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# St. Cloud Area Quarterly Business Report, Vol. 11, No. 2

King Banaian

*St. Cloud State University*, [kbanaian@stcloudstate.edu](mailto:kbanaian@stcloudstate.edu)

Richard A. MacDonald

*St. Cloud State University*, [macdonald@stcloudstate.edu](mailto:macdonald@stcloudstate.edu)

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# Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

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## UNCERTAIN FUTURE AS LOCAL RECESSION DEEPENS

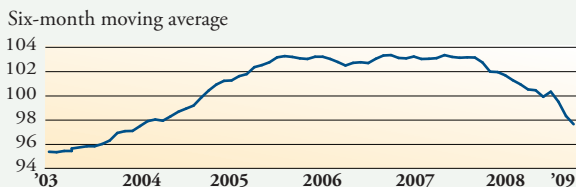
### EXECUTIVE SUMMARY

The area economy continues to be plagued by a general recession that is widely expected to continue over the next several months. Area employment declined by 1.3 percent over the year ending April 2009 as only three categories of area private sector employment experienced an increase in annual job growth. A local recovery is unlikely to begin until at least the fourth quarter and signs of stabilization have not yet begun to emerge.

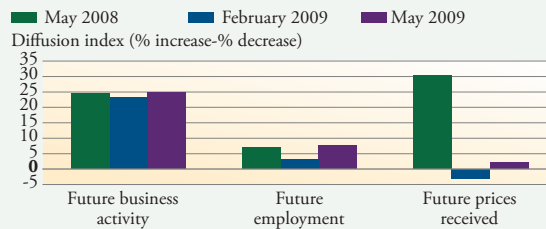
Employment conditions around the state are much worse than is being experienced locally. For example, statewide employment declined by 3.3 percent over the year ending April 2009. This decline is highlighted by a statewide decline in employment in the goods-producing sector by 10.8 percent over the past year. In the St. Cloud area, this sector (which includes employment in construction, natural resources and manufacturing) declined by 7.8 percent. Similar to last quarter, the only area of private sector employment growth in the state is education and health. Highlighting the weakness in employment is a 23.4 percent decline in construction employment in the Twin Cities in the year ending April 2009.

The St. Cloud Index of Leading Economic Indicators continues to deteriorate with now its lowest reading in five years. The probability of local recession for

### INDEX OF LEADING ECONOMIC INDICATORS



### KEY RESULTS OF SURVEY



the August to October period stands at 99.9 percent.

Thirty-two percent of surveyed firms reported a decrease in economic activity over the past three months, while 42 percent report an increase. This is a marked improvement over last quarter. However, this is a normal seasonal effect. These are the weakest numbers ever recorded in May. The area labor market remains very weak, with thirty-two percent of respondents reporting declining employment, and only 15 percent increasing payrolls. The length of the workweek has declined for one-quarter of surveyed firms and 27 percent of firms reported decreased difficulty attracting qualified workers. Fifteen percent of firms decreased employee compensation over the last three months and only 14 percent increased it. Nearly one-third of area firms report declining prices received for their products while 10 percent experienced price increases. On a brighter note, companies' evaluation of national business activity was less negative this quarter than it was in February.

The future outlook was essentially unchanged from February and very similar to what was found one year ago in the May survey. Forty-five percent of the 93 area firms who responded to this quarter's survey expect conditions to improve six months from now, while 20 percent expect a decline in future business

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St. Cloud Area Economic  
Development Partnership  
President: Tom Moore  
320-656-3815

### ABOUT THE AUTHORS



**KING BANAIAN**  
Chairman  
Economics Department,  
St. Cloud State University  
320-308-4797



**RICH MACDONALD**  
Director  
Center for  
Economic Education,  
St. Cloud State University  
320-308-4781

activity. The employment outlook is similarly weak when compared to normal May surveys, although a growing share of firms do expect to extend the length of the workweek over the next six months. Area firms continue to expect little movement in prices received for their products over the next six months. Finally, firms do expect improvement in national business activity over the next six months. The outlook for national business conditions is the highest it has been in nearly two years.

In special questions, 36 percent of surveyed firms expect the local recession to end in the fourth quarter of this year, while more than 37 percent expect it to end in the first half of 2010. In a separate question, area firms indicate little concern about the effects of the H1N1 virus on their companies. Finally, 32 percent of surveyed firms expect a small favorable effect of the federal stimulus plan on their company and 10 percent expect an intermediate favorable effect. Forty percent of firms see no discernible effect of the fiscal stimulus, while 12 percent expect the stimulus to have a negative impact on their company.

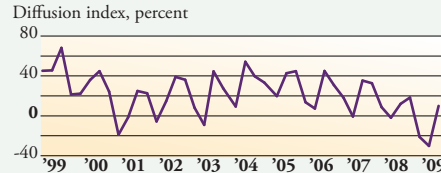
### CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 93 area businesses that returned the recent mailing in time to be in-

cluded in the report. Participating firms are representative of the 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. Written and oral comments have not been attributed to individual firms.

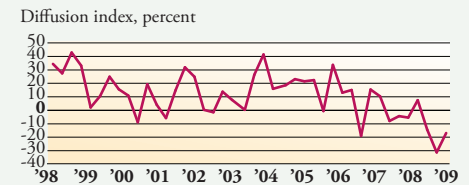
Survey responses from Table 1 are improved from last quarter, but this is a normal seasonal observation. When compared to the results of typical May surveys, the current business conditions numbers are among the worst ever recorded. In seven of the eight survey items measuring current economic performance, the results are worse than they were one year ago (at which time the local economy was on the brink of entering recession). For example, the current activity diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter) is 9.6. One year ago this index measured 11.6, and two years ago, it stood at 35.

#### CURRENT BUSINESS ACTIVITY



Labor market conditions in the St. Cloud area continue to be weak. Thirty-two percent of surveyed firms report decreased employment over the past three months and only 15 percent increased hiring. The -17.2 index for number of employees is the lowest ever recorded in May. With negative indexes in length of workweek, employee compensation, and difficulty attracting qualified workers, it is abundantly clear that the area labor market is in tough shape. Indeed, the index number for difficulty attracting qualified workers is the worst that has been recorded since March 2002, when the area experienced mass layoffs at Fingerhut. Firms continue to, on average, cut back on the length of workweek, although this index is markedly improved from its all-time low value in February. This index will be worth watching in coming months, since it is quite likely that a local recovery will see area firms increasing the length of the workweek for their existing employees prior to hiring new workers. In manufacturing, the length of the workweek has begun to rebound, which is one

#### CURRENT LENGTH OF WORKWEEK



**TABLE 1-CURRENT BUSINESS CONDITIONS**

	May 2009 vs. Three months ago			Diffusion Index <sup>3</sup>	February 2009 Diffusion Index <sup>3</sup>
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	32.3	24.7	41.9	9.6	-30.5
Number of employees on your company's payroll	32.3	52.7	15.1	-17.2	-31.6
Length of the workweek for your employees	24.7	57.0	18.3	-6.4	-29.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	24.7	62.4	11.8	-12.9	-11.6
Employee compensation (wages and benefits) by your company	15.1	71.0	14.0	-1.1	-6.3
Prices received for your company's products	31.2	57.0	9.7	-21.5	-25.3
National business activity	25.8	43.0	18.3	-7.5	-34.7
Your company's difficulty attracting qualified workers	26.9	64.5	3.2	-23.7	-21.1

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

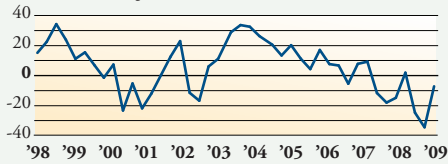
hopeful sign.

Surveyed firms appear to be experiencing little pressure on wages and prices. The index on employee compensation remained negative for the second consecutive quarter (the only times it has been negative in more than 10 years of asking firms this question) and the prices received index, at a value of -21.5, is only slightly higher than its all-time low value recorded last quarter. Area firms continued to either delay or cut back on capital formation projects. Eighty-seven percent of surveyed firms report either unchanged or decreased capital expenditures over the last quarter.

The lone bright spot in Table 1 is the -7.5 value for the national business activity index. While this is much lower than its all-time high value of 33.9 (achieved 10 years ago), it is a considerable improvement from last two quarters.

#### NATIONAL BUSINESS ACTIVITY

Diffusion index, percent



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

#### These comments include:

- “With the wild spending by government, we see the 1970s type of inflation. Every dollar taken from business leads to 75¢ of stimulus. 25¢ is the sum taken by government to administer programs.”
- “Disintegrating home prices; more foreclosures (25 percent of Americans are delinquent on house payments to one degree or another). If that eventually equals foreclosures, watch out!”
- “Commercial real estate activity is slowing. General Growth Properties, owners of Crossroads Center, is now in Chapter 11. If the big guys hurt, so must some little guys.”
- “Growth forecasting models in the last ten years were not realistic. A longer recovery period will benefit everyone, but at a slower growth rate.”
- “Big oil will affect every business and every consumer until we find a way to curtail their large profits. They will continue to drag the economy down.”
- “The last year has been similarly down — if we survive these slower times, we will move forward.”
- “State budget cuts are disproportionately aimed at health care.”
- “The rising fuel prices if they continue.”
- “Minnesota legislature considering po-

tential cuts to funding long-term care in both rates and services.”

- “So far the stimulus plan has been favorable for the domestic car companies, regarding good finance rates for GMAC dealers.”
- “The travel business is in a tough time with the economy and the swine flu hitting at the same time. The belt is tight, but we will see better times soon.”
- “We are in a deep downturn and government spending is out of control. My father always said ‘get a government job.’”
- “While national... revenue is flat, the independent (companies), such as (ours), are growing at approximately 3 percent at the expense of the (non-independent companies)”
- “We continue to look for ways to save money and streamline our operations.”

#### FUTURE OUTLOOK

Table 2 reports the future outlook for area businesses. Compared to normal readings in the May future outlook survey, the numbers found in this table are well below what is ordinarily expected at this time of year. For example, while the future business activity index is 24.8 this quarter, it was 43.7 in May 2007, 43.3 in May 2006, and 56.5 in May 2005.

It is very interesting to compare Table 2 diffusion indexes to that which was found

**TABLE 2-FUTURE BUSINESS CONDITIONS**

What is your evaluation of:	Six months from now vs. May 2009			Diffusion Index <sup>3</sup>	February 2009 Diffusion Index <sup>3</sup>
	Decrease (%)	No Change (%)	Increase (%)		
Level of business activity for your company	20.4	26.9	45.2	24.8	23.2
Number of employees on your company's payroll	11.8	62.4	19.4	7.6	3.1
Length of the workweek for your employees	8.6	63.4	22.6	14.0	3.2
Capital expenditures (equipment, machinery, structures, etc.) by your company	9.7	64.5	19.4	9.7	-1.1
Employee compensation (wages and benefits) by your company	3.2	64.5	23.7	19.8	14.8
Prices received for your company's products	14.0	61.3	16.1	2.1	-3.2
National business activity	14.0	44.1	25.8	11.8	0.0
Your company's difficulty attracting qualified workers	17.2	65.6	6.5	-10.7	-13.7

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.

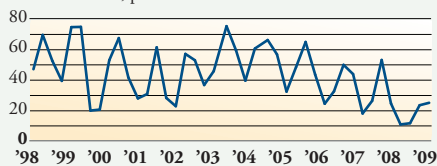
Source: SCSU Center for Economic Education, Social Science Research Institute and Department of Economics



in the May 2008 survey (at which time area economic performance had markedly deteriorated). Compared to one year ago, the index values for expected level of business activity, expected future employment, and future capital expenditures are largely unchanged. For example, with a value of 7.6, the index on future employment is only slightly higher than the recording of 6.9 one year ago. The same can be said for future business activity, where the May 2008 index was 24.4. The outlook for capital expenditures has changed little from last year — its index value is 14 versus a reading of 12.8 one year ago.

### FUTURE BUSINESS ACTIVITY

Diffusion index, percent



Where comparisons to last year get interesting is in some of the other survey items. For example, the index value for length of workweek was 1.2 in May 2008. This quarter it is 14. This could be a sign that area firms expect a modest increase in activity over the next six months — which they will address by expanding hours worked of existing workers (as opposed to hiring new workers). This may be telling us that area firms are expecting a gradual recovery to begin toward the end of 2009. This seems very consistent with firms' written comments found elsewhere in this report.

One year ago, the index on future employee compensation was 33.7. This year it stands at 19.8. Likewise, one year ago inflationary pressures appeared to be building as the prices received index recorded a value of 30.3. The future prices received index is only 2.1 this quarter. So, while there is plenty of reason to be concerned about the inflationary effects of aggressive monetary policy actions over the past 12 months, this appears to not be significantly affecting the local outlook for wages and prices.

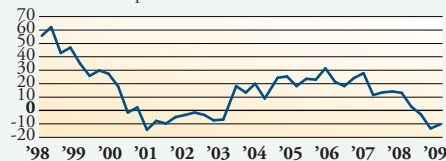
While the outlook for national business activity is still relatively weak (the current index is 11.8), this is better than the 5.8 value recorded on this item in May 2008.

It should be pointed out that this is the highest value for this index since the August 2007 survey.

Finally, one year ago, the diffusion index on future difficulty attracting qualified workers was 12.8. Twelve months later, after a period in which the local labor force expanded, employment contracted, and the unemployment rate increased from 5.5 percent in April 2008 to 8.1 percent one year later, this index stands at -10.7 — its third consecutive negative reading. The accompanying chart captures the recent trends in this index. These trends tell an important story about the ongoing weakness of the St. Cloud area labor market. This measure turned positive at the end of previous recessions.

### FUTURE DIFFICULTY ATTRACTING QUALIFIED WORKERS

Diffusion index, percent

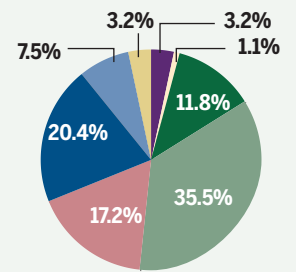


### SPECIAL QUESTIONS

We noted last quarter that the National Bureau of Economic Research has determined that December 2007 was the beginning of the national recession. While local economic conditions were indeed weak throughout the first half of 2008, we believe the local recession began in August 2008. This is when general local conditions in the area economy seem to have significantly weakened to the point at which the recession began. While there is no universally accepted method for determining the turning points of a local recession, the data available seem to point to August 2008 as the peak of local economic activity.

When should we expect the local economy to bottom out? Our own views differ slightly (Banaian thinks it will be the fourth quarter of 2009, while MacDonald expects a local recovery to begin in early 2010). To be sure, a lot of uncertainty surrounds this possible turning point, so we asked area businesses to indicate when they thought the local recession will end.

### QUESTION 1 When does your business expect the local recession will end?



More than half of surveyed firms believe the local recession has already ended or will end in 2009.

Thirty-seven percent think it will end in either the first or second quarter of 2010. The most popular response was fourth quarter of 2009, which is consistent with many economists' expectations of when national recovery will begin.

### Written comments include:

- "Very marginal recovery."
- "Quarter 4, 2009. Nationally we see the recession ending at that time as well."
- "With any luck, it'll end in Quarter 4, 2009, but for our (construction-related) industry it will probably be second quarter 2010 before we see any improvements."
- "Short term recovery in 2010. A 25+ year recovery in 2010 to 2035. Home building recovery from 2012 to 2014 but much slower than the last 10 years."
- "I think we will stabilize in the third quarter of 2009, but no significant growth until (second) quarter of 2011."
- "We follow the architects and engineers by 6-12 months and they as a whole are not busy."
- "For us it has been real good so far as long as nothing bad in the markets happens."
- "Industry info indicates many more foreclosures coming — if so, our industry won't turn around any time soon."
- "I think we will see the bottom toward the end of the year. I don't see a big surge, but some things will start in 2010."
- "With the increased taxes and debt, it

may take years.”

- “Employers will be slow to react to increase in demand.”
- “It will only end when Capitol Hill comes to the realization that consumer spending cannot be the main driver of our economy. Sad leadership!”

• “Housing market has already improved.”

• “While it has been a slower-than-normal spring for our business, we have more upcoming work than we did last year at this time.”

• “Oddly, the recession has not seemed to impact our business. However, we feel ‘Obama Care’ will negatively impact health care services in the future.”

• “It depends on which segment of the economy — GDP growth may occur but retail will remain down.”

• “While advertising budgets are being slashed, our challenge is to convince advertisers, as studies have proven, that those who maintain or increase their budget are those who will recover sooner.”

• “Improve slightly beginning Q3 2009 and gradual improvement — probably not fully ended yet even by 6/30/2010.”

• “It really just affected our company in 4th quarter 2008 — has gotten worse in 1st quarter 2009. (End of the recession) can’t happen soon enough!”

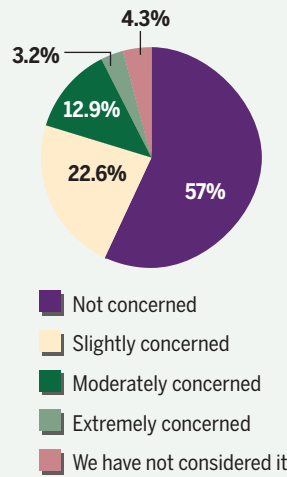
• “Other — Q2 2011. Construction tends to lag. Unemployment in architectural and engineering high with little backlog.”

Concerns over swine flu were just starting to be voiced when we prepared this quarter’s survey. We had no idea about the extent to which this would still be a concern by the time we were writing the St. Cloud Area Quarterly Business Report, but we thought it might prove useful to get a benchmark from area businesses about the impact of the H1N1 virus on their business. We asked:

### QUESTION 2

**To what extent is your company concerned about the potential economic impact of a swine flu outbreak?**

The H1N1 virus appears to have had its largest effect on Mexico and certain cities and states in the U.S. (such as New York



City, where more than 20 schools have been closed for short periods). Any effects on the local economy seem to have been limited and businesses appear to be largely unconcerned about an outbreak of the virus locally. Fifty-seven percent of firms are not concerned about its potential impact and 23 percent express only slight concern.

#### Comments include:

- “Has not had an impact on our business, media hype.”
- “I’m not concerned about the current outbreak, but concerned that it could reappear this fall and have an impact during our busy season.”
- “Disaster preparedness has been a big initiative in health care since Katrina and Avian Flu.”
- “Outbreak... could result in temporary closure of (our establishment) at a critical period (of the year).”
- “If it hits, I believe people and industries will all suffer, not any one industry.”
- “I believe the media made the outbreak more than they should have — \*panic\*”
- “Not concerned, but we are prepared.”

Our winter survey went out before the passage of the \$787 billion fiscal stimulus plan by the federal government. Numerous commentators have weighed in on the expected economic impact of this historically large expansionary policy. Economic evidence suggests that the economic impact of expansionary federal spending/tax programs are substantially weaker than that which is implied by textbook models of fiscal policy. For example, studies of recent fiscal policy measures suggest that households spend only about one-third of any tax reduction (leaving the rest to be allocated to saving and debt reduction). While direct spending by the federal gov-

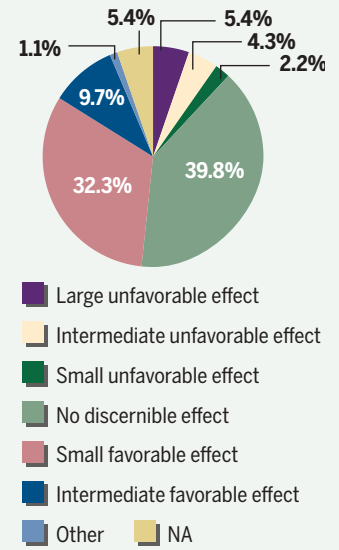
ernment may have a different impact than tax reductions, there are serious concerns about the timing of the spending plans. All policies run the risk of higher real interest rates or offsetting movements in the foreign exchange value of the dollar that can result from the debt that must be created to finance the deficit.

We tried to measure the extent to which surveyed firms feel that the fiscal stimulus is expected to affect their company. We asked:

### QUESTION 3

**To what extent does your company expect to be affected by the \$787 billion U.S. fiscal stimulus plan that was enacted in the first quarter of 2009?**

While 42 percent of surveyed firms



\*Numbers may not add up to 100 due to rounding.

expect either a small or intermediate favorable impact of the fiscal stimulus, 40 percent reported “no discernible effect.” Twelve percent of surveyed firms think the impact of the fiscal stimulus will be unfavorable. Firms submitted extensive written comments to this question — so we will let these comments tell the story of what might be expected locally from the fiscal stimulus.

#### Written comments include:

- “Unable to determine how the funds for ‘green building’ retrofits will be allocated.”
- “Coming inflation will hurt.”
- “More first-time home buyers.”
- “The stimulus plan did not channel dollars into buildings needing our product. Neither did it provide the opportunities for labor to utilize our product.”
- “Some signs of favorable effects in energy tax credit resulting in product sales.”
- “Credit unions have not requested or

received any funds. Some of our business members may see some benefits in the construction area.”

- “We supply products for road and bridge work.”
- “Increasing taxes to fund the stimulus plan will have an unfavorable effect on many small businesses.”
- “Expecting an impact on interest rates that could be significant and if so, an unfavorable effect. When and how much?”
- “It appeals to a lot of special interest and subsidies. No long term effect other than a lot of debt.”
- “Most of work is going to union shops — we’re not union.”
- “It may help from standpoint of government building and repairing buildings. With banks not lending much for new construction, that market will remain soft.”
- “As taxpayer money is foolishly squandered by our government, hopefully some of it will trickle back to our company and its employees.”
- “Although we are in construction, it seems that the types of projects funded through the stimulus plan will not directly benefit our business.”
- “As we come out of the recession, our concern is seeing a return of very high inflation and interest rates because of the deficit, thus sending the economy back into a tumble that could rival the current economic

times.”

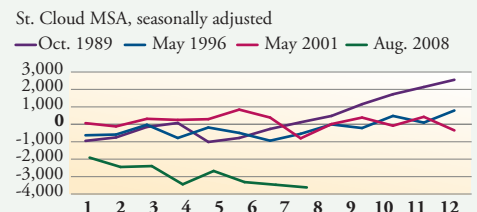
- “Long-term negative impact due to need to raise taxes to pay for it.”
- “Small indirect benefit via construction projects.”
- “To the extent that home sales and new home construction increase, we will be favorably affected.”
- “Overall impact to our business and customers is not specifically known. I am more concerned about the future impact on taxes to pay for the increased debt.”
- “Favorable effect now. Long term may not be favorable.”
- “The initial push of stimulus dollars is slated to go for public works projects, which is about 50 percent of our work per year.”
- “Many pet projects in the stimulus plan. I question how the pet projects will affect the overall economy.”
- “Can’t help but wonder if it just doesn’t prolong the pain.”
- “The stimulus isn’t helping the right people very much. Big banks, insurance companies, etc. aren’t helping mainstream America.”

The first quarter of 2009 saw employment fall at a rapid rate. In Table 3 we see that employment fell by 1.3 percent in the 12 months leading to April; private sector employment fell by 1.9 percent. Education and health, and the hospitality and leisure industries, kept service sector employment

at a positive but anemic pace. But employment in the goods sector has collapsed. Manufacturing employment is now 15.4 percent of total area employment after falling 7.8 percent in the last year. The manufacturing sector was over 17 percent of area employment as late as September 2007.

The decline has been more severe elsewhere in Minnesota. Construction sector employment has fallen by almost a fourth in the Twin Cities since April 2008, and manufacturing employment has performed badly around the state. Duluth, which has followed a pattern similar to St. Cloud, had employment decline by 2.4 percent in the 12 months leading to April. Rochester’s relatively large health sector has left it better able to weather the storm.

### EMPLOYMENT AFTER PEAKS



NOTE: Data through August 2008.

After reaching a seasonally adjusted peak in August 2008, local area employment has fallen by about 3 percent, and has continued to trend downward slowly since winter. The local unemployment rate has temporarily receded to 8.1 percent in April

## MEASURING ECONOMIC ACTIVITY

There are three ways one can measure economic activity: production, income and expenditures. For most of our work in the report, we use employment as a proxy for production. In this short note, we include a first take on the income generated by employment, or wages, to

### ST. CLOUD WAGES PAID, 2006-08

Year: Quarter	Goods sector	Service sector	Total Wages	Real (Dec. 1999) Wages	Growth (four quarters)
2006:IV	\$921,304	\$1,747,557	\$2,668,861	\$2,281,078	
2007:I	\$933,127	\$1,786,975	\$2,720,102	\$2,287,722	
2007:II	\$939,295	\$1,815,802	\$2,755,097	\$2,288,287	
2007:III	\$952,783	\$1,850,054	\$2,802,837	\$2,324,077	
2007:IV	\$950,320	\$1,876,425	\$2,826,745	\$2,330,375	2.2%
2008:I	\$954,812	\$1,891,813	\$2,846,625	\$2,310,572	1.0%
2008:II	\$953,261	\$1,911,452	\$2,864,713	\$2,282,640	-0.2%
2008:III	\$950,207	\$1,925,969	\$2,876,176	\$2,286,308	-1.6%

Notes: Data reflects totals from four quarters.  
Source: Bureau of Labor Statistics

verify our observations on the recession.

Wages are not determined for local areas at the same time as employment. The wage data covers a full census of area businesses rather than the sample from which we report payroll employment. As shown in the nearby chart, our total wages paid, adjusted for inflation, fell by 1.6 percent through the third quarter of 2008. It followed a slight decline of 0.2 percent in the second quarter and had decelerated since the third quarter of 2007.

Wages paid represents about half of the personal income received in an area. The remainder are non-wage benefits for workers, income of proprietors, business profits, interest and rent. Given the decline in general business activity in the second half of 2008 and declining interest rates and rental activity throughout this recession, it seems very likely that income for St. Cloud families declined in 2008. The fact that income really began to decline in the second or third quarter of 2008 also supports our observation that the St. Cloud economy entered recession later than the national economy.



after reaching 9.8 percent in February and March. This drop is not unusual for the spring season, and it may turn out that 9.8 percent is the high water mark for the year. However, we were surprised by a spike in December a year ago, and if the economy does not turn around in fall we may revisit

those highs late this year and early in 2010. After running ahead of the state earlier this year, St. Cloud unemployment rates have converged on the state average.

The trends from leading indicators continue to show weakness, as seen in Table 4. The number of new unemployment claims

in the greater St. Cloud area has risen dramatically over the last six months, now 90 percent more than we had a year ago. National data from 2008 had suggested that layoffs were running at a normal pace but that firms had stopped hiring new workers. We see in this new data a second phase where layoffs are picking up. Meanwhile building permits have fallen to a tremendously low level, with only 254 permits issued in the 12 months leading to April 2009; the St. Cloud area has more than 51,000 owner-occupied homes according to census data.

The most noticeable decline occurred in the lineage of help-wanted advertising. After trending up for most of 2006-07 — at a time where the industry trend was down — the amount of advertising for new workers collapsed in the last six months. This item is the single largest contributor to our Index of Leading Economic Indicators in the last quarter. Only two of the four indicators were negative, but these two — help-wanted advertising and initial claims for unemployment insurance — deteriorated sharply. In contrast, the other two items in the series, new business incorporations and

**TABLE 4-OTHER ECONOMIC INDICATORS**

	2008	2009	Percent change
St. Cloud MSA labor force April (Minnesota Workforce Center)	107,530	109,366	1.7%
St. Cloud MSA civilian employment # April (Minnesota Workforce Center)	101,600	100,494	-1.1%
St. Cloud MSA unemployment rate* April (Minnesota Workforce Center)	5.5%	8.1%	N/A
Minnesota unemployment rate* April (Minnesota Workforce Center)	5.0%	8.2%	N/A
Minneapolis-St. Paul unemployment rate* April (Minnesota Workforce Center)	4.5%	7.8%	N/A
St. Cloud-area new unemployment insurance claims February-April average (Minnesota Workforce Center)	1,089.0	2,071.0	90.2%
St. Cloud Times help-wanted ad lineage February-April average, in inches	4,587	1,287	-72.0%
St. Cloud MSA residential building permit valuation In thousands, February-April average (U.S. Department of Commerce)	3,637.7	2,670.3	-26.6%
St. Cloud index of leading economic indicators April (St. Cloud State University)**	99.2	92.8	-6.5%

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

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

\* - Not seasonally adjusted

\*\* - October 2001=100

NA - Not applicable

**TABLE 3 - EMPLOYMENT TRENDS**

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	April '08-April '09 rate of change	April '09 employment share	15-year trend rate of change	April '08-April '09 rate of change	April '09 employment share	15-year trend rate of change	April '08-April '09 rate of change	April '09 employment share
Total nonagricultural	1.6%	-1.3%	100.0%	1.0%	-3.5%	100.0%	1.0%	-3.3%	100.0%
Total private	1.7%	-1.9%	84.1%	1.0%	-4.2%	85.7%	1.0%	-4.0%	84.0%
<b>Goods producing</b>	0.7%	-7.2%	19.3%	-0.8%	-11.0%	13.6%	-0.6%	-10.8%	14.8%
Construction/natural resources	1.8%	-4.8%	3.9%	0.5%	-23.4%	2.9%	0.9%	-15.5%	3.4%
Manufacturing	0.5%	-7.8%	15.4%	-1.1%	-6.9%	10.7%	-1.0%	-9.2%	11.4%
<b>Service providing</b>	1.8%	0.3%	80.7%	1.3%	-2.2%	86.4%	1.3%	-1.8%	85.2%
Trade/transportation/utilities	0.0%	-3.7%	20.1%	0.4%	-4.5%	18.4%	0.5%	-3.5%	18.9%
Wholesale trade	1.6%	-1.5%	4.4%	1.0%	-3.7%	4.8%	1.0%	-3.1%	4.8%
Retail trade	-0.9%	-4.7%	12.3%	0.6%	-4.2%	10.1%	0.5%	-2.7%	10.7%
Trans./warehouse/utilities	1.7%	-2.5%	3.4%	-0.7%	-6.6%	3.5%	-0.3%	-6.2%	3.4%
Information	1.3%	-3.1%	1.2%	0.2%	-0.6%	2.4%	-0.1%	-3.0%	2.1%
Financial activities	3.3%	0.1%	4.4%	1.1%	-0.7%	8.1%	1.3%	-1.2%	6.6%
Professional & business service	5.3%	-3.5%	8.4%	1.0%	-8.9%	13.9%	1.2%	-10.3%	11.0%
Education & health	3.4%	4.5%	17.9%	3.4%	2.8%	15.6%	3.5%	4.5%	17.4%
Leisure & hospitality	2.1%	2.3%	9.0%	1.5%	-1.4%	9.2%	1.2%	-2.9%	8.8%
Other services (excluding govt.)	1.3%	-0.9%	3.8%	1.7%	-0.4%	4.5%	1.0%	-2.1%	4.4%
Government	1.0%	2.5%	15.9%	0.9%	0.5%	14.3%	0.7%	0.5%	16.0%
Federal government	1.0%	5.2%	1.8%	0.0%	-0.5%	1.3%	-0.2%	-0.4%	1.2%
State government	2.2%	10.9%	5.3%	1.3%	-0.2%	4.2%	1.0%	-0.5%	3.8%
Local government	0.4%	-2.6%	8.7%	0.9%	1.0%	8.8%	0.6%	1.0%	10.9%

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 and author calculations.



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

Changes from January to April 2009	Contribution to LEI
Help-wanted advertising in St. Cloud Times	-5.59%
Hours worked	0.40%
New business incorporations	0.03%
New claims for unemployment insurance	-2.23%
<b>Total</b>	<b>-7.39%</b>

hours worked in manufacturing, rose only modestly, as shown in Table 5.

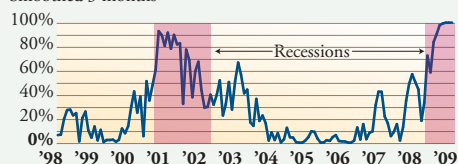
The Index of Leading Economic Indicators is intended to forecast area economic activity

four to six months ahead. We replicate that information in the Probability of Recession index, which stands at 99.9 percent for April. That index includes information from the Minnesota Business Conditions Index published by Creighton University, which showed a below-neutral growth reading since August 2008. The Philadelphia Federal Reserve's state coincident indicator series for Minnesota has declined since February 2008 and the speed of the decline has accelerated since August. For all the talk in the popular press about "green shoots" in the economy, we are hard pressed to find any in the local data.

It is rather early in the new Obama administration's economic policy for us to see any effects on the economy. Most of the spending in

**PROBABILITY OF A RECESSION**

Smoothed 3 months



this program occurs with a significant lag; in Minnesota slightly more than \$2 billion has been allocated, but overall outlays for the U.S. has been about a fourth of planned outlays. So whatever bounce Central Minnesota might have thought would come from that spending will have to wait until later this year, when more of the committed money is actually spent.

Recent news has seen a run-up in long-term interest rates, and with them mortgage rates. This hurts the housing market as it increases the cost of finance for firms that are contemplating expansion whenever this recession ends. The concern is inflation in the future, with the Federal Reserve caught between restraining inflation and supporting banks. Should inflationary concerns run ahead of the recovery too quickly, the Fed may pull back on liquidity rapidly and precipitate a second recession later in 2010.

It is therefore a very challenging environment for Central Minnesota businesses in the short run. While the speed with which the economy has declined has slowed in recent months, there has been no sign of a bottom yet. Should there be recovery in 2009, it will be relatively late in the year. While often long, deep recessions are followed by strong expansions, we so far see nothing to indicate this scenario will play out this time.

**IN THE NEXT QBR** Participating businesses can look for the next survey in August and the St. Cloud Area Quarterly Business Report in the Oct.-Dec. edition of ROI. Area businesses that wish to participate in the survey can call the St. Cloud State University Center for Economic Education at 320-308-2157.

# Thank You, Partnership Associate Members!

The Partnership's associate members bring their talent, expertise, financial support, and resources to enhance our regional economic development efforts.

These 22 organizations contribute to The Partnership's success:

- AgStar Financial Services
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- Shingobee Builders, Inc.
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\*Denotes new members in 2009

If you or your organization is interested in a Partnership membership, please contact Tom Moore at (320) 656-3815 or [t.moore@scapartnership.com](mailto:t.moore@scapartnership.com) or Henry Fischer at (320) 656-3816 or [h.fischer@scapartnership.com](mailto:h.fischer@scapartnership.com).



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