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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 is the publishing partner for this content.

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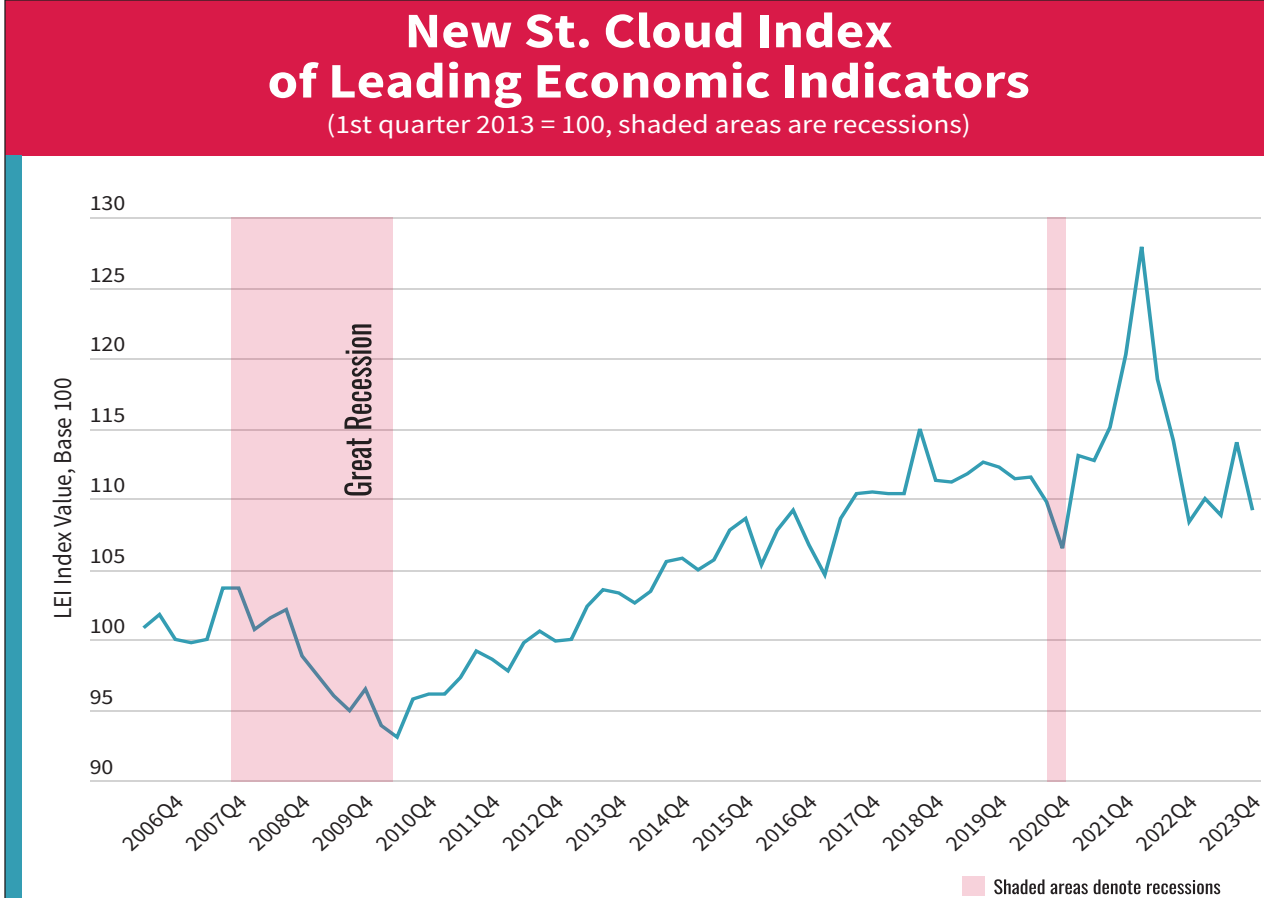
King Banaian specializes in analyzing data and writing about it in the second portion of this report.

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. 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.



ONLINE

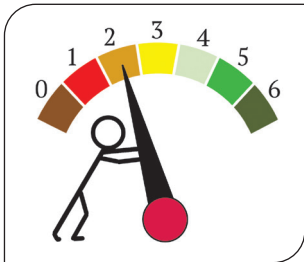
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Leading indicators return to SLOW GROWTH

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

It may turn out that last summer's growth in the St. Cloud area economy was a short-term bump.



Four of the six indicators in the St. Cloud Area Index of Leading Economic Indicators (LEI) were negative in the August-October 2023 period, led by the reversal of opinion about current business conditions among our Survey respondents. Future business expectations from the Survey also contributed negatively to the index.

Both current and future conditions reversed this quarter from the previous one and returned to their negative trend from the first half of the year.

Two other indicators reversed course in the third quarter but in different directions. The post-pandemic period has seen an increase in business formation. State-level monthly data from the U.S. Census shows that the number of new businesses in Minnesota that plan to pay wages (which comes from a form filed with the IRS) has risen over the first 10 months of 2023 to 7,024 from 6,939 in 2022. This is positive news.

The prices on stocks in the St. Cloud 11 Stock Price Index has turned negative through October when we measure for LEI (though like all stocks, the St. Cloud index rose in November.)

Two other data points also give conflicting

Impact of Indicators on St. Cloud Leading Economic Indicators October 2023

	Up/Down?
Initial Claims for Unemployment Insurance	UP ↑
New Business Incorporations	UP ↑
Professional Employment	DOWN ↓
St. Cloud 11 Stock Price Index	DOWN ↓
Current Conditions in Survey	DOWN ↓
Future Conditions in Survey	DOWN ↓

information. We still see low levels of initial claims for unemployment insurance and this contributes positively to the index. Professional

and business employment (including temporary help employment, a cyclically sensitive indicator) continues to be a negative contributor to LEI.

Household employment drops, but other indicators positive

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

Household employment in the St. Cloud area fell 0.2% through October 2023 from year-ago levels.

The area labor force grew 0.2% over this same time. Household employment measures the employment of St. Cloud residents while payroll employment (as used elsewhere in this report) measures the employment

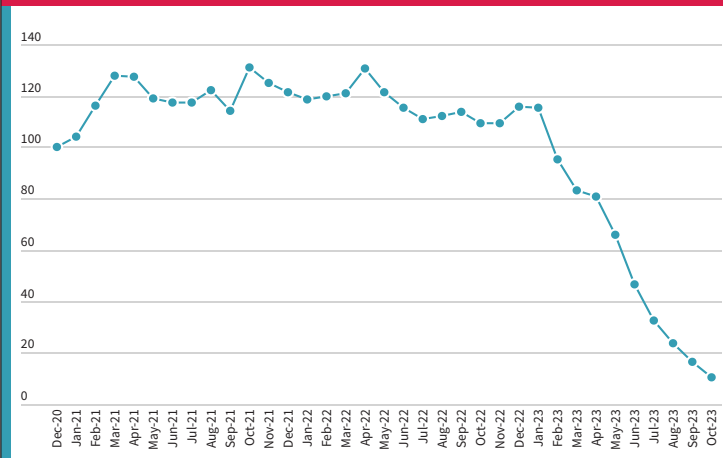
of St. Cloud businesses. The differences between these two measures are relatively small at present.

The unemployment rate rose by half a percent to 2.6% in October 2023 from 2.1% in October 2022. The rise in the unemployment rate in the Twin Cities was greater but overall the labor market still shows a low rate of unemployment.

Other indicators were mostly positive. Over the last year (through Nov. 30) the St. Cloud Stock Price Index gained 14.7%, compared to a gain of 33.5% for the NASDAQ, 13.7% for the S&P500 and 6.1% for the Dow Jones Industrial Average. "The Magnificent Seven" tech stocks dominate the gains of the NASDAQ and S&P indices; the remaining 493 stocks in the S&P index rose only 4%. Residential construction

St. Cloud JobSpot Posting Index, 2020-23

(Dec. 2020 = 100); Source: GSDC, Dayta Marketing, SCSU



continues to perform well, with single-family home building permit valuations in the city of St. Cloud up 36% year over year in the August to October period. Data from the Central Minnesota Builders Association indicates regional building permits (incorporating most cities in the region, not only St. Cloud) up by 18 permits

this year, with St. Cloud city accounting for 13 of them. The city issued 26 single-family building permits in September.

One negative leading indicator was an increase in the number of new claims for unemployment insurance, which rose 18.6% in August through October 2023 versus the same time one year ago.

The gains are similar for the state as a whole.

The UI data is supported by recent data on job postings on GSDC's JobSpot portal. In October there were only 10% of the postings there 12 months earlier. Job postings on Indeed for the Minneapolis-St. Paul fell 22% over the same period.

Compared to year-ago levels, the St. Cloud Index of Leading Economic Indicators (LEI) is up 0.7%. LEI

is calibrated to predict movements in employment over the next four to six months. Over the last six months the measure is up 0.2% which would translate to a gain of about 210 jobs over the next six months. This is very slow growth but, unless labor force participation accelerates, will not lead to an increase in unemployment.

St. Cloud Stock Price Index

ST. CLOUD — The St. Cloud 11 Stock Price Index closed at 1108.12 on Nov. 30, 2023, virtually unchanged over the last three months.

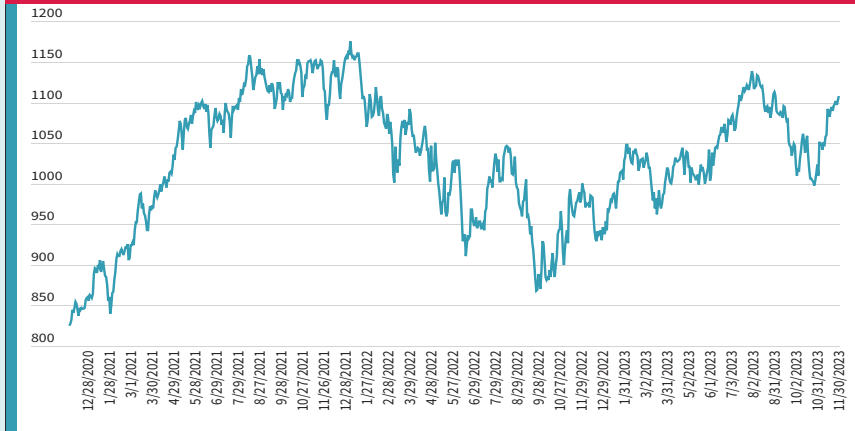
Six stocks rose and five fell. Strongest gainers were Capital One, Knife River, New Flyer and Wolters Kluwer, while Quanta

Systems (which holds Blattner Energy) was the largest decliner, followed by CH Robinson and American Axle.

Both the NASDAQ and S&P 500 rose during this quarter while the Dow Jones Industrial Index declined.

St. Cloud 11 Stock Price Index

(Nov. 1994 = 100)



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CURRENT BUSINESS CONDITIONS							FUTURE BUSINESS CONDITIONS						
ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary Nov/Dec 2023	Nov/Dec 2023 vs. Three Months Ago				Sept. 2023 Diffusion Index ³	Nov/Dec 2022 Diffusion Index ³	ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary Nov/Dec 2023	6 Months from Now vs. Nov/Dec 2023				Sept. 2023 Diffusion Index ³	Nov/Dec 2022 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³				Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³		
What is your evaluation of:							What is your evaluation of:						
Level of business activity for your company	31.8	40.9	27.3	-4.5	6.9	-13.8	Level of business activity for your company	9.5	42.9	47.6	38.1	13.8	6.9
Number of employees on your company's payroll	22.7	72.7	4.5	-18.2	13.8	13.9	Number of employees on your company's payroll	0	71.4	28.6	28.6	10.7	27.6
Length of the workweek for your employees	13.6	81.8	4.5	-9.1	3.5	-10.4	Length of the workweek for your employees	4.5	95.5	0	-4.5	0	6.8
Capital expenditures (equip., machinery, structures, etc.) by your company	0	68.2	31.8	31.8	32.1	20.7	Capital expenditures (equip., machinery, structures, etc.) by your company	4.8	71.4	23.8	19	10.7	41.4
Employee compensation (wages and benefits) by your company	4.5	59.1	36.4	31.9	53.6	41.4	Employee compensation (wages and benefits) by your company	0	42.9	57.1	57.1	51.7	51.7
Prices received for your company's products	23.8	38.1	38.1	14.3	27.6	24.1	Prices received for your company's products	9.5	42.9	47.6	38.1	41.4	41.4
National business activity	44.4	33.3	22.2	-22.2	20.9	-31.1	National business activity	20	40	40	20	-4.2	0
Your company's difficulty attracting qualified workers	15.8	68.4	15.8	0	10.7	20.7	Your company's difficulty attracting qualified workers	9.5	66.7	23.8	14.3	10.7	6.9
*Source: SCSU HBS College of Business; Department of Economics							*Source: SCSU HBS College of Business; Department of Economics						
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.							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.						

SURVEY:

Business leaders report tough fall, improved outlook in next six months

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

ST. CLOUD — More St. Cloud area businesses reported a decline in their own activity this fall than reported an increase. This is the third of the last five quarters in which this has happened, with readings switching from positive to negative to positive each time.

► Businesses reported lower current national business activity for the fourth time in the last five quarters.

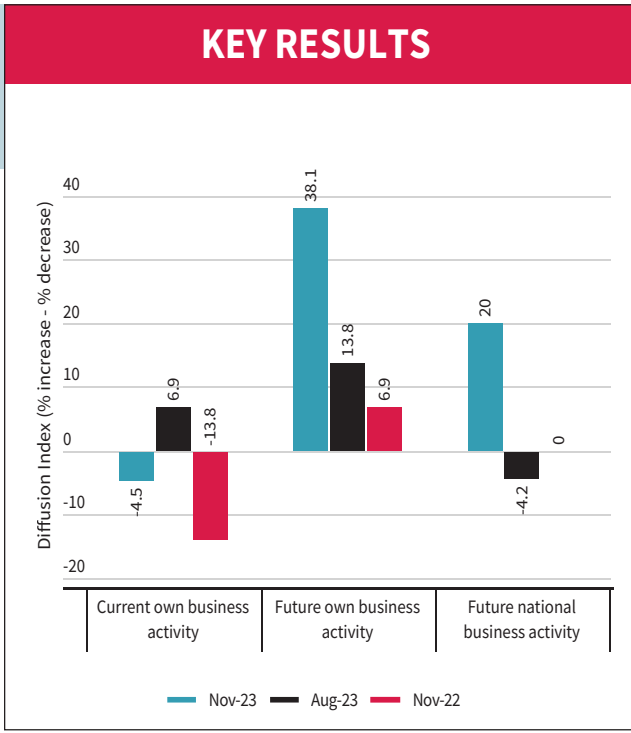
► This was also the second time in the last three quarters that they reported fewer employees.

► No firm reported keeping workers longer hours.

Despite a rough fall, local business leaders are positive about the next six months. There was both a surge in expectations for their own firm's activity and for the national outlook. Like many national opinion leaders, expectations of a recession that were prevalent in the first half of 2023 have given way to either a "soft landing" or no landing at all.

► Expectations for future compensation of employees and future prices received for their products are broadly unchanged from the previous quarter.

► Despite reporting fewer employers in the last quarter, area business leaders seem more likely to add employees in the next six months.



We asked:

About operating hours and customer expectations

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

Many businesses in Minnesota and across the United States adapted hours, and modified their schedules and customer service amid ongoing workforce limitations after 2020, more noticeably in business sectors where hybrid work is infeasible, such as retail, health care, hospitality, and the food industry.

Some customers find these modifications inconvenient, and while understandable for small businesses, unacceptable for larger corporations. Businesses must efficiently balance labor challenges with customer expectations to effectively serve their customers while remaining profitable. We asked our survey respondents three questions.

SPECIAL QUESTION #1

Have your firm's operating hours changed since 2020?

Sixty percent of our survey respondents report no modification in their operating hours.

► "Some areas of the business have slowed, others have increased, overall no change," one respondent suggests.

Twenty percent of the businesses in our sample have cut back on their operating hours, and another 20% of the responding businesses have modified their schedules to be more flexible.

► "Our clients have been very understanding; it is primarily an employee retention strategy", one respondent who has reduced operating hours said.

► Nobody reported increasing their operating hours.

Our second and third questions asked business leaders about how customers have changed their expectations of their firm.

SPECIAL QUESTION #2

Have your customers' expectations evolved since 2020?

One-third of the responding businesses believe that customers present higher expectations now than they did in 2020, versus 8% who thought their customers had lowered their expectations.

► "Higher expectations, tighter margins — cost of doing business in Minnesota impacting all," one respondent said. The major shifts in customer expectations are reported to be speed and value received for money in the first and second place, respectively.

► "They want more for less and want it right now," one survey responder commented. Personalized services, and online and digital convenience are tied in the third place followed by flexibility in business hours.

SPECIAL QUESTION #3

Which of the following best describe(s) significant shifts in customers' expectations? Pick all that apply.

1. Health and safety
2. Online and digital convenience
3. Flexibility in business hours
4. Flexibility in business policies
5. Personalization of services
6. Speed
7. Value for money
8. Other

Special Question #1

Have your firm's operating hours changed since 2020?

Category	Percentage
Increased	0%
They decreased since the pandemic	20%
They're the same as before	60%
They are more flexible	20%

Special Question #2

Have your customers' expectations evolved since 2020?

Category	Percentage
Higher expectations	33.3%
No change	58.3%
Lower expectations	8.3%

Special Question #3

Which of the following best describe(s) significant shifts in customers' expectations? Pick all that apply.

Category	Percentage
Speed	27.3%
Value for money	24.2%
Online convenience	18.2%
Personalized services	18.2%
Flexible hours	9.1%
other	3.0%
Health and safety	0.0%
Flexibility in policies	0.0%

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