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St. Cloud Area Quarterly Business Report

Fall 2003

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Volume 5, Number 4

Long Awaited St. Cloud Economic Recovery Begins

Executive Summary

The long awaited economic recovery of the St. Cloud area appears to have finally begun. The overall area employment situation is stronger than has been seen since Spring 2002—a span of more than eighteen months. While the level of employment declined over the year ending August 2003, the seasonal pattern of area economic performance suggests that conditions have improved. Going forward, most indicators suggest a renewal of area economic expansion by early 2004. While sectoral unevenness in area employment persists, it appears that economic activity has bottomed out and broad-based expansion will soon begin. One key sector that has finally begun to stabilize is the retail sector. Retail employment gains were logged for the first time in three and one-half years in this sector that accounts for more than 20 percent of area employment. While the area manufacturing sector continues to shed jobs, this sector is actually performing better than most other places around the country. The largest drag on the local economy has been state and local government employment, where payrolls have declined dramatically over the past twelve months.

The recent path of area economic activity continues to mirror the performance of the national economy. While commentators continue to refer to a national “jobless recovery,” a variety of economic indicators (including aggregate productivity gains, improved corporate earnings, dollar depreciation, continued low interest

rates, expanding consumer confidence, increases in business capital expenditure, a resolution of the state budget crisis, and improved financial stability) give us reason to be optimistic. It is just a matter of time before secular employment gains are observed.

St. Cloud is no longer the worst economic performer in the North Central U.S. Several neighboring communities are experiencing economic difficulties that are at least as challenging as those in the area economy. An area employment decline of 0.9 percent over the year ending August 2003 draws us virtually even with the Twin Cities and leaves us in a better position than such communities as Duluth, LaCrosse, and Sioux City. Now that the Fingerhut shutdown has worked its way through the employment numbers and the bulk of area state government cutbacks have been made, the area is poised to be on the leading edge of expansion in the upper Midwest. A return to the impressive area economic performance of the late 1990s and early 2000s would be welcome relief to those who have experienced economic misery and heightened uncertainty for nearly 18 months. While it will be some time (if ever) before area businesses once again report worker shortages as their primary concern, it looks like workers can finally expect a brighter future. After predicting no clear pattern for eighteen months, the **St. Cloud Index of Leading Economic Indicators** began an abrupt upturn in April of this year. The index projects

*Economic
Recovery
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Center for Economic Education & Social Science Research Institute; Contact Rich MacDonald at (320)308-4781 and/or Mark Partridge at (320)308-4934, Department of Economics. Special thanks to Brigid Tuck, Program Manager and JoAnn Miller, Administrative Assistant, Minnesota Economic Development Center. Christina Gomes, Graphics & Production.



THE PARTNERSHIP *A progressive approach to growth & development*

St. Cloud Area Economic Development Partnership; Contact Partnership President Tom Moore at (320) 656-3815.

enhanced economic activity into early 2004. A sharp increase in the U.S. Index of Leading Economic Indicators along with an impressive improvement in new business start-ups have combined with slight improvements in the length of the local manufacturing workweek and a steady rise in area residential electric hookups to produce a recent surge in the local index.

Forty-four percent of the fifty-five firms responding to the **St. Cloud Area Business Outlook Survey** experienced an increase in business activity over the past three months. While this is a decline from the similar report last quarter (at which time 60% of area businesses had seen increases in activity), much of this can be attributed to seasonal business patterns. It should be noted that only 28% of businesses had experienced increased activity in the March 2003 survey. The area labor market has

not yet fully enjoyed recently improved business conditions. Only twenty-two percent of surveyed employers indicate increased payrolls over the most recent quarter. This was partially offset by 15% of area businesses that cut back on workers. In addition, firms found it less difficult to attract qualified workers over the past three months.

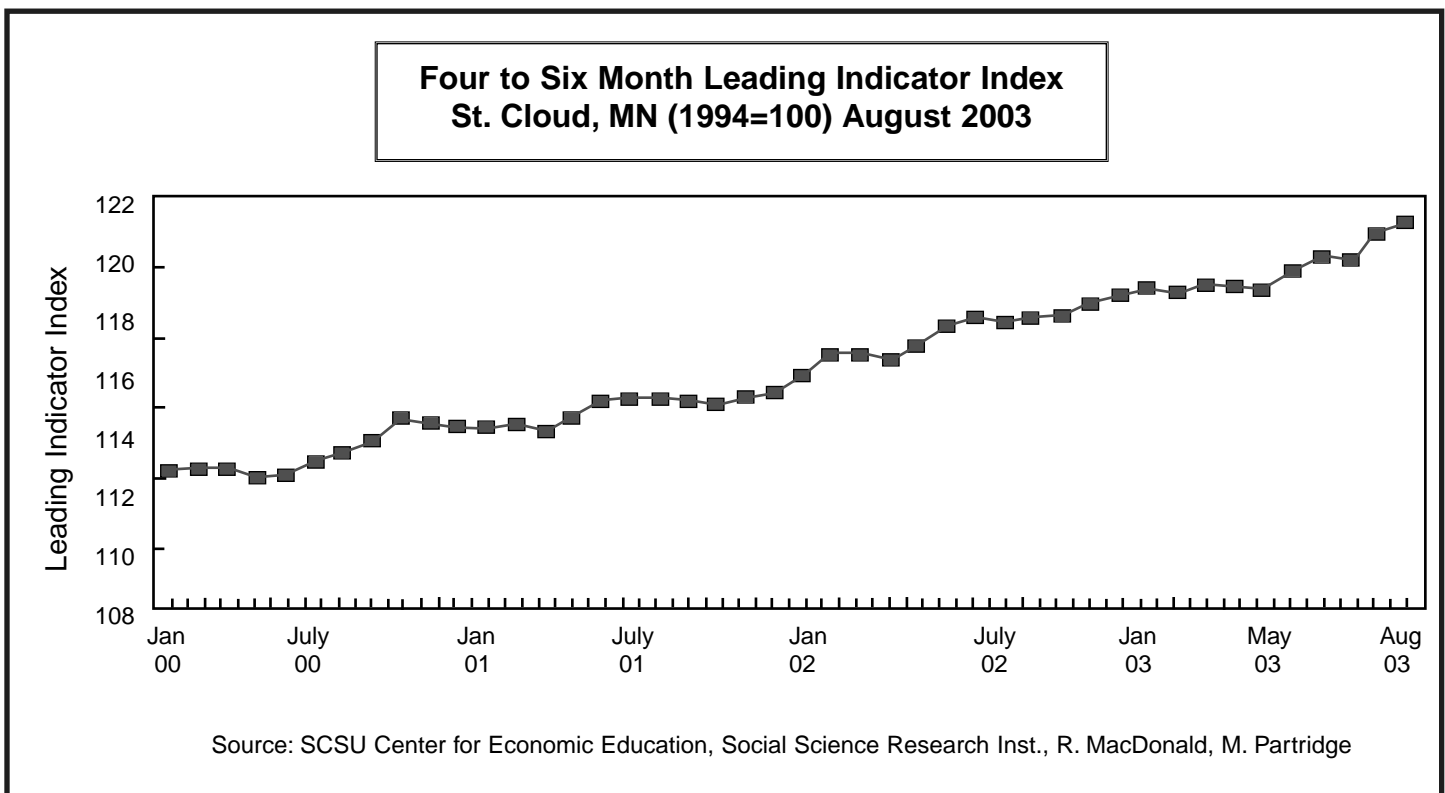
*Area
Businesses
Support
Airport
Expansion*

A continuing bright spot for the area economy can be found in the 35% of surveyed firms that report an increase in capital expenditures over the past three months. Historically attractive interest rates, along with improved business optimism and a reduction in economic uncertainty appear to have had a highly favorable impact on local capital spending deci-

sions. Going forward, 58% of area firms expect improved business conditions in six months' time versus thirteen percent that think activity will be slower. Area firms also expect, on balance, to cut back on the length of the workweek by March 2004. Perhaps this will be translated into new hires by area firms. Twenty-four percent of surveyed firms expect to increase hiring in six months' time and only 11% anticipate a reduction in their work force.

A special question in the September 2003 **St. Cloud Area Business Outlook Survey** asked area business leaders about the extent to which they feel expansion of the St. Cloud area airport is an important economic priority. Only 9% of responding firms indicated that this is "not important at all" while 24% think it has "minor importance". Thirty-six percent of respondents say this is of "moderate importance" and 27%

Figure 1 — St. Cloud Index of Leading Economic Indicators (August 2003)



believe this economic priority is of “major importance”. Four percent of respondents believe it is the area’s number one economic priority. An accompanying special question asked business leaders if they feel the existing airport location is suitable for a substantial expansion in area air traffic. Eighty percent of respondents report that they feel the existing location is suitable while only 9% of surveyed firms think a different location is needed.

St. Cloud Index of Leading Economic Indicators

Continuing the strong trend that began in April 2003, the August 2003 **St. Cloud Index of Leading Economic Indicators** continues to project the St. Cloud area economy will improve into early 2004. The index is designed to forecast local economic activity four to six months in the future. Figure 1 shows that the index was essentially flat from mid-2002 through March 2003, but has sharply increased since that time. The recent upturn in the local index has been driven by large gains in the U.S. Index of Leading Economic Indicators and the 9 percent increase in the number of new businesses as reported to the Minnesota Secretary of State Office in the first eight months of this year compared to the same period in 2002. Steady increases in the number of new residential electric hookups and a slight increase in the local manufacturing production

Local Index of Leading Economic Indicators Remains Strong

Leading Economic Indicators suggest an expanding economy, while three consecutive decreases suggest a

contracting economy and/or a slowing of economic growth.

The St. Cloud Area Overall Outlook

Table 1 shows non-farm employment data for the St. Cloud Metropolitan Area (MSA), Minneapolis-St. Paul (MSA), and Minnesota. This table reports different industry groupings using the North American Industrial Classification System (NAICS). August 2003 St. Cloud MSA employment was still 0.9 percentage points below August 2002 levels and current annual employment growth is more than 3 points below the 1990-2003 long-term trend growth rate of 2.3 percent. At first glance, it is clear that the St. Cloud area has struggled. However, the recent employment figures represent a significant improvement since May when annual job losses stood at -2.2 percent. Were it possible to accurately seasonally adjust the local employment series, it would clearly show positive job gains in the last three months. For example, local employment appears to have declined by about 3,000 jobs between May and August of this year compared to a 4,400 job decline during the same period last year. Indeed, while the May 2003 sectoral employment numbers were relatively weak across the board, Table 1 shows that many local sectors have experienced small employment gains over the year ending August 2003. To be sure, some of the improvement in mid-2003 simply reflects that 2002 was so weak in the wake of layoffs at Fingerhut and elsewhere. Yet, we expect continued improvements in local growth into early 2004.

The area’s 0.9 percent employment decline in the year ending in August means that St. Cloud is no longer the weakest performing metropolitan area in the upper Midwest. Local job growth only modestly lags the corresponding -0.5 percent rate in the state and the -0.4 percent rate for the U.S. Among other Minnesota MSAs, St.

Cloud trails Rochester (0.3%), but the -0.8 percent rate for Twin Cities employment growth is now quite comparable. In fact, because of an apparent weakening of the Duluth area economy over the summer months, St. Cloud’s employment situation is now better than the Duluth-Superior MSA (-1.1%). Regarding other metropolitan areas near the Minnesota border (Grand Forks, Fargo-Moorhead, Sioux Falls, Sioux City, Des Moines, La Crosse, Eau Claire), all but LaCrosse (-1.1%) and Sioux City (-2.5%) fared better than St. Cloud during the one-year period, although employment conditions appeared to be weakening in most of these cities. For example, Fargo-Moorhead experienced a 0.5 percent decline in employment in the year ending August, which puts them on a list with Duluth, LaCrosse, and Sioux City as experiencing weakening conditions going into Fall 2003.

St. Cloud is no Longer the Weakest Performer in Upper Midwest

We continue to see the local economy moving toward outright expansion, although it may be a case of “three steps forward and two steps back.” Through 2002, we had expected the local economy would start its recovery beginning in late Winter 2003. What was not expected was the uneven performance of the national economy. If the national economy had performed near expectations, the local economy would have been much stronger in early 2003. In a positive sense, the added delay did allow local businesses to work off some of the overhang from the late 1990s, and we are confident that fundamentals are finally in place for a sustained local expansion.

A key underpinning to our improved expectations is that most local manufacturers appear to be on much better footing than in the spring of this year. A long awaited depreciation of the U.S. dollar began earlier in the year which should provide needed relief to many local firms facing foreign competition. Likewise, the improving national economy should give local manufacturers a needed boost. To be sure, global competition remains fierce, and the recent decline in the value of the dollar has not provided

any relief from Chinese imports as the Chinese Yuan is fixed to the U.S. dollar. Nonetheless, moving into late 2003, we also expect to see improvements in retail and “other” services, with favorable spillovers into leisure and hospitality. Finally, the results from the **St. Cloud Area Business Outlook Survey** also support the argument that a local recovery will continue into early 2004.

Improving conditions in the U.S. economy are another reason to be

optimistic about the area’s future. For September, the U.S. Department of Labor reported a 57,000 increase in national non-farm payrolls. While the U.S. economy should typically be adding 250,000 jobs a month at this stage of an economic expansion, the small increase in September represents the first positive news on the employment front in some time. Likewise, U.S. GDP growth remains fairly strong and productivity growth has been surprisingly robust under difficult conditions. Even the geopo-

Table 1 — Employment Trends

	St. Cloud Employment Trends in Percent			Minnesota Employment Trends in Percent			Twin Cities Employment Trends in Percent		
	1990-2003 Long Term Trend Growth Rate	Aug 02-03 Growth Rate	Aug 03 Employment Share	1990-2003 Long Term Trend Growth Rate	Aug 02-03 Growth Rate	Aug 03 Employment Share	1990-2003 Long Term Trend Growth Rate	Aug 02-03 Growth Rate	Aug 03 Employment Share
Total Nonagricultural	2.3%	-0.9%	100.0%	1.7%	-0.5%	100.0%	1.5%	-0.8%	100.0%
Total Private	2.6%	-0.4%	100.0%	1.7%	-0.5%	100.0%	1.5%	-0.9%	100.0%
GOODS PRODUCING	2.7%	-1.3%	23.9%	0.8%	-0.9%	18.9%	0.4%	-1.9%	17.0%
Construction/Nat. Res.	3.4%	0.7%	5.9%	3.1%	2.4%	5.6%	3.3%	2.3%	5.1%
Manufacturing	2.4%	-2.0%	18.0%	0.0%	-2.3%	13.3%	-0.6%	-3.7%	11.9%
SERVICE PRODUCING	2.3%	-0.7%	76.1%	1.9%	-0.4%	81.1%	1.8%	-0.6%	83.0%
Trade/Transportation/Utilities	1.0%	-0.5%	22.6%	1.2%	-0.3%	19.8%	1.0%	-2.0%	19.6%
Wholesale Trade	2.8%	-2.6%	4.7%	1.2%	0.4%	4.9%	1.3%	1.1%	5.0%
Retail Trade	0.5%	0.1%	14.8%	1.3%	-0.5%	11.4%	1.2%	-0.8%	10.8%
Trans./Ware/Util	1.4%	-0.1%	3.1%	0.7%	-0.8%	3.5%	0.0%	-9.0%	3.7%
Information	3.5%	-5.9%	1.9%	1.4%	-0.9%	2.5%	1.3%	-3.4%	2.8%
Financial Activities	3.8%	-2.0%	4.2%	1.9%	-2.5%	6.4%	2.1%	1.2%	8.0%
Prof. & Business Service	3.7%	-0.7%	7.0%	2.4%	-1.9%	11.2%	2.0%	-2.9%	14.1%
Educational & Health	4.0%	0.8%	14.6%	3.2%	1.8%	13.5%	3.0%	2.3%	12.0%
Leisure & Hospitality	3.1%	1.4%	9.1%	1.9%	-0.2%	9.4%	2.1%	1.5%	9.5%
Other Services (Excl. Gvt)	2.4%	1.6%	4.9%	1.8%	-1.3%	4.4%	1.5%	1.5%	4.3%
Government	0.8%	-4.3%	11.8%	1.4%	-0.4%	13.9%	1.5%	-1.0%	12.6%
Federal Government	-1.0%	1.1%	1.7%	-0.3%	-1.6%	1.3%	0.0%	3.4%	1.3%
State Government	-1.6%	-13.1%	2.5%	0.8%	0.9%	3.1%	1.7%	3.1%	3.6%
Local Government	0.3%	-2.1%	7.6%	1.9%	-0.7%	9.6%	2.0%	-1.7%	7.8%

Note: Long term trend growth rate is the compounded average employment growth rate in the specified period. St. Cloud and Twin Cities represent the St. Cloud and Minneapolis-St. Paul MSAs, respectively.

SOURCE: MN Workforce Center

litical environment has settled down in the last few months and there are few signs of a significant oil price spike in the near future. Indeed, with the possibility that significant quantities of Iraqi oil will be introduced into the world market in 2004, oil prices may trend down next year. Finally, U.S. financial markets have gained traction, while interest rates have also stabilized. Yet, we caution that we are not entirely sanguine about national conditions. Many economists still believe it is too early to predict that the national job outlook has turned around. Other economists are worried about the large expense of rebuilding Iraq, and others are concerned about the exploding U.S. budget deficit, which many economists believe will have a slow corrosive effect on long-term economic growth.

The St. Cloud Area Sectoral Outlook

Table 1 shows sectoral employment performance. One of the most significant changes in the most recent quarter is the remarkable improvement in the retail sector. Although local retail job growth is only 0.1 percent in the year ending in August, it represents a dramatic improvement from the recent past. Through late 2002 and early 2003, year-over-year retail job losses were running close to 8 percent. In fact, July 2003 was the first month since September 2000 that the local retail sector expanded on a year-over-year basis. Continued strengthening of the local economy should add further momentum to this sector.

We have already noted that many local manufacturers appear poised to begin hiring. Over the year ending in August, local manufacturers shed 2 percent of their employees. But this is modestly better than the -2.3 percent and -3.7 percent rates for the state and Twin Cities MSA, respectively. During this same period, national manufacturers have cut employment an even sharper 4.2 percent. In fact,

national manufacturers shed almost 17 percent of their workforce in the five years ending August 2003 compared to a smaller 5 percent locally. Local manufacturers fared considerably better than their counterparts elsewhere in the 1990s, and they have held their own during the recent difficult times.

Local Retail Sector has Stabilized

mortgage financing rates and a slight overhang from the rapid construction in early 2003. We continue to see some uneven performance. On the plus side, there are some signs that local residential builders will have a strong finish to 2003 and remain strong into 2004. Interest rates appeared to have stabilized at a rate just below the peak of late summer. Moreover, valuation of new building permits in the quarter ending in August was about 15 percent above the corresponding rate of 2002. A pickup in residential building will also have favorable spillovers for local realtors, mortgage firms, and furniture stores. However, at least in the immediate vicinity of St. Cloud, we are struck by the continued availability of commercial retail and office sites, which may take some time to work off before commercial builders get a big boost.

Two clear drags on the local economy are the sharp decline in state and local government employment and information-sector employment. Fortunately, the local information-sector share of total employment is less than 2 percent and some of its sharp losses reflect a natural contraction after years of double-digit employment growth. Conversely,

state government employment declined over 13 percent in the year ending in August. Double-digit year-over-year losses have been the norm for area state and local government since February. This, of course, reflects the State of Minnesota's fiscal woes (which are unlikely to experience measurable improvement for some time).

The local construction sector took a breather during the summer months, which likely reflected an increase in

It is surprising how much of the brunt the St. Cloud area has taken in terms of state government cutbacks. Over the most recent period, state government employment increased 0.9% in Minnesota, and it was up a sharp 3.6 percent in the Twin Cities. This obviously begs the question as to why state government cuts have been so concentrated on greater Minnesota and St. Cloud in particular. Similarly, on a year-over-year basis, St. Cloud local government employment was slowly rising until the start of the 2004 fiscal year that began in July for many local governments. Since then, local government employment has started to sharply fall, with employment down 2.1 percent in the year ending in August. While we caution that government employment estimates are somewhat volatile, it appears that the local area took a hard hit as local government employment has only declined by 0.7 percent in the state as a whole. To be sure, we are clearly aware of the fact that the alternative to local government employment cutbacks is tax increases, which would have produced private-sector job losses in their own right.

Area State Government Employment Numbers Remain Weak

St. Cloud Area Labor Market Conditions

Other labor market indicators are shown in Table 2. Continuing a

recent pattern, one seeming contradiction is the 0.3 point decline in the local unemployment rate between August 2002 and August 2003. This can be reconciled by examining Table 2. St. Cloud residential employment declined about 0.3 percent during the period and the labor force declined an even sharper 0.6 percent, which together produced the fall in the unemployment rate. The on-going decline in the local labor force suggests that many nonemployed residents have either left the area or decided that it is not worth seeking work in the recent dreary environment. Minnesota Workforce Center figures indicate that the state's labor force was slightly higher during the recent year, illustrating that St. Cloud's experience is somewhat unique. However, we caution that the

local unemployment rate will likely not dramatically improve in coming months, and it may even slightly worsen. This is a common pattern in the early stages of economic recovery as previously discouraged residents will once again start seeking work as the job opportunities begin to present themselves.

Another positive trend compared to 2002 is the approximate 5 percent decline in new St. Cloud area unemployment insurance claims during the quarter ending in August. This continues a favorable trend beginning earlier this year and surely reflects a stabilizing local labor market. Firm responses to the **St. Cloud Area Business Outlook Survey** suggest that weakness in the area labor market has not yet fully reversed itself.

Only 4% of area employers indicate it was more difficult to find qualified workers in the most recent quarter while 15% note that it was less difficult finding workers. Going forward, only 7% of survey respondents expect to experience increased difficulty finding qualified workers at the end of six months while 15% expect it will be easier to find workers in the future. This labor market softness mirrors that which has been reported in the national economy and is a continuation of a trend that can easily be discerned upon visual inspection of Figure 2. Since the survey was first started in January 1999, there has been a secular decline in the diffusion index on area employers' difficulty attracting qualified workers. While this has levelled out in recent quarters, it will be a welcome sign when

Table 2-Other Economic Indicators

	2003	2002	Percent Change
St. Cloud MSA Labor Force Aug. (MN Workforce Center)	104,884	105,561	-0.6%
St. Cloud MSA Civilian Employment# Aug. (MN Workforce Center)	101,054	101,327	-0.3%
St. Cloud MSA Unemployment Rate* Aug. (MN Workforce Center)	3.7%	4.0%	NA
Minnesota Unemployment Rate* Aug. (MN Workforce Center)	3.9%	4.0%	NA
Mpls-St. Paul/MSA Unemployment Rate* Aug (MN Workforce Center)	4.1%	4.1%	NA
St. Cloud Area New Unemployment Insurance Claims June - Aug. Average (MN Workforce Center)	437.3	460.7	-4.9%
St. Cloud MSA Residential Building Permit Valuation (\$1,000) June - Aug. Average (U.S. Dept. of Commerce)	11,050	9,571	15.5%
St. Cloud Index of Leading Economic Indicators Aug (SCSU)	121.1	117.8	NA

#- The employment numbers here are based on resident estimates, not the employer payroll estimate in Table 1.
*- Not Seasonally Adjusted
NA- Not Applicable

the diffusion index on this survey item begins to trend upward again.

St. Cloud Area Business Outlook Survey

The **St. Cloud Area Business Outlook Survey** is a survey of current business conditions and area firms' future outlook. It is administered quarterly with the cooperation of the St. Cloud Area Economic Development Partnership. Survey results reported in Tables 3 through 6 reflect the responses of 55 area business firms who returned the recent mailing. Participating firms are representative of the collection of diverse business interests in the St. Cloud area. They include retail, manufacturing, construction, financial, and government enterprises of sizes ranging from small to large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Table 3 reports survey results of area business leaders' evaluation of business conditions for their company in September 2003 versus three months

earlier. Results from Table 3 are mixed compared to the June 2003 survey. There were fewer area firms that experienced improved business activity over the past three months than were observed in June. For example, the diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given category) for the level of business activity decreased from 44.2 to 27.2 in the current period. It should be noted, however, that much of this may represent a seasonal variation of business activity. The September survey numbers always come in (at least slightly) lower than the June numbers. In fact, the current set of responses is almost precisely what was observed back in the June and September 2000 surveys—a period in which the area economy was unquestionably on a growth path to which we would like to return. Sixteen percent of surveyed firms report a decrease in business activity in this most recent quarter while 44% note an increase. Several firms report seasonal effects and one notes that “the real estate market remains strong.” Another firm

reports “higher health insurance premiums and the poor labor market [are of concern]. We are referral based from physicians. If physicians are slow—we are slow.” One firm indicates that “foreign competition [is] lowering margins” while another remarks that there are “more nationwide chains coming in town, using out of town contractors to build their projects.”

The diffusion index for number of payroll employees, at 7.3, is lower than last quarter, but at least it is positive (the value of the March 2003 diffusion index on this item was negative). This result is, of course, quite similar to the “jobless recovery” that has been observed nationally. It seems unlikely that this item will remain weak for very long when area economic expansion ultimately takes hold. The diffusion index on the length of the workweek slipped from 17.3 last quarter to 10.9 in the current period. Ordinarily this would not be a welcome finding, but this probably portends future labor market strength. It is quite common to see production gains arise from using the

Figure 2-Diffusion Index for Question 8: Difficulty Attracting Qualified Workers
Percent Increase Minus Percent Decrease

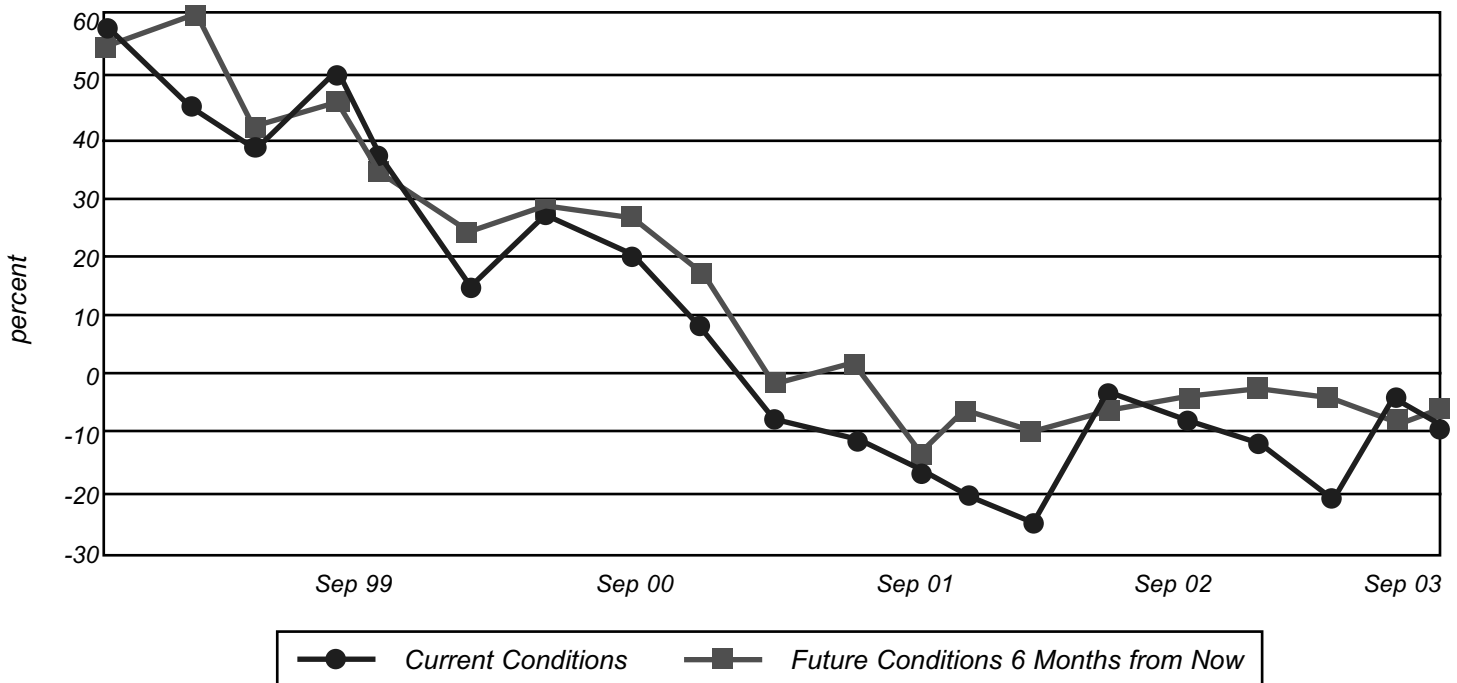


Table 3--Current Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary September 2003 What is your evaluation of:	September 2003 vs. Three Months Ago				June 2003 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	16.4	38.2	43.6	27.2	44.2
Number of employees on your company's payroll	14.5	63.6	21.8	7.3	13.5
Length of workweek for your employees	3.6	81.8	14.5	10.9	17.3
Capital expenditures (equipment, machinery, structures, etc.) by your company	10.9	54.5	34.5	23.6	38.4
Employee compensation (wages and benefits) by your company	1.8	63.6	32.7	30.9	23.1
Prices received for your company's products	9.1	65.5	23.6	14.5	5.7
National business activity	10.9	49.1	21.8	10.9	5.7
Your company's difficulty attracting qualified workers	14.5	81.8	3.6	-10.9	-5.8
<p>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.</p> <p>* SOURCE: SCSU Center for Economic Education, Social Science Research Institute, and Department of Economics</p>					

Table 4--Future Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary September 2003 What is your evaluation of:	Six Months from Now vs. September 2003				June 2003 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	12.7	25.5	58.2	45.5	36.5
Number of employees on your company's payroll	10.9	61.8	23.6	12.7	25.0
Length of workweek for your employees	18.2	72.7	5.5	-12.7	-9.6
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.6	65.5	27.3	23.7	15.4
Employee compensation (wages and benefits) by your company	0	49.1	45.5	45.5	38.5
Prices received for your company's products	10.9	67.3	14.5	3.6	21.2
National business activity	1.8	52.7	27.3	25.5	19.2
Your company's difficulty attracting qualified workers	14.5	74.5	7.3	-7.2	-7.7
<p>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.</p> <p>* SOURCE: SCSU Center for Economic Education, Social Science Research Institute, and Department of Economics</p>					

existing work force more intensively at the onset of an economic recovery. Later on, as the recovery matures into a broad-based economic expansion, the length of the average workweek declines and new hires are made. One sign of strength can be found in the employee compensation index, which increased from 23.1 to 30.9 in the most recent quarter. While these numbers are far off of their record highs, it is nonetheless an encouraging sign that compensation is beginning to pick up. Twenty-four percent of firms report receiving higher prices over three months ago, while only 9% note that prices were lower (the diffusion index on this item is the highest since June 2002). Local capital spending continues its rebound. Thirty-five percent of responding firms took advantage of low financing rates and increased capital expenditures last quarter while only 11 percent cut back on capital purchases.

The diffusion index of 24, while lower than that reported last quarter, still remains historically high.

Future Conditions

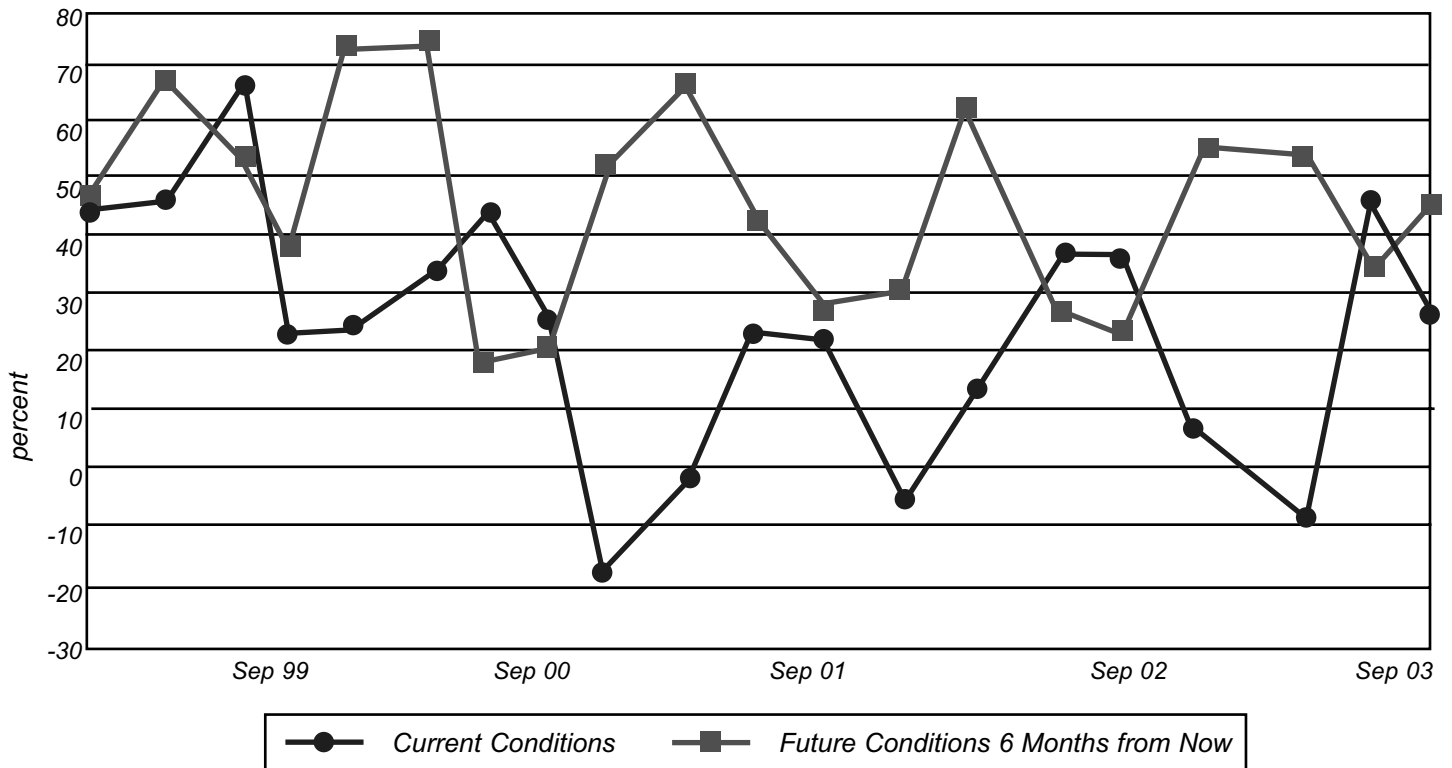
With a couple of exceptions, the responses found in Table 4 are more upbeat than those from the corresponding table of the June 2003 St. Cloud Area Quarterly Business Report. Summary results from questions related to survey respondents' expectations of business conditions six months from now versus September 2003 are reported in this table. The diffusion index for the question that asks about the level of future business activity for area companies is 45.5. This is up from last quarter's reading of 36.5, and remains well above the 22.6 value reported one year ago. Indeed, this is the highest value ever recorded for the fall survey. Going forward, area businesses are increasingly optimistic. Fifty-

eight percent of surveyed businesses expect improved business conditions over the next six months and only 13% expect conditions to worsen.

When compared to the results of the June 2003 survey, business respondents expect a weaker labor market over the next six months. For example, the index on the survey item which asks about anticipated payroll employment is down from 25.0 to 12.7. Only twenty-four percent of survey respondents expect to increase hiring over the next six months (note that this is, at least in part, a normal seasonal effect). The diffusion index on length of the workweek is slightly weaker than last quarter's survey (as noted above, this is not necessarily a negative sign for the local labor market). It should also be noted that 46 percent of surveyed firms expect to increase employee compensation over the next six months and no firms

Continued on Page 12

Figure 3-Diffusion Index for Question 1: Level of Business Activity
Percent Increase Minus Percent Decrease



Special Question #1—The Extent to Which Area Businesses Think Airport Expansion is an Economic Priority

A recent report by the Minnesota Department of Transportation has named the St. Cloud area as the best choice for future relief to the growing congestion of passenger air traffic at the Twin Cities airport. The airport has also been mentioned as a possible location of a helicopter base and a hub for international cargo air freight. St. Cloud is in the process of updating its comprehensive growth plan and consideration of the economic future of the airport is one obvious factor that needs to be taken into account in planning for the future pattern of economic development. While the airport runway has been lengthened and public facilities updated, it is clear that the existing physical capacity of the airport terminal, its parking, and its runway access would have to be substantially improved to make this a commercially viable destination for competing airlines. Area firms were asked about the extent to which they think airport expansion is an economic priority in the St. Cloud area. Only 9% of responding firms felt it was not an economic priority, while 32% indicated the expansion is of “major importance” or is the area’s number one economic priority. Another 35% percent of respondents saw this as of “moderate importance” and 24% indicated airport expansion is of only “minor importance”.

TABLE 5 — Special Question 1: THE EXTENT TO WHICH AREA BUSINESSES THINK AIRPORT EXPANSION IS AN ECONOMIC PRIORITY

It was recently reported that a MNDOT report has named the St. Cloud area as the best choice in the state for future expansion in air travel passenger service. This expansion would help provide air traffic relief and reduce congestion at the Twin Cities airport. How important of an economic priority does your business feel area airport expansion is?*

Not Important at All	Minor Importance	Moderate Importance	Major Importance	It is the Area's Number One Economic Priority	NA
9.1	23.6	36.4	27.3	3.6	0

* reported results are percent of surveyed businesses.

Special Question #2—The Suitability of the Current Airport Location

Area business leaders were also asked whether they felt the current location of the St. Cloud airport is appropriate for future airport expansion. Presumably, if the area airport expansion were large enough (and grant money supporting airport construction were obtained), it would be economically feasible to locate the area airport in any number of alternative venues. One can imagine the area master plan finding a way to link expanded passenger service to any future development of commuter rail. Also, were the area to attract an international cargo freight air hub in the future, it could be easily argued that the appropriate location would be somewhere other than the current location of the airport. Business leaders were overwhelming in their response that the current location is suitable to future expansion. Eighty percent of respondents indicated they thought the current location was suitable, while only 9% thought a new location would have to be considered. The responses to this item are about the closest to unanimity that we have ever seen in any category of items in the **St. Cloud Area Business Outlook Survey**.

TABLE 6 — Special Question 2: THE SUITABILITY OF THE CURRENT AIRPORT LOCATION

Do you believe the existing airport location is suitably located for a substantial expansion in area air traffic?*

<i>Yes</i>	<i>No</i>	<i>NA</i>
<i>80.0</i>	<i>9.1</i>	<i>11.1</i>

* reported results are percent of surveyed businesses.

Selected Survey Responses

Business leaders were asked to comment on the desirability of airport expansion and the location of an expanded airport. These comments include:

- ❖ I believe the people and governing body of St. Cloud are greatly overlooking major factors that would result from a large airport expansion. Factors like noise pollution, services like transportation, etc. [The current airport is] too close to residential areas.
- ❖ With prevailing northwest winds and consideration of the location of the airport and the city, increased jet traffic will prove to be too annoying to most of the population.
- ❖ I believe air cargo will be next. This will bring better paying jobs and families to our area. I believe this is just the start of good things.
- ❖ Minor importance—only if airport and all related travel businesses increase [demand for our product] because of an expansion.
- ❖ The airport expansion is an important catalyst to growth in the area. The airport is suitably located. The zoning of the property in the area has to complement the growth. Residential zoning needs to change to a more suitable designation.
- ❖ With or without the airport expansion, the surrounding communities will continue their growth. The major importance in growth is low interest rates.
- ❖ [Suitable] if location can handle expansion and increase in traffic for access and parking. The existing location has much potential for expansion and development.
- ❖ [The airport] needs to be further out of town—too close currently.
- ❖ Since we are in a business [that would benefit from the expansion], it would be important for us to open the world of travel to people locally.
- ❖ [Suitable] if surrounding development is limited and there is a plan for future growth.

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expect compensation to decline. Area firms continue to expect little trouble finding qualified workers. The diffusion index on this item is little changed from its June value.

The survey item asking firms about their future capital spending plans is more optimistic than was found in last quarter's survey. The value of the diffusion index on this item is 23.7 compared to a value of 15.4 last quarter. Twenty-seven percent of surveyed firms expect to increase capital purchases over the next six months, while only 4% expect to decrease expenditures on equipment and machinery by March 2004. Firms are historically pessimistic about their ability to pass on higher prices in the future. The diffusion index on this item is 3.6, its lowest value ever! Only 15% of area firms expect to receive higher prices in six months time while 11% of responding firms expect lower future prices. Finally, area firms expect an improvement in national business conditions

by March. Twenty-seven percent of those responding expect national business activity to increase and only 2% expect a deterioration. The diffusion index on this item is the highest since March 2002.

An historical view of the evolution of the diffusion indexes on current and future business conditions over the past several quarters is presented in Figure 3. This shows a decrease in the diffusion index on current business activity over the past three months. This index is now at 27.2 (its record high of 67.8 was recorded in June 1999, while its low of -19.3 occurred in December 2000). This period's future business activity diffusion index is higher than last period's reported value. This index is well above its all-time low of 19.7 recorded in June 2000, and is below its value of 61.2 in March of last year. It should be noted that some of this represents a normal seasonal pattern of business activity that has now been observed over the five years that the survey has been conducted.

Participating businesses can look for the next survey at the beginning of December and the accompanying **St. Cloud Area Quarterly Business Report** (including the **St. Cloud Index of Leading Economic Indicators** and the **St. Cloud Area Business Outlook Survey**) in late January. Area businesses who wish to participate in the quarterly survey can call the SCSU Center for Economic Education at 320-308-2157. All survey participants will receive a free copy of the **St. Cloud Area Quarterly Business Report** on a preferred basis.