

Fall 2004

St. Cloud Area Quarterly Business Report, Vol. 6, No. 4

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St. Cloud Area Quarterly Business Report

Fall 2004

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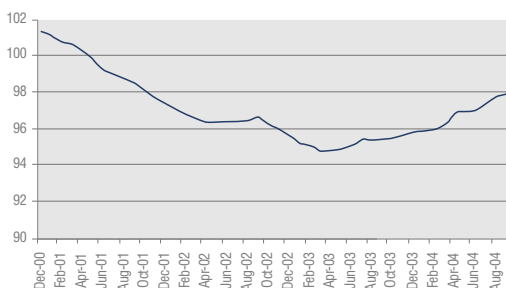
Volume 6, Number 4

Economy Stabilizes but Uncertainties Loom Large Electrolux Layoffs a Reminder of Vulnerability of Key Sector

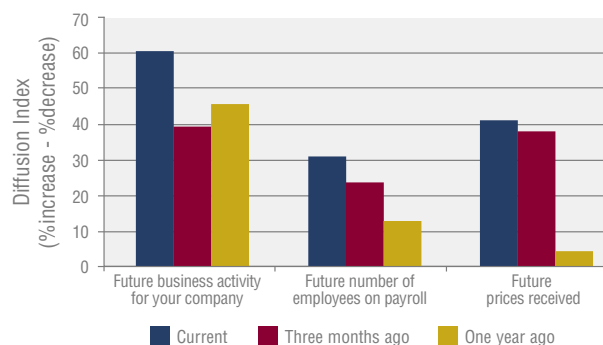
Executive Summary

Area economic growth stabilized over the past few months as the economic recovery that began one year ago progressed at an uncomfortably slow pace. A one percent year-over-year gain in October employment marked the thirteenth straight month in which area employment has increased. The modest increase in employment was fairly broad-based as most sectors of the regional economy added workers. Recent employment growth is, however, well below the long-term average and is markedly weaker than is normally observed in an economic recovery. The December 2 announcement of 229 layoffs at the St. Cloud Electrolux plant will have an unsettling effect on an economy that still recalls the massive loss of jobs at Fingerhut in 2002, as it raises the specter of future layoffs. Other signals from new business incorporations and help wanted advertising also indicate uncertainties.

St. Cloud Index of Leading Economic Indicators



Key Results of Business Outlook Survey



Predictions from both the **St. Cloud Index of Leading Economic Indicators** as well as responses to the **St. Cloud Area Business Outlook Survey** (which was conducted prior to the Electrolux announcement) indicate a reasonably strong future outlook. The most recent **St. Cloud Index of Leading Economic Indicators** rose by 1.2% over last quarter on an average basis, suggesting favorable economic conditions through Spring 2005. Sixty-nine percent of surveyed businesses expect improved business activity six months from now, while 38% expect to hire more workers. Pricing pressures appear to be increasing. Forty-five percent of businesses indicate their intention to increase prices over the next six months. One year ago, only 15% expected to increase prices. Business leaders identify health care reform as the most important priority of the upcoming legislative session and indicate limits on medical malpractice awards as a key way to achieve this outcome.

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The St. Cloud Area Business Outlook Survey

The tables on the adjacent page report the most recent results of the business outlook survey. Responses are from 58 area businesses that 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.

For the most recent quarter, area businesses experienced overall business conditions that were quite similar to those of recent fall surveys. The diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given category) on current business activity was 32.8 in October. This was down from 39.3 in the summer, but quite similar to our other fall surveys. Forty-seven percent of surveyed businesses indicated an increase in the current level of business activity and 28% added to payrolls. Employers do report, however, that it was less difficult attracting qualified workers over the past three months. This is no doubt due to the influx of college and university students into the area in September.

The diffusion index on prices received, while similar to that which was reported three months ago, is the highest ever recorded in the fall survey. Area businesses appear to be experiencing the same pricing conditions as other firms around the country. For example, the Federal Reserve Bank of Philadelphia, in its November 2004 Business Outlook Survey of manufacturing executives from the third Federal Reserve district, reported a 28.0 value for current prices received. This same survey indicated an even larger increase in the diffusion index on prices paid. While the St. Cloud area survey does not have a question for current prices paid, it is clear that if area firms are experiencing conditions similar to Philadelphia area manufacturers, then the increase in prices received is not necessarily a sign of improved profit margins. Instead, the rising inflationary pressures, about which the Federal Reserve seems increasingly concerned, are likely to be putting upward pressure on both selling prices and production costs at area firms.

While it remains to be seen if the fallout from the announced layoffs at Electrolux (and the associated concerns for the long-term future of this key manufacturer) will influence the future outlook of area business leaders, the October survey indicated very strong optimism going

forward six months. A diffusion index of 60.4 is much stronger than the number reported three months ago and is, in fact, the highest fall number ever recorded. Sixty-nine percent of surveyed businesses expect activity to be stronger six months from now while only 9% expect a weakening of conditions. This optimism is also found for planned new hires (38% of surveyed firms intend to hire more workers) and capital equipment purchases (which has a diffusion index of 41.4 — by far the highest ever recorded in the fall survey). Firms don't expect to find it very difficult to attract these new workers. Only 17% of firms think it will be more difficult to attract qualified workers in six month's time. This is markedly lower than a 50% response to the same question in Fall 1999 (during a time of area labor shortage). Area business leaders also believe the national economy will experience increased performance by Spring 2005. The diffusion index of 43 on this item is the highest we have ever recorded in our fall survey. It should be noted that most of the surveys were returned prior to the national election on November 2.

In many respects, the most interesting result from the business outlook survey is the item on expected future prices received. Forty-five percent of surveyed businesses expect to receive higher future prices and only 3% expect prices to decline. This is a dramatic departure from one year ago when 15% expected future prices received to increase and 11% expected a *decrease* in prices. As mentioned above, this is quite likely to indicate that cost-driven general inflationary pressures are leading area firms to increase prices in order retain profit margins.

Special Questions

Area business leaders were asked to identify those items that they feel are important priorities in the upcoming legislative session. Survey respondents were given a list of several potential priorities and were asked to check all that apply, as well as indicate which of the priorities is most important. Health care reform was indicated by two-thirds as an important legislative priority and was by far the most cited response as the most important priority. Business tax reform, worker's compensation policy, tort reform, transportation policy, and K-12 education funding were all mentioned as also being important. Only 24% of respondents thought economic development assistance is important and only 10% indicate legal gaming policy should be a legislative priority. Other items mentioned as important were higher education funding and budget/taxes.

Table 1 – Current Business Conditions*

| ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary October 2004 What is your evaluation of: | October 2004 vs. Three Months Ago | | | | July/August 2004 Diffusion Index ³ |
|--|-----------------------------------|------------------|-----------------|---------------------------------|---|
| | Decrease (%) | No Change (%) | Increase (%) | Diffusion Index ³ | |
| Level of business activity for your company | 13.8 | 37.9 | 46.6 | 32.8 | 39.3 |
| Number of employees on your company's payroll | 12.1 | 58.6 | 27.6 | 15.5 | 41.0 |
| Length of workweek for your employees | 6.9 | 75.9 | 17.2 | 10.3 | 26.7 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 6.9 | 56.9 | 36.2 | 29.3 | 26.8 |
| Employee compensation (wages and benefits) by your company | 0 | 67.2 | 31.0 | 31.0 | 44.6 |
| Prices received for your company's products | 5.2 | 63.8 | 29.3 | 24.1 | 23.2 |
| National business activity | 8.6 | 43.1 | 34.5 | 25.9 | 32.2 |
| Your company's difficulty attracting qualified workers | 17.2 | 69.0 | 12.1 | -5.1 | 12.5 |

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

Table 2 – Future Business Conditions*

| ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary October 2004 What is your evaluation of: | Six Months from Now vs. October 2004 | | | | July/August 2004 Diffusion Index ³ |
|--|--------------------------------------|------------------|-----------------|---------------------------------|---|
| | Decrease (%) | No Change (%) | Increase (%) | Diffusion Index ³ | |
| Level of business activity for your company | 8.6 | 20.7 | 69.0 | 60.4 | 39.3 |
| Number of employees on your company's payroll | 6.9 | 55.2 | 37.9 | 31.0 | 23.2 |
| Length of workweek for your employees | 6.9 | 79.3 | 12.1 | 5.2 | -3.5 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 3.4 | 51.7 | 44.8 | 41.4 | 23.3 |
| Employee compensation (wages and benefits) by your company | 0 | 34.5 | 65.5 | 65.5 | 46.4 |
| Prices received for your company's products | 3.4 | 51.7 | 44.8 | 41.4 | 37.5 |
| National business activity | 1.7 | 41.4 | 44.8 | 43.1 | 30.4 |
| Your company's difficulty attracting qualified workers | 8.6 | 70.7 | 17.2 | 8.6 | 19.6 |

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

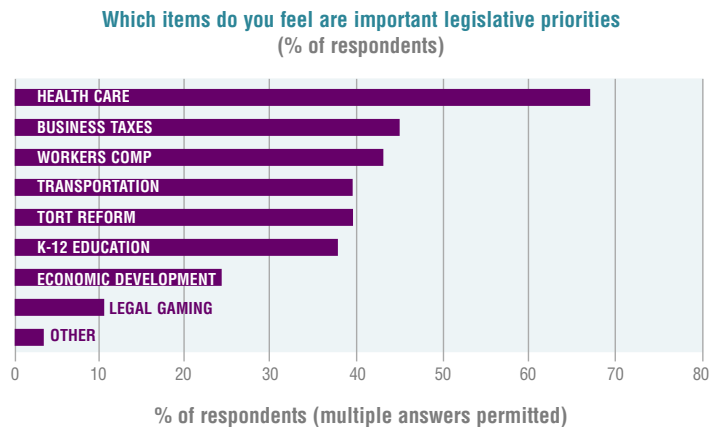
Written comments include:

- ❖ “(Our company) experienced a 20% (health insurance) premium increase for 2005”
- ❖ “(Health care) expenses are increasing and causing most hardship to small businesses”
- ❖ “Soon we won’t be able to give the (employee health insurance) benefit...all insurance is going up”
- ❖ “Health care costs must be controlled and employees need to understand their responsibility to control their cost also”
- ❖ “Education funding — I believe the investment in education drives consumer confidence”
- ❖ “Higher education funding — losing accessibility, leaving students with high debt upon graduation, losing educated workforce”
- ❖ “Health care pricing is outrageous. Workers comp (means it is) getting tougher to stay in business. Tort reform — get rid of these attorneys”
- ❖ “Worker’s comp — why can a person collect worker’s comp benefits when they test positive for drugs/alcohol?”
- ❖ “Tort reform — ‘deep pockets’ should not make one liable for others’ negligence”
- ❖ “It is becoming increasingly difficult to fund medical & health insurance costs”
- ❖ “Recently our insurance changed the prescriptions it would cover. I would like reform in prescription coverage and not allow kickbacks to be received (by) insurance companies from drug companies”
- ❖ “Our health insurance & worker’s comp rates have increased dramatically for reasons other than claims we have submitted”
- ❖ “Health care reform would be key driver in reducing costs for our business”
- ❖ “All of these items are a priority, but the devil is truly in the details of each”
- ❖ “(Most important priority is) budget as it relates to taxes”
- ❖ “Tort reform: if we can set limits on all issues, we can control costs, therefore health insurance, etc. will go down in cost”
- ❖ “Transportation — we must keep our roads in good condition and build more in growing areas”
- ❖ “K-12 education — a good education is the basis for qualified employees”
- ❖ “Transportation policy — too much congestion is costing the state hundreds of millions of dollars”

Special Question #1

Please check the box in front of each of the items that your business feels is an important priority in the 2005

Minnesota legislative session:



A second special question asked businesses to identify specific items that they feel are important to contain health care costs. Business leaders were again asked to “check all that apply”. The range of the results to this question could not have been anticipated when we wrote this question. Seventy-nine percent of surveyed businesses responded “limits on medical malpractice awards” are important while only 5% believe “eliminating employer-provided insurance” is important. This is a fascinating response if only because of how unlikely it is that 79% of any group could agree on a specific item to address health care costs. Equally interesting is that only five percent (3 of 58 firms) thought eliminating employer-provided insurance is important. Medical savings accounts are the second most popular response, with a 57% result. After this, the percentages drop off sharply. About one-third of surveyed businesses believe importation of prescription drugs and higher insurance co-pays and deductibles are important in containing costs. Still fewer businesses believe it is important to cap payments to health care providers. Government-provided insurance receives little support from area businesses. Area businesses are split on which measure is most important in containing health care costs — an equal number indicate medical savings accounts and limits on medical malpractice awards. A recurring theme found in the written comments to this special question is the importance of health care consumers in containing costs. Surveyed businesses also show little support for expanding the government’s role in the health care system. These written comments include:

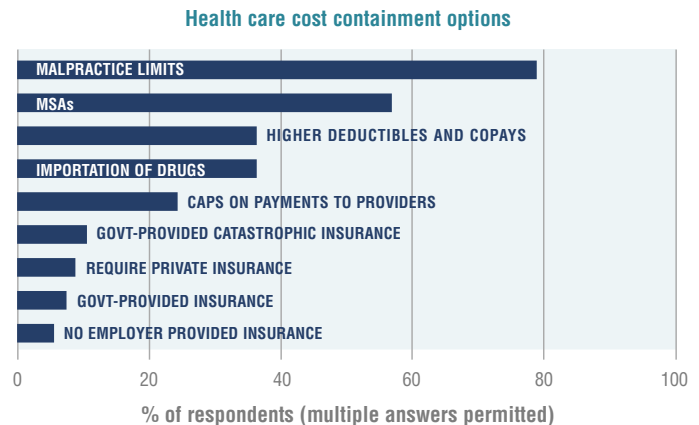
- ❖ “Medical savings accounts — because we need to get to a consumer benefit/cost model”
- ❖ “There are many things adding to the high cost of health care that are only currently being investigated. Private health payers need to start this initiative”

- ❖ “Giving people more control over their purchase and use of health care”
- ❖ “I know the uninsured put a big burden on the system and malpractice is used as a big excuse for the problem, but it is such a big issue. Where do you start?”
- ❖ “By switching to a medical savings account, we saved over \$40,000”
- ❖ “Wellness programs, disease management, prevention (are the most important)”
- ❖ “Health savings accounts will make a huge difference in health costs”
- ❖ “Drug companies are gouging the American people — we need reforms in how they are regulated”
- ❖ “Consumerism—get participants sharing in costs and benefiting from holding costs down”
- ❖ “Government intervention isn’t the answer. Allowing people choices in health care and awareness of alternatives is important”
- ❖ “More government involvement is not the answer”
- ❖ “Limits on malpractice — I believe this would take care of a lot of the others”

- ❖ “Medical savings accounts — long-term strategy, lower cost to employer, more control by employee”
- ❖ “The only thing that will change is a big alteration in the system”
- ❖ “Unsure — government intervention may be worse!”

Special Question #2

Please check the box in front of each of the items your business feels is most important in containing health care costs (check all that apply):



Layoffs at Electrolux

On December 2, Electrolux announced the lay-off of 229 workers at their St. Cloud freezer manufacturing facility. The Swedish company, which refers to itself as “the world’s largest producer of powered appliances for kitchen, cleaning and outdoor use...”, had announced corporate organizational changes in early November that presaged the layoff announcement. The local lay-off notice was accompanied by the announcement that Electrolux is shifting some of its freezer manufacturing business to China. This is part of a wider restructuring in the firm, which reveals a willingness to globally integrate production.

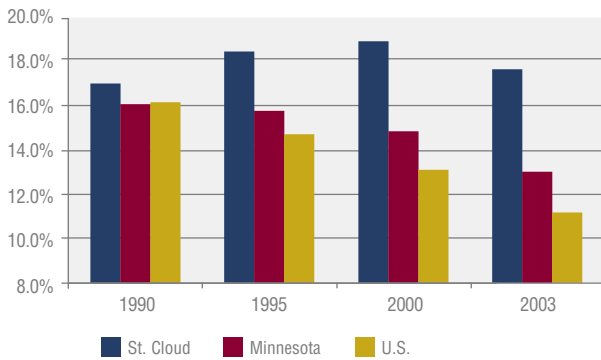
The company has a recent record of shuttering manufacturing facilities (three plant closings — in the U.S., France, and Sweden) over the last 11 months, it has a new organizational structure designed to take advantage of global opportunities, and it now will begin to produce freezers in China. Note that Electrolux has already entered the Chinese market — there are 2910 employees in China producing refrigerators, washing machines, and diamond tools. Thus, the initial hurdle of entering this difficult market has already been overcome.

China is a formidable opponent in the competition for global manufacturing jobs. While U.S. workers certainly have a large productivity advantage over their Chinese

counterparts, this may be overcome by the hourly average wage differential in manufacturing. The Federal Reserve Bank of Minneapolis in its March 2003 *The Region* publication reports that, in 2001, average hourly pay in manufacturing in the U.S. was \$16.14 versus \$0.61 in China. Put differently, average manufacturing wages in the U.S. are more than 2500% higher than they are in China. Combine this with the attractiveness of entering the Chinese market (and selling products to its 1.3 billion people) along with taking advantage of a stable and perhaps underpriced currency and it is easy to see the challenges facing U.S. manufacturers.

To date, the St. Cloud area manufacturing sector has averted the slide that has been experienced elsewhere around the state (and nation). The share of area jobs accounted for by the manufacturing sector has remained remarkably constant over the past 14 years. In October 1990, manufacturing was 16.8% of all employment in St. Cloud. Fourteen years later it was 17.3%. By contrast, Minnesota manufacturing as a share of overall employment slipped from 15.9% to 13.0% over the same period. A similar story can be told for the national manufacturing sector. So, the question that must be asked: what makes St. Cloud manufacturing so unique (or hold such a comparative advantage) that it has been able to avoid this downward trend?

Manufacturing Employment as Share of Total Nonfarm Employment



Manufacturers that require the use of highly skilled labor to produce stylized products that cannot be easily replicated by others, and that can do so efficiently, are able to effectively

compete in global markets. Those companies that produce undifferentiated products that can be manufactured using low-skilled workers are at a severe cost disadvantage, however. These are the companies that are most at risk of job loss/relocation. As most of the workers laid off at Electrolux are characterized as low-skilled workers, it stands to reason that these workers would be vulnerable to foreign competition.

It will be comparative advantage that determines whether these 229 jobs (which are 0.2% of the area work force), are an adjustment to the easier means of transporting goods and the opening of Asian markets, or the bellwether of Electrolux corporate officials considering moving the entire operation to China. This will bear watching in coming months.

Considering the Local Economy in a Broader Context

After spending some time studying the recent employment data, we are now prepared to say that the local economy began its turnaround on or before September 2003. It is important to date the local recession in the process of building up the *St. Cloud Index of Leading Economic Indicators*. In this issue we would like to review that dating process and try to get a better understanding of what we have observed so far in 2004.

The National Bureau of Economic Research dated the latest recession to have ended in November 2001. Thus the September 11 attacks had little effect on the course of the national recession; it was relatively short at eight months, and it was relatively mild. It has been well documented that the growth out of that recession was modest, and that most of the growth was due to changes in labor productivity. Growth in employment significantly lagged GDP growth.

In the local economy we do not have a reliable series for local production and thus rely on employment statistics. Unlike the national economy as well, in the most recent recession we had the closure of Fingerhut at the very end of

the national recession. There is no doubt that this closure caused the local economy to lag behind the national economy, but the extent of that lagging is quite pronounced, as the graph shows.

The graph shows the percentage of employment that occurred relative to that at the trough of the recession (so that the month of the trough always marks as 100%). The normal pattern has been for employment to begin rising within a month or two of the trough, but the last recession saw employment fail to rise at all, instead continuing a slow decline. The third line, showing the St. Cloud economy as if its own recession ended at the same time as that of the U.S., tracks well below the U.S. 2001 recession by spring 2002 as the effects of Fingerhut take hold. The effects of shutting down a major employer reverberate in an economy for some time, as firms that sold to the former employees of Fingerhut saw lower sales, cut back their own employment, and purchased fewer inputs. This process appears to have taken about twenty months to unwind.

What is remarkable to us is that if you were to place the trough for the St. Cloud economy at September 2003

US and St. Cloud 2001 (or 2003?) Recessions

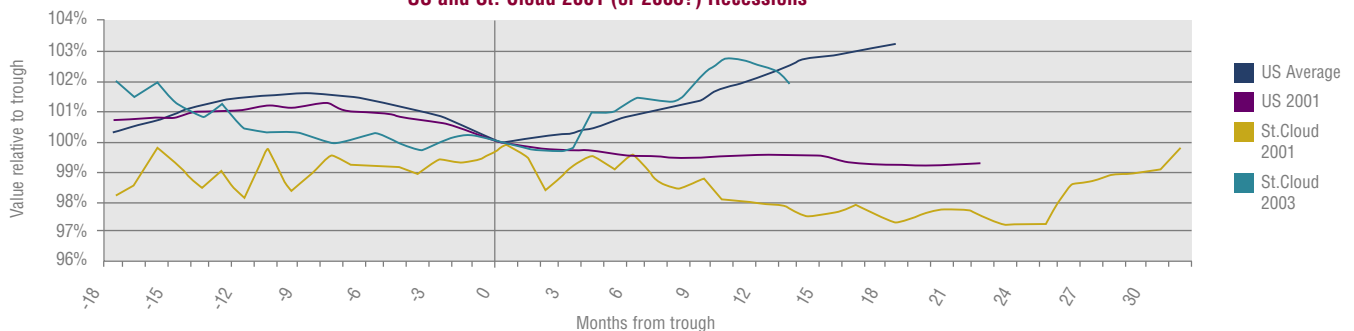


Table 3 – Employment Trends

| | St. Cloud Employment Trends in Percent | | | Minnesota Employment Trends in Percent | | | Twin Cities Employment Trends in Percent | | |
|--------------------------------|---|------------------------------|-----------------------------------|---|------------------------------|-----------------------------------|---|------------------------------|-----------------------------------|
| | 1990-2004 Long Term Trend Growth Rate | October 04 Growth Rate | October 04 Employment Share | 1990-2004 Long Term Trend Growth Rate | October 04 Growth Rate | October 04 Employment Share | 1990-2004 Long Term Trend Growth Rate | October 04 Growth Rate | October 04 Employment Share |
| Total Nonagricultural | 2.1% | 1.0% | 100.0% | 1.6% | 0.9% | 100.0% | 1.6% | 0.9% | 100.0% |
| Total Private | 2.3% | 1.1% | 100.0% | 1.7% | 1.2% | 100.0% | 1.6% | 0.9% | 100.0% |
| GOODS PRODUCING | 2.5% | 1.1% | 23.0% | 0.9% | 2.5% | 18.4% | 0.7% | 2.2% | 17.0% |
| Construction/Nat. Res. | 3.2% | 1.2% | 5.6% | 3.2% | 2.1% | 5.4% | 3.8% | -0.1% | 5.1% |
| Manufacturing | 2.3% | 1.0% | 17.3% | 0.2% | 2.7% | 13.0% | -0.2% | 3.2% | 12.0% |
| SERVICE PRODUCING | 2.0% | 1.0% | 77.0% | 1.8% | 0.6% | 81.6% | 1.8% | 0.6% | 83.0% |
| Trade/Transportation/Utilities | 1.0% | 1.5% | 21.8% | 1.1% | 1.1% | 19.5% | 1.0% | -0.1% | 19.1% |
| Wholesale Trade | 3.2% | 3.6% | 4.8% | 1.4% | 2.5% | 4.8% | 1.5% | 2.6% | 4.9% |
| Retail Trade | 0.3% | 1.2% | 13.8% | 1.2% | 0.7% | 11.2% | 1.0% | -2.0% | 10.4% |
| Trans./Ware/Util | 1.6% | -0.2% | 3.2% | 0.5% | 0.5% | 3.4% | 0.4% | 2.0% | 3.9% |
| Information | 1.3% | 1.6% | 1.5% | 1.0% | -0.7% | 2.3% | 1.1% | 0.2% | 2.6% |
| Financial Activities | 3.8% | 0.3% | 4.2% | 2.2% | -0.5% | 6.5% | 2.2% | -0.2% | 7.9% |
| Prof. & Business Service | 3.8% | 3.9% | 7.7% | 2.3% | 0.1% | 11.1% | 1.9% | -0.7% | 13.7% |
| Educational & Health | 2.9% | -0.2% | 14.3% | 3.1% | 1.9% | 14.0% | 3.2% | 2.9% | 12.8% |
| Leisure & Hospitality | 2.3% | -0.4% | 8.4% | 2.0% | 1.7% | 8.9% | 2.2% | 3.5% | 9.1% |
| Other Services (Excl. Gvt) | 2.4% | 3.2% | 4.8% | 1.8% | -0.7% | 4.4% | 1.7% | -2.5% | 4.3% |
| Government | 1.0% | 0.3% | 14.5% | 1.1% | -0.6% | 14.9% | 1.4% | 0.4% | 13.4% |
| Federal Government | -0.4% | 0.3% | 1.6% | 0.0% | -1.4% | 1.2% | 0.1% | -1.6% | 1.2% |
| State Government | 0.0% | 3.1% | 4.5% | 0.5% | 0.4% | 3.4% | 1.7% | 0.9% | 4.0% |
| Local Government | -0.1% | -1.9% | 8.3% | 1.5% | -0.8% | 10.2% | 1.8% | 0.4% | 8.2% |

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

instead and re-index employment from that date, the recovery and expansion since then has been roughly the same as that of the national economy in previous recessions. Employment relative to trend has risen about 2%, which most likely translates to economic growth locally of about 5%. This would be consistent with both the results of the *St. Cloud Area Business Outlook Survey* and our own pronouncements from a year ago. We said then:

The overall area employment situation is stronger than has been seen since Spring 2002 — a span of more than eighteen months. ... 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.

We believe that the events of the last twelve months have borne out that forecast very well. In Table 4 we have seen a continued rise of 2.4% in the *St. Cloud Index of Leading Economic Indicators*, which indicates continued growth in employment, and strong increases in help-wanted advertising and residential construction.

That said, the recent events at Electrolux cast a dark shadow on the future. As we saw with Fingerhut, the

Table 4 – Other Economic Indicators

| | 2004 | 2003 | Percent Change |
|--|---------|---------|-------------------|
| St. Cloud MSA Labor Force | | | |
| October (MN Workforce Center) | 108,045 | 107,521 | 0.5% |
| St. Cloud MSA Civilian Employment # | | | |
| October (MN Workforce Center) | 104,453 | 103,220 | 1.2% |
| St. Cloud MSA Unemployment Rate* | | | |
| October (MN Workforce Center) | 3.3% | 4.0% | NA |
| Minnesota Unemployment Rate* | | | |
| October (MN Workforce Center) | 3.8% | 4.5% | NA |
| Mpls-St. Paul/MSA Unemployment Rate* | | | |
| October (MN Workforce Center) | 3.9% | 4.7% | NA |
| St. Cloud Area New Unemployment Insurance Claims | | | |
| July - October Average (MN Workforce Center) | 634.8 | 715.5 | -12.0% |
| St. Cloud Times Help-Wanted Ad Linage | | | |
| July - September Average | 4761.7 | 3445.3 | 32.4% |
| St. Cloud MSA Residential Building Permit Valuation (\$1,000) | | | |
| July - October Average (U.S. Dept. of Commerce) | 16401 | 12774 | 25.0% |
| St. Cloud Index of Leading Economic Indicators (SCSU) | 97.9 | 95.6 | 2.4% |

- The employment numbers here are based on resident estimates, not the employer payroll estimate in Table 3.
* - Not Seasonally Adjusted
NA - Not Applicable

knock-on (or multiplier) effect of a cut in manufacturing employment can be felt for many months. Some firms are suppliers to Electrolux or to its workers. It is entirely possible that two years onward we may be drawing another graph trying to re-date a local recovery.

Decomposition of St. Cloud Leading Economics Indicators by component, Sept. over June 2004

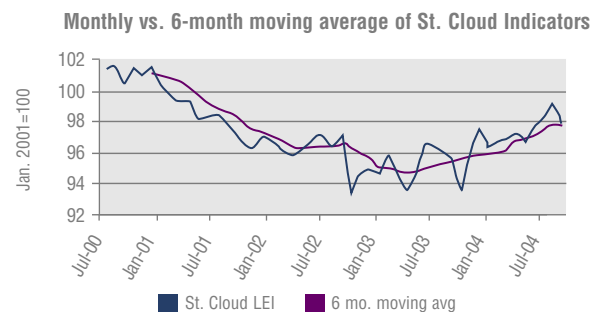
| | |
|-----------------------------|---------------|
| Help-wanted advertising | -0.58% |
| Hours worked | +0.51% |
| Initial unemployment claims | +0.21% |
| New business incorporation | -0.06% |
| TOTAL | +0.05% |

Area employment continued to rebound from year-ago levels across nearly all sectors of the St. Cloud economy, as shown in Table 3. Manufacturing employment continues to grow, though at a slower rate than the statewide rate. One area of relative weakness has been the educational and health industries, where employment growth has stagnated over the last year locally while growing nearly 2% statewide.

Another issue that has bothered us over the last six months has been the volatility of the series we use for the leading indicators index. This sometimes leads to volatility in the index itself that can be misleading. In the table above, measuring just the change from June to September 2004 leads us to the index of leading economic indicators rising only 0.05%. But most of this decline is due to a decline

in help wanted advertising. Had we reported the series for August instead, help-wanted advertising would have contributed 1.7% towards an increase in the quarterly index of 2.5%. It is implausible that such sharp movements in the series indicate anything more than a blip in job advertising. This aberration also appeared to us last quarter when considering a revision to the new business incorporations series.

For this reason we are beginning this issue to highlight the six month moving average of the St. Cloud Index of Leading Indicators in the executive summary. We will continue to report the monthly data inside the report, so that those who might follow our information can continue to track monthly changes. There is, however, far more information to be obtained by readers from the general movement of the index over a four-to-six month period than by considering each individual movement. We will try to present the data accordingly.



Participating businesses can look for the next survey in mid-January 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 February. Area businesses that 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.