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St. Cloud Area Quarterly Business Report

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### St. Cloud Area Quarterly Business Report, Vol. 22, No. 3

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ST. CLOUD AREA

# Quarterly Business Report

SUNDAY, SEPTEMBER 13, 2020 | VOL. 22, ISSUE 3

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**



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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**

■ Business activity improved from last quarter. **Page 2**

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■ When will the local recession end? **Page 4**

**ONLINE**

The St. Cloud Area Quarterly Business Report has been produced four times each year since January 1999. Electronic access to all past editions of the QBR is available at <http://repository.stcloudstate.edu/scqbr>

## AREA FIRMS DIGGING OUT OF DEEP HOLE



Bethany Schubert uses a powered device to sanitize surfaces on school buses between uses on Aug. 31 at Trobec's Bus Service in St. Stephen. DAVE SCHWARZ/ST. CLOUD TIMES

### Some sectors recovering more quickly in wake of pandemic

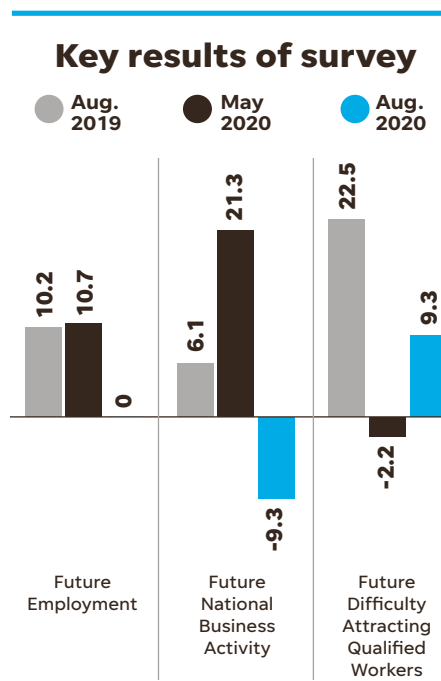
**W**hile some sectors of the local economy continue to be devastated by the COVID-19 pandemic, many area firms are now beginning to recuperate from this spring's shock waves.

Overall, local employment was 3.1% lower in July 2020 than it was one year earlier, but this is a clear improvement from what was seen in last quarter's St. Cloud Area Quarterly Business Report (at which time we reported an 11.5% year-over-year decline in area employment).

In addition, published job losses in the Twin Cities (and across the state) are considerably worse than what is seen locally. For example, Twin Cities employment declined 8.7% over the year ending July 2020 (and state employment dropped 8.5% over the same period).

These relatively stronger numbers in the St. Cloud labor market are little comfort to those firms in the leisure and hospitality sector, where local employment fell 23.1% over the past 12 months. The information and "other services" sectors, along with the local government sub-sector, also experienced double digit percentage employment declines over the year ending July 2020. Combined, these four sectors account for 17.3% of overall area employment.

Other key local sectors are faring bet-



ter than three months ago. For example, employment in the education/health sector was 1% higher in July 2020 than it was one year earlier (these numbers do not reflect the closure of the Health Partners Central Minnesota Clinic at the end of August). In addition, retail trade employment grew 9.8% over the year ending July 2020. Mining/logging/construction employment was also higher

locally. These three growth sectors account for more than 40% of local jobs.

The St. Cloud Index of Leading Economic Indicators was down 0.1% in the quarter and down 0.9% over the last year. Current business activity at surveyed firms was improved from three months ago (when reported activity was weaker than at any time over the 22 years that the St. Cloud Area Business Outlook Survey has been administered).

For example, nearly half of surveyed firms report an increase in business activity over the past three months and more than one-third of firms indicate increased capital expenditures in the current quarter. The future outlook of surveyed firms is weaker than usual for the August survey but, on balance, area firms still expect improved business conditions by the beginning of next year.

In special questions, nearly half of surveyed firms expect the local recession to continue into 2021 — few firms think the local recession will be over by the end of 2020. In other special questions, area business leaders share any positive long-term impact that COVID-19 has had on their firms. They also weigh in on the extent to which the pandemic is likely to influence election outcomes. Finally, firms describe ways in

**See FIRMS, Page 21**

### Is the St. Cloud economy more COVID-proof?

**E**lsewhere in this report we show that private sector employment in the St. Cloud economy fell by less than 3% as compared to declines of 8.5% for the state as a whole.

Indeed, most of this decline happened before March 2020: St. Cloud private sector employment was only 0.2% lower in July than February while it is still 4% lower in Grand Forks-East Grand Forks, 5% lower in Fargo-Moorhead, Rochester and Minneapolis-St. Paul and 6% lower in Duluth and Mankato. What

is it about St. Cloud that allows it to have so much less impact from the COVID economic shock?

One place to look is how the shock affects different sectors of an economy differently. As we discussed in the June edition of the St. Cloud Quarterly Business Review, the shock is felt disproportionately on service sectors where the service includes in-person interaction, such as spectating movies and live theater, visiting gyms or going to hair and nail salons.

Impact is also felt in food and beverage services or in hotels. As seen in the graph below, through July the most notable declines are in leisure and hospitality and in "other services" (which includes most of the other manual services as well as the arts and entertainment sectors). A slightly better performance in retail most likely represents the substitution of eating at home and the purchase of groceries for the decline in use of res-

**See ECONOMY, Page 41**

# Survey results for standard questions

**Table 1: Current business conditions**

St. Cloud Area Business Outlook  
Survey summary, August 2020

What is your evaluation of:	August 2020 vs. three months ago					
	Percentage decrease	No change	Percentage increase	Diffusion index <sup>2</sup>	May 2020 diffusion index <sup>1</sup>	Aug. 2019 diffusion index <sup>2</sup>
Level of business activity for your company	27.9	23.3	48.8	20.9	-44.7	30.6
Number of employees on your company's payroll	16.3	55.8	27.9	11.6	-27.7	24.5
Length of the workweek for your employees	14.0	58.1	27.9	13.9	-34.1	12.3
Capital expenditures (equipment, machinery, structures, etc.) by your company	16.3	48.8	34.9	18.6	-40.5	20.4
Employee compensation (wages and benefits) by your company	2.3	60.5	34.9	32.6	-2.1	44.9
Prices received for your company's products	18.6	55.8	23.3	4.7	-17.0	14.3
National business activity	23.3	39.5	27.9	4.6	-48.9	14.3
Your company's difficulty attracting qualified workers	7.0	67.4	20.9	13.9	-8.5	26.5

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

**Table 2: Future business conditions**

St. Cloud Area Business Outlook  
Survey summary, August 2020

What is your evaluation of:	Six months from now vs. August 2020					
	Percentage decrease	No change	Percentage increase	Diffusion index <sup>2</sup>	May 2020 diffusion index <sup>1</sup>	Aug. 2020 diffusion index <sup>2</sup>
Level of business activity for your company	30.2	20.9	41.9	11.7	19.1	16.3
Number of employees on your company's payroll	18.6	58.1	18.6	0	10.7	10.2
Length of the workweek for your employees	16.3	67.4	11.6	-4.7	2.1	-4.1
Capital expenditures (equipment, machinery, structures, etc.) by your company	7.0	62.8	25.6	18.6	-12.8	30.6
Employee compensation (wages and benefits) by your company	2.3	55.8	34.9	32.6	8.5	44.9
Prices received for your company's products	7.0	55.8	27.9	20.9	2.1	18.4
National business activity	25.6	41.9	16.3	-9.3	21.3	6.1
Your company's difficulty attracting qualified workers	7.0	67.4	16.3	9.3	-2.2	22.5

## 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 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 August 2020 was improved from the previous quarter. While the local economy remains in the recession that undoubtedly began in the first quarter of this year, nearly half of surveyed firms experienced increased business activity this quarter. This can be seen in Table 1 as well as in the accompanying chart.

The diffusion index on current business activity jumped from -44.7 last quarter (an all-time low) to a respectable value of 20.9 in this quarter's survey. 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 all Table 1 items rebounded this quarter as many area firms began to work their way through the challenges posed by the pandemic. The Table 1 readings on employment, length of workweek and employee compensation all show a local labor market that has begun to improve after its historically weak performance in the spring.

We do note that the area labor market is still a long way from returning to its pre-recession activity. For example, one year ago in the August 2019 survey, the index value on "difficulty attracting qualified workers" was 26.5, which was well above its 13.9 reading this quarter. Still, we note this survey item had a negative reading three months ago (which was the first negative

value since the Great Recession). Pockets of the local economy still appear to be experiencing worker shortages.

As can be seen in the accompanying chart, the current capital expenditures index also rebounded from its historical weakness last quarter. With 35% of surveyed firms reporting increased capital spending over the past three months (and only 16% indicating reduced capital spending), the index value on this item shot up considerably this quarter. This marks a much more optimistic outlook than we observed last quarter.

We also note that the prices received and national business activity indexes returned to positive values this quarter, but they still remain well below what would normally be seen in the current conditions survey.

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

- The continued escalating prices of material and the lack of young people wanting to be part of the construction business.
- Decreased miles driven has had a negative impact on our retail business.
- With no bonding bill passed at the state, it will have a significant impact on the construction industry and cause unemployment at a time we need to put people back to work.
- General uncertainty is the biggest challenge.
- Too much government.
- People still too trusting of media. Just remember it's human nature, everyone has an agenda. It's back to school, do your own homework.
- Our commercial division hurt drastically by bar shutdown.
- We are a seasonal business with our busy season being April-October.
- We literally have no business coming in yet we are working long hard hours to (deliver services to our customers).

## FUTURE OUTLOOK

The results from the future conditions survey in Table 2 provide mixed signals of what to expect over the next six months. Some of the weakness seen in this table is a normal seasonal occurrence, but it is also clear that the expectation of continued recession is weighing on the local outlook. For example, 42% of firms expect increased business activity over the next six months, but 30% think business activity will weaken.

In addition (see accompanying chart), the index on future employment is 0. Most surveyed firms (58%) expect unchanged employment by February 2021 (and another 19% think employment will fall). There is no better signal than this that the recession is not expected to end in 2020.

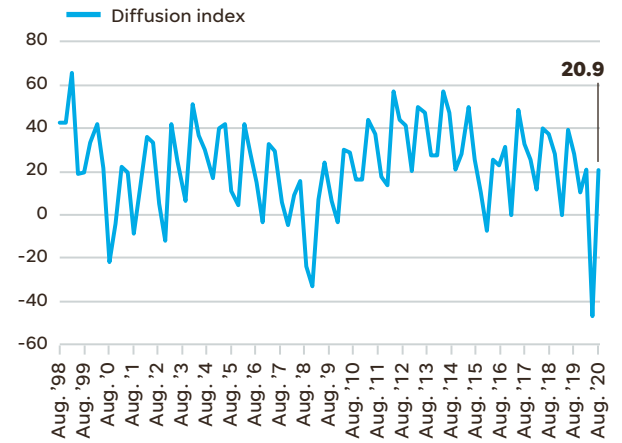
While the future capital expenditures index rebounded this quarter — increasing more than 30 points from its all-time low value of -12.8 last quarter, the outlook for national business activity (see accom-

panying chart) plummeted to its lowest value that has ever been recorded. This is only the second time that this index has recorded a negative reading (the other time was in August 2008 — during the Great Recession and three months prior to a presidential election).

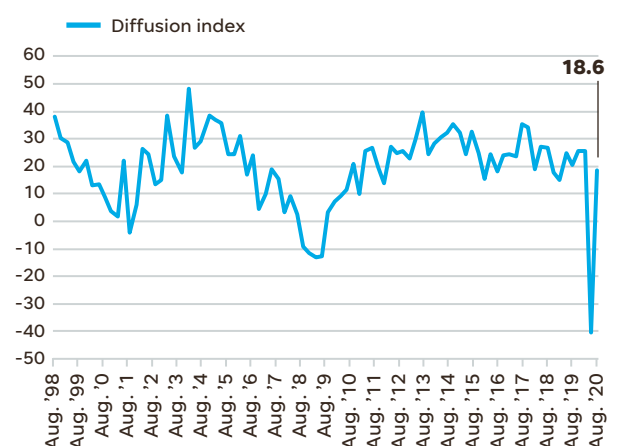
We also note that the employee compensation and prices received indexes in Table 2 are improved from last quarter, but the future difficulty attracting qualified workers index remains very low. As we have often noted, this index has served as one of our unofficial indicators of local recession.

Historically this series has followed a similar pattern as the aggregate economy, so it is no surprise that it is displaying weakness. The normal reading on this item in the August survey is 19.5, so a value of 9.3 is not too far below what is expected — but this is an indicator that is worth watching as we think about when the local recession will end and recovery will begin. This is the topic of our first special question.

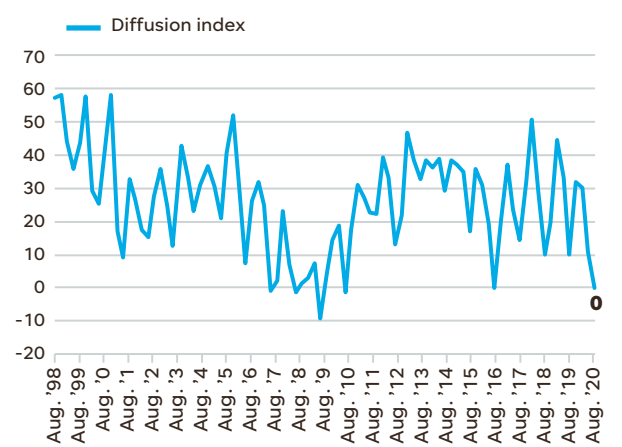
**Chart 1: Current Business Activity**



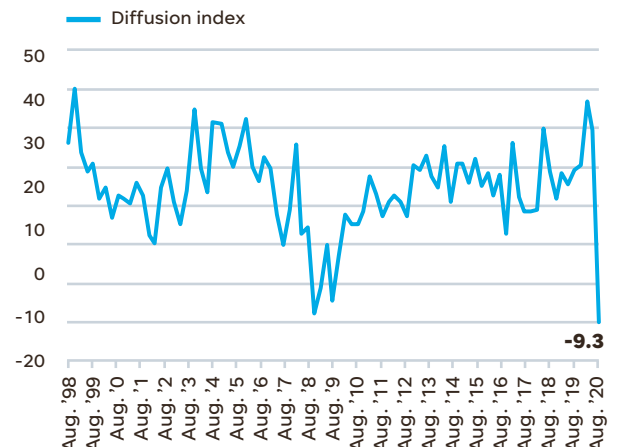
**Chart 2: Current Capital Expenditures**



**Chart 3: Future Employment**



**Chart 4: Future National Business Activity**



## Firms

Continued from Page 11

which they are likely to be impacted by the form taken of K-12 school re-openings.

### Key takeaways

**1** Private sector payroll employment in the St. Cloud area fell 2.9% from one year earlier in the 12 months through July 2020. The unemployment rate in the St. Cloud area was 6.1% in July 2020, which was much higher than the 3% figure observed one year ago. The local labor force rose 1.4% over the past year.

Readers can find some comfort in these numbers. They are considerably better than is being observed elsewhere in Minnesota. For example, the statewide unemployment rate was 7.4% in July and private sector employment declined by 8.5% across the state. Duluth

area private sector employment was 9.5% lower and Rochester shed 8.5% of its private sector jobs over the past 12 months. The Duluth unemployment rate was 8.7% and the Twin Cities had an 8.2% jobless rate.

**2** A majority of area sectors experienced employment declines over the year ending July 2020. Sectors with the largest job losses include leisure/hospitality (-23.1%), other services (-11.7%), local government (-13.2%), manufacturing (-6.7%), information (-18.9%) and wholesale trade (-5.3%). Sectors experiencing employment gains include education/health (1%), state government (17.7%), retail trade (9.8%) and mining/logging/construction (1.3%).

**3** The St. Cloud Index of Leading Economic Indicators fell by 0.1% in the quarter and was down 0.9% over the last year. Four of the six indicators rose in the quarter, but were outweighed by the high level of initial claims for unemploy-

ment insurance. The St. Cloud 12 Stock Index ended the year as of July 31, 2020 down 11.4%, touching a seven-year low on March 23. Over the same 12 months the S&P 500 rose 7.1%. Nine of 12 stocks in the St. Cloud index rose in the most recent three months, however.

**4** The future outlook of those area businesses responding to the St. Cloud Area Business Outlook Survey was below what is normal for the August survey. However, 42% of surveyed firms still expect an increase in business activity over the next six months (although 30% expect decreased activity). Only 18% of surveyed firms expect to expand payrolls by February 2021, and only 16% anticipate increased national business activity over the next six months.

About one-third of surveyed firms expect to pay higher wages and salaries by next February. The local labor shortage is expected to moderate. Only 16% of firms expect it to be more difficult to attract qualified workers over the next six

months.

**5** In this quarter's first special question, area business leaders indicate when they think the local recession will end. Twenty-three percent of firms expect the recession to end in the second quarter 2021 and another 14% think the recession will end in the third quarter of 2021. Twelve percent of firms think the recession will end in next year's first quarter. Few firms think the local recession will end in 2020 and a disproportionately large share of firms demonstrated their uncertainty about what the future holds by selecting "other" in response to this special question.

In other special questions, business leaders share ways that COVID-19 has created a positive long-term impact on their company. Firms also weigh in on how the election is likely to be impacted by the pandemic. Finally, firms submit written responses on how they are likely to be impacted by the model K-12 schools choose for re-opening.

# Employment in St. Cloud: It could be worse!

Employment in the St. Cloud MSA fell 3.1% in the 12 months to July 2020. In our previous St. Cloud Area Quarterly Business Report, this figure was down 11.8% in the 12 months to April. During the Great Recession this number reached -4.5% in July 2009.

However, we note that in the entire state and in the Twin Cities metropolitan area the decline is 8.5% over the same period in 2019-20; the 8.7% decline in the Twin Cities compares to a 5% decline in the 12 months to July 2009 (the deepest decline was reached two months later, at 5.5%).

We noted on Page 1 of this report the differing structure of the St. Cloud economy compared to its nearby metros in Minnesota. Table 3 shows that our manufacturing sector over the last year has lost 6.7% of employment, roughly in line with losses elsewhere in the state. Leisure and hospitality lost 23.1% of employment over the last 12 months to July, not very different from the state and Twin Cities metro area, but remember that this is a smaller part of the St. Cloud economy than other metro areas.

Two items stand out in Table 3 that bear mention. First, the retail sector added nearly 10% to employment over the last 12 months. This will surprise those who note closing stores; however, the data show clearly that with the exception of April, employment in this sector rose more in St. Cloud than in other areas of the state in every month since the beginning of this recession. Since February, St. Cloud added 10.7% to its retail trade employment compared to 4.0% in Rochester and 2.7% in the Twin Cities. (Duluth is virtually flat in this sector since February.)

The other standout sector has been construction. This sector has consistently grown since the start of this recession (which we cannot remember ever happening before!) and is borne out in data around the state. Some of this is undoubtedly seasonal, but the increase in St. Cloud from February to July of 36.2% is far above Rochester at 21% and the other metros at 16%. This has allowed St. Cloud to stand alone in showing year-over-year gains in construction employment; as Table 3 shows, the area economy added 1.3% of employment in

this sector while it fell 6.5% in the state and 10.3% in the Twin Cities over the 12 months to July.

In Table 4 we can see the impact of construction as well in the data on residential building permits. The value of these average \$3.8 million per month between May and July this year versus \$1.6 million in the same months one year ago. Could this have helped the St. Cloud MSA have a much lower unemployment rate than the rest of the Minnesota economy? At 6.1%, this rate is well below most of the rest of the state (the rate in Mankato for July was 6.2%) and came with a significant increase of 1.4% in the size of the area labor force. The local labor force reached an all-time high in June of 117,644 persons.

The bad news in Table 4 comes from the continuing high number of unemployment insurance claims for the area — close to seven times their level from a year ago. The “covered unemployment rate,” which is the ratio of continuing claims to the labor force, was 7.3% in the St. Cloud MSA (the difference between this and the reported 6.1% can be accounted for in several ways, one being a rise of self-employment.)

The St. Cloud 12 Stock Price Index fell 11.4% in the 12 months to July 31, 2020. By comparison, the S&P 500 index rose 7.1% over the same period. The index rebounded in the most recent three months to July 31, up 12.1%. Nine of the 12 stocks in the index rose between April 30 and July 31 with six rising more than 10%, led by American Axle (parent of Grede) at 63.4%. Three stocks fell in price, but only Pilgrim's Pride (-30.2%) fell by more than 7%.

The St. Cloud Index of Leading Economic Indicators declined even though four of the six elements of the index contributed positively as seen in Table 5. The continued high level of initial claims for unemployment insurance contributed negatively and more than outweighed the contributions of the four positive indicators.

Future conditions from the quarterly survey typically impact the outlook with a longer lag, so to the extent that surveyed future conditions appear posi-

See **EMPLOYMENT**, Page 41

**Table 3: Employment Trends**

	ST. CLOUD		MINNESOTA		TWIN CITIES	
	2005-20 long term	July '19 to July '20 growth rate	2005-20 long term	July '19 to July '20 growth rate	2005-20 long term	July '19 to July '20 growth rate
Total non-ag	0.5%	-3.1%	0.0%	-8.5%	0.2%	-8.7%
Total Private	0.6%	-2.9%	0.1%	-8.5%	0.3%	-8.6%
GOODS PRODUCING	-0.2%	-4.0%	-0.8%	-6.2%	-0.8%	-8.2%
Mining/Logging/Construction	2.2%	1.3%	-0.6%	-6.5%	-0.9%	-10.3%
Manufacturing	-1.3%	-6.7%	-0.9%	-6.1%	-0.7%	-7.1%
SERVICE PROVIDING	0.8%	-2.9%	0.2%	-9.0%	0.4%	-8.8%
Trade/transp/utilities	1.1%	4.4%	-0.1%	-3.0%	-0.3%	-5.3%
Wholesale Trade	1.3%	-5.3%	-0.4%	-5.4%	-0.8%	-9.4%
Retail Trade	0.8%	9.8%	-0.2%	-0.6%	-0.1%	-1.6%
Trans/Ware/Util	2.3%	-1.4%	0.3%	-6.4%	-0.1%	-9.5%
Information	-3.6%	-18.9%	-2.6%	-15.6%	-2.2%	-13.4%
Financial Activities	1.0%	-2.8%	0.5%	-3.9%	0.6%	-3.7%
Prof & Business Serv.	1.7%	-2.1%	1.0%	-4.7%	1.2%	-4.1%
Education & Health	2.3%	1.0%	1.7%	-7.3%	2.1%	-8.6%
Leisure & Hospitality	-2.3%	-23.1%	-1.4%	-29.2%	-0.8%	-25.9%
Other Services (Excl.Gvt)	-0.7%	-11.7%	-1.1%	-13.3%	-0.4%	-8.5%
Government	0.1%	-4.5%	-0.4%	-8.8%	-0.5%	-9.5%
Federal	2.6%	-2.0%	-0.1%	1.8%	-0.2%	-0.4%
State	0.4%	17.7%	0.3%	-3.6%	-0.8%	-6.6%
Local	-0.7%	-13.2%	-0.7%	-11.8%	-0.5%	-12.0%

**Table 4: Other Economic Indicators**

	2020	2019	% change
St. Cloud MSA Labor Force July (MN Workforce Center)	116,125	114,489	1.4%
St. Cloud MSA Civilian Employment # July (MN Workforce Center)	109,007	111,019	-1.8%
St. Cloud MSA Unemployment Rate* July (MN Workforce Center)	6.1%	3.0%	NA
Minnesota Unemployment Rate* July (MN Workforce Center)	7.4%	3.2%	NA
Mpls-St. Paul Unemployment Rate* July (MN Workforce Center)	8.2%	3.1%	NA
St. Cloud Area New Unemployment Insurance Claims May - July Average (MN Workforce Center)	3,429.3	441.7	676.5%
St. Cloud 12 Stock Price Index as of July 31 (SCSU)	713.34	805.22	-11.4%
St. Cloud City Residential Building Permit Valuation in thous., May-July Average (City of St. Cloud)	3,863.9	1,597.7	141.8%
St. Cloud Index of Leading Economic Indicators July (SCSU) 2012-13 = 100	108.7	109.6	-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.

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



SPECIAL QUESTION 1

# When will the local recession end?

In last quarter's QBR, we asked area businesses what they thought the "shape" of the economic recovery would be. A majority of firms indicated the recovery would be a "U-shape" representing a slow, gradual recovery. The second most popular shape in last quarter's survey was "W" (a double dip). Either scenario suggests the outlook going forward is an uncertain return to normal (whatever that means).

Few firms in last quarter's survey expected an abrupt return to pre-COVID economic conditions (or what may be thought of as a "V-shaped recovery"), so we thought we would reach out to area firms to see when they think local recession will end.

Before analyzing the answers, we will note one of the options firms could choose in this quarter's survey was "Other."

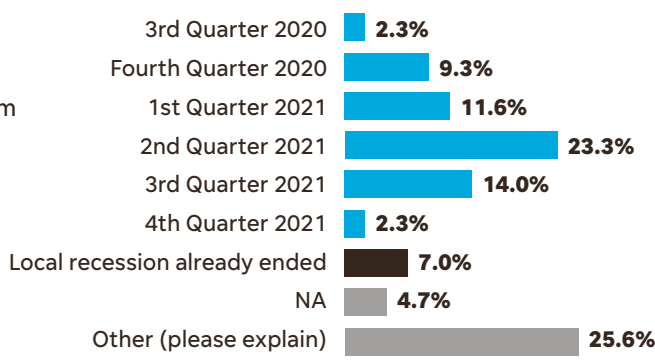
While this option is usually included in our quantitative survey items, it is typically rarely chosen by survey respondents. As a testament to how uncertain the current outlook is, we note that "Other" was the most popular response to this quarter's first special question! We asked:

**When does your firm believe the local recession will end?**

As noted, "Other" was the most popular response (it was chosen by 26% of respondents). Firm comments to this "Other" selection can be seen below. Some firms simply have no idea when

**Special Question 1**

When does your firm believe the local recession end?



the recession will end, while others chose dates in 2022 (or later). Twenty-three percent of respondents selected "2nd Quarter 2021" and another 14% chose "3rd Quarter 2021." Another 12% selected "1st quarter 2021." Few firms believe the local recession is either over or will end some time in 2020.

Written comments help tell the story:

- Estimate one more year of recession.
- We believe (hope) the virus situation will be turning the corner by (second quarter 2021).
- Commercial construction has slowed significantly and small businesses are struggling.
- Unless some serious return to shutdown, we should be able to start

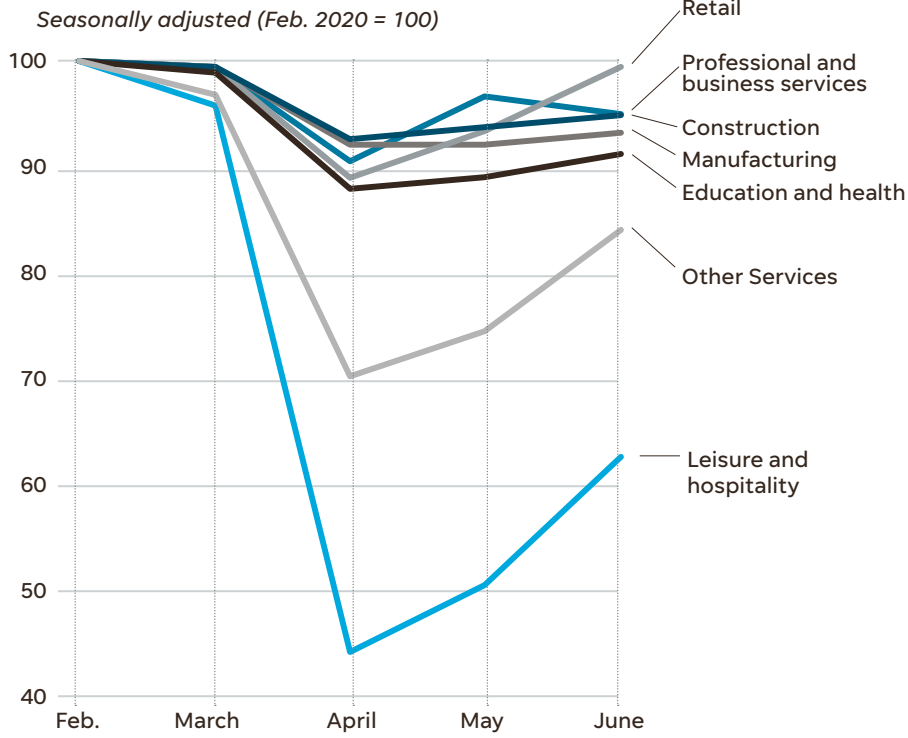
building again from where we are, we could already be starting to grow again.

- Both our manufacturing and construction companies are receiving a record amount of orders and work.
- After the election.
- The impacts of COVID and related government induced shutdowns are going to be felt for years with many unintended consequences, most of which are not good either. Economic development always refers to the multiplier effect when jobs are added. It is now working in reverse.
- Lots of national politics affecting markets that will flush out after the election.
- Depends on control of the virus.
- Our business is concerned about the national economy and capital ex-

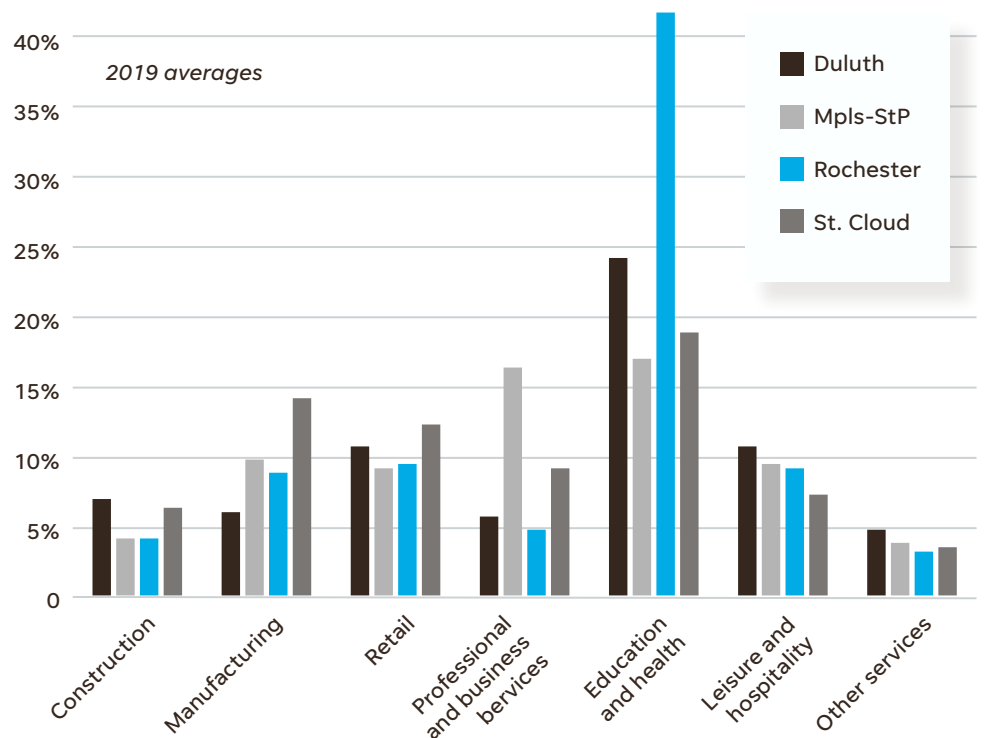
penditures. The local economy will not affect our manufacturing business.

- After the election.
- Well past 2021.
- Outside of hospitality related industries, it seems like the recession has ended. But it is hard to say how much activity is from PPP and \$600/week unemployment. First quarter 2021 may be bad.
- Residential/consumer activity has returned to pre-COVID levels; commercial activity is expected to remain.
- Need vaccine for COVID-19; improvements in control of virus.
- Depression! This is a depression. 2022 at the earliest.
- Not sure — I believe a lot has to do with the election.
- (Second quarter 2021) — based on volume of quotes.
- Although the grocery stores, Walmart, and Target have never been empty, they seemingly have not been effective at all.
- In our business, it will start 1st quarter of 2021 because of increasing material prices.
- Not sure.
- Our business is not local, so we haven't felt a local economic recession.
- 2022-23.
- After the election in November.
- There will be uncertainty until we have a vaccine for COVID.
- We do not know when the local recession will end.

**Change in Employment** MN super-sectors



**Share of Employment** MN MSAs



## Economy

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restaurants and bars (with some offset from lower purchases of gas at least during the stay-at-home orders of April and May).

The first graph shows that even by the end of July, employment in Minnesota in leisure and hospitality was 31% below its February level (with seasonal adjustments made) and "other services" were down 14%. Retail is down only 0.3% over the same period. Thus, an

economy that has more reliance on retail and less reliance on tourism or entertainment is likely to perform relatively better. To some extent, that is St. Cloud's story.

Each bar in the second nearby graph shows the share of employment in selected portions of four Minnesota metro areas (comparable data are not available for the others.) The highest bar is for the education and health care supersector of Rochester, which with the Mayo Clinic comes as no surprise. Duluth has a higher share of leisure and hospitality, which again would not be a surprise given St. Louis County's pop-

ularity for tourism. The professional and business sector has the highest share in Twin Cities.

St. Cloud has a significantly higher share of employment in manufacturing and slightly higher share of retail trade than the other three metro areas. In each of these areas, physical distancing can be accomplished by either increased automation (a trend likely to continue) or relatively low-cost preventative measures like Plexiglas barriers or contactless shopping.

Despite having several institutions of higher education and CentraCare, the area has a smaller share of employment

in the education and health care supersector than either Duluth or Rochester. And it has the smallest leisure and hospitality sector of the four. Its retail sector is slightly larger (as a share of employment) than any others.

We detail elsewhere in this report in discussion of Table 3 some other individual trends for St. Cloud that have cushioned our losses during the pandemic. However, our point here is that the structure of the St. Cloud economy, with more reliance on economic sectors where physical distancing requires fewer adjustments, may have helped reduce COVID's local impact.

## Employment

Continued from Page 31

tive in the St. Cloud Area Business Outlook Survey, they will help build a base for early 2021. A slight decline in area employment is expected according to the Leading Economic Indicators model on a seasonally adjusted basis for the rest of 2020 (though due to seasonal hiring in the last two months the reported numbers will look slightly higher than current.)

All things depend on the course of the

pandemic, and any projection made here is subject to all the caveats about second waves, effective vaccines currently in trial coming to fruition, etc. Economic forecasters may try to make educated guesses of these things, but we do not. Instead, our forecast reflects forecasts being made by area business leaders about the pandemic as expressed in the survey, as it is they who must put capital at risk, and our forecast tries to take the consensus of theirs into account. Their opinion is that the recession will last into 2021, and barring any major evidence to the contrary — and there is none — we will agree.

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

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

## SPECIAL QUESTION 2

# Positive long-term impact of COVID-19 on area firms

There is little doubt that the recession associated with the COVID-19 pandemic has created myriad challenges for area firms. While this has been particularly visible for local firms in the leisure/hospitality, “other services” and health care sectors, it has also caused firms of all types to re-think their business model and take stock of any lessons learned during this unique time in human history.

While we can identify any number of negative impacts of the pandemic, we thought we would ask area firms to share any positive long-term impact of COVID-19 on their firm. While there were several surveyed firms that can understandably find no positive impact of the pandemic, there are several firms that have experienced some conditions that might favorably impact their firm’s long-term economic performance. We asked the following open-ended question:

**Please comment on any ways in which the COVID-19 shock has had a positive long-term impact on your firm.**

We let firms’ written comments tell the story:

- It has not had a positive long-term impact.
- Working on ways to be more efficient.

- Our agency has stepped up and are providing numerous virtual services that are well received for our customers. We are not open to the public but are still serving individuals via phone, email, and web links.
- A large portion of our business model is driven by e-commerce sales. The COVID-19 pandemic has expanded that market globally, which has created a significant growth opportunity to our company.

- We’ve gotten some good mileage with our employees by implementing safety procedures during this situation.
- Learning to work remote.
- The great outdoors has become the vacation of choice and had given a lift to every business that facilitates outdoor recreation to include biking, boating, camping, etc.
- New opportunities within the health care/diagnostics markets have opened for us.
- At our manufacturing facility, we went from a -80% in revenue YTD to a

- +150% increase YTD in orders. Employees are working 50+ hours per week and we cannot keep up with demand.
- A few projects were put on hold due to funding concerns.
- Discovered other ways to do some things.
- Minimal positive impacts other than practice for the next pandemic.
- Forced us to trim costs.
- There is nothing positive about COVID in (our) industry, we’ve been decimated by it.
- Better hygiene.
- Staying healthy, sanitizing & cleaning have been upgraded, appreciation of being able to work and also come to work.
- We added touchless payment options. We do a lot more cleaning.
- We sold our excess inventory related to COVID cleaning.
- Gave us time to catch up on repairs and re-evaluate product lines. We also developed new products.
- We’ve found efficiencies in adapting to COVID.
- Lowered interest rates more than they would be which moderately helps with financing.

- Nothing positive.
- Had to re-look at all aspects of the business from a sales strategy to cost control.
- Home entertainment increased level of interest and activity.
- People spending more time at home has increased sales of the outdoor living space materials.
- We were very active with (government sponsored programs) — (our competitors) were not and we expect to gain more clients from this experience.
- None at all.
- It hasn’t.
- As some business decreased — others related to technology increased — (remote work and school helped).
- Nothing positive.
- Is there any positive impact with COVID?
- We saw a high demand for (our services) due to COVID stimulus.
- I don’t see any positive long-term impact.
- More efficient.
- We have continued to be busy so we really haven’t had any negative impact.
- Transition to remote work and digital selling were accelerated.

## SPECIAL QUESTION 3

# Will COVID-19 affect election outcomes?

In August 2008, the United States was in the ninth month of the Great Recession. This was a time when the national unemployment rate would eventually (in October 2009) reach double digits and was an adverse economic shock (and financial crisis) deserving of its name. It was also a time when national (as well as state and local) elections were approaching.

In that year’s August St. Cloud Area Business Outlook Survey, we asked area business leaders who they thought would be elected president in November 2008.

For the record, 42.9% of respondents answered “John McCain” and 39.3% answered “Barack Obama.” Another 17.9%

of survey participants did not respond to the question.

Now, 12 years later, the U.S. is once again in recession and has experienced double digit national unemployment rates for the four-month period from April-July (the August 2020 national unemployment rate declined to 8.4%).

While the circumstances of the current recession are clearly different, we were interested in seeing whether our survey participants felt COVID-19 would impact election outcomes. We asked the following open-ended question:

**Please comment on the extent to which your firm thinks COVID-19 will impact the outcomes of national, state and/or local elections in the fall.**

Written comments include:

- That is a very good question and I don’t know the answer. I am hoping the outcome will be good for all.
- Prefer not to comment. Would not be the company’s comment. Would be me, personally.
- Unfortunately, COVID-19 has become a political upheaval resulting in the “Who you truly believe” situation we are in.
- We believe current office holders will be hurt by this.
- People typically vote their wallet so normally COVID-19 wouldn’t have been a major factor. We fully expect Walz to “turn up the dial” to see how many people he can get business to layoff and

more businesses to close to assist the DNC to in trying to elect Biden making a large factor in election.

- The degree to which COVID has affected the economy, it will also affect the election.
- I believe that the presidential election will have a huge impact on who gets elected. If the economy is able to be turned around by early November, I think Trump will be re-elected. Too bad the governor race was not up for this year as I think Walz would have a hard time getting re-elected.
- It’ll clear up probably within a few days after the election and will give one

**Continued on next page**

### SPECIAL QUESTION 4

# The effect of how K-12 schools open

On July 30, Gov. Walz unveiled the “Safe Learning Plan for 2020-21,” a document that provided Minnesota school districts guidance on how to plan for local decisions in establishing a model for K-12 educational delivery during the upcoming school year.

In addition to requiring school districts to offer a distance learning option to all students that desire such an accommodation, the plan outlined three different educational delivery options — in-person, hybrid and distance learning — that local school districts could implement based on local/regional COVID-19 infection rate data. These data are to be updated over time, with the possibility that school districts will alter their chosen educational delivery model.

Among other things, these guidelines leave open the possibility that school districts may apply differential educational delivery approaches across different grade bands. For example, there is a desire to offer an in-person educational model to younger students, even if older students are using a different learning model.

A detailed analysis of the “Safe Learning Plan for 2020-21” is beyond the scope of the QBR, but it has certainly led to different approaches at local school districts. For example, the Sauk Rapids-Rice school district intends to open the school year with an in-person model, while St. Cloud and Sartell are planning differential (hybrid and in-person) approaches for students in different grade bands.

When in-person instruction ended in March, parent employees had to scramble to work through day care/schooling challenges that they could not have anticipated prior to COVID-19. Anecdotal evidence suggests the resulting disequilibrium created short-term hardship at area firms that had to adjust to flexible employee schedules. This was all happening at a time when businesses were closing and employees were working remotely in ways that would not have been anticipated.

It is now nearly six months later and many employees who were required to work remotely in the spring have returned to their workplace. We were interested in the extent to which the choice of learning model by local school districts might affect area businesses, so we asked the following open-ended question:

**Please comment on the extent to which your business is impacted by how K-12 school districts plan to reopen in the fall.**

The result is a rich set of responses by area firms:

- It may be a bit challenging for my employees so we will need to be more flexible in schedules.
- May affect some staffing for employees with school-age children.
- The only impact will be with staff who have school-age children.
- Staffing is a big issue to begin with, and now losing a segment of our workforce by forcing them to stay at home to take care of school-age children is going

to increase the challenges for hiring.

- We don't see anything significant here.
- This is a big deal for employees and our business community.
- We will lose a few staff members to quit as they are being forced to stay home to take care of kids and forgo their jobs.
- Office staff schedules are going to be all over the board with partial school and parents staying home with kids.
- Our business will see very little effect.
- No short-term effects. I feel that long term we will have challenges if schools do not fully reopen.
- Not much impact other than some problems for a few employees need to juggle schedules.
- Creates confusion without a set plan.
- Will require additional accommodation for employees with children which is not great for business, but necessary for our working families as families come first.
- Employee child care issues will affect us the most.
- Our business will have no meaningful income until people (are able to return to using our services). It isn't directly impacted by the school decisions.
- Day care issues could affect several employees.
- No impact.
- The model decided will affect our employees who have children at home and cannot be alone. Distance learning

requires one parent at home and disrupts the ability to come to work. It creates stress and challenges for young families.

- Employees with students may miss more work.
- We have had to scramble to get product for the start of the school year.
- Some effect based on employees who need to work around the schedule.
- Minimal impact. Employees' schedules we'll work around.
- We need to be more flexible with one of our employees who has child care issues but it is manageable.
- Will affect approximately 10% of our workforce. Causes difficulties for sure.
- It may help kids at home, could help sales.
- We will need to be flexible with our workforce as they strive to achieve work/life balance.
- Some staff may either quit to stay at home or have to work remotely.
- With employees struggling with day care; with the split shifts at schools.
- Worker availability was a big issue in the spring and will be again this fall if the unemployment benefit is still available.
- Not a big impact.
- Schools are our clients for (product) pick up.
- If the school schedule is thrown into chaos, our employees who have kids in school will have their schedules turn into chaos.
- Little effect.

**Continued from previous page**

party the advantage with mail-in votes which usually has some voter fraud involved.

- Will make existing divisions even deeper.
- We have created a political platform based on who can hand out the most cash which has never been a long-term good policy for any prosperous country.
- No effect — I think issue is outside of politics as I don't think anyone will

change their vote.

- Change in political leadership.
- People will judge our state and national elected officials on how well they reacted and took care of the people affected by the virus.
- I think there should be no impact because we are in uncharted territory.
- Big effects.
- No opinion.
- Negative for GOP.
- Probably too much impact vs. other issues.
- After election: Republican wins —

COVID-19 still big issue ... Democratic wins — COVID-19 stops. Politically driven — new world order!

- I believe the oppression caused by the Democratic leaders of the states is going to cause Republicans to come out and vote and take the elections in a landslide victory. COVID-19 response by government has been too far reaching.
- COVID-19 led to recession ... will likely hurt incumbent politicians. Public perception is that Trump did not properly judge nor react to the pandemic.
- Difficult to assess. So volatile. The

election can go either way. People are frustrated, mad, frightened. Things change constantly.

- I don't believe it will, as it's global.
- Still unclear — government has not done a great job of managing COVID (both sides). The stimulus package will have very negative long-term effects — marginal short-term gains.
- Mail-in ballots could be a big problem.
- I'm not sure, nor is anyone else.
- No impact.
- None.