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Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

St. Cloud Times

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LOCAL ECONOMIC OUTLOOK REMAINS STRONG LABOR MARKET APPEARS TO BE TIGHTENING

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King Banaian specializes in analyzing data and writing about it in the second portion of this report. Rich MacDonald collects and analyzes responses to the St. Cloud Area Business Outlook Survey, covered in an early portion of the report. Only MacDonald has access to the confidential list of surveyed businesses and the returned surveys. Questions about the survey can be directed to him. Special questions asked in the survey may at times deal with public policy but do not reflect a political agenda of either of the authors.

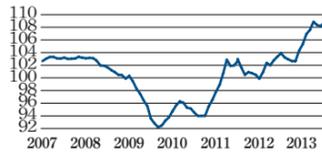
EXECUTIVE SUMMARY

Various indicators suggest a strong future outlook for the Central Minnesota economy. Job creation over the year ending in July advanced at a pace that was much more rapid than was reported last quarter, and virtually all sectors of the labor market are experiencing increased employment. While surveyed firms report slower job creation than the same period last year, other indicators found in the St. Cloud Area Business Outlook Survey point to a strengthening local expansion. Both the current reading of the St. Cloud Index of Leading Economic Indicators and the local Probability of Recession Index indicator moved toward a lower likelihood of recession in the remainder of 2013.

Overall area employment grew at a 3 percent rate over the year ending July 2013. Reported construction employment grew at a 19 percent rate over the past year; the education and health sector added jobs at a 4.2 percent pace; and local government accounted for a 5.3 percent rate of job creation. The only major local sector to experience job loss during the past 12 months was manufacturing (in which employment declined by 0.3 percent). This important sector accounts for 15.2 percent of local employment. As always, we urge caution in interpreting these numbers due to sub-

ST. CLOUD INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



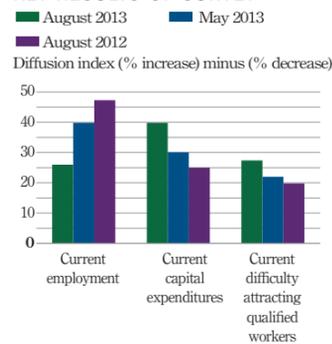
sequent annual revisions.

The July local unemployment rate was 5.2 percent, an improvement from the 5.9 percent jobless rate recorded one year earlier. The number of people unemployed in the St. Cloud area fell to 5,576 in July — about 800 fewer than one year ago. Over the same period, the area labor force increased from year-ago levels. The decline in unemployment, accompanied by an increase in overall employment, suggests an improving — and perhaps tightening — local labor market.

The St. Cloud Index of Leading Economic Indicators rose in the latest quarter, making another historical high. Three of four indicators in the index were positive; the fourth was a zero. The St. Cloud Probability of Recession Index stood at 29.2 percent in July.

Fifty-six percent of 73 surveyed firms experienced improved business activity during the past three months, while only 7 percent reported decreased activity. This is stronger than reported one year ago and is the best perfor-

KEY RESULTS OF SURVEY



mance ever recorded on the overall business activity item in the current conditions summer survey. Survey responses on employee compensation and difficulty attracting qualified workers are the highest readings recorded for several years, and capital expenditures have not been this strong in almost 10 years. Area firms continue to struggle with increasing prices and the current employment survey item (while higher than normal for this time of year) is well below its reading of one year ago (when it was off the charts). Some area firms may be substituting capital for workers in an increasingly tight local labor market.

Survey results of the future outlook are very optimistic. With the exception of the future prices received item, all readings in the future outlook survey are the highest recorded in August in several years. These strong results are high-

lighted by a future employment index that is nearly 20 points higher than one year ago. Forty-four percent of surveyed firms expect to add to payrolls by February 2014, and only 11 percent expect their work force to shrink.

In this quarter's first special question, we asked area firms about their support for a proposed extension of the local option sales tax. Fifty-five percent support the proposed sales tax extension, while one-quarter are opposed. Surveyed firms have varying levels of support for potential projects that were reported to have been discussed by regional leaders at a late July joint cities meeting. These would be under consideration to be funded by an extension of the local sales tax, although the feasibility of each project was not reported as being considered at this meeting.

Putting money toward expanding Interstate Highway 94 is supported by 59 percent of surveyed firms, while investing in developing Northstar commuter rail is cited by 44 percent of firms. More than 30 percent of firms support regional partnering of area cities with St. Cloud on a community aquatics center as well as an extension of Lake Wobegon Regional Trail into St. Cloud. All other proposed projects received less than 10 percent approval. Expansion of Interstate 94 is the regional project with the highest priority for area business leaders.

THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the Business Outlook Survey. Responses are from 73 area businesses that returned the recent mailing in time to be included in the report. Participating firms are representative of the diverse collection of businesses in the St. Cloud area. They include retail, manufacturing, construc-

tion, financial, health services and government enterprises, both small and large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Survey responses from Table 1 are generally stronger than is usually found in the summer edition of the Current Business Conditions survey. This quarter's diffusion index on current business activity is

the second-highest ever recorded in our August survey. Note that for seasonal reasons, the summer survey always has a somewhat lower reading than what is found in the spring survey. A diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter. For any given item, a positive index usually indicates expanding activity,

CURRENT EMPLOYMENT



while a negative index implies declining conditions.

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TABLE 1-CURRENT BUSINESS CONDITIONS

	August 2013 vs. three months ago			Diffusion Index ³	May 2013 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	6.8	37	56.2	49.4	52
Number of employees on your company's payroll	9.6	53.4	35.6	26	39.8
Length of the workweek for your employees	4.1	67.1	28.8	24.7	28.7
Capital expenditures (equipment, machinery, structures, etc.) by your company	2.7	53.4	42.5	39.8	30.1
Employee compensation (wages and benefits) by your company	0	56.2	43.8	43.8	41.1
Prices received for your company's products	5.5	74	19.2	13.7	12.3
National business activity	5.5	47.9	34.2	28.7	39.8
Your company's difficulty attracting qualified workers	2.7	65.8	30.1	27.4	22

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.

Sources: St. Cloud State University Center for Economic Education, Department of Economics and School of Public Affairs

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QBR

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One item of interest in Table 1 is the current employment index. At +26, the recorded value of this index is higher than normally observed in August. But, the surveyed employment situation appears much weaker than last August. One year ago, the current employment index stood at 47.3 — an exceedingly high reading for our summer survey. In August 2012, 54 percent of surveyed firms reported increases in employment, and only 7 percent experienced a reduction in workers.

By comparison, as shown in Table 1, this August only 36 percent of firms added to payrolls and 10 percent experienced declining employment. We will keep an eye on these findings. Given strong expected future employment gains reported in Table 2, along with healthy increases in virtually all other components of Table 1, it is likely that the current relative weakness on this item reflects an extraordinary hiring peak in summer 2012 instead of casting any concern over current labor market strength.

Other indicators of current labor market activity found in Table 1 look very favorable. For example, the index on average length of workweek is the highest ever recorded in August as is the index on current difficulty attracting qualified workers (see nearby chart). In addition, the employee compensation index is the highest August reading since 2005.

CURRENT CAPITAL EXPENDITURES



CURRENT DIFFICULTY ATTRACTING QUALIFIED WORKERS



As seen in the accompanying chart, the current capital expenditures index (which has never had a particular seasonal pattern) is the highest since the spring of 2004. Area business leaders may well be taking on greater capital expenditures in anticipation of rising future interest rates, which already had trended higher in the quarter. The National Federation of Independent Business' Small

TABLE 2-FUTURE BUSINESS CONDITIONS

What is your evaluation of:	Six months from now vs. August 2013			Diffusion Index ³	May 2013 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)		
Level of business activity for your company	16.4	27.4	56.2	39.8	59
Number of employees on your company's payroll	11	45.2	43.8	32.8	38.4
Length of the workweek for your employees	12.3	72.6	15.1	2.8	20.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	4.1	63	31.5	27.4	32.9
Employee compensation (wages and benefits) by your company	1.4	41.1	42.5	41.1	52.1
Prices received for your company's products	8.2	65.8	21.9	13.7	19.2
National business activity	8.2	52.1	28.8	20.6	39.7
Your company's difficulty attracting qualified workers	1.4	68.5	27.4	26	13.4

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.

Sources: St. Cloud State University Center for Economic Education, Department of Economics and School of Public Affairs

ABOUT THE DIFFUSION INDEX

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

Business Economic Trends reported in their July survey that 30 percent of respondents said all their credit needs were met, and only 5 percent found harder credit conditions. However, they reported less capital investment, particularly in land and buildings. Area firms may be trying to lock in capital spending initiatives at interest rates that are lower than they will likely be in the future.

Firms' current perception of national business activity has weakened somewhat since last quarter. This might simply reflect a modest seasonal pattern, although area firms have during the last several quarters expressed continuing concern about elevated uncertainty originating out of the nation's capital. Finally, area firms' pricing power remains basically unchanged from last quarter. At a value of 13.7, the index on current prices received remains well below its all-time high of 35.9 (in May 2005), but it is much better than the persistently negative numbers that were experienced during the most recent local recession.

As always, firms were asked to report any factors that are affecting their business. These comments include:

- Health care cost shift.
- I am considering moving out of Minnesota to Arizona. Very hard to compete with businesses

from low tax states in the current Minnesota tax environment.

- We see increased taxes negatively impacting our customers.
- Attracting qualified employees and increasing tax burden at the state level.
- Obamacare and its unknown cost continue to force us to delay capital expenditures and additional growth in locations for our business.
- The working people and small business are paying way too much for all the freebies given out in Minnesota. Need to tell people and welcome people into our state or city and let them know if you want to live here you need to learn English language, and use it when communicating, work at a job in lieu of the free ride, and follow the laws in place. If reform does not happen with this, the ones paying for all this now will be dead and then who is left to pay for it? This may sound a bit harsh, but it is reality. I welcome anyone of any race or religion, but I, along with many others, should not be paying for their livelihood. They need to earn it.
- Have business that won't renew lease for more than a year until they find out more about Obamacare costs.
- projected "increase in costs" of \$250,000-\$300,000 in health care expense due to Obamacare, I am terrified of the potential effects to my business. Unfortunately, these are real numbers and I am not sure if the business can sustain such a huge hit and survive.
- This last legislative session and the numerous taxes put against business are making this state uncompetitive. Reduce spending!
- Our business is for national customers. We do not have any local business, so it is critical

to make St. Cloud easily accessible and to ensure we can compete • Affordable Care Act — so many moving parts; will rely on my agent to assist us.

• We really need to see the private sector spend more on construction as 70 percent now is some form of government money, which is really our tax dollar, which in turn means that there will probably never be enough of a reduction in taxes to help the middle income keep more of their earnings.

• After the slowest spring start our company has ever had due to the weather, we are quickly making up time. We've seen a substantial increase in projects out for bid. Both public and private.

• Local companies not understanding the need to increase wages for retention and attraction of workers in the Central Minnesota area.

• Expanding opportunities in Williston (N.D.).

• Lack of facilities to host events that allow promoters to make profit.

• It's very difficult to find "qualified" employees — they want to "have it all" and do what they want when they want to do it.

• Decrease in business activity in six months due to normal seasonality of the real estate market.

• You must be sick of me writing this. We still have at least one more year (maybe more) of the recession.

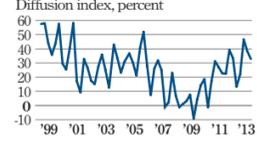
• CapX 2020 litigation.

FUTURE OUTLOOK

Table 2 reports the future outlook for area businesses. The index on future overall business activity is the highest ever recorded in the August Future Business Conditions survey. Fifty-six percent of surveyed firms expect increased

activity in six months, and only 16 percent of firms expect conditions to worsen. Note that this item always is seasonally weaker in August than is recorded in the survey conducted in May.

FUTURE EMPLOYMENT



As was the case last quarter, the items in Table 2 that report on the local labor market outlook are particularly strong. Businesses expect to see improved employment (see chart), better employee compensation and more difficulty attracting qualified workers during the next six months. Indeed, the index on each of these items is the highest recorded in our summer survey since the mid-2000s. Along with annualized local employment growth of 3 percent and low unemployment rates reported elsewhere in this report, the survey points to a continuing tightening of the local labor market during the next six months.

Capital expenditures are expected to remain fairly strong with nearly one-third of firms expecting increased spending on equipment, machinery and structures during the next six months. The outlook for national business activity is somewhat less optimistic during the next six months. While area firms still expect, on balance, an increase in national activity, this outlook has moderated during the past year. The item in Table 2 that shows the most weakness is the index on future prices received. Only 22 percent of surveyed firms expect to capture higher prices by February. Eight per-

cent of firms expect lower prices, and 66 percent expect no change in prices received. As shown in the accompanying chart, this index remains well below its historical highs, signaling ongoing challenges area firms are experiencing in pricing power.

FUTURE PRICES RECEIVED



SPECIAL QUESTIONS

Regional public officials met at the end of July to consider seeking voter approval for an extension of the local half-cent sales tax through 2038. This local option sales tax is set to expire in 2018, but the Minnesota Legislature has authorized area cities to seek permission from their residents for an extension.

We were curious to see if firms that participate in our quarterly survey support the extension.

QUESTION 1

We asked: "Officials from St. Cloud-area cities are considering asking for voter approval to extend the half-cent local sales tax for another 20 years. This sales tax is currently set to expire in 2018. A portion of these sales tax revenues are required to be spent on a project(s) of a regional nature. Does your business support the extension of this half-cent local sales tax?"

Fifty-five percent of the 73 firms responding to this quarter's survey indicate support for the extension of the local sales tax and 25 percent are opposed. Another 21

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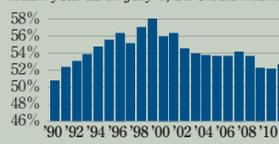
FINDING JOBS AND SEPARATING FROM THEM

There has been great interest lately in alternative measures of unemployment, due to the decline in the U.S. labor force participation rate. While not readily available in the state or region, we are able to get some idea of what that looks like by taking population data in general and dividing it into area employment. That information is shown graphically. Unfortunately, that data does not capture the flow of people in and out of the working-age population, so it fails to capture the growth of the now-retiring baby boomers. Still, the employment-to-total-population ratio is at 53 percent, 1.2 percent below its 2007 level. This is similar to the national experience.

While demographics such as retiring boomers or increasing international immigration might explain some of the declining share of population in the labor force, another factor we would point to would include the dynamics of finding and losing jobs in the St. Cloud

EMPLOYMENT-TOTAL POPULATION RATIO

Each year as of July 1, St. Cloud MSA



economy. When we report that there are 500 more jobs in St. Cloud than a year ago, for example, that does not mean that only 500 jobs were filled. It may be that 4,500 jobs were filled, while 4,000 workers lost jobs in the month. This "churn" is normal.

During recessions, it is normal to find a rising job-losing rate (the rate at which employees separate from firms by quitting, layoff or closing of a plant), while the rate at which the unemployed find jobs falls. Local data on job churn comes with a significant lag, but the most recent data from 2011 shows that by 2010 more workers were finding jobs than los-

JOB-FINDING VS. JOB-LOSING

— Job-finding total
— Job-losing total

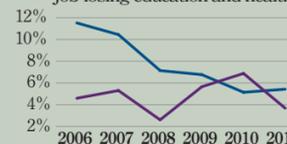


ing them. This confirms previous observations we have made that the recession ended in St. Cloud early in 2010.

The data also show some interesting variation between sectors. For example, the health and education sector, which grew strongly in the previous decade, has slowed down somewhat, largely by a significant decline in the job-finding rate. Job losses in that sector are little different now than from before the Great Recession, and net job gains reported are more the result of a return to lower job separations. (Unlike national data, local data do not distinguish voluntary quit-

EDUCATION AND HEALTH

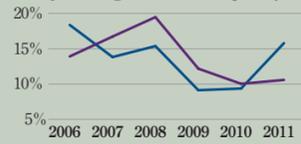
— Job-finding education and health
— Job-losing education and health



ting from jobs versus layoffs or other involuntary separations.) In contrast, there has been a decline in the job-losing rate in leisure and hospitality employment since 2006. These jobs are largely low-paying, and there is normally significant churn in that area. The decline in this area is anecdotally attributed to fewer quits in the industry. The national rate of layoffs and discharges since 2007 in food and accommodation services is about the same since 2007, but the quit rate in this industry fell from 5 percent of the work force per month in 2007 to 3.5 percent today. As Neil Irwin of The Washington Post wrote recently, "people have no sense

LEISURE AND HOSPITALITY

— Job-finding leisure and hospitality
— Job-losing leisure and hospitality



that if there is something wrong at their job ... that they can risk quitting with confidence they will find something new." While those people are not statistically unemployed, they are in a meaningful sense underemployed, or employed in jobs they no longer want.

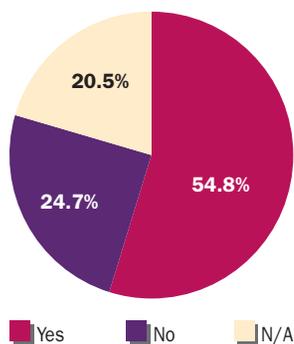
This re-emphasizes a point economists have made for many years: Employment and unemployment are a function both of labor demand and labor supply. There are several things happening with labor supply right now, and it is more than just demographics. Worker behavior is changing, and the data we use to look at it needs to change with it.

QBR

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percent did not answer this question. Written comments suggest a variety of views on this topic.

SUPPORT FOR AN EXTENSION OF THE HALF-CENT LOCAL SALES TAX



These comments include:

- People from outside of St. Cloud shop and use services in St. Cloud so they should help pay for the services needed.

- If local people approve this request, it indicates that they want to pay for regional improvements themselves, which makes sense to me.

- I'm generally opposed to tax increases. If I were to be supportive, I'd like to know more specifically what those projects would be. I actually like the projects identified below and if there was direct support for the project, I would support the tax extension.

- Yes, we would support the continued half-cent sales tax if it is used for projects that are beneficial to everyone.

- As an employer, the quality of life in our community is important. If the projects improve the desirability of living in St. Cloud, we would be in favor of the sales tax extension.

- Broaden taxpayer base and help reduce

pressure on local property tax.

- Must be passed to my customers and I compete nationally.

- Taxes of all kinds are hurting our customer base.

- We do not want to support unknown projects. It must be beneficial either for our company directly or indirectly.

- As a matter of policy, we refrain from taking a position.

- I believe the cities have been good stewards of these funds and believe this would continue going forward.

- Any program where they tax first and then find ways to spend it does not make sense.

- When will they figure out we can't continue to pay taxes in one form or the other? If the government could figure out how to quit spending at the current level, we'd have monies for these projects.

- It's a tax that everyone pays, not just a select few.

- Our company has not taken a position on this. Our opinion would hinge on an understanding of the community benefits expected from the funding.

- It's good for the community/area and for the economy.

- As long as the focus stays on improving this area, I approve.

- Too much of the funding is going to build a fitness center that competes with private business and is unnecessary.

- As long as the sales tax is used to improve the lives of all residents and visitors I believe it is a benefit. However, if it is used for specialty projects to benefit those that have control of the funds, no, it isn't the right move to extend it.

- This was intended to have a specific purpose

when it was first created with an end. I am tired of "temporary" fees/taxes getting started and never ending. Live within a budget like our business.

- We do not believe that taxation is a good long-term solution for regional growth. The long-term fuel needs to come from businesses/industries.

- If the revenue is spent properly, I believe we need to continue to improve the quality of life in our area, after all this where we live and work.

- The problem with taxes is they never want them to go away.

- Can we say, "Live within our means?" Really, history seems to show this trend of creating a special tax that is due to go away, then the beast becomes accustomed to the fruit and is unwilling to give it up.

- At least a local tax ensures that the money collected will be used in this area — unlike any other state taxes collected, of which the highest percentage goes to the Twin Cities metro area.

- Regional projects need to be addressed if we are going to grow as a community.

- First of all, it will happen regardless of the popular vote, just look at the civic center expansion. A majority of people through the election tally said no, yet it still happened. If the regional project in some way is able to attract/retain people, or be an economic boost, then we are all for the extension.

- Air service and airport expansion is needed

- Give me an explanation on what exactly the half-cent sales tax goes for and I can give you a response.

- No strong opinion either way.

- Our business does

not have a position.

- This tax revenue has been used for significant improvements in the region. Many of these improvements make the region more attractive to new employees.

- Depends on the projects.

- I don't foresee much extra financial support from the Minnesota Legislature.

- We need to cut government spending.

- Just looking for more revenue — that's not a priority.

- But what is of a "regional nature" mean?

- St. Cloud is a regional center. People of St. Cloud should not pay for services used by many.

- We need to make sure we are investing in our future.

As indicated in the first special questions, a portion of the revenues from the local sales tax are earmarked for a project(s) of a regional nature. In its July 31 edition, the St. Cloud Times reported on the discussion at a meeting of area public officials in which potential regional projects that might be funded by a local sales tax extension were considered. Among ideas shared were various transportation options, a winter activity center, a river museum, improved park amenities, an expansion of the Lake Wobegon Regional Trail into St. Cloud, and an option for regional cities to partner with St. Cloud on a community aquatics center.

During the 15 years that we have been collecting quarterly responses to the St. Cloud Area Business Outlook Survey, area businesses have routinely been most supportive of transportation options — especially expansion of Interstate Highway 94 — when considering

regional economic development options. It is therefore not surprising that nearly 60 percent of surveyed firms select "putting money toward expanding Interstate Highway 94" as a desirable project to be funded by a local sales tax extension. The second most popular response also was a transportation option — investing in developing Northstar rail — which is supported by 44 percent of respondents. Nearly one-third of area businesses were in favor of the sales tax extension being used to help area cities partner with St. Cloud on a community aquatics center, and a similar percent are in favor of extending the Lake Wobegon Trail. Other projects listed in the St. Cloud Times article receive little support.

QUESTION 2

We asked: "Area officials have discussed several potential regional projects to be

considered should voters approve of extending the local sales tax. Since future sales tax revenues will be insufficient to pay for all potential projects, officials will need to identify those regional projects that have the most regional support. Presuming that voters approve of the local sales tax extension, which of the following potential projects would your business support?"

Some respondents cited other regional projects to be considered. These suggestions include:

- Lake George band shell.

- Fix local roads.

- An aquatic center that would be used year round.

- Finish the civic center parking ramp.

- Expanding air service and airport facilities.

- Spruce up Division Street with grass medians, flowers. ... It's the

See QBR, Page 4F

SUPPORT FOR DIFFERENT POTENTIAL PROJECTS THAT WOULD BE FUNDED BY AN EXTENSION OF THE LOCAL SALES TAX



QBR

From Page 3F

ugliest street in the U.S.

The previous special question asked for survey respondents to identify all listed projects that their firm might deem worthy of support from a potential sales tax extension. The question did not ask which one project was considered most important. Therefore, we asked: "Which of the potential projects in Special Question 2 does your business feel is the highest regional priority?"

Expanding Interstate Highway 94 is the most frequently cited top priority (it is cited by 24 of the 50 firms entering a written response). Developing Northstar rail is identified by 11 survey respondents, and support for the community aquatics center is the top regional priority for six firms.

Comments include:

- Expanding (Interstate Highway) 94. (This comment appears alone and without elaboration in 10 additional instances.)

- Expanding Highway 94. I do not see that this is something that should be funded with the sales tax.

- I-94. We (employees, vendors, and customers) have extensive travel to the Twin Cities.

- Northstar rail. (This comment appears alone and without elaboration in four additional instances.)

- Expansion of Highway 94 is critical. Improving transportation in the St. Cloud area is an urgent need.

- Aquatics center.

- I-94 expansion. We need a better transportation

- Skate parks and climbing walls to encourage youth activities.

- An aquatics center has been on the table for

TABLE 3 -
EMPLOYMENT
TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	July '12-July '13 rate of change	July '13 employment share	15-year trend rate of change	July '12-July '13 rate of change	July '13 employment share	15-year trend rate of change	July '12-July '13 rate of change	July '13 employment share
Total nonagricultural	1.2%	3%	100%	0.6%	3.7%	100%	0.6%	2.6%	100%
Total private	1.2%	3%	86.2%	0.6%	3.2%	87.6%	0.6%	2.4%	85.9%
Goods producing	0.2%	4.7%	21.4%	-1.4%	2.4%	13.9%	-1.4%	0.1%	15.2%
Construction/natural resources	2.7%	19%	6.3%	-0.3%	8.4%	3.8%	-0.4%	2.7%	4.2%
Manufacturing	-0.7%	-0.3%	15.2%	-1.7%	0.3%	10.1%	-1.8%	-0.8%	11.0%
Service providing	1.5%	2.5%	78.6%	1%	3.9%	86.1%	1%	3.1%	84.8%
Trade/transportation/utilities	-0.1%	2.5%	20.1%	-0.3%	1.6%	17.6%	-0.1%	2.6%	18.4%
Wholesale trade	1.5%	3.6%	4.2%	-0.2%	-1.4%	4.5%	0.3%	1.9%	4.8%
Retail trade	-0.8%	2.6%	12.7%	-0.1%	2%	9.7%	0%	2.3%	10.3%
Trans./warehouse/utilities	1.2%	0.4%	3.3%	-0.7%	4.8%	3.5%	-0.3%	4.4%	3.3%
Information	-1.3%	-1.1%	1.6%	-1%	-0.1%	2.1%	-1%	2.4%	2%
Financial activities	1.8%	1.1%	4.3%	0.6%	0%	7.8%	0.7%	1.3%	6.5%
Professional & business service	3.5%	2.0%	8.1%	1%	5.2%	15.8%	1.1%	4.7%	12.8%
Education & health	3.8%	4.2%	18.5%	3.6%	4.4%	16%	3.3%	2.1%	17.2%
Leisure & hospitality	1.6%	1.9%	8.7%	1.8%	7.7%	10.1%	1.2%	4.7%	9.7%
Other services (excluding govt.)	0%	-0.1%	3.4%	0.7%	-1.6%	4.2%	0.5%	0.3%	4.2%
Government	1.3%	2.7%	13.8%	0.7%	7.1%	12.4%	0.6%	4.1%	14.1%
Federal government	1.9%	-5.3%	2%	-0.9%	-3.7%	1.1%	-0.6%	-3.1%	1.1%
State government	1%	1.3%	3.4%	0.8%	-0.5%	3.4%	1.1%	-1.1%	3.3%
Local government	1.3%	5.3%	8.5%	0.8%	12.4%	7.9%	0.6%	7%	9.7%

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

Sources: Minnesota Department of Employment and Economic Development and author calculations.

several years and makes sense for our climate. People young and old would benefit from this asset.

- I-94 expansion. Too many delays in traffic and is only going to get worse. A lot of fuel and time is wasted in traffic jams.

- Year-round aquatics center.

- Highway 94 expansion. In order for businesses and residents who consider moving to St. Cloud because of job availability, ease of travel to and from Minneapolis is extremely important.

- Improving transportation to/from the Twin Cities is the highest priority and that will support business growth, which in turn will provide the money to help with other projects.

- Northstar rail to St. Cloud.

- The expansion of Highway 94 makes the most sense due to its potential economic impact.

- Interstate 94. We really need to add additional lanes to move the traffic west as there are way too many slow-downs.

- Each of the projects has pros and cons and cater to a different segment of the population. I have more reasons on the projects I didn't pick.

- Community center with aquatics center.

- The aquatics center.

- Northstar and air service expansion.

- Interstate 94 expansion — ease of flow to and from St. Cloud will have the biggest impact on the regions and allow for growth.

- Northstar rail to continue to expand, and develop I-94 corridor

- Expanding I-94. Critical for the residents and businesses in this region.

- Infrastructure improvement. Roads, utilities, etc.

- Community aquatics center — it's regional and would involve more people from a larger area.

- Investing in Northstar — saves gas, saves environment, allows people to work for more pay.

- Improving transportation to drive economic development.

- Some of our employees have suggested that expansion of the Lake Wobegona Regional Trail would improve biking safety by getting bicycles off our roadways.

- The development of a regional recycling center that can handle single stream collection.

- Interstate Highway

94. It's a no-brainer.

- None are a priority aside from I-94.

- No opinion, however, transportation needs updating.

- Northstar — great need and impact.

- The only one that would have a positive impact is expanding 94. The rest are all ongoing expenses that will require higher taxation.

- Northstar is so essential to a connection with Minneapolis/St. Paul. I-94 is "suicide highway" to drive on.

- Highway 94 expansion — more important than a winter activity center or climbing walls.

**A GOOD 1ST HALF;
THE 2ND HALF MAY
BE DIFFERENT**

Going into the second half of 2013, the St.

Cloud-area economy seems to be in excellent shape. Table 3 shows significant growth in employment over the last 12 months to July. An eye-popping 19 percent uptick in construction employment leads the way, but growth was broad-based. Wholesale and retail employment grew more than 2.5 percent in the period, and growth returned to the health and education sector. Only slight declines in manufacturing and information technology employment kept the regional economy from having an even better year.

The only area of the state performing better than St. Cloud in the last 12 months is the Twin Cities. Growth was strong in Minneapolis-St.

See QBR, Page 5F

QBR

From Page 4F

Paul in professional and business services, in education and health services, and in leisure and hospitality. The first of these in particular creates much of the difference in growth.

Likewise, unemployment in Minneapolis-St. Paul fell faster than in St. Cloud, as can be seen in Table 4. But St. Cloud's unemployment rate fell faster than in any other metropolitan area. Duluth's unemployment rate, for example, fell by 0.4 percent between July 2012 and July 2013, standing at 6.5 percent for the latest period versus 5.2 percent in St. Cloud. Metro areas bordering North Dakota have lower unemployment rates than St. Cloud, as does Rochester, but in each case St. Cloud is converging on them.

High construction employment mentioned above coincided with a sharp increase in the valuation of new building permits issued in the area as reported by the U.S. Commerce Department. Initial filings of claims for unemployment insurance fell by almost 20 percent. Help-wanted advertising fell, but this appears to be due to one weak month of data; the remaining months looked in line with previous years' experiences. There was a significant increase in the St. Cloud Area Index of Leading Economic Indicators, but most of this is due to a temporary lull last period in help wanted advertising. (See more about job finding and job losing in the accompanying side-

TABLE 4 - OTHER ECONOMIC INDICATORS

	2012	2013	Percent change
St. Cloud MSA labor force July (DEED)	108,025	108,194	0.2%
St. Cloud MSA civilian employment # July (DEED)	101,674	102,618	0.9%
St. Cloud MSA unemployment rate* July (DEED)	5.9%	5.2%	N/A
Minnesota unemployment rate* July (DEED)	5.8%	5.1%	N/A
Minneapolis-St. Paul unemployment rate* July (DEED)	5.8%	4.9%	N/A
St. Cloud-area new unemployment insurance claims May-July average (DEED)	887.7	712	-19.8%
St. Cloud Times help-wanted ad lineage May-July average	2,599.7	2,363	-9.1%
St. Cloud MSA residential building permit valuation In thousands, May-July average (U.S. Department of Commerce)	5,857	8,589	46.6%
St. Cloud index of leading economic indicators July (St. Cloud State University)**	102.7	112.8	9.9%

NOTE: July 2013 LEI estimated under experimental program. See text.

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

** - October 2001=100

N/A - Not applicable

bar titled "Finding jobs and separating from them.")

The St. Cloud Area Index of Leading Economic Indicators includes a time series on hours worked in manufacturing. It is produced for us by the Minnesota Department of Employment and Economic Development, or DEED, specifically for the report: It is not public data. However, DEED was unable to produce the data for us this quarter. For this quarter, we elected to use a "bootstrapping" method to measure hours worked from the data we had available. We hope to have the series back in the next issue.

Confirmation of this lull and rebound in help wanted advertising comes from the Job Vacancy Survey conducted by DEED. During the Great Recession the amount of recruit-

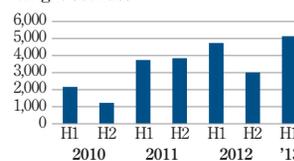
TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from April to July	Contribution to LEI
Help-wanted advertising in St. Cloud Times	5.53%
Hours worked	0.06%
New business incorporations	0
New claims for unemployment insurance	2.26%
Total	7.85%

ing done by area employers fell as expected. As we have exited the recession in 2010, the amount of help wanted advertising rose, and it appears from this graph that this matched the number of vacancies. Vacancies fell more than expected though in the second half of 2012, only to rebound to their highest level since DEED started this survey in 2005. So we are comfortable that the rise in Leading Economic Indicators due to the help wanted data is consistent with underlying labor market trends.

JOB VACANCIES

Benton, Sherburne, Stearns and Wright Counties



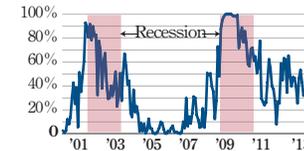
Compared with a year ago, help-wanted advertising actually looks good right now. This and a decline in unemployment insurance claims contributed positively to Leading Economic Indicators, as seen in Table 5. New business incorporations was flat in the period and indeed for about two years, while hours worked in manufacturing appears

to have expanded slightly, again based on our bootstrapping method. None of the four series that make up the index declined in the quarter, something we have not been able to say for years.

Likewise, the St. Cloud Area Probability of Recession Index is indicating no recession to be expected in the remainder of 2013. The probability fell below 30 percent in the most recent month. The level of the index is still higher than we would expect for this stage of the local business cycle, but there has been very little of this recovery that has been comparable to previous ones either locally or nationally.

PROBABILITY OF RECESSION

Four-six months ahead



In general, business and investor confidence around the country is high. The S&P 500 was up about 16 percent as we went to press in early September, with declining volatility in the last year and with the spread between high-yield (or junk) bonds and Treasury securities falling. Business sentiment has been high in key sectors such as building and manufacturing. The Minnesota Business Conditions Index reported by Professor Ernie Goss of Creighton University was very strong in July and August. "Expansions among durable goods producers in the state more than offset slightly negative conditions for nondurable goods

firms, including food processors, pushing the overall manufacturing sector and economy forward," Goss said. The Federal Reserve Bank of Philadelphia's index also showed both excellent growth in Minnesota in the last six months and expected to be even stronger in the next six. And the Fed's Beige Book entry for the Minneapolis region showed broad-based growth across many sectors, with only mining flat and a few service sectors declining.

What could possibly go wrong then, you may wonder? Our worry list is a bit long, alas: Syria; a new federal budget cycle on Oct. 1, with a continued sequestration of spending on targeted budget items; political haggling over extension of the federal debt ceiling; underperforming economies in China and India; stock prices that appear at best fairly priced by historical standards as a multiple of company earnings. From where would a wind come to lift the economy higher? It is hard to say. And it is unlikely that our economy could be sheltered for long from these macroeconomic pressures. But for the time being, the local economy looks quite strong.

IN THE NEXT QBR

Participating businesses can look for the next St. Cloud Area Business Outlook Survey in November. The next St. Cloud Area Quarterly Business Report will appear in the St. Cloud Times on Sunday, Dec. 15.