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St. Cloud Area Quarterly Business Report

St. Cloud Area Quarterly Business Reports and
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St. Cloud Area QUARTERLY BUSINESS REPORT

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. For the first year, St. Cloud LIVE/St. Cloud Focus is the publishing partner for this content.

MEET THE AUTHORS:



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King Banaian specializes in analyzing data and writing about it in the second portion of this report.

Mana Komai Molle collects and analyzes responses to the St. Cloud Area Business Outlook Survey, covered in an early portion of the report. Only Molle has access to the confidential list of surveyed businesses and the returned surveys. Questions about the survey can be directed to her. 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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QUARTERLY BUSINESS REPORT 1

Q&A with King Banaian

King Banaian is dean of the School of Public Affairs at St. Cloud State University. Since 2004, Banaian also has been instrumental in the St. Cloud Area Quarterly Business Review. The QBR is most popular with local business leaders, but in this Q&A, we break down why it also matters to people living in the St. Cloud area, and look ahead to what's next.

Q: What is the significance of the Quarterly Business Report in the greater St. Cloud area, and who is the information primarily for?

A: Our report informs business leaders about what others think about the local economy, how their neighbors are thinking about their businesses and what may be coming next. Combining a survey of business leaders with data we gather from local, state and national sources, we provide a four-six month forecast used by businesses, government and citizens around central Minnesota.

Q: Why is this information important for the business community, and even for the general public? How does it get put to use each quarter?

A: Most businesses are part of an ecosystem that uses other businesses for inputs and for customers. They therefore want



King Banaian

to know what is happening around them so they can plan how much to produce, what new product opportunities are there and whether to invest. The public also is interested in whether the economy is doing well, which might influence whether or not they look for a new job or buy a home. If the report indicates a recession is near they might delay those decisions.

Q: Talk about St. Cloud's greatest economic challenges – past, present and future.

A: St. Cloud has transitioned from mining granite to manufacturing a variety of goods. Our area still has almost 15% of its workers in manufacturing compared with 11% for the state of Minnesota. In a national economy that has steadily transitioned to services over the last half-century, how does St. Cloud survive?

It has built over this time a significant retail trade sector as a regional

center, but online stores challenge that development strategy. So it looks instead to transportation and to more specialized manufacturing opportunities. It also has a thriving health sector and maintains a significant education sector with both public and private universities.

In the future our largest challenge is demographic. Birth rates are declining and the Baby Boom generation is retiring. This means it is much harder to find labor in this market. St. Cloud is likely to both produce automation technologies for businesses and use them in its manufacturing to replace lost labor.

Q: How did COVID impact confections the last couple of years? Are we still seeing effects from that? In what areas?

A: COVID has its greatest impact on businesses that rely on personal services, like restaurants and entertainment. We do not have a very large leisure and hospitality sector for a region of our size. We did not lose as many jobs at the beginning of the pandemic as Rochester or Duluth, but they have regained them more quickly. COVID has exacerbated the labor shortage problem. St. Cloud has a large group of workers over age 55, many of whom have retired post-pandemic. As

well, we have seen fewer younger workers in the community as our colleges and universities in the region have seen lower enrollments.

Q: What excites you about doing this work each quarter? Any ideas for expansion of this idea in other Minnesota communities?

A: Every three months, I get a chance to hear from local businesses. We protect their privacy by never revealing who says what, and in return, they tell us what they think about the local economy and answer some special questions that I have about their experiences. I also grew up wanting to be a sports reporter and predicting who would win the World Series or Super Bowl. Having a chance to forecast every quarter has really fed that passion I have for predicting. More than anything else, though, what we produce is something most communities our size do not get. Major cities may have a bank or local university deliver a forecast, but they tend to be once per year and have not lasted long. We think we have shown how you can do it in smaller places. We have done forecasts for other regions in greater Minnesota before the pandemic, but that work ended a few years ago. It would be great to get back to that.

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2 QUARTERLY BUSINESS REPORT

Special questions focus on employee turnover, credit in the St. Cloud area

Key economic conversations this quarter focuses on employee turnover, funding availability to facilitate investment and growth.

BY KING BANAIAH AND MANA KOMAI MOLLE
St. Cloud State University

We received responses to the St. Cloud Area Business Outlook Survey from 31 business leaders between Feb. 8 and March 2, 2023. The survey has been sent quarterly since December 1998.

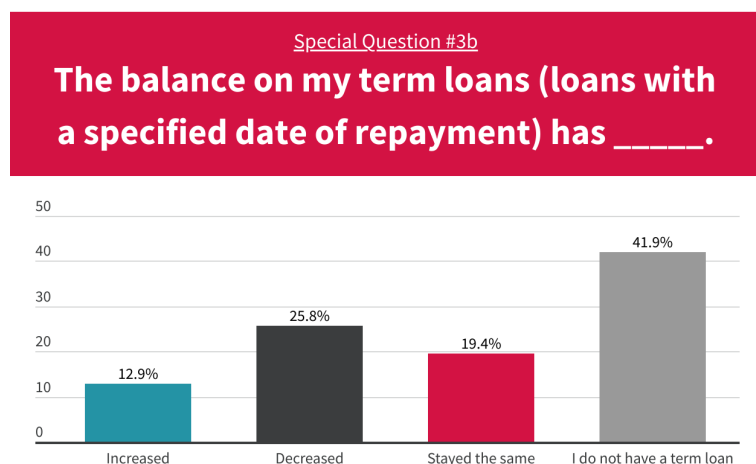
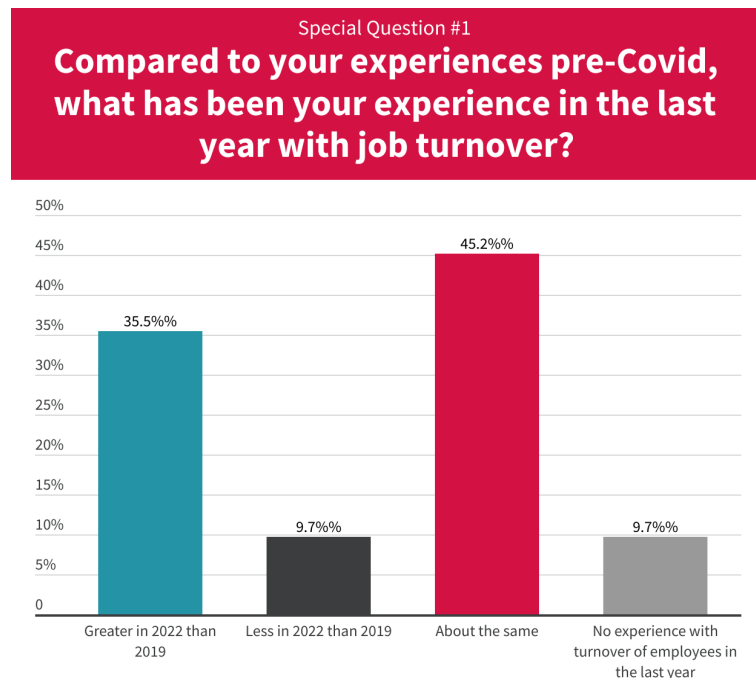
The survey always contains the questions shown in Tables 1 and 2. Special questions that address current issues of importance to our community are added and reported below, answered by the same business leaders.

THE STATUS OF THE GREAT RESIGNATION

The COVID-19 pandemic is responsible for 7 out of 10 employees re-evaluating their work-life balance and quitting their jobs in favor of new prospects by the end of 2021, hence the term "the great resignation." The resulting increase in recruitment and training costs along with operational delays and loss of institutional memory has made employee turnover an important topic of conversation.

WE ASKED: "Compared to your experiences pre-Covid, what has been your experience in the last year with job turnover?"

WE FOUND: 35.5% of our respondents are experiencing a greater job turnover in 2022 than they did in 2019, while only



9.7% report lower turnover in 2022 compared to 2019. Over 45% of our respondents report no significant difference in turnover rate between 2022 and 2019.

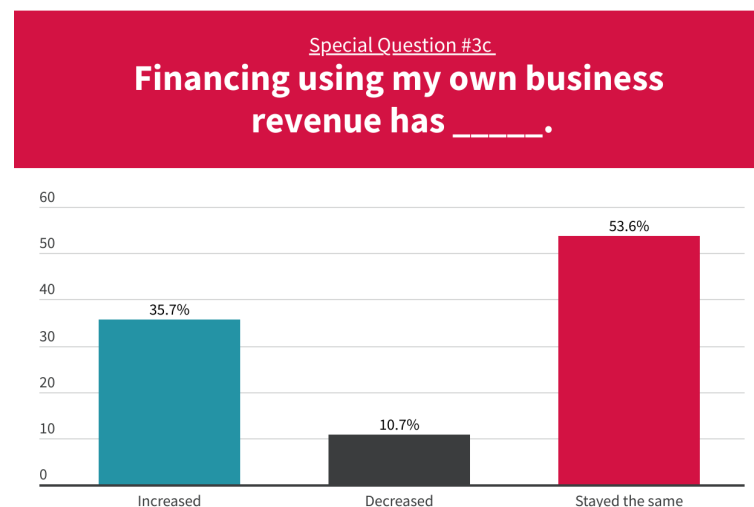
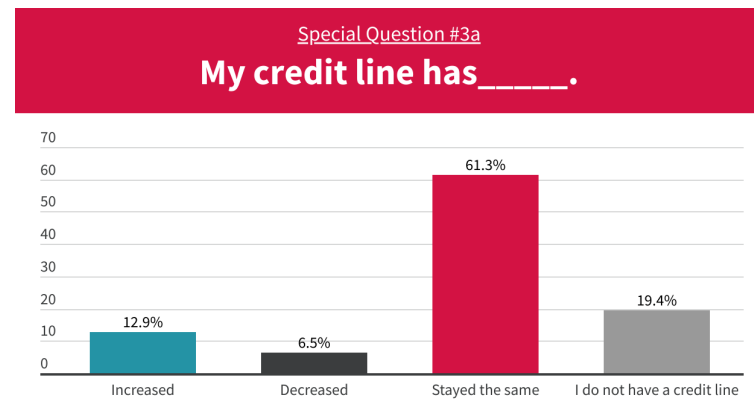
"We have a stable employee base with most having 10 - 25 years with us," said one respondent.

BOTTOM LINE: Tight labor

markets existed pre-COVID and are getting tighter now, even as a recession appears imminent.

AVAILABILITY OF CREDIT

Recent banking turmoil has changed credit conditions, but these were changing even before the closure of Silicon Valley Bank. Businesses that rely on the availability of credit to facilitate



investment and growth find it more difficult to finance their operations.

WE ASKED: "We are interested in the availability of credit. Please answer more, less, or the same to the following 3 varieties of business lending.

a) My credit line has _____increased _____decreased _____ stayed the same _____ I do not have a credit line.

b) The balance on my term loans (loans with a specified date of repayment) has _____increased _____ decreased _____ stayed the same _____ I do not have a term loan.

c) Financing using my own business revenue has _____increased

_____decreased _____ stayed the same."

WE FOUND: Over 35% of our respondents have increased their use of their own revenue to finance their operations. The reliance on short-term loans decreased by 12.9% on net. There was a very small net increase in the use of lines of credit.

"We were able to pay off fixed debt last year but kept a revolving LOC open", said one respondent.

BOTTOM LINE: All of these responses happened before the FDIC closed Silicon Valley and Signature banks. We expect this trend to continue through spring, making it harder for firms to expand.

QUARTERLY BUSINESS REPORT 3

CURRENT BUSINESS CONDITIONS*

| ST. CLOUD AREA BUSINESS OUTLOOK SURVEY SUMMARY FEBRUARY 2023 | February 2023 vs. Three Months Ago | | | | December 2022 Diffusion Index ³ | February 2022 Diffusion Index ³ |
|--|------------------------------------|------------------|-----------------|---------------------------------|---|---|
| | Decrease (%) | No Change (%) | Increase (%) | Diffusion Index ³ | | |
| What is your evaluation of: | | | | | | |
| Level of business activity for your company | 28.1 | 40.6 | 31.3 | 3.1 | -13.8 | 33.4 |
| Number of employees on your company's payroll | 18.8 | 53.1 | 28.1 | 9.4 | 13.9 | 7.7 |
| Length of the workweek for your employees | 9.4 | 81.3 | 9.4 | 0 | -10.4 | -10.3 |
| Capital expenditures equipment, machinery, structures, etc.) by your company | 9.7 | 61.3 | 29 | 19.4 | 20.7 | 12.8 |
| Employee compensation (wages and benefits) by your company | 0 | 45.2 | 54.8 | 54.8 | 41.4 | 69.2 |
| Prices received for your company's products | 16.1 | 35.5 | 48.4 | 32.3 | 24.1 | 59 |
| National business activity | 29 | 54.8 | 16.1 | -12.9 | -31.1 | 43.6 |
| Your company's difficulty attracting qualified workers | 9.7 | 64.5 | 25.8 | 16.1 | 20.7 | 38.5 |

* SOURCE:SCSU SCHOOL OF PUBLIC AFFAIRS RESEARCH INSTITUTE

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.

FUTURE BUSINESS CONDITIONS*

| ST. CLOUD AREA BUSINESS OUTLOOK SURVEY SUMMARY FEB/MAR 2023 | Six Months from Now vs. February/March 2023 | | | | December 2022 Diffusion Index ³ | February 2022 Diffusion Index ³ |
|--|--|------------------|-----------------|---------------------------------|---|---|
| | Decrease (%) | No Change (%) | Increase (%) | Diffusion Index ³ | | |
| What is your evaluation of: | | | | | | |
| Level of business activity for your company | 25.8 | 16.1 | 58.1 | 32.3 | 6.9 | 69.2 |
| Number of employees on your company's payroll | 9.7 | 54.8 | 35.5 | 25.8 | 27.6 | 53.9 |
| Length of the workweek for your employees | 3.2 | 80.6 | 16.1 | 12.9 | 6.8 | 10.2 |
| Capital expenditures equipment, machinery, structures, etc.) by your company | 3.3 | 53.3 | 43.3 | 40 | 41.4 | 46.1 |
| Employee compensation (wages and benefits) by your company | 0 | 43.3 | 56.7 | 56.7 | 51.7 | 69.2 |
| Prices received for your company's products | 13.3 | 43.3 | 43.3 | 30 | 41.4 | 74.4 |
| National business activity | 26.7 | 43.3 | 30 | 3.3 | 0 | 41 |
| Your company's difficulty attracting qualified workers | 10 | 66.7 | 23.3 | 13.3 | 6.9 | 35.9 |

* SOURCE:SCSU SCHOOL OF PUBLIC AFFAIRS RESEARCH INSTITUTE

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.

Has a St. Cloud recession started? Not yet

BY KING BANAIAH AND
MANA KOMAI MOLLE

St. Cloud State University

ST. CLOUD – Area business leaders report better economic conditions over the past three months, but employment remains soft as businesses struggle to find qualified workers, according to the latest St. Cloud Area Quarterly Business Report.

Many leaders also experienced price and wage increases this winter, and a similar number expect them to continue through the summer. Here are more insights from this most recent report:

BY THE NUMBERS

► 31.3% of St. Cloud-area business leaders reported improved current conditions in the March 2023 St. Cloud Area Business Outlook Survey.

► 28.1% reported that their current business activity decreased in the past three months.

► In the December 2022 survey, 27.6% reported an increase and 41.4% reported a decrease.

► Business optimism was at 58.1%, an increase from 34.5% in December. Note: Business

optimism is usually higher at the beginning of a year: 71.8% were optimistic in February 2022, and only one firm was pessimistic.

► 30% of respondents think the national economy will improve in the next six months, almost double the number who thought it would grow over the winter.

Why it matters: In the last Quarterly Business Report, we forecasted a recession in the next six months. Based on this survey, it looks like a local recession has not yet started.

SUPPLY CHAIN CONCERNS

Comments from our survey respondents focused on supply chain issues and wage pressures, along with Federal Reserve policy:

► "We tried to hold off but will be increasing costs to customers at some service levels this year to keep up with wage pressure we are experiencing."

► "Supply chains from Asia are on the mend in both availability of supply along with the availability and cost of transporting these goods to the U.S. Could see prices of Asian goods sold in the U.S. rolling back which will impact demand, prices, and jobs

associated with competing goods made in the U.S."

► "Talk of recession impacted the start of 2023, off to a slower start than in previous two years."

► "The Federal Reserve rising interest rates is a problem as it results in expenses going up!"

We asked: Which sectors will prove the hardest to tame in terms of inflation?

Inflation continued to increase in February in the United States, with prices rising 6% in the past 12 months to February 2023. But some prices have come down more quickly than others, such as used cars and trucks falling 13.6% in price over that same time.

And inflation can be different in different parts of the country: Minneapolis-St. Paul inflation was 5.1% but Phoenix-Mesa was 8.5%.

We asked our respondents: "Which of the following sectors will prove the hardest to tame in terms of inflation?" Multiple responses were allowed.

HEALTH CARE

More than half of our respondents listed

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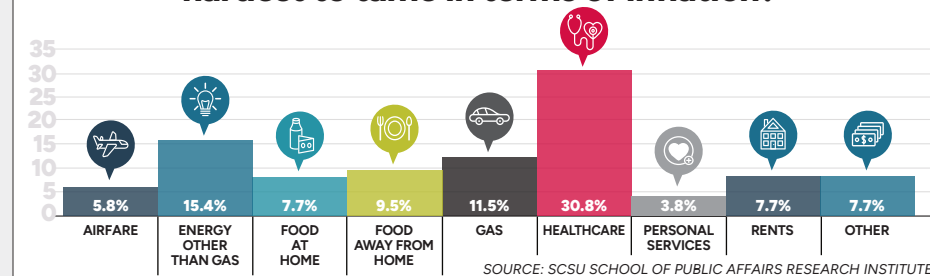
DIFFUSION INDEX DEFINED

A diffusion index is the percent of respondents who say they experience an increase in something, minus the percent of respondents who say they experience a decrease.

For example, if in February 2023, 37.1% of respondents said the

number of employees' payrolls had increased in the past three months and 24.7% had said the number had decreased, the diffusion index would be 37.1% - 24.7% = 12.4%. Another 38.2% would have said there was no change – we ignore that in the

Which of the following sectors will prove the hardest to tame in terms of inflation?



health care as the hardest to tame. Recent data from the Bureau of Labor Statistics showed health insurance premiums rose 19.1% for the second half of 2022. The Consumer Price Index for medical care rose 4% in 2022 overall.

We have surveyed business leaders in the past about their legislative priorities, and health care

costs frequently are cited as an area of concern.

ENERGY PRICES

Gas and other energy prices also were cited by our respondents. Energy prices increased 7.1% last year, though gasoline prices were roughly the same at year-end. Natural gas prices have spiked, however.

Five respondents said

inflation for food away from home would be the hardest to tame, as demand for restaurants has increased as the pandemic has receded as a cause of immediate concern.

"Travel expenses and business related expenses are a mixed bag; some rising, some stabilizing," one respondent said.

4 QUARTERLY BUSINESS REPORT

Leading economic indicators project a mild increase for the next quarter

Using the St. Cloud Area Business Outlook Survey and other data, the outlook for the local economy is clear as mud

BY KING BANAIAH AND MANA KOMAI MOLLE
St. Cloud State University

We use survey responses in Tables 1 and 2 with a set of other indirect indicators produced by local, state and federal agencies to predict whether the St. Cloud economy will experience a recession in the next 4-6 months. Here is some of those data.

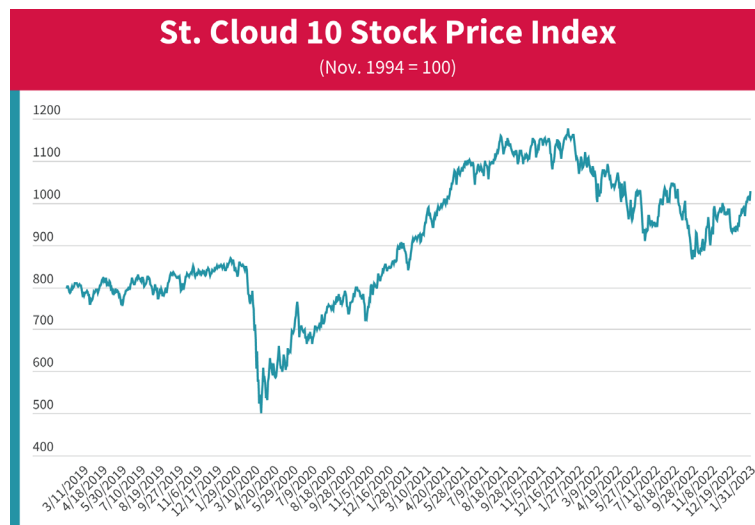
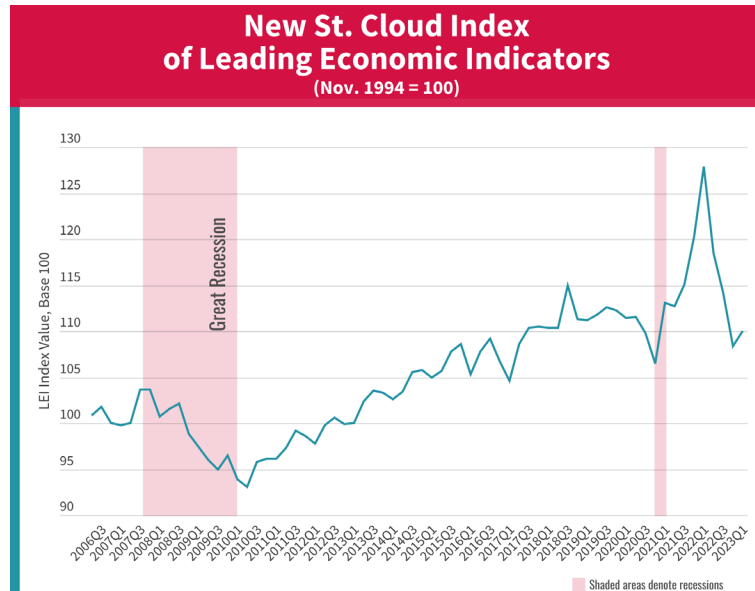
UP: New business incorporations, St. Cloud Stock Price Index, current conditions

DOWN: Initial claims for unemployment insurance, professional employment, future conditions
Leading economic indicators projects a mild increase for the next quarter, though fell 3.6% over the last six months. The increase was the result of the surprisingly strong responses from St. Cloud business leaders about the conditions in their firms over the last three months.

Their continued pessimism about the next six months, plus a decline in professional and business services employment (which includes temporary help employment) weighed down the index. Workers at employment services firms in Minnesota has been flat in the last year.

Both the size of the St. Cloud labor force and household employment fell 1.5% between January 2022 and January 2023. Shrinking labor supply has been a significant drag on economic growth since the pandemic. The drop in labor force in St. Cloud is almost double that in the Minneapolis-St. Paul MSA.

The unemployment rate in St.



Cloud remained at 3.8% in January 2023, the same as last year and above that for the state and for the Twin Cities.

St. Cloud area businesses employed 106,206 workers in January 2023, a rise of 3.1% over the last 12 months. This only happens with a declining labor force by having more workers travel to work in St. Cloud from places outside of Stearns and Benton counties (the two of which constitute the St. Cloud MSA.) Recent trends include more people working from home; central Minnesota saw a 62.6% increase in persons working from home in 2021 versus 2011, but the Twin Cities saw an increase

of 233.8% over this same time1. Some staffing thus may be coming from people in the Twin Cities working for St. Cloud businesses remotely.

Our tight labor market is also shown by lower initial claims for unemployment insurance, which are more than 25% less in the last quarter than a year ago. Combined with answers to our Survey, we lack the usually reliable sign of recession of a temporary easing of labor market tightness.

One sign that is more concerning is the recent drop in residential building permits in the city of St. Cloud. The Central Minnesota Builders Association reported that

Other Economic Indicators

| | 2023 | 2022 | % change |
|---|----------|----------|----------|
| St. Cloud MSA Labor Force January (MN Workforce Center) | 111,978 | 113,637 | -1.5% |
| St. Cloud MSA Civilian Employment # January (MN Workforce Center) | 107,685 | 109,288 | -1.5% |
| St. Cloud MSA Unemployment Rate* January (MN Workforce Center) | 3.8% | 3.8% | N/A |
| Minnesota Unemployment Rate* January (MN Workforce Center) | 3.3% | 3.7% | N/A |
| Mpls-St. Paul Unemployment Rate* January (MN Workforce Center) | 2.9% | 3.0% | N/A |
| St. Cloud Area New Unemployment Insurance Claims Nov.-Jan. Average (MN Workforce Center) | 1,103.3 | 1,474.3 | -25.2% |
| St. Cloud Stock Price Index As of January 31 (SCSU) | 10,28.94 | 10,95.01 | -6.0% |
| St. Cloud City Residential Building Permit Valuation in thous., Nov. - Jan. Average (City of St. Cloud) | 985.4 | 1,340.3 | -26.5% |
| St. Cloud Index of Leading Economic Indicators January (SCSU) 2012-13 = 100 | 110.0 | 127.9 | -14.0% |

198 building permits were issued in the area in 2022, down from 301 in 2021 and 265 on average in the previous 4 years. Given area employment in the construction sector grew more than 12% in the last 12 months, the drop in permits is a concern for 2023.

Stock prices are a leading indicator in the St. Cloud Index of Leading Economic Indicators. Stock market performance this winter is not consistent with the recession we forecasted last December. Prices in February (not used in the index calculation) were flat.

ST. CLOUD STOCK PRICE INDEX

The St. Cloud Stock Price index, consisting of 10 publicly traded firms with significant investments in the St. Cloud area, rose 6.5% in the quarter ending January 31, 2023. It is down 6% since the same date in 2022. Nine of 10 stocks rose, led by transportation equipment manufacturer New Flyer (up 18.6%) and eyewear manufacturer Essilor (+14.8%). Only American Axle (owner of the Grede St. Cloud Foundry, -7.7%) failed to grow in price.

