survey on how the coronavirus is expected to impact area firms' business activity.

Given the exponential spread of the virus during the sample period, businesses likely were re-evaluating their outlooks between the endpoints of the survey. As a result, much of our discussion of the impact of COVID-19 on the local economy is necessarily speculative. Pandemics challenge attempts to use standard economic models to accurately forecast the length and severity of this shock.

A section composed by each of the authors on their personal views of the economic impact of the coronavirus can be found at the end of this report.

The St. Cloud Metropolitan Statistical Area (which includes Stearns and Benton counties) experienced overall employment growth of 0.5% over the 12-month period ending in January 2020.

Employment gains were largest in construction, retail trade, transportation/warehousing/utilities, financial services and other services sectors. The growth in retail employment reverses a negative pattern that had been reported over the past several months.

Annual benchmark revisions conducted by MN DEED had a significant impact on these data. The local manufacturing, information, professional & business services, education & health and leisure & hospitality sectors experienced declining employment over the past year.

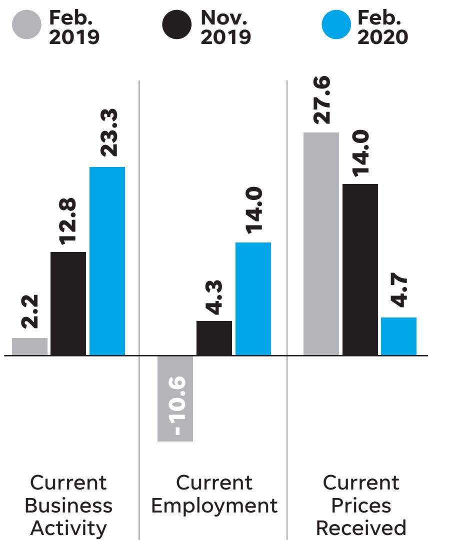
The St. Cloud Index of Leading Economic Indicators was up 0.3% in the quarter but down 0.9% over the last year. Current business activity at surveyed firms was stronger than one year ago, and the future outlook of area firms remains solid.

Nearly one-third of surveyed firms are "not at all concerned" about the impact of the spread of the coronavirus on their business activity. Another 37% are only "mildly concerned." Few surveyed businesses are "greatly concerned" about the impact of the virus on their business activity.

In other special questions, the majority of firms consider the difficulty experienced by their employees with the cost or unavailability of day care to be "not at all a problem" or a "minor problem." Only 14% of surveyed firms consider the day care issue to be a "serious problem."

Forty percent of firms report the share of their workforce that is aged 55 or older is between 10-25%. Another 30% have between 25-50% of their workers in this age band. More than half of firms consider future difficulty replacing retiring workers to be a "moderate," "great" or "greatest" concern.

Key results of survey



Key takeaways

1 Private sector payroll employment in the St. Cloud area rose 0.4% from one year earlier in the 12 months through January 2020. The unemployment rate in the St. Cloud area was 4.5% in January 2020, down from 4.8% a year ago. The labor force grew 0.9% in the 12 months to January 2020.

2 Employment in the mining/logging/construction (most of these jobs represent the construction industry) sector jumped 8.6% over year ending January 2020 and the area financial activities sector enjoyed 2.1% job growth. The retail trade sector saw employment gains of 1.9% and the trade/transportation/utilities sector added jobs at a 2.3% rate over the past year.

Other services (excluding government) employment rose 2.8% over the past 12 months. Local sectors that experienced job growth over the past year represented only 47.2% of area employment, while 52.8% of local employment was in sectors with job losses.

Among the declining sectors was education & health (representing nearly one out of every five local jobs), which shed 1.3% of its employment over the past year. Other key sectors that experienced annual job loss were manufacturing (-0.5%), professional & business services (-1.0%) and leisure & hospitality (-2.9%).

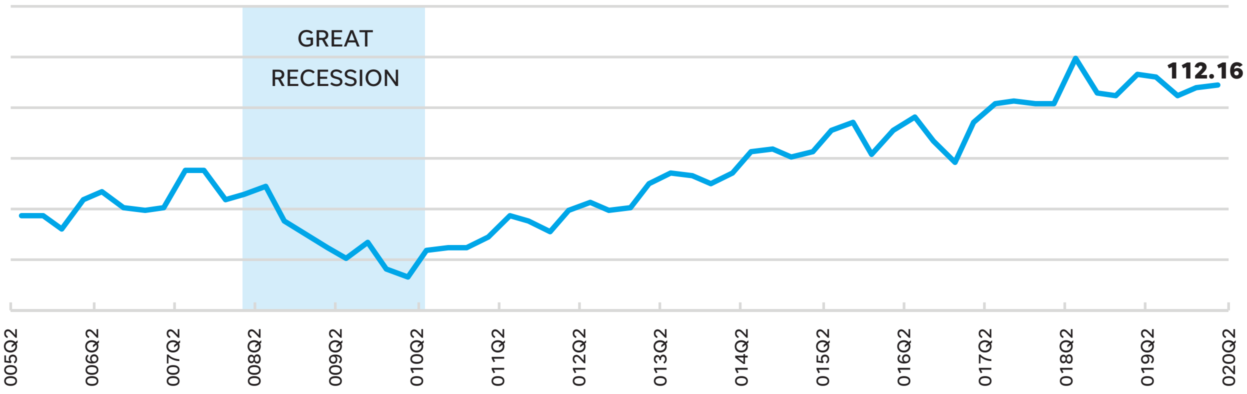
3 The St. Cloud Index of Leading Economic Indicators was up 0.3% in the quarter but down 0.9% over the last year. Three of the six indicators rose in the quarter, led by responses to the St. Cloud Area Business Survey while three other indicators declined.

The St. Cloud 12 Stock Index rose 5.1% in the year ending January 31, 2020, far less than 25.7% rise in the S&P 500. The St. Cloud index was flat in the last quarter.

See OUTLOOK, Page 4I

New St. Cloud Index of Leading Economic Indicators

1st quarter 2013 = 100



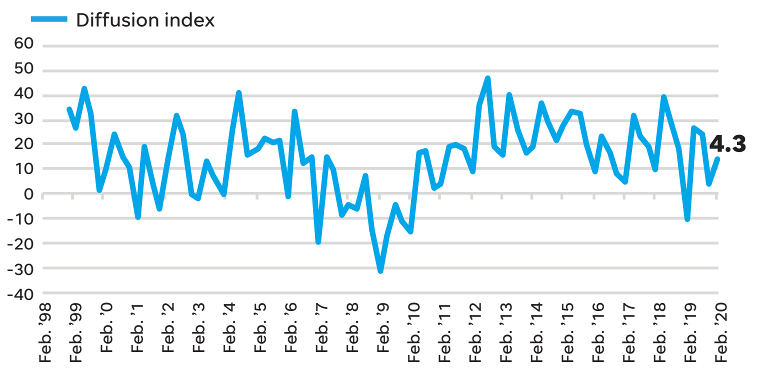
Survey results for standard questions

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 43 area businesses that returned the most 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.

Current employment



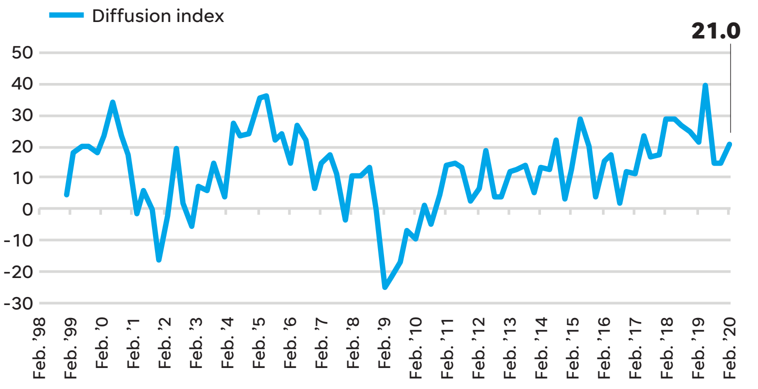
Several key current activity indexes found in Table 1 are higher than was reported one year ago and many index values are also higher than last quarter (which is a normal seasonal occurrence for many of the survey items).

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 21.1 points above the level of one year ago, with 44% of firms reporting increased business activity over the past three months.

The employment index is the highest November reading since 2015. Twenty-six percent of surveyed firms report adding to payrolls over the past quarter. As can be seen in the accompanying figure, this series rebounded from a particularly weak reading last quarter.

We remind readers that these figures have probably been only marginally impacted by the spread of the coronavirus. Next quarter's current conditions index will likely deviate from the norm.

Current prices received



The diffusion indexes for length of the workweek and capital expenditures are both considerably higher than one year ago and the national business activity index is little changed from recent quarters. The prices received index doesn't display a seasonal pattern, so it is worth noting that this series rebounded from temporary weakness over the past two quarters (see accompanying figure).

Nearly one-third of surveyed firms report higher prices received this quarter compared to three months ago. The most interesting result in Table 1 is the index on current difficulty attracting qualified workers. It plummeted in the current quarter from what was already a low level.

At 4.7, the value of this index is considerably lower than last quarter (when it was 21.2) and last year (when it was 27.6). We have noted in the past that this may represent a moderation in area labor shortages — but it has also historically signaled a slowing of area economic growth, an even greater concern with the coronavirus shock coming ahead. But note that the reading on the future difficulty attracting qualified worker index (see nearby graph) does not show this pattern. This will bear watching in future surveys.

Table 1: Current business conditions

St. Cloud Area Business Outlook Survey summary, Feb./March 2020 What is your evaluation of:	February/March 2020 2020 vs. three months ago				Nov. 2019 diffusion index[3]	Feb. 2019 diffusion index[3]
	Percentage decrease	No change	Percentage increase	Diffusion index[3]		
Level of business activity for your company	20.9	34.9	44.2	23.3	12.8	2.2
Number of employees on your company's payroll	11.6	62.8	25.6	14	4.3	-10.6
Length of the workweek for your employees	20.9	62.8	16.3	-4.6	8.5	-17
Capital expenditures (equipment, machinery, structures, etc.) by your company	7.0	58.1	32.6	25.6	25.5	14.9
Employee compensation (wages and benefits) by your company	2.3	46.5	51.2	48.9	36.2	53.2
	11.6	53.5	32.6	21	14.9	21.3
Prices received for your company's products	16.3	51.2	25.6	9.3	10.7	10.6
National business activity						
Your company's difficulty attracting qualified workers	9.3	72.1	14	4.7	21.2	27.6

Table 2: Future business conditions

St. Cloud Area Business Outlook Survey summary, Feb./March 2020 What is your evaluation of:	Six months from now vs. February/March 2020				Nov. 2019 diffusion index[3]	Feb. 2019 diffusion index[3]
	Percentage decrease	No change	Percentage increase	Diffusion index[3]		
Level of business activity for your company	11.6	39.5	46.5	34.9	42.5	36.2
Number of employees on your company's payroll	4.7	58.1	34.9	30.2	31.9	44.7
Length of the workweek for your employees	7.0	69.8	18.6	11.6	8.5	17.1
Capital expenditures (equipment, machinery, structures, etc.) by your company	2.3	51.2	41.9	39.6	46.8	25.5
Employee compensation (wages and benefits) by your company	0	39.5	55.8	55.8	63.8	57.4
Prices received for your company's products	9.3	48.8	32.6	23.3	40.4	44.6
National business activity	7.0	55.8	23.3	16.3	19.2	19.2
Your company's difficulty attracting qualified workers	4.7	58.1	27.9	23.2	19.1	25.6

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

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

▮ Currently going through a short bounce of under-work after last year where we were buried in work for a single major project that kept our entire industry busy. If we could just figure out how to level-load our economy!

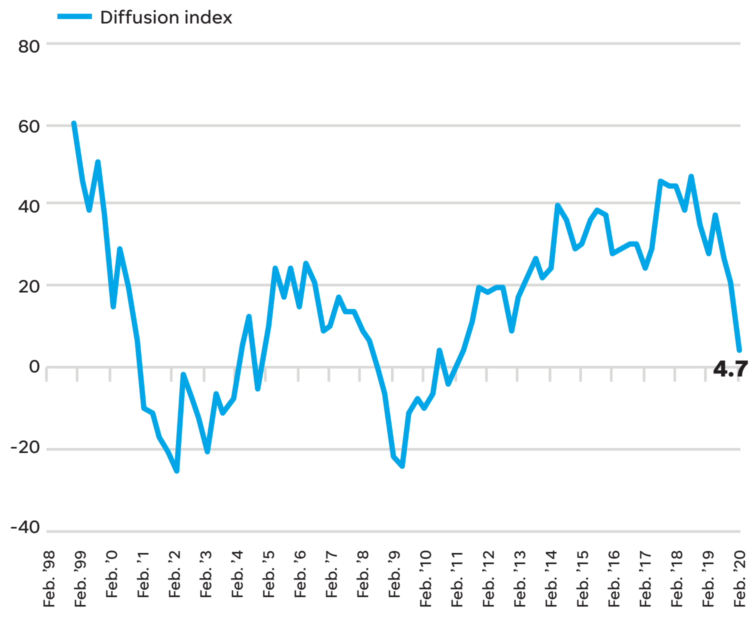
▮ Need to get the tax laws of MN to align with the Feds when it comes to depreciation limits and other areas.

▮ The general uncertainty surrounding the current US leadership causes some of our customers to hesitate to spend money on their businesses today.

▮ Our #1 concern is the risk associated with a potential change in the way some presidential candidates view business. This risk factor is holding us back on deploying capital.

▮ Overall business climate is positive.

Current difficulty attracting qualified workers

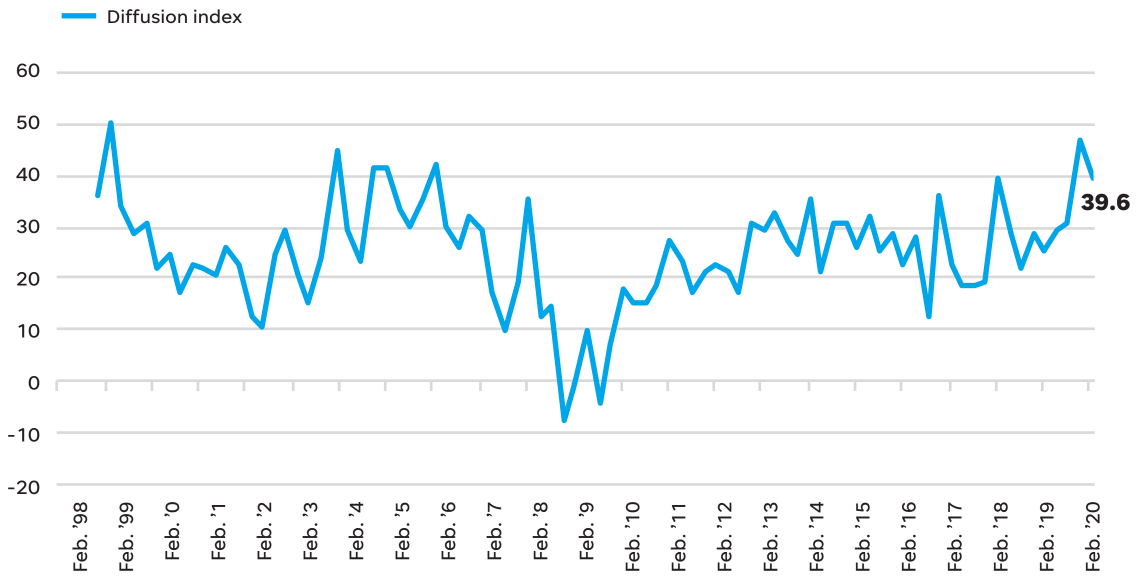


▮ Rapidly growing concern regarding economic nexus (stemming from Wayfair case). For any company doing business out-of-state, the gravity of the potential legal and economic risks and the complete lack of information and direction by any entity – private or government – is frightening.

▮ Real estate taxes are out of control including recent school district. Minnesota needs a new model for funding education.

FUTURE OUTLOOK

Future capital expenditures



Were it not for the considerable uncertainty of the impact of COVID-19 on the area economy, the figures in Table 2 would suggest continued solid local growth. Most survey items are little changed from one year ago and the capital expenditures item (see accompanying figure) is considerably elevated from one year ago.

Forty-two percent of survey respondents expect increased capital expenditures by August. We do note that the future employment and future prices received indexes are considerably lower than was recorded in February 2019, so these are items that we will be closely watching in the coming months.

We have focused much of our discussion of the economic impact of COVID-19 elsewhere in this report, but we do note next quarter's surveyed outlook will likely be affected by this economic shock.

Finally, we note that the future difficulty attracting qualified workers index leveled out this quarter. While this index has trended downward from its peak two years ago, the accompanying chart shows that this series does not signal the kind of weakness that we would normally associate with local recession. While the coronavirus will present major local challenges in the coming months, the area economy did not appear to be trending toward recession in the absence of this adverse shock.

Future difficulty attracting qualified workers

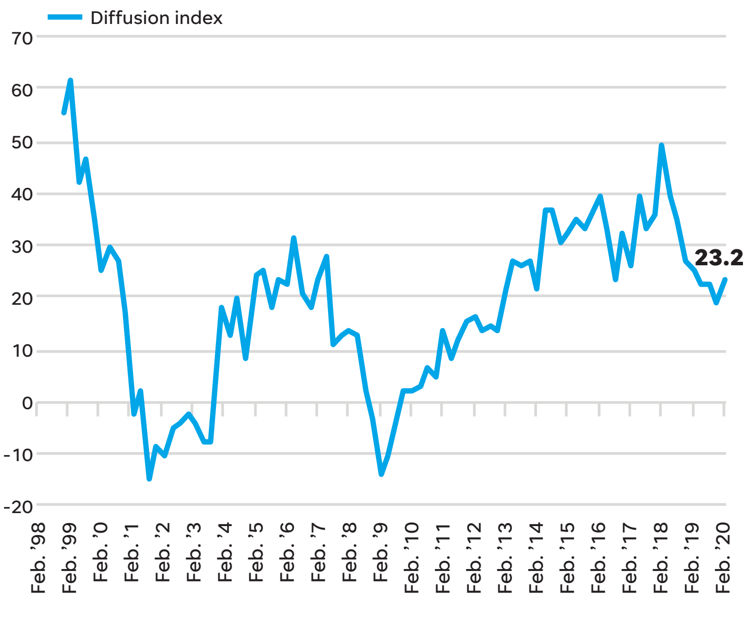


Table 3: Employment trends

	ST. CLOUD		MINNESOTA		TWIN CITIES	
	2005-'20 long term	Jan. '19 to Jan. '20 growth rate	2005-'20 long term	Jan. '19 to Jan. '20 growth rate	2005-'20 long term	Jan. '19 to Jan. '20 growth rate
Total non-ag	0.9%	0.5%	0.7%	0.1%	0.8%	0.1%
Total Private	1.0%	0.4%	0.8%	0.1%	1.0%	0.1%
GOODS PRODUCING	0.3%	1.9%	-0.3%	0.2%	-0.2%	0.5%
Mining/Logging/Construction	2.8%	8.6%	0.2%	2.9%	-0.1%	1.8%
Manufacturing	-0.5%	-0.5%	-0.4%	-0.8%	-0.3%	0.0%
SERVICE PROVIDING	1.1%	0.2%	0.9%	0.0%	1.0%	0.0%
Trad/trans/utilities	0.9%	1.8%	0.2%	-0.7%	0.1%	-1.3%
Wholesale Trade	1.6%	0.8%	0.1%	-0.5%	-0.1%	-1.0%
Retail Trade	0.3%	1.9%	-0.1%	-1.1%	0.0%	-1.8%
Trans/Ware/Util	2.6%	2.3%	1.0%	-0.1%	0.9%	-0.5%
Information	-2.8%	-2.5%	-1.7%	-4.1%	-1.2%	-0.8%
Financial Activities	1.7%	2.1%	0.8%	-0.5%	0.9%	0.4%
Prof & Business Serv.	2.0%	-1.0%	1.6%	1.0%	1.7%	0.7%
Education & Health	2.6%	-1.3%	2.5%	0.3%	2.9%	0.3%
Leisure & Hospitality	-0.5%	-2.9%	1.1%	0.3%	1.3%	0.4%
Other Services (Excl.Gvt)	0.4%	2.8%	-0.1%	1.2%	0.2%	0.5%
Government	0.5%	1.1%	0.2%	0.0%	0.0%	0.0%
Federal	2.7%	-0.6%	-0.2%	2.6%	-0.2%	1.0%
State	-0.3%	0.5%	0.6%	-0.3%	-0.4%	-1.1%
Local	0.4%	1.9%	0.1%	-0.1%	0.3%	0.4%

Table 4: Other Economic Indicators

	2020	2019	% change
St. Cloud MSA Labor Force January (MN Workforce Center)	113,723	112,729	0.9%
St. Cloud MSA Civilian Employment # January (MN Workforce Center)	108,607	107,372	1.2%
St. Cloud MSA Unemployment Rate* January (MN Workforce Center)	4.5%	4.8%	NA
Minnesota Unemployment Rate* January (MN Workforce Center)	3.9%	4.3%	NA
Mpls-St. Paul Unemployment Rate* January (MN Workforce Center)	3.3%	3.6%	NA
St. Cloud Area New Unemployment Insurance Claims Nov.-Jan. Average (MN Workforce Center)	1,188.3	1,134.7	4.7%
St. Cloud 12 Stock Price Index as of January 31 (SCSU)	825.78	785.82	5.1%
St. Cloud City Residential Building Permit Valuation in thousands, Nov.-Jan. Average (City of St. Cloud)	992.3	869.2	14.2%
St. Cloud Index of Leading Economic Indicators January (SCSU) 2012-13 = 100	112.2	113.2	-0.9%

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.

Data show strong start to 2020, pre-COVID-19

Growth of employment in the St. Cloud area was 0.5% in the 12 months to January 2020. This is a much smaller increase than was previously reported. The chief reason for this was a revision of the data by Minnesota DEED.

December 2019 employment was revised downward by 0.7% (757 jobs). Construction was revised downward significantly, as were education and health services. Retail trade and professional and business service jobs were revised upward due to reclassification of a firm or a set of firms into this category.

The revised data nevertheless show that employment growth in St. Cloud was much greater than those for the state overall and for the Minneapolis-St. Paul region.

Construction/mining/logging employment grew 8.6% in St. Cloud versus 2.9% for the state. Retail trade employment grew in the area, while declining elsewhere in the state and transportation/warehousing/utility sector employment followed the same pattern. In contrast, leisure and hospitality employment in St. Cloud fell 2.9% in the 12 months to January 2020 while growing marginally in the state.

Demographics of the St. Cloud area continue to be favorable to employment growth. The labor force grew 0.9% in the last year through January, and the number St. Cloud area persons employed grew 1.2%, as seen in Table 4. The unemployment rate stood at 4.5% in January, higher than other parts of the state; the Minneapolis-St. Paul area January unemployment rate at 3.3% is the lowest since 2001.

Table 5: Impact of Indicators on St. Cloud Leading Economic Indicators, January 2020

Indicator	Impact on leading indicators
Initial Claims for Unemployment Insurance	DOWN ▼
New Business Incorporations	UP ▲
Professional Employment	DOWN ▼
St. Cloud 12 Stock Price Index	DOWN ▼
Current Conditions in Survey	UP ▲
Future Conditions in Survey	UP ▲

The average number of new unemployment insurance claims rose 4.7% over the November 2019 to January 2020 period versus the year before. It is worth noting that this period includes the initial period of unemployment for former Electrolux workers, but they may not be counted in these statistics due to their qualification for Trade Adjustment Authority assistance.

The St. Cloud 12 Stock Price Index rose 5.1% over 12 months through January 31. We note that this measure has been changed by the elimination of two stocks from the index and the introduction of one other.

Electrolux is no longer included in the index since they have left St. Cloud, and Bluestem Group has been removed because the stock has traded at such small prices and quantities that its impact on the index is nil. We have introduced Encore Capital Group (ECPG) to the index. A mortgage finance firm, Encore operates in St. Cloud as a branch of Midland Credit Management.

Consistent with information about construction employment, city of St. Cloud residential building permit valuations rose 14.2% in the quarter versus year ago levels. The St. Cloud Index of Leading Economic Indicators (LEI) fell 0.9% over the last year but rose 0.3% in the most recent quarter.

While the overall index rose, there was an even split of the six indicators in LEI this quarter. Positive readings came from response of the St. Cloud Area Business Outlook Survey to both questions about the previous quarter and the upcoming six months. New business incorporations likewise had a positive impact on LEI.

In contrast initial claims for unemployment insurance, professional and business service employment and the St. Cloud 12 Stock Price Index indicated a decline in area employment in the next 4-6 months.

Of the 12 stocks now in the index, six rose and six fell in the quarter, with overall index growing a scant 0.1%. American Axle, parent company of Grede, rose 10.5% in that quarter while Pilgrim's Pride fell by 14.2%.

It is again important to note that the data we use here ended in January. On the last day of that month there were six cases of COVID-19 within the U.S. and the price of oil from west Texas was $51.56, as much as $20 more than at this time.

The latter is perhaps due to lower demand due to the pandemic but also reflects a breakdown in OPEC and subsequent increase in supply from Saudi Arabia and Russia. The best way to think about this report is as a retrospective of where we were 1-2 months ago, while recognizing it's a new world now.

Supply, demand and recession watch for 2020

There is an old joke that says to make an economist all you need to do is train a parrot to say the words supply and demand.

Macroeconomists often discuss expansions and recessions as responses to shocks to an economic system. The outbreak of COVID-19, which reached the U.S. and now Minnesota in the last few weeks, is an example of one such shock. And economists often divide shocks into supply shocks and demand shocks.

The early focus on COVID-19 was the impact of the outbreak in China and then elsewhere in Asia on the supply chain that firms, mostly manufacturers, use to reduce the cost of producing goods. Supply chains can be quite complex, particularly when combined with just-in-time production. Disruption of any link in the chain, such as what happened in China in the first half of February, will delay production up the line.

In St. Cloud this works much like the tariff hikes of 2017-18. It is worth noting that manufacturing employment in St. Cloud in the 12 months to January fell 0.5%.

These are largely transitory effects, however. Reports from China are conflicting, but a well-cited index says only 55% of migrant workers in China have returned to work from the Lunar New Year holiday. However, Textron, the firm that operates Arctic Cat, uses some Chinese components and said in mid-February that it had not yet experienced any disruptions. This could be because most firms stockpile inventories in anticipation of the Chinese holiday. It remains to be seen if stockpiling was sufficient.

The demand side of the shock is partly related to the experience of social distancing. The impact of families' self-isolation is perhaps most strongly felt in leisure and hospitality, particularly after Gov. Walz ordered such businesses closed as of March 17. Schools, churches and social programs are canceled. All of this withdraws spending from the economy temporarily.

Some businesses will not be able to withstand the loss of sales. Layoffs are to be expected if this behavior continues, which began within the week of this writing. Leisure and hospitality in St. Cloud has also been weak in 2019, with 2.9% lower employment in January 2020 than January 2019. A lengthy period of social distancing would do greater damage to this sector.

Lastly, there is the additional shock to demand from the drop in the stock market. As seen on the accompanying graph, the St. Cloud 12 Stock Price Index declined 26.1% since reaching its 2020 peak on January 16, including 13.6% in the week of March 9-13.

Economic theory says that a supply shock would lead to greater savings regardless, but the size of this loss would seem to indicate area sales will fall even further as families seek to replenish savings. Unlike the supply shock, the impact of the demand shock will take longer to sort through.

As noted elsewhere in this report, the St. Cloud Index of Leading Economic Indicators has been in a sideways pattern over the last two years, with the last two readings having shown a narrow range. These data were only through January and thus could not show the impact of the latest information, which seems to change daily.

Most national forecasters indicate that we will experience one quarter of decline in national GDP, and more than a few would suggest two quarters, which some readers will recognize as the short definition of a recession. St. Cloud seems no less vulnerable to a recession than the nation as a whole.

So, while the indicators might not show a forthcoming recession just yet, supply shocks tend to be sudden in their impact, and the lost revenues in retail, leisure, education and entertainment from social distancing is perhaps to last longer. We will wait for further signs of recession in the data in March and April, but we are certainly on recession watch now.

Authors share thoughts on impact of COVID-19

Statement by Rich MacDonald

In more than 21 years of co-authoring the St. Cloud Area Quarterly Business Report, we have only once offered our personal views on the impact of events on the economy. This occurred in November 2008, at a time when the U.S. (and global) economy was in the grips of a financial crisis. That was an extraordinary period — one that changed the way we think about economic policy. The current crisis is also such a period.

It is tempting to use traditional models to evaluate the potential impact of the virus on economic activity. Many readers will recall what this situation might have looked like in their undergraduate economics classes — a shift in an aggregate supply curve, another shift to aggregate demand, an attempt by policy authorities to counter the demand side shock through activist monetary and fiscal policy ... this traditional approach was highlighted earlier in the report and it is likely the basis for much of the analysis that you will read on the economic impact of the shock.

What this traditional analysis relies on is that the underlying structure of the economy is stable — so that any shocks are seen as temporary deviations from a long-run equilibrium that will be restored once conditions return to normal. But, what if the underlying structure of the economy is changed by this crisis?

What, then, does normal look like? Since the financial crisis, there have been countless references to "the new normal." For example, we can no longer think about monetary policy in the same way that we did prior to 2007.

I fear that the shock that is sweeping across the globe has the potential to impact the U.S. economy in ways that are not easily modeled. Because of this, I am not particularly confident in our ability to know what the economic impact of COVID-19 will look like. While there will certainly be a large short-term economic disruption, I am unsure of where we end up once the virus has run its course.

Ordinary recessions usually take the form of lower sales at many establishments, temporary layoffs, declining production, etc. Some firms don't survive these ordinary recessions, but most businesses rebound from the slower pace of activity and return to normal. But the current crisis looks VERY different.

In many cases, businesses are simply shutting down (as I write this, New York City and Los Angeles have just announced the closing of bars and the restriction of restaurants to takeout and delivery) and it is unclear how many of these businesses will be able to endure an extended period with distressingly low (or even zero) revenues. We have all seen the dystopian images of empty streets in Hubei Province and have likely personally encountered empty shelves in area stores.

This does not feel like a "normal" shock. Even if the decline in economic activity is temporary, it will leave in its wake a disproportionately large number of bankrupt firms who will have been unable to withstand an extended period of no business activity.

As noted earlier in this report, these firms are likely to be in the travel/tourism, hospitality and entertainment sectors, but no firm will be immune to the indirect and induced impacts of this shock that result from firms in these sectors acquiring fewer supplies and workers experiencing reduced incomes.

The result, I fear, will be that the potential output of the economy will be reduced once the virus has run its course — and long-run growth will be compromised.

Similar to the shock that occurred after 9/11, this crisis will lead to a new set of societal priorities in which we ask governments to oversee the reallocation of resources to prevent and contain any propagation of future viruses.

Firms are likely to reconsider their supply chains. Trade relationships may be altered. The view that human resources can always travel seamlessly from one location to another will be challenged. The assumption that resources flow to their most valued uses underlies traditional economic analysis.

But inefficiencies result when these resource flows are significantly compromised. These inefficiencies persist as we adjust to a new way of doing things and long-term growth potential declines. The difficulty we face is how to overcome these challenges if we are indeed to face a new world order.

Speaker King Banaian, dean of the School of Public Affairs at St. Cloud State University, talks on Feb. 19 during the Winter Institute about the possible affects with the closing of Electrolux. JASON WACHTER/ST. CLOUD TIMES

Statement by King Banaian

The weekend before the publication of this report felt like few others in my professional life. Central banks cutting rates to zero; travel restrictions around the world disrupted vacations and business; favorite restaurants and theaters closed. It's the practice of the forecaster at times like this to look to history and find parallels.

There are very few true external shocks that come at you all at once. The last one even remotely like this one was 9/11. Markets in fact closed for four days because the Twin Towers were so close to Wall Street. Markets then fell the following Monday and shed 13% before recovering. The S&P 500 returned to its pre-attack level on October 11.

Had we a moment to pause and think about what was happening – had we more time to assess the human cost of COVID-19, I believe the swings in the market would likely be less than we are experiencing now.

But the stock market is only a forecaster of the economy; it is not the economy itself. Restaurants in major cities are seeing drops in traffic as much as 70%; area restaurants are already choosing to temporarily close, as has the Paramount Center for the Arts.

Early March surveys around the country are showing steep declines across a spectrum of industries. Our baseline case is that this going to happen here too at least for a while. The question is how long.

When the 9/11 attacks happened, this business report in September 2001 surveyed area businesses, with surveys open through that week of markets closing. That report noted "While no formal attempt was made to distinguish between pre- and post-attack responses, we were unable to detect any systematically distinguishable pattern of responses between the two sets of data."

Businesses were cautious and uncertain in an environment of a slowing national economy, and the report indicated "modest" economic growth. In the winter 2002 report, with survey data gathered in December 2001, growth was reported to "grow more rapidly."

A special question in the later report asked whether 9/11 had affected business activity at area firms. Ten percent reported they had experienced a "significant decrease," while 45% said there was "some decrease." The report's authors wrote, "The overall impact was modestly negative, with responses being consistent with the view that the effects of 9-11 were initially quite severe, but activity returned to near 'normal' after about a month. Yet, there are pockets still experiencing the fallout from 9-11 including the travel and tourism industries."

As longtime readers will remember, the closing of the Fingerhut distribution center was announced on Jan. 16, 2002. Did 9/11 cause Fingerhut to close? I think not. And while Fingerhut's closing delayed the ensuing expansion, it did not delay it by more than a quarter or two. Thus except for firms with connections to Fingerhut or its workers, the 9/11 attack was perhaps a one- to two-quarter event.

I expect the coronavirus impact to be the same. As I remember from 9/11, worry at the moment is greater than the actual harm we will face. We have not given ourselves time to think through the real impacts, so it is easy for us to think "this time is different." I find comfort in the history of our community facing past shocks; we are a resilient bunch.

SPECIAL QUESTION 1

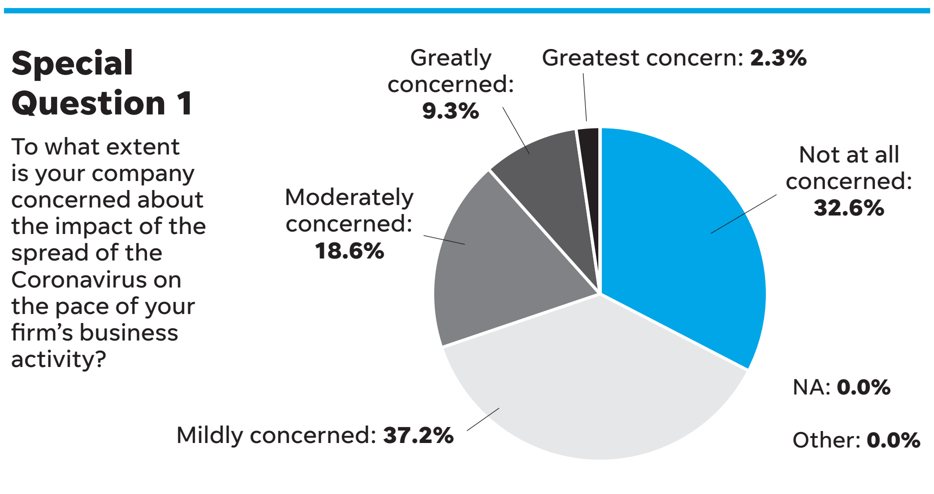
The impact of coronavirus on area businesses

On February 20, the St. Cloud Area Business Outlook Survey was sent to area business leaders. The ultimate deadline for returning completed surveys was March 13, meaning area firms had more than three weeks to submit their response.

Readers will note that it was an eventful three weeks. For example, during that three-week period, President Trump's statements evolved from "The coronavirus is very much under control in the USA...Stock Market starting to look very good to me!" (February 24) to a declaration of a national emergency on March 13. During that period, the S&P 500 declined from 3,226 to 2,711 (a 16% loss) with a low of 2,481 on March 12.

These pages are not intended for political commentary — this observation is simply used to illustrate how rapidly the situation has deteriorated as the virus has spread throughout the world. Many other countries around the world have also underestimated the speed with which the virus would spread. The decline in the stock index is a reminder of how dramatically fortunes can be reversed when markets are besieged by uncertainty.

With this in mind, we want to remind readers that conditions have changed from when we received the first survey response until now. We will revisit this issue next quarter. Casual empiricism suggests the pattern of survey responses to this special question became more negative as the survey period went on. This is no surprise, given the way the crisis has evolved. So, with this caveat in mind, we note the responses to the following special question:



To what extent is your company concerned about the impact of the coronavirus on the pace of your firm's business activity?

Area firms express only mild concern about the impact of the coronavirus on their business activity. Thirty-seven percent of respondents are "mildly concerned" and another 33% are "not at all concerned." Nineteen percent of firms express "moderate concern" and another 9% are "greatly concerned." One firm indicates "it is our greatest concern."

Given the crisis is examined elsewhere in this report, we limit our analysis of this question to the following written comments:

▮ We will have to watch the impact on our customers and work with them through their struggles.

▮ Although many industry meetings, conferences, and marketing are canceled or postponed, our industry has such long gestation periods for projects, our sales probably won't be affected immediately. But uncertain how long the panic will last.

▮ Will probably not be able to get products as needed.

▮ As the general level of business activity changes it impacts the amount of freight carried by our customers.

▮ The most significant effect could be on travel in the US.

▮ We've experienced these types of events before.

▮ If component supplies are interrupted from China, production would be affected and could cause short term production halts.

▮ We are mildly concerned in so much that we are connected to the general economy and consumer confidence impacts many things. If people clam up and reduce their risk tolerance, this could impact financial markets, travel, entertainment and many other discretionary purchases. The ripple effect of all these items will impact us as well.

▮ More of a supply issue than a demand issue.

▮ Could impact Ag exports.

▮ If it were to appear in our area it could hamper our workforce.

▮ If coronavirus continues, it will not only halt all travel to China, but Asia as a whole. We are also concerned for the impact (elsewhere in our industry).

▮ Our business in China is down significantly, travel and business activity in Asia is way down, definitely affecting our revenue from that region.

▮ A lot of product for our industry comes from China which could result in shortages if the factories don't re-open.

▮ I don't expect a significant issue in the US. We are not in international trade.

▮ Initial query of clients has not revealed problems (so far).

▮ Still a lot of uncertainty.

▮ As a (key industry impacted by the virus) we are aware of and involved in preparing and handling (those who are impacted by the virus). Significant organizational plans and efforts.

▮ We have been hearing some rumblings of supply chain disruptions. We haven't been affected yet, but may very well be soon.

▮ We are waiting for electronics coming from China.

▮ We have seen a short-term pick-up as some customers can't get their product from China.

▮ I am concerned only that it may affect agricultural exports to China.

Outlook

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4 The future outlook of those area businesses responding to the St. Cloud Area Business Outlook Survey was mostly favorable. Forty-seven percent of surveyed firms expect an increase in business activity over the next six months, and only 12% expect decreased activity.

Thirty-five percent of surveyed firms expect to expand payrolls by August and 42% anticipate increased capital expenditures over the next six months. Fifty-six percent of firms expect to pay higher wages and salaries by August 2020.

The local labor shortage appears to have moderated over the past three months. Only 14% of firms report increased difficulty attracting qualified workers. Some firms indicate it was less difficult to attract qualified workers over the past quarter.

5 In special questions, 32.2% of firms are "not at all concerned" about the impact of the coronavirus on their business activity and another 37.2% are "mildly concerned." Firms "moderately concerned" about the impact of COVID-19 is at 18.6% and 9.3% express "great concern." One firm notes it is its "greatest concern."

We note that the survey was open for 22 days, so firms' attitudes may have changed as the virus and policy responses to it rapidly changed over the survey period.

In a second question, 21% of firms encounter "moderate problems" from employees' difficulty managing the cost and unavailability of day care. Another 14% of firms report this to be a "serious problem."

A separate special question reveals that 40% of our surveyed businesses are "moderately concerned" about replacing retiring workers and another 9% are "greatly concerned." One firm reports it is its greatest concern

SPECIAL QUESTION 2

Problems associated with access to day care

At the December 2019 QBR Review program, we asked attendees if they had any suggested topics for upcoming special questions. One of the suggestions was to address how employers are impacted by the difficulty faced by their employees in obtaining affordable day care.

This is an issue that has attracted regional interest by economic development officials. The lack of affordable child care impacts child development and school readiness as well as having the potential to impact area employers in their ability to attract and retain qualified workers.

Since these issues may pertain to employees who have to care for their aging relatives, access to day care is likely to also become of increased concern as a growing share of the elderly population reaches an age requiring more frequent monitoring. With these issues in mind, we asked:

To what extent does your firm encounter problems arising from the difficulty experienced with the cost of and/or availability of day care?

Fourteen percent of surveyed firms identify this as a "serious" problem and another 21% consider this to be a "moderate" problem. A little over one-third of respondents indicated this was "not at all a problem" and another 28% identify this as a "minor" problem.

With 35% of firms indicating child care challenges as either a "moderate"

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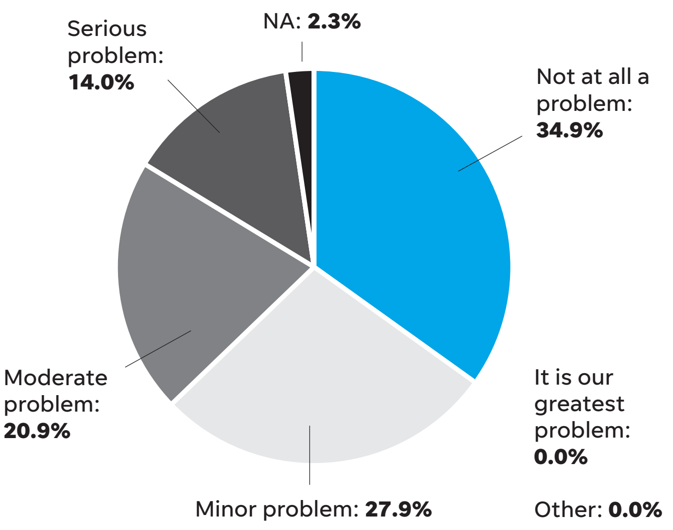
Special Question 2

To what extent does your firm encounter problems arising from the difficulty experienced by your employees with the cost and/or unavailability of day care?



SPECIAL QUESTION 3

Share of firm's workforce that's aged 55 or older

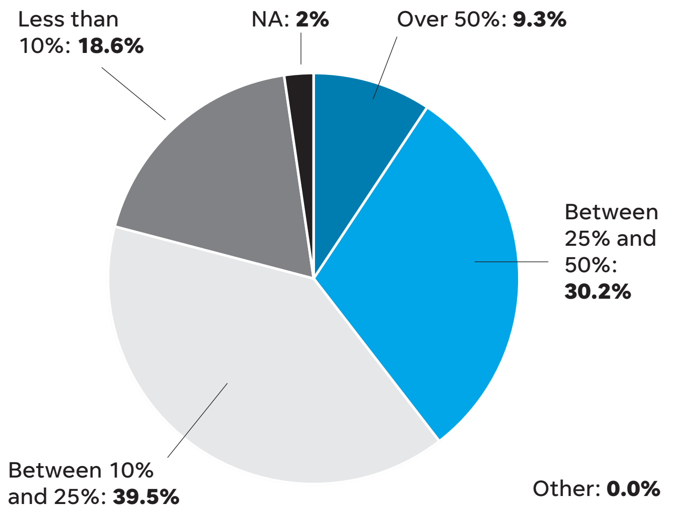
Another issue QBR Review participants asked us to look into has to do with the aging of the area workforce. In November 2017, we asked a couple of special questions regarding i) the share of surveyed firms' workers who are aged 55 or older and ii) the extent to which firms were concerned about replacing retiring workers.

With November 2017 as our baseline, we thought we would see if firms' attitudes about replacing retirees has shifted. We first asked firms to report on the percentage of workers who are 55 or older. We asked:

Approximately what share of your company's workforce is aged 55 or older?

Special Question 3

Approximately what share of your company's workforce is age 55 or older?



The results are somewhat different than what was reported 27 months ago. Most firms report that between 10-25% or between 25-50% of their workforce is aged 55 or older. Few firms (9%) have more than half of their workforce aged 55 or older and 19%of firms have less than 10%of their workforce in this age range.

By comparison, in the November 2017 survey, 15% of firms had more than 50% of their workers aged 55 or older and 30% had less than 10% of their workers in this age range. Compared to 2017, there is a much larger share of firms that have between 10% and 50% of their workers that are 55 or older. Written comments include:

- Fortunately, the majority of the executive management is under the age of 55.
- While we have tried to keep the age distribution even over the years, the older people have tended to be better and more reliable, and the young ones leave more quickly. So, we are weighted more toward the top, but not unacceptably so.
- This number will be much higher in 5-10 years.
- To date this has not been a problem
- Nobody is 55 or older.
- The entire industry segment is older. Entry is tough.
- Our workforce is aging but we still have a young group coming up.
- We are working hard to bring in younger generations and work with them to build a culture they can admire.
- We have a good spread of employees across age bands.
- Employees don't leave our company. We have many 25 plus years.

SPECIAL QUESTION 4

Concern about replacing retiring employees

In November 2017, 43% of surveyed firms reported a “slight concern” about replacing retiring workers. Another 32% indicated this was a “moderate concern” and 13% were “greatly concerned." Few firms expressed this was their greatest concern or that they were not concerned at all. This quarter we asked the same question. We asked:

To what extent is your firm concerned about replacing retiring workers over the next several years?

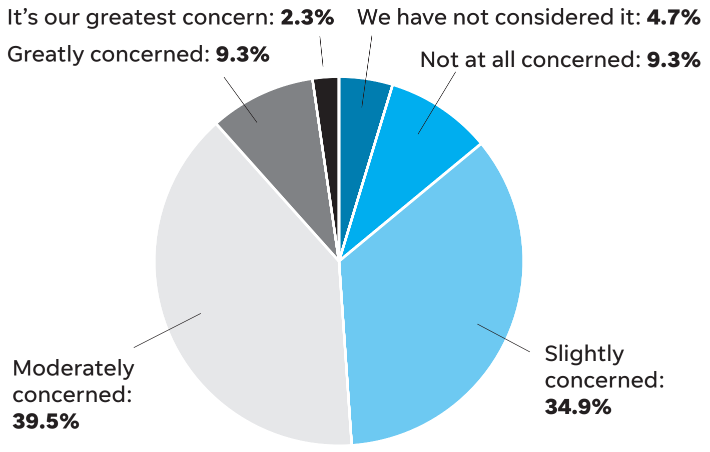
This quarter’s results resemble what was found in November 2017. For example, 40% are now “moderately concerned” about replacing retiring workers, but only 9% are “greatly concerned." Thirty-five percent of respondents are now only “slightly concerned."

As always, firms’ written comments are instructive:

▮ Moderately concerned as the majority of staff aged 55 and older are in key business development type positions. We regularly recruit.

Special Question 4

To what extent is your firm concerned about replacing retiring workers over the next several years?



NA: 0%
Other: 0%

▮ Replacing workers is not that bad. Replacing their experience in a high-value-added job shop is death-defying. We are currently strengthening our SOPs and documentation in anticipation of losing the experience, but it will still be a learning process and drag on efficiency.

▮ There needs to be some changes in parents mindsets, high school counselors way of doing things to encourage students to seek careers in construction, and laws that would allow kids under 18 years old to try out construction or there will be a tremendous shortage in our industry in the near future.

▮ It is becoming increasingly difficult to find employees.

▮ It has been difficult to find suitable younger employees.

▮ Currently replacing a retiring employee.

▮ Regulation is tougher. BS wears people out.

▮ Younger people seem to want work that's maybe easier and less physical.

▮ There is a strong need for more talent, and a bigger pool generally, not just because of retirement.

▮ Our growth has enabled us to add a younger workforce, which will help as our long term, older workforce hits retirement age.

▮ (Some employees with skills employed in our industry) are not being trained any longer in trade school.

▮ Recruiting (employees) to our site.

▮ The pool of replacements is way too thin and has been for a long time.

▮ We have many employees who will be retiring over the next 10 years.

▮ We will automate most of our work.

▮ Several key management employees retiring in near future.

Day care

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or “serious” problem, this issue warrants more careful consideration by regional policymakers and economic development officials. Firms’ written comments include:

▮ I do not know the extent of concern here as I do not have kids in day care.

▮ The employees with children under 10 or so have distinctly poor attendance when there is a perturbation in their day care situation or sick child. Telecommuting is not a good option in (our) shop. We see a very similar problem when employee’s parents start to reach the end-of-life. While employee doesn’t necessarily miss work, the distractions and time on the phone are so intense, they may as well not be here. And you can’t penalize someone for having a sick child or dying parent.

▮ The lack of family daycare because of the over burden of regulation which has caused many to close because it is not financially feasible is a big problem in the affordability of daycare.

▮ We have lot of entry level positions and those people fight a number of economic factors, including child care.

▮ Very few employees with young children

▮ Nobody has the need for day care services.

▮ With the changes in state regulations, supply has been restricted and costs have gone up with rippling effects of a reduced labor pool being available due to more parents staying home and others not a fit for our work schedules. As young families are increasingly planning the growth of their family around day care availability, it seems very obvious the unintended negative consequences of the additional regulations have surpassed whatever benefits were desired.

GETTY IMAGES

▮ I think lack/cost of daycare takes a segment of the lower end of the job scale out of the workforce

▮ Regulation has driven many small providers out of business. (We don’t know) if it’s safer now but it is certainly more expensive if you can find it. More creative working from home options need to be considered.

▮ Especially pre-school age day care is in short supply. If employees do not have support from relatives, we can sometimes lose them.

▮ We have an older long-term employee pool.

▮ Inadequate supply...waiting lists... $300/week cost!

▮ Few employees with young families.

▮ We have an older workforce made up of single men that are older or older married employees with no day care needs.

▮ Our employees do have problems, especially when their day care provider is sick. This causes problems with who stays home with the kids.

▮ I have lost good employees because they couldn’t find day care.

▮ Not a problem at this time.

▮ We have had to let employees work from home because they could not get day care.