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St. Cloud Area Quarterly Business Report

St. Cloud Area Quarterly Business Reports and
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CURRENT BUSINESS CONDITIONS

FUTURE BUSINESS CONDITIONS

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary May 2024	May 2024 vs. Three Months Ago				February 2024 Diffusion Index ³	May 2023 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³		
What is your evaluation of:						
Level of business activity for your company	23.5	35.3	41.2	17.7	20	-14.7
Number of employees on your company's payroll	31.2	56.2	12.5	-18.7	24	-2.9
Length of the workweek for your employees	6.2	81.2	12.5	6.3	4	8.8
Capital expenditures (equip., machinery, structures, etc.) by your company	6.2	56.2	37.5	31.3	20	35.3
Employee compensation (wages and benefits) by your company	6.2	56.2	37.5	31.3	44	50
Prices received for your company's products	0	58.8	35.3	35.3	29	23.5
National business activity	12.5	62.5	25	12.5	19	-24.2
Your company's difficulty attracting qualified workers	12.5	68.7	18.7	6.2	12	0

*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.

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary May 2024	6 Months from Now vs May 2024				February 2024 Diffusion Index ³	May 2023 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³		
What is your evaluation of:						
Level of business activity for your company	17.6	41.2	41.2	23.5	33.3	15.6
Number of employees on your company's payroll	12.5	62.5	25	12.5	33.3	18.8
Length of the workweek for your employees	0	82.4	17.6	17.6	8.3	6.3
Capital expenditures (equip., machinery, structures, etc.) by your company	5.9	52.9	41.2	35.3	41.6	43.8
Employee compensation (wages and benefits) by your company	0	56.3	43.8	43.8	66.7	56.3
Prices received for your company's products	0	58.8	41.2	41.2	29.2	25
National business activity	0	68.8	31.3	31.3	25	-6.5
Your company's difficulty attracting qualified workers	12.5	50	37.5	25	29.2	6.7

*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.

SURVEY:

Businesses shrug off a challenging spring, expect better conditions through fall

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

The St. Cloud Area Quarterly Business Survey showed **slightly weaker business activity in the period of February to April 2024**, with 31% of respondents reporting a decrease in the number of employees on their payrolls.

► There was a lessening of wage pressure, with only 3 out of every 8 (37.5%) firms now reporting increasing wages in the quarter. A year ago at this time, more than half of all firms reported rising wages.

► Thirty-five percent of firms raised prices in the most recent quarter.

► Higher prices have met some push back from consumers, reported one respondent. "Our rates have often stayed the same or lessened to meet market economic conditions this year

yet still retain the customer." In contrast to the last three months, **two business leaders expected an increase in the level of their own company's activity over the next six months for each one that thought it would decrease.** The diffusion index (the difference between the share of those reporting an increase and those reporting a decrease) fell slightly from February but is stronger than in the May 2023 survey.

The survey results combined with quantitative indicators to show a slight increase in area payroll employment over the next four to six months. The St. Cloud Index of Leading Economic Indicators rose to 109.6 from 109.0 last quarter. **This projects private sector employment to rise by 0.5% over by fall over spring 2024.**

Pricing pressures and wage increases also characterized business leaders' outlook over the next six months.

► Prices received were expected to rise by 41.2% of respondents this quarter versus 29.2% in the previous quarter and 34.4% last year.

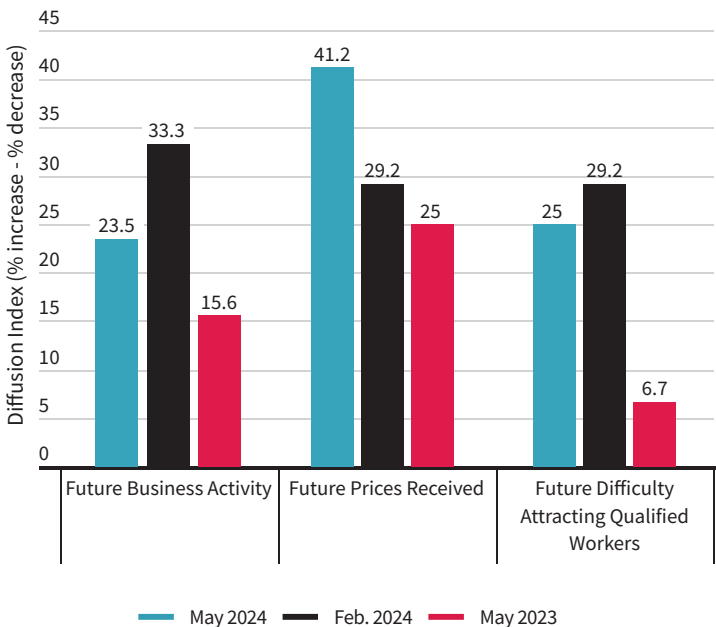
► Slightly fewer respondents expected to raise compensation in the next six months.

► With a diffusion index of 25, the expected future difficulty of attracting qualified workers has eased slightly in the last six months, but is still tight relative to year-ago levels.

Business leaders continue to comment on the tight labor market. "We have been in a growth mode for years but finding the qualified talent has been the challenge," wrote one respondent. "We've been hiring inexperienced and growing their talent but that is a very slow process."

► "St. Cloud needs to attract businesses that are paying good wages to get new skilled people to come to this town," wrote another.

KEY RESULTS



We asked: Can current interest rates curb inflation?

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

Higher interest rates have not generated the desired cooling effect on the economy as finances are largely unaffected by the Federal Reserve's monetary policies.

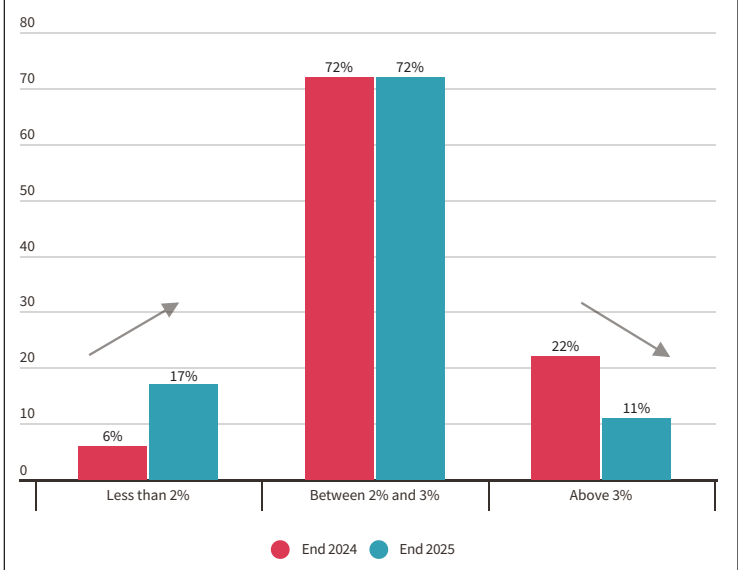
On June 12, the Fed chose to maintain interest rates at their highest level this century and "does not expect it will be appropriate to reduce the target range (for interest rates) until it has gained greater confidence that inflation is moving sustainably toward 2 percent." But higher interest rates have not had the effect on the economy policymakers expected. For instance, personal consumption adjusted for inflation still rose a healthy 2.6% in the last year through April 2024, and the national unemployment rate for May just touched 4%.

The Fed's Statement of Economic Projections issued last week include only one reduction in its policy rate by the end of the year. Higher interest rates should cause consumption and business sales to soften as more Americans eventually decide to purchase homes, and more businesses borrow at higher rates.

We asked our survey respondents about their expectations for inflation by the end of 2024 and 2025, after providing them with the current rate.

The survey question was:

Expected inflation comes down slowly in St. Cloud



"The Federal Reserve usually targets an inflation rate of no more than 2%. Over the last 12 months, the Fed's preferred measure of inflation has been 2.8%. In the last 10 years before the pandemic, the inflation rate was 1.6%. What is your estimation of the inflation rate by the end of 2024 (2025)?"

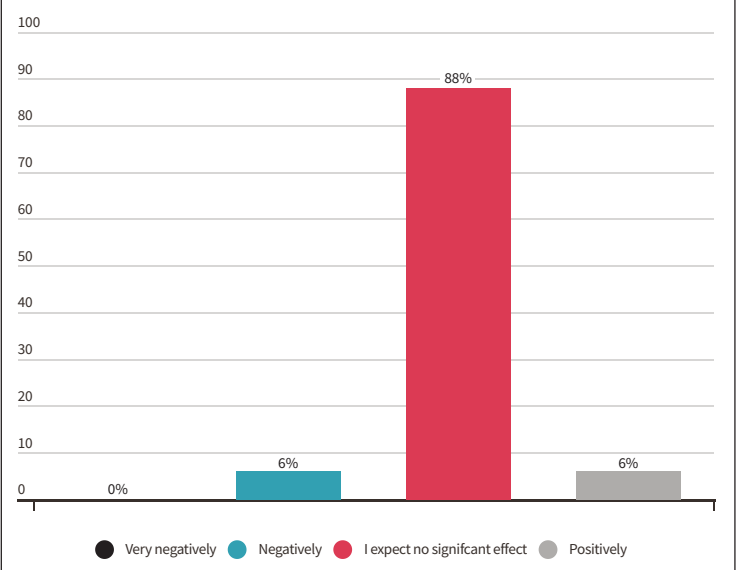
Having told respondents the current rate of 2.8%, subsequently revised to 2.7%, makes a response of "above 3%" a significant finding. This may be a statement about broader government policies: One respondent said: "Flood of cash by the government is not going to stop."

But the broad view from this response was characterized best by another respondent: "I think it is moving in the right direction but very slowly." At its meeting on June 12, the Fed's median forecast for its target inflation rate was 2.8% for the end of 2024 and 2.3% for the end of 2025. Both these numbers were higher than the expectations of Fed participants in March.

THE LOCAL ECONOMIC IMPACT OF FDC CLOSURE

St. Cloud's Fulfillment Distribution Center (FDC) has announced probable closure by Oct. 31, 2024, as a result

How would the announced closure of FDC affect your business?



of losing its sole customer, Publisher's Clearing House (PCH). The closure will result in the layoff of 350 employees.

The multifaceted effects of business closures include immediate unemployment and financial hardship, reduced spending in the local economy, reduced income for related businesses, economic instability, loss of consumer confidence and the cohesion of the social fabric of the local community, decline in tax revenues and subsequent public spending, etc. Addressing the immediate and future challenges of local business closures is not only important for local

governments but also for local businesses and community members.

We asked: "How would the announced closure of FDC would affect your business?"

Most saw no real connection from FDC's closure to their own firms. As we saw when Electrolux closed in 2019, there is the potential impact of employees shifting to other firms and lessening the difficulty finding qualified workers. "Displaced workers will get other jobs if applicable. Employers can be more picky about candidates and will continue to do so with more employees available after FDC", one respondent suggests.

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.



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ST. CLOUD STATE
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St. Cloud labor force growing slowly

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

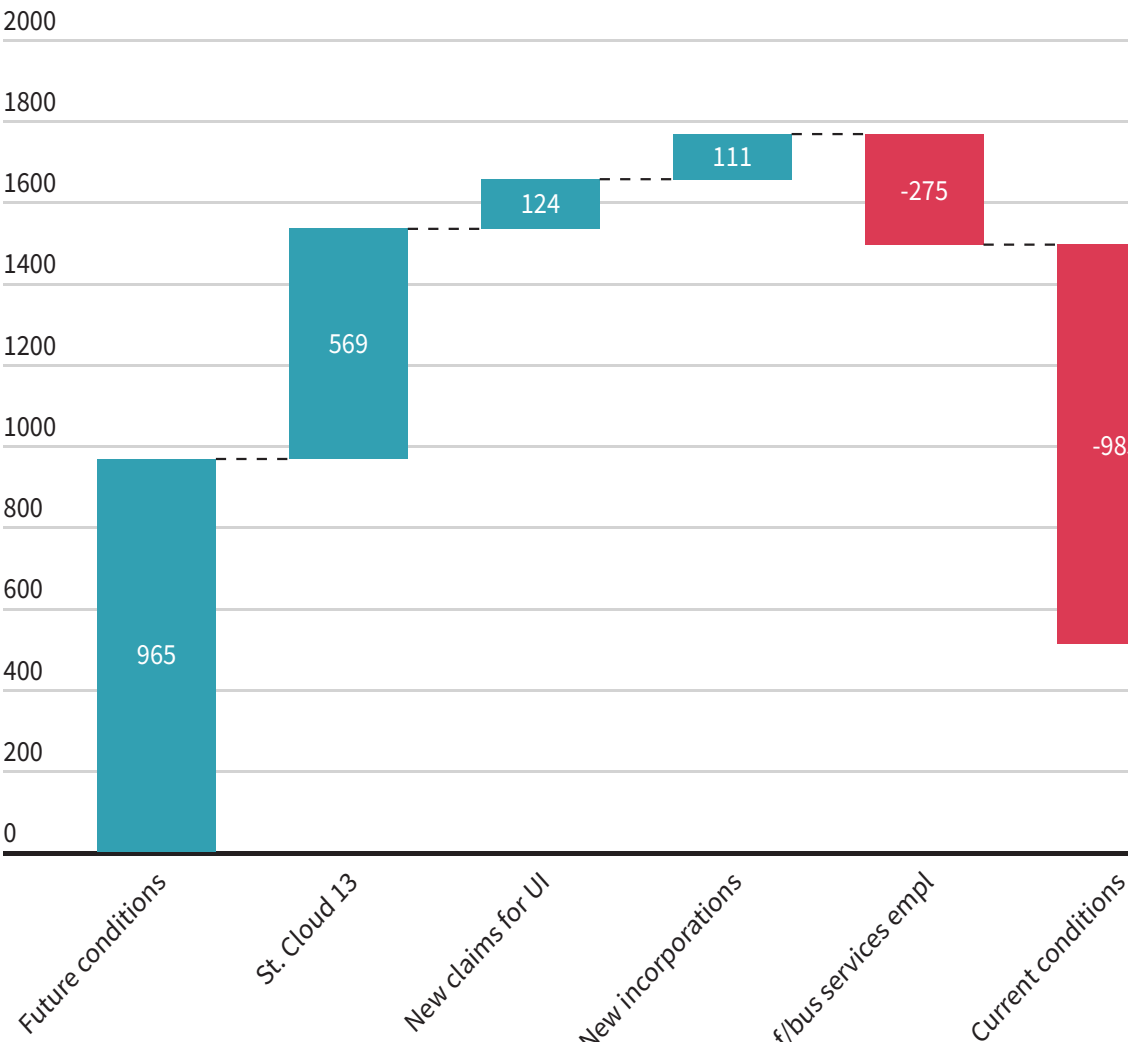
The St. Cloud area labor force continues to grow at a very slow rate, climbing by 0.3% (377 workers) over the last 12 months to April 2024. Household employment (the number of people in the St. Cloud MSA who are employed) grew by 0.6% (665 workers) in that same period. Thus, the unemployment rate fell to 2.8% from 3.0%, faster than the drop in the state or the Twin Cities.

Other indicators were positive. Initial claims for unemployment benefits fell by 6.5% and the St. Cloud 11 Stock Price Index

stands as of May 31 more than 30% above its year-ago levels. More details about the index appear nearby in this report.

Perhaps reflecting the challenges of higher interest rates, the value of building permits for single-family homes in the city of St. Cloud fell by almost 8%. The city reported 18 development projects with value greater than \$250,000 in 2024 through May 9, compared to 8 such projects in 2023 through the same date. The Central Minnesota Builders Association reported that 57 building permits were pulled in all area cities in January through April 2024, compared to 58 in the same period last year.

Leading economic indicators predict rise of 0.6% in private sector employment next 4-6 months



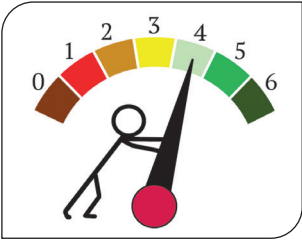
Leading indicators positive in EARLY MONTHS

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

Four of the six indicators of the St. Cloud Area Leading Economic Indicators index (LEI) were positive in the quarter of February through April 2024.

Business responses to future conditions in the St. Cloud Quarterly Business Survey, initial claims for unemployment insurance, business incorporations, and the level of the St. Cloud 11 Stock Price Index all drove the index higher. Responses to current conditions and the changes to the level of professional and business services employment pulled the index down.

We create LEI through a model that combines a quarterly survey with monthly data to predict private sector employment four to six months after the date of the survey. The index is currently predicting a 0.6% rise in private sector employment in the 4-6 months after May, after adjusting that series for seasonality.



► The survey results have more impact on LEI than the four quantitative indicators but largely can cancel each other this quarter.

► The largest impact of the quantitative indicators came from the strong stock price performance of the St. Cloud 11.

► The predicted gain in private employment roughly matches the growth in the labor force over the last year, leading us to expect no real change in the local unemployment rate.

We can also note what is moving the index within the survey responses.

► The positive impact of future conditions largely turns on expectations for an easing of hiring issues, both in the availability of qualified workers and in pressure to increase compensation.

Impact of Indicators on St. Cloud Leading Economic Indicators

— APRIL 2024 —

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

► The same concerns about compensation dragged on the current conditions component of LEI.

► There is a positive impact on employment from the ability of firms to increase prices over the

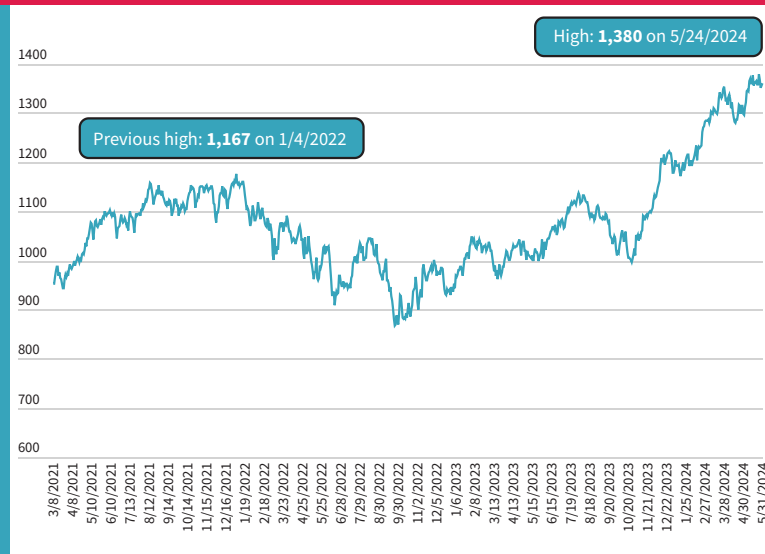
February to April quarter. Should price increases lessen, this may lead to even greater pressure on business performance and slow hiring in the second half of 2024.

St. Cloud Stock Price Index

The St. Cloud 11 Stock Price Index rose 13.9% between Feb. 1 and May 31, compared with 4.2% for the S&P 500 and 2% for the Dow Jones 30 Industrials. The index made a new all-time high of 1380 on May 24. Nine of 11 stocks rose this period, powered by Quanta Systems (a firm that includes Blattner Company of Avon) which rose 42.2%, as well as a 32.2% increase in Pilgrim's Pride and a 24.9% increase in New Flyer. Encore Capital Group fell by 11.7% during this time.

St. Cloud 11 Stock Price Index

(Nov. 1994 = 100)



St. Cloud Economic Indicators

	2024	2023	% change
St. Cloud MSA Labor Force April (MN Workforce Center)	112,641	112,264	0.3%
St. Cloud MSA Civilian Employment # April (MN Workforce Center)	109,617	108,952	0.6%
St. Cloud MSA Unemployment Rate* April (MN Workforce Center)	2.8%	3.0%	N/A
Minnesota Unemployment Rate* April (MN Workforce Center)	2.7%	2.8%	N/A
Mpls-St. Paul Unemployment Rate* April (MN Workforce Center)	2.6%	2.6%	N/A
St. Cloud Area New Unemployment Insurance Claims Feb.-Apr. Average (MN Workforce Center)	605.0	647.0	-6.5%
St. Cloud Stock Price Index As of May 31 (SCSU)	1,361.29	1,041.97	30.6%
St. Cloud City Residential Building Permit Valuation in thousands, Feb. - Apr. Average (City of St. Cloud)	1,839.8	1,997.1	-7.9%
St. Cloud Index of Leading Economic Indicators April (SCSU) 2012-13 = 100	109.6	108.9	0.7%



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