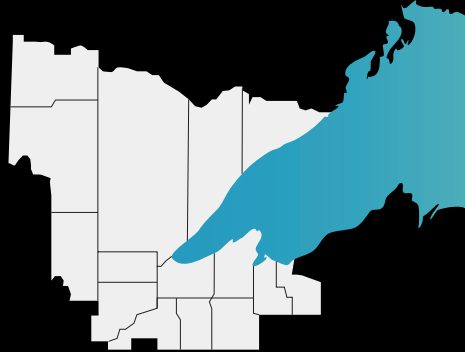FORUM REGIONAL ECONOMIC INDICATORS

SPRING 2019
OVERVIEW

REGIONAL ECONOMIC INDICATORS FORUM

The Regional Economic Indicators Forum (REIF), sponsored by the National Bank of Commerce, focuses on the current economic performance of a 15-county region that includes Northeastern Minnesota and Northwestern Wisconsin. As part of this forum, the College of St. Scholastica (CSS), University of Minnesota-Duluth (UMD) and University of Wisconsin-Superior (UWS) collect and monitor data related to county-level economic performance, business and consumer confidence, and regional stock performance.

THE GOAL OF THE FORUM IS TO

- Support business owners in their business decisions by gathering key local economic indicators and trend information
- Develop specific economic indicators for this region that are not readily available to decision makers
- Develop tools to assess our progress in economic growth, prepare baseline measures that will allow comparison with other regions and measure future progress of the region
- Track the region's participation in the "new economy" and development in the high-tech arena
- Collect and monitor data related to county-level economic performance, business and consumer confidence and regional stock performance
- Bring professionals together with business owners for discussion about the local economy and related critical issues in a collaborative, non-political environment
- Create a business recruitment and retention tool by publishing the information

SPEAKER
JENNIFER FORD REEDY

President of the Bush Foundation

Jen has been President of the Bush Foundation since September 2012. The Bush Foundation invests in great ideas and the people who power them in Minnesota, North Dakota, South Dakota and 23 Native Nations. The Foundation was established in 1953 by Archibald Bush, a 3M executive who played a key role in growing 3M into one of the world's leading companies. Prior to joining the Foundation, Jen served as chief of staff and vice president of strategy for Minnesota Philanthropy Partners, where she led the creation of GiveMN.org, Give to the Max Day, and the Minnesota Idea Open. Jen was also a consultant with McKinsey and Company for nine years and was the first director of the Itasca Project, a CEO-led regional civic initiative in the Twin Cities.

Her current community service includes board and committee work with Region's Hospital, GHR Foundation, the Truman Foundation and Independent Sector. She is also a member of the Itasca Project, Minnesota Women's Economic Roundtable and the US Global Leadership Coalition Minnesota Advisory Committee. Jen has a Bachelor's degree from the University of Kansas and a Master's degree from the University of Chicago. She has been honored as a *"40 Under 40"* leader by the Minneapolis-Saint Paul Business Journal, as one of the *"100 Minnesotans You Should Know"* by Twin Cities Business Magazine, and as a NextGen Fellow by Independent Sector.

HAVE A QUESTION?

**TEXT IT TO
715.919.6315**

for a chance for it to be discussed during Q&A.

EXECUTIVE SUMMARY

Twice each year, students from the University of Minnesota Duluth (UMD), the University of Wisconsin Superior (UWS), and the College of St. Scholastica (CSS) join efforts to conduct research on the economic performance of the 15-county region surrounding the Twin Ports. This summary provides information on the results of the three schools' research, including a special focus on the nonprofit sector in the Twin Ports region, a glimpse into local consumer confidence, an analysis of regional stock performance, and survey results on business confidence and charitable giving.

Keeping with this forum's focus on social change initiatives, UMD's research team from the Bureau of Business and Economic Research analyzed Bureau of Labor Statistics (BLS) research data on 501(c)(3) organizations, including employment, wages, and the number of establishments, to learn more about the nonprofit sector locally and to compare the Duluth-Superior metropolitan statistical area (MSA) to similar MSAs. In total, there were 430 nonprofit establishments in the Duluth-Superior MSA in 2017, and 501(c)(3) establishments employed more than 23,000 individuals. Since 2013, nonprofit employment has grown by roughly 5%, driven primarily by growth in the healthcare and social assistance sector. What's more, the analysis found that industries with a high proportion of nonprofit employment appear to be less volatile to economic swings in the broader economy and that nonprofit employees tend to earn higher wages on average than employees in for-profit positions in the same industry.

Two UWS student research teams conducted research for the forum. The first team, consisting of 16 students, surveyed consumers in the 15-county REIF region to gauge local consumer confidence. Surveys were distributed via telephone to randomly chosen households (153 in spring 2019) and via email to previous REIF participants (67 in spring 2019). Using survey responses, three indices were computed: Index of Consumer Sentiment (ICS), Index of Current Conditions (ICC), and Index of Consumer Expectations (ICE). Survey results in spring 2019 show that compared to spring 2018, both the general public and REIF participants had slightly negative sentiments about the regional economy. Both groups were cautious about current economic conditions as well as the future economic outlook. These findings may indicate that the end of the economic expansion in the region is on the horizon.

The second UWS research team tracked the equity performance of companies of local interest in the 15-county region to create a Regional Equity Index (REI). The selection of the firms for the REI was based on the firms' substantial presence in the region as indicated by the number of employees hired locally or by the significance of the firms' regional activities to the REIF regional economy. Using these selection criteria, fourteen firms are included in the index. The findings show that the REI outperformed the benchmark index and that investors have mixed expectations for the majority of the stocks. Between October 2016 and March 2019, the REI has trended somewhat with the market, but it has significantly outperformed relative to the S&P 400 during the period. According to the Value Line® short-term expectations of future performance, most of the stocks in the REI are expected to perform similarly to the overall stock market. Long term, eight of the fourteen stocks are expected to outperform the market, three are expected to mirror the market, and three are expected to underperform the market.

The research team at CSS distributed surveys to local Chambers of Commerce members in order to develop a better understanding of business confidence in the regional economy and gauge business support for local charitable causes. In total, 215 businesses completed the survey.

Of surveyed businesses, 48% reported an increase in general business activity over the past six months, and 19% reported a decrease. Looking forward, 60% of surveyed businesses expect to see an improvement in their business activity over the next six months, while only 10% expect to see a decrease in activity. When asked about their contributions to charity, 92% of businesses reported contributing to one or more charitable causes, either financially or through employee time. Of those, human and community service (72%), educational (42%), and health charities (32%) were the next most common causes to which businesses contributed.

In summary, regional stock performance continues to outperform the benchmark index, despite a slight decline in recent months. Meanwhile, business confidence remains strong but consumer confidence appears to be flagging. Finally, it appears that the nonprofit sector in the region has a significant impact on the region's economy, providing nearly one-quarter of the jobs in the region.

STUDENT PRESENTERS

Hattie Ecklund is a senior Economics major and one of the Bureau of Business and Economic Research's (BBER) current undergraduate research assistants. She will graduate in May and is diligently looking for the perfect job. Hattie will present on various economic indicators and how nonprofits affect the economy of the 15-county REIF region. Through her position as a BBER UGRA and her involvement with the LSBE Economics department, Hattie has worked on projects related to regional economic development and international trade.

Nikolas Kosman, who is from Calgary, Alberta, Canada, is pursuing a double major in Finance and Economics at the University of Wisconsin Superior. He graduates this spring. Nikolas will be presenting information on the Regional Equity Index.

Cole Martin is a senior at The College of St. Scholastica majoring in Finance with Marketing and Management minors. He is a proud member of the varsity golf team and has been for the last four years. He joined the REIF team for the opportunity to further his experience and knowledge of our local economy. Cole is currently interning at Essentia Health on the EHR revenue applications team and is actively searching for jobs after graduation.

Opeyemi Esther Omiwale, who is from Nigeria, has a double major in Economics and Business Administration with a minor in Communication Arts. After graduation this spring, she would like to gain some work experience before pursuing graduate studies. Since 2016, Opeyemi has been a member of the UW-S REIF team on Consumer Confidence Indicators.

UMD
FOCUS ON THE REGIONAL NONPROFIT SECTOR

Monica Haynes, M.S., Director of the Bureau of Business and Economic Research (BBER), University of Minnesota Duluth **Student Researchers:** Nathan Brand, Hattie Ecklund, Alexander Hook

To provide greater insight into the keynote speaker's topic of social change and philanthropy, UMD was asked to analyze the size and composition of the nonprofit sector in the Duluth-Superior metropolitan statistical area (MSA) and to compare regional performance to similar metro areas throughout the Midwest.

The most common type of nonprofit is section 501(c)(3), with more than two out of every three nonprofits falling into this category. This classification includes establishments engaged in charitable, educational, literary, animal welfare, child welfare, public safety, religious, or scientific pursuits (Bureau of Labor Statistics, 2014). The Bureau of Labor Statistics (BLS) recently developed research data on 501(c)(3) organizations, including employment, wages, and the number of establishments. The BBER analyzed the BLS database to learn more about the nonprofit sector locally and to compare the Duluth-Superior MSA to similar MSAs.

In total, there were 430 nonprofit establishments in the Duluth-Superior MSA in 2017, and 501(c)(3) establishments employed more than 23,000 individuals. Nearly all employment in the nonprofit sector fell into one of the four industries of healthcare and social assistance; education; arts, entertainment, and recreation; and other services. More than 80% of 501(c)(3) employment in the Duluth-Superior MSA was in the healthcare and social assistance industry. This is significantly higher than the national average (66.5%).

In 2017, nearly one-quarter of all jobs in the region were in the nonprofit sector.

As shown in Figure 1, since 2013, nonprofit employment has grown by roughly 5%. Much of that growth has been driven by the healthcare and social assistance industry, which added 682 jobs between 2013 and 2017. And 220 new jobs were added in the other services industry, which includes religious, grant making, and civic organizations.

One important finding from this analysis is that industries with a high proportion of nonprofit employment appear to be less volatile to economic swings in the broader economy. For example, during the Great Recession, total employment in the Duluth-Superior MSA fell by nearly 4% between 2008 and 2009 and didn't return to pre-Recession levels until 2014. By contrast, the industries high in nonprofit employment, shown in Figure 1, fell by less than 1% between 2008 and 2009 and recovered to pre-recession levels by 2010.

Compared with its peers, the Duluth-Superior MSA has a large nonprofit sector. Figure 2 shows total nonprofit employment by metro area along with the share of overall employment in 501(c)(3) organizations (gold markers). The four MSAs included in the chart were selected due to their similarity to Duluth in geographic size, size of economy, population, industry mix, and proximity. Only the Sioux Falls, SD MSA had more nonprofit jobs than Duluth-Superior. And, relative to the size of the overall economy, Duluth-Superior had the largest sector, with 23% of all employment in the region falling into the nonprofit sector.

Finally, the BLS data provides information on average wages and compares wage earnings at 501(c)(3) organizations to for-profit businesses in the same industry categories. Two important points emerge when examining these data. First, in the healthcare & social assistance and educational services industries, nonprofit employees earn roughly twice what employees at other companies earn. Second, nonprofit employees in the Duluth-Superior MSA earn more, on average than those in the MSAs of Green Bay, Fargo, and Rapid City. Only Sioux Falls has a higher wage premium for its nonprofit sector.

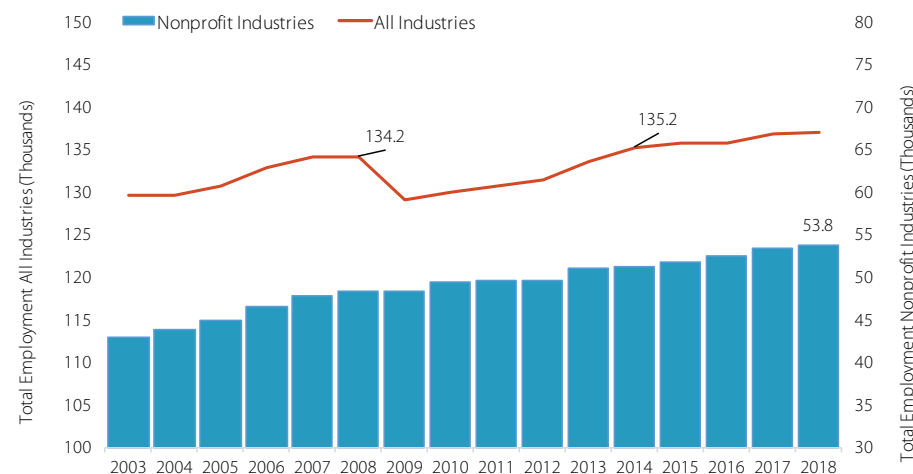**Employment Growth in Duluth-Superior MSA: Total vs Nonprofit Sector**

FIGURE 1. Employment in sectors with a large portion of nonprofit workers is less impacted by cyclical effects. Source: BLS, 2019.
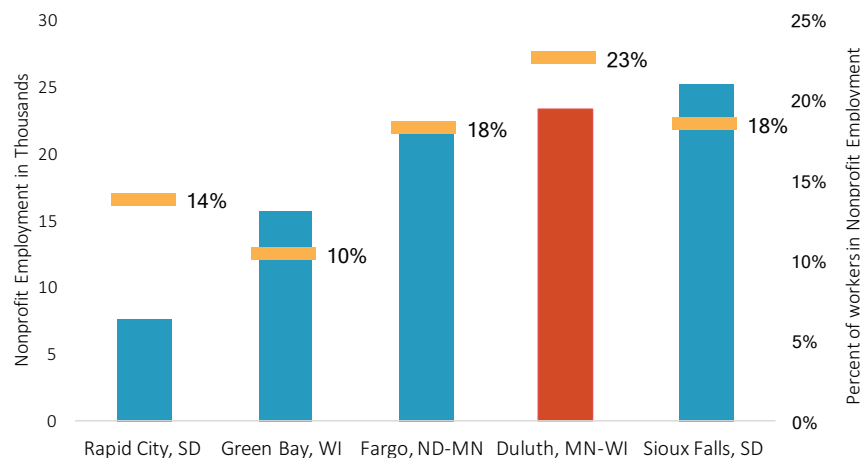

Nonprofit Employment by MSA

FIGURE 2. Duluth-Superior's nonprofit sector employs nearly 25,000 people and represents a larger share of the overall economy than other similar MSAs. Source: BLS, 2019.

UWS
CONSUMER CONFIDENCE INDICATORS: PREDICTING THE BUSINESS CYCLE

Rubana Mahjabeen, Ph.D., Associate Professor of Economics, University of Wisconsin Superior
Student Researchers: Munkhtulga Amarsanaa, Augustine Ngo Bitjong, Matthew Botsio, Pablo Company, Obiageli Ekwunwa, Matias Espinoza Lopez, Marika Funakoshi, Faith Ideke, Tam Pham Bang Le, Kurumi Maeta, Hung Nguyen, Minh An Nguyen, Opeyemi Omiwale, Angelica Ramache, Ramesh Shrestha, Ryan Volz.

To equip decision-makers with tools enabling them to anticipate the forthcoming fluctuations in the economy, economists developed consumer confidence indicators. These are composed of three indices: Index of Consumer Sentiment (ICS), Index of Current Conditions (ICC), and Index of Consumer Expectations (ICE). Generally speaking, the ICS is designed to gauge consumers' attitudes towards the business environment, personal finances, and consumption spending. The ICC is designed to gauge the current state of the economy. The ICE is used for business cycle forecasting, as it reflects the consumers' outlook on future economic and financial conditions. In order to construct these indicators, the University of Wisconsin Superior student research team surveyed households in the 15-county REIF region. Among randomly chosen households, 153 responded in spring 2019 via telephone surveys, while among previous REIF participants, 67 responded in spring 2019 via email surveys. For details on the methodology and survey questions go to following link: https://www.nbcbanking.com/NBofC/media/pdfs/FINAL-2017-Annual-REIF-Report.pdf

Consumers are displaying slightly negative sentiments about personal finance and consumption and are more cautious regarding future conditions.

The results of the 15-county regional consumer confidence indices based on phone and email surveys are presented in Figure 3 and 4 respectively. These results show that in spring 2019 for randomly chosen households the Index of Current Conditions, Index of Consumer Sentiment, and Index of Consumer Expectations were falling. Compared to spring 2018 random households have started displaying slightly negative sentiments about personal finance and consumption spending and pessimism about current economic conditions (Figure 3). This has led them to be somewhat cautious about future conditions of the regional economy. Similarly, REIF participants had a negative outlook on personal finances, business conditions, and consumption spending. As shown in Figure 4, they thought the current state of the economy was not strong and expected future contraction in economic and financial conditions. These views of the two groups probably indicate that expansion of the regional economy might not continue for long. When compared to the year-to-year changes in national consumer confidence indicators reported by the University of Michigan, the direction of those changes mostly match with our findings on the regional consumer confidence indicators (Table 1).

This semester's topic was charity. A majority of the respondents of both consumer groups donate to local charities. Education, sports, public policy, environment, and religion are some of the main areas where the respondents have donated.
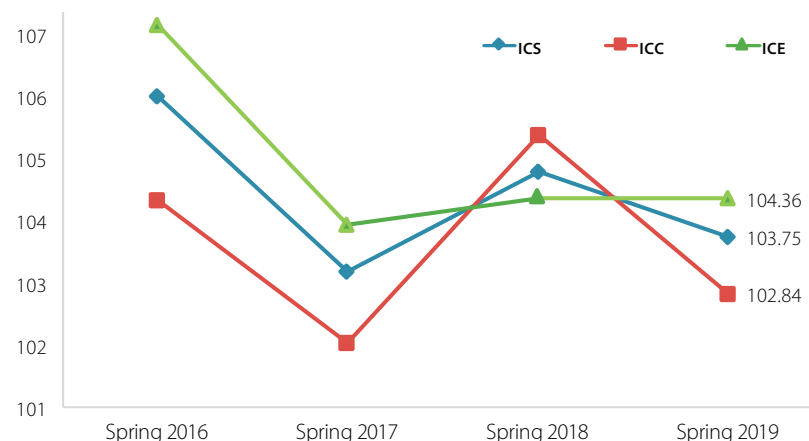

Figure 3. Consumer confidence down slightly among regional households compared to one year ago. Source: UWS Consumer Confidence Survey.
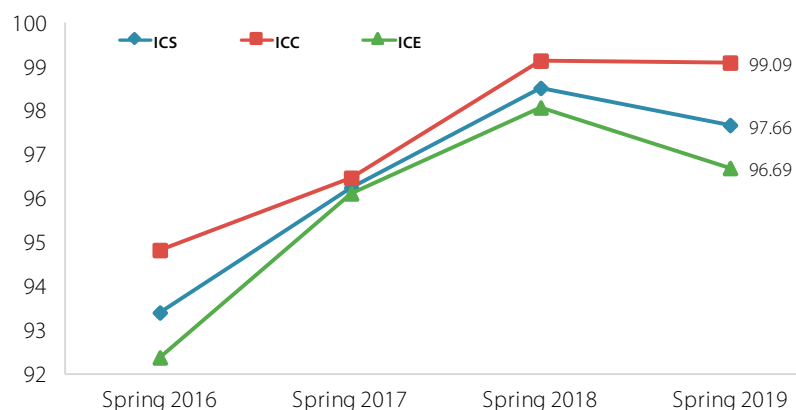

Figure 4. Consumer sentiment and consumer expectations of REIF participants are down. Source: UWS Consumer Confidence Survey.

Changes in local consumer confidence mostly match national trends

Indicators	Random Public Phone Survey (Spring 2018-Spring 2019)	Past REIF Participants (Spring 2018-Spring 2019)	National Consumer Confidence Indicators (March 2018-March 2019)
Index of Consumer Sentiment	-1	-0.9	-3.6
Index of Current Conditions	-2.4	-0.05	-8.3
Index of Consumer Expectations	-0.02	-1.4	0.5

Source: UWS Consumer Confidence Survey and University of Michigan Survey of Consumers

Table 1. University of Michigan Survey of Consumers.

UWS
REGIONAL EQUITY INDEX:
AN ANALYSIS OF THE EQUITY PERFORMANCE
OF STOCKS OF LOCAL INTEREST

Sakib Mahmud, Ph.D., Associate Professor of Sustainable Management and Economics, University of Wisconsin Superior **Student Researchers:** Nikolas Kosman, Hung Nguyen, Yves Leeman, and Michael Huttner.

For this portion of the research, UWS provides information and a financial analysis on the equity performance of companies of local interest in the REIF region. In all, fourteen companies in the REIF region were selected to construct the Regional Equity Index (REI). Companies with a significant presence in the REIF region were selected. This includes companies with local operations or those with a large local employee base. Currently, the list of fourteen companies in the REI includes Allete, Ascena Retail Group, Calumet, Canadian National Railway, Charter Communications, Cleveland-Cliffs, Enbridge Energy Partners, Louisiana-Pacific, Marriott International, Morgan Stanley, Polymet, UnitedHealth, USG, and US Steel. This ongoing research project tracks the companies' equity performance, creates an index of these local stocks to measure economic activity in the region, examines measures of future performance, and makes comparisons to industry averages and market indices. This edition of the analysis extends the timeframe to 03/03/2019.

Of note, the REI outperforms the benchmark index, and investors are more bullish than bearish on the majority of the stocks. Figure 5 illustrates the growth trend of a $100 investment in the REI on January 2009 and held until March 3, 2019. This is compared to the trend of $100 invested in the S&P 400 and the Crude Oil Futures over the same time period. Figure 5 shows that the REI trends somewhat with the market, but it has significantly outperformed relative to the S&P 400 during the period between March 3, 2017 (the sixth report ending period) and March 3, 2019 (the eighth report ending period). However, when comparing the REI and S&P 400 values from the last report, the REI is down 3.08%; whereas, the S&P 400 is down by 0.99%. Considering the Crude Oil Futures, the REI has continued to show significant movement in step with changes in oil price, which indicates that the REI is more sensitive to fluctuations in commodities pricing than the diversified S&P 400.

The Value Line® Measures indicate that short-term expectations of future performance for the majority of stocks in the REI will perform similar to the overall stock market or that they are expected to perform better. Over the short-term of this next year, Allete, Calumet, and Canadian National Railway are expected to outperform the market. In next year, Charter Communications, Cleveland-Cliffs, Enbridge, Polymet, USG, United Health, and US Steel are expected to mirror the market. Louisiana-Pacific, Marriott International, Morgan Stanley, and Ascena are expected to underperform the market next year. Over the longer term, Allete, Ascena, Calumet, Canadian National Railway, Cleveland-Cliffs, Polymet, USG, and UnitedHealth are expected to outperform the market. Charter Communications, Louisiana-Pacific and Morgan Stanley are expected to mirror the market. US Steel, Enbridge, and Marriott International are expected to underperform the market in the long-term. The Morning Star® Measures show that the REI's Price-to-Earnings ratio is lower than last year, implying that investors are expecting lower earnings growth. Of the companies that had data about the Forward Price-to-Earnings ratios, the earnings of the majority of them are expected to

grow. The Short Interest ratio shows that investors have mixed short-term expectations of performance of the fourteen REI index stocks. Seven stocks have a short interest ratio less than five, an indication that investors believe stock prices will rise for these companies. However, the other seven stocks have a short interest ratio more than five, implying that investors expect stock prices will fall for these companies.

The Regional Equity Index (REI) continues to outperform the S&P 400 but is down slightly since the last study period.
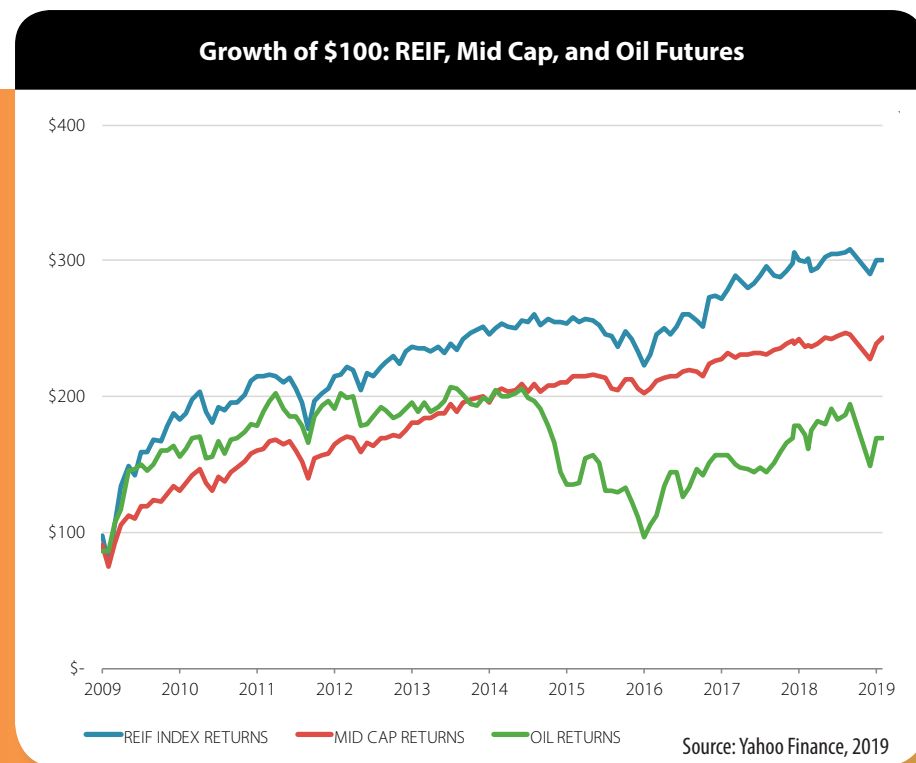

FIGURE 5. The Regional Equity Index has outperformed the Mid Cap index but is more volatile.

CSS
BUSINESS CONFIDENCE: A SURVEY OF REGIONAL BUSINESSES

Jennifer Pilon, Assistant Professor of Management, The College of St. Scholastica; Erica Henkel, Assistant Professor of Finance and Economics, The College of St. Scholastica **Student Researchers:** Cole Martin and Nick Anderson

The College of St. Scholastica's research team distributed business confidence surveys to local Chambers of Commerce located throughout the 15-county REIF region. The chambers then distributed the survey to their members. The survey's purpose was to develop a better understanding of local businesses and their confidence in the economy. Businesses identified their sector, number of employees, recent and projected changes in business activity, and factors inhibiting growth. Questions were asked regarding major social issues that impact local companies from a business perspective and which charitable causes businesses have contributed employee time and financial resources.

In total, 215 businesses completed the survey. Results showed the most common sectors were leisure and hospitality (n=36), professional and business services (n=30), education and health services (n=23), and financial services (n=22). More than half of those surveyed had fewer than 20 employees, while 11% of respondents reported 250 or more employees.

Businesses were asked to evaluate their general business activity over the previous six months (Figure 6). In line with trends from recent years, businesses reported mostly positive business activity over the past six months. Of surveyed businesses, 48% reported an increase in activity, and 19% reported a decrease. Roughly 30% reported no change in activity.

Businesses were then asked to forecast activity for the next six months (Figure 7). Results showed that 60% of businesses expect to see an improvement in their business activity, while only 10% expect to see a decrease in activity and 30% foresee no change. This is lower than last year's 35% forecast to remain the same for the following six months. When analyzing the factors preventing business activity, a shortage of workers was the factor businesses were most concerned with. Nearly 35% of respondents believe that a lack of labor force is hindering their company from increasing its business activity, a number that has increased each time survey results are tabulated. The reported workforce shortage may be one of the reasons behind the fact that 39% of businesses predicted no change or a decrease in their business activity in the coming six months.

A total of 194 out of 212 businesses (92%) reported contributing to one or more charitable causes, either financially or through employee time. Of those, 72% reported contributing time or money to human and community service charities, such as hunger relief, housing assistance, and other charities that address basic needs, as shown in Figure 8. Educational charities were next with 42% of businesses contributing to those. Health charities (32%) and arts and cultural charities (30%) were the next most contributed causes. This high degree of participation demonstrates that firms within our region have a strong desire to benefit the REIF region in various ways.

92% of local businesses reported contributing to one or more charitable causes, either financially or through employee time.
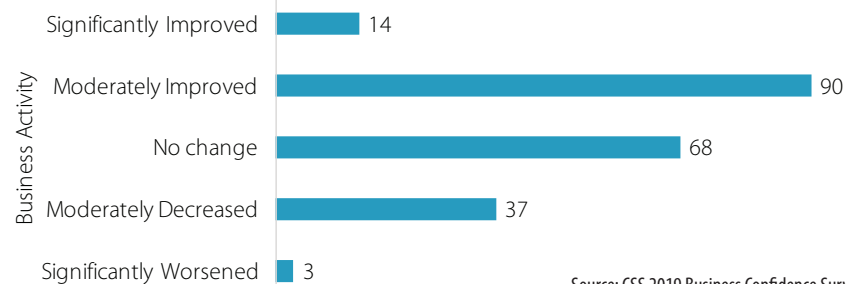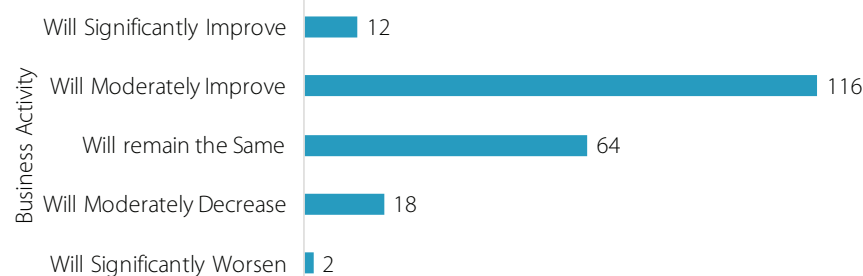

FIGURE 6. Roughly half of those surveyed saw improvement in their general business activity over the past six months
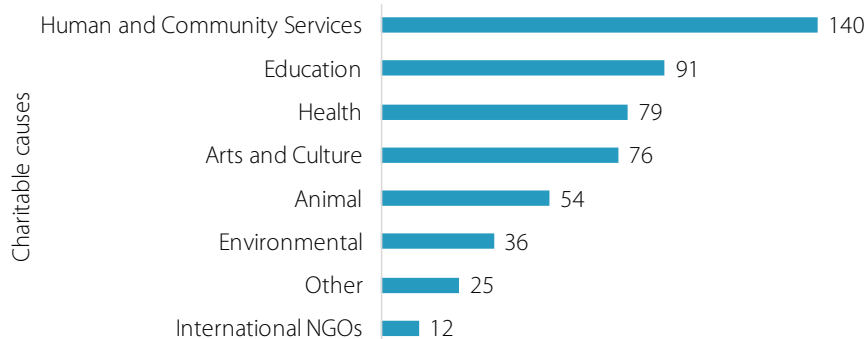

FIGURE 7. Most surveyed are confident that their level of business activity will improve in the next six months

FIGURE 8. Human and community services, education, and health among the causes most frequently supported by local businesses

REGIONAL ECONOMIC INDICATORS FORUM

FALL EVENT
SAVE THE DATE
10.31.19
FROM 7-9:30 AT THE DECC IN THE HARBOR SIDE BALLROOM

SPEAKER
RON PAINTER
CEO of the National Association of Workforce Boards

STEERING COMMITTEE

Steven Burgess
President & CEO
National Bank of Commerce
sburgess@nbcbanking.com

Bruce Thompson
Community Bank President
National Bank of Commerce
bthompson@nbcbanking.com

Hannah Horman
Marketing Manager
National Bank of Commerce
hhorman@nbcbanking.com

Jim Caesar
Executive Director
The Development Association
jim@wegrowbiz.org

Andy Donahue
Director
WI Small Business Development Center
University of Wisconsin – Superior
adonahue@uwsuper.edu

Gina Grensing
Editor/Writer
Bureau of Business and Economic
Research - UMD
ggrensin@d.umn.edu

Elaine Hansen
Director
UMD Center for Economic
Development
ehansen@d.umn.edu

Brian Hanson
President & CEO
APEX
brian@apexgetsbusiness.com

Monica Haynes
Director
Bureau of Business and Economic
Research – UMD
mrhaynes@d.umn.edu

Rubana Mahjabeen
Associate Professor
University of Wisconsin – Superior
rmahjabe@uwsuper.edu

Sakib Mahmud
Associate Professor
University of Wisconsin – Superior
smahmud@uwsuper.edu

Jennifer Pilon
Assistant Professor
The College of St. Scholastica
jpilon@css.edu

Jennifer Riden
Business Consultant
UMD Center for Economic
Development
jriden@d.umn.edu

Rick Revoir
Associate Professor
The College of St. Scholastica
rrevoir@css.edu

Ian Vincent
Senior Business Developer
APEX
ian@apexgetsbusiness.com

REGIONAL ECONOMIC INDICATORS FORUM

PRESENTED BY

National Bank
of Commerce

Member FDIC

WITH THE HELP OF

The College of
St. Scholastica

UMD
UNIVERSITY OF MINNESOTA DULUTH
Driven to Discover

UNIVERSITY *of* WISCONSIN
Superior

APEX
gets business

**Business
North**
WWW.BUSINESSNORTH.COM

DEVELOPMENT
ASSOCIATION
WEGROWBIZ.ORG