6-15-2020

St. Cloud Area Quarterly Business Report, Vol. 22, No. 2

King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu

Richard MacDonald
St. Cloud State University, macdonald@stcloudstate.edu

ST. CLOUD AREA

Quarterly Business Report

SUNDAY, JUNE 14, 2020 | VOL. 22, ISSUE 2 PART OF THE USA TODAY NETWORK

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.

About the authors

KING BANAIAN

School of Public Affairs,

St. Cloud State University,

320-308-4797

RICH MACDONALD

School of Public Affairs

Research Institute,

St. Cloud State University,

320-308-4781

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.

COLLABORATING PUBLISHERS:

GREATER ST. CLOUD DEVELOPMENT CORPORATION

Greater St. Cloud Development Corp.
320-253-1424

SCHOOL OF PUBLIC AFFAIRS RESEARCH INSTITUTE
ST. CLOUD STATE UNIVERSITY

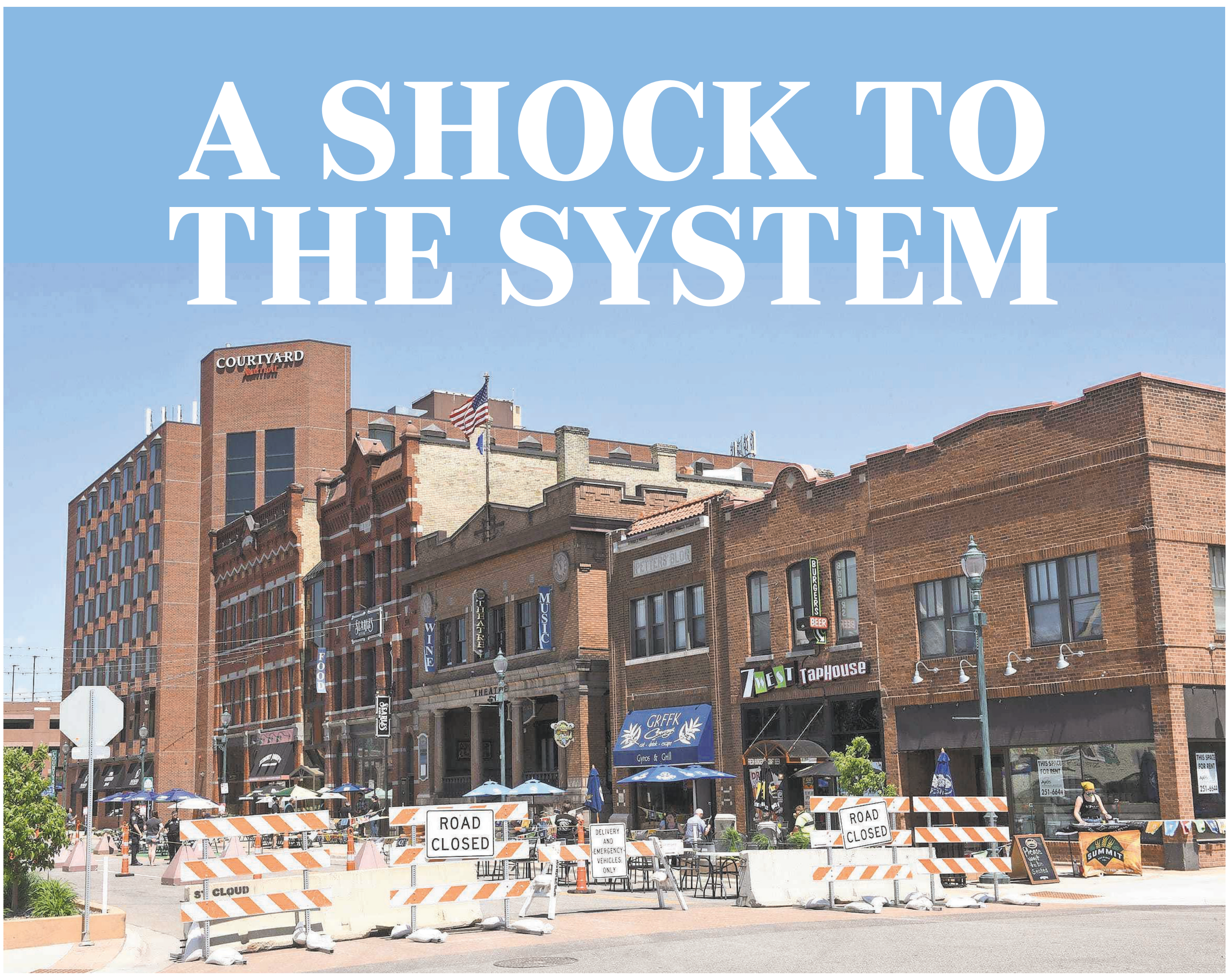
INSIDE

- What shape will the economic recovery resemble? **Page 4**
- Local labor market has been hit hard by COVID-19 pandemic — but it could be worse. **Page 4**
- Area businesses staggered by pandemic's impact. **Page 5**

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.

A SHOCK TO THE SYSTEM



Fifth Avenue in downtown St. Cloud is closed so that restaurants could open additional patio seating on June 1. ZACH DWYER/ST. CLOUD TIMES

Coronavirus slams local economy

Events associated with the COVID-19 pandemic have driven the local economy into recession. As has been seen throughout the U.S. (and the world), the temporary closing of many area businesses has caused an economic shock that has torn through the entire economy.

Nearly all data measures have turned south as the human toll of the coronavirus has extended beyond deaths and hospitalizations to unemployment, business closures and uncertainty that spans virtually all sectors of the regional economy.

St. Cloud area employment contracted 11.5% in April 2020 compared to one year earlier. All sectors of the local economy shed jobs, with the largest year-over-year job losses occurring in the leisure/hospitality, other services, manufacturing, education/health, information and professional/business services sectors. The only surprise in the data was a smaller than expected decline in retail trade, falling 3.9% in the St. Cloud area but 11.6% in the state as a whole.

For the year ending April 2020, employment declines in the United States, Minnesota, Twin Cities, Duluth and Rochester were all worse than in the St. Cloud Metropolitan Statistical Area. With the exception of Rochester, the unemployment rate in these other regions is also higher than is being observed in St. Cloud.

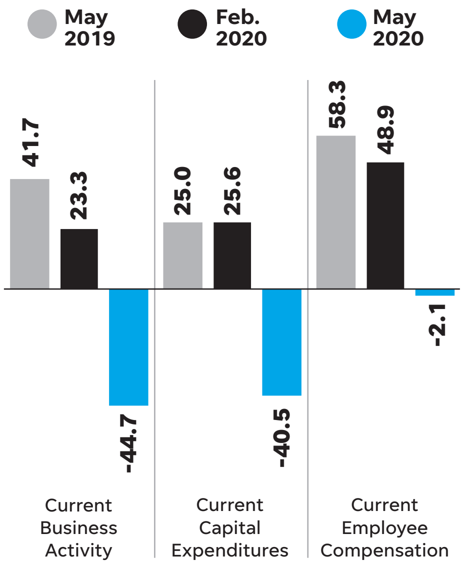
The St. Cloud Index of Leading Economic Indicators was down 0.3% in the quarter and down 2.3% over the last year. Current business activity at surveyed firms was weaker than at any time over the 22 years that the St. Cloud Area Business Outlook Survey has been administered (this includes quarterly survey responses from two previous recessionary periods — at the beginning of the 2000s when Fingerhut closed as well as during the Great Recession).

For example, two-thirds of surveyed firms report a decrease in business activity over the past three months and more than half of firms report reduced capital expenditures. The future outlook of surveyed firms on the other hand suggests some room for modest optimism. While the survey's forward-looking numbers are usually stronger in the May edition (see the chart in the box to the left), nearly one-half of respondents expect stronger business activity by November.

All of the future outlook survey items are weaker than usual, but only two of these items slipped into negative territory in May. The outlook is especially weak for capital expenditures, but the recession has likely ended the local labor shortage.

See ECONOMY, Page 3I

Key results of survey



This recession is not like the other

The current recession has begun. The National Bureau of Economic Research announced on June 8 that the long expansion of 2009-20 ended in February. We would argue that the local area economy's expansion ended in March, though employment growth had been fairly week in the last several months. A dramatic drop in April private sector employment of over 10,000 jobs (11.2%) will be sufficient proof.

The 2008-09 recession was centered around different shocks coming from the financial sector. Housing and construction were differentially hard hit, financial services suffered major shocks and manufacturing fell as financing for goods production was sharply curtailed in a credit crisis.

The 2020 recession has been so far substantially different, centered around reactions to the COVID-19 pandemic by consumers, "non-essential" businesses and policymakers.

As we noted last time when policy responses were just beginning, the first impact of the pandemic was felt by those who provide manual services to our population. From leisure and hospitality to retail workers, from health care workers not directly supporting care for COVID patients to workers in personal care such as salons and gyms — these areas were hit first with the early state orders to suspend business operations.

That shock has now been compounded, however, by a more traditional shock to the demand for the products and services St. Cloud produces. As the pandemic has proceeded around the country and world, our goods producers have seen declines as well as those manual service workers.

See RECESSION, Page 3I

Survey results for standard questions

Table 1: Current business conditions

St. Cloud Area Business Outlook Survey summary, May 2020

What is your evaluation of:	May 2020 vs. three months ago: Percentage decrease	No change	Percentage increase	Diffusion index[3]	Feb. 2020 diffusion index[3]	May 2019 diffusion index[3]
Level of business activity for your company	66.0	12.8	21.3	-44.7	23.3	41.7
Number of employees on your company's payroll	38.3	51.1	10.6	-27.7	14.0	27.1
Length of the workweek for your employees	44.7	44.7	10.6	-34.1	-4.6	12.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	51.1	34.0	10.6	-40.5	25.6	25.0
Employee compensation (wages and benefits) by your company	23.4	55.3	21.3	-2.1	48.9	58.3
Prices received for your company's products	23.4	63.8	6.4	-17.0	21.0	39.5
National business activity	57.4	21.3	8.5	-48.9	9.3	16.7
Your company's difficulty attracting qualified workers	14.9	70.2	6.4	-8.5	4.7	37.5

Table 2: Future business conditions

St. Cloud Area Business Outlook Survey summary, May 2020

What is your evaluation of:	Six months from now vs. May 2020: Percentage decrease	No change	Percentage increase	Diffusion index[3]	Feb. 2020 diffusion index[3]	May 2019 diffusion index[3]
Level of business activity for your company	29.8	12.8	48.9	19.1	34.9	39.6
Number of employees on your company's payroll	17.0	48.9	27.7	10.7	30.2	33.3
Length of the workweek for your employees	21.3	44.7	23.4	2.1	11.6	14.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	31.9	38.3	19.1	-12.8	39.6	29.1
Employee compensation (wages and benefits) by your company	17.0	51.1	25.5	8.5	55.8	50.0
Prices received for your company's products	12.8	59.6	14.9	2.1	23.3	29.1
National business activity	19.1	19.1	40.4	21.3	16.3	22.9
Your company's difficulty attracting qualified workers	12.8	63.8	10.6	-2.2	23.2	22.9

Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion. Source: SCSU School of Public Affairs Research Institute

CURRENT ACTIVITY

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

Table 1 shows that the three-month period ending in May 2020 was the beginning of a sudden, sharp recession. Four key current business conditions series found in Table 1 obtained the lowest values recorded since the local quarterly business survey was first administered in December 1998. Among the series that reached historical lows are the current business activity item (whose diffusion index registered a -44.7 reading in May).

Sixty-six percent of surveyed firms reported decreased business activity in the current quarter and only 21% indicated an increase in activity. 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 values on length of workweek and national business activity were also at an all-time low. This is no surprise as many local firms were either closed or open for reduced hours and the national economy contracted.

Perhaps the most troubling result in Table 1 is the index on current capital expenditures. As can be seen in the accompanying figure, with a value of -40.5 this index is much lower than has ever been recorded (by comparison, the previous low point was in May 2009, during the Great Recession, when the index value was -12.9).

While it is entirely possible that area firms are simply delaying capital investment until the economy recovers, note that the results in Table 2 are also of concern — the future capital expansion plans of surveyed firms are also at an all-time low. As seen later in this report, firm concerns that the COVID-19 pandemic will have a permanent unfavorable impact on the overall economy can be explained by the decline in capital expenditures. Any significant change in the trajectory of capital investment will put the overall economy on a slower growth path.

The precipitous decline of the employee compensation index (see accompanying figure) is particularly striking. This index fell from 48.9 to -2.1 in just one quarter, with the May reading the lowest since the all-time low in February 2009, during the depths of the Great Recession. The combination of lost jobs, fewer hours of employment and lower employee compensation highlights how difficult this period has been for local workers.

We also note that the indexes on employment, prices received and difficulty attracting qualified workers turned negative this quarter. Despite weak supply conditions, declining demand across the economy has contained most price movements and the weak labor market has eliminated the shortage of workers.

Noting the historically weak performance of the current conditions indexes in Table 1, it remains to be seen what "normal" will statistically look like when the local economy recovers from this shock. The abrupt change in these survey results are unlike anything we have ever witnessed.

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

- Open up the damn economy! Huuuuge overreaction, irresponsible mainstream media, more important to get the story out than to get it right. 24-hour news cycle has had a big negative impact on quality of info. No time allowed to get details.
- The state needs to open up to get things moving. Stop the political game. The bogus media numbers compiled on deaths are unreal. The truth will never be told on how many people would have died anyway COVID-19 or not. Very unfortunate & not a very good statement to hear but it is reality if someone would have the nerve to step forward and give us the truth.
- Keeping employees healthy.
- We feel that maybe there's more restrictions on how we go about our work even though we are typically on the outside of the buildings.
- Simply stated, "The Unknown."
- This is an opportune time to find employees who need a solid place to land. We are having success in attracting those employees.
- I expect that there will be major failures in many industries. I also expect that there will be many opportunities because of the virus and I hope to get in on some of those opportunities.
- We are a seasonal business with sales and production in April-November, layoffs and maintenance in December-March.
- Our ability to attract unemployed workers is hard due to the additional $600/week incentive.

FUTURE OUTLOOK

While the results from the future conditions index are much weaker than is normally expected in the May survey, we are able to identify areas of modest optimism in Table 2. An index value of 19.1 on future business conditions is the lowest ever recorded in the May survey, but nearly half of surveyed firms expect increased business activity by November.

A larger percentage of survey respondents (29.8%) than usual expect decreased activity in six months' time than when we asked this same question in May 2008 and May 2009 during the Great Recession (20% in 2009 and 16% in 2008). This series bounces around significantly because of seasonal factors, but there have been many times when this index has exhibited a weaker reading.

If some of those firms that expect weaker future business conditions can experience more rapid improvement in activity as the economy slowly opens up, a local recovery could be underway by the end of the year.

We have already noted our concern about current and future local capital spending plans. The accompanying figure charts the diffusion index on this item from Table 2. The value of -12.8 is an all-time low. We will explore this survey item in more detail in future editions of the St. Cloud Area Quarterly Business Report.

Similar to what was seen in the discussion of Table 1, the future employee compensation index experienced a large decline in the most recent survey. The index value on this item fell from 55.8 in February to 8.5 in May. The normal reading on this item in the May survey is 41.7, and was 19.8 in May 2009 (during the Great Recession, when there was downward pressure on wages), so firms' current expectation of future employee compensation is not encouraging.

Likewise local firms do not expect a rebound in pricing power over the next six months. But firms do anticipate an improvement in national business activity over the next six months from what all expect to be an historically weak second quarter for the U.S. economy.

Finally, we note that the future difficulty attracting qualified workers index turned negative this quarter. This index had been trending downward from its peak two years ago, but as seen in the accompanying chart, the shock from the COVID-19 pandemic tipped this series into negative territory for the first time since May 2009.

As we have often noted, this index has served as one of our unofficial indicators of local recession. Historically this series has followed a similar pattern as the aggregate economy, so it is no surprise that it has now turned negative.

The business cycle dating committee of the National Bureau of Economic Research announced on June 8 that a 128-month expansion ended in February. Likewise there is little doubt that local recession began in March 2020 (we also see this in data across other regions of the state). The big question is when will economic recovery begin and what will the recovery look like. We address these issues in the special questions.

Chart 1: Future capital expenditures

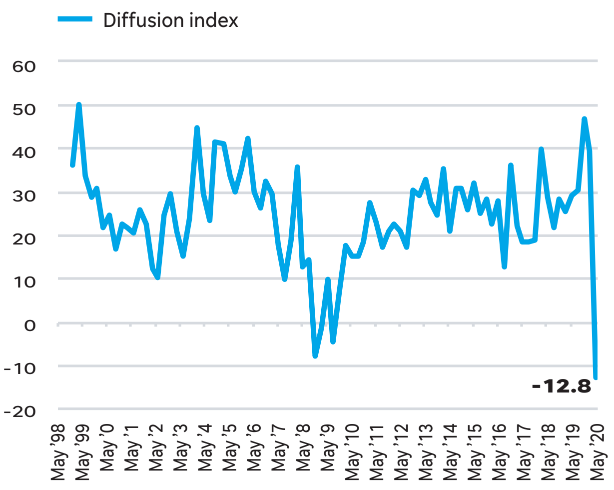


Chart 2: Current Employee Compensation

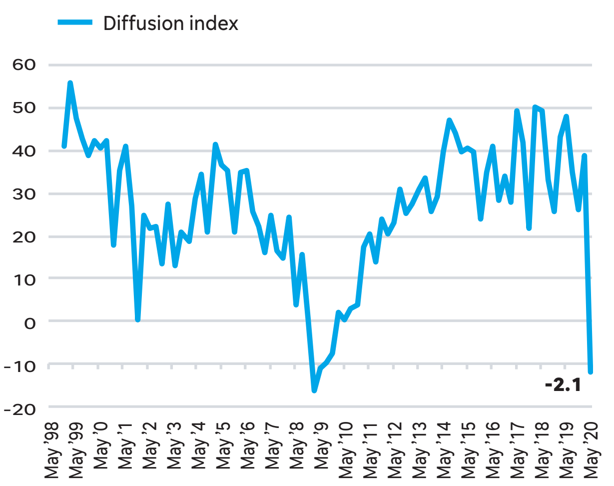


Chart 3: Future Business Activity

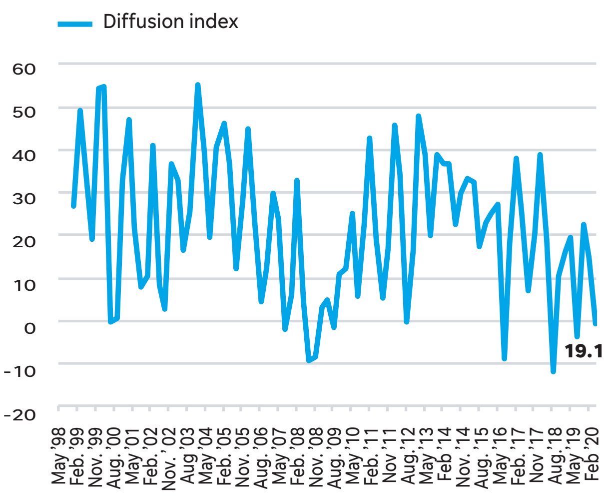


Chart 4: Future Capital Expenditures

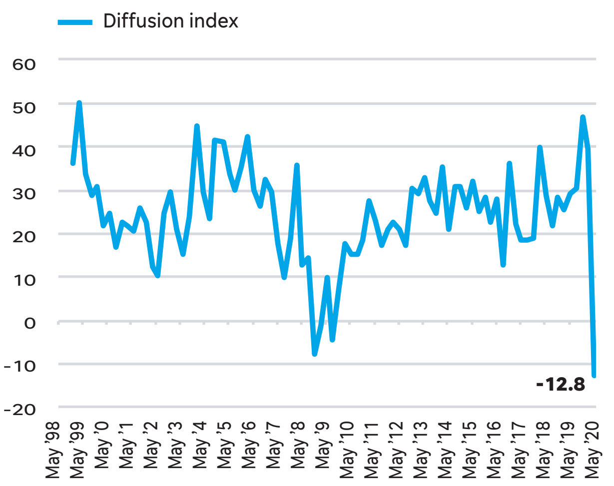
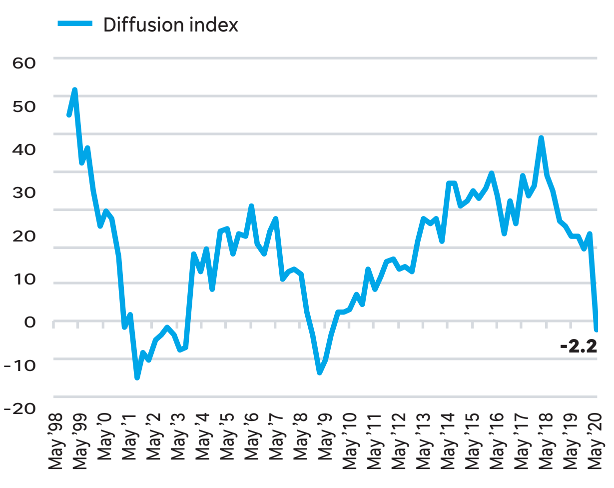


Chart 5: Future Difficulty Attracting Qualified Workers



Recession

Continued from Page 1I

The Labor Market Information office of Minnesota DEED has provided information on unemployment insurance claims at higher levels of granularity and frequency than before. We can see daily new claims; we can also see demographic and occupational data for initial claimants. These data are imperfect — not all claims are deemed eligible, data are missing, some can file then not collect insurance because they are rehired by their employer who may have received federal assistance. The pattern of these data tells an interesting story.

This table looks at the top 15 occupations where there have been initial claims for unemployment insurance filed, split by month. In March as one would expect, the manual service occupations in leisure and hospitality and personal appearance workers are joined by significant filings of health technologists and technicians who were temporarily laid off while hospitals pivoted to COVID treatment.

But as time progresses to April and May, goods production became areas in which there were higher levels of claims filed. Construction now stands as the leading sector in the Central Minnesota planning area that has seen its workers file claims. In this way at least, this recession is like the other, though for perhaps very different reasons. At least through April, home sales and building permits in the area did not show a significant decrease.

But there should be no doubt this recession will look different. We show here a comparison of our answers to the future outlook of the St. Cloud economy from our business leaders in May 2009 and May 2020. We use the two May figures because answers tend to be seasonal. We also provide the average May response to each of these questions.

The May 2009 survey was taken more than one year after the start of the recession, and yet the diffusion index for expectations of national business activity were significantly lower at that time than the recession that has just begun in 2020. Despite that, there is no real difference in expectations for St. Cloud business leaders' own businesses between then and now.

Business leaders in the current recession expect their capital expenditures and employee compensation to be less in the upcoming six months than in May 2009. Wage growth is expected to be more muted in the rest of 2020 than was expected in 2009 (wages in the subsequent year rose 4.5%).

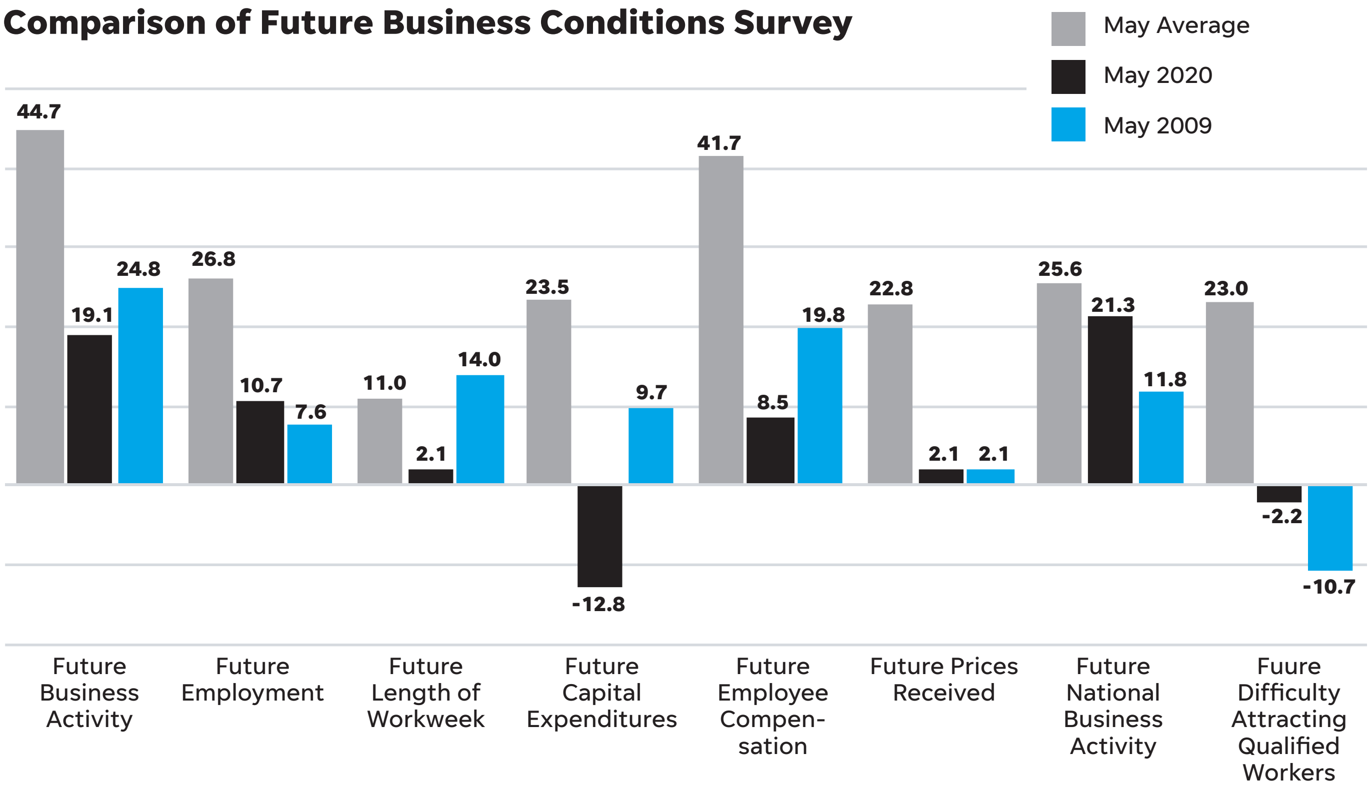
Where those adjustments will be made is hard to say. It seems clear that bringing consumers back to businesses that provide personal or manual services will take some time and it may or may not be capital that helps restore them. Business leaders seem more inclined to think this recession will be short, but how it will affect them seems an open question.

Initial claims

March 17 to June 2, Central MN Planning Area, by occupation, Top 15

Occupation	Total claims	March	April	May	Sparkline
Construction Trades Workers	6,535	1,890	3,089	1,556	
Food and Beverage Serving Workers	5,997	3,723	1,674	600	
Retail Sales Workers	4,929	1,316	2,718	895	
Other Production Occupations	4,091	656	1,984	1,451	
Other Healthcare Support Occupations	3,006	1,121	1,355	530	
Cooks and Food Preparation Workers	2,928	1,612	925	391	
Personal Appearance Workers	2,519	1,482	873	140	
Information and Record Clerks	2,499	881	1,208	410	
Health Technologists and Technicians	2,269	1,113	856	300	
Motor Vehicle Operators	2,219	545	1,112	562	
Metal Workers and Plastic Workers	1,964	392	1,055	517	
Health Diagnosing and Treating Practitioners	1,963	550	935	478	
Other Office and Administrative Support Workers	1,768	541	865	362	
Other Food Preparation and Serving Related Workers	1,671	727	688	256	
Vehicle and Mobile Equipment Mechanics, Installers	1,486	443	865	178	

March for week ending March 21 and March 28. Other months in total, 5 weeks of data (to June 2) in May.



Economy

Continued from Page 1I

In special questions, a majority of surveyed firms expect a slow, gradual economic recovery (U-shaped recovery). Few firms expect a rapid recovery (V-shaped), a double dip recession (W-shaped) or a prolonged period of flat activity (L-shaped).

Of particular concern is that more than half of surveyed firms expect the pandemic to have a medium or large unfavorable permanent impact on the overall economy. Few local firms expect the local economy to experience a favorable permanent impact from COVID-19.

Key takeaways

1 Private sector payroll employment in the St. Cloud area fell 12.8% from one year earlier in the 12 months through April 2020. The unemployment rate in the St. Cloud area was 8.2% in April 2020, which was much higher than the 3.4% figure observed one year ago. It was also higher than any measured April unemployment rate in St. Cloud found on the Minnesota Department of Employment and Economic Development (DEED) website (which has local data back to 1990). The local labor force declined by 1.2% in the 12 months to April 2020.

2 All sectors of the local economy experienced a reduction in employment over the 12-month period ending in April 2020. The worst performing sectors were leisure/hospitality (-57.9%), other services (-28%), manufacturing (-13.9%), information (-11.2%), education/health (-9.4%) and professional/business services (-7.1%). The "best" performing sectors were wholesale trade (-0.5%), financial activities (-2.1%), government (-3.9%) and retail trade (-3.9%). The mining/logging/construction sector (which is primarily construction locally) saw a 4.2% annual job loss.

3 The St. Cloud Index of Leading Economic Indicators fell by 0.3% in the quarter and was down 2.3% over the last year. Five of the six indicators fell in the quarter, with only the future outlook from the St. Cloud Area Business Survey contributing positively. The St. Cloud 12 Stock Index ended the year as of April 30, 2020 down 21.2%, touching a seven-year low on March 23. Over the same 12 months the S&P 500 was down 1.1%.

4 The future outlook of those area businesses responding to the St. Cloud Area Business Outlook Survey was well below what is normal for the May survey. However, there is reason for modest optimism that local economic conditions will improve by November. Forty-nine percent of surveyed firms expect an increase in business activity over the next six months, although 30% expect decreased activity. Twenty-eight percent of surveyed firms expect to expand payrolls by November, but only 19% anticipate increased capital expenditures over the next six months. Only 26% of firms expect to pay higher wages and salaries by November 2020. The local labor shortage is expected to disappear. Few firms expect it to be more difficult to attract qualified workers over the next six months.

To summarize survey respondents' future expectations: future local business activity and employment are each expected to modestly improve, prices received and employee compensation are likely to be little changed and capital expenditures are expected to fall. The national economy is also expected to improve over the next six months.

5 In this quarter's first special question, area business leaders provide a range of written responses of how their firm is being impacted by the COVID-19 pandemic.

In a second special question, 60.6% of firms expect the overall economy will experience "a slow gradual recovery" (U-shaped), and 17% expect "a recovery followed by another downturn which is then followed by another recovery" (W-shaped). About 10% of respondents expect "a rapid recovery" (V-shaped) and 7.4% anticipate "a prolonged period of weak economic activity in which the economy flatlines with no recovery in sight" (L-shaped).

The final special question asked area firms to evaluate the extent to which they think the COVID-19 pandemic will have a permanent long-term impact on the overall economy. Forty percent of firms expect the pandemic to have a "medium unfavorable permanent impact" and another 28% think it will have a "small unfavorable permanent impact." Thirteen percent of firms think the overall economy will experience a "large unfavorable permanent impact." Very few firms think there will be "no permanent long-term impact" or that the economy will be favorably permanently impacted.

Chris Conrad stocks fresh produce at the Coborn's Marketplace on Pinecone Road in Sartell on April 29. DAVE SCHWARZ/ST. CLOUD TIMES

Table 3: Employment Trends

	ST. CLOUD 2005-'20 long term	ST. CLOUD April '19 to April '20 growth rate	MINNESOTA 2005-'20 long term	MINNESOTA April '19 to April '20 growth rate	TWIN CITIES 2005-'20 long term	TWIN CITIES April '19 to April '20 growth rate
Total non-ag	0.1%	-11.5%	-0.2%	-13.1%	-0.1%	-13.4%
Total Private	0.1%	-12.8%	-0.2%	-14.3%	-0.1%	-14.5%
GOODS PRODUCING	-0.8%	-11.1%	-1.5%	-8.5%	-1.4%	-8.2%
Mining/Logging/Construction	2.6%	-4.2%	-0.5%	-10.0%	-0.8%	-14.4%
Manufacturing	-2.0%	-13.9%	-1.9%	-8.0%	-1.7%	-5.6%
SERVICE PROVIDING	0.4%	-11.6%	0.0%	-13.9%	0.1%	-14.3%
Trad/trans/utilities	-0.4%	-3.8%	-0.6%	-8.3%	-0.7%	-9.4%
Wholesale Trade	1.3%	-0.5%	0.0%	-2.2%	-0.4%	-4.2%
Retail Trade	-1.4%	-3.9%	-1.1%	-11.6%	-0.9%	-12.1%
Trans/Ware/Util	1.1%	-7.6%	-0.1%	-6.7%	-0.7%	-9.1%
Information	-3.0%	-11.2%	-3.0%	-7.5%	-2.7%	-5.3%
Financial Activities	2.7%	-2.1%	1.0%	-2.9%	1.0%	-2.4%
Prof & Business Serv.	2.3%	-7.1%	0.6%	-7.7%	0.6%	-8.2%
Education & Health	2.5%	-9.4%	2.8%	-11.0%	3.1%	-12.7%
Leisure & Hospitality	-5.3%	-57.9%	-3.9%	-65.5%	-3.7%	-56.0%
Other Services (Excl.Gvt)	-1.6%	-28.0%	-2.2%	-28.3%	-1.5%	-25.0%
Government	0.4%	-3.9%	-0.2%	-6.1%	-0.3%	-5.8%
Federal	2.6%	-2.2%	-0.7%	1.7%	-0.6%	-0.5%
State	-0.2%	-4.8%	0.5%	-2.9%	-0.3%	-4.6%
Local	0.2%	-4.0%	-0.4%	-8.1%	-0.2%	-7.0%

Table 4: Other Economic Indicators

	2020	2019	% change
St. Cloud MSA Labor Force April (MN Workforce Center)	113,324	114,675	-1.2%
St. Cloud MSA Civilian Employment # April (MN Workforce Center)	104,071	110,763	-6.0%
St. Cloud MSA Unemployment Rate* April (MN Workforce Center)	8.2%	3.4%	NA
Minnesota Unemployment Rate* April (MN Workforce Center)	8.6%	3.1%	NA
Mpls-St. Paul Unemployment Rate* April (MN Workforce Center)	9.2%	2.9%	NA
St. Cloud Area New Unemployment Insurance Claims Feb.-Apr. Average (MN Workforce Center)	7,009.3	505.3	1,287.1%
St. Cloud 12 Stock Price Index as of April 30 (SCSU)	636.49	807.93	-21.2%
St. Cloud City Residential Building Permit Valuation in thousands, Feb.-Apr. Average (City of St. Cloud)	1,630.8	1,597.7	2.1%
St. Cloud Index of Leading Economic Indicators April (SCSU) 2012-13 = 100	108.8	113.2	-3.9%

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 a collapse in economic activity

In Table 3 we report the decline in employment through April. It is widespread in our region — every category of employment in the St. Cloud area lies below its level in April 2019.

The story is similar around the state with the exception of two areas: construction and retail trade. Given the large number of initial claims for unemployment insurance reported elsewhere in this report, this smaller decline is interesting. But these data report for the week that includes April 12, which may be before the bulk of layoffs in the construction sector. We expect this number to worsen.

Retail trade is a more unusual result. This should be however understood in context of an annual figure. The difference for the month of April alone was 6.3% in the St. Cloud metro area versus 10% for the state. This better performance for St. Cloud has been developing for several months.

Manufacturing fell in the last year in the St. Cloud region much more than the state as a whole, which may finally reflect the closing of Electrolux.

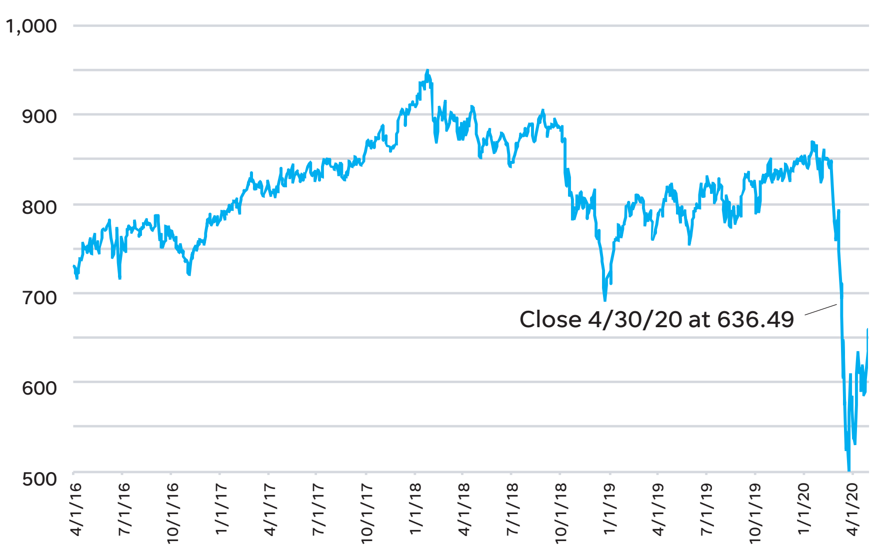
Area unemployment reached 8.2% in April 2020, up from 3.4% in April 2019, as seen in Table 4. The area labor force fell by 1.2% as some workers likely chose to step away from work during the pandemic. At 8.2%, St. Cloud's unemployment rate is a full percent lower than that in the Twin Cities and 0.4% lower than the state overall.

As discussed in the box on the first page of this report, there was an explosion of new claims for unemployment insurance in April, rising almost 13 times its level in April 2019. Residential building permits held steady versus year-ago levels in the period, a confirmatory data point for our observation about the relatively lower local decline in construction employment.

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

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

St. Cloud 12 Stock Price Index (November 1994 = 100)



Over the last three months to April 2020, the St. Cloud 13 Stock Price Index fell by 21.2% versus a 15.7% decline in the S&P 500 over the same period. On March 23 the index touched 500, a level last seen on March 4, 2013. All 12 stocks currently in the St. Cloud 13 declined between January 31 and April 30 2020, with the largest decline from American Axle falling 53% while C.H. Robinson and Wolters Kluwer both fell 2%, the best performers in the index.

The St. Cloud Index of Leading Economic Indicators (LEI) has fallen now for four of the last five quarters and 2.3% over the last year. The decline is much milder than what we saw in employment in April but no model or indicator series would be able to model the economic response to a pandemic and resulting changes brought about by consumers, businesses and governments. But the decline is sufficient at this point to identify a high point in LEI in the second quarter of 2019.

Five of six indicators in the LEI contributed negatively in the recent quarter to April 2020. Only the responses to future conditions from the St. Cloud Area Business Outlook Survey provide a positive contribution; as we noted before, the responses in Table 2 in some ways provide us some comfort that the recession could be shorter-lived. But all other indicators would predict declining employment between now and Fall 2020.

The actions of the federal government and the Federal Reserve have most likely prevented the worst predictions of the recession (made in late March) from coming true. Certainly, there is much more to go but national measures of financial conditions indicate a relative lack of stress. Confidence also is restored by a stock market that seems to have returned to normal while data on employment and production continue to provide shocking numbers.

The most recent employment report also offers some small comfort though unemployment remains at high levels that we have not experienced in generations. Against that national backdrop, local business leaders may indeed have reason for better days soon. But at the moment, lack of investment plans and flat hiring indicate there is more waiting for confirmation before this pandemic shock recedes, even if the best happens regarding the pandemic itself.

SPECIAL QUESTION 2

Most expect economic recovery to be slow, gradual

Other than the question of how long recession will last, the most popular item in economic circles is what form the recovery in the overall economy will take.

This discussion has typically taken the form of the "shape" of the recovery. Options range from a strong, rapid recovery (V-shape) to a slow, gradual recovery (U-shape), to a double-dip recession (W-shape) to a prolonged period of economic weakness with no recovery in sight (L-shape).

Given the monthly and quarterly frequency of most macroeconomic data, there have been relatively few readings on overall economic conditions to inform what the recovery's actual shape might look like.

And, given the unique and abrupt nature of this economic shock, there is little past evidence to draw on to inform the discussion.

So, the release of highly visible macroeconomic data (such as the 5% annualized decline in real GDP in the first quarter and the stronger than expected unemployment report from June 5) have the potential to help influence the discussion in very meaningful ways.

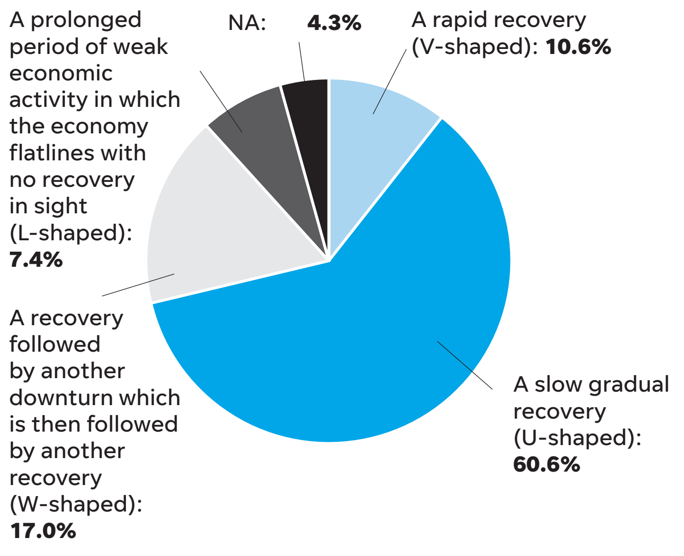
With all of this forecast uncertainty noted, we thought it would be interesting to find out what area business leaders were thinking on what economic recovery would look like.

We asked:

Which of the following does your firm expect when the overall economy recovers from the COVID-19 economic shock?

Special Question 2

Which of the following does your firm expect when the overall economy recovers from the COVID-19 economic shock?



The majority of firms (nearly 61%) expect "a slow gradual recovery (U-shaped)."

The next most popular answer is "a recovery followed by another downturn which is then followed by another recovery (W-shaped)." This dismal scenario presumably would result from a second wave of the virus as well as the stimulus of expansionary fiscal and monetary policy running its course.

Only 7.4% of firms think there will be "a prolonged period of weak economic activity in which the economy flatlines with no recovery in sight (L-shaped)." Few firms (10.6%) anticipate the most optimistic scenario — "a rapid recovery (V-shaped)."

Firm comments include:

- While disposable income is likely down, demand for "basics" is now pent up.
- It will take time to sort out the political, social and cultural differences which will lead to slower recovery.
- The future is a big crystal ball in my opinion. Many factors must be considered and most of those factors today are unknown. If the political game would stop would help a lot and a cure or a vaccine to help you get over it faster if you do get COVID-19.
- We have no idea when (our) industry will recover. We see no meaningful revenue until first or second quarter 2021.
- Our industry will reflect peoples' need to vacation and get out of confinement, yet allowing social distancing. In addition, (many activities) are off the table for now for many people.
- We anticipate individuals and businesses will ease into spending as they gauge how recovering is going. We anticipate some businesses will not survive and will close prior to any sort of a recovery.
- I would prefer a rapid recovery but think it will be problematic for several businesses.
- Our economic future is tied to getting people back to work. If we can get that to happen, recovery will be more V-shaped than U-shaped.
- It will take 1 to 2 years for the economy to recover and businesses to change how they do things, industries such as travel and entertainment to partially recover.
- The balance sheets of households and businesses are going to take a hit both financially and confidence wise. These hits don't recover overnight.
- I really don't know — just guessing.
- We are an exempt food production business.
- Unknown — time period.
- (Either U-shaped or L-shaped). Depends on how long we are shut down and if anyone can come in and lead us out of this.

SPECIAL QUESTION 1

Revisiting the coronavirus's impact on businesses

In last quarter's QBR, we asked area businesses 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?

As it relates to the COVID-19 pandemic, timing is everything. Since last quarter's survey was administered from February 20-March 13, area business leaders had no idea that a large portion of the economy would be effectively closed by the end of March. As a result, 70% of our survey respondents from this earlier period indicated either "mild concern" or "no concern" about the impact of coronavirus.

Of course, everything changed in the last half of March, so we thought it wise to ask business leaders an open-ended question of how their firm was being impacted by the COVID-19 pandemic. The result is a staggering range of interesting responses. We asked firms to:

Please comment on the extent to which the COVID-19 pandemic is impacting your firm.

We let the written comments tell the story:

- Most every aspect of our business has been impacted.
- Residential real estate not impacted much, commercial more wait and see.
- There are markets and geographies that are doing better than normal and others doing significantly worse. Revenue is more lumpy and uncertain than ever before, including during the Great Recession.
- Lot of extra steps are being taken for employee and customer safety. Costing more money.
- Our doors are closed to the public until further notice.
- Resulted in a brief reduction in work force. Obtained PPP loan. All workers back last week.
- It has literally wiped out all of our business.
- Capital expenditure projects are being put on hold or delayed for companies to preserve cash. There are fewer projects and a more competitive market.
- Major impact to our business but we are slowly starting to get busier. The governor has done no favors to business by overextending his reach and stopping the economy. Many businesses along with those jobs will never recover.
- Increased (activity from administering federal programs). Increased number of staff working from home. Limiting lobby traffic.
- No walk-in customers. We have a sign on our door to contact us for in-person appointments. There are restrictions such as wearing masks.
- It has very little effect. We have had a couple projects put on hold so the customer can determine how things will look at a later date and only three workers that wanted to stay home. Probably more to do with the $600 free money on top of the normal unemployment check.

GETTY IMAGES

- Even though we have been able to remain in operation, every day brings new challenges in how to manage the company. Every department has to be prepared for challenges daily, hourly and sometimes by the minute depending on what the local, state and federal leaders say, what our customers say, and, more importantly, what our staff says.
- (Transactions) volume decreased by 80%, has since rebounded to down 60% with weekly incremental increases.
- Transactional orders are down. Customers have slower down deliveries of products ordered. Everybody is working reduced hours.
- Sales down 60% – layed off 60% of employees.
- At (one of my companies), we have seen only a slight slowdown in activity. We do expect long range (6-10 months) that it will slow dramatically. At (another company) we are down approximately 60% from last year. I do not expect that we will gain much back in 2020.
- The way in which we conduct business has changed to allow required safety measures. We have also been slower to bring back employees from layoff.
- We had to shut down completely. So, we went from what was a good start to the year to zero revenue. We had to lay off all of our ... employees.
- Minimal currently, but expecting demand drop-off in the next 1-2 quarters.
- Many of our customers will be impacted, which will ultimately affect us.
- No change.
- All retail location(s) closed for seven weeks.
- We have been closed since late March — sales are down by 95%.
- Businesses slowed down or closed ... service levels change. Commercial — volume decrease. Residential — volume increase.
- More precautions taken daily. Increased administrative time: temperature checks, disinfecting, etc. It affects how we can sell our products and timing for installations.
- We had some business increase ... other parts of the business decreased. Overall about the same. The additional unemployment incentive makes it difficult to keep employees at work.
- We are completely dead in the water. Working on and hoping that our most important season will pull us through.
- We have processed 1,000 (transactions) in about 6 weeks. Staff worked 12-hour days and both Saturdays and Sundays. We expect increased ... losses with retail related businesses.
- Sales down 89% in April 2020 compared to April 2019.
- Surprisingly, we have not been impacted that badly yet. The worst has been customers asking us to push back some deliveries.
- Everyone is still generating (products that use our services).
- Significant impacts at our (site of business). We have deferred non-essential (activities), stopped certain servicer lines, and have furloughed staff.
- (Demand for our retail services is) holding up — very little difference in collections. (Demand for our commercial services) impacted — not life threatening yet, but concerning. (Other) sales down one-third.
- 40% decline in revenue.
- Much more competitive bid environment for commercial work and for fewer bids currently. Less work in business — down significantly. Fear of unknown for some employees.
- Business is down 20%.
- Employees are afraid they'll get pandemic. Work load decreased. Practicing safe distance.
- We are first responder for COVID (services). Activity has increased.
- Our business revenue has reduced by at least 50%.
- 20-25% less in sales per month. Less people (engaging in the activities that generate our business).
- We shut down for one week. Then we were classified critical ... by the state and began production again.
- Our sales will be affected for the next 12-18 months as we rely on folks marketing their companies and events, which have mostly stopped. Also, budgets will be cut for our clients and that will trickle down.
- Significant impact due to postponement of non-essential (activities). Billings down 35-40%.

SPECIAL QUESTION 3

The permanent long-term impact of COVID-19

This quarter's final special question addressed concerns that the COVID-19 pandemic would have a permanent impact on the overall economy. Such concerns have been addressed by Federal Reserve chairman Jay Powell who has noted that an extended period of above average unemployment can create long-term problems in the labor market as people who have been out of the work force for an extended period experience atrophy of valuable workforce skills.

In addition, many observers have referred to a "new normal" that will exist post-pandemic. The fear is that the pandemic will cause unfavorable structural change in the economy that will leave permanent scars.

Of course, one could take a more optimistic view and think of Albert Einstein's famous quote: "In the middle of difficulty lies opportunity."

Economic recovery will ultimately emerge and what the structure of the economy looks like when this happens can be influenced by decisions that are made today.

In addition to all of the other tasks that are occupying the time of local business leaders, we encourage an effort to bring people together to brainstorm how the pandemic could help produce a favorable permanent impact on the local economy. As things stand, it appears that business leaders are mostly concerned that the permanent damage to the overall economy that is caused by COVID-19 is relatively large and unfavorable.

We asked:

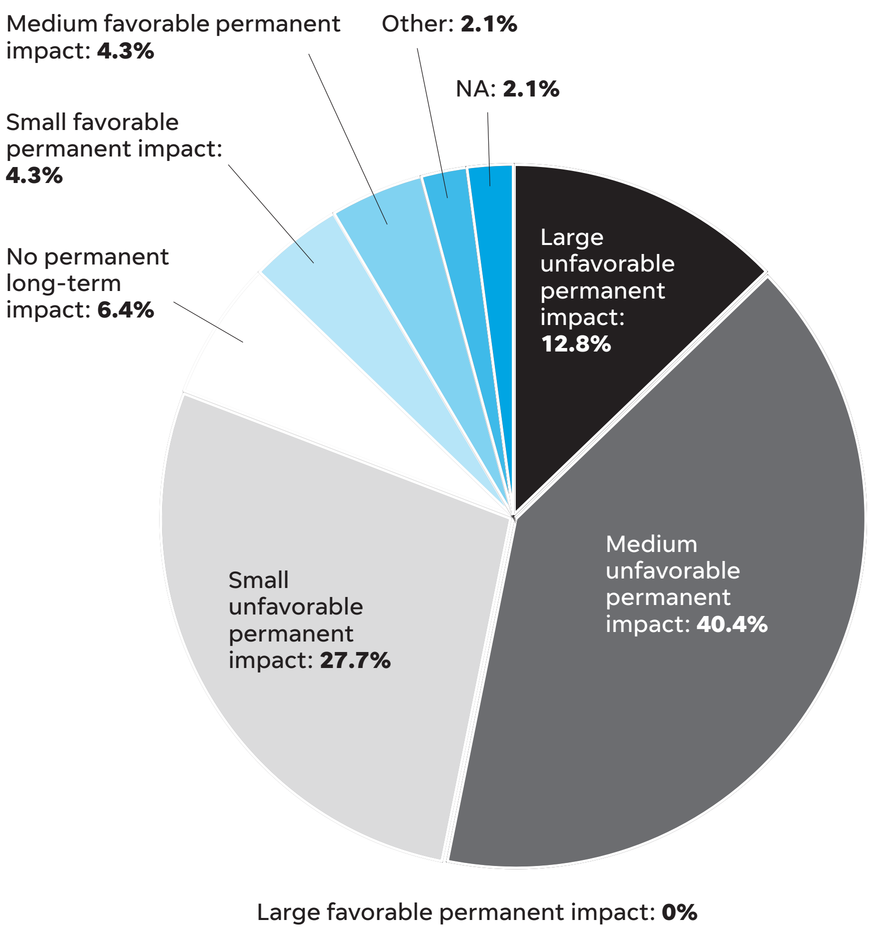
To what extent does your firm expect the COVID-19 pandemic to have a permanent long-term impact on the overall economy?

12.8% of survey respondents expect a "large unfavorable permanent impact" and 40.4% expect a "medium unfavorable permanent impact." Another 27.7% indicate a "small unfavorable permanent impact." This means that more than 80% of the sample expects COVID-19 to leave permanent unfavorable scars on the overall economy.

More than half the sample expects these scars to be of medium or large size. Very few firms (6.4%) expect "no permanent long-term impact" and 4.3% of firms think that there will be either a "small favorable permanent impact" or a "medium favorable permanent impact."

Special Question 3

To what extent does your firm expect the COVID-19 pandemic to have a permanent long-term impact on the overall economy?



Comments include:

- Didn't realize or have to take the time to learn new ways to do things. Many of the changes will stick.
- I think the world is changing, and although much change will be possible, the increase in big government and socio-economic conditions will result in some permanent setbacks.
- Again hard to say. It all depends on how long the politicians drag this out. In my opinion this entire epidemic has been caused by leaders of other countries to get back at the USA for making them more accountable. Not good.
- The pandemic provided an opportunity for an economic correction.
- I hesitate to use the word permanent, but it will be at least 3-5 years before travel will be back as it was prior to COVID-19.
- As many companies go by the wayside because of COVID-19, many new opportunities will arise for new business to be created.
- Impact will not be and has not been small. Strong businesses will use this as an opportunity to change how they operate, maybe become more efficient. Some businesses will survive and eventually thrive while others will not recover… .
- I feel that because this has been spread out for such a long time that many businesses will never be able to recover.
- 15-20% unemployment will take time to recover from, even if all businesses were to re-open today because a lot of businesses are not going to survive.
- Some firms are benefiting (Lysol/Clorox/Peloton) and some are getting hurt by the pandemic (cruise lines). Overall, there will be a new normal with a slightly negative impact.
- The economic downturn as a result of the pandemic will remove or reduce smaller less capitalized competitors, thus allowing the remaining to gain market share.
- Hospitality is a large part of our economy. This whole business is going to be shaken for quite a while. Economists always talk about the multiplier effect when jobs are added to the economy. The multiplier effect also works in reverse when jobs are taken away.
- Things won't go back to normal. People will be more conservative in their spending and save more.
- We have lost too many jobs in a short period of time. People are very nervous about spending any discretionary income.
- Unknown.
- We expect some customers and competitors to not make it. We have some additional business as … imports do not come in.
- I suspect we will start to lose some of our regular customers.
- Not sure, but everyone wants to get out. This is favorable for the economy.
- Less (activity that generates our business). With money being tight — (customer affordability is) an issue.
- Is hard to predict.

New St. Cloud Index of Leading Economic Indicators (1st quarter 2013 = 100)