7-1-2006

St. Cloud Area Quarterly Business Report, Vol. 8, No. 2

King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu

Richard A. MacDonald
St. Cloud State University, macdonald@stcloudstate.edu

St. Cloud Area
Quarterly Business Report
VOL. 8, ISSUE 2 • JULY 2006

BUSINESSES REPORT STRONG QUARTER

Companies resilient to increases in gas prices and interest rates

EXECUTIVE SUMMARY

The area economy experienced healthy gains in the past three months, according to results of the most recent St. Cloud Area Business Outlook Survey. Businesses report increased hiring from three months ago as the area expansion continues into its third year.

Recent labor market data from the Minnesota Department of Employment and Economic Development indicate employment in the St. Cloud area grew at a 0.6 percent year-over-year rate in April 2006. Key local sectors — including construction, retail trade and professional and business services — showed a decline in workers from year-earlier levels, but this may reflect only an unusually high level of employment in April 2005. The May and June data releases will be closely watched to see if this trend continues.

Despite uncertainty in the local labor market, the area economic outlook seems quite favorable. Respondents to the St. Cloud Area Business Outlook Survey report strong improvements in business conditions in the last quarter. Predictions of the St. Cloud Leading Index of Economic Indicators suggest a healthy continuation of economic expansion. Three of the four indicators are positive, led by strong growth in help-wanted advertising and in hours worked in manufacturing.

Current economic conditions reported by survey respondents are slightly better than expected at this time of year. Fifty-eight percent of surveyed firms indicate business activity was improved from three months ago, while only 13 percent reported a decline.

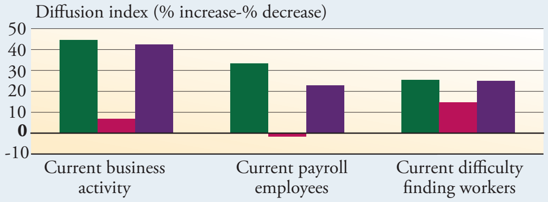
In addition, 41 percent of surveyed firms report increased hiring in the past three months, and only 8 percent note declines in employment. Increased employment is expected to continue in the next six months as 31 percent of surveyed firms plan to add to payrolls.

Almost one-third of survey respondents report receiving higher prices over the recent quarter, and a similar percentage expect this to continue into November.

The area labor market continues to tighten. Thirty-two percent of surveyed firms expect increased difficulty attracting qualified workers by November. Only one firm expects hiring to be less difficult. Survey respondents anticipate this to be the tightest labor market since December 1999.

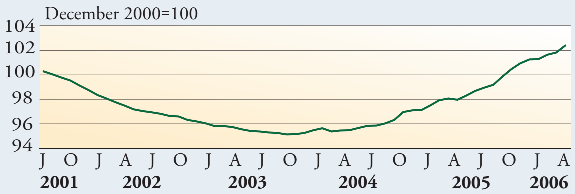
Seventy-one percent of firms attempt to measure the productivity of their workers, and many firms use creative ways to compensate workers for increased productivity. Only one-half of survey respondents indicate they use wage and salary information from the Twin Cities in determining compensation for local workers.

KEY RESULTS OF SURVEY



INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



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The Partnership
St. Cloud Area Economic Development Partnership
President: Tom Moore
(320) 656-3815

ABOUT THE AUTHORS

KING BANAIAN
Chairman
Economics Department,
St. Cloud State University
(320) 308-4797

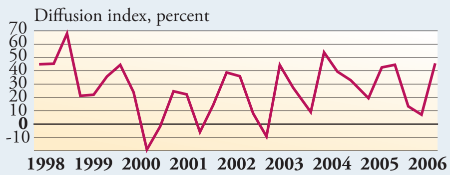
RICH MACDONALD
Director
Center for
Economic Education
St. Cloud State University
(320) 308-4781

A STRONG QUARTER

Tables 1 and 2 report the recent results of the business outlook survey. Responses are from 90 businesses that returned the mailing in time to be included in the report. Participating firms are representative of the diverse collection of businesses in the area. They include retail, manufacturing, construction, financial, health services and government enterprises of various sizes.

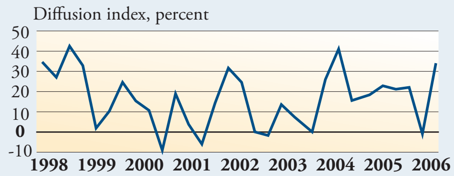
Responses are confidential. Written and oral comments have not been attributed to individual firms.

CURRENT BUSINESS ACTIVITY



In the past three months, area businesses experienced economic activity that was slightly stronger than the normal results for this time of year. The diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given category) of 44.5 on the first item in Table 1 is higher than it was one year ago (when its value was 42.4 as seen in the table at the bottom of this page).

CURRENT PAYROLL EMPLOYEES



Employment also was stronger than usual at surveyed firms. The diffusion index on current employment was the highest for a spring survey. Indeed, 41 percent of firms report increased payrolls in May from the level three months earlier.

Firms continue to have difficulty attracting qualified workers. While the diffusion index on difficulty attracting qualified workers is similar to one year ago, it is the highest recorded since the June 2000 survey.

About the diffusion index

The diffusion index represents the percentage of survey respondents who indicated an increase minus the percentage indicating a decrease.

WHAT IS AFFECTING YOUR COMPANY?

- "Price of gasoline is adding substantial cost to fixed overhead costs."
- "Decline in new home starts, decline in refinance activity, slower sales in residential real estate, overspending by folks (high credit card debt), all impact our business."
- "(Overreaction to) gasoline prices. What were prices 20-25 years ago? What are wages now compared to past high prices?"
- "Residential construction has slowed dramatically in the St. Cloud area. Commercial construction is average for this time of year."
- "Health insurance costs are increasing. We had a 30 percent increase this year."
- "Slowdown in sales of existing homes. The local (Multiple Listing Service) has nearly twice the listings of existing (homes in) Q2 '06 vs. Q2 '05."
- "Receivables are at an all-time high. Customers are taking longer to pay. Cash is tight."
- "Fuel costs affect us because of trucks and lots of our equipment use different fuels."
- "Difficulty recruiting physicians — small community."
- "Much effort will be put into increased recruiting to help locate quality candidates."

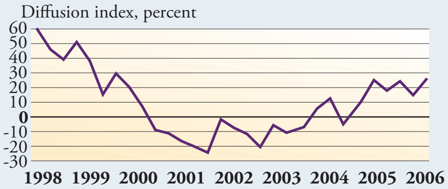
TABLE 1-CURRENT BUSINESS CONDITIONS

	May 2006 vs. Three months ago				February 2006
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	13.3	28.9	57.8	44.5	6.9
Number of employees on your company's payroll	7.8	51.1	41.1	33.3	-1.0
Length of the workweek for your employees	4.4	67.8	27.8	23.4	-2.0
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.3	62.2	34.4	31.1	24.5
Employee compensation (wages and benefits) by your company	0	53.3	45.6	45.6	45.1
Prices received for your company's products	5.6	60.0	32.2	26.6	14.7
National business activity	11.1	51.1	27.8	16.7	4.0
Your company's difficulty attracting qualified workers	5.6	63.3	31.1	25.5	14.7

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.

Source: SCSU Center for Economic Education, Social Science Research Institute and Department of Economics

CURRENT DIFFICULTY FINDING QUALIFIED WORKERS

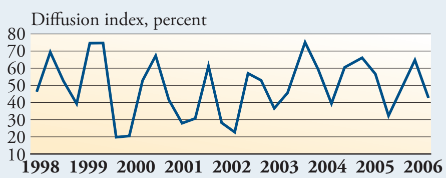


Firms report a variety of special factors are influencing their business. Some comments appear in the box at the left.

STEADY CONDITIONS LIKELY

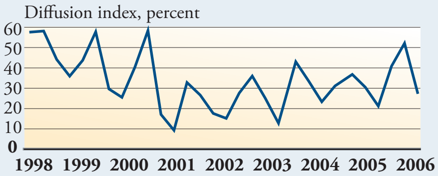
Fifty-four percent of surveyed businesses expect to see an increase in business activity by November, while 11 percent expect a decline in activity in the same period. The diffusion index on this item (43.3) is lower than reported one year ago, but is within the normal range for expected future conditions at this time of year.

FUTURE BUSINESS ACTIVITY



Expected additions to payrolls also are normal for this time of year. Thirty-one percent of survey respondents plan to add workers by November and only 3 percent expect a drop in employment at their firms.

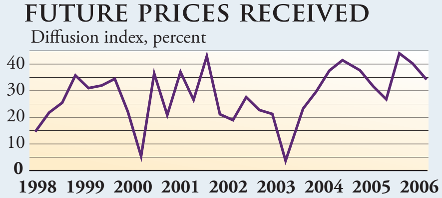
FUTURE PAYROLL EMPLOYEES



Thirty-nine percent of firms expect to receive higher prices by November and 4 percent expect a decline. While the diffusion index on this item is a strong indicator of anticipated future price pressures, it is worth noting that the index is lower than a quarter ago and is the lowest in a year.

At some point, the continued tightening by Federal Reserve policy-makers will likely dampen these expected increases in prices.

FUTURE PRICES RECEIVED



Finally, the recent upward trend in labor market tightness is expected to continue through November. Almost one-third of surveyed firms expect it to be more difficult to attract qualified workers in the next six months. Only one firm thinks it will be less difficult. The diffusion index on this item is the highest observed since December 1999 — a period when worker shortages were commonly experienced by area firms.

Firms will certainly feel pressured to offer increased compensation to workers to avoid labor shortages. More than half of surveyed businesses expect to pay higher compensation by November. Firms that compensate workers for improved productivity as well as those that recognize competition from Twin Cities companies for existing workers are most likely to be successful in finding and retaining qualified workers.

The two special questions in the survey provide information on the ways area firms determine employee compensation.

FUTURE DIFFICULTY FINDING QUALIFIED WORKERS

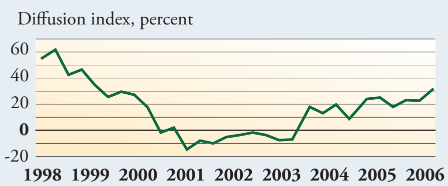


TABLE 2-FUTURE BUSINESS CONDITIONS

	Six months from now vs. May 2006				
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	February 2006 Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	11.1	30.0	54.4	43.3	64.7
Number of employees on your company's payroll	3.3	62.2	31.1	27.8	52.0
Length of the workweek for your employees	7.8	74.4	13.3	5.5	24.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	4.4	56.7	34.4	30.0	42.2
Employee compensation (wages and benefits) by your company	0	44.4	51.1	51.1	49.0
Prices received for your company's products	4.4	47.8	38.9	34.5	40.2
National business activity	4.4	53.3	26.7	22.3	26.5
Your company's difficulty attracting qualified workers	1.1	62.2	32.2	31.1	22.5

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.

Source: SCSU Center for Economic Education, Social Science Research Institute and Department of Economics

QUESTION 1
MEASURING PRODUCTIVITY

Finding ways to promote improvements in labor productivity is essential for firms to compete, attract and retain workers and achieve profitability. Measurement of productivity has been a common practice in goods-producing industries where output and labor input are fairly easily measured.

It is not as easy to measure productivity in service-providing industries. Measuring the output of information services is not particularly easy when there is no standard unit of measurement. It is also less clear how to measure labor inputs of salaried workers who can use modern computing and communications technologies to effectively work anytime, anywhere.

Area firms were asked if they attempt to measure productivity and the results were most interesting. Seventy-one percent of the 90 firms surveyed indicate they measure the productivity of their workers. These firms account for almost every local sector. Only 22 percent of the firms said they do not do this. Some comments are in the box to the right.

QUESTION 2
WORKER COMPENSATION

Economic theory suggests firms in a competitive labor market must pay workers according to their productivity, otherwise they risk losing workers to firms that will reward workers for their contribution to output. Of course, one way for firms to avert worker shortages is to use information on worker productivity in their compensation schemes.

Evidence also suggests firms that pay workers based on productivity experience less employee turnover, have lower costs associated with training new employees, have less absenteeism and have higher employee morale.

Firms commented on the extent to which workers are compensated according to their measured productivity. Some comments are in the box to the right.

QUESTION 3
THE EARNINGS GAP

Regional economists have been puzzled by the persistent wage gap between the Twin Cities and St. Cloud. Average monthly earnings in the Twin Cities in the third quarter of 2004 were $3,771 while average earnings in St. Cloud were only $2,738 in the same period. These earnings differences could be due to a different sectoral makeup of workers in the Twin Cities compared to St. Cloud.

But earnings gaps within industries also can be very large. In the finance and insurance sector, average monthly earnings in the Twin Cities were $5,413, compared with $3,304 in St. Cloud. Average monthly earnings in professional services were $5,226 in the metro area and $3,232 in St. Cloud. This earnings gap exists in many industries.

While some of this gap can be explained by a higher cost of living in the Twin Cities — higher housing costs — this does not account for the entire gap. Indeed, in many industries the wage differences are more than adequate to compensate area residents willing to commute.

Given this measured earnings gap and noting the increased difficulty of area firms in attracting qualified workers, we asked survey respondents if their firms look at worker-compensation data (within their industry) from the Twin Cities when determining local pay scales. Half of them indicate they do. Some comments are in the box to the right.

LOCAL DATA LOOK STRONG

Area employment expanded by 0.6 percent in the 12 months to April, as shown in Table 3 on Page 34. While this appears relatively slow, we note that the February-April 2005 period had relatively high growth rates, so the 2006 figure was compared to relatively high employment levels. The February and March growth rates were at normal levels, so we caution against reading too much into the April figure.

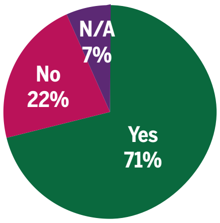
Facing a housing slowdown, the construction industry shed jobs in the past two years but is holding reasonably steady.

The service sector grew relatively well in the past year, with leadership in the previously weak wholesale trade sector.

Manufacturing in the local area continues to buck trends statewide and nationally, gaining slightly in the past 12 months.

COMMENTS: MEASURING PRODUCTIVITY

- "We measure productivity on each job plus a total wall to wall of the total hours input versus shipped."
- "We measure everything. Time and motion studies, benchmarks, etc. High performance culture."
- "Revenues divided by number of employee hours."
- "We monitor the hours each employee records as billable time each week. We also analyze the write-off of the resulting charges that cannot be recovered in our billings to clients."



- "We track labor hours to each project."
- "Detailed timecards filled out daily that are tabulated in a spreadsheet. Each labor function has its own code."
- "We have developed standard hours per task."
- "Monitor all jobs for time vs. what is budgeted."
- "Computerized job tracking measures actual results vs. bid."
- "Detailed training and evaluation program."
- "Per hour stats — benchmark goal vs. last year vs. projections."
- "Complex measurement of sales per team member in a sales role."
- "Efficiency is measured by comparing hours paid to hours sold for technicians, and parts sales volume revenues per month for parts staff."
- "Hours taken to complete a task compared to national average. Sales made against amount of prospects coming to national average."
- "We focus on sales measures vs. true productivity measures."
- "We keep track of all time and materials used per job."
- "We measure the labor component added to the price of finished goods vs. payroll dollars expended."
- "The sales staff, we measure volume and profitability for service/delivery staff, each person will be (receive bonuses) every month based on minimizing 'recalls,' i.e., job done right the first time. Finally, every employee receives a monthly bonus based on total store sales."

COMMENTS: PRODUCTIVITY VS. COMPENSATION

■ "(Productivity) does not affect direct pay, but we have gain sharing and the better productivity, the higher the gain share. It is reviewed monthly and quarterly."

■ " … generally we work in teams and reward those teams that are most productive."

■ "The service technicians get a bonus based on work completed."

■ "Incentives based on production, absent reports and late for work reports."

■ "Based on the work plan, (workers) can earn up to 15 percent above their salary if they are a sales-related officer."

■ "20 percent of compensation is performance based."

■ "In sales, yes; operations, no. Except for annual bonuses, which are affected by productivity measures."

■ "Each employee's productivity is analyzed based on the number of hours worked and the fees collected to determine the employee's value to the firm."

■ "No, we're a union shop and raises are given by hours worked."

■ "Yearly profit sharing paid to each worker based on year-end profits."

■ "Sales people (are compensated) totally on productivity. Techs and service workers … are on productivity."

■ "(Compensation of sales staff is) based on doing better than average. High (service) producers are rewarded."

■ "No, wages are market driven in our industry."

■ "If they beat status quo, they get a piece of the action."

■ "Yes, better performance must result in better pay."

■ "No, compensation (in our industry) is a combination of items when setting rates."

■ "Incentives compensation paid quarterly based upon level of productivity."

■ "Incentives are available when quality and efficiency goals are met."

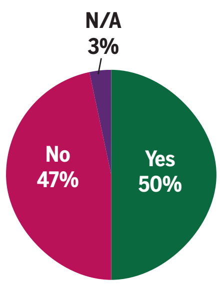
■ "Higher productivity means bonuses each month and the highest people in gains in productivity receive a higher percentage in base wage increase."

■ "We track profitability of each job and determine if any uncontrollable factors influenced. Results are a factor in salary but not a direct factor."

COMMENTS: DO TWIN CITIES WAGES INFLUENCE PAY LOCALLY?

■ "We have a wage and salary plan to try to stay competitive with the market and attract the best employees."

■ "We have employees based in the ring communities around the Twin Cities. Their wages impact our St. Cloud employees."



■ "We are a global corporation and for full-time salaries it is configured with Minneapolis because we fall under the same region. For part-time or temporary only, St. Cloud is a factor because we staff for the market."

■ "Yes, but we also use regional information."

■ "We generally use local market conditions and try to pay on the upper end of local wages."

■ "We pay salaries very comparable to the MSP area for entry level people. Experienced people are paid based on their productivity."

■ "We want to trail the metro, but not by much."

■ "Cities wages are higher because of cost of living."

■ "We monitor metro pay plans but we are generally somewhat lower in the shop — not sales. We watch trends in the metro that usually precede St. Cloud wages."

■ "We belong to state and national organizations that survey compensation on occasion. We find we are about the same as metro companies."

■ "Not fair to compare MSP to St. Cloud. I did a survey last summer with companies our size in Madison, Wis., Des Moines, Iowa, Cedar Rapids, Iowa, and Milwaukee, Wis. I found our pay schedule was approximately 7-9 percent higher with all benefits."

■ The higher the position, the more applicable the pay influence of the Twin Cities. We use local data for the lower level production positions."

■ "We generally pay market metro rates for all positions."

■ "We look at statewide and Central Minnesota data to set pay ranges for individual jobs."

■ "Partially, we use a national firm that gives us data based on local info and also Twin Cities."

■ "We use local, regional and industry studies."

■ "Use both national and local data to determine a fair market salary range for specific job description within our industry."

■ "We compete with St. Cloud employers more than with those from the Twin Cities. St. Cloud wages are 10-15 percent lower than Twin Cities. Would anyone really want to fight the daily traffic for 15 percent?"

■ "We must compete for these skilled workers so we pay comparable MSP wages."

■ "Recent hires have put pressure on our existing salary structure as we are seeing more applicants from the western Twin Cities suburbs."

■ "We predominantly use industry group survey information based on the size of our organization."

■ "When we feel a potential employee has quality experience, we may consider the metro wages to keep them here."

■ "We regularly survey St. Cloud area firms."

■ "We want to be at or above state ranges."

■ "We compete nationwide for engineers. Technicians are typically local area people. Their wages are based on statewide salaries."

■ "For professional positions and difficult to fill positions we consider the Twin Cities market when setting pay."

■ "We compare to outstate Minnesota."

■ "We use other communities in size similar to St. Cloud for this analysis."

■ "We look at it, but we do not match it dollar for dollar."

■ "We're mostly concerned with competitive wages in the St. Cloud area. We don't feel much wage pressure from the Twin Cities."

■ "Use it as a tool, not as the only tool. We look at many factors — cost of living, unemployment rate, etc."

TABLE 3-EMPLOYMENT TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend growth rate	April '05-April '06 growth rate	April '06 employment share	15-year trend growth rate	April '05-April '06 growth rate	April '06 employment share	15-year trend growth rate	April '05-April '06 growth rate	April '06 employment share
Total nonagricultural	2.1%	0.6%	100%	1.7%	1.1%	100%	1.7%	1.2%	100%
Total private	2.3%	0.5%	84.9%	1.8%	0.8%	85.7%	1.8%	1.1%	84.4%
Goods producing	2.7%	0.2%	21.9%	0.7%	1.1%	16.2%	0.8%	0.0	17.2%
Construction/natural resources	3.6%	-0.4%	4.5%	4.0%	0.9%	4.7%	3.4%	0.0	4.7%
Manufacturing	2.4%	0.4%	17.4%	-0.2%	1.1%	11.5%	0.2%	0.0	12.5%
Service providing	1.9%	0.7%	78.1%	1.9%	1.1%	83.8%	1.9%	1.4%	82.8%
Trade/transportation/utilities	0.7%	0.3%	20.8%	1.1%	-1.0%	18.8%	1.2%	0.2%	19.2%
Wholesale trade	3.0%	2.3%	4.6%	1.4%	-1.5%	4.7%	1.5%	0.6%	4.8%
Retail trade	0.1%	-0.3%	13.3%	1.3%	-0.7%	10.3%	1.2%	0.1%	10.9%
Trans./warehouse/utilities	0.5%	-0.2%	2.8%	0.5%	-1.2%	3.8%	0.8%	0.1%	3.5%
Information	1.7%	3.4%	1.4%	0.5%	-4.1%	2.3%	0.7%	1.0%	2.2%
Financial activities	4.0%	0.8%	4.4%	2.3%	1.5%	8.1%	2.3%	1.4%	6.6%
Professional & business service	4.3%	-0.2%	7.7%	2.3%	1.4%	14.1%	2.6%	2.4%	11.3%
Education & health	2.9%	0.8%	14.8%	3.0%	2.0%	12.8%	3.1%	2.3%	14.5%
Leisure & hospitality	2.8%	0.6%	9.4%	2.5%	4.1%	9.3%	2.1%	2.4%	9.0%
Other services (excluding govt.)	1.7%	1.0%	4.5%	1.5%	-2.2%	4.2%	1.7%	0.1%	4.3%
Government	1.1%	1.1%	15.1%	1.7%	2.7%	14.3%	1.2%	1.2%	15.6%
Federal government	-0.4%	0.2%	1.6%	0.1%	-0.5%	1.2%	-0.3%	-1.6%	1.2%
State government	0.4%	2.3%	4.5%	1.6%	-0.5%	4.0%	0.8%	1.7%	3.6%
Local government	-0.1%	0.8%	8.9%	2.2%	4.6%	9%	1.5%	1.3%	10.8%

Note: Long-term trend growth rate is the compounded average employment growth rate in the specified period.

Source: Minnesota Department of Employment and Economic Development

Area unemployment was at 4.3 percent for April, down from its March level and from its year-earlier reading as shown in Table 4. This is largely because of a decrease in area labor force participation, as civilian employment is down 0.5 percent.

Our economy normally increases in activity in spring, but last year's upsurge in April was quite large and is creating some of this negative reading. The area unemployment rate is still above the state and Twin Cities rates, but rates are converging.

Help-wanted advertising is up slightly from last year.

Building permit valuations so far this spring are ahead of last year's levels. Nationwide, the number of permits issued was down 7.4 percent in April, and the National Association of Home Builders forecasts a 6.1 percent decline for the year. Still, the Minneapolis Federal Reserve forecasts 4.3 percent growth in housing statewide, and the builders association reports increasing construction activity in the Midwest.

Local business leaders indicate concern of the length of time houses are on the market, but this has not seemed to have slowed construction activity.

This sector will be worth watching closely as economic fundamentals, such as rising interest rates and tighter credit conditions, could adversely affect its conditions.

The St. Cloud Index of Leading Economic Indicators substantially increased. Two readings ago, we had the highest quarterly growth rate registered with this indicator, and employment moved reasonably well. The current reading is almost as strong, indicating we should have slightly above-normal growth for the next six months. (Normal payroll employment growth in the area runs about 2 percent per year.)

While initial claims for unemployment insurance have risen somewhat since January on a seasonally adjusted basis, April's

TABLE 4-OTHER ECONOMIC INDICATORS

	2006	2005	Percent Change
St. Cloud MSA labor force April (Minnesota Department of Employment and Economic Development)	104,623	106,135	-1.4%
St. Cloud MSA civilian employment # April (Minnesota Department of Employment and Economic Development)	100,139	100,679	-0.5%
St. Cloud MSA unemployment rate* April (Minnesota Department of Employment and Economic Development)	4.3%	5.1%	NA
Minnesota unemployment rate* April (Minnesota Department of Employment and Economic Development)	4.2%	4.1%	NA
Minneapolis-St. Paul unemployment rate* April (Minnesota Department of Employment and Economic Development)	3.8%	3.8%	NA
St. Cloud area new unemployment insurance claims February-April average (Minnesota Department of Employment and Economic Development)	838.7	918	-8.6%
St. Cloud Times help-wanted ad linage February-April average, in inches	6,195	5,920.7	4.6%
St. Cloud MSA residential building permit valuation in thousands, February-April average (U.S. Dept. of Commerce)	12,663	11,966.7	5.8%
St. Cloud index of leading economic indicators April (St. Cloud State University)**	103.7	96.7	7.2%

MSA = St. Cloud Metropolitan Statistical Area, composed of Stearns and Benton counties.
# - The employment numbers here are based on household estimates, not the employer payroll estimate in Table 3.
* - Not seasonally adjusted
**- January-March 2001=100
NA - Not applicable

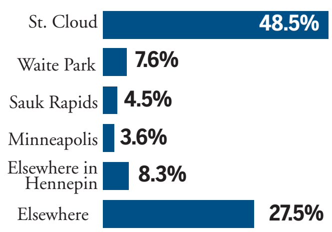
WILL GAS PRICES DARKEN OUR SUMMER?

We have been talking about the increasing presence of residents in the St. Cloud area who are traveling to work each day.

In the 2000 census, 5.6 percent of St. Cloud-area workers traveled more than one hour to work each day. On average, local workers are in their cars 19.7 minutes one way.

WHERE ST. CLOUD RESIDENTS WORK

In 2003



Data from the Minnesota State Demographer's Office, however, show a substantial increase in corridor commuter traffic since then. Maps of the commutes of St. Cloud-area workers show commutes not only to Hennepin County, but also to Ramsey, Anoka and other counties in the Minneapolis-St. Paul area.

INCREASED COST OF A 500-MILE TRIP

MPG	25¢ increase	50¢ increase	75¢ increase
15	$8.33	$16.67	$25.00
20	$6.25	$12.50	$18.75
25	$5.00	$10.00	$15.00
30	$4.17	$8.33	$12.50
35	$3.57	$7.14	$10.71
40	$3.13	$6.25	$9.38

Source: Energy Information Agency, This Week in Petroleum, 5/17/06

One might think the increase in gas prices in late April and early May would have caused some concern for these workers, and that this would cause a slowdown in area spending. Consider this: If a driver has a 60-mile commute each way to work and drives a car getting 25 miles per gallon — the average for a vehicle — the effect of a 25-cent per gallon rise would be a $30 loss in monthly discretionary income.

But the average difference in before-tax monthly pay between the Twin Cities and St. Cloud in 2003 was almost $1,200. Thus a 25-cent rise in gas prices (or about 10 percent at current levels) would reduce the wage differential by about 2.5 percent, and overall discretionary income for that group working in the Twin Cities by about three-quarters of a percent.

Prices for gasoline locally (as measured by First Fuel Banks) have risen to about $2.65 for unleaded after briefly falling below $2 at the end of 2005. That's a rise of 32.5 percent. If the rise remains through the rest of the year, we would see those commuters suffer a loss of $780 in spending power.

The impact on others is likely to be much less. For example, the table at left shows the increased cost of driving a family car or van on a vacation, when your total trip would be 500 miles. As pointed out by the Energy Information Agency, even a 75-cent increase in gas prices would add less than the cost of a moderate-priced lunch for four. Airfares are rising at a faster rate than this.

None of this will matter a bit to the evening news the next time gas prices rise above the psychological barrier of $3 per gallon. There will still be pictures of angry motorists. But these are short-term reactions. We are not too concerned about the effect of gasoline prices on economic expansion.

reading was the lowest in 18 months. In fact, the readings from claims and from help-wanted advertising have flip-flopped between this and our last quarterly report.

Along with stronger data for hours worked in manufacturing and a neutral reading from new business incorporations, the LEI show strong growth through summer. Combined with the continued optimism in the survey, we would expect that growth to continue the rest of the year.

The national economy has performed rather well in recent months — perhaps too well. A panel of 50 economic forecasters surveyed by the National Association of Business Economists in May projected a 3.1 percent growth rate for GDP through 2007. They further stated that "high and rising energy costs remain the biggest downside risk to economic growth and upside risk to inflation." That risk no doubt weighs on the Federal Reserve as it prepares for its next monetary policy meeting June 28-29.

At its last meeting, it raised the federal funds rate target to 5 percent because growth had been strong (though it appeared to them to be "moderating" through the rest of the year) and because of fears higher energy prices may pass through to higher inflation later in the year.

Financial futures markets for federal funds make it about a 50-50 proposition of another rate hike to 5.25 percent, which would make the 17th consecutive time the Fed raised interest rate targets.

If the survey of local business leaders is correct in its outlook for higher employee compensation and in prices received for their products, and if that's true elsewhere, the Federal Reserve can be expected to apply additional monetary restraint in the second half of the year. This is likely to increase borrowing costs for new capital expenditures. It also would lead to strengthening of the dollar, making imported goods less expensive.

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from January 2006 to April 2006	Contribution to LEI
Help-wanted advertising in St. Cloud Times	2.78%
Hours worked	1.50%
New business incorporations	0.14%
New claims for unemployment insurance	-1.08%
Total	3.34%

*Numbers may not add up due to rounding.

So far business leaders seem not too concerned about the possibility of a slowdown. It will be interesting to us to observe what happens next, if the Fed continues its process of rate hikes.

In the next QBR: Participating businesses can look for the next survey in August and the accompanying St. Cloud Area Quarterly Business Report in the October edition of ROI Central Minnesota. Area businesses that wish to participate in the quarterly survey can call the St. Cloud State University Center for Economic Education at (320) 308-2157.