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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, Vol. 26, No. 3

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CURRENT BUSINESS CONDITIONS							FUTURE BUSINESS CONDITIONS						
ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary August 2024	August 2024 vs. Three Months Ago				May 2024 Diffusion Index ³	August 2023 Diffusion Index ³	ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary August 2024	6 Months from Now vs August 2024				May 2024 Diffusion Index ³	August 2023 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³				Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³		
	What is your evaluation of:												
Level of business activity for your company	29.4	52.9	17.6	-11.8	17.7	6.9	Level of business activity for your company	33.3	20	46.7	13.4	23.5	13.8
Number of employees on your company's payroll	17.6	52.9	29.4	11.8	-18.7	13.8	Number of employees on your company's payroll	0	93.8	6.3	6.3	12.5	10.7
Length of the workweek for your employees	0	94.1	5.9	5.9	6.3	3.4	Length of the workweek for your employees	0	93.8	6.3	6.3	17	0
Capital expenditures (equip., machinery, structures, etc.) by your company	5.9	76.5	17.6	11.7	31.3	32.1	Capital expenditures (equip., machinery, structures, etc.) by your company	6.3	62.5	31.3	25	35.3	10.7
Employee compensation (wages and benefits) by your company	0	52.9	47.1	47.1	31.3	53.6	Employee compensation (wages and benefits) by your company	0	50	50	50	43.5	51.7
Prices received for your company's products	5.9	58.8	35.3	29.4	35.3	27.6	Prices received for your company's products	6.3	37.5	56.3	50	41.2	41.4
National business activity	33.3	40	26.7	-6.6	12.5	20.8	National business activity	30.8	38.5	30.8	0	31.3	-4.2
Your company's difficulty attracting qualified workers	0	80	20	20	6.2	10.7	Your company's difficulty attracting qualified workers	7.1	85.7	7.1	0	25	10.7
*Source: SCSU Herberger Business School; Department of Economics							*Source: SCSU Herberger Business School; 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.						

Business hiring plans on hold for now, but other indicators show growth through winter

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

The St. Cloud Area Quarterly Business Survey improved slightly in the months of May through July 2024 versus the previous quarter. While 29% of businesses reported decreasing activity for their own firms (vs. 17.6% reporting an increase) employment turned more positive.

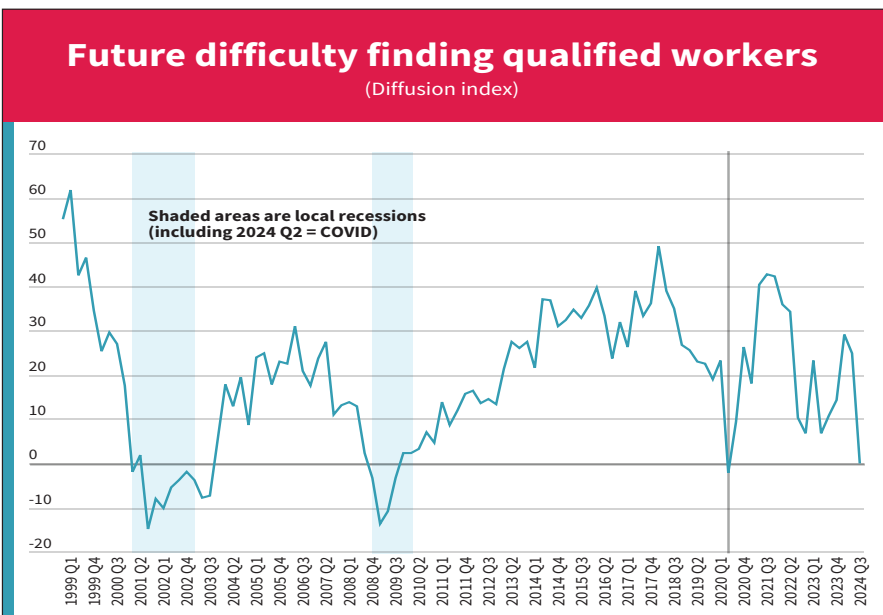
► Hiring trends turned positive in the quarter, with 29% reporting an increase and 17% reporting a decrease. 47% reported higher compensation costs, higher than experienced this spring.

► The current difficulty in hiring qualified workers also increased to its highest level since the last quarter of 2022.

► One respondent noted, “Small layoffs as local companies right size, decrease talent needed has negatively impacted our business. We are working harder than in years past with less staff.”

► The diffusion index for current capital expenditures was the lowest we have registered since 2011.

While tempting to blame high interest rates, the prime rate in 2011 was less than half of the current level of 8.5% has been, which has been in place sing July



2023. It seems more likely firms are expecting and waiting for lower rates in the near future. 31% of businesses reported plans to increase capital expenditures in the next six months (see below.)

► “Continued higher interest rates have a negative impact on margin,” said another survey respondent.

► Survey respondents were almost unanimous in their evaluation of the labor market for the next six months: they expect to hold employees constant; they see little change in the difficulty of hiring

qualified workers; half expect compensation to increase and none expect it to decrease.

► Expectations for respondents’ own business activity retreated from our May survey, but this is rather normal for this time of year.

► A majority of respondents indicate they expect to receive higher prices for their products over the next six months. At 50, the diffusion index for this item is the highest in two years.

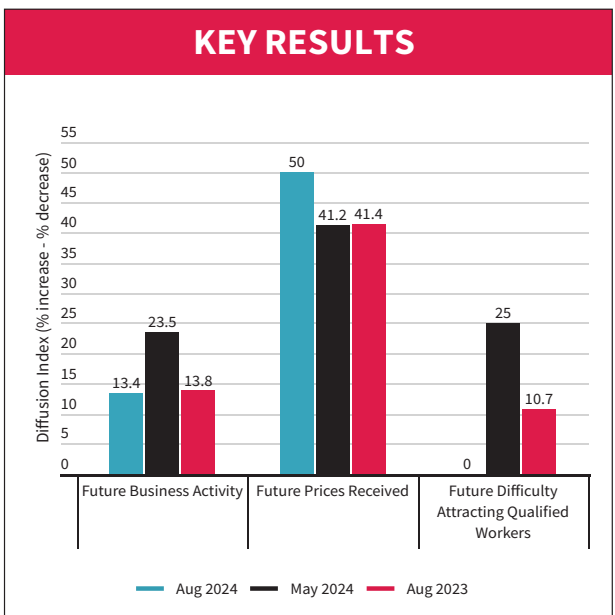
► Businesses are working hard to be able to raise prices. One commenter said, “Inflation

is causing our customers to spend more on marketing which helps us.”

► As we have stated over the last 15 years, more survey respondents expecting less future difficulty in hiring qualified workers than those expecting greater difficulty have accompanied recessions in the local economy. Remarkably, 86% of respondents said there would be no change, with 7% on each side of increase and decrease. This is the lowest reading since the pandemic quarter in 2020 (which only read -2.2); before

that, the lowest reading was in spring 2009.

The St. Cloud Index of Leading Economic Indicators rose despite these survey results, reaching a reading of 112.1 versus 109.6 last quarter and 114.0 a year ago. Four indicators were positive, including the strength of the St. Cloud Stock Price Index. This forecasts a rise in seasonally adjusted private sector employment in the St. Cloud MSA of about 1.4% over the next four to six months. This is faster growth than we expected in the previous survey.



We asked: Effects of CrowdStrike outage?

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

The CrowdStrike outage of July 2024 disrupted public sector functions, and impacted a wide range of private industries including but not limited to finance, health care, broadcasting, travel and hospitality, and manufacturing across the globe. This massive disruption of the daily life and its estimated economic damage of over \$10 billion (U.S.) underlines the vulnerability of our interconnected cyber infrastructure and emphasizes the importance of coordination, monitoring, testing, risk management, recovery planning, contingency plans, and continuity strategies.

We asked: What impact, if any, did the CrowdStrike software update outage of July 19 have on your firm?

Twenty-six percent of our respondents report a major or moderate impact on their business activities, while the remaining 74% report experiencing

little to no impact. “Shutdown our computers for almost one business day,” one respondent says. “Thankfully, we chose a different product (McAfee) 3 years ago,” another respondent comments.

IMPACT OF TRUMP/VANCE RALLY

On July 27, 2024, former President Donald Trump, together with his vice presidential nominee J.D. Vance, held a political rally at the Herb Brooks National Hockey Center at St. Cloud State University, addressing issues such as immigration, border security, inflation, and crime. With over 8m000 supporters attending the rally, our second special question focuses on the economic impact of the event as perceived by local businesses.

We asked: When compared to other large community events such as Summertime by George or the Benton County Fair, what impact did the Trump/Vance political rally on July 27 have on your business?

Eighty-nine percent of our respondents perceived no significant effect on their business. “We do not derive any revenue locally,” one respondent comments.

DECLINE IN THE AG SECTOR

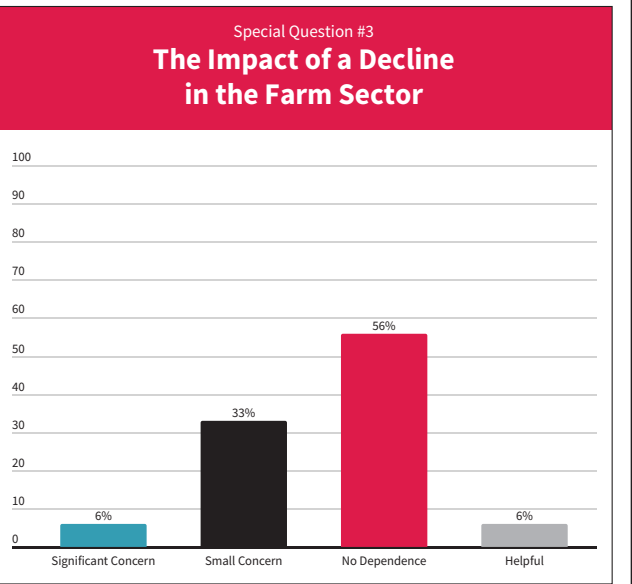
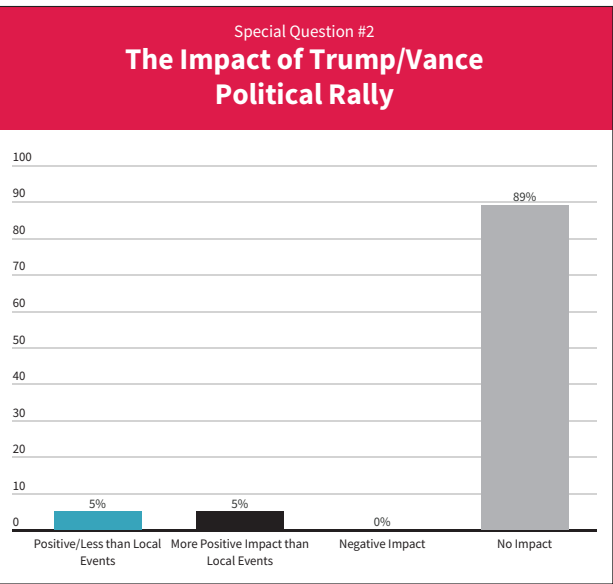
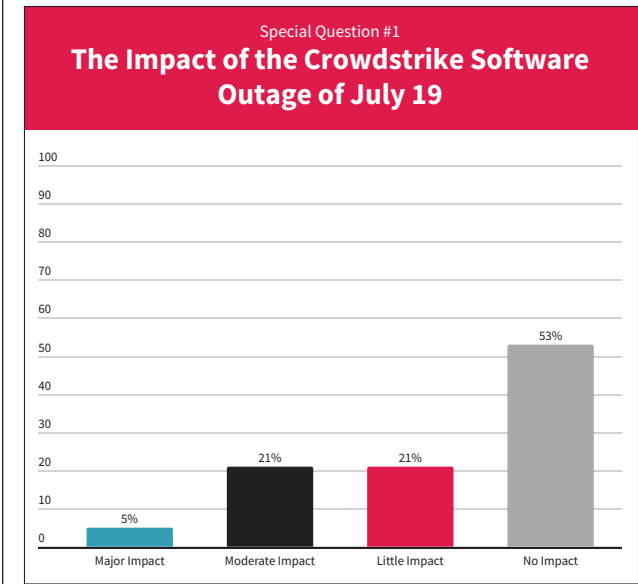
Minnesota ranks as the top fourth export state in agriculture. Exported products include soybeans, corn, feeds, pork, soybean meal, dairy, wheat, processed grains, vegetable oil, beef, poultry, processed vegetables, etc. Major trading partners include, China, Canada, Mexico, Japan, and South Korea.

According to Minnesota Department of Agriculture, “the agricultural industries contribute to over 15% of state’s total economic activity and support more than 10% of all jobs” (2023 Minnesota agricultural facts and stats). Minnesota agriculture impacts many other economic sectors such as manufacturing, transportation, real estate, construction, finance, etc.

We asked: Through May 2024, international trade in agricultural goods and livestock was down 14% in Minnesota. What is the impact of a decline in the farm sector on your firm?

Thirty-three percent (6%) of our respondents are slightly (significantly) concerned about the negative effect of the decline in Minnesota’s agricultural sector. Fifty-three percent suggested that their business is mainly independent of the agricultural sector. The remaining 6% of the respondents believed that the decline in the agricultural sector could benefit them.

“We do a lot of work with the agricultural sector but have not seen an impact yet,” one respondent says. “This question is sort of misleading. Generally speaking, my business is not impacted by this decrease in agricultural business. However, in the big picture — relational to the state economy — a significant decrease in agricultural business could have a (negative) effect on the economy,” another business owner replies.



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. 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 Economic Indicators

	2024	2023	% change
St. Cloud MSA Labor Force July (MN Workforce Center)	112,966	111,182	1.6%
St. Cloud MSA Civilian Employment # July (MN Workforce Center)	108,464	107,325	1.1%
St. Cloud MSA Unemployment Rate* July (MN Workforce Center)	4.0%	3.5%	N/A
Minnesota Unemployment Rate* July (MN Workforce Center)	3.8%	3.2%	N/A
Mpls-St. Paul Unemployment Rate* July (MN Workforce Center)	3.8%	3.1%	N/A
St. Cloud Area New Unemployment Insurance Claims May-July Average (MN Workforce Center)	989.3	836.7	18.2%
St. Cloud Stock Price Index As of August 30 (SCSU)	1,456.18	1,112.88	30.8%
St. Cloud City Residential Building Permit Valuation in thousands, May-July Average (City of St. Cloud)	1,674.4	1,810.5	-7.5%
St. Cloud Index of Leading Economic Indicators July (SCSU) 2012-13 = 100	112.1	114.0	-1.7%

St. Cloud Stock Price Index

The St. Cloud 11 Stock Price Index continued to climb higher through the summer, ending July at a (then) all-time high of 1417.32. As noted elsewhere in this report, this index's 8.8% gain in the quarter is a significant positive development for the local economy over the next four to six months.

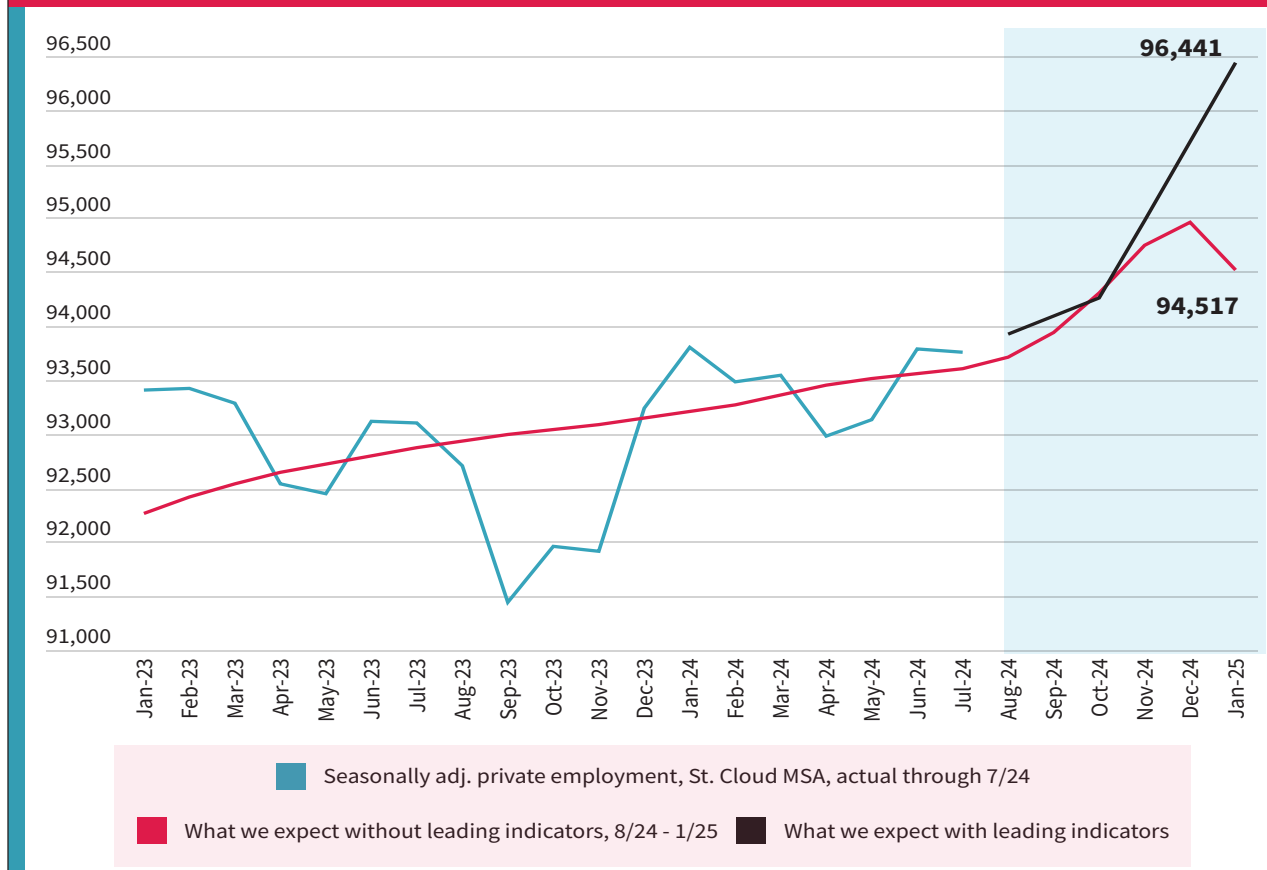
Between July 31, 2023, and July 31, 2024, the index gained 25.4% compared to 20.3% for the S&P 500, 14.8% for the Dow Jones 30 Industrial Average, and 22.6% for the tech-heavy NASDAQ. All 11 stocks posted gains in the quarter, led by New Flyer showing a 51% gain after posting its first positive net earnings quarter in three years. C.H. Robinson gained 25.4% after reporting a positive earnings surprise in late July.

St. Cloud 11 Stock Price Index (Nov. 1994 = 100)



Private employment

St. Cloud MSA with 2 forecasts, 2023-24
(numbers are January 2025 forecasts)



Leading indicators positive in middle of 2024

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 May to July 2024. The future outlook of business owners in the St. Cloud Quarterly Business Survey contributed positively, as did St. Cloud 11 Stock Price Index.

The decline in professional and business services employment was a negative this quarter. Three other items — initial claims, new business incorporations and current conditions — were small contributors this quarter.

We base LEI on a model for data we observe regularly over time known as “classical decomposition.” Any time series can be broken down or decomposed into components that include a trend and a seasonal factor, plus some other cycle and a residual. LEI tries to improve a naïve guess of the cycle based on the time series we

use to measure “the state of the St. Cloud economy,” which is the level of private-sector employment.

Our “meter man” has been at 4 in the last two quarters, indicating that employment should be growing somewhat above what the economy would grow at if we were in a neutral market. As seen in the graph below, LEI forecasts private employment on a seasonally adjusted basis to be 96,441. (Though see the footnote below.) Looking only at the employment data, however, forecasts a peak December and a decline to 94,517. July 2024 seasonally adjusted private employment was 93,752 by comparison. The difference between the forecast without and with LEI is statistically significant.

Neither forecasts a recession yet, and LEI says a recession would not happen in the next six months. Compared to the national forecasts concerning Federal Reserve rate cuts, we see

Impact of Indicators on St. Cloud Leading Economic Indicators

July 2024

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

a clear path for growth through the rest of 2024.

A footnote: The state does not provide seasonally adjusted data for St. Cloud: we calculate seasonal patterns ourselves. We calculate than on an average July there will be 725 more jobs than a “normal” month and an average January has 2,268 fewer jobs than normal. That is, there

is a normal swing in employment between July and January of more than 3,000 jobs. The largest of these changes are because of hiring for the holiday seasons that occur in the fourth quarter of a year. We forecast therefore that the number the state will report next year for St. Cloud private employment would be 94,174, not 96.441.

St. Cloud labor force jumps 1.6%

BY KING BANAIAN AND
MANA KOMAI MOLLE

St. Cloud State University

The St. Cloud area labor force grew faster in the year through July 2024, rising 1.6%. A recent report from the Minnesota State Demographic Center projects the metro area's population of 18- to 64-year-olds to have already peaked. Increasing participation of workers aged 65 and older

has helped but as baby boomers age over the next five years that source of labor will decline. At an estimated 74%, the area already has a high labor force participation rate.

Thus, we think the local unemployment rate at 4% is anomalous. A 1.1% increase in employment in the area is high relative to past quarters and to payroll employment (as reported elsewhere on these pages).

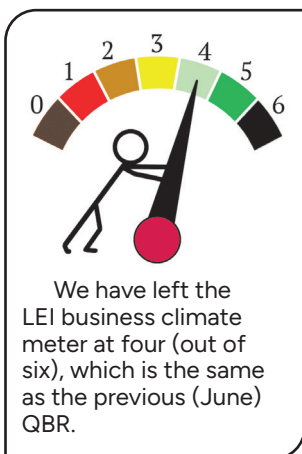
Unemployment rates can rise when there is a sharp increase in labor supply as well as slack labor demand, and that appears to be the case here.

Other indicators were mixed:

- Initial claims for unemployment insurance rose 18.2% in the quarter versus one year ago. In 2023 the law changed for education support professionals to receive unemployment insurance

and June filings have risen as a result.

- Residential building permit valuations were slightly down versus year-ago levels. Central Minnesota Builders Association reports that that the number of new building permits for single-family homes in the region between January and July held constant at 127; St. Cloud's permit count fell from 53 to 46.



We have left the LEI business climate meter at four (out of six), which is the same as the previous (June) QBR.

