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ST. CLOUD AREA
QUARTERLY BUSINESS REPORT

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ST. CLOUD-AREA BUSINESSES ENJOY STEADY GROWTH

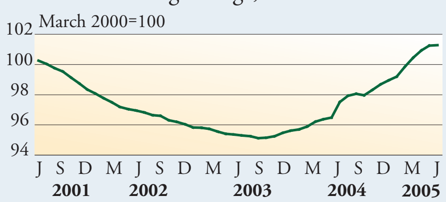
Gas prices warrant attention, not panic

EXECUTIVE SUMMARY

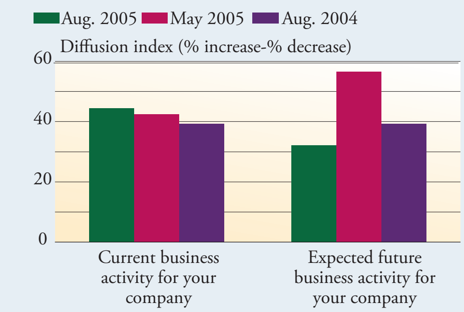
The St. Cloud-area economic expansion continued at a steady pace last quarter. While employment growth of 0.5 percent for the year ending July 2005 is well below the historical average, other signs point to an improving labor market. A shrinking labor force contributed to a reduction in the area unemployment rate. July's 3.3 percent unemployment rate compares favorably with July 2004, when the rate stood at 4.3 percent. Area unemployment insurance claims also were down compared with the previous year, and help-wanted ad linage in the St. Cloud Times was up 42 percent from a year ago. Surveyed businesses continue to report difficulty attracting qualified workers.

INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average, for St. Cloud



KEY RESULTS OF SURVEY



Bolstered by reductions in unemployment insurance claims and a gain in average hours worked in manufacturing, the St. Cloud Area Index of Leading Economic Indicators continued its rise in the May-July period. The smoothed index (based on six-month averages) has experienced a steady rise since bottoming out in fall 2003.

Fifty-three percent of surveyed companies experienced improved economic conditions in the recent quarter, and a similar percentage expect increased activity in six months. Almost one-third plan to hire more workers by February, while only 11 percent expect to trim payrolls. Twenty-seven percent of businesses believe national business activity

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INSIDE

will be improved by next year's first quarter. Inflationary pressures continue. More than one out of every four businesses polled reported an increase in prices received.

In responses to special questions:

▶ 85 percent of surveyed firms indicate that local ownership of area companies is of medium or large importance for St. Cloud's long-term economic health.

▶ Almost three times as many firms support the passage of the Central American Free Trade Agreement as oppose it.

▶ Firms spend an average of 2 percent to 3 percent of their budget on employee development and training, but the percentage varies significantly.

▶ Area businesses have a mixed view about efforts to require firms to pay livable wages to receive business subsidies.

THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

Responses in Tables 1 and 2 are from 90 area employers that returned the survey in time to be included in the report. Participants include retail, manufacturing, construction, financial, health services and government enterprises in varying sizes. Survey responses are confidential.

CURRENT CONDITIONS

In the past three months, area businesses experienced economic activity somewhat above average for this time of year.

The diffusion index on most items is better than normal for our summer survey. (A diffusion index is the percentage of respondents indicating an increase minus the percentage indicating a decrease.)

A diffusion index of 44.4 on business activity is very similar to 42.4 reported in the May 2005 survey. The index is the highest recorded for a summer survey since 1999, although the 2003 and 2000 surveys were close. Capital expenditures remain strong. A diffusion index of 35.6 is the highest recorded in the summer (although this index doesn't have any apparent seasonal pattern).

The current prices-received index is lower than the 35.9 value recorded last quarter (which was the highest recorded), although 22.3 on this item is above the historical average for prices received. Many firms report cost pressures because of rising energy prices, higher interest rates, increased health-care costs, etc., so it is quite likely the increase in prices received by local firms is to maintain existing profit margins.

Firms' perceptions of national business activity also has improved. Twenty-six percent of firms believe national activity increased last quarter.

Finally, a diffusion index of 17.8 on the difficulty attracting qualified workers is the highest recorded in the summer survey since 2000. Indeed, summer surveys conducted in 2001-03 yielded a negative value of the diffusion index on this item. While no firms report an acute shortage of workers, this item helps demonstrate the area labor market has improved markedly for those seeking employment.

FUTURE CONDITIONS

Area business leaders are slightly less optimistic than usual about their firms' prospects in six months.

While 51 percent of survey respondents expect increased business activity, 19 percent expect a decrease in activity. Indeed, the diffusion index for future business activity (32.2) is measurably lower than observed in May and somewhat lower than the 39.5 value reported last summer. Several area firms note this is a normal seasonal pattern of activity, so this result should not cause much concern.

Thirty-two percent of responding firms

TABLE 1-CURRENT BUSINESS CONDITIONS

	August 2005 vs. Three months ago				May 2005 Diffusion Index[3]
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	
What is your evaluation of:					
Level of business activity for your company	8.9	37.8	53.3	44.4	42.4
Number of employees on your company's payroll	13.3	52.2	34.4	21.1	22.8
Length of the workweek for your employees	2.2	71.1	26.7	24.5	18.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	2.2	58.9	37.8	35.6	36.9
Employee compensation (wages and benefits) by your company	1.1	52.2	46.7	45.6	46.7
Prices received for your company's products	4.4	64.4	26.7	22.3	35.9
National business activity	5.6	54.4	25.6	20.0	13.0
Your company's difficulty attracting qualified workers	4.4	71.1	22.2	17.8	25.0

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 plan to increase hiring during the next six months, and a similar percentage expects to increase capital spending. Indeed, the diffusion index on the capital spending item is the highest recorded since 1999. The diffusion index on length of workweek turned negative for the first time in one year, although this appears to be a normal seasonal effect.

Despite varied uncertainties affecting the economy, area businesses remain upbeat about future national business activity. Twenty-seven percent of surveyed firms expect national conditions to be improved in the next six months, while only 6 percent expect weakened activity.

Upward pressures on prices are expected to continue. Almost one-third of business leaders expect their firms to increase prices by February, and few firms expect prices to fall.

The labor market is expected to remain fairly tight. A diffusion index of 17.8 on expected future difficulty attracting qualified workers is similar to one year ago and is much higher than the values for this index in 2001-03. However, when compared to the general labor shortages experienced in the late 1990s, the value of this index is really quite low. For example, the diffusion index on expected future difficulty attracting qualified workers was 42.4 in the survey conducted in summer 1999. We have a long way to go before returning to the labor market conditions of five to six years ago.

What is affecting your company?

Numerous comments from respondents in the commercial and residential housing sector expressed concern about the near-term outlook. These comments (as well as others) include:

- **"Increasing governmental requirements slow development of commercial building projects and increase costs! Most projects take longer to get approved than it actually takes to construct them!"**
- **"Rising interest rates and flat yield curve affect margins negatively."**
- **"Supply of single-family residential homes and sites might outstrip demand in next six months."**
- **"The continual increase in gas (prices) has resulted in higher costs across the board. Increases in health-care premiums resulted in lower coverage plan being adopted. Qualified and quality workers near impossible to find."**
- **"Commercial construction has been strong but we've heard varied reports on residential construction ..."**
- **"Northwest Airlines' possible bankruptcy."**

SPECIAL QUESTIONS

QUESTION 1: Local ownership

There has been a lot of commentary about the desirability of encouraging the local ownership of area businesses. It is often argued that local ownership adds to economic stability and is more responsive to community-related issues. The survey asked, "To what extent does your firm feel that local ownership of area companies is important to the long-term health of the area economy?"

The survey shows resoundingly that area business leaders believe local ownership is important for the long-term health of the area economy. Fifty-five percent say it is of large importance, and 31 percent believe it is of medium

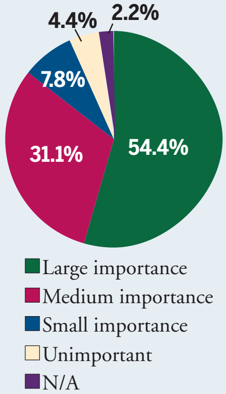


TABLE 2-FUTURE BUSINESS CONDITIONS

	Six months from now vs. August 2005				May 2005
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	18.9	24.4	51.1	32.2	56.5
Number of employees on your company's payroll	11.1	51.1	32.2	21.1	30.4
Length of the workweek for your employees	16.7	67.8	10.0	-6.7	6.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	4.4	54.4	34.4	30.0	33.7
Employee compensation (wages and benefits) by your company	0	42.2	52.2	52.2	42.4
Prices received for your company's products	4.4	54.4	31.1	26.7	31.6
National business activity	5.6	47.8	26.7	21.1	20.7
Your company's difficulty attracting qualified workers	4.4	65.6	22.2	17.8	25.0

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 importance. The 2004 purchase of SPX Corp. by local investors and the regional ownership of a portion of Fingerhut (resulting from the 2002 sale of Fingerhut assets) are examples of area firms with renewed local ownership. The recent disclosure that International Paper is looking to sell its Sartell paper mill raises the concern about what the ownership of this important employer will look like.

Survey respondents provided written explanations for their response to the ownership question. Comments include:

■ "Charitable reinvestment in the local economy drops with national companies."

■ "When large companies buy out local firms, there is no loyalty to current employees."

■ "Local ownership brings in the jobs with higher salaries. We need corporate level salaries to bring in the workers for all jobs."

■ "Money earned by local owners will stay in the community."

■ "Makes for lots (of) jobs and responsibility."

■ "All depends on what the overall strategic plan is of outside owners."

■ "We have seen adverse effects of non-local ownership."

■ "National companies have demonstrated minimal loyalty to Central Minnesota."

■ "Keep it local — seems when companies are sold they lay off employees."

■ "We are becoming a global economy — does it matter?"

■ "Many of our 'corporate' financial services are purchased by the 'home office.'"

■ "Local ownership provides control and local growth versus corporate movement of jobs."

■ "Local ownership at its best is ideal, but locals can be jerks, too."

■ "Much better chance of company succeeding and not being sold."

■ "Local ownership provides stability for the local economy. Outside owners have more access to capital to invest and grow."

■ "Important that key decision-making be located here."

■ "More likely to invest in our community."

■ "Small business will always evolve in USA."

■ "Continuity of employment without fear of relocation brings new employees into the area."

■ "Have more of a commitment to the community."

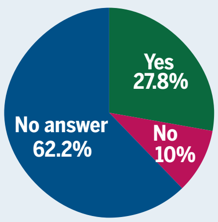
■ "Owners become involved in community also."

■ "(Unimportant). We work in Duluth, Brainerd, Alex … more than St. Cloud."

QUESTION 2: CAFTA

On Aug. 2, the Central American Free Tree Agreement was signed into law by President Bush after passing the U.S. House of Representatives by a narrow margin. This free-trade agreement eliminates most of the trade barriers between the United States and many of its trading partners in Central America. In Minnesota, the sugar beet industry objected to CAFTA. The survey asked, "Does your company support passage of CAFTA?"

Sixty-two percent of area businesses did not answer this question. However, of those who chose to answer this question, most supported CAFTA. "Yes" responses outpaced "no" responses by an almost 3-to-1 margin. Written explanations of firm responses tended to emphasize we are part of a global economy. These responses include:



■ "We are in a world economy."

■ "(We) will have to cut back on benefits to our employees just to help us survive. Would rather prosper than 'survive.'"

■ "Will help our industry increase exports."

■ "In the short term, global free trade agreements will provide lots of pain, but over the long haul, advantages for everyone will be evident."

■ "Should increase trade of American products."

■ "In general, free trade is best for consumers."

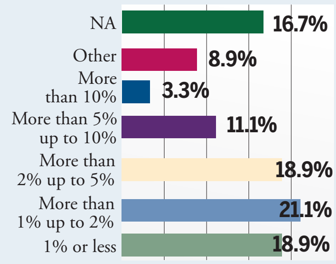
■ "We do not export products to this area."

■ "Hasn't got much local press, but it has real potential for agriculture (especially dairy)."

■ "If trade is equal where both countries benefit, it's good."

QUESTION 3: Employee training

As labor markets tighten, firms may find it desirable to expand training and development of unqualified or inexperienced workers. The survey asked, "Approximately what percentage of your firm's budget is dedicated to employee development and training?"



Answers to this question were open-ended, so there was a range of responses. About 75 percent submitted a numerical response, with answers ranging from zero to 25 percent. Forty percent of firms spend 2 percent or less of their budget on employee development and training, while about 35 percent spend 2 percent to 25 percent in this category. This puts local firms in line with national figures. For example, the American Society for Training and Development said in its 2004 State of the Industry Report the percentage of payroll spent on training and development averaged 2.52 in 2004. Written comments include:

■ "Economy still isn't robust to support the training and development employees need in every company and organization."

■ "Each applicant that is hired can do free computer training."

■ "Ongoing."

■ "Not allocated/by need."

QUESTION 4: Livable wage

This question drew some lively responses. Some parties have recently suggested firms receiving business subsidies should be required to pay livable wages. This would presumably apply, among other things, to companies that locate on Job Opportunity Building Zone sites. The survey asked, "To what extent does your company support efforts to require firms to pay livable wages in order to receive business subsidies from local economic development authorities?"

Results to this question were fascinating. While one-fourth of surveyed firms did not respond to this question, responding firms demonstrate a diversity of opinions. Percentages of respondents were about equal for "strongly opposed" and "strongly

I'D WALK A MILE FOR CHEAP GAS

We'd be remiss if we didn't discuss gasoline prices, energy and their effect on the local economy.

There is little doubt we are spending more on gas. Data from the Bureau of Labor Statistics and International Council of Shopping Centers indicates drivers spend 7.5 percent of their disposable income on gas, up from less than 5 percent at the beginning of 2003. One might expect this would reduce spending in other areas. Yet stores are still experiencing year-over-year gains of 4 percent or more. Sales have declined in the past few weeks nationally though, as gas prices have moved much higher.

We read from many sources that, in inflation-adjusted terms, the price of oil and gas is no higher than it was in the oil crisis of 1979-80. It is higher than it has been for those who came of driving age after 1985, others said.

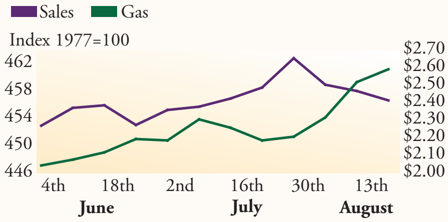
Another way to put higher prices into perspective, in our view, is to ask how hard one has to work to obtain a gallon of gasoline. In the accompanying graph, we take the national average price of gas and divide it by the national average hourly wage. The result is a line that is about constant for the past 40 years except for a spike at the time of the oil crisis. One had to work 7.1 minutes in 1964 at the average wage to earn enough to buy one gallon of gasoline. In 2004 one had to work 7.2 minutes. Currently, one needs to work 9.6 minutes (using August prices and July national wage levels). Using St. Cloud wages and prices, the figure is more than 10 minutes of work per gallon.

While we do not know the extent of damage from Hurricane Katrina as of this writing, the experience of Hurricane Ivan in 2004 – which cost the U.S. 45 million barrels of oil – suggests an additional 15 percent to 20 percent spike in gas prices for a short time (taking the pump price near $3, or the equivalent of 12 minutes of work). That effect, however, would dissipate as Gulf Coast oil producing and refining operations return to full capacity.

Business leaders in our survey agree with those in a national survey by the National Association of Business Economists. The economists expect oil to cost more than $60 a barrel through 2006, yet they are still expanding capital spending and expect 3 percent to 4 percent GDP growth next year.

MIDWEST GAS PRICES UP, RETAIL SALES INDEX DOWN

Regular gas, cents per gallon



Source: International Council of Shopping Centers and U.S. Department of Energy.

MINUTES OF WORK TO EARN A GALLON OF GAS

Minutes at average hourly earnings, private sector, production workers

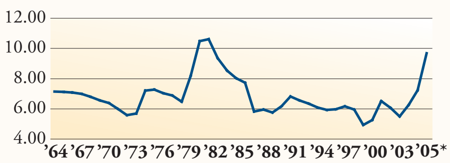


*Figure based on Aug. 22 gas price and July earnings data.

But the issue for local business gets back to the first graph in this section – what is the impact of rising oil prices on their costs and sales? Here we can find two stories.

First, productivity gains in the past 25 years mean a $1 increase in world oil prices has a smaller impact on the prices of finished goods than in the 1979-80 oil crisis.

A BTU of energy creates 80 percent more output now than it did then. People may be driving more, and driving more SUVs, but industrial use of oil accounts for more than half of U.S. demand. Firms are more able to adjust demand for oil by switching to other energy sources and using more energy-efficient production methods than they had access to 25 years ago.

Productivity in the second quarter slowed to 2.2 percent annual growth, but unit labor costs nationally stayed at a 1.3 percent annual increase in the period.

Part of the increase in the 1979-80 crisis was labor asking for large increases in wages to offset increased prices of consumer goods. These pressures do not appear now, and firms in our survey report the ability to pass through cost increases in the form of higher prices.

Second, it is worth remembering that unlike 1980, the current situation results largely from an increase in demand (with perhaps some supply disruptions as well). Demand from China has increased dramatically: Despite a 35 percent increase in the price of crude oil, that nation consumed 17 percent more oil in 2004 than in 2003. Though in the first six months of 2005 Chinese oil demand fell 1.4 percent, energy consumption is expected to grow through 2006. Increases in demand typically cause large price swings for goods that are inelastically supplied (such as oil).

In time, however, the quantity of energy supplied would increase as new sources are found, wells that were shut in the oil bust of 1986 – when prices fell to $10 a barrel – are reopened, etc. This would lower prices in the intermediate term. Moreover, a recent report in Agence France Presse indicates the International Energy Agency has investigated Chinese oil markets and concluded there is substantial subsidization of oil and gas for state production, which artificially increases the demand for oil and thus world oil prices. Indeed, the Chinese government is losing more than $10 a barrel on oil sold to state firms.

The impact locally therefore should not be too great. We should remind readers that a year ago, when gas prices also went higher than $2 per gallon, Minnesota Public Radio undertook a poll of Minnesota households and found a third had decided to stay closer to home for their vacations and/or cut back on their driving for "unnecessary trips." Businesses locally have done rather well in this environment, and higher prices have been largely foreseen by business owners and consumers.

We see no reason to contradict the general optimism in the St. Cloud Area Business Survey on the basis of oil prices even if they are a little higher from here.

in favor." The most popular response was "mildly in favor," at 23 percent. Written comments tell the story:

■ "We pay livable wages and adjust our pricing accordingly."

■ "We increase pay rates with economic change."

■ "The government should stay out of private business."

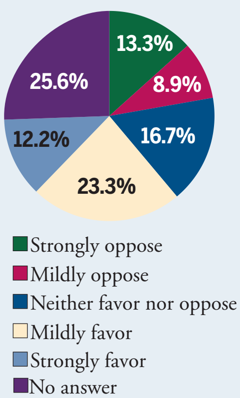
■ "(Mildly in favor). We participate in lending activities that use these programs."

■ "Depends on type of business."

■ "In favor of livable wages."

■ "We believe in livable wages at all times."

■ "Livable wages is not well defined, and mandating what employers can afford to pay is overstepping government authority in my estimation."



■ "I am not in favor of local economic subsidies."

■ "(Mildly opposed). This may lead to a livable wage for minimum wage."

■ "We need to pay fairly and competitive with local area."

■ "(Strongly in favor). The community needs to be healthy financially."

■ "Markets will dictate wages."

■ "Local decision, but we're opposed to more regulation. If set too high, it would be very negative in attracting business to area."

■ "(Mildly opposed). We have many low-income workers that need employment."

■ "If subsidies ever become a reality, (there) would be a high loss of tax base and extra tax load will fall on us — almost more than we can stand now."

■ "Who defines wage level — our competitors don't have (this) regulation."

■ "Wages are auction prices established by supply and demand."

■ "(Strongly in favor). If you take the break, pay up."

■ "Each case needs to be evaluated on (its own) potential."

■ "(Mildly opposed). City councils and county boards should not be picking winners and losers."

■ "(Mildly in favor). We need jobs that use and develop a skilled work force. The target company has to be willing to pay a fair wage."

■ "Businesses should not receive subsidies from government agencies under any circumstance."

LOOKING AT THE DATA

Employment data for the St. Cloud and Twin Cities markets (Table 3) have started to show a divergence in the past few months. Based on data from employers, manufacturing seems to have rebounded somewhat in the Minneapolis-St. Paul area while it remains soft in St. Cloud. Education and health sector employment also appears slower in the St. Cloud area. Overall private sector employment in St. Cloud is growing only at 0.6 percent, compared with 1.6 percent statewide. In the service sector, the difference is much smaller, with St. Cloud experiencing 1 percent growth in service-sector jobs versus 1.5 percent for the state overall.

Employment data from the household survey were revised during the last quarter, so we have a somewhat different picture of area employment in Table 4 than before. Employment grew in the household survey by 0.3 percent, less than the 0.6 percent reported in the employer survey. This is a reversal of a trend observed in 2003-04,

TABLE 3- EMPLOYMENT TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend growth rate	July 04-July 05 growth rate	July 05 employment share	15-year trend growth rate	July 04-July05 growth rate	July 05 employment share	15-year trend growth rate	July 04-July 05 growth rate	July 05 employment share
Total nonagricultural	2.3%	0.5%	100%	1.6%	1.3%	100%	1.6%	1.6%	100%
Total private	2.4%	0.6%	87.4%	1.6%	1.1%	87.0%	1.7%	1.6%	85.8%
Goods producing	2.5%	-0.8%	24.0%	0.5%	1.0%	16.8%	0.8%	1.7%	18.4%
Construction/natural resources	3.4%	0.9%	6.1%	3.2%	-0.4%	5.1%	2.9%	2.4%	5.5%
Manufacturing	2.3%	-1.4%	18.0%	-0.3%	1.6%	11.7%	0.1%	1.5%	12.9%
Service producing	2.2%	1.0%	76.0%	1.8%	1.4%	83.2%	1.8%	1.5%	81.6%
Trade/transportation/utilities	0.9%	0.7%	21.8%	1.0%	0.4%	19.2%	1.1%	1.4%	19.5%
Wholesale trade	3.0%	1.6%	4.9%	1.4%	1.1%	5.0%	1.3%	0.9%	4.9%
Retail trade	0.4%	0.9%	14.0%	1.2%	0.1%	10.6%	1.2%	1.4%	11.2%
Trans./warehouse/utilities	0.9%	-1.4%	2.9%	0.2%	0.2%	3.7%	0.6%	1.7%	3.4%
Information	0.8%	-2.3%	1.4%	0.1%	-7.0%	2.3%	0.5%	-1.3%	2.2%
Financial activities	3.6%	0.7%	4.3%	2.2%	2.4%	8.2%	2.1%	2.2%	6.6%
Professional & business service	4.0%	1.2%	7.8%	2.1%	0.5%	14.2%	2.5%	1.6%	11.4%
Educational & health	3.6%	1.2%	14.2%	3.2%	3.7%	12.6%	3.3%	2.8%	14.1%
Leisure & hospitality	2.9%	2.6%	9.1%	2.0%	2.4%	9.3%	1.9%	1.6%	9.3%
Other services (excluding govt.)	2.1%	0.8%	4.8%	1.4%	-1.1%	4.3%	1.5%	-1.6%	4.3%
Government	1.6%	0.4%	12.6%	1.6%	3.1%	13.0%	1.2%	1.4%	14.2%
Federal government	-0.7%	1.9%	1.7%	-0.4%	-2.1%	1.2%	-0.7%	-3.0%	1.2%
State government	1.2%	4.4%	2.9%	2.1%	2.4%	3.8%	1.0%	1.6%	3.1%
Local government	0.5%	-1.3%	8.0%	1.9%	4.3%	8.0%	1.6%	2.0%	9.9%

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 when household employment grew much faster than payroll employment. Just as in the rest of the state, unemployment is lower now and, at 3.3 percent, stands at its lowest point since October 2001. New unemployment insurance claims in the local area slowed as earlier layoffs from Electrolux have worked through the system. Help-wanted linage at the St. Cloud Times continues to be strong.

Building permits this summer are running somewhat below last year's levels, perhaps the result of increasing interest rates. Construction employment is growing, but at a slower rate than long-term trends here and in the Twin Cities. We note in our St. Cloud Area Business Outlook Survey several comments about interest rates and concerns of an emerging surplus of residential housing.

Along with the St. Cloud Area Business Outlook Survey, the data underlying the St. Cloud Index of Leading Economic Indicators have turned mostly positive this quarter. Relative to previous summers, initial claims for unemployment have moved down. It appears other businesses have not yet had to adjust employment to lower levels of activity from the spring layoffs at Electrolux.

New business incorporations continue to be a weak indicator, but this may be a sign of the more mature expansion — new businesses tend to be formed more often at the beginning of a new expansion. The number of hours worked at local manufacturers makes a very small contribution to the index this quarter.

We should note that two of the indicators have longer lead times between their movements and movements in area unemployment, giving us a preliminary "peek" into early 2006. Both indicators — unemployment insurance claims and business incorporations, are indicating strength into the middle of 2006. The key indicator here will be, as we have said for the past nine months, what happens with area manufacturers. If businesses can absorb the workers laid off at Electrolux, and in particular absorb them into other manufacturers, we expect the first half of 2006 to be very good.

Besides gas and oil, the national economy appears quite stable. Monetary policy will continue to tighten through year end. The oil price increases create a dilemma for the Federal Reserve: Higher energy costs might mean higher inflation, but consumers might experience the equivalent of a tax increase from higher energy prices, reducing their demand for goods and services. Fed statements indicate they favor the first story and will continue to raise interest rate targets. Three meetings of the Federal Open Market Committee were scheduled between September and the end of the year, and a rise of 25 basis points at each seems likely. If higher energy costs begin to slow economic growth — say, anything less than 3.5 percent GDP growth — we could see a pause in Fed actions early in 2006 as Alan Greenspan retires and a new chairman of the Federal Reserve is appointed.

But longer-term interest rates are likely to continue to move up at a slower rate as demand for U.S. securities overseas continues to be strong. The construction market, therefore, is not expected to decline too sharply and the housing market, while overpriced in many areas, seems unlikely to experience any sharp declines near term. And foreign exchange markets absorbed the change in Chinese exchange rate policy with hardly a ripple (to be sure, this was a minor revaluation).

There are any number of macroeconomic risks in the market — oil prices moving sharply higher, the housing market moving sharply lower, a worsening of the federal budget deficit, a major change in Federal Reserve policy when Alan Greenspan steps down early next year — but none of these seem uppermost in business leaders' judgments. Their attitude seems to be to invest and grow their firms until events change. As long as that attitude persists, expansion is in the cards.

TABLE 4-OTHER ECONOMIC INDICATORS

	2005	2004	Percent Change
St. Cloud MSA labor force July (Minnesota Department of Employment and Economic Development)	103,786	104,479	-0.7%
St. Cloud MSA civilian employment # July (Minnesota Department of Employment and Economic Development)	100,325	99,977	0.3%
St. Cloud MSA unemployment rate* July (Minnesota Department of Employment and Economic Development)	3.3%	4.3%	NA
Minnesota unemployment rate* July (Minnesota Department of Employment and Economic Development)	3.4%	4.5%	NA
Minneapolis-St. Paul unemployment rate* July (Minnesota Department of Employment and Economic Development)	3.3%	4.5%	NA
St. Cloud area new unemployment insurance claims May-July average (Minnesota Department of Employment and Economic Development)	654.3	754.3	-13.3%
St. Cloud Times help-wanted ad linage May-July average, in inches	5,874.3	4,124.3	42.4
St. Cloud MSA residential building permit valuation in thousands, May-July average (U.S. Dept. of Commerce)	$17,412	$18,809	-7.4%
St. Cloud index of leading economic indicators July (St. Cloud State University)	100.4	98.6	1.8%

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
NA - Not applicable

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from April to July 2005	Contribution to LEI
Help-wanted advertising in St. Cloud Times	-0.31%
Hours worked	0.21%
New business incorporations	-0.13%
New claims for unemployment insurance	+0.80%
Total	0.57%

*Numbers may not add up due to rounding.

In the next edition of QBR

Participating businesses can look for the next survey in November and the accompanying St. Cloud Area Quarterly Business Report in the January 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.