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St. Cloud Area Quarterly Business Report

St. Cloud Area Quarterly Business Reports and
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QUARTERLY BUSINESS REPORT 1

CURRENT BUSINESS CONDITIONS*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY SUMMARY MAY/JUNE 2023 <i>What is your evaluation of:</i>	May/June 2023 vs. Three Months Ago				February 2023	May/June 2023
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³	Diffusion Index ³
Level of business activity for your company	35.3	44.1	20.6	-14.7	3.1	54.3
Number of employees on your company's payroll	20	62.9	17.1	-2.9	9.4	40
Length of the workweek for your employees	5.9	79.4	14.7	8.8	0	20
Capital expenditures equipment, machinery, structures, etc.) by your company	2.9	58.8	38.2	35.3	19.4	37.2
Employee compensation (wages and benefits) by your company	2.9	44.1	52.9	50	54.8	71.4
Prices received for your company's products	8.8	58.8	32.4	23.6	32.3	71.4
National business activity	39.4	45.5	15.2	-24.2	-12.9	28.6
Your company's difficulty attracting qualified workers	9.4	81.3	9.4	0	16.1	42.9

* 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.

FUTURE BUSINESS CONDITIONS*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY SUMMARY MAY/JUNE 2023 <i>What is your evaluation of:</i>	Six Months from Now vs. May/June 2023				February 2023	May/June 2023
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³	Diffusion Index ³
Level of business activity for your company	28.1	28.1	43.8	15.7	32.3	42.8
Number of employees on your company's payroll	9.4	62.5	28.1	18.7	25.8	31.4
Length of the workweek for your employees	9.4	75	15.6	6.2	12.9	7.5
Capital expenditures equipment, machinery, structures, etc.) by your company	3.1	50	46.9	43.8	40	37.1
Employee compensation (wages and benefits) by your company	0	43.8	56.3	56.3	56.7	54.3
Prices received for your company's products	9.4	56.3	34.4	25	43.3	62.9
National business activity	35.5	35.5	29	-6.5	30	17.2
Your company's difficulty attracting qualified workers	10	73.3	16.7	6.7	23.3	34.2

* 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.

A majority of business leaders still on recession watch

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

ST. CLOUD — The St. Cloud Area Quarterly Business Report found confirmation from local business leaders of its forecast six months ago of a recession in 2023. Except for capital expenditures, every element surveyed in Table 1 showed conditions worsening over the last three months. The results

were so strong that they overwhelmed the other five leading economic indicators.

- Future conditions showed a similar decline, with only expenditures for capital goods by businesses strengthening.
- A majority of respondents expect employee compensation to rise in the next six months, continuing a trend dating back to last year. DEED data for the

St. Cloud MSA showed hourly earnings in the private sector rose 9.2% over the last year for the February to April period.

Elsewhere in the survey
An equal number of business leaders reported less difficulty hiring qualified workers as reported more difficulty. In every previous report since 1998, a reading of zero or below (2002, 2008 and 2020) has coincided with a local recession.

Almost 40% felt national business activity had decreased between February and April this year, and all but one expected this to continue into the next six months.

What they're saying
Comments from business leaders focused on difficult recruiting (though few reported hiring qualified workers was more difficult.) "The applicants exist, the specialized skill set and

licensing is the problem," said one. Another said, "Rising interest rates will slow our business." Several respondents had negative comments on the recently concluded state legislative session. Mandates "such as mandated paid leave will put an undue burden on small and large businesses and their employees," said one respondent.

Comparison
Compared to small

businesses around the country, these survey results looked weaker. The National Federation of Independent Businesses, a small- and medium-sized, showed similarly weak results in its national survey in April. Like St. Cloud, business leaders around the country saw labor quality as a leading concern. Unlike St. Cloud, the second biggest concern nationally was inflation, with taxes a distant third.

We asked: How have your thoughts on recession changed in five months?

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

Similar to many CEOs, investors, and economists, 84.6% of our respondents last December considered 2023 as the year in which recession would hit the American economy. After the first four months of the year, however, GDP growth in the U.S. was still positive and employment gains were impressive. So we thought we would ask whether our business leaders had changed their minds yet about a recession in 2023. We asked: "We said in

December 2022 that a recession in the St. Cloud area economy would start by the middle of 2023. Now that 5 months have passed, what best describes your thoughts then and now?"

Of those who said they expected a 2023 recession last December, 82% still believe it five months later. Of the four respondents who thought in December that there would not be a recession, one had come around to thinking there would be one now.

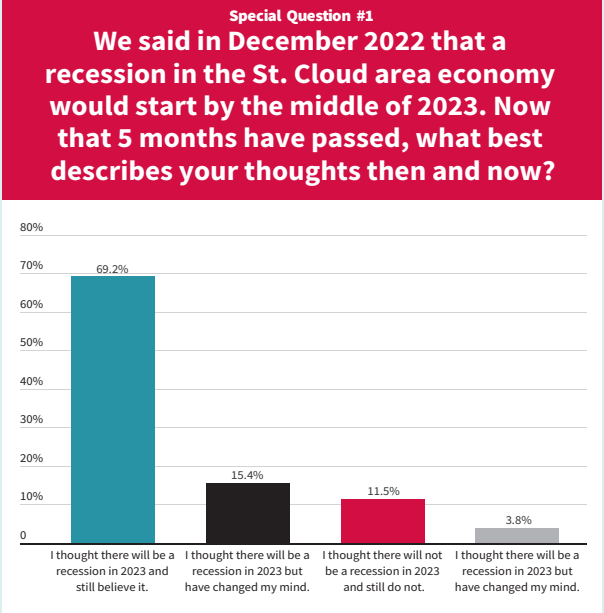
Overall, 73% of our survey respondents still expect a recession in 2023.

"I think there will be a recession in 2024," said one respondent. Another one said, "We are just now starting to see business slowing. Our first quarter was very strong." The national data give very mixed signals, just like those for the local economy. Differing measures of national economic activity (such as GDP and gross domestic income) are giving conflicting signals.

- Business optimism as reported by the National Federation of Independent Businesses has been below its 49-year average for 17 consecutive months. But most of the pessimism

is in "soft" items like outlook for expansion, expected real sales and expected credit conditions. Job creation and opening as well as current earnings were still close to historical averages.

- The Federal Reserve's skip on June 14 could mean slightly better financial conditions ahead for businesses. But for a soft landing inflation will need to continue falling and corporate earnings will have to keep up with expectations.
- It's possible in theory, but if we have a soft landing, it will be the first time that's happened.



2 QUARTERLY BUSINESS REPORT

St. Cloud Area QUARTERLY BUSINESS REPORT

Every three months, two St. Cloud State University economists analyze the latest business and work 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.

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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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Data analysis shows strong pessimism overwhelms slow gains elsewhere

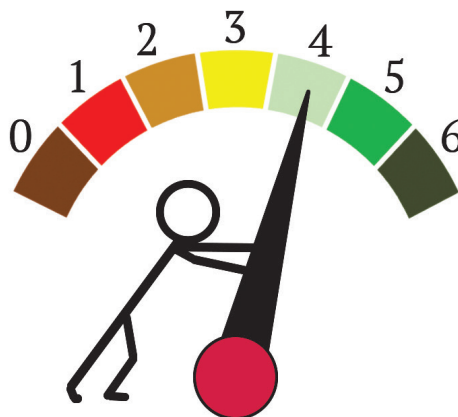
BY KING BANAIAN AND MANA KOMAI MOLLE
St. Cloud State University

Leading indicators confused?

Four of the six elements in the St. Cloud Index of Leading Economic Indicators were positive in February through April 2023, but the strong pessimism about current business conditions in the St. Cloud Area Business Outlook Survey tipped the weighted average of the indicators to negative.

Initial claims for unemployment insurance are still falling, which is a positive sign for the economy, as was a slightly higher reading for the St. Cloud Stock Price Index and the relatively greater optimism for the future from survey respondents. Professional and business service employment was negative in the most recent period.

There was a negligible rise in new business formation. It is so small we could have left the dial at 3!



A great unwinding of labor market pressure?

Previous readings of leading indicators projected private sector employment well above recent levels. Year-over-year rises in employment in the St. Cloud area started to decelerate in January, and our projections indicate a continued deceleration with a possible decline (on a seasonally adjusted basis) later this summer.

Peak gains in employment typically occur between August and October between education and retail, slightly offset later in the year by construction. Will they happen this year?

Since peaking in May 2019, seasonally adjusted employment in the area has not yet recovered from the COVID low in April 2020. There are currently 1,726 fewer jobs (1.8%) in the St. Cloud MSA.

Labor force

The St. Cloud MSA labor force grew 1.4% between April 2022 and April 2023. But, household employment only rose 0.7%, meaning the unemployment rate rose in the area. At 3.1% in April, the local unemployment rate is 0.2% above the state rate.

Though the labor force grew healthfully, the labor force is still 2,156 (1.9%) below its February 2020 level. That compares to 1.3% for the state and 1.7% for the Twin Cities metro area.

Area initial claims were up slightly, a negative for the business outlook.

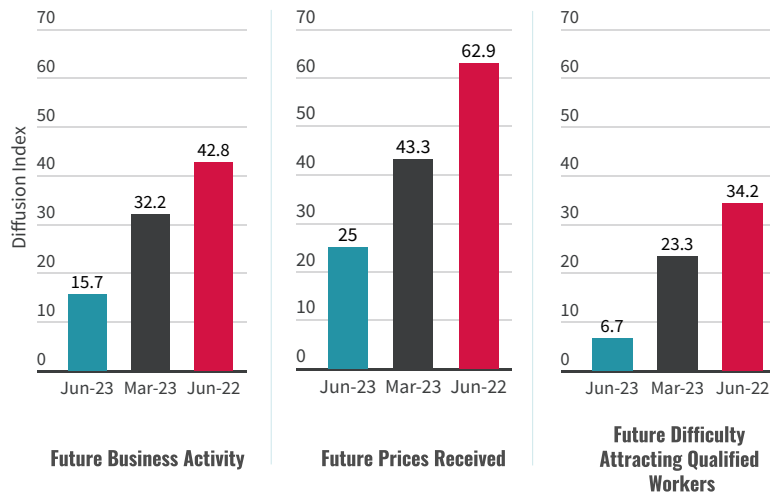
Impact of Indicators on St. Cloud Leading Economic Indicators, April 2023

	Up/Down?
Initial Claims for Unemployment Insurance	UP ↑
New Business Incorporations	UP ↑
Professional Employment	DOWN ↓
St. Cloud 12 Stock Price Index	UP ↑
Current Conditions in Survey	DOWN ↓
Future Conditions in Survey	UP ↑

St. Cloud Economic Indicators

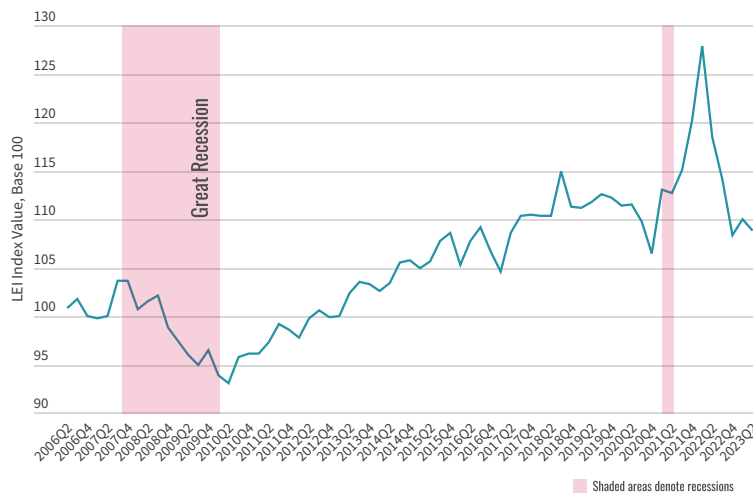
	2022	2023	% change
St. Cloud MSA Labor Force April (MN Workforce Center)	110,560	112,104	1.4%
St. Cloud MSA Civilian Employment # April (MN Workforce Center)	107,917	108,663	0.7%
St. Cloud MSA Unemployment Rate* April (MN Workforce Center)	2.4%	3.1%	N/A
Minnesota Unemployment Rate* April (MN Workforce Center)	2.2%	2.9%	N/A
Mpls-St. Paul Unemployment Rate* April (MN Workforce Center)	2.0%	2.7%	N/A
St. Cloud Area New Unemployment Insurance Claims Feb.-April Average (MN Workforce Center)	607.3	647.0	6.5%
St. Cloud Stock Price Index As of April 30 (SCSU)	1,015.78	1,039.27	2.3%
St. Cloud City Residential Building Permit Valuation in thous., Feb.-April Average (City of St. Cloud)	1,794.1	1,997.1	11.3%
St. Cloud Index of Leading Economic Indicators April (SCSU) 2012-13 = 100	118.5	108.9	-8.1%

Key Survey Results

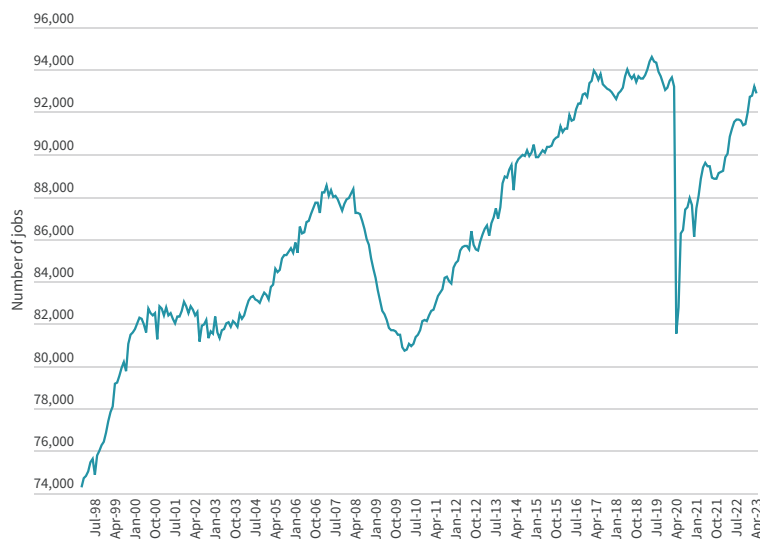


New St. Cloud Index of Leading Economic Indicators

(1st quarter 2013 = 100, shaded areas are recessions)



Seasonally adjusted private employment, St. Cloud MSA



QUARTERLY BUSINESS REPORT 3

St. Cloud Stock Price Index, February to April 2023

The index rose 1.4% in the period of February to April 2023.

BY KING BANAIAH AND MANA KOMAI MOLLE

St. Cloud State University

ST. CLOUD — The St. Cloud Stock Price Index rose 1.4% in the period of February to April 2023.

Three stocks rose, with WoltersKluwer the largest percentage gainer. New Flyer was the largest percentage loser of the seven stocks that declined.

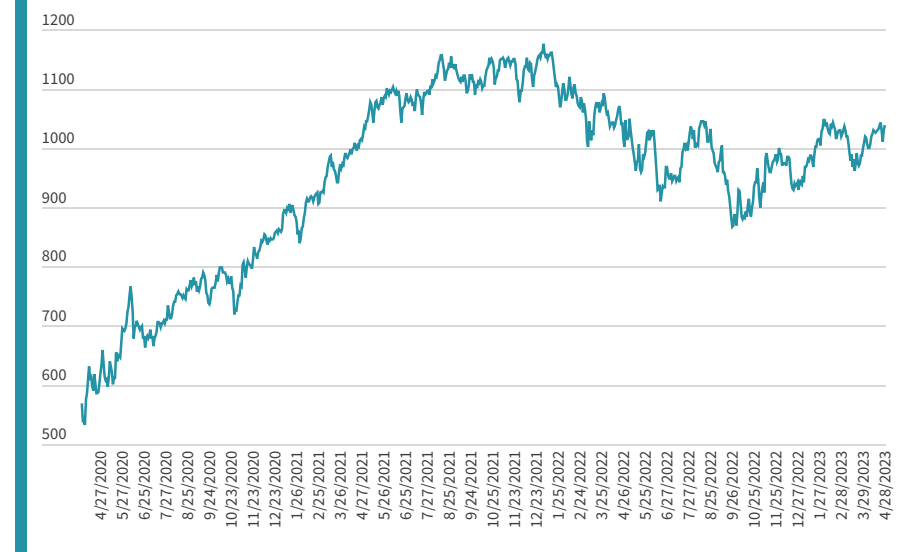
- We compute the index by adding the value of a single share of each publicly traded company with

significant presence in St. Cloud.

- On Feb. 1 we added Quanta Systems (ticker symbol PWR) to our index after its 2021 purchase of Blatner of Avon. We adjust the index to account for adding and subtracting shares of companies in the index.
- On May 30, 2023, we accounted for the spinoff of Knife River (KNF) from MDU Resources (MDU) by replacing the latter in the index. These will be seen in the next edition of the St. Cloud Area Quarterly Business Report.

St. Cloud 11 Stock Price Index

(Nov. 1994 = 100)

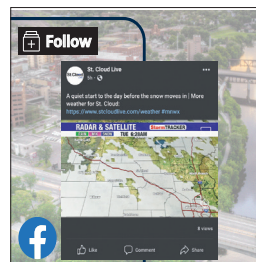


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4 QUARTERLY BUSINESS REPORT

We asked: How concerned are you about a recession?

Half of our respondents are only slightly concerned that there will be any fallout of a recession from these banking disruptions.

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

Economic pessimism was exacerbated from events in the banking sector with the news of a run on Silicon Valley and Signature banks, which caused the FDIC to temporarily take over those banks. The FDIC eventually sold those two banks and forced the sale of a third, First Republic Bank, to avoid further financial

fallout.

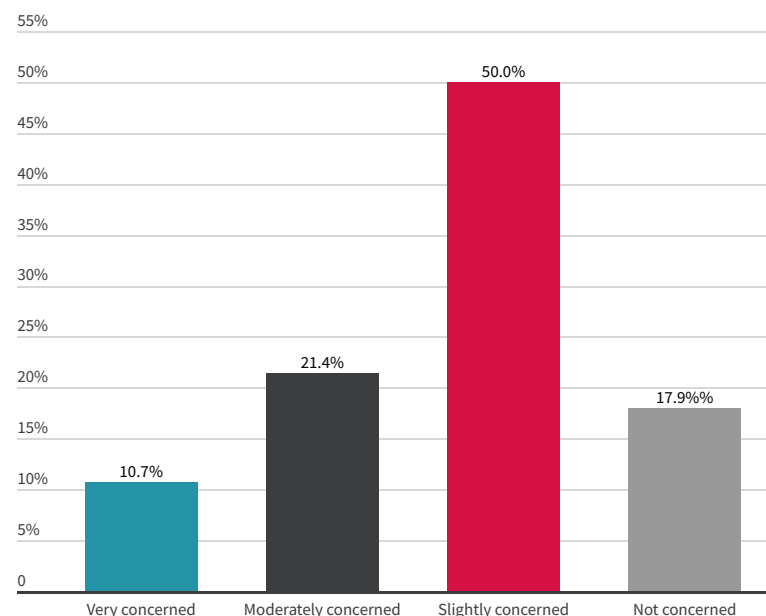
We asked: "How concerned are you about a recession stemming from recent banking disruptions?"

Half of our respondents are only slightly concerned that there will be any fallout of a recession from these banking disruptions, while almost a third are either highly or moderately concerned that the recent banking disruptions can be a deciding factor for the next recession.

While some smaller banks have experienced contagion, the nation's largest banks have stayed out of trouble as the majority of regional banks have exhibited more conservative practices than those of SVB with its considerable large amounts of uninsured deposits.

"With all the regulations, how can banks mess up like this?" said one respondent. Most seem to believe these banks are isolated cases.

Special Question #3 Concern about Recession Stemming from Recent Banking Disruptions



We asked: How concerned are you about a financial tightening stemming from recent banking disruptions?

Nearly 61% of our respondents reported moderate-to-high concern about tightening credit. Only 1 in 5 showed no concern.

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

In the two weeks following the Federal Deposit Insurance Corporation (FDIC) placing Silicon Valley Bank in receivership, savers transferred an estimated \$550 billion deposits from smaller regional banks to larger banks and money market funds. This led to concerns about the availability of credit to households and businesses alike.

We asked: "How concerned are you about a

financial tightening stemming from recent banking disruptions?"

Nearly 61% of our respondents reported moderate-to-high concern about tightening credit. Only 1 in 5 showed no concern.

Financial market participants forecasted that the Fed would skip an increase in its policy interest rate at its June 13-14 meeting, but another rise at its meeting in late July is still expected.

"Will be tighter; don't know how much", said one respondent. "I don't see a business impact-maybe a

household problem," said another.

Despite those concerns, all but three surveyed business leaders have stayed with their current banks. Two of the 3 reported that they had changed because of safety issues. One respondent said "we didn't want to have more than \$250K in any one bank for the business cash," referring to the \$250,000 per customer limit on FDIC insurance.

One respondent changed banks because "we did not feel our old bank served us well."

Special Question #2 Concern about Financial Tightening Stemming from Recent Banking Disruptions

