

Winter 1-2006

# St. Cloud Area Quarterly Business Report, Vol. 7, No. 4

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# Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

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## STRONG START PROJECTED FOR 2006

Substantial gains in employment and surge in prices are likely

### EXECUTIVE SUMMARY

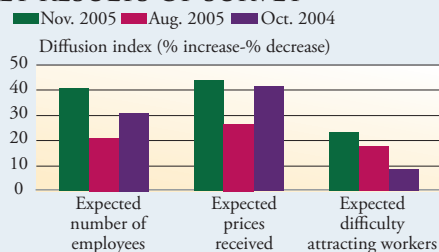
The new year is expected to begin with strong growth of the area economy, according to the most recent predictions of the St. Cloud Index of Leading Economic Indicators and the St. Cloud Area Business Outlook Survey.

Considerable gains in average hours worked in local manufacturing and large increases in help-wanted advertising at the St. Cloud Times have powered the St. Cloud Index of Leading Economic Indicators to its highest level since winter 1999.

Since bottoming out in fall 2003, the index has continued to rise as area economic activity has strengthened.

After several months in which area employment growth was weaker than observed elsewhere in Minnesota, St. Cloud employment gains appear to have caught up to the rest of the state. Local employment in October was 1.3 percent higher than one year ago. That's the same rate reported for Minneapolis-St. Paul and

### KEY RESULTS OF SURVEY



slightly lower than state employment growth. October's 2.8 percent area unemployment rate is the lowest reported since October 2000, and help-wanted ad lineage in the St. Cloud Times was up 64 percent from the year-earlier period. Surveyed businesses also continue to report increased difficulty in attracting qualified workers.

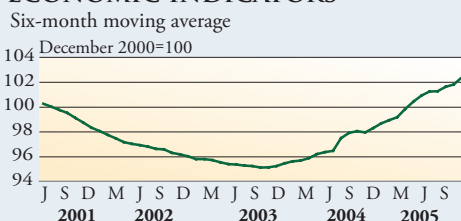
Sixty percent of surveyed companies expect improved economic conditions in the next six months while only 12 percent expect a decrease. Forty-five percent of firms plan to increase employment compared with only 4 percent that plan to reduce payrolls.

Inflationary pressures continue to mount. Forty-six percent of firms project higher prices received for their product in six months' time. Only 2 percent of firms believe their prices will decrease.

In special questions, firms reported a variety of direct and indirect effects from hurricanes Katrina, Rita and Wilma.

Continued on next page

### INDEX OF LEADING ECONOMIC INDICATORS



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### A special thank you

We would like to acknowledge the St. Cloud Area Economic Development Partnership for completing its fifth year of sponsorship of the St. Cloud Area Quarterly Business Report. Thank you for your continuing support of the "QBR"!

Numerous firms say the hurricanes had or will have adverse effects on fuel prices, building material costs and availability, insurance costs, economic growth and future taxes.

In a separate question, firms identified health-care reform as the most important priority in the upcoming legislative session for the second straight year.

Firms seem only slightly concerned that the declarations of bankruptcy by Mesa-ba and Northwest Airlines may lead to a future loss of air service at St. Cloud Regional Airport.

Area firms remain concerned about finding qualified workers to replace retiring baby boomers in the next 10 years.

## THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 91 area businesses that returned the recent mailing in time to be included in the report. Participating firms represent a diverse collection of businesses in the St. Cloud area. They include retail, manufacturing, construction, financial, health services and government enterprises of sizes ranging from small to large. Survey responses are strictly confidential.

## CURRENT CONDITIONS

Compared with year-ago levels, area businesses experienced mixed economic activity in the past three months.

The diffusion index of 13.2 on business activity in Table 1 is weaker than the 44.4 value reported in the August 2005 survey. It also is lower than the 32.8 reported a year ago. (A diffusion index is the percentage of respondents indicating an increase minus the percentage indicating a decrease.)

By contrast, the diffusion index on the number of employees on company payrolls is higher than it was one year ago. Surveyed firms also report prices received that were similar to those observed in fall 2004.

Capital expenditures and national business activity were weaker in the current period than they were three months ago.

A diffusion index of 24.2 on the difficulty in attracting qualified workers is the highest recorded in the fall survey since 1999. This is one of several indicators referenced in this report that suggest a widely improved area labor market.

A growing number of area employers report difficulties associated with labor shortages. One area firm notes, "Attracting and retaining quality repair technicians is becoming increasingly more difficult." One company suggests, "If the economy remains stronger and more robust, com-

panies and organizations are more inclined to support training for their employees." Another firm simply states, "Great work ethic is a vanishing concept."

## FUTURE CONDITIONS

Area business leaders are quite optimistic about their firms' prospects in the next six months. Sixty percent of survey respondents expect increased business activity six months from now, and only 12 percent expect a decrease. The diffusion index on the level of future business activity is 48.3. That's higher than observed in August (a normal seasonal effect), but lower than the 60.4 value reported a year ago.

Forty-five percent of responding firms plan to increase hiring in the next six months. The diffusion index on this item is the highest recorded in the fall survey.

The diffusion index on capital expenditures is higher than three months ago as is the index on length of workweek (although the latter may be a normal seasonal effect).

While businesses remain upbeat about the national economy, it should be noted that this quarter's diffusion index on national business activity (18.7) is much lower than it was one year ago (when the index stood at 43.1). This may reflect the adverse effects of the hurricanes and rising

**TABLE 1-CURRENT BUSINESS CONDITIONS**

	November 2005 vs. three months ago			Diffusion Index <sup>3</sup>	August 2005 Diffusion Index <sup>3</sup>
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	24.2	38.5	37.4	13.2	44.4
Number of employees on your company's payroll	8.8	60.4	30.8	22.0	21.1
Length of the workweek for your employees	13.2	70.3	16.5	3.3	24.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	7.3	60.4	31.9	24.6	35.6
Employee compensation (wages and benefits) by your company	3.3	60.4	34.1	30.8	45.6
Prices received for your company's products	14.6	52.7	38.5	23.9	22.3
National business activity	12.1	50.5	23.1	11.0	20.0
Your company's difficulty attracting qualified workers	5.5	63.7	29.7	24.2	17.8

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

short-term interest rates.

Upward pressures on prices are expected to continue. Forty-six percent of business leaders expect their firms to increase prices by May, and few firms expect prices to fall. At 44.0, the diffusion index on future prices received reported in Table 2 is the highest ever recorded on this item.

This is consistent with national trends. The Wall Street Journal noted Nov. 12 that "Firms Gain Power to Boost Prices in Some Sectors." The October 2005 Business Outlook Survey of manufacturers in the Philadelphia Federal Reserve district noted that while 49 percent of surveyed firms expected increased prices received by April, 62 percent of firms anticipated higher prices paid.

These reported price pressures highlight the challenge Federal Reserve policymakers face as they continue to adopt policy objectives designed to contain inflationary expectations. Increases in prices received thus do not necessarily indicate improved profit margins for area firms but may compensate for increased costs of fuel, insurance, materials and health care.

Labor shortages have re-emerged as a concern facing local employers. The labor market is expected to remain tight. A diffusion index of 23.1 on expected future difficulty in attracting qualified

## What is affecting your company?

Survey respondents commented on special factors influencing their firms. Besides the effects of the hurricanes (discussed in special question No. 2), these comments include:

■ "(1) Increasing number of Twin Cities builders working in St. Cloud area (and) (2) nice autumn weather is helping construction."

■ "The auto industry bought a great deal of business in Q3. This robbed other durable goods businesses of customers. I ... believe the pendulum will swing back in Q4."

■ "Increase in interest rates will affect new construction therefore directly affecting our level of business."

■ "Rising interest rates are deterring people from buying/building. Rising costs for materials are making it more difficult for builders to build and sell a product for profit in a declining real estate market."

■ "I am worried that high health-care costs and taxes are making us less competitive with other countries and even other states."

■ "Bankruptcy law changes have had a negative effect on our business due to unnecessary acceleration of personal bankruptcy filings."

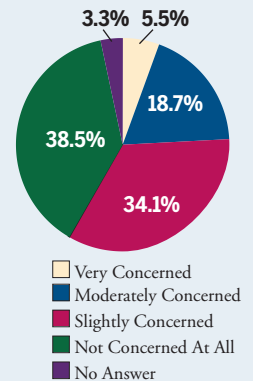
workers is higher than that reported in August and substantially greater than one year ago (when the index stood at 8.6). In fact, this index is the highest recorded in five years.

## SPECIAL QUESTIONS

### QUESTION 1: Local air service

The airline industry has been battered in recent months by rising jet fuel costs and has experienced ongoing challenges associated with costly labor contracts and persistent excess capacity after Sept. 11. This situation was evident in the recent bankruptcy declarations by Mesaba and Northwest Airlines. Mesaba, in partnership with Northwest, offers local air service.

Area firms were asked if they were concerned these bankruptcies would lead to a loss of local air service. About 73 percent of those surveyed are "slightly concerned" or "not concerned at all."



Continued on next page

**TABLE 2-FUTURE BUSINESS CONDITIONS**

	Six months from now vs. November 2005			Diffusion Index <sup>3</sup>	August 2005 Diffusion Index <sup>3</sup>
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	12.1	27.5	60.4	48.3	32.2
Number of employees on your company's payroll	4.4	49.5	45.1	40.7	21.1
Length of the workweek for your employees	11.0	71.4	17.6	6.6	-6.7
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.3	57.1	38.5	35.2	30.0
Employee compensation (wages and benefits) by your company	0	45.1	52.7	52.7	52.2
Prices received for your company's products	2.2	47.3	46.2	44.0	26.7
National business activity	5.5	52.7	24.2	18.7	21.1
Your company's difficulty attracting qualified workers	5.5	63.7	28.6	23.1	17.8

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

About 19 percent of firms are moderately concerned and only 5 surveyed firms said they are “very concerned.”

Survey respondents provided written explanations for their responses to the local air service question. Comments include:

- “(Our company makes) very limited use (of the local service) now. Most (employees) travel out of Minneapolis.”
- “As U.S. Air has proven (to date) that bankruptcy isn’t necessarily a death sentence. A weaker NWA means competitors (SW Air) may finally get gates at MSP and suspect it could lead to 2 airlines competing at STC with direct flights to other hub cities.”
- “I travel to Chicago often. I like using St. Cloud.”
- “Lack of air service could prevent some businesses from expanding or relocating to St. Cloud.”
- “Due to recruitment, it’s nice to be able to fly candidates directly to St. Cloud.”
- “We expect Northwest to emerge from bankruptcy along with Mesaba. We as a city need to add another carrier to enhance service.”
- “Negative impact on the business community — will limit our ability to grow the services we provide to business.”
- “I believe if some other carrier was encouraged, they could do a better job.”

## QUESTION 2: Natural disasters

Hurricanes Katrina, Rita and Wilma have had a devastating impact on the Gulf Coast.

We were curious about the extent to which the hurricanes affected St. Cloud-area businesses. Surveyed firms were asked to write about the extent to which the hurricanes have or will have an effect (direct or indirect) on their companies.

The response to this item was overwhelming. Numerous respondents reported:

- Increased fuel prices (gas, heating oil, diesel).
- Rising building material costs.
- Longer delivery times and reduced availability of supplies.
- Higher insurance premiums.
- Slowing of overall economic growth.

- Fear of a future rise in taxes and reduced profitability.

Respondents commented on other effects, which include:

- “(Affected) only to the extent that assets leave local nonprofits to support those impacted — our company provides investment services to nonprofits.”
- “Huge impact! Cancun was severely damaged and that is our #1 destination.”
- “We have sent staff to assist with relief efforts — we then have to staff their position while they are out.”
- “The impact of gas prices will have an impact on our ability to attract workers in the lower paid positions.”
- “Minor positive effect due to greater need for specialized equipment used for cleanup in that area.”
- “Disruption of supply of resins has caused significant increase in prices of PVC products.”
- “... Some of our suppliers are having trouble securing supplies because FEMA has taken all building materials down there.”
- “Increase of sales to FEMA.”
- “Loss of ... supplier in ... Texas.”
- “... Possible indirect need for more (of our product) for pharmaceutical companies for basic medicine needs.”
- “I think it will increase our business because of increase in construction equipment which we make parts for.”
- “We sell luxury goods — bad news hurts optimism which drives our sales.”

## QUESTION 3: Legislative priority

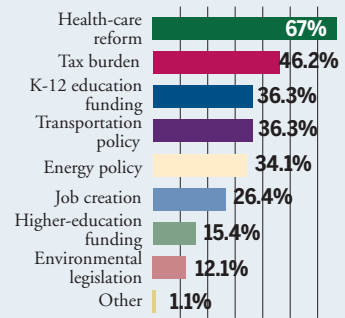
Like the fall 2004 survey, firms were asked to identify items they believe are a priority in the 2006 legislative session. The list of issues that companies considered important was similar to last year’s survey.

Sixty-seven percent selected health-care reform as an important legislative issue. This is the same percentage as last year.

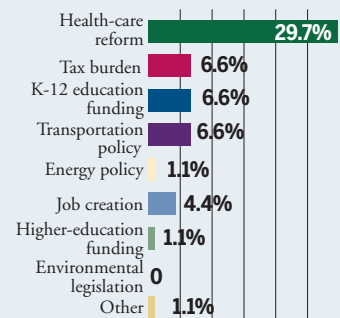
About 46 percent of firms considered tax burden a priority this session, compared with 42 percent of businesses last year.

Transportation policy and K-12 education funding are listed by 36 percent of firms. Education ranked the same last year, and transportation was slightly

## PRIORITIES IN 2006



## MOST IMPORTANT LEGISLATIVE PRIORITY



higher with 40 percent of firms calling it a priority.

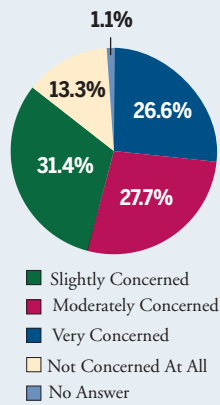
While a number of firms did not indicate their most important legislative priority as asked, out of those that did make a choice, health-care reform was the overriding selection. It was the top priority of 30 percent of surveyed firms, and no other item was selected by even 7 percent of respondents.

Written comments on legislative priorities include:

- “Our health-care coverage is increasing 16 percent and our claims have (gone) down! The only consolation is that we know everyone’s rates will be rising also.”
- “Health costs must level off. However, I am skeptical about the impact legislation can have on this.”
- “We’re happy with 10 percent a year (increase in health-care insurance premiums) now. It’s crazy.”
- “We can’t afford to overtax and overspend versus Wisconsin, South Dakota, North Dakota and Iowa. Transportation, highways and rail — we are crippling our state long term!”
- “Congestion continues to worsen. Cost to Minnesotans is much greater than the small increase sought in the ‘gas tax.’”

## QUESTION 4: Qualified workers

This quarter's final question looked at an issue raised in the cover story in the summer 2005 edition of ROI Central Minnesota. Companies expressed the extent to which they are concerned about their ability to replace retiring baby boomers in the next 10 years.



Women of the baby boom period — from 1946-64 — had about 3.5 children. By comparison, the number of births per female is now about 2.1 (having averaged 1.8 for an extended period). This means

that the share of the U.S. population at normal retirement age will rise starting about 2010.

Area employers are concerned about the availability of qualified workers to replace these retirees. Twenty-six percent responded that they are “very concerned” about replacing baby boomers and 28 percent are moderately concerned.

This is not a problem unique to the St. Cloud area. The Nov. 22 edition of *The Wall Street Journal* pointed out difficulties firms are facing nationwide in finding skilled production workers (81 percent of manufacturers reported they face ‘moderate’ or ‘severe’ shortages of qualified workers).

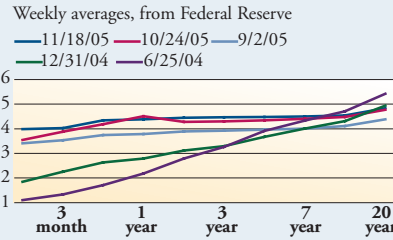
Local respondents wrote explanations for their responses. Comments include:

- “Pay well — you’ll get qualified employees.”
- “We need skilled welders and fabricators.”
- “We will probably hire some of the retirees part time.”
- “No idea how we are going to recruit highly skilled engineers.”
- “We are looking at alternative work schedules to keep good employees beyond retirement age.”
- “Could actually turn into an opportunity.”

## MONETARY POLICY: A HARD ACT TO FOLLOW

We were not surprised when earlier this

## TREASURY YIELD CURVES



fall interest rates spiked with the announcement of Ben Bernanke's nomination as the next Federal Reserve chairman. This is most likely because of uncertainty about where monetary policy will go after Bernanke takes the reins. The same thing happened when Greenspan was nominated to replace Paul Volcker.

We argue that monetary policy is unlikely to change much in the short term.

In the longer term, we expect increased transparency of monetary policy, which should help businesses plan for investment.

Also, by the time you read this, it is most likely that the Federal Reserve will have increased its Federal Funds rate target to 4.25 percent from 4 percent, the 12th consecutive quarter-point increase since June 30, 2004. Expectations are for another ¼ percent increase at the Fed's Jan. 31 meeting.

The dilemma for monetary policy in the past year and a half has been the inability of tightening monetary policy to have much effect on longer-term interest rates.

Twenty-year Treasury bond rates have fallen from about 5.4 percent at the time monetary policy began tightening to about 4.8 percent now. When the Federal Reserve began to raise the Federal Funds rate target, the difference (or spread) from the 10-year and one-year Treasury bond yield was 253 basis points (or 2.53 percent). That spread is now a mere 16 basis points. As the graph above shows, the yield curve has become much more flat throughout this period.

Because most research indicates that long-term interest rates are more important for investment and economic activity, this development has meant the effectiveness of monetary policy in slowing the economy has been diminished.

The Federal Reserve and Fed watchers have been puzzled by this development.

The Fed has increased interest rate targets at a “measured pace” to steadily achieve an implied inflation objective of 2 percent. While the Fed may have moved too slowly in increasing interest rate targets in the initial phase of this most recent round of tightening, there is some evidence that the anticipated increase at the Dec. 13 meeting will move us close to neutral — a point at which further rate increases may be unnecessary.

To date, market participants have been fairly accurate in predicting coming Fed policy moves, but doubts could soon creep in about where interest rates are headed in the future.

Compounding this problem are signs that firms are feeling the ability to pass through cost and wage increases into higher prices, as discussed earlier in this report.

This is where Bernanke's views about increased monetary policy transparency may be helpful. Many financial market observers believe the Fed has had a target inflation rate, but the Fed has given mixed signals about it. Bernanke's research and speeches about explicit inflation targeting suggests he sees advantages of openness in the conduct of monetary policy.

In a speech in March 2003 he said, “In general, the greater the inherited credibility of the central bank, the less restrictive need be the guidelines, targets or the like that form the central bank's communication strategy. But credibility is not a permanent characteristic of a central bank; it must be continuously earned. Moreover, an explicit policy framework has broader advantages, including among others increased buy-in by politicians and the public, increased accountability, reduced uncertainty and greater intellectual clarity.”

In a November congressional hearing, Bernanke affirmed this view, but he indicated he would explore inflation targeting for the Fed only after long discussions inside and outside the institution.

Because it seems most likely that short-term rates will increase further as the

Continued on next page

Fed raises its short-term targets, it also seems likely that long rates will rise with them. So we see no reason to expect a big change in the slope of the yield curve. The National Association of Business Economists forecasts the 10-year Treasury bond yield to reach only 5.15 percent by the end of 2006 from about 4.5 percent now. A modest rise this far into an expansion would be consistent with a healthy environment for investment.

## HOUSING GOES FROM RED HOT TO PRETTY WARM

We asked a local commercial builder what the most important indicator was to determine the firm's business potential. Without hesitating, he answered, "Building permits."

Business must have been good for those builders last year, because building permits reached new levels in the St. Cloud area. But as the chart shows, the number of permits has slowed in recent months (although building permit valuations are up over last year).

After peaking above an annual rate in excess of 1,100 permits, we cooled to

1,028 in September. While still above the previous plateau of 800 permits a year, there is little question from the comments in the business outlook survey that many builders expect to see slower business growth in 2006.

We have plotted 12-month totals to avoid seasonality and confusing fluctuations that can occur when a new development starts.

A number of factors are at play here. First is the possibility the level of activity in 2004 was unsustainable. At some point the supply of raw land reaches a limit unless additional land is annexed.

Second, the aforementioned uncertainty about interest rates has caused some cooling in housing starts nationwide as builders are not sure what mortgage rates will be when they finish a house. Mortgage rates have fluctuated substantially from 5.5 percent to 6.3 percent in the past 15 months.

Also, the increased demand for building

materials in the Gulf Coast in the past few months has driven up prices (and reduced availability of materials) in our region, which could further cool the housing market.

## LOOKING AT THE DATA

Employment and want-ad figures show good gains in the past year. Private-sector employment in the St. Cloud area showed a strong 1.3 percent gain during the year through October.

Manufacturing-sector employment fell 0.5 percent during the year, and the share of employment in manufacturing fell to 17.2 percent, a level not seen in the St. Cloud area since late 1996.

Within services, financial and retail services sectors have both improved, and there is continued strength in the leisure and hospitality area.

Data in Table 4 on the opposite page largely confirm this as well.

The household survey data showed no growth in employment and a decline in the work force. The differences between these data and the payroll survey could be because the additional payroll jobs

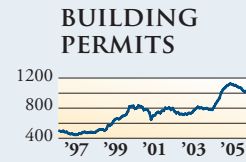


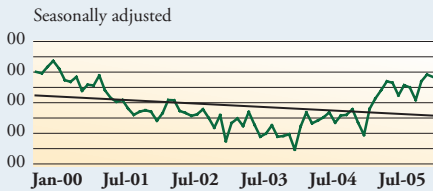
TABLE 3-  
EMPLOYMENT  
TRENDS

	St. Cloud (Stearns and Benton)			Minnesota			13-county Twin Cities area		
	15-year trend growth rate	Oct. 04-Oct. 05 growth rate	Oct. 05 employment share	15-year trend growth rate	Oct. 04-Oct. 05 growth rate	Oct. 05 employment share	15-year trend growth rate	Oct. 04-Oct. 05 growth rate	Oct. 05 employment share
Total nonagricultural	2.0%	1.3%	100%	1.6%	1.4%	100%	1.6%	1.3%	100%
Total private	2.2%	1.3%	85.3%	1.7%	1.4%	84.6%	1.6%	1.1%	86.0%
<b>Goods producing</b>	2.4%	0.3%	22.8%	0.8%	0.8%	18.0%	0.6%	1.1%	16.6%
Construction/natural resources	3.0%	2.5%	5.6%	2.9%	2.0%	5.3%	3.2%	0.2%	5.0%
Manufacturing	2.2%	-0.5%	17.2%	0.1%	0.2%	12.7%	-0.2%	1.4%	11.6%
<b>Service providing</b>	1.9%	1.6%	77.2%	1.8%	1.5%	82.0%	1.8%	1.3%	83.4%
Trade/transportation/utilities	1.0%	1.3%	21.5%	1.1%	0.1%	19.2%	1.0%	-0.1%	19.0%
Wholesale trade	2.8%	1.3%	4.6%	1.3%	-0.4%	4.7%	1.4%	0.3%	4.8%
Retail trade	0.5%	1.5%	14.0%	1.2%	0.9%	11.1%	1.1%	0	10.5%
Trans./warehouse/utilities	1.1%	0.1%	3.0%	0.5%	-2.0%	3.4%	0.2%	-0.7%	3.7%
Information	1.0%	0.4%	1.4%	0.5%	-1.6%	2.1%	0.1%	-4.4%	2.2%
Financial activities	3.6%	3.8%	4.1%	2.1%	2.8%	6.5%	2.3%	2.7%	8.1%
Professional & business service	3.6%	2.3%	7.6%	2.4%	1.8%	11.4%	2.1%	1.3%	14.2%
Education & health	2.9%	1.7%	14.5%	3.1%	3.6%	14.4%	3.1%	4.3%	12.8%
Leisure & hospitality	2.5%	2.0%	8.7%	2.0%	2.9%	8.8%	2.0%	1.7%	8.9%
Other services (excluding govt.)	2.2%	0.8%	4.6%	1.5%	-2.0%	4.2%	1.3%	-4.4%	4.1%
Government	1.0%	1.1%	14.7%	1.2%	1.4%	15.4%	1.6%	2.3%	14.0%
Federal government	-0.3%	1.7%	1.6%	-0.1%	-1.9%	1.2%	0	-0.8%	1.2%
State government	-0.3%	-0.3%	4.2%	0.5%	1.7%	3.4%	1.8%	1.8%	4.1%
Local government	0.1%	1.6%	8.8%	1.6%	1.6%	10.7%	2.1%	2.9%	8.7%

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 and author calculations.

## ST. CLOUD TIMES WANT ADS



shown in Table 3 are being taken by individuals who already have jobs in the St. Cloud area.

A decline in labor force participation helped lower the local area unemployment rate to 2.8 percent and may be another indication that we are experiencing a shortage of qualified workers in the area. Increased competition for workers from Twin Cities and Interstate 94 corridor employers also may be draining the area work force.

There has been a slight increase in initial claims for unemployment insurance in the St. Cloud area in the most recent quarter, which may reflect some weakness in manufacturing. But help-wanted advertising continued to expand at an incredible rate in the second half of 2005.

The accompanying figure above compares the help-wanted lineage in the St. Cloud Times to its long-run slightly downward trend since 1989. As we noted last year, alternative forms of advertising for employees have deteriorated the market for print help-wanted advertising.

Help-wanted advertising has returned to levels not seen since 2000 and has quickened since mid-year. Again, this marks increasing competition for skilled workers in St. Cloud. As long as firms continue to feel they can pass on price increases, as they indicated in the business outlook survey, paying a little more for labor and looking harder for good workers will be worthwhile.

Increased demand, however, would be more difficult for firms expanding their businesses if they do not have access to active labor markets.

Help-wanted lineage is only part of the growth in the St. Cloud Area Index of Leading Indicators. As Table 5 shows, three of the index's four components grew in the past quarter.

A year ago, we observed area produc-

### TABLE 4-OTHER ECONOMIC INDICATORS

	2005	2004	Percent Change
St. Cloud MSA labor force Oct. (Minnesota Department of Employment and Economic Development)	103,576	104,333	-0.7%
St. Cloud MSA civilian employment # Oct. (Minnesota Department of Employment and Economic Development)	100,647	100,627	0
St. Cloud MSA unemployment rate* Oct. (Minnesota Department of Employment and Economic Development)	2.8%	3.6%	NA
Minnesota unemployment rate* Oct. (Minnesota Department of Employment and Economic Development)	3.1%	3.9%	NA
Minneapolis-St. Paul unemployment rate* Oct. (Minnesota Department of Employment and Economic Development)	3.1%	3.9%	NA
St. Cloud area new unemployment insurance claims Aug.-Oct. average (Minnesota Department of Employment and Economic Development)	625.3	583.0	7.3%
St. Cloud Times help-wanted ad lineage Aug.-Oct. average, in inches	7,480.7	4,561.0	64.0%
St. Cloud MSA residential building permit valuation in thousands, Aug.-Oct. average (U.S. Dept. of Commerce)	15,853	15,310.7	3.5%
St. Cloud index of leading economic indicators Oct. (St. Cloud State University)**	103.7	96.7	7.2%

MSA = St. Cloud Metropolitan Statistical Area, composed of Stearns and Benton counties.

# - The employment numbers here are based on household estimates, not the employer payroll estimate in Table 3.

\* - Not seasonally adjusted

\*\* - Jan.-March 2001=100

NA - Not applicable

### TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from July to October 2005	Contribution to LEI
Help-wanted advertising in St. Cloud Times	2.35%
Hours worked	1.37%
New business incorporations	0.37%
New claims for unemployment insurance	-0.75%
<b>Total</b>	<b>3.34%</b>

\*Numbers may not add up due to rounding.

tion employees worked an average of two hours of overtime, as firms were reluctant to add (or unable to find) new workers as they expanded output. That reversed course during the first half of this year, but the presence of overtime returned in the last quarter.

This contributed a third of the increase in leading indicators in this report. Incorporation of new businesses in the area have maintained their 2004 pace; only the aforementioned uptick in new claims for unemployment insurance darkens the leading indicators.

The national and international environments look moderately favorable to

the local economy. National forecasters expect GDP growth from 3 percent to 3.5 percent in 2006. Increased strength of the dollar in foreign currency markets make it unlikely the trade deficit will fall much below \$600 billion in 2006 after reaching \$750 billion this year.

We anticipate the European Central Bank will increase interest rates in order to fend off some of the recent declines in the euro.

The Chinese yuan will strengthen some against the dollar as the Chinese allow their currency to float more, but it will not be enough to dent the trade deficit.

But steady-as-she-goes monetary policy in the United States and a Congress intent on addressing how it will pay for the hurricane cleanup should keep interest rates from rising too far.

As we concluded last time, "business leaders' attitudes seems to be to invest and grow their firms until events change. As long as that attitude persists, expansion is in the cards."

We see no reason to change that assessment. Indeed, we are more bullish now than then.

**In the next QBR:** Participating businesses can look for the next survey in February and the accompanying St. Cloud Area Quarterly Business Report in the April 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.