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ST. CLOUD AREA
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AREA'S SLOW GROWTH CONTINUES

Increase in employment is slight compared with past expansions

EXECUTIVE SUMMARY

The St. Cloud-area economy continues to expand despite signs of slowing employment growth.

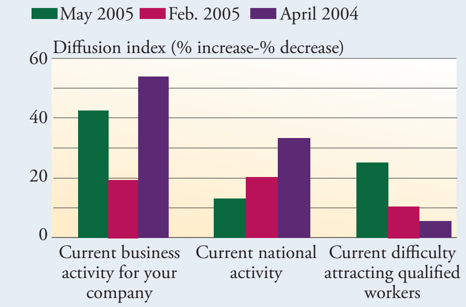
Employment increased at a rate of 0.9 percent in the year ending in April as the area economy created 879 jobs in 12 months. Mixed signals point to a continuation of the slow and steady growth of the past 20 months. Three of four components of the St. Cloud Area Index of Leading Economic Indicators fell in the February-to-April 2005 period. While help-wanted advertising continues to surge, local housing starts are slowing from their frenetic 2004 pace. The overall direction of the local index of leading economic indicators continues to be upward, but we expect a slowing trend through summer.

Fifty-eight percent of surveyed companies experienced improved economic conditions in the recent quarter. Perceptions of national business activity have expanded in the past three months, although the net gain in national activity is the weakest reported by area companies since the September 2003 survey (the month in which area recovery is believed to have begun).

Twenty-six percent of firms report more difficulty hiring qualified workers. This is the highest number for this measure of labor-market tightness since the June 2000 survey. As the labor market tightens, firms may find it more difficult to find qualified workers because of the lack of technical skills in the work force. Fifty-two percent of firms report more than 80 percent of their employees use a computer at work.

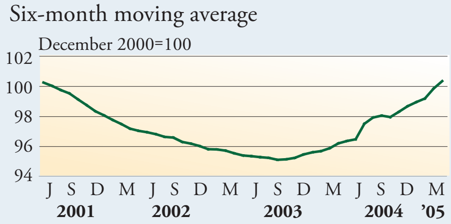
Special questions measure high-technology activity and the economic impact of St. Cloud State University.

KEY RESULTS OF SURVEY



INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



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INSIDE

THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

CURRENT CONDITIONS

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 92 area 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 St. Cloud area. Survey responses are strictly confidential.

In the past three months, area businesses experienced an interesting pattern of economic activity. While the diffusion index on current business activity is about what normally occurs in our spring survey, other responses are irregular. The diffusion index is the percentage of respondents indicating an increase minus the percentage indicating a decrease.

A diffusion index of 42.4 on the first item in Table 1 compares favorably to 19.3 reported in the February 2005 survey, but this is part of a normal seasonal pattern. A better comparison is with previous spring surveys. The value of this index was 53.7 in spring 2004 (the highest recorded in the spring), -9.3 in spring 2003, 14.3 in spring 2002 and -1.9 in spring 2001.

An index of 22.8 on the current number of employees is somewhat larger than the normal response in the spring survey, as is the value of 18.5 on length of workweek. Capital expenditures continued to be strong, although this index probably reached its peak one year ago.

The current prices-received index, at 35.9, is the highest recorded on this item. Rising energy costs, increases in providing employee health insurance, heightened labor-market tightness and a depreciation of the dollar are among causes of cost-induced price increases. Firms also may be experiencing more pricing power.

The pricing environment is markedly different from two years ago. In the June 2003 business outlook survey, more than one-third of surveyed businesses indicated they were moderately or extremely concerned with the prospect of potential *deflation!*

The largest movement of survey items in 12 months has been in national business activity and difficulty of attracting qualified workers. The diffusion index on current national business activity shows the weakest value since September 2003, and the index on difficulty attracting qualified workers is the highest recorded in almost five years.

While national conditions appear to be slowing (most likely because of monetary tightening by the Federal Reserve), the slack in the local labor market has been largely absorbed for qualified workers. It remains to be seen whether Fed efforts to dampen inflationary pressures and a slowing of the national economy will moderate some of the labor-market tightness that has picked up in recent months.

FUTURE CONDITIONS

Area business leaders are predictably optimistic about their firms' prospects going forward six months. Sixty-four percent of survey respondents expect increased business activity six months from now. The diffusion index on the level of future business activity is 56.5 — significantly lower than observed in February (a normal seasonal effect) and slightly lower than the 59.2 value reported in the April 2004 survey. When compared with results of other spring surveys, the figures reported in Table 2 are mixed.

Thirty-eight percent of responding firms plan to increase hiring in the next six months, and a similar percentage expect to increase capital spending. It should be noted that the diffusion index on number of future employees and length of workweek are slightly lower than one year ago. On the

TABLE 1-CURRENT BUSINESS CONDITIONS

	May 2005 vs. Three months ago				February 2005
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	15.2	27.2	57.6	42.4	19.3
Number of employees on your company's payroll	9.8	57.6	32.6	22.8	18.3
Length of the workweek for your employees	8.7	64.1	27.2	18.5	2.8
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.3	56.5	40.2	36.9	38.5
Employee compensation (wages and benefits) by your company	2.2	48.9	48.9	46.7	51.4
Prices received for your company's products	4.3	64.1	40.2	35.9	35.8
National business activity	8.7	55.4	21.7	13.0	20.2
Your company's difficulty attracting qualified workers	1.1	71.7	16.1	25.0	10.0

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 other hand, the capital expenditures and prices-received indexes are somewhat higher than last spring. (To compare, the capital expenditures index in spring 2002 — during a local recession — was only 12.2).

In April 2004 we reported a future-conditions index on national business conditions of 25.9. The value of 20.7 for this item in Table 2 is further evidence of weakness in national activity.

By far, the largest difference between this quarter's survey and one conducted a year ago is in the index on expected difficulty attracting qualified workers. Last spring, the diffusion index on this item was 13 (with 17 percent of respondents expecting increased difficulty attracting qualified workers). The index for this quarter is 25, with no area businesses expecting decreased difficulty attracting qualified workers in six months' time.

The anticipated worker shortage is broad-based. None of the 92 firms responding to the survey expects a moderation of this perceived shortage of qualified workers. Compare this with the conditions observed in the September 2001 survey (about the time the area economy entered recession). At that time, only 6 percent of firms expected increased difficulty attracting qualified workers while 20 percent expected less difficulty attracting qualified workers. This question has proved a strong indicator of area labor-market conditions during the seven years of the survey.

What is affecting your company?

Survey respondents were asked to comment on special factors influencing their business. Comments include:

- **"(Our) business requires one-year minimum training for (basic positions) plus additional (training) for (more advanced positions)."**
- **"Customized training is going 'gang-busters' for us. There is a significant shift in employee training since 9-11."**
- **"Retail business, in general, is slow. Factors are higher energy and gas costs."**
- **"There is an overabundance of job applicants with four-year degrees and a shortage of applicants with technical skills and common sense."**
- **"Decrease in housing purchases; lack of industry development in St. Cloud with higher-paying jobs to afford houses; high Minnesota taxes deter industry."**
- **"The issue of increasing health-care and prescription costs is still a concern. While it has slowed, it is still too high."**
- **"Increasing local competition; medical cuts to physicians."**
- **"We are a cyclical business; more than 50 percent of our sales volume is in the first three and a half months. Temporary employees and long work hours end at 4/15 each year."**

SPECIAL QUESTIONS

We have noted in recent quarters that area businesses have reported plans to expand capital investment. The 1990s saw a persistent boom in investment that had not been seen the previous two decades. Most observers would attribute the 1990s investment boom, particularly in the latter half of the decade, to the spread of information technology. There was a surge in investment before 2000 as firms prepared for the Y2K problems everyone expected. When Y2K fears failed to materialize, investment in IT sagged in 2000-01, contributing to the national recession. More than half of the 8.8 percent decline in investing in equipment and software in 2001 was attributable to a decrease in investment in IT.

According to a U.S. Census survey in September 2001, 54 percent of Americans use a computer at work. Financial return on computer use is substantial. Initial surveys indicated that a worker with a computer earned 15 percent to 20 percent more than a similarly situated worker without one. But the return

TABLE 2-FUTURE BUSINESS CONDITIONS

	Six months from now vs. May 2005				February 2005
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	7.6	25.0	64.1	56.5	66.0
Number of employees on your company's payroll	7.6	52.2	38.0	30.4	36.7
Length of the workweek for your employees	7.6	76.1	14.1	6.5	22.0
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.3	57.2	37.0	33.7	41.3
Employee compensation (wages and benefits) by your company	1.1	53.3	43.5	42.4	53.2
Prices received for your company's products	5.4	52.2	37.0	31.6	37.6
National business activity	4.3	54.3	25.0	20.7	33.0
Your company's difficulty attracting qualified workers	0	71.7	25.0	25.0	23.9

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.

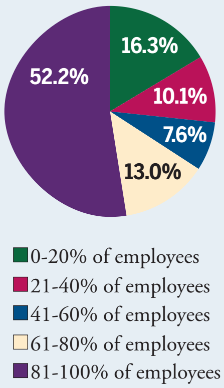
Source: SCSU Center for Economic Education, Social Science Research Institute and Department of Economics

SPECIAL QUESTIONS

QUESTION 1:

HOW MANY USE COMPUTERS?

Area business leaders were asked to indicate the percentage of their employees who use a computer at work. The share of a firm's work force that uses a computer probably serves as a proxy for technical skills of the work force.



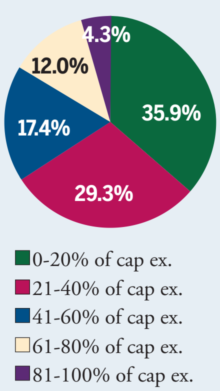
Slightly more than 52 percent of respondents indicate that more than 80 percent of their employees use a computer at work. Only 16.3 percent report fewer than 20 percent of their employees use a computer at work.

Almost 78 percent of St. Cloud-area jobs are in service-providing industries. A growing share of area jobs are rotating to computer-intensive sectors such as information, financial activities, professional and business services, and education and health care. In April 2005, these four sectors had a 27.8 percent share of area employment compared with 23.3 percent 15 years ago. The results of this special question are a reminder to area workers of the need to constantly upgrade technical skills to avert the structural unemployment that can befall those who lose jobs in declining industries.

QUESTION 2:

HIGH-TECH SPENDING

The response to the second special question suggests somewhere between 21 percent and 40 percent of the typical area firm's capital budget is spent on "high-tech equipment." Indeed, 36 percent of responding firms indicate less than 20 percent of their capital expenditures is on computers and software. We cannot be sure if this type of investment is capital broadening — adding high-tech equipment to additional workers — or capital deepening — adding more high-tech equipment to the workers who have computers. In addition, if computer equipment turns over in less than five years, we may already have reached an equilibrium amount of high-tech purchases in the St. Cloud economy.



to business from adding computers for workers depends on the worker's skills.

Data from the U.S. Department of Labor indicate that in 2001, 82.3 percent of workers that had a bachelor's degree or higher used a computer, but only 42.3 percent of those without a four-year degree used one. Almost 80 percent of those in managerial and professional occupations use a computer, but fewer than one in four in nontechnical service occupations do so.

Even in precision manufacturing, the rate of computer use is less than 30 percent. Much use of computing in manufacturing comes from managers and professionals, not from production workers. (In the manufacturing sector, use of computers is about half of its work force.)

The return to a worker's wages from having a computer, keeping education, age and other factors constant, was 31.4 percent of his or her wage if that worker has a bachelor's degree or more, about double the premium for those with a computer but without a bachelor's degree.[1]

U.S. Census data show education levels in the St. Cloud-area work force have improved since 1990 but remain lower than the nation as a whole, based on high school and college graduation rates. More than 24 percent of the nation's work force had at least a bachelor's degree in 2000, compared with 21 percent locally. Educational limitations could prevent St. Cloud-area workers from benefiting as much as other parts of the nation from the introduction of computers.

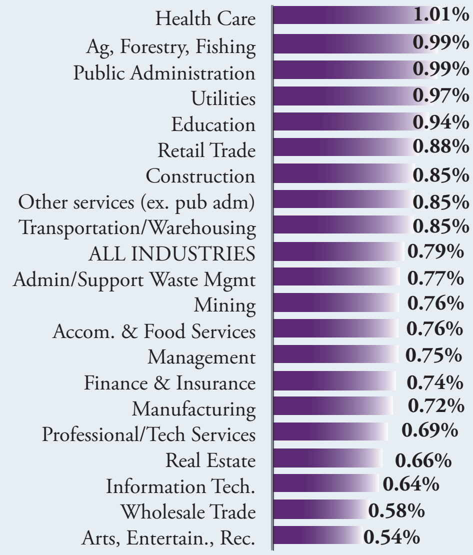
Nationwide, 32 percent of firms' capital budget is spent on high-tech equipment and software ($571.9 billion invested in nonresidential information processing and equipment out of total real private fixed investment of $1.79 trillion in 2004). In comparison, only $100.7 billion was spent on high-tech in 1990. Despite difficulties in making comparisons, the results of the local survey seem quite consistent with what is observed for the nation as a whole.

At least one academic study has suggested that, holding everything else constant within any given occupation, the percentage of workers using a computer may account for wage differentials across geographic areas for similar occupations. Commentators have often remarked on the wage differential in various occupations between the Twin Cities and St. Cloud. This differential can be rather large in some industries, while it is nonexistent in others.

WAGE DIFFERENTIALS

St. Cloud vs. Minnesota

In 2003



Overall wage differential between St. Cloud and the state as a whole was 21 percent in 2003 (through the third quarter). For each dollar of labor income earned statewide, the St. Cloud worker earned 79 cents. For new hires, a St. Cloud worker received 67 cents to the Minnesota worker's dollar.

The figure above suggests the types of workers who frequently use computers suffered larger wage differentials than those who might use them less. Finance and insurance workers get 74 cents on the dollar; professional and technical services workers earn 69 cents.

The notable exception is health care, where worker shortages may induce more intense bidding for skilled workers. Business leaders in the area have embarked on an effort to bring the bioscience industry into the area (particularly in manufacturing). The absence of the wage differential will help there, as will the presence of advanced technologies. But St. Cloud has a long way to go in closing the wage gap.

[1] See Rob Valetta and Geoffrey MacDonald, The Computer Evolution. Federal Reserve Bank of San Francisco Weekly Letter, July 23, 2004. www.frbsf.org/publications/economics/letter/2004/el2004-19.pdf.

ECONOMIC IMPACT OF SCSU

A forthcoming study by researchers from St. Cloud State University will highlight the university's impact on the St. Cloud-area economy.[2] In addition to the quantitative predictions on area output, employment and spending, the impact study also looks at qualitative indicators of the impact.

One set of indicators comes from the most recent business outlook survey. We asked area business leaders to consider 20 areas in which St. Cloud State might have an important influence on their company.

Key results shown in the accompanying table indicate that area business leaders believe the university plays an important role in providing workers to the local labor pool. More than 40 percent of survey respondents indicate it is of moderate or large importance for their company to access St. Cloud State students for permanent and temporary employment positions. In addition, almost one-fourth of firms surveyed find access to university students for internships to be of at least moderate importance.

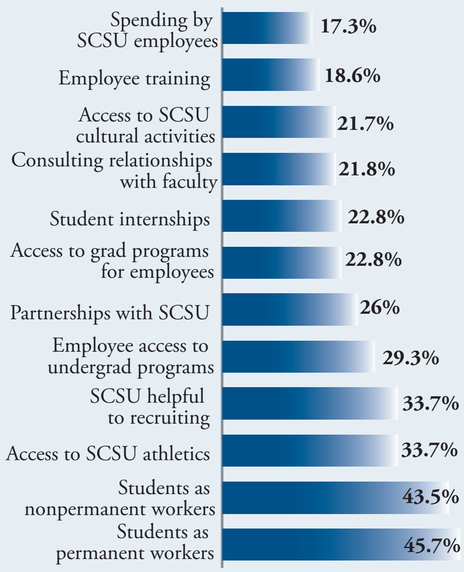
One-third of employers indicate the university is important in recruiting employees. St. Cloud State contributes to area businesses through cultural and athletic events. Undergraduate, graduate and employee-training programs also are important to area firms. Finally, respondents value partnerships with university departments, centers and colleges, as well as faculty consulting arrangements.

The direct and indirect impact of St. Cloud State in Stearns and Benton counties is estimated at $315 million. This impact comes from direct purchases of local products by the university as well as spending by students, faculty and visitors.

Total employment related to St. Cloud State is about 6,500 (1,470 university employees plus estimated indirect employment of 5,076). In total, St. Cloud State is responsible for about 3 percent of all area output and 5 percent of employment. Sectors of the area economy that receive the most economic benefit include retail, accommodations and food, real estate/rental, entertainment, finance and insurance and professional/management services.

THE IMPACT OF SCSU

Respondents indicating "moderate" or "large" importance



IMPACT OF ELECTROLUX

There have been several pauses in production recently at the Electrolux Home Products plant in St. Cloud, including April 11-15 and May 9-13. During the second pause, the plant announced there would be 130 employees laid off as of May 23.

There is a significant risk that these are portents of a permanent shutdown. With help of Brigid Tuck, program manager of the Minnesota Economic Development Center (MEDC) at St. Cloud State University, we looked at the impact of a possible closure.

Electrolux's financial performance in its North American appliance group deteriorated in the first quarter of 2005. According to its first-quarter financial statement released April 20, this deterioration was because of "substantially higher prices for materials which were only partly offset by price increases and an improved product mix. Income also was negatively impacted by costs referring to the ongoing transfer of (refrigerator) production to Mexico."

The company also is suffering from a decline in the U.S. dollar versus its Swedish home currency. Appliance sales were down 6.5 percent in North America, and overall inventories grew 45 percent faster in the first quarter of 2005 as in 2004. It is evaluating closures in Sweden and Italy — production of one Swedish plant has moved to Hungary — and Electrolux continues to spend money on moving refrigerator production in North America to a plant in Mexico.[3]

When a significant manufacturer slows production, it also begins to reduce its demands on providers of inputs or other business services. Many of the inputs received by Electrolux come from outside the local area, but based on an input-output model maintained by MEDC, we believe about 31 percent of the value in Electrolux's output would be accounted for by local production. Some of these are provided or induced from the rest of the area economy, including everything from warehousing and transportation to the caterer who parks a truck in front of the plant for employees' breaks. Those groups also are adversely affected by the slowdown in production.

The layoff of 130 employees from the plant likely generates 80 job losses elsewhere in the economy. Here is a breakdown of losses by sector:

- **Wholesale trade:** 20.
- **Manufacturing (minus Electrolux)**: 15.
- **Transportation and warehousing:** 10.
- **Professional and technical services:** 6.
- **Retail trade:** 5.
- **Administrative and waste service:** 5.
- **All others:** 19.

In all, 210 jobs lost results in a decrease in area employment (or a rise in local area unemployment) of more than 0.2 percent.

In April, new claims for unemployment insurance rose 75 percent in the four-county area, largely fueled by a rise in claims from manufacturing workers. Claims more than doubled in Benton and Stearns counties.

In the worst-case scenario of a closure, the remaining 1,350 employees at Electrolux would become unemployed. The total loss to the St. Cloud economy of this hypothetical scenario is estimated by MEDC to be 2,178 jobs, including 200 in wholesale trade, 100 in the transportation sector and another 100 in the retail and restaurant sectors (combined). To put this in context, it would wipe out the gains made in employment since the bottom of the St. Cloud-area recession in late summer 2003.

The impact on the area economy would be substantial. An Electrolux closure would reduce area output by more than $90 million. Besides jobs, this would likely slow growth of the retail corridor on the west end of St. Cloud and into Waite Park. It

[2] See Brigid Tuck and Rich MacDonald, Economic Impact of St. Cloud State University on the St. Cloud Area Economy, St. Cloud State University, 2005 (forthcoming).

[3] Data from Electrolux Interim Report January-March, Stockholm, April 20, 2005. Online at http://ir.electrolux.com/files/electrolux_Q12005_en.pdf.

would reduce the level of local area government revenues, as tax receipts would be slowed. Finally, home sales would likely slow, perhaps decreasing residential construction and property values.

This scenario is, of course, speculation on our part. And it should be noted that the impact of a shutdown would not be felt all at once. The Fingerhut closure took about 18 months to be felt fully, and certain parts of the economy (such as the housing market) did not seem adversely affected. Nevertheless, as one of us (Banaian) noted in March at the SCSU Center for Economic Education's Economic Outlook, Electrolux is a dark cloud on what would otherwise seem a relatively bright forecast. May's layoff announcements should be viewed as clouds intensifying.

LOOKING AT THE DATA

Outside of Electrolux, the local economy continues to add workers at a steady (if unspectacular) pace, but there are other clouds.

Table 3 shows continued slow expansion of private-sector employment to a year-over-year rate of 0.6 percent in April versus 1.9 percent in January. Part of this is because of temporary layoffs at Electrolux. Service-sector employment softened as well, with slowing of employment growth occurring in all sectors of the St. Cloud economy except retail sales. Construction employment, a driving force in the local economy the past few years, has slowed in recent months.

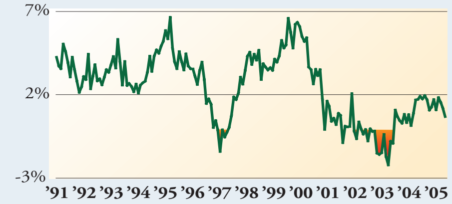
The accompanying figure supports the title of this issue of the St. Cloud Area Quarterly Business Report. Note that the current expansion has been marked by a weakness of growth of private-sector employment relative to other local expansions. Looking at the monthly year-over-year, private-sector employment growth numbers for the St. Cloud MSA, there has not been a single month in which employment has grown more than 2 percent for almost five years!

Contrast this to the expansion of the late 1990s, in which monthly private-sector employment growth topped 2 percent from September 1997 through September 2000 (a span of 37 consecutive months). To be sure, this type of growth tends to feed on itself, but so far, the area economy has not experienced the sustained spurt of private-sector employment growth that is necessary to return us to the more desirable economic climate of the late 1990s.

The data in Table 4 indicate unemployment rose in April versus a year ago. Note employment growth reported here is from the Bureau of Labor Statistics' household survey rather than the payroll survey data

YEAR-OVER-YEAR PRIVATE EMPLOYMENT GROWTH

St. Cloud Metropolitan Statistical Area (Stearns and Benton)



Source: Minnesota Department of Employment and Economic Development

shown in Table 3. There was a substantial increase in the growth of the labor force in St. Cloud, as workers may have been attracted by increasing wages to come back into the labor force. Thus, while civilian employment from the household survey sped up from 1.7 percent to 2.0 percent between January and April, it was not enough to reduce the unemployment rate.

For the first time in recent memory, new housing starts are slowing in the area, which corroborates the Table 3 data showing declining employment in the local construction sector. This in part comes from a large number of starts in April 2004, with 181 units started that month versus 125 in April 2005 and 115 in April 2003. Given that the weather this April was near-normal for precipitation and temperature, we will follow this information closely to see whether the construction boom that accelerated with

TABLE 3–EMPLOYMENT TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend growth rate	April 04-April 05 growth rate	April 05 employment share	15-year trend growth rate	April 04-April 05 growth rate	April 05 employment share	15-year trend growth rate	April 04-April 05 growth rate	April 05 employment share
Total nonagricultural	2.3%	0.9%	100%	1.6%	0.9%	100%	1.6%	0.9%	100%
Total private	2.6%	0.6%	85.0%	1.6%	0.8%	85.7%	1.7%	1.0%	84.3%
Goods producing	2.8%	0.5%	22.2%	0.4%	0	16.1%	0.8%	0.6%	17.4%
Construction/natural resource	3.8%	-1.1%	4.8%	3.2%	-4.4%	4.4%	3.0%	-2.1%	4.6%
Manufacturing	2.6%	0.9%	17.4%	-0.3%	1.7%	11.7%	0.1%	1.6%	12.8%
Service producing	2.2%	1.0%	77.8%	1.8%	1.0%	83.9%	1.8%	1.0%	82.6%
Trade/transportation/utilities	1.2%	0.8%	21.5%	1.0%	1.2%	19.2%	1.1%	1.1%	19.4%
Wholesale trade	3.2%	1.5%	4.8%	1.3%	1.5%	4.9%	1.4%	0.7%	4.8%
Retail trade	0.7%	0.9%	13.8%	1.1%	1.1%	10.5%	1.2%	1.0%	11.1%
Trans./ware/utilities	1.0%	-1.0%	2.9%	0.3%	1.4%	3.8%	0.6%	1.7%	3.5%
Information	1.5%	-.05%	1.4%	0.3%	-8.4%	2.3%	0.5%	-4.5%	2.2%
Financial activities	3.9%	1.4%	4.2%	2.3%	1.5%	8.1%	2.3%	1.2%	6.6%
Professional & business service	4.4%	0.2%	7.5%	2.1%	0.4%	14.1%	2.4%	0.9%	11.2%
Educational & health	3.3%	0.6%	14.7%	3.1%	3.1%	12.8%	3.2%	2.4%	14.4%
Leisure & hospitality	2.7%	0.6%	8.8%	2.0%	1.7%	8.9%	1.9%	1.8%	8.7%
Other services (excluding govt.)	2.3%	1.5%	4.7%	1.5%	-2.0%	4.3%	1.7%	-1.3%	4.4%
Government	1.2%	2.5%	15.0%	1.7%	1.5%	14.3%	1.2%	0.7%	15.7%
Federal government	0	2.0%	1.7%	-0.3%	-2.6%	1.2%	-0.8%	-2.6%	1.2%
State government	0.3%	8.8%	4.5%	1.7%	1.4%	4.0%	0.6%	1.2%	3.5%
Local government	0.2%	-0.4%	8.9%	2.3%	2.1	8.9%	1.6%	1.0%	11.0%

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 favorable interest rates in 2004 is slowing with higher interest rates in 2005.

Table 4 also shows the rapid growth in help-wanted advertising at the St. Cloud Times continued in early 2005, though at a slower pace than before.

This quarter we also received a substantial revision in the data on the number of hours worked in the St. Cloud manufacturing sector. The revision reduced the value of the local index of leading economic indicators by 0.7 to a reading of 100.2 from 100.9 that we reported previously (though it did increase the estimated index slightly for the second half of 2004).

The leading-indicators index fell by 0.47 points from this revised level in three months ending in April. Indeed, three of four components of the index fell between January and April. However, the drop is moderate and appeared only in the April reading. February and March readings were strong.

The fall in help-wanted advertising was from an extraordinarily high level in January, and the index was even higher in February and March before decelerating in April. As noted in last quarter's St. Cloud Area Quarterly Business Report, the new unemployment claims number is bouncing back from the first wave of layoffs at Electrolux, but we will expect this number to deteriorate as we enter the summer and fall and the newer round of layoffs make their effects felt on the indicators.

The slowing of national economic activity perceived by respondents to our business outlook survey is matched by the panel of 50 economists surveyed by the National Association of Business Economists (NABE). The panel's forecast for real GDP growth for 2005 and 2006 was trimmed by 0.2 percent for each year, to an annual rate of 3.4 percent. Most of the decline is because of continued widening of the trade deficit, now expected to top $660 billion in 2005. These forecasters expect the dollar will continue to decline, but unless China drops its fixed exchange rate versus the dollar, this may have a limited impact on the trade deficit. Foreign producers seem willing to accept lower profits. This may account for increased pricing power area businesses are reporting as well.

The Federal Reserve continues to move interest rates gradually upward. Financial markets fully expect a further 75-basis-point rise in the federal funds rate, with two quarter-point increases likely in June and August. NABE thinks the rate could go to 4 percent, yet it does not think this will affect the housing market significantly.

Oil prices are adding about 0.5 percent to this year's CPI inflation rate, and this is likely to cause the Fed to lean toward greater monetary tightness. Locally, First Fuel Banks chief executive Jim Feneis is noting that refining difficulties are creating a bottleneck that is not allowing any drops in oil prices to transmit to lower gasoline prices. But markets tend to correct for temporary shortages even in (or perhaps especially in) products as key as oil.

The NABE forecasters believe inflation will decelerate in 2006 toward the expected core rate of 2.5 percent. Productivity increases, which can lead to rapid expansion without creating additional jobs, appear to be decelerating to a more normal range of about 2 to 3 percent from the 4 to 5 percent range observed in 2003-04. This probably means increasing production will be accompanied by more employment going forward, but higher wages and prices also are possible.

The recurring word in the national forecasts is "normal." What we are experiencing nationally is trend growth.

We would hope against this backdrop, St. Cloud would grow at slightly better than trend rates, particularly as it moves ahead from a late-ending recession and tries to regain the strong employment levels of the latter 1990s. The continued stubbornness in area employment growth and the negative signals from Electrolux, however, indicate that St. Cloud might need more time as it follows the rest of the nation in reducing its economic dependence on large manufacturers.

TABLE 4-OTHER ECONOMIC INDICATORS

	2005	2004	Percent Change
St. Cloud MSA labor force April (Minnesota Department of Employment and Economic Development)	110,417.0	107,779.0	2.4%
St. Cloud MSA civilian employment # April (Minnesota Department of Employment and Economic Development)	104,995.0	102,984.0	2.0%
St. Cloud MSA unemployment rate* April (Minnesota Department of Employment and Economic Development)	4.9%	4.4%	NA
Minnesota unemployment rate* April (Minnesota Department of Employment and Economic Development)	4.1%	4.6%	NA
Minneapolis-St. Paul unemployment rate* April (Minnesota Department of Employment and Economic Development)	3.8%	4.3%	NA
St. Cloud area new unemployment insurance claims Feb.-April average (Minnesota Department of Employment and Economic Development)	918.0	872.0	5.3%
St. Cloud Times help-wanted ad lineage Feb.-April average	5,920.7	3,942.0	50.2
St. Cloud MSA residential building permit valuation in thousands, Feb.-April average (U.S. Dept. of Commerce)	11,966.7	14,488.7	-17.4%
St. Cloud index of leading economic indicators April (St. Cloud State University)	99.7	97.4	2.4%

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

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from January to April 2005	Contribution to LEI
Help-wanted advertising in St. Cloud Times	-0.24%
Hours worked	-0.42%
New business incorporations	-0.12%
New claims for unemployment insurance	+0.30%
Total	-0.47%

*Numbers may not add up due to rounding.

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 of Economic Education at (320) 308-2157.