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

Chris Farrell is senior economics contributor at Marketplace, American Public Media’s nationally syndicated public radio business and economic programs. He is economics commentator for Minnesota Public Radio and host of its series, Conversations on the Creative Economy. An award-winning journalist, Chris is a columnist for PBS Next Avenue and the Star Tribune. He has written for Bloomberg Businessweek, New York Times, Kiplinger’s and other publications. The author of four books, his most recent is Unretirement: How Baby Boomers are Changing the Way We Think About Work, Community and the Good Life.

HAVE A QUESTION?
TEXT IT TO 715.969.6144
for a chance for it to be discussed during Q&A.

SPEAKER
CHRIS FARRELL
Economics Commentator at Minnesota Public Radio
EXECUTIVE SUMMARY

Twice each year, the three universities located in Duluth and Superior 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, focusing on economic growth, consumer confidence, stock performance, and business confidence.

UMD’s research team examined the economic indicator of gross regional product (GRP) per labor force member. In 2017, Duluth-Superior had a GRP per labor force value of $80.1 thousand, an increase of roughly 15% since 2007. Despite this growth, Duluth-Superior’s value was lower than most of its peers, and its growth was more volatile. The region saw a big upswing between 2009 and 2014, followed by a dip and then a recovery after 2015.

Between 2015 and 2017, Duluth’s GRP increased by nearly 10%, while the labor force grew by roughly 2%. Much of the growth in GRP was driven by increases in the mining industry, which doubled its contributions to GRP during that time, while the increase in labor force size was driven primarily by older workers, women (particularly those with children) and workers with a bachelor’s degree or higher.

In order to construct the Consumer Confidence Indicators, the UWS student research team surveyed randomly chosen households in the 15-county REIF region. Surveys were collected via telephone (166 in spring 2018 and 131 in fall 2018) and via emails to previous REIF participants (105 in spring 2018 and 108 in fall 2018). 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 overall in 2018 showed both the general public and REIF participants were optimistic about current economic condition as well as the future economic outlook. This view is most probably due to low unemployment, low inflation, and the strong labor market that the regional economy is currently experiencing.

UWS also provided information and a financial analysis on the equity performance of companies of local interest in the fifteen REIF-region counties. The selection of the firms for the Regional Equity Index (REI) was based on the firms’ substantial presence in the REIF region as indicated by the number of employees hired locally or the significance of the firms’ regional activities to the overall contribution of the firm. Using this selection criteria, fourteen firms were included in the index.

The findings show that the REI outperformed the benchmark index and that investors are more bullish than bearish on the majority of the stocks. Between October 2016 and October 2018, 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 similar to or better than the overall stock market. Long term, six of the fourteen stocks are expected to outperform the market, two are expected to mirror the market, and two are expected to underperform the market.

The College of St. Scholastica’s research team distributed business confidence surveys to local Chambers of Commerce located throughout the 15-county REIF region and received responses from 87 businesses. In general, businesses reported positive performance over the past six months and a strong, if slightly more cautious, outlook for the upcoming six months. However, businesses are having difficulty finding qualified and skilled employees. More than two-thirds of respondents said they are having difficulty, with competition for employees, high wage rates, and poor work attitudes being the most common difficulties reported.

In summary, it appears that Duluth-Superior has experienced recent growth in both its labor force and GRP as well as strong consumer and business confidence. In addition, regional stock performance has trended above the S&P 400. However, there are some initial indications that businesses and consumers may be trending toward a more cautious outlook than we’ve seen in previous periods.

STUDENT PRESENTERS

Hattie Ecklund, originally from South Minneapolis, is a senior Economics major with a minor in Communications. During her youth, she frequently visited Duluth and grew to appreciate the area. Through her position as a UMD Bureau of Business and Economic Research Undergraduate Research Assistant, Hattie has worked on projects related to regional economic development and international trade. Interested in issues such as sustainable development and community revitalization, Hattie hopes to work in a position where she can make a tangible impact in the areas she cares about.

Nikolas Kosman, who is from Calgary, Alberta, Canada, is pursuing a double major in Finance and Economics at the University of Wisconsin-Superior. He will be graduating in the spring 2019. 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 has been a proud member of the varsity golf team for the last four years. Cole joined the REIF research team for the opportunity to further his experience and knowledge of the local economy. He hopes to use this experience in support of his career goals of transforming local businesses and communities in the REIF region.

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
MEASURES OF ECONOMIC GROWTH: GROSS REGIONAL PRODUCT AND LABOR FORCE TRENDS

Monica Haynes, M.S., Director of the Bureau of Business and Economic Research, University of Minnesota-Duluth; BBER Writer/Editor: Gina Grensing; Student Researchers: Hattie Ecklund, Alexander Hook.

UMD was tasked with the responsibility of tracking economic trends and comparing regional performance to similar metro areas throughout the Midwest. The primary indicator of interest for our research team is gross regional product (GRP) per labor force member. GRP is the value of all final goods and services produced in an area in a certain time period and is the most common measure of economic output. While GRP per capita is the most common measure of economic growth and performance, using labor force size rather than population can account for important differences in demographics. The measure excludes individuals who are not participating in the labor force, whether due to age, health, family concerns, or school enrollment.

The metropolitan statistical area (MSA) was used rather than the 15-county region, as GRP estimates are not available at the county level. Using the MSA also allows for ease of comparison across other metro areas.

Duluth-Superior’s value for GRP per labor force member has grown 15% since 2007 but remains lower than its peers.

Figure 1 shows the trend in GRP per labor force member from 2007 to 2017. Duluth-Superior is shown in red and the five peer metro areas included for comparison are shown in gray. These areas were selected due to their similarity to Duluth in geographic size, size of economy, population, industry mix, and proximity.

Compared with its peers, Duluth-Superior’s value for GRP per labor force member was lower than average. Duluth’s labor force is one of the largest of the six areas, while its GRP is right in the middle, making the productivity per labor force member slightly below average.

In 2017, Duluth-Superior had a GRP per labor force member value of $80.1 thousand of GRP per labor force participant. This represents an increase of about 15% over its 2007 value of $69.7 thousand. However, this growth has been more volatile than most of the peer areas, with a big upswing between 2009 and 2014, followed by a dip and then a recovery after 2015.

Since 2015, Duluth-Superior has seen growth in both its GRP and labor force. GRP increased by nearly 10% between 2015 and 2017, while the labor force has grown by roughly 2% during that period. Figure 2 shows growth in GRP by industry for the Duluth-Superior area during that time period. Clearly, much of the growth has been driven by increases in the mining industry. That industry alone nearly doubled its contributions to GRP between 2015 and 2017. Other growing industries include real estate, manufacturing, and finance. Conversely, the construction industry saw a decline of 16% over that period. The recent increase in the size of Duluth-Superior’s labor force appears to be driven primarily by older workers, women (particularly those with children) and workers with a bachelor’s degree or higher.
The consumer confidence survey findings suggest that there is strong optimism about current and future economic conditions.

Rubana Mahjabeen, Ph.D., Associate Professor of Economics, University of Wisconsin-Superior; Student Researchers: Augustine Ngo Bitjong, Sequoia Borner, Mathew Botsio, Thy Anh Bui, Pablo Company, Obiageli Ekwunwa, Marika Funakoshi, Uyanga Geletsogt, Faith Ideke, Micheal Jacobs, Tam Pham Bang Le, Kurumi Maeta, Dekotah Miska, Sunyoung Moon, Hung Nguyen, Minh An Nguyen, Opeyemi Omiwale, Angelica Ramache, Alimtra Salimgarieva, Ryan Volz, Sam Waylee Jr.

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, 166 responded in spring 2018 and 131 in fall 2018 via telephone surveys, while among previous REIF participants, 105 responded in spring 2018 and 108 in fall 2018 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

Findings from the Consumer Survey

The results of the 15-county regional consumer confidence indices based on phone and email surveys are presented in Figure 1 and 2 respectively. These results show that in 2018 for randomly chosen households the Index of Current Conditions, Index of Consumer Sentiment, and Index of Consumer Expectations were rising. This rise began in fall 2016. Only recently (in fall 2018) random households have started displaying slightly cautious optimism. This could be due to the U.S. trade disputes with other countries and the midterm election of November 2018. However, consumer sentiment is still at a favorable level as shown in Figure 1. During 2018 similar to surveyed random households, REIF participants had a positive outlook on personal finances, business conditions, and consumption spending. As shown in Figure 2, they thought the current state of the economy was strong and expected future expansion in economic and financial conditions. Unlike the surveyed random households, the positive sentiment of REIF participants started a year later in fall 2017. Overall both groups showed an upward trend in consumer confidence indicators. This view probably is the outcome of low unemployment, low inflation, and the strong labor market that the regional economy is experiencing currently. Consumer’s positive views about the REIF region in 2018 matches with favorable national consumer confidence indicators reported by the University of Michigan.
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 positive short-term expectations of performance for most of the index stocks. Eleven stocks have a short interest ratio less than five, an indication that investors believe stock prices will rise for these companies.

Since 2016, the REI has trended with the market but has significantly outperformed the S&P 400.

![Figure 1. REI index returns have consistently outperformed the S&P 400 since 2009.](source: Yahoo Finance.)
CSS
BUSINESS CONFIDENCE:
A SURVEY OF REGIONAL BUSINESSES

Robert Hoffman, Ph.D., Assistant Professor of Economics, The College of St. Scholastica; Student Researchers: Cole Martin, 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 survey’s purpose was to develop a better understanding of local small businesses and their confidence in the economy. The survey asked businesses to indicate their sector, number of employees, recent and projected changes in outlook, and factors inhibiting growth. In addition, the survey asked some more targeted questions regarding the degree of competition facing local businesses from large retailers and the difficulties businesses face in finding qualified employees.

In total, 87 businesses completed the survey. According to the results, the most common sectors among respondents were professional services (n=21), education (14), construction (8), and hospitality (8). A number of businesses selected the “other” category for sector. Among those responses included non-profits, retail, and the arts. More than half of those surveyed had fewer than 20 employees, while roughly 15% reported 250 or more employees.

Businesses report a positive but cautious outlook for the upcoming six months despite current recruitment problems.

Businesses were asked to evaluate the overall outlook for their company over the past six months and what they anticipate the outlook to be for the next six months. In general, businesses reported positive performance over the past six months and a strong, if slightly more cautious, outlook for the upcoming six months. Figures 1 and 2 show those results. During the past six months, more than half of those surveyed reported moderate or significant improvement in their outlook, while about 20% of businesses reported no change. Businesses were slightly more cautious in their outlook for the upcoming six month period. Roughly half of those surveyed indicated that they expect a moderate or significant improvement, while 35% of businesses expect no change.

Of note is that businesses are having difficulty finding qualified and skilled employees. Figure 3 shows the responses from all respondents, where more than two-thirds said they are having difficulty. According to the respondents, competition for employees, high wage rates, and poor work attitudes were the most common responses for their difficulties recruiting workers.

In summary, businesses have a positive but cautious outlook for the upcoming six months. Despite this, they are experiencing difficulties finding qualified and reliable employees. The survey provides valuable insights into the current business climate and challenges faced by local businesses.

FIGURE 1. More than half of those surveyed reported moderate or significant improvement in their outlook.

FIGURE 2. Roughly one-third of those surveyed expect no change in their business over the next six months.

FIGURE 3. More than two-thirds of those surveyed are having difficulties finding qualified workers.
SPRING EVENT
SAVE THE DATE
4.2.19
FROM 7-9:30 AT THE DECC IN THE HARBOR SIDE BALLROOM

SPEAKER
JENNIFER FORD REEDY
President of the Bush Foundation

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
LSBE & BBER – 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

Robert Hoffman
Assistant Professor
The College of St. Scholastica
rhoffman@css.edu

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

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

Ian Vincent
Senior Business Developer
APEX
ian@apexgetsbusiness.com