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King Banaian

Richard MacDonald

ST. CLOUD AREA
Quarterly Business Report

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Every three months two St. Cloud State University economists analyze the latest business and worker data as well as the results from a survey of local business leaders. The result is the St. Cloud Area Quarterly Business Report. It has been published four times a year since 1999.

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King Banaian specializes in analyzing data and writing about it in the second portion of this report. Rich MacDonald collects and analyzes responses to the St. Cloud Area Business Outlook Survey, covered in an early portion of the report. Only MacDonald has access to the confidential list of surveyed businesses and the returned surveys. Questions about the survey can be directed to him. Special questions asked in the survey may at times deal with public policy but do not reflect a political agenda of either of the authors.

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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.

Minnesota Gov. Tim Walz stands in front of Casper's and Runyon's Nook in St. Paul to roll out a proposal for a legislative relief package. GLEN STUBBE/AP

When will it end?

Local recession continues as firms look for COVID relief

The St. Cloud area economy remains in recession as the uneven effects of the COVID-19 pandemic continue to plague the local labor market. While some local sectors are experiencing uninterrupted strong growth, the virus' impact on the leisure/hospitality and other service sectors is creating historic existential challenges for some area firms.

Overall local employment was 3.4% lower in October 2020 than it was one year earlier, but this is a clear improvement from what was seen in the June St. Cloud Area Quarterly Business Report (at which time we reported an 11.5% year-over-year decline in area employment).

As was noted last quarter, published job losses in the Twin Cities (and across the state) remain considerably worse than what is seen locally. For example, Twin Cities employment declined 6.2% over the year ending October 2020 (and state employment also dropped 6.2% over the same period).

These relatively stronger numbers in the St. Cloud labor market are little comfort to those firms in the leisure & hospitality sector, where local employment fell 26.3% over the past 12 months.

The information and "other services" sectors also experienced double digit percentage employment declines over the year ending October 2020. In addition, the manufacturing sector saw 9.2% annual job losses and state government employment fell by 6.1%. Combined, these five sectors account for 26.7% of overall area employment.

Employment in other key local sectors has grown over the past year. For example, employment in the mining/logging/construction, retail trade and federal government sectors increased from one year earlier. These three sectors are responsible for 23.4% of area employment.

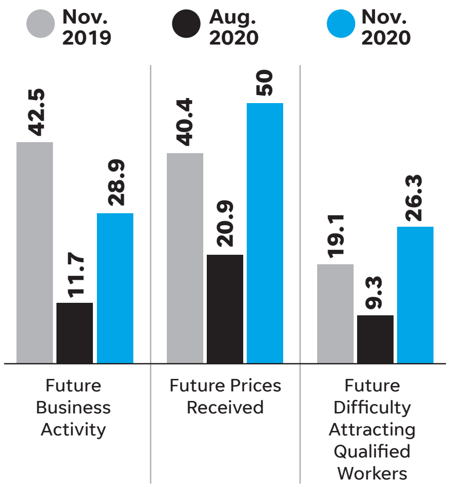
The St. Cloud Index of Leading Economic Indicators rose marginally over the past quarter, but was 3.5% higher over the last year. Current business activity at surveyed firms was weaker than usual, but considerably improved from the May 2020 survey (when reported activity was historically weak).

Only 29% of surveyed firms report an increase in business activity over the past three months and nearly 24% of firms experienced a decrease in activity over the past quarter. The future outlook of surveyed firms is also weaker than usual for the November survey although, on balance, area firms still expect improved business conditions over the next six months.

In special questions, business leaders comment on the extent to which the recent election results are expected to

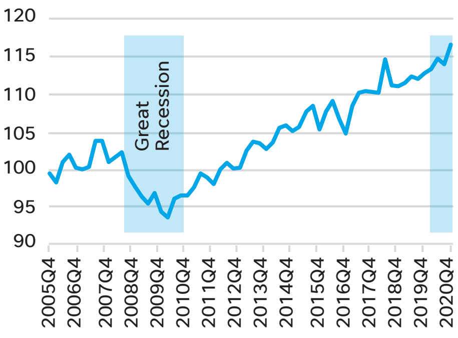
See RECESSION, Page 4I

Key results of survey



New St. Cloud Index of Leading Economic Indicators

(1st quarter 2013=100)



Unemployment benefits in a pandemic

As part of the CARES Act provisions, significant changes were made to unemployment insurance (UI) at the federal level. UI is usually paid by states from funding created by a payroll tax, but during recessions the federal government provides additional benefits, including the payment of extra weeks of insurance that may prove helpful to workers who experience a long bout of unemployment.

The CARES Act added $600 per week to state benefits, which in many cases became the larger portion of UI payments. That benefit ran out at the end of July by law, but the Trump administration used other funds for a Lost Wages Assistance plan that replaced half that amount for six weeks. Those funds have now been expended.

As can be seen in the graph nearby, Minnesota insured unemployed workers received over $500 million per month in benefits between April and June. As workers rejoined employment and federal programs ended, that amount fell to the point where October total benefits paid, at $165.4 million, are less than what workers received in March before passage of the CARES Act. This loss of income acts as a drag on consumer demand for goods and services.

A potential second drag may come at

See BENEFITS, Page 4I

SURVEY RESULTS FOR STANDARD QUESTIONS

Table 1: Current business conditions

St. Cloud Area Business Outlook Survey summary, November 2020

What is your evaluation of:	November 2020 vs. three months ago: Percentage decrease	No change	Percentage increase	Diffusion index[3]	Aug. 2020 diffusion index[3]	Nov. 2019 diffusion index[3]
Level of business activity for your company	23.7	47.4	28.9	5.2	20.9	12.8
Number of employees on your company's payroll	15.8	52.6	31.6	15.8	11.6	4.3
Length of the workweek for your employees	10.5	63.2	26.3	15.8	13.9	8.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.3	52.6	39.5	34.2	18.6	25.5
Employee compensation (wages and benefits) by your company	2.6	57.9	39.5	36.9	32.6	36.2
Prices received for your company's products	13.2	57.9	23.7	10.5	4.7	14.9
National business activity	13.2	47.4	31.6	18.4	4.6	10.7
Your company's difficulty attracting qualified workers	5.3	57.9	34.2	28.9	13.9	21.2

Table 2: Future business conditions

St. Cloud Area Business Outlook Survey summary, November 2020

What is your evaluation of:	Six months from now vs. November 2020: Percentage decrease	No change	Percentage increase	Diffusion index[3]	Aug. 2020 diffusion index[3]	Nov. 2019 diffusion index[3]
Level of business activity for your company	15.8	34.2	44.7	28.9	11.7	42.5
Number of employees on your company's payroll	5.3	57.9	31.6	26.3	0	31.9
Length of the workweek for your employees	7.9	65.8	21.1	13.2	-4.7	8.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	2.6	60.5	26.3	23.7	18.6	46.8
Employee compensation (wages and benefits) by your company	2.6	36.8	50.0	47.4	32.6	63.8
Prices received for your company's products	0	39.5	50.0	50.0	20.9	40.4
National business activity	10.5	42.1	34.2	23.7	-9.3	19.2
Your company's difficulty attracting qualified workers	5.3	57.9	31.6	26.3	9.3	19.1

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 38 area businesses that returned the recent mailing in time to be included in the report. We note that another casualty of the COVID recession has been reduced survey participation as the sample has continued to decline over the past nine months.

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 November 2020 was improved from the previous quarter in all categories except overall business activity. While the local economy remains in the recession that undoubtedly began in the first quarter of this year, many firms have seen improved conditions since the onset of local recession.

We note, however, that the diffusion index of 5.2 on current business activity is the lowest November reading since 2010 (which was at a time of weak local recovery from the Great Recession). The accompanying chart shows how volatile this series has been (even apart from its usual seasonal fluctuations).

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 other index values in Table 1 rebounded again this quarter as many area firms continued to work their way through the challenges posed by the pandemic. Readings on employment, length of workweek, employee compensation and difficulty attracting qualified workers all show a local labor market that has improved after its historically weak performance in the spring. We do note, however, that the area labor market is still a long way from returning to its pre-recession activity.

As can be seen in the accompanying chart, the current capital expenditures index continued to rebound this quarter. With 39.5% of surveyed firms reporting increased capital spending over the past three months (and only 5.3% indicating reduced capital spending), the index value on this item continues to recover from an historic low in the May survey.

We also note that the prices received and national business activity indexes improved again this quarter, but they still remain below what would normally be seen in the November current conditions survey.

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

- Loss of 1/3 of our sales volume due to COVID.
- COVID, COVID, COVID. Find a vaccine and make rapid testing available to all, not just overpaid athletes.
- We need to get this economy opened up some way or many businesses will be out of business.
- Competition for our employees.
- As indicated, COVID has decimated our business. We don't see any meaningful revenue coming in for a long time and haven't had any since March. It's a horrible crisis for us.

Chart 1: Current Business Activity

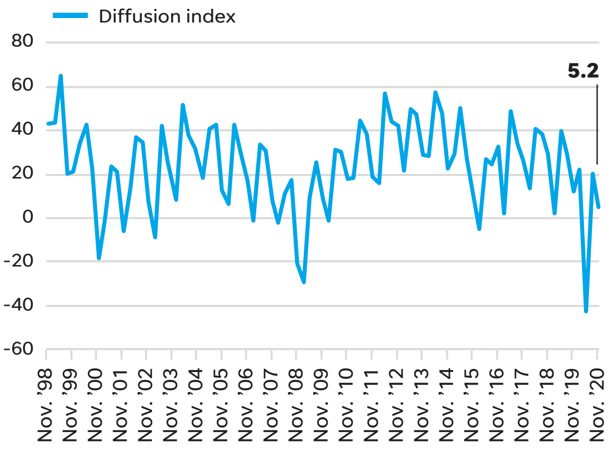


Chart 2: Current Capital Expenditures

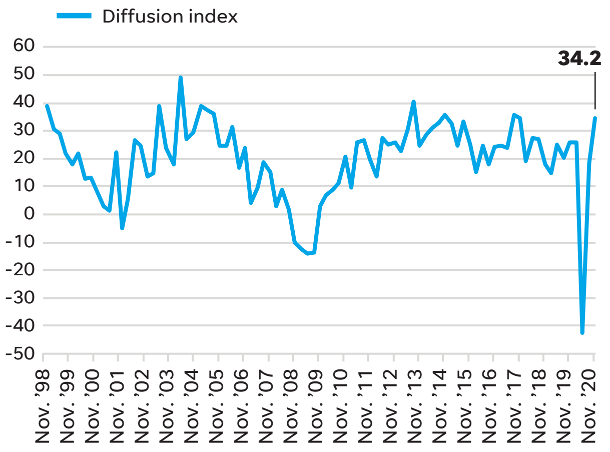
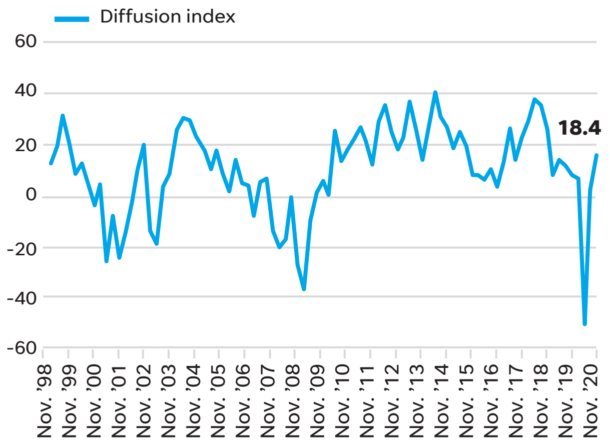


Chart 3: Current National Business Activity



FUTURE OUTLOOK

The results from the future conditions survey in Table 2 provide mixed signals of what to expect over the next six months. The local economy is expected to improve by May (which is to some extent a usual seasonal occurrence), but firms' expectations of improved future conditions are still weaker than is normally seen in the November survey.

For example, the index value on future business activity is 28.9, well below its value of one year ago and the lowest November reading since 2008 (during the Great Recession). However, we do note that the index values on future employment, length of workweek and employee compensation continued to rebound from the historic lows tallied in May of this year.

The future capital expenditures index continued to rebound this quarter — improving more than five points from its value last quarter — and the outlook for national business activity rallied to its highest level since May 2018. We note that all survey information was collected after the results of the November election were known.

What might be this quarter's most interesting survey result is the diffusion index on future prices received. As can be seen in the accompanying chart, at a value of 50, this series is at its all-time high (marking nearly 23 years of collecting quarterly local survey information from area business leaders).

Fifty percent of surveyed businesses expect higher prices received by May 2021 and no firms expect to receive lower future prices. We don't know if these higher expected future prices received are a result of area firms' improved pricing power or if firms expect their costs to also increase, but it has been a long time since we made any detailed comments on these pages about prices received.

Of course, one observation does not make a trend, so it will be interesting to see the results of next quarter's future price received survey. We do note that the current strength of this series is not likely to reflect seasonal variation, since this series has never really exhibited any detectable seasonal pattern.

Signs mark an intersection in the Becker business park in Becker. DAVE SCHWARZ, DSCHWARZ@STCLOUDTIMES.COM

Finally, as we have frequently done over the years, this quarter's final survey chart looks at the future difficulty attracting qualified workers index. This series rebounded this quarter. Its value is 26.3, the highest value it has recorded in two years.

We have often noted that 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 this quarter's reading is a welcome improvement from the weakness we have seen since the beginning of the recession. However, it happens in a period where the labor force has contracted significantly, as we see later in this report.

Chart 4: Future Prices Received

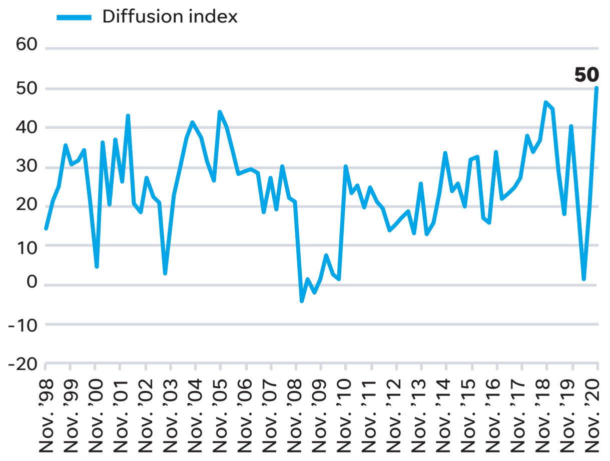
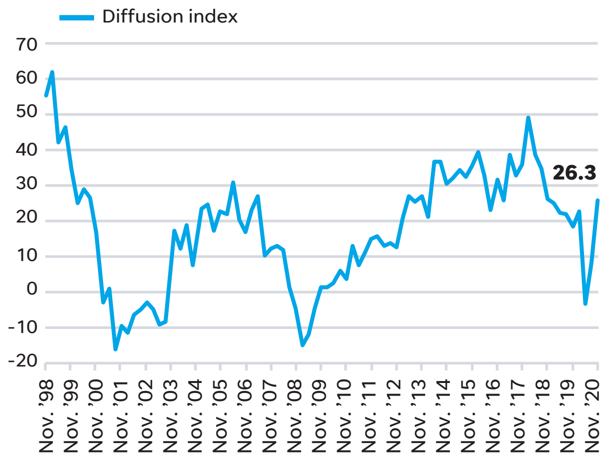


Chart 5: Future Difficulty Attracting Qualified Workers



SPECIAL QUESTION 2

Priorities of the upcoming legislative session in St. Paul

Every two years we use a special question to ask area firms to identify key priorities of the upcoming legislative session in St. Paul. The repeated use of the same question gives us a baseline set of responses and have some insight into what the trend is for potential legislative priorities of importance to local firms.

Of course, 2020 has not been a normal year — and this is likely to carry into the 2021 legislative session — so we did add one additional item, COVID-19 relief, to our baseline set of potential legislative priorities this year.

In this quarter's QBR, we produce the results from all six times that we have asked this question over the years. The result is an interesting summary of how legislative priorities have changed for area firms over the years. We asked:

Social distancing and substitute meeting areas for lawmakers was in effect in the Minnesota House as legislators met, Tuesday, April 7, 2020, in St. Paul to pass a bill to assure that first responders and medical workers will qualify for workers compensation if they get sick with COVID-19 . JIM MONE, AP

Which of the following does your business feel is a priority of the 2021 legislative session in St. Paul?

Energy policy was considered more important at a time when relative energy prices were higher, but this isn't a particularly high priority of surveyed firms this year. Likewise, higher education funding has never proved to be a particularly important priority in our sample. The importance of K-12 funding has fluctuated over the years. This year's survey response appears to return area firms to the more heightened concern with K-12 funding last seen in 2012.

Environmental policy is now a legislative priority for 24% of the sample — this is two times the priority it has ever been in any of the five previous surveys in which this question was asked. Over the years, transportation policy has often been one of the leading legislative priority items in this survey. This is not the case this year — only 26% of survey respondents indicate this is an important priority.

The leading legislative priorities in this year's survey are health care reform, job creation, tax burden and COVID relief. Job creation has often been a more important priority in periods in which the economy is faltering, so it is no surprise that this is an important priority in the upcoming legislative session.

Tax burden has consistently been an important legislative priority of surveyed firms. Nearly two-thirds of firms indicate this is an important priority. COVID-19 relief is unique to this survey and is cited by 66% of the sample.

Finally, health care reform is listed by 37% of survey respondents. That this is one of the more important legislative priorities of area firms comes as no surprise. What is a surprise is that this percentage is considerably lower than has been seen in the other five surveys in which this question was asked.

By comparison, when we asked this question in 2017, 90% of survey respondents identified health care reform as important (and it was singled out as the highest priority by the largest percentage of firms). This interesting result in this quarter's survey is well worth further investigation in future special questions.

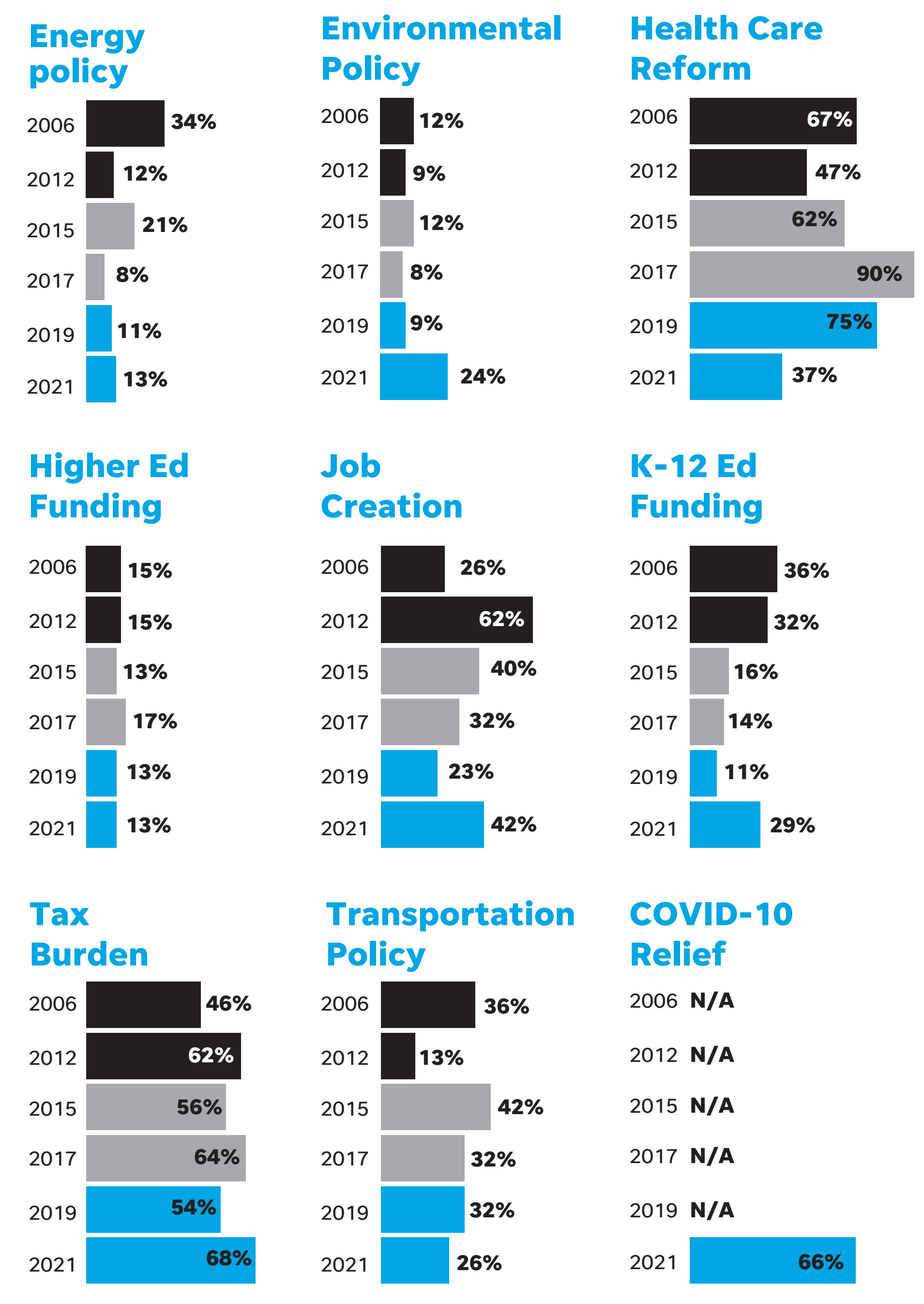
Firms' written comments include:

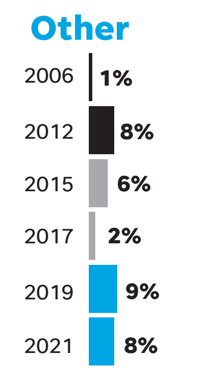
- Training and recruitment of people for manufacturing jobs.
- Priority should be reducing burdens and regulation, not increasing.
- 5G is a big opportunity.
- Health care needs to have less government involvement. Teachers need an increase in pay and children need to be in school 100%.

Special Question 2

Which of the following does your business feel is a priority of the 2021 legislative session in St. Paul?

Note: This compares answers for 2021 to the same question in other years

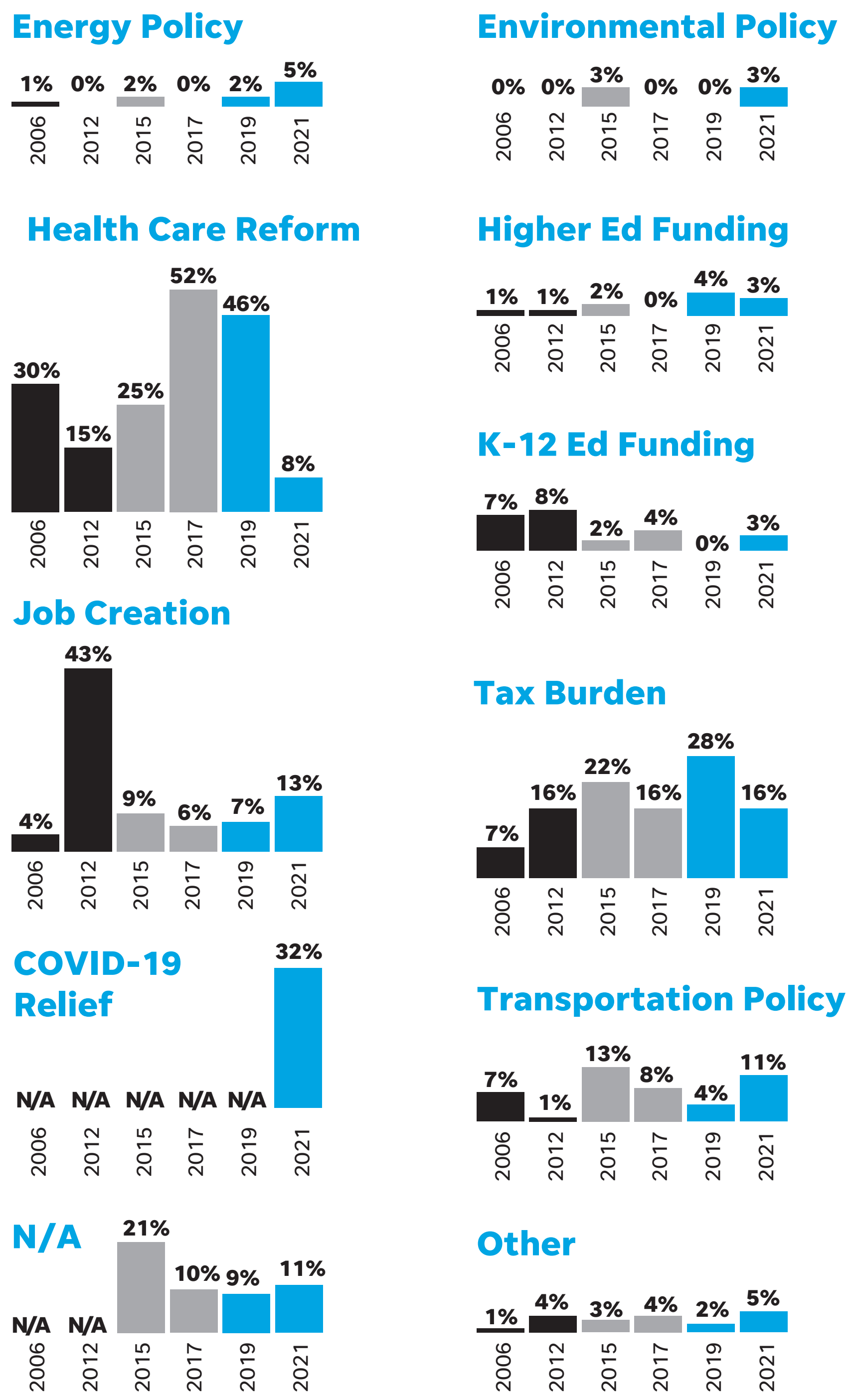




Special Question 3

Which one of the legislative priorities listed does your company feel is most important?

Note: This compares answers for 2021 to the same question in other years



SPECIAL QUESTION 3

The most important legislative priority

This quarter's third special question is a natural extension of the prior item. It simply asks which one of the legislative priorities listed above is the most important.

Over the years, the most important priority has been "health care reform" (which has been named most important in 2006, 2015, 2017 and 2019) and "job creation" (which was named most important in 2012).

It will probably come as no surprise to readers that this year's survey has identified a different legislative priority as being most important. "COVID-19 relief" is cited by 32% of respondents as the most important priority. This is followed by "tax burden" and "job creation."

Note that "health care reform" is named the most important legislative priority in only 8% of responses. This percentage is lower than "transportation policy." We asked:

Which one of the legislative priorities listed above does your company feel is most important?

Written comments include:

- Training and recruitment of people for manufacturing jobs.
- Facilitating 5G is a big opportunity.
- COVID is affecting many business customers. Some need assistance in addition to what we can provide.
- Drive around the community and see all the store fronts that are closed. Many businesses are hurting and they need help.
- COVID-19 is a major problem and must be addressed to improve the economy.
- Funding of education with property taxes is a major cost to business in Minnesota.
- We continue to struggle to find people who want to work in a factory environment and have the skills to be welders, machine operators, and industrial fabricators.
- It is not so much on new job creation but more enticing people to get out into the workforce.
- The wealthier MN citizens will continue to exit to less taxed states if we don't address MN's high personal income tax.
- Our company has had minimal impact financially from COVID, but some client segments have and will need support to sustain.
- This (transportation policy) is important to all residents, but impacts us more directly than most.
- With a projected deficit because of all the issues with COVID and other things where is the money going to come from? Agencies need to be more accountable to save money in lieu of raising taxes.
- Task designs that enhance work from home present real opportunities.
- We literally have no revenue coming in because of COVID and need help to keep our business alive.
- Environmental policy — we need to make big moves locally and nationally to address global warming.
- Must get control of virus for economy to stabilize.
- Job creation — lost jobs due to COVID.
- Economic fallout of COVID, relief payments and job creation.
- MDE and MDH quarantine requirements put a significant burden on our workforce. These should be re-evaluated.
- Most important for whom? Transportation and energy are our business' biggest issues.
- COVID-19 relief, increased testing, and faster results. Support for schools to educate poor and at risk students.
- Higher education funding. This is our primary market

SPECIAL QUESTION 1

How will your firm be impacted by election outcomes?

In last quarter's QBR, we asked area businesses to comment on the extent to which their firm thought COVID-19 would impact election outcomes. The result of the survey was, as always, an insightful set of comments by local business leaders on this topic.

Since this quarter's survey was distributed after the initial results of federal, state and local elections were known, surveyed business leaders were able to consider how these results might be expected to impact their firm.

The past month has been an endless barrage of commentary on the national election and some hotly contested local races have only been finalized in recent days. President-elect Biden has now begun to name his leadership team and the U.S. Senate majority hangs in the balance as two Senate contests in Georgia remain to be settled in the new year. Democrats retained control of the U.S. House of Representatives, but their margin narrowed.

Closer to home, it looks like Minnesota will continue to have divided control of its state legislature. A number of incumbents in the area were re-elected to local office, but there are a few new faces found in area city councils and school boards.

How do you expect your firm to be impacted by the outcome of the federal, state and local elections?

There is no need to analyze the results of this special question — we let the written comments tell the story:

- Too soon to tell. Watching the markets and interest rates.
- No significant impact.
- No effect.
- Not sure but worried. Government involvement in free enterprise system is usually a problem for me.
- We expect the economy to improve with the elimination of the uncertainty created by the election process. Customers will not order equipment when they are concerned who their leaders will be.
- Long term I expect we will be negatively impacted by the policies of the incoming president. Taxes will go up and the economy will go down.
- We will pull back our expansion plans and instead get ready to spend that money on Biden's promised tax increases for business.
- The elected officials won't make a huge difference to us, it is direction the economy will go that will affect us the most.
- Our costs will increase and prices will decrease. Expectation of higher taxes, increased regulatory costs and increased support of Chinese imports will collectively and increasingly hurt our business and employees.
- Not sure at this time.
- We don't anticipate significant changes. This stability is more likely if there is a balance of power in Washington.
- I believe we will have less business because of the projected result?
- Minimally.
- Taxes.
- Likely low interest rates, low fuel prices, more competition for workers.
- We think it is optimistic for (our) business.
- I believe we won't see much until 2022.
- Expect additional, costly regulation.
- Very little.
- Increased business.
- We expect higher taxes, more entitlement programs — all of which hurt businesses and employment.
- Short supply of (our company's inputs).
- Higher taxes, more restrictions.
- Higher taxes.
- Hopefully easier to enforce mask and other safety protocol if federal government takes a national stand.
- With Biden victory, expect taxes to increase, regulation to increase.
- None.
- No change.
- Positive effect.
- Minimal impact.
- We anticipate an economic recession due to unfavorable tax incentives, lockdowns, and health care cost increases.
- We will be taxed more. Cost of fuel will increase. More government regulations.
- Remains to be seen. If taxes go up, sales will go down. The unknown is causing clients to put off decisions on larger purchases.
- BETTER! Our primary market will see less regulation and more improved funding.

Recession

Continued from Page 1I

have an impact on their firm. In addition, firms identify COVID-19 relief as the most important issue for the upcoming legislative session in St. Paul. Tax burden, job creation and health care reform also rank high on firms' list of legislative concerns.

Finally, most firms have dedicated less than 5% of their spending on capital improvements meant to combat COVID-19.

Key takeaways

1 Private sector payroll employment in the St. Cloud area fell 3.7% from one year earlier in the 12 months through October 2020. The unemployment rate in the St. Cloud area was 3.6% in October 2020, which was much higher than the 2.3% figure observed one year ago — but this is still a strong local performance given the depth of the COVID shock. The local labor force contracted by 2.8% over the past year, which might help explain the relatively low local unemployment rate.

As noted last quarter, the local labor market numbers are better than is being observed elsewhere in Minnesota. For example, the statewide unemployment rate was 3.9% in October and private sector employment declined by 6.1% across the state.

Duluth area private sector employment was 7.3% lower and Rochester shed 5.8% of its private sector jobs over the past 12 months. The Duluth unemployment rate was 4.6% and the Twin Cities had a 4.2% jobless rate.

2 A majority of area sectors experienced employment declines over the year ending October 2020. Sectors with the largest job losses include leisure/hospitality (-26.3%), other services (-10.8%), state government (-6.1%), manufacturing (-9.2%), information (-17.4%), education/health (-3.0%) and wholesale trade (-2.1%). Sectors experiencing employment gains include federal government (2.5%), retail trade (7.8%) and mining/logging/construction (6.3%).

3 The St. Cloud Index of Leading Economic Indicators (LEI) rose slightly in the current quarter, and is up 3.5% over the last year. Three of the six LEI indicators rose in the current quarter.

The St. Cloud 12 Stock Index declined 12.1% over the three months ending Oct. 31, 2020. Over the same period, the S&P 500 rose 0.8%. 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 November survey. However, 45% of surveyed firms still expect an increase in business activity over the next six months (and 16% expect decreased activity).

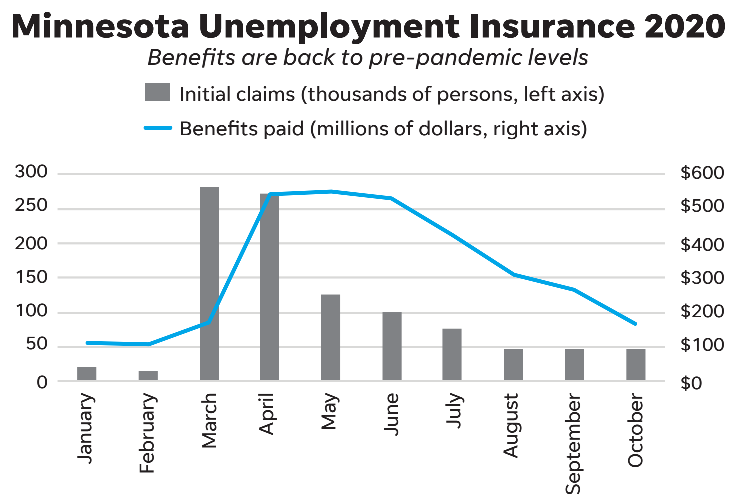
Thirty-two percent of surveyed firms expect to expand payrolls by May 2021 and 50% anticipate increased prices received over the next six months. No surveyed firm expects lower prices received. One-half of surveyed firms expect to pay higher wages and salaries by next May. The local labor shortage is expected to return. Thirty-two percent of firms expect it to be more difficult to attract qualified workers over the next six months and only 5% expect these difficulties to decrease.

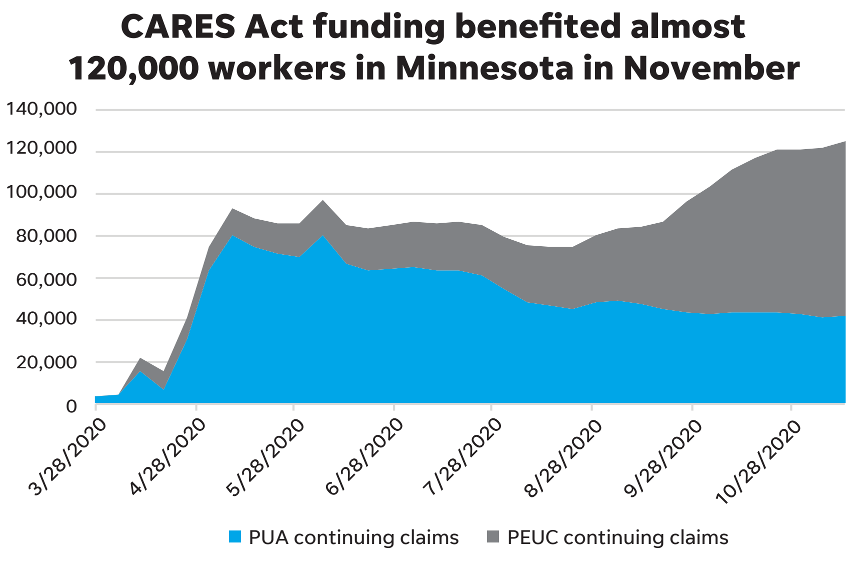
5 In this quarter's first special question, area business leaders comment on how they expect the recent elections to impact their firm. A second special question asks firms to identify key issues for the upcoming legislative session in St. Paul.

Survey respondents report COVID relief, tax burden, job creation and health care reform as their key legislative issues.

The most important of these issues is COVID relief, which was selected as most important by 32% of firms.

In the final special question, more than half of surveyed firms indicate their spending is less than 2% on capital equipment to combat COVID-19. Another 24% of firms report 2-5% of their spending is on this capital equipment.





Benefits

Continued from Page 1I

the end of the year as other provisions of the CARES Act expire. Pandemic Unemployment Assistance (PUA) was created under the CARES Act to assist individuals who do not usually qualify for UI, including the self-employed or workers in the gig economy. It provides assistance for up to 39 weeks. The CARES Act also provides a 13-week Pandemic Emergency Unemployment Compensation (PEUC) plan as a benefit to extend UI past its usual state benefit period (which in Minnesota is 26 weeks.)

As shown nearby, approximately 42,000 Minnesotans were receiving PUA payments in the week of Nov. 14, 2020, falling from a peak near 80,000 in early June. PEUC beneficiaries have steadily increased since the start of the pandemic but accelerated after the end of the Lost Wages Assistance plan on September 13.

Over 83,000 unemployed workers received PEUC payments for the week ending November 14, more than doubling over those two months. Combined, these two programs cover 4.4% of Minnesota workers. These two programs effectively double the amount of UI paid in Minnesota.

While we do not have data specific to these two programs for the St. Cloud MSA, the Minnesota Department of Employment and Economic Development (DEED) reports that 274 individuals currently received extended continuing claims in October in our metro area, compared to 3,758 persons who are receiving regular continuing claims. Some of this second group will reach the end of their regular benefits and would be eligible for PEUC, so we expect the first number to grow by year end.

However, both PUA and PEUC are scheduled to expire on Dec. 31, 2020. Bills have been brought forward that would extend that funding, but the size and timing of additional weeks of coverage are still uncertain and debate may continue into late winter.

SPECIAL QUESTION 4

Company spending on capital improvements to combat COVID-19

Some local firms have clearly had to spend considerable sums on equipment — and other materials — designed to restrain the spread of the virus.

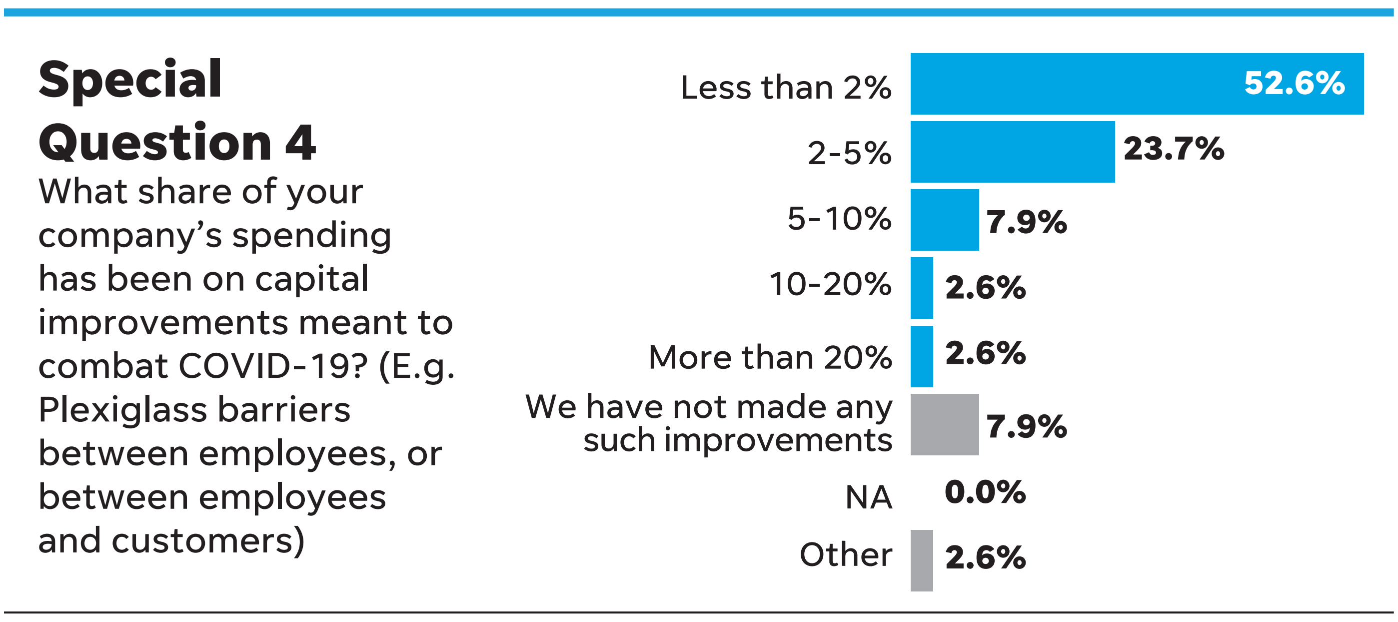
We thought our readers would be interested in seeing what share of firms' spending is dedicated to these efforts, so in this quarter's final special question we asked:

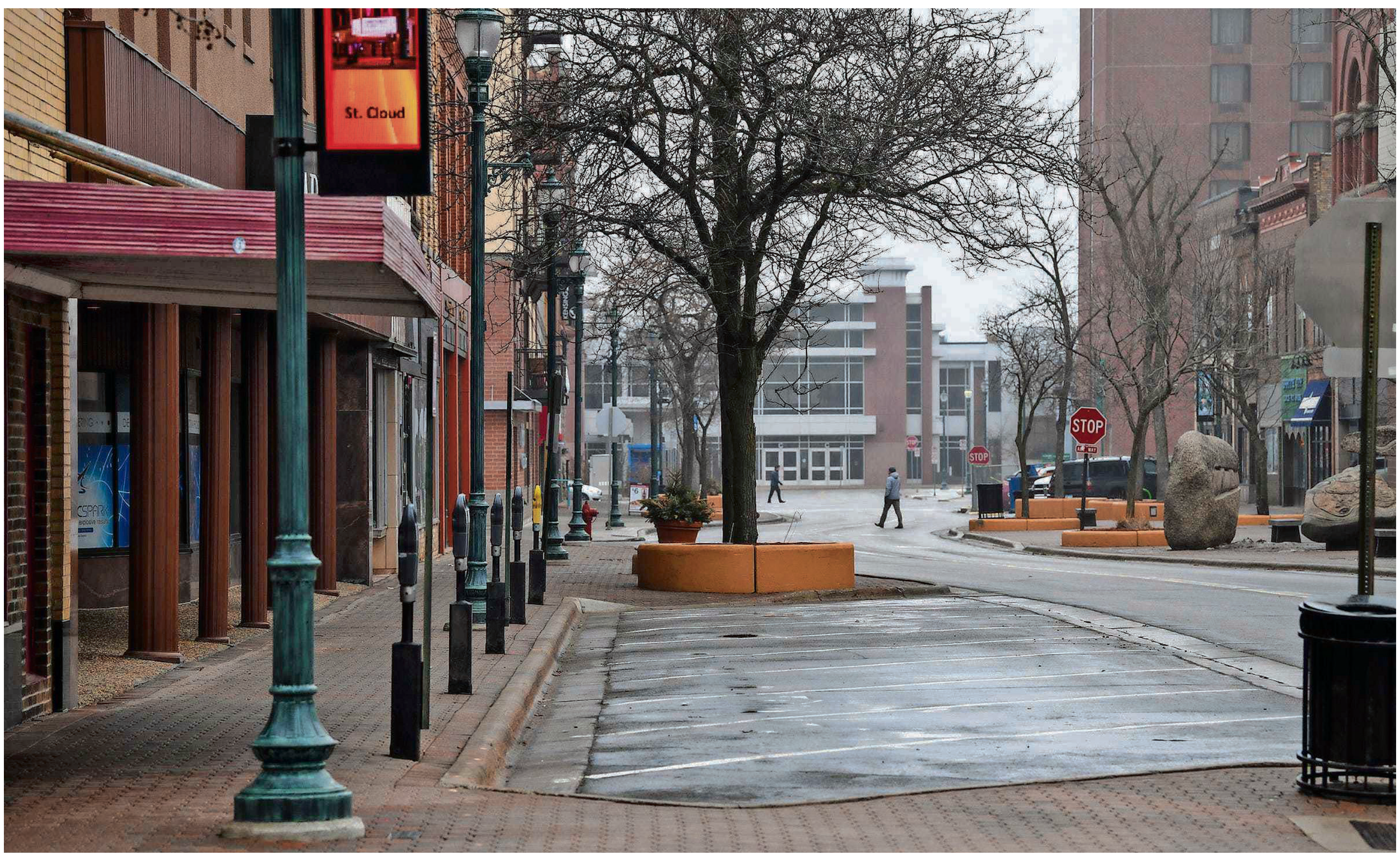
What share of your company's spending has been on capital improvements meant to combat COVID-19? (e.g. plexiglass barriers between employees, or between employees and customers.)

This spending appears to have been relatively minor for a majority of surveyed firms, but this spending accounts for 5% or more of total spending for 13% of surveyed firms. Note that very few firms have made no improvements.

Written comments include:

- Basically, we installed plexiglass dividers at (our customer stations), etc. Expenses related to travel declining. Restricting travel among our ... (employees).
- Changes not required.
- We do not have customers visiting our plant.
- While we have taken precautions, the cost has been minimal.
- We spend a lot of time and money on paperwork and preventive measures, masks, etc.
- Doing things differently now, a real opportunity now.
- Honestly we have no money to spend.
- Mostly plexiglass.
- Cleaning, supplies.
- The cost of COVID is much higher through absenteeism of having to send people home to quarantine. Also absent for school, daycare, etc.





The streets are mostly empty along St. Germain Street just after noon Thursday, March 19, 2020, in downtown St. Cloud.
DAVE SCHWARZ, DSCHWARZ@STCLOUDTIMES.COM

By the numbers: Not worse than the Great Recession

Table 5: Impact of Indicators on St. Cloud Leading Economic Indicators, October 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	DOWN ▼
Future Conditions in Survey	DOWN ▼

Table 3 shows that total non-agricultural employment fell by 3.4% and private sector employment by 3.7% in the St. Cloud MSA in the last 12 months to October 2020.

Save for April and May during Gov. Walz's general stay-at-home executive order, the growth rate during the current recession has consistently run between -3% and -4%, which was significantly less than the depths of the Great Recession in 2009.

In contrast, Table 3 shows a much greater decline in employment in the last 12 months, in both the statewide and the Twin Cities. The drop in employment is greater in 2020 than 2009.

As we explained in September's St. Cloud Area Quarterly Business Report, the difference partly reflects the structure of the St. Cloud economy. Table 3 shows that the decline in some sectors of the St. Cloud economy is similar to what has happened elsewhere, such as leisure and hospitality, but that is a smaller part of the St. Cloud economy than in other state metro areas.

Other sectoral strength has bucked regional trends. Retail employment in the St. Cloud metro area rose 7.8% and has been this strong since June as the addition of large general merchandise stores that were treated as essential by the executive order have accelerated employment there.

This did not happen elsewhere in Minnesota. The larger goods-producing sector was mixed, with manufacturing falling more in St. Cloud than elsewhere in the state but construction bucking the statewide downturn, with a surprising addition of workers in October. This trend may reverse before year-end, however.

A characteristic of the current recession has been a drop in labor force participation. Nationally, more than 4 million fewer workers were in the labor force in November than in February.

Locally, the 4.1% decline of civilian employment noted in Table 4 has not caused a large increase in unemployment because 3,235 St. Cloud area adults are neither working nor looking actively for work. This explains why a recession can have "only" a 3.6% unemployment rate in the St. Cloud area as seen in Table 4.

A feature of this recession has been stubbornly high unemployment insurance claims, perhaps enhanced by the federal programs discussed elsewhere in this report. We expect that this will increase further as the impact of the most recent executive orders ripple through the leisure and hospitality and other manual services sectors of the labor market.

Local area residential construction has remained steady through this period, declining in value in the last quarter to October by 4.4%. Data (not shown) from the St. Cloud Economic Development Authority shows larger commercial projects also holding relatively steady over this period.

The St. Cloud 12 Stock Price Index declined 12.1% between August 1 and October 31. The S&P 500 rose 0.8% in the same period. Brookfield Property (landlord for Crossroads Mall) rose the most, while Encore Capital Group fell the most. Nine of the 12 stocks rose in value over the period.

The St. Cloud Area Index of Leading Economic Indicators (LEI) rose 3.5% over the year, as seen in Table 4, and rose marginally in the last quarter. Three of the six LEI indicators increased in the last quarter and three declined, as seen in Table 5. The overall increase is driven by a significant increase in new business formation in this period. These data points are enough to outweigh the negative impact of the St. Cloud Area Quarterly Business Outlook survey data.

As we write this, one vaccine for COVID-19, which has shown extraordinary effectiveness in its Phase 3 trials, has been approved in the United Kingdom and is likely to be approved here before this goes to press. A second vaccine may be approved in the following week, and more appear to be on their way. As much as we have watched the story of vaccine development in 2020, we will watch the story of vaccine distribution as a key driver of economic growth in 2021, with forecasts that enough to vaccinate over 200 million people in the U.S. will be reached by mid-year.

Table 3: Employment Trends

	ST. CLOUD		MINNESOTA		TWIN CITIES	
	2005-'20 long term	Oct. '19 to Oct. '20 growth rate	2005-'20 long term	Oct. '19 to Oct. '20 growth rate	2005-'20 long term	Oct. '19 to Oct. '20 growth rate
Total non-ag	0.5%	-3.4%	0.1%	-6.2%	0.3%	-6.2%
Total Private	0.5%	-3.7%	0.2%	-6.1%	0.4%	-6.1%
GOODS PRODUCING	-0.2%	-4.2%	-0.6%	-4.7%	-0.6%	-6.5%
Mining/Logging/Construction	2.5%	6.3%	-0.3%	-5.5%	-0.7%	-11.1%
Manufacturing	-1.4%	-9.2%	-0.7%	-4.3%	-0.6%	-4.4%
SERVICE PROVIDING	0.6%	-3.2%	0.3%	-6.5%	0.4%	-6.2%
Trad/trans/utilities	1.0%	4.3%	-0.1%	-1.2%	-0.2%	-3.5%
Wholesale Trade	1.8%	-2.1%	-0.4%	-3.5%	-1.0%	-8.7%
Retail Trade	0.5%	7.8%	-0.2%	0.9%	-0.1%	1.0%
Trans/Ware/Util	2.2%	0.2%	0.7%	-3.8%	0.4%	-8.0%
Information	-3.6%	-17.4%	-2.5%	-13.8%	-2.0%	-11.8%
Financial Activities	1.0%	-2.5%	0.5%	-2.3%	0.6%	-2.5%
Prof & Business Serv.	1.5%	0.0%	0.9%	-2.7%	1.1%	-1.9%
Education & Health	2.1%	-3.0%	1.8%	-5.8%	2.3%	-6.5%
Leisure & Hospitality	-2.8%	-26.3%	-1.1%	-24.5%	-0.5%	-20.7%
Other Services (Excl.Gvt)	-0.8%	-10.8%	-0.9%	-7.9%	-0.1%	-0.7%
Government	0.3%	-1.4%	-0.3%	-6.8%	-0.4%	-7.4%
Federal	2.8%	2.5%	0.2%	5.4%	0.1%	2.7%
State	-1.0%	-6.1%	-0.1%	-7.8%	-1.0%	-9.1%
Local	0.3%	-0.3%	-0.4%	-7.8%	-0.2%	-7.9%

Table 4: Other Economic Indicators

	2020	2019	% change
St. Cloud MSA Labor Force Oct. (MN Workforce Center)	112,598	115,833	-2.8%
St. Cloud MSA Civilian Employment # Oct. (MN Workforce Center)	108,558	113,143	-4.1%
St. Cloud MSA Unemployment Rate* Oct. (MN Workforce Center)	3.6%	2.3%	NA
Minnesota Unemployment Rate* Oct. (MN Workforce Center)	3.9%	2.6%	NA
Mpls-St. Paul Unemployment Rate* Oct. (MN Workforce Center)	4.2%	2.5%	NA
St. Cloud Area New Unemployment Insurance Claims Aug. - Oct. Average (MN Workforce Center)	1,545.7	382.0	304.6%
St. Cloud 12 Stock Price Index as of Oct. 31 (SCSU)	724.88	824.75	-12.1%
St. Cloud City Residential Building Permit Valuation in thous., Aug. - Oct. Average (City of St. Cloud)	2,275.4	2,379.8	-4.4%
St. Cloud Index of Leading Economic Indicators October (SCSU) 2012-13 = 100	116.9	113.0	3.5%

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)